

Minutes of the Monetary Policy Committee Meeting

August 9, 2012

The Bank of Korea

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

I . Outline

1. Date of meeting: Thursday, August 9, 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

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 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:

In regard to **the global economy**, members assessed its sluggishness to be continuing and its downside risks to have increased further, due to the economic contractions in major advanced countries and the slowdowns of growth in emerging market countries resulting from the high degree of uncertainty.

Concerning **the domestic economy**, most members pointed out that its growth momentum appeared to be weakening, as the recovery of the domestic demand sector including private consumption and facilities investment was slowing while exports were showing lackluster performances as a result of the sluggishness in major economies.

As to **the outlook**, many members anticipated that, the growth path was highly likely to run below its long-term trend for a considerable time considering the uncertainties in the external sector and the weak recovery in the domestic demand sector.

With regard to **the domestic financial markets**, members mentioned that foreign portfolio investment funds had shifted to a net inflow, due mostly to the ample global liquidity, the expectations of further Base Rate cuts and the increased preference for safe assets, and that this had caused market interest rates to drop sharply, thereby leading to manifestations of a more inverted yield curve and of a concentration of funds at the short-term end of the market.

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

In relation to **consumer prices**, members forecast that they would remain on a stable track for the time being, as consumer price inflation had exhibited a low rate of 1.5% in July on the back of the stabilization of agricultural and petroleum product prices, and that upward pressures on both the supply and demand sides had eased, largely in response to the economic sluggishness and to lower international commodity prices. Some members, however, took the view that potentially destabilizing factors making for price rises were still present, considering the high level of inflation expectations, hikes in public utility charges and the possibility of a rise in international grain prices, coupled with the fact the current low price trends were largely based on a base-period effect and institutional factors such as the free childcare support.

Meanwhile, some members anticipated that the housing market slump would persist for some time longer going forward, as the margin of decline in **real estate prices** in Seoul and its surrounding areas was widening and prices in the rest of the country were edging up at a slower pace.

After the members' discussions, the 1st Vice Minister of Strategy and Finance, the government representative, made the following comments on recent economic developments and then left the room before the Base Rate decision:

Prices had kept up a stable trend, but the trend of improvement in employment appeared to have slowed and real economy indicators to have been somewhat lackluster. Although exports had recorded negative growth in July, owing mostly to the decrease in global demand and to the base effect, the current account would sustain its surplus as it had in June.

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 it would be better to hold the Base Rate at its current level for the intermeeting period, since for the time being there was a need to assess carefully the effects of the recent rate cut and to monitor the trends of real economic indicators at home and abroad closely, although the recovery of economic growth was very slow and CPI had shown a stable trend.

Furthermore, one member expressed the opinion that, in a situation in which the scope for conduct of policy was fairly constrained, the policy capacity should be focused now on relieving the weakening sentiment of economic agents through an active communication strategy, since it would not be easy to undertake bold policy adjustments if the downside risks to growth materialized going forward.

Another member argued that the direction of fiscal policy should be considered when making policy decisions in the coming months, since greater effects could be expected when the interest rate policy was implemented in harmony with other levers of fiscal and macroeconomic policy tools.

Meanwhile, one other member asserted that, although the possibility of debt deflation occurring as suggested recently in some circles was evaluated as not high, the household debt- and real estate-related issues—factors to which the Korean economy was structurally vulnerable—posed the risk of escalation to ignite a crisis at any time, and so measures to resolve them must be sought with continued interest in the future.

After the discussions detailed above, the members decided unanimously to keep the Base Rate at its current level for the intermeeting period.

< Ref >

Monetary Policy Decision

- ☐ The Monetary Policy Committee of the Bank of Korea decided today to leave the Base Rate unchanged at 3.00% for the intermeeting period.
- ☐ Based on currently available information, the Committee considers the economic recovery in the US to have weakened somewhat and the sluggishness of economic activities in the euro area to have deepened. Growth has also continued to slow in emerging market countries, due mostly to the impact of the economic slumps in advanced countries. The Committee expects the pace of global economic recovery to be very moderate going forward as well, with the uncertainties surrounding the euro area fiscal crisis and the international financial markets persisting.
- ☐ In Korea, the Committee appraises the trend of economic growth to have slowed, owing to lackluster exports and domestic demand amid a continued surplus in the current account. On the employment front, the uptrend in the number of persons employed is being sustained, led by the higher age groups and the service industry. The Committee anticipates that the domestic economy will sustain a negative output gap for a considerable time going forward, due mostly to the increase in euro area risks and the sluggish economies of its major trading partners.
- ☐ Consumer price inflation came in low at 1.5% in July, owing chiefly to the ongoing stable trend of international oil prices and to favorable weather conditions, and core inflation also posted a significantly low figure. The Committee forecasts that inflation will remain at a low level for the time being, despite for instance pressures to hike public utility fees and the instability of international grain prices. As for housing prices, those in Seoul and its

surrounding areas declined at a faster pace and their uptrend in the rest of the country slowed.

- ☐ In the financial markets, price variables have shown fluctuations influenced mainly by the changes in international financial markets conditions and revisions of domestic and world economic forecasts; stock prices have risen and the Korean won has appreciated against the US dollar. Long-term market interest rates have fallen substantially, due mostly to the impacts of the economic slowdown and of last month's Base Rate cut.
- ☐ Looking ahead, the Committee, while closely monitoring external risk factors and the consequent changes in financial and economic conditions at home and abroad, and also continuing its efforts to lower inflation expectations, will conduct monetary policy so as to stabilize consumer price inflation at the inflation target over a medium-term horizon amid continuing sound growth of the economy.