Opening Remarks to the Press Conference (July 11, 2024)

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 economic conditions at home and abroad, and then explain the background to today's Base Rate decision.

To begin with changes in external conditions, the global economy has continued its moderate growth trend. The U.S. is generally in a favorable situation, but growth is expected to slow gradually due to the impact of prolonged high interest rates. The euro area is expected to gradually ease its growth slump due to improvements in real income, but political uncertainties have increased due to election results in major countries. In China, the economy is projected to grow in the upper 4% range, despite the ongoing slump in the real estate sector, thanks to an improvement in exports and the Chinese government's stimulus measures.

Global inflation continues to slow, but at a modest pace. In the U.S., consumer price inflation and core inflation in May recorded 3.3% and 3.4%, respectively, which were only slightly lower than in the previous month. In the euro area, inflation is declining at a slow pace, remaining in the mid- to upper 2% range.

In global financial markets, long-term government bond yields have fluctuated considerably, affected by changes in expectations of the U.S. Federal Reserve's monetary policy and the political situation in major countries. The U.S. dollar has continued to strengthen due to the differentiation in monetary policies between the U.S. and other advanced countries.

Looking at domestic conditions, the domestic economy grew significantly in the first quarter. However, in the second quarter, while exports have continued their improvement, consumption and investment underwent corrections, leading to ongoing divergence between domestic demand and exports, and to a slowdown in growth.

However, these were corrections already anticipated in our May forecast. In the second half of this year, growth is likely to pick up again as exports continue their growth, and as the slump in consumption gradually eases. Accordingly, 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.

On the inflation front, there has been meaningful progress, with the slowing trend continuing as expected, driven by an ongoing restrictive monetary policy stance. Core inflation has remained low at the lower 2% range, while consumer price inflation, which had been high, has fallen to 2.4% in June. Short-term inflation expectations have also slowed from the previous month to 3.0%.

The slowing trend of inflation is likely to continue, considering 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% level, despite some monthly hiccups, and 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 inflation path 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 domestic 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.

Looking at household debt and the housing market, household loans in the financial sector maintained a monthly growth volume of five trillion won, mainly driven by housing-related loans, despite a decline in other loans. Housing prices in Seoul and its surrounding areas have increased at a faster pace, while the downward trend in the rest of the country has continued. There remain risks related to real estate project financing (PF), with delinquency rates consistently rising.

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

We believe that it is necessary to further assess the slowing trend of inflation, and to pay attention to the impact of foreign exchange market volatility and the increasing trend of housing prices and household debt on financial stability. The Board therefore judged that it is appropriate to leave the Base Rate unchanged at its current restrictive level and assess domestic and external policy conditions going forward.

All the Board members unanimously supported the decision.

We have been focusing on stabilizing inflation at the target level because it has been high. Although the process involved hardship, considerable progress has been achieved in stabilizing inflation, and we are gaining confidence that inflation is converging on the target level. Therefore, we believe that the Base Rate cut can be considered at an appropriate time in the future.

However, it is still difficult to predict when to start the rate cut. Since the uncertainties regarding the future path of inflation have not been completely resolved, we need to see further whether the slowing trend of inflation will continue.

Additionally, it is necessary to assess how expectations of rate cuts might impact financial stability through the foreign exchange market, house prices, and household debt. A rate cut is expected to have positive effects, such as alleviating sluggish domestic demand and difficulties in vulnerable sectors. However, it could also increase volatility in the foreign exchange market and contribute to the growth of household debt due to expectations of rising house prices in Seoul and its surrounding areas.

Going forward, while maintaining a restrictive monetary policy stance for a sufficient period of time, the Board will determine the timing and size of a rate cut, based on a thorough assessment of the slowing trend of inflation and the trade-off between growth and financial stability that may arise from rate cuts.