

## Solid footing, but with risks

Thursday, August 31, 2017

### Highlights

- **The Bank of Korea left its benchmark rate unchanged at 1.25%, in line with our expectation.** All members voted unanimously to keep its seven-day repurchase rate at a record low. The central bank expects GDP and CPI growth to be in line with July's forecasts at 2.8% and 1.9%, respectively.
- **In essence, the monetary policy report indicates that the Korean economy is still on solid footing, but with risks.** Overall, domestic economic growth has been underpinned by the improving external environment and domestic consumption. Employment conditions have improved moderately, especially in the manufacturing sector where positive year-on-year growth in total employed has been observed.
- **However, in the televised speech, Governor Lee highlighted the economy's elevated household debt levels, where "prolonged accommodative policy stance can worsen imbalances".** Note that Korea's household levels touched new highs again at KRW1,388.3 trillion at the end of June, marking a 2.1% increase from the previous quarter. Moreover, geopolitical uncertainties are high given the recent intensification in geopolitical tensions, in which domestic market volatility has increased significantly.
- **Barring any further intensification of geopolitical risks, we keep our full-year growth outlook at 3.0%, slightly higher versus official outlook.** As already observed in its last 2Q GDP reading, Korea's positive external environment has invariably benefited its manufacturing space and household consumption. Moreover, positive spillover effects from President Moon Jae-in's extra KRW11.0 trillion supplementary budget should play out into the year. Given the elevated uncertainties and tame inflation pressures, BOK is likely to keep its benchmark rate unchanged for the year ahead.

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