

## Growing close to potential

### General Information



<b>GDP</b>	USD1377.9bn (World ranking 11, World Bank 2015)
<b>Population</b>	50.6mn (World ranking 27, World Bank 2015)
<b>Form of state</b>	Republic
<b>Head of government</b>	Moon Jae-in
<b>Next elections</b>	2018, Gubernatorial



### Strengths

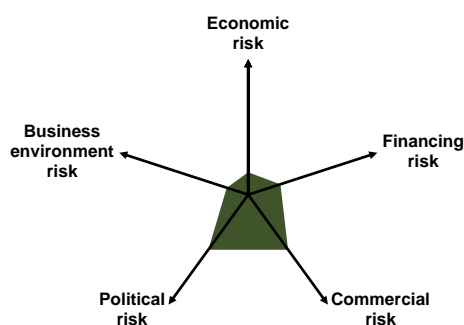
- Firmly established democracy
- Advanced Economy with high per capita income
- Sound Financial sector
- Ample foreign exchange reserves
- Low external debt
- Strong business environment

### Weaknesses

- Geopolitical risk stemming from North Korea
- Economic vulnerabilities due to external dependency
- Weak corporate governance
- Ageing population

### Country Rating

**BB1**



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	26% 1	21% China
United States	13% 2	11% Japan
Hong Kong	6% 3	10% United States
Vietnam	5% 4	5% Germany
Japan	5% 5	4% Saudi Arabia

By product (% of total)

Exports	Rank	Imports
Electrical machinery, apparatus and appliances	18% 1	16% Petroleum, petroleum products and related materials
Road vehicles	13% 2	13% Electrical machinery, apparatus and appliances
Other transport equipment	8% 3	5% Gas, natural and manufactured
Telecommunication and sound recording apparatus	8% 4	4% Metalliferous ores and metal scrap
Petroleum, petroleum products and related materials	6% 5	4% Telecommunication and sound recording apparatus

Source: UNCTAD

## Economic Overview

### Reduced political uncertainties and rising exports improve the outlook

Economic growth is set to prove firm in 2017 at +2.8%. Exports should gather pace in line with higher global demand. The last presidential election helped to stabilize the political situation and confidence is slowly recovering. The policy-mix would remain accommodative to help consolidate growth momentum through a rise in investment. Private consumption growth should pick up speed but at a gradual pace, limited by a high household debt (96% GDP).

Risks to our baseline scenario stem from both domestic and external sources. Domestically, reducing households leverage and addressing property market imbalances will be crucial for creating a sustainable and safe growth environment. Externally, economic risks include slower global trade growth and downward pressures on the currency following a rise in policy rate in the US. Politically, tensions with North Korea and with China are still a matter of concern. Relations with the latter deteriorate as South Korea agreed on deploying the US Terminal High Altitude Area Defence (THAAD) anti-missile system on its soil. This has resulted in unofficial economic sanctions from Beijing such as the boycott of Korean cosmetics or TV shows.

### A balanced policy mix

Public finances are sound and do not pose a material risk to the economy. The fiscal stance is accommodative and the government is considering a supplementary budget (+KRW11.2) with measures to boost job creation (+5.4tn), support households (+2.3tn) and local government (+3.5tn). Public debt should remain at an acceptable level just below 40% GDP, a low rate compared to other advanced economies. The central bank is set to adopt a more prudent monetary stance as growth is gaining traction and inflation is closing in on the +2% target. Policy rate will likely be kept at a low level in the near future to foster growth. However, a gradual tightening could be considered especially from 2018.

### External risks are limited

The external position is solid. External debt is low and the current account surplus is large (7% GDP in 2016). The economy has built strong buffers over the past years including a solid positioning in high-tech sectors and competitive exporting companies. These ensure a large export base (goods exports account for USD495bn in 2016). Main factors of vulnerability stem from a rise of protectionist measures from main trading partners (China, U.S.), and strong competition from neighboring countries such as Japan.

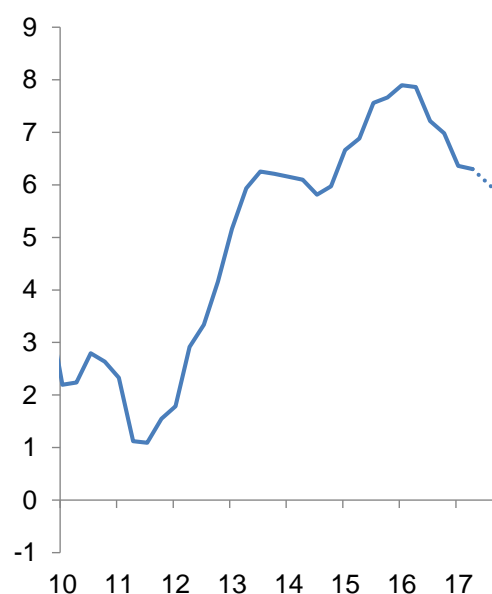
### Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	2.8	2.8	2.8	2.7
Inflation (% , year average)	0.7	1.0	2.0	2.3
Fiscal balance (% of GDP)*	0.3	0.3	-0.1	0.9
Public debt (% of GDP)*	37.8	38.6	39.0	38.8
Current account (% of GDP)	7.7	7.0	5.8	4.8
External debt (% of GDP)	28.7	27.0	27.5	26.0

\* Includes the Central Government; \*\* includes central government and local government

Sources: IMF, Euler Hermes

Figure 1 – Current account (% GDP)



Sources: IHS, Euler Hermes

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