

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

April 10, 2014

**The Bank of Korea**

(English version)

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

### **I . Outline**

1. Date of meeting : Thursday, April 10, 2014
2. Place : Monetary Policy Committee Meeting Room
3. Monetary Policy Committee members present:  
Lee, Juyeol, 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  
Hur, Jae Sung, 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

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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, while the trend of economic recovery in the US had been sustained and the sluggishness of economic activities in the euro area had eased, economic growth in China had slowed with production, consumption and domestic demand showing sluggishness. Members meanwhile assessed **the international financial markets** as having remained stable overall, despite a temporary contraction due mainly to risks related to the Ukraine and to worries about an economic slowdown in China. Some members noted that risk factors did still remain, however, including the additional reductions in scale of asset purchases by the US Fed and the possibility of expansions in financial unrest in emerging market countries.

As to **the domestic economy**, members' assessment was that, although indicators related to domestic demand had slumped temporarily, the economic recovery was continuing as exports had shown buoyancy. Most members forecast that the domestic economy would maintain its upward trend, driven largely by the economic recoveries in advanced countries and the improvements in domestic demand conditions. Some members however observed that certainty as to the recovery's sustainability was lacking, due to destabilizing factors at home and abroad.

In **the domestic financial markets**, members noted that stock prices had risen, the Korean won had appreciated and interest rates had moved within a narrow range. Some members meanwhile mentioned the need for

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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.

keeping a close watch on household debt, which had been maintaining a trend of high growth.

With regard to **prices**, noting that consumer price inflation and core inflation had both risen from the previous month, members forecast that inflation would gradually rise going forward, although it would remain low for the time being. Some members added that close attention should be kept on the possibility of changes in the expected inflation rate, since consumer price inflation had been running below the lower bound of the inflation target for a long period of time.

### **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 expressed the need for reviewing measures to boost the corporate dividend yield ratio so that corporate earnings could flow into households, and for facilitating firms' purchases of real estate and their rental to employees.

Another member noted that the pace of growth in household lending was continuing, and particularly that non-bank financial institution and high-interest rate household loans were increasing, and stated his opinion that monitoring related to this should be strengthened.

One other member expressed the opinion that it was necessary to prepare for the possibility of negative impacts on the domestic economy of any change in the US monetary policy stance and of the possible renewal of unrest in emerging markets.

One member mentioned that, if interest rates were to remain low for a long period of time, negative effects - such as the weakening of savings incentives, delays in restructuring and increases in household debt - could be greater than the positive effects in stimulating the economy. He then presented the view that the normalization of interest rates should be considered at an appropriate time, when the economic recovery had become evident.

Another member expressed the view that, since both the upside and downside risks were present in domestic and overseas financial markets, while there had been no significant change in the pace of domestic economic recovery and prices were stable, it would be appropriate to maintain the current degree of monetary easing for the time being.

Lastly, one other member put forward the opinion that it would be advisable to carefully monitor the progress of overseas risk factors and monetary policy operations of major advanced countries, and to closely examine their effects on domestic business activities, prices and financial market conditions.

#### **IV. Results of Deliberation on 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, 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 emerging market countries.
- ☐ In Korea indicators related to domestic demand have slumped temporarily, but as exports have shown buoyancy the Committee appraises the economic recovery to have continued in line with the trend of growth. 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 1.0% the previous month to 1.3% in March, due mainly to expansions in the extents of increase

in service fees and livestock product prices. Core inflation excluding the prices of agricultural and petroleum products also rose from 1.7% to 2.1%. The Committee forecasts that inflation will gradually rise, although it will remain low for the time being due largely to a bountiful agricultural harvest. 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 increased slightly, due in part to the influence of the spring moving season.

- ☐ In the domestic financial markets, stock prices had fallen, due mainly to concerns about an economic slowdown in China, but have since then shifted to a rise in line chiefly with the continuation of improvements in US economic activity. The Korean won had weakened against the US dollar but has since appreciated considerably, influenced mainly by in- and outflows of foreigners' portfolio investment funds. Long-term market interest rates have meanwhile moved within a relatively narrow range.
  
- ☐ Looking ahead, while paying close attention to developments in and the influences of external risk factors such as shifts in major countries' monetary policies, the weakening of economic growth trends in some emerging market countries and geopolitical risks in Eastern Europe, 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.