

# **Minutes of the Monetary Policy Committee Meeting**

June 12, 2014

**The Bank of Korea**

(English version)

## **Minutes of the Monetary Policy Committee Meeting<sup>1)</sup>** **(June 2014)**

### **I . Outline**

1. Date of meeting : Thursday, June 12, 2014
2. Place : Monetary Policy Committee Meeting Room
3. Monetary Policy Committee members present:  
Lee, Juyeol, Chairman (Bank of Korea Governor)  
Ha, Seong Keun  
Chung, Hae-Bang  
Chung, Soon Won  
Moon, Woosik  
Hahm, Joon-Ho
4. Monetary Policy Committee members absent : none
5. Participants :  
Song, JaeJung, Auditor  
Kim, Jun Il, Deputy Governor  
Kang, Juno, Deputy Governor  
Hur, Jae Sung, Deputy Governor  
Suh, Young Kyung, Deputy Governor  
Chae, Sun Byoung, Director General of Reserve Management Group  
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

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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 Situation<sup>2)</sup>

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 economy had maintained its trend of recovery, the euro area economy had sustained its weak recovery, and the Chinese economy had exhibited the same level of growth seen in the first quarter of this year. Members also noted that **the international financial markets** had shown stable movements generally, as global interest rates had declined and stock prices had risen.

As to **the domestic economy**, members commented that, while exports had been buoyant, indicators related to consumption and the service sector had been subdued. In line with this, a few members expressed concerns about the possibility of prolongation of decline in consumer and investor confidence, and about movements toward a structural slowdown of consumption including a general decline in the propensity to consume.

Concerning **the domestic financial markets** members noted that, with the inflows of securities investment funds of foreigners continuing, interest rates had fallen, stock prices had risen, and the Korean won had appreciated. Several members commented that it was necessary to pay attention to the continuous appreciation of the won, and to the deterioration in bank profitability in line with the narrowing of the loan-to-deposit interest rate spread.

With regard to **prices**, members mentioned that consumer price inflation

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

had registered 1.7% in May, higher than in the month previous. Several members anticipated that consumer price inflation would rise at an increasingly faster pace going forward. However, one member noted that, due mainly to the contraction in domestic demand and to the pressures from the appreciating Korean won, the odds of consumer price inflation remaining at a low level were also not small.

### **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, although judging that the economic recovery was being maintained despite a slight slowdown in the trend of improvement in domestic economic activities, expressed the view that for now it was desirable to observe the situation a little longer, given the difficulty in predicting to what extent downside risks, such as Korean won appreciation and the prolongation of the decline in consumer and investor sentiment following the Sewol ferry accident, would affect the future growth path.

Another member stated the opinion that, in a situation in which domestic long-term interest rates had fallen sharply recently, there was a need to secure policy measures capable of mitigating severe swings in market interest rates, since there were concerns that when international interest rates do begin to rise in response to the US Fed's monetary policy normalization, domestic long-term interest rates could surge and work as a factor causing financial instability.

One other member noted the emergence, amid high levels of household and corporate sector leverage, of destabilizing factors on the qualitative side such as debt structure vulnerabilities and credit market polarization. He expressed the opinion that there were thus concerns about a possible heightening of financial instability in the event of a future rise in interest rates, and so it was necessary to carry out micro analysis and to develop countermeasures in response.

Another member meanwhile advocated the need, in order to escape the prevailing trend of slow growth coupled with low inflation, for reviewing the effects of monetary and credit policy while at the same time checking to see whether domestic demand was showing clear signs of recovery, such as improvements in consumption, whether the medium- and long-term export structure was changing, and whether the global economy had broken from its pattern of low growth and low inflation, and paying close attention to the divergent directions of advanced countries' monetary policies and the resulting financial and foreign exchange market trends.

Lastly, one other member put forward the view that particular attention should be paid to major economic conditions at home and abroad. He went on to stress that future consumption and investment patterns, low inflation trend, current account surplus trend and patterns of foreign investment fund inflows should all be subject to intensive analysis and examination.

#### **IV. Results of Deliberation of Monetary Policy Directions**

Incorporating the outcome of their earlier discussions, a statement was compiled 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 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.