

May, 1997 Vol. 7



KERIE

Quarterly

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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 through 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.

KERI Economic Quarterly

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1. Recent Developments & Outlook

1) Developments in 4th Quarter 1996 & 1996

(1) 1996 GDP (excluding changes in inventories) may drop to 6.2 percent—below the potential growth rate

Our economy, which marked a 7.2 percent growth in terms of GDP in the last quarter of 1996 thanks to favorable agricultural and fishery turnover, finished the year with a 7.1 percent growth record—down 1.8 percentage points from 1995 (8.9 percent)—due to a continued slump through the first three quarters.

It may be said that 7.1 percent growth is rather favorable, considering the ongoing economic downturn and the potential growth rate of the Korean economy; however, the actual growth rate excluding increased inventories would have been no more than 6.2 percent. In fact, inventories in 1996 stood at 2.24 trillion won at 1990 prices, thereby contributing 0.87 percentage point to economic growth.

The fact that the last quarter of last year marked a higher growth rate than was anticipated earlier last year, i.e., 6.5 percent in the last quar-

ter and 6.9 percent for the whole of 1996, was attributable to favorable yields of agriculture and fishery industries coupled with increased consumption growth and expanded growth in the volume (18.5 percent) of exports.

In the manufacturing sector, the last quarter of 1996 saw growth of just 7.4 percent—markedly lower than the 10.5 percent of 1994 and 10.8 percent of 1995—influenced primarily by stunted growth in chemical and heavy industrial products as well as light industrial products. The service and construction sectors, however, marked growth rates of around 10 percent, thanks to increased distribution and communications markets, and expanded civil engineering and construction projects induced by increased government investment, respectively. The forestry sector, which witnessed negative growth in the previous year, and favorable yield of agriculture and fishery sectors also marked a 6.2 percent growth, slightly higher than in the previous year.

(2) Economic contraction led by lagging manufacturing industry in terms of production and by stunted growth in facility investment in terms of demand

Our economy, which witnessed 9.8 percent growth in four consecutive quarters through the third quarter of 1995, has experienced a rapid slowdown since the last quarter of 1995, due to rapid expansion in production capacity, blunted growth in exports under pressure of a weakening yen and stunted facility investment. In particular, private consumption growth, which hit 9.0 percent in the first quarter of 1995 from a year earlier, dropped to the 6 percent level since the last quarter of 1995 on a year-to-year basis

(3) Contraction in private consumption set in earlier than anticipated, more than offsetting continued export growth

The won depreciated by approximately 11 percent between the second half of 1995 and the end of 1996, however, more rapid depreciation of the yen vis-a-vis the U.S. dollar has continued to slow Korea's exports.

Exports during the last quarter tended to recover from the sharp downturn, rising in terms of volume by 18.5 percent. But due to the unfavorable performance in the preceding quarters, the year saw a 3.7 percent growth (on a customs basis) in value and a 14.1 percent growth in terms of volume.

In terms of volume, exports still assumed the role of a locomotive in leading our economy in

1996 amidst blunted facility investment and stunted growth in consumption.

Facility investment, which traditionally has led to lead business expansion along with exports, peaked in the second half of 1995. Thanks to a 17.0 percent increase in transportation equipment in the last quarter, a 13.7 percent growth in facility investment was achieved from a year earlier. This helped to sustain a growth in facility investment of 8.2 percent in 1996—about one-half of the level of the previous year (15.8 percent).

During 1995 the construction sector witnessed an 8.7 percent growth centered around nonresidential building projects; however in spite of somewhat expanded investment in social infrastructure, the sector registered growth of just 2.8 percent in the last quarter of last year due to a slump in housing construction. Thus the whole of 1996 witnessed just 6.3 percent growth from the previous year.

Private consumption growth, too, began sliding from a peak in the first quarter of 1995 and marked 6 percent growth in the second half of 1996—less than the potential GDP growth rate.

The central government endeavored to raise government spending by 1.0 percent through structural reorganization of the government in 1995 to 7.1 percent in 1996 through increased

personal and other expenditures. But the growth in government spending dropped from 7.2 percent in the previous year to 6.9 percent in 1996. This is explained that in the wake of economic boom the “overshooting” in the private sector did not last long this time, contributing practically little to stall the economic downturn.

(4) Current account deficit hits 4.9% of GDP due to deteriorated trading terms and weakened competitiveness

The annual current account deficit snowballed in 1996 and hit the highest-ever record of US\$23.72 billion or the equivalent of 4.9 percent of GDP. This resulted from deteriorated foreign trade terms that pushed up the trade deficit to US\$15.28 billion. On top of this, the invisible trade and unrequited transfer deficit doubled from 1995, to account for one-third of the total deficit.

On a customs clearance basis, Korea's exports fell to the lowest growth rate of 3.7 percent since 1990 at US\$129.72 billion. On the other hand, imports marked an 11.3 percent growth to US\$150.34 billion—a record since 1991.

In the import sector, growth in facility imports dipped to the one-digit level, reflecting the depressed market situation. But imports of consumer goods rose sharply to 20 percent to regis-

ter an annual record of US\$143.53 billion, influenced by expansion of import liberalization, full-scale opening of the distribution market, improved propensity of the people to spend commensurate with increased income and influx of cheap products from emerging nations.

Meanwhile, the overall balance in the current account dropped back once again since 1991 to US\$5.74 billion.

(5) Inflation hits target through stabilized agricultural and fishery product prices and imports

Domestic price growth slowed in 1996 inasmuch as, except for crude oil prices, overseas prices remain stabilized coupled with favorable agricultural and fishery yields since May 1995, when producer prices rose 5.2 percent and consumer prices rose 5.1 percent. Thus the government's price stabilization targets for 1996 were realized.

Despite some increases in public utility rates and service charges, producer price growth stood at 3.5 percent at year-end and consumer prices at 4.5 percent—or the same level as the previous year—thanks to favorable agricultural and fishery yields.

Meanwhile, while producer and consumer prices were pegged at within 5 percent last year,

the GDP deflator registered 3.4 percent as compared with 5.4 percent in 1995. This result came as the rise in service deflator was more than offset by decreased import prices and stabilized prices of manufactured goods

(6) Interest rates continued to rise since second half

During April-May 1996, the yield on debenture and call money dropped to the lowest levels to date—11.0 percent and 9.5 percent, respectively. Thereafter, some ups and downs were witnessed in market interest rates but during the last quarter they stood at 12.6 percent. Although the economic downturn continued and the bank reserve rate was lowered, the city interest rates remained high. This occurred for three reasons:

First, it was because enterprises' capital demand increased due to stunted exports and lagging domestic demand. Financial institutions assumed the main role of supplying money to enterprises.

Second, with the overhaul of secondary financial institutions, their capital became limited. On top of this, with reorganization of the trust system, trust funds became scarce. Thus, funds of banks, trust accounts, investment and trust firms were limited. To make matters worse, a protracted bearish stock market prompted them to resort to call money and issuance of CDs. Under these

circumstances, the capital situation of the secondary institutions deteriorated.

Third, amid increasing capital demand and uncertain capital supply prospects, city interest rates began to rise.

2) Recent Developments & Outlook for 1997

(1) 1997 GDP may grow 5.2% due to continued economic depression

In the last quarter of 1996, GDP growth rate hit 7.2 percent thanks to favorable turnover in the agriculture and fishery sector, increased government consumption, and reaction to slow growth since a year earlier. The first quarter of 1997 saw a shrinkage of exports, strikes over labor law reform, and the outbreak of the Hanbo scandal which tended to slow GDP growth in the first half of this year, pulling down GDP growth to around 5.2 percent.

Externally the protracted weak yen and strong dollar is casting a dark cloud over the economic recovery of our country.

In the private consumption sector, since the second half of 1996 domestic consumption and wholesale businesses remained stunted through the first quarter of 1997. This unfavorable trend is

likely to continue through the end of this year. In the past, private consumption leveled off gradually after the beginning of an economic downturn thereby cushioning the rapid economic downturn. With the economic downturn this time, however, the private consumption growth rate dropped below the economic growth rate as early as the third quarter of 1996. This trend is likely to continue, sustaining the economic downturn through the lingering growth in private consumption.

In 1996 the nominal income in urban households rose 12.6 percent, while on the other hand, nominal consumption of households was up 13.4 percent. Thus, the consumption trend and marginal consumption did increase. In the quarterly breakdown, however, the consumption growth trends rapidly decreased in the second half of the year—from 14.7 percent in the first quarter to 17.2 percent in the second quarter, 11.1 percent in the third quarter, and 10.9 percent in the last quarter—thereby accelerating the economic downturn. Consumption trends of households show that the savings of urban households are likely to rise from 26.1 percent in the first half of this year to 33 percent in the second half.

(2) Economic downturn to last even after last quarter of 1998—a period of technical rebound

In 1997, an overall recovery in exports and facility

investment that led economic recovery in the past is not likely. With private consumption falling rapidly since the second half of 1996, and inasmuch as readjustment of inventories and operating rates are likely to recover in 1997 and the effect of the won's depreciation is expected to be felt, it is likely that the current economic downturn will bottom out following the last quarter of 1997.

This projection is possible inasmuch as the export growth rate is expected to recover to 10 percent after the third quarter of 1997. This outlook is further supported by the mid-term favorable economic cycle of advanced nations, with a global recovery now expected for our major export items like petrochemicals, iron and steel products, and semiconductors.

Facility investment also is likely to pick up shortly, after winding up facility reviews of investment plans which have been in the doldrums ever since the last quarter of 1995. Thus, the investment confidence of enterprises is expected to revive after 1998.

In Korea, facility investment booms have traditionally lasted seven to nine years followed by two to three years of respite. We have already undergone two years of respite (1992-1993), and barring the abrupt and acute export setbacks we recently suffered, facility investment is likely to become animated after the second half of 1997

when the factory operating rate falls to around the 70-percent level following the readjustment of inventories.

(3) In the short term, exports rely on changes in price competitiveness

It appears that despite efforts made so far to improve the economic structure our efforts to leap out of the economic downturn are being held back by our economic structural problems. It still appears that we need to boost exports to get out of this economic downturn and that in the short term export recovery needs a recovery of price competitiveness.

Relatively high wages, interest rates, distribution costs, land prices and administrative expenditures still remain unaddressed throughout this economic downturn. In the short term, enterprises need to look to exchange rates and other factors that may boost price competitiveness, rather than attempting to improve quality to compete in the world market.

(4) First half of 1997 to see accelerated adjustment of inventories and factory operating rates

Inventories that were maintained at around 20 percent above average last year have come to decrease since the last quarter of 1996. In particu-

lar, during January and February of this year, production and shipment growth has come to level off to around 5 percent while, on the other hand, growth in inventories dropped to 15 percent from a year earlier. It now appears that restrictions on production and shipment will be eased after the second quarter of this year.

Inventory levels that rose sharply after the third quarter of 1995 began to decline after the last quarter of 1996; nonetheless, in the first two months of this year inventory growth still maintained a double-digit rate (15.8 percent). This leads us to the forecast that the high inventories will be largely cleared in the first half of 1997. As a result, the plant operating rate will be reduced to around 70 percent in the first half of this year.

(5) Psychological mood to accelerate depression of facility investment and private consumption

Facility investment, which enjoyed marked growth of 13.7 percent in the last quarter of 1996, is likely to be stunted again due to falling private consumption since December last year, the labor strikes, bankruptcy of a couple of major enterprises, and an uncertain political outlook. Thus, enterprises' facility investment growth will fall short of the level of a year earlier. Private consumption growth also has been declining since the first quarter of 1996 to mark growth of just 4

percent as compared with 8.3 percent in 1995 and 6.4 percent in the second half of 1996.

(6) Export recovery in the first half delayed due to weakening yen

On the demand side, the weakening won that continued throughout the second half of 1996 and accelerated during the first quarter was expected to slow its pace from the second quarter; but it is unlikely that that depreciated won of the first quarter will result in any significant boost in our exports.

Exports declined in the second half of 1996. During the first quarter of this year, exports dropped by 5.5 percent from a year earlier. Following an approximate 14 percent depreciation in the won within a year, since the second quarter of 1996, some export items showed signs of recovery, and the adverse export trend is likely to be reversed after the second quarter of this year.

Protracted weak exports are attributed to the weakening yen since the second half of 1996 which is like-

ly to remain at the level of 120 yen per US\$1 this year. Thus, it is likely that our exports will remain stagnant due to weak price competitiveness against the yen involving our major export items.

Such export prospects stem from the fact that 1997 will see an average won-dollar exchange rate of 900 won per US\$1 or a depreciation of about 12.5 percent from 1996.

(7) Facility investment may decline due to withered investment confidence

Facility investment, which began contracting since the second half of 1995, witnessed annual growth of 15.8 percent in 1995, 8.2 percent in 1996, and appears ready to further wither this year with a forecast to mark a negative 3.9 percent growth. Such a prediction is possible after taking into account the current production trends and high inventories as well as the decline in plant operating rate, and the expectation that the current economic contraction period is likely to be protracted beyond 1998.

Housing Construction Trends

(Unit: 1000 Houses)

1993	1994	1995	1996
695	623	619	592

Source : Ministry of Construction and and Transportation

(8) Continued lackluster construction trends in 1997

Construction investment growth last year stood at 6.3 percent due to lagging construction of buildings during the second half of the year. This year, the growth rate is likely to further drop to 3

percent. This is because the government reduced the budget for social infrastructure under its stringent monetary policy. The housing construction sector, too, will remain dull, influenced by the fact that some 90,000 units of apartments remain unsold throughout the country.

Outlook for 1996 & 1997

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

	1996				1996	1997				1997
	1/4	2/4	3/4	4/4		1/4	2/4	3/4	4/4	
GDP	7.8	6.9	6.6	7.2	7.1	5.2	5.3	5.5	5.0	5.2
Manufacturing	7.7	6.5	7.0	8.4	7.4	5.9	5.5	5.7	5.3	5.6
Total consumption expenditure	7.5	7.2	6.2	6.9	6.9	4.4	4.6	4.9	4.6	4.6
Private consumption	7.7	7.4	6.2	6.5	6.9	4.4	4.7	5.1	4.7	4.7
Total fixed capital formation	8.2	5.2	8.0	7.2	7.1	-0.2	0.5	0.5	0.7	0.4
Equipment investment	4.9	4.6	9.3	13.7	8.2	-3.3	-4.0	-3.8	-3.9	-3.8
Construction investment	11.2	5.6	7.1	2.8	6.3	2.5	3.8	3.9	4.0	3.6
PPI	3.1	1.8	2.3	3.5	2.7	3.6	4.0	3.8	3.2	3.6
CPI	4.9	5.0	5.2	4.9	5.0	4.7	4.4	5.0	5.0	4.8
Current account balance	-46.4	-52.4	-74.8	-63.6	-237.2	-79.4	-57.2	-39.5	-44.3	-220.4
Trade balance	-25.5	-30.9	-55.9	-40.4	-152.8	-55.7	-37.5	-20.2	-20.7	-134.1
Exports	315.0	325.5	297.2	344.8	1,282.5	305.6	332.0	341.3	375.0	1,353.8
Growth (%)	20.5	3.9	-6.5	1.5	4.1	-3.0	2.0	14.8	8.7	5.6
Imports	340.5	356.4	353.2	385.2	1,435.3	361.3	369.6	361.5	395.7	1,487.9
Growth (%)	18.7	7.8	8.4	14.7	12.2	6.1	3.7	2.4	2.7	3.7
Invisible trade balance & Unrequited transfers	-20.9	-21.5	-18.8	-23.2	-84.4	-23.7	-19.7	-19.3	-23.6	-86.3
Won exchange (F.V.)	782.7	810.6	821.2	844.2		892.8	910.1	900.0	891.0	
Yen exchange (E.V.)	106.4	109.9	111.4	116.0		123.8	126.0	123.7	119.0	
Global trade unit price (F.V.)	-1.0	-2.0	-2.3	-2.4	-1.9	-0.5	-0.7	0.0	-0.5	-0.4
Global trade volume (F.V.)	4.0	6.6	6.2	4.9	5.4	9.8	6.4	6.0	5.5	6.8

Sources: Korea Economic Research Institute

Notes: In the current account balance section, the figures are based on B.O.P. account and the unit is 100 million dollars.

F.V. denotes exogenous variable

(9) Limited inflation probable under mounting pressure, although prices stabilized in the first quarter despite won depreciation

During the first quarter of 1997, consumer and producer prices rose modestly by 4.9 percent and 3.1 percent from a year earlier, respectively, thanks to the efforts of government and favorable agricultural and fishery yields. However, there still remain inflationary factors, including increases in private service fees, increases in energy prices from depreciation of the won, and rises in some manufactured goods. Consequently, this year may witness a 4.7 percent growth in consumer prices and 3.2 percent growth in producer prices.

Overall, inflation in the demand sector is expected to remain low, due to lower wage increases and stunted private consumption. It is likely, however, that upward adjustment in public utility rates and private service charges coupled with the Presidential election this December may adversely affect the price situation this year.

(10) Protracted economic downturn feared due to withered investment confidence

When viewed from the perspective of a normal economic cycle, the domestic economy should bottom out after the last quarter of this year. In this instance, the economic contraction period would have lasted for 27 months versus the previous average of 19 months. The fact, however, is that recovery of investment confidence will require more time than usual.

For example, the investment plans of major enterprises as surveyed by the FKI and KDB in November 1996 showed that they plan a nominal investment increase of 0.6 percentage point from last year. According to a similar survey of the Ministry of Trade, Industry and Energy of 200 major enterprises made last February, their facility investment will mark a negative 2.1 percentage points this year. This indicates that private enterprises' investment will further wither.

(11) Overseas interest rates up, domestic interest rates stabilized

Facility Investment Trends

(Unit: %)

1994	1995	1996	1997(pres.)
47.0	40.4	21.0	-2.1

Source : Ministry of Trade, Industry and Energy Feb. 12, 1997

In the midst of the economic downturn in 1997, demand for operating funds of enterprises has been eased and investment funds declined as well. Price inflation also is likely to register a decrease of some 0.5 percentage point from last year.

Overseas interest rates are likely to rise this year. The United States is likely to raise interest rates, influenced by brisk business and by the need to discourage inflation. In Japan, interest rates may also be raised to discourage inflation resulting from upward readjustment of excise taxes from the second half of this year. Germany may also be tempted to raise interest rates when and if business recovers in the second half of the year.

The market interest rate (yield of debentures), which rose to 12.6 percent in December 1996, has been lowered, thanks to flexible application of the government's monetary policy. Low market interest trends may continue for a while, influenced by the protracted export slump, blunted domestic demand and withered investment confidence, although there are uncertain factors in the domestic capital market coupled with the potential threat of financial insolvency on the part of some major enterprises. When export recovery becomes clearer, or where the forthcoming Presidential election and other factors touch off inflation, it is possible that market interest rates will swing upward.

As factors that can lower market interest rates,

there is abundant liquidity of financial institutions resulting from a further lowering of the bank reserve rate, additional raising of the foreign stock investment ceiling, expanded scope for foreigners' investment in small and medium-size enterprises without guarantees, permission to float bonds overseas, and expansion in the category of firms qualifying for inducement of foreign credits, including cash loans.

Nonetheless, market interest rates may not be lowered if the government withdraws the extra liquidity generated by lowering the bank reserve rate by way of selling national bonds, or if the government restricts the anticipated scope of capital market liberalization.

(12) Depreciation of yen is likely to slow after second half of this year due to expanding trade surplus and economic recovery

In 1996 Japan recorded a trade surplus of US\$566 billion on a customs clearance basis—a 32.4 percent decline from 1995. In trade with the United States, its surplus last year decreased by 16.5 percent to US\$298 billion. Due to the weakening yen, Japan has been marking increased trade surpluses recently. As of April 1997, the yen was traded at over 126 yen per US\$1—a fact that suggests a tacit agreement between the two countries on the yen-dollar exchange rate.

On the other hand, the wholesale price index in

Japan has been falling year after year since 1992. At the end of 1996, Japan's wholesale price index dipped 0.8 percentage point. In December 1996, the unit prices of both exports and imports showed increases. Procurement of vehicles and other items were increasing. The consumer price index also has been rising, despite plans to raise excise taxes.

Japan's unemployment rate during May-June 1996 stood at 3.5 percent, the highest level since 1953 when the unemployment rate was estimated for the first time.

This being the case, the dollar will remain strong until after interest rates in the United States are raised in the first half of this year, business recovers in Japan and Germany and their interest rates are raised in the second half of this year.

(13) Won-dollar rate is likely to be at the 890 won per US\$1 level at the end of this year, while pressure for further depreciation is anticipated in the second quarter

Due to the increased influx of foreign exchange in the wake of the opening of the stock market, the won began to depreciate in early 1994, and marked 756 won per US\$1 at the end of July 1995. Influenced further by a strong dollar and expansion of the current account deficit, the won began to depreciate rapidly thereafter to 844 won per US\$1 at the end of 1996, and hit 890 won per US\$1 in April 1997.

There still remains pressure for further depreciation of the won. However, the rate will be maintained at 890 won to the dollar at the end of this year in view of the likelihood that the strength of the dollar may be eased, an increased influx of foreign capital due to easing of the economic contraction, and the possible recovery of exports.

On the other hand, there are still factors pushing further depreciation of the won, including the strong dollar on the international capital market since mid-1996, increased domestic demand for the dollar to offset the growing current account deficit, decreased influx of foreign capital due to a protracted bearish market and increased sales of the won in favor of the dollar.

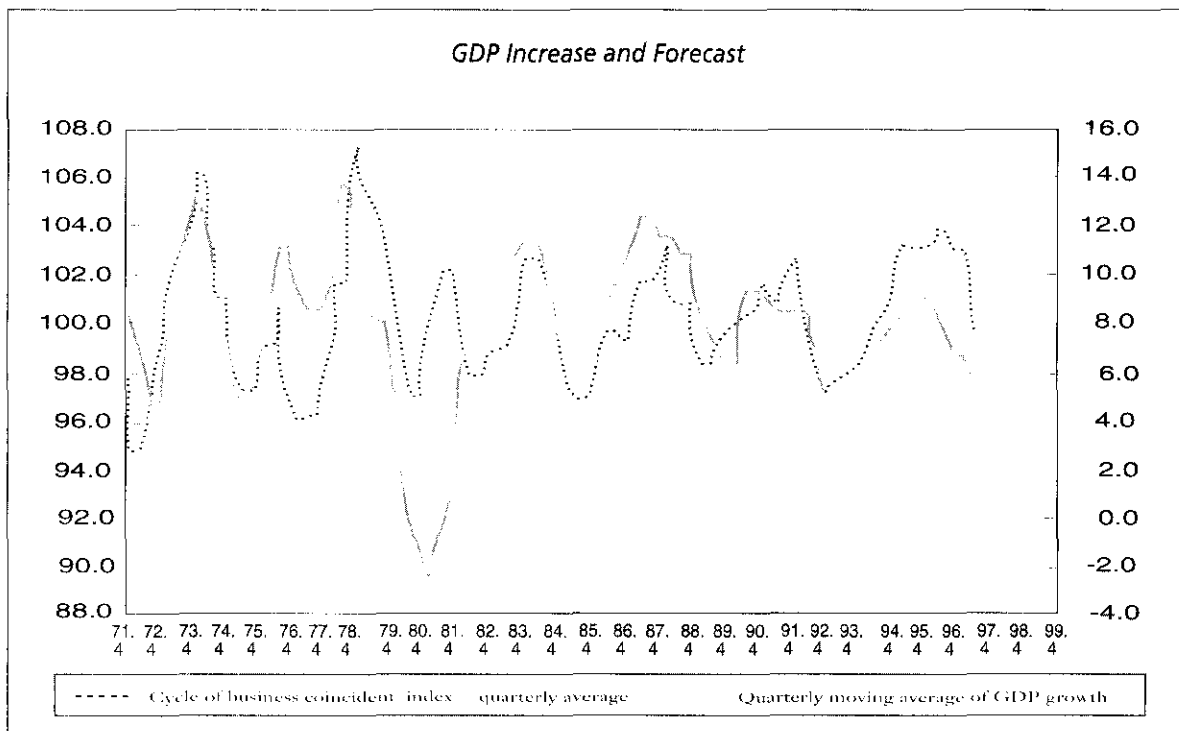
In 1996, a total of US\$16.8 billion was induced on a short/long-term basis. This sum will not exceed US\$20 billion in 1997, the first full year Korea will have been affiliated with the OECD, in order to maintain the exchange rate and currency reserve at optimum levels. Of the US\$3 billion offered for loans (US\$2 billion for the procurement of locally-produced machinery and US\$1 billion for imports of foreign capital goods), the total amount applied for was no more than US\$2.05 billion, including US\$2.2 million applied for by major enterprises allowed for participation in such loans. Of the US\$500 million earmarked for local governments, the actual application amount totaled US\$8.5 million.

2. Macroeconomic Policy Issues and Recommendations

1) Recent Macroeconomic Environment

Our economy has been experiencing a full-scale economic contraction since the second half of

1996 as GDP growth fell to 6 percent in the last quarter of 1995 and exports began to register negative growth since the third quarter of 1996, coupled with declining growth in investment, consumption and other domestic demand.



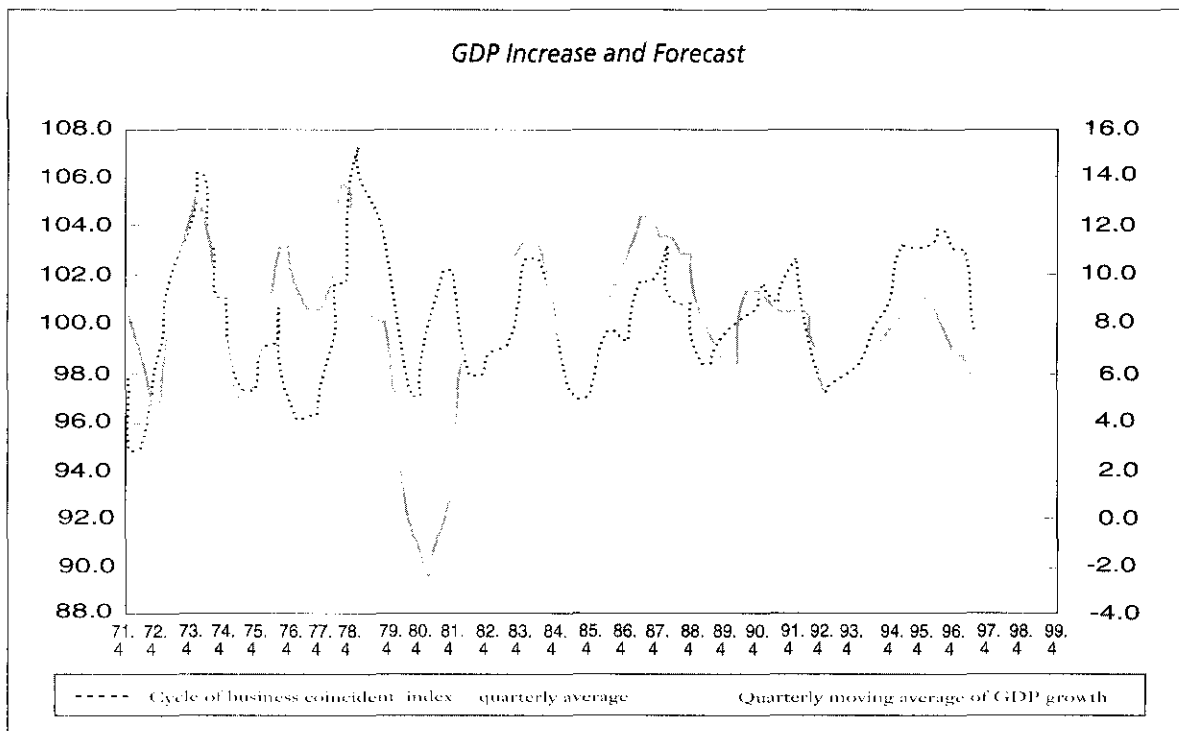
Note: Moving average GDP growth — Quarterly average

2. Macroeconomic Policy Issues and Recommendations

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Note: Moving average GDP growth --- Quarterly average

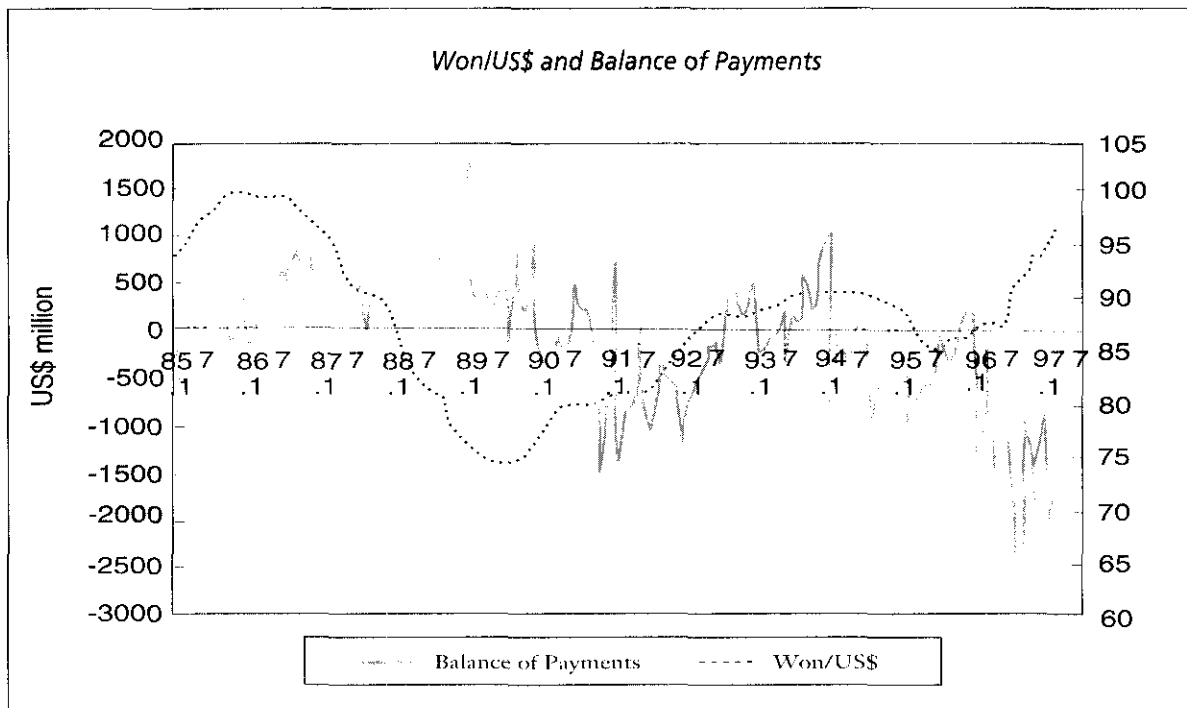
Macroeconomic Policy Issues and Recommendations

Furthermore, the weakening yen, which hit 120 yen per dollar in January 1996, is expected to continue to remain weak through the end of 1997. And, the government has not been considering economic stimulation measures in its 1997 macroeconomic program.

This being the case, the usual economic contraction cycle which traditionally has lasted no longer than six quarters is now likely to be protracted to over nine consecutive quarters this time. Also, GDP growth, which dropped to 7.1 percent in 1996, is now likely to fall to 5.2 percent in 1997.

In particular, recovery of the competitiveness of major domestic products in the world market is likely to be further delayed in view of a) the high economic growth of the United States in the first half of this year and an accompanying increase in interest rates, and b) the slow recovery of Japan's economy that may lead to a protracted weak yen.

On the other hand, import growth has been outstripping export growth with the result that 1997 is likely to witness a current account deficit of around US\$22 billion. In addition, there has been mounting pressure for inflation.



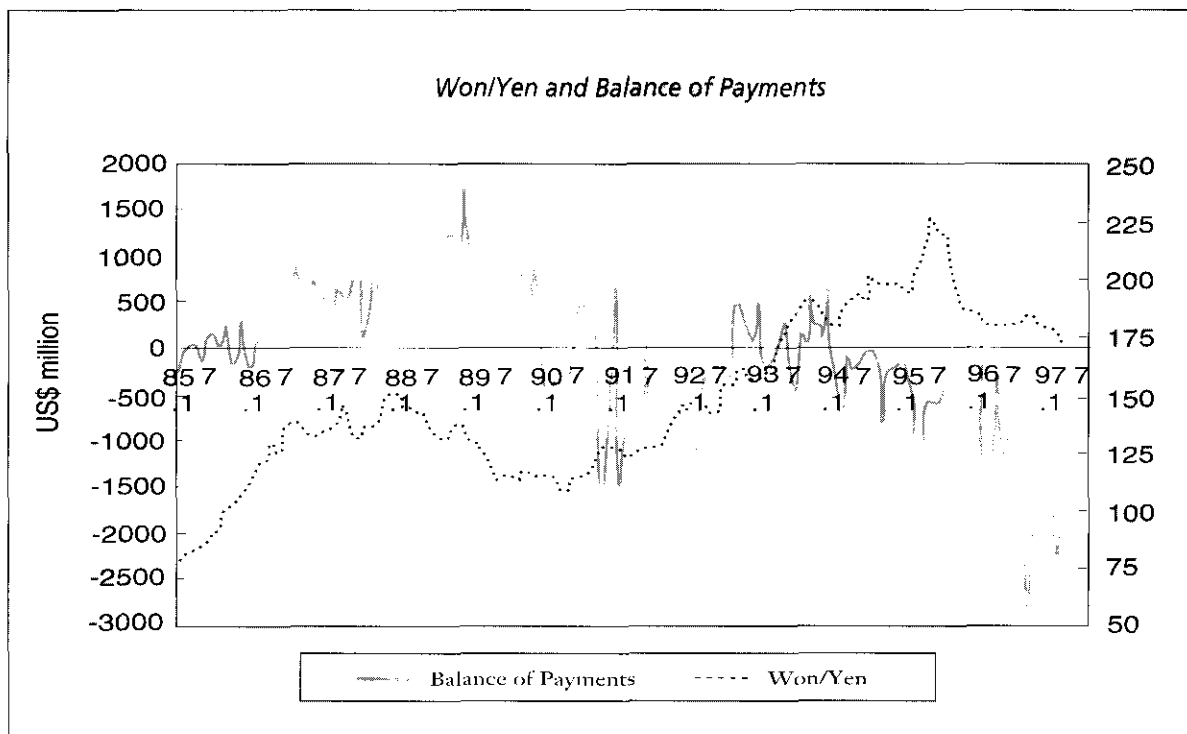
Note: Won/US\$ exchange for September 1985 is set at 100.

According to our forecast of quarterly GDP growth rates, the moving average growth rate is likely to decline through the last quarter of this year, and the current economic downturn is expected to bottom out after the last quarter of 1997.

Irrespective of the fact that the world economy in general has been favorable in terms of growth, trade and finance, the won has depreciated considerably since last April, while remaining strong vis-a-vis the yen. Exports of our major items have been blunted (in the first quarter of 1997, our

exports marked a 5.5 percent negative growth from a year earlier), and it appears no significant recovery in our exports is in sight.

Depreciation of the won, which began accelerating in December 1996, still is failing to help recovery of export competitiveness. The effect of the recent won depreciation will come to be felt two or three quarters later. On the other hand, the depreciation of the won will relatively slow imports and facility investments, meaning the deficit in the current account will not be significant.



Note: Won/ Yen exchange for September 1985 is assumed at 100.

Thus, our economy needs to solve two conflicting issues: attainment of an optimum level of economic growth in an economic contraction period and the need to minimize the current account deficit. On top of this, the government needs to use this economic contraction period to reform our economic structure.

2) Macroeconomic Policy Issues and Recommendations

Our macroeconomic policy needs to a) minimize the current account deficit, b) maintain an optimum level of economic growth, and c) reform our economic structure.

A new macroeconomic policy is needed to deal with current circumstances where the economic downturn has yet to bottom out while the deficit in the current account is snowballing and the need to reform economic structure is acute.

It should also be noted that the expanded current account is not so much due to overheated domestic demand as to a) liberalization of the capital market linked to the outset of the World Trade Organization and Korea's affiliation with the OECD that brought about an over-valuation of the won, b) expansion of market liberalization, and c) liberalization of overseas travel and students' study overseas in line with the globaliza-

tion policy of the government.

Therefore, in order to ease the current account deficit, it is more feasible to let the won depreciate according to market mechanisms rather than through a frugality campaign to suppress consumption.

Simultaneously, currency and fiscal policy should be directed toward coping with the potential threat of inflation and stabilizing the economy, rather than toward any expansion program that is apt to further expand the current account deficit or in favor of stringent monetary policy to reduce the current account deficit. The very fact that no macroeconomic plan to ease economic depression has been validated through the experiences of OECD nations is instructive.

In view of this, any macroeconomic policy hereafter should be designed to flexibly allow monetary policy to make it possible to spontaneously rebound a contracted economy, without resorting to an extremely stringent monetary policy.

(1) On currency and credit policy

— Positive short-term measures needed to ease tight monetary policy within the framework of a stable money supply —

The implementation of a flexible monetary policy within the framework of a stable monetary policy is required to avoid further contracting the economy during this time of uneasy financial conditions touched off by bankruptcies of Hanbo and Sammi and by the problems at Jinro, which is on the verge of bankruptcy.

During 1996, the money supply was kept stable, this despite stunted economic growth and decreased demand growth on the part of enterprises. Partially responsible was the absorption into total money supply (M2) of trust accounts (estimated at about 1.4 percent of M2) and institutional change to include MCT as another monetary index. Apart from such systemic changes, the money supply was stable in general, and this led to stabilization of market interest rates.

Nonetheless, in 1997, unrest in the capital market has prevailed, triggered by bankruptcies of a couple of business groups.

It is believed it is now high time for the central bank to apply positive flexible monetary policy in order to cope with a strained financial market.

(2) Fiscal Policy

— Excessive fiscal restraint policy in parallel with frugality movement is apt to deepen economic contraction —

The government has set as its fundamental policy decreased private consumption and fiscal restraint in a move to reduce the deficit in the current account. In general, fiscal surplus is being sought as an effective means to combat the current account deficit; however, under the current situation of weak aggregate demand where the economic downturn is yet to bottom out, it is necessary not to overlook the need to seek an economic softlanding and expansion of social infrastructure to boost investment.

Such extreme measures as consumption-restraint and paring social infrastructure projects at this juncture is likely to further aggravate the economic downturn. In 1996 a setback in tax revenue is expected, and the 1997 budget (up 13.4 percent over 1996) was designed to raise the people's tax burden. It is believed that it would be more feasible for the government to resort to the innate fiscal function of automatic stabilization, rather than attempting to collect extra taxes through a supplementary budget (in order to adjust business conditions or to expand social infrastructure).

Under the current situation where the nominal growth rate has been falling further than was anticipated, the irrational resorting to tax measures to attain tax revenue targets, or readjustment downward of the original budget to reduce fiscal spending, it should be noted, is apt to

Macroeconomic Policy Issues and Recommendations

Government's Financial Scale

(Unit: %)

	1994	1995	1996	1997
Government's financial increase	16.8	15.1	14.8	13.7
(General accounts)	(15.6)	(16.7)	(16.2)	(12.8)
(Long-term loans)	(36.4)	(-6.7)	(-7.5)	(33.9)

Note: On the basis of compilation of the budget

adversely affect the current economic downturn coupled with a psychological withering of the public's investment confidence.

(3) Maintenance of optimum exchange rate to balance international payments

The expanded current account deficit stems from the over-valuation of the won caused by excessive influx of foreign capital in the wake of the opening of the capital market. Another major factor is found in the misalignment of the foreign exchange structure under which the yen by far depreciated more rapidly against the dollar than the depreciation of the won against the dollar.

Therefore, it is recommended that the won-dollar exchange rate be maintained at an optimum level in order to reduce the current account deficit, rather than reducing domestic gross demand which is liable to prolong the current economic downturn.

— Current account deficit has to be addressed by the maintenance of the won at its substantial value —

It is desirable that the current 890 won per US\$1 exchange rate, at this time when the dollar continues strong and the current account is expanding, should be free to properly reflect its substantial market value.

During the last decade (1985-1995), the U.S. consumer price index rose by an average annual rate of just 3.5 percent, whereas our consumer price index rose as much 5.8 percent; thus the won has been under pressure to depreciate at more than 2 percent a year based on its purchasing power. In fact, the current won-dollar exchange rate is at the same 890 won per \$1 rate registered in 1985. Such a high value of the won resulted from primarily the influx of foreign capital into the domestic capital market in the wake of capital market liberalization.

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At this time when the trade deficit has been increasing and the foreign exchange reserves have been decreasing, the interference of the central bank in the foreign exchange market is apt to bring into question the credibility of the central bank, thereby inviting doubt about the capability of the central bank to manipulate the foreign exchange market. Such is the unfavorable effect of the interference of the central bank in the

exchange market.

It must also be noted here that any direct manipulation to prevent the depreciation of the won in an attempt to prevent outflow of foreign exchange, as experienced in Mexico, is liable to bring about a foreign exchange crisis. The foreign exchange crisis in Mexico was touched off by the artificial maintenance of the peso at a high value.

Foreign Exchange Holdings

(Unit: US\$ 100 mil.)

1996					1997		
June	September	October	November	December	January	February	March
365.6	328.4	322.3	323.2	332.4	310.0	298.0	292.0

Economic Status and Forecast for Asian NIES

(Unit: %, billion)

		1995	1996	1997
Taiwan	Real GDP Growth	6.1	5.6	5.4
	Balance of Payments	8.1	9.5	8.8
Hong Kong	Real GDP Growth	4.6	4.5	4.0
	Balance of Payments	-19.0	-22.8	-25.2
Thailand	Real GDP Growth	8.6	7.2	7.6
	Balance of Payments	-17.2	-23.2	-23.5
Indonesia	Real GDP Growth	8.1	7.8	7.3
	Balance of Payments	4.5	5.0	3.5
Malaysia	Real GDP Growth	9.5	8.3	8.2
	Balance of Payments	-3.7	-6.1	-6.8

Source: Nihonkeizai Research Center

— Lowering of the yen should be sought through international cooperation with advanced nations —

Since 1995 the yen has depreciated over 50 percent against the dollar and yet, in spite of Japan's growing surplus of trade with the United States since November 1996, the yen still remains weak. Therefore, the NIES (newly-industrialized emerging states) including Korea, which are competing with Japan on the world market, have been experiencing difficulties due to weakened competitiveness.

Inasmuch as the yen-dollar issue no longer remains an issue between just the United States and Japan nor that of the economic sphere of advanced nations alone, it is high time that our government should, through OECD, urge redressing of the exchange rate misalignment. This is because the distorted exchange rate alignment has been undermining economic development of NIES in Southeast Asia.

(4) Industrial Structure Realignment Necessary

Government efforts are now needed to help support redressing of our distorted industrial structure by availing itself of this opportunity in times of the economic downturn and fine tuning of short-term macroeconomic measures.

— Enhancement of economic efficiency through a flexible labor market —

Korea, in the process of its economic development, has experienced continual wage increases to the point that our wage level is now much higher than that of other nations in terms of per capita national income. This has been impeding efforts to enhance international competitiveness in part. This being the case, the government should ease various labor-related restrictions and enable enterprises to flexibly adjust their labor work force.

Currently, it is rather difficult to temporarily lay off workers. In fact, there are many regulations impeding the flexible employment of workers. Therefore, the existing labor-related restrictions should be eased and rationalized and thus help boost labor productivity and improve Korea's industrial competitiveness.

Stabilized wages at a competitive level are required for the improvement of international industrial competitiveness. Therefore, it is necessary to adjust wages to be commensurate with labor's productivity level. Nonetheless, the wage issue will be better stabilized when and if the welfare of workers, which lags behind other nations in terms of social security, housing accommodations, and education areas, is improved.

— Removal of exit-barrier for structural improvement —

It is necessary to create a system that can facilitate structural changes through the amelioration of bankruptcy-related regulations as seen in the Federal Bankruptcy Act of the United States and the Company Revitalization Law being implemented in Japan.

Dissolution of insolvent firms or the exit of declining industrial firms should be facilitated on a long-term basis. Elimination of firms unable to honor their bills should be carried out through a merger and acquisition process or through competition among interested firms.

Procedures for the exit of insolvent enterprises should be eased for efficient structural adjustment. Relief measures for those firms must include detailed criteria on sharing sunk costs caused by exit and on fiscal subsidies if required.

In order to normalize cash-strapped enterprises and/or to help improve the structure of firms, it is necessary for the banking institutions concerned to pool their resources to come to the aid of such firms. It's worthy of note, therefore, that some financial institutions have agreed on an accord for the prevention of the bankruptcy of the Jinro Group and to jointly endeavor to revitalize such firms.

Nonetheless, such an accord should not be used to artificially keep from bankruptcy those firms that have no future at all, so as to stimulate structural improvement of our national economy. By the same token, it is necessary to objectively diagnose the business potential of the enterprises involved for rescue efforts; the exit of those firms that have completely lost competitiveness should not be checked. Such relief measures should be accorded to only those firms that have potential development prospects and thus that can contribute to the development of the economy in the end.

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	2/4
Private consumption	7.6	8.3	7.7	7.4	6.2	6.5	6.9	-	-
Durable consumer goods	11.8	11.6	8.0	10.5	4.8	6.0	7.3	-	-
Semi-durable consumer goods	6.1	9.2	6.7	6.7	6.6	6.8	6.7	-	-
Non-durable consumer goods	5.2	6.1	5.3	3.6	4.1	3.8	4.2	-	-
Services	8.7	9.0	9.3	8.6	7.5	7.6	8.3	-	-
Government consumption	4.2	1.0	6.8	5.9	6.3	9.1	7.1	-	-

Source : The Bank of Korea

Consumption-Related Indices

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

	1994	1995	1996				1997		
	Year	Year	Jan.	Feb.	3/4	4/4	Year	Jan.	Feb.
Retail and wholesale	8.0	7.8	5.3	11.5	6.4	6.0	7.0	1.4	3.3
Wholesale	9.8	6.9	7.0	7.6	4.9	4.4	5.2	0.7	2.4
Retail	6.1	8.6	3.7	15.6	8.6	7.7	8.9	2.0	4.3
Shipment of consumer goods	9.2	7.4	6.2	6.3	1.9	5.9	5.2	-3.2	-0.9
Durables	12.3	10.7	8.5	5.8	0.9	8.8	6.8	-12.5	7.1
Non-durables	7.7	5.7	4.9	6.5	2.4	4.2	4.2	1.9	-4.9

Source : National Statistical Office

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Facility Investment Trends

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

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

Source: The Bank of Korea

Facility Investment and Related Indices

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

	1994	1995	1996			1997		
	Year	Year	Jan.	Feb.	Year	Dec.	Jan.	Feb.
Local orders for machinery	26.9	15.8	34.3	6.0	14.3	0.6	-27.5	-5.6
I/Ls issued for machinery	51.6	3.3	15.8	87.6	16.0	-19.5	-74.2	2.1
Machinery imports	21.5	19.2	8.8	-4.1	13.9	5.3	-3.9	-7.5
M/Cs shipped for domestic market	37.6	27.0	45.1	12.4	12.2	-2.7	2.9	-0.3

Source: National Statistical Office

Construction Investment Trends

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

	1994	1995	1996				1997		
	Year	Year	1/4	2/4	3/4	4/4	Year	1/4	2/4
Construction investment	4.5	8.7	11.2	5.6	7.1	2.8	6.3	-	-
Building construction	2.2	10.7	6.4	-1.3	0.4	-3.7	0.2	-	-
Other construction	8.1	5.8	23.8	17.1	19.4	10.0	16.1	-	-

Source : The Bank of Korea.

Construction Investment and Related Indices

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

	1994	1995	1996					1997		
	Year	1/4	2/4	3/4	4/4	Year	1/4	2/4	3/4	
Local construction orders received	18.5	21.2	47.4	11.6	17.5	20.5	21.4	2.7	39.9	
Public construction	17.0	17.6	173.5	46.8	10.6	39.4	44.7	8.0	32.7	
Floor area of construction permits	19.4	23.2	12.2	-0.8	22.3	7.6	9.1	-1.5	46.3	
Private construction	-1.3	1.0	-7.4	-16.7	27.6	-5.5	-3.0	8.3	-12.7	
Residential	-8.5	-1.2	-8.3	-9.3	20.6	-5.9	-2.5	17.2	-16.0	
Commercial	11.0	3.8	-13.3	-24.3	36.4	-5.4	-5.9	-2.1	-9.6	
Industrial	16.8	3.3	-10.2	-29.1	12.8	18.4	-13.2	-29.7	-39.3	

Source : National Statistical Office

Composite Indices

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

		1995		1996			1997	
		4/4	Year	3/4	4/4	Year	Jan.	Feb.
Leading composite index	0.6	0.0	1.1	0.2	0.8	0.1	0.0	0.0
Coincident composite index	0.2	0.1	0.7	0.8	0.3	0.6	-0.7	-0.1
(Cycle of composite index)	101.9	101.5	101.7	102.0	101.9	102.0	100.9	100.3
Post composite index	0.4	0.4	0.7	0.3	0.1	-0.1	0.8	-0.3

Source : National Statistical Office

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Employment & Wage Trends

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

	1995		1996			1997	
	4/4	Year	3/4	4/4	Year	Jan.	Feb.
Economic activities ratio	62.1	62.0	62.7	62.5	62.0	60.6	60.7
Unemployment ratio	1.8	2.0	1.8	2.0	2.0	2.4	2.6
Wage increase in overall industry	10.2	11.2	12.7	11.1	11.9	13.4	-
(Manufacturing)	(8.3)	(9.9)	(12.0)	11.4	12.2	12.4	-

Price Trend

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

	1996				1997					
	Feb.		Mar.		Jan.		Feb.		Mar.	
	Month-to-month change	Year-to-year change	Month-to-month change	Year-to-year change	Month-to-month change	Year-to-year change	Month-to-month change	Year-to-year change	Month-to-month change	Year-to-year change
PPI	0.6	3.7	-0.3	2.2	1.0	3.6	0.6	3.6	-0.2	3.8
C.PI	0.4	5.1	0.8	4.5	0.8	4.7	0.6	4.9	0.4	4.5
Export price	-0.4	-1.1	-0.5	-2.6	0.9	3.7	1.9	6.1	0.6	7.3
Import price	-1.4	-2.8	-0.7	-4.4	1.3	5.4	0.3	7.2	-0.7	7.3

Source: The Bank of Korea

Economic Growth and Government's Fiscal Scale

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

	1994	1995	1996	1997
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 government)	31.4	19.8	9.5	7.9

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	Jan.	Feb.	Jan.-Feb.
By product	Total	318.3 (21.5)	294.5 (3.5)	301.1 (-7.5)	334 (2.1)	1,247.9 (3.7)	90.6 (-8.7)	94.1 (-4.8)	184.6 (-6.8)
	Chemical/ heavy industrial products	225.0 (25.3)	223.7 (0.1)	196.0 (-14.0)	230.1 (-1.6)	874.8 (0.9)	59.0 (-16.7)	63.0 (-9.7)	122.0 (-13.2)
	Light industrial products	73.8 (12.6)	87.3 (9.7)	80.7 (3.4)	77.8 (7.0)	319.6 (7.5)	23.2 (3.5)	22.8 (-1.3)	46.0 (1.1)
By region	Developed countries	152.4 (18.0)	145.3 (-8.7)	131.9 (-17.6)	142.4 (-19.1)	572 (-8.0)	38.9 (-20.7)	40.2 (-15.8)	79.1 (-18.3)
	Developing countries	165.9 (25.0)	189.2 (16.9)	168.1 (4.6)	191.8 (11.6)	715 (14.1)	51.6 (3.0)	53.9 (5.4)	105.5 (4.2)

Source : Ministry of Trade, Industry and Energy

Recent Import Trends (customs clearance basis)

(Unit : US\$100 million, % of year- to-year change)

		1996				Year	1997		
		1/4	2/4	3/4	4/4		Jan.	Feb.	Jan.~Feb.
Total		356.8 (16.8)	370.6 (6.7)	371.8 (7.7)	404.1 (14.4)	1,503.2 (11.3)	125.2 (3.9)	114.9 (0.1)	240.2 (2.1)
By product	Raw materials	185.1 (19.0)	187.6 (9.4)	174.6 (3.5)	197.6 (7.9)	744.9 (10.2)	67.9 (2.1)	63.6 (2.1)	131.5 (4.0)
	Capital goods	133.6 (12.0)	140.5 (0.2)	152.5 (10.1)	161 (18.5)	587.6 (10.0)	44.0 (0.5)	39.9 (-2.5)	83.9 (-1.0)
	Consumer goods	38.1 (25.1)	42.5 (18.9)	44.7 (17.8)	45.4 (21.3)	170.7 (21.2)	13.4 (6.1)	12.0 (-1.5)	25.3 (-1.0)
By region	Developed coun- tries	233.3 (13.9)	246.6 (3.9)	247.8 (5.0)	258.8 (9.0)	986.5 (7.8)	73.8 (-4.7)	67.7 (-5.2)	141.4 (-5.0)
	Developing coun- tries	123.5 (23.0)	124.1 (12.6)	123.9 (14.2)	145.1 (24.2)	516.6 (18.5)	51.5 (19.6)	47.3 (8.9)	98.7 (14.2)

Source : Ministry of Trade, Industry and Energy

Appendix 1

Balance of Payments

(Unit : US\$100 million, % of year-to-year change)

			1995		Year	1996		
	1/4	2/4	3/4	4/4		Jan.	Feb.	Jan.~Feb.
Current account balance	-46.4	-52.4	-74.8	-63.6	-237.1	-31.4	-24.5	-55.9
Trade balance	-25.5	-30.9	-56.0	-40.4	-152.7	-23.3	-17.7	-41.0
Export growth (%)	20.5	3.9	-6.5	1.5	4.1	-4.4	-4.3	-4.5
Import growth (%)	18.7	7.8	8.4	14.7	12.2	6.5	0.6	3.6
Invisible trade balance	-19.2	-18.9	-17.2	-21.3	-76.8	-7.3	-5.9	-13.2
Unrequited transfer balance	-1.6	-2.6	-1.5	-1.8	-7.5	-0.9	-0.8	-1.7
Capital balance	46.3	74.6	1.1	50.2	172.2	7.1	11.7	18.8

Source : The Bank of Korea

Trend of Won Exchange Rates Against the Dollar and Yen

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

	1994	1995	1996		1997		
			Nov.	Dec.	Jan.	Feb.	March
Won/US \$	788.70 (2.46)	774.70 (1.81)	828.70 (-6.52)	844.20 (-8.23)	861.30 (-1.99)	863.90 (-2.3)	897.10 (-6.3)
Won/100 Yen	790.68 (-8.62)	749.23 (5.53)	727.79 (2.95)	726.51 (3.31)	705.69 (2.95)	715.30 (-1.5)	723.18 (-0.5)

Note: In parentheses is increase comparing the same period of previous year. Basis is end of month balance.

Source: The Bank of Korea

KERI Economic Quarterly

Money Supply (M2) by Sector

(Unit : 100 million won, %)

	1995	1996	1997			
			Jan.	Feb.	March	1/4
Government sector	-4,055	-3,375	-5,708	3,043	-2,125	-4,790
Private sector	30,065	41,243	4,793	3,220	3,349	11,362
Foreign sector	2,480	-3,531	-2,146	-1,491	-439	-4,075
Other sector	-7,723	-9,995	228	645	360	1,233
M ²	20,767	24,343	-2,833	5,418	645	3,730

Source : The Bank of Korea

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

Recent Money Supply (M2)

(Unit : 100 million won, %)

	1996		1997			
	3/4	4/4	Jan.	Feb.	March	1/4
M2 (Average Balance)	161,830	170,244	176,734	180,716	181,680	179,710
M2 Movement (Average Balance)	17.3	18.2	18.1	19.6	20.5	19.4
M2+CD (Average Balance)	16.7	16.5	17.1	17.8	17.5	17.6

Source : The Bank of Korea

Funds Raised on Capital Market

(Unit : 100 million won)

	1996					1997		
	1/4	2/4	3/4	4/4	Year	Jan.	Feb.	Jan.~Feb
Public offerings of shares	9,698	9,830	16,379	14,588	50,451	2,078	1,072	3,150
Issue of debentures	47,784	34,146	24,452	47,422	152,553	12,598	6,203	18,801
Total	57,482	43,976	40,831	62,010	203,004	14,676	7,275	21,967

Source: The Bank of Korea

Quarterly Interest Rates & Financial Conditions

(Unit : %)

	1996					1997		
	1/4	2/4	3/4	4/4	Year	Jan.	Feb.	Mar.
Call	9.37	13.49	15.93	12.20	12.20	11.67	12.14	12.97
Yield of debenture	11.44	11.70	12.40	12.45	12.45	12.00	12.40	12.50
CD	11.35	12.65	14.40	13.35	13.35	12.35	12.20	13.45
Ratio of Dishonored Bills (Nationwide)	0.16	0.12	0.12	0.14	0.14	0.21	0.24	-
(Seoul)	0.10	0.07	0.07	0.08	0.08	0.16	0.18	-

Note : 1) Call rate: daily base
 2) Yield of debenture: 3-year-maturity guaranteed debenture
 3) Yield of CD: 91 day base
 4) The figures are based on the end of each period

Source: The Bank of Korea

Recent Economic Policies & Measures

(January - April, 1997)

April 24

Ministry of Finance & Economy announces an agency will be set up to effectively dispose of nonperforming debentures and bonds and to help self-rescue efforts of some insolvent firms.

April 21

Ministry of Finance & Economy outlines a plan to overhaul the current customs tariff rates.

April 18

Office of Small Business Administration says efforts will be made to aid securing ISOs for production base technologies.

April 17

Ministry of Industry, Trade and Energy announces a plan to recruit specialists to improve administration.

April 16

Office of Small Business Administration expands testing equipment for small- and medium-size enterprises.

April 16

Ministry of Finance & Economy announces an amendment bill to the enforcement regulations of the Tax and Waiver Law.

April 9

Office of Small Business Administration announces import of CALS system.

March 31

Office of Small Business Administration announces measures to foster venture businesses.

March 28

Ministry of Finance & Economy announces a three-phase price liberalization for life insurance.

March 27

Ministry of Finance & Economy announces final phase of general accident insurance qualification.

March 26

Ministry of Finance & Economy announces third-phase liberalization of reinsurance for fire and other special insurance.

March 25

Office of Small Business Administration announces a plan to prevent bankruptcy of small businesses.

March 12

Office of Small Business Administration announces support for small firms that are victimized due to Hanbo bankruptcy.

March 8

Office of Small Business Administration announces a plan for expansion of POS system.

February 28

Ministry of Finance & Economy announces completion of a standard plan for electronic wallets (financial IC cards).

February 14

Ministry of Finance & Economy announces amelioration of the system for establishment of new securities firms.

February 13

Ministry of Finance & Economy announces a plan to revise enforcement regulations for excessive land income tax.

February 12

Ministry of Finance & Economy announces a plan to revise enforcement regulations for the Inheritance & Grant Tax Law.

February 11

Office of Small Business Administration says a database will be established to support

small businesses.

February 10

Ministry of Finance & Economy revises the regulations enforcing Merger and Conversion of Financial Institutions.

February 9

Ministry of Finance & Economy announces amelioration of the system for establishment of insurance businesses.

February 6

Ministry of Finance & Economy announces an amendment bill to enforce regulations for Juridical Persons' Law.

February 4

Office of Small Business Administration announces a plan to support prospective small businesses.

February 1

Office of Small Business Administration

announces enforcement regulations for the Special Law for Support of Small Business.

January 30

Ministry of Trade, Industry & Energy unveils the first safety check plan for 1997.

January 28

Ministry of Finance & Economy revises enforcement regulations for the External Audit System for Companies.

January 14

Ministry of Finance & Economy announces a plan to ameliorate the system of concentrated deposits of negotiable securities.

January 3

Ministry of Finance & Economy revises fiscal regulations to pave the way for opening government procurement to foreign competition.

Statistics (I)

Economic Growth, Consumption and Investment

Year/Month	Economic Growth		Per capita GNP	Consumption		Investment		
	GDP	Mfg ind.		Total	Private	Total fixed investment	Equipment	Construction
	Year-to-year change (%)		U.S.\$	Year-to-year change(%)				
1990	9.5	9.7	5,883	10.1	10.7	25.9	18.8	31.2
1991	9.1	9.1	6,757	9.3	9.5	12.6	12.1	13.0
1992	5.1	5.1	7,007	6.8	6.6	-0.8	-1.1	-0.6
1993	5.8	5.0	7,513	5.3	5.7	5.2	-0.1	8.9
1994	8.6	10.4	8,508	7.0	7.6	11.8	23.6	4.5
1995	8.9	10.8	10,037	7.2	8.3	11.7	15.9	8.7
1996	7.1	7.4	10,548	6.9	6.9	7.1	8.2	6.3
1996. 3	7.8	7.7	-	7.5	7.7	8.2	4.9	11.2
6	6.9	6.5	-	7.2	7.4	5.2	4.6	5.6
9	6.6	7.0	-	6.2	6.2	8.0	9.3	7.1
12	7.2	8.4	-	6.9	6.5	7.2	13.7	2.8
1997. 1	-	-	-	-	-	-	-	-
2	-	-	-	-	-	-	-	-

Trade and International Balance of Payments

Year/Month	Trade				Balance of payments			Foreign exchange reserves 1)	Exchange rate (W/US\$)		
	Exports (FOB)		L/C arrivals	Imports (CIF)	I/L issued	Trade balance	Current balance			Total balance	
	US.\$ mil.	Year-to-year change (%)		US.\$ mil.	Year-to-year change (%)	US\$ 100 mil.			End of Year/Month		
1990	65,016	4.2	4.4	69,844	13.6	21.8	-2,004	-2,179	-274	14,822	716.4
1991	71,807	10.5	5.2	81,525	16.7	9.4	-6,980	-8,728	-3,741	13,733	760.8
1992	76,632	6.6	4.7	81,775	0.3	-10.3	-2,146	-4,529	-4,898	17,154	788.4
1993	82,236	7.3	6.2	83,800	2.5	8.5	1,860	385	6,542	20,262	808.1
1994	96,013	16.8	15.7	102,348	22.1	40.3	-3,145	-4,531	2,822	25,673	788.7
1995	125,058	30.3	13.4	135,119	32.0	33.1	-4,749	-8,948	3,034	32,712	774.7
1996	129,715	3.7	-4.4	150,339	11.3	9.0	15,278	-23,716	-5,737	33,237	844.2
1996. 7	9,897	-5.6	3.8	12,792	12.6	24.2	-1,769	-2,347	-2,538	35,062	813.3
8	9,687	-8.7	-11.0	12,958	12.5	5.6	-2,906	-3,618	-2,172	33,557	819.4
9	9,992	-8.9	-3.8	11,404	-1.8	1.0	-920	-1,512	-1,053	32,087	821.2
10	11,848	2.8	-1.0	13,554	15.5	15.7	-1,828	-2,524	-1,169	32,229	831.3
11	11,399	-0.6	-3.4	13,361	12.5	-7.9	-1,262	-1,946	-132	32,317	828.7
12	12,220	-3.9	-6.9	13,597	15.2	14.2	-949	-1,888	85	33,237	844.2
1997. 1	9,122	-8.1	0.8	12,515	3.9	-	-2,326	-3,143	-1,918	30,966	861.3
2	9,399	-4.9	-10.1	11,499	0.1	-	1,772	-2,448	-2,030	29,760	863.9

Note : This index includes estimates

1) Based on long-term capital balance

Statistics (I)

Prices, Unemployment and Interest Rates

Year/Month	Prices ²⁾		Unemployment rate	Nominal wage (mfg. ind.)	Currency ³⁾		Interest rate (Year-to-year change (%))		
	Producer	Consumer			M1	M2	Rediscount	Time deposit ⁴⁾	Yield of debenture ⁵⁾
	Year-to-year change (%)		(%)	Year-to-year change (%)					
1990	4.2(7.2)	8.6(9.4)	2.4	20.2	18.1	21.2	7.0	10.0	16.5
1991	4.7(1.9)	9.3(9.3)	2.3	16.9	16.1	18.6	7.0	10.0	18.9
1992	2.2(1.6)	6.2(4.5)	2.4	15.7	32.3	18.4	7.0	10.0	16.2
1993	1.5(2.0)	4.8(5.8)	2.8	10.9	22.1	18.6	5.0	8.5	12.6
1994	2.8(3.9)	6.2(5.6)	2.4	15.5	11.9	15.6	5.0	8.5-10.0	12.9
1995	4.7(3.4)	4.5(4.7)	2.0	9.9	11.6	15.5	5.0	7.5-10.0	13.8
1996	2.7	5.0	2.0	-	9.3	16.2	5.0	7.5-9.0	11.9
1996. 6	1.6	5.5	1.9	9.7	9.8	16.2	5.0	7.5-9.0	11.6
7	2.3	5.6	1.8	14.1	9.2	17.1	5.0	7.5-9.0	11.9
8	2.3	5.3	1.9	6.0	8.9	17.4	5.0	7.5-9.0	12.3
9	2.3	4.7	1.8	16.0	9.2	17.4	5.0	7.5-9.0	12.2
10	3.3	5.1	1.8	12.1	9.6	18.8	5.0	7.5-9.0	12.1
11	3.8	4.8	2.0	12.7	6.1	18.2	5.0	7.5-9.0	12.2
12	3.5	4.5	2.3	10.2	8.8	17.8	5.0	7.5-9.0	12.6
1997. 1	3.6	4.7	2.6	-	5.5	18.1	5.0	7.5-9.0	12.2
2	3.6	4.9	-	-	5.9	19.6	5.0	7.5-9.0	12.2

Notes : 2) Figures in parentheses denote year-to-year change in December.

3) M1 and M2 represent average balances 4) Refers to interest on over 1-year time deposits; from Dec. 5, 1988 refers to interest on one-year to less than two-year time deposits 5) For domestic market

Industrial Production and Demand

Year/Month	Ind. output		Demand-related indexes							
	Mfg.	Operating ratio index	Retail	Consumer goods shipment ⁶⁾	M/C orders ⁷⁾	M/C imports ⁸⁾	Construction orders	Const. permit (floor area)		
								Ind. use	Housing	
Year-to-year change (%)										
1990	8.9	2.6	10.5	15.2	38.8	20.3	55.8	31.4	17.0	49.3
1991	9.7	1.5	7.8	11.4	2.2	20.0	13.9	-9.7	6.7	-16.7
1992	5.9	-1.4	5.5	5.2	-5.2	-5.2	6.4	-10.0	-12.4	-7.4
1993	4.2	-0.6	6.4	4.0	12.1	-5.7	19.3	24.5	15.2	26.7
1994	11.0	4.4	6.1	9.2	26.9	34.2	18.5	-1.3	16.8	-8.5
1995	12.1	-0.4	8.6	7.4	15.8	37.8	21.2	1.0	3.3	-1.2
1996	8.4	-0.8	8.9	5.2	14.3	12.2	22.7	-3.0	-13.2	-2.6
1996. 7	4.6	0.7	9.5	5.0	-0.7	22.0	-13.1	46.1	22.9	33.1
8	1.4	1.2	7.7	0.4	19.5	21.4	63.7	-4.6	-10.0	-14.2
9	0.1	-1.6	8.8	0.4	10.0	4.2	12.9	43.4	30.9	44.4
10	2.4	1.1	9.8	6.2	15.1	11.7	-16.8	0.0	2.0	-2.2
11	-0.1	-0.7	8.3	6.7	29.8	13.6	48.5	6.4	-11.9	9.9
12	-0.5	-2.4	5.0	4.9	0.6	2.4	25.6	-16.0	-41.0	-16.2
1997. 1	-2.0	-6.0	2.0	-3.2	-27.5	0.3	2.7	8.3	-29.7	17.2
2	-	-	-	0.9	-5.6	-	39.9	-12.7	-39.3	-16.0

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