KERI Economic Quarterly
Jan. 1998 Vol. 10

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1. Recent Developments

Growth

The third quarter of 1997 witnessed a GDP growth of 6.3 percent from a year earlier, thanks to increased export volume. However, domestic demand including consumption and investment registered a marked slump in growth rate during the quarter.

Influenced primarily by increased exports, the production of chemical and heavy industrial products achieved 10.9 percent growth. This raised overall manufacturing industrial output by 8.1 percent in the third quarter Ñ up 0.7 percentage point over the 7.4 percent growth registered for the whole of 1996.

On the other hand, the private consumption sector saw a growth rate of 5.0 percent from a year earlier due to the protracted economic slump, substantial decline in income and unstable employment situation. The fixed investment sector marked a negative growth of 4.7 percent, impacted by a small 2.1 percent growth in construction investment and a decline of 13.0 percent in equipment investment.

Following November, our economic downturn has accelerated by a marked decline in the growth of industrial output and rising inventories.

During the month of November, industrial output witnessed a growth of 6.2 percent (from a year earlier) due to a production slump in general vs. 9.2 percent growth in October last year and 7.7 percent growth marked in the first half of 1997. In particular, the growth rate of industrial products excluding semiconductors dropped from 2.6 percent in October to minus 0.6 percent in November from a year ago.

Inventories marked a growth rate of 9.7 percent in November, while the average manufacturing plant operating rate withered to 74.8 percent in November, the lowest since 74.7 percent marked in June 1991 that saw much labor disputes.

The month of December was expected to have witnessed an industrial output growth rate of just 3 percent; since the conclusion of a bailout accord with the IMF, slowdown in industrial output and increase in inventories have ccelerated.

Domestic demand has seriously weakened. In the case of export shipments, the month of November witnessed a growth rate of 22.5 percent, but shipments for domestic use registered a minus 3.0 percent growth from a year earlier.

Even in the area of exports, profitability continues to decline due to decreased unit prices that more than offset expanded volume.
The leading composite index, which continued to grow since March this year, dropped by 1.1 percent in November for the first time in nine months, thereby indicating the possibility of further economic deterioration.

Private Consumption

The third quarter saw growth of 5.0 percent from a year earlier, similar to the growth rate marked in the previous quarter, influenced by decreased demand for garments, footwear and other household goods and increased demand for mobile phones, sedans and other durable goods.

In the third quarter, government consumption expenditures recorded a 7 percent growth rate from a year earlier due to expanded functions of local governments that necessitated additional purchases of office equipment, despite a widespread retrenchment movement.

Growth rates in consumption sectors further slumped in the month of November due to the prolonged economic downturn, employment instability, and increased corporate bankruptcies that further withered consumption propensity.

Growth in the retail and wholesale sector in the month of November saw a growth rate of just 1.0 percent, with growth in wholesale for 1.7 percent Ñ a further decline from 5.7 percent in the third quarter and 3.9 percent in October.

The growth in the shipments of domestic consumer goods in November marked a decrease of 3.5 percent from a year earlier due to a 0.9 percent growth rate in durable consumer goods and a minus 5.7 percent growth rate in non-durable consumer goods.

Fixed Investment

Equipment Investment

The equipment investment sector, which continued to experience a slowdown since the beginning of the year, further slumped in the third quarter, influenced by the continued economic downturn and uncertain business prospects for the immediate future.

The third quarter witnessed a 13.0 percent negative growth from a year earlier, due to a continued slump in investment for transportation equipment (-12.2 percent) and a sharp decline in private investment in the manufacturing sector.

During the month of November that saw a continued slump in investments, growth in machinery imports marked a negative growth rate of 21.8 percent, while that for shipments of machinery for domestic use also registered a minus 9.1 percent. Domestic machinery orders received marked a steep decrease of 34.6 percent in November from a year earlier.

Construction Investment

Construction investment growth marked just 2.1 percent growth in the third quarter from a year earlier, due to slowing construction of buildings for commercial and industrial use, although investment growth in the construction of electric power, port/harbor facilities and roads rose markedly.

In the month of October, domestic construction orders rose 50.5 percent from a year earlier and construction permits by floor space increased 12.7 percent. But in November, domestic construction orders decreased as much as 23.3 percent, which indicates that construction investment is not expected to recover soon.

External Transactions

Exports & Imports

Exports continued to grow since the second quarter of the year.

During the third quarter, exports on a customs clearance basis of semiconductors, petrochemicals, iron and steel products, machinery and other chemical/heavy industrial products increased markedly, while those of light industrial products remained in the doldrums. The quarter saw a growth rate of 16.1 percent from a year earlier.

The month of December saw a mere 2.8 percent growth rate in exports on a customs clearance basis, and the export growth rate in the last quarter was reduced to 4.4 percent.

Export growth was adversary influenced by the financial difficulties of Kia Motors in October and November coupled with the outbreak of a foreign exchange crisis in December that stimulated a liquidity pinch on the domestic capital market.

Imports in December saw a minus 24.7 percent growth from a year earlier, influenced by steep depreciation of the won amidst a protracted economic downturn that further accelerated declines in imports of capital goods, consumer goods, and raw materials. It was the sharpest decrease since July 1975 that marked a negative growth rate of 25.4 percent.

Balance of Payments

Influenced by a decreasing shortfall in the current account, the deficit in the first 10 months of last year stood at $8.9 billion Ñ down $14.8 billion from the same period of the previous year, which marked $23.7 billion.

In spite of slowing exports, thanks to sharply decreased imports, the month of December witnessed a foreign trade surplus of $2.69 billion.

The invisible trade sector also saw a surplus of $190 million in December, due chiefly to a black figure in the overseas travel expenses account, decreased payment of royalties, etc.

The unrequited transfer sector also registered a surplus of $770 million, influenced by decreased individual remittances, and increased remittances from Korean residents overseas.

Prices

Amidst the continued economic downturn, prices have been generally stable, thanks to the stabilized prices of raw materials on international markets as well as steady prices of domestic agricultural and fishery products.
Producer and consumer prices in the first 11 months of last year rose 2.5 percent and 4.3 percent, respectively, from the end of 1996 Ñ slightly lower than the growth rates marked the year before.

Nonetheless, domestic prices began to rise sharply in December, due to the steep depreciation of the won that resulted in increased prices for imported crude oil and other raw materials.

During the month of December alone, consumer prices rose 2.5 percent, while producer prices marked an increase of no less than 8.2 percent Ñ the highest level in 17 years.

Consequently, the consumer and producer price indexes rose 6.6 percent and 10.9 percent last year, respectively.

Money & Banking

Money Supply

The total money supply expanded in November and December from the previous month due to increased supply by the Bank of Korea in order to overcome the acute credit crunch induced by the tight monetary policy initiated at the beginning of the year.

MCT and M2 marked growth rates in November and December higher than those of the previous month, while total liquidity (M3) began to grow in the third quarter.

Market Interest Rates

Interest rates, which had been relatively stable, began to rise in November, stimulated by the uncertain money supply and worsening foreign exchange market. They reached the legal ceiling of 40 percent in December.

Exchange Rates

The won-dollar exchange rate, which began to rise in the latter days of October, continued to rise steeply from mid-November, stimulated by the tight foreign exchange situation of domestic merchant banks and commercial banks and the continued withdrawal of foreign funds invested in the Korea Stock Exchange.
The expansion of the daily fluctuation band on the foreign exchange rate and the government ㄸㅕㅂ decision to seek IMF bailout assistance helped little to harness the skyrocketing exchang e rate.

Another major factor responsible for the steep depreciation of the won has been the release of foreign exchange reserves to defend the won and increased demand for foreign exchange by financial institutions for international settlements that sharply reduced the foreign exchange holdings.

As of the end of November, Koreaㄸㅕㅂ foreign exchange holdings stood at $24.4 billion and th e actual available foreign exchange holdings less foreign exchange deposits with oversea s branches of domestic banks was just $7.26 billion Ñ down $15.04 billion from $22.3 billion i n October.

The sharp and rapid depreciation of the won to the 2,000 won per dollar level in the wake of the implementation of the IMF bailout fund accord, has been reduced to a 1,600 won per dollar level and is likely to improve further once ongoing efforts to cope with the foreign exchange crisis are realized.

2. Outlook for 1997/1998
Growth

It is now believed that the current economy is still in the extended line of an economic downturn that began 10 years ago, in the second half of 1987.

The economic upturns marked in 1989 and 1993 were temporary expansions induced by the implementation of a plan to build 2,000,000 homes and apartment complexes and the president ㄸ ㅕ ㅂ 100-day program for the new economy.

The economy, which marked 7.1 percent growth in 1996, is likely to witness 5.6 percent growth in 1997 due to the continued economic downturn. Furthermore, 1998 is likely to see a negative growth rate (-0.5 percent), inasmuch as Korea must implement stringent financial and monetary policies in accordance with the IMF bailout accord signed to overcome the foreign exchange market crisis.

In the implementation of the 1998 budget passed by the National Assembly in December, about a 10 percent cutback in expenditures and increased revenues is anticipated. Therefore, the anticipated influx of foreign exchange in 1998 notwithstanding, the new year will witness ultra-stringent monetary supply inasmuch as the growth rate of the reserve base and total liquidity (M3) is to be pegged at a 13 percent level.

Despite the signs of economic recovery centered around expanding exports through October 1997, it became difficult to predict the outlook even for the immediate future as the economic players found themselves in near panic due to the rapid collapse of the financial market, foreign exchange market and the stock exchange in the beginning of the last quarter of the year.

In 1998 and thereafter, equipment investment and domestic demand including consumption will further deteriorate, influenced by increasing unemployment and decreased wages coupled with withered household and enterprise confidence.

Even since the IMF decision to bail Korea out of its foreign exchange crisis, such major enterprises as Koryo Securities and Halla went under and market interest rates came to hit the legal limit, thereby further aggravating the capital market. In the event that financial restructuring turmoil and uncertainty in the foreign exchange market continue unabated and recovery of the stock market is prolonged and real estate prices plummet thereby adding asset deflation to the current economic difficulties, there even exists the possibility of 1998 marking higher negative growth.

On the other hand, if the foreign exchange supply problem is rectified and the financial restructuring issues are amicably resolved in the first quarter of 1998, it will be possible to achieve a GDP growth rate of 2.0 percent in 1998 and 4.8 percent in 1999. Thus, through a two-year adjustment period, it will be possible to enter an upturn economic cycle in 2000, with an annual economic growth rate of 5~6 percent.

In spite of the steep depreciation of the won, it appears that export growth will fall short of double-digits on a balance of payments (BOP) basis. The domestic demand sector will register a sharp decline due to decreased income, scaled back enterprise investment and reduced government expenditures.

Exports are not likely to mark a higher growth rate than 1997 in spite of the depreciation of the won. Because the currencies of Southeast Asian countries have also markedly depreciated (meaning export unit prices have been declining) and export growth rates to Japan and Southeast Asia are likely to maintain single-digit growth as was the case in 1997.

The year 1998 is likely to witness a negative growth rate of 1.3 percent in private consumption, due to the protracted economic downturn, uncertain employment prospects, withered consumer demand, blunted wage increases and slumping stock and real estate markets Ñ factors which all contribute to decreased purchasing power of the private sector.

Equipment investment is expected to see a negative growth of 19.9 percent due to a series of adverse factors, including deterioration of profitability, uncertain business outlook, enterprise restructuring (downsizing), etc.

Construction investment is likely to witness a negative growth of 8.9 percent inasmuch as the civil engineering and other construction sectors, which were originally expected to recover centered around social infrastructure, are now likely to be blunted, influenced by the overall economic slump. Building construction is also likely to continue to be depressed due to the capital shortage on top of increased prices of construction raw materials.

Prices

The year 1998 is likely to see a consumer price increase of 9.3 percent Ñ much higher than in 1997.

Demand pressure will be low due to sluggish domestic demand, while international market prices of raw materials will remain stable. Moreover, with economic management based on the stringent monetary policy within the framework of the IMF accord, macroeconomic pressure for price increases will be eased.
However, the steep depreciation of the won will adversely influence crude oil and other imported raw materials which will inevitably push up the cost of finished products and thus prices will be raised greatly in 1998. Unless the current galloping won-dollar exchange rate is stabilized shortly, domestic prices are apt to mark double-digit growth as was seen in the case of Mexico.

Balance of Payments

The trade balance, which is likely to mark a shortfall of $2.8 billion in 1997, may yield a surplus of $8.2 billion in 1998 as the decreasing growth rate of imports is expected to continue.

Imports in 1998 are likely to register minus 2.4 percent growth for the second consecutive year (following 1997), due to the protracted economic downturn and withered consumption and investment sentiment that will continue to pull down imports centered around consumer and capital goods.

Exports will be favorably influenced in 1998 with the manifestation of the effect of the rapid depreciation of the won. The effect of the depreciation of the won, however, will be halved because of the depreciation of the currencies of competitive nations. Moreover, exports to Japan and Southeast Asian nations will not rise markedly inasmuch as these countries are also having economic problems. It is thus unlikely that the export growth rate will increase sharply in 1998.

Similar to improvement in the foreign trade balance, the shortfalls in invisible trade and the unrequited transfer sector are expected to reduce in 1998. A deficit in the investment balance also is likely due to increased interest payments on short-term foreign loans. However, the tourism sector is likely to see improvement and invisible trade will witness an improvement from the level of 1997.

Interest Rates & Foreign Exchange Rate

Interest Rates

Domestic interest rates will continue to remain at 18-20 percent per annum inasmuch as a stringent monetary policy will be inevitable within the framework of the IMF bailout package. IMF has pegged Koreaㅁㄷ ㅕ ㅂ inflation rate for 1998 at 9 percent or less and has requested tha t the government pursue a stringent monetary policy to reduce the total liquidity (M3) so as t o realize the inflation target.

The first half of 1998 is likely to see market interest rates at the level of around 20 percent due to tight monetary policy. But rates are expected to be reduced to around 18 percent if uncertainty in the domestic financial market is removed to a reasonable extent.

Foreign Exchange Rate

Influenced by the foreign exchange shortage, the won depreciated rapidly to an excessively low level.

It is our analysis that an optimum level for a real effective exchange rate was 1,068 won as of the end of November and will be 1,100-1,200 won in the second half of 1998 in view of continued depreciation of the currencies of Koreaㅁㄷ ㅕ ㅂ foreign trade competitors against th e dollar even after December 1997.

This is because the government has lacked policy consistency and political implications have tended to deteriorate Koreaㅁㄷ ㅕ ㅂ external credibility.

Therefore, the won-dollar exchange movement will largely depend upon the recovery of external credibility, the lack of which has brought on the current foreign exchange crisis.

It is also possible that the exchange rate will improve inasmuch as the positive trend in the current account will tend to ease pressure on foreign exchange demand.

The exchange rate will be normalized only if external credibility is recovered, the foreign stock investment ceiling is raised and the domestic debenture market is opened to foreign competition, thus eliminating foreign exchange shortages, in addition to the normalization of the domestic financial market.

3. Economic Management & Policy Under the IMF Program

Macroeconomy

Major accords with the IMF

Maintenance of balanced foreign exchange supply and demand.

To this end, macroeconomic policies will be so implemented as to peg 1998 GDP growth at 3 percent, reduce 1998-1999 current account deficit to 1 percent of GDP and allow price increases of 5 percent or less.

Influence & Outlook

In 1997, the shortfall in the current account was halved and the economic and price growth rates were reduced Ñ indications that the economy has been in the process of a balanced contraction.

Even following the IMFㅠㄷ ㅕ ㅂ decision to help bail Korea out of its currency crisis, instability i n the financial sector and foreign exchange market remained strong with the result that th e dishonored bill rate soared and enterprise investment sentiment remained withered.

The market interest rate rose to near the legal ceiling of 25 percent per annum, and Hyundai, Samsung and other business conglomerates announced plans to slash equipment investment by 30- 40 percent in 1998.

The world economy is expected to continue a mid-term expansion through the year 2000, irrespective of the currency crisis being experienced in Southeast Asia.

In the event that the current financial and foreign exchange crisis is overcome and the high interest rate is normalized after the first quarter of 1998, it will be possible for Koreaㅠㄷ ㅕ ㅂ economy to witness around 2.6 percent growth in 1998. On the other hand, if the financia l crisis is aggravated and many more enterprises fail, consumption and investment will steepl y decrease to mark an inevitable negative growth rate in 1998.

Countermeasures

It is necessary to minimize the adverse impact on economic growth of decreased SOC investment by effectively readjusting SOC project priorities.

It will also be possible to raise government funds by floating national bonds overseas by offering as collateral proceeds from privatization of state-run enterprises or shares of the enterprises to be denationalized.

Currency & Interest Rates

Major accords with the IMF

In order to peg price inflation at 5 percent or less in 1998, an ultra-stringent monetary policy is to be implemented and increased available foreign exchange reserves will be promoted. To this end the total currency reserves will be readjusted.

No Bank of Korea financial aid to support a specific enterprise will be allowed.

Influence & Outlook

A continued high market interest rate is likely. It is possible that the market rate may top the 20 percent level. But, if the financial system is stabilized in the second half, the interest rate will decrease.

Credit will become more scarce and the resulting higher interest rate will lead to increased bankruptcies and the current economic slump will be aggravated.

Countermeasures

Enterprises need to endeavor to secure more liquidity as the short-term capital market will be further squeezed. In the long-term, enterprises need to enhance external credibility so as to make it easier for them to induce foreign capital.

They also need to concentrate efforts to explore overseas markets now that international competitiveness has been enhanced with the depreciation of the won, rather than endeavoring to boost domestic demand.

It is necessary to open fully the short-term capital market, deposits and national/public bond markets so as to induce timely foreign capital.

The possibility of a rupture of the financial system due to the ultra-stringent monetary policy, obliging enterprises to go insolvent despite their favorable business outlook, should be discussed with the IMF.

Financial Market
Major accords with the IMF

The foreign investment ceiling was raised to 50 percent of each listed stock as of December 11, 1997. The ceiling on foreign investments per listed firm will be further raised to 55 percent in 1998.

From December 12, 1997, foreign investment in debentures issued by major enterprises has been partially allowed, i.e. up to specific ceilings for individuals and for a listed item. No ceilings will be imposed on debentures issued by small and medium enterprises.

The short-term capital market will be opened to foreign investors earlier.

On December 16, 1997, the daily fluctuation limit for foreign exchange was replaced by a free floating exchange rate system.

Influence & Outlook

Foreign investment in the stock market is unlikely to increase rapidly and promptly inasmuch as anxieties about the Korean government and private enterprises have yet to be resolved.

Merger and acquisition of domestic enterprises by foreign firms will become easier as restructuring of domestic enterprises becomes less complicated. Thus, measures need to be worked out to effectively cope with attempts for hostile M&As.

In view of the uncertain economic situation of Korea, it will be difficult to expect prompt and large inflows of foreign capital through the debenture market.
Countermeasures

Efforts need to be made to secure internal capital as much as possible, and to adequately prepare to meet the rigid credit evaluation and screening criteria of foreign loan applications to induce foreign capital.

Restructuring of enterprises must be promoted centered around core businesses, making investments on a selective basis, and strategic alliances with foreign firms need to be promoted. The government needs to endeavor to restructure financial institutions as soon as possible so as to eliminate financial instability and restore confidence.

Epoch-making measures are needed in order to establish firmly a responsible management system for financial institutions.

The domestic financial market needs to be opened fully and promptly to foreign investors so as to overcome the current financial crisis.

Financial Industry

Major accords with the IMF

Dissolution/consolidation of financial institutions is required (merchant banks by March 1998; banks by June; and other financial institutions by September 1998).

Full-fledged opening of all financial sectors is needed in 1998.

Enactment of a financial institution reform law within 1998 must be pursued.

Influence & Outlook

Protracted tight money supply and bankruptcies of small financial institutions are anticipated.

It is likely that the current tight money supply may last through the first half of 1998, with banks being preoccupied to observe the BIS-imposed net reserve requirement.

All of the domestic financial industry will be opened in full in 1998.

The tight capital situation of enterprises will be aggravated due to the refusal to extend loan maturity dates and continued collection of maturing loans.

Countermeasures

Prompt dissolution/consolidation of insolvent financial institutions for the sake of stabilizing the domestic financial market is required.
Continued operation of pending business of the financial institutions subject to suspension of business through a financial liquidation agency (a bridging bank) must be assured.

Increased access to loans by cash-strapped enterprises with promising outlooks must be pursued by establishing a kind of dedicated 흫indowÓ at a special bank so as to prevent their bankruptcies.

All banks need to be allowed to handle CP and those banks with government equity should increase handling of CP.

Foreign Exchange Market

Major accords with the IMF

A flexible foreign exchange rate policy must be implemented.

Foreign exchange reserves sufficient to finance imports for two months must be established.

The expansion of ceilings on foreign investments in listed shares must be accomplished.

The gradual liberalization of foreign capital inducement must be pursued.

The gradual expansion of foreign investment in short-term and debenture markets must be pursued.

Influence & Outlook

Influx of low-interest foreign loans

Increased opportunities for inducement of capital at home and abroad

Price increases stimulated by money supply in the overseas sector

Increased prices of listed shares and real estate

Macroeconomic uncertainty influenced by frequent influx and outflow of short-term hot money

Encroachment by foreign capital in domestic financial institutions and industries

Countermeasures

Prompt recovery of international credibility through sincere implementation of IMF accords

Education of the public on differences between reality and perception in regard to IMF accords

Abolition of remaining restrictions on inducement of foreign commercial credit

Enhancement of domestic enterprisesÕ credibility to facilitate the inducement of foreign loans

Preparation of management systems to handle enterprisesÕ risk which might occur due to early economic opening

Industrial Structure
Major accords with the IMF

Restrained price increases through stringent monetary supply

Maintenance of stringent monetary policy, increased crude oil tax and special excise tax, expansion of tax standards, and decreased social infrastructure and other capital expenditures within a limited framework

Elimination of trade-related subsidies, abolition of the current system of diversifying import sources (to curtail imports from Japan) and regulatory import restrictions, and enhancement of transparency in import verification procedures

Increased ceilings for foreign investment in stocks, and approval of foreign investments in domestic short-term capital market and product and debenture markets

Elimination of restrictions on domestic enterprisesÕ borrowings overseas and easing of regulations concerning mergers and acquisitions.

Introduction of international accounting standards, auditing by external auditors, and introduction of a consolidated financial statement system

Enforcement of a law related to bankruptcies, abolition of various support and preferential tax measures for the support of a specific enterprise, and prohibition of forced mergers of enterprises

Enhancement of a flexible labor market

Influence & Outlook

Domestic demand slump from protracted economic downtown, declined profitability from increased taxes and decreased tax incentives, high market interest rate stemming from tight monetary supply and withered investment sentiment, and strengthened free market principles are likely to result in restructuring of such basic industries as automobiles, petrochemicals, semiconductors and iron/steel products and bring about changes in core specialization of business conglomerates.

Automobiles: major structural change is likely. Elimination of the import diversification policy and enhancement of transparency in import verification procedures will boost automobile imports from Japan and the United States.

Semiconductors: Increased investment will be difficult with the increased import prices of semiconductor-related equipment due to the steep depreciation of the won, the difficulty in securing investment funds due to the tight money supply, and other difficulties under the policy of reducing the practice of mutually guaranteeing debts between affiliates of business conglomerates.

Iron and steel products: The world market for iron/steel products has been experiencing difficulties due to increased inventories and some quarters are inclined to foresee problems arising from excessive investment in the industry.

Construction: It will be inevitable to reduce SOC and other major national projects. The prevailing high-interest rate will wither the housing financing market, while reduced household financing will see a further slump in housing construction.

Petrochemicals: New installation of production facilities will be restricted due to over-investment. Profitability will decline and export competitiveness will also fall due to cost increase caused by the sharp depreciation of the won.

Shipbuilding: Due to large-scale expansion of shipbuilding facilities coupled with a slump in global demand for vessels, the need for restructuring will be accelerated and M&A between large shipbuilding firms are anticipated.

Due to weakened policy loans, the system of restricting overall loans, the system of designating small and medium businesses, systematic development of small and medium enterprises and the collective optional contract system in favor of small and medium enterprises, on top of the strengthened free market system, the position of small and medium enterprises will be further weakened.

Countermeasures

It is necessary to foster core businesses, work out measures to defend managerial rights, and reform the financial structure.

The government for its part needs to remove barriers to the establishment or dissolution of businesses, support enterprisesÕ efforts to defend their managerial rights, allow the establishment of genuine holding firms, and help renovate enterprise management.

Conglomerates Policy

Major accords with the IMF
Opening of capital market and expansion of foreign investment ceiling (up to 50 percent per listed company)

Reduction of cross-debt guarantees

Introduction of consolidated financial statements

Influence & Outlook

Increased M&As by foreign companies

Inevitable decrease in borrowings due to the reduction of cross-debt guarantee system

Exposure of financial information of conglomerates

Countermeasures

Consolidation of affiliated firms on the basis of profitability, readjustment of equities, and establishment of measures to prevent hostile M&As

Effective measures to secure adequate liquidity to cope with elimination of cross-debt guarantees and deteriorating loan terms

Conglomerate consolidated financial statements made transparent through consolidation of their affiliates as well as strengthening of investor relations (IRs)

Foreign Trade Policy
Major accords with the IMF

A timetable needs to be established for the implementation of the following items in line with the IMF concession program at the time of initial inspection:

Abolition of foreign trade-related subsidies, import approval system and import diversification program

Enhancement of transparency in import verification procedures

Influence & Outlook

There is the possibility of advancing by one or two years the original schedule for completely opening the domestic market. Moreover, the nature and extent of the domestic market opening are likely to be further promoted.

Problems could arise over excessive global investments in automobile, semiconductor, and shipbuilding production facilities. Developed countries may well attempt to maintain superiority in the global production of these items. Long-term damage to Koreaㄸㅕㅂ development o f automobiles, semiconductors, and electronics products is anticipated.
Countermeasures

Efforts on the part of enterprises themselves to restructure are initially required. Especially close cooperation between automobile manufacturers to restructure their production facilities is necessary. Stepped up efforts are also needed to further develop technology and quality of products.

The government for its part should accept the reasonable demands of the IMF in the follow-up negotiations. It must, however, forcefully raise its objections to any irrational demand proposed by the IMF. The government needs to assume a more active give-and-take involvement in its follow-up negotiations with the IMF. It also has to make public as much of the negotiation process with the IMF as possible to facilitate the understanding of business enterprises and the general public.

It is necessary to prevent hostile mergers and acquisitions of excellent domestic enterprises with foreign firms through improper methods.

Finance & Taxation

Major accords with the IMF

A strict monetary policy needs to be maintained to lessen the burden of money supply management and raise funds required to restructure financial institutions.

The 1998 consolidated fiscal balance may deteriorate to around 0.8 percent of GDP.

Influence & Outlook

The 1998 general budget passed by the National Assembly is scaled at 70.26 trillion won Ñ an increase of 4.0 percent over 1997, or a surplus equivalent to 0.2 percent of GDP if based on the consolidated fiscal balance.

The total state revenue for 1998 has been set at 78.82 trillion won Ñ increases of 6.5 percent over 1997 and 11.7 percent over the estimated amount.

Due to changes in economic conditions and to achieve restructuring of financial institutions, it appears that a fiscal shortfall equivalent to about 1.5 percent of GDP is anticipated. (It is necessary to increase revenues by about 7.2 trillion won and cut expenditures from the consolidated budget including the general budget, special accounts, and various funds.)

Government expenditures centered around support for private enterprises will be decreased.

In order to raise tax revenues, the scope of tax exemptions and reductions will be narrowed, while transportation and special excise tax rates will be raised.

Countermeasures

General administrative expenditures will be reduced and downsizing and reorganization of government organizations will be implemented.

Readjustment of the government budget will be completed early on.

The IMF accord will be the basis for an early reform of tax administration

Employment

Major accords with the IMF

Enhance labor market flexibility

Strengthen employment insurance

Influence & Outlook

Early implementation of layoffs for restructuring, legalization of detachment of workers, and expansion of employment on a contract basis

Acceleration of M&As and restructuring
Reduced productivity resulting from increased unemployment and unstable employment outlook

Countermeasures

Efforts toward international competitiveness through rationalization of manpower management

Efforts to minimize unemployment fears of workers

Expansion of enterprises eligible for application of unemployment insurance and extension of unemployment benefit payment period

Expansion of service system for job stability

Easing of regulations impeding flexibility of labor market

Enhancement of labor market flexibility in public sector

Government Countermeasure
Enhancement of Policy Transparency

Improvement of transparency of government statistics to raise external reliability and public credibility

Establishment of special measures to prevent collapse of the financial system and corporate bankruptcies

Operation of Crisis Management Team

Establishment and operation of economic crisis management and political power transfer teams

Downsizing of Government

In order to eliminate inefficiency and ensure sharing of pain with the private sector, the government structure and public officials will be downsized.

Organizations under the government umbrella undertaking semi-government functions will be abolished and their functions transferred to private agencies.

Undertake a feasibility review of the Seoul-Pusan high-speed railway project and other demonstration-oriented projects and reduce nonessential, non-urgent government investment projects.

Transform high-cost, low-efficiency industrial structure through reform of regulations and prompt elimination of illegal collaboration between political and business entities.

Promptly reform various policy regulations related to finance, land, transactions, trade and foreign exchange.

Undertake an overall reform of policy measures necessary to resolve conflicting issues between management and labor as well as other adverse effects likely to be generated in the course of further negotiations with the IMF.

Establish systematic government support measures to accelerate enterprise restructuring and to augment the crisis management capability of the government.

Journal of Economic Policies & Measures
(October-December, 1997)
December 16
Ministry of Finance & Economy abolishes 10 percent daily fluctuation limit on the foreign exchange rate. The current system of foreign exchange transactions for individuals based on the weighted average rate of the previous day remains intact.

Ministry of Finance & Economy implements approval standards and support measures for merger of financial institutions.

December 13

Ministry of Trade, Industry and Energy implements support measures for the oil refining industry including a stay of assessment of petroleum import duties.

December 12

Small and Medium Business Administration expands technological support for small and medium businesses.

Ministry of Finance & Economy holds expanded economic ministersÕ meeting, presided over by President Kim.

Ministry of Finance & Economy holds a working-level meeting to discuss follow-up measures to IMF accords.

December 11

Ministry of Finance & Economy sets up the IMF countermeasures committee.

December 9

Ministry of Finance & Economy decides to invest in Korea First Bank and Seoul Bank.

December 6

Ministry of Finance & Economy suspends operations of Koryo Securities Co.

December 5

Ministry of Trade, Industry & Energy announces its plan to revise enforcement regulations of the Small Business Promotion Law and Procurement of Small Business Products.

Small and Medium Business Administration announces 40 billion won will be released for technological reform of small businesses in 1998.

December 4
Ministry of Trade, Industry & Energy establishes confirmation procedures, etc. for venture enterprises.

December 3
Ministry of Labor announces employment stabilization measures.

December 2

Ministry of Finance & Economy announces measures for business suspension of merchant banks and business renovation measures.

November 28

Bank of Korea takes over debentures to facilitate restructuring of financial institutions.

November 25

Ministry of Finance & Economy augments depositorsÕ protection system.

November 21

Ministry of Labor announces 75 businesses subject to employment support measures.

November 19

Ministry of Finance & Economy raises daily fluctuation limit of foreign exchange rate from 2.25 percent to 10 percent.
Ministry of Finance & Economy announces overall measures to stabilize the financial market and restructuring of financial institutions.

November 14

Ministry of Finance & Economy announces establishment of venture enterprise capital market.

Ministry of Trade, Industry and Energy announces enforcement regulations for Special Measures Law for Development of Venture Enterprises.

November 1

Ministry of Finance & Economy implements a set of foreign exchange management regulations designed to balance foreign exchange and supply and to stabilize the value of the won.

October 19

Ministry of Finance & Economy announces measures for stabilizing domestic financial market.