

Minutes of the Monetary Policy Committee Meeting

March 13, 2014

The Bank of Korea

(English version)

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

I . Outline

1. Date of meeting : Thursday, March 13, 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
Hur, Jae Sung, Deputy Governor
Suh, Young Kyung, Deputy Governor
Shin, Woon, Director General of Research Department
Seong, Byung Hee, Director General 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:

With regard to **the global economy**, members' assessment was that the US economy was again maintaining its trend of recovery, after having contracted temporarily due to severe weather conditions, and that other advanced countries including the euro area and Japan had also sustained their recovery trends, while Chinese economic activity had shown some slowing, with exports declining significantly under the influence for example of the Lunar New Year holidays. Members meanwhile assessed **the international financial markets** as having remained stable overall, due chiefly to the easing of financial unrest in emerging market countries, although some noted that risk factors did remain, including additional reductions in the scale of asset purchases by the US Fed and the possibility of expansions in financial unrest in emerging market countries.

As to **the domestic economy**, members' assessment was that the trend of economic recovery was continuing, with exports sustaining their uptrend and consumption continuing to show improvements. They meanwhile forecast that economic activity would maintain its upward trend in the future as well, driven largely by the economic recovery centering around advanced countries and by the improvements in domestic demand conditions.

In **the domestic financial markets**, members noted that stock prices had risen, the Korean won had appreciated and interest rates had shown stable

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

movements, influenced mainly by the stability in the international financial markets. Some mentioned that the situation of non-prime large corporations having difficulties raising funds in the direct financing markets was continuing, and that it was necessary to monitor this closely.

With regard to **prices**, members noted that consumer price inflation had registered a low level of 1.0 percent, due mainly to the expansion in the pace of decline in petroleum product prices and to the slowing of the upward trend of service charges. They also forecast that, while remaining low for the time being, inflation would gradually rise going forward. Some members added that there was a need for close monitoring of overall conditions related to the price path, including the possibility of a change in the expected inflation rate owing to inflation having remained low for a long period of time.

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 expressed the view that, while keeping a careful watch for example on the situation of risks in the Chinese economy, and on the monetary policy operations of major advanced countries, it would be wise to closely examine the influences of these factors on the domestic economy, prices and financial market conditions.

Another member stated the opinion that it would be appropriate to maintain the current policy stance until the release of the economic outlook in April, as, with inflation maintaining a low level for the time being, the domestic economy was expected to sustain its trend of modest improvement due largely to the recovery in the global economy and the improvements in domestic demand conditions.

One other member expressed the view, in relation to the government's aim of improving the household debt structure, that careful management was required to achieve that goal, since a reduction in household lending conflicted in some respect with the revitalization of the real estate market. He also noted that attention should be given to the fact that, should household lending be artificially constrained, this would have the adverse effects of expansions in SOHO and private loans and of financial exclusion of vulnerable groups. He stated the view as well that, since

Korea's high household debt ratio was closely related to its considerably higher share of real assets compared to other countries, achieving the goal of household debt management called for an accompanying policy to revitalize the securitization of real assets.

One member stated the opinion that the effects of monetary and fiscal policy should be monitored, to prevent the trends of slow growth and low inflation from becoming entrenched, while attention would have to be paid to risk factors at home and abroad, such as the weakening of the endogenous resilience of domestic demand, including consumption and investment, and the possibility of international financial market unrest spilling over to the domestic economy.

Another member expressed the view that, although the possibility of the recent unrest in certain emerging market economies severely affecting the domestic economy was not high for the moment, it should be borne in mind that the impacts on the global economy of shocks from emerging market countries could well be greater than in the past, and that the degrees of the Korean economy's financial market openness and dependence on external trade were much higher than in other countries.

Lastly, one other member put forward the opinion that, since an expansion in the housing demand capacity of median income bracket households was essential for medium- and long-term real estate price stability, and there were currently concerns that the improvement in these households' financial structures might have slowed, an empirical assessment of their house purchasing power was necessary. He went on to also express the view that it was necessary to examine whether the improvement in Korea's trade deficit with Japan evident since 2011 was attributable to structural changes in Korean trade with Japan.

IV. Results of Deliberation of Monetary Policy Directions

Incorporating the outcome of these discussions, the following statement was prepared 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 2.50% for the intermeeting period.
- ☐ Based on currently available information the Committee considers that the trend of economic recovery in the US has been sustained and the sluggishness of economic activities in the euro area appears to have continued to ease, while economic growth trends in some emerging market countries have shown signs of weakening to some extent. 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 and by the weakening of economic growth in some emerging market countries.
- ☐ In Korea, the Committee appraises the economic recovery to have continued in line with the trend of growth, as exports continue their trend of increase amid the coexistence of improvements in and sluggishness of domestic-demand related indicators. 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 1.1% the previous month to 1.0% in February, due mainly to an increase in the extent of the decline in petroleum product prices, but core inflation excluding the prices of agricultural and petroleum products registered 1.7%, just as in January. The Committee forecasts that inflation will gradually rise, although it will remain low for the time being due largely to a good agricultural crop harvest. Regarding the housing market, sales prices rose slightly in both Seoul and its surrounding areas and in the rest of the country, while leasehold-deposit prices in both regions continued to increase at paces similar to those during the month before.
- ☐ In the domestic financial markets, after having risen due mainly to international financial market stability stock prices have fallen back, primarily on increased concerns about economic slowdown in China. The Korean won has fluctuated within a narrow range, after having appreciated owing chiefly to the easing of financial unrest in emerging market countries. Long-term market interest rates have meanwhile moved within a relatively narrow range.
- ☐ Looking ahead, while paying close attention to developments in and the influences of external risk factors such as shifts in major countries' monetary policies and geopolitical risk in Eastern Europe, 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.