

Minutes of the Monetary Policy Committee Meeting

May 10, 2012

The Bank of Korea

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

I . Outline

1. Date of meeting : May 10, 2012 (Thur)
2. Place : Monetary Policy Committee Meeting Room
3. Monetary Policy Committee members present :
 - Kim, Choongsoo, Chairman (Governor, the Bank of Korea)
 - Lim, Seungtae
 - Park, Won Shik (Senior Deputy Governor)
 - Ha, Sung Keun
 - Chung, Hae-Bang
 - Chung, Soon Won
 - Moon, Woosik
4. Monetary Policy Committee members absent : None
5. Participants :
 - Shin, Je-yoon, First Vice Minister of Strategy and Finance
 - Kang, Tai Hyuk, Auditor
 - Jang, Seh-Geun, Deputy Governor
 - Kim, Jun Il, Deputy Governor
 - Kang, Juno, Deputy Governor
 - Kang, Tae Soo, Deputy Governor
 - Kim, Jong Hwa, Deputy Governor
 - Choo, Heung Sik, Director of Reserve Management Group
 - Shin, Woon, Director General of Research Department
 - Seong, Byung-Hee, Director General of Macroprudential Analysis 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
 - Lee, Myong Jong, Director General of Press Office
 - Suh, Young Kyung, Director of Financial Markets Division
 - 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 the 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:

Many members assessed **the global economy** to be sustaining its moderate recovery, but the political uncertainties in the euro area, concerns about the Spanish economy, and so on to be further amplifying the downside risks to its growth path. One among these members expressed the view that the ample global liquidity supplied through major central banks' quantitative easing could stoke inflationary pressures in the future.

In regard to **the current state of the domestic economy**, members commented that its recovery appeared to be faltering somewhat, with some real economy indicators for March coming out lower than expected. One of these members deemed the recent economic growth to have been led by the government sector through increased fiscal front-loading, and the momentum of recovery in private domestic demand such as consumption and investment to remain weak.

As to **the outlook**, most members judged that, unless economic conditions at home and abroad worsened dramatically, the domestic economy would show a modest recovery while remaining on the growth path predicted in April. One member mentioned, however, that given the government's reduced fiscal space and the uncertainties as to external conditions, there was a need to keep a closer watch on the future pace of economic recovery.

Concerning **the domestic financial markets**, many members assessed

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

that, although foreign portfolio investment funds had shifted to a net outflow, owing largely to the heightened international financial market unrest, major price variables such as stock prices and exchange rates exhibited relatively stable movements, boosted for the most part by strong economic fundamentals and adequate foreign currency liquidity. One member, however, argued that attention should be paid to the possibility of foreign capital in- and outflows surging due chiefly to European financial institution deleveraging.

Regarding **consumer prices**, members pointed out that the uptrend in prices appeared to be cooling, with consumer price inflation having come in at the mid-2% level for two consecutive months, but that constant attention to underlying inflationary pressures was called for, given the existence of destabilizing factors such as the high level of expected inflation and the possibility of hikes in public utility charges and nominal wages.

After the members' discussions, the 1st Vice Minister of Strategy and Finance, the government representative, made the following comments and then left the room before the Base Rate was discussed:

The 1st Vice Minister assessed that, although the trend of improvement in employment continued, external uncertainties were running high, caused largely by the instability of international oil prices and the possibility of economic recession in the eurozone, at a time when real indicator improvements were showing signs of faltering. He pointed out that prices were showing stable movements as in the previous month, but that upward pressures for example from hikes in public utility fees and in processed food prices remained. He went on to remark that, while exports had been smooth in April, centering around major items such as automobiles and steel, exports as a whole had posted negative year-on-year growth, owing mostly to a base effect and to the decrease in number of days worked

due to the general election, but then forecast that the current account would sustain its surplus as it had in March.

III. Discussions Related to 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 opinion that the domestic economic recovery was forecast to be sustained going forward, but that it would be better to hold the Base Rate at its current level for the intermeeting period and keep a close watch on changes in financial and economic conditions at home and abroad, considering that inflationary pressures remained and that uncertainty had mounted somewhat due to recent changes in conditions at home and abroad.

One of these members commented that it would be preferable to keep the interest rate normalization stance maintained since July 2010 intact for the time being, in order to firmly anchor the foundation for price stability and prepare against downside risks to the economy going forward.

One member meanwhile expressed the view that there was a need to further strengthen monitoring of such factors causing domestic financial market unrest as the recent additional suspensions of mutual savings banks, the household debt problem and the potential for an expansion in foreign currency fund flows, and to constantly check the possibilities of their metastasizing into financial systemic risk.

In this connection, one other member put forward the opinion that it was necessary to review whether there was a possibility of individual business loans and group loans causing financial market unrest.

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 to have sustained their trends of improvement, 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 global economy to sustain its recovery, albeit at a moderate pace, and judges that risk factors still exist—including the resurgence of sovereign debt problems in Europe stemming from the heightening of political uncertainty, the deepening economic slowdown there, and the geopolitical risks in the Middle East.
- ☐ In Korea, the Committee appraises the recovery of economic growth to have faltered, with consumption and investment decreasing while exports maintain generally sound levels. On the employment front, 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 going forward, although downside risks remain due mostly to the impacts of external risk factors.
- ☐ Consumer price inflation fell to 2.5% in April, and core inflation dropped compared to the previous month as well. The Committee does however recognize 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, the

decline in sales prices gathered pace somewhat and the rise in leasehold deposits slowed in Seoul and its surrounding areas, while in the rest of the country both sales and leasehold deposit prices sustained high rates of increase similar to those in the previous month.

- ☐ In the financial markets, stock prices and long-term market interest rates fell and the Korean won depreciated against the US dollar, as price variables fluctuated in line largely with international financial market conditions and economic indicators in major countries.
- ☐ Looking ahead, the Committee, while closely monitoring financial and economic risk factors both at home and abroad and endeavoring to lower 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.