

Embargo:

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Contact Information: Oh, Jae-woo (044-215-4710/ International Financial Division)

FITCH'S SOVEREIGN CREDIT RATING FOR KOREA

FITCH MAINTAINS KOREA'S SOVEREIGN RATING AT AA-

Fitch reaffirmed Korea's sovereign rating at AA- with a stable outlook, which was rated one notch lower than the output from Fitch's proprietary Sovereign Rating Model (SRM) as it reflected geopolitical risks related tensions with North Korea.

In Fitch's rating action commentary, the rating agency forecast Korea's GDP growth to fall to 1.2% in 2023, as the economy faces headwinds from subdued global growth, high interest rates and still elevated inflation. However, it expected momentum to gradually turn positive in the second half of 2023 with Korea's growth recovering to 2.7% by 2024. It mentioned that as domestic inflationary pressure is easing, inflation fell to 4.8% in February from a peak of 6.3% in July 2022 and also expected the inflation to ease further to 2.0% by the end of 2023. The rating agency expected higher debt-servicing costs to weaken domestic consumption, but did not anticipate broader financial-sector risks considering good bank soundness. It also mentioned that conditions in domestic credit markets have improved as a result of swift liquidity provision by the government and the BOK following a default of Legoland project in the fourth quarter of 2022. Regarding fiscal consolidation, the rating agency stated that as a large consolidation is underway in 2023, the fiscal deficit is expected to decline to 1.0% of GDP from its estimate of 2.7% in 2022. In an assessment of external finance, it mentioned that Korea's robust external finance position, which provides a buffer to global market volatility, is underpinned by its history of persistent current account surpluses that supports a large net external creditor position. When it comes to North Korean risk, the rating agency stated that tensions with the North remain heightened with limited diplomatic engagement over the past few years.

Internal Analysis

Fitch's sovereign credit rating on Korea at AA- reaffirms that it still positively assesses the Korean economy's internal and external soundness and its assessment on fiscal consolidation, in particular, has shown persistent improvement due to the government's efforts to achieve strong fiscal consolidation. The government's efforts and capacities for market stabilization were recognized and reflected in the Fitch's rating action, as indicated in the rating agency's expectation that the government will be able to effectively respond to future episodes of market stress should they occur by deploying similar measures of liquidity support.

More details about the Rating Action are available on the following:

<https://www.fitchratings.com/research/sovereigns/fitch-affirms-korea-at-aa-outlook-stable-13-03-2023>