

## Resilience amid cyclical headwinds

### General Information



<b>GDP</b>	USD1304.55bn (World ranking 14, World Bank 2013)
<b>Population</b>	50 mn (World ranking 26, World Bank 2013)
<b>Form of state</b>	Republic
<b>Head of government</b>	PARK Geun-Hye
<b>Next elections</b>	2016, legislative



### Strengths

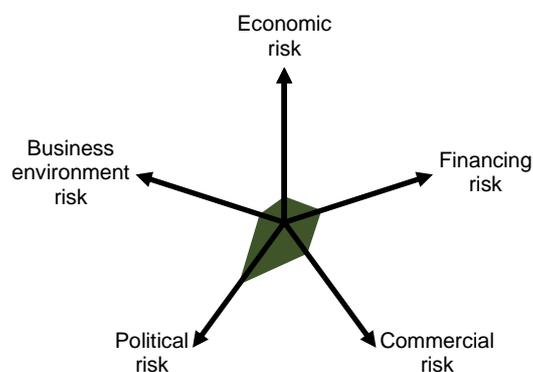
- Firmly established democracy
- Advanced Economy with high per capita income
- Sound Financial sector
- Ample foreign exchange reserves
- Low external debt
- Strong business environment

### 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	21%	China	
United States	12%	2	20%	Japan	
Japan	6%	3	8%	United States	
Hong Kong, China	5%	4	4%	Saudi Arabia	
Singapore	4%	5	4%	Qatar	

By product (% of total)

Exports		Rank		Imports	
Electrical, electronic	24%	1	33%	Fuels, distillation prod.	
Vehicles	13%	2	14%	Electrical, electronic	
Machinery	11%	3	9%	Machinery	
Fuels, distillation prod.	9%	4	4%	Iron and steel	
Ships	7%	5	3%	Optical, med. apparatus	

Sources : ITC, Chelem



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## Economic Overview

### Economic growth to remain solid

GDP growth is set to remain robust in 2015-2016. However the near term outlook is hindered by cyclical headwinds. First, exports, which account for 57% GDP, are set to record a modest increase reflecting lower demand growth in China and moderate improvement in the U.S. growth outlook. Second, domestic demand uncertainties remain elevated despite a strong rebound in Q1 (+1% Q/Q). The beginning of the year has seen an increase in private investment especially in construction (+7.4% Q/Q), but Q2's business surveys indicate less rosier outlook reporting weak investment intentions and low new orders. Regarding private consumption, the high household debt burden (81% GDP) and fear factor related to further propagation of the "Middle East Respiratory Syndrome" will likely act as a drag over Q2-Q3 with lower demand from South Korean and weaker tourist expenditures. Further accommodative policies in Q3 combined to improving trend in global demand should translate into a growth pick-up from Q4 2015 onwards. Non-payment is expected to remain contained with number of dishonored companies expected to stabilize (0% growth after a decrease of -16%).

### Macro-policies: on easing mode

The Bank of Korea operates according to an inflation targeting regime, pursuing price stability. For 2015, the inflation target range was set between +2.5% and +3.5%. In H1, downward price pressures on both demand (inflation below 1%) and supply (producer price on a negative trend) raised fears of a deflation scenario. This prompted the BoK to adopt a more accommodative monetary policy stance: the Central Bank cut its policy rate by -50 bps between January and mid-June to a record low (1.5%). Going forward, the dovish stance should be maintained to allow further rise in credit growth. On the fiscal front, the government has been in "easing mode" since 2014:+0.5% of GDP was added to fiscal spending added to support home buyers, 2015's budget includes an increase in social expenditures. With the current context (fears of MERS, ongoing disinflationary pressures), additional stimulus are likely. However, this will not put public finances at risk as debt is low, particularly when compared to other high income economies.

### External risks are contained

As a medium-sized open economy (trade accounts for 107% GDP), South Korea is structurally sensitive to external shocks. The economy has built solid buffers including a solid positioning in high-tech sectors and highly competitive exporting companies which ensures a large export base (c.USD730 bn). Despite a weak start, we expect exports to pick up in H2. This should result in another year with a large current account surplus (above 6% in 2015). Yet, risks are tilted to the downside as its main competitor in the region, Japan, has seen a fast improvement in its price competitiveness with its aggressive monetary policy. From a debt sustainability perspective, the economy is strong with low (compared to high income peers) and broadly stable external debt to GDP ratio.

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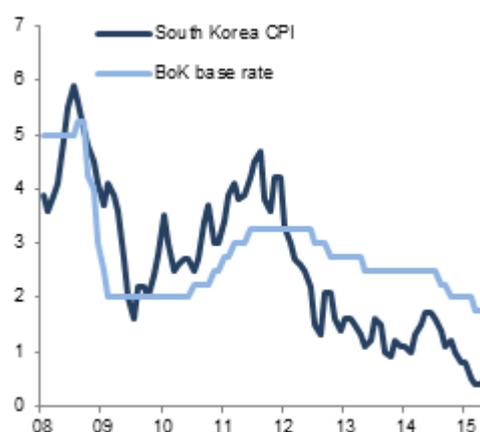
### Economic forecasts

	2013	2014	2015	2016
GDP growth (% change)	2.9	3.3	2.6	3.5
Inflation (% , yearly average)	1.3	1.3	1.1	2.2
Fiscal balance* (% of GDP)	0.6	0.5	0.1	0.3
Public debt* (% of GDP)	35.3	37.2	35.0	33.3
Current account (% of GDP)	6.2	6.3	6.4	5.8
External debt (% of GDP)	36.2	30.2	29.6	29.0

\*General government net lending,

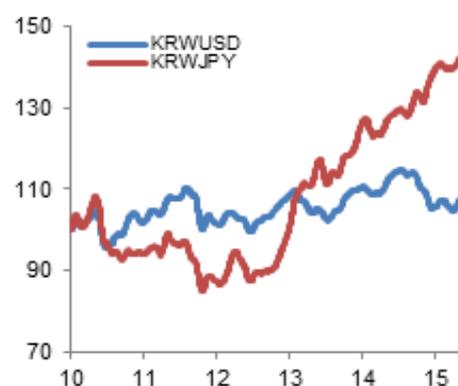
Sources: IHS, national sources, Euler Hermes, IMF

### Central Bank interest rates and Korean Inflation (%)



Sources: Bloomberg, BoK, Euler Hermes

### Korean Won: Cross Rates (Index 100=Jan 2010)



Sources: Bloomberg, Euler Hermes