

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

Minutes of the Monetary Policy Committee Meeting

November 16, 2010

The Bank of Korea

Minutes of the Monetary Policy Committee Meeting¹⁾

(November 2010)

I . Outline

1. Date of meeting : November 16, 2010 (Tue)
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, 1st 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, Kyungsoo, Director General of Institute for Monetary and Economic 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
 - 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

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. Discussion of Economic Situation (Summary)²⁾

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

Many members evaluated **the global economy** as having generally kept up a moderate pace of recovery, with emerging countries continuing to lead the recovery and advanced economies also showing some improvements. Members' assessment of the future outlook diverged, however — with some members expressing skeptical views citing concerns about fiscal crisis in European countries, the high unemployment rate in the US and a fall in industrial production, while others anticipating that the additional quantitative easing by the US Federal Reserve would reduce the risks of a double dip recession or deflation in the US economy.

Concerning **recent domestic economic developments**, most members' judgment was that the domestic economy remained on an upward path, with daily average exports hitting a record high and consumption growing, although certain indicators including facilities investment had temporarily exhibited slowing rates of increase. However, some members assessed the growth momentum to be weakening to some extent, in light for example of the declines in the leading/coincident composite indexes.

Regarding **the future outlook**, many members anticipated that the domestic economy would remain on an upward track, despite potential downside risk factors on the external front including the reemergence of fiscal problems in some European countries and the run-ups in global commodity prices.

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

With respect to **employment**, some members mentioned that the number of persons employed in the private sector had continued to increase in October as well, and that nominal wages had also been on the rise.

Some members assessed **the domestic financial markets** as having remained stable overall, with foreign currency funding conditions appearing generally smooth, amid a declining exchange rate and rising stock prices due mostly to the sustained inflows of foreign investment funds. Some members pointed out that long-term market rates had rebounded sharply, however, affected by the high rate of increase in the CPI and by expectations of hikes in the Bank of Korea Base Rate since mid-October.

Members noted that **consumer price inflation** had risen to 4.1% in October, influenced by the soaring agricultural product prices. Many forecasted inflationary pressures to continue, given the persistence of the upward economic trend, the rises in global commodity prices, the surges in agricultural product prices and the strong inflation expectations. However, they saw consumer price inflation as likely to fall somewhat as vegetable prices stabilize in the coming months.

As to **the real estate market**, members noted that, as in the previous month, leasehold deposits had remained on the rise, whereas housing prices had maintained their contrasting trends — falling in Seoul and its surrounding areas while increasing in other parts of the country. One member commented that, with real interest rates having fallen to negative levels, if the inflows of foreign capital continued, housing prices could register higher-than-expected rates of increase in the future.

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, who explained the government's assessment of the current economic situation, the trend of prices and the policy direction in response, the progress made on measures to mitigate capital flow volatility, and then left the meeting.

With regard to the recent economic situation, the 1st Vice Minister mentioned that, although the pace of economic recovery had slowed in the second half, GDP growth for the year was expected to slightly surpass the 5.8% government forecast, as the trends of recovery in growth and employment had generally been sustained.

As to prices, the 1st Vice Minister disclosed that the government saw prices as the most essential element for stability in the lives of ordinary people, and was consequently concentrating its efforts to contain concerns over price instability, by monitoring prices and improving its response systems, while focusing on early stabilization of the prices of agricultural, livestock and fisheries products including vegetables.

The 1st Vice Minister also revealed that active efforts were being made to formulate pre-emptive measures for coping with external factors causing uncertainty, including excessive capital inflows and offshore speculative transactions.

IV. Discussion Related to Monetary Policy Decision (Summary)

The Monetary Policy Committee Members' discussions on changes in the Bank of Korea Base Rate were as follows:

Most members agreed that it was necessary to raise the Base Rate, since the sustained economic upturn had caused a build-up of demand-pull pressures, while upside risk to the price path had expanded greatly with the run-up in commodity prices, the high price and wage growth in China, and the continuing expansion in global liquidity. One member pointed out that, as interest rates had remained low for a long time, there was a risk of their adverse side effects increasing. Another member expressed the opinion that, taking into account the widespread expectations of a Base Rate hike among general economic agents, the rate should be raised.

After the discussions detailed above, members agreed unanimously to raise the Base Rate by 0.25%p.

< Ref >

Monetary Policy Decision

- ☐ The Monetary Policy Committee of the Bank of Korea decided today to raise the Base Rate from 2.25% of its current level to 2.50%.
- ☐ In the global economy, emerging market economies have sustained their favorable performance, and the economies of major advanced countries have largely continued their moderate recovery trend. Looking ahead, the possibility of the heightened volatility of economic activity and exchange rates in major countries acting as a risk factor for the global economy cannot be ruled out.
- ☐ The underlying upward trend of domestic business activity has been maintained. Even though facilities investment has faltered, exports have sustained their buoyancy and consumption has increased. And, led by the private sector, labor market conditions have shown an improving trend.

The domestic economy is expected to continue on an underlying upward track, even in the presence of external risk.

- ☐ Consumer price inflation has increased further, driven mainly by farm product prices. Going forwards, inflation is expected to decrease somewhat due to the renewed stability of vegetable prices; however, upward pressures are expected to continue, being associated with the continued upswing in activity and the run-up in international raw material prices. In the real estate market, the scale of the decrease in housing sales prices in Seoul and its surrounding areas has narrowed, with the upward trend of housing sales prices in other areas being maintained.

- In the financial markets, amid continued inflows of foreign portfolio investment funds, stock prices have risen, the Korean won has appreciated, and in response chiefly to the high inflation rates, long term market interest rates have rebounded from their deep decline. Mortgage lending has continued to increase on a relatively large scale, even though house transactions have been inactive.
- Looking ahead, the Committee will conduct monetary policy in such a way as to help the economy maintain price stability, while sustaining sound growth. In carrying out policy, it will take overall account of financial and economic conditions at home and abroad.