BANK OF KOREA

PRESS RELEASE

Nov 28, 2024
Research Department &
Office of Economic Modeling and Policy Analysis

Economic Outlook (Nov 2024)

Summary

▣ Bank of Korea forecasts GDP growth at 2.2% in 2024 and 1.9% in 2025.

- The growth forecasts for this year and next year have been revised downward by 0.2%p, respectively, in light of slower-than-expected export growth due to intensifying competition with major countries in key industries and strengthening trade protectionism, amid domestic demand recovering at a moderate pace.

- The future path of growth is expected to be significantly influenced by the global trade environment, trends in semiconductor exports, and the pace of recovery in domestic demand.

▣ CPI inflation is projected to be at 1.9% in 2025.

- The forecast, compared to the previous outlook in August, has been revised downward by 0.2%p due to lower oil prices and limited demand-side pressures.

- Uncertainty regarding geopolitical risks, exchange rate movements, and economic conditions at home and abroad persists.

< Contacts >	Macro Forecasting & Research Team	Jun Young Lee	+82-2-759-4166 (junyoung.lee@bok.or.kr)

Economic Outlook

Indigo Book

Nov 2024

▶ **Economic growth is expected to moderate from 2.2% this year to 1.9% next year, with the recovery of domestic demand remaining moderate and growth in exports, which has been strong over the past quarters, gradually slowing down.**

▶ **CPI inflation is expected to slow down from 2.3% this year to 1.9% next year due to lower oil prices and limited demand-side pressures.**

Ⅰ. ECONOMIC CONDITIONS

Ⅰ-1. Global Developments

☐ **The global economy, despite the progress in disinflation and in the monetary policy easing cycle, faces increased downside risks due to rising uncertainty surrounding the economic policies of major countries following the U.S. presidential election.**

- The **United States** economy will continue its favorable pace of growth mainly driven by domestic demand, but uncertainty surrounding the new administration's economic policies remains high. In the **Euro area**, growth will gradually recover on the back of increase in households' real income, but the slowdown in the manufacturing sector and heightened political uncertainty are expected to act as downside factors. In **China**, the divergence between strong exports and weak domestic demand continues, with downward pressures increasing due to potential trade conflicts. However, the government's stimulus measures are expected to mitigate such downward pressures.

- **Global trade** will likely improve aided by the easing of monetary tightening, but the pace of growth is expected to be lower than previously forecasted due to changes in global trade policies, such as increases in the United States' tariffs. **The global semiconductor market** is projected to continue its upcycle for some time, primarily driven by demand for AI servers. Thereafter, the pace of growth will be significantly influenced by the adoption rate of on-device AI technologies.

- **Global oil prices** are expected to fluctuate in the $70 range, markedly lower than the previous forecast. This is attributed to a slowdown in global oil demand, particularly in China, amid stable crude oil supply conditions. Oil prices, however, may exhibit high volatility, depending on the development of geopolitical conflicts.

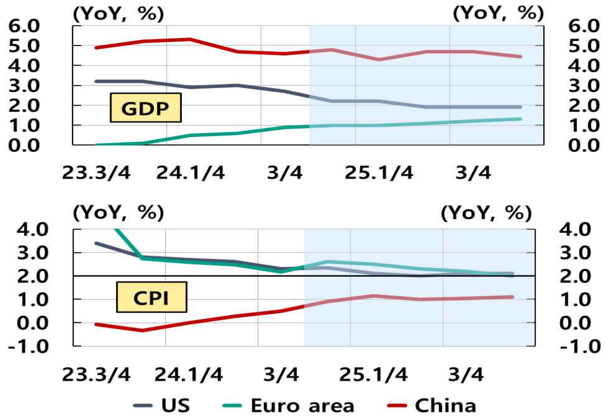
Ⅰ-2. Domestic Economic Conditions

☐ **Domestic economic conditions are expected to act as downward pressures on growth, as wages and fiscal spending have come in lower than previous expectations, amid heightened financial market volatility from falling stock prices.**

- **Nominal wage** has been growing at the mid 3% range thanks to special bonus payments by exporters and large corporations, but for next year, downside risks have increased. In the **housing market**, the volume of transactions has decreased and the price increases have slowed due to the impact of lending regulations, but the supply shortage could potentially be an underlying upward pressure.

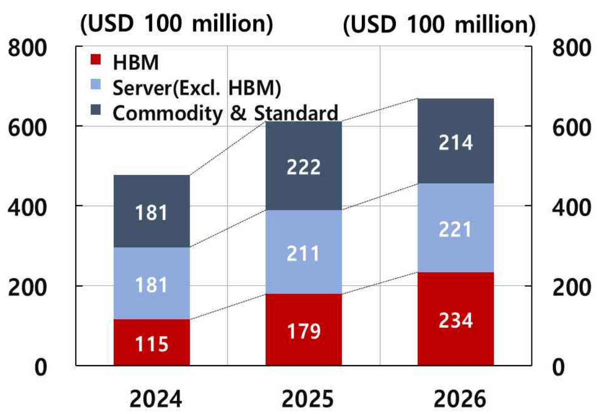
- **Government bond interest rates** have fallen, showing a differentiated movement from the large increase in US Treasury bond interest rates before and after the US presidential election. The **Won to U.S. Dollar exchange rate**, exceeding initial expectations, is expected to fluctuate around the 1,400 won range for the time being due to factors such as strong US employment and the Trump trade. **Stock prices** declined significantly, driven by weaker-than-expected performance from major corporations and deteriorating export conditions.

<Figure 1> GDP and Inflation in Major Economies[1]



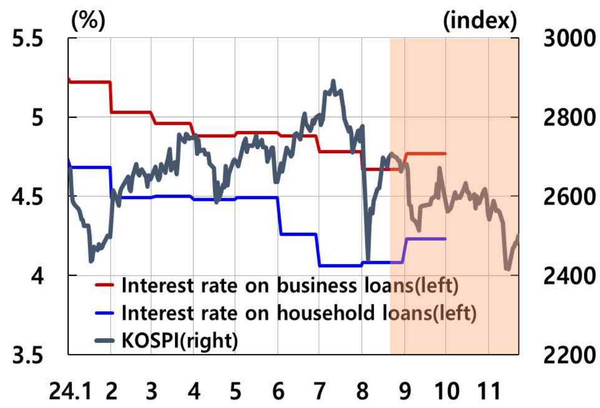
Note: 1) The shaded area indicates the median of projections by market participants.
Source: Bloomberg.

<Figure 2> Worldwide DRAM Revenue by Major Product Type



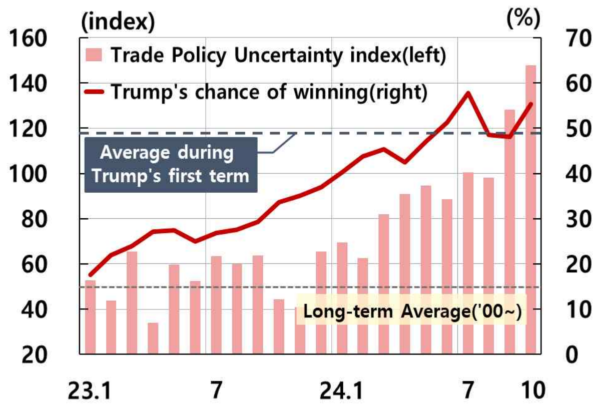
Source: Gartner(Sep 2024).

<Figure 3> Interest rates on Domestic loans, KOSPI



Source: Bank of Korea.

<Figure 4> Trade Policy Uncertainty



Sources: Caldara et al. (2020), RCP.

※ **Our outlook is based on the following base scenario regarding major changes in U.S. economic policies.** The future path of growth may be significantly influenced by the timing and magnitude of actual policy implementations and the responses of trading partners.

	Main Points	Base scenario
Tariff	• Aggressive tariff measures against China	‣ **[From 25.2Q] Tariffs of 60%** imposed on high-tech and strategic industrial product categories, among others. ‣ China imposes partial tariffs in response.
	• Flexible negotiation on the universal tariff	‣ **[From 26.1Q] Low tariffs** imposed on countries with high trade deficits. ‣ Target countries to expand imports of U.S.-manufactured goods.
Immigration	• Immediate enforcement of strong control measures against illegal immigration	‣ **[From 2025]** Annual increase in the **working-age population** decreases by 700,000.
Fiscal	• Reduction of corporate tax, Permanent implementation of cuts on personal income tax (expire at the end of 2025)	‣ **[From 26.1Q]** Corporate tax rate reduced by 6%p, from 21% to 15%. ‣ Maintaining the current personal income tax rate of 10-37%.

Ⅱ. ECONOMIC OUTLOOK

Ⅱ- 1. GDP Growth

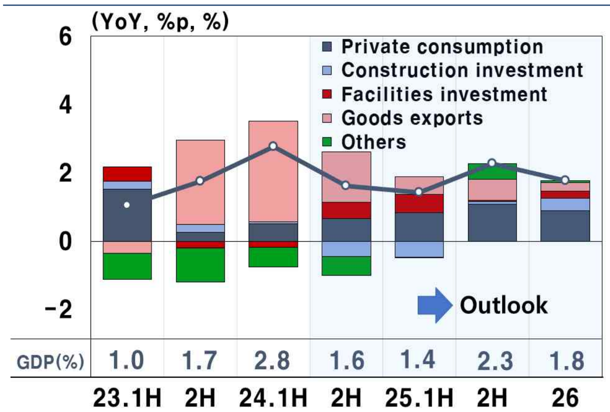
☐ **GDP growth is expected to be at 2.2% this year and 1.9% next year, lower than the previous forecast of 2.4% and 2.1%, respectively, and slowing to 1.8% in 2026.**

- **This year**, GDP growth rate is projected at **2.2%**, lower than the previously forecasted 2.4% in August, due to weakening growth trends from the slowdown in exports amid a moderate recovery in domestic demand.

- **Next year**, the economy will likely continue to grow at a moderate pace, primarily driven by consumption. But with export growth slowing more than previously anticipated due to intensifying competition with major countries in key industries and strengthening trade protectionism, the growth forecasts for next year has been revised down to **1.9%**, from 2.1% in the August outlook.

  In **2026**, growth is projected to slow to **1.8%**, due to a slowdown in global growth and the impact of U.S. tariff increases on exports taking effect.

<Figure 5> Contribution by expenditure component



Source: Bank of Korea.

<Figure 6> Outlook on GDP growth

Source: Bank of Korea.

Ⅱ- 2. CPI inflation

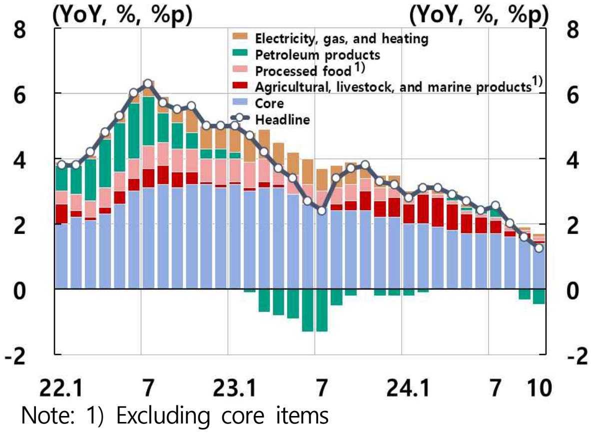
☐ **CPI inflation is expected to be at 2.3% this year and 1.9% next year, lower than the previously forecasted path in the August outlook, due to the fall in oil prices and low demand-side pressure, despite the rise in the Won-to-USD exchange rate.***

* The Core inflation is projected to remain at 2.2% this year, while the forecast for next year has been revised down by 0.1%p to 1.9%, lower than the 2.0% projected in August.

- **This year**, CPI inflation* is expected to approach 2% toward the end of the year, reflecting base effects from the decline in oil prices at the end of last year and the reduction in fuel tax cuts. **Next year**, while domestic demand is anticipated to improve moderately, falling oil prices will exert downward pressure, although there are upward pressures from a weaker Won and higher public utility rates. Inflation is projected to hover near the target level in the second half of the year.

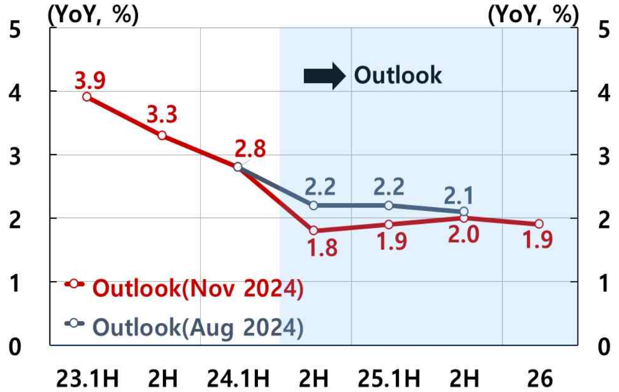
* In October, CPI inflation slowed to the low-to-mid 1% range(1.3%), due to a decline in core inflation to the high 1% range(1.8%) and a sharp drop in petroleum prices driven by falling global oil prices and base effects from the previous year.

<Figure 7> Contribution to headline CPI



Note: 1) Excluding core items
Source: Statistics Korea.

<Figure 8> Outlook on headline CPI



Sources: Statistics Korea, Bank of Korea

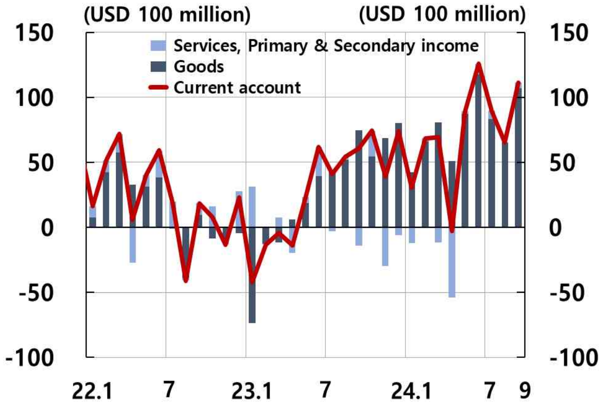
Ⅱ- 3. Current Account

□ **The current account surplus is expected to remain at the high levels of $90 billion in 2024 and $80 billion in 2025.**

- The trade surplus in goods[1] is anticipated to remain high, with exports maintaining robust growth, particularly in high-end semiconductors. Meanwhile, imports are expected to grow mainly driven by capital and consumer goods, but the overall increase will be limited due to declining global oil prices. The trade deficit in services[1] is projected to widen, as a result of a surge in domestic travelers following China's implementation of a visa-free policy[2].

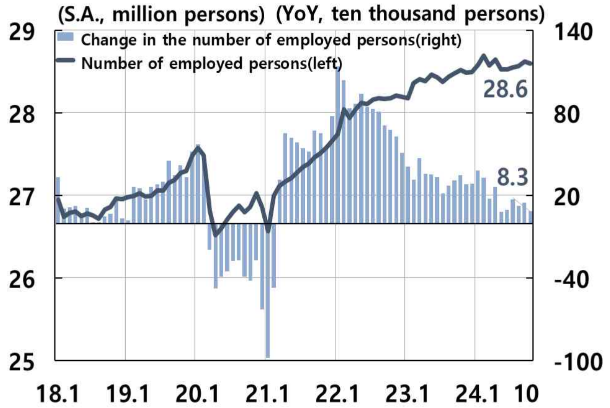
- The flow of the current account will be highly influenced by U.S. economic policies, the global semiconductor cycle, and the speed of China's increase in its semiconductor self-sufficiency rate.

<Figure 9> Current Account



Source: Bank of Korea.

<Figure 10> Change in employment



Source: Statistics Korea.

1) Goods account balance (USD billion) 24.1Q 18.9 → 2Q 25.6 → 3Q 25.5
Service balance (〃) 24.1Q -6.9 → 2Q -4.5 → 3Q -5.9

2) The Ministry of Foreign Affairs of the People's Republic of China announced on November 1 that it would implement a 'unilateral visa-free policy' for nine countries, including South Korea, from November 8, 2024 to December 31, 2025.

Ⅱ- 4. Employment

▢ **The increase in the number of employed persons is expected to slow down to 170,000 in 2024 and 130,000 in 2025.**

- This is attributed to a slowdown in labor supply due to a declining working-age population, as well as weaker labor demand in the manufacturing and construction sectors caused by sluggish business conditions. However, robust employment growth in the service sector, particularly in health, welfare, information & communication, alongside the expansion of government job creation programs, is expected to mitigate the slowdown in employment growth.

Ⅲ. Risks to the Outlook

▢ **Regarding the growth outlook, there is a high degree of uncertainty in relations to the global semiconductor cycle, global geopolitics, and the trade environment. For prices, the increasing cost pressure on companies is also potential risk factors.**

▢ **Given the high level of uncertainty around the future path of growth, we have analyzed alternative scenarios related to geopolitical tensions[Scenario 1] and global trade conflicts[Scenario 2].**

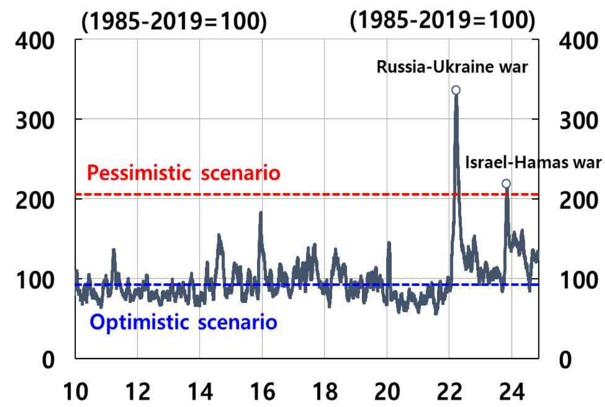
- **Scenario 1** 「Early mitigation$_{\text{optimistic}}$ vs intensification$_{\text{pessimistic}}$ of geopolitical tensions」

  - **Optimistic scenario** : If the diplomatic efforts of the new U.S. administration alleviate major geopolitical tensions such as the Russia-Ukraine war and conflicts in the Middle East faster than expected, Korea’s economic growth rate for next year is expected to increase by **0.2%p** compared to the baseline forecast. By contrast the inflation rate is expected to decline by **0.3%p**, driven by improvement in external conditions, including a downward stabilization in global oil prices.

  - **Pessimistic scenario** : If the U.S. reduces its support for Ukraine, leading to a prolonged Russia-Ukraine war, and tensions in the Middle East escalate in response to hard-line policies against Iran, Korea's economic growth rate for next year is estimated to decline by **0.1%p**, while the inflation rate is projected to increase by **0.2%p**. These changes are attributed to a sharp rise in global oil prices and shipping costs, as well as heightened global risk aversion.

- **Scenario 2** If global trade conflicts intensify due to the strengthening of trade protectionism by the U.S. and major countries such as China responding, global trade is expected to shrink rapidly and trade policy uncertainty will increase. In addition, there is a possibility that financial market instability will increase due to an increase in risk premiums. As a result, Korea's economic growth rate and inflation rate for next year are expected to fall by **0.2%p** and **0.1%p**, respectively.

<Figure 11> Geopolitical Risk index



Source: Caldara, D., & Iacoviello, M. (2022)

<Figure 12> Trade Policy Uncertainty index

Source: Caldara et al.(2020)

<GDP growth rate>

(YoY, %)	2024e)	2025e)	2026e)
Baseline	2.2	1.9	1.8
Scenario 1 (Optimistic)		+0.2	+0.1
Scenario 1 (Pessimistic)		-0.1	-0.3
Scenario 2		-0.2	-0.4

<Headline inflation>

(YoY, %)	2024e)	2025e)	2026e)
Baseline	2.3	1.9	1.9
Scenario 1 (Optimistic)		-0.3	-0.1
Scenario 1 (Pessimistic)		+0.2	+0.4
Scenario 2		-0.1	-0.2

Sources: Bank of Korea.

<Appendix 1> Forecast summary (Nov 2024)

	2023	2024			2025e)			2026e)
	Year	1H	2He)	Yeare)5)	1H	2H	Year5)	Year
<Main premises of the baseline outlook>								
World economic growth(%)1)	**3.3**	3.2	3.1	**3.1** [-]	3.1	3.0	**3.0** [−0.2]	**2.9**
• United States	**2.9**	3.0	2.4	**2.7** [+0.3]	2.1	1.8	**2.0** [+0.2]	**2.1**
• Euro area	**0.4**	0.5	1.1	**0.8** [-]	1.2	1.3	**1.2** [−0.3]	**1.2**
• China	**5.2**	5.0	4.5	**4.7** [-0.1]	4.4	4.2	**4.3** [−0.1]	**4.1**
• Japan	**1.7**	-1.0	1.0	**0.1** [-0.3]	1.7	0.6	**1.1** [-]	**0.7**
World trade growth(%)1)	**0.8**	2.2	3.4	**2.8** [-]	3.4	2.9	**3.1** [-0.3]	**3.0**
Brent oil prices (USD/barrel)2)	**82**	83	77	**80** [-3]	73	72	**72** [-9]	**70**
<Domestic economic outlook>								
GDP growth(%)1)	**1.4**	2.8	1.6	**2.2** [-0.2]	1.4	2.3	**1.9** [-0.2]	**1.8**
• Private consumption	**1.8**	1.0	1.4	**1.2** [-0.2]	1.8	2.3	**2.0** [-0.2]	**1.8**
• Construction investment	**1.5**	0.4	-2.9	**-1.3** [-0.5]	-3.2	0.5	**-1.3** [-0.6]	**2.7**
• Facilities investment	**1.1**	-1.8	4.9	**1.5** [+1.3]	5.7	0.5	**3.0** [-1.3]	**2.1**
• IPP investment	**1.7**	1.5	-0.1	**0.7** [-1.2]	2.7	5.0	**3.9** [+0.6]	**3.2**
• Goods exports	**2.9**	8.4	4.3	**6.3** [-0.6]	1.4	1.7	**1.5** [-1.4]	**0.7**
• Goods imports	**-0.3**	-1.3	3.6	**1.1** [-0.5]	3.0	0.9	**1.9** [-1.7]	**2.0**
Headline inflation(%)1)	**3.6**	2.8	1.8	**2.3** [-0.2]	1.9	2.0	**1.9** [-0.2]	1.9
• Core inflation3)	**3.4**	2.4	2.0	**2.2** [-]	1.9	1.9	**1.9** [-0.1]	1.9
Current account (USD billion)	**35.5**	38.0	52.0	**90.0** [+17.0]	37.6	42.5	**80.0** [+18.0]	**75.0**
• Goods	**34.1**	44.5	50.9	**95.5** [+13.9]	44.4	43.2	**87.6** [+7.5]	**83.1**
• Services	**-25.7**	-11.4	-11.9	**-23.3** [-]	-12.2	-13.4	**-25.6** [+5.5]	**-26.6**
• Primary and secondary income	**27.1**	4.9	12.9	**17.8** [+3.0]	5.4	12.7	**18.1** [+5.1]	**18.5**
Change in number of employed persons(10,000 persons)1)	**33**	22	13	**17** [-3]	12	14	**13** [-3]	**10**
Unemployment rate(%)	**2.7**	3.1	2.5	**2.8** [-0.1]	3.1	2.7	**2.9** [-]	**2.9**
Employment rate(%)4)	**62.6**	62.5	62.9	**62.7** [-]	62.5	63.0	**62.8** [-0.1]	**62.7**

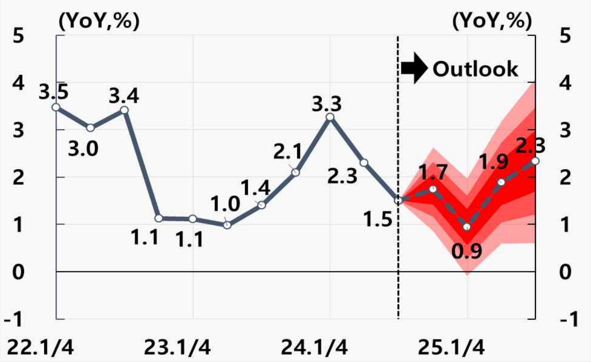
Notes: 1) Year-on-year. 2) By period average. 3) Excluding food and energy. 4) Aged 15 and over.
5) Figures in [ ] show the changes from projections made in Aug 2024.
Sources: Bank of Korea, Statistics in each area, Bloomberg.

<Appendix 2> Quarterly forecasts for the one-year-ahead horizon

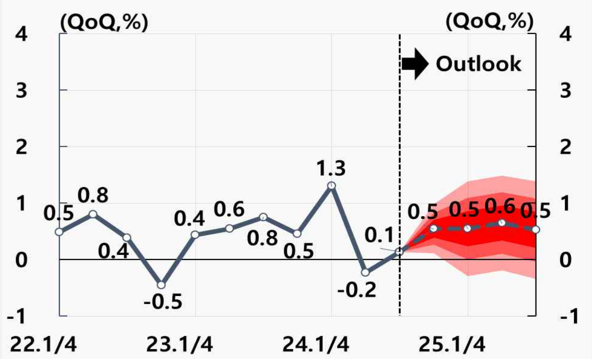
※ **Economic outlooks are conditional, and therefore, it would be advisable to place emphasis on how changes in the assumptions on internal/external environments affect the overall projected path.**

GDP growth

Outlook on GDP growth(YoY)[1)]



Outlook on GDP growth(QoQ)[1)]



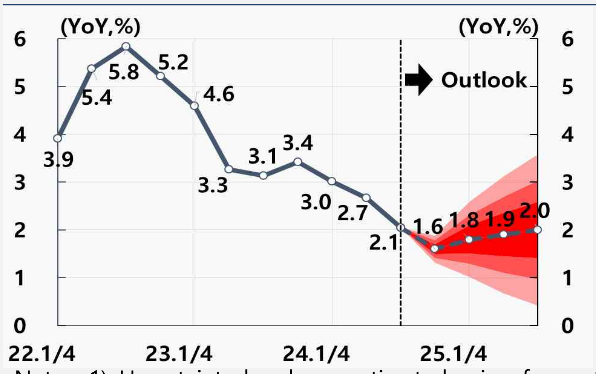
Notes: 1) Uncertainty has been estimated using forecast errors from the past 10 years. Shaded areas, starting from lighter to more darker colors, each represent 30%, 50%, 70%.
Source: Bank of Korea.

(%)	2024				2025e)		
	1Q	2Q	3Q	4Qe)	1Q	2Q	3Q
Year-over-year	3.3	2.3	1.5	**1.7**	**0.9**	**1.9**	**2.3**
• Quarter-over-quarter	1.3	-0.2	0.1	**0.5**	**0.5**	**0.6**	**0.5**

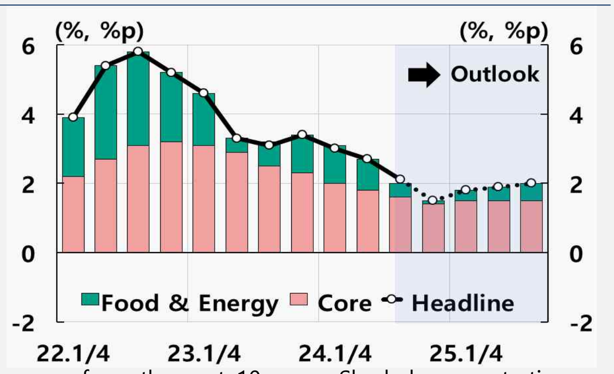
Source: Bank of Korea.

CPI inflation

Outlook on headline CPI[1)]



Contribution to headline CPI inflation



Notes: 1) Uncertainty has been estimated using forecast errors from the past 10 years. Shaded areas, starting from lighter to more darker colors, each represent 30%, 50%, 70%.
Source: Bank of Korea.

(YoY, %)	2024				2025e)		
	1Q	2Q	3Q	4Qe)	1Q	2Q	3Q
Headline inflation	3.0	2.7	2.1	**1.6**	**1.8**	**1.9**	**2.0**
• Core inflation[1)]	2.5	2.2	2.1	**1.9**	**1.9**	**1.9**	**2.0**

Note: 1) Excluding food and energy. Source: Bank of Korea.