

Proving resilient

General Information



GDP	USD1410.4bn (World ranking 13, World Bank 2014)
Population	50.4mn (World ranking 27, World Bank 2014)
Form of state	Republic
Head of government	PARK Geun-Hye
Next elections	2017, Presidential



Strengths

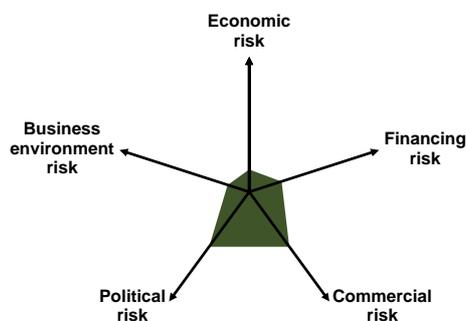
- Firmly established democracy
- Advanced Economy with high per capita income
- Sound Financial sector
- Ample foreign exchange reserves
- Low external debt
- Strong business environment

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	25% 1 17%	China
United States	12% 2 10%	Japan
Japan	6% 3 9%	United States
Hong Kong	5% 4 7%	Saudi Arabia
Singapore	4% 5 5%	Qatar

By product (% of total)

Exports	Rank	Imports
Electrical machinery, apparatus and	17% 1 24%	Petroleum, petroleum products and
Road vehicles	13% 2 11%	Electrical machinery, apparatus and
Petroleum, petroleum products and	9% 3 7%	appliances, n.e.s.
Other transport equipment	7% 4 5%	Gas, natural and manufactured
Telecommunication and sound	7% 5 4%	Metalliferous ores and metal scrap
		Iron and steel

Source: UNCTAD

Economic Overview

Resilience amid cyclical headwinds

Economic growth is expected to grow at a modest pace in 2016 (+2.5% from +2.6% in 2015). Exports will continue to post sluggish growth reflecting lower demand growth from China, modest economic improvement in high-income economies. Domestic demand will be the main driver. Public expenditures will likely accelerate on the back of a stimulus package. Private consumption will increase but at a slower pace. Low inflation and the robust labor market will help keep growth in positive territory. However, large household debt (82% GDP) and weaker consumer confidence will act as a drag. Similarly, private investment is set to post subpar growth. Better credit condition will be conducive but limited demand prospects overseas and deflationary pressures in the manufacturing sector will hinder its expansion.

Macro-policies: cautious easing

The central bank operates according to an inflation targeting regime, pursuing price stability. The inflation target has been lowered from 2.5% - 3.5% to +2% for the three years starting 2016. Although the target has been reduced, there is a little chance that it will be achieved under the current circumstances. Price indicators of H1 still suggest weak momentum with input, consumer and supply prices posting subdued expansion: global commodity prices were still low, inflation was around 1% y/y in Jan-May and producer prices continued to contract. In that context, the Central bank will likely maintain its accommodative stance for a while. Policy rates are already at record low level (1.25% mid-June). Further policy easing will likely be gradual as (i) further tightening of the FED would exert downward pressures on the Won and (ii) high household debt remains a matter of concern. Public finances are solid. Public debt is rising but is still low compared to other high-income economies. Government balance has worsened slightly over the past years reflecting government attempts to prop up growth. Assuming that the government continues to expand countercyclical measures to support growth, the deficit will stand at -0.2% GDP in 2016.

External risks are limited

The external position is solid. External debt is low and current account surplus is large (7.7% GDP in 2015). The economy has built strong buffers over the past years including a solid positioning in high-tech sectors and highly competitive exporting companies. These ensure a large export base (goods exports account for USD527bn in 2015). Main factors of vulnerability are cyclical and stem from lower external demand and strong competition from neighboring countries such as Japan.

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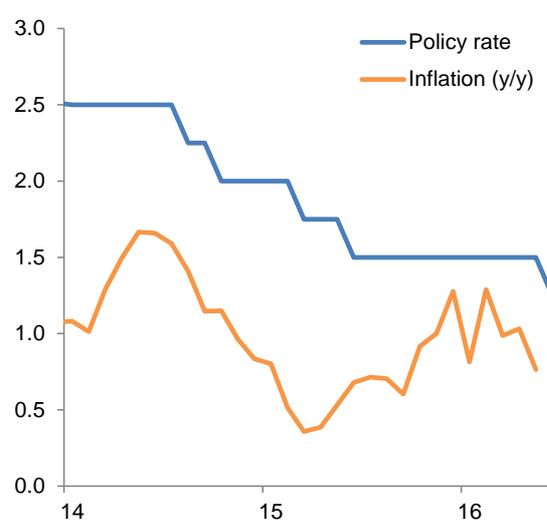
Key economic forecasts

	2014	2015f	2016f	2017f
GDP growth (% change)	3.3	2.6	2.5	2.7
Inflation (% , year average)	1.3	0.7	1.0	1.6
Fiscal balance (% of GDP)*	0.4	-0.2	-0.2	-0.1
Public debt (% of GDP)**	35.1	35.9	37.3	37.5
Current account (% of GDP)	6.0	7.7	7.5	7.0
External debt (% of GDP)	30.1	28.8	29.2	27.8

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

Sources: IMF, Euler Hermes

Figure 1 – Policy rate and inflation



Sources: IHS, Euler Hermes