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English Version  
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# **Minutes of the Monetary Policy Committee Meeting**

December 9, 2010

**The Bank of Korea**

# **Minutes of the Monetary Policy Committee Meeting<sup>1)</sup>**

## **(December 2010)**

### **I . Outline**

1. Date of meeting : December 9, 2010 (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, 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

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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)<sup>2)</sup>

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 commented that **the global economy** had generally kept up its pace of recovery, with growth expected to accelerate gradually led by emerging markets, although they differ from country to country. Some members, however, expressed the opinion that the uncertainty as to external conditions was deepening still further, as issues like the controversy over the scale of quantitative easing in the US, the reemergence of sovereign debt problems in Europe, and the consequent changes in individual countries' policy stances, had caused global financial market instability to intensify.

Concerning **recent domestic economic developments**, many members' assessment was that the domestic economy remained on an upward path, led by strong exports and a recovery in domestic demand.

Regarding **the future outlook**, many members anticipated that the Korean economy would maintain its robust upward trend at around the level of its potential growth rate, despite substantial uncertainties on both the domestic and external fronts. Some said that balanced growth in exports and domestic demand was forecasted, driven by the strengthening of growth engines such as consumption and investment. One member, however, voiced concern that business conditions might soon shift in the coming months, given that both facilities and construction investment exhibited declines.

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

With respect to **employment**, some members mentioned that the employment situation was trending toward an overall improvement, led particularly by the private sector.

Concerning **the domestic financial markets**, many members evaluated the volatility of price variables to be regaining stability, after having widened due to the effects of the government's proposed regulation of capital flows, the fiscal problems in Europe and the shelling of Yeonpyeong Island by North Korea. One member assessed the foreign currency funding situation as being generally smooth, notwithstanding a slight slowdown in the inflow of foreign portfolio investment funds.

Many members noted that **consumer price inflation** had fallen greatly in November, from 4.1% in the previous month to 3.3%, owing to the stabilization of agricultural product prices. There were those anticipating that prices would continue to rise at around the mid-3% pace in 2011, should demand pressures associated with the continued economic upswing grow, and the run-ups for example in international raw material prices, wages and housing rental fees persist. In particular, one member pointed out that inflation could accelerate further, affected by increases in Chinese inflation, wages, international commodity prices, housing rental fees, etc.

As to **the real estate market**, most members judged signs of instability to have gradually increased, given that housing transactions were expanding, the scale of decline in housing sales prices were narrowing even in Seoul and its surrounding areas, and mortgage lending to have increased sharply as well.

### **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, the general direction and main focus of economic policy for 2011, the measures to stabilize consumer prices, and then left the meeting.

With regard to the recent economic situation, the 1st Vice Minister mentioned that, although the pace of recovery might slow somewhat, the economy would remain on a course of recovery, and that a closer watch would be kept on changes in economic trends, insomuch as the various economic indicators were currently not showing consistent trends but moving in different directions.

Concerning the direction of economic policy for the following year, the 1st Vice Minister disclosed that the government planned to pursue four major policy objectives: achieving macroeconomic stability and improving the fabric of the economy; revitalizing the economies of ordinary people and enhancing the quality of their lives; strengthening the base for domestic demand and developing new engines for growth; and enhancing Korea's national profile while reinforcing its international cooperation.

With regard to prices, the 1st Vice Minister said that the government had developed real world-focused, market-friendly measures to stabilize prices of such items as those closely connected with the lives of ordinary people and those whose prices were higher than the international norms, and that the government policy was to strive, together with the relevant authorities, to establish and manage a permanent price response system, thereby concentrating on containing concerns over price instability.

#### **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 it would be appropriate to keep the Base Rate at its current level for the inter-meeting period, considering that financial and economic uncertainties had increased significantly, due largely to the resurgences of geopolitical risks involving North Korea and fiscal crises in certain European countries.

However, they said that it was desirable to implement monetary policy in such a way as to further reduce the degree of financial easing, given that the economy was expected to maintain comparatively robust growth going forward.

One member pointed out that, even if the Base Rate was maintained at its current level for December, a clear signal should be conveyed to the markets that the central bank's stance on interest rate normalization to achieve price stability remained in effect. Another member opined that, in view of the reduced effectiveness of monetary policy, as demonstrated by the divergence of long-term market rates from their expected path, better communication with the markets should be pursued.

After the discussions detailed above, members agreed unanimously to hold the Bank of Korea Base Rate at its current level.

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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 (2.50%) for the intermeeting period.
- ☐ In the global economy, emerging market economies have sustained their favorable performance, and the economies of major advanced countries have largely continued their moderate recovery trend. Looking ahead, the possibility cannot be ruled out that heightened volatility of economic activity in major countries and international financial market unrest due to government debt problems in some European countries may act as a risk factor for the global economy.
- ☐ The underlying upward trend of domestic business activity appears to have been maintained. Even though construction investment has continued to be subdued and facilities investment has decreased, exports have sustained their buoyancy and consumption 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 underlying upward track, even in the presence of external risk.

- ☐ Consumer price inflation has greatly decreased due to the stability of vegetable prices; however, upward pressures are expected to continue, being associated with the continued upswing in activity and the run-up in international raw material prices. In the real estate market, the scale of the decrease in housing sales prices in Seoul and its surrounding areas has narrowed and the upward trend of housing sales prices in other areas has been maintained.

- ☐ In the financial markets, stock prices and exchange rates have been highly volatile due to the reemergence of government debt problems in some European countries and the geo-political risks surrounding the Korean Peninsula. Long term market interest rates have declined in response to the planned reduction in the volume of Treasury bond issuance and foreigners' sustained bond purchases. The scale of the growth in mortgage lending has widened, with house transactions increasing somewhat.
  
- ☐ Looking ahead, the Committee will conduct monetary policy in such a way as to help the economy maintain price stability, while sustaining sound growth. In carrying out policy, it will take overall account of financial and economic conditions at home and abroad.