

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

September 13, 2012

**The Bank of Korea**

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

### **I . Outline**

1. Date of meeting: Thursday, September 13, 2012
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:
  - Shin, Je-yoon, First Vice Minister of Strategy and Finance
  - Song, JaeJung, Auditor
  - Jang, Seh-Geun, Deputy Governor
  - Kim, Jun Il, Deputy Governor
  - Kang, Juno, Deputy Governor
  - Kim, Jong Hwa, 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 General of Macprudential 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 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:

In regard to **the global economy**, members' appraisal was that, although market anxieties had eased somewhat owing to the policy responses of major central banks, the global economy's sluggishness had continued and its downside risks had increased further—due to the persistent economic downturns in major advanced countries and consequent slowdowns of growth in emerging market countries.

Concerning **the domestic economy**, most members assessed that the downside risks to growth had increased and the growth momentum was continuing to weaken, with private sector dynamism ebbing on the worsening of consumer and investor sentiments.

As to **the outlook**, most members anticipated that growth would run below initial forecasts, since it seemed difficult for exports to rebound any time soon with the pace of domestic demand recovery being feeble. One of these members remarked that it might take some time for the economy to return to its long-term trend level.

Members assessed **the domestic financial markets** to be showing an overall pattern of stability as stock prices had risen and the exchange rate had fluctuated within a narrow range on the back of the improved domestic and overseas environment including, for instance, the upgrade of Korea's sovereign rating. Several members pointed out, however, that the financial situations of some households and firms were deteriorating due to differentiation based on credit quality even though market interest rates remained at low levels.

---

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

Members noted that **the inflation rate** has continued to run below 2%, influenced by the economic slowdown and base effects, and forecast that it would remain at a low level for a considerable time. Members, however, also shared the view that attention should be paid to the possibility that price rise expectations and run-ups in commodity prices could act as risk factors.

Meanwhile, one member mentioned with regard to **real estate prices** that, while their downtrend in Seoul and its surrounding areas persisted, those in the rest of the country appeared to have topped out with their uptrend coming to a halt.

After the members' discussions, the 1<sup>st</sup> Vice Minister of Strategy and Finance, the government representative, made the following comments and then left the room before the Base Rate decision:

Prices were exhibiting stability and domestic demand indicators had temporarily improved somewhat, but the sluggishness in mining and manufacturing production was becoming more pronounced due mainly to the slowdown in exports. In the job market, employment growth had slowed somewhat in August, but this was interpreted as reflecting a reversion to the norm. Exports had posted negative growth in August, as in the previous month, affected chiefly by sharp decreases in those of major items including ships, automobiles and steel, and by the vacation season. However, the underlying surplus in the current account was forecast to be sustained.

### **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:

Although the sluggishness in domestic demand and exports were expected to last while inflation continued to run at a low level, members decided unanimously to hold the Base Rate at its current level for the intermeeting period, sharing the view that there was a need to keep an eye on changes in financial and economic conditions at home and abroad for a while longer, since domestic and overseas financial market instability had eased somewhat of late and major countries were taking policy measures to boost their economies.

One of these members pointed out that, should the Base Rate be lowered that month, the consequent macroeconomic opportunity costs could be very large, given the economic environments at home and abroad, the need for pursuit of restructuring, the limited effect of a Base Rate cut and the benefit of securing policy space, etc.

One other member expressed the opinion that, the central bank should make efforts to develop microeconomic policy instruments in the medium and long term to raise the economy's below-potential growth rate, including measures to induce stronger competitiveness and strengthen macro-leverage management, and also the central bank should ease external shocks transmitted through the financial markets by fine-tuning of macro-prudential tools and close monitoring of foreign capital in- and out-flows, etc.

< Ref >

### **Monetary Policy Decision**

- ☐ The Monetary Policy Committee of the Bank of Korea decided today to leave the Base Rate unchanged at 3.00% for the intermeeting period.
- ☐ Based on currently available information, the Committee considers the economic recovery in the US to have weakened somewhat and the sluggishness of economic activities in the euro area to have deepened. Growth has continued to slow in emerging market countries as well, due mostly to the impact of the economic slumps in advanced countries. The Committee expects the pace of global economic recovery to be very modest going forward and judges the downside risks to growth to be large, owing chiefly to the spillover of the euro area fiscal crisis to the real economy and to the possibility of the so-called fiscal cliff materializing in the US.
- ☐ In Korea, the Committee appraises economic growth to have been weak, as domestic demand has alternated between improving and worsening and exports have exhibited a downtrend. On the employment front, amid its continued uptrend led by the higher age groups and the service industry, the number of persons employed increased by a greater margin in the manufacturing sector as well. The Committee anticipates that the negative output gap in the domestic economy will be sustained for a considerable time going forward, due mostly to the prolongation of the euro area fiscal crisis and to the sluggishness of the global economy.
- ☐ Consumer price inflation came in low at 1.2% in August, owing primarily to the base effect and to the easing of demand-side pressures, and core inflation which excludes the prices of agricultural and petroleum products also continued to run at a low level at 1.3%. The Committee sees inflation picking up going forward, influenced

largely by the recent typhoon damage and the instability of international oil and grain prices, but forecasts that it will remain below the 3.0% midpoint of the inflation target for the time being. As for housing prices, those in Seoul and its surrounding areas sustained their downtrend, and those in the rest of the country generally stabilized at their levels of the previous month.

- ☐ In the financial markets, price variables have fluctuated in response mainly to international financial market conditions and to the domestic outlook for economic activity and expectations for monetary policy; stock prices have risen, long-term market interest rates have fallen slightly, and the Korean won exchange rate has fluctuated within a relatively narrow range.
- ☐ Looking ahead, the Committee will closely monitor external risk factors and the consequent changes in financial and economic conditions at home and abroad, and conduct monetary policy so as to stabilize consumer price inflation at the inflation target over a medium-term horizon while continuing its efforts to lower inflation expectations and ensuring that the growth potential is not eroded.