

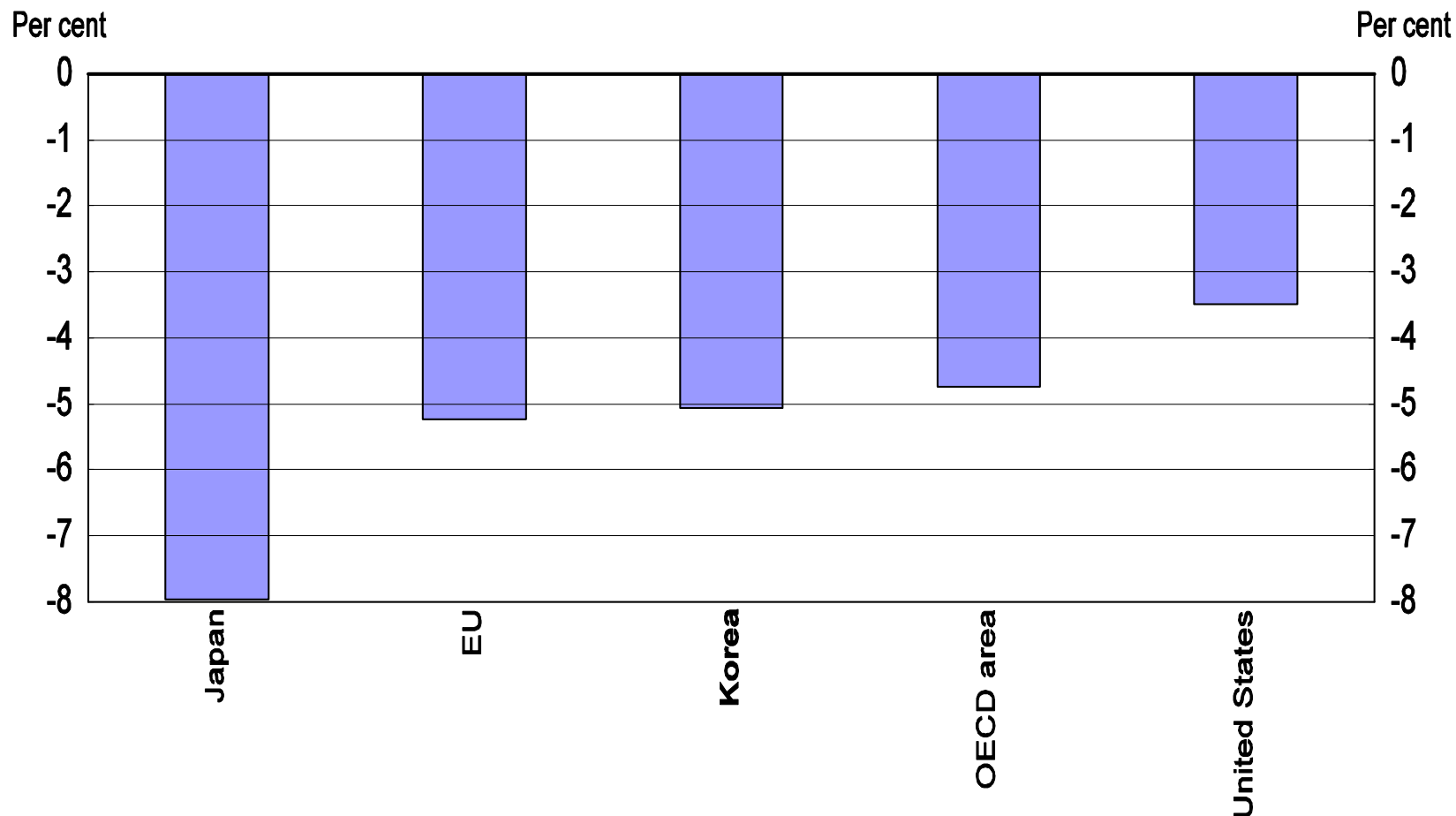
One Year After the Global Financial Crisis

“How has Korea performed better than expected?
A comparison among OECD countries”

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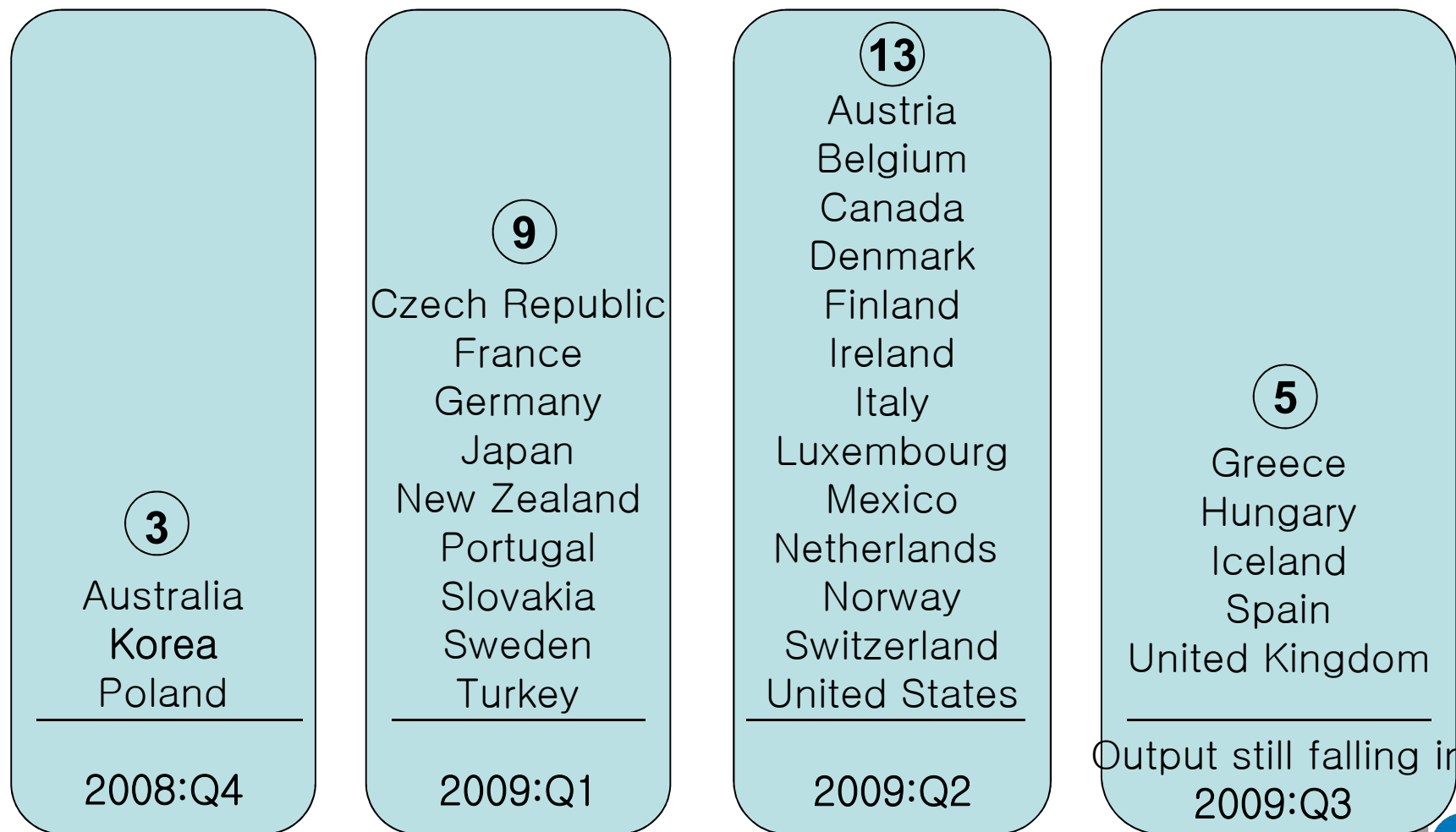
The 2008 global financial crisis resulted in a relatively large fall in output¹...



1. The decline from the pre-crisis peak to the trough. For the OECD area, EU and Japan, 2008:1Q to 2009:2Q. For the United States, 2008:2Q to 2009:2Q. For Korea, 2008:3Q to 2008:4Q.

Source: OECD, Analytical Database.

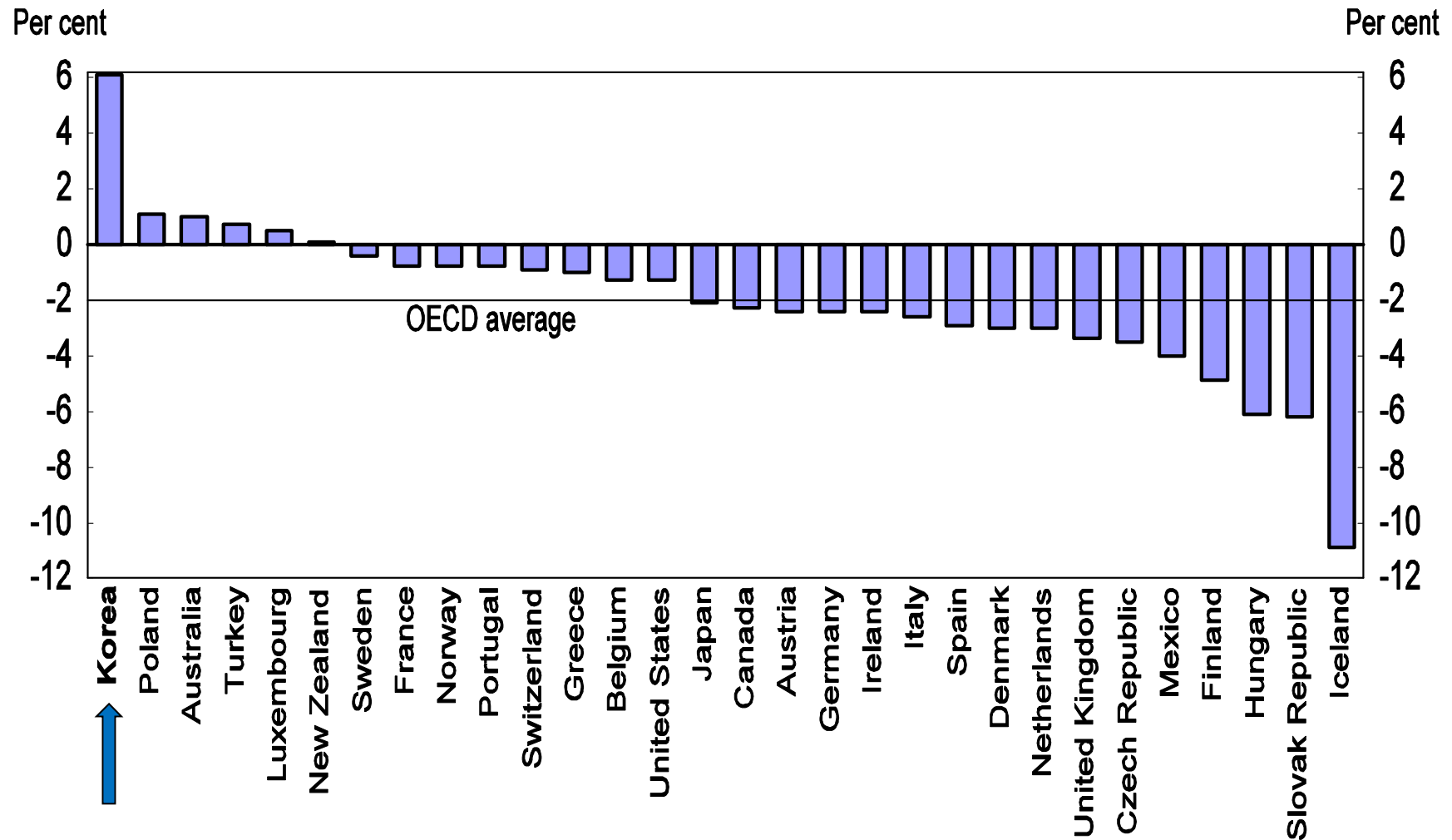
...that ended earlier than in most OECD countries
The last quarter of negative growth



Source: OECD, Analytical Database.

Korea's economy has recovered strongly...

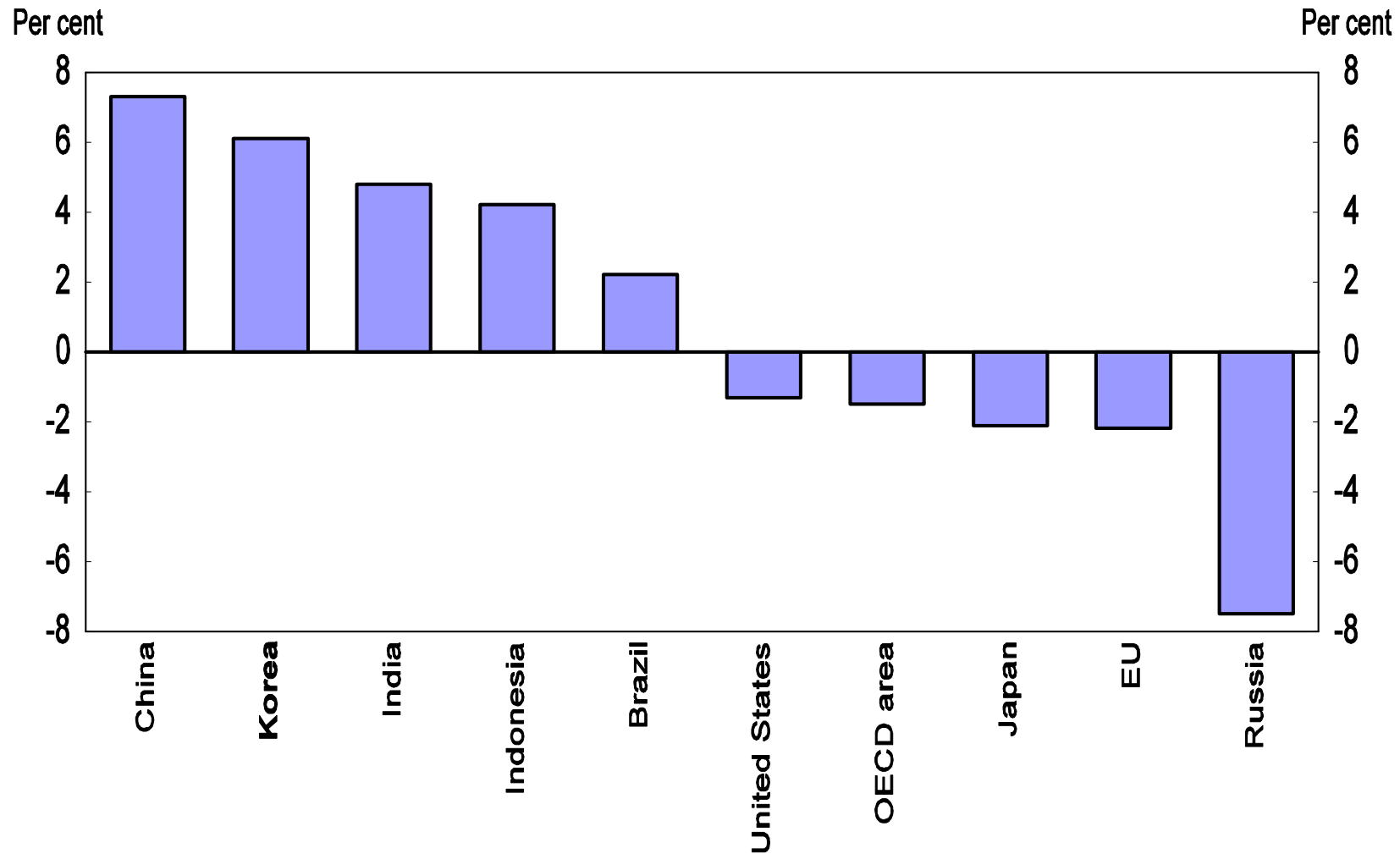
Change in real GDP between 2008:4Q and 2009:3Q



Source: OECD, Analytical Database.

...even compared to the BRICs

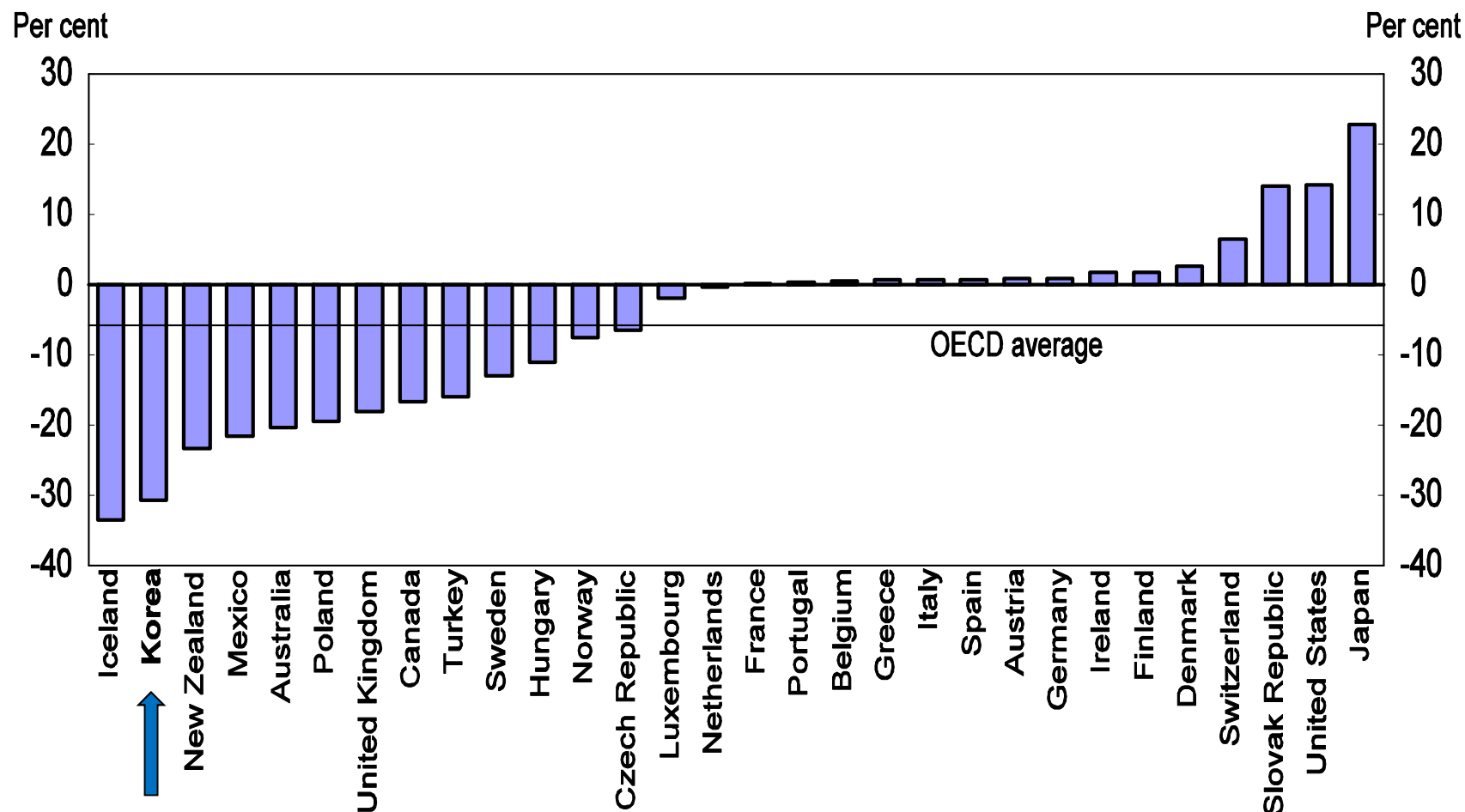
Change in real GDP between 2008:4Q and 2009:3Q



Source: OECD, Analytical Database.

Korea experienced one of the largest exchange rate depreciations

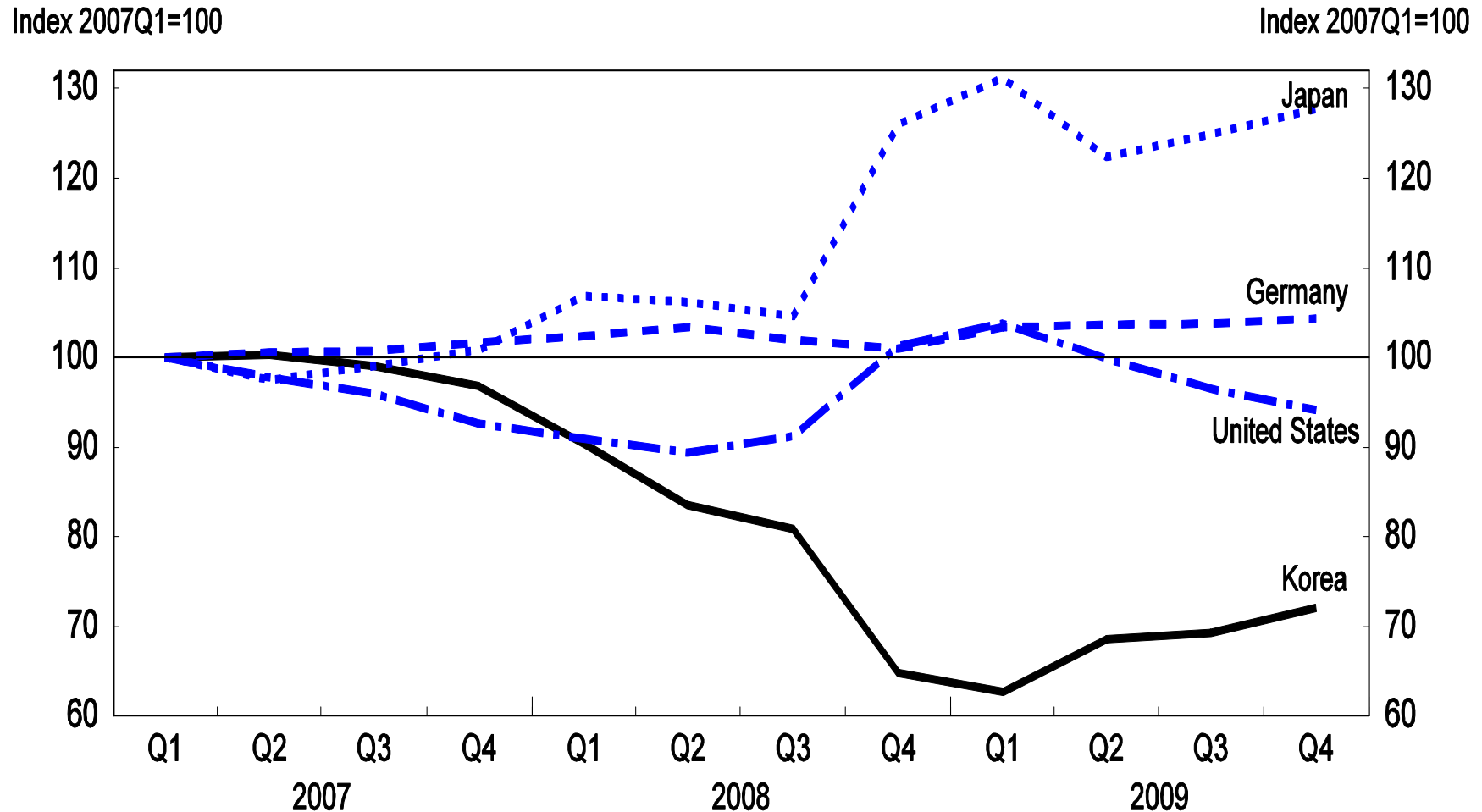
Change in effective exchange rate¹ between 2008:1Q and 2009:1Q



1. Relative 41 trading partners, weighted by trade shares.
Source: OECD, Analytical Database.

Although the won bottomed out in the first quarter of 2009, it remains well below its 2007 level...

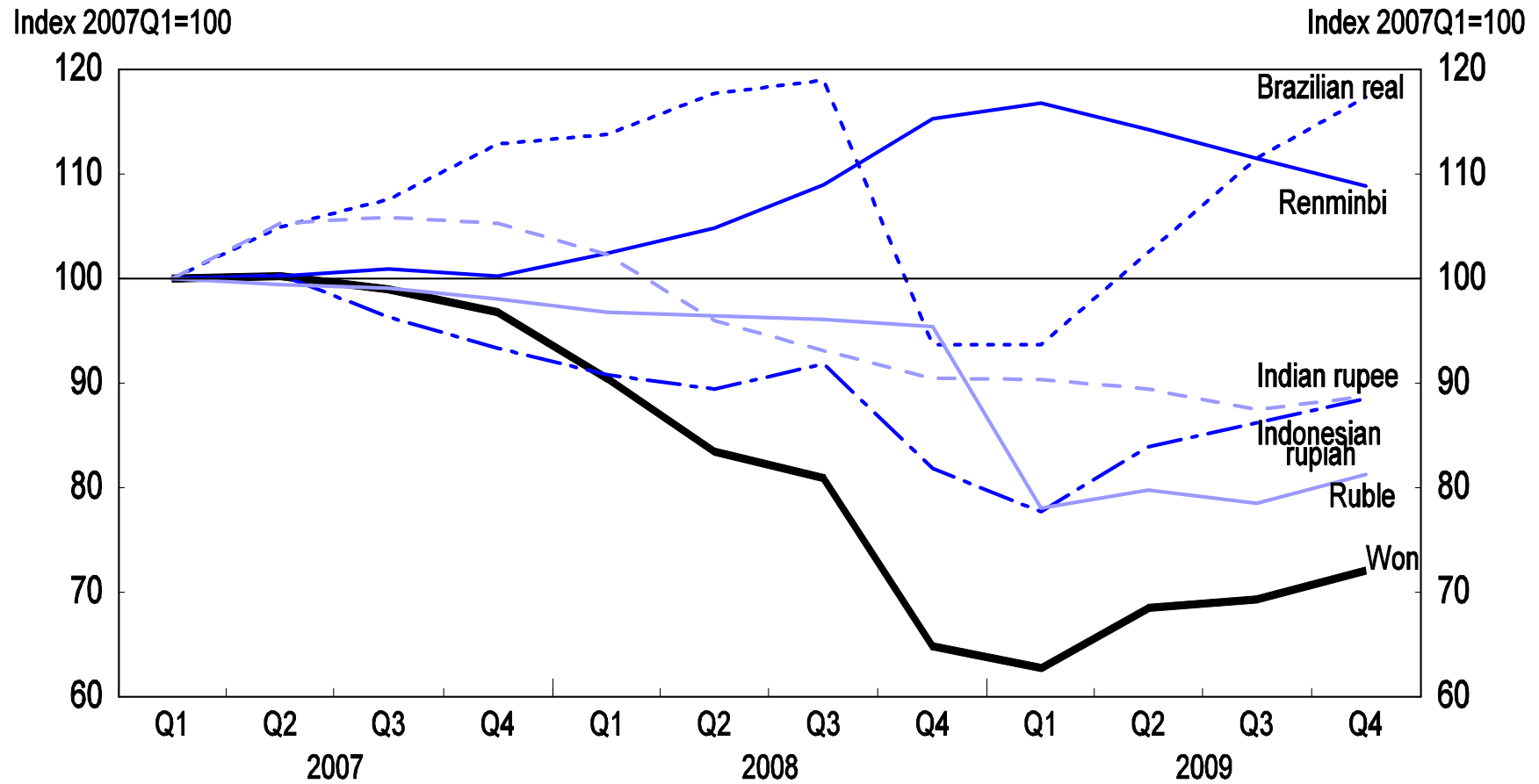
Nominal effective exchange rate relative to 41 trading partners



Source: OECD, Analytical Database.

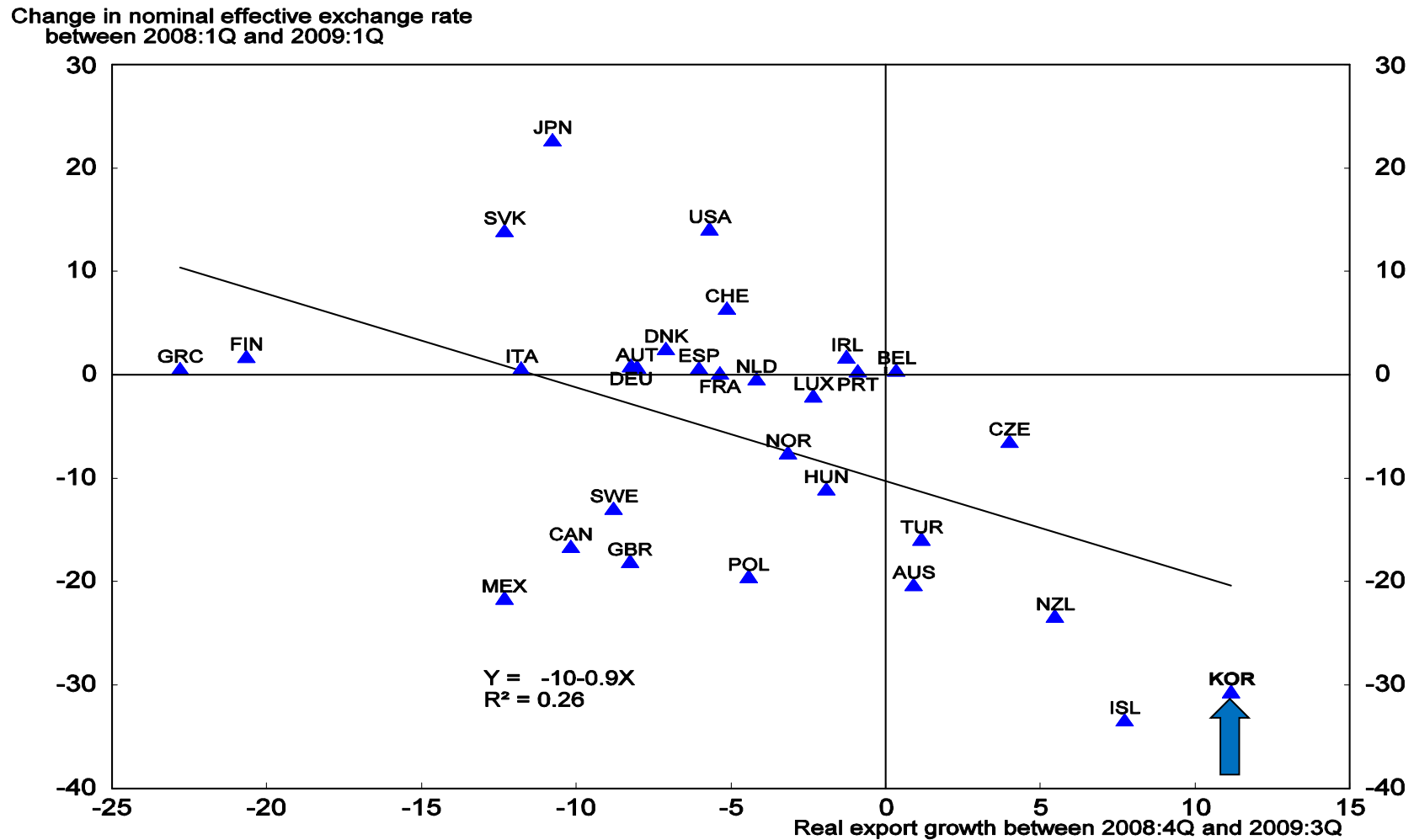
...and the won has declined relative to the currencies of BRICs

Nominal effective exchange rate relative to 41 trading partners



Source: OECD, Analytical Database.

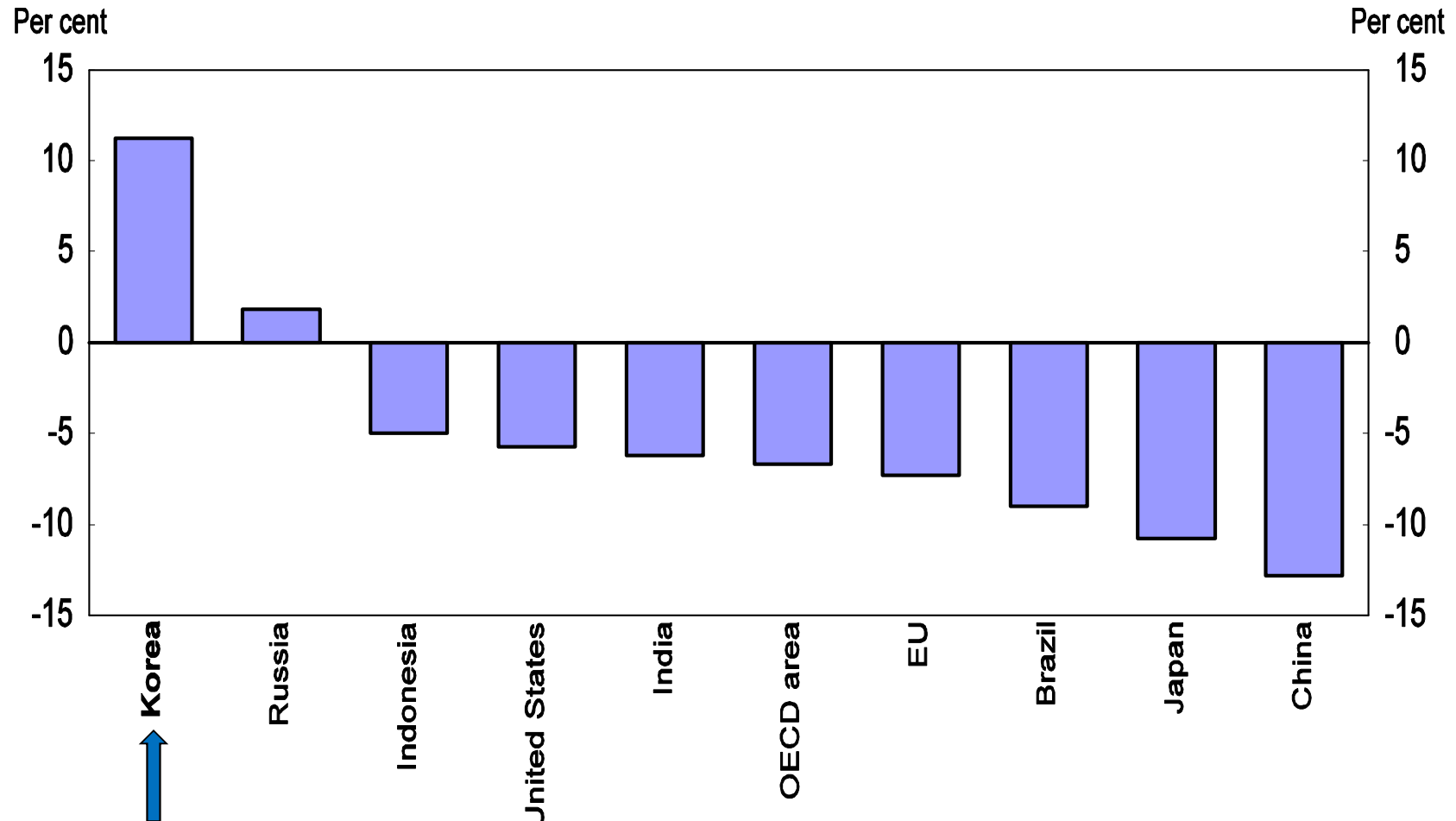
The depreciation of the exchange rate contributed to the strong export growth



Source: OECD, Analytical Database.

Korea's export rebound was one of the strongest in the world...

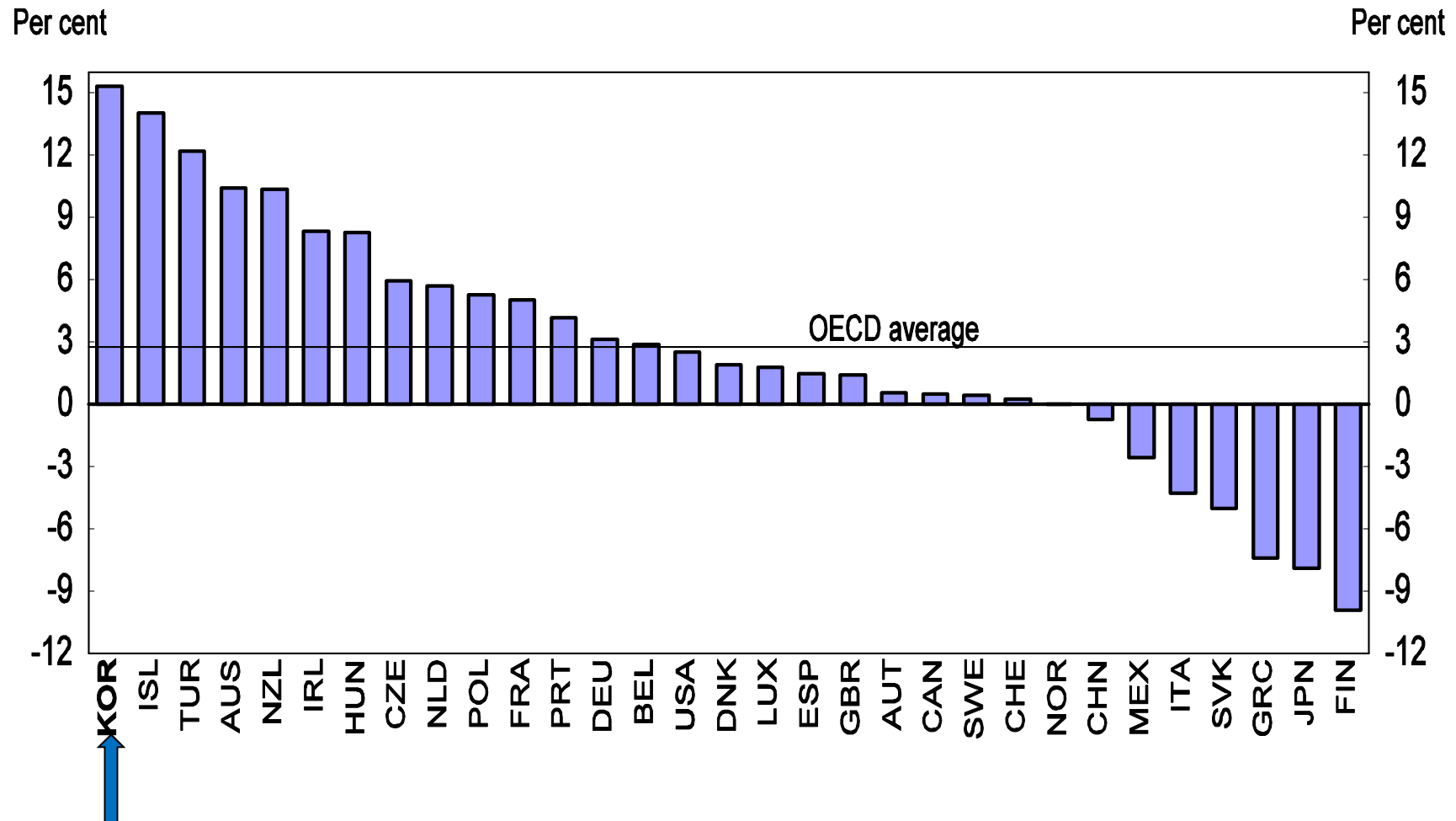
Change in real exports (between 2008:4Q and 2009:3Q)



Source: OECD, Analytical Database.

...resulting in the largest gain in export market share in the OECD area...

Change in export performance¹ between 2008:4Q and 2009:3Q

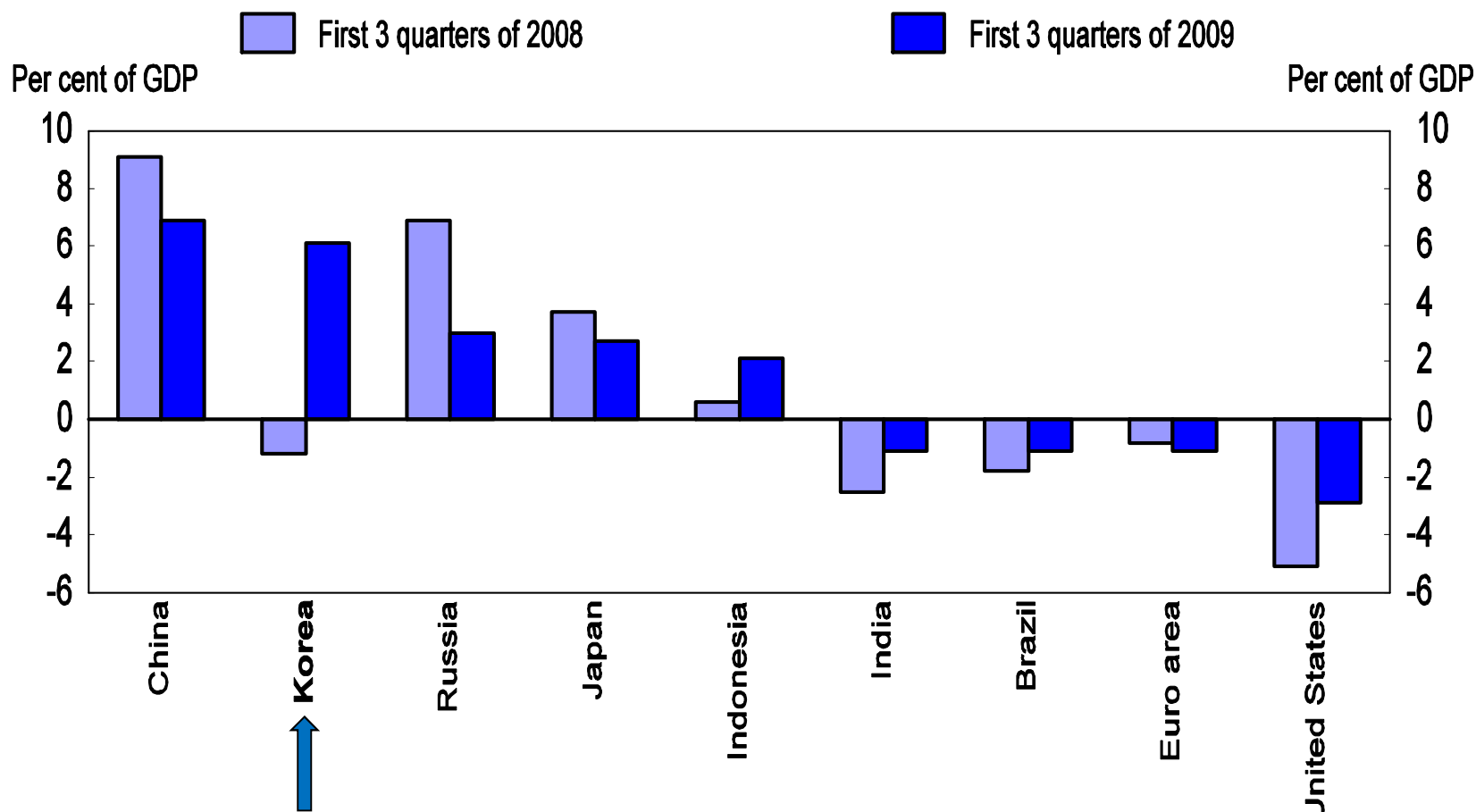


1. Defined as the ratio between a country's export growth and the growth in its export markets for total goods and services, which is based on a weighted average of import volumes in each exporting country's markets.

Source: OECD (2009), Economic Outlook No. 86, OECD, Paris.

...and a large current account surplus for Korea

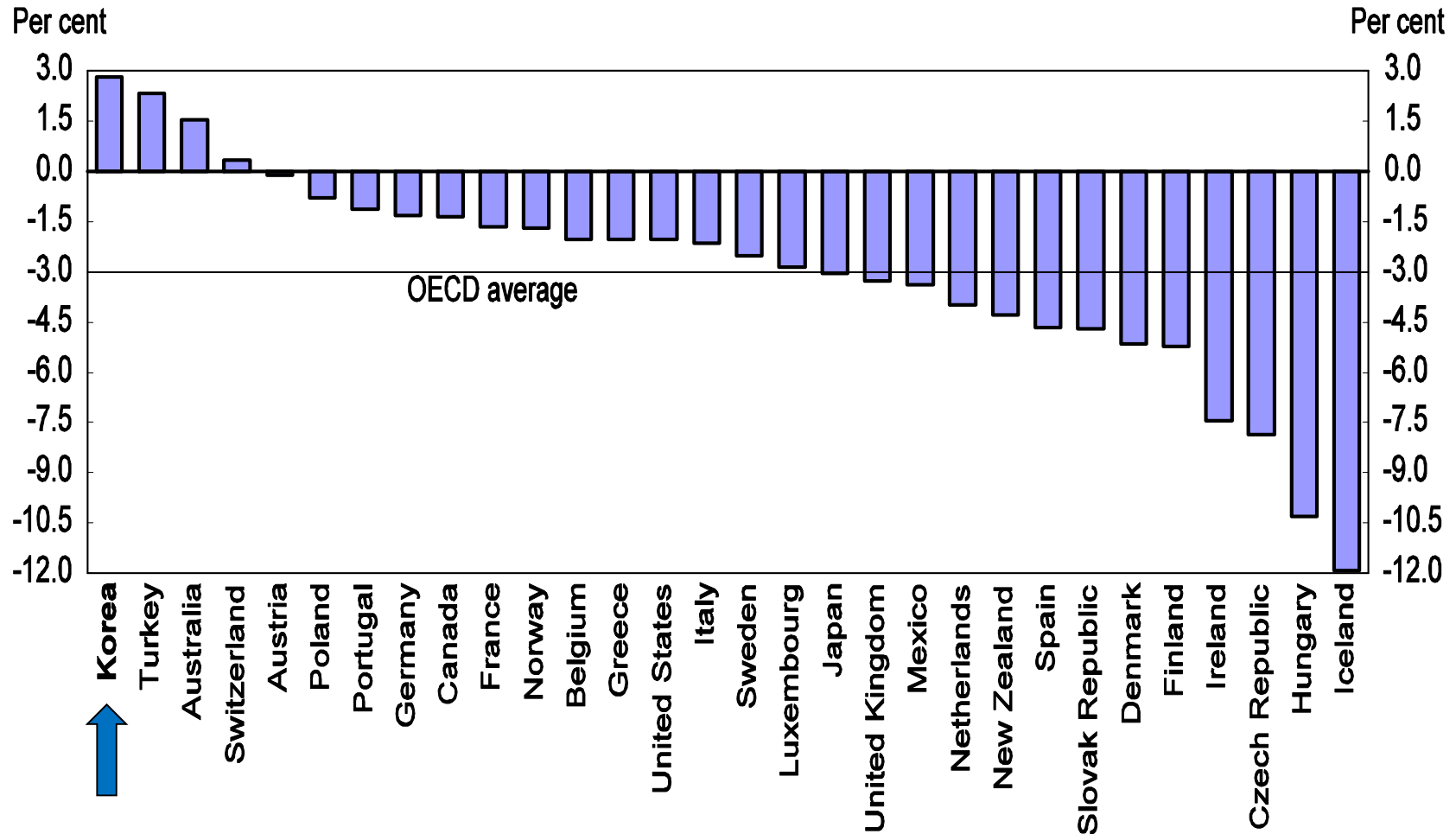
Current account surplus as a share of GDP¹



1. First three quarters of each year. OECD estimate for countries not yet reporting data for 2009:3Q.
Source: OECD, Analytical Database.

Domestic demand growth in Korea was also relatively strong

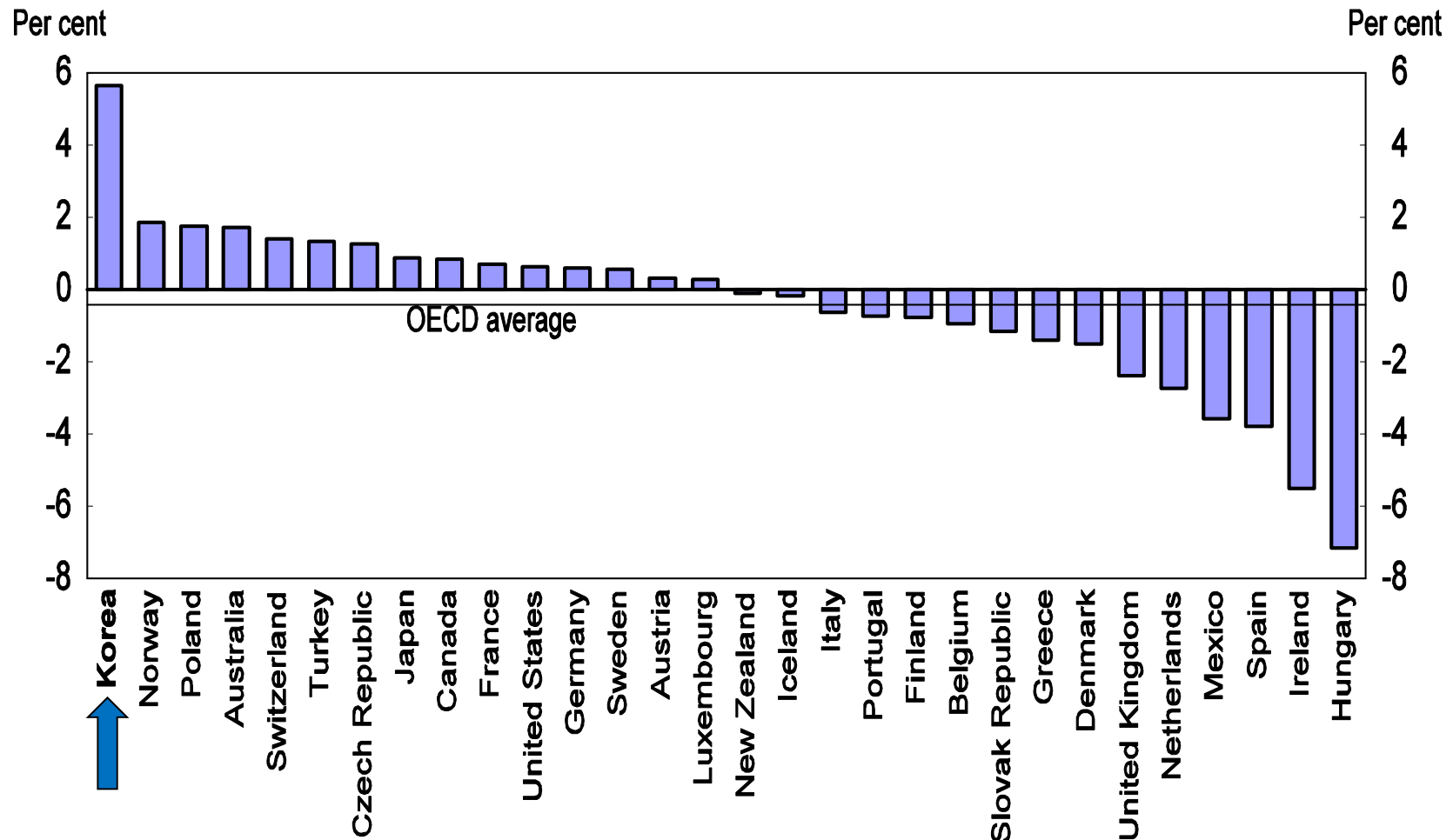
Change in real domestic demand between 2008:4Q and 2009:3Q



Source: OECD, Analytical Database.

Korea had the largest increase in private consumption...

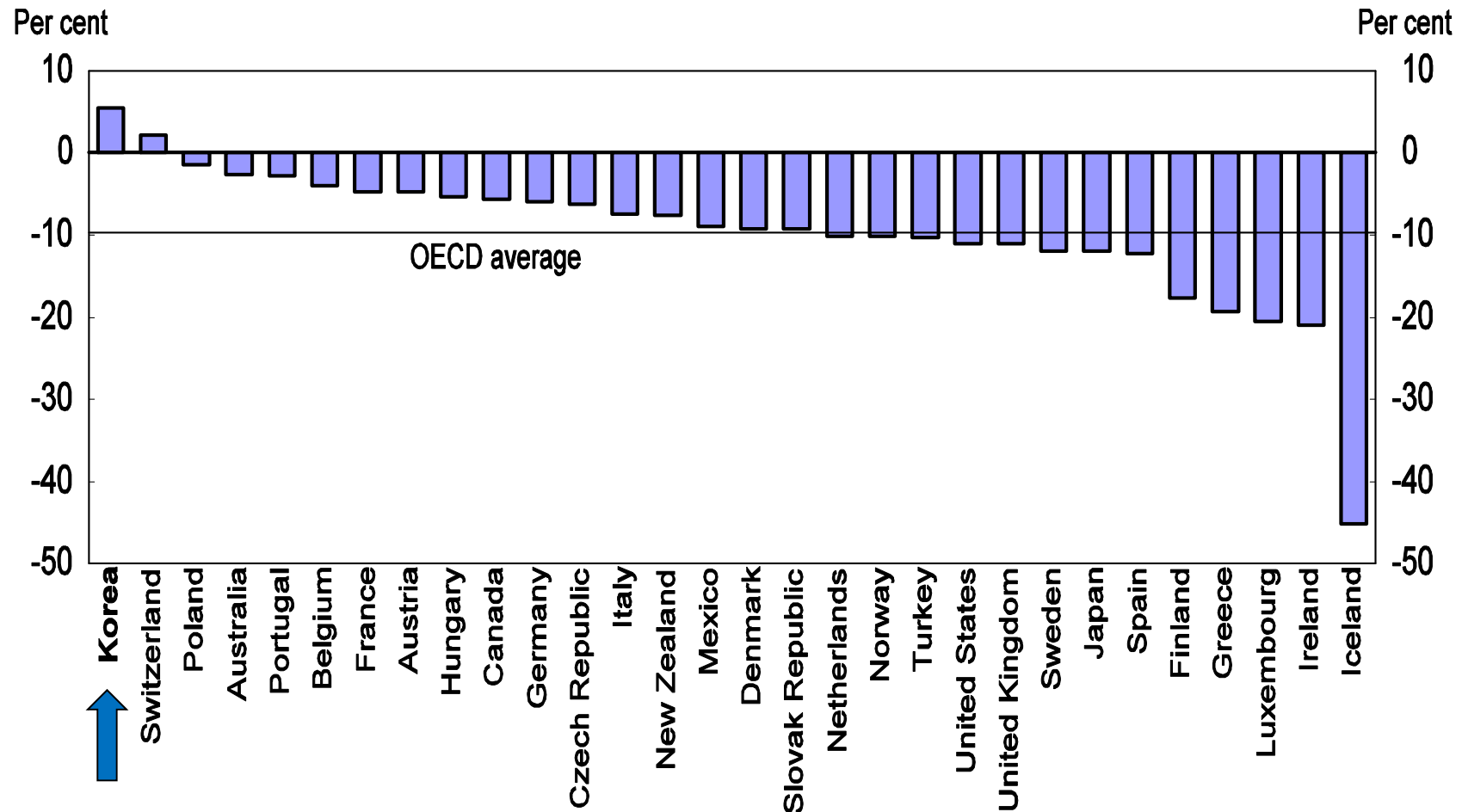
Change in real private consumption between 2008:4Q and 2009:3Q



Source: OECD, Analytical Database.

...as well as the largest rise in fixed investment

Change in real fixed investment between 2008:4Q and 2009:3Q



Source: OECD, Analytical Database.

What factors contributed to buoyant domestic demand growth in Korea?

1. Strong export growth boosted fixed investment and supported employment, thereby sustaining private consumption.
2. Relatively large and early fiscal stimulus was effective.
3. Monetary policy easing helped to lower borrowing costs and ease debt burdens, thereby promoting fixed investment and private consumption.

Fiscal packages in the major countries¹

Amount over 2008–10 as a per cent of 2008 GDP

	Total size	Tax measures					Spending measures					
		Total	Households	Firms	Consumption	Social contributions	Total	Final consumption	Investment	Transfers to households	Transfers to firms	Transfers to sub-national government
Korea	6.1	2.8	1.4	1.1	0.2	0.0	3.2	0.0	1.2	0.7	1.0	0.3
Canada	4.1	2.4	0.8	0.3	1.1	0.1	1.7	0.1	1.3	0.3	0.1	..
France	0.7	0.2	0.1	0.1	0.0	0.0	0.6	0.0	0.2	0.3	0.0	0.0
Germany	3.2	1.6	0.6	0.3	0.0	0.7	1.6	0.0	0.8	0.3	0.3	0.0
Italy	0.0	-0.3	0.0	0.0	-0.1	0.0	0.3	0.3	0.0	0.2	0.1	0.0
Japan	4.7	0.5	0.1	0.1	0.1	0.2	4.2	0.2	1.2	0.6	1.5	0.6
United Kingdom	1.9	1.5	0.5	0.2	0.6	0.0	0.4	0.0	0.4	0.2	0.0	0.0
United States	5.6	3.2	2.4	0.8	0.0	0.0	2.4	0.7	0.3	0.5	0.0	0.9
OECD average ²	3.9	1.9	..	..	..	..	2.1	..	..	..	..	..

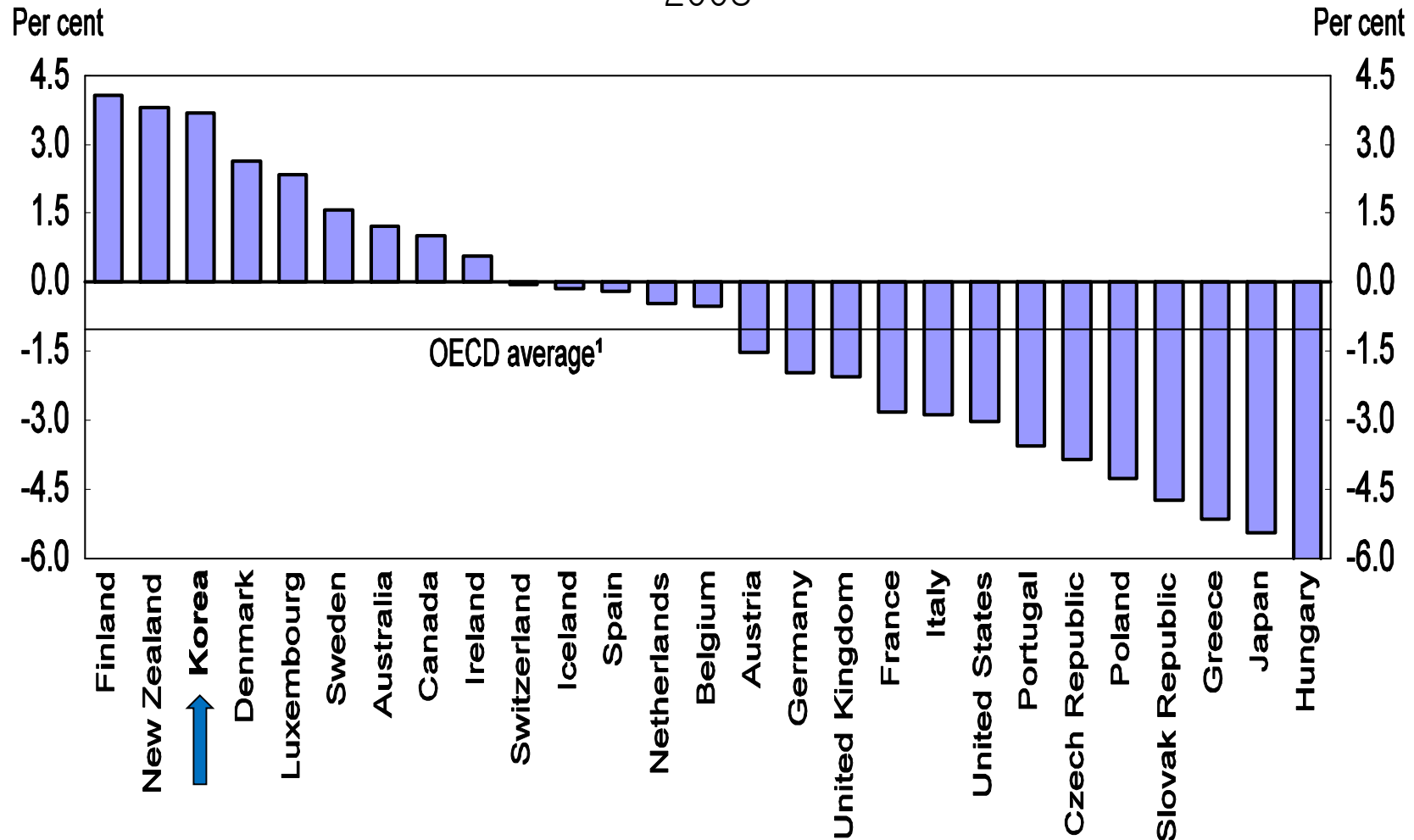
1. The amounts shown in the total columns do not always match the sum of the columns shown because some components either have not been clearly specified or are not classified in this breakdown.

2. Weighted average of countries that adopted positive stimulus programmes.

Source: OECD, *OECD Economic Outlook*, No. 85 (May 2009).

Korea has run consistent government budget surpluses

Budget balance on a general government basis as a per cent of GDP, average 2000–2008



1. Excluding Mexico, Norway and Turkey.
Source: OECD, Analytical Database.

Discretionary tax cuts in Korea

Announced or implemented since 2008

	Total, 2008-10 in billions of won	Per cent of 2008 GDP
Tax cuts	29 122	2.8
A. For individuals	14 050	1.4
Targeted on low-income groups	5 991	0.6
Increased personal tax allowance	808	0.1
Oil tax rebate	5 183	0.5
Targeted on households with housing problems	4 220	0.4
Personal income tax cut ¹	2 864	0.3
Other ²	975	0.1
B. For businesses	10 991	1.1
Tax relief associated with new spending on:	3 902	0.4
R&D	885	0.1
Investment	3 007	0.3
Corporate tax cut ³	6 975	0.7
C. On consumption	1 682	0.2
Cuts in general consumption taxes	959	0.1
Cuts in car-related taxes	723	0.1
D. Other	2 399	0.2

1. A 2 percentage-point reduction from a range of 8–35% to 6–33%.

2. Includes the earned income tax credit.

3. A cut from 25% to 22% in 2009 and 20% in 2010.

Source: OECD.

Discretionary spending measures in Korea

Announced or implemented since 2008

	Total, 2008-10 in billions of won	Per cent of 2008 GDP
Total spending measures¹	33 192	3.2
A. Increase in public investment ²	12 013	1.2
Transport	4 176	0.4
Energy	2 013	0.2
Agriculture	1 398	0.1
Education	1 351	0.1
Public services	1 174	0.1
Environment protection	764	0.1
Defense	535	0.1
Housing and health	506	0.1
B. Transfers to households	6 750	0.7
Pensions	2 773	0.3
Unemployment benefits	2 546	0.2
Lengthening benefit duration	544	0.1
Loosening eligibility criteria	2 002	0.2
Other income related transfers	1 430	0.1
C. Transfers to businesses	10 596	1.0
Small and medium-sized enterprises	4 533	0.4
For public financial institutions	3 250	0.3
To job-creating companies	1 872	0.2
Construction and transport sectors	561	0.1
For R&D spending	380	0.0
D. Transfers to sub-national governments	2 752	0.3
E. Other	1 082	0.1

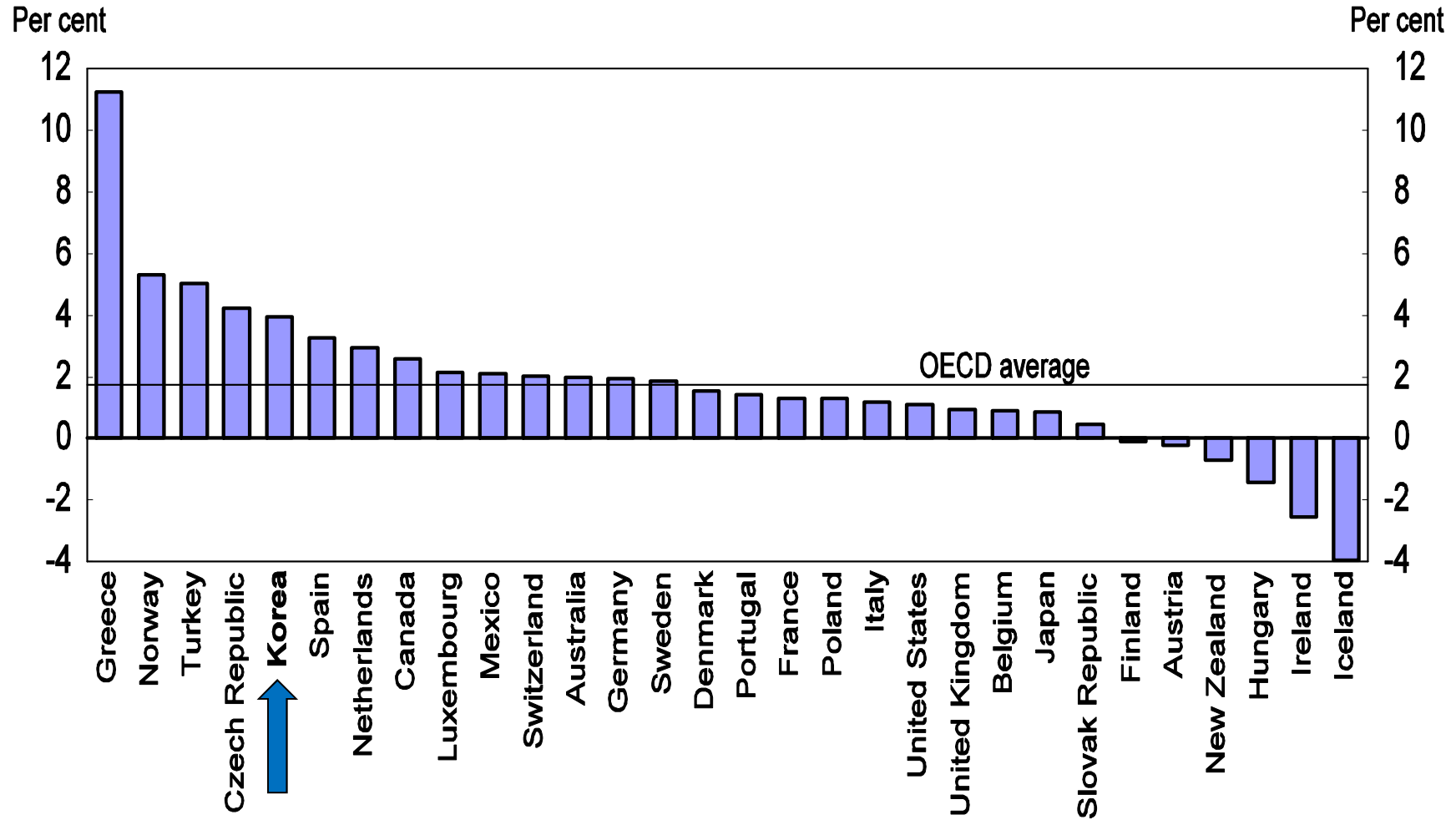
1. The government increased spending in FY 2008 through a supplementary budget of 4.6 trillion won that was passed in September 2008. For FY 2009, spending was boosted by 11.4 trillion won in December 2008 and by a supplementary budget of 17.2 trillion won in April 2009.

2. Including 98 billion won for public employment.

Source: OECD.

In addition to boosting private demand, fiscal stimulus has led to a relatively large increase in government consumption

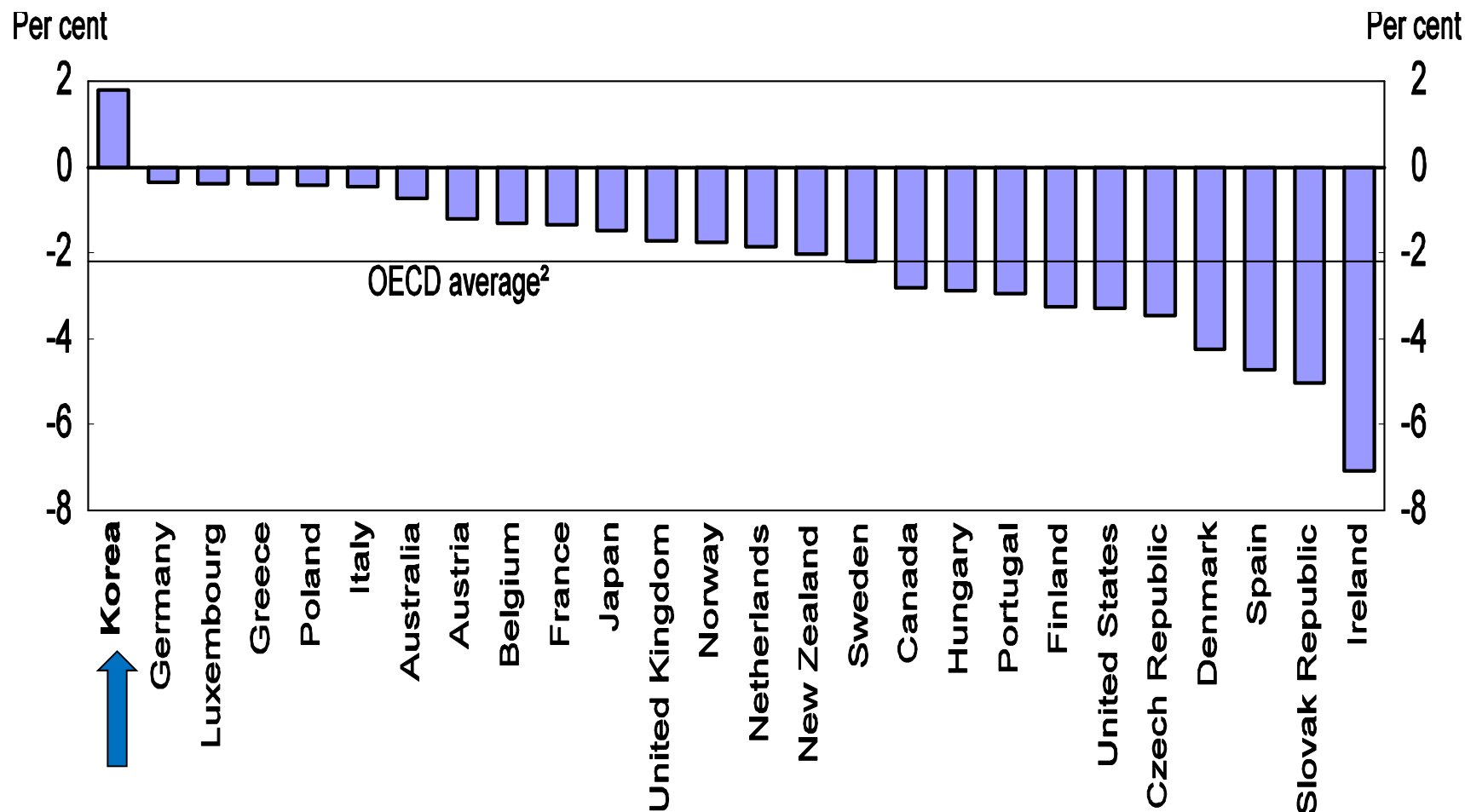
Change in real government consumption between 2008:4Q and 2009:Q3



Source: OECD, Analytical Database.

Korea is the only country to record an increase in employment since late 2008

Percentage change in dependent employment¹ between 2008:Q4 and 2009:Q3



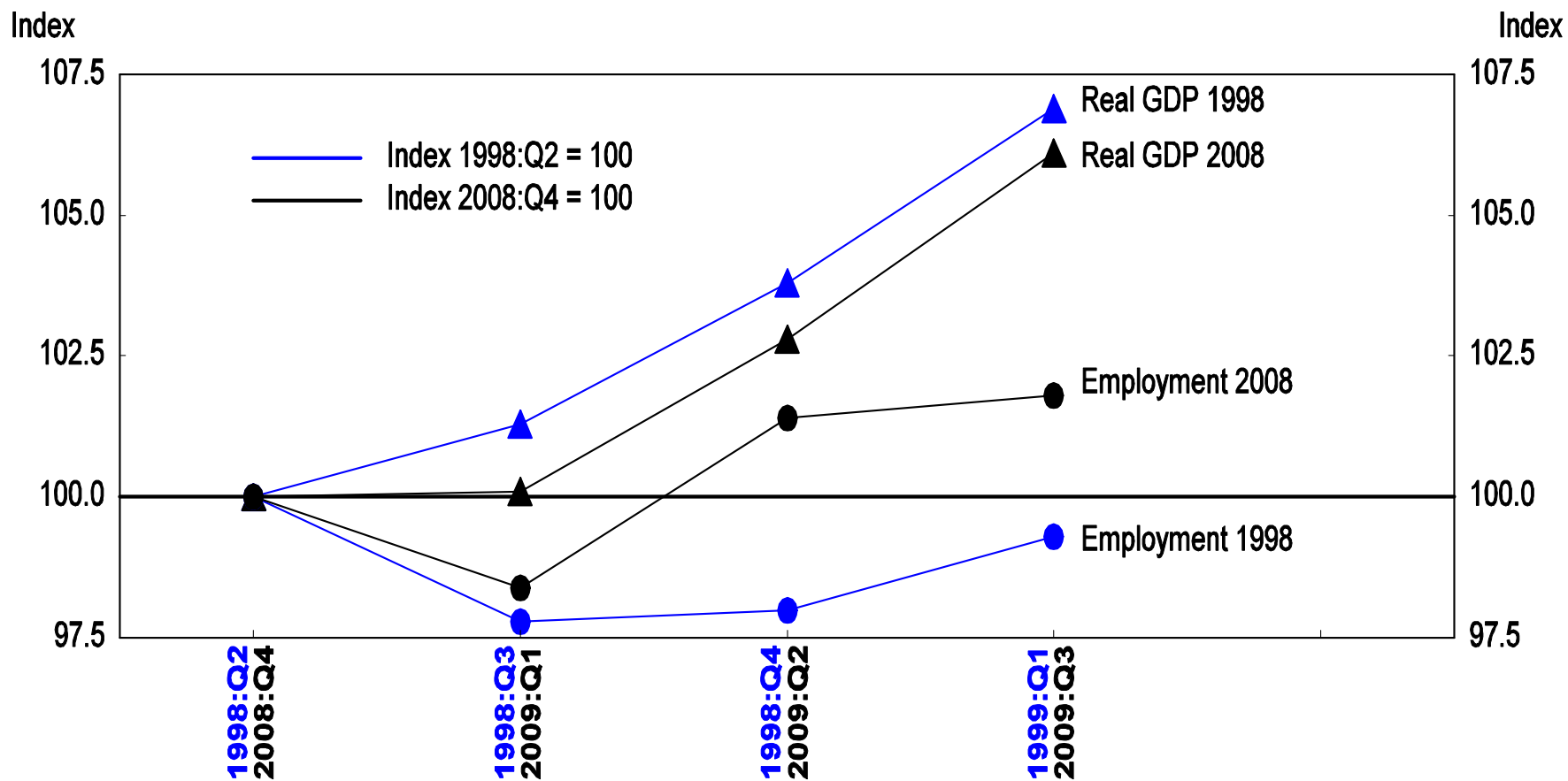
1. For Korea, this includes regular and temporary employees and daily workers. Without the impact of fiscal stimulus, employment would have risen only 0.6% according to a government estimate.

2. Excluding Iceland, Mexico, Switzerland and Turkey.

Source: OECD, Analytical Database.

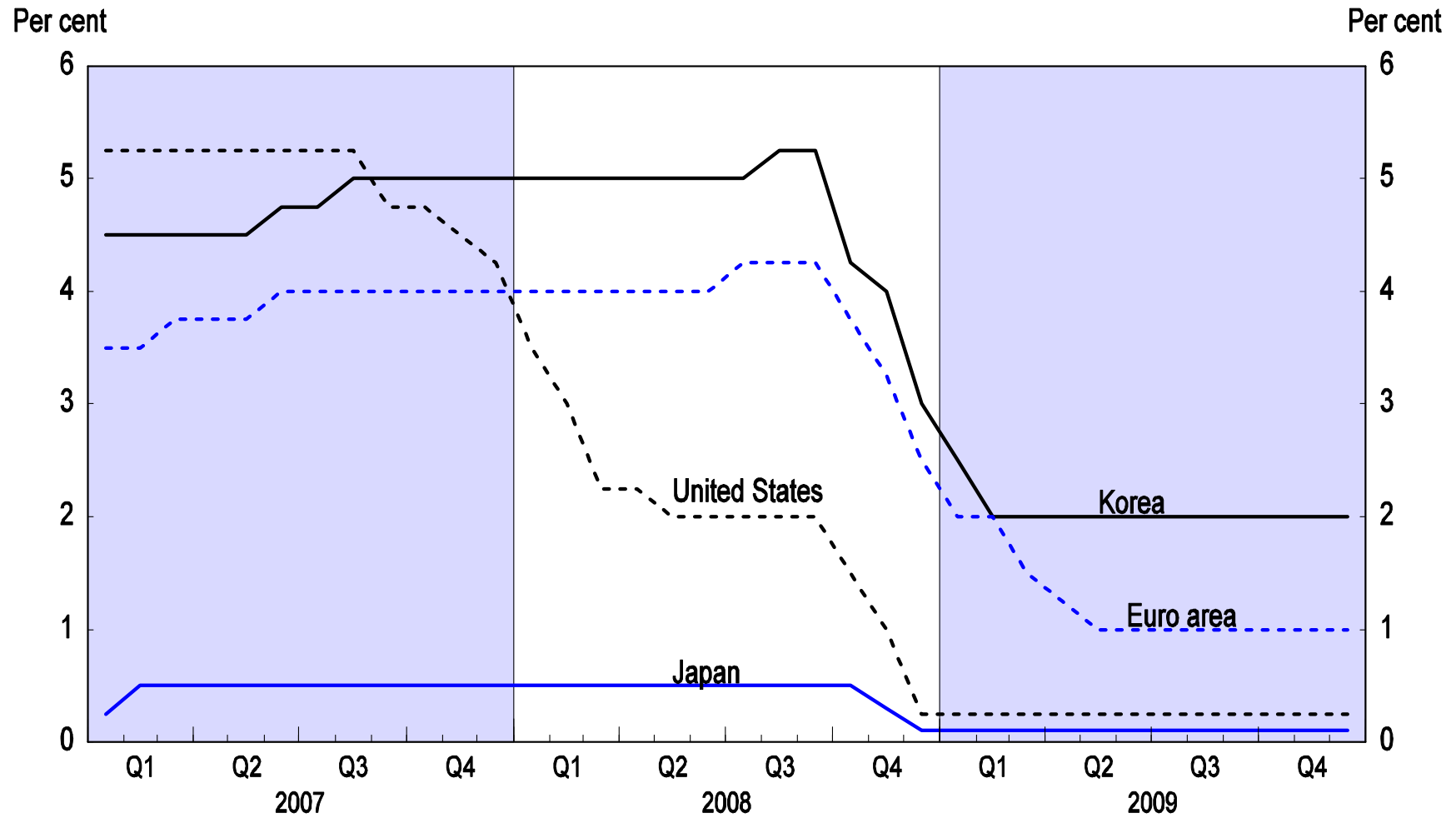
Comparison of recovery from 1998 crisis with the 2008 crisis

Change in real GDP and dependent employment



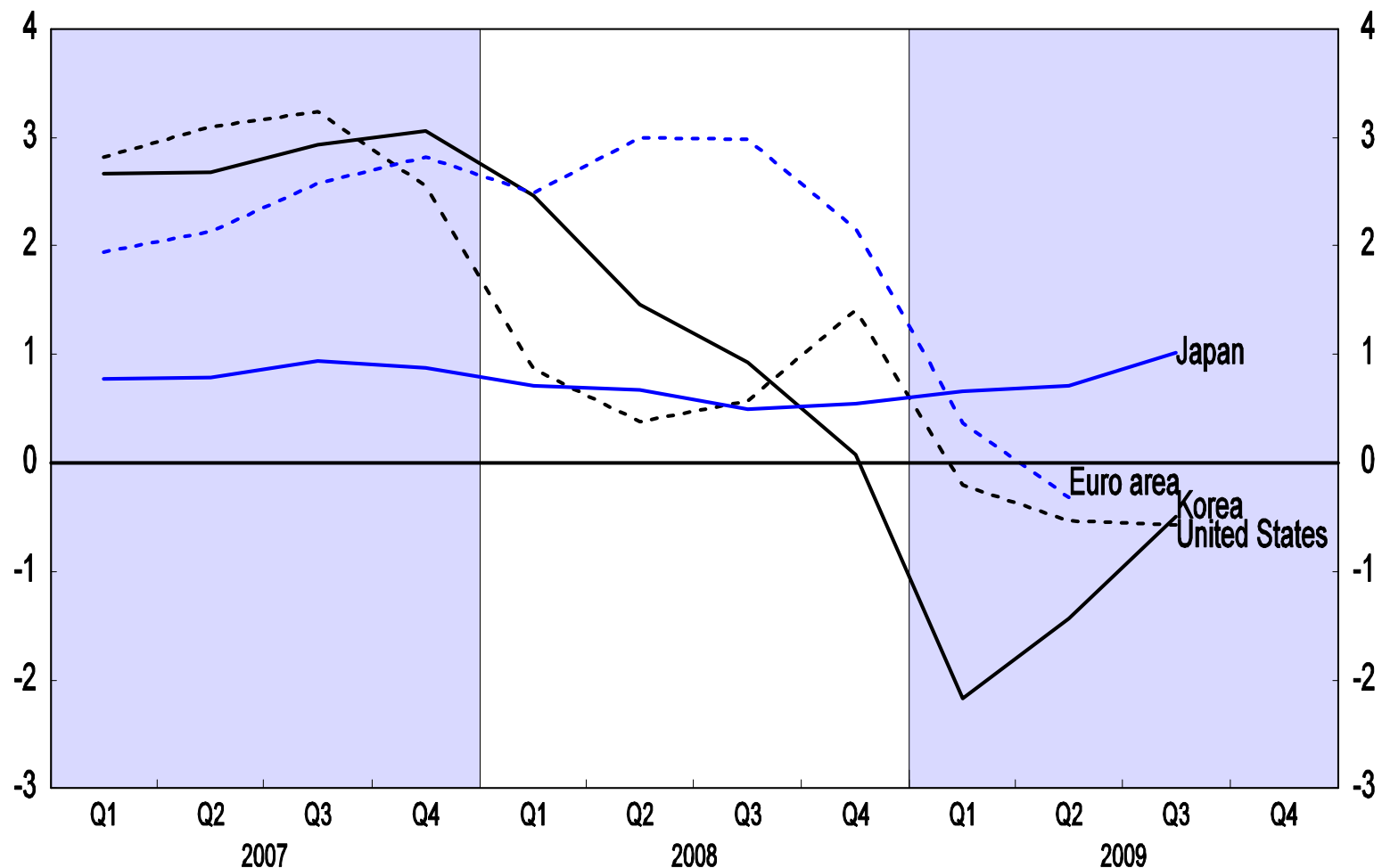
Source: OECD, Analytical Database.

The policy interest rate



Source: OECD.

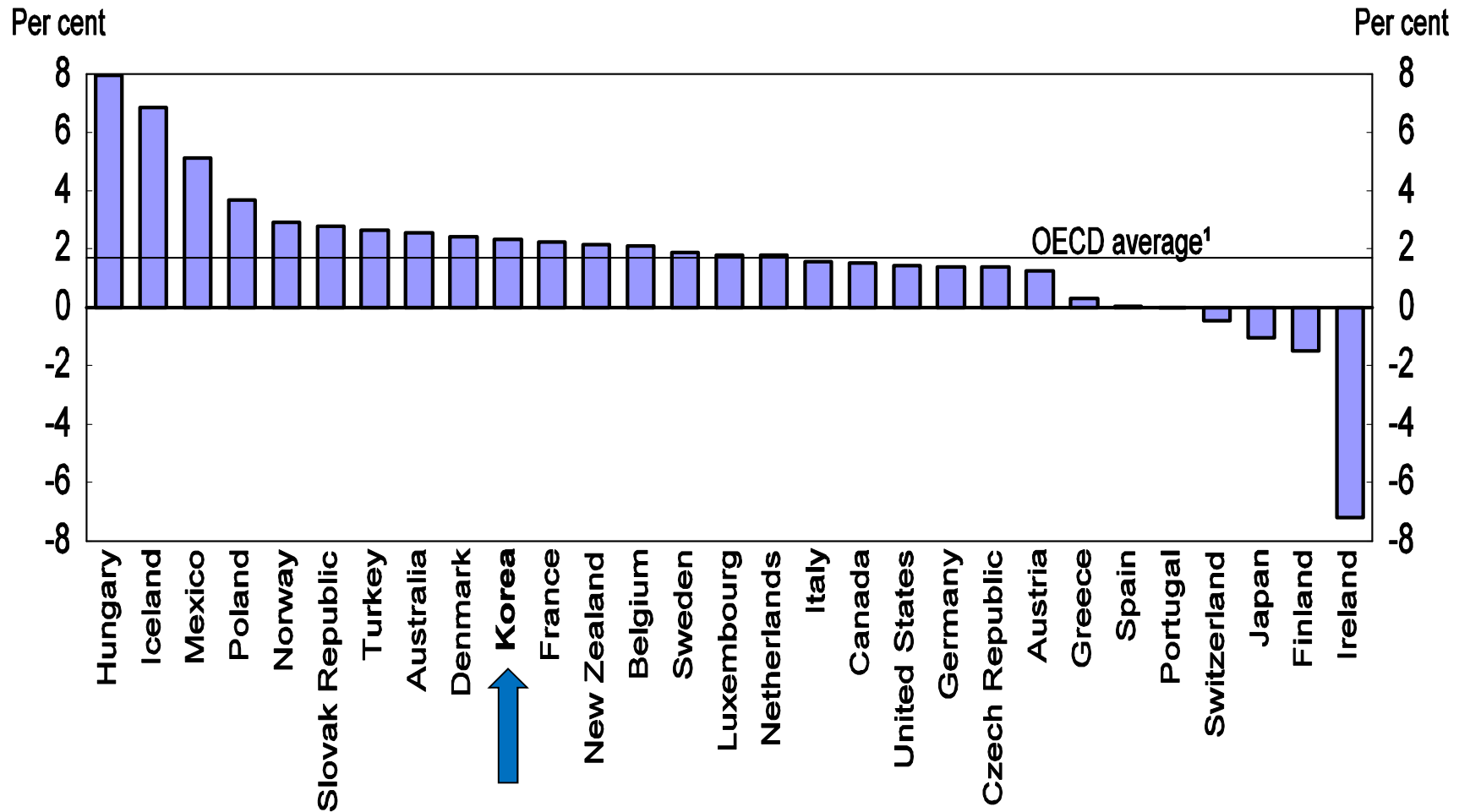
Real short-term interest rates¹ have turned negative in a number of countries, including Korea



1. 90-day rates less core consumer price inflation measured year-on-year.
Source: OECD, Analytical Database.

Inflation remains under control in Korea

Increase in core CPI at an annual rate between 2008:Q4 and 2009:Q3



1. Excluding United Kingdom.

Source: OECD, Analytical Database.

Summary

- The 2008 global crisis had a severe impact on Korea, given its dependence on trade.
- The fall in output was accompanied by a large decline in the won of more than 30% in effective terms, which increased Korea's competitiveness in world trade, leading to large export market share gains.
- The rebound in exports contributed to an economic recovery beginning in early 2009, making Korea one of only three OECD countries where output has already surpassed its pre-crisis level.
- Domestic demand has also recovered, thanks in part to large-scale fiscal stimulus amounting to 6% of GDP, the largest in the OECD area. Stimulus was almost equally split between tax cuts and increased outlays.
- Fiscal stimulus is estimated to have boosted employment by 200,000 in 2009, limiting the rise in unemployment and helping to sustain private consumption.
- The easing of monetary policy pushed real short-term interest rates into negative territory in early 2009, encouraging investment and easing the debt burden.