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ECONOMIC POLICY DIRECTIONS, H1 2023

THE 2023 ECONOMIC POLICY DIRECTIONS

I. Background

The Korean government has focused its policy efforts on stabilizing people's livelihoods to respond to multi-faceted economic crises including high prices, high interest rates and high exchange rates. In addition, the government implemented tasks to improve the fundamental economic structures by making a shift toward the economy led by the private sector and markets and maintaining fiscal soundness.

As a result, despite the challenging economic situations, the Korean economy fared well as it posted a relatively lower increase in prices than major countries, has maintained its economic growth rates above the potential growth level, and has continuously shown good employment performance in quantity.

However, the conditions the Korean economy is facing remain very challenging. As the impact of major economies' sharply increasing interest rates started to spill over to the real economy, the Korean economy that is highly dependent on trade saw a rapid decline, especially driven by a fall in exports. Prices gradually have grown at a slower pace after peaking in July 2022, but it is forecast to continuously remain high for the time being and raw material prices are still uncertain. Regarding employment that showed an unusually favorable trend in 2022, economic slowdown and the base effect are projected to significantly dampen employment growth. Moreover, amid the financial uncertainty driven by global monetary tightening, concerns over a slump in the real estate market and risks concerning marginal companies are growing.

It is highly likely that the economy will be sluggish driven by declines in exports and people's livelihoods especially in the first half of 2023, but it will see a gradual recovery due to the global economy improving after the second half of 2023. Against this backdrop, the new government has drawn up its four economic policy directions.

II. 2023 Outlooks

- **Growth:** Annual economic growth is projected to be 1.6% in 2023, lower than 2022's outlook of 2.5% due to deteriorating external conditions. While export and investment are projected to be continuously stagnant, high interest rates are expected to be a drag on consumption recovery.
- **Employment:** The economy is projected to add 100,000 jobs in 2023, lower than 2022's outlook of 810,000 due to the base effect.
- **Consumer price:** The annual consumer price increase is projected to be 3.5% in 2023, lower than 2022's outlook of 5.1% due to decreases in global raw material prices and demand.
- **Current account balance:** Current account surpluses are expected to decline to USD 21.0 billion, lower than 2022's outlook of USD 22.0 billion. Surpluses in goods balance are projected to grow driven by import decline while deficits in services balance are to rise due to resumption of overseas travel.

	2022 ^e	2023 ^e
GDP growth (%)	2.5	1.6
Employment growth (thousand)	810	100
Employment rate (% , 15y -64y)	68.5	68.7
Consumer price (%)	5.1	3.5
Current account (US\$ billion)	22.0	21.0
Exports (y-o-y, %)	6.6	-4.5
Imports (y-o-y, %)	19.2	-6.4

III. The framework of Economic Policy Directions

The government has drawn up four policy directions based on four pillars constituting Freedom, Innovation, Fairness and Solidarity, aiming to overcome crises and realize the economy that leaps forward again.

The policy directions focus on 1) Managing the macro-economy in a stable manner, 2) Supporting the recovery of people's livelihoods, 3) Boosting the economy that puts the private sector at its core, 4) Implementing structural reforms in preparation for the future.

One: Manage the macro-economy in a stable manner

1-1. Implement a macroeconomic policy mix

While focusing on taming inflation for the time being, flexibly manage a policy mix in consideration of macroeconomic situations

- 1) Enhance capabilities of the economic response by exercising fiscal management while maintaining a sound fiscal stance
 - Push ahead with early fiscal execution considering economic flows
- 2) Strengthen risk management by preemptively providing liquidity and implementing foreign exchange (FX) safety nets
 - Increase financing support to 540 trillion won, which is the largest ever, with an aim to achieve financial stability, boost export and support small- and medium-sized enterprises (SMEs)
- 3) Strengthen coordination between authorities in charge of macroeconomic policies and improve abilities to identify crises and respond to them
 - Overhaul the Early Warning System (EWS) of the international affairs sector and reexamine contingency plans to immediately deal with each of the risk factors

1-2. Stabilize the financial market

Seek stability in the Financial and FX markets by proactively devising and carrying out market stabilization measures and improving supply and demand conditions in the market

- 1) Promptly implement financial liquidity support of over 50 trillion won and improve capacity to preemptively respond to financial risks
- 2) Induce the improvement of supply and demand in the bond market by offering tax incentives for retail investors who invest in corporate bonds and adjusting government and public bond issuance

- 3) Stabilize the financial and FX markets by expanding foreign capital inflows and foreign investment

1-3. Respond to potential risks

Reinforce the management of potential risks by managing debt in the vulnerable sectors and refining rehabilitation support measures

- 1) Strengthen debt management and rehabilitation support for the vulnerable
- 2) Overhaul the management system of marginal companies by refining business credit risk assessment, assisting businesses in improving their financial structures and ameliorating the rehabilitation support systems to build SMEs' resilience
- Help marginal SMEs normalize their business management or restart their business through a 1.1 trillion won support program that provides services such as low-rate loans, payment guarantees and debt restructuring

1-4. Achieve a soft landing in the real estate market

Normalize excessive and punitive regulations on multi-homeowners and prospective home buyers with actual demand to bring about a soft landing in the real estate market

- 1) Mitigate regulations against multi-homeowners to reinforce their roles as a trading entity in the real estate market
- Reduce heavy acquisition taxes for multi-homeowners and extend the exemption period of imposing heavy capital gains taxes until May 2024
- Lift a ban on multi-homeowners taking out mortgage loans when buying houses in regulated areas and set the limit of loan-to-value (LTV) at 30 percent
- 2) Revise regulations on prospective home buyers with actual demand and lessen the housing burdens on low income households
- Additionally lift regulated areas at the beginning of 2023 and reasonably adjust the list of areas subject to the application of the sale price ceiling system in the private sites in consideration of the housing market situations
- 3) Prevent the housing supply base from weakening by improving regulations on housing maintenance projects and increasing the project feasibility
- Primarily implement the announced housing supply plan, adjusting the pace in consideration of the market situations
- Prevent the real estate project-financing (PF) market from falling apart by raising the feasibility of real estate development projects and helping capital flows smoothly in the market
- 4) Seek a structural stabilization in the residential rental market by taking responses tailored to each type of the housing market
- Resume the long-term (10 years) rental registration of private housing with the exclusive residential area of not more than 85 square meters per family or household and provide tax incentives

1-5. Respond to the energy crisis

Induce the improvement of excessively energy-consuming business practices and current balance account through the expansion of energy-saving incentives

- 1) Bring about a moderate energy demand by forming reasonable price mechanisms and expanding energy-saving incentives
 - Gradually adjust electricity and gas prices to resolve the accumulated deficits of Korea Electric Power Corp. (KEPCO) and Korea Gas Corp. (KOGAS) by 2026 in consideration of macroeconomic conditions
- 2) Induce businesses to save energy by helping make their business structures energy-efficient and reinforce the public sector's leading role in saving energy nationwide

Two: Support the recovery of people's livelihoods

2-1. Stabilize prices

Induce price stabilization of necessities by providing tax benefits and fiscal supports and improving the related systems

- 1) Stabilize the price of necessary goods and services such as energy, food and public utility charges
 - Extend the period of the existing tax support measures for petroleum products and fuel for electricity generation
 - Pursue price stabilization of agricultural, livestock and fisheries products through tariff quotas application, budgetary support and supply and demand management
 - Refrain from an increase in public utility charges, but when inevitably increasing the charges, postpone and disperse the timing of the increase in a bid to stabilize public utility charges that are under high upward pressure
- 2) Enhance the efforts to stabilize prices by advancing the logistical structure of agricultural products and preemptively adjusting the supply and demand of agricultural, livestock and fisheries products
 - Make digital transformation in logistics and expand the provision of information online by establishing 10 agricultural products processing complexes (APC) and launching an online platform for trading agricultural products
 - Streamline import procedures such as some of procedures for quarantine in case of emergency import

2-2. Reduce living expenses

Lessen the burden of living costs on low income and vulnerable households and the housing burden of tenants

- 1) Reduce overall living expenses spent for transportation fees, cell phone bills and tuition fees
 - Extend the period of increasing the income tax deduction rate to 80 percent for credit card spending on public transportation by 6 months
 - Increase the housing price criteria subject to the income tax deduction for interest repayment of long-term mortgage-backed loans and expand the income tax deduction limit
 - Freeze a student loan rate at 1.7 percent (the level of 2022) and extend the period of supporting tuition fees for kindergarten by 3 years to 2025 from the previous 2022
 - Work to additionally introduce various 5G mobile network plans and diversify the use of mobile membership points

- 2) Expand financial support to lessen vulnerable household's burden on living expenses spent for energy, food and necessities
 - Increase the discount rate of low-income assistance provided by the Korea Electric Power Corp. (KEPCO) and the energy voucher amount to reduce vulnerable groups' burden of increased electricity and gas bills
- 3) Lessen the housing burden on tenants and strengthen support measures to help victims of *jeonse*¹ fraud cases
 - Work to introduce more fixed-rate *jeonse* loans to brace for additional interest rate hikes of mortgage loans

2-3. Reinforce the welfare systems for the marginalized

Ensure the quality of life of the marginalized through strengthened welfare support

- 1) Strengthen social safety nets by increasing financial support and eliminate blind spots
 - Increase the number of beneficiaries and the amount of the basic livelihood security program
- 2) Provide more tailored support for the elderly, people with disabilities and vulnerable young people
 - Raise the amount of basic senior pension benefit to 322,000 won (from 308,000 won) per month and the number of beneficiaries to 6.65 million (from 6.28 million)
 - Increase the amount of disability pension benefit to a maximum of 402,000 won (from 388,000 won) per month
- 3) Revamp the welfare system to raise the effectiveness of government's supports by contributing to enhancing the resilience and independence of beneficiaries

2-4. Achieve employment stability

Respond to deteriorating conditions in the labor market by creating tailored jobs and providing fiscal support

- 1) Create jobs tailored to job seekers' age and gender and prepare mid- to long-term employment strategies
 - Support over 170,000 young people in landing jobs by giving them various job opportunities
 - While discussing a Korean-type continuous employment model, seek ways to increase elderly people's participation in economic activity and mitigate companies' burden of hiring elderly people
 - Lessen women's childcare burden to prevent career breaks and encourage participation in economic activities by improving the working hour reduction system for family care, such as raising the applicable age of children to 12 from 8
 - Establish and announce a basic plan on employment policy in January 2023 to create jobs in the private sector and less developed regions and encourage vulnerable groups to enter the labor market
- 2) Take immediate actions to address imminent employment difficulties
 - Early implement the government job programs to contribute to stabilizing vulnerable groups' incomes earned at the end of this year and the beginning of the next year

¹ Lump-sum deposits with no monthly payments

2-5. Strengthen support for microbusinesses

Weather difficulties microbusinesses face and boost their mid- to long-term competitiveness

- 1) Provide support for a whole business cycle from opening to closing of microbusinesses and help improve their competitiveness
- 2) Invigorate the local economy to help microbusinesses by adding Buddha's Birthday and Christmas to the list of observed public holidays and making strategies to attract both domestic and overseas tourists to visit local areas

Three: Boost the economy that puts the private sector at its core

3-1. Boost export

Emerge as the world's leading country when it comes to exports of the promising 5 sectors by giving full support for businesses to increase exports and win bids and by making policy efforts

- 1) Devise measures to improve export competitiveness in 5 promising sectors of the country's flagship industries, overseas construction, SMEs and startups, tourism and content, and digital, bio and space technologies through the Export Strategy Meetings presided over by the President within the first half of 2023
- 2) Expand financial support for export businesses
 - Expand trade finance to 360 trillion from 351 trillion won, which is the largest ever, and prepare customized support plans to respond to each financial risk including currency volatility, high interest rates and geopolitical instability
 - Launch a special preferential program designated for medium-sized enterprises and SMEs to encourage diversification in exports
- 3) Give full support for businesses to win bids in infrastructure projects worth about 50 billion dollars annually and become the world's top 4 countries when it comes to exports of defense goods
 - Analyze demand for nuclear power plants by country and enhance sales diplomacy to win bids in projects of building nuclear power plants overseas, especially in the Czech Republic and Poland
- 4) Diversify export destination countries through international cooperation channels such as free trade organization (FTA) and official development assistance (ODA)

3-2. Facilitate investment and implement regulatory reforms

Induce businesses to expand investment by offering more incentives and helping address difficulties, and create a business-friendly environment with regulatory reforms and business burden reduction

- 1) Promote business investment by providing enhanced tax and financial incentives
 - Add display technology to the list of national strategic technologies to expand tax credits and raise the tax deduction rate for the investment's growth to 10 percent (limited to investment in 2023)
 - Provide the largest-ever 50 trillion-won fund for facilities investment
- 2) Accelerate regulatory reforms to give a boost to business investment and employment

- Prepare measures to innovate key regulations in 7 sectors² that have high private demand and would possibly make great effects of investment with the policy efforts such as the operation of a task force on economic regulatory reforms
- 3) Implement the Economic Punishment Regulations Improvement 2.0 on a zero-based principle
 - Identify and improve punishment regulations that hinder businesses' freedom and creativity and undermine the livelihood of the self-employed and microbusinesses
- 4) Give businesses more management autonomy and reduce business burden

3-3. Push ahead with the “New Growth Strategy 4.0”

Build a growth engine that promotes future-oriented (New Growth Strategy 4.0) industries by upgrading the past growth strategies that focused on agriculture (Growth Strategy 1.0 to overcome poverty), manufacturing (Growth Strategy 2.0 to evolve into a middle-income country) and IT (Growth Strategy 3.0 to develop into an advanced country) industries

- 1) Create the “New Growth Strategy 4.0” for Korea to push forward to be the world’s leading country
 - Implement 15 projects in 3 sectors of the new technology, new lifestyle and new market
- 2) Devise support measures such as financing, talent fostering strategies and global cooperation in accordance with the “New Growth Strategy 4.0”
 - Create an innovation growth fund worth around 25 trillion won by 2027
 - Prepare and announce measures to foster talents in high-tech industries through the Talent Fostering Strategy Meeting presided over by the President
- 3) Makes a shift of the government’s R&D support system to be mission-oriented, private sector-led and increase the commercial value of research outcomes produced by public institutions
- 4) Strengthen support for preemptively accomplishing business realignment and transformation
- 5) Implement measures to foster overall industries in a bid to improve competitiveness and advance the industrial structures
 - Enhance the country’s agricultural competitiveness by utilizing information and communications technologies (ICT) and scaling up the agricultural industry
 - Establish strategies for massive industrial changes in the first half of 2023

3-4. Support SMEs and startups

Support SMEs and startups to give a boost to the private sector

- 1) Help SMEs overcome crisis and strengthen their mid- to long-term competitiveness
 - Push towards the establishment of the SMEs big data platform to monitor the business situations and increase the accessibility to business support projects
 - Come up with measures to provide 50 trillion-won financial support to SMEs to help SMEs deal with management difficulties, build growth potentials and normalize business management
 - Innovate SMEs with the policy efforts such as strategies to digitalize manufacturing SMEs, measures to improve SMEs’ productivity and strategies to foster SMEs in less developed regions

² They include bio-health, mobility, energy, tourism, finance, media and content, and public procurement.

- 2) Build a private sector-led startup ecosystem by introducing various ways to finance startups and actively responding to labor shortage, relaxing regulations regarding M&A affairs and building a M&A integrated information platform

3-5. Achieve fairness in the market

Invigorate the market by promoting fair competition and building fair market orders in newly emerging industries and others that have been left in the blind spots

- 1) Build reasonable regulatory systems to pursue fair competition in the market
- 2) Promote fair trade systems such as the product price adjustment system linked to supply costs fluctuation and pursue fairness in the platform industry and newly emerging industries by stepping up the policy efforts to prevent companies from abusing monopoly power and deceiving consumers

Four: Implement structural reforms in preparation for the future

4-1. Achieve structural reforms in 3 sectors: labor, education and pension

Push towards reforms in labor, education and pension system to improve the fundamental structures

- 1) (Labor reform) Devise measures to revamp the working hour and wage systems and address labor market dualism
 - Make continued efforts to promote a performance and task-based wage system
 - Initiate discussions on ways to implement comprehensive reforms such as narrowing the gap in the labor market and eliminating blind spots to address labor market dualism
- 2) (Education reform) Press ahead with structural reforms of universities based on autonomy and foster talents specialized in high-tech sectors
 - Come up with ways to improve vocational high school education and raise employment rates of high school graduates
- 3) (Pension system reform) Implement the national pension system (NPS) reform based on the long-term fiscal projection
 - Work on making the national health insurance expenditures more efficient to increase the sustainability

4-2. Fulfill reforms in 3 major economic sectors: finance, services and public administration

Improve the national economic structure through reforms in the finance, services and public administration sectors

- 1) (Finance) Ameliorate financial regulations and systems and advance the FX markets
- 2) (Services) Narrow the support gap between the services and manufacturing industries and improve the innovativeness through expanded investment in R&D in the services industry
- 3) (Public administration) Raise sustainability by pursuing fiscal soundness and accomplishing reforms of public institutions

4-3. Respond to population and climate crisis

Build the social and economic capacity to respond to changes in the demographic structure, and achieve private sector-led carbon neutrality based on scientific facts and social consensus

- 1) Identify tasks designed to enhance capacities to tackle low fertility and population aging issues and initiate social discussions on them
- 2) Implement key tasks to address 4 issues regarding demographic crisis, such as low fertility, shrinking society, aging society and reduction of the economically active population
- 3) Prepare feasible action plans to realize carbon neutrality
- 4) Strengthen incentives to encourage businesses and individual citizens to join the efforts to reduce carbon emissions

4-4. Enhance economic security

Improve capabilities to address supply chain issues by widening economic cooperation networks, advancing the supply chain response system, attracting Korean reshoring companies and foreign-invested companies to make investment in Korea, and obtaining overseas resources

- 1) Upgrade the system to deal with supply chain issues to take preemptive actions for managing supply chain risks and operate the immediate response system
- 2) Attract investment to enhance the country's supply chains and improve sectoral capabilities to tackle supply chain issues
 - Offer inducements to encourage reshoring of Korean companies and expand investment incentives for business activities of foreign-invested companies that would contribute to reinforcing the country's supply chains
 - Provide enhanced fiscal and tax support to obtain overseas resources such as key mineral resources and enhance the country's food security
- 3) Widen global economic networks such as trading blocs, bilateral and multilateral economic cooperation channels

4-5. Achieve co-prosperity and regionally-balanced developments

Expand tax incentives for donations and increase charity transparency to spread donation culture, pursue co-prosperity with ESG-based business management and realize a regionally-balanced and decentralized era

- 1) Strengthen tax incentives for donations and ensure the transparency of charity organizations to create a trustworthy donation culture
- 2) Advance the systems that help the private sector fulfill their responsibilities on Environmental, Social, and Governance (ESG) and create the ESG-based ecosystem
- 3) Establish a legal and institutional basis for opening a new era when regionally-balanced developments and local autonomy are realized
- 4) Implement plans to give a boost to industrial complexes with the policy efforts to expand investment in less developed regions and attract people to move to the regions