

Sound economic fundamentals



General Information

GDP	USD1116bn (World ranking 15, World Bank 2011)
Population	49.78 million (World ranking 25, World Bank 2011)
Form of state	Republic
Head of government	PARK Geun-Hye
Next elections	2017, presidential



Strengths

- Firmly-established democracy
- Fairly good international relations (though some regional tensions with Japan and China)
- Advanced Economy with high per capita income
- Reasonable economic policy track over the past decade
- Ample foreign exchange reserves
- Low external debt
- Strong business environment

Weaknesses

- Geopolitical risk stemming from North Korea
- Economic vulnerabilities (exchange rate, banking sector) to domestic and external shocks
- High level of roll-over debt obligations in the corporate sector
- Weak corporate governance

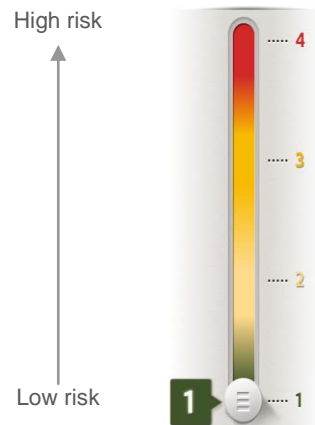
Country Rating

BB1

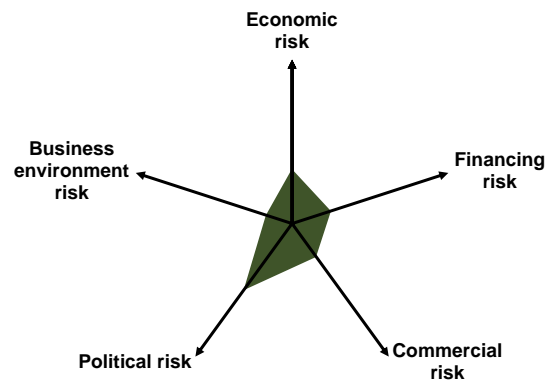
Country Grade



Country Risk Level

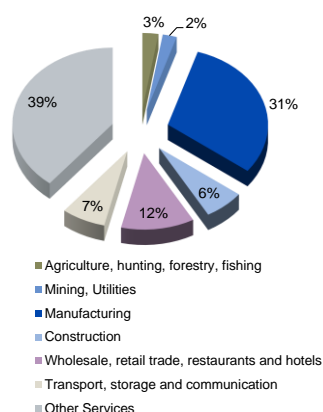


Risk Dimensions



Economic Structure

GDP breakdown (% of total, 2010)



Sources: Chelem, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2010)

By destination/origin

Exports	Rank	Imports	Rank
China	1	China	1
United States	2	Japan	2
Japan	3	Other Gulf	3
Taiwan	4	United States	4
Other Gulf	5	Saudi Arabia	5

By product

Exports	Rank	Imports	Rank
Electronic Components	1	Crude Oil	1
Ships	2	Electronic Components	2
Cars And Cycles	3	Natural Gas	3
Telecommunications Equipment	4	Iron Steel	4
Optics	5	Refined Petroleum Products	5

Economic Forecasts

	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	0.3	6.3	3.7	2.0	2.5	3.5
Inflation (% , end-year)	2.8	3.0	4.2	1.4	2.2	3.0
Fiscal balance (% of GDP)	0.0	1.7	1.8	1.9	2.0	2.2
Public debt (% of GDP)	33.8	33.4	34.2	33.7	33.5	33.0
Current account (% of GDP)	3.9	2.9	2.3	3.7	2.2	2.4
External debt (% of GDP)	41.4	35.4	35.7	36.6	37.5	38.0

Sources: IHS Global Insight, national sources, Euler Hermes

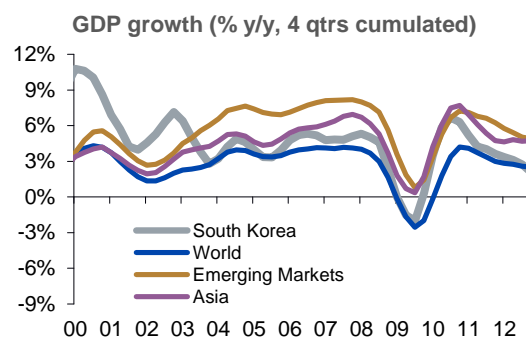
Economic Growth

Growth to pick up gradually in 2013-2014

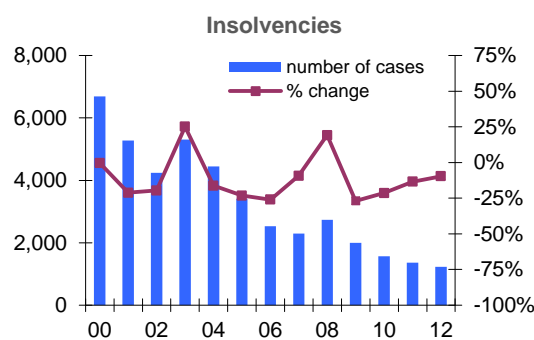
Real GDP growth decelerated to +2% in 2012 from +3.7% in 2011. Private consumption expanded by +1.7% and government consumption by +3.9% in 2012 while fixed investment declined by -1.7%. External trade activity moderated but net exports continued to make a positive contribution to 2012 growth as the increase of exports, at +4.2%, outpaced import expansion of +2.5%. Over the course of 2012 growth moderated steadily from +2.8% y/y in Q1 to +1.5% in Q4. According to advance estimates for Q1 2013, annual growth stabilised at +1.5% y/y, with the structure of demand side components broadly unchanged from 2012. In q/q seasonally-adjusted terms, Q1 real GDP growth accelerated to +0.9%, after three quarters of sluggishness. Overall this suggests that the trough may have been reached. EH forecasts economic activity to pick up gradually in the course of 2013 and 2014, reaching full year growth of about +2.5% and +3.5%, respectively.

Insolvencies to remain stable

The number of insolvencies has declined steadily over the past 10 years, from 5,308 cases in 2003 to 1,228 in 2012. EH expects the number to remain relatively stable in the next two years.



Sources: IHS Global Insight, national sources, Euler Hermes



Sources: Central Bank of Korea, KOSTAT, Euler Hermes

Economic Policies

Inflation will remain moderate

Headline consumer price inflation has continued to ease to just 1.2% y/y in April 2013 from 1.4% at end-2012 and 4.2% at end-2011. Generally, inflation is somewhat volatile with regard to global oil prices. As economic activity is expected to gain some momentum in the course of 2013-2014, inflation is projected to pick up slightly as well, but it should remain unproblematic and not exceed the 2-3% range from end-2013 until end-2014.

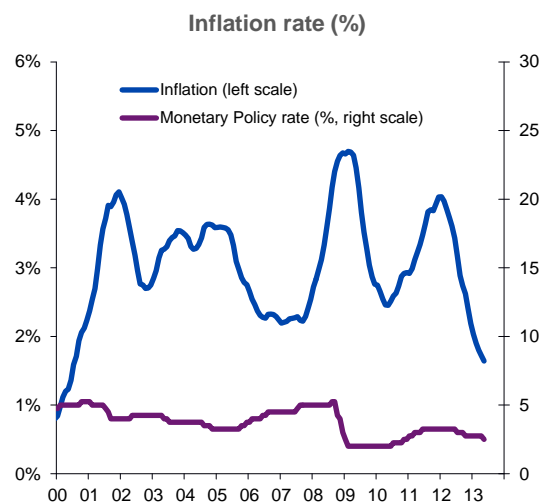
In view of muted inflationary pressures, modest GDP growth and very low private sector credit growth (just 2% y/y in early 2013), the Bank of Korea (the central bank) lowered the key policy interest rate by 25bps to 2.5% in May 2013, continuing the monetary easing cycle that began in July 2012.

Public finances are favourable

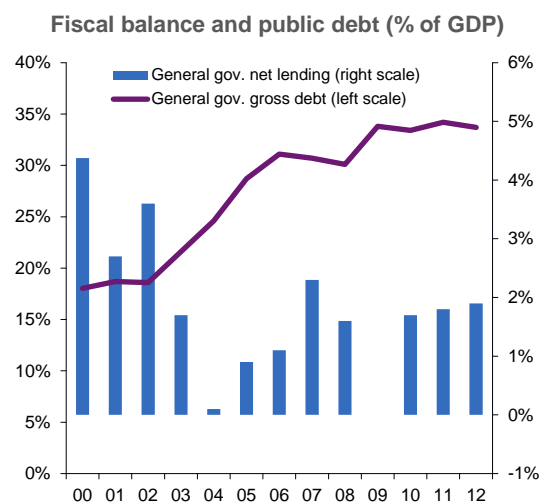
South Korea has a track record of sound fiscal policies. Annual fiscal surpluses of almost 2% of GDP were realised in 2010-2012 and this is likely to be repeated in 2013-2014. Gross public debt is moderate at about 34% of GDP.

Banking sector solid overall but residual risks remain in mutual saving banks

According to the IMF, the banking sector as a whole is sound, liquid and well capitalised, but residual risks exist in the mutual saving banks (accounting for <3% of total banking assets) owing to their large exposure to the weak construction and real estate sectors. While the commercial banking system is better positioned than prior to the 2008-2009 crisis, it still remains vulnerable to a global credit crunch as well as a possible deterioration in the quality of small- and medium-sized enterprise loans which account for 45% of bank lending.



Sources: IHS Global Insight, national sources, Euler Hermes



Sources: IHS Global Insight, national sources, Euler Hermes

Current account remains in surplus

The current account has been in surplus since 1998 (3.7% of GDP in 2012) and will remain so in 2013-2014. Foreign direct investment recorded a net outflow of 1.6% of GDP in 2012, reflecting South Korea's position as an Advanced Economy, as classified by the IMF.

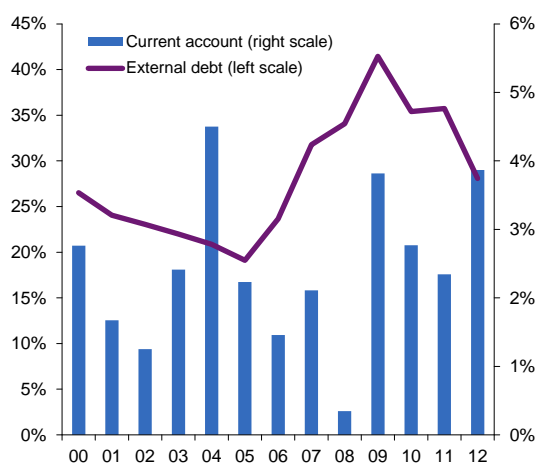
External debt is low

Gross external debt stood at USD410bn in March 2013 which was comfortably low in relation to GDP (37%) or export earnings (62%). Short-term external debt accounts for about 30% of the total.

Foreign exchange reserves are ample

Foreign exchange reserves stood at USD326bn in April 2013, sufficient to cover 5.5 months of imports. In other terms, reserves cover about 185% of the estimated external debt payments falling due (ST debt plus principal repayments on M/LT debt) in the next 12 months, well above an adequate ratio of at least 100%.

Current account and external debt (% of GDP)



Sources: IHS Global Insight, national sources, Euler Hermes

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