

**Minutes of the Monetary Policy
Committee Meeting**

May 13, 2011

The Bank of Korea

<p>Minutes of the Monetary Policy Committee Meeting¹⁾ (May 2011)</p>

I . Outline

1. Date of meeting : May 13, 2011 (Fri)
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, First 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, Jun Il, Director of Economic Research Institute & Chief Economist
 - 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
 - Lee, Joong Shik, Head of Overall Research & Forecasting Team,
Research Department

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. Summary of Discussion on Current Economic Situation²⁾

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

Many members assessed **the global economy** to be sustaining its trend of improvement overall, as emerging market economies continued to show favorable performances and advanced economies also kept up their paces of recovery. A few members, however, pointed out that potential risk factors had recently been emerging, such as the slowdown in U.S. economic growth, the resurgence of sovereign debt problems in some euro area countries and the impacts of the Great East Japan Earthquake.

Most members evaluated **the domestic economy** as maintaining its solid underlying trend of growth along the originally-projected growth path. Some members mentioned that **manufacturing and services production** appeared to have grown steadily, with **exports** reaching new record highs and **consumption** and **facilities investment** increasing.

Going forward as well, many members expected **the domestic economy** to remain on an upward track, led by exports.

Concerning **the domestic financial markets**, members noted that, while **stock prices** had risen and **the Korean won** had appreciated against **the US dollar**, in response chiefly to the sustained uptrend of economic activity and to inflows of foreign investment funds, **long-term market interest rates** had by and large fluctuated at around their levels of the previous month. One member pointed out that short-term speculative funds seeking foreign exchange profits in expectation of won appreciation were continuing to flow into the foreign exchange market. Another

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

member mentioned that household debt continued to increase, led by mortgage-backed loans.

Most members noted that, even though **consumer prices** had posted a lower rate of growth at 4.2% than the previous month's 4.7%, influenced by the sharp decline in vegetable prices, inflation had exceeded the target's upper 4% bound for four straight months this year, from January through April. Many members anticipated that consumer prices would sustain their high rising trend in the coming months as well, affected for instance by the increased demand from the economic upswing and by the spread of inflation expectations.

As to **the real estate market**, one member noted that, amid a sustained rise in housing leasehold deposit prices, the upward movements of housing sales prices had weakened in Seoul and its surrounding areas but continued in the rest of the country.

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, the government representative.

With regard to the current economic situation, the 1st Vice Minister commented that, in view of the economic indicators, the economy was judged to be maintaining its momentum of recovery at the level of trend growth.

As to recent price trends, the 1st Vice Minister stated that, although the CPI growth rate had slowed in April compared with the previous month, destabilizing factors still lurked including the fluctuations in

international commodity prices and the rise in expected inflation, and that the government would therefore implement strong long- and short-term policy measures for price stability including measures to stabilize the supply and demand conditions related to agricultural, livestock and marine products, to stagger the timing of public utility fee hikes, and to strengthen the monitoring of service charges.

Regarding construction business activities, the 1st Vice Minister commented that the government's recent 'Measures to Stage a Soft Landing of the Construction Sector and Stimulate Housing Supply', drawn up in cooperation with the relevant departments, were intended to induce a soft landing in the construction sector through resolution of insolvent project financing loans and improvement in housing supply conditions, and to respond preemptively to housing market problems going forward. He then left the meeting.

IV. Discussion Related to Monetary Policy Decision (Summary)

The main contents of the MPC members' discussion concerning a change in the Bank of Korea Base Rate were as follow:

Many members agreed that, in circumstances where the domestic economy continued to show improvement, gradual normalization of the Base Rate to curb the rising price trend arising from increasing demand pressures was desirable, but that it would be better to keep the rate at its current level this month, given the possibility of slowdown in the paces of economic recovery in major countries stemming mostly from the international commodity price instability and the spread of sovereign debt problems in some euro area countries.

Meanwhile, one member pointed out that the gradual Base Rate hikes thus far had been insufficient to calm inflation expectations and upward price pressures; he added that the feared side effects of the Base Rate hikes had not occurred, but that instead problems arising from the low interest rates, such as increasing household debt and a disincentive to save, were becoming more pronounced in several sectors.

Another member expressed the view that, since expected inflation was at the moment very high, and the economic imbalances caused by low interest rates including increased preference for risky assets and rising household debt could intensify, interest rates must in this situation be normalized as soon as possible, so that real interest rates could move out of negative territory before signs of economic activity weakened due to heightened uncertainties surrounding the global economy.

After the discussions detailed above, members decided by a majority vote to keep the Base Rate at its current level.

(However, Mr. Kim, Dae Sik and Mr. Choi, Dosoung clearly dissented from this decision, and argued that the Base Rate should be raised by 25 basis points.)

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Monetary Policy Decision

- ☐ The Monetary Policy Committee of the Bank of Korea decided today to leave the Base Rate unchanged at 3.00% for the intermeeting period.
- ☐ Based on currently available information, the Committee considers emerging market economies to have continued to show favorable performances and the major advanced economies to have also kept up their paces of recovery. Going forward, the Committee forecasts the global economy to sustain its pace of recovery; nevertheless, the Committee recognizes the possibility of such factors as the sovereign debt concerns in some euro area countries, the political unrest in North Africa and the Middle East, and the impacts of the Great East Japan Earthquake posing downside risks to the global economy.
- ☐ For Korea, the Committee judges the economy to have maintained its underlying upward trend, given for instance that exports show continued buoyancy and that domestic demand is increasing. Labor market conditions have also remained on a track of improvement, led by the private sector. Going forward, the Committee anticipates that the domestic economy will keep up its underlying trend, even in the presence of external risks.
- ☐ Consumer price inflation eased in April compared to the preceding month, due mostly to the declines in prices of vegetables. There is a possibility of the high rising price trend persisting in the coming months, however, driven largely by increased demand pressures from the economic upswing, by instability of international oil prices, and by elevated inflation expectations. As for housing

prices, the upward movements in Seoul and its surrounding areas have faltered while the steep upward trend in the rest of the country has been sustained. Leasehold deposits have continued to rise.

- ☐ In the financial markets, stock prices have risen and the Korean won appreciated against the US dollar in response chiefly to the sustained uptrend of economic activity and to the inflows of foreign investment funds. Long-term market interest rates have fluctuated within a narrow range. The pace of growth in mortgage lending has accelerated compared to last month.
- ☐ Looking ahead, the Committee, while taking overall account of financial and economic conditions both at home and abroad, will conduct monetary policy with a greater emphasis on ensuring that the basis for price stability is firmly anchored while the economy continues its sound growth.