

Minutes of the Monetary Policy Committee Meeting

April 9, 2015

The Bank of Korea

(English version)

Minutes of the Monetary Policy Committee Meeting¹⁾ **(April 2015)**

I . Outline

1. Date of meeting : Thursday, April 9, 2015
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
Hur, Jae Sung, Deputy Governor
Suh, Young Kyung, Deputy Governor
Lee, Heung Mo, Deputy Governor
Kim, Minho, Deputy Governor
Yoon, Myun-Shik, Deputy Governor
Chae, Sun Byoung, Director General of Reserve Management Group
Choi, Woon Gyu, Director of BOK Economic Research Institute
Chang, Min, Director of Research Department
Cho, Jeonghwan, Director General of Financial Stability Department
Huh, Jin Ho, Director General of Financial Markets Department
Hong, Seung Je, Director General of International Department
Lee, Hwanseok, Director General of Monetary Policy Committee Secretariat
Park, Sung Joon, Press Officer
Park, Cheol Won, Head of MPC 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 pace of recovery in the US had slowed somewhat, influenced for instance by an unusually severe cold spell and by the US dollar’s strength, and that the euro area had sustained its modest recovery, while economic growth in China had continued to slow due mainly to the slump in its real estate market and to adjustments of its excess capacity. Members judged the **international financial markets** to be stable overall, owing chiefly to the maintenance of accommodative policy stances by central banks in major countries.

As to **the domestic economy**, many members noted that exports had continued their trend of decline and judged that, although domestic-demand related indicators had improved compared to the previous month, the trend of economic recovery was weak.

Concerning **the domestic financial markets** meanwhile, members observed that long-term market interest rates had fallen, stock prices had risen, and the won, after having depreciated against the US dollar, had again appreciated. A number of members noted that housing transactions had become more active and the trends of increase in housing sales and leasehold deposit prices had accelerated, owing mainly to shifts from deposit-based tenancies to outright sales or monthly payment-based rentals, while bank household lending had sustained its trend of increase centering

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

around mortgage loans.

With regard to **prices**, members noted that consumer price inflation was 0.4%, lower than during the month before due in large part to declines in agricultural, livestock and marine product prices. They commented that core inflation excluding the prices of agricultural and petroleum products was also below than in the preceding month, at 2.1%.

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:

The majority of members shared the opinion that, in overall consideration of the domestic and international economic environment and the future outlooks for both, it would be desirable to hold the Base Rate at its current level for the intermeeting period.

One of these members argued that, while consumer prices were likely to sustain a low rate of increase of below 1% for the time being, owing mainly to the continued downward pressures on the demand side and to the effects of the low oil prices, the economic recovery's momentum was still being maintained despite a downward shift in the Korean economy's growth path. This member went on to express the opinion that, since the Base Rate had been reduced the previous month in consideration of these downward shifts in the growth and price paths, there was a need to observe the effects of this cut and it would thus be desirable to maintain the Base Rate at its present level for the current month.

Another member then also put forward a view that maintaining the Base Rate at its present level for this month would be appropriate. Concerning the recent downward revisions of the forecasts for economic growth and consumer price inflation, compared to those in January, this member noted that it was natural to revise economic outlooks, which are based upon assumptions about future economic conditions at home and abroad at the time of they are made, in line with changes that could not have been foreseen at that time. He went on to express his opinion that, rather than expecting the Bank of Korea's economic forecasts to be realized exactly, economic agents should consider them as references for future economic forecasts, and should bear in mind the fact that, when the

assumptions underlying them are changing, forecasts can also be revised.

One other member then stated his opinion that, despite the downward revision of the central bank's forecasts for growth and consumer price inflation, it would be desirable to hold the Base Rate at its current level for the intermeeting period. He cited as reasons the facts that these revisions had been anticipated and preemptively responded to by cutting the Base Rate by 25 basis points and raising the ceiling of the Bank Intermediated Lending Support Facility substantially the previous month, that, since Korean GDP growth was forecast to be at around its potential level from the second quarter of this year, it would be desirable from the standpoints of securing policy-making capacity, the intensity of the policy response and monetary policy credibility to wait and observe the effects of the monetary easing measures implemented to this time, rather than lowering the Base Rate further, and that since household debt was sustaining a high rate of increase there was a need to devote greater attention to financial stability.

Another member meanwhile pointed out several aspects of growth and price conditions that could be seen as indicating a need for Base Rate adjustment. First, the Korean economy's negative output gap had widened due to the growth rate shock in the fourth quarter of last year, and growth during the first quarter of this year had been somewhat insufficient to narrow the output gap to any noticeable extent. Second, it was difficult to identify any signs in demand-side price indicators of the inflation gap narrowing significantly. Third, the instability of inflation expectations had risen: the March price outlook CSI and expected inflation among members of the general public had declined slightly, while the share of respondents in the survey choosing expected inflation below 2 percent had increased. Fourth, there was still substantial spare capacity in both production and employment, with the manufacturing operation ratio remaining at a low level and broad labour underutilization indicator unemployment rate

increasing. Despite all of this, however, he argued that it would be appropriate to hold the Base Rate at its current level for the intermeeting period, since these factors had already been taken into account to a substantial extent in the Base Rate cut the month previous, and there was a need to observe the effects of the three recent cuts in the Base Rate and the positive knock-on effects of the declines in oil prices a little longer.

Another member noted that, on the overseas front, there were both positive factors, with the US economic recovery continuing and improvements in the euro area, and negative ones, such as the weakening of economic growth in emerging market countries including China. On the domestic front, meanwhile, the pace of improvement in economic activities was not rapid enough to indicate entry into a phase of sustained growth. He went on to state that, amid the uncertainties over external conditions, the spillovers to other economic sectors such as consumption from firms' planned implementations of facilities investments and revitalization of the real estate market would be important driving forces for future economic recovery. The member also expressed the opinion that the Base Rate should be held at its current level for the intermeeting period, and efforts should be made to return the Korean economy onto a stable path of growth as early as possible, by considering in a balanced manner the macro-economic risks to growth and prices together with risks to financial stability, while at the same time taking note of any changes in global financial and economic conditions.

Another member stated his opinion that a small downward adjustment of the Base Rate from its current level of 1.75% would be advisable since, with the exception of the trend of changes in household lending other recent policy conditions were all indicating a need for further monetary policy easing. As some examples he pointed out that domestic demand had not improved sufficiently this year and was unlikely to show

a solid improvement in the near future, that downside risks to exports had been emerging in the medium- and long-term, in view of the trend of won appreciation against the currencies of Korea's export rivals and the delays in economic recoveries of its major export partners, and that the downside risks to prices had recently grown even further. The member added that it should be borne in mind that, although an additional Base Rate cut might entail potential risks, the possibilities of abrupt surges in inflation and capital outflows were not great at present, while the more important reason for the recent sharp increase in household lending, rather than the cuts in the Base Rate, had been the going ahead by households with housing purchases that they had deferred until now, as well as the shifts from leasehold-deposit tenancies to outright housing purchases.

IV. Results of Deliberation on Monetary Policy Directions

Taking into consideration the results of the discussions earlier, members compiled a statement that specifically reflected the majority opinion.

Mr. Ha, Seong Geun however dissented, expressing clear opposition to holding the Base Rate at its current level and arguing for a small downward adjustment.

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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 1.75% 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 and improvements have also continued in the euro area, economic growth in emerging market countries including China has slowed. The Committee forecasts that the global economy will sustain its modest recovery going forward, centering around advanced economies such as the US, but judges that the possibility exists of its being affected by changes in the monetary policies of major countries, by the weakening of economic growth in emerging market countries, and by geopolitical risks.
- ☐ Looking at the Korean economy, the Committee judges that domestic demand activities such as consumption and investment appear to have improved, although exports have continued their trend of decline due mostly to decreases in the unit prices for example of petroleum products, while the sentiments of economic agents have not clearly recovered. On the employment front, the unemployment rate has risen somewhat, due mainly to an expansion in job search activities, but the employment-to-population ratio has also increased as the number of persons employed has steadily grown. The Committee expects that the domestic economy will show a modest trend of recovery going forward, although the negative output gap will persist for a considerable time.

- Despite a narrowing of the extent of decline in petroleum product prices, consumer price inflation fell from 0.5% the month before to 0.4% in March, due mainly to decreases in prices of agricultural, livestock and fisheries products. Core inflation excluding agricultural and petroleum product prices fell to 2.1%, from 2.3% in February, owing to a slowdown in the rate of industrial product price increase. Looking ahead the Committee forecasts that inflation will continue at a low level, due mainly to the effects of the low oil prices. In the housing market, the upward trends of sales and leasehold deposit prices have accelerated in both Seoul and its surrounding areas and the rest of the country.
- In the domestic financial markets, long-term market interest rates have fallen while stock prices have risen, due largely to the Base Rate cut, to the easing of concerns about an early policy rate hike by the US Federal Reserve, and to inflows of foreigners' securities investment funds. The Korean won had depreciated against the US dollar but has since appreciated, affected by changes in expectations related to the monetary policy of the US Federal Reserve. After depreciating, the won has also appreciated against the Japanese yen. Bank household lending has sustained its trend of increase at a level greatly exceeding that of recent years, led by mortgage loans.
- 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 international oil prices and shifts in major countries' monetary policies, as well as developments related to the spare capacity in the domestic economy and the trends of household debt and capital flows.