

The New Korean Government Economic Policy Directions

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The new Korean government economic policy directions

Background

The economy is facing multi-faceted challenges as there are growing concerns about economic slowdown amid high prices. Volatility in the financial and foreign exchange (FX) markets is rising due to external factors such as major economies' accelerating tight monetary policies with a surge in raw material prices fueling consumer prices in Korea. Subsequently, the economy is projected to see slowdowns in exports and investment, requiring immediate policy actions to address such challenges. Additionally, the lingering fundamental problems of the economy are also having a major impact.

The government-led approaches and excessive regulations have dampened the private sectors, largely undermining the capability for growth and job creation. In addition, the population has started to decline with the lingering structural problems dragging on productivity growth, and Korea's total factor productivity has also continued to fall. For these reasons, Korea's economic fundamentals have faced significant declines since the 1990s with its potential growth rate falling to as low as two percent. Against this backdrop, the new government has drawn up its four economic policy directions.

2022 outlook

- **Growth:** Annual growth is projected to be 2.6 percent. While private spending is projected to rise and exports to remain strong, higher external uncertainty is to continue to weigh on investment.
- **Employment:** The economy is expected to add 600,000 jobs, but the growth trend will be slower in the second half in the healthcare and 'untact' service sectors.
- **Consumer price:** The annual consumer price increase is projected to be 4.7 percent due to an increase in global raw material prices and demand recovery.
- **Current account balance:** Current account surpluses are expected to decline to US \$45.0 billion due to decreases in commodity and tourism balances.

	2021	2022 ^e		2023 ^e
		Revised	Original	
GDP growth (%)	4.1	2.6	3.1	2.5
Employment growth (thousand)	370	600	280	150
Employment rate (% , aged 15-64)	66.5	68.0	66.9	68.4
Consumer price inflation (%)	2.5	4.7	2.2	3.0
Current account (US \$ billion)	88.3	45.0	80.0	56.0
- Exports (y-o-y, %)	25.7	11.0	2.0	1.0
- Imports (y-o-y, %)	31.5	18.0	2.5	-1.0

e: estimate



The framework of economic policy directions

The government has drawn up four policy directions based on four pillars constituting Freedom, Fairness, Innovation and Solidarity, aiming to overcome low growth and create a virtuous circle of growth and welfare.

The policy directions focus on achieving 1) the dynamic economy that puts the private sector at the core of the economic policy, 2) the economy that pushes toward economic leaps by addressing structural problems, 3) the leading economy that prepares for the future, 4) the inclusive economy that leaves no one behind.

I. The dynamic economy that puts the private sector at the core

1. Carry out regulatory reforms and give a boost to businesses

- 1) Push ahead with regulatory reforms and boost investment in the private sectors and businesses
- 2) Launch a taskforce¹⁾ for economic regulatory reforms led by the Deputy Prime Minister and joined by ministers from the related ministries
- 3) Refrain from excessive regulations with effective measures such as a regulatory cost management system with the introduction of a 'One-in, Two-out' rule, sun-setting regulations and the analysis of regulatory impacts
- 4) Pursue innovative deregulation to achieve effective regulatory reforms

¹⁾ The taskforce is made up of five working groups dealing with solving difficulties on business site, environment, health care, location and new industries.

- Transfer some of the regulatory authorities to local governments
 - Introduce a solution aimed to discover regulations that involve the interests of multiple organizations and comprehensively revise related systems and laws
 - Consider making mutual innovation funds, and set up a 'regulatory sandbox' for dealing with conflicts to smoothly resolve conflicts between stakeholders
- 5) Initiate regulatory overhauls on lingering problematic regulations

2. Expand investment in businesses and create more jobs

- 1) Revise taxation systems to encourage businesses to increase investment and create more jobs
 - Lower the highest corporate tax rates to 22 percent from 25 percent and streamline tax bracket systems
 - Largely reduce tax rates concerning the distribution of retained earnings at home and abroad
- 2) Facilitate business succession to promote technology and capital transfers between generations
 - Introduce an inheritance tax deferral and mitigate requirements for imposing inheritance taxes
- 3) Remove legal uncertainty that may undermine business activities
- 4) Incentivize companies that invest and create more jobs in national strategic or cutting-edge industries such as semiconductors and OLED

3. Support for small and mid-sized enterprises (SMEs) and startups

- 1) Focus more on increasing self-reliance, competitiveness and attaining innovative growth
- 2) Provide tailored support to meet companies' needs to instill dynamism in the local startup ecosystem
 - Raise tax-free limits for stock options to 200 million won from the current 50 million won to help SMEs retain talented employees
 - Refine regulations on M&A and IPO to increase private investment in startups

4. Build free and fair market orders

- 1) Penalize unfair practices such as the abuse of intellectual property, the extortion of new technologies and unjust internal transaction, and revise regulations that hinder free competition
- 2) Introduce measures aimed to promote fair trade practices and protect subcontractors as well as establish fair trade practices in the platform economy

II. The economy that pushes toward economic leaps by addressing structural problems

1. Reforms in public services and the national pension scheme

- 1) Carry out overall fiscal reforms to ensure fiscal sustainability

- Build fiscal soundness through the legislation of fiscal rules
 - Refine old-fashioned fiscal systems in accordance with economic and social conditions
- 2) Revamp public institutions to provide high-quality public services
 - Make adjustments for the functions and manpower of public institutions through periodic examination
 - Control highly indebted public institutions by making plans to help them recover fiscal soundness
 - 3) Reform the national pension scheme by ensuring adequate income for people in later years and gaining its sustainability
 - Set up the public pension reform commission to improve the national pension scheme

2. Labor market reforms

- 1) Ameliorate rigid rules on working hours in accordance with changes in the labor market
 - Find effective measures to revise the rules within the current 52-hour workweek system
- 2) Upgrade the wage system to a performance-based system, and provide more consulting services to adopt an adequate wage system tailored to fit the nature of businesses
- 3) Discover tasks and facilitate discussions aimed to reconstruct the labor market in a future-oriented manner

3. Education reforms

- 1) Give more autonomy to universities to nurture human resources in the high-tech industries
- 2) Build a system to nurture human resources to match the needs of the local economy

4. Reforms in the financial market

- 1) Expand support for promoting innovative growth and enhancing digital financial innovation
 - Revise overall regulations in the financial market to align with changes in the digital environment
 - Create an environment to ensure trust-based and responsible growth in the virtual asset market
- 2) Give a boost to the capital market and advance the FX market
 - Postpone the introduction of financial investment income taxation by two years and abolish taxation for capital gains earned from listed stocks excluding high-earning stock holders and lower security transaction taxes in advance
 - Allow foreign financial institutions (FIs) to directly participate in the FX market of Korea and extend the market's trading hours in line with global markets, and refine measures to promote fair competition in the FX market as well as maintain macroeconomic soundness (scheduled to be announced in Q3, 2022).

5. Reforms in the service industry

- 1) Refine regulations on the service industry and foster promising service sectors to create new service sectors
- 2) Expand support for the service industry to the level of support for the manufacturing industry, especially in terms of taxation, financial assistance, public subsidy and location

III. The leading economy that prepares for the future

1. Innovate science technology and R&D

- 1) Make policies on science technology and R&D that focus on securing cutting-edge technologies and developing new industries
 - Establish a roadmap aimed to secure unrivaled technologies and develop high-tech strategic industries, and enact the Special Act on Fostering National Strategic Technologies
 - Relax criteria for exemption from the preliminary feasibility studies for SOC and R&D to accelerate the implementation of high-tech businesses' large-scale projects
- 2) Help businesses create new technologies by forging international partnerships on large-scale projects in promising research areas such as lunar exploration, infectious diseases and quantum information science

2. Foster high-tech strategic industries

- 1) Devise strategies for fostering new industries and help develop unrivaled high-tech industries
 - Help high-tech businesses gain licensing, develop human resources and create industrial ecosystems
- 2) Promote promising new industries such as AI and help improve competitiveness in nuclear energy
 - Work to recover the nuclear ecosystem by creating new tasks in advance and developing next-generation nuclear reactors

3. Respond to demographic changes

- 1) Prepare a government-wide and public-private joint scheme to deal with major challenges caused by demographic changes
 - Maintain the economically-active population and lessen the burden on childbearing and childrearing, and brace for an aging and shrinking society to address low fertility and population aging

4. Achieve carbon neutrality and tackle the climate crisis

- 1) Take into account effective ways to reduce greenhouse gas emissions
 - Readjust the energy mix by increasing the use of nuclear energy with national greenhouse gas reduction targets intact
- 2) Incentivize businesses that invest in carbon neutrality and implement low-carbon consumption
- 3) Devise a system that enables co-existence with nature by creating a circular economy and the Environment·Social·Governance (ESG) ecosystem



IV. The inclusive economy that leaves no one behind

1. Enhance social safety nets

- 1) Enhance social safety nets through support for vulnerable groups
 - Strengthen social protection systems by expanding financial assistance for living, housing and medical expenses
- 2) Expand tailored support to the marginalized including the elderly, people with disabilities and single-parent families
 - Provide more tailored support by increasing basic pension for the elderly, expanding tax services designated for people with disabilities and relaxing criteria for single-parent families who receive national child care subsidies
- 3) Enhance housing welfare by alleviating housing costs and providing housing subsidies to vulnerable groups

2. Encourage employment and expand job opportunities

- 1) Give more incentives to low-income workers and job seekers to increase employment retention
- 2) Improve training programs to satisfy both job seekers and employers
- 3) Provide package support to help young people settle down

3. Upgrade welfare systems

- 1) Build tailored social service systems and eliminate welfare blind spots
- 2) Provide high-quality services by innovating private sector-led social services
- 3) Improve the service delivery system in the employment assistance, education and nursing sectors

4. Achieve regionally-balanced developments

- 1) Improve local competitiveness by creating regional economic blocs and fostering small but strong cities
 - Assist local governments to create super megacity regions to boost local competitiveness through stronger cooperation between regions
- 2) Pursue self-reliant and balanced local developments through tax and financial support
 - Provide tax support to businesses that are relocated to less developed areas and local towns
- 3) Expand support for local towns that face extinction because of the low population

Measures to address ongoing economic challenges

I. Improve people's livelihoods

1. Stabilize prices and reduce financial burdens on people

- 1) Help people reduce their living costs by lowering the price of essential commodities and tax rates
 - Extend a 30 percent fuel tax cut to the end of this year and temporarily lower a 15 percent special consumption tax reduction for electricity generation fuel
- 2) Take preemptive measures to manage supply and demand disruptions
 - Constantly monitor items that are relatively more exposed to unstable supply chain risks, such as agricultural products
 - Capitalize on available resources through the revision of fund operation and budgetary appropriation and transfer, if necessary
- 3) Stabilize prices indirectly with various measures such as improving logistics efficiency, pursuing fair competition with the help of law enforcement and increasing national stockpiles for major crops and fishery products
- 4) Reduce the burden on small businesses and the self-employed, and help raise their competitiveness

2. Stabilize the housing market

- 1) Normalize the housing market by providing adequate housing and helping restore the market's functions
 - Build a roadmap to provide over 2.5 million houses as soon as possible
 - Complete a revision plan for property taxes by July to lower real estate taxes for single-home owners to the 2020 levels
- 2) Accelerate normalizing the housing market by holding periodically the ministerial meeting on real estate affairs

II. Measures to manage risks and preserve economic security

1. Preserve economic security

- 1) Prepare comprehensive responses to multi-faceted economic security challenges
 - Manage the supply chains by enacting and revising the three laws related to supply chain management
- 2) Obtain overseas resources and support companies that return to Korea (also called 'U-turn company') or invest in foreign-invested companies to enhance supply chain management capability
 - Offer more loans to companies that enter the overseas markets, and expand support for public institutions that invest in high-risk industries of the overseas markets
 - Ensure national self-sufficiency for staple food and expand networks with overseas food suppliers
 - Relax criteria for 'U-turn company' support and encourage more companies involved in the high-tech industries that are easily exposed to supply chain disruptions to return to Korea

2. Improve risk management capabilities

- 1) Devise a risk management system by implementing preemptive risk management and policy coordination
- 2) Implement policy mixes that address both macroeconomic and microeconomic challenges
 - Diversify the resources allocated to support people hit hard by the pandemic not to heavily weigh on the macroeconomy and markets
 - Maintain the current monetary policies that focus on stabilizing prices for the time being
- 3) Create a roadmap to reduce the burden on indebted households and the self-employed and help them build self-reliance
- 4) Push ahead with the restructuring of marginal companies by market principles