I. Domestic and International Economic Conditions

1. Global economy

❑ 2023 witnessed a slowdown in the growth of the world economy and the global trade volume

○ Effects of tight monetary policies and continuously rising interest rates, China-US tensions, disappointing performance of China's economic recovery efforts

- Weakening growth rate of manufacturing and advanced economies like the EU.

○ Global inflationary pressure entered a period of stabilization, thanks to the tight monetary policies pursued by the central banks of key countries and the stability of commodity prices.

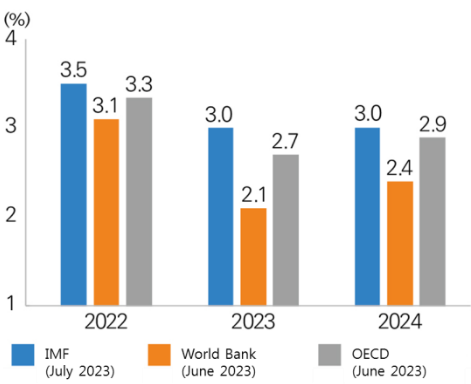
- However, due to stable employment conditions and increased service consumption, the core inflation rate was maintained at a high level.

❑ In 2024, the growth of the global economy and the global trade volume are both expected to show signs of improved recovery when compared to 2023

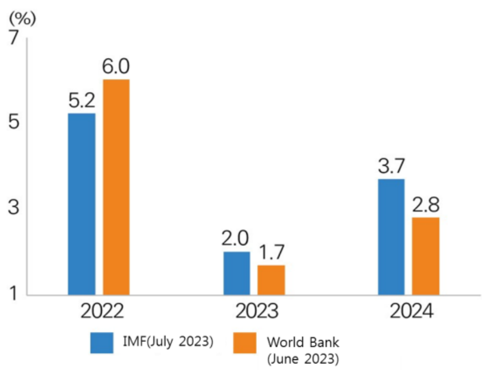
○ The global economy and the global trade volume are expected to grow by 2.8% and 3.3%, respectively.

- The speed of recovery has improved slightly compared to 2023 due to the recovering trade volume and increasing manufacturing output.

[Outlook for the world economy by key international organizations]



[Outlook for global trade volume by key international organizations]



Source: IMF, World Bank, OECD GLOBAL ECONOMIC OUTLOOK.

○ The global inflation rate is expected to decrease from 6.8% in 2023 (4.7% for developed countries, 8.3% for newly emerging countries) to 5.2% in 2024 (2.8% for developed countries, 6.8% for newly emerging countries)."

- Significant upward and downward uncertainties exist because of the steady upward trend in the core inflation rate, China's weak domestic and foreign demand, and uncertainties in supply due to geopolitical factors, etc.

○ The international price of oil is expected to fall to $75 per barrel, while the international prices of commodities like grain are expected to decrease by 1.7% from the levels recorded in 2023.

❑ Risk factors in the outlook

○ (Upside risk factors) Stabilization of global inflation and the end of tight monetary policies, recovering growth of the Chinese economy, and soft landing of the US economy, etc.

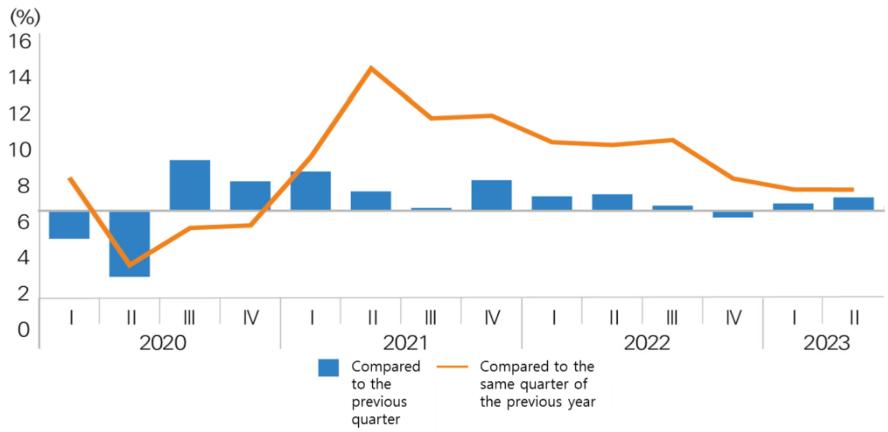
○ (Downside risk factors) Sustained tight monetary policies raising the likelihood of a global economic downturn, China's economic weakness and the accelerating decline of its economic growth, intensifying US-China tensions, and accelerated restructuring of the global supply chain, etc.

2. Domestic Economy

❑ In 2023, the domestic economy saw sluggish growth as a result of a deepening decline in exports

○ In the 1st half of 2023 the private consumption and service industries continued to recover, but the effects of the slowdown in global trade further deepened the slump in exports, weakening the growth rate of the domestic economy.

[Real GDP Growth Rate Trend]



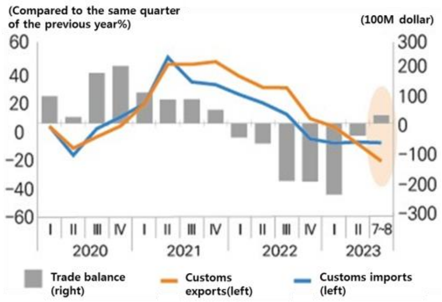
Source: Bank of Korea.

❑ With exports remaining sluggish, domestic demand has begun to weaken recently

○ Accompanied by a significant downturn in exports of semiconductors, private services, which had largely driven the recovery of private consumption, sharply declined in the 2nd quarter.

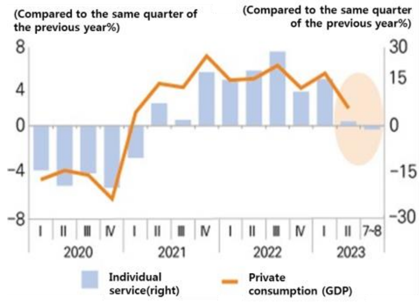
○ However, imports have declined more than exports recently, resulting in a trade surplus.

[Export & Import (customs) and Trade Balance]



Source: KOSTAT.

[Personal Services and Private Consumption]



Source: Bank of Korea, KOSTAT

❑ Momentum of employment recovery has weakened, with the rate of inflation stabilized downward

○ The rate of increase in the number of people newly employed contracted, mainly in the face-to-face service sectors (400,000 in 1stQ → 300,000 in 2ndQ → 210,000 in July).

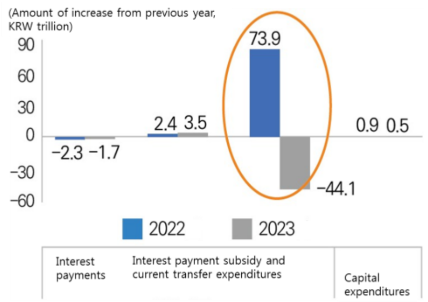
○ The rising trends in consumer prices and core inflation showed signs of stabilizing.

❑ Concerns that deficit in government revenues could also affect expenditures

○ Concerns have been raised that a deficit in government revenues could lead to inadequate local government budgets and fiscal reductions.

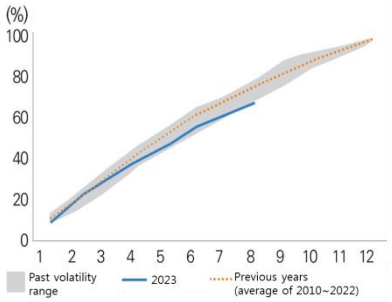
○ So far this year the current budgets of local governments have been greatly reduced and the rate of execution has fallen short.

[Change in Budget by Type of Expenditure]



Source: NABO, dBrain.

[Subsidies and Current Transfer Levels]



Source: NABO, dBrain.

II. Economic Outlook for 2024 and the Medium Term

1. Key factors for revising the economic outlook for 2024 and the medium term

❑ **The projected growth rate for 2024 was adjusted downward from the level predicted by the previous projection (October 2022)**

○ Although government consumption and investment levels have been adjusted downwards, the contribution of net exports to growth is increasing; therefore, the growth rate has been adjusted 0.3%p downwards.

❑ **The average growth rate in the period 2023-2027 is calculated to be 2.2%, the same as in the previous projection**

○ When analyzed by year, the growth rates for 2023 and 2024 were 1.1% and 2.0%, respectively, but they have been adjusted downwards by 1.0%p and 0.3%p, respectively. The growth rates for the period 2025-2027 were adjusted upwards by 0.7%p, 0.5%p, and 0.2%p, respectively.

○ The contribution of government consumption to growth declined. However, as a result of the upward adjustment of private consumption and the downward adjustment of total imports, the contribution of net exports to growth increased, thereby keeping the average annual growth rate on a par with the previous projection level.

2. Economic growth rate

❑ **In 2024, the domestic economy is projected to grow by 2.0%**

○ Due to such effects as the slowdown of global economic growth, US-China tensions, and the consistently tight monetary policies pursued by key governments, the real GDP of our economy is expected to grow by 1.1% and 2.0% in 2023 and 2024, respectively.

○ The rise in total expenditures by government will slow down in 2024; however, due to the effects of increasing health insurance benefit payments, government consumption in 2024 is projected to increase by 2.2%, which is higher than that recorded in 2023 (1.9%).

○ Led by investments in SOC and national defense, as well as investment in government funds for basic living support, government investments in 2024 will increase by 1.0% over the previous year, which is almost the same level as the 0.9% increase rate projected for 2023.

○ On the back of improved income conditions and a recovery in consumer sentiment, private consumption in 2024 is projected to increase by 2.2%, continuing the recovery trend that started in 2023 (2.4%)

○ Private investment in 2024 will increase by 2.6%, mainly in facility investments, surpassing the rate of increase recorded in 2023 (1.5%).

- In 2024, investments in construction, facilities, and intellectual property products are anticipated to increase by 0.2%, 4.5%, and 4.4%, respectively.

○ Total exports will grow by 7.0% in 2024 as a result of increasing global economic growth and a greater global trade volume, surpassing the figures for 2023 (0.3%).
Total imports in 2024 will increase by as much as 7.5%, led by improved domestic demand spurred on by private investments. (The rate of increase was 2.2% in 2023.)
○ The contribution of domestic demand to economic growth will increase from 2.0%p in 2023 to 2.3%p in 2024, while the contribution of net exports to economic growth will increase from -0.9%p in 2023 to -0.3%p in 2024.

❑ In 2024 the nominal GDP growth rate is projected to reach 4.2%

○ Both the real GDP growth rate and the GDP deflator inflation rate are projected to increase over the 2023 rates. (Real GDP 1.1% → 2.0%, GDP deflator 1.1% → 2.2%)

[Outlook for the nominal GDP growth rate]

	2022	2023			2024
		1st Half	2nd Half	Year End	
Nominal GDP	3.9	1.8	2.7	2.2	4.2
Real GDP	2.6	0.9	1.3	1.1	2.0
GDP Deflator	1.3	0.9	1.3	1.1	2.2

Note: Data from 2023 2nd Half and 2024 are NABO's projections (shadow font) Source: NABO, Bank of Korea.

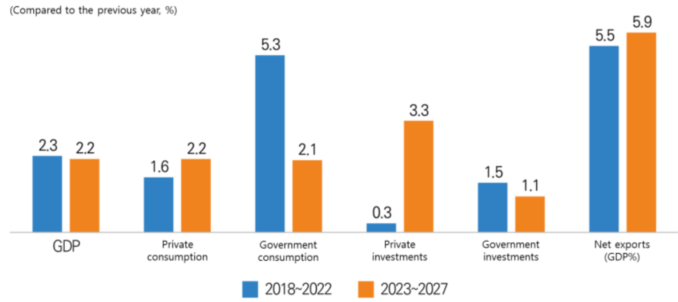
❑ Real GDP is projected to grow at an annual rate of 2.2% during the period 2023-2027

○ Compared to the previous five-year period (2018-2022), the growth rate will decline slightly.
○ The contribution of domestic demand to economic growth will increase from the previous five-year period, whereas the contribution of net exports will be lower.

- Contribution to growth (annual average, %p): domestic demand 1.6 → 2.4, net exports 0.7 → -0.2

○ Nominal GDP is projected to grow at an annual average rate of 4.2%.

[Medium-term outlook for real GDP expenditure (average during two 5-year periods)]



Source: NABO.

3. Government consumption and investment

❑ In 2024, government consumption will grow at a faster rate than in the previous year

○ In 2024, government consumption will increase by 2.2% over the previous year, largely due to slowing total expenditure increases.

Total expenditures will decrease by a large margin, mainly centered on mandatory expenditures. However, this decrease will be offset by health insurance benefit payments, which will start increasing again, and a slowdown in the rise of the cost of providing public services (government consumption deflator). Due to these factors, total expenditures will actually increase by 2.2%, representing a slight increase from 2023 (1.9% projected).

○ During the period 2023-2027, government consumption will increase at an annual average rate of 2.1%, a decline of 3.2%p from the previous four-year period (annual average rate of 5.3%).

- Effects of fiscal revenue deterioration attributable to a slowing nominal growth rate, slowing growth of fiscal expenditures attributable to a strengthening of fiscal soundness.
- The mandatory expenditures for 2024-2026 outlined in the 2023 Medium-term Plan on Fiscal Expenditures are budgeted at around 11.3 trillion won (3.0%) less (annual average) than the plan for 2022.

❑ In 2024, the growth rate in government investment will be similar to that reported the previous year

○ Led by investments in SOC and national defense, and investment in government funds for basic living support, government investments in 2024 will increase by 1.0% over the previous year, which is almost the same level as the 0.9% increase rate projected for 2023.

- Government investments in construction and facilities are the main reasons behind the government's increasing the investment budget for SOC, environment, national defense, and public order/safety-related projects.
- On the other hand, investment in the R&D sector is expected to decrease by 16.6% (KRW 5.6 trillion), which could act as a factor in reducing government investment in intellectual property products.

○ During the period 2023-2027, the growth rate of government investments is projected to increase by 1.1% per year on average, a drop of 0.4%p from the previous five-year period, when the growth rate was 1.5%.

- In the 2023 Medium-term Fiscal Expenditure Plan, the annual budget set for discretionary spending during the year 2024-2026 is KRW 3.8 trillion less than the figure presented in the 2022 plan.

4. Private Consumption

❑ In 2024, the growth rate in private consumption is projected to increase by 2.2%

○ In 2024, private consumption is projected to maintain a rising trend in continuation from 2023. (Estimated rate of increase of 2.4%)

- The recovery trend is expected to be sustained by upside factors such as ample household spending power and improving consumer sentiment.

○ During the period 2023-2027, private consumption is projected to increase at an average annual rate of 2.2%.

- In the medium term, it is predicted that the stabilization of domestic consumer prices at the inflation target level of 2% will have a positive impact on the real purchasing power of households.
- However, the rapid aging of South Korean society due to demographic changes is expected to be a downside risk factor for private consumption over the medium term.

5. Private Investment

❑ In 2024, private investments are projected to increase by 2.6%, centered on facilities investment

❑ In 2024, investments in construction are projected to increase by 0.2%

○ In 2024, investments in construction are projected to increase, but the rate of increase will be 0.8%p less than the 1.0% rate recorded in 2023.

— The increased SOC budget will act as an upside risk factor, but underperforming leading construction-related indicators (construction project orders, permits, etc.) and rising construction costs will act as downside risk factors that limit the effects of the upside factor.

○ During the period 2023-2027, investments in construction are projected to increase at an average annual rate of 1.7%.

— During the period 2023-2027, the SOC budget will increase steadily (at an annual rate of 2.9%), but underperforming leading indicators for the building construction sector will likely act as downside risk factors.

❑ In 2024, investments in facilities are projected to increase by 4.5%

○ In 2024, investments in facilities are projected to increase by 3.9%p more than the 0.6% increase rate recorded in 2023.

— The revitalization of the semiconductor economy and investment attraction for the domestic market through tax reforms are expected to act as upside risk factors. However, the delayed recovery of the manufacturing economy and external uncertainties will act as downside risk factors.

○ During the years 2023-2027, investments in facilities are projected to increase at an average annual rate of 3.0%.

— The increasing demand for environmentally-friendly and next-generation technologies - such as electric vehicles and high-performance semiconductors - will lead to greater investment in the related facilities.

❑ In 2024, investments in intellectual property products are projected to increase by 4.4%

○ In 2024, investments in intellectual property products are projected to increase by 1.1%p more than the 3.3% increase rate for 2023.

— The increase in corporate investment capacity and rising demand in new growth areas will likely stimulate investments in intellectual property products.

○ During the period 2023-2027, investments in intellectual property products are projected to increase at an average annual rate of 4.2%.

— The expansion of the software market to new frontiers such as AI and package software will have a positive impact on investments in intellectual property products.

6. Foreign Trade

❑ In 2024, total exports (national account) are projected to increase by 7.0%p

○ In 2024, total exports are projected to increase by 6.7%p more than the 0.3% increase rate for 2023.

— A rise in global demand for imports and the recovering semiconductor economy are upside risk factors, but weakening growth of the Chinese economy and increasing IT replacement periods are expected to act as downside factors.

○ During the period 2023-2027, total exports are projected to increase at an average annual rate of 5.2%.

— The increasing growth rate of the global economy and the rising global trade volume are expected to act as factors that will increase total exports.

❑ In 2024, total imports (national account) are projected to increase by 7.5%p

○ In 2024, total imports are projected to increase by 5.3%p more than the 2.2% increase rate for 2023.

- Increased domestic demand (private investment) and increased demand for raw materials and intermediate products needed for export goods are expected to lead to an increase in imports.

- Revenues from the service sectors, such as overseas travel, are also expected to increase.

○ During the period 2023-2027, total exports are projected to increase at an average annual rate of 5.4%.

- A rise in domestic demand, such as consumption and investment, is anticipated to result in an increase in total imports.

7. CPI

❑ In 2024, the Consumer Price Index is projected to increase by 2.4%

○ In 2024, the CPI is projected to increase at a slower rate than in 2023, when it increased by 3.4%.

- It is expected that the CPI increase rate will gradually become dampened due to such reasons as a contraction in demand caused by the domestic and global economic slowdown, declining international commodity prices, and eased cost inflation pressures.

○ During the period 2023-2027, the CPI is projected to increase at an average annual rate of 2.5%.

- After 2026, the GDP gap will remain positive, while inflationary pressure from the demand side is expected to increase over the medium term.

- On the other hand, factors like stabilizing international prices of commodities and the time lag effects of interest rate hikes are expected to act as a downside pressure on consumer prices.