



Outlook 2013: Korea's Sovereign Credit Rating

1. Korea's rating

Korea's Post-Asian Financial Crisis Rating History

Strong post-crisis rating recovery

- » Aug 2012: Rating upgraded to Aa3 with stable outlook
- » Apr 2012: Outlook changed to positive from stable
- » Apr 2010: Rating upgraded to A1 with stable outlook
- » July 2007: Rating upgraded to A2 with a stable outlook
- » Mar 2002: Rating upgraded to A3 with a stable outlook
- » Dec 1999: Rating upgraded to Baa2 with a stable outlook
- » Feb 1999: Rating upgraded to Baa3 with positive outlook
- » Asian Financial Crisis—1997: Rating lowered to Ba1 from A1

Asia-Pacific Sovereign Rating Performance Since 2008

» Upgrades have taken place throughout the rating scale in Asia-Pacific

- Philippines to Ba1 from B1 (Oct 2012, Jun 2011, Jul 2009)
- Korea to Aa3 from A2 (Aug 2012 and Apr 2010)
- Indonesia to Baa3 from Ba3 (Jan 2012, Jan 2011, Sept 2009)
- Hong Kong to Aa1 from Aa2 (Nov 2010)
- China to Aa3 from A1 (Nov 2010)










» Downgrade in EM Asia

- Vietnam to B1 (Dec 2010) and B2 (Oct 2012)—macroeconomic imbalances, banking sector stress

» Downgrade in Advanced Asia-Pacific

- Japan to Aa3 from Aa2 (Aug 2011)

Korea's Aa3 Peers

- » Korea (A2)* 
- » Chile (A1) 
- » China (A1) 
- » Saudi Arabia (A1) 
- » Cayman Islands (Aa3) 
- » Macao (Aa3) 
- » Taiwan (Aa3) 
- » Belgium (Aa1) 
- » Japan (Aa2) 

* Ratings in 2009

2. Key drivers or the upgrade to Aa3

Korea's Rating Drivers and Outlook

» Key drivers of the upgrade to Aa3 were:

- Strong fiscal fundamentals
 - » *Sovereign Bond Methodology* “Government Financial Strength” moved to ‘Very High’ from ‘High’
- High degree of economic resilience and competitiveness
- Reduced external vulnerability of the banking sector
- Unchanged status-quo in Korean peninsula geopolitics

» Rating outlook: Stable, but policies challenged by structural risks

- Reducing further vulnerabilities in external banking sector market funding
- Containing leverage of households and sustaining private consumption expenditure
- Containing non-financial public corporation debt

» North Korean risks are ‘credit negative,’ but do not constrain the Aa3 rating

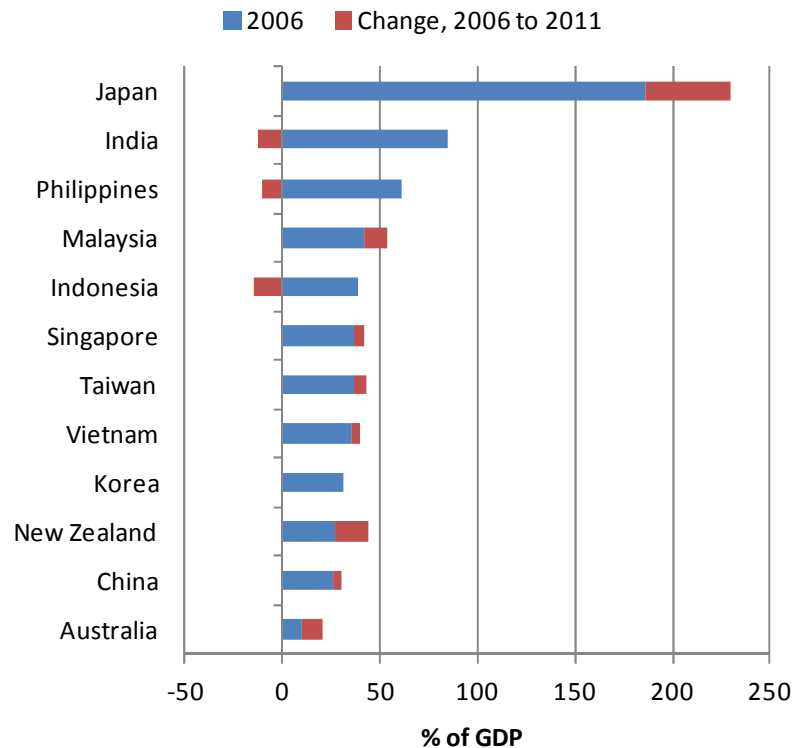
- No material disturbance on South Korea's economic and financial fundamentals
- Sovereign Bond Methodology's indicative range is Aa1-Aa3; given ‘Moderate’ geopolitical risk

3. Public sector debt situation

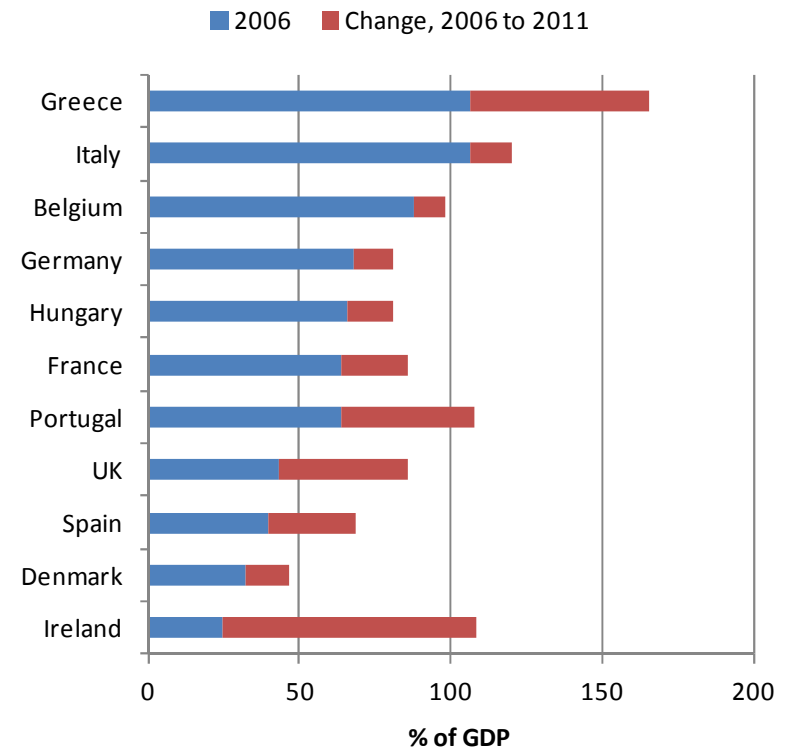
Strong Fiscal Fundamentals Drive Rating Upgrades

Asia-Pacific's governments, most, remain with low debt burdens after the 2008 crisis

Asia-Pacific Debt/GDP



Europe Debt/GDP

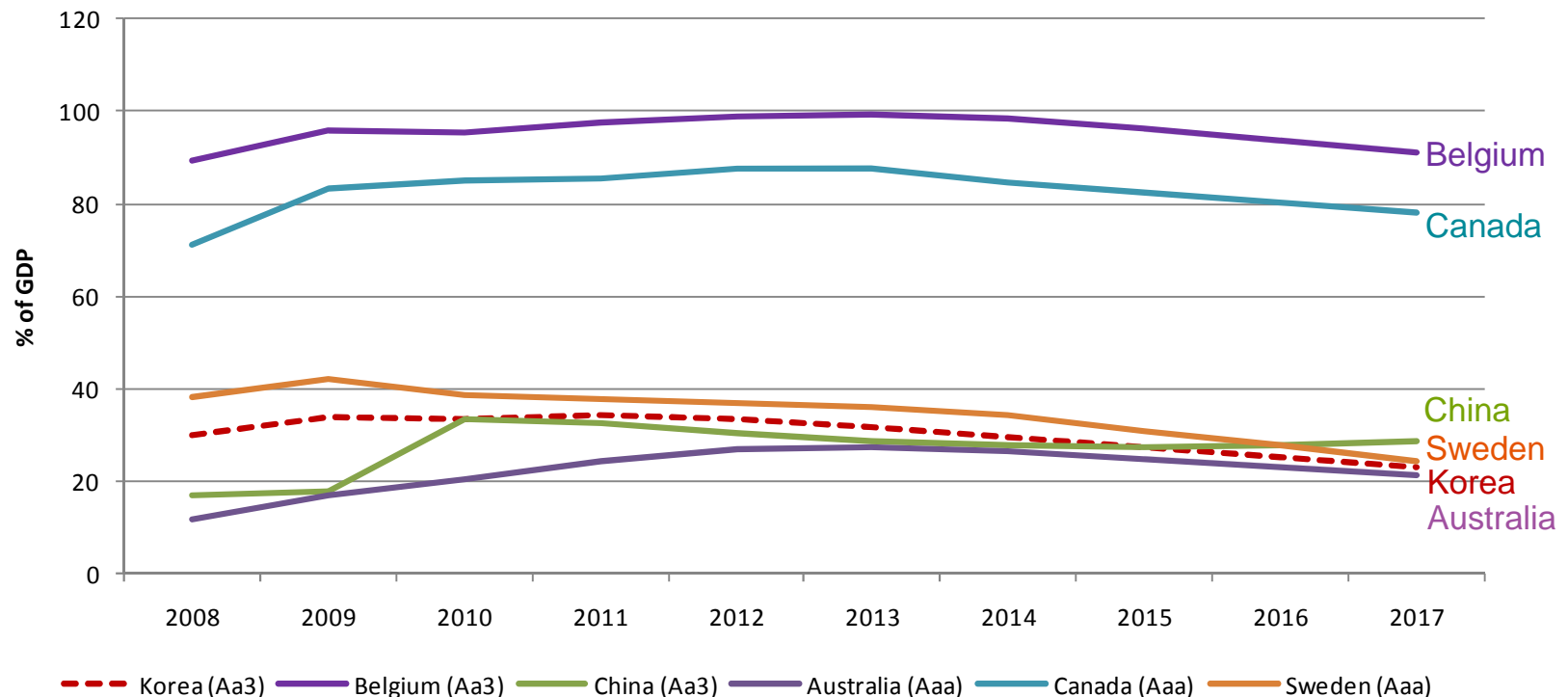


Source: Moody's Investors Service.

Korea's Favorable Government Debt Trajectory

Reflects sound fiscal fundamentals and strong economic growth

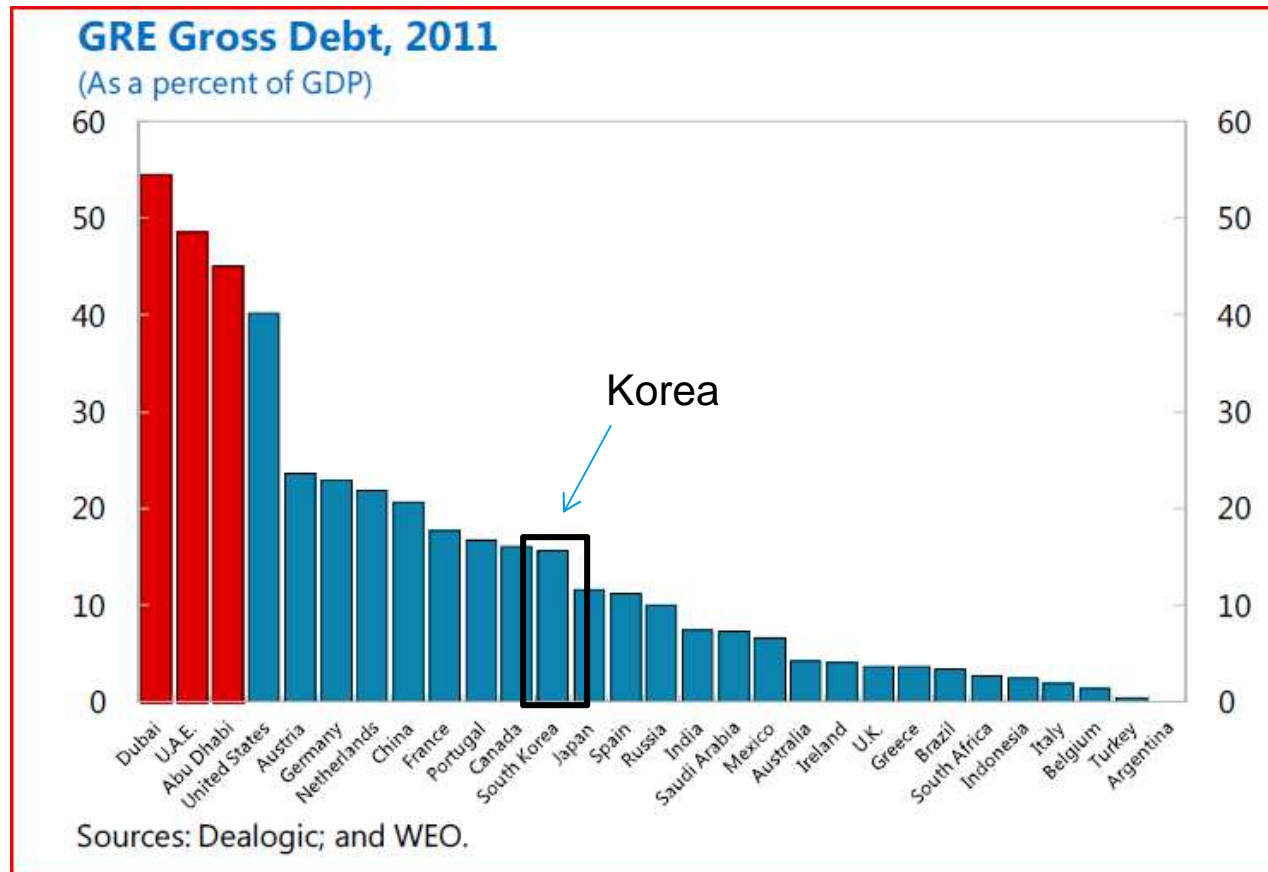
General government debt, % of GDP



SOURCE: IMF FISCAL MONITOR, OCTOBER 2012

Note: Forecast for China is Moody's estimates, forecast for other countries is taken from IMF Fiscal Monitor

Relatively Moderate State-Enterprise Debt

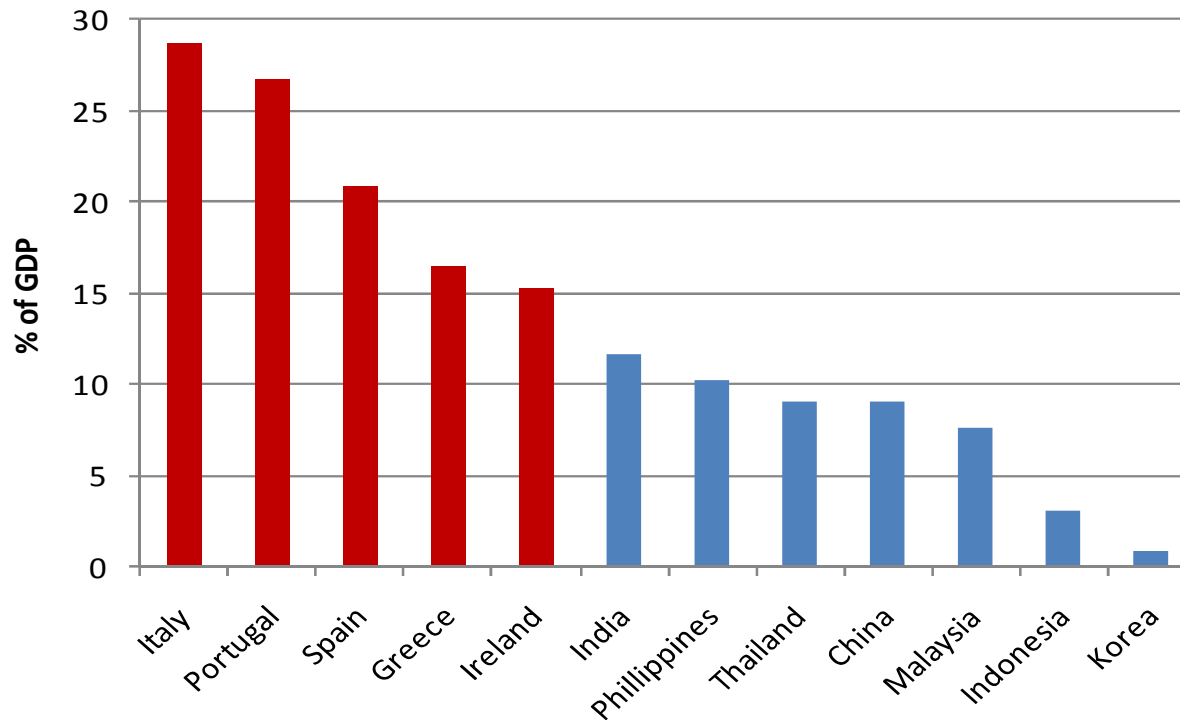


4. Why no fiscal austerity?

Budget discipline means very low gross financing needs

Korea's GFNs are among the lightest regionally and globally

General Government Gross Financing Needs (GFN), 2012



Source: Moody's Investors Service and IMF Fiscal Monitor, April 2012.

Economic growth rate eclipses interest-rate cost of debt

Korea has a relatively favorable placing globally

	Projected interest rate - growth differential
	2012-2017
Indonesia	-8.0
China	-7.3
India	-5.3
Korea	-2.8
USA	-1.3
Philippines	-1.1
Japan	-0.5
Germany	0.3
Spain	2.2

Source: IMF Fiscal Monitor, April 2012

Korea's Gov't Debt Profile is Relatively Favorable

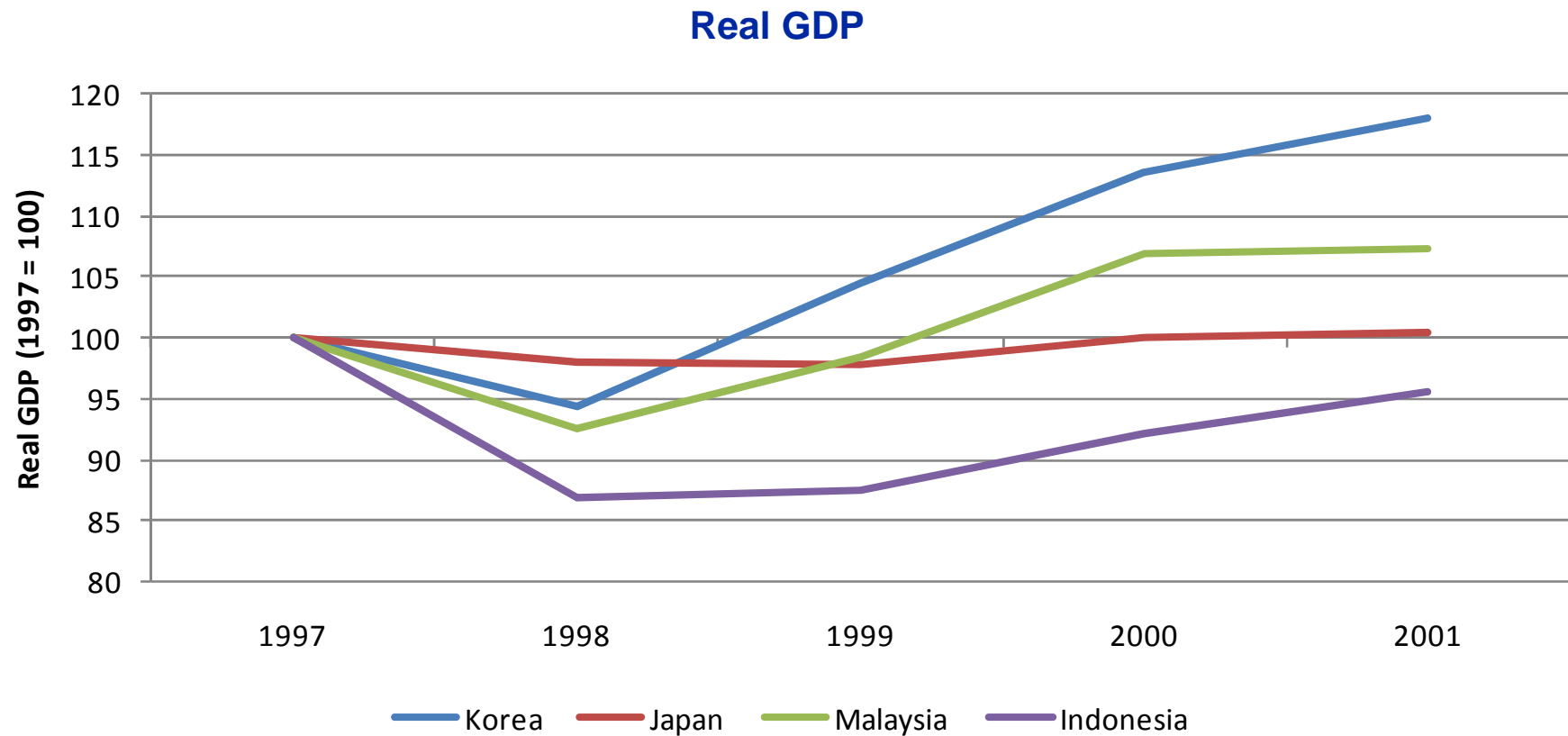
Compared with rating peers and stable outlook Aaa sovereigns

	Gross Financing Needs (2012), % GDP	Projected interest rate – growth differential (2012-17)	Nonresident holding of general govt. debt, 2012 (percent of total)
Korea (Aa3)	1.3	-2.6	14.4
Belgium (Aa3)	19.4	0.1	57.9
China (Aa3)	8.2	-7.2	<2.0
Canada (Aaa)	16.5	0.0	20.9
Sweden (Aaa)	4.7	-1.2	45.8
Australia (Aaa)	5.3	-0.9	51.2

Source: IMF Fiscal Monitor, October 2012, Moody's Investors Service

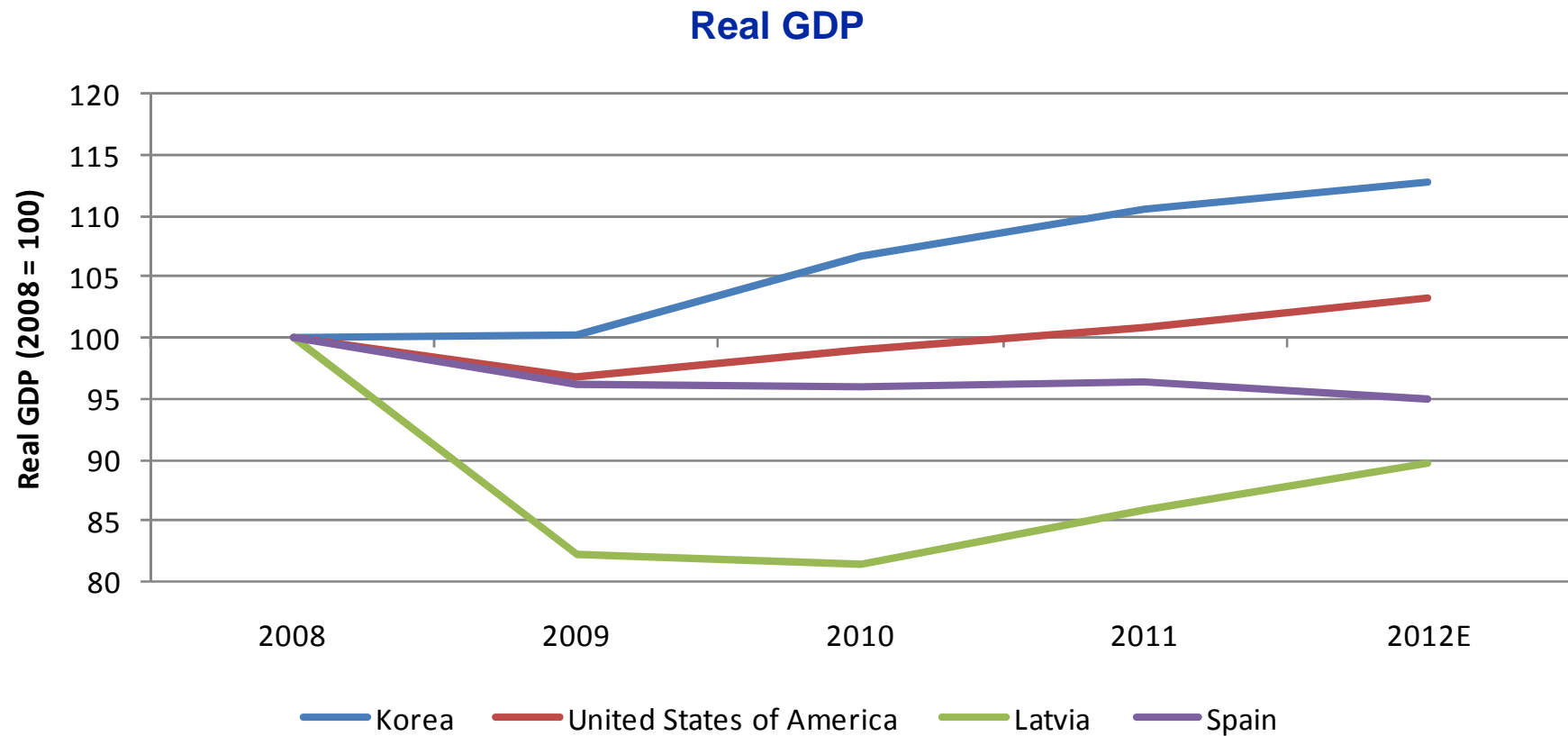
5. Economic resilience

Korea's resilience post 1997 Asian Financial Crisis...



Source: Moody's

...and its resilience post 2008 Global Financial Crisis



Source: Moody's

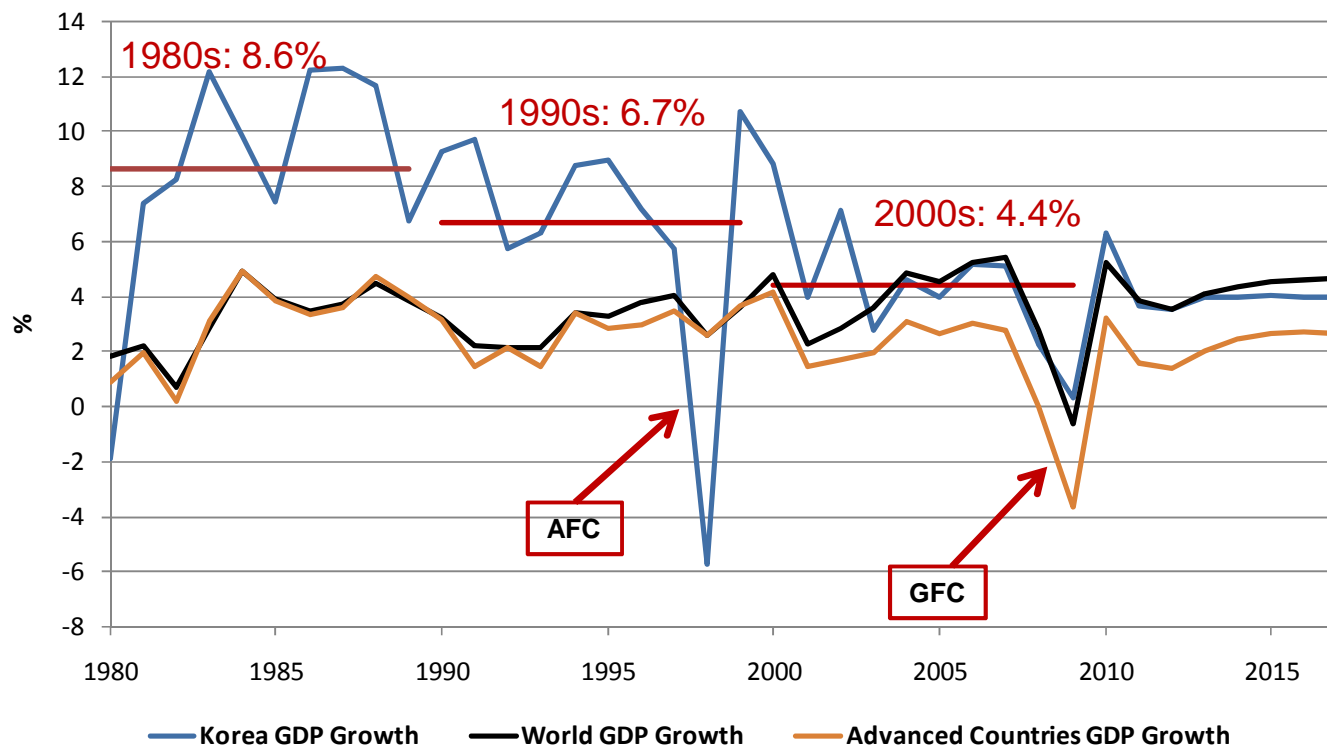
Korea's Relatively Favorable Near-term Growth Outlook

	Average from 1997- 2007	2012 Estimate	2013 Forecast	2014 Forecast
China	9.9	7.8	7.5/8.5	7.0/8.0
Korea	4.8	2.0	2.5/3.5	3.0/4.0
Euro Area	2.3	-0.5	-0.5/0.5	0.5/1.5
US	3.1	2.2	1.5/2.5	2.0/3.0
G-20	3.0	2.8	2.5/3.5	3.0/4.0

Source: Moody's Investors Service, - February 2013 "Global Macro-Risk Outlook"

Trend growth moderates and converges with global growth...

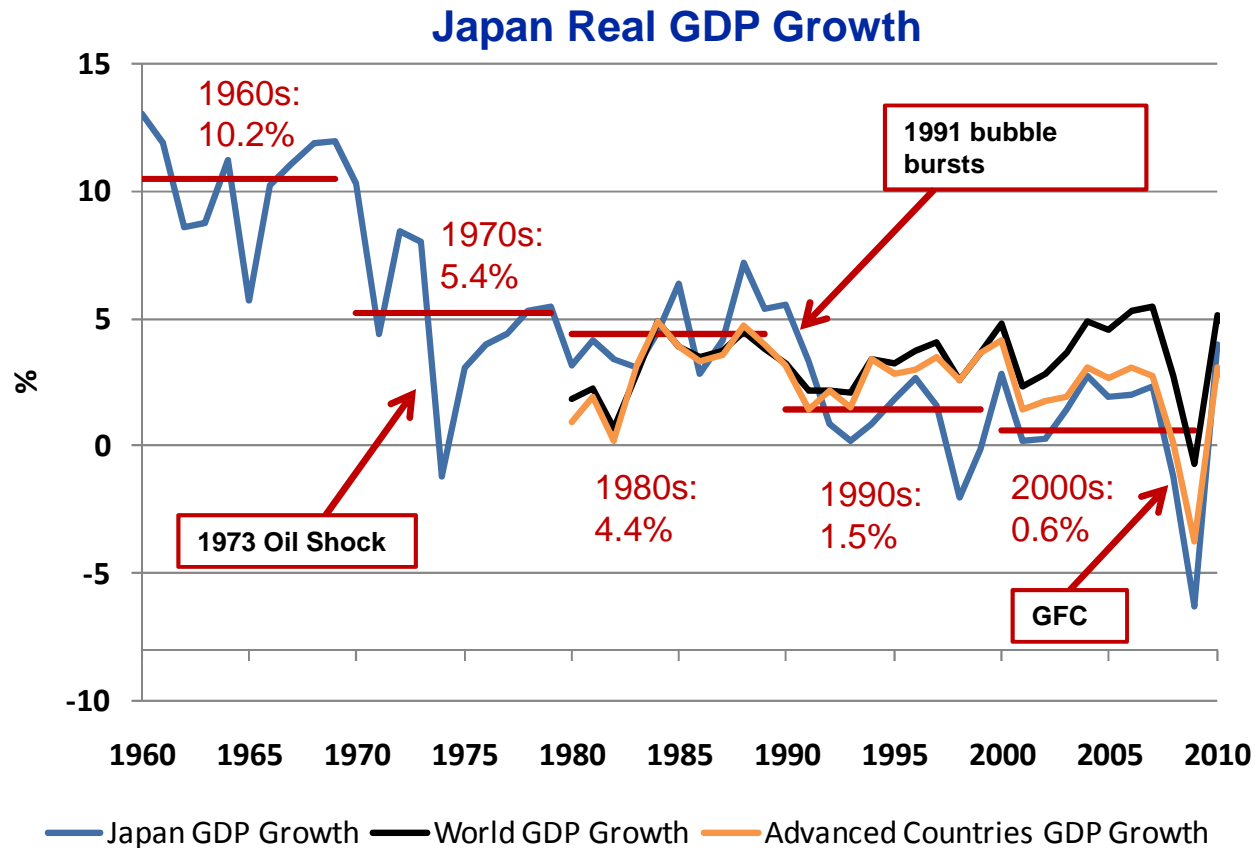
Korea vs. World & Advanced Country GDP Growth



Source: IMF World Economic Outlook; Moody's Investors Service.

...and has avoided collapses, as seen with Japan's

Severe external and domestic shocks collapsed trend growth



Source: Bank of Japan, IMF World Economic Outlook; Moody's Investors Service.

MOODY'S

INVESTORS SERVICE

moodys.com

Thomas Byrne

Senior Vice President – Manager

thomas.byrne@moodys.com

Atsi Sheth

Vice President – Senior Analyst

atsi.sheth@moodys.com

Steffen Dyck

Assistant Vice President – Analyst

steffen.dyck@moodys.com

Cynthia Mar

Associate Analyst

cynthia.mar@moodys.com

Steve Hess

Senior Vice President

steven.hess@moodys.com

Christian de Guzman

Vice President – Senior Analyst

christian.deguzman@moodys.com

Anushka Shah

Analyst

anushka.shah@moodys.com

David Erickson

Associate Analyst

david.erickson@moodys.com



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