

Highlights of the Sovereign Rating on the Republic of Korea

Updated Rating

Long-term Local Currency: AA_i

Long-term Foreign Currency: AA_i

Outlook: Stable

Previous Rating

Long-term Local Currency: AA_i

Long-term Foreign Currency: AA_i

Outlook: Stable

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Rating Opinions

United Ratings has decided to maintain the long-term local and foreign currency ratings of the Republic of Korea (hereinafter, “Korea”) at AA_i, with Stable outlook.

Since the ruling party lost the election at the National Assembly, the implementation of government decisions has become more challenging, giving rise to uncertainties in the presidential general election in 2017. This however will not bring significant impacts to political stability. The relations between Korea and North Korea remain risky but are unlikely to spiral out of control. The economy will stay sluggish, monetary policy is expected to remain loose, and potential risks caused by high household debt to the robustness of the banking sector merits further attention. Fiscal balance tips towards a deficit but government liabilities remain at a lower level. Current account surplus narrows, and foreign debt servicing abilities remain stable. As such, no significant change has been detected in Korea’s domestic and foreign currency debt servicing abilities.

Reasons for Maintaining Ratings

- The ruling party lost the National Assembly election, indicating increased challenge to government decision-making.
- In terms of foreign relations, high risks remain in the South-North relationship, increasingly complicating the external environment.
- The economy is expected to remain sluggish.
- Fiscal balance tips towards a deficit but government liabilities will generally maintain stable.
- Monetary policy remains on the looser end, and the impact of high household debt on the robustness of the banking sector is worth noting.
- Current account surplus is of a large scale and will narrow in the short term.
- Overall size of foreign debt tends to be on the small side, with limited demand for external financing.

Outlook

The government is to face increased difficulties in rolling out policy revision in the near term, making it more likely to maintain current policy directions before the general election at the end of 2017. The decision of Korea and the US to deploy the THAAD system will complicate geopolitical relations in the region and its impact on Korea's security and economy is worth further attention. The country's

economy will sustain its current slow growth and fiscal robustness is unlikely to be significantly impacted. The government's foreign debt servicing ability is expected to remain stable. As such, United Ratings has decided to maintain its outlook on Korea's local and foreign currency ratings for the coming 1-2 years.

Key Indicators of the Sovereign Rating on the Republic of Korea

	2011	2012	2013	2014	2015	2016 ^f
Nominal GDP (billion USD)	1,202.5	1,222.4	1,305.5	1,411.5	1,378.1	1,202.5
GDP per capita (USD)	24,363.9	24,642.0	26,189.1	28,188.2	27,401.9	24,363.9
Real GDP growth (%)	3.7	2.3	2.9	3.3	2.6	2.6
Inflation rate (%)	4.0	2.2	1.3	1.3	0.7	1.0
Total lending/GDP (%)	165.5	166.9	160.0	178.3	181.7	165.5
Domestic credit growth (%)	6.5	4.4	3.6	7.7	7.6	8.0
M2 growth (%)	5.5	4.8	4.6	8.1	8.2	8.4
Budget balance of governments/GDP (%)	1.4	1.3	1.0	0.6	0.0	-1.1
Primary balance of governments/GDP (%)	0.9	1.1	0.6	0.5	0.1	-1.4
Public debt/GDP (%)	36.1	38.5	40.5	43.7	44.8	45.6
Current-account balance/GDP (%)	1.6	4.2	6.2	6.0	7.7	7.2
Total foreign debt/GDP (%)	32.2	32.6	31.0	28.8	27.7	28.3
Total external debt/Current-account credit (%)	54.9	54.8	54.5	54.6	57.0	60.7
Short-term foreign debt/Total foreign debt (%)	36.0	32.1	27.6	28.6	28.1	27.6
International reserves/Total foreign debt (%)	79.0	82.1	85.6	89.3	96.4	96.3
Gross external financing requirement/GDP (%)	10.5	8.5	4.3	2.8	3.2	3.2

Source: Sovereign Rating Database of United Ratings.

Note: "f" stands for forecasts.