

KERI Economic Quarterly

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Recent Developments & Outlook

Overview

Developments in the 1st Quarter 1996

The Bank of Korea announced in May that the first quarter of this year witnessed GDP growth of 7.9 percent from the same period last year, up 1.1 percentage points over the 6.8 percent growth marked in the last quarter of last year over a year earlier—an indication that the economy came out of rapid downturn.

The economic recovery in the first quarter of this year was believed to have been brought about, thanks to recovery to the robust level of 7.2 percent (average in 1995) in the growth in the consumption sector which markedly declined in the last quarter of 1995, a 24.1 percent growth rate in exports, irrespective of the weakening of yen, surpassing the 20 percent average growth rate marked in 1995, as well as to 10 percent growth in the construction sector influenced by early implementation of government construction projects.

In the production sector, the first quarter saw a 7.8 percent growth rate in manufacturing industries stimulated by increased exports. Construction and service industries also wit-

nessed growth rates of 9 percent more or less in the first quarter. The growth in service industries was largely contributed by utilities, distribution and communications sectors, while that in construction industry resulted primarily from early implementation of public projects. The agro-fishery-forestry industries marked a 2.0 percent growth rate, somewhat higher than in the last quarter of 1995 but lower than in the first quarter of last year. In the first two months of the second quarter, export growth rate declined sharply to 5 percent level; however, the overall industrial activities slowed gradually, having been propped up by steady domestic demand.

The cycle of coincident composite index continued to decline in March and April, the leading composite index declined in April for the first time this year, but the coincident composite index maintained its upward path thus far this year.

Since April the year-to-year growth in light industries turned upward and industrial output growth also maintained an 8 percent level with blunted increase rate in inventories.

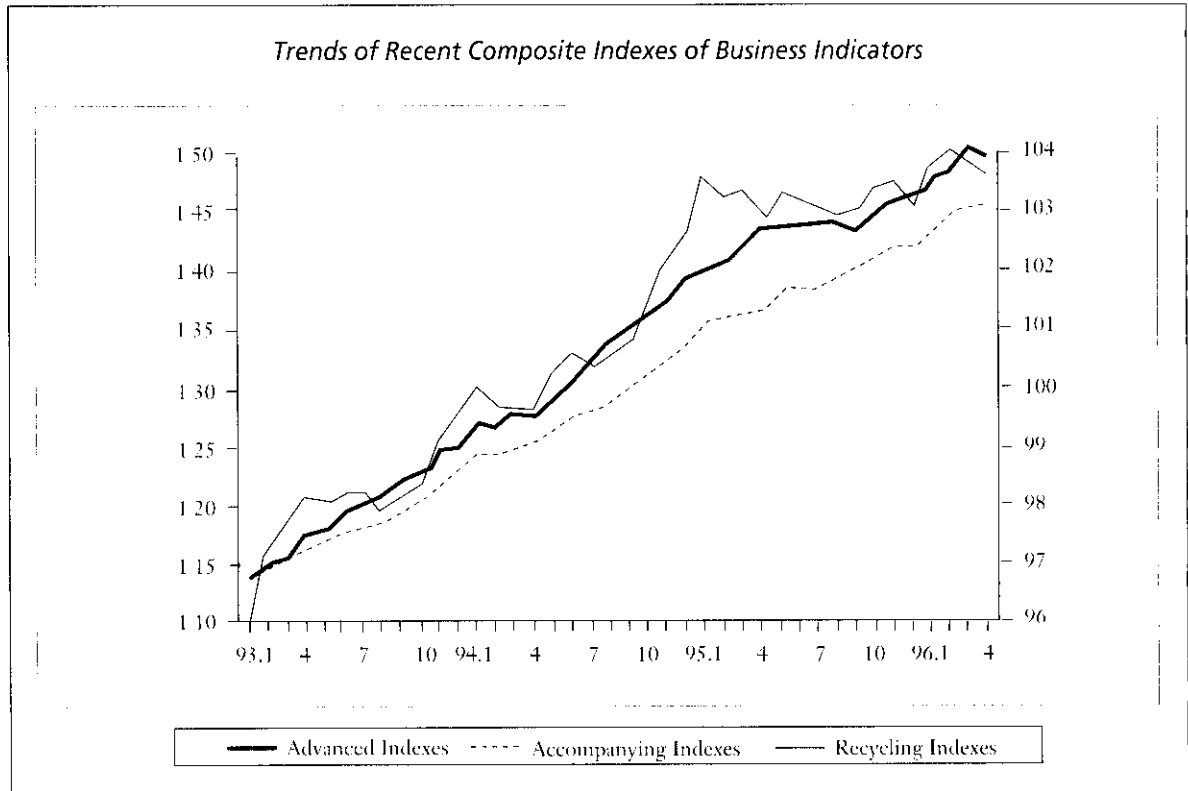
Growth in dollar-denoted exports dropped to a

low level of 5 percent in the first quarter but exports in volume rose 15.2 percent in April from a year ago and the plant operating rate stood at 82.8 percent in April. Economic soft-landing in the first quarter was sustained primarily by brisk industrial activities in the face of stunted export growth. The first quarter witnessed further deterioration in current account balance, thereby disturbing those in charge of macroeconomic policies.

The red ink in the invisible trade and unilateral

transfer sectors maintained upward trends in the first quarter and the end of April saw the unfavorable balance in the current account snowballing to US\$6.56 billion-up 50 percent from a year earlier.

The end of May witnessed a 30 percent depreciation of the yen against the dollar and a 20 percent drop against the won from a year ago, thereby stunting growth in Korea's exports of major items being contested with Japanese counterparts on the world market. On the other hand, despite



decreased equipment investment, import growth far outpaced export growth, further increasing our unfavorable balance of foreign trade.

The year-to-year growth rates in the exports of such major items as semiconductors, automobiles, electronic products, vessels, and machinery declined to 5-6 percent in the second quarter due chiefly to rapid fall in the value of the yen. On the other hand, irrespective of blunted growth in equipment investment, the second quarter of this year is likely to witness an 11 percent growth rate in imports to result in an unfavorable trade balance of US\$5.5 billion in the first half of this year. The red ink figure in the invisible trade and unrequited transfer sector is expected to hit US\$ 3.3 billion, due to continued increases in royalty payments and overseas travel expenditures. Thus, it is probable that the deficit in the current account in the first half will almost reach the US\$8.8 billion in the red marked in the whole quarters of last year.

The growth rate in equipment investment, which spearheaded along with exports the economic expansion until the third quarter of last year, dropped sharply to 1.5 percent in the last quarter of last year and recovered somewhat to 4.3 percent in the first quarter of this year, but no marked recovery in the facility investment is likely for the time being in view of unexpected serious set back in exports in the second quarter

of this year.

The growth rate in construction investment, which marked 11.2 percent in the second half of 1995 thanks to increased investment in building construction and social overhead capital projects, levelled off to 10.2 percent in the first quarter of this year and is now expected to further slide down this year, influenced by declining investment in buildings and 60 percent disbursement of the 5,100 billion won earmarked for public construction projects for this year in the in the first quarter (1,330 billion won) and the second quarter (1,730 billion won). This prediction will be reversed, however, if a supplementary budget is adopted to provide for additional funds for public construction projects.

The growth rate in private consumption expenditures, which remained relatively low through the third quarter of last year despite economic expansion and increased household income, marked 7.1 percent in the last quarter of last year from a year earlier, and inched up to 7.5 percent in the first quarter of this year. The second quarter of this year would have witnessed growth rate of 7.5 percent, the same as in the first quarter, in view of increasing growth rate in wages and increased private consumption caused by parliamentary elections in April this year.

In the first quarter of this year, year-to-year growth rate in domestic prices was generally

maintained at the level of May last year (5.2 percent in producer prices and 5.1 percent in consumer prices) as overseas prices of raw materials were stabilized and growth rates in public utility charges were relatively low as compared with those of a year ago. Influenced by increased prices of agricultural produce brought on by unusually low-temperature weather, consumer prices rose somewhat in the second quarter of this year.

Producer prices rose just 2.8 percent in the second quarter of this year from a year ago vs. 5.9 percent year-on-year increase marked in May 1995. Consumer prices would have increased 5.0 percent in the second quarter of this year, or the same level as in the second quarter of last year. In 1995, relatively deflators were noted in the construction and government service sectors, thereby pushing up prices. In the first half of this year, however, increase rates in government service charges remained relatively lower than in the first half of last year.

Outlook for the Second Quarter, 1996 and 1996

In the second half of this year, it now appears that slowed economic growth is inevitable inasmuch as downturn in internal and external demand is likely to be sustained and the recent depreciation in the value of the won against the

dollar will be gradually felt in restoring the international competitiveness of domestic products. In particular conspicuously absent in the second half of this year will be such economy boosting factors that existed in the first half as sustained growth in exports and concentrated release of public construction project funds. Moreover, the value of the yen is likely to continue to slide. Thus, it is probable that Korea's economic growth will further slide down to around 6.7 percent, thereby pegging annual economic growth this year at around 7.0 percent.

During the second half of this year, growth levels of exports and investments will be higher than those in the second quarter but lower than those of the first half of this year.

On the demand side, export growth rate is likely to rise from 5-6 percent level in the second quarter of this year to 11-12 percent in the second half of this year, influenced gradually by 5 percent depreciation during the first half of this year in the value of the won from the end of last year as well as by increased efforts to cultivate overseas markets for certain items. However, the growth rate in fixed capital formation in the second half of this year will be less than 7 percent, as equipment investment growth remains stunted, pending opening of a new equipment investment cycle, while no marked expansion in public construction projects is in sight.

The relatively favorable outlook for export growth in the second half than in the second quarter of this year stems from marked upward trends established in the first half of this year in the exports of plastic goods (up 21.5 percent on a customs clearance basis in the first five months of this year over the same period of last year), tires and tubes (up 24.9 percent) and textile yarns and fabrics (up 7.4 percent)-items which are not challenged by Japan on the world market. Another major factor contributing to increased exports in the second half of this year is the slight depreciation of the won against the dollar in the first half of this year.

The private consumption sector is likely to emerge as one of major props sustaining economic growth in the second half of this year. Irrespective of the current economic contraction phase, 1996 is likely to witness higher rate of nominal wage increases than in 1995. Other factors contributing to increased consumption expenditures in the second half of this year will be growing public propensity for expensive consumer goods and increased credit financing for durable and nondurable consumer goods. The share of service-related expenditures in the overall consumer expenditures stood at 41.6 percent last year and is expected to steadily narrow the gap with the 50 percent share reported in advanced countries. From the third quarter, the construction investment growth is likely to slow,

inasmuch as 60 percent of the public construction fund earmarked for this year was disbursed in the first half of this year and the current slump in housing construction sector is expected to last for a while.

The second half of this year is likely to witness around 3 percent growth in building construction sector. This projection stems from the likelihood that anticipated growth in public civil engineering and construction investments this year will more than offset probable setbacks from continued downturn in housing construction due to lingering adverse influence from apartments remaining unsold, as well as from stunted investment mind in construction of commercial/industrial buildings in the face of uncertain business outlook. In fact, the government has earmarked a total of 8,168.2 billion won for the maintenance and expansion of social overhead capital for this year-up 23.2 percent over the 6,627 billion won so earmarked for 1995. The year 1995 saw consumer and producer prices rise in the first half and stabilize in the second half in general and this pattern is likely to be repeated this year. Projected increases in public utility charges (including rates determined by local governments) in the first half of this year have been put on hold until sometime in the second half of this year. On the other hand, crude oil prices that inched up in the first half began to level off with the opening of the second half. In addition, prices

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Outlook for 3rd Quarter, 1996 & 1996

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

	1994		1995				1996				
	year	Jan.	Feb.	Mar.	Apr.	Year	Jan.	Feb.	Mar.	Apr.	Year
GNP	8.4	9.9	9.2	9.7	6.6	8.7	7.4	6.8	6.6	6.6	6.8
GDP	8.6	10.0	9.7	9.8	6.8	9.0	7.9	6.9	6.7	6.7	7.0
Manufacturing	10.4	12.9	11.3	11.7	7.5	10.7	7.8	7.5	7.2	7.3	7.4
Total consumption expenditure	7.0	7.9	7.3	7.2	6.4	7.2	7.2	6.9	6.8	7.0	7.0
Private consumption	7.6	8.8	8.1	8.0	7.1	7.9	7.5	7.4	7.4	7.6	7.5
Total fixed capital	11.8	15.5	12.6	15.5	7.4	12.4	7.3	7.0	6.4	7.3	7.0
Equipment investment	23.6	25.5	18.0	22.2	1.5	15.9	4.3	5.7	5.0	7.7	5.7
Construction investment	4.5	7.6	8.8	10.8	11.7	9.9	10.0	8.0	7.5	7.0	8.0
PPI	2.7	4.2	5.9	5.1	3.6	4.7	3.1	2.7	2.6	3.1	2.9
CPI	6.2	4.6	4.8	4.0	4.5	4.5	4.9	5.0	4.7	5.0	4.9
Current account balance	-45.3	-32.8	-26.9	-21.3	-6.7	-87.7	-43.5	-44.3	-20.3	1.9	-106.3
Trade balance	-31.5	-24.9	-18.2	-7.8	3.9	-47.0	-23.9	-30.8	-7.6	10.1	-52.2
Exports	936.6	261.3	313.5	318.1	340.0	1232.9	315.8	336.1	351.6	379.5	1383.1
Growth (%)	15.7	31.9	34.6	38.0	23.5	31.6	20.9	7.2	10.5	11.6	12.2
Imports	968.2	286.2	331.9	325.9	336.1	1279.9	339.7	366.9	359.2	369.4	1435.3
Growth (%)	22.4	34.5	41.5	34.0	21.0	32.2	18.7	10.6	10.2	9.9	12.1
Invisible trade balance & Unrequited transfers	-13.9	-7.9	-8.7	-13.5	-10.6	-40.7	-19.6	-13.5	-12.7	-8.3	-54.1

Sources : The Bank of Korea, National Statistical Office, for 2nd quarter and thereafter, figures are our estimates

Notes : Represent year-to-year change (%) based on a quarterly average.

In case of current account balance, the figure unit is 100 million dollars.

of some grains on the world market are likely to decline in the the last quarter of this year. This leads to the conclusion that the producer and consumer prices are likely to increase by 3 percent and 5 percent on a year-to-year basis, respectively, in the second half and by 2.9 percent and 4.9 percent, respectively, in 1996 as a whole.

The somewhat higher price inflation rates

forecast for the second half of this year than those of the same period last year has resulted from such adverse factors as anticipated expansion in private consumption—a common post-economic expansion phenomenon, probable expansion in local governments' expenditures, readjustment upward of local public utility charges to meet increased budget requirements, and increased inflow of foreign capital into the domes-

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tic stock market. Other adverse factors pointing to higher price increases this year are possible lean crops this year, following last year's bumper crops, and uncertain prospect for enhanced productivity needed to cushion off wage increases this year.

The Ministry of Labor Affairs has announced that the wages of enterprises with employees of 10 or more each rose 13.7 percent on the average in the first quarter of this year-up 2 percentage points from the same quarter of last year that saw year-to-year increase of 11.4 percent. This indicates that the annual wage increase rate this year will be higher than that of last year.

Private Consumption

Recent Developments

The year-to-year private consumption growth rate, which dipped to 7.1 percent in the last quarter of last year in the wake of the outbreak of unprecedented, slush fund scandals involving two former presidents, rallied to 7.5 percent in the first quarter of this year vs. 8.8 percent growth marked a year earlier and 7.9 percent average growth for 1995.

The somewhat recovered private consumption growth rate in the first quarter of this year resulted from gradual removal of the political, economic and social shocks induced by the slush fund scandals as well as from the people's income accumulated during the past three years of economic expansion phase that helped sustain slower but steady growth in private consumption in the face of downturn in the economic cycle.

A review of recent consumption-related indexes

Private Consumption & Household Consumption Trends

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

	1994		1995			1996	
	Year	1/4	2/4	3/4	4/4	Year	1/4
Private consumption	7.6	8.8	8.1	8.0	7.1	7.9	7.5
Household consumption	7.6	8.8	8.1	8.1	7.1	8.0	7.6
Durable consumer goods	11.8	15.9	9.5	11.4	9.9	11.6	9.4
Semi-durable consumer goods	6.1	9.8	9.9	10.8	7.1	9.3	6.5
Non-durable consumer goods	5.2	6.4	7.0	5.5	5.1	6.0	5.5
Services	8.7	8.6	9.1	8.5	7.5	8.4	7.7

Source : The Bank of Korea

Consumption-Related Indexes

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

	1994			1995			1996			
	3/4	4/4	Year	1/4	2/4	3/4	4/4	Year	1/4	April
Retail and wholesale	8.1	8.3	8.0	8.7	7.8	7.3	7.4	7.8	8.3	7.0
Wholesale	10.6	8.9	9.8	7.9	7.0	6.3	6.2	6.9	6.9	5.3
Retail	5.5	7.5	6.1	9.4	8.5	8.1	8.7	8.6	9.8	8.8
Shipment of consumer goods	10.6	8.8	9.2	12.9	6.6	4.4	6.2	7.4	5.3	7.1
Durables	10.8	12.0	12.3	17.4	5.5	10.4	9.3	10.7	6.2	8.9
Non-durables	10.5	7.1	7.7	10.3	7.2	1.4	4.6	5.7	4.9	6.0

Source : National Statistical Office

shows that it will be possible to sustain a moderate growth rate of 7.4 percent in private consumption in the second quarter of this year.

Outlook for the 3rd quarter and 1996

Private consumption growth is likely to slow down along with the downturn in economic growth rate but its growth rate will be maintained at a higher level than economic growth rate. Thus, the private consumption growth rate is likely to be maintained at 7.4 percent in the third quarter and 7.5 percent throughout this year—generally higher than the economic growth rate for this year.

This prediction stems from the generally acknowledged pattern that popular income accumulated during the three-year economic expansion phase will sustain slower but steady increase in private consumption for the time being.

Furthermore, the current private consumption pattern marked by growing preference for large, expensive durable and nondurable consumer goods, coupled to increasing expenditures for leisure and sport services, will give added support to the prediction that private consumption growth will outpace national economic growth this year.

Fixed Investment

Recent Developments

Equipment Investment

The first quarter of this year marked a year-to-year growth rate of just 4.3 percent in the equipment investment sector which is an improvement from the 1.5 percent growth in the last quarter of

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Equipment Investment Trends

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

	1994			1995		1996	
	Year	1/4	2/4	3/4	4/4	Year	1/4
Equipment investment	23.6	25.5	18.0	22.2	1.5	15.9	4.3
Machinery	23.3	33.6	28.4	22.0	8.8	22.6	8.7
Transportation equipment	24.1	6.8	-2.7	23.2	-11.1	2.4	-8.5

Source: The Bank of Korea

last year but far less than the 15.9 percent average growth for 1995. The setback in the growth rate in the first quarter resulted primarily by an 8.5 percent minus growth in transportation equipment vs. 6.8 percent growth in the first quarter of last year. Investment growth in machinery sector also declined from 8.8 percent in the last quarter of 1995 to 8.7 percent in the first quarter of this year.

The conspicuous drop in the equipment investment growth rate stems from over 20-percent annual growth for the last two consecutive

years that raised the industrial production capacity to an almost saturation point as well as from the stunted equipment investment mind at the end of an economic expansion cycle.

The very fact that the growth rates of equipment-investment-related indices remained relatively low since the last quarter of last year leads to the prediction that it will continue to sustain a downturn in the second quarter of this year. However, the year-to-year growth rate is likely to hit 5.7 percent in the second quarter-up 1.4 per-

Equipment Investment and Related Indexes

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

	1994			1995				1996		
	3/4	4/4	Year	1/4	2/4	3/4	4/4	Year	1/4	April
Domestic machinery orders received	32.2	22.2	26.9	45.4	26.6	0.9	-1.5	15.8	9.7	11.7
Import licenses for machinery	81.2	87.4	73.6	59.4	79.8	1.7	-7.2	28.2	1.3	-41.6
Machinery Imports	42.0	44.5	37.6	47.1	34.8	22.9	10.8	27.0	16.0	24.7
Domestic Machinery Shipments	18.7	21.4	22.0	28.3	30.0	21.1	8.0	21.4	9.0	4.4

Source: National Statistical Office

centage points over and above the 4.3 percent growth registered in the first quarter inasmuch as the second quarter of last year saw a relatively low growth rate of 18.0 percent.

Construction Investment

The construction investment sector witnessed an overall year-to-year growth rate 10.0 in the first quarter as the relatively low 5.8 percent growth in the building construction was more

than offset by a 20.8 percent growth in social overhead capital and other construction sectors.

The 5.8 percent growth in building construction resulted from a low 4.4 percent growth in the construction of industrial, commercial and other nonhousing buildings in the first quarter.

On the other hand, the relatively favorable 20.8 percent growth in the other construction sector in the first quarter of this year was made

Construction Investment Trends

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

	1994		1995			1996	
	Year	1/4	2/4	3/4	4/4	Year	1/4
Construction investment	4.5	7.6	8.8	10.8	11.7	9.9	10.0
Building construction	2.2	5.3	11.3	15.3	9.9	10.5	5.8
Other construction	8.1	14.1	4.9	4.2	13.6	9.0	20.8

Source : The Bank of Korea.

Construction Investment and Related Indexes

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

	1994			1995				1996		
	3/4	4/4	Year	1/4	2/4	3/4	4/4	Year	1/4	April
Domestic construction orders received	10.8	19.5	18.5	14.3	21.9	29.8	18.7	21.2	47.4	11.8
Public Construction	11.7	20.3	17.0	27.7	-8.9	51.9	14.6	17.6	156.9	41.4
Authorized floor area	14.1	17.0	-1.3	16.2	36.3	-25.6	-12.2	1.0	-7.4	-11.0

Source : National Statistical Office

possible thanks to increased construction of roads, harbor/port facilities, electric power plant facilities, subways and other public civil engineering and construction projects.

Inasmuch as construction-related indice point to sustained high growth, due chiefly to increased construction orders in April for public engineering and construction projects for railways, roads and bridges, it is likely that the second quarter of this year would have witnessed a similar rate of growth as in the first quarter. Given the likelihood, however, that the growth rate in the plant and commercial buildings would have continued its downturn, the second quarter would have seen a growth rate of 8.0 percent-down 2 percentage points from the previous quarter's year-to-year growth of 10 percent.

Outlook for the 3rd Quarter and 1996

Equipment Investment

The equipment investment growth rate is likely to continue to slide in parallel with the downturn in economic growth. In particular, given the fact that the third quarter of last year witnessed a relatively higher year-to-year growth rate, it is likely that the third quarter of this year will mark a 5.0 percent growth from a year earlier-some-what lower than in the second quarter of this year.

The relatively low growth projection in the equipment investment sector for the third quarter of this year stems from a) decreased fresh investment demand resulting from marked growth rates through the third quarter of last year that pushed up production capacity to the highest level, b) blunted domestic market for capital goods due to economic downturn, stunted growth in world trade volume, and continuing depreciation of the yen-all of which have tended to wither enterprises investment mind. The downturn in equipment investment growth is likely to last through 1996 thereby lowering the year's annual growth rate to 5.7 percent, much lower than last year's.

Construction Investment

The third quarter of this year is expected to witness a 7.5 percent growth from a year earlier, owing mainly to continued upturn in public civil engineering and construction project investments by central and local governments and gradual recovery in housing construction investment growth.

Growth in housing construction in the third quarter is likely to be limited in the area of remodelling obsolete apartments and outdated housing areas in major cities inasmuch as a total of 124,196 apartment units remained unsold as of the end of April this year, although the figure was reduced

Prospects for Equipment & Construction Investments

(Unit : dwelling)

	1995				1996			
	Sept	Oct.	Nov.	Dec.	Jan.	Feb.	March	April
Metropolitan	30,182	41,046	37,064	34,993	31,367	27,958	24,337	24,608
Local	113,843	118,425	121,007	117,320	113,409	107,428	101,271	99,588
Total	144,025	159,471	158,071	152,313	144,776	135,386	125,648	124,196

Source : Ministry of construction and Transportation

Prospects for Equipment & Construction Investments

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

	1995					1996				
	1/4	2/4	3/4	4/4	Year	1/4	2/4	3/4	4/4	Year
Equipment investment	25.5	18.0	22.2	1.5	15.9	4.3	5.7	5.5	7.7	5.7
Construction investment	7.6	8.8	10.8	11.7	9.9	10.0	8.0	7.5	7.0	8.0

Source : The Bank of Korea

from 152,313 at the end of last year thanks to the implementation seven months ago of a series of measures designed to facilitate sales of apartment units built in relatively unpopular areas.

As has been noted earlier, the year 1996 is likely to witness construction investment growth outpacing overall economic growth rate. However, the construction investment growth rate in 1996 is expected to be around 8.0 percent, somewhat lower than the growth rate of the previous year,

due chiefly to the likelihood that growth in industrial and commercial building construction will decline along with stunted growth in equipment investment.

External Transactions

Recent Developments

Year-to-year growth rates in exports marked

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relatively low levels of 5.3 percent in April and 6.8 percent in May:

Exports of chemical and heavy industrial products, in particular, marked growth of just 3.5 percent in April vs. 24.5 percent growth in the first quarter of this year, due primarily to a sharp setback in the exports of semiconductors and iron/steel products. Semiconductors witnessed their export growth plunge from 70.3 percent in 1995 to 57.1 percent in the first quarter of 1996, and further to minus 1.3 percent in April this year.

May this year saw growth rate of chemical/heavy industrial products decline further to minus 3.7 percent from a year earlier, influenced by negative growth of semiconductors (minus 18.9 percent), iron/steel products (minus 45.9 percent) and petrochemical products (minus 23.2 percent).

Export growth of light industrial products also suffered negative growth rates of 4.2 percent in March and 1.0 percent in April but rallied to positive 3.3 percent in May.

Exports to advanced countries marked a nega-

Recent Export Trends (customs clearance basis)

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

		1995	April	Jan.-April	Mar. '96	April	Jan.-April	May
Total		1250.6 (30.3)	101.6 (32.5)	363.5 (31.9)	117.9 (17.9)	106.9 (5.3)	423.4 (16.5)	113.7 (6.8)
By Product	Chemical/ heavy industrial prod- ucts	879.1 (37.5)	69.7 (41.0)	258.6 (39.3)	86.2 (21.9)	74.8 (3.5)	306.7 (18.6)	(-3.7)
	Light industrial prod- ucts	293.5 (14.0)	25.3 (13.8)	88.9 (12.3)	23.7 (-4.2)	24.2 (-1.0)	87.8 (-1.2)	(3.3)
By Region	Developed countries	624.2 (27.9)	50.5 (29.1)	179.6 (28.0)	53.9 (9.7)	47.4 (-6.1)	198.4 (10.5)	(-7.3)
	Developing countries	626.3 (32.7)	51.1 (36.0)	183.9 (36.1)	64.0 (25.9)	59.5 (16.6)	225.0 (22.3)	(16.2)

Source : Ministry of Trade, Industry and Energy

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tive growth rate of 4.2 percent on a year-to-year basis in April and deteriorated further to minus 7.3 percent in May. Even exports to developing countries grew just 16.2 percent, the same level as in April.

Imports amounted to US\$12.7 billion in April-up 14.3 percent from a year earlier, while the year-to-year growth rate slipped to 14 percent in May.

By category, import growth rate for capital goods declined during the two months, while that for raw materials and consumer goods continued to climb.

By region, growth rates for imports from Japan and the United States slowed, thereby lowering the growth rate of imports from advanced countries to 6.5 percent, lower than the overall import growth rate. Of note, the growth rate for imports from developing countries rose to 31 percent.

Recent Import Trends (customs clearance basis)

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

		1995	April	Jan.-April	Mar. '96	April	Jan.-April	May
By Products	Total	1351.2 (32.0)	110.9 (37.5)	416.2 (35.9)	121.5 (4.2)	126.7 (14.3)	483.6 (16.2)	128.0 (14.0)
	Capital goods	675.8 (32.6)	53.2 (32.6)	208.6 (32.6)	58.6 (1.7)	64.3 (21.1)	249.3 (19.7)	(18.0)
	Raw materials	535.6 (32.5)	46.5 (46.2)	165.9 (41.7)	49.7 (3.9)	48.8 (4.5)	183.1 (9.9)	(8.1)
	Consumer goods	139.8 (27.8)	11.2 (28.6)	41.6 (31.0)	13.2 (18.2)	13.6 (22.5)	51.2 (24.1)	(17.3)
By Region	Developed countries	915.4 (32.5)	76.3 (37.5)	281.1 (36.0)	84.4 (5.1)	84.6 (10.9)	317.8 (13.1)	(6.5)
	Developing countries	435.8 (31.1)	34.6 (37.7)	135.0 (35.8)	37.1 (2.1)	42.2 (21.6)	165.8 (22.6)	(31.0)

Sources : Ministry of Trade, Industry and Energy

Recent Developments & Outlook

The shortfall in the current account snowballed from US\$840 million in March to US\$2.21 billion in April, thereby widening the deficit in the first four months of the year to US\$6.56 billion.

The trade deficit in April stood at US\$1.51 billion, or an increase of US\$900 million from a year earlier. The following month saw the trade shortfall narrow slightly to US\$1.44 billion. The trade deficit in the first five months of this year thus stood at US\$5.34 billion, an amount exceeding the US\$4.75 billion deficit marked in the whole of 1995.

The invisible trade deficit in the first four months of this year amounted to US\$2.32 billion,

or an increase of US\$1.15 billion from the same period of 1995. Such a huge shortfall was chiefly responsible for the further deterioration of the current account thus far this year.

Outlook

Exports are likely to witness year-to-year growth rates of 7.2 percent in the second quarter of this year and 10.5 percent in the third quarter, the slowed growth in the exports of semiconductors and iron/steel products resulting from structural factors.

Imports may witness a growth rate of 10.6 percent in the second quarter and 10.2 percent in the third quarter, influenced by weakened demand

Balance of Payments

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

	1995	April '95	Jan.~April	Mar. '96	April	Jan.~April	May.
Current account balance	-88.2	-9.2	-42.7	-8.4	-22.1	-65.6	
Trade balance	-47.5	-5.9	-31.6	-1.3	-15.1	-39.0	-14.35
Export growth (%)	30.3	32.5	31.9	17.9	5.3	16.5	6.8
Import growth (%)	32.0	37.5	35.9	4.2	14.3	16.2	14.0
Invisible trade balance	-35.1	-2.3	-11.7	-5.9	-5.8	-23.2	
Unrequited transfer balance	-5.6	-1.0	0.5	-1.1	-1.1	-3.3	
Capital balance	135.3	10.8	35.4	20.8	31.0	80.4	
Total balance	30.8	-6.1	-20.5	8.8	3.2	7.1	

for imports of capital goods resulting from the domestic economic downturn, and in dampened imports of raw materials caused by lower crude oil prices on the world market.

The second quarter of this year is likely to see a trade deficit of around US\$2 billion, due to slowed export growth and steady increases in imports. The trade shortfall is expected to decline in the third quarter and thereafter to mark an overall red ink figure of US\$5 billion for this year.

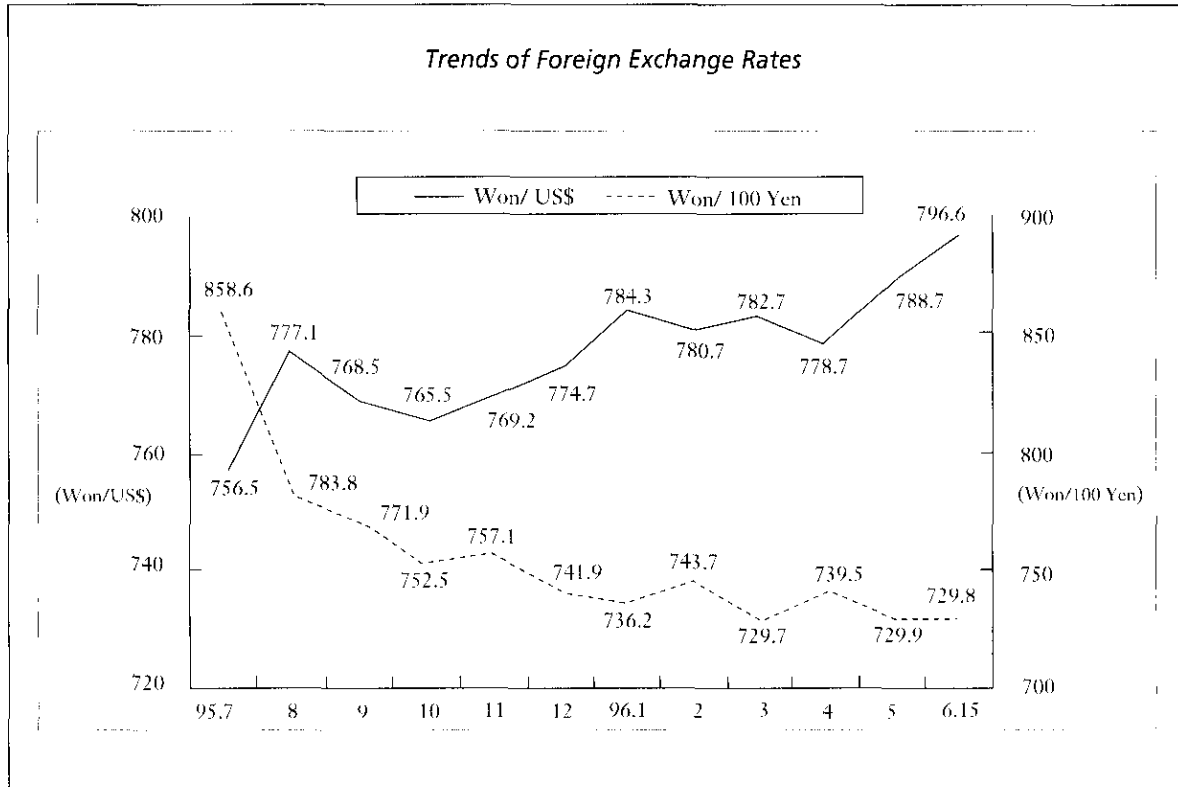
Foreign Exchange Rate

Recent Developments

Influenced by a snowballing trade deficit, the won began to depreciate since April, with the basic won-dollar exchange rate standing at 797 won per US\$1 as of June 15.

Outlook

The exchange rate is likely to decline to around



Recent Developments & Outlook

790 won per US\$1 in the second quarter and further to 780 won per US\$1 at the end of this year, due to a more moderate trade deficit and the inflow of foreign capital into the local stock market.

Prices

Recent Developments

The consumer price index stood at 3.5 percent in the first five months of this year from the end of last year-somewhat higher than the 3.1 percent hike marked in 1995 over the previous year.

Except for temporarily influenced prices of agricultural produce, the prices of manufactured goods, rent, and personal services remained stable at last year's level.

Products remained strong, influenced by last year's increased prices of raw materials.

Prices of agricultural, livestock and fishery products, which rose markedly early this year, leveled off in March. Due to unusually low temperatures, however, these prices again soared since April. (The temperatures during March-May this year were 0.1-1.4 degrees Centigrade lower than the average temperatures for this period.)

Service prices in the first five months of this year increased at a slower pace than the same period last year. Service prices marked a growth of 3.8 percent in the first five months of this year, or a decrease of 0.6 of a percentage point from the 4.4 percent increase registered in the same period last year, reflecting more moderate growth in public utility charges from 6.8 percent in January-May last year to 5.5 percent in the same period this year.

The producer price index witnessed a decline of 1.5 percentage points during the first five-month period from 3.3 percent in 1995 to just 1.8 percent this year.

CPI

(Unit: %, change from Dec. 1995)

	Jan.-May, 1996	Jan.-May, 1995
CPI (A)	3.50	3.13
Agricultural Produce (B)	0.95	0.48
Others (A-B)	2.55	2.65

Price Index by Commodities

(Unit : %, change from Dec. 1995)

	1994	1995				1996			
		Jan.~May	1st half	2nd half	Year	1/4	April	May	Jan.~May
Consumer Price	5.6	3.1	3.1	1.6	4.7	2.2	0.7	0.6	3.5
	(6.2)	(4.8)	(4.7)	(4.2)	(4.5)	(4.9)	(4.6)	(5.1)	(4.9)
Agri., livestock & marine prod.	8.3	2.4	1.2	-1.1	0.1	2.4	1.2	1.4	5.0
Industrial products	2.3	1.8	1.9	1.8	3.7	1.3	0.6	0.3	2.2
Services	7.2	4.4	4.7	2.8	7.7	2.7	0.6	0.4	3.8
Producer Price	3.9	3.3	3.4	0.0	3.4	1.1	0.4	0.1	1.6
	(2.8)	(4.9)	(5.1)	(4.4)	(4.7)	(3.1)	(2.0)	(1.7)	(2.6)
Agri., livestock & marine prod.	6.3	8.4	5.5	-4.9	0.3	5.0	1.4	-0.2	6.2
Industrial products	3.7	2.7	3.2	0.7	4.0	0.5	0.3	0.2	1.0

Note: The figures in parentheses denote % of year-to-year change of the averages of the periods.

Outlook for the 3rd Quarter and 1996

The second half of this year is likely to see generally stable prices. In the third quarter of this year, consumer and producer price indexes may rise 4.7 percent and 2.6 percent, respectively, from a year earlier.

This prediction stems from the likelihood that prices of cereals on the international market will decline on top of the recent downturn in oil prices on the world market, although the fact that upward adjustment of some public utility charges (especially those controlled by local governments) has been placed on hold until sometime in the

second half remains a potential threat to price stability hereafter.

Consequently, the year 1996 may see consumer price increases of 4.9 percent (somewhat higher than last year) and producer price growth of 2.9 percent vs. 4.7 percent marked in 1995.

Favorably influenced by more stable international market prices for raw materials, the quarterly year-to-year growth rate in producer prices will continue to slide closely following the pattern set in the second quarter of 1995: 5.9 percent in the second quarter, 5.1 percent in the third quarter, 3.6 percent in the first quarter of this

Recent Developments & Outlook

Price Trends & Forecasts

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

	1994	1995	1996				
	Year	Year	1/4	2/4	3/4	4/4	Year
CPI	6.2	4.5	4.9	5.0	4.7	5.0	4.9
PPI	2.7	4.7	3.1	2.7	2.6	3.1	2.9

Note: For 2nd quarter and thereafter, figures are our estimates.

year, and 3.1 percent in the second quarter.

On the other hand, the projection that 1996 will see somewhat higher growth than in 1995 in terms of consumer prices stems from the existence of a series of adverse factors running counter to the government's determination to stabilize prices, including: a) lingering demand pressure from income accumulated prior to the downturn in the current business cycle, b) probable expansion in central/local government expenditures, c) mounting pressure to raise public utility charges, and increased inflow of foreign capital into the stock market.

Included among other factors that may adversely influence efforts to stabilize prices this year are: a) anticipated lean crops this year as compared to last year's bumper crops, b) increased cereal prices on the world market, and c) limited ability to absorb increased wages this year through improved productivity.

Money & Banking

Recent Developments

Average-balance growth of total money supply (M2) was 14.0 percent in the first quarter on a year-to-year basis. During April, this figure was 14.0 percent, and in May it was 15.3 percent.

The 1.3 percentage point hike in May is attributed mainly to the movement of money in trust funds into savings deposits at banks due to the revised trust system.

It is also worthy of note that the average-balance of M2 plus CDs marked a growth rate of 13.5 percent in the first quarter of this year from a year earlier, but this rate stood at 14.0 percent in April and 14.8 percent in May.

As of the end of May, M2 was greatly expanded in the private sector (about 8.79 trillion won) so

Money Supply

(Unit : 100 million won, %)

	1996				
	Jan.	Feb.	Mar.	April(p)	May(p)
M2 (Average balance)	12.5	14.8	14.6	14.0	15.3
M2+CD (Ave. % of year-to-year change)	12.4	14.1	13.9	14.0	14.8
M1 (% of year-to-year change)	7.2	13.1	12.5	11.7	10.1

Source: The Bank of Korea

Note: (p) =preliminary

far this year, while it has contracted in the government (about 3.25 trillion won) and other sectors (approximately 980 billion won).

In the government sector, some 3.51 trillion won was withdrawn in April in value-added taxes, withholding taxes and other revenues. In May, however, some 260 billion won was supplied in

the form of refunds of value-added taxes and expanded government outlays.

In the private sector, about 5.18 trillion won was supplied in April alone, due to increased loans and overdrafts to meet increased demands for taxes and other payments. During May, some 3.61 trillion won was supplied, due to decreased

Money Supply (M2) by Sector

(Unit : 1000 million won, %)

	1995		1996			
	1/4	April	Jan.-April	1/4	April	Jan.-April
Total money supply (M2)*	-1,399.0	2,055.7	656.7	-245.9	1,922.1	-3,238.0
Government sector	-6,594.9	-1,976.2	-8,571.4	-5,824.3	-3,507.2	-9,331.5
Private sector	4,829.2	5,232.9	10,062.4	5,384.4	5,179.5	10,564.0
Foreign sector	2,580.5	-898.8	-295.0	196.0	86.0	281.9
Other sector	-9,013.8	1,265.0	-905.9	-2,002.0	163.8	-1,838.2

Source : The Bank of Korea

Note : Jan.-April means the combination from Jan. to April

Recent Developments & Outlook

issuance of debentures and the result of increased borrowings from banks.

In the foreign sector, about 90 billion won was supplied in April as net inflow of foreign capital for stock investment amounted to US\$1.67 billion. In May, however, about 90 billion won was withdrawn as net inflow of foreign capital into the domestic stock market dropped to US\$390 million, while the shortfall in the current account kept increasing.

In other sectors, approximately 160 billion won was released in April for the reimbursement of call loans. In May about 1.08 trillion won was withdrawn thanks to a net increase in the issuance of financial bonds and CDs and strengthened control of RPs.

Bank savings deposits increased in the first four months of this year at a monthly average of 805.5 billion won, but with the revision of the money trust system, the amount climbed to 2.96 trillion won in May, thereby increasing by 3.7 times the monthly average growth in savings deposits.

Outlook for the 3rd Quarter and 1996

Influenced by the overhaul of the money trust system in May, total money supply continued to increase in the following month. The Bank of Korea said total money supply would have increased 16 percent on an average-balance basis. Thus, it is likely that the target growth rate of money supply set early in the year at between 11.5 percent to 15.5 percent will have been attained at the end of June. The Bank of Korea explains in this connection that the revised

Monthly Increases in Savings Deposits in 1996

(Unit: US\$ 100 Mil. Won)

	Jan.	Feb.	Mar.	April	Jan.-April	May
Saving deposits	-9,727	13,665	16,667	11,616	8,055	29,641
Time deposits	6,438	-6,542	920	10,648	2,866	15,192
General deposits	-4,507	9,205	8,375	944	3,504	1,364
Preferential Saving deposits	-1,424	4,721	1,409	-3,518	387	-3,255
Enterprises preferential deposits	-13,172	6,110	697	-4,391	-2,689	5,855
Mutual savings	3,232	1,682	4,810	7,241	4,241	7,081

Source : The Bank of Korea

Note : Jan.-April means the averages of the months from Jan. to April

money trust system helped increase the total money supply by around 1.4 percentage points in May (end-of-month balance) and, therefore, this will be taken into consideration in the implementation of future monetary policy. This means that the money supply ceiling for this year will be significantly raised to 13-17 percent. It is probable that the revised ceiling can be maintained, provided that no marked expansion in M3 takes place in July.

There are, however, some factors that would tend to jeopardize government efforts to implement a monetary policy within the revised money supply growth ceiling such as: a) influence of increased prices of cereals in the world

market on domestic market prices, b) imposition of special education taxes on tobacco and oil products from July 1 this year, c) anticipated increases in public utility charges in the second half of this year as announced by local governments, and d) increasing deficit in the international current account.

Interest Rates & Financial Conditions

Recent Developments

During the first quarter of this year, liquidity conditions were generally stable. The ratio of

Trends of Interest Rate and Dishonored Bills

(Unit : %)

	1995			1996		
	1/4	2/4	3/4	4/4	Year	1/4
Debenture	12.20	12.40	12.70	13.90	12.90	11.88
Call	11.20	12.00	13.30	12.80	12.30	10.48
CD	12.00	12.40	14.30	14.40	13.30	11.62
Ratio of dishonored bills						
Nationwide	0.20	0.201	0.20	0.20	0.20	0.19
Seoul	0.13	0.12	0.12	0.12	0.11	0.12

Source : The Bank of Korea

Note : 1) Call rate: daily base

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

3) Yield of CD: 91 day base

4) Rate of dishonored bills: amount base

Recent Developments & Outlook

dishonored bills (to the total bills issued in terms of value) in Seoul of the last quarter of the last year and the first quarter of this year is 0.12. The nationwide ratio, however, dropped 0.01 of a percentage point to 0.19 percent during this period. This shows that the financial condition of domestic small-and medium-sized firms has in general stabilized.

During the first half of this year, funds raised through public offerings of corporations and rights issues decreased, while more funds were raised through the issuance of debentures. Overall, funds directly raised in the stock market increased 44 percent from the first half of last year.

During the first quarter of this year interest rates leveled off and were generally stable.

Overall, interest rates are on a downward trend,

due to stabilized liquidity.

Call rates inched up in late February but were generally stable during the first quarter.

Debenture yields fluctuated between 11.6 percent to 12.0 percent, never exceeding the 12 percent level.

CD rates were stable as well remaining within a 11.5 percent to 11.7 percent range. The second quarter witnessed rising interest rate trends, influenced by mounting trade shortfalls and uncertain outlook for the nation's economy and monetary policy.

Moreover, the domestic financial market experienced mounting unrest, due to reservations about the government's economic priorities and the administration's ambiguous stance with respect to the current economic woes.

Funds Raised on Capital Market

(Unit: 100 million won)

	1996 1/4	1995 1/4	Change
	(Jan.~Mar.)	(Jan.~Mar.)	(Jan.~Mar.)
Public offerings of shares	26,400	98,130	-73.10
Shares issued with consideration	705,800	2,031,442	-65.26
Issue of debentures	8,282,650	4,330,240	91.27
Total	9,395,200	6,516,014	44.19

Trends of Interest Rate for 1th Quarter, 1996

(Unit : 100 million won)

	Dec.	Jan.	Feb.	Mar.	Change		
	A	B	C	D	B-A	C-B	D-C
Call	10.96	10.45	10.68	10.32	-0.5	0.23	-0.36
Yield of debenture	11.65	12.01	11.88	11.76	0.36	-1.1	-1.12
CD	11.73	11.65	11.67	11.55	-0.1	0.02	-0.12

Source : The Bank of Korea

Note : 1) Call rate: daily base

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

3) Yield of CD: 91 day base

On top of this, growing trade deficits fueled an upturn in interest rates as they served to reduce internal profits.

These adverse factors combined to raise debenture yields to 11.8 percent recently.

Outlook for the 3rd Quarter 1996 and 1996 Interest rates which rose to 11.5 percent toward the end of the second quarter of this year are likely to moderated at around 11 percent to 11.5 percent in the third quarter.

While interest rates tend to rise as a result of debates over the state of the domestic economy along with uncertainties over the economic priorities of the government, it is likely that interest rates will eventually stabilize in view of the government's expressed determination to pursue a flexible monetary policy as well as the decreased

demand for Equipment Investment.

Interest rates may well reach the 12 percent level temporarily, but it is most probable that the year 1996 will witness interest rates which level off at around 11.5 percent by the year end.

Environment & Foci of Macroeconomic Policies

Macroeconomic Environment

The last quarter of 1995 witnessed a 6.8 percent growth in GDP from a year earlier—a dramatic decline from an average 9.7 percent growth marked in the four quarters of recent years. Thanks to concentrated government expenditures in public infrastructure projects, sustained export growth and recovery of private consumption, the first quarter of this year saw 7.9 percent growth—up 1.1 percentage points from the previous quarter. However, a series of unfavorable factors, including stunted exports resulting from the yen's continued depreciation and unfavorable international market conditions for Korea's major export items, blunted Equipment Investment caused by lagging exports and the economic slump, and limited ability of the government to boost sustained growth in construction investment, are likely to pull down Korea's economic growth to 6.7 percent in the second half of this year. This year may thus witness around 7 percent growth over last year.

In particular, in the absence of a well-founded projection that exports will recover in the second half of this year, it is highly likely that the private

consumption sector will lead economic growth for the time being. Inasmuch as sustained economic growth through mainly private consumption is neither feasible nor possible, it becomes imperative to formulate an effective macroeconomic policy to help promote sustained economic growth. It should be acknowledged that overall the world economy has entered a growth-oriented, generally-stabilized phase in terms of trade, finance and other sectors. Given the fact that the won continues to show strength vis-a-vis the yen, although it moving in the opposite direction vis-a-vis the dollar since late in first half of this year, it is probable that the current slump in exports of such leading items as automobiles, electronic products, ships and steel products will not turn-around in the immediate future. Moreover, the current adverse international market conditions for semiconductors and the like, no marked improvement in Korea's sluggish overall export growth seems in order in the second half of this year.

On the other hand, dampened Equipment Investment growth and depreciation of the won notwithstanding, import growth has slowed but not to extent of the slowdown in exports thus far. This leads to the conclusion that the current

trade deficit will continue to persist. The effect of the depreciation of the won vis-a-vis the dollar is expected to be felt more from the first quarter of 1997 inasmuch as two to three quarters are needed for such effect to show up.

Externally, Korea's export promotion efforts are being stymied by sharp declines in world market prices of semiconductors and other electronic products, iron/steel products, and petrochemicals, resulting from oversupply as well as from the continuing slide in the value of the yen and decreased import demand from China. Such other factors as the full-scale launch of the World Trade Organization, mounting pressure to open the domestic financial and other markets further from the OECD tied to Korea's bid for entry into this group, and increasing trade pressure from Washington in light of the upcoming U.S. presidential election this November, will all tend to boost Korea's imports of agricultural, fishery and livestock products, while accelerating the inflow of foreign capital into the stock market.

Internally, Korea also faces a number of economic problems, following the parliamentary elections held in April. Settlement of politically-sensitive issues involving wages and other labor-management relations and increases in public utility charges that have been put off until the second half of this year. In addition, the govern-

ment may find it difficult to maintain consistency in its policies because of campaign-oriented pledges promoted by the ruling party during the general elections. Also, the government needs to come up with consistent policies toward North Korea which is said to be still having trouble consolidating its regime. Also, growing consumer propensity for imported goods coupled with accelerating entry of foreign retailers will pose a serious problem along with the ever-worsening polarization of light and heavy industries and the deteriorating cash flow situation of small-and medium-sized enterprises, stemming from decreased sales and productivity. Above all, the government must endeavor to achieve an optimal level of economic growth this year in the face of the recent downturn, while minimizing the current account deficit. Its medium and long-term efforts need to be focused on reducing and maintaining interest rates and inflation at the levels of advanced countries in the process of opening its capital market to foreign competition. No less important is for the government to adopt measures to minimize the adverse effects of business bipolarization, while effectively promoting industrial restructuring. On the other hand, it is worthy of note that consumer price inflation has been pegged at below 5 percent a year ever since 1982, which as a result of the effective implementation of macroeconomic policy even during the economic upturn phase that began in early 1993, it was possible to stabilize prices and interest rates

through the first half of this year, which marked the beginning of the economic downturn, and that the government has been steadfastly implementing a balanced budget thus far. In view of this, it appears that the issues outlined earlier will be effectively resolved without any big problems through the adoption of a flexible macroeconomic policy.

Macroeconomic Policy Issues

During the economic expansion phase that began as the contraction phase bottomed out in January 1993, it was possible to preclude the adverse consequences of economic overheating and stabilize prices, thanks to the implementation of a macroeconomic policy designed to balance the government budget, ensure adequate liquidity and appreciate the won to an optimum level. Now that the second half of this year is likely to witness economic growth of 6.7 percent from a year earlier and that the overall growth for this year is expected to be 7.0 percent, the macroeconomic policy hereafter needs to be implemented in such a manner as to maintain consistency with that implemented in the first half, while avoiding any sharp contraction of the economy. In as much as a radical change in the exchange rate, especially ¥/\$, is apt to result in a bunker mentality among economic players and thus lead to a crash-landing of the economy, the government needs to discreetly harness economic activity.

In fact, it was possible to stabilize the economy which suffered a setback in the last quarter of last year through the implementation of macroeconomic policy aimed at balancing the government budget as well as stabilizing liquidity and the value of won. It has also paved the way for the sound implementation of such policy throughout this year.

It is necessary, therefore, to continue to carry out consistent macroeconomic policy, while endeavoring to ensure an economic soft-landing and consolidation ahead of another takeoff in the upcoming economic expansion. High interest rates not only directly translate into higher operating costs but also oblige our economy, which is in the midst of capital market liberalization, to pay higher macroeconomic costs as a result of significantly lower interest rates prevailing in advanced nations.

As was experienced in the first half of this year, a flexible monetary policy does not necessarily stimulate aggregate demand and fan inflation, but does serve to lower market interest rates gradually, thereby ultimately demonstrating its macroeconomic efficacy. On the other hand, there is no denying the fact that the implementation of a stringent monetary policy in the face of an economic downturn is likely to mean upward pressure on market interest rates and dampened investment attitudes, thus raising the ratio of dis-

honored bills.

During the first half of this year, total money supply growth was relatively stable light of the falloff in economic growth and enterprises' capital demands. It was generally estimated that the inclusion of money trust accounts in the M2 money supply resulted in a 1.4 percent increase, and should this be taken into account, it cannot be said that there was monetary expansion in the first half of this year. At any rate, it is probable that the downturn-stabilization of interest rates during the period resulted primarily from a maintenance of overall liquidity at an optimum level.

Clarification of the government's policy that total money supply will be maintained at an optimum level so as to lower interest rates notwithstanding, it was reported that there have been window guidances by the monetary authority. In the wake of such report, widespread reservations and uncertainties about future liquidity conditions have been on the rise, and city-bank interest rates rebounded somewhat. In view of this, it is necessary for the government to steadfastly and consistently execute its monetary policy so as to support a consolidation and downturn trend in market interest rates that had began to set in during the first half of this year.

No less important is the need for the government to continue to essentially balance its budget

by offsetting the current account deficit with the capital account surplus. It may appear that maintenance of a budget surplus is the best tool for severing a vicious cycle of offsetting current account deficits with foreign credits, however, in view of the need to expand government investment to ensure an economic soft-landing, while expanding public infrastructure, implementation of a balanced budget is likely to yield a more desirable outcome.

In anticipation of reduced economic growth in 1996 over 1995 which witnessed remarkable growth, the government budget for 1996 envisages an increased tax burden. However, it is more desirable for the government to resort to its innate economic stabilization functions to cope with declining tax revenues due to the economic slowdown, rather than resorting to irrational tax measures to raise sufficient funds to satisfy its budgetary needs.

Korea's wage levels have increased in the process of sustained economic growth and enhanced labor productivity such that its current level is higher than that of other countries when weighed proportionately to the level of per capita GDP. On the other hand, wage disparity between large and small enterprises has widened, rendering it difficult to promote balanced industrial development and to ensure effective utilization of manpower.

It is urgently required, therefore, to implement measures designed to maximize the use of idle manpower including highly-educated people, the elderly and women. To this end, labor-related laws and regulations need to be revised to support this objective.

It is true that Korea has not yet experienced any kind of serious unemployment problem thus far, and that the labor laws and regulations have tended to limit the flexibility of the labor market. Therefore, it is necessary to remove unnecessary regulations in favor of enhancing the efficiency of labor, not to mention its contribution toward upgrading the country's international competitiveness.

Journal of Economic Policies & Measures
(January 18, 1996 - April 18, 1996)

June 8

Ministry of Finance and Economy announces new measures designed to attract foreign direct investment in Korea. The measures were adopted at a meeting on June 7 of the the External Economic Policy Coordination Committee presided over by Deputy Premier and Minister of Finance and Economy Rha Woong-Bae.

June 6

Bank of Korea announces a plan to release foreign exchange from July 1, 1996 to help finance the procurement of locally-produced machinery as a means of offsetting the current account deficit while also fostering the domestic capital goods industry.

May 27

Ministry of Industry, Trade and Energy announces plans to ameliorate the waste

goods trade system in preparation for Korea's affiliation with the OECD.

May 24

Ministry of Finance and Economy announces amended guidelines for the operation of consolidated finance firms in line with the Consolidated Finance Company Law revised by the National Assembly in December 1995.

May 23

Ministry of Finance and Economy announces a plan designed to accelerate the globalization of the local securities industry. Under the plan, the entry of foreign securities firms into the Korean market will be facilitated to help advance the development of local securities firms.

May 22

Ministry of Finance and Economy

announces the further liberalization of overseas investment by domestic firms to help facilitate their worldwide activities.

May 21

Ministry of Finance and Economy announces that effective July 1, 1996 foreign securities firms will be allowed to float won-denominated bonds on the domestic stock exchange under its financial market liberalization plan.

May 21

Ministry of Finance and Economy revises the overseas bond issuance requirements in order to authorize the overseas issuance of CDs by domestic banks.

May 18

Ministry of Finance and Economy announces measures to be implemented this

year under its plan to overhaul foreign exchange regulations.

May 18

Ministry of Finance and Economy announces amendments to the foreign exchange management regulations as approved on May 17, 1996 by the International Finance Subcommittee of the Finance Industry Development Deliberation Committee.

May 9

Ministry of Finance and Economy announces guidelines related to Korean residents emigrating overseas in regard to their ownership and disposition of property in Korea.

KERI Economic Quarterly

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(%)				
1990	9.5	9.7	5,883	10.1	10.7	25.9	18.8	31.2
1991	9.1	9.1	6,757	9.3	9.5	12.6	12.1	13.0
1992	5.1	5.1	7,007	6.8	6.6	-0.8	-1.1	-0.6
1993	5.8	5.0	7,513	5.3	5.7	5.2	-0.1	8.9
1994	8.6	10.4	8,508	7.0	7.6	11.8	23.6	4.5
1995	9.0	10.7	10,076	7.2	7.9	12.4	15.9	9.9
1995.10	6.8	7.5	-	6.4	7.1	7.4	1.5	11.7
11	6.8	7.5	-	6.4	7.1	7.4	1.5	11.7
12	6.8	7.5	-	6.4	7.1	7.4	1.5	11.7
1996.1	"	"	-	"	"	"	"	"
1996.2	"	"	-	"	"	"	"	"
1996.3	"	"	-	"	"	"	"	"
1996.4	"	"	-	"	"	"	"	"

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			Overall 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	23,673	788.7
1995	125,058	30.3	13.4	135,119	32.0	33.1	-4,749	-8,817	3,079	32,712	774.7
1995.10	11,524	30.0	3.5	11,732	29.0	21.4	-20	-298	412	32,168	765.6
11	11,463	24.3	0.7	11,876	21.1	32.5	158	-89	986	33,224	769.2
12	11,757	9.9	-3.5	11,806	11.3	10.5	252	-287	676	32,172	774.7
1996.1	10,067	29.7	10.7	12,046	34.4	23.9	-951	-1,524	-554	33,264	784.3
2	9,976	18.3	-8.4	11,480	16.1	9.3	-1,164	-1,770	113	33,115	780.7
3	11,789	17.9	-5.2	12,151	4.2	12.0	-106	-812	881	33,451	782.7
4	10,721	5.5	-5.8	12,729	14.8	-7.5	"	"	"	35,930	778.7

Note : This index includes estimates
1) Basis on long-term capital balance

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 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	-	7.5-10.0	13.8
1995.10	3.9	4.4	1.9	13.8	10.0	13.9	5.0	9.0-10.0	12.2
11	3.4	4.3	1.8	10.6	9.7	13.1	5.0	9.0-10.0	12.0
12	3.4	4.7	1.8	3.5	12.7	13.7	5.0	7.5-10.0	11.7
1996.1	3.5	5.1	2.1	-0.1	8.2	12.5	5.0	7.5-10.0	12.0
2	3.7	5.1	2.3	"	14.1	14.8	5.0	7.5-10.0	11.9
3	2.2	4.5	2.2	"	11.5	14.6	5.0	7.5-10.0	11.8
4	2.0	4.6	"	"	9.7	14.0	5.0	"	11.0

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

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

Industrial Production and Demands

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
1995.10	9.8	-3.4	5.9	3.2	6.6	26.7	32.3	2.0	6.1	-6.9
11	7.8	-4.0	7.3	6.7	2.2	20.5	19.4	-25.8	-9.2	-38.2
12	7.0	-5.1	12.6	8.7	-11.4	14.7	13.4	-10.4	-15.0	-11.1
1996.1	12.0	1.1	3.8	6.2	34.3	24.3	38.0	16.6	23.0	17.8
2	7.8	-1.6	15.6	6.3	6.0	8.5	91.8	-4.0	17.7	-5.4
3	5.5	-3.1	10.5	3.8	-5.1	1.6	30.1	-20.9	-43.8	-20.4
4	"	"	"	"	"	"	"	"	"	"

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