

CareEdge Global assigns 'Stable' outlook to the rating of Republic of Korea

Reaffirms Long-Term Foreign Currency Rating of 'CareEdge AA-' (Unsolicited)

Issuer rating

CareEdge AA-/Stable (Unsolicited)

CareEdge Global has assigned a 'Stable' outlook to the rating of Republic of Korea (Korea), while reaffirming the Long-Term Foreign Currency rating of 'CareEdge AA-' (Unsolicited).

Korea's credit profile is underpinned by its strong external position, supported by its globally competitive industries, particularly in the semiconductor and electronics sectors. The country also has relatively stable monetary and financial system, and has sound government finances, characterized by low government debt and strong debt affordability. It also benefits from resilient institutions.

However, these strengths are partly offset by Korea's elevated private debt levels, stemming from significant household debt. Geopolitical tensions with North Korea could undermine national security, while an ageing population poses a structural challenge to Korea's credit profile.

Outlook: Stable

The outlook reflects our view that Korea's external position will be able to withstand the potential shocks from global trade tensions. While exports may decline due to a trade war, the current account is expected to remain in surplus, and Korea's positive net international investment position offers a buffer.

We also expect that the fiscal profile will remain comfortable, even though Korea's general government debt is projected to rise over the next five years. The financial sector remains adequately capitalised, however, the recent asset quality deterioration remains a key monitorable.

Upside Scenario

We could revise the outlook to positive if the economy is able to diversify by shifting away from being heavily reliant on exports and takes steps to reduce its vulnerability to fluctuations in global trade. Additionally, the outlook could improve if geopolitical tensions with North Korea de-escalate or Korea effectively manages the challenges of an ageing population.

Downside Scenario

We could revise the outlook to negative if a sustained slowdown in global trade weakens Korea's economic growth and external buffers considerably. The outlook may also change if political uncertainty persists for longer leading to any potential policy impasse, government

debt rises more than expected, or financial sector risks become concerning. A significant escalation of geopolitical tensions with North Korea could also impact the outlook.

Key Rating Drivers

Economic Structure & Resilience

Korea is a large economy with an economic size of USD 1.8 trillion in 2023 and a high per capita income of USD 54,103 (constant PPP terms). Its globally competitive industries, such as electronics and semiconductors, are key contributors to growth but also expose the country to fluctuations in global markets.

Korea's GDP grew by 2% in 2024, up from 1.4% in 2023, driven by strong exports. However, growth was weaker than expected due to subdued consumption and weak construction activity. Growth is projected to slow in 2025 amid weakened economic sentiment from US tariff policies and political uncertainties. The Bank of Korea (BoK) has lowered its 2025 growth forecast to 1.5%, down from 1.9% projected earlier.

Structurally, Korea is an aged society, with ~18% of its population aged 65 and above (2023). It is projected to have the highest share of elderly population among the OECD nations by 2046. This demographic shift poses structural headwinds to Korea's economic growth if sufficient measures are not taken to address the issue.

Fiscal Strength

Korea's gross general government debt to GDP ratio increased substantially by ~12 percentage points between 2019 and 2023. However, its debt levels remain low at ~52% of GDP (2023). Debt affordability is strong, and Korea's low share of external government debt (~18% of total government debt in 2023) provides flexibility.

However, potential challenges exist due to contingent liabilities related to the non-financial public sector. Additionally, geopolitical risks from North Korea necessitate substantial military spending, estimated at ~2.8% of GDP (2023), which diverts resources from other policy priorities. Any changes to defense spending under Trump administration will be a key factor to monitor.

The fiscal implications of Korea's ageing population also require close monitoring as the rapid rise in the share of the elderly population could strain government finances.

The government has recently introduced some measures, such as temporary tax cuts on new vehicle purchases, to support the economy amidst concerns of an economic slowdown. There are also talks of extra budget support to address the impact of US tariffs and political uncertainties. With Korea currently led by an acting president, the future direction of fiscal policy under a new administration remains unclear.

External Position & Linkages

Korea is highly reliant on exports, which account for approximately 44% of GDP (2023), and has consistently recorded current account surpluses. Its current account surplus is estimated be around 4.2% of GDP in 2024, up from 1.9% of GDP in 2023, mainly driven by a strong rebound in semiconductor exports.

The country has low external debt, averaging ~35% of GDP between 2019-2023. Korea also holds sizeable foreign exchange reserves of about USD 409 billion (as of March 2025). Korea's large and positive net international investment position, at ~44% of GDP in 2023, further strengthens its external position.

Korea has a sizeable trade surplus with the US, around USD 56 billion in 2024. In April 2025, the US imposed reciprocal tariffs of 25% on imports from Korea following tariffs on steel, aluminium and auto and certain auto parts. However, Korea's current account is likely to remain in surplus. Nonetheless, the evolving situation on tariffs remains a key monitorable.

Monetary & Financial Stability

Korea has a floating exchange rate, and its currency is actively traded. CPI inflation reached a six-month high of 2.2% in January 2025, amidst a weaker currency, but eased to 2% in February 2025. The BoK lowered its policy rate by 25 bps to 2.75% at the February 2025 meeting, marking the third cut in four months. It expects inflation to be 1.9% this year, in line with its 2% target, as upward pressures from exchange rate depreciation are offset by low demand-side pressures.

Korea's private debt levels are very high, at ~207% of GDP in 2023, posing financial stability risks. Household debt, which stands at ~94% of GDP as of 2023, is among the highest in the OECD. The financial sector is witnessing asset quality deterioration. However, the overall capital adequacy ratios of financial institutions remain above regulatory requirements.

Institutions & Quality of Governance

Korea's governance strength is reflected in its high percentile rankings across the Worldwide Governance Indicators. However, the country's brief encounter with martial law in 2024 indicates a fractured political environment. Other developments, such as the 2022 Legoland default in Gangwon Province, where the local governor initially refused to honour a debt guarantee, have also raised concerns about institutional reliability. Despite these weaknesses, the government's ability to respond quickly to crises highlights the strength of Korea's institutional framework. The country has also faced many political crises in the past, but these events have not hindered overall economic development.

The Constitutional Court's verdict on President Yoon's impeachment is expected soon. If the Court favours the impeachment, Korea will need to hold elections within 60 days, making the future political landscape a key monitorable.

Korea remains exposed to geopolitical tensions with North Korea. While missile testing by North Korea has intensified in recent years, the risk of this escalating into a serious conflict remains low for now. Still, the situation warrants vigilance.

Korea – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
Economic Indicators									
Nominal GDP	USD Billion	1824	1751	1744	1942	1799	1839	1862	1901
GDP Per Capita (Constant-PPP)	USD	48988	49947	49529	51880	53395	54103	55405	56682
Real GDP Growth	%	3.2	2.3	-0.7	4.6	2.7	1.4	2.0	2.0
GFCF/GDP	%	30.4	30.1	31.3	31.6	32.2	32.2	-	-
Gross Domestic Savings/GDP	%	35.9	34.3	35.6	35.9	33.2	32.2	-	-
Exports (G&S)/GDP	%	41.7	39.3	36.4	41.9	48.3	44.0	-	-
Working-Age (15-64) Population (% Share in Total)	%	72.8	72.5	72.0	71.5	70.9	70.4	69.8	69.0
Old-Age (65+) Population (% Share in Total)	%	14.5	15.1	15.8	16.7	17.5	18.4	19.3	20.3
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	2.4	0.4	-2.1	0.0	-1.5	-0.7	-0.5	-0.1
Revenue/GDP	%	21.7	21.6	21.6	24.1	25.2	22.5	22.1	22.6
Expenditure/GDP	%	19.3	21.3	23.7	24.1	26.7	23.2	22.6	22.7
GG Gross Debt/GDP	%	37.9	39.7	45.9	48.0	49.8	51.5	52.8	54.1
GG External Debt (by Creditor)/GG Gross Debt	%	12.2	13.3	15.2	15.7	17.5	18.2	-	-
Interest/Revenue	%	3.2	3.2	3.3	2.9	3.1	3.8	-	-
External Indicators									
Current Account Balance/GDP	%	4.2	3.4	4.4	4.4	1.4	1.9	4.2	3.6
FDI, Net Inflows/GDP	%	0.7	0.6	0.5	1.1	1.4	0.8	-	-
Outstanding FII Liabilities/GDP	%	36.5	42.4	55.9	51.2	45.3	52.0	-	-
NIIP/GDP	%	23.9	29.6	27.9	35.3	44.5	44.1	-	-
Foreign Exchange Reserves	USD Billion	403.7	408.8	443.1	463.1	423.2	420.1	-	-
Import Cover	Months	7.5	8.1	9.8	8.0	6.2	6.6	-	-
External Debt/GDP	%	24.2	26.9	31.6	32.5	37.4	36.6	-	-
Monetary and Financial Indicators									
CPI Inflation	%	1.5	0.4	0.5	2.5	5.1	3.6	2.3	2.0
Exchange Rate (Average)	LC per USD	1101	1166	1179	1146	1293	1307	1364	-
Non-Performing Loans/Total Gross Loans	%	0.3	0.3	0.2	0.2	0.2	0.3	-	-
Private debt, loans and debt securities/GDP	%	177.2	185.1	200.6	205.6	209.9	207.4	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Solicitation Status

The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge AA-/Stable	April 03, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge AA-	October 03, 2024

Criteria Applied

[CareEdge Sovereign Rating Methodology](#)

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