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Current Economic and Financial Movements

Summary

During the second quarter of 1996, the Korean economy continued to be sluggish and, on external transactions, the current account deficit increased significantly. Meanwhile, viewing price movements for the April-July period, producer prices maintained a stable range of movements, but consumer prices persisted in a somewhat steeper upward trend.

The GDP growth rate slowed from 7.9 per cent in the first quarter to 6.7 per cent in the second quarter, mainly due to the slackening of fixed investment and exports, in real terms, despite the steady expansion of private consumption. Thus, the national economy grew by 7.3 per cent over the first half of the year.

Exports, on a customs-clearance basis, showed a low growth rate of 4.4 per cent during the second quarter of the year. This slowdown resulted from a sharp decrease in the prices of main export products such as semi-conductors, and reduced competitiveness as a result of the continued weakening of the Japanese yen. In July, the export growth rate plunged to a negative 3.6 per cent, as sluggish exports of automobiles and machinery which had exhibited relative briskness in the first half of the year, were coupled with unfavorable conditions mentioned. The rate of increase of imports, on a customs-clearance basis, dropped to 6.7 per cent, affected by the economic slowdown during the second quarter of the year. However, in July, it moved back up to 13.6 per cent owing to the persistent growth of imports of raw materials and consumer goods, whose effects were accentuated by a substantial increase in imports of capital goods. Meanwhile, the current account deficit registered 4.8 billion U.S. dollars during the second quarter of this year before swelling to 2.3 billion U.S. dollars for July alone. This deterioration was the combined result of several adverse developments : the widened deficit on the trade balance caused by an abrupt slowdown in exports and the notable deterioration

of the invisible trade balance.

During the January-July period, consumer prices continued their upward trend evident since the beginning of the year, rising by **4.2** per cent over last December, even higher than the **3.4** per cent in the same period of the previous year. In contrast, producer prices showed a relatively stable range of movements, recording a **2.5** per cent increase during the January-July period with an exceptional spurt in July resulting from an educational tax levied on petroleum products and tobacco.

Viewing monetary and financial movements, the growth rate of M_2 , on a period average basis, which had remained stable at **14** per cent during the first quarter, grew rather sharply by **15.2** per cent during the second quarter and accelerated even further to **17.1** per cent in July due to the effect of the revision of the trust account system. Market interest rates shifted to an **upward** trend from May onwards, as a result of shifts between short-term and long-term funds following the reorganization of the trust account system and firms' increasing demand for working capital as the economy slowed. By July, yields on corporate bonds had therefore risen to **11.9** per cent.

Economic Movements

During the second quarter of the year, GDP growth slackened from the **7.9** per cent of the first quarter to **6.7** per cent. This was largely attributable to the slowing of exports as compared with the previous quarter, along with the rapid cooling of fixed investment.

During the second quarter, the growth rate of final consumption expenditure shrank slightly from the **7.2** per cent of the previous quarter to **6.7** per cent. Among its components, private consumption continued its sustained growth, running at **7.1** per cent. Viewing components of expenditure by type, spending on both durables, notably automobiles and air-conditioners, and on overseas travel exhibited a remarkable increase. At the same time, the upward trend was maintained in spending on both semi-durables, such as clothing and cosmetics, and on services, such as communications and eating-out. In contrast, expenditure on non-durables, such as food and beverages moderated. Government consumption grew by **4.0** per cent, as local government spending on materials and personnel increased after the adoption of a local autonomy system.

The growth of fixed investment slowed to 4.2 per cent, which was much lower than the 7.4 per cent of the previous quarter. This was ascribable to the sharp contraction of construction investment coupled with the continued slowdown of equipment investment. For its part, equipment investment recorded an especially low growth rate of 3.4 per cent, reflecting the reduced pace of investment in industry-specific machinery, such as textile-working machinery, along with the sluggishness of that in general industrial machinery, most notably automation-related electronic office equipment. The one bright spot was transportation equipment where investment shifted to a slight upward trend centering on aircraft and motor vehicles.

Meanwhile, construction investment, which had maintained a steady upward trend, slumped from 10.2 per cent in the previous quarter to 4.8 per cent. This reflected the lackluster pace of both residential and non-residential construction investment and occurred despite the continued rise in investment projects involving infrastructure construction, such as roads, ports and airports.

Exports, in real terms, exhibited a growth rate of 14.1 per cent, which was lower than the 21.1 per cent of the previous quarter. This was attributable to sluggish exports of heavy industrial and chemical products, centering on chemical products and metal goods, as well as to the continued lackluster exports of light industrial products, such as footwear and clothing. Together these served to offset the briskness in exports of electric and electronic products and transportation equipment.

[Table 1] Growth Rates by Component of Expenditure¹⁾

	1994	1995 ²⁾				1996 ²⁾			Unit : per cent
		I	II	1st half	Year	I	II	1st half	
G D P	8.6	10.0	9.7	9.8	9.0	7.9	6.7	7.3	
G N P	8.4	9.9	9.2	9.7	8.7	7.5	6.7	7.1	
Final Consumption Expenditure (Private Consumption)	7.0	7.9	7.3	7.6	7.2	7.2	6.7	7.0	
Gross Fixed Capital Formation	11.8	15.5	12.6	13.9	12.4	7.4	4.2	5.7	
Equipment	23.6	25.5	18.0	21.5	15.9	4.3	3.4	3.8	
Construction	4.5	7.6	8.8	8.3	9.9	10.2	4.8	7.2	
Exports of Goods and Services	16.5	25.2	24.9	25.0	24.1	21.1	14.1	17.4	
Imports of Goods and Services	21.7	23.1	25.4	24.3	22.1	15.7	12.4	14.0	

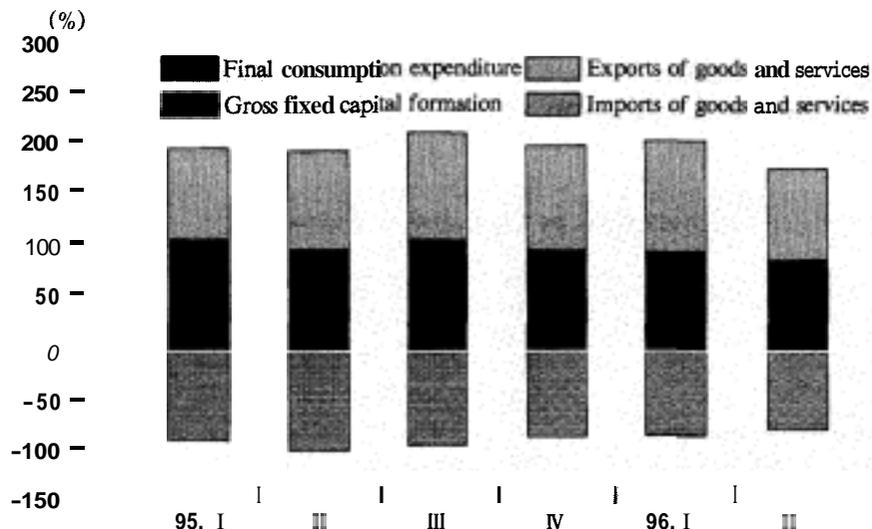
Notes : 1) Rates of change compared with the same period of the previous year.

2) p : preliminary.

Imports, in real terms, maintained a growth rate of **12.4** per cent which was relatively unchanged from the previous quarter. This was a result of the steady upward trend in imports of consumer goods, notably clothes and automobiles, along with the considerable expansion of invisible trade payments, such as those for overseas travel and branch expenditure, the combined effects of which outweighed the contraction in imports of both capital goods and raw materials that reflected the subdued tempo of domestic business activities.

Looking at contribution ratios to GDP growth by components of expenditure, that of exports marked a sharp decline from **108.4** per cent in the first quarter to **89.4** per cent. That of fixed investment fell to **24.4** per cent from **34.6** per cent in the previous quarter, especially in the case of construction investment, where the decline was from **24.9** per cent in the previous quarter to **15.8** per cent. Meanwhile, the contribution ratio of consumption continued its upward trend since the third quarter of the previous year, even edging up slightly from the **60.4** per cent of the previous quarter to **62.8** per cent.

[Chart 1] Contribution Ratios to Growth by Components of Expenditure



Viewing economic growth by sector of economic activity, agriculture, forestry and fishing production showed negative growth, and both manufacturing production and construction slackened, yet, electricity, gas & water and services production both continued buoyant.

Manufacturing production recorded a growth rate of 6.5 per cent, considerably below the 7.8 per cent in the previous quarter, with the falling-off of both domestic and external demand. Within manufacturing, heavy industrial and chemical production achieved a relatively high growth rate of 8.6 per cent. This was fuelled by a considerable expansion in the electric and electronic products and transportation equipment sectors, helped by the favorable evolution of their exports. Their buoyancy served to counteract the sluggishness in the iron and steel and industrial machinery sectors, where both export and domestic demand weakened. Meanwhile, light industry production recorded negative growth at the 0.4 per cent level following its negative figure of 2.0 per cent in the previous quarter, mirroring the continued weakening of international competitiveness in most light industry sectors, such as footwear, textiles, and furs.

The pace of growth in the construction industry declined to 4.8 per cent, half the 9.6 per cent rate of the previous quarter, under the influence of lackluster building construction. By sector, private construction dropped dramatically from the 7.8 per cent of the previous quarter to 2.3 per cent as most building construction, including housing and factory construction, shifted to negative growth, although civil engineering projects associated with social overhead capital continued buoyant. Government construction, which had performed robustly during the previous quarter, also slowed, slipping from the 20.6 percent rate in the pervious quarter to 10.9 per cent. This was mainly due to the decline in subway construction following the completion of some parts of the Seoul subway expansion project.

The electricity, gas and water sector registered a high growth rate of 9.5 per cent which was aided by a steady increase in area heating systems along with the continued expansion of the urban gas pipeline network.

The service sector continued its rapid increase and grew by 8.8 per cent, slightly faster than the 8.6 per cent in the previous quarter. Within this sector, wholesale and retail trade was limited to a 6.1 per cent increase, due to the inactivity of transactions involving domestic industrial and imported goods. However, transportation, storage and communications exhibited a high growth rate of 13.7 per cent due to the steady expansion of communications centering on mobile telecommunication services, by means of cellular phones, and telepagers, and on information communication services. Meanwhile, finance,

insurance, real estate and business services showed a growth rate of 8.6 per cent, higher than the 6.3 per cent in the previous quarter. This was driven by the continued expansion in the interest income of monetary institutions along with the remarkable increase in securities companies' commission income, which benefited from the raising of the limits on foreign stock investment.

In contrast, agriculture, forestry and fishing production shifted to a negative 0.6 per cent as against a 2.0 per cent increase in the previous quarter. This decrease was primarily the result of poor crops of cabbage and onions, two major items in the quarter under review, which more than offset the favorable production of offshore marine cultivation aquaculture.

[Table 21 **Growth Rates by Sector of Economic Activity¹⁾**

	1994	Unit : per cent						
		1995 ²⁾				1996 ²⁾		
		I	II	1st half	Year	I	II	1st half
Agriculture, Forestry & Fishing	1.6	3.8	9.8	7.9	2.8	2.0	-0.6	0.2
Mining & Manufacturing	10.4	12.8	11.2	11.9	10.6	7.6	6.3	6.9
(Manufacturing)	(10.4)	(12.9)	(11.3)	(12.1)	(10.7)	(7.8)	(6.5)	(7.1)
Electricity, Gas & Water	12.6	10.5	9.7	10.1	9.6	11.0	9.5	10.3
Construction	4.7	7.7	9.0	8.4	9.8	9.6	4.8	6.9
Services	10.8	10.6	10.6	10.6	10.0	8.6	8.8	8.7
Government & Private Non-Profit Service	2.5	1.4	1.7	1.6	1.7	3.6	3.7	3.7

Notes : 1) Rates of change compared with the same period of the previous year.

2) p : preliminary.

Employment and Wages

During the second quarter, the increase in the total number of persons in employment stood at 1.7 per cent, slightly lower than the 1.9 per cent of the previous quarter. This was a reflection of the contracted employment opportunities in response to the economic slowdown. However, the economically active population recorded only a 1.7 per cent increase and thus the seasonally-adjusted unemployment rate remained at the low level of 2.0 per cent.

Viewing the pattern of employment by industry, employment in manufacturing fell further following the 1.9 per cent decrease of the previous quarter and contracted by 2.1 per cent (103,000 persons) as employment in light indus-

try declined and that in heavy and chemical industry remained at a similar level to the same period of the previous year. In contrast, employment in construction and in the public and service sector continued their relatively high growth rate of 3.5 per cent (67,000 persons) and 4.6 per cent (180,000 persons), respectively.

[Table 31

Employment Trends”

Unit : thousand persons

	1994	1995				1996		
		I	II	1st half	Year	I	II	1st half
Increase in the economically active population	523 (2.6)	414 (2.1)	414 (2.0)	414 (2.0)	471 (2.3)	346 (1.7)	357 (1.7)	352 (1.7)
Increase in total number of persons in employment	584 (3.0)	527 (2.8)	500 (2.5)	513 (2.6)	540 (2.7)	378 (1.9)	350 (1.7)	364 (1.8)
Manufacturing	43 (0.9)	129 (2.8)	89 (1.9)	109 (2.3)	78 (1.7)	-91 (-1.9)	-103 (-2.1)	-97 (-2.0)
Construction	92 (5.5)	116 (7.0)	125 (7.0)	121 (6.6)	119 (6.7)	56 (3.2)	67 (3.5)	61 (3.3)
Services	179 (5.1)	194 (5.4)	269 (7.3)	231 (6.0)	259 (7.1)	217 (5.7)	180 (4.6)	199 (5.2)
Unemployment rate ²⁾	2.4	2.1	2.0	2.1	2.0	1.9	2.0	2.0

Notes : 1) Figures in parentheses indicate rates of change compared with the same period of the previous year.

2) Seasonally adjusted rates in per cent.

The growth rate of nominal wages in all industries maintained a relatively high level of 10.6 per cent for the April-May period, but this was lower than the 13.7 per cent of the previous quarter. The slight deceleration was largely brought about the reduction of overtime payments as economic activity slowed. By sector, the growth rates of nominal wages in both manufacturing and in the wholesale and retail trade, restaurant and hotel sector continued to show a high upward trend, although somewhat eased in comparison with the preceding quarter. Meanwhile, the growth rate of nominal wages in the construction sector registered 11.7 per cent which was higher than the 8.0 per cent level of the previous quarter. In contrast, the growth rate of nominal wages in the financial intermediation, real estate, renting and business service sector marked a level of just 4.5 per cent as wage negotiations failed to make any substantial overall progress.

[Table 4] Rates of Increase in Nominal Wages by Industry¹⁾

	1994	1995					1996			Unit : per cent
		I	II	III	IV	Year	I	Apr.~May	Jan.~May	
All industries	12.7	11.4	11.6	11.7	10.2	11.2	13.7	10.6	12.5	
(Manufacturing)	15.5	10.4	10.2	10.9	8.3	9.9	15.6	11.0	13.8	
(Construction)	10.0	7.0	8.3	9.1	11.3	9.0	8.0	11.7	9.5	
(Wholesale and retail trade, restaurants and hotels)	9.9	10.1	10.9	9.8	11.5	10.5	13.8	13.1	13.5	
(Financial intermediation, real estate, renting and business activities)	8.6	14.8	15.2	14.3	14.0	14.6	7.8	4.5	6.6	

Notes : 1) Rates of change compared with the same period of the previous year.

External Transactions

Exports registered a relatively low growth rate of 4.4 per cent in the second quarter of 1996. In July, they slipped to record negative growth of -3.6 per cent, largely due to a sharper fall in the prices of main export commodities such as semiconductors, and the loss of price competitiveness engendered by the continued weakening of the Japanese yen.

By commodity group, during the three month period under review, exports of heavy industrial and chemical products remained at their level of the same period of the previous year. This standstill was largely attributable to a fall in the international prices of semiconductors, petrochemicals, and iron & steel products. In July, exports of heavy industrial and chemical products registered negative growth of -11.3 per cent as exports of automobiles and general machinery, which had previously remained comparatively buoyant, also turned in negative figures. However, exports of light industrial products continued to rise at a rate of around 10 per cent, driven by the continuing strength of exports of textiles, tires & tubes, sporting goods, etc.

Seen by region, the upward trend of exports to developing countries flattened abruptly as those to South-East Asian countries slowed, offsetting the continued steady growth of those to China, Latin America, and Eastern Europe. Exports to developed countries displayed a decelerating trend from the second quarter onwards with exports to United States, Japan, and the EU all showing a subdued performance.

L/C arrivals during the second quarter decreased 8.6 per cent compared

with the same period in the previous year, largely reflecting the weakening of export demand. In July, though, they recorded an increase of 3.8 per cent.

[Table 5] Rates¹⁾ of Increase of Exports²⁾ & L/C Arrivals

Unit : per cent

	1995					1996			
	I	II	Jul.	Jan.~Jul.	Year	I	II	Jul.	Jan.~Jul.
Exports	31.7	34.5	37.8	33.9	30.3	20.8	4.4	-3.6	9.4
Light industrial products	18.0	16.3	14.2	16.6	14.0	10.8	10.5	9.1	10.4
Textiles & clothing	15.1	7.9	-0.6	9.1	5.6	-3.5	-2.2	4.4	-1.7
(Textiles)	28.2	14.7	9.2	18.9	13.8	-5.0	4.6	14.0	2.0
(Textile yarns)	29.8	33.3	23.0	30.5	26.5	12.6	-2.5	-0.5	3.7
Tires & tubes	9.9	5.6	57.8	13.1	7.9	24.3	16.7	8.5	18.4
Sporting goods	20.0	12.9	12.2	15.6	21.5	24.0	15.0	28.6	20.5
Others	25.1	36.9	44.1	33.2	32.2	34.1	31.5	16.1	30.0
Heavy industrial & chemical products	37.3	43.6	51.1	42.2	37.5	24.9	0.8	-11.3	8.1
Chemical products	79.1	77.4	47.9	73.4	46.6	4.2	-12.8	4.0	-3.4
Iron & steel products	20.7	68.5	31.9	43.3	28.1	-17.1	-40.9	-27.8	-30.8
General machinery	32.2	36.0	41.9	35.4	34.4	24.7	13.2	-5.4	14.7
Electric & electronic products	42.5	43.7	47.0	43.8	44.3	30.0	-5.6	-25.3	4.7
(semiconductors)	61.2	63.5	68.9	63.5	66.2	43.6	-13.9	-38.3	3.1
Automobiles	65.1	72.0	117.8	74.6	57.5	24.4	24.1	-3.9	20.0
Ships	-5.4	-6.7	279.5	3.7	11.9	88.2	58.3	32.6	65.0
Others	30.0	32.9	36.2	32.3	33.1	40.7	7.8	-4.7	18.0
L/C arrivals	23.3	20.8	13.5	20.7	13.4	-1.2	-8.6	3.8	-3.7

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

2) On a customs-clearance basis at f.o.b. prices.

Imports showed a slower increase of 6.7 per cent during the second quarter than the rise of 16.9 per cent in the preceding quarter. But in July, they accelerated their growth to 13.6 per cent owing to a surge in imports of capital goods, coupled with continuing increase in those of consumer goods, and raw materials.

By commodity group, raw material imports, particularly crude petroleum and iron & steel, increased steadily in value terms. Consumer goods imports also continued a substantial increase at around the 20 per cent. Imports of capital goods, meanwhile, slowed to their pace of the same period of the previous year as firms scaled back their equipment investment. But in July, such

imports rose by 14.3 per cent in response to heavy equipment investment in the iron & steel and telecommunications sectors.

On the other hand, I/Ls issued, a leading indicator of imports, slowed their upward trend to post a rate of increase of 5.5 per cent during the second quarter. This was followed, though, by a 24 per cent rise in July centering on general machinery and on electric & electronic goods.

[Table 6] Rates¹⁾ of Increase of Imports²⁾ & I/Ls Issued

	Unit : per cent									
	1995					1996				
	I	II	Jul.	Jan.~Jul.	Year	I	II	Jul.	Jan.~Jul.	
Imports	35.3	40.0	35.6	37.5	32.0	16.9	6.7	13.6	11.8	
Consumer goods	31.9	35.4	28.9	33.0	27.8	25.1	18.9	26.0	22.4	
Raw materials	32.6	38.4	30.9	34.9	32.6	19.1	9.4	10.1	13.5	
Crude petroleum	31.1	52.3	-11.6	33.7	21.7	15.1	5.98	7.91	7.7	
Others	32.9	35.8	39.2	35.1	34.9	20.0	10.2	0.5	12.7	
(Iron & steel)	8.31	9.95	6.42	0.04	42.9	48.7	18.8	2.0	26.9	
Capital goods	40.1	43.4	43.3	42.1	32.5	12.0	0.2	14.3	7.0	
General machinery	55.3	50.2	49.6	52.0	36.4	8.9	-2.0	17.3	5.1	
Electric & electronic products	46.2	43.4	35.2	43.2	35.6	15.8	6.0	12.2	10.8	
Aircraft	-22.5	86.5	44.2	16.0	13.1	0.2	-50.0	-9.9	-22.3	
Precision machinery	35.7	33.6	39.0	35.2	27.1	10.0	2.9	34.9	10.6	
Others	16.8	9.6	52.3	17.3	18.6	21.9	12.4	7.7	15.2	
I/Ls issued	39.9	51.8	15.4	41.2	33.1	14.6	5.5	24.1	11.6	

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

2) On a customs-clearance basis at c.i.f. prices.

The current account recorded a deficit of US\$ 4.8 billion in the second quarter and one of US\$ 2.3 billion in July. The accumulated deficit for the first seventh months of the year thus amounted to US\$ 11.7 billion, higher than the figure of US\$ 8.9 billion for the whole of the preceding year. Adverse developments in both the trade and invisible & transfer accounts contributed to the swollen current account deficit. The trade account moved more deeply into the red as exports slowed abruptly while imports continued to surge. The deficits on the invisible trade and unrequited transfers accounts, meanwhile, both widened in response to increased outlays for overseas travel and overseas transportation services, and to the expansion of individual overseas remittances, respectively.

[Table 71

Balance of Payments : Current Account

Unit : billion U.S. dollars

	1995					1996			
	I	II	Jul.	Jan.~Jul.	Year	I	II	Jul.	Jan.~Jul.
Current account balance	-3.4	-2.6	-0.5	-6.5	-8.9	-4.6	-4.8	-2.3	-11.7
Trade balance	-2.6	-1.7	-0.1	-4.4	-4.7	-2.4	-2.8	-1.7	-6.9
Invisible trade balance	-0.9	-0.6	-0.2	-1.8	-3.6	-1.3	-1.7	-0.5	-4.2
Transfers(net)	0.1	-0.2	-0.2	-0.3	-0.6	-0.2	-0.3	-0.1	-0.6

Toward the end of June, the Korean won began to depreciate rapidly against the **U.S.** dollar. And it fell to 819.40 won per dollar, by the end of August, a loss of 5.5 per cent of its value at the end of the previous year. Its weakness reflected the excess demand for dollars in the local interbank market, a condition brought about by the conjuncture of decreased dollar inflows as exports slowed and increased demand for dollar as imports continued to rise. The market imbalance was also fuelled by widespread expectations of the won's depreciation.

On the other hand, against the Japanese yen, the Korean won continued to strengthen from the end of the preceding year up until the end of June. It shifted to a depreciating trend against the yen toward the end of July and as of the end of August, it had shed 0.4 per cent of its value in yen terms at the end of the previous year.

[Table 81

Exchange Rate Trends of the Korean Won
(end of period)

Unit : per cent

	1995			1996			
	Dec.	Mar.	Apr.	May	Jun.	Jul.	Aug.
U.S. dollar(W/\$)	774.70	782.70	778.70	787.90	810.60	813.30	819.40
	(1.8)	(-1.0)	(-0.5)	(-1.7)	(-4.4)	(-4.7)	(-5.5)
Japanese yen(W/100¥)	749.23	729.76	742.15	731.74	738.76	753.20	752.09
	(5.5)	(2.7)	(1.0)	(2.4)	(1.4)	(-0.5)	(-0.4)
Deutsche mark(W/DM)	539.30	530.19	509.99	513.67	531.66	550.72	553.37
	(-5.6)	(1.7)	(5.7)	(5.0)	(1.4)	(-2.1)	(-2.5)

Note : 1) Figures in parentheses indicate appreciation(depreciation, -) rates compared with the end of the previous year(%).

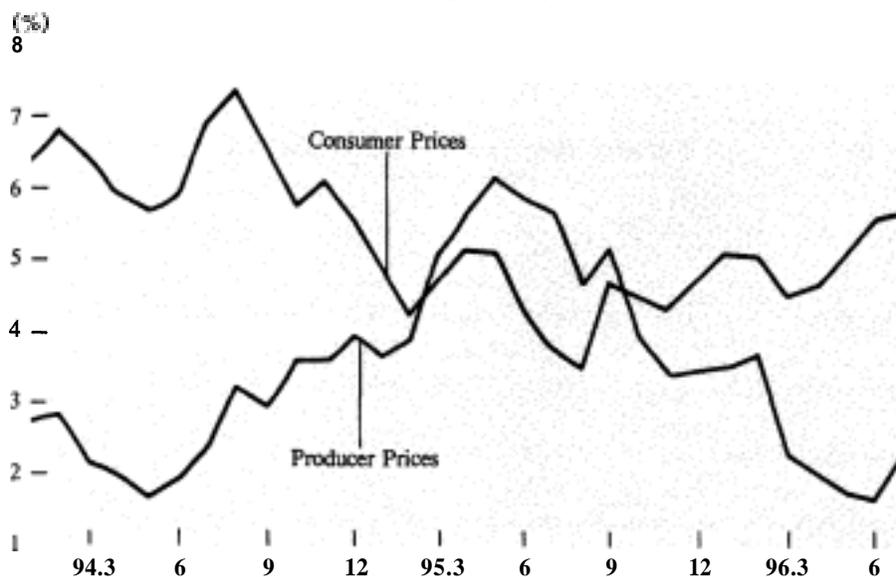
Prices

During the January–July period, producer prices maintained a stable range of movements, holding to a 2.5 per cent increase over December of the previous year. In contrast, consumer prices continued their upward trend evident since the beginning of the year, marking a 4.2 per cent rise which outpaced the 3.4 per cent registered during the same period of the previous year.

Viewing the movements of producer prices by item, those of manufactured goods showed a stable trend, thanks particularly to chemical products. The month of July proved an exception when producer prices exhibited a particularly steep upward movement as a result of the levying of an educational tax on petroleum products and tobacco. The prices of agricultural products also showed only modest upward movement, being held back by a decline in the price of vegetables, livestock products, and dried fish.

The movements of consumer prices by item showed a diverse pattern. The prices of agriculture, forestry and marine products sharply increased until the end of the second quarter of the year, driven by poor crop harvests and a decrease in the stocks of cereals at main production areas. In July, though, they showed more stable movements owing to the easing of cereal and fish prices associated, respectively, with increased shipments and good catches.

[Chart 21 Price Movements”



Note : 1) Rates of increase compared with the same period of the previous year.

The prices of manufactured goods continued a modest upward drift centering on food products during the second quarter, but they gradually rallied to show a strong upturn in July. This was mainly driven by increases in the prices of petroleum products and tobacco following the imposition of an educational tax. Further, the rate of increase in charges for services displayed a steep upward movement which was centered on public utilities, notably in the form of the higher bus fares and water supply and sewage charges imposed in late April. It was also driven by the increased cost of eating-out.

Real estate prices, which had displayed upward trends during the first quarter, exhibited a greater degree of stability during the second quarter. Housing prices continued to move within a stable range, in line with the seasonal cooling of demand and the hesitation by potential buyers amid widespread expectations of the continued stability of housing prices. However, housing rents showed a steeper upward trend, largely centered on apartment rents, than in the same period of the previous year, rising by 0.7 per cent over the preceding quarter. Meanwhile, land prices continued their gentle upward trend evident since the first quarter of the previous year, increasing by 0.2 per cent over the previous quarter in a move centering on areas where development was anticipated.

[Table 9]

Trends of Real Estate Prices¹⁾

	Unit : per cent							
	1994	1995				1996		
		I	II	Jan.~July	Year	I	II	Jan.~July
Housing prices	-0.1	0.0	-0.1	-0.2	-0.2	0.6	0.0	0.6
Apartments	0.7	0.4	0.1	0.4	0.7	1.2	0.0	1.2
Land prices	-0.6	0.1	0.2	0.2 ²⁾	0.6	0.2	0.2	0.4 ²⁾
Housing rents	4.6	2.4	0.5	2.8	3.6	3.2	0.7	3.9

Notes : 1) Rates of change during the period

2) During the January~June period

Money and Banking Movements

Money

During the second quarter of 1996, the annual growth rate of M_2 rose to 15.2 per cent from the 14.0 per cent of the previous quarter. It marked 14.0 per cent in April, but then climbed to 15.3 in May and 16.2 per cent in June. This development was mainly due to a shift out of banks' trust funds into time and savings deposits as a result of the realignment of banks' trust account system. In July, the rate accelerated further to 17.1 per cent. On the other hand, MCT (M_2 +CDs+Money-in-trust), on which the effects of the realignment of the banks' trust account system were broadly neutral, increased by 22.4 per cent, a similar pace to that of the previous quarter.

[Table 10] Rates of Increase²⁾ of Monetary Aggregates
(Average of daily figures)

	Unit : per cent										
	1995					1996					
	I	II	III	IV	Year	I	II	Apr.	May	June	July ³⁾
M_2	17.7	16.5	14.5	13.6	15.5	14.0	15.2	14.0	15.3	16.2	17.1
Reserve Money	15.0	14.0	12.9	11.7	13.4	11.9	3.1	8.9	0.6	-0.1	-0.2
Currency-in-Circulation	12.5	11.9	10.5	11.1	11.5	9.4	9.4	11.0	9.7	7.6	7.2
M_1	12.8	12.8	10.2	10.8	11.6	11.3	9.9	9.8	9.9	9.8	8.9
M_1A ¹⁾	14.2	14.5	13.5	13.8	14.0	14.2	13.1	12.5	12.9	13.8	14.5
M_2 +CDs	18.5	16.6	15.5	14.8	16.3	13.5	14.9	14.2	15.0	15.5	15.5
M_1 +CDs+Money-in-Trust	22.7	21.4	19.9	20.5	21.0	22.0	22.4	22.5	22.5	22.2	22.2
M_3	23.0	20.2	18.4	18.5	19.9	18.6	19.9	19.8	20.0	20.0	..

Notes : 1) Compared with the corresponding periods of the previous year.

2) $M_1A = M_1$ less long-term time and savings deposits at deposit money banks such as installment-type deposits and time deposits with a maturity of at least 2 years.

3) p : preliminary.

Looking at the increase of M_2 by sector during the second quarter, based on changes in period-end figures, the private sector supplied 1 trillion 2,149 billion won, led by increases in general loans, the discount of commercial bills, and overdrafts. The foreign sector supplied 1,956 billion won, as a consequence of the substantial expansion of foreign capital inflows which more than offset a widened current account deficit. But the government sector

absorbed 1,542 billion won, reflecting tax receipts associated with income and value-added taxes. The other sector siphoned off 4,501 billion won, led mainly by the enlarged issuance of cover bills and financial debentures.

In July, there was a sharp increase in claims on the private sector, centering on general loans and overdrafts. Meanwhile the government sector absorbed a substantial quantity of money and the foreign sector shifted to a net absorption channel. The other sector continued to siphon off liquidity.

[Table 111

**Money Supply by Sector
(End-of-period figures)**

Unit : billion won

	1995					1996			
	I	II	July	Jan.-July	Year	I	II	July ^{p)}	Jan.-July ^{q)}
Claims on government	-6,594.9	-2,707.4	-2,206.8	-11,509.1	-4,055.0	-5,350.9	-1,541.5	-5,115.6	-12,008.0
Claims on private sector	4,829.5	10,017.4	2,556.8	17,403.7	28,764.8	5,494.7	12,149.3	7,687.0	25,330.9
(Loans and discounts)	(2,419.8)	(7,381.7)	(1,835.2)	(11,636.7)	(16,624.7)	(3,127.3)	(8,453.7)	(6,187.1)	(17,768.1)
Foreign sector	-898.8	-522.4	1,951.4	530.2	2,480.0	424.3	1,955.9	-1,864.6	515.6
Other sector	1,265.0	-2280.9	-2,001.1	-3,017.0	-6423.2	-2,822.6	-4,500.8	-366.2	-7,689.6
(Monetary Stabilization Bonds(-)) ¹⁾	(-3,091.9)	(-5127)	(-180.2)	(3,784.8)	(-2,256.4)	(-297.1)	(115.1)	(-99.9)	(-281.9)
(CDs(-)) ²⁾	(1,565.9)	(1,263.1)	(741.3)	(3,570.3)	(2,591.6)	(1,574.4)	(626.2)	(-809.6)	(1,391.0)
(Cover bills(-)) ²⁾	(279.1)	(297.4)	(216.0)	(7925)	(1,196.9)	(-1.7)	(3822)	(445.9)	(826.5)
(Financial debentures(-)) ²⁾	(495.4)	(469.1)	(242.7)	(1,207.2)	(1,859.0)	(480.5)	(6321)	(-1 13.1)	(999.6)
M₂	-1,399.0	4,506.7	300.2	3,407.9	20,766.7	-2,254.8	8,063.1	340.6	6,149.0

Note : 1) Excludes the holdings of deposit money banks.

2) p : preliminary.

In its conduct of monetary policy during the second quarter of 1996, the Bank of Korea placed priority on maintaining money supply at an appropriate level. To this end, the Bank actively employed sales of government and public bonds under repurchase agreements.

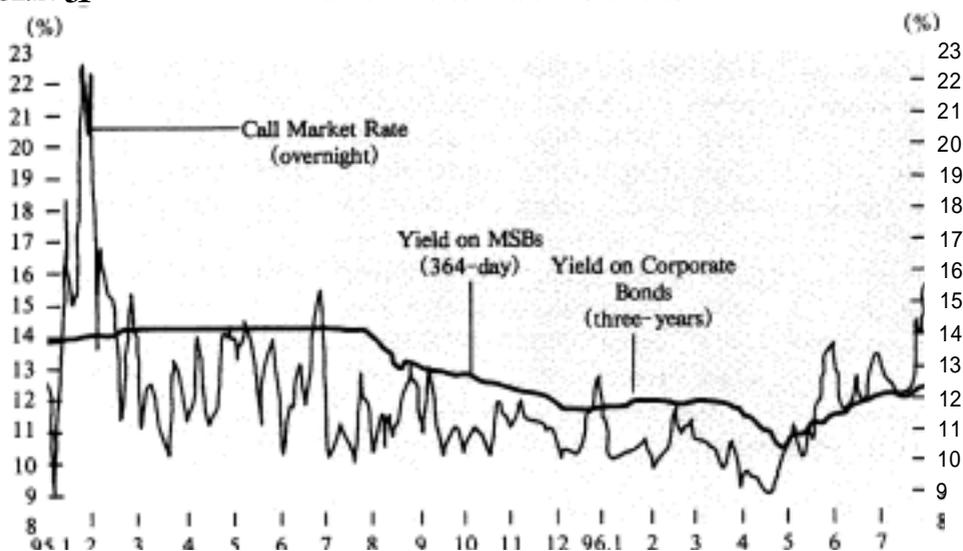
The Bank also made efforts to strengthen financial support for small and medium firms. With effect from July 1, foreign-currency loans were allowed for the purchase of locally produced machinery where either the producer or the purchaser was a small and medium firm. Concurrently, the Bank continued to pursue financial deregulation. On July 1, it reduced the number of large interlinked business groups subject to credit control from the top five and the top thirty in terms of total bank credit outstanding to the top five

and the top ten. From July 18, the Bank eased its regulations concerning commercial banks' opening of overseas offices.

Financial Markets

During the second quarter, market interest rates continued on a downward track until April. But from May, they exhibited an upward movement due mainly to demand and supply imbalances in the financial markets triggered by the realignment of banks' trust account system. In July, market interest rates rose further, mainly due to firms' heavier demand for funds.

[Chart 31] Market Interest Rate Movements



Turning to deposits at financial institutions during the second quarter, those at deposit money banks increased remarkably and those with banks' trust accounts exhibited a steady gain. In contrast, deposits taken by merchant banking corporations and investment trust companies showed a weaker increase than in the previous quarter. Looking at deposit money banks, time and savings deposits swelled considerably and demand deposits changed to an increasing trend. In the case of merchant banking corporations, CMAs shifted to a decrease and sales of commercial paper were sluggish. As for investment trust companies, stock funds continued to shrink and short-term bond funds

suffered a decrease. Among banks' trust accounts, company money-in-trust declined and household money-in-trust experienced slower growth than in the previous quarter, while installment money-in-trust showed a sizable increase.

In July, deposits taken by deposit money banks experienced a markedly weaker increase. Those at non-bank financial institutions exhibited a lackluster performance.

[Table 121] Growth of Deposits at Financial Institutions
(End-of-period figures)

	Unit : billion won									
	1995					1996				
	I	II	July	Jan.-July	Year	I	II	July ^p	Jan.-July ^p	
Deposit money banks	2,144.5	5,791.3	1,277.3	9,213.1	23,166.2	616.2	9,761.2	51.9	10,429.3	
Demand deposits	165.0	492.1	-521.6	135.5	5,066.2	-3,030.5	984.6	-952.5	-2,998.4	
<i>Time</i> savings deposits	134.5	3,738.7	841.6	4,714.8	14,311.5	2,074.0	7,768.2	1,368.0	11,210.2	
Short-term savings deposits	-179.4	867.5	276.9	965.0	5,835.3	1,150.0	2,086.8	-968.9	2,267.9	
Time deposits	-1,078.3	1,437.7	290.7	650.1	2,243.3	86.2	3,112.8	1,349.0	4,548.0	
Installment-type deposits	1,392.2	1,433.5	274.0	3,099.7	6,232.9	837.8	2,568.6	987.9	4,394.3	
CDs	1,565.9	1,263.1	741.3	3,570.3	2,591.6	1,574.4	626.2	-809.6	1,391.0	
Cover bills	279.1	297.4	216.0	792.5	1,196.9	-1.7	382.2	446.0	826.5	
Merchant banking corporations	6,510.8	388.1	1,220.1	8,119.0	14,711.3	8,584.7	3,758.0	907.9	13,250.6	
Sales of own paper	155.3	134.4	36.6	326.3	540.7	354.0	424.6	1,720.1	2,498.7	
CMAs	81.3	943.7	561.8	1,586.8	2,361.4	1,222.9	-555.4	-823.8	-156.3	
Sales of commercial paper	6,274.1	-690.0	621.7	6,205.8	11,809.2	7,007.8	3,888.7	11.6	10,908.1	
Investment trust companies	757.8	2.7	638.4	1,398.9	6,089.8	4,904.8	2,855.8	824.9	8,585.5	
Short-term bond funds	389.0	-243.7	127.8	273.1	618.0	1,395.5	-288.4	277.6	1,384.7	
Long-term bond funds	846.4	638.4	458.1	1,942.9	6,820.2	3,978.0	3,998.6	253.7	8,230.4	
Stock funds	-430.0	-140.8	-105.5	-676.3	-1,175.1	-604.4	-781.0	361.3	-1,024.1	
Trust-type securities savings	72.2	-170.6	2.6	-95.8	-49.5	53.2	-55.3	-51.0	-53.1	
BMFs	-119.8	-80.6	155.4	-45.0	-123.8	82.5	-18.1	-16.7	47.7	
Money-in-trust	3,668.2	8,510.3	1,951.2	14,129.7	31,476.0	8,507.6	8,391.0	1,708.9	18,607.1	
Company money-in-trust	-1,740.3	-973.5	-143.6	-2,857.4	-2,335.8	990.4	-8.2	-404.5	577.1	
Household money-in-trust	269.9	801.3	133.5	1,204.7	3,988.7	6,201.5	4,021.4	689.3	10,912.2	
Specific money-in-trust	733.3	3,307.3	1,070.4	5,111.0	8,755.1	655.1	173.2	160.9	989.1	
Individual pension-trust	-463.0	-76.4	-141.6	-681.0	-1,336.0	-497.6	-118.7	-125.2	-741.5	
Other trusts ^p	4,868.3	5,451.6	-1,032.5	11,352.4	22,404.0	1,158.2	4,323.3	1,388.4	6,869.9	

Note: 1) Including installment money-in-trust, non-specific money-in-trust and development trusts.

2) p : preliminary.

Looking at the stock market during the second quarter, it showed briskness in April, largely influenced by the raising of the ceiling on foreign portfolio investment. But from May, it turned into a bear market mainly because of market concerns about demand and supply conditions and economic prospects. The raising of capital through rights issues continued to be sluggish. In the bond market, corporate bond issuance maintained its favorable progress amid active trading. In July, the stock market continued depressed while the bond market lost its sheen.

[Table 131

Securities Markets

Unit : billion won

	1995					1996			
	I	II	July	Jan.-July	Year	I	II	July	Jan.-July
(Stock Market)									
Value of stocks traded	522.9	335.4	779.6	480.2	487.8	380.7	679.9	405.9	511.5
(daily average)									
Korea Composite Stock									
Rice Index"									
(end of period)	931.8	894.4	933.6	933.6	882.9	874.2	817.4	821.7	821.7
(daily average)	945.8	890.4	945.7	922.0	934.7	866.1	910.2	832.2	880.1
Stock issued	2,129.6	1,613.7	566.4	4,309.7	6,211.2	969.8	983.0	515.1	2,467.9
Public issues	98.1	32.0	88.9	219.0	575.1	264.0	158.8	0	422.8
Rights issues	2,031.4	1,581.7	477.5	4,090.7	5,636.1	705.8	824.2	515.1	2,045.1
<Bond Market>									
Value of bonds traded	636.8	650.6	858.6	675.3	765.3	873.1	813.8	459.1	785.4
(daily average)									
Government & public	321.6	301.3	337.1	315.2	322.7	322.1	289.4	197.9	289.4
bonds									
corporate bonds	315.2	349.2	521.4	360.1	442.6	551.0	524.5	261.1	495.9
Net bond issuance	3,388.3	5,072.4	2,407.1	10,867.8	25,067.0	8,125.8	8,954.4	891.1	17,971.3
Government & public	1,299.1	2,076.8	1,664.5	5,040.4	11,753.6	3,296.4	5,443.3	258.4	8,998.1
bonds									
(Monetary control	-2,895.9	-1,079.1	-194.8	-4,169.8	384.7	-240.3	3,218.5	260.4	3,238.6
bonds)									
Corporate bonds	2,089.2	2,995.6	742.6	5,827.4	13,313.4	4,829.4	3,511.1	632.7	8,973.2

Note : 1) 1980. 1.4 = 100