

**SOUTH KOREA'S ECONOMY IN 2015:
MODERATE EXPANSION FUELLED
BY STIMULUS POLICIES**

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Executive Summary

1. South Korea's gross domestic product (GDP) is expected to expand 2.7% in 2015, down from 3.3% in the previous year. The feeble private consumption following the outbreak of the Middle East respiratory syndrome coupled with slumping exports held down growth this year.
2. The stimulus packages totalling US\$22.2 billion were released to offset the negative impact from poor exports and sluggish private consumption. To further stimulate economic growth, Korea's policy interest rate was cut by a quarter percentage point each in March and June 2015 to a record low of 1.5%.
3. The temporary loose monetary measures have proven ineffective in offsetting the deteriorating exports in recent years. Even with US economic recovery, China's rising manufacturing strength and the Japanese yen depreciation have squeezed Korean export sectors' profitability in the global market.
4. The year-on-year growth rates of merchandise exports and imports decreased 7.6% and 16.6% respectively in 2015 (Jan-Oct). The lower oil prices have allowed the country to import cheaper crude oil, leading to a record high trade surplus of US\$72.9 billion during the same period.
5. China remained South Korea's largest export destination and import source in 2015 (Jan-Oct), accounting for 26% of Korea's total exports and 20% of its total imports. Korea traded mostly electrical machinery and machinery with its main trading partners while importing essentially mineral fuel and organic chemical products for its domestic manufacturing needs.
6. Korea is moving towards an innovation-driven economy. Foreign direct investment (FDI) from advanced countries is considered important for acquiring foreign technology and providing greater high value-added job opportunities at home. The United States is the largest FDI source (22% of total FDI), followed by the European Union (14%), China (11%) and Japan (9%) in 2015 (Jan-Sep).

7. China was once Korea's most important outward direct investment (ODI) destination but its importance has declined; ODI to China in 2015 (Jan-Sep) only amounted to 11%, after the United States (23%), five major countries in Southeast Asia (17%) and Latin America (15%).
8. Korea's heavy household and corporate debts are the country's major weakness as a spike in interest rate or a sharp economic slowdown could lead to serious debt default that will further erode the government's financial strength.
9. Korea's huge current account surplus (US\$9.8 billion in September 2015) and foreign exchange reserves (US\$369.6 billion in October 2015) are the country's buffer to any debt-triggered financial crisis.
10. The unclear export prospect has led policy makers in Korea to remain dependent on extra government spending for maintaining its economic growth in 2016. In the long run, Korea's economic development will depend on its successful shift from exporting intermediate goods to high technology intensive products and high value-added services.