



## I. Trends

### 1. Economic growth of South Korea

#### ❑ The potential growth rate of South Korea is on a continuously declining trend

- The declining contributions of labor and capital to potential growth are on a continuous declining trend.
- However, the contributions of other factors to potential growth are rising slightly.

#### ❑ Input factors to counteract slowing economic growth show different levels of contribution to growth

- After the end of the COVID-19 pandemic, labor recorded a plus contribution to growth.
  - Labor exhibited a minus contribution to growth between 2018 and 2020, turning to a plus between 2021 and 2022.
- Capital showed a plus contribution to growth, but it is riding a trend of continuous decline.
- Other factors show a plus contribution to growth, but the year-to-year variations are large.

#### ❑ Regional economies appear to exhibit varying degrees of vitality due to declining manufacturing output and a slowing growth of the consumption and service sectors

- Mining and manufacturing output declined in the capital region due to downturns in the semiconductor and IT sectors.
- Despite the booming shipbuilding and car industries, manufacturing industries in the southeast region, Honam region, Gangwon region, and Jeju region remain the same due to fears about a global economic downturn.

### 2. Domestic and overseas financial markets

#### ❑ As uncertainties in overseas and domestic markets come under the spotlight, domestic and overseas financial markets are experiencing increasing volatilities

- Volatilities are increasing in global financial markets as uncertainties grow over the US government's monetary policies.

The yield rate of US Treasury bonds (and that of other major countries) and exchange rates against the US dollar are increasing in volatility while simultaneously following an upward trajectory.

- After the end of 2022, domestic financial markets were on a path toward stabilization overall. Recently, however, domestic markets have become more volatile.

- Recently, market yield rates on treasury bonds, corporate bonds, and the US/KRW exchange rate have been increasing.

## 3. Greenhouse gas emission rates

### □ In 2022, potential GHG emission rates declined in the energy transition and industrial sectors

- In 2022, the potential greenhouse gas emission rate was 654.5 million tons, a reduction of 3.5% from the previous year's level.
  - This was attributable to the effects of tightened energy policies and emission reductions by energy-intensive industries.
  - This emission rate is 10% lower than that recorded in 2018 when the emission rate (727 million tons) was at its peak.
- The main contribution to the reduced emission rate came from the industry sector (–2.40%p), followed by the energy transition sector (–1.45%p).
  - The contributions from the transportation, building and other sectors were -0.12%p, 0.21%p, and 0.24%p, respectively.

## II. The Outlook for 2024 and the Medium Term

### 1. Factors for revising the economic outlook

#### □ In the projection for 2023, labor's contribution to growth was adjusted upward while the contributions of other factors were adjusted downward

- The growth rate of real GDP is predicted to decrease while the number of employed and the number of weekly working hours are predicted to increase. Therefore, labor's contribution to growth was adjusted upward by 0.8%p, while the contribution of other factors was adjusted downward by 1.2%p.
- Meanwhile, the medium-term projections for the years 2023-2027 had to be adjusted due to changes in the assumptions used in projecting the potential growth rate and contributions to growth by input factors and the revised analysis method.
  - The projected real GDP growth rate for the period 2023-2024 was adjusted downward, while that for the years 2025-2026 was adjusted upward.
  - The projection for the number of employed persons was adjusted upward, while that for the number of weekly working hours was adjusted downward.
  - Labor's relative share and capital's relative share were treated as variables, rather than as fixed values, in an improved projection model.

#### □ The yield rates of treasury bonds (3 years) and corporate bonds (3 years, AA-) were adjusted upward in 2024 projections

- The projections for the yield rates for treasury bonds (3 years) in 2024 were adjusted upward by 0.3%p from the level projected in October 2022 in order to reflect the high yield rate situation brought about by the sustained tight monetary policy implemented in 2023.
  - The projections for the yield rates for corporate bonds (3 years, AA-) in 2024 were adjusted upward by 0.6%p from the level projected in October 2022.



- Meanwhile, in the medium-term projection for the period 2023-2027, the yield rates for treasury bonds (3 years) and corporate bonds (3 years, AA-) were also given an overall upward adjustment.
- Uncertainties related to the timing of changes in the monetary policy stance of the central banks of key countries, including the Bank of Korea and the US Federal Reserve, and the speed at which more relaxed monetary policies are implemented are factors that drive up the yield projections.

## 2. Potential growth rate

### □ The potential growth rate of South Korea's economy in 2024 is projected to be 2.2%

- Labor is expected to remain a minus contributor to potential growth.
  - While maintaining a continuously declining trend, labor's contribution to potential growth is projected to become -0.28%p.
- Capital and other factors are expected to remain a plus contributor to potential growth.
  - Capital and other factors' contribution to potential growth are projected to be 0.85%p and 1.59%p, respectively.

### □ The average potential growth rate for the next five years (2023-2027) is projected to be 2.1%

- The potential growth rate will decline to 2.1% by 2025, and then remain at the 2.1% level until 2027.
- The contributions of labor and capital to potential growth are expected to decline at a continuous rate.
- The contribution of other factors to potential growth is expected to increase by a small margin.

## 3. Contribution to growth

### □ The contribution of input factors to growth in 2024 will be greatest for other factors, followed by capital and then labor

- For the first time in four years, the contribution of labor to growth will switch to a minus contribution.
  - Labor's contribution to growth is anticipated to decline as the growth rate in the number of employed persons slows down.
- The contribution of capital to growth is expected to remain at the same level as in 2023.
- The contribution of other factors to growth is expected to increase over the previous year's level.
  - With the growth rate of real GDP projected to rise by 0.9%p over the previous year's level, the chief reason for the higher economic growth rate will be the increase in other factors.

- **The contribution of input factors to growth over the next five years (2023-2027) is projected to be greatest for other factors, followed by capital and then labor**
  - Labor's average contribution to growth during the period 2023-2027 is projected to be – 0.2%p.
    - The contribution of labor to growth is expected to decline from 0.3% in 2023 to -0.5% in 2027.
  - Capital's average contribution to growth during the period 2023-2027 is projected to be 0.8%p.
    - This level of contribution is anticipated to remain unchanged at 0.8%p for the next five years.
  - The average contribution to growth by other factors during the years 2023-2027 is projected to be 1.5%p.
    - The average contribution to growth by other factors is projected to increase from 0.0%p in 2023 to 1.9%p in 2027.

## 4. Yield Rate

- **The yield rate on treasury bonds (3 years) in 2024 is projected to decline by 3.0% compared to 2023**
  - The interest rate on government bonds (3 years) is expected to show a declining trend due to the alleviation of inflation concerns and expectations of a shift in the monetary policy by the Bank of Korea.
    - Such factors as adjustment pressure triggered by a sharp rise in market interest rates in 2024 and the easing of uncertainties over monetary policies in key countries are expected to suppress the rising pressure of interest rates.
  - During the period 2023-2027, the treasury bond (3 years) yield rate is projected to be 2.9% on average each year.
    - In the medium term, the interest rates on government bonds (3-year) are expected to decline, driven by the gradual efforts of the central banks of key countries to reduce their base rates.
      - The policy of quantitative tightening pursued by the U.S. Federal Reserve since 2022 could counteract the downward pressure on interest rates by reducing the increase rate in market liquidity.
  - Meanwhile, the yield rate of corporate bonds (3 years, AA-) in 2024 is projected to reach 3.6%, a drop from the previous year's level.
    - This will be mainly attributable to weakened capital demand stemming from the delayed economic recovery and the easing of uncertainties surrounding the monetary policies implemented by central banks in key countries.
    - The yield rate of corporate bonds (3 years, AA-) during the period 2023-2027 is projected to record an annual average rate of 3.5%, while showing a downward trend due to changes in monetary policy stances and other factors.



## 5. Greenhouse Gas Emission Rates

- **The greenhouse gas emission rate in 2024 is projected to decline by 1.2% from the level recorded in 2023**
  - In 2023, South Korea's greenhouse gas emission rates are predicted to decline by 2.7% from the previous year.
    - As the slowdown of economic growth persists, greenhouse gas emissions by the energy sector and industry are expected to decline, accompanied by a decline in the energy basic unit and carbon intensity.
  - During the years 2023-2027, the greenhouse gas emission rate is projected to decline by 1.7% per year on average.
    - When compared with the NDC reduction targets, the decrease in the greenhouse gas emission rate will follow the target reduction path until 2026, after which there is a risk that the emission rate will maintain a higher level than the reduction path.
    - The long-term path of greenhouse gas emissions could change depending on whether the economy recovers, and whether the effort to adjust the composition of energy sources achieves its objectives, as well as on the effectiveness of energy demand management policies.