

Opening Remarks to the Press Conference (October 23, 2025)

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, the global economy is expected to slow modestly in growth as the impact of tariff increases starts to materialize. In the United States, despite an expansion in AI-related investment, growth is expected to remain slow compared to last year due to slowing employment and weakening consumption. In the euro area and China, despite economic stimulus measures, including fiscal expansion, growth is likely to be constrained owing to a slowdown in exports.

Regarding inflation in major economies, consumer price inflation in the U.S. is forecast to rise to around 3%, reflecting the impact of elevated tariffs, while inflation in the euro area is expected to remain stable at around 2%, driven by low demand-side pressures.

In global financial markets, long-term Treasury yields have declined due to an interest rate cut by the U.S. Federal Reserve and renewed trade tensions between the U.S. and China. The U.S. dollar has fluctuated significantly, influenced by concerns about fiscal soundness in major countries. Stock prices in major economies have continued to rise strongly, led by AI-related sectors, despite worries over global trade conflicts.

Next, looking at domestic conditions, growth has continued its improvement trend supported by a sustained recovery in consumption and favorable export growth. Although construction investment remained sluggish, private consumption continued to recover on the back of improved economic sentiment and government measures to boost domestic demand. Exports, despite a decline in shipments to the U.S., maintained stronger-than-expected growth owing to the strong semiconductor sector.

Looking ahead, the domestic economy is expected to continue its gradual recovery, and growth for this year and next year is projected to remain broadly in line with the August outlook. However, both upside and downside uncertainties surrounding future growth have increased, including those related to trade negotiations with the U.S., developments in the global semiconductor market, and the pace of recovery in domestic demand. In particular, given that the path of exports and overall economic growth beyond next year may vary depending on trade negotiations, not only between Korea and the U.S. but also between the U.S. and China, we will closely examine the outcomes and potential impacts of these negotiations before providing a specific forecast for the growth rate in November.

Inflation remained on a stable path in September, with consumer price inflation and core inflation (excluding changes in food and energy prices from the CPI) recording 2.1% and 2.0%, respectively. Short-term inflation expectations among the general public fell slightly to 2.5% in September from 2.6% the previous month. Going forward, despite upward pressure from the Korean won to U.S. dollar exchange rate, inflation is projected to remain at around 2% due to subdued demand-side pressure and the stabilization of global oil prices. Consequently,

both headline and core inflation for this year and next year are expected to align with previous forecasts.

Financial and foreign exchange markets have remained generally stable, but volatility in the exchange rate and the interest rate has increased somewhat since late September. The Korean won-dollar exchange rate has risen to the low 1,400 won range, influenced by residents' continued demand for overseas investment funds and concerns over tariff negotiations with the U.S., as well as renewed trade tensions between the U.S. and China. Korean Treasury bond yields fluctuated within a narrow range and then rose due to heightened vigilance over financial stability. Stock prices have risen sharply on prospects for favorable semiconductor industry conditions and on expectations for regulatory reforms in the capital market.

Looking at the housing market and the household debt situation, household loan growth in the financial sector decreased substantially in September, influenced by the government's macroprudential policies. However, housing price increases and transaction volumes have accelerated again in Seoul and its surrounding areas since September. As the government has introduced follow-up real estate market stabilization measures in response, it is necessary to closely monitor their impacts.

Lastly, I will explain the background to the Base Rate decision, which reflects the abovementioned domestic and external conditions. With inflation remaining stable, economic growth, while there is still high uncertainty regarding economic growth outlook, has continued its improvement trend, mainly driven by consumption and exports. Also, it is necessary to further monitor financial stability conditions, such as the effects of real estate market stabilization

measures on housing markets in Seoul and its surrounding areas and on household debt, as well as exchange rate volatility. The Board, therefore, judged that it is appropriate to maintain the current level of the Base Rate. One member, Shin Sung Hwan, voted against the decision to leave the Base Rate unchanged, proposing to lower it by 25 basis points.

To explain our decision in more detail, first and foremost, given that the domestic economy continues to improve while both upside and downside risks remain for the future growth path, it is deemed appropriate to determine the timing of any further cuts in the Base Rate after more closely assessing developments in various risk factors. In particular, the outcomes of Korea-U.S. and U.S-China trade negotiations, which are expected to take shape around next week's APEC meetings, are likely to be the most important factors in gauging the future growth trend. It was also viewed as necessary to closely monitor the result of the U.S. Federal Reserve's October FOMC meeting as well as the pace and duration of the developments in the semiconductor industry in order to reassess the growth outlook beyond next year. Next, from the perspective of financial stability, the housing market in Seoul and its surrounding areas has shown renewed signs of overheating, prompting the government to announce follow-up real estate market stabilization measures. It is judged that monetary policy should also be managed so as not to stimulate expectations for further increases in housing prices. In addition, as exchange rate volatility has also increased sharply within a short period of time, the Board judged that attention should be paid to its possible impact on financial stability. Lastly, while the increase in the exchange rate could exert upward pressure on inflation, demand-side pressures remain subdued and global oil prices are stable, so the overall stable trend is expected to continue. 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.

Regarding future monetary policy, the Board considers it is necessary to continue its rate cut stance, in the view of prevailing economic conditions. However, given that risks to the growth outlook have increased in both upside and downside, and financial stability risks have also heightened, the Board will determine the timing and the size of any further cuts in the Base Rate based on incoming economic data.