

BoK on hold - likely to resume hiking upon the arrival of the new Governor

The Bank of Korea (BoK) decided unanimously to leave the policy rate at 1.25% but further rate hikes are expected once the new Governor is on board



Source: Shutterstock

1.25%

 BoK policy rate

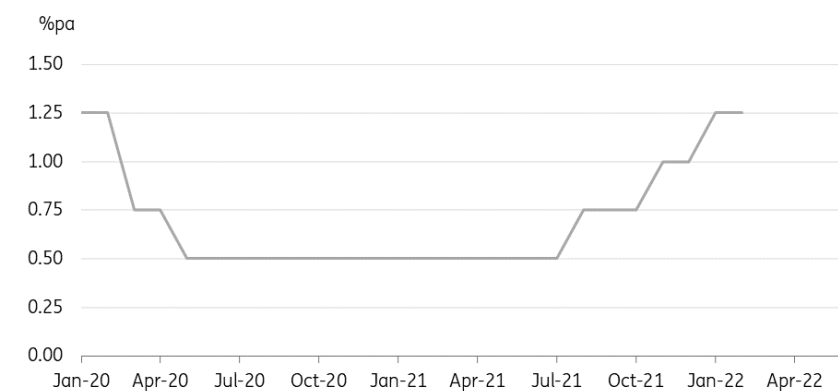
As expected

The Bank of Korea kept its policy rates unchanged at 1.25% as widely expected, but remains hawkish.

The MPC statement flagged higher inflation, stating that CPI was likely to run substantially above 3% for a considerable time. Regarding GDP growth, the BoK indicated that this was expected to be around 3% this year, though with the nuance that there were increasing downside risks to growth.

BoK Governor, Lee Ju-yeol, whose term as Governor will finish at the end of March, reiterated during the press conference that the current macro situation would warrant further rate hikes and highlighted upside risks to inflation due to the ongoing geopolitical issues. Governor Lee commented that one additional hike should not be considered as tightening, opening the door for multiple hikes over the course of the year to be taken by his successor.

BoK policy rate trends



BoK revised up its CPI forecasts sharply to 3.1% for 2022 (vs. 2.0% previous report)

The BoK also released its latest Economic outlook. Their GDP forecasts for 2022 and 2023 remained unchanged at 3.0% and 2.5%, respectively. However, the CPI forecasts were significantly revised up to 3.1% from 2.0% in 2022 and 2.0% from 1.7% in 2023.

BoK Economic Outlook

%YoY	As of Nov 21		As of Feb 22	
	GDP	CPI	GDP	CPI
2021	4.0	2.3	4.0	2.5
2022	3.0	2.0	3.0	3.1
2023	2.5	1.7	2.5	2.0

Source: Bank of Korea

The possibility of early action in 2Q22 has greatly increased.

We believe that today's hawkish MPC meeting and the upwardly revised BoK inflation outlook meaningfully raises the odds of earlier rate-hiking action during 2Q22. That said, there remains a lot of uncertainty about the appointment of the new Governor, and so we will await the confirmation of the new Governor prior to changing our MPC call.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

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>.