

More upside risk to growth?

Thursday, May 25, 2017

Highlights

- **The Bank of Korea kept its benchmark rate unchanged at 1.25%**, as widely expected by market-watchers. It has been a year since BOK adjusted rates (the last cut was in June 2016). Importantly, this is also the first meeting since President Moon Jae-in took office. In a nutshell, the central bank observes that domestic economic growth has expanded, while initial volatility in its financial markets seen in the early part of this year has calmed to-date.
- **Encouragingly, the policy-makers cited that growth will likely print slightly above its April's growth outlook of 2.6% for the whole year.** In our opinion, growth will likely be underpinned by the observable improvement already seen Korea's export and investment numbers, while its labour environment had improved given the uptick in persons employed. Still, we remain concerned over household debt levels, especially seen from the weak growth pace in domestic consumption, while "household lending has sustained its high rate of increase exceeding past years' levels".
- **We opine that BOK is in no hurry to raise rates, nor does it have any viable room to cut rates further given the risk over widening rate differentials and exacerbation of domestic debt levels.** Inflation outlook appears to be manageable with BOK's view for full-year CPI growth at a mere 1.9% while core is pencilled in the mid-upper 1% range. For the year, government fiscal expenditure would likely be used as a tool to stimulate growth, should we recall President Moon's campaign promise to inject KRW10 trillion to stimulate growth. We leave our GDP and CPI forecast at 2.5% and 2.0%, respectively, while expecting BOK to leave rates unchanged at 1.25% for the whole year.

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