

Bank of Korea stands pat, ending its easing cycle, amid currency concerns

The Bank of Korea kept policy rates at 2.5%, the same level since May 2025. Better growth conditions and increasing FX concerns appear to have led to a much sooner-than-expected shift to a neutral policy stance. We expect the BoK to remain on hold throughout 2026



2.5% 7-day repo rate

As expected

The Bank of Korea remains on hold, with unanimous decision

By standing pat on Thursday, the Bank of Korea made clear it's prioritising stabilising financial markets and improving financial instability. Despite a more optimistic view on the growth outlook, the BoK remains cautious about risks in the housing market, household debt, and FX volatility. The BoK assessed that inflation will remain broadly in line with current projections, although there are upside risks from a weakening currency. These factors justified today's no-action decision and the shift in the forward guidance toward a neutral stance.

The BoK signalled this is the end of its easing cycle in various ways. The three-month forward guidance shows fewer members expect a rate cut than last time, shifting from a 3-3 split in November to 1-5 now. One member argued that domestic growth remained sluggish, thus preferred to keep the possibility of a rate cut. However, most board members maintained a cautious stance given recent KRW and housing market trends. In addition, the BoK removed the “leave room for potential rate cut” phrase from its statement. At the press conference, Governor Rhee emphasised that the greater policy focus is on financial instability and FX volatility.

The shift was faster than expected, but this shouldn't be interpreted as a move toward rate hikes anytime soon. As noted in [our recent report](#), a K-shaped recovery will likely constrain monetary policy decisions despite expectations that overall growth will accelerate. We forecast 2.0% GDP growth in 2026, which is higher than the BoK's current 1.8% outlook. We had argued that the negative output gap would narrow by year-end, reducing the need for more easing. Even if growth recovers faster than expected, a fragile recovery outside of the semiconductor sector still requires supportive macro policies. Fiscal policy will play a critical role, while monetary policy is likely to offer targeted liquidity through lending facilities. Today, the BoK extended the Temporary Special Support program for low-credit self-employed and for SMEs by six months.

Considering recent macro conditions and the outlook, we maintain our view that the BoK will keep its policy rate at 2.5% throughout 2026.

FX was major factor in today's decision

During the press conference, Governor Rhee allocated considerable time explaining recent KRW movements. He provided justification for the interventions conducted in December, noting that KRW volatility was excessive and not aligned with fundamental market conditions. He also assessed that renewed won weakness in January was mainly due to global dollar strength, while strong USD demand from domestic investors also contributed. Even as the National Pension Service (NPS) and exporters increased FX hedging and dollar supply over the past month, retail investors continued to expand overseas investments.

Recent statistics showed that onshore investors' net purchase of US equities totalled around \$2bln as of 13 January, surpassing December's figure of \$1.8bln. Following US Treasury Secretary Scott Bessent's comments warning of excessive KRW movements, the USDKRW gained up to 1%, rising from 1,475 to 1,460. However, this morning, it rose back to 1,472 level.

Retail investors contributed recent KRW weakness

We anticipate the USDKRW may reach the 1,500 level in the near term, then moderate to 1,450 by mid-year. Strategic hedging by NPS is expected to become influential while the government will follow up FX stabilisation measures announced in December. The Reshoring Investment Account is likely to play a meaningful role by incentivising the repatriation of dollars into the domestic equity market. For investments up to 50 million KRW, investors who sell overseas stocks and purchase domestic stocks will benefit from reduced or fully exempted capital gains tax on their overseas holdings. These products are expected to launch by the end of January or February. Retail investors' capital flows are deemed the key determinant of short-term won trends and this initiative could help slow the pace of outward investment.

Policy	Announcement Date	Content
Submission of Foreign Exchange Conversion Details by Export Companies	01/12/2025	Policy to encourage export companies to convert earned dollars into KRW in order to increase dollar supply in the foreign exchange market
Amendment of the NPS Foreign Currency Bond Act	08/12/2025	Review of issuing Foreign Currency Bonds by NPS
Extension of NPS FX Swap with BoK with a Limit of \$65 Billion	15/12/2025	Agreement to extend FX swap transactions with NPS and BoK up to \$65 billion until the end of 2026
Mitigation of Supervisory Burden for Advanced Foreign Currency Liquidity Stress Tests	18/12/2025	Temporary suspension of supervisory burden for FX liquidity stress tests until June 2026
Adjustment of FX Forward Position System	18/12/2025	Reduction of Forward FX position ratio regulation for foreign exchange banks, lowering the limit for foreign bank branches from 375% to 200%
Expansion of Permission on Foreign Currency Loans for Residents	18/12/2025	Easing restrictions on foreign currency loans for KRW use to residents, allowing additional loans for domestic companies and working capital of export companies
Activation of Omnibus Accounts for Foreign Investors	18/12/2025	Activation of integrated omnibus accounts for foreign investors by removing restrictions on account opening entities
Clarification of Professional Investor Status for Foreign Companies Listed Overseas	18/12/2025	Recognition of foreign companies listed overseas as professional investors to reduce FX and financial market uncertainty and promote inflow of foreign currency funds
Temporary Suspension of FX Stabilization Fee	19/12/2025	Plan to temporarily exempt financial institutions from FX stability levy for six months (Jan-Jun 2026)
Temporary Implementation of Interest on FX Reserve Requirements	19/12/2025	Plan to pay interest on excess FX reserve deposits held by financial institutions for six months (Jan-Jun 2026)
FX Market Stabilization Measures	24/12/2025	FX authorities conducted verbal intervention in the market, issuing a stabilization message
Tax Exemptions on Reshoring Investment Accounts	24/12/2025	Exempts capital gains tax within limits and offers additional relief based on repatriation timing when investors sell overseas stocks by Dec. 23, 2025
FX Forward Hedging for Individual Investors with Capital Tax Incentives	24/12/2025	An initiative offering capital gains tax benefits to individual investors who hedge currency risk on overseas stock holdings through FX forward contracts, aiming to reduce exchange rate volatility and support foreign exchange market stability
Increase in Tax-Exempt Dividend Deduction Rate for Overseas Subsidiary Income	24/12/2025	A policy to raise the tax-exempt inclusion rate for dividends received from overseas subsidiaries from 95% to 100%, aiming to encourage repatriation of foreign earnings for domestic investment

Source: BoK, FSC, FSS, MoEF, etc

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