

Monetary Policy for 2026

December 2025

BANK OF KOREA

This English version was prepared by the Bank of Korea staff. In the case of any inconsistencies, the original Korean version will prevail.

'Monetary Policy for 2026' is published in accordance with the provisions of Article 6 of the Bank of Korea Act, and upon resolution of the Monetary Policy Board.

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Bank of Korea Act

Article 6 (Setting of the Operational Direction for Monetary and Credit Policies)

- (1) The Bank of Korea shall set a price stability target in consultation with the Government.
- (2) The Bank of Korea shall set and publish the operational direction for monetary and credit policies every year.
- (3) The Bank of Korea shall do its best to achieve the price stability target as provided for in Paragraph (1).

The Bank of Korea (the “Bank”) will decide whether and when to implement any further Base Rate cuts, based on comprehensive assessment of inflation and growth developments, as well as changes in financial stability conditions.

The Bank will strengthen monitoring and risk management for financial and foreign exchange markets and the financial system, and will implement market stabilization measures in a timely manner when necessary.

The Bank will continue to improve its lending facilities to ensure financial system stability, and will expand the role of the Bank Intermediated Lending Support Facility as a monetary policy instrument.

The Bank will enhance the effectiveness of monetary policy by strengthening policy communication and improving the financial market system.

The Bank will continue efforts to improve the payment and settlement system infrastructure, with a view to further advancing the system.

1. Base Rate

The Bank of Korea (the “Bank”) will decide whether and when to implement any further rate cuts based on comprehensive assessment of incoming data, including developments in inflation and growth, uncertainties surrounding the growth and inflation outlook, and risks to financial stability. While inflation is expected to remain anchored around the target level, upward pressures could turn out to be stronger than anticipated, reflecting the elevated exchange rate and the recovery in domestic demand. Growth is projected to rise toward its potential rate; however, the growth outlook is subject to significant upside and downside risks related to the global trade environment, the semiconductor cycle and the pace of the recovery in domestic demand. From a financial stability perspective, continued vigilance is warranted regarding developments in housing prices in Seoul and its surrounding areas and in household debt risks, as well as the impact of heightened exchange rate volatility.

2. Promoting Financial Stability

Amid persistent concerns over the accumulation of financial imbalances, together with latent financial market risks, such as ongoing restructuring in some industries and fiscal conditions in major economies, the Bank will strengthen its monitoring of asset

markets and the financial system as well as its early warning system, and implement market stabilization measures in a timely manner when necessary. The Bank will continue its efforts to identify risks at an early stage through the development of leading indicators and the enhancement of stress test models that reflect interconnectedness among financial institutions. It will constantly review and supplement scenario-based contingency plans to prepare for potential sources of market instability, and will enhance the effectiveness of market stabilization measures by conducting liquidity provision simulation exercises for non-bank financial institutions.¹⁾ It will share its views on financial and economic conditions and continue to coordinate policy with other policy authorities on necessary matters, such as financial stability, through channels such as the Meeting on Macroeconomic and Financial Stability.

Given heightened vigilance in the domestic foreign exchange sector amid elevated domestic and external uncertainties, the Bank will strengthen market monitoring and actively implement market stabilization measures to address excessive herd behavior in the market. In cooperation with the government, the Bank will step up efforts to address structural imbalances in foreign exchange supply and demand. Furthermore it will continue to pursue institutional improvements aimed at enhancing accessibility for foreign investors, including the introduction of 24-hour trading in the foreign exchange market and regulatory reforms related to the offshore use of the Korean won in transactions between nonresidents.²⁾ To enhance its capacity to absorb external shocks, the Bank will actively participate in discussions on strengthening regional financial safety nets³⁾ and will also pursue the extension of currency swap arrangements reaching maturity.

The Bank will strengthen its analysis of financial and economic risks stemming from climate change and will continue to seek an effective policy response. Through the advancement of climate risk models, the Bank will enhance the depth and quality of analysis of the impact of climate change on the financial system and the economy,⁴⁾ and will continue its research on strengthening financial institutions' risk management capabilities and promoting green finance.

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- 1) Such exercises include testing liquidity provision processes through simulated repurchase (RP) purchases from non-bank financial institutions.
 - 2) This allows authorized foreign financial institutions to conduct offshore Korean won transactions through won-denominated accounts opened in Korea.
 - 3) Korea has been serving as the Chair of the BIS Committee on Global Financial System (CGFS) from November 2023 until October 2026 and is the Co-Chair of the ASEAN+3 Chiang Mai Initiative Multilateralisation (CMIM) Paid-In Capital Technical Working Group.
 - 4) Reflecting Korea-specific characteristics (including economic and demographic structures), the Bank will further advance its climate risk models and analyze the impacts under climate change scenarios that could materialize within the next one to five years.

3. Effective Management of Lending Facilities

The Bank will continue to pursue improvements to its lending facilities to ensure the stability of the financial system. The Bank will establish and implement an emergency lending facility in January 2026 that will enable loans held by banks to be used as collateral in times of stress. The Bank will also continue efforts to allow loans to be used as eligible collateral in normal times, while building an institutional foundation to ensure the timely provision of liquidity to non-bank deposit-taking institutions for market stabilization purposes when necessary.

The Bank will reorganize the Bank Intermediated Lending Support Facility in a manner that enhances its flexibility in response to changes in economic conditions, thereby strengthening its function as a monetary policy instrument. The Bank will introduce the tentatively titled “SME Loan-Linked Support Program” to support credit supply to small and medium-sized enterprises and will establish measures to enhance the effectiveness of the program’s operation. For existing programs, the Bank will review their ceilings and operational methods, taking into comprehensive account the original objectives at the time of introduction, current operational status, and changes in financial and economic conditions over time. It will then phase in adjustments to these programs as necessary. To enhance the efficiency of future facility operations, the Bank will analyze policy effectiveness using microdata and identify areas for improvement.

4. Improving the Effectiveness of Monetary Policy

The Bank will strengthen policy communication to help economic agents form reasonable expectations regarding monetary policy directions amid high uncertainties over the policy environment. It will continue its efforts to expand the external communication of Monetary Policy Board (MPB) members⁵⁾ and review an operational plan for its Base Rate prospects based on projected conditions for the next three months. The Bank will continue to work on enhancing the accuracy of economic forecasts and will provide further explanations about changes in forecasts and risk factors. It will identify and actively utilize high-frequency and unstructured data while conducting ex post evaluations of economic forecast outcomes. The Bank will revise and supplement the “General Principles of Monetary Policy Operation” to reflect post-pandemic monetary policy experiences and changes in the policy environment. To enhance economic agents’ understanding, “Detailed Explanations on the General Principles” will also be newly prepared and provided.

5) In 2025, four press briefings were held by MPB members, seven public messages from MPB members on key reports were released, and 34 seminar presentations were conducted.

The Bank will continue to improve the institutional framework to enhance the transmission effects of monetary policy. The Bank will work with the government to promote the use of the Korea Overnight Financing Repo Rate (KOFRR)⁶⁾ to establish it as a benchmark rate, while advancing detailed plans for benchmark rate reform. The Bank will review measures that will enhance the efficiency of open market operations, including the increased use of Monetary Stabilization Bonds (MSBs).

The Bank will strengthen research and analysis to respond to changes in the policy environments at home and abroad and in economic structures. The Bank will enhance its analysis of structural changes in the Korean economy following the COVID-19 crisis and their implications for the transmission of monetary policy,⁷⁾ and will conduct research on ways to improve policy effectiveness. The Bank will strengthen research on the spread of AI, changes in the global trade environment, and low birth rates and aging populations, and explore medium- to long-term monetary policy operation plans that take these factors into account.

5. Sophistication of Payment and Settlement Systems

The Bank will continue efforts to improve financial infrastructure to support the advancement and internationalization of won-denominated securities.⁸⁾ The BOK will extend the operating hours of the BOK-Wire+ system (scheduled for April 2026), and establish the tentatively titled “Offshore KRW Settlement System” operating on a 24-hour basis, with a pilot launch planned for the end of 2026. To enhance cross-border interoperability, the Bank will introduce ISO 20022 to BOK-Wire+ (scheduled to be completed in 2026).

The Bank will pursue the adoption and diffusion of the future monetary system. Through the second phase of Project Hangang, which involves real-world experiments,⁹⁾ and pilot projects for Treasury fund disbursements, the Bank will strengthen the foundation for the commercialization of digital currency systems and tokenized deposits. The Bank will enhance the efficiency of payment services by promoting cross-border QR code linkages.¹⁰⁾

6) The Bank, together with the government, plans to expand the administrative guidance ratio for KOFRR-OIS transactions and the issuance ratio of KOFRR floating-rate bonds through voluntary agreements (each currently over 10%).

7) They include changes in inflation dynamics, trends in potential growth and the neutral interest rate, shifts in foreign exchange market supply and demand structures, and widening polarization across sectors.

8) This includes the inclusion of Korean government bonds in the World Government Bond Index (WGBI) and efforts to achieve the inclusion of Korean equities in the MSCI Developed Market Index.

9) Based on the first phase of real-world experiments (April - June 2025), efforts will be made to expand the number of participants and use cases, as well as to improve user convenience.

While working to establish a stablecoin governance framework that takes macroeconomic stability into account, the Bank will also strengthen monitoring of the overall virtual asset market. The Bank will actively participate in stablecoin-related legislative discussions involving the National Assembly and the government, and will enhance its data collection and analytical capabilities for the broader virtual asset market, including stablecoins.

10) Cross-border QR linkage refers to a service that allows users to make payments by scanning a merchant's QR code located in another country using their domestic QR application.

<Annex>

General Principles of Monetary Policy Operation

The Bank of Korea Act stipulates the goal of monetary policy as follows: “The Bank shall contribute to the sound development of the national economy through ensuring price stability, while giving due consideration to financial stability in carrying out its monetary policy.” In order to enhance the transparency, predictability, and effectiveness of monetary policy, the Bank will carry out its task by setting specific targets and objectives in accordance with this goal.

- **(Inflation Targeting)** The Bank of Korea maintains a flexible inflation targeting system to effectively achieve price stability, which is the primary objective of monetary policy. The inflation target is currently set at 2% in terms of consumer price inflation (year-on-year).
 - **(Medium-Term Horizon)** Since consumer price inflation is affected not only by monetary policy, but also by various other factors at home and abroad, the inflation target is meant to be achieved over a medium-term horizon, in consideration of price changes owing to transitory and irregular factors and of lags in monetary policy transmission.
 - **(Forward-Looking Operations)** The Bank conducts its monetary policy in a forward-looking manner while considering symmetrically the risks of inflation remaining persistently above or below the target.
 - The path of convergence of inflation toward the target is assessed based comprehensively on inflation and growth outlooks, as well as on their uncertainties and risks, on the degree of anchoring of inflation expectations, and on the conditions of financial stability.
 - **(Flexible Operations)** The Bank conducts its monetary policy to support real economic growth to the extent that this does not hinder attaining the inflation target over the medium-term.
- **(Consideration of Financial Stability)** Achieving price stability over the medium-term should be based on financial stability, and the Bank pays careful attention to financial stability conditions in its conduct of monetary policy.
 - **(Efforts to Stabilize the Financial Market)** The Bank makes efforts to stabilize the financial market and to restore the financial intermediary function in the event of financial unrest, given that it constrains monetary policy transmission channels and undermines macroeconomic stability.
 - **(Attention to Financial Imbalances)** As persistent financial imbalances, such as the buildup of debt, could undermine macroeconomic stability, the Bank pays due attention to financial imbalances in conducting its monetary policy.
 - The Bank examines, assesses, and announces financial stability conditions on a regular basis in order to prevent excessive buildup of financial imbalances that may be brought about by the implementation of monetary policy.
 - Since there are limits to maintaining financial stability solely through monetary policy, which affects the whole economy, monetary policy needs to be complemented by macroprudential policies to prevent buildup of financial imbalances.