Opening Remarks to the Press Conference (October 19, 2023)

Today, the Monetary Policy Board (MPB) of the Bank of Korea decided to leave the Base Rate unchanged at 3.50%. I will first go over financial and economic conditions at home and abroad, and then explain the background to today's Base Rate decision.

To begin, a look at the changes in external conditions since the August meeting shows that uncertainties regarding the global economic and inflationary trends have heightened greatly, affected by a prolongation of restrictive monetary policy stances in major countries and by the Israel-Hamas conflict. Global economic growth is projected to continue slowing. In the U.S., growth has been more favorable than expected, but is expected to slow gradually affected by high interest rates. In the euro area, the economy is projected to remain sluggish with weaker recovery in the services sector. In China, the economic growth rate is forecast to decline due to the slump in the real estate sector and sluggish exports.

Inflation in major countries has continued to moderate in its underlying trend led by core inflation, but still remains well above the target level. In the U.S., consumer price inflation stood at 3.7% in September, unchanged from the previous month, while core inflation declined to 4.1% from 4.3% in the previous month. In the euro area, inflation moderated to the lower to mid-4% range from the lower 5% range. However, uncertainties surrounding the moderating trend have heightened owing to greater volatility in global oil prices.

As for global financial markets, the volatility of major price variables has increased. As the U.S. Federal Reserve signaled higher-for-longer rates, government bond yields in major countries have risen significantly and the U.S. dollar has strengthened considerably. The effects of the Israel-Hamas conflict on global financial markets have been limited so far. Depending on future developments, however, the conflict may work as a factor in greatly expanding market volatility.

Looking at domestic conditions, economic growth has continued to improve at a modest pace. Consumption recovery has been somewhat slow due to moderated wage growth and the effects of elevated inflation and interest rates, while the sluggishness in exports has eased showing a smaller extent of decline. Going forward, domestic economic growth is expected to improve gradually as the sluggishness in exports eases in line with the improvements in the IT industry. GDP growth for this year is projected to be generally consistent with the August forecast (1.4%). However, uncertainties surrounding the GDP growth path are judged to be elevated, influenced by heightened geopolitical risks and the prolongation of restrictive monetary policy stances in major countries.

Domestic consumer price inflation rose to 3.7% in September, which is slightly above the August forecast path, driven by the increase in the prices of energy and agricultural products. On the other hand, core inflation and short-term inflation expectations both have remained at 3.3% in September.

Looking ahead, consumer price inflation is forecast to decline to the lower 3% range at the end of this year and to continue to gradually moderate in 2024. However, due to the effects of higher global oil prices and exchange rates, and the Israel-Hamas conflict, it is judged that consumer price inflation for this and next year is more likely to be above the August forecasts (3.5% and 2.4%, respectively). Core inflation is also expected to maintain its underlying slowing trend owing to weakening demand-side pressures, but the rate for this and next year is more likely to be higher than the August forecasts (3.4% and 2.1%, respectively), driven by the continuing spillover effects of accumulated cost pressures.

As for domestic financial and foreign exchange markets, volatility has heightened. Long-term Korean Treasury bond yields have risen significantly and the Korean won to U.S. dollar exchange rate has fluctuated at a high level, affected by the U.S. Federal Reserve’s signal of higher-for-longer rates and by heightened geopolitical risks. Meanwhile, the risks to some non-bank financial sectors have eased, but the anxiety factors have not been fully resolved.

Looking at household debt and the housing market, housing prices have continued their upward trend, especially in Seoul and its surrounding areas, as expectations of a rise in prices and purchase sentiment have strengthened. While household loans in total have increased by a smaller extent affected by tighter government regulations and transitory factors, housing-related loans have continued to grow by a large extent.

Lastly, I will explain the background to the Base Rate decision, which reflects the abovementioned domestic and external conditions.

It is projected that inflation will continue to slow in its underlying trend. However, uncertainties regarding the future path of inflation and growth have risen significantly due to the prolongation of restrictive monetary policy stances in major countries and due to heightened geopolitical risks. In addition, it is forecast that the pace of inflation slowdown will moderate more than previously expected, and it is necessary to further monitor household debt growth. Today, the Board therefore judged that it is appropriate to leave the Base Rate unchanged at its current restrictive level and assess the changes in domestic and external policy conditions going forward.

All the Board members unanimously supported the decision.

Looking ahead, inflationary pressures have increased more than originally expected, and accordingly the timing of inflation converging on the target level is more likely to be delayed than previously forecast. The Board therefore deems it warranted to maintain a restrictive policy stance for a considerable time and judge whether the Base Rate needs to be raised further.

In this process, the Board will thoroughly assess the slowdown of inflation, financial stability risks, economic downside risks, household debt growth, monetary policy changes in major countries, and developments in the Israel-Hamas conflict.