

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

June 10, 2011

**The Bank of Korea**

## **Minutes of the Monetary Policy Committee Meeting<sup>1)</sup>** **(June 2011)**

### **I . Outline**

1. Date of meeting : June 10, 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, First 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 of Economic Research Institute & Chief Economist
  - 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. Summary of Discussion on Current Economic Situation<sup>2)</sup>

After briefings by staff on 'Current Economic Developments in Korea' and the 'Financial Markets', the discussions by members of the Monetary Policy Committee (MPC) covered the following areas:

Most members assessed **the global economy** to be sustaining its modest recovery as emerging market economies continued to show favorable performances, although the paces of recovery in advanced economies had exhibited signs of faltering unlike in the previous month. A few members noted that external uncertainties remained, including the possibility of slowdowns in major advanced economies, the resurgence of sovereign debt problems in the euro area triggered by concerns over the Greek debt restructuring, and the persistent aftereffects of the Great East Japan Earthquake.

Most members appraised **the domestic economy** as maintaining its underlying uptrend boosted by the sustained high growth of exports, despite the temporary sluggishness of domestic demand. One member pointed out that **exports** had hit a record high in May, as in the previous month, with the current account having registered 14 consecutive months of surplus through April.

Regarding **the future outlook**, many members anticipated that the domestic economy would remain on an upward track on the back of export buoyancy, notwithstanding latent external risk factors.

As to **the domestic financial markets**, members judged foreign funding conditions to be favorable owing to foreigners' increased investment in domestic bonds, although price variable volatility had risen

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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.

as exemplified by falling stock prices and long-term interest rates and depreciation of the Korean won against the US dollar, due mostly to mounting uncertainties in the global economy.

One member pointed out that mortgage lending had been rising steadily, bolstered mainly by banks' efforts to expand their loan books and by low lending rates.

Most members noted that, despite declines in price of petroleum and agricultural products, **consumer price** inflation had remained high at 4.1% in May, similar to the previous month's 4.2%, and that core inflation had also accelerated to 3.5% from 3.2% the month before. Many members mentioned that core inflation was expected to exceed headline inflation in the fourth quarter, as strong inflationary pressures persisted in the coming months, fueled mainly by further hikes in public utility charges, by the second-round effects of supply-side shocks and by increased demand from the economic upswing.

As for **the real estate market**, most members observed that, with housing leasehold deposits having sustained their rise, apartment sales prices were showing a slight downward tendency in Seoul and its surrounding areas, while their high rising trend in the rest of the country continued.

### **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, the government representative.

With regard to the current economic situation, the 1st Vice Minister commented that, despite undergoing some adjustments affected mostly by

the run-up in oil prices and the fallout from the Great East Japan Earthquake, the economy as a whole was expected to remain on course for recovery.

As to prices, the 1st Vice Minister remarked that they had risen at a somewhat slower pace in May, due chiefly to the fall in prices of agricultural products and the stabilization of petroleum prices, but that demand-pull inflationary pressures were judged to be gradually building. He added that the government thus strengthened its responses at the micro level with a focus on items exhibiting price instability, and planned to draw up measures to stabilize public utility fees in the second half.

Meanwhile, the 1st Vice Minister commented that, efforts were being made to lower the ceiling on foreign exchange forward positions and to curb domestic issuance of foreign currency-denominated bonds (aka “kimchi bonds”), since short-term external debt had shown a rising trend from early this year, owing to increased sales of offshore non-deliverable forwards (NDFs) by foreigners and to a sharp expansion in kimchi bond issuance.

In addition, concerning the household debt problem, the 1st Vice Minister disclosed that engineering a soft landing type of resolution — where household debt is consistently kept at an appropriate level so as not to exceed the extent by which the real economy expands — was very important from a medium- to long-term perspective, and that the government was therefore reviewing relevant policies to this end.

#### **IV. Discussions Related to Monetary Policy Decision (Summary)**

The main contents of the MPC members’ discussion concerning a change in the Bank of Korea Base Rate were as follow:

Members agreed that, given that the domestic economy was showing an upward trend despite the external uncertainties, and that going forward it was also forecasted to maintain growth at its long-term trend level for a considerable period of time, it was necessary to further lessen the degree of monetary easing to defuse inflationary pressures and check the spread of inflation expectations.

Many members anticipated that, with the CPI growth rate exceeding the upper bound of the inflation target range, consumer prices would remain on a high rising trend for the time being, affected mostly by the hikes in public utility charges, the second-round effects of supply shocks on prices, and increased demand-pull pressures triggered by the economic recovery. They also voiced concerns that the possibility of chronic high inflation becoming entrenched could not be ruled out.

One member assessed the domestic economy as highly vulnerable to internal and external shocks, due chiefly to credit expansion in line with the continuation of negative real interest rates, to economic agents' relaxation of attitudes toward risk, and to the rises in asset prices. He insisted that a rate hike aimed at strengthening the economic fabric was thus necessary so that the latent risk factors would not materialize.

Another member voiced the view that, to resolve the household debt problem, one of the most difficult challenges facing the economy, the central bank could not but choose measures that curb new borrowings and encourage voluntary deleveraging even though households' interest burdens might increase. He added that if an active monetary policy were not implemented on account of households' interest burdens, then such a policy could never be applied unless aggregate household debt were to contract, resulting in the household debt problem working as a factor

restricting the Bank of Korea's interest rate policy.

He opined as well that, since household debt and savings were two sides of the same coin, it was necessary to adopt a balanced stance on interest rate policy, taking both financial debt and savings into consideration.

Another member argued that, given the gradually increasing possibility of future economic slowdown stemming from changes in the domestic and external environment, there was a growing need to secure room for future policy maneuvering in advance.

After the discussions detailed above, members resolved unanimously to raise the Base Rate by 25 basis points.

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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 3.25%.
- ☐ Based on currently available information, the Committee considers the recoveries in major advanced economies to have exhibited signs of being somewhat delayed, while emerging market economies continue to show favorable performances. Going forward, the Committee forecasts that the global economy will keep up its pace of recovery; nevertheless, the Committee recognizes the possibility of such factors as the sovereign debt concerns in some euro area countries, the political unrest in North Africa and the Middle East, and the impacts of the Great East Japan Earthquake posing downside risks to the global economy.
- ☐ For Korea, the Committee judges that, despite the temporary sluggishness of domestic demand, the economy has maintained its underlying upward trend on the strength of the sustained high growth of exports. 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 this underlying trend, even in the presence of external risks.
- ☐ Consumer price inflation recorded a high level again in May, in the low 4% range. The Committee expects inflationary pressures to continue in the coming months, driven largely by increased demand from the economic upswing and by inflation expectations. Core inflation has risen to the mid-3% range, as the effects of the recent rises in price of oil and farm products are being passed through to the prices of such items as processed food products and personal service fees; there is also a possibility of this uptrend in core



inflation persisting in the future. As for housing prices, the upward movements in Seoul and its surrounding areas have come to a halt, while the steep upward trend in the rest of the country has continued. Leasehold deposits have risen at a slower rate than that in the previous month, affected mostly by seasonal slackness.

- ☐ In the financial markets, stock prices and long-term market interest rates have fallen and the Korean won depreciated against the US dollar, influenced mainly by external risk factors. Mortgage lending has posted a steady rise, albeit at a slower pace than during 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.