BANK OF KOREA

PRESS RELEASE

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Research Department

Economic Outlook (August 2022)

Summary

Korea's real GDP is projected to grow by 2.6 percent in 2022 and 2.1 percent in 2023.

The Korean economy continued to recover in the second quarter as consumption improved rapidly, but the growth trend is expected to weaken as the export slowdown gradually expands due to the global economic slowdown.

Private consumption is expected to recover gradually with the support of improved income conditions and continued lifting of social distancing from COVID-19. Recovery of facilities investment is expected to be delayed, caused by a global economic slowdown and increased cost of capital. Construction investment is expected to continue growing moderately as the increase in prices for raw materials slows down and sales of new building lots increase. The export of goods is projected to slow further as negative impacts from slowdowns in major economies are extended.

Consumer prices are forecast to rise by 5.2 percent and 3.7 percent in 2022 and 2023, respectively. It is expected to exceed the previous forecast level due to continued demand pressure followed by the lifting of social distancing and rising agricultural prices.

I. GLOBAL ECONOMIC CONDITIONS

Ⅰ-1. Global Economy

The growth of the global economy is projected to continue its slowing trend. Growth has slowed in the second quarter of 2022 due to the war in Ukraine and lockdowns in China amid continuing high inflation. The pace of growth is expected to remain sluggish due to interest rate hikes in major economies and Russian gas supply cuts to Europe.

In terms of global trade, the trend of growth is expected to slow. Trade in goods is projected to weaken due to the sluggish global economy. Meanwhile, trade in services is expected to continue improving as travel demand gradually increases.

The United States economy is expected to grow at a slower pace mainly driven by interest rate hikes. In the second quarter of the year, the economy shrank for a second straight quarter reflecting a slowdown in private investment. Looking ahead, the economy is expected to slow amid high uncertainties about the labor market and inflation.

The euro area economy is projected to weigh on economic growth toward the end of the year due to energy supply disruptions. The recovery trend continued due to good service performance following the resumption of economic activities in the second quarter, but the manufacturing PMI fell below the threshold(50) since July and consumer sentiment deteriorated significantly due to supply disruptions and high inflation. The economic slowdown will worsen if the gas supply is suspended in the future amid concerns over supply-chain bottlenecks and financial instability.

The Japanese economy is expected to continue its modest recovery. The economy has grown by 0.5 percent in the second quarter due to improving consumption and facilities investment. The recovery is expected to be sustained owing to the BOJ’s accommodative monetary policy even in the midst of rising inflation, although a resurgence of COVID-19 and sluggish global economy will be downside factors.

The Chinese economy is expected to continue seeing a slowdown of growth due to the sustained zero-COVID policy. Repeated lockdowns and prolonged slowdown in the property sector narrowed second quarter growth to nearly 0%. Even though the Chinese authorities are trying to stimulate the economy via monetary and fiscal policy measures, increased geopolitical tensions and economic uncertainties are hindering the recovery.

Growth in emerging economies is expected to be differentiated by country. The ASEAN-5 countries are forecast to continue their recovery due to increasing domestic and external demand, and a rise in the number of foreign tourists. The Indian economy is projected to continue its growth thanks to the boosting of domestic demand followed by resumption of economic activities and the government stimulus package. The Brazilian economy is expected to sustain a gradual recovery thanks to the expansion of raw materials exports. Meanwhile, the growth of the Russian economy is forecast to continue to contract due to the economic sanctions imposed by the US and EU.

I-2. Oil and Other Commodities Prices

Oil prices (Dubai oil basis) fell to the mid-90 dollars per barrel level. They rose due to the EU's restrictions on Russian oil imports, but have been falling since July as concerns over global economic recession grow. Major institutions expect that oil prices will fall gradually by next year after having peaked in the second quarter.

Prices of other commodities, such as natural gas and coal, rose while base metals and grains fell. In the future, other commodities prices are highly uncertain due to concerns over a global economic slowdown and possible supply disruptions stemmed from geopolitical tensions.

Table 1. Basic Assumptions of Economic Forecasts

	2021	2022e			2023e
	Year	H1	H2	Year	Year
World economic growth (%)[1]	6.1	3.1	3.0	3.1	2.9
United States	5.7	2.6	0.8	1.7	1.0
Euro area	5.3	4.7	1.0	2.8	0.9
China	8.1	2.5	4.3	3.4	4.7
Japan	1.7	0.9	2.4	1.7	1.5
World trade growth (%)[1]	10.1	4.6	3.6	4.1	3.5
Oil price (US dollars per barrel)[2]	69	103	99	101	93

Notes: 1. Year-on-year rates of change.
2. Dubai oil basis.

II. ECONOMIC OUTLOOK

Ⅱ-1. Economic Growth

Economic Growth

Private consumption is expected to recover gradually with the support of improved income conditions and continued lifting of social distancing from COVID-19. By sector, consumption of services is projected to continue to recover gradually, and consumption of resident households abroad is also projected to increase. However, high inflation, the rise in interest rates, and economic uncertainties may be potential factors limiting the recovery of consumption.

Recovery of facilities investment is expected to be delayed, caused by a global economic slowdown and increased cost of capital. IT manufacturing sector investment will decrease after a temporary improvement in the second half of 2022, and the non-IT sector will continue its modest trend of decrease. Service sector investment is projected to increase, centered on the ICT and the air transport sector.

Intellectual property products investment is expected to continue growing steadily. R&D investment is projected to increase thanks to the expanded R&D in new growth industries and the government support, despite the global economic slowdown. Other intellectual property products investment will also increase, led by expanded software-related investment as digital transformation accelerates.

Construction investment is expected to continue growing moderately as the increase in prices for raw materials slows down and sales of new building lots increase. Residential construction volume is forecast to increase, as postponed sales of new building lots in the first half of 2022 are gradually realized. Non-residential construction is projected to show gradual growth, especially with regard to commercial buildings. Civil engineering is expected to continue growing due to the upswing in civil plant construction.

The export of goods is projected to slow further as negative impacts from slowdowns in major economies are extended. Exports of IT products are expected to present a slower rate of increase in the midst of weakened demand in B2C sectors and declining unit prices. In the case of non-IT products, export growth is forecast to be attenuated due to slack in demand for petroleum, steel and machinery in major economies.

Korea's real GDP is projected to grow by 2.6 percent in 2022 and 2.1 percent in 2023. The Korean economy continued to recover in the second quarter as consumption improved rapidly, but the growth trend is expected to weaken as the export slowdown gradually expands due to the global economic slowdown.

Table 2. Economic Growth Forecasts

(year-on-year, percent)

	2021	2022^{e}			2023^{e}		
	Year	H1	H2	Year	H1	H2	Year
GDP	4.1	2.9	2.4	2.6	1.7	2.4	2.1
Private consumption	3.7	4.2	3.8	4.0	3.1	2.1	2.6
Facilities investment	9.0	-7.1	-0.2	-3.8	3.1	-1.4	0.9
Intellectual property products investment	4.4	4.5	3.6	4.0	3.2	3.7	3.5
Construction investment	-1.6	-4.3	1.0	-1.5	3.3	1.3	2.2
Goods exports	10.5	5.9	0.8	3.2	-1.5	4.6	1.6
Goods imports	12.8	5.2	0.6	2.9	0.9	3.2	2.1

The net contribution of domestic demand to GDP growth this year and next year is forecast to show a significantly positive level as it did last year, while the net contribution of exports is expected to decrease significantly compared to last year.

There are still potential uncertainties surrounding the growth outlook. The upside risks to growth include (1) early easing of geopolitical tension, (2) strengthening of the consumption recovery momentum, and (3) expansion of China's economic stimulus measures.
Among the downside risks are (1) acceleration of interest rate hikes in major economies, (2) a prolonged Ukraine crisis, and (3) sustained zero-COVID policy in China.

Figure 1. GDP Forecast

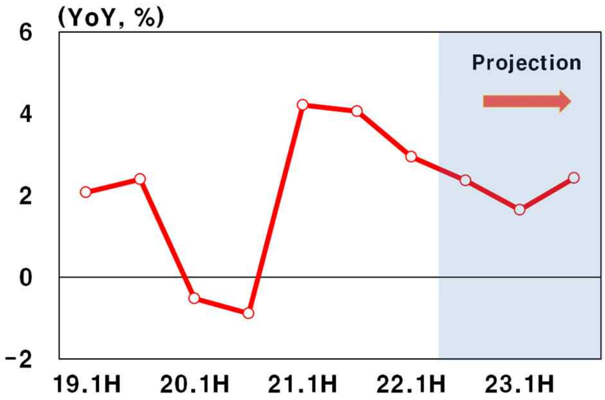
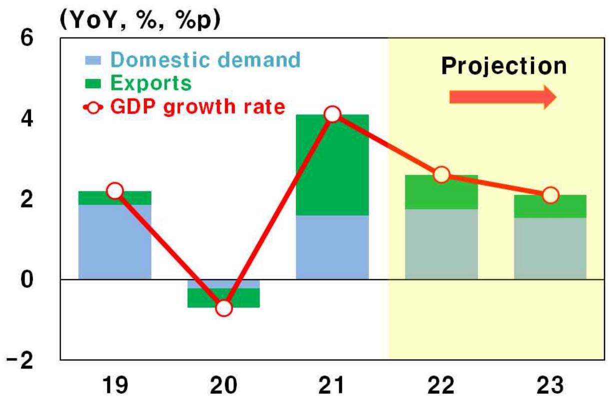


Figure 2. Net Contribution to GDP Growth



Ⅱ-2. Employment

The number of persons employed will continue to increase, but the increase is expected to be gradually reduced due to sluggish economic recovery. In the manufacturing sector, the increase in employment is expected to be reduced due to slowing export growth. In the service sector, the increase in employment in non-face-to-face service industries is expected to slow as the spread of COVID-19 slows. However, employment in the face-to-face service sector will show continual recovery with the resumption of economic activity.

The number of persons employed is expected to increase by 740,000 this year and by 140,000 in 2023.

Table 3. Employment Forecasts

(ten thousand persons, percent)

	2021	2022^e			2023^e		
	Year	H1	H2	Year	H1	H2	Year
Changes in number of persons employed[1]	37	94	53	74	10	18	14
Unemployment rate	3.7	3.2	3.0	3.1	3.7	3.3	3.5
(S.A.)	-	2.9	3.3	-	3.5	3.5	-
Employment-to-population ratio[2]	60.5	61.6	62.1	61.9	61.6	62.4	62.0
(aged 15 to 64, OECD basis)	[66.5]	[68.1]	[68.6]	[68.4]	[68.5]	[69.3]	[68.9]

Notes: 1. Year-on-year changes.
2. 15 years of age & above.

Ⅱ-3. Prices

The CPI inflation forecast for 2022 has been revised upward compared to the May projection (4.5%), reflecting increased demand-side inflationary pressure following the lifting of social distancing measures and rising prices of agricultural products.

Consumer prices are forecast to rise by 5.2 percent and 3.7 percent in 2022 and 2023, respectively. Core inflation for items other than food and energy is forecast to stand at 3.6 percent this year and 3.1 percent next year, respectively.

Table 4. Inflation Forecasts

(year-on-year, percent)

	2021	2022^{e}			2023^{e}		
	Year	H1	H2	Year	H1	H2	Year
Headline consumer price inflation	2.5	4.6	5.9	5.2	4.6	2.9	3.7
CPI excluding food and energy (OECD core CPI)	1.4	3.1	4.1	3.6	3.7	2.5	3.1
CPI excluding agricultural products and oil	1.8	3.6	4.6	4.1	4.3	3.0	3.6

Ⅱ-4. Current Account Balance

The current account surplus is projected to shrink for this year as the goods account surplus significantly contracts due to the continued trade deficit. With respect to the service account, the transport service account is expected to continue its robust trend. However, the surge in foreign travel demand will widen the service account deficit because of the accelerated easing of travel restrictions in the Americas and European countries. The primary income account surplus will decrease this year as foreign investment income suffers from both worsening global economic prospects and the decrease in foreign investment outflows.

Consequently, the current account is forecast to record a surplus of 37 billion dollars in 2022 and 34 billion dollars in 2023.

Table 5. Current Account Forecasts

(billion dollars)

	2021	2022^{e}			2023^{e}		
	Year	H1	H2	Year	H1	H2	Year
Current Account	88.3	24.8	12.2	37.0	9.5	24.4	34.0
Goods account	76.2	20.0	10.5	30.5	16.6	29.3	46.0
Services account	-3.1	0.5	-6.0	-5.5	-9.1	-10.9	-20.0
Primary income account	19.3	5.7	10.3	16.0	5.5	9.5	15.0