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English Version
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Monetary Policy Committee Meeting Minutes

Feb 11, 2010

Bank of Korea

Monetary Policy Committee Meeting Minutes¹⁾

(Feb 2010)

I . Outline

1. Date of meeting February 11, 2010 (Thu), 9 AM
2. Place Monetary Policy Committee Meeting Room
3. Monetary Policy Committee members present
 - Lee, Seongtae, Chairman (Governor, Bank of Korea)
 - Shim, Hoon
 - Park, Bong-Heum
 - Kim, Dae Sik
 - Choi, Dosoung
 - Kang, Myung Hun
 - Lee, Ju Yeol (Senior Deputy Governor)
4. Monetary Policy Committee members absent
 - None
5. Government representative present
 - Hur, Kyung-wook, 1st Vice Minister of Strategy and Finance
6. Participants
 - Kang, Tai Hyuk, Auditor
 - Song, Chang-Hun, Deputy Governor
 - Rhee, Gwang-Ju, Deputy Governor
 - Kim, Jae-Chun, Deputy Governor
 - Jang, Byung-Wha, Deputy Governor
 - Lee, Kwang-June, Deputy Governor

1) This English version (summary) of the Monetary Policy Committee meeting minutes was produced at the working level and is not an official document.

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

Ahn, Byung Chan, Director General of International Department

Yoo, Byoung Gap, Director General of Monetary Policy Committee Secretariat

Jung, Hee Sik, Director General of Press Office

II. Discussion on Economic Situation (Summary)²⁾

After hearing staff briefings on 'Current Domestic and Overseas Economic Developments' and the 'Financial Market Situation', the discussions among members of the Monetary Policy Committee (MPC) covered the following areas:

With regard to **the global economy**, most members were in agreement that, although overall global financial market conditions were showing improvement, there was growing uncertainty surrounding the global economy, –due to the recent government debt crises in some European countries, the tightening of liquidity management in China, and the strengthening of financial regulations in the US.

As for **recent domestic economic developments**, members assessment was that the Korean economy was on its recovery track as a whole, despite some mixed indicators. One member, however, stated that economic sentiment among the public had improved only slightly, owing to the modestness of the economic recovery and the persistently sluggish employment situation. Another member expressed the view that self-sustained growth momentum in the private sector is not yet solid.

2) Details as to 'Current Domestic and Overseas Economic Developments' and 'Financial Market Situation' are available on the Bank of Korea web site.

Regarding **the future outlook**, most members raised concerns that the re-emergence of uncertainty in external conditions might be a downside risk factor to Korean economic growth. One member noted that attention needed to be paid to the downside risks arising from the scaling back of the government's support measures such as ending the tax breaks for passenger car purchases and the capital gains tax exemption on sales of houses.

Meanwhile, there was another view that, as consumption and investment growth were expected to exceed their original forecasts along with the improved domestic and global conditions, the sign of self-sustained recovery in the private sector would become more evident, unless global economic conditions deteriorated sharply.

Concerning **production activities**, members noted that, as demand recovered, manufacturing production increased at a faster pace and service production also swung back to an increase.

With respect to **employment**, most members considered the Korean labor market was likely to remain subdued. And one member, in particular, claimed that the employment situation would stay far below the normal level for the time being, even if the government's job creation measures were again put in place.

Most members commented that **exports** would continue to increase and **facilities investment** were also showing a gradual recovery. One member, however, mentioned that there was a high likelihood of export conditions might be significantly affected by the growing uncertainties concerning the KRW/USD exchange rate and the future directions of the Chinese economy.

As to **consumption**, some members shared the view that consumption had increased recently thanks to expansionary macro policy and the restocking of durable goods, while anticipating that, judging from past experiences, this upward trend was likely to continue for the time being.

As for the **domestic financial markets**, most members noted that the volatility of stock prices and KRW/USD exchange rate had risen, affected by external risk factors. One member mentioned, however, that market interest rates had remained stable, which may be due to market participants' weakened expectations of an upward policy rate adjustment.

Meanwhile, another member emphasized that attention should be given to the possibility that there might arise doubts on the reliability and effectiveness of monetary policy if the gap between short and long-term interest rates, which had widened substantially of late, persisted for a long time.

Although members agreed that **the corporate and household sectors** are financially in good shape overall, some pointed out the likelihood that the ending of the government's financial support for small- and medium-sized enterprises (SMEs) and banks' strengthening of risk management might aggravate funding conditions for SMEs with poor credit ratings. Members also mentioned the possibility that a rise in interest rates as the economy recovers might lead to insolvencies among highly indebted households and could constrain consumption recovery.

Most members anticipated **consumer prices** to remain on a stable downward trend for the time being. Members viewed the steep rise in the Consumer Price Index during January as a transitory phenomenon caused by a base-period effect.

As to **real estate prices**, many members noted the fact that leasehold deposits were continuing to rise while housing prices had been sluggish. Some members shared the view that constant attention should be paid to the fact that expectations of higher housing prices might be growing along with the economic recovery.

III. Discussions Related to Monetary Policy Decision (Summary)

The Monetary Policy Committee Members' discussions on changing the Bank of Korea Base Rate are summarized as follows:

The members agreed that the domestic and international economies were still vulnerable to unexpected shocks, and that this might slow the pace of domestic economic recovery significantly.

The members also called for close monitoring of developments of destabilizing overseas factors and more intensive examination of weakness in the domestic economy. One member expressed the view that, given the possibility that factors causing volatility in the global financial markets might persist longer than expected, and that global economic recovery could be delayed for some time, consideration should be given to the potential of policy implementation and latent risks from a longer-term perspective.

Meanwhile, many members expressed concerns about the real estate market instability and delays in corporate restructuring that might be caused by maintaining an excessively accommodative monetary policy for a long period. One member stated that close attention should be paid to whether a low Base Rate might lead to distorted allocations of short-term and long-term financial capital.

After the detailed discussions summarized above, members agreed unanimously on maintaining the Bank of Korea Base Rate at its current level and passed a resolution to that effect³⁾.

IV. Remarks by Government Representative

The senior vice minister of the Ministry of Strategy and Finance present at the meeting explained the government measures taken against the recent rise in leasehold deposits and the factors driving a rise in the unemployment rate during January.

3) Please refer to <Ref> "Monetary Policy Decision".

< Ref. >

Monetary Policy Decision

- ☐ The Monetary Policy Committee of the Bank of Korea decided today to maintain the Base Rate at its current level (2.00%) for the intermeeting period.
- ☐ Domestic economic activity has continued on a recovering trend, which is expected to be maintained. Exports and domestic demand have steadily increased and production has advanced briskly. There still, however, remains uncertainty as to the economic growth path due to the risk of government debt crises in some European countries.
- ☐ Consumer price inflation has accelerated its rising pace. It is anticipated as likely to be stable, however, in reflection of recent international raw material price movements. The upward trend of real estate prices has been blunted.
- ☐ Financial market price variables such as exchange rate and stock prices have shown high volatility under the influence of international financial market unrest. Mortgage lending has slowed due to the seasonal factors.
- ☐ Looking ahead, the Committee will maintain the accommodative policy stance for the time being in such a way as to help sustain the trend of recovery in economic activity.