

October 10, 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 economic recovery in the US has been sustained and that the sluggishness of economic activities in the euro area appears to be easing, while the trends of economic growth in emerging market countries, above all China, have shown signs of recovery to some extent. The Committee forecasts that the global economy will sustain its modest recovery going forward, but judges that the heightening of uncertainties surrounding the US government budget bill and debt ceiling increase, and the likelihood of changes in global financial market conditions related to QE tapering by the US Federal Reserve are acting as downside risks to growth.

In Korea, the Committee appraises the moderate economic growth to be continuing, with exports showing buoyancy and domestic demand also 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 narrow.

Consumer price inflation fell from 1.3% the previous month to 0.8% in September, due mainly to declines in the prices of agricultural and petroleum products, but core inflation excluding agricultural and petroleum product prices rose from 1.3% to 1.6%. The Committee forecasts that, despite increases in some public utility fees, inflation will remain low for the time being, 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, the scale of decline in sales prices in Seoul and its surrounding areas narrowed while the uptrend of those in the rest of the country continued. 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.

The domestic financial markets have shown generally stable movements, due in large part to the scale of QE in the US remaining unchanged. Stock prices have risen substantially and the Korean won has appreciated, driven mainly by net inflows of foreigners' stock investment funds. Long-term market interest rates have fallen slightly in line with those in major economies.

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.