

The Bank of Korea held rates unchanged but signalled a cut ahead

With inflation trending down towards the target of 2% and the domestic economy slowing, the need for the Bank of Korea (BoK) to cut interest rates is growing. However, the recent sharp rise in mortgages and house prices in the Seoul area remains a major concern



3.5%

7-day repo rate

Thirteenth consecutive on-hold decision

As expected

The Bank of Korea kept its policy rate at 3.5% by a unanimous decision, putting more emphasis on financial stability

Governor Rhee Chang Yong explained today's on-hold decision, noting that there were numerous

events that could increase market volatility, including the Fed's policy decision, Bank of Japan Governor Ueda's testimony to Parliament, and the release of US labour data. Accordingly, the BoK has decided to maintain its current monetary policy stance for the time being and monitor the impact of these events on domestic financial markets and macroeconomic conditions. However, the Board's policy stance is clearly moving towards easing. For the three-month forward guidance, four out of six members favoured a rate cut, with the other two members favouring no change at 3.5%. So while there was no minority vote at today's meeting, the likelihood of an October rate cut has increased.

The meeting statement gives a clear signal of easing

We detected some noticeable changes in the statement as well. The BoK replaced text in the previous statement which talked about "uncertainty" concerning the path of inflation with "greater confidence that inflation will converge on the target level". Also, in the forward guidance part on maintaining a restrictive monetary policy stance, the BoK dropped "for a sufficient period of time" from its previous statement, signalling that the BoK was beginning to prepare for a pivot.

Downgrade of macro forecasts to 2024

The BoK also released its quarterly outlook report. As we expected, GDP and CPI for 2024 were fine-tuned to reflect weaker-than-expected growth and inflation outcomes in 2Q24. The 2025 forecast figures remained unchanged, so the overall outlook for the economy has not changed significantly.

We continue to believe that the Bank of Korea will cut rates in October

The Bank of Korea has opened the door to a rate cut in the coming months, but this could come in either October or November. The BoK has shown confidence that inflation is stabilising, so the focus will now shift to financial market stability and growth. The BoK is taking this time to watch the US Federal Reserve's interest rate decision in September and the market's reaction to it before making any decisions.

It is unlikely that house prices will have stabilised by October because, despite the recent tightening of macroprudential measures, it will take some time to rein household debt and homebuyer's sentiment. However, Governor Rhee emphasised that house prices themselves are not a target for monetary policy, so this will remain a concern but will not stop the BoK from easing. Also, inflation is likely to come down below the 2% target level for the next couple of months, and financial markets will probably have digested the Fed's rate action by the next BoK meeting. Consequently, we think the macro conditions will support a BoK rate cut in October.

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 www.ing.com.