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# Sluggish growth in 2024? A forecast for the Korean economy in 2024

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## Abstract

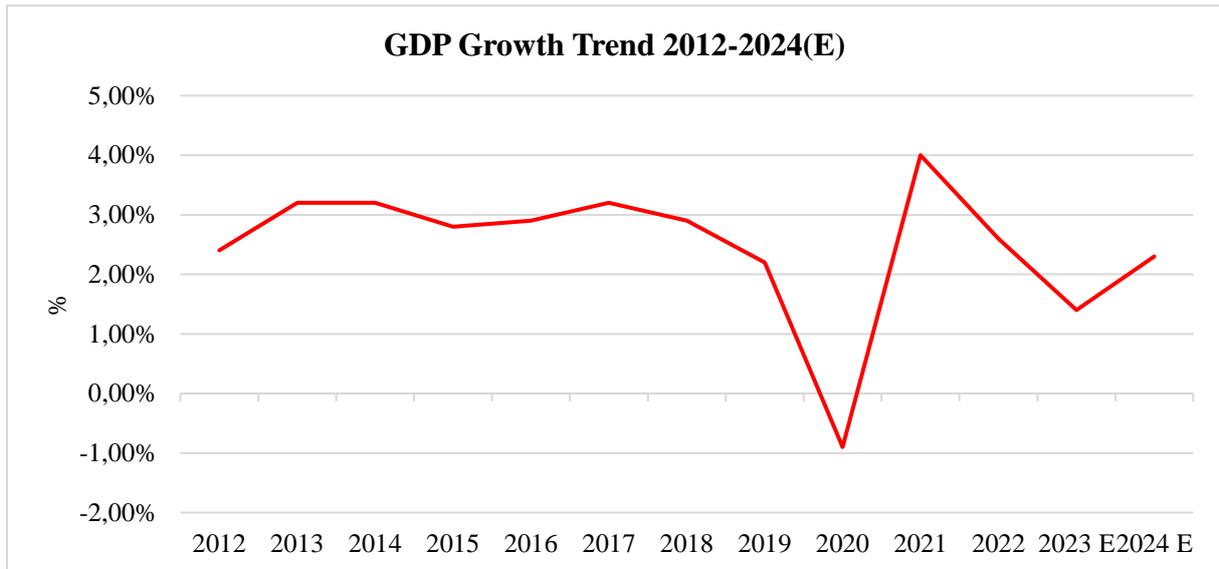
In 2023, the South Korean economy grew relatively slowly, and we expect this trend to continue. Overall, inflation will gradually decline in 2024, slower employment growth, persistent trade deficits, a weaker currency and accelerating capital outflows indicate that the South Korean economy will remain under pressure this year. In 2024, South Korea will face weaknesses on the demand side and insufficient recovery on the supply side, while macro policy leverage appears to be weak. In addition, rising household debt poses a long-term threat to the South Korean economy, although the risk of imminent widespread default is extremely low. It is also not clear when the economic recovery will begin. The South Korean economy is expected to remain under downward pressure in the future, and it remains to be seen whether the 2.4% growth rate [forecast](#) by the United Nations Department of Economic and Social Affairs for the full year 2024 can be achieved.

**Keywords:** South Korea, adjustments of income and payout balance, inflationary pressures, labor market, trade balance, change in export markets, rising household debt.

## Economic growth is slowing

According to data released by the Bank of Korea on January 25, 2024, South Korea's economic growth in 2023 reached its [lowest level](#) in the past three years due to factors such as declining exports and tighter global monetary policy. Preliminary statistics show that South Korea's real gross domestic product (GDP) grew by 1.4 percent in 2023, which was in line with the Bank of Korea's previous estimates. In the fourth quarter of last year, the South Korean economy grew by 0.6 percent compared to the previous quarter. As one of the "four little Asian tigers", South Korea has achieved considerable success in economic development in the past, but today the South Korean economy is facing difficulties.

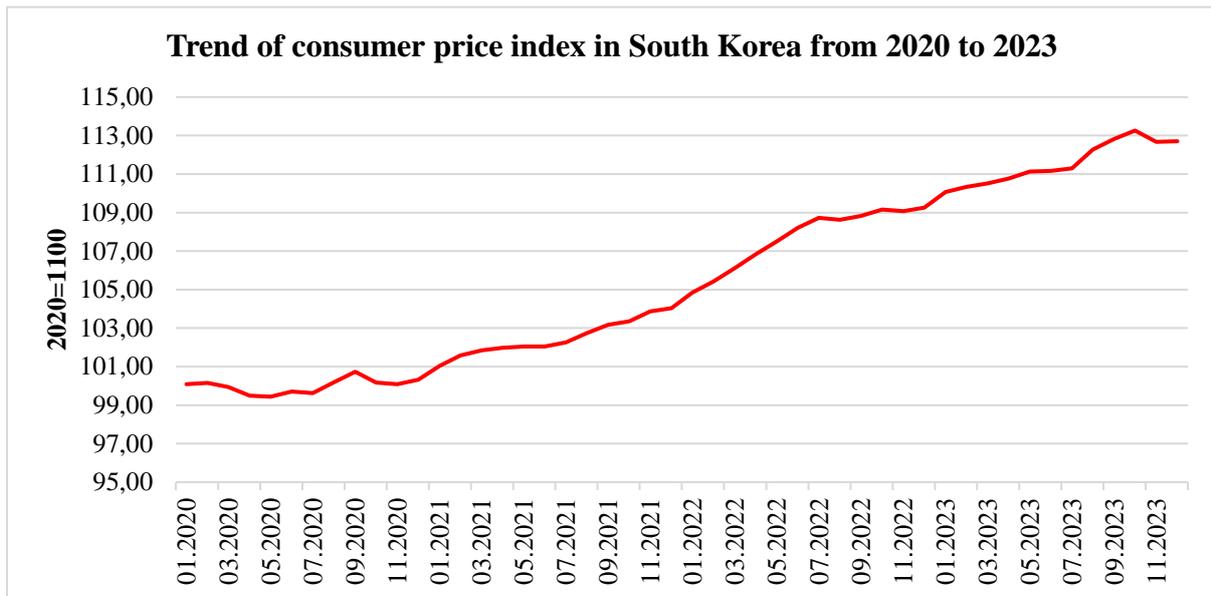
The 2024 Economic Policy Direction released by the Ministry of Strategy and Finance predicts that the South Korean economy will grow by 2.2 percent in 2024, which is 0.2 percentage points lower than the forecast made in the Economic Policy Direction for the second half of 2023 released in July 2023. The latest reports from the International Monetary Fund (IMF) and the Asian Development Bank (ADB) both forecast the South Korean economy to grow by 2.2 percent in 2024, while the Organization for Economic Co-operation and Development (OECD) expects the South Korean economy to grow by 2.3 percent in 2024. However, the OECD's analysis came to the conclusion that South Korea's economic growth momentum will be weaker than that of other large countries.



Source: own compilation based on data from the Bank of Korea

### **Inflationary pressures felt by residents**

According to data from the National Statistical Office, South Korea's annual consumer price index was 114.8 in 2023, an increase of 3.9 compared to the previous year. Compared to the standard weighted year 2020, the cost-of-living index increased by 13.7 percent in three years, which was 2.1 percentage points higher than the general consumer price inflation rate (11.6%). The South Korean Consumer Price Index (CPI) is a price index based on the prices of a total of 144 goods, including items and basic necessities that are frequently purchased by ordinary consumers. Over the past three years, 99 items have increased in price by more than 10 percent and 42 items have increased by more than 20 percent. The Ministry of Strategy and Finance and the Bank of Korea forecast that the South Korean consumer price index will rise by 2.6 percent in 2024, a decrease of 1 percentage point from the previous year's 3.6 percent. However, as prices are already rising sharply, it is difficult for South Koreans to feel a slowdown in the increase.



Source: own compilation based on data from the Statistics Korea

### Decline in exports and the largest market becoming the United States

According to the [Ministry of Trade, Industry and Energy](#) on January 1, 2024, South Korea's exports in 2023 fell by 7.4 percent year-on-year to USD 632.7 billion and imports by 12.1 percent to USD 642.7 billion. As a result, the trade balance showed a deficit of USD 10 billion. It is worth noting that the United States will not replace China as South Korea's largest export market until 2023, ending a 20-year era. Although South Korea's total exports in 2023 have fallen by 7.4 percent year-on-year, automotive shipments have grown for 18 consecutive months and semiconductor exports have gradually recovered. China remains South Korea's most important trading partner.

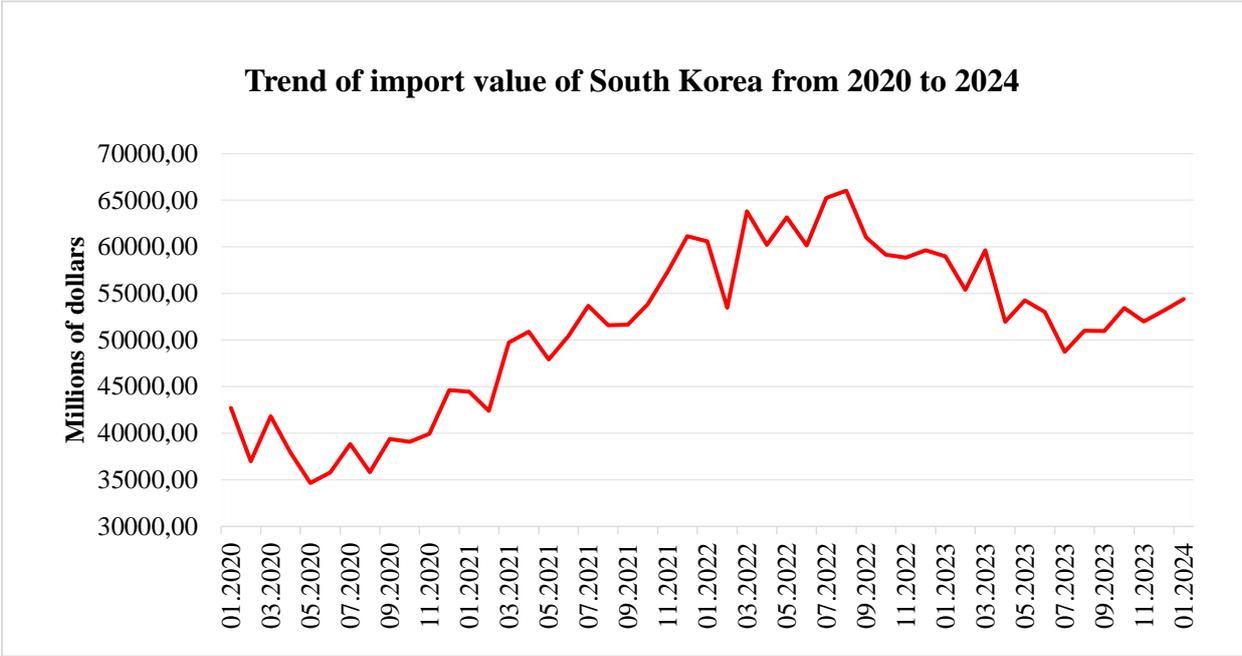
The South Korea International Trade Association predicted that South Korea's exports could grow by 7.9 percent and imports by 3.3 percent in 2024. It is foreseeable that South Korea's exports will continue to struggle with geopolitical tensions and strong competition from China's semiconductor industry. The Free Trade Agreement (FTA) between South Korea and the United States has been in effect for more than 10 years since 2012, during which South Korea's exports have grown by an average of 1.5 percent per year and exports to the United States by 5.5 percent per year. After analyzing the economic benefits created by the Free Trade Agreement (FTA), the South Korea Institute for Foreign Economic Policy concluded that South Korea's annual exports to the United States have increased by an average of 24.2 billion US dollars, with 31 percent of this growth attributable to the FTA. According to the South Korean industrial sector, trade volume with the United States has increased by 109 percent compared to the pre-FTA period, with an average annual surplus of \$10 billion. In addition, since the Korea-U.S. FTA went into effect in 2012, South Korean investment in the United States and U.S. investment in South Korea have increased annually by \$7.73 billion and \$1.27 billion, respectively. The Biden administration has revitalized its alliances from 2021, and one of the most important measures in Northeast Asia is to strengthen the alliance with South Korea. Economically, the United

States and South Korea have deepened economic ties between the two countries on all fronts, and technologically, the United States and South Korea have further expanded cooperation in the field of technology.

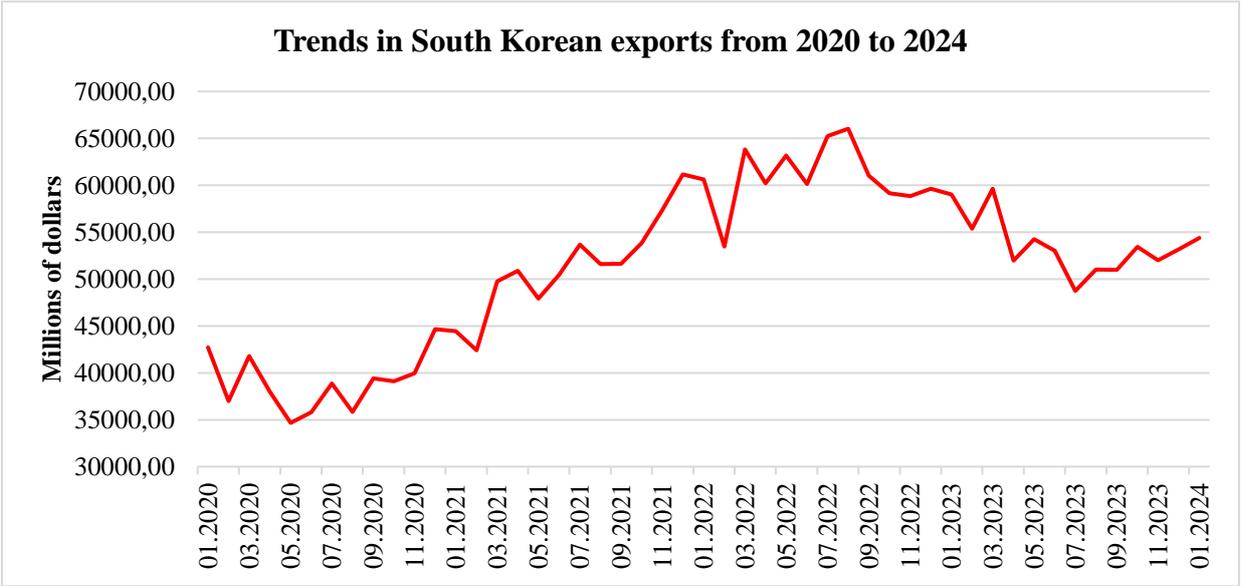
When Yoon Suk-yeol took office as South Korean president in May 2022, he said he would strengthen the values-based alliance between South Korea and the US. The closer alliance between South Korea and the United States has also led to a surge in economic and trade relations between the two countries, which is one of the reasons why the United States has replaced China as South Korea's largest export market.

Statistics show that South Korea exported \$11.3 billion worth of goods to the United States in December 2023, an increase of 20.8 percent year-on-year, while exports to China amounted to \$10.9 billion in the same period, an annual decline of 2.9 percent. In particular, South Korea's automotive exports to the United States have increased significantly. The data was published by the South Korea Automotive Mobility Industries Association (KAMA) on December 31, 2023. The report shows that a total of 1,172,612 vehicles were exported to the United States from January to November 2023. This is the highest number of exports to the US in a single year since South Korea began exporting cars to the US in 1986, and it is also the first time since 2015 that the export volume has surpassed the one million mark after eight years.

Analysis of import data shows that South Korea's imports from China, the world's second-largest economy, were still larger than those from the United States in December 2023, and China remained South Korea's largest source of imports. According to the data, South Korea's trade with China started with a deficit of 3.9 billion dollars in January last year and has not recorded a surplus for 11 consecutive months. In the 16 years from 2003 to 2018, China was the largest source of South Korea's trade surplus, with the exception of 2008, but this pattern reversed in 2023. Behind this shift, we can see South Korea's efforts to diversify its supply chains by forging a close economic and technological alliance with the United States to reduce dependence on China and increase export restrictions on China. However, if the United States fails to offset the costs incurred by South Korean companies in shifting their main trading partner from China to the United States over an extended period of time, there is a high probability that these companies will lift their export restrictions to China. This action could undermine the economic and trade partnership between the United States and South Korea. If it is difficult for South Korea to reduce trade with China in a short period of time, such efforts could make the development of the South Korean economy uncertain in 2024.



Source: own compilation based on data from the CEIC Data



Source: own compilation based on data from the CEIC Data

**Changes in the income balance and resilience of the South Korean economy**

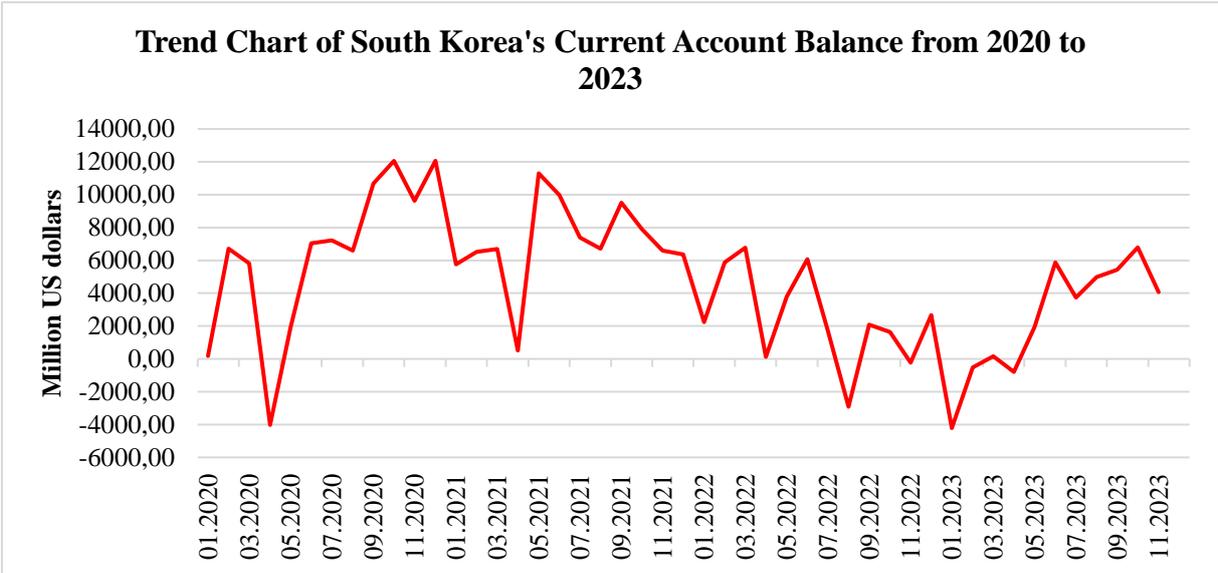
Since the South Korean economy is export-oriented, the trade deficit is usually a harbinger of bad times in the economy. In the Great Financial Crisis (2008-2009), South Korea's trade deficit was a major factor in the deterioration of South Korea's economic situation. Since March 2022, South Korea has again had a persistent trade deficit, but its economy has shown resilience. The most important reason for this difference is the obvious change in the structure of South Korea's income balance. The structure of the country's international investment position has changed fundamentally. At the end of the first quarter of 2023, South Korea's net international investment

position amounted to USD 773 billion, compared to USD -153.8 billion in the first quarter of 2008.

In other words, South Korea's international investment position has shifted from net foreign liabilities to net international investment position. The main reason for this change is the rapid increase in the size of South Korea's external assets. In the first quarter of 2023, South Korea's foreign assets reached USD 2.2 trillion, an increase of 2.6 times compared to the same period in 2008, with foreign exchange reserves increasing by only 61.2 percent and direct investment and portfolio investment assets increasing by 7 times and 4.5 times, respectively. At the end of 2022, South Korea's net foreign assets accounted for 46 of GDP. South Korea has made the transition from a debtor to a creditor country, which strengthens its ability to withstand external risks.

In the first half of 2023, South Korea recorded a surplus of \$19.49 billion in primary revenues, compared to a deficit of \$3.38 billion in the same period in 2008. The shift from a deficit to a surplus in primary revenues makes it possible for the overall current account balance to remain in surplus, even if the country has a trade deficit.

Before South Korea was confronted with a trade deficit in 2008, its capital account showed a substantial surplus in 2006, which persisted into the first half of 2007. However, after the global financial crisis in 2008, the situation turned into a deficit. This change was partly due to the fact that large amounts of money had previously flowed into South Korea, which later flowed out again in large quantities. Before the recent trade deficit emerged, South Korea had significant deficits in its capital account in both 2021 and 2022. These deficits from earlier periods made it difficult for more money to leave the country through financial transactions. By the first quarter of 2023, the amount of money South Korea owed to other countries had decreased compared to the same period in 2021.



Source: own compilation based on data from the CEIC Data

## **The birth rate is at a record low and the population is aging.**

On January 3, 2024, the South Korean Ministry of Public Administration and Security published the latest data on South Korea's population. In 2023, the number of births in South Korea was around 235,000, a record low. This is a decrease of 11 percent compared to 2021 and 8 percent compared to 2022. In December 2023, the total population of South Korea was 51.325 million people, a decrease of about 113,700 compared to the same period in 2022.

The Bank of Korea, South Korea's central bank, issued a report in December 2023 warning that the South Korean economy will fall into negative growth in 2050 if it does not take effective measures to boost the sluggish birth rate. In recent years, there has been an increase in late marriages and non-marriages in South Korean society. According to a report on the outlook for the demographic situation published by the National Bureau of Statistics in December 2023, South Korea's population peaked at around 51.84 million people in 2020. After that, the number of deaths exceeded the number of births every year, and it is estimated that the total population of South Korea will decline to about 36.2 million people in 50 years, almost half of whom will be elderly people aged 65 and over, making South Korea an aging society. In response to the decline in the working-age population, the South Korean government is planning to employ more foreign workers from 2024. For example, the hotel industry will be added to the list of countries that can accept foreign workers and the list of countries of origin that are eligible for foreign workers will be expanded.

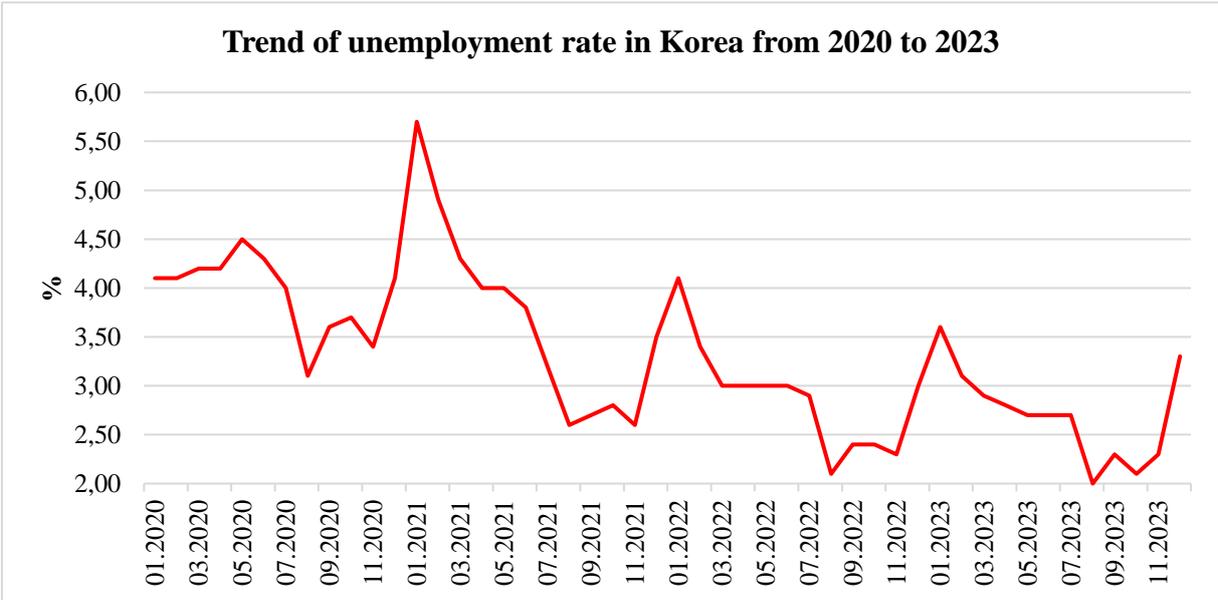
## **Slower employment growth and changes in the sectors.**

According to the report "Employment Trends for December 2023 and the Annual Year" published by the Office for National Statistics on January 10, 2024, the number of domestic jobs last year was 28.416 million, an annual increase of 327,000 (1.2%), but the growth rate was significantly lower than in 2022. The unemployment rate in 2023 was 2.7 percent.

Average annual employment fell by 218,000 in 2020, rose by 369,000 in 2021 and by 816,000 in 2022, the highest growth rate in the last 22 years since 2000, with the growth rate slowing in the last year.

1. Broken down by economic sector, the number of people employed in manufacturing fell by 43,000, the largest decline since 2020. Wholesale and retail (-37,000), real estate (-18,000) and construction (-9,000) all recorded a decline in employment. In contrast, the number of employees in the healthcare and social services sector (143,000) and the accommodation and food services sector (114,000) increased.
2. Broken down by gender, the number of women in employment rose by 303,000 and the number of men by 24,000. Broken down by age group, the number of people aged over 60 rose by 366,000 per year, the number of people aged over 50 by 59,000, the number of people aged over 30 by 54,000, the number of young people aged between 15 and 29 by 98,000 and the number of people aged over 40 by 54,000.

In the same period, the employment rate for the population aged 15 and over was 62.6 percent, 0.5 percentage points higher than the previous year and the highest since 1963. The number of unemployed fell by 46,000 annually to 787,000 and the unemployment rate was 2.7 percent, a decrease of 0.2 percentage points. The number of economically inactive people fell by 134,000 to 16,204,000. Looking ahead to December 2023, the number of people in employment rose by 285,000 to 28.093 million, an increase on November (277,000). In the same period, the number of unemployed rises by 78,000 to 944,000. The unemployment rate was 3.3, 0.3 percentage points higher than in the previous year. This is the first time in 33 months that it has risen rather than fallen.



Source: own compilation based on data from the CEIC Data

**Challenges in 2024**

According to the latest "[World Economic Situation and Prospects 2024](#)" report from the United Nations Department of Economic and Social Affairs, global economic growth will slow from 2.7 percent in 2023 to 2.4 percent in 2024, a decrease of 0.1 percentage points compared to the forecast from May last year. In terms of the economic outlook for the various countries, the forecast for the South Korean economy this year is relatively optimistic. After growing by 1.4 in 2023, the report expects the South Korean economy to grow by 2.4 again this year, exceeding the forecast of 2.1 published by the Bank of Korea in November last year. The biggest risk for the South Korean economy in 2024 could be rising household debt. According to the Bank for International Settlements (BIS) in mid-December last year, total household, corporate and

government debt in South Korea is expected to exceed 6,000 trillion won (4.6 trillion dollars) in the first half of 2023. Among OECD countries, South Korea is the only country with an increase in total debt in relation to GDP.

Household debt in South Korea amounted to 2,218.3 trillion won, equivalent to 101.7% of GDP. We believe that inflation in Korea will gradually decline this year, which will create more room for the Bank of Korea's expansionary monetary policy. However, rising household debt poses a long-term threat to the South Korean economy, even if the risk of an imminent default is low.

### **State financial investment to stimulate the economy and control prices**

The [South Korean government](#) confirmed in January 2024 that it will spend 75 percent of its annual budget, estimated at 412 trillion won, in the first half of this year to boost domestic demand. Meanwhile, South Korea's Ministry of Strategy and Finance announced that it will spend 10.8 trillion won to subsidize the prices of agriculture, livestock, aquatic products and energy, an increase of 1.8 trillion won from a year earlier. The government aims to keep the consumer price index at around 2 percent in the first half of this year. To stimulate business investment, the South Korean government also plans to extend the temporary investment tax rebate for another year and further increase the proportion of tax deduction for corporate R&D investment, which is expected to exceed 1.6 trillion won this year. The South Korean government announced in February 2024 that it will lift restrictions on development zones in local cities such as Busan, Ulsan, and Daejeon, making it easier for companies to build industrial complexes and logistics parks around these cities to promote local economic development. In our view, it will take some time for issues such as prices and interest rates to be resolved. The South Korean government is not expected to lower interest rates in the first half of this year, but if prices continue to stabilize, interest rates will most likely be lowered in the second half of the year.

## Summary

Inflationary pressure, declining exports, weak domestic demand, and rising household debt are expected to continue to weigh on economic growth in South Korea. In 2023, the USA replaced China as South Korea's largest export market after 20 years. As it is difficult for South Korea to reduce its trade dependence on China in a short period of time, efforts to decouple from China could make the development of the South Korean economy uncertain in 2024. In the meantime, a clear pattern can be seen in the development of the South Korean economy. South Korea has made the transition from a debtor country to a creditor country, which makes economic development more stable.

In aging societies, the decline in the savings rate is a general trend that puts pressure on net exports. This also applies to South Korea, although in this case the transformation into a creditor country can make the current account surplus more sustainable. The South Korean economy is heavily export-oriented and is considered the "canary" of the global economy. The sharp decline in export revenues has led to market concerns that South Korea's economic growth in 2024 will be below the OECD forecast, which is even weaker than that of the world's major countries.