

Minutes of the Monetary Policy Committee Meeting

October 11, 2012

The Bank of Korea

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

I . Outline

1. Date of meeting: Thursday, October 11, 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
 - 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 Discussions 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:

Members' assessment regarding **the global economy** was that, although the international financial market unrest had eased somewhat owing to the active policy measures taken by major countries, the real economy was still sluggish. Furthermore, many members mentioned that the world economy was forecast to exhibit a very moderate recovery going forward, but that the downside risks to growth were still large.

Most members noted that **the domestic economy** was continuing its weak growth, as exports remained on a trend of decline and domestic demand appeared lackluster.

As to **the outlook**, most members commented that it would take some time for the economy to return to its long-term trend level, since on top of it seeming to be difficult for exports to recover any time soon, due mainly to the economic slumps of Korea's major trading partners, private consumption similarly remained constrained by the worsening of consumer sentiment in response to the mounting external uncertainties.

With regard to **the domestic financial markets**, many members assessed the stock, bond and foreign exchange markets to have all exhibited stable movements, with the soothing of market sentiment and inflows of foreigners' portfolio investment funds driven chiefly by the additional quantitative easing policies of major advanced countries and Korea's sovereign rating upgrade.

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

A majority of members forecast that **the inflation rate** would remain at a stable level below the midpoint of its target for the time being, with the easing of inflationary pressures owing primarily to the economic slowdown and to international oil price stability. Some members, however, put forward an opinion that attention must be paid to the possibility of risk factors to prices coming into play, such as the expected inflation that still remained at around the mid-3% level, the unstable international grain prices, and public utility rate hikes.

Meanwhile, one member noted that **real estate prices** had continued to decline, centering around Seoul and its surrounding areas.

After the members' discussions, the 1st Vice Minister of Strategy and Finance, the government representative, commented on recent economic developments as follows, and then left the room before the Base Rate was decided:

Amid ongoing concerns about the slowdown of the world economy, real economic indicators were subdued with the recovery in domestic consumer and investor sentiments being delayed. However, prices and employment continued their stable trends. September exports had declined by a smaller margin than in July and August, with those of some items including petroleum products and mobile phones posting favorable performances. The underlying surplus in the current account was forecast to have been sustained in September as well.

III. Discussions Concerning 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:

Most members expressed the opinion that it would be best to cut the Base Rate by 25 basis points from its current level that month, to

underpin the recoveries of economic activity and growth engines, as the situation was one in which growth was forecast to fall significantly on lackluster domestic demand and declining exports, while upward price pressures remained low.

Some of these members noted that if, together with the Base Rate cut, the low interest rate conditions were to become prevalent, the tendencies toward excessive preference for risk assets such as commercial paper and toward a concentration of funds at the short-term end of the market were likely to intensify, and that there was thus a need going forward to redouble the efforts to curb moral hazard and excessive risk-taking on the parts of the economic agents concerned.

Another member pointed out the need to prepare against the possibilities of capital inflows led by hot money, and appreciation of the Korean won, in consequence of the additional quantitative easing policies of major advanced countries.

One other member, meanwhile, expressed the opinion that it would be desirable to keep the Base Rate at its current level even though the pace of growth in the Korean economy was observed to have decelerated considerably, since its growth potential was not deemed to have been impaired yet and there was a need as well to preserve space for interest rate policy in preparation for a time when even more difficult conditions might unfold in the future.

With regard to the recent slowdown in growth, he also noted that there was a need to respond first with tailored credit policies, by way for instance of improvements in the Aggregate Credit Ceiling Loan system, and together with this to press ahead with progressive structural reforms aimed at boosting the economy's growth potential.

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Monetary Policy Decision

- ☐ The Monetary Policy Committee of the Bank of Korea decided today to lower the Base Rate by 25 basis points from 3.00% to 2.75%.
- ☐ Based on currently available information, the Committee considers the economic recovery in the US to have continued, albeit at a moderate pace, but 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 exports and domestic demand have both been lackluster. On the employment front, amid its continued uptrend led by the higher age groups and the service industry, the number of persons employed has increased by a greater margin in the manufacturing sector as well. Going forward, the Committee anticipates that the negative output gap in the domestic economy will persist for a considerable time, due mostly to the prolongation of the euro area fiscal crisis and to the enduring sluggishness of the global economy.
- ☐ Consumer price inflation and core inflation excluding the prices of agricultural and petroleum products continued to run at low levels at 2.0% and 1.4% respectively in September. The Committee forecasts that inflation will remain below the 3.0% midpoint of its target for the time being, owing primarily to the easing of demand-side pressures and despite the influence for example of international grain price instability. As for housing prices, those in Seoul and its

surrounding areas declined at a somewhat faster pace, and those in the rest of the country generally stabilized at their levels of the previous month.

- ☐ In the financial markets, stock prices have risen and the Korean won has appreciated against the US dollar, due mostly to the improvement in international financial market conditions and to inflows of foreigners' securities investment funds in consequence of the additional quantitative easing policies of major advanced countries. Long-term market interest rates have declined slightly, primarily on concerns about the economic slowdown.
- ☐ 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.