

August 8, 2013
The Bank of Korea

Monetary Policy Decision

The Monetary Policy Committee of the Bank of Korea decided today to leave the Base Rate unchanged at 2.50% for the intermeeting period.

(The following is an unofficial English translation of the Monetary Policy Committee statement.)

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Based on currently available information, the Committee considers the moderate economic recovery in the US to have been sustained but the sluggishness of economic activities in the euro area to have continued, while economic growth in emerging market countries such as China has slowed somewhat. The Committee forecasts that the global economy will sustain its modest recovery going forward, helped primarily by improvements in the US economy, but judges that the possibilities of changes in global financial market conditions related to the exit strategy of the US Federal Reserve, and of a slowdown in Chinese economic growth, and the uncertainties surrounding the implementations of fiscal consolidation in major countries, remain as downside risks to growth.

In Korea, the Committee appraises economic growth to be continuing, albeit moderately, mainly led by exports. On the employment front, the increase in the number of persons employed has accelerated, centering around the 50-and-above age group and the service sector. The Committee expects that the domestic economy will maintain a negative output gap for a considerable time going forward, although it forecasts that the gap will gradually narrow.

Consumer price inflation rose to 1.4% in July, from 1.0% the previous month, as the prices of agricultural and livestock products as well as petroleum products turned upward, and core inflation

excluding the prices of agricultural and petroleum products increased slightly to 1.5%, from 1.4% in June. The Committee forecasts that inflation will show a stable trend for the time being as the output gap remains negative, although it will rise above its present level due mainly to imbalances in agricultural product supply and demand caused by bad weather and to a base effect from its low rate of increase in the second half of last year. As for housing prices, those in Seoul and its surrounding areas sustained their downtrend, while those in the rest of the country continued their uptrend.

The domestic financial markets have generally stabilized with the easing of concerns about an earlier-than-expected tapering off of US quantitative easing. Long-term market interest rates have risen modestly, primarily on improved global economic indicators, after having declined in concert with those of major economies. Stock prices, after having risen due to a shift to net inflows of foreigners' stock investment funds, have fallen back somewhat recently and the Korean won has appreciated.

Looking ahead, while closely monitoring the trends and the influences of changes in external risk factors, and the effects of the Base Rate cut and of the government's economic policies including the supplementary budget, the Committee will conduct monetary policy so as to keep consumer price inflation within the inflation target range over a medium-term horizon while ensuring that the growth potential is not eroded due to the continuation of slow growth.