

KERI Economic Quarterly

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Recent Developments & Outlook

Overview

Recent Developments

The Bank of Korea announced in August that the second quarter of this year had witnessed a GDP growth rate of 6.7 percent, receding to a level comparable to the 6.8 percent growth marked in the last quarter of last year. In view of the continued slowdown in industrial activities in the third quarter, it appears that Korea's economy is experiencing a bona fide downturn.

In the first quarter of this year, the final consumption expenditure growth rate edged up to the average level for the whole of 1995 (7.2 percent), exports grew 24.1 percent (still remaining above the 20 percent level, despite adverse pressure from the weakening yen), and construction investment registered a 10 percent growth thanks to earlier-than-programmed implementation of public construction projects. The economy was thus able to achieve a relatively favorable GDP growth rate of 7.9 percent in the first quarter. In the second quarter, however, the GDP growth rate slipped back to the 6 percent level marked in the last quarter of 1995—an indication that the Korean economy is headed for an economic downturn.

The GDP growth rate is likely to dip further in view of the fact that the growth rate of private consumption expenditure, which accounts for one-half of the GDP, has been declining steadily since the first quarter of 1995, and that the growth in the construction investment sector has dropped to below 50 percent of the level of a year earlier—indications that the domestic sector has yet to compensate for the impact of the serious setback in exports. The month of July this year witnessed brisk production activities but was unable to check growing inventories, due chiefly to lagging sales activities—another indication that the current economic downturn is likely to continue.

In July, industrial output marked growth of 8.0 percent from a year earlier, thanks to the conclusion of labor disputes in major industrial firms and the completion of regular renovation projects. Nonetheless, the average growth in industrial output for the months of June and July this year stood at 5.9 percent as compared with the 8.6 percent marked in the first quarter and 7.3 percent in the second quarter of last year.

The consumption trends, as seen in terms of wholesale and retail sales turnover and the ship-

ment index for consumer goods, also marked steady declines in the second quarter from the first quarter and in the months of June and July (on average) from the second quarter of this year in parallel with the industrial production trends.

The growth rate in exports declined more than the growth rate in industrial output and shipment of goods for the domestic market, a fact indicating that the continued slump in industrial activities has been influenced by lagging exports. In fact, exports in the third quarter in terms of U.S. dollar value marked a minus growth from a year earlier for the first time in many years.

In the investment sector, too, the growth rate of facilities investment continued to conspicuously decline since last quarter while that of construction investment began decreasing markedly since the second quarter of this year.

Recently, investment in the private construction sector has been decreasing more than in the public construction sector. In particular, investment in private housing construction dropped by around 40 percent despite a slight increase in housing-for-lease construction. And it is likely that this year less than the 619,000 housing units built last year will be completed.

Korea's macroeconomy worsened further in the third quarter of this year, due chiefly to deteriorating exports, growing inflationary pressure and an increasing deficit in the current account.

Domestic enterprises have come to experience a depressed business environment, resulting from unfavorable trade terms and an uncertain capital market.

The second quarter saw exports grow by less than 5 percent (on a dollar-denominated value basis), and the third quarter witnessed exports register a minus growth rate from a year earlier. Many export-oriented enterprises are suffering from decreasing export unit prices, despite the fact that their exports have risen in terms of volume.

Private consumption expenditure marked a 7.3 percent growth in the first half of this year from a year earlier, but the growth rate is expected to drop to the 6 percent level in the third quarter. Industrial activities based on domestic demand are likely to continue to slide, influenced by increased inventories.

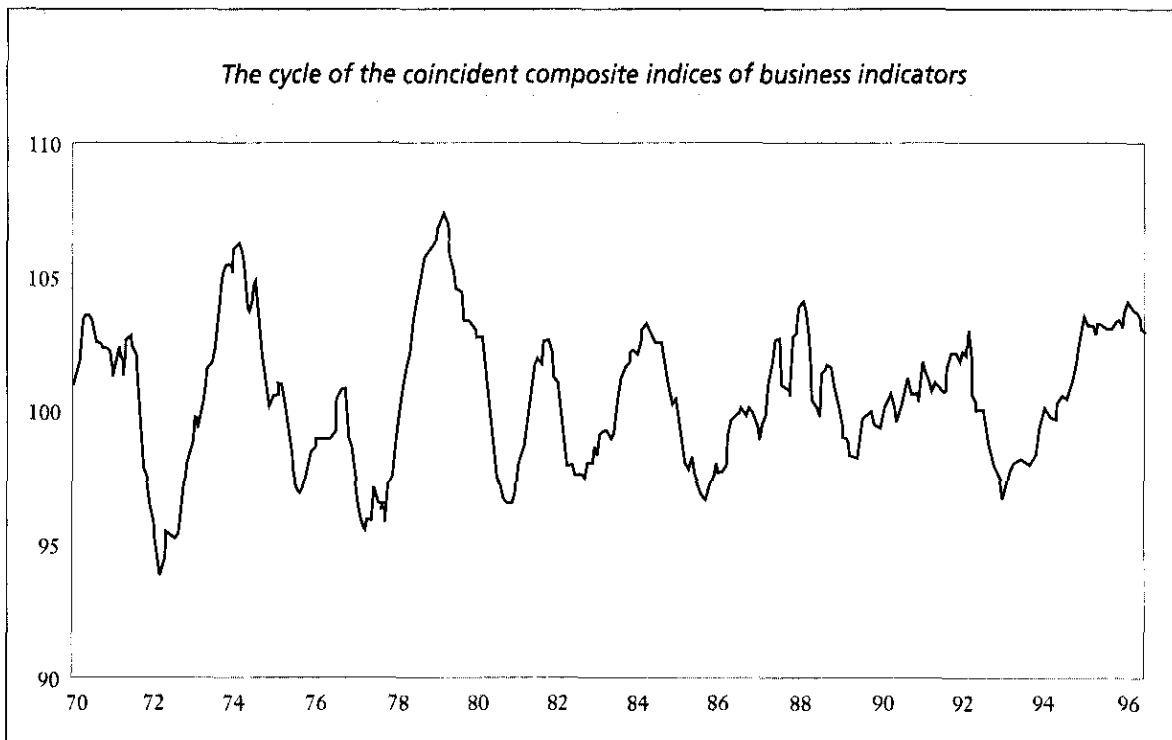
On the investment side, the marked slowdown in private facility investment in the second half of last year is expected to level off in the second half of this year as private facility investment projects remain on schedule as planned for the year—an indication that the level of facility investment growth in the second half will be maintained at that of the first half of this year.

On the other hand, construction investment growth is likely to slow in the second half of this year, inasmuch as the public construction sector continues to decline sharply since the second quarter, while building construction orders rose markedly in July, influenced by easing of construction regulations concerning parking lot requirements, etc. The second half of last year witnessed a 10.9 percent growth in construction investment from a year earlier.

The number of unemployed continued to decrease in the second quarter. The seasonally-

adjusted unemployment rate, however, once again has hit the 2 percent level since May, influenced by the decline in the number of the employed in the manufacturing sector—a common phenomenon in the early phase of an economic downturn.

The cycle of the coincident composite index, which reflects the current economic level, has maintained its slide since the 104.0 points marked in February 1996. It dipped further to 102.9 points in July. The index stood at 97.1 points in the first quarter of 1993, the bottom of the last economic cycle.



The dollar-denominated export value declined in the second quarter, while in terms of volume, export shipments marked a slight growth. This contributed to the maintenance of the factory operation rate at over 80 percent (82.7 percent in July). However, inventories rose as much as 18.3 percent in July. And it is likely that the growth of inventories continued from the mark of around 20 percent in the second quarter will markedly wither production in September and thereafter.

The ever-increasing current account deficit has been impeding efforts to establish effective macroeconomic policies.

The deficits in the trade and invisible trade accounts have snowballed, as the first seven months of this year witnessed an unfavorable balance of US\$11.66 billion—far more than the US\$8.95 billion deficit sustained for the whole of 1995.

Korea's exports, where competing with Japanese counterparts on the world market, have come to be adversely influenced due to the rapid depreciation of the yen vis-a-vis the dollar and the won. As of September 15, the yen had depreciated 10 percent against the dollar and around 3 percent against the won. To make matters worse, irrespective of blunted growth in facility investment, import growth has greatly outpaced export growth thus far this year, thereby resulting in a conspicuously increased trade deficit.

-Influenced chiefly by the relatively low yen and coupled with the marked setback in export prices, exports of such major items as semiconductors, electronic products, ships and machinery marked growth of a mere 3.5 percent in the second quarter of this year, while imports rose as much as 6.8 percent during the quarter despite decreased facility investments. As a result, the first half of this year witnessed a US\$5.21 billion deficit in trade and a US\$3.98 billion deficit in invisible trade and unrequited transfers, due to increased payments covering overseas travel, royalties, etc.

Thus, the current account deficit in the first half of this year came to exceed the US\$8.8 billion deficit marked in the whole of last year. In fact, the trade deficit and the current account deficit in the first eight months of this year may top US\$10 billion and US\$15 billion, respectively, when the final figures are tallied.

The facility investment sector, which along with exports had contributed greatly to economic expansion in the recent past, saw a mere 1.5 percent growth in the last quarter of 1995 and a 4.3 percent growth in the first quarter of this year. In view of the continued slump in exports and increasing inventories, no upturn is anticipated for the time being in facility investment growth.

The construction investment sector, which witnessed a robust growth of 11.2 percent in the second

half of last year thanks to increased investment in social infrastructure projects and commercial buildings, marked a 10.0 percent growth in the first quarter of this year. But its growth rate began to wane markedly since the second quarter of this year in the wake of the release of public project funds earmarked for the first and second quarters of this year and decreased construction of buildings.

Of the 5.1 trillion won earmarked for public construction projects for this year, 1.33 trillion won was allocated in the first quarter and 1.73 trillion won in the second quarter. Thus only 40 percent of the total remains for the second half of this year. Barring an allocation of additional funds for public projects this year, no marked improvement in the construction sector can be anticipated in the second half.

The private consumption sector, which maintained relatively low growth last year despite continued economic expansion and increased household income, witnessed a moderate 7.1 percent growth in the last quarter of last year. It rose slightly to 7.5 percent in the first quarter of this year, reflecting recovery of consumption propensity. Thanks to increased consumption generated by the April general elections and to this year's higher level of wage increases than last year, a 6 percent-level rate of growth is expected to be maintained in the third quarter and thereafter.

In the first quarter, it was possible to peg increases in prices at the level of May 1995 (5.2 percent for the producer price index and 5.1 percent for the consumer price index from a year earlier) as international market prices of raw materials remained stable and increases in utility charges this year were lower than those of a year earlier. Nonetheless, in the second quarter, consumer prices began to rise at an increased tempo due to increased prices of agricultural products induced by unusually low temperatures.

The second quarter saw a 2.8 percent increase in the producer price index, markedly lower than the 5.9 percent growth registered in the second quarter of last year. On the other hand, the consumer price index rose 5.0 percent in the second quarter over a year earlier. In the second quarter of last year, higher deflators in the government service sector and construction industry, in which wages weigh relatively higher than in other sectors, led increases in prices. In the second quarter of this year, however, it was prices of agricultural products that led increases in consumer prices.

Outlook for the Second Half of 1996 and Beyond

The Korean economy is expected to achieve a GDP growth of about 6.3 percent for the whole of 1997, while the current account deficit will contin-

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ue to increase—indications that the current economic downturn, marked by lower economic growth and a deteriorating international balance of payments, is likely to continue.

It is probable that 1997 will continue to witness an aggravation of the current account deficit due to substantial opening of domestic markets and decreased international competitiveness induced by unfavorable changes in international exchange

rates as well as to stunted domestic demand induced by depressed facility investments.

It is likely that Korea's dollar-denominated exports, which marked minus growth in the third quarter of this year from a year earlier, will gradually recover from the last quarter of this year. On the other hand, Korea's imports, which marked a growth rate of over 12 percent in 1996, are likely to witness an approximate 8 percent growth in

Outlook for 1996 & 1997

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

	1994	1995	1996				1997	
	Year	Year	1/4	2/4	3/4	4/4	Year	
GNP	8.6	9.0	7.9	7.1	6.2	6.1	6.8	6.3
Manufacturing	10.4	10.7	7.8	6.9	6.1	4.4	6.2	6.1
Total consumption expenditure	7.0	7.2	7.2	6.6	6.2	5.8	6.5	6.0
Private consumption	7.6	7.9	7.5	7.1	6.4	6.1	6.7	6.3
Total fixed capital	11.8	12.4	7.4	2.7	4.4	5.8	5.0	3.6
Equipment investment	23.6	15.9	4.3	3.4	3.0	4.6	3.8	3.3
Construction investment	4.5	9.9	10.2	2.1	5.5	6.7	5.9	3.9
PPI	2.7	4.7	3.1	1.7	1.8	2.9	2.4	3.3
CPI	6.2	4.5	4.9	5.2	5.2	5.1	5.1	4.9
Current account balance	-4530.7	-8947.6	-4350.4	-5474.7	-6969.1	-3682.9	-20477.1	-19841.1
Trade balance	-3145.2	-4746.6	-2390.5	-3667.2	-5814.9	-2976.6	-14849.3	-14156.2
Exports	93676.4	123202.5	31579.0	33410.3	30274.3	34097.7	129361.3	141443.9
Growth (%)	15.7	31.5	20.8	6.6	-4.8	0.4	5.0	9.3
Imports	96821.7	127949.1	33969.5	37077.5	36089.2	37074.3	144210.5	155600.1
Growth (%)	22.4	32.1	18.4	12.1	10.7	10.4	12.7	7.9
Invisible trade balance & Unrequited transfers	-1385.5	-4201.0	-1959.9	-1807.5	-1154.2	-706.2	-5627.8	-5684.9

Sources : The Bank of Korea, National Statistical Office, for 3rd quarter and thereafter, figures are our estimates

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

Recent Developments & Outlook

1997. The current account deficit will total around US\$20 billion during 1996-1997.

With exports likely to recover and get back on a higher growth track, domestic demand maintaining its downturn growth track, and facility and construction investments recording even lower growth rates in 1997, the unemployment rate will be aggravated.

On the other hand, international market prices of raw materials, which were relatively stable in the first half of 1996 in the wake of upward adjustments in 1995, are likely to rise from the first half of 1997. On the domestic market, increases in producer prices will be pegged at around 2 percent in 1996 and may mark a slightly higher growth rate in 1997. There are indications that consumer prices will see slower growth from

the first quarter of 1997, with the overall growth rate for 1997 lower than that of this year. At the same time, growth of producer prices in 1997 will be somewhat higher than that experienced in 1996.

Private Consumption

Recent Developments

Private consumption growth gradually declined from the 8.8 percent peak in the first quarter of 1995 to 7.1 percent in the second quarter of this year, reflecting the current economic downturn. The last quarter of this year is expected to see a slight decrease in the growth rate of private consumption.

Consumption of non—durable goods marked

Private Consumption & Household Consumption Trends

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

	1995					1996	
	1/4	2/4	3/4	4/4	Year	1/4	2/4
Private consumption	8.8	8.1	8.0	7.1	7.9	7.5	7.1
Household consumption	8.8	8.1	8.1	7.1	8.0	7.6	7.2
Durable consumer goods	15.9	9.5	11.4	9.9	11.6	9.4	11.4
Semi-durable consumer goods	9.8	9.9	10.8	7.1	9.3	6.5	7.0
Non-durable consumer goods	6.4	7.0	5.5	5.1	6.0	5.5	4.2
Services	8.6	9.1	8.5	7.5	8.4	7.7	7.1

Source : The Bank of Korea

Consumption-Related Indices

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

	1994				1995			1996		
	4/4	Year	1/4	2/4	3/4	4/4	Year	1/4	2/4	June
Retail and wholesale	8.3	8.0	8.7	7.8	7.3	7.4	7.8	8.3	7.0	6.5
Wholesale	8.9	9.8	7.9	7.0	6.3	6.2	6.9	6.9	4.9	3.6
Retail	7.5	6.1	9.4	8.5	8.1	8.7	8.6	9.8	9.5	9.8
Shipment of consumer goods	8.8	9.2	12.9	6.6	4.4	6.2	7.4	5.3	7.4	4.7
Durables	12.0	12.3	17.4	5.5	10.4	9.3	10.7	6.2	11.2	5.9
Non-durables	7.1	7.7	10.3	7.2	1.4	4.6	5.7	4.9	5.3	4.2

Source : National Statistical Office

relatively slower growth rates ranging from 6.4 percent in the first quarter of last year to 4.2 percent in the second quarter of this year. Consumption of such durable goods as automobiles and air conditioners facility marked an 11.4 percent growth in the first quarter, compared to the 15.9 percent growth registered in the first quarter of last year.

The second quarter of this year saw a steady increase in retail sales. In particular, imports of consumer goods rose conspicuously from a year earlier.

Outlook for 4th Quarter 1996 and the Whole Year

Private consumption is likely to continue a relatively slow growth rate for the time being. Its growth rate for the last quarter of this year will be around 6.6 percent, slightly above the GDP growth

rate for the quarter. This will set the growth rate for the whole year at 7.5 percent.

This projection is based on the fact that growth in demand for automobiles and other durables will be stunted by the continued economic downturn and decreased financial income.

Fixed Investment

Recent Developments

Facility Investment

In the second quarter of this year, facility investment marked an expansion of just 3.4 percent—a low rate for the third consecutive quarter.

Overall investment in industrial machinery

Recent Developments & Outlook

marked an expansion of only 3.4 percent, due to slow investment in industrial machinery and facilities for specialized industries, while investment in communications and electric/electronic facilities rose conspicuously.

The transportation facility sector saw an expansion of 3.6 percent, thanks to increased investment for automobiles and airplanes, which more than offset the decreased investment in rolling stock.

It appears that the prospects for early recovery in facility investment are bleak. On the contrary, the decline in investment will aggravate the current economic downturn.

The second quarter of this year saw a marked setback in the growth rate in shipment of machinery for the domestic market, and imports of machinery also declined. However, orders placed with domestic machinery manufacturers by local end users increased sharply from the previous quarter.

Equipment Investment Trends

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

	1995					1996	
	1/4	2/4	3/4	4/4	Year	1/4	2/4
Equipment investment	25.5	18.0	22.2	1.5	15.9	4.3	3.4
Machinery	33.6	28.4	22.0	8.8	22.6	8.7	3.4
Transportation equipment	6.8	-2.7	23.2	-11.1	2.4	-8.5	3.6

Source: The Bank of Korea

Equipment Investment and Related Indices

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

	1994		1995					1996	
	4/4	Year	1/4	2/4	3/4	4/4	Year	1/4	2/4
Local orders for machinery	22.2	26.9	45.4	26.6	0.9	-1.5	15.8	9.7	22.5
I/Ls issued for machinery	87.4	73.6	59.4	79.8	1.7	-7.2	28.2	1.3	-24.6
Machinery imports	44.5	37.6	47.1	34.8	22.9	10.8	27.0	16.0	-1.3
M/Cs shipped for domestic market	21.4	22.0	28.3	30.0	21.1	8.0	21.4	9.0	3.4

Source: National Statistical Office

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Construction Investment

The second quarter of this year witnessed a mere 4.8 percent growth in construction investment—an unexpectedly low rate.

The depressed growth resulted from decreased construction of apartments, houses and commercial buildings, while investment in social infrastructures, including ports/harbors, roads and airports, remained strong.

The current slowdown in construction investment is likely to continue for the time being as there are no indications to the contrary.

Outlook for 4th Quarter 1996 and the Whole Year

Equipment Investment

The downturn in facility investment is likely to continue in parallel with the current economic downturn.

Construction Investment Trends

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

	1994	1995				1996		
	Year	1/4	2/4	3/4	4/4	Year	1/4	2/4
Construction investment	4.5	7.6	8.8	10.8	11.7	9.9	10.0	4.8
Building construction	2.2	5.3	11.3	15.3	9.9	10.5	5.8	-1.8
Other construction	8.1	14.1	4.9	4.2	13.6	9.0	20.8	15.6

Source : The Bank of Korea.

Construction Investment and Related Indices

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

	1994		1995					1996		
	4/4	Year	1/4	2/4	3/4	4/4	Year	1/4	2/4	June
Local construction orders received	19.5	18.5	14.3	21.9	29.8	48.7	21.2	47.4	13.1	7.6
Public construction	20.3	17.0	27.7	-8.9	51.9	14.6	17.6	156.9	43.6	16.5
Floor area of construction permits	17.0	-1.3	16.2	35.9	-25.6	-12.2	1.0	-7.4	-16.7	-19.6

Source : National Statistical Office

This projection is based on the fact that continued expansion of facility investment in the recent past had greatly increased production capacities, thereby resulting in a marked decline in enterprises' investment demand. On top of this, the business environments of many enterprises have seriously worsened due to the continued slide of the yen against the dollar and the won and decreased domestic demand in tandem with the economic downturn.

Facility investment is likely to continue to slide throughout this year to mark an annual growth of just 5.3 percent in 1996, far below the level marked in 1995.

Construction Investment

There are indications that the slump in private construction investment will last a considerable time, except for private construction investment in social infrastructure projects. In view of the anticipated slump in the non-housing construction sector, including plants and office buildings, along with stunted facility investment growth, 1996 is likely to witness a 7.4 percent growth rate in construction investment, lower than the level marked in 1995.

External Transactions

Recent Developments

Korea's exports in June of this year rose just 1.7 percent from a year earlier and plunged to a minus 3.6 percent in July.

This resulted primarily from the continued slump in international market prices of semiconductors and metallic products and a downturn in the prices of such leading items as vehicles and machinery.

In particular, the month of July saw an 11.3 percent negative growth in exports of chemical and heavy industrial products from a year earlier, due to unfavorable shipments of electronic goods, metallic products, machinery and automobiles in addition to vessels and chemicals.

Exports of light industrial products in July expanded 9.1 percent from a year earlier, as textile products recovered from a protracted slump, while precious metals slumped due to additional controls on gold bullion trade.

In July, exports to advanced countries registered a minus 13.9 percent growth from a year earlier, while those to developing countries expanded by no more than 7.3 percent, reflecting slowed exports of chemicals and heavy industrial products to Southeast Asia.

Imports in June marked a decrease of 1.1 percent from a year earlier, but in July imports

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Recent Export Trends (customs clearance basis)

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

		1995		1996		
		July	Jan.-July	June	July	Jan.-July
Total		104.9 (37.8)	687.3 (33.9)	114.3 (1.7)	101.0 (-3.6)	752.1 (9.4)
By product	Chemical/ heavy industrial prod- ucts	72.0 (51.1)	473.5 (42.2)	77.5 (-2.2)	63.8 (-11.3)	511.8 (8.1)
	Light industrial prod- ucts	26.1 (14.2)	170.8 (16.6)	29.8 (9.2)	28.5 (9.1)	188.6 (10.4)
By region	Developed countries	53.7 (29.7)	341.9 (29.9)	48.4 (-14.3)	46.3 (-13.9)	342.6 (0.2)
	Developing countries	51.1 (47.4)	345.4 (38.1)	65.9 (17.7)	54.8 (7.3)	409.5 (18.6)

Source : Ministry of Trade, Industry and Energy

expanded 13.6 percent from the same month in 1995.

This resulted from the moderated growth in imports of capital goods and raw materials and a sharp expansion in imports of consumer goods.

By region, imports in July from advanced countries expanded 10.6 percent, while those from developing countries rose a whopping 20.8 percent on a year-to-year basis, due to a sharp increase in the import of crude oil.

The month of July alone marked a US\$2.28 billion deficit in the current account due to increased deficits in both trade and invisible trade sectors.

The trade sector registered a US\$1.66 billion deficit, induced primarily by decreased exports of semiconductors and iron/steel products due to weaker prices and increased imports of capital goods and consumer goods.

The invisible trade sector also incurred a

Recent Developments & Outlook

Recent Import Trends (customs clearance basis)

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

		1995			1996	
		July	Jan.-July	June	July	Jan.-July
Total		113.1 (35.6)	765.7 (37.5)	117.1 (-1.1)	128.5 (13.6)	856.0 (11.8)
By product	Raw materials	53.5 (30.9)	380.4 (34.9)	58.7 (-1.6)	58.9 (10.1)	431.7 (13.5)
	Capital goods	47.5 (43.3)	307.1 (42.1)	43.9 (-6.2)	54.3 (14.3)	328.5 (7.0)
	Consumer goods	12.1 (28.9)	78.2 (33.0)	14.4 (22.1)	15.2 (26.0)	95.7 (22.4)
By region	Developed countries	80.3 (38.6)	522.3 (38.3)	78.9 (0.3)	80.8 (10.6)	568.7 (8.9)
	Developing countries	32.8 (28.8)	243.4 (35.7)	38.2 (-3.8)	39.6 (20.8)	287.3 (18.0)

Source : Ministry of Trade, Industry and Energy

US\$550 million deficit in the month of July, due to expanded overseas travel expenditures, royalty payments, etc. As a result, the total deficits in the first seven months of this year rose to US\$4.18 billion.

Future Outlook

It is expected that exports will be greatly affected by the movement of semiconductor prices on

the international market. The last quarter of this year may see exports amounting to US\$33.5 billion, bringing the export total for the year to approximately US\$129.9 billion.

Influenced by a continued rise in imports of consumer goods and the rising trend of crude oil prices on the world market, the last quarter of this year may witness imports totaling US\$39 billion, raising the total imports for this year to

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Balance of Payments

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

	1995			1996		
	Year	July	Jan.~July	June	July	Jan.~July
Current account balance	-88.2	-5.3	-65.0	-10.7	-22.8	-116.6
Trade balance	-47.5	-1.2	-44.3	-5.0	-16.6	-68.7
Export growth (%)	30.3	37.4	34.0	0.6	-2.8	9.9
Import growth (%)	32.0	36.5	37.9	0.0	11.7	12.6
Invisible trade balance	-35.1	-2.3	-18.0	-4.6	-5.5	-41.8
Unrequited transfer balance	-5.6	-1.8	-2.7	-1.2	-0.6	-6.1
Capital balance	135.3	25.7	79.9	25.0	-1.4	122.8
Total balance	30.8	16.5	1.34	4.9	-25.8	-11.4

Source : The Bank of Korea

US\$159 billion.

The overall trade sector, therefore, is likely to incur an unfavorable balance of US\$19.8 billion, due to increased imports and stunted export growth.

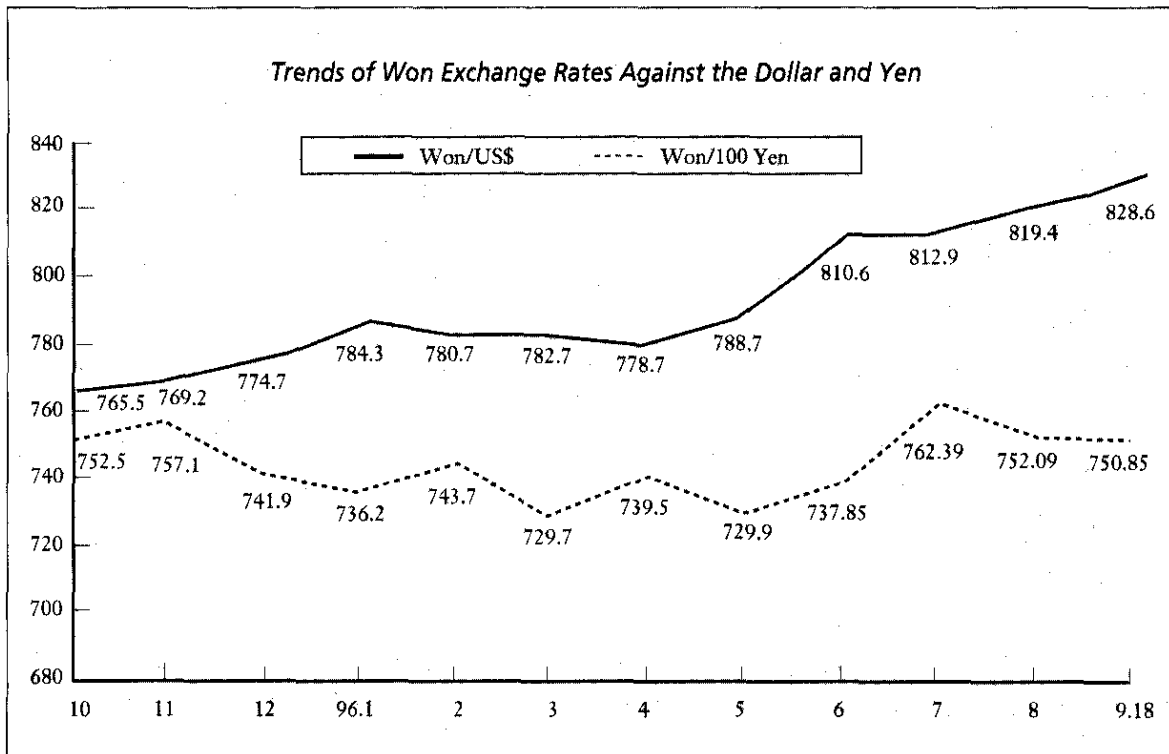
Foreign Exchange Rate

Recent Developments

Since last April, the value of the won has continued to depreciate and the won-US\$ exchange rate moved closer to 830 won per dollar in September. Contributing to this trend are: (a) a

favorable turn in the U.S. economy, leading to the speculation that bank interest rates will be lowered, b) Japan's slow economic recovery and maintenance of extremely low interest rates, c) a possible aggravation of the Iraqi situation, and d) the worsening of Korea's current account balance.

It is probable that the growing deficits in the trade and invisible trade sectors will not be markedly redressed in the immediate future, that inflow of foreign capital into the domestic capital market may not be as favorable as originally anticipated following the October 1 expansion in foreigners' stock ownership ceiling, and that the current strong-dollar and weak-yen trend is likely to prevail for a considerable period. Against this



backdrop, the won-dollar exchange rate is likely to remain at a 830 won-per-dollar level on the average for the last quarter of this year and for next year.

Money Supply

Recent Developments

During July, the total money supply (M2), based on an average balance, increased 17.1 per-

cent from a year earlier, or 0.8 percentage points higher than the 16.3 percent growth marked during the previous month over the year earlier period—a sign of instability.

The average balance growth of M2 plus CD marked 15.5 percent in July—relatively higher than the 15.0 percent registered in May of this year.

The recent movement of the money supply by sector was recorded as follows:

Money Supply

(Unit : 100 million won, %)

	1996			1995
	May	June	July	July
Average balance	1,545,689	1,564,722	1,595,426	1,362,530
(Movement of the money supply in the period)	19,464	45,468	1485	3,002
(% of year-to-year change)	15.3	16.3	17.1	14.9
Balance of the end of period	1,553,991	1,599,459	1,600,944	1,365,866
(Movement of the money supply in the period)	31,449	19,033	30,704	16,941
(% of year-to-year change)	16.6	17.4	17.2	13.8
M2+CD (Average balance)	15.0	15.5	15.5	14.3

Source: The Bank of Korea

Note: (p) =preliminary

- In the government sector, 3.39 trillion won was withdrawn in April, but in June 1.74 trillion won was supplied.

- In the private sector, 3.36 trillion won was supplied in July.

- In the foreign sector, 1.52 trillion won was supplied in June.

- In other sectors, 2.29 trillion won was withdrawn in June.

Outlook for 4th Quarter 1996 & 1996/1997

Toward the end of September, capital demand is likely to soar due to the observance of the tra-

ditional Chusok (Moon Festival) holiday (September 27). But neither an acute capital shortage nor a radical increase in interest rates is likely, inasmuch as the government is expected to flexibly adjust the money supply.

The total money supply is likely to witness less than a 17 percent expansion following the Chusok holiday as the government is unlikely to quickly withdraw funds released for the holiday season in line with its policy of stabilizing interest rates.

Nonetheless, there is no denying the fact that the capital market will become unstable, if capital demand remains strong following Chusok due to mounting inflationary pressure and the continued

Money Supply (M2) by Sector

(Unit : 100 million won, %)

	1996			
	March	April	May	June
Government sector	-6,221	-33,929	1,092	17,422
Private sector	26,934	51,944	35,951	33,598
Foreign sector	8,100	4,486	-127	15,199
Other sector	-30,975	-4,882	-17,453	-22,871
M2	-2,163 (15.1)	17,621 (14.7)	19,463 (16.6)	43,546 (17.2)

Source : The Bank of Korea

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

slump in exports.

The money supply expansion rate in 1997 will decline from the level of this year due to the continued economic downturn. However, no marked shortage in the capital market is anticipated in 1997, inasmuch as the government is expected to release more public funds to prop up the economy in preparation for the Presidential election slated for late 1997. This leads to the projection that in 1997 the total money supply may expand, but at a rate 1-2 percent less than this year.

Interest Rates & Financial Condition

Recent Developments

The third quarter of this year is likely to witness a generally unstable money supply and a steady rise in interest rates.

In July, the ratio of dishonored bills (to the total bills issued in terms of value) in Seoul rose 0.01 percentage points, from 0.07 percent in June to 0.08 percent. The ratio of dishonored bills nationwide in July stood at 0.12 percent, higher than in Seoul.

During the first half of this year, funds directly raised by stock and bond issuance increased sharply, from 122.95 million won in 1995 to 17.51 billion won this year. In particular, funds raised through the issuance of debentures rose conspicuously, from 85.49 million won in the first half of last year to 15.34 billion won this

Funds Raised on Capital Market

(Unit : million won)

	1996	1995	Change
	(Jan.~Jun.)	(Jan.~Jun.)	(Jan.~Jun.)
Public offerings of shares	422,791	1,300	421,491
Shares issued with consideration	1,530,081	32,131	1,497,950
Issue of debentures	15,342,387	85,491	15,256,986
Total	17,510,741	122,953	17,387,788

year.

It is likely that interest rate hikes will be accelerated from August of this year due to the uncertain outlook for financial market conditions.

Reflecting an unstable financial market, interest rates have increased steadily so far this year.

Especially in July, the call rate hit 16.08 percent from 12.37 percent in the previous month. Interest rates on debentures and CDs also rose markedly during the month.

The call rate rose 5.1 percentage points from 11.41 percent in May to 16.51 percent in August.

Quarterly Interest Rates & Financial Conditions

(Unit : %)

	1996						
	May	June	July	Aug.	Change		
	A	B	C	D	B-A	C-B	D-C
Call	11.41	12.37	16.08	16.51	0.96	3.71	0.43
Yield of debenture	11.03	11.55	12.10	12.14	0.52	0.55	0.04
CD	10.87	12.18	13.7	15.00	1.31	1.52	1.3

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

Recent Developments & Outlook

The debenture rate also increased steadily to 12.10 percent in August.

Outlook for 4th Quarter & the Whole Year

The domestic financial market is likely to witness relatively unstable conditions for the time being due to continued growth in inventories, sustained expansion of deficits in invisible trade, lagging exports and the economic slump.

The increased outflow of currency (resulting from expanded imports) reduces currency liquidity, while blunted exports and other factors reduce the internal reserves of enterprises, thereby raising demand on the capital market and thus stimu-

lating increased market rates.

However, the last quarter of this year is likely to witness market rates maintained at around 11.5-12.5 percent, inasmuch as the government is expected to resort to such measures as the flexible supply of money and downward adjustment of bank reserve requirements to help reduce interest rates, while enterprises are also expected to trim their investment projects, if necessary, to cope with increased interest rates.

In 1997, interest rates will probably be stabilized at a level slightly lower than that of the last quarter of 1996, due to decreased capital demand induced by the economic slump.

Trends of Interest Rate and Dishonored Bills

(Unit: %)

	1995					1996			
	1/4	2/4	3/4	4/4	Year	1/4	2/4	July	Aug.
Debenture	15.1	14.8	13.4	11.9	13.8	11.88	11.8	12.1	12.14
Call	12	12.9	11.4	11.1	12.0	10.48	11.08	16.08	16.51
CD	14.4	14.7	13.6	12.0	13.7	11.62	11.17	13.7	15.00
Ratio of dishonored bills									
Nationwide	0.20	0.21	0.20	0.20	0.20	0.19	0.12	0.12	
Seoul	0.13	0.12	0.12	0.11	0.12	0.15	0.09	0.08	

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

Environment & Foci of Macroeconomic Policies

Macroeconomic Environment

Korea's GDP growth in the second quarter of this year dropped to 6.7 percent, close to the 6 percent level marked in the last quarter of 1995. In the third quarter, Korea's exports registered a negative growth from a year earlier; and growth rates in domestic investment and consumption have yet to stem the negative tide. Thus, the economy has been experiencing a full-fledged contraction phase in the current economic cycle, which began in January 1993.

In particular, the weak yen which dropped to as low as 110 yen-per-dollar in September this year is likely to maintain its downward track through 1996 and into 1997. On the domestic side, no macroeconomic policy to invigorate domestic demand was considered in the package of measures to stimulate the domestic economy announced on September 3 this year. Thus, Korea's economic growth rate, which has been on the decline since the last quarter of last year, is likely to slide to 6.5 percent in the second half of 1996 and to register an annual growth of around 6.8 percent for the year. The annual growth rate is expected to decline to around 6.3 percent in 1997.

The second half of this year is expected to witness a continued slide in the value of yen, influenced by the favorable growth of the U.S. economy and the slow recovery of the Japanese economy. Furthermore, crude oil prices on the world market are likely to continue their upward trend, while Korea's import growth trend will remain intact. It is possible to predict, therefore, that the current account deficit this year will be close to 4 percent of GDP, that inflationary pressure will increase, and that annual economic growth will be further blunted.

Overall worldwide economic environments have been improved in terms of growth, trade and finance, and the value of the won vis-a-vis the U.S. dollar has been depreciating since last April. Nonetheless, the won remains relatively strong against the yen. As a result, exports of such items as vessels, automobiles, electronic products and petrochemicals will remain sluggish in view of their international marketing environments which are less favorable than last year. This leads to the assumption that a marked recovery of export growth in the second half of this year will be rather difficult.

On the other hand, growth rate in imports will

not be slowed markedly despite stunted facility investment and the slight depreciation of the won. Thus, the second half of this year is likely to witness an increased deficit in trade. Moreover, the positive effect of the slight depreciation of the won vis-a-vis the dollar will not be felt until two or three quarters later.

On the international side, exports of Korea's major items such as electronic products, iron and steel products, and petrochemicals will remain sluggish due to decreased prices of semiconductors and decreased demand in China. Moreover, a continued slide in the value of the yen (contrary to previous projections) and the increasing price of crude oil have been impeding efforts for increased exports.

In addition, the full-scale operation of the World Trade Organization, increased opening of the domestic markets to foreign competition tied to Korea's bid to join the Organization for Economic Cooperation and Development, and increased market opening pressure from the United States, which is to hold its Presidential election this November, are likely to result in increased imports of agricultural and livestock products and the influx of foreign capital into the stock market, which will spell added problems in the implementation of economic policies.

On the domestic side, too, there will be a num-

ber of problems: a) mounting inflationary pressure at this time when the next Presidential election is slated for December 1997, b) growing signs that manufacturing firms will recruit fewer employees this year than last year, c) an ever-increasing current account deficit which will inevitably influence macroeconomic policies, d) ongoing labor-management negotiations through the Labor Law Amelioration Committee which will have serious bearings on productivity of domestic enterprises, and e) relations with North Korea, which is said to still have problems consolidating its regime following the death of Kim Il-Sung. All of these non-economic factors will weigh heavily on the progress of Korea's economic development.

Other major internal problems worthy of note here are a) a steady growth in imports of consumer goods influenced by opening of distribution markets and the growing consumer propensity favoring imported goods, b) expanding industrial bipolarization and ongoing efforts for industrial restructuring, and c) the deteriorating financial condition of enterprises resulting from decreased sales and profit margins.

On the other hand, the annual increase in the producer price index was pegged at below 5 percent. Since the beginning of the economic upturn phase of the current economic cycle in 1994, it has been possible to effectively implement macroeconomic policies. As a result, the first half of this

year saw relatively more stable producer prices and interest rates than in the previous year. Government finance, too, was almost balanced in the first half, and it is probable that macroeconomic policy targets mentioned above will be easily attained this year.

The so-called "September 3 Measures" seem to have been derived from the basic policy of the new economic ministers' team to manage the economy through long- and mid-term, yet micro, adjustments of economic measures rather than through short-term, macro adjustments. Therefore, barring a drastic change in external economic environments, the current economic downturn which began in late 1995 is likely to last beyond the average six-quarter-long contraction phase of a normal economic cycle.

Such a change in the pattern of a normal economic cycle could well be stemming from a reduced economic self-adjustment ability caused by a series of factors including a) changes in the international exchange rate system following the Plaza accord, b) expanded housing construction and c) marked changes in production cost variables, including domestic wages and prices of goods and land, brought about in the process of economic democratization following the "June 29 Declaration."

All-in-all, Korea's economic policy makers need to tackle a number of problems, including a) how

to reduce the current account deficit and maintain optimum economic growth, overcoming the current economic downturn, b) how to reduce and stabilize prices and interest rates at international levels in the process of opening the capital market to foreign competition and c) how to effectively promote industrial restructuring while minimizing such adverse side effects as growing industrial bipolarization.

Macroeconomic Policy Issues in 1996/1997

During the expansion phase of the current economic cycle, beginning in January 1993 when the last contraction phase hit bottom, the government has consistently implemented macroeconomic policies emphasizing a balanced government budget, steady money supply and appreciation of the won against the backdrop of a strong yen and an upturn of the world economy. Thus, it has been possible to prevent economic overheating and stabilize prices.

However, with the weakening yen and the beginning of an economic downturn spearheaded by decreasing facility investment growth in late 1995, Korea's GDP growth is likely to decline to 6.5 percent in the second half of this year to mark a 6.8 percent growth for all of 1996 and to witness a 6.3 percent growth in 1997.

It is desirable, therefore, to pursue macroeco-

conomic policies focused on checking the extreme economic contraction while consistently maintaining the economic keynote policy. The government needs to cautiously manage economic policies, being mindful of the fact that the impact of an abrupt worsening of trading terms is apt to wither the economic players and bring about an economic crash-landing.

In view of this, it is believed that macroeconomic policies implemented by the government in the first half of this year to maintain the won's value at a short-term equilibrium level as well as the proper levels of public spending and money supply contributed to a certain extent to the economic slowdown thus far. Therefore, it would be appropriate to implement macroeconomic policies hereafter emphasizing the maintenance of the keynote policy pursued in the first half, while properly managing the effects of the current economic downturn in the short-term and maintaining substantial economic growth at the level of the potential economic growth rate in the mid-term.

While the current exchange rates are maintained at above 820 won per dollar and below 750 won per 100 yen, it will be possible to minimize the adverse impact of changes in the exchange rates on Korea's international competitiveness by creating market conditions conducive to maintaining the exchange rates at appropriate levels in

consideration of the foreign exchange supply and demand situation, which has a direct bearing on the current account balance. This will also help ease currency policy problems.

It should also be noted that an expanding current account deficit entails increased demand for foreign exchange, which in return entails increased supply of the won, prompting the Bank of Korea to withdraw money from circulation. The end result of such a process is decreased liquidity, increased speculative demand for foreign exchange and increased impact on the adjustment of the won's value.

In the process of attaining high economic growth and enhanced labor productivity, Korea's wage level has increased remarkably. Consequently, Korea's wage level in proportion to per capita income is higher than that of other countries. On the other hand, wage gaps between large and small enterprises have conspicuously expanded, and as a result it has become difficult to expect balanced development of industries or to ensure effective utilization of manpower. There is an urgent necessity to adopt measures designed to make best use of well-educated people, the elderly and females to ensure continued economic development, while easing labor-related regulations.

There is no denying the fact that a stabilized

wage level is a must for the enhancement of international competitiveness. However, it must be noted that such an effective stabilization of wage level will be possible only when efforts are made to improve social security, reduce the number of dependents of workers, improve the housing situation by providing increased rental units, reduce tutoring expenditures as well as other measures designed to stabilize the cost of living.

The current labor-related laws and regulations are too rigid to ensure flexible employment, while there exist almost no unemployment problems. It is necessary, therefore, to remove unnecessary labor-related regulations to help enhance industrial competitiveness.

Relatively high interest rates spell high industrial costs. And in the case of Korea, which is in the process of liberalizing the capital market, it also leads to high macroeconomic expenditures due to high margins between domestic and international interest rates. In order to reduce the conspicuous margins, it is necessary to implement a flexible currency credit policy in order to reduce interest rates in the face of economic downturns.

Notably, as we had experienced in the first half of this year, a flexible currency credit policy does not stimulate prices by boosting demand, but it tends to reduce interest rates at a time when

investment demand is blunted and producer prices are stabilized. On the other hand, a tight money supply in the face of an economic downturn is apt to bring about such adverse side effects as higher interest rates, a rapid withering of investment spirit on the part of enterprises and an increased rate of dishonored bills.

It is also worthy of note that during the first half of this year, the growth of the money supply was relatively steady vis-a-vis the blunted economic growth and stunted capital demand. It is possible that interest rates were rather stabilized in the first half, thanks to the effective supply of money to discourage increased capital demand. In fact, it cannot be said that the money supply was expanded in the first half at all, if the incorporation into total money supply (M2) of trust account funds is taken into account—the trust account funds being estimated at 1.4 percent of M2. Therefore, the money supply in the second half of this year should be adjusted to ensure stabilized interest rates, while discouraging temporary capital demand.

The implementation of a balanced government budget is necessary to cope with a current account deficit and capital account surplus. In fact, the government needs to maintain a budget surplus to stop the process of offsetting the current account deficit with capital account surplus (borrowings from overseas). However, in view of

the need to ensure an economic soft-landing while expanding social infrastructures, it would be more feasible to pursue a balanced government budget apart from the current phase of the economic cycle.

The government's budget for 1997 envisages an increase of 14 percent over this year's budget, irrespective of the ongoing economic downturn. If it becomes necessary in the course of the implementation of the 1997 budget, the government may be tempted to resort to irrational taxation measures in order to raise the additional funds necessary for expansion of social infrastructures and/or to prop up the sagging economy.

However, it would be more appropriate for the government to ensure the maximum utilization of its inherent functions of automatic stabilization instead of attempting to raise taxes.

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September 17

Ministry of Industry, Trade & Energy announces revised export insurance procedures to augment support for exporters.

September 11

Ministry of Finance and Economy implements an incentive stock-option system. It also announces revised external audit system for securities firms.

September 10

Ministry of Finance and Economy authorizes merchant banks to deal in CMS.

September 9

Ministry of Finance and Economy announces a formula for activating the OTC market.

September 7

Ministry of Finance and Economy says it plans to announce follow-up measures to the September 3 measures. It also announces support for small- and medium-size enterprises through the issuance of bank DRs.

September 6

Ministry of trade, Industry and Energy announces amendment bill to Law Concerning Development of Energy and Industrial Technologies.

September 4

Ministry of Finance and Economy announces a plan to raise foreigners' stock investment ceiling from October 1, 1996.

September 3

Bank of Korea reforms regulations on foreign trade financing.

September 1

Ministry of Trade, Industry and Energy announces an amendment bill to Petroleum Business Law.

August 30

Ministry of Finance and Economy plans to reform government procurement contract system from January 1, 1997 in line with opening of the government procurement mar-

ket to foreign competition.

August 29

Ministry of Trade, Industry and Energy announces an amendment bill to Electric Business Law. It also announces rules concerning development of areas with abandoned mines.

August 29

Ministry of Finance and Economy announces amendments to customs tax rules.

Office of Small Business Administration announces a plan to foster export-oriented small- and medium-size firms.

August 28

Ministry of Finance and Economy announces an amendment bill to the Law on National and Local Taxes. It also announces amendments to revised rules on income tax and seven other taxes.

August 27

Ministry of Trade, Industry and Energy announces revised price indication rules on 108 industrial products.

August 22

Ministry of Trade, Industry and Energy finalizes FDI standardization formula for electronic products.

Ministry of Finance and Economy finalizes amelioration formula for floating shares.

August 19

Bank of Korea liberalizes bank issuance of ILs for customs use.

August 16

Ministry of Trade, Industry and Energy announces an amendment bill to the Law Concerning Support for Residents Near Power Plants.

August 8

Ministry of Trade, Industry and Energy says measures will be formulated to stimulate foreign investment in Korea.

August 6

Ministry of Trade, Industry and Energy says development of highly-sensitive, high-func-

tion fibers will be promoted.

August 1

Bank of Korea announces a formula for augmenting financial support for export-oriented firms.

Ministry of Finance and Economy revises presidential decree enforcing Income Tax Law.

July 25

Ministry of Finance and Economy says rules concerning bank loans will be reformed.

July 23

Office of Small Business Administration says support for quality goods production will be augmented.

July 22

Ministry of Finance and Economy announces an amendment bill to presidential decree enforcing the Trademark Law.

July 19

Ministry of Trade, Industry and Energy

finalizes a plan for technology development for alternative energy sources.

Bank of Korea eases regulations concerning establishment of branches overseas by domestic banks.

Bank of Korea eases regulations on bank deposits.

July 18

Ministry of Finance and Economy overhauls call market.

July 17

Ministry of Finance and Economy announces a plan to ease financial controls.

July 16

Ministry of Finance and Economy reforms rules on establishment of branches by investment trust firms.

July 15

Ministry of Finance and Economy licenses establishment of new real estate trust firm by Korea Housing Bank.

Office of Small Business Administration

announces plans to ease regulatory rules on small- and medium-size firms.

July 13

Ministry of Finance and Economy announces a plan to ameliorate securities business rules.

July 12

Ministry of Trade, Industry and Energy announces measures designed to help induce advanced technologies.

July 9

Ministry of Trade, Industry and Energy revises the presidential decree enforcing the Industrial Plant Location Law.

July 4

Bank of Korea reforms rules governing designation of principal banks by enterprises.

July 2

Ministry of Finance and Economy overhauls customs tax refund system.

Ministry of Trade, Industry and Energy announces new measures designed to strengthen industrial competitiveness.

July 1

Ministry of Finance and Economy implements rules concerning futures transactions overseas.

Ministry of Trade, Industry and Energy announces an amendment bill to the Foreign Trade Law.

June 29

Ministry of Trade, Industry and Energy announces an amendment bill to the Law Concerning Electric Power Resources.

June 27

Office of Small Business Administration adopts measures to stimulate exports by small- and medium-size enterprises.

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	Equipment	Construction
	Year-to-year change (%)		U.S.\$	Year-to-year change(%)				
1990	9.5	9.7	5,883	10.1	10.7	25.9	18.8	31.2
1991	9.1	9.1	6,757	9.3	9.5	12.6	12.1	13.0
1992	5.1	5.1	7,007	6.8	6.6	-0.8	-1.1	-0.6
1993	5.8	5.0	7,513	5.3	5.7	5.2	-0.1	8.9
1994	8.6	10.4	8,508	7.0	7.6	11.8	23.6	4.5
1995	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	7.9	7.8	-	7.2	7.5	7.3	4.3	10.0
1996.2	7.9	7.8	-	7.2	7.5	7.3	4.3	10.0
1996.3	7.9	7.8	-	7.2	7.5	7.3	4.3	10.0
1996.4	7.9	7.8	-	7.2	7.5	7.3	4.3	10.0

Trade and International Balance of Payments

Year/Month	Trade						Balance of payments			Foreign exchange reserves 1)	Exchange rate (W/US\$)
	Exports (FOB)		L/C arrivals	Imports (CIF)		I/L issued	Trade balance	Current balance	Total balance		
	US.\$ mil.	Year-to-year change (%)		US.\$ mil.	Year-to-year change (%)		US\$ 100 mil.			End of Year/Month	
1990	65,016	4.2	4.4	69,844	13.6	21.8	-2,004	-2,179	-274	14,822	716.4
1991	71,807	10.5	5.2	81,525	16.7	9.4	-6,980	-8,728	-3,741	13,733	760.8
1992	76,632	6.6	4.7	81,775	0.3	-10.3	-2,146	-4,529	4,898	17,154	788.4
1993	82,236	7.3	6.2	83,800	2.5	8.5	1,860	385	6,542	20,262	808.1
1994	96,013	16.8	15.7	102,348	22.1	40.3	-3,145	-4,531	2,822	25,673	788.7
1995	125,058	30.3	13.4	135,119	32.0	33.1	-4,749	-8,817	3,034	32,712	774.7
1996.1	9,950	28.2	10.7	1,055	34.5	24.1	-1,082	-1,727	-598	33,264	784.3
2	9,928	17.8	-8.4	11,479	16.0	9.2	-1,234	-1,954	185	33,115	780.7
3	11,764	17.7	-3.9	12,152	4.2	12.1	-100	-892	849	33,451	782.7
4	10,695	5.3	-5.9	12,674	14.3	-7.7	-1,513	-2,205	318	35,930	778.7
5	11,332	6.4	-11.1	12,685	7.3	4.3	-786	-1,440	10	36,240	787.9
6	11,432	1.7	-7.8	11,707	-1.1	23.5	-500	-1,075	487	36,562	810.6
7	10,156	-3.1	3.8	12,855	13.7	24.1	-	-	-	35,062	813.3

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

Statistics (II)

Prices, Unemployment and Interest Rates

Year/Month	Prices ²⁾		Unemployment rate	Nominal wage (mfg. ind.)	Currency ³⁾		Interest rate (Year-to-year change (%))		
	Producer	Consumer			M1	M2	Rediscount	Time deposit ⁴⁾	Yield of debenture ⁵⁾
	Year-to-year change (%)		(%)	Year-to-year change (%)					
1990	4.2(7.2)	8.6(9.4)	2.4	20.2	18.1	21.2	7.0	10.0	16.5
1991	4.7(1.9)	9.3(9.3)	2.3	16.9	16.1	18.6	7.0	10.0	18.9
1992	2.2(1.6)	6.2(4.5)	2.4	15.7	32.3	18.4	7.0	10.0	16.2
1993	1.5(2.0)	4.8(5.8)	2.8	10.9	22.1	18.6	5.0	8.5	12.6
1994	2.8(3.9)	6.2(5.6)	2.4	15.5	11.9	15.6	5.0	8.5-10.0	12.9
1995	4.7(3.4)	4.5(4.7)	2.0	9.9	11.6	15.5	5.0	7.5-10.0	13.8
1996.1	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	35.3	14.1	14.8	5.0	7.5-10.0	11.9
3	2.2	4.5	2.2	14.4	11.7	14.6	5.0	7.5-10.0	11.8
4	2.0	4.6	2.0	12.8	9.8	14.0	5.0	7.5-10.1	11.0
5	1.7	5.1	1.9	-9.0	9.9	15.3	5.0	7.5-10.0	11.0
6	1.6	5.5	1.9	-	9.8	16.3	5.0	7.5-10.0	11.6
7	2.3	5.6	-	-	8.9	17.1	5.0	-	11.9

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

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

Industrial Production and Demand

Year/Month	Ind. output		Demand-related indexes							
	Mfg.	Operating ratio index	Retail	Consumer goods shipment ⁶⁾	M/C orders ⁷⁾	M/C imports ⁸⁾	Construction orders	Const. permit (floor area)		
								Ind. use	Housing	
Year-to-year change (%)										
1990	8.9	2.6	10.5	15.2	38.8	20.3	55.8	31.4	17.0	49.3
1991	9.7	1.5	7.8	11.4	2.2	20.0	13.9	-9.7	6.7	-16.7
1992	5.9	-1.4	5.5	5.2	-5.2	-5.2	6.4	-10.0	-12.4	-7.4
1993	4.2	-0.6	6.4	4.0	12.1	-5.7	19.3	24.5	15.2	26.7
1994	11.0	4.4	6.1	9.2	26.9	34.2	18.5	-1.3	16.8	-8.5
1995	12.1	-0.4	8.6	7.4	15.8	37.8	21.2	1.0	3.3	-1.2
1996.1	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	5.4	-3.1	11.1	3.8	-5.1	1.6	30.1	-20.9	-43.8	-20.4
4	8.2	-0.2	8.8	7.1	11.7	0.2	11.8	-11.0	-29.6	-1.1
5	9.9	2.1	9.9	10.4	35.9	1.6	21.4	-18.8	-3.9	-8.4
6	3.6	-	9.8	4.7	21.0	-5.8	7.6	-19.6	-46.5	-16.1
7	-	-	-	-	-	-	-	-	-	-

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