

Bank of Korea extended its hawkish pause amid stubbornly high inflation and solid growth

The Bank of Korea (BoK) unanimously kept its policy rate at 3.50% while upgrading its 2024 GDP outlook. Given the increasing upside risks to inflation, the BoK's stance will remain hawkish for some time. We maintain our view that the first rate cut is likely to come in October once the BoK confirms that the inflation has cooled to the mid-2% level



3.5% 7-day repo rate
11th consecutive hold

As expected

The BoK's concern about sticky prices has grown over the past month

The CPI outlook hasn't changed from the February report, yet the BoK stated that upside risks to the inflation outlook have increased and it is still too early to be confident that inflation will converge to the 2% target. The upgrade in the GDP outlook is mainly due to a better contribution from net exports, which has limited the likely impact on domestic inflationary pressure - Governor Ree explained. In addition, the government's efforts to contain inflation will likely continue, which will also help limit upward pressures.

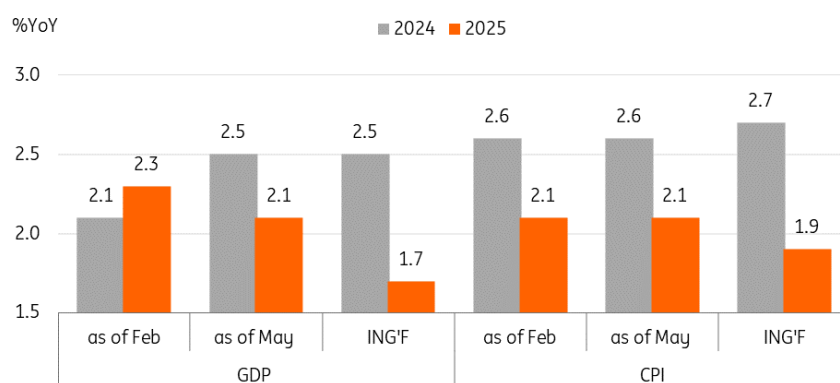
For the GDP outlook, the near-term outlook for private consumption is cloudy. But the BoK seems confident of solid overall growth as better-than-expected net exports are expected to partially offset sluggish domestic demand. Governor Rhee commented that tight monetary policy would remain while inflation hovers around the current high-2% level. But as inflation is believed likely to come down gradually, the BoK is not considering a hike at this point.

The three-month forward guidance was unchanged from the previous meeting, despite the change of two board members. One of the board members opened the possibility of a rate cut, arguing that the BoK should act pre-emptively in the light of slowing inflation and fading signs of domestic growth.

BoK's quarterly outlook report

In the BoK's latest quarterly outlook report, the 2024 GDP forecast was revised up from 2.1% YoY to 2.5% (vs ING Forecast 2.5%), likely due to the stronger-than-expected 1Q24 growth result. Quarterly growth from here on is expected to slow down quite significantly from last quarter's peak. At the same time, the 2025 forecast was revised down from the previous 2.3% to 2.1% (vs ING forecast of 1.7%). The downgrade looks to us to be more of a technical adjustment to reflect strong 1Q24 results rather than an actual downgrade to 2025 growth itself. On inflation, the forecasts for 2024 and 2025 were unchanged at 2.6% and 2.1% respectively (vs ING forecast of 2.7% and 1.9%).

2024 GDP was revised up reflecting stronger-than-expected 1Q24 GDP



Source: Bank of Korea and ING estimates

BoK watch

Today's post-meeting communication and the outlook report support our view that the BoK will remain hawkish until they see clearer signs of cooling inflation. We expect inflation to drop more significantly from 3Q24 when the BoK's tone should move towards dovish. We expect the BoK to deliver its first rate cut in October.

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