

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

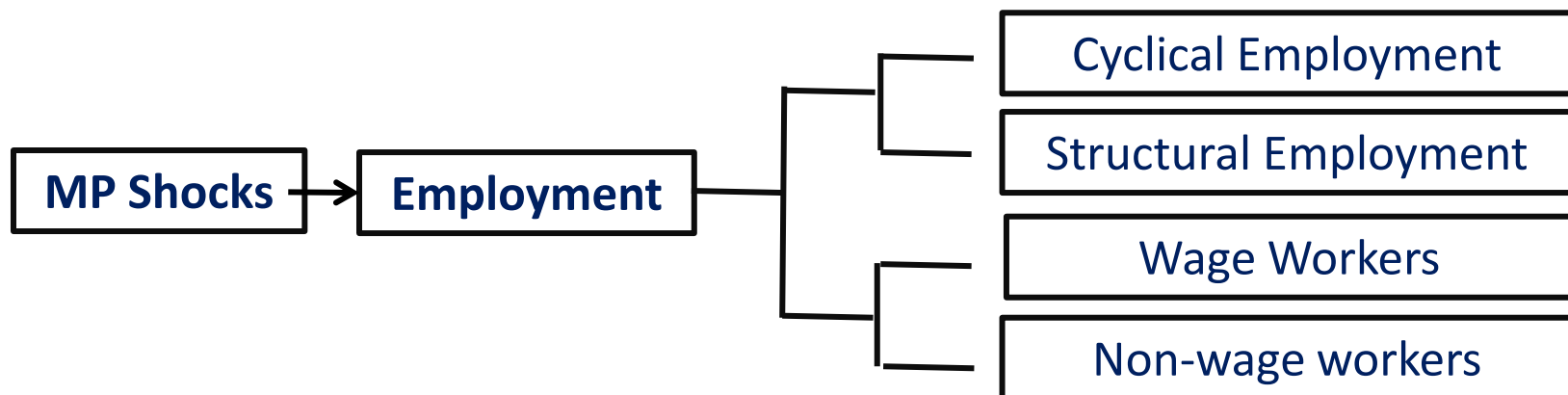
Discussant : Mala Raghavan

Tasmanian School of Business and Economics
University of Tasmania

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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:**



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?

Comments

- 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.

Comments

- 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?

Conclusion

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?