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Global policy shifts for Korea's sovereign outlook

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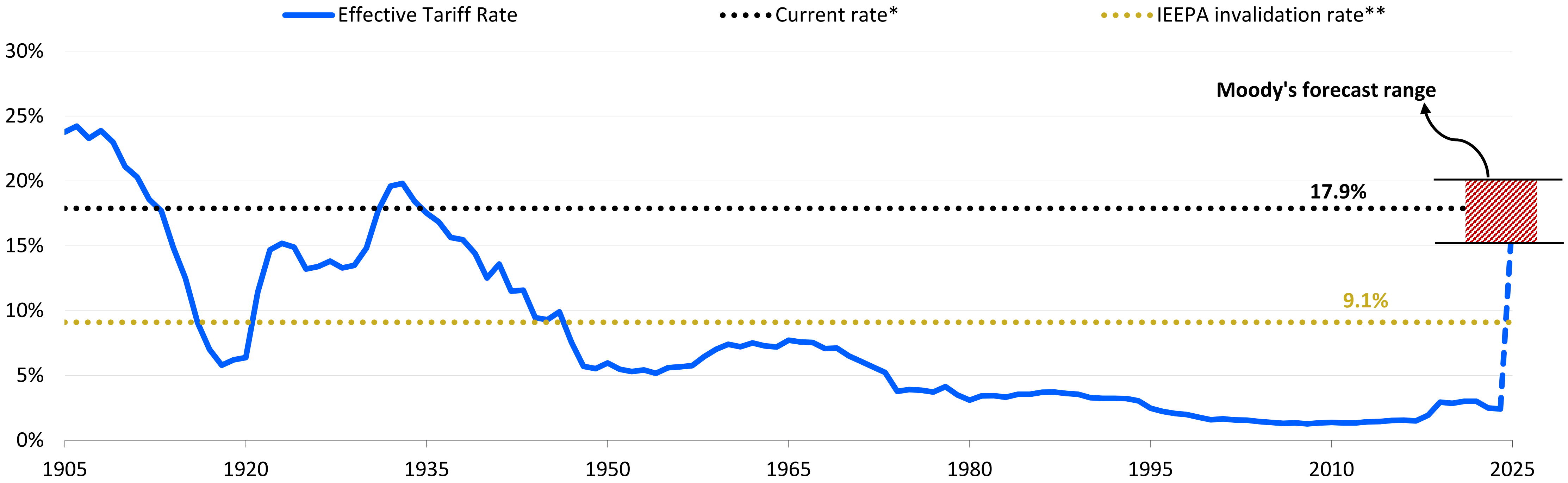
The tariff shock is real

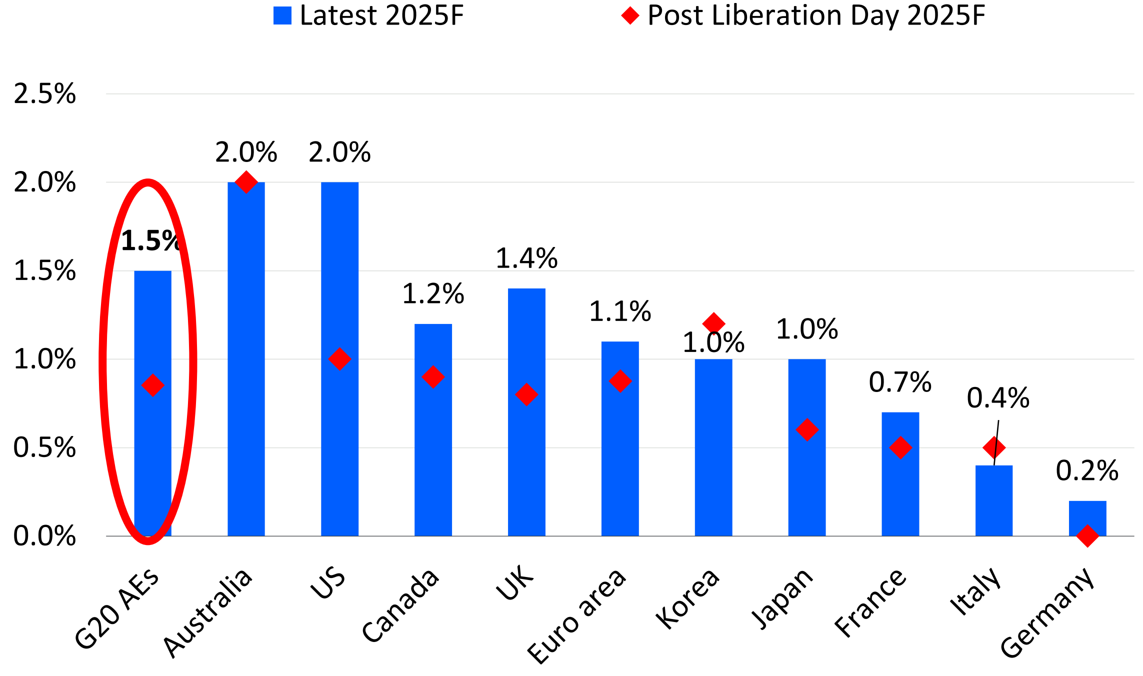
US average effective tariff rate since 1900s



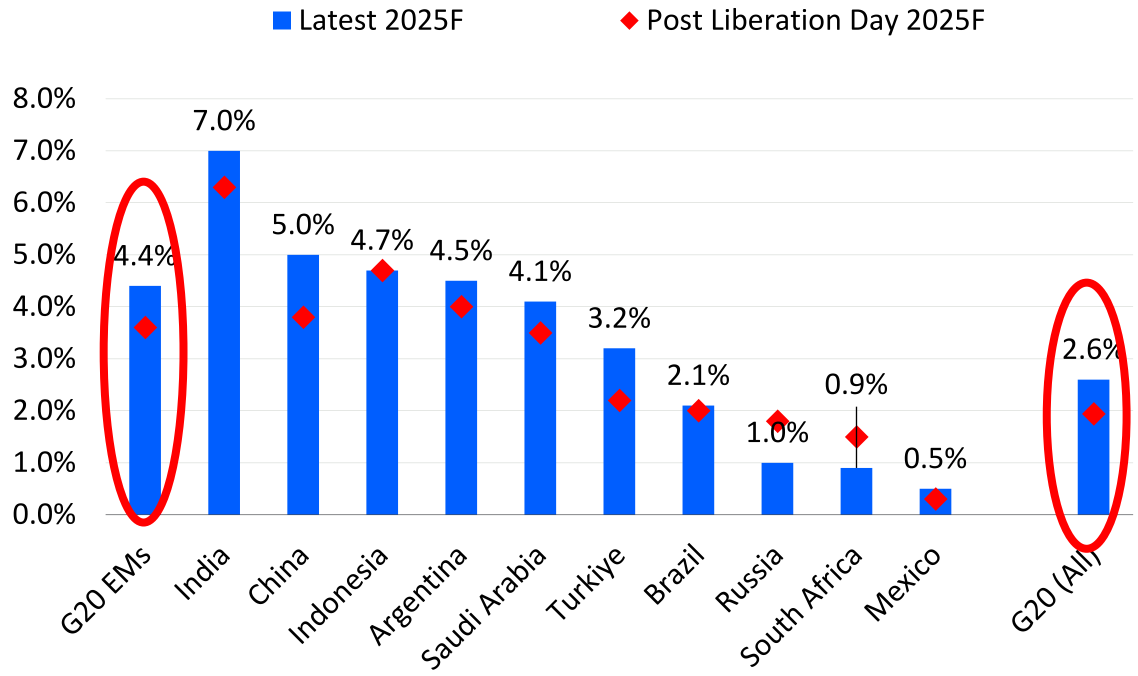
*Pre-substitution and IEEPA rate as of 10 November.
**IEEPA invalidation reflects that IEEPA tariffs are invalidated by the Supreme Court and refunded to importers. Tariffs under other legal authorities are unaffected, and the lost revenues from IEEPA tariffs are not replaced by new tariffs under other authorities.
Source: The Budget Lab at Yale and Moody's Ratings

The global economy slowed down in 2025 but overall stable

G-20 Advanced Economies annual growth



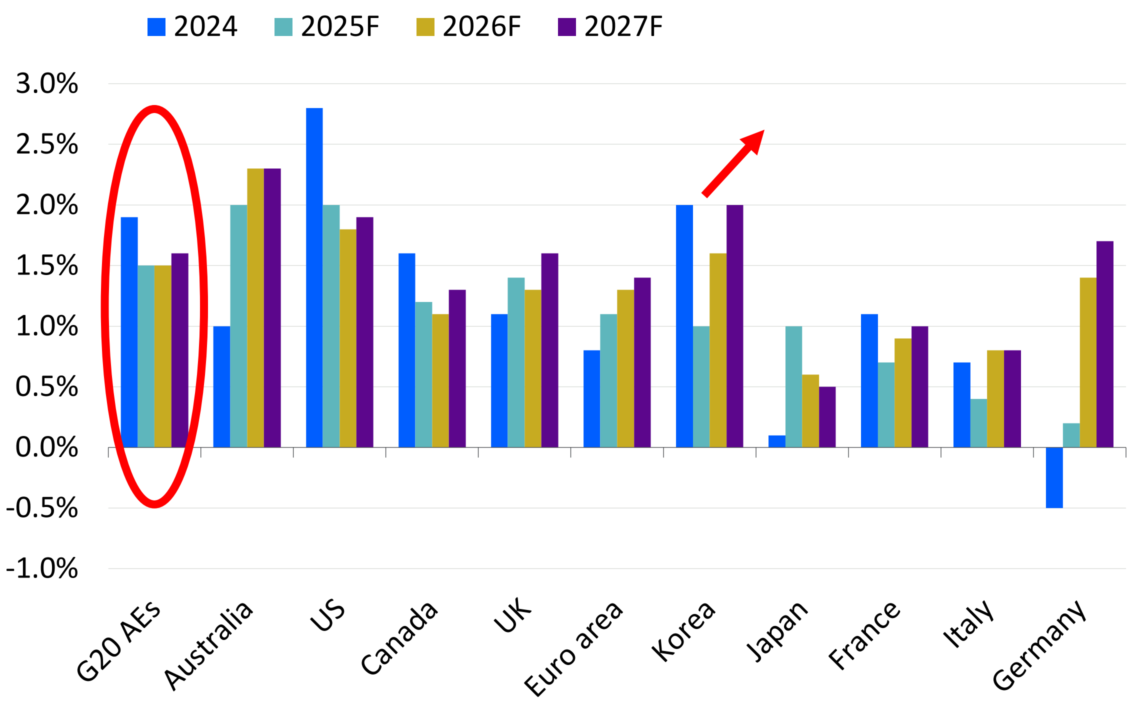
G-20 Emerging Markets annual growth



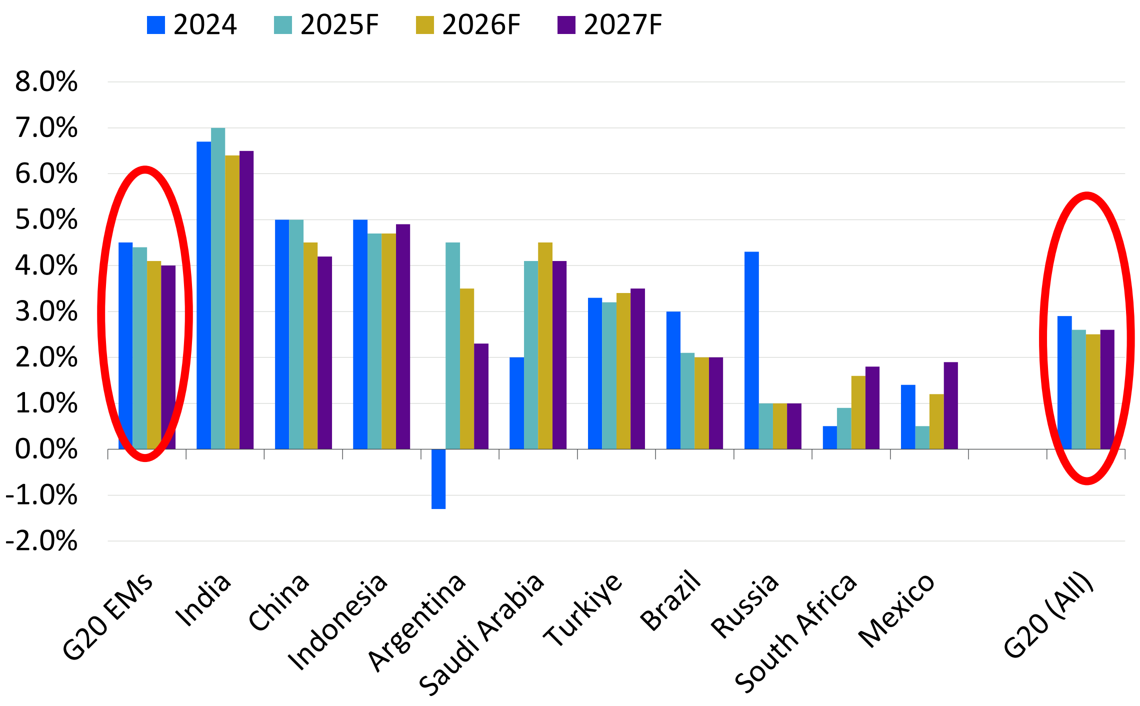
Source: Moody's Ratings

Policy divergence and trade shifts shape a mixed growth outlook

Growth forecast for G-20 Advanced Economies



Growth forecast for G-20 Emerging Markets

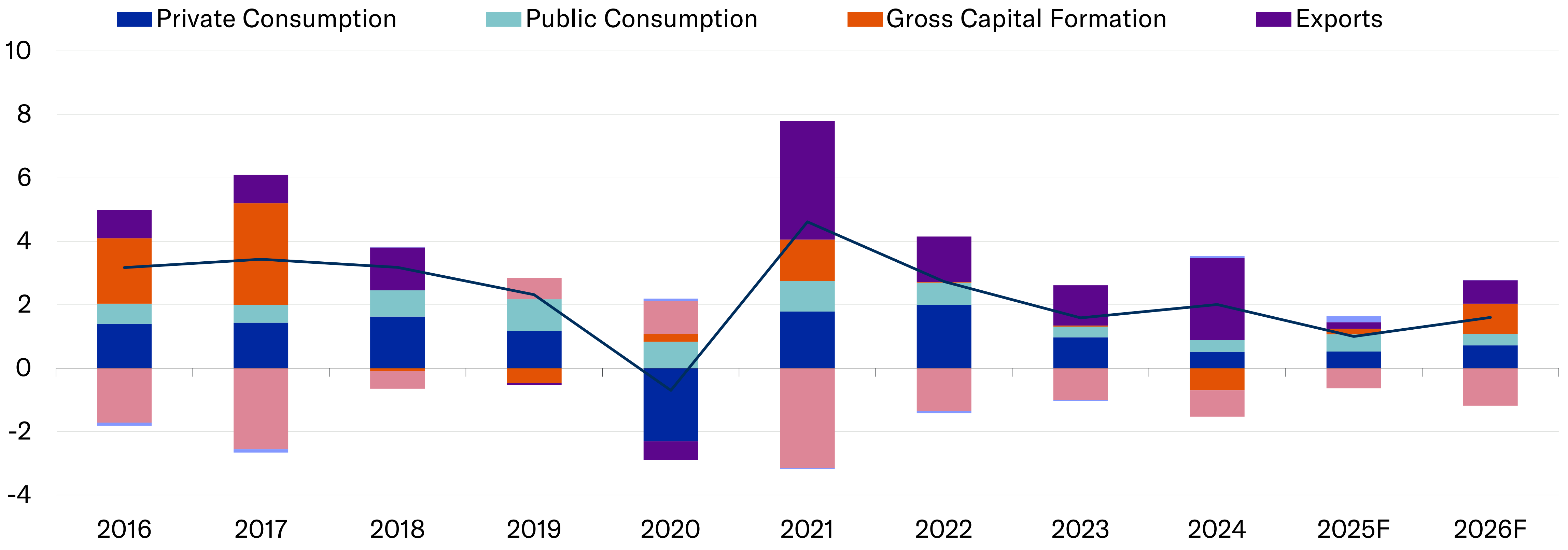


Source: Moody's Ratings

Growth likely to edge higher in 2026

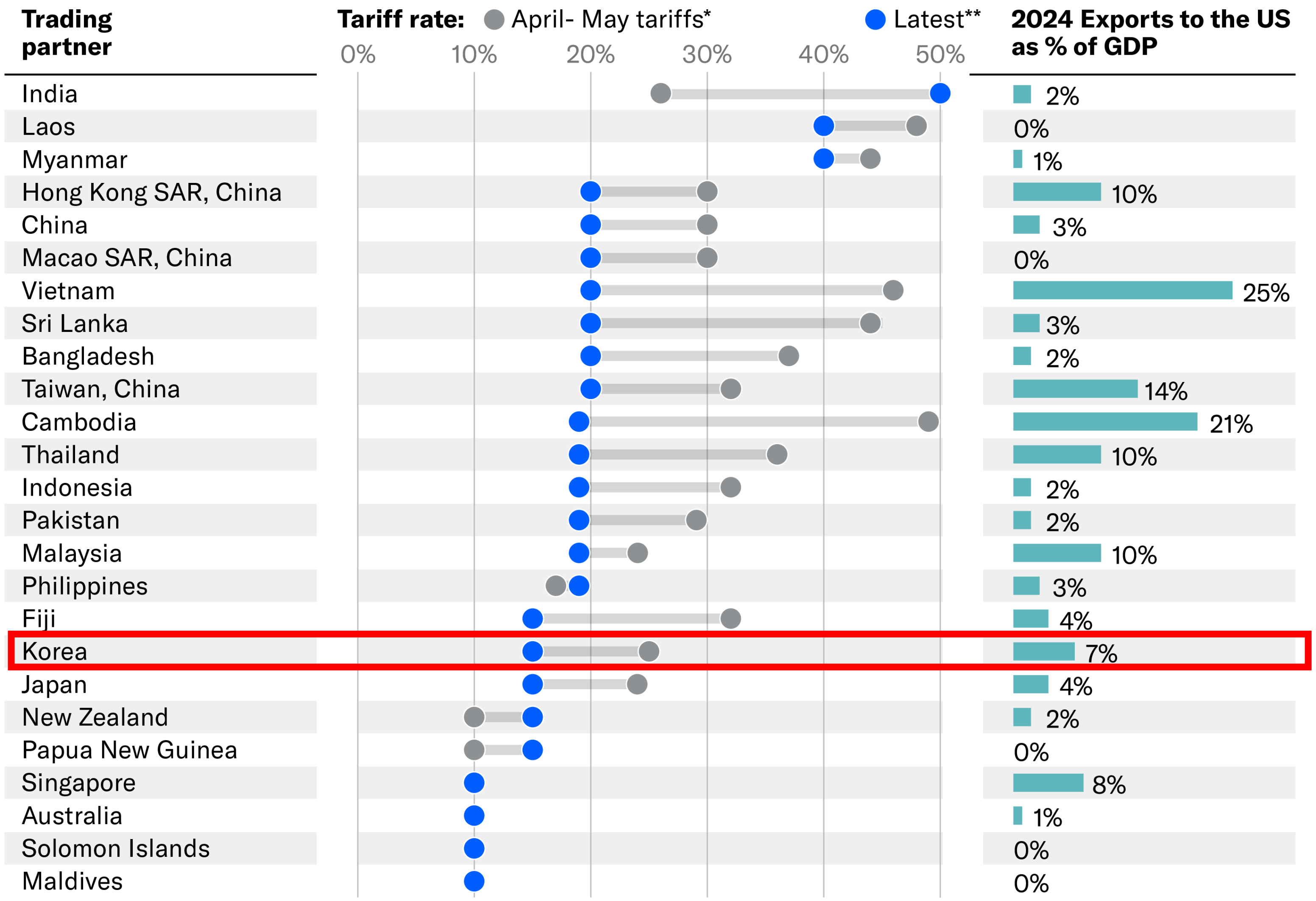
Easing uncertainty, rate cuts, and semiconductor upcycle will support growth, but trade remains a risk

Percentage contribution to real GDP growth, year on year change (%)



Source: Bank of Korea and Moody's Ratings

US tariffs on most APAC economies are now lower than April



*April-May tariffs refer to “Reciprocal Tariffs” announced on 2 April and in the case of China, updated in May.
**20% tariffs on China, Macau and Hong Kong till 10 November 2026

Sources: US Census Bureau, International Trade Center, Haver Analytics and Moody's Ratings

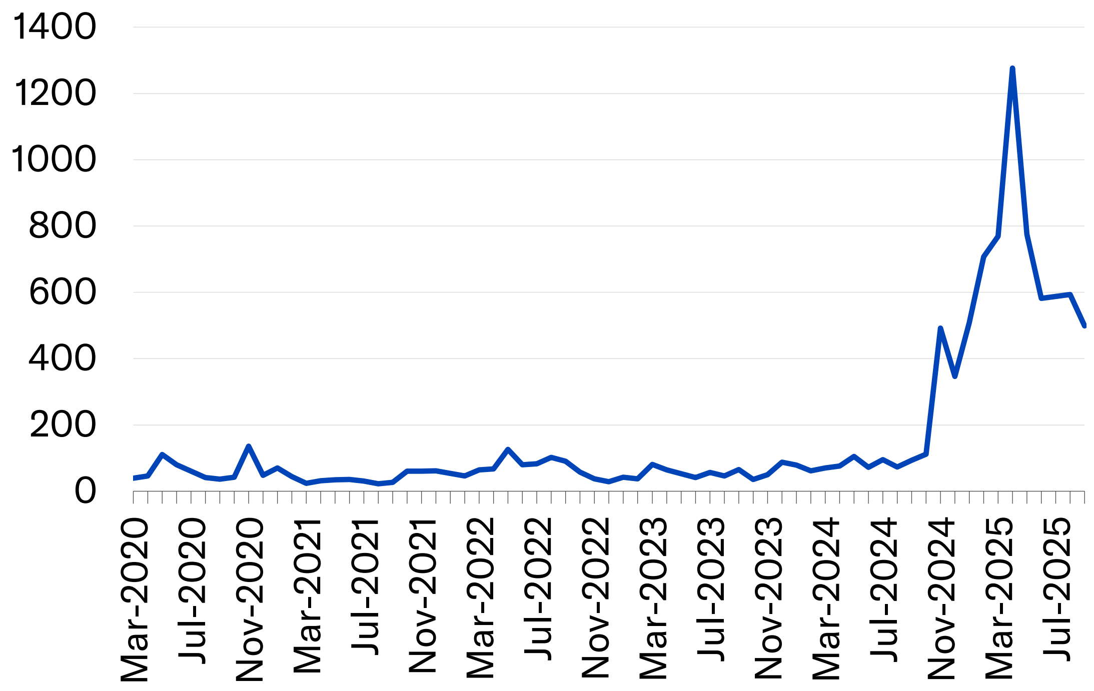
Trade uncertainty has receded after negotiations

15% tariff rate is contingent on $350bn investment in the US

Korea-US trade deal

- Reciprocal tariff on Korean products at 15%
- Tariff on Korean automobiles at 15%
- Korea to invest $350bil in US, of which $150bn for shipbuilding
- Annual investment capped at $20bn to mitigate FX risks
- MFN treatment in semiconductor, pharmaceutical sectors

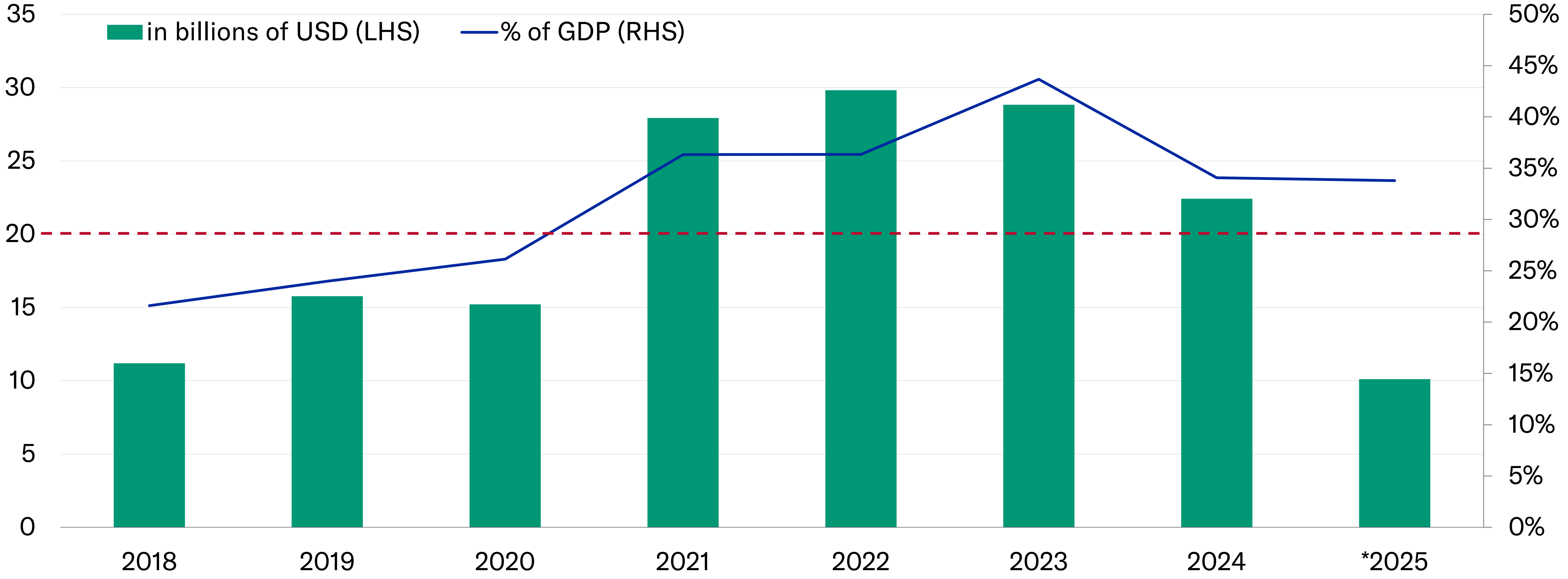
Trade Policy Uncertainty Index



Source: Factset and Matteo Iacoviello/Haver Analytics

Investment pledges are worth further monitoring
Higher investments could have widespread impacts

Korean FDI to the US ($bn, %)

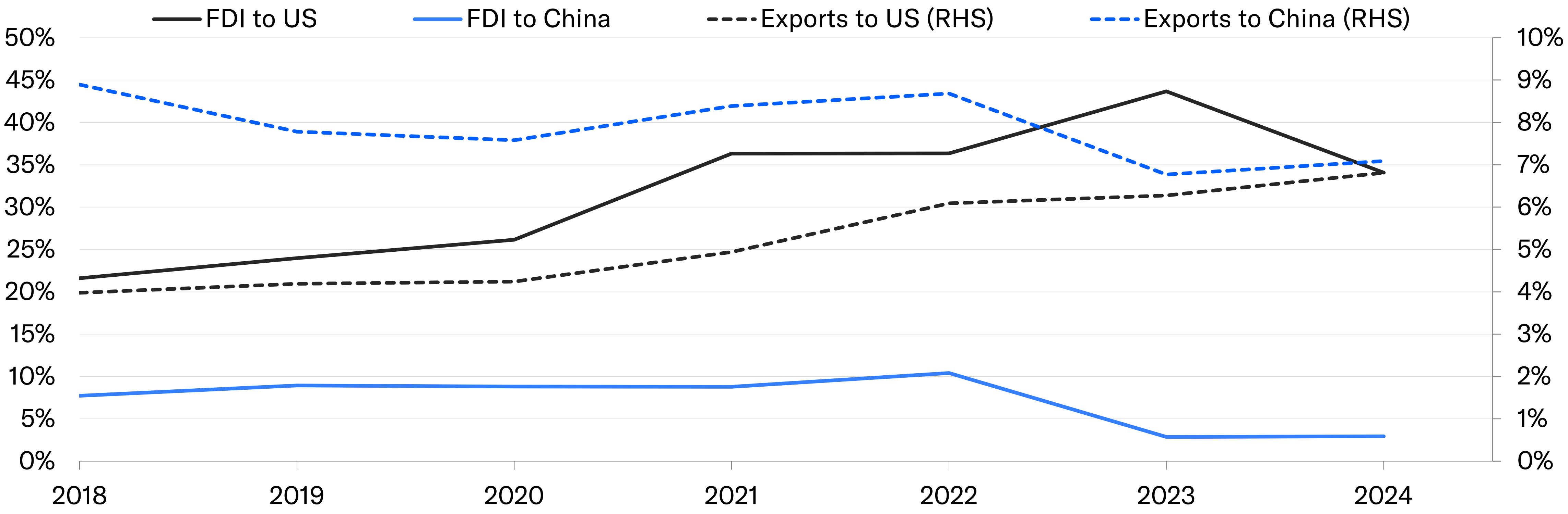


*shows FDI flow data as of October 2025.
Source: Korean Exim Bank

Balancing US-China relations will remain a priority

Korea has strong trade and investment linkages with both the US and China

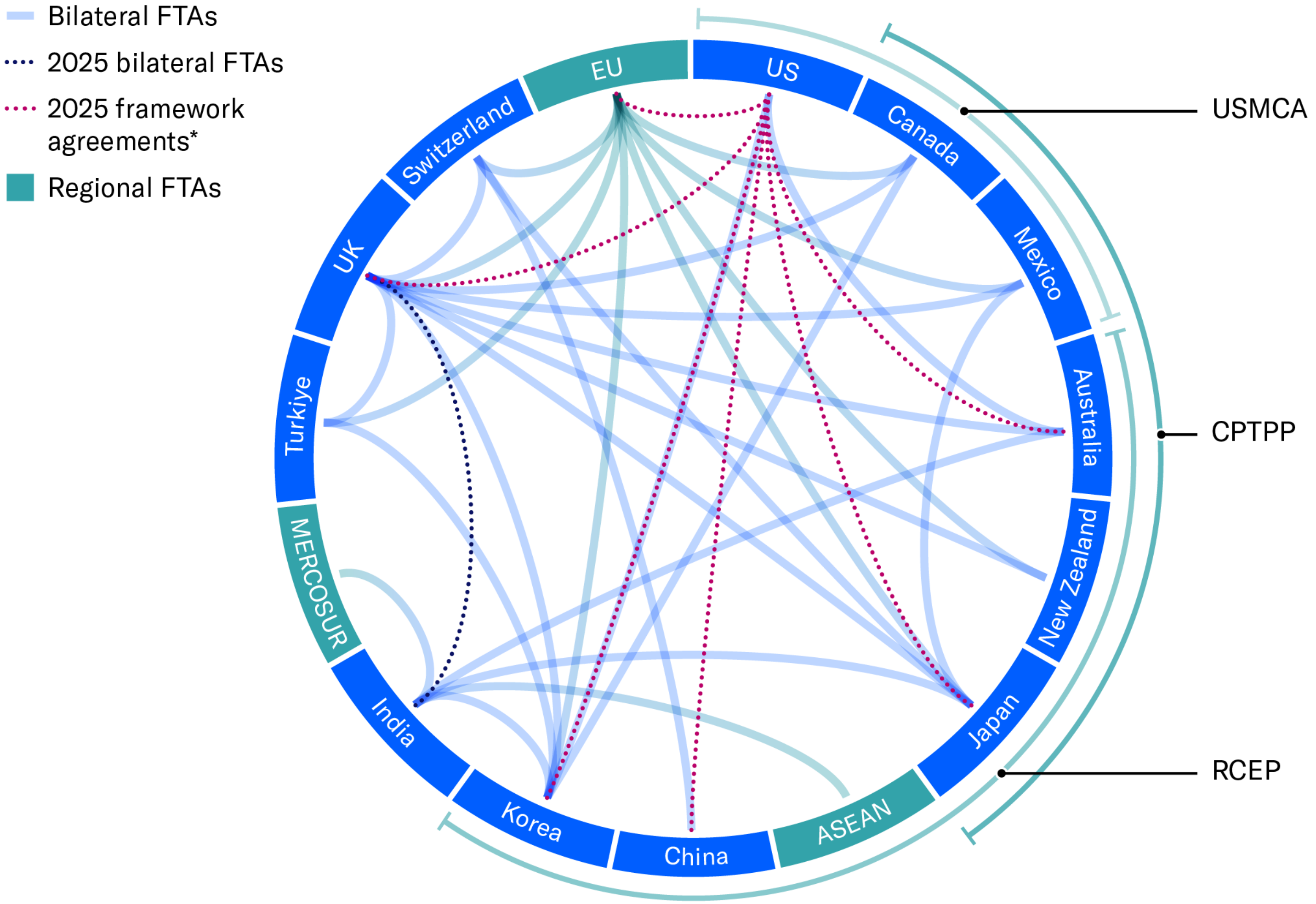
Korea's exports and FDI flows to the US and China, % of GDP



Source: Korea Customs Service and Bank of Korea.

Rebalancing export shares to cushion against volatility

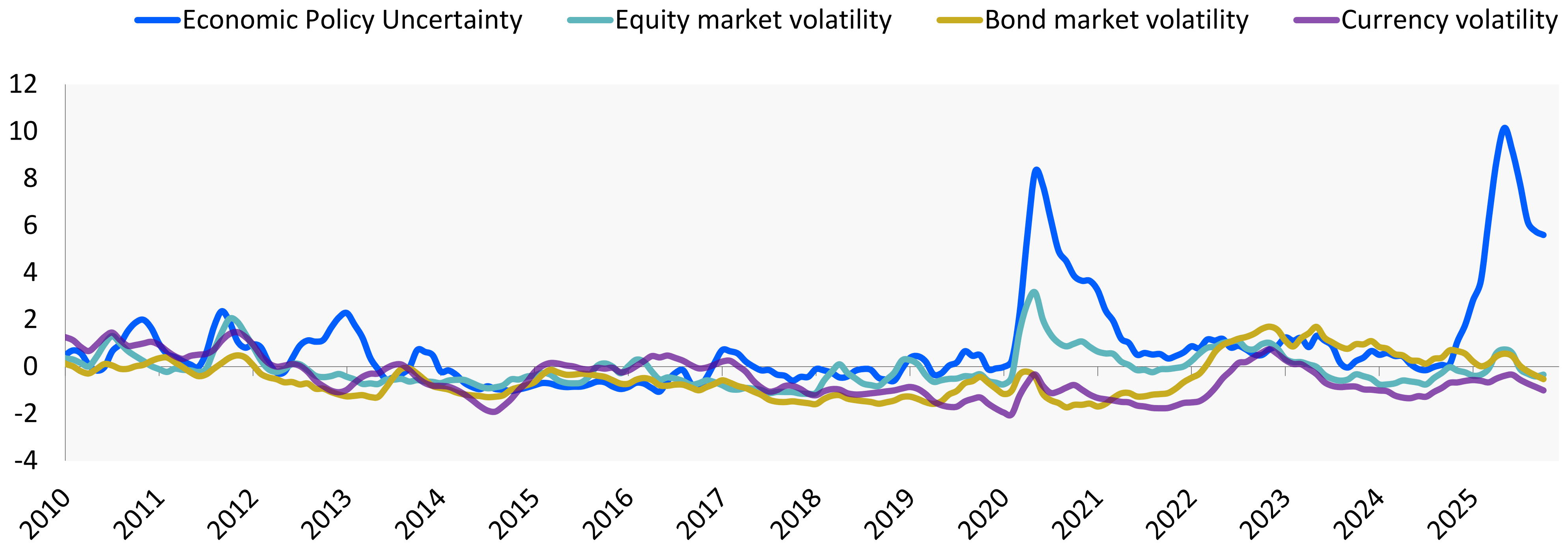
Trade with ASEAN economies may receive greater emphasis



Markets may be underestimating pressures and risks

Large gap between market volatility and policy uncertainty signals high risk of sudden swing

Economic Policy Uncertainty Index, and equity, bond and foreign exchange market volatility, standard deviation from historical averages

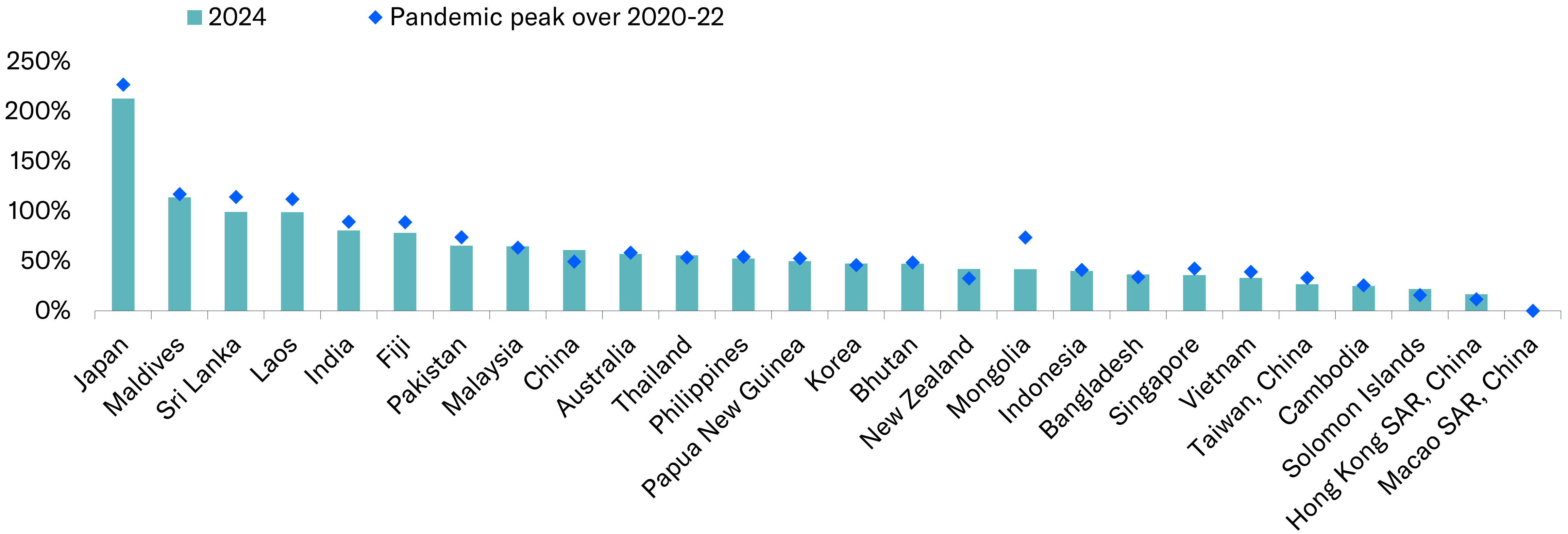


**Historical average: 1993-2020. Volatility for equity, bond and currency market volatility based respectively on VIX, MOVE and JP Morgan G7 FX Volatility Index

Sources: Measuring Economic Policy Uncertainty by Baker et. al (2016), Chicago Board Options Exchange, BofA Merrill Lynch, JP Morgan, Haver Analytics, Bloomberg and Moody's Ratings

Debt burdens remain near pandemic peaks for most APAC economies

General government debt as % of GDP

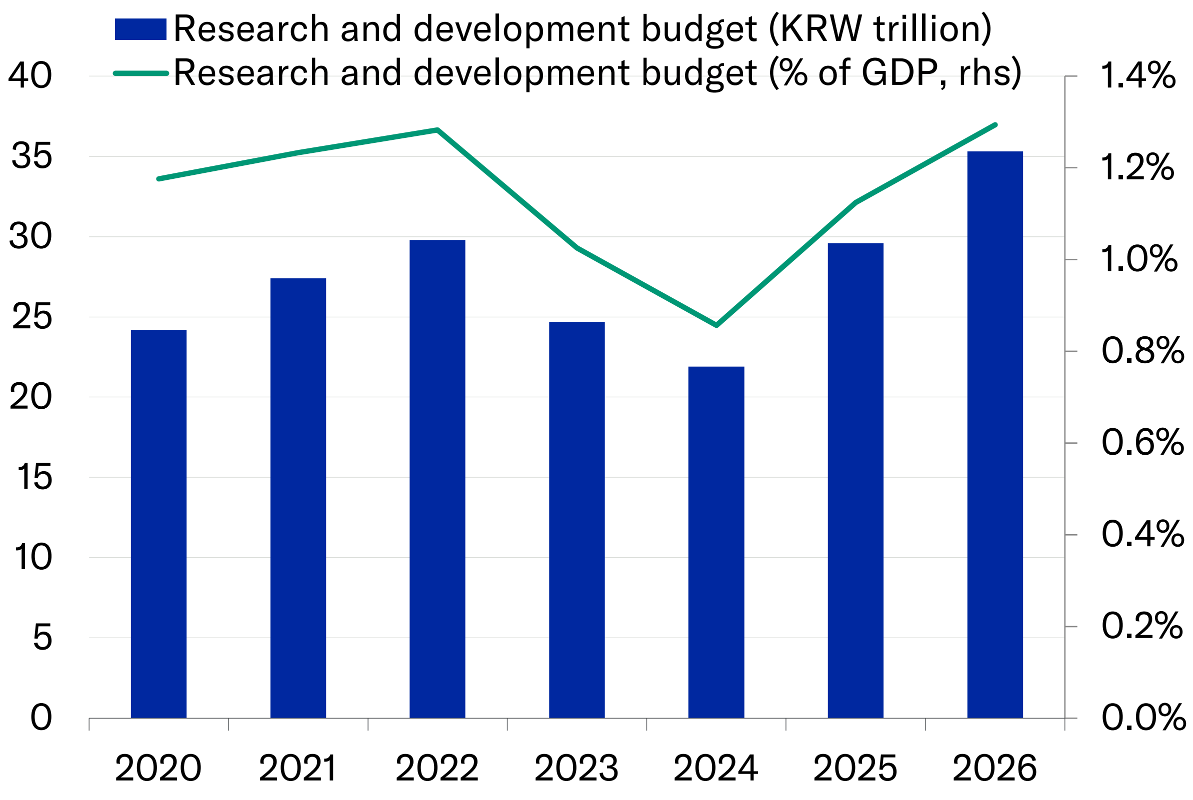


Sources: National sources and Moody's Ratings

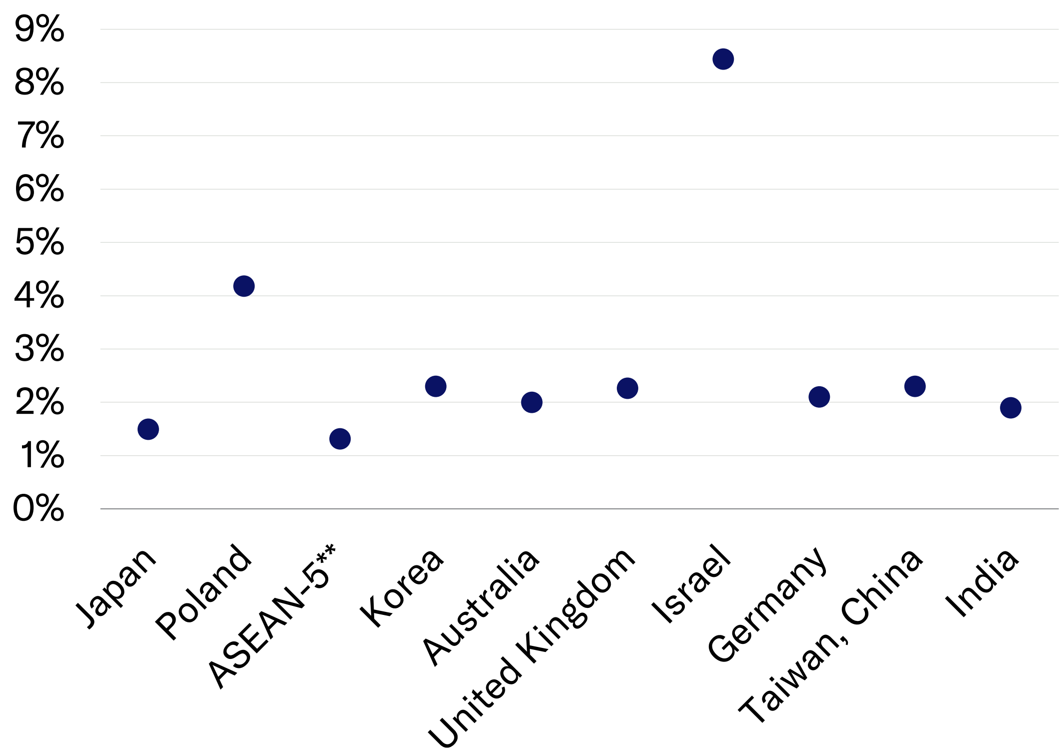
Ageing, R&D, defense will add to spending pressures

Greater rigidity in expenditures will contribute to wider fiscal deficits

Research and development budget (KRW tr, %)



Defense spending as share of GDP, 2024

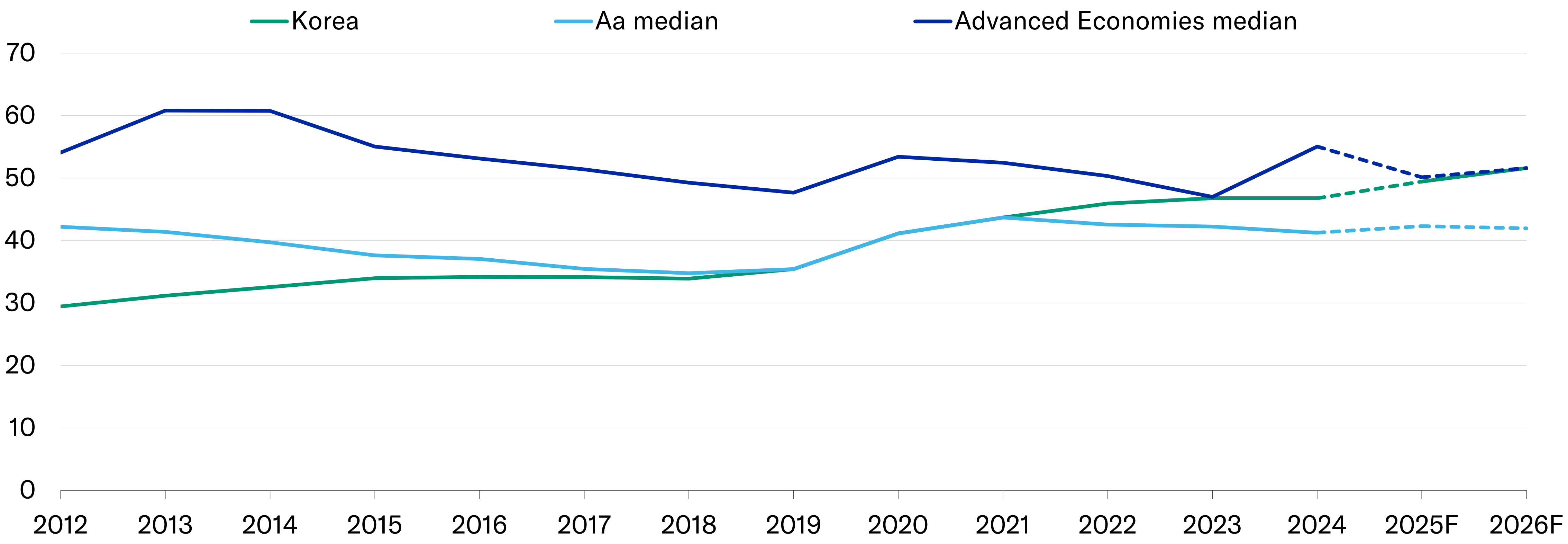


Source: Ministry of Science and ICT, Ministry of Economy and Finance and Haver Analytics.

The debt burden has significantly increased

Debt has surpassed the median for Aa-sovereigns, converged with advanced economies

Debt relative to peer medians (% GDP)



Source: National authorities and Moody's Ratings