

FKCCI ECONOMIC FORECAST 2023

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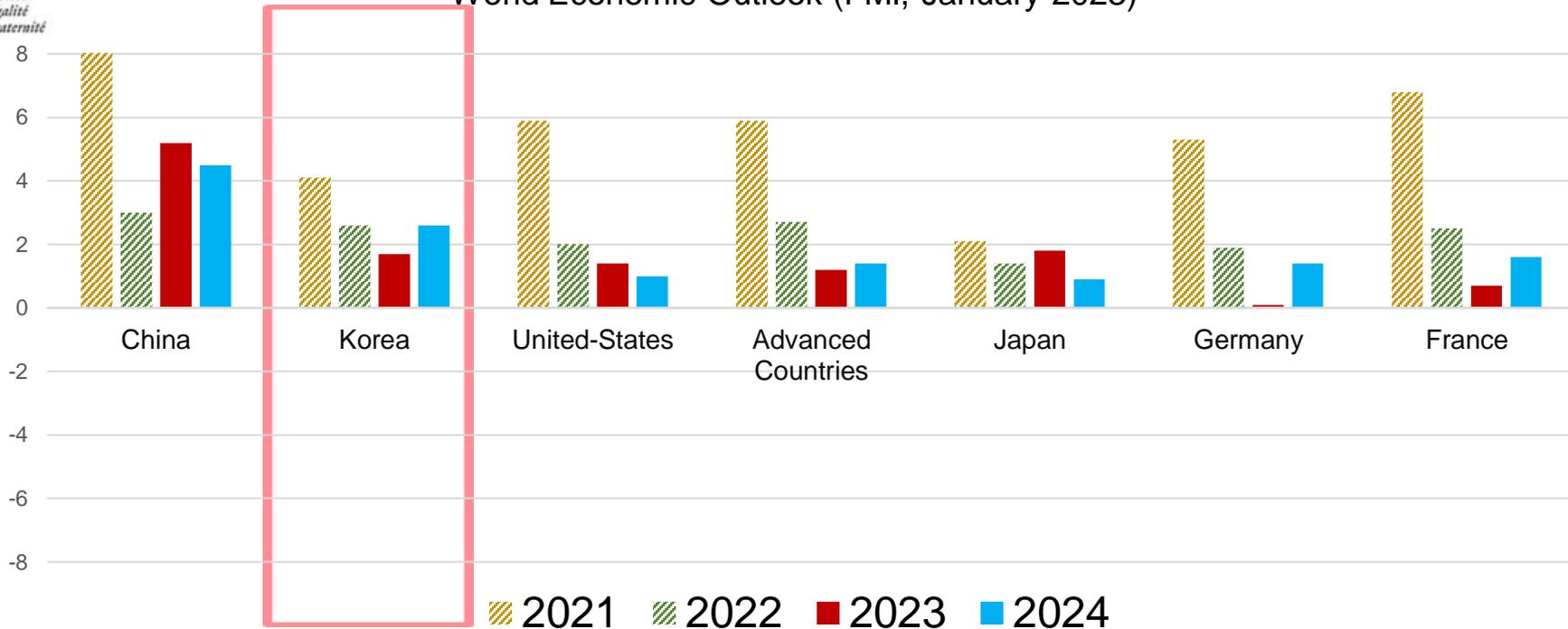
Korea's growth in 2023 and 2024 : current estimates

	2022	2023	2024
Korean government	(2.6 %)	1.6 %	
Bank of Korea	(2.6%)	1.6 %	1.9 %
Korea Development Institute	(2.8 %)	1.8 %	
OECD	(2.6 %)	1.8 %	1.9 %
ADB		1.5 %	
Fitch	(2.6 %)	1.5 %	
IMF	(2.6 %)	1,7 %	2.6 %

- In 2022, the Korean GDP grew 2,6 %. lower than forecasted in early 2022
- Korean economy shrank 0.4 % in the last quarter of 2022, a result of the impact of the Ukraine war and the lockdowns in China
- For the first time the projected growth of South Korea is under medium-term potential growth (2%)
- However the contraction of exports and the rates hikes could have a more negative impact on the Korean growth

GDP outlook for a selection of countries

World Economic Outlook (FMI, January 2023)





Economics trends of South Korea - Outlook

Since 2022 Korea is no longer part of the top 10 world economies

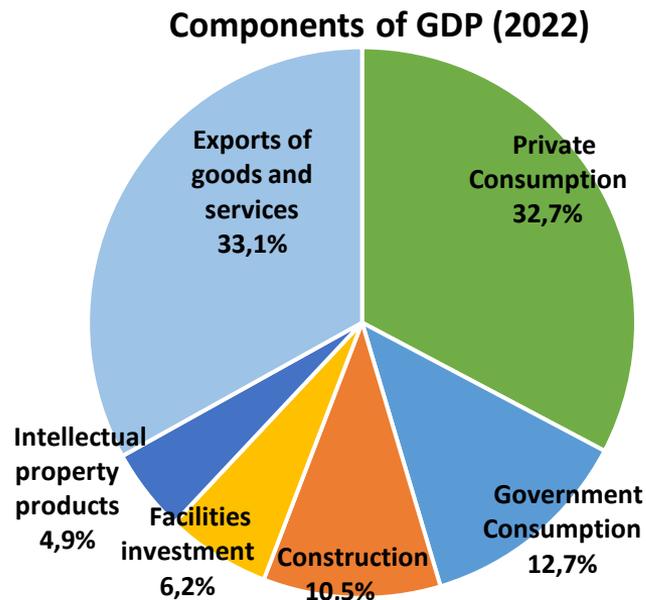
World Economic Outlook 2023 (IMF, January 2023)

Rank	Country	GDP (current US \$Bn)
1	United States	26 185
2	China	19 244
3	Japan	4 366
4	Germany	4 120
5	India	3 821
6	United Kingdom	3 479
7	France	2 807
8	Canada	2 327
9	Russia	2 136
10	Italy	1 991
11	Iran	2 044
12	Brazil	2 059
13	Korea	1 792

Rank	Country	GDP per capita (PPP 2017 \$)
10	United States	63 353
19	Germany	54 049
25	Canada	49 131
28	France	47 940
29	United Kingdom	47 448
30	Korea	46 523
35	Italy	43 345
38	Japan	42 338
61	Russia	26 580
75	China	18 905
85	Iran	16 025
51	Brazil	15 096
129	India	7 406

Outlook by growth engines

	2021	2022	2022 Q4	2023 Outlook
Private consumption	3.6 %	4.3 %	- 0.6 %	3.1 %
Public consumption	5.5 %	4.1 %	2.9 %	4.5 % OCDE
Facility investment	8.3 %	-0.5 %	2.7 %	0.7 %
Construction	-1.5 %	-3.5 %	0.8 %	0.2 %
Goods exports	10.0 %	3.4 %	-5.1 %	1.0%
<i>(in value)</i>	25.7 % Customs	6.2 % Customs	-8.6 % Customs	-5.7 % KDI
Goods imports	11.9 %	4.7 %	-5.0 %	1.1 %
<i>(in value)</i>	31.5 % Customs	18.8 % Customs	-9.8 % Customs	-6.7 % KDI



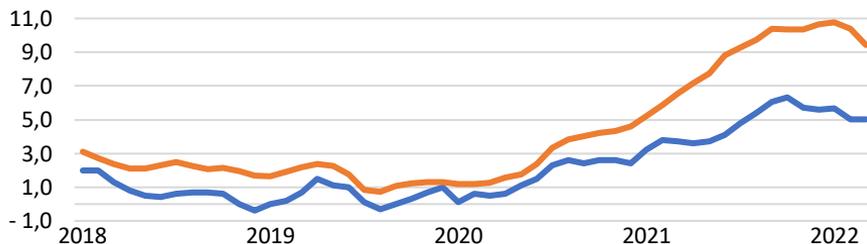
Sources: Bank of Korea

Private consumption and investments to slow

Inflation will reach at least 3.2% in 2023 (OECD)

BoK decided to freeze its **base rate at 3.5 %** in regard of the economic slow down

Monthly inflation rate (year over year, %)



Source: Bank of Korea — Korea — OECD

BoK assesses that inflation could be up to 3.6 to 3.8 % in 2023

In February 2023 consumer price index grew by **4,8 %** compared to last year :

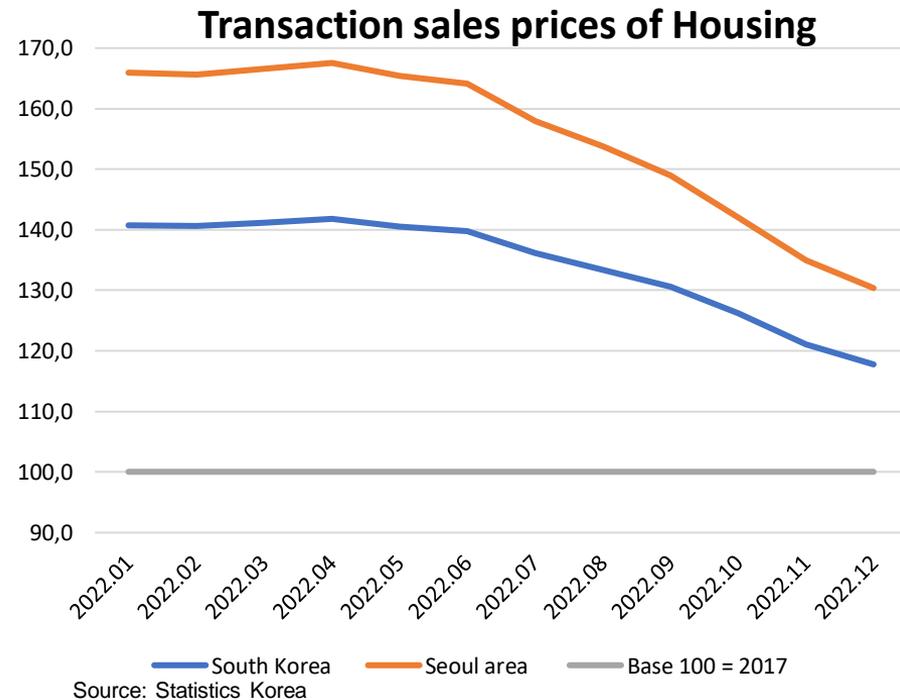
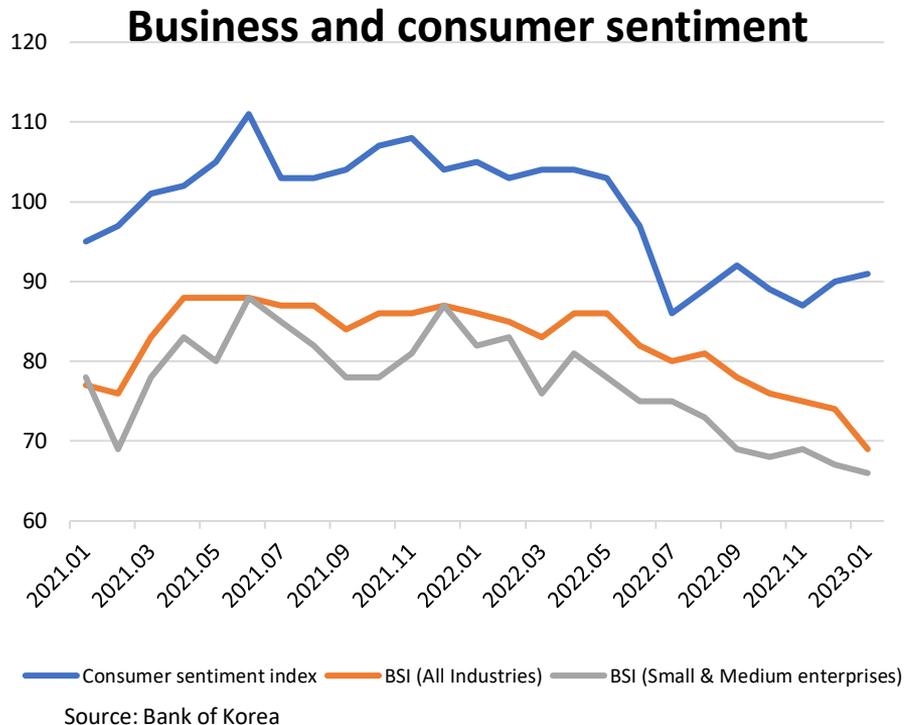
- Agrofood : + 1.1 %
- Services : + 3.8 %
- Industrial products : + 5.1 %
- Petroleum products : - 1.1 % (first decline in 2 years)
- **Electricity, gas and water : + 28.4 % (highest level in Korea history)**

Limited growth budget for 2023

- Public spendings : + 5.8% vs fiscal revenues: + 13.1%
- Public infrastructures: - 10.7 %
- Industry, SME, Energy: - 4.2 %

Construction investments to gradually decrease : the number of traded house decreased by 46% from a year earlier

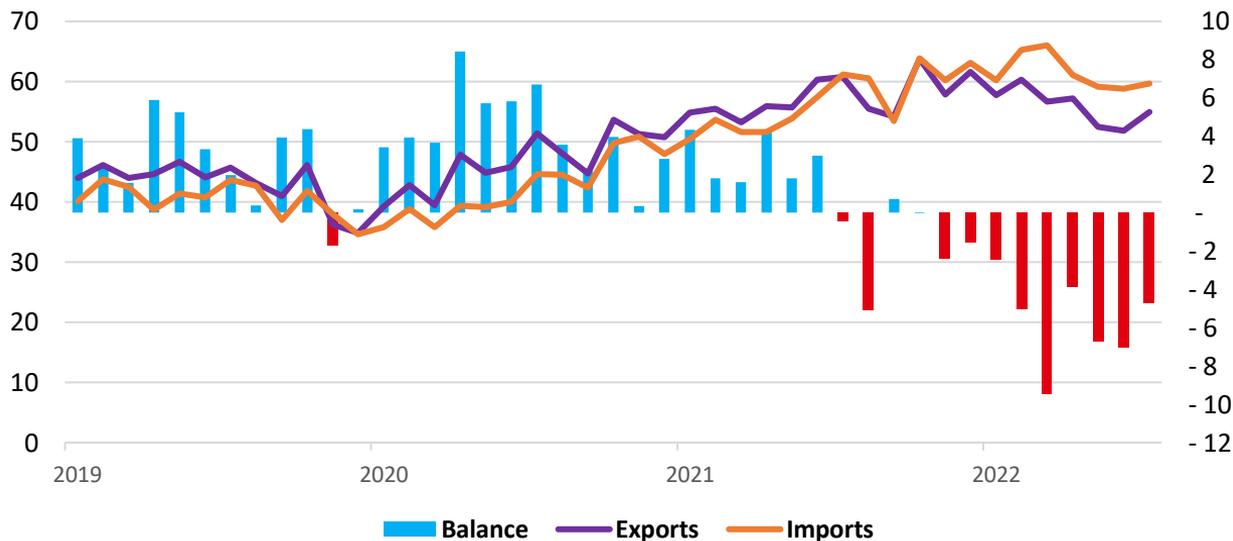
Business Confidence has been worsening since the beginning of the war



Recent evolution of the Korea's trade balance (goods)

Decline for key exporting items

Monthly trade of Korea (\$Bn)



Sources: Bank of Korea

11 straight months of trade deficit :

- Imports of Energy products went up by 40% in 2022 (+20 % in february)
- Imports prices of energy products in 2022 : + 36.7%

February marks the fifth month of exports decline (YoY) :

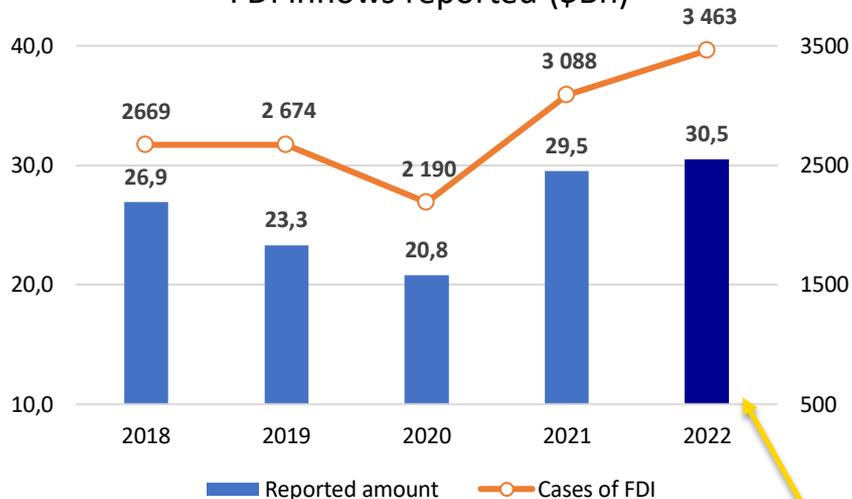
- China: - 24%, ASEAN: - 16%
- Semiconductors exports: - 43 %
- Cars exports: +47%

→ A 47.4 Bn \$ trade deficit in 2022 (worst in history) versus a 29.3 Bn \$ surplus a year before

Recent evolution of the Korea's FDI

Korea FDI pledges hits record high in 2022 at \$ 30.5 bn

FDI inflows reported (\$Bn)



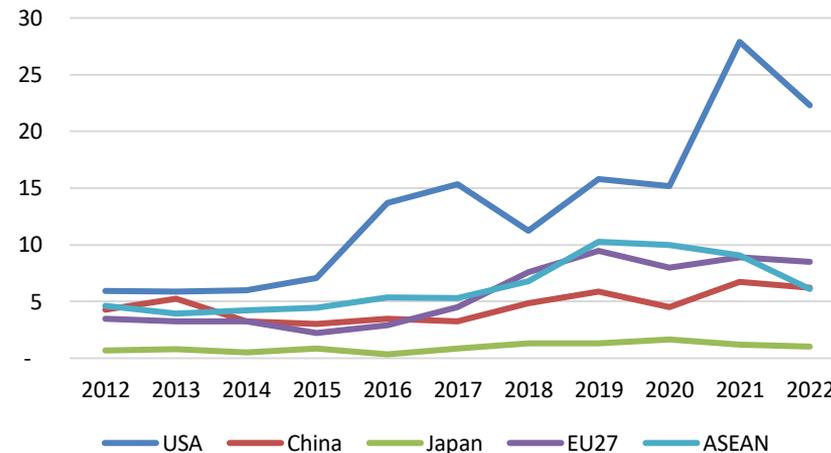
Sources: MoTIE

Investments in 2022 :

- Manufacturing : +149 %
- Greenfield : + 23 %

18 \$Bn arrived amount which is the 2nd highest in history

FDI outflows (\$M)



Sources: KEXIM

Main industrial trends

- Strong demand for LNG carriers
- DSME's purchase by Hanwha
- Chinese competition

Shipbuilding



- Hyundai now #3 globally, #4 in EU
- Conversion to electric, H2 limited success
- IRA boosts battery investment in US, but CN competition

Automotive & Batteries



- 2022 domestic traffic back to pre-Covid, but int'l still down 80%
- KAL-Asiana merger under EU probe
- Sinking cargo rates

Aerospace



- Strong investments for the expansion of nuclear plants
- Less political enthusiasm on renewables but target still high

Energy



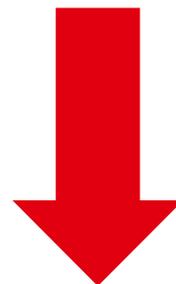
- Unbalances on the real estate Market
- Rising interest rates
- Risk following the SVB collapse

Finance



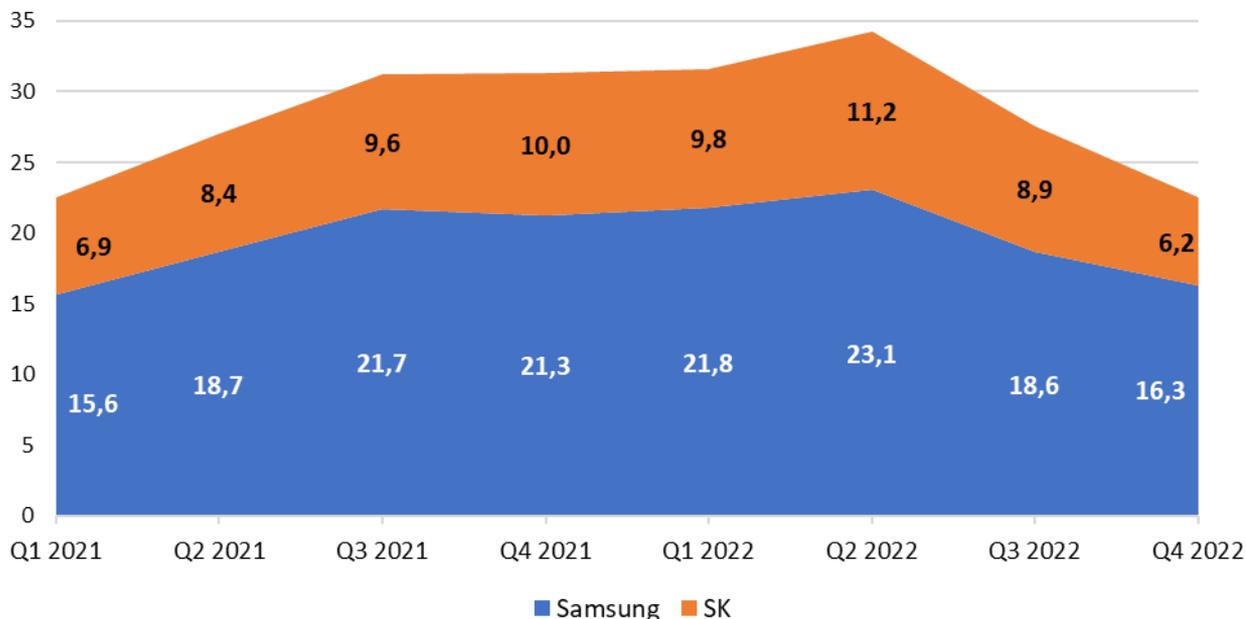
- Decline in memory chips
- Samsung's keeps CAPEX high on non-memory bet
- Geopolitical disruptions (US/CN)

Semiconductors



Semiconductors industry faces difficulties

Sales of Korean semiconductor manufacturers (\$Bn)

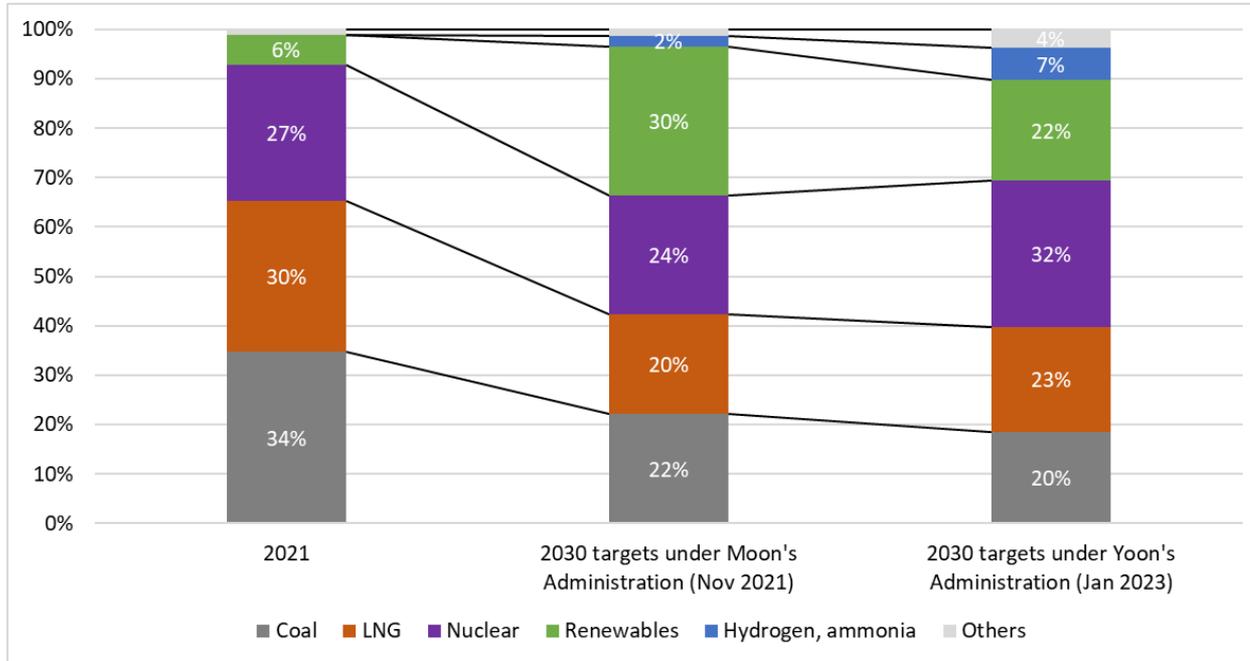


Sources: Companies quarterly financial results

- Decline in memory chips sales (50% globally in H2 2022), only partially offset by non-memory.
- Samsung's keeps investment plan for 2023 at same level as 2022 to catch up with TSMC on non-memory business. SK investment plan halved for 2023.
- Geopolitical disruptions: new subsidies rules by US banning high-tech investment into China

Promoting a new energy policy

Korea' Electricity mix



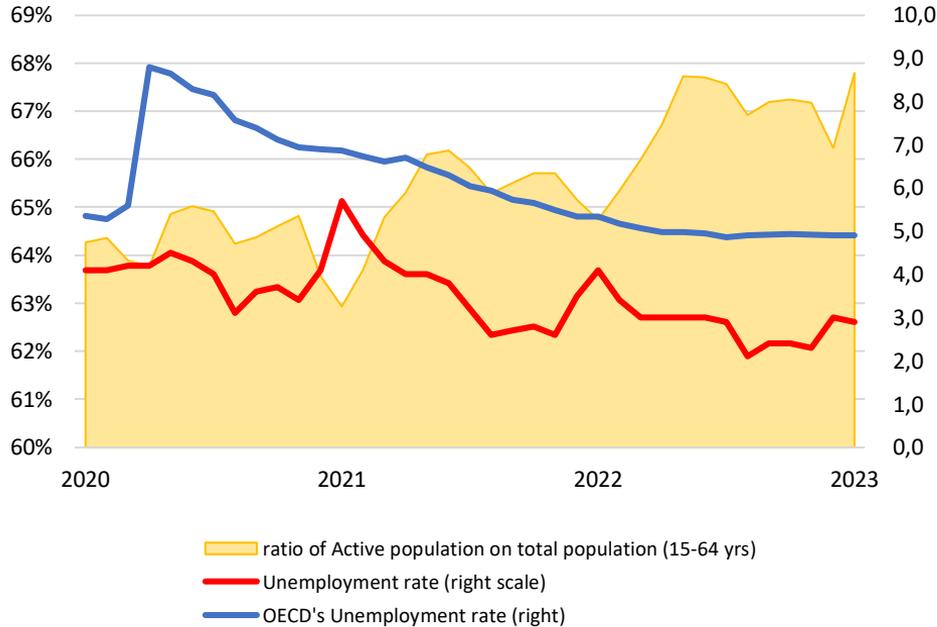
- New electric plan came out in January 2023, with a confirmed push on nuclear as well as H2.
- Renewables target lower but still high and will be difficult to implement
- New NDC strategy to be published in March and energy security bill under preparation (early warning, procurement, stockpiling)
- Like for batteries, US to attract major chaebol investment (e.g. Hanwha)

Source: MOTIE

Slowing job market in 2023

After a strong year in 2022

Labor participation



2022 Q4	Unemployment rate	Youth unemployment rate (15 – 24 yrs old)
France	7.0	16.9
Euro area	6.1	14.6
OECD average	4.9	10.9
United States	4.2	8.1
Korea	3.0	6.4
Germany	2.9	5.8
Japan	2.5	4.5

Source: OECD

Source: KOSTAT

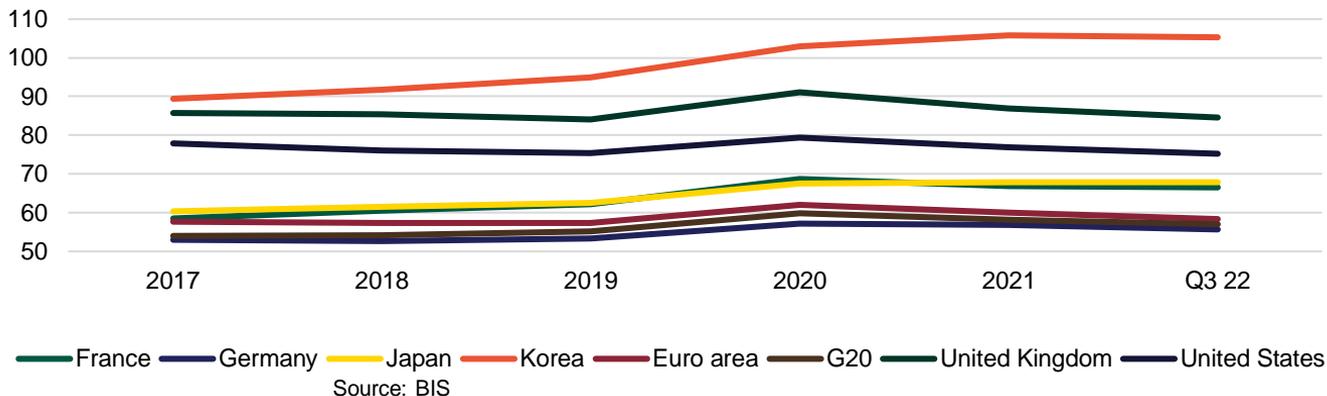
Public debt and Private debt are high but remain largely manageable

	Public Deficit	Public Debt	Private Debt *	Household Debt *
2022 (as % of the GDP)	3.3 %	49.7 %	224.5 %	105.3 %
2023 (MOEF forecast)	0.6 %	50.4 %		

Source: MOEF, BIS

*Third Quarter of 2022

Household Debt



Non-performing loan ratio is very low : 0.16% at the end of Q2 2022

Banks provisions were above 200% of NPL at the end of Q2 2022

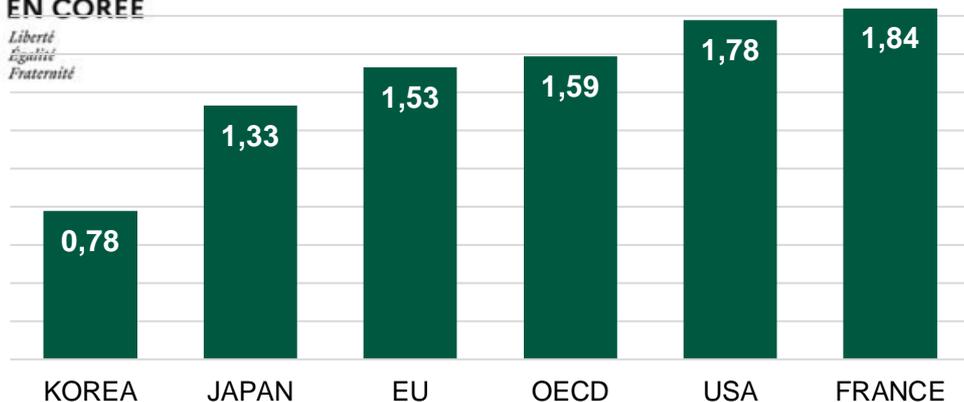
With SVB recent collapse new risks may surge.

SVB collapse

The biggest bankruptcy since 2008 ...

Preliminary observations:

- NPS owned 101 000 shares in SVB at the end of 2022 : concerns are rising since the fund is expected to be depleted faster
- No systemic risks for the Korean banking sector
- BoK and government declared that the risk is limited for the local market since banks have different asset-liability structures from those of SVB
- Concerns are growing about FED's rate hikes despite the easing of US' inflation in February (6% vs 6.4% in January)



Source: OECD

- ❑ **Largest gross gender wage gap in the OECD : 31 % less for women**
- ❑ 47 % of women employees were non-regular workers in 2020
- ❑ **Family benefits public spending is only 1.5% of GDP (2.1% for OCDE)**
- ❑ Korean women tend to leave the labour force following childbirth at very high rates compared to the OECD average

Medium and long term challenges

Demographic decline

Korea to become a super-aged country in 2025: **+ 20 % of the population is more than 65 years old.**

The **total population could reach as low as 38 to 32 M people in 2070** according to Statistics Korea (versus 52 M in 2021)

Korea has the highest poverty rate of elderly (65 years and +) : 37.5 % in 2021

Higher poverty rate for elderly women : 43 % for women vs 31 % for men

Current social spending : 14 % of GDP (OECD : 21%)

Most of national pensions are below the poverty line

The average amount of **basic pension is very low : 550 000 KRW (less than 450\$)**

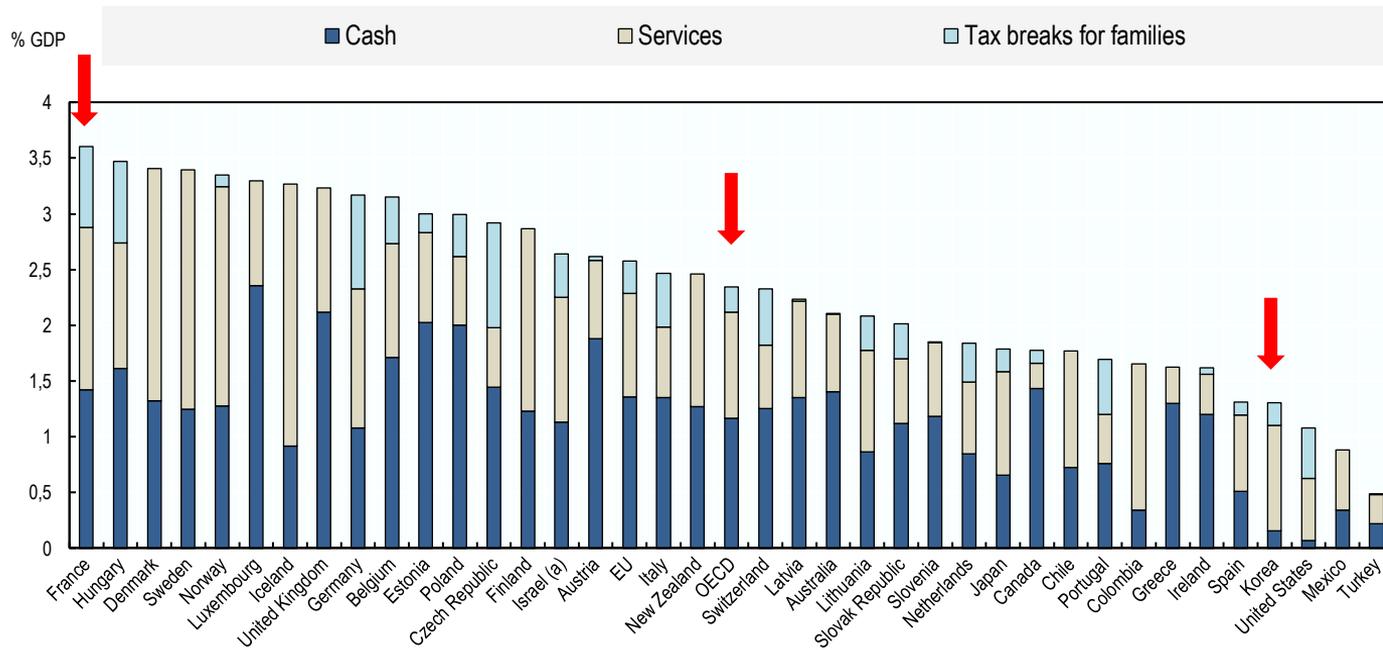
Government last projected that the NPS would dry up in 2055

New migration policy ?

Medium and long term challenges

Demographic decline

Family benefit public spendings

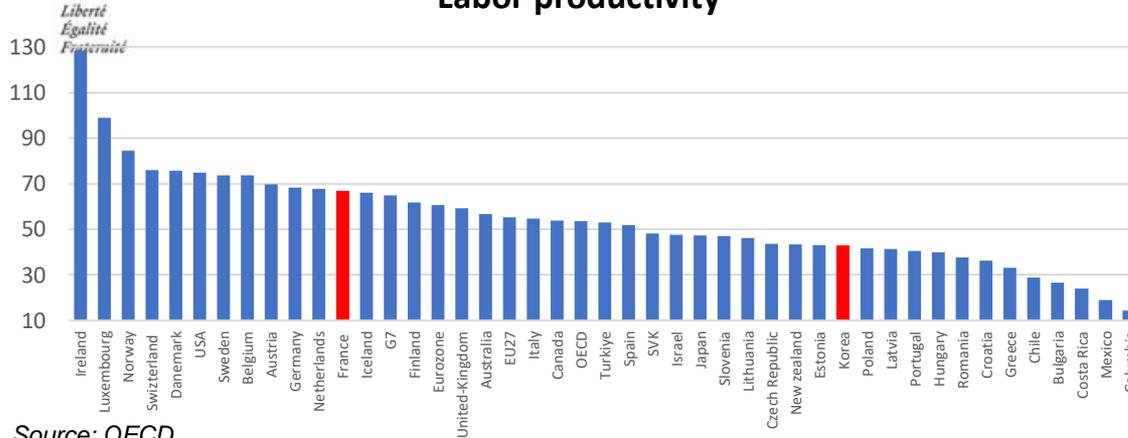


Source: OECD data from 2019 to 2021

Medium and long term challenges

Low productivity cause and consequence of a strong dualism

Labor productivity



- **The Korean GDP per hour of work is just 81 % of the OECD average (2021)** : representing 43 \$/hour (29th of the OECD) compared to 67 \$/hour in France (12th of the OECD)
- **Service productivity represents only 44 % of the manufacturing productivity (BoK 2023)**

Source: OECD

- Service sector is dominated by SME which is characterized by low productivity. **SMEs account for 90% of the service-sector jobs**
- **50 % of SME are considered as “Zombie” enterprises.** Benefits are not sufficient to cover interest payments
- Firms with at least 300 employees pay **youth 50% higher wages than those with less than ten**, and the gap widens with age
- **Generous government support for SMEs discourages their growth** in order to maintain SME status.

Weak results

Low wages and less protection jobs

Less skilled workers

Less productivity

Main challenges Korea will have to face



Thank you for your attention !

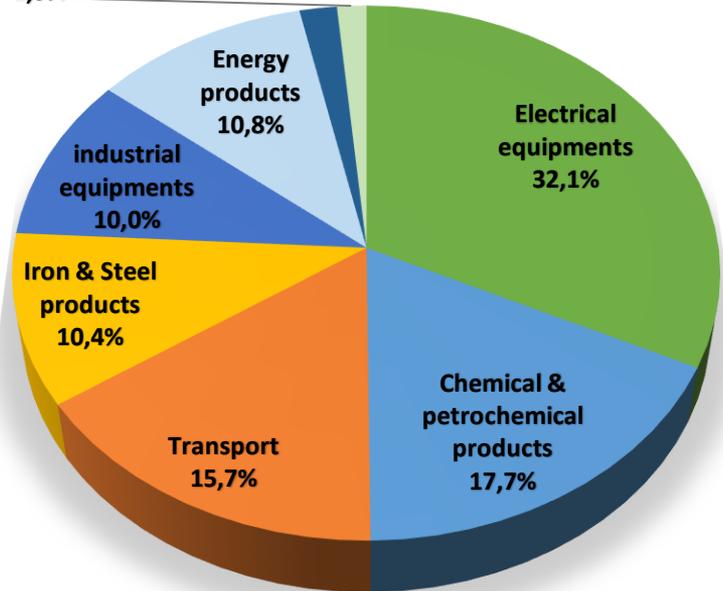
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Sectorial composition of Korean foreign trade

Food 1,5%
Korean exports 2022



Korean imports in 2022

