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Recent Developments

The third quarter of 1995 witnessed real GDP growth of 9.9 percent on a year-on-year basis, thanks chiefly to marked increases in exports, facility investment and construction. The Korean economy thus was able to maintain nearly 10 percent growth on a year-on-year basis since the last quarter of 1994 or for four consecutive quarters.

The relatively high GDP growth rate of 9.9 percent achieved in the third quarter, contrary to earlier speculation that the GDP growth would be somewhat stunted in the second half of 1995, resulted primarily from an 11.2 percent growth in the manufacturing sector due to increased exports and production of industrial machinery, an 11 percent growth in the service sector influenced by sustained growth in distribution and communications markets, a 15 percent growth in the construction and engineering sector and a 5.6 percent growth in the agro-fishery sector brought on by increased production of special crops and fish farm products. These were the key factors on the production side.

On the demand side, the spectacular growth in the third quarter resulted chiefly from a 31.3 percent increase in exports made possible by the lagged effect of yen appreciation in the first half of the year and increased production capacity brought on by increased facility investment, and a 12.3 percent growth in demand for construction investment that helped raise the growth in fixed investment to 16 percent in the third quarter.

Commodity exports rose by 31.3 percent in volume in the third quarter from a year earlier thanks to marked increases in the exports of automobiles, semiconductors and machinery. Invisible exports also rose by 15.6 percent in the quarter.

As anticipated, the growth rate in machinery investment declined from 29.1 percent in the second quarter to 20.4 percent in the third quarter. However, facility investment in transportation equipment rose 23.1 percent in the third quarter as compared with 1.5 percent negative growth in the second quarter, thereby easing to a certain extent the decline in the overall facility investment growth rate.

The construction investment sector recorded

12.3 percent growth in the third quarter, influenced by increased investment in the housing and social infrastructure sectors. The government construction sector achieved just 5.4 percent growth in the third quarter

Influenced by the government re-organization, the government consumption sector registered just 2.1 percent growth, while the private consumption sector maintained the previous quarter's growth level of 8 percent due to sustained purchases of durable and quasi-durable household goods.

The cycle of the coincident composite index in September maintained the previous month's level of 99.5, but there were signs of a contracting economic cycle, including the weakening of the yen, blunted facility investment, growing industrial bipolarization and increasing inventories.

As of the end of September last year, PPI and CPI rose 5.2 percent and 5.5 percent, respectively, from the same period of 1994. PPI and CPI in May 1995 stood at 5.2 percent and 5.1 percent, respectively. Thus, it appears that prices were stable, influenced chiefly by the stunted growth in the price of imported raw materials since the second half of 1994.

The GDP growth rate for the last quarter of 1995 is estimated at 7.9 percent over the same period of the previous year and down 2 percentage points from the third quarter of 1995, due to declining growth in facility investment and exports. In contrast, in the last quarter of 1994, the GDP rose 9.3 percent over the third quarter thanks to marked increases in exports and facility investment. Thus, the statistics reflect the downturn in the economic cycle that began in the last quarter of 1994. The GDP growth for the whole of 1995 is estimated at around 9.3 percent, however, thanks to high growth rates through the third quarter.

The growth rate of the manufacturing sector in the last quarter of 1995 is estimated at 9.2 percent and contributing to 11.1 percent growth for the whole of 1995 as compared with the 5 percent growth marked in 1994. However, the slowdown in growth rate of demand is expected to far outstrip that of industrial output in the last quarter of 1995.

On the demand side, the growth in fixed investment in the last quarter of 1995 is estimated at 9.9 percent, far less than the 16 percent marked in the third quarter, influenced by slowed growth in facility and construction investment and exports due to the weakening yen. The growth rate in fixed investment for the whole of 1995, however, will be far greater than the 5.2 percent growth marked in 1994.

The growth rate of exports in the last quarter of 1995 is estimated at 27.8 percent as compared with 38.1 percent marked in the third quarter. The decline is due chiefly to lagging exports of light industrial products and others shipped on an L/C basis. Exports will still remain the locomotive for the overall growth of the economy amidst decreasing facility investment and the lackluster growth in government and private consumption.

The export growth rate for the whole of 1995 is estimated at 32.9 percent (on BOP basis), the highest since 1987 when exports rose sharply stimulated by the three favorable factors that boosted the international competitiveness of Korean products – a low foreign exchange rate (strong yen), low oil prices and low wages.

The growth rate of facility investment in the last quarter of 1995 is likely to level off to 12.4 percent as it peaked in the third quarter, except for investment in transportation equipment as anticipated in view of the facility investment cycle. Accordingly, the sector's growth rate for the whole of 1995 is expected to hit 19 percent.

The growth rate of construction investment, which peaked in the third quarter with a record 12.3 percent stimulated by increased investment in non-housing construction and social overhead capital projects, is expected to decline to 8.1 percent in the last quarter to mark a 9.2 percent growth for the whole of 1995, moving closer to the 8.9 percent growth rate registered in 1994.

Government consumption expenditure, which plummeted in the third quarter due to the government structural re-organization, is likely to remain sluggish in the last quarter. Meanwhile, private consumption is expected to register a 7.9 percent growth in the last quarter, due to slow growth in the consumption of durable and non-durable goods. This will result in an 8.2 percent growth in private consumption for the whole 1995. As a result, total consumption expenditure will rise just 7.4 percent in 1995 compared with the 7.0 percent growth achieved in 1994, despite the relatively high GDP growth achieved in 1995.

During the third quarter, major economic indicators slipped from the previous quarter, but in October the cycle of the coincident composite index and other economic indicators turned for the better, spearheaded by favorable performance in the construction and banking sectors. Indeed, the indices indicating the performance of exports, facility investment and inventories all continued downward trends in the third quarter influenced by the weakening yen, slowdown in facility investment, increasing inventories and growing industrial bipolarization. These indicators may well mean mounting pressure for an overall economic downturn in the near future.

Price increases have been slowing since May, which witnessed growth rates of 5.2 percent in PPI and 5.1 percent in CPI, as prices of imported raw materials remain generally stable since the second half of 1994 and domestic agricultural crop yields are favorable except for rice. Slight increases in the prices of rice and some manufactured goods not withstanding, year-on-year inflation rates are likely to be pegged at 3.5 percent for producer prices and 4.5 percent for CPI in the last quarter of 1995. For the whole of 1995, the inflation rates are expected to be 4.7 percent for PPI and 4.5 percent for CPI.

Outlook for First Quarter 1996 and Beyond

The first quarter of 1996 is likely to witness a 7.7 percent growth in GDP, a slightly better performance than the annual growth rate of 7.2 percent expected for 1996, influenced by stunted growth rates in exports, facility investment and other sectors. This rather conservative outlook, despite the nearly 10-percent expansion in production facili-

Outlook for 1st quarter, 1995 & 1996

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

	1994					1995					1996	
	1/4	2/4	3/4	4/4	Year	1/4	2/4	3/4	4/4	Year	1/4	Year
GDP	8.9	7.6	7.6	9.3	8.4	9.9	9.7	9.9	7.9	9.3	7.7	7.2
Manufacturing	9.9	10.2	8.8	12.4	10.4	12.9	11.1	11.6	9.2	11.1	7.8	7.5
Total consumption expenditure	6.2	7.1	7.2	7.3	7.0	7.9	7.3	7.2	7.1	7.4	7.0	6.9
Private consumption	6.8	7.5	7.5	7.8	7.4	8.7	8.0	8.0	7.9	8.2	7.7	7.5
Total fixed capital	13.1	7.7	10.8	15.3	11.7	15.6	12.7	16.0	9.9	13.3	9.6	7.6
Facility investment	20.9	16.8	24.3	30.6	23.3	25.2	19.0	21.1	12.4	19.0	11.3	7.7
Construction investment	7.6	2.2	2.8	6.3	4.6	8.0	8.3	12.3	8.1	9.2	8.0	7.5
PPI	2.5	1.8	2.8	3.7	2.7	4.2	5.9	5.1	3.5	4.7	2.7	2.5
CPI	6.5	5.8	6.9	5.8	6.2	4.6	4.8	4.0	4.5	4.5	4.5	4.8
Current account balance	-21.3	-4.4	-16.9	-2.6	-45.3	-32.8	-26.9	-20.9	-4.7	-85.2	-29.7	-75.0
Trade balance	-14.8	-1.6	-12.6	-2.5	-31.5	-24.9	-18.2	-7.7	0.5	-50.3	-21.5	-42.3
Exports	198.1	232.8	230.6	275.3	936.8	261.3	313.5	318.3	351.9	1245.0	316.9	1429.7
Growth (%)	7.3	16.1	13.1	25.0	15.7	31.9	34.6	38.1	27.8	32.9	21.3	14.8
Imports	212.8	234.5	243.1	277.8	968.2	286.2	331.7	326.0	351.4	1295.4	338.3	1471.9
Growth (%)	13.1	15.9	24.1	35.9	22.4	34.5	41.5	34.1	26.5	33.8	18.2	13.6
Invisible trade balance	-8.0	-3.5	-6.1	-2.3	-19.9	-9.4	-6.4	-10.5	-6.9	-33.2	-10.1	-39.3

Sources : The Bank of Korea, National Statistical Office for 4th quarter and thereafter, figures are our estimates
Notes : Price index figures represent year-to-year change (%) based on a quarterly average.
In case of current account balance, the figure unit is 100 million dollars.

ties in 1995, stems from slowed growth in exports, facility investment and other segments as well as a final readjustment of inventories in the last quarter of 1995.

Beginning with the third quarter of 1995, the growth rate of inventories rose steadily and in October the rate stood at 13 percent. Therefore, no demand would have been created in the inventories sector in the last quarter of 1995. Thus, the the last quarter is likely to mark a decline in the plant operation ratio to below 80 percent.

On the demand side, the effect of the weakening yen will become manifest in the first quarter of this year, blunting the growth in exports. The downturn in facility investment growth will be continued into 1996 along with the continued slide in the growth rate of domestic and foreign demand.

Export growth rate in the first quarter is expected to decline to 21.3 percent and the average rate for the whole of 1996 is likely to be 14.8 percent, or less than half of the 32.9 percent growth achieved in 1995. This forecast is based on the assumption that the value of the yen remains stabilized since the second half of 1995 and that the won- dollar exchange rate will drop by about 2 percent in 1996 to stand at 750 won per US$1 at the end of the year. When and if the won appreciates further, the export growth rate for 1996 is likely to decline accordingly.

The downturn in the growth rate of facility investment which began in the second half of 1995 is expected to gain momentum after the last quarter of 1995 and is likely to plummet to 11.3 percent in the first quarter. It is expected to register 7.7 percent growth for the whole of 1996. This is because the cycle of facility investment is relatively short compared with the general business cycle. Furthermore, the forthcoming parliamentary elections in April of this year and the presidential election slated for 1997 will influence the investment plans of domestic enterprises.

In fact, major business groups announced late last year that they envisage an average of 15 percent growth in turnover and around 25 percent growth in facility investment in 1996. These figures represent about two-thirds of their 1995 targets announced in December 1994.

Thanks to the deregulations and increased government support for the construction sector, construction investment growth for 1995 is estimated at 9.2 percent. The growth rate is expected to decline to 8.0 percent in the first quarter and 7.5 percent for the whole of 1996. This projection stems from the fact that, although the government has earmarked 8.2 trillion won for social infrastructure projects, up 23.2 percent over 6.6 trillion won earmarked for 1995, no significant growth in housing investment is likely this year due to the increasing number of apartment units remaining unsold.

The first quarter of 1996 is likely to witness the beginning of a business contraction phase in view of downward trends in major business indicators in the last quarter of 1995, including exports, facility investment, increasing industrial bipolarization and inventories.

The CPI rose but 4.5 percent last year thanks to stabilized prices of farm and fishery products that helped mitigate increases in utility charges. The first quarter of 1996 is likely to witness an increase of 4.5 percent from a year earlier while the index for the whole of 1996 is expected to register a growth rate of 4.8 percent. This outlook is influenced by such potential pressure- factors as increased demand following the general business boom, increased government expenditures, increases in utility charges (likely to be effected by cash-strapped local governments), general elections in April and increased inflow of foreign capital.

Private Consumption

Recent Developments

Despite the 9.9 percent growth in GDP achieved in the third quarter of 1995, the third quarter of 1995 is likely to have witnessed an 8.0 percent growth in private consumption or a decline of 0.7 percentage points from the first quarter of 1995 (8.7 percent). This is because the collapse of the Sampoong Department Store building in July cooled off private consumption

Private Consumption & Household consumption trends

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

	1994					1995		
	1/4	2/4	3/4	4/4	Year	1/4	2/4	3/4
Private consumption	6.8	7.5	7.5	7.8	7.4	8.7	8.0	8.0
Household consumption	6.8	7.6	7.6	7.9	7.5	8.8	8.1	8.1
Durable consumer goods	10.0	11.9	10.9	13.9	11.7	15.7	9.3	11.6
Semi-durable consumer goods	4.6	5.5	5.8	8.2	6.1	10.0	9.9	10.9
Non-durable consumer goods	4.8	5.1	5.8	4.8	5.1	6.4	7.1	5.6
	8.0	7.8	8.7	9.1	8.4	8.5	9.1	8.5

Source : The Bank of Korea

Consumption-Related Indexes

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

	1994					1995			
	1/4	2/4	3/4	4/4	Year	1/4	2/4	3/4	Oct.
Retail and wholesale	7.1	8.2	8.1	8.3	8.0	8.0	8.0	7.1	7.3
Wholesale	9.2	10.4	10.6	8.9	9.8	8.2	7.0	6.6	8.3
Retail	5.2	6.1	5.5	7.5	6.1	7.8	8.9	7.4	6.1
Shipment of consumer goods	7.3	10.2	10.6	8.8	9.2	12.4	6.7	4.3	3.2
Durables	10.1	16.2	10.8	12.0	12.3	17.3	5.0	10.1	3.7
Non-durables	5.9	7.1	10.5	7.1	7.7	10.1	7.1	1.4	3.0

Source : National Statistical Office

demand, the relatively mild summer weather dampened demand for traditional seasonal purchases and the Chusok (Moon Festival) holidays (around August 15 on the lunar calendar) came earlier than usual. These events helped blunt the demand for non-durable goods and services.

Nonetheless the 8.0 percent growth in private consumption marked in the third quarter is a relatively high rate, if the social environments outlined above are taken into consideration.

The private consumption growth rate for the last quarter is estimated at 7.9 percent, or 0.1 percentage points off the 8.0 percent growth marked in the the third quarter in view of the downturn in consumption-related indices and of the adverse impact on public consumption propensity occasioned by the arrest of former Presidents Roh and Chun on charges of leading a military mutiny and financial scandals.

Consequently, the growth rate of private consumption for 1995 is estimated at 8.2 percent, up 0.8 percentage points over the 7.9 percent growth registered in 1994.

Outlook for First Quarter 1996 and Beyond

The first quarter of 1996 is expected to witness a relatively high growth rate of 7.7 percent, despite the anticipated economic downturn, thanks to a high-level of private-sector purchasing power accumulated during the three- year economic expansion cycle.

The private consumption growth rate for 1996 is estimated at 7.5 percent, or slightly higher than the GDP growth rate for the year, but down 0.7 percentage points from the 8.2 percent growth registered in 1995, influenced by the implementation of the real-name transaction system for real estate on the heels of the implementation of the real-name financial transaction system among other causes.

Fixed Investment

Recent Developments

Facility Investment

The third quarter saw a 21.1 percent growth in facility investment spearheaded by a 23.1 percent expansion in facility investment for transportation equipment. It appears, however, that the growth rate in facility investment began to level off following the last quarter of 1994 when its growth peaked at 30.6 percent. In particular, the growth rate plummeted in the special industrial sector including textile and chemical machinery.

This trend is due chiefly to the fact that the over 20 percent expansion in facility investment in the past two years has resulted in reduced plant operation rates – an indication that the current facility expansion cycle is about to end.

The last quarter of 1995 is estimated to have experienced a growth rate of 12.4 percent in facility investment, far below the level of the preceding quarter, influenced by the declining orders for domestic machinery and import licenses for machinery since July 1995, a marked drop in shipment of capital goods since October and the adverse impact on facility investment of the arrest of former Presidents Roh and Chun and resulting political unrest.

The growth rate of facility investment for the whole of 1995 is thus estimated at 19.0 percent-down 4.3 percentage points from the 23.3 percent

Facility Investment and Related Indexes

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

	1994					1995		
	1/4	2/4	3/4	4/4	Year	1/4	2/4	3/4
Facility investment	20.9	16.8	24.3	30.6	23.3	25.2	19.0	21.1
Machinery	22.1	16.5	26.6	27.7	23.3	33.1	29.1	20.4
Transportation equipment	18.5	18.0	19.5	36.5	23.9	6.9	-1.4	23.1

Source: The Bank of Korea, National Statistical Office

Manufacturing Operation Rates & Production Capacity

	1994					1995			
	1/4	2/4	3/4	4/4	Year	1/4	2/4	3/4	Oct.
Average operation rate (%)	81.9	82.5	81.4	84.9	82.7	83.5	82.4	82.1	80.9
Production capacity (% of year-to-year change)	2.0	2.6	3.8	5.6	3.5	9.1	9.3	9.5	9.6
Inventory (% of year-to-year change)	3.6	4.3	5.3	6.7	6.7	5.2	6.6	11.6	13.3

Source : The Bank of Korea

Facility Investment and Related Indexes

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

	1994					1995			
	1/4	2/4	3/4	4/4	Year	1/4	2/4	3/4	Oct.
Domestic machinery orders received	32.0	23.0	32.2	22.2	26.9	45.4	26.6	0.9	6.6
Import licenses for machinery	51.5	68.9	81.2	87.4	73.6	59.4	79.8	1.7	-18.1
Domestic machinery shipment for facilities	29.0	20.2	18.7	21.4	22.0	28.1	29.6	21.9	11.0

Source: The Bank of Korea, National Statistical Office

marked in 1994.

Construction Investment

The third quarter of 1995 witnessed a growth rate of 12.3 percent in construction investment, far above the 8.3 percent growth achieved in the second quarter, stimulated by continued expansion in housing and non-housing construction as well as in social overhead capital projects.

Investment in building construction continued to expand in the third quarter due to increased demand for industrial and commercial buildings resulting from the general business boom. Also, investment in housing construction sustained a high growth rate, stimulated by a series of government measures including an upward adjustment of standard housing construction costs, deregulations on the use of agro-forestry land for housing construction, etc. Government efforts to induce private investment in social overhead capital, including sea and airport facilities, also contributed to the growth in construction investment in the third quarter.

The last quarter of 1995 also is estimated to

Construction Investment and Related Indexes

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

	1994					1995			
	1/4	2/4	3/4	4/4	Year	1/4	2/4	3/4	Oct.
Construction investment	7.6	2.2	2.8	6.3	4.6	8.0	8.3	12.3	-
Building construction	11.3	-0.2	-0.2	-0.3	2.3	5.8	11.8	15.6	-
Other construction	-1.5	6.1	7.6	14.6	8.2	14.0	2.9	7.5	-
Domestic construction orders received	10.5	18.7	3.1	13.4	11.9	14.6	14.9	31.2	32.2
Floor area of authorized building construction	-24.0	-12.0	14.1	17.0	-1.3	16.2	35.9	-25.6	2.0
For industrial use	51.4	-11.9	30.5	15.8	16.8	1.4	41.0	-17.4	6.1

Source : The Bank of Korea, National Statistical Office

have witnessed a growth rate of 8.1 percent in construction investment, down slightly from the level of the previous quarter. The decline was influenced by the fact that as of the end of last November no less than 160,000 apartment units remained unsold.

The construction investment growth rate for the whole of 1995 is thus estimated at 9.2 percent, or just double the 4.6 percent growth rate registered in 1994.

Outlook for First Quarter 1996 and Beyond

Facility Investment

The downturn in the growth of facility investment initiated in 1995 is expected to continue in the first quarter of 1996. Influenced by sustained export growth, however, the facility investment growth rate in the first quarter is likely to mark a relatively high level of 11.3 percent.

Inasmuch as the slowdown in facility investment growth is expected to continue in and beyond the second quarter of 1996, the growth rate for the whole of 1996 is likely to slip to a level below 7.7 percent. Main factors responsible for the continued downturn in facility investment growth are a) decreased investment demand resulting from continued expansion in facilities in recent years, b) growing signs indicating that the current economic cycle is on the wane, and c) uncertain outlook for exports due to the weakening of the yen. All signs point to the probability of a deteriorating investment climate in the near future.

Furthermore, a recent survey conducted by the Korean Economic Daily, a vernacular economic journal, disclosed that the top 10 business groups plan to decrease investments, including overseas investment, in 1996 by more than 10 percentage points compared with last year. Their domestic facility investment, therefore, is likely to be reduced sharply this year.

Construction Investment

Thanks to a series of government support measures including the easing of various restrictions, the construction investment growth rate is expected to slip back from around the 9.0 percent estimated for 1995 to 8.0 percent in the first quarter and further to 7.5 percent for the whole of 1996. At any rate, no drastic growth in construction investment is likely in the new year because of the anticipated downturn in the economic cycle, the increasing number of unsold apartment units and stunted growth in the construction of industrial and commercial buildings.

It is likely, however, that the influence of these adverse factors will be somewhat mitigated by projected expansion of social infrastructure by the central government and regional development projects by local governments.

External Transactions & Exchange Rate

Recent Developments

Exports rose 32.5 percent in October and 25.1 percent in November, while imports were up 29.1 percent in October and 23.8 percent in November. In terms of growth rate, exports have been outpacing imports since July last year. However, growth rates of both exports and imports have been declining.

Major export items have been vessels, electric/electronic products, automobiles and other chemical/heavy industrial products. Exports to developed countries grew 26.5 percent in November – down 5.7 percentage points from the previous month that reached 32.2 percent. On the other hand, exports to developing countries expanded 31.3 percent – up 3.1 percentage points from the previous month.

Influenced primarily by decreased imports of capital goods due to the stunted growth in facility investment, imports rose but 23.8 percent in November – the lowest rate since February 1995. Raw materials led import growth in November.

The current account showed a US$8.17 billion deficit in the first 10 months of last year – an increase of US$3.74 billion from the same period of 1994 when the deficit was US$4.43 billion. Reflecting the slowed growth rate of imports, the trade deficit in October decreased sharply from US$230 million a year earlier to US$6.3 million. The invisible trade sector incurred the deficit of

Recent Export Trends (customs clearance basis)

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

		1994	1st half '95	Jan~Oct. '95	Oct. '95.	Nov. '95 (11.1~22)
Total		960.1 (10.7)	584.1 (33.6)	1,019.3 (34.0)	115.5 (32.5)	115.4 (25.1)
By Product	Chemical/ heavy industrial products	639.5 (22.0)	416.8 (41.8)	744.3 (42.3)	82.6 (36.5)	474.3 (34.4)
	Light industrial products	257.4 (6.9)	142.0 (12.7)	236.1 (9.9)	25.3 (16.9)	14.7 (5.1)
By Region	Developed countries	488.1 (27.5)	287.5 (30.0)	508.5 (30.7)	60.0 (32.2)	- (26.5)
	Developing countries	472.1 (132.5)	296.6 (37.7)	510.9 (37.3)	55.5 (28.2)	- (31.3)

Source : The Bank of Korea

Recent Import Trends (customs clearance basis)

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

		1994	1st half '95	Jan.~Oct. '95.	Oct. '95	Nov. '95
Total		1,023.5 (22.1)	652.7 (37.8)	1,114.4 (35.6)	117.3 (29.1)	118.5 (23.8)
By Commodity	Capital goods	404.3 (32.1)	260.7 (41.3)	443.0 (37.8)	44.5 (21.8)	- (20.3)
	Raw materials	509.8 (14.8)	325.9 (75.5)	555.6 (34.8)	60.1 (35.8)	- (29.0)
	Consumer goods	109.4 (24.6)	66.1 (34.8)	115.8 (31.2)	12.8 (25.9)	- (27.5)

Sources : The Bank of Korea

Balance of Payments

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

	1994	1995	
		Jan.~ Oct.	Oct.
Current account balance	-47.8	-81.7	-1.09
Trade balance	-30.8	-50.9	-0.06
Export growth (%)	16.8	34.6	31.0
Import growth (%)	22.1	35.7	27.6
Invisible trade balance	-23.0	-26.8	-0.55
Unrequited transfer balance	6.0	-3.9	-0.47

Source : The Bank of Korea

US$ 47.4 million in October, the smallest monthly total in 1995, thanks to increased transportation revenues.

The won-dollar exchange rate fluctuated around 770 won per one US dollar since September last year. As of December 11, the exchange rate was 769.67 won per dollar and 760.67 won per yen.

Outlook for 1996

Exports are likely to register 15.0 percent growth this year due to the weakening yen and economic downturn in 1996. Imports are expected to experience a growth rate of around 13.6 percent, reflecting decreased facility investment and declining demand for raw materials.

The trade deficit will drop to US$4.2 billion, while that in invisible trade will rise to about US$3.9 billion this year.

Influenced by the declining unfavorable balance in the current account and increasing influx of foreign capital in the wake of the liberalization of the capital market, the value of the won will appreciate to 750 won per dollar this year.

Prices

Recent Developments

Consumer Price Index (CPI) rose 4.3 percent in November from a year earlier, maintaining the same level of the previous month, in spite of the high growth rate of GDP in the first 11 months of the year. Thus, the average monthly growth rate for the 11- month period stood at 4.45 percent, lower than the 6.2 percent growth rate for the whole of 1994. The 4.45 percent rate also compares favorably with the average growth of 4.72 percent for the first 11 months of 1993 as well as with the 4.8 percent average growth for 1993.

From the end of 1994 CPI rose but 4.2 percent as of last November – conspicuously lower than the 5.5 percent growth marked during the same period of the preceding year. Assuming that such trend would continue through the year end, 1995 will have witnessed a growth rate of around 4.5 percent.

Stabilized prices of agricultural, livestock and fishery products contributed to the relatively low increase in the CPI in 1995. In fact, the prices of these products registered a minus 0.8 percent growth in November in marked contrast with the 11.0 percent growth experienced in November 1994. These prices also witnessed a minus 0.4 percent growth from the end of 1994 compared with 8.7 percent growth registered in the same period a year earlier.

In particular, the prices of fresh foodstuffs marked a minus 10.5 percent growth in November from a year earlier and a minus 10.2 percent growth from the end of 1994.

The prices of manufactured goods rose 3.5 percent in November from the end of 1994, or an increase of 1.2 percentage points from a year ear-

Consumer Price Index by Commodities

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

		Total	Agri., livestock & marine prod.	Ind. products	Services	House rent	Public utility charges	Personal services	Eating out
1994	Sep.	6.5	12.6	2.3	7.3	3.5	9.8	8.5	6.7
	Oct.	5.7	9.9	2.3	7.1	3.5	9.5	8.4	6.9
	Nov.	6.1(5.5)	11.0(8.7)	2.6(2.3)	7.2(6.9)	3.5(3.3)	9.5(9.5)	8.4(8.0)	7.1(6.6)
1995	Sep.	4.7	2.6	3.5	6.7	4.1	7.6	9.4	5.9
	Oct.	4.4	0.2	3.6	6.9	3.9	8.0	9.4	5.9
	Nov.	4.3(4.2)	-0.8(-0.4)	3.5(3.5)	7.1(6.8)	4.0(3.9)	8.3(8.2)	9.6(9.4)	6.2(5.2)

Note: Figures in parentheses denote % of change from the end of the previous year.

lier that saw a 2.3 percent growth. On the other hand, service charges rose 6.8 percent in November from the end of 1994, despite stabilized housing costs, reflecting increased income resulting from economic growth.

The Producer Price Index (PPI), which turned upward since the beginning of 1995 influenced by rising prices of raw materials on the international market, began to level-off from July and marked a minus growth of 0.8 percent in October and 0.5 percent in November from a year earlier. Thus, the month of November last year saw a growth rate of 3.4 percent over the year earlier period – down markedly from growth rates of 5-6 percent in the early part of 1995. The last quarter of 1995 is estimated to have witnessed an increase of 3.5 percent, thereby registering an annual growth rate of 4.7 percent for the whole of 1995.

In the first 11 months of 1995, raw materials prices dropped 1.5 percent in marked contrast with an 11.8 percent gain in the same period of 1994.

Outlook for First Quarter 1996 and Beyond

CPI is likely to witness a 4.5 percent growth in the first quarter and an annual growth of 4.8 percent this year, inasmuch as probable increases in the charges for private-sector services and in public utility rates are expected to be mitigated to a certain extent by the stabilized prices of agricultural and fishery products, while the prices of manufactured goods are likely to remain level thanks to stabilized prices of imported raw materials. In fact, the 0.3 percentage point growth anticipated for this year from 4.5 percent in 1995 to 4.8 percent in 1996 is attributable to sustained growth in service charges in 1996, while no change in the prices of agricultural, livestock and fishery goods is expected this year.

PPI is expected to witness a 2.7 percent increase in the first quarter and a 2.5 percent increase for the whole of 1996 as the index is likely to decline steadily throughout the year, repeating the pattern of 1995 – 5.9 percent in the second quarter, 5.1 percent in the third quarter and

Producer Price & Imported Raw Material Price Indexes

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

	Sep. 1994	Oct.	Nov.	Sep. 1995	Oct.	Nov.
Producer price	-0.1	0.4	0.0(3.3)	0.4	-0.8	-0.5(2.7)
Imported raw material price	0.2	0.3	1.2(11.8)	0	-1.1	-0.5(-1.5)

Note: Figures in parentheses denote % of change from the end of previous year.

Price Trends & Forecasts

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

	1992	1993	1994	1995	1996	
					1/4	Year
CPI	6.2	4.8	6.2	4.5	4.5	4.8
PPI	2.2	1.5	2.7	4.7	2.7	2.5

Note: Figures in parentheses denote % of change from the end of previous year.

3.5 percent in the last quarter. Also, the stable prices of imported raw materials are expected to be sustained in the new year.

Money & Banking

Recent Development

During November, the total money supply (M2), based on an average balance, increased by 13.1 percent, the lowest expansion since September 1985 when there was 12.6 percent growth. In fact, it marked a decline in the rate of growth for three consecutive months (13.9 percent in September and 13.8 percent in October).

The increase rate in the average balance of M2 plus CDs also declined from 15.1 percent in October to 14.7 percent in November; thus the increase rate in average balance of M2 and CDs decreased steadily from 16.0 percent in September last year.

The marked decrease in the expansion rate of M2 plus CDs in November from a year earlier

Money Supply

(Unit : 100 million won, %)

	Sep. 1995	Oct. 1995	Nov. 1995
M_2 (Average balance)	1,409,637	1,404,138	1,435,042
M_2 (% of year-to-year change)	13.9	13.8	13.1
M_2+CD (Ave. % of year-to-year change)	15.7	15.1	14.7

Source : The Bank of Korea

stems primarily from the extraordinary rate marked in November 1994 which was stimulated by the public subscription through competitive bidding to popular shares of Korea Mobile Telecommunications Co. as well as public offering of the shares of the Small & Medium Industry Bank that heated up the bourse, which in turn increased M2. Otherwise, the expansion rate in November would have maintained the average level of the September-October period.

In the government sector, a total of 970 billion won was supplied in the last quarter as of the end of November. In October, some 1.8 trillion won was withdrawn for the payment of value-added tax, withholding tax and other revenues. In November, 2.8 trillion won was supplied for the implementation of the supplementary budget in 1995, for example, the purchase of rice, etc.

In the private sector, about 4.3 trillion won was supplied in October in loans, overdrafts, foreign-currency credits, etc. In November, about 1.5 trillion won was supplied to help cover general loans, investment in negotiable securities, rediscounts, foreign-currency credits, etc.

In the foreign sector, only about 120 billion won was supplied in October, despite a sustained deficit in the current account, thanks to the net influx of US$190 million for investment in securities and borrowings from development agencies. In November, 670 billion won was released from increase in the foreign loan by development institutions.

In other sectors, some 485 billion won was withdrawn in October with the increased release of financial bonds, CDs, repurchase bonds, etc. In November, 1.9 trillion won was withdrawn

Money Supply (M2) by Sector

(Unit : 100 million won, %)

	Sep.	Oct.	Nov.
Total money supply (M2)*	15,784	24,073	31,128
Government sector	-6,034	-18,139	27,790
Private sector	16,026	43,184	15,460
Foreign sector	2,677	3,876	6,694
Other sector	3,115	-4,848	-18,816

Source : The Bank of Korea
Note : * End-of-month balance

chiefly through increased release of CDs and repurchase bonds.

The month of December was expected to witness a money supply expansion rate of 14 percent. If this was achieved, the average balance of total money supply would be 148.4 trillion won. Thus, 1995 is estimated to have witnessed a monetary inflation rate of around 15.6 percent, the same increase rate as in 1994.

Outlook for First Quarter 1996 and Beyond

The total money supply was estimated to have expanded by 14 percent in December last year over a year earlier. This year is likely to see an expansion in total money supply (M2) of 11-15 percent, assuming that the rate of intlation will decrease by approximately one percentage point from 1995 because the GDP growth rate for 1996 will be lower than the level of 1995 and that prices also will be relatively stable in the new year.

In 1996, the increase in total money supply, based on an average balance, is expected to fluctuate from 16.3 trillion won (11 percent) to 22.2 trillion won (15 percent). Inasmuch as the GDP growth rate and facility investment are likely to be stunted in the first quarter, no marked increase in total money supply is anticipated for the first quarter.

It appears that a flexible monetary policy will be needed in the new year to effectively cope with a large number of factors including a possible acute economic setback resulting from the failure to achieve an economic "soft landing," runaway inflation during and following the parliamentary elections slated for April, a sharp increase in the money supply from the foreign sector due to excessive inflow of securities investment funds stimulated by the expanded ceiling on foreign investment in listed shares, a disruption of a sound financial market due to radical movement of capital from the short-term market to the long-term market influenced by the implementation of the new financial tax system, the aggravated financial plight of small- and medium-size enterprises due to deepening industrial bipolarization and a sharp increase in government investment for social overhead capital projects.

Interest Rates & Financial Condition

Recent Developments

Interest rates have been declining influenced by stunted facility investment growth and the flexible monetary supply policy of the government.

The yield of debentures has declined, reflecting an improved financial situation of major enter-

Trends of Interest Rate and Dishonored Bills

(Unit : %)

	May	Jun.	Jul.	Aug.	Sep.	Nov.	Dec.
Call rate	13.48	12.68	11.23	11.57	11.30	11.9(1)	11.1(1)
Yield of debenture	14.9	14.7	14.2	13.2	12.9	12.2	12.0
Ratio of dishonored bills							
Nationwide	0.22	0.21	0.20	0.22	0.19	0.21	-
Seoul	0.13	0.11	0.12	0.12	0.11	0.12	-

prises and the implementation of a flexible monetary policy.

Call rates have also been generally stabilized at around 11 percent per annum in the absence of marked demand for short-term credit and seasonal demand for capital.

With respect to interest rate movement, it appears that the capital situation is generally favorable; however, the ratio of dishonored bills (to the total bills issued in terms of value) still remains at a high level of 0.2 percent – a fact that exemplifies the rather difficult financial situation of small businesses, especially in the wake of the slush fund scandal involving former President Roh Tae-Woo.

A survey of capital procurement patterns in the first eight months of 1995 shows that more funds were raised through the additional issue of shares with consideration than in the same period of

Funds Raised on Capital Market

(Unit : 100 million won)

	1995 (Jan.~Aug)	1994 (Jan.~Aug)	Change
Public offering of shares	2,190	5,146	-2.956 (-5.7%)
Shares issued with consideration	42,856	29,031	13.825 (48%)
Issue of debentures	128,633	137,610	-8.977 (-6.5%)
Total	173.679	171,787	1.892 (-1.1%)

1994 and that relatively less funds were raised by going public or issuing debentures.

Total Money Supply Trends (1995)

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

Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
19.6	17.0	16.5	16.7	16.8	15.9	14.9	14.7	13.9	13.8	13.1

The money supply expansion rate has been blunted recently, but this is due not so much to a tight monetary policy as to decreased demand for capital.

Outlook for First Quarter and Beyond

This year is expected to see a decline in interest rates of around 0.5-1.5 percentage points – from the current 12 percent level to 10.5-11.5 percent – in view of the relationship between the macroeconomic situation and interest rates.

Currently, economic growth is being primarily influenced by facility investment and export trends, while consumer prices remain generally stable. In view of this situation, there is little prospect of risk, as was the case in the past when runaway inflation or radical increases in real estate prices grossly affected the economy, even if the economy suffers a serious setback as a result of the failure to achieve a soft landing.

The National Statistics Office noted that in October last year imports of capital goods in terms of value rose 9.7 percent (from a year earlier) for industrial production and 9.5 percent for facility investment. In view of these relatively moderate growth rates, it is obvious that the downturn in interest rates has stemmed from decreased money demand brought about by slowed investment in capital goods.

The month of October last year also witnessed a low 3.2 percent increase in the shipment of consumer goods. The turnover growth in consumer goods is estimated to have suffered further set back thereafter due to the slush fund scandal involving former President Roh. This condition naturally contributes to increased savings, thereby helping stabilize interest rates.

Furthermore, 677 firms whose shares are listed on the Korea Stock Exchange were expected to have achieved 1995 growth rates of 21.9 percent in turnover (compared 18.7 percent in 1994) and 42.9 percent in net profit (compared with 49.6

percent in 1994) – enough to allow them substantial reserves for business operations in 1996 and thereby also contributing to stabilization of interest rates.

Estimated Sales Volume and Net Profit Increase Rates of 677 Listed Companies in 1995

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

Sales volume increase rate	21.9% (18.7%)
Net profit increase rate	42.9% (49.6%)

Note : The figures in parentheses are increase rates of 1995 from 1994

Environments & Foci of the Macroeconomic Policies

Macroeconomic Environments

The current economic cycle, which began in the first quarter of 1993, achieved an unexpectedly high growth rate in the third quarter of 1995. But, it is likely that the cycle will begin a downturn in the first quarter of 1996 as growth rates in exports and facility investment are expected to be halved from a year earlier. Moreover, in contrast to the normal pattern of a business cycle, no heated consumption is expected to follow the peak of the current economic cycle.

Last October, exports sustained their growth rate and the cycle of coincident composite index recorded conspicuous growth; however, the facility investment growth rate nose-dived while inventories rose markedly in the month – facts that may indicate the current economic cycle may peak in the first quarter of 1996.

Furthermore, the expansion rate of world trade is expected to slow in 1996, which combined with the weakening of the yen will tend to curtail Korea's export growth rate. In addition, there are other factors, including mounting pressure from the World Trade Organization and OECD, to which Korea wants to obtain membership this year, for Korea to open its market wider to foreign competition, not to mention growing trade pressure from the United States where a presidential election is slated for late this year – all of which are apt to further strain the economy.

In addition, there are internal economic variables that can significantly affect macroeconomic policies this year, including general elections slated for this April, an uncertain political/economic situation in North Korea, increasing import trends influenced by steady import liberalization moves in the wake of the launching of the WTO regime and the aggravated financial plight of small businesses due to increasing industrial bipolarization. The emergence of a second federation of labor unions in addition to the existing Federation of Korea Trade Unions (FKTU) is likely to adversely influence labor-management relations this year as well.

In view of these and other factors, KERI predicts that Korea's GDP growth rate will decline from 9.3 percent in 1995 to 7.2 percent this year.

Macroeconomic Policies

Inasmuch as the current economic expansion phase spearheaded by exports and facility investment is expected to enter an economic contraction phase this year, it is necessary to work out measures to achieve an economic soft landing, while adopting medium- and long-term measures targeting the stabilization of production factor prices at the level of developed countries. Also needed are measures designed to minimize foreign trade deficits as well as the adverse side effects being experienced in industrial restructuring in the process of rapid economic development.

With economic growth rates of 9.3 percent and 7.2 percent projected for 1995 and 1996, respectively, it is necessary to pursue macroeconomic policies designed to maintain economic stability. The possibility that non-economic factors may seriously affect the efforts of economic policy planners to ensure a soft landing for the economy should not be overlooked. This also means that the two basic policies – economic stabilization and gradual appreciation of the won – adopted in 1994 in order to avoid economic overheating and runaway inflation need to be implemented flexibly, mindful of their past side effects which included among other things the following:

- During the 1994-1995 period, when liquidity was controlled with a direct approach, i.e., through the issuance of monetary stabilization bond (MSB) and underwriting repurchasable paper (RP), the economy experienced accelerated industrial bipolarization, industrial restructuring and an increased ratio of dishonored bills. In view of the fact that demand for public bonds has been increasing and related interest rates have been declining with the implementation of the global financial income tax this year, it will be feasible to further stimulate transactions in public bonds in favor of indirect control of liquidity.

- During the two-year period (1994-1995), Korea's deficit in the current account increased steadily as the government tolerated the gradual appreciation of the won for the sake of price stabilization as well as in anticipation of increased inflow of foreign capital in the wake of the liberalization of the capital market. In view of the prospect that imports of salables are likely to increase steadily influenced by import liberalization and opening of distribution markets to foreign competition, it is high time for the government to review its policy of appreciating the won.

- It is believed that the government's augmented control on investment in new industrial projects for fear of possible economic overheating has discouraged facility investment, on top of the natural downturn in the facility investment cycle. For example, irrespective of the fact that foreign investments in Korea far outpaced overseas investments by domestic enterprises, the government has wasted no time in further restricting large-scale offshore investments by Korean enterprises. This directly runs counter to the government's policy adopted in February 1994, raising the ceiling on direct offshore borrowings by wholly-owned overseas subsidiaries of domestic enterprises, following the scrapping in 1992 of the system of requiring domestic firms to meet a fixed portion of their offshore investment costs with their own funds.

A review of the unfavorable side effects experienced during the early days of the current economic expansion phase together with the macroeconomic policy requirements for 1996 leads to the conclusion that it is necessary to underline economic stability and enhance economic efficiency this year. To this end, measures need to be adopted to ease control of specific markets so as to stabilize interest rates, wages and other price-related variables.

Influenced chiefly by a higher level of overall wages than other comparable countries in terms of per capita income and by the increasing wage gaps between small and large enterprises, it has become rather difficult to ensure balanced development of industries or to effectively utilize available human resources. It is urgent, therefore, to ease controls on labor markets, while adopting measures to make the best use of all available manpower including highly-educated elderly people and females. By removing all labor-related restrictions, it will be possible to enhance economic efficiency and industrial competitiveness.

By the same token, it is necessary to ease control on employment of foreign workers. No less than 100,000 foreign workers are being employed by some 1,000 enterprises, with illegally employed foreign workers accounting for some 60,000. Measures are needed, therefore, to pave the way for legal employment of an increased number of foreign workers by domestic enterprises experiencing difficulties due to a shortage of labor.

High interest rates naturally spell high industrial costs. Moreover, to the Korean economy, which is in the process of liberalizing its capital market, the larger the gap between domestic and international interest rates the greater the cost our economy will have to bear in terms of macroeconomic perception. In order to minimize the interest rate gap, it is necessary to adopt more flexible financial credit policy.

Despite increased prices of raw materials overseas, the consumer price index rose but 4.5 percent last year. The index is likely to see an approximate 5 percent increase this year inasmuch as inflationary pressure from increased income and resulting cost-push factors is expected to be mitigated to a certain extent by enhanced productivity, the "price destruction" strategy being introduced by the distribution industry and the appreciation of the won.

During the impending second half of the current economic cycle, i.e., when the cycle begins its downturn this year accompanied by blunted investment demand and price stabilization, interest rates will be further lowered due to improved liquidity, bringing about favorable macroeconomic results. On the other hand, it should be noted that a stepped-up tight monetary policy at a time when the economy is about to enter a contraction phase would inevitably result in an upturn in interest rates and a rapid withering of the "investment mind" along with an increased ratio of dishonored bills.

It must be noted also that the current policy of inching up the value of the won against the dollar, which was prompted by the need to mitigate the impact of the increasing influx of foreign exchange stemming from the liberalization of the domestic capital market on the overall international BOP (balance of payments) position as well as the need to stabilize prices, needs to be overhauled inasmuch as the unfavorable balance of trade on a customs clearance basis is estimated to have reached US$10 billion in 1995 and the current account is estimated to have incurred a deficit of US$8.5 billion in 1995. Under the current policy, Korea will be hard pressed to reduce these deficits to below US$7 billion this year.

Domestic traders say that the optimum level of the won-dollar exchange rate is 780 won per dollar, but the current exchange rate is hovering near 760 won per dollar. In the second half of 1995, the value of the yen slipped sharply but has since been generally stabilized. On the other hand, the annual growth rate of Korea's exports is expected to be halved this year from that of 1995. Furthermore, the profitability ratio of exports is likely to decline this year in the absence of any mitigating factors.

It is generally acknowledged that it is necessary at this time for the government to maintain a surplus in the execution of the government budget in order to ultimately balance the international

BOP position, which is nominally being balanced by offsetting the unfavorable balance in the current account with borrowings in the capital account. In view of the need to achieve an economic soft landing as well as the need to expand social overhead capital, it will be more feasible for the government to pursue a balanced budget free of BOP considerations. In fact, the government was able to manage the economy successfully in the first half of 1995 through the maintenance of liquidity at an optimum level by freezing government expenditures to the level of the first half of 1994.

In addition, the government was said to be working toward a balanced budget for the second half of 1995, except for the implementation of the 1995 supplementary budget.

In anticipation of an economic downturn in 1996, the government increased the per capita tax burden in the compilation of its budget for the year. In the event the economic contraction phase sets in earlier than expected, it would be better for the government to resort to the traditional economic adjustment measures rather than attempting to raise tax revenues to meet budgetary requirements.

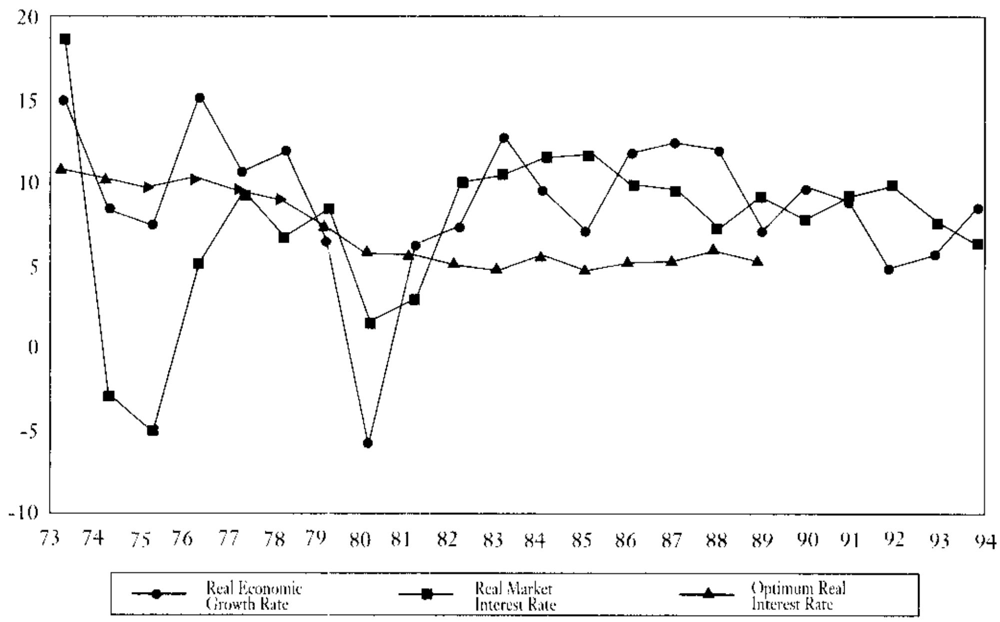
Outlook for Interest Rate in 1996

Marginal Productivity of Capital and Real Interest Rates

Interest rates in Korea are generally influenced by facility investment demand, monetary policy and seasonal factors for money demand.

In a country where interest rates are controlled there are excess demand for money and interest rate does not play important role in making decisions on new investment projects. As interest rates are liberalized, however interest rates are closely related to the scale of investment and the marginal productivity of capital. There can well be a short-term disparity between market interest

Graph. Trends of Real Economic Growth, Real Market Interest Rate and Marginal Productivity of Capital



rates and the marginal productivity of capital, but in the long run the two factors will be closely correlated.

The preceding graph depicts the correlation of the real market interest rate, marginal productivity of capital (MP_k) and real economic growth. The marginal productivity of capital has been estimated on the basis of capital stock and the products of Korea's manufacturing enterprises, assuming the ratio of nominal income distributed to the capital (B) as 0.36 and the capital depreciation ratio as 5.21%.

The very fact that the marginal productivity of capital has dropped far below the real market rate since 1980 indicates that enterprise investments in Korea have been highly inefficient. A close study of real market interest rates, marginal productivity of capital and real growth rate trends in the 1970s and 1980s also shows that the correlation of the three variables was more stable and closely related in the 1980s than in the 1970s.

In the 1990s, Korea's economy will mature further and the three variables – real interest rate, marginal productivity of capital and real economic growth – will be more closely correlated than ever.

Correlations of Economic Changes and Interest Rates

In order to forecast interest rate movements, it is necessary to study the historical correlation of economic changes and interest rates.

At least in theory, the current interest rate along with the investment growth rate serves as a key indicator for economic movement. When it is forecast that a brisk business cycle is imminent, enterprises will hasten to invest more, thereby building pressure for an increased interest rate. Likewise, when an economic downturn is forecast, interest rates will decline ahead of an actual economic downturn. In fact, an economic downturn should take place rather slowly with the lingering support of capital stock which was expanded by increased facility investment during the economic expansion phase. Thus, interest rates play a sensitive role in the economy.

A quarterly study of correlations between interest rates and GDP growth during the period from the second quarter of 1972 to the third quarter of 1995 shows that GDP growth has a minus 0.36 correlation with the nominal interest rate and a plus 0.38 correlation with the real interest rate, which cannot be said to be closely correlated.

A study of cross-correlation between interest

Cross-correlation Between GDP and Interest Rates

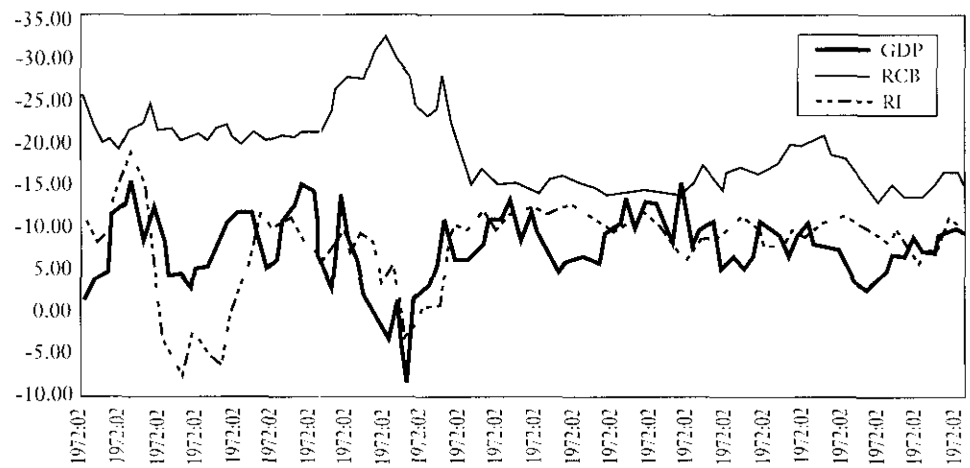
Time lags in nominal interest rate	-4	-3	-2	-1	0	1	2	3	4
GDP	-0.10	-0.17	-0.23	-0.32	-0.36	-0.41	-0.43	-0.40	-0.36
Time lags in real interest rate	-4	-3	-2	-1	0	1	2	3	4
GDP	0.02	0.18	0.29	0.34	0.38	0.30	0.21	0.15	0.04

rates and GDP shows that nominal interest rates moved one to two quarters ahead of changes in GDP but their correlation was a negative one, contrary to the theoretical expectation.

What is really important is the correlation between the real interest rate and GDP. According to the following table, the real interest rate generally coincides with GDP movement. This indicates that the real interest rate movement neither precedes nor follows GDP movement.

A study of GDP and real interest rate trends shows that they were more closely correlated in the 1980s than in the 1970s.

GDP and Interest Rate Trends



A monthly study of cross-correlations between GDP and interest rates since 1980 shows that the correlation of GDP with the nominal interest rate was negative while its correlation with the real interest rate was minimal.

Efforts to find a stylized pattern of correlation between GDP and interest rates using the cycle of coincident composite index as a variable for GDP have failed thus far.

In order to further study the correlations between economic cycles and interest rates, it is necessary to closely review interest rate trends and movement of major economic indices during economic contraction periods as well as during periods when real interest rates were stabilized.

Since 1970, the Korean economy has experienced six economic cycles, while it appears that interest rates and their movement have been stable in recent years.

There have been three economic contraction periods since 1980 – the first covered the period February 1984-September 1985, the second was

Cycle of Coincident Composite Index and Interest Rates (January 1981-October 1995)

Time lags in nominal interest rate	-6	-5	-4	-3	-2	-1	0	1	2	3	4	5	6
Coincident composite index	-0.18	-0.23	-0.26	-0.28	-0.30	-0.33	-0.39	-0.42	-0.46	-0.51	-0.54	-0.56	-0.56
Time lags in real interest rate	-6	-5	-4	-3	-2	-1	0	1	2	3	4	5	6
Coincident composite index	0.18	0.18	0.15	0.12	0.08	0.04	0.005	-0.06	-0.11	-0.14	-0.15	-0.13	-0.11

Economic Cycles and Interest Rates (Pattern by. Period)

(Unit : 100 million won)

	1970s			1980s			1990s
	Cycle 1 ('75-'78)	Cycle 2 ('79-'81)	('75-'81)	Cycle 1 ('82-'87)	Cycle 2 ('88-'92)	('82-92)	Cycle 1 ('93-'95.7)
Average	20.5	27.0	23.3	14.2	16.2	15.1	13.23
Standard deviation	0.959	2.780	3.809	1.952	1.876	2.148	1.145

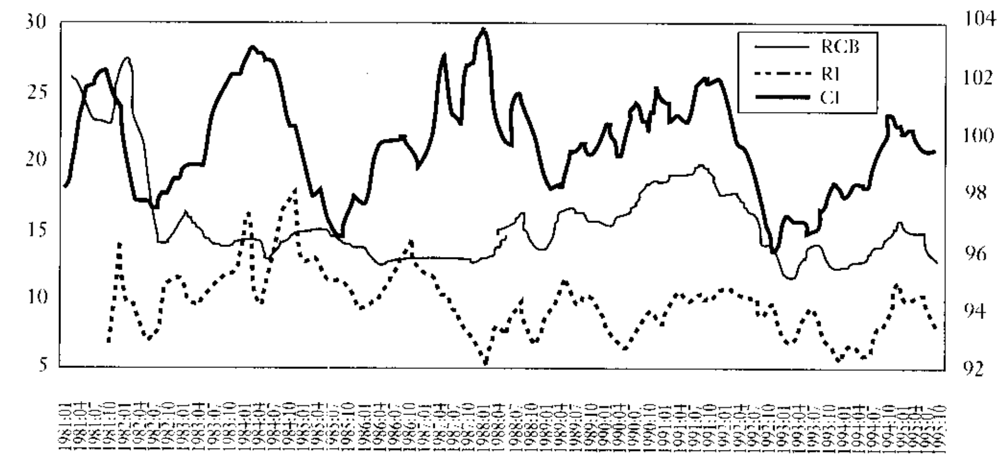
January 1988-July 1989 and the third period was January 1991-January 1993. During these three periods, RCB (nominal interest rates) not necessarily declined and stabilized.

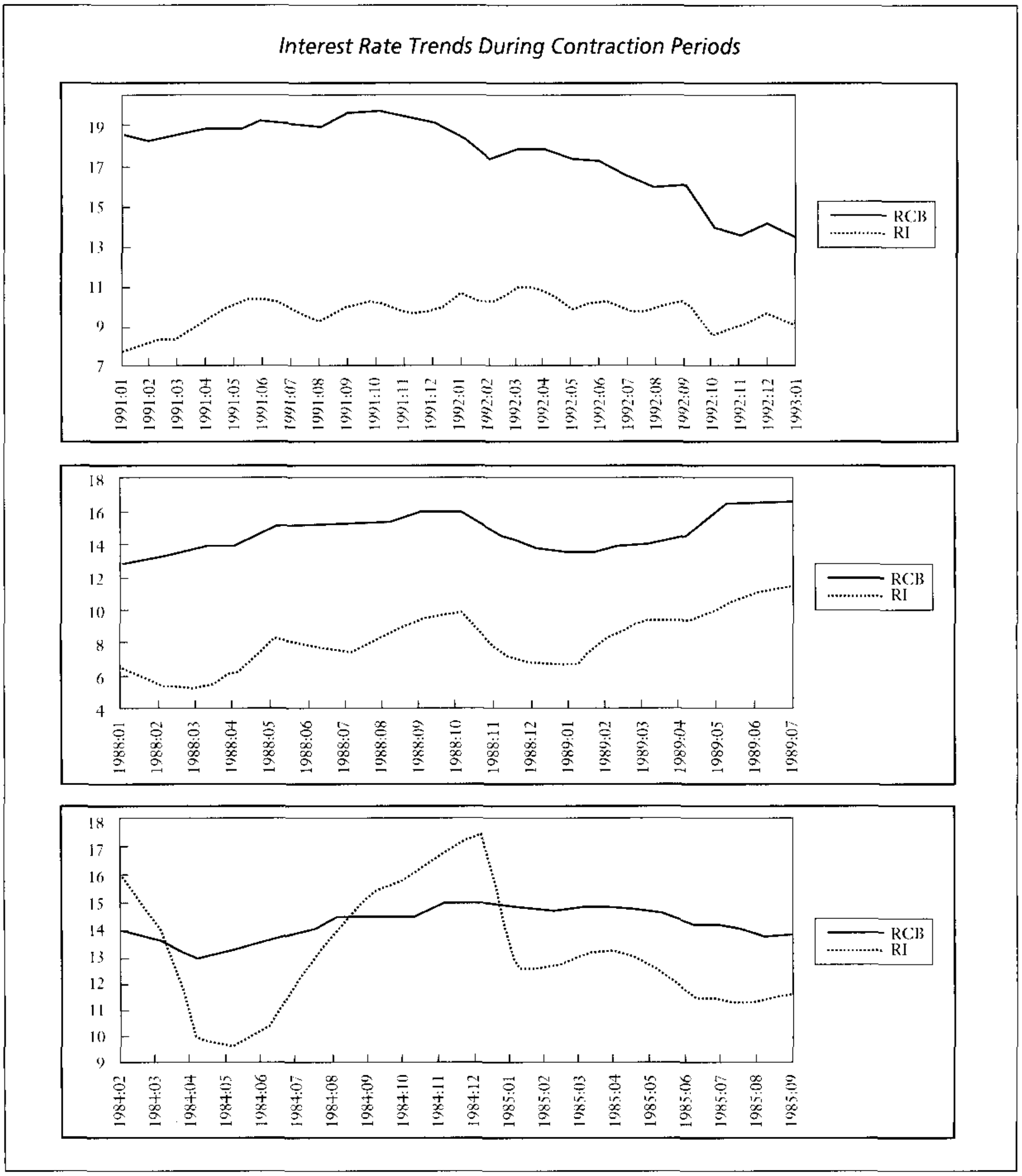
A close review of RCB and real interest rate trends during the economic contraction periods shows that economic contraction does not necessary spell downward stabilization of RCB or real interest rates. During the 1991 retraction period, only RCBs gradually declined.

There are signs that the current economic cycle is about to enter a downturn, but in the absence of a past economic cycle with conditions similar to the current one it is rather difficult to accurately forecast interest rate movement for this year. Therefore, it is feasible to estimate interest rates for this year based on the economic conditions of a past period when interest rates were most stable in conjunction with the current and anticipated economic environments.

A review of liquidity-related macroeconomic indices and their correlations with interest rates since 1990 shows that RCB was stabilized at around 11-12 percent per annum in the first and second quarters of 1993 and around 12 percent in the first and second quarters of 1994.

Economic Cycles and Interest Rates




Interest Rate Trends During Contraction Periods
RCB
RI
1991:01
1993:01
1988:01
1989:07
1984:02
1985:09

The real interest rates remained at around 7-8 percent in the first and second quarters of 1993 and declined further to about 6 percent in the first and second quarters of 1994. Thus,

Flow of Funds and Major Macroeconomic Indices

	92.Ⅰ	Ⅱ	Ⅲ	Ⅳ	93.Ⅰ	Ⅱ	Ⅲ	Ⅳ	94.Ⅰ	Ⅱ	Ⅲ	Ⅳ	95.Ⅰ	Ⅱ	Ⅲ
GDP growth (%)	8.07	6.43	3.58	2.98	4.08	4.93	6.93	6.72	8.91	7.62	7.57	9.31	9.91	9.7	9.9
Fixed investment growth (%)	6.2	0.1	-3.4	-8.2	-5.8	0.6	8.1	10.0	13.1	7.7	10.8	15.3	15.6	12.7	16.0
Facility investment	8.6	4.3	-3.1	-10.2	-10.1	-1.5	5.0	9.4	20.9	16.8	24.3	30.6	25.2	19.0	21.1
Construction investment	4.0	-2.9	-3.4	-6.3	-1.7	2.3	10.1	10.4	7.6	2.2	2.8	6.3	8.0	8.3	12.3
Household expenditures (% change)	8.6	7.0	5.2	5.3	5.5	5.0	5.9	6.2	6.8	7.6	7.6	7.9	8.8	8.2	8.0
Enterprises' fund requirement (in 100 billion won)	92.3	65.3	78.3	68.0	91.7	85.8	94.6	71.3	124.5	106.9	138.0	111.3	168.1	157.4	—
Fund procurement (in 100 billion won)	117.0	104.9	131.9	174.6	137.3	144.7	184.8	148.5	186.2	199.3	239.7	253.5	259.8	268.5	—
Indirect financing (%)	37	57	44	24	17	45	56	7	54	48	48	32	28	40	—
Direct financing (%)	49	23	38	42	70	48	36	64	28	41	45	39	52	46	—
Foreign credits (%)	2.3	7.6	6.4	6.1	2.5	-3.0	0.6	-9.0	7	2	2	8	8	7	—
Operation/ procured funds (%)	21.0	37.8	40.6	61.1	33.2	40.7	48.8	52.0	33.1	46.4	42.5	56.1	35.3	41.4	—
Private surplus fund (in 10 billion won)	49.7	44.5	57.9	96.6	54.7	57.0	75.8	94.4	66.5	61.4	75.9	129.0	68.1	73.0	—
Private share of enterprise borrowings (%) (Private funds/enterprise fund requirements)	53.9	68.1	74.0	142.0	59.7	66.4	80.1	132.4	53.4	57.5	45.0	115.9	40.5	46.4	—
RCB (yield of debenture)	17.8	17.3	16.0	13.8	12.4	11.7	13.6	12.8	12.2	12.4	13.2	13.9	15.1	14.8	13.4
Real interest rate	10.6	10.3	9.9	9.1	7.8	6.9	9.2	7.3	5.6	6.6	6.3	8.1	10.5	10.0	9.2

both stable real interest rates and CPI contributed to stabilized RCB.

A further study with respect to liquidity-related indices and interest rate trends during the first two quarters of 1993 and the same period of 1994 shows that a surplus in private individual bank accounts contributed little to meeting the capital requirements of enterprises. In view of this, it is probable that a stylized pattern has yet to be established between interest rates and enterprises' capital requirements.

The recent sharp decline in interest rates has resulted from decreased capital requirements for facility investment by enterprises which terminated major investment projects, increased liquidity due to a flexible monetary policy and diversification of the means for raising funds including the inducement of foreign credits.

Outlook for Interest Rate in 1996

A review of correlations between current macroeconomic conditions and interest rates leads to the forecast that interest rates will decrease 0.5-1.5 percentage point.

This is because the current economic mainstays are facility investment and exports while consumption movement has been relatively stable, thereby indicating a low possibility of runaway inflation and/or heated speculation in real estate which were often touched off in the wake of an economic upturn in the past.

Major economic research institutes have forecast that this year is likely to witness GDP growth of 7-7.5 percent, facility investment increase of 5-9 percent, CPI increase of around 5 percent and annual average interest rate of about 11-13.2 percent per annum. Moreover, during October 1995, industrial production rose 9.7 percent while machinery imports marked a 9.5 percent increase from October 1994, indicating that the interest rate may further decline, influenced by a slowdown in production and investment activities.

The month of October last year also saw a decrease in the rate of shipment of consumer goods for domestic use, declining to 3.1 percent from the 4.3 percent marked in the third quarter of 1995. The downturn in consumer activity is estimated to have been accelerated in the wake of the slush fund scandal involving former President Roh. Such withered consumption would be expected to have stimulated increased savings which in turn would contribute to the stabilization of interest rates.

A further review of correlations between GDP growth and interest rates indicates that 1 percentage point growth in GDP tends to raise real interest rates by 0.5 percentage points. Therefore, a decline of 2 percentage points in GDP in 1996 would a decrease in real interest rates by arc und 1 percentage point in accordance with the fol owing formula:

Recent Investment, Production and Consumption Trends

(Unit : %)

	1993	1994	1995	3/4	October
Imports of machinery	1.1	37.6	40.1	22.9	9.5
Industrial output index	4.4	11.1	13.1	13.1	9.7
Shipment of consumer goods	4.0	9.2	9.3	4.3	3.2

RIt = 3.75 + 0.47GDPt + u
(1.12) (0.12)
RIt = 3.75 + 0.49GDPt - u + u
(1.13) (0.12)
(Note: The figures in the parentheses are standard error)

The anticipated marked growth in turnover and resulting increase in profit in 1995 is expected to have contributed to increased "retained earnings" of enterprises, thereby helping to stabilize interest rates. This is because increased retained earnings will naturally reduce enterprises' need for borrowing and thus help lower interest rates.

The diversified means for raising funds also contribute to stabilization of interest rates. Domestic enterprises, which used to resort chiefly to indirect means of raising funds, have come to opt for such direct approaches as issuance of shares and debentures. Together with an increased influx of foreign capital into the stock market and the government's measures easing foreign credit inducement terms, the direct fund raising trend is expected to further reduce interest rates.

Amelioration of the government's monetary policy including the implementation of a flexible money supply policy is also expected to facilitate downward readjustment of interest rates.

In fact, no significant increase in interest rates is expected hereafter, thanks to the amelioration of government monetary policies. In the past, upward readjustment of interest rates has often been stimulated by the government's excessive emphasis on control of the money supply to stabilize prices.

Another favorable factor for stabilized interest rates this year is that no less than 20 trillion won will be pumped into the economy in 1996, when and if a 14 percent expansion in total money supply is allowed, as planned.

In the past, failure to work out a general consensus on an annual economic outlook and other major economic issues often stimulated temporary capital demand, pushing up interest rates. Recently, however, there has been a growing tendency of reaching a general consensus among government and private research agencies on major economic issues, thereby minimizing adverse influence on the economy.

A study based on the statistical analysis formula indicates that this year is about to witness an average annual RCB of 11.5 percent and substantial interest rate of 7.6 percent.

The study also confirmed that the ARIMA (1,1,0) model was the most appropriate model for the estimation of interest rates. With the application of this model, it was determined that the RCB would be 11.88 percent in November 1995, 11.69 percent in December 1995 and 11.55 percent in January 1996. Likewise, the ARIMA (1,1,0)-based real interest rate was 7.68 percent in November, 7.64 percent in December and 7.63 percent in January, indicating a slower decline than that of RCBs.

It is probable that interest rates will decline below 11.5 percent inasmuch as the current downturn trend is expected to continue beyond January 1996.

Under the assumptions that consumer prices increase 5 percent this year, facility investment

Recent Money Supply Trends and Outlook for 1996

(Unit : trillion won)

	1993	1994	1995[1]	1996[2]		
Money supply growth	16.3	19.4	17.6	17.7[3]	19.2[4]	20.6[5]

Note : 1) The average money supply growth in December is assumed at 13.5%

2) The figures of 1996 are estimates.

3), 4), 5) The average money growth is assumed at 12%, 13% and 14% respectively.

Estimate of Interest Rate by ARIMA (1, 1, 0) Model

(Unit : %)

	Nov. '95	Dec. '95	Jan. '96
Nominal interest rate	11.88	11.69	11.55
Real interest rate	7.68	7.64	7.63

Note: Monthly yields of debentures since 1981 were used along with the ARIMA model.

and GDP growth rates continue to slide, retained earnings increase, the current flexible money supply policy remains intact and that influx of foreign capital into the bourse continues, it is possible to forecast real interest rates ranging from 5.5 percent to 6.5 percent and RCB ranging from 10.5 percent to 11.5 percent for 1996.

In view of the fact, however, that Korea's marginal productivity of capital is no more than 5 percent and that real interest rates have never declined below 5.6 percent since 1981, it is highly unlikely that the economy will see RCB falling below 10.5 percent in the near future.

Appendix I

Journal of Economic Policies & Measures

(October 5, 1995 - December 9, 1995)

December 9

The Ministry of Finance and Economy announced a new measure designed to allow payment of taxes in excess of the current 30 million won ceiling from the current account (with a bank).

December 8

The Ministry of Finance and Economy tentatively approved the applications of 17 domestic banks to set up a total of 32 branches overseas.

The Ministry of Trade, Industry and Energy revised the rules governing the establishment of venture-capital firms. Consequently, 1) an affiliate of the 10 major business groups would be authorized to set a venture-capital firm provided that over 50 percent of its equity is owned by non- group interest(s), 2) a venture-capital firm would be authorized to set up branch(es) within the Seoul area, 3) a venture capital firm would be authorized to underwrite convertible debentures up to 200 percent of its paid-in capital, and 4) a venture-capital firm would be authorized to liquidate the assets of a firm in which it invested and which went bankrupt.

December 7

The Ministry of Finance and Economy reduced import tariffs on six simple-tax items from the current 60 percent to 50 percent.

The Ministry of Trade, Industry and Energy revised, with the approval of the Cabinet, the Presidential Decree Enforcing the Law Governing Establishment of Plants. The revision is designed to ease restrictions on the disposition of lots within an industrial estate within the capital area by firms accommodated within the estate.

The Bank of Korea revised the regulations concerning supervision of financial institutions in favor of better protecting the interest of the people utilizing financial institutions.

December 6

The Ministry of Finance and Economy revised the harmonized specifications of Korea (HSK). The revision was adopted to facilitate the compilation of statistics on customs clearance and other areas, effective January 1, 1996.

The Ministry of Trade, Industry and Energy formally announced the Five-Year Industrial Technology Development Plan (1996-2000) and the Five-Year Technology Infrastructure Expansion Plan (1996-2000), which were adopted by the Industrial Technology Development Deliberation Council on December 5, 1995.

December 3

The Ministry of Trade, Industry and Energy announced its 1996 plan for development of substitute energies under which 49 themes in nine sectors, including solar energy and bioenergy, would be researched with government support funds totaling 12 billion won, 3 billion won more than last year.

December 2

The National Assembly revised laws concerning the waiver/reduction of tax, juridical persons tax, value-added tax, special excise tax, traffic tax and liquor tax as proposed by Ministry of Finance and Economy and approved by the parliamentary subcommittee on November 30, 1995.

December 1

The Ministry of Finance and Economy announced a plan to liberalize the insurance market in order to primarily better protect the interest of policyholders. Under the plan, the terms for the establishment of a new insurance firm have been eased, the scope of overseas insurance products eligible for subscription by domestic insurance firms has been expanded, the reinsurance market would be liberalized ahead of original schedule, an insurance brokerage system would be introduced and damage assessment and insurance accounting business sectors would be opened to foreigners.

The Ministry of Finance and Economy also announced measures expanding financing for foreign trade and easing restrictions on overseas activities of securities firms.

The Ministry of Trade, Industry and Energy adjusted maximum prices of petroleum products on the domestic market.

November 30

The Ministry of Finance and Economy announced measures designed to raise standards for listing shares on the stock exchange and related matters to the level of advanced countries.

November 29

The Ministry of Trade, Industry and Energy announced its 1995 plan to develop basic industrial technology under which 373.2 billion won would be released over a period of three years to help finance 204 R&D themes designed to enhance the international competitiveness of domestic industries.

November 28

The Ministry of Finance and Economy announced guidelines for opening domestic investment and trust and investment consulting businesses to foreign competition in line with the measures adopted by IMF and IBRD general meetings in October 1995.

November 23

The Ministry of Finance and Economy announced regulations governing operations of firms established to finance installment purchases of durable goods in accordance with the Credit Card Business Law, which would be implemented on and after January 1, 1996.

November 22

The Ministry of Finance and Economy announced measures designed to raise the standards of foreign exchange market to those of advanced countries. The measures call for among other things expansion of the daily band of foreign exchange rate fluctuation, establishment and operation of the won-yen exchange market, etc.

November 18

The Ministry of Trade, Industry and Energy announced regulations concerning promotion and distribution of information which would facilitate implementation of the KAN code, POS (point-of-sale) system, etc. from January 1, 1996.

November 16

The Ministry of Finance and Economy revised regulations (presidential decree) enforcing the Juridical Person's Tax Law designed to readjust the scope of donations for public interest, the scope of real estate obtained for non-business use, etc.

The Ministry of Trade, Industry and Energy adopted final amendment bills to three gas-related laws which were passed by the Cabinet on November 14, 1995, in order to strengthen the safety management of gases.

November 15

The Ministry of Finance and Economy

implemented revised standards for listing shares of mutual trust and finance firms on the stock exchange so as to better protect the interest of share subscribers.

November 14

The Ministry of Trade, Industry and Energy scrapped the minimum distance requirement (between two gas stations) for the establishment of a new gas station, effective on and after November 15, 1995.

November 10

The Ministry of Finance and Economy revised the government construction contract system to simplify contract procedures.

The Ministry of Trade, Industry and Energy finalized its basic plan to allow construction of power plants by private enterprises which was adopted by the Electric Power Supply and Demand Deliberation Committee on November 9, 1995. Under the plan, private enterprises would be able to build, own and operate power plants, provided that electricity thus generated is supplied to the Korea Electric Power Corp. In return, the private firms would be guaranteed profit tied to that of the state-run Korea Electric Power Corp.

November 3

The Ministry of Trade, Industry and Energy established a plan to foster the IC card industry under which IC cards would be standardized and government financial support provided to facilitate introduction of related technologies.

October 24

The Office of Statistics announced that the 1995 general census of population and housing would be conducted for nine days (November 1-9) at a cost of 53.9 billion won and with the mobilization of 192,400 persons.

October 20

The Ministry of Finance and Economy tentatively approved the establishment of 12 firms to undertake housing installment financing. These firms must begin operation within six months from the date of formal licensing.

October 12

The Ministry of Finance and Economy revised the regulations enforcing the Tax Waiver/Reduction Law in favor of fostering capital goods manufacturing firms, etc.

October 11

The Ministry of Finance and Economy announced measures designed to facilitate the listing of foreign shares on the domestic stock exchange from the first half of 1996. Initially, IBRD and EBRD would be allowed to float up to US$100 million worth of won bonds each in 1996.

October 10

The Ministry of Finance and Economy announced measures for easing restrictions on direct offshore investments and simplifying such investment procedures.

The Ministry of Information and Communications announced that effective on and after December 1, 1995, international telephone rates would be lowered by 7 percent on average and that the rates would be charged every six seconds instead of the current policy of rounding charges up to the next full minute.

The Ministry of Information and Communications also announced a plan to develop core technologies for information/communications equipment with government support funding of 10 billion won. Applications for the fund would be accepted through November 10 along with specific projects to be financed with the funds. The selected projects are to be undertaken in 1996.

October 5

The Ministry of Information and Communications announced that effective on and after October 16, 1995, domestic mail rates would be raised by 14.8 percent on average and international mail service rates by 13.3 percent on average.

Appendix 2

Statistics(I)

Economic Growth, Consumption and Investment

Year/Month	Economic Growth		per capita GNP	Consumption		Investment		
	GDP	Mfg ind.		Total	Private	Total fixed investment	Facility	Construction
	Year-to-year change (%)		U,S.$	Year-to-Year Change(%)				
1988	11.3	13.8	4.295	8.8	9.0	13.7	13.0	14.3
1989	6.4	4.2	5.210	10.4	10.8	15.9	14.7	16.8
1990	9.5	9.7	5.883	10.1	10.7	25.9	18.8	31.2
1991	9.5	9.1	6.757	9.3	9.5	12.6	12.1	13.0
1992	5.8	5.1	7.007	6.8	6.6	-0.8	-1.1	-0.6
1993	8.4	5.0	7.513	5.3	5.7	5.2	-0.1	8.9
1994	9.7	10.4	8,483	7.0	7.4	11.7	23.3	4.6
1995. 1/4	9.9	12.9	–	7.9	8.7	15.6	25.2	8.0
2/4	9.7	11.1	–	7.3	8.0	12.7	19.0	8.3
3/4	9.9	11.6	–	7.2	8.0	16.0	21.1	12.3

Trade and International Balance of Payments

Year/Month	Trade						Balance of payments			Foreign exchange reserves 1)	Exchange rate (W/US$)
	Exports (FOB)		L/C arrivals	Imports (CIF)		I/L issued	Trade blance	Current bal-ance	Overall balance		
	US.$ mil.	Year-to-year change (%)		US.$ mil.	Year-to-year change (%)		US$ 100 mil.				End of Year/Month
1988	60,696	28.4	23.0	51,811	26.3	26.7	11,445	14,161	12,175	12,378	684.1
1989	62,377	2.8	6.4	61,465	18.6	17.2	4,597	5,055	2,453	15,245	679.6
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. 4	10,176	32.7	14.7	11,181	38.6	80.6	-649	-1,009	-606	27,294	761.8
5	10,644	35.5	27.6	11,820	39.7	55.3	-581	-809	326	27,818	760.1
6	11,256	35.6	20.5	11,834	42.8	24.1	-563	-872	205	28,382	758.1
7	10,494	37.9	13.4	11,311	35.6	15.4	-112	-564	1,676	30,950	756.5
8	11,631	39.9	6.6	11,513	34.4	24.9	-380	-885	496	31,173	777.1
9	11,000	32.5	14.4	11,620	31.9	30.2	-281	-709	221	31,189	768.4
10	11,561	30.4	3.6	11,726	29.0	24.5	–6	–109	493	32,168	765.6

Source: The Bank of Korea.
Note : 1) From 1988 foreign exchange reserves in the public sector only are covered.

Statistics(Ⅱ)

Prices, Unemployment and Interest Rates

Year/Month	Prices 2)		Unemploy -ment rate	Nominal wage (mfg ind)	Currency 3)		Interest rate (Year-to-year change (%))		
	Producer	Consumer			M1	M2	Rediscount	Time deposit 4)	Yield (debenture)
	Year-to-year Change (%)		(%)	Year-to-year change (%)					
1988	2.7	7.1	2.5	19.6	15.5	18.8	8.0	10.0	14.5
1989	1.5	5.7	2.6	25.1	14.1	18.4	7.0	10.0	15.2
1990	4.2	8.6	2.4	20.2	18.1	21.2	7.0	10.0	16.5
1991	4.7	9.3	2.3	16.9	16.1	18.6	7.0	10.0	16.5
1992	2.2	6.2	2.4	15.7	32.3	18.4	7.0	10.0	18.9
1993	1.5	4.8	2.8	10.9	22.1	18.6	5.0	8.5	12.6
1994	2.8	6.2	2.4	15.5	11.9	15.6	5.0	8.5	12.9
1995. 4	5.7	5.1	2.1	9.6	13.1	16.7	5.0	9.0-10.0	14.7
5	6.2	5.1	1.9	9.9	13.0	16.8	5.0	9.0-10.5	14.9
6	5.9	4.3	1.8	10.8	12.2	15.9	5.0	9.0-10.5	14.7
7	5.7	3.8	1.8	10.9	10.8	14.9	5.0	9.0-10.5	14.2
8	4.6	3.5	1.9	16.4	11.6	14.7	5.0	9.0-10.5	13.2
9	5.2	4.7	1.9	–	8.5	13.9	5.0	9.0-10.0	12.9
10	3.9	4.4	1.9	–	10.0	13.8	5.0	9.0-10.0	12.2

Industrial Production and Demands

Year/Month	Ind. output		Demand-related indexes							
	Mfg	Operating ratio index	Retail	Consumer goods shipment 5)	M/C orders 6)	M/C imports 7)	Construction orders	Const. permit (floor area)	Ind. use	Housing
	Year-to-year change (%)									
1988	13.5	-1.6	5.1	20.9	25.3	25.5	0.6	26.7	17.7	39.4
1989	3.0	-3.6	9.5	19.1	24.8	40.3	84.5	45.8	-4.0	57.5
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	34.3	11.9	-1.3	16.8	-8.5
1995. 4	14.9	1.4	9.5	8.1	28.5	48.6	35.8	45.2	73.9	57.0
5	12.6	-0.6	8.7	5.9	25.0	59.6	14.1	52.3	17.3	60.2
6	10.1	-1.0	8.2	5.1	26.2	48.1	1.9	16.8	36.0	15.6
7	15.7	3.4	7.2	2.0	-16.3	52.1	77.5	-31.5	-46.0	-34.8
8	13.2	0.7	8.4	7.5	18.4	19.9	20.0	-19.6	4.9	-26.7
9	11.4	-1.5	6.9	3.4	10.4	20.4	3.0	-25.0	-1.6	-32.7
10	9.7	-3.7	6.1	3.2	6.6	26.7	32.2	2.0	6.1	-6.9

Source: The Bank of Korea, National Statistical Office.

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

3) MI and M2 represent average-balances 4) Refer to interest on Over 1-Year time deposits; from Dec. 5, 1988 refer to interst on one year to less than two-year time deposits 5) For domestic market 6) For domestic use, exc. vessels 7) Ordinary machinery for domestic use.