This report is the English version of the “Korea Economic Outlook” published on August 29, 2024.

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Contents

Executive Summary

- **Korea's economy will likely continue its favorable pace of growth in the low-to-mid 2% range, as exports remain strong and domestic demand resumes its recovery trend, albeit somewhat lower than previously forecasted.**

- **CPI inflation is expected to slow to the low 2 percent range in the second half of the year thanks to the continued downward stabilization in core inflation and the base effect from the sharp increase in oil and agricultural prices last year.**

	2023	2024e)1)		2025e)1)	
GDP growth rate (%)	1.4	2.4	(-0.1)	2.1	(-)
Headline inflation (%)	3.6	2.5	(-0.1)	2.1	(-)
(Core inflation)	3.4	2.2	(-)	2.0	(-)
Current account (USD 100 million)	355	730	(+130)	620	(+10)
Change in number of employed persons (10,000 persons)	33	20	(-6)	16	(-2)

Note: 1) ( ) indicates change from the May 2024 projection.

Recent Changes in Key Drivers

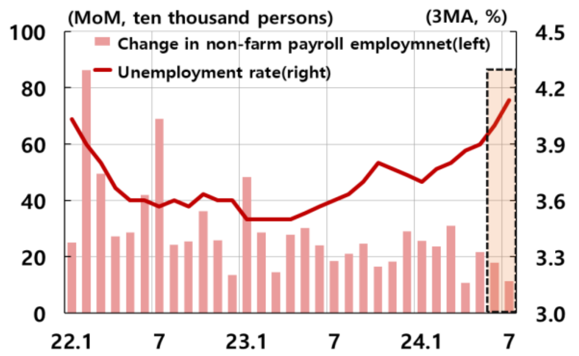
☐ **Since the May forecast, monetary easing cycle has been broadening in major economies, and the global IT cycle continues to improve. However, financial market volatility has increased, and geopolitical risks have also heightened. Domestic demand has resumed its recovery trend but the pace of recovery has been slow.**

- **The global economy**, overall, is expected to continue its moderate growth as projected previously, but adjustments of growth trajectories for individual countries from the forecast in May, despite offsetting each other, are anticipated. ①**China** is expected to show growth slightly above the previous forecast, whereas ②**the United States** faces increased downward pressure on growth due to a rise in the unemployment rate (Figure 1). The recovery in ③**global manufacturing** and **trade** is somewhat delayed, yet ④**the IT sector** is likely to maintain its upward trend driven by investments in AI, and related domestic firms are expected to further enhance their supply capacities (Figure 2). ⑤**Global oil prices** are projected to stabilize downward compared to previous forecasts due to sustained production and the possibility of a slowdown in demand from major economies, but short-term volatility may increase in the case of escalating conflicts in the Middle East (Figure 3).

- ⑥**Market interest rates** in major economies have fallen significantly due to progress on disinflation and the subsequent signals of potential rate cuts from the U.S. Federal Reserve, as well as concerns of the U.S. recession. As a result, the U.S. dollar(DXY) has weakened and ⑦**the KRW/USD exchange rate**, which fluctuated in the mid-to-high KRW 1,300 range in June and July, recently fell to the low-to-mid KRW 1,300 range in response to expectations of rate cuts by the U.S. Fed (Figure 4).

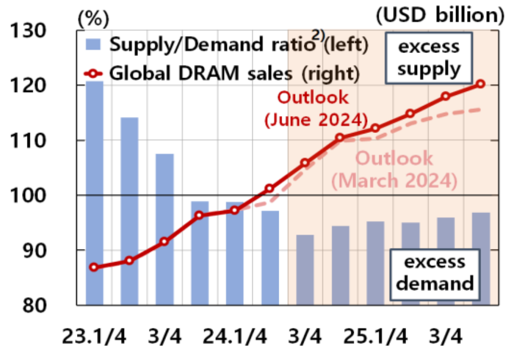
- **Domestically**, demand has resumed its recovery after an adjustment period, but the pace of recovery appears to be slow due to delayed improvements in income (Figure 5). ⑧**The housing market** continues to show regional differentiation, in which the metropolitan area, especially, has experienced an increase in transaction volumes along with steeper price increases.

Figure 1. Change in non-farm payroll employment and unemployment rate in the U.S.



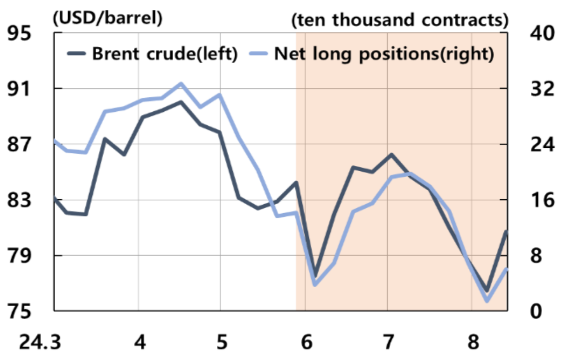
Source: BLS.

Figure 2. Global DRAM sales, supply and demand outlook[1]



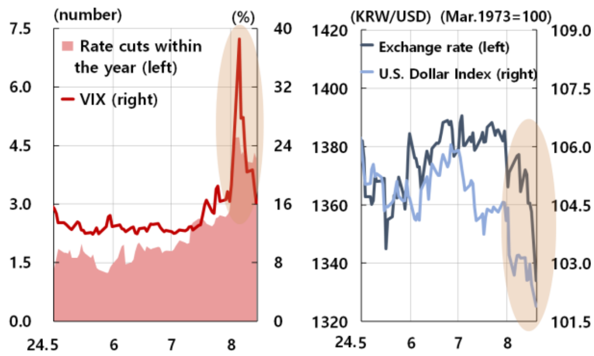
Notes: 1) Shaded area indicates projections.
2) Over (under) benchmark=100 indicates excess supply (demand).
Source: Gartner.

Figure 3. Global oil prices[1] and net long positions[2]



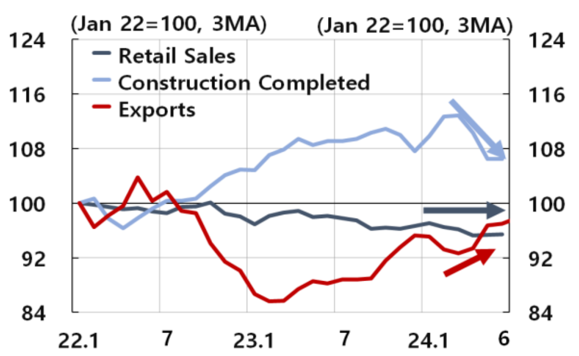
Notes: 1) As of the futures market position announcement date for the week.
2) Shaded area indicates the period after May forecast.
Sources: Bloomberg, ICE.

Figure 4. Market expectations for U.S. policy rates[1)2)] and exchange rate



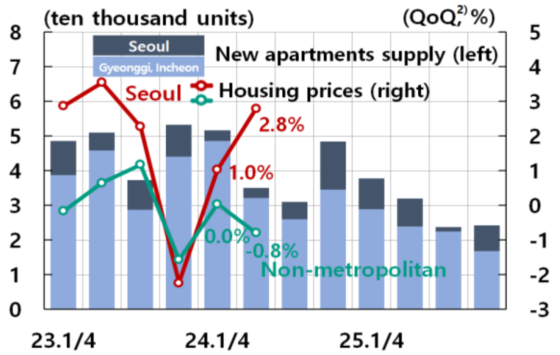
Notes: 1) Policy rate expectations reflected in the FFR futures market and the weighted average of probabilities based on the number of rate cuts.
2) 25bp per instance.
Sources: Bloomberg, CME FedWatch.

Figure 5. Retail sales[1], construction completed[1], exports[2]



Notes: 1) Seasonally adjusted, real value.
2) On customs clearance basis.
Sources: Statistics Korea, Korea customs Service, Research Department.

Figure 6. Planned new apartment supply and housing prices[1]



Notes: 1) Actual transaction-based price.
2) Compared to the end of the previous quarter.
Sources: Korea Real Estate Board, Real Estate 114.

Global Economic Conditions

☐ **The global economy is expected to continue its moderate growth in the low 3% range, supported by progress on disinflation and shift in monetary policy stances in major economies.**

- In the **United States**, economic growth is expected to be slightly lower than the previous forecast due to downward pressure from the recent labor market slowdown. The **Euro area** economy, mainly driven by consumption, will likely improve gradually as households' real income increases. In **China**, growth is forecast to be in the high 4% range as exports, mainly in the IT sector, continue to grow at a favorable pace, and the sluggishness in domestic demand gradually eases, aided by supportive government policies.

☐ **Global trade**, mainly in goods, will continue to improve, but the pace of recovery is expected to be slower than in the previous forecast, given the recent sluggishness of trade in advanced economies and trade conflicts among major economies.

☐ **Global oil prices** are projected to fluctuate around $80 for the time being, taking into account global demand being slightly lower than expected and favorable supply conditions such as steady production and OPEC+'s plan to unwind its production cuts. However, the conflict in the Middle East still remains as a risk factor.

Economic Outlook

☐ **Korea's economy is expected to grow by 2.4% this year, higher than the previous forecast of 2.1% in February, but somewhat lower than the forecast of 2.5% in May. Next year's growth is forecast to be at 2.1%, in line with the May forecast.**

- **Growth rate in the second quarter**, influenced by the base effect of strong growth at 1.3% in the previous quarter, experienced significant moderation mainly from the domestic demand side, falling to -0.2% on a quarter-over-quarter basis. **From the third quarter**, Korea's economy is expected to continue its favorable growth trend as exports remain strong and domestic demand improves.

- By sector, **exports** are expected to grow at a higher rate than in the previous forecast, thanks to the IT upcycle and increase in foreign tourist arrivals. **Domestic demand**, which fluctuated widely in the first half of the year due to temporary upside factors, will likely resume its recovery trend on the back of increase in corporate investment capacity and progress on disinflation. However, the momentum is expected to be somewhat lower than previous expectations.

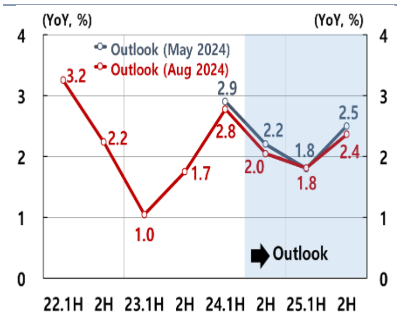
Global growth and trade outlook[1)]

(%)	2023	2024[e)]	2025[e)]
Global economy	3.2	3.1 [3.1]	3.2 [3.1]
• U.S.	2.5	2.4 [2.5]	1.8 [1.8]
• Euro area	0.4	0.8 [0.8]	1.5 [1.5]
• China	5.2	4.8 [4.7]	4.4 [4.4]
Global trade	0.9	2.8 [3.1]	3.4 [3.5]
Global oil prices[2)]	82	83 [85]	81 [81]

Korea's growth outlook by sector[1)]

(%)	2023	2024[e)]	2025[e)]
GDP	1.4	2.4 [2.5]	2.1 [2.1]
• Private consumption	1.8	1.4 [1.8]	2.2 [2.3]
• Goods exports	2.9	6.9 [5.1]	2.9 [3.0]
• Construction investment	1.5	-0.8 [-2.0]	-0.7 [-1.1]
• Facilities investment	1.1	0.2 [3.5]	4.3 [3.9]

Outlook on GDP growth



Notes: 1) [ ] indicates forecasts as of May 2024. 2) Brent oil price (USD/barrel).
Source: Research Department.

☐ **CPI inflation is expected to be at 2.5% this year, slightly below the forecast of 2.6% in May, as core inflation stabilizes in the low 2% range and agricultural price growth slows considerably. Next year's headline inflation projection remained at 2.1%, as in the May forecast. Core inflation is projected to be at 2.2% this year and 2.0% next year, in line with the previous forecast.**

- CPI inflation rebounded temporarily in July*, but as core inflation maintains its downward stabilization and the considerable base effect from the sharp increase in oil and agricultural prices last year comes into play, it is expected to slow down again from August onward, unless there is an additional supply shock.

  * In July, core inflation remained at the same level as in the previous month (2.2% in June → 2.2% in July), but CPI inflation rebounded slightly (2.4% → 2.6%) as petroleum prices increased due to higher global oil prices and a reduction in the fuel tax cut rate.

☐ **The current account surplus is projected to reach $73 billion this year, significantly above the previous forecast of $60 billion. For next year, it is expected to be $62 billion, slightly above the previous forecast of $61 billion.**

- The **trade surplus in goods*** is expected to widen as exports continue to improve, led by semiconductors, while imports recover more slowly than expected due to delayed recovery in domestic demand. The **trade deficit in services*** is expected to narrow aided by a strong inflow of foreign tourists.

  * Goods account balance (monthly average, USD billion) 23.3Q 5.7 → 4Q 6.8 → 24.1Q 6.3 → 2Q 8.4
  Services account balance (〃) 23.3Q –2.4 → 4Q –2.0 → 24.1Q –2.3 → 2Q –1.5

☐ **The increase in the number of employed persons is projected to be 200,000 this year and 160,000 next year, lower than previous expectations.**

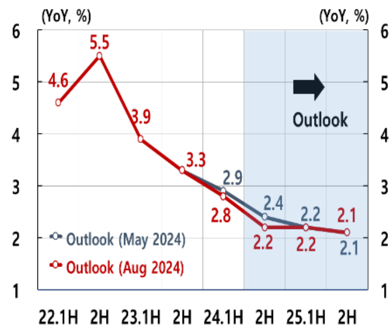
- The number of employed persons in the **manufacturing sector** is expected to continue growing this year on the back of improvement in exports, but the **services sector** is likely to experience a slowdown, especially for in-person services such as wholesale and retail trade. In particular, the number of employed persons in the **construction sector** is forecast to decrease more than previously expected due to the downturn in the construction business cycle.

Outlook on inflation, current account, and employment[1)]

	2023	2024e)	2025e)
Headline inflation (%)	3.6	2.5 [2.6]	2.1 [2.1]
• Core inflation (%)	3.4	2.2 [2.2]	2.0 [2.0]
Current account (USD 100 million)	355	730 [600]	620 [610]
Increase in Number of the employed (10,000 persons)	33	20 [26]	16 [18]

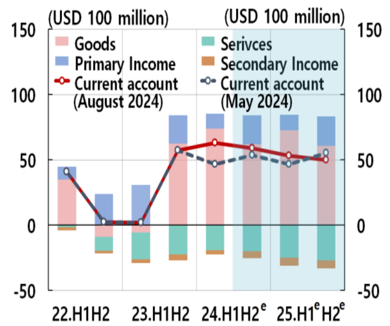
Note: 1) [ ] indicates forecasts as of May 2024.
Sources: Research Department, Economic Statistics Department, Statistics Korea.

Outlook on headline CPI



Sources: Statistics Korea, Research Department.

Outlook on current account



Source: Bank of Korea.

Risks to the Outlook

☐ **Regarding the future outlook, there is a high degree of uncertainty in relations to growth and price trends in major economies, pace of expansion of the IT cycle, as well as the global political landscape. For prices, weather conditions and the timing of adjustments in utility rates are potential risk factors.**

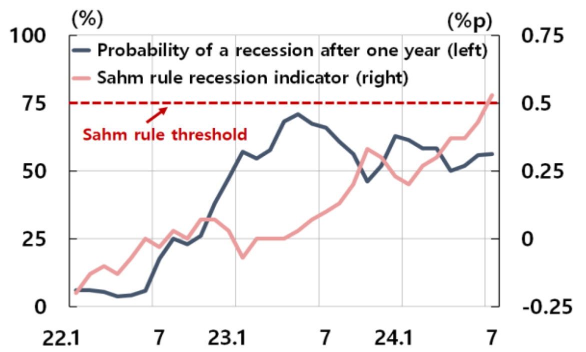
☐ **Given the high level of uncertainty around the future path of growth, we have analyzed two alternative scenarios related to U.S. economic growth(Scenario1) and the semiconductor business cycle(Scenario2).**

* For a more detailed explanation of the key assumptions in each scenario, refer to page 27 of the main text.

- Scenario 1 If **'U.S. growth slowdown becomes more pronounced'**, Korea's economy will be exposed to negative shocks not only from a decline in external demand but also through foreign exchange and financial channels, which are estimated to **reduce growth** by **0.1 percentage points this year**, and by **0.3 percentage points next year**. For **inflation**, taking into account the time lag, it will likely have a limited impact for this year but **reduce 0.2 percentage points** for the **next year**.

- Scenario 2 If the **'Semiconductor cycle improves further'**, it will be an upside factor for consumption and facilities investment. In this case, **GDP growth** is expected to **increase** by **0.1 percentage points** and **0.2 percentage points** for this year and next year, respectively. For **inflation**, there would be no significant changes for this year, but it will likely rise by **0.1 percentage points next year**.

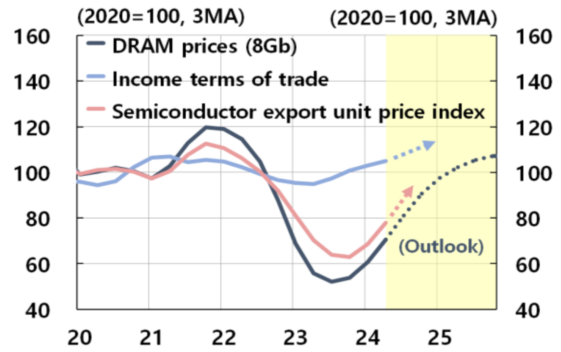
Likelihood of a U.S. recession[1)]



Note: 1) The Sahm rule states that a recession has begun when the three-month moving average of the unemployment rate is 0.5% higher than its low over the prior 12 months.

Sources: NY Fed, FRED.

Semiconductor prices and terms of trade



Sources: Economic Statistics Department, major IBs, Estimates by the Research Department.

GDP growth rate

(YoY, %)	2023	2024e)	2025e)
Baseline	1.4	2.4	2.1
Scenario 1:		-0.1	-0.3
Scenario 2:		+0.1	+0.2

Headline inflation

(YoY, %)	2023	2024e)	2025e)
Baseline	3.6	2.5	2.1
Scenario 1:		-0.0	-0.2
Scenario 2:		+0.0	+0.1

Sources: Research Department, Office of Economic Modeling & Policy Analysis.

Economic Outlook Summary (Aug. 2024)

	2023	2024			2025e)		
	Year	H1	H2e)	Yeare)5)	H1	H2	Year5)
Main premises of the baseline outlook							
World economic growth (%)1)	**3.2**	3.2	3.1	**3.1** [-]	3.1	3.2	**3.2** [+0.1]
• United States	**2.5**	3.0	1.9	**2.4** [-0.1]	1.6	1.9	**1.8** [-]
• Euro area	**0.4**	0.4	1.1	**0.8** [-]	1.5	1.6	**1.5** [-]
• China	**5.2**	5.0	4.7	**4.8** [+0.1]	4.4	4.5	**4.4** [-]
• Japan	**1.7**	-0.9	1.5	**0.4** [-0.4]	1.8	0.4	**1.1** [+0.2]
World trade growth (%)1)	**0.9**	1.7	3.9	**2.8** [-0.3]	4.4	2.6	**3.4** [-0.1]
Brent oil price (USD/barrel)2)	**82**	83	84	**83** [-2]	81	80	**81** [-]
Domestic economic outlook							
GDP growth (%)1)	**1.4**	2.8	2.0	**2.4** [-0.1]	1.8	2.4	**2.1** [-]
• Private consumption	**1.8**	1.0	1.8	**1.4** [-0.4]	2.2	2.3	**2.2** [-0.1]
• Construction investment	**1.5**	0.8	-2.2	**-0.8** [+1.2]	-3.4	1.8	**-0.7** [+0.4]
• Facilities investment	**1.1**	-2.3	2.6	**0.2** [-3.3]	6.5	2.2	**4.3** [+0.4]
• IPP investment	**1.7**	1.7	2.0	**1.9** [-0.5]	3.2	3.4	**3.3** [-]
• Goods exports	**2.9**	8.4	5.6	**6.9** [+1.8]	3.1	2.6	**2.9** [-0.1]
• Goods imports	**-0.3**	-1.4	4.6	**1.6** [-0.8]	5.2	2.1	**3.6** [+0.5]
Headline inflation (%)1)	**3.6**	2.8	2.2	**2.5** [-0.1]	2.2	2.1	**2.1** [-]
• Core inflation3)	**3.4**	2.4	2.1	**2.2** [-]	2.1	2.0	**2.0** [-]
Current account (USD 100 million)	**355**	377	353	**730** [+130]	320	300	**620** [+10]
• Goods	**341**	443	373	**816** [+109]	437	364	**801** [+5]
• Services	**-257**	-114	-119	**-233** [+15]	-150	-161	**-311** [+5]
• Primary and secondary income	**271**	49	99	**148** [+7]	33	97	**130** [-]
Change in number of employed persons (10,000 persons)1)	**33**	22	18	**20** [-6]	17	14	**16** [-2]
Unemployment rate (%)	**2.7**	3.1	2.7	**2.9** [-]	3.1	2.7	**2.9** [-]
Employment rate (%)4)	**62.6**	62.5	63.0	**62.7** [-0.1]	62.6	63.1	**62.9** [-0.1]

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 May 2024.
Sources: Bank of Korea, Statistics offices in each area, Bloomberg.

I. Macroeconomic Conditions and Outlook

1. Domestic and International Economic Conditions

Global Economy

1.1. The global economy is expected to continue its moderate growth in the low 3% range, supported by progress on disinflation and shift in monetary policy stances in major economies.[1] Recently, the global economy, despite constraints such as high inflation and interest rates as well as geopolitical uncertainties, has shown steady growth thanks to a solid service sector. The manufacturing sector has shown signs of improvement this year driven by a favorable IT cycle and restocking demand. However, the sluggish performance of advanced economies recently appears to be delaying the previously anticipated broad recovery in global manufacturing. Global inflation has generally slowed, and monetary policy in major countries is shifting to an easing cycle. The FOMC left the target range for the federal funds rate unchanged at its July meeting, hinting at a possible rate cut in September,[2] and market expectations for a rate cut have risen sharply.[3]

Although the global economy has experienced uneven growth across regions and sectors due to differences in resilience in response to inflation and interest rate shocks, these differences are expected to narrow in the future. The exceptionally strong U.S. economic growth (U.S. exceptionalism), is expected to slow into next year, while other advanced economies will likely improve at a moderate pace, driven in part by increases in real household income. In emerging market economies (EMEs), solid growth is expected to continue, driven by expansion of export and investment particularly in the IT sector. In addition, as global financial conditions continue to ease, recovery of the non-IT sector will also support global economic growth. However, there are still risks to the growth path going forward, such as unrest in the Middle East and political uncertainty in the United States and Europe.

Global trade, mainly in goods, is expected to increase gradually along with global interest rate cuts. However, the pace of improvement is expected to be slower than in our last outlook, given that the sluggish goods trade in Europe and Japan[4] has constrained global trade until recently and trade disputes in major countries[5] are on the horizon.

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[1] Since the May outlook, Canada (June 5 and July 24, 25bp each), the ECB (June 6, 25bp), and UK (August 1, 25bp) have begun to shift their monetary policies, while Switzerland (March 21 and June 20, 25bp each) and Sweden (May 8 and August 20, 25bp each) have made additional rate cuts.

[2] In the press conference held after the July FOMC meeting, Chair Powell said, “If inflation behaves as expected, a potential rate cut in September may be on the table.”

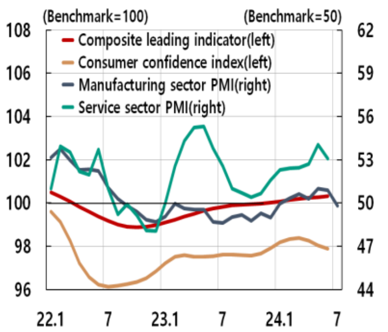
[3] While the magnitude of the expected rate cut embedded in the futures markets was 40bp(May average) in the May projection, it has widened to 99bp (average, August 5 to 20) following the release of key economic indicators such as the prices for May and June and employment data for July.

[4] Europe was likely affected by the sluggish manufacturing sector, post-Brexit trade barriers between the EU and UK, and shipping disruptions in the Red Sea, while Japan appears to have been hit by production delays following the revelation of falsifications of vehicle tests.

[5] The United States has imposed additional tariffs on Chinese steel and aluminum of 17.5 to 25%p (0 to 7.5% → 25%) and EVs of 75%p (25% → 100%) (implemented on August 1), while the EU decided to raise tariffs on Chinese EVs by 17.4 to 37.6%p (10% → 27.4 to 47.6%) (to be temporarily applied for four months from July 5).

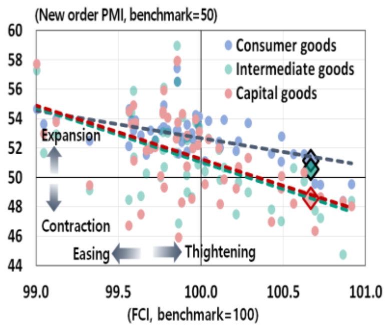
Global economy continues to grow at a moderate pace	Global manufacturing sector likely to improve as financial conditions ease	Goods trade improves overall except in Europe and Japan

Figure 1.1. OECD composite leading indicator/consumer confidence index,[1] and global PMI



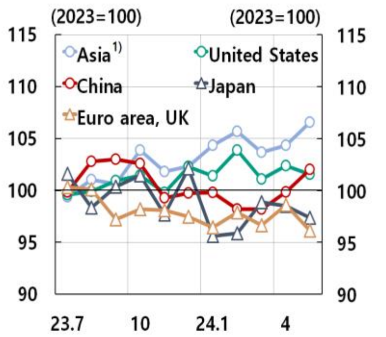
Note: 1) For G20.
Sources: OECD, JPM, S&P Global.

Figure 1.2. Global manufacturing new order PMI and financial conditions index[1]



Note: 1) ● is from Q1 2010 to Q1 2024, while ◆ is the average for April to July 2024.
Sources: JPM, S&P Global, GS.

Figure 1.3. Goods trade by country

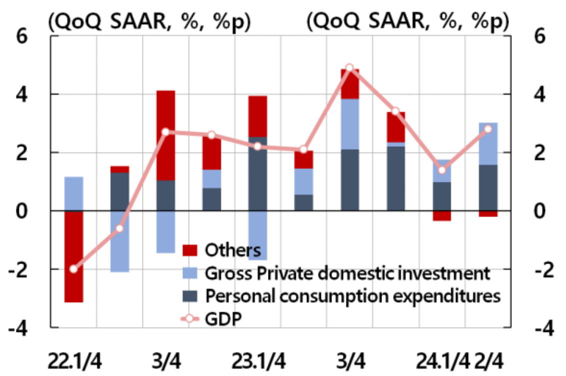


Note: 1) Excluding Japan and China.
Source: CPB.

1.2. In terms of major countries, the U.S. economy is expected to continue to grow at a favorable but slower pace due to the gradual convergence of the labor market toward equilibrium. In the second quarter, the U.S. economy continued to grow (QoQ SAAR, 1.4% in Q1 → 2.8% in Q2) thanks to the expansion of private investment, mainly in facilities, and improvement in personal consumption.[6] In the second half of the year, while rising investment in AI and continued inflows of immigrants are likely to support the momentum, growth is projected to moderate from the previous forecast, mainly in consumption, due to the recent trend of slowing employment. The future growth path will mainly depend on the pace of labor market slowdown and its ensuing effect on consumption. Meanwhile, market expectations for rate cuts by the Federal Reserve later this year have risen sharply amid recent concerns about an economic recession and progress on disinflation.[7]

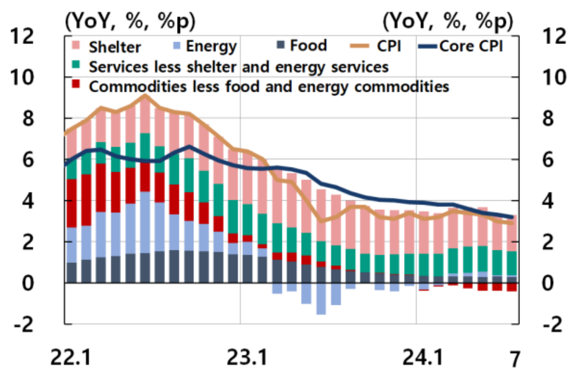
U.S. continues to grow at a favorable pace in Q2	Progress on disinflation

Figure 1.4. Contribution to U.S. GDP growth



Source: U.S. Bureau of Economic Analysis.

Figure 1.5. U.S. consumer price inflation and contribution



Source: U.S. Bureau of Labor Statistics.

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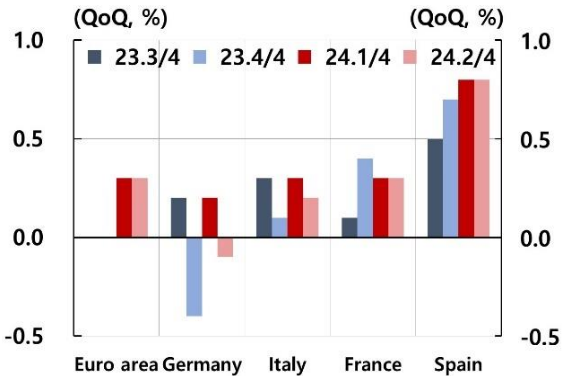
6 Private investment (4.4% in Q1 → 8.4% in Q2, QoQ SAAR) has increased at a faster pace, mainly driven by facilities investment (1.6% → 11.6%), while personal consumption (1.5% → 2.3%) has shown favorable growth as well.
7 CPI (YoY, %): 3.3 in May → 3.0 in June → 2.9 in July / Core CPI: 3.4 in May → 3.3 in June → 3.2 in July

1.3. The euro area economy is expected to continue its gradual recovery thanks to an improvement in the real purchasing power of households. In the second quarter, the euro area economy, despite weak manufacturing output, grew by 0.3% quarter-on-quarter for the second consecutive quarter driven by an improvement in the service sector[8]. Germany experienced a decline in growth due to a drop in manufacturing output and sluggishness in equipment and construction investment, while France and Spain continued to grow at a favorable pace due to their booming service sectors and increase in net exports. This year, the euro area economy is expected to improve gradually, mainly on the consumption side, supported by progress on disinflation and wage increases on the back of solid employment conditions.[9] Next year, growth is expected to improve somewhat, supported by increases in exports and facilities investment amid a recovery in external demand and easing financial conditions.[10] With inflation hovering around the mid-2% range following the June rate cut, the pace of further easing by the ECB this year will depend on the development of service prices,[11] which have remained elevated recently.

Euro area economy shows gradual growth, with growth rates varying from country to country

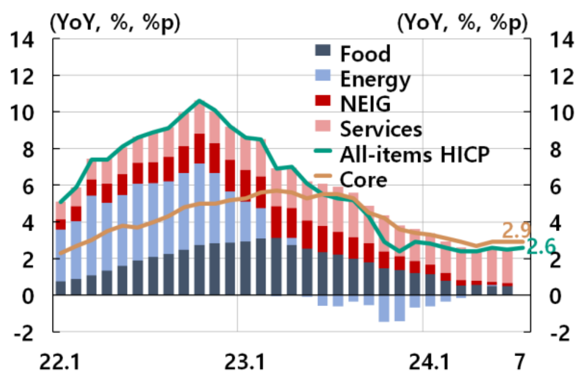
Figure 1.6. GDP growth rate in euro area and major countries



Source: Eurostat.

Inflation fluctuates around mid-2% range

Figure 1.7. Euro area inflation rate



Source: Eurostat.

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8 Euro area PMI (S&P Global, benchmark=50)
► Manufacturing sector: 43.9 in Q4 2023 → 46.4 in Q1 2024 → 46.3 in Q2
► Service sector: 48.4 in Q4 2023 → 50.0 in Q1 2024 → 53.1 in Q2

9 The unemployment rate in the euro area was 6.5% in June, up by 0.1%p from the lowest level in May (6.4%), but still remains low.

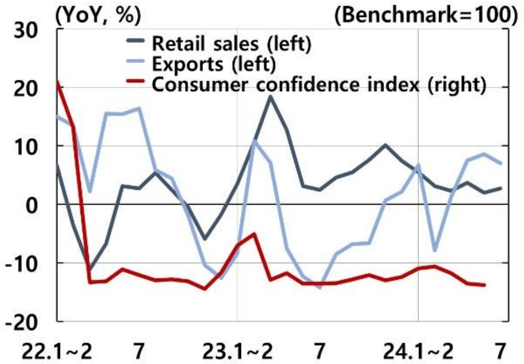
10 With the underlying trend of inflation expected to be down through next year, markets expect the ECB to cut rates by another 50bp in the second half of the year and by 100bp in 2025 (August 12, Bloomberg survey).

11 Service price inflation (YoY, %): 4.2 in Q4 2023 → 4.0 in Q1 2024 → 4.0 in Q2 → 4.0 in July

1.4. China's economy is expected to grow in the high 4% range this year on the back of sustained strong export growth, particularly in IT, and the sluggishness in domestic demand easing gradually, supported by stimulus measures. China's exports have increased at a favorable pace, driven by China's main export items such as semiconductors, automobiles, and home appliances, amid the booming global IT sector and the price competitiveness of Chinese products. However, growth has slowed to 4.7% year-on-year in the second quarter due to sluggish domestic demand as the effect of the country's policy (announced in March 2024) to encourage consumers and businesses to replace old facilities and equipment with new ones to stimulate investment and consumption fizzled out.[12] This is largely due to ongoing structural problems such as the real estate sector slump,[13] local government debt, and weakening consumer sentiment owing to job insecurity. In response, the People's Bank of China quickly cut interest rates[14] as part of its measures following the third Plenary Session of the 20th Central Committee,[15] and the government announced measures to boost domestic demand,[16] focusing on the real estate and service sectors. These stronger monetary and fiscal policy supports[17] are expected to ease the sluggishness in domestic demand and boost growth. In addition to domestic structural challenges, trade frictions with major countries in advanced industries such as semiconductors and electric vehicles are potential downside risks to growth.

Imbalance between domestic demand and exports has widened recently in China

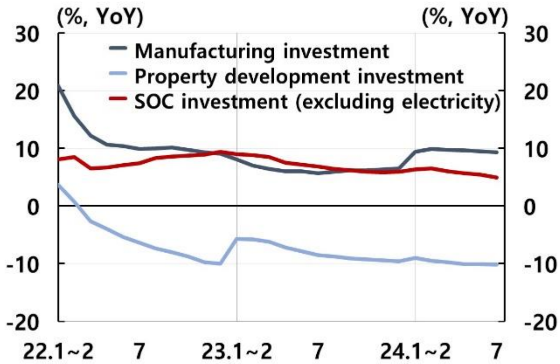
Figure 1.8. China's retail sales, exports, and consumer confidence index



Sources: National Bureau of Statistics of China, General Administration of Customs of the People's Republic of China.

Manufacturing investment is favorable amid slump in real estate sector

Figure 1.9. Fixed asset investment by sector in China[1)]



Note: 1) Year to date.
Source: National Bureau of Statistics of China.

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12 Retail sales (seasonally adjusted, over previous period, %) grew moderately, partly due to policy effects, and turned negative in June. 0.25 in March 2024 → -0.03 in April → 0.39 in May → -0.10 in June → 0.35 in July

13

(YoY, %)	2021	2022	2023	Q1 2024	Q2	July
►Existing housing prices[1)]	1.0	-3.8	-4.1	-5.9	-7.9	-8.2
►Housing sales area[2)]	1.1	-26.8	-8.2	-23.4	-21.9	-21.1
►Construction start area[2)]	-11.4	-39.4	-20.4	-27.8	-23.7	-23.2

Notes: 1) Growth rates in 70 top cities, quarterly data based on last month of quarter. 2) Based on cumulative totals.
Sources: National Bureau of Statistics of China, CEIC.

14 On July 22, the People's Bank of China cut the reverse RP rate (1.8% → 1.7%, impact on short-term interest rates), five-year loan prime rate (LPR) (3.95% → 3.85%, related to home mortgage loan rates), and one-year LPR (3.45% → 3.35%, benchmark for SME loan rates) by 0.1%p each. On July 25, the bank reduced the one-year medium-term lending facility (MLF) rate by 0.2%p (2.5% → 2.3%).

15 While the Third Plenary Session of the 20th Central Committee of the Communist Party of China (July 15 to 18, 2024) was said to have presented an overall picture of an essential reform policy, it was widely expected that a concrete measure to stimulate the economy would be announced soon.

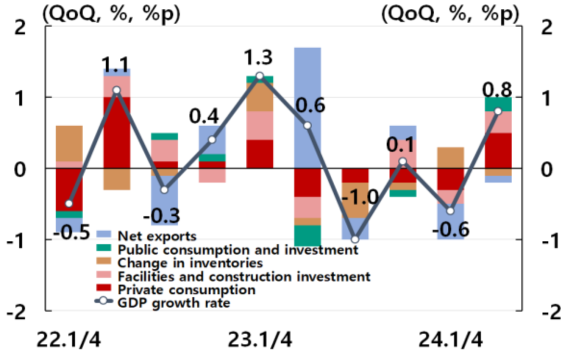
16 After the China's government unveiled far-reaching measures to stabilize the real estate sector in May, including asking local governments to buy unsold properties, remove the floor on the mortgage interest rate and ease home purchase requirements, it also issued "Opinions on promoting high-quality development of service consumption" on August 3, aimed at promoting openness and improving quality in eight sectors: catering, accommodations, household services, tourism, entertainment, education, and residential services.

17 In addition, the issuance of special bonds by local governments, which had been slow due to construction delays caused by flooding in the southern region and stricter monitoring of local government debt, is expected to gradually normalize.

1.5. Although growth stalled[18] due to disruptions in automobile production, Japan's economy is projected to recover slowly as the slump in consumption eases and facilities investment increases. In the first half of this year, Japan's economic recovery was hampered by a series of production disruptions[19] caused by the revelation of automobile test falsifications and sluggishness in consumer spending[20] due to continuing inflation. However, the economy is expected to grow gradually as households' consumption capacity improves amid rising nominal wages[21] and slowing inflation, and facilities investment picks up driven by FDI inflows and the progress in digital transformation.[22] The Bank of Japan has been normalizing its monetary policy since March, based on its assessment that inflation will not significantly exceed the target. In July, the BOJ, taking into account recent increases in import prices, raised its policy rate and announced a plan[23] to reduce Japan's government bond purchases to address inflation concerns[24].

Production disruptions stall growth in Japan

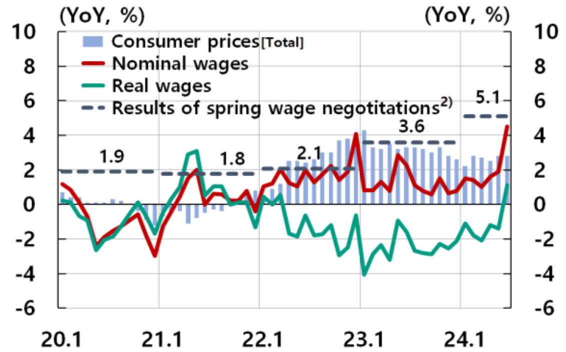
Figure 1.10. GDP growth rates and contributions in Japan



Source: Cabinet Office of Japan.

Increase in nominal wages accelerates, with real wages shifting upward

Figure 1.11. Wage and consumer price inflation in Japan[1)]



Notes: 1) Inflation target (excluding fresh food, YoY): 2%.
2) Based on final (7th) count.
Sources: Ministry of Internal Affairs and Communications of Japan, Ministry of Health, Labor and Welfare of Japan, Japanese Trade Union Confederation (Rengo).

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18 For details, refer to "FYI. Factors Behind the Stagnation of Japan's Economic Growth Rate in the First Half of 2024."

19 Production disruptions at Daihatsu Motor Co., Ltd. negatively affected the overall economy, including production, consumption, and exports, in the first quarter. In the second quarter, these effects have partially eased, but in June and July, additional production delays occurred at some companies, including Toyota Motor Corporation, delaying economic recovery.

(QoQ, %)	Q4 2023	Q1 2024	Q2 2024	April 2024	May 2024	June 2024
►Mining and manufacturing production	1.1	-5.2	2.7	-0.9	3.6	-4.2
►Retail sales	-0.9	0.0	1.8	0.8	1.6	0.6
►Exports	3.1	-1.3	3.0	0.9	1.3	-0.2

Sources: Japan's Ministry of Economy, Trade and Industry, Ministry of Finance.

20 GDP household consumption (QoQ) had been declining for four consecutive quarters from Q2 2023 but shifted upward in Q2 2024 (-0.6% in Q1 2024 → 1.0% in Q2 2024). This is probably due to the recovery in the consumption of durable goods, which fell sharply, especially for cars (-11.0% → 8.1%).

21 In June 2024, nominal wages (YoY, +4.5%) increased by a larger margin, driven by increases in regular payments (+2.3%) and special payments (+7.6%). Real wages (+1.1%), which reflect consumer price inflation excluding owners' equivalent rent (+3.3%) (Ministry of Health, Labor and Welfare of Japan), transitioned to an increase after 27 months from April 2022. However, as the growth rate of regular payments reflecting the spring 2024 wage negotiations (5.1% increase, highest since 1991) is still below the inflation rate, the trend of wage increases needs to be further monitored going forward.

22 The Japan's government is actively implementing digital transformation by supporting digital-based investment (expansion of semiconductor production capacity and data centers) to cope with population decline, aging production facilities, and sluggish IT investment, while companies are increasing their investment in automation of production equipment and software in order to address labor shortages.

23 At its July 31 monetary policy meeting, the Bank of Japan raised the uncollateralized overnight call rate from between zero and 0.1% to 0.25% and adopted a plan to reduce its monthly outright purchases of Japan's government bonds (JGBs) from the current about 6 trillion yen to about 3 trillion yen in the first quarter of 2026 by reducing the amount by approximately 400 billion yen each quarter.

24 The Bank of Japan recently viewed rising import prices as an upside risk to inflation.

► Rate of increase in import prices (YoY, %): -7.9 in Q4 2023 → 0.6 in Q1 2024 → 7.2 in Q2 2024

FYI Factors Behind the Stagnation of Japan's Economic Growth Rate in the First Half of 2024

Recently, Japan's GDP growth rate has been revised downward due to ① disruptions in automobile production following the disclosure of fraud in quality certifications (falsification of test data, alteration of automatable parts, etc.) and ② errors in construction statistics.

① Daihatsu, an automaker, suspended production in Japan from the end of December 2023 following a safety test scandal, and resumed production sequentially from February 2024, with all plants resuming operations in May 2024. Later, quality certification fraud was discovered again in June (five companies, including Toyota) and July (Toyota), leading to further production disruptions for some models. Automotive manufacturing is one of Japan's most important industries (accounting for 12.5% of the mining and manufacturing sector production and 17.1% of exports in 2023), with significant links between downstream and upstream supply chains, so the production disruptions had a far-reaching impact on the overall economy.

② In addition, double-counting of construction orders reported by a Japanese construction company was discovered, leading to a substantial downward revision of construction order and completion statistics. As the GDP statistics reflected this correction (revision of preliminary GDP estimates for first quarter of 2024, July 1), the annual GDP growth rates for 2023 (1.9% → 1.8%) and the first quarter of 2024 (QoQ, -0.5% → -0.7%) were revised downward. On August 15, when the GDP growth rate for the second quarter of 2024 was announced, the GDP growth rate for 2023 was revised again to 1.7% YoY, and the GDP growth rate for the first quarter of 2024 was revised to -0.6% QoQ.

1.6. Asia's emerging market economies (EMEs) are expected to maintain solid growth on the back of favorable domestic demand and exports. With domestic demand in good shape,[25] Asia's EMEs have maintained robust growth, fueled by an increase in foreign tourism[26] and resurgence of exports amid an expansion in global IT demand.[27] Going forward, they are likely to continue to grow, led by exports and investment, benefiting from the improving global manufacturing sector and supply chain restructuring. Meanwhile, as inflation has stabilized around each country's price target range and expectations for a September rate cut by the U.S. Federal Reserve have increased, emerging market central banks are expected to shift their current monetary policy stance toward easing.

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[25] Both consumption and investment are in good shape in India and ASEAN-5 states. However, for Thailand, investment has been sluggish due to a delay in government budget execution in 2024.

(YoY, %)	India	Indonesia	Malaysia	Thailand	The Philippines	Vietnam[1)]
►Final consumption[2)]	3.1 → 3.4	6.6 → 4.6	5.1 → 5.6	5.1 → 5.1	4.1 → 5.8	4.9 → 5.8
►Gross capital formation[2)]	11.5 → 8.0	4.0 → 5.6	9.1 → 7.3	-3.2 → -3.4	0.5 → 11.5	4.7 → 6.7

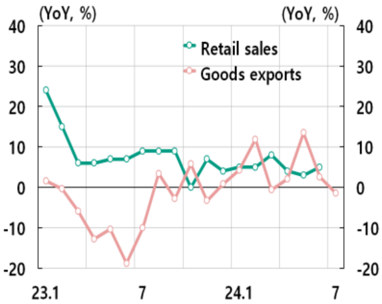
Note: 1) YTD (year-to-date) growth rate.
2) Q1 2024 → Q2 2024 (but Q4 2023 → Q1 2024 for India and Thailand).
Sources: Statistics offices in each area, HAVER.

[26] Number of foreign visitors to India (monthly average, 10,000 persons): 91.1 in 2019 → 12.7 in 2021 → 53.6 in 2022 → 77.0 in 2023 → 81.4 in Jan to May 2024
Number of foreign visitors to ASEAN-5 states (monthly average, 10,000 persons): 903.3 in 2019 → 20.3 in 2021 → 277.1 in 2022 → 649.8 in 2023 → 792.9 in Jan to May 2024

[27] Exports of EMEs are on track for a recovery led by electronic devices such as computers and parts (India and Vietnam) and telecommunication devices and parts (India, Philippines, and Thailand).
► India's goods exports (YoY, %): 1.0 in Q4 2023 → 4.9 in Q1 2024 → 6.1 in Q2 2024
► ASEAN-5 goods exports (YoY, %): -1.8 in Q4 2023 → 1.7 in Q1 2024 → 5.0 in Q2 2024

In EMEs, retail sales grow at a favorable pace and goods exports are recovering

Figure 1.12. Economic indicators in India



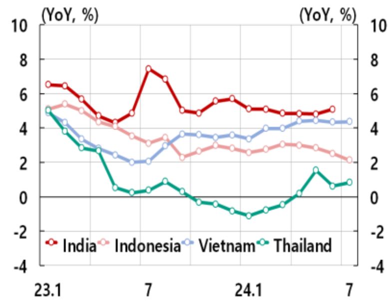
Source: Ministry of Statistics and Programme Implementation of India.

Figure 1.13. Economic indicators in ASEAN-5[1)]

Note: 1) Retail sales excluding the Philippines.
Source: The national statistical office in each country.

Inflation has stabilized near its target range

Figure 1.14. Consumer price inflation in major EMEs[1)]

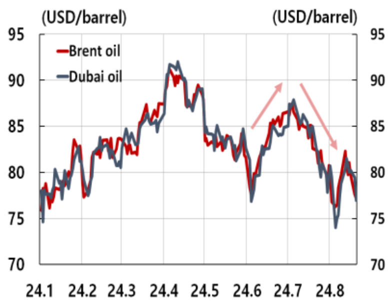


Note: 1) Price targets (%): 4±2 for India, 2.5±1 for Indonesia, 4~4.5 for Vietnam, 1~3 for Thailand.
Sources: The national statistics office in each country, HAVER.

1.7. Global oil prices are expected to stabilize at a lower level than in the previous forecast, due to steady crude oil production and the possibility of slowing demand in major countries, despite ongoing tensions in the Middle East. Global oil prices rose to the mid- to high-USD 80s in June on the back of monetary policy easing in major countries and expectations of higher demand for crude oil in the summer. Then, it hovered around the low USD 80s from July onward (average of USD 82 from July 1 to August 20) due to a mix of downside and upside factors, including concerns about weakening demand in the United States and China and unrest in the Middle East[28]. Going forward, global oil prices are likely to fluctuate around USD 80,[29] considering the scaling back of OPEC+ production cuts (to go into effect in October) and possibility of a slowdown in global demand. However, there are still risks of an increase in short-term volatility due to escalating conflict in the Middle East.

Global oil prices have declined since July

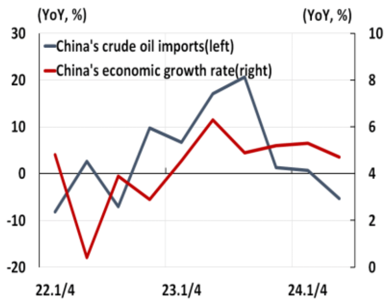
Figure 1.15. Global oil prices



Source: Bloomberg.

China's crude oil imports recently fell into negative growth

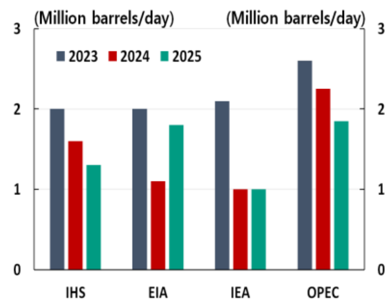
Figure 1.16. China's crude oil imports and economic growth rate



Sources: National Bureau of Statistics of China, General Administration of Customs of the People's Republic of China.

Demand for global crude oil is not strong

Figure 1.17. Outlook for global crude oil demand (YoY variation)



Source: each institution.

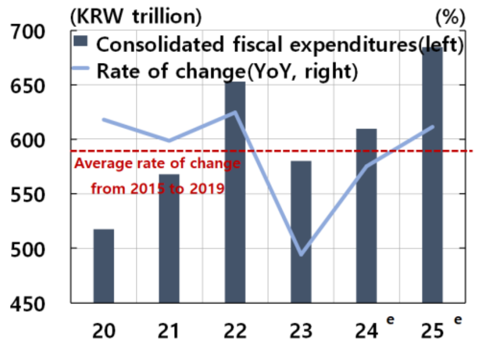
[28] Despite major events in the Middle East, such as the Hamas rocket attack on the Golan Heights (July 27) and assassination of Hamas political leader Haniyeh (July 31), international oil prices rose only to a limited extent as markets were reassured by the lack of impact on crude oil production and transportation infrastructure. Recently, global crude oil markets have tended to be less sensitive to risks in the Middle East thanks to the overall stability of crude oil supply and demand.

[29] The global crude oil markets estimate that the USD 80-85 level is sufficient for major oil-producing countries, including Saudi Arabia, to maintain fiscal balance.

1.8. Consolidated fiscal expenditures of central government in 2024 are expected to be higher than last year. Fiscal expenditures in the first half of this year increased by 4.9% year-on-year, with a sharp increase in the first quarter and slight decrease in the second.[30] Meanwhile, in the first half of the year, national tax revenue[31] declined significantly year-on-year, mainly in corporate tax. However, as the profitability of domestic companies improved in the first half of the year, the decline is expected to moderate from August as the interim payment of corporate tax[32] begins. The managed fiscal deficit is expected to decline from the upper 3% level this year to the upper 2% level next year.[33]

Fiscal expenditures are projected to increase compared to last year

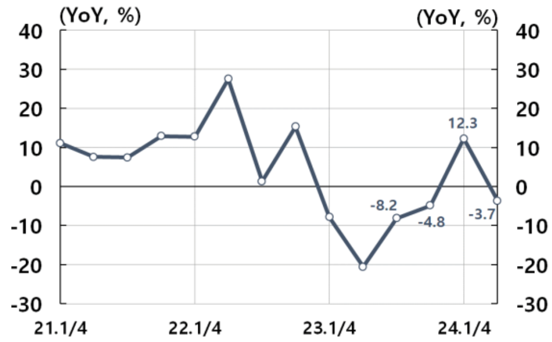
Figure 1.18. Consolidated fiscal expenditure[1)2)] forecast



Notes: 1) Figures for 2024 are based on original budget, and 2025 on the National Fiscal Management Plan.
2) Figures for 2025 are based on total expenditure, including loan expenditure, and figures for other years are based on consolidated fiscal expenditure including net loans (loan expenditure - loan repayment).
Source: Ministry of Economy and Finance.

Decline in Q2 after an increase in Q1

Figure 1.19. Quarterly consolidated fiscal expenditure trend



Source: Ministry of Economy and Finance.

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30 Consolidated fiscal expenditures during the first half of 2023 and 2024 is as follows.

(KRW trillion)	2023	2024	Difference
►Q1	180.9	203.1	+22.2
►Q2	156.9	151.1	-5.8

Source: Ministry of Economy and Finance.

31 National tax revenue for the first half of 2024 decreased by KRW 10.0 trillion year-on-year due to a sharp decrease in corporate tax (YoY, -KRW 16.1 trillion) despite an increase in value-added tax (YoY, +KRW 5.6 trillion).

32 Interim corporate tax payments are calculated on the basis of half of the corporate tax paid in the preceding year or on the basis of business performance in the first half of a given year. As the business results of large semiconductor companies and banks improved in the first half of the year, the interim corporate tax payment (after August) is expected to increase.

33 From 2022 to 2025, the ratios of managed fiscal balance and consolidated fiscal balance to GDP are as in the table below.

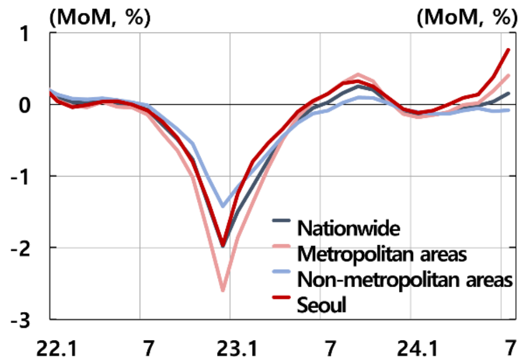
(%)	2022	2023	2024e)	2025e)
►Managed fiscal balance1)2)	-5.0 <-5.4>	-3.6 <-3.9>	-3.9	-2.9
►Consolidated fiscal balance1)2)	-2.8 <-3.0>	-1.5 <-1.6>	-1.9	-0.9

Note: 1) The figures for 2022 and 2023 are based on closing of accounts; for 2024, on the original budget; and for 2025, on the National Fiscal Management Plan.
2) < > indicates figures before the Bank of Korea's revision of the base year for GDP (2015 → 2020).
Source: Ministry of Economy and Finance.

1.9. Housing prices[34] shifted to an increase in June and the pace accelerated in July[35], with further escalation of prices in the metropolitan areas, especially in Seoul. Recently, apartments complexes prices in the metropolitan areas have been rising at a faster pace[36] due to declining loan interest rates,[37] concerns about supply shortage in Seoul,[38] and weakening demand for small apartments buildings townhouses, multiplex housing. In particular, the transactions of apartments complexes in Seoul recovered its long-term average[39] after June, and the rate of price increases accelerated. On the other hand, apartments complexes prices in non-metropolitan areas continued to decline due to concern about oversupply.[40] The housing lease (aka *jeonse*) prices continued to rise, mostly for apartments complexes in the aftermath of *jeonse* scams in small apartments buildings townhouses, multiplex housing.[41]

Housing prices shifted to an increase as the upward trend in the metropolitan area expanded

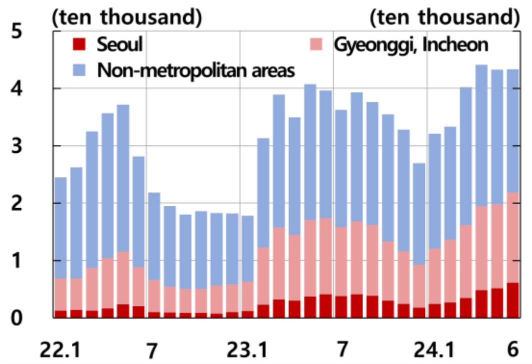
Figure 1.20. Housing prices



Source: Korea Real Estate Board.

Apartments complexes transactions in the metropolitan areas increased significantly

Figure 1.21. Apartments transactions1)



Note: 1) Based on date reported.
Source: Ministry of Land, Infrastructure and Transport.

34 Based on the housing price index of the Korea Real Estate Board.

35 Nationwide housing price index (Korea Real Estate Board) turned upward in June and increased at a faster pace in July (Jun. 0.04 → Jul. 0.15). Meanwhile, Actual transaction-based price index was mixed from February to April but has risen at a faster pace after turning upward in May.
► Actual transaction-based price index (Korea Real Estate Board, MoM, %): Jan. 2024 0.34 → Feb. -0.07 → Mar. 0.25 → Apr. -0.16 → May 0.22 → Jun. 0.58 → Jul. 0.61 (provisional)

36 Seoul apartments (complexes) price index (Korea Real Estate Board, MoM, %): Jan. 2024 -0.17 → Feb. -0.14 → Mar. -0.02 → Apr. 0.13 → May 0.20 → Jun. 0.56 → Jul. 1.19
Metropolitan areas apartments (complexes) price index (Korea Real Estate Board, MoM, %): Jan. 2024 -0.24 → Feb. -0.21 → Mar. -0.15 → Apr. -0.00 → May 0.05 → Jun. 0.26 → Jul. 0.58

37 Home mortgage loan interest rates (based on new transactions, %): Jan. 2024 3.99 → Feb. 3.96 → Mar. 3.94 → Apr. 3.93 → May 3.91 → Jun. 3.71

38 Seoul apartments (complexes) construction starts (Ministry of Land, Infrastructure and Transport, thousand): H1 2022 35.3 → H2 27.3 → H1 2023 13.5 → H2 14.3 → H1 2024 13.2
Seoul new apartments (complexes) supply (Real Estate 114, thousand): H1 2023 15.1 → H2 17.7 → H1 2024 5.9 → H2 18.7 → H1 2025 17.0 → H2 8.7

39 Seoul apartments (complexes) transactions (based on date reported, thousand): Jan. 2024 2.5 → Feb. 2.7 → Mar. 3.5 → Apr. 4.8 → May 5.2 → Jun. 6.2 (2014-2023, monthly average: 6.8)

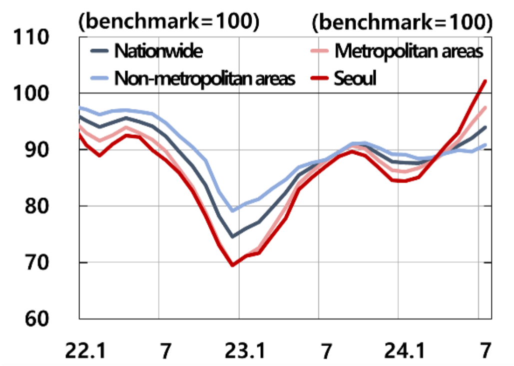
40 Non-metropolitan apartments (complexes) price index (Korea Real Estate Board, MoM, %): Jan. 2024 -0.16 → Feb. -0.21 → Mar. -0.20 → Apr. -0.14 → May -0.10 → Jun. -0.17 → Jul. -0.14

41 Nationwide apartments (complexes) *jeonse* price index (Korea Real Estate Board, MoM, %): Jan. 2024 0.09 → Feb. 0.05 → Mar. 0.09 → Apr. 0.12 → May. 0.19 → Jun. 0.17 → Jul. 0.24
Nationwide small apartments building (townhouses, multiplex housing) *jeonse* price index (Korea Real Estate Board, MoM, %): Jan. 2024 -0.05 → Feb. -0.03 → Mar. -0.05 → Apr. -0.06 → May -0.02 → Jun. 0.00 → Jul. 0.01

1.10. With a mix of upside and downside factors, there is a high degree of uncertainty surrounding future housing prices. While the recent improvement in home purchasing sentiment and expectations for the easing of financial conditions[42] may act as upside factors, the government's housing supply measures[43] announced on August 8 and implementation of the second phase of the stressed DSR rules (in September)[44] are likely to act as a downward pressure on housing prices.

Home purchasing sentiment rises in Seoul and metropolitan areas

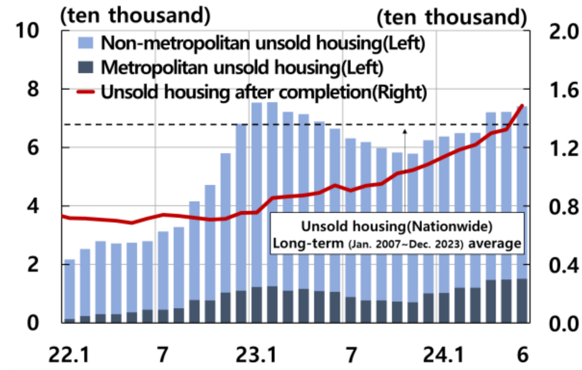
Figure 1.22. Housing purchase supply/demand index[1)]



Note: 1) Demand dominance when more than 100.
Source: Korea Real Estate Board.

Number of unsold housing has increased, especially in non-metropolitan areas, since the end of last year

Figure 1.23. Unsold housing



Source: Ministry of Land, Infrastructure and Transport.

1.11. Nominal wages[45] are expected to show a higher growth rate than last year due to an increase in special payments associated with improved corporate performance. This year, nominal wage growth slowed dramatically to 1.3% YoY in the first quarter[46] and then rebounded to 3.8% in April and May, influenced by fluctuations in special payments. Looking ahead, nominal wages are expected to grow in the mid-3% range, as the growth rate of regular payments, an indicator of the underlying trend in wages, hovers around the long-term average and special payments rise on the back of improved corporate performance.

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[42] The results of the FOMC meeting (July 31, local time), which indicated a possibility of rate cut in September 2024, and employment indicators in July (announced on August 2, local time) led to a larger decline in U.S. Treasury yields, putting downward pressure on domestic interest rates.
► Treasury bond (3-year) yields: July 15, 2024 3.08 → July 31 3.00 → August 19 2.93
► Treasury bond (10-year) yields: July 15, 2024 3.18 → July 31 3.06 → August 19 2.99

[43] On August 8, the government announced (jointly with related ministries) a massive housing supply measure that includes releasing Seoul's green belts that have been preserved for 12 years, accelerating housing maintenance projects, and promoting non-apartments supply. The measure is expected to partially ease supply anxiety in Seoul and improve supply conditions for non-apartments, such as small apartments buildings (townhouses, multiplex housing). However, the details of the policy, such as the determination of locations and revision of laws, need to be monitored.

[44] Following the introduction of the first phase of the stressed DSR rules in February 2024 (applied to housing mortgage loans from bank, 25% of the base stress rate), the second phase, which expands the scope of application and applies higher level of the base stress rate (including credit loans and housing mortgage loans from nonbanking sector, 50% of the base stress rate), will be implemented in September.

[45]

(YoY growth rate, %)	Q3 2023	Q4	Q1 2024	Apr-May 2024
► Nominal wages	2.7	2.5	1.3	3.8
(Permanent employees' regular payments)	3.6	3.4	3.4	3.5
(Permanent employees' special payments)	-0.6	-3.4	-10.0	5.9
► Real wages	-0.4	-0.9	-1.7	1.0

[46] In the first quarter of 2024, unit labor costs (nominal wages / labor productivity) declined by 0.9% YoY.

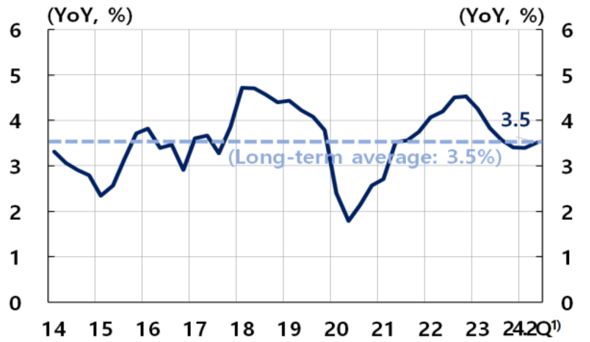
Nominal wage growth rate rebounds in April and May

Figure 1.24. Nominal wage growth rate

Note: 1) Average of April and May.

Regular payments to permanent employees continue to rise at long-term average rate

Figure 1.25. Growth of regular payments to permanent employees

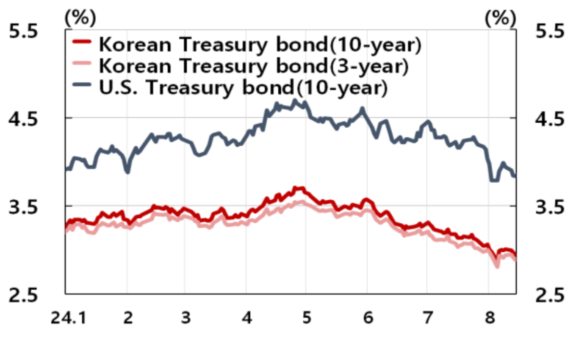


Source: Ministry of Employment and Labor.

1.12. Long-term market interest rates have fallen sharply since the May forecast, reflecting expectations for a turnaround in monetary policy at home and abroad. Treasury yields (3-year) were on a downward trend[47] amid progress on disinflation and expectations of a monetary policy pivot,[48] falling below 3.0% in August, influenced by the sharp decline in U.S. Treasury yields following the dovish outcome of the FOMC meeting (July 30 to 31) and sluggish U.S. employment indicators (August 2).[49] Since mid-July, corporate bond yields (3-year) (AA-) have fallen below 3.5%, and credit spreads narrowed to their long-term average.[50] Since mid-July, equity prices have turned bearish on concerns about the uncertainty surrounding the U.S. presidential election and worries about weak corporate earnings among AI and semiconductor companies. In August, equity prices fell sharply along with stock markets in major countries, on concerns about a U.S. economic recession and escalating geopolitical tensions in the Middle East, although recently the decline has eased notably. The KRW/USD exchange rate has been on an uptrend since May, hovering around the mid and upper KRW 1,300 level, but then fell to the low and mid-KRW 1,300 level since mid-August, reflecting expectations for a U.S. policy rate cut.

Long-term interest rate falls sharply

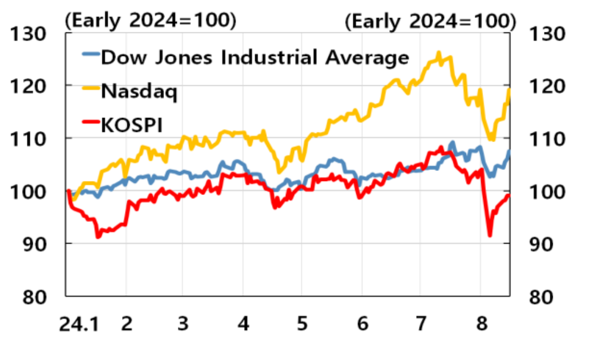
Figure 1.26. Korean and U.S. Treasury bond yields



Sources: Bank of Korea, Bloomberg.

Stock prices fall sharply in August

Figure 1.27. Stock prices in Korea and U.S.



Sources: Bank of Korea, Bloomberg.

47 The massive net foreign purchase# of Treasury futures since June also put downward pressure on Treasury yields.
Daily average net foreign purchase of Treasury futures (1,000 contracts, 3-year): -2.7 in May 2024 → +7.5 in June → +3.9 in July → +2.1 from August 1 to 14

48 Expected upper limit of the U.S. federal funds rate at the end of 2024 (%): February 2024 projection: 4.50% → May projection: 5.00% → August projection: 4.50% (source: CME Fed Watch)

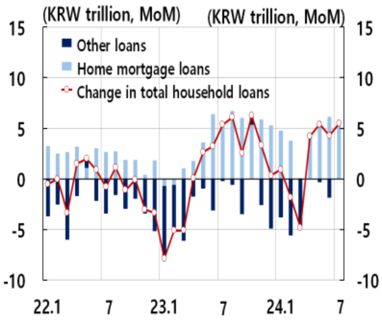
49 U.S. nonfarm payroll (1,000 persons): 179 in June → 114 in July (forecast: 175) / Unemployment rate: 4.1% in June → 4.3% in July (forecast: 4.1%)

50 Corporate bond credit spread (AA-, 3-year, bp): 74 at end of 2023 → 43 at end of May 2024 → 46 at end of June → 46 at end of July (long-term average since 2013: 51)

1.13. Household loans, particularly home mortgage loans, increased at a faster pace while the growth of corporate financing appears to have moderated since May. Household loans have been increasing at a rate of KRW 5 trillion per month, mostly in home mortgage loans, due to the increase in housing transactions, especially in metropolitan areas, and decline in loan interest rates. The increase in housing transactions is projected to exert upward pressure on household loans with a time lag. As for corporate loans, while loans to SMEs have been expanding steadily, loans to large corporations have been growing at a slower pace due to improved corporate earnings[51] and slowing demand for facilities investment. In the direct financing market, while net redemptions of corporate bonds exceeded new issuance due to a large volume of refinancing issuance at the beginning of the year and uncertain internal and external conditions, funding conditions were generally favorable thanks to continued demand for investment in corporate bonds. Meanwhile, the delinquency rate of corporate loans continued to rise particularly in non-bank sectors and predominantly in the construction and real estate industries.[52]

Household credit growth continues to rise

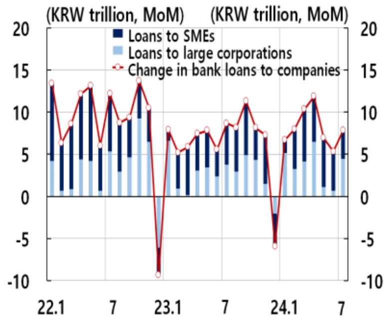
Figure 1.28. Change in household loans1)2)



Notes: 1) Deposit-taking banks and non-bank financial institutions.
2) Excluding policy direct loans from the National Housing and Urban Fund.
Source: Bank of Korea.

Growth of bank loans to businesses slows

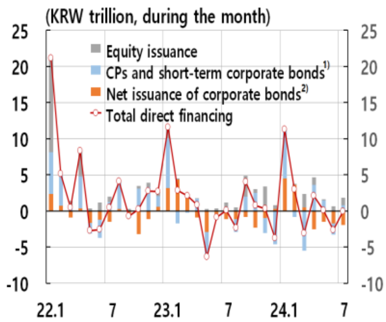
Figure 1.29. Change in bank loans1) to companies



Note: 1) Deposit-taking banks.
Source: Bank of Korea.

Direct corporate financing remains slow after strong net financing earlier in the year

Figure 1.30. Direct corporate financing



Notes: 1) General companies.
2) Including P-CBO.
Source: Bank of Korea.

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51 Operating income-to-sales ratio (%, companies subject to external audit, all industries): 2.8% in Q1 2023 → 2.6% in Q4 → 5.4% in Q1 2024

52 Delinquency rate of PF loans (%): 2.42 at end of September 2023 (non-banks: 3.61) → 2.70 at end of December (3.91) → 3.55 at end of March 2024 (5.14)

Main Premises of the Baseline Outlook

- **Global economic growth rate (%): 3.2 in 2023 → 3.1 in 2024 (unchanged) → 3.2 in 2025 (up 0.1)**

The global economy is expected to continue its moderate growth in the low 3% range, supported by progress on disinflation and a shift in monetary policy stance in major economies.

The United States is expected to grow at a slightly slower pace than in the previous forecast, as downward pressure mounts amid the recent slowdown in the labor market. **The euro area** is expected to grow gradually, mainly in consumption, driven by increased real household purchasing power, while **China** is projected to grow at the high 4% level on the back of sluggishness in domestic demand easing gradually, supported by economic stimulus measures and favorable pace of growth in exports, led by the IT sector.

- **Global trade growth (%): 0.9 in 2023 → 2.8 in 2024 (down 0.3) → 3.4 in 2025 (down 0.1)**

Global trade will likely continue to improve, particularly in goods trade, but the pace of recovery is expected to be more gradual than previously forecasted given the sluggish performance of advanced economies and trade conflicts among major economies.

- **Global oil prices (Brent crude, USD/barrel): 82 in 2023 → 83 in 2024 (down 2) → 81 in 2025 (unchanged)**

Global oil prices are projected to fluctuate around USD 80 for the time being taking into account global demand being slightly lower than expected and favorable supply conditions such as steady production and OPEC+'s plan to unwind its production cuts. However, the conflict in the Middle East still remains as a risk factor.

	2023	2024			2025$^{e)}$		
	Year	H1	H2$^{e)}$	Year$^{3)e)}$	H1	H2	Year$^{3)}$
Global economic growth (%)$^{1)}$	**3.2**	3.2	3.1	**3.1** [-]	3.1	3.2	**3.2** [+0.1]
• United States	**2.5**	3.0	1.9	**2.4** [-0.1]	1.6	1.9	**1.8** [-]
• Euro area	**0.4**	0.4	1.1	**0.8** [-]	1.5	1.6	**1.5** [-]
• China	**5.2**	5.0	4.7	**4.8** [+0.1]	4.4	4.5	**4.4** [-]
• Japan	**1.7**	-0.9	1.5	**0.4** [-0.4]	1.8	0.4	**1.1** [+0.2]
Global trade growth (%)$^{1)}$	**0.9**	1.7	3.9	**2.8** [-0.3]	4.4	2.6	**3.4** [-0.1]
Global Brent crude prices (USD/barrel)$^{2)}$	**82**	83	84	**83** [-2]	81	80	**81** [-]

Notes: 1) Year-on-year. 2) Period average.
3) Figures in [ ] indicate change from assumption made in May 2024.
Sources: Statistics offices in each area, Bloomberg, Bank of Korea.

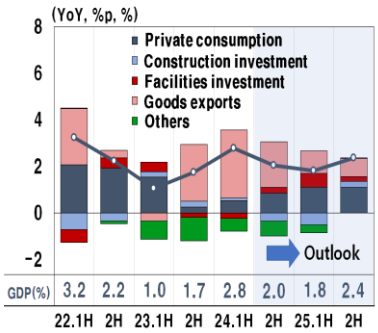
2. Macroeconomic Outlook for Korea

Economic Growth

2.1. Korea's economy will likely continue its favorable pace of growth in the low-to-mid-2% range this year and next year as exports remain strong and domestic demand resumes its recovery. Looking at the growth trend, GDP growth in the second quarter experienced significant moderation, falling to -0.2% on a quarter-over-quarter basis, as temporary factors that had contributed significantly to the strong growth seen in the first quarter (1.3%, QoQ) faded, despite buoyant exports. However, the recovery is expected to resume in the third quarter, as exports continue to increase and domestic demand improves. By sector, exports are predicted to show stronger growth, compared to the previous forecast, thanks to the increase in AI related IT demand and rise in the number of inbound tourist arrivals. Domestic demand, which fluctuated widely the first half of the year due to temporary factors, is projected to recover gradually on the back of increasing corporate capacity for investment and progress in disinflation, but the momentum of the recovery is likely to be somewhat lower than previous expectations. Overall, Korea's economy is forecast to grow by 2.4% this year, which is higher than the February forecast of 2.1% but slightly lower than the May forecast of 2.5%. Next year, the economy is projected to grow by 2.1%, in line with the previous forecast.

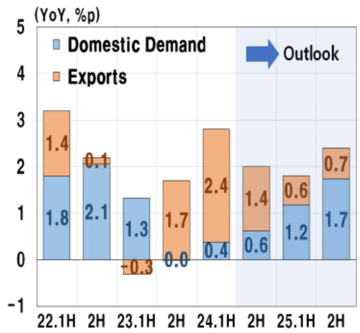
Domestic demand's contribution to growth will likely start to pick up in the second half of this year

Figure 2.1. Contribution by expenditure component



Source: Research Department.

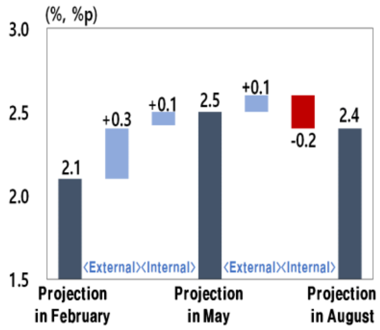
Figure 2.2. Net contribution of domestic demand and exports to growth[1)]



Note: 1) Estimated by excluding import inducement effect.
Source: Research Department.

Growth rate for this year revised slightly lower after a significant upward revision in May

Figure 2.3. Growth forecast for 2024

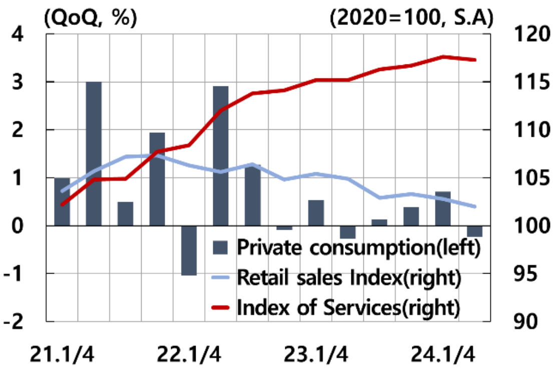


Source: Research Department.

2.2. By sector, the recovery of private consumption is expected to gradually gain speed on account of the improvement in real household income. Private consumption increased at a higher rate in the first quarter thanks to favorable weather conditions, but it fell sharply in the second quarter as temporary factors faded and the improvement of real household income was somewhat delayed. By type of consumption, the consumption of goods such as passenger cars remained sluggish, and the consumption of services, mainly food and accommodations, grew at a slower pace in the second quarter. In the second half of the year, the pace of recovery in private consumption is likely to gradually accelerate as households' capacity to spend improves amid rising wage growth combined with improving corporate profits and decelerating inflation. However, the high level of household debt remains a structural constraint on the recovery of private consumption. Under these circumstances, private consumption is expected to grow by 1.4% this year and 2.2% next year.

Private consumption falls in Q2 after a rise in Q1

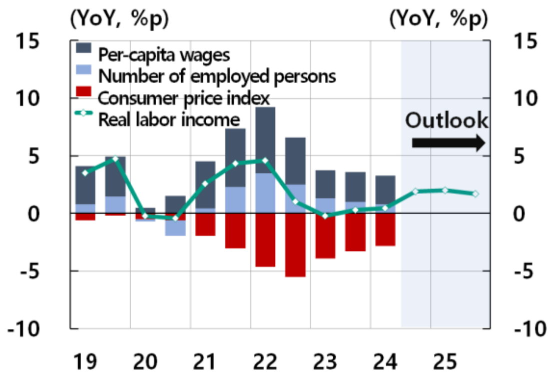
Figure 2.4. GDP private consumption and consumption-related indicators



Sources: Bank of Korea, Statistics Korea.

Gradual improvement in households' capacity to spend is expected to contribute to private consumption recovery

Figure 2.5. Real household labor income[1)]



Note: 1) Number of employed persons × average per-capita wages / consumer price index.
Sources: Ministry of Employment and Labor, Statistics Korea, Bank of Korea.

2.3. Construction investment is expected to exhibit a downward trend due to the contraction in new construction orders and starts, but the decrease is likely to be smaller than initially forecasted. Construction investment declined in the second quarter following a significant increase in the first quarter; however, from a first-half perspective, it performed better than expected due to the government's front-loaded fiscal execution[53] and a surge in real estate transactions and sales.[54] Looking ahead, construction investment is forecast to be sluggish for the time being due to a decline in construction volume,[55] driven by reduced supply of new constructions and a contraction in new construction starts, especially in the residential and commercial sectors. Meanwhile, uncertainty related to real estate PF restructuring remains a potential downside risk. As a result, construction investment is projected to decrease by 0.8% this year and by 0.7% next year.

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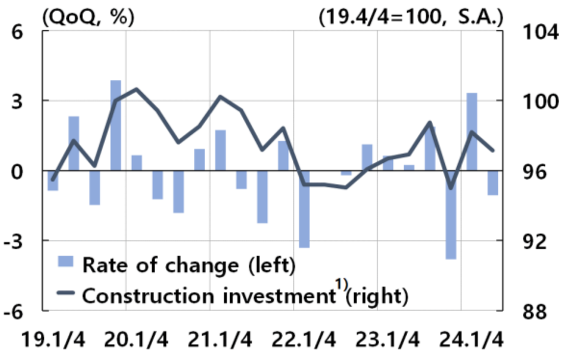
53 In the first half of this year, the SOC budget execution rate (for the central government) was 71.4%, exceeding both the previous year (65.4%) and the average (67.6%, 2019 to 2023).

54 Growth rate of apartments sold (YoY, %): -54.0 in 1H 2023 → -31.3 in 2H 2023 → +57.1 in 1H 2024

55 Analysis of the correlation coefficient between new construction starts and construction completed since 2000 showed that new construction starts precede construction completed by approximately 25 to 31 months, with a correlation coefficient of 0.75. Considering that new construction starts have been declining since the end of 2021, the impact is expected to become apparent in the second half of this year.

Construction investment declined in Q2 after a rebound in Q1

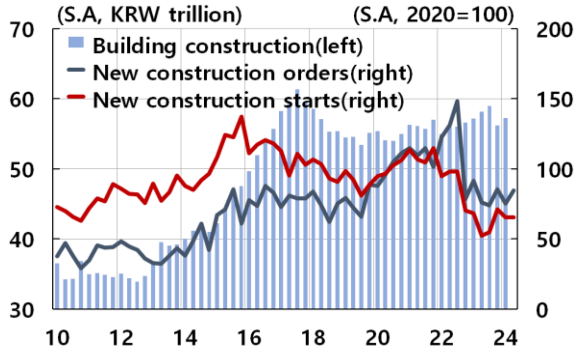
Figure 2.6. GDP construction investment



Note: 1) Based on real GDP value (seasonally adjusted).
Source: Bank of Korea.

Building construction is expected to decrease as new orders and starts contract

Figure 2.7. Building construction, new orders, and starts[1)]

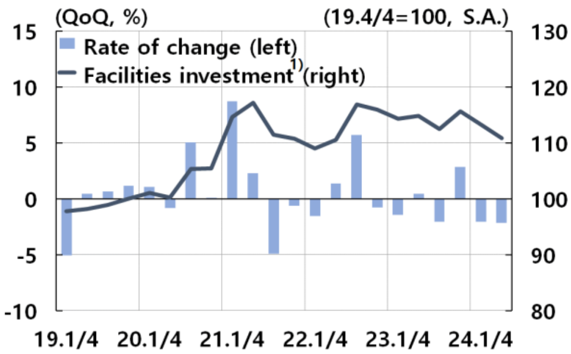


Note: 1) Building construction and starts are based on real value, while construction orders are based on nominal value.
Sources: Bank of Korea, Statistics Korea, Ministry of Land, Infrastructure and Transport.

2.4. Facilities investment is expected to rebound in the second half of the year and continue a favorable pace next year. In the first half of this year, facilities investment contracted despite the recovery of the global IT sector, due to the conservative investment practices of semiconductor companies,[56] delays in aircraft deliveries,[57] and higher import prices for capital goods.[58] However, it is expected to rebound in the second half of the year, supported by increased corporate investment capacity due to improved earnings amid easing global financial conditions. This trend is anticipated to continue into next year. As a result, facilities investment is projected to increase by 0.2% this year and by 4.3% next year.

Facilities investment contracted in the first half of the year despite the recovery of the global IT sector

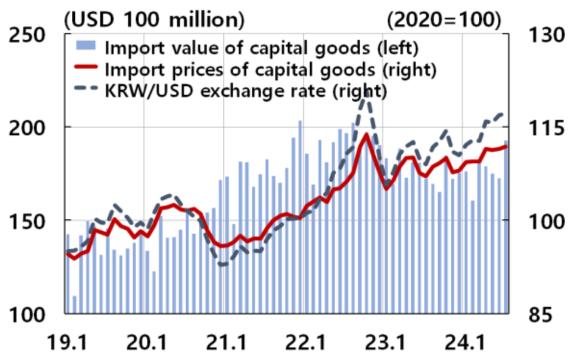
Figure 2.8. GDP facilities investment



Note: 1) Based on real GDP (seasonally adjusted).
Source: Bank of Korea.

Higher import prices of capital goods constrained investment

Figure 2.9. Import prices of capital goods[1)] and import value



Note: 1) Based on the Korean won.
Sources: Bank of Korea, Korea Customs Service.

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[56] In contrast to previous IT upcycles, major semiconductor manufacturers are prioritizing profitability over market share, and thus have slowed the pace of their investment.

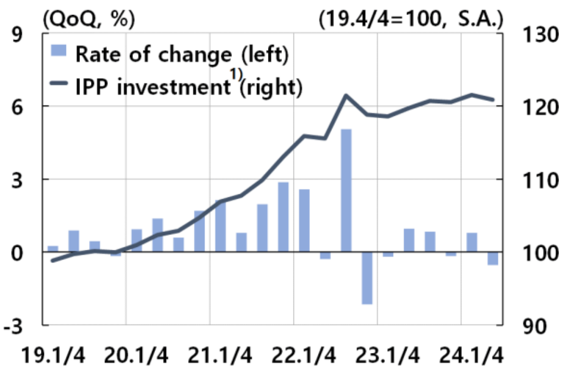
[57] Earlier this year, aircraft imports were delayed due to defects in Boeing aircraft.

[58] Facilities investment, which relies heavily on imports, appears to be constrained by the depreciation of the Korean won.
- Share of imports (2020): 10% for private consumption, 36% for facilities investment

2.5. Investment in intellectual property products (IPP) is expected to increase at a moderate pace this year, with a faster growth anticipated next year. The growth of IPP investment in the first half of this year slowed noticeably due to sluggish software investment, while R&D investment by major companies to ensure technological competitiveness continued to show strong growth.[59] This trend is likely to persist into the second half of the year. Next year, IPP investment is projected to grow at a faster pace as companies continue to invest in R&D and the government increases the R&D budget. As a result, IPP investment is forecast to grow by 1.9% this year, with the growth rate expected to increase to 3.3% next year.

IPP investment increased at a moderate pace

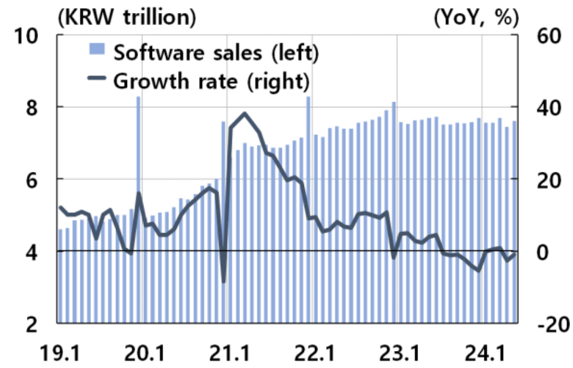
Figure 2.10. GDP IPP investment



Note: 1) Based on real GDP (seasonally adjusted).
Source: Bank of Korea.

Software investment has moderated after a surge during the pandemic

Figure 2.11. Software sales and growth rate



Source: Ministry of Science and ICT.

2.6. Goods exports (based on real GDP, QoQ) are projected to continue solid growth, thanks to the favorable global IT market conditions. Goods exports rose sharply in the first half of the year due to the increase in demand for high-performance AI semiconductors.[60] Looking ahead, goods exports are expected to continue to improve as investment in AI by big tech companies is expected to remain robust[61], and AI technology penetration ramps up. However, non-IT exports such as automobiles may be slower than expected, given the heightened concerns about the U.S. economic slowdown following the release of sluggish manufacturing and employment indicators since August. Under these conditions, goods exports are expected to grow by 6.9% this year and 2.9% next year.

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59 R&D investment by large enterprises in the first quarter of this year grew by 14.2% year-on-year, up from 8.1% last year (based on the top 10 R&D investment companies for 2023, using unconsolidated financial statements).

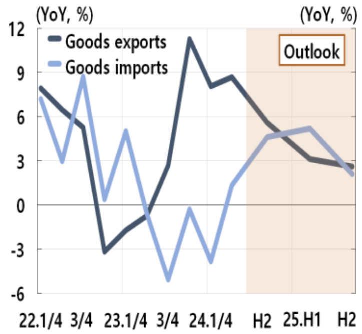
60 Demand for high-performance memory chips soared as companies expanded their servers to apply AI technology. Market research firm Gartner forecasted that server shipments will increase by 4.7% this year and 6.2% next year (June 2024).

61 Recently, some investment banks and the media have expressed skepticism about AI investment, but CEOs of big tech companies such as Alphabet and Meta have expressed their commitment to continuing AI investment, stating that “the risk of underinvestment is far greater than the risk of overinvestment.”

Meanwhile, **goods imports (based on real GDP, QoQ)** declined in the first quarter, but shifted to an increase in the second. They are expected to grow by 1.6% this year and 3.6% next year as imports of raw materials and capital goods increase in line with the export boom and recovery in facilities investment.

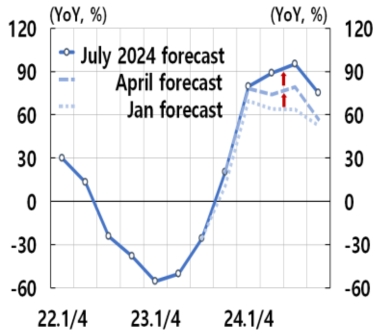
Goods exports likely to maintain favorable growth	Expectations for an improvement in semiconductor sales are growing	Global automobile business outlook revised downward, especially for electric vehicles

Figure 2.12. Exports and imports of goods[1)]



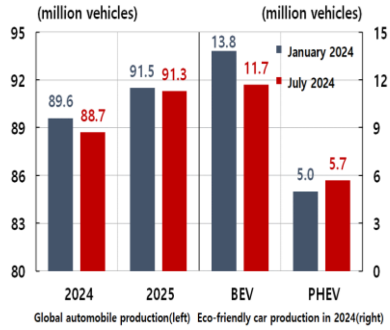
Note: 1) Based on real GDP.
Source: Bank of Korea.

Figure 2.13. Change in major institutions' sales forecasts for Korea's semiconductor companies[1)]



Note: 1) Samsung Electronics and SK Hynix.
Sources: Investment banks.

Figure 2.14. Change in outlook for automobile production



Source: IHS Automotive.

2.7. On a customs clearance basis (nominal value, year-on-year), exports are expected to maintain an upward trend in IT products, supported by strong global demand, while growth in non-IT products is expected to slow down further compared to the forecast in May. In the second quarter, exports increased by 10.1%, led by semiconductors[62] and other IT products[63], with the growth rate expanding compared to the first quarter. Going forward, exports of IT products are predicted to maintain strong growth, driven by continued investment in AI and the limited supply capacity[64] and surging demand[65] for general-purpose memory chips. The momentum of non-IT exports is expected to weaken amid a slow global manufacturing recovery and increasing downward pressure on the U.S. economy.[66] By product, automobiles are likely to be affected by the electric vehicle chasm,[67] while chemicals, steel and petroleum products will be influenced by declining prices caused by global oversupply.

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[62] In the second quarter, exports of memory chips and solid-state drives (SDDs) reached USD 21.5 billion and USD 2.4 billion, respectively, marking year-on-year increase of 94% and 79%.

[63] In the second quarter, exports of wireless communication devices and displays increased by 8.2% and 19.4% year-on-year, respectively, continuing their favorable growth, supported by new product launches and higher demand related to international sporting events.

[64] The production increase of general-purpose memory chips such as DRAM is being limited by growing the production share of high-bandwidth memory (HBM), a high value-added product.

[65] Downstream demand for general-purpose memory chips is expected to rise with the end of technical support for Windows 10 (October 2025) and upcoming replacement cycle of general-purpose servers that were introduced during the pandemic.

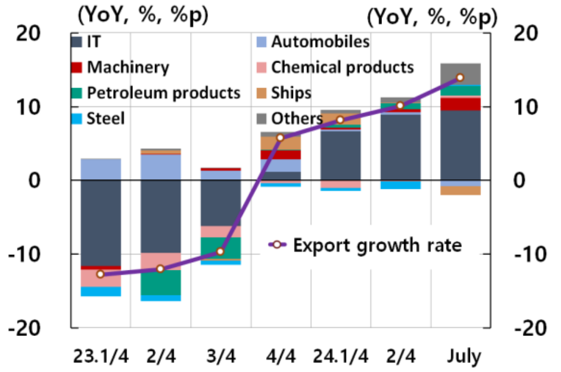
[66] As U.S. employment data came in weaker than expected in August, caution about a U.S. recession has emerged, raising concerns about Korean exports. If U.S. growth is slower than expected, Korea's exports to the United States, especially intermediate goods, are likely to face downward pressure. Nonetheless, it is expected that exports of automobiles and machinery will buffer this impact.

[67] From January to May this year, the value of monthly exports of electric vehicles to the U.S. was around USD 400 to 500 million, which then shrank to USD 250 million in June and USD 260 million in July.

On a customs clearance basis (nominal value, year-on-year), imports are expected to gradually increase, moving away from the previous decline. Imports declined by 1.4% in the second quarter of this year, and rebounded to 10.5% in July, with imports of raw materials, capital goods, and consumer goods shifting to an increase. Going forward, imports of capital goods are likely to rise with the introduction of facilities[68] mainly in the IT sector, and imports of consumer goods are expected to gradually increase as domestic demand continues to recover.

Exports on a customs clearance basis are favorable, especially for IT products

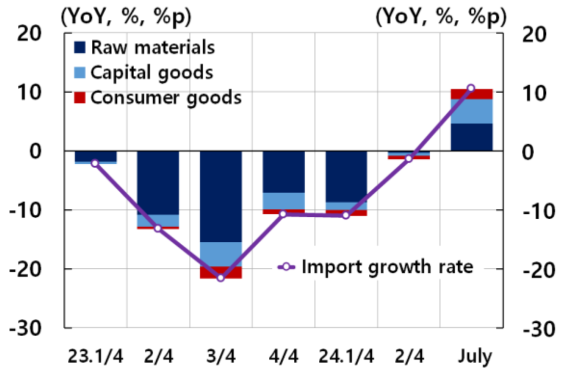
Figure 2.15. Contribution to exports by item on a customs clearance basis



Source: Korea Customs Service.

Imports of raw materials, capital goods, and consumer goods on a customs clearance basis shift upward in July

Figure 2.16. Contribution to imports by type on a customs clearance basis



Source: Korea Customs Service.

Economic Growth Outlook

(YoY, %)

	2023	2024			2025e)		
	Year	H1	H2e)	Yeare)	H1	H2	Year
GDP growth rate	**1.4**	**2.8**	**2.0**	**2.4**	**1.8**	**2.4**	**2.1**
• Private consumption	**1.8**	1.0	1.8	**1.4**	2.2	2.3	**2.2**
• Construction investment	**1.5**	0.8	-2.2	**-0.8**	-3.4	1.8	**-0.7**
• Facilities investment	**1.1**	-2.3	2.6	**0.2**	6.5	2.2	**4.3**
• IPP investment	**1.7**	1.7	2.0	**1.9**	3.2	3.4	**3.3**
• Goods exports	**2.9**	8.4	5.6	**6.9**	3.1	2.6	**2.9**
• Goods imports	**-0.3**	-1.4	4.6	**1.6**	5.2	2.1	**3.6**

Source: Research Department.

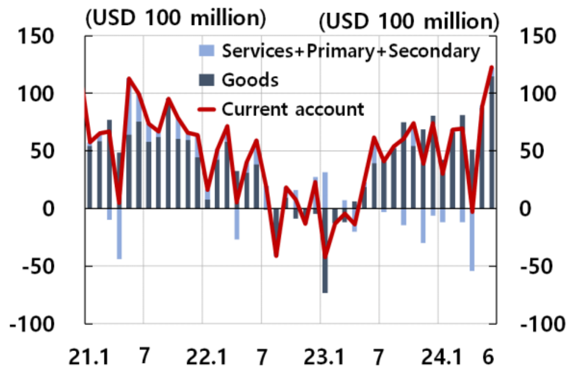
[68] The correlation coefficients between semiconductor exports and imports of precision devices and semiconductor manufacturing equipment (2002 to 2023) were 0.90 and 0.82, respectively.

Current Account

2.8. The current account is projected to remain in a large surplus. In the first half of this year, the current account surplus (USD 37.7 billion) grew by a larger margin than initially projected (USD 27.9 billion), as exports were buoyant, especially in semiconductors and automobiles, and imports fell short of the latest projection due to the slow recovery in domestic demand. Looking ahead, the goods account is predicted to record a larger surplus thanks to continued investment in the AI. The services account is likely to narrow its deficit on the back of continued foreign tourist arrivals[69] and rising ocean freight. As a result, the current account surplus is expected to reach USD 73 billion this year and USD 62 billion next year.

Current account surplus increases from May 2023

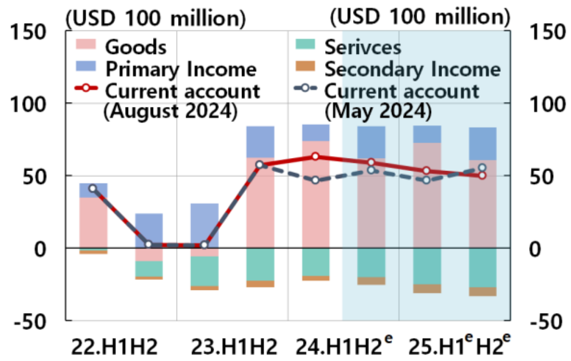
Figure 2.17. Current account



Source: Bank of Korea.

Current account surplus likely to continue to be driven by goods account

Figure 2.18. Current account outlook[1)]



Note: 1) Monthly average.
Source: Bank of Korea.

Current Account Outlook

(hundred million dollars)

	2023	2024			2025[e)]		
	Year	H1	H2[e)]	Year[e)]	H1	H2	Year
Current Account	**355**	377	353	**730**	320	300	**620**
• Goods	**341**	443	373	**816**	437	364	**801**
Exports (value)[1)]	**6,322**	3,350	3,550	**6,900**	3,616	3,684	**7,300**
	(-7.5)	(9.1)	(9.2)	**(9.1)**	(7.9)	(3.8)	**(5.8)**
Imports (value)[1)]	**6,426**	3,118	3,362	**6,480**	3,407	3,493	**6,900**
	(-12.1)	(-6.4)	(8.7)	**(0.8)**	(9.3)	(3.9)	**(6.5)**
• Services	**-257**	-114	-119	**-233**	-150	-161	**-311**
• Primary and Secondary income	**271**	49	99	**148**	33	97	**130**

Note: 1) Figures in ( ) indicate YoY growth rates.
Source: Research Department.

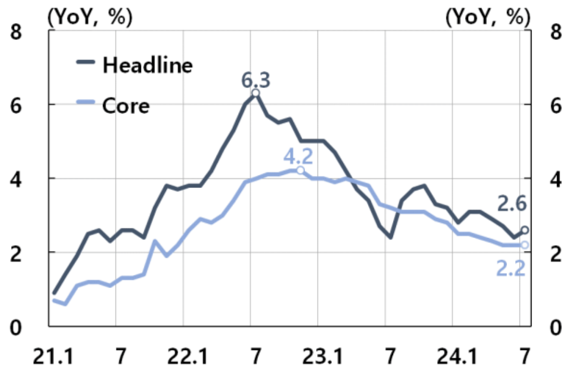
[69] Rate of recovery in foreign tourist arrivals (compared to same period in 2019, %): 74 in Q4 2023 → 89 in Q1 2024 → 94 in Q2 → 94 in July

Prices

2.9. In the second quarter, headline inflation remained subdued as the increase in prices of agricultural products moderated amid a continued slowdown in core inflation.[70] In July, inflation rebounded slightly on the back of rising oil prices and heavy rains. Core inflation (excluding food and energy) remained stable in the low 2% range, reflecting the slow recovery of domestic demand and muted pressure from the labor market. Inflation for agricultural, livestock, and marine products declined significantly as supply and demand conditions improved in the second quarter.[71] On the other hand, prices of petroleum products rose more quickly due to the increase in global oil prices and partial rollback of the fuel tax reduction.[72] This was the main factor behind the rebound of headline inflation in July.

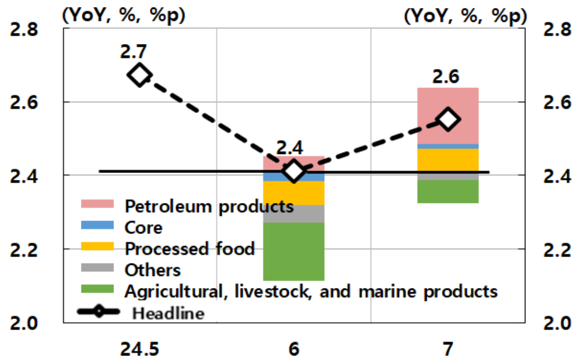
Headline inflation has hovered around 2% recently

Figure 2.19. Headline and core inflation



Source: Statistics Korea.

Figure 2.20. Decomposition of difference in monthly increases[1)]



Note: 1) Difference in contribution to headline inflation.
Sources: Statistics Korea, Bank of Korea.

2.10. Household's inflation expectations (for the next 12 months) fell below 3% in August, following July's decline, owing to lower inflation of agricultural, livestock, and marine products.[73] Long-term inflation expectations (five years ahead, Consensus Economics) among professionals remained stable around the target level (2%).

70

YoY (%):	[Headline inflation]	Apr. 2024	2.9%	→	May	2.7%	→	Jun.	2.4%	→	Jul.	2.6%
	[Core inflation]		2.3%	→		2.2%	→		2.2%	→		2.2%

71

YoY (%):	[Prices of agricultural, livestock, and marine products]	Apr. 2024	10.6%	→	May	8.7%	→	Jun.	6.5%	→	Jul.	5.5%
	[Prices of agricultural products]		20.3%	→		19.0%	→		13.3%	→		9.0%

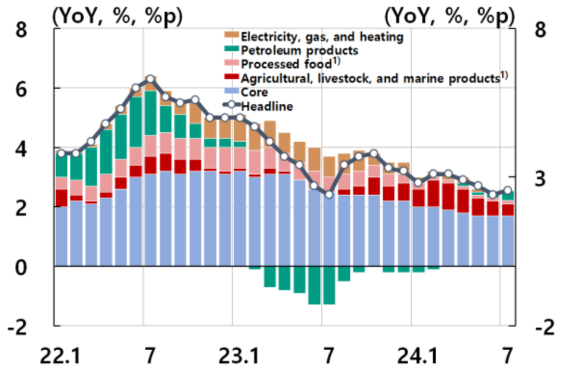
72 The government announced that it would scale back* the fuel tax reduction in July and extend the fuel tax reduction measure until the end of October on August 21. * Gasoline: 25% → 20% / Diesel & LPG: 37% → 30%

73

(%)	Nov. 2023	Dec.	Jan. 2024	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
BOK households (next 12 months)	3.4	3.2	3.0	3.0	3.2	3.1	3.2	3.0	2.9	2.9
Consensus Economics professionals (5 years ahead)	2.0	2.0	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8

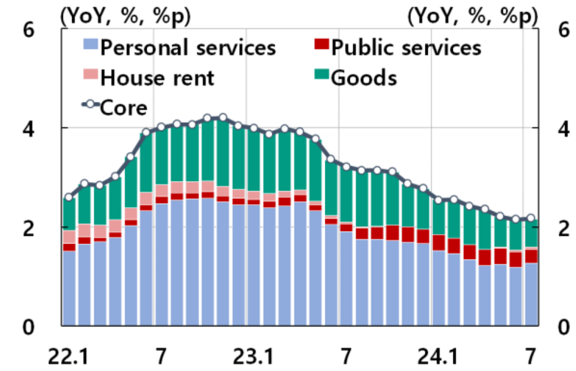
Headline and core inflation are on a steady downward trend

Figure 2.21. Contribution to headline CPI inflation



Note: 1) Excluding core items.
Sources: Statistics Korea, Bank of Korea.

Figure 2.22. Contribution to core inflation

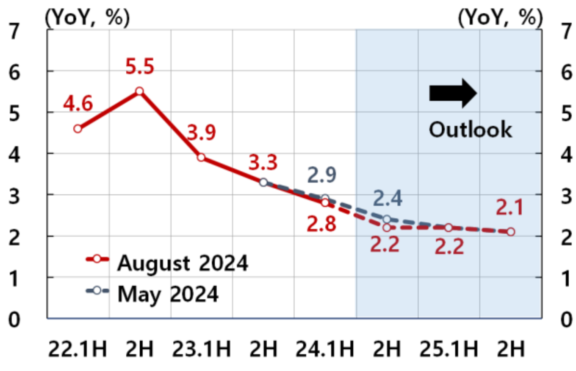


Sources: Statistics Korea, Bank of Korea.

2.11. Headline inflation is expected to be 2.5% this year, slightly lower than the May projection (2.6%), with core inflation continuing to stabilize on the downside, combined with a significant slowdown in agricultural product inflation. Next year, headline inflation is expected to be 2.1%, in line with the previous projection. Core inflation is projected to be 2.2% this year and 2.0% next year, both in line with the last forecast. Going forward, headline inflation is expected to fall somewhat below[74] the previous projection, due to weak demand pressures such as the slower-than-expected recovery of domestic demand and the likelihood of agricultural inflation to continue to decline on the back of favorable harvests. Next year, both headline inflation and core inflation are expected to converge to the target levels.

Headline inflation is likely to be slightly lower than last forecast

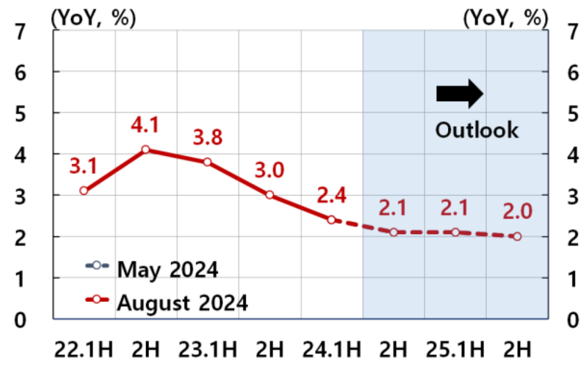
Figure 2.23. Headline inflation outlook



Sources: Statistics Korea, Bank of Korea.

Core inflation is expected to be in line with previous projection

Figure 2.24. Core inflation outlook



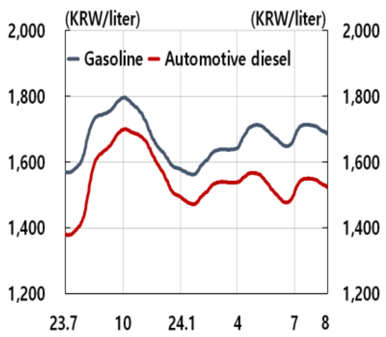
Sources: Statistics Korea, Bank of Korea.

74 The projection for headline inflation in the second half of this year has been revised down by 0.2%p from the initial forecast, and the projection for core inflation has remained unchanged.

2.12. Going forward, headline inflation is forecast to decline to the low 2% range in the second half of this year and converge at the 2% target toward the second half of next year. While headline inflation rebounded temporarily in July, it is expected to decline to the low 2% level due to the base effect of last year's dramatic increase in oil and agricultural product prices amid core inflation settles at the low 2% level.[75] On a quarterly basis, headline inflation is likely to gradually decelerate to 2.3% in the third quarter and 2.2% in the fourth quarter of this year and continue to slow gradually to the low 2% level in the first half of next year. On a monthly basis, however, headline inflation is projected to fluctuate depending on movements in global oil prices,[76] weather conditions, and timing and magnitude of increases in public service charges.

Petroleum product prices have fallen slightly since the end of July

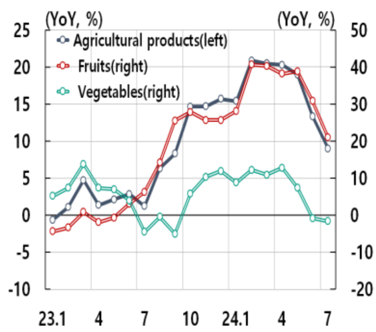
Figure 2.25. Gasoline and diesel prices



Source: Opinet.

High growth trend of agricultural product prices has recently slowed significantly

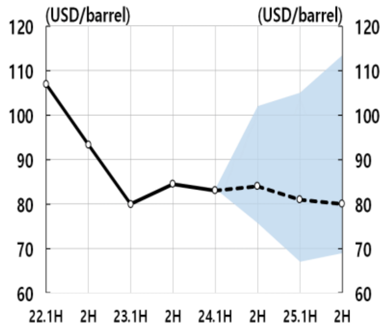
Figure 2.26. Agricultural product prices



Source: Statistics Korea.

Global oil prices expected to remain in low to mid-USD 80 range for time being

Figure 2.27. Global oil prices1)2)



Notes: 1) Brent crude.
2) Dotted line is projections. Shaded area indicates the range of projections made by three organizations (EIA, IHS, and OEF) and 33 institutions, in Bloomberg.

Sources: Bank of Korea, each organization, Bloomberg survey.

Inflation Outlook

(YoY, %)

	2023	2024			2025e)		
	Year	H1	H2e)	Yeare)	H1	H2	Year
Headline inflation	**3.6**	2.8	2.2	**2.5**	2.2	2.1	**2.1**
• Core prices1)	**3.4**	2.4	2.1	**2.2**	2.1	2.0	**2.0**

Note: 1) Excluding foods and energy.

Source: Research Department.

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75 The prediction of prices using the bottom-up method of machine learning showed that headline inflation in August and September was estimated at the low 2% level and around 2.0%, respectively.

76

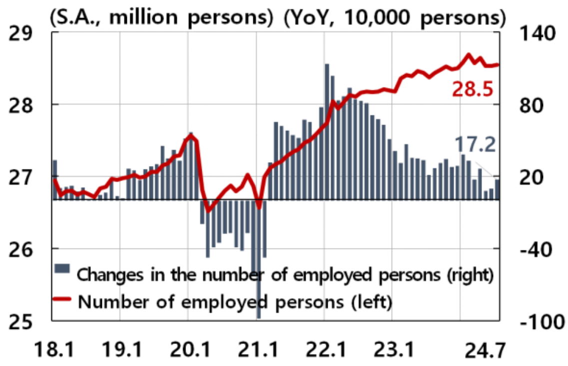
(Average over time)	Aug. 2023	Mar. 2024	Apr.	May	Jun.	Jul.	Aug. 1~21
► Dubai (USD/barrel)	86.6	84.7	89.4	83.5	82.2	83.9	78.5
► Gasoline (KRW/liter)	1,716.8	1,639.1	1,687.8	1,697.5	1,657.4	1,707.1	1,699.8
► Diesel (KRW/liter)	1,573.2	1,539.0	1,557.8	1,539.6	1,487.5	1,542.5	1,537.3

Employment

2.13. Employment growth has been slower than expected since May. This is due to the weak momentum of domestic demand recovery caused by the sluggishness of the construction sector, as well as temporary factors such as an increase in the number of rainy days and heat waves.[77] By sector, the decline in construction employment widened, and manufacturing employment shifted to a decrease in July after having slowed gradually, while employment growth was relatively strong in services sector, particularly in health and social work, ICT, and transport and storage. As a result, the employment rate stood at 62.6% in July, down slightly from 62.9% in the first quarter. On the other hand, the unemployment rate declined to the mid-2% range as the labor force participation rate declined.

Employment growth rebounds in July after sharp decline

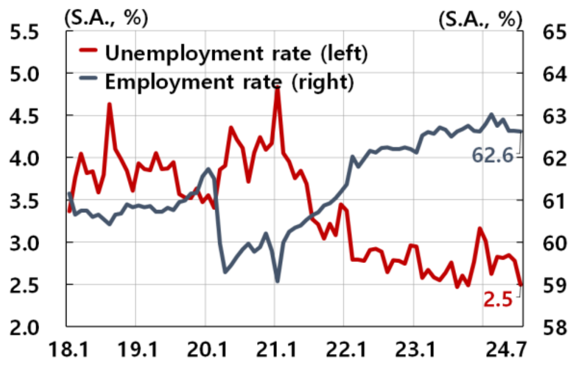
Figure 2.28. Change in the number of employed persons



Source: Statistics Korea.

Employment and unemployment rates[1] are lower than at the start of the year

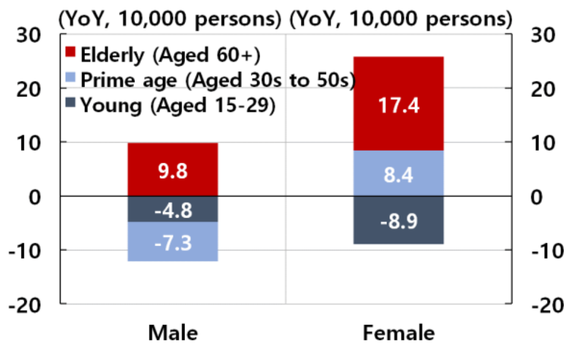
Figure 2.29. Unemployment and employment rates



Note: 1) The unemployment rate rose sharply in December 2023 as more people became unemployed following the end of the government's employment support program for older people.
Source: Statistics Korea.

Employment increased mainly among women and the elderly

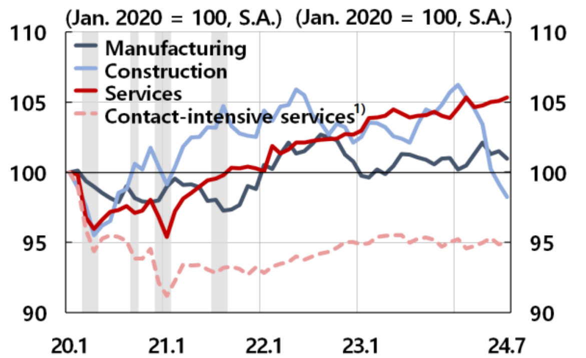
Figure 2.30. Employment growth by gender and age group[1]



Note: 1) As of second quarter of 2024.
Source: Statistics Korea.

Number of employed persons is sluggish in construction sector

Figure 2.31. Number of employed persons by sector



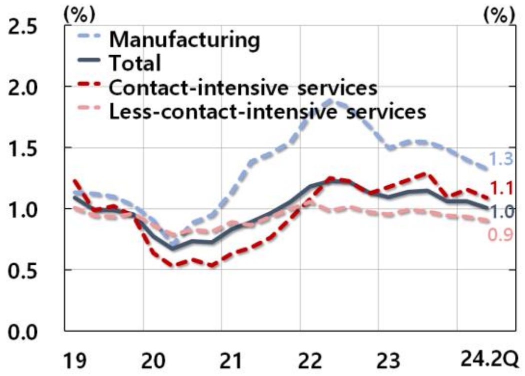
Note: 1) Food and accommodations, wholesale and retail, education, arts, sports and leisure, personal services, etc.
Source: Statistics Korea.

[77] Job growth remained in the high 200,000s early in the year, fell to 80,000 and 96,000 in May and June, respectively, due to deteriorating weather conditions, and then rebounded to 172,000 in July.

2.14. In terms of labor supply and demand, labor market tightness is easing. The job opening rate edged down from 1.1% in the first quarter to 1.0% in the second, as vacancies decreased in most industries, including manufacturing, services, and construction. As a result, the v/u ratio (job openings rate / unemployment rate), which indicates labor market tightness, declined modestly, approaching the level seen before the pandemic.

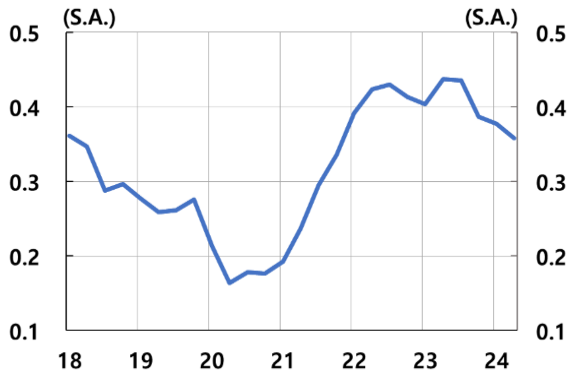
Labor market tightness eases slightly

Figure 2.32. Job openings rate by sector



Source: Ministry of Employment and Labor.

Figure 2.33. Labor market tightness[1)]



Note: 1) Job openings rate / unemployment rate.
Sources: Statistics Korea, Ministry of Employment and Labor, Research Department.

2.15. Growth in the number of employed persons is expected to moderate. The labor supply is projected to trend lower due to a deceleration in the growth of the labor force participation rate, which had risen rapidly after the pandemic. Labor demand in construction is expected to be sluggish due to the contraction of construction investment, while demand in manufacturing and less contact-intensive services is expected to continue to grow. As a result, employment growth is expected to slow to 200,000 this year and 160,000 next year.

Employment Outlook

(10,000 persons, %)

	2023	2024			2025[e)]		
	Year	H1	H2[e)]	Year[e)]	H1	H2	Year
Employment change[1)]	**33**	22	18	**20**	17	14	**16**
Unemployment rate	**2.7**	3.1	2.7	**2.9**	3.1	2.7	**2.9**
(S.A.)	**-**	2.8	3.0	**-**	2.9	3.0	**-**
Employment rate[2)]	**62.6**	62.5	63.0	**62.7**	62.6	63.1	**62.9**
	[69.2]	[69.3]	[69.7]	**[69.5]**	[69.7]	[70.0]	**[69.9]**

Note: 1) Year-on-year. 2) Aged 15 or older, numbers in square brackets are for ages 15-64 (OECD).
Source: Research Department, Statistics Korea.

3. Risk Assessment

Key Risks to the Outlook

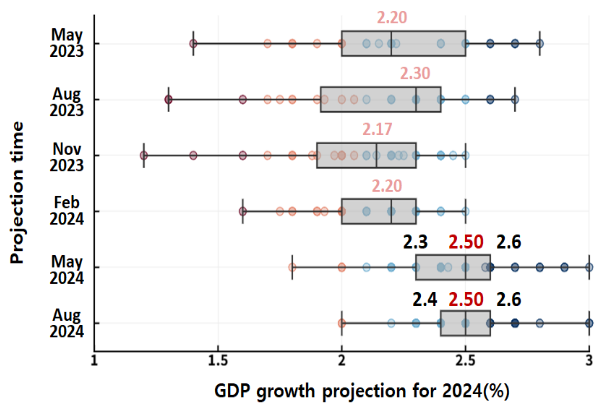
3.1. Regarding the future outlook, there is a high degree of uncertainty in relations to growth and price trends in major economies, pace of expansion of the IT cycle, as well as the global political landscape. For prices, weather conditions, the timing of adjustments in utility rates are potential risk factors.

	Upside risks	Downside risks
GDP Growth	▪ Further improvement in the global IT cycle ▪ Stronger recovery of household income conditions ▪ Easing geopolitical risks	▪ Slower-than-expected U.S. growth trend ▪ Rising geopolitical risks ▪ Market turmoil related to real estate PF restructuring, etc.
Inflation	▪ Rising geopolitical risks ▪ Deteriorating weather conditions ▪ Increasing transmission of high exchange rates to prices	▪ Easing geopolitical risks ▪ Delayed recovery of domestic demand ▪ Stronger price stability measures by the government

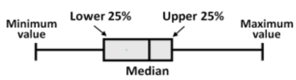
Distribution of Growth Projections by Market Participants

3.2. This year's GDP growth projections by market participants, such as investment banks, are generally similar to those in May. Specifically, the median and lower 25th percentile value of the GDP growth projections for 2024 were 2.5% and 2.4%, respectively. The median was similar to that in May, while the lower 25th percentile was slightly higher.

Figure 3.1. Distribution of 2024 domestic growth projections by major institutions[1)]



Note: 1) 35 to 39 institutions.
Source: Bloomberg survey (August 8).



Scenario Analysis

3.3. Given the high level of uncertainty around the future path of growth, we have analyzed two alternative scenarios: one related to the U.S. economic growth (Scenario 1) and the other related to the semiconductor business cycle (Scenario 2).

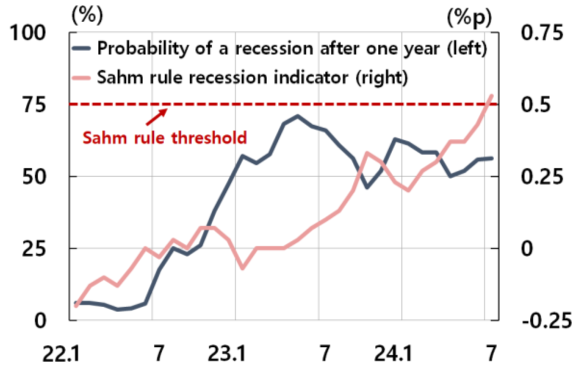
- **Scenario 1** **U.S. growth slowdown becomes more pronounced**

If the cumulative effect of monetary tightening becomes evident in the real economy, accompanied by a contraction in the sentiment of economic agents and increase in financial market volatility, the U.S. economy may grow at a rate below its potential. In this situation, Korea's economy will likely be exposed to negative shocks from a decline in external demand as well as through the foreign exchange and financial channels, which is expected to **reduce GDP growth by 0.1%p this year and 0.3%p next year**. Meanwhile, the impact on **prices** would be limited this year (-0.0%p) but will lead to **a decline of 0.2%p next year**, taking into account the lag in transmission.

- **Scenario 2** **Semiconductor cycle improves further**

If the improvement in the semiconductor cycle becomes stronger than expected amid growing AI penetration, it will act as an upside factor for consumption and facilities investment. As for consumption, it could increase consumption through the income channel, such as an increase in special bonuses by related enterprises. As for facilities investment, the pace of growth could accelerate in the second half of the year on the back of increase in corporate profits. In this case, **GDP growth** would **increase by 0.1%p this year and 0.2%p next year**, with headline inflation remaining unchanged this year (+0.0%p) and **increasing by 0.1%p next year.**

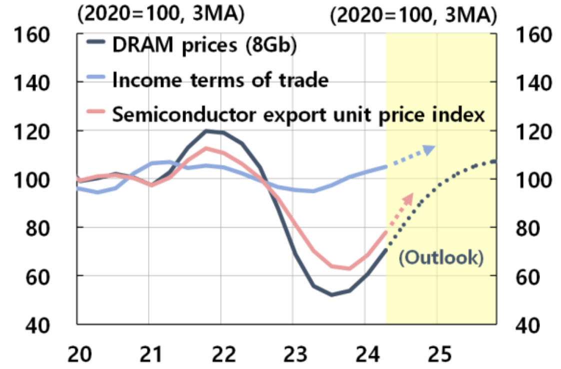
Figure 3.2. Likelihood of a U.S. recession[1)]



Note: 1) The Sahm rule states that a recession has begun when the three-month moving average of the unemployment rate is 0.5% higher than its low over the prior 12 months.

Sources: NY Fed, FRED.

Figure 3.3. Semiconductor prices and terms of trade[1)]



Sources: Economic Statistics Department, major IBs, Estimates by the Research Department

Table 3.1. Major premises by scenario

Main premises of baseline outlook

	Baseline		Scenario 1		Scenario 2	
	2024e)	2025e)	2024e)	2025e)	2024e)	2025e)
‣ U.S. GDP growth rate1)	2.4%	1.8%	2.2%	1.3%	-	-
‣ Global GDP growth rate	3.1%	3.2%	3.0%	2.9%	-	-
‣ Rate of increase in DRAM (8GB) prices1)2)	21.5%	7.9%	-	-	25%3)	10%3)

Notes: 1) Set by the Research Department based on the latest forecasts of major investment banks (U.S. GDP growth rate as of August 5; rate of increase in DRAM prices based on reports of IBs for Q2, 2024).
2) For 2024, the rate of increase in prices at the end of 2024 compared to the second quarter of 2024. For 2025, rate of increase in prices at the end of 2025 compared to the end of 2024.
3) Based on highest values predicted by major investment banks.
Sources: Research Department, Office of Economic Modeling & Policy Analysis.

GDP growth rate

(YoY, %)	2023	2024e)	2025e)
Baseline	1.4	2.4	2.1
Scenario 1:		-0.1	-0.3
Scenario 2:		+0.1	+0.2

Headline inflation

(YoY, %)	2023	2024e)	2025e)
Baseline	3.6	2.5	2.1
Scenario 1:		-0.0	-0.2
Scenario 2:		+0.0	+0.1

Sources: Research Department, Office of Economic Modeling & Policy Analysis.

Appendix 1. Key Economic Indicators

[World economy]

(QoQ, MOM, %)		2022	2023			2024				
			Year	Q3	Q4	Q1	Q2	May	June	July
United States	GDP growth[1]	1.9	2.5	4.9	3.4	1.4	2.8	-	-	-
	Industrial production[2]	3.4	0.2	0.3	-0.4	-0.4	0.9	0.8	0.3	-0.6
	Retail sales (nominal)	8.9	3.4	1.4	0.8	-0.2	0.5	0.2	-0.2	1.0
	Consumer prices[3]	8.0	4.1	3.5	3.2	3.2	3.2	3.3	3.0	2.9
	Change in non-farm payroll (1,000s)	6,235	3,531	667	617	771	597	216	179	114
Euro area	GDP growth rate	3.5	0.4	0.0	0.0	0.3	0.3	-	-	-
	Industrial production[2]	2.2	-2.3	-2.0	-0.1	-0.9	-0.4	-0.9	-0.1	..
	Retail sales	0.9	-2.0	-0.3	0.3	0.0	0.1	0.1	-0.3	..
	Exports on a customs clearance basis[4]	18.2	-0.8	-0.9	0.7	0.9	0.2	-2.8	-0.2	..
	Consumer prices[3]	8.4	5.4	5.0	2.7	2.6	2.5	2.6	2.5	2.6
China	GDP growth[3]	3.0	5.2	4.9	5.2	5.3	4.7	-	-	-
	Industrial production[2)3]	3.6	4.6	4.2	6.0	6.1	5.9	5.6	5.3	5.1
	Retail sales (nominal)[3]	-0.2	7.2	4.2	8.3	4.7	2.6	3.7	2.0	2.7
	Fixed investment (nominal)[3)5]	5.1	3.0	3.1	3.0	4.5	3.9	4.0	3.9	3.6
	Exports on a customs clearance basis[3]	5.6	-4.7	-9.9	-1.3	1.1	5.7	7.5	8.6	7.0
	Consumer prices[3]	2.0	0.2	-0.1	-0.3	0.0	0.3	0.3	0.2	0.5

Notes: 1) Annualized rate. 2) Mining and manufacturing. 3) Year-on-year.
4) Excluding trade within the EU. 5) Cumulative.
Sources: Fed, BEA, BLS, Eurostat, National Bureau of Statistics of China, General Administration of Customs of the People's Republic of China, etc.

[Global energy prices]

(Average during the period)	2022	2023			2024				
		Year	Q3	Q4	Q1	Q2	May	June	July[3]
Dubai oil[1]	97	82	87	84	81	85	84	82	84[79]
Brent oil[1]	99	82	86	83	82	85	83	83	84[79]
European natural gas[2]	133	41	34	43	28	32	32	34	33[39]

Notes: 1) USD/barrel. 2) EUR/MWh.
3) Figures in square brackets are averages for August 1 to 21, 2024.
Source: Bloomberg.

[Domestic economy indicators]

(QoQ, MOM, %)		2022	2023			2024				
			Year	Q3	Q4	Q1	Q2	May	June	July
Growth	GDP growth	2.7	1.4	0.8	0.5	1.3	-0.2	-	-	-
	Retail sales	-0.3	-1.5	-1.9	0.4	-0.5	-0.8	-0.2	1.0	..
	(YoY)			(-2.7)	(-1.9)	(-2.1)	(-2.9)	(-2.9)	(-3.6)	..
	Facilities investment index	2.5	-4.9	-1.9	5.0	-3.8	0.1	-3.6	4.3	..
	(YoY)			(-9.9)	(-6.0)	(0.3)	(-1.3)	(-1.5)	(-2.7)	..
	Construction completed	2.8	7.3	1.1	-2.5	4.9	-5.6	-4.4	-0.3	..
	(YoY)			(10.1)	(0.6)	(4.1)	(-2.4)	(-3.0)	(-4.6)	..
	Exports on a customs clearance basis (USD 100 million)	6,836	6,322	1,571	1,681	1,635	1,715	580	573	575
	(YoY)	(6.1)	(-7.5)	(-9.7)	(5.7)	(8.1)	(10.1)	(11.5)	(5.6)	(13.9)
	Imports on a customs clearance basis (USD 100 million)	7,314	6,426	1,507	1,586	1,549	1,570	532	491	539
	(YoY)	(18.9)	(-12.1)	(-21.6)	(-10.7)	(-11.0)	(-1.4)	(-2.0)	(-7.5)	(10.5)

Sources: Bank of Korea, Statistics Korea, Korea Customs Service.

(YoY, %)		2022	2023			2024				
			Year	Q3	Q4	Q1	Q2	May	June	July
Prices	Headline inflation	5.1	3.6	3.1	3.4	3.0	2.7	2.7	2.4	2.6
	Core inflation[1]	3.6	3.4	3.2	2.9	2.5	2.2	2.2	2.2	2.2
Current account balance	Current account (USD 100 million)	258	355	156	187	168	209	89	123	..
	Goods	156	341	171	203	189	253	88	115	..
	Services	-73	-257	-73	-60	-69	-46	-13	-16	..
	Primary and secondary income	175	271	58	44	48	1	15	24	..
Employment	Change in the number of the employed (10,000 persons)	81.6	32.7	26.3	30.3	29.4	14.6	8.0	9.6	17.2
	Unemployment rate (S.A., %)	2.9	2.7	2.6	2.8	2.8	2.8	2.8	2.8	2.5

Note: 1) Excluding energy and food.
Sources: Bank of Korea, Statistics Korea.

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