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KERI Economic Quarterly

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.

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& Recent Developments

¦UFirst Quarter GDP Growth Just 5.4% Ñ Lowest Since Second Quarter 1995

The first quarter is estimated to have witnessed GDP growth of just 5.4 percent, the lowest since the current economic downturn set in.

Exports in terms of volume during the quarter maintained the 14.6 percent growth level of a year earlier; however, domestic demand growth nose dived, thereby achieving a growth rate of just 5.4 percent Ñ the lowest growth since the current economic downturn began 27 months previous.

The growth in inventories, which marked a sharp rise in the last quarter of last year, leveled off in the first quarter of this year. Nonetheless, the first quarter witnessed a 13.8 percent growth in inventories Ñ still a relatively high level.

The second quarter saw signs of economic recovery in terms of industrial output and increased exports.

Influenced by steady growth in export volume and maintenance of a relatively high operating rate of heavy and chemical industrial facilities, industrial output marked a growth rate of 10.7 percent in April, thereby showing signs of economic recovery.

In particular, exports denoted in U.S. dollars which had declined since the third quarter of last year began to increase in the second quarter and favorable export prospects are now anticipated in conjunction with the appreciation of the yen.

Shipment growth which remained at 4.5 percent due to stunted domestic demand in the first quarter registered 8.4 percent growth in the month of April thanks to the recovery of both domestic demand and exports. In particular, exports in April rose 30.3 percent in semiconductors, 44.9 percent in computers and related products, 10 percent in cars, and 11.4 percent in chemical products from a year earlier.

Overall economic recovery, however, is being delayed due to readjustment of inventories.

In the second quarter, shipments for domestic use increased along with exports; the growth rate of shipments for domestic use at 6.1 percent in April lagged behind the growth rate of exports. In the case of major items leading shipments for domestic use, their growth rate continued to lag behind the growth rate in production output.

Both the leading composite index and coincident composite index rose in April. Nonetheless, the continuity in the growth of durable goods shipments remained uncertain. On top of this, arrivals of export L/Cs, construction permits by floor area and imports of raw materials for export goods all declined, thereby leaving a continued economic upturn in doubt.

With respect to the growth of inventories, April witnessed a slight decrease (13.2 percent) from the previous month (13.4 percent) on a year-to-year basis. However, if the drop in inventory of petrochemicals resulting from facility renovation is taken into consideration, it is believed that the inventory growth in April was at the same level as in the previous month.

Thanks to previous facility investments, the month of April witnessed a relatively high production capacity growth of 8.9 percent, while the industrial output growth marked 10.7 percent growth. Thus, the average plant operating rate in April stood at 82.5 percent Ñ the highest since May last year (84.1 percent).

¦ULagging Construction Business in the Production Sector and Blunted Domestic Demand in the Demand Sector Spearhead Economic Downturn

During the first quarter, the stunted growth rate was caused by lagging demand, especially domestic demand.

Due chiefly to the decreased growth rate in income and increasing concern about business prospects caused by the protracted economic downturn, household consumption dropped sharply from 6.5 percent in the last quarter of 1996 to 4.4 percent in the first quarter of 1997.

Influenced chiefly by accumulated inventory and unsold apartment units, facility and construction sectors marked negative growth of -1.6 percent and -2.5 percent, respectively, from a year earlier. Although wholesale and retail businesses and shipment for the domestic market turned for the better in some segments, the overall slump in domestic demand continued in April.

The year-to-year growth in wholesale and retail businesses Ñ an indicator for private consumption Ñ somewhat improved from 3.9 percent in March to 4.4 percent in April thanks to 17.8 percent growth in durable consumer products. This resulted from a temporary increase in demand for large sedans (109.8 percent) and hand phones (198.8 percent). The stunted demand for private consumption prevailed in April as demonstrated by a -3.8 percent growth in small/medium cars, 3.7 percent growth in gasoline sales, and a minus -51.9 percent growth in audio/video recording tape.

Public consumption, which marked a 7.1 percent growth in 1996 centered around personnel expenditures and goods, witnessed a growth of just 4.6 percent in the first quarter due to government efforts to minimize ordinary expenditures.

The services sector saw 7.4 percent growth in communications, finance, and commodities; the manufacturing sector was up 5.7 percent vs. 7.4 percent in 1996; and the construction sector marked a negative -1.9 percent growth.

The heavy and chemical industrial sector (8.7 percent) witnessed a recovery centered around chemicals (9.7 percent) and electric/electronic products (23.8 percent), but transportation equipment (-6.5 percent) saw output sag from a year earlier (10.5 percent) due to labor disputes.

The light industrial sector (-5.0 percent) witnessed a continued decline centered around clothing (-27.1 percent) and footwear (-20.0 percent).

The construction sector, too, marked reversed growth inasmuch as housing construction worsened (-8.1 percent) while government construction that witnessed a 14.3 percent growth last year marked a growth of just 0.8 percent in the first quarter. During April some segments of facility and construction investments turned for the better but their future outlook is uncertain.

Domestic orders for machinery marked a growth of 17.6 percent in April, thanks to a 37.0 percent growth in the public sector, including transportation and communications, stemming from early implementation of governmental procurement projects. However, imports of machinery marked a minus -18.8 percent growth. The facility investment index may be reversed if the effect of the early procurement of machinery tapers off.

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In view of the fact that construction permits for housing, commercial buildings and industrial buildings all decreased in April, the indications are that it will take a considerable time before construction investment is fully recovered.

¦UStunted Wage Growth Rate and Increased Unemployment Rate Mar Consumption Growth

During April the unemployment rate improved somewhat; however, the unemployment rate generally rose from a year earlier, and the substantial wage increase rate dropped by over 2 percentage points in April from last year. A single-digit-growth in wages is probable this year.

The number of employees in the service sector rose more than the decrease of employees in other sectors. The unemployment rate in April was 2.7 percent, lower than the 2.9 percent (seasonally adjusted) in the previous year.

During the first quarter, the increase in wages on a paid basis were at an 11 percent level Ñ off 2 percentage points from a year earlier. The nominal wage increase rate through negotiations was 3 percent, or 50 percent of the level of last year.

¦UExport Volume Has Maintained an Upward Trend but Investment Has Rapidly Withered

During the month of April, the U.S. dollar continued its appreciation with the result that the value of the won depreciated against the dollar. However, with continued depreciation of the yen against the dollar, KoreaÕs exports continued to decline in the sense of purchasing power parity.

In terms of volume, our exports grew 14.5 percent in 1996 and 14.6 percent in the first quarter of 1997 Ñ a fact that attests to their role as an engine of our economic growth amidst a minus -2.0 percent growth in fixed investment and stunted consumption growth of just 4.5 percent in the first quarter.

Facility investment which marked an 8.2 percent growth last year despite the continued economic slump registered a minus -1.6 percent growth in the first quarter of this year due to a minus -5.4 percent growth in transportation equipment investment in the first quarter.

The construction investment sector, which marked a 6.3 percent growth in 1996 despite stunted building construction growth, witnessed a minus -2.5 percent growth in the first quarter of this year, due to a minus -5.0 percent growth in housing and building construction that by far offset the growth in social infrastructure projects.

¦UFirst Quarter Marks Largest Deficit in Current Account; Second Quarter Witnesses Decline in Trade Deficit

Decline in GDP growth rate notwithstanding, the current account deficit in the first quarter marked US$7.94 billion Ñ the largest amount ever recorded. This resulted from a US$5.57 billion trade deficit due to the

weak yen and slow recovery of trading terms coupled with increased deficits in invisible trade and unrequited transfers.
During the first quarter, exports on a balance of payments basis stood at US$30.56 billion Ñ down 3.0 percent from a year earlier. On the other hand, imports rose 6.1 percent to US$36.13 billion to mark the largest ever trade deficit thus far.

Meanwhile, the overall balance, including both long-term and short-term capital balance, went into the black in March but registered a deficit of US$3.77 billion in the first quarter. In the second quarter, export growth turned from decline to increase while imports went into decline, with the result that the trade deficit was reduced to one-half in April from a year ago.

Although overall exports rose slightly, KoreaÕs share of exports to traditional major markets including the United States and Japan has been slipping, thereby dimming KoreaÕs future outlook for exports.

KoreaÕs declining share among U.S. imports, from 3.7 percent in 1990 to 3.2 percent in 1995, 2.8 percent in 1996 and 2.5 percent in the first quarter of 1997, is generally following the trend of other Asian countries, the primary reason being the weak yen and stronger won. This means that depending on the extent of the appreciation of the dollar against the yen, our exports may recover on a limited basis.

On the other hand, KoreaÕs share of JapanÕs imports, which rose from 4.5 percent in 1990 to 5.7 percent in 1995, began to slide from 1996, while that of China, Malaysia and other developing countries in Asia has been on the increase. This dims the outlook for KoreaÕs recovery in the Japanese market in the foreseeable future.

In April, imports except crude oil decreased due to the decline in facility investment and stunted consumption and the month of May witnessed a negative growth of- 2.5 percent from a year earlier.

This resulted from decreased prices of grain, crude oil, etc. on the world market since early this year, coupled with stunted domestic consumption and decreased facility investment.

In May, imports of capital goods dropped -2.7 percent from a year earlier while imports of raw materials and consumer goods dropped -2.6 percent and -8.7 percent, respectively.

¦UDomestic Prices Remain Stable Due to Steady Supply of Agricultural Produce and Withered Domestic Demand

As of the end of May, consumer prices and producer prices rose but 3.8 percent and 3.7 percent, respectively, from May last year, due to the prolonged economic depression that has withered domestic demand and the steady supply of agricultural produce.

Influenced by the stable prices of crude oil and other raw materials on the world market as well as the stabilized domestic market prices of agricultural products, prices remained stable at a lower level in the first half of this year from a year earlier.

Prices of housing and real estate, which began increasing early in 1997, also have stabilized since March this year. By category, prices of industrial goods, excluding crude oil, rose just 0.8 percent, agricultural, livestock and fishery goods 3.5 percent, and public utility charges and private service charges 2.4 percent and 2.9 percent, respectively.

¦UMarket Interest Rates Decline Amidst Tight Credit

The long-term and short-term city interest rates began to climb in March and hit 12.5 percent (debenture yield) in early May, but slid back to the 11 percent level in May-June and remain stable due to the following reasons:

Capital demand of enterprises has been stunted, influenced by decreased facility and construction investments and blunted growth in inventories.

CorporatesÕ holding of long-term and short-term credit has reached a considerable level in preparation for an uncertain capital outlook.

In the wake of the Hanbo bankruptcy, enterprises issued a large amount of corporate bills to secure short-term funds (from 6.3 trillion won in the first quarter of 1996 to 11.2 trillion won in the first quarter of this year). Stimulated by the stable won-dollar exchange rate, withdrawals from residentsÕ foreign exchange accounts during April-May amounted to 1.76 trillion won. Nonetheless, the ratio of dishonored bills remains high, while the city interest rates still fluctuate widely, which stand testimony to relatively tight credit and an vulnerable capital market.

First of all, the dishonored bills of major enterprises are increasing, while the Òaccord for prevention of dishonored bills (on the part of major enterprises) has added to the capital plight of small and medium-size enterprises.

Second, while capital demand of enterprises has been declining, some enterprises have been pressed for liquid assets out of fear for possible bankruptcy irrespective of their sound balance sheet.

Third, due to the frequent bankruptcy of major enterprises, the payment guarantee agency has been shunning guarantees for enterprises and as a result the rate of the inability to float debentures despite permits secured to float them increased from 4.4 percent in January to 4.2 percent in February, 7.9 percent in March, 8.5 percent in April and 11.7 percent in May.

Fourth, although some enterprises have considerable amount of secured funds, the disparity of funds between enterprises has become conspicuous due to inactive operation of loans on the part of financial institutions and the withered direct capital market.

(2)Outlook for Second Half
of 1997 & 1998

¦UGradual Recovery of Exports Since Second Quarter Is Likely to Stimulate Gradual Economic Recovery

The GDP growth, which marked 7.2 percent in the last quarter of 1996, dropped to 5.4 percent in the first quarter of 1997. It is likely that the year 1997 will witness a 5.5 percent growth and 6.3 percent in 1998 when the current economic downturn is expected to bottom out.

Dollar-denoted exports have turned for the better since the second quarter of 1997, and it is likely that the chain-reaction of bankruptcies since the Hanbo scandal will subside, but the withered economic confidence is expected to last for a while.

During the second half of this year, exports are likely to grow on a limited basis, however, facility investment and domestic demand, including consumption, may continue to be stunted with the result that the year 1997 is likely to witness GDP growth of 5.5 percent.

During 1998, exports are likely to grow and fixed investment, too, is expected to turn for the better. Nonetheless, GDP growth in 1998 is expected to be around 6.3 percent, or below its potential growth rate.

¦UConsumption Growth to Trail Behind GDP Growth Until 1998

Private consumption growth has trailed behind the GDP growth rate since the second half of 1996 and in 1997 the stunted consumer growth, including shipment of consumer goods for the domestic market and wholesale/retail sales, remains unchanged.

In the past, the private consumption sector played a role in constraining a rapid economic downturn due to its characteristic of trailing an economic downturn. However, in the current economic contraction cycle, the private consumption growth rate dipped below the growth rate of GDP in the third quarter of 1996.

During 1996, the nominal income of urban households grew 12.6 percent from the previous year, but the nominal consumption growth was 13.4 percent. However, quarterly consumption growth has dropped markedly since the second half of 1996, thereby accelerating the economic downturn.

Since the second quarter of 1997, demand for some durable consumer goods including hand phones, large sedans and other new products increased, but demand for nondurable goods continued to slip, with the result that it is now likely that 1997 will witness private consumption growth of around just 5 percent.

Such a trend is likely to continue through 1998 due to increased unemployment, and stunted growth rate in substantial income, including assets income. Thus growth in private consumption will have limited effect in the improvement in propping up the economy.

¦UExport Profitability Will Improve Due to Increased Unit Prices But Will Have Limited Effect on Economic Recovery

Following the second half of this year, depreciation of the won vis-a-vis the dollar and the strong yen and weak dollar trend in the second quarter are likely to bring about increased exports through higher export unit prices.

Therefore, our economic recovery through increased exports amidst limited growth in domestic demand will be limited. Furthermore, in view of the fact that short-term economic recovery measures are being restricted, it is not without reason to believe that the current economic contraction will be prolonged more than was anticipated.

Inasmuch as it is unlikely that export growth in terms of volume will improve greatly, the growth rate in the first quarter being 14.6 percent vs. 14.5 percent in 1996, domestic demand needs to be greatly improved to pull out of the current economic downturn.

Exports turned for the better following the second quarter of this year and double-digit growth is likely in the second half of this year to result in a 7.1 percent growth for the whole of this year from a year earlier. It is probable that dollar-denoted exports will increase in terms of both volume and unit prices. Nonetheless, exports will have a limited contribution to overall economic growth.

¦UEven After the Technical Business Rebound from the Bottom of the Economic Downturn in the Last Quarter of 1997, the Low Growth Trend Is Likely to Continue Due to Continued Slump in Domestic Demand

During the last quarter of 1996, the economic contraction process progressed relatively rapidly, but the various economic indicators including national account, coincident composite index, and the cycle of coincident composite index generally trended upward, not properly reflecting the economic contraction process.

During the first quarter of 1997, indexes of interest rates and economic indicators declined simultaneously, thus it is unlikely that within the next two quarters the economic downturn will be reversed.

During the month of April, there were general increases in economic indicators. Among these, the coincident composite index, industrial output index, plant operating rate and electricity consumption rate increased; however, labor input, imports, and nondurable consumer goods decreased, thereby producing notable differences among the indicators.

Among the components of the leading composite index, such export-related indicators as arrivals of export L/Cs and imports of raw materials for export goods declined along with construction-related indicators including construction permits and production of intermediate goods for construction.

During 1997, economic expansion was spearheaded by increased exports and facility investment but no signs of full-fledged recovery in these two sectors are in sight. Growth in private consumption, too, has declined markedly since the second half of 1996.

During the second half of this year, readjustment of inventory and plant operation rates are expected to continue and it is probable that the current economic contraction will technically bottom out in the last quarter of 1997.

This assumption is possible as the export growth rate is likely to register a double-digit expansion beginning in the third quarter of this year and the effect of the readjustment of inventories will be manifested following the second half of 1997. The recovery in exports, though on a limited basis, is probable because, in addition to the depreciation of the won, the economies of the advanced countries are in the midst of an upturn cycle and international markets for our major items including petrochemicals, iron/steel products, and semiconductors are expected to recover gradually.

Facility investment is expected to show gradual recovery as well from around the end of 1997, inasmuch as facility investment readjustment was completed to a certain extent over a period of two years from after the last quarter of 1995 to the last quarter of 1997 and the plant operating ratio following the readjustment of inventories is likely to drop to around 70 percent.

Inventories, which grew at around 20 percent in 1996, still maintained a high level in the second quarter of 1997. It is likely that readjustment of inventories and plant operating ratios will continue throughout 1997.

The inventory growth somewhat slowed since the last quarter of 1996 and has gradually declined to 13.4 percent in the first quarter of 1997 and to 13.2 percent in the second quarter. Therefore, during the second half of this year which is expected to witness steady growth in production capacity, the plant operating ratio is likely to drop to around 70 percent.

¦UThe Effect of Increased Exports from the Strong Yen Was Halved Due To Appreciation of the Won

During the second quarter of 1997, the yen turned strong and as a result KoreaÕs exports were expected to rally. But the won also appreciated against the dollar somewhat. The effect of the strong yen on KoreaÕs exports is likely to be offset due to changes in the relative value of the currencies of the three countries.

Over a period of a year since the second quarter of 1996, the won depreciated by around 14 percent against the dollar. Nonetheless, the yen recently turned strong and the won has somewhat appreciated against the dollar, thereby dimming the outlook for increased exports hereafter.

The yen, which had weakened since the second half of 1995, turned stronger in the second quarter of 1997. It is likely that the yen-dollar exchange rate will be maintained at around 110- 115 yen per dollar for the second half of this year. Inasmuch as changes in JapanÕs dollar-denoted export prices are minimal, while the competitiveness of KoreaÕs major export items to advanced countries is vulnerable, the wonÕs appreciation against the dollar will have a limited effect on increased exports.

¦UConstruction and Facility Investments Will Decline in 1997

Facility investments, which entered a contraction period following the second half of 1995, marked a year-to-year growth of 15.8 percent in 1995 and just 8.2 percent in 1996. Influenced by further withering of investment confidence on the part of enterprises, facility investment is likely to witness a negative -3.8

percent growth this year from 1996.

Nonetheless, facility investments in 1998, when the plant operating ratio is expected to drop to around 70 percent along with the continued readjustment of inventories, are likely to increase somewhat from a year earlier. Construction investment, which saw a 6.3 percent growth in 1996 due to lagging building construction in the second half, is likely to witness a negative -2.0 percent growth in 1997.

This outlook stems from the fact that no increased demand in housing construction is expected due to an increasing number of unsold apartment units since May this year, although the construction cycle was anticipated to turn for the better in 1997.

¦UDepreciation of the Won Notwithstanding, Prices Are Expected to Stabilize Due to Economic Condition

The second half of 1997 is likely to see prices stabilized, due to low demand under the current economic conditions and steady price trends overseas. Thus, the second half of this year is expected to see a price increase of around 4 percent, thereby raising annual prices this year by about 4.1 percent.

This forecast is possible as the government is determined to stabilize prices, coupled with stable livestock prices, despite pressure to raise public utility rates.

The year 1998 is likely to witness a 4.5 percent increase in prices Ñ somewhat lower than 1996 but a little higher than 1997.

¦UDomestic Market Rates Will Stabilize in the Second Half

The year 1997 is expected to see a continued economic downturn, which in return will reduce the operating funds of enterprises, stunt growth in investment funds, and lower the inflation rate to below its level of 1996. Thus, the substantial market interest rates are expected to decline somewhat below the 11.9 percent level of 1996.

The substantial market rates, which rose to 12.5 percent (debenture yield rate) during March-April, stabilized due to the flexible manipulation of the money supply. There remain factors putting upward pressure on market rates including the uncertain outlook of financial markets and the potential threat of bankruptcy of major enterprises. However, stunted demand for capital due to withered investment confidence is likely to hold down market rates.

Included among other factors working toward low market rates are the blunted capital demand of enterprises, a favorable turn of financial institutionsÕ capital situation, stabilized prices, and increased withdrawal from residentsÕ foreign exchange accounts in the wake of appreciation of the won.

¦UThe Yen Is Expected to Stabilize Around 110-115 Yen per Dollar in the Second Half of this Year

The U.S. dollar is expected to continue strong because a) the U.S. economy has been improving, b) it is possible that market interest rates will be raised before the end of this year, and c) increased demand for the dollar which has a relatively high yield rate.

The yen is likely to remain strong because of a possible recurrence of the trade dispute between the United States and Japan over the mounting surplus of JapanÕs trade with the United States and signs of possible economic expansion in Japan.

Producer prices in the United States continued to slide for five consecutive months through May this year. Despite a 5.8 percent growth marked in the first quarter from a year earlier, prices have been stabilized for a period of over 75 months. This makes it highly unlikely that the U.S. economy would witness inflation within the foreseeable future. Consequently, there is little chance of the U.S. raising interest rates this year Ñ a fact which may well stimulate a stronger yen.

¦UFollowing Second Quarter, Won/Dollar Exchange Rate Is Expected to Appreciate to 875 Won per Dollar by Year-End

The won which has depreciated since April this year is likely to hit 875 won per dollar by the end of this year and appreciate to round 860 won per dollar by the end of 1998.

There still remains pressure for a further depreciation of the won due to the deficit in the current account. However, the possibility of a weakening dollar coupled with increased influx of foreign capital into the bourse influenced by a slowdown in KoreaÕs economic downturn and gradual recovery of exports will all work toward appreciation of the won.

The year 1996 witnessed an influx of a total of US$16.8 billion in long-term and short-term funds. However, in 1997 after Korea affiliated with the OECD, such influx of foreign funds is likely to be contained at around US$20 billion so as to ease its influence on foreign exchange rates and maintain the money supply at an optimum level.

2. Recent Economic Trends

& Policy Issues

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The number of employees in the service sector rose more than the decrease of employees in other sectors. The unemployment rate in April was 2.7 percent, lower than the 2.9 percent (seasonally adjusted) in the previous year.

During the first quarter, the increase in wages on a paid basis were at an 11 percent level Ñ off 2 percentage points from a year earlier. The nominal wage increase rate through negotiations was 3 percent, or 50 percent of the level of last year.

¦UExport Volume Has Maintained an Upward Trend but Investment Has Rapidly Withered

During the month of April, the U.S. dollar continued its appreciation with the result that the value of the won depreciated against the dollar. However, with continued depreciation of the yen against the dollar, KoreaÕs exports continued to decline in the sense of purchasing power parity.

In terms of volume, our exports grew 14.5 percent in 1996 and 14.6 percent in the first quarter of 1997 Ñ a fact that attests to their role as an engine of our economic growth amidst a minus -2.0 percent growth in fixed investment and stunted consumption growth of just 4.5 percent in the first quarter.

Facility investment which marked an 8.2 percent growth last year despite the continued economic slump registered a minus -1.6 percent growth in the first quarter of this year due to a minus -5.4 percent growth in transportation equipment investment in the first quarter.

The construction investment sector, which marked a 6.3 percent growth in 1996 despite stunted building construction growth, witnessed a minus -2.5 percent growth in the first quarter of this year, due to a minus -5.0 percent growth in housing and building construction that by far offset the growth in social infrastructure projects.

¦UFirst Quarter Marks Largest Deficit in Current Account; Second Quarter Witnesses Decline in Trade Deficit

Decline in GDP growth rate notwithstanding, the current account deficit in the first quarter marked US$7.94 billion Ñ the largest amount ever recorded. This resulted from a US$5.57 billion trade deficit due to the weak yen and slow recovery of trading terms coupled with increased deficits in invisible trade and unrequited transfers.
During the first quarter, exports on a balance of payments basis stood at US$30.56 billion Ñ down 3.0 percent from a year earlier. On the other hand, imports rose 6.1 percent to US$36.13 billion to mark the largest ever trade deficit thus far.

Meanwhile, the overall balance, including both long-term and short-term capital balance, went into the black in March but registered a deficit of US$3.77 billion in the first quarter. In the second quarter, export growth turned from decline to increase while imports went into decline, with the result that the trade deficit was reduced to one-half in April from a year ago.

Although overall exports rose slightly, KoreaÕs share of exports to traditional major markets including the United States and Japan has been slipping, thereby dimming KoreaÕs future outlook for exports.

KoreaÕs declining share among U.S. imports, from 3.7 percent in 1990 to 3.2 percent in 1995, 2.8 percent in 1996 and 2.5 percent in the first quarter of 1997, is generally following the trend of other Asian countries, the primary reason being the weak yen and stronger won. This means that depending on the extent of the appreciation of the dollar against the yen, our exports may recover on a limited basis.

On the other hand, KoreaÕs share of JapanÕs imports, which rose from 4.5 percent in 1990 to 5.7 percent in 1995, began to slide from 1996, while that of China, Malaysia and other developing countries in Asia has been on the increase. This dims the outlook for KoreaÕs recovery in the Japanese market in the foreseeable future.

In April, imports except crude oil decreased due to the decline in facility investment and stunted consumption and the month of May witnessed a negative growth of- 2.5 percent from a year earlier.

This resulted from decreased prices of grain, crude oil, etc. on the world market since early this year, coupled with stunted domestic consumption and decreased facility investment.

In May, imports of capital goods dropped -2.7 percent from a year earlier while imports of raw materials and consumer goods dropped -2.6 percent and -8.7 percent, respectively.

¦UDomestic Prices Remain Stable Due to Steady Supply of Agricultural Produce and Withered Domestic Demand

As of the end of May, consumer prices and producer prices rose but 3.8 percent and 3.7 percent, respectively, from May last year, due to the prolonged economic depression that has withered domestic demand and the steady supply of agricultural produce.

Influenced by the stable prices of crude oil and other raw materials on the world market as well as the stabilized domestic market prices of agricultural products, prices remained stable at a lower level in the first half of this year from a year earlier.

Prices of housing and real estate, which began increasing early in 1997, also have stabilized since March this year. By category, prices of industrial goods, excluding crude oil, rose just 0.8 percent, agricultural, livestock and fishery goods 3.5 percent, and public utility charges and private service charges 2.4 percent and 2.9 percent, respectively.

¦UMarket Interest Rates Decline Amidst Tight Credit

The long-term and short-term city interest rates began to climb in March and hit 12.5 percent (debenture yield) in early May, but slid back to the 11 percent level in May-June and remain stable due to the following reasons:

Capital demand of enterprises has been stunted, influenced by decreased facility and construction investments and blunted growth in inventories.

CorporatesÕ holding of long-term and short-term credit has reached a considerable level in preparation for an uncertain capital outlook.

In the wake of the Hanbo bankruptcy, enterprises issued a large amount of corporate bills to secure short-term funds (from 6.3 trillion won in the first quarter of 1996 to 11.2 trillion won in the first quarter of this year). Stimulated by the stable won-dollar exchange rate, withdrawals from residentsÕ foreign exchange accounts during April-May amounted to 1.76 trillion won. Nonetheless, the ratio of dishonored bills remains high, while the city interest rates still fluctuate widely, which stand testimony to relatively tight credit and an vulnerable capital market.

First of all, the dishonored bills of major enterprises are increasing, while the Òaccord for prevention of dishonored bills (on the part of major enterprises) has added to the capital plight of small and medium-size enterprises.

Second, while capital demand of enterprises has been declining, some enterprises have been pressed for liquid assets out of fear for possible bankruptcy irrespective of their sound balance sheet.

Third, due to the frequent bankruptcy of major enterprises, the payment guarantee agency has been shunning guarantees for enterprises and as a result the rate of the inability to float debentures despite permits secured to float them increased from 4.4 percent in January to 4.2 percent in February, 7.9 percent in March, 8.5 percent in April and 11.7 percent in May.
Fourth, although some enterprises have considerable amount of secured funds, the disparity of funds between enterprises has become conspicuous due to inactive operation of loans on the part of financial institutions and the withered direct capital market.

(2)Outlook for Second Half of 1997 & 1998

¦UGradual Recovery of Exports Since Second Quarter Is Likely to Stimulate Gradual Economic Recovery

The GDP growth, which marked 7.2 percent in the last quarter of 1996, dropped to 5.4 percent in the first quarter of 1997. It is likely that the year 1997 will witness a 5.5 percent growth and 6.3 percent in 1998 when the current economic downturn is expected to bottom out.

Dollar-denoted exports have turned for the better since the second quarter of 1997, and it is likely that the chain-reaction of bankruptcies since the Hanbo scandal will subside, but the withered economic confidence is expected to last for a while.

During the second half of this year, exports are likely to grow on a limited basis, however, facility investment and domestic demand, including consumption, may continue to be stunted with the result that the year 1997 is likely to witness GDP growth of 5.5 percent.

During 1998, exports are likely to grow and fixed investment, too, is expected to turn for the better. Nonetheless, GDP growth in 1998 is expected to be around 6.3 percent, or below its potential growth rate.

¦UConsumption Growth to Trail Behind GDP Growth Until 1998

Private consumption growth has trailed behind the GDP growth rate since the second half of 1996 and in 1997 the stunted consumer growth, including shipment of consumer goods for the domestic market and wholesale/retail sales, remains unchanged.

In the past, the private consumption sector played a role in constraining a rapid economic downturn due to its characteristic of trailing an economic downturn. However, in the current economic contraction cycle, the private consumption growth rate dipped below the growth rate of GDP in the third quarter of 1996.

During 1996, the nominal income of urban households grew 12.6 percent from the previous year, but the nominal consumption growth was 13.4 percent. However, quarterly consumption growth has dropped markedly since the second half of 1996, thereby accelerating the economic downturn.

Since the second quarter of 1997, demand for some durable consumer goods including hand phones, large sedans and other new products increased, but demand for nondurable goods continued to slip, with the result that it is now likely that 1997 will witness private consumption growth of around just 5 percent.

Such a trend is likely to continue through 1998 due to increased unemployment, and stunted growth rate in substantial income, including assets income. Thus growth in private consumption will have limited effect in the improvement in propping up the economy.

¦UExport Profitability Will Improve Due to Increased Unit Prices But Will Have Limited Effect on Economic Recovery

Following the second half of this year, depreciation of the won vis-a-vis the dollar and the strong yen and weak dollar trend in the second quarter are likely to bring about increased exports through higher export unit prices.

Therefore, our economic recovery through increased exports amidst limited growth in domestic demand will be limited. Furthermore, in view of the fact that short-term economic recovery measures are being restricted, it is not without reason to believe that the current economic contraction will be prolonged more than was anticipated.

Inasmuch as it is unlikely that export growth in terms of volume will improve greatly, the growth rate in the first quarter being 14.6 percent vs. 14.5 percent in 1996, domestic demand needs to be greatly improved to pull out of the current economic downturn.

Exports turned for the better following the second quarter of this year and double-digit growth is likely in the second half of this year to result in a 7.1 percent growth for the whole of this year from a year earlier. It is probable that dollar-denoted exports will increase in terms of both volume and unit prices. Nonetheless, exports will have a limited contribution to overall economic growth.

¦UEven After the Technical Business Rebound from the Bottom of the Economic Downturn in the Last Quarter of 1997, the Low Growth Trend Is Likely to Continue Due to Continued Slump in Domestic Demand

During the last quarter of 1996, the economic contraction process progressed relatively rapidly, but the various economic indicators including national account, coincident composite index, and the cycle of coincident composite index generally trended upward, not properly reflecting the economic contraction process.

During the first quarter of 1997, indexes of interest rates and economic indicators declined simultaneously, thus it is unlikely that within the next two quarters the economic downturn will be reversed.

During the month of April, there were general increases in economic indicators. Among these, the coincident composite index, industrial output index, plant operating rate and electricity consumption rate increased; however, labor input, imports, and nondurable consumer goods decreased, thereby producing notable differences among the indicators.

Among the components of the leading composite index, such export-related indicators as arrivals of export L/Cs and imports of raw materials for export goods declined along with construction-related indicators including construction permits and production of intermediate goods for construction.

During 1997, economic expansion was spearheaded by increased exports and facility investment but no signs of full-fledged recovery in these two sectors are in sight. Growth in private consumption, too, has declined markedly since the second half of 1996.

During the second half of this year, readjustment of inventory and plant operation rates are expected to continue and it is probable that the current economic contraction will technically bottom out in the last quarter of 1997.

This assumption is possible as the export growth rate is likely to register a double-digit expansion beginning in the third quarter of this year and the effect of the readjustment of inventories will be manifested following the second half of 1997. The recovery in exports, though on a limited basis, is probable because, in addition to the depreciation of the won, the economies of the advanced countries are in the midst of an upturn cycle and international markets for our major items including petrochemicals, iron/steel products, and semiconductors are expected to recover gradually.

Facility investment is expected to show gradual recovery as well from around the end of 1997, inasmuch as facility investment readjustment was completed to a certain extent over a period of two years from after the last quarter of 1995 to the last quarter of 1997 and the plant operating ratio following the readjustment of inventories is likely to drop to around 70 percent.

Inventories, which grew at around 20 percent in 1996, still maintained a high level in the second quarter of 1997. It is likely that readjustment of inventories and plant operating ratios will continue throughout 1997.

The inventory growth somewhat slowed since the last quarter of 1996 and has gradually declined to 13.4 percent in the first quarter of 1997 and to 13.2 percent in the second quarter. Therefore, during the second half of this year which is expected to witness steady growth in production capacity, the plant operating ratio is likely to drop to around 70 percent.

¦UThe Effect of Increased Exports from the Strong Yen Was Halved Due To Appreciation of the Won

During the second quarter of 1997, the yen turned strong and as a result KoreaÕs exports were expected to rally. But the won also appreciated against the dollar somewhat. The effect of the strong yen on KoreaÕs exports is likely to be offset due to changes in the relative value of the currencies of the three countries.

Over a period of a year since the second quarter of 1996, the won depreciated by around 14 percent against the dollar. Nonetheless, the yen recently turned strong and the won has somewhat appreciated against the dollar, thereby dimming the outlook for increased exports hereafter.

The yen, which had weakened since the second half of 1995, turned stronger in the second quarter of 1997. It is likely that the yen-dollar exchange rate will be maintained at around 110- 115 yen per dollar for the second half of this year. Inasmuch as changes in JapanÕs dollar-denoted export prices are minimal, while the competitiveness of KoreaÕs major export items to advanced countries is vulnerable, the wonÕs appreciation against the dollar will have a limited effect on increased exports.

¦UConstruction and Facility Investments Will Decline in 1997

Facility investments, which entered a contraction period following the second half of 1995, marked a year-to-year growth of 15.8 percent in 1995 and just 8.2 percent in 1996. Influenced by further withering of investment confidence on the part of enterprises, facility investment is likely to witness a negative -3.8 percent growth this year from 1996.

Nonetheless, facility investments in 1998, when the plant operating ratio is expected to drop to around 70 percent along with the continued readjustment of inventories, are likely to increase somewhat from a year earlier. Construction investment, which saw a 6.3 percent growth in 1996 due to lagging building construction in the second half, is likely to witness a negative -2.0 percent growth in 1997.

This outlook stems from the fact that no increased demand in housing construction is expected due to an increasing number of unsold apartment units since May this year, although the construction cycle was anticipated to turn for the better in 1997.

¦UDepreciation of the Won Notwithstanding, Prices Are Expected to Stabilize Due to Economic Condition

The second half of 1997 is likely to see prices stabilized, due to low demand under the current economic conditions and steady price trends overseas. Thus, the second half of this year is expected to see a price increase of around 4 percent, thereby raising annual prices this year by about 4.1 percent.

This forecast is possible as the government is determined to stabilize prices, coupled with stable livestock prices, despite pressure to raise public utility rates.

The year 1998 is likely to witness a 4.5 percent increase in prices Ñ somewhat lower than 1996 but a little higher than 1997.

¦UDomestic Market Rates Will Stabilize in the Second Half

The year 1997 is expected to see a continued economic downturn, which in return will reduce the operating funds of enterprises, stunt growth in investment funds, and lower the inflation rate to below its level of 1996. Thus, the substantial market interest rates are expected to decline somewhat below the 11.9 percent level of 1996.

The substantial market rates, which rose to 12.5 percent (debenture yield rate) during March-April, stabilized due to the flexible manipulation of the money supply. There remain factors putting upward pressure on market rates including the uncertain outlook of financial markets and the potential threat of bankruptcy of major enterprises. However, stunted demand for capital due to withered investment confidence is likely to hold down market rates.

Included among other factors working toward low market rates are the blunted capital demand of enterprises, a favorable turn of financial institutionsÕ capital situation, stabilized prices, and increased withdrawal from residentsÕ foreign exchange accounts in the wake of appreciation of the won.

¦UThe Yen Is Expected to Stabilize Around 110-115 Yen per Dollar in the Second Half of this Year

The U.S. dollar is expected to continue strong because a) the U.S. economy has been improving, b) it is possible that market interest rates will be raised before the end of this year, and c) increased demand for the dollar which has a relatively high yield rate.

The yen is likely to remain strong because of a possible recurrence of the trade dispute between the United States and Japan over the mounting surplus of JapanÕs trade with the United States and signs of possible economic expansion in Japan.

Producer prices in the United States continued to slide for five consecutive months through May this year. Despite a 5.8 percent growth marked in the first quarter from a year earlier, prices have been stabilized for a period of over 75 months. This makes it highly unlikely that the U.S. economy would witness inflation within the foreseeable future. Consequently, there is little chance of the U.S. raising interest rates this year Ñ a fact which may well stimulate a stronger yen.

¦UFollowing Second Quarter, Won/Dollar Exchange Rate Is Expected to Appreciate to 875 Won per Dollar by Year-End

The won which has depreciated since April this year is likely to hit 875 won per dollar by the end of this year and appreciate to round 860 won per dollar by the end of 1998.

There still remains pressure for a further depreciation of the won due to the deficit in the current account. However, the possibility of a weakening dollar coupled with increased influx of foreign capital into the bourse influenced by a slowdown in KoreaÕs economic downturn and gradual recovery of exports will all work toward appreciation of the won.

The year 1996 witnessed an influx of a total of US$16.8 billion in long-term and short-term funds. However, in 1997 after Korea affiliated with the OECD, such influx of foreign funds is likely to be contained at around

US$20 billion so as to ease its influence on foreign exchange rates and maintain the money supply at an optimum level.

2. Recent Economic Trends

& Policy Issues

Our economy is expected to enter an economic recovery cycle in 1998 with a GDP growth rate of over 6 percent, having generally underwent the first half of a contraction period for four quarters from the second half of 1995 maintaining GDP growth rates of 6-7 percent, and the second half of the economic downturn since 1996 with GDP growth rates of 5-6 percent.

In the process of the economic contraction this time, which was compounded by factors of a normal economic cycle and industrial structural problems, the government did not resort to active microeconomic policies designed to boost domestic demand. It is likely that the economy will gradually recover now following an economic contraction period that lasted nine quarters since the last quarter of 1995 and is expected to hit bottom in the last quarter of 1997.

Anticipated growth rates are 7.1 percent in 1996, 5.5 percent in 1997 and around 6.3 percent in 1998.

Of particular note, the yen again turned strong in the second quarter and the prices of some major export items recovered, while imports dropped markedly. Thus the current account deficit in 1997 is expected to drop below US$19 billion while prices will be relatively stable Ñ indications that external and internal imbalances will be gradually redressed.

During the past year, the value of the won depreciated by around 14 percent and since April this year the value of the yen appreciated by about 10 percent against the dollar. Thus the influence of these foreign exchange fluctuations on our exports is expected to become manifest after the second half of this year. On the other hand, our foreign trade deficit has been decreasing inasmuch as imports drastically declined in the second quarter due to depressed consumption and facility investment and the depreciation of the won.

Exports are likely to pick up both in terms of volume and value inasmuch as the prices of some of our main export items (electronics products, iron and steel products, petrochemicals, etc.) have begun to rise on the world market coupled with a strong yen since the second quarter of this year.

Nonetheless, there are a number of non-economic factors that could adversely influence our economic recovery, including a) success or failure of ongoing efforts to reform the financial sector and restructure industry, b) growing social and political unrest with the Presidential election around the corner, c) adverse side effects of low economic growth and increased unemployment on the economy, d) adverse influence of the bankruptcy of Hanbo and Sammi groups on the economy, and e) an unstable situation in North Korea.

The long-protracted economic contraction period has provided opportunities to redress a number of issues, including a) changes in international exchange rates following the Plaza accord of 1985, b) expanded housing construction projects, and c) wages, prices, land prices and other production factor costs which were distorted in the process of economic democratization in the wake of the June 29 Declaration in 1987.

On the other hand, the investment confidence of enterprises remains low at this time when the current economic downturn is expected to bottom out only two quarters hence, and it is feared that the current period of low economic growth will be further protracted and industrial restructuring further delayed.

In short, we need to resolve two economic issues: how to minimize the adverse effects of low economic growth at this time when the current economic downturn is about to bottom out and the need to minimize the current account deficit. In terms of medium- and long-term issues, we need to create environments to stabilize at the level of advanced countries our various price variables in the process of opening our capital market to foreign competition. And we also need to continue to promote industrial restructuring while minimizing industrial bipolarization amidst the continued economic slump.

3. Macroeconomic Policy Issues

& Recommendations

(1)First Quarter 1997 Results
& Recent Developments

¦UFirst Quarter GDP Growth Just 5.4% Ñ Lowest Since Second Quarter 1995

The first quarter is estimated to have witnessed GDP growth of just 5.4 percent, the lowest since the current economic downturn set in.

Exports in terms of volume during the quarter maintained the 14.6 percent growth level of a year earlier; however, domestic demand growth nose dived, thereby achieving a growth rate of just 5.4 percent Ñ the lowest growth since the current economic downturn began 27 months previous.

The growth in inventories, which marked a sharp rise in the last quarter of last year, leveled off in the first quarter of this year. Nonetheless, the first quarter witnessed a 13.8 percent growth in inventories Ñ still a relatively high level.

The second quarter saw signs of economic recovery in terms of industrial output and increased exports.

Influenced by steady growth in export volume and maintenance of a relatively high operating rate of heavy and chemical industrial facilities, industrial output marked a growth rate of 10.7 percent in April, thereby showing signs of economic recovery.

In particular, exports denoted in U.S. dollars which had declined since the third quarter of last year began to increase in the second quarter and favorable export prospects are now anticipated in conjunction with the appreciation of the yen.

Shipment growth which remained at 4.5 percent due to stunted domestic demand in the first quarter registered 8.4 percent growth in the month of April thanks to the recovery of both domestic demand and exports. In particular, exports in April rose 30.3 percent in semiconductors, 44.9 percent in computers and related products, 10 percent in cars, and 11.4 percent in chemical products from a year earlier.

Overall economic recovery, however, is being delayed due to readjustment of inventories.

In the second quarter, shipments for domestic use increased along with exports; the growth rate of shipments for domestic use at 6.1 percent in April lagged behind the growth rate of exports. In the case of major items leading shipments for domestic use, their growth rate continued to lag behind the growth rate in production output.

Both the leading composite index and coincident composite index rose in April. Nonetheless, the continuity in the growth of durable goods shipments remained uncertain. On top of this, arrivals of export L/Cs, construction permits by floor area and imports of raw materials for export goods all declined, thereby leaving a continued economic upturn in doubt.

With respect to the growth of inventories, April witnessed a slight decrease (13.2 percent) from the previous month (13.4 percent) on a year-to-year basis. However, if the drop in inventory of petrochemicals resulting from facility renovation is taken into consideration, it is believed that the inventory growth in April was at the same level as in the previous month.

Thanks to previous facility investments, the month of April witnessed a relatively high production capacity growth of 8.9 percent, while the industrial output growth marked 10.7 percent growth. Thus, the average plant operating rate in April stood at 82.5 percent Ñ the highest since May last year (84.1 percent).

¦ULagging Construction Business in the Production Sector and Blunted Domestic Demand in the Demand Sector Spearhead Economic Downturn

During the first quarter, the stunted growth rate was caused by lagging demand, especially domestic demand.

Due chiefly to the decreased growth rate in income and increasing concern about business prospects caused by the protracted economic downturn, household consumption dropped sharply from 6.5 percent in the last quarter of 1996 to 4.4 percent in the first quarter of 1997.

Influenced chiefly by accumulated inventory and unsold apartment units, facility and construction sectors marked negative growth of -1.6 percent and -2.5 percent, respectively, from a year earlier. Although wholesale and retail businesses and shipment for the domestic market turned for the better in some segments, the overall slump in domestic demand continued in April.

The year-to-year growth in wholesale and retail businesses Ñ an indicator for private consumption Ñ somewhat improved from 3.9 percent in March to 4.4 percent in April thanks to 17.8 percent growth in durable consumer products. This resulted from a temporary increase in demand for large sedans (109.8 percent) and hand phones (198.8 percent). The stunted demand for private consumption prevailed in April as demonstrated by a -3.8 percent growth in small/medium cars, 3.7 percent growth in gasoline sales, and a minus -51.9 percent growth in audio/video recording tape.

Public consumption, which marked a 7.1 percent growth in 1996 centered around personnel expenditures and goods, witnessed a growth of just 4.6 percent in the first quarter due to government efforts to minimize ordinary expenditures.

The services sector saw 7.4 percent growth in communications, finance, and commodities; the manufacturing sector was up 5.7 percent vs. 7.4 percent in 1996; and the construction sector marked a negative -1.9 percent growth.

The heavy and chemical industrial sector (8.7 percent) witnessed a recovery centered around chemicals (9.7 percent) and electric/electronic products (23.8 percent), but transportation equipment (-6.5 percent) saw output sag from a year earlier (10.5 percent) due to labor disputes.

The light industrial sector (-5.0 percent) witnessed a continued decline centered around clothing (-27.1 percent) and footwear (-20.0 percent).

The construction sector, too, marked reversed growth inasmuch as housing construction worsened (-8.1 percent) while government construction that witnessed a 14.3 percent growth last year marked a growth of just 0.8 percent in the first quarter. During April some segments of facility and construction investments turned for the better but their future outlook is uncertain.

Domestic orders for machinery marked a growth of 17.6 percent in April, thanks to a 37.0 percent growth in the public sector, including transportation and communications, stemming from early implementation of governmental procurement projects. However, imports of machinery marked a minus -18.8 percent growth. The facility investment index may be reversed if the effect of the early procurement of machinery tapers off.

Domestic construction orders rose 46.6 percent in April, influenced by early implementation of government construction projects and amelioration of housing sale terms. Nonetheless, the construction permit areas, which foretell future construction trends, increased just 0.2 percent in April.

In view of the fact that construction permits for housing, commercial buildings and industrial buildings all decreased in April, the indications are that it will take a considerable time before construction investment is fully recovered.

¦UStunted Wage Growth Rate and Increased Unemployment Rate Mar Consumption Growth

During April the unemployment rate improved somewhat; however, the unemployment rate generally rose from a year earlier, and the substantial wage increase rate dropped by over 2 percentage points in April from last year. A single-digit-growth in wages is probable this year.

The number of employees in the service sector rose more than the decrease of employees in other sectors. The unemployment rate in April was 2.7 percent, lower than the 2.9 percent (seasonally adjusted) in the previous year.

During the first quarter, the increase in wages on a paid basis were at an 11 percent level Ñ off 2 percentage points from a year earlier. The nominal wage increase rate through negotiations was 3 percent, or 50 percent of the level of last year.

¦UExport Volume Has Maintained an Upward Trend but Investment Has Rapidly Withered

During the month of April, the U.S. dollar continued its appreciation with the result that the value of the won depreciated against the dollar. However, with continued depreciation of the yen against the dollar, KoreaÕs exports continued to decline in the sense of purchasing power parity.

In terms of volume, our exports grew 14.5 percent in 1996 and 14.6 percent in the first quarter of 1997 Ñ a fact that attests to their role as an engine of our economic growth amidst a minus -2.0 percent growth in fixed investment and stunted consumption growth of just 4.5 percent in the first quarter.

Facility investment which marked an 8.2 percent growth last year despite the continued economic slump registered a minus -1.6 percent growth in the first quarter of this year due to a minus -5.4 percent growth in transportation equipment investment in the first quarter.

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Decline in GDP growth rate notwithstanding, the current account deficit in the first quarter marked US$7.94 billion Ñ the largest amount ever recorded. This resulted from a US$5.57 billion trade deficit due to the weak yen and slow recovery of trading terms coupled with increased deficits in invisible trade and unrequited transfers.
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Meanwhile, the overall balance, including both long-term and short-term capital balance, went into the black in March but registered a deficit of US$3.77 billion in the first quarter. In the second quarter, export growth turned from decline to increase while imports went into decline, with the result that the trade deficit was reduced to one-half in April from a year ago.

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KoreaÕs declining share among U.S. imports, from 3.7 percent in 1990 to 3.2 percent in 1995, 2.8 percent in 1996 and 2.5 percent in the first quarter of 1997, is generally following the trend of other Asian countries, the primary reason being the weak yen and stronger won. This means that depending on the extent of the appreciation of the dollar against the yen, our exports may recover on a limited basis.

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As of the end of May, consumer prices and producer prices rose but 3.8 percent and 3.7 percent, respectively, from May last year, due to the prolonged economic depression that has withered domestic demand and the steady supply of agricultural produce.

Influenced by the stable prices of crude oil and other raw materials on the world market as well as the stabilized domestic market prices of agricultural products, prices remained stable at a lower level in the first half of this year from a year earlier.

Prices of housing and real estate, which began increasing early in 1997, also have stabilized since March this year. By category, prices of industrial goods, excluding crude oil, rose just 0.8 percent, agricultural, livestock and fishery goods 3.5 percent, and public utility charges and private service charges 2.4 percent and 2.9 percent, respectively.

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The long-term and short-term city interest rates began to climb in March and hit 12.5 percent (debenture yield) in early May, but slid back to the 11 percent level in May-June and remain stable due to the following reasons:

Capital demand of enterprises has been stunted, influenced by decreased facility and construction investments and blunted growth in inventories.

CorporatesÕ holding of long-term and short-term credit has reached a considerable level in preparation for an uncertain capital outlook.

In the wake of the Hanbo bankruptcy, enterprises issued a large amount of corporate bills to secure short-term funds (from 6.3 trillion won in the first quarter of 1996 to 11.2 trillion won in the first quarter of this year). Stimulated by the stable won-dollar exchange rate, withdrawals from residentsÕ foreign exchange accounts during April-May amounted to 1.76 trillion won. Nonetheless, the ratio of dishonored bills remains high, while the city interest rates still fluctuate widely, which stand testimony to relatively tight credit and an vulnerable capital market.

First of all, the dishonored bills of major enterprises are increasing, while the Òaccord for prevention of dishonored bills (on the part of major enterprises) has added to the capital plight of small and medium-size enterprises.

Second, while capital demand of enterprises has been declining, some enterprises have been pressed for liquid assets out of fear for possible bankruptcy irrespective of their sound balance sheet.

Third, due to the frequent bankruptcy of major enterprises, the payment guarantee agency has been shunning guarantees for enterprises and as a result the rate of the inability to float debentures despite permits secured to float them increased from 4.4 percent in January to 4.2 percent in February, 7.9 percent in March, 8.5 percent in April and 11.7 percent in May.

Fourth, although some enterprises have considerable amount of secured funds, the disparity of funds between enterprises has become conspicuous due to inactive operation of loans on the part of financial institutions and the withered direct capital market.

(2)Outlook for Second Half
of 1997 & 1998

¦UGradual Recovery of Exports Since Second Quarter Is Likely to Stimulate Gradual Economic Recovery

The GDP growth, which marked 7.2 percent in the last quarter of 1996, dropped to 5.4 percent in the first quarter of 1997. It is likely that the year 1997 will witness a 5.5 percent growth and 6.3 percent in 1998 when the current economic downturn is expected to bottom out.

Dollar-denoted exports have turned for the better since the second quarter of 1997, and it is likely that the chain-reaction of bankruptcies since the Hanbo scandal will subside, but the withered economic confidence is expected to last for a while.

During the second half of this year, exports are likely to grow on a limited basis, however, facility investment and domestic demand, including consumption, may continue to be stunted with the result that the year 1997 is likely to witness GDP growth of 5.5 percent.

During 1998, exports are likely to grow and fixed investment, too, is expected to turn for the better. Nonetheless, GDP growth in 1998 is expected to be around 6.3 percent, or below its potential growth rate.

¦UConsumption Growth to Trail Behind GDP Growth Until 1998

Private consumption growth has trailed behind the GDP growth rate since the second half of 1996 and in 1997 the stunted consumer growth, including shipment of consumer goods for the domestic market and wholesale/retail sales, remains unchanged.

In the past, the private consumption sector played a role in constraining a rapid economic downturn due to its characteristic of trailing an economic downturn. However, in the current economic contraction cycle, the private consumption growth rate dipped below the growth rate of GDP in the third quarter of 1996.

During 1996, the nominal income of urban households grew 12.6 percent from the previous year, but the nominal consumption growth was 13.4 percent. However, quarterly consumption growth has dropped markedly since the second half of 1996, thereby accelerating the economic downturn.

Since the second quarter of 1997, demand for some durable consumer goods including hand phones, large sedans and other new products increased, but demand for nondurable goods continued to slip, with the result that it is now likely that 1997 will witness private consumption growth of around just 5 percent.

Such a trend is likely to continue through 1998 due to increased unemployment, and stunted growth rate in substantial income, including assets income. Thus growth in private consumption will have limited effect in the improvement in propping up the economy.

¦UExport Profitability Will Improve Due to Increased Unit Prices But Will Have Limited Effect on Economic Recovery

Following the second half of this year, depreciation of the won vis-a-vis the dollar and the strong yen and weak dollar trend in the second quarter are likely to bring about increased exports through higher export unit prices.

Therefore, our economic recovery through increased exports amidst limited growth in domestic demand will be limited. Furthermore, in view of the fact that short-term economic recovery measures are being restricted, it is not without reason to believe that the current economic contraction will be prolonged more than was anticipated.

Inasmuch as it is unlikely that export growth in terms of volume will improve greatly, the growth rate in the first quarter being 14.6 percent vs. 14.5 percent in 1996, domestic demand needs to be greatly improved to pull out of the current economic downturn.

Exports turned for the better following the second quarter of this year and double-digit growth is likely in the second half of this year to result in a 7.1 percent growth for the whole of this year from a year earlier. It is probable that dollar-denoted exports will increase in terms of both volume and unit prices. Nonetheless, exports will have a limited contribution to overall economic growth.

¦UEven After the Technical Business Rebound from the Bottom of the Economic Downturn in the Last Quarter of 1997, the Low Growth Trend Is Likely to Continue Due to Continued Slump in Domestic Demand

During the last quarter of 1996, the economic contraction process progressed relatively rapidly, but the various economic indicators including national account, coincident composite index, and the cycle of coincident composite index generally trended upward, not properly reflecting the economic contraction process.

During the first quarter of 1997, indexes of interest rates and economic indicators declined simultaneously, thus it is unlikely that within the next two quarters the economic downturn will be reversed.

During the month of April, there were general increases in economic indicators. Among these, the coincident composite index, industrial output index, plant operating rate and electricity consumption rate increased; however, labor input, imports, and nondurable consumer goods decreased, thereby producing notable differences among the indicators.

Among the components of the leading composite index, such export-related indicators as arrivals of export L/Cs and imports of raw materials for export goods declined along with construction-related indicators including construction permits and production of intermediate goods for construction.

During 1997, economic expansion was spearheaded by increased exports and facility investment but no signs of full-fledged recovery in these two sectors are in sight. Growth in private consumption, too, has declined markedly since the second half of 1996.

During the second half of this year, readjustment of inventory and plant operation rates are expected to continue and it is probable that the current economic contraction will technically bottom out in the last quarter of 1997.

This assumption is possible as the export growth rate is likely to register a double-digit expansion beginning in the third quarter of this year and the effect of the readjustment of inventories will be manifested following the second half of 1997. The recovery in exports, though on a limited basis, is probable because, in addition to the depreciation of the won, the economies of the advanced countries are in the midst of an upturn cycle and international markets for our major items including petrochemicals, iron/steel products, and semiconductors are expected to recover gradually.

Facility investment is expected to show gradual recovery as well from around the end of 1997, inasmuch as facility investment readjustment was completed to a certain extent over a period of two years from after the last quarter of 1995 to the last quarter of 1997 and the plant operating ratio following the readjustment of inventories is likely to drop to around 70 percent.

Inventories, which grew at around 20 percent in 1996, still maintained a high level in the second quarter of 1997. It is likely that readjustment of inventories and plant operating ratios will continue throughout 1997.

The inventory growth somewhat slowed since the last quarter of 1996 and has gradually declined to 13.4 percent in the first quarter of 1997 and to 13.2 percent in the second quarter. Therefore, during the second half of this year which is expected to witness steady growth in production capacity, the plant operating ratio is likely to drop to around 70 percent.

¦UThe Effect of Increased Exports from the Strong Yen Was Halved Due To Appreciation of the Won

During the second quarter of 1997, the yen turned strong and as a result KoreaÕs exports were expected to rally. But the won also appreciated against the dollar somewhat. The effect of the strong yen on KoreaÕs exports is likely to be offset due to changes in the relative value of the currencies of the three countries.

Over a period of a year since the second quarter of 1996, the won depreciated by around 14 percent against the dollar. Nonetheless, the yen recently turned strong and the won has somewhat appreciated against the dollar, thereby dimming the outlook for increased exports hereafter.

The yen, which had weakened since the second half of 1995, turned stronger in the second quarter of 1997. It is likely that the yen-dollar exchange rate will be maintained at around 110- 115 yen per dollar for the second half of this year. Inasmuch as changes in JapanÕs dollar-denoted export prices are minimal, while the competitiveness of KoreaÕs major export items to advanced countries is vulnerable, the wonÕs appreciation against the dollar will have a limited effect on increased exports.

¦UConstruction and Facility Investments Will Decline in 1997

Facility investments, which entered a contraction period following the second half of 1995, marked a year-to-year growth of 15.8 percent in 1995 and just 8.2 percent in 1996. Influenced by further withering of investment confidence on the part of enterprises, facility investment is likely to witness a negative -3.8 percent growth this year from 1996.

Nonetheless, facility investments in 1998, when the plant operating ratio is expected to drop to around 70 percent along with the continued readjustment of inventories, are likely to increase somewhat from a year earlier. Construction investment, which saw a 6.3 percent growth in 1996 due to lagging building construction in the second half, is likely to witness a negative -2.0 percent growth in 1997.

This outlook stems from the fact that no increased demand in housing construction is expected due to an increasing number of unsold apartment units since May this year, although the construction cycle was anticipated to turn for the better in 1997.

¦UDepreciation of the Won Notwithstanding, Prices Are Expected to Stabilize Due to Economic Condition

The second half of 1997 is likely to see prices stabilized, due to low demand under the current economic conditions and steady price trends overseas. Thus, the second half of this year is expected to see a price increase of around 4 percent, thereby raising annual prices this year by about 4.1 percent.

This forecast is possible as the government is determined to stabilize prices, coupled with stable livestock prices, despite pressure to raise public utility rates.

The year 1998 is likely to witness a 4.5 percent increase in prices Ñ somewhat lower than 1996 but a little higher than 1997.

¦UDomestic Market Rates Will Stabilize in the Second Half

The year 1997 is expected to see a continued economic downturn, which in return will reduce the operating funds of enterprises, stunt growth in investment funds, and lower the inflation rate to below its level of 1996. Thus, the substantial market interest rates are expected to decline somewhat below the 11.9 percent level of 1996.

The substantial market rates, which rose to 12.5 percent (debenture yield rate) during March-April, stabilized due to the flexible manipulation of the money supply. There remain factors putting upward pressure on market rates including the uncertain outlook of financial markets and the potential threat of bankruptcy of major enterprises. However, stunted demand for capital due to withered investment confidence is likely to hold down market rates.

Included among other factors working toward low market rates are the blunted capital demand of enterprises, a favorable turn of financial institutionsÕ capital situation, stabilized prices, and increased withdrawal from residentsÕ foreign exchange accounts in the wake of appreciation of the won.

¦UThe Yen Is Expected to Stabilize Around 110-115 Yen per Dollar in the Second Half of this Year

The U.S. dollar is expected to continue strong because a) the U.S. economy has been improving, b) it is possible that market interest rates will be raised before the end of this year, and c) increased demand for the dollar which has a relatively high yield rate.

The yen is likely to remain strong because of a possible recurrence of the trade dispute between the United States and Japan over the mounting surplus of JapanÕs trade with the United States and signs of possible economic expansion in Japan.

Producer prices in the United States continued to slide for five consecutive months through May this year. Despite a 5.8 percent growth marked in the first quarter from a year earlier, prices have been stabilized for a period of over 75 months. This makes it highly unlikely that the U.S. economy would witness inflation within the foreseeable future. Consequently, there is little chance of the U.S. raising interest rates this year Ñ a fact which may well stimulate a stronger yen.

¦UFollowing Second Quarter, Won/Dollar Exchange Rate Is Expected to Appreciate to 875 Won per Dollar by Year-End

The won which has depreciated since April this year is likely to hit 875 won per dollar by the end of this year and appreciate to round 860 won per dollar by the end of 1998.

There still remains pressure for a further depreciation of the won due to the deficit in the current account. However, the possibility of a weakening dollar coupled with increased influx of foreign capital into the bourse influenced by a slowdown in KoreaÕs economic downturn and gradual recovery of exports will all work toward appreciation of the won.

The year 1996 witnessed an influx of a total of US$16.8 billion in long-term and short-term funds. However, in 1997 after Korea affiliated with the OECD, such influx of foreign funds is likely to be contained at around US$20 billion so as to ease its influence on foreign exchange rates and maintain the money supply at an optimum level.

Our economy is expected to enter an economic recovery cycle in 1998 with a GDP growth rate of over 6 percent, having generally underwent the first half of a contraction period for four quarters from the second half of 1995 maintaining GDP growth rates of 6-7 percent, and the second half of the economic downturn since 1996 with GDP growth rates of 5-6 percent.

In the process of the economic contraction this time, which was compounded by factors of a normal economic cycle and industrial structural problems, the government did not resort to active microeconomic policies designed to boost domestic demand. It is likely that the economy will gradually recover now following an economic contraction period that lasted nine quarters since the last quarter of 1995 and is expected to hit bottom in the last quarter of 1997.

Anticipated growth rates are 7.1 percent in 1996, 5.5 percent in 1997 and around 6.3 percent in 1998.

Of particular note, the yen again turned strong in the second quarter and the prices of some major export items recovered, while imports dropped markedly. Thus the current account deficit in 1997 is expected to drop below US$19 billion while prices will be relatively stable Ñ indications that external and internal imbalances will be gradually redressed.

During the past year, the value of the won depreciated by around 14 percent and since April this year the value of the yen appreciated by about 10 percent against the dollar. Thus the influence of these foreign exchange fluctuations on our exports is expected to become manifest after the second half of this year. On the other hand, our foreign trade deficit has been decreasing inasmuch as imports drastically declined in the second quarter due to depressed consumption and facility investment and the depreciation of the won.

Exports are likely to pick up both in terms of volume and value inasmuch as the prices of some of our main export items (electronics products, iron and steel products, petrochemicals, etc.) have begun to rise on the world market coupled with a strong yen since the second quarter of this year.

Nonetheless, there are a number of non-economic factors that could adversely influence our economic recovery, including a) success or failure of ongoing efforts to reform the financial sector and restructure industry, b) growing social and political unrest with the Presidential election around the corner, c) adverse side effects of low economic growth and increased unemployment on the economy, d) adverse influence of the bankruptcy of Hanbo and Sammi groups on the economy, and e) an unstable situation in North Korea.

The long-protracted economic contraction period has provided opportunities to redress a number of issues, including a) changes in international exchange rates following the Plaza accord of 1985, b) expanded housing construction projects, and c) wages, prices, land prices and other production factor costs which were distorted in the process of economic democratization in the wake of the June 29 Declaration in 1987.

On the other hand, the investment confidence of enterprises remains low at this time when the current economic downturn is expected to bottom out only two quarters hence, and it is feared that the current period of low economic growth will be further protracted and industrial restructuring further delayed.

In short, we need to resolve two economic issues: how to minimize the adverse effects of low economic growth at this time when the current economic downturn is about to bottom out and the need to minimize the current account deficit. In terms of medium- and long-term issues, we need to create environments to stabilize at the level of advanced countries our various price variables in the process of opening our capital market to foreign competition. And we also need to continue to promote industrial restructuring while minimizing industrial bipolarization amidst the continued economic slump.

(1)Stimulation of Investment
Confidence of Enterprises

At this time when the current economic downturn is about to bottom out within two quarters or in the last quarter of this year, the investment confidence of enterprises remains frozen, and in the absence of leading investment, the current economic downturn is apt to cost our economy all the more due to protracted low economic growth and further delay industrial restructuring.

Investment plans of major enterprises have been downsized this year from last year, and facility investment in the first quarter of this year in terms of national account marked a negative -1.6 percent growth from a year earlier.

The import of capital goods in the first five months of this year declined from the same period of last year. Therefore, it is necessary to stimulate the investment confidence of enterprises to boost facility investment. In particular, at this time when there exist misgivings about bankruptcies of major enterprises and an uncertain capital supply outlook, what is even more important than tax incentives is the removal of factors responsible for the withered investment activity of enterprises.

The irrational plan to reduce enterprisesÕ borrowings in an attempt to improve the financial structure of enterprises needs to be fully considered in the sense that optimal financial leverage should be a matter of firmsÕ choice before implementation.

The tight credit policy that amplifies the bipolarization of the capital situation needs to be promptly ameliorated.

(2)Gradual Minimization of
External Imbalances

Medium- and long-term expansion of exports should be pursued through a) effective utilization of overseas capital resources, b) expanded use of flexible labor, c) expansion of social infrastructure, and d) increased supply of industrial land which have been keeping factor costs at a high level.

It is more desirable to put emphasis on stabilization of the fluctuation band-width of the foreign exchange rate rather than on the level of the foreign exchange rate itself by ensuring steady operation of related variables through reduced policy intervention in the foreign exchange market, while utilizing the value of the won determined on the domestic foreign exchange market to properly ÒreflectÓ supply and demand for foreign exchange for international balance of payments.

The nation also needs to discard the strategy of export expansion in terms of volume; instead KoreaÕs terms of foreign trade should stress profitability and high value-added exports.

The government should prepare and announce foreign trade statistics in terms of the local currancy also with U.S. dollars.

Government support for export financing should vary on a value-added basis.

(3)Prompt Promotion of
Systematic Consolidation
to Cope With Globalization

It is necessary to promptly adjust domestic systems to the level of international standards Ñ an unavoidable requirement due to changes in internal and external environments. Especially, it should be noted that, although KoreaÕs blueprint for opening its capital market has been made public, Korea now is affiliated with the WTO and OECD and related internationalization of domestic affairs has been determined, such important and urgent domestic issues as a) legislation of a law to replace the Presidential emergency decree on real-name financial transactions, b) legislation of a law for financial reform and c) tax reforms to facilitate industrial restructuring are being delayed due to conflicting interests of the domestic parties concerned.

Appendix 1
Major Economic Indices

Private & Government Consumption Trends
(Unit : % of year-to-year change)

	1994	1995	1996					1997
	Year	Year	1/4	2/4	3/4	4/4	Year	1/4
Private consumption	7.6	8.3	7.7	7.4	6.2	6.5	7.0	4.4

Durable consumer goods	11.8	11.6	8.0	10.5	4.8	6.0	7.3	-2.1
Semi-durable consumer goods	6.1	9.2	6.7	6.7	6.6	6.8	6.7	5.0
Non-durable consumer goods	5.2	6.1	5.3	3.6	4.1	3.8	4.2	3.1
Services	8.7	9.0	9.3	8.6	7.5	7.6	8.3	6.3
Government consumption	4.2	1.0	6.8	5.9	6.3	9.1	7.1	4.6

Source : The Bank of Korea

Consumption-Related Indices

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

	1995	1996					1997			
	Year	1/4	2/4	3/4	4/4	Year	Feb.	Mar.	1/4	Apr.
Retail and wholesale	7.8	8.3	8.3	6.4	6.0	7.0	3.3	3.9	2.9	4.1
Wholesale	6.9	6.9	6.9	4.9	4.4	5.2	2.4	3.1	2.1	3.9
Retail	8.6	9.8	9.8	8.6	7.7	8.9	4.3	4.8	3.7	4.2
Shipment of consumer goods	7.4	5.3	5.3	1.9	5.9	5.2	-0.9	-0.1	-1.4	4.4

Durables	10.7	6.2	6.2	0.9	8.8	6.8	7.1	9.7	1.3	17.8
Non-durables	5.7	4.9	4.9	2.4	4.2	4.2	-4.9	-5.5	-2.9	-3.1

Source : National Statistical Office

Facility Investment Trends

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

	1995	1996				1997
	Year	2/4	3/4	4/4	Year	1/4
Facility investment	15.9	5.2	9.3	13.7	8.2	-1.6
Machinery	22.6	4.6	14.5	12.4	9.8	-0.4
Transportation equipment	2.4	5.6	-3.2	17.0	4.3	-5.4

Source: The Bank of Korea

Facility Investment and Related Indices

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

	1995	1996				1997			
	Year	2/4	3/4	4/4	Year	Feb.	Mar.	1/4	Apr.
Local orders for machinery	15.8	22.5	9.2	15.7	14.3	-5.6	38.4	1.9	17.6
I/Ls issued for machinery	3.3	26.1	-29.4	40.7	16.0	2.1	194.9	6.9	37.0

Machinery imports	19.2	21.6	18.7	10.1	13.9	-7.5	10.4	0.4	13.3
M/Cs shipped for domestic market	27.0	12.9	10.1	10.2	8.3	-0.3	-7.5	-9.1	-18.8

Source: National Statistical Office

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

	1994	1995	1996				1997
	Year	Year	2/4	3/4	4/4	Year	1/4
Construction investment	4.5	8.7	5.6	7.1	2.8	6.3	-2.5
Building construction	2.2	10.7	-1.3	0.4	-3.7	0.2	-5.0
Other construction	8.1	5.8	17.1	19.4	10.0	16.1	-3.4

Source : The Bank of Korea.

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

	1995	1996				1997			
	Year	2/4	3/4	4/4	Year	Feb.	Mar.	1/4	Apr.
Local construction orders received	21.2	11.6	17.5	20.5	21.4	39.9	54.25	36.6	46.6
Public construction	17.6	46.8	10.6	39.4	44.7	32.7	10.7	49.6	35.7

Floor area of construction permits 23.2 -0.8 22.3 7.6 9.1 46.3
31.0 27.3 42.2

Private construction 1.0 -16.7 27.6 -5.5 -3.0 -12.7 -6.4 -4.1
0.2

Residential -1.2 -9.3 20.6 -5.9 -2.5 -16.0 -18.6 -8.5 -3.5

Commercial 3.8 -24.3 36.4 -5.4 -5.9 -9.6 17.0 2.5
-3.5

Industrial 3.3 -29.1 12.8 18.4 -13.2 -39.3 39.3 -12.6 -12.8

Overseas construction orders received 16.3 -19.8 0.0 15.8 -4.9 -34.4
43.8 74.6

Source : National Statistical Office

Composite Indices

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

1996 1997

Aug. Sep. Oct. Nov. Dec. Jan. Feb. Mar. Apr.

Leading composite index 0.0 1.1 0.2 0.8 0.1 0.0 0.0 0.8
1.1

Coincident composite index 0.1 0.7 0.8 0.3 0.6 -0.7 -0.1
-0.1 0.9

(Cycle of composite index) 101.5 101.7 102.0 101.9 102.0 100.9 100.2
99.8 100.2

Post composite index	0.4	0.7	0.3	0.1	-0.1	0.8	-0.1	-0.3	0.3

Source : National Statistical Office

Employment & Wage Trends

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

	1995	1996	1997						
	4/4	Year	3/4	4/4	Year	Feb.	Mar.	1/4	Apr.
Economic activities ratio	62.1	62.0	62.7	62.5	62.0	60.6	62.1	61.1	63.0
Unemployment ratio	1.8	2.0	1.8	2.0	2.0	2.6	3.4	3.4	2.8
Wage increase in overall industry	10.2	11.2	12.7	11.1	11.9	11.3	-	-	-
(Manufacturing)	(8.3)	(9.9)	(12.0)	11.4	12.2	9.0	-	-	-

Price Trend

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

	1995	1996	1997		
	1/4	Apr.	May		
P.P.I	4.7	2.7	3.7	3.8	3.7
C.P.I	4.5	5.0	4.7	4.3	3.8

Agricultural, fisheries	0.1	1.8	2.6	3.9	1.2
Industrial products	3.7	4.3	1.2	4.4	4.0
Service	7.7	5.8	1.9	4.5	4.6
Export price	1.3	0.5	6.1	9.3	9.9
Import price	5.8	0.0	6.3	8.1	8.9
Export unit price	5.0	-12.8			
Import unit price	8.9	-0.3			

Industrial Production and Related Indices

	1996	1997							
	1/4	2/4	3/4	4/4	Jan.	Feb.	Mar.	1/4	Apr.
Production capacity index	136.3	138.3	140.8	145.0	149.2	148.6	149.0	148.9	149.8
Production index	156.1	162.5	159.5	174.9	165.6	155.4	180.5	167.2	182.6
Operating ratio of mfg. industry	82.3	81.7	82.2	81.2	769	79.7	80.3	78.9	82.5

Economic Growth and GovernmentÕs Fiscal Scale
(Unit : % of year-to-year change)

1994	1995	1996 (budget)	1997 (budget)

Current GNP 14.5 14.8 12.3 11.3

General budget 15.6 16.7 16.2 12.4

General budget + special fiscal loan account 16.8 15.1 14.8 13.4

Integrated account and net loans 19.0 18.6 16.2 16.7

Total fiscal scale (central government and local 31.4 19.8 9.5 7.9

government)

Note: 1) Central government and non-financial public entities

Source: Bank of Korea, Ministry of Finance and Economy

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

1996 1997
1/4 2/4 3/4 4/4 Year Mar. 1/4 Apr.

Total

By
product

Chemical/
heavy industrial products

Light industrial products

By

region

Developed
countries

Developing countries

318.3	294.5	301.1	334	1,247.9	113.3	297.5	113.8			
(21.5)	(3.5)	(-7.5)	(2.1)	(3.7)	(-3.1)	(5.5)	(7.0)			
225.0	223.7	196.0	230.1	874.8	75.3	196.8	75.8		(25.3)	(0.1)
(-14.0)	(-1.6)	(0.9)	(-9.1)	(-12.0)	(7.2)					
73.8	87.3	80.7	77.8	319.6	28.3	74.2	28.3			
(12.6)	(9.7)	(3.4)	(7.0)	(7.5)	(5.4)	(2.7)	(3.6)			
152.4	145.3	131.9	142.4	572	49.3	128.0	47.6			
(18.0)	(-8.7)	(-17.6)	(-19.1)	(-8.0)	(-8.0)	(-14.9)	(0.9)			
165.9	189.2	168.1	191.8	715	64.3	169.5	66.2			
(25.0)	(16.9)	(4.6)	(11.6)	(14.1)	(1.7)	(3.1)	(11.9)			

Source : Ministry of Trade, Industry and Energy881

June 19

Ministry of Trade, Industry and Energy revises import and export notification system for strategic goods.

June 18

Ministry of Trade, Industry and Energy announces six major policy issues for structural innovation.

June 17

Small and Medium Business Administration posts notification for a revision to the evaluation standards for the Korean Standard mark for textile material for diapers.

June 17

Small and Medium Business Administration pursues measures to foster the leisure and sporting goods sector for small companies.

Small and Medium Business Administration promulgates international directives for encouraging environment-friendliness in product specifications.

June 17

Ministry of Finance and Economy revises policies concerning overseas investments.

June 11

Ministry of Finance and Economy decides to make it easier for investment trust companies to issue investment-trust corporate bonds.

June 11

Ministry of Trade, Industry and Energy inaugurates a new technology center for helping to promote venture capital companies.

June 11

Ministry of Trade, Industry and Energy introduces new technology credit guarantee fund and a system of technology preference for venture capital companies.

June 11

Ministry of Finance and Economy revises enforcement decree concerning national assets.

June 3

Ministry of Trade, Industry and Energy drastically reduces the cost of browsing through the industrial technology database for small and medium-size companies.

June 3

Small and Medium Business Administration establishes and operates a complaint center for dealing with promissory notes.

May 30

Ministry of Trade, Industry and Energy announces an integrated plan for developing the automobile parts industry.
May 30

Ministry of Trade, Industry and Energy kicks off loans for developing capital goods as strategic products.
May 29

Ministry of Finance and Economy revises allocation of budgetary funds.

May 28

Ministry of Finance and Economy amends the enforcement decree on value-added tax.

May 28

Ministry of Finance and Economy introduces draft for flexible import tariff system in the second half.

May 28

Ministry of Finance and Economy drafts legislation on real-name financial transaction system and confidentiality as well as anti- money laundering.

May 26

Ministry of Trade, Industry and Energy announces reduction in import tariffs for information technology products.

May 24

Small and Medium Business Administration revises the enforcement decree of a special legislation for helping small companies improve their corporate structure and stabilize their management.

May 22

Ministry of Trade, Industry and Energy posts public notice of seven new projects for developing vital technologies.

May 16

Ministry of Finance and Economy announces plan for advancing the schedule for liberalizing the bond market.
May 15

Ministry of Trade, Industry and Energy seeks revision of a law on rationalizing energy use.

May 13

Ministry of Finance and Economy devises plan for expanding opportunities for corporations to directly raise funds.

May 13

Ministry of Finance and Economy seeks revision to the enforcement decree on a legislation for stabilizing prices.

May 12

Ministry of Trade, Industry and Energy adopts long-term prospects and a development strategy for the distribution industry.

May 7

Ministry of Finance and Economy revises legislation concerning insurance businesses.

May 7

Ministry of Trade, Industry and Energy posts legislative notice for an enforcement decree promoting the distribution industry.

May 6

Ministry of Trade, Industry and Energy posts legislative notice for a special law on promoting venture capital businesses.

May 6

Ministry of Finance and Economy plans to revise the law concerning the Industrial Bank of Korea.

May 6

Ministry of Finance and Economy posts public notice for revising laws governing government-run organizations.

May 1

Ministry of Finance and Economy pursues a revision of legislation on companies specializing in loans.

May 1

Ministry of Trade, Industry and Energy begins a quality certification system for recycled products.

Apr. 28

National Statistical Office decides on method of evaluating consumer prices.

Apr. 23

Ministry of Finance and Economy changes proposed revision of the enforcement decree on regulation concerning tax reduction.