# Minutes of the Monetary Policy Board Meeting

October 2022

**Bank of Korea**

(English version)

# Minutes of the Monetary Policy Board Meeting[1)]

## October 2022

### Ⅰ. Outline

1. Date of meeting: Wednesday, October 12, 2022

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
   Lee, Jeong Wook, Director General of Financial Stability Department
   Hong, Kyung Sik, Director General of Monetary Policy Department
   Kim, In Koo, Director of Financial Markets Department
   Oh, Kum Hwa, Director General of International Department
   Kim, Yong Sik, Press Officer
   Han, Seung Chul, Director General of Monetary Policy Board Secretariat
   Choi, Mun Seong, Head of MPB Team

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 *Recent Economic Developments* (October 2022),[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 the ongoing recovery in private consumption driven by consumption of services, and robust employment conditions, economic growth was weakening somewhat, due mainly to economic slowdowns in major countries and slowing export growth following adjustments to business conditions in the semiconductor sector. Meanwhile, some members expected the slowing economic trends to deepen somewhat next year, affected by external conditions and a tightening monetary policy stance.

In terms of inflation, members assessed that there still were upside risks, due to the rising Korean won to US dollar exchange rate, and faster rises in underlying price indicators, although consumer price inflation had declined somewhat after reaching a peak in July. Some members stated that the Base Rate should be raised to exceed the neutral interest rate somewhat, given the asymmetry in that the exchange rate pass-through to inflation becomes higher during a high inflation period and in consideration of inflation still running substantially above the target level.

In addition, members stated that long-term market interest rates had risen significantly and stock prices had fallen due to strengthened risk aversion in the domestic financial market. Members noted that, despite worsened corporate bond issuance conditions, corporations’ funding through bank lending appeared to remain seamless. Meanwhile, some members saw that, while the strength of the foreign exchange market against external shocks was judged to be solid at the moment, it would be necessary to prepare for instability in the external sector stemming from the worsening of global financial conditions, such as sustained depreciation pressures on the won following the strengthening of the US dollar going forward, the narrowing current account surplus, and possible foreign capital outflows following the widening gap between domestic and overseas interest rates.

Some members also stressed the need to pay close attention to the risks of the widening of credit premiums of domestic bonds and rises in market interest rates in line with the rising Korean won to US dollar exchange rate, as well as credit and liquidity risks of non-bank financial institutions following the worsening of the soundness of project financing loans.

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2) An English version of *Recent Economic Developments* is posted on the Bank of Korea website (http://www.bok.or.kr/eng/bbs/E0000634/view.do?nttId=10073217&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 environments, it would be desirable to raise the Base Rate to 3.00% from the current 2.50%, while some members argued for raising it to 2.75% from the current 2.5%.

One member presented the view that it would be appropriate to raise the Base Rate to 2.75% from the current 2.50% at this meeting.

The member assessed that global economic growth had been slowing rapidly due to the increasing uncertainty surrounding the Ukraine crisis and to further global monetary tightening in response to inflation. The member mentioned that growth in global goods trade had been slowing gradually and recently global services trade had also started to slow.

The member evaluated that the Korean economy had sustained a modest recovery but its growth had been weakening overall as the global economic slowdown had become evident. The member took the view that exports and investment had remained sluggish and private consumption was unlikely to sustain growth owing to the persistent high inflation and high interest rates as well as concerns about an economic recession. The member mentioned that there was little likelihood of employment continuing to improve, given that the mismatch between production and employment was unlikely to last long and that employment tended to lag economic activity somewhat.

The member noted that the consumer price inflation remained at a high level above 5% in year-on-year terms. The member stated that core inflation excluding food and energy had recorded 4.0% year on year in the third quarter and was highly likely to decline to the upper-3% level at year-end or in the first quarter next year owing to a base-period effect and the slowdown of domestic demand, suggesting that the steep rise might have slowed, but there was no denying that inflation remained at a high level. The member pointed to the need to pay attention to changes compared to previous periods as well as the annual growth rate to determine whether inflation would rise further or cool down.

Concerning the FX sector, meanwhile, the member judged that there was increasing wariness of the sharp rise in won-dollar exchange rate volatility. More specifically, the member noted the growing concerns about a prolongation and widening of the inversion of the US and Korean policy rates. The member however presented the view that it would be also necessary to fully understand the possibility of rate hikes aimed at stabilizing the FX market accelerating the domestic economic downturn and causing financial instability, and to develop measures in response.

The member assessed that growth in credit to the private sector had been slowing gradually due to the combined effects of increases in market and lending rates and economic contractions at home and abroad, and that stock, real estate and other asset markets had remained sluggish. The member judged that demand pressures might decrease further since the rate hikes, which had begun 14 months ago, had started to take evident effect and monetary tightening had not yet come to an end. The member meanwhile noted that we had passed the stage where vigilance against further inflationary pressures was required, since the supply shortage had been eased gradually. The member however assessed that, considering that inflation remained far above its target, it would be necessary to continue raising the rate for some time, but at a gradual pace.

The member assessed that, without any changes in other conditions, the lower-3% level would be the upper limit of the Base Rate that would help stabilize core inflation at around 2% over a medium-term horizon without causing economic activities and employment to contract excessively, and that once the Base Rate reaches that level, the central bank should examine how fast inflation is declining and whether it will converge to the target in making monetary policy decisions.

The member stressed that it was difficult to respond to irregular exchange rate fluctuations in a consistent manner by adjusting the Base Rate and that, unless faced with a critical situation such as sudden capital outflows and a fall in Korea’s international credit standing, priority consideration should be given to the domestic economy, inflation and financial stability conditions. The member mentioned however that, in case of excessive herd behavior at odds with economic fundamentals, aggressive employment of market stabilization measures including further Base Rate hikes would be required to help stabilize market expectations and sentiment.

One member judged that it would be appropriate to raise the Base Rate to 3.00% from the current 2.50% at this meeting.

The member assessed that, although the trend of economic recovery had slowed markedly in major countries of late, affected by the acceleration of monetary tightening, prices were sustaining their strong uptrend, as international oil prices were remaining at a high level and the effects on economic conditions were felt after a time gap. The member stated that, while growth of the Korean economy, and that of exports in particular, was weakening rapidly due to economic slowdowns in major countries and adjustments to business conditions for the semiconductor sector, inflation remained highly elevated at the mid- to upper-5% level. The member judged that while consumer price inflation had declined somewhat after reaching a peak in July, upside risks to inflation over the next one year appeared to have increased further in consideration of the effects of the rise in the Korean won to US dollar exchange rate so far, and increases in prices of personal services. The member presented the view that inflation would be highly persistent, as trends of increase in various underlying inflation indicators, such as core inflation (with food and energy product prices excluded from the CPI), weighted median CPI, and sticky prices, were actually accelerating.

The member mentioned that, in the financial markets, the Korean won to US dollar exchange rate and long-term market interest rates had risen substantially and stock prices had fallen, as faster-than-expected tightening by the US Federal Reserve led to the strengthening of the US dollar and stronger preferences for safe-haven assets. The member judged the foreign capital market to remain stable overall, as rises in short-term foreign currency borrowing premiums and CDS premiums for foreign exchange stabilization bonds remained lower in Korea than in major emerging market countries. The member also presented the opinion that, despite a narrower current account surplus and a decline in the volume of investment in Korean securities by foreigners, it was still too early to say that foreign exchange supply and demand conditions had worsened severely, as capital outflows by retail investors investing in overseas stocks in particular had fallen sharply. The member judged strength against external shocks to remain solid in light of major improvements in currency and maturity mismatch issues thanks to foreign exchange-related macroprudential measures, with net external assets increasing substantially in the public and private sectors since the global financial crisis.

However, the member stressed that depreciation pressures on the won stemming from self-fulfilling expectations appeared to be ongoing, with private demand for the US dollar in the spot and futures markets growing and net outflows of foreign bond investment funds increasing due to widely spreading expectations that the won would depreciate excessively relative to fundamentals, affected by the deprecation of the yuan and the yen. The member mentioned that based on an analysis made by the Financial Market Department, the rising Korean won to US dollar exchange rate was also working to increase market interest rates at home through the widening of credit premiums for domestic bonds and decreased values of collateral for financial institutions' FX derivatives transactions.

Taking into overall consideration these domestic economic, price, financial and foreign exchange conditions, the member saw that it would be appropriate to raise the Base Rate by 50 basis points, which is a bigger-than-usual hike, at this meeting to proactively deal with inflationary pressures and herd behavior in expectations for the foreign exchange sector. The member stressed the need to maintain a monetary policy stance which focuses on curbing inflation, as the price gap remained high and the growth gap remained close to zero. The member judged that the economy would be able to withstand the growth loss stemming from rate hikes in light of the prospect that domestic demand would maintain relatively solid growth next year as well as this year. The member expressed the view that a significant Base Rate hike would be of help to ease one-directional expectations for the foreign exchange market.

The member commented that, if the current path forecast continued to hold that inflation would fall at a slow pace, the Board would maintain its monetary tightening stance, while flexibly determining the size and pace of further Base Rate increases depending on domestic and overseas economic and financial conditions going forward.

One member expressed the view that it would be desirable to raise the Base Rate to 2.75% from the current 2.50% at this meeting.

The member judged that global economic growth was slowing rapidly, as the terminal Federal Funds rate was projected to be higher than the August forecast due to the continuation of the strong tightening stance by the US Federal Reserve, and the pace of policy rate increase at major central banks was accelerating. The member saw that growth in the domestic economy was slowing and growth for next year was highly likely to be lower than the latest forecast. The member noted that labor market conditions were showing favorable movements overall with the number of persons employed maintaining its substantial uptrend and the unemployment rate remaining low. However, the member expected the uptrend in the number of persons employed to slow next year, affected by the slowdown in the real economy. The member stated that core inflation was continuing to rise, led by prices of personal services such as dining out, and nominal wages were continuing to rise at a fast pace. However, the member expressed the view that core inflation and the rate of increase in wages would decline due to worsened labor conditions stemming from the slowdown in economic growth.

The member stated that it would be desirable to maintain the tightening monetary policy stance given the upward trend in underlying inflation, but judged that it would be appropriate to avoid an excessive degree of tightening. The member commented that, as the Base Rate hikes so far were expected to gradually influence the real economy, and as the world economy would enter a recession phase next year that would greatly affect Korea, a small and open economy, excessive Base Rate hikes would have only limited impacts on price stability in the short term and would put additional downward pressures on the growth path, in combination with external risk factors, in the medium term.

Meanwhile, the member stated that the soundness of the external sector was partially weakening due to a significant rise in the Korean won to US dollar exchange rate in the foreign exchange market. The member judged that, although the policy rate gap between Korea and the US was widening further and the vigilance against the ensuing increase in capital outflow pressures was growing, domestic monetary policy had only limited impacts on the Korean won to US dollar exchange rate. The member analyzed that the recently rising Korean won to US dollar exchange rate was driven by a strong US dollar trend and was affected by a combination of factors such as the interest rate gap between domestic and overseas rates, the trade account, and depreciation of the Japanese yen and the Chinese yuan. The member judged that it would be reasonable to adjust the pace of tightening depending on capital flow conditions, given that Korea had generally seen sustained net inflows of foreign domestic bond investment funds during the past inversions of the US and Korean policy rates. The member also presented the opinion that, since the rising exchange rate pass-through to consumer prices might not be large in Korea, the impacts of the exchange rate rise on inflation at home were unlikely to be as great as feared.

The member judged that it would be appropriate to raise the Base Rate by 25 basis points to 2.75% from the current 2.50% at this meeting in consideration of these economic conditions at home and abroad and suggested a few reasons for this judgment. The member first saw that it would be desirable to maintain the tightening stance to cope with the underlying high inflation trend. Second, the member expected growth in the domestic economy to slow considerably from mid- or late-2023, the time when the recent monetary policy decisions were expected to affect the real economy, considering the time lag in monetary policy transmission. Third, the member presented the opinion that, from the perspective of managing risks to the real economy and the price path, it would be more desirable to conduct monetary policy flexibly depending on economic developments, than to implement it preemptively due to concerns about capital outflows and the rising exchange rate, since the gap between domestic and overseas interest rates had only limited impacts on the Korean won to US dollar exchange rate. The member stated that it would be desirable to adjust the pace of tightening, while looking at the future domestic price and growth paths, capital flow trends, global financial market conditions, and changes in monetary policy in major countries.

Another member stated that it would be appropriate to raise the Base Rate to 3.00% from the current 2.50% at this meeting.

The member judged that the domestic economy was still maintaining its steady pace of growth, although it was weakening somewhat in the second half of this year. The member stated that this was mainly because private consumption was showing sound growth, which more than offset the slowdown in the pace of increase in exports. In particular, the member added that labor market conditions were showing very favorable movements with the number of persons employed showing a substantial increase and wages maintaining a solid upward trend. However, the member expected the domestic economy to grow more slowly, affected by sluggish global growth and worsened domestic and international financial conditions.

On the price front, the member assessed that, while consumer price inflation had fallen slightly since July, underlying inflation including core inflation had actually accelerated further. The member noted that the steep uptrend in consumer prices continued due to pass-through of the steeply rising Korean won to US dollar exchange rate to prices, and the underlying uptrend of prices including core inflation had accelerated due to the spread of the uptrend in prices to personal service items. The member expected consumer price inflation to decrease next year, but saw that the size and pace of the decline could be different from what had been expected.

On the financial stability side, the member assessed that the domestic financial market was showing solid resilience from and capacity to adjust to shocks such as the recent steep interest rate hikes, as the built-up financial imbalances at home had been eased. The member commented that household lending was showing stability this year, acting a backdrop to seamless corporate funding despite worsened corporate bond issuance conditions following the recent rises in bond yields. In the external sector, the member added that the supply and demand imbalances in the foreign exchange market seen since last year, caused by worsened trade conditions, were partially easing, thanks to a recent decrease in overseas portfolio investment by residents. However, the member stated that the steep rise in market interest rates and the strong US dollar trend were substantially destabilizing the foreign exchange market through the rising won to dollar exchange rate and capital outflow pressures. The member saw that the financial market had started to face a won liquidity burden following a soar in the exchange rate, on top of rising market interest rates. The member commented that credit risk aversion was heightening in some sectors including project financing loans, with housing prices continuing to decline.

The member stressed the need to focus on stabilizing the value of the won first, as prices and the exchange rate had become volatile simultaneously due to worsening macroeconomic imbalances between the domestic and external sectors, and, as a result, financial stability was threatened. The member first expressed the opinion that the recent rise in prices was affected by demand-side factors led by core inflation, which suggested the need for proactive policy actions in response. The member commented that, given that it would be difficult to reduce inflationary pressures and stabilize inflation expectations with the Base Rate in the neutral range alone, and that the recently heightened exchange rate volatility was affected by the acceleration of tightening by the US Federal Reserve, it would be necessary to firmly secure market participants' confidence in the real value of the won, by presenting the Bank of Korea's firm intention and outlook for achieving price stability through appropriate Base Rate hikes. Given these points, the member presented the need to speed up Base Rate hikes to switch the policy stance to a tighter level early and maintain the tighter level until price stability could be judged to be firmly anchored. The member added that such a preemptive monetary policy stance would boost domestic and international confidence in the value of the won, thus contributing to the heightening of financial market resilience against a shock from heightened volatility in the international financial market, by ensuring stability in the macroeconomy and the easing of leverage.

Another member presented the view that it would be appropriate to raise the Base Rate to 3.00% from the current 2.50% at this meeting.

The member noted that the global economy had been slowing, affected by high inflation and accelerating monetary tightening. The member assessed that most countries had been witnessing inflation remaining high far above the price stability target and, in response to this, major countries had been aggressive in strengthening monetary tightening, the impact of which was being gradually felt in consumption and production.

The member mentioned that domestic economic growth had been slowing, influenced by a slowdown in exports. The member forecast that, although private consumption had sustained a recovery led by face-to-face services consumption, the pace of recovery would slow gradually in line with inflation and the weakening effect of excess household savings. The member noted that, amid sluggish demand from major trading partners for goods imports, exports had remained sluggish affected by a slowdown in the global semiconductor industry. The member mentioned that facilities investment was unlikely to sustain its improvement due to the economic slowdown, and construction investment had remained sluggish affected by soaring commodity prices and falling housing prices. The member projected that GDP growth for this year would be similar to the previous forecast, but the economic slowdown was likely to deepen somewhat next year.

With regard to prices, the member mentioned that consumer price inflation had recorded 5.6% in September with personal services charges sustaining their strong uptrend, and that core inflation had risen slightly to 4.1%. The member expected that, although its sharp rise had been weakening recently, inflation would run at the mid-5% level for the time being, considering pressures on domestic inflation in line with the rising won-dollar exchange rate and the uptrend in charges for personal services with strong downward rigidity. The member noted that housing prices had declined, affected largely by rising interest rates.

Concerning financial markets, the member mentioned that, affected by stronger risk-off sentiment, interest rates had risen signficantly while stock prices had fallen, and that the significant upward adjustment of the US Fed terminal rate forecasts had caused the won-dollar rate to rise and triggered net foreign portfolio investment fund outflows. The member noted that bank lending to the household sector had declined slightly and, concerning corporate funding, corporate bond issuance had been sluggish while borrowings from banks had maintained strong growth. The member assessed that the financial markets had shown somewhat unstable movements overall, which was attributable to the combined effect of various factors including the trade deficit and global financial market unrest. The member presented the view that the Korean won's depreciation since August has been particularly notable compared to US dollar index's rise, and that careful attention should be paid to the factors responsible for this.

The member assessed that, in overall consideration of these domestic and international economic environments, it was time to stay on the alert against growing downside risks to the economy and the spread and persistence of high inflation. The member added that caution was required with respect to the possibility of a widening of the gap between domestic and overseas interest rates working to cause instability in the FX sector and acting as additional inflationary pressures.

The member mentioned that a slowdown in Korea's exports, which had benefited from extraordinary factors such as growth in transfer income in major countries since the spread of COVID-19, could be seen as an adjustment amid the post-pandemic return to normal, and went on to state that since domestic consumption had been sustaining growth led by face-to-face services, a drastic slowdown in consumption growth was unlikely for now. The member expressed the view that, at present, a key priority of macroeconomic policy should be placed on curbing the spread of inflation expectations and reducing inflationary pressures through the exchange rate channel, and added that the Base Rate should be hiked to a level somewhat above the neutral interest rate. The member noted that the size and pace of future rate hikes should be determined in consideration of economic and interest rate paths in major countries, domestic economic growth and inflation trends, financial stability conditions and the resilience of the entire financial system.

Another member stated that it would be appropriate to raise the Base Rate to 3.00% from the current 2.50% at this meeting.

The member forecast domestic economic growth to slow gradually, with the global economic slowdown continuing and global trade growth slowing. The member nevertheless expressed support for a 50 basis point hike due to the strong need to respond to persistent high inflation and pursue financial and FX market stability.

The member noted that there existed upside risks to consumer price inflation, such as the ongoing high exchange rate and further reduction in production by major oil producing countries, and that underlying inflation indicators continued to rise. The member stated that there was still not enough evidence to judge that inflation had passed its peak, and that, even if so, there was little likelihood that inflation would decline to its medium-term target soon, and argued that considering all this monetary tightening seemed urgently needed.

The member called for attention to the exchange rate’s impact on prices and its destabilizing role in financial markets, mentioning that the exchange rate could add to inflationary pressures through import prices. The member also noted that, unlike in the past, the exchange rate had a weaker effect of enhancing exports due to increased participation in GVCs and the high proportion of trade settlement in US dollars. Concerning the FX market as well, the member mentioned that the worsening inversion of the US and Korean policy rates and increasing overseas investment by pension funds had worked to limit the effect of reducing net capital outflows when the exchange rate increases. The member also presented the view that the asymmetry whereby the exchange rate pass-through into prices was higher when the exchange rate was rising and inflation was high, as they currently were, should also be considered.

The member noted that the recent high won-dollar rate was working to destabilize the financial markets and was therefore also related to one of the Bank of Korea’s mandates. The member mentioned that the exchange rate and capital flows were affected mostly by economic conditions and external conditions, but the impact of the interest rate differential could not be ignored. The member noted that, looking at past examples and empirical analysis results, the larger the extent to which a country's policy rate is raised, the less its currency depreciates, and interest rate differentials affected foreign investment in Korea and overseas investment by Korean residents. The member took the view that, since policy uncertainties concerning exchange rate instability could distort economic agents' decision-making regarding consumption and investment and cause herd behavior, various efforts should be made to stabilize the financial and FX markets.

The member assessed that the largest concern with regard to raising the Base Rate was the possibility of an unintended, excessive economic downturn, but at this point in time, the Korean economy appeared to be able to tolerate the current interest rate level and the rate hike stance that could last for some time. The member's evaluation was that private consumption had been recovering led by the services sector and about 10% of total private consumption had come from the excess savings that had accumulated during the pandemic period, which could support consumption amid negative shocks.

Regarding the current account, the member mentioned that the trade account deficit was worrisome, but considering its dependence on energy imports, Korea's current account to GDP ratio was more favorable than those of major countries and Korea's ratio of the current account to GDP excluding energy was even higher than those of major countries.

The member noted that vigilance against systemic risk in terms of household debt could increase due to the ongoing rate hike stance and added that sectors vulnerable to rate hikes required close monitoring and preemptive measures. First, the member emphasized that soundness of project financing loans was highly likely to worsen in line with a fall in housing prices and an increase in unsold new housing, and that it would be necessary to closely examine credit and liquidity risks at non-bank financial institutions with a high proportion of project financing loans. The member added that it would be necessary to preemptively come up with financial support measures for vulnerable borrowers with weak debt-servicing capacity and SMEs with little access to financial services. The member also pointed to the recent rise in short-term foreign currency borrowing premiums and the CDS premiums for foreign exchange stabilization bonds and presented the view that FX swap market conditions and external soundness indicators should be closely monitored to ensure that Korea's international credit standing is favorable.

## Ⅳ. Results of Deliberation on Monetary Policy Directions

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

However, Mr. Joo, Sangyong and Mr. Shin, Sung Hwan expressed clear opposition to the idea of raising the Base Rate by 0.50 of a percentage point and argued for a 25 basis point hike.

### Monetary Policy Decision

☐ The Monetary Policy Board of the Bank of Korea decided today to raise the Base Rate by 50 basis points, from 2.50% to 3.00%. The Board judges that the policy response should be strengthened, as additional inflationary pressures and the risks to the foreign exchange sector have increased affected by the rising Korean won to US dollar exchange rate, while inflation has remained high.

☐ Currently available information suggests that the global economic slowdown has continued, affected by the ongoing high inflation, further tightening of the US Federal Reserve's policy stance and the prolonged Ukraine crisis. In global financial markets, long-term market interest rates have risen significantly and stock prices have fallen, and financial unrest has emerged in some countries, while major currencies have depreciated due to the reinforced trend of US dollar strength. Looking ahead, the Board sees global economic growth and global financial markets as likely to be affected largely by the movements of international commodity prices and global inflation, monetary policy changes in major countries and US dollar trends, and geopolitical risks.

☐ Domestic economic growth has slowed due to lower export growth, while private consumption has maintained its recovery trend. Labor market conditions have continued to improve, with the year-on-year increase in the number of persons employed remaining high. Going forward, domestic economic growth is expected to slow gradually, affected by the global economic slowdown and the increase in interest rates. GDP growth for this year will be generally consistent with the August forecast of 2.6%, but that for next year is projected to be below the August forecast of 2.1%.

☐ Consumer price inflation has remained high in the mid- to upper-5% range due to the accelerating price increases in personal services and processed food products, although increases in the prices of petroleum products have moderated. Core inflation (excluding changes in food and energy prices from the CPI) and the inflation expectations of the general public have stayed high in the 4% range. Looking ahead, it is forecast that consumer price inflation will remain high in the 5-6% range for a considerable time as the impact of the rising Korean won to US dollar exchange rate acts as additional inflationary pressure. Consumer price inflation will be generally consistent with the August forecast of 5.2% in 2022 and 3.7% in 2023, but upside risks are judged to be high due to the rising Korean won to US dollar exchange rate and production cuts by major oil-producing countries, despite downward pressures from the economic slowdown.

☐ Volatility in domestic financial markets has increased, especially in the foreign exchange sector, as the Korean won to US dollar exchange rate has risen significantly and foreigners' securities investment funds have shown net outflows, influenced by the strong US dollar and the weak yen and yuan. Long-term market interest rates have risen considerably and stock prices have fallen sharply. Household loans have decreased slightly and housing prices have further decreased.

☐ The Board will continue to conduct monetary policy in order to stabilize consumer price inflation at the target level over a medium-term horizon as it monitors economic growth, while paying attention to financial stability. The Board sees continued rate hikes as warranted, as inflation is expected to remain high, substantially above the target level, although domestic economic activity has slowed. In this process the Board will determine the size and pace of further increases of the Base Rate while thoroughly assessing the degree of persistence of high inflation, the pace of growth, monetary policy changes in major countries, financial stability conditions such as capital flows, and geopolitical risks.