

Bank of Korea - in no hurry to move

Today's Asia headline was the Bank of Korea meeting - there was little expectation that they would move today - they didn't - or even this year. Next year is another matter...



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Central bank reviews - what's the point?

Against the backdrop today of rather boring financial markets, our focus today is on one of the major central bank meetings of the region.

Writing central bank meeting reviews and previews was once a mainstay of economist output - but increasingly, one wonders what is the point? Few global central banks are anywhere close to reversing the accommodation that was put in place during the early months of the pandemic, and that also goes for central banks in Asia. Indeed, with Asia suffering more than it has for a while in terms of renewed daily Covid infections, there seems little sense in unwinding policies under conditions of such uncertainty. All of these considerations applied to today's Bank of Korea (BoK) rate meeting.

Yes, inflation is higher in Korea than it has been since 2017 - but base effects and supply-side bottlenecks explain much of that. Admittedly some demand factors are also pushing up prices through commodities and semiconductors, which in turn are pushing up prices of consumer goods. But that is a small part of the overall inflation story and not an undesirable one considering how

bombed out prices have been for so long.

Growth too is looking better, though again, it's not surprising considering the depths of where we have come from, and Korea is only just recovering lost output from 2020, and there remains evidence of slack in the labour market, especially amongst the younger members of the labour force.

Not now, but when?

So clearly not now, but when? We will look to the BoK commentary later to provide some insight into this, but again, with matters so uncertain, I suspect they will feel no strong incentive to give precise clues for us to follow. But here are some things they may want to see before they consider moving rates higher again.

1. Some evidence elsewhere in the world that tightening is imminent - so a taper from the Fed would seem to tick that box when it comes...
2. Inflation persisting beyond the end of the year - in other words, evidence that inflation is more than just base effects, and once bottlenecks of supply are eased...
3. Growth making up the gap of "where GDP would have been" - not just closing the pre-Covid gap - still some way off...
4. Covid numbers locally under control and vaccine rollout much further advanced, lowering the probability of renewed waves and restrictions...not likely before year-end at the earliest
5. Covid numbers regionally remaining stable and vaccine rollout making the future look more predictable - again probably more likely next year than this year...
6. KRW not looking too strong - subjective, and depends on what else is going on, but it looks reasonably priced today though we would anticipate some appreciation through the rest of the year.

Putting all of this together, and I would say that the chances of a rate hike this year are pretty small. But next year is another matter. We do have some tightening priced in, though not much and we have pushed that into the second half of next year. Circumstances could bring that forward, though for now, it is a reasonable holding forecast, and in line with the consensus view.

It is also not the start of a forecast string of hikes, and we expect only a short spell of tightening before rates peak out, owing to high levels of household debt and sensitivity of the housing market, which is a factor that may also need to be factored into any BoK timing. For a longer consideration of the Korean economy, [please see our recent country note.](#)

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