

Minutes of the Monetary Policy Committee Meeting

February 9, 2012

The Bank of Korea

Minutes of the Monetary Policy Committee Meeting¹⁾ **(February 2012)**

I . Outline

1. Date of meeting : February 9, 2012 (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
 - 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

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 Situation²⁾

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 stock and bond prices were rising and inflows of portfolio investment funds to emerging market countries becoming prominent, as the tendency toward risk aversion in the international financial markets was weakened somewhat due to the strengthening of major central banks' stances of monetary policy easing. Most members assessed however that the advanced economies were continuing to exhibit sluggishness, particularly in the euro area, notwithstanding the improvements in some U.S. economic indicators, and that economies of emerging market countries including China had been showing signs of weakening in their real economic growth. One of these members forecast that, even if the uncertainty over the euro area sovereign debt problem did ease somewhat, world economic growth was unlikely to expand greatly owing mostly to major advanced countries' efforts to restore fiscal soundness.

In regard to **the domestic economy**, members mentioned that the slowdown in domestic economic growth appeared to be continuing, due to the persistence of external destabilizing factors and the consequent pullback in consumer and investment confidence.

As to the outlook, the majority of members forecast that domestic economic activity could shift to a recovery, albeit a modest one, on the back of the economy's sound fundamentals, provided the uncertainties about external conditions decline from the second half of this year.

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

Concerning **the domestic financial markets**, many members observed that stock prices had risen sharply, the Korean won had appreciated against the US dollar, and the volatility of price variables declined, thanks to the easing of international financial market unrest. Some of them pointed out that attention should have to be paid to the possibility of the recent inflows of foreign investors' portfolio funds shifting to a sudden outflow in the event of changes in domestic and international conditions.

Regarding **consumer prices**, members noted that headline consumer price inflation had come in at 3.4% in January, much lower than in the previous month, due mostly to a base-period effect and the blunting of the upward pressures on agricultural and livestock prices. Some of them anticipated that although factors including the moderation of demand-side pressures due to the economic slowdown and base period effects would work in favor of price stability, the pace of decline in the inflation rate would be very moderate in the coming months due mostly to factors such as ongoing high inflation expectations, the run-up in international oil prices in line with geopolitical risks in the Middle East, and the pressures for public utility charge hikes.

As for **housing prices**, one member assessed that those in Seoul and its surrounding areas had continued their fall from the previous month, while their pace of increase in the rest of the country had slowed.

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 major real economic indicators such as mining and manufacturing production were sluggish, although the trend of employment growth was continuing and some indicators including facilities and construction investment appeared to be improving. He also pointed out that uncertainties as to external conditions were high, due for instance to the possibility of a global economic slowdown as a result of the euro area sovereign debt crisis and to the concerns about a run-up in international oil prices.

The 1st Vice Minister forecast that, although the rate of increase in consumer prices had fallen somewhat month-on-month in January, factors such as international oil price hikes resulting from the sanctions on Iran, international financial market unrest caused by concerns about the euro area sovereign debt crisis spreading, and so on would work to destabilize prices in the future.

Concerning the trends of external transactions, the 1st Vice Minister judged January's first year-on-year export decline in 27 months, since October 2009, as attributable to one-off seasonal factors such as the base-period effect from the concentration of ship exports in January 2011, and to the decrease in number of days worked due to the Lunar New Year holidays having fallen in January rather than in February. He on the other hand estimated that the current account would post a deficit as a whole for January, due mostly to a deficit in the trade account and a deficit in the services account resulting from increased overseas travel during winter vacation etc.

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 possibility of domestic economic growth slowdown amid the uncertainties as to the price situation and economic conditions at home and abroad.

One member expressed the view that, in a situation in which it was not easy to change interest rate policy, the Committee should clarify the central bank's will to stabilize prices, given the increase in public utility charges, the run-up in international oil prices, and the sustained high level of expected inflation.

Another member pointed out that efforts were required to stabilize consumer prices through the government's micro inflation policy, given that even though guard against prices should not be lowered, there was limited scope for the operation of interest policy due to signs of economic slowdown.

He also asserted that, to engineer a soft-landing of the household debt problem, the costs and benefits of various policy measures including a Base Rate hike must be reexamined, and ways for mitigating their side effects sought.

One other member remarked that a rate hike might accelerate the economic slowdown, entailing risks of an expansion in the amplitude of economic fluctuations, even though the current level of the Base Rate and the consequent negative real interest rate conditions remained accommodative.

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 some economic indicators in the US such as employment to have shown improvements, but economic activities in the euro area to have remained sluggish. Growth in emerging market economies has continued to exhibit signs of weakening, due mostly to slowing exports. Going forward the Committee expects the pace of global economic recovery to be very moderate, and judges that risk factors still exist, stemming for instance from the persistence of the sovereign debt problems in Europe and the slumps in major country economies, and from geopolitical risks in the Middle East.
- ☐ In Korea, economic growth has slowed, with domestic demand subdued overall and exports also decreasing. On the employment front, however, the uptrend in the number of persons employed is being sustained, led by the private sector. The Committee anticipates that the domestic economic growth rate will gradually return to its long-term trend level going forward, although viewing downside risks as likely to remain high for some time due mostly to the impact of external risk factors.
- ☐ Consumer price inflation declined to 3.4% in January, owing chiefly to the base effect from last year, and core inflation also dropped compared to the previous month. In the coming months, factors including the easing of demand-side pressures will work in favor of price stability, but the Committee recognizes the presence of potentially destabilizing factors such as the ongoing high inflation

expectations and the geopolitical risks in the Middle East. In the housing market, prices remained weak in Seoul and its surrounding areas, while leasehold deposits there maintained their levels of the previous month. Housing prices and leasehold deposits in the rest of the country rose at rates similar to those in December.

- ☐ In the financial markets, stock prices rose and the Korean won appreciated against the US dollar in line with the huge inflows of foreigners' securities investment funds as the international financial market unrest eased somewhat. Long-term market interest rates have continued to fluctuate 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.