

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



Source: Shutterstock

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 stable.

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@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information

purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.