

Korean Economy

2024 in Review

The Korean economy grew by 2.0% in 2024, showing an improvement compared to 2023. This growth was primarily driven by strong export performance and a gradual recovery in domestic demand. However, the pace of expansion was slower than expected due to elevated interest rates and a global economic slowdown.

Private consumption rose by 1.1%, reflecting a modest recovery but falling short of initial expectations. The combination of high interest rates and inflationary pressures weakened household purchasing power, while the burden of household debt remained a significant constraint on consumer sentiment and spending.

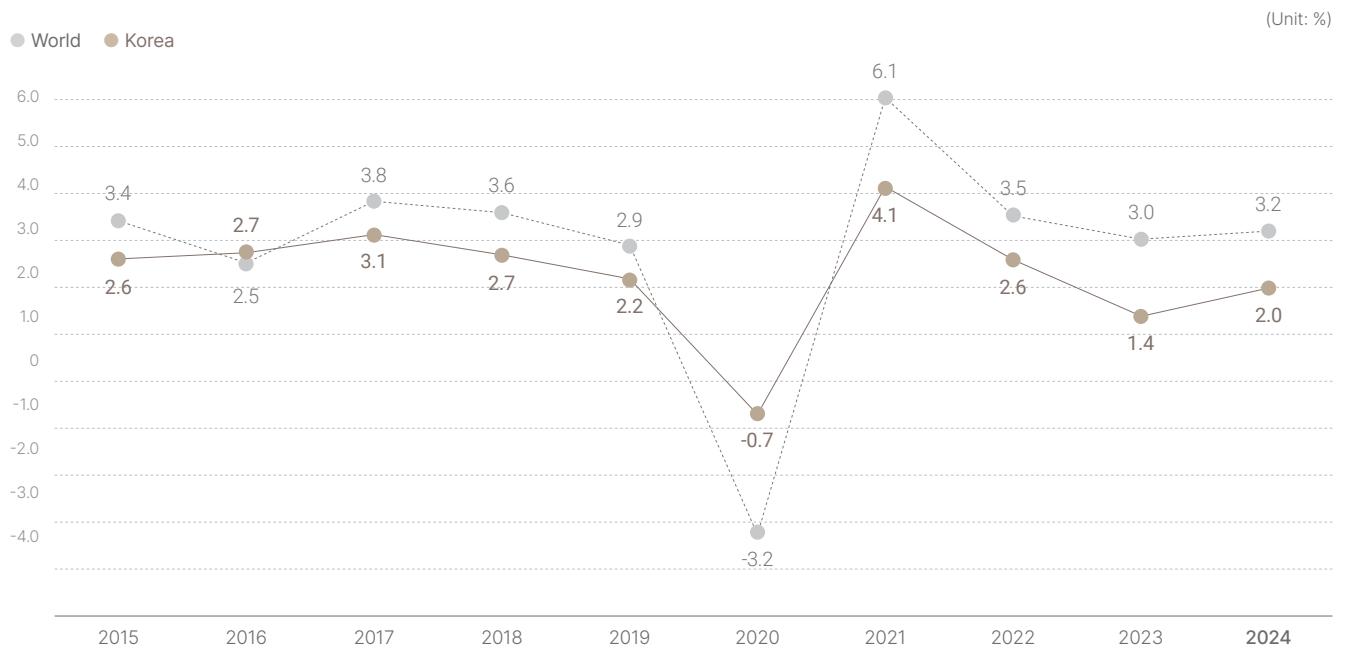
Exports expanded by 6.3%, playing a key role in the nation's economic growth. The semiconductor industry, fueled by rising demand for AI and data center applications, was a major contributor to export growth, while the automotive

and shipbuilding sectors also maintained solid performance. However, the latter half of the year saw a moderation in export growth due to a weakening global economy and slower trade with China.

The unemployment rate stood at 2.8%, maintaining a similar level to the previous year. Employment expanded in the service sector and high-tech manufacturing, particularly in semiconductors, while the manufacturing and construction industries experienced job losses, as structural adjustments and economic downturns impacted labor demand.

Inflationary pressures remained, with consumer prices increasing by 2.3%. The rise in agricultural and livestock prices was a key driver of inflation, prompting the Bank of Korea (BOK) to maintain a cautious monetary policy stance, balancing inflation control with economic stability.

GDP Growth Trends



(Sources: IMF World Economic Outlook, October 2024, Bank of Korea, February 2025)

Prospects for 2025

GDP growth for 2025 is expected to slow to 1.5%, as domestic demand remains sluggish and export growth continues to decelerate, according to the BOK's latest economic outlook report. Private consumption is expected to gradually recover, supported by lower interest rates, an increase in household disposable income, and base effects. However, a deteriorating employment environment and instability in asset markets are likely to constrain the pace of recovery, making a full-fledged rebound unlikely in the near term.

The growth projection for 2025 by other organizations has also been readjusted downward. The Ministry of Economy and Finance projects Korea's GDP growth for 2025 at 1.8%, which is similar to the BOK's forecast. According to the OECD's outlook, the Korean economy is expected to grow by 2.1% in 2025, which compares to the IMF's projection of 2.0% and Fitch's 1.9%.

Amid persistent weakness in domestic demand, concerns are mounting over a potential downturn in exports, which have long served as a key pillar of economic resilience. As a result, the likelihood of a broader slowdown in Korea's economic growth trajectory is gradually increasing.

Private consumption is projected to experience a gradual recovery, driven by declining interest rates, rising household disposable income, and base effects. However, challenges such as weakening labor market conditions and volatility

in asset markets are expected to temper the pace of improvement, limiting the potential for a robust rebound in the near term. As a result, private consumption growth is anticipated to edge up from 1.1% in 2024 to 1.4% in 2025.

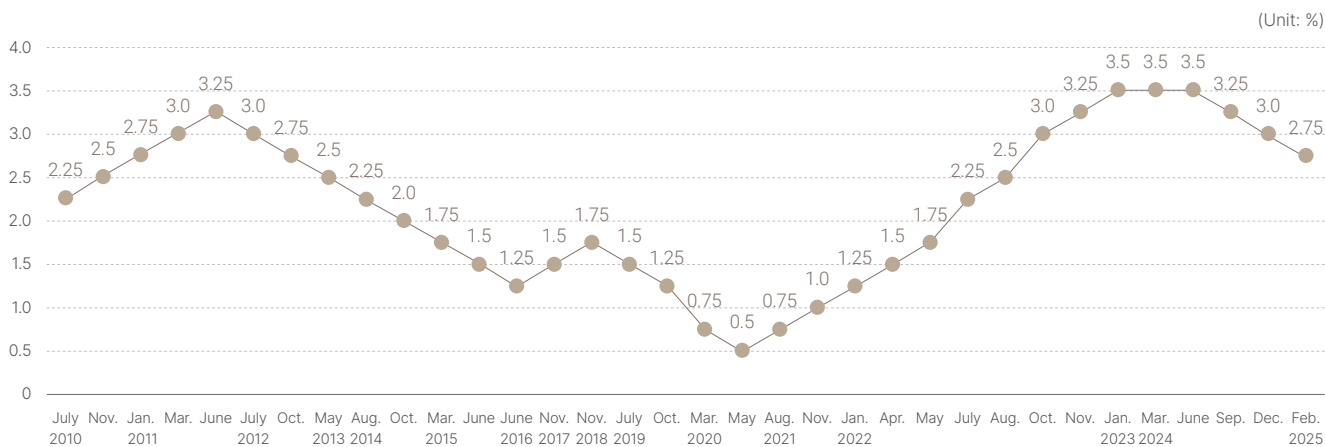
Equipment investment is expected to strengthen moderately, driven by improved investor sentiment following interest rate cuts and increased AI-related investments, with a projected growth rate of 2.6%. However, uncertainties surrounding a second-term Trump administration, a slowdown in semiconductor and global ICT markets that will affect export growth, and delayed recovery in non-ICT sectors are anticipated to weigh on the pace of investment expansion.

Construction investment will contract by 2.8% in 2025. Budget reductions for social overhead capital (SOC), a sustained decline in housing construction orders, permits, and ground-breaking activities, as well as delays in resolving unsold housing inventories in regional areas, are expected to extend the downward trend in construction investment for a second consecutive year.

Korea's merchandise exports are anticipated to grow by only 0.9%, as the high growth rate from the previous year moderates due to the deterioration of the trade environment.

The current account surplus is expected to reach USD 75 billion this year, lower than the previously projected USD 80 billion, due to factors such as the recent aggravation in global trade conditions.

BOK Benchmark Interest Rate (2010-2025)



(Source: Bank of Korea, March 2025)

Consumer price inflation is expected to be 1.9% this year, consistent with the previous outlook, as upward factors including the rise in the KRW-to-USD exchange rate are offset by downward factors such as low demand-side pressure and government price stabilization measures. Core inflation is projected to be at 1.8% this year, revised down by 0.1%p from the previous forecast of 1.9%.

The BOK adjusted the benchmark interest rate to 2.75% in February 2025, marking the first time in 28 months since October 2022 that the interest rate returned to the 2% range. The decision to lower the rate was driven by a sluggish domestic recovery and concerns over an economic downturn amid a slowdown in export growth. Market expectations for a rate cut were widespread, with the easing of exchange rate pressures also influencing the decision.

The increase in the number of employed persons is expected to decelerate from 160,000 last year to 100,000 this year. While employment in the manufacturing sector is anticipated to remain subdued, the construction and face-to-face service sectors are likely to experience further weakening due to reduced construction investment and a delayed recovery in domestic demand. However, the expansion of government employment programs, which are expected to create an additional 60,000 jobs, along with strong growth in sectors such as healthcare and social welfare, is projected to alleviate the overall slowdown in employment.

In 2025, the recovery of the Korean economy is expected to be limited due to the global economic slowdown and changes in the trade environment. Although exports in key industries such as semiconductors and automobiles are expected to show modest growth, the extent of export recovery may not be significant due to external uncertainties and the strengthening of protectionist policies.

Meanwhile, the recovery of private consumption may be constrained by the prolonged high-interest rate environment, household debt burdens, and adjustments in the real estate market. Corporate investment is also expected to maintain a cautious stance. In particular, potential risk factors such as the insolvency risk of real estate project financing (PF), an increase in marginal firms, and a slowdown in employment growth may weigh on the overall economy.

Under these circumstances, prudent policy responses are essential to ensure that the economic recovery translates into real, positive outcomes for people's lives. At the same time, it is crucial to maintain financial market stability and address structural vulnerabilities. To achieve sustainable growth, Korea needs to strengthen the competitiveness of future industries and proactively respond to changes in the global supply chain.

Key Economic Indicators

(Unit: %)

	2023	2024	2025(F)		
			First Half	Second Half	Annual
Real GDP	1.4	2.0	0.8	2.2	1.5
Consumer Spending	1.8	1.1	1.0	1.7	1.4
Equipment Investment	1.1	1.8	5.7	-0.2	2.6
Construction Investment	1.5	-2.7	-6.7	1.1	-2.8
Unemployment Rate	2.7	2.8	3.2	2.7	2.9
Current Account Surplus (USD billion)	32.8	99.0	28.5	46.5	75.0
Exports	2.9	6.3	0.7	1.2	0.9
Imports	-0.3	1.2	2.0	0.2	1.1
Consumer Price Inflation	3.6	2.3	2.0	1.9	1.9
Average Three-Year Treasury Yield	3.6	3.1	2.9	2.7	2.8
KRW/USD Exchange Rate (KRW per USD 1)	1,306	1,360	1,350	1,330	1,340

(Sources: Bank of Korea, February 2025, Korea Institute of Finance, December 2024)