

June 12, 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 and by the weakening of economic growth in some emerging market countries.

In Korea, despite exports having sustained their buoyancy the Committee appraises the economic recovery to have shown signs of slowing, as domestic demand has slackened somewhat due largely to the impact of the Sewol ferry accident. On the employment front, the number of persons employed has shown an uptrend similar to its level of recent years, 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 1.5% the previous month to 1.7% in May, due mainly to the narrowing of the extents of decline in agricultural and petroleum product prices. Core inflation excluding the prices of agricultural and petroleum products fell slightly, from 2.3% to 2.2%. The Committee forecasts that inflation will gradually rise, although it will remain low for the time being. 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, influenced by expectations of continued accommodative monetary policies in major countries and by inflows of foreigners' securities investment funds, stock prices have risen, long-term market interest rates have fallen, and the Korean won has appreciated.

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.