North Korea's Economic Reality

We may not be paying enough attention to economics. North Korea faces daunting money issues in 2025 if data coming out of the secretive state is any indication. One would not know this listening to Kim's end-of-year economic wrap-up to the Central Committee of the Workers' Party of Korea, which focused less on the economy than on the "unprecedently harsh" international situation surrounding the country. The speech had a slight mention of Russia and no mention of China. Of most interest, Kim made a short mention of the need to pay attention to the economic system, especially monetary issues and prices, giving a hint at potential trouble.

His audience—even party members—likely do not know the extent of the "international harsh" conditions, but they surely know the price problem. Since July, reports from North Korean defectors indicated the prices for staples, rice, and corn have jumped 80 percent as the value of the won has fallen by two-thirds. Imports from China, mainly consumer goods, are outpacing exports, straining the exchange rate and state finance. North Korean exports of artillery shells and missiles to Russia and payments for soldiers fighting in Ukraine should be helping offset that outflow, but there is no evidence of that yet. We do not know, and Kim does not give any hints, whether the regime is earning Russian rubles or bartering for advanced military equipment. It is likely a difficult choice as Pyongyang likely needs advanced air defense equipment after three decades of self-reliance and as South Korea progressively integrates radar-evading F-35s into its arsenal. The North Korean regime is also making money by stealing from global banks, including Chinese banks, but how easily it can exchange this cyber currency into usable dollars is not known.

Source: Asia Press

The largest North Korean note in circulation, 5,000 KPW, is now worth only 0.60 USD at the new official 8,000 won/dollar rate and only about 0.20 USD in the widely used markets, which is not enough for a cup of coffee in North Korea.

Fortunately, for anyone who can work and earn money, and to the consternation of the government, US dollars and Chinese yuan circulate freely, boosting private economic activity and offering some protection for private financial savings. The currency failure, not mentioned in his speech, would appear to spell an end to Kim's 2015 efforts to create a reliable money and banking system. He promised reasonable interest rate returns, no inflation, and no devaluation. But now, as in the days of his father, foreign and especially US cash has again become the "store of value" for people's savings. Asia Press, a refugee press service based in Japan, cites fear of a new "redenomination," meaning the currency amount is devalued by two orders of magnitude, and says the won is not worth the paper it is printed on.

Nothing is known about what Kim says behind the scenes and in private. Kim is likely frustrated because his best economic achievement prior to this year was managing inflation and the currency, steading it for ten years—a feat never accomplished by his father and grandfather. The 2015 promises have probably not been forgotten, and his nod to banking reform offers a little hope. The cause of the currency crash was predictable. The won was steady because the state was careful not to print too much of it and extended credit for state sector investment. Economic growth stalled, but the country's budget was balanced. But with static state income, state-sector wages for perhaps half the population remained at low levels compared to private wages earned in marketplaces, breeding corruption as officials needed to find a way to make ends meet. By early 2024, this gap apparently became unsustainable, and state wages were allowed to soar, even ten times in the case of teachers. The resulting inflation quickly reached consumer products, erasing income gains.

Conclusion

Kim's focus in 2025 is to reach the goals of the Five-Year Plan, which concludes at the end of this year, and he continues to promote a decentralizing investment program to reduce the income gap between Pyongyang and the hinterlands where most people live. The 2024 production targets are claimed to have been reached in 12 major industries. Notably, the weakest among such claims is arguably the most important—electric power, which is said to have exceeded its target by only 1 percent. Most interesting is Kim's acknowledgment of the need to resolve urgent methodological problems, like improving the system and method of managing the overall economy, as well as planning and pricing to conform with the economic structure and specific conditions of the country. None of this will be easy fixes.

Kim mentioned in passing that the 2025 proposed fiscal budget was reviewed in the party meetings and that it would be decided in the upcoming Supreme People's Assembly meetings. One cannot help but wonder what that data will look like. An optimist might think he will soon turn to the next five-year plan and institute reforms aimed at restoring a sound money system. Exports to earn dollars and save the won should be the top focus, and a deal with Trump to lessen the sanctions restricting its high-demand resources, including coal, non-ferrous metals, and rare earth minerals, must be tempting.

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THE PENINSULA

Political Turbulence Clouds South Korea's Economic Outlook

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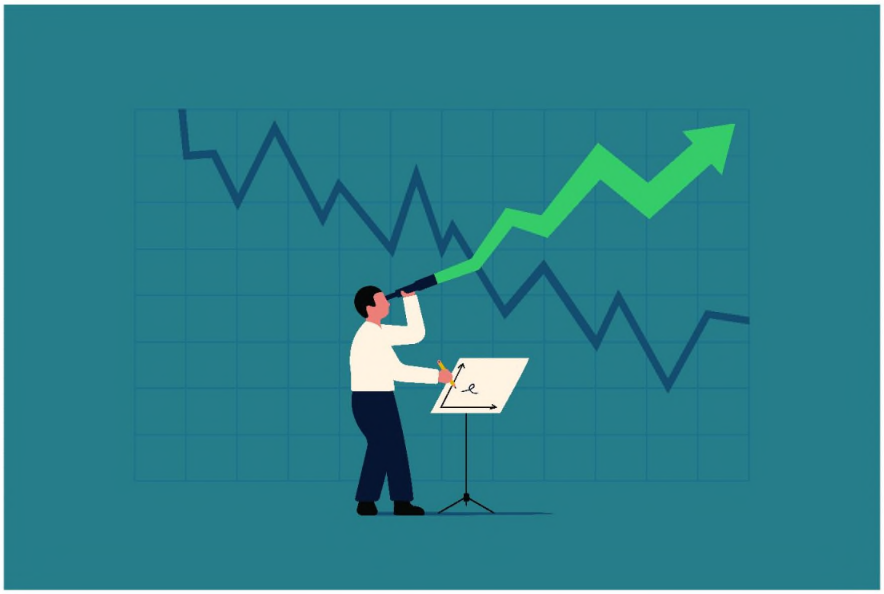

South Korean President Yoon Suk Yeol's short-lived declaration of martial law on December 3, 2024, and his subsequent impeachment on December 14 have plunged the country into its worst political crisis in nearly 40 years, with some signs of a negative economic impact. The economy was already showing signs of weakness before the December political crisis. In particular, industrial production decreased in November 2024 for the third consecutive month. The additional concerns about political instability have led some forecasters to downgrade their outlook for Korea in 2025.

Economic Growth Projection for Korea in 2025

The *OECD Economic Outlook*, published on December 4, projected that Korea's real GDP would increase by 2.1 percent (Figure 1) in 2025 despite signs of weakness during 2024. Indeed, GDP declined slightly in the second quarter last year, followed by only 0.1 percent growth in the third. Strong global demand for Korean products, notably semiconductors, drove growth in the first half of 2024, but exports declined in the third quarter. The 2025 OECD projection is down slightly from the expected 2.3 percent in 2024 and is in line with Korea's 2 percent potential growth rate (the rate an economy can sustain at full capacity utilization and full employment). The OECD projection aligns with the 2.0 percent forecasts made last November by other institutions, including the IMF and the Korea Development Institute.

Figure 1. OECD projections for the G20 countries in 2025 and 2026

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