

PRESS RELEASE*FOR IMMEDIATE RELEASE*

May 31, 2019

Monetary Policy Decision

The Monetary Policy Board of the Bank of Korea decided today to leave the Base Rate unchanged at 1.75% for the intermeeting period.

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Based on currently available information the Board considers that the pace of global economic growth has continued to slow. Volatility in the global financial markets has increased. Government bond yields and stock prices in major countries have fallen while the currencies of emerging economies have depreciated, in line mainly with the escalation of the US-China trade dispute and the sluggishness of economic indicators in major countries. Looking ahead, the Board sees global economic growth and the global financial markets as likely to be affected by factors such as the degree of the spread of trade protectionism, the changes in the monetary policies of major countries, and geopolitical risks.

The Board judges that the domestic economy has recovered slightly from its slowdown in the 1st quarter, as consumption has continued to grow albeit slowly, although facilities and construction investment have continued undergoing adjustments and exports have been sluggish. On the employment front, the increase in the number of persons employed has lessened while the unemployment rate has increased. Going forward the Board expects the domestic economy will grow at a rate that does not diverge significantly from the path projected in April. Consumption will continue to grow, while exports and facilities investment will also recover gradually in the second half of this year, although the adjustment in construction investment will continue. However, uncertainties concerning the forecast path have risen, chiefly due to the escalation of the US-China trade dispute.

Consumer price inflation has slightly risen within the mid-0% range, in consequence mainly of the smaller decline in petroleum product prices. Core inflation (with food and energy product prices excluded from the CPI) has been at the upper-0% level, and the rate of inflation expected by the general public has been at the low-2% level. Looking ahead, it is forecast that consumer price inflation will fluctuate for some time below 1% and then run at the low- to mid-1% level from the second half of this year, but downside risks to the projected path have increased somewhat. Core inflation will also gradually rise.

The volatility of price variables in the domestic financial markets has increased, in line mainly with movements in the international financial markets and concerns about economic slowdowns at home and abroad. Long-term market interest rates and stock prices have fallen significantly while the Korean won-US dollar exchange rate has risen considerably. The rate of increase in household lending has continued to slow, while housing prices have continued their downtrend.

Looking ahead, the Board will conduct monetary policy so as to ensure that the recovery of economic growth continues and consumer price inflation can be stabilized at the target level over a medium-term horizon, while paying attention to financial stability. As it is expected that the domestic economy will continue to grow at a rate that does not diverge significantly from its potential level and it is forecast that inflationary pressures on the demand side will not be high, the Board will maintain its accommodative monetary policy stance. In this process it will carefully monitor developments such as the US-China trade dispute, any changes in the economies and monetary policies of major countries, financial and economic conditions in emerging market economies, the trend of increase in household debt, and geopolitical risks, while examining their effects on domestic growth and inflation.