ISBN 978-92-64-05425-7
OECD Economic Surveys: Korea

Chapter 2

Priorities for macroeconomic policy

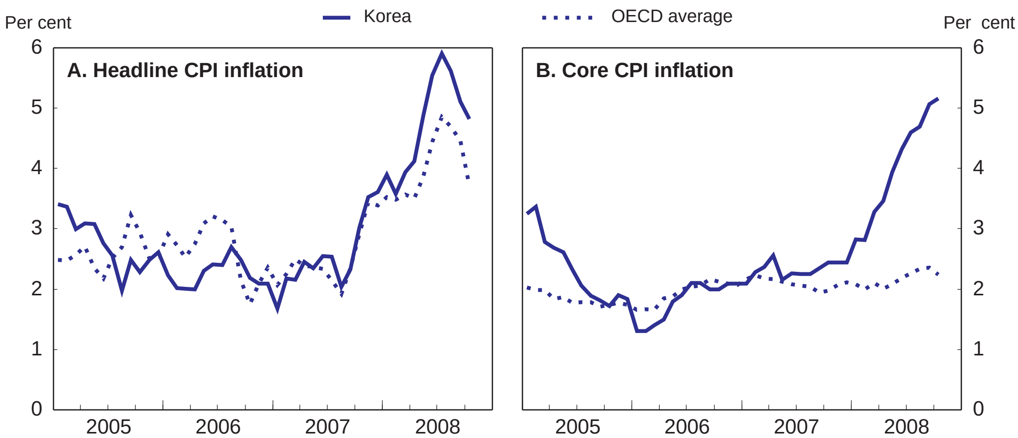
Macroeconomic policy faces difficult challenges in responding to the shocks from the global financial crisis. In the near term, the monetary authorities should focus on supporting activity and financial-market stability. While inflation is well above the target zone, it is expected to slow significantly over the next year as output growth decelerates, despite the depreciation of the won. Given that the won's fall is driven by international financial-market turbulence, foreign exchange market intervention is likely to be costly and ineffective and should therefore be limited to smoothing operations. Fiscal stimulus has a role to play in cushioning the downturn. Over the medium term, the priority should be on maintaining a strong fiscal position given future spending pressures associated with population ageing. Slowing the growth of outlays is necessary to achieve the medium-term target of a balanced budget, excluding the social security surplus.

Korea achieved output growth of more than 4% between 2002 and 2007 while keeping inflation in its target zone. However, growth slowed to 3% in the first three quarters of 2008 at a seasonally-adjusted annual rate, while inflation was well above the 2.5% to 3.5% target.[1] In addition, the depreciation of the won since the end of 2007 accelerated in mid-2008 in the context of the global financial crisis. Korea's response thus far has included cuts in the policy interest rate, intervention to support the won and fiscal stimulus. This chapter will consider the appropriate monetary, exchange rate and fiscal policy responses in this challenging macroeconomic environment. Recommendations are summarised in Box 2.1 in the concluding section.

Monetary policy

The rise in inflation has been testing the credibility of the inflation-targeting framework adopted in 1998. With inflation peaking at 5.9% (year-on-year) in July 2008 (Figure 2.1), the Bank of Korea raised the policy interest rate by 25 basis points to 5¼ per cent in August. Most countries have experienced a spike in inflation in the wake of the oil and commodity price shock, with consumer prices up almost 5% in the OECD area by the summer of 2008. However, in Korea, core CPI inflation (excluding energy and food) exceeded 5% in September 2008, in contrast to the relatively stable OECD average of close to 2%, pointing to significant second-round effects from the terms-of-trade shock (Panel B). Higher underlying inflation boosted consumers' expectations of inflation for the coming 12 months from 4% in August to 4.4% in September,[2] even though oil prices have fallen in recent months.

Figure 2.1. **Inflation**[1]



1. Year-on-year changes.

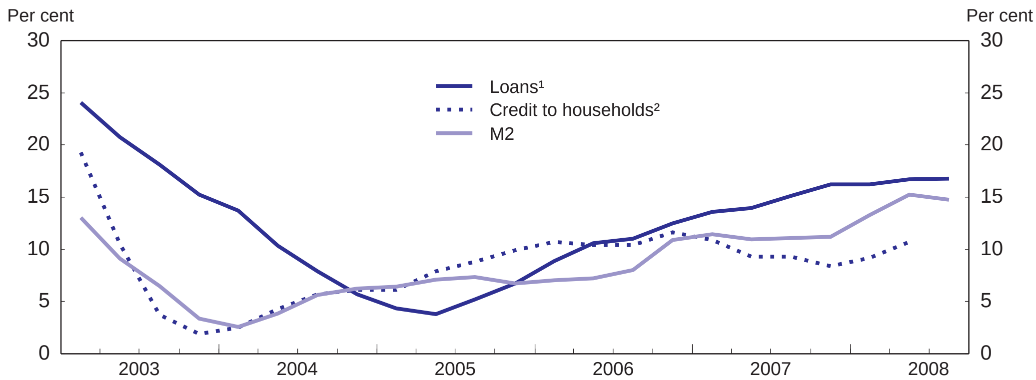
Source: OECD *Main Economic Indicators* and *Analytical Database*.

StatLink http://dx.doi.org/10.1787/513301471824

The interest rate hike in August also reflected concern that a number of factors will exacerbate inflationary pressures: *i)* the depreciation of the won is further increasing import prices;[3] *ii)* nominal wages for regular employees accelerated from 5.6% in 2007 to 7.5% (year-on-year) in the second quarter of 2008; *iii)* adjustment in utility prices has been delayed; and *iv)* the rise in producer prices has not yet been fully reflected in consumer prices. Despite the higher policy interest rate, money and credit growth remain robust (Figure 2.2).

Figure 2.2. **Trends in liquidity and lending**

Year-on-year percentage change



1. Total loans and discounts of commercial and specialised banks.
2. From all financial institutions, as well as credit from department stores, automobile companies, etc.

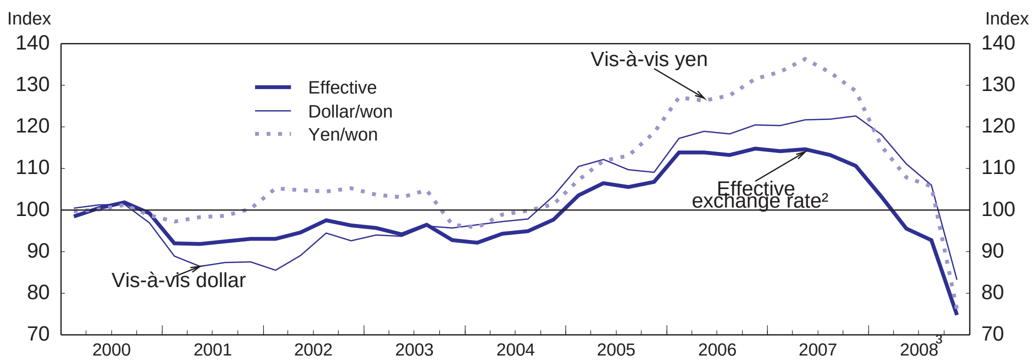
Source: Bank of Korea.

StatLink http://dx.doi.org/10.1787/513352061681

However, the economic outlook has deteriorated with the intensification of the global financial crisis in mid-September. *First*, the depreciation of the won accelerated (Figure 2.3). *Second*, credit conditions have tightened considerably. For example, the yield on three-year corporate bonds rose 160 basis points between mid-September and the end of November to 8¾ per cent, the highest since 2000 (Figure 2.4). Moreover, the stock market lost 23% over

Figure 2.3. **Exchange rate trends**[1]

2000 = 100

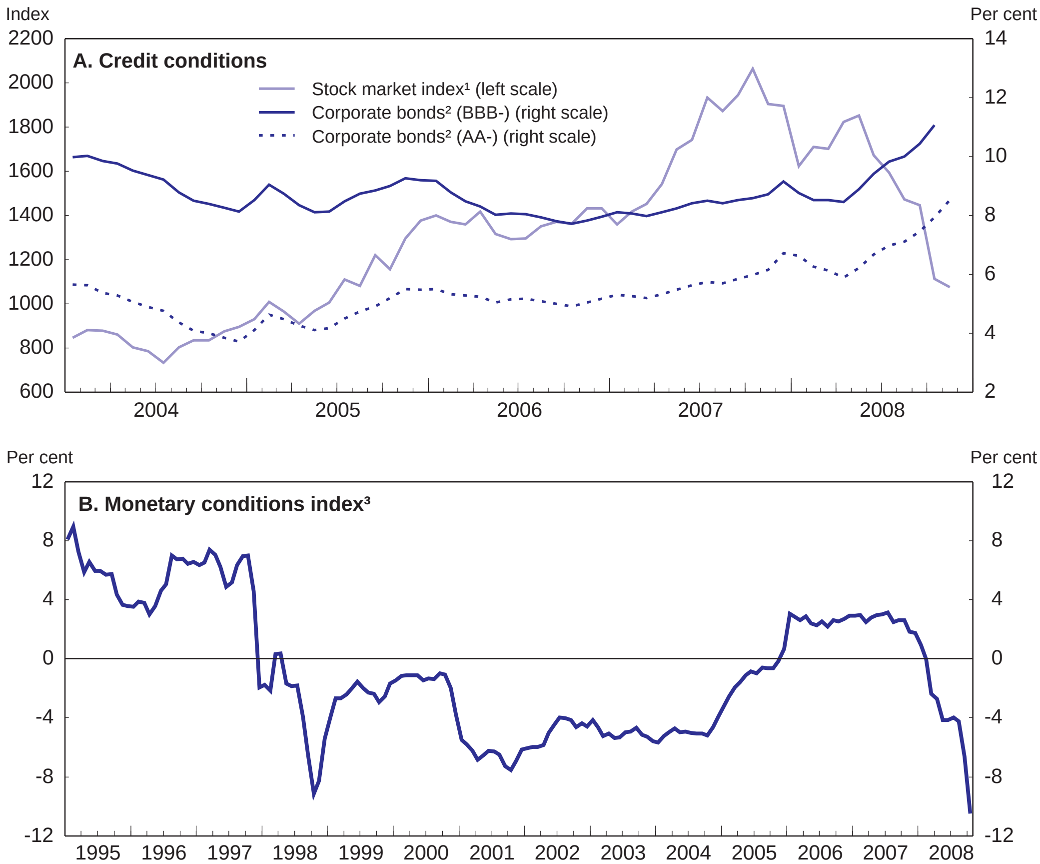


1. A rise indicates an appreciation of the won.
2. Calculated *vis-à-vis* 41 trading partners.
3. The rate shown for the fourth quarter is the average of October and November.

Source: *OECD Economic Outlook Database* and Bank of Korea.

StatLink http://dx.doi.org/10.1787/513373564342

Figure 2.4. **Monetary and credit conditions in Korea**[1]



1. The KOSPI index at the end of each month.
2. Monthly average for three-year maturities.
3. An increase indicates a tightening of monetary conditions. The OECD calculates the index using a weight of 1 on the real short-term interest rate (90-day CD rate), deflated with core inflation and a weight of 0.3 on the real effective exchange rate. Levels of monetary conditions are expressed with respect to the average since 2000.

Source: *OECD Economic Outlook Database* and Bank of Korea.

StatLink http://dx.doi.org/10.1787/513411851745

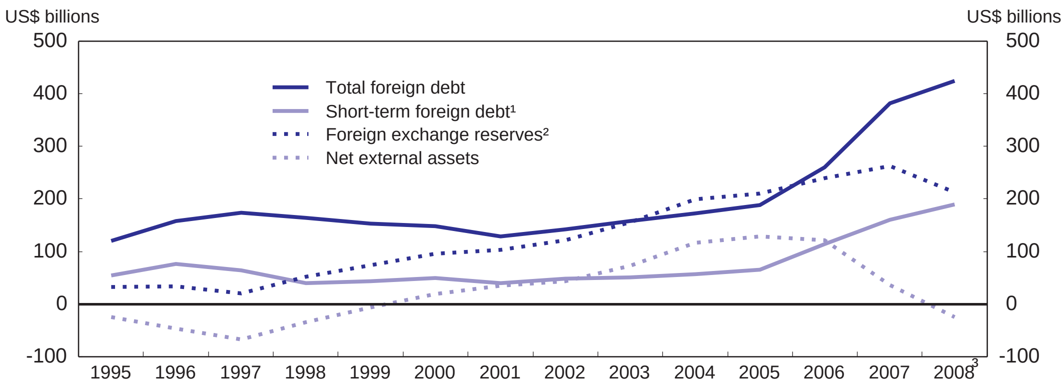
that period, on top of a similar decline between May and mid-September, driven by capital outflows. *Third*, the global financial crisis led to a sharp fall in business-sector confidence in September (Figure 1.4). In such an environment, the priority for the monetary authorities should be to support economic activity and financial-market stability. Accordingly, the Bank of Korea cut the policy rate to 4% by early November to "contribute to soothing the financial market turmoil and to avoiding a severe contraction of economic activity". With the cut in interest rates and the depreciation of the won, monetary conditions by October 2008 were judged to be more relaxed than at any time during the past 15 years (Figure 2.4, Panel B). The future direction of monetary policy should depend on the extent and duration of the economic downturn.[4]

The government has attempted to contain inflation by monitoring the prices of 52 daily necessities since March 2008. However, this policy is ineffective and may even be counterproductive, as it may raise inflation expectations by focusing on the prices that are rising most rapidly. In addition, the government is drawing up price stabilisation measures for items that have recently recorded large price hikes. It is important that such measures do not result in price controls, which were used unsuccessfully in the 1970s and 1980s to try and control inflation.

Exchange rate policy

The authorities intervened in the foreign exchange market in July to stabilise the won and arranged a $30 billion currency swap with the US Federal Reserve in October. Between June and October 2008, Korea's foreign exchange reserves fell by $46 billion, to $212 billion (Figure 2.5). The won continued to depreciate, falling by 26% in trade-weighted terms between early July and the end of November, by which time it was down 36% from the beginning of the year.

Figure 2.5. **Foreign exchange reserves and short-term foreign debt**



1. Maturity of less than one year.
2. Useable reserves only, *i.e.* excludes illiquid deposits at offshore Korean banks.
3. For 2008, end of October for foreign exchange reserves and end of September for other data. End of December for preceding years.

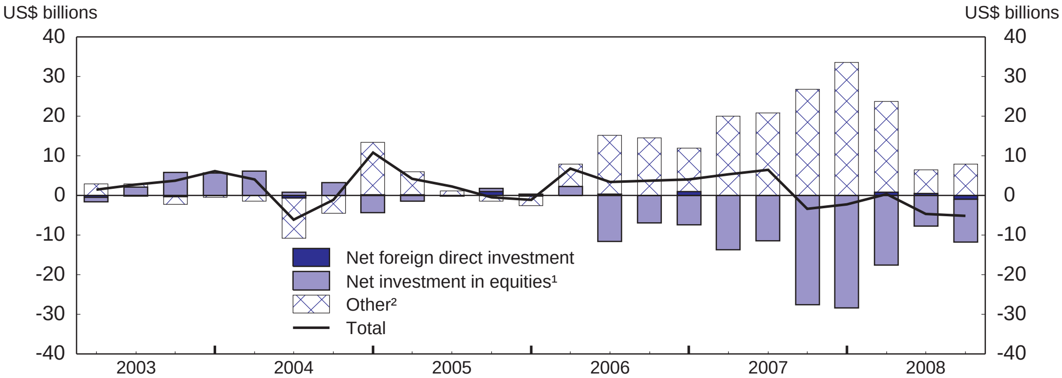
Source: Bank of Korea and Ministry of Strategy and Finance.

StatLink http://dx.doi.org/10.1787/513437473568

Won depreciation was driven by the deficits in the current account (around 1½% of GDP) and the capital account (1%) in the first three quarters of 2008.[5] The latter is partly a result of the net outflow of FDI.[6] However, capital outflows also reflect global financial turbulence and the funding needs of foreign investors. *First*, there has been a large outflow from the equity market, amounting to $36 billion in the first three quarters of 2008, on top of more than $50 billion in the second half of 2007 (Figure 2.6). The withdrawal of foreign funds was a key reason for the decline in equity prices in Korea noted above. *Second*, there has been a marked slowdown in overseas borrowing by domestic banks (included in the other category in Figure 2.6) in the context of a global credit squeeze that has intensified since mid-September. Korean banks are particularly vulnerable, given that overseas borrowing accounts for about 12% of their total funding.[7] The increase in the stock of overseas borrowing by Korean banks, from $83 billion at the end of 2005 to $222 billion in September 2008, was a key factor driving up Korea's foreign debt, making it a net debtor country (Figure 2.5). Much of the debt, though, appears to have relatively low risk.[8]

International credit rating agencies have changed their evaluation of Korean banks,[9] despite their strong fundamentals. Indeed, in June 2008, the non-performing loan ratio was 0.7% and the capital adequacy ratio 11.6%, while the return on assets was 0.9% in the first

Figure 2.6. **The capital account**



1. A component of portfolio investment.
2. All other capital transfers and flows including the "debt securities" component of portfolio investment, net other investment and net financial derivatives.

Source: Bank of Korea.

StatLink http://dx.doi.org/10.1787/513468648127

half of the year. To counter the impact of the global financial crisis, Korea announced a four-point programme on 19 October 2008:

- The government will guarantee $100 billion of banks' foreign overseas borrowing to help them overcome difficulties in obtaining offshore loans and reduce their funding costs. Around $80 billion of external borrowing by Korean banks will reach maturity by mid-2009. Similar guarantees have been introduced in the United States, Australia and some European countries.
- An additional $30 billion of dollar liquidity is to be provided from foreign exchange reserves.
- Tax incentives will be provided to long-term investors in order to help stabilise the stock market.
- The government will inject 1 trillion won ($680 million) into a public bank, which could boost lending to SMEs by 12 trillion won.

There are no plans at present to re-capitalise banks or expand deposit guarantees.

Korea still holds a large stock of foreign exchange reserves – the sixth largest in the world – despite recent declines. With the rise in overseas borrowing and the fall in reserves, short-term foreign debt has increased from 31% of foreign exchange reserves at the end of 2005 to 79% in September 2008.[10] The government announced in October 2008 that it would issue $5 billion in foreign currency-denominated bonds in 2009 in order to secure more foreign reserves. Given the global forces putting downward pressure on the won, intervention is likely to be costly and ineffective. It is essential not to repeat the 1997 mistake of using up foreign exchange reserves in the midst of a liquidity crisis. In this context, a commitment to stabilise the won would be worrisome.[11]

Fiscal policy

Maintaining a sound fiscal position in Korea is a priority given future spending pressures, including those stemming from population ageing and the potential cost of intensified economic co-operation with North Korea. Government spending is the third lowest in the OECD area, while public debt is the sixth lowest, with Korea one of nine OECD countries in which government financial assets exceed liabilities. Nevertheless, the pace of spending growth – 9% per annum, excluding financial-sector restructuring costs since 2002 – has significantly boosted the share of the public sector in the economy and kept the consolidated central government deficit, excluding the social security surplus,[12] in deficit through 2006 (Table 2.1). However, a surplus of 0.4% of GDP was recorded in 2007, thanks to a record-high overshooting of revenue by 2% of GDP.

Table 2.1. **Consolidated central government budget**[1]

	2005	2006		2007		2008	2008
	Outcome	Initial budget[2]	Outcome[3]	Initial budget[2]	Outcome[3]	Initial budget[2]	Estimated outcome
A. Total							
Revenue	191.5	208.1	209.6	225.1	243.6	247.2	247.2
Growth (per cent)	7.1	4.2	9.5	8.2	16.3	9.8	9.8
Per cent of GDP	23.6	24.5	24.7	24.9	27.0	25.5	25.5
Expenditures	187.9	209.0	205.9	211.7	209.8	230.2	235.1
Growth (per cent)	8.3	7.7	9.6	1.3	1.9	8.7	11.1
Per cent of GDP	23.2	24.6	24.3	23.4	23.3	23.8	24.3
Balance	3.5	–0.9	3.6	13.4	33.8	17.0	12.1
Per cent of GDP	0.4	–0.1	0.4	1.5	3.8	1.8	1.3
of which:							
Social security balance	23.6	26.0	26.4	27.0	30.2	28.0	28.1
Per cent of GDP	2.9	3.1	3.1	3.0	3.4	2.9	2.9
Privatisation revenues	0.1	2.0	0.7	0.0	0.0	0.0	1.0
Per cent of GDP	0.0	0.2	0.1	0.0	0.0	0.0	0.1
Financial-sector restructuring costs	12.0	12.0	12.0	0.0	0.0	0.0	0.0
Per cent of GDP	1.5	1.4	1.4	0.0	0.0	0.0	0.0
B. Alternative measures of the balance							
Excluding social security	–20.1	–26.8	–22.8	–13.6	3.6	–11.0	–15.9
Per cent of GDP	–2.5	–3.2	–2.7	–1.5	0.4	–1.1	–1.6
Excluding social security, and financial-sector restructuring costs	–8.1	–14.8	–10.8	–13.6	3.6	–11.0	–15.9
Per cent of GDP	–1.0	–1.7	–1.3	–1.5	0.4	–1.1	–1.6
Excluding social security, privatisation and financial-sector restructuring costs	–8.2	–16.8	–11.5	–13.6	3.6	–11.0	–16.9
Per cent of GDP	–1.0	–2.0	–1.4	–1.5	0.4	–1.1	–1.7
Memorandum items							
Adjusted expenditures[4]	175.9	197.0	193.9	211.7	209.8	230.2	235.1
Growth (per cent)	8.9	8.2	10.2	7.5	8.2	8.7	11.1

1. On a GFS basis. Includes public enterprises, but excludes local government.
2. Growth rate relative to previous year's initial budget.
3. Growth rate relative to previous year's outcome.
4. Excludes financial sector restructuring costs.

Source: Ministry of Strategy and Finance.

The initial budget for 2008 envisaged a deficit of 1.1% of GDP, excluding social security. However, tax receipts were once again unexpectedly buoyant in the first half of the year, increasing 13% thanks to strong corporate profits in 2007 and continued improvements in tax compliance (see Chapter 3). This additional revenue, including the surplus stemming from higher-than-budgeted revenue in 2007, is financing a supplementary budget and tax rebates equal to almost 1% of GDP that was passed in September 2008. It includes 0.4% of GDP in income tax rebates to around 80% of taxpayers, focused on lower-income workers.[13] Additional spending, amounting to 0.5% of GDP, will be used to support energy conservation, build roads and subsidise utilities, which had minimised hikes in charges in the summer of 2008. Such subsidies distort energy prices and encourage excessive consumption. However, electricity and gas prices were raised in November 2008. Taking the supplementary budget into account, the budget in 2008 is likely to record a deficit of around 1½ per cent of GDP, excluding social security.

The government had initially planned to slow the pace of spending growth to 6.5% in 2009, which would have been the lowest since 2004. However, revenue growth will also be damped by rate cuts on personal and corporate income taxes,[14] which the authorities estimate will reduce revenue by 2% of GDP by 2012. The government initially expected a budget deficit, excluding social security, of around 1% of GDP. It is likely to be larger than projected, given that real GDP growth is likely to be well below the 5% assumed in the budget. Moreover, the government announced a 14 trillion won (1.4% of GDP) fiscal package in November 2008, which includes 11 trillion won of additional public expenditure in 2009 (see Box 1.1). The package also provides 3 trillion won in tax reductions by extending the Temporary Investment Tax Credit until the end of 2009. The government's medium-term goal is a balanced budget by 2012. Given that it expects the tax cuts to reduce revenue by more than 2% of GDP, achieving the 2012 target would require a sharp slowdown in government spending after the economy recovers from the global financial crisis.

The government announced a plan in October 2008 to privatise 38 state-owned enterprises, including Korea Development Bank and the Industrial Bank of Korea. However, network industries, such as electricity, gas and water companies, have been excluded from the plan. Although Korea sold eight important public enterprises in the wake of the 1997 crisis, privatisation has stalled since 2002. The plan also calls for streamlining the public enterprise sector by consolidating 38 institutions into 17 and abolishing five. In addition, efficiency is to be increased by realigning the functions of 20 public institutions. Also, all public institutions will see their budgets and manpower downsized.

The National Pension Scheme

Benefits paid by the National Pension Scheme (NPS) are only 0.6% of GDP at present, reflecting the relatively young age of the population and the relatively recent launch of the NPS in 1988. However, rapid population ageing (see Chapter 1) and the maturation of the NPS will boost such spending to 7% of GDP in 2078 despite reforms to lower the replacement rate from 70% initially to 40%. There remain concerns about the coverage of the NPS, as the number of contributors has levelled off at one-third of the working-age population (Figure 2.7). In contrast, mandatory public pension systems cover around two-thirds of the working-age population on average in OECD countries. Moreover, the average contribution period of beneficiaries in Korea – projected by the NPS at 17.3 years in 2030 – suggests that many elderly will receive small pension benefits. In addition, there is a large gap in the level of contributions between employees (whose average income was around 2 million won in June 2008) and individually-insured persons (around 1 million won), who tend to be self-employed. In sum, the low level of coverage, short average contribution period and the small payments by the self-employed raise the risk that the NPS will not be sufficient to reduce the relative poverty rate for households with elderly persons, which was already estimated to be 39% in 2000.

The introduction of a means-tested benefit in 2008 that will be available to about 60% of the elderly is thus a step in the right direction, although the benefit will be relatively small at less than 5% of the average wage. Given the difficulty in broadening the coverage of the NPS and raising the level of contributions among the self-employed, increasing the

Figure 2.7. **The coverage of the National Pension Scheme**

Number of contributors

Source: National Pension Service and the Korea National Statistical Office.

StatLink http://dx.doi.org/10.1787/513470310374

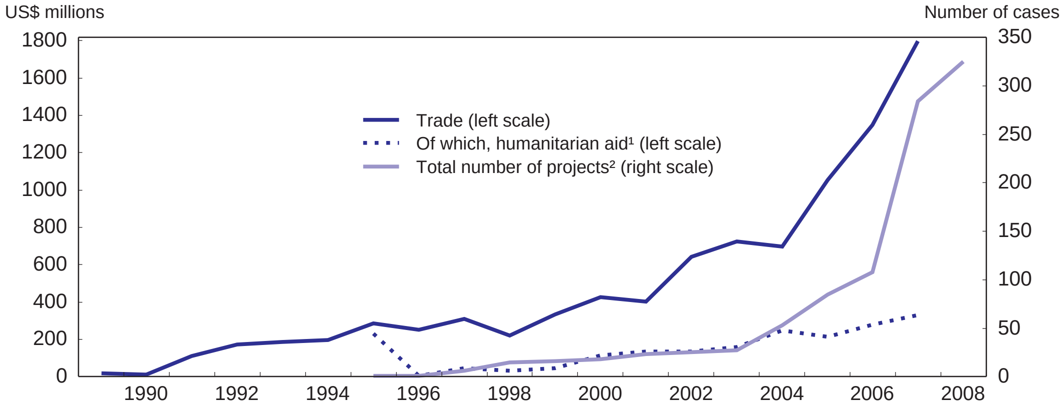
means-tested benefit over time toward the minimum cost of living (20% of the average wage) and widening its coverage would help reduce poverty among those over 65. As such an expansion of the basic benefit would significantly increase the tax burden, it should be accompanied by a scaling back of NPS benefits to limit the overall cost of providing for the elderly. Another option, currently also under consideration in Korea, would be to increase means-tested benefits while narrowing the coverage for elderly persons who are poor. In the meantime, it is essential that the means-tested social assistance programme be adequate to lower the relatively high incidence of poverty among the elderly. Finally, the public occupational pension schemes for the civil service, military and private-school teachers, which cover 6% of the population, should be reformed to reduce their reliance on government subsidies and to allow portability with the NPS, and thereby encourage labour mobility. The plan announced in September 2008 to raise the contribution rate and cut the replacement rate for the civil service pension is an important reform.

Economic co-operation with North Korea

The South's efforts to increase contact with the North have led to closer economic ties. Indeed, trade rose by more than 2.5 times between 2004 and 2007 (Figure 2.8), as the South overtook China as the top destination for North Korean exports. Although political tensions led to a suspension of the inter-governmental dialogue in March 2008, trade expanded further by 23% (year-on-year) during the first half of 2008. Commercial trade now accounts for 94% of inter-Korean trade, as economic rather than political factors increasingly drive North-South exchanges.[15] However, North-South trade is only 0.2% as large as the South's international trade.

The Gaeseong Industrial Complex, which was established in 2004 as an industrial site for South Korean small and medium-sized enterprises (SMEs), accounts for about a quarter of inter-Korean trade. Infrastructure, including rail and road links, electricity and communications, is provided by the South Korean government and the firms involved, while a public financial institution provides low-interest loans and insurance. Low production costs make the complex attractive to SMEs. Indeed, North Korean workers employed in Gaeseong are paid an average of $70 per month, less than 3% of the average

Figure 2.8. **Inter-Korean economic relations**



1. Includes both public and private assistance, primarily for food.
2. The number of approved private economic co-operation projects. The 2008 number is through June.

Source: Ministry of Unification.

StatLink http://dx.doi.org/10.1787/513630345317

manufacturing wage in South Korea. The complex contained 72 factories employing about 30 000 North Korean workers and 1 300 South Koreans as of July 2008. About 80% of the output is sold in the South, with the remainder exported to other countries. Although the North expelled some South Korean officials from the complex in 2008, Gaeseong-related trade increased by 88% in the first half of 2008. However, the Mt. Geumgang project was suspended after a South Korean tourist was killed in July. The project, which began in 1998, had been supported by government subsidies. In addition to these government-initiated ventures, private-sector economic co-operation is deepening, as the number of approved projects has risen to more than 300 (Figure 2.8). The creation of new projects will be facilitated by Seoul's decision in May 2008 to ease red tape on doing business in the North. As a result, individuals no longer need specific approval to cross the border or to engage in joint ventures with the North.

Following modest output growth from 1999 to 2005, the North Korean economy is estimated to have contracted in both 2006 and 2007, further widening the gap with the South. One factor was the floods in 2007, which reduced agricultural output, resulting in the largest food shortfall in a decade. The South Korean economy is now about 36 times larger than the North's and 16 times larger on a per capita basis (Table 2.2), and the widening gap will boost the eventual cost of economic integration. The expansion of trade driven by private-sector firms in the South, in line with the new government's strategy of limiting co-operation to projects that are economically viable and that do not overburden taxpayers in the South, provides the best hope for limiting the gap.

Conclusion

The priority for macroeconomic policy is to cushion the downturn in output and support financial-market stability as the world economy copes with the global financial crisis. Fiscal policy has a role to play in providing such support. However, foreign exchange intervention is likely to be costly and ineffective and should hence be limited to smoothing. The appropriate course of monetary policy depends on the duration and the extent of the growth slowdown, which will be determined to a large degree by world economic developments. Specific recommendations are summarised in Box 2.1.

Table 2.2. **Comparison of North and South Korea in 2007**

	(A) North Korea	(B) South Korea	(A/B) Comparison (%)
Population (millions)	23.2	48.5	47.9
GDP (billion US$)	26.6	969.9	2.7
GDP per capita (US$)	1 148.4	20 015.2	5.7
GDP growth (in volume, in per cent)	–2.4	5.0	…
Total trade (billion US$)	2.9	728.3	0.4
Exports	0.9	371.5	0.2
Imports	2.0	356.9	0.6
Inter-Korean exports (billion US$)	0.8	1.0	74.1
Commercial exports[1]	0.8	0.7	114.8
Non-commercial exports[2]	0	0.4	…
Industrial statistics			
Power generation (billion kWh)	237.0	4 031.0	5.9
Steel production (million tonnes)	1.2	51.5	2.4
Cement (million tonnes)	6.1	52.2	11.7
Agricultural statistics			
Grains (million tonnes)	4.0	5.0	79.7
Fertiliser (million tonnes)	0.4	3.4	11.8

1. Processing-on-commission trade accounts for about half of commercial trade.
2. Mostly includes humanitarian aid in the form of commodities such as rice and fertiliser.

Source: Bank of Korea and Ministry of Unification.

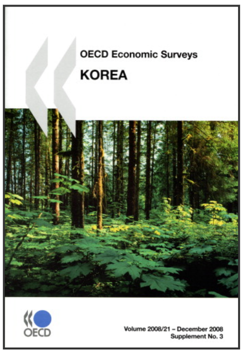
Box 2.1. **Summary of recommendations for macroeconomic policy**

- In the near term, the monetary authorities should put a greater-than-usual weight on supporting economic activity and financial-market stability.
- Given that exchange market intervention is likely to be costly and ineffective, limit intervention to smoothing operations, thus helping maintain foreign exchange reserves above the rising short-term external debt.
- Use fiscal policy to cushion the downturn by implementing the income tax rebates in the supplementary budgets and the tax cuts planned for 2009 and allowing the automatic stabilisers to operate.
- Once the economy recovers, slow the pace of government spending to achieve the goal of a balanced budget for the consolidated central government (excluding the social security surplus) by 2012.
- Follow through on the plan to privatise 28 public institutions and to consolidate or abolish another 34.
- Given the difficulty in expanding the coverage of the National Pension Scheme, increase the means-tested benefit from 5% of the average wage to reduce poverty among the elderly.

Notes

1. The target was changed in 2007 from core to headline CPI inflation for 2007 to 2009.
2. The Bank of Korea made this survey public for the first time in September 2007 (on a quarterly basis), but it is now released monthly. The September 2008 survey showed that one-third of households expect inflation to be between 4.5% and 5.5% over the next 12 months.
3. Import prices in September 2008 were up 42.6% year-on-year.
4. The economic downturn is projected to bring inflation back to the target zone in 2009. In contrast, the oil shocks in the 1970s led to extended periods of high inflation. Inflation was 11% per annum between 1968 and 1973, before increasing to around 25% in 1974-75. It did not slow to 10% until 1977. Inflation climbed to 18% following the second oil shock and did not return to single digits until 1982.
5. Statistical tests indicate that the basic balance drives changes in the exchange rate. Granger causality runs one-way from the basic balance to the exchange rate, based on quarterly data from 1981 to 2008. In October 2008 the current account recorded a surplus of $4.9 billion and the government projects a surplus of $9 billion in the fourth quarter of 2008.
6. However, foreign purchases of Korean bonds, which jumped from only $2 billion in 2006 to $36 billion in 2007, remained an important source of capital inflows in the first half of 2008.
7. Wholesale funding accounts for about 44% of banks' funding, reflecting the low ratio of deposits to loans.
8. Of Korea's total external debt of $421 billion in June 2008, $152 billion had lower risk: *i)* $94 billion was banks' foreign exchange borrowing to cover foreign exchange forward sales; *ii)* $51 billion was advance receipts from export contracts in the shipbuilding industry; and *iii)* $7 billion was foreign investors' loans to Korean companies. In addition, 22% of total external debt belonged to local branches of foreign banks.
9. Moody's lowered the outlook for the financial strength of four Korean banks from stable to negative in October 2008.
10. With the decline in reserves to $212 billion in October 2008, the ratio would be 89%.
11. The Vice Minister of Strategy and Finance recently stated that "We are determined to stabilise the foreign currency market" (*Korea Herald*, 3 October 2008).
12. The government's preferred fiscal measure excludes the social security surplus as this is intended to cover the future liability of public pensions, as well as the cost of financial-sector restructuring between 2002 and 2006. Korea uses the GFS measure of the government budget. General government on a SNA93 basis is available through 2006, when it reported a surplus of 3.6% of GDP, compared to 0.4% for the consolidated government budget, including the social security surplus and the cost of financial-sector restructuring (Table 2.1). The difference reflects the fact that GFS does not include local government, but does include net lending items, some of which are financial in nature.
13. The rebates will be given to wage earners in November and to the self-employed in December. Given that only 50% of the labour force pays income taxes, this actually benefits the upper half of workers.
14. The four rates in the personal income tax are to be cut from a range of 8% to 35% to 6% to 33% by 2010. The corporate income tax rate (national and local) is to be reduced from 27.5% to 22%.
15. The remainder is primarily humanitarian food aid. Its share has fallen from 35% in 2005.

OECD ECONOMIC SURVEYS: KOREA – ISBN 978-92-64-05425-7 – © OECD 2008



From:

OECD Economic Surveys: Korea 2008

Access the complete publication at:

https://doi.org/10.1787/eco_surveys-kor-2008-en

Please cite this chapter as:

OECD (2008), "Priorities for macroeconomic policy", in *OECD Economic Surveys: Korea 2008*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_surveys-kor-2008-5-en