

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

January 9, 2014

**The Bank of Korea**

(English version)

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

### **I . Outline**

1. Date of meeting : Thursday, January 9, 2014
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  
Suh, Young Kyung, 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  
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 the trend of economic recovery had continued led by advanced countries such as the US, the euro area countries and Japan. However, some members noted that there were also destabilizing factors such as the possibility of a slowdown in Chinese economic growth. While the majority of members generally assessed **the international financial markets** as having maintained stable movements, many members also mentioned destabilizing factors in financial markets, including the intensification of the Japanese yen's weakening trend and financial unrest in some emerging market countries.

As to **the domestic economy**, most members' assessment was that, based on improvements in various indexes, it was maintaining its recovery. They forecast that the economy would continue to grow at its potential growth rate, driven largely by improved domestic demand including consumption and investment and uptrends in exports.

With regard to **domestic financial markets**, members pointed out that long-term market rates had declined due mainly to foreigners' net buying of Treasury bond futures and stock prices had also fallen affected by outflows of foreign investment funds driven largely by the weakening yen and concerns about a slowdown in Chinese economic growth. One member argued that effective measures needed to be developed in advance against market destabilizing factors such as the expanded scale of in- and outflows of foreign investment funds, the spread of the restructuring at some ailing

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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.

large corporations and the exacerbation of household debt problems caused by higher market interest rates.

As to **prices**, most members observed that consumer price inflation had registered a low level of just above 1 percent, due mainly to a fall in agricultural product prices. They forecast though that downward pressures on the demand side would gradually weaken and that the movements of agricultural product prices, house rents and public utility fees would act as upward pressures.

### **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, taking overall account economic conditions at home and abroad and the future outlook, it would be desirable to hold the Base Rate at its current level for the intermeeting period.

One member, while noting that there still was a possibility of international financial market volatility heightening with monetary policies in major advanced countries diverging, expressed the opinion that it would be better to keep a close watch on the monetary policy implementation by major advanced countries and the movements of international financial market price variables going forward, while closely monitoring their influence on the domestic economy.

Another member, meanwhile, expressed the opinion that going forward every effort should be made to achieve in a balanced manner policy goals

such as supporting the recovery of growth trend, achieving the medium-term inflation target and promoting financial stability, as set out in *the Monetary Policy Direction for 2014* released at the end of 2013.

One other member took the view that it was time to take active policy measures since it is possible that domestic long-term market interest rates could exhibit an upward trend as it synchronize with US long-term Treasury bond yields, and since interest rate and exchange rate volatility were expected to intensify in line with the heightened volatility of capital in- and outflows. He went on to comment that, since there was concern that the trend of the yen's depreciation might continue for a considerable time going forward and thus have a negative impact on Japan's neighboring countries, measures through international cooperation would be necessary so that the yen's depreciation did not become excessive.

While calling for a close watch to be kept on the continued weakness of yen and the spreading out of the its effects, the concerns about slowing Chinese growth, increased financial market volatility and the likelihood of a tapering off of the US Federal Reserve's quantitative easing, one member expressed the opinion that the effects of monetary and fiscal policies be examined so as to ensure that the trends of low growth and low inflation did not become entrenched while the monitoring of destabilizing factors in the foreign exchange market should be strengthened. He added that attention should be paid to financial system disrupting factors including the possibility of a deterioration in fund-raising conditions for vulnerable sectors, the sector-specific debt situation including the household debt problem, and financial market unrest arising largely from the steepening of the yield curve.

In addition, one member called for the close monitoring of future developments in financial market conditions at home and abroad and develop appropriate measures to various scenarios, since the heightened

possibility that the intensification of yen's weakening trend would have a major negative impact on the stability and growth of the Korean economy going forward and since contrasting policy stances in the US and Japan are especially expected to greatly increase the volatility in highly open Korean financial markets.

Last, another member noted the need to look into the possibility of further weakening of the yen and the influences of its intensified depreciation on the Korean won, and expressed the opinion that it is time to focus policy capacity on revitalizing corporate sector investment as a growth engine that would allow the Korean economy to emerge from its low growth trend. He went on to express the view that, with regard to steady rising overseas investment, it was essential to evaluate in detail the future influence of overseas corporate investment on the dynamism of domestic demand, and that attention should be paid to the declining share of fixed-rate lending in overall household debt.

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

Incorporating the outcome of their earlier discussions, a statement was compiled with the unanimous consent of all 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 trend of economic recovery in the US has become more evident and that the sluggishness of economic activities in the euro area appears to have continued to ease, while economic growth trends in emerging market countries, above all China, have been maintained. 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 US Federal Reserve's QE tapering.
- ☐ In Korea, the Committee appraises the economic recovery to be continuing in line with the trend of growth, while exports and consumption have continued their uptrends. On the employment front, the scale of increase in the number of persons employed has expanded substantially in line with 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 fell slightly from 1.2% the previous month to 1.1% in December, due mainly to a larger extent of decline in the prices of agricultural products and to slowing of the uptrends in prices of industrial products other than petroleum. Core inflation

excluding agricultural and petroleum product prices also fell slightly, from 2.0% to 1.9%. The Committee forecasts that inflation will gradually rise, although it will remain low for the time being due largely to the stability of international agricultural prices. As for the housing market, sales prices in Seoul and its surrounding areas maintained their level of the previous month while the uptrend of those in the rest of the country continued. The rise in leasehold-deposit prices in Seoul and its surrounding areas slowed slightly, while in the rest of the country the same trends of increase as in the previous month were seen.

- ☐ In the domestic financial markets, stock prices have fallen substantially, due mainly to concerns about worsening corporate performances in line with the weakness of the Japanese yen and to outflows of foreigner stock investment funds. Long-term market interest rates have fallen considerably, under the influence of foreigners' investment in bond futures. The Korean won has weakened slightly, as the influences of the continued current account surplus and the outflows of foreigners' securities investment funds have overlapped.
- ☐ Looking ahead, while paying close attention to developments in and the influences of external risk factors arising from shifts in major countries' monetary policies, 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.