

## Opening Remarks to the Press Conference (February 26, 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 uncertainties regarding the tariff policies of the United States, the global economy is expected to maintain favorable growth, supported by increases in AI-related investment and expansionary fiscal policies in major economies. In the United States, amid stronger than expected employment, the US economy is expected to continue its robust growth, supported by increased investment in the AI sector and tax reduction policies. The euro area is projected to maintain a moderate 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 the impact of US tariff policies, but this will likely be mitigated by measures to boost domestic demand and efforts to diversify exports.

Regarding inflation in major economies, consumer price inflation in the US has declined to the mid-2% level, but there remain uncertainties regarding the effects of tariffs. In the euro area, inflation is projected to continue to be slightly below 2% amid low demand-side pressures.

In global financial markets, risk-off sentiment has strengthened somewhat. Long-term government bond yields in major economies rose and then fell, affected by

concerns about fiscal soundness in major economies and changes in expectations of the US Federal Reserve's monetary policy. Stock prices generally continued their upward trend, supported by favorable corporate earnings, but volatility increased due to concerns over AI overinvestment and the replacement of existing industries. The US dollar weakened overall, due to the appreciation of the Japanese yen and the US Supreme Court's tariff ruling.

Next, looking at domestic conditions, the domestic economy has continued its improvement trend. Although construction investment remained sluggish, private consumption sustained its recovery, supported by favorable economic sentiment and improvements in income conditions, such as wages. Exports maintained strong growth, led by the IT sector, such as semiconductors and computers, despite the impact of tariffs.

Consumer price inflation declined to 2.0% in January owing to slower increases in the prices of petroleum products and of agricultural, livestock, and fisheries 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%.

In financial and foreign exchange markets, the volatility of major price variables has increased. The Korean won to US dollar exchange rate fluctuated, influenced by supply-demand imbalances stemming from residents' overseas investments and foreign investors' sales of domestic stocks, as well as by movements in neighboring countries' currencies, such as the Japanese yen, and then recently declined significantly. Stock prices continued to rise sharply, supported by solid

earnings forecasts in major sectors and the government's ongoing efforts to improve the regulatory framework in the capital market. However, volatility increased, affected by the previously mentioned global stock market movements. Korean Treasury bond yields rose significantly due to weakened expectations of a Base Rate cut and supply-demand pressures stemming from fund flows, and that upward trend was recently partially reversed.

Looking at housing markets and the household debt situation, household loans in the financial sector continued to show slower growth amid the continued tightening stance of the government's macroprudential policy. Housing price increases in Seoul and its surrounding areas slowed under the government's plan to end the temporary suspension of higher capital gains taxes on multiple-home owners, and their future trajectory warrants close monitoring.

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

To begin with, the GDP growth rate is projected at 2.0% for this year, higher than the November projection of 1.8%. To explain the upward revision of 0.2%p in more detail, first, owing to the strong semiconductor cycle and the favorable growth trend of the global economy, growth in exports and facilities investment is projected to be higher than previously expected, which has acted as a factor raising this year's growth rate by 0.35%p. On the consumption side as well, improved income conditions stemming from solid corporate performance are estimated to have added approximately 0.05%p. In contrast, the slower-than-anticipated recovery in construction investment has acted as a downward factor,

lowering the growth forecast by about 0.2%p. Meanwhile, concerning last week's US Supreme Court ruling invalidating reciprocal tariffs, the impact may vary depending on how the US government responds, including the imposition of product-specific tariffs. At present, however, as tariff rates applied to Korea are expected to remain unchanged under the US government's temporary tariff measures, the impact on the growth outlook, including exports, is judged to be limited at this point. The future growth path remains subject to both upside and downside risks, including the US tariff policies mentioned above, the developments in the semiconductor industry, the pace of domestic demand recovery, and monetary and fiscal policies in major economies.

Next, consumer price inflation and core inflation for this year are projected at 2.2% and 2.1%, respectively, each revised upward by 0.1%p from the previous forecast. This reflects upward cost pressures on some items, including electronic devices, stemming from higher semiconductor prices. The future path of inflation is likely be affected by movements in global oil prices and the exchange rate, as well as by the pace of recovery in the domestic economy.

Lastly, I will explain the background to the Base Rate decision, which reflects the above mentioned domestic and external conditions. With inflation expected to remain stable near the target level, economic growth is projected to continue improving at a stronger than expected pace, 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, the growth rate is forecast to be 2%, higher than the November forecast, supported by a recovery in domestic demand and solid exports of the IT sector. However, despite the upward revision of the growth rate forecast, considering that growth in the non-IT sector remains at 1.4%, unchanged from the previous forecast, the gap between at the IT and non-IT sectors could, if anything, widen further. Accordingly, we will need to continue monitoring the strength and breadth of the economic recovery.

Next, from a financial stability perspective, it was judged that continued attention should be paid to heightened volatility in the financial and foreign exchange markets and to developments in the housing market in Seoul and its surrounding areas. First, although the Korean won to US dollar exchange rate has recently fallen significantly, volatility still remains high. In particular, while overseas securities investment by the National Pension Service (NPS) has declined, portfolio investment by other residents has increased at a pace similar to the sharp increase seen in October and November last year, indicating that supply-demand pressures in the foreign exchange market persist. Stock prices have continued their steep upward trend on the back of strong corporate earnings, but continued attention should be paid to the possibility that volatility may increase amid growing concerns over a correction in global stock markets. Korean Treasury bond yields have risen considerably recently, reflecting changes in expectations for monetary policy and fund flows. Given this, it is necessary to closely monitor their future path and spillover effects. In addition, although the pace of increase in housing prices in Seoul and its surrounding areas has moderated owing to government measures, given that elevated expectations of price increases have persisted, it is necessary to further assess whether a trend toward stabilization is taking hold.

Lastly, while this year's inflation outlook has been revised upward slightly, demand-side pressures are not significant, and inflation is expected to remain on a stable trajectory around the target level. 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 remaining stable around the target level, economic growth is projected to continue its improving trend. Regarding financial stability, it is necessary to remain cautious about risks such as housing prices in the Seoul and its surrounding areas, household debt, and exchange rate volatility. Taking these factors into account, the Board considers it necessary to make its policy decisions, supporting a recovery in economic growth, while closely monitoring changes in domestic and external policy conditions and resulting impacts.