

South Korea Business Forecast Report Q4 2013

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Abstracts

Core Views

The initial concerns about the impact of 'Abenomics' on South Korea's economy have proven to be unfounded. Factors other than exchange-rate valuations have enabled South Korea to maintain its export competitiveness. We believe that any concerns towards the implications of Abenomics on Korea should centre around the structural reforms that Japan is hoping to undertake. The gradual shift in South Korea's property market from a depositbased (jeonse) rental system to one that is based on monthly rentals (wolse) provides for a better functioning real estate market as property valuations will be less distorted and more transparent. However, given the extent to which the jeonse system is entrenched within the domestic property market, the shift towards a monthly rental-based system will likely take place over a protracted period of time.

Incipient signs of a deterioration in South Korea's public finances are starting to surface as revenue collection in H113 registered its worst performance in three years. With an increase in welfare spending in the years ahead likely to be unavoidable, we believe that a reform of the country's tax infrastructure is sorely needed so as to accommodate the rise in expenditures.

Constant political bickering and consequent delays to the policymaking process are starting to have a negative impact on economic momentum. We highlight that politicking may consequently come at the expense of economic growth going forward. We have raised our current account deficit forecast for 2011 to 8.0% of GDP from 6.6% previously on account of surging imports in the first half of the year, driven by loose monetary policy at home and higher global commodity prices.

Key Risk To Outlook

Downside Risks To Economic Growth Forecast: Should we see a sharper-than-expected downturn in the global economy or even an implosion in South Korea's household debt market, we would certainly expect to see a substantial weakening in its exports sector, which, in turn may push the economy into a pronounced recession.

Downside Risks To Monetary Policy Forecast: In the event that the economy worsens beyond expectations, while deflationary concerns come to the fore, the central bank is likely to enact a more aggressive monetary stance.

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In line with our expectations, the initial concerns about the impact of 'Abenomics' on South Korea's economy have proven to be unfounded. Factors other than exchange rate valuations have enabled South Korea to maintain its export competitiveness. Additionally, South Korea has in recent years been a beneficiary of the structural deficiencies faced by the Japanese economy. Going forward, we believe that any concerns towards the implications of Abenomics on Korea should centre around the structural reforms that Japan is hoping to undertake.

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Incipient signs of a deterioration in South Korea's public finances are starting to surface, as revenue collection in H113 registered its worst performance in three years. With an increase in welfare spending in the years ahead likely to be unavoidable as the country's population ages rapidly, we believe that a reform of the country's tax infrastructure is sorely needed so as to accommodate the rise in expenditures.

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We believe that the gradual shift in South Korea's property market from a deposit-based (jeonse) rental system to one that is based on monthly rentals (wolsse) provides for a better functioning real estate market as property valuations will be less distorted and more transparent. However, given the extent to which the jeonse system is entrenched within the domestic property market, the shift towards a monthly rental-based system will likely take place over a protracted period of time.

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