

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

November 14, 2013

**The Bank of Korea**

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

### **I . Outline**

1. Date of meeting : Thursday, November 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  
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  
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 trend of modest economic recovery in the US had been maintained despite the temporary slowdowns in improvement of some economic indicators, and that major sentiment indicators in the euro area had been showing trends of improvement. They also assessed that, although the pace of economic growth had slowed in some emerging market countries, China was showing signs of recovery, led by consumption and investment. Many members expected **the global economy** to sustain its recovery **going forward**, centering around advanced countries, but forecast that factors such as the possibility of changes in global financial market conditions in line with QE tapering by the US Federal Reserve, and fiscal uncertainties in major countries would act as downside risks to growth.

Many members noted that, in **the international financial markets**, global interest rates had fallen and then rebounded, and after rising substantially stock prices had undergone a correction, in response for example to the reaching of agreement in the US budget negotiations and to changes in expectations related to QE tapering.

Concerning **the domestic economy**, members' assessment was that it was maintaining its recovery, with exports and the current account surplus reaching record highs and the employment situation showing favorable movements, despite the temporary sluggishness of real economic indicators in September due to exceptional factors.

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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.

As to **the future outlook**, many members anticipated that, although the domestic economy seemed likely to maintain its trend of steady recovery, due mainly to improvements in the global economy, the negative output gap would continue for the time being, owing to the sluggish pace of the global economic recovery and to potential uncertainties related for example to the revival of investment.

With regard to the **domestic financial markets**, members pointed out that stock prices had risen substantially and the Korean won had remained strong, as a result of continued inflows of foreigners' stock investment funds in response mainly to the reaching of agreement in the US fiscal negotiations and to expectations of a delay in QE tapering.

Most members mentioned that the low inflation had been continuing for a considerable period of time, with the increase in the CPI running below 1 percent as in the previous month due to declines in the prices of agricultural and petroleum products. Many members forecast that, despite the factors pushing prices up such as hikes in public utility charges, consumer price inflation would remain low for the time being due mainly to low demand-side pressures and to institutional factors including free childcare provision.

### **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 view that it would be desirable to hold the Base Rate at its current level for the intermeeting period as, with inflation remaining at a low level, the domestic economy was maintaining its steady trend of recovery.

One member expressed the opinion, considering the strong likelihood of structural changes having occurred in the domestic real economy and financial market environments, as the aftereffects of the global financial crisis were being prolonged, that it was necessary to examine whether there might be any problems in the current operational framework of monetary policy.

Another member assessed that, although the Korean economy was sustaining its trend of recovery, it would be difficult to see it as having entered a full-fledged growth phase, and advocated the necessity of policy alternatives to revitalize facilities investment, which was showing an extremely lackluster picture in comparison particularly to its long-term trend.

One other member noted that the monitoring of foreign exchange market movements such as foreign capital flows and exchange rate volatility due to changes in major countries' monetary policies should be strengthened further, and that attention should be paid to factors disturbing the financial system, such as the possibility of a worsening of funding conditions in fragile economic sectors and the household debt situation. He then went on to argue that, with inflation running at a low level, policy credibility should be improved by strengthening communication concerning

the operational target of inflation targeting.

One member pointed out in addition that the endogenous resilience of private consumption and private investment in the Korean economy had weakened greatly compared to in the past, and mentioned that policy should focus on broadening the basis for household incomes by the creation of new jobs through the facilitation of private investment and the setting-up of an employment-friendly system, and going further on encouraging the balanced growth of domestic demand and exports.

Finally, another member expressed the opinion that attention should be paid to the possibility of a spreading of systemic risk in line with the rise in leasehold deposit prices and the rapid increase in leasehold deposit fund loans, since qualitative changes were expected in the pattern of income redistribution between landlords and tenants, and in the quality of financial institutions' loan assets, as the dramatic growth in leasehold deposit fund loans was causing real LTV ratios for leasehold housing to rise and the financial burdens of house owners were being shifted onto their tenants.

#### **IV. Results of Deliberation on Monetary Policy Direction**

Incorporating the outcome of their earlier discussions, the following 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 2.50% for the intermeeting period.
- ☐ Based on currently available information the Committee considers that the trend of economic recovery in the US has been maintained despite the temporary slowdowns in improvement of some economic indicators, and that the sluggishness of economic activities in the euro area appears to have continued to ease, albeit weakly, while the trends of economic growth in emerging market countries, above all China, have continued to show signs of recovering. The Committee forecasts that the global economy will sustain its modest recovery going forward, but judges that the likelihood of changes in global financial market conditions related to QE tapering by the US Federal Reserve, and the continued uncertainties surrounding the US government's budget bill and the increase in its debt ceiling pose downside risks to growth.
- ☐ In Korea, indicators related to domestic demand slumped temporarily, but as exports have sustained their buoyancy the Committee appraises the economic recovery to have continued in line with the trend of growth. On the employment front, the scale

of increase in the number of persons employed has expanded, led by 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 narrow.

- ☐ Consumer price inflation fell slightly from 0.8% the previous month to 0.7% in October, due mainly to expansions in the extents of decline in the prices of agricultural and petroleum products, but core inflation excluding agricultural and petroleum product prices was 1.6% as in the previous month. The Committee forecasts that inflation will 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. As for the housing market, sales prices in Seoul and its surrounding areas turned upward while the uptrend of those in the rest of the country increased slightly. Leasehold-deposit prices sustained their high rate of increase of the previous month in Seoul and its surrounding areas, and their uptrend in the rest of the country accelerated.
- ☐ The domestic financial markets have moved mainly in response to the reaching of agreement in the US fiscal negotiations and to changes in the expectations of a delay in QE tapering. Stock prices have fallen again, after having risen substantially, in line with shifts in the flows of foreigners' stock investment funds, and the Korean won has depreciated recently, after having sustained a trend of appreciation due to continuation of the current account surplus. Long-term market interest rates have risen, after fluctuating within a 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.