

May 9, 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 weakened somewhat. The Committee forecasts that the global economy will sustain its modest recovery going forward, centering around advanced economies, but judges that the possibility exists of its being affected by the changes in global financial market conditions stemming from the shift in the US Federal Reserve's monetary policy stance, by the weakening of economic growth in some emerging market countries, and by geopolitical risks in Eastern Europe.

In Korea, the Committee appraises the economic recovery to have continued in line with the trend of growth, as exports have sustained their buoyancy. On the employment front, the number of persons employed has continued its substantial uptrend, led by 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 rose from 1.3% the previous month to 1.5% in April, due mainly to expansions in the extents of increase in service fees and in industrial product prices. Core inflation excluding the prices of agricultural and petroleum products also rose from 2.1% to 2.3%. The Committee forecasts that inflation will gradually rise, although it will remain low for the time being due largely to the stability of agricultural product prices. Regarding the housing market, the uptrends of sales and leasehold deposit prices in both Seoul and its surrounding areas and in the rest of the country slowed.

In the domestic financial markets, after having risen owing chiefly to net stock purchases by foreigners, stock prices have since fallen considerably under the influence for example of geopolitical risks in Eastern Europe. The Korean won has appreciated substantially, due mainly to the continuation of the current account surplus and to inflows of foreigners' securities investment funds. Long-term market interest rates have meanwhile moved within a narrow range.

Looking ahead, while paying close attention to external risk factors such as shifts in major countries' monetary policies, and closely monitoring the movements in domestic demand following the Sewol ferry accident, 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.