

Minutes of the Monetary Policy Committee Meeting

July 11, 2013

The Bank of Korea

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

I . Outline

1. Date of meeting : Thursday, July 11, 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
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
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

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 moderate economic recovery in the US had been sustained but the sluggishness of economic activities in the euro area had continued, while economic growth in emerging market countries such as China had slowed somewhat. Many members expected **the global economy** to sustain its modest recovery **going forward**, due mainly to improvements in the US economy, but judged that factors such as the possibility of a tapering off of the US Federal Reserve's quantitative easing and the uncertainties surrounding fiscal consolidation in major countries would remain as downside risks to growth.

Many members mentioned that, in **the international financial markets**, yields on major country government bonds had risen sharply, due mainly to concerns about the US Fed's early tapering off of quantitative easing, and that stock prices and currency values in emerging market countries had fallen as global investment funds had flowed out from those countries in large amounts.

Members assessed that, despite continued sluggishness in private consumption and facilities investment, **the domestic economy** had recently sustained its growth, albeit weakly, led by construction investment and exports owing to an expansion in fiscal expenditure and to declines in international oil prices.

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

Concerning **the future outlook**, many members anticipated that the negative GDP gap would narrow steadily as external conditions gradually improved and as the effects of the supplementary budget and the Base Rate cut began to materialize in full.

With regard to the **domestic financial markets**, members pointed out that, due to the possibility of an earlier-than-expected tapering off of quantitative easing by the US Fed, government bond yields had risen greatly and stock prices declined, and that there was growing credit risk aversion in the corporate bond market, centering around weak industries.

Many members mentioned that, although **consumer price inflation** had risen compared to the month previous with the shifts to increase in the prices of agricultural and livestock products and petroleum products, it had maintained its low level of around the 1%. Many members forecast that, although inflation would gradually rise from the latter half of 2013, influenced for instance by increases in the prices of agricultural and fisheries products and by a base effect, it would remain stable for the time being as demand-side pressures were weak.

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 follow:

Members shared the opinion that, although the uncertainties about external conditions were growing and domestic financial market volatility had expanded, the domestic economy was maintaining its trend of improvement amid stable prices and was forecast to sustain its trend of

recovery, albeit moderate, going forward as well, due mainly to the gradual recovery of the global economy, and it was thus desirable to hold the Base Rate at its current level for the intermeeting period.

Concerning the US Fed's movement toward tapering off of quantitative easing, which had emerged as a downside risk to the Korean domestic financial markets and real economy, one of these members expressed the opinion that the focus of monetary policy should be placed on minimizing the resulting shocks to Korea.

Another member commented that an effective, appropriate level of foreign reserves should be maintained as a precaution against the possibility of sudden stop following a contraction in global liquidity, and that, while improving the macroeconomic fundamentals, it was necessary to ensure the minimization of foreign exchange market volatility through the use of effective macroprudential tools.

Another member meanwhile pointed out that, considering the fact that the domestic financial markets had the structural character of vulnerability to external shocks, monitoring should be strengthened to prepare against the financial market unrest that could arise due to any such heightening of external uncertainties, while preemptive and active responses should be taken as needed to maintain financial market stability.

One member argued in addition that, given that central banks in major countries had been devoting efforts to enhancing the predictabilities of their monetary policy, by for instance using forward guidance, there was a need to come up with measures for smooth communication with the markets corresponding to Korean conditions.

Finally, another member expressed the view that, to ensure smooth functioning of the Base Rate transmission mechanism, it was necessary to continuously check the linkages between short- and long-term interest rates

and to consider measures for systemic improvement to enhance the effectiveness of monetary policy as needed.

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.:

< Ref >

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 been sustained but the sluggishness of economic activities in the euro area to have continued, while economic growth in emerging market countries such as China has slowed somewhat. 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 and of a slowdown in Chinese economic growth, and to the implementations of fiscal consolidation in major countries, remain as downside risks to growth.
- ☐ In Korea, the Committee appraises economic growth to be continuing, albeit weakly, as exports have been generally favorable while indicators of domestic demand have alternated 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 and the service sector. The domestic economy is expected to maintain a negative output gap for a considerable time going forward, due mostly to the slow recovery of the global economy, although the Committee forecasts that the gap will gradually narrow.

- Consumer price inflation was 1.0% in June, the same as in May, as the prices of agricultural, livestock, fisheries and petroleum products continued their declines of the previous month and as service prices maintained their low rate of increase. Core inflation excluding the prices of agricultural and petroleum products declined slightly to 1.4%, from 1.6% in May, owing primarily to an increase in the extent of decline in the prices of livestock products. The Committee forecasts that inflation will show a stable trend for the time being as the output gap remains negative, although it will rise above its present level due mainly to a base effect from its low rate of increase in the second half of last year. As for housing prices, those in Seoul and its surrounding areas declined, while those in the rest of the country continued their slight uptrend.
- In the domestic financial markets, as in the international financial markets, the volatility of price variables has increased with the possibility of an earlier-than-expected tapering off of US quantitative easing. Stock prices have fallen substantially due to outflows of foreigners' stock investment funds, while long-term market interest rates have risen in concert with those of major economies. After having depreciated greatly, the Korean won has appreciated to a considerable extent.
- Looking ahead, while closely monitoring the trends and the influences of changes in external risk factors, and the effects of May's 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.