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English Version
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Monetary Policy Committee Meeting Minutes

July 9, 2010

Bank of Korea

Monetary Policy Committee Meeting Minutes¹⁾

(July 2010)

I . Outline

1. Date of meeting July 9, 2010 (Fri), 9 AM
2. Place Monetary Policy Committee Meeting Room
3. Monetary Policy Committee members present
 KIM, Choongsoo, Chairman (Governor of 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
 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
 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

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 Domestic and Overseas Economic Developments' and the 'Financial Markets', the discussions among members of the Monetary Policy Committee (MPC) covered the following areas:

With regard to **the global economy**, most members agreed that emerging markets maintained favorable movements and advanced economies including the US continued to recover, although their paces of growth had slowed somewhat. However, some members assessed global economic uncertainty to be increasing further, given the instability of certain economic indicators in advanced countries and their moves toward fiscal policy tightening.

As for **recent domestic economic developments**, most members' assessment was that the domestic economy remained on a steady upward path, led by stronger exports and improved domestic demand. One member expressed the view that, with the GDP gap turning positive, the economy had entered a fully-fledged expansionary phase.

In this connection, most members noted that manufacturing **production** continued to rise and that **exports** maintained solidly-based growth with the turn for the better in external economic conditions.

They also evaluated the recovery in the private sector, such as in **facilities investment** and **consumption**, as becoming more pronounced.

However, some members commented that, taking into account the fact that services production had shifted to a decrease and that the index of leading economic indicators had posted a decline for the fifth consecutive month, economic uncertainties still existed, as before, and this needed to be monitored more cautiously.

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

Regarding **the future outlook**, most members forecasted that the economy would remain on the rise and that the trend of sound growth would continue. One member, meanwhile, anticipated that the growth rate would fall somewhat in the second half of the year, in reaction to the strong growth during the first half.

With respect to **employment**, members considered the employment situation markedly improved, as shown by the sharp increase in the number of persons employed, particularly in the private sector. One member, however, pointed to the possibility of the trend of improvement being restricted from the second half onward, owing to restructuring in some industries and the termination of the government's public sector 'Hope and Work Project' job-creation program.

As to **the domestic financial markets**, some members pointed out that long-term market interest rates had risen considerably, reflecting the improved economic situation, although stock price and foreign exchange rate volatility had increased under the influence of destabilizing external factors.

With regard to **consumer price inflation**, many members forecast that, although having remained in the mid-2% range during the first half, it would accelerate further, as demand-pull pressures would mount in accordance with the faster-than-expected economic recovery and rising cost-push pressures due to hikes in import prices and public utility charges. In particular, one member pointed out that attention needed to be paid to the fact that it usually took a long period of time for inflation expectations to stabilize once they had risen, due to their trait of persistence.

In connection with **the real estate market**, some members mentioned that it remained sluggish, with housing sales prices falling at a faster pace in Seoul and its surrounding areas. One member meanwhile argued that the depressed real estate market in the Seoul metropolitan area had significantly raised delinquency rates at savings banks which had heavy exposure to project financing loans, that might damage their asset quality.

III. 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:

Many members agreed that a change in the monetary policy stance could not be postponed any longer, given the current situation in which the domestic economy continued on an upward track and inflationary pressures were mounting. Some pointed out the possibility that maintaining the Base Rate at its current level, set under the assumption of zero growth, could give rise, in a situation in which GDP was expected to grow at around 6% annually, to a number of economic distortions such as rises in asset prices and increases in leverage, along with delays in household and corporate restructuring and a consequent weakening of potential growth.

Some members spoke of the need to secure the policy capacity to respond to a new economic shock, if the downside risks to growth should become acute.

Some other members noted in addition that, given the time lag before interest rate policy had an effect, it was necessary to take preemptive monetary policy measures, as there was a possibility of consumer price inflation exceeding the 3% midpoint of the inflation target from the second half of the year. In particular, some among them pointed out that if the central bank missed the right timing, overheating of the economy and higher prices could appear, and this might increase the costs of raising interest rates, such as by requiring an expanded degree of policy rate adjustment. Other than that, an opinion was expressed that raising the Base Rate meant adjusting the degree of the accommodative policy stance step by step to bring it back to a neutral level, and would not mean a shifting of the monetary policy stance toward tightening. The opinion was also raised that the shock from the policy rate adjustment was unlikely to be grave, as market expectations of a policy rate increase had already formed to some degree.

Another member, on the other hand, expressed the view that it was

desirable to keep the accommodative monetary policy stance in place for the time being, given that prices were currently relatively stable, the real estate market was depressed, and the uncertainties surrounding the domestic and foreign economies were deepening.

IV. Remarks by Government Representative

Prior to the members' arguments regarding the Base Rate, the Chairman gave the floor to the 1st Vice Minister of Strategy and Finance present at the meeting, who explained the government's position on and assessment of the current economic situation and its view on mutual savings banks' handling of PF loans and corporate restructuring. After his explanation, he left the meeting.

Monetary Policy Decision

- ☐ The Monetary Policy Committee of the Bank of Korea decided today to raise the Base Rate from 2.00% of its current level to 2.25%.
- ☐ In the global economy, emerging market economies have sustained their favorable performance, while the economies of major advanced countries such as the US have largely continued their recovery trend. The risks that international financial market unrest due to the government debt problems in some European countries and heightened volatility of growth in economic activity in major countries recur at any time cannot be ruled out.
- ☐ The upward trend of domestic economic activity has been maintained. Exports have held to their strong upward track, domestic demand such as consumption and investment has steadily increased and, led by the private sector, labor market conditions have shown an improving trend.

Domestic economic activity is expected to continue on an upward track, even with the presence of overseas risk factors.

- ☐ Consumer price inflation has so far remained in a range of somewhat above 2% but a little below 3%, but in the future, upward pressures are expected to build continuously owing to the increase in demand-pull pressures associated with the continued upturn in economic activity. In the real estate market, housing sales prices have declined in Seoul and its surrounding areas, while those in other areas have sustained a highly upward trend.
- ☐ In the financial markets, long term market interest rates have increased, reflecting domestic economic conditions and, stock prices and exchange rates have exhibited high volatility due to the influence of overseas risk factors. The scale of the growth in mortgage lending has widened in response chiefly to low lending rates, even though house transactions have been inactive.

□ Looking ahead, the Committee will maintain the accommodative policy stance in such a way as to help the economy sustain its sound growth on a foundation of price stability and, in carrying out policy, it will take overall account of financial and economic conditions at home and abroad.

* However, Mr. Kang, Myung Hun clearly dissented from raising the Base Rate by 0.25%p and argued that it should be maintained at its current level.