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 2.50% 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 2.50% for the intermeeting period. There is a high degree of uncertainty surrounding the future course of developments in the Middle East, amid rising upside pressures on inflation, increasing downside risks to growth, and heightened volatility in financial and foreign exchange markets stemming from the Middle East war. The Board, therefore, judged that it is appropriate to maintain the current level of the Base Rate while assessing developments of the conflict and their impacts.

The currently available information suggests that the global economy has continued its relatively favorable growth trend, supported by AI-related investment and fiscal expansion in major economies. However, growth is expected to weaken and inflation to increase, affected by energy price hikes and supply constraints stemming from the war in the Middle East. In global financial markets, volatility of major price variables has expanded significantly as risk-off sentiment has strengthened. Long-term government bond yields rose sharply due to concerns over increases in inflation and subsequent changes in expectations for monetary policy, while the US dollar strengthened and stock prices declined substantially. However, following the temporary ceasefire now between the US and Iran, this trend has partially reversed. Looking ahead, the global economy and financial markets will be affected by developments in the Middle East conflict, by changes in monetary and fiscal policies in major economies and in the trade environment, and by the AI investment trend.

The domestic economy has continued its improvement trend, supported by strong exports and a recovery in consumption, and the increase in the overall number of employed persons has continued to grow. Since the outbreak of the Middle East conflict, however, downward pressure on growth has increased, with economic sentiment weakening and production constraints occurring in some industries. Going forward, growth in the domestic economy is expected to decelerate more than previously projected, as higher energy prices and supply constraints weigh on the impacts of strong semiconductor exports and the implementation of a supplementary budget. Accordingly, the growth rate for this year is expected to be below the February forecast of 2.0%. However, the future path of economic growth will be largely affected by developments in the Middle East, changes in the trade environment, and the trajectories of the semiconductor cycle and of the recovery in domestic demand.

Consumer price inflation rose from February to 2.2% in March, driven by a sharp increase in the prices of petroleum products, while core inflation (excluding food and energy) declined slightly to 2.2%, reflecting a slower increase in the prices of personal services. Short-term inflation expectations among the general public rose slightly from the previous month, to 2.7%.

Looking ahead, inflation is expected to rise to the mid- to upper 2% range as upward pressure increases significantly due to increases in global oil prices, although the government's price stabilization measures are expected to partially mitigate this pressure. Accordingly, consumer price inflation for the year is expected to exceed considerably the February forecast of 2.2%, while core inflation is also likely to be somewhat higher than the previous forecast of 2.1%. Uncertainty surrounding the future path of inflation remains very high, due to movements in global oil prices and the exchange rate, to the effects of the government's price stabilization measures, and to the extent of cost-pressure transmission.

In financial and foreign exchange markets, the volatility of major price variables has increased significantly. The Korean won to US dollar exchange rate rose to the 1,500 won range due to US dollar appreciation following the war in the Middle East and net sales of domestic stocks by foreign investors, but it declined after the temporary ceasefire between the US and Iran. Korean Treasury bond yields rose sharply due to concerns about inflation at home and abroad and due to the subsequent changes in expectations for monetary policy, and then declined. Stock prices fluctuated significantly after sustaining a steep upward trend, undergoing a correction followed by a partial rebound. Household loans continued their low rate of increase due to the sustained tightening stance of the government's macroprudential policy. Housing price increases in Seoul and its surrounding areas have slowed and expectations for price increases have also moderated under the influence of the government's real estate market stabilization measures, but it is necessary to further assess whether a trend toward stabilization will take hold.

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. The domestic economy is facing both increased upside risks to inflation and downside risks to growth due to the war in the Middle East, while uncertainty in the outlook remains significantly high. Regarding financial stability, it is necessary to remain cautious about the impact of increased exchange rate volatility and to continue to monitor whether a stabilization trend in housing prices in Seoul and its surrounding area and in household debt will be sustained. Therefore, the Board will make its policy decisions while closely monitoring changes in domestic and external policy conditions, such as the war in the Middle East, and examining the resulting impacts on inflation, growth, and financial stability.

All seven Monetary Policy Board members unanimously supported the decision to keep the Base Rate unchanged.