

March 14, 2013
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 2.75% 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 the moderate economic recovery in the US to have been sustained but economic activities in the euro area to have been unable to shake off their sluggishness, while emerging market countries have shown continuing economic growth. The Committee expects the global economy to sustain its modest recovery going forward, but judges that the uncertainties related for instance to the fiscal crisis in the euro area and to fiscal consolidation in the US have not lifted and remain as downside risks to growth.

In Korea, although exports have maintained their trend of recovery and construction investment has increased slightly, the Committee appraises the economy to have sustained a weak level of growth as consumption and facilities investment have declined owing to temporary factors. On the employment front, the increase in the number of persons employed was smaller in February than in the month before, as a result of the accelerated decline in the number of temporary and daily workers due mainly to the Lunar New Year holiday. Going forward, there is no change to the Committee's forecast that the domestic economy will show a negative output gap for a considerable time, due mostly to the slow recovery of the global economy in consequence chiefly of the sluggishness of economic activities in the euro area.

Consumer price inflation and core inflation excluding the prices of agricultural and petroleum products continued to run at low levels similar to those in the previous month, at 1.4% and 1.3% respectively in February. Inflation appears likely to remain relatively low, due to the weakening of demand-side pressures; the Committee forecasts, however, that it will rise above its current level as downward pressures from institutional factors partially disappear. As for housing prices, those in Seoul and its surrounding areas continued on their downtrend and those in the rest of the country on their moderate uptrend.

In the financial markets, stock prices have shown slight fluctuations, as the influences of foreigners' stock investment fund inflows and of the increase in Korea's geopolitical risk have coincided, while long-term market interest rates have fallen due mainly to large inflows of foreigners' bond investment funds. The Korean won-US dollar exchange rate had fluctuated within a certain range, but has risen recently, owing largely to the emergence of geopolitical risk.

Looking ahead, the Committee will closely monitor external risk factors and Korea's geopolitical risk and any consequent changes in financial and economic conditions, continue its efforts to lower inflation expectations, and conduct monetary policy so as to keep consumer price inflation within the inflation target range over a medium-term horizon while ensuring that the growth potential is not eroded due to the continuation of slow growth.