

## PRICING SUPPLEMENT

4 May 2022

### THE KOREA DEVELOPMENT BANK

(acting through its principal office in Korea)

Issue of HKD 390,000,000 Fixed Rate Green Notes due May 2029  
under the U.S.\$30,000,000,000 Global Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Information Memorandum dated 10 September 2021 (the "Information Memorandum"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Information Memorandum.

**MiFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, MiFID II); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a distributor) should take into consideration the manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

1.	Issuer:	The Korea Development Bank, acting through its principal office in Korea
2.	(i) Series Number:	886
	(ii) Tranche Number:	1
3.	Specified Currency or Currencies:	Hong Kong Dollar (HKD)
4.	Aggregate Nominal Amount:	HKD 390,000,000
5.	(i) Issue Price of Tranche:	100 per cent. of the Aggregate Nominal Amount
	(ii) Net Proceeds:	HKD 390,000,000
6.	(i) Specified Denominations:	HKD 1,000,000
	(ii) Calculation Amount:	HKD 1,000,000
7.	(i) Issue Date:	10 May 2022
	(ii) Interest Commencement Date:	Issue Date
8.	Maturity Date:	10 May 2029
9.	Interest Basis:	3.45 per cent Fixed Rate

(further particulars specified below)

10.	Redemption/Payment Basis:	Redemption at par
11.	Change of Interest Basis or Redemption/Payment Basis:	Not Applicable
12.	Put/Call Options:	Not Applicable
13.	Listing:	Singapore Exchange Securities Trading Limited
14.	Method of distribution:	Non-syndicated
15.	Prohibition of Sales to EEA and UK Retail Investors:	Not Applicable

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

16.	Fixed Rate Note Provisions	Applicable
	(i) Rate(s) of Interest:	3.45 per cent. per annum, payable annually in arrears
	(ii) Interest Payment Date(s):	10 May in each year up to and including the Maturity Date, commencing 10 May 2023, in accordance with the Modified Following Business Day Convention
	(iii) Fixed Coupon Amount(s):	Not Applicable
	(iv) Broken Amount(s):	Not Applicable
	(v) Day Count Fraction:	Actual/365 (Fixed), adjusted
	(vi) Determination Date(s):	Not Applicable
	(vii) Business Centre(s):	Hong Kong, Seoul, London and New York
	(viii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	None
	(ix) Calculation Agent	The Fiscal Agent will act as the Calculation Agent.
17.	Floating Rate Note Provisions	Not Applicable
18.	Zero Coupon Note Provisions	Not Applicable
19.	Index Linked Interest Note Provisions	Not Applicable
20.	Dual Currency Note Provisions	Not Applicable

## PROVISIONS RELATING TO REDEMPTION

- |     |   |                                      |
|-----|---|--------------------------------------|
| 21. | Issuer Call:  | Not Applicable                       |
| 22. | Investor Put:   | Not Applicable                       |
| 23. | Final Redemption Amount:  | HKD 1,000,000 per Calculation Amount |
| 24. | Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 5(f)): | Condition 5(f) applies               |

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

- |     |  |  |
|-----|--|--|
| 25. | Form of Notes:   | Bearer Notes:<br><br>Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes only upon an Exchange Event |
| 26. | Additional Financial Centre(s) or other special provisions relating to Payment Day:  | Hong Kong, Seoul, London and New York  |
| 27. | Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):  | No   |
| 28. | Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: | Not Applicable   |
| 29. | Details relating to Instalment Notes:  |  |
|     | (i) Instalment Amount(s):  | Not Applicable   |
|     | (ii) Instalment Date(s):   | Not Applicable   |
| 30. | Redenomination applicable:   | Redenomination not applicable  |
| 31. | Other terms or special conditions:   | Not Applicable   |

## DISTRIBUTION

32. (i) If syndicated, names of Managers: Not Applicable
- (ii) Date of Subscription Agreement: Not Applicable
- (iii) Stabilising Manager (if any): Not Applicable
33. If non-syndicated, name of relevant Dealer: Crédit Agricole Corporate and Investment Bank
34. US Selling Restrictions: Regulation S Category 2; TEFRA D (or, in respect of TEFRA D, any successor U.S. Treasury regulation section including, without limitation, regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010)
35. Additional selling restrictions: Not Applicable

## OPERATIONAL INFORMATION

36. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg or DTC and the relevant identification number(s): Not Applicable
37. Delivery: Delivery against payment
38. Additional Paying Agent(s) (if any): Not Applicable
39. In the case of Registered Notes, specify the location of the office of the Registrar if other than New York: Not Applicable
40. In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London: Not Applicable
- ISIN: XS2476745430
- Common code: 247674543
- LEI: 549300ML2LNRZUCS7149

## **USE OF PROCEEDS**

The net proceeds will be allocated toward financing and/or refinancing of new and/or existing projects from the Eligible Green Categories (the “Eligible Green Projects”) as set forth in the KDB Sustainable Bond Framework. The Eligible Green Projects will be selected in accordance with the categories recognized under the Green Bond Principles as published by the International Capital Market Association (the “ICMA Green Bond Principles”).

## **LISTING APPLICATION**

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S. \$30,000,000,000 Global Medium Note Programme of The Korea Development Bank, acting through its principal office in Korea.

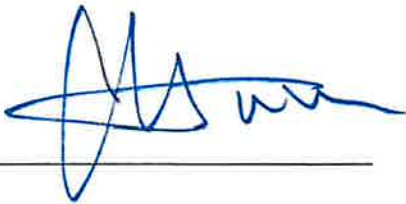
The Singapore Exchange Securities Trading Limited (the **SGX-ST**) assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Pricing Supplement. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Programme, or the Notes.

## **RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: \_\_\_\_\_



Notes may also be issued in such other form and on such other terms as the Issuer may from time to time agree with the relevant Purchaser(s). If the relevant Pricing Supplement relating to a Tranche of Notes specifies any modifications to the Terms and Conditions of the Notes as described below, it is envisaged that, to the extent that such modifications relate only to Conditions 1, 4, 5 (except Condition 5(b)), 6, 10, 12 (insofar as such Notes are not listed or admitted to trade on any stock exchange), 13 or 14, they will not necessitate the preparation of supplementary listing particulars. If the Terms and Conditions of the Notes are to be modified in any other respect, it is envisaged that supplementary listing particulars or, if appropriate, further listing particulars describing the modifications will be prepared.

## THE REPUBLIC OF KOREA

### Land and History

#### *Territory and Population*

Located generally south of the 38th parallel on the Korean peninsula, The Republic of Korea covers about 38,000 square miles, approximately one-fourth of which is arable. The Republic has a population of approximately 51 million people. The country's largest city and capital, Seoul, has a population of about 10 million people.

#### *Map of the Republic of Korea*



#### *Political History*

Dr. Rhee Seungman, who was elected President in each of 1948, 1952, 1956 and 1960, dominated the years after the Republic's founding in 1948. Shortly after President Rhee's resignation in 1960 in response to student-led demonstrations, a group of military leaders headed by Park Chung Hee assumed power by coup. The military leaders established a civilian government, and the country elected Mr. Park as President in October 1963. President Park served as President until his assassination in 1979 following a period of increasing strife between the Government and its critics. The Government declared martial law and formed an interim

government under Prime Minister Choi Kyu Hah, who became the next President. After clashes between the Government and its critics, President Choi resigned, and General Chun Doo Hwan, who took control of the Korean army, became President in 1980.

In late 1980, the country approved, by national referendum, a new Constitution, providing for indirect election of the President by an electoral college and for certain democratic reforms, and shortly thereafter, in early 1981, re-elected President Chun.

Responding to public demonstrations in 1987, the legislature revised the Constitution to provide for direct election of the President. In December 1987, Roh Tae Woo won the presidency by a narrow plurality, after opposition parties led by Kim Young Sam and Kim Dae Jung failed to unite behind a single candidate. In February 1990, two opposition political parties, including the one led by Kim Young Sam, merged into President Roh's ruling Democratic Liberal Party.

In December 1992, the country elected Kim Young Sam as President. The election of a civilian and former opposition party leader considerably lessened the controversy concerning the legitimacy of the political regime. President Kim's administration reformed the political sector and deregulated and internationalized the Korean economy.

In December 1997, the country elected Kim Dae Jung as President. President Kim's party, the Millennium Democratic Party (formerly known as the National Congress for New Politics), formed a coalition with the United Liberal Democrats led by Kim Jong Pil, with Kim Jong Pil becoming the first prime minister in President Kim's administration. The coalition, which temporarily ended before the election held in April 2000, continued with the appointment of Lee Han Dong of the United Liberal Democrats as the Prime Minister in June 2000. The coalition again ended in September 2001.

In December 2002, the country elected Roh Moo Hyun as President. President Roh and his supporters left the Millennium Democratic Party in 2003 and formed a new party, the Uri Party, in November 2003. On August 15, 2007, 85 members of the National Assembly, previously belonging to the Uri Party, or the Democratic Party, formed the United New Democratic Party, or the UNDP. The Uri Party merged into the UNDP on August 20, 2007. In February 2008, the UNDP merged back into the Democratic Party. In December 2011, the Democratic Party merged with the Citizens Unity Party to form the Democratic United Party, which changed its name to the Democratic Party in May 2013.

In December 2007, the country elected Lee Myung-Bak as President. He commenced his term on February 25, 2008. In April 2018, the Korean prosecutor's office indicted former President Lee on 16 counts of corruption, including bribery, abuse of power, embezzlement and other irregularities. In October 2018, a Seoul district court sentenced him to 15 years of prison term, which decision he subsequently appealed. In October 2020, the Supreme Court ruled against such appeal and sentenced him to 17 years of prison term, which he is currently serving.

In December 2012, the country elected Park Geun-hye as President. She commenced her term on February 25, 2013. In March 2017, the Constitutional Court unanimously upheld a parliamentary vote to impeach President Park, triggering her immediate dismissal, for a number of constitutional and criminal violations, including violation of the Constitution and abuse of power by allowing her confidant to exert influence on state affairs and allowing senior presidential aides to aid in her extortion from companies. After a series of trials, former President Park was sentenced to a combined 22 years of prison term and a fine of ₩21.5 billion. In light of her deteriorating health, however, former President Park was granted a special pardon by President Moon, her successor, and was released from prison on December 31, 2021.

A special election to elect a successor to former President Park was held on May 9, 2017 and the country elected Moon Jae-in as President. His term, which commenced on May 10, 2017, is scheduled to end on May 9, 2022.

In March 2022, the country elected Yoon Suk-yeol as President. His term is scheduled to commence on May 10, 2022. The Yoon administration's key policy objectives include, among others, the following:

- mitigating the adverse effects of the ongoing COVID-19 pandemic on the Korean economy, including through the provision of relief packages in support of small businesses and the self-employed;
- stabilizing the housing market by increasing the supply of new homes and reforming property-related tax regulations;
- pursuing economic prosperity by promoting private sector growth and supporting the semiconductor, artificial intelligence, battery and other strategic industries;
- pursuing the denuclearization of the Korean Peninsula, enhancing Korea's core military capabilities and improving foreign relations and national security;
- pursuing enhanced environmental, social and corporate governance management, including through efforts to achieve carbon neutrality by reversing the previous administration's nuclear-phase out policy and combining renewable energy with nuclear power generation; and
- pursuing an efficient management of the government through various measures, including the establishment of a digital platform and the relocation of presidential offices.

## **Government and Politics**

### ***Government and Administrative Structure***

Governmental authority in the Republic is centralized and concentrated in a strong presidency. The President is elected by popular vote and can only serve one term of five years. The President chairs the State Council, which consists of the President, the prime minister, the deputy prime ministers, the respective heads of Government ministries and the ministers of state. The President can select the members of the State Council and appoint or remove all other Government officials, except for elected local officials.

The President can veto new legislation and take emergency measures in cases of natural disaster, serious fiscal or economic crisis, state of war or other similar circumstances. The President must promptly seek the concurrence of the National Assembly for any emergency measures taken and failing to do so automatically invalidates the emergency measures. In the case of martial law, the President may declare martial law without the consent of the National Assembly; provided, however, that the National Assembly may request the President to rescind such martial law.

The National Assembly exercises the country's legislative power. The Constitution and the Election for Public Offices Act provide for the direct election of about 84% of the members of the National Assembly and the distribution of the remaining seats proportionately among parties winning more than five seats in the direct election or receiving over 3% of the popular vote. National Assembly members serve four-year terms. The National Assembly enacts laws, ratifies treaties and approves the national budget. The executive branch drafts most legislation and submits it to the National Assembly for approval.

The country's judicial branch comprises the Supreme Court, the Constitutional Court and lower courts of various levels. The President appoints the Chief Justice of the Supreme Court and appoints the other Justices of

the Supreme Court upon the recommendation of the Chief Justice. All appointments to the Supreme Court require the consent of the National Assembly. The Chief Justice, with the consent of the conference of Supreme Court Justices, appoints all the other judges in Korea. Supreme Court Justices serve for six years and all other judges serve for ten years. Other than the Chief Justice, justices and judges may be reappointed to successive terms.

The President formally appoints all nine judges of the Constitutional Court, but three judges must be designated by the National Assembly and three by the Chief Justice of the Supreme Court. Constitutional Court judges serve for six years and may be reappointed to successive terms.

Administratively, the Republic comprises eight provinces, one special autonomous province (Jeju), one special city (Seoul), six metropolitan cities (Busan, Daegu, Incheon, Gwangju, Daejeon and Ulsan) and one special autonomous city (Sejong). From 1961 to 1995, the national government controlled the provinces and the President appointed provincial officials. Local autonomy, including the election of provincial officials, was reintroduced in June 1995.

***Political Parties***

The 21st legislative general election was held on April 15, 2020 and the term of the National Assembly members elected in the 21st legislative general election commenced on May 30, 2020. Currently, there are three major political parties: The Democratic Party of Korea, or the DPK, the People Power Party, or the PPP, and the Justice Party, or the JP.

As of May 4, 2022, the parties control the following number of seats in the National Assembly:

	<u>DPK</u>	<u>PPP</u>	<u>JP</u>	<u>Others</u>	<u>Total</u>
Number of seats .....	168	109	6	10	293

***Relations with North Korea***

Relations between the Republic and North Korea have been tense over most of the Republic’s history. The Korean War began with the invasion of the Republic by communist forces from the north in 1950, which was repelled by the Republic and the United Nations forces led by the United States. Following a military stalemate, an armistice was reached establishing a demilitarized zone monitored by the United Nations in the vicinity of the 38th parallel in 1953.

North Korea maintains a military force estimated at more than a million regular troops, mostly concentrated near the northern side of the demilitarized zone, and approximately 7.6 million reserves. The Republic’s military forces, composed of approximately 555,000 regular troops and 3.1 million reserves, maintain a state of military preparedness along the southern side of the demilitarized zone. In addition, the United States has maintained its military presence in the Republic since the signing of the armistice and currently has approximately 28,500 troops stationed in the Republic. The Republic and the United States share a joint command structure over their military forces in Korea. In October 2014, the United States and the Republic agreed to implement a conditions-based approach to the dissolution of their joint command structure at an appropriate future date, which would allow the Republic to assume the command of its own armed forces in the event of war on the Korean peninsula. Over the years, the Republic and the United States have entered into a series of Special Measures Agreements, or SMAs, which cover the Republic’s contribution to the cost of maintaining the U.S. military presence in the Republic. In March 2021, the Republic and the United States reached an agreement to enter into a new six-year SMA, under which the Republic would increase its share of the cost of the American military presence in the Republic, which became effective in September 2021 upon ratification by the National Assembly.

The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, since the death of Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea's political leadership and concern regarding its implications for political and economic stability in the region. Kim Jong-il's third son, Kim Jong-eun, has assumed power as his father's designated successor.

In addition, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapons and ballistic missile programs as well as its hostile military and other actions against Korea. Some of the significant incidents in recent years include the following:

- From time to time, North Korea has conducted ballistic missile tests. In February 2016, North Korea launched a long-range rocket in violation of its agreement with the United States as well as United Nations sanctions barring it from conducting launches that use ballistic missile technology. Despite international condemnation, North Korea released a statement that it intends to continue its rocket launch program and it conducted a series of ballistic missile tests in 2016 and 2017. In response, the United Nations Security Council issued unanimous statements condemning North Korea and agreeing to continue to closely monitor the situation and to take further significant measures, and in December 2017, unanimously passed a resolution extending existing sanctions that were imposed on North Korea.
- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 and February 2013. In January 2016, North Korea conducted a fourth nuclear test, claiming that the test involved its first hydrogen bomb. In September 2016, North Korea conducted a fifth nuclear test, claiming to have successfully detonated a nuclear warhead that could be mounted on ballistic missiles. In September 2017, North Korea announced that it successfully conducted its sixth nuclear test by detonating a hydrogen bomb designed to be mounted on an intercontinental ballistic missile, which resulted in increased tensions in the region and elicited strong objections worldwide. In response to such tests (as well as North Korea's long-range ballistic missile program), the United Nations Security Council unanimously passed several rounds of resolutions condemning North Korea's actions and significantly expanding the scope of the sanctions applicable to North Korea, while the United States and the European Union also imposed additional sanctions on North Korea.
- In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army re-initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas.
- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea. Although bilateral summit meetings were held between Korea and North Korea in April and May 2018 and between the United States and North Korea in June 2018, February 2019 and June 2019,

there can be no assurance that the level of tension on the Korean peninsula will not escalate in the future or that such escalation will not have a material adverse impact on the Republic's economy and the Bank. Any further increase in tension, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between the Republic and North Korea break down or further military hostilities occur, could have a material adverse effect on the Republic's economy and the Bank. Over the longer term, reunification of the two Koreas could occur. Reunification may entail a significant economic commitment by the Republic.

### *Foreign Relations and International Organizations*

The Republic maintains diplomatic relations with most nations of the world, most importantly with the United States with which it entered into a mutual defense treaty and several economic agreements. The Republic also has important relationships with Japan and China, its largest trading partners together with the United States.

The Republic belongs to a number of supranational organizations, including:

- United Nations;
- the International Monetary Fund, or the IMF;
- the World Bank;
- the Asian Development Bank, or the ADB;
- the Multilateral Investment Guarantee Agency;
- the International Finance Corporation;
- the International Development Association;
- the African Development Bank;
- the European Bank for Reconstruction and Development;
- the Bank for International Settlements;
- the World Health Organization, or the WHO;
- the World Trade Organization, or the WTO;
- the International Atomic Energy Agency, or the IAEA;
- the Inter-American Development Bank, or the IDB;
- the Organization for Economic Cooperation and Development, or the OECD; and
- the Asian Infrastructure Investment Bank.

## The Economy

The following table sets forth information regarding certain of the Republic's key economic indicators for the periods indicated.

	As of or for the year ended December 31,				
	2017	2018	2019	2020	2021
	(billions of dollars and trillions of Won, except percentages)				
GDP Growth (at current prices) . . . . .	5.5%	3.1%	1.3%	0.7%	6.4% <sup>(7)</sup>
GDP Growth (at chained 2015 year prices) . . . . .	3.2%	2.7%	2.3%	(0.7)%	4.0% <sup>(7)</sup>
Inflation <sup>(1)</sup> . . . . .	1.9%	1.5%	0.4%	0.5%	2.5%
Unemployment <sup>(2)</sup> . . . . .	3.7%	3.8%	3.8%	4.0%	3.7%
Trade Surplus <sup>(3)</sup> . . . . .	\$ 95.2	\$ 69.7	\$ 38.9	\$ 44.9	\$ 29.4
Foreign Currency Reserves . . . . .	\$ 389.3	\$ 403.7	\$ 408.8	\$ 443.1	\$ 463.1
External Liabilities <sup>(4)</sup> . . . . .	\$ 412.0	\$ 441.2	\$ 470.7	\$ 544.9	\$ 628.5 <sup>(7)</sup>
Fiscal Balance . . . . .	₩ 24.0	₩ 31.2	₩ (12.0)	₩ (71.2)	₩ (30.4) <sup>(7)</sup>
Direct Internal Debt of the Government <sup>(5)</sup>					
(as % of GDP <sup>(6)</sup> ) . . . . .	35.2%	35.6%	37.4%	44.2%	N/A <sup>(8)</sup>
Direct External Debt of the Government <sup>(5)</sup>					
(as % of GDP <sup>(6)</sup> ) . . . . .	0.4%	0.4%	0.4%	0.5%	N/A <sup>(8)</sup>

(1) Measured by the year-on-year change in the consumer price index with base year 2020, as announced by the Bank of Korea.

(2) Average for year.

(3) Derived from customs clearance statistics on a C.I.F. basis, meaning that the price of goods includes insurance and freight cost.

(4) Calculated under the criteria based on the sixth edition of the Balance of Payment Manual published by the International Monetary Fund in December 2010.

(5) Does not include guarantees by the Government. See “—Debt—External and Internal Debt of the Government—Guarantees by the Government” for information on outstanding guarantees by the Government.

(6) At chained 2015 year prices.

(7) Preliminary.

(8) Not available.

Source: The Bank of Korea

## Worldwide Economic and Financial Difficulties

In recent years, the global financial markets have experienced significant volatility as a result of, among other things:

- the ongoing COVID-19 pandemic caused by a new strain of coronavirus, as further described below;
- hostilities, political or social tensions involving Russia (including the invasion of Ukraine by Russia and ensuing actions that the United States and other countries have taken or may take in the future, such as the imposition of sanctions against Russia) and the resulting adverse effects on the global supply of oil and other natural resources and the global financial markets;
- rising inflationary pressures leading to increases in the costs of goods and services and a decrease in purchasing power;
- interest rate fluctuations as well as perceived or actual changes in policy rates by, or other monetary and fiscal policies set forth by, the U.S. Federal Reserve and other central banks;

- disruptions in the global supply chain for raw materials, natural resources, consumer goods, rare earth minerals, component parts and other supplies, including as a result of the ongoing COVID-19 pandemic, government policies and labor shortages;
- a deterioration in economic and trade relations between the United States and its major trading partners, including China;
- increased uncertainties resulting from the United Kingdom's exit from the European Union;
- financial and social difficulties affecting many governments worldwide, in particular in Latin America and Europe;
- escalations in trade protectionism globally and geopolitical tensions in East Asia and the Middle East;
- the slowdown of economic growth in China and other major emerging market economies;
- political and social instability in various countries in the Middle East, including Iraq, Syria and Yemen; and
- fluctuations in oil and commodity prices.

COVID-19, an infectious disease caused by severe acute respiratory syndrome coronavirus 2, has spread globally and was declared a “pandemic” by the WHO in March 2020. The ongoing COVID-19 pandemic has led to significant global economic and financial disruptions, including an adverse impact on international trade and business activities. Although there have been mixed signs of recovery in the global economy resulting from the availability of COVID-19 vaccinations and gradual normalization of business activities, the extent to which the COVID-19 pandemic continues to impact the global economy will depend on future developments, including the scope and duration of the ongoing COVID-19 pandemic as well as the timeliness and effectiveness of actions taken by governmental authorities, central banks, healthcare providers and other third parties around the world in order to contain and mitigate the effects of COVID-19. The possibility of a global recession in major markets due to the impact of COVID-19, including discrepancies in vaccine rollout rates, continued decline in consumer confidence and weakened demand for face-to-face services, could cause significant volatility in the global economic and financial systems.

There has been significant volatility in global financial markets since the global outbreak of COVID-19, and more recently due to Russia's invasion of Ukraine and ensuing sanctions against Russia. See “—The Financial System—Securities Markets”. Declines in the index and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies and banks to raise capital. Moreover, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely. A depreciation of the Won generally increases the cost of imported goods and services and the required amount of the Won revenue for Korean companies to service foreign currency-denominated debt.

In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets. In addition, in the event of difficult conditions in the global credit markets or a deterioration of the global economy in the future, the Korean economy could be adversely affected and Korean banks may be forced to fund their operations at a higher cost or may be unable to raise as much funding as they need to support their lending and other activities.

In addition to the global developments, domestic developments that could lead to or contribute to a material adverse effect on the Korean economy include, among other things, the following:

- a slowdown in consumer spending and depressed consumer sentiment due to the outbreak of infectious diseases, such as the ongoing COVID-19 pandemic discussed above, and national tragedies, such as the sinking of the Sewol passenger ferry in April 2014, which led to the death of hundreds of passengers;
- increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers, which may occur due to, among others, the impact of the ongoing COVID-19 pandemic;
- steadily rising household debt consisting of housing loans and merchandise credit, which increased to approximately Won 1,862.1 trillion as of December 31, 2021 from Won 843.2 trillion as of December 31, 2010, primarily due to increases in mortgage loans and purchases with credit cards;
- deterioration in economic or diplomatic relations between Korea and other countries resulting from territorial or trade disputes or disagreements in foreign policy;
- a substantial increase in the Government's expenditures for (i) fiscal stimulus measures to provide emergency relief payments to households and emergency loans to corporations in need of funding due to the COVID-19 pandemic and (ii) pension and social welfare programs, due in part to an aging population (defined as the population of people aged 65 years or older) that accounted for approximately 16.5% of the Republic's total population as of December 31, 2021, an increase from 7.2% as of December 31, 2000, and is expected to surpass 20.3% in 2025 that, together, would lead to the Government's budget deficit;
- decreases in the market prices of Korean real estate; and
- the occurrence of severe health epidemics that affect the livestock industry.

The first confirmed case of the COVID-19 disease in Korea was announced in January 2020 and the subsequent spread of the disease has since resulted in more than 17.4 million confirmed cases and more than 23,000 fatalities related to COVID-19 reported in Korea as of May 4, 2022. In response, the Government implemented a number of measures in order to contain the spread of the COVID-19 disease, including, among others, a nationwide order for social distancing, implementation of strict self-isolation and quarantine measures for those who may be infected, or have a higher chance of being infected, and the closure of public facilities until the possibility of further contamination has subsided sufficiently. In addition, the Government implemented the following measures, among others, in order to alleviate the adverse impact of the COVID-19 pandemic on the Korean economy and stabilize the financial markets:

- lowering of The Bank of Korea's policy rate from 1.25% to 0.75% in March 2020 and subsequently to 0.5% in May 2020 (which has subsequently been raised to 0.75% in August 2021, 1.00% in November 2021, 1.25% in January 2022 and 1.50% in April 2022) (See “—Monetary Policy—Interest Rates”);
- execution of a bilateral currency swap agreement with the U.S. Federal Reserve for the provision of US\$60 billion in exchange for the Republic's Won-denominated treasury bonds in March 2020, which agreement expired in December 2021 after three renewals throughout 2020 and 2021;

- execution of a number of supplementary budgets for spending on various measures to mitigate the adverse effects of the COVID-19 pandemic on the Korean economy, including (i) injection of cash into corporate and financial markets in the form of loans, guarantees and maturity extensions to eligible banks and financial institutions, small- and medium business enterprises, small merchants and self-employed business owners facing liquidity crises, and (ii) offer of emergency relief payments and expansion of social security contribution reliefs for those impacted by the COVID-19 pandemic, including underserved communities and the unemployed. See “—Government Finance”.

As part of its efforts to prepare for the post-COVID-19 era, the Government officially announced its plans to pursue a “Korean New Deal” in July 2020. Under such initiative, the Government aims to expedite the Republic’s recovery from the COVID-19 pandemic and pursue a digital and green transformation of the Korean economy and to strengthen employment and social safety nets through a total investment of ₩160 trillion and the creation of 1.9 million new jobs by 2025. In order to contain further spread of COVID-19 and to prevent the outbreak of similar epidemics in the future, the Government has continued to cooperate actively with regional and international efforts to develop and implement various measures to combat such outbreaks.

In February 2021, the Government began its COVID-19 vaccination campaign, and as of May 4, 2022, more than 86% of the Korean population was fully vaccinated. The Government’s plans to have the country return to life as normal was put on hold in recent months in light of the emergence of the new Omicron variant of COVID-19 beginning in December 2021 that spiraled further after mid-February 2022, followed by an exponential surge in the number of new daily cases of COVID-19 infections, peaking at more than 600,000 cases per day in March 2022. Subsequently, the number of confirmed cases began to decline substantially, and in April 2022, the Government announced that it would lift most of its pandemic-related restrictions, including the lifting of limits on private gatherings and extending restaurant hours, while keeping the indoor mask mandate.

While there are signs of recovery from the COVID-19 pandemic, the outlook for the Republic’s economy and its financial services sector in 2022 and for the foreseeable future remains uncertain due to the ongoing impact of the COVID-19 pandemic on the Korean and global economies and financial markets, as well as factors such as fluctuations in oil and commodity prices, interest rates and exchange rates, rising inflationary pressures, higher unemployment, lower consumer confidence, stock market volatility, changes in fiscal and monetary policies, the ongoing military conflict involving Russia and Ukraine, and continued tensions with North Korea.

### ***Gross Domestic Product***

GDP measures the market value of all final goods and services produced within a country for a given period and reveals whether a country’s productive output rises or falls over time. Economists present GDP in both current market prices and “real” or “inflation-adjusted” terms. In March 2009, the Republic adopted a method known as the “chain-linked” measure of GDP, replacing the previous fixed-base, or “constant” measure of GDP, to show the real growth of the aggregate economic activity, as recommended by the System of National Accounts 1993. GDP at current market prices values a country’s output using the actual prices of each year, whereas the “chain-linked” measure of GDP is compiled by using “chained indices” linking volume growth between consecutive time periods. In March 2014, the Republic published a revised GDP calculation method by implementing the System of National Accounts 2008 and updating the reference year from 2005 to 2010 to align Korean national accounts statistics with the recommendations of the new international standards for compiling national economic accounts and to maintain comparability with other nations’ accounts. The main components of these revisions include, among other things, (i) recognizing expenditures for research and development and creative activity for the products of entertainment, literary and artistic originals as fixed investment, (ii) incorporating a wide array of new and revised source data such as the economic census, the population and housing census and 2010 benchmark input-output tables, which provide thorough and detailed information on the structure of the Korean economy, (iii) developing supply-use tables, which provide a statistical tool for ensuring

consistency among the production, expenditure and income approaches to measuring GDP and (iv) recording merchandise trade transactions based on ownership changes rather than movements of goods across the national border. The Republic has updated the reference year from 2010 to 2015 in July 2019 to better align Korean national accounts statistics with the recommendations of the previously implemented System of National Accounts 2008 and to maintain comparability with other countries' accounts.

The following table sets out the composition of the Republic's GDP at current market and chained 2015 year prices and the annual average increase in the Republic's GDP.

### Gross Domestic Product

	2017	2018	2019	2020 <sup>(1)</sup>	2021 <sup>(1)</sup>	As % of GDP 2021 <sup>(1)</sup>
	(billions of Won)					
<b>Gross Domestic Product at Current Market Prices:</b>						
Private .....	872,791.4	908,273.7	931,669.5	897,449.2	952,529.9	46.3
Government .....	283,045.8	305,513.0	329,295.5	349,122.5	374,682.7	18.2
Gross Capital Formation .....	592,711.4	592,858.4	601,581.4	615,921.9	654,616.9	31.8
Exports of Goods and Services .....	751,428.5	788,279.0	766,602.0	704,554.0	858,424.8	41.7
Less Imports of Goods and Services .....	(664,278.8)	(701,150.7)	(710,990.2)	(633,487.5)	(782,697.7)	(38.0)
Statistical Discrepancy .....	0.0	(276.4)	881.5	(407.7)	(108.8)	0.0
Expenditures on Gross Domestic Product .....	1,835,698.2	1,893,497.0	1,919,039.9	1,933,152.4	2,057,447.8	100.0
Net Factor Income from the Rest of the World .....	7,482.6	4,955.7	16,675.3	14,868.3	25,128.7	1.2
Gross National Income <sup>(2)</sup> .....	1,843,180.9	1,898,452.7	1,935,715.2	1,948,020.7	2,082,576.5	101.2
<b>Gross Domestic Product at Chained 2015 Year Prices:</b>						
Private .....	848,589.3	872,304.4	890,167.7	849,072.1	879,770.0	46.0
Government .....	271,428.7	286,644.8	304,760.3	319,321.3	336,971.2	17.6
Gross Capital Formation .....	576,996.7	566,376.1	555,494.6	561,440.4	569,644.5	29.8
Exports of Goods and Services .....	747,783.5	773,752.6	790,874.0	765,015.6	840,601.8	44.0
Less Imports of Goods and Services .....	(686,089.2)	(691,374.1)	(693,412.8)	(661,725.2)	(718,301.5)	(37.6)
Statistical Discrepancy .....	(1,130.3)	(2,511.7)	(1,429.8)	199.6	1,686.4	0.1
Expenditures on Gross Domestic Product <sup>(3)</sup> .....	1,760,811.5	1,807,735.9	1,848,958.5	1,836,881.1	1,910,745.0	100.0
Net Factor Income from the Rest of the World in the Terms of Trade .....	7,084.6	4,519.5	15,335.4	13,772.4	22,679.4	1.2
Trading Gains and Losses from Changes in the Terms of Trade .....	25,915.5	3,272.8	(40,224.9)	(26,407.1)	(46,122.6)	(2.4)
Gross National Income <sup>(4)</sup> .....	1,793,818.4	1,815,558.4	1,824,136.5	1,824,242.5	1,887,369.0	98.8
Percentage Increase (Decrease) of GDP over Previous Year: .....						
At Current Prices .....	5.5	3.1	1.3	0.7	6.4	
At Chained 2015 Year Prices .....	3.2	2.7	2.3	(0.7)	4.0	

(1) Preliminary.

(2) GDP plus net factor income from the rest of the world is equal to the Republic's gross national income.

(3) Under the "chain-linked" measure of GDP, the components of GDP will not necessarily add up to the total GDP.

(4) Under the "chain-linked" measure of Gross National Income, the components of Gross National Income will not necessarily add up to the total Gross National Income.

Source: The Bank of Korea

The following table sets out the Republic's GDP by economic sector at current market prices:

**Gross Domestic Product by Economic Sector  
(at current market prices)**

	2017	2018	2019	2020 <sup>(1)</sup>	2021 <sup>(1)</sup>	As % of GDP 2021 <sup>(1)</sup>
	(billions of Won)					
Industrial Sectors: . . . . .	672,178.8	680,553.1	661,196.9	665,292.9	706,020.9	34.3
Agriculture, Forestry and Fishing . . . . .	33,974.3	34,528.9	31,134.9	35,421.0	37,827.3	1.8
Manufacturing, Mining and Quarrying . . . . .	496,993.7	506,854.7	487,889.2	481,573.6	524,339.4	25.5
Mining and Quarrying . . . . .	2,348.8	2,247.7	1,943.6	1,945.1	2,008.2	0.1
Manufacturing . . . . .	494,644.9	504,607.0	485,945.6	479,628.5	522,331.2	25.4
Electricity, Gas and Water Supply . . . . .	40,014.2	36,813.2	36,580.7	43,118.7	37,934.2	1.8
Construction . . . . .	101,196.6	102,356.3	105,592.1	105,179.6	105,920.0	5.1
Services: . . . . .	1,006,839.9	1,049,864.7	1,095,424.2	1,104,240.8	1,178,235.4	57.3
Wholesale and Retail Trade, Accommodation and Food Services . . . . .	175,124.9	180,661.0	180,358.0	172,245.3	180,741.4	8.8
Transportation and Storage . . . . .	58,283.7	57,088.1	59,949.6	56,077.8	67,546.2	3.3
Finance and Insurance . . . . .	96,983.7	104,336.2	104,718.6	110,441.3	122,654.6	6.0
Real Estate . . . . .	133,152.6	135,890.3	142,735.8	145,464.2	146,657.5	7.1
Information and Communication . . . . .	76,712.2	79,242.9	82,602.9	87,500.1	97,715.8	4.7
Business Activities . . . . .	154,495.4	161,832.1	175,225.1	179,476.6	190,842.6	9.3
Public Administration, Defense and Social Security . . . . .	107,325.6	115,086.1	122,162.4	128,647.1	135,669.1	6.6
Education . . . . .	87,880.4	90,933.2	93,717.9	92,681.0	98,113.1	4.8
Human Health and Social Work . . . . .	74,706.8	80,937.0	88,588.1	93,245.6	98,383.3	4.8
Cultural and Other Services . . . . .	42,174.6	43,857.8	45,365.8	38,461.8	39,911.8	1.9
Taxes Less Subsidies on Products . . . . .	156,679.6	163,079.3	162,418.6	163,618.9	173,191.5	8.4
Gross Domestic Product at Current Market Prices . . . . .	1,835,698.2	1,893,497.0	1,919,039.9	1,933,152.4	2,057,447.8	100.0
Net Factor Income from the Rest of the World . . . . .	7,482.6	4,955.7	16,675.3	14,868.3	25,128.7	1.2
Gross National Income at Current Market Price . . . . .	1,843,180.9	1,898,452.7	1,935,715.1	1,948,020.7	2,082,576.5	101.2

(1) Preliminary.  
Source: The Bank of Korea

The following table sets out the Republic's GDP per capita:

**Gross Domestic Product per capita  
(at current market prices)**

	2017	2018	2019	2020 <sup>(1)</sup>	2021 <sup>(1)</sup>
GDP per capita (thousands of Won) . . . . .	35,740	36,782	37,218	37,334	39,761
GDP per capita (U.S. dollar) . . . . .	31,605	33,429	31,929	31,637	34,744
Average Exchange Rate (in Won per U.S. dollar) . . . . .	1,130.8	1,100.3	1,165.7	1,180.1	1,144.4

(1) Preliminary.  
Source: The Bank of Korea

The following table sets out the Republic's Gross National Income, or GNI, per capita:

**Gross National Income per capita  
(at current market prices)**

	2017	2018	2019	2020 <sup>(1)</sup>	2021 <sup>(1)</sup>
GNI per capita (thousands of Won) . . . . .	35,886	36,930	37,539	37,621	40,247
GNI per capita (U.S. dollar) . . . . .	31,734	33,564	32,204	31,881	35,168
Average Exchange Rate (in Won per U.S. dollar) . . . . .	1,130.8	1,100.3	1,165.7	1,180.1	1,144.4

(1) Preliminary.

Source: The Bank of Korea

The following table sets out the Republic's GDP by economic sector:

**Gross Domestic Product by Economic Sector  
(at chained 2015 year prices)**

	2017	2018	2019	2020 <sup>(1)</sup>	2021 <sup>(1)</sup>	As % of GDP 2021 <sup>(1)</sup>
	(billions of Won)					
Industrial Sectors: . . . . .	640,516.9	654,072.8	658,741.5	653,510.5	686,758.2	35.9
Agriculture, Forestry and Fishing . . . . .	32,059.8	32,540.4	32,859.2	32,054.3	32,931.8	1.7
Manufacturing, Mining and Quarrying . . . . .	470,274.80	485,854.0	491,476.4	486,556.9	518,476.5	27.1
Mining and Quarrying . . . . .	2,204.5	2,030.9	1,863.6	1,908.1	2,005.4	0.1
Manufacturing . . . . .	468,070.3	483,823.1	489,612.8	484,648.8	516,471.1	27.0
Electricity, Gas and Water Supply . . . . .	43,813.8	45,116.2	44,921.8	46,810.9	49,102.3	2.6
Construction . . . . .	94,368.5	90,562.2	89,484.1	88,088.4	86,247.6	4.5
Services: . . . . .	973,106.40	1,003,834.7	1,039,879.8	1,033,780.7	1,072,521.4	56.1
Wholesale and Retail Trade, Accommodation and Food Services . . . . .	167,746.5	171,599.5	174,419.9	168,483.3	174,084.3	9.1
Transportation and Storage . . . . .	60,289.1	61,888.5	62,746.9	53,954.4	56,762.3	3.0
Finance and Insurance . . . . .	93,709.2	98,999.7	103,386.2	111,653.9	118,422.9	6.2
Real Estate . . . . .	129,307.2	132,057.6	136,593.8	137,650.2	138,306.8	7.2
Information and Communication . . . . .	75,814.3	78,941.7	82,473.3	85,520.8	90,643.7	4.7
Business Activities . . . . .	147,949.8	150,522.3	157,790.8	156,898.3	161,333.0	8.4
Public Administration, Defense and Social Security . . . . .	100,722.8	104,100.3	108,219.5	112,395.7	116,698.8	6.1
Education . . . . .	84,806.1	86,440.9	87,493.6	85,465.3	89,481.3	4.7
Human Health and Social Work . . . . .	72,330.1	78,160.0	85,046.7	87,053.5	91,231.0	4.8
Cultural and Other Services . . . . .	40,495.8	41,218.1	41,709.1	34,705.3	35,557.3	1.9
Taxes Less Subsidies on Products . . . . .	147,105.4	149,966.5	150,812.7	150,084.3	153,948.7	8.1
Gross Domestic Product <sup>(2)</sup> . . . . .	1,760,811.5	1,807,735.9	1,848,958.5	1,836,881.1	1,910,745.0	100.0

(1) Preliminary.

(2) Under the "chain-linked" measure of GDP, the components of GDP will not necessarily add up to the total GDP.

Source: The Bank of Korea

GDP growth in 2017 was 3.2% at chained 2015 year prices, as aggregate private and general government consumption expenditures increased by 3.1%, gross domestic fixed capital formation increased by 9.8% and exports of goods and services increased by 2.5%, which more than offset an increase in imports of goods and services by 8.9%, each compared with 2016.

GDP growth in 2018 was 2.7% at chained 2015 year prices, as aggregate private and general government consumption expenditures increased by 3.5% and exports of goods and services increased by 3.5%, which more than offset a decrease in gross domestic fixed capital formation by 2.4% and an increase in imports of goods and services by 0.8%, each compared with 2017.

GDP growth in 2019 was 2.3% at chained 2015 year prices, as aggregate private and general government consumption expenditures increased by 3.1%, exports of goods and services increased by 2.2% and imports of goods and services decreased by 0.3%, which more than offset a decrease in gross domestic fixed capital formation by 2.9%, each compared with 2018.

Based on preliminary data, GDP in 2020 contracted by 0.7% at chained 2015 year prices, primarily due to a 4.6% decrease in private consumption expenditures and a 3.3% decrease in exports of goods and services, which were offset in part by a 4.8% increase in general government consumption expenditures, a 2.6% increase in gross domestic fixed capital formation and a 3.3% decrease in imports of goods and services, each compared with 2019. The contraction of the Republic's GDP in 2020 was primarily due to the ongoing COVID-19 pandemic.

Based on preliminary data, GDP growth in 2021 was 4.0% at chained 2015 year prices, as exports of goods and services increased by 9.9%, aggregate private and general government consumption expenditures increased by 4.2% and gross domestic fixed capital formation increased by 2.6%, which more than offset an increase in imports of goods and services by 8.5%, each compared with 2020.

The Republic's GDP may be adversely affected in 2022 if adverse effects of the ongoing COVID-19 pandemic are prolonged.

## Principal Sectors of the Economy

### Industrial Sectors

The following table sets out production indices for the principal industrial products of the Republic and their relative contribution to total industrial production:

#### Industrial Production (2015 = 100)

	Index Weight <sup>(1)</sup>	2017	2018	2019	2020	2021 <sup>(2)</sup>
Industries	10,000.0	104.8	106.3	106.7	106.3	114.3
Mining and Manufacturing	9,521.5	104.6	106.1	106.5	106.2	114.4
Mining	32.0	100.2	89.5	85.4	84.1	81.4
Manufacturing	9,489.5	104.7	106.1	106.6	106.3	114.5
Food Products	585.7	102.9	104.1	108.0	109.4	110.9
Beverage Products	141.0	105.7	105.4	103.8	100.3	99.4
Tobacco Products	67.7	122.7	111.1	121.1	126.5	122.3
Textiles	129.8	95.2	88.7	83.5	74.7	78.9
Wearing Apparel, Clothing Accessories and Fur Articles	93.2	95.9	93.6	87.4	70.1	73.0
Tanning and Dressing of Leather, Luggage and Footwear	24.2	82.0	82.8	71.5	49.4	48.6
Wood and Products of Wood and Cork (Except Furniture)	36.6	103.7	95.3	87.0	85.5	86.1
Pulp, Paper and Paper Products	161.8	97.5	97.0	95.6	93.7	96.9
Printing and Reproduction of Recorded Media	54.0	102.0	100.4	95.3	95.4	96.0
Coke, hard-coal and lignite fuel briquettes and Refined Petroleum Products	139.0	114.8	117.0	115.0	107.8	109.1
Chemicals and Chemical Products	845.3	109.1	111.6	110.1	106.8	114.7
Pharmaceuticals, Medicinal Chemicals and Botanical Products	305.5	118.5	128.1	131.6	142.8	148.6
Rubber and Plastic Products	497.3	99.9	95.1	93.3	87.5	90.8
Non-metallic Minerals	246.5	111.2	107.2	104.3	96.7	100.1
Basic Metals	594.9	102.9	100.1	97.8	91.7	97.0
Fabricated Metal Products	550.4	96.6	88.9	87.5	80.3	75.8
Electronic Components, Computer, Radio, Television and Communication Equipment and Apparatuses	1,963.8	112.6	125.9	132.0	147.7	177.7
Medical, Precision and Optical Instruments, Watches and Clocks	368.6	119.5	136.1	121.1	125.8	149.0
Electrical Equipment	517.6	106.6	106.5	109.6	108.7	115.1
Other Machinery and Equipment	843.8	115.4	111.8	105.2	109.0	120.8
Motor Vehicles, Trailers and Semitrailers	927.2	95.1	93.9	93.4	84.1	88.2
Other Transport Equipment	285.4	68.0	61.6	72.3	70.1	61.3
Furniture	63.2	109.5	101.9	99.9	106.8	110.7
Other Products	47.0	108.2	102.7	108.0	101.7	103.7
Electricity, Gas	478.5	106.3	110.3	108.6	106.6	111.5
Total Index	10,000.0	104.8	106.3	106.7	106.3	114.3

(1) Index weights were established on the basis of an industrial census in 2015 and reflect the average annual value added by production in each of the classifications shown, expressed as a percentage of total value added in the mining, manufacturing and electricity and gas industries in that year.

(2) Preliminary.

Source: The Bank of Korea; Korea National Statistical Office

Industrial production increased by 2.5% in 2017, primarily due to increased domestic consumption and exports. Industrial production increased by 1.4% in 2018, primarily due to increased domestic consumption and

exports. Industrial production increased by 0.4% in 2019, primarily due to increased domestic consumption. Industrial production decreased by 0.4% in 2020, primarily due to decreased domestic consumption and exports resulting from the COVID-19 pandemic. Based on preliminary data, industrial production increased by 7.5% in 2021, primarily due to increased exports and domestic consumption.

### ***Manufacturing***

The manufacturing sector increased production by 2.3% in 2017, primarily due to increased demand for consumer electronics products, electronic components (including semiconductors), communication equipment and chemical products, which more than offset decreased demand for motor vehicles, trailers and semitrailers. The manufacturing sector increased production by 1.3% in 2018, primarily due to increased demand for consumer electronics products and electronic components (including semiconductors). The manufacturing sector increased production by 0.5% in 2019, primarily due to increased demand for consumer electronics products and electronic components (including semiconductors). The manufacturing sector decreased production by 0.3% in 2020, primarily due to decreased demand for automobiles. Based on preliminary data, the manufacturing sector increased production by 7.7% in 2021, primarily due to increased demand for consumer electronics products, electronic components (including semiconductors) and machinery.

*Automobiles.* In 2017, automobile production decreased by 2.7%, domestic sales volume recorded a decrease of 2.5% and exports sales volume recorded a decrease of 3.5%, compared with 2016, primarily due to decreased domestic production of automobiles resulting mainly from partial strikes by unionized workers of automobile manufacturers, increased overseas production and decreased exports to the United States and China. In 2018, automobile production decreased by 2.1%, domestic sales volume recorded a decrease of 0.5% and exports sales volume recorded a decrease of 3.2%, compared with 2017, primarily due to decreased domestic production of automobiles resulting mainly from partial strikes by unionized workers of automobile manufacturers and the restructuring of GM Korea's production units and decreased exports to countries in South America and the Middle East. In 2019, automobile production decreased by 1.9%, domestic sales volume recorded a decrease of 1.8% and export sales volume recorded a decrease of 2.0%, compared with 2018, primarily due to decreased domestic production of automobiles resulting mainly from partial strikes by unionized workers of automobile manufacturers, increased overseas production, decreased domestic demand for automobiles and decreased demand for automobiles in China. In 2020, automobile production decreased by 11.2% and export sales volume recorded a decrease of 21.4%, compared with 2019, primarily due to a general decline in global demand for automobiles caused by the COVID-19 pandemic, which outpaced a 4.7% increase in domestic sales volume from 2019 to 2020, primarily due to increased domestic demand for automobiles. Based on preliminary data, in 2021, automobile production decreased by 1.3% and domestic sales volume recorded a decrease of 8.5%, compared with 2020, primarily due to the global shortage of semiconductors amid the ongoing COVID-19 pandemic, but exports sales volume recorded an increase of 8.6% compared with 2020, primarily due to an increase in the market share of domestic automobile manufacturers in the global automotive market.

*Electronics.* In 2017, electronics production amounted to ₩342,755 billion, an increase of 10.9% from the previous year, and exports amounted to US\$197.6 billion, an increase of 21.6% from the previous year, primarily due to increases in demand for semiconductors, organic light-emitting diode, or OLED, display panels and computers. In 2017, export sales of semiconductor memory chips constituted approximately 17.4% of the Republic's total exports. In 2018, electronics production amounted to ₩365,548 billion, an increase of 6.6% from the previous year, and exports amounted to US\$220.3 billion, an increase of 11.5% from the previous year, primarily due to increases in demand for semiconductors and lithium-ion batteries. In 2018, export sales of semiconductor memory chips constituted approximately 21.2% of the Republic's total exports. In 2019, electronics production amounted to ₩322,729 billion, a decrease of 11.7% from the previous year, and exports amounted to US\$176.9 billion, a decrease of 19.7% from the previous year, primarily due to a significant

decrease in semiconductor prices. In 2019, export sales of semiconductor memory chips constituted approximately 17.6% of the Republic's total exports. In 2020, electronics production amounted to ₩332,084 billion, an increase of 2.9% from the previous year, and exports of electronics amounted to US\$183.5 billion, an increase of 3.7% from the previous year, primarily due to an increase in demand for semiconductors, computers and other electronic apparatuses. In 2020, export sales of semiconductor memory chips constituted approximately 19.5% of the Republic's total exports. Based on preliminary data, in 2021, electronics production amounted to ₩368,407 billion, an increase of 10.9% from the previous year, and exports amounted to US\$227.6 billion, an increase of 24.0% from the previous year, primarily due to an increase in demand for semiconductors, display panels, mobile devices, solid state drives and secondary cell batteries. In 2021, export sales of semiconductor memory chips constituted approximately 20.0% of the Republic's total exports.

*Iron and Steel.* In 2017, crude steel production totaled 71.0 million tons, an increase of 3.7% from 2016, and export sales volume of iron and steel products increased by 2.3%, primarily due to an increase in global demand for crude steel products but domestic sales volume of iron and steel products decreased by 1.2%, primarily due to adverse conditions in the domestic shipbuilding and automobile industries. In 2018, crude steel production totaled 72.5 million tons, an increase of 1.9% from 2017, primarily due to the recovery of the domestic shipbuilding industry, but export sales volume of iron and steel products decreased by 3.9%, primarily due to restrictions on imports of steel products imposed by the United States, Canada and the European Union. In 2019, crude steel production totaled 71.4 million tons, a decrease of 1.5% from 2018, primarily due to adverse conditions in the construction and shipbuilding industries, and export sales volume of iron and steel products decreased by 0.2%, primarily due to continued restrictions on imports of steel products imposed by the United States, Canada and the European Union. In 2020, crude steel production totaled 67.1 million tons, a decrease of 6.0% from 2019, primarily due to adverse conditions in the construction and shipbuilding industries in light of the COVID-19 pandemic, and export sales volume of iron and steel products decreased by 4.9%, primarily due to a decrease in global demand for crude steel products resulting from the COVID-19 pandemic. Based on preliminary data, in 2021, crude steel production totaled 70.4 million tons, an increase of 4.9% from 2020, primarily due to an increase in domestic demand for crude steel products following a gradual economic recovery from the COVID-19 pandemic, but export sales volume of iron and steel products decreased by 6.1%, primarily due to an increase in the price of steel products coupled with a decrease in global demand for crude steel products resulting from the ongoing COVID-19 pandemic.

*Shipbuilding.* In 2017, the Republic's shipbuilding orders amounted to approximately 8 million compensated gross tons, an increase of 300% compared to 2016, primarily due to increased demand for LNG carriers, bulk carriers and container carriers. In 2018, the Republic's shipbuilding orders amounted to approximately 13 million compensated gross tons, an increase of 62.5% compared to 2017, primarily due to increased demand for LNG carriers, oil tankers and container carriers. In 2019, the Republic's shipbuilding orders amounted to approximately 10 million compensated gross tons, a decrease of 23.1% compared to 2018, primarily due to decreased demand for container carriers and bulk carriers, which more than offset increased demand for LNG carriers. In 2020, the Republic's shipbuilding orders amounted to approximately 8 million compensated gross tons, a decrease of 20.0% compared to 2019, primarily due to the adverse conditions in the domestic and global shipbuilding industry resulting from the COVID-19 pandemic. Based on preliminary data, in 2021, the Republic's shipbuilding orders amounted to approximately 17 million compensated gross tons, an increase of 112.5% compared to 2020, primarily due to increased demand for container carriers and LNG carriers.

### ***Agriculture, Forestry and Fisheries***

The Government's agricultural policy has traditionally focused on:

- grain production;

- development of irrigation systems;
- land consolidation and reclamation;
- seed improvement;
- mechanization measures to combat drought and flood damage; and
- increasing agricultural incomes.

Recently, however, the Government has increased emphasis on cultivating profitable crops and strengthening international competitiveness as a result of the continued opening of the domestic agricultural market.

In 2017, rice production decreased 5.3% from 2016 to 4.0 million tons. In 2018, rice production decreased 2.5% from 2017 to 3.9 million tons. In 2019, rice production decreased 5.1% from 2018 to 3.7 million tons. In 2020, rice production decreased 5.4% from 2019 to 3.5 million tons. In 2021, rice production increased 11.4% from 2020 to 3.9 million tons. Due to limited crop yields resulting from geographical and physical constraints, the Republic depends on imports for certain basic foodstuffs.

The Government is seeking to develop the fishing industry by encouraging the building of large fishing vessels and modernizing fishing equipment, marketing techniques and distribution outlets.

In 2017, the agriculture, forestry and fisheries industry increased by 2.3% compared to 2016, primarily due to an increase in aquafarming production. In 2018, the agriculture, forestry and fisheries industry increased by 0.2% compared to 2017, primarily due to an increase in livestock production. In 2019, the agriculture, forestry and fisheries industry increased by 3.9% compared to 2018, primarily due to an increase in farming and livestock production. In 2020, the agriculture, forestry and fisheries industry decreased by 4.0% compared to 2019, primarily due to a decrease in farming and livestock production. Based on preliminary data, in 2021, the agriculture, forestry and fisheries industry increased by 2.7% compared to 2020, primarily due to an increase in farming and fisheries production.

### ***Construction***

In 2017, the construction industry increased by 5.9% compared to 2016, primarily due to an increase in the construction of residential and commercial buildings. In 2018, the construction industry decreased by 2.8% compared to 2017, primarily due to a decrease in the construction of residential and commercial buildings. In 2019, the construction industry decreased by 2.6% compared to 2018, primarily due to a continued decrease in the construction of residential buildings. In 2020, the construction industry decreased by 1.4% compared to 2019, primarily due to a decrease in the construction of residential buildings. Based on preliminary data, in 2021, the construction industry decreased by 2.1% compared to 2020, primarily due to a decrease in the construction of residential buildings.

## Electricity and Gas

The following table sets out the Republic's dependence on imports for energy consumption:

### Dependence on Imports for Energy Consumption

	<u>Total Primary Energy Supply</u>	<u>Imports</u>	<u>Imports Dependence Ratio</u>
	(millions of tons of oil equivalents <sup>(1)</sup> , except ratios)		
2017 . . . . .	302.5	284.4	94.0
2018 . . . . .	307.6	288.1	93.7
2019 . . . . .	303.1	283.4	93.5
2020 . . . . .	292.1	271.1	92.8
2021 <sup>(2)</sup> . . . . .	305.2	283.2	92.8

(1) Conversion to tons of oil equivalents was calculated based on energy conversion factors under the Energy Act Enforcement Decree as amended in July 2017.

(2) Preliminary.

Source: Korea Energy Economics Institute; Korea National Statistical Office

Korea has almost no domestic oil or gas production and depends on imported oil and gas to meet its energy requirements. Accordingly, the international prices of oil and gas significantly affect the Korean economy. Any significant long-term increase in the prices of oil and gas will increase inflationary pressures in Korea and adversely affect the Republic's balance of trade.

To reduce its dependence on oil and gas imports, the Government has encouraged energy conservation and energy source diversification emphasizing nuclear energy. The following table sets out the principal primary sources of energy supplied in the Republic, expressed in oil equivalents and as a percentage of total energy consumption.

### Primary Energy Supply by Source

	<u>Coal</u>		<u>Petroleum</u>		<u>Nuclear</u>		<u>Others<sup>(1)</sup></u>		<u>Total</u>	
	<u>Quantity</u>	<u>%</u>	<u>Quantity</u>	<u>%</u>	<u>Quantity</u>	<u>%</u>	<u>Quantity</u>	<u>%</u>	<u>Quantity</u>	<u>%</u>
	(millions of tons of oil equivalents <sup>(2)</sup> , except percentages)									
2017 . . . . .	86,177	28.5	119,824	39.6	31,615	10.5	64,874	21.4	302,490	100.0
2018 . . . . .	86,707	28.2	118,521	38.5	28,437	9.2	73,892	24.0	307,557	100.0
2019 . . . . .	82,147	27.1	117,314	38.7	31,079	10.3	72,553	23.9	303,092	100.0
2020 . . . . .	72,241	24.7	110,240	37.7	34,119	11.7	75,476	25.8	292,076	100.0
2021 <sup>(3)</sup> . . . . .	72,520	23.8	117,764	38.6	33,657	11.0	81,251	26.6	305,191	100.0

(1) Includes natural gas, hydroelectric power and renewable energy.

(2) Conversion to tons of oil equivalents was calculated based on energy conversion factors under the Energy Act Enforcement Decree as amended in July 2017.

(3) Preliminary.

Source: Korea Energy Economics Institute; The Bank of Korea

The Republic's first nuclear power plant went into full operation in 1978 with a rated generating capacity of 587 megawatts. As of December 31, 2021, the Republic had 24 nuclear plants with a total estimated nuclear power installed generating capacity of 23,250 megawatts and four nuclear plants under construction. In December 2020, the Government announced the Ninth Basic Plan for the period from 2020 to 2034, which

focuses on, among other things, (i) changing energy policy to a safe and clean energy mix by reducing coal and nuclear power generation and increasing renewable energy, (ii) preparing implementation measures for further reduction of greenhouse gas, (iii) accelerating investments in renewable energy and expanding infrastructure for the transition to a low-carbon economy/society and (iv) improving the electricity market system to promote fair competition and lay the foundation for expansion of eco-friendly energy. Furthermore, the Ninth Basic Plan includes the following implementation measures: (i) six coal-fired generation plants will be retired by 2022, (ii) 24 other coal-fired generation plants will be retired and converted to LNG fuel use by 2034, (iii) domestic renewable energy generation capacity will be expanded to 77.8 gigawatts by 2034 to meet the target set in the Third Basic National Energy Plan and (iv) the extension of life of eleven nuclear generation units will not be granted and such units will be retired by 2034.

### Services Sector

In 2017, the service industry increased by 2.6% compared to 2016 as the health and social work sector increased by 6.4%, the finance and insurance sector increased by 4.2% and the public administration and defense sector increased by 2.8%, each compared with 2016. In 2018, the service industry increased by 3.8% compared to 2017 as the health and social work sector increased by 8.2%, the finance and insurance sector increased by 5.6% and the public administration and defense sector increased by 3.4%, each compared with 2017. In 2019, the service industry increased by 3.4% compared to 2018 as the health and social work sector increased by 8.7%, the public administration and defense sector increased by 4.0% and the finance and insurance sector increased by 4.4%, each compared with 2018. In 2020, the service industry decreased by 1.0% compared to 2019 as the wholesale and retail trade, accommodation and food services sector decreased by 5.7%, the transportation and storage sector decreased by 15.1% and the cultural and other services sector decreased by 18.7%, each compared with 2019. Based on preliminary data, in 2021, the service industry increased by 3.7% compared to 2020 as the finance and insurance sector increased by 6.1%, the wholesale and retail trade, accommodation and food services sector increased by 3.3% and the information and communication sector increased by 6.0%, each compared with 2020.

### Prices, Wages and Employment

The following table shows selected price and wage indices and unemployment rates:

	Producer Price Index <sup>(1)</sup> (2015=100)	Increase (Decrease) Over Previous Year (%)	Consumer Price Index <sup>(1)</sup> (2020=100)	Increase (Decrease) Over Previous Year (%)	Wage Index <sup>(1)(2)</sup> (2015=100)	Increase (Decrease) Over Previous Year (%)	Unemployment Rate <sup>(1)(3)</sup> (%)
2017 .....	101.6	3.5	97.6	1.9	106.4	2.1	3.7
2018 .....	103.5	1.9	99.1	1.5	113.6	6.8	3.8
2019 .....	103.5	0.0	99.5	0.4	116.2	2.3	3.8
2020 .....	103.0	(0.5)	100.0	0.5	115.5	(0.6)	4.0
2021 .....	109.6	6.4	102.5	2.5	N/A <sup>(4)</sup>	N/A <sup>(4)</sup>	3.7

(1) Average for year.

(2) Nominal wage index of average earnings in the manufacturing industry.

(3) Expressed as a percentage of the economically active population.

(4) Not available.

Source: The Bank of Korea; Korea National Statistical Office

In 2017, the inflation rate increased to 1.9%, primarily due to increases in the prices of agricultural and livestock products and oil. In 2018, the inflation rate decreased to 1.5%, primarily due to a slowdown in the

growth rate of agricultural goods and oil prices. In 2019, the inflation rate decreased to 0.4%, primarily due to decreases in the prices of agricultural and livestock products and oil. In 2020, the inflation rate increased to 0.5%, primarily due to increases in agricultural and livestock product prices. In 2021, the inflation rate increased to 2.5%, primarily due to increases in agricultural and livestock product prices and oil prices.

In 2017, the unemployment rate remained unchanged at 3.7%. In 2018, the unemployment rate increased to 3.8%, primarily due to the continued sluggishness of the domestic economy. In 2019, the unemployment rate remained constant at 3.8%. In 2020, the unemployment rate increased to 4.0%, primarily due to the COVID-19 pandemic. In 2021, the unemployment rate decreased to 3.7%, reflecting a gradual recovery of the Korean economy from the COVID-19 pandemic.

From 1992 to 2009, the economically active population of the Republic increased by approximately 24.8% to 24.3 million, while the number of employees increased by approximately 23.7% to 23.5 million. The economically active population over 15 years old as a percentage of the total over-15 population has remained between 61% and 63% over the past decade. Literacy among workers under 50 is almost universal. As of December 31, 2021, the economically active population of the Republic was 28.3 million and the number of employees was 27.3 million.

The following table shows selected employment information by industry and by gender:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
	(all figures in percentages, except as indicated)				
Labor force (in thousands of persons) .....	26,725	26,822	27,123	26,904	27,273
Employment by Industry:					
Agriculture, Forestry and Fishing .....	4.8	5.0	5.1	5.4	5.3
Mining and Manufacturing .....	17.2	16.9	16.4	16.3	16.1
S.O.C & Services .....	78.0	78.1	78.5	78.3	78.6
Electricity, Transport, Communication and Finance .....	11.4	11.8	11.7	11.8	12.3
Business, Private & Public Service and Other					
Services .....	36.4	36.5	37.4	38.0	38.6
Construction .....	7.4	7.6	7.4	7.5	7.7
Wholesale & Retail Trade, Hotels and Restaurants .....	22.8	22.2	22.0	21.0	20.0
Total Employed .....	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Employment by Gender:					
Male .....	57.5	57.3	57.0	57.2	57.0
Female .....	42.5	42.7	43.0	42.8	43.0
Total Employed .....	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: The Bank of Korea

Pursuant to certain amendments to the Labor Standards Act that became effective on July 1, 2018, the maximum working hours of employees is in the process of being reduced from 68 hours per week to 52 hours per week, and the number of special industries that are exempt from restrictions on maximum working hours will be significantly reduced. This new maximum working hours restriction under the amended Labor Standards Act is in effect for workplaces with 300 or more workers from July 1, 2018, and has been extended to workplaces with 50 or more but fewer than 300 workers from January 1, 2020, and has been further extended to workplaces with five or more but fewer than 50 workers from July 1, 2021.

Labor unrest in connection with demands by unionized workers for better wages and working conditions and greater job security occur from time to time in the Republic. Some of the significant incidents in recent years include the following:

- In September 2017, several thousand unionized workers at KBS and MBC, Korea's two largest television and radio broadcasters, went on strike, which lasted several months, to protest against alleged management interference in news coverage and unfair labor practices.
- In 2017, unionized workers at Hyundai Motor went on a series of partial strikes demanding higher wages and bonuses.
- In July 2018, unionized workers at Hyundai Heavy Industries went on full strike demanding higher wages.
- In May 2019, unionized bus drivers launched a nationwide strike seeking higher wages and increased manpower in time for the 52-hour work week that was implemented in July 2019.
- In September 2019, unionized workers at GM Korea went on full strike, the first in more than 20 years, demanding higher wages and protesting against GM Korea's restructuring plans.
- In October and November 2019, several thousand members of the National Railroad Workers' Union went on full strike demanding a normalization of wages and requesting the hiring of additional personnel.
- In October, November and December 2020, unionized workers at GM Korea went on partial strikes during wage and collective agreement negotiations.
- In November and December 2020, unionized workers at Kia went on partial strikes demanding higher wages, performance-based incentives and other benefits.
- In November and December 2021, unionized workers at Hankook Tire & Technology, one of Korea's largest tire makers, went on a full strike demanding higher wages and performance-based incentive payments.
- In 2021, unionized workers at CJ Logistics, one of Korea's largest freight transportation companies, went on a series of partial strikes and demonstrations, demanding higher wages commensurate with increases in parcel delivery fees.

Actions such as these by labor unions may hinder implementation of the labor reform measures and disrupt the Government's plans to create a more flexible labor market. Although much effort is being expended to resolve labor disputes in a peaceful manner, there can be no assurance that further labor unrest will not occur in the future. Continued labor unrest in key industries of the Republic may have an adverse effect on the economy.

In 1997, the Korean Confederation of Trade Unions organized a political alliance, which led to the formation of the Democratic Labor Party in January 2000. The Democratic Labor Party merged with The New People's Participation Party and changed its name to The Unified Progressive Party, or the UPP, in December 2011. In October 2012, the UPP split and seven UPP members of the National Assembly and their supporters formed a new party, the Progressive Justice Party, which changed its name to the Justice Party in July 2013. In December 2014, the Constitutional Court ordered the dissolution of the UPP and the removal of the party's five lawmakers from the National Assembly for violating the Republic's Constitution after certain of its members

were convicted of trying to instigate an armed rebellion and supporting North Korea. In the legislative general election held on April 13, 2016, the Justice Party won six seats in the National Assembly, and the members-elect began their four-year terms on May 30, 2016. As of December 31, 2021, the Justice Party held six seats in the National Assembly.

## **The Financial System**

### ***Structure of the Financial Sector***

The Republic's financial sector includes the following categories of financial institutions:

- The Bank of Korea;
- banking institutions;
- non-bank financial institutions; and
- other financial entities, including:
  - financial investment companies;
  - credit guarantee institutions;
  - venture capital companies; and
  - miscellaneous others.

To increase transparency in financial transactions and enhance the integrity and efficiency of the financial markets, Korean law requires that financial institutions confirm that their clients use their real names when transacting business. The Government also strengthened confidentiality protection for private financial transactions.

In July 2007, the Korean National Assembly passed the Financial Investment Services and Capital Markets Act, or the FSCMA, under which various industry-based capital markets regulatory systems were consolidated into a single regulatory system. The FSCMA, which became effective in February 2009, expands the scope of permitted investment-related financial products and activities through expansive definitions of financial instruments and function-based regulations that allow financial investment companies to offer a wider range of financial services, as well as strengthening investor protection and disclosure requirements.

Prior to the effective date of the FSCMA, separate laws regulated various types of financial institutions depending on the type of the financial institution (for example, securities companies, futures companies, trust business companies and asset management companies) and subjected financial institutions to different licensing and ongoing regulatory requirements (for example, under the Securities and Exchange Act, the Futures Business Act and the Indirect Investment Asset Management Business Act). By applying one uniform set of rules to financial businesses having the same economic function, the FSCMA attempts to improve and address issues caused by the previous regulatory system under which the same economic function relating to capital markets-related business were governed by multiple regulations. To this end, the FSCMA categorizes capital markets-related businesses into six different functions as follows:

- investment dealing (trading and underwriting of financial investment products);
- investment brokerage (brokerage of financial investment products);

- collective investment (establishment of collective investment schemes and the management thereof);
- investment advice;
- discretionary investment management; and
- trusts (together with the five businesses set forth above, the Financial Investment Businesses).

Accordingly, all financial businesses relating to financial investment products are reclassified as one or more of the Financial Investment Businesses described above, and financial institutions are subject to the regulations applicable to their relevant Financial Investment Businesses, irrespective of what type of financial institution it is. For example, under the FSCMA, derivative businesses conducted by securities companies and future companies are subject to the same regulations, at least in principle.

The banking business and the insurance business are not subject to the FSCMA and will continue to be regulated under separate laws; provided, however, that they are subject to the FSCMA if their activities involve any Financial Investment Businesses requiring a license based on the FSCMA.

### ***Banking Industry***

The banking industry comprises commercial banks and specialized banks. Commercial banks serve the general public and corporate sectors. They include nationwide banks, regional banks and branches of foreign banks. Regional banks provide services similar to nationwide banks, but operate in a geographically restricted region. Branches of foreign banks have operated in the Republic since 1967 but provide a relatively small proportion of the country's banking services. As of December 31, 2021, there were six nationwide banks, six regional banks, three internet banks and 35 foreign banks with branches operating in the Republic.

Specialized banks meet the needs of specific sectors of the economy in accordance with Government policy; they are organized under, or chartered by, special laws. Specialized banks include (i) The Korea Development Bank, (ii) The Export-Import Bank of Korea, (iii) The Industrial Bank of Korea, (iv) SuHyup Bank and (v) NongHyup Bank. The Government has made capital contributions to three of these specialized banks as follows:

- **The Korea Development Bank:** the Government owns directly all of its paid-in capital and has made capital contributions since its establishment in 1954. Recent examples include the Government's contributions to its capital of ₩395 billion in 2017, ₩170 billion in 2018, ₩555 billion in 2019, ₩2,103 billion in 2020 and ₩1,121 billion in 2021. Taking into account these capital contributions, its total paid-in capital was ₩21,887 billion as of December 31, 2021.
- **The Export-Import Bank of Korea:** the Government owns, directly and indirectly, all of its paid-in capital and has made capital contributions since its establishment in 1976. Recent examples include the Government's contributions to its capital of ₩1,417 billion in 2017, ₩56 billion in 2019, ₩578 billion in 2020 and ₩299 billion in 2021. Taking into account these capital contributions, its total paid-in capital was ₩12,748 billion as of December 31, 2021.
- **The Industrial Bank of Korea:** the Government directly owned 59.5% of its total shares (including common and preferred shares) as of December 31, 2021. The Government had owned all of the issued share capital of The Industrial Bank of Korea until 1994, but the Government's minimum share ownership requirement was repealed in 1997, and the Government has since periodically adjusted its ownership percentage in the Industrial Bank of Korea through transactions involving the

purchase and sale of its common shares. In 2019, the Industrial Bank of Korea issued an aggregate of 17,178,164 new common shares to the Government for a total of ₩225 billion in cash. In 2020, the Industrial Bank of Korea issued an aggregate of 161,507,381 new common shares to the Government for a total of ₩1,266 billion in cash. In November 2020, the Industrial Bank of Korea acquired from the Government and cancelled an aggregate of 44,847,038 perpetual preferred shares that it had previously issued to the Government. In May 2021, the Industrial Bank of Korea issued and sold 5,636,227 new ordinary shares to the Government for an aggregate consideration of ₩49 billion in cash. Taking into account such transactions, its total paid-in capital was ₩4,211 billion as of December 31, 2021.

The economic difficulties in 1997 and 1998 caused an increase in Korean banks' non-performing assets and a decline in capital adequacy ratios of Korean banks. From 1998 through 2002, the Financial Services Commission amended banking regulations several times to adopt more stringent criteria for non-performing assets that more closely followed international standards.

The following table sets out the total loans (including loans in Won and loans in foreign currencies) and non-performing assets of Korean banks as of the dates indicated.

	<u>Total Loans</u>	<u>Non-Performing Assets<sup>(1)</sup></u>	<u>Percentage of Total</u>
	(trillions of won)		(percentage)
December 31, 2017 . . . . .	1,775.9	21.1	1.2
December 31, 2018 . . . . .	1,872.6	18.2	1.0
December 31, 2019 . . . . .	1,980.6	15.3	0.8
December 31, 2020 . . . . .	2,171.7	13.9	0.6
December 31, 2021 <sup>(2)</sup> . . . . .	2,371.9	11.8	0.5

(1) Assets classified as substandard or below.

(2) Preliminary.

Source: Financial Supervisory Service

In 2017, these banks posted an aggregate net profit of ₩11.2 trillion, compared to an aggregate net profit of ₩3.0 trillion in 2016, primarily due to decreased loan loss provisions and increased net interest income. In 2018, these banks posted an aggregate net profit of ₩15.6 trillion, compared to an aggregate net profit of ₩11.2 trillion in 2017, primarily due to increased net interest income and decreased loan loss provisions, which more than offset a decrease in net non-interest income. In 2019, these banks posted an aggregate net profit of ₩13.9 trillion, compared to an aggregate net profit of ₩15.6 trillion in 2018, primarily due to losses on investments in subsidiaries and associates in 2019 compared to gains on investments in subsidiaries and associates in 2018, which more than offset decreased loan loss provisions. In 2020, these banks posted an aggregate net profit of ₩12.1 trillion, compared to an aggregate net profit of ₩13.9 trillion in 2019, primarily due to increased loan loss provisions. Based on preliminary data, in 2021, these banks posted an aggregate net profit of ₩16.9 trillion, compared to an aggregate net profit of ₩12.1 trillion in 2020, primarily due to the significant amount of gains recognized by The Korea Development Bank in connection with the exercise of its right to convert its convertible bonds issued by HMM Company Limited into common shares, which took place in June 2021, and to a lesser extent, increased net interest income and decreased loan loss provisions.

### ***Non-Bank Financial Institutions***

Non-bank financial institutions include:

- savings institutions, including trust accounts of banks, mutual savings banks, credit unions, mutual credit facilities, community credit cooperatives and postal savings;

- life insurance institutions; and
- credit card companies.

As of December 31, 2021, 79 mutual savings banks, 23 life insurance institutions, which includes joint venture life insurance institutions and wholly-owned subsidiaries of foreign life insurance companies, and eight credit card companies operated in the Republic.

### ***Money Markets***

In the Republic, the money markets consist of the call market and markets for a wide range of other short-term financial instruments, including treasury bills, monetary stabilization bonds, negotiable certificates of deposits, repurchase agreements and commercial paper.

### ***Securities Markets***

On January 27, 2005, the Korea Exchange was established pursuant to the now repealed Korea Securities and Futures Exchange Act by consolidating the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or the KOSDAQ, and the KOSDAQ Committee of the Korea Securities Dealers Association, which had formerly managed the KOSDAQ. There are three major markets operated by the Korea Exchange: the KRX KOSPI Market, the KRX KOSDAQ Market, and the KRX Derivatives Market. The Korea Exchange has two trading floors located in Seoul, one for the KRX KOSPI Market and one for the KRX KOSDAQ Market, and one trading floor in Busan for the KRX Derivatives Market. The Korea Exchange is a joint stock company with limited liability, the shares of which are held by (i) financial investment companies that were formerly members of the Korea Futures Exchange or the Korea Stock Exchange and (ii) the stockholders of the KOSDAQ. Currently, the Korea Exchange is the only stock exchange in Korea and is operated by membership, having as its members Korean financial investment companies and some Korean branches of foreign financial investment companies.

The Korea Exchange publishes the Korea Composite Stock Price Index every ten seconds, which is an index of all equity securities listed on the Korea Exchange. The Korea Composite Stock Price Index is computed using the aggregate value method, whereby the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

The following table shows the value of the Korea Composite Stock Price Index as of the dates indicated:

December 28, 2017	2,467.5	March 31, 2020	1,754.6
January 31, 2018	2,566.5	April 29, 2020	1,947.6
February 28, 2018	2,427.4	May 29, 2020	2,029.6
March 30, 2018	2,445.9	June 30, 2020	2,108.3
April 30, 2018	2,515.4	July 31, 2020	2,249.4
May 31, 2018	2,423.0	August 31, 2020	2,326.2
June 29, 2018	2,326.1	September 29, 2020	2,327.9
July 31, 2018	2,295.3	October 30, 2020	2,267.2
August 31, 2018	2,322.9	November 30, 2020	2,591.3
September 28, 2018	2,343.1	December 30, 2020	2,873.5
October 31, 2018	2,029.7	January 29, 2021	2,976.2
November 30, 2018	2,096.9	February 26, 2021	3,013.0
December 28, 2018	2,041.0	March 31, 2021	3,061.4
January 31, 2019	2,204.9	April 30, 2021	3,147.9
February 28, 2019	2,195.4	May 31, 2021	3,203.9
March 29, 2019	2,140.7	June 30, 2021	3,296.7
April 30, 2019	2,203.6	July 30, 2021	3,202.3
May 31, 2019	2,041.7	August 31, 2021	3,199.3
June 28, 2019	2,130.6	September 30, 2021	3,068.8
July 31, 2019	2,024.6	October 29, 2021	2,970.7
August 30, 2019	1,967.8	November 30, 2021	2,839.0
September 30, 2019	2,063.1	December 30, 2021	2,977.7
October 31, 2019	2,083.5	January 28, 2022	2,663.3
November 29, 2019	2,088.0	February 28, 2022	2,699.2
December 30, 2019	2,197.7	March 31, 2022	2,757.7
January 31, 2020	2,119.0	April 29, 2022	2,695.1
February 28, 2020	1,987.0		

Over the years, liquidity and credit concerns and volatility in the global financial markets have led to fluctuations in the stock prices of Korean companies. In recent years, there was significant volatility in the stock prices of Korean companies due to deteriorating market conditions domestically and abroad due to the ongoing COVID-19 pandemic. The index was 2,596.6 on May 10, 2022.

### ***Supervision System***

The Office of Bank Supervision, the Securities Supervisory Board, the Insurance Supervisory Board and all other financial sector regulatory bodies merged in January 1999 to form the Financial Supervisory Service. The Financial Services Commission acts as the executive body over the Financial Supervisory Service. The Financial Services Commission reports to, but operates independently of, the Prime Minister's office.

The Ministry of Economy and Finance focuses on financial policy and foreign currency regulations. The Bank of Korea manages monetary policy focusing on price stabilization.

### ***Deposit Insurance System***

The Republic's deposit insurance system insures amounts on deposit with banks, non-bank financial institutions, securities companies and life insurance companies.

Since January 2001, deposits at any single financial institution are insured only up to ₩50 million per person regardless of the amount deposited.

The Government excluded certain deposits, such as repurchase agreements, from the insurance scheme, expanded the definition of unsound financial institutions to which the insurance scheme would apply and gradually increased the insurance premiums payable by insured financial institutions.

## **Monetary Policy**

### ***The Bank of Korea***

The Bank of Korea was established in 1950 as Korea's central bank and the country's sole currency issuing bank. A seven-member Monetary Policy Committee, chaired by the Governor of The Bank of Korea, formulates and controls monetary and credit policies.

Inflation targeting is the basic system of operation for Korean monetary policy. The consumer price index is used as The Bank of Korea's target indicator. To achieve its established inflation target, the Monetary Policy Committee of The Bank of Korea determines and announces the "Bank of Korea Base Rate", the reference rate applied in transactions such as repurchase agreements between The Bank of Korea and its financial institution counterparts. The Bank of Korea uses open market operations as its primary instrument to keep the call rate in line with the Monetary Policy Committee's target rate. In addition, The Bank of Korea is able to establish policies regarding its lending to banks in Korea and their reserve requirements.

### ***Interest Rates***

On July 9, 2010, The Bank of Korea raised the policy rate to 2.25% from 2.0%, which was further raised to 2.5% on November 16, 2010, in response to signs of inflationary pressures and the continued growth of domestic economy. On January 13, 2011, The Bank of Korea raised the policy rate to 2.75%, which was further increased to 3.0% on March 10, 2011 and to 3.25% on June 10, 2011, in response to inflationary pressures driven mainly by rises in the prices of petroleum products and farm products. The Bank of Korea lowered its policy rate to 3.0% from 3.25% on July 12, 2012, which was further lowered to 2.75% on October 11, 2012, 2.5% on May 9, 2013, 2.25% on August 14, 2014, 2.0% on October 15, 2014, 1.75% on March 12, 2015, 1.5% on June 11, 2015 and 1.25% on June 9, 2016, in order to address the sluggishness of the global and domestic economy. On November 30, 2017, The Bank of Korea raised its policy rate to 1.5% from 1.25%, which was further raised to 1.75% on November 30, 2018, in response to signs of inflationary pressures and the continued growth of the global and domestic economy. The Bank of Korea lowered its policy rate to 1.5% from 1.75% on July 18, 2019 and to 1.25% from 1.5% on October 16, 2019 to address the sluggishness of the global and domestic economy. On March 16, 2020, The Bank of Korea further lowered its policy rate to 0.75% from 1.25%, which was further lowered to 0.5% on May 28, 2020, in response to deteriorating economic conditions resulting from the COVID-19 pandemic. The Bank of Korea raised its policy rate from 0.50% to 0.75% on August 26, 2021, to 1.00% on November 25, 2021, to 1.25% on January 14, 2022 and to 1.50% on April 14, 2022 in response to rising levels of household debt and inflationary pressures.

With the deregulation of interest rates on banks' demand deposits on February 2, 2004, The Bank of Korea completed the interest rate deregulation based upon the "Four-Stage Interest Rate Liberalization Plan" announced in 1991. The prohibition on the payment of interest on ordinary checking accounts was, however, maintained.

## Money Supply

The following table shows the volume of the Republic's money supply:

	December 31,				
	2017	2018	2019	2020	2021
	(billions of Won)				
Money Supply (M1) <sup>(1)</sup> .....	849,862.4	865,851.8	952,922.8	1,197,828.9	1,372,336.6
Quasi-money <sup>(2)</sup> .....	1,680,491.2	1,834,510.6	1,960,686.8	2,002,006.8	2,241,351.0
Money Supply (M2) <sup>(3)</sup> .....	2,530,353.6	2,700,362.4	2,913,609.6	3,199,835.7	3,613,687.6
Percentage Increase Over Previous					
Year .....	5.1%	6.7%	7.9%	9.8%	12.9%

(1) Consists of currency in circulation and demand and instant access savings deposits at financial institutions.

(2) Includes time and installment savings deposits, marketable instruments, yield-based dividend instruments and financial debentures, excluding financial instruments with a maturity of more than two years.

(3) Money Supply (M2) is the sum of Money Supply (M1) and quasi-money.

Source: The Bank of Korea

## Exchange Controls

Authorized foreign exchange banks, as registered with the Ministry of Economy and Finance, handle foreign exchange transactions. The ministry has designated other types of financial institutions to handle foreign exchange transactions on a limited basis.

Korean laws and regulations generally require a report to either the Ministry of Economy and Finance, The Bank of Korea or authorized foreign exchange banks, as applicable, for issuances of international bonds and other instruments, overseas investments and certain other transactions involving foreign exchange payments.

In 1994 and 1995, the Government relaxed regulations of foreign exchange position ceilings and foreign exchange transaction documentation and created free Won accounts which may be opened by non-residents at Korean foreign exchange banks. The Won funds deposited into the free Won accounts may be converted into foreign currencies and remitted outside Korea without any governmental approval. In December 1996, after joining the OECD, the Republic freed the repatriation of investment funds, dividends and profits, as well as loan repayments and interest payments. The Government continues to reduce exchange controls in response to changes in the world economy, including the new trade regime under the WTO, anticipating that such foreign exchange reform will improve the Republic's competitiveness and encourage strategic alliances between domestic and foreign entities.

In September 1998, the National Assembly passed the Foreign Exchange Transactions Act, which became effective in April 1999 and has subsequently been amended numerous times. In principle, most currency and capital transactions, including, among others, the following transactions, have been liberalized:

- the investment in real property located overseas by Korean companies and financial institutions;
- the establishment of overseas branches and subsidiaries by Korean companies and financial institutions;
- the investment by non-residents in deposits and trust products having more than one year maturities; and
- the issuance of debentures by non-residents in the Korean market.

To minimize the adverse effects from further opening of the Korean capital markets, the Ministry of Economy and Finance is authorized to introduce a variable deposit requirement system to restrict the influx of short-term speculative funds.

The Government has also embarked on a second set of liberalization initiatives starting in January 2001, under which ceilings on international payments for Korean residents have been eliminated, including overseas travel expenses, overseas inheritance remittances and emigration expenses. Overseas deposits, trusts, acquisitions of foreign securities and other foreign capital transactions made by residents and the making of deposits in Korean currency by non-residents have also been liberalized. In line with the foregoing liberalization, measures will also be adopted to curb illegal foreign exchange transactions and to stabilize the foreign exchange market.

Effective as of January 1, 2006, the Government liberalized the regulations governing “capital transactions”. The regulations provide that no regulatory approvals are required for any capital transactions. The capital transactions previously subject to approval requirements are now subject only to reporting requirements.

In January 2010, the Financial Supervisory Services released *FX Derivative Transactions Risk Management Guideline* to prevent over-hedging of foreign exchange risk by corporate investors. According to the guideline as amended in December 2014, if a corporate investor, other than a financial institution or a public enterprise, wishes to enter into a currency forward, currency option, foreign exchange swap or currency swap agreement with a bank, the bank is required to verify whether the corporate investor’s assets, liabilities or contracts face foreign exchange risks that could be mitigated by a currency forward, currency option, foreign exchange swap or currency swap agreement. In addition, the bank is required to ensure that the corporate investor’s risk hedge ratio, which is the ratio of the aggregate notional amount to the aggregate amount of risk, does not exceed 100%.

## **Foreign Exchange**

The following table shows the exchange rate between the Won and the U.S. Dollar (in Won per U.S. Dollar) as announced by the Seoul Money Brokerage Services, Ltd. as of the dates indicated:

	<u>Won/ U.S. Dollar Exchange Rate</u>		<u>Won/ U.S. Dollar Exchange Rate</u>
December 29, 2017	1,071.4	February 28, 2020	1,215.9
January 31, 2018	1,071.5	March 31, 2020	1,222.6
February 28, 2018	1,071.0	April 29, 2020	1,225.2
March 30, 2018	1,066.5	May 29, 2020	1,239.4
April 30, 2018	1,076.2	June 30, 2020	1,200.7
May 31, 2018	1,081.3	July 31, 2020	1,191.4
June 29, 2018	1,121.7	August 31, 2020	1,185.1
July 31, 2018	1,116.7	September 29, 2020	1,173.5
August 31, 2018	1,108.8	October 30, 2020	1,133.4
September 28, 2018	1,112.7	November 30, 2020	1,104.4
October 31, 2018	1,140.6	December 31, 2020	1,088.0
November 30, 2018	1,121.8	January 29, 2021	1,114.6
December 31, 2018	1,118.1	February 26, 2021	1,108.4
January 31, 2019	1,117.2	March 31, 2021	1,133.5
February 28, 2019	1,117.8	April 30, 2021	1,119.4
March 29, 2019	1,137.8	May 31, 2021	1,116.0
April 30, 2019	1,158.2	June 30, 2021	1,130.0
May 31, 2019	1,190.0	July 30, 2021	1,147.4
June 28, 2019	1,156.8	August 31, 2021	1,164.4
July 31, 2019	1,182.0	September 30, 2021	1,184.9
August 30, 2019	1,215.2	October 29, 2021	1,171.7
September 30, 2019	1,201.3	November 30, 2021	1,193.4
October 31, 2019	1,168.4	December 31, 2021	1,185.5
November 29, 2019	1,179.3	January 28, 2022	1,202.4
December 31, 2019	1,157.8	February 28, 2022	1,202.7
January 31, 2020	1,183.5	March 31, 2022	1,210.8
		April 29, 2022	1,269.4

During the period from January 2, 2008 through April 16, 2009, the value of the Won relative to the U.S. dollar declined by approximately 29.9%, due primarily to adverse economic conditions resulting from liquidity and credit concerns and volatility in the global credit and financial markets and repatriations by foreign investors of their investments in the Korean stock market. The exchange rate between the Won and the U.S. Dollar has fluctuated since then. In 2020, 2021 and in recent months, the value of the Won relative to the U.S. dollar fluctuated significantly, due primarily to the impact of the ongoing COVID-19 pandemic. The market average exchange rate was Won 1,274.6 to US\$1.00 on May 10, 2022.

## **Balance of Payments and Foreign Trade**

### **Balance of Payments**

Balance of payments figures measure the relative flow of goods, services and capital into and out of the country as represented in the current balance and the capital balance. The current balance tracks a country's trade in goods and services and transfer payments and measures whether a country is living within its income from trading and investments. The capital balance covers all transactions involving the transfer of capital into and out

of the country, including loans and investments. The overall balance represents the sum of the current and capital balances. An overall balance surplus indicates a net inflow of foreign currencies, thereby increasing demand for and strengthening the local currency. An overall balance deficit indicates a net outflow of foreign currencies, thereby decreasing demand for and weakening the local currency. The financial account mirrors the overall balance. If the overall balance is positive, the surplus, which represents the nation's savings, finances the overall deficit of the country's trading partners. Accordingly, the financial account will indicate cash outflows equal to the overall surplus. If, however, the overall balance is negative, the nation has an international deficit which must be financed. Accordingly, the financial account will indicate cash inflows equal to the overall deficit.

The following table sets out certain information with respect to the Republic's balance of payments:

### Balance of Payments<sup>(1)</sup>

Classification	2017	2018	2019	2020	2021 <sup>(4)</sup>
	(millions of dollars)				
Current Account	75,230.9	77,466.5	59,676.1	75,902.2	88,302.2
Goods	113,592.9	110,086.8	79,812.1	80,604.8	76,207.2
Exports <sup>(2)</sup>	580,310.2	626,266.5	556,667.9	517,909.3	650,014.6
Imports <sup>(2)</sup>	466,717.3	516,179.7	476,855.8	437,304.5	573,807.4
Services	(36,734.1)	(29,369.4)	(26,845.3)	(14,670.1)	(3,108.3)
Income	5,336.9	4,901.9	12,856.0	13,486.9	19,328.2
Current Transfers	(6,964.8)	(8,152.8)	(6,146.7)	(3,519.4)	(4,124.9)
Capital and Financial Account	84,489.6	76,790.1	58,857.6	80,996.4	76,626.1
Capital Account	(26.8)	316.7	(169.3)	(386.3)	(154.3)
Financial Account <sup>(3)</sup>	84,516.4	76,473.4	59,026.9	81,382.7	76,780.4
Net Errors and Omissions	9,312.3	(1,309.8)	(479.9)	5,866.8	(11,367.5)

(1) Figures are prepared based on the sixth edition of the Balance of Payment Manual published by International Monetary Fund in December 2010 and implemented by the Government in December 2013. In December 2018, The Bank of Korea revised the Republic's balance of payments information to capture new economic activities and reflect the changes in raw data.

(2) These entries are derived from trade statistics and are valued on a free on board basis, meaning that the insurance and freight costs are not included.

(3) Includes borrowings from the IMF, syndicated bank loans and short-term borrowings.

(4) Preliminary.

Source: The Bank of Korea

The current account surplus in 2020 increased to US\$75.9 billion from the current account surplus of US\$59.7 billion in 2019, primarily due to a decrease in deficit from the services account, and to a lesser extent, a decrease in deficit from the current transfers account and an increase in surplus from the goods account. Based on preliminary data, the current account surplus in 2021 increased to US\$88.3 billion from the current account surplus of US\$75.9 billion in 2020, primarily due to a decrease in deficit from the services account and an increase in surplus from the income account, the effect of which was offset in part by a decrease in surplus from the goods account.

### Foreign Direct Investment

Since 1960, the Government has adopted a broad range of related laws, administrative rules and regulations that provide a framework for the conduct and regulation of foreign investment activities. In September 1998, the Government promulgated the Foreign Investment Promotion Act, or the FIPA, which replaced previous foreign direct investment related laws, rules and regulations, to promote inbound foreign investments by providing incentives to, and facilitating investment activities in the Republic by, foreign nationals. The FIPA prescribes,

among others, procedural requirements for inbound foreign investments, incentives for foreign investments such as tax reductions, and requirements relating to designation and development of foreign investment target regions. The Government believes that providing a stable and receptive environment for foreign direct investment will accelerate the inflow of foreign capital, technology and management techniques.

The following table sets forth information regarding annual foreign direct investment in the Republic for the periods indicated.

### Foreign Direct Investment

	2017	2018	2019	2020	2021 <sup>(2)</sup>
	(billions of dollars)				
<b>Contracted and Reported Investment</b>					
Greenfield Investment <sup>(1)</sup> .....	15.7	20.0	15.9	14.5	18.1
Merger & Acquisition .....	7.2	6.9	7.4	6.2	11.4
Total .....	22.9	26.9	23.3	20.7	29.5
Actual Investment .....	13.8	17.3	13.4	11.4	18.0

(1) Includes building new factories and operational facilities.

(2) Preliminary.

Source: Ministry of Trade, Industry and Energy

In 2020, the contracted and reported amount of foreign direct investment in the Republic decreased to US\$20.7 billion from US\$23.3 billion in 2019, primarily due to a decrease in foreign investment in the manufacturing sector to US\$5.9 billion in 2020 from US\$8.2 billion in 2019.

Based on preliminary data, in 2021, the contracted and reported amount of foreign direct investment in the Republic increased to US\$29.5 billion from US\$20.7 billion in 2020, primarily due to an increase in foreign investment in the services sector to US\$23.6 billion in 2021 from US\$14.4 billion in 2020.

The following table sets forth information regarding the source of foreign direct investment by region and country for the periods indicated:

### Foreign Direct Investment by Region and Country

	2017	2018	2019	2020	2021
	(billions of dollars)				
North America					
U.S.A. ....	4.7	5.9	6.8	5.3	5.3
Others .....	1.6	1.9	1.7	3.5	1.6
	6.3	7.8	8.6	8.8	6.9
Asia					
Japan .....	1.8	1.3	1.4	0.8	1.2
Hong Kong .....	1.8	1.5	1.9	1.1	0.6
Singapore .....	1.8	1.5	1.3	2.3	4.2
China .....	0.8	2.7	1.0	2.0	1.9
Others .....	2.0	2.4	1.0	0.4	1.2
	8.2	9.4	6.6	6.6	9.1
Europe					
Netherlands .....	1.7	1.4	1.7	0.6	1.0
England .....	2.2	1.2	2.1	0.7	0.8
Germany .....	0.7	0.5	0.4	0.5	2.8
France .....	0.3	0.7	0.1	0.2	0.2
Others .....	2.4	5.2	3.1	2.8	8.0
	7.3	9.0	7.4	4.8	12.8
Others regions and countries .....	1.1	0.6	0.7	0.5	0.7
Total .....	22.9	26.9	23.3	20.7	29.5

Source: Ministry of Trade, Industry and Energy

### Trade Balance

Trade balance figures measure the difference between a country's exports and imports. If exports exceed imports the country has a trade balance surplus while if imports exceed exports the country has a deficit. A deficit, indicating that a country's receipts from abroad fall short of its payments to foreigners, must be financed, rendering the country a debtor nation. A surplus, indicating that a country's receipts exceed its payments to foreigners, allows the country to finance its trading partners' net deficit to the extent of the surplus, rendering the country a creditor nation.

The following table summarizes the Republic's trade balance for the periods indicated:

### Trade Balance

	Exports <sup>(1)</sup>	As % of GDP <sup>(2)</sup>	Imports <sup>(1)</sup>	As % of GDP <sup>(2)</sup>	Balance of Trade	Exports as % of Imports
	(billions of dollars, except percentages)					
2017 .....	573.7	35.3%	478.5	29.5%	95.2	119.9
2018 .....	604.9	35.2%	535.2	31.1%	69.7	113.0
2019 .....	542.2	33.0%	503.3	30.7%	38.9	107.7
2020 .....	512.5	31.3%	467.6	28.5%	44.9	109.6
2021 <sup>(3)</sup> .....	644.4	35.8%	615.1	34.2%	29.3	104.8

- (1) These entries are derived from customs clearance statistics on a C.I.F. basis, meaning that the price of goods includes insurance and freight cost.
- (2) At current market prices.
- (3) Preliminary.

Source: The Bank of Korea; Korea Customs Service

The Republic, due to its lack of natural resources, relies on extensive trading activity for growth. The country meets virtually all domestic requirements for petroleum, wood and rubber with imports, as well as much of its coal and iron needs. Exports consistently represent a high percentage of GDP and, accordingly, the international economic environment is of crucial importance to the Republic's economy. See "—The Economy—Worldwide Economic and Financial Difficulties".

The following tables give information regarding the Republic's exports and imports by major commodity groups:

### Exports by Major Commodity Groups (C.I.F.)<sup>(1)</sup>

	As % of 2017		As % of 2018		As % of 2019		As % of 2020		As % of 2021	
	2017	Total	2018	Total	2019	Total	2020	Total	2021 <sup>(2)</sup>	Total <sup>(2)</sup>
(billions of dollars, except percentages)										
Foods & Consumer Goods . . . . .	7.8	1.4	7.9	1.3	8.2	1.5	8.6	1.7	9.8	1.5
Raw Materials and Fuels . . . . .	43.1	7.5	55.1	9.1	48.8	9.0	32.1	6.3	51.4	8.0
Petroleum & Derivatives . . . . .	35.4	6.2	47.0	7.8	41.3	7.6	24.7	4.8	38.8	6.0
Others . . . . .	7.7	1.3	8.1	1.3	7.5	1.4	7.4	1.4	12.6	2.0
Light Industrial Products . . . . .	36.0	6.3	35.8	5.9	34.2	6.3	32.4	6.3	35.3	5.5
Heavy & Chemical Industrial										
Products . . . . .	486.8	84.9	506.1	83.7	451.0	83.2	439.3	85.7	548.0	85.0
Electronic & Electronic Products . . . . .	192.0	33.5	214.8	35.5	171.4	31.6	178.5	34.8	221.8	34.4
Chemicals & Chemical Products . . . . .	65.7	11.5	74.0	12.2	67.4	12.4	66.6	13.0	91.9	14.3
Metal Goods . . . . .	46.9	8.2	48.1	8.0	44.1	8.1	39.6	7.7	52.6	8.2
Machinery & Precision										
Equipment . . . . .	63.3	11.0	69.4	11.5	67.6	12.5	63.4	12.4	70.9	11.0
Transport Equipment . . . . .	108.8	19.0	87.4	14.4	87.7	16.2	77.6	15.1	94.2	14.6
Passenger Cars . . . . .	38.8	6.8	38.2	6.3	40.5	7.5	35.6	6.9	44.3	6.9
Ship & Boat . . . . .	41.4	7.2	20.7	3.4	19.5	3.6	19.2	3.7	22.4	3.5
Others . . . . .	28.6	5.0	28.4	4.7	27.7	5.1	22.8	4.4	27.5	4.3
Others . . . . .	10.1	1.8	12.5	2.1	12.7	2.3	13.6	2.7	16.6	2.6
Total . . . . .	<u>573.7</u>	<u>100.0</u>	<u>604.9</u>	<u>100.0</u>	<u>542.2</u>	<u>100.0</u>	<u>512.5</u>	<u>100.0</u>	<u>644.4</u>	<u>100.0</u>

- (1) These entries are derived from customs clearance statistics. C.I.F. means that the price of goods includes insurance and freight costs.
- (2) Preliminary.

Source: The Bank of Korea; Korea Customs Service

### Imports by Major Commodity Groups (C.I.F.)<sup>(1)</sup>

	As % of 2017		As % of 2018		As % of 2019		As % of 2020		As % of 2021	
	2017	Total	2018	Total	2019	Total	2020	Total	2021 <sup>(2)</sup>	Total <sup>(2)</sup>
(billions of dollars, except percentages)										
Industrial Materials and Fuels . . . . .	233.1	48.7	279.0	52.1	254.0	50.5	206.3	44.1	302.6	49.2
Crude Petroleum . . . . .	59.6	12.5	80.4	15.0	70.3	14.0	44.5	9.5	67.0	10.9
Mineral . . . . .	20.3	4.2	22.0	4.1	21.7	4.3	21.4	4.6	33.3	5.4
Chemicals . . . . .	44.0	9.2	50.0	9.3	47.0	9.3	46.4	9.9	60.4	9.8
Iron & Steel Products . . . . .	20.3	4.2	19.7	3.7	19.8	3.9	15.2	3.3	22.2	3.6
Non-ferrous Metal . . . . .	12.1	2.5	12.8	2.4	12.0	2.4	11.7	2.5	18.4	3.0
Others . . . . .	76.8	16.1	94.1	17.6	83.2	16.5	67.1	14.3	101.3	16.5
Capital Goods . . . . .	171.8	35.9	174.6	32.6	164.9	32.8	177.1	37.9	212.8	34.6
Machinery & Precision										
Equipment . . . . .	63.1	13.2	60.5	11.3	50.7	10.1	57.9	12.4	70.0	11.4
Electric & Electronic Machines . . . . .	95.8	20.0	100.4	18.8	100.4	20.0	105.1	22.5	127.6	20.7
Transport Equipment . . . . .	10.8	2.3	11.5	2.1	11.6	2.3	11.9	2.5	13.0	2.1
Others . . . . .	2.1	0.4	2.2	0.4	2.1	0.4	2.3	0.5	2.2	0.4
Consumer Goods . . . . .	73.6	15.4	81.6	15.2	84.5	16.8	84.2	18.0	99.6	16.2
Cereals . . . . .	6.0	1.3	6.8	1.3	6.9	1.4	7.1	1.5	8.9	1.4
Goods for Direct Consumption . . . . .	19.7	4.1	22.3	4.2	22.2	4.4	22.3	4.8	25.7	4.2
Consumer Durable Goods . . . . .	30.0	6.3	32.2	6.0	34.5	6.9	34.9	7.5	42.2	6.9
Consumer Nondurable Goods . . . . .	17.9	3.7	20.3	3.8	20.9	4.2	20.0	4.3	22.8	3.7
<b>Total . . . . .</b>	<b>478.5</b>	<b>100.0</b>	<b>535.2</b>	<b>100.0</b>	<b>503.3</b>	<b>100.0</b>	<b>467.6</b>	<b>100.0</b>	<b>615.0</b>	<b>100.0</b>

(1) These entries are derived from customs clearance statistics. C.I.F. means that the price of goods includes insurance and freight costs.

(2) Preliminary.

Source: The Bank of Korea; Korea Customs Service

In 2017, the Republic recorded a trade surplus of US\$95.2 billion. Exports increased by 15.8% to US\$573.7 billion in 2017 from US\$495.4 billion in 2016, primarily due to increased demand for semiconductors and steel products. Imports increased by 17.8% to US\$478.5 billion in 2017 from US\$406.2 billion in 2016, primarily due to an increase in oil prices, which also led to increased unit prices of other major raw materials, and increased imports of machinery, precision equipment and electronic machines.

In 2018, the Republic recorded a trade surplus of US\$69.7 billion. Exports increased by 5.4% to US\$604.9 billion in 2018 from US\$573.7 billion in 2017, primarily due to increased demand for semiconductors and petroleum products. Imports increased by 11.8% to US\$535.2 billion in 2018 from US\$478.5 billion in 2017, primarily due to an increase in oil prices, which also led to increased unit prices of other major raw materials.

In 2019, the Republic recorded a trade surplus of US\$38.9 billion. Exports decreased by 10.4% to US\$542.2 billion in 2019 from US\$604.9 billion in 2018, primarily due to a significant decrease in semiconductor prices. Imports decreased by 6.0% to US\$503.3 billion in 2019 from US\$535.2 billion in 2018, primarily due to a decrease in oil prices, which also led to decreased unit prices of other major raw materials.

In 2020, the Republic recorded a trade surplus of US\$44.9 billion. Exports decreased by 5.5% to US\$512.5 billion in 2020 from US\$542.2 billion in 2019, primarily due to a slowdown of the global economy resulting from the COVID-19 pandemic. Imports decreased by 7.1% to US\$467.6 billion in 2020 from US\$503.3 billion in 2019, primarily due to a decrease in oil prices, which also led to decreased unit prices of other major raw materials, as well as decreased domestic consumption, which were mainly attributed to the ongoing COVID-19 pandemic.

Based on preliminary data, the Republic recorded a trade surplus of US\$29.4 billion in 2021. Exports increased by 25.7% to US\$644.4 billion in 2021 from US\$512.5 billion in 2020, primarily due to a recovery of the global economy from the COVID-19 pandemic. Imports increased by 31.5% to US\$615.0 billion in 2021 from US\$467.6 billion in 2020, primarily due to an increase in domestic consumption as well as an increase in oil prices, which also led to increased unit prices of other major raw materials.

The following table sets forth the Republic's exports trading partners:

<b>Exports</b>										
	2017	As % of 2017 Total	2018	As % of 2018 Total	2019	As % of 2019 Total	2020	As % of 2020 Total	2021 <sup>(1)</sup>	As % of 2021 Total <sup>(1)</sup>
(millions of dollars, except percentages)										
China . . . . .	142,120.0	24.8	162,125.1	26.8	136,202.5	25.1	132,565.4	25.9	162,913.0	25.3
United States . . . . .	68,609.7	12.0	72,719.9	12.0	73,343.9	13.5	74,115.8	14.5	95,902.0	14.9
Japan . . . . .	26,816.1	4.7	30,528.6	5.0	28,420.2	5.2	25,097.7	4.9	30,061.8	4.7
Hong Kong . . . . .	39,112.3	6.8	45,996.4	7.6	31,912.9	5.9	30,653.8	6.0	37,467.1	5.8
Singapore . . . . .	11,651.9	2.0	11,782.2	1.9	12,768.0	2.4	9,828.4	1.9	14,148.5	2.2
Vietnam . . . . .	47,753.8	8.3	48,622.1	8.0	48,177.7	8.9	48,510.6	9.5	56,728.5	8.8
Taiwan . . . . .	14,898.4	2.6	20,783.5	3.4	15,666.3	2.9	16,465.4	3.2	24,285.3	3.8
India . . . . .	15,055.5	2.6	15,606.2	2.6	15,096.3	2.8	11,937.3	2.3	15,603.3	2.4
Indonesia . . . . .	8,403.7	1.5	8,833.2	1.5	7,650.1	1.4	6,312.9	1.2	8,550.3	1.3
Mexico . . . . .	10,932.6	1.9	11,458.2	1.9	10,927.0	2.0	8,241.0	1.6	11,290.2	1.8
Australia . . . . .	19,861.6	3.5	9,610.4	1.6	7,890.6	1.5	6,188.5	1.2	9,750.5	1.5
Russia . . . . .	6,906.6	1.2	7,320.9	1.2	7,774.1	1.4	6,900.0	1.3	9,979.5	1.5
Germany . . . . .	8,483.8	1.5	9,372.7	1.5	8,685.7	1.6	9,576.1	1.9	11,109.9	1.7
Others <sup>(2)</sup> . . . . .	153,088.4	26.7	150,100.2	24.8	137,717.3	25.4	126,395.8	24.6	156,610.5	24.3
<b>Total . . . . .</b>	<b>573,694.4</b>	<b>100.0</b>	<b>604,859.7</b>	<b>100.0</b>	<b>542,232.6</b>	<b>100.0</b>	<b>512,788.7</b>	<b>100.0</b>	<b>644,400.4</b>	<b>100.0</b>

(1) Preliminary.

(2) Includes more than 200 countries and regions.

Source: The Bank of Korea; Korea Customs Service

The following table sets forth the Republic's imports trading partners:

	<b>Imports</b>									
	2017	As % of 2017 Total	2018	As % of 2018 Total	2019	As % of 2019 Total	2020	As % of 2020 Total	2021 <sup>(1)</sup>	As % of 2021 Total <sup>(1)</sup>
(millions of dollars, except percentages)										
China . . . . .	97,860.1	20.5	106,488.6	19.9	107,228.7	21.3	108,884.6	23.3	138,628.1	22.5
Japan . . . . .	55,124.7	11.5	54,603.7	10.2	47,580.9	9.5	46,023.0	9.8	54,642.2	8.9
United States . . . . .	50,749.4	10.6	58,868.3	11.0	61,878.6	12.3	57,492.2	12.3	73,213.4	11.9
Saudi Arabia . . . . .	19,590.5	4.1	26,335.8	4.9	21,840.6	4.3	15,979.6	3.4	24,271.3	3.9
Qatar . . . . .	11,267.1	2.4	16,293.6	3.0	13,036.6	2.6	7,562.1	1.6	11,611.1	1.9
Australia . . . . .	19,159.7	4.0	20,718.6	3.9	20,608.2	4.1	18,707.1	4.0	32,918.0	5.4
Germany . . . . .	19,748.7	4.1	20,854.0	3.9	19,936.9	4.0	20,680.9	4.4	21,996.3	3.6
Kuwait . . . . .	9,594.0	2.0	12,794.3	2.4	10,771.1	2.1	5,827.9	1.2	8,253.9	1.3
Taiwan . . . . .	18,073.0	3.8	16,738.4	3.1	15,717.7	3.1	17,837.0	3.8	23,485.8	3.8
United Arab Emirates . . . . .	9,557.1	2.0	9,287.4	1.7	8,991.1	1.8	5,692.7	1.2	7,318.7	1.2
Indonesia . . . . .	9,571.0	2.0	11,161.2	2.1	8,819.8	1.8	7,594.7	1.6	10,725.1	1.7
Malaysia . . . . .	8,714.7	1.8	10,205.7	1.9	9,279.9	1.8	8,892.6	1.9	10,456.2	1.7
Others <sup>(2)</sup> . . . . .	149,468.3	31.2	170,852.9	31.9	157,652.8	31.3	146,458.4	31.3	215,214.6	35.0
<b>Total . . . . .</b>	<b>478,478.3</b>	<b>100.0</b>	<b>535,202.4</b>	<b>100.0</b>	<b>503,342.9</b>	<b>100.0</b>	<b>467,632.8</b>	<b>100.0</b>	<b>615,093.4</b>	<b>100.0</b>

(1) Preliminary.

(2) Includes more than 200 countries and regions.

Source: The Bank of Korea; Korea Customs Service

The outbreak of severe health epidemics in Korea and various parts of the world, including the ongoing COVID-19 pandemic, raises significant uncertainty about prospects for international trade and economic growth for affected countries, as well as world economic prospects in general. Global economic uncertainties in relation to COVID-19, including uncertainty due to the extent and effectiveness of extensive control measures and vaccination programs, among others, are expected to continue in 2022. Although there have been mixed signs of recovery in the domestic and global economy resulting from the availability of COVID-19 vaccinations and gradual normalization of business activities, the extent to which the COVID-19 pandemic affects international trade is highly uncertain and difficult to predict. In order to contain further spread of such epidemics and to prevent the outbreak of similar epidemics in the future, the Government continues to cooperate actively with regional and international efforts to develop and implement various measures to combat such outbreaks. See “—The Economy—Worldwide Economic and Financial Difficulties”.

In 2020, 2021 and in recent months, the value of the Won relative to the U.S. dollar and Japanese Yen has fluctuated widely, in particular due to the impact of the ongoing COVID-19 pandemic. See “—The Economy—Worldwide Economic and Financial Difficulties”. An appreciation of the Won against the U.S. dollar and Japanese Yen increases the Won value of the Republic's export sales and diminishes the price-competitiveness of export goods in foreign markets in U.S. dollar and Japanese Yen terms, respectively. However, it also decreases the cost of imported raw materials in Won terms and the cost in Won of servicing the Republic's U.S. dollar and Japanese Yen denominated debt. In general, when the Won appreciates, export dependent sectors of the Korean economy, including automobiles, electronics and shipbuilding, suffer from the resulting pressure on the price-competitiveness of export goods, which may lead to reduced profit margins and loss in market share, more than offsetting a decrease in the cost of imported raw materials. If the export dependent sectors of the Korean economy suffer reduced profit margins or a net loss, it could result in a material adverse effect on the Korean economy.

Since the Government announced its plans to pursue free trade agreements, or FTAs, in 2003, the Republic has entered into FTAs with key trading partners. The Republic has had bilateral FTAs in effect with Chile since 2004, Singapore since 2006, India since 2010, Peru since 2011, the United States since 2012, Turkey since 2013, Australia since 2014, Canada, China, New Zealand and Vietnam since 2015, Colombia since July 2016 and the United Kingdom since January 2021. The Republic is currently in negotiations with a number of other key trading partners. In addition, the Republic has had regional FTAs in effect with the European Free Trade Association since 2006, the Association of Southeast Asian Nations since 2009, the European Union since 2011, with each of Panama, Costa Rica, Guatemala, Honduras, El Salvador and Nicaragua since 2021 and with the Regional Comprehensive Economic Partnership since 2022, and is currently negotiating additional regional FTAs. The Republic and Turkey have completed revisions to their bilateral FTA, which became effective in August 2018. The Republic and the United States have also completed revisions to their bilateral FTA, which became effective in January 2019.

### ***Non-Commodities Trade Balance***

The Republic had non-commodities trade deficits of US\$38.4 billion in 2017, US\$32.6 billion in 2018, US\$20.1 billion in 2019 and US\$4.7 billion in 2020. Based on preliminary data, the Republic had a non-commodities trade surplus of US\$12.1 billion in 2021.

### ***Foreign Currency Reserves***

The foreign currency reserves are external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs and for other related purposes. The following table shows the Republic's total official foreign currency reserves:

#### **Total Official Reserves**

	December 31,				
	2017	2018	2019	2020	2021
	(millions of dollars)				
Gold .....	\$ 4,794.8	\$ 4,794.8	\$ 4,794.8	\$ 4,794.8	\$ 4,794.8
Foreign Exchange <sup>(1)</sup> .....	379,476.6	393,332.5	397,876.1	430,117.2	438,319.2
Total Gold and Foreign Exchange .....	384,271.3	398,127.2	402,670.9	434,912.0	443,114.0
Reserve Position at IMF .....	1,621.1	2,140.4	2,792.9	4,815.3	4,634.9
Special Drawing Rights .....	3,374.3	3,426.6	3,352.4	3,370.8	15,369.5
Total Official Reserves .....	<u>\$389,266.7</u>	<u>\$403,694.3</u>	<u>\$408,816.1</u>	<u>\$443,098.1</u>	<u>\$463,118.4</u>

(1) More than 95% of the Republic's foreign currency reserves are comprised of convertible foreign currencies.

Source: The Bank of Korea; International Monetary Fund

The Government's foreign currency reserves increased to US\$262.2 billion as of December 31, 2007 from US\$8.9 billion as of December 31, 1997, primarily due to continued balance of trade surpluses and capital inflows. In 2008, the Government's foreign currency reserves decreased, falling to US\$201.2 billion as of December 31, 2008, partially as a result of the Government's use of the foreign currency reserve to provide foreign currency liquidity to Korean financial institutions. The Government's foreign currency reserves increased to US\$389.3 billion as of December 31, 2017, US\$403.7 billion as of December 31, 2018, US\$408.8 billion as of December 31, 2019, US\$443.1 billion as of December 31, 2020 and US\$463.1 billion as of December 31, 2021, primarily due to continued trade surpluses and capital inflows. The amount of the Government's foreign currency reserve was US\$457.8 billion as of March 31, 2022.

## Government Finance

The Ministry of Economy and Finance prepares the Government budget and administers the Government's finances.

The Government's fiscal year commences on January 1. The Government must submit the budget, which is drafted by the Minister of Economy and Finance and approved by the President of the Republic, to the National Assembly not later than 90 days prior to the start of the fiscal year and may submit supplementary budgets revising the original budget at any time during the fiscal year.

2020 budgeted revenues increased by 1.0% to ₩450.9 trillion from ₩446.4 trillion in 2019, led by an increase in budgeted tax revenues (including social security contributions and tax on property). 2020 budgeted expenditures and net lending increased by 9.4% to ₩481.4 trillion from ₩439.9 trillion in 2019, led by increases in budgeted expenditures on economic growth (including job creation, research and development and support for start-ups and small businesses), social security, welfare services for senior citizens, unemployed people and temporary workers, and public housing. The 2020 budget anticipated a ₩30.5 billion budget deficit.

2021 budgeted revenues remained relatively stable at ₩450.9 trillion from 2020. 2021 budgeted expenditures and net lending increased by 9.3% to ₩526.3 trillion from ₩481.4 trillion in 2020, led by increases in budgeted expenditures on recovery from the COVID-19 pandemic (including support for individuals and businesses adversely impacted by the COVID-19 pandemic, procurement of COVID-19 vaccines and enhancement of medical facilities and other infrastructure, among others) and revitalization of the economy (public housing, job creation, research and development, social security and welfare services, among others). The 2021 budget anticipated a ₩75.4 trillion budget deficit.

In March 2020, the National Assembly approved a supplementary budget for 2020 in the amount of ₩11.7 trillion as part of the Government's efforts to mitigate adverse effects on the Korean economy resulting from the ongoing COVID-19 pandemic. See "—The Economy—Worldwide Economic and Financial Difficulties". In April 2020, the National Assembly approved the second supplementary budget in the amount of ₩7.6 trillion, which amount was subsequently increased to ₩12.2 trillion, and in July 2020, the National Assembly approved the third supplementary budget in the amount of ₩35.1 trillion. In September 2020, the National Assembly approved the fourth supplementary budget amounting to ₩7.8 trillion, and the Government announced its COVID-19 relief package plan amounting to ₩9.4 trillion in December 2020, following a resurgence of COVID-19 cases in Korea. In March 2021, the National Assembly approved the first 2021 supplementary budget in the amount of ₩14.9 trillion to be spent on initiatives for relief from the COVID-19 pandemic, and in July 2021, the National Assembly approved the second supplementary budget of 2021 amounting to ₩34.9 trillion, mainly to provide relief packages to small businesses and direct payments to eligible individuals. In December 2021, the National Assembly approved the Republic's budget for 2022 in the amount of ₩607.7 trillion, a significant portion of which is expected to be used for measures to continue to mitigate the adverse effects of the COVID-19 pandemic on the Korean economy. In February 2022, the National Assembly approved a 2022 supplementary budget in the amount of ₩16.9 trillion as part of the Government's continuing efforts to support small businesses and vulnerable groups as well as strengthen disease control measures amid the ongoing COVID-19 pandemic.

These supplementary budgets (including relief packages), the largest of their kind drawn up in response to an outbreak of an infectious disease in Korea, focus on the provision of financial support for certain industries that are most vulnerable to, or adversely impacted by, the COVID-19 pandemic, such as tourism, aviation, shipping, logistics and food services, among others. The Government has used, and will continue to use, the supplementary budgets for the following purposes: (i) provision of loans and guarantees for small businesses, (ii) relief packages and household support, including daycare vouchers and emergency livelihood support, (iii) disease prevention (including purchases and administration of vaccines), testing and treatment, (iv) various forms of financial support for local communities most affected by the COVID-19 pandemic and (v) measures to

revitalize the economy from the impact of the COVID-19 pandemic. The supplementary budgets have been, and will continue to be, funded through the issuance of treasury bonds by the Government, The Bank of Korea's unappropriated surplus and other surplus funds available to the Government, among others.

Any significant increase in additional spending measures as stipulated by the supplementary budgets (including relief packages) may lead to a budget deficit for 2022, which could result in a deterioration in the Government's fiscal position and an increase in borrowings. The impact of such effects is highly uncertain and will depend on, among others, the speed and extent of the economic recovery in Korea and internationally, which in turn will likely depend significantly on the scope and duration of the ongoing COVID-19 pandemic.

The following table shows consolidated Government revenues and expenditures:

### Consolidated Central Government Revenues and Expenditures

	Actual <sup>(1)</sup>					Budget <sup>(2)</sup>		
	2017	2018	2019	2020	2021 <sup>(2)</sup>	2019	2020	2021
	(billions of Won)							
Total Revenues	403,839	438,262	443,853	446,628	537,619	446,398	450,873	450,905
Current Revenues	400,659	435,558	441,148	443,694	534,999	443,271	447,925	447,865
Total Tax Revenues	325,845	358,424	363,005	360,129	422,182	364,539	365,389	359,775
Taxes on income, profits and capital gains	134,242	155,399	155,736	148,622	184,509	159,618	152,837	143,121
Social security contributions	60,460	64,854	69,550	74,583	78,104	69,747	73,392	77,032
Tax on property	12,945	15,473	15,474	22,735	31,392	14,611	16,013	19,300
Taxes on goods and services	95,535	99,056	98,614	91,047	99,840	97,263	98,154	95,658
Taxes on international trade and transaction	8,529	8,815	7,882	7,059	8,227	9,056	8,791	8,347
Other tax	14,133	14,828	15,748	16,084	20,110	14,244	16,202	16,316
Non-Tax Revenues	74,814	77,134	78,143	83,565	112,818	78,732	82,536	88,091
Operating surpluses of departmental enterprise sales and property income	27,692	28,616	29,345	33,571	56,664	28,692	31,026	32,791
Administration fees & charges and non-industrial sales	9,067	9,004	10,181	9,929	10,865	9,940	10,355	10,724
Fines and forfeits	23,769	24,455	22,554	23,583	26,993	23,726	24,643	26,950
Contributions to government employee pension fund	12,311	13,206	13,523	13,876	14,918	13,445	13,944	15,385
Current revenue of non-financial public enterprises	1,974	1,853	2,540	2,606	3,378	2,929	2,568	2,241
Capital Revenues	3,180	2,703	2,705	2,934	2,620	3,127	2,948	3,040
Total Expenditures and Net Lending	379,809	407,099	455,850	517,781	568,013	439,868	481,352	526,292
Total Expenditures	363,671	389,610	436,698	489,966	537,934	425,270	460,044	496,661
Current Expenditures	332,719	360,176	387,100	455,098	502,091	394,567	426,721	459,333
Expenditure on goods and service	67,536	71,459	60,196	79,460	88,144	80,219	85,521	94,636
Interest payment	13,976	14,287	13,837	14,452	15,431	14,362	15,525	17,254
Subsidies and other current transfers	248,513	272,080	309,575	357,295	395,726	295,970	321,672	343,636
Current expenditure of non-financial public enterprises	2,694	2,350	3,492	3,891	2,790	4,016	4,003	3,807
Capital Expenditures	30,952	29,434	49,598	34,868	35,842	30,704	33,323	37,328
Net Lending	16,138	17,489	19,152	27,815	30,079	14,597	21,308	29,631

(1) Budget information for 2022 is not yet available.

(2) Actual revenues and expenditures information for 2021 is not yet available.

Source: Ministry of Economy and Finance; The Bank of Korea; Korea National Statistical Office

The consolidated Government account consists of a General Account, Special Accounts (including a non-financial public enterprise special account) and Public Funds. The Government segregates the accounts of certain functions of the Government into Special Accounts and Public Funds for more effective administration and fiscal control. The Special Accounts and Public Funds relate to business type activities, such as economic development, road and railway construction and maintenance, monopolies, and communications developments and the administration of loans received from official international financial organizations and foreign governments.

Revenues derive mainly from national taxes and non-tax revenues. Taxes in Korea can be roughly classified into the following types:

- income tax and capital gains tax,
- property tax,
- value-added tax,
- customs duty tax, and
- other taxes.

Income tax and capital gains tax are imposed on income derived from labor, business operation and ownership of assets and profits derived from capital appreciation. Income tax and capital gains tax, depending on the type of taxpayer, can be further classified into corporate income tax and individual income tax. Property tax is imposed on exchange or ownership of property and includes inheritance tax and gift tax. Value-added tax is imposed on value added to goods and services. Customs duty tax is imposed on imported goods. Other taxes include tax on certain securities transactions and a stamp tax for certain documents.

Expenditures include general administration, national defense, community service, education, health, social security, certain annuities and pensions and local finance, which involves the transfer of tax revenues to local governments.

For 2017, the Republic recorded total revenues of ₩403.8 trillion and total expenditures and net lending of ₩379.8 trillion. The Republic had a fiscal surplus of ₩24.0 trillion in 2017.

For 2018, the Republic recorded total revenues of ₩438.3 trillion and total expenditures and net lending of ₩407.1 trillion. The Republic had a fiscal surplus of ₩31.2 trillion in 2018.

For 2019, the Republic recorded total revenues of ₩443.9 trillion and total expenditures and net lending of ₩455.9 trillion. The Republic had a fiscal deficit of ₩12.0 trillion in 2019.

For 2020, the Republic recorded total revenues of ₩446.6 trillion and total expenditures and net lending of ₩517.8 trillion. The Republic had a fiscal deficit of ₩71.2 trillion in 2020.

Based on preliminary data, the Republic recorded total revenues of ₩537.6 trillion and total expenditures and net lending of ₩568.0 trillion in 2021. The Republic had a fiscal deficit of ₩30.4 trillion in 2021.

The Government currently expects that the Republic's fiscal deficit will decrease in 2022, primarily due to an increase in tax revenues following a steady recovery of the economy as well as an increase in real estate-related taxes. However, such predictions are highly uncertain and will depend on, among others, the speed and extent of the economic recovery in Korea and internationally, which in turn will likely depend significantly on the scope and duration of the ongoing COVID-19 pandemic.

## Debt

The Government estimates that the total outstanding debt of the Government (including guarantees by the Government) as of December 31, 2019 amounted to approximately ₩713.8 trillion, an increase of 6.7% over the previous year.

The Government estimates that the total outstanding debt of the Government (including guarantees by the Government) as of December 31, 2020 amounted to approximately ₩831.7 trillion, an increase of 16.5% over the previous year.

The Government expects that the amount of the Government's debt will further increase in 2022 as it continues to execute large stimulus plans to support the Republic's economic recovery and prepare for the transition to a post-pandemic economy. The Ministry of Economy and Finance administers the national debt of the Republic.

### *External and Internal Debt of the Government*

The following table sets out, by currency and the equivalent amount in U.S. dollars, the estimated outstanding direct external debt of the Government as of December 31, 2020:

#### **Direct External Debt of the Government**

	<u>Amount in Original Currency</u>	<u>Equivalent Amount in U.S. Dollars<sup>(1)</sup></u>
	(millions)	
US\$ . . . . .	US\$6,525.0	US\$6,525.0
Euro (EUR) . . . . .	EUR1,825.0	2,244.8
Total . . . . .		<u>US\$8,769.8</u>

(1) Amounts expressed in currencies other than US\$ are converted to US\$ at the arbitrage rate announced by the Seoul Money Brokerage Services, Ltd. in effect on December 31, 2020.

The following table summarizes, as of December 31 of the years indicated, the outstanding direct internal debt of the Republic:

#### **Direct Internal Debt of the Government**

	<u>(billions of Won)</u>
2016 . . . . .	584,785.0
2017 . . . . .	619,971.9
2018 . . . . .	643,550.9
2019 . . . . .	690,524.1
2020 . . . . .	808,941.0

The following table sets out all guarantees by the Government of indebtedness of others:

### Guarantees by the Government

	December 31,				
	2016	2017	2018	2019	2020
	(billions of Won)				
Domestic .....	24,241.6	21,130.5	17,016.3	14,760.0	12,490.0
External <sup>(1)</sup> .....	—	—	—	—	—
<b>Total</b> .....	<b>24,241.6</b>	<b>21,130.5</b>	<b>17,016.3</b>	<b>14,760.0</b>	<b>12,490.0</b>

(1) Converted to Won at foreign exchange banks' telegraphed transfer selling rates to customers or the market average exchange rates in effect on December 31 of each year.

For further information on the outstanding indebtedness, including guarantees, of the Republic, see “—Tables and Supplementary Information”.

### External Liabilities

The following tables set out certain information regarding the Republic's external liabilities calculated under the criteria based on the sixth edition of the Balance of Payment Manual published by the International Monetary Fund in December 2010 and implemented by the Government in December 2013. Under BPM6, in particular, prepayments received in connection with the construction of ships are excluded from the external liabilities.

	December 31,				
	2017	2018	2019	2020	2021 <sup>(1)</sup>
	(billions of dollars)				
Long-term Liabilities .....	296.1	315.6	335.3	385.6	462.2
General Government .....	78.0	83.5	91.2	119.4	142.8
Monetary Authorities .....	14.5	15.2	14.4	15.0	35.9
Banks .....	91.7	100.1	104.4	112.2	128.1
Other Sectors .....	111.8	116.8	125.2	139.0	155.4
Short-term Liabilities .....	116.0	125.6	135.5	159.3	166.2
General Government .....	2.0	1.0	1.6	2.1	1.6
Monetary Authorities .....	8.1	12.8	10.9	10.8	9.6
Banks .....	85.5	90.3	102.0	120.4	123.6
Other Sectors .....	20.4	21.5	21.0	26.0	31.5
<b>Total External Liabilities</b> .....	<b>412.0</b>	<b>441.2</b>	<b>470.7</b>	<b>544.9</b>	<b>628.5</b>

(1) Preliminary.

### Commitments to Assume Treasury Obligations

The Government may, if deemed necessary for recovery from disasters and calamities, make commitments to assume treasury obligations to the extent resolved by the National Assembly each fiscal year. In such cases, such commitments shall be executed in accordance with the procedures for spending reserve funds within general accounts. As of December 31, 2021, such commitments assumed by the Government amounted to ₩45.7 trillion.

## Debt Record

The Government has always paid when due the full amount of principal of, interest on, and amortization of sinking fund requirements of, all of its indebtedness.

### Tables and Supplementary Information

#### A. External Debt of the Government

##### (1) External Bonds of the Government

Series	Issue Date	Maturity Date	Interest Rate (%)	Currency	Original Principal Amount	Principal Amount Outstanding as of December 31, 2020
2005-001	November 2, 2005	November 3, 2025	5.625	USD	400,000,000	400,000,000
2006-002	December 7, 2006	December 7, 2021	4.250	EUR	375,000,000	375,000,000
2013-001	September 11, 2013	September 11, 2023	3.875	USD	1,000,000,000	1,000,000,000
2014-001	June 10, 2014	June 10, 2044	4.125	USD	1,000,000,000	1,000,000,000
2014-002	June 10, 2014	June 10, 2024	2.125	EUR	750,000,000	750,000,000
2017-001	January 19, 2017	January 19, 2027	2.750	USD	1,000,000,000	1,000,000,000
2018-001	September 20, 2018	September 20, 2028	3.500	USD	500,000,000	500,000,000
2018-002	September 20, 2018	September 20, 2048	3.875	USD	500,000,000	500,000,000
2019-001	June 19, 2019	June 19, 2029	2.500	USD	1,000,000,000	1,000,000,000
2019-002	June 19, 2019	June 19, 2024	2.000	USD	500,000,000	500,000,000
2020-001	September 16, 2020	September 16, 2030	1.000	USD	625,000,000	625,000,000
2020-002	September 16, 2020	September 16, 2025	0.000	EUR	700,000,000	700,000,000
Total External Bonds in Original Currencies						USD 6,525,000,000
						EUR 1,825,000,000
Total External Bonds in Equivalent Amount of Won <sup>(1)</sup>						₩ 9,541,488,000,000

(1) U.S. dollar amounts are converted to Won amounts at the rate of US\$1.00 to ₩1,088.0, the market average exchange rate in effect on December 31, 2020, as announced by Seoul Money Brokerage Services, Ltd. Euro amounts are converted to Won amounts at the rate of EUR 1.00 to ₩1,338.2, the market average exchange rate in effect on December 31, 2020, as announced by Seoul Money Brokerage Services, Ltd.

##### (2) External Borrowings of the Government

None.

#### B. External Guaranteed Debt of the Government

None.

### C. Internal Debt of the Government

Title	Range of Interest Rates (%)	Range of Years of Issue	Range of Years of Original Maturity	Principal Amounts Outstanding as of December 31, 2020 (billions of Won)
<b>1. Bonds</b>				
Interest-Bearing Treasury Bond for Treasury Bond Management Fund . . . . .	0.875-5.750	2006-2020	2021-2070	726,766.1
Interest-Bearing Treasury Bond for National Housing I . . . . .	1.00-3.00	2011-2020	2016-2025	78,862.8
Interest-Bearing Treasury Bond for National Housing II . . . . .	0.0-3.0	1996-2017	2016-2029	34.6
Interest-Bearing Treasury Bond for National Housing III . . . . .	0	2005	2015	0
Non-interest-Bearing Treasury Bond for Contribution to International Organizations <sup>(1)</sup> . . . . .	0	1968-1985	-	9.4
Total Bonds . . . . .				805,672.9
<b>2. Borrowings</b>				
Borrowings from The Bank of Korea . . . . .	0.712	2020	2021	213.0
Borrowings from the Sports Promotion Fund . . . . .	0.785-1.575	2019-2020	2021-2022	927.0
Borrowings from The Korea Foundation Fund . . . . .	0.955-1.825	2019-2020	2021-2022	118.1
Borrowings from the Labor Welfare Promotion Fund . . . . .	1.07-1.26	2020	2021	50.0
Borrowings from Korea Technology Finance Corporation . . . . .	0.81-2.34	2018-2020	2022	195.0
Borrowings from the Credit Guarantee Fund for Agriculture, Forestry and Fisheries Suppliers . . . . .	1.285-1.825	2019	2021	850.0
Borrowings from the Government Employees' Pension Fund . . . . .	1.51	2018	2021	10.0
Borrowings from the Film Industry Development Fund . . . . .	1.43-1.575	2019	2021	75.0
Borrowings from the Korea Credit Guarantee Fund . . . . .	0.81	2020	2023	250.0
Borrowings from the Housing Finance Credit Guarantee Fund . . . . .	0.815-1.285	2020	2023	530.0
Borrowings from the Korea Infrastructure Credit Guarantee Fund . . . . .	0.81	2020	2023	50.0
Total Borrowings . . . . .				3,268.1
<b>Total Internal Funded Debt . . . . .</b>				<b>808,941.0</b>

(1) Interest Rates and Years of Original Maturity not applicable.

*D. Internal Guaranteed Debt of the Government*

<u>Title</u>	<u>Range of Interest Rates</u> (%)	<u>Range of Years of Issue</u>	<u>Range of Years of Original Maturity</u>	<u>Principal Amounts Outstanding as of December 31, 2020</u> (billions of Won)
<b>1. Bonds of Government-Affiliated Corporations</b>				
Korea Deposit Insurance Corporation . . . . .	2.14-2.52	2018	2021	1,480.0
Korea Student Aid Foundation . . . . .	0.00-4.79	2011-2020	2021-2040	10,490.0
Key Industry Stabilization Fund . . . . .	0.73-1.45	2020	2021-2025	520.0
<b>Total Internal Guaranteed Debt . . . . .</b>				<b>12,490.0</b>

*E. Others*

*Commitments to Assume Treasury Obligations*

The Government may, if deemed necessary for recovery from disasters and calamities, make commitments to assume treasury obligations to the extent resolved by the National Assembly each fiscal year. In such cases, such commitments shall be executed in accordance with the procedures for spending reserve funds within general accounts. As of December 31, 2021, such commitments assumed by the Government amounted to ₩45.7 trillion.