

Minutes of the Monetary Policy Committee Meeting

March 8, 2012

The Bank of Korea

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

I . Outline

1. Date of meeting : March 8, 2012 (Thur)
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
 - 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 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 the international financial market unrest showed signs of easing, owing mostly to the expansion of the ECB's long-term refinancing operation (LTRO) and the improvements in U.S. economic indicators, the real economy was exhibiting signs of weakening growth due the contraction of economic activity in the euro area and the slowing of emerging market countries' exports. One of these members mentioned that the global liquidity, expanded through additional easing by major central banks, had flowed into commodity markets, pushing up prices for raw materials, including international oil, which was very likely to curb world economic growth.

In regard to **the domestic economy**, members judged its pace of growth to be breaking out of its sluggishness somewhat, with consumption and facilities investment improving and exports expanding. One member noted, however, that it was rather premature to consider the improvements in some economic indicators as implying a shift to economic recovery from the second half of this year, and that no clear momentum driving an economic recovery domestically was seen.

As to **the outlook**, some members forecast that the domestic economy would improve gradually from the second half onward as the uncertainties about external conditions eased, although it would be difficult to expect a rapid recovery since risk factors still remained, including the euro area sovereign debt problems and the cumulative increase in household debt.

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

Concerning **the domestic financial markets**, many members commented that stock prices had risen and the Korean won had appreciated against the US dollar, mostly on the easing of risk aversion tendencies and inflows of foreign investors' funds. One of these members pointed out that attention should be paid to the possibility of foreign investor fund in- and outflow volatility expanding going forward, depending for example on how the euro area fiscal problems evolved.

Regarding **consumer prices**, members remarked that headline consumer price inflation had come in at 3.1% in February, lower than in the previous month, helped mostly by a base-period effect and declines in the prices of livestock products. One member on the other hand assessed inflationary pressures as having rather increased further, since international oil prices had risen much more than originally forecast and public utility charge hikes were on the horizon, while expected inflation had been running above the 4% level for eight consecutive months.

As for **housing prices**, one member mentioned that they remained sluggish in Seoul and its surrounding areas and their pace of increase in the rest of the country had slowed down.

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 construction investment was sluggish and the coincident composite index seen to have fallen, the trend of employment growth was continuing and major real economic indicators improving—

boosted for instance by the impact of the Lunar New Year having fallen in January rather than in February. He pointed out on the other hand that the situation was one in which the uncertainty arising from the run-up in international oil prices was rapidly mounting, amid continued fears of a global economic slowdown centering around Europe.

The 1st Vice Minister forecast that, although the rate of increase in consumer prices had fallen somewhat month-on-month in February, factors such as international oil price hikes resulting from the sanctions against Iran, and international financial market volatility triggered by the European fiscal crisis, would work to destabilize prices in the future.

Concerning the trends of external transactions, the 1st Vice Minister remarked that exports had increased 22.7% year-on-year in February, buoyed mostly by the increase in number of days worked due to the movement of the Lunar New Year to January and the waning of after-effects from the concentration of exports at the year-end. He meanwhile estimated that the current account, which had posted a deficit of 0.77 billion dollars this year, would shift to a surplus for February, bolstered for instance by a trade account surplus and an improvement in the services account.

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:

Members shared the opinion that it would be better to hold the Base Rate at its current level for the intermeeting period, agreeing that now was the time to examine the conditions for conducting monetary policy by keeping a watch on the evolution of the European sovereign debt crisis,

the impacts of international oil prices on the real economies at home and abroad and on prices, and the policy effects of additional quantitative easing by major countries, etc.

One of these members commented that, although the current level of Base Rate remained accommodative, a rise in it at this juncture, when the pace of economic slowdown was finally starting to ease, might aggravate economic activity further, entailing risks of an expansion in the amplitude of economic fluctuations.

He went on to note that inflows of the abundant global liquidity had recently increased, and pointed out that special attention was warranted since the possibility of their causing excessive credit expansion and increases in asset prices was high, and since it was feared that they might reverse to sudden outflows in the event of changes in conditions at home or abroad.

Another member noted that efforts should be exerted to preemptively block the possibility of expected inflation working as a factor amplifying the second-round effects from supply shocks, and that there was a need to develop more active communication strategies, particularly given that the scope for operation of interest rate policy was limited.

He also asserted that, for a fundamental solution to the household debt problem, comprehensive and multi-dimensional proposals should be explored—that could bring about a division of roles and policy coordination among the various economic policy authorities overseeing not just financial supervisory policy but also other policies such as monetary, fiscal and employment policies.

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 such as employment to have sustained their trends of 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.
- ☐ For Korea, the Committee appraises economic growth to have not slowed further. Although construction investment has been sluggish, consumption and facilities investment have increased and exports have shown a steady expansion. 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 level going forward, although viewing downside risks as likely to remain high for some time due mostly to the impact of external risk factors.
- ☐ Consumer price inflation fell to 3.1% in February despite the rise in petroleum product prices, owing to declines in the prices of livestock products, and core inflation, which excludes the prices of non-grain agricultural products and petroleum products, also dropped compared to the previous month. In the coming months, factors including the easing of demand-side pressures will work in favor of price stability,

but the Committee recognizes 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 weak in Seoul and its surrounding areas, while leasehold deposits there rose. The rates of increase in housing prices and leasehold deposits in the rest of the country fell somewhat compared to the month before.

- ☐ In the financial markets, stock prices rose, long-term market interest rates increased slightly, and the volatility of the Korean won exchange rate diminished, as the international financial market unrest eased further.
- ☐ 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.