# Korea: Conservative Yoon Suk-yeol wins presidential election

The Korean presidential election race has ended with Yoon's victory, but more uncertainty for policymaking is expected.

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## Korean Presidential Election Results

Yoon Suk-yeol from the main conservative People Power Party (PPP) was elected the 20th President of the Republic of Korea. With a 77.1% voter turnout, President-elect Yoon edged ahead of Lee, Jae-myung from the ruling Democratic Party of Korea (DPK). With the ballots counted Thursday morning, Yoon had received 48.56% of the total compared to Lee's 47.83%.

## What to expect from President-elect Yoon

Yoon's policy stance is mostly in line with the long-standing approach of the conservative party in domestic and foreign policies. The most relevant to markets in the near term will be fiscal policy while the market will wait and see how other policies roll out during his five years of presidency.

**Fiscal Policy**

Yoon prefers a smaller government in principle, and so focuses on private-sector driven growth rather than large welfare programs. However, under the current Covid-19 situation, he claimed the need for countercyclical fiscal policy and urged the Government to propose a supplementary bill of KRW 50tn (2.4% of GDP as of 2021). The proposed package of his own was mainly targeted to aid small businesses that were negatively impacted by social distancing regulations and was funded mostly by cutbacks in earmarked expenditures rather than by bond issuance. However, with the recent approval of the supplementary budget of KRW 16.9tn, available funding sources within the current government budget will be limited. Thus, new bond issuance is expected if another supplementary budget is passed by parliament. Having said that, the ruling DPK holds a supermajority in the National Assembly until the next election in April 2024. So in the meantime, Yoon may face challenges reaching bipartisan agreements to implement his policies.

**Monetary policy**

Before Yoon takes Presidential office in May, Bank of Korea Governor Lee, Ju-yeol's term is set to end (31 March). Market participants widely expect President Moon to nominate the final candidate for the incoming Governor and request the consent of the National Assembly after having consulted with Yoon. With his tighter fiscal policy preference, Yoon may lean towards a more dovish monetary policy. But we think the BoK is likely to stay on its tightening path given the higher inflationary environment and global monetary tightening cycle.

**Housing market policy**

In terms of the housing market, Yoon aims to supply 2.5 million units of new housing during his term and ease reconstruction/redevelopment rules (such as lifting the floor area ratio from 300% to 500% etc.). He has also suggested reforming property taxes and slowing increases in housing appraisal prices. Yoon seems open to softening loan restrictions for first-home buyers, conditional on moderation in household debt growth.

**ESG policy (Energy)**

On energy policy, Yoon has indicated that he will revisit the government's plan to cut $CO_2$ emissions by 40% by 2030, to reflect opinion from businesses and stakeholders, and to promote nuclear energy sources to achieve de-carbonization.

**Foreign policy**

The President-elect is expected to take a stronger stance on North Korea and present preconditions such as the denuclearization of North Korea, before opening the door for dialogue or economic engagement with the North. He may agree on the additional deployment of THAAD (Terminal High Altitude Area Defense) in Korea and seek a strengthening of the alliance with the US, which is consistent with the long-standing approach of the conservative party.

Foreign policy has, however, become more complicated as global supply-chains have diversified. Trade is a critical growth engine for Korea. China has become the largest trade partner in terms of exports (25% of total exports in 2021), at the same time, Korea heavily depends on the US for access to new technologies such as semiconductors, bio, and renewable energy. Thus, complications in global supply chains could intensify to some extent if the geopolitical situation surrounding the Korean peninsula worsens.

## What to expect from market reactions

Based on the previous presidential election outcomes, we expect only a limited immediate post-election impact on Korean asset markets. The KOSPI and KRW have been driven more heavily by global risk sentiment and global demand conditions than by local political events. For Korean Treasury Bonds (KTBs), macro-prudential measures and macro policies matter the most. The expected fiscal boost should be positive for the economic outlook this year and relieve stresses for vulnerable groups to some extent but at the expense of future fiscal health. Meanwhile, tighter monetary policy and the likelihood of new bond issuance could create some pressures on the KTB market in the second half of this year.

### Author

**Min Joo Kang**
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com