Korea

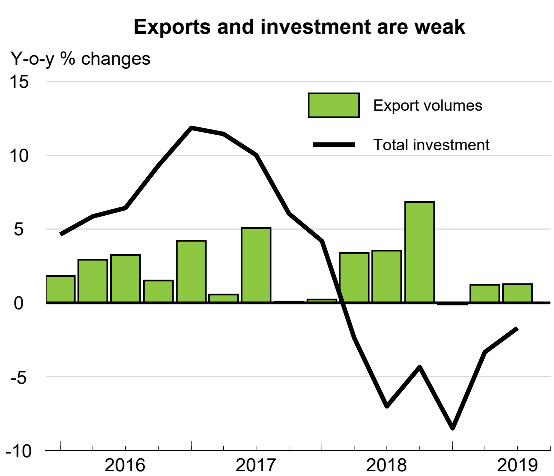
Economic growth will remain subdued, as the global slowdown and trade tensions hold back exports, while high uncertainty weighs on investment. Job creation in the public sector will mitigate the impacts of sluggish output growth on employment. A gradual recovery in global demand for semi-conductors and expansionary fiscal policy will support the economy.

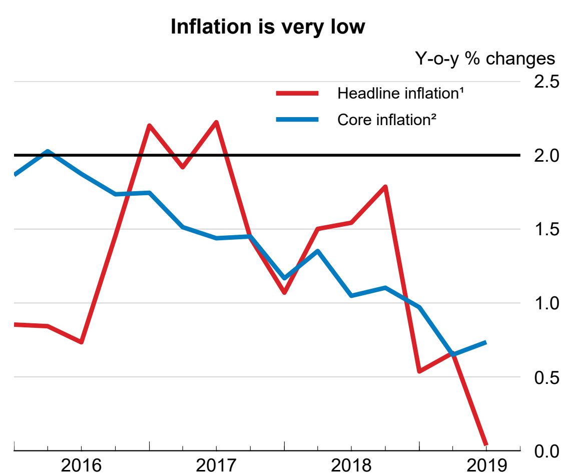
Further monetary policy easing is expected in 2020, as headline inflation will remain below the 2% inflation target. The fiscal expansion of over one percentage point of GDP in 2020 provides a welcome stimulus, but sustaining long-term growth in the face of rapid population ageing will require structural reforms to boost productivity and create better jobs.

Weak exports and investment are pulling down growth

Shrinking export markets, heightened global uncertainty and falling prices for semi-conductors are holding back exports and driving down business investment. Residential investment is falling sharply, reflecting strong cyclicality in housing supply and tightened mortgage lending regulations. The creation of public sector jobs, notably in health care and welfare services, is bringing the unemployment rate down, despite the negative impact of the weak economy and the 29% increase in the minimum wage in 2018-19 on business employment and economic growth. Real household income growth supports private consumption, even though weak consumer confidence, reflecting uncertainty and subdued private job creation, restrains sales of durable goods. Although very low headline inflation is partly due to falls in food prices, core inflation is also well below the 2% inflation target.

Korea





1. The central bank's 2% target is for CPI inflation.
2. Excludes food and energy.
Source: OECD Economic Outlook 106 database.

StatLink https://doi.org/10.1787/888934045677

Korea: Demand, output and prices

Korea	2016	2017	2018	2019	2020	2021
	Current prices KRW trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 740.8	3.2	2.7	2.0	2.3	2.3
Private consumption	834.8	2.8	2.8	1.8	1.9	2.4
Government consumption	265.3	3.9	5.6	6.8	7.0	4.7
Gross fixed capital formation	517.3	9.8	-2.4	-4.1	0.0	1.2
Final domestic demand	1 617.4	5.2	1.5	0.7	2.3	2.5
Stockbuilding[1]	7.4	0.4	0.2	0.4	-0.2	0.0
Total domestic demand	1 624.8	5.6	1.7	1.1	2.0	2.5
Exports of goods and services	698.6	2.5	3.5	1.5	3.7	1.7
Imports of goods and services	582.7	8.9	0.8	-0.5	3.1	2.0
Net exports[1]	116.0	-2.0	1.1	0.8	0.3	0.0
Memorandum items						
GDP deflator	_	2.2	0.5	-0.6	1.1	1.3
Consumer price index	_	1.9	1.5	0.3	1.1	1.4
Core inflation index[2]	_	1.5	1.2	0.8	1.1	1.4
Unemployment rate (% of labour force)	_	3.7	3.9	3.7	3.5	3.5
Household saving ratio, net (% of disposable income)	_	7.5	8.0	9.2	9.2	8.4
General government financial balance (% of GDP)	_	2.7	2.8	1.3	-0.1	-0.4
General government gross debt (% of GDP)	_	40.8	39.4	38.7	40.4	42.4
Current account balance (% of GDP)	_	4.6	4.4	3.5	3.9	4.0

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 106 database.

StatLink https://doi.org/10.1787/888934046608

Macroeconomic policy support needs to be complemented by structural reforms

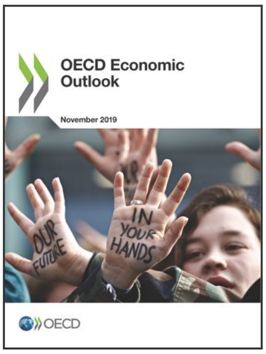
The government took strong measures to counter the headwinds of waning global growth and mounting uncertainty. A supplementary budget of 0.3% of GDP was voted in August 2019 and fiscal stimulus of about 1.2% of GDP is planned for 2020. This is welcome, given the government's sound budget position, low debt level and the need to expand social welfare. Caution is nevertheless warranted to avoid unfunded spending becoming permanent, especially as rapid population ageing and rising demand for social services will push up public spending over the next decades. Reinforcing the fiscal framework would ensure that active fiscal policy remains consistent with long-term fiscal sustainability.

The Bank of Korea cut its policy rate by 25 basis points twice, in July and October 2019, to 1.25% and is expected to lower it further next year, as inflation will remain below the 2% target and economic activity will stay lacklustre. The wide range of macroprudential measures put in place in recent years should help contain increases in high household debt, and could be tightened further if necessary.

To foster inclusive long-term growth, Korea needs to implement structural reforms. As the population is ageing very rapidly, labour resources should be better mobilised and productivity, which is only about half of that in the top half of OECD countries, needs to rise. Easing labour market regulations and investing further in skills, especially digital, would help lift female and youth employment, enhance the quality of older workers' jobs, and reduce labour market duality. Regulatory reform to increase competition and greater policy focus on innovation and business dynamism in small and medium-sized enterprises would raise productivity, especially in services, where it is lagging.

Growth is vulnerable to the global environment

Growth will be supported by expansionary fiscal policy and accommodative monetary policy, along with a gradual recovery in demand for semi-conductors. Investment will stabilise, albeit at a low level. Public sector hiring will continue to support employment growth and the much smaller increase in the minimum wage in 2020 than in previous years will have a limited impact on private job creation. Weak export demand will remain a brake on growth and global trade tensions generate downside risks and uncertainties, which could discourage investment.



From:

OECD Economic Outlook, Volume 2019 Issue 2

Access the complete publication at:
https://doi.org/10.1787/9b89401b-en

Please cite this chapter as:

OECD (2019), “Korea”, in *OECD Economic Outlook, Volume 2019 Issue 2*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/711c8f72-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at http://www.oecd.org/termsandconditions.