

Minutes of the Monetary Policy Committee Meeting

January 15, 2015

The Bank of Korea

(English version)

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

I . Outline

1. Date of meeting : Thursday, January 15, 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
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
Cho, Jeonghwan, Director General of Macprudential Analysis Department
Yoon Myun-Shik, Director General of Monetary Policy & Markets Department
Kim, Minho, 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**, members’ assessment was that, although the U.S. had maintained favorable growth, the trends of recovery in the euro area and Japan had been weak and economic growth in China had continued to slow. Members also judged that risk aversion in the **international financial markets** had heightened, and that the U.S. dollar had continued to strengthen.

As to **the domestic economy**, many members noted that growth in the fourth quarter of 2014 had not been strong, due mainly to contractions in consumption and construction investment. Some members asserted that the trend of future economic recovery was being maintained, even though the growth forecast for 2015 had been adjusted downward due to the sluggishness during Q4 2014.

Concerning **the domestic financial markets** meanwhile, members pointed out that stock prices had declined, long-term market interest rates had fallen back after having risen, and household lending had increased considerably for the third consecutive month.

With regard to **prices**, members mentioned that the rate of consumer price inflation was 0.8%, lower than in the preceding month, affected chiefly by the fall in international oil prices. Some members called for attention to be paid going forward to the trend of inflation expectations, which was on a downward path.

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

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 observed that it would be desirable to keep the Base Rate at its current level for the intermeeting period, and added that careful watch should be kept on the future trends of changes in downside risks to the global economy, on the trends of exports and domestic demand, on the possibility of entrenchment of low inflation, on changes in international oil prices and their effects, on both qualitative and quantitative household debt trends, and on fluctuations in the Korean won exchange rate and in foreign capital flows.

Another member stated that, when financial and economic conditions at home and abroad were looked at comprehensively, on the external front the paces of economic improvement were weak in major countries apart from the U.S., and risk aversion related to the sharp fall in international oil prices was rising, while domestically the economy was showing signs of a slowdown in the pace of improvement in economic activity due to somewhat lackluster real economic indicators. He went on to express his opinion that it would be appropriate to hold the Base Rate at its current level for the intermeeting period, and added that, while trying to take into account growth and price-related risks along with risks to financial stability in a balanced way, amid the uncertainties stemming from changes in global conditions, preparations should be made to enable a timely future policy response.

One other member commented that, while the negative output gap was now expected to widen, and the time of its closing to also be delayed as the fourth quarter 2014 GDP growth rate had been below expectations, the negative inflation gap was widening and the downside risks to the price path were high as well since international oil prices were expected to remain at a low level for some time following their sharp decline. He went on to express his view that it was necessary to hold the Base Rate at its current level for the intermeeting period while carefully observing the future trends of all related indicators and information variables, since, although the widening negative inflation and output gaps could be interpreted as offering room for further Base Rate adjustments, the uncertainties accompanying rate adjustments were also not small.

One member meanwhile noted, in support of his agreement that it would be best to maintain the Base Rate at its current level for the intermeeting period, the points that the 3.4% economic growth projection for 2015, although lower than the previous forecast, did not differ greatly from the Korean economy's potential growth rate, while the quarter-on-quarter growth rate of 1% was comparatively favourable, that the downward adjustment of the consumer price inflation outlook had been due mainly to the supply-side factor of declining international oil prices rather than to any contraction in demand, and that further care needed be devoted to ensuring financial stability, since household lending had been showing heightened growth recently and there were several factors causing instability in the international financial markets.

Another member, after also expressing the view that it would be desirable to hold the Base Rate at its current level for the intermeeting period. He went on to note that if non-customs cleared exports were included in Korean exports then the situation would be more problematic than with exports calculated on a customs clearance basis alone, and that this needed to be borne in mind. He proceeded to argue that, since

negative effects on Korean exports due to the Japanese yen's weakening seemed to be gradually appearing, efforts should be made to strengthen the monitoring of the movements in the won/yen exchange rate and to reduce its volatility. He pointed out further, concerning the government moves to improve the household debt structure, that the plan to convert short-term variable-rate loans held by banks to long-term fixed-rate loans, and have the Korea Housing Finance Corporation then acquire and securitize them, could actually increase household debt by enlarging banks' lending capacities. He then suggested that the government's measure to foster a corporate-style housing rental business was deemed a more effective plan for reducing household debt, and that the Bank of Korea should thus also take an interest in it by for instance devising methods to support it.

One other member mentioned that, in view of overall domestic and international financial and economic conditions, prices were likely to maintain a very low rate of increase for a considerable time, influenced by the sharp decline in international oil prices, while the path of growth of the Korean economy appeared to have shifted downward a bit due mainly to the slowdown in the global economy and the prolongation of weak sentiments. He then disclosed his opinion that, considering that the trend of recovery in the Korean economy was being maintained, even if it had weakened, while the effects of the government's fiscal expenditure expansion and the recent Base Rate cuts needed to be closely watched for the time being, it would be desirable to hold the Base Rate at its current level for the intermeeting period.

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:

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 a solid economic recovery in the US has been sustained, the sluggishness of economic activities in the euro area has continued while economic growth in emerging market countries such as China has slowed somewhat. 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 weakening of economic growth in the euro area and China, by financial and economic unrest in the oil-producing countries, and by geopolitical risks.
- ☐ Looking at the Korean economy, while export growth has slowed somewhat the Committee judges that the recovery of domestic demand has not been strong and the sentiments of economic agents remain weak. 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 domestic economy will show a modest trend of recovery going forward, but that the negative output gap will persist for a considerable time.

- Consumer price inflation fell from 1.0% the month before to 0.8% in December, due mainly to an increase in the scale of decline in petroleum product prices. Core inflation excluding agricultural and petroleum product prices registered 1.6%, as in November. Looking ahead the Committee forecasts that inflation will gradually rise from the second half of this year, after remaining at a low level despite the hike in cigarette prices under the influence for example of international oil price movements. In the housing market, leasehold deposit and sales prices continued their uptrends—centering around Seoul and its surrounding areas in the former case and around the rest of the country in the latter.
- In the domestic financial markets, stock prices have fallen due for example to stock price declines in other major countries and to the net selling of domestic stocks by foreigners. After rising, long-term market interest rates have fallen back. The Korean won has appreciated against the US dollar, due mainly to the widening of the current account surplus and to a slowdown in Japanese yen depreciation, while appreciating against the yen as the synchronization between movements of the won and the yen has weakened. Bank household lending has sustained its substantial uptrend, 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.