

Minutes of the Monetary Policy Committee Meeting

December 8, 2011

The Bank of Korea

<p>Minutes of the Monetary Policy Committee Meeting¹⁾ (December 2011)</p>
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I . Outline

1. Date of meeting : December 8, 2011 (Thu)
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
 - Kim, Jae-Chun, Deputy Governor
 - 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
 - Lee, Sang Woo, Director General of Research Department
 - Chung, Hee-Chun, Director General of Monetary Policy 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

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 Discussion on the Current Economic Situation²⁾

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

Regarding **the global economy**, many members forecast that, with the international financial market unrest persisting due to delays in resolving the euro area sovereign debt crisis, the recovery of global economy would decelerate further in the coming months if economic growth in emerging market countries would slow along with the economic sluggishness in advanced countries.

As to **recent developments in the domestic economy**, members assessed Korean economic growth to be gradually slowing. Some mentioned that, although the momentum of export growth was being sustained, domestic demand was contracting due mostly to sluggish consumption and facilities investment, and in terms of production, the increases in both manufacturing and services industries also slackening gradually.

Meanwhile, another member's evaluation was that, although the growth rate of the economy was somewhat lower than originally forecast, its pace could be seen as being satisfactory, considering the presence of numerous destabilizing external factors such as the deepening of the euro area sovereign debt crisis and concerns about subdued global economic activity.

Regarding **the domestic economic outlook**, most members forecast that, in view of the economic conditions at home and abroad, the growth

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

rate of the Korean economy would be lower than in 2011 as its growth momentum weakened, and added that the downside risk to the growth path would be large. A few members, however, expected the domestic economy to recover to a level close to its long-term trend starting from the latter half of 2012.

Many members pointed out, concerning the **domestic financial markets**, that price variables such as stock prices and the exchange rate continued to fluctuate widely due to international financial market unrest. One member, meanwhile, pointed out that, although there appeared to be no great strains in banks' foreign currency funding owing to their preemptive steps to secure funds, greater attention should be paid to the possibility that adverse effects might emerge in line with the evolution of the euro area situation in the coming months.

Regarding **consumer prices**, members noted that expected inflation continued to exceed 4%, as headline consumer price inflation had come in at 4.2% in November, up from 3.6% the month before due to the rising price trends of food grains and industrial products, and core inflation had also registered 3.5%, slightly up from the previous month.

Some members anticipated that, although inflation rate was likely to drop due to factors such as slower growth rate and a base-period effect, its pace of decline would be moderate owing to the ongoing high inflation expectations, public utility charge hikes, etc.

As for **housing prices**, one member appraised those in Seoul and its surrounding areas as having weakened, but those in the rest of the country to have maintained their trends of increase.

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 concerns over future economic slowdown to be mounting due to the persistence of high external uncertainty, at a time when certain sectors of the real economy, above all manufacturing, exhibited a subdued pattern of activity that ran counter to the continued recovery trend in employment and in services.

Concerning prices, the 1st Vice Minister remarked that consumer prices had risen 4.2% year-on-year in November, and predicted that they would show unstable movements in December, owing chiefly to possible adjustments of agricultural product prices and charges for services at year-end. Furthermore, given the recent high level of rising prices and inflation expectations, he forecast difficult price conditions to persist for some time to come.

As to export and import trends, the 1st Vice Minister commented that exports had stood at around 47 billion dollars for the third consecutive month in November and imports at about 43 billion dollars for the second month in a row, both of them showing a somewhat subdued performance compared to that earlier in the year. The 1st Vice Minister remarked, however, that the current account had posted a surplus of 4.2 billion dollars in October, wider than that of the previous month, and that it was estimated to have recorded a substantial surplus in November as well.

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:

Most members shared the opinion that it would be better to hold the Base Rate at its current level for the intermeeting period, since there were high downside risks to growth from the short-term perspective, in the presence of the heightened mood of apprehension in the international financial markets following the euro area sovereign debt crisis, although it was appropriate, from the medium-term perspective, to maintain the stance of Base Rate normalization in order to curb inflation expectations and firmly anchor the foundation for price stability.

One member noted that now was not the right time to hike the Base Rate, given the heightened possibility of a phase transition in the business cycle. He added that, with spending power having declined owing primarily to the growing household debt and the worsening of the income distribution structure, economic momentum might weaken rapidly if exports became less brisk in response to the world economic slowdown.

Another member pointed out the possibility that the domestic economy might shrink to a greater extent than expected, if deleveraging spread worldwide.

In addition, members expressed the opinion that efforts should be focused on improving the household saving ratio, on avoiding herd behavior of market participants and on ensuring that real interest rates and liquidity remained at appropriate levels, while strengthening support for low-income households, small self-employed businesses and promising SMEs, and pursuing the restructuring of marginally-viable companies.

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

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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 3.25% for the intermeeting period.
- ☐ Based on currently available information, the Committee considers major advanced economies to have exhibited continued sluggishness and growth in emerging market economies to have slowed somewhat. Going forward the Committee expects the pace of global economic recovery to be very moderate, and judges that downside risks to growth are high, 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 shown a steady increase, but consumption has remained at a level similar to that in the previous month and facilities investment has decreased sharply. The trend of improvement in employment conditions has been sustained, led by the private sector. The Committee anticipates that the domestic economy will not deviate significantly from its long-term trend of growth going forward, but recognizes the situation to be one in which downside risks to growth remain high due to the impact of external risk factors.
- ☐ Consumer price inflation exceeded 4% in November, owing mainly to increases in prices of industrial products, and core inflation rose compared to the previous month as well. In the coming months, factors including the declines in agricultural product prices and the base effect from last year will work to stabilize prices, but the Committee expects the pace of decline in the inflation rate to be moderate given factors such as the public utility charge hikes and

ongoing high inflation expectations. As for housing prices, those in Seoul and its surrounding areas appeared to weaken, while those in the rest of the country kept up their rising trend. The rate of increase in leasehold deposits meanwhile slowed greatly in Seoul and its surrounding areas, but remained high in the rest of the country.

- ☐ In the financial markets, stock prices and the exchange rate continued to fluctuate widely as unease concerning external risk factors persisted, and long-term market interest rates declined as in the previous month.
- ☐ Looking ahead, the Committee, while closely monitoring financial and economic risk factors both at home and abroad, will conduct monetary policy so as to firmly anchor the basis for price stability amid continuing sound growth of the economy.