

Impacts of Global Factors on Inflation

— Focusing on Trend Inflation Analysis —

KIM, Byungkuk* and RO, Hyeon Ju**

Despite unprecedented accommodative policy measures since the global financial crisis, inflation in major countries has shown downward synchronization, remaining below the target for an extended period of time. Major factors behind this phenomenon include globalization involving the expansion of global value chains, as well as social and economic structural changes such as population aging and the spread of online transactions. In this regard, this paper estimates global trend inflation based on inflation rates in major countries, and examines how global structural factors have affected the trend of inflation in Korea.

The results of the analysis indicate that global inflation has been exhibiting a downward trend since the global financial crisis, and more specifically since the fourth quarter of 2011, and that global trend inflation has had an increasing impact on the trend inflation of individual countries. Looking at Korea, fluctuations of trend inflation are better explained than those in major countries by global factors, and this trend has recently been strengthening even further. Global factors are also analyzed to have growing impacts across the goods and services sectors.

Such growing influence of global factors on Korea's inflation may work to slow down the pace at which inflation converges to its target level. In this regard, it seems necessary to continue analyzing changes in inflation dynamics and the resulting inflation forecast path, while strengthening communication with

economic agents.

* Senior Economist, Inflation Monitoring & Forecasting Team, Research Department, Bank of Korea (Tel: +82-2-759-4220, e-mail: hibkkim@bok.or.kr)

** Junior economist, Inflation Monitoring & Forecasting Team, Research Department, Bank of Korea (Tel: +82-2-759-4267, e-mail: hjnoh1357@bok.or.kr)

- The contents of this paper represent the personal opinions of the authors and do not necessarily reflect the official view of the Bank of Korea. Any report/citation of this paper should specify the names of the authors.

I. Introduction

II. Related Research

III. Methods

IV. Analysis Results

V. Conclusion