

Minutes of the Monetary Policy Committee Meeting

April 12, 2011

The Bank of Korea

Minutes of the Monetary Policy Committee Meeting¹⁾ (April 2011)

I . Outline

1. Date of meeting : April 12, 2011 (Tue)
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, 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. Summary of Discussion on the Current Economic Situation²⁾

After hearing staff briefings on 'Current Economic Developments in Korea' and the 'Financial Markets', members of the Monetary Policy Committee (MPC) discussed as follows:

Many members assessed **the global economy** to be sustaining its pace of recovery, despite destabilizing factors such as the Great East Japan Earthquake, the run-up in international oil prices, etc. A few members, however, pointed out that uncertainty over the future path of growth had increased slightly compared to that forecast in December of last year, due mostly to the political unrest in the MENA region, the sovereign debt concerns in some euro area countries and the possibility of a protracted fallout from the Great East Japan Earthquake.

Most members evaluated **the domestic economy** as sustaining its upward trend, boosted by exports, which had reached an all-time monthly high. A few members noted, however, that some indicators related to domestic demand such as **consumption** and **investment** had temporarily shown signs of faltering, affected by the Lunar New Year holidays, outbreaks of foot-and-mouth disease, etc.

Regarding **the future outlook**, many members anticipated that Korea would see economic growth at around the mid-4% level this year, led by the strength in exports coupled with the expansion in global trade volume.

Many members appraised **the domestic financial markets** as having regained stability overall from the end of March onwards, despite the increased volatility arising from greater risks in the overseas sector. One

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

member noted that **stock prices** had reached new record highs and **the Korean won/US dollar exchange rate** had fallen below the 1,100 won level for the first time since the collapse of Lehman Brothers.

Most members pointed out that the **consumer price index** growth rate had accelerated to as high as 4.7% year-on-year in March, due to demand-side pressures from the economic upturn, accompanied by the run-ups in international commodity prices and spread of foot-and-mouth disease, and noted that core inflation had also risen to around the mid-3% level. Concerning the price outlook as well, members anticipated that, although the CPI growth rate might slow somewhat on the back of government's micro-level efforts, upward pressures would remain high due mainly to increased inflation expectations.

As to **the real estate market**, a few members noted that, amid a sustained rise in housing leasehold deposits, housing sales prices had continued their upward movements in Seoul and its surrounding areas while their trend of increase had accelerated in the rest of the country.

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, the government's price measures, current real estate market conditions, and then left the meeting.

With regard to the current economic situation, the 1st Vice Minister commented that, although domestic demand appeared somewhat lackluster in view of the economic indicators for February, the overall economy was judged to have remained on a course of recovery.

As to prices, the 1st Vice Minister pointed out that price conditions at home and abroad remained uncertain, and added that the government would therefore implement policy measures with priority placed upon achieving price stability.

Regarding the real estate market, the 1st Vice Minister mentioned that the government would strive to implement as scheduled its measures for boosting housing transactions and stabilizing leasehold deposits and monthly rental fees. These measures are expected to help the housing market return to normalcy and relieve the burdens on the ordinary people.

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, although it would be desirable to further reduce the degree of monetary policy easing given that the economy would remain on an upward track and high level of prices would persist, it would be better to keep the Base Rate at its current level this month, considering such factors as the recent rapid pace of the won's appreciation against the US dollar and heightened uncertainties at home and abroad.

Many members expressed the view, however, that while maintaining the Base Rate at its current level, the committee should clearly signal to the market that it would persistently proceed with the normalization of the Base Rate so as to reduce the possibility of inflation expectations spreading among the general public.

Meanwhile, one member showed the concern that, if real interest

rates remained negative for a long time, the ample liquidity might create bubbles in the prices of assets, such as stocks and real estate, and financial institutions might then ease their lending attitudes, leading to a consequent further rise in household debt and worsening the macroeconomic imbalances.

The member then maintained that, in the event of a business cycle transition amid heightened economic uncertainties, an awkward situation might come where the rate hike stance would have to be dropped without having quite tamed inflation. To prevent this situation, he added, the central bank needed to raise the Base Rate preemptively while there was still time.

Another member expressed the opinion that rates needed to be normalized as soon as possible, since problems such as rising household debt, declining personal savings rates, soaring housing leasehold deposits as well as monthly rental fees and a large increase in real estate project financing loans were all related in considerable part to low interest rates.

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

(However, Mr. Kim, Dae Sik and Mr. Choi, Dosoung clearly dissented from this decision, and argued that the Base Rate should 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 3.00% 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 the possibility of such factors as the political unrest in North Africa and the Middle East, the sovereign debt concerns in some euro area countries, and the Great East Japan Earthquake posing downside risks to the global economy.
- ☐ For Korea, the Committee judges the domestic economy to have maintained its underlying upward trend on the strength of high growth shown by exports, even though consumption and facilities investment have faltered. Labor market conditions have also remained on a track of 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 4.7% in March, due mostly to the rises in prices of petroleum products and personal services. There is a growing possibility of this high rising price trend persisting in the coming months, 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, stock prices have reached new historic highs and the Korean won appreciated significantly against the US dollar in response chiefly to the uptrend in the domestic economy, amid large fluctuations exhibited by price variables due to external risk factors. Long-term market interest rates have rebounded slightly, after having declined. The pace of growth in mortgage lending has accelerated 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 a greater emphasis on ensuring that the basis for price stability is firmly anchored while the economy continues its sound growth.