

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

June 13, 2013

**The Bank of Korea**

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

### **I . Outline**

1. Date of meeting : Thursday, June 13, 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:

Concerning **the global economy**, members' assessment was that the moderate economic recovery in the US had been sustained but the sluggishness of economic activities in the euro area had continued, while emerging market countries such as China had shown slightly lower economic growth than initially anticipated. Many members expected **the global economy** to sustain its modest recovery **going forward**, mainly due to active countercyclical policies in major countries, but judged that such factors as the possibility of a tapering off of US quantitative easing and fiscal uncertainties would remain as downside risks to growth.

Many members noted that, in **the international financial markets**, stock prices and the values of the currencies of some emerging market countries had declined significantly, influenced by a sharp rise in long-term interest rates in major countries and a reversal of global capital flows, affected by concerns about the earlier-than-expected tapering off of the US Fed's quantitative easing.

Members assessed **the domestic economy** as sustaining its economic growth, albeit weak, despite declines in consumption and facilities investment, as exports had improved and construction investment had increased to a great extent.

Concerning **the future 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 recovery of the global economy.

With regard to **the domestic financial markets**, members pointed out that stock prices had shifted to sharp declines, long-term market interest rates had risen significantly, and the Korean won had also depreciated to a considerable extent, affected mainly by the possibility of an earlier-than-expected tapering off of US quantitative easing.

Many members mentioned that **consumer price inflation** had maintained its low level of around the 1% level, due in large part to decreases in the prices of agricultural and petroleum products. Many members forecast that, although inflation would remain stable for the time being as demand-side pressures were weak, it would rise gradually from the latter half of 2013, influenced for instance by an increase in the prices of agricultural and marine products and by a base effect.

### **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 it would be desirable to hold the Base Rate at its current level for the intermeeting period as the domestic economy had maintained its trend of improvement amid stable prices, and as it was forecast to sustain its trend of recovery, albeit moderate, going forward due mainly to the gradual recovery of the global economy, despite risk factors at home and abroad.

One member was of the opinion that, in preparation for a possible intensification of market instability brought about by changes in the monetary policy stance in major countries, the Bank of Korea should reexamine its policy instruments to enable it to respond promptly when necessary, and that it should at the same time pay attention to measures to improve market confidence in order to enhance the policy effect.

Another member stated his opinion that, as the timing of the US Fed's tapering off of its quantitative easing had become a critical issue, with respect to its possible effects on the Korean economy, the Bank of Korea should consider the possibilities of both large capital inflows and outflows and come up with appropriate measures for either scenario. Notably, he expressed the view that it would also be necessary to monitor and develop measures in response to the increases in capital flows and sharp fluctuations in exchange rates that might be caused by the different timing of the unwinding of quantitative easing by major countries such as the US and Japan.

Another member mentioned that the Bank of Korea should pay attention to strengthening financial system stability by, for example,

mitigating the potential risks of vulnerable groups, while taking care to ensure that household debt which had been steadily increasing of late did not escalate into systemic risks.

Furthermore, noting that domestic demand in terms of consumption and investment remained sluggish although exports were showing a somewhat favorable performance, one member pointed out that it was urgent for the sustainable growth and stability of domestic economy to make efforts to fundamentally improve those factors limiting investment and consumption and to seek new sources of growth.

Lastly, emphasizing the need for an approach to the causes of the slow growth that accorded with a focus on the structural contraction of private consumption rather than attributing it solely to the sluggish global economy, another member suggested it was necessary to ascertain whether the critical point had now been reached beyond which the recovery of private consumption would be held back for a long time by the influence of household debt.

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

Incorporating the outcome of their earlier discussions, the following Monetary Policy Decision statement was compiled and was approved unanimously by 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 the moderate economic recovery in the US to have continued but economic activities in the euro area to have remained sluggish, while emerging market countries such as China have shown slightly lower economic growth than initially anticipated. The Committee expects the global economy to sustain its modest recovery going forward, but judges that the uncertainties related for instance to the possibility of an earlier-than-expected tapering off of US quantitative easing policy and to the implementations of fiscal consolidation in major countries remain as downside risks to growth.
  
- ☐ In Korea, consumption and facilities investment have declined but the Committee appraises economic growth to be continuing, albeit weakly, as exports have improved and construction investment has increased to a great extent. On the employment front, the number of persons employed has increased, centering around the 50-and-above age group and the service sector. Due to a slowdown in the uptrend in employment in the manufacturing sector, however, the increase was smaller in May than in the previous month. 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.

- Consumer price inflation declined to 1.0% in May, from 1.2% the previous month, owing mainly to decreases in the prices of agricultural and petroleum products, while core inflation excluding agricultural and petroleum product prices rose to 1.6%, from 1.4% in April. The Committee forecasts that inflation will remain low for the time being, provided there are no occurrences of exceptional factors on the supply side such as fluctuations in the prices of international oil and agricultural products. As for housing prices, those in Seoul and its surrounding areas remained generally steady, and those in the rest of the country continued their slight uptrend.
- In the domestic financial markets, just as in the international financial markets, stock prices have reversed to sharp declines, affected mainly by the possibility of an earlier-than-expected tapering off of US quantitative easing. Long-term market interest rates have risen significantly and the Korean won has also depreciated to a considerable extent.
- Looking ahead, the Committee, while closely monitoring the trends of changes in external risk factors and the effects of the previous month's Base Rate cut and the economic policies of the government, including the supplementary budget, 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.