

Minutes of the Monetary Policy Committee Meeting

May 9, 2014

The Bank of Korea

(English version)

Minutes of the Monetary Policy Committee Meeting¹⁾ **(May 2014)**

I . Outline

1. Date of meeting : Friday, May 9, 2014
2. Place : Monetary Policy Committee Meeting Room
3. Monetary Policy Committee members present:
Lee, Juyeol, Chairman (Bank of Korea Governor)
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 :
Song, JaeJung, Auditor
Kim, Jun Il, Deputy Governor
Kang, Juno, Deputy Governor
Kang, Tae Soo, Deputy Governor
Hur, Jae Sung, Deputy Governor
Suh, Young Kyung, Deputy Governor
Choi, Woon Gyu, Director of Economic Research Institute
Shin, Woon, Director General of Research Department
Seong, Byung Hee, Director of Macprudential Analysis Department
Kim, Min-Ho, Director General of Monetary Policy & Markets Department
Ryoo, Sangdai, Director General of International Department
Jeon, Seung-Cheol, Director General of Monetary Policy Committee Secretariat
Kim, Tae Suk, Director General of Press Office
Kim, Nam Young, Director of Financial Markets Division
Moon, Han Geun, 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 Discussions 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:

With regard to **the global economy**, members' assessment was that the US and euro area economies had maintained their trends of economic recovery but Chinese economic growth had slowed. Members also noted that, while **the international financial markets** had generally shown stable movements, global interest rates had declined, stock prices had risen, and global capital had shown inflows to emerging market countries.

As to **the domestic economy**, most members assessed the economic recovery to have continued, with indicators related to exports and domestic demand showing favorable movements. However, they expressed concerns about the negative effects on domestic demand of the Sewol ferry accident, and one member mentioned that the momentum of economic recovery was not evident, with domestic demand indicators having declined quarter-on-quarter for example.

In **the domestic financial markets**, members noted that stock prices had fallen, the Korean won had appreciated due mainly to the continuation of the current account surplus and to inflows of foreigners' securities investment funds, and interest rates had moved within a narrow range.

As to **prices**, members mentioned that both consumer price inflation and core inflation had risen month-on-month. Many members anticipated that consumer price inflation would gradually rise going forward, as the downward pressures on demand eased.

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

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:

Members shared the opinion that, in overall consideration of the domestic and international economic environments and their future outlooks, it would be desirable to hold the Base Rate at its current level for the intermeeting period.

One member noted that there was a possibility that the current account surplus and the expansion in foreign capital inflows would increase exchange rate volatility and cause excessive movement of the exchange rate in one direction. He then pointed out the need for paying close attention to residents' foreign currency deposits, which had expanded recently, since should they decline all at once the unidirectional movement of exchange rates could intensify.

One other member argued that, as downside risks to the growth paths of both the domestic and the international economies remained, there was a need to conduct monetary policy so as to minimize the effects of factors limiting growth in the financial and real sectors, while working to steady economic agents' expectations.

One other member pointed out that there had been a wide divergence appearing between the rates of increase in the index of industrial production and in GDP of late, a divergence considered to be attributable to non-temporary factors such as the rapid growth of the IT sector. He went on to express the opinion that it was thus necessary to make improvements to the index of industrial production and to strengthen communication with the market for explaining the difference between the two statistics.

Another member meanwhile noted the need for cautions concerning the influence of the contraction in economic agents' sentiment following the Sewol ferry accident on the trend of economic recovery, and about the future path of the USD/KRW rate.

Lastly, one member forecast that the trend of improvement in economic activities would continue and that consumer price inflation would gradually rise to its target level going forward, but commented that there were still concerns about a slowdown in domestic demand due to external uncertainties and to the Sewol ferry accident, and that any excessive appreciation of the won could work as a downside risk to growth and prices.

IV. Results of Deliberation of Monetary Policy Directions

Incorporating the outcome of these discussions, the following statement was prepared with the unanimous consent of all members:

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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.
- ☐ 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 extent 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.