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English Version  
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# Monetary Policy Committee Meeting Minutes

January 8, 2010

Bank of Korea

# Monetary Policy Committee Meeting Minutes<sup>1)</sup>

## (Jan 8, 2010)

### I . Outline

1. Date of meeting        January 8, 2010 (Fri), 9 AM
2. Place                    Monetary Policy Committee Meeting Room
3. Monetary Policy Committee members present
  - Lee, Seongtae, Chairman (Governor of 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

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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.

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 Related to Economic Developments (Summary)<sup>2)</sup>

After hearing staff briefings on 'Current Domestic and Overseas Economic Developments' and on 'Financial Markets', the Monetary Policy Committee (MPC) members discussed the following issues:

With regard to **the global economy**, most members agreed that there still existed a high degree of uncertainty surrounding the global financial markets, including the possibility of commercial real estate loan defaults in advanced countries and the possibility of credit rating downgradings of some heavily-indebted countries in the euro zone. Particularly, one member expressed the view that, even though global economic recovery was expected to become more evident, advanced markets might not get back on track in a short time owing to delays in improvement in the employment conditions, to weakened policy effects, to persistent large fiscal deficits, etc. Another member meanwhile argued that the possibility of global economic recovery was also gradually increasing, thanks to the signs of improvement in U.S. employment and housing indexes, which had until then been a source of deep concern.

As for **recent domestic economic developments**, members estimated that, following the strong growth seen during the second and third quarters, the Korean economy remained on an upward track to show slightly positive growth in the fourth quarter, boosted by the steady improvements of exports and domestic demand. One member voiced the opinion that, during the course of the global financial crisis, unlike advanced countries which increased their fiscal spending mainly directed toward the financial sector for bailouts, the Korean government had directed it toward current and capital expenditures. This contributed to an increase in aggregate demand, and as a result Korea has shown the fastest economic growth among all OECD members. In particular, the member noted that the increasing of tax benefits

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

related to purchases of housing and automobiles, sectors which have high economic volatility, was seen to have kept the economy from shrinking dramatically.

Meanwhile, some members expressed the view that the recent continued growth was attributable to the completion of inventory adjustments and to the increased demand for new cars boosted by the system of tax incentives for scrapping old models, which made the recent growth somewhat far from an endogenous recovery of growth momentum driven by the private sector. One member pointed out that general public business sentiment had not improved much due to the sluggish employment situation.

With regard to the current account, one member expected it to remain in surplus, but on a substantially reduced scale owing to an increase in imports drawn in by the domestic economic recovery and to a decrease in the KRW/USD exchange rate.

As to **the future outlook**, many members expected the domestic economy would grow even faster, boosted by the rise in consumer and investor sentiment and improvement in the global economic climate along with the continued expansionary macro-economic policy stance. However, one member pointed out the possibility that the degree of contribution of fiscal stimulus to growth might fall greatly from the second half of the year, since it would be difficult for the government to expand its spending significantly this year due to concerns about fiscal soundness. Another member pointed out that with the delayed recoveries of the U.S. and other advanced economies, a hike in global oil prices and household loan defaults might have a negative effect on the domestic economic recovery. Another member anticipated that the private sector would not show strong growth momentum for the time being, owing to the stubbornly sluggish employment conditions and to a base-period effect from the increased demand for automobiles last year.

With regard to **production activities**, many members commented that production remained on the rise, a trend attributable to steady growth in exports and to a sustained, although limited, increase in private consumption.

Particularly, one member suggested that the recent slowdown in the speed of production growth was attributable to the base-period effect from the rapid recovery from the second quarter of the previous year, and that it had been somewhat expected.

As to **employment**, some members mentioned that, although the domestic economic recovery was gathering pace, the employment situation in Korea remained sluggish owing to the rise in the share in the economy of the IT-manufacturing sector with its relatively weak job creation effect. One member expected that the employment situation would not improve for the time being, due to the government's scaling down of its employment support measures and to its promotion of corporate restructuring.

One member expressed the view that the recent increase in **facilities investment** was attributable to replacement investment, such as for the trading in old cars, and that this might only have a limited effect on enhancing the growth potential of the domestic economy. The member added that, since the growth potential of the Korean economy would inevitably weaken if the facilities investment and employment situations – key elements of growth potential – remained sluggish for a longer period of time, policy efforts are needed to remove structural obstacles restricting facilities investment. He also said that not only expansionary macro-economic policy measures but also micro-economic policy efforts were required to improve the employment situation.

Meanwhile, most members agreed that the recent hike in long- and short-term **market interest rates and stock prices** was attributable to stronger expectations of economic recovery. One member suggested the view that, since a rise in long- and short-term market interest rates led to a widening gap between these rates and the policy rate, and consequently weakening the Base Rate's effectiveness as a policy rate, at the time of policy rate determination, consideration should be given to the fact that expectations of an early upward policy rate adjustment are not yet clear in the market.

Some members mentioned that, despite the Kumho Group's filing for a debt workout, **corporate and household fund-raising** was proceeding smoothly. One member pointed out that, despite the strengthened debt-to-income regulations, the number of home mortgages taken out was accelerating led by group mortgages. A different member suggested the view that uncertainties associated with loan-to-deposit regulations might increase, as substantial changes were expected to take place in banks' fund-raising and fund operation. The member added that interest rates might rise and the burden of principal and interest repayment might accordingly increase in the near future, which would very likely lead to bankruptcies of households with heavy debt burdens and limit the recovery of consumption. Another member said that, since financial support for small- and medium-sized enterprises would decrease from this year onward, while there was also a possibility of further corporate restructuring being carried out, closer examination of the funding conditions of these enterprises was needed.

With regard to **prices**, most members anticipated that the consumer price index would accelerate temporarily in January, influenced by a global oil price rise, but then decelerate to its previous level for the time being in line with the sluggish job market and an easing of demand side pressures. One member commented that attention needed to be paid to the growing possibility of higher uncertainty surrounding prices engendered by the recent exchange rate. A different member expressed the view that pressure on the demand side would gradually mount, as the negative output gap would almost diminish from a mid-term perspective.

Most members shared the view that **real estate prices** would remain stable for the time being, with the upward trend slowing due to the imposition of stricter loan regulations. They expressed the opinion, however, that, given supply and demand factors such as the fall in supply of houses available and the rise in demand in line with economic recovery, there was a possibility that housing prices would show instability.

### 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.

Most members agreed that the main tasks of this year's monetary policy were to adjust the pace and scale of monetary policy easing appropriately, in order to help sustain the economic recovery as well as to avoid economic imbalances. They shared the view especially that strong efforts were needed to choose the timing of policy adjustment. One member, in particular, mentioned that there should be extensive discussion as to whether the current Base Rate level of 2%, at which it had been maintained in response to negative and zero growth, was appropriate for an economic environment in which five percent GDP growth is anticipated.

Despite this gradually growing necessity to raise the Base Rate level, however, the monetary policy direction should, for the time being, be determined based upon consideration of the economically harmful effects arising from sustained low-interest rates and the risk of economic downturn resulting from normalization of the interest rate level. With this view in mind, most members agreed that the current economic recovery was not yet solid enough to allow an immediate shift in the policy stance.

Meanwhile, one member noted that, with the easing of the recent global financial crunch, global money was flowing rapidly into emerging markets, which showed relatively robust economic recoveries, and requested a proper response to the massive influx of foreign portfolio investment funds into Korea which started last year. With regard to this issue, some members said that it was necessary to closely monitor the foreign exchange market, whose volatility had increased greatly recently.

After the discussions detailed above, all members agreed on maintaining the Bank of Korea Base Rate at its current level for the intermeeting period, and passed a resolution to this effect<sup>3)</sup>.



#### IV. Remarks by Government Representative

The remarks of the senior minister of the Ministry of Strategy and Finance present at the meeting<sup>4)</sup> were as follows :

1) The government thinks that the independence of the Monetary Policy Committee is firmly established, in terms of system and practice, and that it is time for the government and the central bank to undertake constructive policy cooperation. Against this backdrop, it is important for a government representative to attend meetings of the Monetary Policy Committee, the top decision – making body on monetary policy in Korea, in order to strengthen policy cooperation.

2) Recent economic developments have shown that, thanks to strengthened economic fundamentals and the crisis response measures, the economy is recovering rapidly and showing stability in terms of the financial markets and the external sector. However, it is still hard to take an optimistic view on the economy since some uncertainties still persist, such as the delay in recovery of the global economy and the upward movement of oil prices. In addition, the private sector – for example, consumption and investment – does not have sufficient endogenous economic resilience to recover, and the improvement in employment conditions had been unsatisfactory.

Based upon this understanding, the government plans to come up with measures that focus on successfully overcoming the crisis and laying the foundation for growth. For that reason, it plans to make efforts to boost structural reforms and expand growth potential by setting job creation as the top priority of this year's economic policy, while maintaining an expansionary macro policy stance for the time being.

In addition, the government sees it as necessary to thoroughly examine the risk factors of the Korean economy and respond to them preemptively. In this regard, it plans to reduce the risks arising from changes in the interest

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

4) This was the first time since June 1999 that a government representative had attended a meeting of the Bank of Korea's Monetary Policy Committee.

rate burden by inducing a diversification of benchmark rates for mortgage loans and increasing the proportion of long-term fixed rate home loans. Furthermore, the government will do its utmost to respond preemptively to risk factors by closely monitoring the global financial markets, global money flows, and asset price movements, all of which have recently shown widening fluctuations.

### 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 and domestic demand have continued to increase thanks to the progress of the global economic situation. There still, however, remains uncertainty as to the economic growth path due to the risk of delay in a full-fledged recovery of the major advanced economies.
- ☐ Consumer price inflation has accelerated its rising pace, led by petroleum products and is anticipated to be further heightened temporarily by the influence of the heavy snowfalls. The upward trend of real estate prices has slowed.
- ☐ In the financial markets, long-term and short-term market interest rates and stock prices have shown a sharp run-up in line with the improvements in economic activity. Mortgage lending has grown on a steady scale.
- ☐ 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.