Economic growth will accelerate from 1.4% in 2023 to 2.2% in 2024, driven by higher exports, and then moderate to 2.3% in 2025 amid a tepid global recovery. Domestic demand will remain subdued in 2024 due to tight monetary and fiscal policies, then improve in 2025 as inflation continues to moderate and global oil prices stabilize. Containing the high level of household debt and debt service costs is a policy challenge, especially in a high interest rate environment.

**Economic Performance**

**GDP growth decelerated to 1.4% in 2023 from 2.6% in 2022 (Figure 2.12.1).** GDP growth in the Republic of Korea (ROK) averaged 0.9% year on year in the first half of 2023. It picked up in the second half driven by a rebound in exports, with third quarter growth at 1.4%, followed by a 2.2% expansion in the final quarter. Strong external demand for semiconductors, ships or vessels, and automobiles supported the export recovery after a year of decline (Figure 2.12.2). Total imports moderated in 2023 due to a decline in merchandise imports, resulting in a negligible contribution of net exports to growth. By contrast, domestic consumption remained tepid. Despite fuel tax cuts and discount coupons on some food items to cushion the impact of inflation on household spending, consumer sentiment weakened due to persistently high prices and high borrowing costs. Private consumption growth slowed to 1.8% in 2023 from 4.1% in 2022, reducing its contribution to GDP growth to 0.9 percentage points (Figure 2.12.3). Public consumption’s contribution to growth also fell to 0.2 points as the government adopted a tight fiscal policy. Gross fixed capital formation rose by 1.1% in 2023 after contracting in 2022, contributing 0.4 points to growth.

**Figure 2.12.1 Quarterly Gross Domestic Product**

*Economic growth slowed in 2023 with an upward quarterly trend.*

<table>
<thead>
<tr>
<th></th>
<th>Q1 2022</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seasonally adjusted, quarter on quarter</td>
<td>0%</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Year on year</td>
<td>-1%</td>
<td>2%</td>
<td>1%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Q = quarter. Source: CEIC Data Company.

**Figure 2.12.2 Value of Major Commodity Exports**

*Exports of major commodities improved in the latter part of 2023.*

This chapter was written by Madhavi Pundit and Melanie Quintos of the Economic Research and Development Impact Department, ADB, Manila.
growth. This was mainly driven by higher investments in construction and equipment as both private and public investments picked up slightly.

**On the supply side, muted performance across sectors hindered growth in 2023.** Services, which holds the largest share of GDP, grew by 2.1% in 2023 from 4.2% in 2022, contributing 1.2 percentage points to growth. Faster growth in transportation, storage, and real estate were offset by a decline in wholesale and retail trade due to weak domestic demand. Meanwhile, manufacturing growth remained muted at 1.0%, contributing only 0.3 points to growth. Agriculture declined by 2.4% due to unfavorable weather conditions.

**The labor market had its strongest recovery since the pandemic.** The unemployment rate dropped to a low of 2.7% in 2023. The labor force participation rate improved to 64.3%, driven by a rise in the female participation rate to a high of 55.6%. Notably, based on data from Statistics Korea, jobs created were mostly in services, particularly in business, personal, and public service; health and social work; and accommodation and food service.

**Headline inflation eased to 3.6% in 2023 but remained above the central bank’s target of 2% (Figure 2.12.4).** As global oil prices declined, inflation moderated from its year-on-year peak of 6.3% in July 2022. Transport costs fell, while food and restaurants and hotels recorded slower price increases. Core inflation, which excludes highly volatile food and energy, averaged 3.4% in 2023, lower than the 3.6% average in 2022.

**Monetary policy remained tight amid sticky inflation.** After raising its key policy rate by 25 basis points in January 2023 to 3.5%, the central bank kept the rate unchanged for the rest of the year. As a result, the average bank lending rate increased from 4.3% in 2022 to 5.2% in 2023, its highest in 11 years. At the same time, total outstanding loans rose by 5.1% by end-December 2023, higher than the 4.8% increase in 2022. The increase was driven in part by a rise in household mortgages following the introduction of 50-year mortgage loans by banks and the government’s provision of housing assistance to targeted groups.

**The government pursued fiscal consolidation by reducing expenditure.** For 2023, the budget signaled a shift in government priority to reduce the fiscal deficit to 2.6% of GDP from 5.4% in 2022. The policy aimed to reduce the debt to GDP ratio, which rose to 49.4% in 2022 from 37.6% in 2019, due to pandemic-induced fiscal expansion. As of September, the latest data available for 2023, the fiscal deficit stood at 4.3% of GDP while the debt to GDP ratio reached 49.9%.

**The current account surplus widened to 2.1% of GDP due to the rebound in exports.** Merchandise exports improved in the latter part of the year led by semiconductors, while subdued domestic demand pulled down imports. This resulted in a merchandise trade surplus of $34.1 billion or 2.0% of GDP. By
destination, shipments to the United States (US) grew by double-digits in the fourth quarter. Merchandise exports to Japan and ASEAN increased, while those to the People’s Republic of China (PRC) declined (Figure 2.12.5). However, the services deficit widened to 1.5% of GDP in 2023 as outbound tourism increased. The nominal exchange rate depreciated by 1.1% against the US dollar in 2023, while the real effective exchange rate (accounting for inflation differentials with trade partners) appreciated by 1.8%. Official foreign exchange reserves rose to $420 billion in December 2023, equivalent to 7.4 months of import cover.

Figure 2.12.5 Merchandise Exports by Destination

Exports to major destinations are trending upward.

<table>
<thead>
<tr>
<th>Destination</th>
<th>PRC</th>
<th>US</th>
<th>EU 27</th>
<th>Japan</th>
<th>ASEAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>% change year on year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CEIC Data Company.

**Economic Prospects**

**Growth is forecast to pick up to 2.2% in 2024 and edge higher to 2.3% in 2025 on rising exports** (Table 2.12.1). In the near term, growth will remain below the pre-pandemic trend and with an uneven recovery as domestic demand remains weak. Sustained demand for semiconductors globally, supported by expanding artificial intelligence (AI) services and cloud server business, will drive growth in 2024 (Special Topic on Asia’s Rebounding Semiconductor Sector and the Role of Artificial Intelligence).

**Table 2.12.1 Selected Economic Indicators, %**

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>2.6</td>
<td>1.4</td>
<td>2.2</td>
<td>2.3</td>
</tr>
<tr>
<td>Inflation</td>
<td>5.1</td>
<td>3.6</td>
<td>2.5</td>
<td>2.0</td>
</tr>
</tbody>
</table>

GDP = gross domestic product.
Source: Asian Development Bank estimates.

**Consumption will remain subdued amid tight monetary and fiscal policies.** Household demand for goods and services will remain sluggish in the first half of 2024 amid a high inflation and interest rate environment that will continue to affect debt servicing capacity. In the second half of 2024, consumption is expected to pick up slightly as inflationary pressures dissipate, leaving room for monetary and financial conditions to loosen. In addition, an increase in labor supply, particularly from women and the elderly, can augment household income. Government consumption will be contained under the 2024 budget with expenditure rising 2.8%, the slowest increase since 2005. However, given lower expected revenues, the deficit is forecast to be 3.9% of GDP. The government plans to implement 65% of the budget in the first half of 2024, focusing on support for low-income and disadvantaged groups, job creation, and public infrastructure projects.

**Investment growth will remain moderate, dragged down by a weak property sector.** Moderate improvement in manufacturing activity and facilities investment will be driven by the export recovery. The seasonally adjusted manufacturing purchasing managers’ index of 50.7 in February 2024 on top of the

**Figure 2.12.6 Manufacturing Indicators**

Recent surveys point to an upbeat outlook for manufacturing.

<table>
<thead>
<tr>
<th>Index</th>
<th>Manufacturing Purchasing Managers’ Index</th>
<th>Business Survey Index</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CEIC Data Company.
18-month high of 51.2 in January indicated sustained expansion (Figure 2.12.6). The Business Survey Index for manufacturing also improved to a 7-month high in February as sentiment among export-oriented firms indicated a more upbeat outlook. On the downside, housing and construction investments are set to decrease amid high borrowing costs, tight credit conditions, and risks of project financing-related losses. Unsold residential properties remain high and forward-looking indicators, including approved building permits and housing starts, have been on a downtrend (Figure 2.12.7). Housing prices and rents that spiked during 2020–2021 declined during the pandemic and remain low, partly due to a mismatch in demand and supply of units.

**Figure 2.12.7** Property Indicators

*The property sector continues to face headwinds.*

![Property Indicators Chart]

Source: CEIC Data Company.

**Inflation is expected to continue trending downward as global oil prices stabilize, monetary policy remains tight, and some consumption taxes are cut.** Headline inflation is projected to average 2.5% in 2024 and 2.0% in 2025 as global oil prices ease along with domestic demand. In February 2024, inflation rose to 3.1% year on year from 2.8% in January due to higher food costs, but core inflation remained unchanged at 2.5%, indicating that underlying pressures are easing. The central bank held its policy rate steady in February at 3.5% and signaled it will maintain a restrictive policy stance until inflation meets its target level of 2%. The government also plans to implement price controls, exempt and reduce tariffs for several fruit items, keep public utility fees unchanged for the first half of the year, and extend a fuel tax cut.

The current account surplus is expected to widen in 2024 but may narrow in 2025 as domestic demand picks up. The widening trend is already apparent. In January 2024, the current account remained in surplus for the ninth consecutive month supported by goods exports. Merchandise exports expanded by 4.8% over the previous year in February 2024, following an increase of 18.0% in January 2024 and a recovery from the 7.7% decline in the same period last year. This was mainly driven by a growth in exports of semiconductors (66.7%) and vessels (27.7%). Exports to major markets started improving since the turn of the year—shipments to the US rose by an average 18.1% in the first 2 months of 2024, and exports to the PRC increased by 6.8%. The forecast trend in demand for semiconductors and overall exports, and consequently growth prospects, assume a continuing global recovery.

**Risks to the outlook are tilted to the downside.** The growth outlook hinges largely on the strength of a rebound in global demand for exports from the ROK, particularly semiconductors. Fragile external demand and geopolitical tensions can weaken growth prospects. High household and corporate debt amid a prolonged tight monetary policy stance can constrain consumption and investment. The recent downturn in the real estate sector, if continued, could also drag down growth in the near term. In addition, political uncertainty from international and local elections could affect growth, as investors may take a wait-and-see attitude in succeeding months. On the upside, growth could be higher than projected if inflation declines faster and a stronger export rebound materializes.

**Policy Challenge—Rising Household Debt**

Household debt has grown rapidly in the last decade and poses a risk for the economy. As a percentage of GDP, household debt in the ROK increased from 76.0% in 2010 to 107.7% in 2022, with sharp increases during the COVID-19 pandemic, making it one of the highest among Organisation for Economic Co-operation and Development countries. It gradually edged down to 104.5% in September 2023 as the central bank tightened monetary policy...
beginning in August 2021 to curb inflation. At the end of December 2023, credit to households was mostly in mortgage loans (56.4%), followed by other personal loans (37.3%), and merchandise credit which included credit card transactions (6.3%) (Figure 2.12.8).

A high share of mortgage loans is linked to home purchases and jeonse, or home rental deposits. Among outstanding loans, almost 70% carry floating interest rates, mostly linked to either deposit rates or market interest rates.

**Figure 2.12.8 Household Credit in 2023**

*Mortgage loans comprise the largest type of credit to households.*

![Household Credit in 2023](image)

Source: CEIC Data Company.

**The household debt service burden has been increasing sharply with rising interest rates, especially for low-income groups.** Based on the 2022 Survey of Households Finances and Living Conditions, debt payments on average claim 23% of indebted households’ regular income—44% for the poorest quantile. In addition, the proportion of vulnerable borrowers—defined as low-income borrowers or those with low credit scores and holding multiple loans—has increased slightly as of September 2023 (Figure 2.12.9). Although household loans overdue by at least 1 month, an indicator of delinquency, accounted for only 0.4% of total loans as of December 2023, they are on a rising trend. Moreover, as most outstanding loans carry floating rates, the debt service burden will grow as interest rates increase. While there is no imminent systemic risk to the financial system, given the low level of delinquencies and high bank capital adequacy ratios, the rising debt burden will further dampen private demand in the near term and weaken economic recovery.

**Figure 2.12.9 Proportion of Vulnerable Borrowers**

*The proportion of vulnerable borrowers is rising moderately.*

<table>
<thead>
<tr>
<th>Percent share</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>Sep 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7.4</td>
<td>7.1</td>
<td>6.4</td>
<td>6.0</td>
<td>6.3</td>
<td>6.5</td>
</tr>
</tbody>
</table>

Note: Vulnerable borrowers are defined as low-income borrowers or those with low credit scores and holding multiple loans.


**To manage household debt, the government introduced tighter loan regulations.** In September 2023, the Financial Services Commission (FSC) announced stricter regulations to ensure that a borrower’s repayment capacity is taken into account by banks in their lending operations. For floating loans, the FSC will gradually introduce a stressed debt-to-service ratio (DSR) limit for lenders that accounts for the lender’s exposure risk to borrowers in case of interest rate fluctuations. The eligibility criteria for special household mortgage loans were also tightened and targeted toward lower income households to prevent speculative homebuyers. For long-term mortgage loans, the government will closely monitor banks to ensure strict adherence to lending procedures, strengthen DSR rules, and improve regulations as necessary to better manage household debt.

**The planned measures are needed to manage the debt situation along with rigorous risk monitoring to prevent banking system fragility.** Monitoring should cover household, corporate, and project financing. Also, because household loans are closely related to the real estate sector, sudden changes in loan volume can affect an already fragile property market. Identifying and prioritizing policies that align household debt growth to nominal GDP growth and raise the share of fixed-rate loans for mortgage loans, as outlined in the 2024 Economic Policy Directions, are important next steps. In the near-term, policymakers should continue to implement targeted financial support while balancing growth considerations and orderly deleveraging to safeguard long-term growth.