Minutes of the Monetary Policy Board Meeting

November 2021

Bank of Korea

(English version)

Minutes of the Monetary Policy Board Meeting[1)]

(November 2021)

Ⅰ. Outline

1. Date of meeting: Thursday, November 25, 2021

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
   Bae, Joonsuk, Deputy Governor
   Min, Jwa Hong, Deputy Governor
   Lee, Sang Hyeong, 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, Inkoo, Director General of Financial Markets Department
   Kim, Hyun Kee, Director General of International Department
   Park, Yang Su, Director of BOK Economic Research Institute
   Park, Young Chool, Press Officer
   Han, Seung Chul, Director General of Monetary Policy Board Secretariat
   Choi, Mun Seong, Head of MPB Team

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* (November 2021),[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 the domestic economy was sustaining its recovery, boosted by a stronger trend of recovery in consumption and robust exports. Members mentioned that the domestic economy would maintain favorable growth, but there remained latent uncertainties, such as the possibilities of a resurgence of the pandemic or a prolongation of global supply disruptions.

In terms of inflation, members assessed that inflationary pressures had expanded, with the number of items showing price increases growing and core inflation exceeding 2%, and forecast that inflation would remain above the target for a considerable period of time. Some members took the view that attention should be paid to the possibility of a rise in inflation expectations leading to a second round of spillover effects such as wage increases. Meanwhile, some other members presented the opinion that it would be necessary to analyze how inflation is affected not only by cyclical factors but also by structural factors including deterioration of global supply chains, changes in the economic structure, and the pursuit of carbon neutrality.

Meanwhile, members saw that, amid some financial asset price adjustments due to expectations of domestic and overseas policy rate hikes, growth in household debt and housing prices had slowed somewhat due to regulations on household lending, but it was uncertain whether the current trend would become entrenched for an extended period of time, since financial conditions remained very accommodative.

Some members also stressed the need to analyze the effectiveness of government regulations on household loans, the relationship between deleveraging and financial market price variables, and the effects of monetary policy normalization in major countries on the Korean economy.

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

Ⅲ. Discussions Concerning Monetary Policy Decision (Summary)

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

Some members took the view that, in overall consideration of the domestic and international financial and economic environments, it would be desirable to raise the Base Rate to 1.00% from its current level of 0.75%, while one member argued that it would be appropriate to keep the Base Rate at the current level of 0.75%.

One member presented the view that it would be appropriate to raise the Base Rate to 1.00% from its current level of 0.75%.

Looking at the changes in domestic and external conditions since the previous MPB meeting, the member assessed that the global economy had been maintaining a relatively sound recovery and inflation had been accelerating.

As to the domestic economy, the member judged that, although the GDP growth rate had slowed in the third quarter, the impacts on the underlying trend of economic recovery had been limited, and went on to state that the forecast of a shift of the output gap to positive in the first half of next year appeared to remain valid. Most of all, the member forecast that the recovery of consumption would strengthen further, boosted by the relaxing of disease-control measures, and domestic production disruptions caused by supply chain bottlenecks would also ease compared to the third quarter. The member, however, argued that attention should be paid to uncertainties related to COVID-19 and other potential risk factors including a slowdown in Chinese economic growth and prolongation of global supply chain bottlenecks.

The member also pointed out that consumer price inflation had remained above the Bank's target since April and the diffusion index had continued to rise, noting that one-off, cyclical and structural factors had all contributed to this trend; accordingly, uncertainties surrounding the price path appeared high. The member expressed concerns that inflation resulting from global supply bottlenecks could be a transient phenomenon caused by production falling short of demand as the world emerged from the pandemic crisis, but the uptrend in inflation had been also attributable to cyclical factors, such as a strong recovery in demand-side conditions, and to structural factors including changes in consumption behavior, a shrinking labor force and the pursuit of carbon neutrality, and that therefore the possibility of prolonged inflation could not be ruled out. Furthermore, the member presented the view that, if the inflation increase had been caused by temporary supply shocks, attention should be paid to its impacts on the growth path in the short term, such as a decrease in real purchasing power, and that if inflation is prolonged, a close watch should be kept on its possible negative impacts on economic stability through interactions with inflation expectations, asset prices and wages over the medium- and long-term horizon. The member judged that accelerating inflation was an underlying trend, considering that the sharp rise in consumer price inflation in October had stemmed not only from one-off factors but also from prices of industrial products excluding petroleum products growing at their fastest pace month on month since the middle of 2017 and from service charges showing relatively rapid growth. The member also expressed concerns that, given the reflection of housing and leasehold deposit price surges in consumer price inflation with a time lag and exchange rate movements, inflation was highly likely to exceed the target for a considerable period of time.

The member, meanwhile, assessed that, although interest rates had risen and some risk asset prices had declined owing to inflation concerns and changes in monetary policy expectations at home and abroad, financial markets had remained generally stable, while financial vulnerability was estimated to have decreased slightly over the medium-term horizon with household lending and housing prices growing somewhat slowly. The member, however, presented the opinion that it was uncertain whether this trend would become entrenched, since financial conditions were very accommodative, potential demand for loans remained strong and profit-seeking tendencies continued. The member also argued that, since the loan-to-income ratio, the housing price-to-income ratio, and the gaps between these ratios and their long-term trends had increased significantly, monetary policy should continue to focus on the relevant risks.

Taking all this into consideration, the member took the view that it would be appropriate to raise the Base Rate to 1.00% from the current 0.75% at this meeting to further adjust the degree of monetary easing, and added that it would be advisable to closely monitor future COVID-19 developments, the effects of a possible prolongation of supply bottlenecks on the price and growth paths, and the risk of a buildup of financial imbalances.

Another member judged that it would be appropriate to make an upward adjustment of the Base Rate to 1.00% from the current 0.75%.

Despite the risks caused by concerns about a resurgence of COVID-19 in some countries and by a possible prolongation of global supply bottlenecks, the member expected the global economy to sustain its robust recovery overall, boosted by the economic recoveries in the US and the euro area and by the easing of slumps in emerging economies.

The member assessed that the domestic economy had sustained its favorable recovery led by a rapid rebound in private consumption and strong exports. Concerning inflation, the member noted that the CPI growth forecast for this year stood at 2.3%, up from the August forecast, and demand-side factors from economic recovery and supply bottlenecks were acting as upside risks. Looking at the FX and financial sectors, the member took the view that, despite a rise in interest rates due to expectations of monetary policy normalization at home and abroad, the situations in the FX and financial markets were not cause for major concern in terms of conditions for external borrowing, foreign currency liquidity management, and corporate funding.

Regarding the Base Rate decision, the member judged that there existed both upside and downside risks, such as the severity of the pandemic in winter at home and abroad, the timing of a resolution of global supply chain disruptions, and uncertainty surrounding the Chinese economy, but the following two aspects required particular attention.

First, the member noted the ongoing financial imbalance risks. The member mentioned that household debt growth seemed to have slowed slightly due to regulations on lending to households, but it was uncertain whether the growth would stabilize over a longer-term horizon. The member also pointed out that there was excessive liquidity in the financial markets, as seen in the real Base Rate falling short of the neutral interest rate and a surge in the money supply relative to its long-term trend. Taking all this into consideration, the member argued that, since both the pace and extent of growth in asset prices were too dangerous to be addressed solely by the micromotives of financial institutions and households, it would be necessary to pay close attention to potential risk factors threatening macroeconomic stability from various perspectives. The member saw that, in the midst of a credit-driven bubble in which both leverage and asset prices rise, the Base Rate would directly and indirectly affect lending and public expectations and contribute to reducing risks to financial stability.

Second, the member took notice of inflation risks. The member assessed that, in overall consideration of the number of items showing price increases, overseas factors including energy prices, the rise in core inflation, and inflation expectations exceeding 2%, inflation risks were increasing to the point that policy intervention was needed. Furthermore, the member added that it would be necessary to prepare against risks that could be formed by a combination of the above-mentioned excessive liquidity and supply constraints.

The member saw that, despite concerns about the possibility of a Base Rate hike slowing down economic recovery, the slowdown was unlikely to lead to a reversal of the recovery trend, considering the trend of recovery in domestic and overseas economies from the COVID-19 shock. The member stressed that the priority as of now should be placed on responding to excessive liquidity and emerging inflation risks. The member presented the view that, although the domestic economy was expected to sustain robust growth, a close watch should be kept on the evolution of the pandemic, the inflation trends at home and abroad, and monetary policy developments in major countries, and went on to state that, when reducing the amount of liquidity, more policy consideration should be devoted to minimizing the damage to people in real need of loans.

One member presented the view that it would be appropriate to keep the Base Rate at the current level of 0.75%.

The member's evaluation was that, although the global economy continued to improve, the pace of recovery was somewhat slowing except in the US where the recovery was accelerating led by consumption, and added that the Chinese economy in particular was growing at a slower pace. The member also argued that, despite the overall recovery in global goods demand, supply chain bottlenecks were unlikely to be resolved any time soon.

The member assessed that the domestic economy continued to recover and private consumption was picking up rapidly boosted by the rising vaccination rate, the easing of social-distancing measures and the implementation of the supplementary budget. The member however took the view that, despite the rapid recovery, the negative consumption gap remained wide due to the fact that consumption for the fourth quarter of this year would fall short of that during the fourth quarter of 2019. The member pointed out that consumption in the face-to-face services sector had rebounded significantly following acceleration of vaccination, but unless the recent resurgence of COVID-19 subsided, the strong recovery was unlikely to continue.

In terms of global inflation, the member noted that prices had been maintaining a sharp increase in most countries in line with the continued uptrend in energy prices. The member mentioned that consumer price inflation had remained above 2% since April this year, but the price growth had been attributable mostly to energy and food price rises. The member presented the view that the current high inflation was unlikely to last long, since core inflation had increased by only 1.6% over the 20 months since the outbreak of COVID-19 and the core inflation forecast for next year was 1.8%. The member added that the rebound in core inflation, which had remained low for the past several years, could be seen as natural reflation following the recovery in domestic demand. The member noted that, unlike in Korea, inflation had recently exceeded 6% in the US, which had been caused not only by supply chain bottlenecks but also by a massive fiscal injection leading to a rise in household income and consumption.

The member assessed that the number of persons employed in October had risen nearly to the level of February last year, boosted by a rebound in the face-to-face services sector and a recovery in employment. The member also mentioned that, according to the Household Income and Expenditure Survey by Statistics Korea, the monthly average household income for the third quarter grew by 8.0% year on year and earned income by 6.2%, and income showed even growth across all decile groups, indicating that the economic recovery was leading to household income growth. The member argued that production growth led by exports and the manufacturing sector had started to lead to a recovery in domestic demand and that there were significant changes in indicators which called for consideration of whether the future path of monetary policy should be adjusted.

The member, however, pointed out that, even if conditions for a Base Rate hike had been partly met, the steep rise in market interest rates over the past several months seemed concerning. The member stated that the 3-year Treasury yield had risen significantly in a short period of time and banks' household lending rates had become much higher than during the pre-COVID-19 period, and went on to express concerns that this could work to increase debt-servicing burdens and funding costs, ultimately limiting the real economic recovery. The member argued that, to ensure a smooth economic recovery, it would be important to encourage both expected and actual market interest rates to take a modest upward path, and emphasized that, in light of this, a strong financial and monetary tightening stance, in which upward Base Rate adjustment was combined with the total quantity control on household loans, did not seem to be an appropriate policy mix.

The member expressed the opinion that it would be necessary to examine whether there were any negative transmission channels at work since the August rate hike, that might be witnessed in widening credit spreads and rising delinquency and default rates. The member added that uncertainty regarding the recovery of domestic demand remained high with the number of confirmed cases soaring again recently, so an additional rate hike did not seem to be urgent in this regard.

Taking all these points into consideration, the member took the view that while it was true that the time had come to discuss adjusting the Base Rate, such decisions should be made carefully in consideration of latent factors increasing uncertainty surrounding the real economy, such as the resurgence of COVID-19 and global supply disruptions. The member assessed that income growth based on the revitalization of the economy was needed for economic agents to bear the burden of repaying debt that had increased during the pandemic, and went on to argue that in this respect it would be desirable to keep the Base Rate at its current level of 0.75% for the intermeeting period to induce market rate stability, adding that it would not be too late to determine a Base Rate adjustment once it became clear that a stable recovery of the domestic economy would be sustained.

Another member expressed the view that it would be desirable to raise the Base Rate to 1.00% from the current level of 0.75%.

The member projected that the global economy would maintain a trend of recovery next year as well, as the world returns to normal while living with COVID-19, and the recovery gap between advanced and emerging market economies would gradually narrow. However, the member presented the opinion that global inflation would inevitably rise rapidly for a considerable time, due not only to a time lag in supply and demand stemming from a demand recovery and supply bottlenecks, but also to structural factors including structural changes in the labor market, the pursuit of global carbon neutrality, and weakening global supply chains. The member added that the number of central banks pursuing monetary policy normalization had been increasing in response to the aforementioned economic recovery and rising prices.

The member presented the opinion that, given the solid recoveries in exports and private consumption, the Research Department's projections of economic growth of 4% this year and 3% next year appeared to be generally appropriate. The member noted that the consumer price inflation forecast for next year had been revised upward to over 2% and the forecast for core inflation with administered items excluded to the lower-2% level for next year, following similar figures this year. The member saw upside risks to these forecasts given the increase in the number of items with rising prices and the rise in inflation expectations. The member presented the opinion that, in the financial market, although the trend of increase in housing sales prices and the trend of growth in household lending had moderated somewhat, this appeared to be attributable to the direct impact of tighter lending regulations on the financial sector. The member went on to note that household lending could expand again, as expectations for housing price increases and the gap between housing supply and demand were persisting. Taking all of this into consideration, the member judged that it would be desirable to reduce the degree of monetary policy accommodation from the perspectives of growth, inflation, and financial stability, and thus expressed the opinion that it would be appropriate to raise the Base Rate by an additional 0.25%p at the current meeting.

Regarding additional adjustment to the degree of monetary policy accommodation in the future, the member presented the view that the Board should make the decision while thoroughly assessing growth and inflation conditions, and improvement in financial imbalances. The member pointed out that, although the output gap was expected to shift into positive territory early next year as GDP growth would exceed its potential level going forward, there still remained downside risks. The member noted that lessons learned from earlier in the pandemic and a shift in disease control policy measures would support recovery in private consumption, but there still remained risks such as a possibility of disease control measures being tightened in line with the resurgence of the pandemic in winter, and a decline in real purchasing power following price rises. The member saw that favorable conditions for investment and exports were likely to continue, thanks to domestic and overseas economic recoveries. However, the member expressed the opinion that there would be a need to prepare for a possible decline in incentives for corporations to make domestic investment and even a possible weakening of global supply chains, as disruptions affecting production and shipping in key industries were persisting for a long time. Concerning prices, the member presented the view that policy efforts to prevent inflation expectations from rising appeared to be important, as macroeconomic variables, including the output gap, wages, overseas inflation and exchange rates, were all working to increase prices. Meanwhile, the member raised the concern that, although investment in risky assets and household lending growth had weakened somewhat of late, there was a long way to go before conditions related to financial imbalances would improve, given Korea's still-high housing price-to-income and household debt-to-GDP ratios. The member emphasized that efforts to normalize funding costs and policy cooperation among the relevant authorities should be strengthened. The member added that these policy efforts were expected to contribute to promoting stable growth in the medium to long term by addressing asset imbalances, which had widened during the pandemic.

To sum up, the member argued that there still was a great need to further reduce the degree of monetary policy accommodation going forward from the perspectives of macroeconomic conditions and financial stability. The member also noted that the Board should decide when to make an additional adjustment to monetary accommodation, while reviewing the transmission effects of the Base Rate hikes, the developments and impacts of the pandemic, and growth and inflation conditions, while carefully monitoring improvements in financial imbalances at the same time.

One member expressed the view that it would be desirable to raise the Base Rate to 1.00% from the current level of 0.75%.

The member judged that the domestic economy was continuing its solid recovery, as exports were sustaining a trend of substantial increase, private consumption was rebounding rapidly due to expanded COVID-19 vaccinations, relaxed disease control measures, and relief payments from the government, and employment conditions were continuing to improve with the number of persons employed soaring particularly in the services industries. The member expected the domestic economy to continue sound growth going forward, bolstered by sustained buoyancy in exports and a stronger recovery in private consumption. Although there were still uncertainties related to COVID-19, the member anticipated that exports and investment at home would increase, as economic activity would normalize in major economies and trends of economic recovery would be sustained given high vaccination rates, a decline in the fatality rate, and the development of oral COVID-19 medicines. The member also expected the trend of recovery in consumption to strengthen gradually, influenced by a gradual return to normal daily life. The member noted that, taking these points into consideration, the Research Department forecast GDP growth for this year and next year to be at the 4% and 3% levels, respectively, unchanged from the August projections.

Concerning prices, the member assessed that consumer price inflation would run well above the path projected in August and remain high at around 3% for several months, and the annual rate of inflation would run in the 2% range next year as well. The member expected core inflation to rise to the upper-1% level next year from the lower-1% level this year, affected by increased demand-side upward pressures in line with a normalization of economic activity. The member saw that, if global supply bottlenecks and a higher rise in global commodity prices persisted longer than expected, inflationary pressures could build up further. Meanwhile, the member noted that the high rise in housing prices had slowed slightly of late, and home buying sentiment and expectations for a rise in housing prices had declined somewhat.

Looking at financial markets, the member noted that the excessive search for yield which had been more evident this year had weakened somewhat with market interest rates increasing, stock prices falling and household lending growth slowing. The member judged that this was attributable to rises in lending rates in line with expectations for domestic and overseas policy rate hikes and the government's regulations on total loan amount. However, the member assessed that financial conditions were still very accommodative given high growth in monetary aggregates and leverage was still increasing.

The member expressed the opinion that, taking these points into overall consideration, it would be necessary to continue to reduce the degree of monetary policy accommodation. The member assessed that the downside risks to the economy stemming from an increase in the number of new coronavirus infections were limited, while the upside risks to prices following supply bottlenecks appeared to be very high. The member commented that the risks posed by the buildup in financial imbalances called for vigilance. The member noted that, most importantly, if household and corporate leverage continued to increase, policy conditions would worsen, which would inevitably lead to larger policy adjustments. The member also saw that a rapid shift in monetary policy stances in the US and other major economies caused by higher inflation would be very likely to increase market volatility rapidly, and expressed the opinion that increased leverage was making the domestic economy more vulnerable to these external shocks.

The member thus argued that it would be desirable to raise the Base Rate to 1.00% from the current level of 0.75% for the intermeeting period, and judge when to further adjust the degree of accommodation, while thoroughly assessing future developments of growth and inflation, and conditions related to financial imbalances, given ongoing uncertainties related to COVID-19. Meanwhile, the member added that support for vulnerable sectors, including the self-employed hit hard by the pandemic, should continue through the use of the Bank Intermediated Lending Support Facility and other selective policy instruments.

Another member expressed the view that it would be desirable to raise the Base Rate to 1.00% from the current level of 0.75%.

The member saw that the global economy was continuing its recovery overall, although the momentum of recovery was slowing somewhat, affected by supply disruptions. The member noted that price inflation had increased in most countries, due to global supply bottlenecks and demand-pulled pressures, and there were growing concerns about the possibility of inflation persisting for a long time.

The member assessed that the domestic economy was maintaining its recovery as originally forecast, thanks to recovery in consumption in line with a gradual shift in the disease control framework. The member noted that private consumption continued to show a trend of recovery, bolstered by increased consumption related to outdoor activities, despite sluggish sales of passenger cars stemming from disruptions in the supply of semiconductors for vehicles. However, the member saw that manufacturing production and facilities investment had undergone some degree of adjustment, affected by global supply disruptions, and construction investment was sluggish due to a surge in prices of construction materials and a delay in supply. The member added that exports continued to grow based on favorable external demand, and employment was approaching the pre-pandemic level thanks to a steady increase in the number of persons employed.

The member expected consumer price inflation for this year to reach about 2.3%, as consumer price inflation was increasing due to rising international oil prices and commodity prices and a base effect, and core inflation had also risen steeply. The member saw that consumer price inflation would generally near the inflation target (2%) next year, as factors causing difficulties in global supply would ease and oil and commodity prices would stabilize. However, the member raised the concern that the number of upside risks to inflation did not appear to be small, given the possibility of corporations' pass-through of production costs to prices and the trend of inflation expectations. The member expressed the opinion that it would be necessary to bear in mind that there would not be a feedback loop of a steep rise in inflation expectations by the general public leading to wage increases. The member added that the impacts of gradual changes in the global economic structure on future inflation should be analyzed and observed.

The member noted that, in the global financial markets, the volatility of government bond yields had increased and the US dollar had strengthened, affected by concerns over the prospect of prolonged global inflation and changes in expectations about monetary policy in major countries. The member assessed that the domestic financial market had been stable overall, household lending had shown slower growth due to continued regulations on total loan amount and rising lending rates, and corporate lending had sustained strong growth. Meanwhile, the member added that sustained high rates of growth in various liquidity indicators including M2 implied that financial conditions were still very accommodative.

The member saw that uncertainties related to the spread of the pandemic would remain high for some time, but the domestic economy would continue its solid recovery going forward, thanks to gradual improvements in factors causing supply disruptions and further solid growth in pent-up private consumption.

The member judged that, in overall consideration of the domestic and international economic trends, it would be appropriate to raise the Base Rate to 1.00% from 0.75% at this meeting, as had been mentioned in the October meeting.

The member expressed the opinion that, in line with the trend of economic recovery, a gradual normalization of the unprecedented monetary policy accommodation adopted in response to the COVID-19 shock in the first quarter of last year would be helpful to lay a foundation for sustainable economic growth. The member added that the path of monetary policy normalization as communicated to the market by the Bank of Korea since May this year had already been reflected in market prices, and thus for the moment there was no reason for the Bank of Korea to move differently from those market expectations. The member noted that since the real Base Rate level had decreased compared to this spring due to higher inflation expectations, the need to adjust the degree of monetary policy accommodation had increased further.

The member emphasized that under the present circumstances in which adjustments to accommodative monetary policy were expected to continue globally, it would also be necessary to monitor the possibility that the domestic economy could be negatively affected in the medium term by US-China disputes as well as tighter regulations on corporations and slowed real estate market activity in China.

The member expressed the opinion that it would be necessary to continue to adjust the accommodative monetary policy stance to steer the Base Rate close to the neutral interest rate, while closely monitoring economic recovery, price developments, and financial market conditions in the future.

Ⅳ. Results of Deliberation on Monetary Policy Directions

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

However, Dr. Joo, Sangyong expressed clear opposition to raising the Base Rate by 0.25 percentage points and argued for keeping it at its 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 0.75% to 1.00%.

□ Currently available information suggests that the global economy has continued to recover despite the spread of COVID-19 variants, supported by accelerated vaccinations and the relaxation of restrictions on economic activity in major countries. In global financial markets, the volatility of government bond yields has increased and the US dollar has strengthened, affected by concerns over the prospect of prolonged global inflation and changes in expectations about monetary policy in major countries. Stock prices, especially in advanced economies, have risen, mainly driven by favorable corporate performances. Looking ahead, the Board sees global economic growth and global financial markets as likely to be affected largely by the severity of the resurgence of COVID-19 and the status of vaccine distribution, as well as by global inflation movements and monetary policy changes in major countries.

☐ The Korean economy has continued its sound recovery. Although facilities investment has somewhat slowed due to global supply constraints, exports have sustained their buoyancy and private consumption has shown rapid improvement supported by accelerated vaccinations and the easing of domestic COVID-19 restrictions. Labor market conditions have continued to improve, with a sustained year-on-year increase in the number of persons employed. Going forward, the improvement of private consumption is likely to strengthen, while exports and investment are expected to sustain favorable movements. GDP growth is projected to be around 4% in 2021 and around 3% in 2022, consistent with the forecast in August.

☐ Consumer price inflation has risen to the lower-3% level due to the accelerating increase in the prices of petroleum products and the base effect from the decline in the prices of public services last year. 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 increased to the upper-2% level. Looking ahead, it is forecast that consumer price inflation will run considerably above 2%, exceeding the path projected in August, and then decline gradually, running at around 2% for 2022 as a whole. Core inflation is forecast to increase to the upper-1% level.

☐ In domestic financial markets, the Korean Treasury bond yield has increased, especially the 3-year yield, due to heightened expectations for monetary policy normalization at home and abroad. Stock prices have risen slightly, affected by stock price movements in major countries, and the Korean won to US dollar exchange rate has fallen. The amount of increase in household loans has lessened somewhat, and housing prices have continued to increase rapidly 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, changes in the pace of growth and inflation, the risk of a buildup of financial imbalances, and monetary policy changes in major countries.