

South Korea's employment issues are brought to light once again by the COVID-19 pandemic

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With a decrease of 1.0% YoY in its real GDP growth rate last year, South Korea experienced a relatively small economic downturn owing to its success in curbing the spread of COVID-19 compared with other major countries. Furthermore, despite the pandemic, there was a tailwind from healthy demand for semiconductors (South Korea is one of the top global manufacturers of semiconductors) and, since the start of 2021, indicators related to corporate activities have been strong overall; the Index of Equipment Investment rose to 124.7 in January and exports increased 9.5% YoY in February (Chart 1 upper). On the other hand, the slow recovery in employment continues to be a point of concern. The number of employees fell by 473,000 in February from the previous year, marking the twelfth consecutive month where the number of employees was lower than last year's levels (Chart 1 lower).

The breakdown of the number of employees by age cohort shows a more serious worry in the labour environment (Chart 2). Although the upward trend in the number of employees aged 60 and over continues to rise since the start of the COVID-19 pandemic, the increase in employment of this generation appears to be attributed mainly to the direct hiring of unskilled workers, such as cleaners, amid the government's ongoing employment scheme that targets low-income backgrounds, and has strong implications as a social welfare policy. However, the decrease in employees in their 40s from before the pandemic is of course an issue, the recovery after the decrease in the number of employees in the most productive generations due to the pandemic is slow and there is a rise in the economically inactive population who have given up looking for a job. In addition, there is a possibility that the "income-led growth" policy which Moon Jae-in's government has stuck with since it took office will act as a hindrance to the labour market recovery going forwards. The policy aims to boost economic growth by raising personal incomes, but the increase of around 30% to minimum wages over the past two years since 2018 has put a heavy burden on businesses and the hurdle to hire new employees is higher than before.

South Korea has faced employment issues for many years now and the government has tried to tackle them with various policies. Yet, amid the prolonged decline in employment brought about by the COVID-19 pandemic, it seems these policies (such as direct hiring by the government and minimum wage hikes) have not necessarily resulted in a drastic improvement in the employment environment up until now. In March, the government announced it would set aside KRW 2.8 trillion (approximately 0.2% of nominal GDP) of its supplementary budget for an

employment package focused on creating jobs, especially through direct employment. However, in order to achieve sustainable economic growth after the pandemic, it will be necessary to create a structure and environment that will increase appetite for hiring amongst private companies.

Chart 1: Macro Indicators

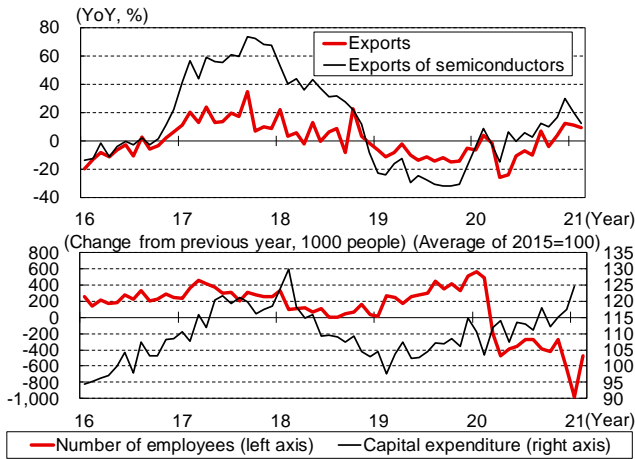
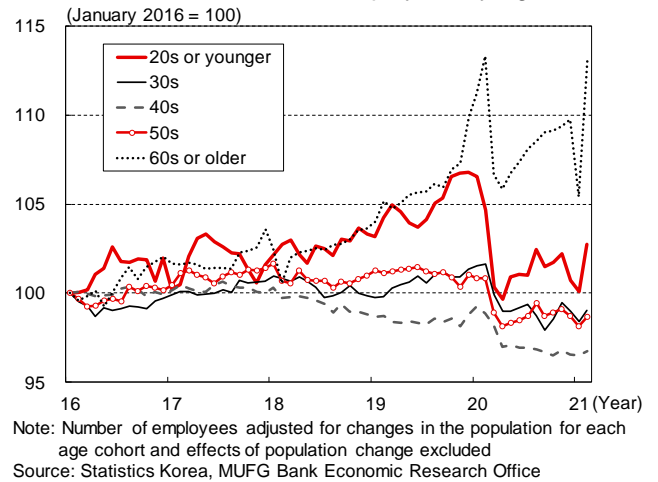


Chart 2: Number of Employees by Age



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