

Monetary Policy Decision

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Based on currently available information the Board considers that the global economic recovery has continued to expand. The global financial markets have shown generally stable movements, as the trend of rising stock prices has continued and stock price volatility has diminished as well. Looking ahead the Board sees the global economic recovery as likely to be affected by factors such as the directions of the new US government's economic policies, the pace of monetary policy normalization by the US Federal Reserve, the movements toward spreading trade protectionism, and the political uncertainties in the euro area.

The Board judges that the domestic economy has continued its trend of moderate growth, as exports have improved although the recovery in domestic demand activities has been weak due to a slump in consumption. Employment conditions have been sluggish, with the extent of decline in the number of persons employed having widened in the manufacturing sector and the trend of increase in persons employed in the service sector having slowed as well. The Board sees the domestic economy as likely to continue its trend of moderate growth going forward, and expects growth to be generally in accord with the path projected in January. Compared to the January forecasts the Board judges that consumption will likely fall somewhat below the level projected, due to a continuing deterioration in economic sentiment for example, but that exports and facilities investment will improve more than forecast thanks chiefly to the global economic recovery.

Consumer price inflation has risen to the 2% target level, in line mainly with increases in the prices of petroleum and agricultural, livestock and fisheries products. Core inflation (with food and energy product prices excluded from the CPI) has remained in the mid- to upper-1% range, while the rate of inflation expected by the general public has risen to the upper-2% level. Looking ahead the Board expects that consumer price inflation will for the time being fluctuate at a level close to 2%, but for the year as a whole not diverge greatly from the January projection (1.8%) as the prices of agricultural, livestock and fisheries products recover their trends of stability. Core inflation will maintain a level in the mid- to upper-1% range.

In the domestic financial markets, the volatilities of both stock prices and long-term market interest rates have subsided as the stability in the global financial markets has continued. The Korean won-US dollar exchange rate has fallen to a large extent, owing mainly to a shift to US dollar weakening in line with the new US government's policies related to the exchange rate. The extent of growth in bank household lending has continued to lessen, but the substantial increase in household lending by non-banks has been sustained. Housing sales prices in both Seoul and its surrounding areas and the rest of the country have remained generally steady.

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 the inflationary pressures on the demand side are not expected to be high given the moderate pace of domestic economic growth, the Board will maintain its stance of monetary policy accommodation. In this process it will closely monitor the uncertainties in domestic and external conditions and their effects, the progress of monetary policy normalization by the US Federal Reserve, and the trend of increase in household debt.