

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.

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>.