

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

December 11, 2014

**The Bank of Korea**

(English version)

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

### **I . Outline**

1. Date of meeting : Thursday, December 11, 2014
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  
Kim, Jun Il, Deputy Governor  
Kang, Juno, Deputy Governor  
Hur, Jae Sung, 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, Minhoo, 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

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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, while the US economy was sustaining its favorable growth, the recovery in Japan and the euro area had been feeble and economic growth in China had slowed somewhat. Members also judged that, **in the international markets**, the US dollar had strengthened, interest rates had generally declined, and stock prices had risen centering around advanced countries.

Related to **the domestic economy**, many members appraised the momentum of economic recovery as having lacked strength, with domestic demand-related indicators appearing subdued, and also noted that sentiment indices had been sluggish.

As to **the domestic financial markets**, members noted that volatility had increased, with long-term interest rates falling and then rebounding sharply, and that the won/dollar exchange rate had continued on an upward trend.

With regard to **prices**, members noted that consumer price inflation stood at 1.0%, lower than in the previous month, and forecast that it would remain at a low level for a considerable time, influenced for instance by the fall in international oil prices.

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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 argued that, amid the continued weak momentum of the economic recovery, the downside risks to prices appeared to have become greater due to the decline in oil prices for example, and financial market participants' anticipations of a further Base Rate cut seemed to have grown somewhat compared to November, but that it would be desirable to maintain the Base Rate at its current level for the intermeeting period, since the trends of economic activities and consumer price inflation needed to be monitored a little while longer, considering that the effects of the Base Rate cuts had not been fully reflected in the real economy and that the government planned to front load its budgetary expenditure as much as possible in 2015.

Another member stated the opinion that it would be desirable to hold the Base Rate at its current level for the intermeeting period. With regard to the recent sharp drop in international oil prices, to the 70 dollars per barrel level, he argued that, since a decline in oil prices caused by supply-side factors would lead to increases in net incomes and consumption and ultimately boost the economic growth rate, excessive concern about the oil price decline was uncalled for, before going on to state that attention should be paid to the possibility of a drop in oil import costs in line with that in international oil prices, causing the current account surplus to widen and in consequence exerting substantial

upward pressures on the Korean won. The member also noted that government fiscal expenditures had fallen short of the original budgets in 2013 and 2014, and advocated that, in order for fiscal policy to support economic recovery through synergy effects with monetary policy, the government must devote every effort to carrying out fiscal spending as planned or to improve the flow of funds, by for example the accurate forecast of tax revenues and the drawing up of a formal schedule for Treasury bond issuance.

One other member commented that, while holding the Base Rate at its current level for the intermeeting period, it would be desirable to closely examine the effects of the Base Rate cuts so far, the movements of international oil prices, changes in monetary policy in major countries and their influences, and the domestic household debt trend. He went on to note that, although there was little likelihood of the fears recently raised in some quarters concerning deflation being realized, the spread itself of these apprehensions might dampen consumption and investment through a self-fulfilling process, and it was thus necessary to communicate actively with market participants and the general public based upon accurate and objective analysis and assessment of the current economic situation. The member also mentioned that, in response to the trends of persistent slow growth and low inflation, and of the weakening of potential growth, the major factors underlying the deflation concerns, it was essential to carry out research on the possibility of employing policy tools other than the Base Rate.

Another member expressed the view that it would be appropriate to hold the Base Rate at its current level for the month, while closely examining domestic and international risk factors and the channels of Base Rate cut transmission, as the expected benefits of a Base Rate adjustment did not greatly outweigh its potential risks in a situation of persistent uncertainties related to the future growth and price paths, for example of

an increase in exchange rate volatility and sharp fall in oil prices continuing on from the previous month. He went on to note that the stability of inflation expectations had eroded due to the coexistence of conflicting market expectations as to the direction of monetary policy operation given the growing contradictions between the price stability and the financial stability targets in line with the persistent low inflation and the sharp increase in household debt. He added then that, in future monetary policy operations, greater emphasis should be placed on the formation of inflation expectations consistent with an appropriate price target.

One other member mentioned that, amid weak paces of improvement in economic activities in major countries apart from the US, there was no clearly pronounced momentum of economic recovery in Korea as domestic real economic indicators were also generally poor, that business conditions and policy directions had diverged in major countries, and that a risk existed of the volatility in the international financial markets increasing. The member went on to advance a view that the Base Rate should be kept at its current level for the month, while on the one hand support should be provided to ensure that the economic stimulation and monetary easing measures could actually take effect amid the uncertainties caused by changes in global conditions, and on the other hand efforts should be made to create a stable base of macroeconomic fundamentals through for example stepping up the monitoring of potential risk factors at home and abroad.

Another member expressed the opinion that, amid the recently increased downside risks to and volatility in the global economy, domestic demand and price conditions in the Korean economy were also still weak and showing uncertain movements. He went on to argue that it would be appropriate to leave the Base Rate unchanged for the month, and presented the view that the foreign exchange authorities should concentrate

more of their policy capacity on stabilization of the Korean won exchange rate since, although the synchronization of the Korean won with the Japanese yen had progressed to a certain extent due to the Korean won's depreciation until that time, its degree might weaken and exchange rate volatility increase in the future. The member went on to state that the policy authorities should carefully analyze the fundamental background behind the low inflation, that had now persisted for more than two and one-half years, and take measures to prevent its negative effects from intensifying.

#### **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.

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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 2.00% for the intermeeting period.
- ☐ Based on currently available information the Committee considers that, although the trend of economic recovery in the US has become more evident, the sluggishness of economic activities in the euro area has continued while 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, 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 prolongation of economic sluggishness in the euro area, by the weakening of economic growth in some emerging market countries, and by geopolitical risks.
- ☐ In Korea, while exports have maintained generally favorable movements the Committee judges that the recoveries of consumption and facilities investment have been inadequate and that 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 negative output gap in the domestic economy will gradually narrow going forward, albeit at a moderate pace.
- ☐ Consumer price inflation fell from 1.2% the month before to 1.0% in November, due mainly to declines in petroleum product prices



and to slowdowns in the rates of industrial product price increase. Core inflation excluding agricultural and petroleum product prices fell to 1.6%, from 1.8% in October. Looking ahead, the Committee forecasts that inflation will gradually rise, after remaining at a low level for a considerable time influenced for example by declines in international oil prices. In the housing market the uptrend of sales prices has slowed, centering around Seoul and its surrounding areas, while leasehold deposit prices have continued to rise at a pace similar to that in October.

- ☐ In the domestic financial markets, the Korean won has continued its depreciation against the US dollar and its appreciation against the Japanese yen, in line with the strength of the dollar globally and the weakness of the yen. Stock prices, after having fluctuated within a relatively narrow range, have fallen to a considerable extent. Long-term market interest rates had shown a decline, in reflection mainly of expectations related to the monetary policies of major countries, but have rebounded.
- ☐ 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 shifts in major countries' monetary policies, as well as the trends of household debt and of capital flows.