

20120113 BOK: Monetary Policy Decision

Source: Bank of Korea

The Monetary Policy Committee of the Bank of Korea decided today to leave the Base Rate unchanged at 3.25% for the intermeeting period.

Based on currently available information, the Committee considers major advanced economies to have remained sluggish, and growth in emerging market economies to have also slowed somewhat. Going forward the Committee expects the pace of global economic recovery to be very moderate, and judges that the downside risks to growth are becoming larger, due mostly to the sovereign debt crisis in Europe and to the possibilities of the slumps in major country economies and the unrest in international financial markets continuing.

In Korea, exports have kept up their steady increase, but domestic demand has been subdued with consumption and construction investment decreasing from the previous month. On the employment front, the number of persons employed has sustained its large scale of increase, led by the private sector. The Committee anticipates that domestic economic growth will gradually return to its long-term trend level going forward, after remaining subdued for some time due mostly to the impact of external risk factors.

Consumer price inflation continued to exceed 4% in December last year, driven by the prices of petroleum products and processed food, and core inflation also came in at a level similar to that of the previous month. In the coming months, factors including the base effect from the previous year and the easing of demand-side pressures will work in favor of price stability, but the Committee expects the pace of decline in the inflation rate to be moderate given factors such as ongoing high inflation expectations. In the housing market, prices have remained weak in Seoul and its surrounding areas and leasehold deposits there have decreased, due mostly to the impact of low off-season demand. The uptrends of both housing prices and leasehold deposits in the rest of the country have slowed.

In the financial markets, stock prices and the exchange rate have continued to fluctuate widely, due chiefly to unease concerning external risk factors and to geopolitical risks. The trend of decline in long-term market interest rates has halted and they have shown fluctuations within a narrow range.

Looking ahead, the Committee, while closely monitoring financial and economic risk factors both at home and abroad, as well as the evolution of inflation expectations, will conduct monetary policy so as to stabilize consumer price inflation at the midpoint of the inflation target over a medium term horizon amid continuing sound growth of the economy.

NovaRes Team