

## Bank of Korea's hawkish pause extended on slowing inflation

As widely expected, the Bank of Korea decided to leave its policy rate at 3.50%. However, the BoK maintained its hawkish stance, seeing the risk of inflation reaccelerating to the 3% range over the coming months



The Bank of Korea in Seoul

**3.5%** 7-day repo rate

As expected

### BoK still concerned about inflation

According to the Monetary Policy Decision statement, the BoK reiterated concerns about inflation despite the recent slowdown and estimated core inflation would exceed its current forecast of 3.5% in 2023, while its assessment of growth conditions has improved somewhat from the previous meeting. At the press conference, Governor Rhee Chang-Yong commented that the

inflation path going forward is still unclear with several persisting upside risk factors, thus board members kept the door open to the possibility of a rate of 3.75%.

The lower-than-expected US inflation report will likely provide some relief for the BoK over its decision in the third quarter. The current situation is somewhat different from last year, when inflation exceeded 6%, forcing the BoK to chase the Federal Reserve's hikes. Given the current 2% range of inflation, we believe that the BoK will pay more attention to domestic economic factors such as inflation, financial market conditions, household debt, the Korean won, and growth conditions rather than the widening rate differential itself.

## BoK watch

Based on the governor's comments and the MPC statement, we think the BoK will keep its hawkish stance at least until September. By then, the BoK will have a clearer picture of the inflation path as well as other major central banks' monetary policy. If we are right about inflation forecasts staying in the 2% range throughout the year, the BoK will make its first move to cut in the fourth quarter. With restrictive monetary conditions lasting more than a year, household consumption and investment are likely to be disrupted and signs of credit distortion will grow even more. However, high levels of household debt and the widening gap between the Fed will limit the pace of rate cuts.

## 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>.