

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

May 9, 2013

**The Bank of Korea**

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

### **I . Outline**

1. Date of meeting : Thursday, May 9, 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  
Choo, Heung Sik, Director of Reserve Management Group  
Choi, Woon Gyu, Director of Economic Research Institute  
Shin, Woon, Director General of Research 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 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:

Members' assessment was that the overall recovery of **the global economy** was very modest, with the euro area economy remaining sluggish and with the trends of improvements in the U.S. and Chinese economies falling short of expectations. Many members mentioned that **the international financial markets** were sustaining favorable trends, owing mainly to the continued quantitative easing policies of major economies and the easing of the euro-area fiscal crisis.

Members assessed that **the domestic economy** continued to display weak growth, despite exports sustaining their albeit moderate recovery, as indicators related to domestic demand alternated between improvement and worsening.

Concerning **the outlook**, many members anticipated that the negative output gap would continue for a considerable length of time, as the pace of economic recovery remained modest owing primarily to the slow global economic recovery, the weakening of the Japanese yen, and the geopolitical risk.

With regard to **the domestic financial markets**, members pointed out that stock prices and the exchange rate had fluctuated substantially, under the combined effects of geopolitical risk and concerns about the worsening of corporate performances, and the consequent outflows of foreigners' portfolio funds.

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 commodity prices. Many members forecast that inflation would remain low for the time being, provided there were no occurrences of exceptional factors on the supply side.

### **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:

Many members shared the opinion that, as the recent speed of economic recovery was the slowest since that during the Asian Currency Crisis in 1997, and as consideration should be given to harmonization with the government's economic policies, it would be desirable to lower the Base Rate by 25 basis points from its current level for the intermeeting period, even though the domestic economy was forecast to show a trend of improvement, albeit moderate, amid domestic price stability.

One member was of the opinion that the Bank of Korea should on the one hand work to constantly refine its monetary policy instruments, by examining the side-effects arising from the prolongation of low interest rates, the controversies related to the stimulative effect of Base Rate adjustment and the effectiveness of the recently reorganized Aggregate Credit Ceiling Loan, while on the other hand also strengthen its efforts, as the central bank, to put forward policy alternatives for the sound development of the Korean economy in view of the heightened concerns over entrenchment of a trend of low growth caused by the recent delay in economic recovery.

Another member expressed the view that, while paying attention to preventing entrenchment of the trend of low inflation - which had been below the BOK's medium-term inflation target for an extended period - the

Bank of Korea should closely monitor the movements of domestic demand which, centering around consumption, had not as yet recovered.

One other member mentioned that a Base Rate cut at this point in time was somewhat overdue, but that it would still make an important contribution to the strengthening of the weak economic recovery, to the improvement of investor sentiment in the private sector, to the reduction of uncertainties in the foreign exchange and financial markets, and going further to the easing of excessive expectations of Korean won appreciation.

One member pointed out in addition the need to bear in mind that the wasteful costs to the national economy due to the continued controversy about the lack of coordination between macro-economic policies could be greater, at this point in time, than the opportunity costs arising from a 25 basis point reduction in the margin for a further rate cut.

Meanwhile, another member expressed the opinion that, although the growth rate had fallen somewhat short of economic agents' expectations, it would be appropriate to maintain the Base Rate at its current level during the intermeeting period, since the need for additional quantitative easing to stimulate the economy was small given the potential growth rate, recent GDP data and expected growth path of the Korean economy, and the accommodative liquidity conditions.

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

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

However, Mr. Moon, Woosik expressed clear opposition to the idea of lowering the Base Rate by 25 basis points, and argued for holding it unchanged at its current level.

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### **Monetary Policy Decision**

- ☐ The Monetary Policy Committee of the Bank of Korea decided today to lower the Base Rate by 25 basis points from 2.75% to 2.50%.
- ☐ Based on currently available information, the Committee considers the moderate economic recovery in the US to have continued but the sluggishness of economic activities in the euro area to have deepened, while the trends of improvement in economic indicators in emerging market countries such as China have been weaker than initially anticipated, with the result that some central banks, including the ECB, have cut their policy rates. The Committee expects the global economy to continue its modest recovery going forward, but judges that the downside risks to growth remain considerable due chiefly to uncertainties related for instance to the sluggishness of economic activity in the euro area and to the implementations of fiscal consolidation in major countries.
- ☐ In Korea, exports have maintained their trend of recovery, albeit at a modest pace, but the Committee appraises economic growth to have remained weak, with indicators related to domestic demand alternating between improvement and worsening. 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, to the influence of Japanese yen weakening, and to the geopolitical risk in Korea.

- Consumer price inflation recorded 1.2% in April, a level similar to that in the previous month (of 1.3%). Core inflation excluding the prices of agricultural and petroleum products was 1.4%, also similar to its March level of 1.5%. The Committee forecasts that inflation will remain low for the time being, provided there are no occurrences of exceptional factors on the supply side. As for housing prices, the downtrend of those in Seoul and its surrounding areas slowed as transactions increased, and those in the rest of the country continued on their moderate uptrend.
- In the financial markets, stock prices and the exchange rate have fluctuated substantially under the influence chiefly of concerns about geopolitical risk in Korea and about worsening corporate performances, and the consequent outflows of foreigner stock investment funds. Long-term market interest rates, while greatly influenced by foreigners' investment in bond futures, have fluctuated in response to changes in expectations related to monetary policy and the economy.
- Looking ahead, the Committee will closely monitor the effects of the Base Rate cut and the economic policies of the government including the supplementary budget, strive to improve the sentiments of economic agents and 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.