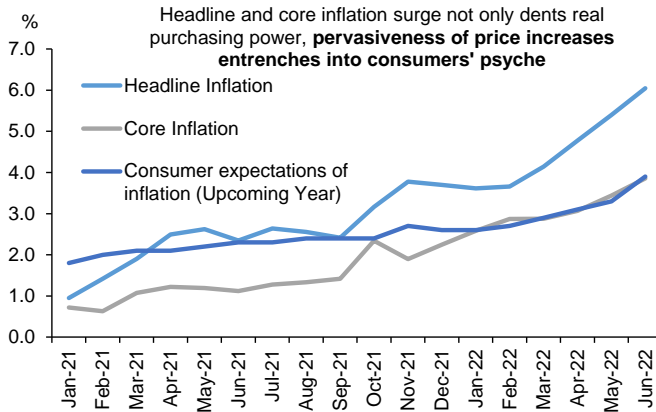
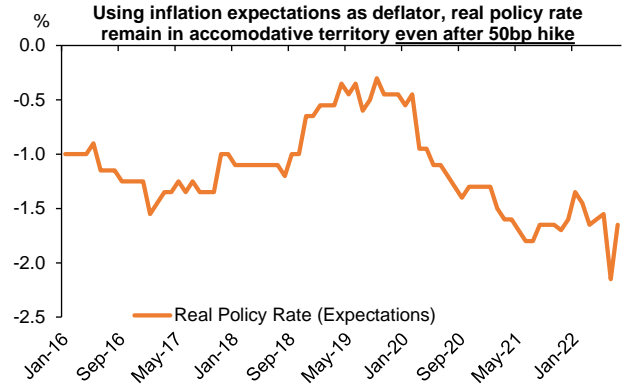


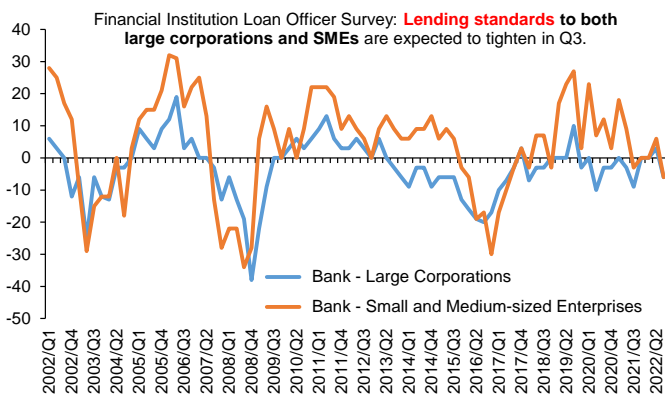
Bank of Korea: 50 is not the New 25



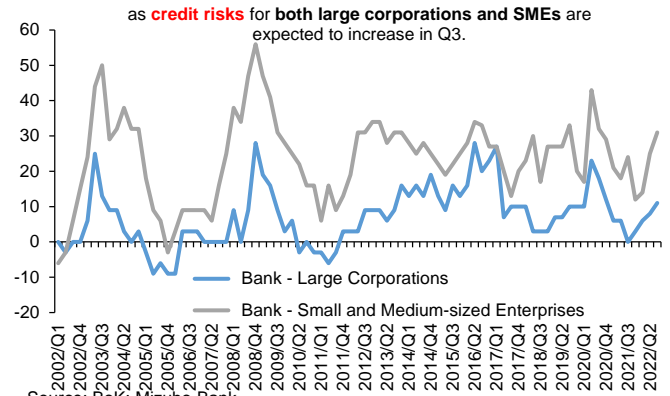
Source: CEIC; Miuho Bank



Source: CEIC, Mizuho Bank.
Note: July Expectations assumed to be same as June.



Source: BoK; Mizuho Bank
Note: A positive figure indicates easing of lending standarrds, negative figure indicates tightening



Source: BoK; Mizuho Bank
Note: A positive figure indicates increase in credit risk, negative figure indicates decrease in credit risk

- The Bank of Korea (BoK) delivered on expectations for **unprecedented and unanimous 50bp hike to take policy rates to 2.25%**. This unequivocally expressed the desire and urgency to **anchor inflation expectations** (See Mizuho Chart Speak: [Headwinds Manifest](#), 21 June). **But “50 is not the new 25” for the BoK as downside risks to growth and front-loaded hikes suggest defaulting to gradual, cautious and data-dependent 25bp hikes.**
- Moreover, this move remains a critical complement to backstop KRW (which has depreciated sharply this year) to temper imported inflation and mitigate risks from an impending hawkish Fed move.
- Looking ahead, the BoK’s **policy statement displays the essence of a stagflation shock** as they **upgraded headline inflation to above 6%** while core inflation is expected to exceed 4% for considerable periods. **2022 GDP growth is also expected to fall short** of their 2.7% estimate.
- While the statement has continued to signal the **need for further monetary tightening**, the **stagflation** background may **increasingly sharpen policy trade-offs**. This was **reflected in Governor Rhee’s preference for gradual 25bps; deemed more desirable to mitigate costs of tightening.**
- In a highly volatile environment, and against a backdrop of elevated household debt, the BoK and observers alike continue to grapple with the slippery concept of “neutral rates”; the path to which Governor Rhee has suggested would reasonably lead to 2.75%-3.00% by end of 2022.

- With 3 policy meetings remaining (Aug, Oct, Nov), this ought to reasonably decompose to 25bp hikes in most (if not all) of these meeting. Nevertheless, the key takeaway remains that **of rising caution in the BoK's assessment** as they highlight downside risk to growth being **“indeed high”**.
- In addition, in a **tacit acknowledgment of restrictive policy**, policy statement evolved from “adjust the **degree of accommodation**” in May’s statement to “determine the **size and pace of further increase of base rate**” in today’s statement.
- Admittedly, while we concede that real borrowing cost are in highly accommodative territory, **we remain in favour of a slower pace of rate hikes** given the need for transmission onto real economy activity and **rising economic costs as nominal policy rate encroaches into relatively restrictive settings**.
- Recent loan officers survey indicated that lending standards to both large corporations and SMEs will tighten in Q3 while credit risks rise. Consequently, this may slow investments and business formation and weigh on economic activity.
- While arresting **inflation remains the key priority** at this juncture, this is not in isolation to mounting risks to growth. And the stress building up in the economy **will increasingly factor into the BoK's calculus bringing the momentum of 25bp rate hikes to a halt soon rather than later**.

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