



Ministry of Economy  
and Finance

35.2352

# The Republic of Korea

*K-DNA: Perseverance and Resilience*

2022 Investor Presentation | October 2022

## Episodes

Prologue

**“Perseverance and Resilience”**

Episode 1.

**Where Are We?**

Episode 2.

**Three Big Questions for Korea**

Episode 3.

**Korea’s Strategy to Leap Forward**

Epilogue

**“Canary in the Coal Mine?”**



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Epilogue

# “Perseverance and Resilience”



# Perseverance and Resilience at the core of Korea



## *“Perseverance”*

*The ability to keep going even when encountering step-backs*



## *“Resilience”*

*The ability to recover after experiencing adverse events*



*Korean Economy has proven to be perseverant and resilient...*



### **From ashes of war to the 10<sup>th</sup> largest economy**

- ✓ The Korean economy underwent one of **the largest transformations in the world**, with GDP growing from US\$3.96bn in 1960 after the war to US\$1.8tn in 2021.



### **1<sup>st</sup> Country to Transition from Recipient to Donor**

- ✓ A **half-century of achievements** to become an OECD/DAC member



### **Exemplary Country in Responding to COVID-19**

- ✓ K-Quarantine system was effective in containing the virus in its early stages
- ✓ Korea was **fastest to recover** to pre-pandemic GDP

# Perseverance and Resilience at the core of Korea



**Now, facing another challenge....**

**“... Global economic growth stalled in the second quarter of 2022 and indicators in many economies now point to an extended period of subdued growth...”**  
(Jun. 8, 2022)



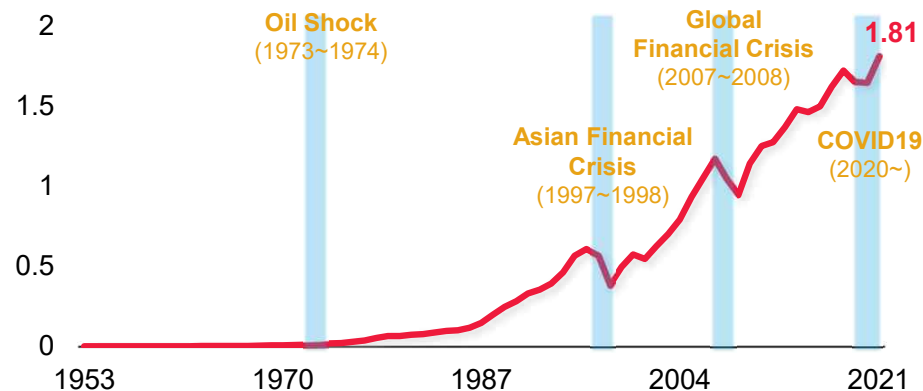
**“... Risk of global recession in 2023 rises amid simultaneous rate hikes...”** (Sep. 15, 2022)



**“... Global economic growth slows amid gloomy and more uncertain outlook...”** (Jul. 26, 2022)



**<Development of Korea's GDP (nominal, USDtn)>**







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Episode 1.

## Where Are We?

- 1) Global Economy Sailing into a Storm
- 2) The Korean Economy in the Same Storm

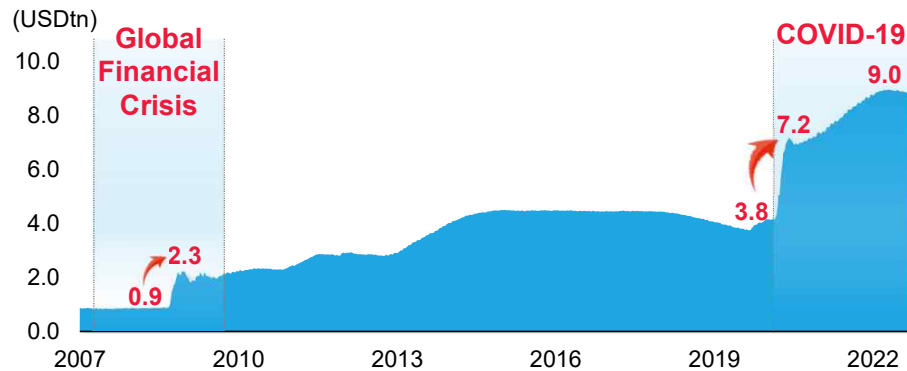


# Global Economy Sailing into a Storm

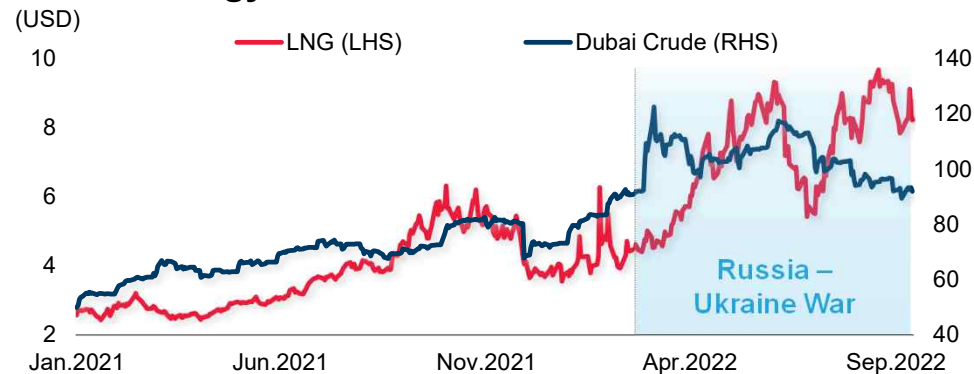
QE and Supply-chain disruption have fueled inflation, causing sharp increase in policy rates



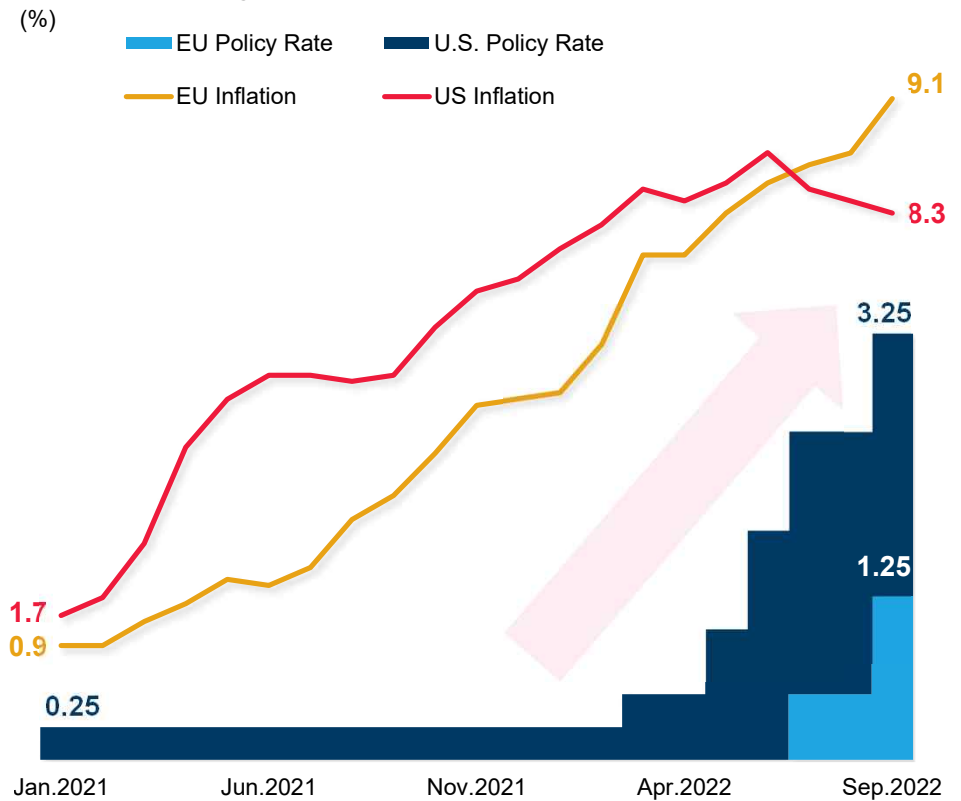
## Fed's Balance Sheet Trends



## Global Energy Price Trends



## Global Policy Rates and Inflation Trends



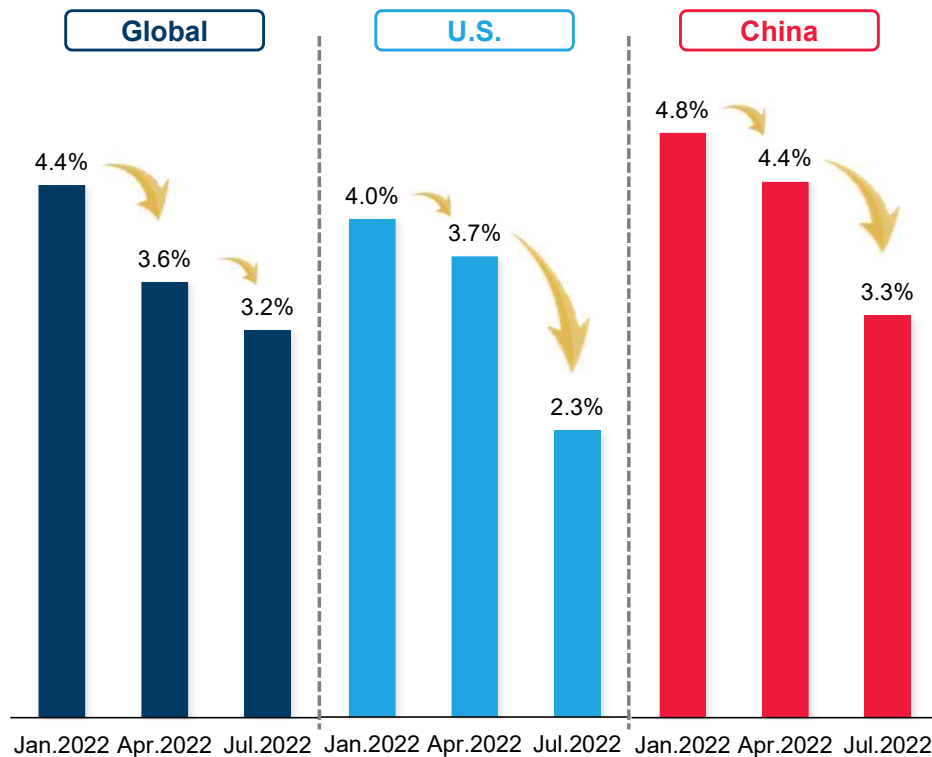
# Global Economy Sailing into a Storm

Aggressive tightening has weighed on global growth and financial markets



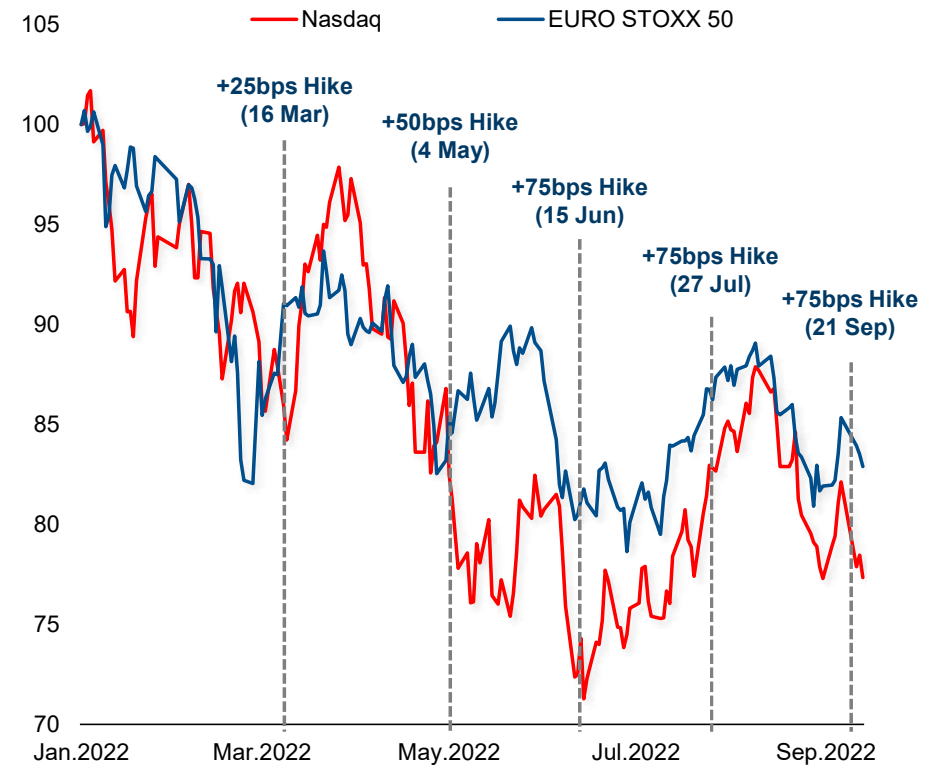
## Global Growth Forecast Downgrades

(IMF 2022 GDP forecast per given month, %)



## Equity Market Reactions to U.S. Policy Rate Hikes

(Equity Index, rebased to 100 as of Jan 2022)



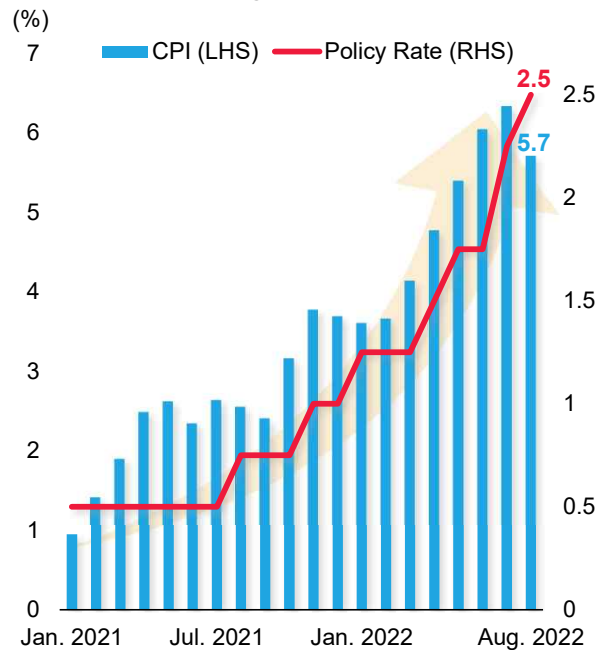


# The Korean Economy in the Same Storm

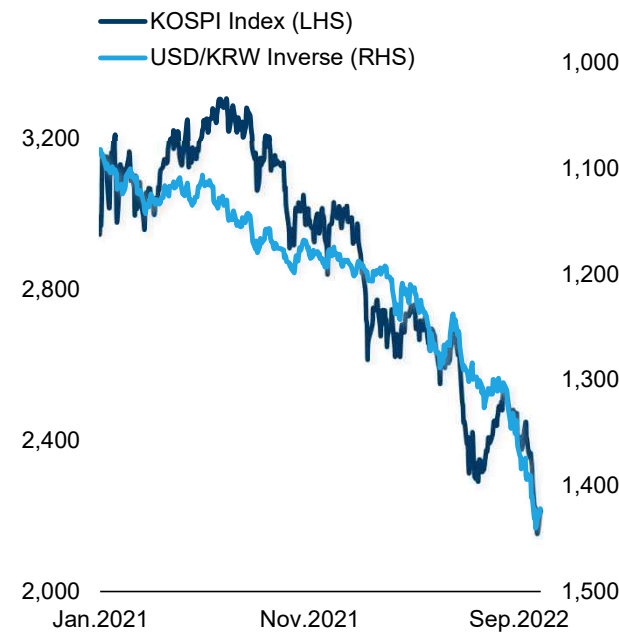
Korean economy is exposed to downside risk



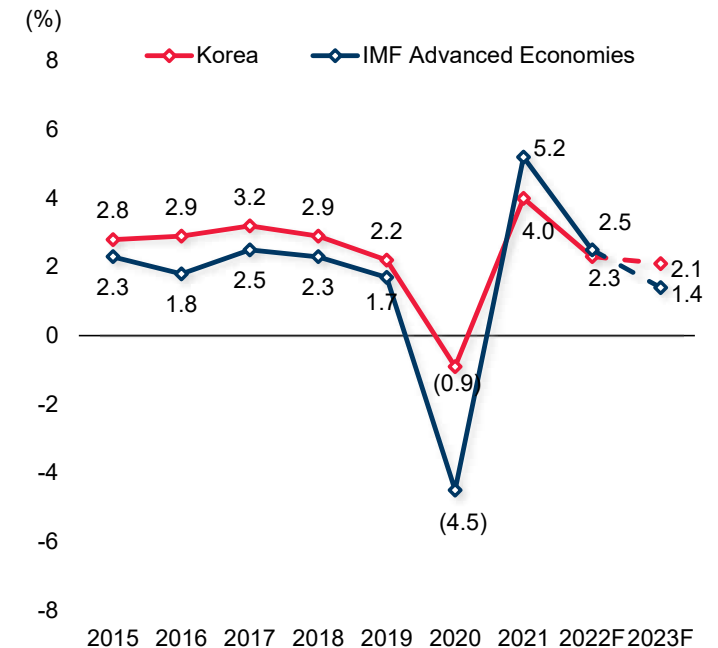
## CPI and Policy Rate Trends



## KOSPI and KRW Trends



## GDP Growth Trends



➡ The current difficult times have no designated end date.  
Some questions may arise on the Korean economy.



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Episode 2.

## Three Big Questions for Korea

- 1) **Current/ Trade Account Deficits, Weakened Competitiveness?**
- 2) **Does External Soundness Remain in Good Shape?**
- 3) **Increased Debt Levels, Well-controlled?**

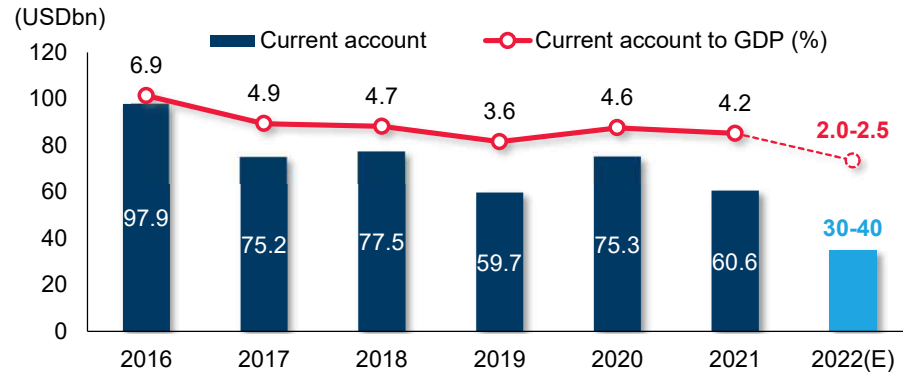


# Q1. Current/ Trade Account Deficits, Weakened Competitiveness?

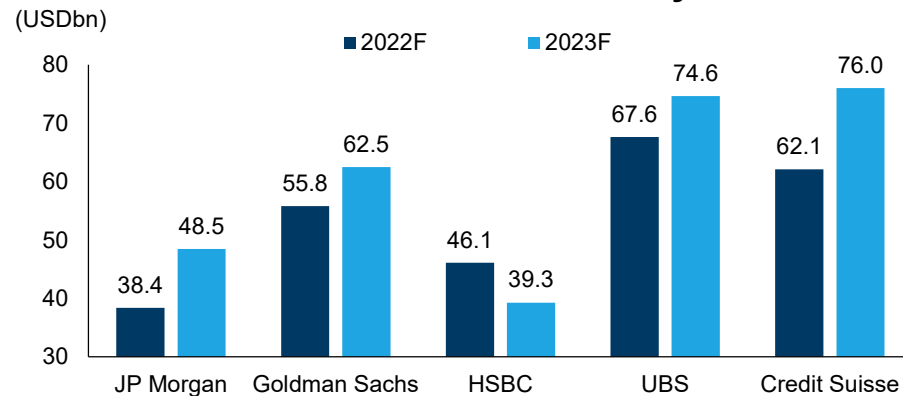


Korea's current account remains in surplus despite the global slowdown

## Continuing Current Account Surplus

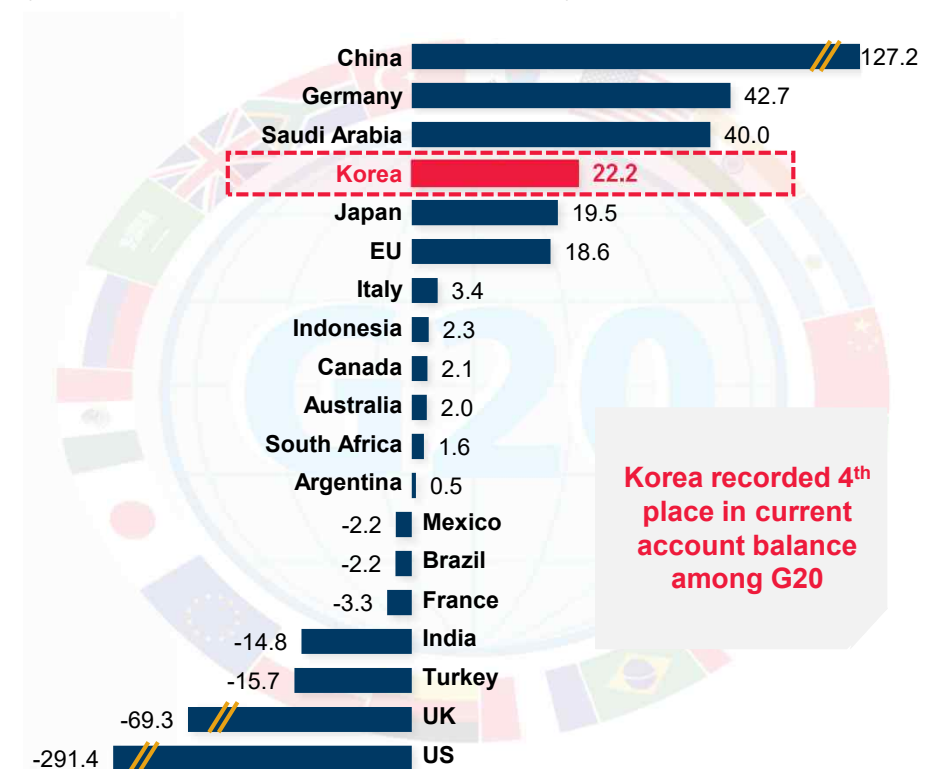


## Korea's Current Account Forecasts by Global IBs



## Current Account Comparison with G20 Countries

(Current Account Balance as of March 2022, USDbn)



Source: MOEF, K-Stat, Bloomberg

Note: JP Morgan, Goldman Sachs, UBS forecasts as of September 2022. HSBC, Credit Suisse forecasts as of June 2022

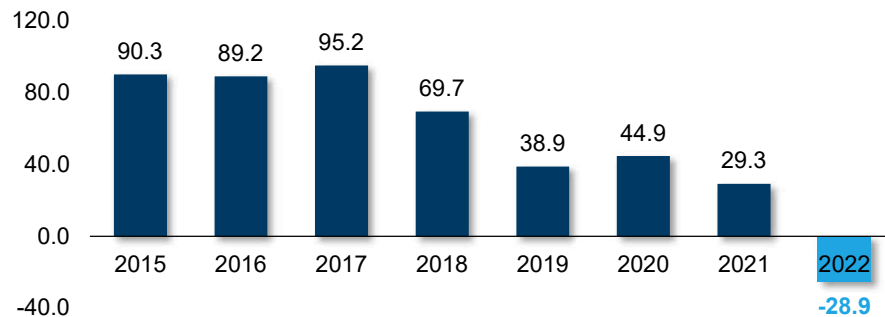
# Q1. Current/ Trade Account Deficits, Weakened Competitiveness?



Trade account decrease is a global phenomenon amid economic downturn and rising energy prices

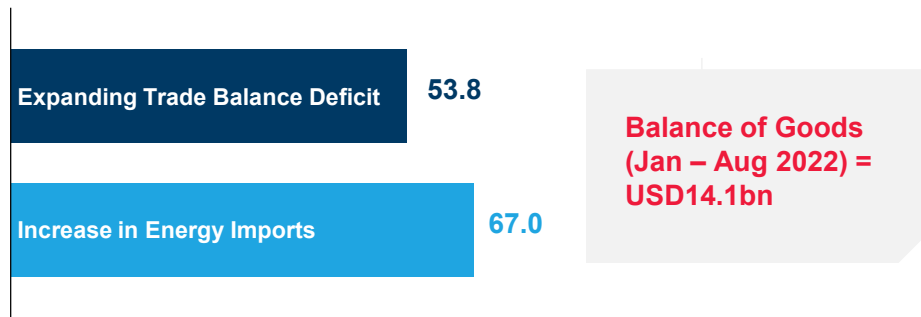
## Trade Deficit amid Global Economic Slowdown

(Trade Balance, as of September 2022, USDbn)



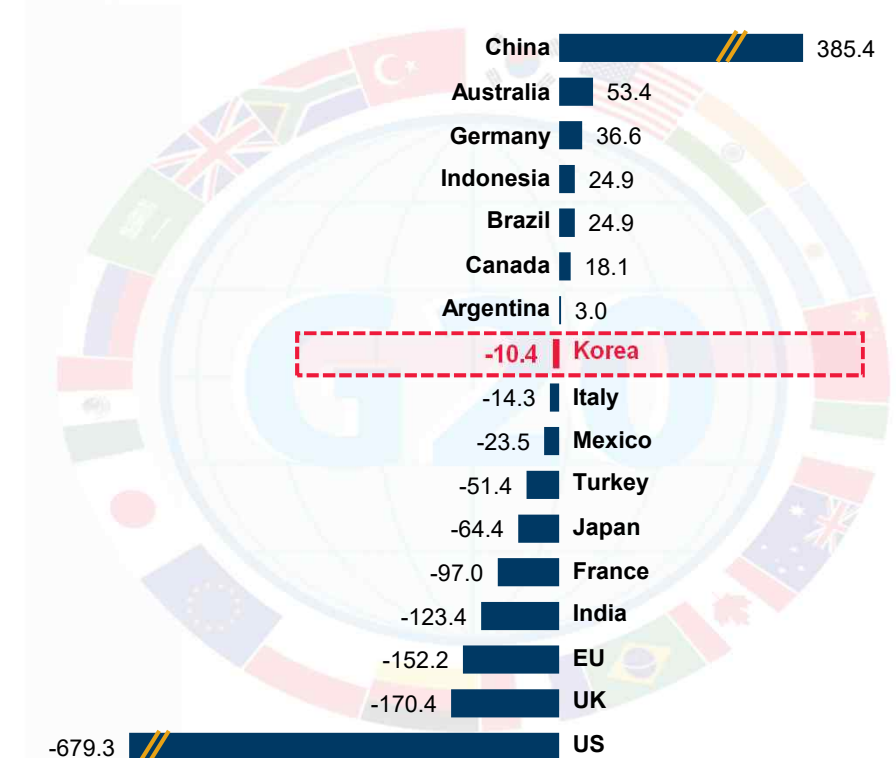
## Trade Deficit due to Rising Energy Prices

(Trade Balance and Energy Import Difference between Jan – Sep in 2021 and 2022, USDbn)



## Most Advanced Countries Suffered from Trade Deficit

(Trade Balance as of June 2022, USDbn)



## Q2. Does External Soundness Remain in Good Shape?

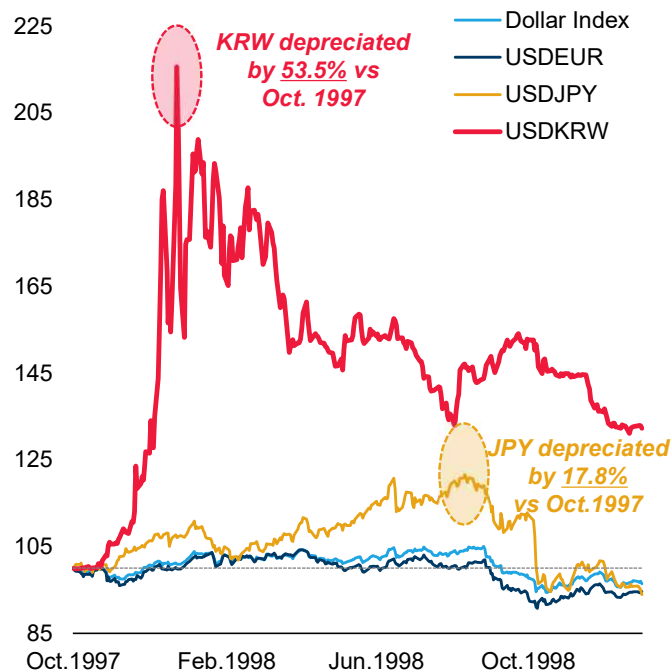
KRW is not the only currency affected by an unprecedentedly strong U.S. dollar



KRW was the sole underperformer in past crises but all major currencies have depreciated during recent turmoil

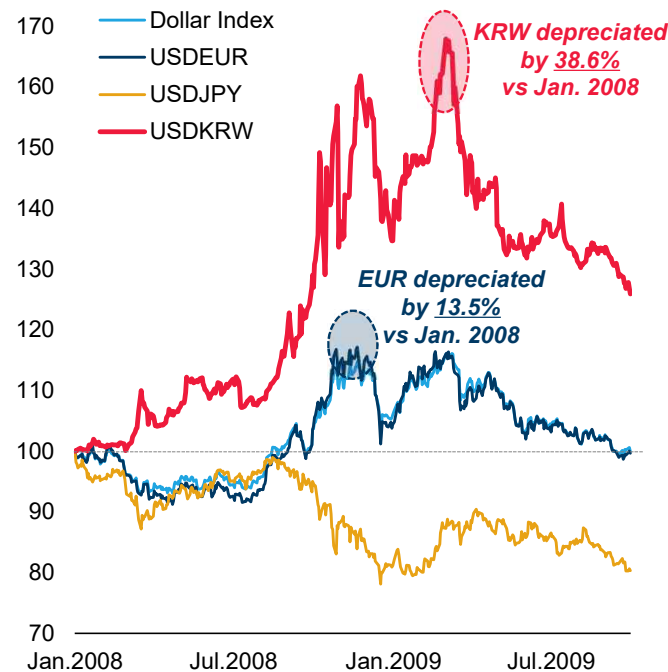
### 1997 Asian Financial Crisis

(rebased to 100 as of 1 October 1997)



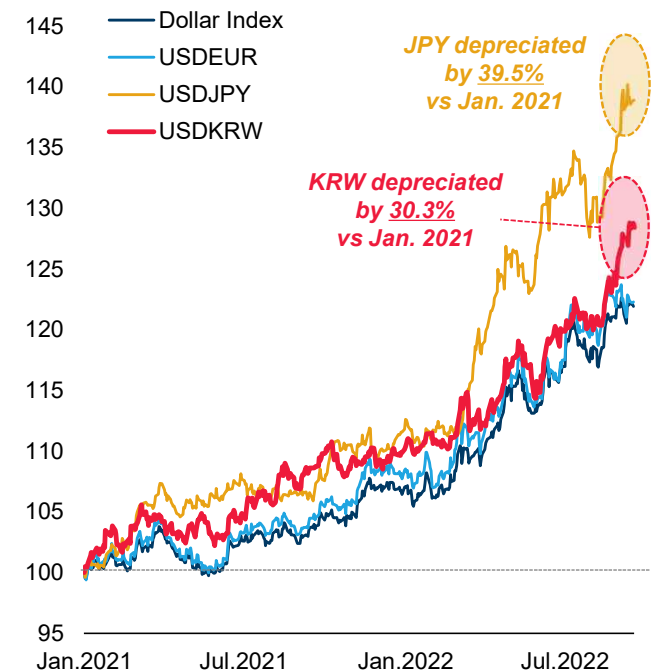
### 2008 Global Financial Crisis

(rebased to 100 as of 1 January 2008)



### Current Situation

(rebased to 100 as of 1 January 2021)





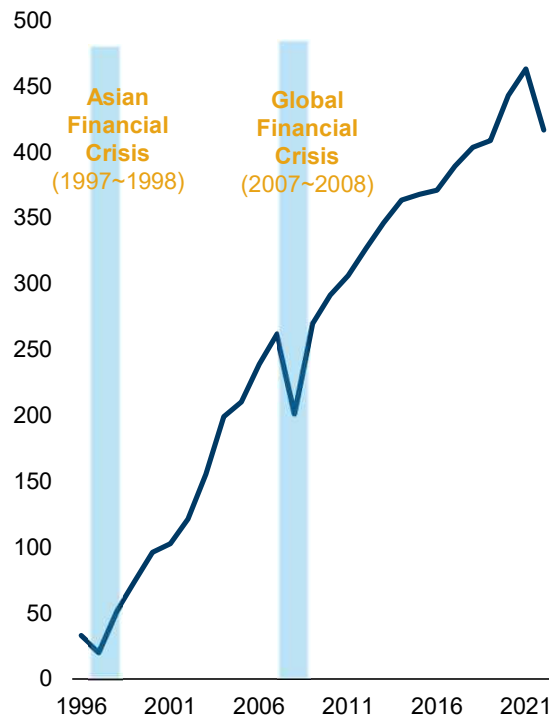
## Q2. Does External Soundness Remain in Good Shape?

Korea has an adequate buffer against unexpected shocks



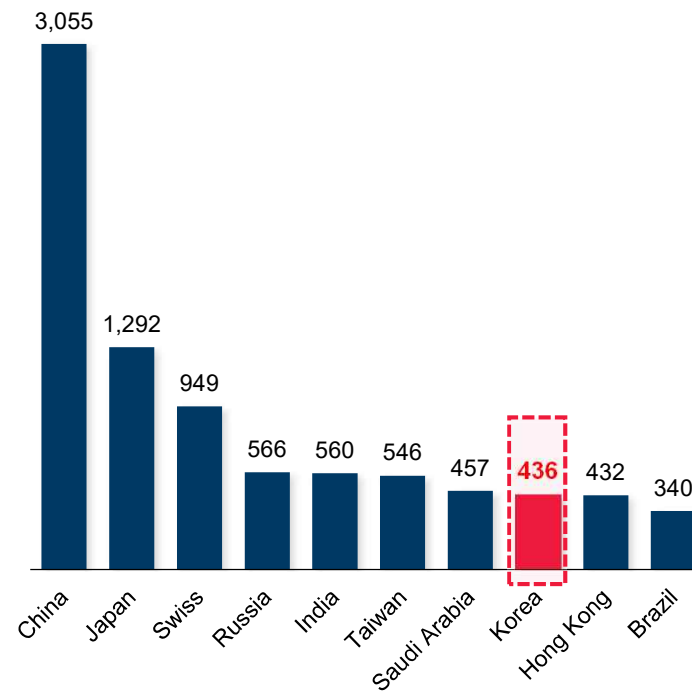
### Increasing FX Reserves

(USDbn)



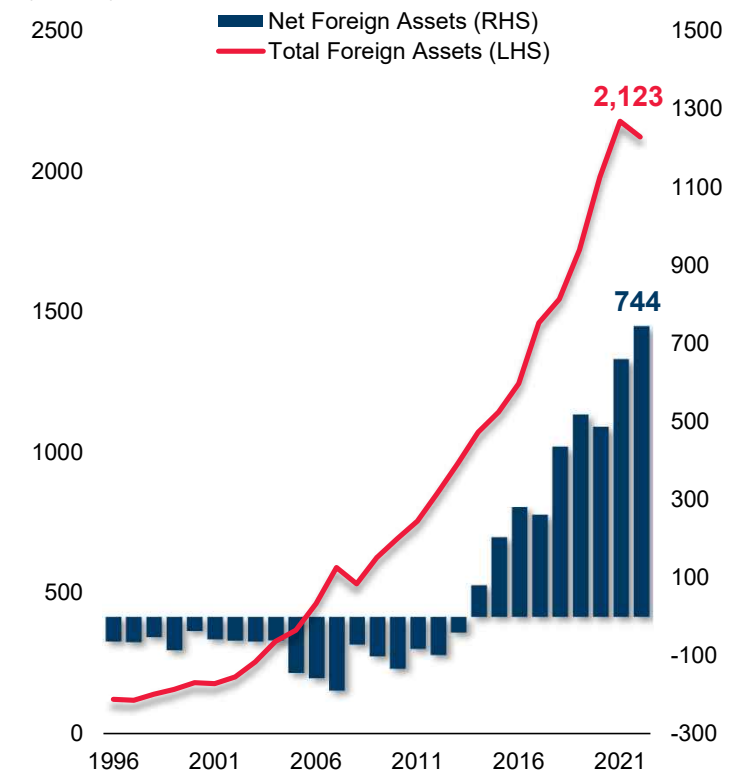
### 8<sup>th</sup> Largest FX Reserves in the World

(USDbn, as of end of August 2022)



### Total and Net Foreign Assets

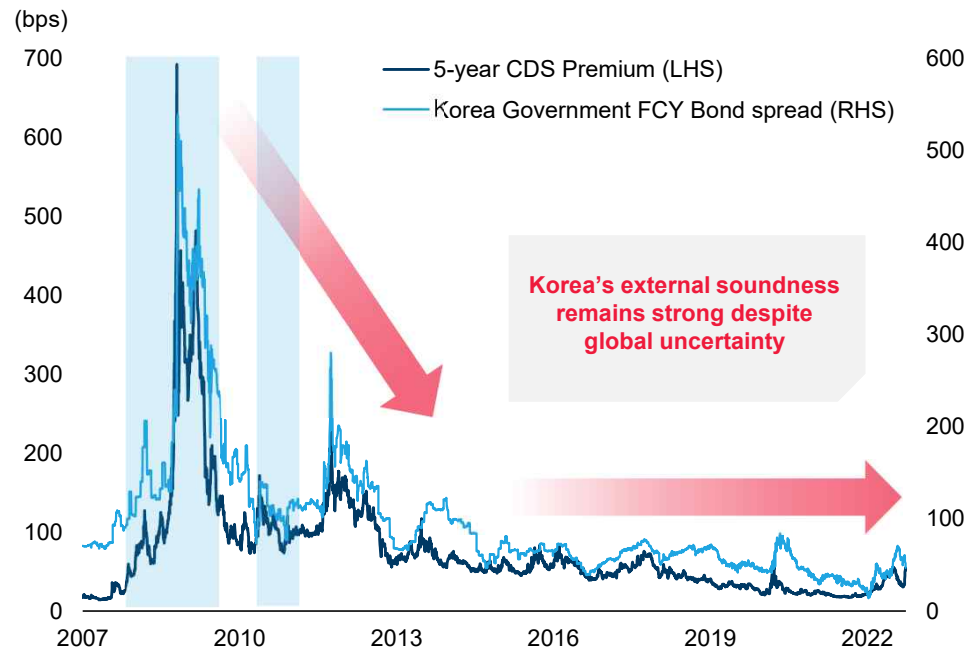
(USDbn)

















## Q2. Does External Soundness Remain in Good Shape?

Korea enjoys strong investor confidence in the global financial markets

### Korea's Risk Premium at Record Low Levels



### Maintaining All-time High Credit Ratings

| Ratings  | Moody's   | S&P   | Fitch   |
|----------|---|---|---|
| AA(Aa2)  |   |    |    |
| AA-(Aa3) |    |   |   |
| A+(A1)   |   |     |    |
| A(A2)    |   |   |    |

Moody's

"Korea's robust recovery from the pandemic primarily reflects strong global demand for its manufactured goods."  
(Aug. 2022)

S&P Global

"The Korean economy should **grow faster than most other high income economies** during the next three to five years..  
(Apr. 2022)

FitchRatings

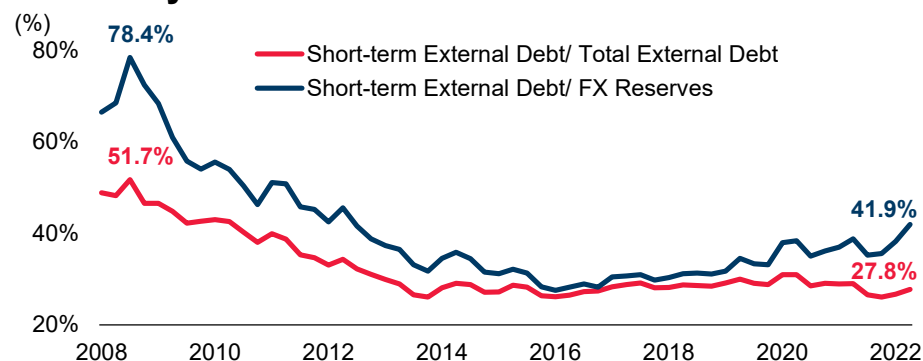
"Fitch believes Korea's **external finance position provides a sufficient buffer** to manage the current bout of external volatility"  
(Sep. 2022)

➡ Korea's external soundness is intact despite increase in global uncertainties

## Q3. Increased Debt Levels, Well-controlled?

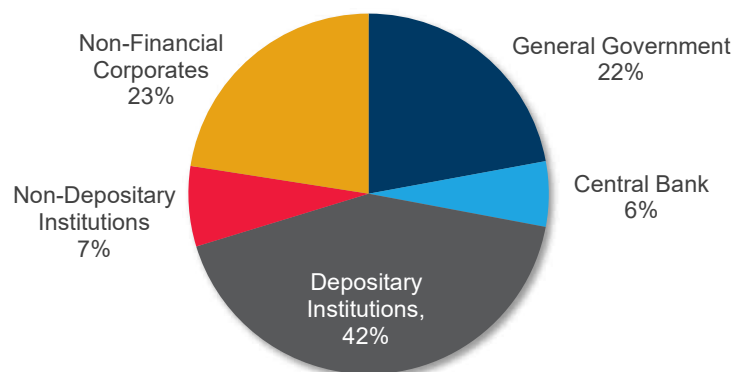
External debt is at a manageable level, and debt servicing capacity is stable

### Relatively Low Short-term External Debt



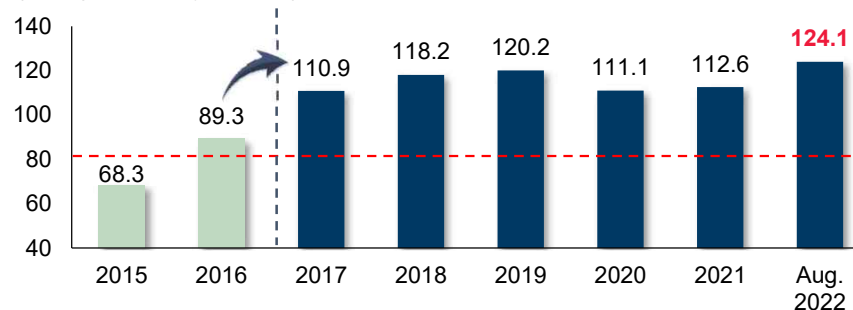
### External Debt Breakdown by Borrower

(%, as of end 2Q22)



### External debt servicing capacity of banks

(Foreign Currency LCR, %)



\* 2015~2016 was monitoring periods, Regulation began in 2017

### Liquidity and asset quality of non-bank financial institutions

- Introducing monitoring metrics for non-bank financial institutions to check FX liquidity(2021~)
- Conduct foreign currency stress tests

### Corporates' natural hedge for FX risk

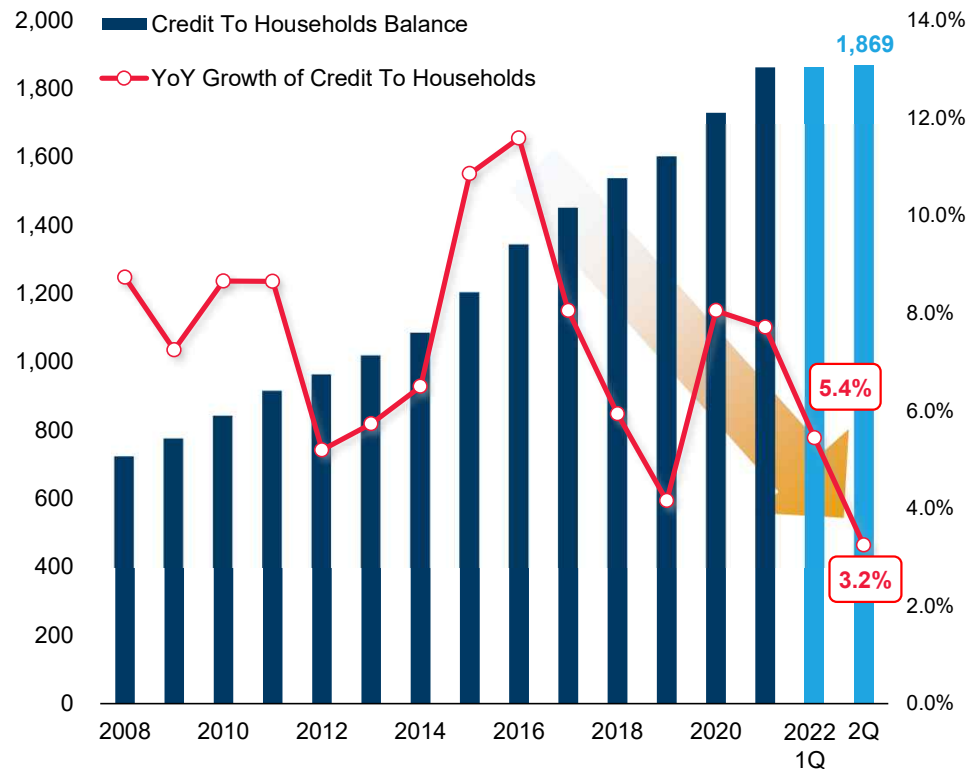
- Foreign currency debt cannot be used for domestic purposes
- Majority of non-finance corporates' external debt is in the form of trade finance, which relates to lower debt servicing burden

# Q3. Increased Debt Levels, Well-controlled?

Household debt growth decelerated and asset quality of household debt remains under control

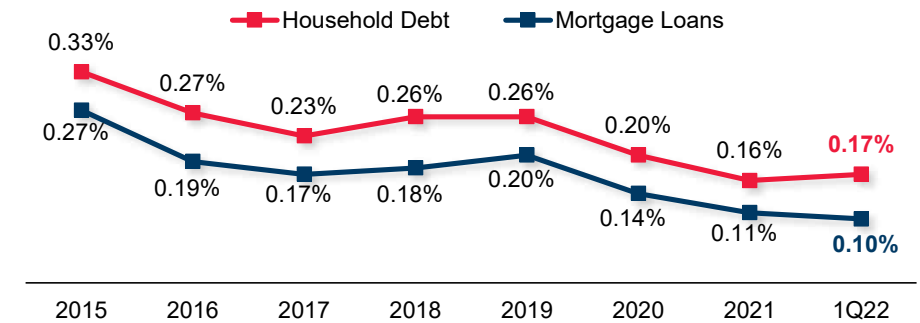
## Household Debt Trends

(KRWtn, %)



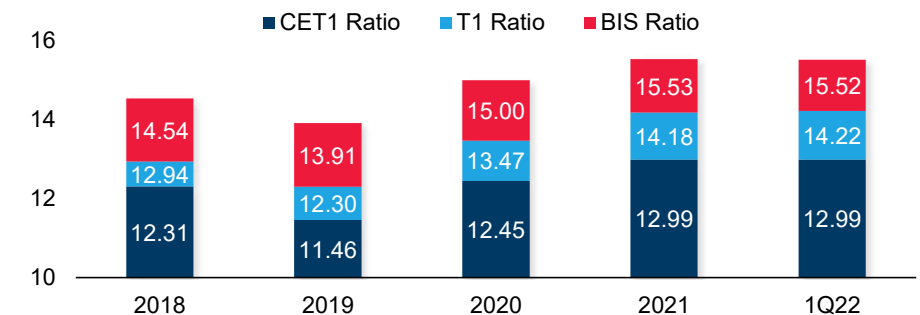
## Asset Quality

(Household delinquency ratio, %)



## Bank Capital Buffers

(Capital ratios, %)





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Episode 3.

# Korea's Strategy to Leap Forward

- 1) Transition to Private Sector-oriented Economy
- 2) Boosting Growth Potential
- 3) Preparing for the Future

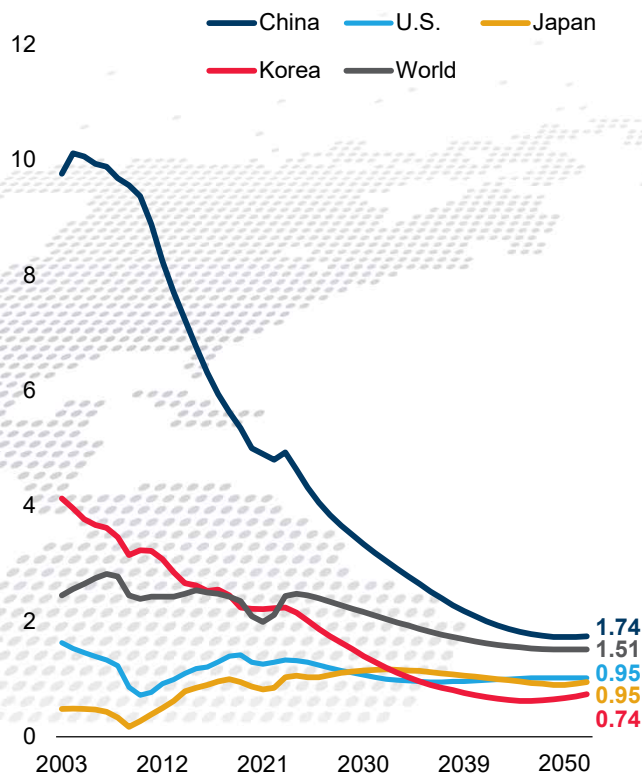




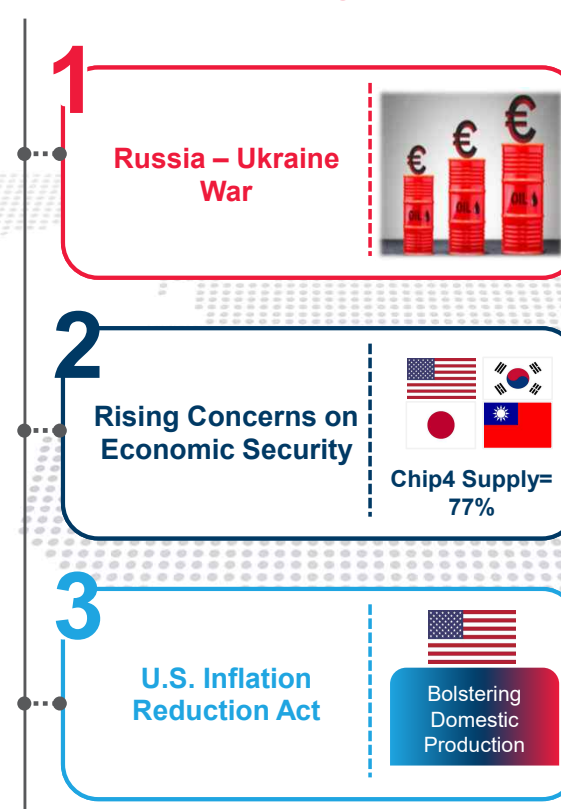
# The Changing Economic Landscape around Korean Economy

## Lower Growth is the New Normal

(OECD Potential Real GDP per Capita Growth, %)

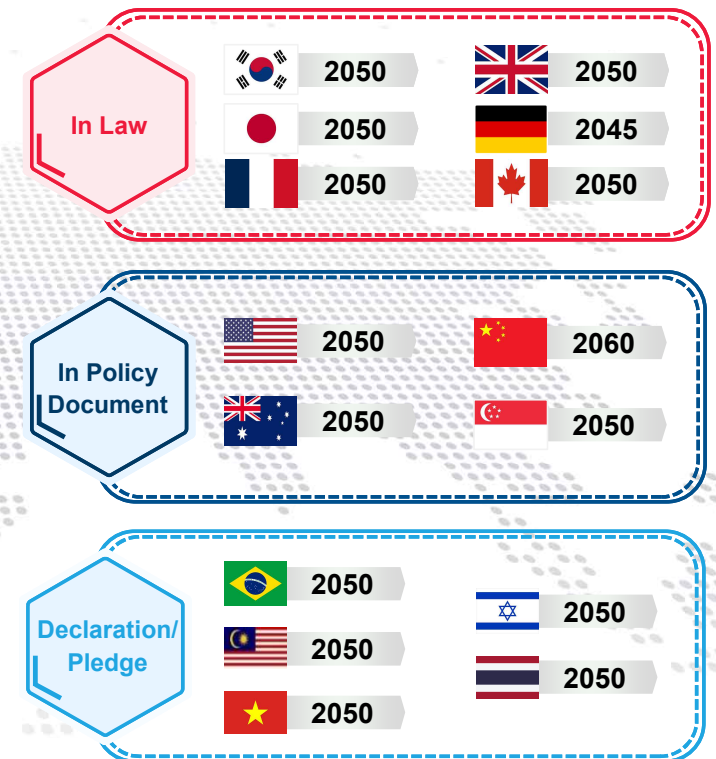


## Risk of Global Fragmentation



## Shifting to a Green Economy

(Net Zero Targets by Country in 2022)





**Republic of Korea  
taking another leap forward**

**A Citizen's Country,  
sharing prosperous lives**

# 1. Transition to Private Sector-oriented Economy

Regulatory reform to lay grounds for more investment



## Economic Regulation Innovation Task Force



### 430 Agenda Items for Review

(Prepared through cooperation among the government, corporates and economic associations)

2022.09.05

### 2<sup>nd</sup> Economic Regulation Innovation Task Force Meeting

- Announced **36 agenda** items to be reviewed and reformed

**KRW 1.8tn+  
Corporate  
Investment**

2022.07.28

### 1<sup>st</sup> Economic Regulation Innovation Task Force Meeting

- Announced **50 agenda** items to be reviewed and reformed



# 1. Transition to Private Sector-oriented Economy

Tax burden reduction to increase private sector investment and create jobs



## Corporate Tax: Normalize to Global Standards

- Reduction in number of tax brackets
- Application of special tax rates (10%)

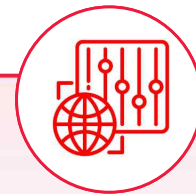
| Range        | Current | New        |
|--------------|---------|------------|
| ~KRW200mn    | 10%     | 10%        |
| KRW200~500mn | 20%     | 10% (SMEs) |
| KRW0.5~20bn  |         | 20%        |
| KRW20~300bn  | 22%     | 22%        |
| KRW300bn~    | 25%     |            |

## Strengthen Tax Benefits for High-Tech Industries



**Tax Reduction**  
6% → 8%

- Increase tax reduction for **national strategic technology facility investments** for large corporates



**Expansion of Scope of Tax reduction**

- Expand the **range of semiconductor technology** within national strategic technology

# 1. Transition to Private Sector-oriented Economy

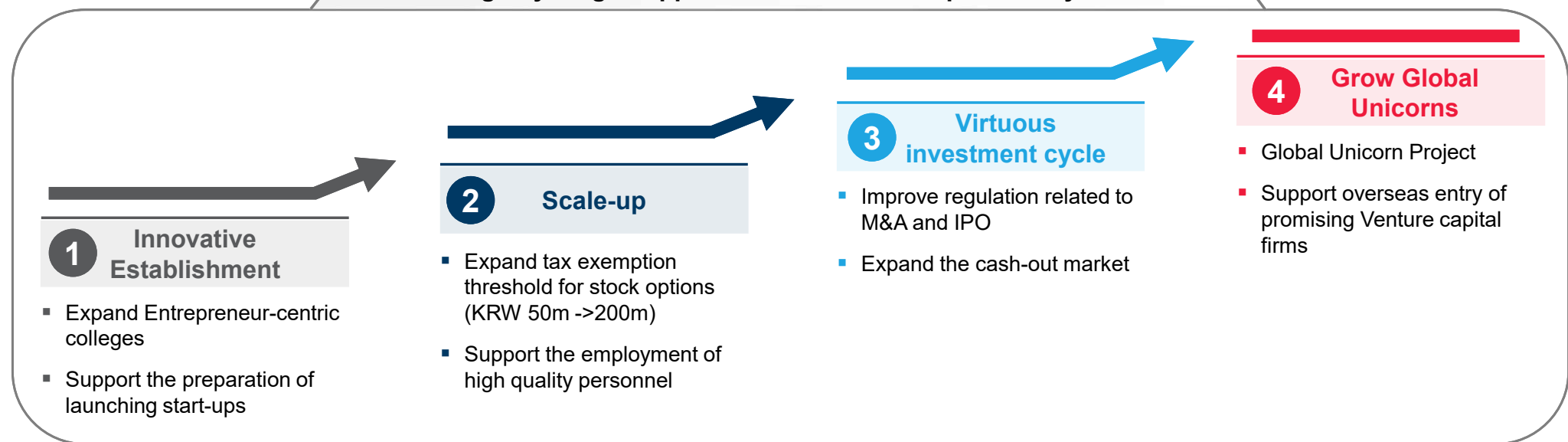
Growing SMEs and venture capital companies to be the backbone of Korea's Economy



## Transitioning the SME Support Paradigm to Organic Growth and Innovation

- Reorganize financial/ policy support to focus on growth and innovation
- Reorganize R&D financial support to focus on scaling up

### Stage-by-stage Support for the Venture Capital Ecosystem

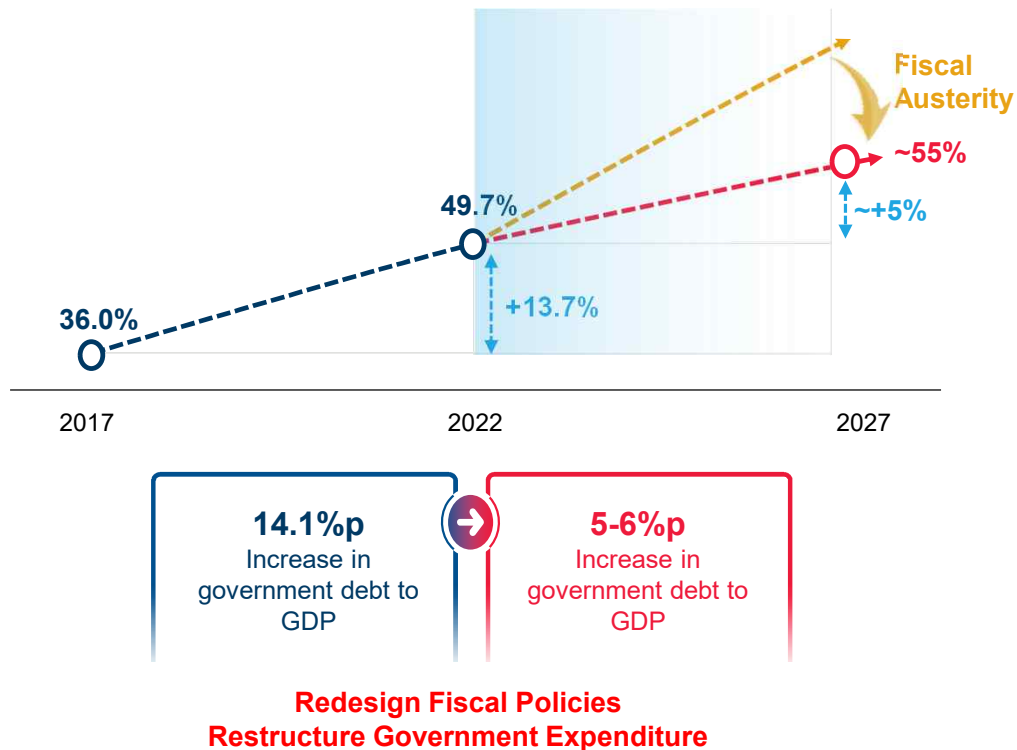




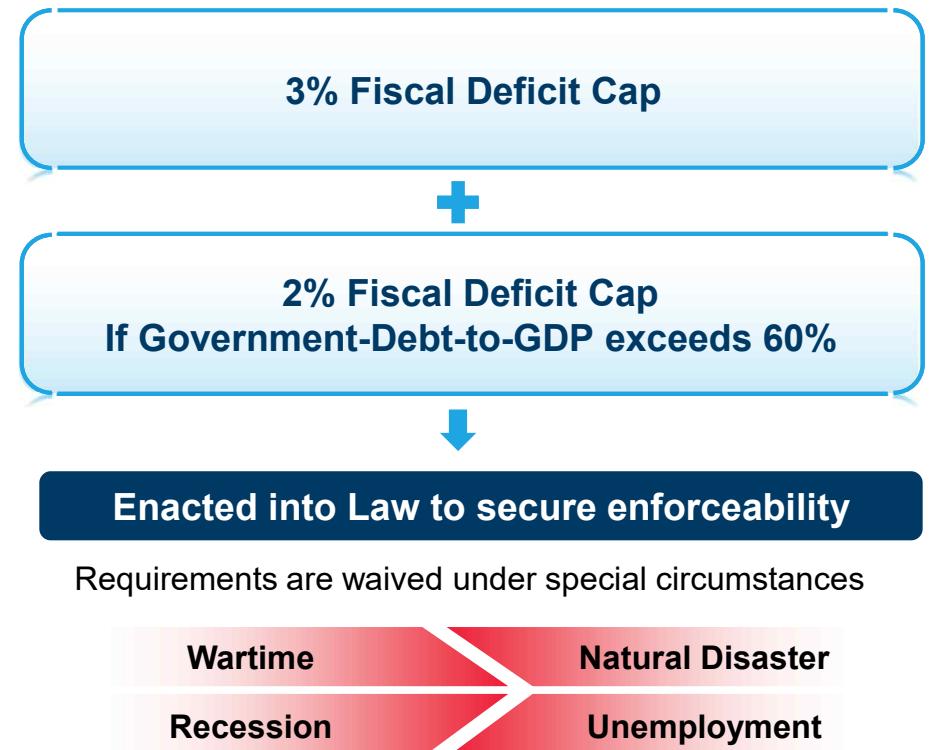
## 2. Boosting Growth Potential

Transition from expansionary fiscal policies to fiscal austerity

### Transition to Fiscal Austerity



### Setting up Fiscal Rules



## 2. Boosting Growth Potential: 5 Major Structural Reforms



### (1) Public Sector and (2) Labor Market Reform

#### Promoting Public Sector Productivity through Reform

##### Public Institution & Enterprise

- **Increase productivity:** Address overlapping functions between public and private + restructure factors that lead to sloppy management
- **Reorganize management structure:** Strengthen autonomy/ responsibility of each ministry + restructure management evaluation
- **Increase cooperation between public and private:** Private sector support in sectors such as big data, technology, or patent sharing

##### Pension

- Prepare improvement strategy for the National Pension by **forming the public pension reform committee**

#### Restructuring Working Hours and Salary System

##### Rationalize the system of working hours

Korea's week-based working hours regulation is unusual

- ✓ **Improve working hour rule within the current 52-hour rule**
  - Improve total extra working-hour management
  - Expand selective working-hour settlement period
  - Introduce working hour saving account

##### Expand job-based pay structure

High gap between salary of 1st year and 30-year+ tenure

- ✓ **Build job-by-job salary information system**
- ✓ **Support consulting on implementing salary/ review system**



**Formed "Future Labor Market Research Committee" composed of subject-matter professionals on July 18**

## 2. Boosting Growth Potential: 5 Major Structural Reforms

### (3) Education Reform and (4) Service Sector Innovation



#### Training Innovative Personnel to Lead the Future



##### Strengthen innovation and autonomy in college education

- **Train personnel** for the high-tech industries (Train 150,000+ semiconductor personnel by 2031)
- Establish **College Education Regulation Improvement Committee**. Holistic review of regulations and guidelines



##### Prepare local/ industry tailored personnel training system

- **Reorganize local colleges and vocational high schools** to supply personnel for specified localities and industries
- Install **new industry personnel training** system through government-wide cooperation

#### Enhancing Service Sector Competitiveness

##### ① Rationalize Regulation

- **Relax regulation on promising industries** such as contents, travel, and health care
- Implement regulatory reform through the economic regulation innovation TF

##### ② Strengthen Industrial Foundation

- Promote the **Framework Act on Service Industry Development**
- Expand government R&D on promising service industries

##### ③ Reduce Discrimination b/w Manufacturing-Service sector

- **Reduce difference in taxation support** (employment, investment etc.)
- Expand finance support for promising service industries
- Expand levy exemption for start-ups

## 2. Boosting Growth Potential: 5 Major Structural Reforms

### (5) Financial Innovation: Establishment of Foreign-investor-friendly Environment



- Promote **KTB's inclusion into WGBI** (added to the **Watch List**)
- **Waive capital gains tax and interest tax** on government bonds for foreign nationals
- Allow government bonds to be **traded on the ICSD**



- Allow foreign-based financial institutions to **participate in domestic foreign exchange markets**
- **Extension of foreign exchange market opening hours** (gradual transformation to a 24-hour market)



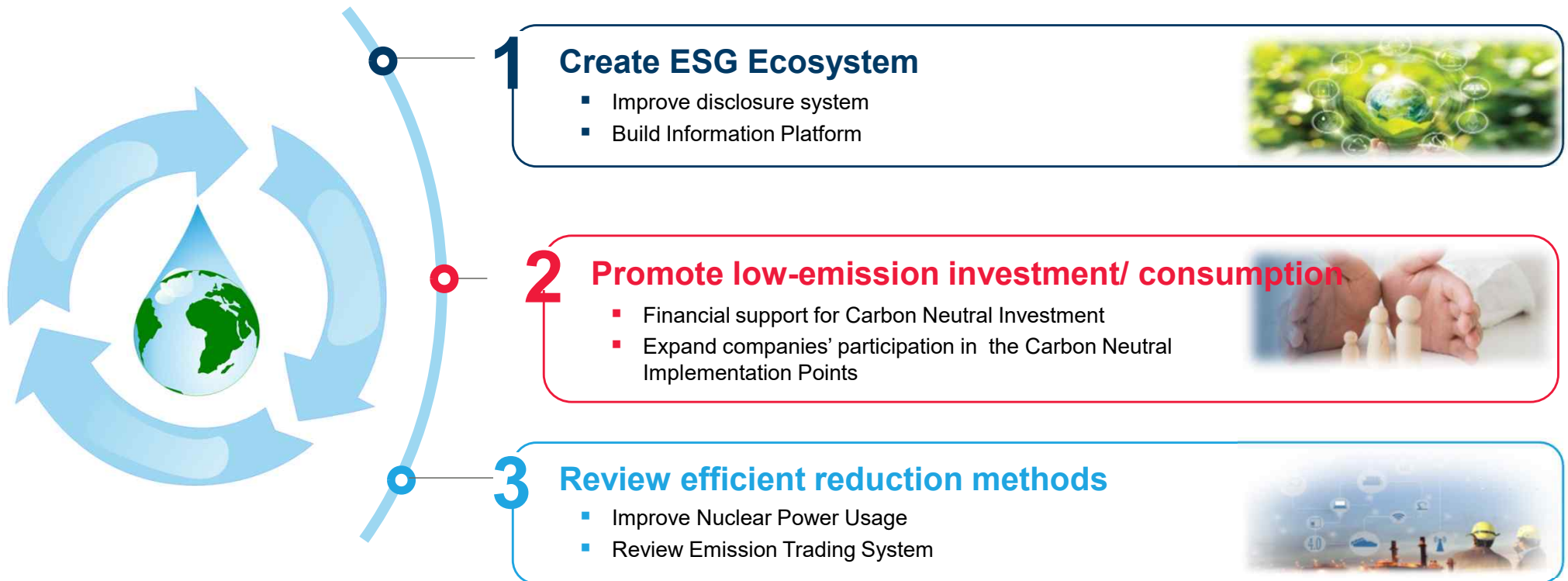
- **Financial Regulation Innovation**  
**TF** at the core of identifying and managing innovation in the financial industry
- **Reduce overlapping roles** between public and private financial institution

# 3. Preparing for the Future

Creating opportunity from the Green Economy



With Net Zero by 2050, Promoting Green Economy as a Growth-Driver





### 3. Preparing for the Future

Holistic approach to tackle supply chain issues



#### Active Participation in Global Economic Initiatives

|                         | CPTPP   | RCEP  | IPEF   |
|-------------------------|---|---|--|
| <b>Participants</b>     | <b>11 Nations</b><br>(JP, AU, NZ, CA, MX, CL, PE, BI, MY, SG, VN) | <b>15 Nations</b><br>( <b>KR</b> , CN, JP, AU, NZ, ASEAN) | <b>13 Nations</b><br>( <b>KR</b> , US, JP, AU, NZ, IN, BI, ID, MY, PH, SG, TH, VN) |
| <b>Population</b>       | 510mn   | 2.27bn  | 2.5bn  |
| <b>GDP</b>              | USD 10.8tn  | USD 26.1tn  | USD 34.6tn   |
| <b>Trade with Korea</b> | USD 236.4bn   | USD 483.9bn   | USD 389bn  |

#### Institutional Efforts to Stabilize Supply-chain



# 3. Preparing for the Future

Responding to a shift in the demographic structure: Paving the way for sustainable growth



## Rapid Population Ageing Calls for Policy Responses

### 1. Increasing Labor Force Participation Rate

- Expanding participation of female/ elder workers
- Improving foreign worker introduction system



### 2. Preparing for an aging society

- Build integrated medical/care service system
- Reorganize armed forces around high-technology



### 3. Responding to low birth rates

- Strengthen incentives for childcare/ birth
- Expand childcare/ maternity leave



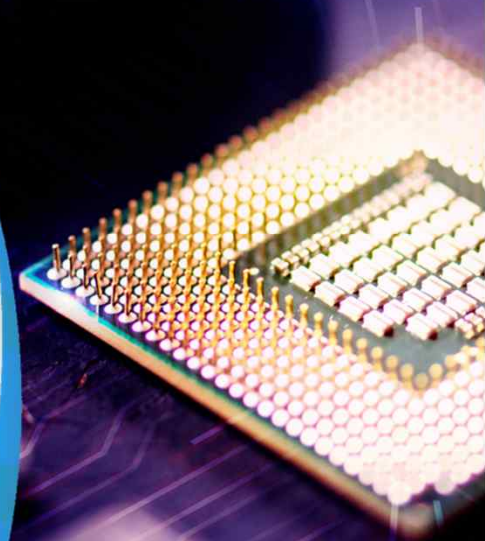
*“... Fiscal policy support will need to be scaled back to finance rapid population ageing....” (Sep 19. 2022)*



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Epilogue

## **“Canary in the Coal Mine?”**



# “Canary in the Coal Mine?”

A bellwether for the global economy not only in a downturn but also in a rebound



*“Assuming that the global economic cycle starts to show signs of bottoming out some time in 1H23, we expect **USD-KRW** to be one of the first exchange rates to turn around...”*



*As the global economy rebounds,  
Korea will be the strongest and the fastest to recover  
with its DNA: Perseverance and Resilience*