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English Version
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Minutes of The Monetary Policy Committee Meeting

October 14, 2010

The Bank of Korea

Minutes of The Monetary Policy Committee Meeting¹⁾

(October 2010)

I . Outline

1. Date of meeting : October 14, 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
 - Lee, Kwang-June, 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:

Many members commented that, although **the global economy** remained generally on a track of recovery, uncertainty about world economic conditions was still high, as the central banks of major advanced countries were expanding quantitative easing in response to the slowdown of economic recovery. Some pointed out that a sharp conflict over exchange rates between major advanced countries and emerging countries could act as a new risk factor for the global economy.

Concerning **recent domestic economic developments**, most members' assessment was that the domestic economy remained on an upward path, led by strong exports and improvements in domestic demand including consumption and facilities investment. However, some members assessed the growth momentum to be weakening to some extent, as production activities in manufacturing and service industries showed signs of flattening out and the coincident composite index shifted to a decrease.

Regarding **the future outlook**, many members anticipated that the domestic economy would remain on an upward track, while pointing out that concern still existed that a slower recovery in the global economy, high exchange rate volatility, and a sharp run-up in global commodity prices might act as downside risk factors for its growth path.

With respect to **employment**, some members evaluated the employment situation as continuing to improve, with the number of persons employed in the private sector having shown a month-on-month increase of 20,000 in August.

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

Some members assessed **the domestic financial markets** as having remained stable, with sustained inflows of foreign investment funds causing a fall in bond rates and a rise in stock prices, while the foreign currency funding situation appeared generally smooth.

Many members pointed out that **consumer price inflation** in September stood above the midpoint of the intermediate inflation target at 3.6%, affected by the soaring prices of vegetables and other agricultural products resulting from unusual weather conditions. Some forecasted that, considering the likelihood of mounting demand-pull pressures exerted by the economic upturn, and of hikes in global commodity prices and public utility charges, consumer prices would show a rapid rate of increase going forward. Meanwhile, other members mentioned that, with core inflation remaining low at under 2%, if the authorities strive to control inflation expectations from rising and to stabilize short-term supply and demand of agricultural products, then the likelihood of an overall rise in the price level could be minimized.

As to **the real estate market**, most members noted that housing prices had continued to fall in Seoul and its surrounding areas while continuing to rise in the provinces, and that leasehold deposits were on the rise nationwide.

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 trend and outlook for prices, foreign capital investment trends and so on, and then left the meeting.

With regard to the recent economic situation, the 1st Vice Minister assessed the economy as basically continuing its recovery, and attributed some poor showing of a few real economic indicators to temporary factors. He

pointed out that some new external factors making for uncertainty were emerging, however, including the intensification of disputes among countries over exchange rates and signs of a renewed run-up in global grain prices.

As to prices, the 1st Vice Minister disclosed that a number of short- and long-term schemes to stabilize supply and demand would be drawn up and put into place, given the recent rise in prices due to supply-demand factors including the vegetable price hikes stemming from unseasonable temperatures. He anticipated, however, that even if vegetable prices might well stabilize in a short time, the general price level was expected to be somewhat high in the coming months, influenced by a base period effect and so on.

Meanwhile, with regard to foreign investment capital, the 1st Vice Minister said that, since inflows of foreign capital might accelerate in the event of additional liquidity supply by major advanced countries, their trends should be closely monitored and countermeasures against them would be taken if needed.

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:

Most members agreed that, although the Base Rate needed to be restored to a normal level before long, in view of the high economic growth and inflation rates, it should be left at its current level this month considering that economic uncertainty at home and abroad remained high and that tension between countries over foreign exchange rates had recently been escalating further. In particular, one member expressed the opinion that a rise in the Base Rate could widen the gap between domestic and overseas interest rates and accelerate capital inflows, leading to a sharp fall in exchange rates. This might then gravely undermine exports.

One member argued, however, in view of the abundant international

liquidity, that even keeping the Base Rate on hold might not lead to a reduction in foreign investment fund inflows or the disappearance of downward pressure on exchange rates. He added that, on the contrary, the danger of policy failure might be increased because of the inadequate preemptive policy response to inflation risks.

After the discussions detailed above, members agreed by majority vote to hold the Bank of Korea Base Rate at its current level. However, Mr. Choi, Dosoung clearly dissented from this decision and argued that the Base Rate should be raised by 0.25%p.

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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 (2.25%) 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, even though the pace of the recovery in the US economy has slowed somewhat. Looking ahead, there exists the possibility of the heightened volatility of economic activity and exchange rates in major countries acting as a risk factor for the global economy.
- ☐ The underlying upward trend of domestic business activity has been maintained. Even though consumption has faltered, exports have sustained their buoyancy and facilities investment has 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 increased due to a sudden rise in farm product prices, and in the future, upward pressures on the demand side are expected to continue, being associated with the continued upswing in activity. In the real estate market, housing sales prices have continued to decline in Seoul and its surrounding areas, while those in other areas have maintained their increase.
- ☐ In the financial markets, stock prices have risen, the Korean won has appreciated, and market interest rates have declined in response chiefly to the expanded inflow of foreign portfolio investment funds. The scale of the growth in mortgage lending has widened due to the increase in the numbers of newly occupied apartments, even though house transactions have been inactive.

- Looking ahead, the Committee will conduct monetary policy in such a way as to help the economy maintain price stability, while sustaining sound growth under the accommodative policy stance. In carrying out policy, it will take overall account of financial and economic conditions at home and abroad.