

# **“Was This Time Different? Fiscal Policy in Commodity Republics”**

**Discussed by**

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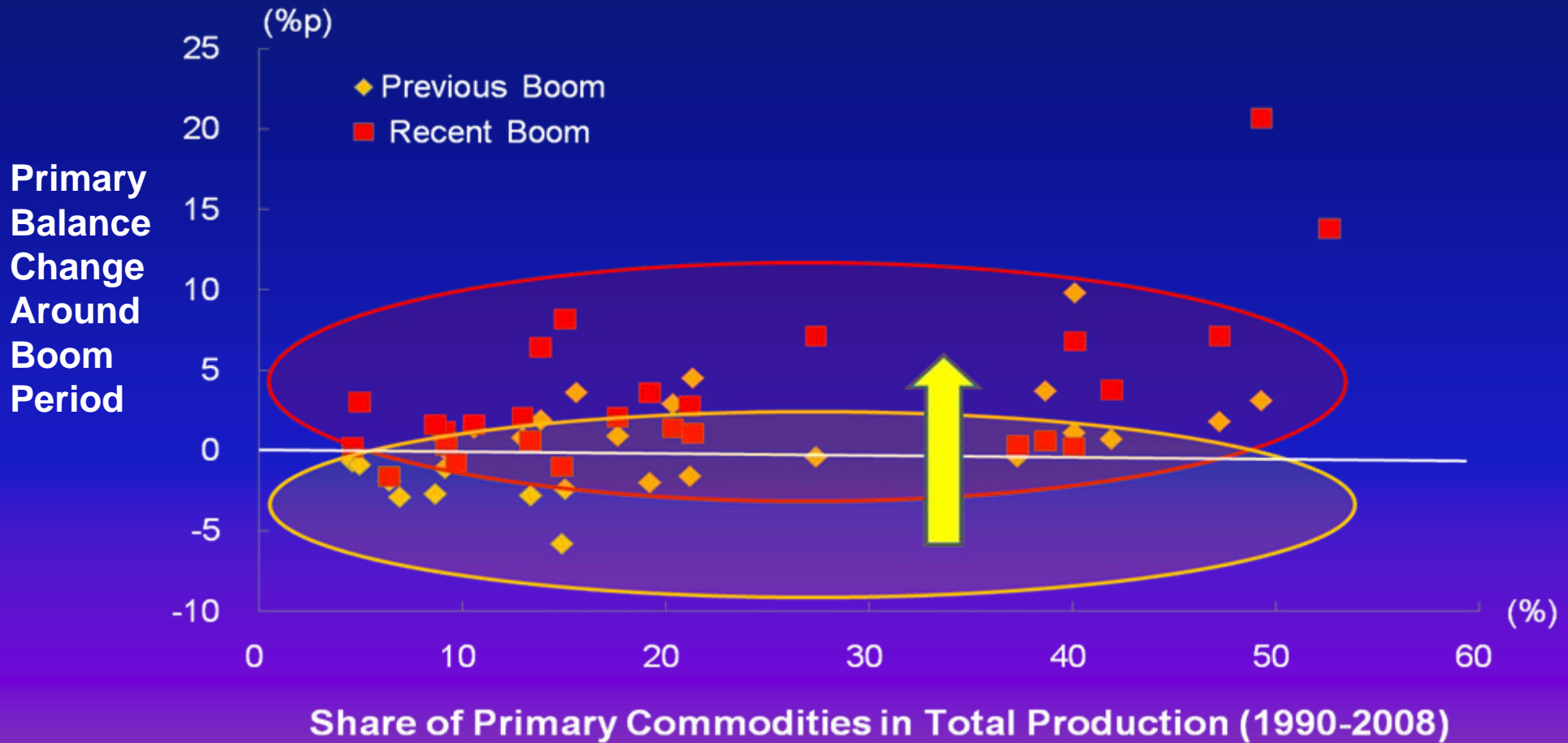
# Contribution of the Paper

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- **Useful descriptive analysis on commodity booms and fiscal policy using newly constructed data**
- **Avoid notorious “endogeneity” problem in fiscal regressions by focusing on commodity booms**
- **Some preliminary evidence that this time was different**
- **Offer useful policy implications such as learning-by-doing and the role of fiscal rule**

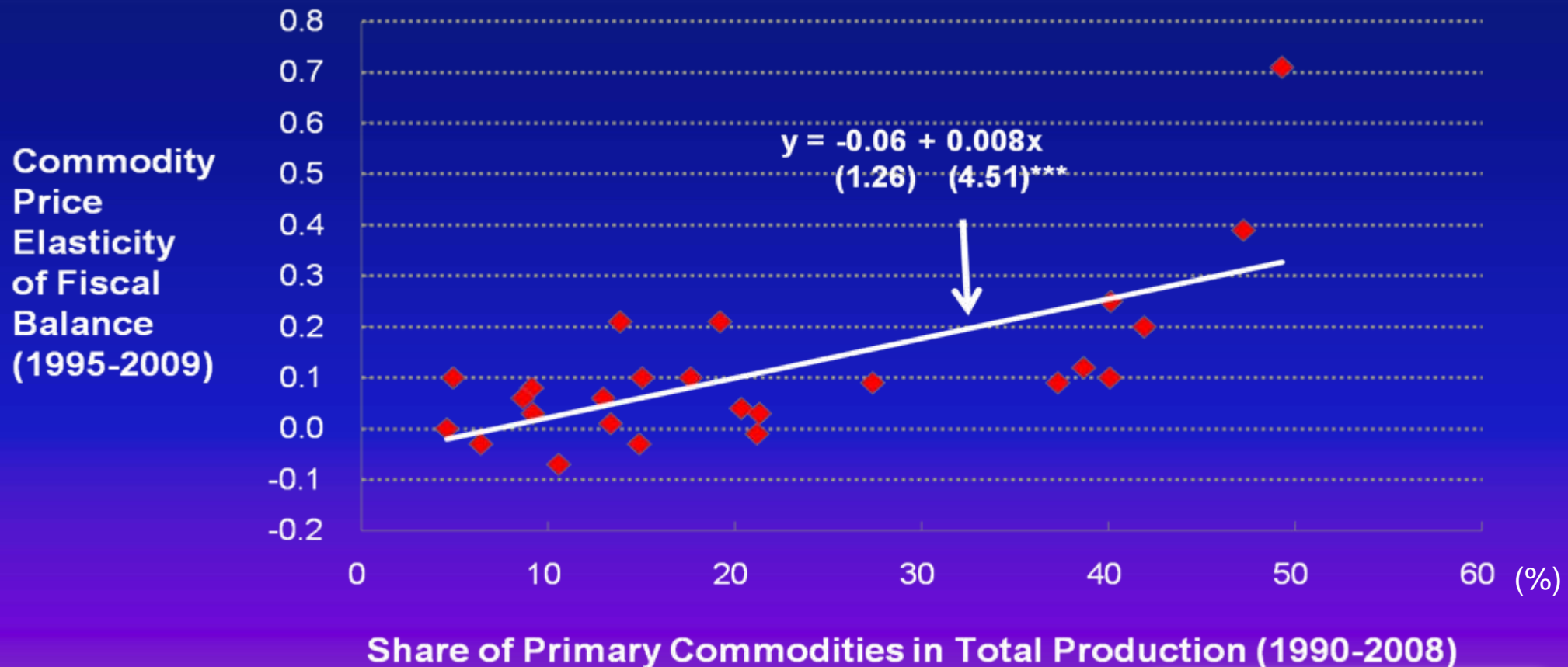
# This time was different: Descriptive evidence

- Primary balance increased on average during recent boom but not in previous boom



# This time was different: More evidence

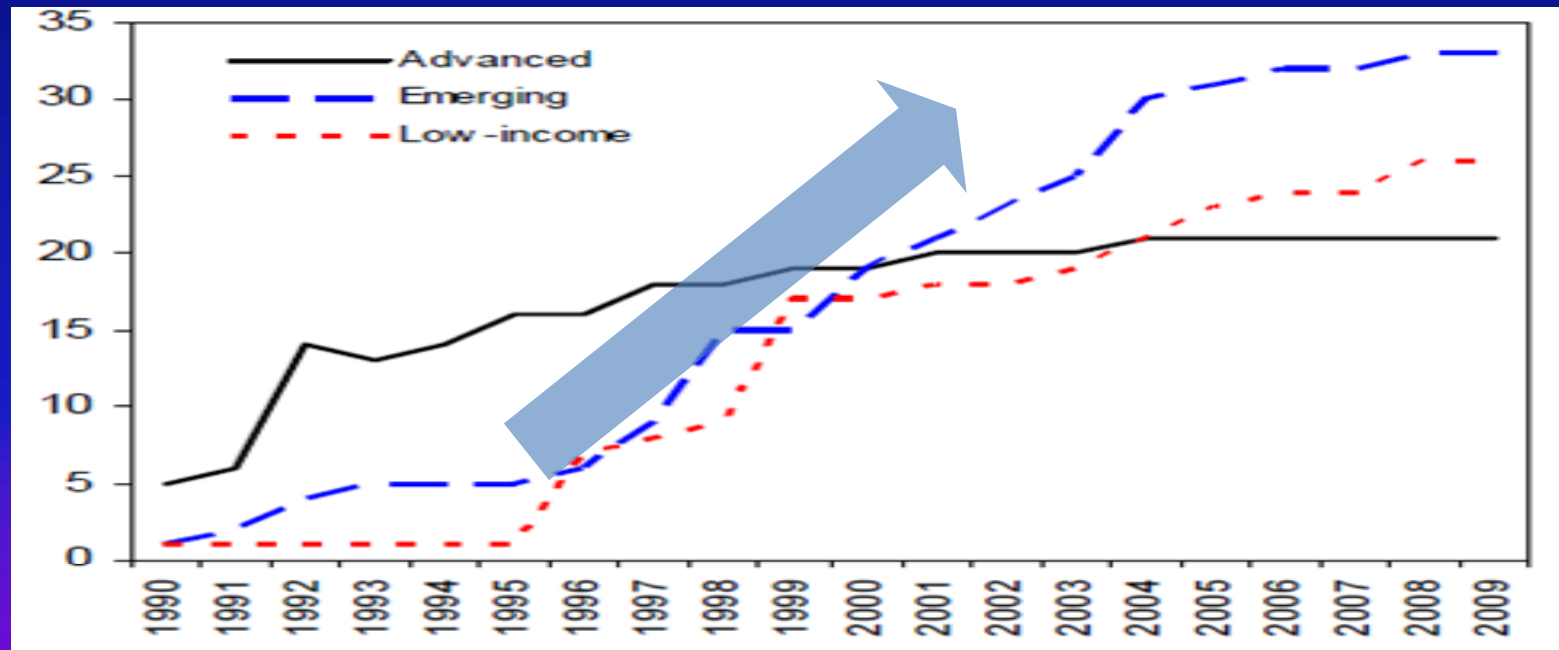
- This time, stronger counter-cyclical response in countries with greater dependence on commodities



# More evidence: Increasing popularity of fiscal rule

- More EMEs have fiscal rules now than before

## Number of Countries with Fiscal Rules



Source : IMF (2009)



# Comments on regression results

- Plausible hypothesis regarding the role of political economy variables on fiscal policy stance
- But low statistical precision due to small sample
  - 25 countries for 2 boom episodes
- Regression results for fiscal rule are not robust
  - Fiscal rule dummy is too simplistic to capture *effectiveness* or *enforcement* of the rule

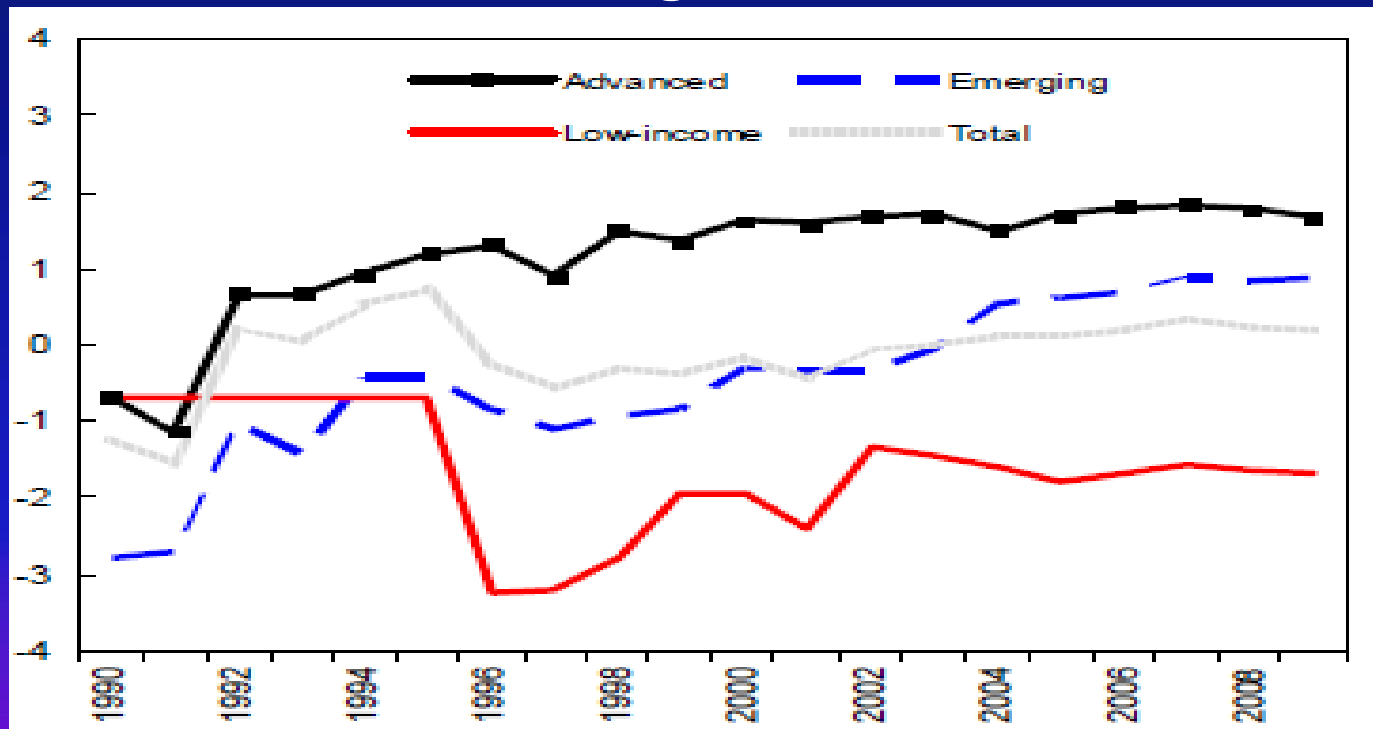
# Suggestions for extension (1/2)

- **Fiscal pro-cyclicality due to cross-sectional risk sharing**
  - **Commodity boom (and associated real appreciation) may increase disparity between commodity and non-commodity tradable sectors**
  - **Political pressure for increased government transfer to non-commodity tradable sector may also be high, resulting in pro-cyclicality**
  - **Related to Dani Rodrik (1998)**

# Suggestions for extension (2/2)

- Use data on *institutional quality* of fiscal rule

## Index of Strength of Fiscal Rules<sup>1</sup>



Note : 1. Normalized principal component of eight fiscal rule indices

Source : IMF, Fiscal Rules Database



# Fiscal Policy of Korea (1/2)

- No explicit fiscal rule but highly commended for fiscal prudence (public debt ratio now standing at about 30%)
- Played central role in disinflation in the early 1980s and overcoming two financial crises since the 1990s
- Improved counter-cyclicality in the 2000s under medium-term (5-year) fiscal plan with short-term flexibility

Faced with greater challenge going forward (e.g., population aging, increasing demand for social welfare)

# Fiscal Policy of Korea (2/2)

- Fiscal policy cyclicalities have changed over different stages of economic development
  - 1970~82 : **Acyclical**
  - 1983~96 : **Procyclical** (under the expenditure-within-revenue rule)
  - 1997~2010 : **Countercyclical** (aided by MT fiscal plan and stronger automatic stabilizer)

## Correlation with GDP (HP-filtered)

	1970~82	1983~96	1997~2010
Expenditure	-0.14	0.40	<b>-0.41</b>
Revenue	0.44	0.72	<b>0.72</b>

**Thank you**



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