

## Bank of Korea: Hawkish pause extended, but shift in communication points to easing

The BoK's unanimous decision to leave the policy rate unchanged at 3.5% was mainly due to sticker-than-expected headline inflation. However, slight changes in the forward guidance hint at easing in the second half of the year. An upcoming board reshuffle and the quarterly macro-outlook report may be key to the timing of any rate cut



Bank Of Korea  
Governor Rhee Chang-  
yong

# 3.5%

 Bank of Korea base rate

As expected

## The BoK's communication has slightly changed

On the growth front, the Bank of Korea judges that the upside risk to the February outlook of 2.1% has increased. This must be due to stronger-than-expected chip-driven exports despite sluggish domestic growth. Core inflation remains on the BoK's own forecast path, but headline inflation has moved up a little more than expected, mainly driven by energy and fresh food prices.

Inflation remains the BoK's main concern, with growing uncertainty about its future. At the same time, however, we notice that the BoK's communication is gradually shifting towards "less restrictive" territory. The BoK tweaked its wording for future guidance to "keep restrictive monetary policy stance for sufficient period" from "sufficiently long period". Later at the press conference, Governor Rhee Chang Yong confirmed that the removal of "long" should give the BoK more flexibility to maneuver the policy decision in the second half of the year if inflation slows down.

## Board's view on rates is unchanged, but things may soon change

Board members' outlook for future policy rates hasn't changed since the last meeting. Five members favour the rate at 3.5% in the next three months, but one is open to the possibility of a rate cut, as the underlying inflation trend is decelerating, and restrictive monetary conditions could weigh on domestic demand more severely.

But, this dynamic may change in the coming meetings. Of the six board members, Cho Yoon-Jae and Suh Young Kyung will retire on 20 April. Their replacements will be announced soon after. With the outgoing two members considered hawkish, the reshuffle will be closely monitored by BoK watchers.

## Door opens to cut in 2nd half but timing is still uncertain

For now, we maintain our current BoK outlook for a July cut, but we also acknowledge that the increased upside risk to inflation raises the possibility that the timing could be pushed back by a couple of months. Between now and July, the main determinant of the BoK's move will be how both headline and core inflation perform. Our own forecast shows that headline inflation will likely slow down to the mid-2% range and core inflation, excluding food and energy, to the low-2% range unless the government decides to end the fuel subsidy programme at the end of this month.

Given higher commodity prices and the weak KRW, we expect the government to continue curbing prices. For example, the fuel subsidy programme is likely to get extended, and food tariff cuts will continue. If this is the case, as Governor Rhee mentioned, the BoK will take a wait-and-see approach to inflation and other major central bank policy changes for a few more months. Then, the macro conditions will turn supportive for the BoK's first cut in July.

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