

Embargo:

Release Date: January 2, 2025

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2025 ECONOMIC POLICY DIRECTIONS

[Current Economic Situation and 2025 Outlook]

Korean economy has recently faced sluggish recovery in domestic demand, while the pace of export growth is slowing, and the uncertainty regarding future growth paths is increasing.

The external environment is also challenging. Changes in trade and industrial environments caused by policy shifts of the leading country in the global economy and intensified international competition in advanced industries, pose significant challenges for the Korean economy.

Considering these domestic and external conditions, the growth rate for last year is projected to be 2.1%, while this year's growth is expected to be further declined to 1.8%.

Exports are facing elevated downward pressure due to external factors, while domestic demand is expected to be constrained by weak construction activity and depressed economic sentiment, despite mitigation of inflation rates and easing of high interest rates.

Inflation rate of this year is expected to decelerate to 1.8%, which is lower than 2.3% of last year aided by a decline in international oil prices, though uncertainties stemming from geopolitical risks may persist.

The increase in the number of employed people is expected to increase by only 120 thousand, a smaller increment than last year.

[2025 Economic Policy Directions]

The government has devised the 2025 economic policy directions with the goal of ensuring the economy is managed as stably as possible in response to growing domestic and external uncertainties.

The policy direction focus on four pillars, which is (1) Supporting the recovery of people's livelihoods, (2) Managing external creditworthiness, (3) Reacting to the vagueness in the international trade environment, and (4) Increasing industrial competitiveness.

First, the government will make all-out effort to achieve a swift recovery of the people's livelihoods.

The government's urgent priorities is to improve economic sentiment and stimulate recovery in domestic demand and overall economic activity.

To this end, the government will take unprecedented action to provide swift support for people's

livelihoods:

- We will mobilize a total of 18 trillion KRW in available resources by expanding and accommodating major fund project plans, increasing investments by public institutions, promoting private sector investments, and providing additional policy financing.
- We will also raise the expedited execution rate for planned projects in the first-half of the year to a record-high 67%. In particular, 85 trillion KRW allocated to key sectors related to people's livelihoods and economy will be executed up to 70% by the first half of the year.
- Urgent projects critical to the public and businesses will begin immediately at the start of the year through streamlined administrative procedures, relaxed requirements, and advanced national funding disbursement to enhance policy impact.
- Key livelihoods initiatives will be fast-tracked to increase effectiveness, such as the early launch of senior job programs, the expedited disbursement of youth employment incentives, and the accelerated payment of eco-friendly vehicle subsidies.
- We will temporarily reduce the specific consumption tax on automobiles during the first half of the year and immediately launch discount campaigns for agricultural, livestock, and fisheries products starting in early January. Additionally we will supply 1 million accommodation vouchers for non-metropolitan areas to boost consumption and tourism momentum from the beginning of the year.
- Effort will also be made to address the sluggish construction and regional economies. Public housing supply will be increased through expanded new construction and increased purchase of newly constructed rental units. Furthermore, public and private construction costs will be adjusted reflecting market realities to resolve industry difficulties. Tax burdens, such as comprehensive real estate tax in regional area, will also be eased.

Moreover, tailored support for low-income and vulnerable groups will be further strengthened.

- This includes reducing key living expenses by implementing measures such as additional tariff quotas on several food items and introducing rent tax credits for married couples living apart. We will also provide policy financing for low-income households at a record-high level of 11 trillion KRW.
- We will establish a 'ladder of hope for youth' by scaling up the Youth Employment All-Care Platform and improving social integration admissions.
- We will devise measures to support retirement income security for middle-aged and older individuals by developing measures to improve retirement pension yields.
- We will expand the eligibility for the New Start Fund¹, raise income tax deductions for spending at small-scale taxpayer businesses, and broaden the acceptability of Onnuri gift certificate, aiming to alleviate management burdens for small business owners and strengthen their sales base.

¹ This program adjusts debt for individual business owners or small business corporations by extending loan repayment periods, reducing interest burdens, and assisting borrowers struggling with repayment through principal adjustments.

- We will reinforce support for the livelihood stability of vulnerable workers, including those affected by industrial accidents, low income, and wage arrears.

Second, the government will meticulously manage external creditworthiness.

- We will ensure stable management of the foreign exchange (FX) market through structural improvements in FX supply while maintaining ongoing communication with the international community to enhance external trust.
- We will continue efforts to advance the capital market, including the introduction of value-up tax incentives and promoting amendments to the Capital Markets Act. Moreover, we will comprehensively reform infrastructure for government bond investments to ensure smooth inclusion of Korean government bonds in the World Government Bond Index (WGBI).
- We will enhance FX transaction infrastructure for foreign investors to meet global standards.
- We will drastically raise incentives to attract foreign investors by allocating separate quotas for Opportunity Development Zones in non-metropolitan areas and significantly increasing cash grant limits temporarily until 2025.

Third, the government will proactively respond to the uncertainties in the global trade environment.

- We will push forward with a new outward economic strategy by developing a new policy framework and action plans based on a framework that allows for flexible responses to the policy changes of the partner nations, through ministerial level of intergovernmental channels such as a Ministerial Roundtable on International Economic Affairs, and.
- We will strengthen support of supply chain management in response to shifts in the economic security landscape, provide urgent liquidity support to export companies facing challenges, and supply the largest-ever trade financing , ensuring the upward momentum of exports can be sustained despite challenging conditions.

Last but not least, the government will commit to enhancing industrial competitiveness.

Above all, the government supports innovation in core industries to respond to intensifying global competition:

- To bolster the semiconductor ecosystem, we will shore up infrastructure support for specialized industrial zones and provide increased policy financing. In addition, we will focus on developing strategies for the automotive and battery industries aiming to address external changes, such as possible tariff increase of the new US administration and uncertainties related to the Inflation Reduction Act (IRA).
- We will step up the government's response to new demand in traditional manufacturing industries such as shipbuilding, steel, and petrochemicals, and secure competitiveness through value-added innovation.

- We will establish an innovation strategy focusing on Artificial Intelligence, biotechnology, and quantum technology as the three major game-changers, while striving to nurture new service industries and support service exports.
- We will continue to scale up key infrastructure, including support for the power grid and efforts to attract overseas talent.

Furthermore, the government will make all-out efforts to promote investment:

- We will apply special accelerated depreciation for facility investment to small and medium-sized enterprises, along with the largest-ever supply of facilities funds.
- We are planning to announce the 4th Investment Promotion Measures focused on resolving on-site obstacles in the first half of the year.

[Conclusion]

The government will actively communicate with the National Assembly and shore up public-private cooperation to address major issues related to the economy and people's livelihoods.

Not only that, taking into account the specific developments of the partner nation's economic policies, changes in economic indicators, and shifts in the domestic economy, the government will reassess the overall economic conditions in the first quarter and consider additional measures to support the economy if necessary.