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 has continued its slowing trend, it is judged that there are high uncertainties around the inflation outlook and it is necessary to assess the changes in domestic and external policy conditions such as monetary policies in major countries and volatility in the exchange rate, and geopolitical risks. The Board, therefore, sees that it is appropriate to maintain its current restrictive policy stance.

The currently available information suggests that global economic growth is projected to continue slowing, but it will be more favorable than expected. Inflation in major countries continues its trend of a slowdown, but it is expected to take a considerable period of time for that inflation to stabilize on the target level. In global financial markets, government bond yields have risen and the U.S. dollar has strengthened due to weakening expectations of an early policy rate cut by the U.S. Federal Reserve. Looking ahead, the Board sees global economic growth and global financial markets as likely to be affected by global oil prices and inflation trends, by monetary policy operations in major countries and their effects, and by developments in geopolitical risks.

Domestic economic growth has continued to improve at a modest pace, mainly driven by exports. Labor market conditions have been generally favorable with a continued robust increase in the number of persons employed. Going forward, domestic economic growth is projected to maintain its improving trends with an ongoing increase in exports, despite the slow recovery of consumption and the sluggishness in construction investment. GDP growth for the year is expected to be 2.1%, which is consistent with the November forecast. However, there are high uncertainties regarding the outlook, which are related to the effects of monetary policy in major countries, the pace of improvement in the IT industry, and the impact of real estate project financing (PF) restructuring.

Inflation has maintained its slowing trend. Consumer price inflation has fallen to 2.8% in January due to slower growth in the prices of personal services and processed food products. Core inflation (excluding changes in food and energy prices from the CPI) has slowed to 2.5%, and short-term inflation expectations among the general public have fallen to 3.0%. Looking ahead, it is forecast that consumer price inflation will temporarily rise slightly owing to increases in agricultural product prices, and then gradually fall again. Consumer price inflation for the year is projected to be 2.6%, which is consistent with the November forecast. Core inflation for the year is expected to be 2.2%, slightly lower than the November forecast of 2.3%, reflecting the slow pace of consumption recovery. The future path of inflation is likely to be affected by developments in geopolitical risks, by movements of global oil prices and domestic agricultural product prices, and by economic growth at home and abroad.

In financial and foreign exchange markets, long-term Korean Treasury bond yields and the Korean won to U.S. dollar exchange rate have risen, mainly affected by weakening expectations of an early policy rate cut by the U.S. Federal Reserve. Household loan growth has remained low due to an ongoing reduction in other loans, despite continued growth in housing-related loans. Housing prices have continued to decline across all parts of the country, and risks related to real estate project financing (PF) still remain.

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 inflation will maintain its slowing trend, it is premature to be confident that inflation will converge on the target level. Moreover, uncertainties surrounding domestic and external policy conditions are also judged to be high. The Board, therefore, will maintain a restrictive policy stance for a sufficiently long period of time until the Board is confident that inflation will converge on the target level. In this process, the Board will thoroughly assess the inflation slowdown, risks to financial stability and economic growth, household debt growth, monetary policy operations in major countries, and developments in geopolitical risks.