Korean Economy
At the Crossroads:
Outlook for the Korean Economy in 2009

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The Effect of the Global Financial Crisis on the Korean Economy

- Deteriorating Financial Condition of Financial Institutions in the U.S. and Europe
- International liquidity [dollar] crunch
  - Stagnant global real economy
  - Decreased Korean Exports
  - Soaring exchange rate
    - Falling stock prices
  - Credit crunch in Korea

The domestic real economy in a slump

✓ Unprecedented Globally
✓ ‘Precedented’ in Korea
Recent Developments

- Sharpest growth decline since the Foreign Exchange Crisis
  - Real GDP (y_o_y,%) : -3.4%( 4Q '08) → -4.3%( 1Q '09)
  - Manufacturing output (y_o_y,%) : -12.1%( 4Q '08) → -18.8%( Jan.~Feb. '09)
  - Service output (y_o_y,%) : -0.4%( 4Q '08) → -0.5%( Jan.~Feb. '09)
- Serious slowdown in consumption and Facility investment
  - Consumer goods sales (y_o_y,%) : -4.2%(4Q '08) → -4.7%(Jan.-Feb. '09)
  - Facility Investment (y_o_y,%) : -16.2%(4Q '08) → -23.5%(1Q '09)

- Increase in Construction investment due to SOC investment and early implementation of budget
  - Construction completed(y_o_y,%) : -2.2%(4Q '08) → 5.9%(Jan.-Feb. '09)
Export shows severe contractions

- Export s(y-o-y, %): -9.9%(4Q ’08) → -24.5%(1Q ’09)
- Average Daily Export Amount: $13.2bil. (4Q ’08) → $11.1bil. (1Q ’09)
- By regional category, exports to most destinations fell between Jan. 1 and Mar. 20.
- Inflation continues to decline
  - CPI (y_o_y,%) : 4.6%( 4Q ‘08) → 3.3%( 1Q ‘09)
  - Due to economic stagnation and stabilization of international oil prices
Won/Dollar Exchange rate has **settled in the mid- 1,300 since early March**

- Won/Dollar Ex rate: 1,573.6 (Mar. 3 ‘09) → 1,340.4 (Apr. 28 ‘09)
- Thanks to global stock market recovery, a current account surplus and foreign investors’ shift to net-buyer of Korean shares

**Exchange Rates**
Outlook for the Korean Economy in 2009 (KERI)

Negative growth for the year

- Average annual growth projection for 2009: -3.7%
  - first half -5.3%; second half -2.1%
- ‘U’ shaped recovery, rather than ‘V’ shaped one
  - signs of recovery in 2010 expected
- Stability in the global financial market and the pace of the global economic recovery are crucial.

Inflation

- 4.7% in 2008 ⇒ 2.4% in 2009
- The global economic downturn likely to stabilize prices of crude oil and raw materials
Outlook for the Korean Economy in 2009 (KERI)

Current account

- $6.4 billion deficit in 2008 ⇒ $13 billion surplus in 2009
- Expected slowdown in exports < decrease in imports

The won-dollar exchange rate

- First half: 1,380 won; second half: 1,220 won
- Demand for dollars likely to continue under unstable global financial environment
## Outlooks for 2009 from Major Economic Forecasters

<table>
<thead>
<tr>
<th>Source</th>
<th>Growth rate(%)</th>
<th>Annual</th>
<th>First half</th>
<th>Second half</th>
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<td>KERI (09.3.30)</td>
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<td>UBS (09.04.24)</td>
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<td>SERI (09.02.16)</td>
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<td>OECD (08.11.25)</td>
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(* In case of running a supplementary budget of 28.9 trillion won: -2.6%)
Policy Priorities

- Short-term: Easing Financial Crunch
- Mid-term: Slowing down economic downfall and preserving jobs
- Long-term: Enhancing growth potential
Potential growth rates on the decrease since the 1990s
Recurring Economic Crisis

The Korean economy experienced negative growth twice since the 1970s:
- The second oil crisis in 1980
- The 1998 Asian financial crisis
- The attributes of both crises exist in the current crisis.

(Unprecedented Economic Crisis)?

Current situation differs from the crisis a decade ago.
- In 1998: Poorly managed large companies and banks, Crisis limited to Asia, Involuntary restructuring imposed by the IMF
- In 2008: Financially healthy large companies and banks, Crisis on a global scale, Voluntary restructuring
- The economy expected to pick up from the end of 2009: a window of opportunity for Korean companies.

Korean economy has a great potential in the coming years.