

Bank of Korea eases hawkish stance but no rate cuts in sight

The possibility of a further rate hike is now seen as off the table, but the Bank of Korea appears to be signalling that the easing option is still a long way off



3.5% 7-day repo

As expected

BoK keeps policy rate at 3.5% in unanimous decision

The BoK made another decision to stay on hold today as widely expected. Governor Rhee Chang-yong highlighted that the inflation path remains uncertain, thus the central bank would keep the current restrictive policy stance for a sufficiently long time. However, we still think the overall stance has become less hawkish compared to the previous meeting and the possibility of a further rate hike is now seen as being off the table. In the statement, the BoK removed the phrase pertaining to the "need for an additional rate hike". Also, although today's decision was

unanimous, two out of the six board members view 3.5% as the terminal rate and four are open to a 0.25% hike option amid any sudden macro condition changes.

However, the Bank of Korea appears to be signalling that the easing option is still a long way off. The BoK's latest outlook report clearly reflects its hawkish stance.

BoK's quarterly outlook report

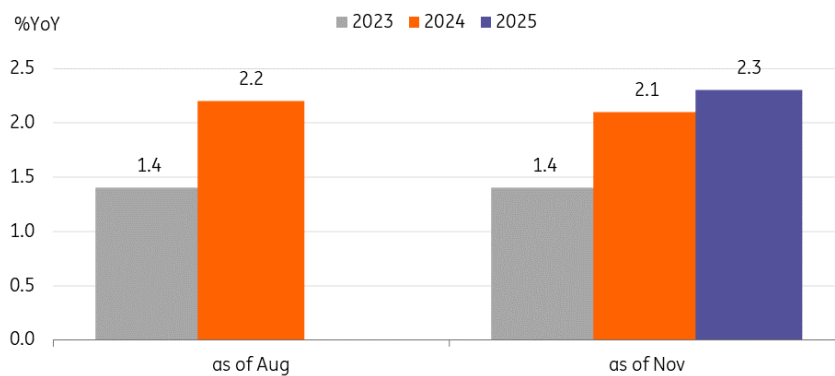
The Bank of Korea also released its updated quarterly outlook report. The GDP outlook for 2023 remained the same, at 1.4% year-on-year, despite the disappointing October monthly activity data while the 2024 outlook was revised down modestly from the previous 2.2% to 2.1%. The BoK considers the October drop mainly due to a technical payback in the semiconductor industry and thus expects a rebound soon. The BoK foresees a recovery in exports and facility investment but domestic growth momentum to soften. For the inflation outlook, the outlook for 2023 and 2024 was upwardly revised to 3.6% and 2.6%, respectively, from the previous 3.5% and 2.4% mainly due to lingering cost-push pressures.

We agree with the BoK's view that growth will accelerate in 2024 and will be led by exports and facility investment. But we only foresee a modest gain of 1.8%, lower than the BoK's expectation of 2.1%. We are not quite convinced by the above-potential level growth outlook, especially when the economic conditions of major trading partners are expected to soften to some extent. Also, forward-looking consumption and construction investment data clearly point to a downward trend. Meanwhile, the export recovery will likely be quite narrow in semiconductors. At the press conference, Governor Rhee said he was not thinking of stimulus for growth at the moment, although more selective ways to support financially vulnerable groups will be needed. Thus, tight financial conditions will likely continue for several more months and household consumption may worsen more than currently expected.

In terms of inflation, supply-driven cost-push pressures have been stronger than expected over the past couple of months, thus the inflation trend hasn't cooled down much. We think it will eventually stabilise to the low 2% level sometime in the third quarter. But, there are both upside and downside risks for the inflation outlook. However, once inflation begins to fall to the 2% range in the first quarter, the BoK's stance will likely shift towards easing. We do not have a clear idea of how long it means to "maintain tight monetary policy for a sufficiently long period of time" as the BoK states. Governor Rhee dropped a hint by saying he personally thinks it could be "more than six months".

If inflation returns to the 2% level from early next year and domestic growth conditions worsen, then we expect the BoK to change its policy direction as early as the second quarter. However, if the financial imbalance does not improve, the BoK's rate cut is likely to be pushed back to the second half of next year.

Bank of Korea expects GDP to grow 2.1% YoY in 2024



Source: Bank of Korea

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

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