Opening Remarks to the Press Conference (November 28, 2024)

Today, the Monetary Policy Board (MPB) of the Bank of Korea decided to lower the Base Rate by 25 basis points, from 3.25% to 3.00%. 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, although it has been facing heightened uncertainties surrounding growth and inflation, driven by the new U.S. administration's policies. The U.S. economy is expected to continue its favorable growth due to the anticipated tax cuts and deregulation following the inauguration of the new government. The euro area is projected to recover gradually, but weakness in the manufacturing sector and the possibility of trade tension are likely to remain constraints on growth. In China, although the government's stimulus measures will ease downside pressure to some extent, its economy is expected to show weaker than expected growth, due to real estate and sluggish consumption and to a slowdown in exports.

Concerning global inflation trends, there is a growing prospect that the progress of disinflation in the U.S. could be slower than expected following the presidential election. In other major economies, however, inflation is anticipated to ease overall as the downward pressure stemming from weaker growth will offset the effects of a strong dollar.

In global financial markets, U.S. long-term Treasury yields have risen significantly, despite the ongoing policy rate cuts in major economies, and the U.S. dollar has also strengthened considerably.

Looking at domestic conditions, economic growth has weakened more than initially expected. Domestic demand has continued to recover modestly, while exports increased at a slower pace due to structural factors, such as the sluggish recovery in the IT sector and intensified competition in major export industries.

Inflation has maintained its stabilization trend. Consumer price inflation temporarily fell significantly to 1.3% in October, reflecting the decline in petroleum product prices. Core inflation has also slowed to 1.8%. Short-term inflation expectations have remained at 2.8% in November, the same as in the previous month.

In domestic financial and foreign exchange markets, the Korean won to U.S. dollar exchange rate has increased considerably despite the widening current account surplus, due to the strength of the U.S. dollar, continued outbound investments by domestic residents, and the selling of shares by foreign investors. Long-term Korean Treasury bond yields have declined, in contrast to the significant increase in U.S. Treasury yields. Stock prices have fallen, affected by weakening performance outlooks at major companies.

The housing market and the growth of household debt have continued to slow due to the ongoing effects of the government's macroprudential policies. Housing prices in Seoul and its surrounding areas have increased at a slower pace, while the downward trend across the rest of the country has continued. Growth in household loans has expanded slightly driven by a rise in non-housing-related loans due to seasonal factors, but it is seen to have maintained its slowing trend, led by housing-related loans. Household loans are expected to continue slowing for some time, including beyond November, due to factors such as a decline in housing transaction volumes and the ongoing effects of macroprudential policies.

In addition, the Board has revisited its assessment of future growth and inflation paths, reflecting changes in domestic and external conditions after the August Economic Outlook. The growth rate is forecast at 2.2% for this year and at 1.9% for the next year, both lower than the August projections of 2.4% and 2.1%, respectively. This downward adjustment came from taking into account the following factors. Although domestic demand is expected to sustain a modest recovery, led by consumption, export growth is likely to fall short of initial expectations due to intensified competition in major export industries and due to increased protectionism. However, this future path of economic growth is subject to high uncertainties related to changes in the trade environment, trends in IT exports, and the pace of recovery in domestic demand.

Consumer price inflation is projected to record 2.3% this year and 1.9% next year, both 0.2%p lower than the August forecasts. This downward adjustment came upon reflecting that supply pressure, such as global oil prices, will likely be easing and that demand pressure will be modest despite upward pressure from a rising exchange rate. Core inflation is expected to be 2.2% for this year, consistent with the previous forecast, and 1.9% for next year, slightly below the prior forecast. The future path of inflation is likely to be affected by movements in exchange rates and global oil prices, by economic growth at home and abroad, and by adjustments in public utility fees.

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

Although volatility of the exchange rate has increased, inflation stabilization has continued along with an ongoing slowdown in household debt, and downward pressure on economic growth has intensified. The Board, therefore, judged that it is appropriate to further cut the Base Rate and mitigate downside risks to the economy.

In this decision, four of the six members, excluding myself, expressed the view that a rate cut would be appropriate, while two members—Chang Youngsung and Ryoo Sangdai—proposed maintaining the Base Rate at the current level of 3.25%.

This was a more difficult decision than ever, as there has been significant changes in both internal and external conditions since the last meeting in October, and, as the minority opinions show, there are pros and cons to both a cut and a hold.

To explain the background of the decision in more detail, as for inflation, we considered that the inflation situation is not much different from what we saw in October, as it is expected to follow a stabilization trend, though it will be affected by a number of factors, including oil prices and exchange rates. As for housing prices and household lending, we believe that household debt risks are under control for the time being with the smooth functioning of macroprudential policies. Therefore, we judged that it is appropriate to manage the policy response while assessing the impact of rate cuts.

On the other hand, growth is expected to be below expectations. While domestic demand is recovering moderately, export growth is anticipated to be materially lower than expected, due to structural issues such as heightened competition with key countries in major export industries. Additionally, this outlook partially reflects the uncertainty in the trade environment following the U.S. presidential election. At the same time, exchange rate volatility has risen sharply driven by the strengthening of the U.S. dollar. Accordingly, it is crucial to remain cautious of the potential effects on the domestic foreign exchange markets and inflation.

As such, there was relatively little disagreement regarding inflation and the household debt situation. However, there was considerable debate and discussion regarding the trade-off between economic growth and foreign exchange market stability. After thorough deliberation, the Board today decided that it is appropriate to further lower the Base Rate to address downward pressures on the economy and, in the event of increased exchange rate volatility, manage the situation through various market stabilization measures in cooperation with the government.

Regarding future monetary policy, while inflation is expected to remain stable, the uncertainty over the growth path has increased. Therefore, we judged that it is necessary to make further adjustment to the Base Rate, taking into account changes in the economic situation. In terms of financial stability, while household debt is expected to continue to slow, it is necessary to remain cautious concerning the potential for high exchange rate volatility. Therefore, the Board will thoroughly assess incoming economic data and the impact of the rate cut on inflation, growth, and financial stability in terms of household debt and exchange rates, while examining the trade-offs among these variables, in determining the pace of further cuts of the Base Rate.

In addition, the Board decided to lower the interest rate on programs under the Bank Intermediated Lending Support Facility from 1.75% to 1.50%, in order to enhance support for vulnerable small and medium-sized enterprises (SMEs) experiencing difficulties.