BANK OF KOREA

PRESS RELEASE

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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.

This press release is the English version of the Bank of Korea's policy statement. In case of any inconsistency, the original Korean version will prevail.

(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. Inflation has continued its downward trend and the recovery in domestic demand has been modest. However, it is still necessary to further monitor how recent government measures concerning the housing market are affecting real estate prices in Seoul and its surrounding areas and household debt, and how the risk-off sentiment in global markets evolves and affects the vigilance of foreign exchange markets from a financial stability perspective. In light of these, the Board sees that it is appropriate to maintain its current restrictive policy stance.

The currently available information suggests that the global economy has continued its moderate growth trend, although uncertainties around its pace have somewhat increased in major economies, such as in the U.S. Meanwhile, inflation has maintained its slowing trend. In global financial markets, the risk-off sentiment strengthened substantially and then reversed, driven by concerns over a potential slowdown in the U.S. economy and by the unwinding of the yen carry trade. Meanwhile, volatility has increased, with stock prices experiencing significant fluctuation. The U.S. dollar index and long-term government bond yields have fallen as expectations of Federal Reserve rate cuts have strengthened. The global economy and financial markets will be influenced by disinflation and by monetary policies in major economies, as well as by changes in geopolitical risks and the developments of political situations in key countries.

The domestic economy has continued with its divergence between domestic demand activities and exports, as exports have continued to grow vigorously while consumption has recovered at a slower pace than expected. Labor market conditions have been generally favorable, as the number of employed persons has continued to rise. Going forward, the domestic economy is projected to continue its trend of moderate growth with a gradual recovery in consumption, amid an ongoing increase in exports. The growth forecast for this year is 2.4%, slightly down from the May projection of 2.5%, due to a larger-than-anticipated impact of transitory factors on the strong GDP growth observed in the first quarter. In 2025, growth is expected to be 2.1%, the same level as the previous forecast. The future path of economic growth is likely to be influenced by the pace of recovery in consumption, the expansion of the IT sector, and economic conditions in major countries.

Inflation has maintained its underlying trend of slowing down. The consumer price inflation rate increased to 2.6% in July due to accelerated price increases in petroleum products. However, the core inflation rate (excluding changes in food and energy prices from the CPI) has remained steady at 2.2%. Short-term inflation expectations have fallen to the upper 2% range. Looking ahead, inflation is expected to continue its slowing trend, owing to the base effect from the sharp rises in global oil and agricultural product prices last year and due to modest demand pressure. Consumer price inflation is anticipated to fluctuate in the low 2% range for some time, with an annual rate projected to be 2.5% for this year, slightly below the May forecast of 2.6%. For next year, the inflation rate is expected to align with the previous forecast of 2.1%. Core inflation is expected to be 2.2% in 2024 and 2.0% in 2025, consistent with the May forecast. The future path of inflation is likely to be affected by movements in global oil prices and exchange rates, fluctuations in agricultural product prices, and adjustments in public utility fees.

In financial and foreign exchange markets, the volatility of prices increased significantly and then eased. However, concerns related to a potential U.S. economic slowdown and the unwinding of the yen carry trade remain. Stock prices fell sharply but have rebounded, and long-term Korean Treasury bond yields have fallen considerably due to growing expectations of policy rate cuts both at home and abroad and due to net purchases of bond futures by foreigners. The Korean won to U.S. dollar exchange rate has fallen due to the weakening of the U.S. dollar. Housing prices in Seoul and its surrounding areas have increased at a faster pace as transaction volumes have risen, while the downward trend in the rest of the country has continued. Household loans have sustained their growth at a high level, mainly driven by housing-related loans. 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. 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 Board will thoroughly assess the trade-offs among policy variables such as inflation, growth, and financial stability, and examine the proper timing of rate cuts while maintaining a restrictive monetary policy stance.