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 3.50% for the intermeeting period.

This press release is the English version of the Bank of Korea's policy statement. In the case of any inconsistency, the original version in Korean will prevail.

(Attachment)

The Monetary Policy Board of the Bank of Korea decided today to leave the Base Rate unchanged at 3.50% for the intermeeting period. Although inflation is expected to continue its slowing trend, it still remains high and there are still high uncertainties regarding monetary policies in major countries and volatility of the exchange rate, and developments in geopolitical risks. The Board, therefore, sees that it is appropriate to maintain its current restrictive policy stance and to assess domestic and external policy conditions.

The currently available information suggests that the global economy has continued its moderate growth trend and that inflation has been trending downward. However, economic conditions and the pace of the inflation slowdown have differentiated across major countries. In global financial markets, government bond yields have risen and the U.S. dollar has strengthened as expectations of a policy rate cut by the U.S. Federal Reserve have weakened. Looking ahead, the Board sees global economic growth and global financial markets as likely to be affected by inflation slowdowns and differentiation in monetary policy operations in major countries, and by developments in geopolitical risks.

Domestic economic growth has continued its improving trend, mainly driven by exports. Labor market conditions have been generally favorable with a continued increase in the number of persons employed. Going forward, export growth is likely to increase greater than expected, supported by buoyancy in the IT industry, amid a modest recovery in consumption. It is judged that GDP growth for the year is to be consistent with or could be higher than the February forecast of 2.1%. The future path of economic growth is likely to be affected by monetary policies in major countries, by the pace of improvements in the IT industry, and by real estate project financing (PF) restructuring.

Core inflation (excluding changes in food and energy prices from the CPI) has fallen to 2.4% in March. However, consumer price inflation has stayed at 3.1%, the same as in the previous month, due to increases in agricultural product prices and global oil prices. Short-term inflation expectations among the general public have risen to 3.2%. Looking ahead, it is forecast that core inflation will continue its slowing trend, which is consistent with the path projected in February, and it is likely to slow to the 2% level at the end of the year. Consumer price inflation is also expected to gradually moderate, but uncertainties regarding the outlook, which are related to developments in geopolitical risks and movements of global oil prices, and trends in agricultural product prices, have increased.

In financial and foreign exchange markets, long-term Korean Treasury bond yields have rebounded after a decline, mainly affected by changes in expectations of the U.S. Federal Reserve’s monetary policy. The Korean won to U.S. dollar exchange rate has risen due to a strong U.S. dollar and due to weak neighboring currencies. Household loans have decreased due to a slowdown in housing-related loan growth and ongoing net repayments of other loans. Housing prices have continued to decline overall, and there remain risks related to real estate project financing (PF).

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. While it is forecast that domestic economic growth will continue its improving trend and that core inflation will maintain its slowing trend, it is premature to be confident that inflation will converge on the target level, as there is a high degree of uncertainty associated with the outlook for consumer price inflation. The Board, therefore, will maintain a restrictive monetary policy stance for a sufficient period of time until such confidence is established. In this process, the Board will thoroughly assess the inflation slowdown, risks to financial stability and economic growth, household debt growth, differentiation in monetary policy operations in major countries, and developments in geopolitical risks.