

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

June 8, 2012

**The Bank of Korea**

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

### **I . Outline**

1. Date of meeting: Friday, June 8, 2012
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 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

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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**, many members judged that, with the tendency of risk aversion strengthening in response to the spread of international financial market unrest particularly in the euro area, the downside risks to its growth were becoming larger, due to the likelihood of economic recession in major countries.

As to **the current state of the domestic economy**, most members evaluated its growth momentum as still being weak, although some real economic indicators showed slight improvements going into April compared to the previous month.

In addition, most members judged that, with destabilizing external factors including the sovereign debt problems in the euro area and economic sluggishness in major countries persisting for a long time, the timing of **GDP growth rate's** return to trend was very likely to be delayed longer than expected. One among these members assessed that the pace of growth through **the public sector** would also weaken by the reduction in the government's fiscal spending in the latter half-year.

Members noted with regard to **the domestic financial markets** that volatility had increased with the outflows of foreign stock investment funds, the decline in stock prices and interest rates, and the depreciation of the Korean won against the US dollar, due to concerns about worsening global economic conditions. One member, however, evaluated the prospect of an abrupt exodus of foreign investment funds to be low,

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

since foreign bond investors were maintaining a net buying trend and stock sales were also found to have been strongly driven by profit taking.

Although **consumer price inflation** had shown stable movements at the mid-2% level for a third consecutive month, due largely to the impact of the government's free childcare support and to lower international oil prices, members pointed out that vigilance against rising prices could not be lowered, given the hikes in public utility fees in the second half of 2012, the high level of expected inflation and the possibility of wage hikes.

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 was discussed:

With regard to recent economic activity in Korea, the 1<sup>st</sup> Vice Minister pointed out that, although the stable trend in employment continued and real economy indicators had improved somewhat, indices for assessing economic activity appeared subdued, and that although prices showed stable movements, destabilizing factors still existed, centering around the prices of agricultural, livestock and fisheries products and processed foods. He in addition forecast that the current account would sustain its surplus as in April, even though exports had recorded negative growth in May owing mostly to reduced global demand and to the base effect.

### **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, although the domestic economy appeared to be sustaining its recovery, albeit weakly, 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 the domestic and international environments. One member expressed the opinion that it was necessary to maintain the interest rate normalization stance in order to ensure solid economic growth and to make room for policy action in the future, since the current level of the Base Rate could still be deemed accommodative because it was far lower than prior to the global financial crisis.

Another member mentioned that it was necessary to closely review the effectiveness of the interest rate policy transmission mechanism, considering for instance that price variable volatility had grown and the yield curve flattend significantly due to destabilizing external factors.

One other member pointed out the need to examine the effectiveness and capacity of fiscal policy, which along with monetary policy forms the two main pillars of macroeconomic policy.

As regards **financial stability**, some members expressed the view that efforts should be made to examine the effects of the existing measures to reduce capital flow volatility, and to maintain comfortable foreign exchange supply and demand conditions, given that Korea's foreign exchange and financial markets were vulnerable to sudden reversals of foreign investment fund flows in events of external shock.

Another member opined that there was a need to even out the maturity distribution of household debt, since there was a possibility of a vicious circle being set in motion between souring household loans, particularly those extended to older age groups, and real estate market instability.

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 the trends of improvement in some economic indicators in the US to have shown signs of faltering, and economic activities in the euro area to have remained sluggish. Growth in emerging market economies has continued its trend of weakening, due mostly to slowing exports. Going forward the Committee expects the global economy to sustain its recovery, albeit at a moderate pace, but judges that the downside risks to growth are becoming larger, due chiefly to the international financial market unrest stemming from euro area risks and to the possibilities of economic slumps in major countries.
- ☐ In Korea, the Committee appraises the trend of economic growth, although weak, to be continuing, with consumption and facilities investment having shifted to slight increases while exports generally maintain their levels of last year. 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 economy will gradually post long-term trend level growth going forward, but recognizes the situation to be one in which downside risks to growth are becoming larger due mostly to the increase in external risk factors.
- ☐ Consumer price inflation sustained a level in the mid-2% range in May, and core inflation dropped compared to the previous month. The Committee does however recognize the presence of potentially destabilizing factors, such as pressures to hike public utility fees and

the ongoing high inflation expectations. In the housing market, sales prices have remained weak and leasehold deposits halted their rise in Seoul and its surrounding areas. The uptrends of both sales and leasehold deposit prices in the rest of the country have slowed.

- ☐ In the financial markets, stock prices have declined considerably, long-term market interest rates have also fallen and the Korean won has depreciated greatly against the US dollar, due mostly to the continuation of international financial market unrest and the strengthening of risk aversion tendencies.
- ☐ Looking ahead, the Committee, while closely monitoring external risk factors and the consequent changes in domestic financial and economic conditions, 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.