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KOREA INFLATION EASES AMID WEAK WON

NEWS SUMMARY

South Korea's headline consumer price inflation eased further in December 2025, bringing annual inflation closer to the BoK's target of 2% after peaking well above it in 2022-23. The moderation reflected softer food and energy prices and slower core goods inflation, even as the weak won contributed to raise the local-currency cost of imported commodities and manufactured inputs.

Core inflation also drifted lower, suggesting underlying price pressures are gradually normalizing, assisted by tighter monetary policy and cooling domestic demand. Nonetheless, the central bank has stressed that exchange-rate volatility and geopolitical risks remain upside risks to the inflation path.

MARKET REACTION: WON, YIELDS AND EQUITIES

The inflation prompted only a modest reaction in financial markets, as the data aligned with expectations that price pressures would continue to ease into 2026. Government bond yields edged slightly lower at the front end, reflecting increased market confidence that the BoK could move toward policy normalization if disinflation persists.

The won remained under pressure against the dollar and regional peers, as concerns over global growth, US rate expectations and Korea's export outlook continued to weigh on the currency. Korean equities saw a mixed response: domestically oriented sectors benefited from the prospect of lower inflation and eventual rate cuts, whilst export-heavy names remained sensitive to FX moves and external demand.

DRIVERS OF DISINFLATION

The key driver of the cooling inflation has been the normalization of energy and food prices after geopolitical shocks that pushes global commodities sharply higher. Simultaneously, slower growth in domestic demand has reduced pricing powers for retailers and service providers, signaling ease in core goods and service inflation.

However, the depreciating won has partially offset the disinflationary forces by lifting import prices, particularly for energy, intermediate goods, and consumer products. The offset is more visible in the tradable goods component of CPI, whilst non-tradeable services have shown an adjustment linked to wages and local demand.

IMPLICATIONS FOR THE BOK

The BoK must balance softer inflation against the risk of easing too quickly. Lower headline and core readings create room to consider rate cuts in 2026 if growth and activity weaken further. Cutting early, however, could pressure the won, lift imported prices and jeopardize efforts to keep inflation near target, so officials continue to stress a cautious, data-driven stance.

HOUSEHOLDS, FIRMS, AND SUSTAINABILITY

For households, easing inflation offers some relief after years of squeezed real incomes, especially for lower-income groups spending heavily on essentials. A weak won still keeps many imported goods expensive and high rates weigh on mortgage borrowers, while exporters benefit from currency depreciation even as import-reliant firms and SMEs face higher input costs and softer domestic demand. The durability of disinflation will hinge on global commodity prices, the won's path and external demand, which together will shape how quickly the BoK can safely shift toward easier policy.