Minutes of the Monetary Policy Board Meeting

January 2022

Bank of Korea

(English version)

Minutes of the Monetary Policy Board Meeting[1)]

(January 2022)

Ⅰ. Outline

1. Date of meeting: Friday, January 14, 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
   Sung, In Mo, Deputy 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 *Recent Economic Developments*,[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, although consumption had slowed due to growing uncertainties stemming from the spread of COVID-19 variants, the resurgence of the pandemic was having limited impacts on consumption, thanks to expanded vaccinations and learning effects of economic agents. Members expected the underlying trend of economic recovery to continue, as exports would show their solid trend of increase, and the recovery of private consumption would pick up again, bolstered by changes in consumption patterns and by expanded government policy measures to provide income support. Meanwhile, a member anticipated that growth in the first half of this year could be more sluggish than expected due to the spread of the Omicron variant, with slower growth in China and changes in US monetary policy possibly acting as downside pressures on growth.

In terms of inflation, members expected consumer price inflation for this year to far exceed the November forecast, as inflationary pressures would spread widely and the rate of increase in core inflation would accelerate. Some members saw that rises in international commodity prices and agricultural and livestock product prices were leading to a second round of spillover effects such as rises in durable goods and dining-out prices. The members went on to emphasize that a close watch should be kept on the possibility that this would stimulate a rise in inflation expectations and lead to an interaction between prices and inflation expectations.

Meanwhile, members assessed that, amid heightened volatilities in price variables of some financial assets stemming from changes in domestic and international monetary policies and the resurgence of the pandemic, financial conditions remained accommodative. Members presented the view that there would be a need to guard against the risk of financial imbalances, since corporate lending was showing high growth and there still was much potential household loan demand, despite slower growth in household lending due to the total quantity control on household loans.

---

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

Some members also stressed the need to pay close attention to changes in consumption patterns, the impacts of monetary policy normalization in major countries on the domestic economy, exchange rate movements, and developments of economic indices moving in concert with GDP.

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:

Most 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 1.25% from its current level of 1.00%, while one member argued that it would be appropriate to keep the Base Rate at the current level of 1.00%.

One member judged that it would be appropriate to raise the Base Rate to 1.25% from the current level of 1.00%.

The member forecast that, despite uncertainties related to developments of the Omicron variant and global inflation, and related policy measures, the global economy would maintain a recovery, as seen in the strong growth of world trade.

The member stated that the improvement in private consumption growth had moderated for a while owing to the tightening of domestic COVID-19 restrictions but this would be temporary, and expected that private consumption, along with buoyant exports, would maintain solid growth. As for the FX and financial sectors, the member judged that volatility of major variables, such as short- and long-term interest rates, the exchange rate and stock prices, had increased slightly affected by the situation related to COVID-19 and changes in expectations of monetary policies, while macroprudential conditions had been favorable at home and abroad.

The member stressed that it was the trends of inflation and inflation expectations that led to the judgment that a rate hike would be appropriate at this meeting. The member noted that consumer price inflation had risen to the upper-3% level in both November and December and was forecast to continue to run in the 3% range for some time and above the 2% target for the year overall. The member expected core inflation, currently running at the lower-2% level, to run considerably above 2% this year. The member mentioned that this upward trend was also seen in underlying inflation indicators. The member stated that the number of items showing price rises had steadily increased since the second half of last year, suggesting the spread of the uptrend in prices to various items.

The member emphasized that inflation expectations are another variable requiring particular attention. The member mentioned that inflation expectations of economic agents had grown rapidly amid the recent sustained uptrend in prices. The member added that inflation expectations of the general public had registered 2.6%, close to the record high of 2.8% registered in January 2017 since the inflation target had been adjusted downward to 2% in 2016, and that inflation expectations of experts had been relatively low but were on the rise and had almost reached 2%. The member judged that, considering a possible prolongation of inflation due to the interaction between inflation expectations and prices, preemptive measures should be taken to lower inflation expectations to the level the real economy could withstand. The member expressed concerns that, if nothing is done to keep inflation expectations from rising, this could cause real interest rates to decline, which would require even greater Base Rate hikes and increase negative shocks on the real economy.

The member assessed market liquidity, just as inflation, as remaining excessively high. The member noted that growth in liquidity indicators, although having slowed recently, remained strong, substantially above the long-term equilibrium level. The member presented the view that growth in lending to households had slowed owing to the government regulations to control total debt volume and also to a rise in lending rates, but excess demand still existed, and went on to argue that, considering financial institutions' move to resume their lending at the beginning of the year, it seemed a bit too early to conclude that growth in household lending had stabilized.

The member also noted the concerns that a rate hike in a situation when the economy has not fully returned to its pre-pandemic level could delay the economic recovery. The member judged that, given the current inflation situation and the strong recovery of the real economy, however, it would be desirable to respond to underlying inflation pressure that had become more pronounced.

Another member judged that it would be appropriate to make an upward adjustment of the Base Rate to 1.25% from the current 1.00%.

Looking at the domestic and overseas economic environments since the previous MPB meeting, the member evaluated that the global economy was continuing its relatively sound recovery trend, as global supply bottlenecks had eased somewhat and the manufacturing sector had begun to improve again. The member assessed that, although private consumption was slowing again after a rebound in October and November last year, the domestic economy was continuing a trend of recovery, thanks to sustained growth in exports amid strong global demand for Korea's major export items.

The member saw that, since the rapid spread of the pandemic since December last year had heightened economic uncertainties, it would be necessary to closely monitor the relevant risks. The member noted that the pandemic was spreading simultaneously across the globe, unlike past waves, and thus its negative impacts could be amplified in the short term and supply chain problems could worsen again depending on the degree to which disease control measures were tightened going forward. The member pointed out that, in contrast with cases in major advanced economies in which expanded vaccinations were leading to a decline in the fatality rate, the numbers of critically ill patients and deaths in Korea had remained high up until recently. The member thus raised the concern that the easing of disease control measures at home could be slower than expected. However, the member was paying close attention to the fact that Omicron, the recent dominant variant, was known to have a relatively low portion of critically ill patients and the correlation between the spread of the pandemic and economic activities had been much lower thanks to the learning effects from past experiences so far and vaccinations. The member noted that as the public health crisis had persisted for a long time, sectors affected by the disease control measures were gradually shrinking, while consumption of substitute items was increasing. The member expressed the opinion that, if the trend of an easing of disease control measures being followed by a rebound in consumption repeated itself, the recent resurgence of the pandemic would likely to have a limited impact on aggregate demand or the underlying economic trend over the medium to long term horizon.

Meanwhile, the member judged inflationary pressures to have increased more rapidly and broadly than expected. The member noted that consumer price inflation had risen to 3.7% in December, showing 3%-level growth for the third consecutive month, and the inflation diffusion index was rising further. The member added that, although the uptrend in petroleum product prices had slowed somewhat, thanks to adjustments to international oil prices and fuel tax cuts, the uptrend in core inflation had strengthened due to a sharp increase in sticky prices such as durable goods and dining-out prices. The member expected consumer price inflation for this year to rise from last year (2.5%) and run significantly above the November projection, since, most importantly, the demand recovery was continuing, a second-round effect of rising international commodity prices and agricultural and livestock product prices was materializing in full, and housing prices and housing leasehold deposits, both of which had been rising sharply for years, were being reflected after a time gap. The member cautioned that, since these inflation trends had a tendency to lead to upward pressures on inflation expectations, this could lead to an expansion of monetary accommodation through a decline in the real interest rate, and even work to negatively affect economic stability over the medium- to long-term horizon through interactions with asset prices and wages.

Finally, the member evaluated the financial market to have remained stable overall, although risk appetites had weakened somewhat, due to heightened volatility in price indexes stemming from the evolution of the pandemic, and announcements of monetary policies by major economies. The member noted that, against this backdrop, since household lending growth had slowed and the rate of housing price increase had also moderated, financial vulnerabilities over the medium-term horizon appeared to have declined slightly. However, the member expressed the opinion that, since potential loan demand was estimated to still remain high amid accommodative financial conditions, and banks had been resuming lending from early this year, it would remain to be seen whether these movements would continue going forward. The member saw that Korea's household debt-to-income ratio and its household price-to-income ratio (PIR) were higher than those in other countries, due to the accumulation of financial imbalances so far, and the PIR's disparity from its long-term equilibrium level had widened significantly. The member thus added that policy efforts to reduce the relevant risks should continue.

Taking all these points into overall consideration, the member took the view that it would be appropriate to raise the Base Rate to 1.25% from the current 1.00%. The member was still cautious about heightened economic uncertainties related to the rapid spread of the pandemic, but judged that the recent spread of the pandemic was unlikely to weigh on the underlying economic trend, looking at analyses of past developments and cases in major economies for reference. Meanwhile, the member noted that, since financial conditions remained accommodative and inflationary pressures were increasing more rapidly than expected, concerns about their negative impacts were growing. The member thus took the view that a decision to further reduce the degree of monetary policy accommodation preemptively to ensure that inflation expectations remain anchored within the appropriate range and the risk of a buildup of financial imbalances is limited would meet the objectives of policy from a medium- to long-term perspective.

One member took the view that it would be appropriate to make an upward adjustment of the Base Rate to 1.25% from the current 1.00%.

The member evaluated that, on the global economic front, economic activities had maintained a trend of recovery and had not contracted greatly, despite the rapid spread of the pandemic led by the Omicron variant. The member added that expectations for monetary policy normalization in major economies had grown due to increased concern about inflation conditions stemming from global supply bottlenecks and increased demand pressures, and volatility in the international financial market had increased somewhat, influenced by the resulting trends of risk appetite.

Concerning the domestic economy, the member evaluated that, while recovery in face-to-face service consumption had slowed somewhat, due to the tightening of disease control measures following the resurgence of the pandemic since the beginning of winter, the overall economic trend had not contracted greatly thanks to sustained growth in goods and non-face-to-face service consumption. The member saw that, despite the two-year-long COVID-19 shock, household income had increased considerably, thanks to growth in secondary income from government transfers, with the primary income of households recovering moderately. The member took the view that, given pent-up service demand since the outbreak of the pandemic and growth in surplus saving so far, there was an underlying trend of recovery in solid consumption demand. The member added that major export items and exports to major destinations all continued to increase sharply, thanks to solid growth in goods demand from abroad. The member noted that, while facilities investment had undergone an adjustment to some degree, affected by supply disruptions, construction investment had shown a trend of improvement. The member evaluated that employment conditions were continuing to improve, with the number of persons employed, the economic participation rate, the unemployment rate and the employment rate either nearly recovering to or exceeding the pre-pandemic levels.

The member expected growth for this year not to deviate greatly from the November projection, as private consumption was likely to continue to recover thanks to the strengthening of the government's support to cope with damages from the COVID-19 pandemic, and exports would also likely maintain strong growth, although uncertainties would remain high in line with the domestic COVID-19 situation for some time.

The member expressed the opinion that consumer price inflation was running in the upper-3% range with inflationary pressures spreading, and annual inflation for this year could rise to the upper-2% range, considerably exceeding 2%, the level of both the inflation target and the previous forecast. The member also evaluated that there were significant potential upside risks depending upon impacts such as sustained global supply bottlenecks and rising inflation expectations going forward. The member noted that, since the middle of last year, rising import prices including commodity prices had been gradually leading to rising prices of final consumer goods through producer prices, and the number of items showing price increases in the Consumer Price Index had also been growing. The member emphasized that attention should be paid from the perspective of monetary policy to prevent the entrenchment of a feedback loop whereby the recent steep rises in prices of durable goods closely related to living such as cars and furniture as well as dining-out prices stimulate inflation expectations of the general public, and affect how firms set goods prices, service prices, or wages.

The member judged the financial markets to still remain accommodative. The member noted that, although household lending growth had slowed due to the effects of regulations, corporate lending was sustaining a high rise based on eased lending attitudes of financial institutions, and a significant portion of the increase in corporate credit was seen to be flowing into the real estate market. The member saw that, although the uptrend in asset prices including housing prices was slowing, the potential demand for loans by economic agents still appeared to be high as the real interest rate had hardly risen despite last year's two Base Rate hikes. The member added that market liquidity indicators including M2 were continuing to show high growth.

The member judged that, in overall consideration of the domestic and international economic trends, it would be appropriate to raise the Base Rate to 1.25% from 1.0% at this meeting. The member saw that it would be desirable to clearly convey the monetary policy authorities' resolve to prevent instability in inflation expectations from expanding under the current circumstances. The member took the view that it would be necessary to clearly communicate with economic agents that adjustments to the accommodative stance of monetary policy would continue going forward to ensure that stability in the asset markets and the easing of the degree of worsening financial imbalances would become gradually entrenched. The member expected monetary policy normalization through an additional 25 basis point Base Rate hike at this meeting would not have large negative impacts on the economic recovery, taking into consideration the aforementioned ongoing recovery in solid demand at home and abroad. The member took the view that, although pandemic-related uncertainties were high, it was possible that economic activities would remain relatively insensitive to the spread of the Omicron variant, given that its impacts on economic recovery in major economies were more limited than initially feared.

The member expressed the need to cautiously pursue monetary policy normalization to gradually steer the Base Rate close to the neutral interest rate level, while closely monitoring future real economic recovery and price movements, financial market conditions, spillover effects of Base Rate hikes, and the impacts on the domestic economy of changes in monetary policies in major economies.

Another member expressed the view that it would be desirable to raise the Base Rate to 1.25% from the current level of 1.00%.

The member judged that, despite the resurgence of COVID-19, the domestic economy had continued to recover recently. The member mentioned that, although facilities investment had somewhat slowed, exports had sustained their buoyancy thanks to robust global demand. The member evaluated that the improvement in private consumption had moderated somewhat, owing to the tightening of domestic COVID-19 restrictions, but the moderation had not been as severe as during the previous resurgences, thanks to learning effects from the past and changes in consumption patterns. The member noted that labor market conditions had continued to improve, with the number of persons employed maintaining its substantial uptrend.

Going forward, the member expected that the domestic economy would exhibit growth as forecast in the path projected in November last year, led by sustained strong exports and private consumption recovery. The member expressed the view that uncertainties over the virus had increased somewhat, affected by the spread of a new COVID-19 variant at home and abroad, but this would have only limited negative impacts on global trade and Korea's exports and investment, since major countries were dealing with the surge by accelerating vaccinations and providing treatments, rather than constraining economic activity. Concerning consumption, the member mentioned that the recovery of face-to-face consumption had been delayed somewhat due to the recent strengthening of social-distancing measures. The member however judged that the underlying trend of recovery in private consumption would continue, as the effect of tighter measures would not last long, considering the recent acceleration of booster vaccinations and the downward trend of the number of confirmed cases, and the government was promoting additional income support measures.

With regard to prices, the member assessed that consumer price inflation had risen to the upper-3% level and core inflation had run at the lower-2% level, as upward pressures on both the supply and demand sides had increased significantly. The member expected inflation to exceed the path projected in November for a considerable time, given the ongoing sharp rise in international commodity prices, the prolongation of global supply disruptions, and the growing upward pressures on the domestic demand side. The member expressed concerns that inflation expectations had also been increasing recently and, if such anxieties about price instability last for a long time, this would be highly likely to affect the degree of increase in wages and product prices, further expanding inflationary pressures. The member noted that housing price growth meanwhile had slowed somewhat in all parts of the country and that home-buyer sentiment and expectations of further increases in housing prices had also weakened.

Looking at financial conditions, the member's evaluation was that excessive yield-seeking behavior had been easing somewhat, with stock prices fluctuating within a narrow range and household debt continuing to exhibit slower growth. The member took the view that this seemed to be attributable to the continued rises in market rates as well as deposit and lending rates, following strengthening expectations of policy rate raises at home and abroad and the sustained government measure to control total debt volume. The member however judged that, since the continued substantial lending to the corporate sector and growth in monetary aggregates suggested that Korea's financial conditions were very accommodative and leverage was continuing to increase, it seemed somewhat too early to shift attention from the risk of financial imbalances.

The member took the view that, in overall consideration of growth, price and financial conditions of the Korean economy, it would be necessary to reduce the degree of accommodation. The member judged that the current Base Rate was substantially accommodative and further rate hikes would not undermine the economic and employment recovery. The member also pointed to the need to consider that the recent high inflation rate had been working to decrease real interest rates and further ease financial conditions. The member most of all emphasized that it was critical for now to raise the Base Rate preemptively to stabilize inflation expectations. The member expressed concerns that if inflation accelerates further and continues for a long period of time, more drastic policy adjustment would be required, resulting in greater loss in terms of growth. The member added that further rate hikes would contribute to enhancing the resilience of the Korean economy to external shocks by adjusting excessive leverage. The member expressed the view that financial market volatility was highly likely to increase significantly, in line with sudden changes in major country monetary policy stances due to inflation concerns, and that it would be therefore necessary to make preparations for this possibility.

The member thus argued that it would be desirable to raise the Base Rate to 1.25% from the current level of 1.00% at this meeting. The member also presented the view that the timing of further rate hikes should be determined while closely examining future developments related to COVID-19, growth and inflation trends, and the financial imbalance situation. The member added that vulnerable groups including small business owners suffering from hardship due to the pandemic should be continuously supported through selective policy measures such as the Bank Intermediated Lending Support Facility.

One member presented the view that it would be appropriate to raise the Base Rate to 1.25% from its current level of 1.00%.

Looking at the international economy first, the member assessed that, although the trend of recovery in some regions such as Europe and China had slowed, affected by the spread of the Omicron virus, the underlying trend of recovery was continuing, led by the US and major emerging market economies. The member noted that, despite somewhat slower growth in trade in goods, affected by logistics disruptions, global trade was continuing to show a trend of steady improvement, particularly in trade in services, and a trend of recovery in the labor market was also ongoing. However, the member expressed the opinion that high inflationary pressures would persist longer than expected, due not only to supply disruptions, but also to rapid recovery in demand, and changes in the labor supply and demand structure. The member also saw that the possibility of an acceleration of monetary policy normalization in major countries to deal with these inflationary pressures had caused heightened volatility in the global financial market.

The member forecast that, although the trend of recovery in face-to-face services had weakened somewhat, following the resurgence of the pandemic, the domestic economy would remain on the growth path projected at the previous MPB meeting, as exports and other private consumption would maintain solid growth. The member expected recovery in face-to-face services to materialize in full after the second quarter, as a large number of infectious disease specialists were forecasting that the emergency situation related to the coronavirus would be resolved in the first half of this year.

However, the member expected consumer price inflation to be considerably higher than the previous projection, as it had risen to the upper-3% level of late, and remained high this year as well. The member saw that since the domestic economy was heavily dependent upon imports, cost push inflation would be unavoidable in the recent situation in which international oil prices and import prices were soaring. However, the member expressed the view that even when this factor was accounted for, the recent price situation was considerably worrisome. The member saw that the pace of increase in consumer prices had picked up of late due to a second round of spillover effects of rising food and international commodity prices, and interactions between prices and inflation expectations were partially materializing. The member noted that short-term inflation expectations of the general public had risen to 2.6% in December and raised the concern that unusually steep recent increases in personal service prices, including dining-out prices, were not irrelevant to inflation expectations. The member added that attention should be paid to the point that inflationary pressures were spreading to core items and widening further. The member saw that goods prices which had led low inflation since 2013 had rebounded last year, influenced by rising oil prices and supply disruptions, to record 4.5% growth in the fourth quarter, and would likely maintain high growth this year as well under the influence of a rise in the won-dollar exchange rate. The member expected service prices, which are more closely linked with underlying price movements and domestic economic activity, to pick up in line with recovery in domestic demand. The member pointed out that in a situation in which consumer price inflation, core inflation and inflation expectations were rising together, and goods and service prices were rising simultaneously, the pace and persistence of inflation could increase. The member thus expressed the opinion that increased vigilance was required with respect to future price developments.

Meanwhile, concerning financial stability, the member assessed that, although risk appetites had partially reversed, as seen in an increase in bank deposits and a decrease in credit lending, and a higher self-financing ratio in housing purchases since the Base Rate hikes in the second half of last year, financial conditions still appeared to remain accommodative, with M2 growth reaching 12%. The member noted that this was because there was ongoing demand for household lending, mortgage lending in particular, and corporate lending was sustaining high growth, led by favorable conditions such as relatively low lending rates and policy financing support. The member assessed that, although volatility in price variables had heightened, due to concern about the spread of the pandemic and the impacts of domestic and international monetary policies, the financial market had remained stable in general, with the balance of foreign investment in bond markets, made by long-term investors in particular, hitting a record high and official foreign reserves sustaining a trend of growth.

In overall consideration of the aforementioned economic and financial conditions, the member took the view that there would be no reason to delay the timing of normalization of the unprecedentedly accommodative monetary policy responses to the COVID-19 crisis. The member expressed the opinion that, although there was a concern that an additional Base Rate hike could weaken the momentum of the economic recovery, negative effects of a Base Rate hike were unlikely to be large as the economy was maintaining an underlying recovery trend. The member added that, given the growing trade-off between economic activity and inflation, and that there were ongoing financial imbalances, a Base Rate hike would do more good than harm to macroeconomic stability over the medium-term horizon. However, the member saw that speedy Base Rate normalization could increase risks of vulnerable households and firms in the current conditions of increased leverage throughout the entire economy in the course of responding to the COVID-19 crisis. The member thus expressed the need to monitor the relevant risks, maintain support for sectors adversely affected by the pandemic, and pursue improvements in the debt structure to prepare for a policy tightening stance in the medium to long term.

Another member presented the opinion that it would be appropriate to keep the Base Rate at its current level of 1.00% at this meeting.

The member mentioned that economic shocks from COVID-19 had lasted for the third consecutive year, due to the spread of the Omicron variant. The member noted that the US and Korea were two major countries that had been showing a favorable recovery despite the resurgence of the pandemic. The member forecast that the US would raise its policy rate earlier than expected, as inflation had been accelerating and inflation expectations had been spreading along with the economic recovery. As for

Korea, the member expected that consumer price inflation, having risen by 3.7% year on year in December last year, was highly likely to remain high in the 3% range in the first quarter this year and at the mid- to upper-2% level for the year overall. The member added that the trend of above-target inflation would continue for a considerable period of time.

The member, however, stressed the need to recognize that it takes quite a long time for an economy to recover in the event of an unusually large economic shock. The member argued that, in this regard, in determining whether economic indicators have recovered or not, they should be examined not on a quarterly or annual basis but over a longer-term horizon. The member added that it was necessary to break away from the practice of measuring and responding to year-on-year inflation on a monthly basis. The member mentioned that, in the current pandemic crisis, it would be appropriate to look at changes in economic indicators compared to those during the same period of 2019, before the pandemic. The member went on to state that consumer price inflation in the US had risen by 8.5% in December last year compared to the figure recorded in the same period of two years ago, while increasing 4.3% in Korea over the same period, and that core inflation had risen by 7.2% in the US and by 2.9% in Korea over the last two years. The member presented the view that, even when viewed from a monetary policy strategy perspective that accepts above-target inflation for a considerable period of time in an unusual situation, US inflation was currently deviating far from its long-term average target and thus policy responses seemed urgently needed. As for Korea, however, the member's evaluation was that there were only slight inflationary pressures at the moment. The member stressed the need to pay close attention to the level of inflation compared to that of the pre-pandemic period in monitoring the inflation trend.

Looking at the trend of the economic recovery, meanwhile, the member projected that, with the spread of the Omicron variant, the economy was likely to grow more slowly than expected in the first half of this year, and slowing Chinese growth and a shift in the US policy would put downward pressures on the Korean economy. The member presented the opinion that, although the Korean economy had been getting through the crisis relatively well, there was a high likelihood that, without accommodative monetary and fiscal policies, the domestic economy would return to its growth trend of the pre-pandemic period next year at the earliest. The member's evaluation was that, considering the economic situation and the spread of COVID-19, the domestic economy still needed a make-up strategy, and an environment had not yet been created in which the Base Rate could be raised back to the level immediately before the outbreak of COVID-19. The member added that, since the Base Rate had been raised on two occasions in August and November last year, it would be necessary to examine the effects of these rate hikes. The member in this regard judged that it would be appropriate to keep the Base Rate unchanged from its current level.

The member also took the view that, while closely monitoring future economic recovery, inflation and financial market conditions, it would be necessary to keep adjusting the degree of the monetary easing stance so that the Base Rate could near the neutral interest rate.

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 the idea of 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 1.00% to 1.25%.

☐ Currently available information suggests that the global economy has continued to recover despite the spread of a new coronavirus variant, as economic activity has not contracted significantly, supported by accelerated vaccinations. In global financial markets, government bond yields and stock prices in major countries have rebounded after having declined, affected by developments related to COVID-19 and changes in expectations about monetary policy in major countries. Looking ahead, the Board sees global economic growth and global financial markets as likely to be affected largely by COVID-19 developments 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 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 pick up again while exports are expected to continue their solid trend of increase. GDP growth this year is projected to be around 3%, consistent with the forecast in November.

☐ Consumer price inflation has risen to the upper-3% level due to the ongoing sharp rise in the prices of petroleum products and agricultural, livestock, and fisheries products, as well as the accelerating increase in the prices of non-petroleum industrial products and personal services. Core inflation (excluding changes in food and energy prices from the CPI) has run at the lower-2% level and 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 continue to run in the 3% range for a considerable time, exceeding the path projected in November, and above the mid-2% level for the year overall. Core inflation is forecast to run considerably above 2% this year.

☐ In domestic financial markets, long-term market interest rates fell due to concerns over the resurgence of COVID-19 but have rebounded affected by the rise in US Treasury yields. The Korean won to US dollar exchange rate rose considerably, due mainly to the prospect of accelerating monetary policy normalization by the US Federal Reserve, but then decreased. Stock prices have fallen slightly. The amount of increase in household loans has lessened, and the increase in housing prices has somewhat 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, changes in the pace of growth and inflation, the risk of a buildup of financial imbalances, the effects of the Base Rate raises, and monetary policy changes in major countries.