

Minutes of the Monetary Policy Committee Meeting

March 14, 2013

The Bank of Korea

Minutes of the Monetary Policy Committee Meeting¹⁾

(March 2013)

I . Outline

1. Date of meeting : Thursday, March 14, 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
Jang, Seh-Keun, Deputy Governor
Kang, Juno, Deputy Governor
Kim, Jong Hwa, 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
Kim, Min-Ho, Director General of Monetary Policy & Markets Department
Ryoo, Sangdai, Director General of International Department
Kim, Yun Chul, Director General of Monetary Policy Committee Secretariat
Kim, Tae Suk, Director General of Press Office
Suh, Young Kyung, 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:

Members' assessment was that, despite the continued sluggishness of the euro area economy, **the global economy** was maintaining its modest recovery on the strength of improvements in the U.S. and in emerging market economies. Many members mentioned that, notwithstanding the U.S. sequester and the heightened political uncertainties in some overly indebted euro area countries, **the international financial markets** were sustaining a favorable trend owing mainly to the continued quantitative easing policies of major economies.

Most members assessed the recovery of **the domestic economy** as having weakened slightly temporarily, with indicators related to domestic demand showing sluggishness due mainly to exceptional factors such as base effects, while exports were sustaining a modest trend of recovery.

Concerning **the outlook**, many members anticipated that, while the Korean economy would show improvement due in large part to the global economic recovery amid improving consumer and investor sentiment, the pace of this improvement would be slow.

With regard to the **domestic financial markets**, members pointed out that, with the combined effect of the inflows of foreigners' portfolio funds, the movements of the yen exchange rate and geopolitical risks, stock prices and the KRW/USD exchange rate remained stable, fluctuating within certain ranges.

Consumer price inflation maintained its low level at around the 1% range despite hikes in agricultural product prices, as public utility fees were showing a trend of stability. Many members forecast that inflation would remain low for the time being, due mainly to the easing of demand-side pressures.

With regard to **real estate prices**, one member noted that, while housing prices were continuing their downtrend, most notably in Seoul and its surrounding areas, leasehold deposit prices were sustaining their high rates of increase in both Seoul and its surrounding areas and in other regions.

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:

Most members shared the opinion that, although the trend of growth in domestic economic activity remained weak while prices were stable, given that external conditions were gradually improving and that the domestic economy was moving in the direction of recovery, albeit a weak one, it would be best to keep the Base Rate at its current level during the intermeeting period while closely monitoring changes in the financial and economic environments at home and abroad.

One of these members put forward the view that, since the Korean economy is expected to be strongly affected if there are disharmonies among major developed economies in their policy stances related to quantitative easing, leading to a widening of the interest rate gaps among countries, to heightened exchange rate volatility and to a sharp increase in capital flows, the economic movements and policy stances of major economies should be closely monitored and active steps taken to draw up measures for responding as necessary.

Another member emphasized that, while attention was called for to ensure that exports could carry out their role despite changes in the terms of trade, and while close scrutiny of consumption was needed to assist with the recovery of real economic activity, the monitoring of factors disrupting the financial system - such as the household debt situation and the deterioration in financial conditions of those with poor credit ratings - and of abrupt surges in foreign currency flows, should be strengthened.

One other member was of the opinion that great attention should be paid to topics which had recently become social issues, such as

legalization of the shadow economy, alleviation of household debt problems and the development of measures to increase the household savings rate, and that the central bank should study in depth the role that it should play in this regard.

Another member, however, expressed the opinion that it would be appropriate to cut the Base Rate by 25 basis points, considering the weakening of demand-side inflation pressures, the sustained sluggishness of consumption, the investment and export indicators in the domestic real sector that were unlikely to show clear improvements for a considerable period of time, and the spread of accommodative monetary policies in major advanced countries and some emerging markets.

IV. Results of Deliberation of Monetary Policy Directions

Incorporating the outcome of their earlier discussions, the members compiled a statement that reflected the views of the majority.

However, Mr. Ha, Seong Keun expressed clear opposition to the idea of holding the Base Rate at its current level, and argued for a 0.25 percentage point cut.

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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 2.75% for the intermeeting period.
- ☐ Based on currently available information, the Committee considers the moderate economic recovery in the US to have been sustained but economic activities in the euro area to have been unable to shake off their sluggishness, while emerging market countries have shown continuing economic growth. The Committee expects the global economy to sustain its modest recovery going forward, but judges that the uncertainties related for instance to the fiscal crisis in the euro area and to fiscal consolidation in the US have not lifted and remain as downside risks to growth.
- ☐ In Korea, although exports have maintained their trend of recovery and construction investment has increased slightly, the Committee appraises the economy to have sustained a weak level of growth as consumption and facilities investment have declined owing to temporary factors. On the employment front, the increase in the number of persons employed was smaller in February than in the month before, as a result of the accelerated decline in the number of temporary and daily workers due mainly to the Lunar New Year holiday. Going forward, there is no change to the Committee's forecast that the domestic economy will show a negative output gap for a considerable time, due mostly to the slow recovery of the global economy in consequence chiefly of the sluggishness of economic activities in the euro area.
- ☐ Consumer price inflation and core inflation excluding the prices of

agricultural and petroleum products continued to run at low levels similar to those in the previous month, at 1.4% and 1.3% respectively in February. Inflation appears likely to remain relatively low, due to the weakening of demand-side pressures; the Committee forecasts, however, that it will rise above its current level as downward pressures from institutional factors partially disappear. As for housing prices, those in Seoul and its surrounding areas continued on their downtrend and those in the rest of the country on their moderate uptrend.

- ☐ In the financial markets, stock prices have shown slight fluctuations, as the influences of foreigners' stock investment fund inflows and of the increase in Korea's geopolitical risk have coincided, while long-term market interest rates have fallen due mainly to large inflows of foreigners' bond investment funds. The Korean won-US dollar exchange rate had fluctuated within a certain range, but has risen recently, owing largely to the emergence of geopolitical risk.
- ☐ Looking ahead, the Committee will closely monitor external risk factors and Korea's geopolitical risk and any consequent changes in financial and economic conditions, continue its efforts to lower inflation expectations, and 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.