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English Version
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Monetary Policy Committee Meeting Minutes

August 12, 2010

Bank of Korea

Monetary Policy Committee Meeting Minutes¹⁾

(August 2010)

I . Outline

1. Date of meeting August 12, 2010 (Thu), 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:

Many members commented that, although **the global economy** continued to recover, economic uncertainty in major countries was increasing with the growing possibility of an economic slowdown in the US and liquidity management tightening in China.

As for **recent domestic economic developments**, most members' assessment was that the domestic economy remained on an upward path, led by favorable movements in exports and domestic demand. Some members expressed the view that the economy had already passed beyond the recovery phase and had entered an expansionary phase.

In this connection, most members evaluated growth in the private sector, such as **facilities investment** and **consumption**, as expanding. One member, in particular, forecasted that the trend of growth in facilities investment would continue, citing that the average manufacturing operation ratio had recorded its highest level since October 1987.

Some members, however, pointed out that the effects of the economic recovery had not been spreading to the entire economy, with service sector output still remaining sluggish.

Many members anticipated that **the domestic economy** would continue on an upward track, led by improved domestic demand, even in the presence of external risks.

With regard to employment, members' assessment was that the overall **employment situation** had maintained a trend of improvement, as shown by a

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.

sharp increase in the number of persons employed in the private sector, notwithstanding the slight increase in the unemployment rate in July. One member, meanwhile, pointed to the repeated wide fluctuations in the number of persons employed in traditional service sectors.

Members assessed **the domestic financial markets** as having remained stable since the preceding month. Many members commented that short-term market interest rates and bank deposit and loan rates had risen, under the influence of the previous month's hike in the Base Rate, and that stock prices had increased with the expansion in foreign portfolio investment fund inflows.

With regard to **consumer price inflation**, many members forecasted that it would accelerate gradually, due to mounting demand-pull pressures and to hikes in global raw material prices and some public utility charges. One member among them commented that downside risks to the inflation outlook had also become greater than the previous month, owing to the stable downward trend of import prices influenced by a rise in the exchange value of the won and the persistence of low prices in the US and Japan.

As to **the real estate market**, most members mentioned that housing prices remained weak, particularly in Seoul and its surrounding areas, due to the sluggishness of house sales. Meanwhile, regarding the downward trend seen in housing prices despite the economy's entry to an expansionary phase, one member pointed to the possibility that housing price fluctuations might depend upon non-economic factors.

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, although the extent of monetary easing should

be reduced further given the upward price pressures exerted by the consistently robust domestic economy, the pace and degree of interest rate normalization needed to be calibrated appropriately, given the heightened uncertainties compared to the previous month surrounding major economies including the U.S. and China and the future path of growth of the Korean economy.

Some members pointed out that the previous month's upward adjustment had been the first in 17 months, and that if a further rise were made the following month in succession, this fast pace of increase might shock the market, regardless of the size of adjustment. In particular, one member suggested that attention needed to be paid to the possibility that consecutive upward adjustments might lead to unexpected side effects, sparking concerns of a drastic correction in the housing market, which had recently shown sustained downward movements, and dampening economic agents' sentiment severely.

In addition, many members voiced the view that, even if the Base Rate were maintained this month at the previous month's level, since it would be necessary to keep adjusting the degree of easing in the future, the central bank needed to send appropriate signals to the market, so as to maintain market expectations of the Base Rate being raised further unless financial and economic conditions deteriorated severely.

IV. Remarks by Government Representative

Prior to members' discussion 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 assessment of the current economic situation and the implementation of important policies including the introduction of ceilings on banks' forward exchange positions, and then left the meeting.

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Monetary Policy Decision

- ☐ The Monetary Policy Committee of the Bank of Korea decided today to maintain the Base Rate at its current level (2.25%) for the intermeeting period.
- ☐ In the global economy, emerging market economies have sustained their favorable performance, while the economies of major advanced countries have largely continued their recovery trend. The international financial market unrest due to the government debt problems in some European countries has eased. The possibility, however, of the heightened volatility of economic activity in major countries acting as a risk factor cannot be ruled out.
- ☐ The upward trend of domestic business activity has been maintained. Exports have sustained their buoyancy, domestic demand such as consumption and investment has steadily increased and, led by the private sector, labor market conditions have shown an improving trend.

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

- ☐ Consumer price inflation has so far remained within 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 upswing in activity. In the real estate market, housing sales prices have declined in Seoul and its surrounding areas, while those in other areas have sustained an upward trend.
- ☐ In the financial markets, short term market interest rates and banks' lending and borrowing interest rates have increased due to the hike of the Base Rate. Stock prices have risen, with the large scale inflow of foreign portfolio investment funds. Mortgage lending has steadily expanded in response chiefly to low lending rates, 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 under the accommodative policy stance. In carrying out policy, it will take overall account of financial and economic conditions at home and abroad.