August 12, 2004
The Bank of Korea

Monetary Policy Decision

The Monetary Policy Committee of the Bank of Korea decided today to lower its target for the benchmark call rate (uncollateralized overnight rate) from 3.75 percent to 3.5 percent for the inter-meeting period.

In a related action, the Committee lowered the interest rates on Liquidity Adjustment Loans and Aggregate Credit Ceiling Loans of the Bank of Korea by the same 25 basis points, respectively to 3.25 percent and 2.25 percent.

(An unofficial English translation based on the Korean original of the decision on monetary policy taken by the Monetary Policy Committee on August 12, 2004 is attached.)

The real economy has exhibited a slowdown in its pace of recovery as there has been a delay in any marked improvement of private consumption and facilities investment. And the pace of economic growth may be even slower, largely due to the likelihood of the more stubborn than expected persistence of high oil prices and of a worldwide cooling of the information and technology sector.

Although upward pressure on prices from the cost side has been increasing mainly due to the run-up in oil prices, the core inflation rate remains within its target range owing to the subdued domestic demand.

Housing prices have shown stable movements affected by a series of government measures. Meanwhile, the current account is forecast to maintain a surplus, mainly thanks to the surplus on the goods account.

In the financial markets, overall liquidity conditions have been favorable, yet fund-raising conditions have not improved for small- and medium-sized enterprises with low credit ratings.

Taking the above economic and financial conditions into consideration, the Monetary Policy Committee of the Bank of Korea decided today to lower its target for the benchmark call rate (uncollateralized overnight rate) from 3.75 percent to 3.5 percent for the inter-meeting period.

It is the Committee's view that in order to be more effective in attaining a balance between economic growth and stability, an appropriate macroeconomic policy mix should be sustained.