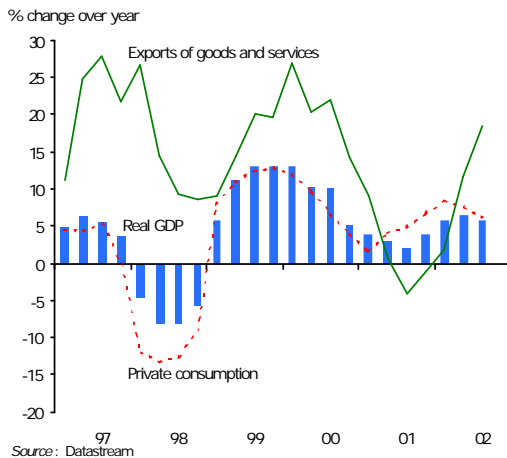
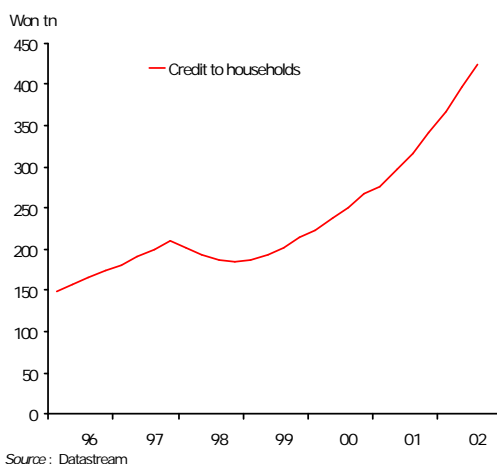


Country Update: South Korea

Economy resilient in 2002



Consumer credit soars



- Mr Roh Moo-hyun emerged as the victor in the December 2002 presidential elections. He will assume office in February 2003. The decision by the North to revive its nuclear weapons programme has heightened cross border tensions. Like out-going President Kim Dae-jung, President-elect Roh is likely to adopt a conciliatory approach to try to engage the North. He has sought support from the latter's allies, namely China and Russia to help achieve a peaceful resolution. However, growing anti-US sentiment within South Korea has exacerbated the task of easing tensions in the peninsula. On the domestic economic front, no dramatic policy shifts are expected.
- Economic growth in 2003 is likely to be supported by healthy private consumption, albeit expanding at a slower pace, a pick up in fixed investment and exports in the wake of a recovery in world growth. Real GDP is forecast to grow by around 6% in 2003.
- Consumer credit demand has taken off, underpinned by a relatively low interest rate environment, income growth, aggressive marketing of credit cards as well as deregulation within the housing market. The ratio of household credit to GDP has exceeded 70% this year, up from 44% in 1999. The sharp acceleration in credit has raised concerns over possible price pressures and the potential impact on financial institutions of a significant deterioration in economic conditions. Nevertheless, proactive moves to restrain credit growth such as raising banks' minimum provisioning requirements and reducing cash advance limits are likely to help relieve concerns. The tightening of requirements is likely to lead to a sharper rise in the delinquency rate in the short term but should be long-term positive for the financial industry.

Economic data and debt statistics

South Korea	1997	1998	1999	2000	2001	2002e	2003f	2004f
Economic growth (%)	5.0	-6.6	10.8	9.2	3.3	5.8	6.0	6.5
Inflation (yr av, %)	4.4	7.5	0.8	2.3	4.1	2.8	4.0	4.5
Public Sector Balance (% of GDP)	-1.5	-4.2	-2.7	1.3	1.3	5.0	3.0	
Current Account Balance (% of GDP)	-1.7	12.7	6.0	2.4	2.0	1.3	0.5	
External Debt (USD bn)	145.6	141.3	126.3	130.7	121.6	128.2	132.9	
External Debt/GDP Ratio (%)	30.6	44.5	31.1	28.3	28.8	27.2	25.7	
External Debt/Exports Ratio (%)	86.2	88.0	72.2	61.5	64.6	65.5	64.3	
Short-term Debt/Reserves (%)	306.4	58.3	41.6	38.2	37.9			
Debt Service Ratio (Paid) (%)	8.9	13.2	24.7	11.3	12.9			
Debt Service Ratio (Due) (%)	8.9	13.2	24.7	11.3	12.9	7.1	6.9	
International Reserves (USD bn)	20.4	52.0	74.0	96.1	102.8	118.3*		
Import Cover (g & s) (months)	1.4	5.4	6.2	6.0	7.2			

*: November 2002

Sources: IMF, Economist Intelligence Unit, ANZ Bank