

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

September 12, 2013

**The Bank of Korea**

## **Minutes of the Monetary Policy Committee Meeting<sup>1)</sup>** **(September 2013)**

### **I . Outline**

1. Date of meeting : Thursday, September 12, 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  
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  
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

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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:

Concerning **the global economy**, members' assessment was that the moderate economic recovery in the US had been sustained and the economic sluggishness in the euro area showed signs of easing, while economic growth in some emerging market countries continued to deteriorate affected mainly by export sluggishness and capital outflows. Many members expected **the global economy** to sustain its modest recovery **going forward**, due largely to continuation of the U.S. economic recovery, but forecast that factors such as the possibility of slower economic growth in emerging market countries including natural resource exporters, and changes in global financial market conditions would act as downside risks to growth.

Many members mentioned that **the international financial markets** had shown a somewhat unstable appearance, with for example the volatilities of price variables including stock prices, interest rates and exchange rates rising and a concentration of global investment funds at the short-term end of the market, in line with the growing possibility of QE tapering by the US Federal Reserve.

Concerning the **domestic economy**, members assessed that it was maintaining its modest growth, as domestic demand such as for consumption and investment had increased and as exports showed buoyancy, helped chiefly by the Base Rate cut and the stimulus measures

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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.

taken by the government.

As to **the future outlook**, many members anticipated that the negative output gap would steadily narrow, assisted largely by gradual improvements in external conditions.

With regard to the **domestic financial markets**, members pointed out that, after having declined under the influence of the movements of major country government bond yields, long-term market interest rates had risen with the improvements in economic indicators, causing the spread between long- and short-term rates to widen. They went on to note that stock prices had fallen again, after having risen due mainly to increases in global stock prices and to inflows of foreign capital, while the Korean won had appreciated slightly.

Many members mentioned that **consumer price inflation** had maintained a low level in the lower- to mid-1% range, affected largely by low demand-side pressures and by factors on the supply side. Many members forecast that, despite increases in international oil prices, consumer price inflation would 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.

### **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 there was a need to analyze the influence of QE tapering by the US Federal Reserve on the Korean economy from various perspectives, and to closely monitor the related developments. He noted in particular that special attention should be paid to the possibility of greatly increased exchange rate and capital flow volatility in the future, caused by the differences in timings of major countries' exit strategies.

Another member pointed out the need to prepare against the possibilities of either foreign capital in- or outflows occurring, by expanding the remit of the market stabilization measures that had been established based on the assumption that there would be a sharp rise in the Korean won/U.S. dollar exchange rate and sudden foreign capital outflows at times of external shock occurrence. He went on to comment that attention should also be paid to measures for utilizing the foreign capital that was entering in a way so as to help the expansion of Korea's economic growth potential.

Another member noted that, in view of the factors contributing to the vulnerability of the Korean economy, such as the excessive household debt level and low corporate profitability, as a precaution against further expansions of financial unrest in emerging market countries there was a need to thoroughly prepare measures in advance for responding to any

sudden reversal of foreign capital flows.

One member in addition asserted that, while establishing a risk management system related to domestic risk factors, in order to mitigate financial uncertainties caused by the spread of external shocks and to prevent financial contagion, the early warning system should be strengthened so that it could identify vulnerabilities of the economy in advance and thus be utilized effectively and appropriately in the policy decision-making process.

Another member expressed the view finally that, while keeping a close eye on the effects of the government's measures to stabilize the leasehold deposit and monthly rent markets, and on the influence of the increases in leasehold-deposit prices on the real economy and financial markets, it was necessary to examine whether there were institutional or structural factors compounding the household debt problems.

#### **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 moderate economic recovery in the US has been sustained and that economic activities in the euro area appear to be emerging from their sluggishness to some degree, but that 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, helped primarily by improvements in the US economy, but judges that the uncertainties surrounding the scale of QE tapering by the US Federal Reserve and the implementations of fiscal consolidation in major countries, the financial instability in some emerging economies, and the geopolitical risk in the Middle East remain as downside risks to growth.
- ☐ In Korea, the Committee appraises the moderate economic growth to be continuing, with exports and consumption 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 gradually narrow.

- Consumer price inflation declined slightly to 1.3% in August, from 1.4% the previous month, and core inflation excluding the prices of agricultural and petroleum products also fell slightly to 1.3% from 1.5%. The Committee forecasts that inflation will remain low for the time being despite an increase in international oil prices, 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, sales prices in Seoul and its surrounding areas maintained their downtrend while the uptrend of those in the rest of the country slowed. 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.
- In the domestic financial markets, despite the heightened volatility in the international financial markets and the instabilities in the financial and foreign exchange markets of some emerging economies, stock prices have risen and the Korean won has appreciated, due mainly to the net inflows of foreigners' stock investment funds. Long-term market interest rates have fluctuated within a relatively narrow range.
- 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.