

## Bank of Korea stands pat again amid slowing inflation

As widely expected, the Bank of Korea (BoK) left its policy rate unchanged at 3.5% for the second consecutive meeting. The BoK has pushed back against expectations of a rate cut later this year, but we continue to argue that the central bank has ended its rate-hike cycle and will eventually shift to easing by the end of the year



The Bank of Korea in Seoul

**3.50%** 7-Day Repo Rate

As expected

### The Bank of Korea strengthens hawkish stance despite unanimous decision to hold

It is not surprising that the BoK maintained its hawkish stance today, emphasising more inflation

uncertainties. The path for global oil prices is quite uncertain at this point and the accumulated upward pressures from utility prices remain substantial, so the BoK has reason to be cautious.

Governor Chang-yong Rhee repeated several times during the press conference that board members see the market's expectation for a rate cut as too excessive, suggesting that the current market view is quite different from the board members' view. Five board members would still like to keep the door open for another rate hike if necessary while one member sees 3.50% as the terminal rate.

The BoK is quite confident that the slowdown in inflation in the first half of the year is mostly in line with its forecasts, but the inflation path may be different in the second half of 2023. That is probably why the majority of board members kept their hawkish stance, however we think the BoK will likely leave the policy rate unchanged at least during the second quarter.

## **The BoK will likely reverse its policy stance as inflation pressures ease faster**

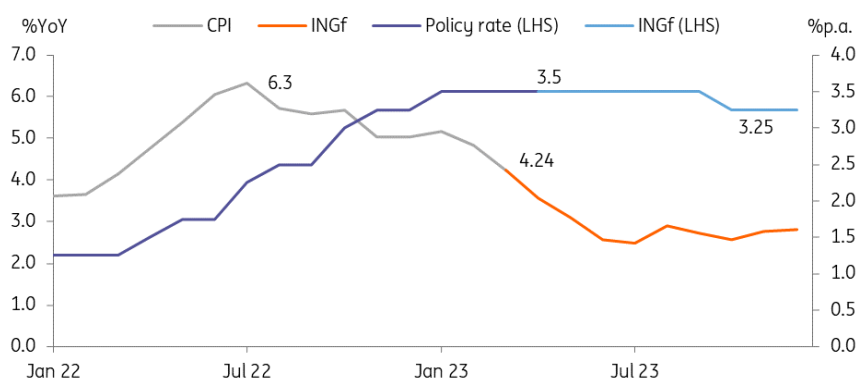
We still expect the BoK to reverse its policy stance because inflation will fall slightly faster than the BoK forecast of 3.5% (INGf 3.3%) and economic growth will miss the BoK's current forecast of 1.6% by far (INGf 0.7%).

It is true that uncertainty surrounding global oil prices remains high. But, we expect inflation to continue to ease throughout the year, driven by weakening supply and demand pressures. In the second quarter, the base effect will be a major contributor to the slowdown in inflation, despite recent gains in global oil prices. We also think the demand-side pressure will likely turn soft as the restrictive policy environment weighs on consumption and the real economy, meanwhile external demand conditions will improve only gradually in the second half.

Last week, Samsung Electronics announced plans to cut back on chips, so inventory adjustments are expected to proceed faster than expected. Its implication on the real economy is adding more downside pressure to growth and inflation. Industrial production is likely to be hit by production cuts while prices in memory chips are likely to bottom out with a time lag of around two quarters.

If we are right about slowing inflation in the second half of the year, we don't see a reason for the BoK to keep its policy rate in restrictive territory. Moreover, the possibility of a US recession increases and this is likely to add further downward pressure to global inflation.

## BoK likely to cut as inflation heads towards 2%



Source: CEIC, ING estimates

## The BoK welcomes two new board members in May

Two of the BoK's directors will be replaced at the next meeting in May. The market considers one of the newly-appointed members dovish, and the other neutral, which could push the BOK's policy stance towards being more dovish. We do not necessarily agree with the market view because the most dovish member will retire while the newly joined dove may not be as dovish as the outgoing member. The four members keeping the possibility of another 25bp rise will remain. Therefore, we do not believe that changes in the board of directors will have a significant impact on the Bank's policy decisions. We will monitor how new board members express their policy positions over the next few months.

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