BANK OF KOREA

PRESS RELEASE

FOR IMMEDIATE RELEASE April 11, 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.

This press release is the English version of the Bank of Korea’s policy statement. In the case of any inconsistency, the original version in Korean 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. It is forecast that inflation will continue to be above the target level for a considerable time although it is projected to continue to slow, and uncertainties surrounding the policy decision are also judged to be high with increasing risks to the financial sector in major countries. 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, financial stability conditions and developments in other uncertainties.

The currently available information suggests that the recovery of global economic growth has been more favorable than expected, but economic downside risks have increased due to heightened risks in the financial sector in major countries since the failure of Silicon Valley Bank in the U.S. Global inflation still remains high while continuing its slowdown, and core inflation is declining at a relatively slow pace. In global financial markets, the volatility of major price variables has increased significantly, affected by risks to the financial sector and changes in expectations for the U.S. Federal Reserve's monetary policy. As financial unrest has weakened expectations of tightening by the U.S. Federal Reserve, the U.S. dollar has shown a downtrend after having strengthened until early March. Long-term market interest rates in major countries have also fallen significantly since mid-March, after having continued to rise. Looking ahead, the Board sees global economic growth and global financial markets as likely to be affected by the pace of global inflation slowdown, risks to the financial sector, monetary policy changes in major countries, U.S. dollar trends, and the recovery in the Chinese economy.

Domestic economic growth has continued to slow with exports continuing to decrease significantly due to deepened sluggishness in the IT industry, although private consumption has somewhat recovered from its slowdown in the fourth quarter last year. 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 until the first half of this year, affected by the global economic slowdown and the Base Rate raises. From the second half of this year, it is expected to recover gradually with an easing of the sluggishness in the IT industry and the impact of the Chinese economic recovery. GDP growth for this year is projected to be slightly below the February forecast of 1.6%, but uncertainties regarding the outlook are judged to be high.

Consumer price inflation has continued to moderate at 4.2% in March, declining from 4.8% in February. This is mainly because the decline in the price of petroleum products has widened and the sustained rise in the prices of processed food products has weakened. Core inflation (excluding changes in food and energy prices from the CPI) in March has run at 4.0%, the same as in February. Short-term inflation expectations among the general public have run at 3.9%, which is slightly lower than in February. Looking ahead, it is forecast that consumer price inflation will continue to moderate and decline to the 3% range from the second quarter this year, owing to the base effect from the sharp rises in global oil prices last year and weakening pressure from the demand side. Consumer price inflation for this year is expected to be consistent with the February forecast of 3.5%. Meanwhile, it is judged that core inflation is likely to be somewhat higher than the February forecast of 3.0% for this year, considering its slow pace of decline recently. 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 time and size of the increases in public utility fees.

In financial and foreign exchange markets, major price variables have become more volatile, affected mainly by global financial market movements. Long-term market interest rates have shown a considerable increase along with government bond yields in major countries until early March, and then they fell significantly after the failure of Silicon Valley Bank. The Korean won to U.S. dollar exchange rate has been fluctuating considerably, affected by trends in the trade balance, concerns about financial unrest in major countries, and weakening expectations of tightening by the U.S. Federal Reserve. Household loans and housing prices have continued to go downward, but to a lesser extent.

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 for a considerable time despite the slowdown of the domestic economic growth rate and inflation. Moreover, uncertainties surrounding the policy decision are judged to be 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.