

Minutes of the Monetary Policy Committee Meeting

November 9, 2012

The Bank of Korea

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

I . Outline

1. Date of meeting: Friday, November 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
Kang, Tae Soo, 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 Discussions 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:

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.

Most members assessed **the domestic economy** as having recently shown signs of a weak but modest recovery, with domestic demand and exports having picked up starting from October.

As to **the outlook**, although exports were likely to improve somewhat with the economies of Korea's major trading partners recovering moderately, most members anticipated that it would take some time for domestic demand to return to a full-blown trend of recovery, influenced for instance by the pullback in confidence due to uncertainties at home and abroad, by the rise in household debt, and by the slumps in construction and housing market activities.

With regard to **the domestic financial markets**, some members pointed out that long-term market interest rates had rebounded slightly on the weakening of expectations of additional Base Rate cuts, eliminating the inversion of the yield curve, that stock prices had undergone a mild correction, and that the Korean won had shown steep appreciation against the US dollar due mostly to the sustained current account surplus and to inflows of liquidity from overseas.

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

Most members anticipated that **inflation** would remain on a stable path for the time being, owing primarily to the economic slowdown and to the stability of petroleum product prices. One of these members, however, put forward the opinion that the possibility needed to be borne in mind of factors such as the still high expected inflation and the unstable international grain prices working to destabilize prices.

After the members' discussions, the 1st 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 inflation and employment appeared stable, some real economy indicators such as production and consumption were recovering somewhat, as were exports. Factors destabilizing to the economy remained, however, as external uncertainties persisted including the concerns about slowdown of the world economy and the electoral timetables in major countries. While closely monitoring economic conditions at home and abroad, the government planned to strengthen its policy measures to enhance economic dynamism, and to continue its efforts to stabilize the livelihoods of the low-income brackets and upgrade the fabric of the economy.

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, as inflation was expected to be stable for some time while the pace of growth in economic activity was weak, it would be best to keep the Base Rate at its current level during the intermeeting period, while closely examining the effects of the two rate cuts since last July together with major countries' policy responses

and their spillover effects.

Some members expressed the opinion that since demand for high-risk, high-return products had been increasing recently due to the low interest rate environment, financial market volatility could spike substantially and would undermine financial stability if conditions should worsen. Therefore, they argued that it was necessary to look comprehensively into the impacts of the low interest rates on financial institutions' profitability and on their sources and uses of funds, and to examine the related risks.

In line with this, another member presented the opinion that there was a need as well to pay attention to and keep watch on the impacts of the low interest rates on the expansion of household debt, the inversion of the yield curve, foreign capital in- and outflows, etc.

One other member, meanwhile, pointed out that there is a need for the central bank to concentrate its capacity to propose plans for boosting the economy's medium- and long-term growth potential, and that to address the recent slowing of growth, measures making active use of its relatively flexible Aggregate Credit Ceiling Loans should be drawn up.

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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. Some economic indicators in emerging market countries have shown signs of improving. The Committee expects the pace of global economic recovery to be very modest going forward and 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 still been weak, although exports appear to be emerging from their downtrend and consumption and investment have turned around to increases. On the employment front, amid its continued uptrend led by the higher age groups and the service industry, the number of persons employed has increased by a greater margin in the manufacturing sector as well. 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 the global economy.
- ☐ October consumer price inflation and core inflation excluding the prices of agricultural and petroleum products continued to run at similarly low levels as in the previous month, at 2.1% and 1.5% respectively. The Committee forecasts that inflation will not deviate

substantially from its current level for the time being, owing primarily to the easing of demand-side pressures and despite the influence for example of international grain price instability. As for housing prices, those in Seoul and its surrounding areas continued their downtrend and those in the rest of the country rose slightly, while the uptrend in leasehold deposit prices picked up owing mainly to seasonal factors.

- ☐ In the financial markets, stock prices fell substantially due mostly to the worsening of economic forecasts and to concerns about lackluster corporate performance, and the Korean won sustained its strength against the US dollar owing chiefly to the easing of international financial market unrest and to the current account surplus. Long-term market interest rates fluctuated somewhat at around their levels at end-September, a result of the fact that the Base Rate cut expected in October had already been priced into these levels.
- ☐ 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.