

Why South Korea's legislative elections are unlikely to spark a major policy shift

On 10 April, South Koreans will head to the polls for parliamentary elections. Barring a super-majority in parliament, the results won't change much in terms of economic policy



View of the National Assembly Building, Seoul

The 22nd legislative election on 10 April

On 10 April, South Koreans will go to the polls for parliamentary elections, aiming to elect the 300 seats of the National Assembly. Of those, 254 are constituency seats, while the remaining 46 are elected by proportional representation. Each voter's choice counts for both the constituency candidate of their electoral districts and the proportional seats. Members of the National Assembly are elected for a four-year term and set the agenda mainly for domestic policy.

The progressive Democratic Party (opposition party) holds a large number of seats in parliament, but in the last two elections presidential and local the conservative People Power Party won. As of March 2024, South Korea's National Assembly had 297 members out of a total 300 members. The DP held the most seats with 160, followed by the PPP with 113.

According to the National Election Commission, the turnout for early voting from Friday and Saturday was 31.2%. This was 4.5 points higher than in the previous election and marks the highest turnout seen for a general election.

A large number of undecided votes could swing the result

Recent polls suggest it will be a neck-and-neck race between the two major parties, but there are still a large number of undecided voters. The results could, therefore, swing towards one side or the other. If the PPP and other conservative parties win, it could add momentum to President Yoon Suk Yeol's major reform agenda including health care, education, and national pensions. However, if the DP and associated parties win, it will further weaken Yoon's leadership, and his policies could be negotiated with the opposition coalition.

Regardless of which party wins the race, what will be more closely watched is how many seats the winner will take. Constitutional amendment is possible if 200 seats are secured. 180 seats can take control of legislative power, including promoting the fast track alone. If 150 seats are secured, various bills, including the budget bill and the motion for appointment of the Prime Minister, Constitutional Judge, and Supreme Court Justice, can be passed.

We expect the impact of the election on the economy to be limited

Fiscal policy will remain on the tight side based on the government's proposal, whose stance is fiscal normalisation and soundness. With the DP currently in the majority, this year's budget was passed with few changes to the government's original proposal. However, both parties are calling for some kind of fiscal stimulus the DP argues for a cash transfer programme, while the PPP prefers a reduction in VAT and fiscal policy may, therefore, turn more supportive for growth in the second half of this year. At the same time, this could hold inflation at an elevated level a bit longer than expected. In our base case scenario, government efforts to curb inflation will continue with tight monetary conditions, and inflation is expected to cool down gradually.

When it comes to monetary policy, both parties support a tight stance and remain concerned about higher inflation and excessive private debt. Recent inflation data coming in above 3% should be a major concern for the Bank of Korea, and its hawkish stance will remain for a while.

Regarding the Value-Up" programme for the stock market, the election results won't change much about the programme itself. The DP is more focused on improving corporate governance and protecting the rights of shareholders, while the PPP favours tax cuts and deregulation.

As for foreign policy, the current president has sought closer ties with the US and Japan, and this won't change significantly whoever wins, as parliament has little room to weigh in on the president's foreign policy agenda.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information

purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.