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English Version
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Monetary Policy Committee Meeting Minutes

September 9, 2010

Bank of Korea

Monetary Policy Committee Meeting Minutes¹⁾

(September 2010)

I . Outline

1. Date of meeting : September 9, 2010 (Thu)
2. Place : Monetary Policy Committee Meeting Room
3. Monetary Policy Committee members present :
 - Kim, Choongsoo, Chairman (Governor, 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
 - Jang, Seh Geun, Deputy Governor
 - Park, Won Shik, Deputy Governor
 - 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
 - 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. Discussion of Economic Situation (Summary)²⁾

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:

Members shared the view that, although **the global economy** continued its modest but steady recovery with most emerging markets improving markedly, uncertainties were also on the rise due to concerns about possible slowdowns in the US and Chinese economies and the reappearance of fiscal problems in some European countries.

Concerning **recent domestic economic developments**, most members' assessment was that the domestic economy remained on an upward path, led by strong exports and the recovery of domestic demand including consumption and facilities investment. However, some members pointed out that there still existed some variance across industries and sectors, with manufacturing production continuing to rise while that of services remained sluggish.

Regarding **the future outlook**, many members forecasted that the economy would remain on an upward track without deviating significantly from the previous forecast released in July. Some members mentioned, however, that the growing downside risks to the global economy were causing heightened uncertainties as to the domestic economic growth path.

With respect to **employment**, many members evaluated the employment situation as continuing to improve, with the gradual increase in number of persons employed, particularly in the private sector.

As to **the domestic financial markets**, members assessed them as

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

remaining stable overall. One member mentioned that the gap between short- and long-term interest rates had narrowed in August, with short-term rates increasing and long-term rates falling in response to the inflows of foreign portfolio investment funds. Another member noted that foreign portfolio investment funds continued to flow in and the volatility of stock prices and foreign exchange rates had decreased somewhat, although foreign stock investment funds had shifted to a net outflow affected by the restive global financial markets.

With regard to **consumer price inflation**, many members forecasted that, although it remained in the mid-2% range, it would accelerate from the fourth quarter of this year to exceed 3% — the midpoint of the medium-term inflation target. One member argued that attention needed to be paid to the fact that the general public's inflation expectations were on the rise.

In connection with **the real estate market**, most members commented that it remained sluggish, with housing sales prices falling in Seoul and its surrounding areas and rising in the provinces.

III. Discussion 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 the extent of monetary easing should be reduced further given the growing upward pressures exerted by the consistently robust domestic economy and concerns about spreading of inflation expectations among the public, the Base Rate needed to be maintained at its current level this month, considering that the downside risks to major economies including the US had grown and that the effects on the housing market of the government's August 29 real estate policy measures needed to be closely watched.

Some members commented that, despite the consistently robust domestic economy, overall business confidence was still low, affected by the widening polarizations between exporters and domestic demand-oriented companies, and between large corporations and small and medium-sized enterprises (SMEs). In addition, one member pointed out that SMEs' fund-raising conditions might worsen due to the conservative lending attitudes of financial institutions and a rise in borrowing rates, and voiced the view that the Base Rate needed to be maintained at its current level in order to press ahead in a more stable manner with the restructuring of uncompetitive economic sectors including marginally-viable SMEs.

Some members meanwhile advocated the necessity of moving forward steadily with interest rate normalization to secure the capacity for preemptive policy response and scope for future policy action, since a Base Rate of 2.25% was overly low given the current economic conditions and future economic outlook. They in addition voiced the view that, if the Base Rate were maintained at the previous month's level, vigilance about a rate hike would on the one hand recede and the adverse side effects of low interest rates expand, while on the other hand the credibility of the central bank's monetary policy would be damaged.

One member commented that, even if the Base Rate were raised slightly at this point, it would imply only a partial reduction in the degree of financial easing, and that financial accommodativeness would continue on a considerable scale as before.

After the discussions detailed above, members agreed by majority vote to hold the Bank of Korea Base Rate at its current level for the intermeeting period. However, Mr. Kim, Dae Sik and Mr. Choi, Dosoung clearly dissented from this decision and argued that the Base Rate should be raised by 0.25%p.

IV. 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 of Finance who explained the government's assessment of the current economic situation, the background to implementation of the August 29 real estate policy measures, and the details of financial sanctions related to the UN Security Council's resolution sanctioning Iran, and then left the meeting.

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Monetary Policy Decision

☐ The Monetary Policy Committee of the Bank of Korea decided today to maintain the Base Rate at its current level (2.25%) for the intermeeting period.

☐ In the global economy, emerging market economies have sustained their favorable performance, and the economies of major advanced countries have largely continued their recovery trend, even though the US economy has shown signs of a slowdown. Looking ahead, there exists the possibility of the heightened volatility of economic activity in major countries acting as a risk factor for the global economy.

☐ The upward trend of domestic business activity has been maintained. Exports have sustained their buoyancy and consumption has steadily increased and, led by the private sector, labor market conditions have shown an improving trend.

The domestic economy is expected to continue on an upward track, even in the presence of external risk.

☐ Consumer price inflation has so far stayed within a range of somewhat above 2% but a little below 3%, but in the future, upward pressures are expected to build continuously owing to the increase in demand-pull pressures associated with the continued upswing in activity. In the real estate market, housing sales prices have declined in Seoul and its surrounding areas, while those in other areas have continued to increase.

☐ In the financial markets, short term market interest rates and banks' lending and borrowing interest rates have continued to rise. Long term market interest rates, however, have declined in response chiefly to the inflow of foreign portfolio investment funds. The scale of the growth in mortgage lending has decreased somewhat, with transactions remaining inactive.

- ☐ Looking ahead, the Committee will conduct monetary policy in such a way as to help the economy maintain price stability, while sustaining sound growth under the accommodative policy stance. In carrying out policy, it will take overall account of financial and economic conditions at home and abroad.