

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

August 11, 2011

**The Bank of Korea**

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

### **I . Outline**

1. Date of meeting : August 11, 2011 (Thu)
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 :
  - Yim, Jong-ryong, 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

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1) This English version (summary) of the Monetary Policy Committee meeting minutes was produced at the working level and is not an official document.

## II. Summary of Discussion on 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**, most members assessed that the paces of recovery in the U.S. and other advanced economies had exhibited signs of weakening, while emerging market economies were showing favorable performances. Many members shared the opinion that there was concern that factors such as the economic slowdown in major advanced countries, the spread of sovereign debt problems in some European countries and the international financial market unrest could limit the recovery of the global economy. One member, notably, expressed the view that the economic situation of major advanced countries was unlikely to take a turn for the better within a short space of time, since some structural factors such as the U.S. status as a reserve currency country and the euro zone situation of being a single currency bloc were making exchange rate adjustments difficult for both.

Meanwhile, another member evaluated the possibility of a recurrence of a crisis similar to that in 2008 as low, given that central banks in advanced countries were expected to implement additional monetary easing, that the recent crisis was not one of systemic risks caused by a chain of large financial institutions going bankrupt as in the past, and that the strong economic growth in emerging market countries was acting as the engine of world economic recovery.

Most members evaluated **the domestic economy** to be sustaining its upward trend, with exports showing solid growth and domestic demand

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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.

also maintaining a mild expansion. One of them pointed out that exports had reached an all-time high and that employment was also improving steadily.

Regarding **the future outlook**, the judgement of a number of members was that, although the growth of the domestic economy would be sustained, the uncertainties as to its future path seemed to have deepened further, due mostly to the possibility of external destabilizing factors persisting for a long time and to the resulting increase in financial market volatility.

Most members mentioned that the **domestic financial markets** had displayed unstable movements, as exemplified by the sharp falls in share prices and steep rise in the Korean won/US dollar exchange rate amid large scale net sales of Korean stocks by foreign investors. One of them forecasted that price variables would show high volatility for a considerable length of time, since it would be difficult to address the structural fragilities of the European and U.S. economies that were generating the international financial market unrest.

Another member assessed the financial and foreign exchange sectors to be very sound, with the external debt profile and the foreign currency situation greatly improved compared to past financial crises, and the capacity to withstand rapid capital outflows thus heightened.

As to **consumer prices**, most members noted that consumer price inflation had registered 4.7% in July, higher than in the previous month, influenced by a sharp run-up in agricultural product prices. Many members anticipated that prices would remain at a high level due not only to the destabilizing factor remaining on the supply side, which is generated mostly by the torrential rainfall, but also to other factors such as the hikes in public utility charges and mounting inflationary expectations.

Some members assessed that **housing sales prices** in Seoul and its surrounding areas had weakened, while those in the rest of the country had posted rates of increase similar to those of the previous month, and that the rate of leasehold deposit increase had been higher than that in the preceding month.

### **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 the economy was exhibiting upward movements at the trend level with the manufacturing and services production showing continued growth, volatility in domestic and overseas financial markets was mounting considerably since the U.S. credit rating downgrade, and therefore a close watch needed to be kept on developments in the real economy.

As to the recent instability in the global financial market, the 1st Vice Minister remarked that, although this instability was expected to have only a limited effect on the Korean economy at this stage, market stabilization measures were being actively undertaken in order to ease uncertainty and forestall market disturbance.

Regarding prices, the 1st Vice Minister commented that, although prices were forecasted to show a slowing rate of increase from September in terms of their headline figures, there remained, as before, uncertainties as to weather conditions. He also explained that the government was

strengthening its efforts to look into the factors behind the price instability and respond to them through its weekly meetings held to discuss price stabilization measures.

#### **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:

Many members shared the opinion that, although concerns about the possibility of inflationary pressures becoming entrenched for some length of time could not be ruled out, with the increased possibility of the annual rate of increase in consumer prices exceeding the original forecast, it would be better to maintain the Base Rate at its current level this month, in view of the heightened anxieties among economic agents with the recent spread of global financial instability.

One member noted that a policy rate hike might amplify and transmit the uncertainty in the global financial markets to the domestic markets, and that this risk could be greater than that triggered by putting off tightening a little longer.

One other member took the view that, the timing of policy implementation should be kept flexible in line with the economic situation at home and abroad, thought it was necessary to maintain the current policy stance of Base Rate normalization, with monetary policy being basically directed toward defusing the upward inflation pressures and inflation expectations.

Another member voiced the opinion that efforts to normalize Base Rate must be driven forward persistently, since the opportunity to curb

price rises with monetary policy was receding and the negative effects including household debt expansion and delays in corporate restructuring were gradually increasing with the pause in rate normalization.

After the discussions detailed above, 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, the recoveries in major advanced economies including the US have exhibited signs of weakening. Going forward, the Committee forecasts that the global economy will keep up its pace of recovery; nevertheless, the Committee recognizes the possibility of such factors as the potential for continuing economic slowdown in major countries, the spread of sovereign debt problems in Europe, and international financial market unrest posing downside risks to the global economy.
- ☐ For Korea, the Committee judges the economy to have maintained its underlying upward trend, given for instance that exports show robust growth and that domestic demand is increasing modestly. Labor market conditions have also remained on a track of improvement, led by the private sector. The Committee judges that the domestic economy will keep up this underlying trend going forward, but that uncertainty as to the growth path has intensified due to the impact of external risk factors.
- ☐ Consumer price inflation rose to the 4.7% level in July, due mostly to sharp rises in the prices of agricultural products including vegetables. The Committee expects the high level of inflation to continue in the coming months, driven largely by demand-side pressures resulting from the underlying uptrend in economic activity and by inflation expectations. Core inflation meanwhile increased to the 3.8% level, and this uptrend is seen persisting for the time being.



As for housing prices, those in Seoul and its surrounding areas weakened, while prices in the rest of the country posted rates of increase similar to those for June. The rate of leasehold deposit increase rose in July compared to the previous month, with transactions becoming more active.

- ☐ In the financial markets, stock prices and long-term market interest rates have fallen sharply and the Korean won has depreciated against the US dollar since the start of August, due mainly to heightened external risk and international financial market instability. Mortgage lending posted a steady rise in July, as in the previous month.
- ☐ Looking ahead, the Committee, while closely monitoring financial and economic conditions both at home and abroad, including factors potentially disruptive to the financial markets, will conduct monetary policy with a greater emphasis on ensuring that the basis for price stability is firmly anchored while the economy continues its sound growth.