Minutes of the Monetary Policy Board Meeting

April 2022

Bank of Korea

(English version)

Minutes of the Monetary Policy Board Meeting[1)]

(April 2022)

Ⅰ. Outline

1. Date of meeting: Thursday, April 14, 2022

2. Place: Monetary Policy Board Meeting Room

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

4. Monetary Policy Board members absent: none

5. Participants:
   Lee, Hwan Seok, Deputy Governor
   Bae, Joon Suk, 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 *Recent Economic Developments* (April 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 sluggishness in facilities and construction investment, the domestic economy was continuing its sound recovery, led by a modest improvement in private consumption following the easing of COVID-19 restrictions, as well as by buoyant exports in line with robust global demand. In addition, members stated that labor market conditions had continued to improve, with the number of persons employed surging and the unemployment rate falling.

In terms of inflation, members assessed upside risks to inflation as having increased greatly, with inflationary pressure expanding into a wide range of items, and the Ukraine crisis working as additional upward pressure, expecting inflation to remain above the target for a considerable period of time going forward. Some members expressed the need to take preemptive measures to ensure stable management of inflation expectations, while keeping a close watch on the possibility of persistent inflation affected by cumulative supply-side and demand-side inflationary factors, and on second-round effects leading to wage increases. In addition, some members expressed the view that there would be a need to monitor the impacts on prices of structural factors, such as the restructuring of global value chains, as well as cyclical factors.

Meanwhile, members assessed that volatility in price indices of financial assets had heightened, owing chiefly to heightened uncertainties stemming from monetary policy changes at home and abroad and the prolongation of geopolitical risks. Some members mentioned that, despite slowed growth in household lending, financial conditions still remained accommodative, with credit to the corporate sector exhibiting a sharp increase and financial institutions easing their lending attitudes, and, taking these points into account, it would be necessary to pay attention to the risk of financial imbalances.

Some members also stressed the need to pay close attention to soundness changes in the external sector, such as capital flows associated with heightened volatility in the foreign exchange and international financial markets in the future.

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2) An English version of *Recent Economic Developments* 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:

All members took the view that, in overall consideration of the domestic and international financial and economic situations, it would be desirable to raise the Base Rate from 1.25% to 1.50%.

One member took the view that it would be desirable to raise the Base Rate from its current level of 1.25% to 1.50%.

The member judged that the domestic economy had been continuing its steady growth of late, despite heightened external uncertainties caused by the Ukraine crisis. The member noted that, although facilities investment was undergoing a correction, exports were sustaining strong growth, thanks to the robust global demand for goods. The member stated that private consumption was returning to the path of recovery, supported by the relaxing of disease control measures, after slowing under the effects of a more severe spread of COVID-19 in the country. On the employment front, the member added that there had been clear improvements in employment conditions, thanks to a sustained trend of significant increase in the number of persons employed and a sharp fall in the unemployment rate.

The member expected the domestic economy to show growth falling somewhat short of the path forecast in February, but saw that growth in the upper 2% range still exceeding the potential level would be possible going forward, led by strong exports and private consumption recovery. The member noted that the Ukraine crisis and China's zero-COVID policy might work to constrain global economic recovery mainly on the supply side, but exports and investment would maintain favorable growth, since global demand for goods was expected to remain solid. The member expected consumption to rapidly return to recovery, as the spread of COVID-19 in the country had passed the peak and was gradually stabilizing, and income conditions were improving on the back of favorable labor conditions. However, the member expressed the need to carefully monitor factors acting to increase uncertainties concerning the ~~future~~ growth path at home, including acceleration of monetary policy normalization in major economies, the prolonged Ukraine crisis, and a possible economic growth slowdown in China.

With respect to inflation, the member noted that with upward pressures increasing, consumer price inflation had exceeded 4% of late, and core inflation had risen to a level close to 3%. The member expected consumer price inflation to far exceed the path projected in February, as impacts of rises in commodity prices and global supply disruptions, the two factors working to increase prices since the second half of last year, had grown since the outbreak of the Ukraine crisis. The member noted that, accordingly, inflation expectations of the general public had been nearing 3% of late, and raised concern about the possibility of second-round effects of the consequent interaction between prices and inflation expectations materializing in full. The member stated that domestic prices were heavily influenced by the external sector, and argued that at the base of the recent global high inflation there were not only supply-side factors but also demand pressures exceeding the potential level stemming from the expansionary policy operations. The member added that unless these upward inflationary pressures disappeared, global inflation could remain high for a long time.

Looking at financial conditions, the member evaluated that volatility had increased considerably, as market interest rates were rising significantly on changes in expectations for monetary policy at home and abroad and stock prices had been sensitive to changes in the international political landscape. The member noted in particular that the Korean won to US dollar exchange rate had risen significantly, driven by the strong dollar trend, influenced by preference for safe haven assets stemming from escalating geopolitical risks, as well as by expectations of an acceleration of monetary policy normalization by the Federal Reseve. Meanwhile, the member noted that, while the risk of financial imbalances related to domestic household debt was easing gradually, banks had been gradually relaxing their lending attitudes of late. The member thus added that it would be necessary to observe a little longer to see whether these trends would continue. The member judged overall financial conditions to still remain accommodative, as the M2 growth rate was remaining high exceeding 10% due to the continued supply of credit to the corporate sector in particular, although it had declined slightly due to a base effect. The member pointed out the possibility that there could have been a significant buildup of funds provision which failed to properly reflect credit risk in the course of providing financial support to corporations and small business owners, and presented the opinion that special attention should be paid to the point that this could work as another destabilizing factor on the financial stability side going forward.

The member judged that, in overall consideration of domestic economic growth, inflation and financial conditions, it would be necessary to steadily reduce the degree of monetary policy accommodation. The member evaluated that, despite heightened external uncertainties, the economy was expected to maintain a growth trend above the potential level for some time, while upward inflationary pressures had increased further of late and there would be an increasing possibility of much clearer second-round effects through inflation expectations. The member noted that the recently heightened upward pressures on wages and the gradual spread of the uptrend in prices from commodities to final goods and service charges were suggesting that such concerns were materializing to some extent. The member added that it would be necessary to keep in mind that the recent rise in the Korean won to US dollar exchange rate was acting as an additional upward pressure on domestic prices through import prices. The member saw that, against this backdrop, it would be very important to stabilize inflation expectations by maintaining the current preemptive monetary policy stance in a consistent manner and communicating clear policy intentions to economic agents, and this policy response would serve as a foundation for macroeconomic stability in the medium to long term.

On the financial stability side, the member stressed the need to prepare against possible volatility shocks in the international financial market that might occur during the course of steep monetary policy normalization in major economies, by inducing economic agents to adjust excessively heightened leverage in an orderly manner and making the financial market more resilient.

The member thus presented the view that it would be better to raise the Base Rate from its current level of 1.25% to 1.50% at this meeting.

The member stated that the Board should judge when to further adjust the degree of accommodation while thoroughly assessing developments related to uncertainties such as monetary policy normalization in major economies and the impacts from the Ukraine crisis. The member went on to express the opinion that, absent any major changes in such circumstances, the Board should preemptively reduce the degree of accommodation in a consistent manner, while putting the top priority on ensuring stability in inflation expectations.

Another member judged that it would be appropriate to make an upward adjustment of the Base Rate to 1.50% from the current 1.25%.

The member evaluated that uncertainties had grown again, due to the combination of shocks such as the recent Ukraine-Russia War, economic slowdown in China, and monetary policy normalization in major economies, although the world economy was gradually emerging from a health crisis that had persisted for the past two years. The member saw that such shocks would likely have only limited impacts on growth during the course of world economic recovery, but expected the extent and duration of global inflation to increase further, due to rising international commodity prices and worsening global supply chain disruptions.

The member evaluated that, despite somewhat sluggish facilities and construction investment affected by supply disruptions, the domestic economy was making a soft landing, thanks to the ongoing decoupling between private consumption and the pandemic situation, and to a sustained solid recovery in exports. The member expected the positive GDP gap to widen gradually after the second quarter, as the economy would continue to show growth exceeding its potential level. However, the member saw that consumer price inflation and core inflation were running at 4.1% and 2.9%, respectively, in March, well above the target of 2%, and saw these patterns as unlikely to reverse to a trend of price stabilization in a short period of time. The member noted that the surge in inflation was highly likely to act as a downside risk to growth through a decline in real purchasing power, an increase in production costs, and heightened economic uncertainties.

The member evaluated that, when comparing the recent period of inflation with periods of supply shocks, such as the commodity supercycle in the mid-2000s and the period of political unrest in the Middle East in the early 2010s, the increase in commodity prices was larger and compounded by demand-side upward inflationary pressures. The member stated that, contrary to the past periods, core inflation had risen sharply and the diffusion index for consumer prices remained high, clearly showing second-round effects. The member added that accordingly there was a lot of concern that high inflation could persist. The member noted that, most importantly, prices and wages were showing a clearer correlation due to the rapid pace of rise in nominal wages since last year and keen attention was being paid in this regard.

Meanwhile, the member evaluated that the slowing of household debt and housing price growth since the beginning of this year was largely attributable to tighter regulations, and that the continued high growth in market liquidity and the sustained accumulation of stand-by funds by financial institutions were factors making the Board stay vigilant from the perspective of financial imbalances.

Given economic, inflation and financial conditions of late, the member judged that it would be appropriate to raise the Base Rate at this meeting. The member saw that inflationary pressures of late were greatly attributable to supply shocks. However, the member pointed out that, contrary to the past, there was a large trade-off between growth and inflation due mainly to recovery in demand at home and abroad. The member thus evaluated that the benefits of suppressed inflation from a Base Rate hike would outweigh the cost of slower growth. The member raised concern about increased burdens of household debt repayment resulting from a Base Rate hike, but expected the improvement in household income so far and the lengthening of loan maturities to work to ease the actual repayment burdens.

Given that the rapid decline in real interest rates of late had made them deviate more widely from the neutral interest rate, the member presented the view that the Board should move toward reducing the accommodative stance in its conduct of monetary policy going forward. However, the member expressed the need to determine the time and pace of an additional Base Rate hike depending on developments in economic and financial conditions. The member added that uncertainties surrounding the price path remained high in the short term, and there were upward inflationary pressures from energy conversion and contracted global supply chains, as well as downward pressures from population aging, debt growth and technological innovation from a long-term perspective. The member thus saw the need to thoroughly review the relevant developments going forward. Meanwhile, the member noted that debt risk for vulnerable households could increase, affected by a Base Rate hike and tighter regulations including debt service ratio (DSR) rules differentiated by borrower. The member thus added that it would be necessary to continuously monitor the relevant risks, while stepping up policy efforts to improve the qualitative structure of debt.

One member judged that it would be appropriate to raise the Base Rate from 1.25% to 1.50%.

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 underlying recovery trend, despite combined developments of various risk factors. However, the member noted that with inflation increasing rapidly, the recovery momentum was weakening and economic uncertainties had heightened in most countries including Korea. The member stressed that factors such as growing geopolitical risks from the Russian invasion of Ukraine, the spread of the Omicron variant in the Asian region, and the Chinese government's "zero-COVID" policy could not only directly limit economic growth, but also lead to rising production costs and a decrease in real purchasing power through inflationary pressures caused by supply disruptions, and thus have greatly expanded negative spillover effects.

Against this backdrop, the member noted the following factors that were considered in making the monetary policy decision. First, the member evaluated that inflation expectations were continuing to spread as the trend of inflation far exceeding the target had become more likely to persist for a long time. The member stated that the impacts on prices of geopolitical risks and disease control measures tended of course to be mostly temporary, limiting their implications for monetary policy. However, the member commented that the pressures on domestic inflation had broadly increased as recent supply shock had occurred in the midst of already prolonged rises in international commodity prices and it was combined with the depreciation of the won stemming from the spread of global risk aversion. The member added that the interaction from wages to prices through a rise in inflation expectations could already have begun, as second-round effects into other items were materializing in full due to the combined effects of cyclical and structural factors, employment conditions were recovering, and the pace of wage increases was accelerating in some industries of late.

Second, the member judged that, although downside risks to growth were growing, they had not yet been undermining the underlying recovery. The member saw that exports and manufacturing production remained relatively robust, while economic recovery had slowed, particularly in private consumption, due to the rapid spread of Omicron in the first quarter. The member evaluated that private consumption was showing a sign of renewed improvement, albeit modest, bolstered by the relaxing of disease control measures, and the partial slowing of the spread of COVID-19, although recent supply chain disruptions and the heightened possibility of global economic slowdown were exerting a drag on the outlook for exports. The member thus judged that the trend of recovery exceeding the potential growth rate would likely to continue this year, as in the previous year, while the output gap was likely to shift into positive territory not much later than the originally forecast.

Third, the member evaluated that, despite the three Base Rate hikes since August last year, monetary policy still remained accommodative. The member estimated that, although financial conditions had become less accommodative, due to a steep rise in market interest rates entering this year, the real Base Rate had fallen below the average for last year and was running considerably below the neutral interest rate.

Finally, in terms of financial stability, the member assessed that growth in household lending and housing prices had slowed since the second half of last year, but continued caution about the risk of a buildup of financial imbalances was required. The member mentioned that destabilizing factors remained, as the household debt-to-income ratio and housing price-to-income ratio continued to be above their long-term trends and higher than those of major countries due to the accumulation of leverage, while financial institutions had somewhat eased their lending attitudes, and housing price sentiment had stopped declining recently amid ample market liquidity. Furthermore, the member expressed the view that, since the FX sector could remain highly volatile and work to destabilize financial markets for some time due to changes in expectations of major country monetary policies, external soundness should be a matter of policy concern as well.

Taking all this into consideration, the member evaluated that it would be appropriate to raise the Base Rate to 1.50% from the current 1.25% at this meeting. The member argued that, despite concerns about the fact that downside risks to growth and upside risks to inflation had been growing at the same time at home and abroad, stabilizing inflation expectations and curbing the risk of a buildup of financial imbalances through continued effort to return to a neutral monetary policy stance was a choice that would meet policy objectives over the medium- and long-term horizon, considering growth would likely continue to exceed its potential level. The member also noted that, keeping in mind that credit risk of vulnerable sectors could increase in the course of monetary policy normalization, it would be necessary to manage related risks preemptively through coordination with fiscal and financial policies.

Another member judged that it would be appropriate to raise the Base Rate to 1.50% from the current 1.25% at this meeting.

The member assessed that, although the global economic recovery had slowed somewhat affected by the Ukraine crisis, the US economy had maintained strong growth in terms of employment and consumption and global trade had also sustained modest growth.

Concerning the domestic economy, the member noted that the number of persons employed remained on a sharp rise and exports continued to be strong, while the recovery in facilities and construction investment had been delayed due to supply-side factors. The member added that private consumption had been also returning to the path of recovery since March, as people had been adapting to the pandemic situation. With regard to the FX and financial sectors, the member assessed that the domestic financial system remained sound while major economic variables had become more volatile due to common uncertainties at home and abroad such as geopolitical risks, the monetary policy directions of major countries, and pandemic-related developments.

The member stressed that the top consideration in the current Base Rate decision was movements of inflation variables. The member mentioned that consumer price inflation had stood at 4.1% in March, exceeding 4% for the first time since 2011, and that core inflation had also reached 2.9%. The member added that, although the long-term inflation expectations of an expert group had not yet deviated far from the inflation target, the short-term inflation expectations of the general public had risen to 2.9%.

The member noted that uncertainties remained with regard to the depth and duration of the shock from Russia’s invasion of Ukraine, which had begun on the day of the

BOK’s February MPB meeting. The member mentioned that, looking at its impact on the economy so far, the invasion had put downward pressures on the real economy, although these repurcussions were not as large as expected and uncertainties were high, but the invasion had put massive and conspicuous upward pressures on inflation. The member noted that, since a rise in commodity prices does not spread to import prices, producer prices and then to consumer prices with a time lag but rather commodity prices move in concert with other prices, a surge in energy and grain prices was spreading rapidly to domestic prices, and a rise in grain prices in particular could have a long-term effect. The member added that a growing number of core and non-core inflation items had all been exhibiting growth of 2% or higher. The member assessed that, with these factors taken into account, consumer price inflation was forecast to remain in the 4% range for the time being and consumer price inflation for the year as a whole was likely to exceed the February forecast of 3.1%.

The member mentioned that a close watch should be kept not only on the above-mentioned spread but also on the possibility of a secondary effect in which inflation leads to a rise in wages. The member evaluated that special payments had contributed most to wage increases during 2021, but toward the end of the year, regular payments, which tend to be persistent, had made an increasingly large contribution and the trend of wage growth had been spreading to various industries. The member noted that in this situation most indicators that affect wages had returned to their pre-pandemic levels, including inflation expectations and the job vacancy rate, as well as the employment rate, jobless claims and working hours that indicate slack in the labor market. The member presented the view that this could mean a recovery in the real economy but could also lead to wage increases, causing further rises in prices of some items such as personal services.

The member mentioned that a rise in market interest rates following a Base Rate hike could limit the momentum of economic recovery. The member however emphasized that both historical experience and economic theory indicate that stabilizing inflation expectations is essential in responding to negative price shocks and that the monetary authorities should send a clear signal in this regard. The member noted that, even if raised this time, the Base Rate would remain accommodative relative to real economic conditions. The member added that a Base Rate hike also remained crucial in a scenario in which the growth forecast had been adjusted downward and the inflation forecast upward in reflection of the Ukraine crisis. The member assessed that the real economy would be able to endure a Base Rate hike given the positive effects that future easing of disease-control measures would have on private consumption and employment. The member argued that with all this taken into consideration it would be advisable for now to deal with the more obvious and conspicuous risk of inflation.

The member stated that particular attention should be kept to price-related variables in determining the monetary policy stance but macro-prudence also required special attention. The member mentioned that, on the domestic front, attention should be paid to financial imbalances arising from the housing market. The member's evaluation was that the housing market had been gradually stabilizing recently, with lending to households decreasing slightly and housing prices and leasehold deposits declining slightly as well. The member added that Base Rate increases had been working to curb demand for loans due to rising costs. In quantitative terms, however, the member noted that there remained a possibility of a rise in lending to households, led by leasehold deposit loans. The member also mentioned that there were incentives for financial institutions to expand lending since the rate of growth in household lending was below the annual administered target. The member stressed the need to keep a close watch on future developments of lending and housing prices in this context and went on to emphasize that it would be necessary to carefully monitor any yield-seeking behavior.

Concerning macro-prudence in the external sector, the member mentioned that, looking back at previous experiences, attention should be paid to sudden changes in capital flows and the exchange rate. The member assessed that foreign reserves were currently abundant, the short-term external debt ratio was relatively low, the banking sector was maintaining a favorable level of soundness, and the correlation coefficient of flows of funds for bond investment in Korea and emerging market countries had decreased, all of which could be seen as positive factors. The member however noted that risk factors also existed, such as the prolongation of geopolitical risks and potential shocks that could arise over the course of monetary policy normalization in advanced economies. The member also expressed the opinion that there was a need to prepare for a weakening of China's growth due to its stronger measures against COVID-19 and the impact of possible monetary easing in response.

One member took the view that it would be appropriate to raise the Base Rate to 1.50% from the current 1.25% at this meeting.

Concerning the global economy, the member judged that the recovery of growth had been slower than previously expected and the uptrend in prices had been accelerating. The member mentioned that this was attributable to the worsening of trade and supply disruptions due to the Russia-Ukraine war, amid the growing pressure for major central banks to normalize their accommodative monetary policy stance with supply bottlenecks and a strong recovery in demand since the pandemic leading to further inflation.

Regarding the domestic economy, the member assessed prices as rising at a faster pace than previously forecast. The member noted that, in the underlying inflation situation in which inflationary pressure was expanding into a wide range of items, global oil and commodity prices were acting as further upward pressures on prices due to the Ukraine crisis, and went on to state that inflation expectations had already risen close to 3%.

The member expected that the domestic economic growth forecast for this year would be lowered somewhat from the previous forecast (3.0%) due to the slow recovery during the first quarter, but the economy would sustain its sound recovery later on, boosted by improvements in consumption and strong exports. As to private consumption, the member mentioned that, although hit by a surge in virus infections and quarantines, the mobility index and the amount of credit card usage had improved since mid-March, and went on to argue that, boosted by favorable household income conditions, private consumption was likely to sustain its recovery in line with a gradual return to everyday life, led by face-to-face consumption such as leisure activities. The member stated that a recovery in facilities investment was limited by global supply disruptions and anticipated that a recovery in construction investment would be delayed longer than originally expected owing to a delay in material supply. The member assessed that exports would maintain favorable growth based on strong demand from major economies. The member noted that employment continued to improve, with the number of persons employed rising significantly and the unemployment rate declining, and that upward pressures on wages seemed to be strengthening gradually.

With regard to the financial markets, the member noted that Treasury bond yields had risen significantly, affected by the Federal Reserve's recent monetary policy decision. The member mentioned that credit to the corporate sector had been exhibiting strong growth and financial institutions' lending attitudes had been easing, while banks' lending to households continued to slow. The member evaluated that significantly negative short-term real interest rates and the continued strong growth in market liquidity suggested that financial conditions remained accommodative.

The member assessed that the most-watched aspect of recent domestic and overseas economic developments was the escalating inflation and its sustainability. The member judged that the sharp rise in inflation at home and abroad since the middle of last year had been attributable mainly to supply-side factors, but a surge in liquidity and increased demand in line with accommodative monetary and fiscal policies had been also responsible. The member presented the view that, given the additional and sustainable impact on price conditions of structural dynamics at this turning point of the global economy, such as changes in the geopolitical environment including the emergence of a new cold war, demographic change, a reorganization of global value chains, changes in investment and trade patterns, and climate change, attention should be paid to the possibility of the underlying inflationary pressure that had been spreading so far becoming more than a transitory phenomenon. The member mentioned that inflation expectations of the general public had been growing recently along with the continued uptrend in prices, and went on to state that in order to prevent this from imposing an additional burden on the future path of the domestic economy and also on monetary policy options, preemptive measures needed to be taken for stable management of inflation expectations. The member also assessed that the Federal Reseve could normalize its monetary policy faster and to a greater extent than expected a couple of months earlier, and in this regard attention should be paid to consequent potential pressures from the FX sector and possible restriction on domestic monetary policy. The member also stressed the need to ensure monetary policy space in advance to respond more effectively to changes in the domestic economic situation.

Taking all this into comprehensive consideration, the member presented the view that it would be appropriate to raise the Base Rate to 1.50% from the current 1.25% at this meeting. The member expected that a Base Rate hike was unlikely to limit the momentum of economic recovery as the spread of the pandemic slows and disease-control measures are eased gradually.

Concerning the future monetary policy direction, the member noted that it would be necessary to further adjust the degree of monetary easing at an appropriate pace while closely monitoring changes in economic and price conditions at home and abroad, whether inflation expectations are firmly anchored, and financial stability conditions.

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 1.25% to 1.50%.

☐ Currently available information suggests that inflation has accelerated while the recovery of the global economy has somewhat moderated, affected by the Ukraine crisis. In global financial markets, government bond yields in major countries have risen sharply and the US dollar has strengthened, mainly due to changes in expectations about the pace of the US Federal Reserve's policy normalization. Stock prices have rebounded after a considerable decline. Looking ahead, the Board expects that the global economy will resume its trend of recovery, supported by the easing of COVID-19 restrictions in major countries, but sees it 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. Exports have sustained their buoyancy while facilities investment has slowed due to global supply constraints. Private consumption has recently shown modest improvement thanks to the easing of domestic COVID-19 restrictions, after having moderated. Labor market conditions have continued to improve, with the year-on-year increase in the number of persons employed remaining high. Going forward, the economy is likely to sustain its recovery albeit partly affected by the Ukraine crisis, as exports are expected to continue their solid trend of growth while private consumption is likely to improve. GDP growth this year is projected to be somewhat below the February forecast of 3%.

☐ Consumer price inflation has risen significantly to the lower-4% level due to soaring prices of petroleum products as well as the accelerating increase in the prices of industrial products and personal services. Core inflation (excluding changes in food and energy prices from the CPI) and the inflation expectations of the general public have increased to the upper-2% level. Looking ahead, it is forecast that consumer price inflation will remain high in the 4% range for some time, and run substantially above the February forecast of 3.1% for the year overall. Core inflation is forecast to remain around 3% for a considerable time.

☐ In domestic financial markets, long-term market interest rates and the Korean won to US dollar exchange rate have risen significantly while stock prices have fluctuated considerably, mainly driven by global financial market movements. Household loans have decreased slightly and housing prices have fallen slightly, especially in the Seoul metropolitan area.

☐ 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 recovery and inflation to run above the target level for a considerable time, despite underlying uncertainties in domestic and external conditions. 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, monetary policy changes in major countries, geopolitical risks, and the trends of growth and inflation.