

Business

Unprecedented Economic Downturn Forecast This Year

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The Korea Economic Research Institute forecasts that the country's economy will shrink a whopping 2.3 percent this year. This is the first time a state-run think tank forecast negative growth for the economy.

The only times in modern history that Korea's economy shrank was in 1980 (-1.6 percent) during the second oil shock and in 1998 (-5.1 percent) during the Asian financial crisis.

Late last year, KERI still expected the economy to grow 1.9 percent this year. The about-turn is based on KERI's projection of industrial output and private consumption to a halt due to the coronavirus epidemic while other major economies like China, Japan and the U.S. are expected to experience sharp economic downturns.

KERI speculates that every percentage-point drop in growth results in the number of low-income earners rising by 190,000. When the economy shrinks 2.3 percent, by W42.4 trillion and the number of unemployed people rises by 254,000.

It also forecast that private consumption will shrink 3.7 percent, while exports will also drop 2.2 percent.



A street in the shopping hub of Myeong-dong in Seoul is deserted on Wednesday.

Businesses expect to be able to endure the impact of the epidemic for an average of 4.9 months before they have to shut down.

Job search portal Saramin polled 366 blue-chip companies and 92.8 percent said they will be pushed beyond the limit if the epidemic continues for more than five months. Seven percent said they will be able to last only three months.

Global economic research institutes, credit rating agencies and investment banks are all slashing their growth forecasts for Korea this year.

Nomura Securities recently revised its outlook to -6.7 percent, Morgan Stanley to -1 percent, UBS to -0.9 percent, Standard Chartered to -0.6 percent and Fitch to -0.2 percent.

Foreign businesses here are also reeling. In a survey by the Korean German Chamber of Commerce and Industry 33 percent of member companies said business conditions are "deteriorating," while 50 percent viewed the next 12 months as difficult and 80 percent expected the conditions to last for some time.

Twenty percent of members said they have no investment plans for the next 12 months, while 41 percent said they intended to cut down on investments.

Cho Kyung-yup at the KERI said, "Private consumption and exports, which were the two pillars supporting our feeble economy, are both expected to shrink. We need more resources."