Mizuho Flash: Korea

Economics & Strategy | Asia ex-Japan

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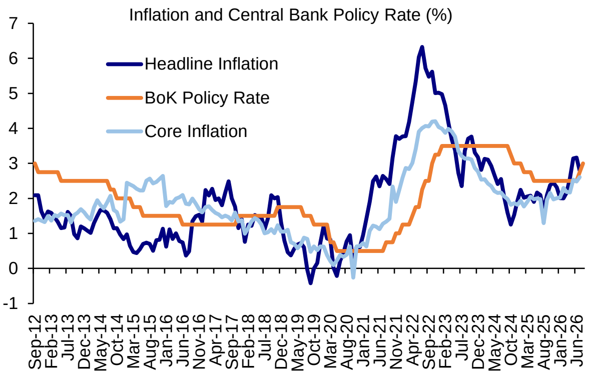
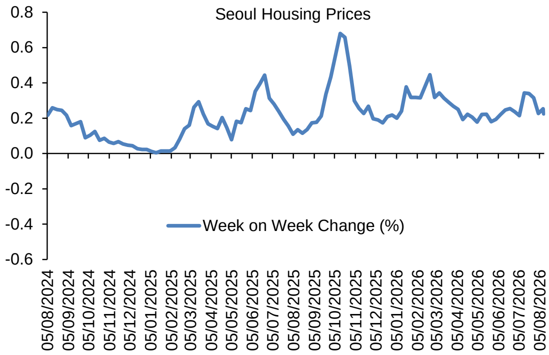
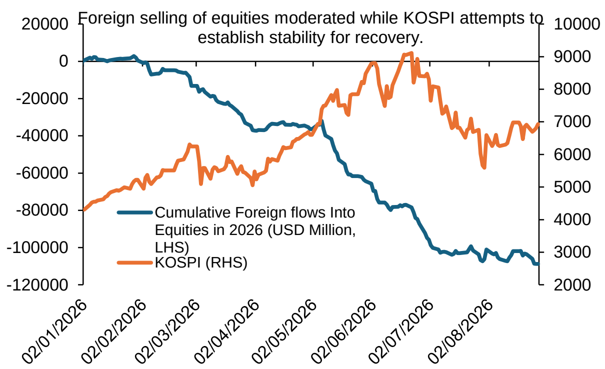
BoK: Shifting Calculus & Compounding Concerns



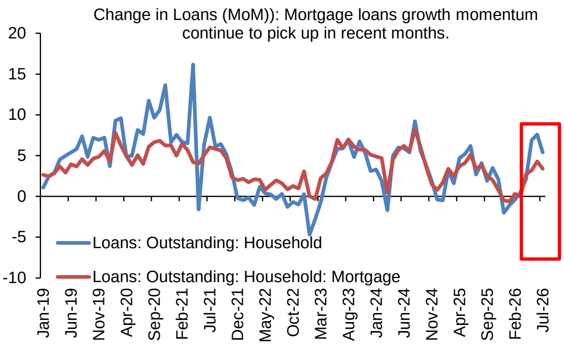
Source: CEIC; Mizuho



Sources: CEIC, Mizuho



Sources: Bloomberg, Mizuho



Source: CEIC; Mizuho

- This morning, the **BoK raised their policy rate by 25bp to 3.00%** as they upgraded growth forecasts with 2026 GDP growth projected at 3.3% while core inflation forecast for 2026 was lifted to 2.5% from 2.4%. Notably, there was a single dissenter who favoured unchanged rates. A **relatively rare consecutive increase in rates** with inflation at 2.8% point to **broader financial stability concerns** compounding onto increasing upside inflation risks. Governor Shin also alluded to back-to-back increases as not usual practice.
- The decision may also be reflecting Governor **Shin's inclination to be pre-emptive** on both inflation and debt sustainability issues. The **statement** also clearly **indicates** that this move is ***pre-emptive action*** which is ***important to prevent inflationary pressures from becoming widespread***.
- At this juncture, **given the shifts in monetary policy response function**, we envisage **room for two more rate hikes** which would take the policy rate to 3.50%, a recent high in 2022-23. The inclination to hike further is certainly evident with the BoK clearly indicating that they will decide on the **timing and pace of further hikes.**
- Their Dot Plot indicates **at least 1 hike in the next 6 months with a 75% probability distribution.**
- While the front-loaded nature of their move may imply less need for hikes, the rather **sticky nature of housing price momentum** may be hard to quell with their 50ps of hikes thus far.
- This is especially so as supply and demand dynamics collide with risk asset price buoyancy as the KOSPI continues to recover alongside perverse tendencies to front run further rate increase.
- All in, our **base case builds in another rate hike in Q4 2026** with potential for another **one in early 2027**, with an underlying preference for sooner rather than later as pre-emptive nature takes hold.
- Admittedly, rate hike path also depends on potential government measures to curb housing price growth which may intend reduce financial stability concerns.
- Meanwhile, the **KRW looks likely to sustain recent gains** especially with narrower rate differentials chipping at outflows. The yield curve is likely to see moderate flattening as rate hikes buoy the front end while growth aiding fiscal collection dampen the rise in long end yields.

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