

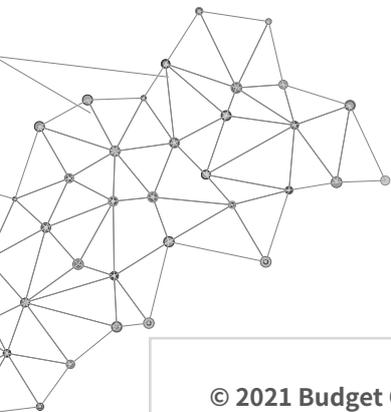
Recovery for All : Korea's Fiscal Response to COVID-19

October 29, 2021



Budget Office
Ministry of Economy and Finance

Republic of Korea



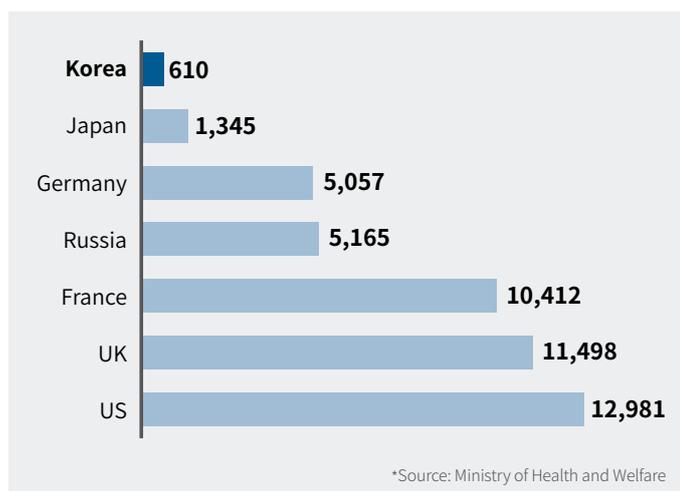
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This policy brief was prepared by the Budget Office of the Korean Ministry of Economy and Finance. Under the leadership of Deputy Minister Sang Dae Choi, the brief was coordinated by Director Junghyun Park and Byoung Jung Kang, and drafted by Deputy Director Kiwoong Lee, Kook Hee Lee, and English Editor Han Sol Na.

01 Background

The outbreak of COVID-19 brought about an unprecedented global health and economic crisis. Like many other countries around the world, South Korea also faced adversity due to the pandemic. At the end of February 2020, Korea had the second highest number of cumulative confirmed cases in the world, and the number of new confirmed cases had surged to more than 900 per day. However, by the end of March 2020, new cases had fallen below 100 per day thanks to the Korean government's "4T+α" (Test, Trace, Treat, Transparency, and above) Strategy. Even though Korea has recently been experiencing community spread in the capital region, as of October 2, 2021, the cumulative number of confirmed COVID-19 cases per 100,000 remained at 610, a relatively low infection rate among developed countries.

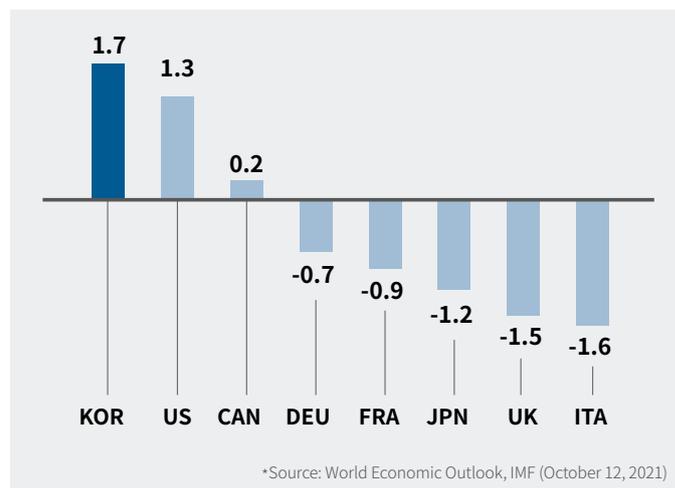
Figure 1. Infection Rate¹ (October 2, 2021)



While COVID-19 has had a significant impact on the global economy, South Korea's relative success in dealing with the economic shock can be contributed in large part to preemptive economic policies and fiscal support. The OECD's Economic Survey of Korea published in August 2020 noted how Korea had effectively prevented the spread of the disease without resorting to total economic shutdown or intensive quarantine measures. It also states that Korea's rapid and effective policy measures were the main factors contributing to the country's minimal economic recession and limiting the financial burden on Korean households and businesses. According to the IMF's World Economic Outlook in October 2021, Korea's growth rate for 2021 is forecast at 4.3%. In addition, Korea's average growth rate in 2020 and 2021 is forecast at 1.7%, the highest among the developed countries of G20. Such

statistical evidence clearly demonstrates the Korean economy's potential for a fast recovery.

Figure 2. 2020-2021 Average Growth Rate (%)



Thanks to the government's efforts to prevent the spread of the virus, Korea was said to have "cracked the code" for COVID-19 response in the Wall Street Journal's special article titled "How South Korea Successfully Managed Coronavirus."²

The government's policy responses can be divided into two main phases. The first phase adopted in the early stages of the outbreak can be characterized by mask supply stabilization and the 4T+α Strategy. The government provided financial and regulatory support to stabilize the supply of masks and ensure that every individual had access to enough masks to protect him/herself from infection. At the same time, the strategy of testing, tracing, and treating prevented the spread of infection while transparent communication with the public built a foundation of trust, making it easier for the government to implement future policies. The second phase can be characterized by a series of supplementary budgets, which played a key role in providing adequate support for those in need due to an unexpected crisis, such as unemployment, poverty, or a health emergency.

The series of supplementary budgets upgraded customized financial support programs in 2020 and early 2021. In 2020, four rounds of supplementary budgets and additional customized relief packages ensured that those in need could gain access to credit, maintain their employment status, and sustain their level of

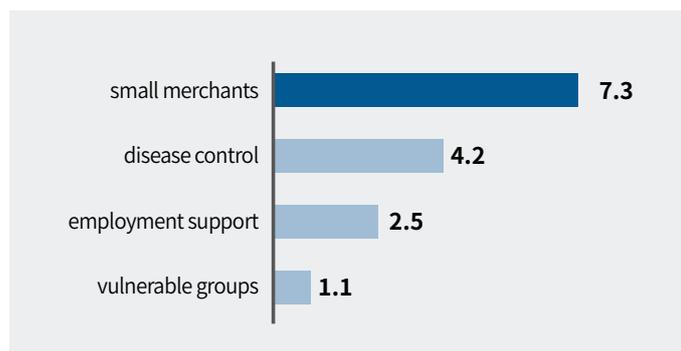
1. The infection rate refers to the cumulative number of COVID-19 cases per 100,000 people.

2. Timothy W. Martin & Dasl Yoon, "How South Korea Successfully Managed Coronavirus," Sept. 25, 2020, Wall Street Journal.

consumption. In addition, emergency benefits for low-income families and additional support for child-raising provided financial relief to help sustain household income levels. Financial support for hospitals and vaccination rollout also established a safety net to ensure the health of the public.

Financial support continued in 2021 with the passage of two additional supplementary budget proposals by the National Assembly. The first of the two budgets was passed in March 2021 and provided KRW 14.9 trillion (USD 12.7 billion³) to support 8.2 million individuals in need. The budget covered various groups that were in need of support due to the prolonged disease prevention measures and resulting unemployment issues, such as self-employed workers and families with children.

Figure 3. First Supplementary Budget for 2021
 (KRW trillion)

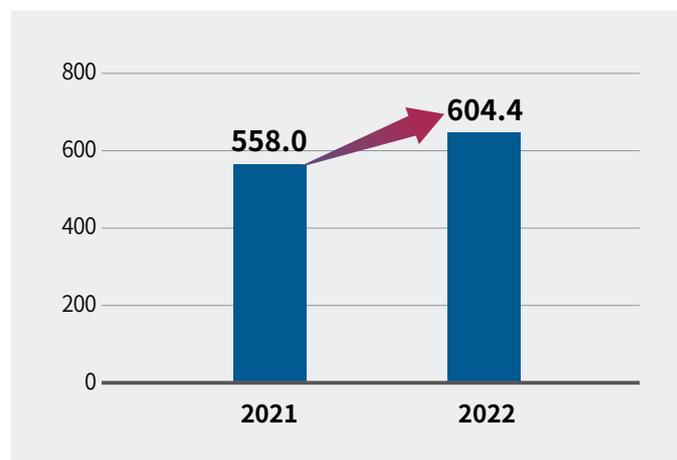


The second of the two budgets was passed in July 2021 and offered KRW 35 trillion (USD 29.7 billion) to facilitate recovery from the crisis. It focused on remuneration of damages for small merchants that were struggling due to continued restrictions placed on businesses as a result of the ongoing crisis.

Building on the support provided in the supplementary budgets, the 2022 Budget Proposal provides sufficient funding to support continued recovery, inclusive growth, and help South Korea hit the ground running in 2022. The proposed overall expenditure is KRW 604.4 trillion (USD 590 billion), an 8.3% increase from the previous year's budget. It targets four primary investment areas: economic recovery for global competitiveness, inclusive and balanced recovery, net zero and digital transformation, and quality of life and public protection. The budget also aims to restore 2.1 million jobs and includes a package worth KRW 3.9

trillion (USD 3.3 billion) to help small businesses that suffered due to the pandemic.

Figure 4. Executive Budget Proposal for FY 2022
 (KRW trillion)



The 2022 Budget Proposal also focuses on preparations for the post-COVID-19 era exemplified by a digital net-zero society. In order to take the lead in this new era, South Korea is investing in AI, semiconductors, health, and future mobility. Investment in astronomy, 6G, and other future-oriented industries will also help guarantee Korea's competitiveness on the global stage.



Figure 5. Briefing of the Budget Proposal (FY 2022)

In addition, a net-zero society is the ultimate goal most countries are striving to achieve in the post-COVID-19 era. Korea will stand at the forefront of climate change response based on a new funding mechanism – the “Climate Response Fund.” Through this new scheme, investment in energy, industrial structure, mobility, and a

3. For the purposes of this brief, KRW 1,177.20 = USD 1 (October 21, 2021)

variety of other areas will promote an environmentally-friendly energy industry to uphold the future of Korea's economy.

The remainder of this policy brief focuses on the Korean government's fiscal response to COVID-19 in addition to the initial policy measures taken to prevent the spread of the virus. First, Section 2 discusses how the government ensured that every individual had access to masks as well as the 4T+ α Strategy. Next, Section 3 presents the four supplementary budget packages and additional customized support for vulnerable groups. Section 4 summarizes the lessons that other countries can take away from the measures initiated in South Korea. Lastly, Section 5 concludes by emphasizing the need for international cooperation to fully recover from the crisis.

02 Korea's Response : **COVID-19 Prevention and Control**

The Korean government's first response to the outbreak of COVID-19 was to stabilize the supply of masks and ensure their adequate distribution. In the early stages of the outbreak, the demand for masks increased dramatically while mask exports skyrocketed. As a result, there was a serious shortage of masks in the market, which caused the price of masks to increase and led to panic buying.

Consequently, the Korean government focused on managing the supply and demand of masks by arranging fiscal support packages and easing regulations on mask production facilities. For instance, the government spent KRW 4.2 billion (USD 3.6 million) of the reserve fund to provide 40 packaging machines for producers in order to accelerate the production of face masks. In addition, new regulations for mask production eased requirements to package each face mask separately and allowed for quality control examinations after masks were put on the market.

Next, the government's core COVID-19 response measure was the "4T+ α " Strategy. This method of test, trace, treat, and transparency

allowed Korea to prevent a severe lockdown. By promptly approving the diagnostic reagent, COVID-19 screening centers were fully equipped with the capacity to conduct 530,000 diagnostic tests per day by the end of October 2021. To the extent permitted by law, individuals were tracked based on their credit card transaction histories and mobile phone location information. The information was used only for epidemiological investigations and was processed anonymously. Based on this information, medical resources could be divided into four patient groups according to the severity of symptoms in order to provide the fastest medical services to patients with the most severe symptoms. In addition, national briefings were held twice a day to provide COVID-19 infection updates, which helped the government gain considerable public trust.

Additionally, information technology, such as the Self-Quarantine Safety Protection App, and drive-through testing centers supported the core disease prevention strategies. Even more importantly, the active participation and cooperation of Korean citizens, dedicated medical staff, and timely response by the government were critical factors that helped effectively suppress the spread of COVID-19.



Figure 6. Drive-Through Testing Centers

03 Korea's Economic and Fiscal Policy: Supplementary Budgets for FY 2020

To respond to the COVID-19 crisis in FY 2020, the Korean government invested KRW 310 trillion (USD 261 billion) in a comprehensive COVID-19 Response Package.

I Figure 7. COVID-19 Response Package (FY 2020)

| KRW 310 trillion | |
|--|-------------------------|
| Real Economy Support | KRW 89 trillion |
| <ul style="list-style-type: none"> 1st~3rd Comprehensive Economic Packages (KRW 32 trillion) Emergency Relief Fund (KRW 15.2 trillion); 2nd Supplementary Budget, Temporary Flexibility and Reduction of Social Insurance Contributions Employment Stability Package (KRW 10.9 trillion); Special Employment Stability Measures, Employment Retention Subsidy H2 Economic Policies and 3rd Supplementary Budget (KRW 9 trillion) Emergency Livelihood and Economy Support Package, 4th Supplementary Budget (KRW 12 trillion) Regional Consumption Coupons, Emergency Support by Industry and Sector, etc. (KRW 10 trillion) | |
| Financial Stability Support | KRW 229 trillion |
| <ul style="list-style-type: none"> Financial Market Stability Package (KRW 135 + α trillion) Key Industry Stability Fund (KRW 40 trillion) Financial Support for Small Businesses (KRW 4.4 trillion) H2 Economic Policies and 3rd Supplementary Budget (KRW 12 trillion) Emergency Livelihood and Economy Support Package, 4th Supplementary Budget (KRW 4.8 trillion) Other (KRW 33 trillion); Export Credit Guarantee Insurance, Venture Startup Loan and Guarantee, Bank of Korea's Additional Expansion of Bank- Intermediated Lending Support Facility | |

*Source: 2021 Economic Policies, Ministry of Economy and Finance

A total of KRW 89 trillion (USD 73.2 billion) was allocated to support the real economy through four supplementary budgets amounting to KRW 67 trillion (USD 56.9 billion), flexibility and reduction of social insurance contributions, and tax reductions. It was the first time in 59 years that the Korean government proposed four supplementary budgets in a single fiscal year. Such a historical event represents the crucial role that fiscal policy can play in a pandemic. The supplementary budgets were announced over the course of six months from March to September 2020. They covered everything from preemptive disease prevention and control measures, emergency relief payments, and relief packages for small merchants and SMEs to financial support for the Korean New Deal in preparation for the post-COVID-19 era.

I Figure 8. Supplementary Budgets for FY 2020 (KRW trillion)

| Date | Amount | Details (KRW trillion) |
|-----------|--------|--|
| March. 17 | 11.7 | <ul style="list-style-type: none"> Disease prevention and control 2.1 Support for small merchants 4.1 Income support for low-income families 1.8 Child-raising support 1.2 Local economy recovery 1.2 |
| April. 30 | 12.2 | <ul style="list-style-type: none"> Emergency relief payments 12.2 |
| July. 3 | 35.1 | <ul style="list-style-type: none"> Emergency loans for struggling small merchants, SMEs, and large enterprises 5.0 Strengthening employment security and social safety nets 10.0 Domestic economy, exports, and local economy 3.2 Korean New Deal investments 4.8 Expanding Korea's COVID-19 response model 2.4 |
| Sept. 22 | 7.8 | <ul style="list-style-type: none"> Support for small merchants and SMEs 3.9 Emergency employment security 1.5 Income support for low-income families 0.4 Child-raising support 1.4 Employment support 0.8 Purchase of vaccines, etc. 0.2 |

*Source : Ministry of Economy and Finance

In addition to the KRW 89 trillion (USD 73.2 billion) investment in the real economy, a total of KRW 229 trillion (USD 194.9 billion) was also allocated to support financial stability, including funds for SMEs, the bond market, and to support key industries.

03-1 1st Supplementary Budget: Prompt Recovery from COVID-19

On January 20, 2020, the first patient was diagnosed in South Korea, and by mid-February, the virus had begun to spread in the regions of Daegu and Gyeongbuk in the southeast of the country. This area was designated as a "Special Care Zone" on February 21, 2020, and the government concentrated its response measures in this region. Due to continued community transmission at the end of February 2020, an additional budget of KRW 11.7 trillion (USD 10.0 billion) was approved in March as the 1st Supplementary Budget for FY 2020.

The 1st Supplementary Budget aimed to overcome the crisis in the early stage of the outbreak. It focused on four areas of investment: 1) disease prevention efforts, 2) SMEs and small merchants, 3) employment and welfare, and 4) the local economy.

First, KRW 2.1 trillion (USD 1.8 billion) was allocated to support disease control and prevention and improve the disease prevention system. These investments focused on facilities and equipment for treatment, such as negative pressure rooms and ambulances. In addition, the government invested in the establishment of two additional hospitals specializing in infectious diseases.⁴

Second, KRW 4.1 trillion (USD 3.5 billion) was approved to support SMEs and small merchants. Emergency credits, employment subsidies, and vouchers for traditional markets were the primary methods of support for SMEs and small merchants. In particular, low-interest rate loans were made available as a form of emergency credit.

Third, KRW 3.5 trillion (USD 3.0 billion) was allocated for employment and welfare support. These are essential areas of investment for a prompt recovery from COVID-19. Vouchers for low-income families and wage subsidies to support additional employment of young adults were the key policy tools to sustain household income during the crisis.

Lastly, KRW 1.2 trillion (USD 1.0 billion) was allocated to support the recovery of local economies. Various measures to boost employment and industry in certain regions, such as Daegu and Gyeongbuk, were introduced. For example, the budget was allocated to rehabilitate the special disaster areas, to support employment and local consumption, and to strengthen the local government finance.

Figure 9. 1st Supplementary Budget for FY 2020

| KRW 11.7 trillion (new spending 10.9 + revenue adjustment 0.8) | |
|---|-----------------------|
| Details | Amount (KRW trillion) |
| Disease efforts | 2.1 |
| - Support face mask supply and disease prevention | 0.2 |
| - Compensation for healthcare institutions, etc. | 1.9 |
| Small merchants and SMEs | 4.1 |
| - Low-interest rate loans | 3.1 |
| - Employment retention and rent reduction | 0.6 |
| - Reopening of businesses and vouchers for traditional markets | 0.4 |
| Welfare and employment | 3.5 |
| - Vouchers for low-income, etc. | 2.9 |
| - Employment growth package, etc. | 0.6 |
| Support for the recovery of the local economy | 1.2 |
| - Special assistance for local use in areas affected by COVID-19 | 0.2 |
| - Issuance of regional gift certificates | 0.2 |
| - Disaster response support in special disaster areas, etc. | 0.8 |

*Source : Ministry of Economy and Finance

03-2 2st Supplementary Budget: Emergency Relief Payments

As the virus spread beyond Asia and around the world, the WHO declared the COVID-19 outbreak a pandemic on March 11, 2020. The global economy faced an unprecedented crisis, and Korea was no exception. Economic downturn due to social distancing and limitations on public gatherings led to a decrease in household income.

To compensate for the loss of household income, on March 30, 2020, the government announced the Emergency Relief Payment at the Third Emergency Economic Council Meeting held by President Moon. The Emergency Relief Payment covered all households regardless of their income level in an attempt to mitigate the prolonged economic hardships all Koreans were facing. The National Assembly approved a support package of KRW 12.2 trillion. The amount of support varied depending on the size of a household (KRW 400,000 for single-person households, 600,000 for two-person households, 800,000 for three-person households, and 1,000,000 for households with four or more people). Those who did not receive cash payments could choose to receive their benefits through credit or debit cards or in the form of local market gift certificates. In order to promote consumption, recipients were required to spend the payments from May 4 to August 31, 2020.

Figure 10. Effect of Emergency Relief Payment



4. Because there was only one hospital specializing in infectious diseases, the 1st Supplementary Budget targeted two additional hospitals to improve COVID-19 treatment conditions.

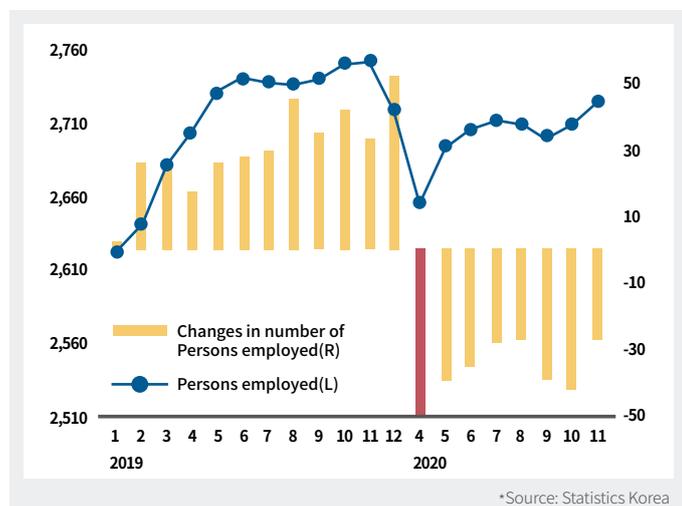
03-3 3rd Supplementary Budget:
**Overcoming the Economic Crisis
 and Preparing for the Post-COVID-19 Era**

By June 2020, the pandemic still showed no signs of abating. In response, the government decided to take stronger measures to prevent the spread of the disease, to increase employment and to focus on income support for accelerated economic recovery. In addition, it was necessary for the government to establish a new national development strategy to prepare for the rapid changes ahead, including increasing “contactless” practices and digitalization.

As a result, the Korean government proposed the 3rd Supplementary Budget amounting to KRW 35.3 trillion (USD 30.0 billion), with the goal of supporting employment, financing the Korean New Deal(Korea’s new national development strategy) and helping financial stability.

On July 3, 2020, the National Assembly successfully passed the budget with a total amount of KRW 35.1 trillion (USD 29.9 billion). The funds for the budget came from spending restructuring worth KRW 10.1 trillion (USD 8.6 billion), including a 10 percent budget cut in public sector operating expenses for the second half of FY 2020. The 3rd Supplementary Budget expanded financial support, promoted employment, strengthened social safety nets, and prepared for the post-COVID-19 era.

I Figure 11. Employment Statistics (FY 2020)



The government allocated KRW 5 trillion (USD 4.3 billion) for the Financial Support Package and Special Measures for Employment Stability as announced on April 20, 2020. The Financial Support Package included financial support programs for SMEs and key industry relief funds designed to support essential industries, such as aviation, shipping, shipbuilding, automobiles, and general machinery.

In addition to the Financial Support Package, the government focused on employment packages in several areas. First, to mitigate labor market shocks caused by the pandemic, the government expanded the eligibility for Special Employment Support by adding four more industries (aircraft ground handling, duty-free shops, etc.) as areas of support to the existing four industries (tourism, lodging, etc.). The government also provided employment retention subsidies for those industries to help maintain the current level of employment amid the COVID-19 restrictions.

Second, a new program for unpaid leave was launched that provided a portion of the employee’s salary for employees who took a leave of absence following the outbreak due to a drastic drop in their company’s sales.

Third, the government expanded unemployment benefits and established the Emergency Employment Security Assistance Fund to support small businesses and independent workers. Monthly payments of up to KRW 500,000 (USD 426) for three months targeted approximately 930,000 workers who were not covered by employment insurance programs.

Lastly, KRW 3.6 trillion was allocated to create more than 550,000 jobs in the public sector for young adults and vulnerable groups. This new job creation plan focuses on the contactless and digital sectors, which have grown substantially since the beginning of the crisis. These jobs focused on creating employment opportunities for young adults in the digital industry.

Aside from the Financial Support Package and employment measures, the government prepared an economic stimulus package worth KRW 10.4 trillion (USD 8.9 billion). In order to revitalize the national and local economies as well as the export industry, the government invested KRW 3.2 trillion (USD 2.7 billion)

in vouchers for use in eight sectors (lodging, tourism, exhibitions, sports, agricultural and marine products, etc.), virtual consulting for exports, and subsidies for companies returning to Korea from overseas. The government also invested KRW 4.8 trillion (USD 4.1 billion) in the Korean New Deal while providing KRW 2.4 trillion (USD 2.0 billion) for the advancement, industrialization, and globalization of Korea's COVID-19 response model and reinforcement of disaster preparedness.



Figure 12. Briefing for the Korean New Deal

Box 1. Korean New Deal 1.0 (FY 2020)

The Korean New Deal aims to make South Korea a front-runner in the post-COVID-19 era. Unlike the New Deal in the United States during the Great Depression, the Korean New Deal focuses on the establishment of digital and green infrastructure with an overarching theme for a stronger social safety net.

The Korean New Deal is an initiative that promotes digital innovation across every sector of the economy based on ICT, which is one of Korea's strongest assets, including the social overhead capital needed to promote e-government. In the 3rd Supplementary Budget, KRW 2.6 trillion (USD 2.2 billion) was allocated for the installation of public Wi-Fi, AI learning, and digitalization of urban industrial logistics systems.

The Green New Deal is another initiative that promotes green infrastructure, renewable energy, and fostering green industries.



Figure 13. D.N.A. (Data, Network, AI)

The government will invest KRW 1.2 trillion (USD 1.0 billion) to establish the necessary infrastructure for renewable energy, such as solar, wind, and hydrogen power; green remodeling of schools and public facilities; and development of 100 promising companies in the green sector.

Lastly, the employment and social safety net initiative aims to ease the uncertainties resulting from structural transformation. To prevent a decline in the employment rate and to minimize the employment gap, the government will invest KRW 1 trillion (USD 0.9 billion) in five major initiatives, including a universal employment safety net and vocational training system for future-oriented jobs.

On July 14, 2020, the government confirmed the Korean New Deal with a budget of KRW 160 trillion (USD 136.2 billion) to create 1.9 million new jobs in digital and environmentally-friendly industries by 2025. The investment will lead to the creation of a future-oriented job market for young adults.

The government will also invest in ten additional projects, such as “Data Dam” and “Eco-Friendly Mobility for the Future.” Data Dam includes projects that will expand big data platforms and strengthen the foundation for data collection, including open access to public data and integration of 5G and AI throughout all sectors. The government has also prepared an additional KRW 21 trillion (USD 17.9 billion) for FY 2021 and KRW 33.7 trillion (USD 28.7 billion) for FY 2022 to continue to promote the Korean New Deal.

Figure 14. Korean New Deal 2.0 (FY 2022) (KRW trillion)

| Korean New Deal 2.0 KRW 33.7 trillion | |
|--|--------------------------|
| Digital, Green Transformation+Human Development | |
| 1. Digital New Deal | KRW 9.3 trillion |
| Digital Transformation + Ultra-Connection | |
| • Data+Network+AI, etc. | 6.3 |
| • Contactless Infrastructure Improvement | 0.5 |
| • Ultra-Connection | 0.8 |
| • Digitalization of SOC | 1.8 |
| 2. Green New Deal | KRW 13.3 trillion |
| Expanding Net-Zero Society + New "Climate Response Fund" | |
| • Business Transformation, etc. | 1.1 |
| • Green Infrastructure Transformation | 3.5 |
| • Green Mobility Expansion, etc. | 6.8 |
| • Green Industry Innovation, etc. | 1.9 |
| 3. Human New Deal | KRW 11.1 trillion |
| Policy for the Young Generation + Narrowing the Gap | |
| • Asset+Housing+Education for Young Adults | 2.2 |
| • Narrowing the Education and Care Gap | 1.3 |
| • Human Investment: AI, SW Job Training | 2.0 |
| • Social Safety Net: Interim Paid Sick Leave, etc. | 5.6 |

*Source : Ministry of Economy and Finance, Republic of Korea

03-4 4th Supplementary Budget: Customized Relief Package I

In mid-August 2020, the number of daily confirmed COVID-19 cases exceeded three digits for more than a month. The government was forced to implement measures limiting the operation of business with a high risk of spreading infectious diseases, such as karaoke, buffets, and Internet cafes. As these measures adversely affected the service industries, many SMEs suffered a serious decline in sales, leading to job losses. For this reason, the government set up a KRW 7.8 trillion (USD 6.6 billion) supplementary budget to support people who lost their source of income due to restrictions on operating hours for businesses and large gatherings. The 2nd Supplementary Budget's Emergency Relief Payment was distributed to all citizens. However, the government decided to provide customized relief packages focusing on small business owners, individuals with job insecurity, families with children, and low-income families.

The government invested heavily in the New Hope Fund to support 2.94 million people, or 87% of small business owners. Additionally, the 4th Supplementary Budget expanded the Emergency Employment Subsidy to cover 2.2 million people by including 700,000 freelancers and those with special employment contracts without employment insurance. Additionally, the Supplementary Budget provided funding for 6.7 million children to support virtual learning and childcare programs, including the Emergency Livelihood Payment for 550,000 households suffering from income loss.

Figure 15. 4th Supplementary Budget
(Customized Relief Packages, September 2020)

| KRW 7.8 trillion | |
|--|------------------------------|
| Details | Amount (KRW trillion) |
| Emergency stability subsidy for SMEs | 3.9 |
| - Small businesses hit by social distancing | 3.4 |
| - SME emergency business operating loans | 0.5 |
| Emergency employment support | 1.5 |
| - Employment retention support | 1.1 |
| - Training programs for young adults | 0.1 |
| - Unemployed workers affected by the crisis | 0.3 |
| Emergency support for low-income households | 0.4 |
| - Emergency income support | 0.4 |
| - Local government job creation | 0.02 |
| Support for families | 1.8 |
| - Subsidy for childcare | 1.3 |
| - Subsidy for family leave | 0.1 |
| - Support for flexible working hours system | 0.4 |
| - Mobile bill payment support | 0.01 |
| Emergency disease prevention and control | 0.2 |
| - Vaccines for COVID-19 and other diseases | 0.2 |
| - Support for healthcare providers | 0.02 |

03-5 Customized Relief Package II

As COVID-19 cases resurged in December 2020, the Korean government raised the level of social distancing, shortened business hours in the capital region, and prepared a support package for small businesses and other vulnerable groups to compensate for the damage.

A special fiscal support package of KRW 9.3 trillion (USD 7.9 billion) provided funding for a total of 5.8 million small businesses and workers. This package targeted at KRW 5.6 trillion in emergency relief for businesses and workers affected by the limitations on social gatherings, KRW 0.8 trillion (USD 0.7 billion) in support for stronger disease prevention measures, and KRW 2.9 trillion (USD 2.5 billion) in customized support for severely affected sectors and individuals.

In this package, the government expanded cash relief for severely affected industries and small businesses by increasing funding from the KRW 3.3 trillion (USD 2.9 billion) in the 4th Supplementary Budget (New Hope Fund) to KRW 4.1 trillion (USD 3.5 billion) as part of the Customized Relief Package II. In addition to cash relief, the government simultaneously provided low-interest rate loans and credit guarantee schemes for small businesses, extended tax incentives for voluntary rent cuts given to commercial property owners, and expanded payment deferrals for utility bills (i.e., electricity and gas bills) and social security contributions (i.e., employment and industrial accident compensation insurance). At the same time, cash relief was also offered to independent workers, including platform workers and freelancers, visiting nurses, and care service providers. The government started the distribution of cash relief in mid-January 2021, and 90 percent of those eligible to receive cash relief received it before Lunar New Year's Day (February 12, 2021).

Figure 16. Customized Relief Package II
(December 2020)

KRW 9.3 trillion for 5.8 million beneficiaries

| Details | | Amount (KRW trillion) |
|---|--|---|
| Emergency Relief Program (KRW 5.6 trillion) | Support for small businesses and SMEs | 5.1 (3.9 million individuals) |
| | - Cash relief for small businesses | 4.1 |
| | - Rent cut support | 1.0 |
| | - Cash relief for employment insecurity | 0.5 |
| | - Support for independent workers, etc. | 0.4 |
| | - Subsidy for home nurses and care service providers | 0.05 |
| | - Income support for taxi drivers | 0.04 |
| Disease Prevention (KRW 0.8 trillion) | Strengthening disease prevention | 0.8 |
| | - Improving the testing process, etc. | 0.4 |
| | - Support for medical facilities | 0.4 |

| | | |
|--|---|--|
| Customized Relief Package (KRW 2.9 trillion) | Recovery of small businesses and SMEs | 1.0 (0.26 million individuals) |
| | - Support for small businesses | 0.5 |
| | - Liquidity for small businesses and SMEs | 0.5 |
| | Extra support for promoting retrial and reemployment | 1.6 (1.02 million individuals) |
| | - Employment retention support | 0.9 |
| | - Youth employment support | 0.5 |
| | - Support for independent workers, etc. | 0.2 |
| | Strengthening the social safety net | 0.3 (0.57 million people) |
| | - Expanding welfare support | 0.1 |
| | - Emergency Childcare | 0.2 |

*Source : Ministry of Economy and Finance, Republic of Korea

Box 2. Korea's Vaccination Plan

The Korean government prepared KRW 1.2 trillion in the 2020 budget, the 4th Supplementary Budget, and the 2021 reserve funds to cover overseas vaccine purchases. Such purchases will provide enough doses for 56 million people, enough to inoculate the entire Korean population. Furthermore, the Korean government will continue to support the development of domestic vaccines and treatments.

As of October 6, 2021, 77.5% of the total population had received their first dose, and 54.5% had already been fully vaccinated. The government plans for 80% of the population to be fully vaccinated by the end of October. For FY 2022, the budget proposal pending in the National Assembly earmarks KRW 2.6 trillion (USD 2.2 billion) for the purchase of 170 million additional doses, which would cover more than three shots for each individual including a booster shot.

The budget proposal for FY 2022 also allocates KRW 5.8 trillion for vaccines and disease prevention. First, a package worth KRW 3.5 trillion has been prepared for the purchase and injection of shots. In addition to the KRW 2.6 trillion allocated for the purchase of COVID-19 vaccines, KRW 0.6 trillion has been earmarked for vaccine injections, and KRW 0.4 trillion has been prepared to fund injections of vaccines for other diseases. Next, KRW 1.8 trillion will be put towards disease prevention, such as support for hospitals. Lastly, KRW 0.5 trillion will be used for research and development.

04 Lessons Learned

In the event of a global pandemic, it is critical to prevent large assemblies and/or gatherings in the initial stage of the outbreak.

In the early days of the COVID-19 outbreak, religious gatherings in the southern province of Korea caused a group infection. Group infection occurred by assemblies, gatherings, or meetings can spread diseases rapidly to local communities, making it nearly impossible to conduct epidemiological investigations. Therefore, it is critical to establish strict guidelines for group gatherings and assemblies during the initial phase of the pandemic.

In the event of a health crisis, prompt decision-making from leadership and transparent, clear communication with the public are significant.

The Korean government promptly initiated infectious disease response governance at the start of the pandemic. It immediately began the operation of a countermeasure headquarters in accordance with the stage of the infectious disease crisis and ultimately opened the Central Disaster and Safety Countermeasure Headquarters under the leadership of the prime minister, further strengthening the central and local government support as well as cross-ministerial response.

In addition, through regular briefings held twice daily, information on COVID-19 was broadcast nationwide. These actions built a foundation of trust between the government and the public, leading to greater public acceptance of prevention measures, such as strict rules limiting large gatherings, at the beginning of the crisis.



Figure 17. COVID-19 Briefing by KDCA

3. When responding to an economic shock caused by a pandemic, it is critical to compose a cohesive, comprehensive, and phased economic response package.

It was crucial to establish a control headquarters so that responsible authorities could implement necessary policy measures in a timely manner. As the COVID-19 crisis worsened and concerns over a global economic recession intensified, the president presided over crisis response meetings as the principal decision-making authority. In April 2020, as the domestic economy began deteriorating due to COVID-19, a regular emergency economic meeting was established to respond to the economic crisis, and, to strengthen cooperation between ministries. In total, eight emergency economic meetings were held to announce various COVID-19 related measures in the first six months of the pandemic from March to September 2020.



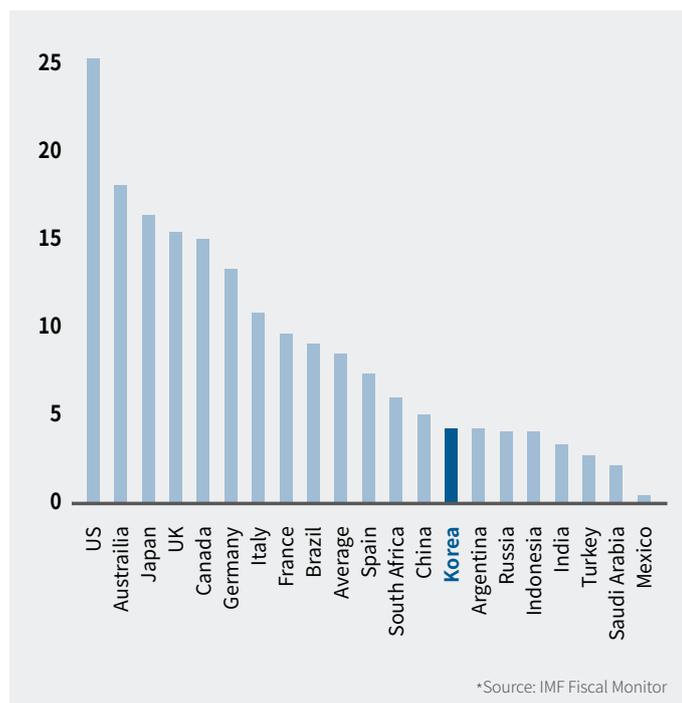
Figure 18. Central Disaster & Safety Countermeasure Headquarters

Thanks to such systematic governance, Korea was able to prepare comprehensive measures amounting to KRW 310 trillion (16% of GDP) to support affected small and medium-sized businesses and low-income households in 2020. In accordance with the changing economic conditions, packages consisted of preemptive disease prevention and control measures from February to March 2020, Emergency Relief Payments from March to May 2020, mid- to long-term comprehensive economic measures from June to July 2020, and Customized Relief Packages from August to December 2020. This comprehensive, phased approach was continued in 2021 to tackle the crisis and in 2022 to prepare for the post-COVID-19 era.

Even the best policies will not be effective without adequate and timely funding

For the first time in 59 years, the Korean government put together four supplementary budgets. It is apparent that Korea has successfully responded to the COVID-19 pandemic and economic crisis at a lower cost compared to other major countries through timely supplementary budget arrangements. As of June 5, 2021, Korea's fiscal measures accounted for 4.5% of GDP, placing it in the 16th spot compared to other G20 countries with the most fiscal input. Such efficient measures by the government enabled a quick recovery from the crisis. Therefore, it is crucial to prepare fiscal packages with enough funding to support vulnerable groups who are most in need.

Figure 19. Fiscal Support (% of GDP, June 5, 2021)



Countries must prepare for social and economic changes while responding to an economic and health crisis.

As COVID-19 has forced the rapid adoption of virtual and contactless meetings and the green economy, it is critical to systematically prepare for and promote social and economic changes. At the same time, it is imperative to secure an employment safety net in order to help those affected by the transition to recover from job loss. Correspondingly, by

2025, Korea will release a package worth KRW 160 trillion to promote the Korean New Deal. This new development strategy consisting of the Digital New Deal and Green New Deal will strengthen Korea's safety net and will invest in ten major projects, such as Data Dam, Green Smart Schools, and Green Energy (solar power and offshore wind power) in such a way that Korean citizens can witness tangible results. In August 2020, the OECD Economic Surveys on Korea evaluated the "Korean version of the New Deal" as a policy that will play a positive role in Korea's economic recovery.

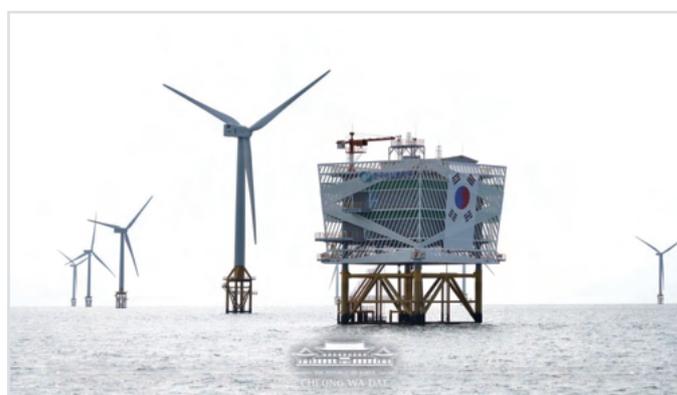


Figure 20. Offshore Wind Power in Korea

In the event of a prolonged pandemic or similar health crisis, it is critical to find the right balance between disease prevention measures and economic support.

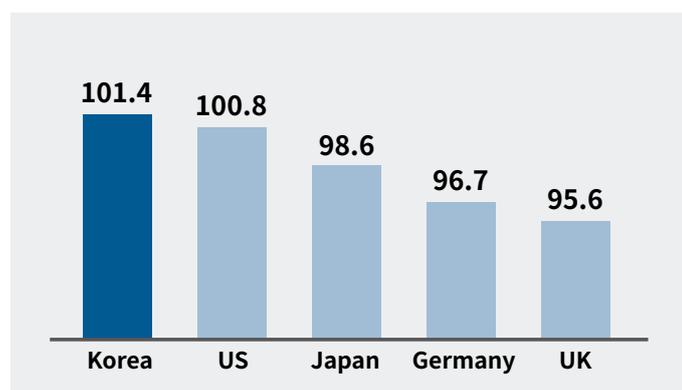
Throughout the COVID-19 crisis, South Korea has continued to strive for the stable management of the pandemic without completely shutting down the economy. The Korean government boosted the economy through domestic demand by adding stimulus and economic programs. Most recently, the government has unveiled a practical and detailed social distancing scheme to both support economic recovery while maintaining necessary disease prevention measures. Other governments should also seek measures to promote a balance between disease prevention and economic stability suitable for the situation in their own country.

05 Conclusion

South Korea's acclaimed "K-COVID-19 Response Measures" have helped the country minimize economic setbacks through fiscal policies, including four additional budgets suited to each phase of the COVID-19 pandemic. As a result of these efforts, Korea's GDP in the third and fourth quarters of 2020 stood at 2.1% and 1.1%, respectively, well above the average in the first half of 2020. Additionally, Korea was the first developed country to recover to pre-pandemic GDP levels in the first quarter of 2021. In other words, the speedy recovery from the crisis supported economic growth, which is a crucial first step to achieve full recovery in the following years.

I Figure 21. Fastest to Recover to Pre-Pandemic GDP

(quarterly GDP as of 2Q 2021, rebased to 100 as of 4Q 2019)



The Korean government is currently preparing for a gradual return to normal. However, the pandemic is still ongoing in Korea and around the world. Therefore, it is still too early to finalize a complete set of economic and fiscal policies as a reference for this next stage. Nonetheless, Korea's response to COVID-19 can offer useful insights to help other countries recover from the current crisis and prepare for the emergence of future health and economic crises.

Finally, the world cannot defeat COVID-19 without international cooperation. We are living in an ever more connected world, and infectious diseases have no borders. That is why all countries, including Korea, must come together to share their knowledge, experience, and best practices to overcome this unprecedented global health crisis together.