

# Sharing Knowledge, Sharing the Future

글로벌 지식공유 포럼

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Hosted by



## Economic Growth and Macroeconomic Stability

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KDI

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- 1. Introduction**
- 2. Challenges faced by EMDE**
- 3. Korea's Experience**
- 4. Policy Implications**

# 1. Introduction

- Rethinking macroeconomic policies since the GFC.
  - Sustainable economic growth.
  - Stable macroeconomy.
- Weak fundamental in EMDEs.
- External conditions to EMDEs remain vulnerable, despite recent cyclical recovery of global growth.

# 1. Introduction

## ■ Three Questions

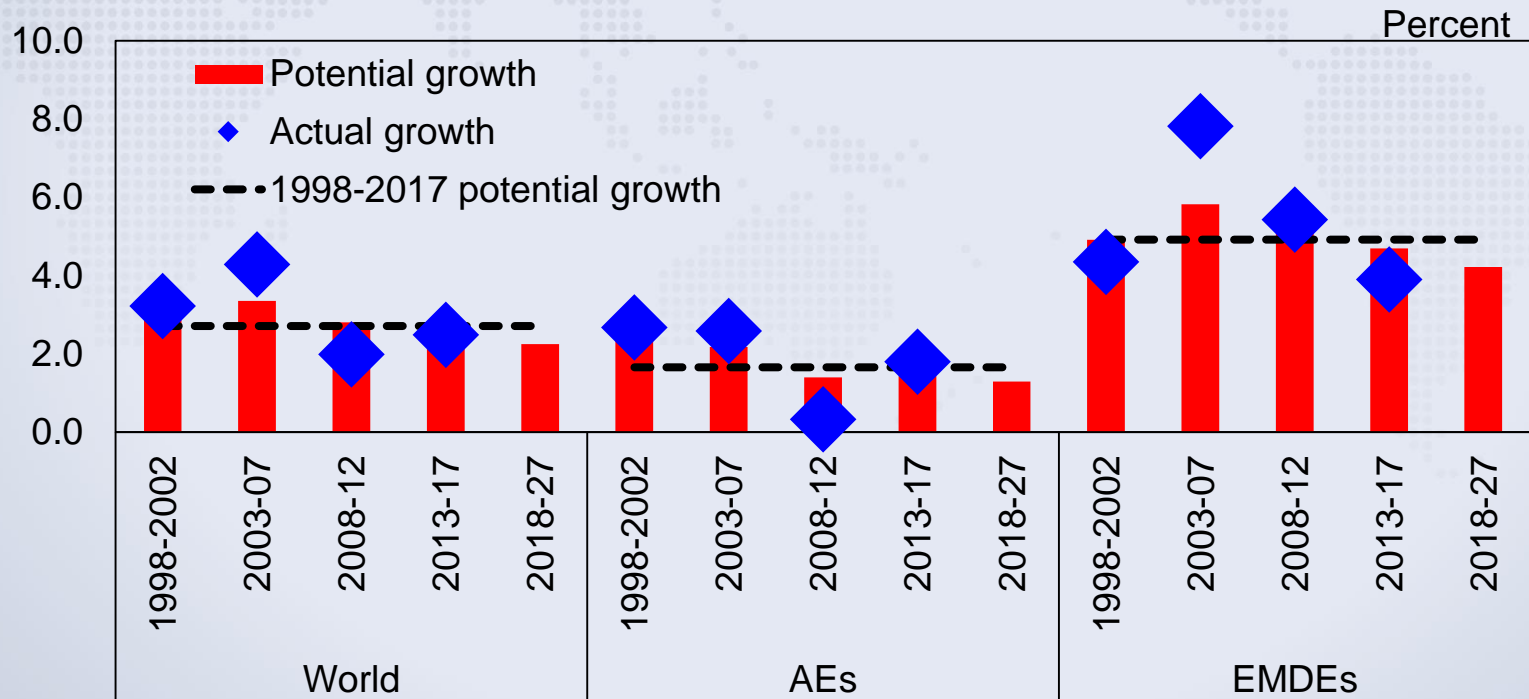
- What are the lessons of the GFC and the policy issues in EMDEs?
- What macro policies have been implemented in Korea over the six decades?
- What are the policy implications for EMDEs and for KSP?

# 2.1 Lessons from the GFC

## 1) Persistent effect of the GFC on economic growth

- Weaker-than-expected growth after the GFC.
- Expected to continue slowing for the next decades.

Potential GDP Growth



## 2.1 Lessons from the GFC

### 2) The economy may not be automatically self-stabilize.

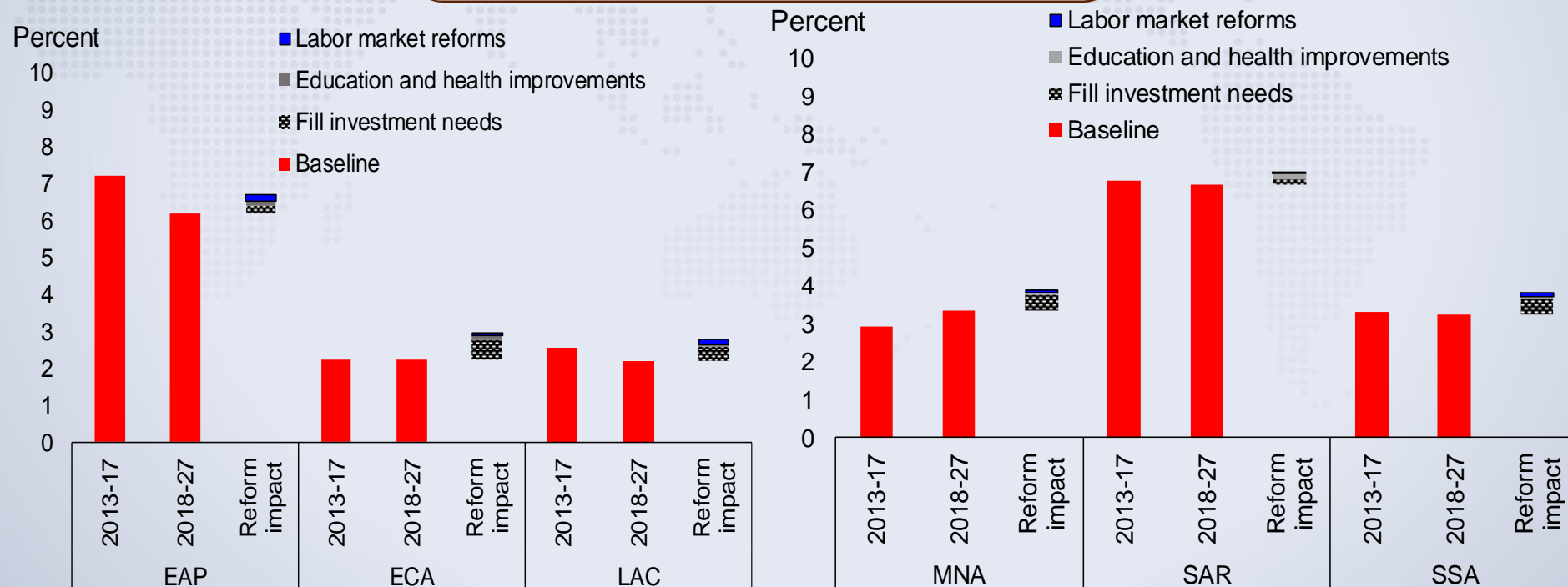
- Greater impact of financial shock on real economy than was previously thought.
- Limited role of conventional monetary policy.
- Activist role of fiscal policy as a counter-cyclical tool.

# 2.2 Policy issues in EMDES

## 1) Strengthening growth potential

- A combination of structural policies could reverse the decline in potential growth (WB, 2018).

### Effects of Structural Reforms

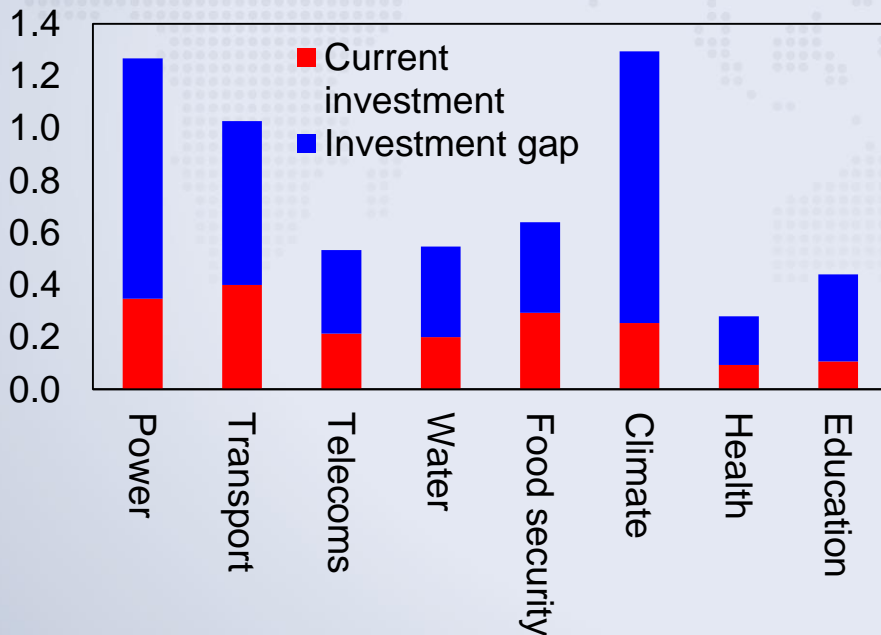


# 2.2 Policy issues in EMDES

- Sizable demand for investment.
- Need to increase labor productivity and supply with reforms on governance.
- But, no one-size fit-all strategy in EMDEs.

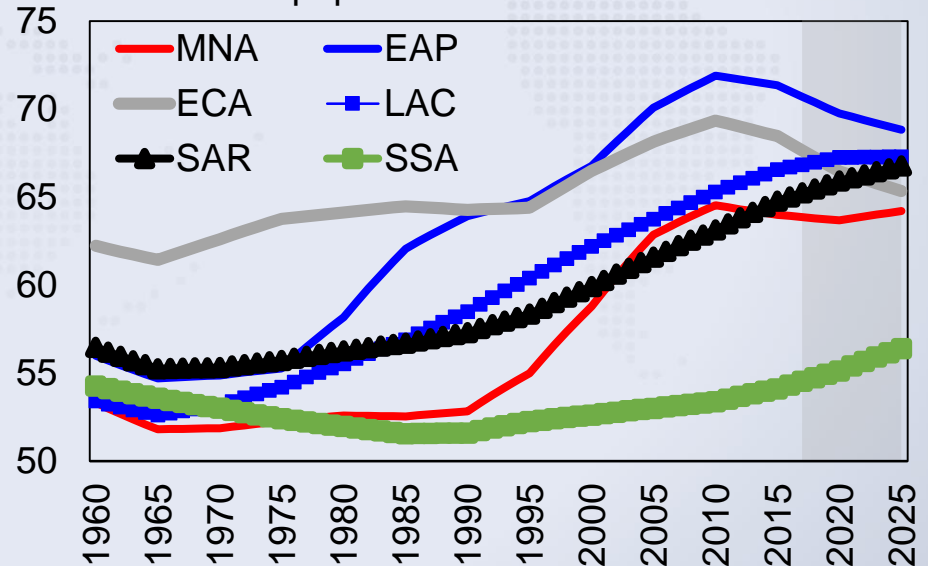
## Investment Needs

Percent of global GDP



## Population

Percent of total population



## 2.2 Policy issues in EMDES

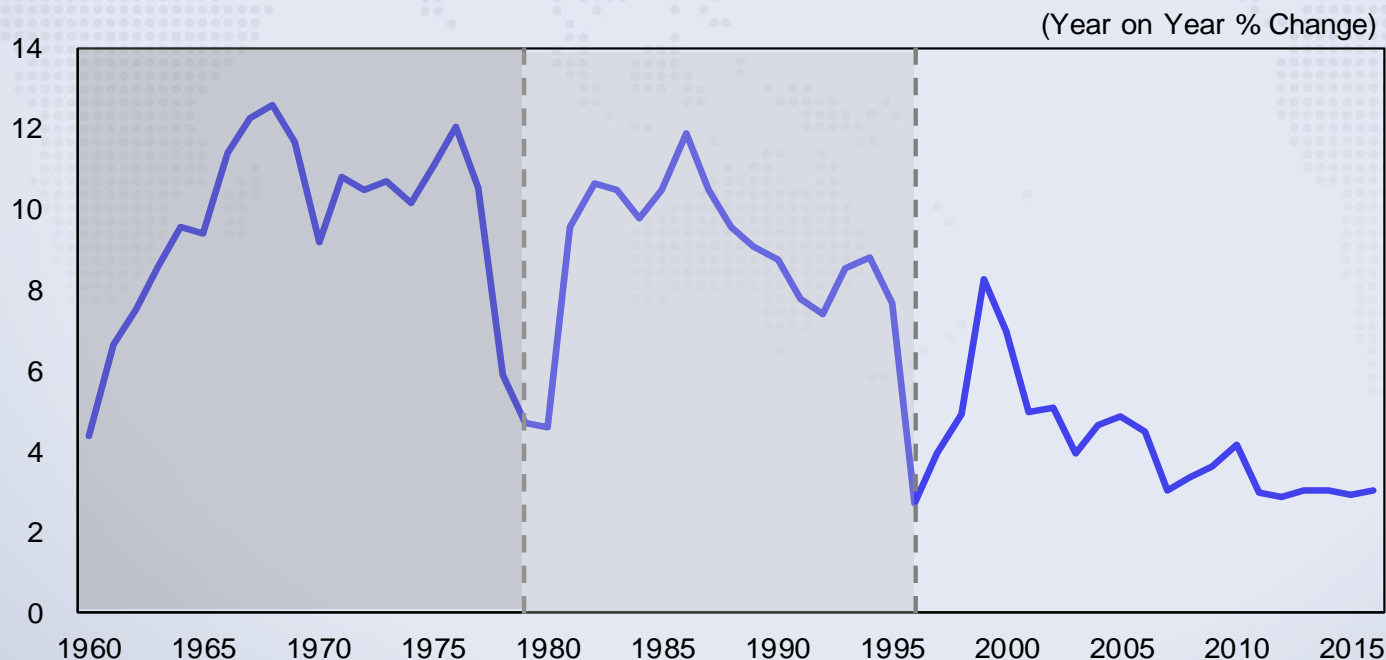
### 2) Rebuilding macroeconomic stability

- Institutional framework and governance structure.
  - Framework for fiscal consolidation with spending reform.
  - Monetary policy framework – IT, exchange regime in accordance.
  - Macroprudential policy – Housing, FX, capital market.
- Understanding policy options under GVC and global integration of financial market.

# 3. Korea's Experience

- **Three stages of development** (Dabla-Norris et al, 2016)
  - Government-led industrialization in 1960s-70s.
  - Macroeconomic stabilization in 1980s.
  - Crisis management and structural reforms since AFC.

## GDP growth



# 3.1. Government-led growth in 1960-70

## 1) Growth strategy

- HCI and export promotion, encouraging policy lending.
- Public investment on education and infrastructure.

### Government Expenditure

(Unit: Percent of GDP)

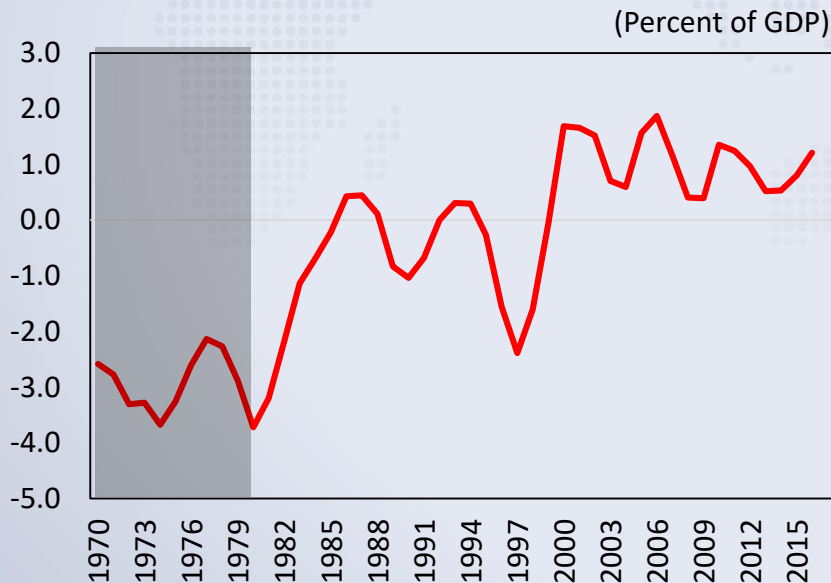
	1970-79	1980-89	1990-99	2000-09	2010-15
General public services, defense, public order and safety	8.2	8.5	7.3	8.7	9.0
Economic affairs	5.2	4.2	5.2	7.0	5.7
Housing, community amenities, recreation, etc.	1.7	1.8	2.2	2.6	2.3
Health	0.3	1.0	1.5	2.8	3.3
Education	4.3	4.3	4.1	4.7	5.0
Social protection	1.0	1.9	2.8	3.8	5.1
Total	20.7	21.8	23.1	29.6	30.4

# 3.1 Government-led growth in 1960-70

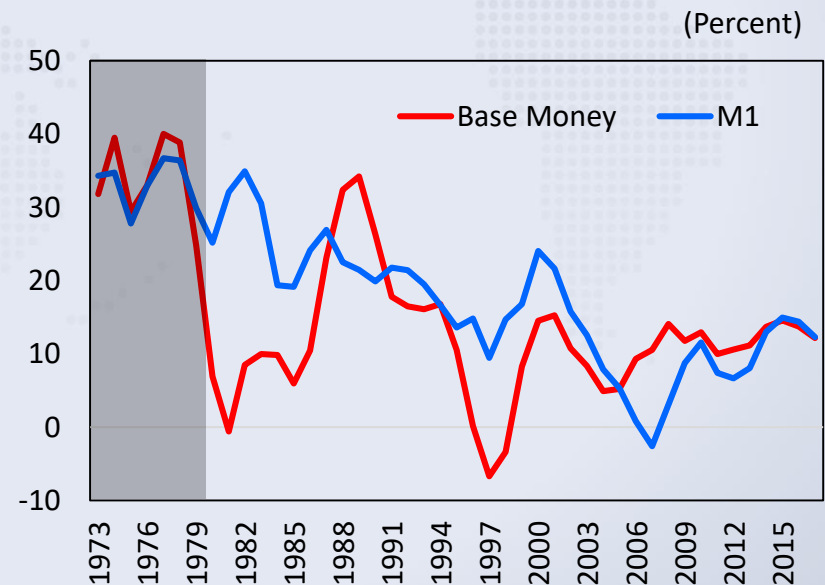
## 2) Macroeconomic Stability Policies

- Fiscal policy: fiscal investment and loans, tax incentives.
- Monetary policy: supply 'growth currencies'.
- Financial policy: repression by the government.

Fiscal Balance



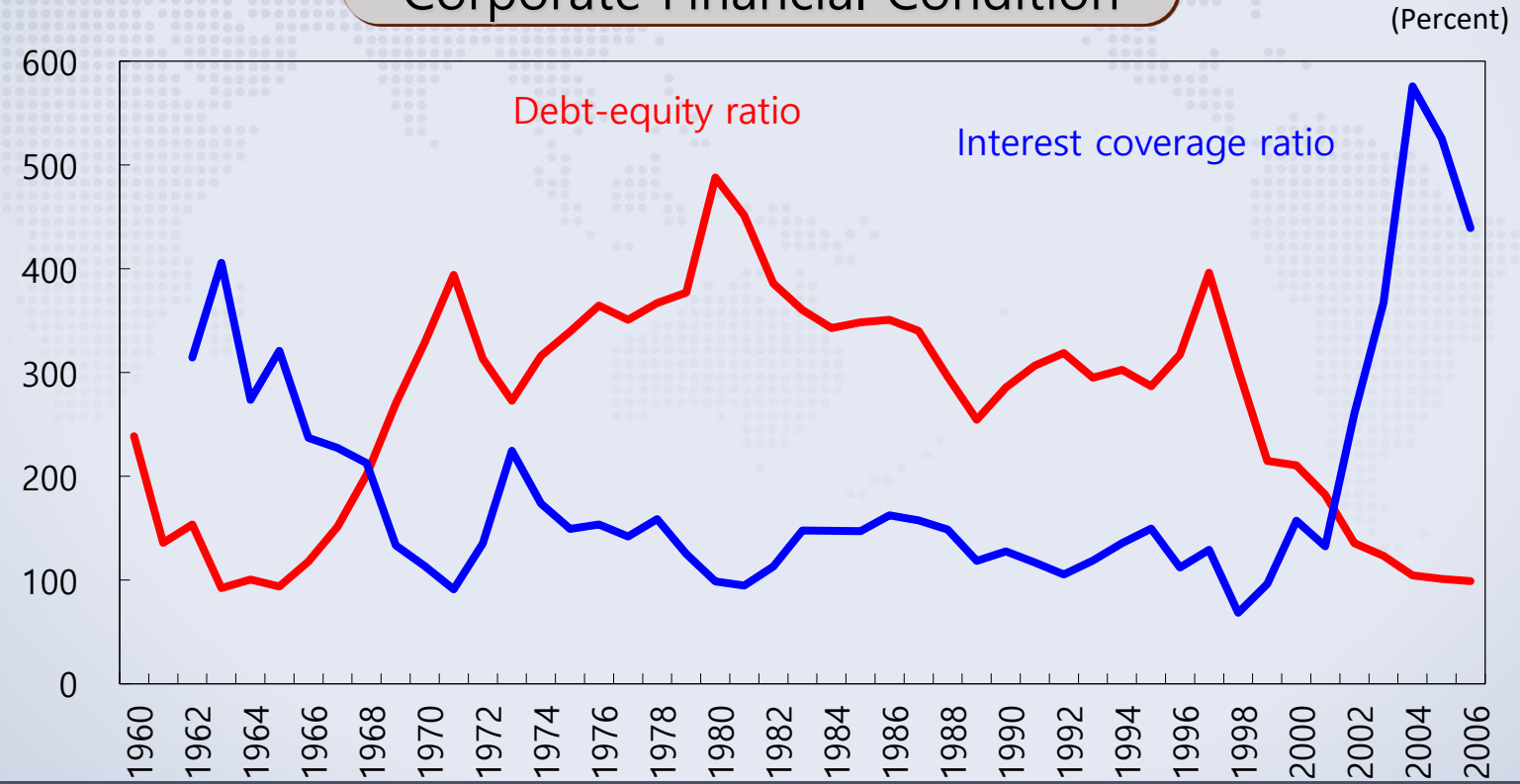
Money growth



## 1) Growth strategy

- Industrial rationalization and trade liberalization toward market principles.

Corporate Financial Condition



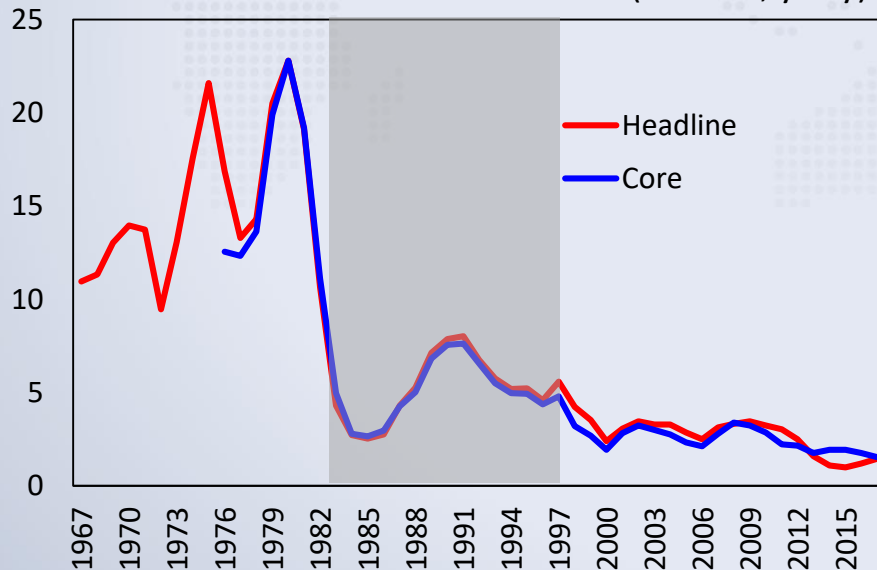
# 3.2 Macroeconomic Stabilization in 1980s

## 2) Macroeconomic Stability Policies

- Fiscal policy: cut agricultural subsidy, zero-based budgeting.
- Monetary policy: limited role in stabilization.
- Financial policy: continued repression.

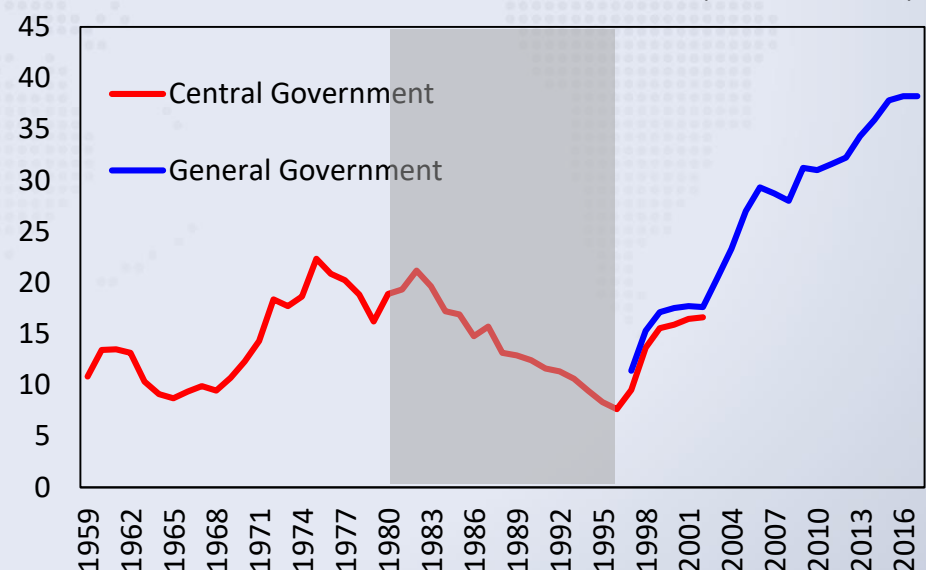
Inflation

(Percent, y-o-y)



Government Debt

(Percent of GDP)



## 1) Growth strategy: Structural Reform

- Revamp growth strategy amid globalization.
- During AFC,
  - Four main reforms: corporate, financial, public sector, and labor market.
  - Enhancing social protection.
- During GFC,
  - Corporate restructuring, expansion of social protection in a more orderly manner during GFC.

## 2) Macroeconomic Stability Policies

- More active role in macroeconomic stabilization, particularly fiscal policy.
- Upgrade institutional framework for stability
  - Fiscal Reforms: MTFM, top-down budgeting, performance management, digital budgeting system.
  - Inflation targeting, free-floating FX regime, capital market liberalization.
  - Financial supervisory and regulatory framework, macroprudential policies for housing market, FX and capital market.

## 4. Policy Implications

### 1) Growth strategy

- **Productive public expenditure** on basic education, R&D and physical capital.
- **Effective central administrative system** – modernizing civil service and installing merit system.
- **Export promotion**, enabled to improve efficiency and to acquire advanced technologies.

# 4. Policy Implication

## 2) Macroeconomic stability

- Understanding importance of macroeconomic stability.
- **Role of fiscal policy with fiscal space.**
- Gradual transition to open financial market with adequate supervisory and regulatory framework.
- Well-designed institutional framework with clearly defined policy objectives and tools.
- **Strong willingness** to utilize macroeconomic policies to achieve policy goals.

# 4. Policy Implication

## 3) Upgrading KSP

- KSP consultations as **a combination of macro policies** rather than separating them each other.
- More **detailed policy suggestions** compared to other international institutions.
- Expanding **capacity building** for EMDEs officials accompanied with institutional design.



**Thank You!**