



Media Release

RAM Ratings: South Korea's rating upgraded to ${}_9AA_3(pi)$ on economic resilience and fiscal prudence

RAM Ratings has upgraded South Korea's global-scale rating to ${}_9AA_3(pi)$ /Stable from ${}_9A_1(pi)$ /Positive. The upgrade is premised on the country's proven track record of economic resilience in the face of domestic and external challenges, prudent fiscal management and sustained implementation of measures in managing contingent risks stemming from government-linked entities. Further, South Korea has maintained a sturdy external balance sheet with consistently wide current-account surpluses and a stronger net external creditor position since the latter turned positive in 2014.

"South Korea's diversified and competitive economy, along with credible policies and a strong institutional framework, continues to underline the country's solid credit fundamentals, most notably in weathering economic and political headwinds in 2016," says Esther Lai, RAM's Head of Sovereign Ratings. The country has maintained commendable economic growth averaging 2.8% in the past 5 years, which outpaced the 1.7% average of developed economies during the same period. RAM expects South Korea's economy to register a stable growth rate of around 2.8% in 2017, backed by sustained recovery in external trade, accelerated domestic demand owing to the improving sentiment following the resolution of political uncertainties, as well as supportive government policies.

The new administration (elected into office in May) has introduced a supplementary budget plan worth KRW11.0 trillion (0.6% of GDP in 2016) aimed at stimulating job creation in the public sector and providing wage support for private firms hiring workers on a permanent basis. The additional spending is viewed as manageable, given that it will be funded by a higher-than-budgeted tax revenue collection during the year. The government's fiscal prudence accords flexibility in implementing necessary stimulus measures while maintaining fiscal indicators at a healthy level, evinced by the general government balance averaging 0.8% of GDP and a moderately low debt level averaging 35.6% of GDP in the past 5 years.

Geopolitical tensions stemming from North Korea have intensified in recent times as a result of the acceleration of its nuclear weapons programme. As such, any severe escalation in the military standoff to an outright war would be seen by RAM as an event risk that would be reflected in South Korea's rating. That said, the US's

military presence and security commitment to South Korea, seen in the recent deployment of an advanced anti-missile system in South Korea, counters the heightened security threat from North Korea.

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