

Minutes of the Monetary Policy Committee Meeting

April 13, 2012

The Bank of Korea

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

I . Outline

1. Date of meeting : April 13, 2012 (Fri)
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
 - Lim, Seungtae
 - Park, Won Shik (Senior Deputy Governor)
4. Monetary Policy Committee members absent : None
5. Participants:
 - Shin, Je-yoon, First Vice Minister of Strategy and Finance
 - Kang, Tai Hyuk, Auditor
 - Kim, Jae-Chun, Deputy Governor
 - Lee, Kwang-June, Deputy Governor
 - Jang, Seh-Geun, Deputy Governor
 - Kim, Jong Hwa, Deputy Governor
 - Kang, Juno, Deputy Governor
 - Kim, Jun Il, Director of Economic Research Institute & Chief Economist
 - 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 a 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:

The assessment of many members regarding **the global economy** was that, although some US economic indicators were showing patterns of improvement, global economic uncertainty was mounting as the influence of the economic slowdown in the euro area spread to emerging market countries. One of these members noted that, with the transmission of the European sovereign debt crisis to the banking system, deleveraging was appearing, and forecast that this would act as an additional burden on the growth path of the euro area in the future.

In regard to **the current state of the domestic economy**, members judged that its growth was showing signs of a recovery, albeit a modest one, with the current account shifting back into surplus and consumption and construction investment also increasing, amid sustained improvements in labor market conditions. One member mentioned, however, that the growth momentum was decelerating, in reflection of worsening external conditions such as the run-up in international oil prices and the downward adjustment of the world economic growth rate, etc.

As to **the outlook**, while expecting the domestic economy to sustain growth at its long-term trend level, some members judged that the risk was also not small of it going into a downtrend due mainly to the high level of international oil prices and heightened financial market volatility, etc.

Concerning **the domestic financial markets**, one member pointed out

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

that they generally presented a pattern of stability, with concerns about the domestic economy and prices easing somewhat, but had been exhibiting signs of greater volatility since the beginning of April in line largely with the sluggish U.S. employment indicators and resurgence of fiscal problems in some European countries.

Regarding **consumer prices**, members commented that consumer price inflation had slowed from the previous month to register 2.6% in March, helped mostly by the expansion of government subsidies for childcare fees and free school meals. Most members pointed out, however, that attention should be given to the fact that upward price pressures were still high, due to demand-pull factors arising from the improved economy, to the elevated inflation expectations, and to destabilizing factors like geopolitical risks in the Middle East, etc.

As for **housing prices**, one member mentioned that they had remained on a downward path for five consecutive months in Seoul and its surrounding areas, and their pace of increase in the rest of the country had not accelerated.

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 major real economic indicators, such as production and consumption, to have been improving, while the trend of employment recovery continued. He pointed out, however, that the situation was one in which growth in production appeared to be concentrated in certain sectors

amid a slight sluggishness in facilities investment.

The 1st Vice Minister mentioned that headline inflation had fallen to the 2% range for the first time in 19 months in March this year. Concerning future price conditions, he indicated that it was too soon to relax due to the numerous uncertainties, such as international oil prices and unstable agricultural product prices. At the same time, he forecast the possibility of factors making for price instability materializing after April, particularly when the hikes in price of raw materials and oil were reflected in public utility charges, fees for personal services and industrial product prices.

Regarding the trend of external transactions going forward, the 1st Vice Minister remarked that while exports of major items such as automobiles and petroleum products had run smoothly in March, total exports had declined 1.4% year-on-year, owing mostly to the base effect and the difference in the numbers of days worked. He commented on the other hand that imports had fallen 1.2% year-on-year in March, due to reduced imports of raw materials and capital goods.

IV. 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 both economic and price conditions appeared to be improving month-on-month recently, but it would be better to hold the Base Rate at its current level for the intermeeting period, considering that downside risks to growth and factors making for price instability were latent, and that the uncertainties concerning conditions overseas persisted.

One member noted that, although the current level of the Base Rate could still be termed accommodative, it was feared that its rise at this juncture when economic uncertainty had become more acute due to the recurrence of European fiscal crisis could again worsen business activity which was just showing stirrings of improvement, and widen the amplitude of business fluctuations.

He went on to point out that, since the negative effects of low interest rates, such as increased leveraging by households and businesses and the postponement of corporate restructuring, had intensified with the Base Rate being kept low for an extended period, there should be no delay in seeking interest rate normalization once signs of the instability at home and abroad easing to some degree were confirmed.

Another member argued that the recent sluggishness in private sector consumption was attributable mainly to structural factors—whereby household financial conditions worsened as essential consumption expenditure increased amid the growing imbalance in income distribution between businesses and households—and since this was also related, directly and indirectly, to various issues confronting the Korean economy, there was a need to focus policy capacity on improving the household sector's wherewithal to consume.

Meanwhile, one other member expressed the view that there was a possibility of the real estate market in Seoul and its surrounding areas becoming greatly depressed, with transactions slumping and a reversal of the shortage in leasehold units appearing, and that attention to this was therefore needed.

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 shown trends of further 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 pace of global economic recovery to be moderate, and judges that risk factors still exist, including the sovereign debt problems in Europe and geopolitical risks in the Middle East.
- ☐ In Korea, although export growth has slowed the Committee appraises economic growth to have shown signs of a moderate recovery, with consumption and construction investment increasing. 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 2.6% in March, influenced chiefly by the expansion of government subsidies for childcare fees and free school meals, 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, prices remained on a decline in Seoul and its surrounding areas and on a rise in the rest of the country, while the uptrend in leasehold deposits nationwide was maintained.

- ☐ In the financial markets, price variables displayed fluctuations for a time, affected for instance by conditions in the major economies and international financial markets, after which stock prices then fell and the Korean won depreciated against the US dollar. Long-term market interest rates continued to rise, mitigating the degree of yield curve inversion.
- ☐ 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.