

Bank of Korea raises inflation forecast

The Bank of Korea (BoK) left its policy 7-day repo rate unchanged today at 0.5%, but raised its forecast for 2021 inflation to 1.3%. Governor Lee does not see inflation being a problem for some time, and we don't see any change in policy rates from them this year



Source: Shutterstock

1.3% 2021 inflation
BoK forecast

Time to take a new look at the numbers

Leaving the policy 7-day repo rate unchanged, the BoK did revise higher their inflation forecast for 2021, taking it from 1.0% to 1.3%. This is exactly in line with our own full-year forecast for the year and makes us wonder if we shouldn't take a re-look, with a view to pushing it a little higher. Rising oil prices, and rising prices of electronics for which demand remains strong, will push up prices on a number of manufactured goods. So some further upward revision to our own forecasts seems like it may be worth a look.

Beyond this, the BoK's assessment of the economic recovery remained broadly in line with their November assessment, as "moderate". Consumer spending remained weak, let down recently by very poor labour market data, while the export and investment sides of the economy remain buoyant. The 3% BoK forecast for GDP growth in 2021 is unchanged from their November meeting and a bit stronger than our own 2.6% full-year 2021 GDP forecast.

With domestic weakness persisting, the continued ramp-up of household debt and strongly rising house prices - no longer just a Seoul phenomenon - hints at imbalances in this economy, and is one reason why we believe S Korea could be one of the first countries in Asia to begin to remove monetary accommodation, though we believe it is extremely unlikely to do so this year. Next year, however, remains a realistic possibility, especially if vaccine rollout in Korea is well advanced by then.

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