

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

November 11, 2011

**The Bank of Korea**

## **Minutes of the Monetary Policy Committee Meeting<sup>1)</sup>** **(November 2011)**

### **I . Outline**

1. Date of meeting : November 11, 2011 (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
  - 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
  - Kim, Jae-Chun, Deputy Governor
  - 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
  - Sung, Sang Kyung, Head of MPC Administrative Support Team

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1) This English version (summary) of the Monetary Policy Committee meeting minutes was produced at a 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 by members of the Monetary Policy Committee (MPC) covered the following areas:

Regarding **the global economy**, many members assessed that emerging market economies were maintaining steady growth momentums, but that advanced economies were showing signs of weakening paces of recovery due to the euro area sovereign debt crisis and the consequent spread of uncertainty. One member pointed out the possibility of a future slowdown of economic growth in emerging economies influenced by the delayed recoveries in advanced economies and persistence of international financial market unrest.

Many members evaluated that, while **the domestic economy** was continuing to level off at around its long-term trend, its growth had recently appeared to be faltering somewhat. One of these members voiced concern about whether the current phase of the business cycle was shifting, as the cyclical component of GDP had been exhibiting a pattern of gradual decline.

As to **the future outlook**, most members judged the downside risks to growth as high, given the recent signs of slowdown in some real economic indicators and the unstable movements of international financial markets. One member however forecast that Korea's growth rate would not deviate greatly from its long-term trend level, unless a situation such as during the 2008 global financial crisis recurred.

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

Some members pointed out, regarding **the domestic financial markets**, that the volatility of stock prices and other price indicators had increased due to external destabilizing factors. One member assessed that, although domestic foreign exchange market volatility had risen considerably over the previous three months, it was markedly improved compared to the time of the global financial crisis in 2008, and attributed this mostly to the strengthened fundamentals of the Korean economy, to the improved external debt profile, and to the expanded sizes of Korea's currency swap arrangements with Japan and China.

Regarding **consumer prices**, most members anticipated that, although headline consumer price inflation had come in at 3.9% in October, down from 4.3% the previous month due largely to the stability of agricultural, livestock and fisheries product prices and the base effect from the previous year, it would fluctuate at a high level for the time being—owing chiefly to public utility charge hikes, to higher import prices, and to mounting pressures stemming from expected inflation.

As to **housing 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 risen at a somewhat slower pace.

### **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 that, although the economy was maintaining its trend of recovery,

as exemplified by increased production in the mining and manufacturing sector in September and improved employment conditions, there was mounting uncertainty about domestic economic developments as some real economic indicators including service sector production, retail sales and facilities investment were showing movements suggestive of a slight slowdown.

Regarding prices, the 1st Vice Minister noted that consumer price inflation had dropped in October compared to the preceding month, but predicted that it would be somewhat higher in November due mostly to a base effect and to increases in import prices. He disclosed that the government would therefore push ahead with both short and long-term countermeasures for price stability going forward, as planned.

As to export and import trends, the 1st Vice Minister remarked that exports had shown slower growth in October, due chiefly to the base effect and to decreased exports to the US and the EU in line with the global fiscal crisis, while imports had fallen from the preceding month owing largely to the depreciation of the Korean won against the US dollar and the decline in international commodity prices. He revealed that the October current account surplus was as a result estimated to be slightly wider than that in September.

The 1st Vice Minister also assessed the employment situation as sustaining its overall buoyancy, notwithstanding the uncertainty surrounding external conditions.

#### **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:

Most members shared the opinion that, although it was necessary to press ahead with normalization of the Base Rate in order to curb inflation expectations and firmly anchor the basis for price stability, it would be better to hold the Base Rate at its current level for the intermeeting period in view of the increasing downside risks to the domestic economy and the ongoing global financial market unrest.

One member opined that attention should be paid to the fact that adverse effects from the persistence of low interest rates for an extended period were already appearing, in the form of a deepening of economic imbalances—with real interest rates currently remaining negative and household and corporate lending growth accelerating—and that the Base Rate hikes should consequently be resumed, once the global financial market unrest had eased to some extent and positive signs of changes in economic activity had reemerged.

Another member expressed the view that, in circumstances like at present—where external destabilizing factors remained and economic conditions in the coming months were unclear—any sudden shift in the monetary policy stance might induce anxiety among economic agents and cause expectations for interest rate policy to be skewed, and that monetary policy effectiveness could thus be best secured by managing and guiding the formation of market expectations through announcement effects related to the direction of interest rate policy.

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 that, while emerging market economies have shown favorable performances, major advanced economies have exhibited signs of sluggishness. Going forward the Committee judges that the global economy will show a recovery, albeit a moderate one, but that downside risks to growth are high, due mostly to the sovereign debt crisis in Europe and to the possibilities of the slumps in major country economies and the unrest in international financial markets continuing.
- ☐ In Korea, domestic demand has faltered but exports have continued to grow strongly. The trend of improvement in employment conditions has been sustained, led by the private sector. The Committee anticipates that the domestic economy will keep up its long-term trend of growth going forward, but recognizes the situation to be one in which downside risks to growth remain high due to the impact of external risk factors.
- ☐ Consumer price inflation declined to 3.9% in October owing to the stabilization of agricultural product prices, and core inflation recorded 3.7%, down slightly from the previous month. In the coming months, factors including the declines in agricultural product prices will work to stabilize prices, but the Committee expects the inflation rate to fluctuate at a high level for the time being given factors such as the public utility charge hikes and stubbornly high inflation expectations. As for housing prices, those in Seoul and its surrounding areas

maintained their September levels, while the upward trend in the rest of the country slowed somewhat from the previous month. The rate of increase in leasehold deposits meanwhile declined nationwide.

- ☐ In the financial markets, stock prices and the exchange rate continued to fluctuate widely as unease concerning external risk factors persisted, and long-term market interest rates fell, affected primarily 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 so as to firmly anchor the basis for price stability amid continuing sound growth of the economy.