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Korea economic outlook in global perspectives

Cautious Optimism | February 2026

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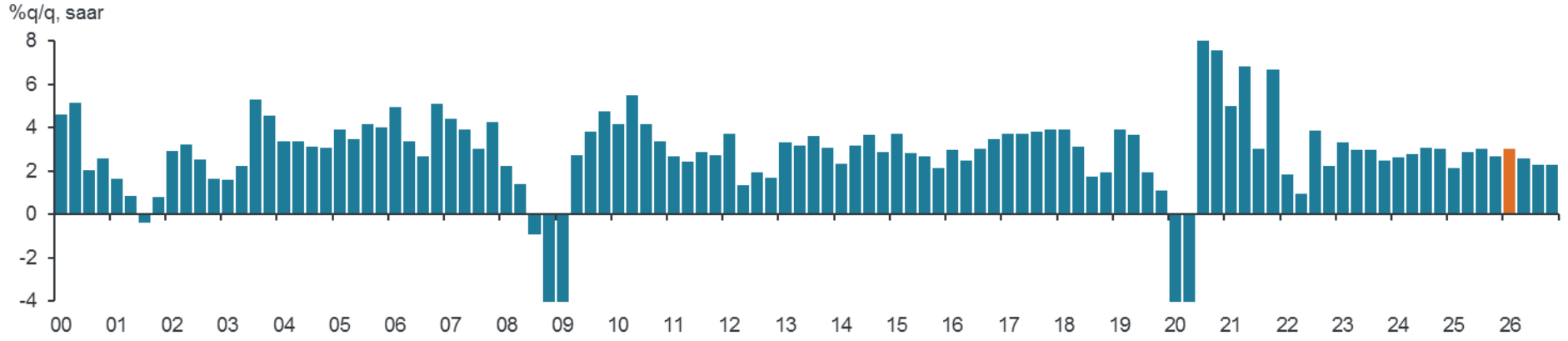
Global GDP growth

Recoupling in pairs

GDP GROWTH FORECASTS			%y/y					%q/q saar			
	Avg 10-19	2024	2025	2026	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
Developed markets	2.0	2.3	1.8	1.8	2.3	2.5	1.2	2.1	1.7	1.6	1.7
US	2.4	2.8	2.2	2.4	3.8	4.4	1.4	2.7	2.0	1.5	1.7
Euro	1.4	0.8	1.5	1.4	0.6	1.1	1.4	1.3	1.5	1.7	1.7
Japan	1.3	5.1	1.1	0.6	2.1	-2.6	0.2	1.5	1.3	1.0	0.8
Emerging markets	5.3	4.2	4.2	4.1	3.8	3.8	4.8	4.5	3.9	3.4	3.3
EM Asia	6.6	5.0	5.1	4.8	4.6	4.6	5.6	5.6	4.5	3.9	3.9
China	7.6	5.0	5.0	4.7	3.7	3.5	5.0	6.2	4.6	3.6	3.6
Korea	3.5	2.0	1.0	2.0	2.7	5.4	-1.1	3.5	1.0	1.5	1.5
Latin America	2.2	2.0	2.1	1.8	1.3	0.4	2.4	2.1	2.1	2.0	1.7
EMEA EM	3.4	3.0	2.2	2.7	3.1	2.2	3.9	1.7	2.6	2.6	2.5
Global (JPMorgan universe)	3.2	3.1	2.8	2.8	2.9	3.1	2.7	3.1	2.6	2.3	2.4

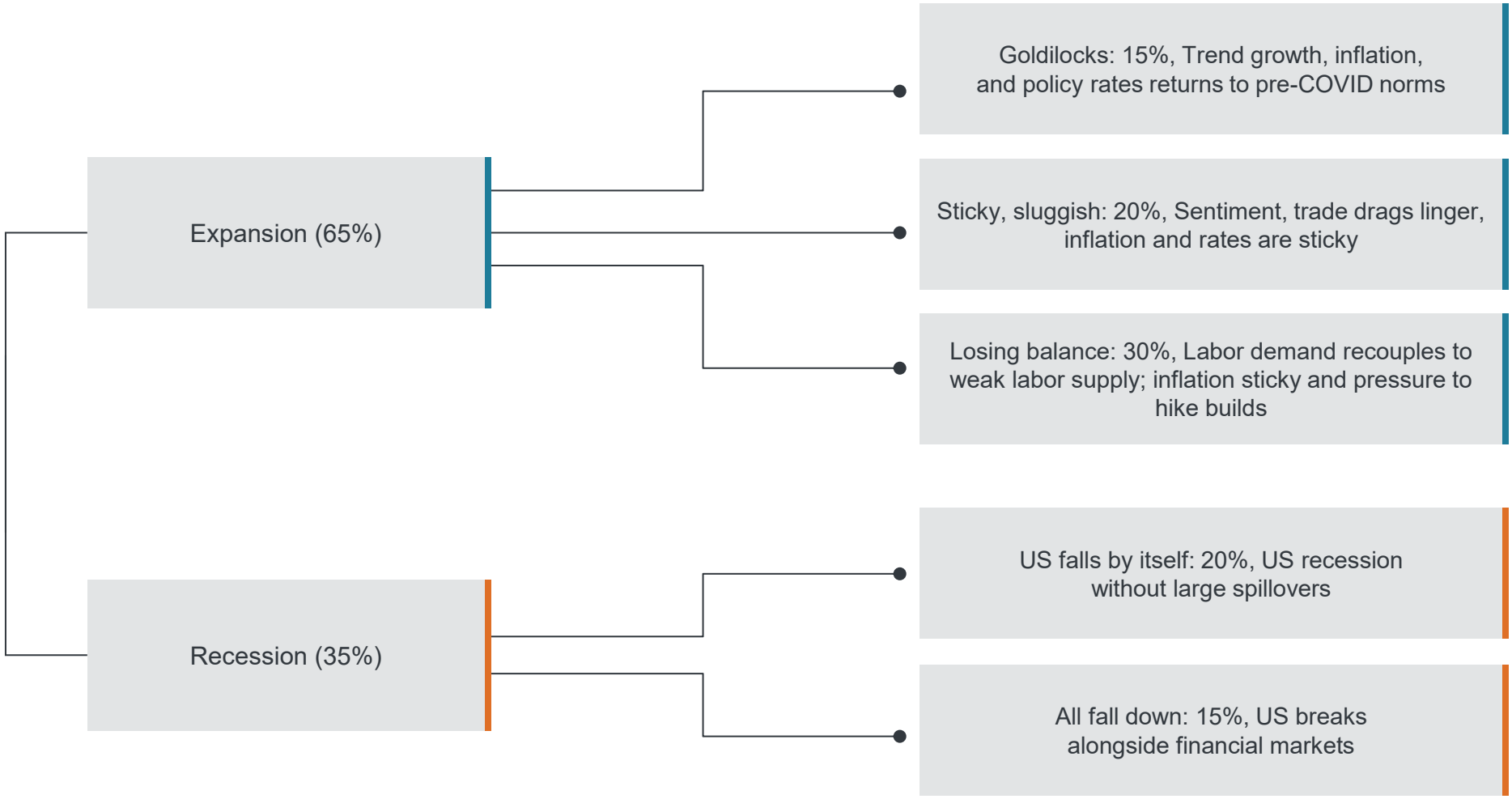
GLOBAL GDP GROWTH



Source: J.P. Morgan Global Economics.

Global outlook scenario

Roughly 75% probability that inflation is either sticky or building up

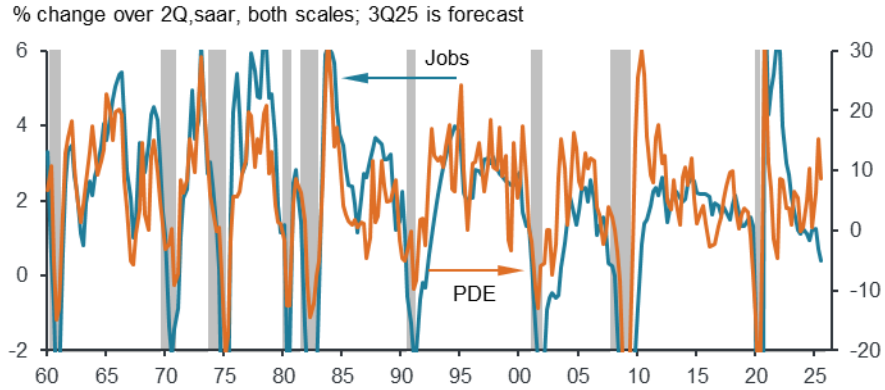


Source: J.P. Morgan Global Economics.

Global: Business behavior

Business behavior presents an odd decouple as capex surges and job growth stalls

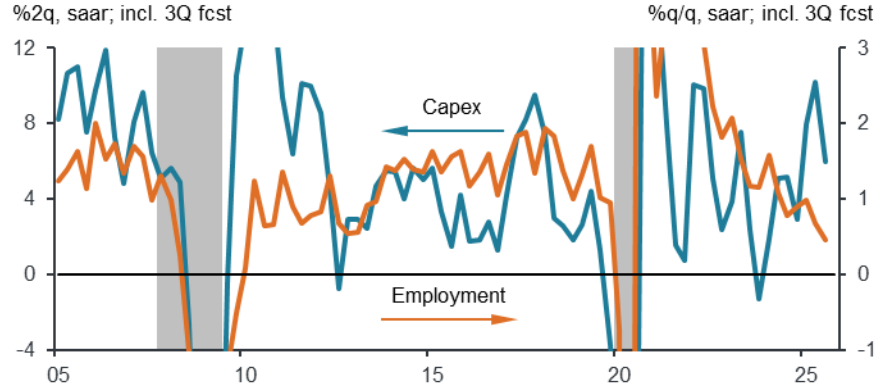
US PRODUCER DURABLE EQUIPMENT AND PRIVATE EMPLOYMENT



Source: BEA, BLS, and J.P. Morgan.

Such a decoupling is not evident over any US expansion in the past 60 years. Confidence in our forecast's shift towards resilience needs to be tempered by the sobering message that a sharp slowing in job growth has traditionally been associated with a subsequent slide into recession.

GLOBAL CAPEX AND EMPLOYMENT (EX. CHINA)



Source: National sources, J.P. Morgan. Details on request. Shaded region is US recession.

Competing narratives presenting two-sided risk:
The upside: AI diffusion boosts productivity and tempers drags from labor supply weakness
The downside: Business caution dominates narrow tech lift; trade war amplifies real income weakness

Global GDP growth

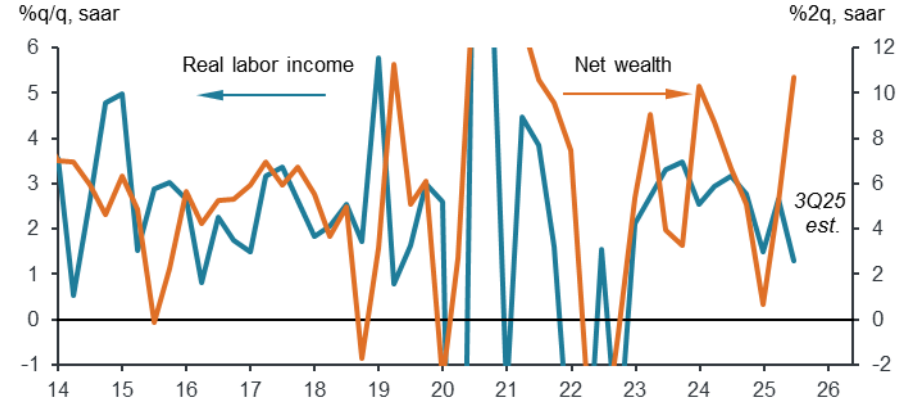
A conscious recoupling, global growth to rebound in 1H26

DM GDP AND EMPLOYMENT

Source: National sources, J.P. Morgan. Details on request. Shaded region is US recession bars.

Global GDP growth is set to accelerate in 1H26, driven by front-loaded fiscal stimulus in the US and China, which should help revive sentiment and realign labor demand with GDP gains.

DM REAL LABOR INCOME AND HOUSEHOLD NET WEALTH



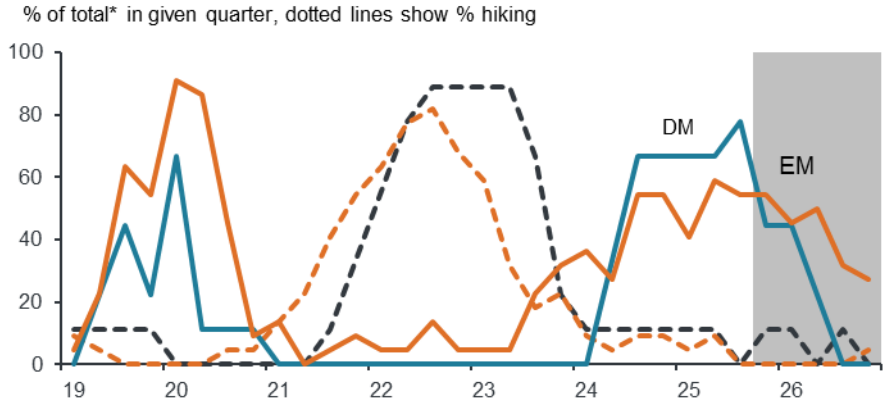
Source: National sources, J.P. Morgan. Details on request. Wealth aggregate is G-4

Despite persistent risks from trade policy, sticky inflation, and uneven labor market recovery, supportive financial conditions and a rebound in hiring are expected to underpin the next phase of global expansion.

Global monetary policy

Easing cycle nears its end, anchored by labor market dynamics

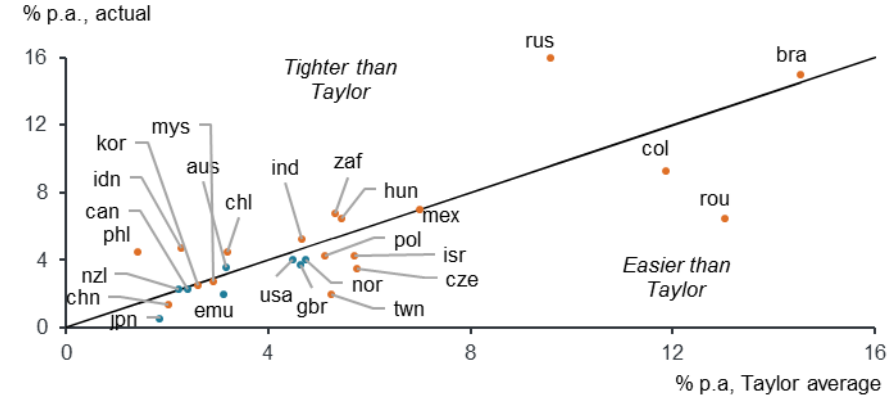
SHARE OF CENTRAL BANKS EASING



Source: J.P. Morgan Global Economics. In GDW universe (9 DM and 22 EM CBs)

The global monetary easing cycle, which became highly synchronized in 2025, is expected to moderate in 2026, with further rate cuts likely but at a slower and more selective pace across economies.

POLICY RATE 4Q25, FORECAST VS. TAYLOR RULE



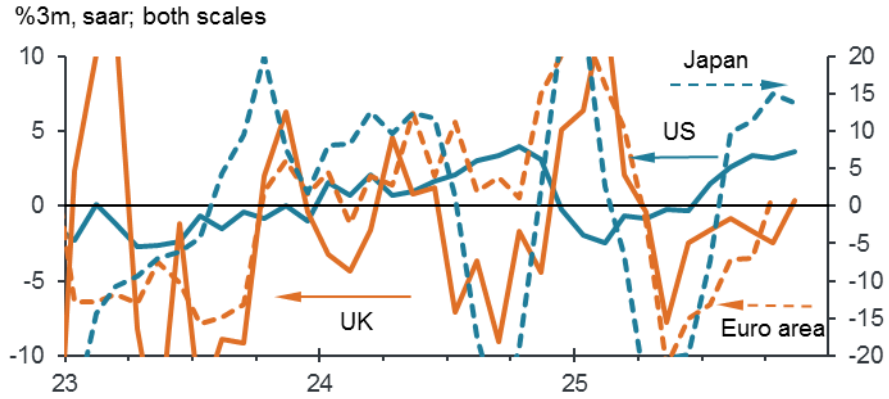
Source: J.P. Morgan Global Economics.

As labor demand recouples with GDP growth and inflation remains sticky, central banks—especially the Fed—are expected to pause easing and may face renewed tightening pressure if labor markets tighten in 2H26.

Global inflation

A phase of sticky inflation reflecting common global dynamics is ending but regional divergence intensifies

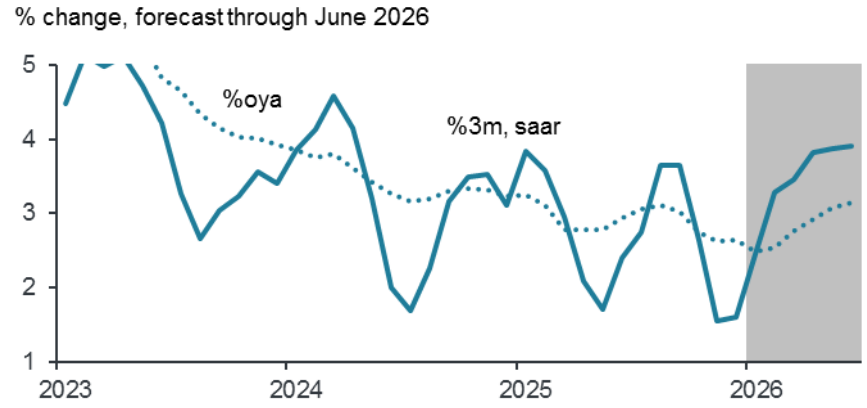
G-4 CORE IMPORT PRICES



Source: J.P. Morgan Global Economics.

While recent years were shaped by global factors like supply chain disruptions and commodity price shocks, 2026 will see region-specific influences such as currency movements, trade policy changes (including US tariff hikes), and labor market dynamics taking precedence.

US CORE CPI



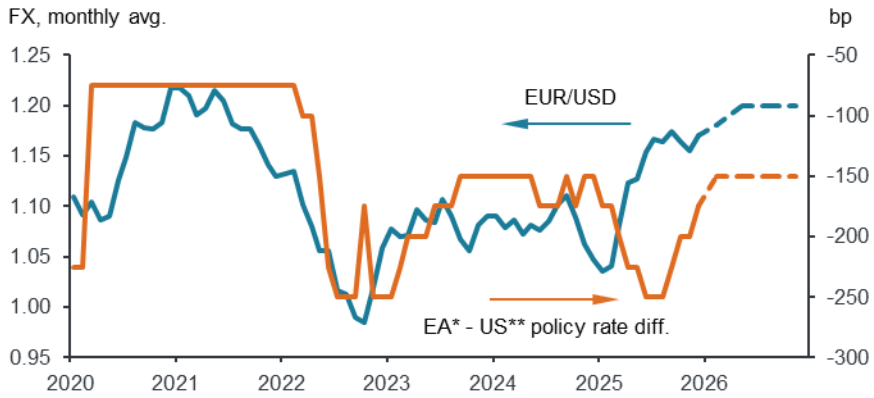
Source: J.P. Morgan Global Economics, BLS.

Goods price pressures will keep US inflation elevated, driven by tariff hikes, a weaker dollar, and ongoing supply-demand imbalances. These factors are unique to the US and not seen elsewhere. Service and wage inflation remain sticky due to tight labor markets and incomplete unwinding of pandemic wage shocks, sustaining upward pressure on prices.

Global: FX market

Bearish USD drives EUR upside, JPY remains a funder

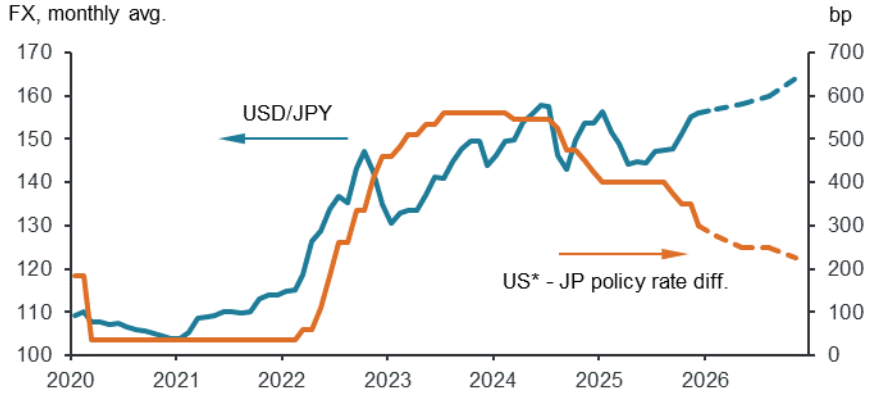
EUR: EXCHANGE RATE AND POLICY RATE DIFFERENCE



Source: J.P. Morgan Global Research.
* Deposit rate ** Upper bound; Dotted lines denote forecasts.

EUR/USD is highly sensitive to Fed policy and US macro outcomes. German fiscal policy is also well-correlated with EUR/USD, acting as a floor during periods of fiscal expansion. EUR/USD downside should be bounded and upside asymmetries are still intact so long as Fed hikes are off the table and European growth continues to track.

JPY: EXCHANGE RATE AND POLICY RATE DIFFERENCE



Source: J.P. Morgan Global Research. * Upper bound; Dotted lines denote forecasts.

We continue to expect BoJ tightening to be gradual, with Japan's policy rate likely to remain among the lowest globally for some time. Fiscal expansion and persistent low yields reinforce the yen's role as a global funding currency. Thus, this does not change our bearish outlook for the currency.

Global: Cross-asset strategy

Uneven monetary policy, AI supercycle and multidimensional polarization

J.P. MORGAN FORECASTS

	Current	1Q26	2Q26	3Q26	4Q26
Currencies					
EUR	1.18	1.18	1.20	1.20	1.20
JPY	155	157	158	160	164
GBP	1.35	1.37	1.41	1.40	1.36
CNY	6.91	6.90	6.85	6.85	6.85
TWD	31.5	32.0	32.2	32.4	32.6
KRW	1,446	1,430	1,400	1,410	1,440
JPM USD Index	106.3	106.7	106.1	106.5	107.0
Interest rates					
US Fed funds	3.75	3.75	3.75	3.75	3.75
10-yr benchmark	4.08	4.20	4.25	4.30	4.35
Euro area depo rate	2.00	2.00	2.00	2.00	2.00
10-yr benchmark	2.81	2.70	2.70	2.70	2.75
Japan policy rate	0.75	0.75	1.00	1.00	1.25
10-yr benchmark	2.11	2.10	2.20	2.25	2.40
Commodities					
Brent ($/bbl, qtr end)	72	60	59	56	55
Equities					
S&P 500	6,910				7,500
MSCI EM($)	1,567				1,575
KOSPI	5,809				6,000

Source: Bloomberg finance L.P., Data stream, J.P. Morgan forecasts

FX: Bearish dollar, bullish beta trends in FX are consolidating amid softness in some risky asset segments, but the backdrop remains cyclically constructive as underscored by February flash PMI beats. The evolution of consensus jobs and inflation expectations is not yet syncing with the hawkish strain in FOMC minutes.

Equities: We are positive on global equities expecting double-digit gains across DM and EM supported by robust earnings growth, lower rates, and declining policy headwinds. We are constructive on the S&P 500's outlook in terms of price target, 7,500 by YE26, and above-trend earnings growth of 13-15% for at least the next two years.

Rates: We expect the curve to remain rangebound in the coming months, with risks of flattening as we move further into 1Q26, and the Fed goes on hold. We see 10-year yields rising modestly to 4.35% with term premium expected to remain more stable than in recent years.

Commodities: We maintain our price forecast of $55 for Brent in 2026. We expect the market will find equilibrium through a combo of rising demand, driven by lower prices, and a mix of voluntary and involuntary production cuts.

Korea 2026 Economic Outlook: Key points

Growth cycle should bottom out as domestic demand recovers

We expect Korea's GDP growth cycle to bottom out in 2024, with annual real GDP growth projected to recover from 1.0% in 2025 to 2.0% in 2026. The main driver of this recovery will be a sharp rebound in domestic demand, particularly private consumption, which looks set to return to its pre-COVID average growth rate, supported by rising household income, improved consumer sentiment, and the lagged effects of monetary and fiscal easing along with wealth effect from asset price rallies. We also expect business capex to accelerate to around 3-4% growth, driven by continued tech investment and improved corporate profitability, while construction investment remains a drag, posting negative growth for a third consecutive year. When combined, these components should deliver a strong positive contribution from domestic demand in 2026, following two years of near-zero or negative contributions.

On the external side, Korea's real export growth has strengthened since the pandemic, led by robust tech exports, and we expect it to maintain a solid pace of about 4% in 2025 and a high-single-digit rate for tech exports in 2026. While non-tech exports have been subdued this year due to tariff shocks, we expect a modest recovery in 2026 as key sectors such as refined petroleum, chemicals, and autos rebound. Real imports are also on a moderate recovery path, so the overall contribution of net exports to growth should remain modestly positive, though slightly smaller than in 2025. Overall, the balance between resilient tech-led exports and a recovering domestic demand base should support a more stable and broad-based growth outlook for Korea in 2026.

CPI inflation should undershoot the target

We expect CPI inflation in Korea to gradually fall below the 2% target in 2026, even as GDP growth and the output gap improve. Headline inflation will decline from 2.1% y/y in 2025 to 1.7% in 2026, by our estimates, with core inflation also easing from 1.9% to 1.7%. This outlook reflects a continued modest downward trend in core inflation, as supply-side factors such as global oil prices are likely to be broadly neutral, with any disinflationary impact from lower oil prices balanced by delayed pass-through from earlier KRW depreciation. The lag between the output gap and core inflation supports the view that core inflation will settle below the 2% target, and with domestic demand pressures remaining subdued—especially in construction—demand-side price pressures are unlikely to strengthen. While further KRW depreciation could pose some upside risk to inflation through import prices, offsetting factors suggest the overall downward stabilization trend in inflation will persist.

Monetary policy to be anchored, fiscal policy as an automatic stabilizer

We expect the Bank of Korea's rate easing cycle, which began in late 2024, to conclude at a shallower pace than initially anticipated, with the real policy rate likely to remain at or slightly above neutral if the nominal rate stays anchored at 2.5% and core inflation remains stable. Earlier in the cycle, a more aggressive easing was expected due to strong downward pressure on growth and inflation, but the BoK's preference for further cuts has diminished amid resilient exports, fiscal stimulus, and stabilized inflation. Looking ahead, we forecast an extended period of rate holds. The direction of future policy will depend on incoming data, with downside risks to growth—mainly in domestic demand—and inflation outweighing upside risks, making a bar for a rate hike remains elevated.

Korea 2026 Economic Outlook: Key points

We expect fiscal policy to shift from an expansionary stance in 2025 to a relatively neutral stance in 2026. We forecast fiscal revenue growth at 8.5% y/y, notably higher than the government's projection, reflecting expectations of increased corporate tax revenues from tech-driven profit growth. While 2026's budget expenditure looks set to rise by 8.1% compared to the regular 2025 main budget, the increase is a more moderate 3.5% relative to 2025's second supplementary budget. As a result, we expect the fiscal deficit to narrow from 3.1% of GDP in 2025 to 1.7% in 2026, and the contribution of government spending to GDP growth to return to the 2022–24 norm. Fiscal policy should thus function as an automatic stabilizer, with the possibility of additional stimulus if the domestic demand recovery remains sluggish and revenue growth exceeds expectations.

One-off rise in BoP balance

We expect Korea's current account surplus to remain resilient in 2026, supported by continued terms of trade gains, robust tech exports, and the sustained role of long-term private savings amid population aging. However, this surplus is increasingly being recycled abroad, as outbound direct investment and overseas portfolio flows by corporates and institutional investors—especially following the recent US-Korea trade and investment agreement—remain elevated. As a result, the gap between the current account surplus and the adjusted basic balance is likely to persist, reflecting ongoing capital outflows that offset headline surpluses. Notably, 2026 may see a temporary buffer from capital inflows related to Korea's inclusion in the World Government Bond Index (WGBI), which could provide short-term support for the real effective exchange rate (REER), but we expect this effect to be temporary as structural outflow pressures reassert themselves.

ECONOMIC FORECASTS

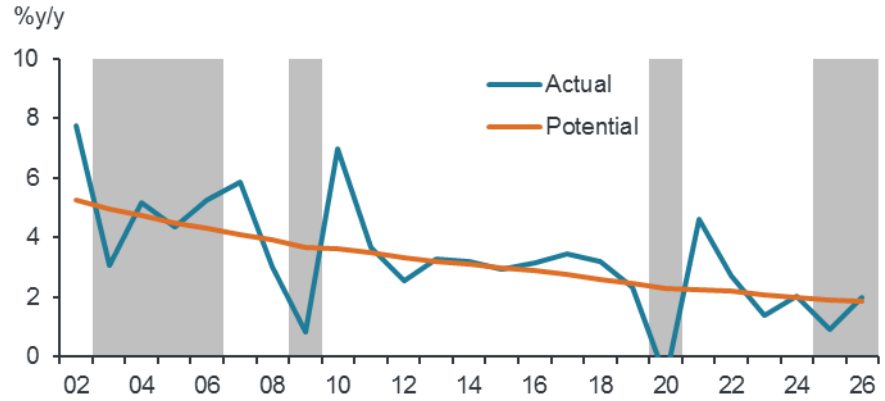
	2019-23	2024	2025f	2026f	2027f
Real GDP, % change	2.1	2.0	1.0	2.0	1.9
Consumption*	1.5	0.9	1.1	1.6	1.4
Investment*	0.2	-0.6	-0.5	0.1	0.1
Net trade*	0.4	1.7	0.4	0.2	0.4
Consumer prices, %oya	2.4	2.3	2.1	1.7	1.5
% Dec/Dec	2.6	1.9	2.3	1.1	1.8
Producer prices, %oya	3.1	1.7	1.0	1.6	1.9
Government balance, % of GDP	-2.0	-1.7	-3.1	-1.7	-1.9
Current account balance, US$bn	55.9	99.0	114.3	123.7	130.0
% of GDP	3.1	5.3	6.1	6.3	6.4

* Contribution to growth of GDP
Source: The Bank of Korea, Ministry of Economy and Finance, J.P. Morgan forecasts.

Real GDP growth

Real GDP growth is gradually recovering (2025: 1.0% y/y, 2026: 2.0%)

REAL GDP GROWTH



Source: BoK, J.P. Morgan forecasts. Shaded area refers to years with negative output gap

JPM estimates potential GDP growth to continue to slow, reaching slightly below 2%.

After a low base in 2025, annual GDP growth in 2026 is likely to rise slightly above the potential rate.

OUTPUT GAP ESTIMATE

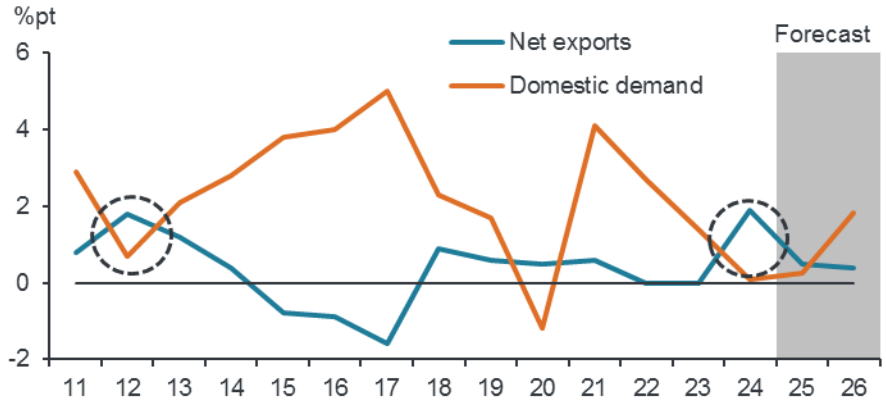
Source: BoK J.P. Morgan forecasts

The output gap likely passed its lowest point in 4Q24, yet as the recovery is likely to be modest, the negative gap should persist in the coming quarters.

Real GDP growth

Net exports remain stable; domestic demand is the main driver of recovery

CONTRIBUTION TO REAL GDP GROWTH

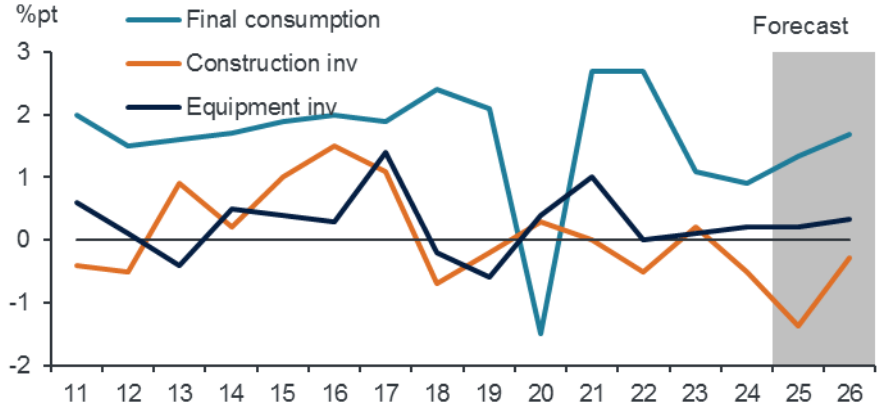


Source: BoK, J.P. Morgan forecasts.

The rotation of growth drivers between net exports (NX) and domestic demand has historically provided stability in overall growth, thanks to the buffering role of imports.

In 2025-26, domestic demand's contribution is likely to gradually rise, similar to the period from 2013 to 2016, offsetting a decline in the NX contribution.

CONTRIBUTION TO REAL GDP GROWTH



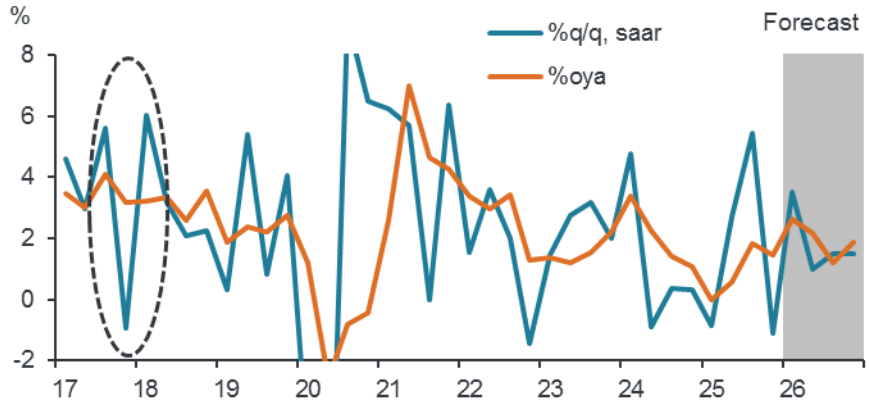
Source: BoK, J.P. Morgan forecasts.

Consumption expenditure's contribution should lead the recovery. Construction growth is likely to undergo a further correction in 2025/26.The contribution from equipment investment growth should increase supported by favorable terms of trade.

Real GDP growth

4Q25 GDP contraction was due to an expected one-off drag

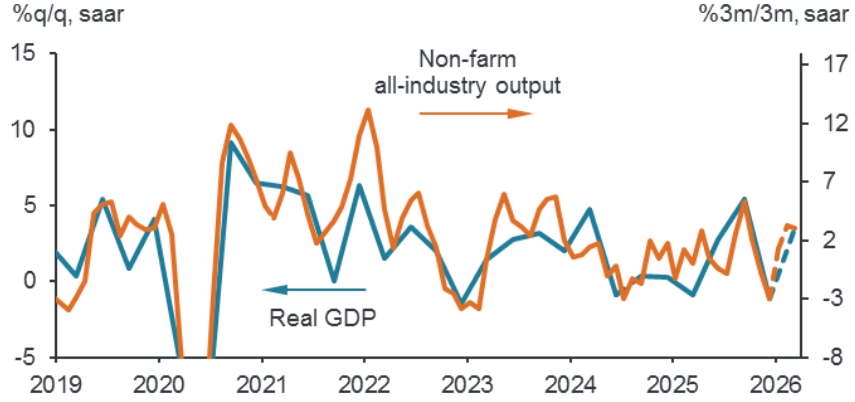
REAL GDP GROWTH



Source: BoK, J.P. Morgan forecasts.

3Q25-1Q26 quarterly GDP growth profile is likely to be similar to the 3Q17-1Q18 dynamics, which was due from under-controlled seasonal pattern from lunar holiday timing.

REAL GDP AND NON-FARM ALL INDUSTRY OUTPUT



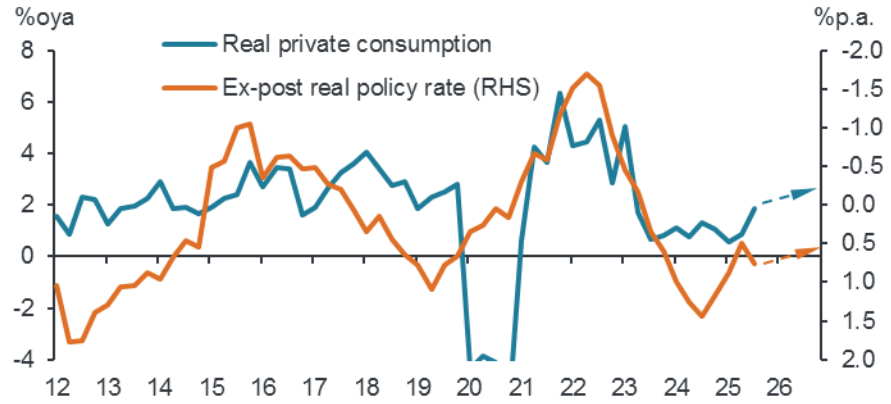
Source: BoK, NSO, J.P. Morgan. Dotted lines are JPM forecasts.

High-frequency data was consistent with 4Q GDP growth falling but 1Q26 rebound. January customs exports and December IP rose smartly, manufacturing PMI turned up robustly further in January.

Consumption demand

Policy drag is gradually easing, and household fundamentals remain resilient

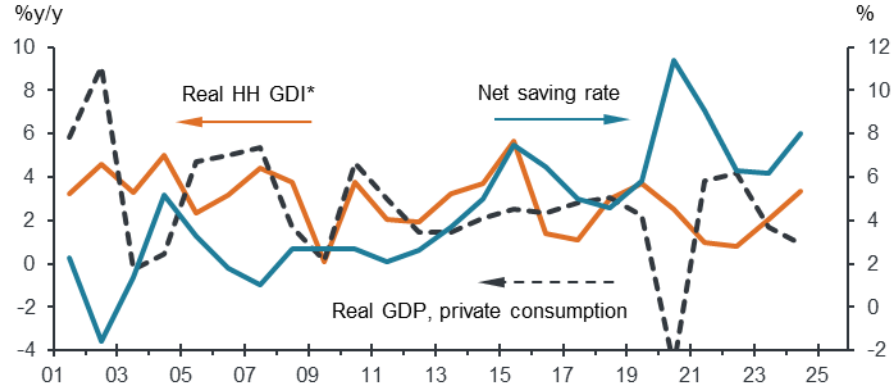
REAL POLICY RATE AND PRIVATE CONSUMPTION



Source: BoK, NSO, J.P. Morgan

The drag from a tight real policy rate faded to have a delayed impact, strong rise in equity prices is likely to add wealth effect, supporting a normalization in private consumption expenditure growth to a high-2% annualized pace, following a spike in 3Q25 driven by fiscal stimulus.

HOUSEHOLD'S INCOME, SAVING AND CONSUMPTION



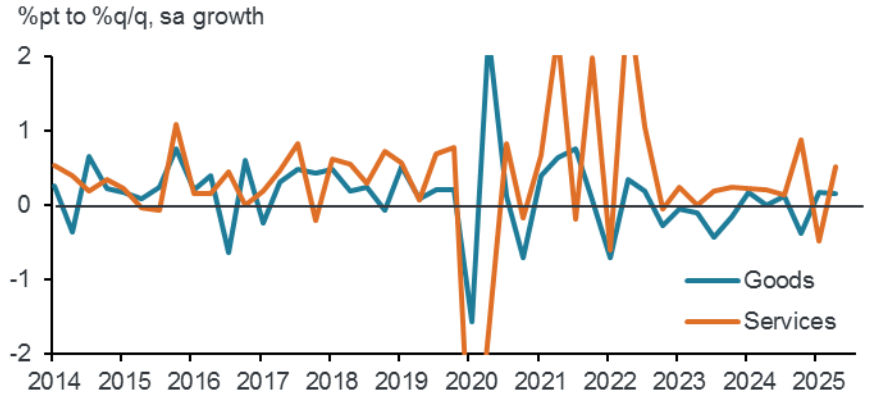
Source: BoK, J.P. Morgan. * Deflated by consumption GDP deflator

Nominal disposable income has grown at a mid-5% rate over 2022-24 and is expected to rise further during the tech upcycle in 2026; the savings rate, which fluctuated during the pandemic and reopening, is assumed to stabilize to the downside (supported by recent improvements in consumer sentiment).

Consumption demand

Service-driven; and more than reopening dynamics

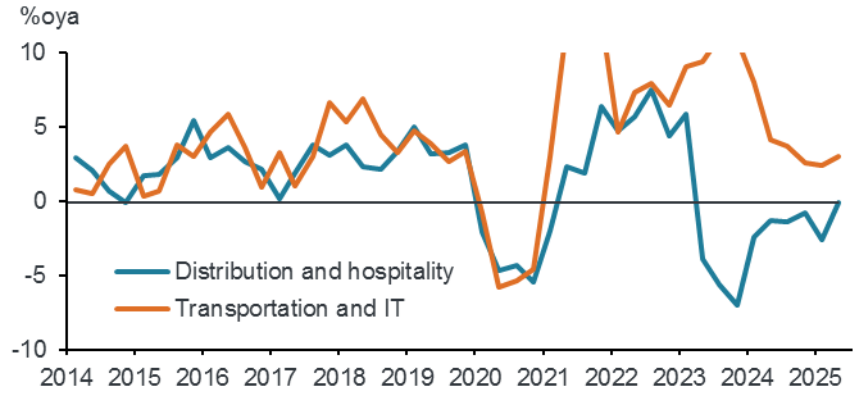
CONTRIBUTION TO DOMESTIC CONSUMPTION GROWTH



Source: BoK, J.P. Morgan

The driver of consumption growth shifted to services from the second half of 2021, as mobility recovered and monetary policy tightening weighed on goods demand. Political uncertainty led to a contraction in service growth in 1Q25, but both goods and service demand are likely to increase further.

SERVICE GDP DETAILS



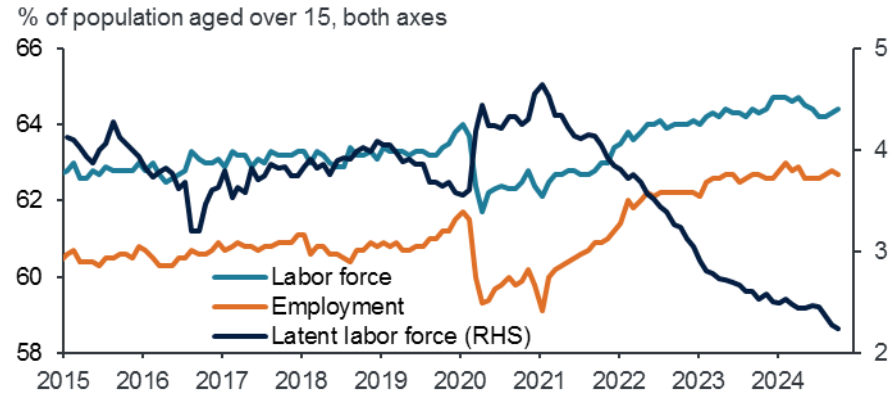
Source: BoK, NSO, J.P. Morgan

Growth in the service sector has not been narrowly based on reopening demand alone. Services likely related to online activity have been growing strongly throughout the post-COVID period.

Labor market

Structural shift after the pandemic shock for greater labor utilization

LABOR FORCE AND EMPLOYMENT



Source: NSO, J.P. Morgan

Following the pandemic shock to the labor market, which peaked in early 2021, employment and the labor force have been increasing, benefiting from a shrinking latent labor force, including latent job seekers.

SERVICES EMPLOYMENT

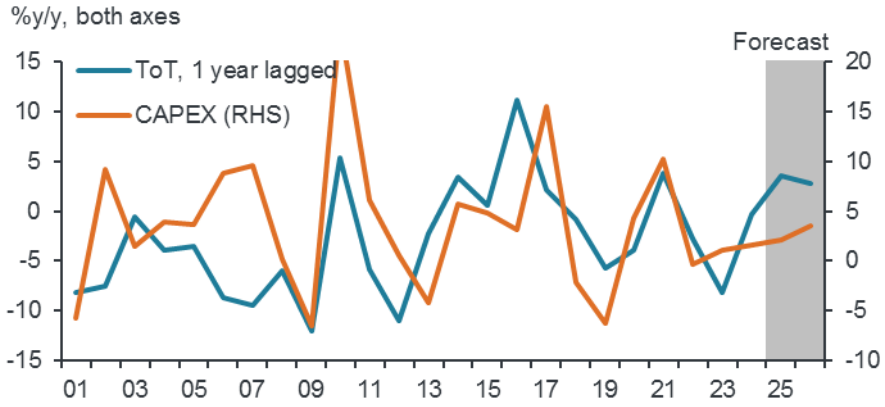
Source: NSO, J.P. Morgan

There has been a post-pandemic shift in the service employment structure towards more flexible work arrangements. Gig-style employment has been rising, often at the expense of consumer-facing service sectors.

Fixed investment

Tailwinds from terms of trade to boost capex amid continued pain in construction

TERMS OF TRADE AND BUSINESS CAPEX



Source: BoK, J.P. Morgan forecasts.

The terms of trade had deteriorated by 2022, but we expect a continued recovery with a stable oil price and an upturn in the tech price cycle. Equipment investment demand is likely to recover further but not as much as ToT recovery implies, given the outlook for increased overseas investment.

CONSTRUCTION STARTS AND COMPLETIONS

Source: BoK, MoLIT, NSO, J.P. Morgan.

Construction investment is expected to fall by about 11% in 2025 and by another 3% in 2026. While there has been a tendency for completions to outperform starts since the pandemic, given that starts are still down by nearly half from their peak, downside risks to construction investment appear to outweigh the upside.

Exports outlook

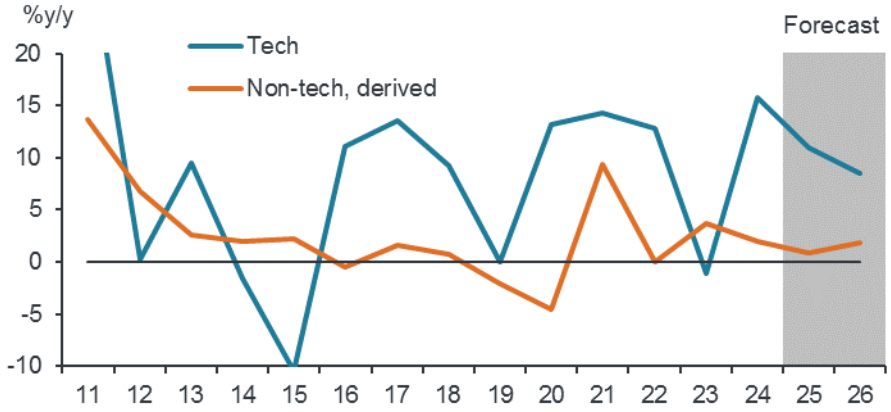
Tech sector exports continue to lead the overall exports growth

KOREA'S REAL EXPORTS AND GLOBAL GDP

Source: BoK, J.P. Morgan forecasts.

We had anticipated a sharp slowdown in exports growth in 2025 (around -1% ar, down from 7% in 2024) due to a mid-year tariff shock affecting major trading partners. However, real exports are currently tracking at about 4% annual growth in 2025, in line with our global demand growth forecast.

TECH AND NON-TECH REAL EXPORTS



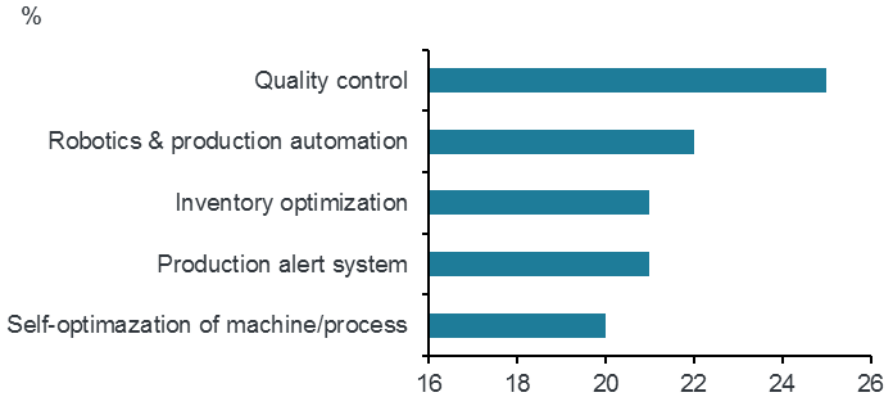
Source: BoK, J.P. Morgan forecasts.

The tech product exports growth rate for 2026 is viewed more conservatively than this year, but is still expected to be in the high single digits.

Silver linings from supply-chain reshuffling

US-shoring likely to be tech-intensive investments

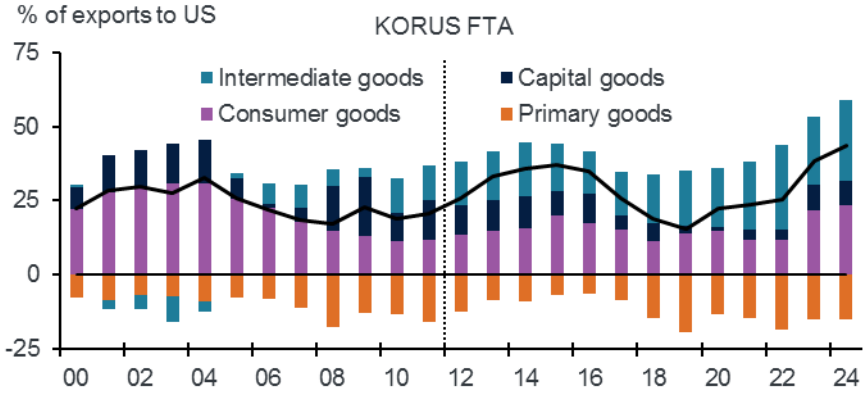
SHARE OF RESPONDENTS: AI FULLY ROLLED OUT IN THIS AREA



Source: BCG AI survey (2023), J.P. Morgan

As supply chains are restructured towards DM final demand, there will inevitably be cost pressures related to labor and other production inputs. Consequently, production chains are likely to be modernized with maximum automation by utilization of AI technology.

KOREA'S TRADE BALANCE OVER EXPORTS TO US



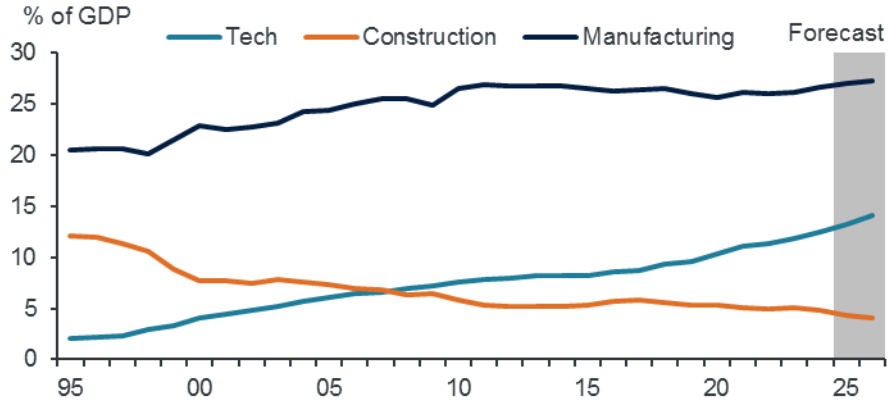
Source: Markit, MoTIE, KITA, J.P. Morgan

Korea's trade surplus with the US is mostly in intermediate and capital goods; it structurally increased after the FTA took effect with a rise in Korea's FDI in North America. The tech-sector-driven investment over the US is likely to benefit Korea's external balance.

Long-term trend

Sectoral divergence has widened since the post-COVID period

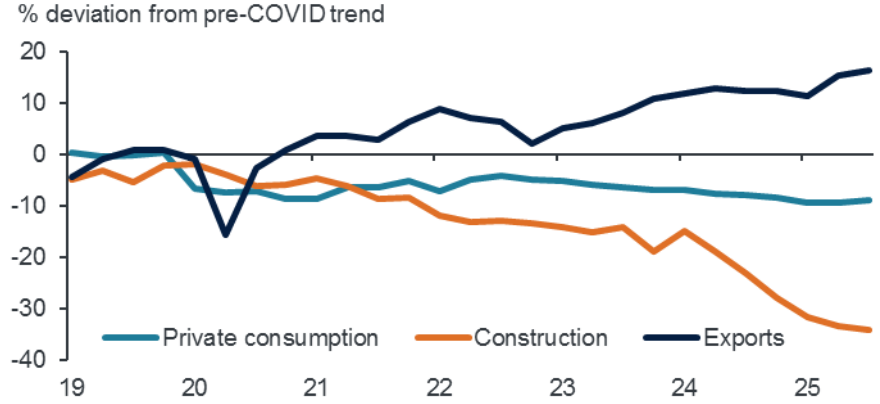
SECTORAL SHARE OF PRODUCTION



Source: BoK, and J.P. Morgan

Over the past 30 years, the tech sector's share of GDP has steadily risen, while construction output has declined. This trend is unsurprising given ongoing population aging and continued automation in production.

DEVIATION FROM PRE-COVID TREND



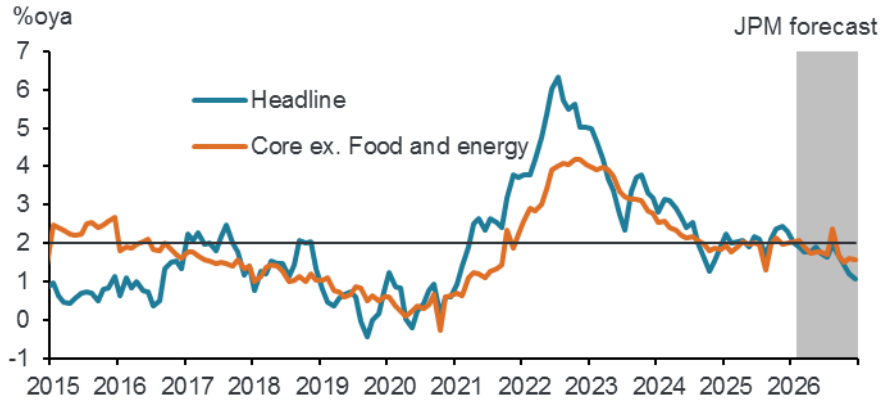
Source: BoK, and J.P. Morgan

This trend has intensified since COVID, with exports far exceeding pre-COVID levels and construction sharply declining. While cyclical factors like interest rate hikes and the tech cycle play a role, it is also likely to persist as a long-term trend.

Inflation

Core prices trending downward, yet non-core prices turned neutral

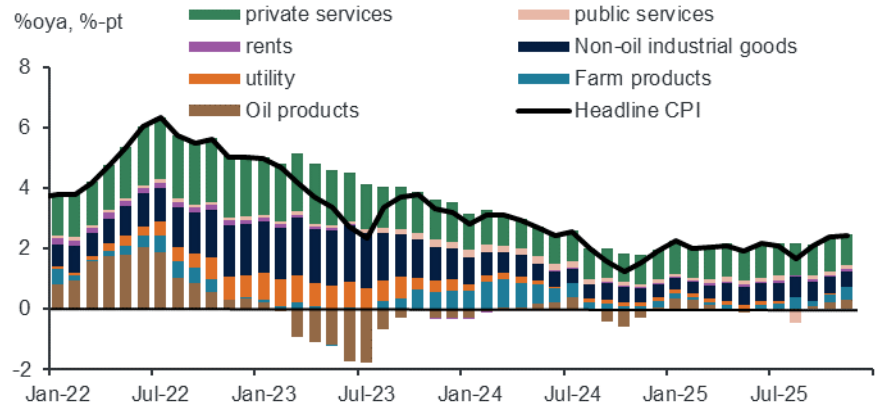
INFLATION FORECAST



Source: NSO, J.P. Morgan forecasts.

Headline CPI inflation is forecast to decline from 2.1% y/y in 2025 to 1.7% in 2026, with core CPI inflation also easing from 1.9% to 1.7%.

CONTRIBUTION TO INFLATION



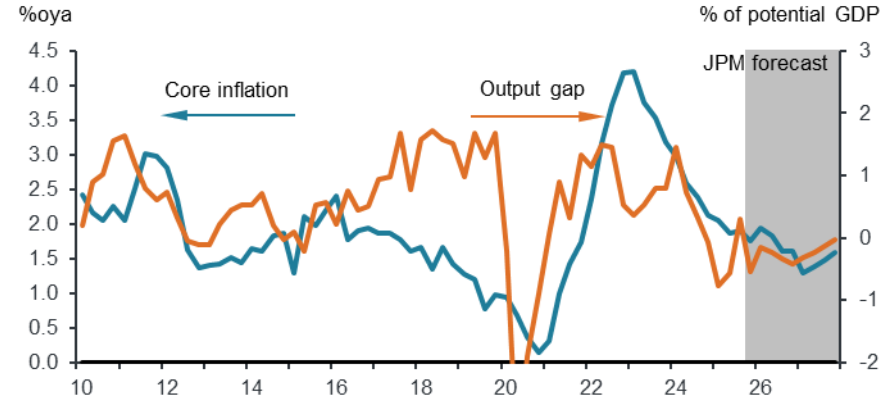
Source: NSO, J.P. Morgan

While core inflation continues its downward trend, supply-side conditions are expected to be broadly neutral, as our outlook assumes that any disinflationary impact from lower oil prices will be balanced by other offsetting factors such as KRW depreciation.

Inflation

Negative output gap suggest a downward pressure on core prices

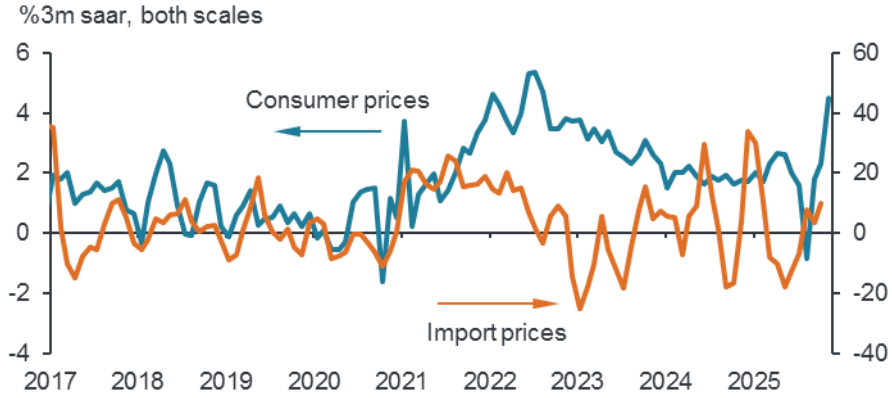
OUTPUT GAP AND CORE INFLATION



Source: BoK, NSO, J.P. Morgan estimates

Between 2017 and 2019, core inflation fell short of the level consistent with the output gap, whereas in 2022-23, it exceeded the output gap. Currently, the output gap indicates downward pressure on core inflation, as inflation expectations gradually become more anchored at lower levels.

CONSUMER AND IMPORT PRICES EX. FOOD AND ENERGY



Source: BoK, NSO, J.P. Morgan

Regarding this inflation outlook, there is a risk that any further depreciation of the KRW's effective exchange rate could put upward pressure on inflation through higher import prices.

Monetary policy

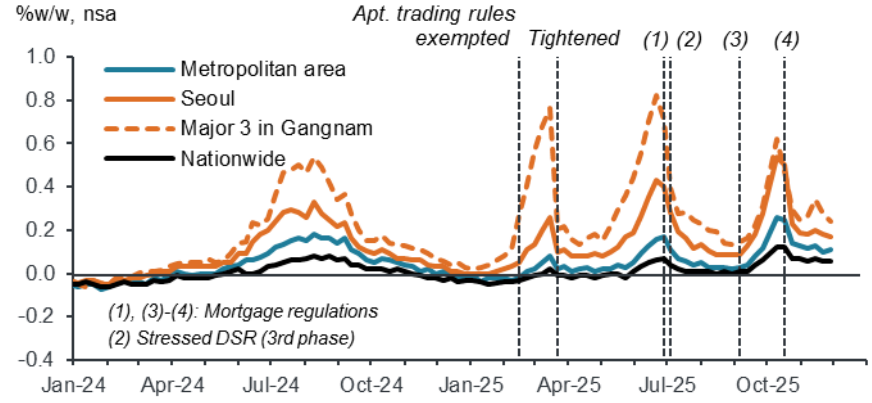
Nuanced implications of financial stability considerations

REAL INTEREST RATE, REER, REAL HOUSE PRICE

Source: BoK, J.P. Morgan estimates.

Financial conditions have eased after the tightening bias in 2023. Real house price index stays at a tightening stance, offset by a sharp rise in stock market prices.

WEEKLY APARTMENT SALES PRICES



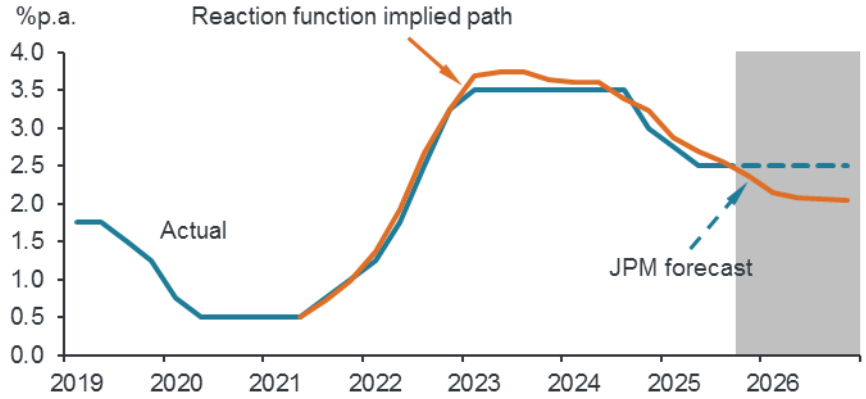
Source: Korea Appraisal Board, J.P. Morgan

Unlike the nationwide real house price index, apartment prices in major Gangnam districts have been more sensitive to regulatory changes and market expectations. The upward trend in housing prices in key metropolitan areas has peaked in early October but remain elevated.

Monetary policy

Terminal rate likely to stop at 2.5%

BANK OF KOREA POLICY RATE



Source: BoK, J.P. Morgan forecasts.

While there is a further room to cut given the expected negative output gap and gradual fall of inflation, we now expect that the Bank of Korea will finalize the easing cycle at 2.5%.

BOK'S SIGNAL, MARKET EXPECTATION, AND ACTUAL ACTIONS

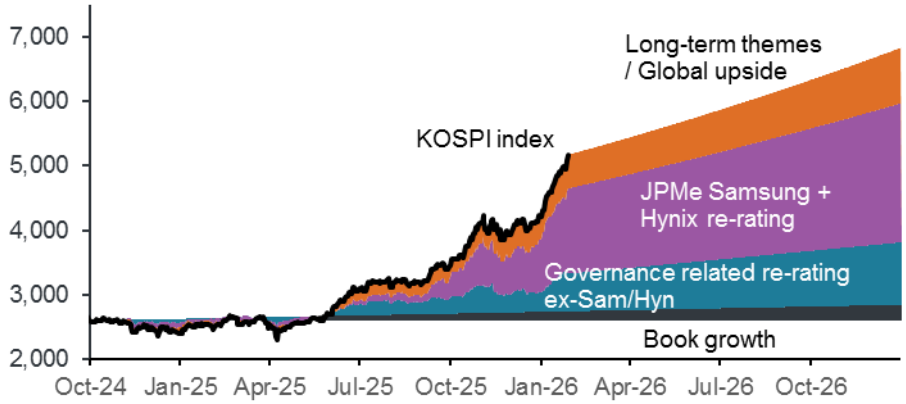
Source: BoK, J.P. Morgan forecasts.

Reviewing the BoK's dot chart communication, there was a case in late 2023 where the additional hike signal was withdrawn and the market's outlook overshot to the downside. If the easing signal is partially withdrawn now, an upside overshoot in market expectations is possible, and we believe this is already happening to some extent.

Equity price rally

Firing on all cylinders towards KOSPI 6,000

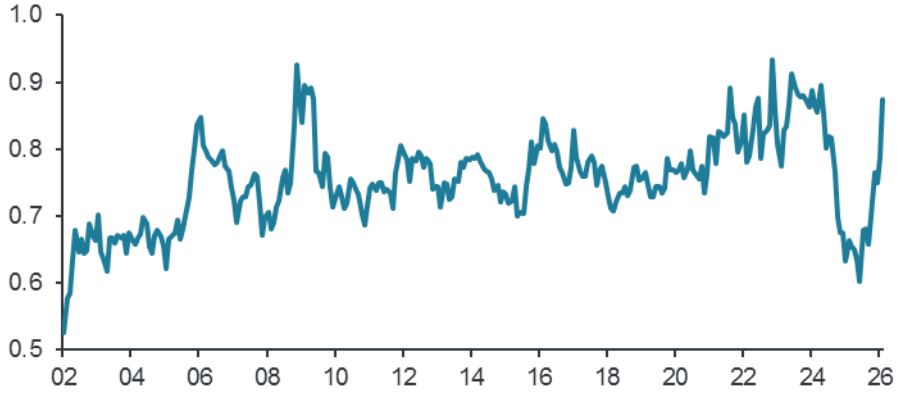
BREAKDOWN OF KOSPI UPSIDE TREND



Source: KRX and J.P. Morgan

KOSPI's strength has been underpinned by a powerful memory upcycle. Globally, a supportive US policy backdrop adds to the tailwinds, while locally, governance reform provides re-rating catalysts in the months ahead. Importantly, both foreign and domestic investors remain under-positioned, leaving room for further gains as participation broadens.

KOREA VS. AXJ TREND-ADJUSTED FWD P/E



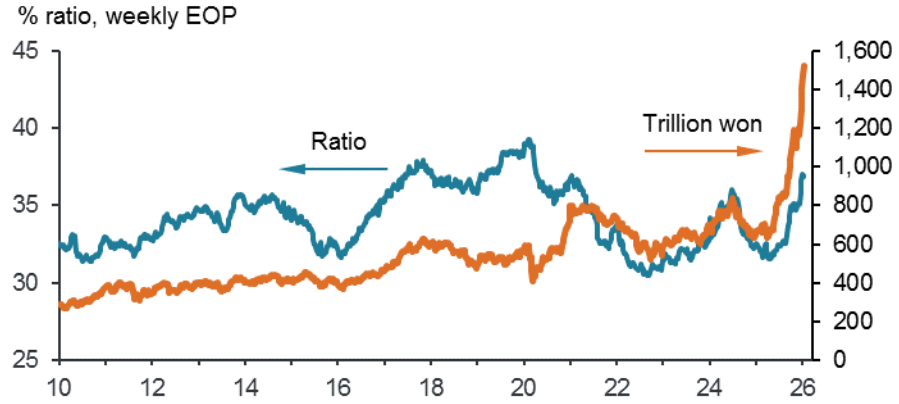
Source: Country sources and J.P. Morgan

The 2025 re-rating largely normalizes Korea's equity valuations after the 2024 de-rating, bringing multiples closer to long-term averages compared with Asia ex. Japan's valuation rather than pushing them into excess.

Equity vs. FX markets

Disconnection between equity rally vs. KRW depreciation

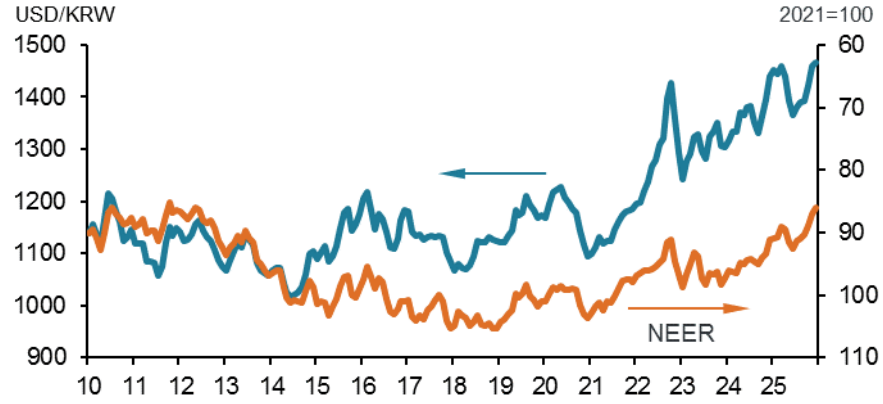
FOREIGN OWNERSHIP OF KOSPI, MARKET CAP BASIS



Source: Haver, KRX, and J.P. Morgan

On a market-cap basis, the value of foreigners' KOSPI holdings has risen by about KRW 1,000 trillion. From foreign investors' perspective, the need to hedge KRW exposure has likely increased significantly.

KRW EXCHANGE RATE VS. USD AND NEER



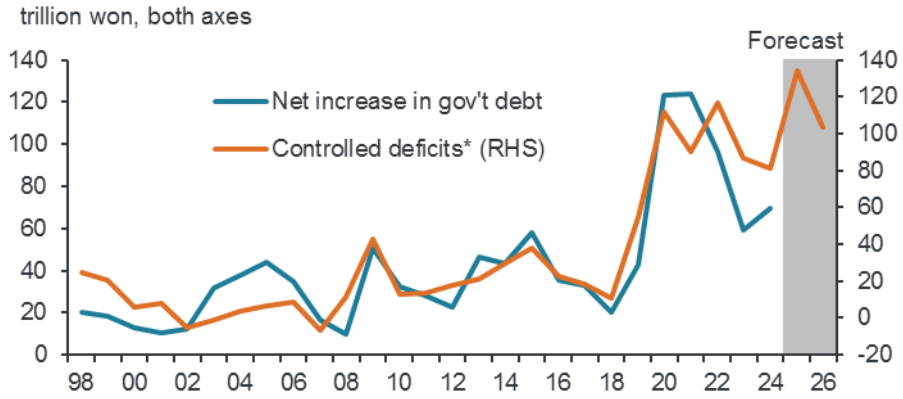
Source: J.P. Morgan

Much of the post-COVID rise in USD/KRW has reflected broad dollar strength. However, despite the recent KOSPI rally, the lack of downward pressure on USD/KRW likely stems from foreign investors FX hedging their exposures.

Fiscal policy

2026 budget plan implies a modest neutralization of fiscal policy stance

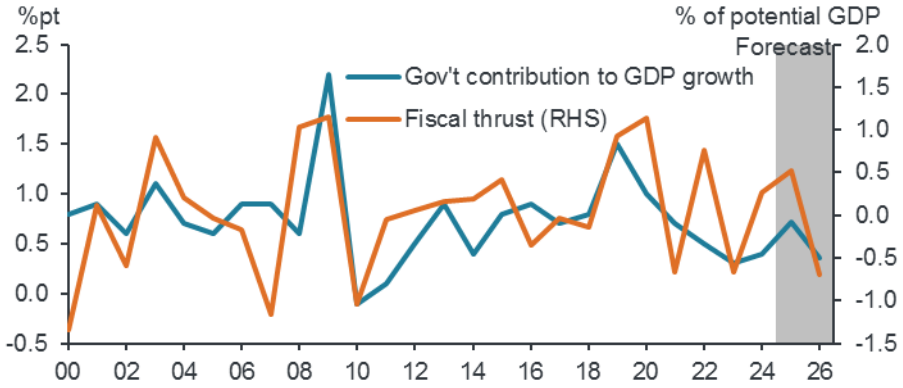
CONTROLLED DEFICITS AND NET DEBT INCREASE



Source: BoK, MoEF, J.P. Morgan Economics

Controlled deficits, excluding social security funds' contributions, spiked in 2020 and have fluctuated around W100 trillion. However, the net increase in government debt was contained in 2023/24 through the utilization of off-budget government assets. The controlled deficit is likely to moderate in 2026 as revenue growth recovers.

FISCAL IMPULSE AND GROWTH IMPACT



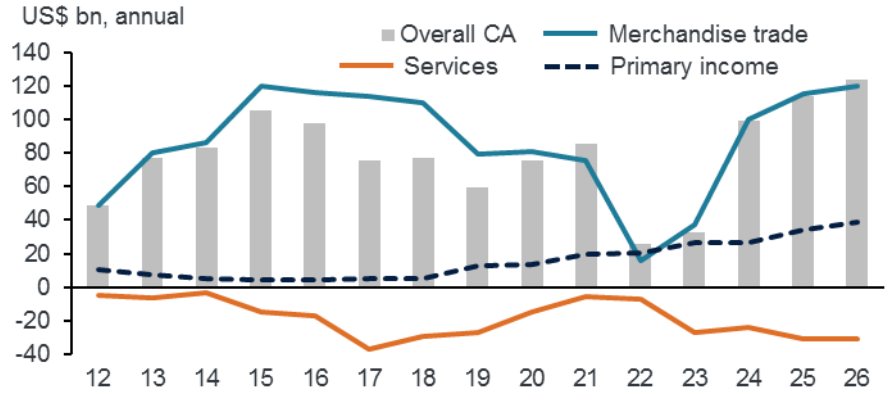
Source: BoK, MoEF, J.P. Morgan Economics

After the expansionary fiscal policy in 2025, the 2026 expenditure growth in the budget plan (JPMe 3.5% from the supplementary budget) and revenue normalization (JPMe 8.5%) suggests a normalizing fiscal impulse.

External balance

BoP surplus should persist despite headwinds

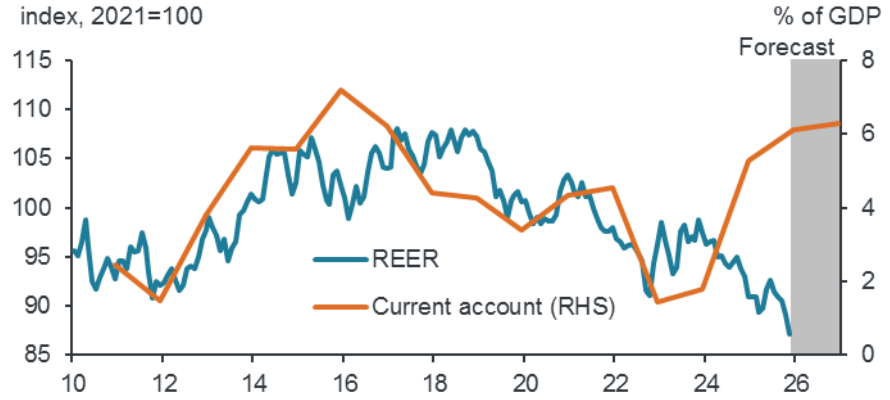
CURRENT ACCOUNT BALANCE



Source: BoK, J.P. Morgan forecasts for 2025 and 2026

The BoP is likely to rise to 6.1% of GDP in 2025, recovering from 1.4% and 1.8% of GDP in 2022 and 2023, respectively. A primary income surplus should offset the service deficit, and the merchandise trade surplus should remain resilient despite challenges from trade tensions.

REAL EFFECTIVE EXCHANGE RATE



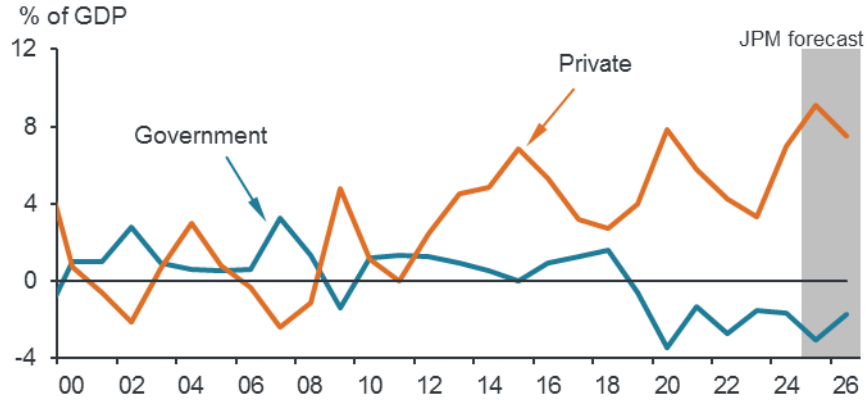
Source: BoK, J.P. Morgan forecasts

In 2022, REER depreciated alongside a decline in the current account (CA) surplus. However, the REER has been hovering above levels suggested by the CA balance. Currently, there is some underperformance of the REER compared to the CA balance forecast.

External balance

Structural headwinds are not yet binding

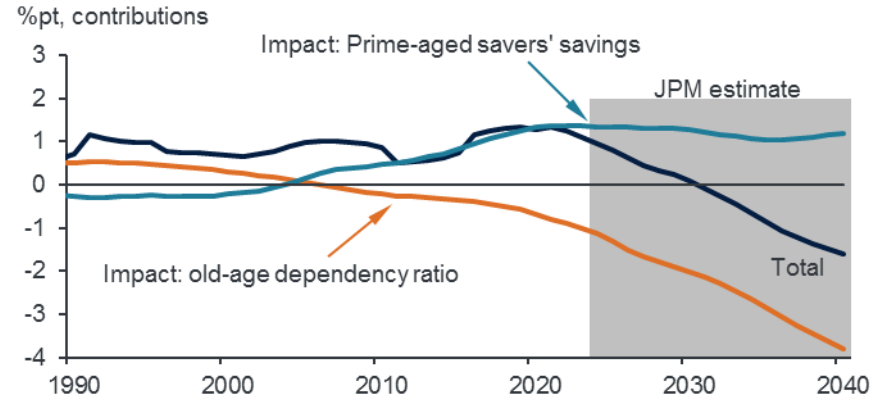
PRIVATE AND GOVERNMENT NET SAVINGS



Source: BoK, J.P. Morgan

A stable and robust current account surplus is likely to persist despite headwinds, including the fiscal deficit, as private net saving provides a strong enough offset to maintain overall net savings—and thus the current account surplus.

IMPACT OF DEMOGRAPHIC STRUCTURE ON CURRENT ACCOUNT



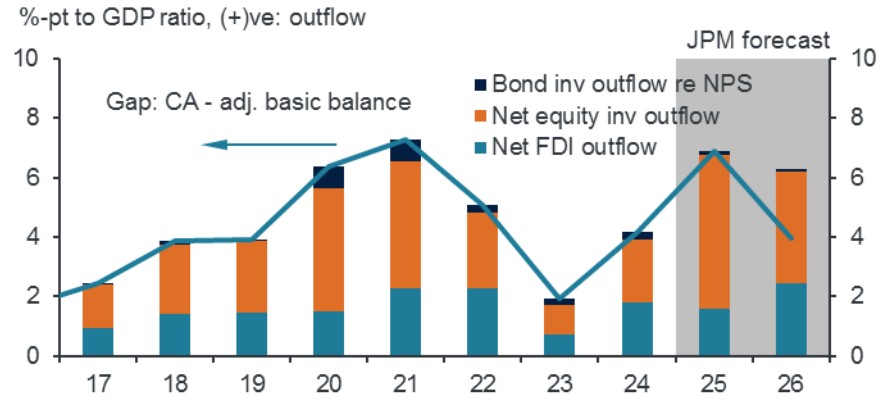
Source: BoK, UN World Population Prospects (2024), J.P. Morgan

Net savings from the demographic structure appear to be at their peak now, as prime savers' savings still dominate. According to forecasts based on the IMF's EBA model, the impact of the demographic factor transition is not expected to be dominant within the next 10 years.

External balance

Widening gap between CA and basic balance suggests only limited upside for REER

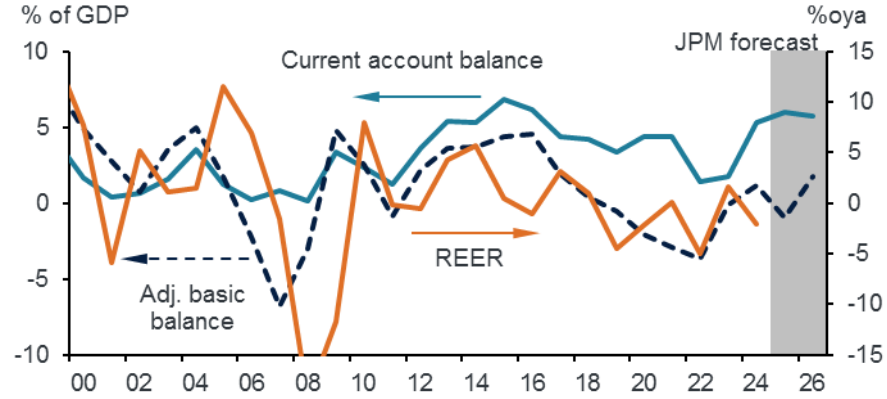
WIDENING GAP – CA VS. ADJ. BASIC BALANCE



Source: BoK, NPS, J.P. Morgan * Assuming unhedged bonds inflow in 2026 re WGBI

As a longer-term indicator for gauging FX market pressure from the external balance, we may use the adjusted basic balance (current account surplus minus net FDI outflows, net equity outflows, and NPS overseas bond investments), which excludes major unhedged components of the financial account.

EXTERNAL BALANCES AND REER



Source: BoK, NPS, J.P. Morgan

The adjusted basic balance is likely to weaken from 1.1% of GDP last year to -0.9% this year, before improving modestly to 2% next year. Our external balance forecast implies a stable REER next year, with no material appreciation expected despite the strong current account surplus expectation.

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