



Ministry of Economy
and Finance

The Republic of Korea

Korea's Steadfast Economy

2023 Investor Presentation | February 2023





Episodes

Episode 1.

“The Darkest Hour”

Episode 2.

Four Big Questions for Korea

Episode 3.

Korea’s 2023 Strategy



Episode 1.

“The Darkest Hour”

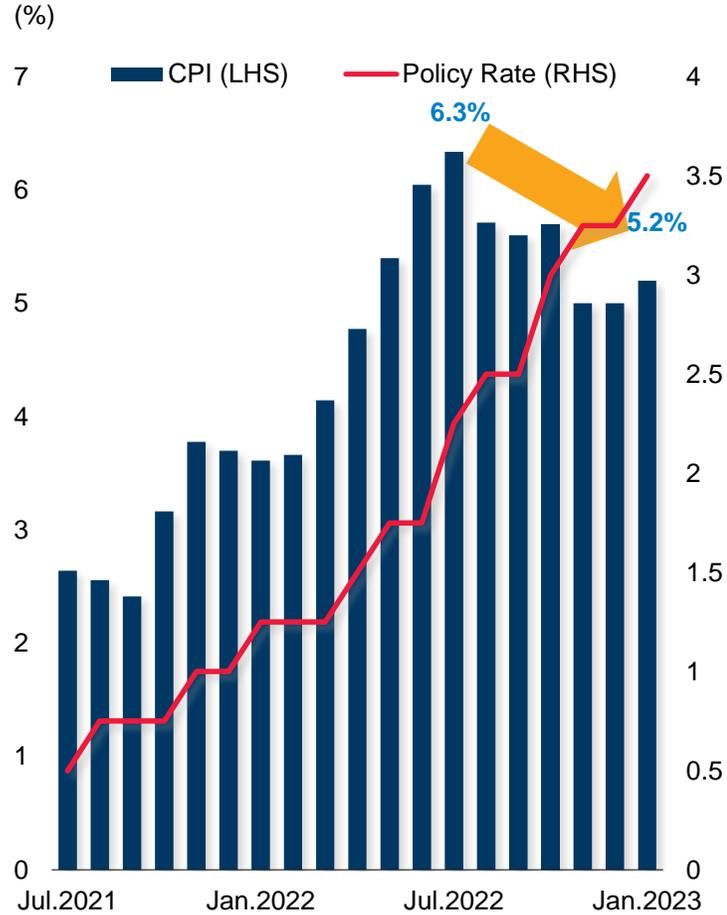
- 1) 2022 Global Economy: Inflation & Monetary Tightening
- 2) 2023 Global Economy: Economic Slowdown
- 3) The Korean Economy is Sailing into the Headwinds as well



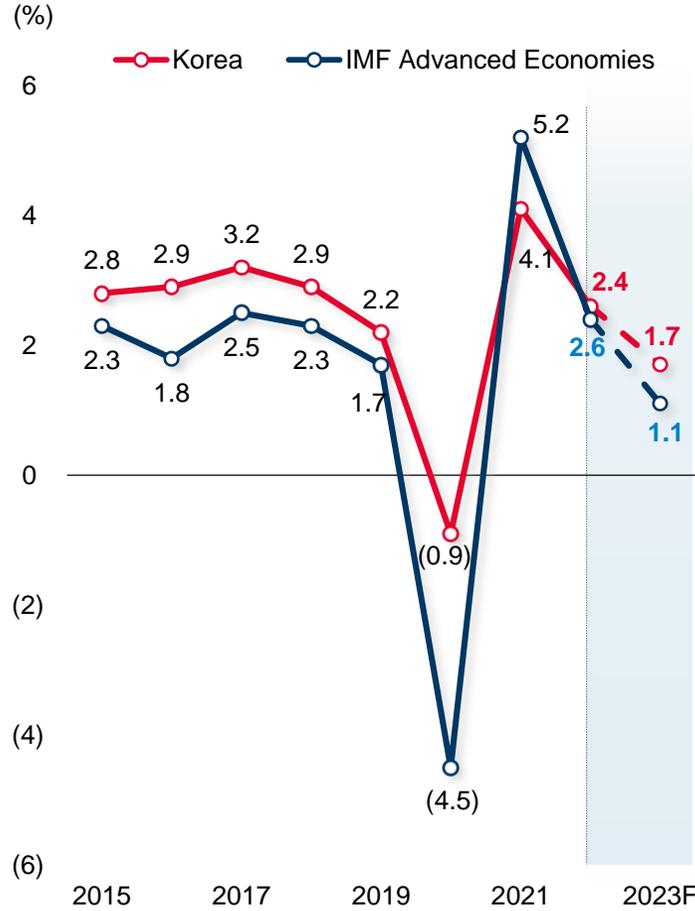
The Korean Economy is Sailing into the Headwinds as well



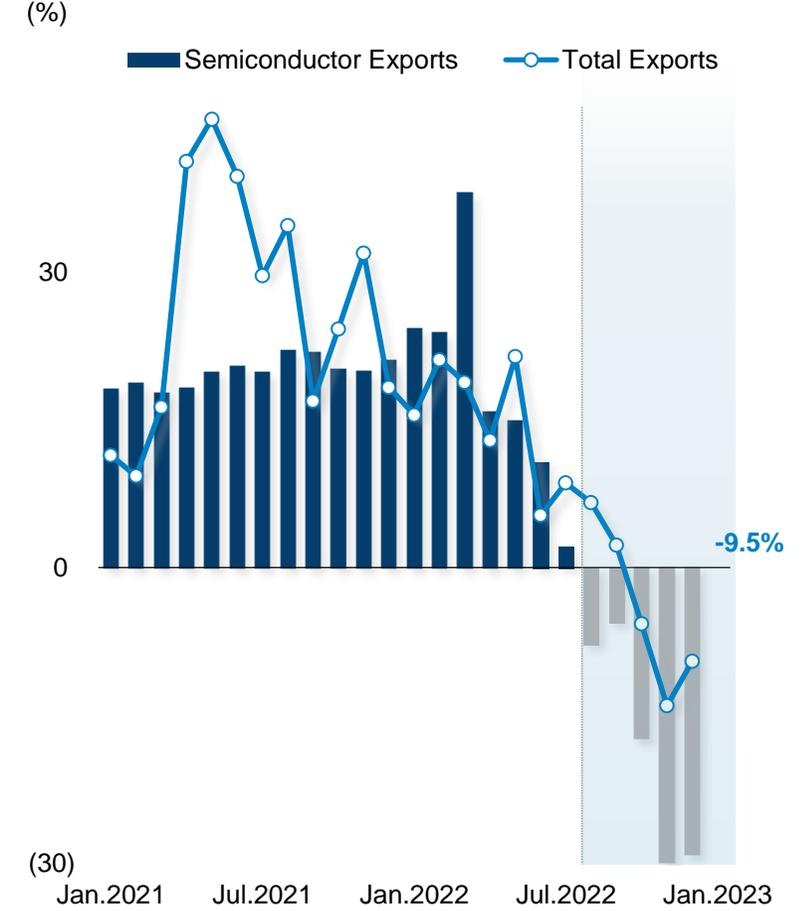
CPI Trends



GDP Growth Trends



Export Volume Trends (YoY)



2023 Korea's Economy Outlook



➔ Economic challenges would continue until 1H2023, but gradual recovery from 2H2023





Episode 2.

Four Big Questions for Korea

- 1) Trade Account Deficits, Weakened Competitiveness?
- 2) Does External Soundness Remain in Good Shape?
- 3) Have Capital Markets Well-functioned?
- 4) Increased Debt Levels, Well-controlled?

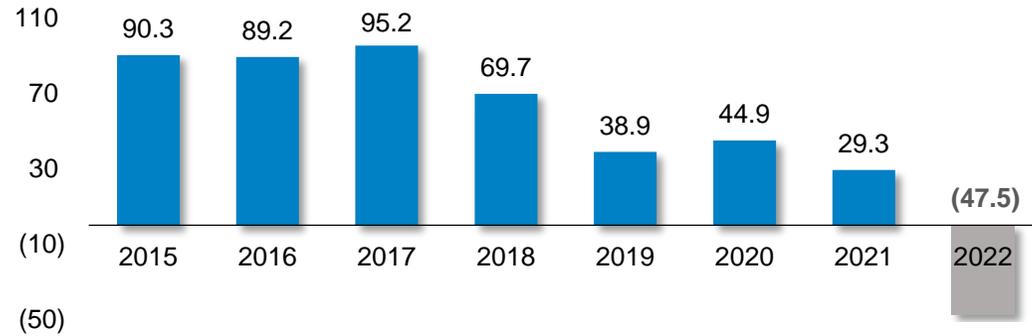


Q1. Trade Account Deficits, Weakened Competitiveness?



Trade Deficit amid Global Economic Slowdown

(Trade Balance, as of end 2022, USDbn)



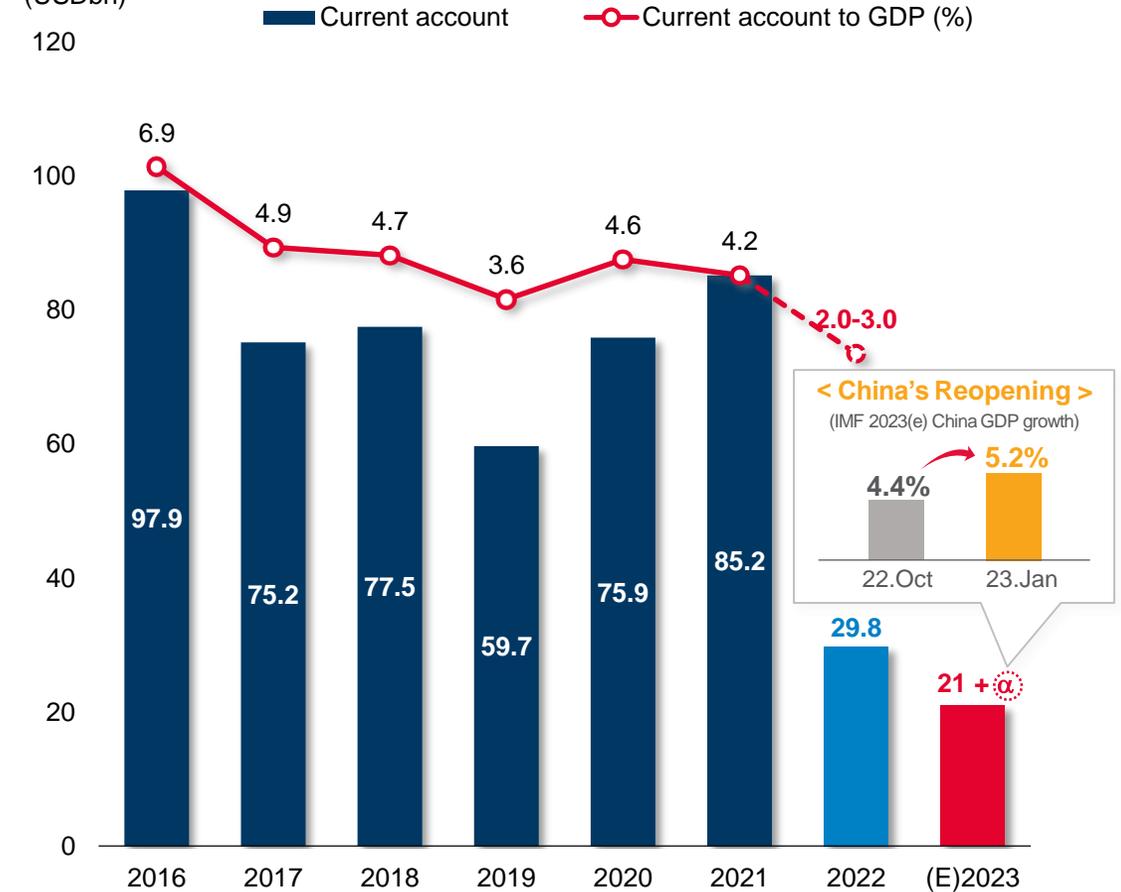
Trade Deficit due to Rising Energy Prices

(Trade Balance and Energy Import Difference in 2022, USDbn)



Continued Current Account Surplus

(USDbn)



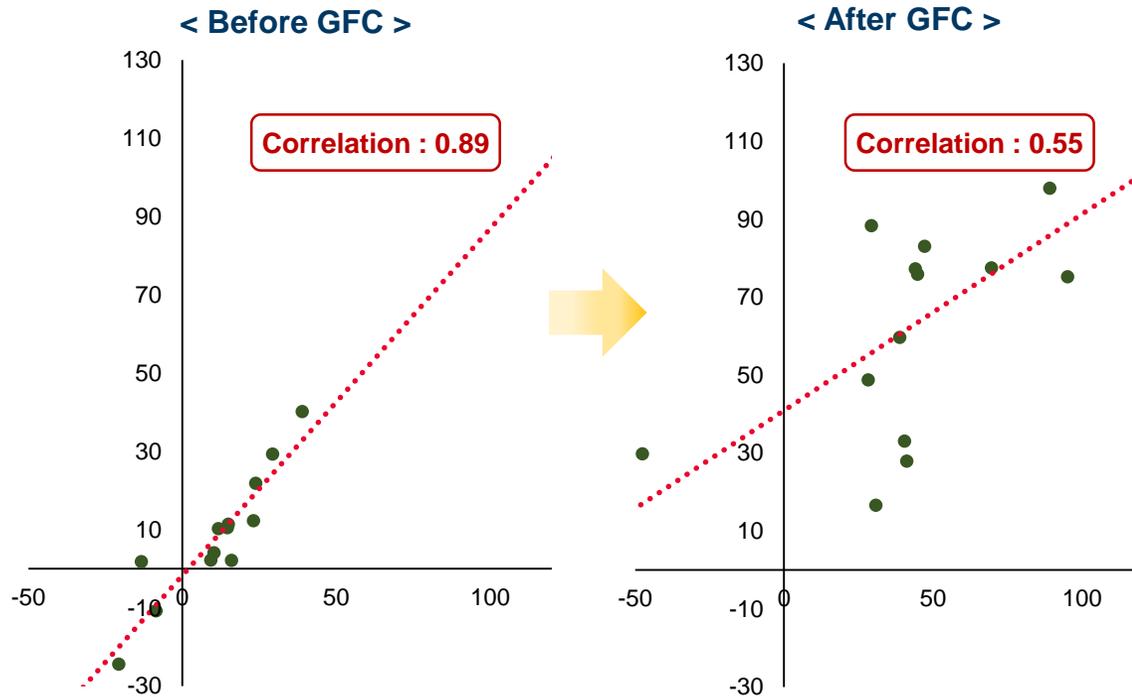
Q1. Trade Account Deficits, Weakened Competitiveness?



➔ Correlation between trade account and current account has weakened

Trade and Current Account Trends

(USDbn, Trade and Current Account Trends Prior to and Since 2008)



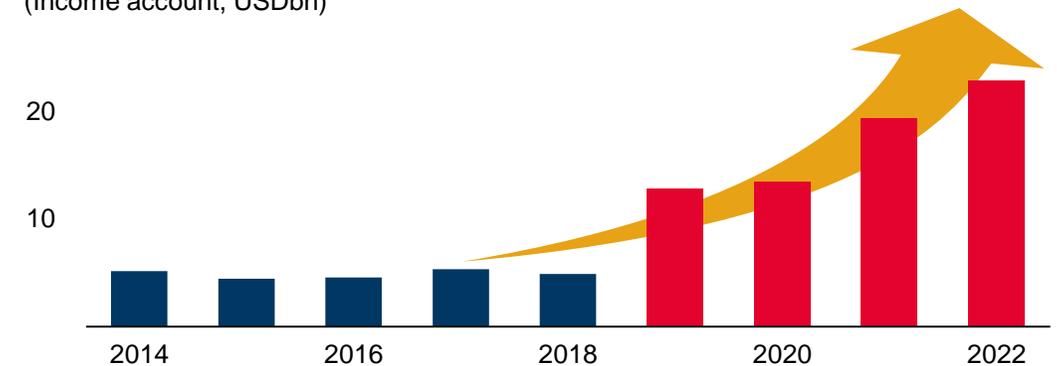
Gap Between Trade and Goods Accounts

(USDbn)



Outbound Foreign Investments Expands IA Surplus

(Income account, USDbn)

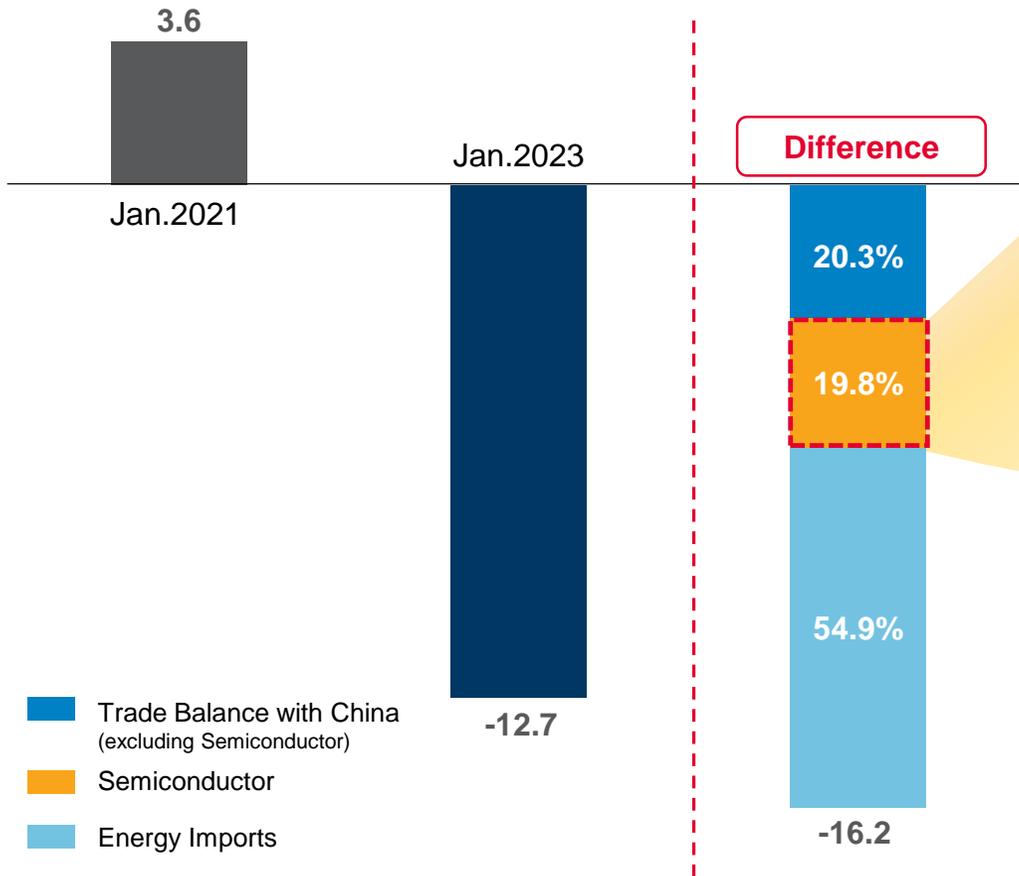


Q1. Trade Account Deficits, Weakened Competitiveness?



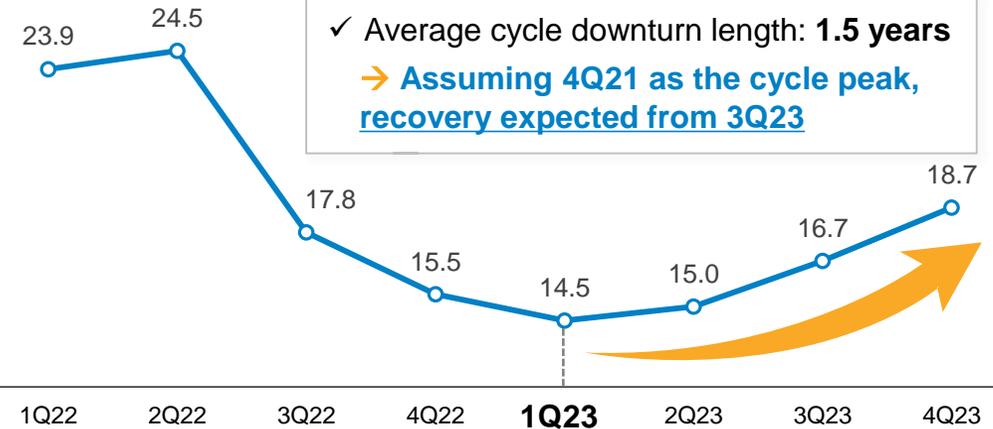
Falling Semiconductor Exports Lead to Expanding Trade Account Deficits

(Trade Balance, USDbn)



Expected recovery into 2H based on cycle upturn

(DRAM Revenue Forecast, USDbn)



Release of new CPU,
Increasing demand of DDR5(1H23)

Reopening of China

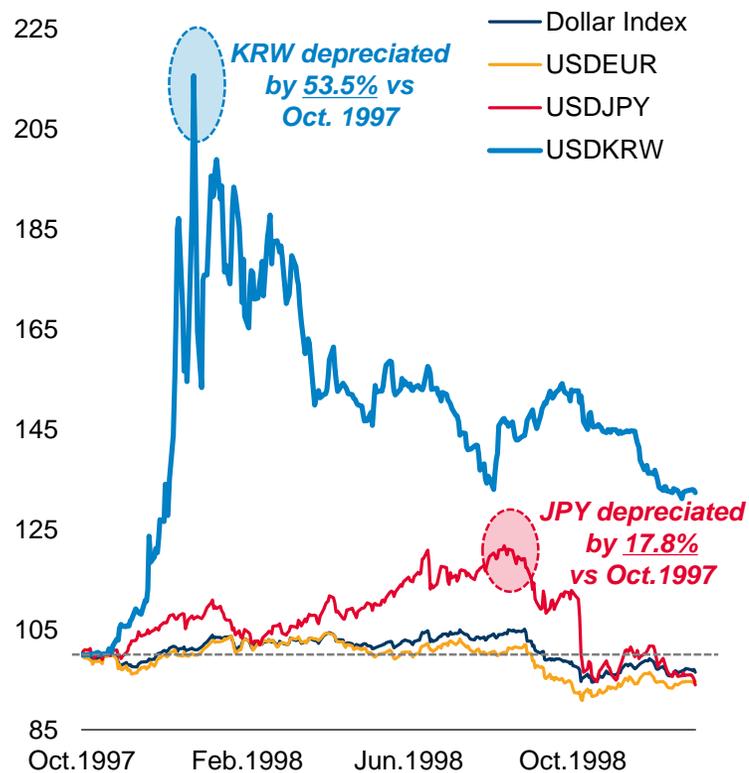
Q2. Does External Soundness Remain in Good Shape?



KRW is a bellwether for global FX market rather than a 'canary in the coal mine.'

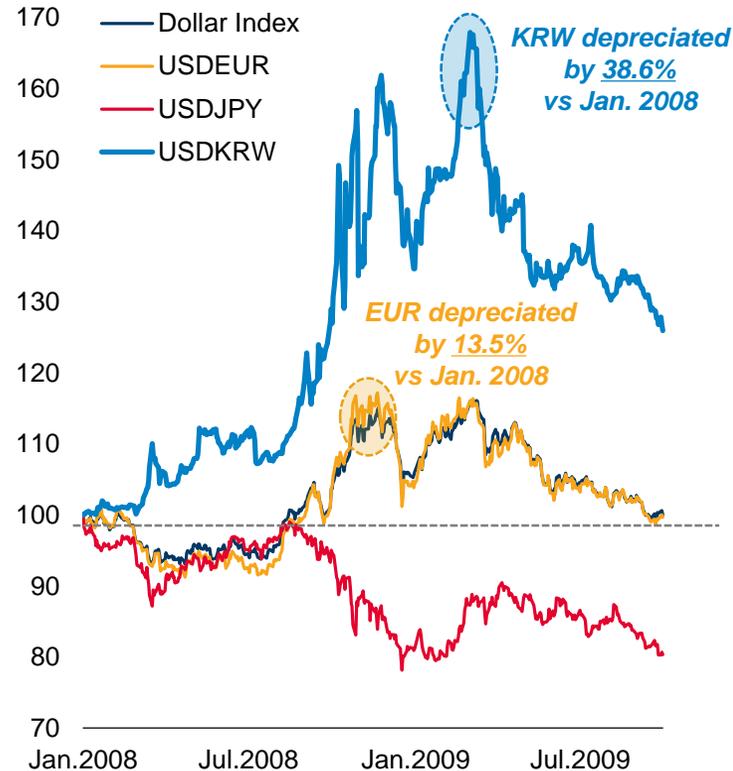
1997 Asian Financial Crisis

(rebased to 100 as of 1 October 1997)



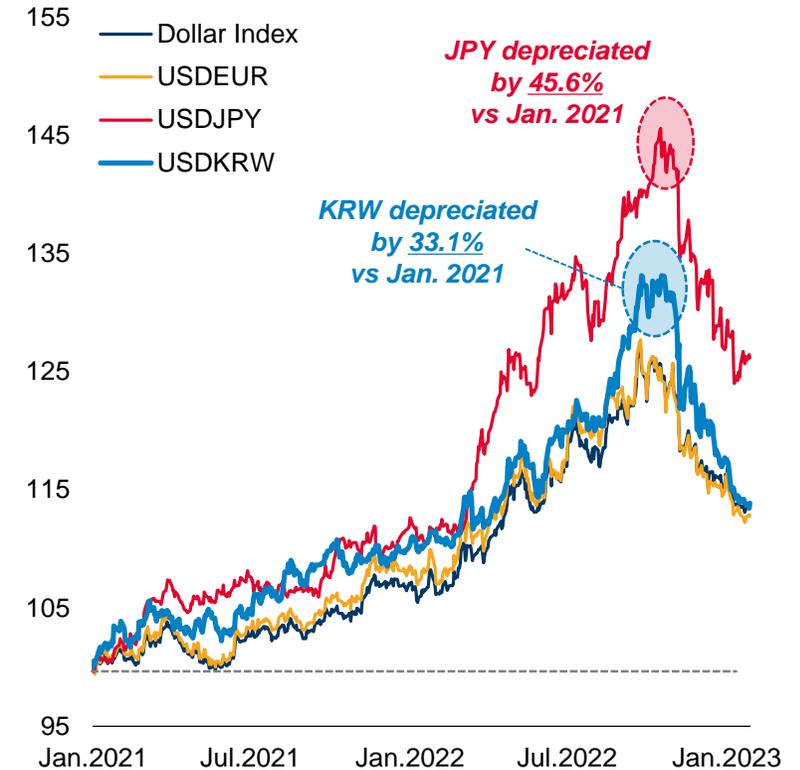
2008 Global Financial Crisis

(rebased to 100 as of 1 January 2008)



Current Situation

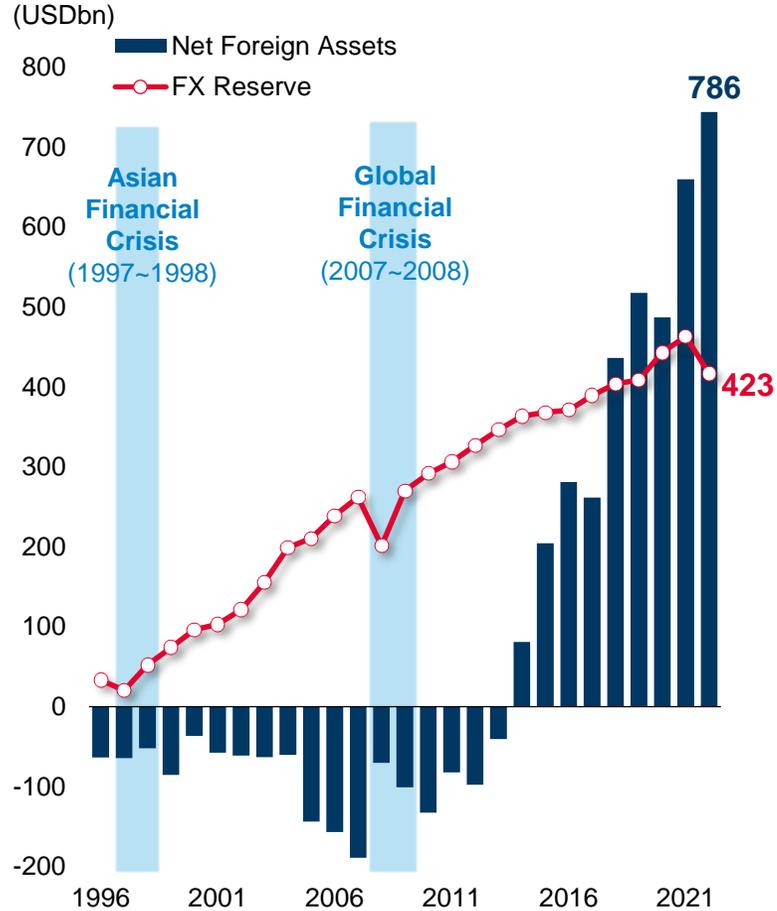
(rebased to 100 as of 1 January 2021)



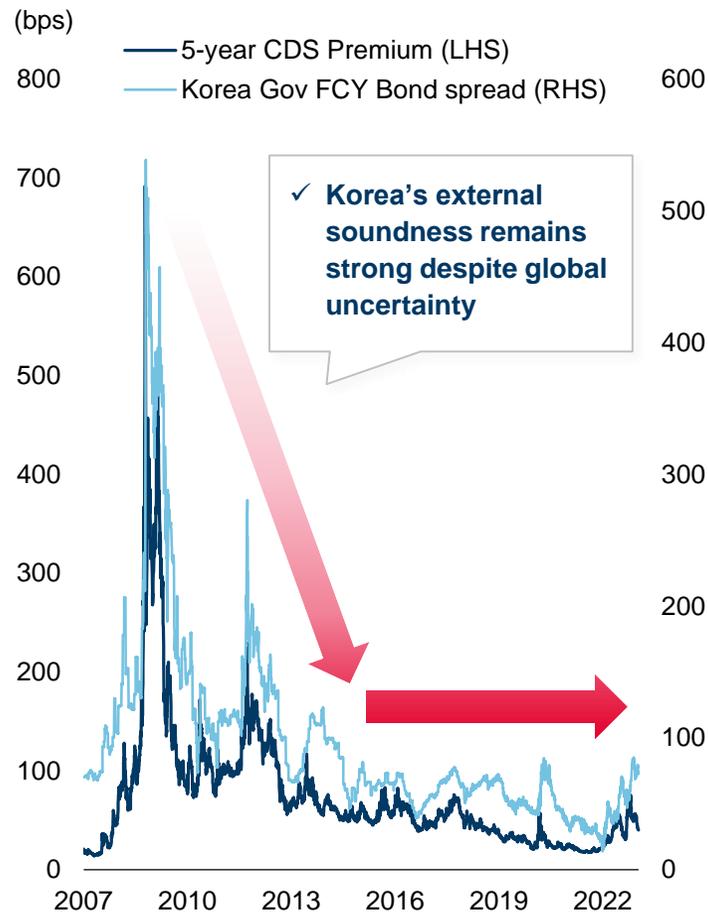
Q2. Does External Soundness Remain in Good Shape?



Increasing FX Reserves/ Foreign Assets



Risk Premium Remains Low



Sovereign Ratings at All-time High



Successful Issuances out of Korea

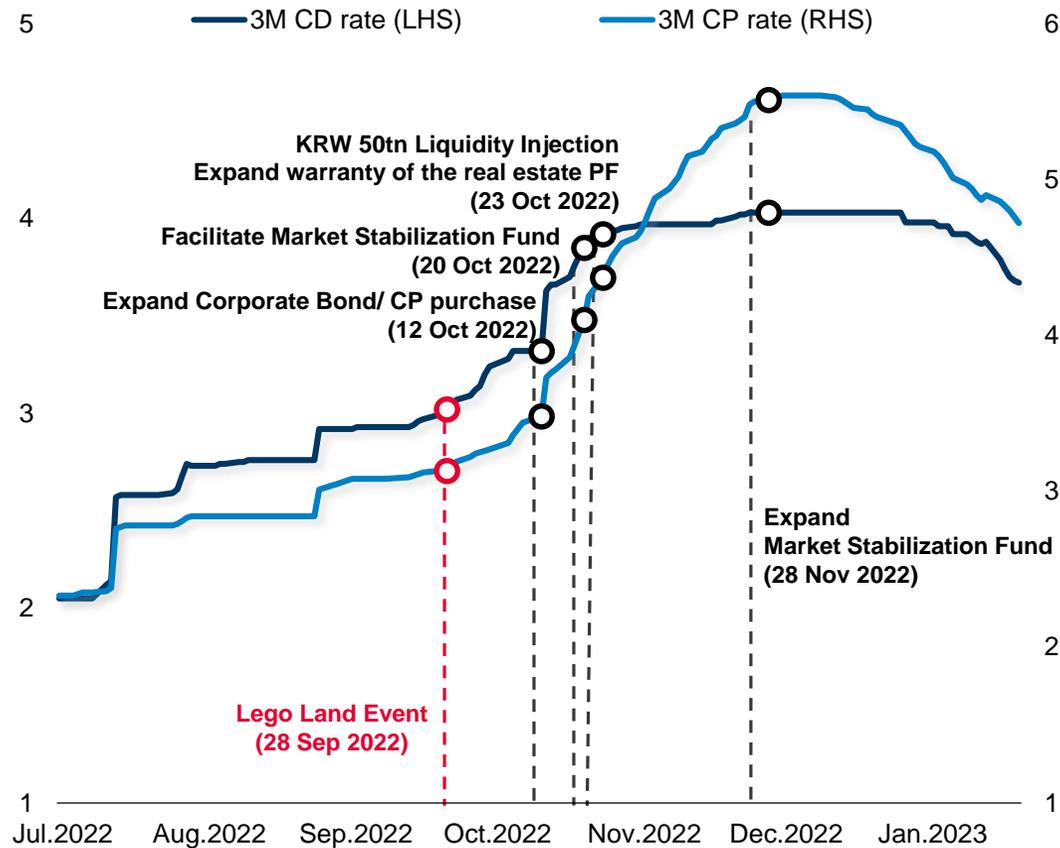


Q3. Have Capital Markets Well-functioned?



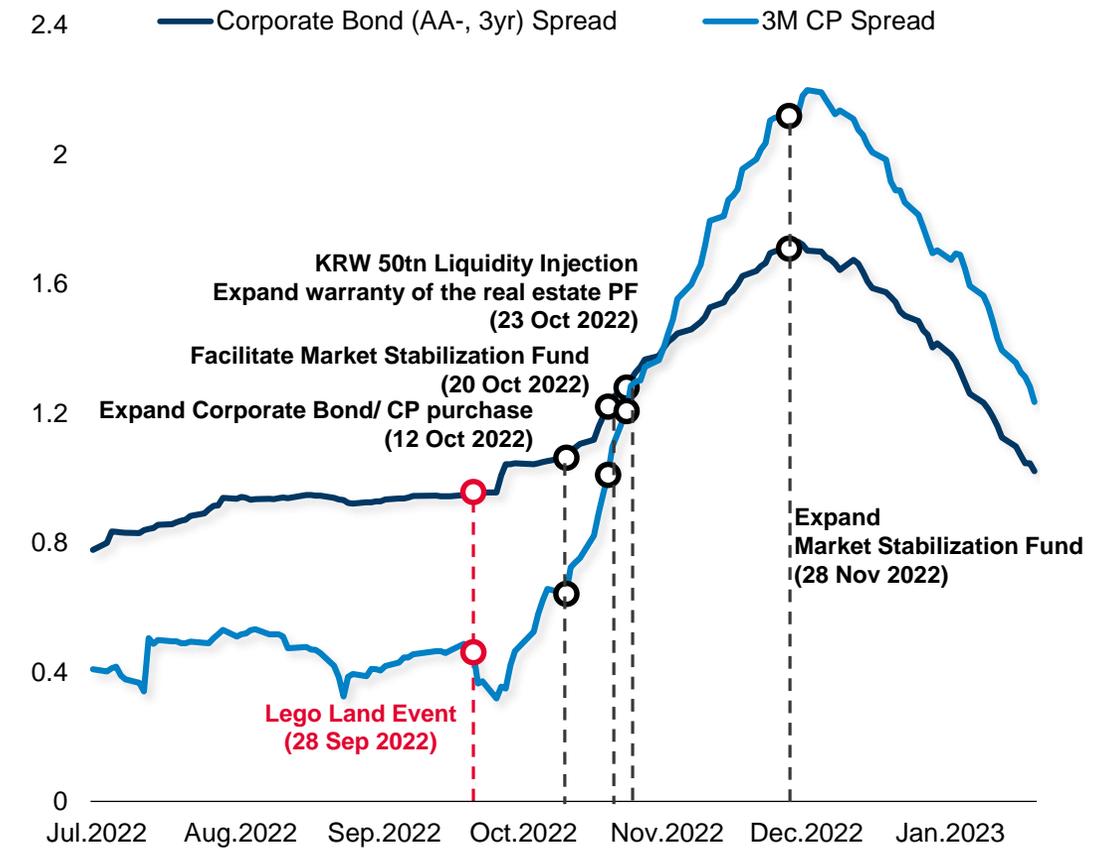
CD & CP Rate Trends

(%, As of end of January 2023)



Corporate Bond & CP Spread Trends

(%, As of end of January 2023)



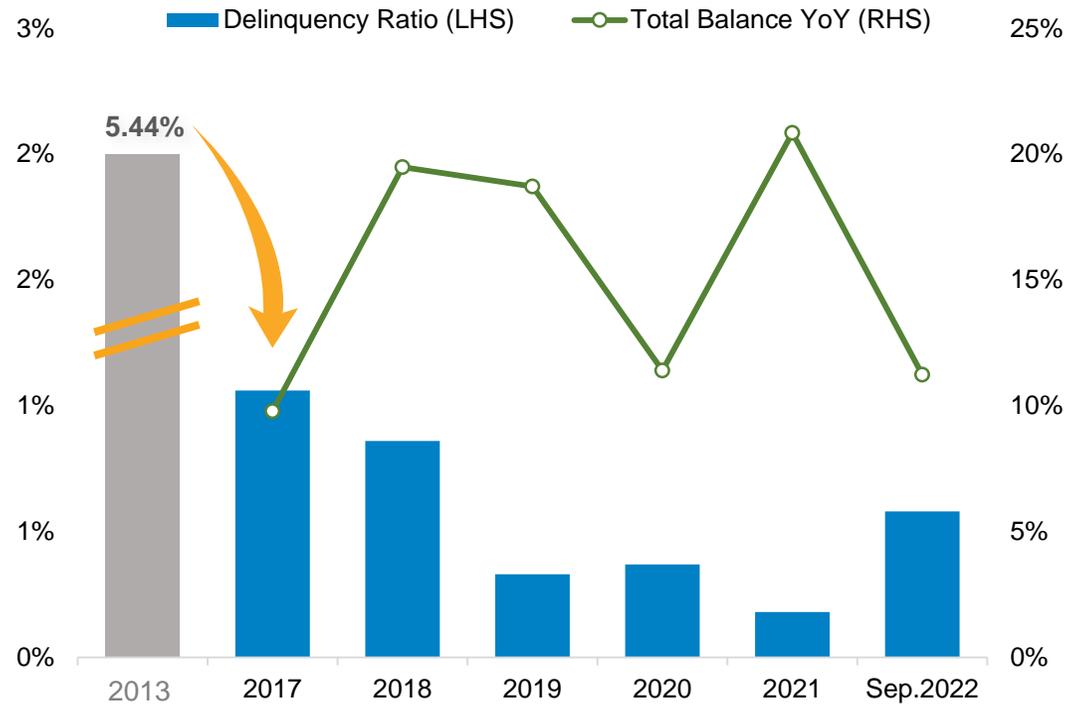
Q3. Have Capital Markets Well-functioned?



Real estate market soft-landing ➡️ Buttressing demand ➡️ Manage PF risk

Real Estate Project Financing Trends

(%, as of end of September 2022)



Key Policy Responses to the Real Estate Market



Reduce tax burden on multi-homeowners

- Reduce heavy acquisition tax
- Extend the exemption period of imposing heavy capital gains taxes until May 2024



Mitigate regulations for soft landing

- Additionally reduce regulated areas(112 → 4)
- 0 → 30%(maximum) LTV for housing loans in regulated areas



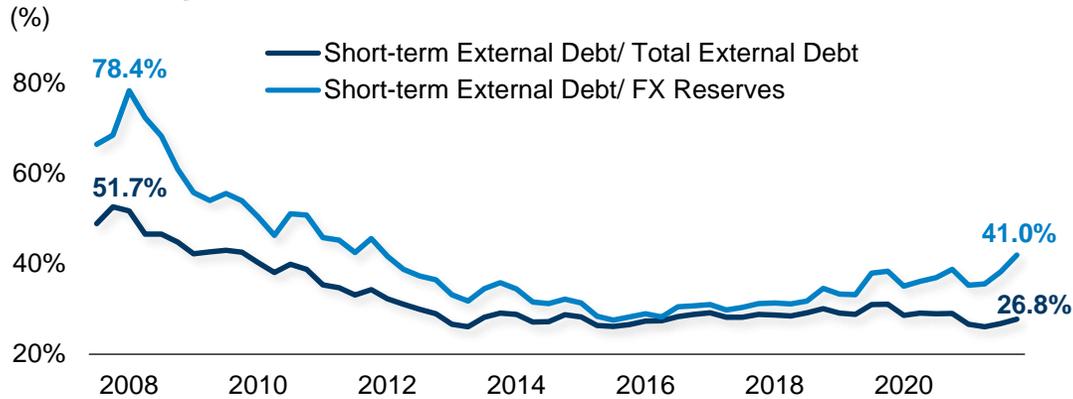
Real estate PF support

- HUG PF guarantee(KRW 15tn)
- HUG PF-ABCP guarantee in transition to long-term(KRW 3tn)

Q4. Increased Debt Levels, Well-controlled?

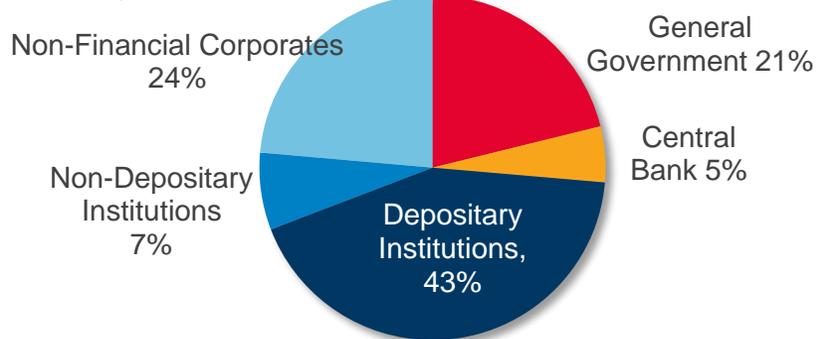


Relatively Low Short-term External Debt



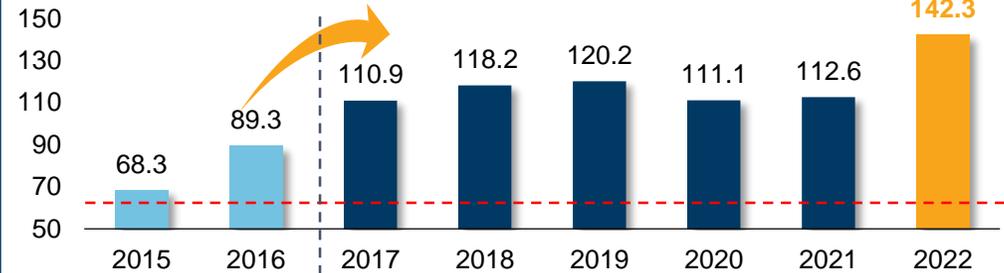
External Debt Breakdown by Borrower

(%, as of end 3Q22)



External debt servicing capacity of banks

(Foreign Currency LCR, %)



* 2015~2016 was monitoring periods, The regulation began in 2017

Liquidity/ 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

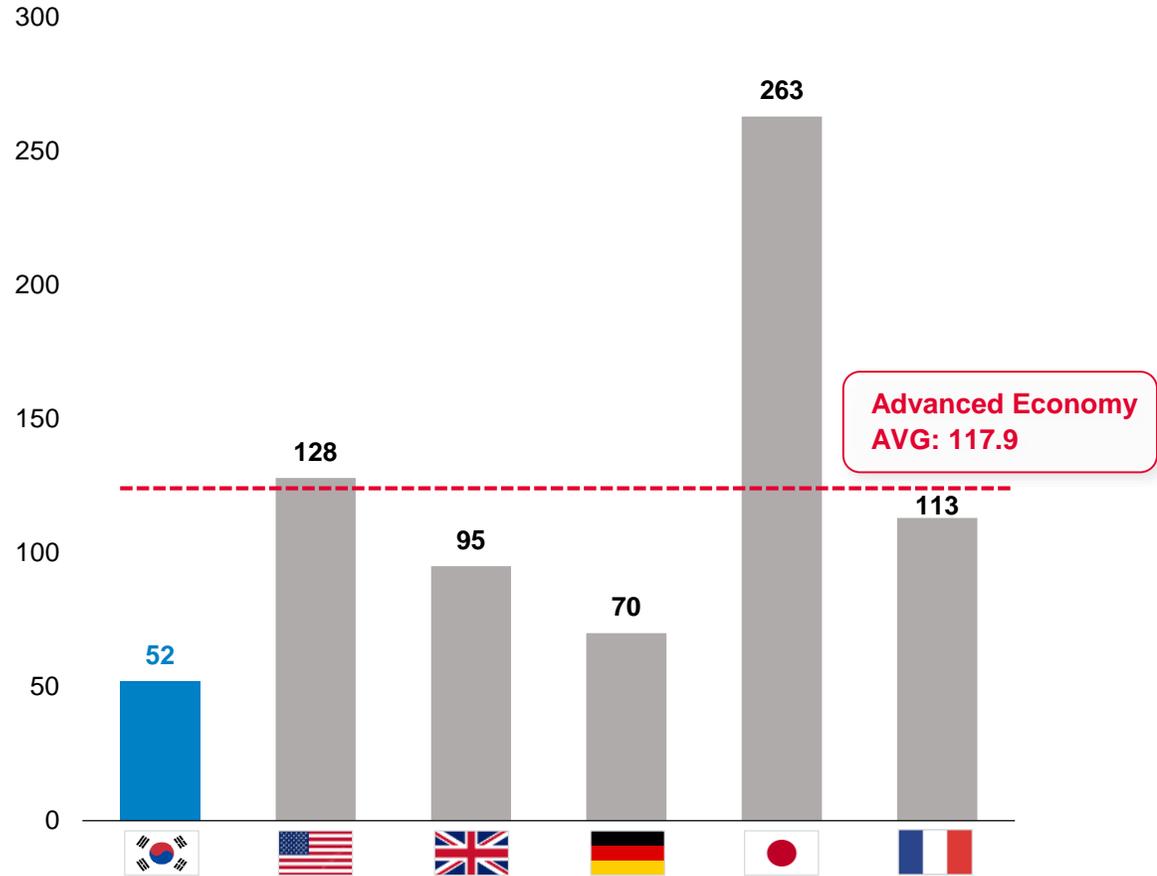
- ✓ Foreign currency debt cannot be used for domestic purposes
- ✓ The majority of non-finance corporates' external debt is in the form of trade finance, which carries a lower debt servicing burden

Q4. Increased Debt Levels, Well-controlled?



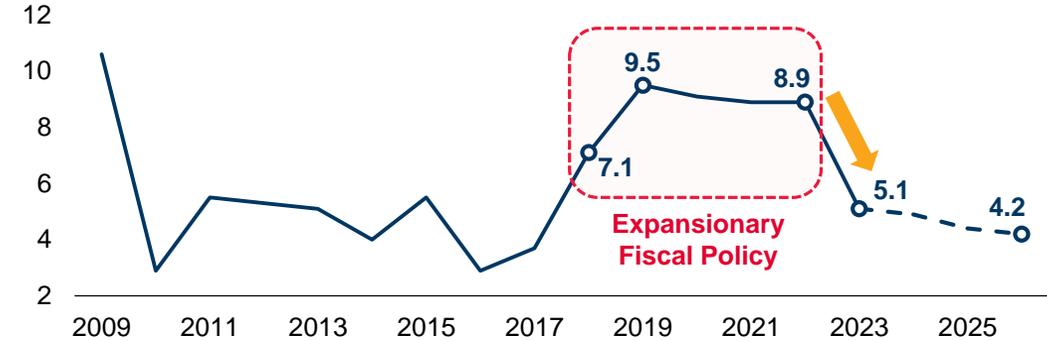
Well-managed Fiscal Soundness: Gov't debt

(2021 General Gov't Debt to GDP, %)



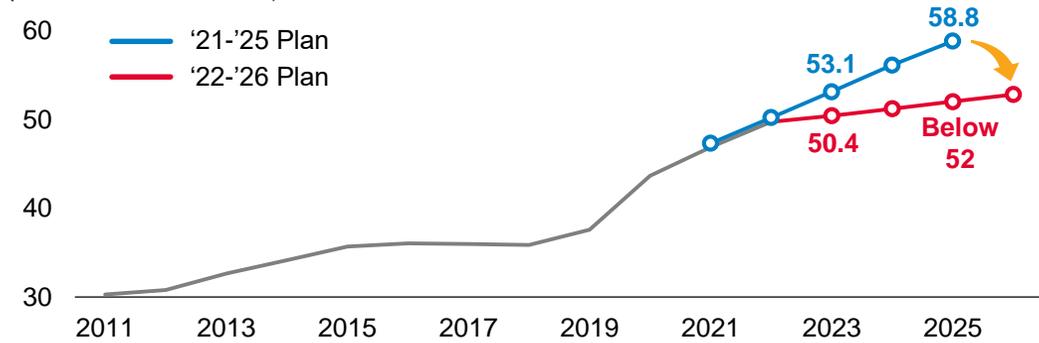
Stringent Management of Government Spending

(YoY Growth of Government Spending, %)



Normalization of Government Debt Growth

(Gov't Debt to GDP, %)

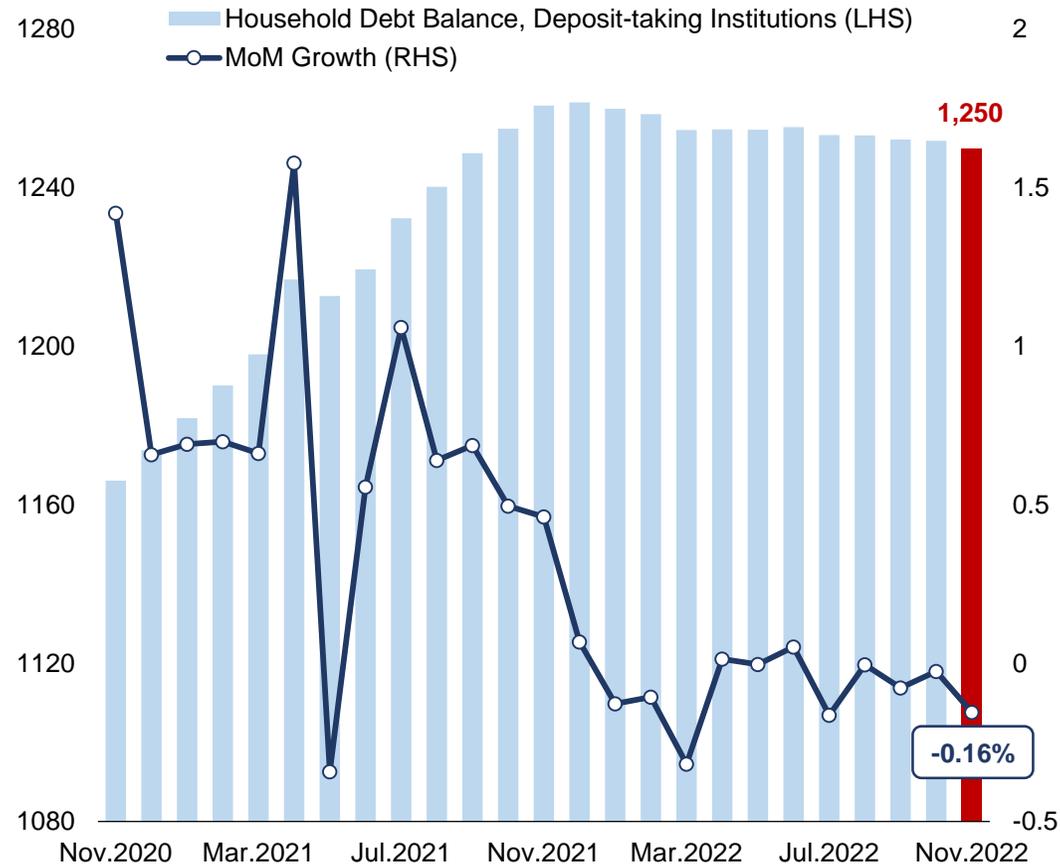


Q4. Increased Debt Levels, Well-controlled?



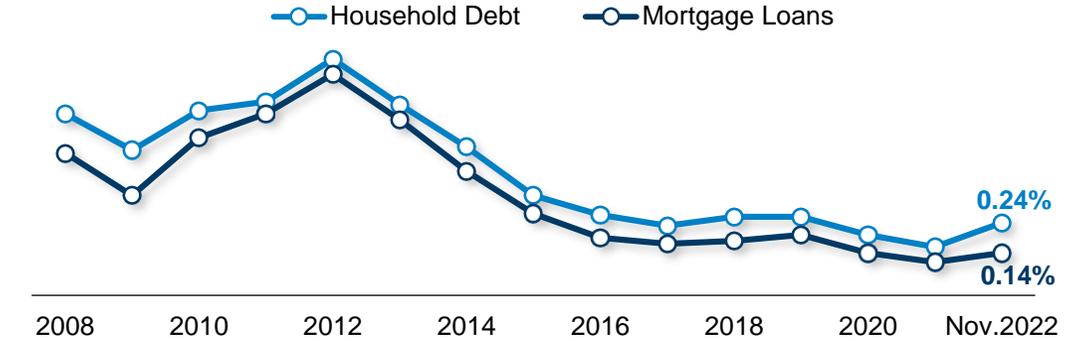
Household Debt Trends

(KRWtn, %)



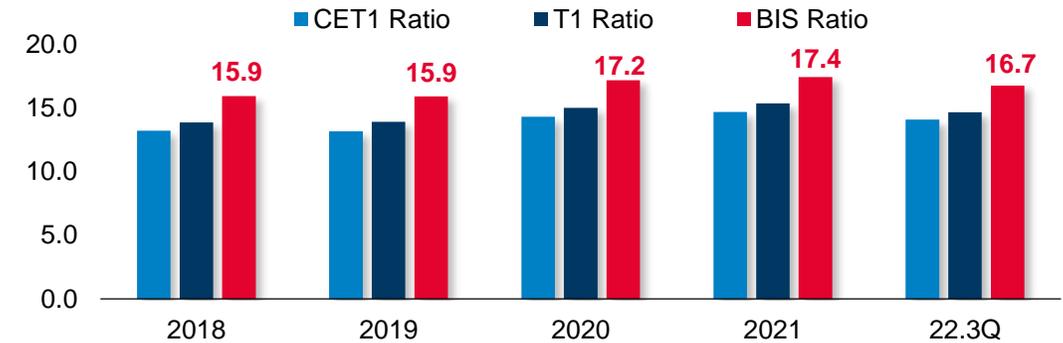
Asset Quality Trends

(Household delinquency ratio, %)



Bank Capital Buffers

(Capital ratios, %)





Episode 3.

Korea's 2023 Strategy

- 1) Overcoming Economic Challenges
- 2) Boosting Growth Potential



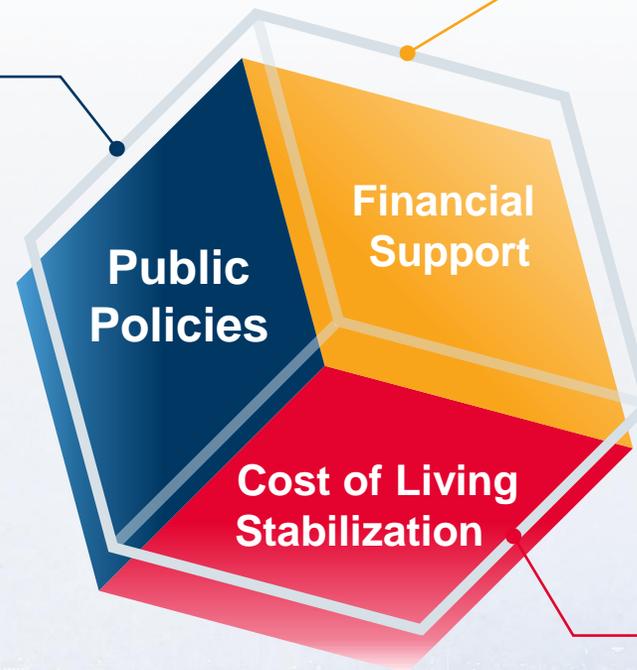
Overcoming Economic Challenges

Implement a macroeconomic policy mix



Flexibly manage a policy mix while focusing on taming inflation

- **Early Fiscal Execution**
(Central Government 65%, Local Government 60%)
- USD 51.3bn in **public Institutions investments** expected in 2023. **Increase first-half year execution ratio** versus previous year (execution ratio(%): ('21)53, ('22)53, ('23e)55%



- **Largest ever** financing support of **KRW 540tn**
- **Offer tax incentives** for retail **corporate bond** investors

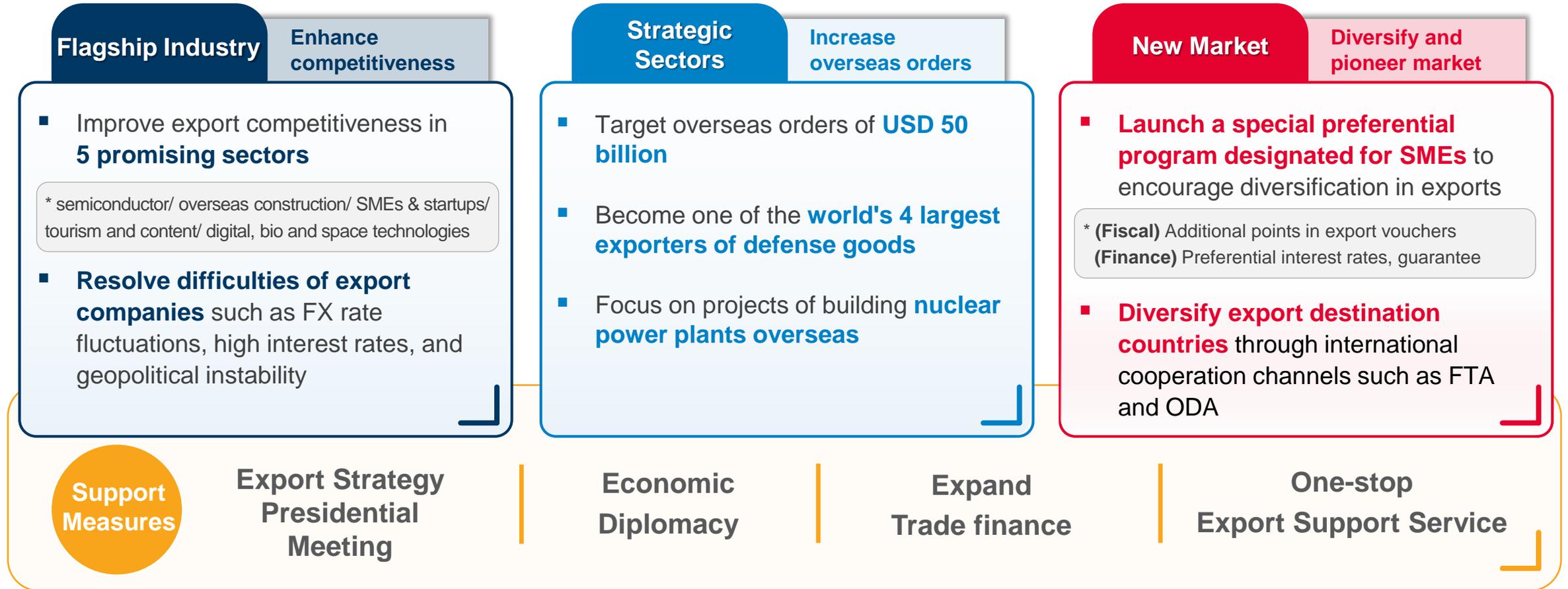
- **Refrain from an increase in public utility charges** and disperse the timing of the increase
- **Waive customs tax** on agricultural/ livestock/ fisheries products
- **Extend the period of tax support measures** for petroleum and power generation fuels

Overcoming Economic Challenges

Boost Export



Strengthen All-round Support to Become a Global Top-5 Export Economy



Overcoming Economic Challenges

Incentivize Corporate Investment



Strengthen Tax Benefits for High-tech Industries



25%+ Tax Benefit for Investments

- Increase tax benefits for investments in **national strategic technology** (ex. semi-conductor, display)



Temporary Tax Benefit for 2023 (up to 18%)

- Temporary tax benefits for investments in **new-growth/ original technology** (ex. energy-saving technology)



Regulation Innovation is ongoing

1st Meeting (2022.07.28)

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

3rd Meeting (2022.10.17)

- Announced **24 agenda** items to be reviewed and reformed

2nd Meeting (2022.09.05)

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

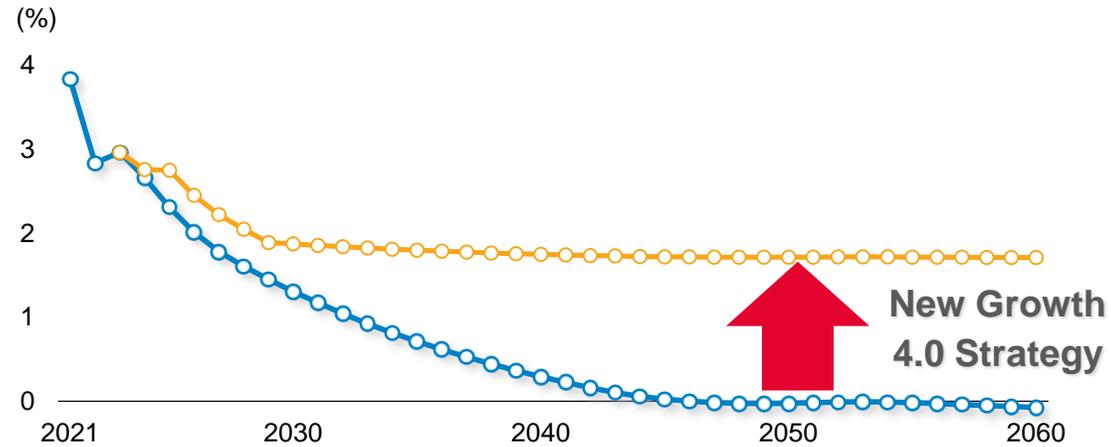
4th Meeting (2023.02.10)

- Reformed FX system and public procurement

Boosting Growth Potential: New Growth Strategy 4.0



Enhance Korea's Potential Growth Rate



“Horizon Europe” (2018)



- “Research and innovation to achieve the UN’s SDGs and boost EU’s competitiveness and growth”



“Moonshot Program” (2019)



- “To Resolve difficult societal issues while bringing together the wisdom of researchers from all over the world”

Korea as the World’s Leading Country 15 projects in 3 sectors



Boosting Growth Potential

Structural Reforms



3 Ways to Structurally Innovate the Economy



- Prepare proposal to reorganize **working hours and wage system** (1st half 2023)
- Prepare policies through discussions in the **Economic, Social & Labor Council** (1st half 2023)



- **Structural reforms of universities based on autonomy**
- Foster **talents specialized in high-tech sectors**



- Implement the **National Pension System reform based on the long-term fiscal projections**
- Work on making **the National Health Insurance** expenditures more efficient to **increase the sustainability**



Boosting Growth Potential:

Enhance Capital Market Accessibility towards Global Standards



Three objectives to improve capital market conditions

Fostering Investor-friendly Capital Market Environment



- **IRC**(Investor Registration Code) **abolished** and **replaced** by passport numbers(individuals) and LEI(corporates)
- **Improve rules** regarding **dividends** to designate shareholders after determining dividend amounts
- **Expand English disclosure**



Deepening FX Market Structure



- **Extend Seoul foreign exchange market trading hours** (until 4PM London time)
- **Allow RFI**(Registered Foreign Institution) to **participate in the Seoul foreign exchange market**



KTB inclusion in World Government Bond Index



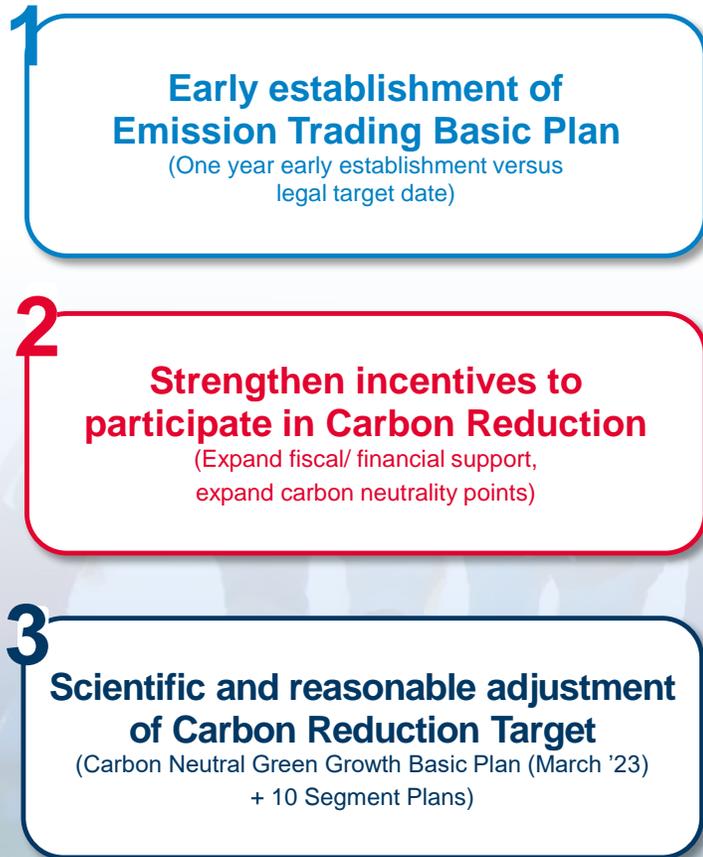
- **Exempt capital gains tax and interest tax** on government bonds for foreign nationals
- Allow government bonds to be **traded through the ICSD omnibus account**
- Listed on the **Watch List of FTSE WGBI**(Sep 22nd, 2022)

Boosting Growth Potential:

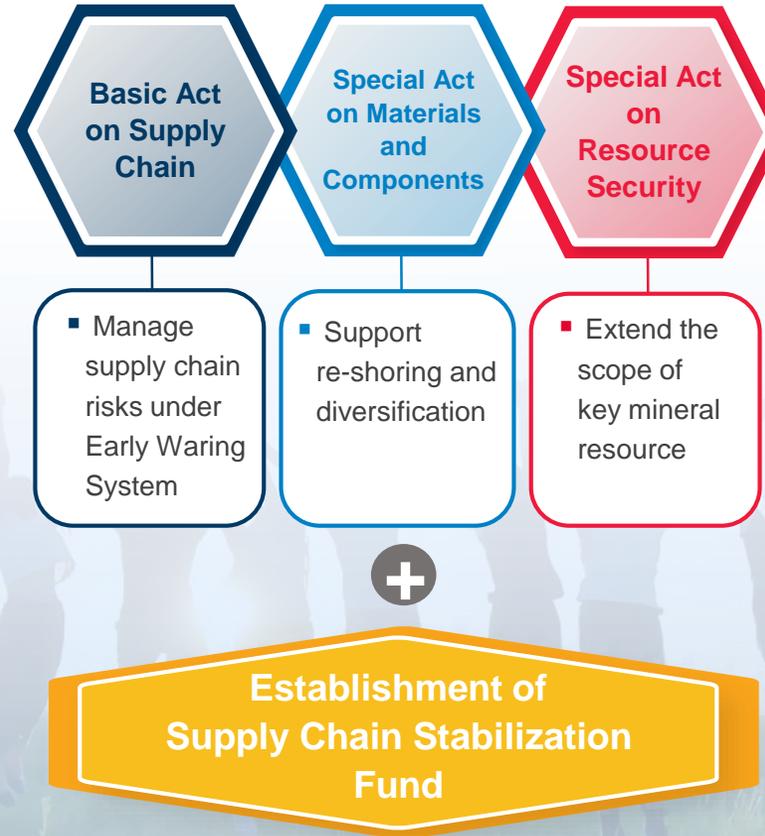
Prepare for the future



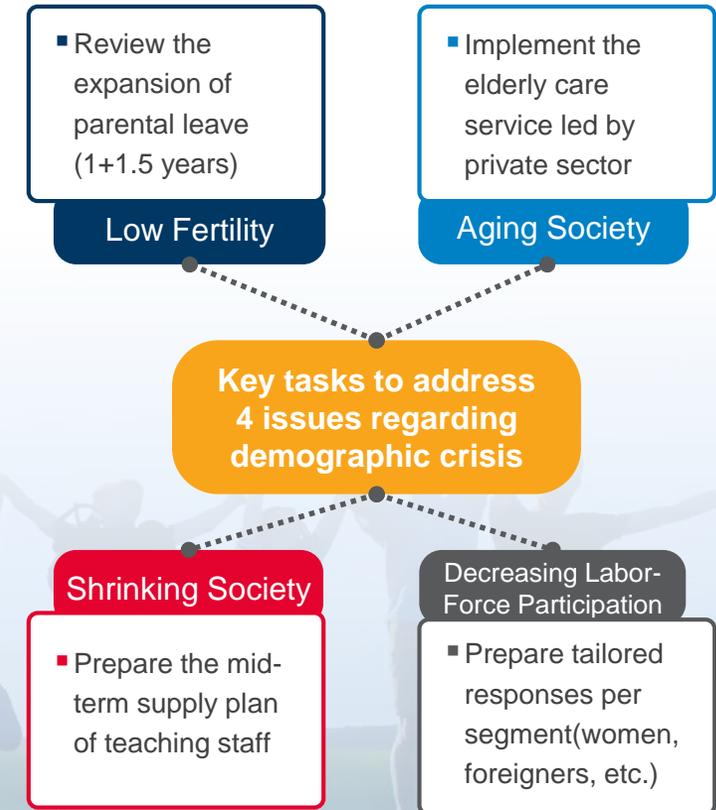
Respond to Climate Change



Institutional efforts to stabilize supply chain



Tackle demographic transition



“Despite these headwinds, the outlook is less gloomy than in our Oct. forecast, and could represent a turning point with growth bottoming out....” – IMF(Jan. 2023)

The night is darkest just before the dawn

As the global economy meets the dawn, Korea will be the first to awaken