

## Bank of Korea leaves rates unchanged but leaves the door open for a rate cut

As widely expected, the Bank of Korea (BoK) kept interest rates on hold today, but there was not the dissent that we were looking for. This makes it even clearer that the BoK is in no hurry to cut rates. The focus is more on financial market stability from now on. We continue to believe that an October rate cut is more likely than an August cut



Source: Shutterstock

# 3.5%

BoK base rate

Held for 12 consecutive meetings

As expected

## The BoK mulls rate cut timing while assessing inflation and financial market stability

The BoK's statement signalled a dovish shift in their policy stance, noting that they would review the timing of a rate cut if economic and financial conditions supported it in the future. The BoK is evidently more confident than it was that inflation will move towards their 2% target.

Concerns about upside risks to inflation were removed from the statement and the inflation assessment has also changed slightly. The BoK now thinks that headline inflation is likely to miss the current BoK outlook of 2.6%, but thinks that core inflation will meet the 2.2% outlook.

On growth, the BoK acknowledged the slowdown in domestic growth, but it seems that stronger-than-expected exports should offset weaker domestic growth so the growth path remains in line with the current outlook of 2.5%.

## Governor Rhee sounded less dovish than the statement portrayed

Governor Rhee was reluctant to comment on the timing of rate cuts and expressed discomfort with the recent significant decline in market interest rates as bets on a rate cut by the BoK intensified. However, the number of members who said the central bank should leave open the possibility of a rate cut in the next three months increased to two from one at the last meeting. And given the confidence in the slowdown in inflation, the market's view on rate cuts is likely to strengthen for now.

We thought it was interesting that the BoK's focus has shifted from inflation to financial market stability. Governor Rhee acknowledged that the recent pick up in household debt and housing prices has been faster than the BoK had expected and noted that uncertainty surrounding the FX market could hurt the economy.

In our view, the issues of household debt and the property market need to be addressed jointly with government measures, not just monetary policy. However, this could still be a factor that delays the BoK's decision to cut rates. Inflation has been on a downward trend in recent months, but the price of city gas and some public services prices are set to rise in 3Q24. Moreover, inflation expectations remain at 3.0%. Despite the scheduled price hikes, inflation is expected to ease to a sub-2% level from August, mostly due to base effects. The market is split on the timing of the first cut between August and October. We are leaning towards an October cut rather than an August cut.

### 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>.