

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.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.