Minutes of the Monetary Policy Board Meeting

November 2022

Bank of Korea

(English version)

Minutes of the Monetary Policy Board Meeting[1)]
November 2022

Ⅰ. Outline

1. Date of meeting: Thursday, November 24, 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
   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 *Economic Outlook* (November 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 domestic economic growth was weakening due to sluggish exports resulting from economic slowdowns in major trading partners and the downturn of the IT industry. Meanwhile, some members expected that, although domestic demand had sustained growth so far based on favorable private consumption and robust employment, its growth for next year would likely fall short of its potential level, with consumption limited by a decrease in real household incomes following rising interest rates and high inflation and also by the negative wealth effect caused by falling housing prices.

Members assessed that inflation remained high, with consumer price inflation standing at the upper-5% level and core inflation and inflation expectations among the general public at the lower-4% level, boosted by the acceleration of the rise in processed food prices and the hike in electricity and gas fees, more than offsetting the slowing growth in petroleum product prices. Meanwhile, some members expressed the view that, although inflation had recently slowed somewhat and some inflation indicators, such as weighted median core inflation and short-term inflation expectations, had been improving, there still were high uncertainties including possible economic slowdowns at home and abroad and a buildup of upward pressures on public utility fees.

In terms of financial stability, members also assessed that, thanks to market stabilization measures by the government and the Bank of Korea, domestic financial market instability had eased somewhat, with Korean Treasury bond yields and the won-dollar exchange rate falling significantly. Meanwhile, some members emphasized that, amid a liquidity crunch in the US Treasury market and the continued reduction in global banks' credit supply, attention should be paid to liquidity risks following a deterioration in international financial market conditions.

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2) An English version of *Economic Outlook* is posted on the Bank of Korea website (https://www.bok.or.kr/portal/bbs/P0000559/view.do?nttId=10074015&menuNo=200690&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.

All 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 3.25% from the current 3.00% at this meeting.

One member presented the view that it would be appropriate to raise the Base Rate to 3.25% from the current 3.00% at this meeting.

With respect to the global economy, the member noted that growth was slowing across major countries, due to combined effects of various factors such as ongoing policy rate hike stances and disruptions of the energy supply, with inflation remaining high. The member saw that, in the US in particular, the rate hikes so far appeared to have begun to influence the real economy, with the Institute for Supply Management (ISM) manufacturing and service indices declining for the second consecutive month and the pace of increase in the number of persons employed slowing, despite an increase in retail sales. The member expected the US to enter into an economic downturn after the end of this year. The member mentioned that, while CPI in the US was significantly higher than its target, it was falling from its previous high.

Concerning the domestic economy, the member noted that some real indicators were showing mixed signals, just like those in the US, with private consumption remaining relatively strong, the pace of increase in the number of persons employed slowing, and manufacturing production, service production and exports showing sluggishness. The member forecast that, as the impacts of the policy rate hikes so far on prices of some assets, such as housing and stocks, had already materialized, the impacts would be seen across the entire real economy next year, which would lead to growth running slightly below the potential level. The member saw that, while the labor market remained strong overall, the number of persons gaining employment next year would be merely one tenth of this year's figure, due to the gradual impact of the economic slowdown. The member forecast that core inflation would be lower than initially expected (August) next year, due mainly to the weakening of demand-side inflationary pressures in line with the economic slowdown, as well as to slower labor demand, but deceleration in core inflation would be moderate.

Meanwhile, the member stated that, in the FX market, the Korean won to US dollar exchange rate, which had risen significantly, fell sharply, in line with improvement in investor sentiment, driven by expectations of an adjustment to the pace of rate hikes by the US Federal Reserve. However, in the domestic financial market, the member noted that credit risk aversion remained high and there was a liquidity crunch with CD and corporate bond spreads and CP rates increasing significantly. The member thus stressed the need to pay attention to a possibility of a small shock combined with year-end factors leading to heightened volatility in the entire market.

The member found it desirable to maintain the monetary policy tightening stance to respond to the underlying uptrend in inflation, but saw that it would be necessary to slow down the pace of tightening. First, the member assessed that external uncertainties had increased slightly. The member saw that inflation in the US had passed its peak, and expected tightening to be less intense, but last longer, given movements toward a slowdown in the real economy and upward revisions to the terminal federal funds rate. The member presented the opinion that domestic financial and economic conditions could be affected through various channels in the course of a decline in global dollar liquidity. The member stated that rapid rate hikes could stimulate vulnerability in the entire financial system, since in the internal sector, the degree of conflict between financial market stability and price stability was more severe than initially expected due to rising real estate prices which had been built up for years.

The member stated that, as an open economy with a possibility of capital outflows in line with domestic and overseas conditions, Korea could suffer from various side effects if the space for tightening was exhausted due to domestic financial stability issues. The member thus presented the opinion that, given this point, it would be necessary to decide the pace of tightening cautiously going forward, examining the effect of Base Rate hikes so far and keeping a close watch on the developments of factors causing domestic and overseas uncertainties.

Another member expressed the view that it would be desirable to raise the Base Rate to 3.25% from the current 3.00% at this meeting.

The member mentioned that inflation was the foremost factor considered in the Base Rate decision this time. The member took the view that, as consumer price inflation had been exceeding its medium-term target of 2% for a long period of time, it would be necessary to place the top priority on inflation in monetary policy operations until a clear change in the trend of consumer price inflation is confirmed. The member noted that, although the contribution of petroleum product prices to inflation had decreased, consumer price inflation had remained high in the mid- to upper-5% range due to secondary effects in which the contributions of prices of industrial products excluding petroleum products and of electricity, gas and water charges had increased. The member added that core inflation and inflation expectations among the general public remained in the lower-4% range. The member assessed that the fast pace of inflation had been slowing recently and some underlying inflation indicators had been rising at slower paces, but more time was needed to confirm a shift in the trend. The member expressed concerns that there were highly complicated shocks affecting inflation, such as Russia's invasion of Ukraine and China's lockdown measure, and that it was highly uncertain how long each of the shocks would last.

As for other considerations with regard to inflation in future Base Rate decisions, the member mentioned the time lag with which rate hikes are transmitted, the speed of disinflation, and the economic situation for next year. The member forecast that rate hikes, which had begun in August last year, would have more evident effects on consumer price inflation next year. The member also assessed that, once a change in the inflation trend is confirmed, it would be necessary to conduct monetary policy with more weight on the real economy and financial stability while looking at the speed of disinflation and economic conditions.

The member argued that the second major factor was financial stability, stressing the need to maintain the monetary tightening stance while examining whether the market would be able to tolerate it at this point in time. The member however emphasized that it would be necessary to choose appropriately among interest rate-focused monetary policy instruments in response to inflation and among market stabilization measures in pursuit of financial stability that would be fit for the situation and purpose.

The member presented the view that the recent events in the financial markets and the BOK's market stabilization measures in response were good examples. The member stressed that market interest rates had recently risen to an unintended high level in reflection of expectations of the level of the terminal rate and credit risk aversion in response to a series of recent events, and went on to emphasize the need to understand that such a huge scale of increase in market rates had been attributable to a mix of the monetary authorities' intention and widening spreads resulting from financial instability and supply-demand factors.

The member mentioned that the BOK's recent measures had been taken in an effort to reverse the portion of the rise in the interest rate which had not been intended by its monetary policy measures and thereby facilitate transmission channels that were currently centered on interest rates, and went on to state that the central bank's two policy goals had been complementary rather than in conflict.

With regard to financial stability, the member stressed the need to closely monitor the financial markets and take preemptive measures if necessary to ensure that the central bank's rate hike stance in response to inflation and measures to cope with financial instability would not conflict with each other. The member added that the BOK should also play a role as market maker if needed, as well as conduct interest rate-focused monetary policy.

The member however noted that this kind of policy intervention required careful judgment of the timing of intervention and the relevant circumstances. The member mentioned that acting sooner and more quickly would help avoid a situation in which 'a stitch in time saves nine.' The member meanwhile emphasized that premature and too-frequent interventions could affect expectations and incentives of market participants, resulting in the distortion of the functioning of market principles and an endogenous increase in tail risks, consequently causing an even bigger crisis. The member argued that the central bank should assure the markets that it stood ready to intervene whenever needed and that its interventions would not be made mechanically but would be made depending on the situations in an effort not to distort market principles.

One member presented the view that it would be appropriate to raise the Base Rate to 3.25% from the current 3.00% at this meeting.

The member noted that global economic growth had been slowing and US dollar liquidity had been decreasing. The member also mentioned that, in response to high inflation caused by a combination of excessive liquidity and global supply problems in the course of recovery from the pandemic, central banks worldwide had been hiking interest rates at fast paces, enduring economic contractions. The member presented the view that inflationary pressures seemed to have eased somewhat recently, affected by the easing of global supply disruptions, slowing growth in international oil, commodity and grain prices, and monetary tightening by countries around the world, but that it was too early to conclude that inflation had fully stabilized.

The member evaluated that domestic economic growth had also been weakening. The member mentioned that the momentum of recovery in private consumption that had been suppressed during the pandemic remained, but it had been slowing influenced by weakening real purchasing power owing to rate hikes and high inflation, and that exports had also been slowing rapidly due to economic slowdowns in major trading partners, the downturn of the IT industry and the base-period effect from last year's export boom. The member assessed that new facilties investment had been shrinking due to the economic slowdown and the risk of rising costs and that growth in construction investment had slowed affected by a slowdown in housing market activities.

The member stressed that consumer price inflation seemed to have peaked in August in line with a slowdown in growth of import and producer prices since the spring of this year, but considering the impact of hikes in electricity and gas fees, high inflation expectations and the high rate of growth in fixed wages of permanent workers both of which stood at the 4 percent range, the interactions between these two indicators, and a possible rebound in international commodity prices and the exchange rate, caution was still required with respect to the possible persistence of high inflation. The member also expressed the view that structural changes, including the emergence of a new Cold War era, the rearrangement of global supply chains, the pursuit of new economic security and order, climate change, and population ageing, presented a question whether a rapid return to low inflation and low interest rates would be possible.

The member assessed that the financial markets had shown some signs of a financial crunch and credit risk aversion had heightened since October, but that overall investor sentiment seemed to have improved somewhat recently. The member however stressed that attention should be kept on ongoing uncertainties including a possible worsening of US dollar funding conditions due to the reduction in global liquidity, liquidity risks at some securities and construction companies owing to the shrinking of the real estate market, continued large-scale bond issuances by public corporations such as KEPCO, and short-term financial market instability. The member took the view that credit and leverage, having expanded excessively under the low interest rate environment, would inevitably go through corrections, as re-evaluation of high-risk asset prices had started in line with a shift in the monetary policy stance.

The member mentioned that the Bank of Korea should conduct monetary policy, setting its priority as maintaining price stability while paying attention to financial stability as well. The member expressed concerns that, while deleveraging of private debt had occurred occasionally in major countries since 2005, such deleveraging had rarely occurred in Korea, resulting in high financial market vulnerability which, combined with persistently high inflation, put the central bank in a situation in which it had to make more difficult monetary policy decisions than ever. The member noted that a stronger monetary tightening stance could add to financial market instability but, given the persistence of inflation, the forecast path of US rate hikes, the downward trend of global dollar liquidity, and foreign exchange supply and demand pressures stemming from the outlooks for the current and capital accounts, an easing of monetary tightening in the current situation could not be an appropriate solution and could rather cause further financial instability through the FX channel. The member presented the view that the only possible measure at this time seemed to be enduring a certain degree of instability in the financial market and going through corrections in the real estate market and in the financial sector while preventing this from developing into a systemic crisis.

Taking these points into overall consideration, the member saw that it would be appropriate to raise the Base Rate by 25 basis points to 3.25% at this meeting. The member mentioned that it seemed necessary to maintain the rate hike stance for some time and that the size and pace of future rate hikes should be determined in comprehensive consideration of economic and inflation trends, financial market conditions, monetary policies in major countries, and the impacts of previous rate hikes.

Another member stated that it would be appropriate to raise the Base Rate to 3.25% from the current 3.00% at this meeting.

The member commented that the domestic economy was not deviating significantly from its potential level yet. The member added that, while export growth was slowing, private consumption showed sound growth, and facilities investment had improved of late, led by the IT sector. The member stated that labor market conditions in particular were continuing to show favorable movements. The member projected that the domestic economic growth would remain at a lower level than initially expected, affected mainly by the global economic slowdown and the worsening of financial conditions at home and abroad. The member also assessed that downside risks appeared to be high.

On the inflation side, the member stated that consumer price inflation had remained high in the upper-5% range. The member noted that with the impacts of a larger increase in prices of processed food, and increases in electricity and gas fees acting as upward pressures, underlying inflation including core inflation had accelerated due to the spread of the uptrend in prices to personal service items. Accordingly, the member added that inflation expectations remained at a high level above 4%. The member presented the view that the pace of decline in consumer prices could slow, given accumulated upward pressures on public utility fees, and highly persistent underlying inflation.

Looking at financial conditions, the member evaluated that the liquidity burden of financial institutions had increased since September, due to surges in market interest rates at home and abroad, and the Korean won to the US dollar exchange rate. The member noted that the Legoland incident had triggered instability in the market for commercial paper (CP) with credit risk aversion heightening and transactions slowing down. However, the member stated that market liquidity conditions had improved, thanks to the market stabilization measures by the government and the Bank of Korea, and instability in the market so far had been mostly contained, thanks to expectations of an adjustment to the pace of monetary policy tightening at home and abroad of late. The member judged that, while yields on project financing asset-backed commercial paper (PF-ABCP) still remained high, this mainly came from concerns about default on project financing loans in line with a slowdown in the real estate market, and was not a problem facing the entire credit market. In the foreign exchange sector, the member noted that the Korean won to US dollar exchange rate had stabilized greatly to the mid-1,300 won-to-dollar range of late and foreign currency liquidity conditions also remained favorable overall. However, the member saw that liquidity in the US Treasury market had worsened recently, and global banks’ credit supply was declining. The member went on to present the view that if the tightening stances of the US Federal Reserve and the ECB continued going forward, dollar liquidity conditions in the global financial market would likely worsen further. The member commented that, since a significant portion of Korean investors making overseas portfolio investment raised foreign currency funds through short-term FX swaps, attention should be paid to the relevant liquidity risks stemming from the worsening of international financial market conditions going forward.

The member took the view that, in overall consideration of growth, price and financial conditions of the Korean economy, it would be appropriate to maintain the Base Rate hike stance to respond to underlying sources of inflationary pressures, while taking microeconomic stabilizing measures to deal with market unrest.

The member noted that it would be necessary to maintain the Base Rate hike stance for some time, as there were many uncertainties surrounding the price path, and the FX market could become unstable again depending on the pace of rate hikes by the US Federal Reserve. The member commented that increased leverage through short-term funding through non-bank financial institutions in particular was hidden behind an instability in some short-term money market and liquidity risks in the international financial market. The member went on to take the view that, given this point, it would be necessary to respond in a timely manner to prevent potential liquidity risks in the domestic and overseas financial markets from spreading to the entire financial system, as well as to manage risks through de-leveraging and restructuring.

One member judged that it would be appropriate to raise the Base Rate to 3.25% from the current 3.00% at this meeting.

The member noted that global economic growth had been weakening significantly due to steep rate hikes by the US and other major countries at a time when energy supply-demand instability was not yet resolved. The member mentioned that global inflation meanwhile had remained high in most countries, and European countries in particular.

The member assessed that, concerning the Korean economy, domestic demand had continued to expand based on favorable private consumption and employment until the third quarter and consumer price inflation had remained high. The member mentioned that, although inflationary pressures had been easing somewhat recently, inflation had become prolonged while supply shocks had spread across the economy and indicators for core inflation and inflation expectations were all deviating from the inflation target by more than 200 basis points. The member argued that inflation was forecast to remain above its target next year, suggesting that there was room for further tightening.

The member however mentioned that the stage had been passed where vigilance against further inflationary pressures was required. The member expected that, although households' excess savings that had increased during the pandemic period had led to brisk face-to-face consumption activities since the lifting of COVID-19 restrictions, consumption capacities would decrease rapidly among households faced with increased financial burdens. The member forecast that falling housing prices would lead to negative wealth effects, and a decrease in borrowings due to high interest rates and a decline in real incomes in line with high inflation would limit consumption. The member noted that household incomes had already started to decrease in the previous quarter due to the economic slowdown and that, according to Statistics Korea's household income and expenditure survey, real household incomes for the third quarter this year had declined by 0.4% quarter on quarter and 2.8% year on year. The member added that, looking at the SNA statistics, seasonally-adjusted GDP had increased by 0.3% quarter on quarter in the third quarter, while GDI, representing real purchasing power, had declined owing to the worsening terms of trade. The member meanwhile expressed the opinion that fiscal expenditure based on a consolidated fiscal balance basis had risen by 11%, contributing much to growth in domestic demand, but that it was projected to decline by around 2% in 2023, acting as another factor easing aggregate demand-pull pressures.

The member noted that the rate hikes, which had begun 15 months ago, had started to take evident effect particularly in the real estate and financial markets, and went on to state that the corporate bond and short-term money markets had become unstable amid the over-concentration of capital in safe haven assets such as time deposits. The member emphasized that such financial instability could be temporary and confined to a certain part of the economy, but since the possibility of a spread of such instability could not be ruled out, caution would be required in raising the Base Rate. The member presented the view that the excessive shrinkage of investor sentiment toward risky assets was not irrelevant to monetary tightening and that a forecast of a continued tightening stance for a considerable period of time seemed to be also responsible for such contraction.

The member argued that, even though the decision was made in careful consideration of inflation still far exceeding its target, the stage had been passed where vigilance against further inflationary pressures was required, and that, since a slowdown in households' real incomes and purchasing power had become apparent and it was necessary to monitor developments of financial instability and their effects, a very careful approach should be taken to further rate hikes.

Another member presented the view that it would be appropriate to raise the Base Rate to 3.25% from the current 3.00% at this meeting.

The member stated that economic growth in major countries was slowing rapidly due to ongoing high inflation and monetary policy tightening stances. The member projected that, although demand at home and abroad was weakening, led by exports and investment, price growth would slow moderately, due mainly to a sustained second round of spillover effects and additional increases in electricity and gas fees. Looking at an adjusted projection by the Research Department, the member expected that the growth gap would turn negative, while the inflation gap would remain in positive territory. As for the labor market, the member projected that, while wages, and those of regular employees in particular, were continuing to grow and the unemployment rate remained low, the increase in the number of persons employed would decline gradually, due mainly to the economic slowdown and base effects.

Meanwhile, in the external sector, the member evaluated that foreign exchange supply and demand conditions had improved greatly, as a soar in the Korean won to US dollar exchange rate had been reversed, and overseas securities investment by residents and foreign portfolio investment in Korea had shifted to net inflows. However, concerning the domestic financial market, the member commented that the CP market crunch had intensified and issuance conditions for credit bonds, such as corporate bonds and credit-specialized financial business company bonds, had worsened due to the Legoland shock on top of accumulated financial risks related to real estate project financing.

The member judged that, from the perspective of monetary policy, these recent changes in economic and financial conditions made trade-offs among policy objectives, such as economic activity, inflation and financial stability, grow further. The member particularly stated that trade-offs between internal financial stability and external financial stability appeared to have intensified, due to rapid deterioration in domestic credit market conditions against the backdrop of the potential risk of instability in the FX sector stemming from the US Federal Reserve's rapid rate hikes. However, the member found it appropriate to focus on price stability and maintain the stance of rate hikes this time in light of the fact that consumer price inflation still remained high in the upper-5% range and was forecast to remain elevated at 4% or higher until the first half of next year. However, the member judged that, given the output gap would turn negative next year and instability in some financial markets had worsened, it would be appropriate to raise the Base Rate by 25 basis points, a smaller hike than that in the previous Monetary Policy Board meeting.

The member took the view that, going forward, it would be necessary to prioritize price stability in the conduct of monetary policy until the underlying slowing trend in inflation was entrenched. However, the member expected the Board to reduce the size and pace of further increases of the Base Rate, while monitoring domestic and overseas economic developments and financial stability conditions, if the current forecast continued to hold that there would be a pattern of high price growth in the first half and low growth in the latter half and core inflation excluding electricity and gas fees would decline to the 2% range after the second half.

Meanwhile, the member presented the view that various microeconomic policy measures should be used supplementally to deal with unstable financial conditions caused by interactions between the recent rapid rate hikes and accumulated financial imbalances. The member stated that the Bank of Korea had implemented various market stabilization measures by expanding the range of securities eligible as collateral and purchasing RPs from securities companies to deal with a crunch in the short-term money market after end-October. The member judged that this market-maker role had been helpful to ease a liquidity crunch in the short-term money market and improve unstable market sentiment. The member noted that financial unrest could spread, as seen in unrest in the asset-backed securities market and the shrinkage of the credit bond market, as a slowdown in the real estate market and the weakening of investor sentiment would continue for some time. The member thus stressed the need for a proper policy mix, while closely monitoring relevant developments. However, the member commented that the recent unstable financial conditions were unavoidable in that they arose out of the process of adjusting shadow banking which had expanded excessively against the backdrop of the past low interest rate environment and favorable real estate market. The member thus stressed the need to pay attention to preventing the expansion of moral hazard, as well as to ensuring that the Bank of Korea would not play a quasi-fiscal role excessively.

Ⅳ. Results of Deliberation on Monetary Policy Directions

Incorporating the outcome of the above discussions, the following Monetary Policy Decision statement was compiled. All MPB members supported the decision unanimously.

Monetary Policy Decision

☐ The Monetary Policy Board of the Bank of Korea decided today to raise the Base Rate by 25 basis points, from 3.00% to 3.25%. The Board judges that the policy response to ensure price stability should be continued as inflation has remained high. The size of the Base Rate hike was judged to be appropriate at 25bp, in overall consideration of the easing of risks in the foreign exchange sector and the contraction of short-term financial markets, while the economic slowdown is expected to be greater than forecast in August.

☐ Currently available information suggests that the global economic slowdown has continued, affected by the high inflation, ongoing policy rate hikes in major countries and the prolonged Ukraine crisis. In global financial markets, the US dollar has weakened and long-term market interest rates have fallen, as risk aversion has partly subsided on the expectations of an adjustment to the pace of the US Federal Reserve's policy rate hikes. 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 continued to slow with exports shifting to a decrease, although private consumption has maintained its recovery trend. Labor market conditions have continued to be favorable with a low unemployment rate, despite a slowing increase in the number of persons employed. Going forward, domestic economic growth is expected to weaken, affected by the global economic slowdown and the increase in interest rates. GDP growth for this year will be consistent with the August forecast of 2.6%, but that for next year is projected to be 1.7%, considerably lower than the August forecast of 2.1%.

☐ Consumer price inflation has remained high at 5.7% in October due to increases in electricity and gas fees and the accelerating price increases in 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 at the lower-4% level. Looking ahead, it is forecast that consumer price inflation will somewhat decrease due to the base effect and the economic slowdown, but will remain high at the 5% level for some time. Consumer price inflation is projected to be 5.1% in 2022 and 3.6% in 2023, slightly below the August forecast of 5.2% in 2022 and 3.7% in 2023, but uncertainties are judged to be high related to the movements of exchange rates and global oil prices, the degree of economic slowdown at home and abroad, and the size of increases of electricity and gas fees.

☐ In the financial and foreign exchange markets, the long-term Korean Treasury bond yield and Korean won to US dollar exchange rate have decreased and stock prices have risen due to expectations of an adjustment to the pace of monetary tightening in major countries. However, in the short-term financial markets, yields on project financing asset-backed commercial paper (PF-ABCP) have risen significantly and their transactions have shrunk. Household loans have increased only slightly and housing prices have further decreased in 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 a medium-term horizon as it monitors economic growth, while paying attention to financial stability. The Board sees continued rate hikes as warranted for some time, as inflation is expected to remain high, substantially above the target level, although the domestic economic growth rate 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, and geopolitical risks.