

## KOREA

Exports, driven in large part by China, are sustaining the expansion during a period of weak private consumption in the wake of the household credit bubble. Although export growth is now moderating, a pick-up in domestic demand, led initially by investment, is expected to maintain economic growth in the 4 to 5 per cent range in 2005 and 2006. A slowdown in world trade growth before domestic demand revives would pose a threat to a continued expansion.

Given the structural causes of weak domestic demand, further progress in the reform agenda, notably by increasing flexibility in the labour market and addressing the problems of the credit card companies, should be the top priority. Monetary policy should maintain its expansionary stance until domestic demand recovers, while automatic fiscal stabilisers should be allowed to function.

## Korea: Demand, output and prices

	2001	2002	2003	2004	2005	2006
	Current prices trillion KRW	Percentage changes, volume (2000 prices)				
Private consumption	343.4	7.9	-1.4	-0.5	2.0	3.2
Government consumption	80.3	6.0	3.7	3.7	3.5	3.4
Gross fixed capital formation	183.8	6.6	3.6	3.5	4.3	3.8
Final domestic demand	607.5	7.3	0.8	1.3	2.9	3.4
Stockbuilding <sup>a</sup>	- 1.3	-0.2	-0.6	0.0	0.0	0.0
Total domestic demand	606.2	7.0	0.1	1.3	2.9	3.4
Exports of goods and services	235.2	13.3	15.7	21.1	13.3	15.3
Imports of goods and services	220.9	15.2	9.7	14.0	12.8	14.5
Net exports <sup>a</sup>	14.3	-0.2	2.8	4.0	1.5	1.9
Statistical discrepancy <sup>a</sup>	1.7	0.4	0.2	-0.3	0.4	0.0
GDP at market prices	622.1	7.0	3.1	5.0	4.5	5.0
GDP deflator	-	2.8	2.3	1.1	0.2	1.0
<i>Memorandum items</i>						
Consumer price index	-	2.8	3.5	3.7	3.5	3.0
Private consumption deflator	-	2.8	3.4	3.6	3.4	3.0
Unemployment rate	-	3.1	3.4	3.5	3.5	3.4
Household saving ratio <sup>b</sup>	-	1.5	2.5	3.4	3.7	5.1
Consolidated central government balance <sup>c</sup>	-	3.3	1.1	0.4	0.7	1.3
Current account balance <sup>c</sup>	-	1.0	2.0	3.7	2.7	2.7

a) Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

b) As a percentage of disposable income.

c) As a percentage of GDP.

Source: OECD Economic Outlook 76 database.