

Minutes of the Monetary Policy Committee Meeting

February 14, 2013

The Bank of Korea

Minutes of the Monetary Policy Committee Meeting¹⁾ **(February 2013)**

I . Outline

1. Date of meeting : Thursday, February 14, 2013
2. Place : Monetary Policy Committee Meeting Room
3. Monetary Policy Committee members present:
Kim, Choongsoo, Chairman (Bank of Korea Governor)
Lim, Seungtae
Park, Won Shik (Senior Deputy Governor)
Ha, Seong Keun
Chung, Hae-Bang
Chung, Soon Won
Moon, Woosik
4. Monetary Policy Committee members absent : none
5. Participants :
Shin, Je-yoon, First Vice Minister of Strategy and Finance
Song, JaeJung, Auditor
Jang, Seh-Keun, Deputy Governor
Kang, Juno, Deputy Governor
Kim, Jong Hwa, Deputy Governor
Kang, Tae Soo, Deputy Governor
Choo, Heung Sik, Director of Reserve Management Group
Choi, Woon Gyu, Director of Economic Research Institute
Shin, Woon, Director General of Research Department
Seong, Byung-Hee, Director General of Macprudential Analysis Department
Kim, Min-Ho, Director General of Monetary Policy & Markets Department
Ryoo, Sangdai, Director General of International Department
Kim, Yun Chul, Director General of Monetary Policy Committee Secretariat
Kim, Tae Suk, Director General of Press Office
Suh, Young Kyung, Director of Financial Markets Division
Sung, Sang Kyung, Head of MPC Administrative Support Team

1) This English version (summary) of the minutes of the Monetary Policy Committee Meeting was produced at a working level, and is not an official document.

II. Summary of Discussion on the Current Economic Situation²⁾

After briefings by staff on 'Current Economic Developments in Korea', 'FX and International Finance' and the 'Financial Markets', the discussions of the Monetary Policy Committee (MPC) members covered the following areas:

Members' assessment was that, despite the continued sluggishness of the euro area economy, **the global economy** was maintaining its modest recovery on the strength of improvements in the U.S. and in emerging market economies. Many members mentioned that **the international financial markets** were sustaining a favorable trend, owing mainly to improvements in global economic conditions and to major countries' expansions of their quantitative easing policies.

Most members assessed **the domestic economy** as continuing its weak pace of growth, despite increasing exports, with domestic demand-related indicators alternating between improvement and worsening.

Concerning **the outlook**, many members anticipated that, while the Korean economy would show improvement, due in large part to the global economic recovery amid improving consumer and investor sentiment, the pace of this improvement would be slow.

With regard to the **domestic financial markets**, members pointed out that stock prices had fallen while the KRW/USD rate had risen, due mostly to concerns about possible deteriorations in performance of some exporters owing to the weakness of the Japanese yen, amid the emergence of North-Korea related geopolitical risks.

²⁾ The contents of 'Current Economic Developments in Korea' and the 'Financial Markets' are posted in English on the Bank of Korea website.

Consumer price inflation had been recorded around the 1% level, owing to the stability of domestic petroleum product prices and despite agricultural product price instability due to cold spells and hikes in some public utility charges. Many members judged that, despite concerns about the rise in international oil prices, and imbalances between agricultural product supply and demand, inflation would remain low for the time being due for example to the easing of demand-side pressures.

With regard to **real estate prices**, one member observed that housing prices were continuing their downtrend and housing leasehold deposit prices their uptrend, due mainly to the continuing economic uncertainties and the spread of expectations of housing price declines.

After the members' discussions, the 1st Vice Minister of Strategy and Finance, the government representative, made the following comments and then left the room before the Base Rate was discussed:

While major real economic indicators had improved amid sustained price stability, employment had slowed and consumption had been somewhat weak. Uncertainties concerning economic conditions remained, due mainly to the negotiations on the U.S. sequester and the delay in recovery of the European economy on the international front, and to sluggish consumption and exchange rate fluctuations domestically. The government planned to continue its policy measures to enhance economic dynamism, while closely monitoring domestic and international economic developments and strengthening its monitoring of financial and foreign exchange markets.

III. Discussions Concerning Monetary Policy Decision (Summary)

The main details of the MPC Members' discussions concerning a change in the Bank of Korea Base Rate were as follows:

Most members shared the opinion that, although the trend of growth in domestic economic activity remained weak and prices were stable, given that the domestic economy was moving in the direction of recovery, albeit a weak one, it would be best to keep the Base Rate at its current level during the intermeeting period, while closely monitoring changes in the financial and economic environments at home and abroad.

One of these members presented the opinion that, for stability of the foreign exchange and financial markets and the corporate business activities, it was necessary to put into place a system to mitigate excessive exchange rate volatility, while at the same time pushing ahead actively with plans to facilitate international policy cooperation in the medium- to long-term, such as the Korea-China currency swap-financed trade settlement facility.

Another member asserted that, while attention should be paid to harmonize operation of macroprudential policy — to reduce the factors disturbing the financial markets, such as the household debt situation and the deterioration in fund-raising conditions of those with poor credit ratings — and of microprudential policy targeting individual financial institutions, monitoring should also be strengthened of the concentration of funds in the markets and the intensification of loan discrimination.

One other member, while stressing the needs for improvement of household sector fundamentals and for structural reforms in the corporate sector so as to expand the growth potential of the economy, suggested

that, particularly with regard to support for SMEs, the central bank should consider plans for more active use of its credit policies including its Aggregate Credit Ceiling Loans, rather than indiscriminate Base Rate adjustment.

Another member, however, expressed the opinion that it would be appropriate to cut the Base Rate by 25 basis points, considering the low level of concern about price instability due mainly to the weakened demand-side inflation pressures and to stable import prices, the strong possibility of the low-growth conditions lasting a considerable time and the weak capacity of the private sector for autonomous recovery, and the expansions in accommodative monetary policies in major advanced as well as some emerging market countries.

IV. Results of Deliberation of Monetary Policy Directions

Taking into consideration the results of the discussions earlier, the members compiled a statement reflecting the views of the majority.

However, Mr. Ha, Seong Keun expressed clear opposition to the idea of holding the Base Rate at its current level, and argued for a 0.25 percentage point cut.

< Ref >

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.
- ☐ 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 their 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.