

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

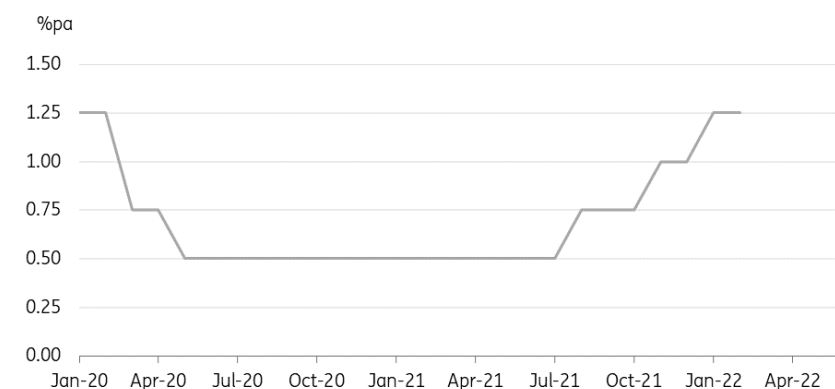
As expected

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



Source: Bank of Korea

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@ing.com

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