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 3.00% for the intermeeting period.

This press release is the English version of the Bank of Korea's policy statement. In case of any inconsistency, the original Korean version will prevail.

(Attachment)

The Monetary Policy Board of the Bank of Korea decided today to leave the Base Rate unchanged at 3.00% for the intermeeting period. While inflation stabilization has continued along with an ongoing slowdown in household debt, downside risks to economic growth have intensified and the volatility of exchange rates has increased due to the unexpected political risks that have recently escalated. As the economic outlook and foreign exchange market uncertainties have increased due to the changing domestic political situation and economic policies in major countries, the Board judged that it is appropriate to maintain the current level of the Base Rate and to further assess any changes in domestic and external conditions.

The currently available information suggests that the global economy has seen divergent economic activity across countries and that it is facing greater uncertainties surrounding growth and inflation, driven by the new U.S. administration's economic policies, by the pace of the Fed's rate cuts, and by the political situations in major countries. Concerning global financial markets, the volatility of key indicators has increased, as the U.S. dollar has remained strong and as long-term Treasury yields have risen. Looking ahead, the global economy and financial markets will both be influenced by the specifics of the new U.S. administration's policies, by monetary policies and political situations in major economies, as well as by geopolitical risks.

In terms of the domestic economy, although export growth somewhat increased in December, the recovery of consumption has weakened and construction investment has remained sluggish. The labor market has continued its slowdown as the scale of the increase in the number of employed persons has lessened. Going forward, export growth is expected to slow and domestic demand is forecast to recover at a slower pace than expected due to deteriorating consumer sentiment. The GDP growth outlook is highly likely to fall below the November forecasts of 2.2% for last year and of 1.9% for this year, and high uncertainties remain along the future path of economic growth concerning changes in the domestic political situation, economic stimulus measures by the government, and the specifics of the new U.S. administration's policies.

Inflation has maintained its stabilization trend. Consumer price inflation rose to 1.9% in December, reflecting an increase in petroleum product prices. However, core inflation (excluding changes in food and energy prices from the CPI) fell slightly to 1.8%. Short-term inflation expectations remain at the upper 2% level. Looking ahead, inflation is expected to remain stable, supported by subdued demand pressure. However, elevated exchange rates could potentially exert upward pressure, and uncertainties have increased related to global oil prices as well as to economic growth at home and abroad.

In financial and foreign exchange markets, the Korean won to U.S. dollar exchange rate has risen significantly, mainly affected by increased domestic political uncertainties and the possibility of more gradual rate cuts in the U.S. Stock prices did fall considerably, but have rebounded this year. Long-term Korean Treasury bond yields have declined due to concerns over an economic slowdown. Household loans have sustained their slowing trend, driven by a decline in housing transactions. Housing prices have shifted to a decline.

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. Regarding the domestic economy, inflation stabilization has continued, while downside risks to economic growth have intensified and uncertainties surrounding the economic outlook have increased, owing to the escalation of political risks. Regarding financial stability, the slowing trend in household debt is anticipated to persist for some time. However, it is important to remain cautious concerning the impact of heightened exchange rate volatility on both inflation and financial stability. Therefore, while closely monitoring the domestic political situation, changes in economic policies both at home and abroad, and the resulting trends in inflation, household debt, and the exchange rate, the Board will determine the timing and pace of any further Base Rate cuts to mitigate downside risks to economic growth.