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Press Release

June 25, 2009

ECONOMIC POLICY DIRECTIONS FOR THE SECOND HALF OF 2009

Key Directions

Current expansionary policies will continue until clear signs of economic turnaround are apparent, given uncertainties surrounding the economy. However, temporary measures will be reviewed in terms of their impact on the economy, and subject to be withdrawn when they expire. Real estate markets will be under close scrutiny, and any signs of market instability are sure to be responded to in advance with appropriate measures, in particular mortgage loans with tighter provisions. (According to the press briefing given on June 24, the Korean economy saw better-than-projected real GDP growth in the second half of 2009, registering a 1.7 percent increase from the previous quarter, while 0.7 percent growth was forecast originally.)

The current policies concerning job creation and public welfare will continue to be pursued in the second half, but their impact and effectiveness will be reviewed. In this respect, supplementary budget spending, measures for promoting the service sector promotion and supporting business startups, and programs for training human resources will be put under evaluation.

Market fund flows will be improved so that rich liquidity can move smoothly into the real sector. Long-term funding, such as M&A funds and early IPOs of public companies, will be encouraged. Non-performing loans in the financial sector will be purchased through the KRW40 trillion Restructuring Fund.

On-going corporate reform efforts will definitely be made: Creditor-led corporate restructuring at all times, early removal of bad loans in the financial sector, and more flexible job markets with improved labor-management relations. Relaxed lending conditions and expanded credit limits will be removed if the financial market stabilizes state-owned agencies are obliged to make on-going efforts to improve their management efficiency, and those subject to privatization will be prepared for it.



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The government will boost its efforts to raise the nation's growth potential to prepare for the post crisis period. This will include measures to promote investment in R&D and green growth related industries, create a more business-friendly environment, offer deregulation on high value added service industries, conclude FTAs with resources rich countries, and prepare for future risks such as an aging population, climate change, and high oil prices.

Conclusion

The Korean economy shows signs of reviving faster than other economies, as some economic indicators are improving, financial markets stabilizing, and real GDP growth entering an upward trajectory in the second quarter of 2009. However, there are still obstacles: Facility investments are still weak, negatively affecting employment, corporations are suffering from low profitability and high debt, worries are growing over economic bipolarization with the crisis mostly affecting the socially vulnerable, the potential increase in oil prices and the North Korea's nuclear ambition are posting risks, and social conflicts may quell consumer sentiment. These are the reasons behind the expansionary fiscal spending the government decided to take in the second half of 2009.

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