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Recent Developments

Outlook for the Fourth Quarter and 1996

The domestic economy, which generally started to experience a downturn since the fourth quarter of 1995, has continued along a downward path, marking a real GDP growth rate of 7.9 percent in the first quarter (as compared to a year earlier), 6.8 percent in the second quarter, 6.4 percent growth in the third quarter and an estimated 6.5 percent increase in the fourth quarter, approximately the same level as the 6.4 percent growth in the last quarter of 1995 when this downward trend first appeared. Accordingly, overall growth for the entire 1996 year is expected to come in at 6.9 percent or so.

Despite stunted demand in general, Korea's GDP recorded a 6.4 percent growth in the third quarter, thanks to better-than-anticipated results by the mining and manufacturing industries. However, the increased output of manufactured goods without a meaningful pickup in demand is likely to mean bloated inventories in the last quarter, which could serve to worsen or prolong the current economic downturn.

The Korean economy has shown a tendency to slump in the year's last quarter, as evidenced by the sharp falloff in the fourth quarter of 1995, when growth plunged to 6.8 percent from 9.8 percent the previous year.

As for 1996, a bountiful rice crop in the last quarter is expected to have added some 0.1 percentage point to GDP growth of the year.

Except for early for 1990s, when a total of some two million homes was constructed, Korea's economic growth has been greatly influenced by the country's export performance. The current economic downturn has no doubt resulted from the sharp decline in exports since the second quarter of this year, which has also contributed to dampened facility investment.

Since the third quarter of last year, when exports actually dropped below the level of a year earlier, quarterly export levels had managed to remain above, albeit moderately, year earlier results. However, arrivals of export L/Cs continued to fall short of the levels of a year earlier -- a clear indication that a meaningful recovery in export activities will not likely be seen anytime soon.

Outlook for 1997

Economic Growth

The current economic contraction cycle is likely to continue into the new year; conditions may begin to improve gradually and head for a recovery from 1998. Anticipated GDP growth for 1997 is about 6.3 percent -- somewhat below last year's estimated growth of 6.9 percent.

The ongoing economic downturn is of course not an unusual phenomenon following an expansion cycle. Moreover, it was prompted in large part by sharp declines in the international prices of Korea's major export items. Also contributing to this trend is the so-called "high-cost, low-efficiency" structure of domestic industries; the culmination of Korea's rapid economic expansion since 1985, boosted by favorable conditions and the "three lows" -- low value of the won, low oil prices and low wages.

In terms of Korea's overall economic cycle, the current contraction has resulted from slumping exports and domestic demand in particular, which has led to expanding inventories as well as declining production activities and facility investment. Based on international balance of payments, exports surged an incredible 31.5 percent in 1995, then nosedived to minus 8.3 percent in the third quarter, with annual growth for last year likely to be up around 3.8 percent from 1995.

Of note, there has been no sharp reduction in terms of volume; the primary culprit for the significant falloff in export value has been the steep declines in the international prices for semiconductor chips and other electronic products, iron and steel products, chemicals and other major export items.

Nonetheless, the drastic cutback in export value has served to directly dampen business sentiments toward facility investment and production as well. The year 1997 should see somewhat of a rebound in export value, although growth is likely to fall short of double digits at an estimated 9.3 percent over 1996.

Domestic consumption has been declining since the second half of 1996, and this trend is likely to continue well into 1997. Domestic consumption usually declines for several months after an economic downturn becomes apparent, so as to ease demand pressure during this phase, however under the current situation, the growth rate in private consumption in the third quarter had already dipped below that of overall economic growth. This trend is likely to extend into 1997, thereby limiting its contribution to an early recovery of the economy.

On the other hand, inventories rose by around 20 percent last year from the previous year, while the growth in production declined from a double-digit rate in 1995 to a single-digit gain last year. However, from the last quarter of last year, the expansion of inventories is expected to gradually moderate, with industrial production growth recovering somewhat.

Facility investment in 1995 was up 15.9 percent, which led to favorable business conditions in the first quarter of 1996, however, growth was just 3.8 percent above a year earlier. There was a slight recovery in the second half, but the year 1996 as a whole will likely see a growth rate of 5.7 percent as compared to 1995. Facility investment is likely to further wither in 1997, resulting in an annual growth rate of a mere 3.3 percent.

Based on the typical pattern of past economic cycles, the domestic economy could show signs of economic recovery by the last quarter of 1997; in which case, the economic contraction period would extend over some 24 months vs. the usual 19-month period. Nonetheless, the actual investment sentiment of enterprises appears to be much more pessimistic than in the past. For example, a survey of the 1997 facility investment plans of major businesses conducted by the Federation of Korean Industries and the Industrial Bank of Korea last month revealed that their nominal rate of growth in facility investment amounted to around 0.6 percent, indicating that facility investment will actually decrease in the new year.

The projection that the current economic downturn will bottom out in the last quarter of 1997 assumes that exports will begin to recover from the third quarter and that the impact of readjusting inventories will also become evident from the second half of 1997. This is also supported by indications that the economies of advanced countries will expand more briskly in 1997, and that the international prices of such leading export items as semiconductors, petrochemicals, and iron and steel products will rebound somewhat.

Other indications pointing to a more favorable business climate in the new year include facility investment projects, which began in the first quarter of last year, are close to completion and will commence operation soon, contributing to a pickup in export activities as well as an improvement in investment attitudes.

Korea's facility investment cycle in the past has been characterized by an expansion period of seven to nine years and then an adjustment period of two to three years. The last adjustment period was 1992-93. Therefore, except for an abrupt and significant reduction in exports as was experienced in 1996, it would be expected that facility investment growth will gradually recover following 1997, when the factory operating rate is projected to decline to 70 percent level in line with the readjustment of inventories.

Besides business cycle factors, there are a number of other factors that are likely to prolong the current economic slowdown, including a continued slide in the value of the yen since the second half of last year, protracted sluggishness in the world economy and deteriorating market conditions worldwide leading to weakened prices for semiconductors, iron and steel, petrochemicals and other major export items.

The continued weakening of the yen and resulting decline in the relative competitiveness of Korean export products versus those from Japan have inevitably resulted in the dampened shipments of domestic exports. In particular, an almost 80 percent plunge in the export prices of semiconductors in the world market from a year earlier, as well as weak demand for other leading export items, battered Korea's trade performance and overall economic growth.

Furthermore, seemingly negligible progress in efforts to improve the domestic economic structure, in terms of its inherent inefficiencies, has curtailed the ability of especially the private sector to revitalize the economy. In particular, Korea's relatively higher wage levels, distribution costs, interest rates, land prices and government red tape requirements have seen little or no improvement during the current economic slump. Consequently, domestic enterprises are being compelled to rely on a weakening won in regard to their efforts to revive sagging exports.

External Transactions

It was originally anticipated that the economic sluggishness in 1996 would tend to reduce the current account deficit, however, due to the plummeting prices of major export goods and skyrocketing shortfalls in overseas travel expenditures and unrequited expenses, the invisible trade deficit is likely to more than double from 1995's US$8.95 billion to US$23 billion. The new year is forecast to record a 9.3 percent growth in exports, while imports are likely to be up 7.9 percent or so. Thus the deficit in the current account is likely to decrease slightly to US$19.5 billion in 1997.

The trade deficit for 1996 will also show a substantial increase, resulting from rising imports of consumer goods and a negative growth in exports in the third quarter of the year. As such, Korea's trade deficit on a BOP basis expanded to US$12.58 billion as of the end of October 1996, and this figure may well reach US$15 billion by year-end, almost triple the shortfall marked in 1995.

In the last quarter of 1996, exports rose slightly -- 3 percent in October and a meager 0.3 percent in November. Nonetheless, the aggregate value of export L/C arrivals has continued to record minus growth, and with the value of the yen expected to slide even further following the U.S. presidential election last November, export growth cannot be expected to do much better than 4.7 percent for 1996. Moreover, exports of machinery and industrial electronic products, which stepped up in the first quarter, reversed to a decline in the second half of the year.

In terms of imports, the growth rate for incoming capital goods fell off by half due to the economic downturn. Imports of consumer goods, however, expanded by 20 percent during the year, due to the liberalization of imports, wider opening of the distribution sectors, and increased demand for high-end products due to people's more affluent lifestyles. Thus, imports for 1996 are estimated to mark an 11.4 percent growth.

The year 1997 is expected to witness general recovery in the world economy in terms of GNP growth. Also, the downward trend in the prices of key export items including semiconductors, iron and steel and petrochemicals is likely to end, and the yen will probably start to stabilize in the second half of 1997, while the effect of the won's depreciation will begin to take hold. Accordingly, Korea's export growth will rebound about 9.3 percent in 1997.

Due to the widespread nature of the economic slowdown, growth in the imports of not only capital goods but consumer goods as well will be further curtailed, such that import growth during the new year is being pegged at around 7.9 percent.

Interest Rates

Prevailing interest rates, which appeared to have been rather stable in the first quarter of 1996, started to show signs of an upturn in the second quarter, influenced by deepening export setbacks and blunted domestic demand. However, interest rates are likely to level off at around 12 percent in 1997 due mainly to slackened facility investment activities. Still, rates may start moving upward again in the last quarter or late in 1997, when signs of an economic recovery begin to emerge.

In April 1996, monthly average yields on debentures dropped to 11.0 percent and call rates to 9.5 percent -- both low points in recent years. Thereafter, interest rates became unstable and then rose to around 12.5 percent.

Among the reasons why interest rates have been inching up despite the fact that the economy has slowed down significantly and bank reserve rates have been lowered are the following:

First, corporate demand for operating funds has increased considerably due to the stunted exports and slowdown in domestic demand. Currently, foreign investors have contributed to upward pressure on the money supply with their heavy inflow of funds into the domestic stock market. Also, financial institutions have been more active in arranging loans from overseas sources for local businesses.

Second, the restructuring of the investment trust sector has disrupted the capital flows of secondary financial institutions. Due to the decreased growth in trust fund deposits, the operating funds of banks and trust and investment firms has decreased accordingly. Furthermore, the severe bear market conditions of the bourse have raised demand for call funds among securities firms and boosted the issuance of commercial paper. Thus the capital situation of financial institutions has deteriorated.

Third, increased demand for contingency reserve funds related to uncertainties in the outlook for the capital market has also served to raise prevailing interest rates.

With the economic downturn expected to extend into 1997, demand for operating funds among businesses is expected to slow somewhat, along with dampened facility investment. As such, consumer price inflation is likely to moderate and show a 0.5 percent improvement over 1996.

Other factors which should support a general decline in interest rates include: a) lowered bank reserve ratios implemented in April 1996 which will begin to take effect in the new year; and b) development of new financial products in the second half of last year which is likely to absorb some of the excess liquidity and thus lead to overall stability in terms of liquidity and interest rates. In addition, increased liberalization of foreign investment in Korea will also serve to lower interest rates.

However, the tight capital situation of financial institutions will continue, in addition to uncertainty over the government's tight monetary policy, which will tend to further increase demand for short-term capital, meaning that prevailing interest rates are likely to remain unchanged and perhaps even step up somewhat.

On the other hand, it is possible that interest rates could fall back to the 11 percent level, provided that: a) bank reserve ratios are further lowered to provide banks with additional operating capital; b) further expansion of the ceiling on foreigners' investment in listed firms; c) further expansion of the limit on foreigners' acquisition of unsecured bonds of small and medium-size enterprises; d) approval for the issuance of debentures in overseas markets; and e) easing of restrictions on the inducement of foreign loan/commercial credits -- all projected for 1997 -- achieve their intended objectives.

However, as was the case in 1996, the surplus funds generated by lowering the bank reserve rates were absorbed into currency stabilization funds, while certain proposed measures were cancelled or delayed until the new year. Under such conditions, it will be difficult for interest rates to decline to the anticipated levels.

Exchange Rates

The won-dollar exchange rate, which began to move downward since August 1996, is likely to further depreciate in the first half of 1997. However, the won may recover to a level of 840 won per dollar by the end of 1997, as a result of: a) weakening of the dollar in the second half of this year; b) slowdown in the pace of the economic downturn and related inflow of foreign capital; and c) gradual recovery in exports. Thus, the value of the won is likely to rebound somewhat in the last quarter of 1997.

The won began to appreciate from early 1994, reaching 756 won per dollar at the end of July 1995, due mainly to the influx of foreign capital following the liberalization of the domestic capital market. Thereafter, the won began a steady downward slide through December 1996 when it stood at 844.2 won per dollar.

The continued decline in the won's value is chiefly attributable to: a) the strong upward momentum of the dollar in the international market since the second half of last year; b) increased demand for the dollar for the settlement of imports in light of the sharp setback in exports; c) the economic slowdown and decreased inflow of foreign capital because of the protracted bearishness of the stock market; and d) increased dollar purchases by market players in anticipation of the won's weakening.

There are signs that the won's depreciation will continue into the first half of 1997 to above the 840 won level. However, 1997 is likely to see an 845 won per dollar rate (on average) in that the second half of 1997 could witness: a) the dollar's strength and the won's weakness both subsiding from the second half of 1997; and b) with the gradual recovery of the economy in sight, foreign capital inflows will again increase. As a result, the value of the won is forecast to reach 830~840 won per dollar in December 1997, with the average rate for the year 1997 standing at 845 won per dollar, representing an appreciation of about 5 percent.

Prices

Thanks to steadfast efforts of the government to contain prices, consumer prices are expected to increase by some 4.7 percent for 1996, as compared to a year earlier. However, 1997 is likely to experience an increase in consumer prices of about 4.8 percent, slightly higher than 1996, due mainly to the need to raise public utility rates (which were delayed until the new year), increased wage levels and higher crude oil prices.

Consumer prices in 1997 could end up somewhat higher than the targeted 4.8 percent in that several rate and price hikes, related to rising prices of crude oil and other necessities in the world market, have been deferred until this year, which could mean higher-than-normal increases. Also, the won's weakness has contributed somewhat to the upward inflationary pressure.

Since last year, hikes in public utility rates and private service charges have led the increase in consumer prices. Also of concern are recent indications of rising real estate prices including housing rental charges which would tend to fuel inflation along with increased prices for imported goods.

Furthermore, domestic energy prices had maintained a downward growth trend since 1980, with increases being limited to single digits until last year when they jumped some 22.3 percent, thus contributing most to 1996's inflation growth. In fact, non-energy prices were up only 1.1 percent in the first 11 months of 1996.

In general, prices in 1997 will be relatively stable, influenced by the economic slowdown and stunted growth in wages and private consumption. However, much depends on the impact of increases in public utility charges, private service rates and the influence of the presidential election slated for December 1997.

In particular, 1997 can be expected to see: a) increases in insurance -- involving drug prices which were deferred in 1996 (weighted value-26/1000); b) upward adjustment in expressway tolls; c) increased electricity and gas rates (22/1000) and higher school tuition charges; and d) a 13 percent increase in the rates for piped water and sewage disposal as well as garbage disposal.

Tuition fees for universities and colleges in 1997 have already been increased, while reduced coverage of certain drug costs and higher tap water rates are inevitable sometime this year. In addition, expressway toll charges are expected to be hiked shortly since they have little impact on consumer prices. However, the increased gasoline and traffic taxes as of December 14 are likely to push up the consumer price index by around 1 percentage point. The net effect of all of this is likely to mean that January 1997 will register a record-high jump in inflation for the month, which has averaged about 1.0 percentage point during the 1990s.

Private Consumption

Recent Developments

Influenced by the protracted economic recession and deteriorating terms of trade, income was dampened with growth in the third quarter of 1996 slowing to 6.0 percent, continuing a steady slide since the 8.8 percent growth marked in the first quarter of 1995.

Consumption growth rates for durable goods including automobiles as well as services such as education, culture, and recreation and entertainment have nosedived significantly. During the last quarter, private consumption expenditures marked a rise of 6.2 percent from a year earlier, recording an overall growth of 6.6 percent for 1996 -- slightly lower than the estimated 6.9 percent GDP growth for the year.

Trends

During the third quarter of last year, shipments of consumer goods to the domestic market slumped considerably, while imports of consumer goods continued to maintain robust expansion, marking a 6.6 percent growth on both the retail and wholesale levels from a year earlier -- down just 0.7 of a percentage point from a year earlier.

Shipments of consumer goods for domestic use in the third quarter -- a leading indicator -- were up just 1.9 percent, signaling a downturn in consumer expenditures, which is likely to continue in the new year.

Outlook for 1997

During the year 1997, private consumption is expected to increase by 5.7 percent, somewhat below its growth in 1996, due to the continued economic slump. This would be in line with: a) anticipated lower growth rate in income due to curtailed increases in wage levels, and b) restricted opportunities for gains in financial income because of the stock market's protracted bearishness as well as continued weakness in the real estate market.

Probable upward movement in unemployment rates stemming from extensive restructuring of the labor market during 1997 would also serve to further stunt growth in private consumption.

Fixed Investment

Recent Developments

Facility Investment

During the third quarter of 1996, facility investment increased by 8.7 percent -- a relatively high growth rate. Facility investment in machinery marked an impressive 13.8 percent growth, thanks to stepped-up investment in industrial machinery.

In the transportation sector, investment in buses and aircraft was active, while vessels and trucks showed a decrease. As a result, the third quarter saw a 3.5 percent setback in transport investment from a year earlier.

Nonetheless, the last quarter witnessed a 6.4 percent growth from a year earlier, due to heavy investment in production capacity over the past several years and the sluggish growth related to the downturn in exports. As such, the whole of 1996 is likely to wind up with a 5.7 percent growth.

The shipment of machinery and equipment for domestic use did increase over the previous quarter, but still receipt of machinery orders from domestic users -- a leading index -- recorded a marked slowdown in its rate of growth.

Construction Investment

During the third quarter, construction investment in public infrastructure such as ports and harbors, airports and railways remained brisk; however, construction investment in plants, commercial buildings and other non-residential developments declined, with the quarter showing a 4.7 percent growth from a year earlier.

The 4.7 percent growth in the third quarter is expected to lift the annual construction growth during 1996 to 5.9 percent.

Thanks to a pickup in the orders for domestic construction projects from the private sector, the third quarter of 1996 was able to record an 18.3 percent growth.

Outlook for 1997

Facility Investment

The year 1997 is likely to witness a meager 3.3 percent growth, due to continued weakness in domestic demand and slow export recovery, in particular. During the past several years, production facilities have in fact been sufficiently expanded to meet current demand levels. Moreover, burgeoning inventories and uncertain economic prospects will tend to further weigh heavy on investment attitudes.

Construction Investment

Construction investment in 1997 is likely to mark a 3.9 percent growth over a year earlier mainly because the initiation of regional development projects together with concerted efforts to expand public infrastructure and preparations related to the hosting of large-scale international events, including the World Cup 2002, will be somewhat offset by stunted growth in the private sector, due to the negative influence of the ongoing business downturn.

External Transactions

Recent Developments

Exports in October were up a mere 3.2 percent over the year before, and aggregate of exports in the first 10 months of 1996 could only manage a 4.6 percent growth. Key factors contributing to this situation included:

Due to price cutbacks of major items, especially semiconductors, exports to advanced countries decresed sharply. Exports of chemical and heavy industrial products also expanded just 2.2 percent in the first 10 months of 1996 from the same period of the previous year.

Exports of light industrial products marked a 7.6 percent growth in the first 10-month period of 1996 versus a 16.3 percent growth a year earlier.

Exports of such major items as semiconductors, iron and steel, and chemicals to developed countries fell significantly, and overall exports to these markets in the first 10 months of 1996 marked a minus growth of 6.4 percent.

Exports to developing countries in October registered a 24.3 percent growth, impressive enough but still below the 27.8 percent growth marked a year earlier.

The month of October saw imports soaring by 14.8 percent from a year earlier, despite the downturn in economic conditions due to the following:

Imports of capital goods for the manufacturing sector decreased, while demand was up for equipment imports related to the information and communication sectors as well as the service industry.

Influenced by a surge in demand for high-end consumer goods and full-scale opening of domestic markets, imports of consumer goods rose sharply to mark a 26.8 percent growth in October alone.

Moreover, imports from developing countries also increased by 26.1 percent in October, due to a deluge of garments, footwear and other low-end products, underlining the weakened international competitiveness of domestic products.

In the month of October, the current account recorded a deficit of US$2.4 billion as a result of serious deterioration in Korea's trade balance, coupled with a rising deficit in its invisible trade account.

The trade sector marked a deficit of US$1.72 billion in October as slight increases in the exports of vessels and automobiles and other items were overwhelmed by sharp growth in the imports of capital goods and consumer goods.

In addition, the invisible trade sector incurred a deficit of US$630 million due to increased advertising expenditures in overseas markets as well as royalty payments.

Outlook for 1997

The year 1997 is likely to see a 9.3 percent growth in exports, due primarily to slow recovery in unit export prices, while the world economy is expected to improve in general. Accordingly, export volume is likely to recover in line with the won's recent depreciation.

It is probable that in light of the continued economic downturn, imports in 1997 will only increase 7.9 percent from a year earlier, supported mostly by consumer goods; overall imports in 1997 are likely to reach US$153.8 billion.

The trade deficit in 1997 is forecast to decline to US$12.9 billion as export gains are expected to surpass import growth, albeit not significantly. Thus, the current account deficit in 1997 will also be reduced by around US$2 billion from 1996.

Foreign Exchange Rates

Recent Developments

The value of the won, which maintained an exchange rate of 820-830 won to the dollar throughout most of 1996, depreciated sharply to 840-850 won per dollar in December. This was attributed mainly to the notable increase in the current account deficit to an estimated US$22 billion in 1996, together with a declining capital account surplus.

Outlook for 1997

In view of the current and near-term foreign exchange supply and demand conditions, it is likely that the won will reach 845 won to the dollar at the end of 1996. The won may recover somewhat in 1997 to about 830-840 won per dollar, as a result of a slight improvement in the current account deficit. In particular, the won may continue to depreciate slightly during the new year, but this trend will likely be reversed in the second half of 1997.

Money and Banking

Recent Developments

Average-balance growth of the (M2) money supply in September was 17.5 percent from a year earlier -- about the same year-on-year growth marked in August.

The M2 plus CD average-balance growth in September stood at 16.7 percent, an increase of 1 percentage point from the 15.75 percent growth registered in August from a year ago.

Developments by sector included the following:

In the government sector, some 4.3 trillion won was withdrawn in August, however in July and September, 1.7 trillion and 1.3 trillion won were supplied, respectively.

In the private sector, 3.6 trillion won was supplied in September.

In the foreign sector, 1.5 trillion won was withdrawn.

In the other sectors, about 1.2 trillion won was withdrawn.

Outlook for Fourth Quarter and 1996/1997

Total money supply is likely to grow 17-18 percent to help alleviate a potential tight money supply, which would mean upward pressure on interest rates, despite the protracted economic downturn and deterioration of investment sentiments.

It is likely that the nominal money supply will decrease in 1997, as total money supply is expected to decline 1-2 percentage points from 1996. In addition, there is the possibility of a sharp cutback in capital demand due to drastic curtailment of facility investment. Also, it appears that there will be no capital shortage nor marked increase in prevailing interest rates.

Interest Rates and Financial Conditions

Recent Developments

In the third quarter, interest rates steadily crept upward, due to an uncertain capital situation.

In August, the ratio of dishonored bills (to the total amount of bills outstanding) in Seoul rose 0.01 percentage point from the previous month to 0.09 percent, while the nationwide ratio remained at 0.14 percent. The total amount raised directly from the capital market in the third quarter amounted to more than 600 billion won, with funds generated through the issuance of debentures reaching 5.9 trillion won -- a new record.

Interest rates of city banks have moved up sharply since the end of July, reflecting the uneasy market conditions.

In particular, interest rates on call funds, debentures and CDs rose markedly following July, reflecting the uncertain capital market situation.

Interest on short-term call funds rose sharply toward the end of July and hit 15.9 percent in late August, before leveling off at 13.91 percent at the end of September.

Interest rates on debentures also hit the 12 percent level since August.

Outlook for the First Quarter and 1997

Mounting inventories, continued trade deficit, flagging exports and ongoing economic downturn are likely to mean further uncertainty for the capital market.

Outflow of capital is likely to bring about a shortage of liquidity, and lagging exports will result in operating capital shortages, both of which will contribute toward increased city interest rates. However, contraction in facility investment is expected to last through 1997, and interest rates should remain about at the level of the last quarter of 1996.

Furthermore, the government is expected to resort to a more flexible money supply policy in order to ease pressure on interest rates. Thus interest rates in the first quarter of 1997 should be maintained at around 12 percent.

During 1997, interest rates may dip slightly to around 11-12 percent due to decreased capital demand stemming from the economic downturn.

Environment & Foci of Macroeconomic Policies

Macroeconomic Environment

Following the last quarter of 1995, GDP growth fell to the 6-percent level, while in the third quarter of 1996 exports registered a minus growth from a year earlier. On top of this, domestic consumption and demand have continued to weaken. Thus, Korea's economy experienced a genuine economic slowdown in the second half of 1996.

Furthermore, in September the yen depreciated to 110 yen to the dollar and this downward trend is likely to continue for the remainder of 1996 and into next year as well. Internally, the so-called "September 3rd comprehensive measures" designed to boost the recovery of the domestic economy included no specific provisions for stimulating domestic demand to help speed up the overall recovery process.

In view of this, the sluggish economic growth since the first quarter of 1996 is likely to continue for over eight quarters, and the GDP growth rate is expected to decline to 6.5 percent in the second half of 1996, to mark a 6.9 percent annual growth for the entire year. Economic growth in 1997 is projected to reach around 6.3 percent.

In particular, the Japanese economy will be gradually recovering, while the economy of the United States will continue its steady expansion in the second half of 1996. Moreover, crude oil prices will remain firm as domestic import demand remains undaunted. Thus, the deficit in the current account will approach 5 percent of GDP, adding further pressure to inflation rates. In view of this, the domestic economic growth rate will remain stunted and Korea's BOP is expected to worsen.

The world economy in general has been experiencing an expansion in trade in terms of increased commodities and financial services. Against this backdrop, the won's depreciation since this past April began to accelerate in December.

However, the won has been relatively unchanged versus the yen, causing a loss in price competitiveness of leading export items including ships, automobiles, electronic products and petrochemicals. Consequently, there is little likelihood that exports of these items will improve significantly in the first half of 1997.

The depreciation of the won against the dollar is still not enough to offset the deterioration in Korea's international competitiveness. Moreover, any effects from the weakened won are expected to become more evident after a lag of two or three quarters. Therefore, Korea's trade terms may begin to improve from the last quarter of 1997. On the other hand, despite the slumping level of facility investment and the won's recent depreciation, imports should gradually flatten out and slow the growth of the deficit in external transactions.

In terms of external trade, exports of certain major items such as electronic products, iron/steel, and petrochemicals have been severely curtailed due in large part to the sharp cutback in semiconductor prices and the tight monetary policy of China.

Furthermore, the extended weakness of the yen, considerably worse than most had anticipated, and rising crude oil prices on the world market have contributed to dampened exports and reduced productivity as well. In addition, the further opening up of the domestic market in line with the full-scale launch of the WTO as well as Korea's recent entry into the OECD will adversely affect efforts to bolster the national economy. This liberalization will inevitably lead to expanded imports of agricultural products and facilitate increased inflow of foreign capital.

Within the internal sector, there are also a number of difficult problems: a) impact of the upcoming Presidential election slated for December 1997 on the economy, b) unemployment concerns resulting from a restructuring of the labor market, c) developments related to recent amendments to labor laws, and d) relations with North Korea which have been strained due to an infiltration incident. Other factors that may adversely affect the economy include the wider opening of the distribution markets, and increasing imports of consumer goods, along with a deepening polarization of enterprises and deteriorating corporate profitability. On the other hand, despite an increase in the consumer price index, the producer index has remained stable at below 5 percent since 1995. It should be noted in this respect, that when the economic upturn began in 1994, the producer price index and market interest rates remained relatively steady as a result of the implementation of stability-oriented macroeconomic policy. The government's financial situation has also remained in balance, and it appears possible to apply a flexible macroeconomic policy to cope with the above problems.

The so-called "September 3rd economic measures" and related campaign to increase national competitiveness by 10 percent indicate that the incumbent economic team of the government appears to be more focused on medium-term microeconomic results, rather than short-term macroeconomic policy. Thus unless there is a significant external event, the economic downturn that began in the last quarter of 1995 is likely to stretch out beyond eight quarters instead of the usual six quarters.

This is because the possibility of a sudden economic recovery has been considerably weakened, due to: a) Plaza Accord in 1985 involving foreign exchange rates, b) artificial expansion of new housing construction, and c) rapid hikes in wages, commodity prices and real estate prices and production-related costs ever since the June 29 Declaration for Democracy.

In short, the economy, now at the bottom of its economic downturn, needs to especially concentrate on reducing the country's current account deficit and get back on track toward achieving an optimum level of economic growth. As for mid-term policies, efforts must be made to lower domestic interest rates and prices to levels comparable to that in advanced nations. Also, there is a need for measures which will minimize adverse consequences of economic polarization amidst the ongoing economic downturn, as well as continued efforts related to industrial restructuring.

Anticipated Policy Issues

Deficit in Current Account

Along with the sharp increase in net foreign debt, the burden of repayment has likewise expanded significantly; further contributing to uncertainty about the strength of any economic recovery.

The growth rate for imported consumer goods has more than doubled the overall growth rate for imports in general. Moreover, the protracted economic slowdown notwithstanding, as for certain items, their import growth has far exceeded export gains due to their inelastic demand; meaning that it will be very difficult to overcome a deficit condition for this type of situation. In particular, domestic demand for energy has been steadily growing, and the recent increase in crude oil prices boosted the aggregate oil imports for the first 10 months of 1996 to US$583.1 million, up 14.0 percent from the same period of 1995.

In the invisible trade sector as well, expenditures related to overseas travel and royalty contracts have shown an increase. Moreover, with Korea's acceptance into the OECD, the country's share of official development aid will be raised to 0.7 percent of GNP -- an increase of 0.2 percentage point, with the balance of payments position expected to improve thereafter.

Korea's contribution of 1.7 percent related to its OECD accreditation, (US$3.7 million) will have to be paid starting from 1997. In addition, 10.92 million francs (some 32 billion won) will also have to paid to the BIS, which Korea joined in 1996. Furthermore, the country's contribution to the EBRD will have to be doubled over a period of eight years starting from 1997 (to 14.62 million ECU or about 15.6 billion won), and Korea is also obligated to pay some 10.7 billion won to the AfDF (African Development Fund) over a period of two years (1997-1998), in addition to 28 billion won to to the IDA (International Development Association).

OECD Entry and Its Industrial Effects

As for its accreditation to the OECD, Korea hopes to remain in the category of emerging countries for the time being in regard to environmental measures. Nonetheless, Korea will have to join the carbon tax accord under the FCCC as well as the ISO 14000 in the event that it agrees to adopt the international environmental standards being promoted by the ISO (International Standards Organization).

In an attempt to transform domestic industrial policy to better conform with international standards, in a 1994 report the OECD pointed out that Korea's economic policy excessively regulated the activities of business conglomerates, thereby undermining the effectiveness of corporate management and planning efforts.

In view of this, domestic industrial policy, which previously tended to stress decentralization of economic power and fair trade practices, will now have to emphasize a more competitive market environment as well as a balance between fair trade practices and liberalized competition.

It is likely that existing regulatory controls on the affiliates of conglomerates including credit restrictions will be eased, and the Fair Trade Law that targets a handful of specific manufacturers will be revised in favor of ex post facto control of possible abuses instead of blanket restrictions.

Moreover, the low-interest, long-term policy loans designed to support strategic industries will have to be gradually eliminated.

The controversial multiple trade union issue, along with third-party intervention and other labor-related provisions will also have to be amended in due time.

Problems of "high-cost, low-efficiency"

In the first half of 1996, numerous costs excluding rental rates soared, resulting in a notable decline in the ratio of ordinary profits to turnover among manufacturing firms.

Excluding nominal wage increases and labor productivity, Korea registered a 5 percent or so increase in unit labor cost growth as compared to a minus 1 percent growth recorded in other countries, thus weakening the competitiveness of domestic firms.

High Financial and Distribution Costs

Domestic enterprises are subject to financial costs three times higher than that of their foreign competitors, due to high market interest rates and heavy reliance on debt. In fact, in the case of city banks, their interest rates are as much as two to four times higher than those in other countries, thereby substantially raising the burden of financial costs on domestic enterprises.

Korea's distribution costs are also known to be well above the levels in other countries worldwide. Furthermore, the already high costs have continued to accelerate at an increasing rate, cutting into the ability of domestic concerns to compete in the global markets.

High Land Prices

The aggregate value of land holdings in Korea is estimated at 1,638 trillion won -- about 5.4 times the amount of its GDP. The land cost of an industrial estate here is over 100 times more expensive than industrial property in Britain. It is also the equivalent of 10 times higher than land prices in other advanced countries.

High Quasi-Tax Obligations

The total amount of quasi-taxes (some 51 different types) including the contribution of funds paid by domestic enterprises totaled some 9.4 trillion won -- which represents 2.7 percent of GDP. It should also be noted that none of the related quasi-tax laws set forth specific rates for such assessments, leaving their enforcement up to government officials. Thus, the government is free to determine whatever tax rates it pleases, without regard to the will of the National Assembly. Nor has the National Assembly called for any audit and inspection of such quasi-taxes. Furthermore, there any number of quasi-taxes charged to enterprises for various reasons, without clarification as to which government agency should be responsible for such assessment.

Economic Management
for 1996/1997

During the economic expansion cycle that began in January 1993, the accompanying high value of the yen and upturn in the world economy enabled the government to contain consumer price index growth at around 5 percent, and prevent the economy from overheating by implementing a macroeconomic policy which included an appreciation of the won and a stable money supply.

However, due to the economic downturn since 1995, along with the yen's depreciation the overall slide in domestic facility investment and other major economic indicators, Korea's GDP growth rate slowed to 6.5 percent in the second half of 1996 to mark an annual growth of 6.9 percent. In 1997, this figure is likely to further decline to 6.3 percent.

It would thus be more feasible to implement a macroeconomic policy that focused on consistently managing the economy, while seeking to avoid any excessive economic contraction. Amidst the economic downturn and widening current account deficit along with growing inflationary pressure, implementation of contraction-oriented macroeconomic policy would tend to wither major economic players, and in the end bring about serious consequences in terms of a potential depression.

Therefore, it should be pointed out that the government needs to skillfully maneuver to overcome the current economic slump. It is also advisable in this respect that the government should steer its macroeconomic policy toward a containment of economic contraction at an optimum level as a short-term objective, and over the long-term make efforts to promote recovery and strengthen Korea's potential economic growth.

Reduction of Current Account Deficit

In spite of the snowballing current account deficit, the won has maintained a relatively high level of 840 won to the dollar, and rather than attempting to ease pressure for the won's further depreciation, efforts should be taken to balance the current account, and thus control the overall money supply so as to ease the impact on foreign exchange rates and Korea's international competitiveness.

Since the current account realized a surplus in 1986, the consumer price index rose by an annual average of about 5.8 percent during the period 1986-1995. Thus, in terms of purchasing power, the won had depreciated by over 2 percent, meaning that the current level of 840 won to the dollar in fact represents an appreciation of about 5 percent.
It must also be noted that in the process of the widening of the current account deficit,

withdrawal of liquidity by the central bank in an attempt to reduce money supplied to make up for the current account shortage is not only apt to reduce the availability of funds in circulation and bring down high interest rates, but will further heighten volatility in the value of the won due to increased uncertainty about the timing and extent of an improvement in the current account in the near term.

Flexible Access to Labor Market

Influenced by high economic growth and in the process of attaining improved productivity, domestic wage levels have increased sharply -- the level of prevailing wages to per capita income is higher than that in other countries. On the other hand, the wage differential between small and big businesses has continued to expand, thereby making it more difficult to balance industry development and ensure effective use of manpower. It is urgently required that more flexible use of all manpower resources be achieved, including such sectors as highly-educated individuals, senior citizens, and women in general, by steadily easing controls on the labor market.

Inasmuch as the existing rigidity of the labor market under current labor-related laws has very much restrained the flexibility of Korea's labor market, which has shown a low unemployment rate, the relevant laws and regulations should be revised so as to enhance economic efficiency and bolster the competitiveness of industries.

Stabilization of wage levels and appropriate wage hikes are essential for strengthening Korea's economic competitiveness. It is thus necessary to strive for this goal within the framework of the country's productivity and financial capabilities. A more effective approach to improving the quality of life for the general workforce should include the following medium- and long-term measures: a) enhancement of social security benefits (which currently lags behind that of other countries, b) addressing the fact that the domestic labor market is quite rigid despite its low unemployment rate, c) increasing the supply of housing for sale and rent to workers, and d) resolving the problem of exorbitant private tutoring expenses in order to help ease workers' financial burdens.

Stabilization and Lowering of Interest Rates

High interest rates translate into high manufacturing and production costs as well as macroeconomic expenditures, inasmuch as the domestic economy is still in the process of implementing its capital market liberalization. Therefore, in order promote lower interest rates, lower bank reserve ratios as well as a flexible monetary and credit policy are needed.
The lowering of banks' reserve ratio which was implemented last year notwithstanding, the current bank reserve ratio is still set at a relatively high level; therefore, it will be possible to further lower the reserve ratio to help facilitate lower interest rates to speed up the economic recovery.

In particular, as was experienced in the first half of 1996, during which investment demand was stagnant and producer prices remained stable, it is feasible to implement a flexible monetary policy as this would not stimulate prices by increasing demand, but will instead bring about lower market interest rates and thus ultimately result in more positive macroeconomic conditions. On the other hand, further inflexibility in monetary policy amidst economic contraction will only serve to push up interest rates sharply, leading to an accelerating rate of dishonored bills and a rapid deterioration of the investment mindset among entrepreneurs.

During the first half of 1996, monetary growth was relatively stable, in view of the fact that it was marked by declining economic growth and decreased capital demand. If the fact that trust accounts were incorporated into the calculation of the total money supply is taken into account (trust deposits are estimated at about 1.4 percent of the total money supply), it would be found that the total money supply did not expand in the first half. At any rate, it was believed that the total amount of funds supplied was adequate, in light of the weakened demand for capital. And as such, interest rates remained stable as well. Consequently, it will also be feasible to supply sufficient funds hereafter, so as not to create any imbalance in the demand for funds and ensure the stability of interest rates overall.

Fiscal Policy Should Respond to Business Conditions

In addition, a balanced financial policy needs to be positively applied as a realistic approach for coping with the current account deficit and capital account surplus. It is believed that at this time the government's financial surplus is being effectively utilized to offset the current account deficit and foreign debt repayment.

Nonetheless, at such time when Korea's economic downturn is reversed and the need arises to step up investment in public infrastructure projects, the government will be able to balance its financial situation without regard to short-term economic considerations. For this reason, it would be better if the government refrained from raising the tax burden of individuals, as had been originally planned, to satisfy the increased budget levels for 1996 and 1997 (up 13.4 percent). Instead, its efforts should be focused on minimizing expenditures rather than attempting to increase revenues (taxes) to implement a supplemental budget for infrastructure work and other expenditures. That is, government fiscal policy should respond positively to prevailing business conditions.

Presently, more than one-half of the government's annual budget is earmarked for pre-determined projects, allowing little flexibility in the use of government funds. However, it will be necessary to work out measures that enable the administration to respond appropriately to existing business conditions, in addition to steadfastly working toward a permanent resolution to the economy's inherent structural deficiencies.

Easing of Quasi-Tax Burdens

It will not be possible to boost the international competitiveness of domestic enterprises, unless unnecessary administrative measures are eliminated and the myriad of quasi-taxes which amount to some 2.7 percent of GNP in direct/indirect assessments are likewise abolished or minimized.

Journal of Economic Policies & Measures
(October 2 - December 13, 1996)

December 13
Ministry of Finance and Economy establishes standards for the determination of dividends by listed companies.

December 12
Bank of Korea announces the results of mediation related to major inter-bank disputes.
Ministry of Finance and Economy says Korea will be excluded from the annual white paper on the world's foreign debt nations from 1997.
Ministry of Finance announces its final version of a bill for the restructuring of banking institutions adopted during a cabinet meeting on December 12.

December 10
External Economic Policy Research Institute announces the release of its report on the policies of China, Russia, Japan and the United States toward North Korea.
Ministry of Finance and Economy announces changes in its schedule for the issuance of DRs.

December 5
Ministry of Finance and Economy announces plans for the implementation of a flexible tariff policy in 1997.

December 1
Korea Petroleum Association announces revised maximum prices for petroleum products.

November 30
Small and Medium Business Administration augments safety guidelines for electrical equipment.

November 29
Ministry of Finance and Economy adjusts tariff quotas for various import items for the second half of 1996.

November 28
Ministry of Finance and Economy revises standards for the advancement of foreign investment and trust firms into Korea.

November 26
Ministry of Finance and Economy announces bill to amend enforcement regulations for the Inducement of Private Capital for Public Infrastructure Law.
Ministry of Finance and Economy says enforcement regulations for the Securities Investment & Trust Law will be revised, in line with Korea's acceptance into the OECD.

November 21

Ministry of Finance and Economy tentatively approves the establishment of futures trading firms.

November 20
Office of Supply adopts CD-ROM as the standard medium for designs related to government procurement projects.

November 19
Ministry of Finance and Economy announces amendments to business rules concerning leasing firms.

November 18
Ministry of Finance and Economy reports on measures designed to improve Korea's international competitiveness by 10 percent.

November 15
External Economic Policy Research Institute announces the anticipated economic impact of the trade liberalization plan adopted by APEC.

November 13
Ministry of Finance and Economy reviews plans to enhance the efficiency of public enterprises, including measures to privatize certain concerns.

November 6
Ministry of Finance and Economy reviews U.S. trade policy toward Korea following the November elections.

November 4
Ministry of Finance and Economy announces measures to encourage private participation in public infrastructure projects.

November 2
Ministry of Finance and Economy adopts measures to facilitate Korea's accreditation to the OECD.

November 1
Ministry of Finance and Economy reorganizes short-term capital brokerage market.

October 30
Ministry of Finance and Economy plans to liberalize the investment and trust market.

October 25
Bank of Korea lowers the reserve ratio for banks.

October 23
Insurance Supervisory Board announces guidelines for improving the industry's international

competitiveness by 10 percent.
Korea Industrial Bank announces guidelines for raising its international competitiveness by 10 percent.

October 21
Bank of Korea establishes overall security measures covering financial institutions, PC banking and phone banking.
Ministry of Finance and Economy announces implementation of new savings accounts with tax incentives.

October 18
Bank of Korea expands access to foreign-currency loans for the purchase of locally-produced machinery.

October 17
Ministry of Finance and Economy raises the ceiling on foreigners' investment in the stock index futures market.
Ministry of Finance and Economy expands ceiling on overseas borrowings by domestic enterprises.

October 7
Ministry of Finance and Economy amends procedures for the establishment of overseas operations by securities firms.

October 3
Bank of Korea revises bank supervision and inspection procedures.

October 4
Ministry of Finance and Economy announces proposed amendments to the Law Concerning Mergers and Conversion of Banking Institutions.

October 2
Ministry of Finance and Economy announces licensing criteria for futures transaction dealers.

Who are we ?

Korea Economic Research Institute (KERI), a private economic research institute, was founded on April 1, 1981. Its purpose is to contribute to the growth and development of the national economy through "the building of an efficient free-market economy system and the nurturing of healthy corporate growth." Our scholars are conducting integrated research on both the entirety of the Korean economy and the long- and short-term prospects for corporate growth. We are vigorously working towards becoming a world-class think tank. The founding concept and basic philosophy of our research institute is 'Free Market, Free Enterprise, Free Competition.'

KERI consists of five research departments which conduct efficient, practical research on the Korean economy: the Macroeconomic Studies Office, the Financial Studies Office, the Industrial Studies Office, the Center for Regulation Studies and the Special Projects Studies Office. To assist the research departments, we have four support offices: the Administrative Office, the Public Relations Office, the Information & Data Office and the Research Coordination Office.

Introducing the individual research departments, the Macroeconomic Studies Office conducts research on the macroeconomic level and on relevant policy trends, and provides forecasts on domestic and international economic activity. Its research also includes both development of policy alternatives for monetary and financial policy concerning corporate activity, and the improvement of related laws and systems. The quarterly journal 'KERI Economic Trends and Forecasts' predicts trends and suggests short- and long-term prospects for the Korean economy. The publication of the 'KERI Economic Quarterly' in English will contribute to an understanding of the Korean economy's place in the world in this age of globalization.

The Financial Studies Office conducts research though a systematic approach to the areas of finance and taxation. It develops and presents policy alternatives for reform in these areas.

The Industrial Studies Office focuses on two main fields of research. The first is industrial policy, including policies on big business and technical development. The second is in areas related to corporations, such as corporate restructuring, under the open economy system. The Industrial Studies Office is continuing the publication of its 'Free' series in order to expand awareness of the free-market economy.

KERI's Center for Regulation Studies concentrates on research and policy proposals both to enhance the autonomy and creativity of private corporate activity and to resolve inconveniences in everyday life. Its ultimate goal is to support the creation of a true free-market economy. Presently, we are working to evaluate government policies appropriate to the openness and democracy of our time. Pursuing this goal, we publish the Regulation Studies series of reports. Our research focuses on areas related to privatization, antitrust policy and land, entry and price regulations.

The Special Projects Studies Office selects timely topics for research and develops policy alternatives grounded in economic reality. As our research reports on the topics of 'Basic Concepts for Strengthening of International Competitiveness' and 'Entrepreneur-Style Local Management' have become important issues, we believe that these reports have been beneficial in providing direction for both the Korean economy and local management in this age of globalization and localization.

5. Outlook for 1996 & 1997

(Unit : % of year-to-year change)

	1994	1995	1996	1996	1997	1997

1/4 2/4 3/4 4/4 1/4 2/4 3/4 4/4
GNP 8.6 9.0 7.9 6.8 6.4 6.5 6.9 6.6 6.7
6.4 5.7 6.3 Manufacturing 10.4 10.7 7.8 6.5 7.0
6.4 6.9 6.4 6.3 6.0 5.6 6.1 Total consumption expenditure
7.0 7.2 7.2 6.8 5.9 6.0 6.5 6.1 5.8 5.6
5.6 5.8
Private consumption 7.6 7.9 7.5 7.1 6.0 6.2 6.6
5.9 5.6 5.6 5.6 5.8
Total fixed capital 11.8 12.4 7.5 4.3 6.5 5.8 5.8
4.0 4.0 3.5 3.1 3.6
Equipment investment 23.6 15.9 4.3 3.5 8.7 6.4 5.7
3.7 3.5 3.0 2.9 3.3
Construction investment 4.5 9.9 10.2 4.9 4.7 4.7 5.9
4.3 4.4 3.8 3.2 3.9

PPI 2.7 4.7 3.1 1.8 2.3 2.9 2.5 3.3 3.5
3.3 3.3 3.3
CPI 6.2 4.5 4.9 5.1 5.2 4.9 5.0 5.1 5.0
4.8 4.4 4.8
Current account balance -45.3 -89.5 -43.5 -54.7 -72.6 -44.2 -215.0
-54.6 -57.9 -54.3 -27. -194.5
Trade balance -31.5 -47.5 -23.9 -36.7 -48.0 -27.9 -136.5 -35.5
-41.2 -37.7 -13.7 -128.1
Exports 936.7 1,232.0 315.6 334.1 291.6 348.2 1,289.5 330.9 358.1
330.1 390.4 1,409.4
Growth (%) 15.7 31.5 20.8 6.6 -8.3 2.4 4.7 4.8
7.2 13.3 12.0 9.3
Imports 968.2 1,279.5 339.7 370.8 339.4 376.1 1,426.0 366.5 399.5
367.8 404.1 1,538.7
Growth (%) 22.4 32.1 18.4 12.1 4.1 11.9 11.4 7.9
7.7 8.4 7.6 7.9
Invisible trade balance & -13.8 -42 -19.6 -18.0 -24.6 -16.3 -78.5
19.1 -16.7 -16.2 -13.9 -66.4
Unrequited transfers

Sources : Korea Economic Research Institute
Notes : In case of current account balance, the unit is 100 million U.S. dollars.

11. Domestic Energy Price Increase

1990 1991 1992 1993 1994 1995 1996(Jan.~Nov.)
Increase (%) -1.6 4.0 6.3 4.4 0.1 5.1 22.3
Source : The Bank of Korea

12. Private Consumption & Household Consumption Trends
(Unit : % of year-to-year change)

	1995				1996		
	2/4	3/4	4/4	Year	1/4	2/4	3/4
Private consumption	8.1	8.0	7.1	7.9	7.5	7.1	6.0
Household consumption	8.1	8.1	7.1	8.0	7.6	7.2	6.1
Durable consumer goods	9.5	11.4	9.9	11.6	9.4	11.4	6.7
Semi-durable consumer goods	9.9	10.8	7.1	9.3	6.5	7.0	7.8
Non-durable consumer goods	7.0	5.5	5.1	6.0	5.5	4.2	4.6
Services	9.1	8.5	8.5	8.4	7.7	7.1	5.9

Source : The Bank of Korea

13. Consumption-Related Indices
(Unit : % of year-to-year change)

	1994	1995					1996		
	Year	1/4	2/4	3/4	4/4	Year	1/4	2/4	3/4
Retail and wholesale	8.0	8.7	7.8	7.3	7.4	7.8	8.3	7.0	6.6
Wholesale	9.8	7.9	7.0	6.3	6.2	6.9	6.9	4.9	4.9
Retail	6.1	9.4	8.5	8.1	8.7	8.6	9.8	9.5	8.6
Shipment of consumer goods	9.2	12.9	6.6	4.4	6.2	7.4	5.3	7.4	1.9
Durables	12.3	17.4	5.5	10.4	9.3	10.7	6.2	11.2	0.9
Non-durables	7.7	10.3	7.2	1.4	4.6	5.7	4.9	5.3	2.4

Source : National Statistical Office

14-1. Facility Investment Trends
(Unit : % of year- to-year change)

1995 1996
2/4 3/4 4/4 Year 1/4 2/4 3/4

Facility investment 18.0 22.2 1.5 15.9 4.3 3.5 8.7

Machinery 28.4 22.0 8.8 22.6 8.7 3.4 13.8

Transportation equipment -2.7 23.2 -11.1 2.4 -8.5 3.6
-3.5
Source: The Bank of Korea

14-2. Facility Investment and Related Indices
(Unit : % of year- to-year change)

1994 1995 1996
Year 1/4 2/4 3/4 4/4 1/4 2/4 3/4

Local orders for machinery 26.9 45.4 26.6 0.9 -1.5
15.8 9.7 9.2

I/Ls issued for machinery 73.6 59.4 79.8 1.7 -7.2
28.2 1.3 18.3

Machinery imports 37.6 47.1 34.8 22.9 10.8 27.0
16.0 16.2

M/Cs shipped for domestic market 22.0 28.3 30.0 21.1
8.0 21.4 9.0 8.4
Source: National Statistical Office

15-1. Construction Investment Trends
(Unit : % of year-to-year change)

1994 1995 1996
Year 1/4 2/4 3/4 4/4 Year 1/4 2/4 3/4

Construction investment 4.5 7.6 8.8 10.8 11.7 9.9 10.5
4.9 4.7

Building construction 2.2 5.3 11.3 15.3 9.9 10.5 5.8
-1.8 -1.0

Other construction 8.1 14.1 4.9 4.2 13.6 9.0 22.5 16.0
13.8
Source : The Bank of Korea.

15-2. Construction Investment and Related Indices
(Unit : % of year-to-year change)

1994 1995 1996
Year 1/4 2/4 3/4 4/4 Year 1/4 2/4 3/4

Local construction orders received 18.5 14.3 21.9 29.8 48.7
21.2 47.4 13.1 18.3

Public construction 17.0 27.7 -8.9 51.9 14.6 17.6 156.9
43.6 14.2

Floor area of construction permits -1.3 16.2 35.9 -25.6 -12.2
1.0 -7.4 -16.7 27.6
Source : National Statistical Office

16. Recent Export Trends (customs clearance basis)
(Unit : US$100 million, % of year- to-year change)

1995 1996
Oct. Jan.~Oct. Sep. Oct. Jan.~Oct.
Total
115.2 1,108.4 100.9 118.9 1,065.1
(30.0) (38.9) (-8.1) (3.2) (4.6)
By product

Chemical/Heavy industrial Products 82.4 709.5 67.4 83.2 724.8
(36.3) (42.0) (-14.3) (0.9) (2.2)

Light industrial products 25.2 244.8 25.9 26.3 263.5
(16.3) (16.3) (5.5) (4.6) (7.6)

By region								
Developed countries				59.9	508.2	43.0	49.9	475.7
	(32.0)	(30.7)	(−19.3)	(−16.8)	(−6.4)			
Developing countries				55.3	510.2	57.9	68.8	589.0
	(27.8)	(37.1)	(2.4)	(24.3)	(15.4)			

Source : Ministry of Trade, Industry and Energy

17. Recent Import Trends (customs clearance basis)
(Unit : US$100 million, % of year- to-year change)

	1995	1996						
	Oct.	Jan.~Oct.		Sep.	Oct.		Jan.~Oct.	
Total	117.3	1,114.4	113.9	134.6	1,232.9			
	(29.0)	(38.6)	(−1.9)	(14.8)	(10.6)			
By Product								
Raw materials			60.1	555.5	55.2	64.7	611.8	
	(35.7)	(34.8)	(−3.8)	(7.7)	(10.1)			
Capital goods44.5			443.0	44.9	53.8	480.9		
	(21.8)	(37.8)	(−4.0)	(21.0)	(8.6)			
Consumer goods			12.7	115.9	13.8	16.1	140.2	
	(24.5)	(31.3)	(15.0)	(26.8)	(21.0)			
By region								
Developed countries				79.9	757.9	74.1	87.5	814.3
	(29.2)	(36.2)	(−2.8)	(9.5)	(7.4)			
Developing countries				37.4	356.5	39.8	47.1	418.6
	(28.6)	(34.5)	(−0.3)	(26.1)	(17.4)			

Source : Ministry of Trade, Industry and Energy

18. Balance of Payments
(Unit : US$100 million, % of year-to- year change)

1995	1996					
Oct.	Jan.~Oct.		Sep.	Oct.	Jan.~Oct.	
Current account balance			−3.4	−84.2	−14.1	−24.1	−195.0
Trade balance		−0.1	−51.2	−8.1	−17.2	−125.8

Export growth (%) 30.7 34.4 -5.9 1.5 5.0

Import growth (%) 27.3 35.6 -1.0 16.9 11.9

Invisible trade balance -2.9 -28.8 -5.1 -6.3 -60.9

Unrequited transfer balance -0.5 -4.2 -0.9 -0.7 -8.3

Capital balance 3.0 103.0 -0.6 11.3 145.1

Source : The Bank of Korea

20. Money Supply (M2) by Sector

(Unit : 100 million won, %)

1996

July Aug. Sep.

Government sector 17,422 -43,186 13,865

Private sector 33,598 76,664 36,407

Foreign sector 15,199 -26,309 -15,839

Other sector -22,871 -6,467 -12,643

M2 43,348 702 21,790

Source : The Bank of Korea

Note : M2 is on the basis of the end of month balance

21. Money Supply

(Unit : 100 million won, %)

1996 1995

July Aug. Sep. Sep.

Average balance 1,595,2121,607,7401,653,2961,406,637

(Movement of the money supply in the period)	31,207	12,528	44,211	36,923
(% of year-to-year change)	17.1	17.4	17.5	13.9
Balance at the end of period	1,598,240	1,620,030	1,700,653	1,397,681
(Movement of the money supply in the period)	703	21,790	77,569	15,784
(% of year-to-year change)	17.0	17.2	21.7	13.9
M2+CD (Average balance)	15.88	15.75	16.7	15.71

Source: The Bank of Korea

22. Funds Raised on Capital Market
(Unit : million won)

	1996 (July~Sep.)	1995 (July~Sep.)	Change (July~Sep.)
Public offerings of shares	117,580	203,834	-86,254
Shares issued with consideration	1,513,779	812,088	701,683
Issue of debentures	5,947,655	5,934,600	13,055
Total	7,582,810	6,954,229	628,581

Source: The Bank of Korea

23. Quarterly Interest Rates & Financial Conditions
(Unit : %)
1996

	June	July	Aug.	Sep.	Change		
	A	B	C	D	B-A	C-B	D-C
Call	12.37	12.94	15.39	13.91	0.57	2.45	-1.48
Yield of debenture	11.55	11.91	12.34	12.18	0.36	0.43	-0.16
CD	12.18	12.84	14.79	14.30	0.66	1.95	-0.49

Source : The Bank of Korea

Note : 1) Call rate: daily base

2) Yield of debenture: 3-year-maturity guaranteed debenture

3) Yield of CD: 91 day base

26. Foreign Debt and Repayment Burden

1996 1995

Total debts 97 billion 78.4 billion

Total foreign debts/GNP about 20% 17.4%

Principal plus interest 10.1 billion 8.2 billion
Note: Preliminary from the Bank of Korea

27. Growth of Leading Import Items (Jan.-Sep., 1996)
(%, year-to-year change)

Amount (US$) Ratio to total imports Contribution ratio to import increase

Total imports 109.82 bil. (10.1%) 100.0% 100.0%

Gold and copper 3.85 bil. (120.4%) 3.5% 20.8%

Crude oil 9.83 bil. (21.7%) 9.0% 17.3%

Semiconductors 7.95 bil. (13.6%) 6.9% 8.9%

Computers 20.5% 2.6% 4.9%

Sub-total 22.0% 51.9%
Source: Ministry of Finance and Economy

28. Industrial Impact of OECD Entry

	Business line	Major impact
Manufacturing industry	Automobiles	Active advance of foreign cars into Korea Easier access to foreign auto markets
	Iron/Steel	Probable imports of special steel items Not much benefit
	General Machinery	Probable imports of foreign capital goods Not much benefit
	Electronic household appliances	Probable import increase of high-grade goods Reduced trade friction and increased exports
Construction/ services	Construction	Increased advance of foreign firms into Korea Foreign encroachment of technology-intensive projects
	Communications	Active advances from Japan and EU Foreign encroachment of basic & value-added telecom.
	Finance	Active M&As involving smaller banks anticipated Restructuring of financial industry inevitable

29-1. High Costs of Manufacturing Firms

(Unit: %)

Cost & profits	Ratio of cost to turnover
Ordinary profits	1.8 (4.2)
Interest rate	5.7 (5.5)
Labor costs	12.91 (12.89)
Distribution costs	2.04 (2.01)
Rental rates	0.81 (0.74)

Source: The Bank of Korea
Note: Actual record of 1st half 1996 from the Bank of Korea. The number in parathesis is the actual record of 1st half 1995.
Ref. : Total distribution cost is 15.7% and 14% respectively comparing to GDP and turnover in 1994.

29-2. Wage & Labor Productivity Trends (l987-1995 averages)
(Unit: %)

	Korea	U.S.A	Japan	U.K.	Taiwan	Singapore
Wage increase (A)1)	16.1	2.7	2.8	6.5	10.4	9.4
Labor productivity (B)2)	11.1	4.6	2.9	6.6	8.6	9.3
A ┻ B	5.0	-1.9	-0.1	-0.1	1.8	0.1

Note: In case of U.K., Taiwan and Singapore, the record is on the basis of 1987-1994.
1) On the basis of manufacturing industry
2) National labor productivity (GDP growth per employee)

30-1. Comparison of Financial and Distribution Costs
(Unit: %)

	Korea	U.S.A	Japan	Taiwan
Interests in the market (Average in 1995)	13.8	6.3	3.0	7.3
Financial costs/turnover (Average in 1990~1995)	5.6	1.8	1.6	1.7

Distritubion costs/turnover (1994)	16.9	7.0	11.3	--

30-2. Comparison of Land Value to GDP
(Unit: Times)

Korea	Japan	U.S.A	U.K.	France
5.4	3.5	0.7	1.6	0.9

Source: Ministry of Finance and Economy

31. Formal Quasi-tax Assessments

Authority	Charges/funds
Ministry of trade, industry & energy	Petroleum import charge, LPG import charge, special material use fund and 6 other items
Ministry of labor affairs	Employment insurance charge and 5 other items
Ministry of environment	Environmental improvement charge and 4 other items
Office of forestry	Forestry utilization charge
Ministry of home affairs	Local automous body charge
Local automous body	Traffic congestion charge
Total	28 items, 4,932 billion won is appropriated in 1997 budget, 22.6% increase of 4,022 billion won in 1996 budget

Source: National Assembly budget office's statistics of quasi-tax imposition

34-1. Bank Reserve Ratio Trends

(Unit: %)

Classification	Sep. '84	Dec. '88	Feb. '90	After Apr. '96
Property formation deposit, workers' long-term deposit, mutual deposits, etc.	2.02)	3.0	3.0	3.0
Time or installment deposits (over 2 years)	4.5	7.0	8.0	6.0
Others1)	4.5	10.0	11.5	9.0
Average bank reserve rate	4.3	9.2	9.4	7.4

Note: 1) Demanded deposits, optional deposit/withrawal, less than 2 year time deposits
2) Only property formation deposit

34-2. Bank Reserve Ratios of Foreign Countries
(Unit: %)

U.S.A.	Japan	Germany	Taiwan
Transaction A/C US$52 million and less: 3.0 Over US$52 million: 10.0	Time deposit: 0.05~1.2	Saving deposit: 1.5	Current A/C: 23.75 Ordinary A/C: 21.75
Others: 0	Others: 0.1~2.0	Others: 2.0	Others: 6.875~14.25

Note: As of end August, 1996

35. Government's Financial Scale
(Unit: %)

	1994	1995	1996	1997
Government's financial increase	16.8	15.1	14.8	13.7
(General accounts)	(15.6)	(16.7)	(16.2)	(12.8)

(Long-term loans) (36.4) (-6.7) (-7.5) (33.9)
Note: On the basis of compilation of the budget

36. Breakdown of Government Expenditures
(Unit: 100 million won, %)

	Budget in '96	Budget in '97 (Draft)	Increase amount	Increase rate
Pre-determined projects	334,556	371,612	37,056	11.1
- Labor costs	78,857	85,678	6,821	8.6
- Defense expenditures	127,360	142,705	15,345	12.0
- Subsidies	120,852	132,429	11,577	9.6
- Reserves	7,487	10,800	3,313	44.3
Working expenses	295,110	344,408	49,338	16.7
Total	629,666	716,020	86,354	13.7

Note: Combined general accounts and special accounts

41-1. Economic Growth, Consumption and Investment

Year/Month
Economic Growth
GDP
Mfg ind.
Year-to-year change (%)
Per capita GNP
U.S.$
Consumption
Total
Private
Investment
Total fixed investment
Equipment
Construction

Year-to-year change(%)

1990	9.5	9.7	5,883	10.1	10.7	25.9	18.8	31.2	
1991	9.1	9.1	6,757	9.3	9.5	12.6	12.1	13.0	
1992	5.1	5.1	7,007	6.8	6.6	-0.8	-1.1	-0.6	
1993	5.8	5.0	7,513	5.3	5.7	5.2	-0.1	8.9	
1994	8.6	10.4	8,508	7.0	7.6	11.8	23.6	4.5	
1995	9.0	10.7	10,076	7.2	7.9	12.4	15.9	9.9	
1996. 1	7.9	7.8	-	7.2	7.5	7.3	4.3	10.0	
	2	7.9	7.8	-	7.2	7.5	7.3	4.3	10.0
	3	7.9	7.8	-	7.2	7.5	7.3	4.3	10.0
	4	6.7	6.5	-	6.7	7.1	4.2	3.4	4.8
	5	6.7	6.5	-	6.7	7.1	4.2	3.4	4.8
	6	6.7	6.5	-	6.7	7.1	4.2	3.4	4.8

41-2. Trade and International Balance of Payments

Year/Month
Trade
Balance of payments
Foreign exchange reserves 1)
Exchange rate (W/US$)
Exports (FOB)
L/C arrivals
Imports (CIF)
I/L issued
Trade balance
Current balance
Total balance
US.$ mil.
Year-to-year change (%)
US.$ mil.
Year-to-year change (%)

US$ 100 mil.
End of Year/Month

1990	65,016	4.2	4.4	69,844	13.6	21.8	−2,004	−2,179	−274	14,822	716.4
1991	71,807	10.5	5.2	81,525	16.7	9.4	−6,980	−8,728	−3,741	13,733	760.8
1992	76,632	6.6	4.7	81,775	0.3	−10.3	−2,146	−4,529	4,898	17,154	788.4
1993	82,236	7.3	6.2	83,800	2.5	8.5	1,860	385	6,542	20,262	808.1
1994	96,013	16.8	15.7	102,348	22.1	40.3	−3,145	−4,531	2,822	25,673	788.7
1995	125,058	30.3	13.4	135,119	32.0	33.1	−4,749	−8,948	3,034	32,712	774.7
1996. 1	10,067	29.7	10.7	12,046	34.4	23.9	−951	−1,524	−554	33,264	784.3
2	9,976	18.3	−8.4	11,480	16.1	9.3	−1,164	−1,770	113	33,115	780.7
3	11,720	17.2	−3.9	12,136	4.2	12.1	−128	−919	849	33,451	782.7
4	10,665	5.0	−5.9	12,670	14.2	−7.7	−1,534	−2,326	509	35,930	778.7
5	11,257	5.7	−11.1	12,685	7.3	4.3	−856	−1,596	−67	36,240	787.9
6	11,367	1.1	−7.8	11,707	−1.1	23.5	−571	−1,256	366	36,562	810.6
7	9,930	−5.4	3.8	12,749	12.7	24.1	−1,740	−2,362	−2,581	35,062	813.3
8	9,722	−8.4	−11.0	12,957	12.5	5.5	−2,875	−3,524	−2,232	33,557	819.4

9	10,087	-8.1	-3.8	11,391	-1.9	1.1	-812	-1,415	-1,051	32,837	821.2

Note : This index includes estimates

1) Based on long-term capital balance

42-1. Prices, Unemployment and Interest Rates

Year/Month
Prices 2)
Producer
Consumer
Year-to-year change (%)
Unemploy-ment rate
(%)
Nominal wage (mfg. ind.)
Currency 3)
M1
M2
Year-to-year change (%)
Interest rate (Year-to-year change (%))
Rediscount
Time deposit 4)
Yield of debenture 5)

1990	4.2(7.2)	8.6(9.4)	2.4	20.2	18.1	21.2	7.0	10.0	16.5
1991	4.7(1.9)	9.3(9.3)	2.3	16.9	16.1	18.6	7.0	10.0	18.9
1992	2.2(1.6)	6.2(4.5)	2.4	15.7	32.3	18.4	7.0	10.0	16.2
1993	1.5(2.0)	4.8(5.8)	2.8	10.9	22.1	18.6	5.0	8.5	12.6
1994	2.8(3.9)	6.2(5.6)	2.4	15.5	11.9	15.6	5.0	8.5-10.0	12.9
1995	4.7(3.4)	4.5(4.7)	2.0	9.9	11.6	15.5	5.0	7.5-10.0	13.8
1996. 1	3.5	5.1	2.1	-0.1	8.2	12.5	5.0	7.5-10.0	12.0
2	3.7	5.1	2.3	35.3	14.1	14.8	5.0	7.5-10.0	11.9
3	2.2	4.5	2.2	14.4	11.7	14.6	5.0	7.5-10.0	

11.8

4	2.0	4.6	2.0	12.8	9.8	14.0	5.0	7.5-	9.0	11.0
5	1.7	5.1	1.9	9.0	9.9	15.3	5.0	7.5-	9.0	11.0
6	1.6	5.5	1.9	9.7	9.8	16.3	5.0	7.5-	9.0	11.6
7	2.3	5.6	1.8	14.1	8.9	17.1	5.0	7.5-	9.0	11.9
8	2.3	5.3	1.9	6.0	8.7	17.4	5.0	7.5-	9.0	12.3
9	2.3	4.7	1.8	-	9.1	17.5	5.0	7.5-	9.0	12.2

Notes : 2) Figures in parentheses denote year-to-year change in December.
3) Ml and M2 represent average balances 4) Refers to interest on over 1-year time deposits; from Dec. 5, 1988 refers to interest on one-year to less than two-year time deposits 5) For domestic market

42-2. Industrial Production and Demand

Year/Month
Ind. output
Demand-related indexes
Mfg.
Operating ratio index
Retail
Consumer goods shipment 6)
M/C orders 7)
M/C imports 8)
Construction orders
Const. permit (floor area)
Ind. use
Housing
Year-to-year change (%)

1990	8.9	2.6	10.5	15.2	38.8	20.3	55.8	31.4	17.0	49.3

1991	9.7	1.5	7.8	11.4	2.2	20.0	13.9	−9.7	6.7	−16.7
1992	5.9	−1.4	5.5	5.2	−5.2	−5.2	6.4	−10.0	−12.4	−7.4
1993	4.2	−0.6	6.4	4.0	12.1	−5.7	19.3	24.5	15.2	26.7
1994	11.0	4.4	6.1	9.2	26.9	34.2	18.5	−1.3	16.8	−8.5
1995	12.1	−0.4	8.6	7.4	15.8	37.8	21.2	1.0	3.3	−1.2
1996. 1	12.0	1.1	3.8	6.2	34.3	24.3	38.0	16.6	23.0	17.8
2	7.8	−1.6	15.6	6.3	6.0	8.5	91.8	−4.0	17.7	−5.4
3	5.4	−3.1	11.1	3.8	−5.1	1.6	30.1	−20.9	−43.8	−20.4
4	8.2	−0.2	8.8	7.1	11.7	0.2	11.8	−11.0	−29.6	−1.1
5	9.9	2.1	9.9	10.4	35.9	1.6	21.4	−18.8	−3.9	−8.4
6	3.7	−5.6	9.8	4.6	21.0	−5.8	7.6	−19.6	−46.5	−16.1
7	7.8	0.7	9.5	5.0	−0.7	22.0	−12.7	46.1	22.9	33.1
8	8.4	1.2	7.7	0.4	19.5	21.4	68.9	−4.6	−10.0	−14.2
9	7.2	−1.6	8.8	0.4	10.0	4.2	10.0	43.4	30.9	44.4

Notes : 6) For domestic use 7) For domestic use, exc. vessels 8) Ordinary machinery for domestic use.