



BANK OF KOREA

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**PRESS RELEASE**

*FOR IMMEDIATE RELEASE*

August 26, 2021

## **Monetary Policy Decision**

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Currently available information suggests that the global economy has continued to recover, supported by accelerated vaccinations and the relaxation of restrictions on economic activity in major countries. In global financial markets, government bond yields in major countries have declined affected by the resurgence of COVID-19. The US dollar has strengthened and stock prices in emerging economies have fallen, due mainly to the possibility that the US Federal Reserve would start tapering its asset purchases within the year. Looking ahead, the Board sees global economic growth and global financial markets as likely to be affected largely by the severity of the resurgence of COVID-19 and the status of vaccine distribution, as well as by monetary policy changes in major countries and their effects.

The Korean economy has continued its sound recovery. Although private consumption has somewhat slowed due to the coronavirus resurgence, exports have sustained their buoyancy and facilities investment has shown a robust trend. Labor market conditions have continued to improve, with a sustained year-on-year increase in the number of persons employed. Going forward, the economy is likely to continue its recovery as private consumption is forecast to improve gradually, affected by the expansion of vaccinations and the execution of a supplementary budget, while exports and investment are expected to sustain their buoyancy. GDP growth this year is projected to be around 4%, consistent with the forecast in May.

Consumer price inflation has remained high at the mid-2% level due to the rising prices of petroleum products and agricultural, livestock, and fisheries products as well as the accelerating increase in service prices. Core inflation (excluding changes in food and energy prices from the CPI) has run at the lower-1% level. The inflation expectations of the general public have risen to the mid-2% level. It is forecast that consumer price inflation will increase to the lower-2% level this year, exceeding the May forecast of 1.8%. Core inflation is forecast to run at the lower-1% level.

In domestic financial markets, stock prices have fallen and the Korean won to US dollar exchange rate has risen considerably, mainly driven by global financial market movements and the domestic resurgence of COVID-19. The Korean Treasury bond yield, in particular the long-term bond yield, has declined. Household loan growth has accelerated and housing prices have continued to increase rapidly in all parts of the country.

The Board will continue to conduct monetary policy in order to sustain the recovery of economic growth and stabilize consumer price inflation at the target level over a medium-term horizon, while paying attention to financial stability. The Board will gradually adjust the degree of monetary policy accommodation as the Korean economy is expected to continue its sound growth and inflation to run above 2% for some time, despite ongoing uncertainties over the virus. In this process the Board will judge when to further adjust the degree of accommodation while thoroughly assessing developments related to COVID-19, changes in the pace of growth and inflation, the risk of a buildup of financial imbalances, and monetary policy changes in major countries.