External Negatives

WEIGHT ON ECONOMY

By Lee Myo-ik
Staff Reporter

Major investment research institutes and abroad are revising down Korea's economic growth forecast next year as record high oil prices and other external negatives are increasingly driving down the Korean economy. The institutes predict the growth projection at somewhere between 3.5 percent and 3.9 percent, as they are set to cut the forecast to as low as 3.9 percent. They have been growing for quite some time, over rising international crude oil prices and a stronger dollar. Analysts say high oil prices are making goods and services more expensive, thus undermining corporate profits and reducing private consumption, while the strengthened won weakens the price competitiveness of Korean goods on overseas markets.

Also, the U.S. economic slowdown — as the housing market slump on top of the high oil prices — will likely force American consumers to tighten their belts and buy fewer products from South Korea, they said. Some global stock markets have recently been rattled by a wave of bad news over the unlisted U.S. subprime mortgage investors across the globe from stocks and other overseas assets.

Several international investment banks have become sounding the call that the emerging market economy could expand at a slower pace than previously expected in 2008 amid worsening external conditions.

Citing slowing exports and continued sluggish domestic consumption, Deutsche Bank recently forecast that the Korean economy will grow 3.9 percent in 2008, sharply lower than government's projection of 5 percent.

UBS also said the Bank of Korea (BOK)'s multiple interest rate hikes this year, designed to rein in rising inflationary pressures as a result of surging oil prices, will have a negative impact on the economy next year, putting the 2008 growth forecast at 4.1 percent.

Jeansresearch will slow in 2008 because of the ongoing slump in the global housing market. Also, exports bound for China will likely keep private spending down for the next few years.

The largest external risk facing the Korean economy is high prices of crude oil and other raw materials, which make products more expensive, worsen profitability of local companies and force local consumers to cut back. "International oil prices have jumped sharply this year as demand from China and other emerging markets, in particular, as the oil supply has remained tight despite increased production," the report said. The report also said that weak dollars and appreciation of the won are "likely to increase up prices." LGERI economist Song Tae-ho said if the U.S. gross domestic product (GDP) growth falls to below 1 percent next year, it could send the entire global economy into recession. "If such a scenario materializes, Korea's economy will not be able to expand more than 4 percent in 2008." Song said the government should closely monitor changes in the external environment, adding that a host of outside factors will largely determine the fate of the Korean economy for the next few years.

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