

Minutes of the Monetary Policy Committee Meeting

November 13, 2014

The Bank of Korea

(English version)

Minutes of the Monetary Policy Committee Meeting¹⁾ **(November 2014)**

I . Outline

1. Date of meeting : Thursday, November 13, 2014
2. Place : Monetary Policy Committee Meeting Room
3. Monetary Policy Committee members present:
Lee, Juyeol, Chairman (Bank of Korea Governor)
Ha, Seong Keun
Chung, Hae-Bang
Chung, Soon Won
Moon, Woosik
Hahm, Joon-Ho
Jang, Byung Wha (Senior Deputy Governor)
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
Suh, Young Kyung, Deputy Governor
Lee Heung Mo, Deputy Governor
Chae, Sun Byoung, Director General of Reserve Management Group
Choi, Woon Gyu, Director of BOK Economic Research Institute
Shin, Woon, Director General of Research Department
Yoon Myun-Shik, Director General of Monetary Policy & Markets Department
Kim, Minhoo, Director General of International Department
Jeon, Seung-Cheol, Director General of Monetary Policy Committee Secretariat
Park, Sung Joon, Director of Press Office
Huh, Jin Ho, 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:

With regard to **the global economy**, many members' assessment was that, while the US Federal Reserve had decided to conclude its asset purchase program as the trend of US economic recovery continued, the recovery in the euro area had been sluggish. Members also noted that, after having shown an increase until the middle of the preceding month, risk aversion in the **international financial market** had eased, on the robustness of major countries' economic indicators, the carrying out of additional quantitative easing by the Bank of Japan.

Related to **the domestic economy**, many members appraised the momentum of economic recovery as having not been strong, with indicators of domestic demand appearing to be sluggish, and forecast that going forward the economic recovery would be modest.

Concerning **the domestic financial markets**, meanwhile, members noted that the KRW/USD exchange rate had risen significantly, on the trend of US dollar strength globally and the Bank of Japan's implementation of additional quantitative easing, while long-term interest rates had fallen. Many members mentioned that it would be necessary to closely monitor the future trends of household debt, which had recently increased sharply centering around home mortgage lending.

With regard to **prices**, members noted that consumer price inflation had

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

sustained a low rate of 1.1%, and some mentioned the need to keep in mind that the inflation expectations of the general public now stood at 2.7%, the lowest since they were first surveyed in 2002.

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 argued that, while maintaining the Base Rate at its current level for the intermeeting period, it would be necessary to more closely analyze the trends of global risks and uncertainties that had recently grown more pronounced, while priority should at the same time be placed on examining the effects on the Korean economy of the Base Rate cuts in August and October. He went on to state the views that, as the appreciation of the US dollar was forecast to continue in the future, and the depreciations of the yen and the euro to intensify, measures should be developed to stabilize any excessive exchange rate fluctuations, and that, as the negative effects of the continued situation of low inflation might gradually increase, coping with this low inflation had to be considered as one of the most important policy tasks.

Another member noted that the trends of improvements in economic activities in major countries other than the US were weak overall, that the momentum of the domestic economic recovery was not strong, that uncertainties in the domestic financial and foreign exchange markets were mounting, and that the downside risks to growth perceived by economic

agents were rising. He then expressed the view that, although the Base Rate should be kept at its current level this month, there was a need to manage financial and foreign exchange market volatilities so as to prevent their growing excessive, while strengthening communication with the aim of easing the uncertainties due to changes in economic conditions and restoring economic agents' confidence.

One other member stated his opinion that the benefits of an additional Base Rate adjustment were not large compared to the potential risks, considering the points that, with the effects of the Base Rate cuts and domestic and foreign downside risks coexisting uncertainties as to the size of the negative output gap and the speed of its closure were high, while there was also a high degree of uncertainty as to the future path of the price gap as the directions of changes in the CPI and in core inflation were showing different pictures, that considering the monetary policy time lag there was a need to closely monitor the influence of the two recent Base Rate cuts, that the current credit cycle was being judged as not in a phase of overheating in which systemic risk had increased due to an excessive expansion in debt, and that outflows of foreign investment funds due to narrowing of the spread between foreign and domestic interest rates following the Base Rate cuts were still not large, and so it would be desirable to hold the Base Rate at its current level for the intermeeting period.

Another member expressed the view that it would be appropriate to hold the Base Rate at its current level for the month while keeping close watch on the effects of the Base Rate cuts made until now and on changes in the macroeconomy and in risks to financial stability. He went on to note then that, since the degrees of concern voiced by some related to the recent weakening of the yen and to the possibility of deflation exceeded the realities, active communication with market participants and the general public was necessary, based upon the results of objective and

neutral analyses regarding these risk factors.

One other member put forward the view that, in overall consideration of economic conditions at home and abroad, it would be desirable to hold the Base Rate at its current level for the month. He then noted that the depreciation of the yen had been accelerating of late and that some forecasters expected the Japanese yen/US dollar exchange rate to reach the 120 yen range in 2015, and expressed the view that, if the pace of yen depreciation accelerates as it was now doing, the negative effects on Korean firms' competitiveness could increase to a level that could scarcely be ignored, and vigilance in this regard should thus not be relaxed.

Another member expressed the opinion that, although signs of improvement in domestic economic and price conditions were not clear, while uncertainties had increased due mainly to the contraction in economic sentiment and the intensification of Japanese yen weakening, it would be better to maintain the Base Rate at its present level for the month since the effects of the government's economic measures and the Base Rate cuts had not been fully reflected in the real economy, due mainly to the related time lags, and there was thus a need to monitor future developments a bit more.

IV. Results of Deliberation on Monetary Policy Directions

Incorporating the outcome of their earlier discussions, a statement was compiled 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 2.00% for the intermeeting period.

- ☐ Based on currently available information the Committee considers that, although the trend of economic recovery in the US has been sustained, the sluggishness of economic activities in the euro area has continued while trends of economic growth in emerging market countries have differed from country to country. The Committee forecasts that the global economy will sustain its modest recovery going forward, centering around the US, but judges that the possibility exists of its being affected by changes in the monetary policies of major countries, by the prolongation of economic sluggishness in the euro area, by the weakening of economic growth in some emerging market countries, and by geopolitical risks.

- ☐ In Korea, the Committee judges that exports have sustained a favorable pattern, that indicators of domestic demand have been alternating between improvements and worsening, and that economic agents' sentiments have been sluggish. On the employment front, the number of persons employed has expanded steadily, led by increases in the 50-and-above age group and in the service sector. The Committee expects that the negative output gap in the domestic economy will gradually narrow going forward, albeit at a moderate pace.

- Consumer price inflation rose from 1.1% the month before to 1.2% in October, due mainly to a narrowing of the extent of decline in agricultural product prices. Core inflation excluding agricultural and petroleum product prices fell to 1.8%, from 1.9% in September, owing primarily to slowdowns in the rates of industrial product price increase. The Committee forecasts that, after remaining low for the time being, inflation will gradually rise next year. In the housing market, sales and leasehold deposit prices in both Seoul and its surrounding areas and in the rest of the country continued their uptrends.
- In the domestic financial markets, the Korean won has depreciated considerably against the US dollar but appreciated significantly against the Japanese yen, in line with the US dollar's strength globally and with the Japanese yen's weakness due mainly to the expansion of the Bank of Japan's quantitative and qualitative monetary easing. Stock prices have rebounded, after having fallen significantly due for example to concerns about the slowdown of the global economy and to outflows of foreigners' securities investment funds. Long-term interest rates have declined.
- Looking ahead, while supporting the recovery of economic growth, the Committee will conduct monetary policy so as to maintain price stability over a medium-term horizon and pay attention to financial stability. In this process it will closely monitor external risk factors such as shifts in major countries' monetary policies, as well as the trends of household debt and of capital flows.