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English Version  
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# Monetary Policy Committee Meeting Minutes

May 12, 2010

Bank of Korea

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

## (May 2010)

### I . Outline

1. Date of meeting      May 12, 2010 (Wed), 9 AM
2. Place              Monetary Policy Committee Meeting Room
3. Monetary Policy Committee members present
  - Kim, Choongsoo, Chairman (Governor of 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

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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.

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 the 'Financial Markets', the discussions among members of the Monetary Policy Committee (MPC) covered the following areas:

With regard to **the global economy**, most members noted that major developed markets, including those of the US and Japan, were showing improvement and that emerging markets had returned to their pre-Lehman crisis levels. Some members forecasted that, although the global financial market might respond sensitively to the degree of recovery of fiscal soundness in Southern European countries, another tremendous shock would not hit again considering the active policy coordination among advanced countries. However, some other members forecasted that, as fiscal problems were spreading to countries that were heavily exposed to Southern European countries, it was highly likely that volatility in the global financial market would increase and the global economic recovery would slow down.

As for **recent domestic economic developments**, many members pointed out that the Korean economy had continued its growth trend for five straight quarters since the first quarter of 2009, boosted by favorable exports and improved domestic demand. They added that the growth rate for the first quarter of this year had shown a faster-than-expected recovery. However, members expressed conflicting opinions on the background to this growth. Some members viewed the recent rapid economic recovery as attributable to

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

the strengthened momentum of self-sustaining growth in the private sector. Others meanwhile stated that it was uncertain whether the private sector had recovered its self-sustaining momentum, as the recovery had so far been led mainly by the increased government assistance, and it seemed a little too early to say that the recent improvement in employment conditions reflected an expansion in potential growth.

Regarding **the future outlook**, many members forecasted that the trend of recovery in the Korean economy would become more evident, with the role of the private sector expanding gradually. Some members, however, judged that uncertainties still existed in the economy, pointing to examples of leading economic indicators staying on a downward track for the third consecutive month and to the possibility of higher volatility in the global financial market impacted by the fiscal problems in Southern European countries.

Concerning **production activities**, members commented that most production indexes had exhibited recoveries.

With respect to **employment**, many members considered that the employment situation had shown gradual improvement, but one member forecasted that it would take a considerable period of time for the employment situation to get back to its normal level, as employment in the private sector had not shown any evident improvement due to the weakened capacity of the service sector to absorb employees.

While most members agreed that **exports** remained strong, one commented that, owing to the heightened uncertainty of external conditions, exports would be more affected than before by the KRW/USD exchange rate and by the direction of the global economy, including the Chinese economy.

Members noted that **facilities investment and consumption** had improved compared with the previous quarter.

Concerning **the domestic financial markets**, many members noted that the

movements of price variables like stock prices, interest rates and exchange rates, had shown increased instability, as flows of foreign investment capital were becoming more volatile affected by the fiscal crisis in Southern European countries and the possibility of appreciation of the Chinese yuan. One member argued that the volatility of price variables might increase further, even if the fiscal problems in Southern Europe did not deteriorate more. Another member meanwhile stressed that real short-term interest rates were negative, and real long-term interest rates remained near zero, given that the current expected inflation rate stood at around 3%.

Members shared the view that **the corporate and household sectors** were in good shape overall financially, but raised concerns about a possible rise in delinquency rates in some industries including the sluggish construction industry. One member noted a possibility that, considering the rate of growth in money supply to the corporate and household sectors, financial institutions were not playing their role as intermediaries effectively. Another member meanwhile expressed concerns about the continued, albeit slight, rise in mortgage loans under the influence of low lending rates.

Members evaluated **consumer prices** as remaining stable overall, although they had temporarily risen at a faster pace in April than in the previous month, owing to a hike in the prices of agricultural, livestock and fisheries products and climbing global oil prices. However, many members pointed to the possibility that inflationary pressures might gradually increase due to mounting demand-pull pressures and hikes in global raw material prices and public utility charges in line with the economic recovery.

As to **the real estate market**, most members commented that housing sales prices were exhibiting weakness, with transactions remaining inactive. One member warned that in an environment of high delinquency rates on savings bank real estate project financing loans, if the weakness in the Greater Seoul housing market persisted, it would negatively impact the economic recovery, due not just to stagnation in the construction industry but to a contraction of household consumption. Another member noted that there

was a need to examine the likelihood of rapid shifts in the composition of household portfolios if abrupt adjustments in real estate prices took place. Meanwhile, a different member commented that it was somewhat too early to say that real estate prices were showing a downward trend, as, unlike housing prices in the Greater Seoul area, those in the provincial areas remained on upward tracks, and housing leasehold deposit fees had also risen nationwide.

### 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:

Members mentioned that, although Korea had been showing the fastest economic recovery among OECD member countries, and its major economic indicators, including economic growth, had therefore returned to their pre-global financial crisis period levels, the normalization of interest rates had been pushed back owing to the uncertainty surrounding external conditions. They agreed that, since the jitters in the financial and foreign exchange markets caused by sovereign debt problems in Southern European countries had not eased sufficiently this month, it was necessary to wait for the time being and see how the issue would be resolved.

Many members, however, pointed out the need, with the Korean economy entering into a full-fledged expansion phase, to take preemptive monetary policy actions before the increase of negative effects such as accelerating inflation, a run-up in asset prices, delayed corporate / household restructuring, growing household debt and the speculative utilization of funds. They expressed the view that a signal of a possible upward policy rate adjustment should be sent to the financial markets this month, to change the unilateral market expectations that the Bank of Korea Base Rate would remain unchanged at its current level for a considerable time.

One member said that the costs incurred from economic imbalances resulting from a delay in lifting the rate could far outweigh the costs from a renewed economic contraction caused by the upward rate adjustment, and said it was also needed to secure policy capacity in advance, when the economic situation was better, to brace for the possibility of a re-emerging economic slowdown caused by the spread of global financial market unrest in the future.

Another member expressed the view that, as financial market volatilities would occur naturally in the process of resolving the global financial crisis, such risks should be accepted somewhat, and should moreover be utilized as opportunities to strengthen the Korean economic fundamentals.

Meanwhile, some members emphasized that, although prices were relatively stable, the real estate market was in a recession and the uncertainties surrounding domestic and overseas financial markets were increasing. One member noted that the countries that had recently raised their policy rates were mostly resource-rich countries which export raw materials, and that there were hardly any cases of a manufacturing-based country with a small open economy, like Korea, having made an upward rate adjustment.

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 that effect<sup>3)</sup>.

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

The 1st Vice Minister of Strategy and Finance present at the meeting explained the government's assessment of the current economic situation and the government measures taken to enhance fiscal soundness.

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3) Please refer to the attached < 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 sustained their favorable performance, while the economies of major advanced countries such as the US and Japan have shown an improving trend. There is, however, an underlying risk that the international financial markets may be destabilized at any time, because no fundamental solution of government debt problems in certain Southern European countries has yet been reached.
- ☐ The trend of recovery in domestic economic activity has become more evident. Even though construction investment has still been inactive, exports have sustained their buoyancy, and facilities investment and consumption have steadily increased. Labor market conditions have improved, led by the private sector.

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 accelerated temporarily, driven by the rise in farm and fisheries product prices due to unseasonably cold weather. It is anticipated to be stable for some time, but the demand-pull pressure is expected to increase due to the recovery in economic activity. In the real estate market, housing sales prices have exhibited weakness, dragged down by prices in Seoul and its surrounding areas, with transactions remaining inactive.



- ☐ In the financial markets, with the expanded inflows of foreign portfolio investments, long-term and short-term market interest rates have decreased, however, the volatility of price variables has greatly expanded in response to the government debt problems in certain Southern European countries. The scale of the increase in mortgage lending has remained almost unchanged, due to lackluster house transactions, even though lending interest rates have declined.
  
- ☐ Looking ahead, the Committee will maintain the accommodative policy stance in such a way as to help sustain the trend of recovery in economic activity, and in carrying out policy, it will take overall account of financial and economic conditions at home and abroad.