

## Bank of Korea returned to faster tightening pace with 50bp hike

Although inflation expectations and pipeline prices have eased in recent months, the Bank of Korea raised its policy rate by 50bp today, responding to faster-than-expected Fed rate hikes, sticky inflation and growing inflation risks from the weak won and rebounding global oil prices. Future guidance remained vague



**3.00** BoK 7-Day Repo Rate

As expected

**The BoK decided to raise the policy rate to 3.00% but with two dissenting votes**

The market widely expected a 50bp hike, but two dissenting votes were a surprise. This is the first

time that the policy rate decision has not been unanimous since August 2021. This clearly shows that the spectrum of dove-hawk tendencies is shifting slowly from curbing inflation to supporting growth. In addition, Governor Rhee mentioned that multiple members see the terminal rate around the 3.5% level, but that a couple of members believe it will be lower than this, so the Board's opinions on future interest rate hikes are divided. Lastly, Governor Rhee gave a vague answer to the possibility of a 50bp rate hike in November and mentioned that the board members will opt to watch the Fed before deciding what to do then.

## The BoK's rate decision outlook in November

We believe that two conditions must be met for a 50bp hike in November. The first is the Fed's rate hike decision in November. If the pace of Fed hiking is faster than the market expectation of 75bp then the BoK could consider a 50bp hike. The second is Korea's consumer inflation in October and pipeline prices. If inflation goes back up to 6% and pipeline price pressures reaccelerate (driven either by rapid won weakness or a rebound in global oil prices), then another 50bp hike is possible.

Our ING house view is that the Fed will deliver a 75bp hike in November and that Korea's October CPI inflation rate will rise to 5.9%YoY with a continued slowdown in pipeline prices. And as such, we think that the BoK will likely normalize its hiking pace back to 25bp in November.

## The BoK's rate decision outlook next year

We believe that the BoK's tightening cycle is coming close to an end. Governor Rhee repeated several times that rate hikes will be painful for highly leveraged debtors, but that action is necessary now to avoid an even bigger increase in interest rates. However, we think that tight monetary conditions will soon start hitting the real economy with further asset price adjustments and a rapid slowdown in private consumption and investment.

Although upside risks on inflation are growing, Korea's consumers are highly sensitive to interest rates, given the large exposure to variable rate loans. Thus we expect inflation to come down quite sharply from the end of next quarter. In turn, we believe that the BoK will stay on hold for a while next year before commencing its easing cycle towards the year-end.

### Author

#### Min Joo Kang

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.