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Korea Macro View

BoK Is Not Likely to Join the Wave of Global Easing

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- **Likelihood of global easing rises as more than 10 CBs cut rates recently** — On the back of increasing concerns about prolonged disinflation or deflation amid rapid decline of oil price and dimmer prospects for economic growth, many central banks (CBs), including those in countries exporting commodities, have taken accommodative monetary policy actions so far this year. Further, some CBs cut policy rates to cope with appreciation of their currencies as a result of other CBs' easing measures, particularly QE. Since disinflation is now a global trend and concerns over the level or volatility of exchange rates also remain escalated, there are expectations that many other CBs, including the BoK, will follow the easing stance in the coming months.

- **In our view, the BoK is not likely to join the easing wave** — First, unlike other CBs which did not take any action in 2014, the BoK implemented monetary easing by cutting the policy rate by 50bps with two cuts, each of 25bps, in Aug and Oct 2014 along with government fiscal stimulus of cW45.7trn. The bank seems to be in wait-and-see mode to evaluate whether these monetary and fiscal measures support economic recovery. Further, low oil price could provide upside growth potential to the economy given Korea's heavy reliance on oil imports. Second, Korea is not likely to fall into a prolonged period of disinflation or deflation as inflation is expected to pick up to mid-2% later this year as service prices pick up and base effect kicks in. Lastly, the BoK is now concerned more about domestic financial risks, particularly household debt. Speculation about extra rate cuts to maintain JPYKRW pair at a certain level is unconvincing since recent movements of KRW have been dependent more on external than domestic factors.

- **Government and the BoK now share same view on policy and reform** — The BoK maintained that current 2.00% policy rate is accommodative enough to support economic growth of 3.4% in 2015, which is also the potential GDP growth. Stressing the necessity of structural reform to maintain growth potential, the Minister of Strategy and Finance, Mr. Choi, Kyunghwan, said in an interview with Reuters on Feb 9th that ".. the question.. is not about whether we should raise the rate or cut the interest rate… In 2H14, Korea…cut (the policy rate) twice…. to… 2% and this is already historic low level. .. So this stance is likely to continue… and the economy would continue its steady recovery." The BoK also emphasizes the need for structural reform, a further reason for it not to cut the rate as this could delay the restructuring of marginal firms and household debts.

- **We reiterate our call that the BoK leaves the rate at 2.00% in this year** — Considering all of the points listed above, we believe the BoK will leave the policy rate at 2% in the balance of this year to support economic recovery.

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Will the BoK join the wave of global easing?

We expect the BoK to retain the policy rate at 2.00% in the remainder of this year. We changed our call after the Jan MPC meeting but some are still speculating that the central bank would cut the policy rate, called base rate which is 7-day RP rate, in Mar or Apr. However, we do not think that is likely, for reasons that we lay out in this note.

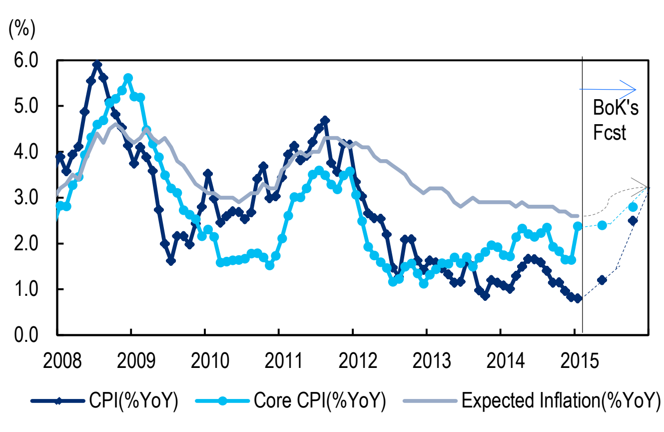
The BoK is not likely…

The BoK is facing a different situation to those of many CBs that cut their policy rate recently. The differences relate to 1) the prospects for inflation in coming months, 2) the expected recovery pace of the respective domestic economies, as well as 3) existing monetary policy stance, i.e. previous monetary measures to support growth or to fight disinflation, etc.

The BoK, unlike other CBs that are concerned about continued disinflation or deflation, expects headline CPI inflation to pick up to mid-2% in 2H15, as illustrated with the dotted line in Figure 1. The BoK also forecasts core-CPI inflation in 2015 to post 2.6% (1H15: 2.4%, 2H15: 2.8%), suggesting the deflationary pressures from the decline of oils and agricultural goods prices will be about 0.7%p on average in this year. We expect headline inflation in 2015 to post 1.4%, 0.4%p lower than the BoK's 1.9% while we share with the BoK the view that inflation will pick up later this year on the back of service price hikes, a low base a year ago, and dissipation of supply shocks. We think the expected inflation, which stayed at 2.6% in Jan, could fall further as the headline inflation remains low in 1H but will shift to rise with the headline inflation in 2H15.

Secondly, unlike CBs that need monetary easing to support economic growth, the BoK already had cut the policy rate in 2H14 by 50bps, with cuts of 25bps in Aug and Oct. Furthermore, the government has implemented W45.7trn of fiscal stimulus to support economic recovery. As BoK Governor Lee mentioned at the press conference in Jan, the BoK is now in wait-and-see mode to evaluate the effects of its monetary easing as well as extra fiscal measures in 2H14.

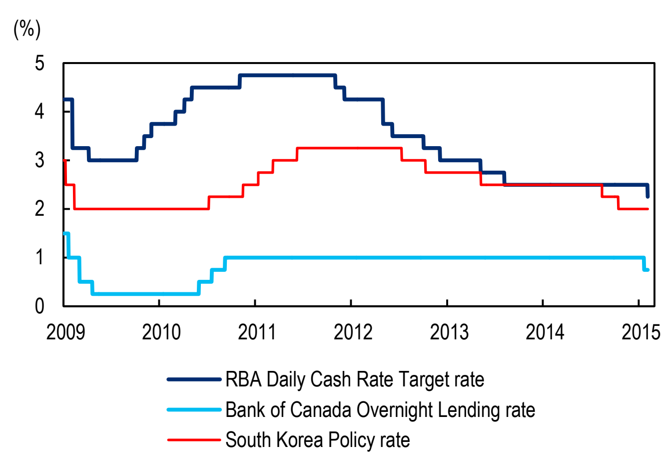
Figure 1. BoK views deflation as a remote risk for Korea's economy



Note: The dotted lines of CPI(%YoY) and Core CPI(%YoY) illustrate the BoK's forecasts for headline and core CPI inflation in 1H and 2H of 2015. Meanwhile, the dotted line of expected inflation (%YoY) is Citi Research's forecast.

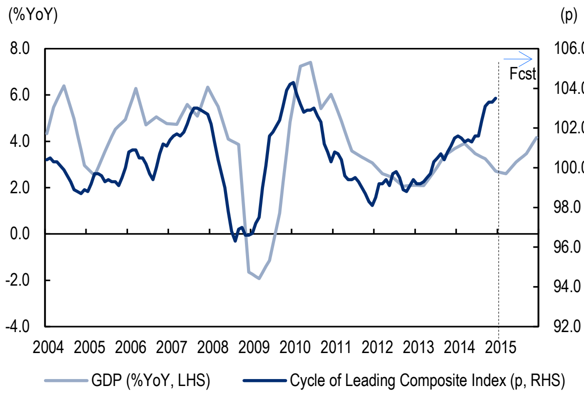
Source: BoK, Statistics Korea, Citi Research

Figure 2. Among CBs that recently cut their policy rates, some did not move rates in 2014. BoK cut the rate twice (each by 25bps) in 2H14



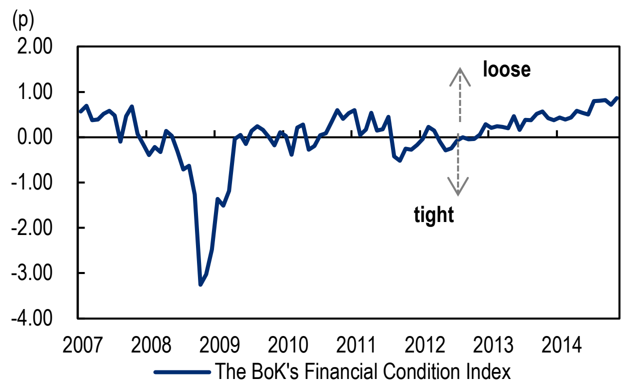
Source: Bloomberg, The BoK, Citi Research Citi Research

Figure 3. Cyclical component of leading composite index bodes well for recovery



Source: : The Statistics Korea, The BoK, Citi Research

Figure 4. BoK's Financial Condition Index: Financial conditions are not too tight to deter growth



Source: : The BoK, Citi Research

Despite some setback in 4Q14 mainly due to fiscal drag amidst shortfall of tax revenue, we expect the Korean economy to maintain a recovery pace of 0.7%QoQ sa in 1Q15 and c1.0%QoQ in the following quarter along with gradual improvement of private consumption and exports. As in Figure 3, the Composite Leading Index suggests that the economy is likely to continue to expand in the coming periods. Particularly, the cyclical component of the composite leading index, which predicts the business cycle in the coming months, inched up further to 103.5 in Dec from 103.3 in Nov and 101.6 in Jul, hinting that the economy will be in the expansion phase going forward.

Furthermore, we expect recent low oil price would bring a windfall gain to the economy by adding extra growth momentum without further monetary easing. According to our simulation, decline of oil price by US$10/bbl will lead real GDP growth to rise by 0.1%p and the current account surplus to widen by US$9.1bn, with headline inflation to fall by 0.2%p. With US$54/bbl of Citi's Brent oil price assumption for 2015, we factored in additional c0.3%p of growth gain with extra cUS$24bn of current account surplus and c-0.6%p of deflationary pressures on the headline inflation to our existing economic forecast for 2015, as in Figure 15.

As BoK Governor Mr. Lee said, financial conditions are not too tight to limit economic recovery and he iterated several times that the current policy rate at 2.0% is enough to support 2015 economic growth of 3.4% (1H15: 3.0%, 2H15: 3.7%). Figure 4 shows the BoK's financial condition index, released with the BoK Inflation Reports, is above 0 and trended up further, particularly in 2H14 when the BoK cut the policy rate twice.

As noted above, economic situations faced by CBs may differ from each other. We scored the situation and gave -1 if monetary easing is needed or 0 as in Figure 5. The CBs' views on economic growth and inflation in 2015 vs. 2014 are important factors to consider. Instead of assessing the forecasts of each CB, we simply employ Citi's latest forecasts to assess them. We also consider whether the CB implemented monetary easing in 2014 and whether the country is a net-importer of commodities, mostly oils, since those situations could reduce the likelihood of further monetary easing. Lastly, reflecting recent widespread concerns over FX-war as an aftermath of major CB's monetary easing, we scored -1 for all the CBs considered.

Figure 5. Evaluation of economic conditions suggests further BoK rate cut is not likely

	Lower inflation forcast for 2015 vs. 2014 = -1, Otherwise = 0	Lower growth forcast for 2015 vs. 2014 = -1, Otherwise = 0	Monetary easing policy conducted in 2H14 = -1, Otherwise = 0	Commodity exporter = -1, Commodity importer =1	FX cocnerns = -1, Otherwise = 0	Score	Monetary policy in Jan - Feb 2015
Canada	-1	-1	-1	-1	-1	-5	Cut overnight policy rate target by 25bps
Australia	-1	0	-1	-1	-1	-4	Cut cash rates by 25bps
Russia	0	-1	-1	-1	-1	-4	Cut 1-week REPO rate by 200bps
Denmark	-1	0	0	-1	-1	-3	Cut rates on certificates of deposit by 70bps
Switzerland	-1	-1	0	1	-1	-2	Cut rates by 50bps, Ended exchange rate cap
China	-1	-1	0	1	-1	-2	Cut RRR by 50bps
India	-1	0	-1	1	-1	-2	Cut Repo rate by 25bps
Singapore	-1	0	-1	1	-1	-2	Reduced the slope of the SGD NEER policy band
Turkey	-1	0	0	1	-1	-1	Cut 1-week repo rate by 50bp
Korea	0	0	0	1	-1	0	Hold the rate

Note: We listed 9 cases out of 12 of which CBs' eased policy stance recently by cutting the policy rates, or cutting RRR, etc. The excluded ones are Romania, Peru and Egypt. The inflation and growth figures are from Citi Research's forecast published in Global Economic Outlook and Strategy (21 January 2015). On inflation issue, it may be more appropriate if we consider current inflation/disinflation/deflation but we made simple assumption that the inflation differentials between 2014 and 2015 could explain many of those. To highlight the CB's concern of FX amidst QEs' of ECB and BoJ, we score -1 for all countries listed in the figure.

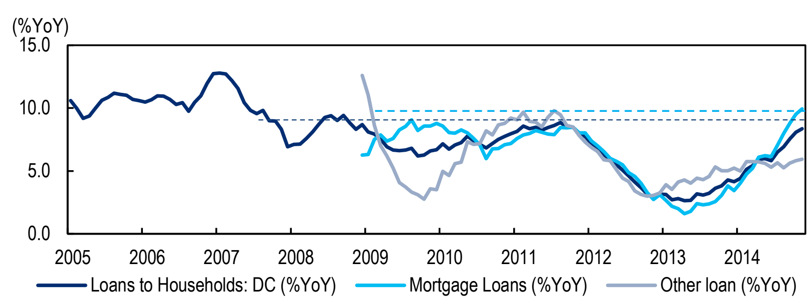
Source: Bloomberg, CEIC, Haver analytics, Citi Research

The scores in Figure 5 illustrate that the CBs with negative numbers had all taken accommodative monetary policy action recently, as listed in the far right column. For Korea, the score is not negative, indicating that the BoK is not likely to do additional monetary easing. That result is the same even if we lift the assumption on the CBs' FX concerns. These findings are in line with our view.

Domestic risks rise as more important issue

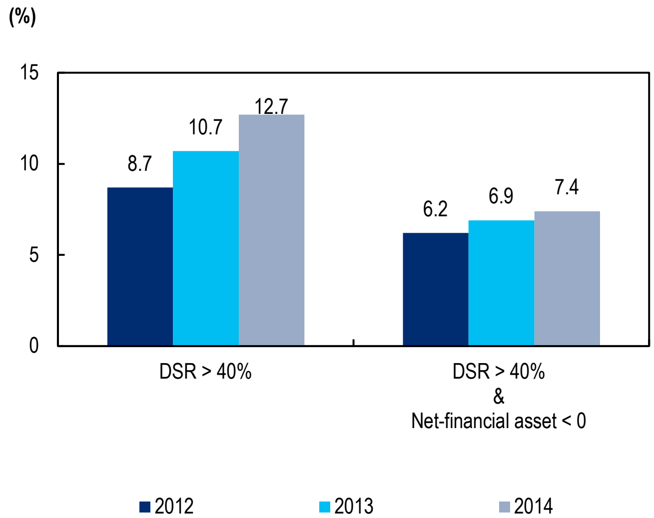
Firstly, the BoK highlights its concern about the surge in household debt in 4Q14. It attributed that increase to the government's easing of DTI and LTV to boost the housing market and the BoK's rate cuts in Aug and Oct. Furthermore, it also appraised that the debt growth if continued could endanger domestic financial stability. Figure 6 shows that, during last Oct-Nov, the depository institutions' loans to households expanded by 8.2%YoY, in particular mortgage loans expanded faster at 9.7%YoY, at the similar speed to in late 2007 and 2008 when the housing market had peaked.

Figure 6. Rapid increase of household debt in 4Q14 escalates financial stability concerns



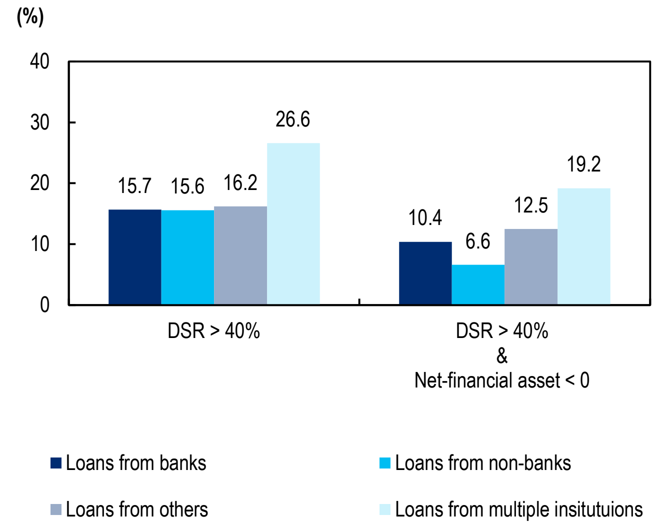
Note: The figures are for the household loans from depository corporations, banks and non-banks (including mutual savings bank, credit unions, mutual credits, etc.).
Source: The BOK, Citi Research

Figure 7. Households' share with DSR>40% (high risk group) and DSR>40% and negative net-financial asset (marginal households) continued to increase



Note: The ratios are to total number of households in each year
Source: The BoK, Lawmaker Kim Ki-joon's office, Citi Research

Figure 8. Among indebted households, those with debts from multiple financial institutions and DSR>40% increased sharply in 2014



Note: The ratios are to the number of indebted households in 2014
Source: The BoK, Lawmaker Kim Ki-joon's office, Citi Research

According to the BoK's data provided to a member of the National Assembly, Kim Ki-joon of the New Politics Alliance Democracy (NPAD), the share of households with DSR>40% to total number of households rose further to 12.7% in 2014 from 10.7% a year ago, as in Figure 7. Furthermore, those with DSR>40% and negative net-financial assets, which are called marginal households, also continued to increase. Moreover, the households' share with DSR>40% reached 26.6% among households indebted from multiple lenders, as in Figure 8. DSRs in Figure 7 and 8 were surveyed in 1H 2014. Therefore, in our view, household debt issues were highly likely to deteriorate further in the later part of 2014 along with the rapid households' loan growth.

On top of that, the government continues to provide incentives to make new loans or switch old loans with new loans, as listed in Figure 9, as measures to support the housing market as well as to restructure household debts. These measures are highly likely to add momentum to debt growth in an environment of low interest rates.

Based on the experience in 4Q14, the BoK is not likely to run the risk to deteriorate the debt issue by cutting the policy rate while the government pursues policies that can increase household debt, as in Figure 9.

Furthermore, the increase of Jeonse loans is worthy of notice. As Jeonse price had outpaced house price in 2014, the demand for Jeonse loans from banks increased rapidly in 2014. According to Financial Supervisory Service (FSS) data submitted to the National Assembly, the banks' Jeonse loans extended to households posted W34.6trn (cUS$34bn) as end of Nov 2014. That was a W6.4trn (22.3%) increase from the level in Jan, W28.3trn, and about twice as fast as banks' mortgage loan growth during the same period. As we expect Jeonse price to continue to rise faster than house price in 2015, loans for Jeonse are likely to expand fast and that will also work to increase household debt burdens.

Figure 9. Government continues to incentivize households to increase loans

	Converting to fixed rate mortgage loan product	Profit-sharing low interest rate bank loan product
Supervision	FSC (Financial Services Commission)	MOLIT (Ministry of Land, Infrastructure and Transport)
About	Convert to fixed rate & amortized loan from floating rate or interest-only mortgages. The Korea Housing Finance Corporation will purchase and securitize the new loans from banks.	Debtor and bank share both return and risk of change in housing price. If housing price rise, debtor should share profit with bank. if house price fall, loss of bank will be paid by Korea Housing Guarantee
Expected capacity	Up to KRW20trn amount of loan will initiated in 2015	Only limited 3,000 cases of loan will be initiated at the first time.
Purpose	To improve structure of debt by increasing the proportion of fixed rate & amortized mortgages	To stabilize housing market price
Qualification of debtor	Debtor who take out a floating rate or interest-only mortgages more than a year ago	No house owner or one house owner who is supposed to sell a house soon. No restriction in income of debtor.
Qualification of loan	A a floating rate or interest-only mortgages, less than KRW0.5bn of outstanding	-
Qualification of house	A house with price less than KRW900mn	A house with price less than KRW900mn and smaller than 102 square meters of area
Expected interest rate	Fixed rate about 2.8~2.9(%), not finalized yet	Variable rate at 1% level, negative 1% spread to COFIX rate benchmark, for the first seven years. After the seven years of period, interest rate of loan will be changed into normal mortgage loan
Implemetation	March 2015	March-April 2015.

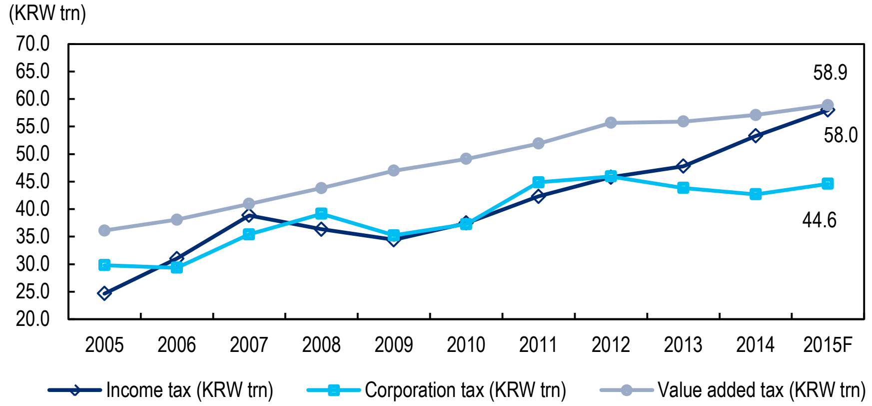
Source: FSC, MOLIT, Citi Research

Secondly, the FX concern, particularly appreciation of KRW against JPY, is likely to be pushed back as a priority of policy makers. The public may think a weakening KRW is a kind of subsidy to exporting industries from households. There were many complaints or much resistance from the public against the government's 2014 income tax. Even though the government asserted that there was no income tax increase, say no change in tax rate, wage earners had to pay more taxes by cW900bn on the back of the government shifting some deduction items to tax credit, etc. With that, income tax revenue exceeded corporate tax revenue by W10.6trn in 2014.

However, that was not only the case in 2014. On the back of the introduction of a new top tax bracket in 2012 (38% vs previous 35%) and corporate tax cut in 2009 (-3%p to 22%), income tax outpaced corporate tax since 2013. Furthermore, according to the government budget and National Assembly Budget Office (NABO)'s projection for 2015 tax revenue, corporate tax revenue is expected to increase by +W0.7trn while income tax by +W10.2trn during the period of 2013-2015.

Given the increased budget demand for social welfare, some argue that that the government should restore the corporate tax rate to 25% instead of increasing income tax revenue. However, the government is for now resistant to that idea. The corporate sector has been criticized for not increasing investment and employment but accumulating cash reserves. For these reasons, in our view, policy makers are likely to be mindful of public sentiment and thus not pursue policies favoring the corporate sector more than the general public.

Figure 10. Growing complaints on less contribution of corporate tax to overall tax revenues: During last decade, income tax increased steadily and outpaced the corporate tax



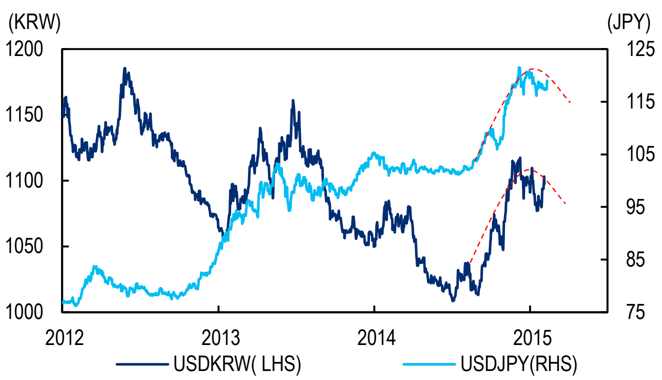
Source: NTS, MOSF, NABO, Statistics Korea, Citi Research

Leaving aside the tax issue, we also question the degree of monetary easing to support KRW weakness against JPY, particularly when the BoJ starts another round of quantitative easing in the coming months. Expectations of extra BoK rate cut or cuts could play a role in weakening KRW, if other things are equal in the markets.

However, in our view, the BoK's rate decision is just one of many factors, as illustrated in Figure 11 and 12, which influence the level and trend of KRW exchange rates with other major currencies. In particular, the BoJ's decision to implement another round of quantitative easing will lead JPY to weaken against USD and that will also, in our view, likely weaken KRW against USD. The co-movement of USDJPY and USDKRW is likely to remain and the JPYKRW pair may not differ significantly from 9 levels.

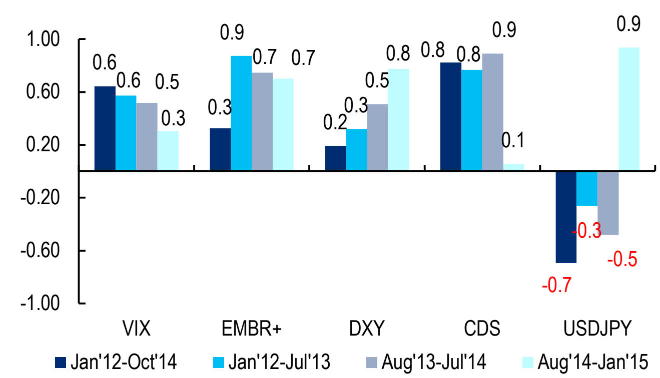
Furthermore, we think, USDKRW or JPYKRW would not shift to a rapid downward trend since KRW would remain weak as the Fed's anticipated rate hike in 2015 will likely result in further across-the-board USD strength. That is the reason why we still believe USDKRW could stay above 1,100 in 6-12 months without a BoK rate cut in the balance of this year.

Figure 11. Co-movement of USDJPY and USDKRW is not likely to bring a significant deviation of JPYKRW from current level



Source: Bloomberg, CEIC, Citi Research

Figure 12. KRW is more likely to move along with DXY, EM risks, and other global variables than BoK rate decisions



Source: Bloomberg, Infomax, Citi Research

Negative output gap is not likely to widen

In Jan, the BoK revised down its 2014-15 growth forecasts by 0.2%p and 0.5%p to 3.3% and 3.4% to reflect unexpected slowdown of the economy in 4Q14 – see Korea Macro Flash : BoK Cuts 2015 GDP Growth to 3.4%, New Potential Growth Level. The BoK attributed that to weak consumption expenditures partly due to contraction of spending on mobile phones along with a new law to limit the subsidy as well as fiscal drag due to shortfall of tax revenue. It asserted the sluggishness had led the recovery and growth path to level down to cut annual growth 2015 by 0.5%p while it also maintained that the recovery pace going forward was not dampened by the shocks in 4Q14.

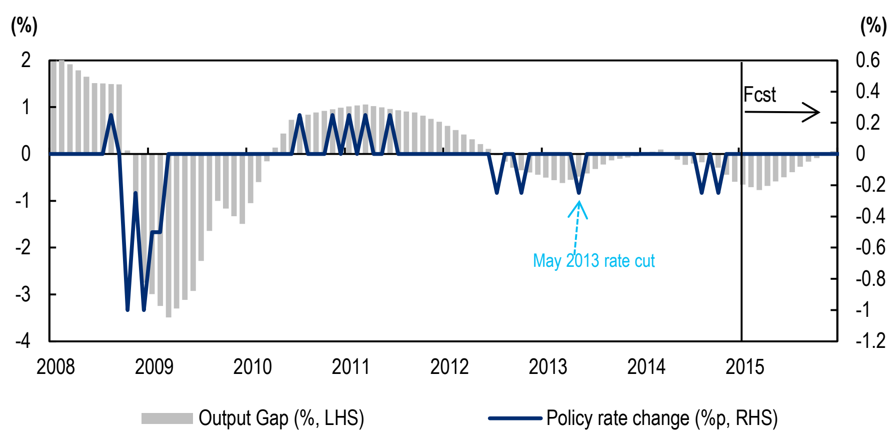
The downward revision of 2015 growth turned out to lengthen the period of the economy to stay below the potential level. That could call for extra monetary easing to accelerate the recovery and to narrow the negative output gap. In our view, what really matter is whether the output gap will widen further in the coming month.

In Figure 13, we illustrate the trend of the output gap, which is interpolated for monthly frequency, and the timing and magnitude of the BoK's policy rate cuts. What we found from Figure 13 is that the BoK cut the policy rate when the negative output gap widened and stopped before the trough of the gap cycle. The rate cut in May 2013 was an exception. At that time, the market and we all expected the BoK to cut the policy rate before March or April when the government boosting measures, but the BoK delayed the rate cut to May 2013.

Our estimate of the output gap depicted in Figure 13 bottoms in March 2015 and gradually narrows to the end of this year. Given the downside risks to economic growth and continued disinflation amid weak economic sentiments, we previously expected the BoK to cut the policy rate in Jan by 25bps to 1.75% and the call was in line with our findings in the Figure 13.

The BoK is not likely to change the policy rate in near months, i.e., Feb and March, since it needs more data to evaluate the effects of its two rate cuts in 2H14. In our view, if the BoK cut its policy rate to below 2.00% after March 2015, the rate cut could be a repeat of its previous mistake, which happened in May 2013.

Figure 13. Output gap and policy rate change



Source: BoK, CEIC, Citi Research

All focus on structural reform

Since the announcement of near cW45.7trn of fiscal stimulus for 2H14-2015 in 2H14 to bolster recovery, the government had rolled out anther policy agenda, the structural reform, to enhance the competitiveness and growth potential of the economy. As outlined in Figure 14, the government focuses on the reform of labor market, financial system, and public sector to improve flexibility and security of job market, deregulations and introduction of IT-technology to financial industry, and improvement of efficiencies in public institutions, respectively. The Governor of the BoK, Juyeol Lee, also pointed out the necessity of structural reform several times at the press conference after the MPC meetings held recently. At first, all of these policy directions seem somewhat inappropriate for us since the economy may needs extra boosting measures to avoid another year of weak economic growth after three straight years of sub-par (below potential) growth since 2012.

In our view, however, this policy direction to reform the economy is now legitimate if we acknowledge the BoK's evaluation that the economic growth of 3.4% in 2015 is the potential growth level. That suggests the economy's growth potential eventually fell to below mid-3% from 4%s of the period prior to the Global Financial Crisis (GFC). Considering the issue of aging population and deterioration of competitiveness of industries, particularly due to faster catching-up effect of China, the growth path going forward is expected to stay further below current 3.4%. In terms of this respect, the growth potential could maintain or shift back to increase to a certain extent if the structural reforms succeed to improve competitiveness and efficiencies of the economy.

Meanwhile, the emphasis on structural reform hints some monetary policy implication, as Governor Lee noted at the press conference after the Jan MPC meeting. Governor Lee mentioned that the structural reform would not lead the economy to slow down and the monetary policy should be of help to the reform. In our view, this statement could suggest that the BoK would not take further easing stance since the growth or recovery pace is not affected by the reform and a possible rate cut could delay the reform of other sectors, such as zombie SMEs (of which interest rate coverage rate is below one or that survive with the government's support) and households' debt, etc.

Above all, the government seems to share the same view with the BoK that current monetary policy is accommodative to support steady recovery and stable inflation in this year. The Minister of Strategy and Finance, Kyung-Whan Choi, in an interview with Reuters on Feb 9th said that "… in the second half of last year, the (policy) interest rate was cut twice, … so this stance is likely to continue… the country's economy would continue its steady recovery and inflation remain stable this year." He added that what matters for now is not the level of policy rate but the structural reform by saying that "… I believe the question upon us is not about whether we should raise or cut interest rate. What is more important is structural reforms rather than focusing on rates." Particularly, the news on Mr. Choi's comment which released late evening of Monday (Feb 9) led KTB yields on Tuesday (Feb 10) to rise sharply, mainly 3yr and 5yr tenors, which had reflected a possibility of extra rate cut.

First rate hike to come in 1H16

We still believe the first policy rate hike of the BoK will come in 1H16. And the rate hike cycle seems to be very slow given the economic situations we considered here. First, the household debt issue will be the first concern for the BoK to decide the speed and extent of rate hike. Second, the government seems to continue to interfere in the decision process since the rate hikes could impact the property

market. Third, despite some criticism from the public, the lagging rate hike compared to the Fed's could alleviate some appreciation pressures on KRW. Therefore, we think the BoK will hike the policy rate by 25bps in 2Q 2016 and retain it till the end of 2016.

Figure 14. Government's structural reform agenda for four main areas

Area	Key policy
1) Increase public sector spending efficiency	Restructure project support and introduce a support ceiling
	Restructure the pension fund management system and the National Health Care Insurance system
	Promote private investment in public projects by streamlining procedures
	Share risks for creative idea investment through the Young Adult Startup Fund
	Introduce a risk sharing investment system for privately funded public projects
	Reform schools and improve scoring criteria for education grants
	Reform public institutions by merging companies with similar functions and examining performance and competitiveness
2) Boost financial dynamism	Promote the introduction of internet banks by supporting IT-financial industry convergence
	Ease regulations on investment banks by raising the corporate loan ceiling and allowing loans for commodities and derivatives investment
	Allow large securities companies to provide foreign currency loans and ease regulations for securities companies to borrow from overseas financial institutions
	Greatly ease regulations on private equity funds and promote crowd funding by building a legal framework and increasing fund management efficiency
	Phase out joint guaranty requirement for startups and promote technology secured loans
	Open a minimum requirement market for unlisted stocks, in addition to KOTC
3) Increase labor market flexibility while improving job security	Boost human resource management flexibility regarding wages, working hours, and employee contracts
	Streamline regulations regarding employee dispatches and short-term contracts
	Promote regular employment, improve working conditions and ease discrimination between different types of employment
	Strengthen the social safety net, which includes social insurance and employment insurance, the minimum wage, and job training support
	Enact laws regarding wages and reduced working hours
	Revise visa regulations to attract high quality foreign professionals, such as by giving them the permanent resident status (F5) after one year of stay
	Establish a long-term immigration policies
	Establish the 3rd round plan to tackle the low birth rate and ageing population
	Reform the childcare support system to give more benefits to working mothers
	Allow women to divide their two years of reduced work hours for childcare into three separate periods, up from two separate periods for one year
	Promote part time employment and flexible work hours for women
4) Fix labor market imbalances	Promote early employment by encouraging universities to provide students with skills demanded by industries and providing educational support to employees
	Provide support for the Leaders in Industry-Education Cooperation Universities according to performance reviews done by industries
	Middle-aged students pursuing a contract-based major at community colleges will be made eligible for income-contingent loans
	Encourage universities to provide contract-based majors by giving incentives regarding the number of students and locations
	Promote vocational colleges, specialized vocational high schools and the work-study system
	Review the vitality of having the school year start in the fall to make Korean universities more attractive to overseas students
	Encourage universities and colleges to pursue specialization

Source: MOSF, Citi Research

Figure 15. Korea Economic Indicators

	2007	2008	2009	2010	2011	2012	2013	2014F	2015F	2016F
Summary Data										
Nominal GDP, US$ bn	1,122.8	1,001.0	902.3	1,094.6	1,202.8	1,222.5	1,304.3	1,404.6	1,358.4	1,413.4
Nominal GDP, local currency bn	1,043,258	1,104,492	1,151,708	1,265,308	1,332,681	1,377,457	1,428,295	1,479,169	1,530,277	1,611,297
GDP per capita, US$	23,104	20,450	18,347	22,152	24,163	24,448	25,972	27,855	26,838	27,822
Population, mn	48.6	48.9	49.2	49.4	49.8	50.0	50.2	50.4	50.6	50.8
Unemployment, % of labour force	3.2	3.2	3.6	3.7	3.4	3.2	3.1	3.5	3.5	3.4
Economic Activity										
Real GDP, % yoy	5.5	2.8	0.7	6.5	3.7	2.3	3.0	3.3	3.4	3.7
Real investment growth % yoy	4.5	-1.0	-10.1	17.8	3.5	-2.3	0.0	5.3	2.1	6.0
Real consumption growth % yoy	5.3	2.2	1.3	4.3	2.7	2.2	2.2	2.0	2.6	2.8
private consumption growth % yoy	5.1	1.4	0.2	4.4	2.9	1.9	2.0	1.7	2.4	2.8
Real export growth, % yoy	12.7	7.5	-0.3	12.7	15.1	5.1	4.3	2.8	3.6	5.6
Real import growth, % yoy	11.6	3.2	-6.8	17.3	14.3	2.4	1.6	2.0	2.9	5.6
Prices, Money & Credit										
CPI, % yoy	3.6	4.1	2.8	3.0	4.2	1.4	1.1	0.8	2.7	2.1
CPI, % avg	2.5	4.7	2.8	2.9	4.0	2.2	1.3	1.3	1.4	2.4
Nominal wages, % yoy	5.9	3.1	2.6	6.8	0.9	5.4	3.9	2.1	2.8	3.6
Credit extension to private sector, % yoy	12.5	14.9	5.0	4.0	6.5	3.2	4.7	5.7	7.3	8.1
Policy interest rate, % eop	5.00	3.00	2.00	2.50	3.25	2.75	2.50	2.00	2.00	2.25
Short-term market rate, % eop	5.82	3.93	2.86	2.80	3.55	2.89	2.66	2.13	2.13	2.40
Long term yield, % eop	5.70	4.22	5.39	4.52	3.79	3.16	3.58	2.60	2.75	3.05
lc/US$, eop	936	1,263	1,166	1,121	1,159	1,064	1,051	1,094	1,140	1,140
lc/US$, avg	929	1,102	1,275	1,156	1,108	1,127	1,095	1,053	1,127	1,140
Balance of Payments, US$ bn										
Current account	11.8	3.2	33.6	28.9	18.7	50.8	81.1	89.4	98.1	95.0
% of GDP	1.1	0.3	3.7	2.6	1.6	4.2	6.2	6.4	7.2	6.7
Trade balance	14.6	-13.3	40.4	41.2	30.8	28.3	44.0	47.5	59.1	54.9
Exports	371.5	422.0	363.5	466.4	555.2	547.9	559.6	573.1	590.9	624.0
Imports	356.8	435.3	323.1	425.2	524.4	519.6	515.6	525.6	531.8	569.0
Service balance	-13.2	-6.5	-9.6	-14.2	-12.3	-5.2	-6.5	-8.2	-11.4	-11.1
Income balance	-7.8	-2.5	-4.6	-4.8	1.8	6.6	4.9	4.7	5.7	5.3
FDI, net	-17.9	-16.9	-14.9	-22.2	-16.4	-18.9	-13.1	-8.6	-4.3	-3.7
International reserves	262.2	201.2	270.0	291.6	306.4	327.0	346.5	363.6	372.3	392.3
Total Amortisations	24.5	31.0	30.2	35.7	42.7	43.2	43.6	44.2	44.8	46.6
Public Finances, % of GDP										
Consolidated government balance	3.6	1.4	-1.5	1.3	1.4	1.3	1.0	0.9	0.3	0.2
Consolidated gov primary balance	4.8	2.7	-0.2	2.6	2.7	2.6	2.1	2.0	1.4	1.3
Public debt	28.7	28.0	31.2	31.0	31.6	32.2	34.3	35.6	37.4	38.8
of which Domestic	26.7	26.1	29.1	26.4	29.4	27.4	29.6	30.9	32.5	34.0
Foreign Assets & Liabilities, US$ bn										
External debt	338.7	315.9	344.6	355.9	400.0	408.9	416.1	427.7	440.1	451.5
Private	302.0	291.1	310.4	305.2	339.7	348.1	353.1	363.4	374.1	383.5
Public	36.7	24.9	34.2	50.7	60.3	60.8	63.0	64.3	66.1	68.0
External debt / GDP	30.2	31.6	38.2	32.5	33.3	33.5	31.9	30.5	32.4	31.9
External debt / XGS	76.4	61.5	79.0	64.8	61.9	62.8	62.7	62.9	62.4	60.1
Short-term debt	165.9	149.0	148.7	136.5	139.8	128.0	115.3	111.6	108.3	111.1
Short-term debt/International Reserves (%)	63.3	74.0	55.1	46.8	45.6	39.1	33.3	30.7	29.1	28.3

Quarterly Economic Indicators	2014 Q1	2014 Q2	2014 Q3	2014 Q4F	2015 Q1F	2015 Q2F	2015 Q3F	2015 Q4F	2016 Q1F	2016 Q2F
GDP, % yoy	3.9	3.5	3.2	2.7	2.6	3.1	3.5	4.2	3.9	3.7
CPI, % yoy	1.3	1.7	1.1	0.8	0.6	1.0	1.8	2.7	2.6	2.6
Policy interest rate, % eop	2.50	2.50	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.25
Short-term market rate, % eop	2.65	2.65	2.35	2.13	2.13	2.13	2.13	2.13	2.15	2.40
Long term yield, % eop	3.52	3.17	2.85	2.60	2.55	2.60	2.65	2.75	2.95	3.00
lc vs USD, eop	1,065	1,012	1,055	1,094	1,107	1,122	1,137	1,140	1,140	1,140

Source: CEIC Data Company Ltd, Fitch, IFS, Moody's and Citi Research estimates.

*Note: Public debt is central government debt and external debt is based on the residency of the holder of the debt (not by currency denomination). BOP is reported using BPM6.

Appendix A-1

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