

MNI BoK Preview – August 2025

Meeting Date:

[Link to Previous Statement](#)

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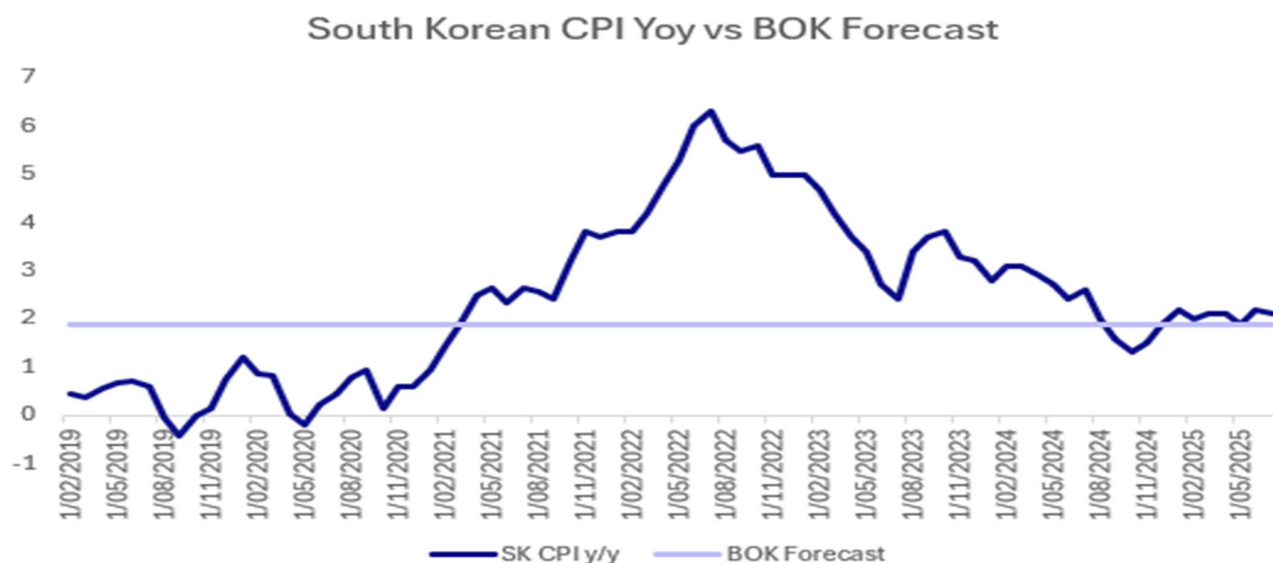
Contents

- **Page 1-4:** MNI POV – BOK on Hold with Eyes on Housing
- **Page 5-6:** BOK July 10 Meeting Statement.
- **Page 6: 7** Sell-Side Analyst Views

MNI POV (Point Of View): BOK on Hold with Eyes on Housing

The press release from the July meeting revealed the monetary policy committee saw inflation in Korea in the near term as stable, they touched on housing measures to calm the property market, the trade war and the outlook for the consumer.

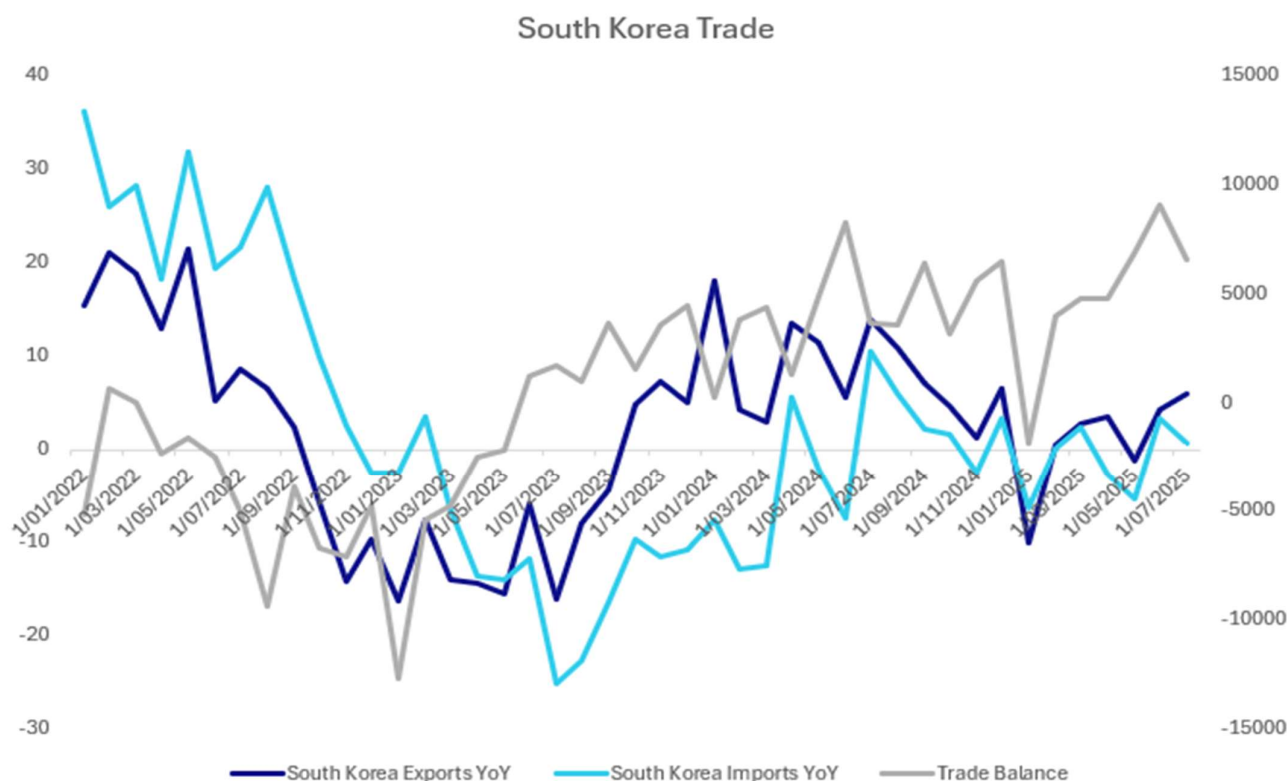
July's CPI release was in line with the committee's thinking with the year-on-year result at +2.1% a touch lower than the prior month's result of +2.2%; with the month-on-month release edging up from flat to +0.2%. The Bank of Korea's forecast is for CPI inflation is to remain stable at +1.9% in 2025.



source: Bloomberg Finance LP / MNI

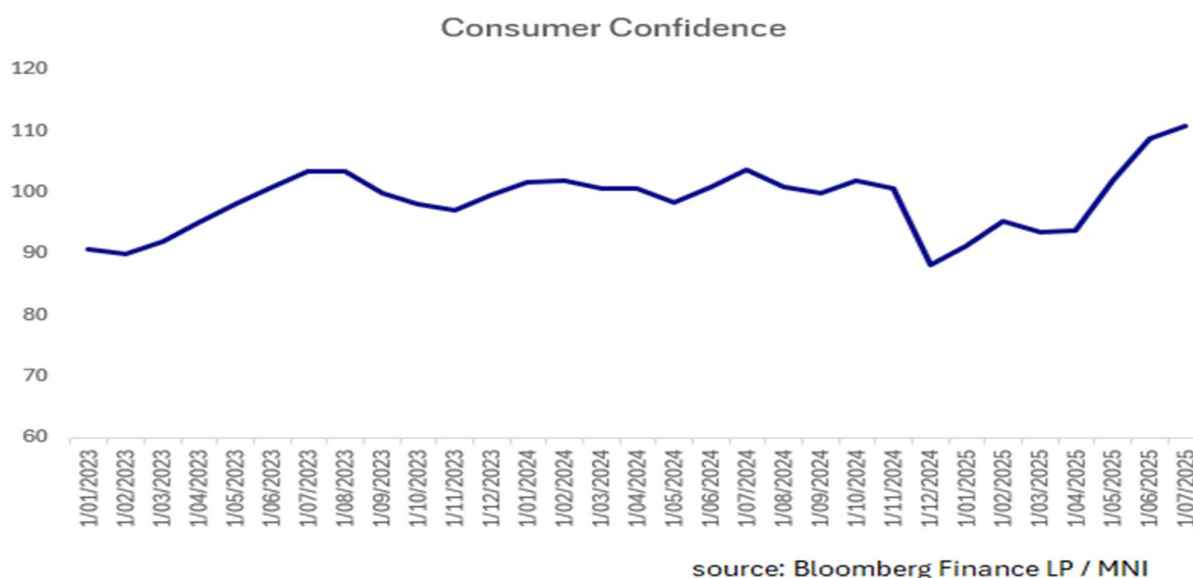
At the time of the last meeting, there was uncertainty around the outcome of a US tariff decision. A short time after the July meeting, US President Trump announced that the US will charge a 15% tariff on imports from South Korea. The announcement came just a day before a 1 August deadline for countries to reach agreements with the US or be hit with higher tariffs. South Korea had been facing a 25% levy if it had not struck a deal. Pressure on Seoul had been mounting after Japan, a key competitor in the car and manufacturing industries, secured a 15% tariff rate with the US just prior. The deal, which will also see Seoul invest \$350bn in the US, has been touted as a success in South Korea - especially given the record trade surplus of at least \$56bn with the US last year and creates greater certainty for Korean exporters and therefore policy makers.

Korean exports have been relatively stable throughout the trade war period, compared to regional peers. After a modest year-on-year decline in May, they have climbed steadily in June and July whilst imports have been more volatile.



source: Bloomberg Finance LP / MNI

A key event since the last monetary policy meeting has been the implementation of further government policies aimed at cooling the surge in house prices, particularly in Seoul. From August end, restrictions will come into effect on foreign homebuyers, as sales have seen dramatic increases from mainland Chinese buyers for investment only. Additional measures for domestic buyers include a tightening up of affordability tests (aimed at reducing the capacity of borrowers), mortgage lending caps and requirements that buyers must reside in the property. Despite this, consumer confidence remains strong with the July release showing that consumers are feeling more confident at present.



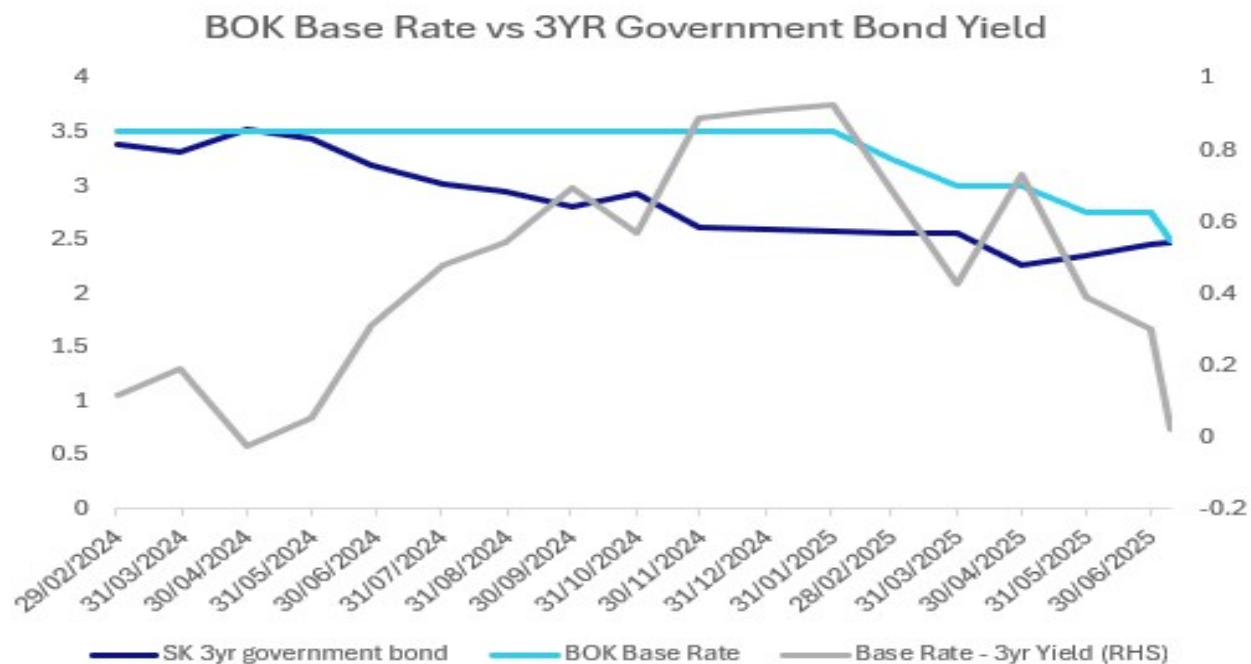
July retail sales were further evidence as to the health of the Korean consumer with strong gains posted. Korea's July Retail Sales year-on-year posted the strongest month in four as the recovery in consumer confidence becomes evident; up +9.1% and an increase from June's +7.3% result. The growing strength of the consumer gives the BOK something to think about as they approach the monetary policy decision tomorrow.



BoK Market Pricing Expectations

- Following the last BOK meeting the 3YR yield has been relatively stable, trading in a 5bp range.
- The 10YR government bond yield is more correlated to the US and rallied strongly in early August in line with treasuries, only to retreat on the back of huge issuance in the 10-year by the Korean government.
- The bond curve and swaps curve have largely priced out the cuts priced in earlier this year. As at today, the bond curve has only -7bps of cuts priced in over the next month and -22bps of cuts over the next three.
- The swaps curve doesn't have a full rate cut priced in now over next 12 months, expecting only -24bps of cuts. The probability of a -25bps cut over the next month is 30%.

With the presence of a 3-year bond future, it is arguably the most responsive to monetary policy. When we compare the yield on the three-year government bond to base rates, at present, there is -5bps of differential. In context at the time of the cut in May there was a 39bps differential.



Market consensus is firmly in favour of hold with only one of 23 respondents, advocating a cut.

We see compelling reasons to hold, whilst leaving the door open for perhaps one further cut in 2025, contingent on the outcome for inflation.

Monetary Policy Decision

July 10, 2025.

The Monetary Policy Board of the Bank of Korea decided today to leave the Base Rate unchanged at 2.50% for the intermeeting period. Economic growth is forecast to remain low for some time and there is high uncertainty related to trade negotiations, while the inflation rate remains broadly stable. However, as it is also necessary to assess the impact of the recently strengthened measures for household debt management and given the significant acceleration in housing prices in Seoul and its surrounding areas and household debt, the Board judged that it is appropriate to maintain the current level of the Base Rate.

Currently available information suggests that the global economy is expected to experience a gradual slowdown in growth and a divergence in inflation trajectories across countries as the impact of high tariff rates starts to materialize amid prolonged uncertainties surrounding the trade environment. In global financial markets, stock prices in major countries have risen significantly as risk-off sentiment has weakened due to easing tensions in the Middle East and due to some progress having been made in trade negotiations between the U.S. and China. Long-term U.S. Treasury yields have slightly declined on expectations that the U.S. Federal Reserve will resume interest rate cuts, and the U.S. dollar has continued to weaken. Looking ahead, the global economy and financial markets will be influenced by the results of tariff negotiations between the U.S. and major countries, as well as by changes in monetary policies in major economies.

In terms of the domestic economy, the sluggishness in growth has somewhat eased as consumption has improved due to the resolution of domestic political uncertainty and export growth has continued, although the decline in construction investment has persisted. The increase in the overall number of employed persons has expanded, but some major industries, such as manufacturing, have continued to see a decline in employment. Going forward, consumption is expected to gradually recover due to an improvement in economic sentiment and the supplementary budget, while exports are projected to slow due to the impact of U.S. tariffs. However, the future path of economic growth faces significant uncertainties concerning developments in trade negotiations with the U.S. and concerning the pace of recovery in domestic demand.

Consumer price inflation rose to 2.2% in June, driven by a sustained increase in the prices of processed food products and by the base effect from the prices of agricultural and petroleum products. However, core inflation remained unchanged from the previous month at 2.0% while short-term inflation expectations fell to 2.4% from 2.6% in the previous month. Going forward, inflation is expected to remain at around 2%, driven by subdued demand pressures and by the stabilization in global oil prices. Consequently, both headline and core inflation for this year are also expected to be generally consistent with the previous forecasts of 1.9%. The future path of inflation is likely to be affected by economic conditions at home and abroad, by movements in exchange rates and in global oil prices, and by the government's price stabilization measures.

In financial and foreign exchange markets, stock prices have risen sharply on improved investor sentiment, supported by expectations of regulatory reforms in the capital market. Long-term Treasury yields have increased due to the possibility of expanded government bond issuance. The Korean won to U.S. dollar exchange rate has fluctuated significantly in the mid- to upper 1,300 won range, influenced

by developments in trade negotiations and geopolitical risks. It is expected to remain highly volatile going forward. The housing market in Seoul and its surrounding areas, which had previously shown signs of overheating, appears to be stabilizing somewhat following the implementation of the government's household debt measures. Meanwhile, the housing market in the rest of the country has remained sluggish. Household loans have continued to grow at a high pace, reflecting the recent increase in housing transactions.

The Board will continue to conduct monetary policy in such a way as to stabilize consumer price inflation at the target level over the medium-term horizon as it monitors economic growth while paying attention to financial stability. The domestic economy is expected to experience continued low growth for some time, while inflation remains on a stable trajectory, and there is considerable uncertainty related to trade negotiations. Regarding financial stability, as risks associated with the housing market in Seoul and its surrounding areas and with household debt have increased, it is necessary to assess the effect of the macroprudential policies while remaining cautious about the possibility of heightened volatility in the foreign exchange market. Therefore, the Board will maintain its rate cut stance to mitigate downside risks to economic growth and adjust the timing and pace of any further Base Rate cuts while closely monitoring changes in the domestic and external policy environments and examining the resulting impact on inflation and financial stability.

Sell-Side Analyst Views

ANZ (Hold): “We think the odds have shifted in favour of the Bank of Korea (BoK) leaving its policy rate unchanged at 2.50% at its upcoming meeting (Thursday 28 August at ~09:00 SGT) amid ongoing financial stability concerns. At the July meeting, the BoK underscored its unease over household debt and housing market dynamics, even as growth remained subdued. Since then, there have been tentative signs that the June tightening measures are gaining traction, with the pace of house price gains slowing. Governor Rhee recently acknowledged this cooling, but he also cautioned that price pressures persist in pockets of the capital. With downside growth risks easing, the BoK has scope to be patient. The Korea-US tariff negotiations concluded with a lower-than-threatened rate of 15% and concessions for the auto sector, while domestic demand is showing signs of recovery amid improved political stability. Consumer sentiment has rebounded, and the government’s coupon initiative (worth 0.5% of GDP and to be spent by 30 November) is providing a near-term boost. We still expect a 25bp rate cut later this year, assuming housing market risks continue to moderate.”

DBS (Hold): “The BOK is expected to keep its policy rate unchanged at 2.50% at this meeting, while leaving the door open for one final rate cut later this year. The central bank is also likely to maintain its 2025 GDP growth and CPI forecasts at around 0.8% and 1.9%, respectively, with only minor adjustments, if any. The recent trade agreement with the US, early signs of a recovery in domestic demand, and the rollout of fiscal stimulus have reduced the urgency for further easing. At the same time, the BOK may want to ensure that the cooling in the property and loan markets is proceeding in a sustainable manner. The timing of the Fed’s rate cuts and their implications for capital flows and the KRW will also likely be factored into the BOK’s decision-making. We continue to expect one final 25bps rate cut later this year, once the impact of tariffs on exports becomes clearer, the property market softens further, and the Fed begins to ease policy.”

Goldman Sachs (Hold): “We continue to expect the Bank of Korea (BOK) to hold rates steady at its August 28 meeting with dovish guidance. Consumption shows early signs of recovery but remains weak while inflationary pressures stay moderate. Export performance has been resilient through July, and the outlook has improved somewhat following a recent US-Korea trade deal, which has helped ease depreciation pressure on the KRW. That said, both the Governor and most Monetary Policy Committee (MPC) members have emphasized the need for more time to assess the impact of recent measures to stabilize housing markets in Seoul. A dovish hold would give the MPC space to monitor household debt trends, evaluate the effects of ongoing fiscal stimulus, and track the policy stance of the Fed. Given our Fed call of five 25bp cuts including in September, October, and December, we expect the Korea–U.S. policy rate differential to begin narrowing by mid-September.”

J.P.Morgan (Hold): “Reflecting some improvement in the GDP growth outlook and the gradual increase in household debt growth, the Bank of Korea’s policy rate according to our estimate of the policy reaction function is still projected to converge to the 1.5% level, but the pace is about 25 basis points slower than previously expected by next year. Additionally, considering the BoK’s ongoing concerns about rising household debt and real estate prices, there may be a need to adjust the

expected pace of base rate cuts, which were previously anticipated to occur once per quarter.

We have revised our forecast to show rates on hold at the August MPC meeting, and have adjusted our terminal rate forecast at the end of next year to 1.75% instead of 1.5% (Figure 2). The specific timing of rate cuts may vary depending on data and the global financial environment, including the rate cut cycle of major advanced countries. However, our model suggests a quarterly trend of 25 basis point cuts in 4Q25, 1Q26, and 3Q26. Although there is considerable uncertainty about the monthly timing of cuts, we expect the next cut to occur in October 2025 after the August hold. Subsequent cuts are anticipated in February and August next year, aligning with the BoK's economic outlook updates schedule."

Scotiabank (Hold): "The Bank of Korea has already cut by 100bps since last summer including this May's 25bps reduction before pausing in July. The oscillating cut-hold-cut pattern this year might set this meeting up for a cut. Inflation at 2.1% is close to the medium-term 2% target, but plenty of mixed uncertainties lie ahead. South Korea has certainty in a bad trade deal with the US. Concern about the economic outlook, housing imbalances, and won stability overhang the decision, though the government's recent decision to apply restrictions on foreign property purchases in Seoul could help counter some stability concerns if the BoK chooses to ease again."

SocGen (Hold): "We expect the BoK to keep its policy rate unchanged at 2.50%. The settlement of a US-Korea trade deal has helped remove tariff uncertainty. Fiscal policy is also set to be supportive following the announcement of the new supplementary budget, which should help pave the way for a mild recovery. Meanwhile, the BoK has warned against rising house prices in Seoul and is concerned about the household debt problem. With all these factors in mind, we think the BoK will likely remain in a wait-and-see mode in August. That said, given weak domestic demand, we still expect a 25bp cut in 4Q25, as hinted by the BoK in the July meeting. Mild signs of recovery, but growth will remain subpar given the tariff shock. The Korean economy finally gained some traction following sluggish momentum for several quarters. The economy expanded by 0.6% qoq in 2Q vs. -0.1% qoq in 1Q. This was helped by net exports amid the recovery in semiconductors and the rebound in household and government consumption, while the decline in business capex continued, partially dragged down by construction. Looking ahead, we expect the recovery in domestic demand to continue, thanks to the supplementary budget (0.8% of GDP), which entails cash handouts to citizens and spending initiatives to support SMEs, AI, and green industries. However, the package is likely still insufficient to lift next year's GDP growth to its trend pace of 2%. House prices have yet to show clear signs of cooling, but loan growth is softening. CPI was 2.1% in July owing to elevated food prices, while the core reading was in line with the BoK's 2% target. We expect CPI inflation to be contained given soft domestic demand. However, house prices in Seoul—something that the BoK has been watching closely—have been trending up, while prices nationwide have remained subdued. On the other hand, household mortgage loan growth has been on a downtrend, slowing from 5.7% in March to 5.0% in July, as the government's tightening measures seem to be working. Further tightening targeting foreign buyers should help to tame sentiment as well."

UOB (Hold) : “According to Bloomberg’s poll of 6 economists, the majority (5) expects no change to BOK official bank rate at 2.50% but one expects a 25-bps cut to 2.25% (as of 22 Aug). Our economist, Ho Woei Chen, also does not expect a move in Aug, and she expects the economic outlook to improve in 2H25, helped by a more favourable base effect and improvement in sentiments. She maintains the forecast for 2025 and 2026 growth at 1.0% and 1.7% respectively. That said, for this year, she retains the call for one more 25-bps cut in 4Q25 (likely in Oct). Additionally, she expects one more 25-bps rate cut in 1Q26 to bring the base rate to a terminal level of 2.00%.”

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