

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

September 8, 2011

**The Bank of Korea**

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

### **I . Outline**

1. Date of meeting : September 8, 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. 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:

Many members assessed the uncertainty in **the global economy** to be worsening further, owing mostly to the risk of a long recession in the U.S. and the spread of the sovereign debt problems in Europe. One member, however, expected the global economy to keep up its moderate and slow recovery as originally projected, despite a slight increase in downside risks to growth.

A number of members evaluated **the domestic economy** as maintaining an underlying trend of growth above its long-term trajectory, buoyed by solid exports, although the economy had shown signs of faltering somewhat with manufacturing production having decreased in July.

Regarding **the future outlook**, many members anticipated that the domestic economy would achieve growth at around the level of its potential growth rate, on the back of favorable exports, although the rate of growth might decline slightly due to the economic slowdowns in major advanced countries. One member pointed out that, if the growth momentum in major advanced economies weakened, a very critical touchstone in determining future economic trend would be whether the emerging market countries could successfully lead the global economy instead.

Some members' assessment of the **domestic financial markets** was that the volatility of price variables appeared to have decreased somewhat from September, but that they were still responding sensitively to changes

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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.

in external conditions, as seen especially in the stock market. One other member, however, mentioned that the negative effects had not yet appeared large, given the continued inflows of foreign bond investment funds, with the domestic economic fundamentals still remaining favorable despite the global financial market instability.

As to **consumer prices**, most members noted that consumer price inflation had accelerated significantly, from 4.7% in July to 5.3% in August, due mainly to a rise in agricultural product prices, and that core and expected inflation had also posted high rates of 4.0% and 4.2%, respectively. Many members reasoned that, although the stabilization of agricultural product prices and base-period effects would serve as factors in blunting consumer price inflation, the upside risks could be viewed as still large due to factors like high expected inflation, public utility charge increases, the continued uptrends in leasehold deposits and monthly rents, and growing demand for nominal wage hikes. Therefore, they anticipated that prices would continue running at a high level for a considerable period of time.

A few members observed that **housing sales prices** in Seoul and its surrounding areas appeared weak, while those elsewhere were sustaining their trend of sharp increase. One of the members pointed out that more carefully-crafted regionally-specific policy responses were required to prevent a new risk factor for the Korean economy emerging in the form of a real estate market showing divergent movements in different regions.

### **III. 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 expressed the opinion that, although the rate of inflation was still at a high level, it would be better to maintain the Base Rate at its current level for the ensuing month, in view of the current situation in which the risks of a global economic downturn and risk factors in the international financial markets had partially materialized.

However, some other members voiced the view that, although uncertainties concerning the economic outlook had risen a bit more, the central bank's resolve to pursue price stability should be clearly communicated to the markets, and consideration should be given to the fact that there was not much time left for interest rate normalization with business indicators weakening.

One of these members noted that the annual rate of consumer price inflation was certain to exceed the original forecast and the upper bound of the inflation target. He then pointed out that, in a situation with Korea's economic fundamentals remaining sound, unless the problem of price instability was resolved soon, it would detract from monetary policy's capacity to deal with the real economy in the event of a further deterioration of external conditions.

After the discussions detailed above, members decided by a majority vote to keep the Base Rate at its current level.

(However, Mr. Kim, Dae Sik and Mr. Choi, Dosoung clearly dissented from this decision, and argued that the Base Rate should be raised by 25 basis points.)

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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 further weakening. Going forward, the Committee forecasts that the global economy will keep up its recovery albeit at a moderate pace; nevertheless, the Committee judges that the possibility has increased of such factors as the economic sluggishness in major countries, the sovereign debt problems in Europe, and international financial market unrest posing downside risks to the global economy.
- ☐ In Korea, exports continued to show high growth and domestic demand increased modestly. Labor market conditions also remained on a track of improvement, led by the private sector. The Committee sees the domestic economy keeping up its long-term trend of growth going forward, but judges uncertainty as to its growth path to have intensified due to the impact of external risk factors.
- ☐ Consumer price inflation rose to the 5% range in August, due mostly to sharp rises in the prices of agricultural products. The Committee expects the high rate of price increase to continue for some time, driven largely by inflation expectations, although factors such as the stabilization of agricultural product prices and the base effect from last year will work to bring inflation down in the coming months. Core inflation meanwhile increased to 4.0%, and is forecast to remain

elevated for the time being. As for housing prices, those in Seoul and its surrounding areas maintained their July levels, while prices in the rest of the country increased at a faster pace. The rate of increase in leasehold deposits rose in August compared to the previous month.

- ☐ In the financial markets, price variables including interest rates, stock prices and the exchange rate, which had fluctuated widely from the start of August due mainly to the impact of external risk factors, have shown signs of stabilizing somewhat, but the unease concerning changes in external conditions seems to still exist.
- ☐ Looking ahead, the Committee, while closely monitoring financial and economic risk factors both at home and abroad, 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.