Minutes of the Monetary Policy Board Meeting

January 2023

Bank of Korea

English version

Minutes of the Monetary Policy Board Meeting[1)]

January 2023

Ⅰ. Outline

1. Date of meeting: Friday, January 13, 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
   Min, Jwa Hong, 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* (January 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 domestic economic growth was slowing rapidly due to sluggishness in China-bound exports and IT exports, the materialization of the effects of the Base Rate hikes so far, and one-off factors, in the midst of slower global economic growth. Some members assessed that labor market conditions were showing mixed signals, with nominal wages maintaining a high uptrend, the increase in the number of persons employed slowing, and December labor market indicators worsening, particularly in the self-employed. Meanwhile, some members stated that, on the growth path, there were growing uncertainties surrounding external conditions related, for example, to the pace of recovery in the Chinese economy following its reopening.

In terms of inflation, members commented that consumer price inflation registered 6.3% in July last year, and then fell to 5% in December, thanks to a slower increase in petroleum products, and base effects, while core inflation maintained a moderate uptrend due to a recovery in consumption and the second-round effects. Meanwhile, some members saw that there were no great upside risks, given the materialization of downward pressure on prices following Base Rate hikes on the price path, and a slowdown in the real economy. However, the member assessed that it would be too early to be optimistic that prices would show downward stability, given that consumer price inflation was running significantly above the medium-term inflation target of 2% and that underlying sources of inflationary pressures, such as the impact of hikes in public utility fees, remained.

Members also assessed that domestic financial market conditions were stable, backed by market stabilization measures by the Bank of Korea and the government. The member stated that market interest rates had fallen considerably, stock prices had rebounded, and the Korean won to U.S. dollar exchange rate had decreased significantly, owing to a shift to US dollar weakening. Some members stressed the need to promote financial stablity from the medium- to long-term perspective, while paying attention to any risk of a sharp decline in housing prices undermining financial stability, and to any increase in exchange rate volatility in line with adjustments of expectations of tightening by the US Federal Reserve.

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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=10074991&menuNo=400069&pageIndex=1).

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 3.50% from the current 3.25%, while some members argued for keeping it unchanged at the current 3.25%.

One member expressed the view that it would be desirable to raise the Base Rate to 3.50% from the current 3.25% at this meeting.

The member assessed that the global economy appeared to be weakening overall. The member noted that the growth and the inflation rates in the US were slowing owing to the increases in interest rates, while Europe continued to face elevated inflation and high energy-related uncertainties, despite the fact that the margin of economic decline is expected to be smaller than the initial projection thanks to abnormal temperatures and energy alternatives.

On the domestic front, the member judged that the economy has stagnated more considerably than previously expected due to a sharp drop in exports to China and in the IT sector. The member expected that for the forseeable future the economy would be influenced mainly by developments concering the reopening of the Chinese economy.

The member noted that the arguments calling for additional Base Rate hikes have somewhat weakened, considering that the real economy appeared to have been slowing and that the increases in the Base Rate so far seemed to have begun to put downward pressure on prices with a time lag, as suggested by the downtrend in consumer price inflation since July last year. However, the member stressed that there is a continued need to respond to inflation by raising the Base Rate due to the following two main reasons.

First, inflation risk still remains high. The member evaluated that the decline in inflation was mainly attributable to a sharp reduction in the contribution by supply-side, temporary factors, such as petroleum and agricultural & livestock products. The member also mentioned that the diffusion index has not been falling since July, while that of core items has been continuously climbing. In addition, the member commented that the contribution of industrial goods excluding petroleum products and of personal services remaining elevated indicates that the second-round effects of inflation persist. The member thus emphasized the continued need for restricting demand-side inflation. The member stated that inflation is, "taxation without legislation," adding that there is a need to be aware of the fact that it poses greater damage to low-income households with relatively smaller size of real assets.

Second was the matter of what policy should be used to respond to the inflation risk. The member assessed that, going forward, issues could arise around refinancing of low-credit bonds caused by differing credit risks, and that the health of securities and construction firms could deteriorate driven by real-estate project financing, given the recent financial turbulence that had been triggered by an unintended incident. Given the circumstances, the member saw it plausible that the argument for responding preemptively to financial imbalances might have grown stronger. However, the member underscored that, given the other tools that are at disposal to tackle financial imbalances, such as market stabilization measures of the Bank of Korea and macroprudential policies of the government, the Base Rate should be reserved for responding to inflation, which is the most critical issue of today. The member noted that other instruments of the Bank of Korea should be used when necessary concerning the Bank's role as market maker and as lender of last resort, while the government's macroprudential policies should be used first to manage economic agents' leverage, risk-taking behaviors, and asset prices.

The member added that the possibility of a significant widening of the gap between the policy rates of Korea and of the US causing instability in the FX market is also an area requiring consideration. The member argued that, given the international standing of the US dollar, convenience yield, and financial friction, unforeseen herding and non-linear effects could emerge in relation to the interest rate differentials between Korea and the US, exchange rate, and capital flows. The member stressed the need to operate monetary policy while paying attention to the possibility of exchange rate volatility escalating in either direction, as the expectations for policy tightening by the US Federal Reserve are adjusted and China's reopening progresses.

The member also saw the need to come up with a policy mix that seeks a soft landing of housing prices and deleveraging. The member mentioned that housing finance in Korea is characterized by a high share of high credit borrowers, but with the vulnerability of a high share of variable rate loans. The member added that the household debt ratio stands very high, as there has been no deleveraging process since the past crisis. The member noted that the household debt ratio has been inching down recently, affected by interest rate rises and a sluggish housing market, but added that the ratio still remains relatively high compared to other major countries. The member stressed the importance of inducing gradual deleveraging of households in the mediumto long-term, with a view to promoting financial stability and enabling capital to be used in a way that benefits the national economy.

Another member presented the view that it would be appropriate to raise the Base Rate to 3.50% from the current 3.25% at this meeting.

Looking at recent external economic conditions, the member stated that global inflation was slowing somewhat thanks to the subsidized surge in international oil prices, and demand had become more sluggish, affected by strong tightening, but the relevant conditions varied from country to country.

The member stated that, in the US, consumption and production both had weakened, but labor market conditions were showing favorable movements. The member noted that the euro area saw its sluggish growth trend deepen due to disruptions in energy supply. Japan was sustaining a relatively favorable growth trend thanks to the impact of government support measures, and China was highly likely to rebound early after the second quarter thanks to excessive savings. The member judged that downturns in economic activity and employment were continuing in Korea, with sluggishness in both exports and domestic demand having deepened after the fourth quarter last year, and with labor market indicators, and those in the self-employed in particular, having worsened in December. The member expected the economic growth to recover, bolstered by improvements in external conditions, led by China, after the middle of this year. However, the member forecast that decreases in consumption and investment capacity following the growth in debt so far, the scarring effect caused by the pandemic, and delays in restructuring, and the possible prolongation of the slumping real estate market, would all weigh on the recovery in domestic demand.

The member saw that consumer price inflation in Korea slowed to 5% after November last year, due to a weakening of both supply-side and demand-side inflationary pressures in the midst of somewhat slower growth in global inflation. The member forecast that consumer price inflation would continue to slow to around 4% in the first half of this year, and to around 3% in the second half. The member took the view that upside risks did not appear to be large on the future price path, given that supply and demand pressures had weakened due mainly to a decline in international oil prices and slower domestic demand, as well as to worsened labor and housing market conditions. The member estimated that wage growth was highly likely to have weakened, given recent weaker labor market indicators and lower inflation expectations, and that price inflation related to shelter was slowing more rapidly in Korea compared to major countries due mainly to reductions in leasehold deposits and monthly rents.

However, the member presented the opinion that a close eye should still be kept on prices, given that the pace of decline in inflation was moderate, that there would be a high chance of additional hikes in electricity fees and the resultant second-round effects on prices, and that international oil prices could pick up again in line with a rebound in the Chinese economy.

The member stated that, in the financial and foreign exchange markets, instability across the entire market had eased with market interest rates and credit spreads falling and with the Korean won to US dollar exchange rate decreasing significantly thanks to market stabilization measures by the Bank of Korea and the government, and adjustments to the pace of rate hikes in major countries. However, the member took the view that there still remained credit risk aversion toward real estate-related money markets, and both capital flow and exchange rate volatility could heighten again following shrinking global liquidity and increased differentials between domestic and foreign interest rates.

Taking these points into overall consideration, the member stated that, while our economy was seeing sluggishness in both exports and domestic demand due to weaker domestic and overseas conditions, it would be necessary to raise the Base Rate by 25 basis points and maintain a tightening stance, given that price inflation still remained high despite a recent slowing, that a liqudity crunch in the domestic financial market had been alleviated, and that tightening in the US and other major countries was ongoing. However, the member stated that, in terms of Base Rate operations going forward, if price inflation continued to show slowing movements following the current forecast, whether to additionally raise the Base Rate should be decided cautiously in consideration of economic sluggishness in line with rising real interest rates, and burdens that could appear on the financial stability risk side.

Another member stated that it would be appropriate to raise the Base Rate to 3.50% from the current 3.25% at this meeting.

On the domestic economic front, the member stated that economic growth was slowing more rapidly than initially projected. The member noted that, while facilities investment continued to recover, exports remained sluggish due mainly to a slowing global economy, and that the recovery trend in private consumption had also slowed, though the member added that labor market conditions remained strong. The member projected that the domestic economy would maintain these movements for some time and show lower-than-expected growth. However, the member presented the opinion that there was a considerable degree of uncertainty surrounding the future growth path, given the great changes in COVID-19 restrictions and economic policy measures in China in the midst of rapid changes in recent global financial conditions.

In terms of inflation, the member stated that consumer price inflation had been showing a downward trend against the backdrop of base effects and a slower increase in petroleum product prices after July last year, and, of late, partially due to impacts from rate hikes. Nonetheless, the member took the view that consumer price inflation was still running significantly above the inflation target, as a larger increase in processed food prices and the impact of hikes in electricity and gas fees were putting upward pressure. The member presented the opinion that it would be still too early to be optimistic about any downward stabilization of prices going forward, given the underlying sources of inflationary pressures, such as core and service inflation, the hikes in public utility fees, and possible rises in commodity prices.

Looking at financial market conditions, the member commented that markets had stabilized, with market interest rates falling significantly and stock prices rebounding since the beginning of this year. The member added that the Korean won to US dollar exchange rate, which had been working to destabilize financial markets last year, fell significantly owing to a shift to US dollar weakening, and short-term money and credit bond market crunches had been alleviated considerably, bolstered by improvements in global financial conditions and market stabilization measures. However, the member saw that the recent improvements in investor sentiment in global financial markets were greatly diverging from the tightening monetary policy stances in major countries, including the US, and took the view that attention should be paid to the point that instability in the domestic financial and foreign exchange markets could recur in the process of policy rate hikes by the US Federal Reserve and other central banks.

The member stated that credit risk aversion related to real estate financing and non-prime bonds still existed as destabilizing factors, particularly as housing prices continued to decline since last year. The member added that a steep fall in housing prices, as seen recently, could negatively affect financial markets and the macroeconomy as a whole, but that such a correction process had been somewhat unavoidable in that housing prices had risen excessively over the past few years, and financial imbalances, as exemplified by accumulated household debt, had widened. The member thus expressed the opinion that it would be necessary to work to resolve the accumulated imblances in the real estate sector and household debt, while at the same time preventing the recent decline in housing prices from undermining financial stability.

The member judged that it would be appropriate to decide whether to additionally raise the Base Rate depending on future growth and inflation trends, the degree of monetary tightening by major countries, and in view of the impacts of the rate increases so far. The member took the view that, going forward, monetary policy should be focused on converging high inflation to the target level going forward. The member expected the domestic economy to run below the potential growth rate for some time due to the slower growth trend, but saw a need to tolerate slower short-term growth to bring the current high and persistent inflation down to the target level. The member presented the opinion that it would be important to firmly anchor a tighter policy stance until an inflation trend that converged to the target could be clearly shown, in order for the macroeconomy to regain the foundation for stable growth.

Another member presented the view that it would be appropriate to keep the Base Rate unchanged from the current 3.25% at this meeting.

The member assessed that the global economy had been slowing significantly due to the spread of COVID-19 in China and the contraction of the IT industry, and that this trend would last until the first half of this year at the earliest. The member took the view that the sluggishness in the global economy could ease somewhat toward the second half of the year, boosted by the normalization of China's economic activity and improvements in the IT industry, but that it would not be easy to expect any rapid economic recovery due to the spillover effects of the short-term surge in interest rates on the financial sector and the real economy.

The member noted that a domestic economic slowdown had become evident since the fourth quarter last year. The member stated that the sluggishness of exports had worsened, owing to slowed external demand, and that private consumption had shown much slower growth affected by weakening real purchasing power and higher debt repayment burdens, and went on to forecast that such trends would continue for a considerable period of time this year. The member assessed that a slowdown in housing market activity would dampen both consumption and investment, and that it would be difficult this year to expect fiscal expenditure, which had helped ease the economic contraction so far, to support growth.

The member noted that consumer price inflation had declined since the second half of last year, with supply-side upward pressures easing due chiefly to the decrease in oil prices, and that core inflation, after modest growth for some time led by the consumption recovery and the second-round effects, had recently started to exhibit slower growth. Looking at employment, the member expressed the opinion that the seasonally adjusted number of persons employed had declined for the fourth consecutive month, and that the job vacancy rate had reversed to a decrease recently, suggesting that it was difficult to expect employment indicators to improve amid the overall economic slowdown.

The member stated that, while monetary tightening over the past year and a half started to take evident effect, transactions in the housing and other asset markets had contracted drastically, as these markets remained sluggish, and growth in credit to the private sector had been slowing gradually. The member presented the view that the possibility of a decrease in real monetary aggregates with inflation taken into account could not be dismissed, given the recent rapid slowdown in M2 growth. The member added that this suggested that we had passed the stage where vigilance against further inflationary pressure on the demand side was required. The member, meanwhile, assessed that there was no significant difference between Treasury bond yields and the Base Rate, reflecting that the outlook for growth was never optimistic.

Taking the above discussions into overall consideration, the member saw that it would be appropriate to keep the Base Rate unchanged at the current meeting for the following two reasons.

First, further tightening could be considered necessary in order to stabilize inflation quickly at the target level, but the benefits seemed to be very small or uncertain considering the current policy and market rates. More specifically, since the terminal Base Rate was expected to continue for a considerable period of time, attention should be paid to the possibility of an excessive contraction of economic vitality.

Second, it might be of concern that further tightening by the U.S. Federal Reserve could widen the spread between the U.S. and Korean policy rates. However, a widening of the policy rate spread does not have to be linked directly to FX sector instability, since the impacts of interest rate differentials on exchange rates and capital flows could vary depending on factors specific to individual countries, such as growth gaps between countries, financial conditions of individual countries, and movements of the value of the US dollar relative to major currencies. as well as on common factors shared among countries and their outlooks.

Another member presented the view that it would be appropriate to raise the Base Rate to 3.50% from the current 3.25% at this meeting.

The member stated that major central banks were likely to maintain their monetary tightening stance although global inflation had peaked and growth outlooks had been adjusted downward. The member judged that this was because the labor market had not slowed enough to substantially curb interaction between personal service charges and wage growth, and also because it remained uncertain whether countries would see inflation converge to target levels in the short-term. As for China, the member expected that the earlier-than-expected easing of “zero COVID” restrictions would likely have a substantial impact on the contraction in production and consumption in the short-term, but that demand was likely to show a full-fledged recovery, probably from the second quarter, boosted by the achievement of herd immunity and accumulated household savings. The member assessed that the impact of China’s demand recovery on the global economy and inflation would depend on developments of goods and services consumption and on movements of global commodity prices.

With regard to the domestic economy, the member forecast that the growth rate would fall short of the mid-1% level this year, with external demand slowing to a much greater extent than originally expected, and with previous rate hikes starting to take clear effect. Concerning inflation, the member expected that inflation would come in at the mid-3% level this year, affected by a rise in electricity fees and a reduction in fuel tax cuts. The member also presented the view that substantial inflationary pressure seemed to remain, considering the hikes in public utility fees and their spillover effects, and the possible interaction between personal service charges and wage growth.

The member mentioned that the slowdown in the momentum of private consumption during the fourth quarter last year had been due to the slower growth in private consumption owing to the weakening of household purchasing power in line with interest rate hikes, and that it was also affected temporarily by the contraction in consumer sentiment following the Itaewon disaster. The member added that facilities investment had maintained its recovery, led by semiconductor manufacturing equipment, and that construction investment had also continued to improve. The member assessed that exports would remain sluggish until the second half of this year when the semiconductor industry and demand from China were expected to improve. As for employment conditions, the member noted that the number of persons employed had continued to rise, but that the pace of growth had been slowing gradually.

The member mentioned that financial market stress had eased and that the markets had stabilized. The member stated that credit differentiation and wariness about credit bonds would persist due to ongoing debt repayment and risk repricing in line with interest rate hikes, but that this had been already forecast during the rate hikes. The member noted that the won-dollar exchange rate had also declined to the mid-1,200 won level since U.S. inflation had slowed.

The member assessed that, in overall consideration of these domestic and international economic environments, it would be appropriate to raise the Base Rate to 3.50% from the current 3.25% at this meeting. The member went on to state that this was because inflation remained well above its target (2%), although it was expected to decline gradually, and also because it was necessary to induce inflation convergence toward the target in the shortest possible time, out of concern about uncertainties surrounding inflation persistence. The member added that financial market conditions had stabilized compared to the time of the November meeting, and that a 25bp hike was unlikely to undermine financial stability significantly considering the flow of funds in the market.

The member stated that future monetary policy decisions should be made in comprehensive consideration of financial and FX market conditions, growth and inflation forecasts, and monetary policy developments in major countries. The member noted that the central bank should maintain its monetary tightening stance until it was confident that inflation would converge close to the target soon, and should consider further rate hikes if needed. The member also presented the view that maintaining the monetary tightening stance long enough would help facilitate the deleveraging of household debt that had increased excessively, and strengthen the long-term soundness of the Korean economy.

Another member expressed the view that it would be desirable to maintain the Base Rate at the current 3.25%.

The member mentioned that the global economy had remained in a slump and that uncertainties over the growth path had increased to some extent, amid growing pressure from steep policy rate hikes and persistently high inflation. The member saw that in the U.S., perceptions of the future policy rate path had significantly diverged between the Fed and the markets, and that China had seen greater uncertainties regarding its reopening due to the surge in COVID-19 cases after the lifting of restrictions. The member predicted that major economies would likely slow down at a faster rate for the time being, and that their pace of slowing would differ after the second half depending on their respective conditions.

The member assessed that domestic economic growth also had slowed rapidly, affected by overseas conditions, as well as by monetary policy tightening that had been sustained for over a year. The member mentioned that the Manufacturing Production Index and the Service Industry Activity Index were estimated to have declined sharply in the fourth quarter of 2022, driven mainly by the slump in the IT sector, while consumption also fell modestly. The member noted that although the size of net financial assets among households, indicating their additional consumption capacity, was still high relative to that of 2019, it had been on the decline after reaching a peak in the first quarter of 2022. The member expected that consumption would continue to slow, weighed down by an economic slowdown, declining real purchasing power, and the growing burden of loan principal and interest repayment, in addition to the decrease in consumption capacity. With respect to inflation, the member noted that both consumer price inflation and core inflation were maintaining their high rates of increase, but that they were forecast to fall to the lower-3% and to the lower-2% range, respectively, by the end of this year driven by growing downward pressure on the economy. Concerning employment, the member presented the view that the growth in the number of persons employed had slowed, and that the rate of increase in regular wages had seemingly begun to moderate.

As for financial markets, the member mentioned that credit risk aversion had eased to some extent since November, with short-term market interest rates declining moderately and spreads narrowing, but that the excessive accumulation in private credit indicated a greater risk to financial stability than in other countries. The member added that amid high uncertainties over domestic and overseas conditions it was necessary to closely watch the likelihood of credit risk increasing in some sectors and ratings being driven by the economic slowdown and real estate price falls.

Taking these domestic and overseas developments into consideration, the member cited the following as the major reasons for the judgment that the Base Rate should be kept unchanged.

First, the Base Rate hikes delivered so far have already begun to have an effect on the real economy, and the current level of the Rate was fairly tight, given the likelihood of the economy slowing further than the earlier forecast. Second, inflation, which had been the main reason for the tightening stance, has begun to climb down moderately, likely to approach the target level after next year. Third, in terms of financial stability, the accumulation in private credit and the pace of real estate price corrections have remained a risk factor in financial markets. Fourth, the impact of interest rate differentials on the foreign exchange supply and demand have not been much of a source of concern, given that exchange rate volatility has been far greater than the interest rate differentials.

Finally, the member presented the view that it would be appropriate to make a decision on any additional tightening only after monitoring the effectiveness of the tigtening, the real economic trends, and overseas conditions.

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. Joo Sangyong and Dr. Shin Sung Hwan expressed clear opposition to raising the Base Rate by 0.25 percentage points, and argued for keeping it at the current level.

Monetary Policy Decision

☐ The Monetary Policy Board of the Bank of Korea decided today to raise the Base Rate by 25 basis points, from 3.25% to 3.50%. The Board judges that the additional 25 basis points hike is warranted to ensure price stability, as inflation still remains high and is projected to be above the target level for a considerable time, although the domestic economic growth rate is expected to be below the November forecast.

☐ Currently available information suggests that the global economic slowdown has continued, affected by ongoing high inflation and the resultant policy rate hikes in major countries, although inflation is starting to slow due to the decline in global oil prices. In global financial markets, the US dollar has continued to weaken due to the adjustment to the pace of the US Federal Reserve's policy rate hikes and prospects of strengthening monetary tightening, such as at the European Central Bank. 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 US dollar trends, developments in the Chinese economy after the easing of its COVID-19 restriction policies, and geopolitical risks.

☐ Domestic economic growth has continued to slow with exports decreasing significantly and the recovery in private consumption weakening. 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 weaken, affected by the global economic slowdown and the increase in interest rates, and GDP growth for this year will be below the November forecast of 1.7%. As for the economic outlook, uncertainties regarding the pace of recovery in the Chinese economy and an economic slowdown in major countries are both judged to be high.

☐ Consumer price inflation has remained high at 5.0% in December driven by accelerating price increases in processed food products, with the continuing effects of electricity and gas fee hikes, although increases in the price of petroleum products have moderated. Core inflation (excluding changes in food and energy prices from the CPI) has fallen slightly to within the lower-4% range, and short-term inflation expectations of the general public have slowed to the upper-3% range, but they have continued to stay high. Looking ahead, it is forecast that consumer price inflation will remain around 5% in January and February, but will gradually decrease due to the base effect and weakening pressures from the demand side. Consumer price inflation for this year is expected to be generally consistent with the November forecast of 3.6%. Uncertainty surrounding inflation forecasts is judged to be high, regarding the degree of economic slowdown at home and abroad, the size of the increases in electricity and gas fees and public utility fees, and movements of global oil prices and exchange rates.

☐ In financial and foreign exchange markets, unrest has been eased by market stabilization measures and adjustments to the pace of the US Federal Reserve's policy rate hikes. Long-term market interest rates have fallen, spreads on corporate bonds and commercial paper have narrowed, and the Korean won to US dollar exchange rate has decreased significantly. However, high credit risk aversion is continuing among non-prime bonds and project financing asset-backed commercial paper (PF-ABCP). Household loans have continued to decrease, and the decline in housing prices has widened significantly 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. The Board deems it warranted to maintain the restrictive policy stance with an emphasis on ensuring price stability, as inflation is expected to remain high above the target level, although the domestic economic growth rate has slowed. Meanwhile, the Board will judge whether the Base Rate needs to rise further while thoroughly assessing the economic downside risks and financial stability risks, the effects of the Base Rate raises, the pace of inflation slowdown, and monetary policy changes in major countries.