

January 13, 2011
The Bank of Korea

Monetary Policy Decision

The Monetary Policy Committee of the Bank of Korea decided today to raise the Base Rate by 25 basis points to 2.75%.

(The following is an unofficial English translation of the Monetary Policy Committee statement.)

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Based on currently available information, the Committee considers emerging market economies to have sustained their favorable performances, while the major advanced economies have kept up their moderate paces of recovery. Going forward, the Committee forecasts the global economy to sustain its pace of recovery; nevertheless, the Committee does not rule out the possibility of future developments, for example international financial market unrest arising from the sovereign debt concerns in some euro area countries and heightened volatility of international commodity prices, posing a risk to the global economy.

For Korea, the Committee judges the domestic economy to have maintained its underlying upward trend; although facilities investment has declined, exports have continued their buoyancy and consumption has steadily increased. Labor market conditions have also shown ongoing improvement, led by the private sector. Going forward, the Committee anticipates that the domestic economy will keep up its underlying trend, even in the presence of external risks.

Consumer price inflation in Korea reached the 3.5% level in December, driven mainly by rises in the prices of petroleum products and farm products. In the coming months, the Committee expects inflationary pressures to persist and inflation expectations to increase as the economic upswing continues and international commodity prices rise. In the real estate market, upward movements in housing prices have emerged in Seoul and its surrounding areas, and those in the rest of the country have sustained their upward trend, while leasehold deposits have continued to rise.

In the financial markets, stock prices have risen significantly and the Korean won has appreciated, due mostly to the increased inflows of foreign stock investment funds and to expectations for geopolitical risks around the Korean Peninsula to ease. Long-term market interest rates have increased, in response chiefly to inflation expectations and to foreign investors' net sales of bonds. Mortgage lending has grown on a large scale, amid an increase in housing transactions.

Looking ahead, the Committee will conduct monetary policy in such a way as to firmly anchor the basis for price stability while the economy continues its sound growth. In carrying out policy, the Committee will take overall account of financial and economic conditions both at home and abroad.