



Media Release

RAM Ratings revises outlook on South Korea's rating to positive

RAM Ratings has revised the outlook on South Korea's global-scale rating to positive from stable while reaffirming the $gA_{1(pi)}$ rating, premised on the expectation of continued economic resilience, fiscal prudence and external strength. The revision takes into consideration the country's still-healthy fiscal position with a relatively low debt level, despite the adoption of expansionary policies, further containment of contingent risks arising from the debts of government-linked entities (GLEs), and an improved net external creditor position. These factors also formed the basis for our reaffirmation of the country's ASEAN-scale sovereign rating of $seaAAA_{(pi)}$ /stable.

"The South Korean economy has demonstrated commendable resilience in recent years, underlined by timely and credible government policy responses that have allowed the country to weather various domestic and external challenges," says Esther Lai, RAM's Head of Sovereign Ratings. South Korea's ratings are supported by a dynamic and sturdy economy, prudent fiscal management, a strong external position and favourable institutional framework. These positives are, however, moderated by a high household debt level, sizeable GLE-related contingent liabilities and the geopolitical risk posed by North Korea.

Nevertheless, we expect GDP growth to continue to move towards the government's target of 2.8% in 2016, spurred by recent monetary easing and a fiscal stimulus in the pipeline worth KRW20 trillion (1.2% of GDP). This is despite the slower pace observed to date this year, following the downtick in growth to 2.6% in 2015 (2014: 3.3%). We see stimulus measures in 2016 providing sufficient policy support for the economy after a series of negative events the previous year. South Korea's economic performance in 2015 was dragged down by sluggish global growth and external trade, along with a domestic outbreak of the Middle East Respiratory Syndrome.

South Korea's government finances are still healthy, with a fiscal position that has averaged 0.8% of GDP and a moderately low debt level averaging 33.7% of GDP in the past 5 years. Meanwhile, the imposition of prudential measures has improved the household debt risk profile, in spite of total outstanding debts reaching 91.3% of GDP as at end-2015. Elsewhere, credible reform policies have enabled GLE debt consolidation efforts to achieve targets ahead of schedule, and slightly reduced the government's exposure to GLE-related contingent liabilities to 53.1% of GDP as at the same date.

South Korea's ratings could be moved upwards should the country maintain economic resilience amid near-term challenges, or exercise continued fiscal prudence along with sustained GLE reforms and deleveraging to contain the government's contingent risks. Sustained momentum in the recovery of private consumption and investment would also be viewed as credit positive. Conversely, persistent downward pressure on the country's growth recovery momentum, deterioration in its household credit profile which threatens financial stability and hampers private consumption, and/or geopolitical events that significantly disrupt the economy, will be considered credit negative.

For further information on the sovereign, please refer to the full report [here](#).

Media contact

Cheong Kah Weng
(603) 7628 1113
kahweng@ram.com.my

Date of release: 29 July 2016

The credit rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment on the security's market price or its suitability for a particular investor, nor does it involve any audit by RAM Ratings. The credit rating also does not reflect the legality and enforceability of financial obligations.

RAM Ratings receives compensation for its rating services, normally paid by the issuers of such securities or the rated entity, and sometimes third parties participating in marketing the securities, insurers, guarantors, other obligors, underwriters, etc. The receipt of this compensation has no influence on RAM Ratings' credit opinions or other analytical processes. In all instances, RAM Ratings is committed to preserving the objectivity, integrity and independence of its ratings. Rating fees are communicated to clients prior to the issuance of rating opinions. While RAM Ratings reserves the right to disseminate the ratings, it receives no payment for doing so, except for subscriptions to its publications.

Similarly, the disclaimers above also apply to RAM Ratings' credit-related analyses and commentaries, where relevant.

Published by RAM Rating Services Berhad
© Copyright 2016 by RAM Rating Services Berhad