BANK OF KOREA

PRESS RELEASE

FOR IMMEDIATE RELEASE February 23, 2023

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. It is forecast that inflation will continue to be above the target level throughout the year although it is projected to gradually decrease, and uncertainties surrounding the policy decision are also judged to be high. The Board, therefore, sees that it is appropriate to judge whether the Base Rate needs to rise further while assessing the pace of inflation slowdown and developments in the uncertainties.

Currently available information suggests that the slowdown of global economic growth and inflation has continued. However, concerns about a recession in major countries have somewhat decreased due to the easing of concerns over energy supply and demand, as well as labor market conditions continuing to be favorable, and the pace of inflation slowdown in the U.S. has been modest. In global financial markets, volatility in major price variables has increased. The U.S. dollar has shifted to a rapid strengthening after continuing to weaken, and long-term market interest rates have rebounded considerably, led by expectations that the U.S. Federal Reserve's terminal rate will be higher than previously expected after the announcement of U.S. labor market and price indicators exceeding market expectations. Looking ahead, the Board sees global economic growth and global financial markets as likely to be affected largely by the pace of global inflation slowdown, monetary policy changes in major countries and U.S. dollar trends, the recovery in the Chinese economy after the easing of its COVID-19 restrictions, and geopolitical risks.

Although concerns about a recession in major countries have eased, domestic economic growth has continued to slow, with the recovery in private consumption weakening and exports continuing to decrease due to deepened sluggishness in the IT industry. Labor market conditions have generally continued to be favorable, but the decline in the increase in the number of persons employed has continued due to the economic slowdown. Going forward, domestic economic growth is expected to remain weak, affected by the global economic slowdown and the increase in interest rates. Domestic economic growth is expected to improve gradually from the second half of this year with a recovery in the Chinese economy and in the IT industry. However, uncertainties regarding the outlook are judged to be high. GDP growth for this year is projected to be 1.6%, slightly lower than the November forecast of 1.7%.

Consumer price inflation has run at 5.2% in January, which has been higher than the 5.0% in December, due to increases in electricity fees as well as rising prices of processed food products, although increases in the price of petroleum products have moderated. Core inflation (excluding changes in food and energy prices from the CPI) has run at 4.1% in January. Short-term inflation expectations among the general public have run at 4.0% in February. Looking ahead, it is forecast that consumer price inflation will remain around 5% in February, but will gradually decrease owing to the base effect from the sharp rises in global oil prices last year and weakening pressure from the demand side. However, the pace of slowdown is expected to be more modest than in major countries due to the effects of the increases in public utility fees. Consumer price inflation for this year is projected to be 3.5%, slightly lower than the November forecast of 3.6%. Uncertainty surrounding inflation forecasts is judged to be high, regarding movements of global oil prices and exchange rates, the degree of economic slowdown at home and abroad, and the size and effects of the increases in public utility fees.

In financial and foreign exchange markets, volatility has increased in February with a considerable rebound in the Korean won to U.S. dollar exchange rate and in market interest rates, which have shown a decrease since last November due to the possibility of further tightening of the U.S. Federal Reserve's policy stance. The decrease in household loans has widened, and housing prices have continued to decline across all parts of the country.

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. Inflation is projected to remain high above the target level although the domestic economic growth rate has slowed, and uncertainties surrounding the policy decision are high. The Board, therefore, deems it warranted to judge whether the Base Rate needs to rise further while maintaining the restrictive policy stance for a considerable time with an emphasis on ensuring price stability. In this process the Board will thoroughly assess the pace of inflation slowdown, the economic downside risks and financial stability risks, the effects of the Base Rate raises, and monetary policy changes in major countries.