

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

December 13, 2012

**The Bank of Korea**

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

### **I . Outline**

1. Date of meeting: Thursday, December 13, 2012

2. Place: Monetary Policy Committee Meeting Room

3. Monetary Policy Committee members present:

Kim, Choongsoo, Chairman (Bank of Korea Governor)

Lim, Seungtae

Park, Won Shik (Senior Deputy Governor)

Ha, Seong 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

Song, JaeJung, Auditor

Jang, Seh-Geun, Deputy Governor

Kim, Jun Il, Deputy Governor

Kang, Juno, Deputy Governor

Kim, Jong Hwa, Deputy Governor

Choo, Heung Sik, Director of Reserve Management Group

Choi, Woon Gyu, Director of Economic Research Institute

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:

Members' assessment regarding **the global economy** was that it was sustaining a recovery, albeit a weak one, with some economic indicators in the US and emerging market countries having improved, but that the downside risks to growth were still large. Many members pointed out that, although **the international financial markets** remained stable overall, largely on the agreement to resume the financial rescue package for Greece, the possibility of market instability recurring remained.

Most members assessed **the domestic economy** as continuing on a weak pace of growth, with the sluggishness of domestic demand persisting despite the ongoing trend of improvement in the exports sector.

Concerning **the outlook**, members anticipated that the economy would show a modest recovery led by exports. Some members, however, foresaw the negative output gap lingering on for a considerable time, owing to the slow pace of economic recovery.

With regard to **the domestic financial markets**, members pointed out that the Korean won had appreciated against the US dollar, due mostly to the sustained current account surplus and to inflows of liquidity from overseas, and that market interest rates and stock prices had shown upward movements on the easing of international financial market unrest and weakening expectations of additional Base Rate cuts.

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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.

Many members noted that, helped by the stability of international commodity and agricultural product prices, **consumer price inflation** was running at the mid-1% range, and they forecast that it would remain low for some time to come.

After the members' discussions, the 1<sup>st</sup> Vice Minister of Strategy and Finance, the government representative, commented on recent economic developments as follows, and then left the room before the Base Rate was discussed:

While domestic inflation and employment appeared stable, production and exports had improved, but consumption, investment and other domestic demand-related indicators were sluggish. As for the world economy, with concerns persisting about its slowdown, uncertainties lingered due largely to the delays in recovery of consumer and investor sentiment. The government will respond to factors making for price instability preemptively and strengthen its drive for structural improvement, and continue its policy efforts to boost the economy and create jobs.

### **III. Discussions Concerning 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 it would be best to keep the Base Rate at its current level during the intermeeting period and closely watch changes in the financial and economic environments at home and abroad, given that the sluggishness of domestic economic growth was not intensifying any further, and that the economic conditions at home and abroad continued to remain in an unsteady state while inflation was expected to show stability for some time, although the pace of growth in domestic economic activity was still weak.

Some of these members expressed the opinion that policy efforts should be directed toward curbing sudden in- and outflows of speculative capital, since, in view of various features of the Korean financial markets including their high degree of openness and asymmetrical structure, the recent excessive inflows of global liquidity were highly likely to impose a greater economic burden on Korea than on any other country.

Another member asserted that, since there were some indications of a differentiation in terms of credit quality between firms among those issuing the higher-grade corporate bonds that had been preferred for some time as prime paper, it was necessary to monitor this closely to prevent the spread of credit risk aversion from acting as a factor making for financial instability, while fine-tuning its policy instruments to stage a preemptive response.

One other member pointed out that, given the concerns about the growth potential being eroded by the continuation of low growth, there was a necessity of preparing against such a hysteresis effect becoming entrenched by reviewing the macro and micro cycles in a timely manner.

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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 2.75% for the intermeeting period.
- ☐ Based on currently available information, the Committee considers the moderate economic recovery in the US to have continued, but the sluggishness of economic activities in the euro area to have persisted. Economic indicators in emerging market countries have shown signs of gradual improvement. The Committee expects the global economy to exhibit a modest recovery going forward but judges the downside risks to growth to be large, owing chiefly to the euro area fiscal crisis and to the fiscal consolidation issue in the US.
- ☐ In Korea, the Committee appraises economic growth to have remained at a weak level, with exports improving but the sluggishness in domestic demand continuing. On the employment front, the number of persons employed has shown a trend of increase above its average pre-global financial crisis level, led by the higher age groups. Going forward, the Committee anticipates that the negative output gap in the domestic economy will persist for a considerable time, due mostly to the prolongation of the euro area fiscal crisis and to the delay in recovery of world economic growth.
- ☐ Consumer price inflation fell to 1.6% in November, from 2.1% the previous month, a result mainly of declines in agricultural and petroleum product prices, and core inflation excluding the prices of agricultural and petroleum products continued to run at a low level

at 1.3%. The Committee forecasts that inflation will remain low for the time being, owing primarily to the easing of demand-side pressures. As for housing prices, those in Seoul and its surrounding areas continued their downtrend and those in the rest of the country their uptrend.

- ☐ In the financial markets, stock prices and long-term market interest rates rose, due mostly to international financial market stability and improvements in economic indicators in major countries, and the Korean won appreciated against the US dollar owing chiefly to the continued surplus in the current account.
- ☐ Looking ahead, the Committee will closely monitor external risk factors and the consequent changes in financial and economic conditions at home and abroad, and conduct monetary policy so as to stabilize consumer price inflation at the inflation target over a medium-term horizon while continuing its efforts to lower inflation expectations and ensuring that the growth potential is not eroded.