Outlook on the 21st National Assembly and the Korean Economy

Summary

I. Introduction

■ The term of the 21st National Assembly is a time of change with an uncertain direction.

○ The global economy seems to have entered a new era of change due to the trade dispute between the United States and China and COVID-19, but the direction of change is uncertain.

– COVID-19, which has increased the uncertainty of the global economy, could also become a catalyst for the Fourth Industrial Revolution, so the global economic landscape is likely to change significantly.

○ This requires the 21st National Assembly to be more productive than ever before.

– This is an important time when the revitalization of the South Korean economy depends on whether economic actors appropriately respond to changes in the global economy.

■ This report is aimed at examining the global economic conditions that the South Korean economy will face during the newly opened 21st National Assembly's term and the future direction of the Korean economy.

○ It will also look at economic prospects to identify challenges that the South Korean economy has to overcome in the face of the new global economic environment and a time of uncertainty.

Ⅱ. Global Economic Trends during the Term of the 21st National Assembly

1. Changes in the global economy

A. Low growth trend of the global economy

■ There are three characteristics in world economic trends after the global financial crisis.

○ First, low growth and low prices in the global economy

– The global economic growth rate and consumer price inflation rate fell from 4.5% and 4.2% before the global financial crisis (2000-2007) to 3.6% and 3.6% after the global financial crisis (2011-2019), respectively.

– Despite aggressive monetary policies such as zero interest rates and quantitative easing policies in order to overcome the global financial crisis that occurred in 2008, developed countries have continued to see low growth and low prices compared to before the global financial crisis.

○ Second, the narrowing gap between the economic growth rates of developed countries and emerging countries

– The economic growth rate of emerging countries was 5.4%p higher in 2008 than that of developed countries, but it was only 2.0%p higher in 2019.

– One of the reasons for the narrowing gap in economic growth rates was the sluggish direct investment in emerging countries. Direct investment (excluding financial investment) in emerging countries during 2000-2007 increased by an annual average of 15.0% but only by 1.0% in 2011-2018.

○ Third, the COVID-19 pandemic has had a huge impact on the global economy.

– The global economy contracted significantly due to countries' quarantine process. In April, the IMF projected this year's global economic growth rate to be -3.0% compared to the previous year, predicting the worst economic recession since the Great Depression in the 1930s.

– Quarantine, lockdown, and temporary business suspension measures implemented by the governments of developed countries to prevent the spread of COVID-19 have impacted the real economy in terms of both total demand (reduced consumption and investment) and total supply (reduced labor and parts supply).

– The pandemic is a factor that will continue to increase uncertainty in the global economy.

B. Widespread protectionism

■ Due to prolonged low growth in the global economy, protectionism in which countries prioritize their own interests has spread around the world.

○ Since the global financial crisis, the world economy has recorded a low annual growth rate of around 3%, raising trade barriers that undermine the world trade order for the purpose of protecting each country's own industries.

○ As means of trade barriers, non-tariff barriers such as anti-dumping duties, countervailing duties, and safeguards are mainly used since the world's average applied tariff rates have steadily decreased.

- The world's average applied tariff rate fell from 10.8% in 1997 to 6.2% in 2010.
- According to data from the International Monetary Fund (IMF, 2016), the share of items subject to protective trade measures taken by countries around the world expanded from 1% of the world's trade products when the WTO system was launched in 1995 to 2.5% in 2015.

○ The spread of protectionism is expected to reduce the growth of global trade and have a significant negative impact on countries with high export dependence.

- The global trade growth rate has declined from an annual average of 7.0% before the financial crisis (2000-2007) to 3.0% after the 2008 crisis. The recovery to the previous level is expected to be difficult due to the possibility of prolonged trade disputes between the US and China and rising global protectionism.

C. Weakening global value chain

■ Global value chains (GVCs) promoted global economic growth by increasing global trade and productivity through international production sharing, but the trend has weakened since 2008.

○ A global value chain can be defined as a global labor division system where the processes of product design, parts and raw material procurement, production, distribution, and sales take place across different countries.

- With the spread of GVCs, international production sharing has increased global economic growth by promoting labor productivity through the expansion of world trade volumes and technology transfer between countries.

○ However, the spread of GVCs has slowed after peaking in 2008.

- Global value chain participation, the ratio of added value created through GVCs in global GDP, started to rise in the mid-1990s and has been on a downward trend since peaking in 2008 (14.1%).

■ The spread of GVCs has slowed largely due to growing protectionism, the shift to a domestic demand-oriented economy in major producing countries, and the narrowing production cost gap between developed and emerging countries.

○ First, the growing protectionism hinders the smooth operation of GVC networks between countries, limiting the spread of labor division through GVCs.

○ The second factor is the shift to the domestic demand-oriented economic structure of major Asian countries, which served as production bases in expanding global value chains.

- As it became possible for emerging countries such as China, which used to serve as production bases, to replace imported goods with domestic goods, the vertical labor division system, in which core parts of technology leaders are assembled in emerging countries, has weakened.
- In addition, multinational companies' transition to local sales rather than re-exporting locally produced products due to the increase in household purchasing power in emerging countries is another factor that weakened the division of production.

○ Third, there is less incentive for multinational companies to participate in the GVC network due to the narrowing production cost gap between developed and emerging countries.

- While wage levels in China and India have steadily risen, the labor cost burden in developed countries has been reduced by the advancement of Industry 4.0 such as artificial intelligence and robotics, and automation of production processes, which allows multinational companies to adjust their production processes and business models in a way that minimizes labor division through GVCs.
- With the increasing importance of non-price competitiveness such as R&D

and innovative infrastructure, the competitiveness of the manufacturing industry in developed countries such as the United States, Japan, and Germany has increased. As a result, foreign direct investment in emerging countries significantly dropped while more companies of developed countries bring their manufacturing home from overseas (reshoring).

D. Strengthened international environmental regulations

■ Environmental regulations are closely related to the economy in terms of cost for the treatment and restoration of environmental pollution and the pursuit of sustainable development through prevention and improvement of environmental pollution.

○ The United Nations Framework Convention on Climate Change (UNFCCC) is a representative environmental regulation in response to global environmental pollution such as global warming.

- The Paris Agreement was signed at the United Nations Conference on Environment and Development (UNCED) in 2015 as part of continued efforts to reduce greenhouse gases (GHG).
- Schemes like the Total Air Pollution Load Management System, the Emission Trading System, and Best Available Techniques-Associated Emission Levels (BAT-AEL) have been flexibly adopted to reduce greenhouse gas emissions and the air environment, in efforts to improve the environment as well as create economic value.

○ Recently, packaging waste has also emerged as a major environmental issue.

- Developed countries, led by the United Nations Environment Program (UNEP), are promoting waste reduction and recycling by leveraging various measures such as the deposit refund system, holding packaging material producers responsible for recycling, and establishment of a packaging material control agency.

○ A green economy pursues economic growth with the goal of sustainable development while preserving the environment.

- The United Kingdom is leading the global green financial market by becoming the first country to set a legally binding target to reduce carbon emissions and establishing the Green Investment Bank.

2. Increased uncertainty

A. A battle for supremacy between the US and China

■ The conflict between the world's first and second-largest economies, the United States and China, is one of the most significant uncertainties in the global economy.

○ With the launch of the Trump administration in 2017, which champions America First, the accumulated structural tensions between the US and China began to surface in earnest.

- As President Xi Jinping, who advocates the “China Dream,” promoted the “Made in China 2025” and “One Belt and One Road” initiatives, the strategic hegemonic competition between the US and China intensified.

○ The US-China trade war intensified when the two countries imposed additional tariffs back and forth in July 2018 and lasted for 1 year and 6 months until they signed the US-China Phase 1 Economic and Trade Agreement in January 2020.

- With the recent spread of COVID-19 in the US, the conflict between the US and China appears to reignite as the two countries have engaged in a war of words over the origin of the outbreak.

○ The prolonged conflict between the US and China, the first and second-largest trading partners of South Korea, increases uncertainty in the Korean economy and security environment and may have a negative impact.

B. Risk of global debt expansion

■ Debts of major countries in the world increased rapidly as the authorities of each country maintained the stance of expansionary monetary policy and aggressive fiscal policy in the process of overcoming the economic recession caused by the 2008 global financial crisis and 2012 European financial crisis.

○ After the global financial crisis, the global economy's total debt/GDP ratio increased by 37.5%p from 201.5% at the end of 2008 to 239.0% in the third quarter of 2019.

- The total debt of developed countries increased mainly due to government debt under the aggressive fiscal policy through the issuance of government bonds while the total debt of emerging countries such as China significantly expanded largely due to corporate debt.

○ Eased financial conditions have the effect of stimulating the economy in the short term but may aggravate the financial vulnerabilities of households and companies with an extreme preference for financial risks.

○ In recent years, with prolonged near-zero interest rates, financial vulnerabilities in the business sector have significantly increased in some countries due to rising corporate debt and weak debt repayment capacity.
- The recent COVID-19 pandemic is having an unprecedented impact on the global financial market, and economic actors such as major countries and companies are exposed to the accumulated financial vulnerabilities.
- In particular, emerging countries are facing a difficult situation due to rapid capital outflow, and if COVID-19 is prolonged, the outflow of investment capital for major risky assets will accelerate and the ability to finance external debt will be at risk.

C. Global oil prices and Brexit

(1) Global oil prices

■ In the medium term, global oil prices are less likely to surge due to slowing crude oil demand and diversification of the supply market, but uncertainty around the supply side remains.

○ Demand for crude oil is not expected to increase in the medium term as the automobile industry has been gradually shifting from internal combustion engines to eco-friendly vehicles due to the enforcement of regulations on carbon emission and countries are working to improve energy efficiency to achieve their GHG target.

○ Crude oil supply is forecast to continue to increase due to the expansion of production of US shale oil and non-OPEC countries.

○ However, there are uncertainties on the supply side, including the uncertainty in OPEC cooperation, geopolitical risks in the Middle East, reduced investment in the upstream (exploration and production of crude oil) sector due to the low oil price trend and the possibility of bankruptcy of shale oil companies.

(2) Brexit

■ Brexit was officially ratified on January 31, 2020, but uncertainty over detailed agreements remains during the preparation period for Brexit implementation.

○ The UK and EU will negotiate the issues of borders, customs clearance, and movement during the preparation period until December 31, 2020. If an agreement is not reached, "no deal Brexit" may happen.

○ Along with the spread of COVID-19, border shutdown and movement restrictions are in place, and some negotiators tested positive for the virus, making the conditions for negotiations difficult and adding new uncertainties to Brexit.

Ⅲ. Korean Economic Outlook during the Term of the 21st National Assembly

1. Potential growth of the Korean economy

■ An economy's potential GDP is the level of output that the economy can produce by utilizing the given technological conditions and production factors at a sustainable level.

○ Recently, it is defined as the level of production that does not create additional inflationary pressure while the production factor market is in balance in terms of economic stability.

○ The potential growth rate is a concept that provides a criterion for evaluating economic stabilization policies in the short term, and growth potential and financial sustainability in the mid to long term.

■ As a result of estimation using historical data on capital stock, labor input, and real GDP growth, South Korea's potential growth rate appears to have gradually declined.

○ The potential growth rate during the high-growth period in 1970 was maintained at an annual average of 10%, but due to the economic recession triggered by the second oil shock and political and social unrest on October 26 and May 17, the growth rate fell to the early 7% level from the first quarter of 1979 to the third quarter of 1980.

○ Entering the 1980s, with the export boom on the back of the global economic recovery and favorable external economic conditions such as three lows (low oil prices, low interest rates, weak dollar), the potential growth rate rose to an annual average of 9.6% in the mid and late 1980s.

− The potential growth rate started to decline gradually in the 1990s and entered the late 6% level in 1997 before the financial crisis.

○ It is estimated that the decline in the potential growth rate began to accelerate due to the shock from the financial crisis in 1998 and fell to 4.5% in 2007 before the 2008 global financial crisis.

− During 2009-2019, the potential growth rate declined to an annual average of 3.1% as the contribution of labor stagnated and the investment slump continued for a long time.

○ It appears that corporate investment contracted and total factor productivity decreased when the South Korean economy was hit by a major shock such as the foreign exchange crisis or the global financial crisis, leading to a gradual decline in the level of potential growth rate.

− There were three reasons. First, capital accumulation decreased as investment contracted due to the economic recession. Second, the growth of labor supply slowed due to the increase in the natural unemployment rate. Third, restructuring to improve the inefficient economic structure vulnerable to crises was delayed, hindering the increase in total factor productivity.

■ Over the next five years (2020-2024), South Korea's potential growth rate is estimated to decrease by 0.5%p compared to the previous five years (2015-2019) to an annual average of 2.3%.

○ This is because the contribution of capital and labor to potential growth is expected to decline while the contribution of total factor productivity to potential growth, which is used as an indicator of the efficiency of the overall economy, is stagnant.

○ The contribution of total factor productivity to potential growth is projected to remain at the level of the previous five-year period (1.2%p), recovering from the continued decline in the 2000s.

○ The contribution of labor to potential growth is expected to slightly slow down compared to the previous five-year period (0.1%p) due to slower growth in the working population and the number of employed, and shorter working hours.

○ The contribution of capital to potential growth is expected to decrease by 0.4%p compared to the previous five-year period (1.5%p) due to the decrease in construction investment and slower growth in facility investment, which will act as a major factor for the decline in the potential growth rate.

2. Economic outlook

A. Economic growth rate

■ During 2020-2024, the real and nominal GDP of the South Korean economy are expected to grow at an annual average of 2.0% and 3.1%, respectively.

○ In 2020, the real GDP growth rate is forecast to drop sharply in the first half of the year due to the impact of COVID-19, and then to show a modest improvement in the second half, reaching an annual growth rate of 0.1%.

- Private consumption is projected to decrease by around 1% compared to the previous year as income creation conditions such as employment and wages deteriorated and consumer sentiment worsened due to the slowdown in the domestic economic economy caused by the spread of COVID-19.
- However, government consumption is expected to play a role in offsetting the decrease in private consumption and curbing the decline in economic growth by promoting an expansionary fiscal spending policy in response to COVID-19.
- Construction investment is projected to continue the contraction trend, which began in 2018, as the slump continues, mainly in the private construction sector.
- As for facility investment, investment in the IT sector including semiconductors is expected to increase, but the recovery of investments in non-IT sectors such as petrochemicals is likely to see only a slight rebound due to a sharp drop in global oil prices.

– Exports (volume) are expected to decrease significantly compared to the previous year due to the global economic slowdown caused by the COVID-19 pandemic and the contraction of global trade volume.

[Korean economic outlook for 2020 and the next five years]

(Unit: YoY, %)

	2019	2020	5-year average for 2020-2024
Real gross domestic product (GDP)	2.0	0.1	2.0
Private consumption	1.7	−0.9	1.8
Facility investment	−7.5	0.2	2.9
Construction investment	−2.5	−2.5	0.9
Investment in intellectual property products	3.0	2.1	3.4
Total export	1.7	−2.8	1.3
Total import	−0.6	−2.5	1.5
GDP deflator	−0.9	0.7	1.1
Nominal gross domestic product (GDP)	1.1	0.8	3.1

Source: National Assembly Budget Office, Bank of Korea

○ In 2020, the nominal GDP growth rate is forecast to be only 0.8% due to the low growth rate of the GDP deflator and the large drop in real GDP growth rate.

– The real GDP growth rate this year is projected to be around 0%, and the GDP deflator is expected to recover from last year's decline (-0.9%) but the increase rate will be low (0.7%) as trade conditions improved due to the recovery of semiconductor prices and the plunge in international oil prices.

– As a result, the nominal GDP growth rate in 2020 is forecast to break the level in 2019 (1.1%), which was a record low except in 1998 (-0.9%).

– 2020 outlook: nominal GDP growth rate (0.8%) = real GDP growth rate (0.1%) + GDP deflator growth rate (0.7%)

○ During the 2020-2024 period, real GDP growth is projected to decline by 0.8%p to an annual average of 2.0% compared to the previous five years (2015-2019: 2.8%).

– By spending sector, private consumption is forecast to grow at an annual average of 1.8%, below real GDP growth during the same period, and low growth is also expected in construction investment (0.9%) and total exports

(1.3%).

○ During the 2020-2024 period, the nominal GDP growth rate is expected to decrease by 1.1%p compared to the previous five years (2015-2019: 4.2%) to an annual average of 3.1%.

− During the same period, both the real GDP growth rate and the GDP deflator increase rate are forecast to fall.

■ GDP per capita is projected to reach $37,600 by 2024 from $31,000 in 2020.

○ In 2020, GDP per capita is expected to decline for two consecutive years following 2019 as the economic growth rate sharply dropped due to the impact of COVID-19 and the rising won/dollar exchange rate.

− South Korea's GDP per capita entered the $20,000 ($21,727) mark in 2006 and the $30,000 ($31,605) mark in 2017, and recorded an all time high of $33,429 in 2018.

○ When the economic growth rate (annual average of 3.7%) and the growth rate of the Korean won's value (annual average of 1.3%) during the period 2021-2024 are assumed, GDP per capita is projected to reach $37,600 by 2024.

− However, since the estimate of per capita GDP is based on the forecasts for major macroeconomic variables, there may be differences from the actual values depending on changes in economic conditions in the projected period.

B. Private consumption

■ During the 2020-2024 period, private consumption is expected to grow at an annual average rate of 1.8%, slowing compared to the last five years (2.5% in 2015-2019).

○ In 2020, private consumption is forecast to decrease by 0.9% due to the impact of COVID-19 as consumer sentiment sharply contracted and consumption capacity failed to recover.

− In the first half of the year, private consumption is expected to decrease as consumer sentiment contracts due to the spread of COVID-19, and deteriorating income conditions such as employment and wages, which are the foundation for household consumption.

− In the second half of the year, private consumption is expected to turn to growth thanks to the effects of government policies, but the decrease in the number of employed and a slower wage growth rate due to the economic slowdown will limit consumption to only a slight increase.

− The recovery of consumer sentiment is expected to be slow due to concerns about group infections and a potential second wave of COVID-19.

○ During the 2020-2024 period, consumption vitality is forecast to fall due to an increase in the elderly population and a decrease in the production population, and income and job insecurity will likely become a structural constraint on consumption.

C. Facility investment

■ During the 2020-2024 period, facility investment is projected to grow at an annual average rate of 2.9%, a slight increase compared to the last five years (2015-2019, an annual average of 2.8%).

○ In 2020, facility investment improved, mainly with IT-related investments such as semiconductors, but the recovery is expected to be limited due to COVID-19.

− Facility investment in the IT sector is expected to maintain a modest increase on the back of improved industry conditions following the recovery of semiconductor prices, expansion of high value-added display panel facilities, and continuous commercialization of 5G.

− The non-IT sector is forecast to see slight growth in the fields of next-generation automobiles and eco-friendly new and renewable energy, but limited investment centered on maintenance is expected in other industries.

− If the COVID-19 outbreak is prolonged, it is possible that even external demand will contract on top of sluggish domestic demand, expanding negatives impact on investment.

○ In the mid-term, innovation in the manufacturing industry linked to Industry 4.0 and the IT manufacturing industry, and expanded investment in the service industry in response to changes in the demographic structure will mainly drive the increase in overall facility investment.

− Meanwhile, the slow growth of global trade, the increase in horizontal foreign direct investment due to the spread of protectionism, stagnant manufacturing production due to the expansion of the knowledge-based service industry, and the increase in the relative importance of investment in intellectual property products are structural factors that limit investment in facilities.

D. Construction investment

■ During 2020-2024, construction investment is projected to grow at an annual average rate of 0.9% as the sluggish housing investment gradually improves.

○ Construction investment in 2020 is estimated to decrease by 2.5% year-on-year due to sluggish housing investment despite the expansion of investment in non-residential construction and civil engineering.

- As the policy stance to stabilize the housing market is maintained, housing investment is expected to remain sluggish.
- However, investment in civil engineering is expected to increase due to the early execution of the budget for economic revitalization.
- The contraction of construction investment is expected to be partially mitigated by plans to expand infrastructure investment including living SOC and private investment projects.

○ During the 2020-2024 period, construction investment (annual average of 0.9%) is expected to recover from the decline but will likely recover in a limited manner.

- Expansion of large-scale SOC projects and private investment projects, including the country's balanced development project and GTX project, will help alleviate the slowdown in construction investment.

E. Foreign trade

■ During the 2020-2024 period, exports are forecast to remain at a low annual growth rate of 1.2%.

○ Exports (based on customs clearance) in 2020 are projected to decrease by 9.3% YoY due to the slowdown in the global economy and trade caused by COVID-19.

- Semiconductor prices are forecast to increase YoY in the second half of the year, but prices of most non-IT items such as petroleum products are projected to fall due to a sharp decline in overseas import demand because of

COVID-19.

– The average daily exports adjusted for customs clearance days peaked in 2018 ($22.5 billion) and declined for two consecutive years in 2019 ($1.99 billion) and 2020 ($1.8 billion).

– The trade balance surplus is projected to decrease by $10 billion from last year ($38.9 billion) to $28.7 billion as exports (-9.3%) showed a sharper decline than imports (-8.0%), and the trade volume is forecast to be $954.5 billion, falling below $1 trillion.

– The trade volume of South Korea entered the $1 trillion mark for the first time in 2011 and was maintained until 2014. It fell below $1 trillion in 2015-2016 due to the global economic slowdown and then re-entered the $1 trillion level.

○ During the 2020-2024 period, external exports increased by an annual average of 1.2% (3.9% excluding 2020), improving from -0.6% of the previous five years (2015-2019), but the growth rate is expected to be low due to strengthening protectionism, the weakening global value chain, and a decrease in global trade elasticity (global trade growth rate/world economic growth rate).

■ During the 2020-2024 period, the ratio of the current account surplus to GDP is expected to fall to the late 2% level.

○ In 2020, the current account surplus is forecast to be $54 billion, down from the previous year.

– The merchandise trade balance is projected to record $64.7 billion, down from last year ($76.9 billion), as exports fell by a wider margin while both product exports and imports declined due to the impact of COVID-19.

– The service, primary income, and secondary income account balance is expected to show a deficit of $10.7 billion, which was reduced from last year ($16.9 billion) because the travel balance improved as the overseas trips of Koreans drastically decreased.

○ The ratio of current account surplus to GDP during 2020-2024 is expected to reach 2.8%, down 2.7%p from the average of 5.3% during the previous five years (2015 to 2019) as the current account surplus shrinks every year.

F. Consumer prices

■ During the 2020-2024 period, consumer inflation is expected to rise at an annual average rate of 1.1% and escape from the 0% low price level in 2019-2020.

○ In 2020, consumer prices are forecast to rise by only 0.4% due to weak international oil prices and downward pressures such as government policies while the upward pressure on the demand side is weak due to the impact of COVID-19.

– As the economic growth rate declines and domestic demand contracts due to COVID-19, inflation pressure on the demand side remains low.

– Inflation pressure on the supply side will likely weaken due to a plunge in international oil prices and a slow wage increase rate, and government policies such as the expansion of free education and individual consumption tax are expected to put downward pressure on inflation.

○ Consumer inflation is projected to rise gradually from 2021 as the economic growth rate recovers and private consumption increases, but the inflation pressure on demand is still low, so it is expected to fall short of the inflation target level (2.0%).

G. Interest rate and exchange rate

■ During the 2020-2024 period, the Treasury bond yield is expected to gradually recover from the impact of COVID-19 from 2021 and reach an annual average of 1.7%, higher than in 2020.

○ The 2020 Treasury bond yield (3-year maturity) is forecast to decline from 2019 (annual average of 1.5%) due to the Bank of Korea's eased monetary policy, sluggish domestic demand (consumption and investment) due to the impact of COVID-19, and falling overseas interest rates.

– The COVID-19 pandemic has sent an unprecedented shock to the real economy in terms of both aggregate demand and total supply.

– As a result, the domestic economic growth rate is projected to fall from 2.0% in 2019 to 0.1% in 2020, and the consumer inflation rate to remain at 0.4% in 2020, following 0.4% in 2019.

– In addition, the Bank of Korea is implementing a monetary easing policy to reduce the corporate credit crunch, stabilize the financial market, and stimulate the economy, which is expected to factor in lowering market interest rates.

○ During the 2020-2024 period, the Treasury bond yield is projected to reach an annual average of 1.7% as the global economy recovers.

– If the global economy shifts from negative growth this year to positive growth next year and recovers from the impact of COVID-19, South Korea, which is relatively effectively controlling COVID-19, is expected to see its economic growth rate recover to around 2%.

– However, the interest rate increase is expected to be small as the Bank of Korea is easing monetary policy due to low growth and low prices.

■ During the 2020-2024 period, the KRW/USD exchange rate is forecast to decline from the 2020 level to an annual average of 1,171 won as the US dollar is weakening.

○ The won/dollar exchange rate in 2020 is projected to be an annual average of 1,205 won, up 3.3% (39 won) from 2019 (1,166 won) due to the COVID-19 pandemic and uncertainties in the global economy and international financial markets.

– This is because the COVID-19 pandemic and the intensifying trade dispute between the US and China are causing the global economic downturn and instability in the international financial market and raising uncertainty.

○ During the 2020-2024 period, the won/dollar exchange rate is forecast to fall to an annual average of 1,171 won due to the weakening of the US dollar if the global economy including the US returns to the normal growth trend and the international financial market regains stability.

– The current level of over 1,200 won against the dollar happened when the American economy was unstable, such as the Dotcom Bubble Burst (2001-2002) and the financial crisis (2008-2009) in the United States. The US economy has been severely impacted while struggling to control the COVID-19 outbreak.

– The weak US dollar will ease the concentration of international funds on the US, thereby dropping the KRW/USD exchange rate.

Ⅳ. Future tasks

■ First, as South Korea is expected to see the economic growth rate decline in the medium term, measures to mitigate the slowdown in economic growth are needed.

○ The real GDP growth rate is forecast to decline from 2.8% annually over the past five years (2015-2019) to 2.0% over the next five years (2020-2024).

− This is due to not only the impact of COVID-19 but also structural factors such as an increase in the burden of repayment of principal and interest on households, and the aging population.

○ It is becoming difficult to increase the economic growth rate due to a decrease in the potential growth rate.

■ Second, until the Korean economy is freed from the impact of the COVID-19 pandemic, policy attention should be paid on households.

○ The pandemic has hit hard the service industry, which has a lot of small and self-employed businesses, increasing the risk of unemployment for households.

○ Household consumption accounts for about 49% of GDP (in real terms in 2019), so if households suffer from bankruptcy, unemployment, etc., the economy will also be impacted.

■ Third, we should prepare for global economic conditions that are unfriendly to the Korean economy.

○ Protectionism and the high uncertainty caused by COVID-19 continue.

− The pandemic and the intensifying US-China dispute will gradually weaken the global value chain, posing a serious threat to Korean companies with high export dependence.

○ If the conflict between the US and China intensifies, China is likely to tolerate a depreciation of the renminbi to ease the slowdown in economic growth.

■ Fourth, interest rate cuts and large-scale liquidity supply are inevitable to mitigate the impact of the pandemic, but possible mid- to long-term side effects should also be taken into account.

○ Indiscriminate support for both financially stable and unstable companies should be limited to the short term, and in the medium term, it is necessary to consider exit strategies (reduction of financial support, restructuring) in line with domestic and international economic trends.

- Financial support for companies will lead to an increase in corporate debt, which may weaken corporate sustainability, financial system stability, and market function in the medium term.

○ We should also prepare for a situation in which large-scale liquidity with low-interest rates increases instability in asset and financial markets and stimulates inflation after the end of COVID-19.

■ Fifth, businesses and governments need to actively pay attention to eco-friendly infrastructure and technology investment.

○ The pandemic is expected to become a catalyst for developed countries to further strengthen environmental regulations related to domestic or foreign trades.

■ This is a time we need the efforts of companies and governments as well as the cooperation and support of the 21st National Assembly.

○ If we flexibly adapt to changes in the global economy and overcome the challenges faced by our economy, we will be able to take another leap forward with new growth drivers.