

December 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 trend of economic recovery in the US has been sustained and that the sluggishness of economic activities in the euro area appears to have continued to ease, while economic growth trends in emerging market countries, above all China, have been maintained. The Committee forecasts that the global economy will sustain its modest recovery going forward, but judges that the likelihood of changes in global financial market conditions related to QE tapering by the US Federal Reserve, and the continued US fiscal uncertainties remain as downside risks to growth.

In Korea, the Committee appraises the economic recovery to be continuing in line with the trend of growth, as domestic demand and exports have both increased. On the employment front, the scale of increase in the number of persons employed has expanded substantially in line with increases in the 50-and-above age group and in 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 rose from 0.7% the previous month to 0.9% in November, due mainly to the slower downward trends in the prices of agricultural and petroleum products, increases in the prices of some industrial goods and the hike in electricity charges. Core inflation excluding agricultural and petroleum product prices also rose from 1.6% to 1.8%. The Committee forecasts that, due largely to the stability of international agricultural prices, inflation will remain low for the time being, but that it will be higher than its current level. As for the housing market, sales prices in Seoul and its surrounding areas maintained their level of the previous month while the uptrend of those in the rest of the country increased slightly. The rise in leasehold-deposit prices slowed in Seoul and its surrounding areas, while the uptrend in the rest of the country kept to its pace of the previous month.

In the domestic financial markets, stock prices have fallen substantially and long-term market interest rates have risen, affected by expectations of the US Federal Reserve's QE tapering. The Korean won has strengthened while fluctuating in line with the influences of the continued current account surplus and outflows of foreigners' securities investment funds.

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.