

September 11, 2015

The Bank of Korea

Monetary Policy Decision

The Monetary Policy Board of the Bank of Korea decided today to leave the Base Rate unchanged at 1.50% for the intermeeting period.

(English translation prepared by the Bank of Korea staff)

The Monetary Policy Board of the Bank of Korea decided today to leave the Base Rate unchanged at 1.50% for the intermeeting period.

Based on currently available information the Board considers that the trend of economic recovery in the US has been sustained, and that the improvements in the euro area have continued as well. Economic growth in emerging market countries including China has meanwhile continued to slow. The Board forecasts that the global economy will maintain its recovery going forward, albeit at a moderate pace, centering around advanced economies such as the US, but judges that the possibility exists of its being affected by heightened international financial market volatility, due to the instabilities in the Chinese financial and foreign exchange markets and to a shift in the US Federal Reserve's monetary policy, and by the weakening of economic growth in emerging market countries.

Looking at the Korean economy, although the recovery in domestic demand activities such as consumption and investment has continued, the trend of declining exports has persisted while the improvement in economic agents' sentiments has been inadequate. On the employment front, as the trend of increase in the number of persons employed slowed in August, owing mainly to a base effect, the employment-to-population ratio decreased while the unemployment rate rose compared to those in August of last year. The Board forecasts that the domestic economy will show a trend of recovery going forward, but in view of external economic conditions judges the uncertainties surrounding the growth path to have increased.

Despite declines in petroleum product prices, consumer price inflation registered 0.7% in August, the same as in July, in line mainly with expansions in the extents of increase in prices of other industrial products. Core inflation excluding agricultural and petroleum product prices rose slightly to 2.1%, from 2.0% in July. Looking ahead the Board forecasts that inflation will continue at a low level, due mainly to the effects of the low oil prices. In the housing market, the upward trends of sales and leasehold deposit prices have continued in both Seoul and its surrounding areas and the rest of the country.

In the domestic financial markets, stock prices have fallen and the Korean won has depreciated against both the US dollar and the Japanese yen, as securities investment funds of foreigners have flowed out due to factors such as the instabilities in the Chinese financial and foreign exchange markets. Long-term market interest rates have fallen, influenced mainly by investor preference for safe assets. Bank household lending has sustained a trend of increase at a level substantially exceeding that of recent years, led by mortgage loans.

Looking ahead, while working to sustain the recovery of economic growth, the Board will conduct monetary policy so as to maintain price stability over a medium-term horizon and pay attention to financial stability. In this process it will closely monitor the trend of increase in household debt and external risk factors such as any shift in the US Federal Reserve's monetary policy and the financial instabilities in emerging market countries including China, as well as the trends of capital flows.