

March 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.)

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

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, the Committee appraises the economic recovery to have continued in line with the trend of growth, as exports continue their trend of increase amid the coexistence of improvements in and sluggishness of domestic-demand related indicators. 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 fell slightly from 1.1% the previous month to 1.0% in February, due mainly to an increase in the extent of the decline in petroleum product prices, but core inflation excluding the prices of agricultural and petroleum products registered 1.7%, just as in January. The Committee forecasts that inflation will gradually rise, although it will remain low for the time being due largely to a good agricultural crop harvest. Regarding the housing market, sales prices rose slightly in both Seoul and its surrounding areas and in the rest of the country, while leasehold-deposit prices in both regions continued to increase at paces similar to those during the month before.

In the domestic financial markets, after having risen due mainly to international financial market stability stock prices have fallen back, primarily on increased concerns about economic slowdown in China. The Korean won has fluctuated within a narrow range, after having appreciated owing chiefly to the easing of financial unrest in emerging market countries. Long-term market interest rates have meanwhile moved 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 geopolitical risk in Eastern Europe, 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.