

## Higher-than-expected inflation will push Bank of Korea into taking a 'big step' in July

South Korea's CPI inflation rate of 6% year-on-year in June has raised concern among policymakers about how aggressively they should be in tackling inflation while not stifling growth



Source: Shutterstock

**6.0%** Headline CPI  
%YoY  
Higher than expected

### June CPI inflation accelerated to 6%YoY from 5.4% in May

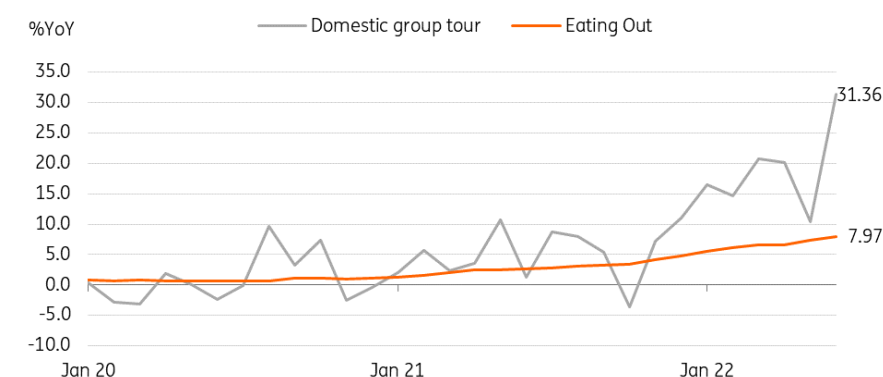
Headline CPI inflation reached 6% for the first time since November 1998 with prices for both goods and services rising. July results were in line with ING's view but slightly beat the market

consensus of 5.9%.

Looking at the detail, inflationary pressures built up not only in goods but also in services. Core CPI inflation, excluding agricultural products and oils, rose to 4.4% in June (vs 4.1% in May).

The reopening of the economy appears to be adding upward pressure to inflation. Prices for travel and eating out have already picked up sharply. Domestic group tour expenses soared by 31.4%YoY and eating out increased by 8%YoY. But at the same time, we are seeing some of the impact of earlier rate hikes as home rentals have stabilized compared to the beginning of this year.

## Travel and eating-out prices on the rise



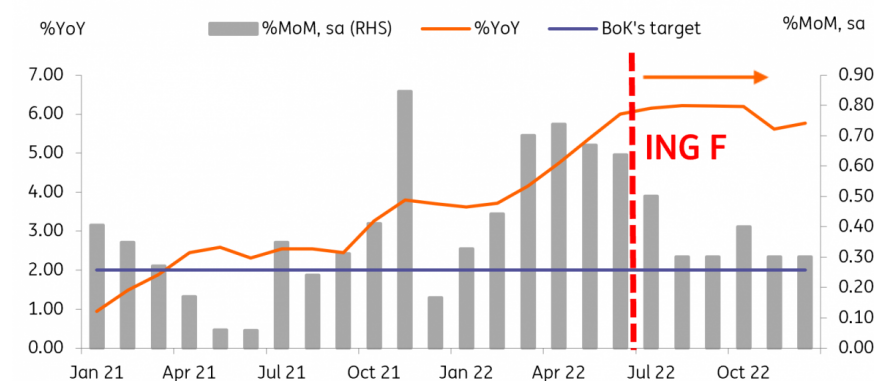
Source: CEIC

## We expect inflation to rise further

There are several reasons why inflation will rise further in the coming months. 1) Electricity and gas prices have increased this month, 2) Fuel prices are expected to increase despite the expanded fuel tax cut from 30% to 37%, and 3) The summer vacation season begins from late July, which will likely pressure travel/leisure prices.

However, we expect monthly gains to decelerate, and the headline CPI will start to come down in 4Q22. On a seasonally adjusted month-on-month basis, consumer prices recorded a 0.64%MoM gain in June, slower than the 0.74% rate recorded for April.

## We expect CPI to come down in 4Q22



Source: CEIC, ING forecast

## The Bank of Korea's efforts to curb inflation will continue

Based on recently released data, we expect the BoK to deliver a 50bp hike in July, and then to revert to 25bp hikes in August and October. We still think that a total of 100bp of increases could stabilize inflation by the year-end. But, as tightening monetary conditions both home and abroad negatively impact next year's growth, we expect the BoK will enter an easing cycle by the end of 2023.

### 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>.