# Executive Summary

## [Recent Economic and Financial Developments]

1 Looking at economic and financial developments at home and abroad between February and August 2024 and at the outlooks for these developments, the global economy is expected to continue its modest growth, affected by the sustained slowing trend of inflation and the continued easing of monetary policy stances in major countries. However, uncertainties regarding their economic trends have increased somewhat.

As for global financial markets, price variables have fluctuated significantly, influenced mainly by a shift in expectations for major countries' monetary policy stances and by risk-off sentiment. U.S. Treasury bond yields and the U.S. dollar index continued to rise, but fell significantly as expectations for a rate cut by the U.S. Fed strengthened. After a period of significant increase, global stock prices showed a sharp swing entering August 2024 as risk-off sentiment substantially strengthened and then returned due to concerns about a U.S. economic slowdown and the unwinding of the yen carry trade.

The global economy and financial markets will be influenced by disinflation and by monetary policies in major economies, as well as by developments in risks surrounding the Middle East and by the political situations in key countries.

2 The domestic economy has continued with its divergence between domestic demand and exports, as exports have continued to grow vigorously while domestic demand has recovered at a slower pace than

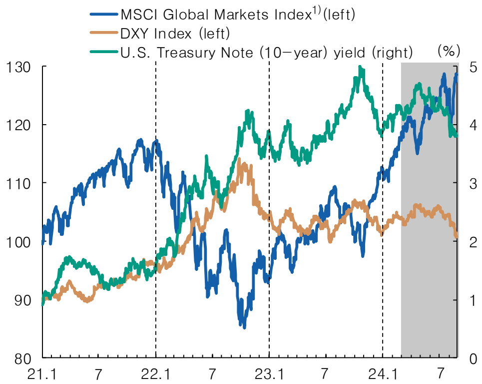
Global economic growth outlook[1]

(YoY, %)

| | 2023 | 2024 | | | 2025e | | |
|---|---|---|---|---|---|---|---|
| | Year | H1 | H2e | Yeare | H1 | H2 | Year |
| Global economy | 3.2 | 3.2 | 3.1 | 3.1 | 3.1 | 3.2 | 3.2 |
| U.S. | 2.5 | 3.0 | 1.9 | 2.4 | 1.6 | 1.9 | 1.8 |
| Euro area | 0.4 | 0.4 | 1.1 | 0.8 | 1.5 | 1.6 | 1.5 |
| China | 5.2 | 5.0 | 4.7 | 4.8 | 4.4 | 4.5 | 4.4 |
| Japan | 1.7 | -0.9 | 1.5 | 0.4 | 1.8 | 0.4 | 1.1 |

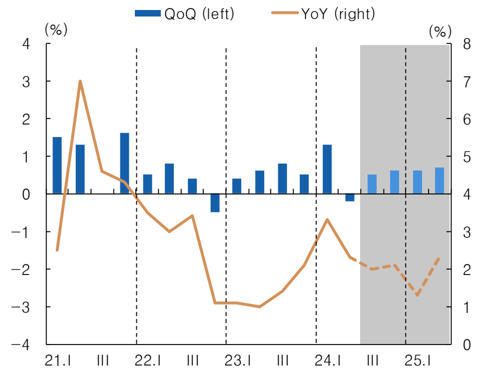
Note: 1) Figures are the forecast as of August 2024.
Sources: Bank of Korea, Statistics bureaus of individual countries, Bloomberg.

U.S. interest rates, global stock price index and dollar index




Note: 1) January 1, 2021 = 100.
Source: Bloomberg.

Real GDP growth outlook[1)2)]




Notes: 1) Figures in the shaded area represent forecasts as of August 2024.
2) Figures for 2023 and 2024 are based on preliminary figures.
Source: Bank of Korea.

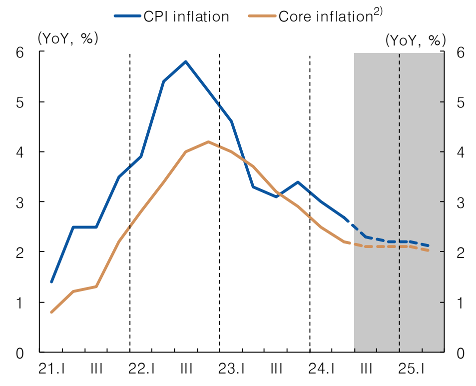
expected. GDP growth increased significantly in the first quarter, with exports maintaining strong growth and domestic demand easing its sluggishness somewhat, but then went through corrections in the second quarter due to the lapse of temporary factors. Starting in the third quarter, consumption has been recovering at a slower-than-expected pace while exports have remained strong and facilities investment has shifted to an increase. Meanwhile, the labor market is favorable overall as the unemployment rate remains at a low level, although the increase in the number of persons employed is gradually slowing.

Going forward, the domestic economy is projected to continue its trend of moderate growth, supported by a gradual recovery in domestic demand due to improved household real incomes and increased corporate investment capacity, while exports continue their robust growth. The GDP growth rate is expected to be 2.4% in 2024 and 2.1% in 2025.

3 Domestic inflation has maintained its slowng trend. The core inflation rate has remained steady in the low 2% range, while the consumer price inflation rate declined to 2.0% in August, affected by the reduced extent of the increase in petroleum and agricultural product prices. Inflation expectations among households have also fallen to the upper 2% range.

Looking ahead, inflation is expected to remain stable owing to modest demand pressure and to the base effect from the sharp rises in global oil and agricultural product prices last year. Consumer price inflation is projected to be 2.5% in 2024 and 2.1% in 2025.

Inflation outlook[1)]




Notes: 1) Figures in the shaded area represent forecasts as of August 2024.
2) Excluding food and energy.
Sources: Bank of Korea, Statistics Korea.

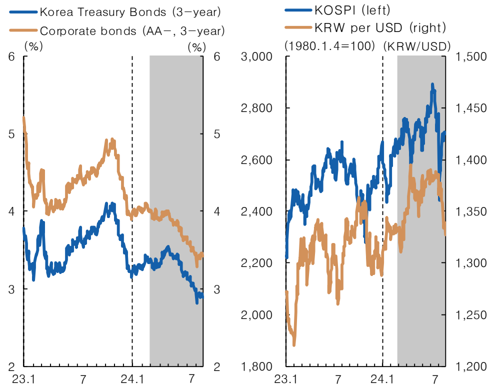
4 In domestic financial and foreign exchange markets, price variables have shown high volatility, influenced

mainly by global financial market developments. Long-term Korean Treasury bond yields rose gradually due to concerns over a possible delay in the U.S. Fed's rate cut, but they have fallen significantly driven by growing expectations of monetary policy pivots at home and abroad. The Korean won to U.S. dollar exchange rate rose remarkably, boosted by increasing geopolitical risks, but has fallen substantially starting in late August due largely to the weakening of the U.S. dollar and the strengthening of the Japanese yen and other currencies of neighboring countries.

Meanwhile, housing prices in Seoul and its surrounding areas have increased at a faster pace after having shifted to a rise in June, and transaction volumes have also grown, while the downward trend in the rest of the country has continued. Consequently, household loans have sustained their growth at a high level since the second quarter, although they had declined until the first quarter.

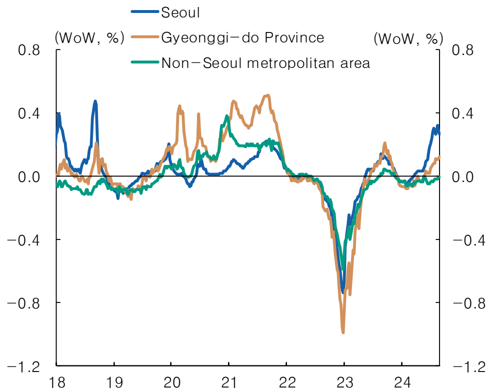
Regarding future financial and foreign exchange market movements, there is a growing risk of financial imbalances, including the continued high growth of household loans. Additionally, the potential for credit risks among some financial and construction companies remains due to a contraction in the construction industry and the ongoing restructuring of real estate project financing (PF). Furthermore, external uncertainties still remain high, regarding the path of rate cuts by the U.S. Federal Reserve, the U.S. presidential election, and the potential for escalation in the conflicts in the Middle East. Therefore, it is necessary to closely monitor developments related to these risks.

**Domestic interest rates, stock prices and exchange rates**



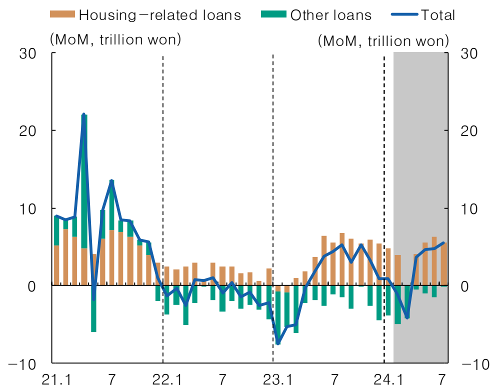

Sources: Bank of Korea, Korea Financial Investment Association, Koscom Corporation.

**Rate of increase in apartment prices**




Source: Korea Real Estate Board.

**Changes in household loans by deposit-taking banks[1)2)]**




Notes: 1) Including mortgage transfers by Korea Housing Finance Corporation.
2) Figures for July 2024 are based on bank lending to the household sector(Bank of Korea advanced estimate).
Source: Bank of Korea, Korea Housing Finance Corporation.

## [Monetary Policy Implementation and Outlook]

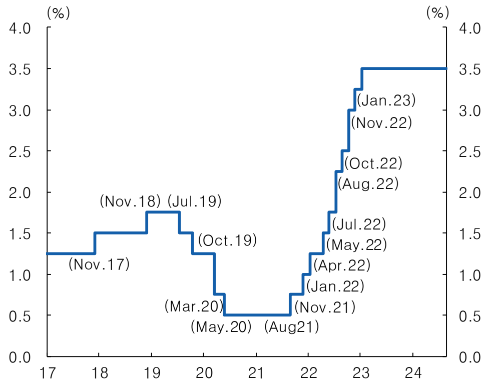
5 In light of these policy conditions, the Bank of Korea has been maintaining the Base Rate at 3.50% since February 2024, while closely monitoring the slowing trend of inflation, the trade-offs among various policy variables, such as growth and financial stability, monetary policy operations in major countries, and developments in geopolitical risks.

Specifically, at the April and May meetings in 2024, although inflation continued to slow, the upside risks to inflation still persisted due to improvements in growth and to heightened volatility in exchange rates, and geopolitical risks were ongoing. Accordingly, it was deemed appropriate to maintain the Base Rate at a restrictive level of 3.50% while assessing domestic and international policy conditions.

Subsequently, the decisions to maintain the Base Rate at 3.50% at the July and August 2024 meetings were based on the following reasons. Although inflation did continue its downward trend and the recovery in domestic demand was modest, household debt, which has been increasing rapidly, was expected to increase significantly in August. Therefore, it was needed to further monitor the impact on financial stability of factors such as trends in housing prices in the Seoul metropolitan area and household debt, government measures concerning the housing market, changes in global risk-off sentiment, and volatility in foreign exchange markets.

6 The Bank of Korea uses various policy instruments to facilitate credit flows and to stabilize financial and foreign exchange markets. Considering the ongoing

**Bank of Korea Base Rate[1)]**




Note: 1) Figures in parentheses refer to the months of Base Rate adjustments.
Source: Bank of Korea.

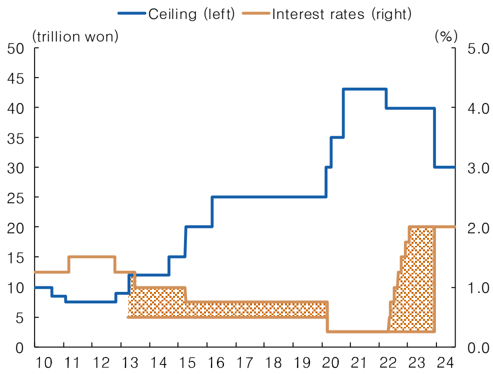
difficulties of vulnerable and small companies, the Bank decided to extend the effective period of a temporary measure to support small and medium-sized enterprises (SMEs) under the Bank Intermediated Lending Support Facility (BILSF) for another year, from July 2024 to July 2025. Additionally, starting in September 2024, covered bonds were included in the Bank of Korea's list of securities eligible to be collateral for loans and for guaranteeing net settlements, thereby expanding the capacity to provide liquidity to banks when it is necessary. Furthermore, seven asset management companies and six national federations of non-bank deposit-taking institutions were newly selected as eligible institutions to participate in Bank of Korea repurchase agreements for one year, starting in August 2024, to enhance the effectiveness of monetary policy and to strengthen the financial market stability function.

7 The Bank of Korea will continue to conduct monetary policy in order to stabilize consumer price inflation at the target level (2%) over the medium-term horizon as it monitors economic growth, while paying attention to financial stability.

With greater confidence that inflation will converge on the target level, the domestic economy is expected to see a gradual improvement in growth, but it is necessary to further monitor future developments. Regarding financial stability, it is essential to assess the impact of government measures concerning the housing market and the increased market volatility because housing prices in the Seoul area continue to rise, household debt persists in its increase, and vigilance in foreign exchange markets takes hold.

Therefore, the Bank of Korea will thoroughly assess the trade-offs among policy variables, such as inflation,

**Ceiling and interest rates of Bank Intermediated Lending Support Facility[1)]**




Note: 1) Shaded area represents the time frame where interest rates were different for each program.
Source: Bank of Korea.

growth, and financial stability, and examine the proper timing of any rate cuts while maintaining a restrictive monetary policy stance.