

Minutes of the Monetary Policy Committee Meeting

October 10, 2013

The Bank of Korea

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

I . Outline

1. Date of meeting : Thursday, October 10, 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
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
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

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, while the moderate economic recovery in the US had been sustained, the economic sluggishness in the euro area showed signs of easing and the modest recovery in Japan had been maintained, bolstered by an expansion in domestic demand, economic growth in some emerging market countries had slowed, influenced in part by financial instability. Many members expected **the global economy** to sustain its recovery **going forward**, centering around advanced countries, but forecast that factors such as the heightening of uncertainties surrounding the US government budget bill and debt ceiling increase, fiscal uncertainties in major countries, and the likelihood of changes in global financial market conditions related to QE tapering by the US Federal Reserve would act as downside risks to growth.

Many members noted that, in **the international financial markets**, long-term interest rates in major countries had fallen substantially and stock prices had risen, while the US dollar had shifted to a trend of depreciation and the financial instability in some emerging market countries had eased temporarily, as the US Federal Reserve, contrary to market expectations, had decided to keep the amount of its asset purchases unchanged.

Concerning the **domestic economy**, members assessed that it had been sustaining its modest pace of growth of late, as domestic demand such as

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

for consumption and investment had increased and as exports showed buoyancy, helped chiefly by the Base Rate cut and the stimulus measures taken by the government.

As to **the future outlook**, many members anticipated that the negative output gap would steadily narrow, owing for example to the gradual improvements in external conditions.

Members pointed out that **the domestic financial markets** had shown stable movements, with stock prices rising sharply as foreigners' domestic stock investment had expanded significantly, while interest rates had fallen and the Korean won had appreciated slightly.

Most members mentioned that **consumer price inflation** stood at a low level of below 1%, affected largely by decreases in the prices of agricultural and petroleum products. Many members forecast that consumer price inflation would remain low for the time being going forward, due to demand-side inflationary pressures being mild given the sluggish aggregate demand, on top of the exceptional price stability of supply-side factors and institutional factors related to social welfare.

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, with prices sustaining their low upward trend, the domestic economy appeared to be improving, albeit moderately.

One member expressed the opinion that, although the continuous current account surplus could be seen from the microeconomic perspective

as a result of the enhanced global competitiveness of Korean goods and services, attention should be directed from the macroeconomic perspective to the question of whether it implied that there was a big change taking place in the composition of expenditure by economic sector.

Another member took the view that it was necessary to strengthen the monitoring of in- and outflows of short-term speculative capital, of the series of failures of large corporations, and of the possibility of a credit crunch in the corporate bond and CP markets, in order to prevent them from acting as factors destabilizing the domestic financial markets.

Another member pointed out that, taking into account the high degree of openness of the Korean financial markets and their asymmetric characteristics, it would be necessary to move away from reliance on foreign reserve accumulation or macro-prudential regulations in the foreign exchange sector and to devise multifaceted measures for achieving foreign exchange market stabilization.

In addition, one member mentioned that it would be necessary to closely examine the trends of early warning indicators such as the ratio of domestic credit and liabilities to GDP and the debt service ratio, and, while encouraging leverage adjustments in each economic sector, to strive constantly to improve the domestic economic fundamentals in the medium and long term through restructuring.

Finally, another member pointed out that the current low inflation should be seen as disinflation, a slight slowing down in the rate of inflation, rather than as deflation, a declining in the level of prices itself, and expressed the view that undertaking an overall review of consumer price inflation, inflation expectations and the inflation target range, and, if necessary, establishing an inflation targeting regime appropriate to the new economic situation and circumstances were very important tasks.

IV. Results of Deliberation of Monetary Policy Directions

Reflecting the outcome of these discussions, the following Monetary Policy Decision statement was prepared and then unanimously approved 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 that the economic recovery in the US has been sustained and that the sluggishness of economic activities in the euro area appears to be easing, while the trends of economic growth in emerging market countries, above all China, have shown signs of recovery to some extent. The Committee forecasts that the global economy will sustain its modest recovery going forward, but judges that the heightening of uncertainties surrounding the US government budget bill and debt ceiling increase, and the likelihood of changes in global financial market conditions related to QE tapering by the US Federal Reserve are acting as downside risks to growth.
- ☐ In Korea, the Committee appraises the moderate economic growth to be continuing, with exports showing buoyancy and domestic demand also improving. On the employment front, the scale of increase in the number of persons employed has expanded in line with increases in the 50-and-above age group and 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 fell from 1.3% the previous month to 0.8% in September, due mainly to declines in the prices of agricultural and petroleum products, but core inflation excluding

agricultural and petroleum product prices rose from 1.3% to 1.6%. The Committee forecasts that, despite increases in some public utility fees, inflation will remain low for the time being, owing primarily to the inflation reducing effects of policies such as free childcare provision and to the downward stabilization of international agricultural prices. As for the housing market, the scale of decline in sales prices in Seoul and its surrounding areas narrowed while the uptrend of those in the rest of the country continued. The increase in leasehold-deposit prices in Seoul and its surrounding areas meanwhile accelerated, and the uptrend in these prices in the rest of the country continued.

- ☐ The domestic financial markets have shown generally stable movements, due in large part to the scale of QE in the US remaining unchanged. Stock prices have risen substantially and the Korean won has appreciated, driven mainly by net inflows of foreigners' stock investment funds. Long-term market interest rates have fallen slightly in line with those in major economies.
- ☐ 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.