

September 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 2.25% for the intermeeting period.

(English translation prepared by the Bank of Korea staff)

The Monetary Policy Committee of the Bank of Korea decided today to leave the Base Rate unchanged at 2.25% for the intermeeting period.

Based on currently available information the Committee considers that, although the trend of economic recovery in the US has been sustained, the economic recovery in the euro area has shown signs of slowing while trends of economic growth in emerging market countries have differed from country to country. The Committee forecasts that the global economy will sustain its modest recovery going forward, centering around the US, 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 the euro area and in some emerging market countries, and by geopolitical risks.

In Korea, while exports have shown a favorable pattern the Committee judges that domestic demand, after having contracted due mainly to the impacts of the Sewol ferry accident, has improved somewhat, centering around consumption, but that the weak sentiment of economic agents has not clearly recovered. On the employment front, the scale of increase in the number of persons employed has expanded, led by increases in the 50-and-above age group and in the service sector. The Committee expects that the negative output gap in the domestic economy will gradually narrow going forward, although its pace of narrowing will be moderate.

Consumer price inflation fell from 1.6% the month before to 1.4% in August, due mainly to increases in the extents of decline in the prices of agricultural and petroleum products. Core inflation excluding agricultural and petroleum product prices rose slightly to 2.4%, from 2.2% in July, due largely to increases in industrial product prices. The Committee forecasts that inflation will gradually rise, but judges that for the time being inflationary pressures will not be high. In the housing market, the upward trends of both sales and leasehold deposit prices accelerated slightly in Seoul and its surrounding areas, while in the rest of the country their levels of increase seen in the previous month continued.

In the domestic financial markets, stock prices have fluctuated considerably as the effects of the government's economic stimulus policies and of geopolitical risks have overlapped. The Korean won, after having appreciated in line for example with the continuation of the current account surplus, has depreciated under the influence of the US dollar's strength globally. Long-term market interest rates have meanwhile fluctuated within a narrow range.

Looking ahead, 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 recovery of economic growth. In this process it will closely monitor external risk factors such as shifts in major countries' monetary policies, changes in economic agents' sentiment, and the future movements of economic indicators including the household debt trend, while observing the effects of last month's Base Rate cut and the government's economic policies.