

September 12, 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 that the moderate economic recovery in the US has been sustained and that economic activities in the euro area appear to be emerging from their sluggishness to some degree, but that trends of economic growth in emerging market countries have differed from country to country. 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 uncertainties surrounding the scale of QE tapering by the US Federal Reserve and the implementations of fiscal consolidation in major countries, the financial instability in some emerging economies, and the geopolitical risk in the Middle East remain as downside risks to growth.

In Korea, the Committee appraises the moderate economic growth to be continuing, with exports and consumption improving. On the employment front, the scale of increase in the number of persons employed has expanded in line with increases in 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 declined slightly to 1.3% in August, from 1.4% the previous month, and core inflation excluding the prices of

agricultural and petroleum products also fell slightly to 1.3% from 1.5%. The Committee forecasts that inflation will remain low for the time being despite an increase in international oil prices, owing primarily to the inflation reducing effects of policies such as free childcare provision and to the downward stabilization of international agricultural prices. As for the housing market, sales prices in Seoul and its surrounding areas maintained their downtrend while the uptrend of those in the rest of the country slowed. The increase in leasehold-deposit prices in Seoul and its surrounding areas meanwhile accelerated, and the uptrend in these prices in the rest of the country continued.

In the domestic financial markets, despite the heightened volatility in the international financial markets and the instabilities in the financial and foreign exchange markets of some emerging economies, stock prices have risen and the Korean won has appreciated, due mainly to the net inflows of foreigners' stock investment funds. Long-term market interest rates have fluctuated within a relatively narrow range.

Looking ahead, while paying close attention to developments in and the influences of external risk factors, and monitoring 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.