

Monetary Policy Decision

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Based on currently available information the Board considers that the trend of economic recovery in the US has been sustained, and that the modest improvements in the euro area have continued. 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 possibilities exist of its being affected by heightened international financial market volatility due for example 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 domestic demand activities such as consumption and investment have sustained their paces of recovery, while economic agents' sentiments have improved somewhat, the trend of declining exports has persisted. On the employment front, the number of persons employed has increased steadily, and in October the unemployment rate fell compared to that in October of last year while the employment-to-population ratio maintained the same level. The Board forecasts that the domestic economy will continue its recovery going forward, centering around domestic demand activities, but in view of external economic conditions judges the uncertainties surrounding the growth path to be high.

Consumer price inflation rose from 0.6% the month before to 0.9% in October, due mainly to expansions in the extents of increase in agricultural product prices and in service fees. Core inflation excluding agricultural and petroleum product prices also rose to 2.3%, from 2.1% in September. 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 persisted in both Seoul and its surrounding areas and the rest of the country.

In the domestic financial markets, stock prices, after having risen in line mostly with increases in stock prices in major countries and with net inflows of securities investment funds of foreigners, have fallen back as the likelihood of a policy rate hike by the US Federal Reserve has grown. After having appreciated, the Korean won has depreciated against both the US dollar and the Japanese yen. Long-term market interest rates have risen, in response mainly to increases in interest rates in major countries and the improvements in domestic economic indicators. 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 changes in the US Federal Reserve's monetary policy or in economic conditions in emerging market countries including China, as well as the trends of capital flows.