

Minutes of the Monetary Policy Committee Meeting

March 10, 2011

The Bank of Korea

Minutes of the Monetary Policy Committee Meeting¹⁾ **(March 2011)**

I . Outline

1. Date of meeting : March 10, 2011 (Thu)
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
 - Jang, Seh-Geun, Deputy Governor
 - Park, Won-Shik, Deputy Governor
 - Kim, Jun Il, Director General of Economic Research Institute
 - 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 assessed that **the global economy** remained on an overall upward path, with emerging market economies sustaining strong growth and the major advanced economies keeping up their paces of recovery. Some members, however, pointed out that downside risks had increased somewhat compared to the previous month, including the increased volatility of international commodity prices, the spread of global inflation and consequent possibility of economic slowdown, and China's strengthened drive for price stability.

Most members evaluated **the domestic economy** as sustaining its solid upward trend, boosted by strong export growth and the steady increase in domestic demand.

Regarding **the future outlook**, a majority of members anticipated that the domestic economy would show growth slightly above its long-term path, unless domestic and external conditions changed considerably from their current pattern. However, some of the members noted that if the political unrest in the MENA region worsened, the run-up in oil prices might accelerate even further and the pace of recovery might accordingly slow down somewhat.

Meanwhile, one member expressed the view that the future outlook had deteriorated, pointing to the declines in the composite consumer sentiment index and the business survey index.

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

Members appraised **the domestic financial markets** as having remained stable overall, despite some unfavorable conditions including the mounting geopolitical risks in the MENA region and the suspensions of business at some savings banks. They commented that **long-term market interest rates** had risen in response chiefly to the acceleration of price increases, that **short-term market interest rates** had also continued to rise reflecting expectations of a Base Rate hike, and that **stock prices** had rebounded once again since the first week of March boosted by improved domestic business indicators, etc. One member pointed out that **foreign currency conditions** were generally favorable thanks mostly to the current account surplus and increased overseas borrowings by financial institutions, but that the share of short-term capital in foreign currency borrowings was gradually rising.

Members pointed out that the growth rate of **consumer price index** had accelerated rapidly to reach 4.1% year-on-year in January and 4.5% in February, as the rates of increase in the prices of petroleum products and agricultural, livestock and fisheries products rose, and personal service fees steeply increased. Most members anticipated that international oil prices and other commodity prices would remain high, caused by the combination of such factors as increased demand from emerging market countries, ample global liquidity and the political unrest in the MENA region, and that inflation expectations were very likely to rise further.

As to **the real estate market**, many members noted that leasehold deposits remained on the rise despite the government's stabilization efforts, and that housing prices were also picking up further in both the Seoul metropolitan area and the rest of the country, owing mostly to the decreased stock of new homes for occupancy and to a shift in housing demand away from leasehold tenancies toward housing purchases.

III. Remarks by Government Representative

Prior to the members' discussions regarding the Base Rate, the Chairman gave the floor to the 1st Vice Minister of Strategy and Finance, who explained the current economic situation and price trends, and then left the meeting.

The 1st Vice Minister commented that the domestic economy was likely to maintain its robust movements for the time being, against a background of sustained buoyancy of domestic demand and exports and increased private sector employment. He added that there had been a shift to month-on-month increases in the coincident composite index and the leading composite index, both of which had until then shown somewhat lackluster movements.

With regard to prices, meanwhile, the 1st Vice Minister mentioned that best efforts would be made to consolidate the basis for price stability, since difficulties were likely to persist for a time due to such factors as the risks in the MENA region and the possibility of unstable supply and demand conditions of agricultural, livestock and fisheries products.

IV. Discussions 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, unless the recent spread of inflation expectations among the general public was curtailed in an appropriate manner, the second-round effects of supply shocks would emerge on a

large scale, giving rise to concerns over the possibility of inflation much higher than anticipated, and shared the view that the degree of financial easing consequently needed to be reduced.

A few of them expressed the view that a hike in the Base Rate under the current environment where inflation was accelerating would represent not a shift to a tightened monetary policy stance, but a normalization of the Base Rate level through fine-tuning of the accommodative monetary policy stance.

Another member was of the opinion that normalization of the Base Rate level should not be put off any longer on the grounds that if there were a change in direction of business activity, while the level of interest rates remained accommodative as it was now, a monetary policy response through interest rate adjustments would become difficult, and monetary policy effectiveness could decline as a result.

Meanwhile, one member took the position that, considering that the rise in consumer prices was driven mainly by supply-side factors, in circumstances where uncertainties in domestic and external conditions had further mounted, it was desirable to maintain the current policy stance for the time being while closely monitoring changes in economic conditions.

After the discussions detailed above, members decided by a majority decision to raise the Base Rate by 25 basis points.

(However, Mr. Kang, Myung Hun clearly dissented from this decision, and argued that the Base Rate should be kept at its current level.)

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Monetary Policy Decision

- ☐ The Monetary Policy Committee of the Bank of Korea decided today to raise the Base Rate by 25 basis points to 3.00%.
- ☐ 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 recognizes the existence of downside risk factors, including political unrest in North Africa and the Middle East, rising oil and other international commodity prices, and sovereign debt concerns in some euro area countries; nevertheless, the Committee forecasts the global economy to sustain its pace of recovery.
- ☐ For Korea, the Committee judges the domestic economy to have maintained its underlying upward trend, given for instance that exports have continued on their strong growth track and that domestic demand has steadily increased. Labor market conditions have also shown ongoing 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 in Korea rose to 4.5% in February, due mostly to the rises in prices of petroleum products, agricultural, livestock and fisheries products, and personal services. In the coming months, this high rising price trend may persist, driven largely by increased demand pressures from the economic upswing, by instability of international commodity prices, and by elevated inflation expectations. As for housing prices, the upward movements

in Seoul and its surrounding areas have continued and the upward trend in the rest of the country has accelerated, while leasehold deposits have continued to rise.

- ☐ In the financial markets, the volatilities of both stock prices and long-term market interest rates have increased, in response chiefly to external risk factors and to the steep uptrend in prices. The pace of growth in mortgage lending has accelerated somewhat 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 an emphasis on ensuring that the basis for price stability is firmly anchored while the economy continues its sound growth.