

# Korea

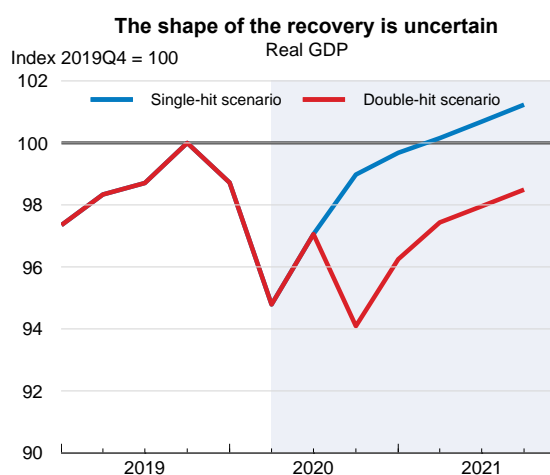
Korea was among the first countries hit by COVID-19. Due to an effective strategy to contain the spread of the virus, the government limited the damage to the domestic economy and output is shrinking less than in any other OECD country. Nevertheless, private consumption is contracting, as households exercise caution and suffer from income losses. Unemployment is rising, particularly for non-regular workers. Real GDP is projected to decline by 1.2% in 2020 in the single-hit scenario and by 2.5% in the double-hit scenario. The global recession will hold back exports and investment, especially in the event of a second global wave of infections.

The government reacted promptly to support households, SMEs and severely affected industries. Sound public finances provide fiscal space for further measures to prop up the economy if the crisis lingers. Additional income support needs to be targeted towards low-income households to keep inequalities in check and maximise its economic impact. Boosting investment in renewable energy and green technologies, along with enhanced training and upskilling, would foster a sustainable and job-rich recovery.

## The spread of the virus was contained without widespread confinement

Korea's first COVID-19 virus case was confirmed on 20 January. Infections surged in the Daegu region in mid-February. However, the outbreak was rapidly contained, with the number of new cases declining sharply from early March and the number of daily deaths declining since 24 March to around zero by late April. Notwithstanding the resurgence of some local clusters of infection in May, the number of new daily infections remains very small, with very few fatalities.

## Korea



Source: OECD Economic Outlook 107 database; and Statistics Korea, Monthly Service Industry Survey.

StatLink  <https://doi.org/10.1787/888934139670>

## Korea: Demand, output and prices (double-hit scenario)

	2016	2017	2018	2019	2020	2021
	Current prices KRW trillion	Percentage changes, volume (2015 prices)				
<b>Korea: double-hit scenario</b>						
<b>GDP at market prices</b>	1 740.8	3.2	2.9	2.0	-2.5	1.4
Private consumption	834.8	2.8	3.2	1.7	-5.6	2.9
Government consumption	265.3	3.9	5.3	6.6	7.8	4.6
Gross fixed capital formation	517.3	9.8	-2.2	-2.8	-1.2	-0.8
Final domestic demand	1 617.4	5.2	1.7	1.1	-1.8	2.0
Stockbuilding <sup>1</sup>	7.4	0.4	0.3	0.1	-0.3	0.0
Total domestic demand	1 624.8	5.6	2.0	1.1	-2.0	2.0
Exports of goods and services	698.6	2.5	4.0	1.7	-4.5	-0.1
Imports of goods and services	582.7	8.9	1.7	-0.6	-3.4	1.6
Net exports <sup>1</sup>	116.0	-2.0	1.0	1.0	-0.6	-0.6
<i>Memorandum items</i>						
GDP deflator	–	2.2	0.5	-0.9	-0.6	0.2
Consumer price index	–	1.9	1.5	0.4	0.5	0.2
Core inflation index <sup>2</sup>	–	1.5	1.2	0.7	0.5	0.2
Unemployment rate (% of labour force)	–	3.7	3.9	3.8	4.6	4.7
General government financial balance (% of GDP)	–	2.7	3.0	0.9	-3.2	-3.3
General government gross debt (% of GDP)	–	40.8	39.3	38.3	41.3	44.2
Current account balance (% of GDP)	–	4.6	4.5	3.6	2.6	2.0

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 107 database.

StatLink  <https://doi.org/10.1787/888934138207>

Widespread testing in COVID-19 clusters, including through innovative methods such as drive-through and walk-through facilities, and tracing and isolation of infected individuals allowed the spread of the disease to be contained. Additional resources were swiftly channelled to the health sector for prevention and treatment. No lockdown was imposed. However, the government recommended distancing and encouraged working from home and avoiding mass meetings. Quarantine measures for people arriving from abroad were gradually extended as the pandemic spread around the world. The start of the new school semester, initially scheduled in early March, was postponed and shifted online in mid-April.

## Output is falling

GDP contracted at a seasonally-adjusted annual rate of 5% in the first three months of 2020 relative to the previous quarter, as household consumption plummeted and exports shrank. The hit was particularly severe for tourism, travel, hotels, restaurants, culture, petrochemicals, cars, shipping and shipbuilding. About 476 thousand jobs were lost in April compared to a year earlier and 1.5 million employees took temporary leave. The unemployment rate rose to 3.8% in April from 3.3% in February. Both disruptions to supply chains and shrinking demand have led to stoppages in some industries and the manufacturing purchasing managers' index in April fell to its lowest level since 2009. Export values tumbled by nearly a quarter in the same month relative to a year earlier. Headline consumer prices have been declining over the past three months and core consumer prices were only a touch above last year's level by May 2020.

## Korea: Demand, output and prices (single-hit scenario)

	2016	2017	2018	2019	2020	2021
	Current prices KRW trillion	Percentage changes, volume (2015 prices)				
<b>Korea: single-hit scenario</b>						
<b>GDP at market prices</b>	1 740.8	3.2	2.9	2.0	-1.2	3.1
Private consumption	834.8	2.8	3.2	1.7	-4.1	4.8
Government consumption	265.3	3.9	5.3	6.6	7.5	4.5
Gross fixed capital formation	517.3	9.8	-2.2	-2.8	-0.7	-0.4
Final domestic demand	1 617.4	5.2	1.7	1.1	-0.9	3.1
Stockbuilding <sup>1</sup>	7.4	0.4	0.3	0.1	-0.3	0.0
Total domestic demand	1 624.8	5.6	2.0	1.1	-1.1	3.1
Exports of goods and services	698.6	2.5	4.0	1.7	-2.6	3.6
Imports of goods and services	582.7	8.9	1.7	-0.6	-2.4	3.7
Net exports <sup>1</sup>	116.0	-2.0	1.0	1.0	-0.1	0.1
<i>Memorandum items</i>						
GDP deflator	–	2.2	0.5	-0.9	-0.6	0.3
Consumer price index	–	1.9	1.5	0.4	0.5	0.3
Core inflation index <sup>2</sup>	–	1.5	1.2	0.7	0.5	0.4
Unemployment rate (% of labour force)	–	3.7	3.9	3.8	4.5	4.4
General government financial balance (% of GDP)	–	2.7	3.0	0.9	-2.9	-2.6
General government gross debt (% of GDP)	–	40.8	39.3	38.3	39.3	43.3
Current account balance (% of GDP)	–	4.6	4.5	3.6	3.0	3.0

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 107 database.

StatLink  <https://doi.org/10.1787/888934138226>

## Wide-ranging government support is damping the shock

The government has introduced unprecedented measures to mitigate the pandemic's impact, with supplementary budgets voted or proposed totalling about 3.1% of annual GDP, of which about 63% will be debt-financed, with the remainder funded through savings on government expenditure. Adding liquidity provisions and credit guarantees raises government support to 14.3% of GDP. The supplementary budgets provide resources for the health sector, loans to SMEs, emergency support to households, assistance for severely hit industries and employment support. Relief checks of up to KRW 1 million (USD 820) are being sent to all households, in the form of coupons to spend. A government-sponsored fund of about 2% of GDP will be set up to support key industries, such as aviation, shipping, shipbuilding and automobile. The Bank of Korea cut its policy rate by 75 basis points to 0.50% in two steps, broadened the eligible collateral and counterparts for open market operations and entered a swap agreement with the US Federal Reserve, among other interventions to provide liquidity, stabilise financial markets, and encourage bank lending.

## The global slump will hinder the recovery, particularly if the pandemic rebounds

The projected contraction in GDP in 2020 is considerably milder than in other OECD countries. Private consumption will pick up as distancing recommendations are eased, albeit at a moderate pace, with households exercising caution and suffering from income losses and relatively high unemployment. Industrial production will also normalise, but global supply chains will continue to experience disruptions for some time. The global recession is bound to have a major impact on Korean exports, which account for a large share of the economy, leading to weaker investment and lower employment, especially for

non-regular workers, who bear the brunt of the adjustment. However, the Korean New Deal, which is to build on digitalisation and green projects to foster economic revival and job creation, could lead to higher investment and employment than projected. The double-hit scenario entails another short-term blow to private consumption, but also more severe long-term consequences related to a longer slump in exports, which delays the recovery in investment and pushes up unemployment further.

### **Further stimulus could be needed to reinvigorate the economy**

The government has taken appropriate measures to support the economy and alleviate hardship. Depending on the impact of the downturn on employment and businesses and the speed of the recovery, further measures may be required. Low government debt provides fiscal space, despite the already sizeable increase in public spending. Supporting households is essential given the relatively low level and incomplete coverage of unemployment insurance. While the distribution of checks to the entire population facilitates timely relief, targeting further support towards low-income households would enhance equity and boost the economy by speeding up spending. As the crisis will trigger labour reallocation, further investment in training and upskilling would bolster the employment recovery. If the crisis lingers, some temporary tax and social security deferrals and reductions will need to be prolonged and additional support for SMEs and firm restructuring may be necessary. Boosting investment in renewable energy and clean technologies would help achieve a sustainable recovery.



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