

Opening Remarks to the Press Conference (January 15, 2026)

Today, the Monetary Policy Board (MPB) 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.

Starting with changes in external conditions, despite the impact of the tariff policies of the United States, the global economy is expected to maintain moderate growth, supported by expansionary fiscal policies in major economies and by continued AI-related investment. The US economy is expected to continue its robust growth, driven by increased investment in the AI sector and tax reduction policies while the effects of tariffs are proving less significant than initially expected. The euro area is projected to show a favorable growth trend, influenced by the expansion of fiscal spending and accommodative financial conditions. China is expected to see slower growth than last year due to weakening exports, but the pace of deceleration is likely to be moderate, supported by measures to boost domestic demand.

Regarding inflation in major economies, consumer price inflation in the US is expected to remain at the upper 2% level before slowing in the second half of this year as the effects of tariffs ease gradually. In the euro area, inflation is projected to continue to be below the target level amid low demand-side pressures.

In global financial markets, long-term government bond yields increased on the back of weakening expectations of additional rate cuts and concerns about fiscal soundness in major economies. The US dollar weakened and then strengthened,

influenced by better than expected US economic indicators and increased geopolitical risks since the beginning of the year. Stock prices continued their upward trend on expectations of an improvement in corporate earnings.

Next, looking at domestic conditions, growth is judged to be maintaining an underlying improvement trend, although growth in the fourth quarter of last year somewhat weakened due to the base effects of a strong increase in the growth rate in the third quarter. Although construction investment remained sluggish, private consumption sustained its recovery, supported by robust consumer sentiment and government measures to boost domestic demand. Exports showed strong growth, led by the semiconductor sector, despite the impact of tariffs.

Looking ahead, the domestic economy is expected to sustain its improvement trend since the second half of last year, supported by continued solid growth in exports, an ongoing recovery in consumption, and easing sluggishness in construction investment. The growth rate is expected to be broadly consistent with the November forecast of 1.8% for this year. However, upside risks are judged to have increased somewhat, reflecting the accelerating upward trend in the semiconductor sector and the stronger than expected growth in major economies. However, it should be noted that the recovery is K-shaped, with a wide gap across sectors, as robust performance in the IT sector contrasts with continued weakness in non-IT sectors.

Consumer price inflation declined slightly to 2.3% in December, reflecting a slower increase in the prices of agricultural products. Core inflation (excluding

food and energy) remained unchanged from the previous month at 2.0%. Short-term inflation expectations among the general public remained the same as the previous month at 2.6%. Going forward, inflation is expected to gradually decline to the target level (2%) supported by stable global oil prices, although the elevated exchange rate is likely to exert upward pressure. Consequently, both headline and core inflation for this year are expected to be generally consistent with the November forecast of 2.1% and 2.0%, respectively.

In financial and foreign exchange markets, the Korean won to US dollar exchange rate, which had continued to rise, declined sharply toward the end of last year following foreign exchange market stabilization measures, but subsequently rose again to the mid- to upper 1,400 won range driven by US dollar strength, Japanese yen weakness, heightened geopolitical risks, as well as persistent supply-demand imbalances. Korean Treasury bond yields rose significantly as expectations of the Base Rate cut weakened, but later declined somewhat. Stock prices increased sharply on expectations of stronger earnings in major sectors, including semiconductors. However, the extent of gains varied considerably across sectors.

Looking at housing markets and the household debt situation, household loans in the financial sector continued their slowing trend, led by a slowdown in the increase of housing-related loans and by a net repayment of other loans. However, housing prices in Seoul and its surrounding areas continued to rise at a high pace, while prices in the rest of the country have also risen slightly.

Lastly, I will explain the background to the Base Rate decision, which reflects the

abovementioned domestic and external conditions. Along with inflation expected to stabilize gradually, economic growth continues to improve, and risks to financial stability also remain. The Board, therefore, judged that it is appropriate to maintain the current level of the Base Rate while assessing developments in the domestic and external policy environments. All the Board members unanimously supported this decision.

To explain our decision in more detail, first and foremost, we have judged that upside risks to the future growth path have increased somewhat. Although there are downside risks such as prolonged sluggishness in the construction industry and performance disparities across sectors, the expansion of the upturn in the semiconductor sector and stronger than expected growth in major countries are expected to have a positive impact on domestic exports and the growth path.

Next, from a financial stability perspective, it was judged that continued attention should be paid to developments in the foreign exchange and housing markets. Although the exchange rate fell by more than 40 won against the US dollar following foreign exchange market stabilization measures implemented at the end of December, it has risen again this year to the mid- to upper 1,400 won range, warranting a high degree of vigilance. This reflects a combination of factors, including recent US dollar strength and Japanese yen weakness, together with heightened geopolitical risks stemming from developments in Iran and Venezuela. Moreover, while overseas investment by the National Pension Service (NPS) has declined, imbalances in foreign exchange supply and demand have persisted, as the pace of overseas investment by other residents has accelerated to levels comparable to last October-November, when it hit its peak for the year. In addition, vigilance is warranted regarding household debt, as the housing market in Seoul and its surrounding areas continues to record elevated price growth, with

Seoul's annualized rate reaching around 10%, and as price spillover effects are also emerging in non-regulated areas of the region. Lastly, while the inflation rate is expected to gradually decline to the target level, we judged that attention should also be paid to the possibility that the exchange rate could pose an upside risk. The Board thus judged that it is appropriate to maintain the current level of the Base Rate and to evaluate the changes in domestic and external policy conditions.

I would like to address the future direction of monetary policy. With inflation expected to gradually stabilize toward the target level, upside risks to the future growth path appear to have increased modestly. Regarding financial stability, it is necessary to remain cautious about risks such as housing prices in Seoul and its surrounding areas, household debt, and especially the impact of heightened exchange rate volatility. Taking these factors into account, the Board considers it necessary to make its policy decisions, amid supporting a recovery in economic growth, while closely monitoring changes in domestic and external policy conditions and the resulting impact on inflation dynamics and financial stability developments.

Furthermore, the Board decided to extend the Temporary Special Support program for low-credit self-employed individuals and for small and medium-sized enterprises (SMEs) by six months. This takes into account the delayed recovery of SMEs and regional economies, despite the continued improvement in economic growth.