BANK OF KOREA

PRESS RELEASE

FOR IMMEDIATE RELEASE November 28, 2024

Monetary Policy Decision

The Monetary Policy Board of the Bank of Korea decided today to lower the Base Rate by 25 basis points, from 3.25% to 3.00%. (Attachment) The Board has decided to lower the interest rate on programs under the Bank Intermediated Lending Support Facility from 1.75% to 1.50%, effective November 28, 2024.

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 lower the Base Rate by 25 basis points, from 3.25% to 3.00%. 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.

The currently available information suggests that the global economy has been facing heightened uncertainties surrounding growth and inflation, driven by the new U.S. administration's policies. 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 ahead, the global economy and financial markets will be influenced by the specifics of the new U.S. administration's policies, by changes in monetary policies in major economies, as well as by geopolitical risks.

Domestic economic growth has weakened due to a slowdown in export growth, amid a moderate recovery in domestic demand. In the labor market, although the unemployment rate has been at a low level, the increase in the number of employed persons has gradually slowed. Going forward, consumption is expected to continue its moderate recovery trend. However, export growth is likely to fall short of initial expectations due to intensified competition in major export industries and due to the possible rise in global trade protectionism. Consequently, 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. Nevertheless, the 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.

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 (excluding changes in food and energy prices from the CPI) has also slowed to 1.8%. Short-term inflation expectations have remained at 2.8% in November, the same as in October. Despite upward pressure from a rising exchange rate, inflation is expected to remain stable, supported by declining global oil prices and subdued demand pressure. As a result, consumer price inflation is forecast to be 2.3% for this year and 1.9% for next year, both lower than the previous forecasts of 2.5% and 2.1%, respectively. 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 of 2.0%. 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.

In financial and foreign exchange markets, Korean Treasury bond yields have declined, in contrast to the significant increase in U.S. Treasury yields. The Korean won to U.S. dollar exchange rate has risen considerably, reflecting the strength of the U.S. dollar. Stock prices have fallen, affected by weakening performance outlooks at major companies. 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 due to seasonal factors. However, given the ongoing effects of macroprudential policies, the overall slowing trend is expected to persist for some time, mainly driven by housing-related loans.

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. Regarding the domestic economy, it is judged that inflation will stabilize, while uncertainties regarding the future path of output growth remain high. Regarding financial stability, the slowing trend in household debt is expected to persist for some time. However, it is important to remain cautious concerning the potential for high exchange rate volatility. Therefore, the Board will thoroughly assess the impact of the Base Rate cut on policy variables such as inflation, growth, and financial stability factors including household debt and exchange rates, as well as the trade-offs among these variables, in determining the pace of further cuts of the Base Rate.