BANK OF KOREA

PRESS RELEASE

FOR IMMEDIATE RELEASE May 26, 2022

Monetary Policy Decision

The Monetary Policy Board of the Bank of Korea decided today to raise the Base Rate by 25 basis points, from 1.50% to 1.75%.

(Attachment)

In a related set of actions, the Board has decided to raise the interest rate on Programs under the Bank Intermediated Lending Support Facility from 0.50% to 0.75%, effective May 26, 2022,

except for the Support Programs for SMEs Affected by COVID-19 and Small Businesses, for which the interest rate will be left at 0.25%.

(Attachment)

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Currently available information suggests that inflationary pressures have remained high, while the recovery of the global economy has moderated affected by the Ukraine crisis and lockdown measures in China. In global financial markets, government bond yields in major countries have risen and the US dollar has strengthened considerably, due to expectations about a faster pace of the US Federal Reserve’s policy normalization. Stock prices have fallen sharply as risk aversion has strengthened. Looking ahead, the Board sees global economic growth and global financial markets as likely to be affected largely by global inflation movements, monetary policy changes in major countries, geopolitical risks, and COVID-19 restrictions in major countries.

The Korean economy has continued to recover. Private consumption has improved rapidly supported by the lifting of social distancing restrictions, while facilities investment has continued to slow due to global supply constraints and exports have moderated. Labor market conditions have continued to improve, with the year-on-year increase in the number of persons employed remaining high. Going forward, the economy is likely to sustain its recovery supported by the improvement in private consumption, despite slower export growth owing to moderation in global economic growth. GDP growth this year is projected to be at the upper-2% level, somewhat below the February forecast of 3.0%.

Consumer price inflation has risen significantly to the upper-4% level due to the accelerating increase in the prices of petroleum products and industrial products, the ongoing sharp rise in the prices of personal services, and increases in electricity and gas fees. Core inflation (excluding changes in food and energy prices from the CPI) and the inflation expectations of the general public have increased to the lower-3% level. Looking ahead, it is forecast that consumer price inflation will remain high in the 5% range for some time, and run at the mid-4% level for the year overall, substantially above the February forecast of 3.1%. Core inflation is forecast to rise to the lower-3% level for the year overall.

In domestic financial markets, the Korean won to US dollar exchange rate has risen significantly and stock prices have fallen while long-term market interest rates have fluctuated considerably, mainly driven by acceleration of the US Federal Reserve’s policy rate hikes as well as concerns over slowing economic growth in China. Household loans have shifted to a slight increase and housing prices have remained steady.

The Board will continue to conduct monetary policy in order to sustain the recovery of economic growth and stabilize consumer price inflation at the target level over a medium-term horizon, while paying attention to financial stability. The Board sees it as warranted to conduct monetary policy with more emphasis on inflation for some time, as the Korean economy is expected to continue its recovery and inflation to run above the target level for a considerable time, despite underlying uncertainties in domestic and external conditions. In this process the Board will judge when to further adjust the degree of accommodation while thoroughly assessing the trends of growth and inflation, the risk of a buildup of financial imbalances, monetary policy changes in major countries, and external economic conditions including geopolitical risks.