

Minutes of the Monetary Policy Committee Meeting

December 12, 2013

The Bank of Korea

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

I . Outline

1. Date of meeting : Thursday, December 12, 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
Kim, Jun Il, Deputy Governor
Kang, Juno, Deputy Governor
Kang, Tae Soo, Deputy Governor
Hur, Jae Sung, Deputy Governor
Suh, Young Kyung, 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 of Macprudential Analysis Department
Kim, Min-Ho, Director General of Monetary Policy & Markets 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:

Concerning **the global economy**, members' assessment was that the trend of economic recovery in the US had been sustained, and that the sluggishness of economic activities in the euro area appeared to be easing, with major sentiment indicators continually improving. Members also appraised economic growth trends in emerging market countries, above all China, to have been maintained. Many members expected **the global economy** to sustain its recovery **going forward**, centering around advanced countries, but forecast that factors such as the possibility of changes in global financial market conditions in line with QE tapering by the US Federal Reserve, and the continued US fiscal uncertainties, would act as downside risks to growth.

Many members noted that, in **the international financial markets**, while global interest rates were rising, due mainly to improvements in economic indicators in advanced countries and to the expectations of early tapering by the US Federal Reserve, stock prices had risen, centering around advanced countries, although in some weak emerging market countries they had fallen in response to outflows of foreign investment funds.

Concerning **the domestic economy**, members' assessment was that it was maintaining its trend of recovery, as the current account had registered a huge surplus in November while the exceptional factors seen in the previous month had disappeared and real indicators related to

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

production and domestic demand were showing buoyancy.

As to **the future outlook**, many members anticipated that the trend of domestic economic recovery would be moderate, as the pace of the global economic recovery was sluggish while destabilizing factors remained, including the intensification of the trend of Japanese yen weakening and the possibility of increases in financial and FX market volatility.

With regard to the **domestic financial markets**, members pointed out that stock prices had fallen and interest rates had risen, amid foreigners' securities investment funds having flowed out on concerns about QE tapering by the US Federal Reserve, and that the Korean won had appreciated in line mainly with the current account surplus.

Many members' judged that, with consumer price inflation maintaining its low level of around the 0% for the third consecutive month, due mainly to declines in agricultural product prices, there was an increased possibility of the low inflation lasting longer than expected if the stable trend of supply-side factors and the slow recovery of demand-side factors were to persist.

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 view that it would be desirable to hold the Base Rate at its current level for the inter-meeting period, judging that the recent paths of growth and prices were not greatly different from those forecast in October, with prices maintaining their low upward trend and the domestic economy continuing its steady trend of recovery.

One member expressed the opinion that the effects of monetary and fiscal policies should be examined so as to ensure that the trend of low growth and low inflation did not become permanent, while monitoring should be strengthened of foreign exchange market movements such as in- and outflows of foreign currency funds and exchange rate volatility caused by changes in major countries' monetary policies. He added that attention should be paid to factors disturbing the financial system, including the possibility of deterioration in fund-raising conditions for vulnerable sectors and the household debt situation.

Another member commented that medium- and long-term interest rates were rising sharply, given the increasing expectations that the US Fed would implement its exit strategy before long due mainly to the improvement in US employment conditions. This rise in interest rates might, he added, significantly worsen the debt servicing burdens of households and businesses, and so a further strengthening was called for of efforts to stabilize market interest rates and prevent an excessive rate of growth in household lending exceeding the nominal GDP growth rate.

One other member asserted that, in order to keep the foreign exchange and financial markets stable and minimize the negative effects of the

weakening yen, attention should be paid to preventing any excessive increases in exchange rate volatility. And to achieve this, he further stressed the importance of developing a buffer system, for example through the diversification of settlement currencies.

One member presented the view in addition that attention should be paid to the facts that the share in overall bank lending of loans to SMEs had been decreasing since the financial crisis and, furthermore, that the share of credit-based loans in total bank lending to SMEs had also continued to decline.

Finally, another member stated his opinion that, when setting the operating directions for its monetary and credit policies next year, the Bank of Korea should endeavor to enhance their effectiveness by objectively evaluating the outcomes of this year's monetary and credit policy implementation.

IV. Results of Deliberation of Monetary Policy Directions

Incorporating the outcome of their earlier discussions, the following statement was compiled with the unanimous consent of all the 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 that the sluggishness of economic activities in the euro area appears to have continued to ease, while economic growth trends in emerging market countries, above all China, have been maintained. The Committee forecasts that the global economy will sustain its modest recovery going forward, but judges that the likelihood of changes in global financial market conditions related to QE tapering by the US Federal Reserve, and the continued US fiscal uncertainties remain as downside risks to growth.
- ☐ In Korea, the Committee appraises the economic recovery to be continuing in line with the trend of growth, as domestic demand and exports have both increased. On the employment front, the scale of increase in the number of persons employed has expanded substantially in line with 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 a considerable time going forward, although it forecasts that the gap will narrow.
- ☐ Consumer price inflation rose from 0.7% the previous month to 0.9% in November, due mainly to the slower downward trends in the prices of agricultural and petroleum products, increases in the prices of some industrial goods and the hike in electricity charges.

Core inflation excluding agricultural and petroleum product prices also rose from 1.6% to 1.8%. The Committee forecasts that, due largely to the stability of international agricultural prices, inflation will remain low for the time being, but that it will be higher than its current level. As for the housing market, sales prices in Seoul and its surrounding areas maintained their level of the previous month while the uptrend of those in the rest of the country increased slightly. The rise in leasehold-deposit prices slowed in Seoul and its surrounding areas, while the uptrend in the rest of the country kept to its pace of the previous month.

- ☐ In the domestic financial markets, stock prices have fallen substantially and long-term market interest rates have risen, affected by expectations of the US Federal Reserve's QE tapering. The Korean won has strengthened while fluctuating in line with the influences of the continued current account surplus and outflows of foreigners' securities investment funds.
- ☐ Looking ahead, while paying close attention to developments in and the influences of external risk factors, and monitoring the effects of the Base Rate cut and of the government's economic policies including the supplementary budget, the Committee will 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.