

PRESS RELEASE*FOR IMMEDIATE RELEASE*

July 11, 2024

Monetary Policy Decision

The Monetary Policy Board of the Bank of Korea decided today to leave the Base Rate unchanged at 3.50% for the intermeeting period.

(Attachment)

The Monetary Policy Board of the Bank of Korea decided today to leave the Base Rate unchanged at 3.50% for the intermeeting period. In light of the necessity to further assess whether inflation continues its slowing trend and to pay attention to the impacts of foreign exchange market volatility and the increasing trend of household debt on financial stability, the Board sees that it is appropriate to assess domestic and external policy conditions while maintaining its current restrictive policy stance.

The currently available information suggests that the global economy has continued its moderate growth trend and that inflation has continued its slowing trend. In global financial markets, long-term government bond yields have fluctuated considerably, affected by changes in expectations of the timing and size of policy rate cuts by the U.S. Federal Reserve, and by the political situation in the U.S. and Europe. The U.S. dollar has continued to strengthen due to the differentiation in monetary policies between the U.S. and other advanced countries. Looking ahead, the Board sees global economic growth and global financial markets as likely to be affected by inflation slowdowns and the extent of differentiation in monetary policy operations in major countries, by risk developments in the Middle East, and by the political situation in major countries.

The domestic economy has continued with its divergence between domestic demand activities and exports, and its growth has temporarily weakened in the second quarter due to the slowdown in domestic demand activities, while exports have continued to improve. Labor market conditions have been generally favorable, but the extent of increase in the number of persons employed has decreased. Going forward, the domestic economy is likely to continue its trend of moderate growth with a gradual recovery in consumption, amid an ongoing increase in exports. GDP growth for the year is expected to be generally consistent with the May forecast of 2.5%. The future path of economic growth is likely to be affected by the pace of expansion in the IT industry, by the recovery trend in consumption, and by monetary policies in major countries.

Inflation has continued its slowing trend, mainly due to the effects of a sustained restrictive monetary policy stance. Consumer price inflation has fallen to 2.4% in June due to slower growth in the prices of agricultural and processed food products. Core inflation (excluding changes in food and energy prices from the CPI) has remained at 2.2%, the same as in May. Short-term inflation expectations among the general public have fallen to 3.0%. Looking ahead, inflation is expected to continue its slowing trend, owing to the modest pace of consumption recovery and the base effect from the sharp rises in global oil and agricultural product prices last year. Consumer price inflation is likely to modestly decline to the lower 2% range, and it is judged that it could be slightly lower than the May forecast of 2.6% for the year. Core inflation will gradually slow to the 2% level, and it is expected to be consistent with the May forecast of 2.2% for the year. The future path of inflation is likely to be affected by movements of global oil prices and exchange rates, by trends in agricultural product prices, and by adjustments in public utility fees.

In financial and foreign exchange markets, long-term Korean Treasury bond yields have fallen, as expectations of a pivot in monetary policy stances both at home and abroad have already been priced in. The Korean won to U.S. dollar exchange rate has risen, resulting from the impact of weak neighboring currencies, including the Japanese yen and the Chinese yuan, in addition to the abovementioned factor. Household loan growth has continued, mainly driven by housing-related loans. Housing prices in Seoul and its surrounding areas have increased at a faster pace, and the downward trend in the rest of the country has continued. There remain risks related to real estate project financing (PF).

The Board will continue to conduct monetary policy in order to stabilize consumer price inflation at the target level over the medium-term horizon as it monitors economic growth, while paying attention to financial stability. It is forecast that domestic economic growth will improve moderately and that inflation will gradually converge on the target level amid a continuing slowing trend. Given the underlying uncertainties regarding the future path of inflation, however, it is necessary to further assess whether inflation will continue its slowing trend. In addition, it is also necessary to assess the impacts of foreign exchange markets, housing prices in Seoul and its surrounding areas, and household debt on financial stability. Therefore, while maintaining a restrictive monetary policy stance for a sufficient period of time, the Board will examine the timing of a rate cut. In this process, the Board will thoroughly assess the slowing trend of inflation and the trade-off between policy variables, such as growth and financial stability.