

February 13, 2014

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 the sluggishness of economic activities in the euro area appears to have continued to ease, while economic growth trends in some emerging market countries have shown signs of weakening to some extent. The Committee forecasts that the global economy will sustain its modest recovery going forward, but judges that the possibility exists of its being affected by the changes in global financial market conditions stemming from the US Federal Reserve's QE tapering and by the weakening of economic growth in some emerging market countries.

In Korea, some indicators related to domestic demand have slumped temporarily, but as exports continue their favorable movements the Committee appraises the economic recovery to have continued in line with the trend of growth. 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 the time being going forward, although it forecasts that the gap will gradually narrow.

Consumer price inflation registered 1.1% in January, the same as in December, as the effects of the slowing in the downward trend of petroleum product prices and of the expansion in the extent of decline of agricultural product prices offset each other. Core inflation excluding the prices of agricultural and petroleum products fell slightly, from 1.9% the month previous to 1.7%, due mainly to the slowing of the uptrends in prices of industrial products other than petroleum. The Committee forecasts that inflation will gradually rise, although it will remain low for the time being due largely to the stability of international commodity prices. Regarding 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 slowed. As for leasehold-deposit prices, their extents of increase contracted slightly both in Seoul and its surrounding areas and in the rest of the country.

In the domestic financial markets, stock prices had fallen and the Korean won depreciated, influenced mainly by international financial market instability and by outflows of foreigners' stock investment funds. Recently, however, stock prices have rebounded and the Korean won has appreciated. Long-term market interest rates have meanwhile fluctuated within a relatively narrow range.

Looking ahead, while paying close attention to developments in and the influences of external risk factors such as shifts in major countries' monetary policies and market unrest in some emerging economies, the Committee will conduct monetary policy so as to keep consumer price inflation within the inflation target range over a medium-term horizon while supporting the continued recovery of economic growth.