

## Korea: Central bank may cut growth, inflation forecasts

The BoK meeting on 24 January will not change interest rates from the current 1.75% rate (raised 25bp at the 30 November 2018 meeting), but some downward revisions to their GDP and inflation outlooks for 2019 are possible



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# 2.7%

BoK forecast of 2019 GDP growth

Inflation 1.7% - BoK forecast

The BoK meeting on Thursday will see no change in policy rates. We are still trying to find some plausible justification for the 30 November 25bp rate hike to 1.75% without any notable success.

However, the BoK summary may include changes to the outlook for both growth and inflation in 2019.

Unlike us, the BoK must have had a strong 4Q18 forecast built into their annual numbers to enable them to forecast full-year growth of 2.7% in 2018. This is what actually happened, based on the 4Q18 figures, so they won't have the same arithmetical boost to their 2019 average that we have.

Moreover, with the external environment (China, Trade, technology) looking worse than it did back at the time of the November BoK meeting, there is a chance that they even nudge down their 2.7% 2019 GDP forecast by a tenth of a percent.

The BoK's inflation forecast of 1.7%YoY for 2019 also looks challenging at this stage, and probably only achievable with considerably stronger energy prices and an adverse weather-shock to food prices to match that in 2018. The current headline and core inflation is running at only 1.3% YoY. We think the BoK has room to cut the 2019 CPI inflation figures a tenth of a percent too to 1.6%.

Reduced growth and inflation outlooks could weigh on expectations for the BoK. No further hikes are envisaged this year. But a further weakening in growth and inflation could raise thoughts of a reversal of the November hike, all of which plays to a somewhat weaker KRW near term.

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