

Opening Remarks to the Press Conference (February 25, 2025)

Today, the Monetary Policy Board (MPB) of the Bank of Korea decided to lower the Base Rate by 25 basis points, from 3.00% to 2.75%. 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, the global economy faces increased downside risks to growth and heightened uncertainties along the inflation path, affected by U.S. tariff policies. The U.S. economy is expected to continue its favorable growth thanks to its robust labor market. Meanwhile, the euro area is projected to show a slow recovery mainly owing to ongoing political uncertainties and the sluggish manufacturing sector. In China, economic growth is expected to slow mainly due to the continuing slump in real estate and the trade conflict with the U.S. However, the Chinese government's stimulus measures are projected to ease downward pressure.

Concerning global inflation, the U.S. inflation rate has remained higher than anticipated due to the continued favorable growth trend. Accordingly, the pace of policy rate cuts is likely to slow. Meanwhile, in the euro area, inflation will continue to slow due to subdued demand pressures, but uncertainty regarding the pace of the slowdown remains high.

In global financial markets, concerns over the new U.S. administration's economic policies, which had significantly escalated, have somewhat eased, and the possibility of an end to the Russia-Ukraine war has emerged, leading to a partial reversal of the strength of the U.S. dollar and to a decline in long-term government bond yields in major countries.

Looking at domestic conditions, economic growth has continued to slow, mainly driven by weakened export growth as well as subdued consumption. After the declaration of martial law, heightened political uncertainty has dampened economic sentiment, and a deterioration in weather conditions, such as heavy snowfall and cold waves, has weakened the recovery in consumption. Exports also saw a sharp fall in January owing to fewer working days and the growth in exports remains modest in February, as well.

Regarding domestic inflation, consumer price inflation rose to 2.2% in January, reflecting increases in global oil prices and the exchange rate. However, core inflation remained in the upper 1% range, reaching 1.9%, and short-term inflation expectations fell slightly to 2.7% in February.

In financial and foreign exchange markets, the Korean won to U.S. dollar exchange rate had remained highly volatile, mainly affected by increased domestic political uncertainties, by U.S. tariff policies, and by the U.S. Federal Reserve's monetary policy, before declining. Long-term Korean Treasury bond yields, mainly affected by the expectations of policy rate cuts at home and abroad, have rebounded after having declined.

The housing market and the growth in household debt have sustained their slowing trend. Housing prices have continued to decline in most regions, but some areas in Seoul have recently seen a significant increase in apartment prices mainly due to the lifting of land transaction permit zones. Nevertheless, household loans saw net repayments in January as housing-related loans continued to slow and as other loans declined.

We have also revisited forecasts for growth and inflation to reflect recent changes in domestic and international conditions since our last Economic Outlook in November.

First, this year's economic growth is now projected to be 1.5%, which is significantly lower than the 1.9% forecast in November last year. Considering the possibility of significant adjustments to the growth rate, we mentioned in our interim review in January that this year's growth rate was expected to decline to around 1.6%-1.7%. While the main factor of the previous downward revision in the growth forecast in January were related to domestic issues, such as the declaration of martial law, the further lowering of the growth forecast from the January interim assessment reflects heightened uncertainties, such as the U.S. tariff policies following President Trump's inauguration. Specifically, in our January projection, we assumed that the U.S. would impose tariffs on China in the second quarter of this year and on other countries next year. However, uncertainties in the trade environment have increased, such as the timing of the introduction of the tariffs being brought forward and the possibility of higher tariff rates having risen. We have also reflected the impact of lower than expected GDP growth in the fourth quarter of last year. High uncertainties remain along the future path of economic growth concerning trade policies in major countries and the monetary policy of the U.S. Federal Reserve, as well as economic stimulus measures by the Korean government and changes in the domestic political situation. The greatest uncertainty lies in the impact of fiscal policy. While the supplementary budget has not been announced yet and thus cannot be reflected in this forecast, if it is formulated and implemented in the future, it could act as an upside factor for growth. In addition, regarding the U.S. tariff policy, there are bidirectional risks depending on how the reciprocal tariffs and the tariffs on specific items, such as semiconductors and

automobiles, that are set to be announced in April are implemented.

Furthermore, uncertainties regarding the pace of rate cuts by the U.S. Federal Reserve may also affect the domestic economy. On the other hand, inflation for this year is expected to be broadly in line with our initial expectations.

Consumer price inflation is projected at 1.9%, which is consistent with the November forecast. Although the higher exchange rate acts as an upside factor, subdued demand pressure from slower growth offsets this. Core inflation is expected to be 1.8% for this year, slightly below the prior forecast of 1.9%. The future path of inflation is likely to be affected by movements in exchange rates and global oil prices, by economic conditions at home and abroad, and by the government's price stabilization measures.

Lastly, I will explain the background to the Base Rate decision, which reflects the abovementioned domestic and external conditions.

Although concerns about foreign exchange markets still remain, inflation stabilization has continued along with an ongoing slowdown in household debt, and economic conditions are forecast to weaken significantly.

The Board, therefore, judged today that it is appropriate to further cut the Base Rate and mitigate downward pressure on the economy. All the Board members unanimously supported this decision.

To explain our decision in more detail, above all, given that growth for this year is expected to decline significantly, an additional rate cut has been made to support the economy. The deterioration in consumer sentiment since the end of last year has led to weak actual indicators and the new U.S. administration's tariff policy has negatively affected domestic exports. Consequently the economic

slowdown is expected to persist for the time being. The inflation stabilization and household debt slowing trends are expected to continue. Regarding inflation, while it remains necessary to be cautious about elevated exchange rates, since the demand-side pressures are not particularly strong, inflation is projected to continue rising by around 2%. Household debt is also expected to maintain its low growth trend due to the impact of the government's macroprudential policy and weakening purchasing sentiment. However, it is important to remain mindful of the potential that, with future interest rate declines, expectations for rising real estate prices, particularly in Seoul and its surrounding areas, could strengthen, leading to a rebound in household debt. On the other hand, regarding the exchange rate, while volatility surged at the end of last year due to heightened political uncertainty and the simultaneous strengthening of the U.S. dollar, political uncertainty has subsided since the beginning of the year, and exchange rate volatility is gradually stabilizing. As external uncertainties related to the U.S. tariff policies and the Federal Reserve's monetary policy remain high and given the possibility that these factors could increase exchange rate volatility again, it is necessary to pay attention to their potential impact on inflation and on financial stability.

Regarding future monetary policy, it is judged that further adjustments to the Base rate will be needed when considering economic conditions, while the timing and pace of additional rate changes will be determined by thoroughly assessing inflation, growth and financial stability based on newly obtained data, given the high uncertainties surrounding domestic and global policy conditions.

Finally, the Board decided to lower the interest rate on programs under the Bank Intermediated Lending Support Facility from 1.50% to 1.25%, in order to enhance support for vulnerable small and medium-sized enterprises (SMEs)

experiencing difficulties.