Minutes of the Monetary Policy Board Meeting

February 2022

Bank of Korea

(English version)

Minutes of the Monetary Policy Board Meeting[1)]

(February 2022)

Ⅰ. Outline

1. Date of meeting: Thursday, February 24, 2022

2. Place: Monetary Policy Board Meeting Room

3. Monetary Policy Board members present:
   Lee, Juyeol, Chairman (Bank of Korea Governor)
   Lim, Jiwon
   Cho, Yoon-Je
   Suh, Young Kyung
   Joo, Sangyong
   Lee, Seungheon (Senior Deputy Governor)
   Park, Ki Young

4. Monetary Policy Board members absent: none

5. Participants:
   Kang, Sungjun, Auditor
   Park, Jong Seok, Deputy Governor
   Lee, Hwan Seok, Deputy Governor
   Min, Jwa Hong, Deputy Governor
   Lee, Sang Hyeong, Deputy Governor
   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, Inkoo, Director General of Financial Markets Department
   Kim, Hyun Kee, Director General of International Department
   Park, Young Chool, Press Officer
   Han, Seung Chul, Director General of Monetary Policy Board Secretariat
   Choi, Mun Seong, Head of MPB Team

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

II. Summary of Discussions on the Current Economic Situation

After briefings by staff on *Economic Outlook* (February 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 spread of COVID-19 variants, the domestic economy continued to recover overall, led by the underlying trend of improvement in private consumption, especially in goods consumption, and by the solid trend of increase in exports. Some members stressed that it would be necessary to remain on the alert against the possibility of uncertainties such as geopolitical risks and prolonged global supply constraints having a negative impact on the future domestic economic recovery.

In terms of inflation, members assessed upside risks to inflation as having increased, with inflationary pressure expanding into a wide range of core items. Some members expressed the view that attention should be paid to the potential effects of the Ukraine crisis on inflation in Korea through channels of international commodity prices and inflation expectations.

Meanwhile, members assessed that volatility in price variables of some financial assets had heightened, owing chiefly to monetary policy changes at home and abroad and geopolitical risks. Some members mentioned that, despite slowed growth in household lending due to rate hikes and stronger regulations, corporate lending had been showing strong growth, and it would be therefore necessary to pay attention to financial imbalances stemming from increased leverage in the private sector.

Some members also stressed the need to pay close attention to export conditions from a medium- and long-term perspective and the effect of overseas portfolio investment by Korean residents on capital flows.

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2) An English version of *Economic Outlook* is posted on the Bank of Korea website.

Ⅲ. 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 took the view that, in overall consideration of the domestic and international financial and economic situations, it would be desirable to keep the Base Rate at its current level of 1.25% for the intermeeting period.

One member judged that it would be appropriate to keep the Base Rate unchanged from its current level of 1.25%

The member evaluated that, despite the spread of COVID-19 variants, the trend of the global economy and trade continued to recover, but global inflation pressures had heightened even further with a recovery in supply disruptions delayed longer than expected and global oil prices increasing at a faster pace. In particular, the member forecast that the recently escalating conflict between Russia and Ukraine would have a substantial impact on the global economy by way of a delayed recovery of global supply chains and contraction of international trade, as well as rises in energy, commodity and grain prices.

The member expected that the domestic economy would remain on the growth path projected in November, since economic activity was getting back to normal and goods exports continued their solid trend of increase, although COVID-19 was spreading rapidly in Korea unlike in the rest of the world. The member however noted that careful analysis and assessment of the future growth path were needed, since there existed downside risks to exports, such as the escalating geopolitical risks and a delayed recovery of global supply chains, and there was a lack of improvement in structural factors behind low growth, including population aging, the surge in household debt, the slowdown in fixed capital stock growth, and the sluggishness of services sectors with low added values. In terms of consumption, the member expressed concerns that, although consumption capacity was expected to increase on the back of increased forced savings since the pandemic, increased burdens of household debt repayment and housing expenses could act as factors limiting consumption. The member added that, as foreign direct investment had recently increased in quantitative terms on the back of strengthening trade and environmental regulations, and in qualitative terms as well with growth seen in overseas investment for local production rather than processing and intermediate trade, there was a possibility of an increased negative substitution effect on exports and domestic investment.

With regard to inflation, the member's assessment was, although that the Research Department had raised its inflation forecast for this year significantly to 3.1% and also adjusted its core inflation forecast upward to 2.6%, upside risks were even greater considering the recent global oil price trend and inflation pressures. The member also stated that, with the recent inflation pressures attributable largely to supply-side factors, producer prices were rising faster than consumer prices. The member went on to stress that, since the Korean economy is dependent highly on exports and investment, it would be necessary to pay close attention to the channel through which producer prices directly limit growth by way of cost increases.

Looking at financial stability, the member assessed the exchange rate and capital flows as showing limited volatility thanks to improved external soundness, although stock market volatility had expanded due to a likely early tapering by the US Federal Reserve and the Russia-Ukraine conflict. The member mentioned that, although household debt growth had slowed, household debt was estimated to be exhibiting faster year-on-year growth than nominal GDP, and corporate lending sustained strong growth, resulting in a continued increase in the private sector leverage.

In summary, the member's evaluation was that, compared with the previous meeting, downside risks to growth had increased somewhat, but the economy had maintained its recovery since last year. The member also assessed that upside risks to inflation had grown even further and financial imbalances still required attention. In this regard, the member assessed that it would be appropriate to operate the Base Rate so as to reduce the degree of monetary easing. The member however argued that, since uncertainties surrounding economic conditions at home and abroad had increased recently owing to the spread of the pandemic, geopolitical risks and early normalization of major country monetary policies, and since there was a need to examine the effect of three Base Rate hikes last year, it would be desirable to keep the Base Rate at its current level and monitor future changes in the domestic and international economic situations.

Another member judged that it would be appropriate to keep the Base Rate at its current level of 1.25%.

The member mentioned that the global economy seemed to have maintained its recovery overall, with the US and Europe easing COVID-19 restrictions after having gone through the peak of the spread of the Omicron variant. The member assessed that, although global supply disruptions had improved somewhat, global oil prices had risen and the international financial markets had become more volatile owing to the escalating geopolitical risks involving Russia and Ukraine.

The member noted that, although short-term downside risks had expanded somewhat in line with a surge in the spread of the Omicron variant since February, the domestic economy seemed to maintain its recovery overall and was expected to grow by around the previous projection of 3.0% this year. The member mentioned that private consumption had slowed, due to temporary factors such as the shutdown of automakers for a transition to new production lines, but maintained its underlying trend of recovery based on improved income conditions for households. The member went on to note that exports also continued to grow, led by those of semiconductor and petroleum products. The member also stated that improvement in construction investment had been limited owing to stronger safety management of construction sites and facilities investment had been adjusted slightly centering around machinery and automobiles. The member assessed employment as continuing to improve, with the number of persons employed rising significantly and the unemployment rate declining. The member took the view that, when the spread of the virus peaks and the pandemic gradually turns into an endemic, consumption related to face-to-face activities, which had been suppressed so far, would become brisk and exports and investment would sustain growth based on demand for the digital transition and the fight against climate change.

The member noted that concerns about a possible prolongation of inflation had recently heightened even further and that keeping inflation under control had emerged as a key issue for monetary policy in major advanced countries. As for the Korean economy, the member mentioned that the rate of increase in import prices had remained high in the 20-30% range for a considerable period of time since the second half of last year. The member projected that consumer price inflation would remain in the mid- to upper-3% range for the time being, since a rise in imported raw material prices had affected consumer prices in Korea with a time lag, causing dining-out costs and prices of processed food products to increase at even faster paces, and would likely continue to exert upward pressures on consumer prices in Korea going forward. The member presented the view that, although the wage growth rate and inflation expectations had been changing gradually and upward pressures on inflation would likely weaken somewhat in the second half of this year, consumer price inflation for this year would exceed 3%, considering the recent increasing tendency of corporations to pass on cost increases to consumers, and a possible increase in personal service charges, such as private education costs and leisure facility fees.

Regarding financial markets, the member assessed that financial market volatility had increased since the previous meeting, with the Treasury bond yield rising and stock prices substantially falling on the back of expectations of an acceleration of rate hikes by the US Federal Reserve and concerns about a supplementary budget. The member pointed out that, although household lending growth had slowed, affected by strengthening regulations and rising interest rates, and housing prices had been stabilizing recently, corporate lending maintained strong growth, influenced by the control on household lending, and the M2 growth rate remained high. The member stressed that regulations on credit extension had been eased temporarily in response to the COVID-19 shock in a situation where marginal firms accounted for a substantial portion of Korea' corporate sector. Since this measure would inevitably have to be normalized gradually and interest rates were rising at home and abroad, it would be necessary to carefully analyze and assess effects of credit to the corporate sector, which had exhibited a sharp increase, on financial system stability and corporate financial soundness.

The member judged that the three rate hikes since August last year had been easing the household debt risk and excessive yield-seeking behavior at a pace that had provided accommodative financial conditions to support the economic recovery while at the same time ensuring that the economic recovery was not undermined significantly. The member expressed the opinion that it would be appropriate to keep the Base Rate unchanged from its current level of 1.25% at this meeting. The member's evaluation was that it would be necessary to take more time to observe the trends and impacts of the ongoing massive spread of the Omicron variant and the Ukraine crisis, and that another rate hike at this time following the previous two consecutive rate hikes could make financial markets more volatile in the short term in a situation where market anxiety had heightened due to expectations of rate hikes by the US Federal Reserve and external risk factors.

The member, however, noted that increased inflation expectations and continued strong liquidity growth suggested that the current monetary policy stance remained substantially accommodative, and that if the current trend of an economic upturn continues, an additional adjustment of the degree of monetary easing would be needed. The member mentioned that, unless the adjustment is made at the right time and at the right pace, a larger degree of adjustment would be inevitable later on, which could have a huge impact on the economy and financial markets. The member presented the view that it would be necessary to raise the Base Rate further at an appropriate time while closely monitoring the trends of prices and inflation expectations as well as the domestic economy, changes in major country monetary policies and financial market developments at home and abroad.

One member took the view that it would be appropriate to hold the Base Rate at its current level of 1.25%.

The member assessed that the global economy had continued to recover as in the previous year, but the pace of recovery had been slowing recently affected largely by the spread of Omicron, and inflation had continued to grow in major countries owing to the further uptrend in energy prices and prolonged disruptions in global supply chains. The member noted that, in reflection of this, the IMF had adjusted the global economic growth rate downward by 50 basis points in its recent adjusted outlook (in January).

With regard to the domestic economy, the member evaluated that consumption had improved at a slower pace, due to the spread of COVID-19 and the prolonged measures to combat the pandemic, and the recent surge in the number of confirmed Omicron cases had further heightened uncertainty of consumption. The member noted that the underlying trend of improvement in consumption had continued driven by consumption of goods, but consumption of services still depended upon developments of the pandemic. Concerning investment, the member mentioned that facilities investment, having grown significantly over the last two years, was going through a correction, while a rise in material prices had led to a delay in the recovery of construction investment. The member added that, as imports surged even though exports of most items had continued their uptrend led by strong global goods demand, the trade account had registered a deficit and the Ukraine crisis had added to uncertainties.

The member mentioned that consumer price inflation had remained at the 3% level since October last year. The member noted that, driven by the recovery in domestic demand, combined with supply-side factors including a surge in energy prices and supply chain disruptions, upward pressures on inflation had increased more than originally expected, and core inflation also stood at the mid-2% level, with inflationary pressure expanding into core items such as personal services and durables. The member added that the recent surge in inflation was taking place throughout the world and the IMF had made a huge upward adjustment to its global inflation forecast for this year (2.3→3.9% for advanced countries and 4.9→5.9% for emerging market countries).

The member assessed that major countries had been attempting to change their monetary policy stances in response to rising inflation. The member noted that the Bank of England had raised its policy rate in February this year as in December last year, and expected the US Federal Reserve to start rate hikes from March onwards. The member however evaluated that, although inflation had exceeded the target in most countries, measures to cope with this varied from country to country. The member mentioned that the ECB had been taking a careful approach focusing more on the economy than on inflation, while countries like Sweden had expressed their determination to maintain their monetary easing stances out of concerns about unpredictable effects of a monetary policy shift on production and employment. The member added that Korea, with its three Base Rate hikes since August last year, is one of the major countries which started normalizing monetary policy preemptively.

The member stressed that the most distinct aspect of Korea's policy shift was the strengthening of regulations on household lending along with Base Rate hikes, and noted that interest rates on household lending had risen rapidly due to the heightened lending regulations, while real interest rates excluding inflation expectations had already exceeded their pre-COVID-19 levels. The member presented the view that monetary policy needed an entirely different approach in a new environment with stronger lending regulations, and emphasized that it was time to focus more on the non-discriminating effects of the Base Rate on the real economy than on measures to promote financial stability.

The member argued that the Korean economy had been overcoming the crisis relatively successfully based on strong goods exports, but it was now faced with a new challenge — increases in interest rates and inflation had caused the production costs of businesses to rise and household purchasing power to weaken compared with the pre-COVID-19 period. The member judged that inflationary pressures were high but not to such a critical degree as to require measures to suppress them, which would contract economic activity. The member noted that inflationary pressures would continue until the first half of this year at the earliest, but things could change drastically if supply-side problems are resolved to some extent.

The member's evaluation was that the COVID-19 pandemic was an asymmetrical shock that had hit the services sector and consumption harder than the manufacturing sector and exports. The member mentioned that if it were concluded that the crisis is over based only on aggregate indicators such as GDP growth, or if rate hikes were accelerated on the basis of cost-push inflation, the economic recovery would lose momentum. The member noted that real private consumption had declined by 1.6% over two years since 2019 and employment of the prime-age labor force (those aged between 30 and 59) had not yet returned to its pre-pandemic level. The member expressed the view that it would be necessary to observe the effects of the previous three Base Rate hikes since August last year. The member stressed the need to keep the Base Rate at its current level for the time being while closely examining developments of virus variants, the trend of recovery in overall domestic demand and sectors hit hard by the pandemic, and movements of core inflation and inflation expectations. The member noted that consumer price inflation and core inflation had risen by 4.6% and 3.3%, respectively, over the two years since January 2020, immediately before the outbreak of COVID-19, and emphasized the importance of achieving the inflation target over a medium-term horizon. In particular, the member argued that, since the current inflationary pressures had been caused by an exceptional situation of a pandemic, even if inflation exceeds its target but is not extemely excessive, it would be appropriate cautiously respond to a departure of inflation from its target while monitoring the path of convergence toward its target.

Meanwhile, another member presented the opinion that it would be appropriate to keep the Base Rate at its current level of 1.25% at this meeting.

The member judged that the Korean economy was maintaining a trend of recovery, despite the worsening of the spread of the Omicron variant. The member's assessment was that, while facilities investment was undergoing an adjustment, exports were maintaining high growth, bolstered by solid global demand, and private consumption was maintaining an underlying trend of recovery, thanks to a favorable increase in consumption of goods, despite a slight slowdown in face-to-face service consumption stemming from the worsening of the spread of the pandemic. Concerning labor market conditions, the member noted that the number of persons employed was maintaining its substantial uptrend, and household income conditions were improving thanks to a solid upward trend in wages.

The member expected the Korean economy to grow at around 3%, consistent with the 2021 November forecast, thanks to buoyant exports and sustained recovery in private consumption. The member forecast that exports and investment were likely to remain strong in line with improved global trade, particularly since major countries would resume economic activity thanks to the easing of their social distancing measures. The member expected consumption to be affected by the spread of the Omicron variant for some time, and then to return to rapid recovery, as this virus spread cycle would stabilize after reaching its peak. However, the member judged uncertainties surrounding the growth path to be heightened further, since major countries were changing their monetary policy stances rapidly to respond to higher inflation since the second half of last year, and geopolitical risks surrounding Ukraine were also increasing.

The member noted that a stronger-than-expected upward trend in prices was continuing. Looking at recent price conditions, the member saw that, as factors pointed to as upside risks such as an ongoing upward trend in commodity prices and prolonged global supply bottlenecks were materializing, strong upward trends in prices were witnessed across core items. The member argued that, although the Bank of Korea Research Department had revised upward the inflation forecast for this year to the 3% range in reflection of this, upside risks to the price path still remained high. The member stated that inflationary pressures could accumulate, as accommodative financial conditions were continuing, despite economic recovery particularly in major advanced economies. The member saw that the recent Ukraine crisis was not only accelerating the upward trend in prices through a rise in international commodity prices, but also making inflation expectations unstable. The member emphasized that it would be necessary to guard against the possibility of second-round effects of the consequent interaction between price indexes and inflation expectations.

The member evaluated that investor sentiment was partially contracting, as volatility in the financial market had increased, with interest rates rising steeply and stock prices falling. However, the member judged financial conditions to remain accommodative, since M2 growth had not shown any sign of decline since the beginning of this year after rising to the 13% level, and corporations were raising funds on a large scale through stocks and corporate bonds.

On the financial stability side, the member pointed out the need to pay attention to the rapid increase in credit supply to the corporate sector, although increase in housing prices had slowed significantly of late, and household debt growth was moderating. The member added that attention should be paid to the possibility that there had been a significant buildup of funds provision which failed to properly reflect credit risk in the course of providing financial support to vulnerable sectors.

The member took the view that, in overall consideration of growth, price and financial conditions of the Korean economy, it would be necessary to further reduce the degree of monetary policy accommodation. The member added that it was important that preemptive measures be taken, particularly given that upside risks surrounding the future price path were heavily dependent upon inflation expectations, and that Base Rate hikes affected the economy with a time lag. The member also emphasized the need to anchor expectations of economic agents by communicating with the market about resolute policy intention. From the perspective of financial stability, the member stated that it would be necessary to prepare against possible volatility shocks in the international financial market by inducing economic agents to adjust excessively heightened leverage and making the financial market more resilient.

However, the member also took the view that, in consideration of the need to assess the effects of the past three Base Rate hikes and to keep a close watch on the developments of factors causing recently heightened uncertainties, such as a move toward acceleration of monetary policy normalization in major economies and heightened geopolitical risks stemming from the Ukraine crisis, it would be appropriate to keep the Base Rate unchanged from its current level of 1.25%.

One member presented the opinion that it would be appropriate to keep the Base Rate at its current level of 1.25% at this meeting.

The member noted that, although the global economy was continuing its sound recovery trend, as seen in growth in global trade and real economic indicators of major economies, the future growth path could be seriously affected by the evolution of the COVID-19 pandemic, global inflation and changes in monetary policy in major economies, and the development of geopolitical risks related to Ukraine.

The member assessed that, on the domestic economic front, although facilities investment and construction investment were sluggish due to one-off factors, private consumption was maintaining an underlying trend of recovery and employment was continuing to improve. The member also noted that market income excluding the secondary income from government transfers had risen in all income groups of late, and the trend of improvement was expanding even in the low-income group hit the hardest at the initial stage of COVID-19 pandemic. With respect to the financial and foreign exchange sectors, the member assessed that economic agents' search-for-yield across asset markets had abated, and macroprudential indicators appeared favorable in the internal and external sectors. The member stated that growth in household lending and housing prices, two major factors causing financial imbalances, had slowed, due to the impacts of several factors such as strengthened loan management and higher lending rates.

The member took the view that special policy attention should be paid to inflation. The member noted that consumer price inflation was not higher than in most major economies for the moment and consumer price inflation and inflation expectations were still low even compared to past periods of heightened price inflation. However, the member stated that consumer price inflation was remaining at the mid- to upper-3% range, and core inflation also had risen to the mid-2% range. The member stated that taking into account the possibility of the effects of energy price shocks and trends of increase in global grain prices stemming from the Ukraine crisis spreading with a time lag, concern about inflation would not be small. However, the member suggested a few reasons for preferring keeping the Base Rate unchanged, despite such concern.

First, it was still unclear how large the uncertainties surrounding and shocks stemming from the Ukraine crisis would be and how long they would continue for the moment. Although Korea does not have large trade volumes with Russia and Ukraine, negative supply shocks might be seen through higher commodity prices, and negative demand shocks via an indirect route through for instance the EU. The member noted that the negative supply shocks clearly would increase inflation. However, the member expressed the opinion that in a situation in which it was difficult to reasonably predict the size and persistence of such shocks, a Base Rate hike could negatively affect the recovery and growth path of the domestic economy going forward through the demand side.

Second, it would be necessary to keep a close watch on monetary policy trends in major economies and their impacts on the market. Some overseas central banks had already begun monetary tightening and the US Federal Reserve and the ECB were expected to join this trend soon, and this would mean a decline in the massive liquidity injected in the economy due to COVID-19. In this situation, investment portfolios and fund flows could change greatly. The member assessed that the international financial market was already seeing a risk-off pattern and the market was highly likely to be more volatile. The member took the view that, in consideration of risks related to the newly added Ukraine crisis as well, a better option at this juncture would be to decide to take response measures after observing the effects of the existing preemptive monetary policy measures and the development of external uncertainties, rather than to take policy countermeasures based on uncertain information.

The member emphasized that, while the most important variables in the future would be those related to inflation, it would be necessary to carefully monitor uncertainties in the asset markets caused by changes in monetary policy in major economies, and the evolution of global risks stemming from the Ukraine crisis, as external factors. The member noted that, to this end, it would be necessary to strengthen market monitoring and communications with market participants, and actively consider market stabilization measures in times of rapidly heightened market volatility. Concerning financial imbalances, the member expressed the opinion that there was a need for close monitoring of the possibility of a recovery of profit-seeking demand in the housing market, and of whether unproductive demand for funds was increasing in the commercial real estate market.

Another member presented the opinion that it would be appropriate to keep the Base Rate unchanged at its current level of 1.25% at this meeting.

Looking at changes in the domestic and overseas economic environments since the previous MPB meeting, the member judged that the global economy was continuing its recovery trend, despite the spread of the pandemic, and inflationary pressures were continuing to increase. The member noted that, while growth was moderating somewhat of late, due to worsened health care conditions, given the nature of the Omicron variant identified by major advanced economies, the economic impacts during this spread of COVID-19 were highly likely to moderate or last for a shorter period of time than previous waves.

The member noted that, in the domestic economy, growth in service consumption in particular was slowing, due to stronger social distancing measures and weakened consumer sentiment since December last year. However, the member assessed that the

GDP gap would likely shift into positive territory in the first half of this year as originally forecast, as exports remained strong and goods consumption and employment conditions were sustaining relatively favorable improvement, with the correlation between the spread of COVID-19 and economic activity having become much lower. However, the member stated that economic uncertainties had heightened as the spread of the pandemic in Korea was deepening and persisting longer than in major advanced economies. The member also cautioned that global supply bottlenecks could be resolved later than expected, due to the restrengthening of social distancing measures in some emerging economies including China, and the intensification of geopolitical conflicts, changes in monetary policies of major economies, and heightened financial market volatility could negatively affect economic trends at home and abroad.

Meanwhile, the member stated that consumer price inflation continued to run at the 3% level, recording 3.6% in January, and the range of items with rising prices had widened further. The member assessed that since, above all, inflationary pressures were increasing rapidly for items with strong downward rigidity such as durable goods and personal services, inflation would remain well above the target for a long time, and its interactions with inflation expectations and wage increases were highly likely to materialize. The member estimated that, although the Bank of Korea Research Department had revised the price outlook upward, there still were huge upside risks to the price path, in consideration of global energy price movements, prolongation of supply disruptions and geopolitical risks, and trend of demand-side inflationary pressures.

Finally, the member evaluated that, in the financial market, market volatility had been increasing, due to strengthened risk aversion stemming for instance from changes in expectations for monetary policy normalization by major economies and intensified geopolitical conflicts. The member saw that, against this backdrop, the risks of a buildup in financial imbalances were easing somewhat, with the rate of household lending growth falling for the second consecutive month and prices of assets such as stocks and real estate undergoing corrections, due to policy effects such as strengthened loan regulations and the Base Rate hikes. However, the member noted that since the household debt-to-income ratio and housing price-to-income ratio were remaining at much higher levels than those of major economies and compared to their long-term trends, they remained as potential vulnerabilities in the financial system over the medium- to long-term horizon. The member saw that corporate-sector leverage was continuing a substantial uptrend, backed by abundant market liquidity, and regulation-avoiding balloon effects such as a sharp increase in real estate investment through corporate lending were being observed. The member thus emphasized the need to continue policy efforts to ease the risks of an accumulation of financial imbalances.

The member judged that, overall, the Korean economy was maintaining an underlying trend of recovery, and upward pressures on inflation expectations were continuing to increase, as the GDP gap was expected to shift into positive territory in the first half of this year, and inflation had been exceeding the target for a long time. The member thus stated that it would be desirable to continue to reduce the degree of monetary policy accommodation to stabilize consumer price inflation at the target level over a medium-term horizon. However, the member pointed out that financial imbalances were showing signs of slight improvement thanks to the three preemptive Base Rate hikes since August last year, while uncertainties surrounding the growth path had heightened due to recent pandemic conditions, geopolitical risks, and monetary policy normalization by major economies. The member thus took the view that it would be appropriate to keep the Base Rate unchanged at the current level and closely monitor domestic and international financial and economic conditions and the ripple effects of the policy rate hikes.

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 leave the Base Rate unchanged at 1.25% for the intermeeting period.

□ Currently available information suggests that the global economy has continued to recover despite the spread of coronavirus variants, as economic activity has not contracted significantly, supported by accelerated vaccinations. Volatility in global financial markets has increased, affected by concerns over the pace of the US Federal Reserve’s policy rate hikes as well as the Ukraine crisis. Government bond yields in major countries have risen sharply and stock prices have fallen considerably. Looking ahead, the Board sees global economic growth and global financial markets as likely to be affected largely by COVID-19 developments, global inflation movements, monetary policy changes in major countries and geopolitical risks.

☐ The Korean economy has continued to recover despite the resurgence of COVID-19. Although the improvement in private consumption has moderated owing to the tightening of domestic COVID-19 restrictions, exports have sustained their buoyancy thanks to robust global demand. Facilities investment has somewhat slowed due to global supply constraints. Labor market conditions have continued to improve, with a sustained trend of increase in the number of persons employed. Going forward, the economy is likely to sustain its sound growth, as the recovery of private consumption is forecast to gradually pick up again while exports are expected to continue their solid trend of increase. GDP growth this year is projected to be around 3%, not deviating greatly from the November forecast.

☐ Consumer price inflation has remained high in the mid- to upper-3% range due to the ongoing sharp rise in the prices of petroleum products, as well as the accelerating increase in the prices of personal services and industrial products. Core inflation (excluding changes in food and energy prices from the CPI) has risen to the mid-2% level. The inflation expectations of the general public have run at the mid- to upper-2% level. Looking ahead, it is forecast that consumer price inflation will run substantially above 3% for a considerable time, exceeding the path projected in November, and run at the lower-3% level for the year overall. Core inflation is forecast to rise to the mid-2% level this year.

☐ In domestic financial markets, long-term market interest rates have risen significantly and stock prices have fallen considerably while the Korean won to US dollar exchange rate has increased slightly, mainly driven by global financial market movements. The amount of increase in household loans has lessened, and the increase in housing prices has moderated in all parts of the country.

☐ The Board will continue to conduct monetary policy in order to sustain the recovery of economic growth and stabilize consumer price inflation at the target level over a medium-term horizon, while paying attention to financial stability. The Board will appropriately adjust the degree of monetary policy accommodation as the Korean economy is expected to continue its sound growth and inflation to run above the target level for a considerable time, despite underlying uncertainties over the virus. In this process the Board will judge when to further adjust the degree of accommodation while thoroughly assessing developments related to COVID-19, the risk of a buildup of financial imbalances, the effects of the Base Rate raises, monetary policy changes in major countries, and the trends of growth and inflation.