

=====
English Version
=====

Monetary Policy Committee Meeting Minutes

Mar 11, 2010

Bank of Korea

Monetary Policy Committee Meeting Minutes¹⁾

(Mar 2010)

I . Outline

1. Date of meeting March 11, 2010 (Thu), 9 AM
2. Place Monetary Policy Committee Meeting Room
3. Monetary Policy Committee members present
 - Lee, Seongtae, Chairman (Governor, Bank of Korea)
 - Shim, Hoon
 - Park, Bong-Heum
 - Kim, Dae Sik
 - Choi, Dosoung
 - Kang, Myung Hun
 - Lee, Ju Yeol (Senior Deputy Governor)
4. Monetary Policy Committee members absent
 - None
5. Government representative present
 - Hur, Kyung-wook, 1st Vice Minister of Strategy and Finance
6. Participants
 - Kang, Tai Hyuk, Auditor
 - Song, Chang-Hun, Deputy Governor
 - Rhee, Gwang-Ju, Deputy Governor
 - Kim, Jae-Chun, Deputy Governor
 - Jang, Byung-Wha, Deputy Governor
 - Kim, Kyungsoo, Director General of Institute for Monetary and Economic

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

Research

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

Ahn, Byung Chan, Director General of International Department

Yoo, Byoung Gap, Director General of Monetary Policy Committee Secretariat

Jung, Hee Sik, Director General of Press Office

II. Discussion on Economic Situation (Summary)²⁾

After hearing staff briefings on 'Current Domestic and Overseas Economic Developments' and 'Financial Markets', the discussion among members of the Monetary Policy Committee (MPC) covered the following areas:

With regard to **the global economy**, most members took the view that, although economies in major advanced countries including the US were remaining on tracks of recovery, there was still growing possibility of a slowdown in economic recovery given the highly volatile international financial markets – due to the government debt crises in Southern European countries, the strengthening of financial regulation in advanced countries, changes in the macroeconomic policy stance in China, etc.

Particularly, one member mentioned that, with the influence of the Chinese economy on Korea now greater than in the past, the Korean economy might face further uncertainty if the Chinese economy experienced difficulties arising from the bad loans of local governments which had surged since the financial crisis, from the tightening of liquidity management, from a rise in real estate prices, and from appreciation of the Chinese yuan.

As for **recent domestic economic developments**, members' assessment was that, although the Korean economy was on a recovery track boosted by steady improvements in exports and domestic demand, self-sustaining growth momentum in the private sector had not yet consolidated, citing as the

2) Details as to 'Current Domestic and Overseas Economic Developments' and 'Financial Markets' are available on the Bank of Korea web site.

reason the sluggish employment situation and the shifts to decline in leading indicators in January.

Regarding **the future outlook**, most members were in agreement that, although the economy was likely to sustain its recovery, there was still a high possibility of uncertainty arising from changes in the internal and external environments. Particularly, one member mentioned the possibility of a double dip recession, in line with the growing downside risks arising from sluggish employment conditions and a slowdown in the housing market.

Concerning **production activities**, members noted that manufacturing production and service production were both continuing to rise.

With respect to **employment**, many members' assessment was that, although the overall employment situation in Korea remained sluggish owing to the ending of the government's job creation measures at the end of last year, the employment situation in the private sector was improving gradually. Meanwhile, one member pointed out that the employment situation in the services sector, which had usually underpinned full-fledged economic recovery, remained sluggish.

Most members expressed the view that, although **exports** were increasing constantly, boosted by the mild recovery in the global economy, export conditions were likely to be affected by the higher volatility of the KRW/USD exchange rate, a rise in raw material prices, and the unstable future directions of the economies in advanced countries and China.

Many members assessed the recent fall in **private consumption and facilities investment** as a temporary phenomenon, arising from the ending of the tax breaks for passenger car purchases and of capital gains tax exemptions on sales of houses. They thus anticipated that private consumption and facilities investment would grow with the improvements in the economy in the future.

As for the **domestic financial markets**, members noted that stock prices and the KRW/USD exchange rate, which had been unstable under the influence of external risk factors, were gradually regaining stability.

Some members pointed out that the recent sharp drop in long- and short-term interest rates was attributable to market participants' weakened expectations of an upward policy rate adjustment, together with massive foreign capital inflows to the bond market which had brought about a significant decline in yields on corporate and other credit bonds.

Most members agreed that **the corporate and household sectors** were financially in good shape overall. Meanwhile, one member emphasized the possibility of growing capital flow volatility arising from a rise in non-bank financial institutions' delinquency ratios, from banks' efforts to cut their loan-to-deposit ratios, and from an increase in COFIX-related loans.

With regard to prices, members agreed that **consumer prices** would remain stable at around 2.5% for the time being. The majority of members, however, anticipated that consumer prices would rise gradually in the second half, due to steadily mounting pressures on the demand side with the economic recovery, together with upward supply side pressures, influenced by the run-up in international raw material prices and increases in personal service and public utility fees.

Many members anticipated that upward movement of **real estate prices** would be restricted due to weaker expectations of housing prices increase, sluggish growth in mortgage lending, and lackluster house sales.

III. Discussions Related to Monetary Policy Decision (Summary)

The Monetary Policy Committee Members' discussions on changing the Bank of Korea Base Rate are summarized as follows:

The members agreed that as there remained uncertainty regarding the growth path, due to destabilizing factors surrounding the domestic and

overseas financial markets, it was necessary to take a much closer look at changes in the policy environment domestically and abroad.

One member judged that adverse side effects of the accommodative macro policy, such as a growing risk of household and corporate loan insolvencies were gradually emerging, as the prolonged period of low interest rate policy had led to more relaxed perceptions of and attitudes toward risk on the parts of economic agents. The member added that efforts should be made to minimize the disruptions to economic agents and market participants that might occur in the case of radical monetary policy adjustment.

Another member noted that, as it takes significant time for monetary policy to have an effect, policies should if possible be gradually adjusted from an early stage in order to minimize the side effects coming from radical policy changes.

One member expressed the view that monetary policy should pay attention to the fact that an increase in household debt could not only cause a bubble in asset prices but also limit flexibility in the conduct of interest rate policy, and that the government and the financial community should encourage households having high debt ratios to liquidate their real assets and work to induce a longer household debt maturity term structure.

After the detailed discussions summarized above, members agreed unanimously on maintaining the Bank of Korea Base Rate at its current level, and passed a resolution to that effect³⁾.

IV. Remarks by Government Representative

The 1st Vice Minister of the Ministry of Strategy and Finance present at the meeting explained the recent trends in fund-raising by small and medium-sized construction companies, as well as this year's fiscal spending plan.

3) Please refer to < Ref > 'Monetary Policy Decision'.

< Ref >

Monetary Policy Decision

- ☐ The Monetary Policy Committee of the Bank of Korea decided today to maintain the Base Rate at its current level (2.00%) for the intermeeting period.
- ☐ Domestic economic activity has continued on a recovering trend, which is expected to be maintained. Exports have risen and domestic demand has steadily increased. There still, however, remains uncertainty as to the economic growth path due to the problems of excessive government debt in some countries.
- ☐ Consumer price inflation has decelerated somewhat. It is anticipated to be stable for some time given the recent movements of international raw material prices. In the real estate market, transactions have remained inactive even though prices have risen moderately.
- ☐ In the financial markets, stock prices have rebounded and the Korean won has appreciated in line with alleviation of international financial market unrest, such as the government debt crises in some European countries. Mortgage lending has increased slightly due to seasonal factors.
- ☐ Looking ahead, the Committee will maintain the accommodative policy stance for the time being in such a way as to help sustain the trend of recovery in economic activity.