

Current Economic and Financial Movements

Summary

During the fourth quarter of 1996, the Korean economy continued its downward trend. The current account remained deeply in the red. Meanwhile prices maintained the stable range of movements evident since the third quarter of the year.

The GDP growth rate, which had dropped to 6.6 per cent during the third quarter, rose to 7.2 per cent during the final quarter of the year. However, considering its exceptionally low level in the same period of the previous year, this did not involve a digression from underlying downward trend. For the year as a whole, real GDP growth stood at 7.1 per cent, considerably lower than the 8.9 per cent of the previous year.

Exports, on a customs-clearance basis, grew by only 2.1 per cent during the fourth quarter of 1996, due to the fall in the international price of semi-conductors and the continued weakness of the Japanese yen ; and for the year as a whole, they edged up only by 3.7 per cent, far less than the 30.3 per cent rise in the previous year. However, imports, on a customs-clearance basis, swelled by 14.4 per cent during the quarter under review, owing to the large increase in consumer goods imports and expansion of capital goods and crude oil imports. They registered 11.3 per cent growth for the year as a whole. As the growth rate of imports exceeded that of exports, the current account deficit reached 6.4 billion U.S. dollars for the fourth quarter of 1996, and 23.7 billion U.S. dollars for the year as a whole, the latter figure being more than double the 8.9 billion U.S. dollars of the previous year.

Consumer prices declined by 0.1 per cent during the fourth quarter of 1996, owing to the sharp fall in the prices of agricultural and marine products centering on vegetables. They then maintained a stable range of movements during January 1997, rising by 0.8 per cent which was similar to their increase in the same month of 1996. Producer price inflation marked a pace of 0.5 per

cent during the fourth quarter, but accelerated rapidly to rise by 1.0 per cent in the first month of the new year.

Viewing monetary and financial movements, the growth rate of M_2 , on a period average basis, exhibited a relatively high level of 18.3 per cent during the fourth quarter of 1996 and registered 18.1 per cent during January 1997. That of $MCT(M_2+CDs+Money-in-trust)$, however, showed a downward trend, easing from 21.9 per cent during the third quarter to 20.0 per cent during the fourth quarter and further to 18.5 per cent during January 1997. Yields on corporate bonds remained at the level of 12 per cent, although they rose slightly around the year end, due to an increase in new issues of corporate bonds.

Economic Movements

Economic Growth

During the fourth quarter of 1996, the Korean economy, after slowing for two straight quarters, grew slightly more rapidly than in the third quarter, registering GDP growth at the 7.2 per cent level.

Looking at the growth by component of expenditure, final consumption expenditures rose by 6.9 per cent, slightly higher than the 6.2 per cent of the

[Table 1] Growth Rates by Component of Expenditure¹⁾

	1995	1996 ²⁾					Unit : per cent
		Year	I	II	III	IV	
G D P	8.9	7.1	7.8	6.9	6.6	7.2	
G N P	8.7	6.9	7.5	6.9	6.5	6.8	
Final Consumption Expenditure	7.2	6.9	7.5	7.2	6.2	6.9	
(Private Consumption)	8.3	6.9	7.7	7.4	6.2	6.5	
Gross Fixed Capital Formation	11.7	7.1	8.2	5.2	8.0	7.2	
Equipment	15.8	8.2	4.9	4.6	9.3	13.7	
Construction	8.7	6.3	11.2	5.6	7.1	2.8	
Exports of Goods and Services	24.0	14.1	20.3	10.0	8.2	18.5	
Imports of Goods and Services	22.0	14.8	16.3	12.5	12.6	17.6	

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

2) p : preliminary.

previous quarter. Among this, private consumption exhibited a 6.5 per cent increase, supported by buoyant spending on durables. This offset the more subdued performance of spending on semi-durables, non-durables, and services, which remained at a similar level to that of the previous quarter.

Government consumption, meanwhile, grew by 9.1 per cent, a considerably higher rate than that of the previous quarter, affected by the increased spending on materials and personnel by local governments in the second year following the reintroduction of local autonomy.

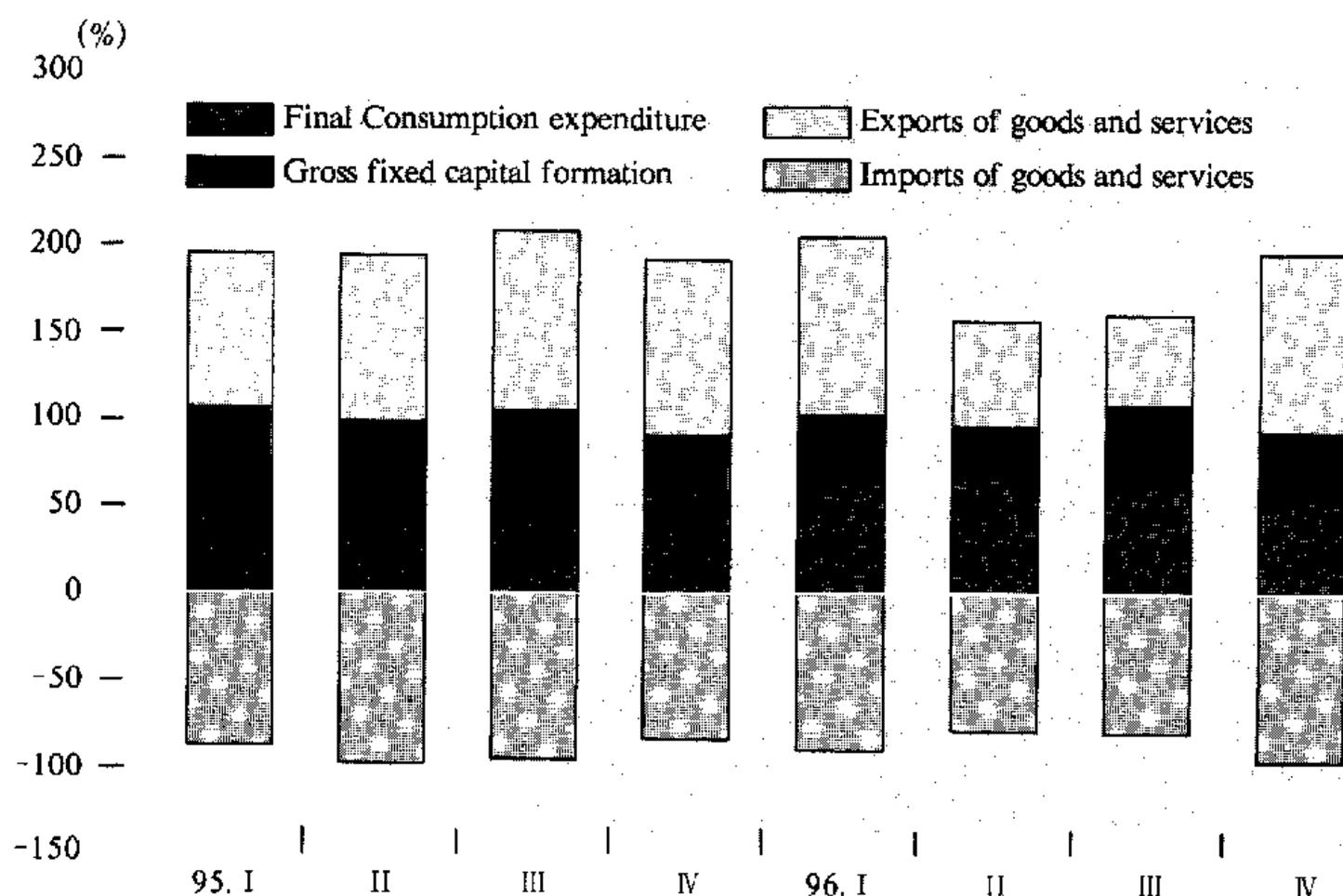
The growth of fixed investment slowed to 7.2 per cent from the 8.0 per cent of the previous quarter. This was attributable to the sharp contraction of construction investment, which offset the effects of the pick-up in equipment investment. During the period under review, equipment investment increased by 13.7 per cent, more rapidly than the 9.3 per cent of previous quarter, mainly due to brisk investment in transportation equipment, such as ships, aircraft and automobiles, and in general industrial machinery, particularly lifting and handling equipment. Construction investment, however, slumped from 7.1 per cent in the previous quarter to 2.8 per cent, reflecting the lackluster pace of both residential and non-residential construction investment whose sluggishness was only partially compensated for by the civil engineering sector's robust performance involving infrastructure projects, such as roads, ports and airports.

Exports, in real terms, increased by 18.5 per cent, a much higher rate than the 8.2 per cent of the previous quarter. This was mainly due to the robust exports of heavy industrial and chemical products, centering on industrial machinery and on electric and electronic products, the effects of which offset the decrease in exports of light industrial products including footwear, clothing and furs.

Imports, in real terms, also exhibited a high growth rate of 17.6 per cent, well above the 12.6 per cent of the previous quarter, owing to the sustained strength of imports of consumer goods, along with the expansion of imports of capital goods and crude oil.

Looking at contribution ratios to GDP growth by components of expenditure, that of exports marked a sharp increase from the 52.6 per cent of the previous quarter to 103.3 per cent. In contrast, the contribution ratio of fixed investment dropped from 47.8 per cent to 36.4 per cent, as construction investment slid back from the 23.2 per cent contribution of the preceding quarter to 8.5 per cent, offsetting the slight rise in that of equipment investment. Meanwhile, that of consumption, which registered 56.5 per cent, was slightly lower than the 59.8 per cent of the previous quarter.

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



Viewing economic growth by sector of economic activity, both manufacturing and services maintained their steady pace, as did electricity, gas and water. Meanwhile, agriculture, forestry and fishing staged a pronounced recovery. But construction production showed lackluster growth.

Manufacturing production grew by 8.4 per cent during the fourth quarter, up from the 7.0 per cent of the previous quarter. This was mainly due to the recovery in the production of the heavy industrial and chemical sector. This rose by 12.1 per cent, driven by the favorable performance of chemical products, industrial machinery, electric and electronic products, and transportation equipment. In contrast, the negative growth of light industry production deepened from the 3.7 per cent of preceding quarter to 4.4 per cent in a decline. This was attributable to the continued weakening of international competitiveness in most light industry sectors such as footwear, textiles and apparel.

The pace of growth in the construction industry declined to 3.7 per cent, less than half the 7.5 per cent of the previous quarter, due to the sharp contraction of government construction along with the continued slackening of private construction. The growth rate of private construction eased to 2.6 per cent as residential construction shifted to a 6.4 per cent decrease from a 3.3 per cent increase and non-residential building construction continued its subdued pace. Government construction, which had shown vigorous performance

during the previous quarter, dropped dramatically from its 19.6 per cent in that period to 4.3 per cent because of budget constraints, resulting from planned disbursement having previously been brought forward.

The electricity, gas and water sector registered a high growth rate of 10.5 per cent, affected by a steady increase in area heating systems along with the continued expansion of the urban gas pipeline network.

The service sector registered a growth rate of 8.4 per cent, higher than the 7.5 per cent of the previous quarter. Within this sector, wholesale and retail trade displayed a 5.9 per cent increase, due to the dullness of transactions involving both domestic industrial and imported goods. However, transportation, storage and communications continued to register strong growth, rising by 14.9 per cent, thanks to the remarkable expansion of mobile communications, such as mobile phones and pagers, and of information communication services. Finance, insurance, real estate and business services showed a growth rate of 7.2 per cent, higher than the 5.8 per cent in the previous quarter, owing to an increase in financial institutions' interest income powered by the introduction of tax-free long-term saving's deposits for households and the reduction of bank reserve requirement ratios.

Agricultural, forestry and fishing production, which had registered zero growth in the previous quarter, increased by 6.2 per cent, mainly due to the good rice harvest.

[Table 2] Growth Rates by Sector of Economic Activity¹⁾

	1995	1996 ²⁾				Unit : per cent	
		Year	I	II	III	IV	
Agriculture, Forestry & Fishing	3.7	3.5	1.0	1.3	0.0	6.2	
Mining & Manufacturing	10.6	7.3	7.6	6.2	7.0	8.3	
(Manufacturing)	(10.8)	(7.4)	(7.7)	(6.5)	(7.0)	(8.4)	
Electricity, Gas & Water	8.7	10.7	11.9	10.7	9.6	10.5	
Construction	8.6	6.7	10.4	6.7	7.5	3.7	
Services	10.1	8.2	8.3	8.5	7.5	8.4	
Government & Private	2.1	3.5	3.6	3.7	3.4	3.1	
Non-Profit Services							

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

2) p : preliminary.

Employment and Wages

During the fourth quarter of 1996, the total number of persons in employment rose by 2.2 per cent, more steeply than the 1.8 per cent of the previous quarter. At the same time, the economically active population also increased by 2.4 per cent, much more than the 1.7 per cent of the previous quarter, mainly reflecting the increased female participation in the workforce. As a net consequence, the seasonally adjusted unemployment rate stood at 2.1 per cent, which was 0.1 of a percentage point higher than in the third quarter.

For the year as a whole, the growth of total employment slipped from the 2.7 per cent of the previous year to 1.9 per cent. Meanwhile, the unemployment rate stood at 2.0 per cent, the same level as in the previous year.

Viewing the pattern of employment by industry during the quarter under review, manufacturing employment decreased by 2.2 per cent (104,000 persons), continuing the downward trend evident since the first quarter. However, employment in construction and in the service sector both maintained relatively high growth rates of 4.1 per cent (80,000 persons) and 4.9 per cent (563,000 persons), respectively.

[Table 3]

Employment Trends¹⁾

Unit : thousand persons

	1995		1996				
	IV	Year	I	II	III	IV	Year
Increase in the economically active population	562 (2.8)	471 (2.3)	346 (1.7)	357 (1.7)	362 (1.7)	501 (2.4)	391 (1.9)
Increase in total number of persons in employment	593 (3.0)	540 (2.7)	378 (1.9)	350 (1.7)	371 (1.8)	448 (2.2)	387 (1.9)
Manufacturing	31 (0.7)	78 (1.7)	-91 (-1.9)	-103 (-2.1)	-84 (-1.8)	-104 (-2.2)	-96 (-2.0)
Construction	122 (6.6)	119 (6.7)	56 (3.2)	66 (3.4)	83 (4.3)	80 (4.1)	71 (3.7)
Services	613 (5.7)	514 (4.8)	579 (5.3)	536 (4.8)	519 (4.6)	563 (4.9)	549 (4.9)
Unemployment rate ²⁾	1.9	2.0	1.9	2.0	2.0	2.1	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 across all industries maintained a relatively high level of 11.1 per cent during the fourth quarter, but this was somewhat lower than the 12.7 per cent of the previous quarter. By sector, the growth rate of nominal wages in manufacturing, in wholesale and retail trade, restaurants and hotels, and in the construction sector slowed down slightly. Meanwhile that in financial intermediation, real estate, renting and business activities fell to 6.1 per cent, half the 12.2 per cent in the preceding quarter. On the other hand, the growth rate of nominal wages in transport, storage and communications stood at the relatively high level of 18.2 per cent.

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

Unit : per cent

	1995		1996				
	IV	Year	I	II	III	IV	Year
All industries	10.2	11.2	13.7	10.3	12.7	11.1	11.9
(Manufacturing)	8.3	9.9	15.6	10.5	12.0	11.4	12.2
(Construction)	11.3	9.0	8.0	11.8	7.9	6.5	8.5
(Wholesale and retail trade, restaurants and hotels)	11.5	10.5	13.8	11.9	11.6	11.5	12.2
(Financial intermediation, real estate, renting and business activities)	14.0	14.6	7.8	3.3	12.2	6.1	7.4
(Transport, storage and communications)	8.2	12.1	16.1	17.5	19.1	18.2	17.8

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

External Transactions

Exports registered a low growth rate of 2.1 per cent in the fourth quarter of 1996, largely due to a continuing fall in the prices of semiconductors and the loss of price competitiveness caused by the continued weakening of the Japanese yen. In January, they recorded a negative growth rate of 8.7 per cent, faltering amid the wave of strikes in protest at the revision of the labor-related laws.

By commodity group, during the three-month period under review, exports of heavy industrial and chemical products decreased 1.6 per cent, compared with the same period of the previous year. This was largely attributable to

the decline in exports of semiconductors and iron & steel products, which more than offset the increase in cars and ships. Exports of light industrial products, meanwhile, rose at around the 7 per cent level during the three-month period under review, led by those of textile yarns and tires & tubes.

Seen by region, exports to developing countries regained their high growth rate, as those to South-East Asian countries revived and those to China, Latin America, and Eastern Europe maintained their steady growth. However, exports to developed countries continued to slow with those to the United States, Japan, and the EU all showing subdued performance.

L/C arrivals during the fourth quarter decreased 3.8 per cent compared with the same period in the previous year, largely influenced by the continued weakening of the Japanese yen. In January, they registered a modest increase of 0.8 per cent.

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

	Unit : per cent							
	1995	1996			1997			
	Year	Year	III	IV	Oct.	Nov.	Dec.	Jan.
Exports	30.3	3.7	-7.8	2.1	2.8	-0.6	3.9	-8.7
Light industrial products	14.0	7.5	3.4	7.0	4.2	5.9	11.0	3.5
Textiles & clothing	5.6	-2.1	-0.7	-0.2	-1.1	2.5	-1.9	3.4
(Textiles)	13.8	2.4	7.4	3.9	4.5	5.6	1.6	6.3
(Textile yarns)	26.5	9.9	13.5	27.2	41.1	34.0	10.8	40.3
Tires & tubes	7.8	16.5	6.9	18.4	15.3	11.4	28.2	-23.7
Footwear	-19.7	-27.6	-26.7	-27.4	-24.6	-33.9	-23.3	-26.5
Others	43.1	28.1	13.7	21.0	14.1	14.6	35.7	10.5
Heavy industrial & chemical products	37.5	0.9	-14.0	-1.6	0.9	-5.5	-0.3	-16.7
Chemical products	46.6	-1.6	1.2	6.6	14.1	1.1	4.8	3.2
Iron & steel products	28.1	-26.8	-25.6	-16.2	-10.8	-26.2	-10.5	7.6
General machinery	34.4	10.8	-0.9	10.2	3.5	11.8	14.5	1.9
Electric & electronic products	44.3	-6.8	-24.5	-16.2	-18.4	-16.6	-13.6	-15.5
(Semiconductors)	70.3	-19.3	-45.7	-40.2	-44.5	-42.1	-33.5	-42.0
Automobiles	57.5	26.4	16.2	39.3	28.9	49.4	40.8	-41.2
Ships	11.9	28.8	-28.6	32.9	89.8	-4.0	18.7	-36.3
Others	33.1	-0.4	-15.9	-20.0	-15.8	-22.0	-21.8	-34.6
L/C arrivals	13.4	-4.4	-3.6	-3.8	-1.0	-3.4	-6.9	0.8

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

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

Imports showed an increase of 14.4 per cent during the fourth quarter. This was largely driven by the enduring surge in imports of consumer goods, coupled with the heightened increase of those of capital goods and crude petroleum, etc.

By commodity group, imports of crude petroleum increased over 60 per cent in value terms, as international oil prices remained strong while the volume of imports showed a large expansion. Consumer goods imports maintained a substantial increase at above the 20 per cent level. Meanwhile, imports of capital goods recorded a high rise of 18.1 per cent centering on enlarged imports of aircraft, precision machinery, and information and communications equipment. In January 1997, however, imports growth eased to an increase of 3.9 per cent, responding to a sharp deceleration in imports of capital goods.

I/Ls issued, a leading indicator, also marked a slower pace, an increase of 6.8 per cent during the fourth quarter.

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

	1995		1996				1997	
	Year	Year	III	IV	Oct.	Nov.	Dec.	Jan.
Imports	32.0	11.3	7.7	14.4	15.5	12.5	15.2	3.9
Consumer goods	27.8	21.2	17.6	23.5	26.7	18.9	24.8	6.1
Raw materials	32.6	10.2	3.6	9.7	8.1	6.2	14.9	5.9
Crude petroleum	21.7	33.5	48.8	67.8	60.3	65.7	76.4	56.5
Others	34.9	5.8	-4.1	-0.7	-0.6	-4.3	3.0	-4.9
(Iron & steel)	42.9	0.5	-19.1	-24.1	-29.5	-23.3	-18.1	-34.2
Capital goods	32.5	10.0	10.1	18.1	22.2	19.2	13.1	0.5
General machinery	36.4	7.2	13.7	9.3	12.9	13.6	1.8	-0.8
Electric & electronic products	35.6	9.6	4.9	12.4	13.2	12.6	11.4	18.1
Aircraft	13.1	12.0	8.7	131.7	66.1	-22.3	1077.0	-83.6
Precision machinery	27.1	20.2	38.9	29.3	50.4	26.1	13.5	11.9
Others	18.6	15.9	-5.3	40.1	101.2	108.1	-43.1	20.1
I/Ls issued	33.1	9.0	10.0	6.8	15.7	-7.9	14.2	

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

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

The yawning current account deficit continued, with the balance registering US\$ 6.4 billion in the red in the fourth quarter. The accumulated deficit for the whole year thus amounted to US\$ 23.7 billion, more than double the figure of US\$ 8.9 billion of the preceding year. In January 1997, the monthly balance registered a massive deficit of US\$ 3.1 billion. The trade account deficit widened during the period under review as exports faltered while imports continued to surge. The deficits on the invisible trade and unrequited transfers accounts both widened in response to increased outlays for overseas travel and transportation services and for interest payments.

[Table 7]

Balance of Payments : Current Account

Unit : billion U.S. dollars

	1995		1996				1997	
	Year	Year	III	IV	Oct.	Nov.	Dec.	Jan.
Current account balance	-8.9	-23.7	-7.5	-6.4	-2.5	-1.9	-1.9	-3.1
Trade balance	-4.7	-15.3	-5.6	-4.0	-1.8	-1.3	-0.9	-2.3
Invisible trade balance	-3.6	-7.7	-1.7	-2.1	-0.6	-0.6	-0.9	-0.7
Transfers(net)	-0.6	-0.8	-0.2	-0.2	0.0	-0.1	-0.1	-0.1

The Korean won had fallen to 844.20 won per dollar by the end of December 1996, a loss of 8.2 per cent of its value at the end of the previous year, and it fell further to stand at 863.90 at the end of February 1997. Its weakness reflected the excess demand for dollars in the local interbank market, a condition brought about by the conjuncture of an enlarged current account deficit and the US dollar renewed strength in the international financial markets, and the consequent speculative demand in an expectation of further depreciation of the Korean won.

On the other hand, against the Japanese yen, the Korean won continued to strengthen as the Japanese yen maintained its weakness in international financial markets. At the end of December 1996, the won showed a 3.1 per cent appreciation over its value in yen terms at the end of the previous year. This trend was sustained into 1997, with the won gaining 1.6 per cent over the yen by the end of February.

[Table 8]

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

	1995		1996			1997	
	Dec.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
U. S. dollar(W/\$)	774.70 (1.8)	821.20 (-5.7)	831.30 (-6.8)	828.70 (-6.5)	844.20 (-8.2)	861.30 (-2.0)	863.90 (-2.3)
Japanese yen(W/100¥)	749.23 (5.5)	740.15 (1.2)	729.85 (2.7)	727.79 (2.9)	726.51 (3.1)	705.69 (3.0)	715.30 (1.6)
Deutsche mark(W/DM)	539.30 (-5.6)	538.39 (0.2)	549.80 (-2.0)	538.47 (0.2)	542.89 (-0.7)	525.82 (3.2)	511.80 (6.1)

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

Prices

During the period under review, consumer prices continued to move within a stable range, easing by 0.1 per cent during the fourth quarter of 1996 and marking a 0.8 per cent increase during January 1997, similar to that of 0.9 per cent in the same month of the previous year.

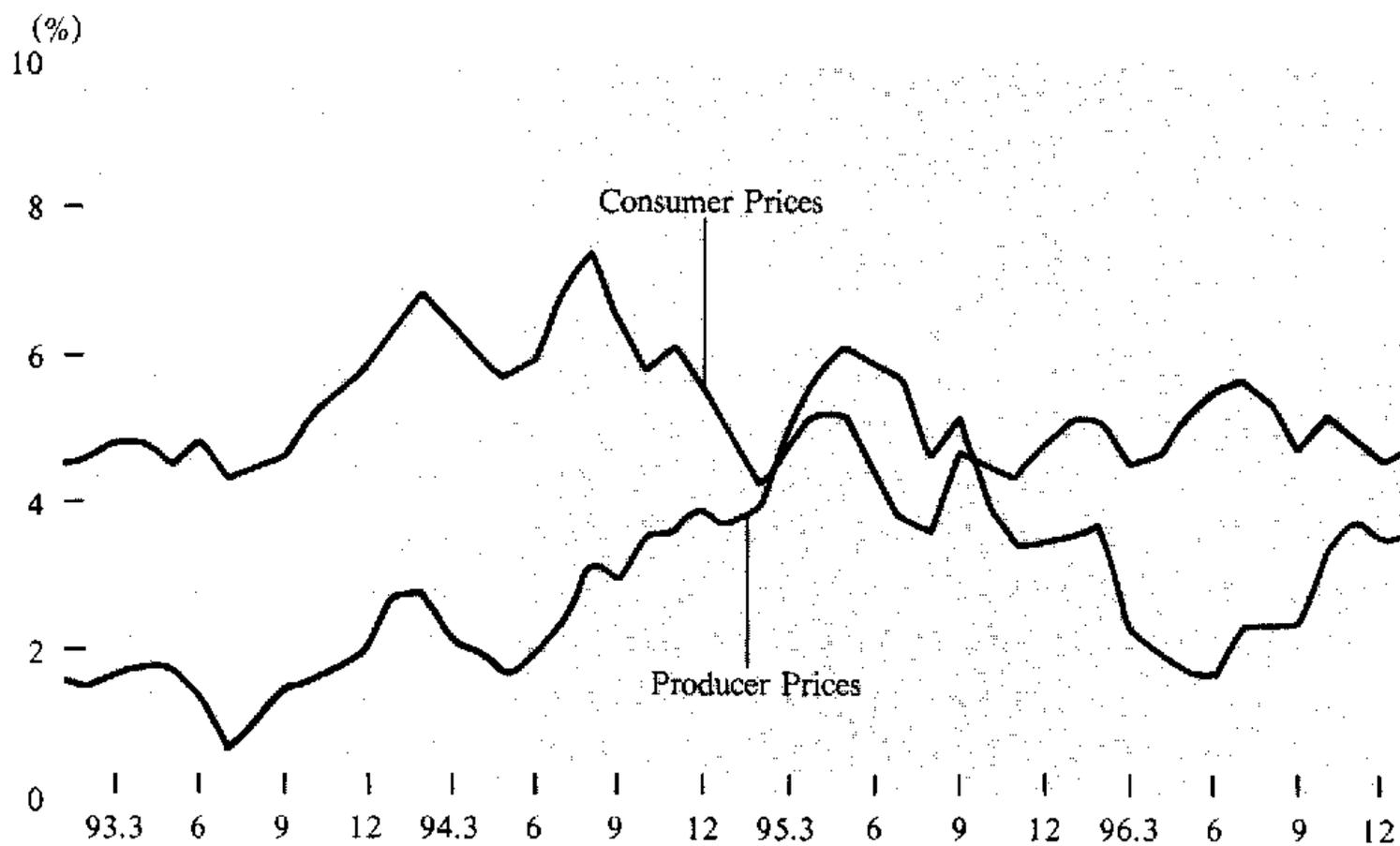
Viewing the movements of consumer prices by class of item, those of agricultural and marine products continued their downward trend, thanks to the fall in the prices of vegetables such as cayenne pepper and Chinese cabbage. During January 1997, however, prices of agricultural, forestry and marine products shifted to an upward trend, due to reduced shipments. The upward trend in the prices of manufactured goods slowed down in the course of the fourth quarter, owing to the decline in the prices of electronic home appliances such as TVs and washing machines. However, in January 1997, they displayed a somewhat steep upward movement, reflecting the government's increase in the tax on petroleum products with a view to reducing energy consumption. Prices of services also slackened their increasing trend during the fourth quarter of 1996, thanks to government's efforts to curb rises in public services charges. However, they resumed their upward path in January 1997, rising 0.5 per cent, led by the raising of medical fees and of charges for garbage collection.

Producer prices, which had stood at a 0.5 per cent increase during the fourth quarter of 1996, accelerated rapidly, rising by 1.0 per cent, during January 1997. Viewing their movements by item, the prices of manufactured

goods maintained their rapid upward trend, owing to the increase in the international oil price and in the taxes levied on petroleum products. From the third quarter until the end of 1996, the prices of agricultural, forestry and marine products had shown a downward trend centering on vegetables, crops of which had been plentiful. During the first month of 1997, these shifted to an upward trend as fruit prices rose, affected by reduced shipments and fish prices increased in response to poor catches.

[Chart 2]

Price Movements¹⁾



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

Real estate prices maintained their upward trend evident since the second half of 1996. Housing prices too continued to rise, as speculative demand for real estate, centering on small and medium sized apartments and low-rise developments in the Seoul metropolitan area, began to take off in anticipation of further price rises. During the fourth quarter, housing rents stood at a slight increase of 0.2 per cent due to reduced seasonal demand, but during January 1997, they exhibited a somewhat steep increase, rising by 0.7 per cent. Land prices continued a moderate upward trend, moving up 0.3 per cent over the previous quarter.

[Table 9]

Trends of Real Estate Prices¹⁾

	Unit : per cent								
	1995		1996				1997		
	IV	Year	I	II	III	IV	Year	Jan.	
Housing prices	-0.1	-0.2	0.6	0.0	0.5	0.4	1.5	1.1	
(Apartments)	-0.1	0.7	1.2	0.0	1.1	1.2	3.5	2.0	
Land prices	0.2	0.5	0.2	0.2	0.2	0.3	0.9	—	
Housing rents	0.1	3.6	3.2	0.7	2.3	0.2	6.5	0.7	

Note : 1) Rates of change during the period.

Money and Banking Movements

Money

During the fourth quarter of 1996, the annual growth rate of M_2 rose to 18.3 per cent from the 17.3 per cent of the previous quarter mainly due to the enduring effect of the realignment of the trust account system. Reviewing the M_2 growth rate by month, it reached 18.8 per cent in October, reflecting the carrying-over of the high level of money supply associated with the seasonal festival of harvest thanksgiving ("Chusok") in the preceding month.

M_2 growth marked 18.2 per cent and 17.8 per cent in November and December respectively, and it maintained its expansionary pace in January 1997, growing at a rate of 18.1 per cent. On the other hand, the growth rate of MCT (M_2 +CDs+Money-in-trust), on which the effects of the realignment of the trust account system were broadly neutral, eased to 20.0 per cent from the 21.9 per cent of the previous quarter and further slowed to 18.5 per cent in January 1997.

Surveying the increase of M_2 by sector during the fourth quarter, based on changes in period-end figures, the private sector supplied 6,264 billion won, a substantial reduction from 18,464 billion won of the previous quarter. This was mainly the result of two factors. Firstly, the funds supplied during the period of "Chusok" were reabsorbed. Secondly, in spite of firms' persistently strong demand for funds in response to the decrease of exports and the accumulation of inventories, the demand for overdrafts weakened thanks to an increase in banks' call loans to non-banks financial institutions.

[Table 10]

Rates of Increase¹⁾ of Monetary Aggregates
(Average of daily figures)

Unit : per cent

	1995				1996				1997	
	Year	I	II	III	IV	Oct.	Nov.	Dec.	Year	Jan. ²⁾
M ₂	15.5	14.0	15.2	17.3	18.3	18.8	18.2	17.8	16.2	18.1
Reserve Money	13.4	11.9	3.1	-0.6	-5.5	3.5	-8.3	-11.4	2.1	-13.4
Currency-in-Circulation	11.5	9.4	9.4	6.2	8.1	11.1	7.9	5.5	8.3	6.6
M ₁	11.6	11.3	9.9	9.1	7.1	9.6	6.1	5.8	9.3	5.5
M ₂ A ²⁾	14.0	14.2	13.1	14.1	12.8	14.3	12.6	11.5	13.5	12.7
M ₂ +CDs	16.3	13.5	14.9	16.1	17.1	17.7	17.3	16.4	15.5	16.9
MCT	21.6	22.3	22.7	21.9	20.0	21.1	20.2	18.6	21.7	18.5
M ₃	19.9	18.6	19.9	19.7	17.9	18.4	18.1	17.1	19.0	..

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

2) M₂A = M₂ 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.

But the government sector, which had siphoned off liquidity in the previous quarter, supplied 7,021 billion won reflecting the concentration of fiscal expenditure toward the year-end. In the sizable current account deficit notwithstanding, the foreign sector supplied 290 billion won. The scale of this supply was largely attributable to the widening of the capital account surplus following the government's raising of the ceiling on non-residents' stock investment (effective from October 1). Meanwhile, the other sector soaked up 5,024 billion won, led mainly by the enlarged sales of RPs and by gains on valuation of foreign currency denominated assets (1,752 billion won).

In January 1997, claims on the private sector expanded mainly through increases in general loans and overdrafts and the other sector turned to a net supply. The government and foreign sectors both absorbed money.

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

[Table 11]

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

Unit : billion won

	1995		1996				1997	
	Year	I	II	III	IV	Year	Jan. ¹⁾	
Claims on government	-4,055.0	-5,350.9	-1,541.5	-2,308.3	7,021.4	-2,179.4	-6,903.4	
Claims on private sector	28,764.8	5,494.7	12,169.1	18,464.3	6,264.2	42,392.3	3,643.5	
(Loans and discounts)	(16,624.7)	(3,127.3)	(8,453.7)	(14,683.4)	(1,570.7)	(24,693.6)	(2,795.1)	
Foreign sector	2,479.9	424.3	1,955.9	-4,948.7	289.9	-2,278.7	-3,154.7	
Other sector	-6,423.2	-2,822.6	-4,520.6	-1,201.1	-5,023.8	-13,568.1	5,581.3	
(Monetary Stabilization Bonds(-)) ¹⁾	(-2,256.4)	(-297.1)	(-115.1)	(-1,696.7)	(-988.6)	(-2,867.3)	(-855.9)	
(CDs(-)) ¹⁾	(2,591.6)	(1,574.4)	(626.2)	(1,001.7)	(-1,301.7)	(1,900.6)	(-357.1)	
(Cover bills(-)) ¹⁾	(1,196.9)	(108.9)	(271.6)	(1,619.1)	(647.9)	(2,647.6)	(700.0)	
(Financial debentures(-)) ¹⁾	(1,859.0)	(319.3)	(793.3)	(236.1)	(36.1)	(1,384.8)	(105.1)	
(RPs(-)) ¹⁾	(1,804.3)	(337.5)	(254.7)	(423.6)	(1,009.4)	(2,025.2)	(-30.8)	
M ₂	20,766.7	-2,254.8	8,063.1	10,006.2	8,551.7	24,366.2	833.2	

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

The Bank also made efforts to improve the effectiveness of the monetary policy instruments in order to shift to a fully market-based system of monetary management. With effect from November 8, the general reserve requirement ratio imposed on banks was cut by 1.9 percentage points from 7.4 per cent to 5.5 per cent on average for deposit instruments. At the same time, the Bank's aggregate credit ceiling was lowered by 2.8 trillion won. As of December 23, the Bank withdrew 200 billion won of its loans to the fertilizer procurement account of the National Agricultural Cooperative Federation which had been maintained at the fixed level of 570 billion won since 1983.

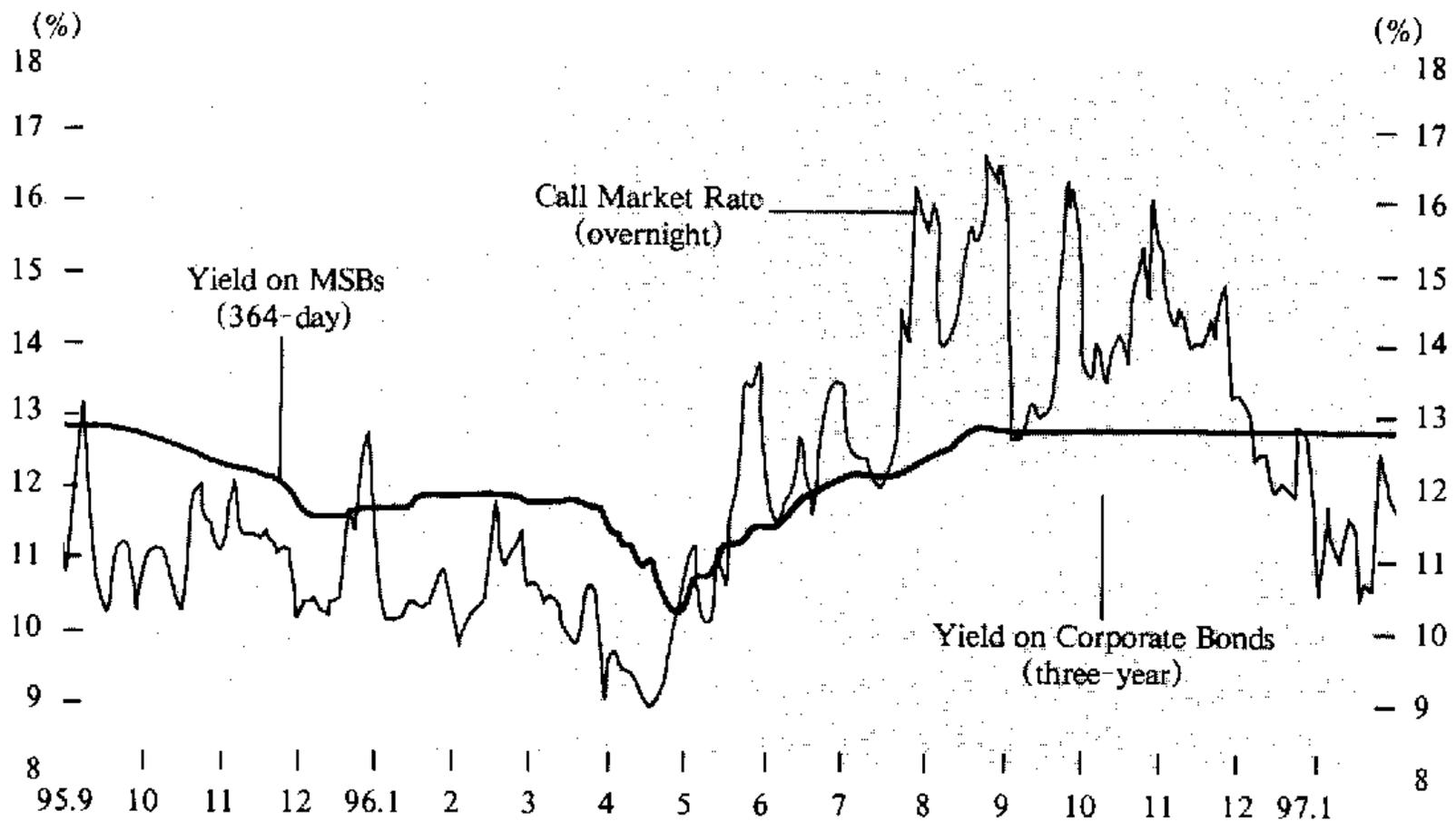
Through these actions, the Bank helped to alleviate the rigidity of base money supply. On December 26, the Bank diversified the instruments available for use in open market operations, beginning to issue coupon-bearing Monetary Stabilization Bonds with a maturity of 2 years.

Financial Markets

Looking at market interest rates during the fourth quarter, the yield on corporate bonds fluctuated slightly around a level of 12 per cent, but it ex-

hibited a rising trend at the end of the year. Call rates shifted to a declining trend from November. In January 1997, the yield on corporate bonds showed a gentle downward movement and call rates remained stable despite the demand for funds before the Lunar New Year's holidays and Hanbo Iron & Steel company's insolvency toward the end of the month.

[Chart 3] Market Interest Rate Movements



Turning to deposits at financial institutions during the fourth quarter, deposit-taking by banks' trust accounts continued to show only a weak advance and that by their bank accounts exhibited a slower increase than the previous quarter. Deposit-taking by investment trust companies shifted to a decrease, but that by merchant banking corporations expanded sharply. Among the products offered by deposit money banks, installment-type deposits exhibited a favourable increase, reflecting their enhanced competitiveness following the realignment of the trust account system and the reduction of reserve requirements.

However, banks' sales of CDs decreased sharply and the growth in their sales of cover bills also slowed. In the case of merchant banking corporations,

while their sales of own paper experienced a markedly weaker increase, CMAs shifted to an increase and their sales of commercial paper expanded sharply. As for securities investment trust companies, short-term bonds funds maintained a favorable increase led by a sharp rise in MMFs, and stock funds continued to show an increasing trend. But long-term bond funds maintained their negative growth since the previous quarter. In the case of banks' trust accounts, almost all products except specific money-in-trust posted lower increases, affected by the realignment of the trust accounts.

[Table 12] Growth of Deposits at Financial Institutions
(End-of-period figures) Unit : billion won

	1995		1996			1997	
	Year	I	II	III	IV ^{b)}	Year ^{a)}	Jan. ^{b)}
Deposit money banks	23,166.2	726.8	9,650.6	9,865.8	7,893.9	28,137.2	-261.0
Demand deposits	5,066.2	-3,030.5	984.6	747.5	1,941.1	642.7	-1,126.2
Time and savings deposits	14,311.5	2,074.0	7,768.2	6,497.5	6,606.6	22,946.3	522.3
Short-term savings deposits	5,835.3	1,150.0	2,086.8	1,719.8	413.4	5,370.0	-769.3
Time deposits	2,243.3	86.2	3,112.8	718.7	710.9	4,628.6	139.8
Installment-type deposits	6,232.9	837.8	2,568.6	4,059.0	5,482.3	12,947.7	1,151.8
CDs	2,591.6	1,574.4	626.2	1,001.7	-1,301.7	1,900.6	-357.1
Cover bills	1,196.9	108.9	271.6	1,619.1	647.9	2,647.6	700.0
Merchant banking corporations	14,711.3	8,584.7	3,720.6	3,781.5	7,697.9	23,784.7	1,090.4
Sales of own paper	540.7	354.0	229.9	4,921.7	122.7	5,628.3	213.2
CMAs	2,361.4	1,222.9	-534.2	-1,391.5	936.3	233.5	442.6
Sales of commercial paper	11,809.2	7,007.8	4,024.9	251.3	6,638.9	17,922.9	434.6
Investment trust companies	6,089.8	4,904.8	2,808.4	1,350.2	-734.3	8,329.1	1,308.4
Short-term bond funds	618.0	1,395.5	-303.1	1,561.5	1,882.6	4,536.5	787.5
(MMFs)	(-)	(-)	(-)	(1,750.0)	(4,215.9)	(5,965.9)	(1,177.0)
Long-term bond funds	6,820.2	3,978.0	3,983.5	-1,087.0	-3,307.3	3,567.2	273.7
Stock funds	-1,175.1	-604.4	-733.1	894.0	724.8	241.3	267.3
Trust-type securities savings	-49.5	53.2	-75.7	-8.0	27.8	-2.7	-30.9
BMFs	-123.8	82.5	-23.2	-10.3	-72.9	-23.9	21.6
Money-in-trust	31,476.0	8,507.6	8,044.3	3,682.5	5,968.1	26,202.6	1,140.7
Company money-in-trust	-2,335.8	990.4	-8.2	-759.5	-950.8	-728.1	-277.7
Household money-in-trust	3,988.7	6,201.5	4,021.5	1,175.3	603.7	12,002.0	280.4
Specific money-in-trust	8,755.1	655.1	126.4	1,422.3	3,427.5	5,631.4	441.5
Individual pension-trust	-1,336.0	-497.6	-118.9	-384.4	-345.0	-1,345.8	-243.6
Other trusts ¹⁾	22,404.0	1,158.2	4,023.4	2,228.8	3,223.6	10,643.1	940.1

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

In January 1997, deposit-taking by deposit money banks turned negative influenced by the net decreases in demand deposits and short-term savings deposits. Deposit-taking by investment trust companies staged a mild recovery, shifting back to an increase, but that by merchant banking corporations and banks' trust accounts both exhibited a lackluster performance.

Despite the raising of the ceiling on non-residents' stock investment from October 1, the stock market still continued to be in the doldrums during the fourth quarter in response to concerns over the increasingly uncertain economic prospects and disputes over revision of the labor law. However, in the bond market, issuance expanded considerably and its turnover also increased. In January 1997, the stock market continued depressed as a result of labor unrest and the insolvency of Hanbo Iron & Steel Company. In the bond market, while secondary market turnover expanded further, the primary market saw a slowdown in new issues.

[Table 13]

Securities Markets

Unit : billion won

	1995	1996				1997	
	Year	I	II	III	IV ^{p)}	Year ^{p)}	Jan. ^{p)}
〈Stock Market〉							
Value of stocks traded (daily average)	487.8	380.7	679.9	406.6	481.3	486.8	478.7
Korea Composite Stocks Price Index ¹⁾							
(end of period)	882.9	874.2	817.4	789.7	651.2	651.2	685.8
(daily average)	934.7	865.9	910.6	808.3	749.2	833.4	669.6
Stock issued	6,164.0	969.8	983.1	1,631.4	1,458.8	5,043.2	207.8
Public issues	580.1	264.0	158.8	117.6	851.1	1,391.5	77.3
Rights issues	5,583.9	705.8	824.3	1,513.8	607.7	3,651.7	130.5
〈Bond Market〉							
Value of bonds traded (daily average)	765.3	873.1	813.8	524.2	601.3	701.1	809.5
Government & public bonds	322.7	322.1	289.4	199.3	224.4	258.1	340.0
Corporate bonds	442.6	551.0	524.4	324.9	376.9	443.0	469.5
Net bond issuance	25,067.0	7,911.3	9,122.9	2,762.6	5,562.1	25,358.9	606.1
Government & public bonds	11,753.6	3,081.9	5,611.8	-125.3	502.4	9,070.8	-653.7
(Monetary control bonds)	(384.7)	(-240.3)	(3,218.5)	(-1,516.9)	(-2,256.1)	(-794.8)	(-1,917.2)
Corporate bonds	13,313.4	4,829.4	3,511.1	2,887.9	5,059.7	16,288.1	1,259.8

Note : 1) 1980. 1.4=100.