Comments on
“Monetary Policy Towards Inclusive Growth: The Case of Korea”
by Dongkoo Chang (SEACEN Centre)

Discussant: Mala Raghavan
Tasmanian School of Business and Economics
University of Tasmania

BNM Economics Research Workshop
1 December 2014
Contribution

- **Aim:** Examine the impact of Korean monetary policy (MP) shocks on employment.
- **Method:** Granger causality; Cross correlation; VAR framework → Cholesky decomposition → orthogonal MP shocks.
- **Variables:** \{RER; GDP; CPI; Emp; IR; OP\}
- **Period of study:** Q1-1982 to Q4-2012 (124 observations)
- **Interactions assessed:**
  - Cyclical Employment
  - Structural Employment
  - Wage Workers
  - Non-wage workers
Synthesis of results

- MP → bigger impact on cyclical employment → mostly realised through wage workers → suitable for fine tuning the economy.

- Asymmetric effects → contractionary MP has larger effect on employment than expansionary MP → necessary to reduce the volatility of the policy rate to stabilize and expand employment.

- Need to be mindful about exchange rate overshooting due to contractionary MP as it may adversely affect the manufacturing employment (wage workers).
Comments

• What is inclusive growth?
  • Why employment is considered important for inclusive growth?

• What is Korea’s monetary policy (MP) framework?
  • Is it interest rate, inflation target?

• What is the link between MP and inclusive growth?
  • How does employment fit in this relationship?
  • Can MP address issues such as jobless growth?

• Inclusive growth vs financial inclusion?

• Discussion on transmission channel – Theoretical Debates?
Methodology – Vector Autoregressive Model (VAR)

Why is the VAR methodology appropriate for this study?

Stationary vs non-stationary; Cointegration issue.

Choice of data is not clear, particularly the employment data

Need a section on preliminary data analysis.

Concern about the order of the variables in the VAR model:
{RER; GDP; CPI; Emp; IR; OP}

Surprise to note that there is no cointegration between GDP and employment or between GDP and exchange rate.

Detrending vs first differencing.
Period of study (Q1-1982 to Q4-2012)
  - Includes two crisis periods; need to be careful about that.
  - Why not assess the pre- and post Asian crisis period?
  - Use of sub-periods are not consistent.

Asymmetric effect of interest rate policy – determination of contractionary and expansionary monetary policy periods are not clear?

“Need to be mindful about exchange rate overshooting due to contractionary MP as it may adversely affect the manufacturing employment (wage workers)” – what is the supporting evidence for this conclusion.
Conclusion

• Useful addition to the growth literature and monetary literature of small emerging/newly industrialised open economies.

• However, my main concern is that are we asking too much from the monetary policy instrument:
  • Price stability vs financial stability vs inclusive growth

• Can monetary policy help towards inclusive growth?
Can monetary policy help towards inclusive growth?

- Inclusive growth
  - pace of growth – poverty reduction
  - broad based growth – includes large part of a country’s labour force
- Employment
  - cyclical unemployment vs structural unemployment
  - employment growth vs productive employment
- Macroeconomic stability and low inflation rates inter alia have positive effects on growth and to reduce inequality.
  - Can MP focussed on these objectives help towards inclusive growth?