

Minutes of the Monetary Policy Committee Meeting

January 11, 2013

The Bank of Korea

Minutes of the Monetary Policy Committee Meeting¹⁾ **(January 2013)**

I . Outline

1. Date of meeting : Friday, January 11, 2013
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-Keun, Deputy Governor
Kim, Jun Il, Deputy Governor
Kang, Juno, Deputy Governor
Kim, Jong Hwa, Deputy Governor
Kang, Tae Soo, 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
Kim, Tae Suk, 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 a 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:

Members' assessment was that, despite the continued sluggishness of the euro area economy, **the global economy** was sustaining a recovery, albeit weak, on the strength of improvements in US and emerging market economies. Many members pointed out that, although the **international financial markets** remained generally stable, due to the easing for now of concerns about the US fiscal cliff and to the expanded quantitative easing in major countries, the possibility of market instability recurring still remained.

Most members assessed **the domestic economy** as continuing its weak growth with indicators related to exports and domestic demand alternating between improving and worsening.

Concerning **the outlook**, members anticipated that, although the extent of increase in exports would rise as the trend of improvement in the world economy continued, it would likely to take some time for the economy to return to its long-term growth trend since the recovery of domestic demand was constrained.

With regard to **the domestic financial markets**, members pointed out that stock prices had risen and the Korean won had appreciated against the US dollar, due to inflows of foreigners' securities investment funds in consequence of the overall improvement in international financial market conditions, and that market interest rates had shifted to a declining trend, primarily on expectations of further Base Rate cuts.

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 livestock and petroleum product prices, **consumer price inflation** was running at around the 1% level, and forecast that, with the negative output gap continuing amid stable international commodity prices, it would remain low for the time being.

With regard to **real estate prices**, one member mentioned that, housing prices were continuing their downtrend, due mainly to economic uncertainties and the spread of expectations of housing price decline. He went on to note that, although housing leasehold deposit prices were sustaining their upward trend, their pace of increase was slowing somewhat.

After the members' discussions, the 1st Vice Minister of Strategy and Finance, the government representative, made the following comments and then left the room before the Base Rate was discussed:

While major economic indicators had improved amid the stabilized domestic inflation, employment had slowed and investment remained sluggish. In addition, there were growing concerns about the deteriorating export competitiveness and business profitability due to continuing uncertainties of the global economy and to the falling exchange rate. The government plans to strengthen its policy measures to enhance economic dynamism, for example through facilitation of investment, while closely monitoring economic conditions at home and abroad.

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:

Most members shared the opinion that, although domestic economic activity was forecast to continue its weak trend of growth while prices would likely remain stable for a considerable time, given that the uncertainties at home and abroad were gradually decreasing, it would be best to keep the Base Rate at its current level during the intermeeting period, while closely monitoring changes in the financial and economic environments at home and abroad.

Some of these members expressed the opinion that, while paying attention to the recent situation of continuing foreign capital inflows due to the easing of global financial market unease and the abundant global liquidity, and of plunging exchange rates, there was a need for directing various efforts to the easing of exchange rate volatility. They also pointed out that attention needed to be paid to the possibility that the recent upward pressures on the won, if protracted for long at levels greatly estranged from domestic economic fundamentals, might have increasingly negative effects on the real economy and cause misalignments of price variables including exchange and interest rates.

One other member presented the view that, since the household debt issue was closely related with structural changes in the domestic economy, such as the imbalance in income distribution between businesses and households and the reversal of long-running unidirectional real estate price expectations, and that it had a direct effect on expansion of the growth potential, the various policy authorities should take comprehensive measures to cope with this issue, with a focus on the fundamental changes in the economic structure.

Meanwhile, another member expressed the opinion that, although the global economic uncertainties had eased somewhat, considering the persisting downside risks and the weaker-than-expected recovery of the domestic economy it would be appropriate to cut the Base Rate by 25 basis points.

IV. Results of Deliberation of Monetary Policy Directions

Taking into consideration the results of the discussions earlier, members compiled a statement reflecting the views of the majority.

However, Mr. Ha, Seong Keun expressed clear opposition to the idea of holding the Base Rate at its current level, and argued for a 0.25 percentage point cut.

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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, while economic indicators in emerging market countries have shown signs of improvement. The Committee expects the global economy to exhibit a modest recovery going forward but judges that the uncertainties related for instance to the fiscal crisis in the euro area and to fiscal consolidation in the US have not lifted and remain as downside risks to growth.
- ☐ In Korea, the Committee appraises economic growth to have remained at a weak level, with indicators related to exports and domestic demand alternating between improving and worsening. On the employment front, the increase in number of persons employed in December was somewhat smaller than that the month before, a result mainly of weak construction sector employment due to bad weather conditions. Going forward, the Committee anticipates that the negative output gap in the domestic economy will persist for a considerable time, due mostly to the slow recovery of the global economy in consequence chiefly of the sluggishness of economic activities in the euro area.
- ☐ Consumer price inflation fell to 1.4% in December, from 1.6% the previous month, owing primarily to the stability in prices of livestock products and industrial goods, and core inflation excluding

the prices of agricultural and petroleum products continued to run at a low level at 1.2%. 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 on their downtrend and those in the rest of the country on their uptrend.

- ☐ In the financial markets, stock prices have risen and the Korean won has appreciated against the US dollar, due mostly to the additional quantitative easing policies of major advanced countries and to international financial market stability. Long-term market interest rates have fallen from their end-November levels, fluctuating in response mainly to the economic outlook and to developments in the negotiations on fiscal consolidation in the US.
- ☐ Looking ahead, the Committee will closely monitor external risk factors and the consequent changes in financial and economic conditions at home and abroad, continue its efforts to lower inflation expectations, and conduct monetary policy so as to keep consumer price inflation within the inflation target range over a medium-term horizon while ensuring that the growth potential is not eroded due to the continuation of slow growth.