

South Korea: Brief Profile

September 2022

Domestic Economy

- ❖ After undergoing a contraction in real GDP by 0.7% in 2020 as a result of the COVID-19 pandemic, South Korea's economy grew by 4.1% in 2021 as it benefited from the higher exports of semiconductors, automobiles and petrochemicals.
- ❖ In absolute terms, GDP was recorded at US\$ 1,811 billion in 2021, with a per capita GDP of US\$ 34,961.4.
- ❖ Consumer price inflation increased to 2.5% in 2021 from 0.5% in 2020 mainly driven by recovery in consumer spending.
- ❖ Services sector dominated the economy, accounting for 62.4% of the nation's GDP in 2020 (latest data available) ; followed by industry (35.6%), and agriculture (2.0%) in the same year.
- ❖ Major industries in South Korea include electronics, telecommunications, automobile production, chemicals, shipbuilding and steel.

BASIC FACTS

Land area: 99,678 sq km

Population: 51.8 mn (2021)

Language: Korean

Currency: Won (W)

GDP: US\$ 1.8 trn (2021)

Exports: US\$ 650 bn (2021)

Imports: US\$ 573.8 bn (2021)

Sovereign Rating: AA (S&P's)

Trade and Current Account Balance

- ❖ South Korea's exports increased by 25.5% to US\$ 650 billion in 2021 from US\$ 517.9 billion in the previous year.
- ❖ South Korea's imports also increased by 31.2% to US\$ 573.8 billion in 2021, from US\$ 437.3 billion in 2020.
- ❖ Major exports of South Korea in 2021 include electrical machinery & equipment (31.2% of total exports in 2021), machinery and mechanical appliances (11.8%), vehicles other than railway or tramway (10.4%), plastic and articles (6.7%), and mineral fuels and oils (6.2%).

- ❖ China was the most important export destination of South Korea accounting for 25.3% of total exports in 2021, followed by USA (14.9%), Vietnam (8.8%), Hong Kong (5.8%), and Japan (4.7%).
- ❖ The principal imports of South Korea during 2021 include mineral fuels, oils and products of their distillation (22.4% of total exports in 2021), electrical machinery & equipment (18.7%), machinery and mechanical appliances (11.2%), ores, slag and ash (4%), optical and medical apparatus (3.7%), vehicles other than railway or tramway (3.3%), and iron and steel (3.0%).
- ❖ China was the primary source of South Korea's imports, accounting for 22.5% of South Korea's total imports in 2021, followed by USA (12%), Japan (8.9%), Australia (5.4%), Saudi Arabia (3.9%), and Vietnam (3.9%).
- ❖ Trade surplus narrowed to US\$ 76.2 billion in 2021 as compared to the previous year's surplus of US\$ 80.6 billion.
- ❖ The current account surplus widened to US\$ 88.3 billion in 2021 (4.9% of GDP) as compared to the previous year's surplus of US\$ 75.9 billion (4.6% of GDP).

Foreign Direct Investment, Foreign Exchange Reserves and Exchange Rate

- ❖ According to UNCTAD's *World Investment Report 2022*, FDI inflows into South Korea increased to US\$ 16.8 billion in 2021, compared to US\$ 8.8 billion recorded in the previous year.
- ❖ According to the same source, FDI outflow from South Korea increased to US\$ 60.8 billion in 2021 from US\$ 34.8 billion in 2020.
- ❖ The currency of South Korea is Won (W). The won appreciated to W 1,144: US\$ 1 in 2021 from W 1,180: US\$ 1 in 2020.

- ❖ Foreign exchange reserves increased to US\$ 463.1 billion in 2021, as compared to US\$ 408.8 billion in 2019. Reserves reflected an import cover of over 10 months.

Country Ratings

- ❖ *As per Standard & Poor's (S&P) Sovereign Ratings* dated September 13, 2022, South Korea was rated AA (the obligor's capacity to meet its financial commitments on the obligation is very strong), with a 'stable' outlook.
- ❖ *Dun and Bradstreet's (DB) Country Risk Indicator¹*, September 2022, rates South Korea as DB3b (Slight risk: Enough uncertainty over expected returns to warrant close monitoring of country risk).
- ❖ *Moody's Investors Service²*, as on July 29, 2022, rated South Korea as Aa2 (rated as high quality and are subject to very low credit risk.), with a stable outlook.
- ❖ According to *Organization for Economic Co-operation and Development (OECD)³* country risk classifications of September 2022, South Korea is not rated being a high-income OECD country.

Macroeconomic Outlook

- ❖ Real GDP of South Korea is expected to grow by 2.7% in 2022, as the country's export-oriented economy continues to benefit from growth in outbound shipments of semiconductors and petrochemicals. However, growth in consumer demand in Europe and the US will soften in the second half of 2022 owing to soaring inflation

¹ The DB risk indicator is divided into seven bands (DB1 to DB7, in the increasing order of risk). Each band is further divided into quartiles (a-d, ranging low to high), except the DB7 band.

² Moody's Investor services ranks countries in nine categories Aaa, Aa, A, Bbb, Bb, B, Ccc, Cc and C, according to increasing order of risk. Numerical modifiers 1, 2, and 3 are appended to each generic rating classification. The modifiers 1, 2 and 3, respectively indicate that the obligation ranks in the higher end, mid-range, and lower end of its generic rating category.

³ The OECD Country Risk Classification measures country credit risk, i.e. the likelihood that a country will service its external debt, on a scale of 0 -7 (where 0 is the lowest risk category and 7 is the highest).

and slowing economic growth. This, in addition to lower demand from China caused by its “zero covid” policy, could undermine South Korean exporters’ performance and precipitate a downward cycle in global consumer electronics demand.

- ❖ The consumer prices are expected to rise by 5.5% on average in 2022, as consumer spending remains elevated. Strong inflationary pressures on the supply side are likely persist throughout 2022, amid high costs for food and fuel. Prices for energy (imports account for more than 90% of South Korea’s energy consumption) and wheat is expected to remain high for a prolonged period in the aftermath of the war in Ukraine. High freight costs, along with a depreciation of the won, will also push up the prices of imported goods.
- ❖ The Won is likely to face strong depreciatory pressure against the US dollar in 2022-23 as the BOK is unable to match the strength and pace of monetary policy tightening in the US. The Won is expected to depreciate in 2022 on average to 1276 W: 1 US\$ from W: 1144 US\$ in 2021.
- ❖ The current account surplus is expected to narrow from 4.9% in 2021 to 3.1% in 2022 as surging imported energy and food prices is likely to increase the import bill.

South Korea: Economic Structure

Economic Indicators	2017	2018	2019	2020	2021	2022 ^f	2023 ^f
GDP (US\$ bn)	1,623	1,725	1,651	1,644	1,811	1,747	1,774
Real GDP growth (%)	3.2	2.9	2.2	-0.7	4.1	2.7	2.3
Consumer price inflation (avg, %)	1.9	1.5	0.4	0.5	2.5	5.5	2.8
Population (mn)	51.5	51.7	51.8	51.8	51.8	51.8	51.8
Exports fob (US\$ bn)	580.3	626.3	556.7	517.9	650.0	651.4	624.7
Imports fob (US\$ bn)	466.7	516.2	476.9	437.3	573.8	614.4	588.6
Current-account balance (US\$ bn)	75.2	77.5	59.7	75.9	88.3	54.0	46.9
Total international reserves (US\$ bn)	389.3	403.7	408.8	443.1	463.1	447.7	458.7
Total external debt (US\$ bn)	380.5	404.7	432.6	503.9	566.8	570.0	570.6
Exchange rate (av; W: US \$)	1,131.0	1,100.0	1,165.0	1,180.0	1,144	1,276	1,308

Note: ^f- Projections

Source: EIU.