

December 16, 2024

## PRESIDENTIAL IMPEACHMENT UPDATE POLITICAL AND ECONOMIC IMPLICATIONS



### I. Impeachment of President Yoon: Key Developments

#### **204 votes in favor of impeachment motion – the Prime Minister to Act as President**

On December 14, 2024, the National Assembly passed an impeachment motion against President Yoon Seok-yeol, marking a pivotal event in South Korea's political landscape. The motion received 204 votes in favor, 85 against, with 3 abstentions and 8 invalid votes. This historic decision represents only the third instance of a South Korean president facing impeachment, following Roh Moo-hyun in 2004 and Park Geun-hye in 2016.

☞ The South Korean Constitution mandates that an impeachment motion must be approved by at least two-thirds of the National Assembly. The initial vote, held on December 7, failed due to a lack of quorum, with only 192 opposition and three ruling party members participating—falling short of the required 200 votes. The follow-up vote, however, garnered broader support, including votes from 12 ruling party members, enabling the motion to pass.

As a result, President Yoon's powers and duties were suspended, and Prime Minister Han Deok-soo assumed the role of acting president. On the same day, Prime Minister Han convened an emergency cabinet meeting, emphasizing the need for a robust security posture and continuous monitoring of the economic situation, stating, "The most important mission is to swiftly stabilize the government and restore a sense of normalcy for the people." In a December 15 phone call with U.S. President Joe Biden, Prime Minister Han reaffirmed the strength of the Korea-US alliance.

#### **Amid escalating internal divisions within the ruling party, the opposition is strategically positioning itself as the governing party**

The impeachment has ignited internal strife within the ruling People Power Party ("PPP"). Media reports indicate increasing divisions among party members, particularly against PPP's pro-impeachment faction led by party leader Han Dong-hoon, who announced his resignation on December 16. Accordingly, PPP is expected to shift to an emergency response

committee system, but conflicts between the pro-Yoon Seok-yeol faction and the pro-Han Dong-hoon faction are likely to escalate further.

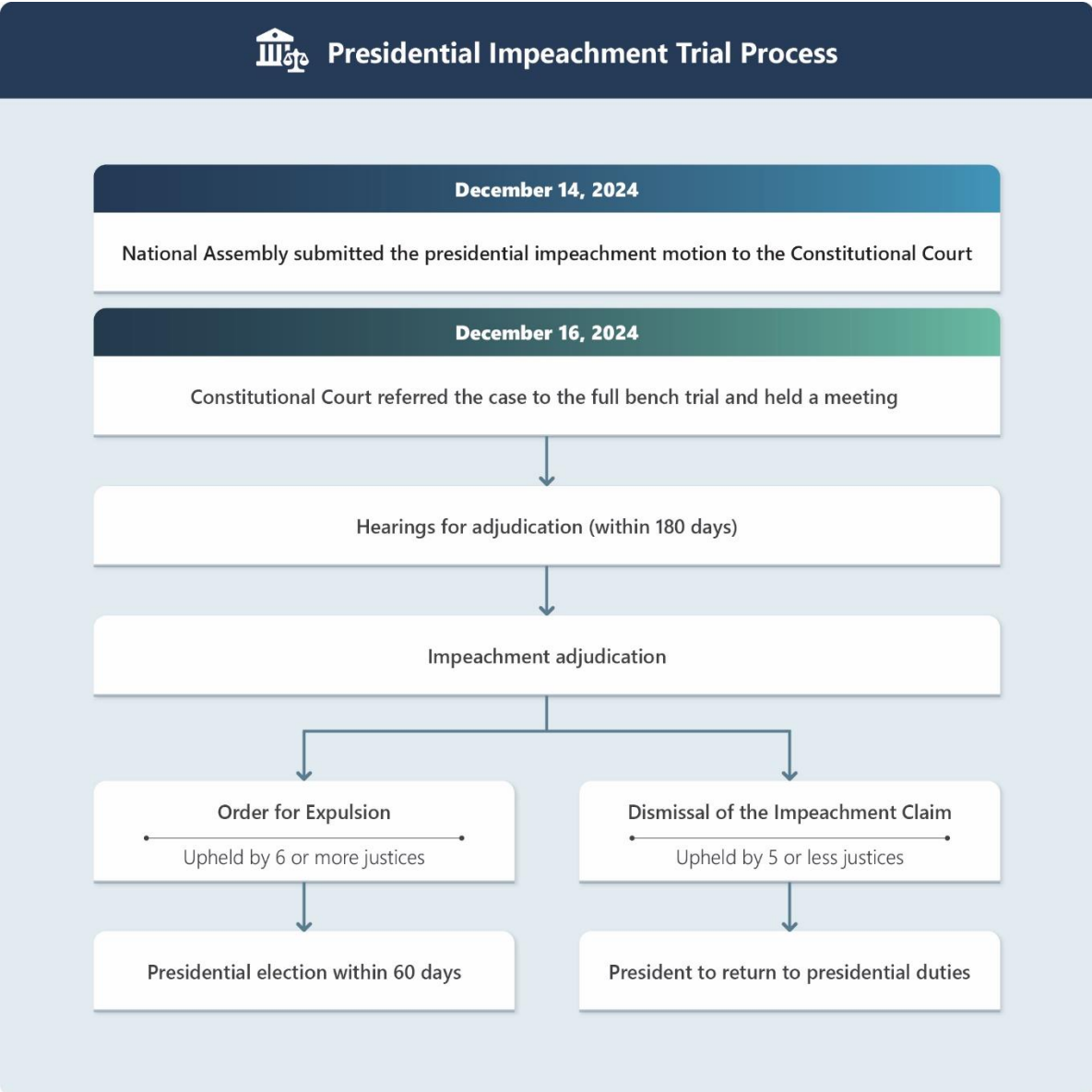
Conversely, the opposition Democratic Party of Korea (“DPK”) is capitalizing on the political turmoil to position itself as the governing party. During a press conference on December 15, DPK leader Lee Jae-myung emphasized the urgency of “normalizing South Korea” and proposed establishment of a “National Stability Consultative Body” involving both the government and the National Assembly. This initiative is widely interpreted as an effort by DPK, which holds a majority in the National Assembly, to project itself as a credible “governing party” by showcasing its capacity to collaborate with the government in addressing the ongoing political and social unrest.

## II. Looking Ahead: Impeachment Trial at Constitutional Court and Future Outlook

**The trial is expected to conclude within three months, despite the constitutional requirement to render a decision within 180 days. If the impeachment is upheld, a presidential election must be held within 60 days.**

On December 16, the Court convened to outline the case schedule and announced the commencement of an impeachment trial, which is set to begin on December 27. It is widely anticipated that it will take approximately three months for the Constitutional Court to render a decision on the impeachment motion. The Court is likely to factor in the potential negative impact that a prolonged suspension of the president’s powers and duties could have on political stability, as well as South Korea’s diplomatic and economic credibility. For reference, the impeachment trial of former President Roh Moo-hyun lasted 63 days, while that of former President Park Geun-hye lasted 91 days.

☞ Under the Constitution and relevant laws, the Constitutional Court is required to rule on the president’s impeachment within 180 days of receiving the impeachment resolution. If at least six of the Court’s judges agree to uphold the National Assembly’s impeachment motion, President Yoon will be removed from office, triggering a presidential election to be held within 60 days. Conversely, if the Court rejects the motion, President Yoon will immediately resume his powers and duties.



A significant variable in this process is the Constitutional Court’s current six-member composition, with three of its nine judicial seats vacant. Since a unanimous decision by all six sitting judges is required to uphold the impeachment, this raises potential questions regarding the legitimacy and fairness of the ruling. To address this, the National Assembly plans to fill the vacant positions—one nominated by the ruling party and two by the opposition—before the end of the year.

**Investigation into the alleged coup to have significant impact**

The ongoing investigation into the alleged coup involving President Yoon adds a significant layer of complexity to the impeachment process. Authorities have intensified their efforts, with former Defense Minister Kim Yong-hyun, NIS Commander Yeo In-hyeong, and NPA Commissioner Cho Ji-ho already under arrest on charges of conspiring with President Yoon during the declaration of martial law and the coup attempt. Additionally, several other

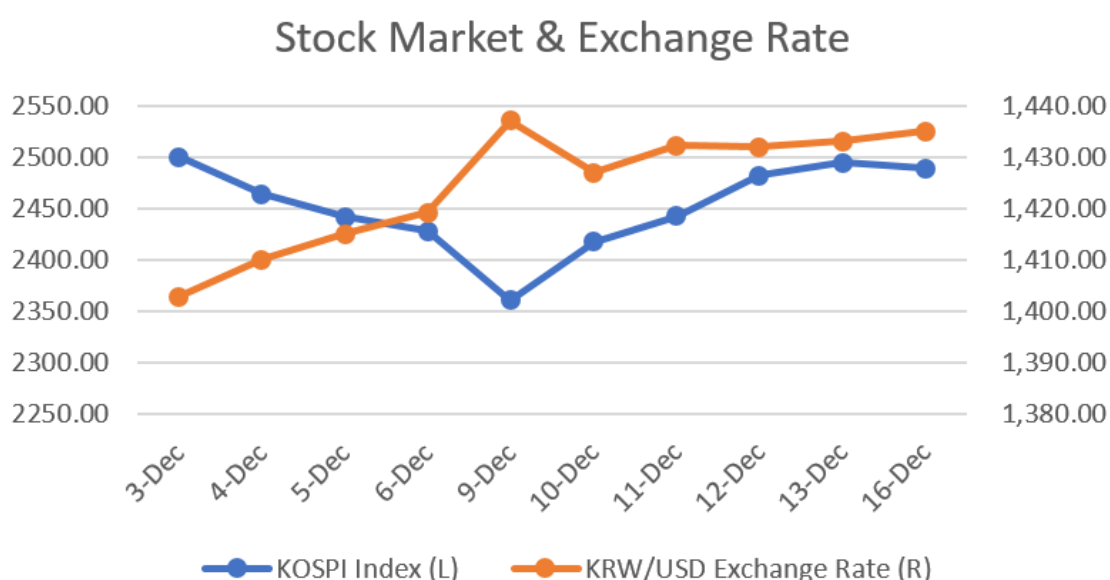
individuals implicated in the case are either under investigation or facing arrest warrants. Prosecutors have formally notified President Yoon to appear for questioning, identifying him as a central figure in the alleged conspiracy. However, Yoon has so far refused to comply. Should he continue to decline without valid justification, the prosecution may issue an arrest warrant to compel his attendance.

The outcome of this investigation could heavily influence the Constitutional Court’s impeachment deliberations. If credible evidence emerges that President Yoon incited or participated in the alleged coup, it could further weaken his position in the impeachment process. In response to the impeachment motion and ongoing investigation, President Yoon has pledged to mount a vigorous legal defense, signaling a contentious battle ahead. Following the National Assembly’s impeachment motion on December 14, he issued a statement, declaring: “I will never give up.”

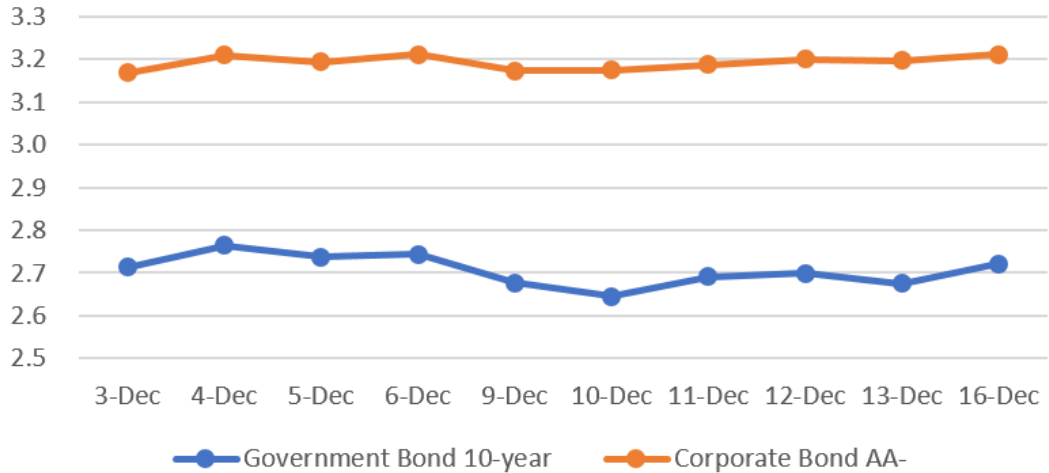
### III. Impact on the Korean Economy

#### Stabilization of the financial and foreign exchange markets

The financial and foreign exchange markets are showing signs of stabilization following the temporary shock caused by the declaration of martial law. The stock market has almost returned to its pre-martial law level, buoyed by consistent institutional investor buying. Meanwhile, government bond yields have stabilized, reflecting improved market conditions as of December 16.



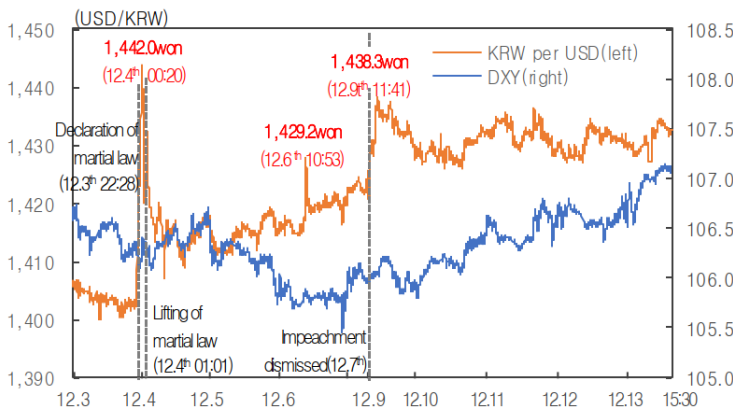
### Interest Rate



### Bank of Korea analysis

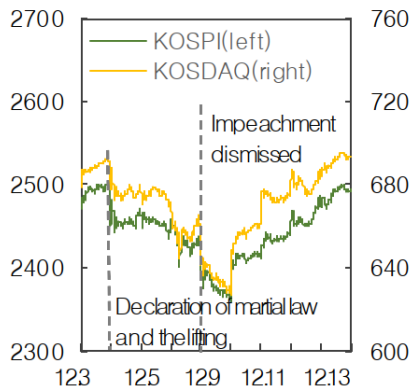
On December 15, the Bank of Korea announced that market volatility is expected to diminish further following the National Assembly’s approval of the impeachment motion, which has enhanced predictability in the political process. The exchange rate, which had surged immediately after the declaration of martial law on December 3, is showing signs of stabilization due to the early lifting of martial law and the market stabilization measures implemented by the government and the Bank of Korea. However, volatility in both the exchange rate and stock prices increased again after the National Assembly’s failure of the impeachment vote on December 7.

### Intraday USD/KRW Exchange Rate and DXY



Source: Bloomberg.

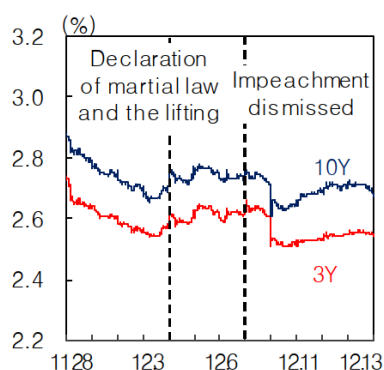
### Intraday KOSPI and KOSDAQ



Source: KOSCOM.

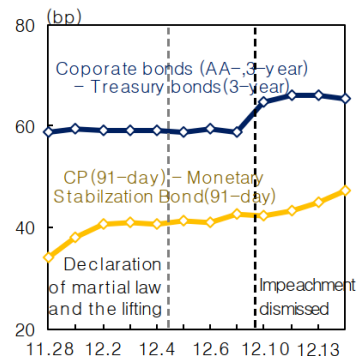
Despite initial increases, bond yields have remained relatively stable, showing only minor movements due to ongoing stabilization efforts, concerns over a domestic economic slowdown, and expectations of a potential December rate cut by the U.S. Federal Reserve. Credit spreads have remained steady overall, though CDS premiums experienced a slight increase after the declaration of martial law.

**Intraday Treasury Bill Rates<sup>1)</sup>**



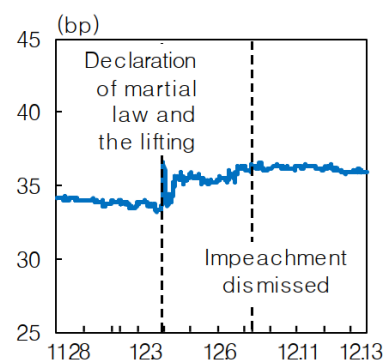
Notes: 1) The drop on Dec. 10 was driven by one-time factors, such as the replacement of benchmark securities.  
Source: KOSCOM.

**Credit Spreads<sup>1)</sup>**



Notes: 1) The rise on Dec. 10 was driven by the factors such as the replacement of benchmark government bonds.  
Sources: Bank of Korea, Korea Financial Investment Association.

**Intraday CDS Premiums<sup>1)</sup>**



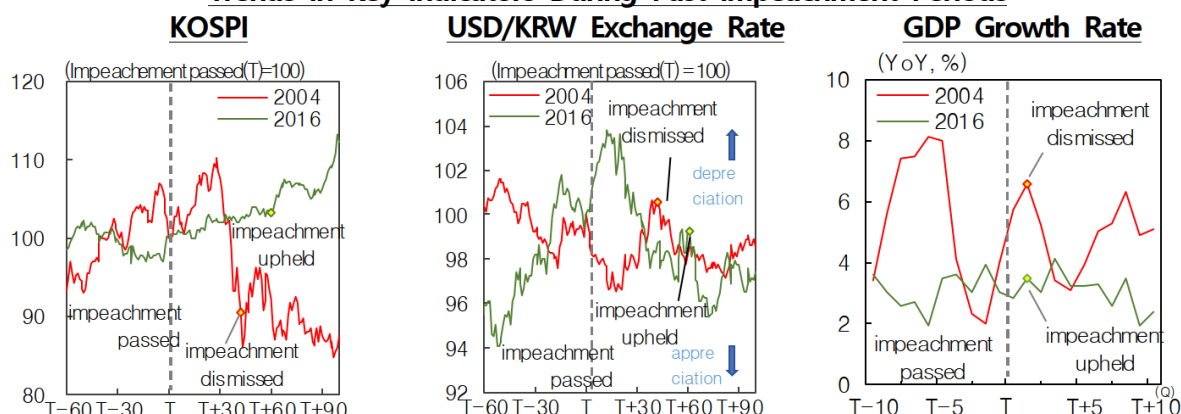
Notes: 1) 5-year maturity.  
Source: Bloomberg.

**Limited economic impact observed in previous impeachment cases**

The Bank of Korea analysis shows that the two previous impeachment events, in March 2004 and December 2016, led to short-term spikes in market volatility, but had limited overall impact on the Korean economy.

Stock prices in the previous events experienced an initial decline due to weakened investor sentiment, but recovered quickly to their previous levels after the impeachment motion was passed. Government bond yields, particularly three-year bonds, remained relatively stable, fluctuating within a narrow range throughout the impeachment period. Exchange rate volatility did increase during the National Assembly’s impeachment proceedings, but broader trends largely mirrored global dollar movements. Consumer sentiment did weaken slightly in the previous impeachment crises; however, the impact on overall economic growth was negligible, according to the Bank of Korea’s analysis.

### Trends in Key Indicators During Past Impeachment Periods<sup>1)</sup>



Notes: 1) T represents the date or quarter of the National Assembly's passage of the impeachment motion.  
Source: KRX, Bank of Korea.

### Commitments by the Government's Economic Team to Stabilize the Economy

Amid the political turbulence, including the declaration of martial law and the impeachment motion, the government's economic team has convened periodic F4 meetings and Economic Ministerial Meetings to stabilize markets and uphold external credibility. On December 15, a day after the National Assembly passed the impeachment motion, Deputy Prime Minister and Finance Minister Choi Sang-mok chaired an emergency Economic Ministerial Meeting. The meeting focused on future economic policy directions and detailed response plans for each ministry. During this session, the government announced four core commitments: 1) maintain external credibility, 2) actively address trade uncertainties, 3) build an industrial structure resilient to internal and external challenges, and 4) enhance policy measures to stabilize livelihood.

### Strengthening Incentives for Foreign Investment

The government has pledged to enhance incentives for foreign investment as part of its efforts to maintain external credibility, a priority for foreign investors. To achieve this, it aims to improve the international community's understanding of South Korea's strong economic fundamentals and external stability. To further this goal, the government plans to hold an Investor Relations (IR) event and send ambassadors for international finance and investment cooperation to explain the economic situation and response efforts to the international community. Additionally, it announced plans to launch a government-wide ombudsman task force to provide one-stop solutions for challenges faced by foreign investors and strengthen incentives to attract foreign investment.

### Potential Policy Delays

The current confrontational political climate risks delaying critical National Assembly decisions on several pressing issues. The National Assembly has already rejected the government's proposed amendment to the Inheritance Tax and Gift Tax Act, and many



legislative proposals did not get approved. As a result, key reforms, including those on the national pension reform, Inheritance Tax and Gift Tax reform, and healthcare reform, are expected to be postponed. Especially bills facing disagreements within government ministries, such as the proposed online platform regulation, may also experience setbacks. However, there is a push for urgent consultations between the government, ruling party, and opposition to expedite the passage of essential bills affecting the economy. Deputy Prime Minister Choi Sang-mok has expressed his intention to consult with the National Assembly to prioritize the processing of key bills that will shape the future of key industries. These include the Special Act for Semiconductor, the Artificial Intelligence (AI) Framework Act, and the Special Act for Power Grid. To the extent possible, he aims to ensure pass these bills within this year.

### **Most Uncertainties Alleviated by the National Assembly’s Impeachment Resolution**

While political instability could lead to heightened volatility in financial and foreign exchange markets if prolonged, most uncertainties have been alleviated by the National Assembly’s impeachment resolution. Prolonged instability risks dampening economic sentiment and consumer spending. To mitigate potential fallout, the government is prepared to implement market stabilization measures, including a KRW 10 trillion supplementary fund if needed. Additionally, it plans to maintain stability in the bond and money markets by activating a bond market stabilization fund and a corporate bond and CP purchase program worth a combined KRW 40 trillion.

Overall, it can be said that the uncertainty caused by the declaration and subsequent lifting of martial law has largely been resolved by the National Assembly’s impeachment resolution, clearing the way for the Korean economy to stabilize. However, external factors remain crucial, particularly export performance, which could be influenced by tariff policies as the Trump administration begins its second term. The government’s ability to effectively navigate these external challenges will be a key determinant of the country’s economic trajectory.

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