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.

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