

## Korean 4Q21 GDP growth recovers

Korean GDP grew by 1.1% in 4Q from the previous quarter, delivering growth of 4.1% for the full year 2021. The economy seems to be weathering the latest Covid wave and growth momentum at the beginning of 2022 is looking good



Source: Pexels

**1.1** 4Q21 GDP growth  
QoQ%

As expected

### Better than 3Q21

After a Covid-battered 3Q21 GDP growth rate of only 0.3%QoQ, the bounce back to 1.1% was a welcome recovery, especially as Korea is still not out of the woods as far as its latest Covid wave goes.

The 1.1% QoQ GDP growth rate delivers a respectable full-year growth rate for 2021 of 4.1% and provides a solid base for growth in 2022. GDP growth is likely to be harder this year, lacking the

positive base effects of 2021 and working against rising policy rates and a worsening risk environment. But our existing 2.8% 2022 GDP forecast looks like it will need revising up to around the 3.0% level - which would be on par for this economy, and a decent result against a trickier background.

## Contributions to QoQ GDP growth (pp)



Source: CEIC, ING

## What led the growth?

Unlike the previous two quarters, government fixed capital formation (0.5pp) provided a helpful lift to GDP in the fourth quarter, bolstering what was also a solid contribution from personal consumer expenditure (0.8pp). Spending on new construction (0.4pp) was also a positive contributor. A positive net export contribution (+0.3pp) was totally subsumed by shrinking stocks (-0.3pp), as is often the case.

## What next for the Bank of Korea?

These strong growth figures on their own don't require a radical reassessment by the Bank of Korea, but they vindicate the policy tightening that has already taken the policy rate to 1.25% from its pandemic low of 0.5%.

They also raise the probability that we see one more rate hike this quarter. BoK Governor Lee steps down after the March meeting, and it could be some time before a replacement is appointed due to the timing of the Presidential Election. Consequently, there is now a stronger argument for a further precautionary hike before the end of the quarter in the event of a temporary leadership vacuum - though this doesn't seem to be buoying the KRW, which softened on the release and is trading a little above USDKRW 1197, up from yesterday's lows of about 1193.50.

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