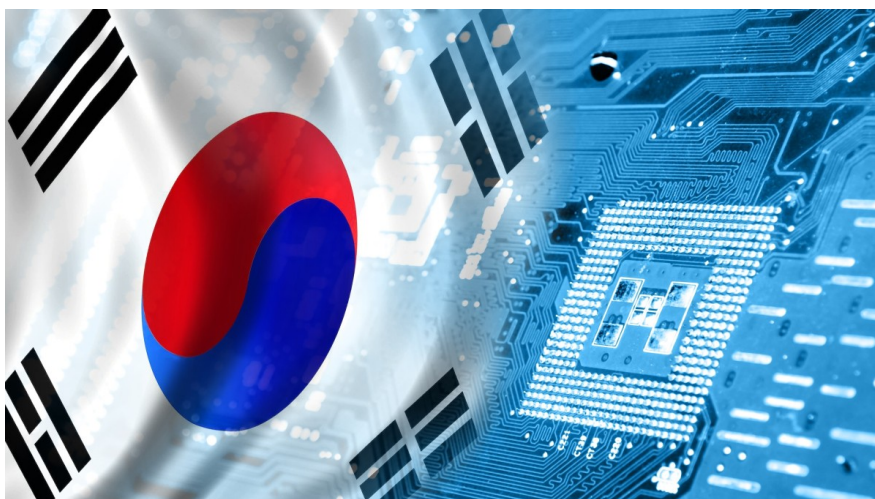


## The Bank of Korea lowers rates, with odds favoring more cuts

The Bank of Korea's rate cut decision was unanimous, but the timing of future moves is uncertain amid turmoil at home and abroad. The GDP outlook for 2025 was revised down to 1.5%, with CPI unchanged at 1.9%



**2.75%** BoK's 7day Repo

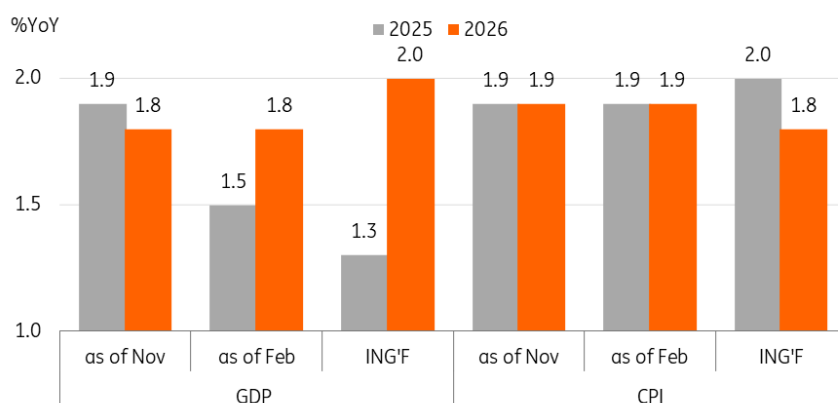
As expected

### The Bank of Korea resumed easing as the FX market stabilised amid weak growth concerns

The Bank of Korea lowered short-term rates by 25bp to 2.75%, as expected. The central bank's rate-cut statement highlighted growing uncertainty from political developments at home and abroad, adding to downside risks and leaving the BoK open to further easing. With inflation seen staying below 2%, the main focus is on supporting growth. However, the pace and extent of easing moves depend on the government's fiscal policy steps, currency moves and household debt levels.

Looking ahead three months, two out of six BoK members are open to a rate cut. Yet all agree that monetary policy remains on an easing path. We tend to downplay the forward guidance, as it can swing quickly, especially in times of great uncertainty. Also, Governor Rhee noted that the BoK's current assumptions on monetary policy aren't all that different from the market's view of two to three cuts, including today's, this year. If growth proves slower than the currently expected 1.5%, policy coordination with the government will be needed.

## BoK revised downward its GDP forecast for 2025



Source: CEIC

## FX market will remain volatile throughout 1H25

On the FX front, the USDKRW recently fell to the 1,430 level. But it's expected to rise again once tariff risks intensify. One big area of uncertainty is the Constitutional court's decision on whether to remove President Yoon from office, expected in the next two-to-three weeks. The USDKRW is likely to strengthen, but only briefly.

We figure that President Trump's tariffs on Korean manufacturers will get tougher once the political situation in Seoul becomes clearer. This could trigger some USDKRW weakness. We expect the USDKRW to peak in the second quarter before stabilising in the second half.

## BoK watch

We expect the BoK to ease three more times in 2025, once per quarter, as a lower-than-neutral rate is needed to support growth. This is 25bp lower than the BoK's current assumption and the market consensus. As we learn more about the government's supplementary budget, we expect both monetary and fiscal policy to be accommodative to maximise the impact.

In terms of growth, we expect GDP to expand 1.3% year on year in 2025, lower than the BoK's forecast of 1.5%. We believe that the accommodative policy will get traction in the second half, though near-term growth will remain sluggish due to ongoing restructuring efforts in the construction sector and weak private consumption. Meanwhile, consumer prices are expected to stay around 2% this year. Due to soft domestic demand, the government is likely to expand its

energy support programmes and delay the public service fee hikes.

## 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 [www.ing.com](http://www.ing.com).