# Opening Remarks to the Press Conference (April 11, 2023)

Today, the Monetary Policy Board (MPB) of the Bank of Korea decided to leave the Base Rate unchanged at 3.50%. I will first go over financial and economic conditions at home and abroad, and then explain the background to today's Base Rate decision in detail.

To begin, a look at the changes in external conditions since the February meeting shows that the global economy has faced greater economic uncertainties as the risks to the financial sector increased with the failure of Silicon Valley Bank (SVB). In the U.S. and the euro area, which had shown a stronger-than-expected recovery until February, economic downside risks have risen since March, with greater risk to financial stability amid banking sector stress and with signs of a slowdown in labor markets. The Chinese economy continues to recover after the re-opening, driven by domestic demand, but its exports remain sluggish.

Global inflation has slowed gradually from the previous high levels. However, core inflation has been sticky, declining at a slow pace in the U.S. and continuing to rise in the euro area.

As for global financial markets, volatility of major price variables has heightened significantly, affected by risks to the financial sector and the changes in expectations for the U.S. Federal Reserve's monetary policy. The U.S. dollar, which had strengthened until early March amid expectations of further tightening by the U.S. Federal Reserve, weakened considerably as the expectations subsided after the failure of SVB. Long-term market interest rates in major countries, which had sustained an uptrend, also fell significantly since March.

Looking at the Korean economy, growth continues to slow, affected by the global economic slowdown and the accumulated Base rate hikes. Although the sluggishness in consumption has somewhat eased, as exports continued to decline significantly, growth in the first quarter is forecast to only turn slightly positive. GDP growth for this year is projected to be slightly below the February forecast of 1.6%, affected by the deepened sluggishness in the IT industry. Domestic economic growth is expected to remain weak until the first half of this year, but it is expected to improve gradually from the second half of this year, with an easing of the sluggishness in the IT industry and the impact of the Chinese economic recovery.

Concerning inflation, consumer price inflation in March was still high at 4.2%, but it declined from 4.8% in February continuing its slowing trend since the second half of last year. This is mainly because the decline in the prices of petroleum products has widened due to the base effect of a surge in global oil prices last year, and the sustained rise in the prices of processed food products has begun to weaken. However, core inflation and short-term inflation expectations in March recorded 4.0% and 3.9%, respectively, staying the same or declining only slightly from the 4.0% of the previous month. Going forward, consumer price inflation is projected to sustain its slowing trend and decline to the 3% range in the second quarter, and reach around 3% at the year-end. Consumer price inflation for this year is forecast to be generally 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 path, given its slow pace of decline recently. However, there are still high uncertainties on the inflation forecast regarding global oil price movements in line with production cuts by oil-producing countries, the degree of economic slowdown at home and abroad, and the time and size of the increases in public utility fees.

As for domestic financial and foreign exchange markets, the direct impact from the SVB failure has been limited, but the volatility of price variables has heightened affected by global financial market movements. The Korean won to U.S. dollar exchange rate has fluctuated at around the 1,300-won range due to a mixture of upside factors including greater risks to the financial sector in major countries and a continued trade deficit, as well as downside factors including weakened expectations of tightening by the U.S. Federal Reserve. Long-term market rates rose substantially until early March along with government bond yields in major countries, and they both fell after mid-March.

Looking at household debt and the housing market, the decline in household loans and the fall in housing prices have continued, but the extent of the decrease has narrowed.

The Board decided today to leave the Base Rate unchanged at 3.50%. It is forecast that inflation will remain above the target level for a considerable time although it is projected to continue to slow. Also, uncertainties surrounding the policy decision are high with increasing risks to the financial sector in major countries. The Board, therefore judged that, while leaving the rate unchanged at the current level, it is appropriate to monitor the pace of inflation slowdown, financial stability conditions, and the development in other uncertainties.

All the Board members supported the decision unanimously.

Looking ahead, the Board deems it warranted to judge whether the Base Rate needs to rise further while maintaining the restrictive policy stance for a considerable time. This is attributable to the fact that inflation is still high and it is expected to remain above the target level throughout the year even if it continues to slow as currently forecast. It is too early to be relieved that prices will stabilize. In this process, the Board will operate monetary policy in a sophisticated manner while thoroughly assessing the pace of inflation slowdown, risks to the domestic and global financial sector, the U.S. Federal Reserve's monetary policy operation, the impact of the Chinese economic recovery on the domestic economy, and the effects of accumulated Base Rate hikes.