

Minutes of the Monetary Policy Committee Meeting

October 13, 2011

The Bank of Korea

Minutes of the Monetary Policy Committee Meeting¹⁾ **(October 2011)**

I . Outline

1. Date of meeting : October 13, 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
 - 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
 - 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

1) This English version (summary) of the Monetary Policy Committee meeting minutes was produced at the working level and is not an official document.

II. Summary of Discussion on 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**, members assessed the recoveries in the U.S. and other advanced economies to have exhibited signs of being delayed further, although emerging market economies maintained their growth momentums. One member, however, noted that in the event of a future intensification of the economic downturn in the major advanced countries, it was uncertain whether emerging market countries could continuously provide the driving force for the recovery of the world economy.

Most members evaluated **the domestic economy** as maintaining its uptrend, boosted primarily by favorable exports and increases in facilities and construction investment, but as appearing to have gradually slackened in its pace of growth from the second half of this year. One member pointed out that the deterioration in **employment** conditions had persisted in terms of quality, because, although the number of those employed had increased, this was mainly concentrated on temporary and daily workers.

On **the future outlook**, many members anticipated that the domestic economy would maintain growth at around the level of its long-term trend, although it would not show as good a performance as previously expected due to the effects of deteriorating external conditions. One member appraised the downside risks to growth to have become larger, however, due to the prospect of a slump in the world economy and to the global

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

financial market unrest.

Some members mentioned, regarding **the domestic financial markets**, that stock prices and the exchange rate have exhibited wide fluctuations when external risk factors have emerged. One member pointed out that foreign currency borrowing conditions appeared to have deteriorated compared with the previous month, due mostly to a rise in the borrowing spread and to shortening of debt maturity.

Regarding **consumer prices**, most members noted that, although consumer price inflation had posted a high rate in September as well, at 4.3%, it had declined from the month before thanks to the stability of agricultural product prices. Some members pointed out that inflation would gradually slow in the future, should demand-side pressures ease as the economic upturn faltered, and should the base-period effect from the year before set in, but that there could be no relaxing of vigilance against the risk of the current stubbornly high level of expected inflation acting as a factor pressuring prices higher for a considerable time.

As for **housing sales prices**, one member appraised those in Seoul and its surrounding areas as having maintained their levels of the previous month, and those in the rest of the country to have kept up 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

commented that, although a mild pick-up in economic activity was continuing for the moment, bolstered by the recovery in the service sector and despite lackluster production in the manufacturing sector, there was mounting uncertainty about economic developments at home and abroad going forward.

Regarding prices, the 1st Vice Minister remarked that consumer price inflation had posted a 4.3% rise in September, down 1.0%p from August, and predicted that it would remain on a downward path in October as well. He added, however, that if exchange rate volatility were to increase due to such factors as the recent euro area sovereign debt crisis and the prospect of a global economic slowdown, this could act as a factor destabilizing prices.

As to the employment trend, the 1st Vice Minister noted that although the number of persons employed had shown a slower pace of increase in September than in the previous month—at about 260,000 persons year-on-year—the overall labor market recovery appeared to be continuing. He then disclosed that the number of employed was forecast to remain on the rise in October, led by the service sector, with the easing of factors that had temporarily restricted employment such as the effects of the Chuseok holidays.

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:

Many members shared the opinion that, considering domestic economic and price conditions, it was necessary to adhere to the current policy stance of curbing inflation expectations through normalization of the

Base Rate and of firmly anchoring the basis for price stability, but that it would be better to hold the Base Rate at its current level this month in view of the increasing downside risks to the world economy and the influence of international financial market unrest on the domestic financial markets.

One member noted that, as the downside risks to the growth path were becoming ever more prominent at this time, financial and economic developments at home and abroad must be scrutinized while proceeding with policy adjustment at a measured pace.

On the other hand, another member pointed out that serious economic imbalances might arise, such as expansion of the monetary base, generation of rapid inflation and formation of asset bubbles, should real interest rates remain negative for a long time. He then expressed the view that the drive to reduce the scale of monetary accommodativeness must be continued once the uncertainties surrounding economic activity had receded somewhat with the calming of international financial market turmoil.

After the discussions detailed above, 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 that, while emerging market economies have shown favorable performances, major advanced economies have exhibited signs of sluggishness. Going forward the Committee forecasts that the global economy will show a recovery, albeit a moderate one; nevertheless, the Committee judges that downside risks to growth have expanded—due mostly to the likelihood of the sovereign debt problems in Europe spreading, and to the possibilities of the slumps in major country economies and the unrest in international financial markets continuing.
- ☐ In Korea, exports have sustained their high growth and domestic demand has posted a modest rising trend. On the employment front, although the increase in the number of employed slowed in September due to temporary factors, the trend of improvement led by the private sector appears to be continuing. The Committee anticipates that the domestic economy will keep up its long-term trend of growth going forward, but judges the downside risks to growth to have increased due to the impact of external risk factors.
- ☐ Consumer price inflation declined to 4.3% in September, owing to the stabilization of agricultural product prices. The Committee expects the pace of decline in inflation to be modest in the coming months, given stubbornly high inflation expectations, although factors such as declines in agricultural product prices and the base effect from last year will work to bring inflation down. Core inflation meanwhile

recorded 3.9%, similar to its level of the previous month, and is forecast to remain elevated for the time being. As for housing prices, those in Seoul and its surrounding areas maintained their August levels, while prices in the rest of the country continued to climb at a rapid pace. The rate of increase in leasehold deposits also rose further.

- ☐ In the financial markets, stock prices and the exchange rate continued to fluctuate widely, mainly reflecting unease concerning external risk factors. Long-term market interest rates fell somewhat, affected primarily by concerns over slowdowns in economic growth both at home and abroad and by foreigners' continued bond purchases.
- ☐ Looking ahead, the Committee, while closely monitoring financial and economic risk factors both at home and abroad, will conduct monetary policy with a greater emphasis on ensuring that the basis for price stability is firmly anchored while the economy continues its sound growth.