



Current Macroeconomic Conditions and Economic Policy Directions in Korea

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C O N T E N T S



I. Current Macroeconomic Conditions

II. Current Macroeconomic Issues

III. Economic Policy Directions

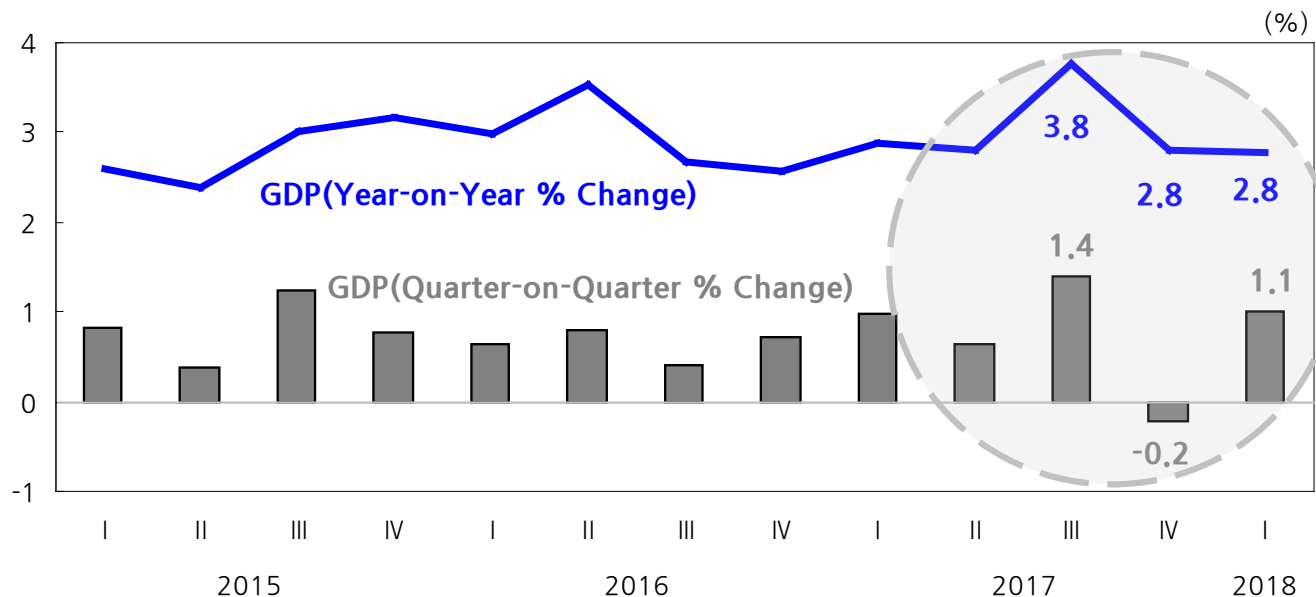
Part-01

Current Macroeconomic Conditions

Economy Growth(1/2)

The Korean economy is maintaining moderate growth with continued improvements in the service sector despite a sluggish construction industry.

GDP Real Growth Rate

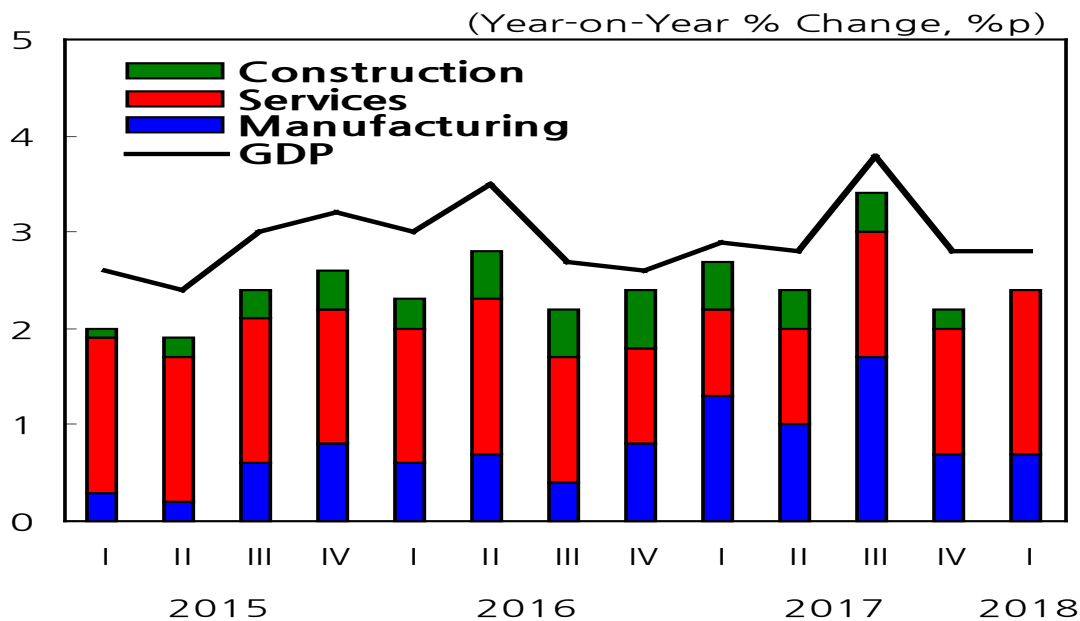


Source: The Bank of Korea

Economy Growth(2/2)

Manufacturing is showing slightly higher growth from the last year in terms of the value-added in the national accounts

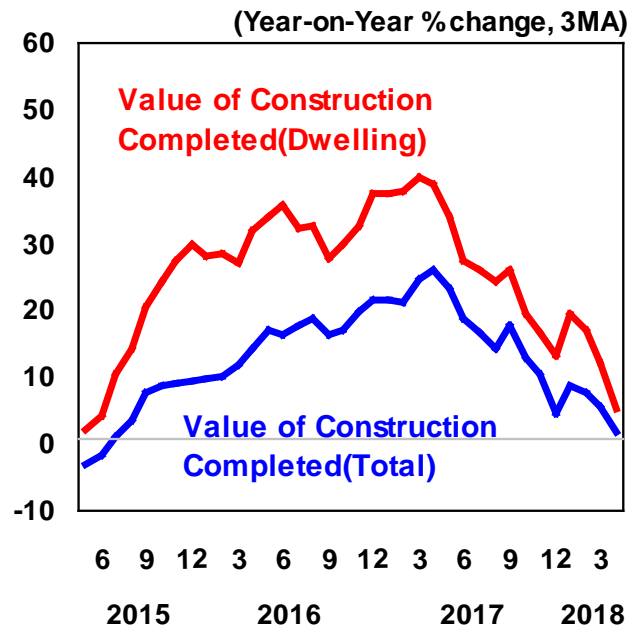
Contributions to GDP Growth by Economic Activities



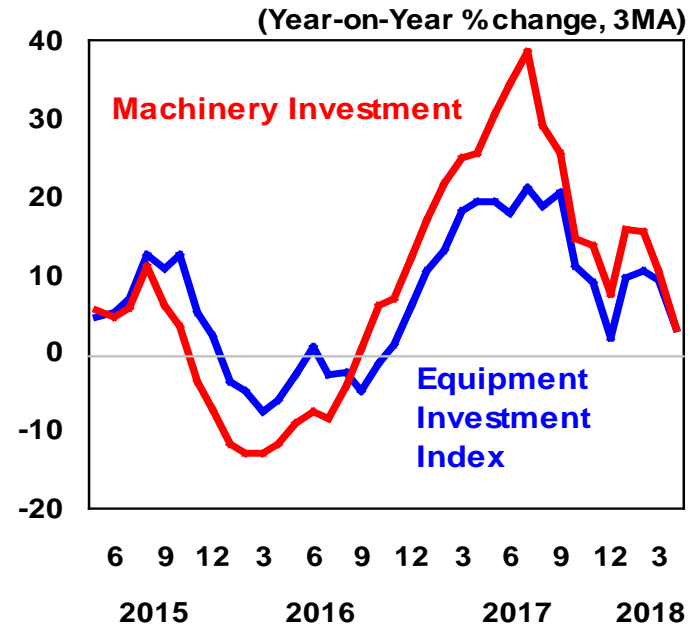
Slowdown in Investment Growth

- **Growth in construction investment is slowing mostly in residential investment.**
- **Equipment investment posted a moderating growth** influenced by the base effect from last year's **spike in semiconductor industry.**

Value of Construction Completed



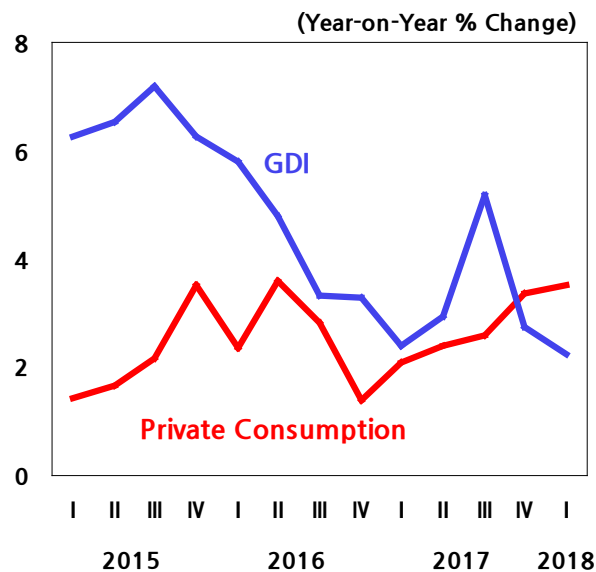
Equipment Investment



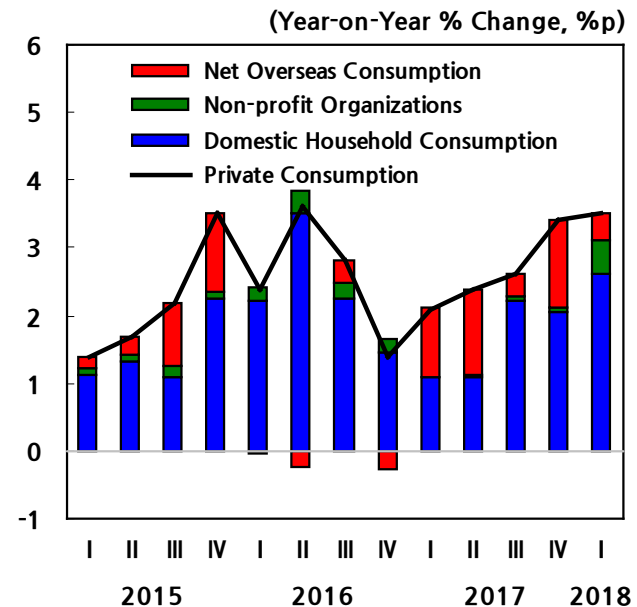
Private consumption has expanded sharply

Private consumption has expanded sharply, exceeding the income growth rate as net overseas consumption sustained a relatively high contribution rate.

Private Consumption and GDI



Contribution to Private Consumption

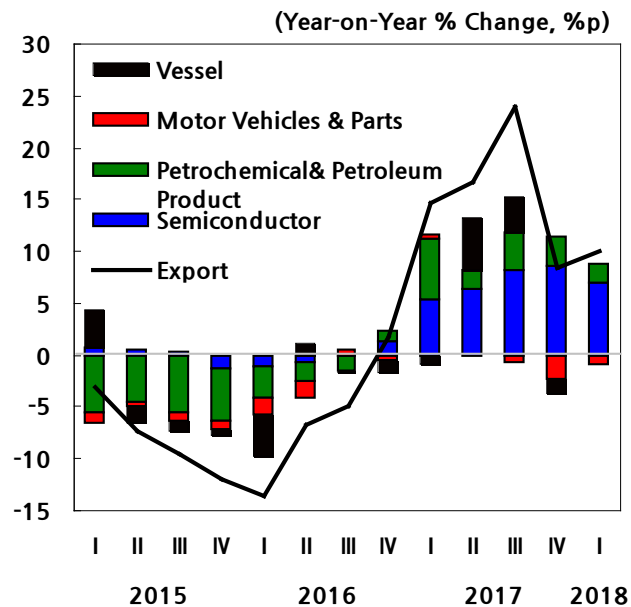


Source: Bank of Korea; Statistics Korea

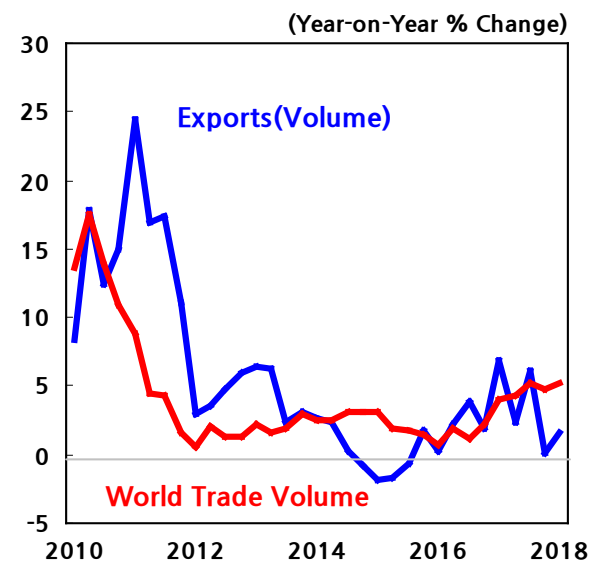
Export growth is slowing

Export growth is slowing despite the robust growth in semiconductors. Therefore, the improvement trend in domestic manufacturing activities is undergoing an adjustment.

Contribution to Exports



World Trade & Exports (Volume)



Outlook in 2018 & 2019

Korea is projected to grow **2.9%~3.0% in 2018** and **2.7%~3.0% in 2019** as **exports continue on the upward trend** and **domestic demand slows**.

- **Private consumption** will see a steep growth in 2018 thanks to rising asset prices, increased transfer payments and job policies, but this will slow gradually in 2019.
(‘18) 2.7~2.8% → (‘19) 2.6~2.7%
- **Equipment investment** will exhibit a relatively fast decline in growth influenced by a moderation in last year’s exceptionally high growth in semiconductor investment.
(‘18) 2.9%~3.5% → (‘19) 1.0%~2.6%
- **Construction investment** will turn to a decrease as the civil engineering sector continues to be sluggish and the building construction sector rapidly slows particularly in residential housing.
(‘18) -0.2%~0.8% → (‘19) -2.6%~-2.0%
- **Export** growth will continue to exceed GDP growth influenced by continued steady increases in the global economic growth rate and trade volume, although some high-growth items will contract.
(‘18) 3.8%~4.0% → (‘19) 3.5%

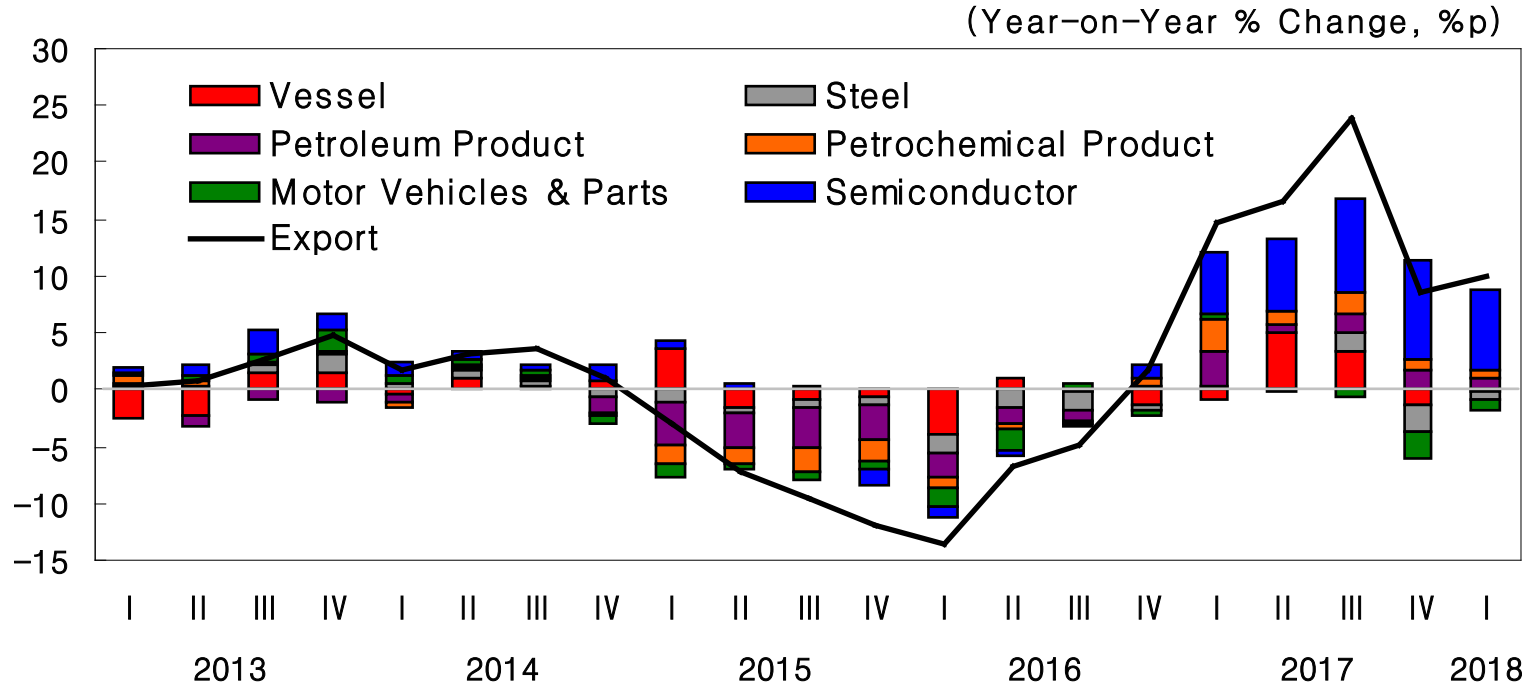
Part-02

Current Macroeconomic issues

Growth driven by Semiconductors (1/5)

Export growth heavily depends on **semiconductor industry**.

Contributions to Export Growth by Items

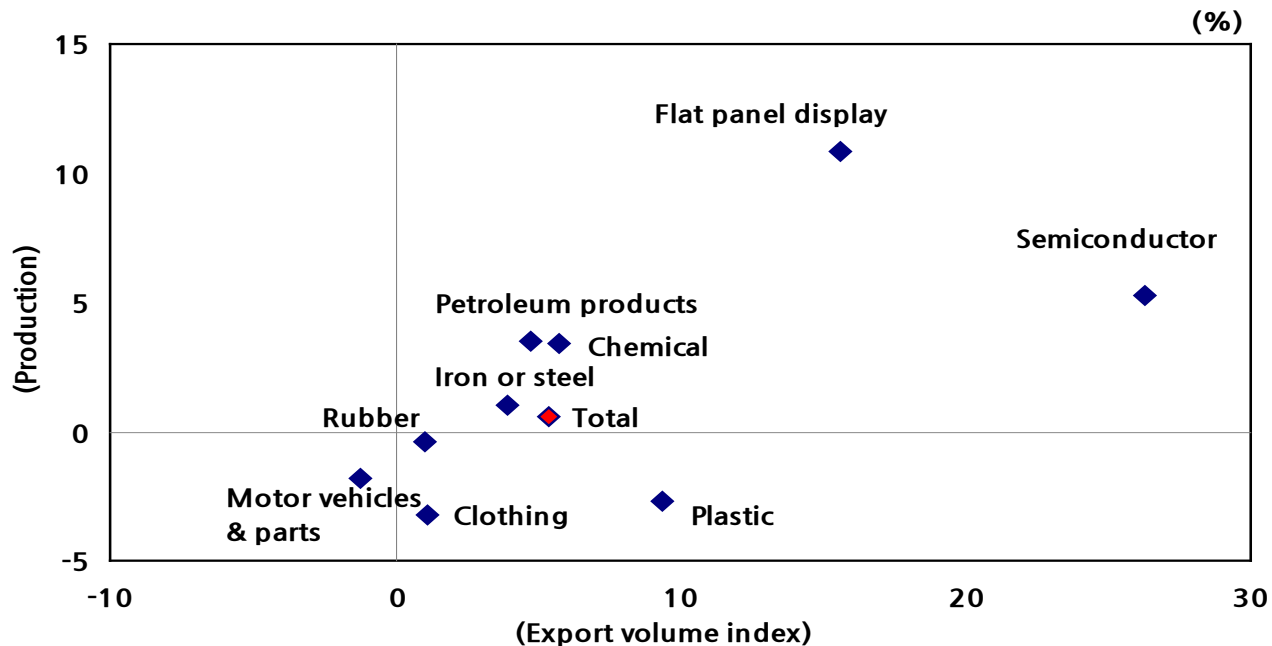


Source: Korea International Trade Association

Growth driven by Semiconductors (2/5)

Semiconductor-centered manufacturing structure reveals imbalances.

Production and Export Growth by Industries in 2017



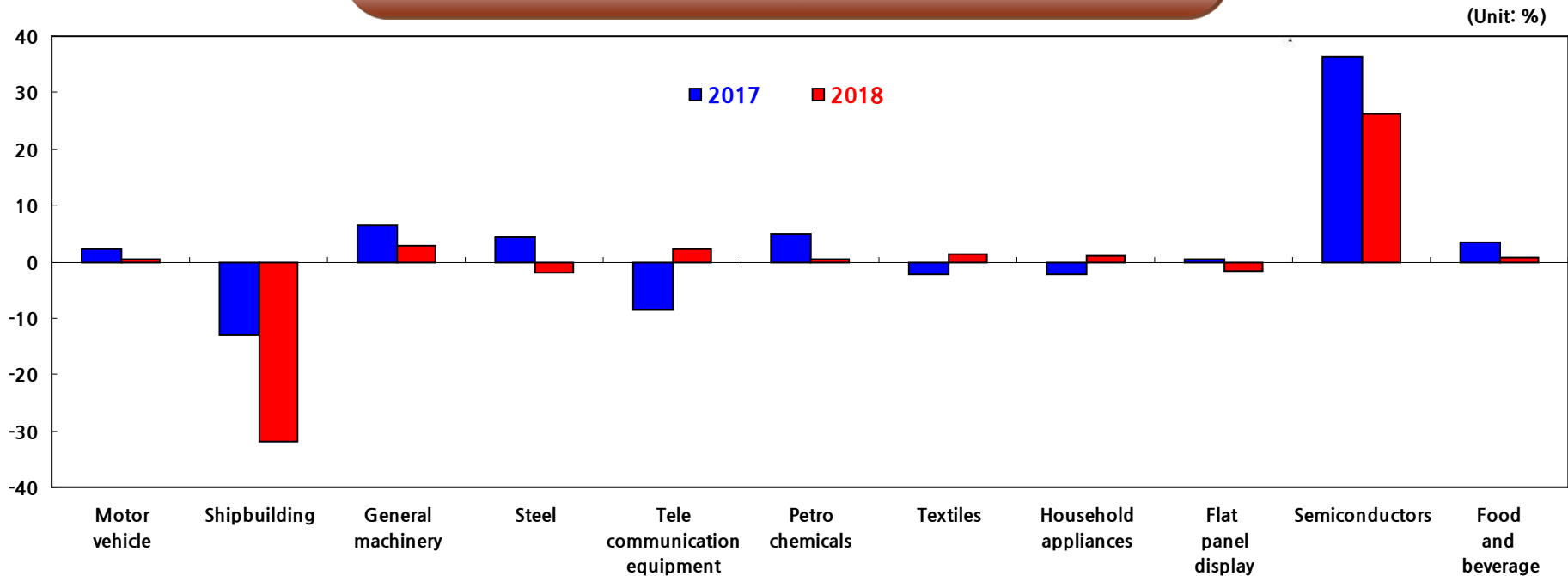
Note: The scope of each industry in the comparison of production, exports and export volume index is not exactly the same.

Source: Statistics Korea; Korea International Trade Association; The Bank of Korea.

Growth driven by Semiconductors (3/5)

Few export industries, except for semiconductors, exhibit robust performances that keep pace with a global economic recovery.

Production Growth by Industries in 2018



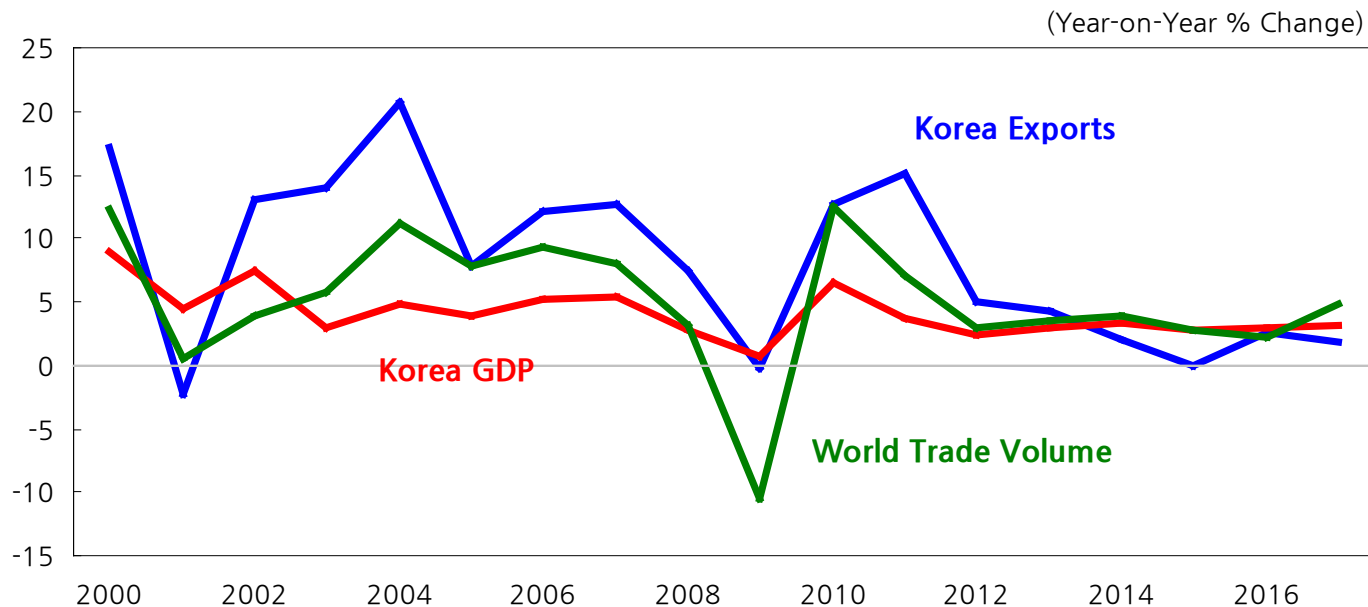
Note: Based on finished vehicle (motor vehicles), tonnage (shipbuilding), steel materials (steel) and three main subsets (petrochemicals). Other sectors are amount based.

Source: Korea Institute for Industrial Economics & Trade, Nov. 2017.

Growth driven by Semiconductors (4/5)

At every expansionary point in the global economic cycle, Korea grew fast on the back of global competitiveness of leading export industries. **Such economic dynamism has faded since the global financial crisis.**

Korea's GDP, Export and World Trade Volume

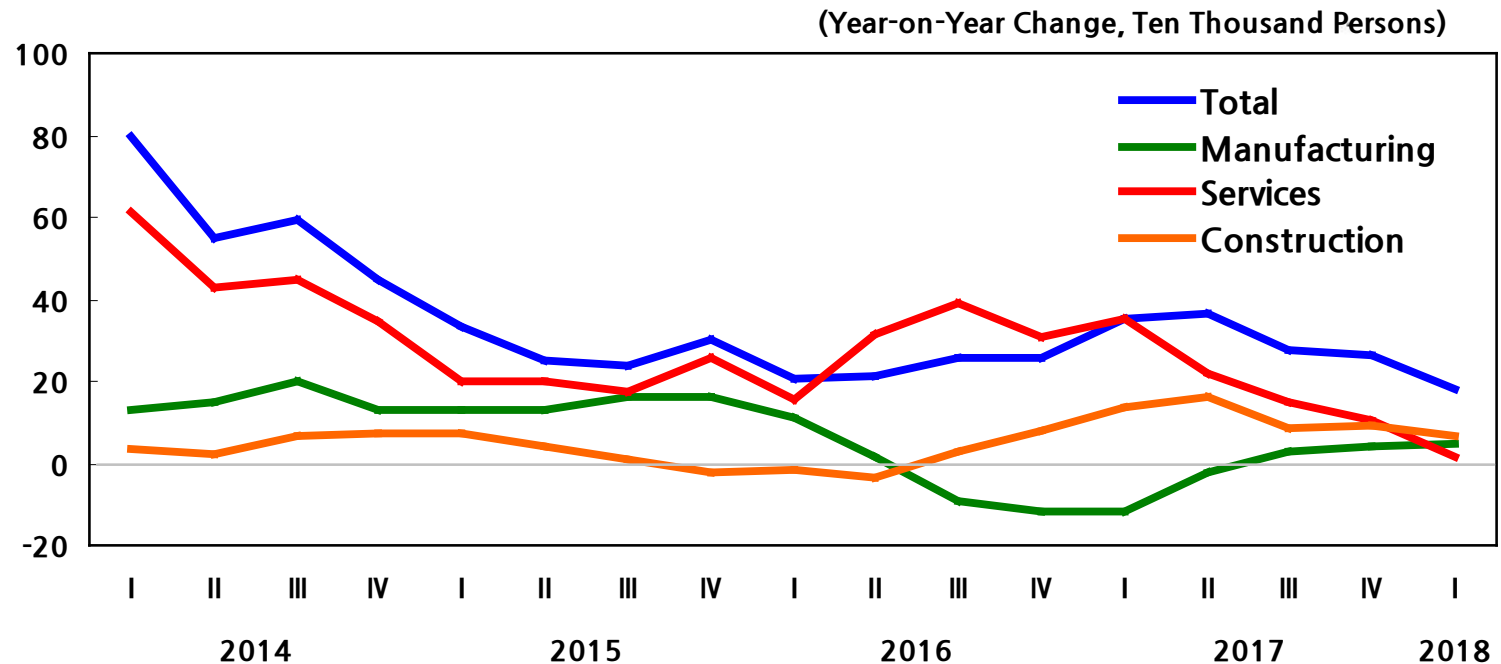


Source: The Bank of Korea; IMF.

Growth driven by Semiconductors (5/5)

The recent economic recovery is mostly due to **IT-related sectors (semiconductors)** and thus limited ripple effect on employment.

Employed Persons Change by Industries

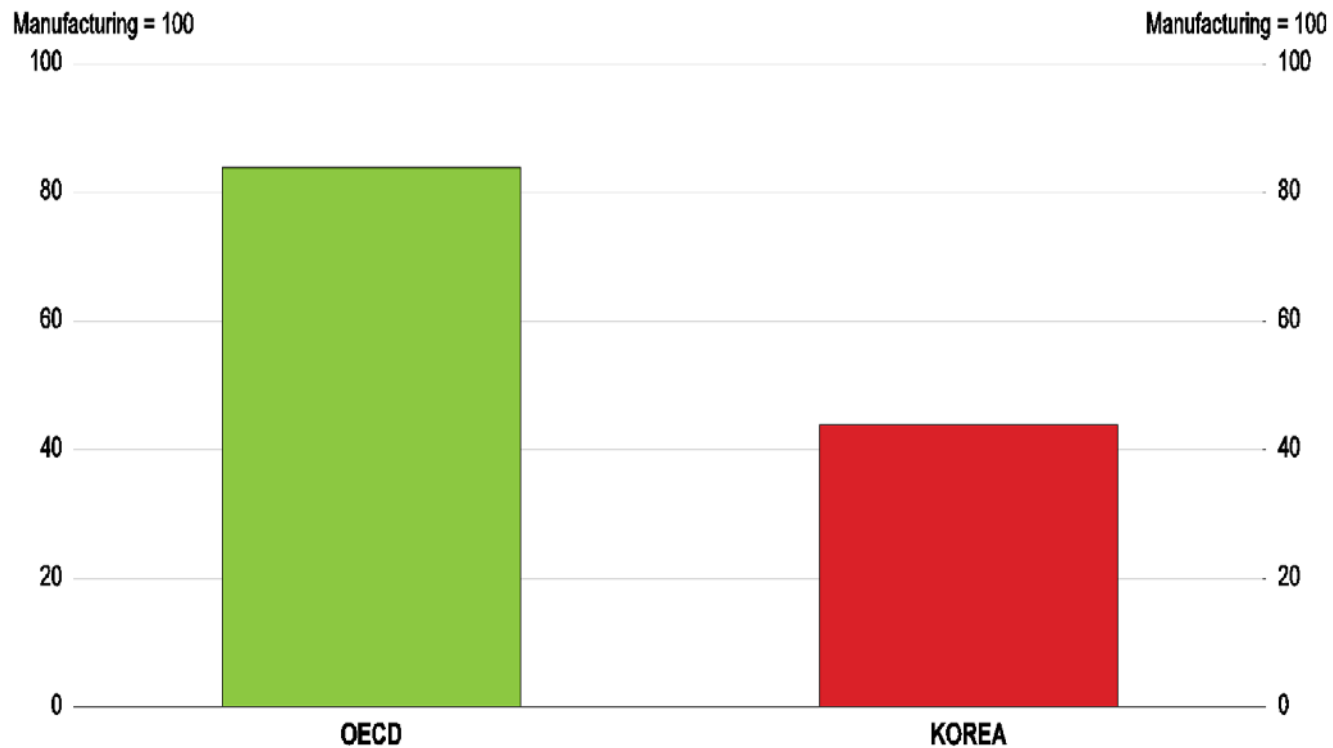


Source: Statistics Korea.

Productivity (1/3)

Productivity in Service sector is far behind that in Manufacturing sector

Productivity Gap

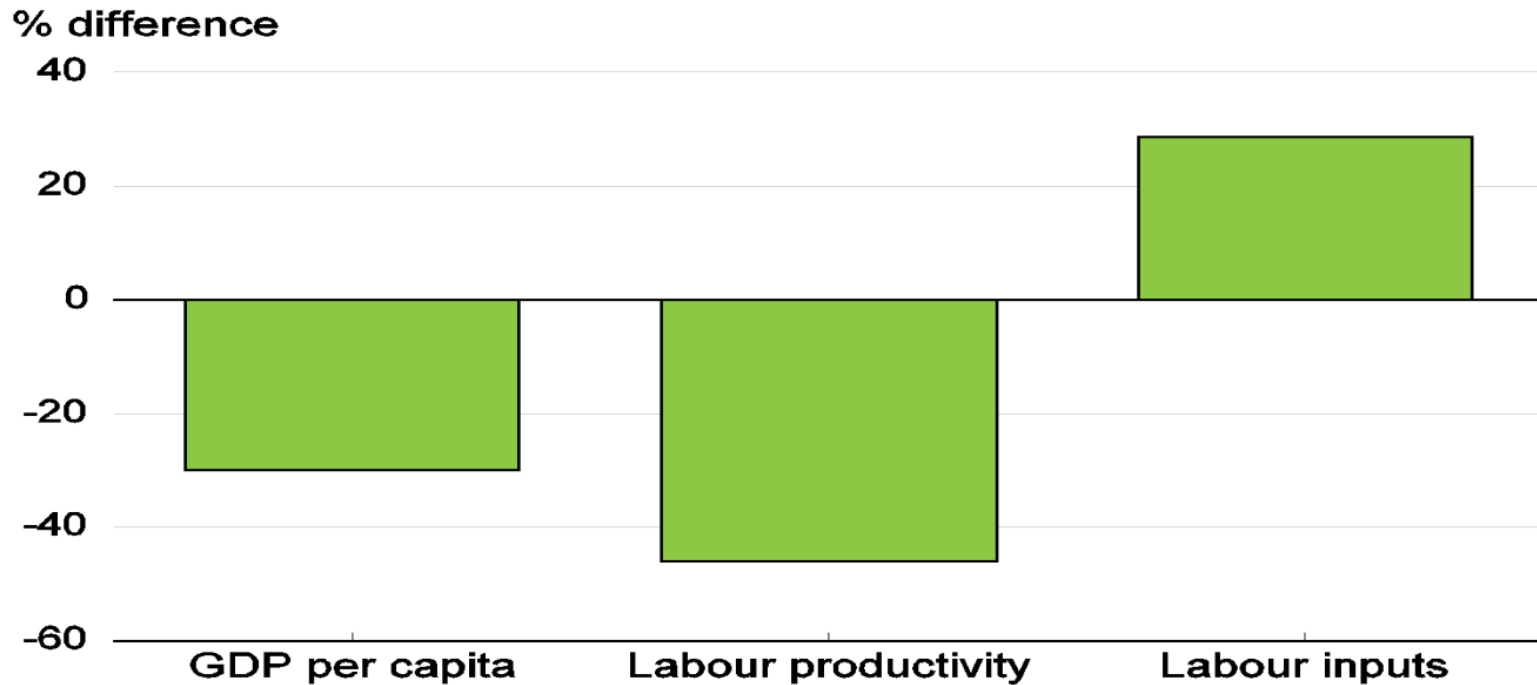


Source: OECD Economic Surveys Korea (2018).

Productivity (2/3)

Koreans works long hours, but labor productivity is low.

Labor Productivity in Korea relative to OECD average

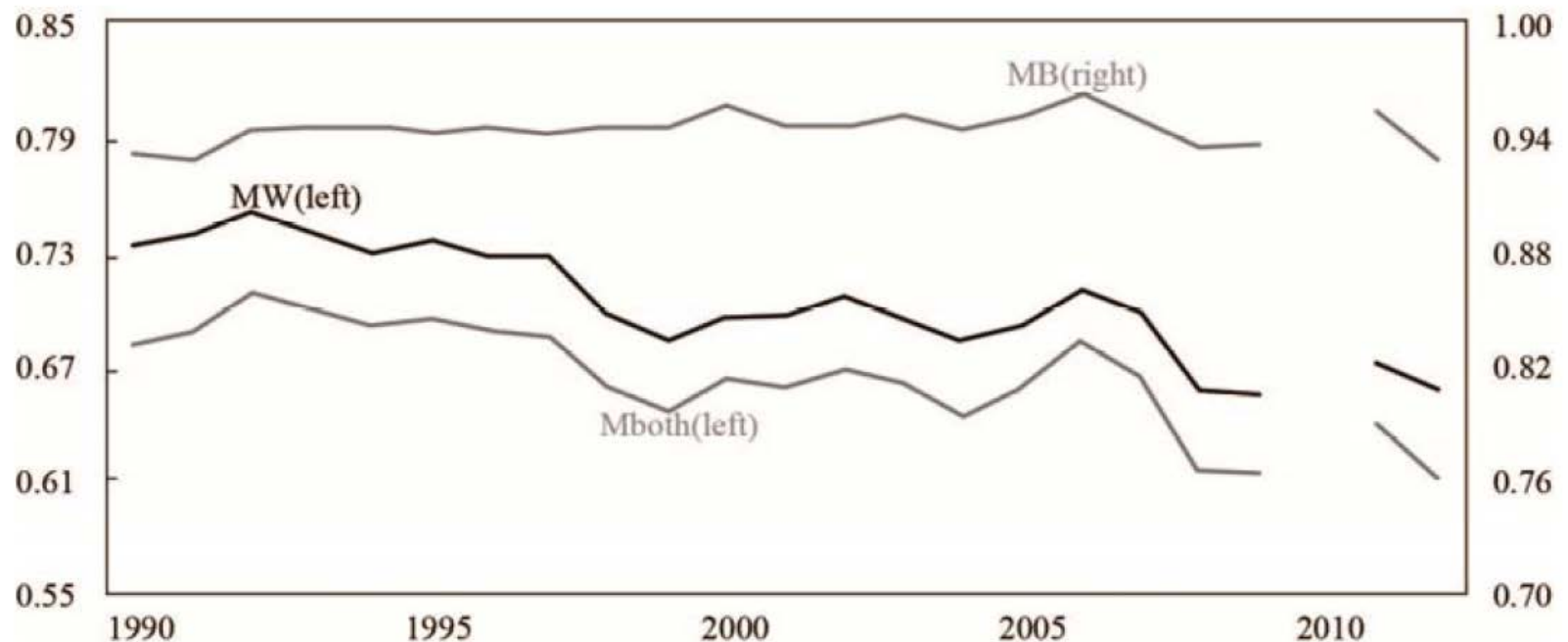


Source: OECD

Productivity (3/3)

Misallocation in manufacturing sector has increased largely due to **allocative inefficiency within industry.**

Decomposition of Misallocation by between and within industry factors



Source: Jiyeon Oh (2016)

Part-04

Economic Policy Directions

Macroeconomic Policy

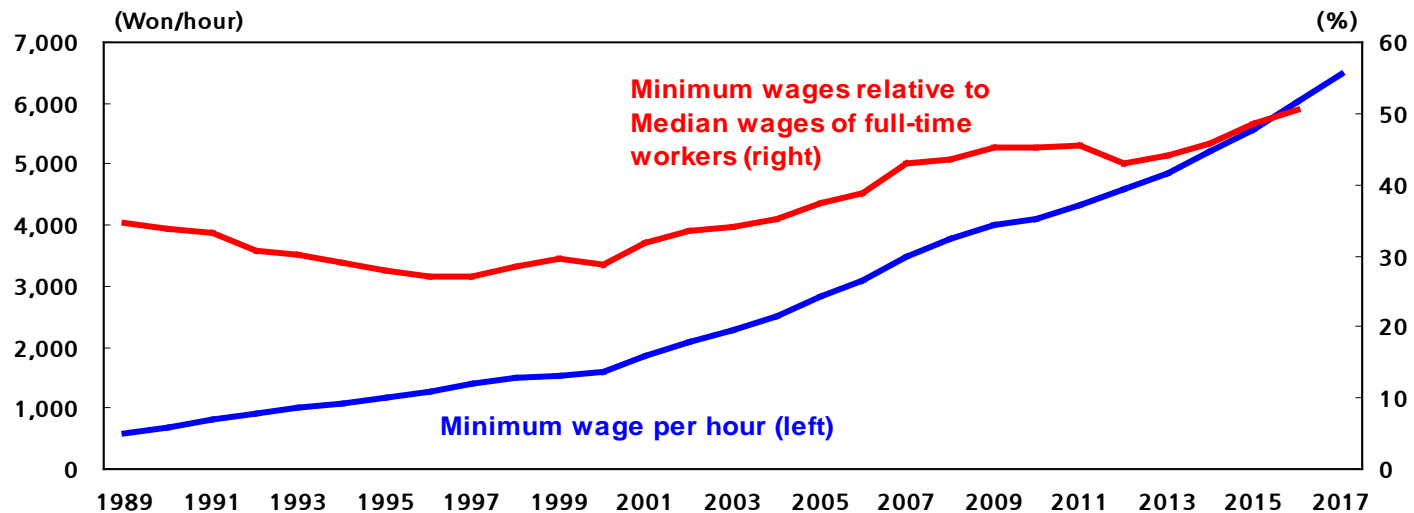
- **Korea's macroeconomic policies: accommodative stance**
 - For the time being as the current economic recovery still lacks a virtuous cycle (e.g. inflationary pressure and strong employment).
 - Extended Fiscal policy considering fiscal soundness
 - Surplus in tax revenue (real estate taxes, corporate taxes)
 - Increase welfare budget while decrease SOC
 - Monetary policy is to keep the current policy rate
 - The policy rate increased last year once (1.25% → 1.5%)
- In the mid-term, **restructuring efforts must continue** to resolve pending challenges such as **unbalanced growth between different industries** and **weak job-creation capacity**.

Labor Market Policy (1/2)

- **Raising minimum wage**

- Increase min. wage by 16.4% in 2017 (now min. wage 7,530won (\$7))
- Reaching 10,000won in 2020 by a presidential election pledge while considering of the current economic situation
- Job security funds to relieve the burden of minimum wage increases for small business owners.

Minimum Wages in Korea



Source: The Minimum Wage Council; OECD.

Labor Market Policy (2/2)

- **Reducing Labor market dualism: temporary workers to permanent one in public sector.**
 - Central administrative agency, local government, public institution, educational entity)
 - In public sector, initiate reducing gaps of earning, job security, fringe benefits b/w permanent vs. temporary workers
 - In 2017, share of temp. worker is 32.9% among employees
- **Reducing working hours : the maximum weekly working hours reduced from 68 to 52 hours**
 - Korean work the second-longest hours among OECD members.
 - Purpose for 'Work and Life Balance'
 - Occupational safety and health
 - Employees working more than 52 hours is 17.5% in 2016

Chaebol Issue (Business Groups) (1/2)

- **Improve corporate governance**
 - Principal and Agent problem
 - Protecting the small shareholders vs. controlling shareholders (owner family)
 - Try to solve out '**tunneling issue**' in Fair Trade Commission
 - related to the way of accumulate funds for inheritance for owner family
 - prevent growth of stand-alone SMEs
 - Revise 'Monopoly Regulation and Fair Trade Act'

Chaebol Issue (Business Groups) (2/2)

Firm Exit Rates by Ownership Structure



Source: Cho(2018)