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Global Financial Crisis and Fiscal Policy Directions of Korea

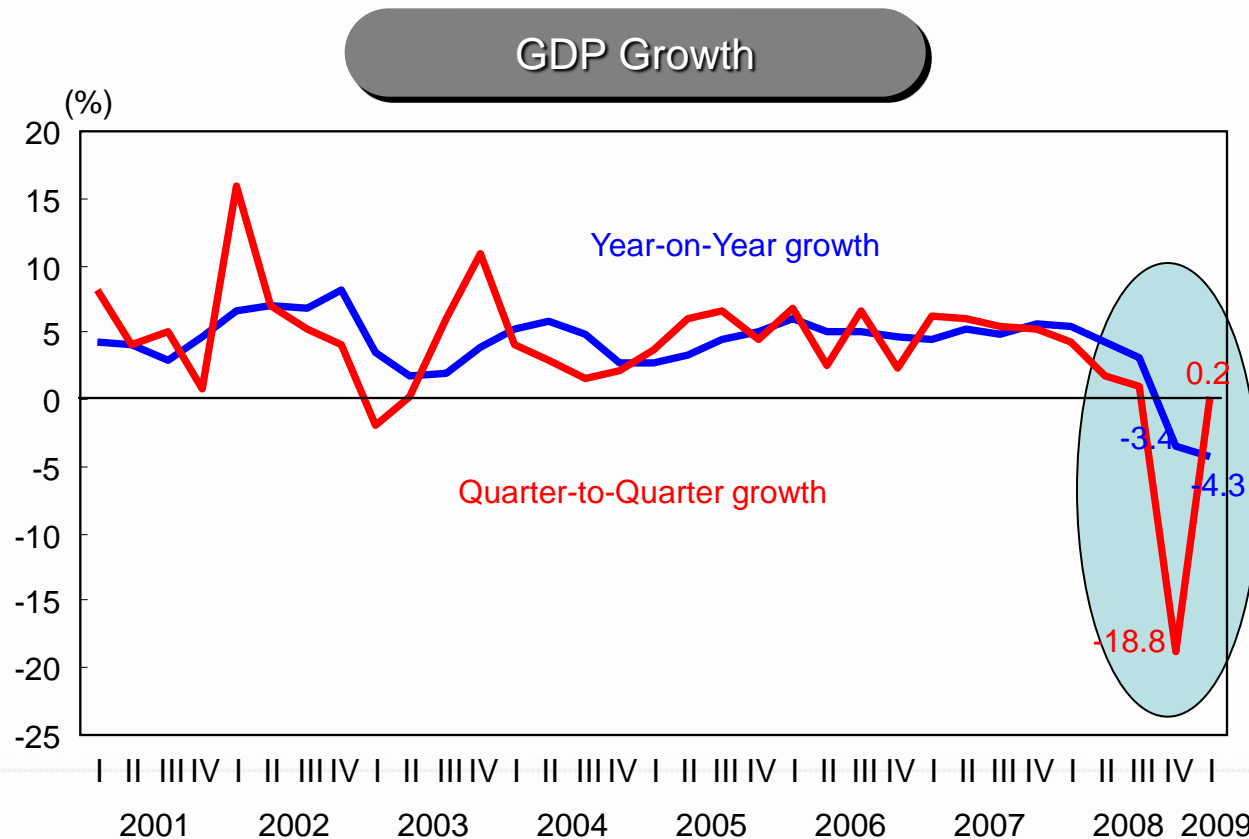
Youngsun Koh

Korea's Leading Think Tank



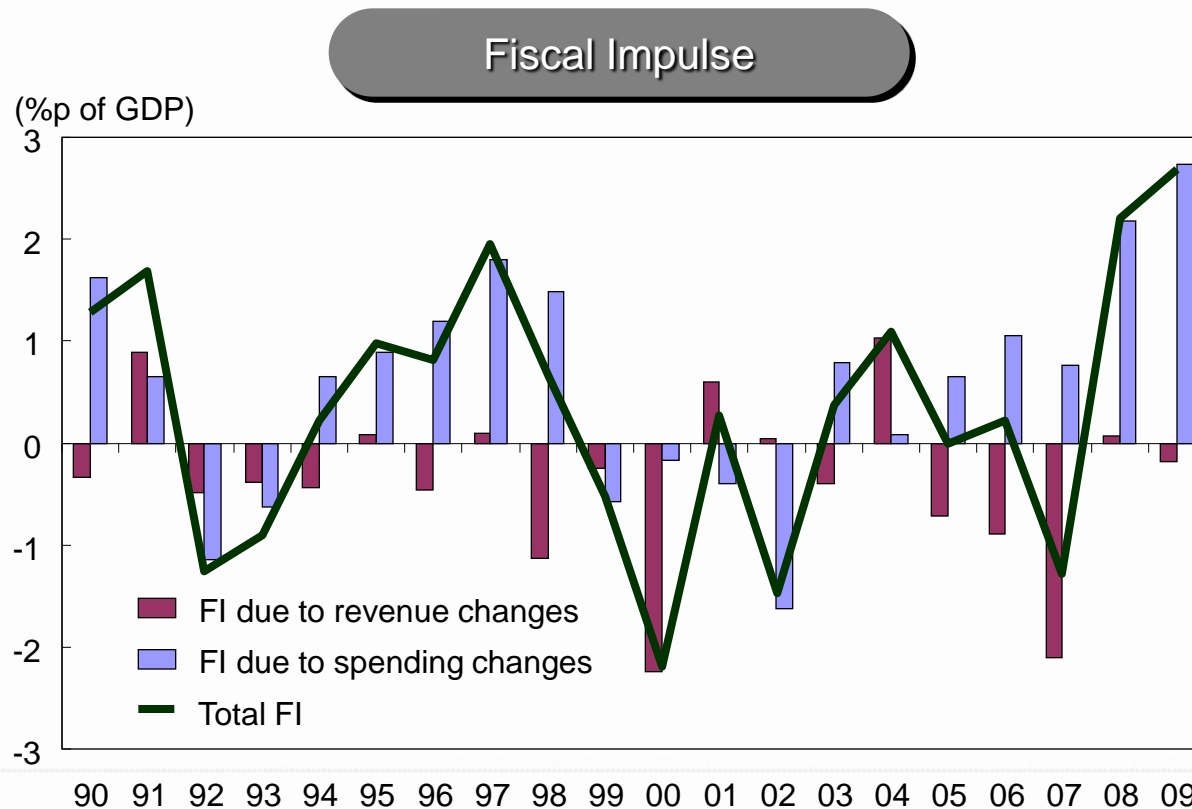
■ Big decline in the 4th quarter last year, but stabilizing recently

- The impact came mostly through the external trade, and little through the financial sector.



■ Very large fiscal impulses in 2008 and 2009

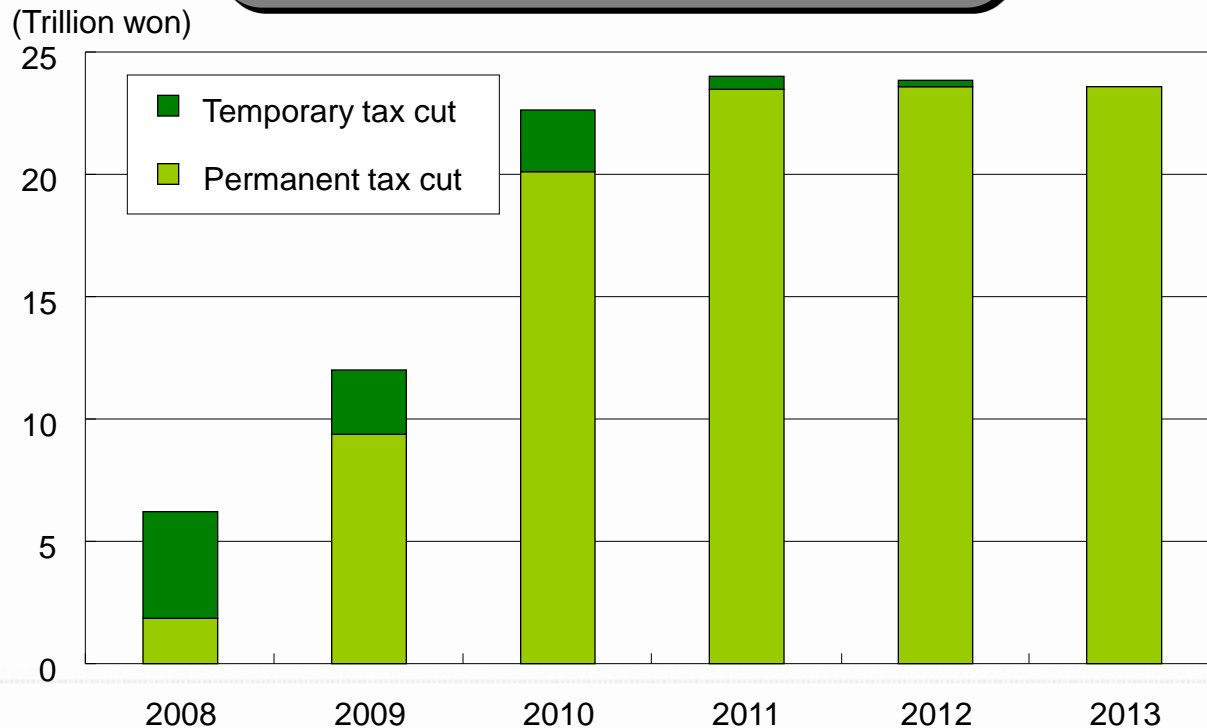
- Reflects the discretionary fiscal actions by the government to boost the economy



■ Tax cuts in 2008 as promised during the election campaign

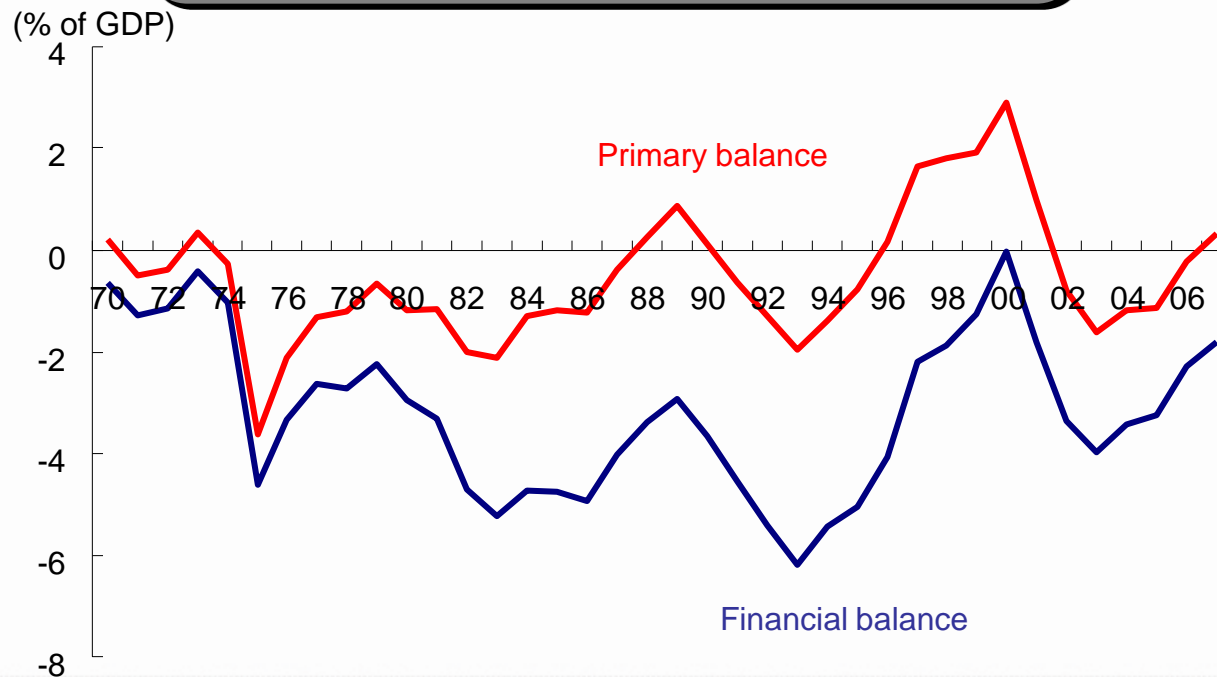
- The revenue loss will amount to 89 trillion won for 2008-2012, and 24 trillion won each year for 2013 and beyond.

Revenue Loss due to the Tax Cut



- Official projections not available
- Possibility of falling into an adverse debt dynamics

Financial Balance of the OECD Countries



- **Give priority to regaining the financial health**
 - When should we begin fiscal consolidation?
- **Reduce spending**
 - Freeze the budget for three years 2010-2012.
 - Focus spending cuts on economic affairs.
- **Increase revenue**
 - Reduce tax expenditures.
 - 15% of the central government tax revenue in 2008
 - Reconsider the tax cut plan.
- **Publish medium-term projections**
 - Improve the effectiveness of MTEF (*National Fiscal Management Plan*).



감사합니다.