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English Version
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Minutes of the Monetary Policy Committee Meeting

January 13, 2011

The Bank of Korea

Minutes of the Monetary Policy Committee Meeting¹⁾

(January 2011)

I . Outline

1. Date of meeting : January 13, 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
 - Lee, Kwang-June, Deputy Governor
 - Jang, Seh-Geun, Deputy Governor
 - Park, Won-Shik, 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
 - 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:

Members assessed the momentum of recovery in **the global economy** to be strengthening, boosted by the rapid growth of emerging market countries and the moderate recoveries of advanced countries. From the medium-term perspective, however, some members commented that risk factors remained, including the sluggish US labor market, China's further tightening, and the sovereign debt problems in the euro region.

Concerning **recent domestic economic developments**, most members assessed the domestic economy as remaining on an upward path, led by strong exports, consumption growth, etc.

Some members mentioned that **consumption** remained on an upward trend, although it had declined slightly during the month due to a base-period effect from the previous month, and that **production in the manufacturing and services sectors** showed improvements as in the previous month amid the expansions of **facilities and construction investment** and brisk **exports**.

Regarding **the future outlook**, members anticipated that it would not be difficult for the domestic economy to remain on an upward track, as export conditions were likely to improve further, affected by the improvement of the US economy, and domestic demand conditions including employment, wages and stock prices were expected to be favorable. However, some members' evaluation was that uncertainties remained as before, pointing to the facts that facilities investment had

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

been lackluster in the fourth quarter of 2010, and that the leading and coincident composite indexes had continued to decline.

With respect to **employment**, most members evaluated the employment situation as showing improvement, led by the private sector, with the number of persons employed having increased by 460,000 year-on-year in December.

Some members appraised **the domestic financial markets** as having stabilized overall, with stock prices rising sharply and the exchange rate falling, while geopolitical risks had gradually eased after their increase following the shelling of Yeonpyeong Island by North Korea. Other members mentioned that long-term market rates had risen, affected by expectations of price increases, and by foreign bond investors' shift to a net selling position, and added that mortgage lending growth had accelerated with housing transactions expanding.

A number of members pointed out the **consumer price index's** acceleration to 3.5% year-on-year in December, up from 3.3% in November, centering around petroleum and agricultural and fisheries products. Some members mentioned that inflation expectations had been on the rise, with the CPI for living necessities exhibiting a sharp increase. Most members forecasted an even higher rate of increase in the CPI going forward, owing to increased demand-pull pressures in line with the sustained economic upturn and to the run-up in global oil prices.

As to **the real estate market**, some members noted that leasehold deposits had continued to rise and that housing prices were showing upward movements in Seoul and its surrounding areas while maintaining their upward trend in the provincial regions.

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, who explained the government's assessment of the current economic situation and the measures to stabilize prices of items closely connected with the lives of the general public, and then left the meeting.

The 1st Vice Minister mentioned that the economy remained on an overall course of recovery and that labor market conditions were showing improvement. With regard to prices, however, the 1st Vice Minister noted that the situation was one in which supply-side shocks had intensified and upward demand-side pressures were gradually materializing. There were thus concerns, he said, that if inflation expectations could not be dispelled at an early stage it could erode the basis for a stable economy and detract from the recovery in the public's business sentiment.

Consequently, the 1st Vice Minister noted that the focus of policy would be placed on calming inflation expectations at an early stage through the establishment and implementation of long- and short-term micro-level measures in pursuit of price stability, such as steps to stabilize market supply and demand.

IV. 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 liquidity should be absorbed and inflation be restrained by raising the Base Rate, in a bid to prevent the current upward trend in prices from becoming entrenched under the influence of

inflation expectations.

One member commented that the possibility of a double-dip recession in the US economy, the sovereign debt problems in certain European countries and geopolitical risks on the Korean peninsula had served as factors limiting normalization of the Base Rate, but that uncertainties with regard to these factors seemed to have eased significantly of late.

Another member voiced the opinion that, if real interest rates remained negative for a long time in a situation where major economic indicators in Korea had recovered to around or above their levels before the financial crisis, this might generate not only inflation but also asset market bubbles.

Another member pointed out that the government's micro-level inflation policy was analyzed as likely to have only a limited impact in the long-term, although it might prove effective in the short-term, and added that it was necessary to normalize the Base Rate in order to improve the weak financial structure of households and to raise the household savings rate.

Some members, meanwhile, took the position that, considering that the rise in consumer prices was driven mainly by supply-side factors, in conditions of high domestic and international uncertainty, it was desirable to maintain the current policy stance and to closely monitor changes in economic conditions in the months ahead.

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 and Mr. Lim, Seungtae expressed clear opposition to 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 2.75%.
- ☐ Based on currently available information, the Committee considers emerging market economies to have sustained their favorable performances, while the major advanced economies have kept up their moderate paces of recovery. Going forward, the Committee forecasts the global economy to sustain its pace of recovery; nevertheless, the Committee does not rule out the possibility of future developments, for example international financial market unrest arising from the sovereign debt concerns in some euro area countries and the heightened volatility of international commodity prices, posing a risk to the global economy.
- ☐ For Korea, the Committee judges the domestic economy to have maintained its underlying upward trend; although facilities investment has declined, exports have continued their buoyancy and consumption 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 reached the 3.5% level in December, driven mainly by rises in the prices of petroleum products and farm products. In the coming months, the Committee expects inflationary pressures to persist and inflation expectations to increase as the economic upswing continues and international commodity prices rise. In the real estate market, upward movements in housing prices have emerged in Seoul and its

surrounding areas, and those in the rest of the country have sustained their upward trend, while leasehold deposits have continued to rise.

- ☐ In the financial markets, stock prices have risen significantly and the Korean won has appreciated, due mostly to the increased inflows of foreign stock investment funds and to expectations for geopolitical risks around the Korean Peninsula to ease. Long-term market interest rates have increased, in response chiefly to inflation expectations and to foreign investors' net sales of bonds. Mortgage lending has grown on a large scale, amid an increase in housing transactions.
- ☐ Looking ahead, the Committee will conduct monetary policy in such a way as to firmly anchor the basis for price stability while the economy continues its sound growth. In carrying out policy, the Committee will take overall account of financial and economic conditions both at home and abroad.