Minutes of the Monetary Policy Board Meeting

February 2023

Bank of Korea

English version

Minutes of the Monetary Policy Board Meeting[1)]

February 2023

Ⅰ. Outline

1. Date of meeting: Thursday, February 23, 2023

2. Place: Monetary Policy Board Meeting Room

3. Monetary Policy Board members present:
   Rhee, Changyong, Chairman (Bank of Korea Governor)
   Cho, Yoon-Je
   Suh, Young Kyung
   Joo, Sangyong
   Lee, Seungheon (Senior Deputy Governor)
   Park, Ki Young
   Shin, Sung Hwan

4. Monetary Policy Board members absent: none

5. Participants:
   Kang, Sungjun, Auditor
   Lee, Hwan Seok, Deputy Governor
   Bae, Joon Suk, Deputy Governor
   Lee, Sang Hyeong, Deputy Governor
   Lee, Jongryeol, Deputy Governor
   Yang, Seok Jun, Director General of Reserve Management Group
   Kim, Woong, Director General of Research Department
   Kim, Inkoo, Director General of Financial Stability Department
   Hong, Kyung Sik, Director General of Monetary Policy Department
   Park, Jongwoo, Director of Financial Markets Department
   Oh, Kum Hwa, Director General of International Department
   Park, Yang Su, Director General of Economic Research Institute
   Min, Jun Gyu, Director General of Office of Legal Affairs
   Choi, Yong Hoon, Director General of Monetary Policy Board Secretariat
   Kim, Yong Sik, Press Officer
   Choi, Mun Seong, Head of MPB Team

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

Ⅱ. Summary of Discussions on the Current Economic Situation

After briefings by staff on *Economic Outlook* (February 2023),[2] *FX and International Finance Trends*, and *Financial Market Trends*, the discussions of the Monetary Policy Board (MPB) members covered the following areas.

Members assessed that despite eased concern about a global recession, domestic economic growth continued to slow due to a slump in exports driven by a severe contraction in the IT business and to weakened momentum for private consumption caused by the increase in the household debt servicing burden. Meanwhile, some members stated that while the economy was expected to recover gradually some time in the second half of this year as the slump in exports eases in line with the improvement in the overseas economic environment, uncertainties still remained over the growth path surrounding external conditions, such as conditions in the semiconductor business and the recovery in China.

In terms of inflation, members noted that consumer price inflation had risen to the lower-5% level during January, driven by an increase in processed food prices and hikes in public utility fees. However, they predicted consumer price inflation and core inflation excluding food and energy to slow gradually this year to 3.50% and 3.0%, respectively, led mainly by declines in petroleum product prices, the base effect, and weakening demand pressure going forward. Meanwhile, some members assessed that there were still some upside risks to inflation, given the continued rise in core inflation, the second-round effects of non-core on core inflation, and economic recoveries at home and abroad.

Members also assessed that domestic financial market conditions had remained stable with risk aversion weakened in general, though they were somewhat accommodative given the tigthening stance. Meanwhile, some members stressed that, concerning the financial stability, attention must be paid to the risk to overall financial market stability arising from a sharp leverage adjustment in the process of easing financial imbalances, as well as to the differentiation in risks across credit ratings.

2) An English version of *Economic Outlook* is posted on the Bank of Korea website (http://www.bok.or.kr/eng/bbs/E0000634/view.do?nttId=10075704&menuNo=400069&pageIndex=2).

Ⅲ. Summary of Discussions Concerning Monetary Policy Decision

The main details of the MPB members' discussions concerning a change in the Bank of Korea Base Rate were as follows.

The majority of members shared the opinion that, in overall consideration of the domestic and international financial and economic environment, it would be desirable to keep the Base Rate unchanged at the current 3.50% for the intermeeting period, while one member argued for raising it by 25 basis points.

One member expressed the view that it would be desirable to maintain the Base Rate at the current 3.50% at this meeting.

The member projected that the global economy would recover gradually after bottoming out in the first quarter, backed by favorable employment conditions in the US, the easing of the energy crisis in Europe, and the reopening in China, although sluggish demand had been ongoing since the second half of last year. The member saw that exports would likely improve gradually as external conditions surrounding our economy improve. However, the member anticipated that the growth rate for this year would run at the mid-1% level due to sluggish domestic demand stemming, for instance, from decreases in consumption and investment capacity following an increased debt burden.

The member saw that inflation rose again to 5.2% in January, affected by rises in public utility fees, but expected price inflation for this year to run somewhat below the previous forecast, influenced by a decline in international oil prices and sluggish domestic demand. The member projected that the uptrend in prices would weaken steadily to 4% in the first half of this year and to around 3% in the second half, influenced by the easing of demand-side inflationary pressures and the base effect on the supply side. The member saw that core inflation would fall to the lower-2% level at the year-end, from the current lower-4% level. The member forecast that core goods inflation would slow, as a decline in import prices would be reflected after a time gap, and upward pressure on core service inflation would weaken further, influenced by a sluggish housing market and households' increased debt servicing burdens in line with rate hikes. The member stated that, contrary to the US, which saw heightened upward pressure on wages and prices, particularly in the service sector, due to reduced labor supply, Korea witnessed an ongoing increase in the involuntary labor supply of the elderly, which was acting as an underlying downside factor for service prices. The member thus saw the need to pay attention to this point.

The member commented that, in the financial markets, long-term market interest rates rose again and the Korean won shifted to depreciation again as US Treasury yields rose and the US dollar strengthened again due to expectations of a higher level of the terminal federal funds rate in the US. The member presented the view that, although funding conditions in the market and foreign currency liquidity remained relatively favorable, the number of potential risks did not appear to be small, with the delinquency rate for financial institutions rising, associated in particular with lending to the real estate sector, and the credit spread on low-rated bonds remaining high. The member stated that, in the midst of a sustained decline in housing prices, deleveraging of household debt was ongoing, as housing-related loans at financial institutions shifted to a decline for the first time in 10 years.

The member judged that, in view of the changes in economic conditions, the effects of the rate hikes so far appeared to be shown across the entire economy, including in growth, prices, and finance, and expressed the opinion that these effects could amplify in the future, given that interest rate policy would be transmitted to the economy after a time lag of several quarters. The member judged that it would be possible to keep the Base Rate unchanged from the current level at this meeting, while assessing the effects of the rate hikes so far and examining future developments in domestic and overseas economic conditions, particularly since the recovery of domestic economic growth and a slowdown in inflation were projected to strengthen toward the second half of this year.

However, the member stressed that keeping the Base Rate unchanged at this meeting would not necessarily mean an easing of the monetary policy tightening stance, and that the Board would put a priority on price stability in future Base Rate operations. The member projected that inflation would continue to slow moderately, but that it would still be necessary to keep a close eye on it, given the spread of inflation expectations, the second round of spillover effects from increases in public utility fees, and the prospect of a resurgence in international oil prices and in the Korean won to US dollar exchange rate. The member also presented the opinion that, if the rate differentials between Korea and the US widened further than expected due to any further rate hike by the US Federal Reserve, there could be possibility of heavier depreciation pressure on the won, which could act as a negative factor on domestic prices and growth. The member thus saw the need to take active policy measures to deal with this issue. Accordingly, the member argued that the Board should leave open the possibility of a further rate hike, while examining developments of domestic and international economic conditions, and prices in particular, going forward.

Another member presented the view that it would be appropriate to keep the Base Rate unchanged from the current 3.50% at this meeting.

The member mentioned that, although the domestic economy was showing weaker growth, the trend of growth was more robust than feared. The member stated that exports had been sluggish, affected by a global economic slowdown, and the momentum of private consumption had also weakened lately, while facilities investment had maintained its trend of improvement. Concerning employment conditions, the member added that, with the number of persons employed showing a larger increase compared to past years, and labor supply and demand conditions remaining tight, wages were maintaining a high uptrend.

The member projected that, while the domestic economy would maintain a slowing trend for some time, it would gradually recover in the second half of this year. The member expected that, given the earlier-than-expected reopening and economic stimulus measures in China, and stronger-than-expected economic conditions in the US and Europe, external economic conditions would improve from what was witnessed at the previous meeting. The member commented that, taking this into account, the Research Department of the Bank of Korea projected that the domestic economy would grow at its potential level after the second half while revising slightly downward the growth outlook for the first half of this year. However, the member presented the view that, since there were high uncertainties surrounding the future growth path, associated with a recovery in the Chinese economy, the pace of monetary tightening in major economies, and the degree of the slump in the domestic housing market, it would be necessary to exercise caution concerning the relevant downside risks.

The member stated that, with respect to prices, as consumer price inflation had risen to the lower-5% range in January, the ongoing decline trend in the inflation rate since July last year has slowed. The member added that, while an uptrend in petroleum product prices slowed, sharp price rises in processed food and personal services continued, and the effects of increases in electricity fees created upward pressure on prices.

The member projected that the rise in consumer price would be decelerated for some time, given the base effect from the steep rise in the first half of last year. However, the member judged that it would be difficult to say with confidence that underlying inflation had stabilized downward, as core inflation remained elevated, led by highly persistent personal service charges, inflation expectations became unstable again, and a rise in international commodity prices stemming from the resumption of economic activity in China, hikes in public utility fees, and the relevant second-round spillover effects would highly likely to serve as factors making for price instability going forward.

Looking at financial conditions, the member stated that, in the domestic and international financial markets, interest rates tumbled, stock prices soared, and the US dollar weakened substantially on the back of spreading expectations of an earlier-than-expected ending of monetary tightening by the US Federal Reserve since the end of last year. The member commented that such a strong financial market partially arises from the resolution of excessive stress conditions stemming from the faster pace of tightening by the US Federal Reserve in the second half of last year, but it was greatly diverging from tightening monetary policy stances at home and abroad. The member thus saw that a sustained strong financial market could undermine the downward stabilization of inflation.

From the perspective of financial stability, the member assessed that liquidity indicators, including M2, continued to contract due to a decline in household lending in the midst of a continued downward trend in housing prices. The member saw that a trend of decline in credit supply would likely continue going forward due to more cautious lending attitudes at financial institutions in the midst of ongoing credit risk aversion toward the real estate sector and non-investment grade companies. The member went on to assert that an excessively fast pace of these leverage adjustments could cause instability across the entire financial market and thus it would be necessary to keep a close watch on relevant developments.

Concerning future monetary policy, the member stated that, in overall consideration of these points, it would be necessary to firmly anchor a tighter policy stance with an emphasis on ensuring price stability until the Board was confident that the inflation trend had converged to the target. The member stressed that if the downward stabilization of inflation did not materialize, the Board should actively deal with inflation by additionally hiking the Base Rate.

One member presented the view that it would be appropriate to keep the Base Rate unchanged from the current 3.50% at this meeting.

The member assessed that the global economic slowdown had become evident since the fourth quarter last year due to the contraction in the IT industry and the monetary tightening of major countries, and argued that this trend would continue at least until the first half of the year. The member mentioned that toward the second half of the year, however, the economy would recover gradually, boosted by China’s reopening, a recovery in the IT industry, and a slowdown in supply-side inflation. The member forecast that services trade might recover sooner than expected, led by China’s resumption of overseas travel, while goods trade would remain sluggish for the time being, affected by the overall economic slowdown.

The member’s evaluation was that the domestic economy had also remained sluggish since the fourth quarter last year, influenced by the global trade slowdown. The member noted that semiconductor production and exports had recently declined significantly and that the manufacturing sector excluding semiconductors had also been sluggish owing to slowing external demand. The member mentioned that facilities investment would shrink due to external uncertainties and that construction investment would remain sluggish affected by a slowdown in the housing market and a reduction in the SOC budget. The member expressed concern that private consumption growth had been slowing due to a growing debt repayment burden and a slowdown in the housing market. The member presented the view that it would be difficult to expect private consumption to drive growth since, despite an accumulation of excess savings during the pandemic, incentives for precautionary savings amid economic uncertainties were highly likely to limit consumption growth, and overall leverage adjustments had been underway.

Concerning consumer price inflation, the member noted that uncertainties remained with regard to the pace of future slowdown, but there was a lack of grounds to support the view that demand-side pressures would decelerate the pace of slowdown given the current sluggish real economic trend and tight financial conditions. The member added that, with all other factors held constant, consumer price inflation(year-on-year) would fall to the 4% level in March, affected heavily by the base-period effect from last year’s surge in international oil prices, which could trigger a decline in inflation expectations. The member expressed the opinion that weaker demand-side inflationary pressure and lower inflation expectations would lead to a fall in actual inflation.

The member assessed that monetary tightening had started to take evident effect, given the continued decline in housing prices, slower household credit growth, sluggish real investment, and a slowdown in employment and wage growth. The member stated that further tightening might be considered to stabilize inflation at the target level quickly, but given the 300 basis point Base Rate hike over the past year and a half, additional benefits would be very small or uncertain at this stage, and went on to stress that attention should be paid rather to the possibility of excessively dampening the economic recovery or increasing risks to financial stability. The member added that it would be necessary to bear in mind that distribution indicators had worsened over the course of overcoming previous foreign exchange and financial crises.

Meanwhile, another member expressed the view that it would be desirable to leave the Base Rate unchanged at the current 3.50% at this meeting.

The member stated that although global economic growth was somewhat slowing, the degree was more moderate than initially expected. The member assessed that in the U.S. employment conditions remained solid and that even though the rate of increase in inflation has started to decline, the pace appeared to be slowing more than anticipated. Accordingly, there was a higher chance that the U.S. Federal Reserve’s tightening cycle would be lengthened and the terminal rate would exceed the previous forecast, the member added. The member expected the euro area to witness a somewhat modest slowdown in real economic growth thanks to the easing of energy supply disruptions. The member presented the view that China’s economy was expected to recover modestly on the back of its reopening as the COVID-19 pandemic has subsided, but uncertainties surrounding the extent of recovery were high.

With regard to the domestic economy, the member stated that the slowdown in growth continued as a trend, affected by external conditions and interest rate hikes, but some indicators were showing a slight upturn this year. The member said that the domestic economy would be sluggish in the first half owing to domestic and overseas conditions, such as the global economic slowdown and rising interest rates, but would recover gradually as the slump in exports ease after the second half, and that the Research Department forecast the economy to grow 1.6%, falling slightly below the November projection (1.7%). However, the member assessed that the timing and pace of the recovery were highly uncertain, depending on the recovery trajectory of the semiconductor industry and the degree of impact of China’s reopening.

Turning to inflation, the member evaluated that while consumer price inflation and core inflation both remained elevated, inflation was projected to abate gradually in line with downward pressure on economic activity, but uncertainties over the future path were heightened, as inflation(month-on-month) in January was greater than the previous month. In addition, the member assessed that we can’t afford to be complacent, as developments in global energy prices related to China’s reopening and the rise in public utility bills could work as restraints on the downward stabilization of consumer price inflation. With regard to employment, the member noted that amid the decline in the growth of the number of persons employed, the rate of increase in fixed wages remained high and there were no signs of decreases.

The member assessed that as risk aversion eased, financial markets remained stable with short-term interest rates falling and corporate credit spreads narrowing. As for household debt, the member stated that as the decline in household debt has continued since last year, the leverage that had been excessive has seemingly begun undergoing corrections. The member noted, however, that a sharp correction in housing prices amid rising delinquencies in loans to the real estate sector could lead to an increase in credit risks and to financial market instability. The member therefore said that caution is needed. The member added that it was hard to rule out the possiblity of additional falls in housing sales prices, given that leasehold *(jeonse)* deposit prices were declining faster than sales prices, and that the ratio of leasehold deposit prices to sales prices tends to rise during slumps in the real estate market. The member presented the view that Korean won to US dollar exchange rate volatility expanded somewhat in the foreign exchange market, but the foreign currency money market in Korea has been generally stable until now.

Considering the above mentioned economic conditions at home and abroad, the member judged that it would be appropriate to keep the Base Rate at the current 3.50% at this meeting and monitor the effects of the previous tightening on the real economy and inflation. The member expected that the effects of the widening of interest rate differentials caused by further tightening in major economies on the Korean won to US dollar exchange rate would be limited. The member expressed the view that it would be desirable to decide whether to raise the Base Rate further by examining the future inflation and growth trend and financial market conditions.

One member expressed the view that it would be desirable to keep the Base Rate at the current 3.50% at this meeting.

The member mentioned that, after being raised by 300 basis points on 10 occasions, the Base Rate has for the first time since the Global Financial Crisis reached a tight level that exceeds the estimated range of the nominal neutral rate. The member thus judged the current stage as a time to first examine the transmission of monetary policy and monitor developments concerning uncertainties around inflation and external and internal factors, before considering the need for further rate increases.

The member assessed that the rate increases have been producing effects that are generally in line with the policy intentions, with prominent effects identified in financial markets and effects seen in the real economy, as well. The member added that a contraction in market liquidity is easing financial imbalances, represented by a housing market bubble and excessive leverage.

Given, however, that the financial conditions index posted its highest figure during the current rate increase cycle compared to other increase cycles since 2000, the member saw that some of the conditions that are emerging in the process of monetary tightening calls for the need to pay attention to a decline in the real economy and to any instability in the financial sector.

The member stated that the average capacity utilization gap in the manufacturing sector has been exhibiting negative figures since mid-2022, while the margin of growth in the number of employed persons began narrowing. The member also added that the pace of recovery in private consumption has been slowing due to an aggravating burden for households to make principal and interest repayments, while inflation appears to have been slowing, as well.

With respect to financial instability, the member viewed that the drivers of market disruptions have been significantly addressed thanks to the policy interventions made by the government and the Bank of Korea in October last year, but with seemingly differentiation by credit rating. Low-credit PF-ABCP borrowers continue to struggle with financing, while loan delinquency has been occuring mainly in the non-metropolitan area, in the real estate sector and among mid- to low-credit borrowers. The member suggested the need to monitor the situation surrounding financial stability, while paying attention to the channels through which financial conditions and regional factors, which differ depending on credit rating and exposure, could trigger a systemic risk. The member stressed the importance of keeping in mind that the recent financial and economic conditions have factors that could either amplify or curtail the effects of a tight monetary policy relative to average levels in the past.

The member commented that an important variable in relation to the decision whether or not to further raise the Base Rate was inflation. The member stated that, although consumer price inflation and core inflation rates are projected to stand at 3.5% and 3.0%, respectively, this year, uncertainties surrounding the inflation path are very high in terms of the degree of economic recovery at home and abroad, international oil prices, and exchange rates. The member thus saw the need to pay close attention to developments concerning core inflation for the time being due to the following two reasons. First, the member stated that the role of core inflation would be important in order for consumer price inflation to diminish in the future. Consumer price inflation consists of non-core components, such as energy and food, and of core components. The member saw that non-core component prices are not likely to exhibit a sharp drop going forward, considering geopolitical conflicts, the recovery in global demand, and the possible rise in production costs due to fragmentation. The member thus argued that only when core inflation declines would the possibility of meeting the medium-term inflation target heighten. Second, the member noted that there is a possibility of non-core inflation transmitting to core inflation, as the rise in international oil prices and public fees are reflected in the prices of other goods and services. The member saw that the recent inflation in private services being significantly high relative to labor market tightness (unemployment to job-vacancy ratio) could be interpreted as a kick-in of the second round transmission effect. The member added that the diffusion index of core components and the trimmed-mean inflation rate are also showing signs of core inflation either rising or persisting for a longer period than previously expected. The member mentioned the need to respond with monetary policy if core inflation, which primarily reflects demand side factors, does not either turn around or appears to be highly likely to persist, due, for example, to second round transmission effects.

The member added the need to closely monitor exchange rate developments that follow changes in surrounding conditions, including the monetary policy of the US Federal Reserve. The member stated that, although the interest rate differentials between Korea and the US do not work mechanically, it could induce rapid changes in market expectations in tandem with developments in the current account balance and the flows of foreign investment funds. The member thus stressed that, under the circumstances that Korea is facing, it is important to remain cautious of the possibility of exchange rate volatility affecting inflation and financial stability.

Another member expressed the view that it would be desirable to raise the Base Rate at this meeting by 25 basis points to 3.75% from the current 3.50% at this meeting.

The member assessed that the global economy had continued to decelerate, but had been showing a more favorable trend than originally expected. The member forecast GDP growth for this year at 1.6%, somewhat higher than the level forecast at the January meeting.

With regard to inflation, the member mentioned that inflation was likely to slow substantially from March onward due to the base-period effect from last year’s spike in the wake of the Russia-Ukraine war. The member forecast that the slowdown would be gradual toward the second half of the year, however, affected by hikes in public utility charges and their spillover effects, as well as downward rigidity of personal services charges. The member also presented the view that on the forecast path existed substantial uncertainties, including the impacts of a rebound in Chinese demand on oil and other import prices. The member added that inflation expectations among the general public also remained high, rising slightly to 4.0%.

The member assessed that financial market conditions appeared to be accommodative given the previous tightening measures by the Bank of Korea. The member noted that, looking at proxy rates, estimated by reflecting overall financial market conditions in the policy rate through movements of price variables, such as market and lending rates, the proxy Fed funds rate recently stood at around 6%, far above the U.S. policy rate, while Korea's proxy rate had dropped rapidly since November last year to fall below the current Base Rate. The member stated that household debt had been declining, led by credit loans, while corporate debt maintained strong growth on the back of increased lending by financial institutions and a recovery of demand in the bond market. The member added that the won-dollar exchage rate had rapidly increased recently, as expectations of future U.S. monetary policy had been adjusted.

The member noted that the Bank of Korea had been raising its Base Rate to the level slightly above the range of neutral interest rate estimates to tackle last year's spike in inflation. The member argued that the following should be considered at this month's meeting. First, financial markets had formed more accommodative expectations than the Bank of Korea had intended with its policy measures, which was already reflected in the current financial market conditions. Second, although inflation is expected to decline gradually, there is high uncertainty surrounding the current inflation path, owing to the potential impact of China's economic recovery, and the central bank should respond to this conservatively ― it should raise the Base Rate to a level somewhat higher than the estimated level of the Base Rate corresponding to the path of consumer price inflation, which is forecast to decline to the lower 3% level until the end of this year and to the 2% level next year in the current macroeconomic model. This would reduce the possibility of the inflation path being disturbed by the current uncertainty associated with it, which could prolong high inflation, and would also help to anchor inflation sooner at the target level. Third, it is necessary to prepare for how future foreign exchange flows and the stability of exchange rates will be affected by the recently adjusted market expectations of how high the federal funds rate will go and for how long they will stay there.

Taking the above discussions into overall consideration, the member saw that it would be appropriate to raise the Base Rate by 25 basis points at this meeting to 3.75% from the current 3.50%. The member also took the view that the rate hike could cause the economy to contract somewhat, but only to a tolerable extent thanks to the improvement in external conditions. The member went on to argue that the rate hike this time could support sustainable deleveraging of household debt and, above all, help cope aggressively with the current uncertainty surrounding the path of price stability, the top priority for the central bank, ultimately lowering any possibility of a prolongation of inflation and reducing the cost of future policy responses.

The member mentioned that the central bank should assess the effects of previous rate hikes, the inflation path, risks to economic and financial stability, and monetary policy changes in major countries before deciding whether to make further adjustments to the Base Rate.

Ⅳ. Results of Deliberation on Monetary Policy Directions

Incorporating the outcome of their earlier discussions, the following Monetary Policy Decision statement was compiled reflecting the views of the majority.

However, Dr. Cho Yoon-Je expressed clear opposition to keeping the Base Rate at the current level, and argued for raising it by 0.25 percentage points.

Monetary Policy Decision

☐ The Monetary Policy Board of the Bank of Korea decided today to leave the Base Rate unchanged at 3.50% for the intermeeting period. It is forecast that inflation will continue to be above the target level throughout the year, although it is projected to gradually decrease, and uncertainties surrounding the policy decision are also judged to be high. The Board, therefore, sees that it is appropriate to judge whether the Base Rate needs to rise further while assessing the pace of inflation slowdown and developments in the uncertainties.

☐ Currently available information suggests that the slowdown of global economic growth and inflation has continued. However, concerns about a recession in major countries have somewhat decreased due to the easing of concerns over energy supply and demand, as well as labor market conditions continuing to be favorable, and the pace of inflation slowdown in the U.S. has been modest. In global financial markets, volatility in major price variables has increased. The U.S. dollar has shifted to a rapid strengthening after continuing to weaken, and long-term market interest rates have rebounded considerably, led by expectations that the U.S. Federal Reserve's terminal rate will be higher than previously expected after the announcement of U.S. labor market and price indicators exceeding market expectations. Looking ahead, the Board sees global economic growth and global financial markets as likely to be affected largely by the pace of global inflation slowdown, monetary policy changes in major countries and U.S. dollar trends, the recovery in the Chinese economy after the easing of its COVID-19 restrictions, and geopolitical risks.

☐ Although concerns about a recession in major countries have eased, domestic economic growth has continued to slow, with the recovery in private consumption weakening and exports continuing to decrease due to deepened sluggishness in the IT industry. Labor market conditions have generally continued to be favorable, but the decline in the increase in the number of persons employed has continued due to the economic slowdown. Going forward, domestic economic growth is expected to remain weak, affected by the global economic slowdown and the increase in interest rates. Domestic economic growth is expected to improve gradually from the second half of this year with a recovery in the Chinese economy and in the IT industry. However, uncertainties regarding the outlook are judged to be high. GDP growth for this year is projected to be 1.6%, slightly lower than the November forecast of 1.7%.

☐ Consumer price inflation has run at 5.2% in January, which has been higher than the 5.0% in December, due to increases in electricity fees as well as rising prices of processed food products, although increases in the price of petroleum products have moderated. Core inflation (excluding changes in food and energy prices from the CPI) has run at 4.1% in January. Short-term inflation expectations among the general public have run at 4.0% in February. Looking ahead, it is forecast that consumer price inflation will remain around 5% in February, but will gradually decrease owing to the base effect from the sharp rises in global oil prices last year and weakening pressure from the demand side. However, the pace of slowdown is expected to be more modest than in major countries due to the effects of the increases in public utility fees. Consumer price inflation for this year is projected to be 3.5%, slightly lower than the November forecast of 3.6%. Uncertainty surrounding inflation forecasts is judged to be high, regarding movements of global oil prices and exchange rates, the degree of economic slowdown at home and abroad, and the size and effects of the increases in public utility fees.

☐ In financial and foreign exchange markets, volatility has increased in February with a considerable rebound in the Korean won to U.S. dollar exchange rate and in market interest rates, which have shown a decrease since last November due to the possibility of further tightening of the U.S. Federal Reserve’s policy stance. The decrease in household loans has widened, and housing prices have continued to decline across all parts of the country.

☐ The Board will continue to conduct monetary policy in order to stabilize consumer price inflation at the target level over the medium-term horizon as it monitors economic growth, while paying attention to financial stability. Inflation is projected to remain high above the target level although the domestic economic growth rate has slowed, and uncertainties surrounding the policy decision are high. The Board, therefore, deems it warranted to judge whether the Base Rate needs to rise further while maintaining the restrictive policy stance for a considerable time with an emphasis on ensuring price stability. In this process, the Board will thoroughly assess the pace of inflation slowdown, the economic downside risks and financial stability risks, the effects of the Base Rate raises, and monetary policy changes in major countries.