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English Version  
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# Monetary Policy Committee Meeting Minutes

Apr 9, 2010

Bank of Korea

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

## (Apr 2010)

### I . Outline

1. Date of meeting      April 9, 2010 (Thu), 9 AM
2. Place      Monetary Policy Committee Meeting Room
33. Monetary Policy Committee members present
  - KIM, Choongsoo, Chairman (Governor of Bank of Korea)
  - 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
  - Rhee, Gwang-Ju, Deputy Governor
  - 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

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

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)<sup>2)</sup>

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

With regard to **the global economy**, most members were in agreement that the economies of major advanced countries including the US and Japan were gradually improving, while emerging market economies were showing favorable performances. One member emphasized that exit strategies including raising of policy rates were already being implemented in some emerging market countries, prompted by concerns about inflation and rising asset prices. Meanwhile, some members pointed out that destabilizing factors surrounding the global financial markets still remained, such as the delayed improvements in employment conditions in advanced countries, the deteriorations in fiscal soundness in Southern European countries, and the tightening of liquidity management in China.

As for **recent domestic economic developments**, most members' assessment was that the Korean economy remained on a stable upward track, boosted by growing exports and improvements in domestic demand, and noted the high growth rate in the first quarter. Meanwhile, one member expressed the view that the recovery of private sector growth momentum had not yet consolidated, as seen by the slowdown in economic recovery and the

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

declines in leading indicators for two consecutive months.

As to **the future outlook**, most members expected that the domestic economy would sustain its recovery, boosted by sustained solid export growth and growing domestic demand including consumption and facilities investment. Some members commented that Korean economic growth would return to its long-term trend level before long, influenced by the further expansion of self-sustaining growth momentum in the private sector.

Concerning **production activities**, members commented that manufacturing production – largely that of semi-conductors and automobiles – was increasing, while service production was also growing sharply, boosted by the economic recovery and increased export and import volumes.

With respect to **employment**, many members anticipated that the employment situation in Korea would improve gradually, as the government's job creation measures had recently been put back into place and the economy was recovering. Meanwhile, some members expected a slower employment recovery, since the capacities of the manufacturing and service sectors to absorb employment had deteriorated, and some industries having high employment-generating effects such as construction and shipbuilding, were showing sluggish growth.

Most members mentioned that **exports** were maintaining robust growth, boosted by growing trade volumes in line with the global economic recovery. However, one member noted that export conditions in the future remained uncertain – owing to the instability of the KRW/USD exchange rate, the fluctuations of international commodity prices, and the unclear future directions of the economies of advanced countries and China.

Many members shared the view that domestic demand including **private consumption and investment** was showing gradual improvement. However, one member suggested that there was a possibility of a contraction in **domestic facilities investment** and **construction investment**, resulting from a

decline in foreign direct investment and the lackluster real estate market, and that consumption was also unlikely to show much improvement because households' burden of principal and interest repayment had increased with their growing debt levels.

As for **the domestic financial markets**, the majority of members noted that stock prices had risen and the KRW/USD exchange rate had declined, influenced by an expansion of foreign portfolio investment fund inflows. They also assessed market interest rates as remaining on a decline due to market participants' expectations that the policy rate would not be adjusted for the time being.

The members agreed that **the corporate and household sectors** were in financially good shape. However, some members expressed concerns about the additional increase in banks' household lending, while another mentioned the possibility of growing default risks, particularly for small and medium-sized enterprises (SMEs) with poor credit ratings, influenced by the worsening of fund-raising conditions for construction companies, due to the delayed real estate market recovery and tighter attitudes toward SME lending following the supervisory authorities' strengthening of soundness supervision.

With regard to **prices**, a number of members anticipated that the rise in the consumer price index would accelerate, as pressures on the demand side would mount with the economic recovery in the second half of this year and pressures on the supply side, such as from the run-up in global commodity prices, would also build.

As to the **real estate market**, some members pointed out that housing prices were still posting only a slight rise, due to the financial regulations and to lackluster housing sales.

### III. Discussion Related to Monetary Policy Decision (Summary)

The Monetary Policy Committee Members' discussions related to changing the Bank of Korea Base Rate were as follows:

Most members agreed that, taking into account the recent situation and future prospects of the domestic financial markets and real economy, the necessity of keeping the Bank of Korea Base Rate at its current low level, at which it had been maintained since the sharp economic contraction right after the Lehman Brothers crisis, had declined sharply.

Many members commented that the pace and scale of monetary policy easing should be adjusted appropriately before the prolongation of the current low interest rate stance brought about economically harmful consequences, including delays in corporate and household restructuring, growing indebtedness, expansions in speculative investment/consumption, etc. Some members mentioned that a signal of early normalization, to some degree, of the Bank of Korea Base Rate should be sent to the financial markets to help to form rational market expectations, as the wide-spread perception of financial market participants that the current monetary policy stance would be maintained for a long time would lead to a growing possibility of economic instability arising from distortions in market fund flows.

Other members, however, said that caution was needed in shifting the policy stance dramatically, citing as grounds that uncertainties still surrounded domestic and overseas economic conditions, that the low-interest rate policy had not caused pronounced economic imbalances so far, and that the predominant opinion among financial market participants was that the Bank of Korea Base Rate would be held at its current level for the time being.

Meanwhile, some members pointed out that it was necessary to more closely monitor the positive and negative effects of maintaining the policy rate at its current level, and to respond actively to any substantial changes in external factors.

After the discussions detailed above, all members agreed to hold the

Bank of Korea Base Rate at its current level for the intermeeting period, and passed a resolution to this effect<sup>3)</sup>.

#### **IV. Remarks by Government Representative**

The 1st Vice Minister of the Ministry of Strategy and Finance present at the meeting explained the topics to be discussed at the G20 Finance Ministers and Central Bank Governors' meeting, the government's plan to boost employment in the services sector, some adjustments made to the medium-term fiscal plan after finalization of the annual budget, and the recent fund-raising conditions of small and medium-sized construction companies.

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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.
- ☐ In the global economy, emerging market economies have shown favorable performances, and the trend of improvement in the economies of major advanced countries, such as the US and Japan, has gathered pace to some degree. However, there are latent risk factors present, including the government debt problems in some European countries.
- ☐ Domestic economic activity has sustained a trend of recovery. Even though construction investment has been somewhat inactive, exports have shown buoyancy, and consumption and facilities investment have steadily increased.

This recovery trend is expected to be maintained. Considering the overseas risk factors, however, there still remains uncertainty as to the economic growth path.

- ☐ Consumer price inflation has decelerated, led by the prices of services, and is anticipated to be stable for some time. In the real estate market, the upward trend of prices has been blunted, with transactions remaining inactive.
- ☐ In the financial markets, with the expansion in inflows of foreign portfolio investment funds, stock prices have risen, and long-term and short-term market interest rates have decreased. The scale of the increase in mortgage lending has widened slightly due to the decline in lending interest rates, and the increase in the numbers of newly occupied and lotting-out apartments.
- ☐ 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, taking into overall consideration financial and economic conditions domestically and abroad.