

Bank of Korea halts rate cuts amid worries over rising house prices

The Bank of Korea leaned slightly hawkish, balancing growth risks and financial imbalances. The BoK's pause on rate cuts is likely to continue through the third quarter



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2.5% BoK base rate

As expected

BoK's immediate priority is financial stability for now

As it held rates steady on Thursday, the Bank of Korea made clear its immediate policy priority is financial stability. In its statement, the BoK emphasised financial stability risks, associated with soaring Seoul property prices, over concerns about sluggish growth. Later, in his press conference, Governor Rhee confirmed this shift in priorities. Thus, the key to issue is price trends in the Seoul property market.

Rhee said that it's still unclear whether the recent macroprudential measures, including curbing mortgage lending to 0.6 billion KRW and tightening debt-service ratio (DSR) and loan-to-value (LTV), will stabilize the housing market. But, he added, the latest data suggests some moderation. On the other hand, how ongoing tariff negotiations proceed is another key factor for the BoK policy outlook.

Yet Rhee assured the market that the BoK's easing cycle remains in place. Also, rate markets seem relieved by the fact that, just like the last meeting, four of six board members are open to an additional cut within three months. As the negative GDP trend continued for some time, the economy still requires relatively accommodative monetary conditions. The current 2.5% is probably a bit higher than the estimated neutral rate level. Balancing sluggish growth and financial stability, Rhee kept doors open for an August cut.

We penciled in a rate cut for October

We believe that August may be somewhat premature for the BoK to confirm the anticipated moderation in housing prices and household debt. But the probability of an August rate cut remains quite high. It will come down to trade-negotiation results. If talks between the US and Korea turn out to be unfavorable to the market -- such as 25% reciprocal tariffs and additional sector tariffs on semiconductors and other major export items -- an earlier cut in August could become more likely. Therefore, the exact timing of the BoK policy action will depend on these two main factors.

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