ANNUAL REPORT
1999

THE BANK OF KOREA

March 2000

In accordance with the provision of Article 102 of the Bank of Korea Act, and with the sanction of the Monetary Policy Committee, we herewith publish the Annual Report of the Bank, analyzing economic and financial conditions in Korea during calendar year 1999 and outlining the condition of the Bank, its operations, its monetary policies and the foreign exchange policies of the government and financial system management during the same period.

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Governor
The Bank of Korea

CONTENTS

I. General Economic Trends

Summary

In 1999, the Korean economy escaped from the impact of the currency crisis to recover both its vitality and stability, while regaining international credibility. After the severe recession of the previous year, GDP growth shifted to a strongly positive figure of 10.7 per cent due to the briskness of both domestic and external demand. The current account registered a surplus of 25 billion U.S. dollars for the year and consumer prices were also markedly stable, rising only 0.8 per cent on an annual average basis.

Gratifying attainment of price stability and a current account surplus in conjunction with a high GDP growth rate resulted not only from more favorable internal and external environments but also from a macroeconomic policy mix that sought to make the most of them. Price competitiveness had been improved by the depreciation of the Korean won after the outbreak of the currency crisis as well as the drop of financial and labor costs thanks to the intense structural adjustment efforts. Furthermore, appropriate macroeconomic policies were pursued to stabilize the financial and foreign exchange markets and to revive domestic demand in an environment characterized by adequate production capacity owing to the drastic shrinkage of demand the preceding year, a substantial current account surplus, and the upgrading of sovereign ratings. Meanwhile, overseas economic conditions turned steadily more favorable for the Korean economy. The U.S. economy continued its rapid growth, the Southeast Asian economies stayed a turnaround, and the Japanese yen maintained a firm trend throughout the third and fourth quarters.

At the beginning of the year, the prospects for the Korean economy's recovery remained uncertain and a continuation of high unemployment appeared a distinct possibility. Confronted with this situation, the Korean government pursued a policy of increasing fiscal spending and disbursing budgetary allocations early in the year with an emphasis on the stimulation of business and the creation of employment. As inflation remained subdued and the structural reform was in process, the Bank of Korea steadily lowered its target for the call market rate until April in order to give positive support not only to financial and foreign exchange market stabilization but also to the recovery of the real economy. Helped by such

monetary and fiscal policies, the Korean economy showed a remarkable recovery in domestic demand about March and April and stock prices also soaring rapidly. The current account stayed in surplus and prices remained stable thanks to adequate supply capacity and the appreciation of the Korean won. From May onwards, while business activity intensified and price stability was sustained, the expanded inflows of foreign capital heightened the pressure for further appreciation of the Korean won. Judging that the policy it had adhered to of steadily lowering interest rates had effectively stimulated domestic business activity, the Bank of Korea shifted its policy stance from May onwards to restraining the call market rate from dropping below its April level. Meanwhile, the government acted to adjust the conjuncture of supply and demand in the foreign exchange market in the early part of May to prevent the exchange rate overshooting.

In the early second half of the year, the financial markets showed pronounced unease over Daewoo's debt problems, which emerged from late July. For a considerable period, market interest rates rose, while stock prices fell and the Korean won depreciated in reflection of the outflow of foreign portfolio funds. In response, the Bank of Korea placed the focus of monetary policy on the stability of the financial market, for which purpose it held the target overnight call rate unchanged at the April level, while supplying ample liquidity. The government drew up and put in place a number of measures to stabilize the financial markets, including the introduction of a system of partial redemption which differentiated the ratios payable on Daewoo bonds according to holding period and the establishment of the Bond Market Stabilization Fund. As the fears of market participants came to be soothed by the intense efforts of the government and the Bank of Korea, stock prices rebounded, there was a renewed influx of foreign investment funds, and the Korean won strengthened. Despite the market's unease prompted by Daewoo Group's collapse, the business activities maintained a strongly upward trend, while prices continued stable and the current account stayed well in the black.

The prospect for the year 2000 is that the Korean economy will continue its upward trend, but experience not a few difficulties in regard to prices and the current account position. What is more, there are several destabilizing factors present with the potential to hinder sustainable growth of the Korean economy, including the sharp widening of the fiscal deficit and financial institutions' overhang of non-performing assets. Nor has sufficient improvement of the economic structure yet taken place.

In the light of these conditions, the emphasis of macroeconomic policy should be laid on the stable management of aggregate demand. Preemptive monetary policy should focus on the prevention of inflation and an austere fiscal policy should be conducted to bring about economic stabilization and the improvement of the fiscal balance. At the same time, structural adjustments should be incessantly pursued in every sector of the economy in order to strengthen the basis for long-term growth. New growth momentum should be created through the unleashing of market forces and a structural shift to a knowledge-based economy coupled with positive efforts to improve income disparities.

Economic Trends

World Economic Conditions Take a Turn for the Better

During the year under review, the evolution of the global economy generally favored domestic economy recovery. Although the prices of crude oil and some international raw materials rose, the growth of world economy accelerated by the U.S. economy. The Japanese yen maintained a firm tone throughout most of the latter half of the year, which is, moreover, generally seen as benign for the Korean economy.

The growth rate of the world economy accelerated to 3 per cent year-on-year, a little bit higher than in the previous year. Although the EU and Latin American economies staged only a weak recovery, the U.S. economy continued vibrant. In addition, the Japanese economy escaped from its negative growth, and the emerging Asian market economies showed strong signs of recovery. Most notably, the U.S. economy maintained its role as the locomotive driving world economic growth. Its long sustained buoyancy was fuelled by brisk consumer spending thanks to the exuberance of U.S. stock markets and by the expansion of equipment investment centering on information technology.

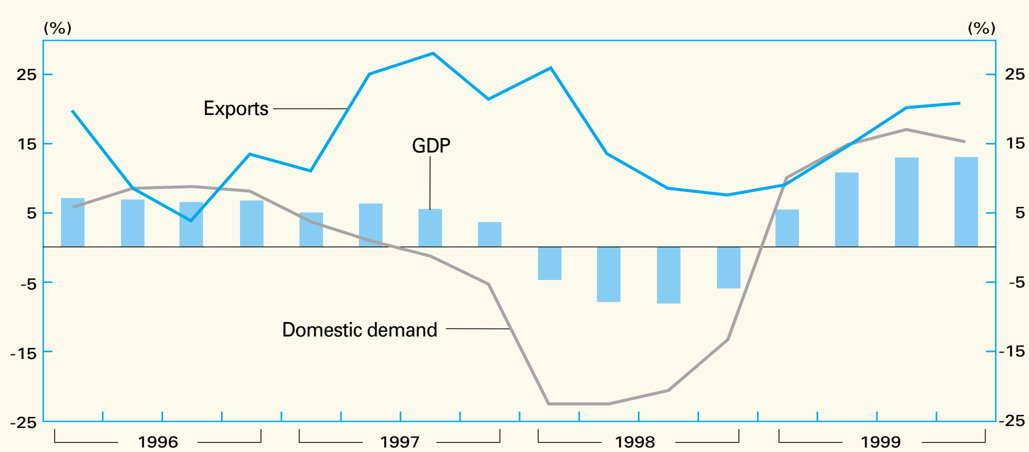
Viewing interest rates in major countries, in the U.S. and Euroland both long- and short-term rates rose steadily. However, in Japan, the central bank maintained its zero interest rate policy, under which short-term interest rates have been around 0 per cent since March 1999 and long-term interest rates also marked time at about 2 per cent during the year under review. The yen weakened against the U.S. dollar in the first half of the year, but shifted to an appreciating trend in the latter half. Meanwhile, the euro continued to depreciate against the greenback throughout the year.

Viewing international raw material prices, oil prices rose sharply higher owing to the OPEC members' curtailment of production. The prices of major traded agricultural commodities and industrial raw materials eased their downward trend or shifted back to an increase.

Economic Growth Accelerates Sharply from the Second Quarter

Having showed signs of a turnaround during the latter half of 1998, the Korean economy exhibited a strong recovery trend from early in the year under review. GDP growth shifted to a positive rate of 5.4 per cent during the first quarter before accelerating to 10.8 per cent in the second quarter and 12.8 per cent in the third. For the fourth quarter it reached 13.0 per cent, the highest figure since the second quarter of 1988. For the year as a whole, in consequence, the GDP growth rate shifted from its negative 6.7 per cent of 1998 to a strongly positive 10.7 per cent. This performance was attributable to a rapid revival of domestic demand at the beginning of the year following the improvement in consumer and business confidence response to the easing of worries over future economic conditions, the continuation of low interest rates and the stock market rally. In addition to domestic demand, Korea's exports, which had regained their competitiveness owing to the sharp depreciation of the Korean won

[Chart 1] Change in Real GDP[1]



Note : 1) Compared with the same period of the previous year.

and structural adjustment efforts in the wake of the currency crisis, worked to accelerate the economic upswing by boosting the level of business activity, particularly with the recovery in Southeast Asian economies from late in the second quarter and the strength of the Japanese yen in the latter half.

Consumption as a whole shifted from a negative 9.8 per cent growth rate in 1998 to a positive rate of 8.5 per cent due to the sharp recovery of private consumption centering on durable goods, despite the decrease in government consumption expenditure. The recovery of private consumption gathered pace from early in the year. It was accelerated by the rebound of consumption demand for durables, which had been depressed for some time after currency crisis, together with the gradual increase in real purchasing power brought about by the rise of wages and stock prices along with price stability.

Fixed investment shifted back to a mildly upward trend for the first time for two years, backed by active facilities investment. Facilities investment's growth turned positive during the first quarter and stepped up its pace from the second quarter. This was attributable to the perceived need for its expansion in view of the rapid development of the information-communication sector funded by venture funds and the increase in the number of high-tech start-ups. It was also greatly helped by the resurgence of business confidence, elicited by brisk stock markets, the recovery of sales, the downward stability of interest rates and the relative ease of fund-raising. Construction investment was brisk in infrastructure investment thanks to the expansion of fiscal spending, but it saw an overall decrease during 1999 because the building construction was deep in the doldrums.

Meanwhile inventories, drawn down on an unprecedented scale amid the deep recession in 1998, continued to decrease during 1999. The scale of their contraction was nevertheless sharply reduced, meaning that inventory adjustment acted as a contributor to the rise in GDP growth unlike the previous year.

The growth rate of exports of goods and services, in real terms, increased from 13.2 per cent the previous year to 16.3 per cent. Imports of goods and services, in real terms, turned around to post a convincing 28.9 per cent increase in contrast to their decrease of 22.4 per cent the previous year.

Industrial Output Stages Recovery

Business activity picked up in most industries apart from the construction sector. That in the information and communications field witnessed a particularly rapid expansion. Manufacturing led the overall economic growth, showing a growth rate of more than 20 per cent during the year under review, and its share of GDP increased sharply. Production in information and communication related sectors, such as computers, semiconductors, and radio & communication equipment, saw brisk activity during the year as it did in motor vehicles and trailers. Most sectors, notably industrial-use machinery, and rubber and plastic products, turned buoyant from the second quarter. The service sector shifted to rapid growth. Transport, storage and communications registered specially high growth rates due to the burgeoning use of mobile phones and computer communication in line with the acceleration of economic activities. The wholesale & retail trade, restaurants & hotels sector also registered a conspicuously high growth rate thanks to the expansion of trade in industrial products and import and export items and the rise in the number of foreign tourists. Community, social & personal services showed a brisk pace due to the sharp increase in advertising sales by broadcasters.

Meanwhile, the electricity, gas and water sector grew steadily, due to heightened consumption of electricity and the expansion of the piped gas network. Agriculture, forestry and fishing production shifted to positive growth mainly due to improved crops of fruit and vegetables, whose effects were only partially offset by the poor performance of inshore fisheries and of marine aquaculture and pisciculture.

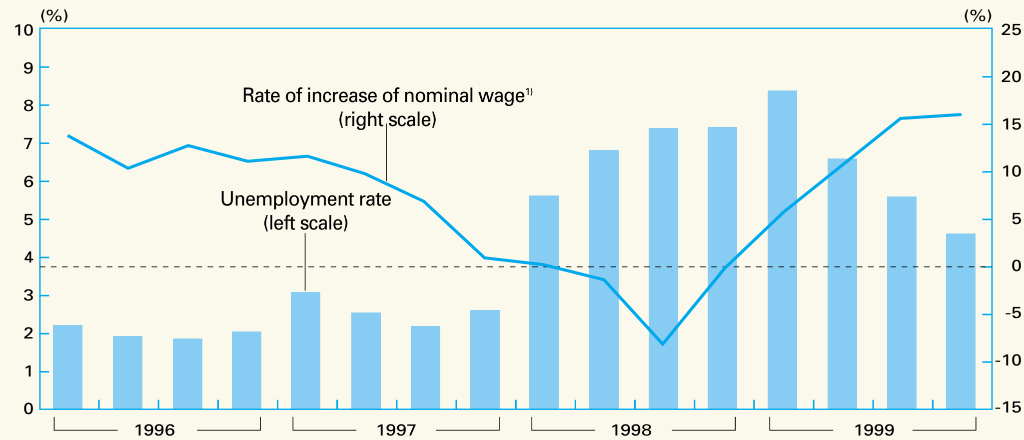
Construction, however, shrank for the second consecutive year, posting negative growth with the sharp decline in private construction, especially centering on housing, being compounded by the sluggishness of government construction in the latter half of the year, in contrast to its relative briskness earlier on thanks to the early disbursement of government spending.

Employment Situation Improves, Wages Shift to Increase

The employment situation improved markedly with the continued recovery of business activity from March onwards, helped also by the government's bold initiatives to counter unemployment policies such as the expansion of job-openings. The unemployment rate decreased month by month. Even though the number of persons actively seeking employment shifted to an increase amid spreading expectations of a business resurgence, the number of persons in employment rose still more rapidly.

Meanwhile, the structure of employ-

[Chart 2] Unemployment Rate and Nominal Wage Trend



Note : 1) Wage in the all industry. Compared with the same period of the previous year.

ment underwent substantial change including a rise in the share of those working on a temporary or casual basis. Aware of the difficulties of rationalizing their workforce by reducing the number of permanent employees, many companies opted for the flexibility of increasing the number employed on a temporary or casual basis in view of their relatively lower wage level and ease of adjustment.

The number employed in manufacturing shifted back to an increase for the first time in three years and the number of those employed in business, personal and community services rose in response to the launch of small businesses and the expansion of government and public sector employment. Construction employment decreased for the second consecutive year due to the sector's sluggishness. The number of agricultural sector workers also contracted as those who had returned to the country after the crisis moved back to the cities.

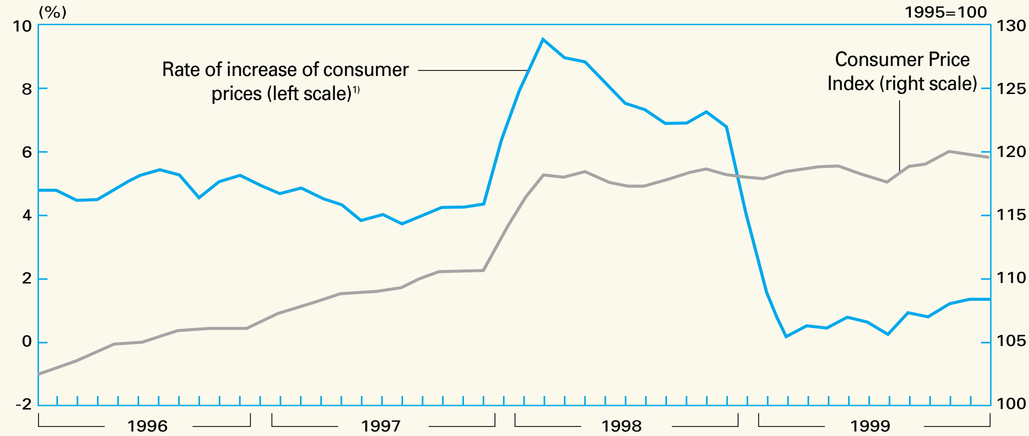
The nominal wages of regular employees, which had fallen in the wake of the currency crisis, registered a double digit increase. This sharp rise was bolstered by a big increase in bonus and overtime payments due to improved company profitability and longer hours of overtime. Though the pace of the increase of nominal wages rose steeply, the employment costs to sales ratio fell more than in the previous year, because of the greater proportion of temporary and casual employment and markedly higher labour productivity.

Prices Clearly Stabilize

Prices showed a markedly stable pattern of movements in spite of the continued strong upward trend of domestic economy. Consumer prices rose just 0.8 per cent rise on an annual average basis. Thus the actual rate of increase in the CPI stayed below the lower bound of its target range. Producer prices decreased 2.1 per cent. Inflation was subdued largely by the surplus of domestic supply capacity and the decline in major cost factors, such as the exchange rate, interest rates and wages. In addition to these factors, the more intense price competition caused by the deep depression the previous year, the growth of information technology and new channels of distribution seem to have had a beneficial effect on price stability.

Viewing by item class, the stability of CPI was led mainly by the decrease in charges for services. Meanwhile the prices of manufactured goods showed some instability for a period in response to the rise in international oil prices. They ended the year, though, only marginally higher on an annual average basis, responding both to the downward adjustment of some fuel prices as the Korean won firmed against the dollar and to the price-cutting on household electrical appliances in connection with the abolition of special excise tax on them. Meanwhile the prices of agricultural, livestock and marine products continued on their upward trend of the previous year due to the generally

[Chart 3] Change in Consumer Prices



Note : 1) Compared with the same period of the previous year.

erratic shipments with poor crops early in the year and heavy floods in summer.

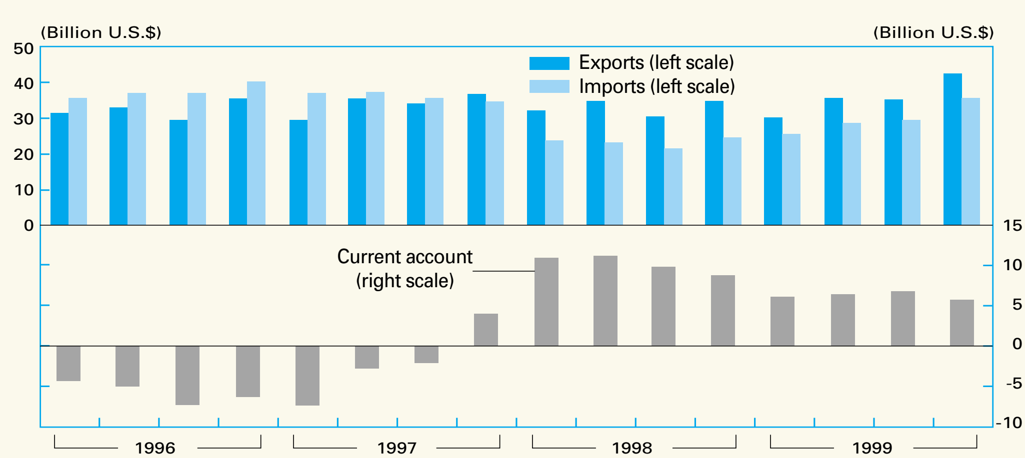
Viewing real estate prices, all housing and land prices showed an upward trend, centering on the capital region, due to the economic recovery, the easing of government restrictions on real estate, expectations of higher property prices, and lower interest rates.

Current Account Sustains Large Surplus

The current account in the year under review registered a substantial surplus amid the continued brisk expansion of exports, even though its scale was reduced from the previous year because of the sharp increase in imports amid the recovery of domestic demand.

Exports, on a customs-clearance basis, increased by 8.6 per cent on a year-on-year basis to 143.7 billion U.S. dollars. Along with the U.S.-led recovery of the world economy, the rapid growth of the information and communication sector worldwide and the strength of the Japanese yen during the latter half of the year, the export of major items such as semiconductors, computers, mobile phones, LCD and automobiles increased sharply. Imports amounted to 119.8 billion U.S. dollars, shifting back to an upward trend with a sharp rise of 28.4 per cent after falling 35.5 per cent the previous year. They were drawn in by the buoyancy of demand, both domestically and internationally, and their scale was magnified by the steep rise in international oil prices. Reflecting these exports and

[Chart 4] Balance of Payments



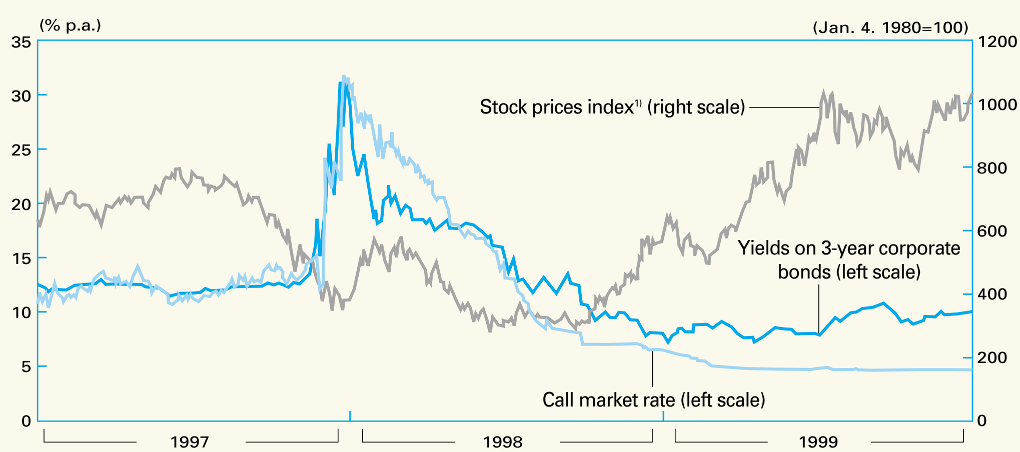
imports trends, the surplus on the goods account registered 28.7 billion U.S. dollars, narrowing from the 41.6 billion U.S. dollars of the preceding year. The current account registered a surplus of 25.0 billon U.S. dollars, equivalent to more than 6 per cent of current GDP, largely bolstered by the surplus on the goods account, which was only partially offset by the shift into deficit on the services account. The capital account shifted from a net outflow of 3.3 billon U.S. dollars in the previous year to a net inflow of 0.6 billion U.S. dollars owing to the increased influx of foreign portfolio capital to the stock markets, foreign direct investment, and the issuance of DRs. Meanwhile, foreign exchange reserves had increased to 74.1 billion U.S. dollars by the end of 1999, a 25.5 billion U.S. dollars increase from the previous year-end. Total external debt stood at 136.4 billion U.S. dollars as at the end of 1999, a 12.3 billion U.S. dollars decrease from the previous year-end.

Overall Interest and Exchange Rates stabilize, and Stock Prices Rise Sharply

Foreign exchange and financial markets, despite the instability of their movements for a period as the problems of the troubled Daewoo Group emerged, exhibited a stable pattern during the year as a whole as market interest rates and exchange rate stabilized, and stock prices displayed a steeply upward underlying trend.

Short-term market interest rates fluctu-

[Chart 5] **Market Interest Rates and Stock Prices Trend**

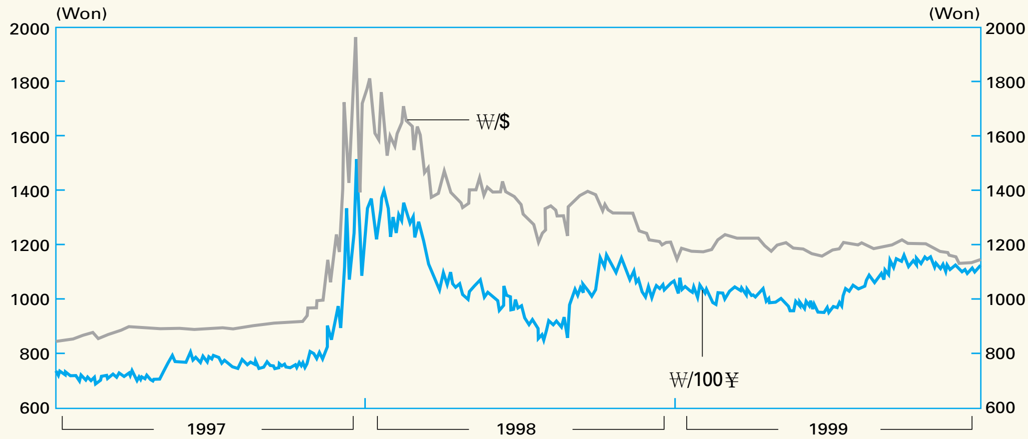


Note : 1) KOSPI(the Korea Composite Stock Price Index) ated around a low level as the Bank of Korea continued its accommodating monetary policy stance. Long-term market rates rose during the third quarter due to the widespread market apprehensions generated by the Daewoo Group's announcement of its restructuring plan and the ensuing heavy selling of bonds by investment trust companies to enable them to redeem beneficiary certificates. As a result of this, the gap between long-term and short-term interest rates, which had averaged around 3 percentage points in the first half of the year, widened to 5 percentage points after July. Lending and borrowing rates of financial institutions, however, showed a moderately decreasing trend because the demand for funds remained generally low while financial institutions had ample liquidity available.

Stock prices continued to move upward thanks to the inflow of the abundant market liquidity into the stock markets in response to widespread optimism generated by expectations of improved corporate profitability following rapid economic recovery, the low level of interest rates, and the upgrade of the nation's sovereign rating. Having drifted downward from the middle of July to October amid worries over the troubled Daewoo Group, and a rise in domestic long-term interest rates and the Federal Funds rate coupled with the possibility of a devaluation of the Chinese yuan, stock prices rebounded sharply in line with the progress of Daewoo Group's workout and the renewed rally of international stock markets.

Meanwhile, the Korean won strengthened against the U.S. dollar as in the preceding year, owing to the sustained oversupply condition of the domestic exchange market engendered by the substantial current account surplus and large net inflows of foreign investment. Early in the year, it weakened in response to financial market instability, but from March onwards it gradually firmed on the back of the continued surplus on the current account and the expansion of the foreign investment inflows. From early July the won weakened against the greenback on the implementation of FX supply-demand management measures and the emergence of Daewoo Group's restructuring problems. With the shift to renewed net inflows of foreign investment, the Korean won, backed by expectations for its further appreciation, strengthened steeply against the dollar from early October. Thus, it ended the year at 1,138 won per U.S. dollar, an appreciation of 5.8 per cent over the previous year end's level of 1,204 won.

[Chart 6] **Exchange Rates of the Korean Won**[1]



Note : 1) The won-dollar exchange rate is based on the market closing rate, and the won-100 yen exchange rate is based on the cross rate notified by the Korea Financial Telecommunications and Clearings Institute.

Portfolio Shifts Among Financial Institutions and Financial Products Enlarge

Market funds in the year showed an increase in portfolio shifts among financial institutions and among financial commodities affected by the movement of stock prices and the effects of the Daewoo Group's restructuring. Deposit-taking by investment trust companies shifted to a decrease, and that by banks' trust accounts in the form of money-in-trust and by merchant-banks both remained sluggish. Meanwhile, the flow of funds into banks' deposits and the stock market showed a brisk pace, boosted in the migration of funds withdrawn from non-bank financial institutions. As worries over possible financial market instability mounted, a tendency toward the short-term operation of funds emerged with a clear preference for products with short maturities.

As a result of these vast portfolio shifts, the divergence between the money aggregates widened. The growth rate of M3 gradually decreased, whereas both that of MCT+(MCT plus cover bills plus RPs plus financial debentures) and that of M2 showed an upward trend. The growth rate of M3(period-average basis) decreased from April onwards and stood at 8.3 per cent in December. This was attributable to the downturn in deposit-taking by investment trust companies and the change of the corporate fund raising pattern toward equity financing, mostly by rights issues, when fund-raising was required as part of efforts to reduce debt-to-equity ratios amid the reduced corporate demand for funds. Large enterprises, which had set aside a large pool of liquidity in the face of uncertainty the previous year, retired corporate bonds and CP using the surplus funds derived from their surrender of investment trust companies' beneficiary certificates. This also served as a factor in lowering M3 growth. It was in consequence of these movements, that the growth rates of M2 and MCT+ showed an increasing trend due to the inflow of funds withdrawn from investment trust companies into bank deposits. So, the growth rate of M2 increased from the 21.5 per cent of the previous year to 28.5 per cent, and that growth rate of MCT+ rose even more sharply from 0.3 per cent to 11.8 per cent over the same period.

Meanwhile, bank loans expanded steadily centering on small and medium enterprises, as bank made efforts to widen lending and lower interest rates in response to the inflow of funds that had fled the investment trust companies. Corporate fund raising became much smoother because of the sustained briskness of stock market activity, the almost complete easing of the credit crunch owing to the expansion of bank lending and the improvement of corporate cash flow thanks to higher sales. Reflecting this situation, the bill default rate fell and the number of the corporate insolvencies decreased sharply.

Major Economic Policies During the Year

Monetary Policy Conducts in a Flexible Manner

The Bank of Korea conducted monetary policy with the focus on not only supporting the smoothness of structural adjustment and the recovery of the real economy, but also stabilizing the financial market in so far as this did not conflict with achieving price stability.

The Bank had fixed the inflation target for the year at 3±1 per cent, in terms of the annual rate of increase of CPI and set the target range for the annual rate of M3 at 13 to 14 per cent. In practice, monetary policy was conducted through adjustment of financial institutions' liquidity in order to maintain the overnight call rate at the target level decided for each month by the Monetary Policy Committee.

The Bank steadily lowered the overnight call rate until April to sustain the recovery of the real sector in circumstances characterized by corporate and financial restructuring. The target level for the Bank's market intervention rate, the overnight call rate, was not lowered any further in May. It was judged that its policy stance of favoring lower market interest rates had taken effect in the domestic economy, and there was concern over possible asset price bubbles involving, for example, stock prices. From June, the Bank maintained the overnight call rate more or less unchanged in view of the adequacy of the additional supply capacity to sustain the rapid economic recovery and the desirability of supporting corporate reform in its financial aspects.

It was decided from August onwards, once Daewoo's restructuring and the large withdrawals of funds from investment trust companies emerged as serious problems, that the call rate should be held at its relatively low existing level of around 4.75 per cent to the end of the year. During these remaining five months, despite the rapid domestic business upswing, the situation did not warrant urgent apprehensions about price rises or the current account position. Rather the Bank was confronted with the task of reducing the financial market instability, generated by investment trust companies' liquidity problems.

In tandem with this, the Bank revised the aggregate credit ceiling and foreign trade financing systems so as to provide effective support for the fund-raising by SMEs and exporters, who faced a credit crunch in the course of the structural adjustment. It also prepared comprehensive plans to ensure adequate liquidity in the financial system as a whole to minimize any market disruptions in anticipation of possible Year 2000 Problems. Thanks largely to the thoroughness of advance preparation and the efforts of financial institutions, the transition passed off without any untoward problems.

Heightened Efforts Made to Adjust Interplay of Foreign Exchange Demand and Supply

In the conduct of foreign exchange policy, there was a widening of the foreign exchange liberalization already carried out and strengthened efforts were made to adjust the interplay of foreign exchange demand and supply to prevent overly wide swings in the exchange value of the Korean won within a short period.

From April 1, the government carried out the first stage of its planned foreign exchange liberalization, simplifying the regulation of external payments and deregulating most foreign exchange transactions related with the external business activity of businesses and financial institutions. Meanwhile, it unveiled on May 1 a plan for adjusting the foreign exchange demand and supply conjuncture in order to stabilize the foreign exchange market. An issue of Foreign Exchange Stabilization Fund Bonds was announced on July 7, and a scheme for facilitating outward foreign investment funds on December 7. The government and the Bank of Korea applied both foreign exchange intervention and sterilization policies as appropriate, to shield the financial and real sectors from the impact of abrupt exchange rate swings in the domestic foreign exchange market.

Financial Restructuring Sustains

Financial restructuring to rehabilitate the financial system had been carried forward incessantly since the previous year. Chungbuk Bank and Kangwon Bank were merged into Chohung Bank. Korea First Bank was sold to a U.S. finance consortium led by Newbridge Capital, and quite a number of merchant banks, mutual savings and finance companies and credit unions exited the market. Public funds of about 30 trillion won were injected for payment of deposit insurance claims and support of viable financial institutions. In consequence, public funds disbursed for financial restructuring since the outbreak of the currency crisis in November 1997 reached a total of 94 trillion won as of the end of the year under review.

The government improved the financial system in order to make good the shortcomings that had become apparent in its operation and induce a more responsible pattern of financial behavior. For the promotion of financial restructuring, it permitted merged financial institutions to carry on for the time being the range of business that they had done prior to merger and raised the ceiling limits on the purchase of non-performing assets by the Korea Asset Management Corporation. It also prepared the legal basis for financial holding companies. And banks, merchant banks, and securities and insurance companies of above a certain scale were obliged to appoint outside directors to form more than half the membership of their boards of directors and also to set up audit committees led by outside directors. In order to enhance the transparency of the prudential regulation of financial institutions, requirements that had been the subject of secondary legislation were now clearly spelled out in the main body of the pertinent legislation. To strengthen investor protection and the market discipline, it was made much easier for small shareholders to exercise their rights.

Policy Tasks and Monetary Policy Stance in the Future

In the year 2000, the Korean economy is expected to continue its upward trend due to robust growth of both domestic demand and exports. Price stability and the balance of payments position, though, are seen to pose considerable problems. Prices are likely to show rather steeper upward movements, owing to factors making for the rising costs such as wage hikes and the strength of prices for international raw material including crude oil, to which must be added the progressive build-up of demand pressure following the rapid economic upswing. In view of the expansion of domestic demand and steep rise in international oil prices, there is a great likelihood that the current account surplus will narrow considerably.

Apart from these, there are several other destabilizing factors present, which threaten the sustainable growth of the Korean economy. They include the sharp widening of the fiscal deficit in the process of overcoming the economic and financial crisis, the continued large overhang of non-performing assets at financial institutions, and the possibility of market disturbances from surges in capital in-and-out flows. Also, despite the long-continued efforts for restructuring, the degree of fundamental improvement of economic structure still remains inadequate and problems of inequity in income distribution have emerged as a pressing question.

In view of this state-of-affairs, the thrust of future economic policies should be as follows. The overriding priority in the operation of the macroeconomic policy should be placed on the stable management of aggregate demand in order to maintain and consolidate the basis for both the current account surplus and price stability. A preemptive monetary policy should be conducted to prevent inflation and fiscal policy also be directed toward securing economic stabilization and the reduction of the fiscal deficit through the more restrictive operation of the public finances.

Together with this drive for macroeconomic stabilization, in order to strengthen the basis for long term growth, structural reforms in the specific areas of the public, financial and corporate sectors, and labor market should be unremittingly pursued in future. To create new momentum for growth, effort should be exerted not simply to ensure the effective working of the market mechanism but also to shift the economic structure to a knowledge-based economy. Besides, the various plans should be drawn up to improve income distribution and increase the income of people in the low and middle income brackets.

In the year 2000, the Bank of Korea will conduct monetary policy with the focus on strengthening the foundation of price stability, which is needed for the sustainable growth of the economy.

In this context, the Bank of Korea set the inflation target for the year 2000 at 2.5 ±1 percent, based on the annual rate of increase in the Consumer Price Index. Non-cereal agricultural products and petroleum fractions, whose movements are likely to exert a large but temporary impact on prices, are stripped out from the CPI in order to set and conduct monetary policy according to the basic underlying price trends. In addition, the Bank of Korea set a mid-term inflation target to maintain the consistency of monetary policy and lower anticipations of inflation. From the year 2001 onwards, the Bank of Korea will seek to achieve an inflation target of 2.5 percent on an annual average basis.

This year the Bank of Korea will supply money stably to avoid the emergence of inflationary pressure over the medium and long term. For this purpose, the target range for annual M3 growth has been set at 7 to 10 percent, based on the annual inflation target and the forecasted economic growth rate. Together with this, greater attention will be paid to narrower monetary aggregates such as M1 and M2 to obtain more accurate information on portfolio shifts and overall liquidity conditions in the financial market, in consideration of the tendency toward a shortening of the capital operation period.

The Bank of Korea will act preemptively in its interest rate policy, should inflationary pressure be likely to emerge, taking into due consideration developments in real economic activities and the movements of asset prices. This will help ensure price stability and, in turn, stabilize long term market rates. As a result, the gap between short-and long-term interest rates is expected to narrow.

Meanwhile, the Bank of Korea will introduce a liquidity adjustment loan system whose objectives will be to meet the temporary liquidity needs of individual banks and to improve the central bank's signalling of its interest rate intentions. A further lending facility will be launched in the form of a daylight overdraft, which will be a real-time, service to clear unsettled balances. This forms part of the Bank's efforts to facilitate intraday payment and settlement among financial institutions. In addition, the Bank of Korea is to introduce a system whereby a firm purchasing goods from a subcontractor or other supplier may borrow the funds needed for settlement from a financial institution and pay them to the supplier. The intention of this initiative is to reduce the issue and circulation of postdated promissory notes in the economy and to encourage prompt settlement.

II. Monetary Policy

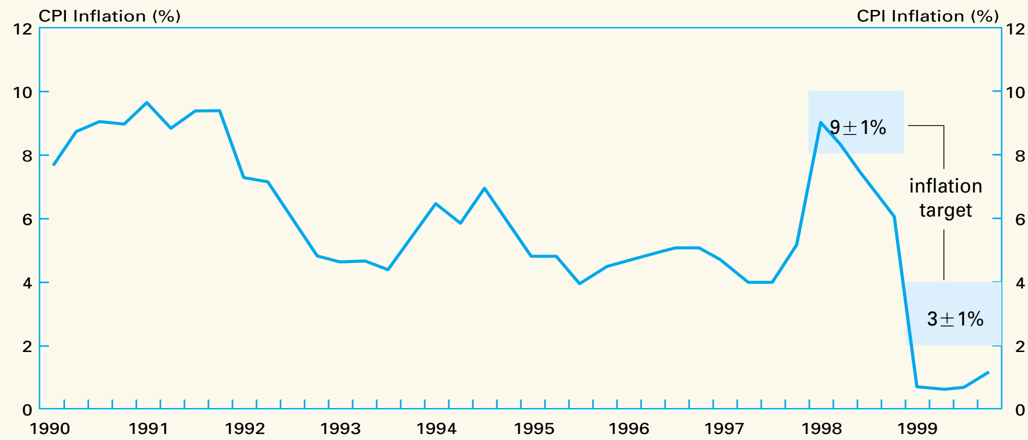
1. Inflation Target

At the beginning of 1999, the Bank of Korea(BOK) forecast that consumer price inflation would rise by 3 percentage points on a yearly average basis, below the previous year's actual rate of 7.5 per cent. The rationale behind the forecast was as follows. Firstly, it was expected that the Korean economy would in 1999 pull out of its deep recession of the preceding year, thanks to the easing of economic uncertainties aroused by the 1997 currency crisis on the completion of the first stage of key financial and corporate restructuring initiatives. As the economic recovery was foreseen to be quite moderate, however, it was judged that inflationary pressures on the demand side would not be substantial. In addition, the stability of cost factors, such as exchange rate, interest rates, wages and international raw material prices, was seen to counteract the upward pressures both of unstable movements of some agricultural products prices brought about by poor harvests in 1998 and of increased charges for some public utilities, due to the accumulated rise in their costs.

Taking into account this economic forecast, the Bank of Korea set the inflation target for 1999 at three per cent with a tolerance of one percentage point either way, based on the annual average increase in consumer prices, upon the decision of the Monetary Policy Committee(MPC) following consultation with the Ministry of Finance and Economy. This means that the mid-point of the inflation target was three per cent and a range of one percentage point above or below the mid-point was tolerated, considering that inflation could fluctuate more widely than anticipated as it came to react more sensitively to external economic circumstances, such as exchange rate movements, and that there still existed uncertainties about the transmission channels of monetary policy and the time lags of its transmission effects. Additionally the Bank added to the inflation target for 1999 a provisory clause that the benchmark indicator should exclude changes in the inflation rate caused either by force majeure, such as price fluctuations of agricultural products attributable to natural disasters, or by price adjustments due to the revision of tax legislation. The proviso was designed so that the monetary policy stance would not be swayed by a sudden rise or fall in inflation due to transitory one-off shocks.

Consumer prices, in fact, rose by 0.8 per cent compared to the previous year and

[Chart 7] **Inflation Target and CPI Inflation**



remained well below the lower bound of the inflation target over the course of 1999. That they did so in spite of the faster-than-expected pace of economic recovery and the Bank's flexible operation of monetary policy to stabilize the financial markets and support the trouble-free restructuring and revival of the real sector, is ascribable to a significant change in price structures following the currency crisis. Firstly, all economic agents have shown heightened sensitivity to exchange rate fluctuations, and consequently the anti-inflation effects of the won's appreciation have shown themselves to be much greater than had been anticipated. Secondly, price competition between retailers became intense and innovations in distribution proliferated rapidly in the fight to secure customers in the unprecedently severe business downturn after the currency crisis, resulting in the easing of downward price rigidities and the lowering of consumer price inflation.

2. Interest Rates

The Bank of Korea decides on the direction of interest rate policy every month, taking into consideration the financial and foreign exchange market environments, domestic prices, and economic conditions. During the first half of 1999, the financial and foreign exchange markets attained a fair degree of stability. This meant that the question of whether the domestic economy would accelerate its upward pace had a significant influence on its decision-making. In contrast, financial markets experienced increased uncertainties during the second half of the year,

[Table 1] **Monthly Interest Rate Policy Directions**

	Policy Directions
Jan.	The overnight call market rate will be maintained at a mildly downwardly adjusted level
Feb.	The basis for downward stability of the overnight call market rate will be maintained
Mar.	The overnight call market rate will be maintained to bolster the stability of short and long-term market rates
Apr.	The overnight call market rate will be operated flexibly for the downward stability of market rates and a steady decrease in lending rates
May~Dec.	The overnight call market rate will be maintained at around its current level

and their re-stabilization became a primary consideration for policy-makers.

During the first four months of the year, industrial production expanded and domestic demand accelerated its upward pace. Their trends were in an environment characterized by price stability and a current account surplus. The Monetary Policy Committee of the Bank of Korea, however, decided that the basis for downward stability of the overnight call market rate would be maintained, being uncertain whether the improvement in real economic indicators heralded a full-blown economic revival. In addition to this, the MPC pointed out that close attention should be paid to the concentration of funds at the short end of the yield curve as a result of portfolio shifts into bond-type beneficiary certificates offered by investment trust companies.

At its policy-setting meeting in May, the MPC amended the policy of bringing down interest rates which it had maintained since the second quarter of 1998. This was mainly due to its judgement that the long-standing policy of orchestrating the lowering of interest rates had proved effective in reviving domestic economy, and it also reflected the fact that both long-term and short-term market rates were continuing to show a downward trend. Share prices, on the other hand, had been exhibiting a sharp increase over a short period, raising apprehensions over an asset price bubble. Putting all these factors together, the MPC decided that the overnight call market rate would be maintained at around its current level without any further reductions. This caused market participants to judge that there had been a significant change in the monetary policy stance. As a result, long-term interest rates rose while stock prices turned downward.

It had been decided that the overnight call market rate would be maintained at current level, the principal consideration in the formation of the monetary policy was the possibility of internal or external disequilibrium arising with adverse effects on inflation and current account position. During the first quarter, the manufacturing capacity utilization and employment indicators showed no sign of overheating though the domestic economy continued its rapid expansion, with the growth rate of GDP running at higher than anticipated levels. Moreover, as prices were holding steady and the current account was well in surplus, it was not necessary to change interest rates. In the light of these considerations, the MPC reached a consensus that the call market rate should be maintained unchanged during July as well as in June. The MPC, however, added close watch needed to be kept on the concentration of funds at short end of the yield curve and on inflation-related indicators such as wages, and stock and real estate prices to guard against the materialization of inflationary pressure.

The difficulties of the troubled Daewoo Group and investment trust companies' overhang of potential beneficiary certificates redemptions led to a renewed focus on financial market stability in the framing of interest rate policy from August onwards. The real economy had meanwhile accelerated its upward trend, with GDP growth running at around the 10 per cent level during the second quarter, although the favorable conjunction of the price stability and the current account surplus was sustained. In contrast, the financial markets continued to show uneasiness over the question of the troubled investment trust companies. The markets continued to show deep unrest until the date(Nov. 11) when the investment trust companies increased the ratio of their payouts on the surrender of beneficiary certificates with exposure to Daewoo Group bonds.

The MPC regarded it as the most important to stabilize the financial markets, judging that if the financial market unrest persisted over a long period it would inevitably spill over to affect the real economy. Soothing financial market anxieties took on even greater urgency in view of the potential for Y2K-related problems around the end of December. Accepting this argument, the MPC decided that the overnight call market rate would be maintained at relatively low level of 4.75 per cent until at least the end of December.

3. Money Supply

During the year under review, money was supplied with priority being placed on the stabilization of financial markets.

The Bank of Korea supplied funds flexibly to stabilize the call market rate, while absorbing the excess liquidity supplied through the foreign channel thanks to the balance of payments surplus. From the aspect of demand, this can be interpreted as suppling funds to meet the demand for reserves in order to stabilize the call market rate. Currency in circulation rose following the economic upswing and the size of banks' required reserves increased thanks to their more active deposit-taking. As a result, reserve money expanded greatly, with the growth rate of the reserve money 23.7% on a daily average basis in the last month of the year.

While maintaining flexibility in money supply to ensure financial market stability, the BOK had in the preceding year absorbed 1 trillion won of the funds provided since the end of 1997 to stabilize the financial markets and to support the structural adjustment of the financial sector. It then proceeded to siphon off 12.5 trillion won in the year under review through the sale on the open market of bonds issued by the Deposit Insurance Fund and the collection of funds extended to support financial market stabilization. Consequently, as at the end of the year under review, remained a total of 7 trillion won of such funds outstanding. These had been supplied in the form of special loans to Korea First Bank, the purchase of bonds issued by the Non-performing Assets Resolution Fund and the increase in its aggregate credit ceiling loans. The BOK had also called in part of its foreign currency deposits with domestic banks. It had collected 23.6 billion U.S. dollars during 1998 and followed this by

[Table 2] Outstanding Balance of Reserve Money and Scale of Market Liquidity Adjustment
(end of period)

Unit : billion won

	1998	1999			
	Dec.	Mar.	Jun.	Sep.	Dec.
Reserve Money(A)[1]	20,703 (-6.6)	22,412 (7.2)	21,434 (13.3)	24,839 (22.3)	28,487 (23.7)
Size of market liquidity adjustment(B)	49,173	43,107	50,704	53,669	56,989
(Issuance of MSBs)	45,673	48,706	51,964	50,739	51,489
(Sales of gov. & pub. bonds under RPs)	3,500	-5,599	-1,266	2,930	5,500
B/A(times)	2.4	1.9	2.4	2.2	2.0

Note : 1) Figures in parentheses represent percentage change compared with the same period of the previous year(on the basis of daily average figures).

[Table 3] Support for Financial Market Stabilization and Financial Sector Structural Reform

Unit : billion won

	1997 Sep.~Dec.	1998	1999	Total
Special loans to Korea First Bank	1,000[1]	–[2]	–[2]	1,000
Special loans to Merchant Banking Corporations	1,000[3]	-1,000	–	0
Purchase of Non-performing Assets Resolution Fund bonds	2,000[4]	–	–	2,000
Purchase of Deposit Insurance Fund bonds	–	6,270[5]	-6,270[5]	0
Support for financial market stabilization	6,004[6]	243	-6,247	0
Increase of aggregate credit ceiling	1,000[6]	3,000	–	4,000
Total	11,004	8,513	-12,517	7,000

Notes : 1) Sep. 1997
2) Rolled over for another year on Sep. 8, in 1998 and again in 1999
3) Oct. 1997 4) Nov. 1997
5) Out of 6.5 trillion won originally provided through absorbing bonds issued by the Deposit Insurance Fund, 230 billion won was collected in the course of 1998 and a total of 6.27 trillion won in 1999 through the sale on seven occasions.
6) Dec. 1997

collecting 10.2 billion dollars during 1999. This was done to ease the structural rigidity of reserve money supply. In response to this reduction in deposits, foreign currency deposits with domestic banks stood at 17.5 billion U.S. dollars as at the end of the year under review.

The BOK siphoned off most of the money supplied through the foreign channel in the process of building up the foreign exchange reserves by the issue of MSBs and the sale of government and public bonds under repurchase agreements(RPs). Consequently, the total outstanding balance of MSBs and sales of government and public bonds under RPs reached 57 trillion won at the end of December, having increased by 7.8 trillion won during the year.

In announcing the direction of the monetary and credit policy at the beginning of the year, the BOK set a target for the growth rate of M3 at the range of 13~14 per cent on a daily average basis and signalled its intention of conducting its policy to meet this. The growth rate of M3 marked time at around the 13 per cent level until May when it began to decrease. It declined to the 8 per cent level by December, as the issue of corporate bonds and CP contracted in response to reduced deposit-taking by investment trust companies and firms' effort to reduce their debt ratios, after the depth of the Daewoo Group's problems had emerged. For the year as a whole, M3 growth remained at 11.3 per cent, below its originally targeted rate. M1 and M2, however,

[Table 4] Management of Monetary Policy under the IMF Program

(end of period)

	1998		1999							
			I		II		III		IV	
	ceiling	perfor-mance	ceiling	perfor-mance	ceiling	perfor-mance	ceiling	perfor-mance	ceiling	perfor-mance
NIR [lower bound] (billion dollars)	23.7	31.2	31.8	39.2	40.3	48.4	55.2	58.5	62.4	67.0
NDA [upper bound] (billion won)	-5,170	-19,857	-17,341	-28,548	-25,787	-36,646	-42,540	-45,361	-47,917	-51,913

accelerated their upward pace, bolstered by the smooth supply of funds to small and medium enterprises which relied heavily on bank loans. Most large corporations showed only weak demand for funds, and preferred fund-raising when needed through paid-in rights offerings instead of external borrowings. Thanks to the combination of these factors, firms had comparatively little difficulty in fund-raising during the period under review.

In consultation with the IMF, the BOK had decided in the wake of the 1997 currency crises, to set up and observe ceilings on the supply of reserve money as an indicative limit with Net International Reserves(NIR) and Net Domestic Assets (NDA) as the performance criteria. As agreement had been reached the previous year on the abolition of the ceiling on the supply of reserve money in the fourth quarter meeting with the IMF, only the criteria for NIR and NDA for the year had been presented and they were duly satisfied.

4. Credit Policy

(1) Improvement of the Operation of the Aggregate Credit Ceiling System

The Bank of Korea implemented various measures to induce an expansion of lending to small and medium enterprises(SMEs) so that they would not face financial distress in the corporate and financial sector restructuring process.

The method of operation of the aggregate credit ceiling system was modified in order to encourage banks to boost their lending to SMEs.

Firstly, from February, the Bank introduced an incentive system, under which, after evaluating individual banks' performance in lending to SMEs, additional quotas deducted from banks whose performance has been poor are allocated to those with a good record.

Secondly, from April, when the Bank calculated the aggregate credit ceiling for

[Table 5] **Trends of Aggregate Credit Ceiling and Interest Rate**

Unit : billion won

	Feb. 24, 1997	Dec.12	Jan. 1, 1998	Sep. 1	Dec. 31, 1999
Maximum set by MPC	3,600	4,600	5,600	7,600	7,600
Allocation of Ceiling(A+B)	3,275	4,541	4,670	6,248	7,600
to individual banks(A)	2,600	3,284	3,415	4,494	5,446
to local branches of the BOK(B)	675	1,257	1,254	1,754	2,154
Interest rate	5%	5%	5%	3%	3%

individual banks, it gave a 30 per cent more weight to lending to technology-intensive SMEs than that to general SME. For example, when a bank lends 10 billion won to a technology-intensive SME, the amount is calculated as 13 billion won for aggregate credit ceiling purposes.

Thirdly, in June, the performance on credit-based lending was added to the evaluation standard for the performance of individual banks in lending to SMEs. This move encouraged the provision of credit-based lending.

On August 2, the Bank allocated an extra 200 billion won in the aggregate credit ceiling funds to its regional branches. By this move, it sought to ease regionally-based SMEs' financial crunch caused by local banks' mergers to nation-wide commercial banks and the restructuring of providers of small-scale credits, such as mutual savings & finance companies and credit unions.

In order to ease the cash flow problems of subcontractors of the Daewoo Group, the Bank allocated the aggregate ceiling credit preferentially to banks, which discounted commercial bills issued by members of the Daewoo Group involved in debt work-outs. Eight regional branches of the Bank of Korea also gave regionally-based Daewoo subcontractors priority in their refinancing and allocated preferential ceiling quotas to banks which supported the flow of general management funds to these corporations.

(2) Revision of Foreign Trade Financing System

In order to support export firms with foreign trade financing smoothly and accomodate the transformation of the export and financing environment, including foreign exchange liberalization and the diversification of export patterns, the Bank, on May 1, reorganized foreign trade financing system from all sides. It extended the range of companies eligible for foreign trade financing and simplified the procedure.

The Bank allowed exporters to denomi-

[Table 6] **Trends of Foreign Trade Financing**

(outstanding basis)

Unit : billion won

	Dec.1998	Mar. 1999	Jun. 1999	Sep. 1999	Dec. 1999
Foreign Trade Financing	3,396	3,961	4,659	5,472	5,390

nate domestic L/Cs not just in won but also in foreign currencies or mixture of both. Methods of settlement could be on a usance as well as at sight basis. Export firms could open a domestic L/C in their preferred currency and stipulate the payment method according to their judgement concerning interest rate spreads, foreign exchange forecasting, and foreign currency availability.

Regarding the range of companies eligible for foreign trade financing, the Bank widened eligibility for overall-purpose funds, which form an exception to the general segmentation of export loans according to use, from only those companies whose export performance during the previous twelve months did not exceed 20 million dollars to those whose export performance during the previous twelve months did not exceed 50 million dollars.

Financing was also made available to so-called 'venture enterprises', without production facilities, many of which are start-ups, so that they could consign the production of products they had planned and developed and then exported them. These venture enterprises became eligible for financing along with the SMEs, entering into contracts with them.

The Bank abolished the ratio of required raw materials and foreign exchange earnings from the assesment standard for the financing ceiling. This was because not only the burden had been imposed on both exporters and financial institutions due to the complexity of assesment procedures but also, after the assesment of foreign trade financing ceiling having been liberalized in May 1998, the necessity for its observance was reduced.

(3) Preparations for the Year 2000 Problem

The Bank drew up special contingency plans to manage the potential liquidity risks posed by the Y2K Problem.

It established a Special Liquidity Facility Program under which credit could be extended to financial institutions which faced liquidity shortages. Credit under the Special Liquidity Facility Program was planned to be available from November 1, 1999 to April 29, 2000, at a spread of 0.5 percentage point over the average call rate. Borrowing financial institutions were required to post appropriate collateral as provided for in Article 4 of the Regulation of Loans to Financial Institutions.

Domestic banks were allowed to raise the share of vault cash to meet 50 per cent of their reserve requirements between November 1999 and March 2000 as against the normal 35 per cent.

Thanks in part to such preparations and cooperation within financial sector throughout the preceding two years, there were no Y2K-related incidents.

5. Monetary Policy Instruments

The Bank of Korea not only took various measures to enhance transparency necessary for the building credibility but also placed great emphasis on improving the operational environment of monetary policy.

Under the provisions of the revised Bank of Korea Act, the Bank launched various efforts in order to improve the transparency of policy. Before the end of each year, the Bank announces its direction of monetary and credit policy including the inflation target for the following year within 15 days of the date of consultation on them with the government and after a resolution by the Monetary Policy Committee.

The directions of monetary policy for the month are announced immediately after the vote on them by the Monetary Policy Committee at each monthly policy meeting. The Governor of the Bank of Korea gives a briefing about the background for the policy decision. The minutes of the MPC meetings are also periodically disclosed after three months.

With the heightened transparency of monetary policy, the market participants' sensitivity to policy has been increasing. This will help establish the transmission channels for monetary policy and also raise its effectiveness.

The Bank refined its open market operations in order to control liquidity more efficiently. On August 26, the investment trust management companies, which were expected to face liquidity shortages caused by increased calls for redemption of beneficiary certificates of investment trust companies, were admitted as the Bank's counterparts in its open market operation.

On September 19, the Bank increased the ratio of an eligible collateral of government bonds and Monetary Stabilization Bonds, from 70 percentage of their face value to 85 percentage when it enters into reverse RP transactions with financial institutions.

The Bank advanced the efficiency of its post management of monetary policy

[Table 7] Survey on Bank Lending Practices of Financial Institutions

Date	Financial Institutions	Respondents and Method	Survey items
Jan. 1999	Total : 56 · Domestic Banks(21) · Korean branches of foreign banks(7) · Merchant banking corporations (10) · Mutual savings & finance companies(18) *As of Dec. 1999	· Respondents: Managers of loan departments in banks · Method: - interview every quarter (domestic banks) - mail(other financial institutions)	· Willingness to make loans (Lending practices and conditions) · Loan demand · Credit risk and lending spread · Status of surplus funds and handling plans,etc.

through the development of new instruments to gauge the management performance of financial institutions.

Beginning in the January of the year under review, the Bank has undertaken a survey on bank lending practices designed to enable it to understand individual financial institutions' loan lending practices and corporate demand for borrowings.

In April, the Bank developed management analysis tools in order to investigate individual banks' actual management conditions and identify troubled banks at an early stage.

In July, the Bank asked the Financial Supervisory Service to carry out an examination to check not only financial institutions' compliance with regulations and procedures related to monetary policy but also the accuracy of their reports, submitted to the Bank of Korea. The examination findings have been reflected in the conduct of monetary policy.

III. Foreign Exchange Policy and Finacial System Management of the Government

1. Foreign Exchange Policy

(1) Adjustment of the Demand-Supply Conjuncture in the Foreign Exchange(FX) Market

On May 1, the government announced measures to stabilize the FX market in response to the imbalance between demand and supply resulting from the sustained current account surplus and expanded inflows of foreign direct and portfolio investment.

As one element in this initiative, the Korea Asset Management Corporation (KAMCO) purchased the foreign exchange in the FX market in order to assume and dispose prior to maturity of the non-performing foreign-currency assets of financial institutions. And the foreign currency proceeds from the overseas issue of Korea Telecom's depository receipts(DRs) were either bought by the BOK or operated abroad.

Also the government induced domestic firms to amortize the external debts of their overseas subsidiaries by issuing won-denominated bonds in Korea, and persuaded state-owned banks and business corporations to buy the foreign exchange needed for their overseas payments in the domestic FX market instead of borrowing from abroad.

On July 7, the government decided on the issue of additional Foreign Exchange Stabilization Fund Bonds(FESFBs) up to a ceiling of 5 trillion won and obtained approval for the issue from the National Assembly on August 12. During the year, a total of 2.85 trillion won of FESFBs were newly issued. In addition, the government announced measures to induce overseas portfolio investment by residents on December 7, under which individuals would be exempt from tax on capital gains from investment in foreign securities through overseas investment funds established after January 1, 2000.

(2) Invigorating the FX Market

On January 1, the government switched the method of calculating the FX position from the existing gross aggregation position to a shorthand position as recommended by the Basle Committee of the Bank for International Settlements (BIS). It also adjusted the ceiling on the FX position upwards from 15 per cent to 20 per cent of equity capital as of the end of the previous month.

Starting April 1, all financial institutions that met appropriate prerequisite conditions were allowed to conduct FX business on registering with the Minister of Finance and Economy rather than getting his detailed approval. However, there are differences as to which FX business each financial institution can conduct : FX banks are able to conduct all FX business, whereas merchant banks may conduct all FX business except the acceptance of deposits from non-financial institutions, the issue of letters of credit for imports, and the settlement of payments between residents and non-residents. In the case of other financial institutions such as securities firms and investment trust companies, only FX business directly related to their day-to-day operations is allowed.

The real demand principle was also abolished on April 1 for financial derivatives transactions and such transactions were, in principle, liberalized when made through institutions handling FX business. The government, however, required credit-based financial derivative transactions to be declared to the Governor of the Bank of Korea(BOK) and abnormal transactions priced at a 20 per cent or higher premium to face value to obtain his approval.

On April 23, the Korea Futures Exchange(KFE) was inaugurated and commenced dealing in four forward and option products, handling initially U.S. dollar forwards, interest rate forwards, gold forwards, and U.S. dollar option forwards. Later, on September 29, it also began handling government bond forwards contracts.

A multi-FX brokerage system began on February 1 as Korea Fund Brokerage Ltd.(KFBL) launched FX brokerage, which had previously been undertaken solely by the Korea Financial Telecommunications and Clearings Institute(KFTC).

(3) Strengthening the Surveillance of the FX Transactions

In preparation for the implementation of the first stage of FX liberalization on April 1, the government had constructed a FX transaction monitoring system linking the Bank of Korea(BOK), the Financial Supervisory Service(FSS), and the Korea Center for International Finance(KCIF). By establishing a comprehensive monitoring system, it sought to monitor short-term capital movements closely and keep watch for any signs of FX market instability.

The Bank of Korea, as the FX information concentration institution, takes charge of the management of the FX information network through which it monitors the FX market. The FSS primarily checks the soundness of financial institutions' foreign-currency assets and liabilities. The KCIF collects information on both domestic and international financial markets, and provides analysis and policy recommendations to the government. It also operates an early warning system to pick up an impending FX crisis.

In order to heighten the efficiency of the prudential regulation of financial institutions' foreign-currency assets and liabilities, the supervisory functions of MOFE and BOK were transferred to FSS, making it solely responsible for supervising institutions handling FX business. However, the BOK will supervise FX brokerage institutions such as KFBL and KFTC, and the FX positions of financial institutions since these are closely linked to its monetary and foreign exchange policies. In addition, it will continue to handle the registration and supervision of money changers.

On April 1, the FSS formulated and brought into effect regulations regarding the supervision of FX business institutions. FX business institutions were categorized into banks, merchant banks, and other FX business institutions according to the scope of their FX business and they were made subject to differentiated standards of supervision. Banks and merchant banks are to be supervised according to present criteria on management of their exchange rate risk, liquidity risk, the medium and long-term resources for their foreign-currency loans, and offshore transactions. The FSS allowed self-regulation in the case of other FX institutions in conformity with banks and merchant banks with an exception of liquidity guideline ratio, which will be the same as that indicated for merchant banks.

(4) Liberalization of FX Transactions Further Widened

A. Restrictions on Current Account Transactions Eased

With the first stage of FX liberalization on April 1, the government simplified the system for authorization of external payments from four levels to two levels. Previously, the four levels of authorization had been approval by the Minister of Finance and Economy, approval by the Governor of BOK, declaration to heads of FX banks, and exception to approval and declaration. These were grouped into two simple classes, approval by the Governor of BOK and exception to approval. In addition, all external payments were liberalized in principle except for payments by individuals such as travel expenses and certain payments that might give rise to flows of grey funds.

Procedures to be followed where residents or non-residents wished to carry foreign currency of over 10 thousand dollars into Korea were simplified from registering the money with a FX bank or the customs service at the port of entry to simple confirmation from the president of a FX bank or declaration to the customs service on entry. A traveler's card system was launched on October 29. The cards can be purchased from FX banks and used for the payment of travel expenses abroad within the prepaid amount.

B. Liberalization of Capital Account Transactions Widened

The government expanded the number of business sectors open to foreign direct investment(FDI) four times throughout the year in order to increase inflows of FDI. By the end of 1999, out of a total of 1148 business sectors, the number of those still subject to restriction was reduced to 21, of which 7 remained closed and 14 had been partially opened. This brought sectoral liberalization ratio for FDI up to 99.4 per cent.

On April 1, the government liberalized residents' investment in foreign-currency-denominated trust funds and non-residents' investment in domestic financial products, including Korean-won-denominated time deposits and money-in-trust accounts with a maturity of at least one year. Futhermore, the ceiling on institutional investors' investment in foreign over-the-counter securities was abolished and restrictions were greatly eased on the issue of foreign-currency-denominated securities in both domestic and foreign markets and of Korean-won-denominated securities overseas.

In regard to local financing by an overseas subsidiary, the procedure necessitating declaration of the funds to the presi-

[Table 8] FDI Liberalization during 1999

Date	Industry	Content
Jan.1	· 8 industries including Publishing of books and other publication · Growing of cereal grains · Gambling	- Complete liberalization - Liberalization except for rice and barley - Liberalization only for casinos
Feb.26	· Manufacture of biological products · Wire broadcasting	- Complete liberalization - Increase in foreign investment ratio (15% → 30%)
May 1	· Gambling	- Complete liberalization
Jul.1	· Wire(wireless) telegraph and telephone · Other telecommunications	- Increase in foreign investment ratio (33% → 49%)

dent of a FX bank and his acceptance of it was replaced by a simple declaration, and restrictions placed on the usage were removed. Also where foreign-currency-denominated securities of no more than 30 million dollars were issued in order to raise local financing, report of it is needed to be filed not with a Minister of Finance and Economy as previously but with the president of a FX bank.

In addition, the government further liberalized overseas real estate investment by business corporations. For investments of over 10 million dollars in real estate for business purposes, the filing of a report with the Governor of the BOK was substituted for the obtaining of his approval.

With the revision of the FX Transactions Act on October 29, non-residents' acquisition of Korean-won-denominated securities of domestic firms listed on foreign stock markets was exempted from reporting requirements, thus making the direct listing of domestic securities on foreign stock exchanges possible. The ceiling on the acquisition of overseas securities by venture capital firms that specialize in investment in start-ups by small and

[Table 9] **Changes in Procedures Regarding Issue of Securities**

(As of Apr. 1 1999)

	Before	After
1. By residents		
Foreign currency denominated securities overseas	· Maturity of 1 year or more : report to the Minister of F&E · Maturity of less than 1 year : approval from the Minister of F&E	· Report to the head of a designated trading FX bank[1]
Foreign currency denominated securities in Korea	· Approval from the Minister of F&E	· Approval not required
Korean-won denominated securities overseas	· Approval from the Minister of F&E	· Maturity of 1 year or more : report to the Minister of F&E · Maturity of less than 1 year : approval from the Minister of F&E
2. By non-residents		
Korean-won denominated securities overseas	· Approval from the Minister of F&E	· Maturity of 1 year or more : declaration to the Minister of F&E · Maturity of less than 1 year : approval from the Minister of F&E
Korean-won denominated securities in Korea	· Filing of report to and its acceptance by the Minister of F&E	
Foreign currency denominated securities in Korea	· Approval from the Minister of F&E	· Report to the Minister of F&E

Note: 1) For the issue of securities with maturity of less than 1 year by firms whose financial structure is weak, approval from the Minister of Finance and Economy is needed.

medium enterprises was also raised.

2. Financial System Management

(1) Restructuring of Financial Institutions

The government maintained its policy of closing down financial institutions no longer viable owing generally to their accumulation of non-performing loans(NPLs), while inducing an early normalization of those still viable through injection of public funds under the condition of their intensive self-rescue efforts.

A. Resolution of Non-Viable Financial Institutions

After 149 non-viable financial institutions had been closed down in 1998, 186 financial institutions were additionally closed down through exit or merger in 1999. Starting with the banking sector, Chungbuk Bank and Kangwon Bank merged with Chohung Bank. Also, the government sold 50.99% of its shares in Korea First Bank, whose equity it had acquired in full, to an American company,

[Table 10] Changes in the Number of Financial Institutions during 1998~99

	Number of institutions at the end of 1997[1]	1998			1999			Number of institutions at the end of 1999[1]
		Exit[2]	Merger[3]	Newly established	Exit[2]	Merger[3]	Newly established	
Banks	33[4]	5	3	-	-	2	-	23
Merchant banking corporations	30	16	-	-	1	3	-	10
Securities companies	36	6	-	1	-	-	1	32
Investment trust companies	31	7	-	-	-	1	-	23
Insurance companies	45	4	1	-	-	-	-	40
Mutual savings and finance companies	231	22	2	4	21	10	6	186
Credit unions	1,666	69	14	9	103	45	-	1,444
Total	2,072	129	20	14	125	61	7	1,758

Notes: 1) Excluding bridge financial institutions and branches of foreign institutions.
2) Including revocation of licence, bankruptcy and liquidation.
3) The number of financial institutions that ceased to exist following a merger.
4) Commercial banks(26), specialized banks(7)

KFB Newbridge Holdings Ltd., in December 1999.

As for merchant banking corporations, the government revoked the licence of Daehan Investment Banking in 1999, while Hyundai Merchant Bank was merged with Kangwon Bank, Korea International Merchant Bank with Korea Exchange Bank, and LG Merchant Bank with LG Securities. As a result, the number of merchant banking corporations had dwindled to ten as of the end of 1999, compared to thirty at the end of 1997. Thirty-one mutual savings and finance companies and 148 credit unions either exited the market or merged with other institutions in 1999.

B. Support for Financial Institutions from Public Funds

A total of 29.7 trillion won of public funds was injected into financial institutions in 1999, bringing the accumulated total to around 94 trillion won since November 1997.

Categorizing the sources, the Korea Deposit Insurance Corporation(KDIC) provided a total of 23.8 trillion won. Of this amount, 13.7 trillion won was used for recapitalizing financial institutions, and 4.1 trillion won for compensating for the losses sustained by the financial institutions that had acquired troubled financial institutions at government request. In addition, 3.7 trillion won was used to purchase those assets of Korea First Bank rejected by Newbridge Capital, and those returned under a put-back options by the banks that had acquired troubled banks in 1998. A total of 2.3 trillion won was made available for the repayment of deposits at financial institutions that had exited the market.

Meanwhile, the Korea Asset Management Corporation(KAMCO) provided a total of 2.9 trillion won for purchasing the NPLs of financial institutions.

The government devoted a total of 2.4 trillion won from fiscal resources. Of this amount, 1.8 trillion won was used for recapitalizing Korea Development Bank, Export-Import Bank of Korea, Industrial Bank of Korea, Korea Investment Trust Company, and Daehan Investment Trust Company. Furthermore, it devoted 550 billion won to the purchase of subordinated debentures issued by banks to raise their BIS capital adequacy ratios.

The Bank of Korea similarly injected 700 billion won into the Export-Import Bank of Korea to improve its international credit standing and facilitate its trade financing activities through enlarging its equity capital.

[Table 11] **Public Funds Injected**

(November 1997 ~ December 1999)

Unit : billion won

Source	Support Type	November 1997 ~ December 1998	January 1999 ~ December 1999	Total
KDIC	Recapitalization	6,338	13,693	20,031
	Compensation of losses	6,932	4,075	11,008
	Purchase of assets	-	3,724	3,724
	Repayment of deposits	14,563	2,262	16,825
	Subtotal	27,834	23,754	51,588
KAMCO	Purchase of NPLs	19,907	2,869	22,776
Fiscal Resources	Recapitalization	10,507	1,800	12,307
	Purchase of subordinated debentures	5,821	550	6,371
	Subtotal	16,328	2,350	18,678
Bank of Korea	Recapitalization	-	700	700
	Total	64,069	29,674	93,743

Source : The Ministry of Finance and Economy, KDIC and KAMCO

(2) Revision of Legislation and Regulations

The revision of legislation and regulations related to the financial sector during 1999 fell generally into four main areas, namely, facilitating financial sector restructuring, improving governance, realigning the prudential regulation system, and lowering entry barriers.

C. Facilitation of Financial Sector Restructuring

Seeking to facilitate financial sector restructuring, the government revised the Act Concerning Structural Improvement of the Financial Industry(effective from January 21, 2000). Financial institutions in the course of merger, under the revised Act, could engage in their pre-merger operations for a certain period upon approval of the Financial Supervisory Commission(FSC). Also, the government and the KDIC were allowed to support troubled financial institutions through purchase of their securities in addition to recapitalization support, which had been the only option.

Following revision of the Act Concerning Efficient Disposal of Financial Institutions' Non-Performing Assets and Establishment of the Korea Asset Management Corporation(effective from April 30, and December 31, 1999), KAMCO's capital was increased from 200 billion won to 1 trillion won. And the revision expanded KAMCO's business scope to include the management of securitized assets entrusted by special purpose companies(SPCs), the acquisition of the shares resulting from debt-for-equity-swaps on loans bought by the corporation, the provision of payment guarantees for companies in which KAMCO took a stake or for those pursuing restructuring or improvement of their financial structure. Management, outright sale, and brokerage of assets for companies pursuing restructuring or improvement of their financial structure were also included in KAMCO's business scope. And, previously, the scope of the non-performing loans that KAMCO could acquire had been restricted to "loans whose redemption was not possible due to bankruptcy or such like and required special measures for recovery or administration." To this, the following was added, under the revised legislation : "loans which have been recognized by KAMCO's Management Supervisory Committee as posing a considerable risk of non-redemption or giving rise to concern over such a risk in view of the debtor's management, financial status or expected cash flow."

The government also revised the Depositor Protection Act(effective from January 21, 2000), under which the KDIC was given the right to request those financial institutions which were unsound or highly likely to become so and were given financial support by KDIC to claim damages against their staff members. Moreover, where unsound financial institutions did not comply with such request, the KDIC was given the right to pursue its claims directly against members of staff responsible for a financial institution's unsoundness.

In addition, to facilitate the competitiveness of cooperatives, a new Agricultural Cooperatives Act was passed to replace the former Agricultural Cooperatives Act, Livestock Cooperatives Act, and Ginseng Cooperatives Act. As a result, the three federations serving the agricultural sector, namely, the National Agricultural Cooperative Federation (NACF), the National Livestock Cooperative Federation(NLCF) and Ginseng Cooperative Federation, are to be integrated as of July 1, 2000 when it comes into effect.

D. Improvement of Governance

Seeking to help improve the structure of the ownership of financial institutions, the government revised the Monopoly Regulation and Fair Trade Act to enable the establishment of financial holding companies(effective from April 1, 1999). Under the new Act, if an enterprise intends to establish or convert itself into a financial holding company, it is obliged to file a report with the Fair Trade Commission. Meanwhile, to preserve the segregation of the industrial and financial sectors, the Act stipulates that a financial holding company shall not own the shares of domestic corporations other than those engaging in financial or insurance business(or those closely related to financial or insurance business). Likewise, no holding company other than a financial holding company is allowed to own shares of domestic corporations engaging in financial or insurance business. In addition, a financial holding company's liabilities may not exceed its net assets, and it is obliged to hold more than fifty percent of the total stock issued by any of its subsidiaries(or more than thirty percent in the case of the subsidiaries listed on the Korea Stock Exchange). Subsidiaries of a holding company may not themselves own subsidiaries.

Next, in order to strengthen the corporate governance structure of financial institutions, a number of related acts were revised; the General Banking Act(effective from January 21, 2000), the Merchant Banking Corporation Act(effective from January 28, 2000), the Securities and Exchange Act(effective from January 21, 2000), the Securities Investment Trust Business Act(effective from January 21, 2000), and the Insurance Business Act(effective from January 21, 2000). Under the amended General Banking Act, banks are required to change the title of their non-executive directors to "outside directors" and establish an audit committee two-thirds of whose members should be outside directors. At least half of the membership of the boards of securities companies and insurance companies exceeding a certain size, and of merchant banking corporations should be made up of outside directors and audit committees should be established. Similar requirements were applied for investment trust companies above a certain size with the additional stipulation that at least three outside directors be appointed to their boards.

E. Realignment of the System of Prudential Regulation

The system of prudential regulation of financial institutions was realigned to heighten its transparency by setting out regulations prescribed under delegated authority directly in the relevant laws or enforcement decrees.

First, the government amended the General Banking Act(effective from April 22, 2000), so that management guidelines previously specified in the FSC's regulation would be set out under the Act's Enforcement Decree. Also, the revised Act requires banks to establish internal control standards, as the basis for members of staff's conduct of their business, to comply with the law and regulations and to protect investors. And the banks should appoint at least one compliance officer, who should assume the responsibility of investigating and reporting incidences of violation of these internal control standards to the audit committee.

The revised Merchant Banking Corporation Act(effective from April 29, 2000) also requires merchant banking corporations to set up similar internal control standards and institute a system of compliance officers.

Under the revised Securities and Exchange Act(effective from April 1, 2000), a capital adequacy ratio was introduced as a standard for assessing the financial soundness of securities companies, with securities companies obliged to keep their ratios above the standard stipulated in the Enforcement Decree. And as with the legislative requirements imposed on commercial banks and merchant banking corporations, securities companies have to set up internal control standards and appoint compliance officers.

Under the revised Securities Investment Trust Business Act(effective from April 1, 2000), investment trust companies should establish internal control standards and institute a system of compliance officers.

The Insurance Business Act(effective from April 22, 2000) was amended, so that the management guidance standards formerly set by the FSC will be stipulated under the Enforcement Decree, while insurance companies will also be obliged to set up internal control standards and appoint compliance officers.

Meanwhile, the FSC's regulations for individual areas of the financial business were revised several times during the year under review. For banks, the following additional stipulations were added to the conditions for complying with a management improvement order of the FSC: if a bank's BIS capital adequacy ratio falls below 2%, and if it is considered by the FSC that its normal business operation is not possible because it fails to carry out a management rehabilitation plan or faces difficulty in carrying out the plan. Secondly, for any bank considered likely to face a deterioration in its prudential management ratios or to have weak points in management after evaluation of its management status, the Governor of the Financial Supervisory Service(FSS) should require it to submit a rehabilitation plan or committment letter to the FSS, or order it to enter into a management improvement contract with the FSS.

Drawing upon the Core Principles for Effective Banking Supervision set out by the BIS, guidelines for banks' comprehensive risk management were also prepared. These call on banks to equip themselves with comprehensive systems that can precisely recognize, measure, and control risks arising from various types of transactions, and manage each type of risk. In addition, a bank should establish an executive organ responsible for risk management that operates independently from other parts of its business organization.

Also, asset soundness standards were made more comprehensive by incorporating not just the previous performance of borrowers in servicing and redemption but also their future repayment capacity.

In the case of merchant banking corporations whose management conditions are expected to worsen, the Governor of the FSS should request them to submit a rehabilitation plan or to enter into a management improvement contract. In addition, merchant banking corporations are now obliged to set up a risk management organization bringing together the board of directors, the risk management committee, and senior staff with responsibility for risk management. The criterion for evaluating a merchant banking corporation as unsound on the basis of its assets and liabilities was re-defined as one having a ratio of capital to risk-weighted assets of below 4%(as against the previous 2%).

The Prompt Corrective Action system for securities companies was strengthened by adding the condition that action should be triggered when the supervisory authority deemed that a securities company fell short of meeting the minimum standards for soundness owing to a large-scale financial loss or an accumulation of non-performing assets. If the securities company did not carry out its rehabilitation plan or the authority did not approve the plan, the authority could move on to the next stage of corrective action. In addition, the risk-weighted balance of beneficiary certificates sold by securities companies should be included in their calculation of net operating asset ratios to prevent excessive exposure to the consequent liquidity or market risk.

The Prompt Corrective Action system for insurance companies was also strengthened. A negative opinion on its management evaluation was added to the criteria triggering prompt corrective actions. Management improvement recommendations or requirements could be made if the authority deemed that the insurance company fell short of meeting the minimum standards for soundness owing to a large-scale financial loss or an accumulation of non-performing assets. If the insurance company did not carry out its rehabilitation plan or the authority did not approve the plan, the authority could move on to the next stage of corrective action. The payment reserve system for insurance companies was also strengthened to bring it on a par with international standards. For life insurance companies, the payment reserve requirement was changed from “more than zero” to “above the required reserve level.” For non-life insurance companies, the requirement for long-term insurance with a maturity of more than one year was raised from 1% to 4%.

F. Lowering of Entry Barriers

Entry barriers to the financial sector were lowered through revision of the relevant legislation.

First, under the revised Government Organization Act(effective from May 24, 1999) the right to authorize the establishment and business of financial institutions was transferred from the Minister of Finance and Economy to the FSC, which proceeded to establish appropriate guidelines. The main features of these guidelines were as follows.

Previously, securities companies had not been permitted to own subsidiaries which themselves engaged in securities business, but they were now allowed to hold securities companies specializing in brokerage business as subsidiaries. The establishment of investment trust companies was open to foreign financial institutions(including holding companies) engaging in investment trust business as well as to banks, securities companies, insurance companies, and individuals.

Also the top five chaebol which had formerly been able to enter the life insurance business either by taking over or merging two unsound life insurance companies or by establishing a new company and taking over or merging it with one unsound life insurance company, were limited to accessing the business using the former method. And, under the previous regulation, no major shareholder of a financial institution determined as unsound during the preceding five years was allowed to engage in new financial activity or to expand the business scope of the existing financial institution. However, a provision was added for an exception in the case of a major shareholder who assumed a share of the financial responsibility equivalent to half the shortfall in net assets multiplied by the ratio of his or its shares.

Under the revised Enforcement Decree of the Securities and Exchange Act(effective from May 27, 1999), the minimum equity capital for establishing a securities company specializing in brokerage business was reduced from 10 billion won to 3 billion won.

Under the revised Enforcement Decree of the Securities Investment Trust Business Act(effective from May 12, 1999), the minimum equity capital for establishing an investment trust company was reduced from 30 billion won to 10 billion won. The revised Decree also laid down stipulations as to the minimum in-country capital and management staff for a foreign investment trust company establishing a domestic branch of 3 billion won and at least 5 persons.

Insurance companies engaging in a full range of insurance business should have an equity capital or fund amounting to at least 30 billion won. Following the revision of the Insurance Business Act(effective from April 22, 2000), however, a company engaging only in certain sectors of the insurance business requires a minimum of 10 billion won in the form of equity capital or fund with the scale and range of its insurance business determining the excess required up to the full range.

G. Other Steps Taken

The government sought to protect investors, strengthen market discipline, and facilitate management autonomy in financial institutions through revision of relevant legislation including the General Banking Act(effective from January 21, 2000), the Trust Business Act(effective from April 22, 2000), the Merchant Banking Corporation Act(effective from April 29, 2000), the Securities and Exchange Act(effective from January 21, 2000), and the Insurance Business Act (effective from April 22, 2000).

The rights of minor shareholders in banks, merchant banking corporations, securities companies, and insurance companies were greatly improved in comparison to those stipulated in the Commercial Code. Specifically, anyone holding more than 0.005% of the total amount of shares issued by those financial institutions was given the right to take legal proceedings, while those holding more than 0.25% of the total shares were given the right to request dismissal of directors. Meanwhile, those holding more than 0.5% were given the right to make proposals to a general meeting of shareholders and to inspect account books. Those whose holdings exceed 1.5% of the total may request extraordinary general meetings and to inspect business of the financial institutions.

In order to curb attempts to evade prudential regulations by *chaebol*-owned financial subsidiaries, those merchant banking corporations and insurance companies owned by *chaebol* were prohibited from taking part in collusive actions with financial institutions or companies owned by other *chaebol* and engaging in cross funding activities such as credit extension and stock purchase.

The amendment of a bank's articles of incorporation or a proposed reduction of its capital, which formerly needed approval of the FSC, now requires only the filing of notification. For trust companies, the amendment of their articles of incorporation or change in the type of business conducted, formerly subject to notification to the FSC, now requires only the filing of an *ex post facto* report.

IV. Operation and Organization

1. Banking

(1) Loans and Deposits

During the year, loans and discounts extended by the Bank of Korea to financial institutions fell by 5,259.9 billion won, bringing them to 9,043.7 billion won as of the end of the year.

Broken down by type of loan or discount, those classified as aggregate ceiling credits increased by 1,235.5 billion won, reflecting the heightened demand for funding. But outstanding loans for stabilization of the financial market amounting to 6,247.0 billion won, which had been extended to financial institutions experiencing liquidity problems since December 1997 due to heavy deposit withdrawals and the call market crunch, were collected in full during March owing to improvement of the beneficiaries' liquidity conditions.

In addition, general loans decreased by 165.0 billion won, largely reflecting their continuing collection, further new lending having been suspended in March 1994. Loans for refinancing private loans taken out by fishing and farming households were also collected in full, and loans for export industries and basic materials & parts manufacturing industries for import substitution were collected in installments. And the special loan to Korea First Bank, due on September 1999, was extended for one more year, given that the bank had

[Table 12] **Loans and Discounts[1] of the Bank of Korea**

Unit: billion won

	Outstanding		Change during	
	1998	1999	1998	1999
Aggregate ceiling credits	6,361.6	7,597.1	2,095.2	1,235.5
Loans for the stabilization of financial markets	6,247.0	-	308.1	-6,247.0
Special loans	1,000.0	1,000.0	-1,000.0	-
General loans	241.6	76.6	-254.3	-165.0
Loans for the procurement of fertilizer	370.0	370.0	-	-
Other Loans	83.3	-	83.3	-83.3
Total	14,303.5	9,043.7	1,116.7[2]	-5,259.9

Notes: 1) Excludes loans to government.
2) Includes the collection in full of loans for agriculture, fishery and livestock.

still not fully resolved its liquidity problems. Besides this, loans for the procurement of fertilizer maintained the same outstanding balance as at the previous year-end while other outstanding loans totalling 83.3 billion won, including notably those against the collateral of export bills of exchange, were collected in full.

Total deposits with the Bank decreased by 11,028.9 billion won over the course of the year, in contrast to an increase of 15,657.7 billion won the previous year. Total deposits stood at 26,838.9 billion won as of the end of the year. Their decline was largely attributable to the decrease of non-residents' deposits by 13,595.9 billion won resulting from the redemption of emergency funds from the IMF. Meanwhile, foreign currency deposits increased by 1,421.6 billion won owing to the increase in deposits with the Foreign Exchange Stabilization Fund.

(2) Issuance of Banknotes and Coins

During the year, a total of 31,766.8 billion won in banknotes and coins was issued and 25,127.5 billion won withdrawn, resulting in an increase of 42% in currency in circulation, which stood at 22,573.4 billion won as of the end of the year.

The expansion largely responded to the sharp increase in private money demand during the run-up to the year-end in preparation for possible Y2K problems. The share of banknotes in currency in cir-

[Table 13] Deposits with the Bank of Korea

Unit: billion won

	Outstanding		Change during	
	1998	1999	1998	1999
Won deposits	27,615.9	15,165.3	8,856.0	-12,450.6
Reserve deposits by deposit money banks	4,379.3	5,934.6	-151.3	1,555.3
Private deposits[1]	476.7	66.7	187.9	-410.0
Deposits by non-residents[2]	22,759.9	9,164.0	8,819.4	-13,595.9
Foreign currency deposits	10,251.9	11,673.5	6,801.7	1,421.6
Reserve deposits by deposit money banks	985.1	227.5	446.6	-757.6
Deposits by Foreign Exchange Stabilization Fund	9,266.8	11,446.0	6,355.1	2,179.2
Total	37,867.8	26,838.9	15,657.7	-11,028.9

Notes: 1) Includes reserve deposits by the Korea Development Bank.
2) Includes won deposits by foreign institutions including the IMF.

[Table 14] Banknotes and Coins Issued by Denomination

Unit: billion won, %

	1998		1999				Change
	Outstanding(A)		Issued	Withdrawn	Outstanding(B)		(B-A)
Banknotes	15,055.3	(94.5)	31,629.1	25,114.1	21,570.3	(95.6)	6,515.0
10,000 won	13,862.6	(87.0)	30,284.4	23,982.6	20,164.3	(89.3)	6,301.7
5,000 won	475.4	(3.0)	561.3	461.4	575.3	(2.5)	99.9
1,000 won or less	717.3	(4.5)	783.4	670.1	830.7	(3.7)	113.4
Coins	878.8	(5.5)	137.7	13.4	1,003.0	(4.4)	124.2
Total	15,934.1	(100.0)	31,766.8	25,127.5	22,573.4	(100.0)	6,639.3

Note: Figures in parentheses are percentage shares in total banknotes and coins in circulation.

culation stood at 96% by value at year-end and that of coins at 4%, representing a moderate increase in that of banknotes. Broken down by denomination, the share of the 10,000 won denomination in total banknotes in circulation rose as compared to that at the previous year-end.

(3) Treasury Transactions

Treasury funds received during the year came to 652.8 trillion won and those disbursed reached 649.6 trillion won, resulting in net receipts of 3,211.4 billion won. This increased the year-end figure of government deposits from the 5,914.9 billion won of the previous year to 9,126.3 billion won.

As for loans to government, during the year, the Bank of Korea loaned 2,870.0 billion won to the General Account and the Special Account for Grain Management, and withdrew 2,930.0 billion won from them. The net total of loans to government thus decreased by 60.0 billion won, bringing the outstanding balance as of the

[Table 15] Loans to Government

Unit: billion won

	1998	1999			Change
	Outstanding(A)	Issued	Withdrawn	Outstanding(B)	(B-A)
General Account	0.0	2,500.0	2,500.0	0.0	-
Special Account for Grain Management	430.0	370.0	430.0	370.0	-60.0
Bounty Fund on Workmen's Property Formation Deposits	419.0	0.0	0.0	419.0	-
Total	849.0	2,870.0	2,930.0	789.0	-60.0

[Table 16] Ceilings on Loans to Government

Unit: billion won

	1998	1999(A)	2000(B)	Change(B-A)
Ceiling on Temporary Loans	3,293.4	6,697.4	3,644.4	-3,053.0
Ceiling on Long-term Loans	300.0	35.0	0.0	-35.0
Total	3,593.4	6,732.4	3,644.4	-3,088.0

end of the year to 789.0 billion won.

The Bank of Korea set the overall ceilings on its loans to government for the year 2000 at 3,644.4 billion won. This represented a decrease of 3,053.0 billion won in Temporary Loans and one of 35.0 billion won in Long-term Loans to the Bounty Fund on Workmen's Property Formation Deposits as compared to the ceilings set for the year under review.

The Treasury agencies of the Bank and its Treasury collection agencies decreased by 412 during the year, lowering their combined total number to 7,734 at the end of the year. This was attributable to the sharp reduction of branch networks as one element in banks' structural adjustment, which involved mergers between financial institutions. By type of agency, Treasury agencies and Treasury collection offices each increased by 4, whereas the number of Treasury collection agencies fell by 420.

(4) Securities Operations

During the year, Monetary Stabilization Bonds(MSBs) to the value of 70,210.6 billion won were issued while MSBs to the value of 64,394.6 billion won were redeemed. As a result, MSBs outstanding totaled 51,489.2 billion won as of the end of the year, an increase of 5,815.9 billion won over the previous year-end. This expansion reflected the need to absorb the excess liquidity generated by support for financial restructuring, the current account surplus and so forth.

[Table 17] Issuance and Redemption of Monetary Stabilization Bonds(MSBs)

Unit: billion won

	1998	1999			Change
	Outstanding(A)	Issued	Redemption	Outstanding(B)	(B-A)
Public offerings	45,673.3	70,210.6	64,394.6	51,489.2	5,815.9
Over-the-counter sale	11,127.0	44,065.9	32,279.0	22,913.9	11,786.9
Competitive bidding	34,546.2	26,144.7	32,115.6	28,575.3	-5,970.9

[Table 18] Issuance and Redemption of Government Bills and Bonds via the Bank of Korea

Unit: billion won

	1998	1999			Change
	Outstanding(A)	Issued	Redemption	Outstanding(B)	(B-A)
Treasury Bonds	18,783.2	18,649.5	3,200.0	34,232.7	15,449.5
Foreign Exchange Stabilization Fund Bonds	3,900.0	3,949.8	1,649.9	6,199.9	2,299.9
Public Land Compensation Bonds	14.3	-	12.6	1.7	-12.6
Total	22,697.5	22,599.3	4,862.5	40,434.3	17,736.8

By method of public offering in its issuance, the Bank of Korea sold MSBs amounting to 26,144.7 billion won by competitive bidding and sold MSBs over the counter to the value of 44,065.9 billion won.

Meanwhile, the value of government bills and bonds issued via the Bank during the year amounted to 22,599.3 billion won, while securities with a value of 4,862.5 billion won were redeemed. This brought the year-end's outstanding balance to 40,434.3 billion won, an increase of 17,736.8 billion won over the figure at the preceding year-end. Among government bills and bonds issued, Treasury Bonds, which were issued to finance the measures dealing with unemployment and economic recession, expanded by 15,449.5 billion won. Foreign Exchange Stabilization Fund Bonds outstanding increased by 2,299.9 billion won as part of efforts to maintain the exchange value of Korean won at a stable level.

Treasury Bonds and Foreign Exchange Stabilization Fund Bonds had long been issued to the Government Bonds Underwriting Group, but they have been issued to primary dealers through a process of competitive bidding since July, when the new system began.

(5) Government Funds Management

During the year, the Government Bond Management Fund raised 21,906.8 billion won through the issuance of bonds, receipt of interest on deposits and so forth. Its placements mainly took the form of deposits, specifically with the General Account(10,398.8 billion won), the National Housing Fund(3,628.4 billion won), the Special Account for Fiscal Loans(700.0 billion won), and other such special accounts. It was also used for the redemption of principal and interest on Treasury Bonds(5,944.2 billion won). The year-end balance of the Fund stood at

35,045.4 billion won, an increase of 15,408.1 billion won over the previous year-end.

The Foreign Exchange Stabilization Fund raised 7,119.1 billion won, consisting of 2,849.9 billion won from the flotation of debentures denominated in Korean won, 556.5 billion won by way of the receipt of interest, and 3,467.8 billion won from its collection of foreign currency deposits placed with other financial institutions. Among the uses of the Fund, 4,255.6 billion won was operated in the form of foreign currency deposits, 778.9 billion won as foreign currency call loans, and 1,603.1 billion won for the redemption of principal and interest on its bonds. It recorded a net loss of 741.2 billion won for the year, largely incurred not only through the negative margin(466.1 billion won) that opened up between the cost of its funds raised through the issued bonds and the interest income earned on their operation, but also through valuation losses(275.1 billion won) on its foreign currency assets as a result of the appreciation of the Korean won during the year under review. The year-end balance of the Fund stood at 11,848.3 billion won, an increase of 1,131.0 billion won over the previous year-end.

The National Investment Fund, new lending by which was suspended from 1992, raised 88.9 billion won, mainly through the redemption at maturity of loans of 85.1 billion won. Concerning its operations, the bulk of the funds raised was devoted to the repayment of deposits, which accounted for 69.3 billion won. Its year-end balance decreased from the 86.4 billion won of the previous year to 28.8 billion won.

The Bounty Fund on Workmen's Property Formation Deposits raised 45.1 billion won during the year, of which 35.0 billion won took the form of a contribution from the Bank and 1.1 billion won consisted of contributions from depositors themselves. As for the Fund's uses, 20.1 billion won was paid in redemption of interest on borrowings from the Bank and 17.6 billion won as legal subsidies to depositors. The Fund suffered a net loss of 20.2 billion won for the period.

The Bounty Fund on Farmers' and Fishermen's Property Formation Deposits raised 121.8 billion won, consisting principally of contributions of 48.9 billion won from the government and of 40.2 billion won from the Bank. The Fund was used mainly in the form of legal subsidies to depositors(94.4 billion won). The Bounty Fund recorded a net profit of 0.8 billion won for the year.

(6) Supervision of Banking Institutions

The bank supervisory activities of the Bank of Korea during the year under review were concentrated on securing the effectiveness of monetary policy and forming a firm foundation for its function as the lender of last resort.

As a major step in meeting these objectives, the Bank of Korea laid down specific standards and procedures concerning requests to financial institutions for the filing of their financial reports or to the Financial Supervisory Service for the examination or joint examination of financial institutions. The Bank formulated a regulation and working rules concerning those requests, thereby defining the range of the financial institutions that should file reports with the Bank, and the details to be requested. It received business reports and financial statements from financial institutions during the period regularly, in line with the regulation and the working rules, analysed banks' business conditions, and utilized its findings as input for the framing of monetary policy. On July 23, under Provision 88 of the Bank of Korea Act, the Bank also requested the Financial Supervisory Service to examine whether financial institutions complied with legislation and guidelines related with monetary policy and whether the financial reports they filed were accurate, and to notify the Bank of the results of its examination.

In addition, the Bank developed models for analysing the status of financial institutions' on-going business operations. Those models consisted of a CLEAR model to evaluate the overall soundness of a bank's operations and a FORSEE model to pick up promptly on symptoms of insolvency.

The Bank also introduced a quarterly survey on the loan behavior of financial institutions, designed to grasp changes in loan standards, money demand, and interest spreads on loans in domestic banks, foreign banks' branches, merchant banks, mutual savings and finance companies, etc.

2. Foreign Exchange and International Finance Business

(1) FX Management Business

On April 1, the Bank of Korea greatly improved and simplified the operational procedures followed in connection with its foreign exchange transactions, through its issue of mandatory guidelines and working rules under the Foreign Exchange Transactions Act which coincided with the entry into force of this Act together with its Presidential Decree and Regulation.

Also on April 1, the Bank of Korea commenced the operation of the Foreign Exchange Information Network in order to analyze promptly and accurately movements of short-term capital and the investment activities of nonresidents in the domestic securities market. This made it possible for the Bank of Korea, as the institution to which FX information is concentrated, to collect promptly the FX transaction information filed by FX banks and to distribute it to the Ministry of Finance and Economy, the Financial Supervisory Service, the Korea Center for International Finance, the National Tax Service, the Customs Service, etc.

From March through June, the Bank of Korea encouraged FX banks to reduce exchange commissions on their purchase of export bills. It did this by lowering, by 2 percentage points, the deposit rates on three BOK funding facilities : those for emergency settlement funds, those for the supply of short-term foreign currency working capital through the repurchase of export bills, and those for the augmentation of liquidity. In October, the BOK introduced and operated, on an interim basis, an Anti-Y2K FX Deposit System to keep a settlement system error by any one financial institution from posing a systemic risk for financial institutions as a whole.

(2) International Finance Business

The official FX reserves as of year-end 1999 amounted to 74.1 billion U.S. dollars, representing an increase of 25.5 billion U.S. dollars over the previous year-end. This expansion of the reserves was caused mainly by the Bank of Korea's withdrawal of its FX deposits with domestic banks in view of the persistent oversupply in the FX market.

By type, foreign exchange, the largest component of the reserves, amounted to 73.7 billion U.S. dollars as of year-end 1999, having risen by 25.3 billion U.S. dollars since the previous year-end. The

[Table 19] Changes in Foreign Exchange Reserves

(Based on Usable FX Reserves)

Unit : U.S. $ million

	Year-end 1998	Year-end 1999	Change
Foreign Exchange Reserves	48,513.3	74,054.5	25,541.2
Gold	66.3	67.1	0.8
SDRs	11.4	0.7	-10.7
Reserve Position in IMF	0.0	286.5	286.5
Foreign Exchange	48,435.5	73,700.2	25,264.7

reserve position in the IMF, which had been drawn down in the previous year to heighten the liquidity of the reserves, stood at 0.3 billion U.S. dollars at year-end, due mainly to a subscription to the IMF for the 11th round quota replenishment.

From the end of August the BOK integrated the two sets of FX reserves statistics on the basis of the concept of the usable FX reserves, i.e. the FX reserves less the BOK's deposits with overseas branches and subsidiaries of Korean banks. This reintegration followed the collection of all such deposits or their conversion into deposits with domestic banks.

During 1999 the BOK made payments in Korean won and convertible currencies equivalent to 1.3 billion U.S. dollars to international financial institutions.

The Bank subscribed 1.16 billion U.S. dollars to the IMF in the 11th quota replenishment. Also it subscribed 46.7 million U.S. dollars to the International Bank for Reconstruction and Development (IBRD) as part of a special increase in its capital stock. It subscribed 82.5 million U.S. dollars to the International Development Association(IDA) as the first and the second installments of a special increase in capital stock. In addition, 3.7 million U.S. dollars was subscribed to the Asian Development Bank(ADB) as the fifth installment of its fourth general increase in capital stock. Moreover, 3 million U.S. dollars was subscribed to the European Bank for Reconstruction and Development (EBRD) as the second installment of the first general increase in capital stock.

The Bank of Korea contributed 0.7 million U.S. dollars to the IMF as the seventh and eighth installments of the ESAF subsidy account, and 14.6 million U.S. dollars as a contribution to the PRGF-HIPC Trust. To the Asian Development Fund(ADF) it contributed 8.9 million U.S. dollars as the third installment of the sixth round replenishment. Furthermore, a contribution of 2 million U.S. dollars was made to the African Development Fund(AfDB) to help set up the Korean Consultancy Trust Fund.

3. Payments System Related Business

In order to improve the stability and efficiency of the payments system, during the year, the Bank of Korea focused on ensuring the solution of the “Year 2000 Problem”(Y2K) in the financial sector; raising the effectiveness of BOK-wire, the Bank of Korea's real time gross settlement system, and the interbank financial network; and introducing reforms to improve customer convenience.

Above all, efforts were devoted to

ensuring a seamless transition for all financial sector information systems to avoid any errors related to the millenium change. The Bank of Korea strongly urged the Korea Financial Telecommunications & Clearings Institute(KFTC) and financial institutions to prepare their own Y2K contingency plans and carry out repeated exercises under simulated conditions. General tests, in which all financial information networks participants took part at the same time, were held three times during 1999. The Bank, together with KFTC and financial institutions, also participated in the Global Payment Systems Test, managed by New York Clearing House Association(NYCHA), in June 1999. Further, the Bank conducted thorough spot checks on the readiness status of individual financial institutions in cooperation with the supervisory authority and encouraged remediation of any defects. December 31 of 1999 and January 3 of 2000 were designated as banking holidays in addition to January 1 and 2 of 2000, which were public holidays. A Joint Communication Center was also organized and operated with financial institutions in order to make effective preparations and share information involving any potential Y2K problems during the transition period.

The Bank of Korea stepped up its drive to reduce settlement risk in connection with BOK-Wire and to heighten convenience for users. From January 15, the hours for funds transfers were extended by 30 minutes to end at 17:00 rather than 16:30. The designated times for morning half-day call-money repayments and settlement of foreign exchange claims were also changed, respectively, from 13:00 to 14:30 and from 16:00 to 16:30. Delivery versus payment(DVP) settlement was introduced to secure the safety and enhance the efficiency of securities settlement system, matching the increasing turnover in the securities trading. DVP allows securities transfers and fund settlement to take place simultaneously through a link-up between BOK-Wire and the computer center of the Korea Securities Depository, thereby helping reduce settlement risk on securities transactions. In the first stage, DVP settlement for over-the-counter bonds transactions began on November 1. In a further move, from October 11, it became possible for financial institutions to demand the payment of currency from the Bank of Korea on-line through BOK-Wire instead of presenting checks at the Bank's window. It was confidently expected that this move would reduce the possibility of currency-related incidents and the time required to draw currency. The system was put in place for banks which dealt with the Bank's head office in 1999 and was scheduled to be extended to those served by its branch offices in 2000.

During the year under review, the value of transactions through BOK-Wire marked on a daily average of 67 trillion won, a leap of 39.8 per cent over the previous year, although in volume terms it represented a decrease of 1.8 percent. The number of BOK-Wire participants declined from 142 as of the end of the preceding year to 131 at the end of 1999 owing to the merger and exit of several financial institutions.

Meanwhile, in regard to the progress of check truncation, which refers to the use of electronic information systems rather than the physical delivery of paper-based documents in order to heighten the efficiency of interbank settlement, standards for cost-sharing among financial institutions were decided and related rules and agreements established. The actual implementation of the system was, however, put off until 2000, one year later than originally planned, because of technical problems. Progress was made toward the electronic money, including the choice of name(K-Cash) and symbol, the design of trial products, and the establishment of a shared network. A pilot project will be run

[Table 20] Settlements Handled by BOK-Wire[1)]

Unit : number, billion won, %

	1998(A)		1999(B)		Change(B-A)	%change
<Volume>						
Domestic Currency Funds Transfers	4,100	(85.8)	4,064	(86.6)	-36	-0.9
Gross settlement	3,051	(63.8)	3,208	(68.3)	157	5.1
Net settlement	1,049	(21.9)	856	(18.2)	-193	-18.4
Treasury Funds	576	(12.0)	578	(12.3)	2	0.3
BOK Loans and Discounts	73	(1.5)	43	(0.9)	-30	-41.1
Government and Public Bonds	32	(0.7)	9	(0.2)	-23	-71.9
Total	4,781	(100.0)	4,694	(100.0)	-87	-1.8
Foreign Currency Funds Transfers	19	(-)	13	(-)	-6	-31.6
<Value>						
Domestic Currency Funds Transfers	44,135	(92.0)	64,754	(96.6)	20,619	46.7
Gross settlement	34,479	(71.9)	51,499	(76.8)	17,020	49.4
Net settlement	9,656	(20.1)	13,255	(19.8)	3,599	37.3
Treasury Funds	652	(1.4)	1,012	(1.5)	360	55.2
BOK Loans and Discounts	814	(1.7)	748	(1.1)	-66	-8.1
Government and Public Bonds	2,353	(4.9)	518	(0.8)	-1,835	-78.0
Total	47,954	(100.0)	67,032	(100.0)	19,078	39.8
Foreign Currency Funds Transfers (million US$)	309	(-)	390	(-)	81	26.2

Note : Daily average. Figures in parenthesis are percentage shares in total.

in a limited area during the first half of 2000.

In connection with the rapid increase of financial institutions' foreign exchange transactions, the Bank sought ways to minimize foreign exchange settlement risk. Its strategy for the construction of a foreign exchange risk management system which is based on the methods adopted by the G-10 countries calls for a survey to be carried out during the year 2000 on domestic financial institutions' foreign exchange settlement risk followed by the announcement of specific guidelines.

4. Financial Status

(1) Assets

Total assets of the Bank, as of the end of the year under review, amounted to 130.3 trillion won, representing a rise of 2.4 trillion won over the previous year-end. This was mainly due to large increase in its securities holdings and fixed assets, which served to more than offset the reduction in due from banks and loans against bills.

Securities holdings during the year rose by 21.3 trillion won, led by those of foreign-currency denominated securities, which increased by 27.4 trillion won, following the build-up of foreign exchange reserves. This move thus compensated for the reduction in holdings of public bonds(6.1 trillion won) caused by the early redemption of Deposit Insurance Fund Bonds (6.3 trillion won).

The Bank's fixed assets grew by 2.2 trillion won, chiefly owing to the expansion of the Bank's capital subscription in the Export-Import Bank of Korea and of its contributions to such international financial institutions as IMF, IBRD, and IDA.

Due from banks, however, decreased by 14.9 trillion won, in a development largely attributable to the collection of its foreign currency deposits with domestic banks.

Loans against bills decreased by 5.3 trillion won. In detail, the Bank's aggregate credit ceiling loans increased by 1.2 trillion won, but this was more than offset by the collection in full of the loans for financial market stabilization(6.2 trillion won) extended in the aftermath of the 1997 currency crisis.

(2) Liabilities and Capital

Total liabilities of the Bank, as of the end of 1999, stood at 123.1 trillion won, representing an increase of 0.6 trillion won over the previous year-end. By type of liability, currency issued, Monetary Stabilization Bonds(MSBs) issued, and government deposits all expanded, but deposits contracted.

Currency issued rose by 6.6 trillion won, influenced by the recovery of economic activities and the expansion of currency demand in preparation for possible Y2K problems. MSBs issued increased by 5.8 trillion won since MSBs were used as the main tool in managing the liquidity arising from the influx of foreign capital. Government deposits expanded by 3.2 trillion won, reflecting the increase of general revenue.

In contrast, the deposit liabilities of the Bank decreased by 11.0 trillion won fol-

[Table 21] Financial Status

Unit : billion won

	1998	1999	Change
Assets	127,865.4	130,255.7	2,390.3
Current assets	125,226.6	125,464.3	237.8
Cash	134.0	305.8	171.8
Gold and silver bullion	74.6	71.7	-2.9
Holdings of SDRs	13.8	0.8	-13.0
Securities	61,616.3	82,926.7	21,310.5
Due from banks	43,989.3	29,062.4	-14,926.9
Loans against bills	14,303.5	9,043.7	-5,259.9
Loans to government	849.0	789.0	-60.0
Loans to international financial institutions	111.3	95.5	-15.9
Other current assets	4,134.8	3,168.7	-966.0
Fixed assets	2,638.8	4,791.4	2,152.6
Liabilities and Capital	127,865.4	130,255.7	2,390.3
Liabilities	122,484.5	123,075.4	591.0
Current liabilities	121,865.5	122,437.5	572.0
Currency issued	15,934.1	22,573.4	6,639.3
Monetary Stabilization Bonds issued	45,673.3	51,489.2	5,815.9
Government deposits	5,914.9	9,126.3	3,211.4
Deposits	37,867.8	26,838.9	-11,028.9
Allocation of SDRs	123.4	113.5	-9.9
Securities sold under repurchase agreements	3,500.0	5,500.0	2,000.0
Other current liabilities	12,852.0	6,796.2	-6,055.8
(Exchange revaluation adjustment)	(11,883.6)	(5,459.1)	(-6,424.5)
Long-term liabilities	619.0	638.0	19.0
Allowances	165.6	140.8	-24.8
Liabilities to international financial institutions	453.4	497.2	43.8
Capital	5,380.9	7,180.3	1,799.4
Legal reserve	457.0	795.1	338.1
Voluntary reserve	1,543.0	3,204.9	1,661.9
Undivided profit surplus	3,380.9	3,180.3	-200.6
(Net profit for the period)	(1,661.9)	(3,180.3)	(1,518.4)

lowing the large drop in temporary deposits resulting from partial repayment of the IMF's Supplemental Reserve Facility(SRF). The exchange revaluation adjustment account declined by 6.4 trillion won during the year due to the effects of the Korean won's appreciation.

The Bank's capital, at the end of the year, amounted to 7.2 trillion won, an increase of 1.8 trillion won during the year. This rise resulted from the registration of a net profit for the period of 3.2 trillion won, which was partially offset by the Bank's payment of 1.3 trillion won of its undivided profit surplus for the previous year into the government's General Revenue Account and contribution of 75.2 billion won from voluntary reserves to two savings promotion funds for workers, for farming and fishing households.

(3) Income and Expenses

For the year under review, the net profit of the Bank increased to 3.2 trillion won, almost twice that of the previous year. Its large expansion was chiefly attributable to the increased income from foreign exchange transactions and the reduction of interest payments on MSBs outstanding and securities sold under repurchase agreements following the decline of interest rates.

Total operating income decreased by 1.3 trillion won to 10.1 trillion won during the year. By item, interest on deposits decreased by 3.6 trillion won compared to the previous year as a result of the contraction of the average deposit balance(50.4 billion U.S. dollars → 31.3 billion U.S. dollars), the decline in the rate of interest received on them, and the appreciation of the Korean won's average exchange value for the year(1,399 → 1,189 won against the U.S. dollar). Interest on loans against bills decreased by 1.0 trillion won. This was because the effect of the collection of loans for financial market stabilization, together with that of the lowering of from 5 percent to 3 percent the annual interest rate on the Bank's aggregate credit ceiling loans which had taken place the previous September, more than offset that of the expansion of the average balance of aggregate credit ceiling loans(5.0 trillion won → 7.4 trillion won). Profit on foreign exchange transactions, however, rose by 2.5 trillion won. Interest received on securities increased by 0.7 trillion won due to the large expansion of foreign securities holdings(average balance 22.4 billion U.S. dollars → 54.3 billion U.S. dollars) even though holdings of public bonds contracted(average balance 14.1 trillion won → 8.3 trillion won).

Meanwhile, total operating expenses stood at 5.7 trillion won, a decline of 3.0 trillion won over the previous year. By item, interest on MSBs decreased by 1.0 trillion won. This reflected the decline of their coupon rate whose effects were only partially offset by the Bank's expanded issuance on a year-average basis(36.2 trillion won → 50.7 trillion won). And interest payments on securities sold under repurchase agreements decreased by 1.2

[Table 22] Income Statement

Unit : billion won

	1998	1999	Change
Operating income	11,408.9	10,113.0	-1,295.9
Interest and discounts received	10,368.2	6,459.6	-3,908.7
Interest on securities	2,992.3	3,657.0	664.8
Interest on deposits	5,817.7	2,218.8	-3,598.9
Discounts on domestic bills	0.4	-	-0.4
Interest on loans against bills	1,345.4	360.5	-984.9
Interest on securities bought under resale agreements	19.0	89.9	70.9
Interest on loans to government	20.2	31.3	11.1
Interest on loans to international financial institutions	4.8	3.6	-1.3
Miscellaneous interest received	168.5	98.6	-69.9
Commissions received	3.5	12.1	8.6
Profit on sales of securities	82.7	219.2	136.5
Profit on foreign exchange transactions	954.4	3,422.1	2,467.7
Other operating income	0.0	0.0	0.0
Operating expenses	8,686.6	5,650.5	-3,036.1
Interest and discounts paid	8,224.0	5,337.7	-2,886.4
Interest on deposits	483.0	590.5	107.5
Interest on Monetary Stabilization Bonds issued	4,841.2	3,799.2	-1,042.0
Interest on securities sold under repurchase agreements	1,475.2	247.1	-1,228.1
Miscellaneous interest paid	1,409.8	700.9	-708.9
Other interest and discounts paid	14.9	-	-14.9
Commissions paid	83.8	37.2	-46.6
Loss on sales of securities	6.1	2.1	-4.1
Loss on foreign exchange transaction	29.8	-	-29.8
Banknote and coin manufacturing expenses	71.6	86.4	14.8
Provision for severance pay	80.9	14.2	-66.7
General and administrative expenses	174.6	156.6	-18.0
Other operating expenses	15.8	16.4	0.7
Net operating income	2,722.3	4,462.5	1,740.2
Net non-operating profit[1]	47.4	13.4	-34.0
Net non-operating expenses[2]	368.1	29.7	-338.5
Net profit before taxes	2,401.6	4,446.2	2,044.6
Taxes	739.7	1,266.0	526.2
Net profit for the period	1,661.9	3,180.3	1,518.4

Notes : 1) Includes extraordinary gains
2) Includes extraordinary losses

trillion won owing to the contraction of their average balance(8.5 trillion won → 5.9 trillion won) and the fall in interest rates. In addition, miscellaneous interest paid decreased by 0.7 trillion won because of repayment of emergency borrowings from IMF. General and administrative expenses and provisions for severance pay decreased by 18.0 billion won and 66.7 billion won, respectively, owing to staff reductions and the Bank's retrenchment efforts. Bank-note and coin manufacturing expenses, however, increased by 14.8 billion won due to a rise in the volume of production.

5. Organizational Changes

On May 17, the Bank of Korea undertook a radical restructuring of its organization and operating methods.

Most significantly, the Bank of Korea changed the Korean title of its departments from 'Pu' to 'Kuk' to facilitate the smooth flow of business with the government and outside institutions. But Auditing Department and Security Department retained their existing designations of 'Sil' in Korean. To heighten the efficiency and flexibility of its operations, the Bank abolished the former division-based system and introduced a system of teams as the functional units within its Headquarters, and the decision-making process was simplified from the previous seven levels at most to just three levels. The division-based system was, however, maintained for front-office business units: namely, Issue Division, Verification & Counting Division, Treasury Service Division, Securities Division, Loans & Settlement Service Division, and Foreign Exchange Review Division.

The Bank also integrated its overall work into five job groupings in accordance with similarity or co-relation among jobs, thereby establishing an expert training system to facilitate the specialization of staff members. These groupings comprise research & statistics, monetary policy, financial services, foreign exchange & international financing, and business administration.

Besides this, the Bank revamped its organization. At the Headquarters, to enhance the compilation and development of economic statistics, it split the statistics sector from Research Department and established Economic Statistics Department. Meanwhile, Personnel Department and Support Services & Properties Department were integrated into General Affairs Department to trim down the administrative function. Titles of divisions within Issue Department were realigned in terms of their functions and business. The previous Issue Division, Cash

Planning Division, Cash & Check Processing Division and Examination & Counting Division were reborn as Issue Policy Team, Cash Planning Team, Cash Processing Division and Verification & Counting Division. Offices previously run by directors were changed into 'offices attached to departments' reporting to an assistant governor. The Bank has eleven offices attached to departments including Legal Office, Public Information Office, Monetary Policy Committee Office, Secretariat, Press Office, Human Resource Development Institute, Support Services & Properties Office, Economic Studies Office, Treasury Service & Securities Office, Reserves Management Office and International Relations Office. In addition, the Bank established three task forces within Budget & Management Department: namely, Year 2000 Project Team to cope with Y2K(Year 2000 transaction problems in computer systems); Fiftieth Anniversary Project Team to prepare for the fiftieth anniversary of the Bank; and Job Evaluation Team to evaluate jobs for the completion of organizational reform.

In the branch network, nine detached offices in charge of issue and withdrawal of banknotes in areas without branches or domestic representative offices were closed on June 30: i.e., Ilsan, P'undang, Ansan, Anyang, Kunsan, Haenam, Yosu, Sangju and Dongrae. But, to avoid inconvenience as a result of their closure, issue divisions were established in seven branches: namely, Pusan, Taegu, Kwangju, Taejon, Inch'on, Suwon and Kangnam.

As for overseas representative offices, Singapore Representative Office was closed on July 31(Paris Representative Office having already been closed on December 31, 1998) in conformity with the decision that the representative offices in Paris, Brussels and Singapore should be closed.

As of the end of the year under review the Bank's organization consisted of eleven departments and two offices at the Headquarters. These were composed of eleven offices attached to departments, eighty-five teams and four divisions in all. It also had sixteen domestic branches, in which there were forty-seven divisions and three domestic representative offices, and six overseas representative offices. Meanwhile, the number of employees of the Bank decreased to 2,126, having fallen by thirty-one over the year.

Members of the Monetary Policy Committee

December 31, 1999

Chol-Hwan Chon	(Governor of the Bank of Korea)
Si-Dam Kim	(Recommended by the Governor of the Bank of Korea)
Yong-Sup Kim	(Recommended by the Minister of Finance and Economy)
Hangmo Muhn	(Recommended by the Chairman of the Financial Supervisory Commission)
Jong-Yong Yoon	(Recommended by the Chairman of Korea Securities Dealers Association)
Seung-Woo Chang	(Recommended by the Chairman of Korea Federation of Banks)
Eui-Gak Hwang	(Recommended by the President of Korea Chamber of Commerce and Industry)

Executives of the Bank of Korea

December 31, 1999

Title	Name
Governor	**Chol-Hwan Chon**
Deputy Governor	**Hoon Shim**
Assistant Governor	**Jae-Joon Park**
Assistant Governor	**Kang-Nam Lee**
Assistant Governor	**Myung-Chul Lee**
Assistant Governor	**Cheul Park**
Assistant Governor	**Kwi-Sup Yoon**
Auditor	**Yung-Joo Kang**

The Organization of the Bank of Korea

(As of the end of 1999)

- **Monetary Policy Committee**
  - **Governor**
    - **Deputy Governor**
      - **Assistant Governor**
        - Budget & Management Department: Planning & Coordination Team, Planning & Budget Team, Organization & Development Team, Accounting System Team, Expense Accounting Team, Job Evaluation Team, Year 2000 Project Team, Fiftieth Anniversary Project Team
          - Legal Office: Legal Planning Team, Legal Application Team
          - Public Information Office: Economic Information Team, Information Service Team
          - Monetary Policy Committee Office: Committee Administration Team, Committee Member Assistance Team
          - Secretariat
          - Press Office
        - General Affairs Department: Personnel Management Team, Payroll & Welfare Team, Labor & Management Cooperation Team
          - Human Resource Development Institute: Training Administration Team, Training Planning Team, Training Management Team, Instruction & Research Team
          - Support Services & Properties Office: Support Services Team, Facilities Administration Team, Properties Administration Team
        - Security Department: Security & Emergency Planning Team, Guard Team
      - **Assistant Governor**
        - Research Department: Administrative Service Team, Economic Forecasting Team, Monetary Analysis Team, Banking & Fiscal Analysis Team, Financial System Team, Inflation Research Team, Economic Activities Team, Industry Analysis Team, Regional Economies Team, International Trade Team, International Finance Team, Overseas Economic Information Team, North Korean Economic Studies Team, Library
          - Economic Studies Office: Monetary Studies Team, Finance Studies Team, International Economics Team, Structural Studies Team, Macroeconomic & Quantitative Studies Team
        - Economic Statistics Department: Statistics Planning & Development Team, Monetary & Financial Statistics Team, Flow of Funds Statistics Team, Balance of Payments Statistics Team, Financial Statement Analysis Team, Price Statistics Team, National Income Statistics Team, Input-Output Statistics Team
      - **Assistant Governor**
        - Monetary Policy Department: Policy Planning & Coordination Team, Reserves & Credit Policy Team, Finance & Economy Analysis Team, Policy Analysis & Assessment Team, Financial Systems Planning & Analysis Team, Policy Cooperation Team, Market Economy Analysis Team
        - Financial Markets Department: Monetary Affairs Team, Market Operations Team, Financial Markets Analysis Team, Money Market Analysis Team, Stock Market Analysis Team, Bond Market Analysis Team, Corporate Finance Analysis Team
        - Banking Institutions Department: Planning & Analysis Team, External Relations Team, Banking Research Team, Analysis Development Team, Bank Analysis Team Ⅰ · Ⅱ · Ⅲ · Ⅳ
      - **Assistant Governor**
        - Issue Department: Issue Policy Team, Cash Planning Team, Cash Processing Division, Verification & Counting Division
        - Payment Systems & Treasury Service Department: Payment Systems Planning Team, Payment Systems Management Team, Electronic Banking Team, Loans & Settlement Service Division
          - Treasury Service & Securities Office: Treasury Service Division, Securities Division
        - Information Systems Management Department: Systems Planning Team, Information Systems Team, Systems Management Team, Server, PC & Network Team, Accounting Systems Operation Team, Accounting Systems Development Team, BOK-Wire Systems Team, Foreign Exchange Information Systems Team
      - **Assistant Governor**
        - International Department: International Finance Planning Team, International Finance Research Team, Foreign Exchange Business Team, Foreign Exchange Review Division, Foreign Exchange Market Team, Foreign Exchange Monitoring Team, Foreign Exchange Analysis Team, External Debt Analysis Team, Foreign Exchange Information Team
          - Reserves Management Office: Reserves Planning & Analysis Team, Reserves Management Team Ⅰ · Ⅱ
          - International Relations Office: Central Bank Cooperation Team, International Organizations Team, International Cooperation Team
      - 16 Branch: Pusan, Taegu, Mokpo, Kwangju, Chonju, Taejon, Chongju, Chunchon, Inchon, Cheju, Suwon, Changwon, Kangnung, Ulsan, Pohang, Kangnam: General Affairs Division, Planning & Research Division, Business Division, Cash Processing Division, Verification & Counting Division, Representative Office
      - 6 Representative Office: New York, Frankfurt, Tokyo, London, Hong Kong, Brussels
  - **Auditor**
    - Audit Department: Audit Planning Team, Audit Team Ⅰ · Ⅱ · Ⅲ · Ⅳ · Ⅴ · Ⅵ

Main Economic Indicators

	Unit	1995	1996	1997	1998	1999	1999.1	1999.2
Money[1]								
Reserve money								
<Period-Averages>	billion won	24,322.7	24,832.1	21,116.0	19,593.0	21,961.7	20,202.4	21,459.2
	%	(13.4)	(2.1)	(-15.0)	(-7.2)	(12.0)	(-8.7)	(4.4)
<End of period>	billion won	29,305.4	25,722.4	22,519.3	20,703.0	28,486.7	20,547.4	21,025.1
	%	(16.3)	(-12.2)	(-12.5)	(-8.1)	(37.6)	(-13.5)	(5.7)
M2								
<Period-Averages>	billion won	136,951.1	159,190.8	189,819.5	225,829.1	288,939.2	259,234.7	267,599.7
	%	(15.5)	(16.2)	(19.2)	(19.0)	(27.9)	(26.3)	(29.9)
<End of period>	billion won	153,945.4	178,311.6	203,531.5	258,538.4	329,317.4	261,807.7	273,130.9
	%	(15.6)	(15.8)	(14.1)	(27.0)	(27.4)	(28.1)	(30.5)
MCT								
<Period-Averages>	billion won	253,448.8	308,356.2	355,570.5	382,413.1	411,681.5	391,438.6	395,797.4
	%	(21.6)	(21.7)	(15.3)	(7.5)	(7.7)	(3.1)	(4.9)
<End of period>	billion won	288,483.7	338,661.8	377,499.4	394,389.7	437,493.2	392,022.2	399,778.8
	%	(23.0)	(17.4)	(11.5)	(4.5)	(10.9)	(3.7)	(5.7)
M3								
<Period-Averages>	billion won	476,281.6	566,793.3	659,019.0	750,850.5	835,924.5	802,474.7	818,084.5
	%	(19.9)	(19.0)	(16.3)	(13.9)	(11.3)	(13.1)	(13.8)
<End of period>	billion won	527,017.0	614,961.5	700,285.4	787,627.3	850,827.8	812,208.5	823,065.8
	%	(19.1)	(16.7)	(13.9)	(12.5)	(8.0)	(13.5)	(13.9)
Interest rates								
Call market rate(overnight)[2]	percent per annum	12.4	12.4	13.3	14.9	4.9	6.2	5.6
Yields on corporate bonds[3]	〃	13.8	11.9	13.4	15.0	8.9	7.9	8.6
General loan[4]	〃	-	11.1	14.6	11.3	8.6	11.1	10.8
Ratio of dishonored checks[5]	%	0.20	0.14	0.40	0.38	0.33	0.12	0.10
G D P[6]	%	8.9	6.8	5.0	-6.7	10.7	-	-
Private Consumption	〃	9.6	7.1	3.5	-11.4	10.3	-	-
Construction Investment	〃	8.0	6.1	2.3	-10.1	-10.3	-	-
Equipment Investment	〃	18.1	9.1	-8.7	-38.8	38.0	-	-
Exports of goods and services	〃	24.6	11.2	21.4	13.2	16.3	-	-
Imports of goods and services	〃	22.4	14.2	3.2	-22.4	28.9	-	-
Agriculture, Forestry & Fishing	〃	6.6	3.3	4.6	-6.6	4.7	-	-
Manufacturing	〃	11.3	6.8	6.6	-7.4	21.8	-	-
Electricity, Gas & Water	〃	7.5	12.0	11.5	0.6	9.1	-	-
Construction	〃	8.8	6.9	1.4	-8.6	-10.1	-	-
Services	〃	9.6	7.8	5.4	-7.2	11.7	-	-

Notes: 1) Figures in parenthesis are rates of increase compared with the same period of the previous year.
2) Two days average, based on intermediated transactions, except from 28 Nov. 1997 call-market trades of investment trust companies.
3) Bonds with three-year maturity, period-average.

1999.3	1999.4	1999.5	1999.6	1999.7	1999.8	1999.9	1999.10	1999.11	1999.12
20,917.8	20,976.0	20,938.5	20,877.4	21,308.0	21,542.1	23,440.9	23,234.0	23,652.6	24,992.0
(7.2)	(10.9)	(12.0)	(13.3)	(15.4)	(16.2)	(22.3)	(12.2)	(19.6)	(23.7)
22,412.4	22,066.9	20,982.5	21,434.0	20,742.9	22,090.0	24,839.4	23,349.8	23,998.2	28,486.7
(1.7)	(18.3)	(16.8)	(3.1)	(4.8)	(21.5)	(12.8)	(15.3)	(21.4)	(37.6)
276,397.0	278,636.9	275,882.7	277,258.3	280,089.3	289,102.8	304,177.2	308,559.0	320,520.4	329,812.2
(33.7)	(34.6)	(30.6)	(27.1)	(24.2)	(25.0)	(26.6)	(24.0)	(26.7)	(28.5)
278,262.0	276,878.9	276,158.6	275,966.4	283,031.1	295,621.3	306,186.7	312,529.0	323,065.8	329,317.4
(36.3)	(33.4)	(27.1)	(26.4)	(23.7)	(25.2)	(24.2)	(24.9)	(26.8)	(27.4)
401,360.2	401,245.8	400,301.0	402,258.8	406,305.1	414,050.9	425,342.6	426,653.3	435,619.8	439,804.7
(6.9)	(6.9)	(6.3)	(5.9)	(6.1)	(7.8)	(10.0)	(9.9)	(11.5)	(12.2)
400,640.6	401,199.5	401,305.4	401,960.3	409,245.4	418,440.8	426,005.4	429.025.9	435,306.1	437,493.2
(7.4)	(7.0)	(5.4)	(6.0)	(6.8)	(8.3)	(10.2)	(10.3)	(11.3)	(10.9)
824,335.7	830,803.6	832,735.2	836,591.1	841,855.8	844,499.1	846,044.8	842,979.0	851,322.6	859,368.3
(14.1)	(13.9)	(13.3)	(12.7)	(11.5)	(10.4)	(9.6)	(8.3)	(8.1)	(8.3)
820,772.1	829,267.7	834,531.7	832,839.5	847,681.2	843,949.9	843,085.4	846,435.7	856,009.5	850,827.8
(13.1)	(12.2)	(12.1)	(12.0)	(11.1)	(9.4)	(9.3)	(8.1)	(8.4)	(8.0)
5.0	4.8	4.8	4.8	4.8	4.7	4.7	4.7	4.7	4.7
8.6	7.6	8.3	8.1	8.6	9.9	10.4	9.1	9.5	9.9
10.3	9.8	9.3	9.1	8.9	8.9	8.8	8.7	8.6	8.6
0.11	0.20	0.10	0.06	0.09	1.12	1.12	0.57	0.39	0.14
5.4	-	-	10.8	-	-	12.8	-	-	13.0
6.7	-	-	10.3	-	-	12.1	-	-	12.1
-13.6	-	-	-8.5	-	-	-9.8	-	-	-10.2
13.0	-	-	37.3	-	-	48.5	-	-	55.1
9.2	-	-	14.6	-	-	20.0	-	-	21.0
27.3	-	-	28.3	-	-	32.3	-	-	28.0
9.3	-	-	4.7	-	-	6.7	-	-	2.7
10.7	-	-	21.5	-	-	27.3	-	-	27.2
4.5	-	-	8.5	-	-	8.5	-	-	15.4
-14.2	-	-	-7.1	-	-	-9.5	-	-	-10.5
7.6	-	-	11.6	-	-	13.0	-	-	14.4

4) Average lending rate of deposit money bank, on new lending, annual figures are based on the end month of the year.
5) Nationwide dishonored value basis, the ratios for 1995 do not reflect electronic-based payment data.
6) Compared with the same period of the previous year, figures for the 3rd, 6th, 9th & 12th months are rates of increase on a quarterly basis.

	Unit	1995	1996	1997	1998	1999	1999.1	1999.2
Price Index[7]								
Consumer price	%	4.5	4.9	4.5	7.5	0.8	1.5	0.2
	〃	(4.7)	(4.9)	(6.6)	(4.0)	(1.4)	(-0.1)	(0.4)
Producer price	〃	4.7	3.2	3.9	12.2	-2.1	-1.8	-4.3
	〃	(3.6)	(3.7)	(9.6)	(3.6)	(0.9)	(-1.1)	(-0.2)
Employment								
Number of the person employed	thousand persons	20,432	20,817	21,106	19,994	20,281	18,967	18,842
Number of the person unemployed	〃	420	426	556	1,461	1,353	1,761	1,781
Unemployment rate	%	2.0	2.0	2.6	6.8	6.3	8.5	8.6
Wages[8]								
All industry	won	1,222,097	1,367,501	1,463,300	1,426,797	1,599,210	1,403,978	1,618,215
	%	(11.2)	(11.9)	(7.0)	(-2.5)	(12.1)	(-8.9)	(20.3)
Manufacturing	won	1,123,895	1,261,168	1,326,241	1,284,477	1,475,500	1,201,591	1,562,333
	%	(9.9)	(12.2)	(5.2)	(-3.1)	(14.9)	(-11.5)	(28.0)
Industry activities indexes								
Production[9]	%	12.0	8.3	4.5	-6.6	25.0	16.9	5.1
Shipment[9]	〃	12.7	8.7	6.2	-8.8	25.6	14.3	7.2
Inventory[9]	〃	12.9	16.6	4.6	-17.2	2.3	-15.8	-17.4
Average capacity utilization ratio	〃	81.0	80.7	79.2	68.0	76.5	69.6	69.2
Balance of payment								
Current account	billion U.S. $	-8.5	-23.0	-8.2	40.6	25.0	1.8	2.1
Goods	〃	-4.4	-15.0	-3.2	41.6	28.7	1.8	2.2
Services	〃	-3.0	-6.2	-3.2	0.6	-1.0	0.0	0.0
Capital account	〃	16.8	23.3	1.3	-3.3	0.6	-0.4	1.1
Foreign trade[10]								
Exports	billion U.S. $	125.1	129.7	136.2	132.3	143.7	9.3	9.3
	%	(30.3)	(3.7)	(5.0)	(-2.8)	(8.6)	(2.9)	(-16.8)
Imports	billion U.S. $	135.1	150.3	144.6	93.3	119.8	8.6	7.6
	%	(32.0)	(11.3)	(-3.8)	(-35.5)	(28.4)	(15.3)	(-3.2)
Foreign exchange holdings[11]	billion U.S. $	29.4	29.4	8.9	48.5	74.1	50.1	52.0
Exchange rate of won[12]	won	775.70	844.90	1,695.00	1,204.00	1,138.00	1,175.00	1,223.00
against U. S. dollar	%	(1.7)	(-8.2)	(-50.2)	(40.8)	(5.8)	(2.5)	(-1.6)

Notes: 7) Compared with the same period of the previous year, figures in parenthesis are rates of increase compared with the previous month, figures in yearly data indicate rates of increase compared with the last month of the previous year.
8) Figures in parenthesis are rates of increase compared with the same period of the previous year.
9) Compared with the same period of the previous year.

1999.3	1999.4	1999.5	1999.6	1999.7	1999.8	1999.9	1999.10	1999.11	1999.12
0.5	0.4	0.8	0.6	0.3	0.9	0.8	1.2	1.4	1.4
(0.2)	(0.3)	(-0.2)	(-0.6)	(-0.3)	(1.0)	(0.3)	(0.8)	(-0.2)	(-0.2)
-4.3	-4.1	-2.6	-3.2	-2.9	-1.6	-1.1	-0.2	0.6	0.9
(-0.2)	(0.3)	(0.4)	(-0.7)	(-0.2)	(0.7)	(0.5)	(1.0)	(0.6)	(-0.3)
19,507	20,089	20,393	20,604	20,558	20,527	21,000	21,155	21,116	20,614
1,703	1,546	1,402	1,356	1,349	1,241	1,069	1,021	971	1,040
8.0	7.1	6.4	6.2	6.2	5.7	4.8	4.6	4.4	4.8
1,511,690	1,473,167	1,410,601	1,712,203	1,572,612	1,522,284	1,821,521	1,513,603	1,442,099	2,176,468
(7.5)	(7.9)	(9.8)	(13.7)	(12.0)	(11.4)	(22.8)	(9.4)	(13.2)	(23.1)
1,335,353	1,379,903	1,293,999	1,574,485	1,408,351	1,449,082	1,661,570	1,444,690	1,296,904	2,083,960
(13.1)	(12.6)	(13.9)	(14.8)	(14.2)	(17.2)	(25.9)	(9.8)	(14.1)	(22.8)
21.0	18.9	24.5	33.3	36.4	32.8	21.0	34.2	29.9	25.3
22.5	20.3	24.7	32.3	34.9	33.0	21.8	35.5	33.0	26.9
-17.9	-18.2	-16.8	-15.6	-14.1	-12.4	-8.3	-4.2	-2.3	2.3
73.7	73.3	75.2	79.4	80.3	79.2	79.4	78.5	80.3	80.6
2.2	1.7	2.3	2.4	2.8	1.7	2.2	2.1	2.2	1.4
2.8	2.6	2.6	2.7	2.7	1.6	2.6	2.6	2.2	2.2
-0.3	-0.2	-0.1	-0.2	0.0	0.1	-0.2	0.0	-0.2	0.0
0.3	0.2	1.1	-1.9	0.2	-1.6	-2.1	-0.7	2.1	2.3
11.7	11.5	11.4	12.8	11.8	11.4	12.0	13.5	14.2	15.0
(-2.9)	(-4.6)	(1.0)	(11.4)	(17.2)	(17.1)	(11.3)	(26.5)	(21.7)	(20.4)
9.3	9.1	9.5	10.2	9.8	9.9	10.1	11.4	11.7	12.6
(12.3)	(10.9)	(24.6)	(31.7)	(37.9)	(38.5)	(39.6)	(48.5)	(40.9)	(45.4)
54.5	56.4	58.7	60.4	64.0	64.8	65.5	66.2	69.7	74.1
1,227.00	1,188.00	1,186.20	1,157.60	1,204.00	1,184.60	1,216.40	1,200.00	1,159.20	1,138.00
(-1.9)	(1.3)	(1.5)	(4.0)	(0.0)	(1.6)	(-1.0)	(0.3)	(3.9)	(5.8)

10) On a custom-clearance basis, figures in parenthesis are rates of increase compared with the same period of the previous year.
11) End of period.
12) Closing rate of the end of the period, figures in parenthesis indicate appreciation(depreciation) rates of the won compared with the end of the previous year.

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