



Media Release

South Korea's $gAA_3(pi)$ rating reaffirmed on sustained growth resilience and fiscal prudence

RAM Ratings has reaffirmed South Korea's respective $gAA_3(pi)$ /Stable and $seaAAA(pi)$ /Stable ratings on the global and ASEAN scales premised on the country's economic resilience, sturdy external balance sheet and prudent fiscal management. Moreover, contingent risks stemming from the household and public sectors are well contained owing to tighter prudential measures by the government.

South Korea recorded a healthy, albeit marginally slower, GDP expansion of 2.7% in 2018 (2017: 3.1%). Growth was driven by sturdier consumption which was supported by a minimum wage hike and fiscal stimulus, despite considerable domestic and external challenges. Against the backdrop of sluggish global growth, the country's GDP decelerated to 1.8% y-o-y in 1Q 2019 (1Q 2018: 2.8%) owing to a slowdown in exports to 0.2% (1Q 2018: +1.6%), softer private consumption and reduced private investments. Nonetheless, the economy could see firmer growth for the rest of 2019 in view of sizeable capital investments announced by the semiconductor industry and larger shipbuilding orders secured since last year. South Korea's growth resilience coupled with the expansionary fiscal stance observed in its enlarged budget for 2019 (+9.4% y-o-y and largest in ten years) and upcoming supplementary budget, help to moderate downside risks to GDP growth, which is forecasted by the IMF to expand by 2.6% in 2019.

The country's sturdy external performance is underlined by its two-decade-long track record of current account surpluses, although narrowing slightly to a still strong level of 4.7% of GDP in 2018. Notwithstanding a setback in export performance in 1Q 2019, South Korea's current account stayed in positive territory during the period. The country's net external creditor position has been on an uptrend since 2014, standing at 25.5% of GDP as at end-2018. Foreign reserves are also adequate, providing ample coverage of 7.5 months of current account purchases and 3.2 times the country's short-term external debts.

South Korea's fiscal prudence has led to long-term fiscal sustainability, contained contingent risks and afforded policy flexibility to support growth when needed. The government registered a marginal fiscal deficit (excluding balances from social security funds) of 0.6% of GDP in 2018 – an outperformance of its budgeted deficit level of 1.6% of GDP – largely attributable to higher tax revenue from corporate income and

real estate taxes. Steady fiscal revenue growth in the past few years has also resulted from implemented tax reforms that had improved revenue collection efficiency. Elsewhere, the recently announced supplementary budget (KRW6.7 trillion or 0.3% of GDP) to weather near-term headwinds is deemed modest, despite the government's ample fiscal space.

While North Korea poses considerable geopolitical risk to South Korea, the former's willingness to engage in dialogue with the South and the US in recent times has defused tension on the Korean peninsula. Apparently stalled progress on North Korea's denuclearisation, however, gives rise to risks of a resumption of its nuclear programme, which could destabilise newly improved relations between the two Koreas. An escalation of friction between the Koreas into an outright military confrontation, although not foreseen at this juncture, is considered an event risk.

RAM views sustained economic expansion and resilience that generate more inclusive income growth and the easing of labour market structural constraints as credit positive for South Korea's ratings. Conversely, persistent weakening of the country's GDP performance and/or significantly diminished fiscal prudence that results in sustained credit deterioration would exert pressure on the ratings. Macrofinancial instability arising from excessive household and government-linked entity credit expansion would also warrant a reassessment of the ratings, as would heightened geopolitical tension which adversely impacts the country.

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Date of release: 7 May 2019

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Published by RAM Rating Services Berhad
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