BANK OF KOREA

PRESS RELEASE

FOR IMMEDIATE RELEASE May 23, 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. Although inflation has continued its slowing trend, upside risks to inflation have increased due to an improvement in economic growth and heightened volatility of the exchange rate. Moreover, geopolitical risks also persist. The Board, therefore, 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 been trending downward. However, economic conditions and the pace of the inflation slowdown have differentiated across major countries. In global financial markets, government bond yields in major countries and the U.S. dollar index have escalated considerably and then eased, in-line with changes in expectations of the timing and size of policy rate cuts by the U.S. Federal Reserve. Looking ahead, the Board sees global economic growth and global financial markets as likely to be affected by inflation slowdowns and differentiation in monetary policy operations in major countries, and by developments in geopolitical risks.

The domestic economic growth rate substantially exceeded expectations in the first quarter this year owing to the continued buoyancy of exports and the easing of sluggishness in consumption and construction investment. Labor market conditions have been generally favorable with a continued robust increase in the number of persons employed. Going forward, it is forecast that consumption will continue its modest recovery in the second half of the year after a slowdown in the second quarter, amid an ongoing increase in exports. Accordingly, GDP growth for the year is projected to be 2.5%, considerably exceeding the February forecast of 2.1%. 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.

Consumer price inflation has fallen to 2.9% in April due to slower increases in the prices of personal services and agricultural, livestock, and fisheries products. Core inflation (excluding changes in food and energy prices from the CPI) has slowed to 2.3%, and short-term inflation expectations have risen to 3.2% in May. Looking ahead, although upward pressures on prices could increase due to an improvement in economic growth, effects of such pressures are not likely to be significant with a modest recovery in consumption. As a result, consumer price inflation and core inflation for the year are also forecast to be 2.6% and 2.2%, respectively, which are consistent with the February forecast. The future path of inflation is subject to high uncertainties associated with movements of global oil prices and exchange rates, trends in agricultural product prices, and ripple effects from improvements in economic growth.

In financial and foreign exchange markets, long-term Korean Treasury bond yields have fallen after having previously risen, in-line with changes in expectations of the monetary policy both at home and abroad. The Korean won to U.S. dollar exchange rate has fluctuated considerably at a high level, affected by trends in neighboring currencies, including the U.S. dollar and the Japanese yen, and by geopolitical risks. Household loans have increased, mainly driven by housing-related loans. Housing prices have generally continued to decline, and 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. While it is forecast that inflation will maintain its slowing trend amid domestic economic growth having improved more than expected, it is premature to be confident that inflation will converge on the target level, as upside risks to inflation forecasts have increased. The Board, therefore, will maintain a restrictive monetary policy stance for a sufficient period of time until such confidence is established. In this process, the Board will thoroughly assess trends of slowing inflation and improving economic growth, risks to financial stability, household debt growth, differentiation in monetary policy operations in major countries, and developments in geopolitical risks.