

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

January 13, 2012

**The Bank of Korea**

## **Minutes of the Monetary Policy Committee Meeting<sup>1)</sup>** **(January 2012)**

### **I . Outline**

1. Date of meeting : January 13, 2012 (Fri)
2. Place : Monetary Policy Committee Meeting Room
3. Monetary Policy Committee members present :
  - Kim, Choongsoo, Chairman (Governor, the Bank of Korea)
  - Kim, Dae Sik
  - Choi, Dosoung
  - Kang, Myung Hun
  - Lee, Ju Yeol (Senior Deputy Governor)
  - Lim, Seungtae
4. Monetary Policy Committee members absent : None
5. Government representative present :
  - Shin, Je-yoon, First Vice Minister of Strategy and Finance
6. Participants :
  - Kang, Tai Hyuk, Auditor
  - Jang, Byung-Wha, Deputy Governor
  - Lee, Kwang-June, Deputy Governor
  - Jang, Seh-Geun, Deputy Governor
  - Park, Won-Shik, Deputy Governor
  - Kim, Jun Il, Director of Economic Research Institute & Chief Economist
  - Choo, Heung Sik, Director of Reserve Management Group
  - Kang, Juno, Director General of Planning & Budget Department
  - Lee, Sang Woo, Director General of Research Department
  - Kang, Tae Soo, Director General of Financial System Stability Department
  - Min, Sung Kee, Director General of Financial Markets Department
  - Kim, Jong Hwa, Director General of International Department
  - Kim, Yun Chul, Director General of Monetary Policy Committee Secretariat
  - Lee, Yong Hoi, Director General of Press Office
  - Sung, Sang Kyung, Head of MPC Administrative Support Team
  - Jeon, Seung-Cheol, Head of Monetary Policy Planning & Coordination Team

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1) This English version (summary) of the minutes of the Monetary Policy Committee Meeting was produced at working level, and is not an official document.

## II. Summary of Discussion on the Current Economic Situation<sup>2)</sup>

After briefings by staff on 'Current Economic Developments in Korea' and the 'Financial Markets', the discussions of the Monetary Policy Committee (MPC) members covered the following areas:

Regarding **the global economy** many members commented that, although some economic indicators in the U.S. were showing favorable movements, advanced economies remained sluggish, centering around the euro area, and that emerging market countries including China were recording somewhat slowing growth. One member assessed the downside risks to world economic growth to be expanding, due to the continued international financial market instability.

As to **the domestic economy**, members mentioned that domestic demand and exports were somewhat more sluggish than originally forecast, affected mostly by the persistence of destabilizing external factors and the consequent pullback in consumer and investor sentiment.

In addition, most members' **outlook on the economy** was that it would remain in a downturn for the time being, owing to the heightened uncertainty of global economic conditions. One of them expressed concerns that uncertainties as to the growth path had risen even further with the addition of geopolitical risks related to Iran and North Korea, and that if various structural problems latent in the Korean economy surfaced under these circumstances, it could make the maintenance of financial market stability and economic growth difficult.

Many members pointed out, concerning **the domestic financial markets**, that price variables such as stock prices and exchange rates

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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.

continued to fluctuate widely due to the presence of international financial market unrest. One of these members mentioned that, although banks' foreign currency funding conditions were on the whole favorable, it was difficult to relax given the possibility of the current account posting a deficit amid the rising short-term external debt ratio.

Regarding **consumer prices**, members noted that headline consumer price inflation had come in at 4.2% in December, as in the previous month, driven by hikes in agricultural and livestock and petroleum product prices. One of them expected that the rate of consumer price increase would decline gradually, due mostly to the base-period effect and the easing of demand-side inflation pressures, but that its pace of decline would be moderate owing to high inflation expectations.

As for **housing prices**, one member appraised those in Seoul and its surrounding areas as having continued their fall, as in the previous month, while the pace of their increase in the rest of the country had slowed, due chiefly to burdens stemming from their previous rapid surge.

### **III. Remarks by Government Representative**

Prior to the members' discussion regarding the Base Rate, the Chairman gave the floor to the 1st Vice Minister of Strategy and Finance, the government representative.

With regard to the current economic situation, the 1st Vice Minister assessed that, although major real economic indicators were weak, some indicators which had shown sluggishness were recovering somewhat, amid the continuing pattern of improvement in employment. The 1st Vice Minister pointed out however that uncertainty about economic conditions

was increasing, with the emergence of geopolitical risks in North Korea at a time when the possibility of the euro area sovereign debt crisis spreading lingered.

The 1st Vice Minister commented that although headline consumer price inflation for 2012 was expected to register 3.2%, lower than in the previous year, concerns might arise that growing demand for commodities in emerging market countries, destabilizing factors on the supply side arising from the political unrest in the Middle East including Iran and from the possibility of abnormal changes in weather, and high core inflation and expected inflation might act as inflation pressures.

Concerning employment trends, the 1st Vice Minister judged the trend of recovery in the labor market to be continuing, with the number of persons employed having increased by 440,000 year-on-year in December. He also commented that, with employment elasticity (the rate of growth in number of persons employed divided by GDP growth) improving greatly, the Korean economy's job creation capacity was improving, and major employment indicators such as the employment rate, the unemployment rate and the labor force participation rate were also improving compared to 2011. He pointed out, however, that, since there was a possibility of the employment recovery being limited this year compared to last, due to slowing growth and the consequent reduction in job gains, there was a need for more job creation in order to restore employment conditions, which had deteriorated greatly due to the global financial crisis, to their pre-crisis level.

#### **IV. Discussions Related to Monetary Policy Decision (Summary)**

The main details of the MPC members' discussion concerning a change in the Bank of Korea Base Rate were as follows:

Members shared the opinion that, it would be better to hold the Base Rate at its current level for the intermeeting period, in view of the situation in which the trend of domestic economic slowdown was becoming evident, and the uncertainties as to economic conditions and the growth path at home and abroad were higher than ever, even though the inflation situation was still difficult due mostly to the high level of expected inflation and the possibility of a run-up in international oil prices.

One of these members noted that, although the Committee should hold the Base Rate at its current level, it should work to curb rate cut expectations while signaling to the market that the negative real interest rate situation will have to be normalized as soon as possible. The member added that the Committee should seek a way to promote harmony with the economic policies of the government, whose top priorities were placed upon price stability and job creation.

Another member expressed the opinion that the Committee should attempt to normalize rates without delay once improvements in economic circumstances at home and abroad were confirmed, since adverse side effects of the long period of low level interest rates due to accommodative monetary policy were emerging, such as mounting household debt and delays in corporate restructuring. And he raised that concerns about market efficiency and appropriate resource allocation might be hampered as a consequence, leading thereby to a weakening of the Korean economy's growth potential.

The member argued in addition that it was necessary to push forward with market-driven corporate restructuring, while at the same time coming up with social and economic solutions to the problems facing low-income vulnerable households.

One other member pointed out that government efforts were needed at the micro-level to prevent recurrence of the factors that had fueled the rise in core inflation last year, such as multiple supply shocks, a rise in expected inflation, hikes in personal service charges, and the strengthened degree of inflation persistence.

After the discussions detailed above, the members decided unanimously to keep the Base Rate at its current level.

### **Monetary Policy Decision**

- ☐ The Monetary Policy Committee of the Bank of Korea decided today to leave the Base Rate unchanged at 3.25% for the intermeeting period.
- ☐ Based on currently available information, the Committee considers major advanced economies to have remained sluggish, and growth in emerging market economies to have also slowed somewhat. Going forward the Committee expects the pace of global economic recovery to be very moderate, and judges that the downside risks to growth are becoming larger, due mostly to the sovereign debt crisis in Europe and to the possibilities of the slumps in major country economies and the unrest in international financial markets continuing.
- ☐ In Korea, exports have kept up their steady increase, but domestic demand has been subdued with consumption and construction investment decreasing from the previous month. On the employment front, the number of persons employed has sustained its large scale of increase, led by the private sector. The Committee anticipates that domestic economic growth will gradually return to its long-term trend level going forward, after remaining subdued for some time due mostly to the impact of external risk factors.
- ☐ Consumer price inflation continued to exceed 4% in December last year, driven by the prices of petroleum products and processed food, and core inflation also came in at a level similar to that of the previous month. In the coming months, factors including the base effect from the previous year and the easing of demand-side pressures will work in favor of price stability, but the Committee expects the pace of decline in the inflation rate to be moderate given factors such as ongoing high inflation expectations. In the housing market,



prices have remained weak in Seoul and its surrounding areas and leasehold deposits there have decreased, due mostly to the impact of low off-season demand. The uptrends of both housing prices and leasehold deposits in the rest of the country have slowed.

- ☐ In the financial markets, stock prices and the exchange rate have continued to fluctuate widely, due chiefly to unease concerning external risk factors and to geopolitical risks. The trend of decline in long-term market interest rates has halted and they have shown fluctuations within a narrow range.
- ☐ Looking ahead, the Committee, while closely monitoring financial and economic risk factors both at home and abroad, as well as the evolution of inflation expectations, will conduct monetary policy so as to stabilize consumer price inflation at the midpoint of the inflation target over a medium term horizon amid continuing sound growth of the economy.