

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

April 11, 2013

**The Bank of Korea**

## **Minutes of the Monetary Policy Committee Meeting<sup>1)</sup>** **(April 2013)**

### **I . Outline**

1. Date of meeting : Thursday, April 11, 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 :  
Song, JaeJung, Auditor  
Jang, Seh-Keun, Deputy Governor  
Kang, Juno, Deputy Governor  
Kim, Jun Il, 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  
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 the 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 the '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 Chinese economies. Many members mentioned that, notwithstanding the U.S. sequester and the euro area fiscal crisis **the international financial markets** were sustaining favorable trends, owing mainly to the continued quantitative easing policies of major economies.

Members assessed that the **domestic economy** appeared to be pulling out of last year's sluggishness, with the rate of economic growth in the first quarter estimated as slightly higher than that in the previous quarter, despite the low level of increase in exports and less-than-expected consumption level due mainly to expiry of the cut in the individual consumption tax.

Concerning **the outlook**, many members anticipated that the negative output gap in the domestic economy would gradually narrow as both exports and domestic demand sustained their trends of recovery, boosted chiefly by the improvement in the global economy and by the easing of political and economic uncertainties at home and abroad. A few members however remarked that the possibility was strong of a slower-than-expected pace of economic recovery, as improvements in private consumption and facilities investment were delayed under the influence for example of the

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2) The 'Current Economic Developments in Korea' and the 'Financial Markets' can be found in Bank of Korea's website

slowdown in recovery of the global economy and the weakening of the Japanese yen.

With regard to **the domestic financial markets**, members pointed out that, under the combined effect of inflows of foreigners' portfolio funds, the movements of the yen exchange rate and geopolitical risk, stock prices had fallen while the KRW/USD exchange rate had risen.

Many members mentioned that **consumer price inflation** had maintained its low level at around the 1% range, due in large part to declines in agricultural, livestock and marine product prices and to the stabilization of international oil prices. Many members forecast that, although inflation would remain low for the time being - owing mainly to the easing of demand-side pressures - it would accelerate in the second half of this year with agricultural product prices and high inflation expectations working as driving factors.

### **III. Discussions Concerning the 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:

Many members shared the opinion that, given that the effect of the Base Rate cuts in the second half of last year had not yet been fully reflected in the real economy, and considering the strong possibility of the domestic economy maintaining its moderate trend of recovery in line with the originally forecast growth path, 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 pointed out that, while the Base Rate should be maintained at its current level to prepare effectively against the upside and downside tail risks, it was desirable to respond to the pace of economic recovery, which was considered to be somewhat sluggish, with a credit policy that could be customized to support vulnerable sectors.

One other member was of the opinion that, although liquidity conditions in the Korean economy were accommodative given activities in the real economy, there was a problem in that this abundant liquidity had failed to link with business investment, and it was thus necessary to work to restore the monetary policy transmission channels and enhance the capability of monetary policy to respond to economic conditions.

Other members however expressed the opinion that it would be appropriate to cut the Base Rate by 25 basis points, in order to support a recovery of the Korean economy's growth trend and to pursue financial market stability, considering the relatively stable trend of inflation amid the heightened risks of a real economic contraction and of financial market instability.

One of these members put forward the view that, although the stimulative effect of monetary policy was limited, the lowering of the Base Rate at this point might contribute greatly to strengthening the weakened resilience of the economy, to the improvement of economic agents' sentiment, and to mitigation of the negative effects of major countries' quantitative easing policies.

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

Incorporating the outcome of their discussions, the members compiled a statement that reflected the views of the majority.

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

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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 2.75% for the intermeeting period.
- ☐ Based on currently available information, the Committee considers the moderate economic recovery in the US to have continued but economic activities in the euro area to have remained sluggish, while economic indicators in emerging market countries, led by China, have continued their trends of improvement. The Committee expects the global economy to sustain its modest recovery going forward, but judges that the uncertainties related for instance to the delay in economic recovery in the euro area and to fiscal consolidation in the US remain as downside risks to growth.
- ☐ In Korea, although exports have maintained their trend of recovery and investment-related indicators have rebounded, the Committee appraises economic growth to have sustained its weak level, as consumption has continued its decline of the previous month. On the employment front, the increase in the number of persons employed has accelerated, centering around the 50-and-above age group. 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 and to the influence of Japanese yen weakening.
- ☐ Consumer price inflation declined slightly to 1.3% in March, from 1.4% the previous month, due mainly to decreases in the prices of agricultural, livestock and fisheries products, while core inflation excluding the prices of agricultural and petroleum products rose

slightly to 1.5%, from 1.3% in February. Inflation appears likely to remain relatively low, due to the weakening of demand-side pressures. However, the Committee forecasts that it will rise above its current level in line with the partial disappearance of downward pressures from institutional factors. 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 fallen substantially and the Korean won has depreciated significantly against the US dollar, as foreigners' securities investment funds have flowed out in line with the reemergence of euro area risk and with the increase in geopolitical risk in Korea. Long-term market interest rates have continued their downtrend, primarily on concerns about the slowdown in economic recovery.
- ☐ 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.