

Snap | 10 April 2026

RATES SOUTH KOREA

Bank of Korea holds rates steady, stressing outlook is data dependent

The Bank of Korea left its policy rate unchanged at 2.5% in a unanimous decision. While acknowledging ongoing inflation concerns, the BoK isn't rushing to raise rates amid heightened geopolitical uncertainty. With a new governor arriving in late April, the BoK delivered a carefully calibrated message to leave options open on future policy decisions



Source: Shutterstock

2.5%

 7-day repo rate

As expected

Korea's central bank faces a complex economic situation

In its meeting statement, the Bank of Korea highlighted the challenge of balancing support for economic growth and curbing inflation. The BoK observed that price pressures have risen significantly since early March, with annual consumer price index growth likely to exceed

February's forecast of 2.2%. GDP growth, meanwhile, is now projected to fall below the earlier 2.0% forecast.

BoK Governor Rhee has consistently adhered to a principle: temporary external shocks do not warrant monetary policy responses. However, if such shocks start to raise inflation expectations and cause secondary effects, the BoK will adjust its policy accordingly. Although the BoK is expected to act in accordance with prevailing conditions, circumstances don't require a rate change at this time. Speaking on the BoK's 3-month and 6-month forward guidance, Rhee said there was no discussion of a policy leaning among board members amid fast-moving events in the Middle East. As a result, today's meeting offered no clear directional guidance from the BoK. Governor Rhee's communication remained neutral. With Governor Rhee scheduled to retire on April 20, he probably sought to allow greater flexibility for his successor - likely to be candidate Shin Hyun-song - to navigate policy choices in these uncertain times.

Overall policy direction still tilted toward hawkish side

Rhee explained that supply-side impacts from the current Middle East conflict are significantly greater than the effect observed during the Ukraine-Russia war in 2022. In addition, KRW is currently in a much weaker position than in 2022, making it more sensitive to price shifts. The BoK now projects that both headline and core inflation will likely rise more than previously forecasted. The emphasis on high inflation sensitivity and upside risks to core inflation signals that the BoK is leaning towards a more hawkish policy stance, in our assessment.

All this makes gauging the growth impact much more complicated. The GDP outlook is clearly less robust, but the BoK expected the current account surplus to widen despite the war. This means that strong external demand is expected to provide some buffer to the economy, but domestic demand could suffer significantly from the shock. Complicating the BoK's challenges is that supply disruptions will not only drive up prices but also exacerbate economic imbalances. Yet, due to the fragile recovery, even if the BoK raises rates, the pace and magnitude are likely to be far slower and smaller than during 2022-2023.

Timing is uncertain but the BoK's next move should be a hike

Although the current situation remains uncertain, we still believe BoK's next move should be hikes rather than cuts. At this point, we see a relatively low likelihood of stagflation.

The timing of the BoK's next move is a close call. We continue to believe a July hike is possible. AI chip demand remains strong, and the structural shortage of legacy chips continues to push up overall memory prices, which will continue to support Korean IT exports. Despite higher oil prices, the negative impact on current account should be limited. Higher refinery margins will mitigate some of the sharp increases in oil imports, while chip exports will remain stronger than expected. We expect the government's stimulus program to ease some of the burden on

the domestic economy. We expect second- and third-quarter growth to weaken but avoid a recession.

Regarding inflation, we don't expect the current government's energy subsidies to remain as forceful as they have been recently. It's costly, and also, its effectiveness will be reduced. Fuel prices should be led by market dynamics. We believe that government financial help cannot be sustained for an extended period. As such, accumulated price pressures from both energy and IT products will likely become more visible and feed into broader inflation in a couple of months' time.

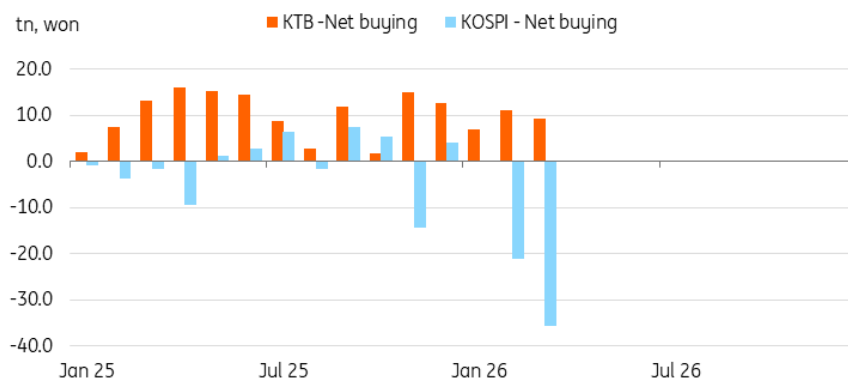
If we're right about supply constraints, which would have a larger impact on inflation than growth, the BoK is likely to respond with rate hikes. It could happen as early as July.

KTB and KRW outlook

Korean treasury bond yields have fallen sharply over the past week, dropping from 3.9% to 3.6%, largely due to the ceasefire discussion. We believe this current rate reflects not only expected BoK rate hikes, but also higher inflation, increased government spending, and ongoing geopolitical risks. Even if the BoK raises policy rates, we expect market rates to decline as the risk premium diminishes more rapidly. We think WGBI inclusion is also helping to stabilise the KTB markets as capital inflows are likely to continue in the middle of the year. The BoK estimated WGBI fund flow was around \$1.0 billion for April. However, the government is already considering a second extra budget, thus this may put some pressure on rates in the later part of the year.

KRW now trades below 1,500 level. The near-term move will depend heavily on the Middle East situation. Thus, we continue to keep our trading range of 1,450-1,550 for now. We agree with Governor Rhee's view: if the war ends, then the KRW is expected to strengthen quite rapidly. The recent weak KRW was mostly driven by foreign investors' net selling of equities – presumably profit taking rather than panic selling. The still appealing valuation levels in the Korean equity market are expected to help stabilise KRW.

Weak KRW was primarily caused by foreigners selling KOSPI



Source: CEIC, KOFIABOND

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