Korea

GDP growth is projected to strengthen from 1.3% in 2023 to 2.6% in 2024 and 2.2% in 2025. Elevated debt servicing burdens and still-above-target inflation will continue to weigh on private consumption and investment in the short term, but domestic demand should recover in 2024. Exports will keep improving with robust semiconductor demand. Inflation will reach the target by the end of 2024, despite current food price pressures and rising energy prices. Employment is set to continue expanding, while unemployment will stabilise at a low level.

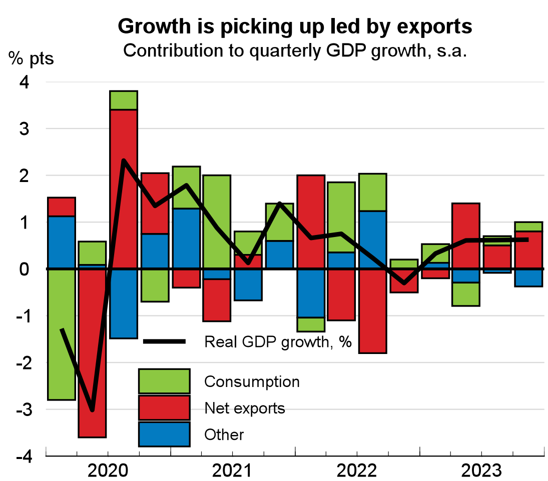
The monetary policy stance is appropriate, with easing expected from late 2024. Fiscal consolidation ought to proceed gradually by implementing the proposed fiscal rule. Boosting competition in the domestic market would help increase SME productivity. Further strengthening family policies and reducing labour market duality could increase fertility and female employment, while lengthening working lives. Allowing more immigrants to enter the country could offset some of the negative impacts of rapid ageing.

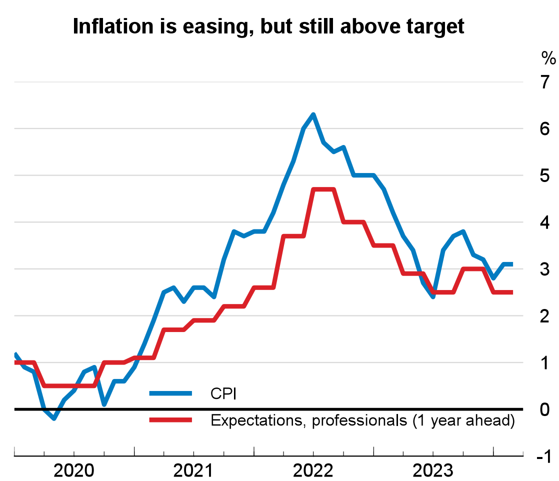
Growth is rebounding from a soft patch

Real GDP grew by 0.6% in the fourth quarter of 2023, mainly driven by exports. Private consumption was feeble and investment, notably in construction, contracted due to high interest rates, weak real wage growth and the sluggish housing market. Headline consumer price inflation decreased to 2.8% in January before edging up to 3.1% in March on account of increasing agricultural product prices. Core inflation moderated to 2.4% in March. The labour market is performing well, with historically high employment and low unemployment.

Stronger global demand for computer chips remains a major driver of Korea's growth. Customs exports continued to rise in March with robust semiconductor demand. The Red Sea crisis is not directly causing a reduction in trade volumes, but increased shipping rates add to trade costs, notably with the European Union.

Korea





Source: OECD national accounts database; and Bank of Korea.

StatLink https://stat.link/oujnws

Korea: Demand, output and prices

Korea	2020	2021	2022	2023	2024	2025
	Current prices KRW trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 940.7	4.3	2.6	1.3	2.6	2.2
Private consumption	900.3	3.6	4.1	1.8	1.6	2.4
Government consumption	350.1	5.5	4.0	1.3	1.2	1.4
Gross fixed capital formation	607.5	3.2	-0.5	1.2	0.4	1.9
Final domestic demand	1 857.9	3.8	2.6	1.5	1.1	2.0
Stockbuilding[1]	11.3	-0.1	0.1	-0.1	-0.4	0.0
Total domestic demand	1 869.2	3.7	2.6	1.4	0.7	2.1
Exports of goods and services	705.6	11.1	3.4	2.9	5.5	2.4
Imports of goods and services	634.1	10.1	3.5	3.1	1.2	2.2
Net exports[1]	71.5	0.7	0.1	-0.1	1.9	0.2
Memorandum items						
GDP deflator	_	2.8	1.3	2.1	3.3	2.6
Consumer price index	_	2.5	5.1	3.6	2.6	2.0
Core inflation index[2]	_	1.4	3.6	3.4	2.2	2.0
Unemployment rate (% of labour force)	_	3.6	2.9	2.7	2.9	2.9
Household saving ratio, net (% of disposable income)	_	12.6	10.8	11.2	10.8	10.1
General government financial balance (% of GDP)	_	-0.3	-1.8	-1.8	-1.6	-1.2
General government gross debt (% of GDP)	_	50.9	53.6	55.1	57.0	58.7
Current account balance (% of GDP)	_	4.7	1.4	2.1	3.5	3.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 115 database.

StatLink https://stat.link/8p5olj

Monetary and fiscal restraint continue

The Bank of Korea has maintained the policy rate at 3.5% since January 2023. The policy rate is assumed to remain at the current level until late 2024, when inflation approaches the 2% target, before being cut gradually to 2.5% by mid-2025. The fiscal stance in 2024 is mildly contractionary due to an expected rebound in tax revenue after a massive shortfall in 2023 and contained growth in discretionary expenditure. A temporary fuel tax cut implemented in 2021 is likely to be extended further in the short term, but the OECD projections rest on the assumption that it will be phased out by 2025 as inflation stabilises. Continued gradual fiscal tightening is assumed for 2025, consistent with the government's consolidation plan.

Growth is projected to strengthen

Real GDP growth is projected to rise to 2.6% in 2024 and 2.2% in 2025. Rebounding global demand, notably for semiconductors, will push up exports in 2024. Private consumption and investment are expected to rebound from late 2024, as interest rates start to decline. Headline inflation is projected to stay at around 3% in the short term with increased energy and food prices before gradually moderating to target by the end of 2024. Faster-than-expected deleveraging in household and project financing loans could dampen private consumption and construction investment. Heightened geopolitical tensions could threaten Korean supply chains and push up inflation. If inflation falls faster than forecast and interest rates are cut more decisively, private consumption and investment may surprise on the upside.

Structural challenges require policy action

Rapid population ageing requires structural reform and fiscal consolidation. The proposed fiscal rule, which caps the managed budget deficit at 3% of GDP, should be implemented together with reforms to lengthen working lives, increase immigration and boost youth employment. Pension reforms need to provide adequate retirement income but also ensure financial sustainability. Policies should also focus on reconciling career and family to raise fertility and female employment, including increasing the take-up of parental leave and enabling more flexible working arrangements. Reducing the stringency of product market regulation and streamlining public support to SMEs would help to lower productivity gaps between large and small firms and reduce labour market dualism. To further reduce greenhouse gas emissions, Korea’s emission trading scheme should be aligned with climate targets and electricity market reform should move in the direction of more competition and more market-based pricing to end-users. A temporary fuel tax cut, which has been extended several times since 2022, should be phased out, with vulnerable groups supported directly in more targeted ways.

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