

Opening Remarks to the Press Conference (April 17, 2025)

Today, the Monetary Policy Board (MPB) of the Bank of Korea decided to leave the Base Rate unchanged at 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 considerably heightened downside risks to growth due to the escalation of global trade tensions. U.S. economic growth is expected to slow considerably, as import tariffs and uncertainties over the tariff policy dampen household and business sentiments. Other countries are also likely to face weaker growth, with exports slowing. However, the impacts are expected to be offset to some extent by expansionary fiscal stances, including defense spending in the euro area and economic stimulus measures in China aimed at boosting consumption and fostering high-tech industries.

Global inflation faces higher uncertainty. The U.S. economy is expected to face stronger inflationary pressures due to the imposition of tariffs even amid its economic slowdown. Accordingly, the U.S. Federal Reserve remains very cautious about the pace of any rate cuts, contrary to market expectations. In the euro area, however, inflation is expected to continue its slowdown, affected by subdued demand pressures, despite upward pressures from retaliatory tariffs.

In global financial markets, the volatility of key indicators has considerably increased due to heightened uncertainties surrounding global trade conflicts. Stock prices in major economies fell sharply but partially rebounded due to factors such as the suspension of reciprocal tariffs and prospects for negotiations.

U.S. long-term Treasury bond yields have shifted to an increase on concerns about inflation risks and weaker demand. The U.S. dollar weakened significantly despite rising Treasury bond yields.

Looking at domestic conditions, growth in the first quarter is forecast to be lower than initially anticipated, as both domestic demand and exports have slowed. The delayed recovery in economic sentiment, caused by political uncertainty, lasted longer than expected and exceptional factors, such as large wildfires and the suspension of construction work at some sites, have contributed to the continuing slump in domestic demand, with construction activity particularly sluggish. Export growth has generally maintained weak momentum, increasing slightly in March but decelerating in April due to a deterioration in the trade environment.

The growth rate for this year is expected to fall below the February forecast of 1.5%, reflecting sluggish performance in the first quarter. Additionally, U.S. tariff policies have proven significantly stronger than initially projected, posing further downside risks to economic growth. However, at this point, it is premature to say to what extent the growth rate this year will be affected because of the unusually high degree of uncertainty surrounding what the final tariff rates on individual countries will be after ongoing trade negotiations. Uncertainty also surrounds the timing and size of any supplementary budget as well as the pace of recovery in economic sentiment following recent improvements in political stability. Updated figures will be released in May after a thorough assessment of all these risk factors.

Domestic inflation has remained stable, with consumer price inflation and core inflation (excluding changes in food and energy prices from the CPI) recording 2.1% and 1.9%, respectively, in March. Short-term inflation expectations have

remained at 2.7% in March, the same as in February. Going forward, inflation is expected to remain stable at around 2%, affected by declining oil prices and subdued demand pressure despite upward pressure from an elevated exchange rate. Both headline and core inflation for this year are also expected to be generally consistent with the previous forecasts. The future path of inflation is likely to be affected by economic conditions at home and abroad, by movements in exchange rates and global oil prices, and by the government's price stabilization measures.

Concerning financial and foreign exchange markets, the Korean won to U.S. dollar exchange rate has experienced significant volatility. The exchange rate spiked to the 1,480-won level, driven by U.S. tariff measures, escalating U.S.-China trade tensions, and flows of funds for securities investments and then retreated to around the 1,420-won level following a suspension in the implementation of reciprocal tariffs. Stock prices fell significantly due to concerns over an economic slowdown and weaker corporate earnings, but partially rebounded afterward, and long-term Korean Treasury bond yields have declined considerably.

In the housing market, there were significant increases in housing prices and transaction volume in Seoul, but both have since slowed, influenced throughout the process by the lifting and subsequent redesignation of the “Areas Subject to Permission of Land Transaction” regulations. In contrast, housing prices and transaction activity in the rest of the country have continued to decline. Household loan growth remains subdued, but the recent increase in housing transactions is expected to temporarily expand the scale of loan growth with a time lag.

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

While inflation remains stable, downside risks to economic growth have intensified due to the sluggishness of economic activities in the first quarter and due to the deterioration in global trade conditions.

However, the Board judged that it is appropriate to maintain the current level of the Base Rate and to further assess any changes in domestic and external conditions because uncertainty regarding the future path of the economic outlook remains high because of ongoing changes in U.S. tariff policies, developments in trade negotiations, and the implementation of government stimulus measures, and also because it is necessary to monitor the high volatility of exchange rates and the trend of household loans. 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, above all, the most notable changes in the policy environment since the February meeting are that trade conditions have deteriorated considerably and that uncertainty regarding future developments has risen to an unprecedented level. Although downside risks to growth have clearly increased, the path of future economic growth is now subject to such a high level of uncertainty that even establishing a baseline scenario for the outlook has become difficult. This is due to the rapid shifts in the intensity of U.S. tariff policies and the responses of major economies within a short period of time. Since the exchange rate has also shown rapid volatility over a short period of time, the Board judged that it is necessary to pay particular attention to its impact on financial stability. In particular, there remains a burden on FX supply due to

residents' ongoing investment in overseas securities and due to the net selling of domestic stocks. Market participants also remain highly alert to the possibility of increased volatility in the Chinese yuan. The Board therefore judged that it is necessary to be cautious about the impact of rate cuts on foreign exchange market expectations. Inflation is expected to be generally consistent with the previous forecast, due to declining oil prices and subdued demand pressure, despite upward pressure from an elevated exchange rate. While household debt is expected to gradually stabilize after a temporary increase, it is still necessary to remain cautious about the possibility of a rebound under accommodative monetary conditions.

Regarding future monetary policy, as the downside risks to growth have intensified, the Board will determine the pace and scale of any further Base Rate cuts after examining domestic and external conditions in our May forecast.