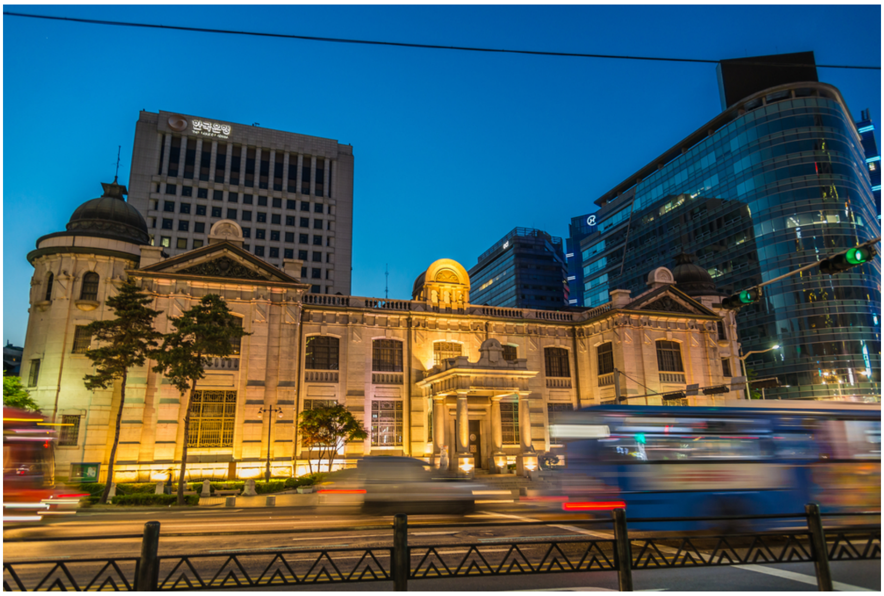
Snap | 29 May 2025

Bank of Korea cuts rates, signalling more easing to come

The Bank of Korea resumed its rate cut cycle, lowering the policy rate to 2.50% from 2.75% in a unanimous decision. The downward revision of GDP should give the market hope for further easing. But Governor Rhee's comments appeared less dovish about easing moves to come. We expect a total of 50 bp cuts in the 2nd half of the year



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2.5% BoK base rate

As expected

Bank of Korea's cautiousness stands out at today's meeting

Today's Bank of Korea rate cut decision was unanimous, with four out of six members open to another cut in the three-month guidance. Governor Rhee also commented on the chances of larger interest cuts. Therefore, it appears that the BoK is strengthening its easing stance. Yet we believe the BoK remains cautious. Rhee has repeatedly emphasized the conditionality of the current forecast, with the risks of asset market bubbles and uncertainty surrounding the KRW. So, we don't believe BoK policy has become more dovish than before. We maintain our outlook for the BoK's terminal rate to be 2% by the end of the year.

The BoK's focus is now on fostering growth rather than anchoring inflation

Although inflation so far has been higher than expected, the BoK kept its price outlook at 1.9% year on year for 2025 and lowered it for 2026 (1.9% to 1.8%). This means that the BoK expects sub-potential growth to reduce demand-side inflationary pressures in the future. Also, global oil prices are expected to remain weak. Since many companies have already increased their prices this year, fewer price hikes are anticipated in the second half of 2025. We expect the next government to closely monitor public service fee hikes and try to keep inflation stabile.

In terms of the GDP outlook, the BoK lowered its forecasts for 2025 (from 1.5% to 0.8%) and 2026 (from 1.8% to 1.6%). The main reasons for these significant downward revisions were weaker-than-expected first quarter GDP (-0.2% QoQ sa) and higher-than-expected US tariffs, which are expected to dampen exports more severely than anticipated. Also, construction investment is expected to cut overall growth throughout this year. The BoK placed a strong emphasis on the uncertainty surrounding the forecast, given that the outcome of trade negotiations and the fiscal policy stance of the new government are unknown.

More emphasis on construction and real estate market

Today, Rhee spent ample time explaining the risks of excessive rate cuts to the construction sector's restructuring. The deterioration in construction is the result of adjustments being made to reduce past overinvestment. This will take considerable time to resolve and require policy support to ensure an orderly resolution. However, further interest rate cuts could hinder the necessary adjustments. So, caution is advised. We believe that the new government's construction policy is also a key factor that will impact monetary policy in the future.

BoK watch

We expect the BoK to deliver two more cuts by the end of the year, lowering the policy rate to 2.0%. However, the terminal rate could depend on the fiscal and construction policies of the new government, as well as US tariff policies.

Author

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com