BANK OF KOREA

PRESS RELEASE

May. 23, 2024
Research Department &
Office of Economic Modeling and Policy Analysis

Economic Outlook (May 2024)

Summary

□ Bank of Korea raises growth forecast for 2024 from 2.1% to 2.5%.

- Growth momentum has strengthened during the 1st quarter of 2024. But since there has been transitory factors behind the stronger-than-expected growth, a moderation is expected in the 2nd quarter.

- Pace of recovery, mainly driven by exports, will likely strengthen, and domestic demand including consumption is expected to improve gradually.

□ Consumer price inflation forecast for 2024 remained at 2.6%, but more data is needed to be confident that inflation will converge to the target.

- Upward pressure on consumer price inflation has increased, but it is not large enough to revise the annual forecast.

- Inflation is expected to remain in the high 2% range for some time, but will fall below 2.5% in the second half of the year.

- **In 2024, Korea's real GDP is expected to grow by 2.5%, higher than the previous forecast of 2.1% in February, as the recovery momentum of exports strengthened and improvement in consumption has been better than previously anticipated.**
- **While upward pressure on consumer price inflation has increased due to a better-than-expected growth, it is not large enough to revise the February forecast (2.6% headline, 2.2% core) considering a modest consumption recovery.**

I. GLOBAL ECONOMIC CONDITIONS

The global economy is expected to maintain its moderate growth path.

- In the United States, economic growth is expected to continue at a favorable pace, supported by rising consumption and investment. The euro area will likely experience modest recovery from the sluggish growth last year, mainly driven by consumption. In China, growth is projected to continue in the high 4% range, supported by improvement in exports and supportive government policies.

- Global trade is expected to improve, mainly driven by a rise in goods trade, and, in particular, the effective import demand[1] of Korea's export destinations will likely recover at a faster rate than global trade in general.

- Global oil prices are projected to fluctuate within the $80 band range, due to the mixed effects from upside factors such as continuing geopolitical risks and downside factors including the increase in non-OPEC+ production.

Table 1. Baseline Assumptions of Economic Forecast

(year-on-year, %)

	2023	2024e)			2025 e)		
	Year	1H	2H	Year1)	1H	2H	Year1)
World economic growth (%)	3.2	3.1	3.0	3.1 [+0.1]	3.1	3.1	3.1 [-]
United States	2.5	3.0	2.0	2.5 [+0.5]	1.7	1.8	1.8 [+0.1]
Euro area	0.4	0.4	1.2	0.8 [+0.1]	1.5	1.5	1.5 [-0.2]
China	5.2	4.8	4.5	4.7 [+0.1]	4.3	4.5	4.4 [-0.1]
Japan	1.9	-0.1	1.6	0.8 [-0.1]	1.6	0.3	0.9 [-]
World trade growth (%)	0.3	2.1	4.1	3.1 [-0.1]	3.9	3.3	3.5 [-0.1]
Oil prices (USD per barrel)2)	82	85	85	85 [+2]	81	80	81 [-]

Notes: 1. Figures in brackets show the differences in projections between the May and February outlook. 2. Brent oil basis.

1 Average of import growth forecasts for Korea's top 10 export destination countries (IMF WEO, 24 April), weighted by Korea's share of exports to each country

II. ECONOMIC OUTLOOK

This year, Korea's economy is projected to grow by 2.5%, higher than the previous forecast of 2.1% in February.

- Due to a decline in construction investment, slowdown in consumption and lower contribution from net exports, growth in the second quarter is expected to moderate, before picking up in the second half of the year.

  ▷ Consumption, after a moderation in the second quarter, is expected to gradually pick up in the second half of the year thanks to improvement in household income conditions from lower inflation and higher corporate earnings.

  ▷ The contribution of net exports in the second quarter will likely decline considerably compared to the previous quarter due to a strong increase in imports, but solid export growth, aided by more favorable external conditions, will continue to drive economic growth.

While upward pressure on consumer price inflation has increased due to a better-than-expected growth momentum and higher exchange rates, modest consumption recovery and price stability policies by the government are expected to mitigate these pressures. Taken together, recent inflationary pressures are not sufficient to revise the February forecast (2.6% headline, 2.2% core).

- Going forward, consumer price inflation is expected to remain in the high 2% range for some time, but will fall below 2.5% in the second half of the year.

The current account surplus is projected to be $60 billion this year, surpassing the previous forecast of $52 billion.

- The surplus is expected to be larger than the previous forecast, driven by stronger exports on the back of IT sector recovery and robust growth in the US.

The number of employed persons is expected to increase by 260,000, generally in line with the previous forecast of 250,000.

- Employment growth in the service sector is expected to slow, mainly for in-person services, but total employment growth is expected to be broadly in line with the previous forecast as manufacturing employment picks up thanks to improved business conditions and labor supply of women and older workers remains strong.

- Unemployment rate is projected to rise slightly to 2.9% from 2.7% last year, the lowest level since 2000.

Regarding the future outlook, there is a high degree of uncertainty in relation to growth and price trends, monetary policies in major economies, the pace of expansion in the IT industry, global oil prices, and exchange rate movements. For prices, the degree of diffusion of price hikes by companies and the timing of adjustment in utility rates are potential risk factors.

Given the high level of uncertainty around the future outlook, we analyzed two alternative scenarios: one related to geopolitical conflicts and the other to the global monetary policy stance.

- Scenario 1: Global geopolitical conflict : Faster-than-expected easing(Optimistic) vs Deepening pessimism

▷ Optimistic Scenario:
If a ceasefire deal is reached between Israel and Hamas, and the Russia-Ukraine conflict abates, negative supply shocks will be mitigated, leading to a 0.1%p increase in growth and a 0.1%p decrease in inflation this year compared to the baseline.

▷ Pessimistic Scenario:
If the conflict in the Middle East intensifies and the Russia-Ukraine war escalates, growth is estimated to decline by 0.2%p, and inflation to increase by 0.3%p this year due to higher prices of key commodities and deteriorating financial conditions.

- Scenario 2: In the case of ‘prolonged global tightening’, global trade and growth will slow down and Korea’s economic growth is expected to fall by 0.1%p this year. Inflation is projected to remain broadly in line with the baseline forecast, reflecting the mixed effects of exchange rate appreciation and domestic slowdown due to prolonged tightening.

Table 2. GDP and CPI projections based on alternative scenarios

(year-on-year, %, %p)

<GDP growth>	2023	2024 e)	2025 e)
Baseline	1.4	2.5	2.1
Scenario 1 (Optimistic)		+0.1	+0.3
Scenario 1 (Pessimistic)		-0.2	-0.5
Scenario 2		-0.1	-0.2

<CPI inflation>	2023	2024 e)	2025 e)
Baseline	3.6	2.6	2.1
Scenario 1 (Optimistic)		-0.1	-0.1
Scenario 1 (Pessimistic)		+0.3	+0.2
Scenario 2		-	-0.1

In general, Korea's economy is expected to improve at a favorable pace, as export growth remains solid supported by an upturn in the IT sector and the recovery of major economies, and the growth path of consumption has also been revised upwards.

Inflation will likely maintain its decelerating trend, but there is a high level of uncertainty about the inflation outlook. We need to see further inflation developments in order to increase our confidence that inflation will converge to the target in a sustained manner.

Figure 1. GDP Forecast

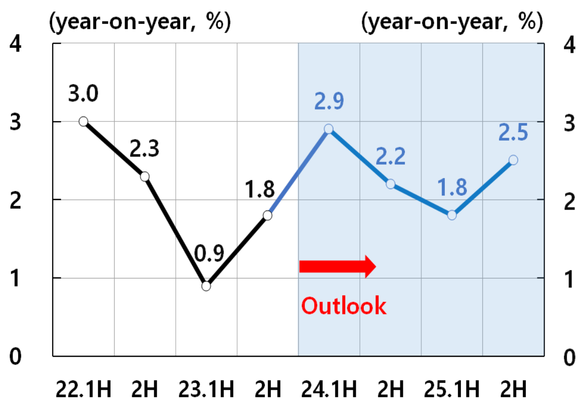

Figure 2. CPI Forecast

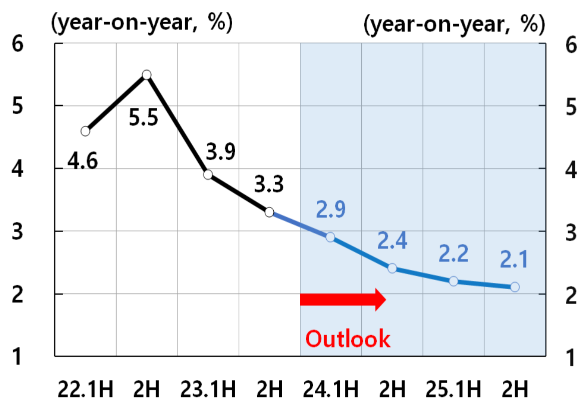

Table 3. Forecast summary

(year-on-year, %)

	2023	2024 e)			2025 e)		
	Year	1H	2H	Year1)	1H	2H	Year1)
GDP	1.4	2.9	2.2	2.5 [+0.4]	1.8	2.5	2.1 [-0.2]
Private consumption	1.8	1.4	2.2	1.8 [+0.2]	2.4	2.3	2.3 [-]
Facilities investment	0.5	1.2	5.7	3.5 [-0.7]	5.8	2.1	3.9 [+0.2]
Intellectual property products investment	1.6	2.2	2.6	2.4 [+0.2]	2.6	3.9	3.3 [-]
Construction investment	1.3	-1.1	-2.7	-2.0 [+0.6]	-2.7	0.3	-1.1 [-0.1]
Goods exports	3.1	7.0	3.4	5.1 [+0.6]	2.5	3.6	3.0 [-0.6]
Goods imports	-0.6	-0.8	5.6	2.4 [-0.3]	5.1	1.2	3.1 [-]
CPI inflation	3.6	2.9	2.4	2.6 [-]	2.2	2.1	2.1 [-]
Core inflation2)	3.4	2.4	2.1	2.2 [-]	2.1	2.0	2.0 [-]
Current account (billion dollars)	35.5	27.9	32.1	60.0 [+8.0]	28.0	33.1	61.0 [+2.0]
Goods account	34.1	36.0	34.7	70.7 [+7.5]	40.1	39.6	79.6 [+2.0]
Services account	-25.7	-12.3	-12.5	-24.8 [+0.3]	-15.4	-16.2	-31.6 [-]
Primary/Secondary income account	27.1	4.2	9.9	14.1 [+0.2]	3.3	9.7	13.0 [-]
Changes in number of persons employed3) (10,000 persons)	33	27	24	26 [+1]	22	15	18 [-]
Unemployment rate(%)	2.7	3.0	2.7	2.9 [-]	3.1	2.7	2.9 [-]
Employment-to-population ratio(%)4)	62.6	62.5	63.1	62.8 [-]	62.8	63.2	63.0 [-]

Notes: 1. Figures in brackets show the differences in projections between the May and February outlook.
2. Excluding food and energy. 3. Year-on-year changes. 4. Aged over 15.