

South Korean inflation falls below 2%, supporting October BoK rate cut

Inflation eased in August, largely due to a one-time reduction in mobile phone fees, suggesting a rebound in September. Even so, inflation is likely to remain below 2%, supporting a Bank of Korea rate cut in October



Source: Shutterstock

1.7%

Consumer price inflation (% YoY)

Core inflation ex. food and energy : 1.3%

Lower than expected

Reduction of mobile service fee is a main reason for inflation cooling

South Korean headline and core inflation in August eased to 1.7% year-on-year and 1.3%, respectively, mainly due to a 50% bill reduction by SK Telecom, the nation's largest mobile provider. It led to a 13.3% drop in communication prices and lowered consumer price inflation by 0.61 percentage points. Gasoline prices also fell for the fifth consecutive month, amid declining oil

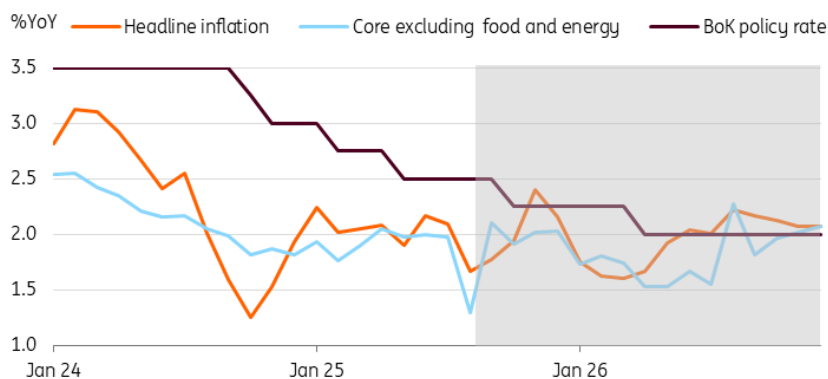
prices, partly due to extended fuel tax cuts. Food prices rose 4.8% amid poor harvests caused by severe weather, with fresh food likely to increase further as the Chuseok holiday nears.

Inflation outlook and BoK watch

We expect inflation to rebound in September as the one-off factor fades, but to remain below 2%. Meanwhile, the moderation of housing prices is expected to continue. These will support a BoK rate cut in October.

Given the recent stabilisation of inflation, the government may end fuel tax cuts in October. And another public transportation fee hike is possible in the fourth quarter. Additionally, utility fee increases that have been postponed may take effect early next year. Even accounting for these factors, inflation is likely to stay around 2% in the first half of 2026. Subdued demand pressures could lead to another rate cut in 2026. We currently expect April 2026 to be the likely timing.

Consumer price is expected to stay around 2% for a considerable time



Source: CEIC, ING estimates

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