Republic of Korea's rating reaffirmed at 'CareEdge AA-/Stable'

Issuer rating (Long-Term Foreign Currency)	CareEdge AA-/Stable (Unsolicited)

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating of **Republic of Korea (Korea)** at **'CareEdge AA-/ Stable'** (Unsolicited).

Rationale

Korea's rating reaffirmation reflects strong credit fundamentals, anchored by a robust external position, a diversified economic base, and resilient institutions. The credit profile is also supported by a stable monetary and financial system along with sound government finances characterised by strong debt affordability and low external government debt. These strengths are partly offset by elevated private sector debt, particularly high household debt, as well as persistent fiscal deficits and a rising gross general government (GGG) debt trajectory. Additionally, geopolitical tensions with North Korea could undermine national security, while an ageing population remains a structural challenge to Korea's credit profile.

The macroeconomic profile is supported by its large economy with globally competitive industries, particularly semiconductors, which alone accounted for around 24% of total exports in 2025, supporting export performance. Growth has moderated in recent years due to weakening domestic demand, following a period of strong pre-pandemic expansion (averaging 3.1% during 2013–19). It is expected to stabilise at ~2% over 2026–30, supported by a recovery in private consumption and global demand for AI-related industries and semiconductors. While policy efforts to support innovation and productivity may provide some support, structural headwinds from rapid population ageing are expected to weigh on growth and add to fiscal pressures.

The external sector is a key credit anchor, supported by a current account surplus of 6.6% of GDP in 2025, driven by semiconductor exports. The net international investment position is positive at 48% of GDP in 2025, while external debt remains relatively low, averaging 37% of GDP over 2021–25. Foreign exchange (FX) reserves are comfortable at 6.7 months of imports in 2025. However, high integration into global value chains exposes the economy to external demand shocks and slowdown in key trading partners.

Monetary policy remains credible, with inflation contained at 2% in 2025, broadly in line with the central bank's target range. Financial sector risks are contained, supported by a well-capitalised banking system, with capital adequacy ratio at 18.1% and non-performing loans at 0.4% in Q3 2025. However, household debt remains elevated, although it has declined from ~99% of GDP in 2021 to ~89.4% of GDP in Q3 2025, and remains monitorable.

Gross general government debt remains at moderate level, estimated at ~53.4% of GDP in 2025, well below the 100%+ average of advanced economy peers. However, debt is expected to rise gradually over the medium term. Debt affordability remains strong, with interest payments averaging about 3.6% of revenues over 2020–24. Fiscal deficit persists, with the overall balance estimated at -2.4% of GDP in 2025, as against -1.7% in 2024. It is projected to average -2.2% of GDP over 2026-30, reflecting an expansionary fiscal stance. Over time, rising spending pressures related to healthcare, pensions and defence are expected to weigh on the fiscal profile. Risks from contingent liabilities linked to non-financial public sector enterprises remain a monitorable.

Political uncertainty has eased following the election of a new administration in mid-2025, after a period of domestic volatility. The current government holds a legislative majority, which is expected to support policy implementation over the medium term. At the same time, geopolitical tensions with North Korea are a persistent risk.

Outlook: Stable

The outlook reflects our view that Korea's external position will be able to withstand the global headwinds. The current account is expected to remain in surplus, and a positive net international investment position provides a buffer. We expect the fiscal profile to remain comfortable, even though Korea's general government debt is projected to rise over the next five years.

Upside scenario

We could revise the outlook to positive if growth becomes more balanced, with stronger domestic demand complementing sustained export performance, thereby reducing vulnerability to external shocks. Additionally, the outlook could improve if geopolitical tensions with North Korea de-escalate and 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 below the current expectations and materially undermines the external position, leading to a significant narrowing of the current account surplus. Faster-than-expected rise in gross general government debt due to persistent fiscal deficits and ageing-related spending pressures could weaken the fiscal profile, while a significant escalation of geopolitical tensions with North Korea could impact the outlook.

Key rating drivers

Economic structure & resilience

Korea is a large economy with an economic size of USD 1.9 trillion and a high per capita income estimated at USD 55,814 (constant PPP terms) in 2025. Its globally competitive industries, such as electronics and semiconductors, are key contributors to growth, but also expose the country to fluctuations in global technology cycles.

Growth has slowed steadily since the post-pandemic rebound, declining from 4.6% in 2021 to 2.0% in 2024, below the pre-pandemic average. Growth moderated further to 1.0% in 2025, reflecting earlier political uncertainty, weak construction activity, and subdued domestic demand. Private consumption, while still soft, has begun to recover, increasing from 0.7% y-o-y in H1 2025 to 1.9% y-o-y in H2 2025, supported by an accommodative monetary stance and an expansionary fiscal policy. Additionally, resilient semiconductor exports continue to anchor overall growth. Growth is expected to pick up and average 2% over 2026-30, supported by a gradual recovery in consumption and sustained semiconductor demand. Nevertheless, external risks from an uncertain global environment remain monitorable.

Korea is relatively a super-aged society, with 20.3% of its population aged 65 and above (2025). 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 and remains a monitorable.

Fiscal strength

Korea's fiscal profile is supported by strong debt affordability and a low share of external government debt (~18% in 2024). Gross general government (GGG) debt remains at moderate levels, estimated at ~53% of GDP in 2025, although it has increased by ~10 percentage points between 2019 and 2024. GGG Debt is projected to rise further over the medium term, reaching ~64% of GDP by 2030.

In 2025, fiscal policy became expansionary, supported by two supplementary budgets, with the overall balance estimated at -2.4% of GDP in 2025, up from -1.7% in 2024, aimed at strengthening domestic demand. The 2026 budget continues this expansionary approach to support growth, while fiscal deficit is projected to average -2.2% of GDP over 2026-30.

Population ageing is expected to place sustained pressure on public finances over time. Potential challenges also stem from contingent liabilities related to the non-financial public sector. Additionally, geopolitical risks from North Korea are expected to keep military spending elevated (2.6% of GDP in 2024), with the 2026 budget increasing by ~7.5%, which diverts resources from other policy priorities.

External position & linkages

Korea is highly reliant on exports (~44% of GDP in 2024) and has consistently recorded current account surpluses. The current account surplus improved to 6.6% of GDP in 2025 from 5.3% in 2024, driven by strong semiconductor exports. The country's external debt is low, averaging 37% of GDP over 2021-2025. Korea also holds sizeable foreign exchange reserves of ~USD 428 billion in 2025, covering ~6.7 months of imports. Its large and positive net international investment position, estimated at ~48% of GDP in 2025, further strengthens the external profile.

Recent policy developments include a US-Korea trade and investment framework under which Korea has committed USD 150bn in shipbuilding investment and USD 200bn in other strategic sectors in the US. The agreement is expected to support bilateral relations between the two countries. However, risks related to global trade dynamics and evolving geopolitical developments remain monitorable.

Monetary & financial stability

Korea has a floating exchange rate, and its currency is actively traded. Inflation averaged 2% in 2025, in line with the Bank of Korea's target, supported by subdued energy costs and contained food price pressures. In 2026, inflation is expected to be contained at ~1.8%. However, external risks to price stability have emerged from higher global energy prices, driven by ongoing geopolitical tensions in the Middle East, which could pass through to domestic inflation if sustained. Monetary policy has been accommodative, with the Bank of Korea cutting rates by 100 basis points between October 2024 and May 2025.

Financial sector risks are contained, supported by adequate bank capitalisation, with a capital adequacy ratio of 18.1% and non-performing loans at 0.4% in Q3 2025. However, private sector debt remains elevated at ~200% of GDP in Q3 2025, posing potential risks. Within this, household debt remains high at ~89.4% of GDP in Q3 2025, albeit down from the peak of ~99% of GDP in 2021. Recent macroprudential measures, including tighter limits on mortgage lending and lower loan-to-value ratios, have helped moderate borrowing and contain risks, although household debt remains a key monitorable.

Corporate governance reforms and FX liberalisation measures are underway, including steps to improve transparency, strengthen shareholder rights, extend trading hours with plans for a 24-hour system, and establish an offshore KRW settlement framework to boost market efficiency. These reforms are expected to address equity undervaluation (Korea discount), deepen capital markets and broaden participation by domestic and foreign investors.

The Korea composite stock price index (KOSPI) has performed strongly, gaining ~76% in 2025, supported by robust demand for AI-related semiconductors, improved investor sentiment following political stabilisation, and ongoing capital market reforms. Meanwhile, the currency (KRW) has remained under pressure, driven by capital outflows from domestic investors, particularly into US equities.

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.

Political uncertainty has eased following the election of a new administration in mid-2025 after a period of domestic volatility. The current government's legislative majority is expected to support policy continuity over the medium term.

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	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026 F**	**2027 F**
Economic Indicators									
Nominal GDP	USD Billion	1,744	1,942	1,799	1,845	1,875	1,874	1,937	2,017
GDP Per Capita (Constant-PPP)	USD	49,529	51,880	53,395	54,199	55,244	55,814	56,913	58,228
Real GDP Growth	%	-0.7	4.6	2.7	1.6	2.0	1.0	1.8	2.2
GFCF/GDP	%	31.0	31.5	31.9	31.4	30.0	-	-	-
Gross Domestic Savings/GDP	%	35.2	35.9	33.3	32.3	34.0	-	-	-
Exports (G&S)/GDP	%	34.6	39.3	45.3	41.3	44.4	-	-	-
Working-Age (15-64) Population (% Share in Total)	%	72.1	71.5	71.1	70.7	70.2	69.5	68.7	68.1
Old-Age (65+) Population (% Share in Total)	%	15.8	16.7	17.5	18.3	19.3	20.3	21.4	22.5
Fiscal indicators – general government									
Fiscal Balance/GDP	%	-2.1	0.0	-1.5	-0.7	-0.8	-1.5	-1.4	-1.4
Revenue/GDP	%	21.6	24.1	25.2	22.4	21.8	22.6	23.2	23.3
Expenditure/GDP	%	23.7	24.1	26.7	23.1	22.5	24.1	24.6	24.7
GG Gross Debt/GDP	%	45.9	48.0	49.8	50.5	49.8	53.4	56.7	58.9
GG External Debt (by Creditor)/GG Gross Debt	%	15.2	15.7	17.5	18.5	17.5	-	-	-
Interest/Revenue	%	3.2	2.9	3.1	4.1	4.7	-	-	-
External indicators									
Current Account Balance/GDP	%	4.4	4.4	1.4	1.8	5.3	6.6	3.9	4.1
FDI, Net Inflows/GDP	%	0.5	1.1	1.4	1.0	0.7	0.8	-	-
Outstanding FII Liabilities/GDP	%	55.9	51.2	45.3	51.7	44.5	72.3	-	-
NIIP/GDP	%	27.9	35.3	44.5	43.6	58.8	48.2	-	-
Foreign Exchange Reserves	USD Billions	443	463	423	420	416	428	-	-
Import Cover	Months	9.8	8.0	6.2	6.6	6.6	6.7	-	-
External Debt/GDP	%	31.6	32.5	37.4	36.7	35.9	40.9	-	-
Monetary and financial indicators									
CPI Inflation	%	0.5	2.5	5.1	3.6	2.3	2.0	1.8	2.0
Exchange Rate (Average)	LC per USD	1,180	1,145	1,292	1,306	1,364	1,422	-	-
Non-Performing Loans/Total Gross Loans	%	0.2	0.2	0.2	0.3	0.4	0.4	-	-
Private debt, loans and debt securities/GDP	%	200.6	205.6	209.0	206.5	200.7	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, Haver Analytics, 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. The latest available data for 2025

Solicitation Status

The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge AA-/Stable	March 31, 2026
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

Analytical Contacts

Kiran Kavala
kiran.kavala@careedgeglobal.com

Annie Mahajan
annie.mahajan@careedgeglobal.com

Amya Parmar
amya.parmar@careedgeglobal.com

Media Contact

Mradul Mishra
mradul.mishra@careedge.in

About Us
CareEdge Global IFSC Limited (CareEdge Global) is a full-service Credit Rating Agency (CRA) with a mission of **Empowering Global Capital Market Participants Through Unrivalled Insights and Expertise.** As the first CRA registered and authorized by the International Financial Services Centres Authority (India), CareEdge Global is uniquely positioned to provide comprehensive ratings on a global scale. A part of the CareEdge Group, which is a knowledge-based analytical organisation offering a wide range of services in Credit Ratings, Analytics, Consulting, and Sustainability. Established in 1993, our parent company, **CARE Ratings Limited (CareEdge Ratings)**, stands as India's second-largest rating agency.

Disclaimer
This disclaimer applies to each credit rating report and/ or credit rating rationale ('report') that is provided by CareEdge Global IFSC Limited ('CareEdge Global').

Ratings from CareEdge Global are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/ instruments or to make any investment decisions. The report is not a solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CareEdge Global assumes no obligation to update its opinions following publication in any form or format although CareEdge Global may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the investor, user, its management, employees, advisors and/ or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. Therefore, the report is not intended to and does not constitute an investment advice. The report should not be the sole or primary basis for any investment decision. CareEdge Global is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CareEdge Global. CareEdge Global does not act as a fiduciary by providing the rating.

Any unsolicited ratings assigned by CareEdge Global are based on publicly available information as CareEdge Global may or may not have access to documents / information or participation from management of such issuers. While CareEdge Global has obtained information from sources it believes to be reliable, CareEdge Global does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/ or relies on in its reports. CareEdge Global ratings are subject to a periodic review, which may lead to revision in ratings. CareEdge Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CareEdge Global has in place a ratings code of conduct and policies for managing conflict of interest.

Neither CareEdge Global nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents guarantee the accuracy, completeness or adequacy of the report, and shall not have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. CareEdge Global DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CareEdge Global or its associated entities or persons be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

This report does not constitute an offer of services. This report is solely for use in the jurisdiction of IFSCA, GIFT City in Gandhinagar. Without limiting the generality of the foregoing, nothing in the report is to be construed as CareEdge Global providing or intending to provide any services in jurisdictions where CareEdge Global does not have the necessary licenses and/ or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CareEdge Global and the user.

For latest rating information on any instrument of any company rated by CareEdge Global, you may visit our website www.careedgeglobal.com.

CareEdge Global IFSC Limited
(A subsidiary of CARE Ratings Ltd.)
501, FlexOne, GIFT SEZ, Block 15, Gandhinagar, Gujarat – 382050, India. Phone: +91-79-6519 0701 l www.careedgeglobal.com
CIN-U66190GJ2024PLC151103