

The Bank of Korea freezes policy rates and keeps macro outlook unchanged

The Bank of Korea opted for another unanimous on-hold decision as CPI inflation remains quite far from the 2.0% mark. The central bank now expects a continued economic recovery and easing of inflation. We expect the BoK to begin cutting policy rates early in the third quarter



3.5%

Base rate

Unchanged since January 2023

As expected

The BoK highlighted the "uncertainty" in inflation and growth paths ahead

The Bank of Korea has not changed its growth and inflation outlook, but acknowledges risks

surrounding the domestic economy's project financing and real estate markets as well as growing global geopolitical risks. The data so far has been encouraging, showing stronger-than-expected exports (particularly in semiconductors). At the same time, however, the domestic economy has weakened more than expected.

Governor Ree Chang Yong, repeated several times the "uncertainty" currently being faced by the central bank. Inflation in the last mile is expected to be bumpy, and the BoK isn't confident about the the path ahead. The policy focus should therefore remain on curbing inflation for the time being. However, if sluggish domestic growth continues and reduces inflationary pressure, then the BoK's stance will eventually change.

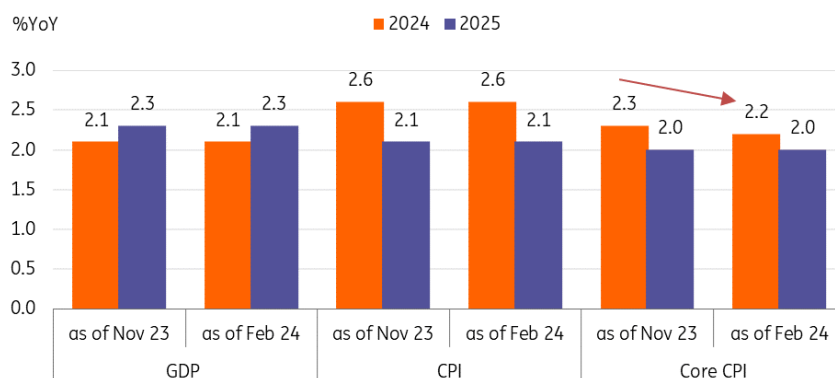
Also worth noting from today's meeting is that one in six members opened up an option for rate cuts to preemptively respond to slowing consumption, while the rest preferred to keep policy rate at the current level in the next three months. Today's decision was unanimous but there is certainly growing concern about weak consumption.

The BoK's quarterly outlook

Compared with the previous outlook report released in November, the key macro outlook remained unchanged. Headline GDP and CPI forecasts for 2024 and 2025 remained the same, but core CPI inflation edged down from 2.3% year-on-year to 2.2% for 2024, mainly due to sluggish consumption recovery.

For the GDP outlook, growth dynamics have changed, and private consumption was revised down from 1.9% to 1.6%. This largely reflects the ongoing slowdown in consumption and construction, offset by an upward revision of exports (4.5% from 3.3% previously).

BoK's outlook hasn't changed much



Source: BoK

BoK watch

We believe that inflation will remain the main concern for the Bank of Korea, and its stance will therefore remain hawkish stance for the time being. The reshuffle of two board members is scheduled in April, but for now, we are not sure how this would shift the board's stance. We think that the ways in which the macro situation evolves should be more of a focus than the characteristics of individual board members.

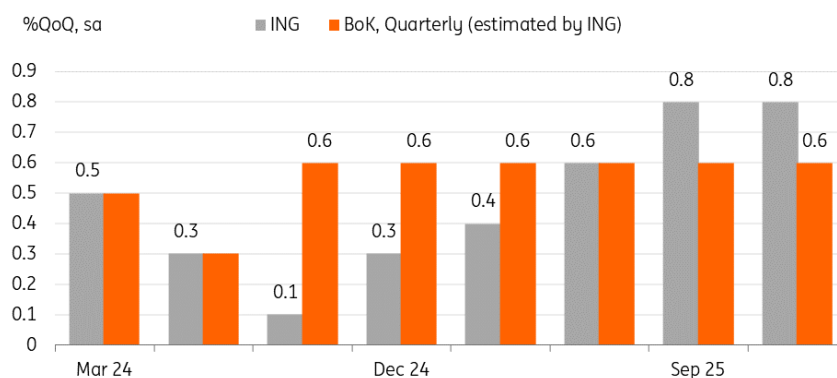
We don't think the BoK is likely to care too much about the timing of the Fed's rate cut. The macro conditions of the two countries are quite different at this stage. The BoK will likely focus on domestic matters such as inflation, project financing issues, household debt, and financial market moves.

Regarding the risk surrounding PF and construction, we believe that the BoK will likely first utilise its micro-level policy instruments, such as facility lending and loan cost cuts, to supply targeted liquidity in the market if the situation worsens.

The BoK will meet in April, right after the general election. By then, we expect inflation to return to a downward trend and that inflation expectations will also move down to the 2% level. We also believe the continued tight credit conditions will weigh on financial market instability, consumption and investment. If our macro view is correct, a minor vote favouring a rate cut could be made as early as April.

The quarterly outlook report will be released in May, and the inflation outlook should be key to watch for emerging minor votes. It will still take some time for a rate cut decision, and we've pencilled in a 25bp rate cut for the July meeting, followed by an additional 25bp cut in the fourth quarter. Due to concerns over the yield gap differentials and high levels of private debt, the BoK's easing should be quite limited and gradual.

GDP outlook : ING vs BoK



Source: BOK, ING estimates The BoK releases half-year GDP outlook figures in terms of year on year growth

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>.