Opening Remarks to the Press Conference (April 10, 2026)

Today, the Monetary Policy Board of the Bank of Korea decided to leave the Base Rate unchanged at 2.50%. I will first go over economic conditions at home and abroad, and then explain the background to today's Base Rate decision.

External conditions have changed significantly following the outbreak of the war in the Middle East shortly after the February Monetary Policy Board meeting. The closure of the Strait of Hormuz and damage to energy infrastructure have led to a sharp surge in global oil prices and have also strained the energy supply. Although the United States and Iran agreed this week to a two-week ceasefire, it remains highly uncertain whether they will smoothly reach a final peace agreement. Even if the situation shifts to a stabilization phase, it is expected to take a considerable period of time for energy supply chains to return to normal.

Accordingly, global economic growth is expected to weaken relative to earlier projections, while inflation is likely to increase. The extent of these developments will depend on the duration of the war in the Middle East as well as on resulting changes in global energy supply-demand conditions and price movements.

In global financial markets, the volatility of major price variables has expanded significantly as risk-off sentiment has strengthened. Long-term government bond yields rose sharply, driven by adjustments of expectations for monetary policy in major economies due to concerns over increases in inflation, while the US dollar strengthened and stock prices in major economies declined substantially.

However, following the temporary ceasefire now between the US and Iran, this trend has partially reversed.

Next, looking at domestic conditions, growth in the domestic economy had been stronger than expected through the first quarter, supported by continued strong export growth and a continued recovery in consumption. Since the outbreak of the Middle East conflict, however, downward pressure on growth has increased, with economic sentiment weakening and production constraints occurring in some industries related to energy. Going forward, growth in the domestic economy is expected to decelerate due to higher energy prices and supply constraints, while robust export growth in sectors such as semiconductors and the implementation of the government's supplementary budget are expected to mitigate downward pressure on the economy to some extent.

Accordingly, the growth rate for this year is projected to be below the February projection of 2.0%, while the future path of economic growth will be largely affected by developments in the Middle East, changes in the trade environment, and the trajectories of the semiconductor cycle and of the recovery in domestic demand.

Regarding domestic inflation, consumer price inflation rose to 2.2% in March from 2.0% in February, driven by a sharp increase in petroleum product prices, despite the government's measures, such as a price ceiling system for petroleum products, that helped ease the impacts of increases in global oil prices. Core inflation (excluding food and energy) declined from 2.3% to 2.2%, reflecting a slower increase in the prices of personal services. Short-term inflation expectations among the general public rose slightly to 2.7%.

Looking ahead, inflation is expected to rise to the mid- to upper 2% range as upward pressure increases significantly due to increases in global oil prices, although the government's price stabilization measures are expected to partially mitigate this pressure. Accordingly, consumer price inflation for this year is expected to exceed considerably the February forecast of 2.2%, while core inflation is also likely to be somewhat higher than the previous forecast of 2.1%. However, uncertainty surrounding the future path of inflation also remains very high, related to movements in global oil prices and the exchange rate, to the effects of the government's price stabilization measures, and to the extent of cost-pressure transmission.

In financial and foreign exchange markets, the volatility of major price variables has increased significantly. The Korean won to US dollar exchange rate rose to the 1,500 won range due to US dollar appreciation following the war in the Middle East and net sales of domestic stocks by foreign investors, but it declined after a temporary ceasefire between the US and Iran. Korean Treasury bond yields rose sharply due to concerns about inflation at home and abroad and subsequent changes in expectations for monetary policy, then declined. Stock prices fluctuated significantly after sustaining a steep upward trend, undergoing a correction followed by a partial rebound.

Looking at housing markets and the household debt situation, household loans in the financial sector continued a low growth pace as other loans increased due to demand related to stock investment while the government's macroprudential policy stance remained tight. Housing price increases in Seoul and its surrounding areas have slowed and expectations for price increases also have moderated under the influence of the government's real estate market stabilization measures.

However, in the outer areas of Seoul and non-regulated areas in the Seoul metropolitan region, housing transactions have increased and housing prices have continued to rise.

Lastly, I will explain the background to the Base Rate decision, which reflects the above mentioned domestic and external conditions. There is a high degree of uncertainty surrounding the future course of developments in the Middle East, amid rising upside pressures on inflation, increasing downside risks to growth, and heightened volatility in financial and foreign exchange markets stemming from the Middle East war. The Board, therefore, judged that it is appropriate to maintain the current level of the Base Rate while assessing developments of the conflict and their impact. All the Board members unanimously supported this decision.

To explain our decision in more detail, the domestic economy is currently facing supply shocks driven by the war in the Middle East. The basic principle of monetary policy in response to supply shocks is clear. If the shocks are temporary, it is desirable to look through those shocks and not respond with interest rate adjustments, taking into account monetary policy transmission lags. On the other hand, if the shocks are prolonged, leading to a broadening of inflationary pressures and heightened inflation expectations, a monetary policy response is required. However, for the time being, it remains difficult to assess how the Middle East situation will develop.

Comparing the current policy environment and the nature of the shock with those during the high inflation period after the Russia-Ukraine war in 2022, when I took

office, both the possibility of a firm monetary policy response, as at that time, and the possibility of not doing so remain open. During the Russia-Ukraine war, economic activity was in a phase of recovery, driven by a rebound in consumption that had been suppressed during the COVID-19 pandemic. Accordingly, the shocks stemming from the Russia-Ukraine war acted as a factor pushing up inflation significantly rather than slowing down economic activity, and it was necessary to respond actively to inflationary pressures through interest rate hikes. In contrast, whereas the Russia-Ukraine war had a greater impact on Europe, which has a high dependence on Russian natural gas, the current war is having a larger impact on Asia, where the dependence on Middle Eastern crude oil imports is high. In particular, although the economy is improving, the recovery remains relatively weak due to disparities across sectors, and as the shock has occurred under these conditions, the war is likely to have a significant impact not only on inflation but also on economic activity, raising concerns about the trade-off between inflation and growth. That said, compared with the period of the Russia-Ukraine war, the exchange rate is at a significantly higher level, and economic agents may respond more sensitively to changes in prices as they experienced a period of high inflation following the pandemic. Therefore, it is necessary to remain mindful of the increased possibility that inflation expectations could become unstable.

In consideration of these factors as a whole, the Board decided at this meeting to maintain the current level of the Base Rate. This decision was not simply to defer policy action due to heightened uncertainty, but to more closely assess the evolution of the war in the Middle East and its spillover effects in determining the policy direction.

Therefore, going forward, the Board will determine its policy direction based on additional information related to the war in the Middle East and economic indicators. It will closely assess the magnitude and persistence of the impact of the shock from the war on domestic inflation and growth.