

July 14, 2016 The Bank of Korea

Monetary Policy Decision

The Monetary Policy Board of the Bank of Korea decided today to leave the Base Rate unchanged at 1.25% for the intermeeting period.

(English translation prepared by the Bank of Korea staff)

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Based on currently available information the Board considers that the trend of economic recovery in the US has been sustained and that the improvements in the euro area, although weak, have continued. The Chinese economy has meanwhile maintained its moderate growth. The Board forecasts that, while the global economy will maintain its weak recovery going forward, it will be affected by factors including uncertainties related to Britain's exit from the European Union, changes in the monetary policies of major countries, and financial and economic conditions in emerging market countries.

Looking at the Korean economy, while the sentiments of economic agents have been sluggish, the trend of decline in exports has continued but domestic demand activities including consumption appear to be improving. On the employment front, as the number of persons employed has increased, the employment-to-population ratio rose and the unemployment rate fell in June compared to those in June of last year. The Board forecasts that the domestic economy will sustain its trend of modest growth going forward, owing chiefly to expansionary macroeconomic policies, but in view of economic conditions domestically and abroad judges the uncertainties surrounding the growth path to be high.

Consumer price inflation registered 0.8% in June, the same as in May, in line mainly with declines in agricultural product prices. Core inflation excluding agricultural and petroleum product prices rose slightly to 1.7%, from 1.6% in May. In the housing market, sales and leasehold deposit prices showed low rates of increase. Looking ahead the Board forecasts that consumer price inflation will remain at a low level for the time being, and then gradually rise as the effects of the low oil prices diminish.

In the domestic financial markets, stock prices and the Korean won-US dollar and Korean won-Japanese yen exchange rates fluctuated temporarily to large extents after the Brexit decision. Long-term market interest rates have fallen considerably, owing largely to declines in government bond rates in major countries. Household lending has sustained a trend of substantial increase at a level exceeding that of recent years, led by mortgage loans.

Looking ahead, the Board will conduct monetary policy so as to ensure that the recovery of economic growth continues and consumer price inflation approaches the target level over a medium-term horizon, while paying attention to financial stability. In this process it will closely monitor the trend of increase in household debt, the effects of the Brexit, any changes in the monetary policies of major countries, and the progress of corporate restructuring.