

South Korea Economic Policy & Prospect For COVID-19 Crisis Recovery

May 19th, 2020

With POSCO

SEONGJU OH

e-mail supremo9@posri.re.kr

Contents

I. Introduction

II. S. Korea Economic Outlook

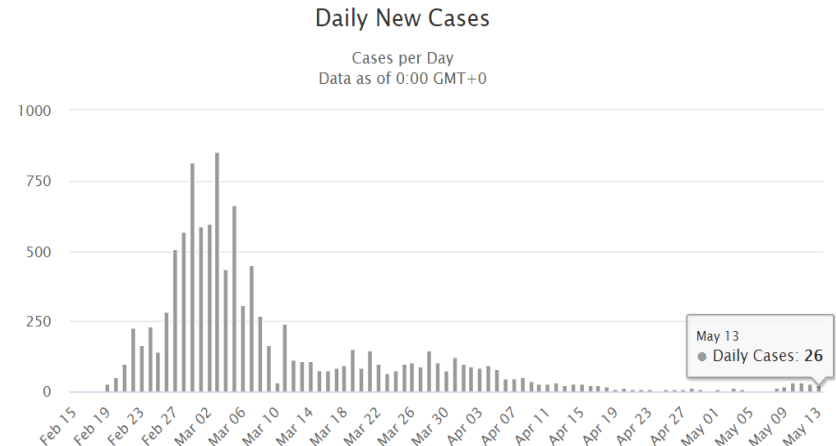
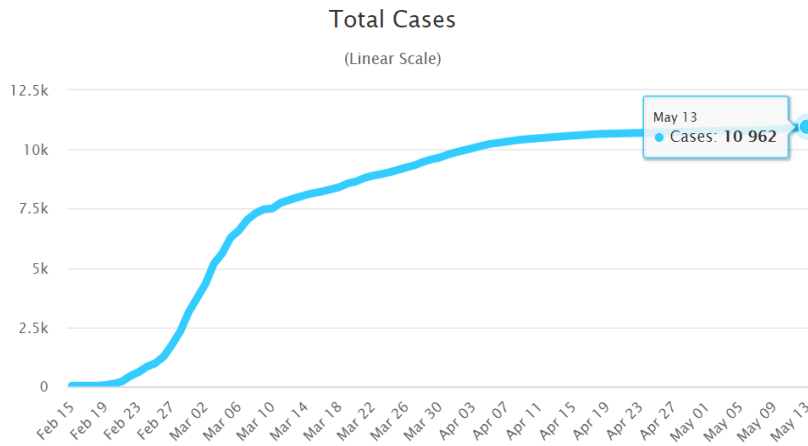
III. Governmental Economy Policy

- Financial / Fiscal policy
- EX/IM & Etc.

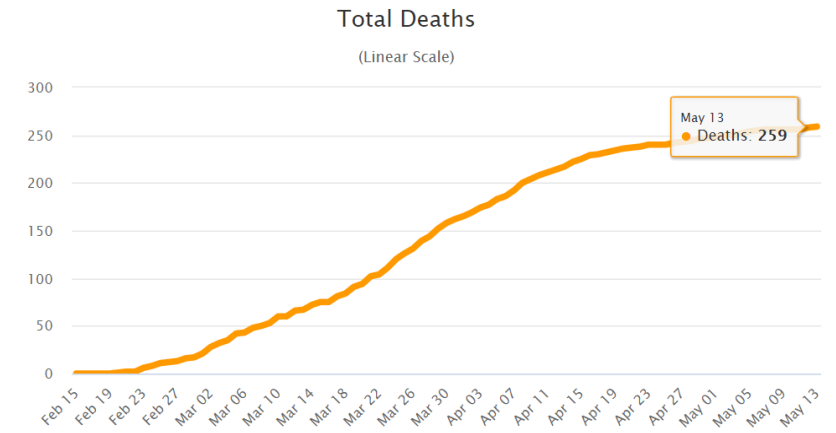
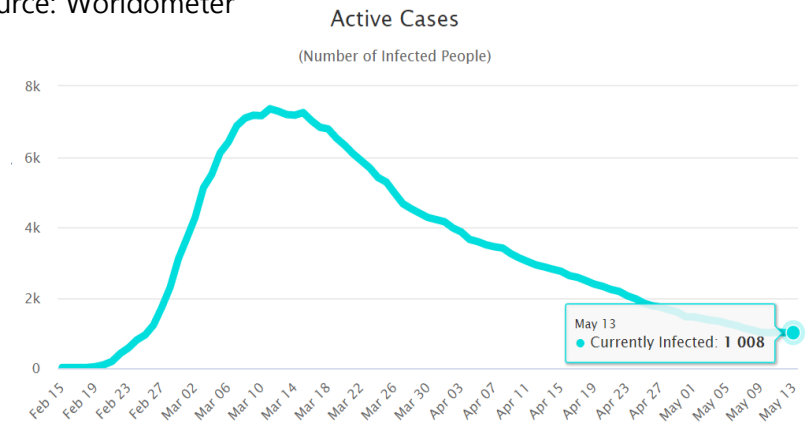
IV. Implication & Consideration

Since April, daily new COVID-19 cases in S. Korea have remained low, alleviating social distance and resuming economic activity gradually.

- After the recent May holiday, with a new cluster emerged in central Seoul and nearby, all quarantine efforts are being made again in order to prevent the 2nd pandemic.



Source: Worldometer



【COVID-19 Cases by Country】

As of May 14th

Country	Total Cases	New Cases	Total Deaths	New Deaths	Total Recovered	Active Cases	Critical	Total Cases /1M Pop	Deaths /1M Pop	Total Test	Tests /1M Pop
Brazil	190,137	+980	13,240	+82	78,424	98,473	8,318	895	62	735,224	3,459
Peru	76,306		2,169		24,324	49,813	806	2,314	66	553,302	16,781
Mexico	40,186	+1,862	4,220	+294	26,990	8,976	378	312	33	142,204	1,103
Chile	34,381		346		14,865	19,170	494	1,799	18	313,750	16,413
Ecuador	30,486		2,334		3,433	24,719	190	1,728	132	87,036	4,933
Colombia	12,930		509		3,133	9,288	130	254	10	165,738	3,257
Dominican Rep.	11,196		409		3,221	7,566	131	1,032	38	42,615	3,928
S. Korea	10,991	+29	260	+1	9,762	969	55	214	5	711,484	13,877
Panama	8,944	+161	256	+4	6,067	2,621	87	2,073	59	45,873	10,632
Argentina	6,879		329		2,266	4,284	170	152	7	90,474	2,002

COVID-19 will cause a serious contraction in 2020.

As a result, S. Korean economy will fall back to negative growth since 1998.

- Inflation will remain flat in 2020, with the unemployment rate relatively steady near 4%, thanks to the strong economic fundamentals that have been maintained well so far.
- However, the impact on consumption, export-import are

【 Macro-economic Outlook 】

(U\$ Bil, %, YoY)	'18	'19	'20(f)	'21(f)	'22(f)
Nominal GDP	1,720	1,639	1,598	1,674	1,734
GDP per-Capita(U\$)	33,622	32,041	31,166	32,622	33,786
GDP growth (Real)	2.7	2.0	- 0.9	1.7	2.7
Private Consumption	2.8	1.9	-7.0	3.5	4.8
Consumer Price Inflation	1.5	0.4	0.6	1.0	1.7
Fixed investment	-2.4	-3.5	1.5	1.7	3.0
Industrial Production	1.5	-0.5	1.7	0.6	1.0
Unemployment	3.8	3.8	4.1	4.0	3.9
Exchange (KRW/U\$)	1,116	1,158	1,194	1,169	1,170
Export	626.5	562.2	548.2	585.6	619.0
Import	516.4	485.2	445.7	479.0	544.5
Fiscal Balance (/GDP)	1.6	-0.5	-0.8	0.0	-0.1
Current Acc. Balance (/GDP)	4.5	3.6	5.7	5.5	3.0
International Reserve	398.8	403.7	427.3	439.7	442.8

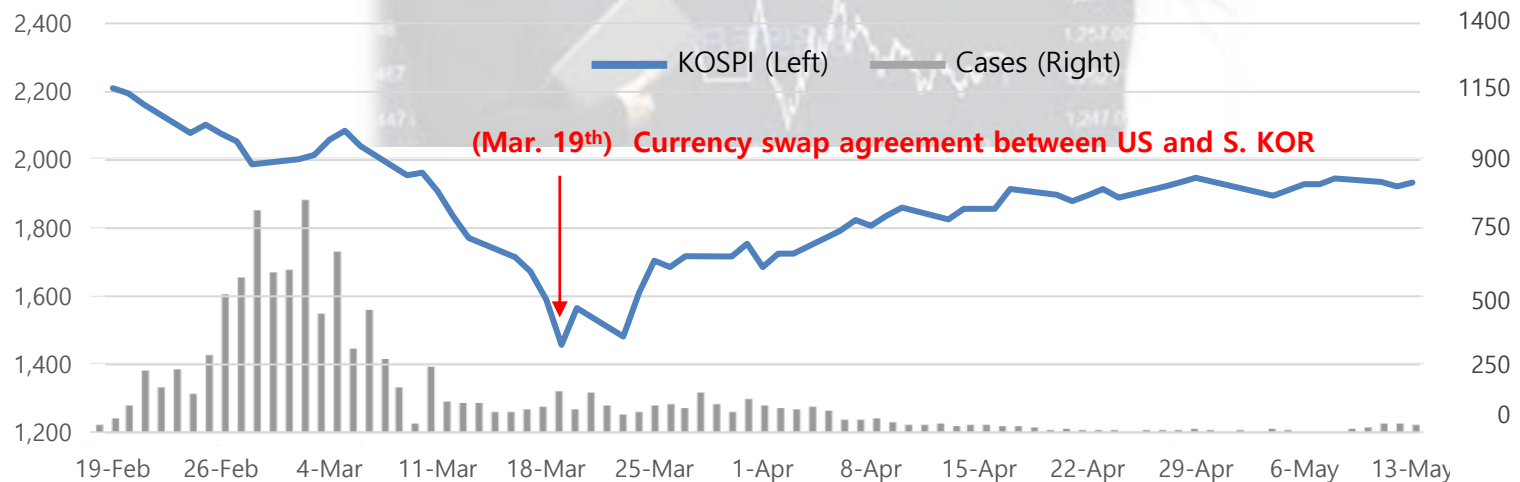
The global pandemic of COVID-19 will cause the market instability and domestic demand slowdown in S. Korea, despite strong economic fundamentals and good quarantine system.

- COVID-19 crisis has a different attribute from the Great Depression or 2008 financial crisis in that it has a negative effects on both real and financial markets.
- Korea economy is highly dependent on exports, so there is potential concern for the exchange(KRW/USD) rate fluctuation and the capital flight.
- As the government's intervention has been faster and smarter, the market has stabilized in the short term. However, the future without vaccines or treatments makes difficult to actively implement long-term economy policies as the uncertainty cannot be cleared.
- Korea's economy also needs to implement some stimulus package from 2nd half, as long time social distancing has caused the domestic downturn

The impact of COVID-19 crisis in Korea, like that of other countries, first appeared in financial sector.

- In March, even the bonds of companies with good credit were rarely issued in Korean financial market, and the stock price index plunged to a level of 10 years before recovering rapidly in April.
- After the currency swap deal with the United States, the Korean stock market is quickly stabilizing. Foreign investors have withdrawn from the stock market, however, they are watching it without taking the dollar out yet.

【KOSPI Index vs. Daily New COVID-19 Cases】



Source: Korean Stock Exchange, Worldometer

- Emerging economies are usually on the brink of a credit crunch. Fed is now providing unlimited liquidity to the global market. However, emerging economies should also prepare for the tantrum when liquidity is tapering in near future.
- The financial crisis occurs in the weakest link. In the 1990s, many Asian economies suffered a lot from it and, as a result, made a trauma in the Korean economy, such as bankruptcy of companies, a surge in unemployment,, the sale abroad of assets with cheap price...
- The Korean economy is highly dependent on the external sector and cannot utilize interest rate policy independently, and is forced to follow the U.S. Federal Reserve Bank's interest rate policy.
- Providing liquidity is limited as KRW is not a vehicle currency. It is also difficult to actively pursue policies due to uncertainty in demand recovery
(e.g. Is it desirable for the central bank to continue providing liquidity unlimitedly?
Which risk is more serious, deflation or inflation?)

Therefore ...

While observing the Fed's policy and maintaining the low interest rate, the top priority is to stabilize the financial market, which is a prerequisite for implementing fiscal policy.

From May 11, Korean government began paying out emergency disaster relief funds totaling 14.3 trillion KRW (U\$11.7 billion) to all households.

- This plan aims to achieve the same effect as the direct government expenditure. It is expected to support households with difficult livelihoods and to promote domestic consumption.

Emergency(Disaster) Relief Money Plan

Purpose

- Helping the people tackle the economic fallout from the COVID-19 outbreak to stabilize the life of the people
- Government's one-off support to overcome the COVID-19 crisis

Applicant (Beneficiary)

- 2,171 million households for all citizens

Payment Level

- Max. 1 million KRW for each household of 4 or more
(Different from 400,000 to 1,000,000 KRW per household)
- ※ The disaster relief money should be spent by Aug 31st, or it will be deemed a donation

Planned the Korean New Deal Project, unlike the traditional New Deal, which is a government-led large-scale expenditure.

- **Given the limitations on the financial deficit, it is used as an opportunity to grow beyond the traditional industry and the old economy by fostering innovative industries, activating venture capital, and pursuing regulatory innovation.**
- **Maximizing the synergy effect of government and private investment, the final goal is to advance the economic structure and to create jobs.**
- ※ May 7th, Governmental plan outlined, and final plan to be released in June.

Korean New Deal Project

1. Building digital infrastructure

- **Building the foundation for data collection and utilization**
- **Advancement of networks such as 5G service**
- **Expansion of AI infrastructure and diffusion of convergence**

2. Fostering untact(non-face-to-face) industries

- **Laying a platform to expand untact services(education, etc.)and expand pilot PJT**
- **Enhancement of cloud service and cyber-security**

3. Digitization of SOC

- **Digitization of old infrastructure**
- **Construction of digital logistics service system**

In order to support key industries, issuing government bonds for a industry stabilization fund is under consideration.

- **Exports are the sector that has the greatest impact on Korea's real economy, so the demand shock caused by the decline of exports is inevitable for the time being, along with a plunge in consumption. Even worse, the trade conflicts between the US and China may intensify in near future.**
- **In particular, exports to the US are decreasing sharply. Even though the production in China, another export target, is recovering rapidly, global demand is decreasing as well, so China's growth is expected to be limited. Fortunately, exports to ASEAN are increasing. According to recent statistics, it has increased from 10% in the 2000s to 18% in April 2020.**
- **The government is planning to secure a maximum of 30 trillion won by organizing the 3rd supplementary budget for corporate stabilization and especially(10.1trillion) for employment stability.**

IV. Implication & Consideration

- **With exception such as the U.S, whose economy had been booming until 2019, the global economies were preparing for the recession due to the low growth. COVID-19, which occurred in early 2020, is a huge disaster for emerging countries that are preparing for economic recovery through various stimulus packages.**
- **It is doubtful if COVID-19 new cases are actually declining In the U.S, without N.Y. State where the damage was severe. It is unlikely that global demand will recover rapidly until the new cases in the US and Europe are noticeably reduced.**
- **In Brazil, following the success of pension reform last year, a large-scale economic stimulus plan is being prepared. However, the COVID-19 is to be a big obstacle. It will be also a major challenge for Mexico as AMLO government is gradually showing positive results. The current situation will be an unprecedented threat for Central America and the Caribbean that have benefited from the US booming.**
- **Even if the spread of COVID-19 is somewhat slow in LATAM, the economic downturn is inevitable, along with the low oil price. The speed and size of the government's action will be critical for domestic consumption, until the treatment or vaccine is globally invented. Korea is maintaining a successful quarantine system with the principle of openness, transparency, and democratic approach. It is expected that successful know-hows can be effectively shared with Latin America.**



Q&A