

Current Events and Announcements (December 1996~February 1997)

Implementation of Short-term Policy Tasks to Root Market-based Indirect Monetary Management System

With effect from February 23, the Bank of Korea reduced banks' average reserve requirement ratios by 2.13 percentage points, from 5.45 per cent to 3.32 per cent, in a move designed to increase autonomy of the banking industry and promote fair competition between banking and non-banking institutions.

It lowered the reserve requirement ratio on some of the long-term installment savings products, such as workman's property formation savings deposits, workman's long-term savings deposits and household long-term savings deposits, from 2.0 per cent to 1.0 per cent. The ratio on time and installment savings deposits with a maturity of two years or more was reduced from 4.0 per cent to 2.0 per cent, and that on time and installment savings deposits with a maturity of less than two years from 7.0 per cent to 2.0 per cent.

The reserve requirement ratio on demand deposits and other time and savings deposits was adjusted downward from 7.0 per cent to 5.0 per cent. However, that on housing installment deposits and mutual installment deposits was maintained unchanged at 2.0 per cent. For the first time, the Bank imposed reserve requirements on certificates of deposit (CDs), setting the ratio at 2 per cent.

Details of Reduction of Banks' Reserve Requirement Ratios

unit : per cent

Type of deposits	Previous	Revised
Workman's property formation savings deposits		
Workman's long-term savings deposits		
Household long-term savings deposits	2.0	1.0
Workman's savings deposits for housing loans		
Long-term savings deposits for housing		
Mutual installment deposits		
Housing installment deposits		
Time and savings installment deposits with a maturity of two years or more	4.0	2.0
Time and savings installment deposits with a maturity of less than two years	7.0	
Certificates of Deposit (CDs)	—	
Demand deposits and other time and savings deposits	7.0	5.0

With effect from February 24, the Bank lowered the ceiling on its aggregate credit to the banking sector by 2.8 trillion won, reducing the amount available from 6.4 trillion won to 3.6 trillion won in order to absorb the excess liquidity induced by the reduction in reserve requirements.

The Bank also allowed banks to borrow B2 loans from it at their own discretion in order to heighten the predictability of their fund management. To help stimulate open market operations, from February 24, the Bank shifted to completely competitive open bidding for issues of monetary stabilization bonds (MSBs) and for its offers of government bond transactions under repurchase agreements.

The Bank abolished the restriction on the maximum term of bank deposits with effect from February 10. Ceilings on individual bank's issue of CDs and cover bills were also eliminated with effect from February 17 in order to help their fund raising. The Bank relaxed restraints on banks' lending, allowing them to lend to, for example, coffee shops, health clubs and saunas with effect from February 10.