Opening Remarks to the Press Conference (February 22, 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 is projected to continue slowing but it will be more favorable than expected. Economic conditions have been differentiated across major countries. In the U.S., growth for this year is predicted to be around 2%, much higher than the earlier forecast, due to growing investments and consistently robust labor market conditions. In the euro area, although the economic downturn is expected to ease gradually, the pace is likely to be slow. In China, the economy is projected to grow at the mid-4% level, despite the ongoing slump in the real estate sector, thanks to its economic stimulus.

Inflation in major economies continues its trend of a slowdown, but it is forecast that it will take a considerable period of time for inflation to stabilize on the target level. In the U.S., consumer price inflation stood at 3.1% in January, showing a slower-than-expected moderation, and core inflation remained at 3.9%, the same as the previous month. Going forward, the pace of slowdown is expected to be moderate, and the timing of inflation declining to the 2% level is projected to be after 2025.

As for global financial markets, government bond yields in major economies have risen and the U.S. dollar has strengthened due to the weakening expectations for early policy rate cuts by the U.S. Federal Reserve. Stock prices have risen, primarily in advanced countries, driven by improvements in corporate performances.

Looking at domestic conditions, economic growth has continued to improve at a modest pace with an ongoing increase in exports, mainly driven by semiconductors and automobiles. However, the private consumption recovery has been slow, affected by elevated inflation and interest rates. Domestic inflation has maintained its slowing trend owing to low demand-side pressures. Consumer price inflation in January has fallen to 2.8%, core inflation has slowed to 2.5%, and short-term inflation expectations have also fallen to 3.0% in January and February.

In domestic financial and foreign exchange markets, long-term Korean Treasury bond yields and the Korean won to U.S. dollar exchange rate have risen, affected primarily by changes in expectations for the U.S. monetary policy stance. Stock prices have risen on expectations for improvements in the semiconductor business. With regard to household debt and the housing market, household loans in the financial sector only grew by around 1 trillion won in January, despite a sustained increase in housing-related loans, due to the continued decline in other loans. Housing prices have continued to decline across all parts of the country, and risks related to real estate project financing (PF) still remain.

In addition, the Board has revisited its assessment of future growth and inflation paths, reflecting changes in domestic and external conditions after the November Economic Outlook.

GDP growth for this year is projected to be 2.1%, consistent with our November forecast. Compared with the November forecast, weaker domestic demand, including the downward revision of the private consumption forecast from 1.9% to 1.6%, contributed to lowering the overall growth rate by 0.1%p from the November forecast, yet this decrease was offset by improved exports driven by robust U.S. growth and the recovery in the semiconductor industry, contributing to raising the growth rate by 0.1%p. However, the future growth path is surrounded by high uncertainties regarding the effects of monetary policy in major countries, the pace of improvement in the IT industry, and the impact of domestic real estate project financing (PF) restructuring.

Consumer price inflation for this year is projected to be 2.6%, also consistent with the November outlook. It is expected to temporarily pick up slightly due to the increase in agricultural product prices, and then to decline moderately afterward, slowing to the lower-2% range by the end of the year. Core inflation is projected to be 2.2%, revised slightly down from 2.3% in the November outlook, reflecting the impact of a slow pace of consumption recovery. The future inflation path is likely to be affected by developments of geopolitical risks, by movements of global oil prices and domestic agricultural product prices, and by economic growth at home and abroad.

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

Although inflation has continued its slowing trend, there are high uncertainties regarding the inflation outlook. Also, it is necessary to monitor developments of domestic and external risk factors, such as monetary policy in major countries, volatility in the exchange rate, fluctuations in global oil prices from geopolitical risks, and household debt growth. The Board therefore judged that it is appropriate to leave the Base Rate unchanged at its current restrictive level.

All the Board members unanimously supported the decision.

Looking ahead, it is premature to be confident that inflation will converge on the target level. Due to not only supply-side risks including global oil prices but high inflation for living necessaries which limits the decline in inflation expectations, it is anticipated that the process of inflation moderation will not be smooth.

Therefore the Board deems it warranted to stabilize inflation on 2% by maintaining a restrictive monetary policy stance for a sufficiently long period of time. In this process, the Board will determine how long to continue the restrictive monetary policy stance while thoroughly assessing the abovementioned uncertainty factors.