



📞 202.464.1982 📍 1800 K Street NW

THE PENINSULA

2021 in Review: South Korea's Economy and COVID-19

Published December 23, 2021

Author: [Jinwoan Beom](#)

Category: [South Korea](#)



This is the sixth in a 10 part series looking at how the issues identified in KEI's annual "10 Issues to Watch for on the Korean Peninsula" series developed in 2021. The original "10 Issues" piece can be [found here](#).

Korea has dealt with the COVID-19 shock better than most other OECD countries, with no hard lockdown and relatively small damage to health and livelihoods. Economic activity recovered rapidly, and GDP caught up with its pre-pandemic level about a year ago already.

In 2021, stronger social distancing measures since July have weighed on the service sector

and held back private consumption. However, a rapid vaccination campaign allowed for over 80% of the total population to be fully vaccinated by the end of November. This enabled the government to start easing restrictions on private gatherings and business operations.

The South Korean economy continues to recover despite the disruptions of global value chains imparted by COVID-19. According to the latest OECD economic outlook, real GDP will grow 4% this year and 3% in 2022 driven by recovering private consumption, strong export growth and improving business investment. Continued vaccination efforts should help boost private consumption next year. Exports are set to grow robustly owing to strong global demand for semiconductors and other products, despite supply bottlenecks and shortages causing delivery delays.

Expansionary fiscal policy will continue to support employment and the economy. The 2022 budget of KRW 608 trillion entails an 8.9% increase compared to the 2021 original budget. However, as the economy recovers, fiscal support should become more targeted on the hardest-hit households and companies. Moreover, policy should strive to accelerate digitalisation, green the economy and enhance the still weak social safety net in accordance with Korea's New Deal.

Meanwhile, rising inflation and the build-up of household debt are sources of concern. The Bank of Korea has therefore started to normalise monetary policy, raising its policy rate twice, in 25 basis point steps, to 1.0% by November. The government should step up its efforts to boost housing supply, which will help stabilise housing prices.

The recent increase in the number of COVID infection cases and hospitalisations, along with the outbreak of the Omicron variant, cast a disquieting shadow on the outlook. The government should continue its efforts to inoculate the whole population, including in due course with booster shots, and should adapt the planned relaxation of precautionary measures as the health situation evolves.

Jinwoan Beom is an Economist on the Korea/Sweden Desk at the Organization for Economic Cooperation and Development. The views expressed here are the author's alone.

Photo from Rico Lee's photostream on flickr Creative Commons.

Return to the Peninsula