



# South Korea – Economic outlook

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# A primer on South Korea

## Population and household

<b>Population projection</b> (2016)	50.8mn
<b>Fertility rate</b> (2015)	1.24
<b>Median age</b> (2016)	41.1
<b># of households</b> (2015F)	18.7mn
<b>HH avg monthly income (nominal)</b> (Q1-2016)	USD 4,595
<b>HH avg monthly spending (nominal)</b> (Q2-2016)	USD 2,927

## Employment/ labour/ wages

(September 2016)	
<b>Economic participation rate</b>	63.0%
<b># of economic participants</b>	27,516,000
<b>Employment rate</b>	61.0%
<b># of employed</b>	26,531,000
<b>Unemployment rate</b>	4.0%
<b>Youth unemployment</b>	9.1%
<b># of unemployed</b>	886,000
<b>Productivity growth</b> (Q1-2016)	1.0% y/y

## GDP and inflation

<b>Real GDP growth</b> (Q2-2016)	3.3% y/y 0.8% q/q
<b>Private consumption growth</b> (Q2-2016)	0.9%
<b>Nominal GDP</b> (2015)	USD 1.35tn
<b>GDP per capita</b> (2015)	USD 27,970
<b>Savings rate</b> (Q1-2016)	36.2%
<b>Domestic investment rate</b> (Q1-2016)	27.4%
<b>CPI inflation</b> (Oct 2016)	1.2% y/y 0.4% m/m
<b>Core inflation</b> (Aug 2016)	1.7%

## Health/ society/ welfare

<b>Expected life</b> (2014)	82.4
<b>Gini index</b> (2015)	0.295
<b>Housing supply rate</b> (2014)	103.5%
<b>R&amp;D spending % to GDP</b> (2014)	4.3%
<b>Education spending rate</b> (Q2-2016)	9.8%
<b>Healthcare spending rate</b> (Q2-2016)	6.8%
<b>Spending on private education/students</b> (2015)	c.USD 200/month

## Finance/ banking/ markets

<b>Household credit</b> (Q2-2016)	USD 1.2tn [c.80% of GDP]
<b>BoK base rate</b> (13 Oct 2016)	1.25%
<b>External debt</b> (Q2-2016)	USD 391.7bn
<b>FX reserves</b> (Sept 2016)	USD 377.77bn
<b>C/A balance</b> (Aug 2016)	USD 5.5bn
<b>Financial acct balance</b> (Aug 2016)	USD 7.6bn
<b>Government debt</b> (Q2-2016)	USD 67.6bn
<b>Size of bond market</b> (Aug 2016)	c.USD 1.6tn
<b>% of foreigners</b>	5.93%
<b>KOSPI market cap.</b> (Aug 2016)	c.USD 1.29tn
<b>% of foreigners</b>	34.3%

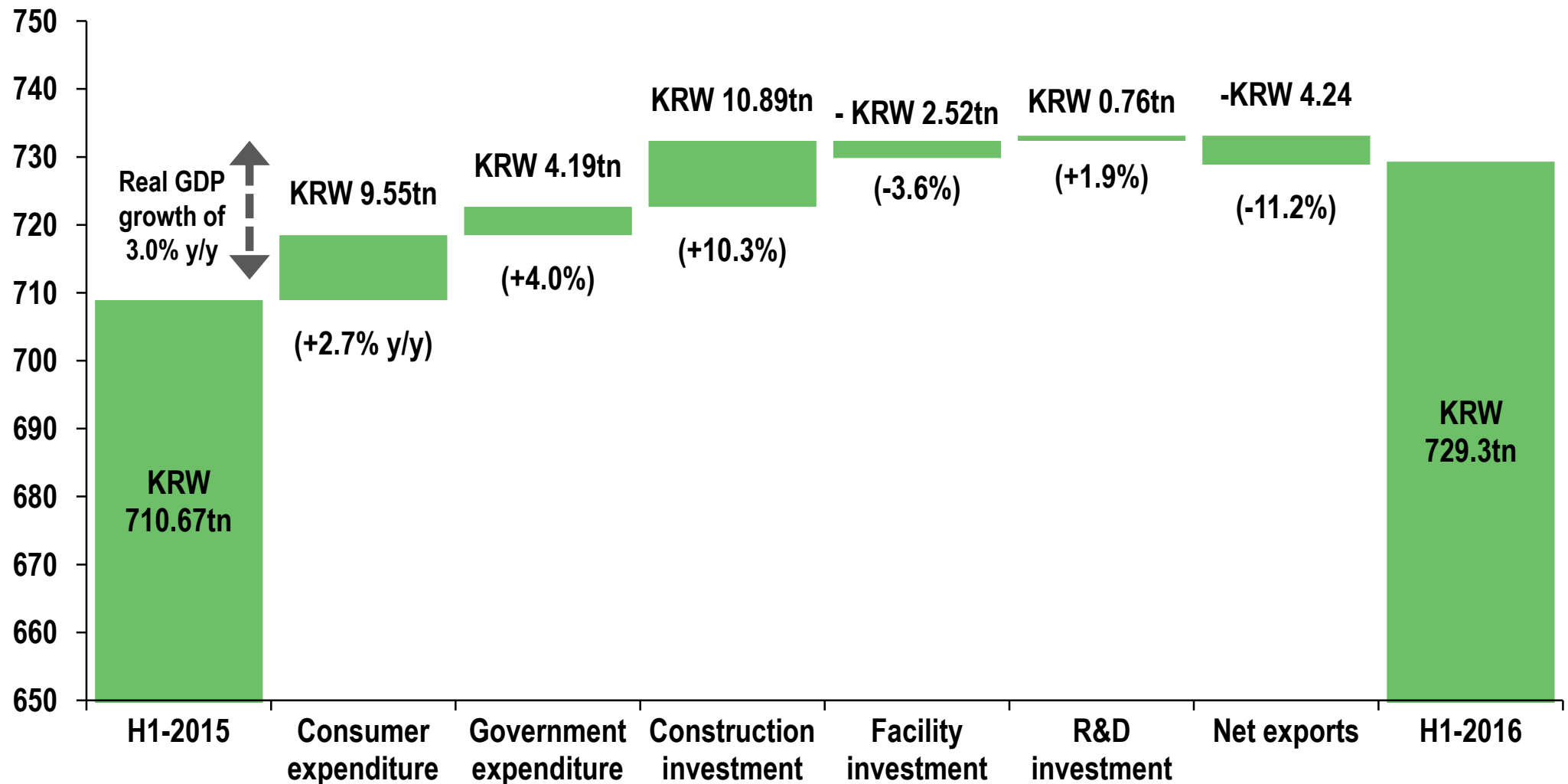
## Others (2015)

<b>Internet users</b>	85.1%
<b>Tax payment ratio</b>	18%
<b>Regional government Independence</b>	46.6%
<b># of registered cars</b>	21.1mn

# Growth comparison between H1-2015 and H1-2016

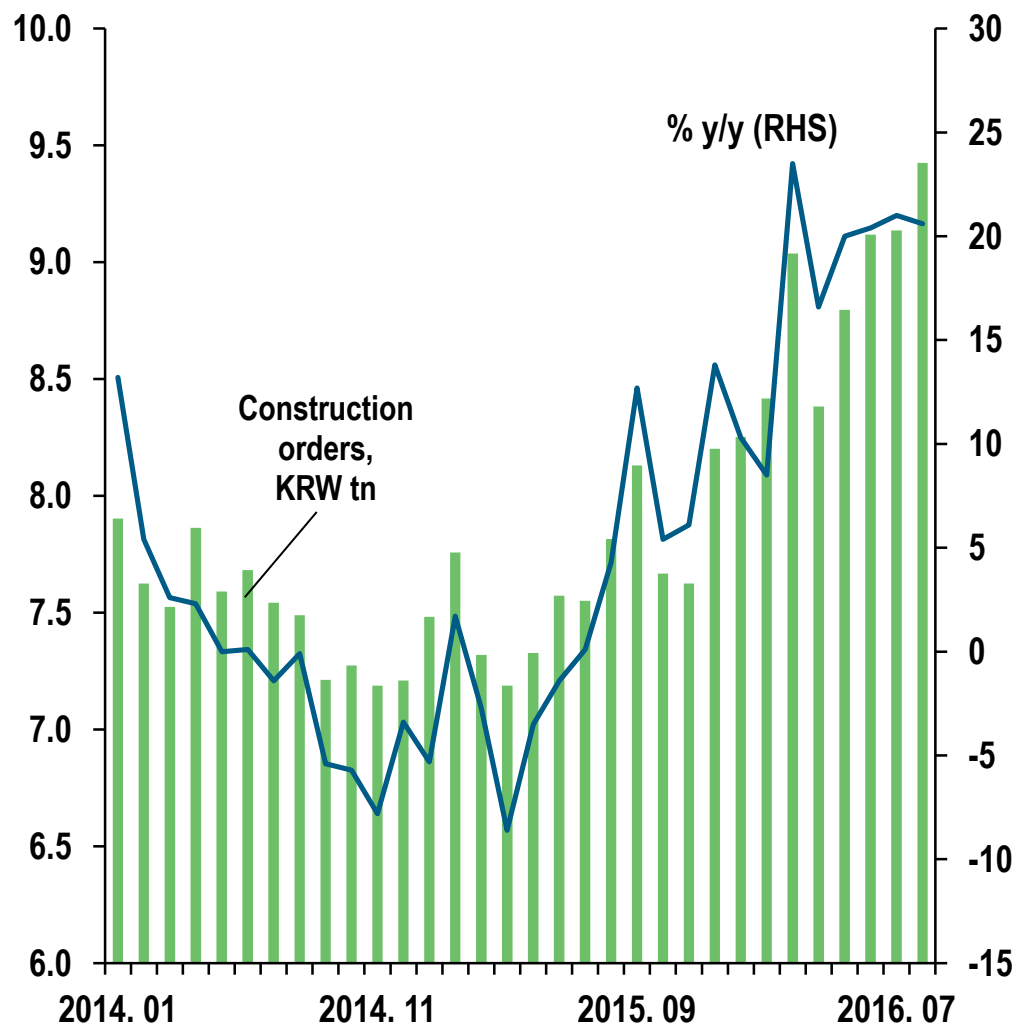
## Construction investment contributed the most, followed by consumer expenditure

*Ppt contribution to GDP by expenditure account*

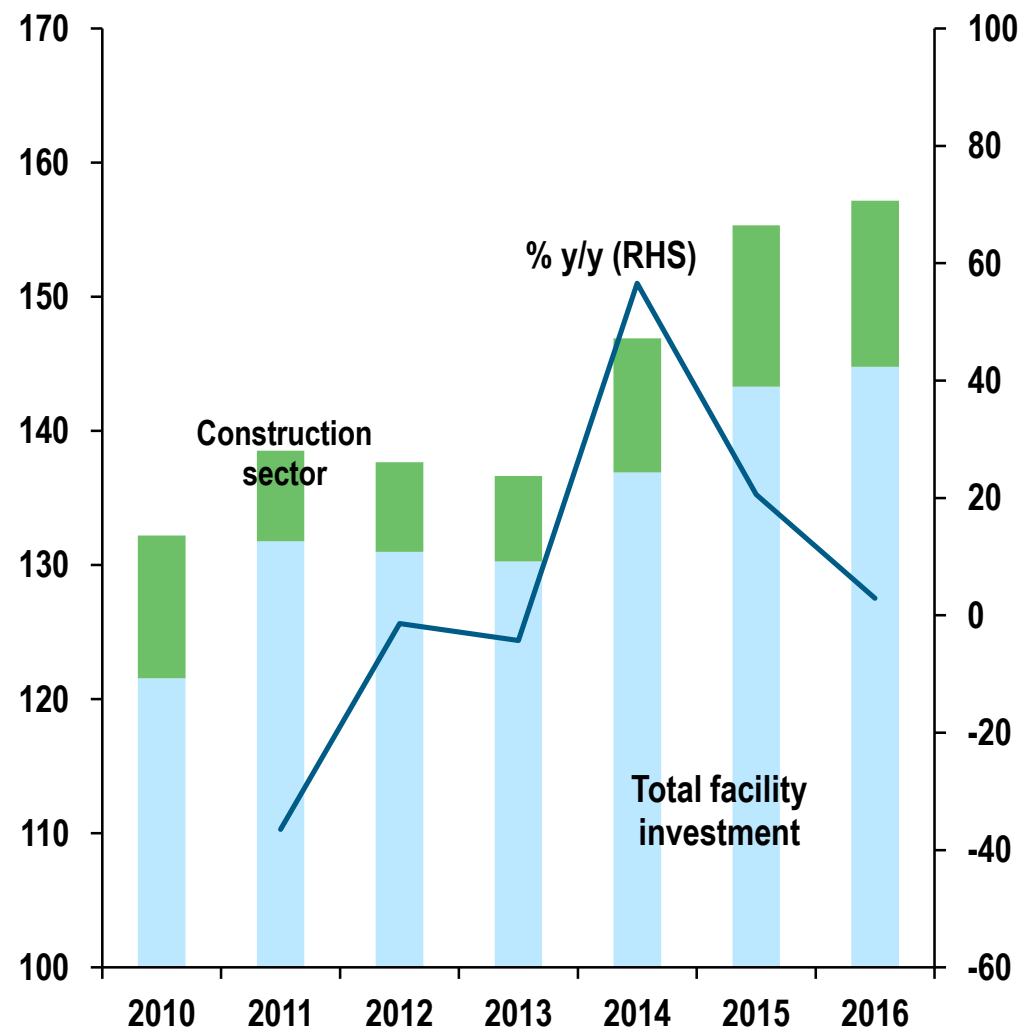


# Construction investment to slow gradually

## Construction orders on the rise

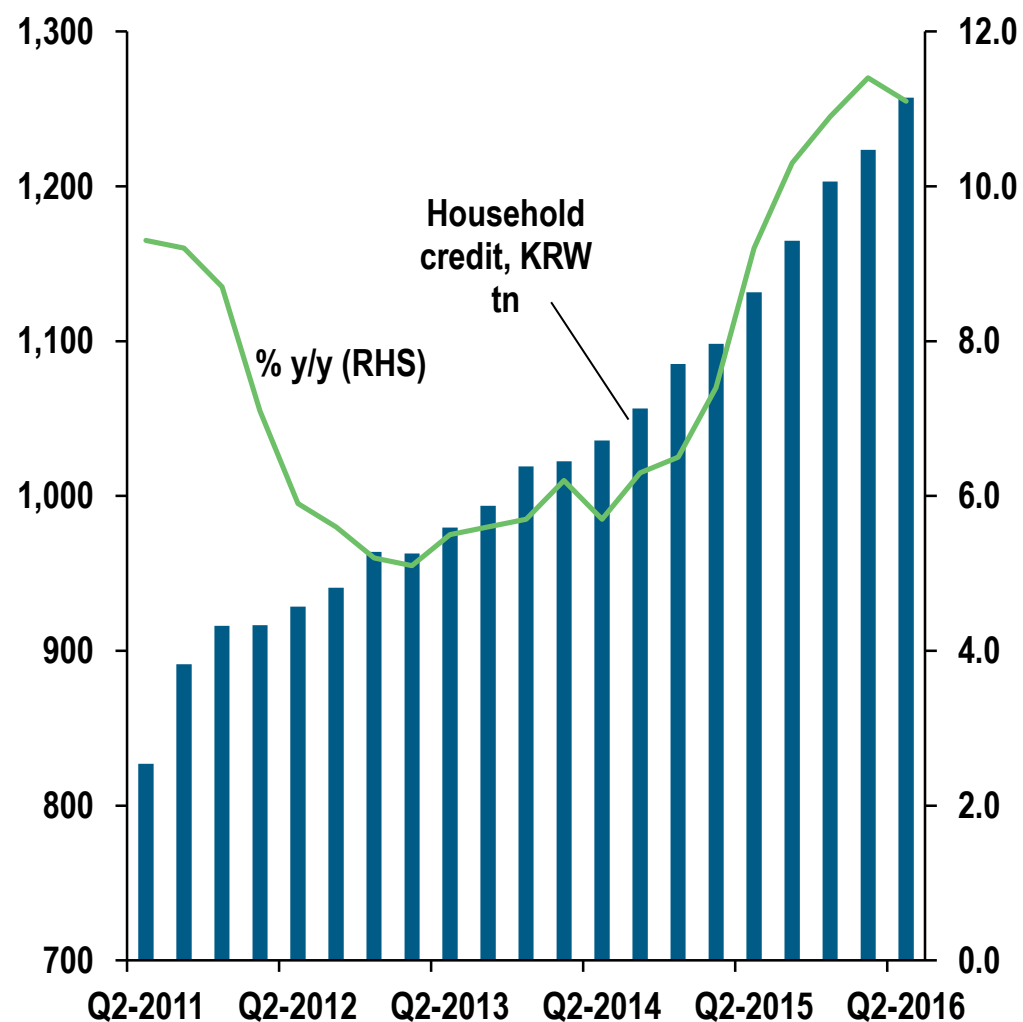


## Construction sector facility investment growth decelerates

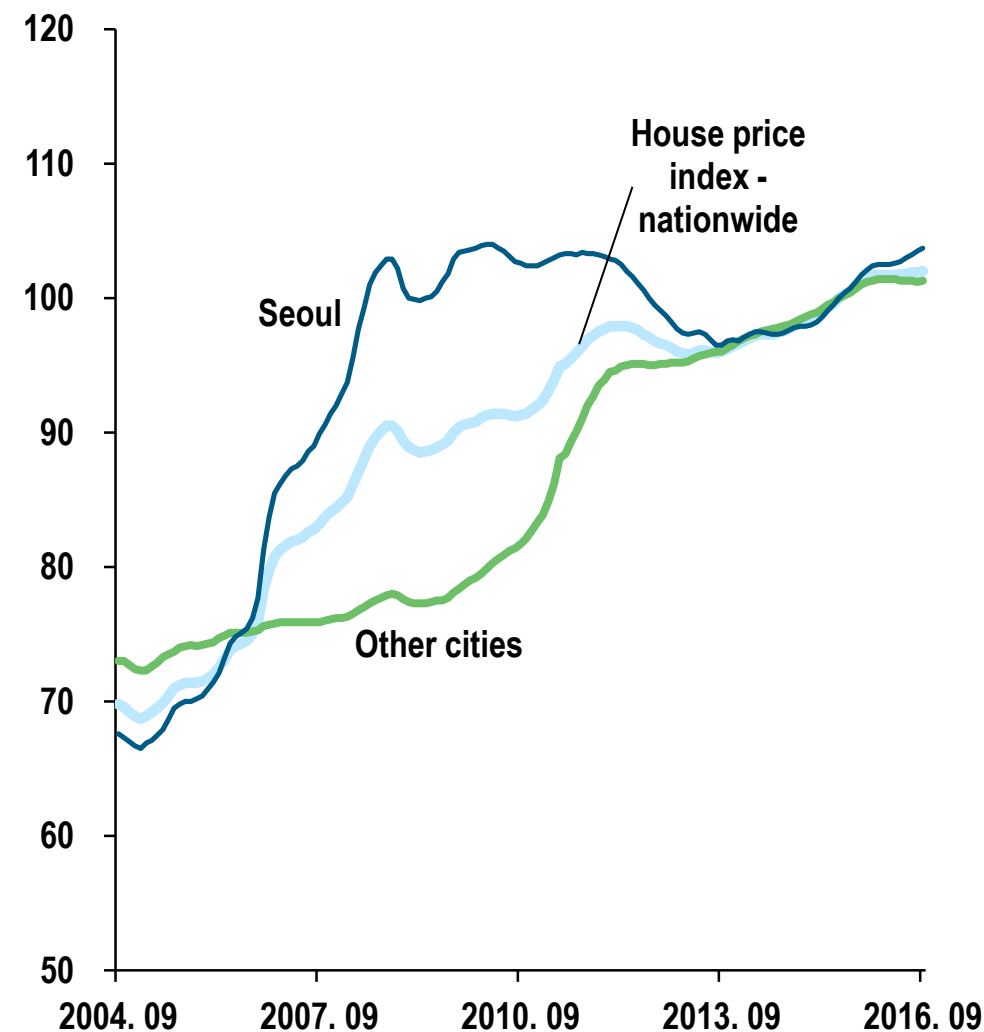


# Rising household debt and housing prices are key concerns

## Household debt accumulates

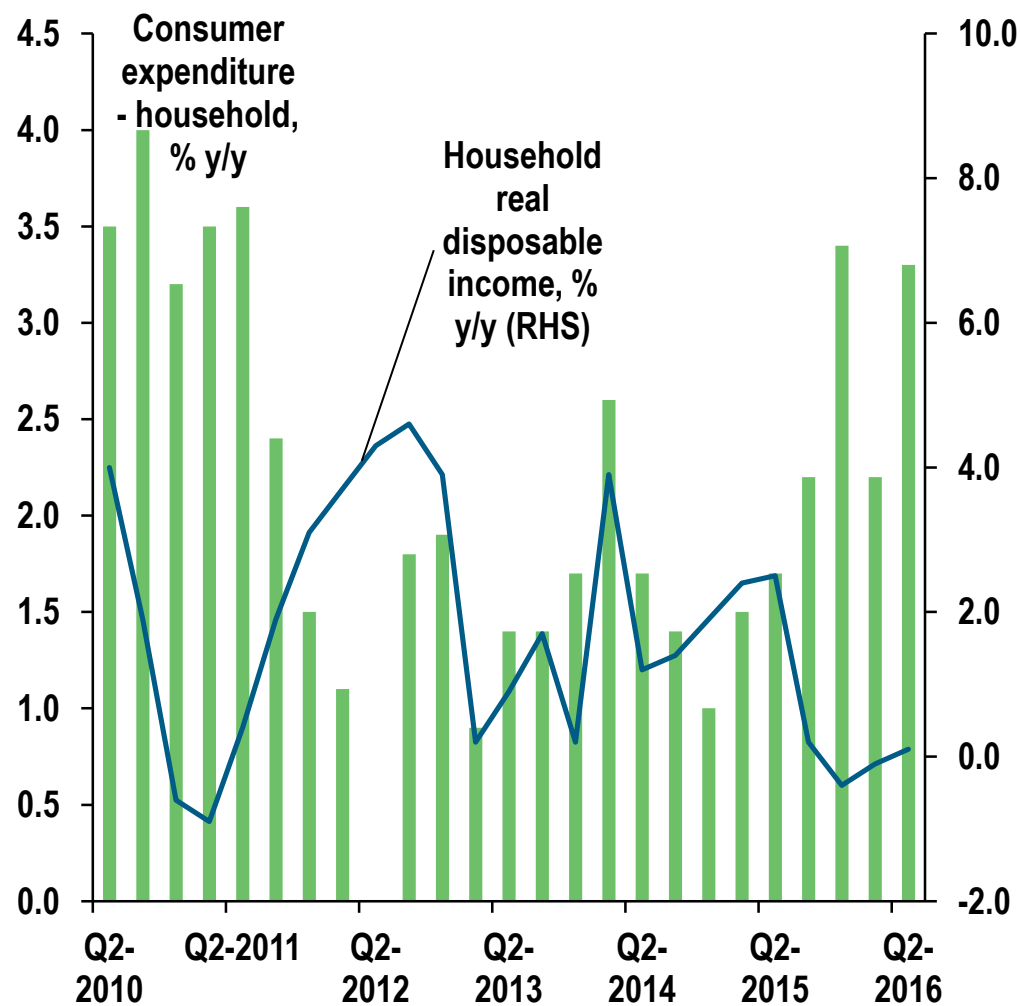


## Housing prices are increasing

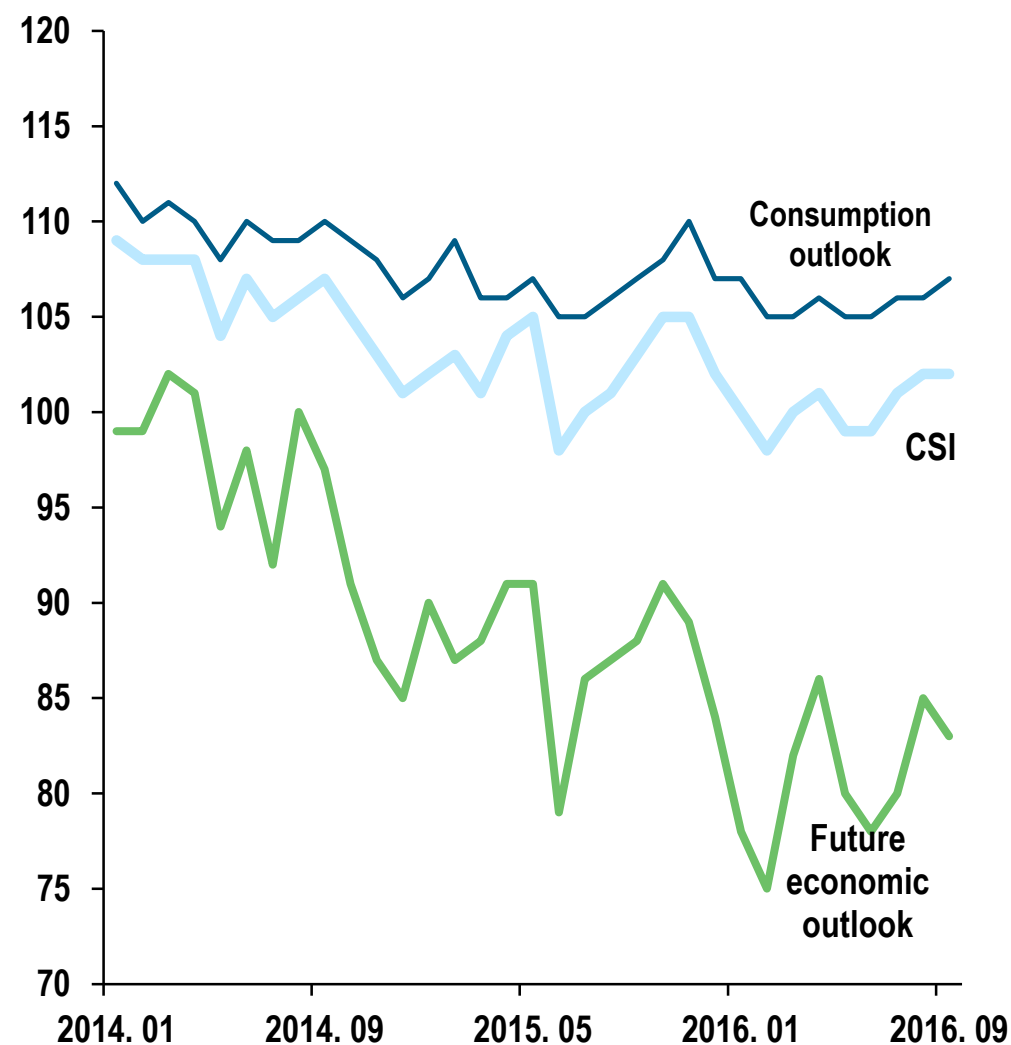


# Private consumption growth subdued

## Household purchasing power to show moderate growth



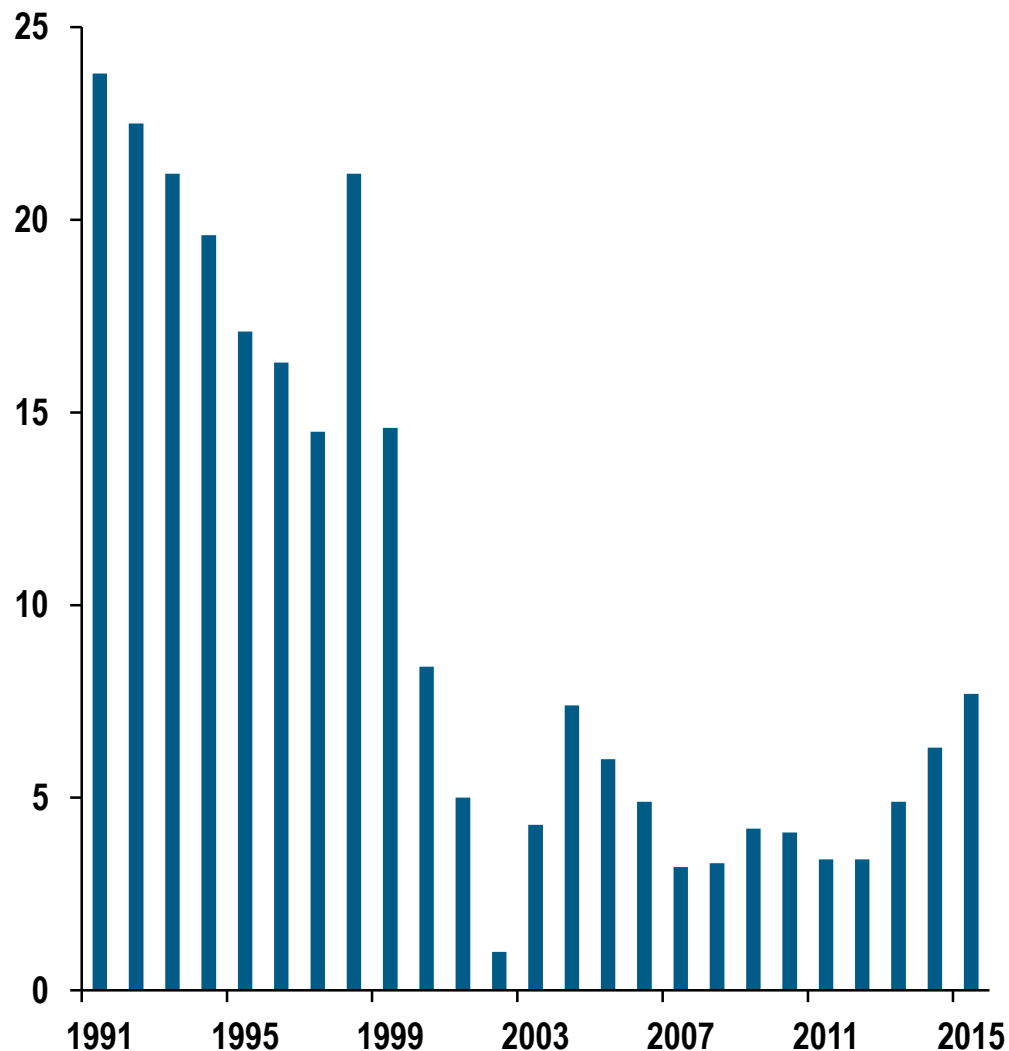
## Consumer sentiment index



# Live long and save

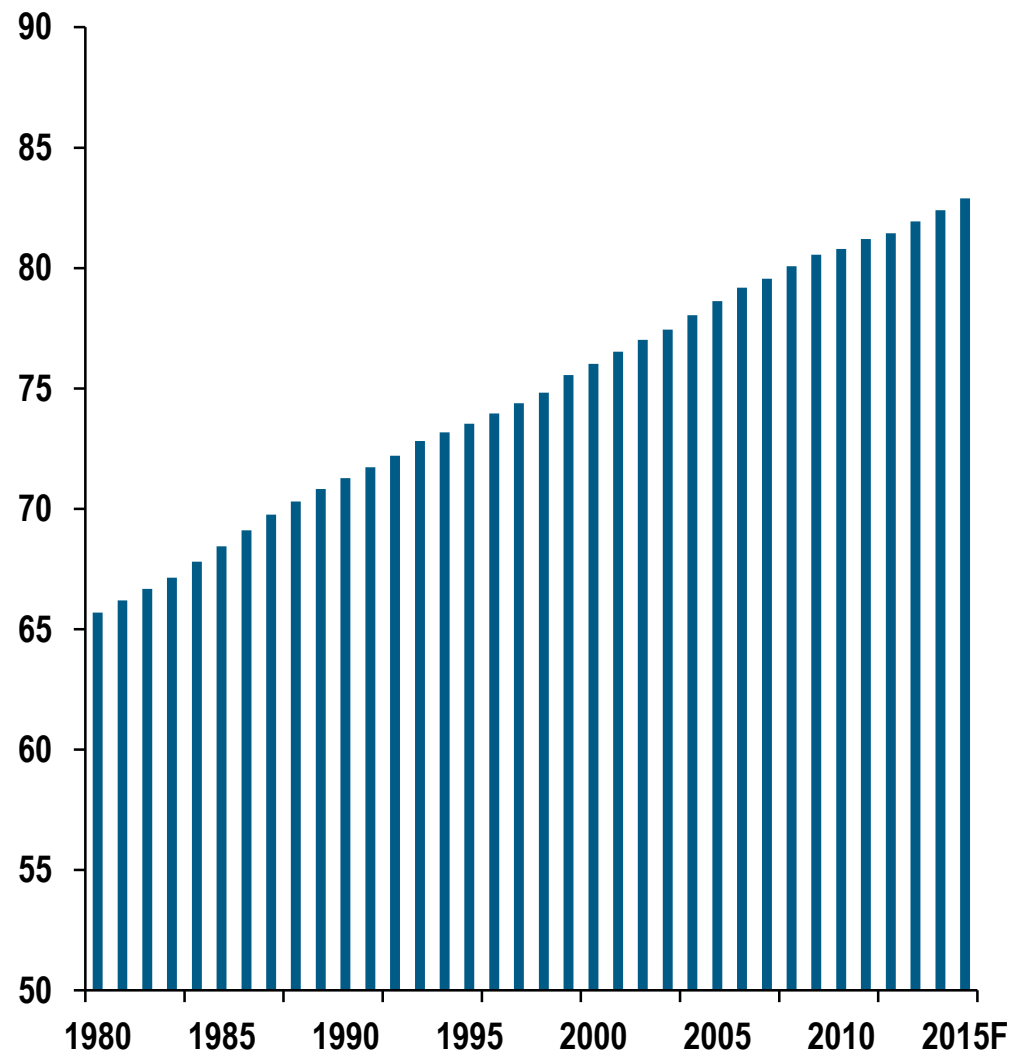
## Household savings rate picking up

%



## Life expectancy rising

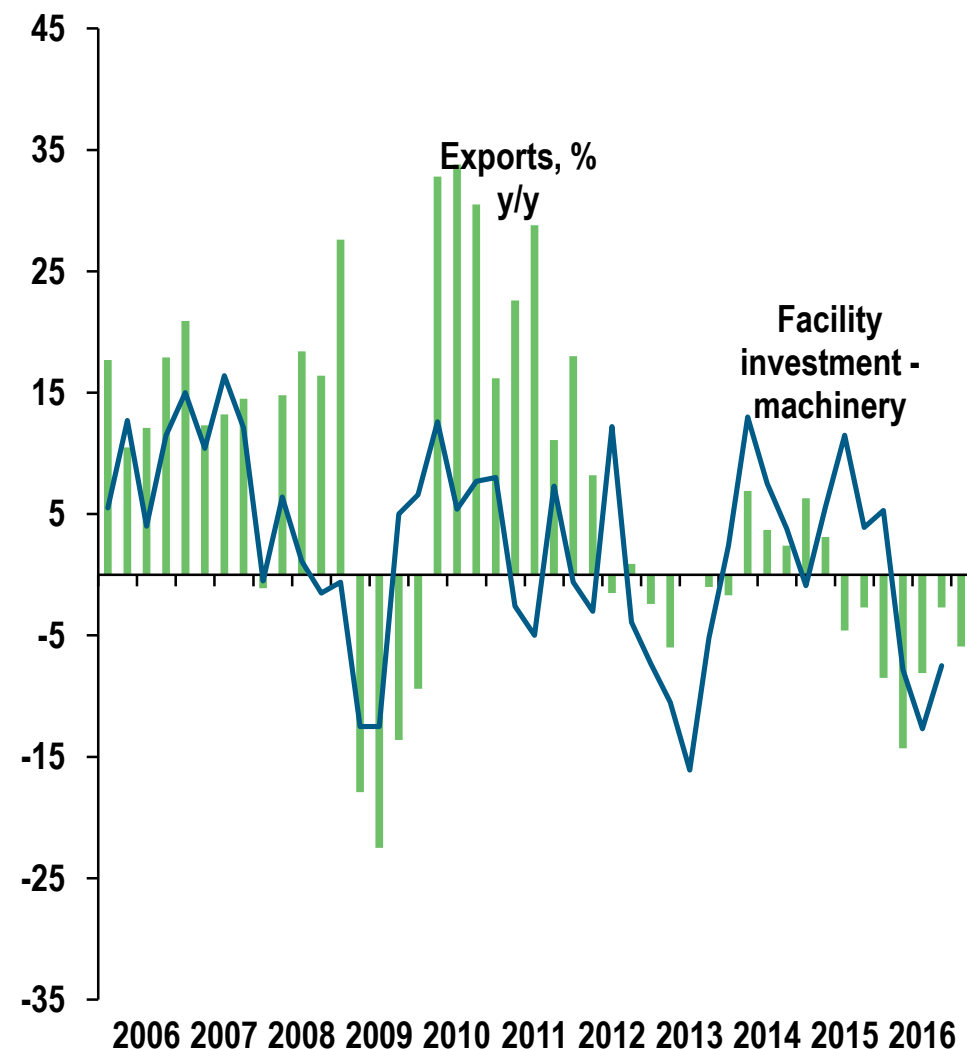
*Expected age*



# Facility investment to turn around to positive next year

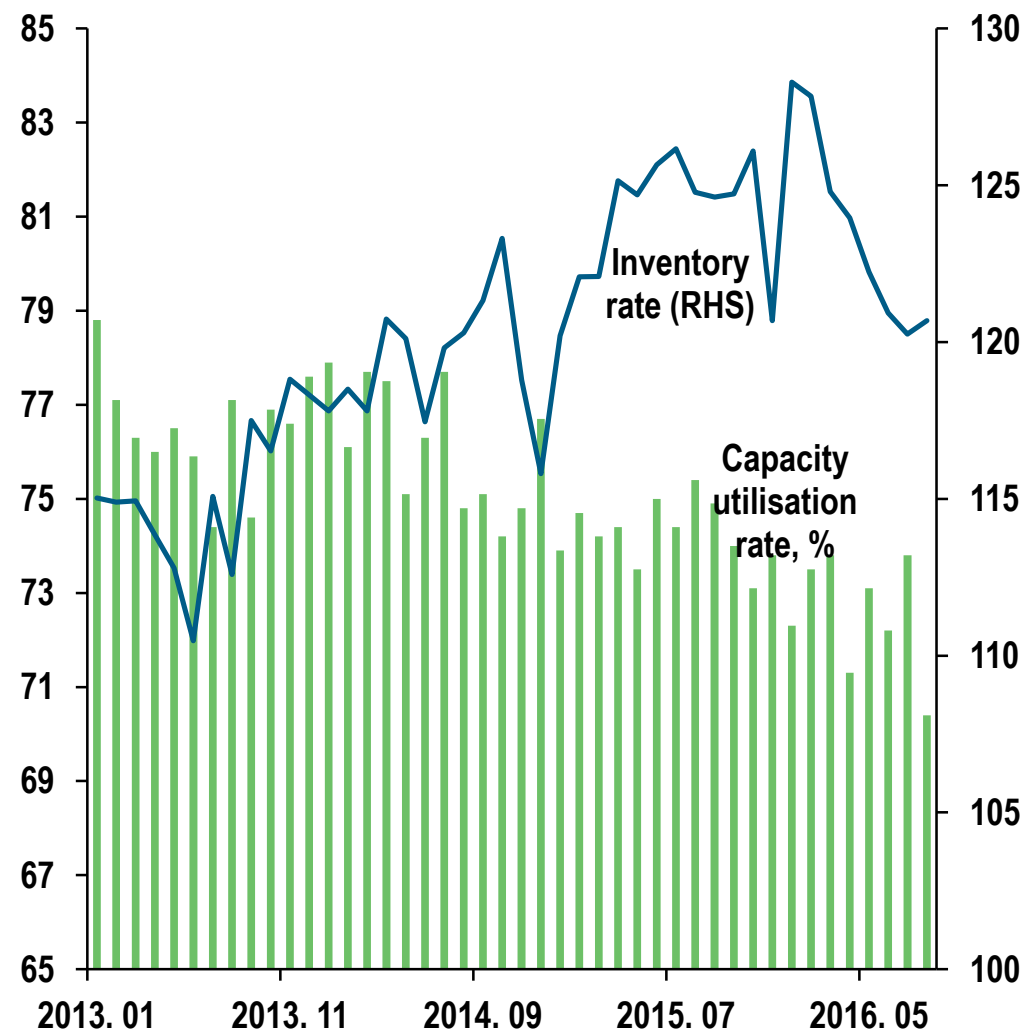
## Exports and machinery facility investment

% y/y



## Manufacturing sector capacity utilisation rate

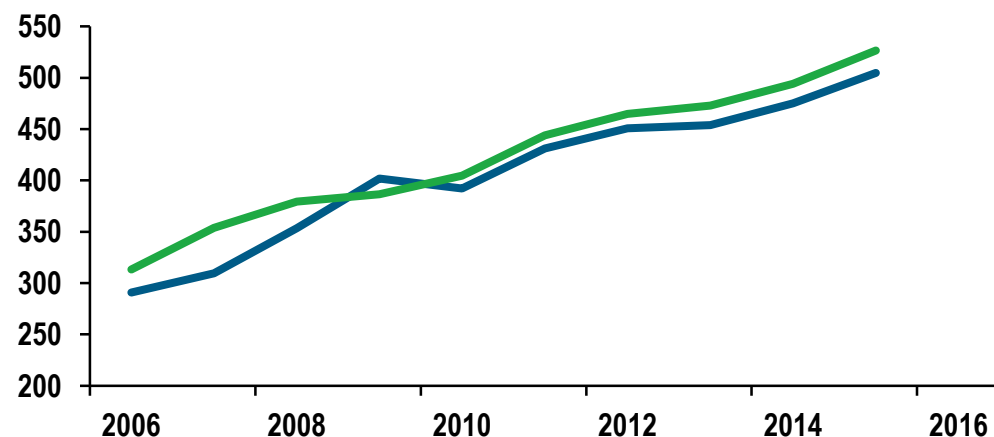
2010=100



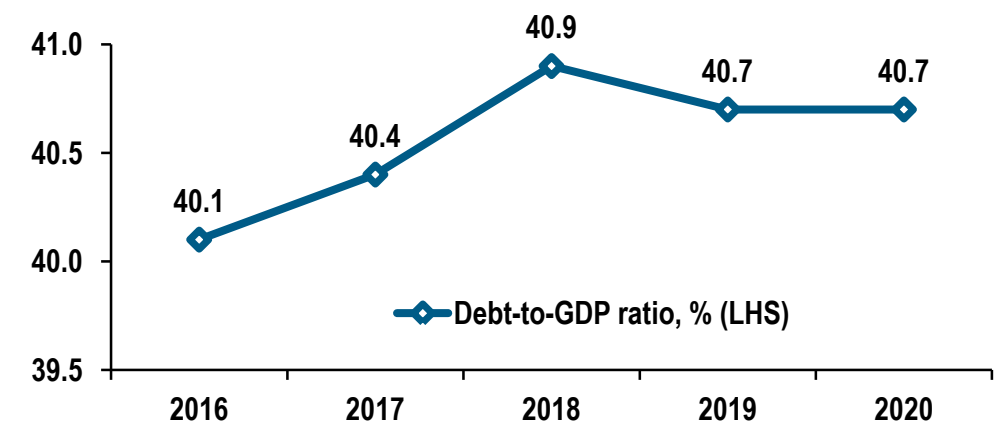


# Government playing a key role, but for how long?

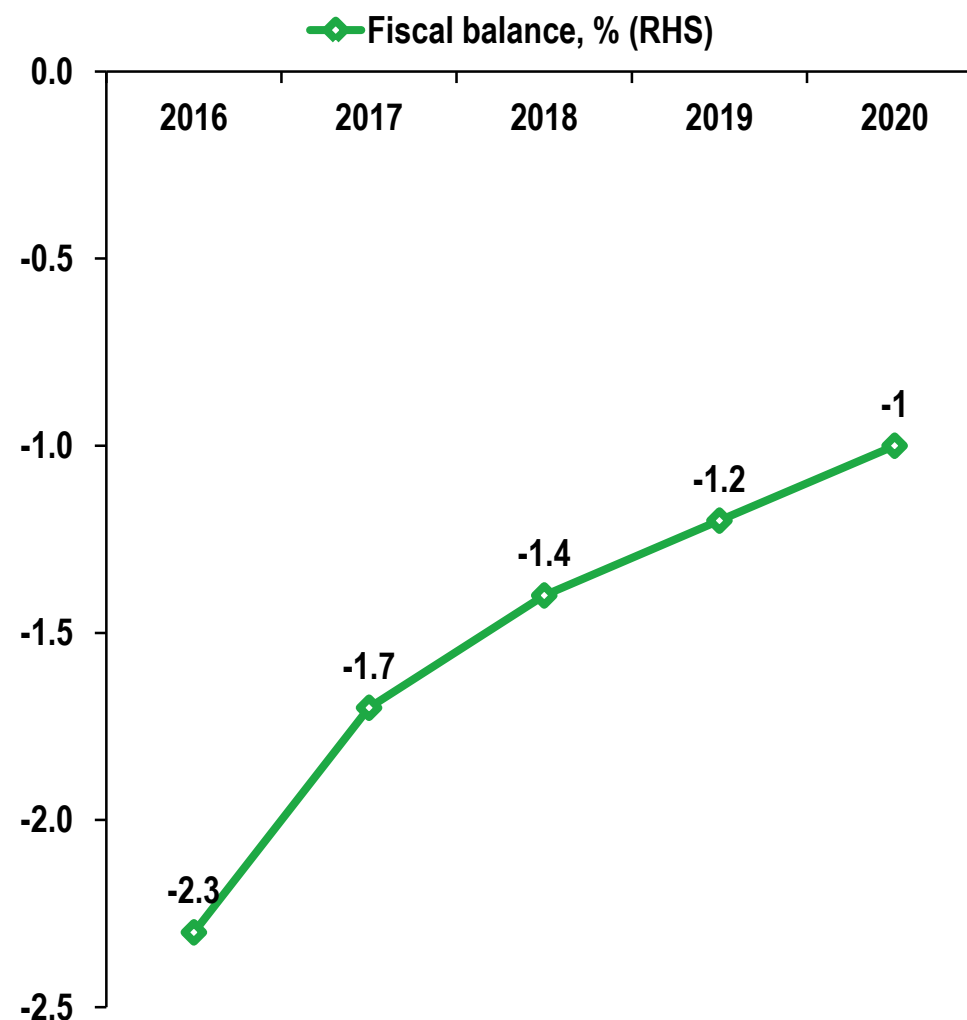
## Spending and income



## Budget

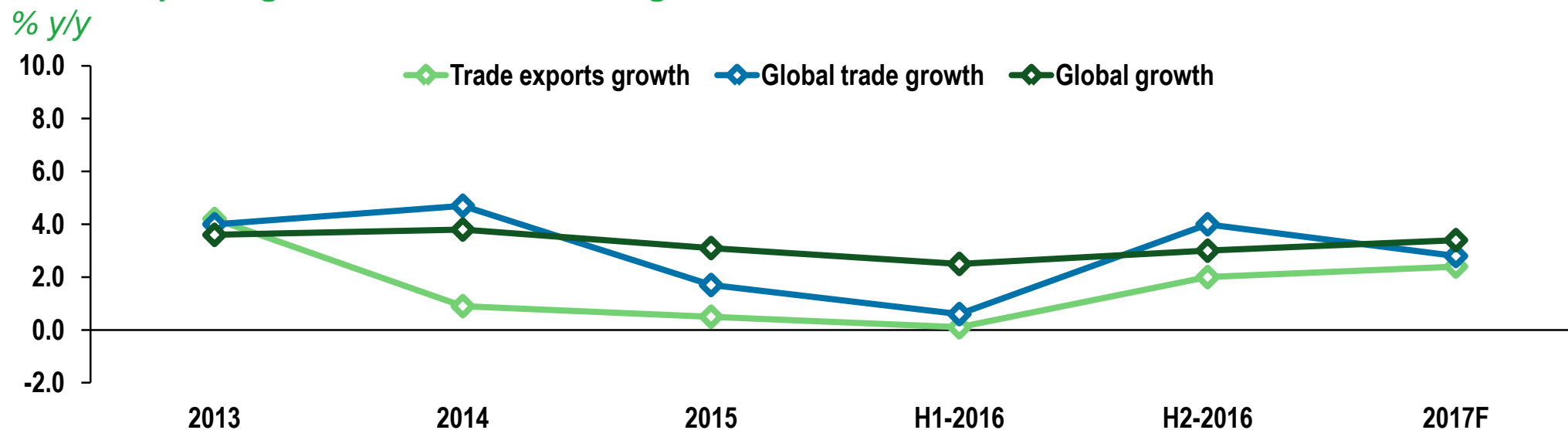


## Fiscal balance % to GDP

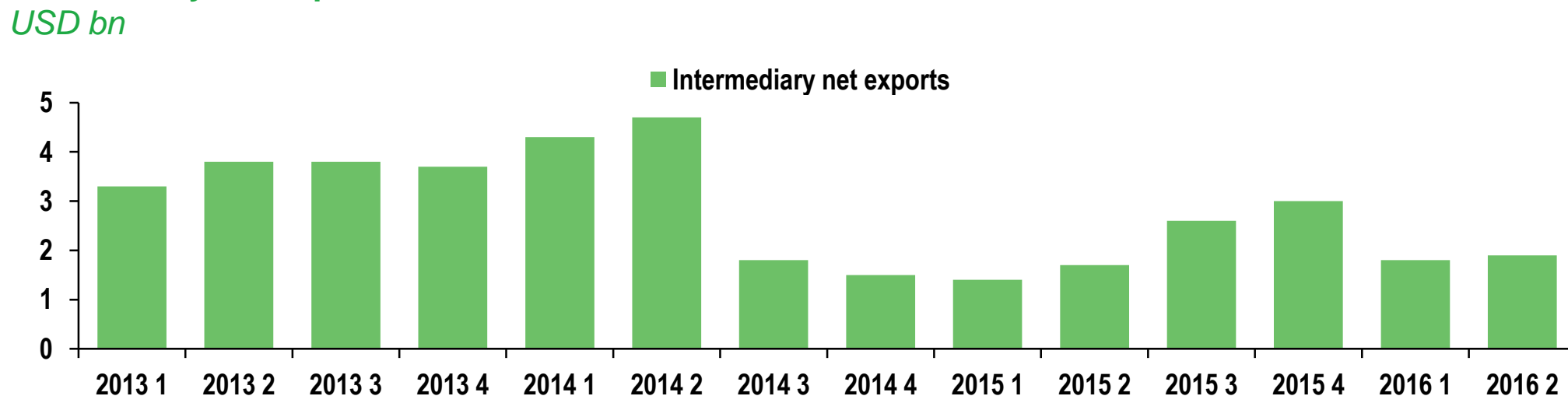


# Goods exports to recover gradually

## Goods exports, global trade volume and growth



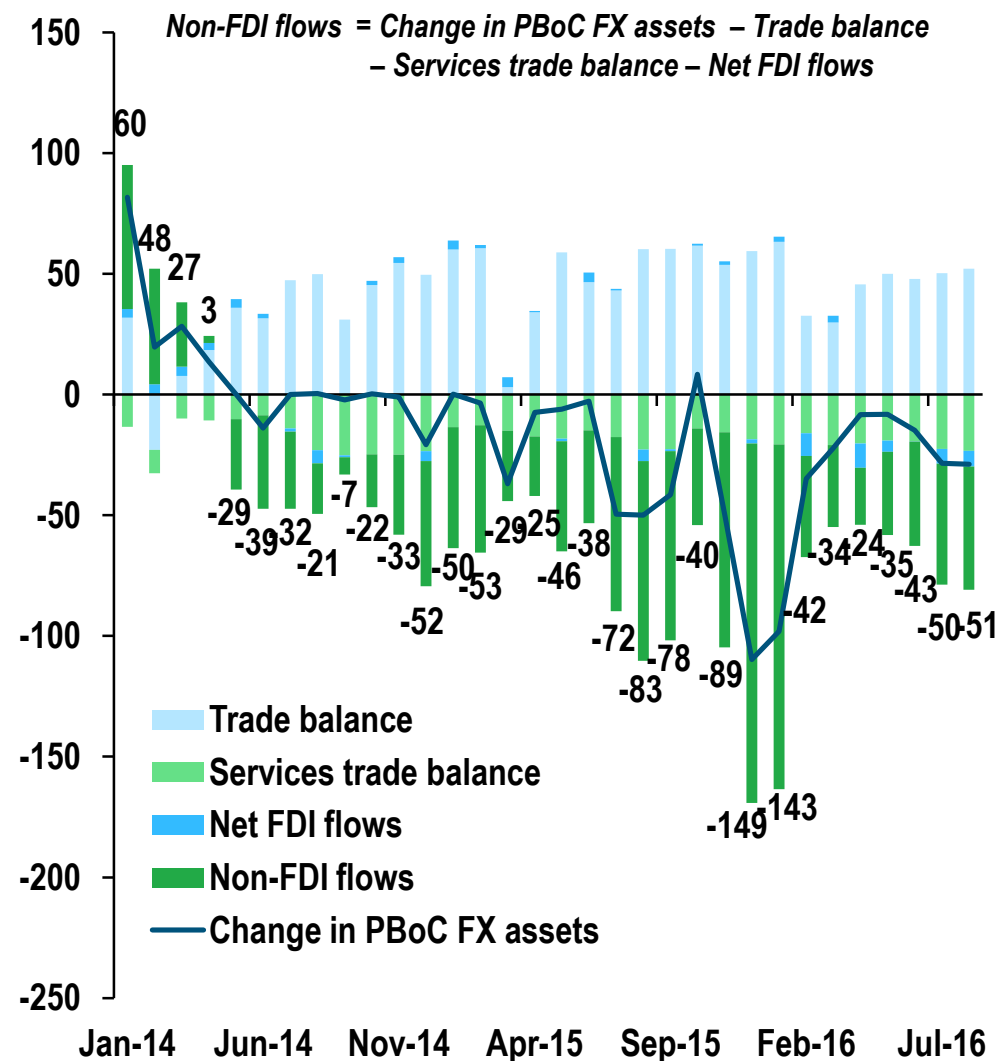
## Intermediary net exports



# Still-sluggish growth in Japan and China

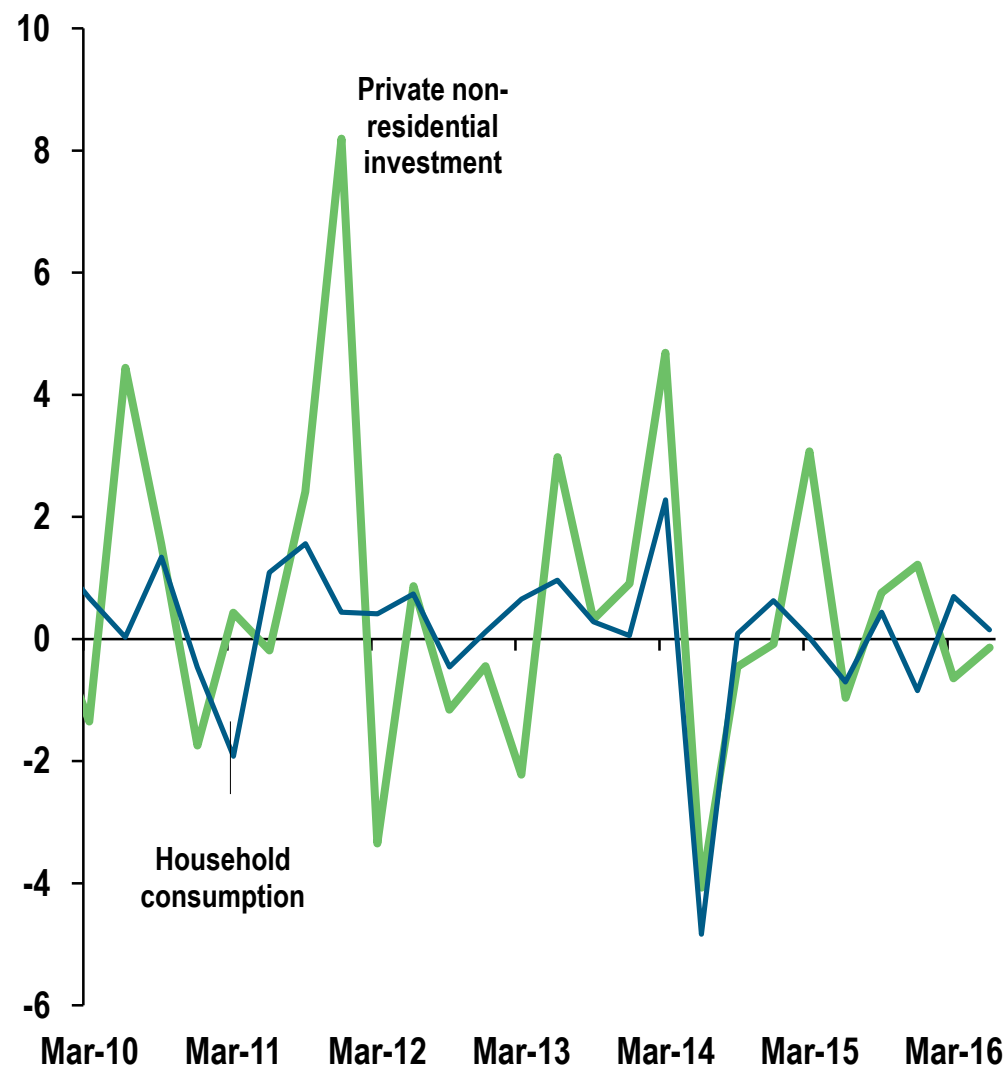
## Capital outflows have picked up in recent months

*Estimate of China's capital outflows, USD bn*



## Private demand remains sluggish

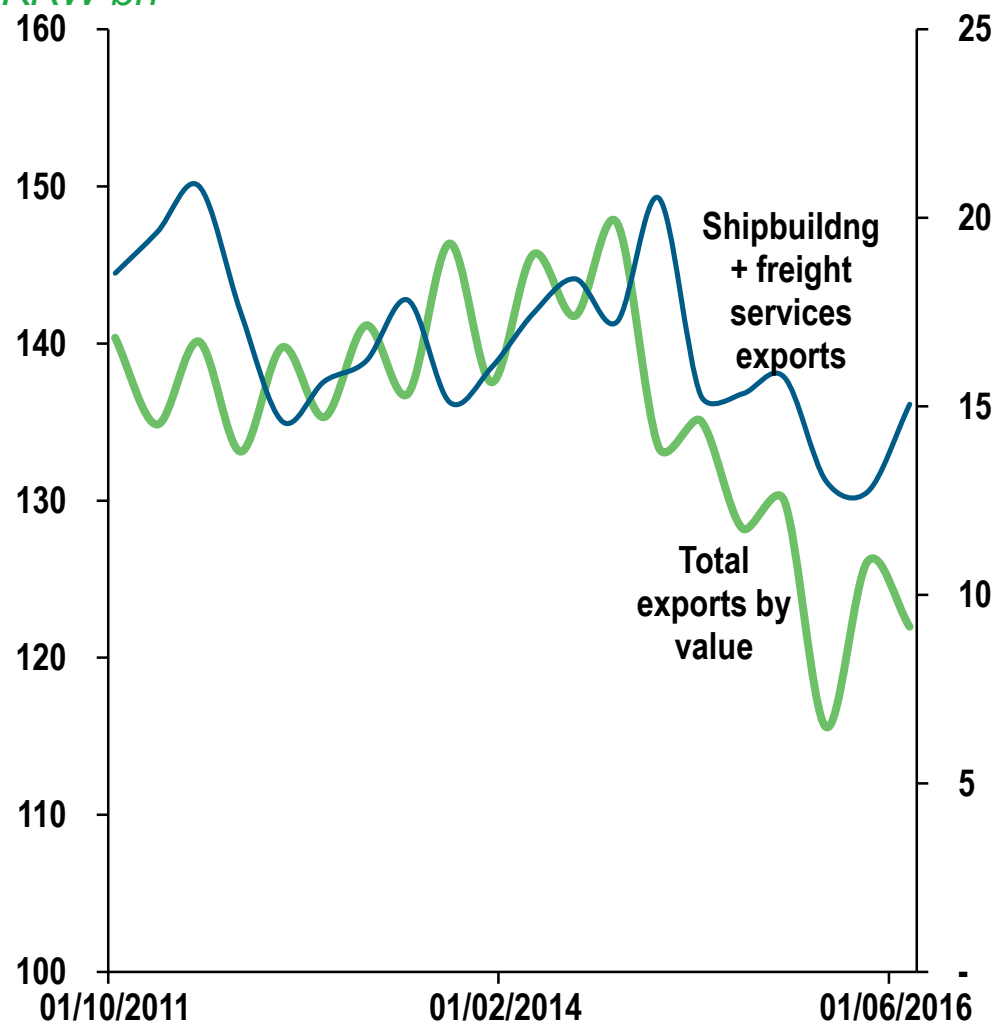
*% q/q SA, under GDP component*



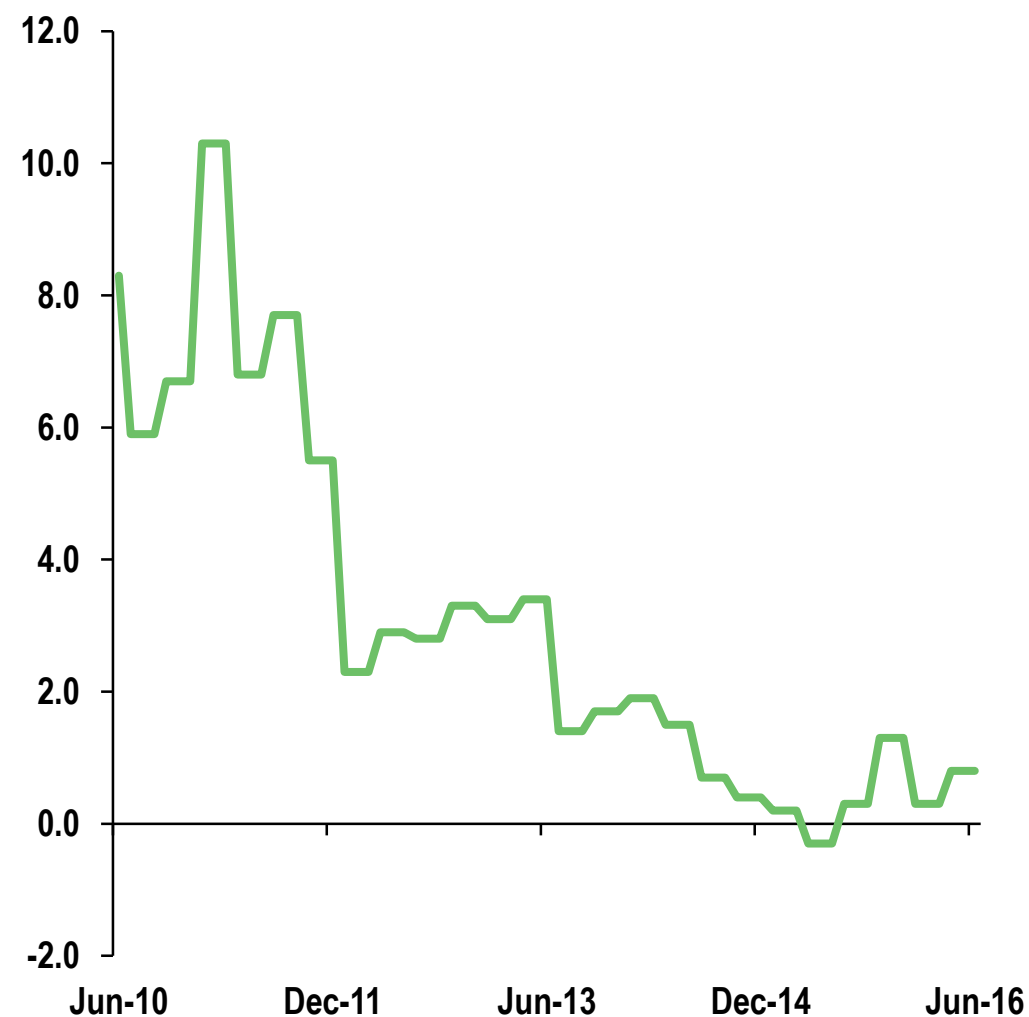
# Exports – Impacted by fall in shipbuilding and freight services

## Exports fall along with shipbuilding and shipping exports

KRW bn



## Export contribution to GDP drops



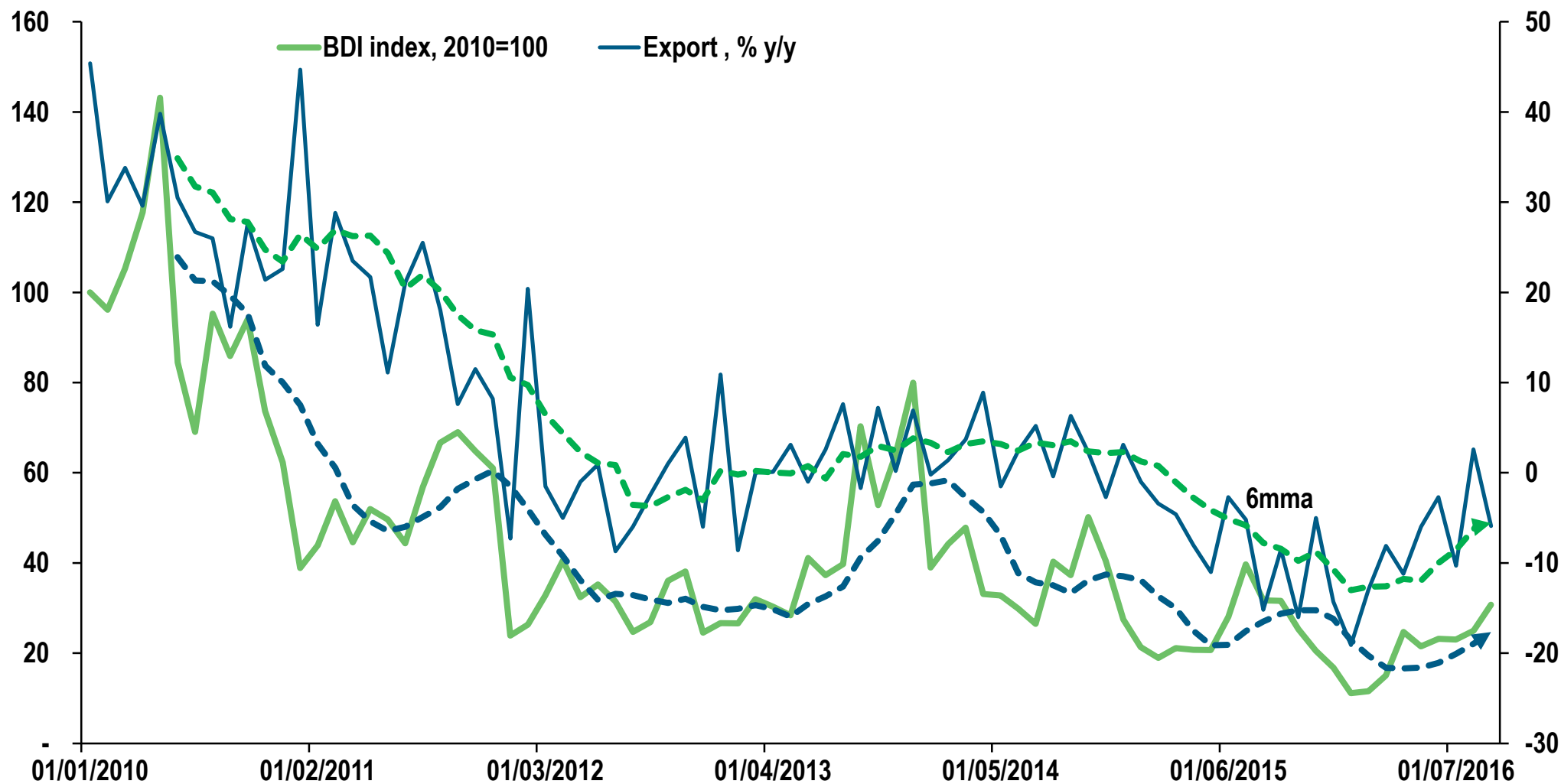
# Korea's industrial restructuring

- IMF estimates the cost of restructuring of shipbuilding and shipping sector at KRW 31tn (c.USD 27bn)
- Creditor losses are estimated at 5.5-7.5% of GDP
- Employment impact is expected to be 0.4-0.9% of the labour force
- However, losses from restructuring are likely to lead to mid- to longer-term benefits
- 
- Permanent 0.4-0.9ppt increase in future GDP growth anticipated due to higher corporate investment and debt 'pay-off'
- Employment rate to be boosted by 0.05-0.1ppt versus a 'no restructuring' scenario
- Overall economic cost of restructuring expected to be recouped over 10 years

# BDI index and exports growth

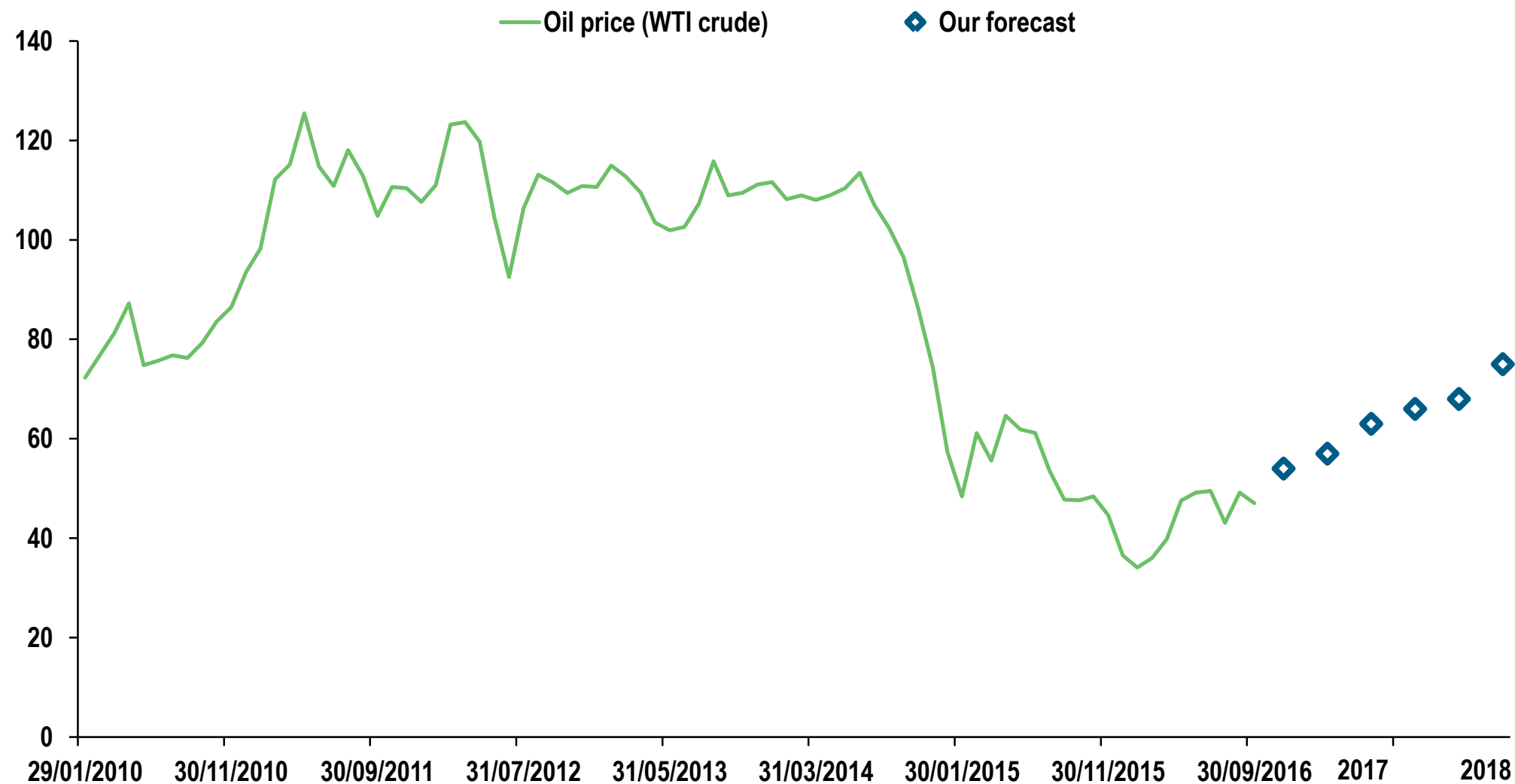
## BDI and exports growth

Based 2010=100 (LHS), 6mma, growth % y/y (RHS)



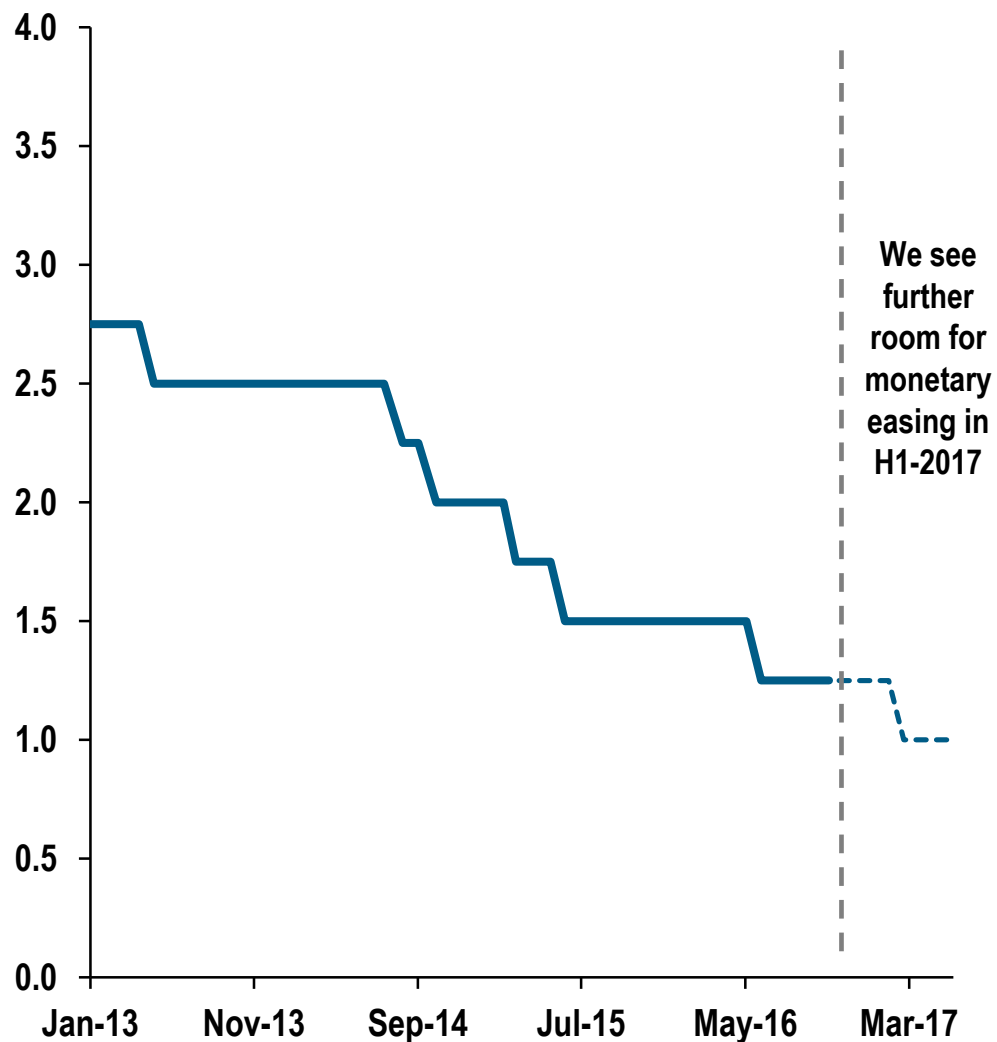
# Our oil price forecasts

## Global oil prices WTI , USD/barrel

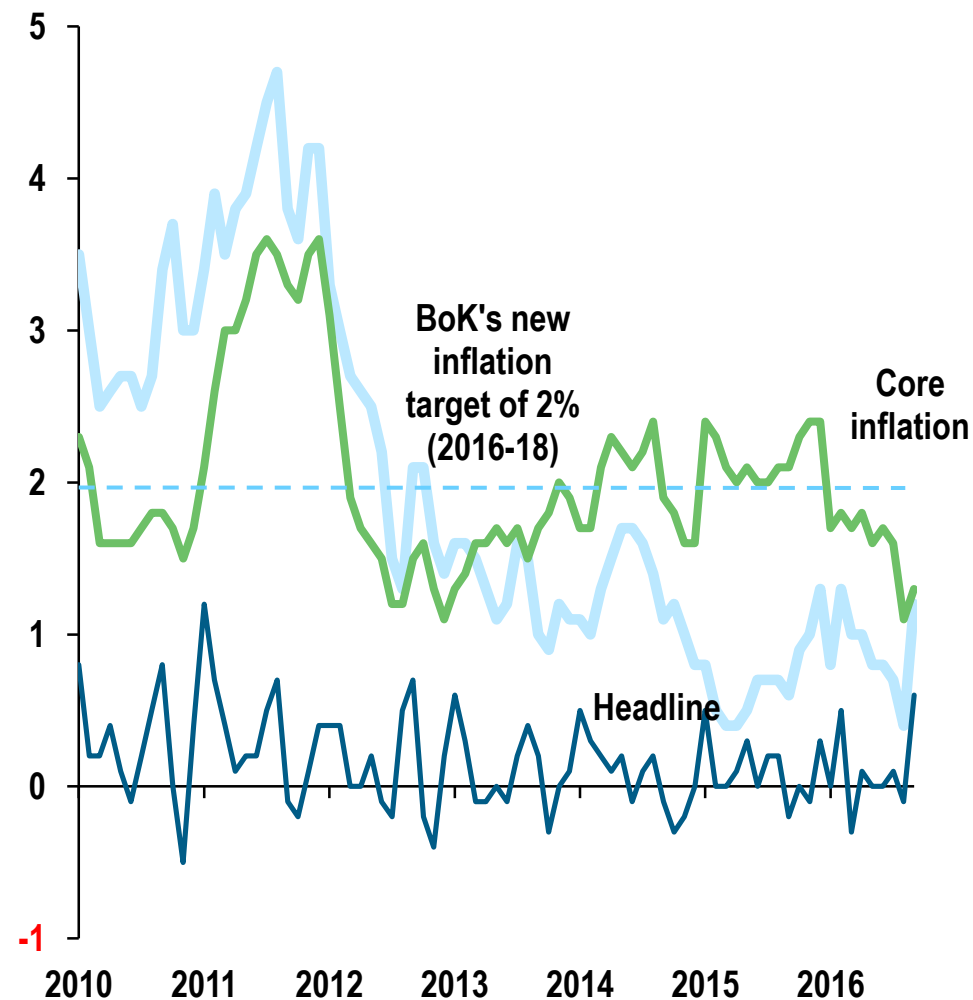


# Doves will have their way

## Further room to cut



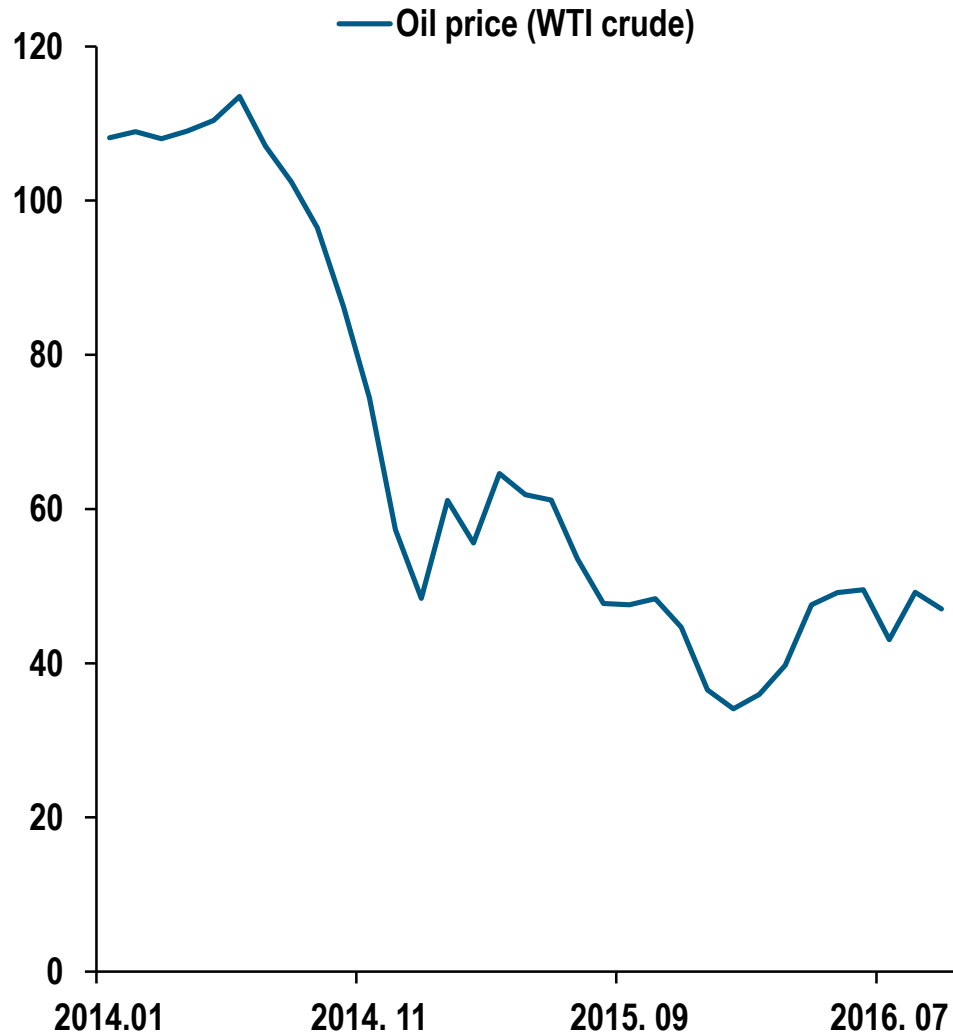
## Low inflation



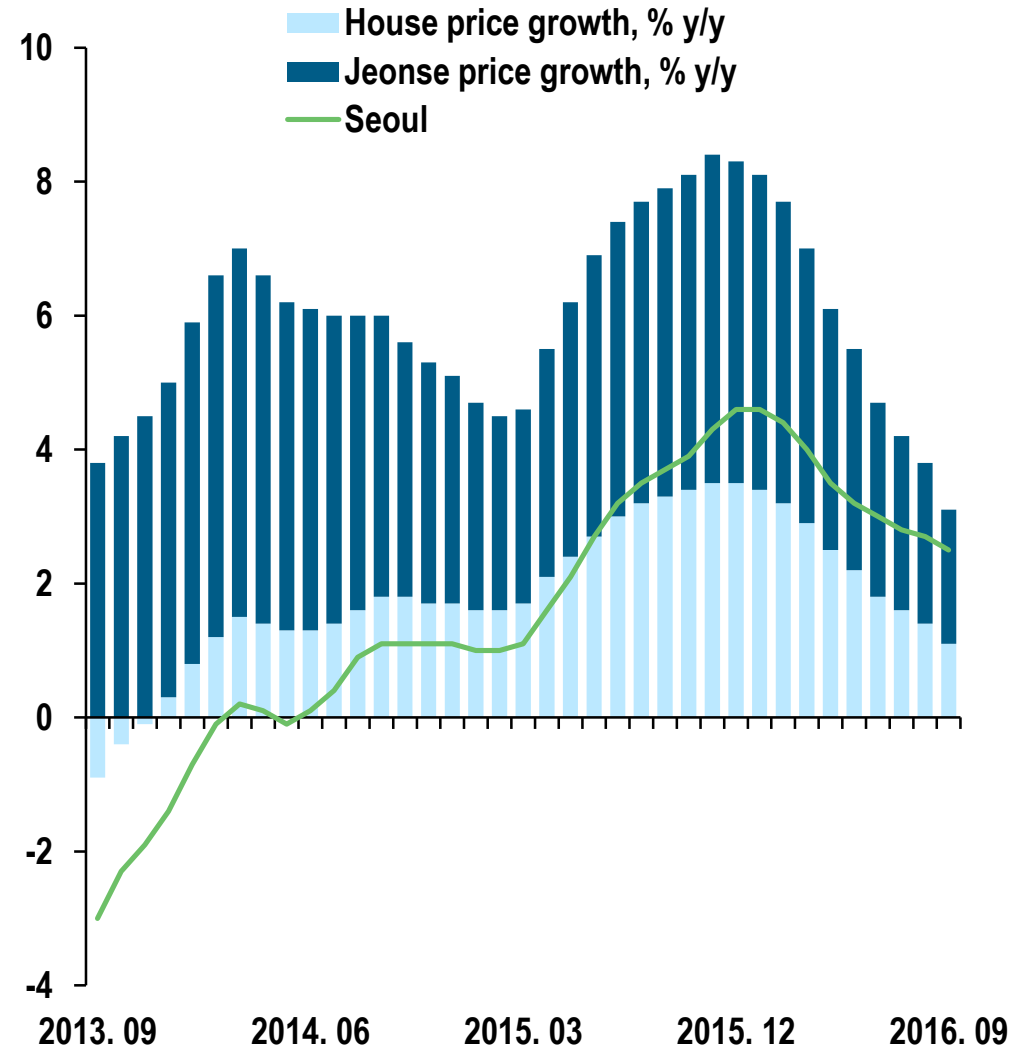


# Inflation is benign

**Global oil price trend**  
2010=100, USD/barrel



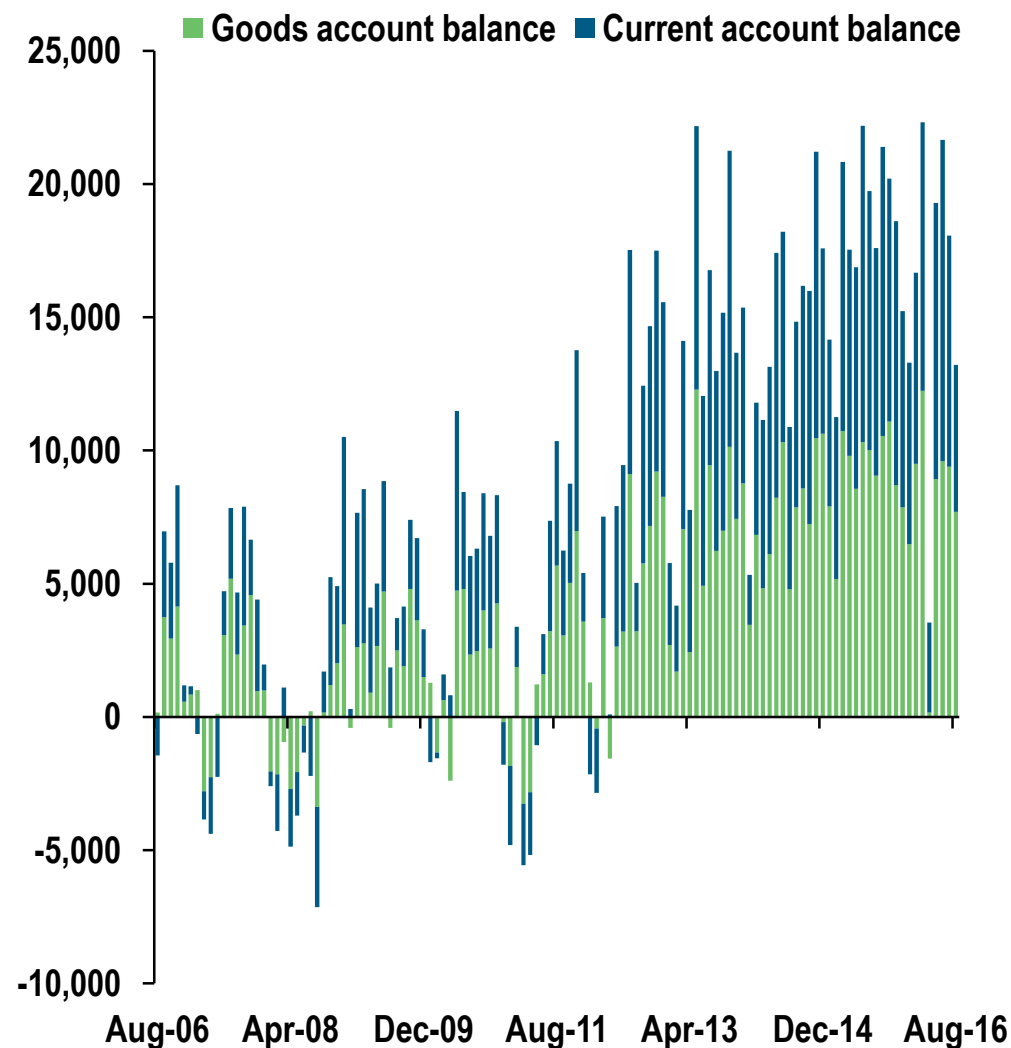
**Housing prices**  
% y/y



# Not as bad as it looks – We do not expect an exodus of capital

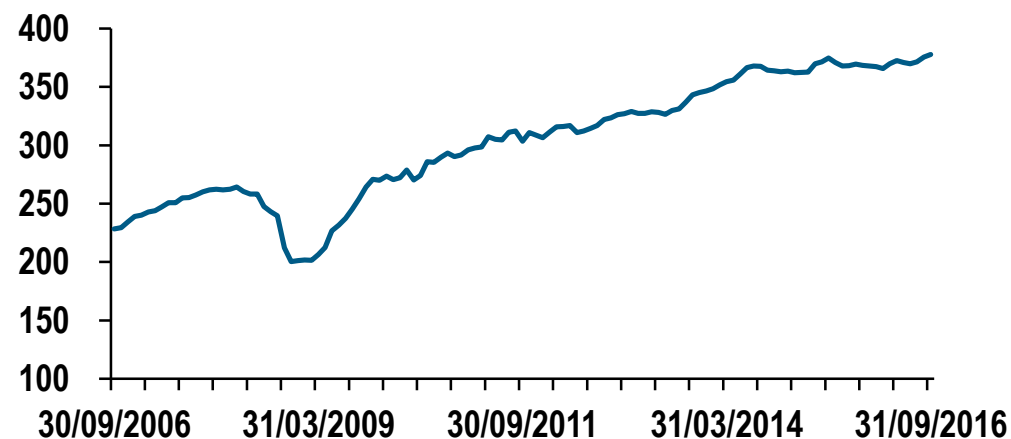
## Strong current account surplus

USD mn



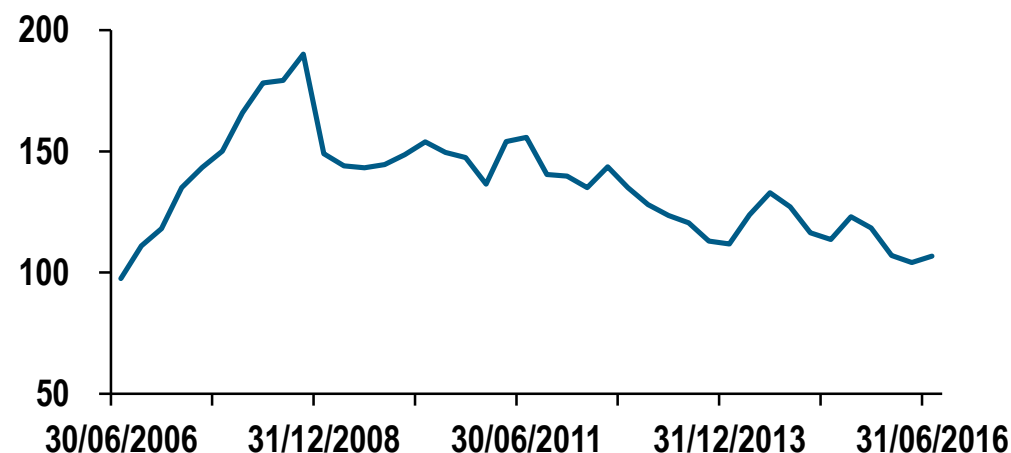
## FX reserves

KRW bn



## Short-term external debt

KRW bn



# Korea – Macroeconomic forecasts

	2015	2016F	2017F	2018F
<b>GDP growth (%)</b>	<b>2.6</b>	<b>2.6</b>	<b>2.5</b>	<b>2.6</b>
<b>CPI inflation (%)</b>	<b>0.7</b>	<b>1.0</b>	<b>1.7</b>	<b>2.0</b>
<b>Current account (% of GDP)</b>	<b>7.7</b>	<b>7.5</b>	<b>6.7</b>	<b>6.0</b>
<b>Adjusted fiscal balance (% of GDP)</b>	<b>-2.4</b>	<b>-2.2</b>	<b>-2.0</b>	<b>-2.0</b>
<b>Base rate (% , period-end)</b>	<b>1.50</b>	<b>1.25</b>	<b>1.00</b>	<b>1.00</b>
<b>USD-KRW (period-end)</b>	<b>1,175</b>	<b>1,170</b>	<b>1,180</b>	<b>1,150</b>

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