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English Version
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Minutes of the Monetary Policy Committee Meeting

February 11, 2011

The Bank of Korea

Minutes of the Monetary Policy Committee Meeting¹⁾

(February 2011)

I . Outline

1. Date of meeting : February 11, 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, 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:

Concerning **the global economy**, many members assessed emerging market economies to be sustaining strong growth, and major advanced economies including the U.S. to be showing economic recoveries stronger than those expected at the end of last year. A few members, however, noted that risk factors remained, including the heightened volatility of international commodity prices, further tightening by China, and the sovereign debt problems in some European countries. One member meanwhile pointed out that, in the global financial markets, there were signs of investment funds moving from the bond markets into the stock markets, and from emerging market countries into advanced countries, as the tendency toward high-risk, high-yield investment has intensified.

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

They commented that **exports** showed strong growth, having hit an all-time monthly high in January, that **facilities and construction investment** was seen to be on the rise, and that production in both the **manufacturing and services** sectors was steadily growing.

Regarding **the future outlook**, members anticipated that the domestic economy would remain on a solid upward track. Many members' evaluation was that export conditions were likely to remain favorable, on the back of high growth in emerging market economies and strengthened

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

momentum of recovery in the advanced economies, and that domestic demand was expected to rise steadily, bolstered by increased household purchasing power and strong corporate investment sentiment. One member, however, pointed out the necessity of paying attention to the economic situation in the coming months, in view of the declines in both the consumer survey index and the business survey index.

Members appraised **the domestic financial markets** as having remained stable overall, despite the mounting geopolitical risks in the MENA region. They noted that **long-term market rates** had risen greatly, affected by the Base Rate hike, the expectations of rising prices, and an increase in Treasury bond issuance volume, and added that **stock prices** had recorded a historic high and had fallen slightly afterwards, while the **Korean won** had appreciated against the US dollar.

Members pointed to the fast acceleration of the **consumer price index** from December last year to reach 4.1% year-on-year in January, centering around petroleum and agricultural, livestock and fisheries products. Most members anticipated that the CPI would rise above the upper bound of the inflation target for the time being, owing to heightened inflation pressures from both the demand and supply sides. They appraised the perception of inflation instability by the general public as being very high, since inflation expectations had risen sharply.

As to **the real estate market**, members noted that housing leasehold deposits had continued to rise, and that housing sales prices showed upward movements in Seoul and its surrounding areas while maintaining their upward trend in the rest of the country. One member pointed out that, with housing leasehold deposits sustaining their upward track, leasehold demand was shifting to housing purchase demand, thus also affecting housing sales prices.

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 the directions of policies in response to these trends, and then left the meeting.

The 1st Vice Minister commented that the domestic economy had recently remained on an overall course of recovery, boosted by the continued improvement of the employment market, particularly in the private sector, amid sustained strengths of exports and of production in the manufacturing and services sectors.

With regard to prices, meanwhile, the 1st Vice Minister mentioned that the situation remained difficult owing to supply-side shocks including the outbreaks of foot-and-mouth disease, the severe cold weather and the run-up in global commodity prices, and added that external uncertainties appeared to be increasing somewhat due to the political unrest in the Middle East and widespread global inflation.

Consequently, the 1st Vice Minister noted that, the focus of government policy would be placed on actively containing inflation expectations.

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, although the degree of financial easing needed to be gradually reduced, as concerns about rising prices were mounting with the CPI and expected inflation having increased substantially of late, it would be desirable to keep the Base Rate at its current level this month, because a consecutive Base Rate hike might undermine the stability of price variables in the financial markets, and because the effects of government measures needed to be monitored.

One of them voiced the opinion that a hike in the Base Rate in response to price rises of this type might have more disadvantages than advantages, since recent price rises were attributable mainly to supply-side factors.

However, most members expressed the view that appropriate signals should be delivered to the markets so that inflation expectations could be calmed and economic agents primed for additional Base Rate hikes.

Meanwhile, some other members commented that as the expected inflation in the private sector had risen sharply, and there was also a strong possibility of the run-up in global commodity prices leading to rises in wage and overall price, thus the stance of financial easing needed to be adjusted preemptively to soothe inflation expectations and demand-side pressures.

One of them expressed concern that a belated policy response from the central bank would most likely be unable to stabilize prices and only further dampen real economic activities.

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

(However, Mr. Kim, Dae Sik and Mr. Choi, Dosoung clearly dissented from this decision, and advocated that the Base Rate 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 2.75% 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 that the possibilities of future developments, for example heightened volatility of international commodity prices and international financial market unrest arising from the sovereign debt concerns in some euro area countries, remain as risk factors.
- ☐ 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 has increased significantly, driven by the prices of petroleum products and farm produce. In the coming months, the Committee expects high inflation expectations to continue and inflationary pressures to also persist as the economic upswing continues. In the real estate market, leasehold deposits have continued to rise, while housing prices in Seoul and

its surrounding areas have shown upward movements and those in the rest of the country have sustained their upward trend.

- ☐ In the financial markets, long-term market interest rates have increased by a large margin, in response chiefly to the Base Rate hike in January, to inflation expectations and to the increase in volume of Treasury bonds issued. Stock prices, after having risen steeply, boosted mainly by the uptrend in economic activity, have since fallen back and the Korean won has appreciated. Mortgage lending has marked no more than a slight increase, due primarily to seasonal factors.
- ☐ 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.