

MNI POLITICAL RISK ANALYSIS-South Korea Election Analyst Views

by Tom Lake

On 3 June Lee Jae-myung, candidate for the main opposition liberal Democratic Party of Korea (DPK), won a comfortable victory in the South Korean snap presidential election. Lee defeated conservative People Power Party candidate Kim Moon-soo by a margin of 49.4% to 41.2%. Lee, who was sworn into office on 4 June, comes in at a time of significant political, socioeconomic and cultural division domestically following the upheaval of former President Yoon Suk-yeol's abortive imposition of martial law and impeachment process. Meanwhile, pressures on the foreign policy front with regards to trade and tariffs with the US and security challenges in east Asia loom large.

Below we highlight some key commentary from analysts in the immediate aftermath of the election.

Commerzbank

- [Lee] is known to support industrial policy to drive government funding into key sectors like AI, biotechnology, and green energy. On the corporate front, Mr Lee is also in favour of supporting equity valuation by strengthening minority shareholder rights through closing the treasury share loophole, which allows the controlling shareholder to strengthen its power during corporate restructuring.
- On foreign policy, Mr Lee supports an alliance with the US but desires a more equal partnership. He also favours more communication and increased engagement with North Korea. **Mr Lee may choose to go slow in tariff negotiations with the US, believing that South Korea will be able to get a better deal through continuous engagement.**

DBS

- With this result, **the Democratic Party now holds unified control of both the presidency and the National Assembly, reducing legislative gridlock** and paving the way for smoother policy implementation.
- An **expansionary fiscal policy** is likely under the new administration. President-elect Lee has **pledged a supplementary budget** aimed at supporting households, aiding SMEs, expanding public housing, and investing in strategic future industries such as AI and semiconductors. While fiscal stimulus could provide a boost to domestic growth, it **may also raise concerns about rising public debt levels.**
- **Trade policy may face a recalibration.** During his campaign, Lee emphasized the need to prioritize South Korea's economic interests in trade negotiations with the US, cautioning against rushed deals and excessive concessions. He also signaled a desire to reduce reliance on the US market by strengthening trade ties with China, Europe, and other regions.
- Optimism around trade negotiations/tariff suspensions has supported recent strength in the KRW and KOSPI; **any delay or uncertainty in trade policy could dampen market sentiment.**

Goldman Sachs

- ...we anticipate a swift cabinet formation as the Democratic Party controls both the executive and legislative branches (unlike the situation in the 2017 snap election). **Markets will closely watch for the nomination of the new finance minister**, whose quick onboarding is crucial for preparing a supplementary budget bill.
- Senior Democratic Party members have indicated that the budget could be at least KRW20trn, with Mr. Lee suggesting it might exceed KRW35trn (1.3% of GDP or 1.5% of GDP including an earlier smaller supplementary budget). The new government will also need to prepare the 2026 budget bill for submission to the National Assembly by end-August.
- **We expect an expansionary fiscal policy to take effect soon**, as the cabinet formation process, including parliamentary hearings, will likely move quickly due to the progressive parties' majority control (over 60%) of the parliament. In contrast, the 2017 early presidential election saw a slower cabinet formation, taking over three months, although the Finance Minister was appointed within one month.
- We also **expect the formation of a new government to renew progress in US-Korea trade negotiations**. The progressive government's foreign and national security policy, as announced during the election campaign, is **likely to stick to a strong US-Korea alliance** as well as bilateral cooperation with the US on shipbuilding, defense and cutting-edge industries. . Given the stance of the new government, we continue to believe the bar for reaching agreements with the US remains low.
- Mr. Lee's **pragmatic stance on relations with China, Japan, and Russia could also help maintain stable relations with neighboring countries**. Mr. Lee has said he wants to pursue robust Japan-Korea relations through social, cultural, and economic cooperation and manage China-Korea relations stably. He has also noted he wants to build comprehensive deterrence capability based on a strong US-Korea alliance and to reduce geopolitical risks through efforts to lower political and military tensions with North Korea.

ING

- ... we believe [Lee's] policies remain aligned with the principles of a **progressive party, prioritising improvements to social welfare and market fairness**. We expect to see more government spending to support households and small-and-medium-sized enterprises and government-led growth (including AI), alongside a greater focus on the rights of minority shareholders and corporate governance.
- Lee and the DP have been arguing for larger fiscal support throughout the year. The party proposed a second supplementary bill of at least KRW35 trillion (1.2% of GDP) during the campaign. **A KRW13.8 trillion supplementary budget was passed in early May, but we expect another bill to come very soon. Its size could be as large as KRW40-45 trillion, bigger than market expectations**
- In terms of foreign policy, **Lee will likely pursue "pragmatic" diplomacy based more on Korea's real-world interests than ideology**. He is likely to strengthen cooperation between Korea, the US and Japan, the "trilateral alliance". In this way,

he would be able to keep the strong defence alliance with the US, but also seek better terms for securing the nation's economic security.

- **Lee has indicated that he would like to take a more cautious approach to the trade negotiations**, probably benchmarking other countries' negotiations before Korea finalises an agreement. Korea and the US agreed to draft a package deal by 8 July. Lee is expected to request an extension. We believe that the deal will involve increased military spending on US troops in South Korea, greater direct investment in US automotive, steel and infrastructure sectors, and the import of more US goods, particularly agricultural produce and commodities. In return, Korea will demand the elimination of reciprocal tariffs and a temporary tax exemption on auto exports.

JP Morgan

- **...Lee Jae-myung's campaign strategy advocated for a modest policy stance that could gain consensus, including among centrist and conservative groups.** Particularly in economic policy, the focus was on fostering future strategic industries and enhancing growth potential. **While most parties claim to pursue economic growth, it appears that the DP emphasized practical agendas** appealing to centrist and conservative groups, rather than the typical progressive agendas of distribution and equity.
- On foreign and security policy, the party reaffirmed its previous stance of pursuing practical diplomacy centered on national interests based on the Korea-U.S. alliance, confirming a direction of seeking stability through a pragmatic approach.
- In terms of the macroeconomic policy outlook, **we expect that there will be a focus on expansionary fiscal policy aimed at boosting consumption** at least in the short term. We anticipate an additional budget equivalent to 1.3% of GDP in two phases, and a first supplementary budget of 0.5% has already passed by the National Assembly. However, reports during the election period suggested that the scale of the second supplementary budget is likely to exceed our previous expectations (0.8% of GDP).

MUFG

- ...both the President and the National Assembly in South Korea are now under the same party, making it easier to pass through legislation and reforms, and as such also removing some political uncertainty which has been weighing on the country...
- From a macro perspective, **Lee Jae-myung's win should also imply a larger fiscal stimulus and focused on the lower income households**, together with other key policies such as corporate market reforms, a more balanced foreign policy relationship between China and US...
- During the campaign trial President Lee had proposed an extra budget worth 1.2% of GDP to prop up the economy with focus on cost of living issues and small business relief, and with both the presidency and parliament under the same party this should make it easier for a supplemental budget to get through.
- We still think the dominant factor for KRW will be the negative impact of tariffs and also the underlying structural weakness of South Korea's economy including its soft property market and weak domestic demand.

SocGen

- Lee has pledged to revitalize the economy through strong fiscal stimulus and enhance the protection of minority shareholders' rights through amendments to commercial law.
- With a new government enjoying strong legislative support, **we can anticipate policies that were previously considered unthinkable under the prior administration.** The imminent **policy challenges include: 1) managing a significant increase in KTB issuance due to a new round of substantial supplementary budgets, and 2) addressing ongoing pressure from the US regarding currency issues.** In this context, previously unthinkable measures may now be on the table.
- While it is **too early to determine what these "unthinkable" measures might be,** one possibility **could involve adjusting the National Pension Service's asset allocation to support larger KTB issuance and strengthen the Korean won.** We will continue to monitor policy developments in this regard.

TD Securities

- The risk premium from the political turmoil in Dec'24 have capped KRW's gains relative to peers amid the USD sell off this year. **We see two wins for KRW on the horizon with 1) an imminent fiscal package and 2) a swift US-South Korea trade deal.**
- **Lee is likely to turn on the fiscal tap after he pledged a >30tn KRW budget (US\$21bn)** on his campaign trail which should add 0.2%-pt to GDP in 2025. Korea's public debt-to-GDP is also manageable and investors may take the fiscal largesse in stride.
- Progress on trade talks should expedite as Lee has the mandate to make key decisions on energy projects and defense costs during the talks.

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