

Korea's Recent Political Turmoil Does Not Pose Significant Near-Term Credit Risks

CareEdge Global does not expect the current political turmoil in the Republic of Korea (Korea), rated CareEdge AA- (Unsolicited)*, to significantly impact the sovereign's credit profile in the near term. However, prolonged political uncertainty could increase risks to economic growth, investor confidence, and liquidity in the financial markets.

The Republic's brief encounter with martial law and its subsequent revocation reflects the country's political fault lines, as well as its institutional resilience that has helped in maintaining stability. The government and the central bank acted swiftly to stabilise the markets and restore confidence. The finance ministry committed to providing unlimited liquidity to support the financial markets, which were negatively impacted by this political unrest. The Bank of Korea also indicated that it was ready to take all necessary measures to ensure market stability.

Korea has faced political crises in the past decades, including coups, assassinations and impeachments, yet these events have not hindered the country's overall economic development. However, the recent event indicates a fractured political environment in the country. Other developments, such as the 2022 Legoland default in Gangwon Province, where the local governor initially refused to honour a debt guarantee, have 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 recent political turmoil does not appear likely to significantly alter Korea's credit outlook, as its gross general government debt levels remain low (around 51% of GDP in 2023, as per the IMF World Economic Outlook, October 2024) and debt affordability is strong. Furthermore, Korea's low external debt (around 39% of GDP in 2023) reduces the risks from exchange rate fluctuations in terms of debt servicing perspective. While political instability remains a key risk to monitor, it is unlikely to have a substantial impact on Korea's debt sustainability, unless it severely disrupts investor sentiment, economic activity, or the budgetary balance.

Please refer to the following link for the previous detailed rationale [Click Here](#)

* Long Term Foreign Currency rating

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Criteria Applied

[CareEdge Sovereign Rating Methodology](#)

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