

# Current Economic and Financial Movements

## Summary

During the first quarter of 1997, the Korean economy exhibited lower growth as the contraction phase of the business cycle continued. On external transactions, the current account deficit widened significantly. Meanwhile, both consumer and producer prices remained relatively stable during the January-April period.

Despite the steady increase in the volume of exports, GDP growth slowed from 7.2 per cent in the fourth quarter of the previous year to 5.4 per cent in the first quarter of the year, mainly due to the slackening of domestic demand, especially in private consumption and investment.

On a customs-clearance basis, though, exports decreased by 5.6 per cent during the first quarter of the year, due to the protest strikes against the revised 'Labor Law', the fall in the international price of major export items such as semi-conductors, and the continued weakness of the Japanese yen. In April, however, thanks to the recovery of prices of leading export products, the export growth rate rose to 7.0 per cent. For the January-April period, exports declined by 2.4 per cent as a whole. Imports, on a customs-clearance basis, recorded a relatively low rate of increase of 4.1 per cent in the first quarter of the year and increased by only 1.5 per cent in April, resulting in a 3.4 per cent growth rate during the January-April period. Their sluggishness reflected the slowdown in domestic demand and the greater stability of international raw material prices. Meanwhile, the current account deficit widened to 9.6 billion U.S. dollars during the first four months of the year, much larger than that of the same period in the previous year. This was the result of several developments. First of all, the deficit on trade expanded as export shrank. In addition, the invisible trade balance deteriorated because outlays for overseas travel and shipment and transportation services increased. Viewed month by month, however, the current account deficit continued to

narrow.

Prices remained stable during the January–April period on the whole. Consumer prices marked a 2.2 per cent increase over the December of the previous year, less than the 2.9 per cent in the same period of the preceding year. Producer prices rose by only 1.8 per cent during the January–April period. By commodity, the prices of agricultural, forestry and marine products showed rather unstable movements, owing to the supply shortages of some items. Meanwhile, the prices of manufacturing goods and services showed a downward trend thanks to the dullness of domestic business conditions and the stability of public utilities charges.

Viewing monetary and financial movements, the growth rate of MCT( $M_2$ +CDs+Money-in-Trust), on a period average basis, slowed from 20.0 per cent in the fourth quarter of the previous year to 18.3 per cent in the first quarter of the year, and further to 16.6 per cent in April, affected by the imposition of reserve requirements on certificates of deposit(CDs) and the elimination of ceilings on individual banks' issue of cover bills. Market interest rates showed an upward trend during the first quarter of the year, reflecting the uncertainties surrounding the capital market, owing to the bankruptcy of some big companies, but they reversed to a downward trend once the uncertainties eased from late March onwards. Yields on corporate bonds edged up to the 13 per cent level by the end of March but thereafter regained stability and remained at a level of around 12.5 per cent in April. Similarly, call market rates declined to a level of 12.3 per cent by mid–April after shifting to a downward trend. However, they rose temporarily back to 14.2 per cent in late April, driven by the demand for funds to meet tax payments and by increased call market borrowings by securities companies and merchant banking corporations.

## Economic Movements

### Economic Growth

During the first quarter of 1997, the GDP growth rate stood at only 5.4 per cent, weakening from the 7.2 per cent in the fourth quarter of the previous year. This was largely attributable to the slackening of domestic demand, particularly in private consumption and investment, which offset the steady growth in the volume of exports.

The growth rate of final consumption expenditures significantly decelerated

from the 6.9 per cent of the previous quarter to 4.5 per cent during the quarter under review. Among its components, private consumption registered only a 4.4 per cent increase, lower than the 6.5 per cent of the previous quarter. This reflected the slackening of real incomes in the course of the continuing contraction phase of the business cycle. Viewed by type, expenditures for durables, such as washing machines, refrigerators and automobiles, decreased, while expenditures for both semi-durables and services marked lower rates of increase than in the previous quarter. Government consumption, meanwhile, grew by only 4.6 per cent, a considerably lower rate than that of the previous quarter, affected by the reduction of the number of administrative support workers, and cuts in expenditures on materials and personnel.

[Table 1] Growth Rates by Component of Expenditure<sup>1)</sup>

	1995	1996 <sup>p)</sup>				Unit : per cent	
		I	II	III	IV	Year	I
G D P	8.9	7.8	6.9	6.6	7.2	7.1	5.4
G N P	8.7	7.5	6.9	6.5	6.8	6.9	5.0
Final Consumption Expenditure	7.2	7.5	7.2	6.2	6.9	6.9	4.5
Private Consumption	8.3	7.7	7.4	6.2	6.5	6.9	4.4
Government Consumption	1.0	6.8	5.9	6.3	9.1	7.1	4.6
Gross Fixed Capital Formation	11.7	8.2	5.2	8.0	7.2	7.1	-2.0
Equipment	15.8	4.9	4.6	9.3	13.7	8.2	-1.6
Construction	8.7	11.2	5.6	7.1	2.8	6.3	-2.5
Exports of Goods and Services	24.0	20.3	10.0	8.2	18.5	14.1	15.2
Imports of Goods and Services	22.0	16.3	12.5	12.6	17.6	14.8	8.8

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

2) p : preliminary.

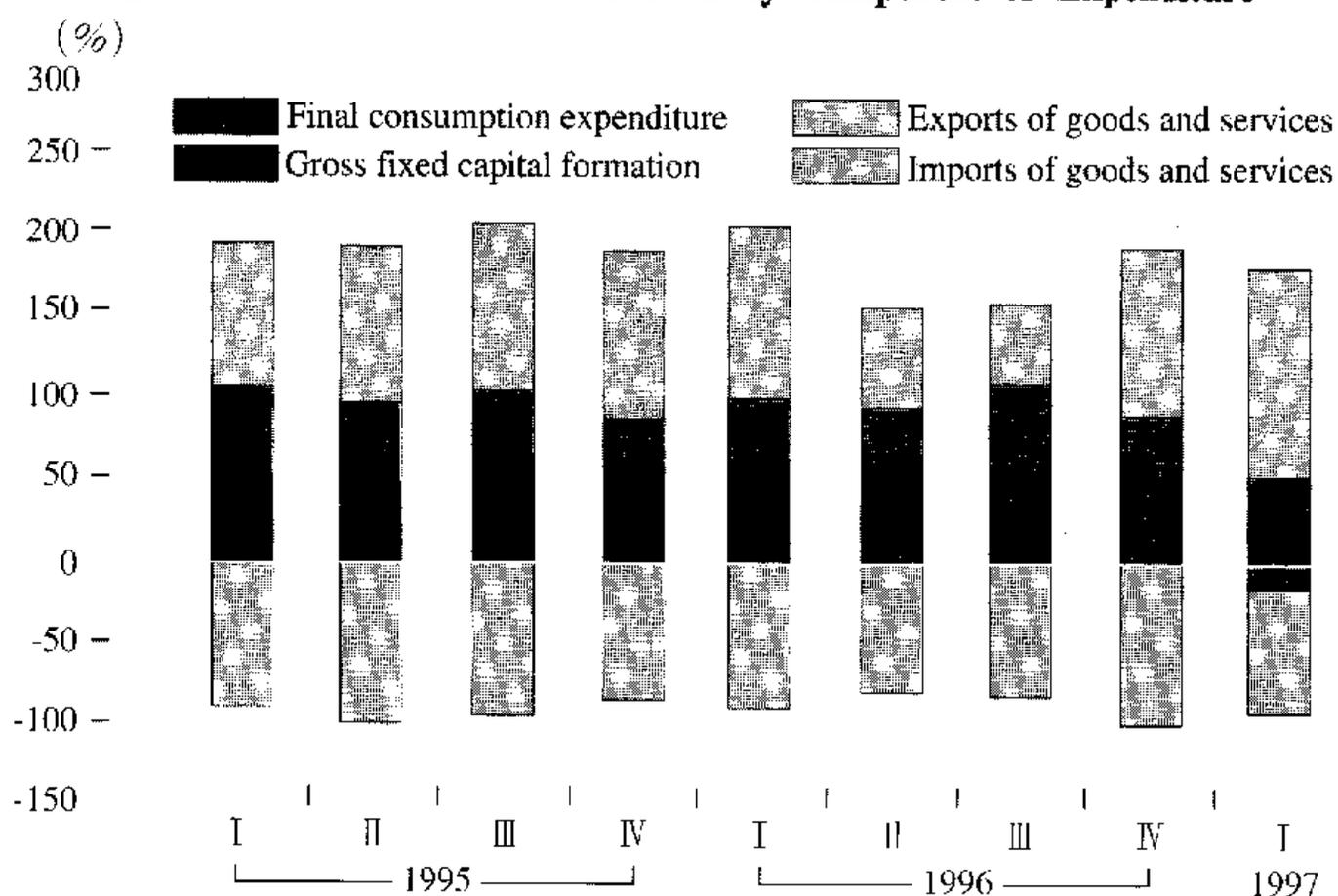
Fixed investment shifted to a 2.0 per cent decrease from its 7.2 per cent increase of the previous quarter. This was attributable to the contraction of both equipment and construction investment, affected by the deterioration of profitability and the dim business outlook. For its part, equipment investment, which had showed a high growth rate of 13.7 per cent in the previous quarter, retreated by 1.6 per cent, reflecting the sluggishness of investments in general industrial machinery, such as textile machinery, along with the slackening of transport equipment investment, such as automobiles, railroad car-

riages, and shipbuilding. Meanwhile, however, investment in electric and electronic machinery, such as wireless telecommunications equipment and electricity transmission and distribution facilities maintained its briskness. Construction investment, though, decreased by 2.5 per cent, reflecting the contraction of both residential and non-residential construction investment, as well as the slowdown of construction in railroads, roads, and water supply and sewage facilities. This slowdown was only partially compensated for by the robustness of infrastructure-related construction projects such as ports and electric power facilities.

Exports, in real terms, continued a steady rate of increase of 15.2 per cent during the quarter, although this was a bit lower than the 18.5 per cent growth of the previous quarter. Viewed by item, exports of electric and electronic products, iron and steel products, chemical products, and services such as transportation, and communications continued their lively pace of growth. However, exports of automobiles declined.

Imports, in real terms, showed a low growth rate of 8.8 per cent, just half the 17.6 per cent of the previous quarter. This reflected the subdued pace of imports of capital goods, notably metal products, machinery, and transport equipment, and the faltering of equipment investment. Imports of transportation-related services also slowed down. Meanwhile, those of crude oil increased markedly, boosted by the completion of petroleum refinery facilities the previous year.

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



Looking at contribution ratios to GDP growth by components of expenditure, that of exports moved up to 127.7 per cent from the 103.3 per cent of the previous quarter. In contrast, the contribution ratio of consumption dropped slightly to 54.4 per cent from the 56.5 per cent of the previous quarter, and that of fixed investment registered negative growth at -14.0 per cent as against its positive growth of 36.4 per cent in the previous quarter.

Viewing economic growth by sector of economic activity, services maintained a steady growth, but other industries such as manufacturing and the construction sector showed sluggish performance.

Manufacturing production recorded a growth rate of 5.7 per cent, considerably below the 8.4 per cent in the previous quarter. Within manufacturing, heavy industrial and chemical production registered a growth rate of 8.7 per cent, lower than the 12.1 per cent of the previous quarter. This was attributable to the weakening growth of industrial machinery and of basic iron and steel production, influenced by the falling-off of both domestic and external demand, and to the decline in transportation equipment production caused by protest strikes against the revised 'Labor Law'. This sluggishness counteracted the buoyancy in electric and electronic products and chemical products by virtue of favorable exports. Meanwhile, light industrial production worsened further as it decreased by 5.0 per cent, a larger fall than the 4.4 per cent decline of the preceding quarter. In particular, apparel and footwear production contracted more sharply than in the previous quarter, and the production of rubber, plastic products, and furs, which had showed a positive growth rate in the previous quarter, also turned to negative growth.

The construction industry registered a negative growth rate of -1.9 per cent as against its positive growth of 3.7 per cent of the previous quarter, due to the contraction of both building construction and engineering construction. By sector, private construction showed a negative growth rate of -3.3 per cent. This was attributable to the decrease of residential construction for housing and non-residential construction for factories and offices, the former caused by the lackluster business of real estate and the latter by slowdown of industrial activities. Another reason for the poor showing of private construction was the subdued state of activities in engineering construction, such as railroads, reclamation projects, and water development. Government construction also registered a low growth rate of 0.8 per cent, mainly due to the decline in subway construction and the sluggishness of civil engineering activities and water supply and sewage facilities construction whose combined effects were only partially offset by the favorable pace of building construction, such as public institutions.

The growth of the service sector continued its rapid increase, growing by 7.4 per cent, though its pace was slightly slower than the 8.4 per cent of the previous quarter. Within it, the wholesale and retail trade, restaurants and hotels subsector stayed at a growth rate of 4.9 per cent, below the 5.9 per cent in the previous quarter, due to the inactivity of transactions involving imported and domestic industrial goods. The community, social and personal services sector was limited to a 3.4 per cent increase, reflecting the continued decline of the education sector caused by the reduced number of persons enrolling at private educational institutes to prepare for entrance exams, along with the slowdown in the broadcasting sector caused by companies' reduced outlays for commercial advertising. Together these offset the good performance in medical and health, exercise and leisure services. However, transportation, storage and communications maintained a high growth rate of 14.2 per cent thanks to the steady expansion of the communication sector, particularly information communications and mobile telecommunications. On the other hand, finance, insurance, real estate and business services showed a growth rate of 7.9 per cent in the quarter under review, owing to an increase in insurance institutions' premiums, and a remarkable increase in banks' interest income following the reduction of their reserve requirements.

Meanwhile, agriculture, forestry and fishing production stayed at a growth rate of 2.0 per cent. This performance was affected by poor fish catches from both inshore and deep-sea fishing, and occurred in spite of the favorable production of vegetables and flowers, induced by the expansion of the area under cultivation.

[Table 2] Growth Rates by Sector of Economic Activity<sup>1)</sup>

	1995	1996 <sup>p)</sup>				Unit : per cent	
		I	II	III	IV	Year	I
Agriculture, Forestry & Fishing	3.7	1.0	1.3	0.0	6.2	3.5	2.0
Mining & Manufacturing	10.6	7.6	6.2	7.0	8.3	7.3	5.7
(Manufacturing)	10.8	7.7	6.5	7.0	8.4	7.4	5.7
Electricity, Gas & Water	8.7	11.9	10.7	9.6	10.5	10.7	4.9
Construction	8.6	10.4	6.7	7.5	3.7	6.7	-1.9
Services	10.1	8.3	8.5	7.5	8.4	8.2	7.4
Government & Private	2.1	3.6	3.7	3.4	3.1	3.5	2.8
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 January-April period, the total number of persons in employment rose by 2.4 per cent, slightly higher than the 2.2 per cent of the fourth quarter of the previous year. The seasonally-adjusted unemployment rate, however, rose to 2.7 per cent, owing to a 3.3 per cent increase of the economically active population that reflected the increased female participation in the workforce.

Viewing the pattern of employment by industry during the period, manufacturing employment decreased by 3.0 per cent (141,000 persons), owing to the contraction of job opportunities affected by the slowdown of industrial activities and companies' continued downsizing efforts. Construction employment, which had earlier sustained its high growth rate, increased by only 2.5 per cent (46,000 persons). However, the number of employees in the public and service sector continued to swell, showing a high growth rate of 5.3 per cent (612,000 persons).

[Table 3]

Employment Trends<sup>1)</sup>

	Unit : thousand persons								
	1995	1996				1997			
		I	II	III	IV	Year	I	Apr.	Jan.~Apr.
Increase in the economically active population	471 (2.3)	346 (1.7)	357 (1.7)	362 (1.7)	501 (2.4)	391 (1.9)	687 (3.4)	654 (3.1)	678 (3.3)
Increase in total number of persons in employment	540 (2.7)	378 (1.9)	350 (1.7)	371 (1.8)	448 (2.2)	387 (1.9)	495 (2.5)	476 (2.3)	491 (2.4)
Manufacturing	78 (1.7)	-91 (-1.9)	-103 (-2.1)	-84 (-1.8)	-104 (-2.2)	-96 (-2.0)	-137 (-2.9)	-153 (-3.3)	-141 (-3.0)
Construction	119 (6.7)	56 (3.2)	66 (3.4)	83 (4.3)	80 (4.1)	71 (3.7)	42 (2.3)	56 (2.8)	46 (2.5)
Services	514 (4.8)	579 (5.3)	536 (4.8)	519 (4.6)	564 (5.0)	549 (4.9)	614 (5.4)	606 (5.2)	612 (5.3)
Unemployment rate <sup>2)</sup>	2.0	1.9	2.0	2.0	2.2	2.0	2.6	2.7	2.7

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.

During the January-February period, the growth rate of nominal wages in all industries rose from the 11.1 per cent in the fourth quarter of the previous year to 12.3 per cent. By month, the growth rate of nominal wages in all industries registered a high figure in January, and then eased slightly in February. By sector, the growth rate of nominal wages in the construction; wholesale and retail trade, restaurants and hotels; and the financial intermediation, real estate, renting and business sectors all showed a sharp increase over the fourth quarter of the previous year. However, the growth rate in manufacturing slowed, and that in transport, storage and communications also decelerated sharply.

[Table 4] Rates of Increase in Nominal Wages by Industry<sup>1)</sup>

	1995	1996				Year	Unit : per cent		
		I	II	III	IV		Jan.	Feb.	Jan.~Apr.
All industries	11.2	13.7	10.3	12.7	11.1	11.9	13.4	11.3	12.3
(Manufacturing)	9.9	15.6	10.5	12.0	11.4	12.2	12.4	9.0	10.6
(Construction)	9.0	8.0	11.8	7.9	6.5	8.5	22.7	3.8	12.3
(Wholesale and retail trade, restaurants and hotels)	10.5	13.8	11.9	11.6	11.5	12.2	15.7	15.2	15.4
(Financial intermediation, real estates, renting and business activities)	14.6	7.8	3.3	12.2	6.1	7.4	9.2	14.0	11.5
(Transport, storage and communications)	12.1	16.1	17.5	19.1	18.2	17.8	16.4	7.2	11.4

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

## External Transactions

Exports decreased 5.6 per cent in the first quarter of 1997, largely due to the continued weakening both of the Japanese yen and the prices of semiconductors, along with protest strikes against the revision of labour-related legislation. In April, however, exports reversed their trend to increase 7.0 per cent. This was due to the upturn in the international prices of main export products and a reflection of the low growth rate of exports in the base month of the previous year.

By commodity group, exports of some light industrial products, such as footwear, and tires and tubes, continued to decrease. Exports of heavy industrial and chemical products, which had registered a decline, shifted to an in-

crease of 7.2 per cent in April. This was largely attributable to the abrupt expansion in exports of automobiles and chemical products and the bottoming-out of the decrease in exports of semiconductors.

Seen by region, the trend of exports to developed countries reversed to increase slightly in April, due to the briskness of exports to the EU which served to offset the decrease in those to the United States and Japan. Exports to developing countries, which had recorded an increase of 2.7 percent during the first quarter, regained their high growth rate chalking up a rise of 12.0 per cent in April, as exports to China revived.

L/C arrivals during the first quarter decreased 6.9 per cent compared with the same period in the previous year. In April, however, they registered a modest increase of 0.2 per cent.

[Table 5] Rates<sup>1)</sup> of Increase of Exports<sup>2)</sup> & L/C Arrivals

	Unit : per cent								
	1996						1997		
	I	Jan.~Apr.	II	III	IV	Year	I	Apr.	Jan.~Apr.
Exports	20.3	15.9	3.5	-7.8	2.1	3.7	-5.6	7.0	-2.4
Light industrial products	10.3	9.7	9.7	3.4	7.0	7.5	2.4	3.6	2.7
Textiles & clothing	-4.3	-3.4	-3.3	-0.7	-0.2	-2.1	3.4	4.1	3.6
(Textiles)	-5.2	-2.7	3.3	7.4	3.9	2.4	5.9	6.3	6.0
(Textile yarns)	4.2	1.1	-2.8	13.5	27.2	9.9	34.4	23.3	31.3
Tires & tubes	24.3	24.5	16.6	6.9	18.4	16.5	-15.8	-15.2	-15.7
Footwear	-27.3	-27.8	-29.1	-26.7	-27.4	-27.6	-24.7	-25.3	-24.8
Others	43.1	38.6	37.5	13.7	21.0	28.1	5.8	7.2	6.2
Heavy industrial & chemical products	24.5	18.1	0.1	-14.0	-1.6	0.9	-11.9	7.2	-7.3
Chemical products	3.0	-0.6	-14.1	-1.2	6.6	-1.6	4.8	19.4	8.3
Iron & steel products	-16.2	-21.8	-38.8	-26.0	-18.9	-26.3	9.0	6.5	8.3
General machinery	12.5	9.5	1.4	-13.8	-4.5	-1.7	-0.5	1.4	0.0
Electric & electronic products	31.9	25.9	-0.1	-18.2	-10.1	-1.6	-11.7	6.8	-7.4
(semiconductors)	56.9	40.4	-17.3	-45.7	-40.2	-19.3	-41.0	-8.9	-34.6
Automobiles	24.1	22.8	22.8	16.2	39.3	26.4	-10.0	18.1	-2.7
Ships	87.6	53.1	57.8	-28.6	32.9	28.8	-45.8	52.5	-28.5
Others	47.0	40.4	9.4	-13.5	-14.6	3.5	-25.4	-14.0	-22.7
L/C arrivals	-1.2	-2.4	-8.6	-3.6	-3.8	-4.4	-6.9	0.2	-5.2

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 slight increase of 4.1 per cent during the first quarter and 1.5 percent in April. This was largely due to the sluggishness of domestic demand and stable international prices of raw materials.

By commodity group, imports of raw materials, which had recorded an increase of 8.5 per cent during the first quarter caused by the surge in imports of crude petroleum, showed a slight increase in April due to the fall in international oil prices. Consumer goods imports also maintained a low rate of increase, reflecting the sluggishness in domestic consumption and the stable movement in international prices of cereals. Meanwhile, imports of capital goods decreased in the first quarter, responding to the depressed state of equipment investment, but in April they reversed their trend to a slight increase, because of the sharp expansion in imports of aircraft.

Seen by region, imports from developed countries continued to decrease, while imports from developing countries continued their high growth rate.

[Table 6] Rates<sup>1)</sup> of Increase of Imports<sup>2)</sup>

	Unit : per cent								
	1996						1997		
	I	Jan.~Apr.	II	III	IV	Year	I	Apr.	Jan.~Apr.
Imports	16.8	16.2	6.7	7.7	14.4	11.3	4.1	1.5	3.4
Consumer goods	25.9	25.7	20.0	18.1	24.0	21.8	6.5	2.8	5.5
Raw materials	18.9	19.4	9.3	3.6	9.6	10.2	8.5	0.2	6.3
Crude petroleum	15.1	20.0	5.9	48.8	67.8	33.5	67.6	15.9	53.7
Others	19.7	19.2	10.0	-4.0	-0.7	5.8	-3.5	-3.3	-3.4
(Iron & Steel)	48.7	48.2	18.9	-19.1	-24.1	0.5	-26.1	-19.0	-24.3
Capital goods	11.9	9.8	0.3	10.1	18.1	10.0	-2.7	3.0	-1.2
General machinery	7.1	4.3	-5.1	13.7	9.1	5.9	-14.1	-11.8	-13.5
Electric & electronic products	16.7	16.6	8.5	5.7	12.3	10.6	10.6	10.8	10.7
Aircraft	0.2	-19.0	-50.1	8.7	131.7	12.0	-36.7	350.2	9.5
Precision machinery	10.0	9.8	3.4	38.9	29.3	20.2	3.8	1.1	3.1
Others	22.0	23.5	12.5	-5.3	40.1	15.9	-4.1	-32.2	-12.1

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 deficit expanded greatly, with the balance registering US\$ 9.6 billion in the red in the first four months of 1997. This was mainly attributable to the deterioration of the trade balance, as exports continued to falter in spite of the downward trend in import growth, and also the widened

deficit on invisible trade associated with increased outlays for overseas travel and transportation services. In April, however, the current account deficit decreased, compared with the same period of the previous year, mostly as a result of a increased exports.

[Table 7] **Balance of Payments : Current Account**

Unit : billion U.S. dollars

	1996						1997		
	I	Jan.~Apr.	II	III	IV	Year	I	Apr.	Jan.~Apr.
Current account balance	-4.6	-6.9	-5.3	-7.5	-6.4	-23.7	-7.9	-1.7	-9.6
Trade balance	-2.5	-4.1	-3.1	-5.6	-4.1	-15.3	-5.5	-0.8	-6.3
Invisible trade balance	-1.9	-2.6	-1.9	-1.7	-2.2	-7.6	-2.1	0.9	-3.0
Transfers(net)	-0.2	-0.3	-0.3	-0.2	-0.2	-0.8	-0.2	0.0	-0.3

The Korean won depreciated rapidly against the U.S. dollar during the first quarter of 1997. Since April, however, it has shown stable movements at around the 890~895 won per dollar level. At the end of May, it was trading at 891.80 won per dollar, showing a loss of 5.3 per cent of its value at the end of the previous year.

On the other hand, against the Japanese yen, the Korean won continued to strengthen up until the end of April. In May, however, it reversed its trend to depreciate rapidly, reflecting the strengthening of the Japanese yen in international financial markets. As of the end of May, the won exhibited a 5.3 per cent depreciation over its value in yen terms at the end of the previous year.

[Table 8] **Exchange Rate Trends of the Korean Won**  
(end of period)

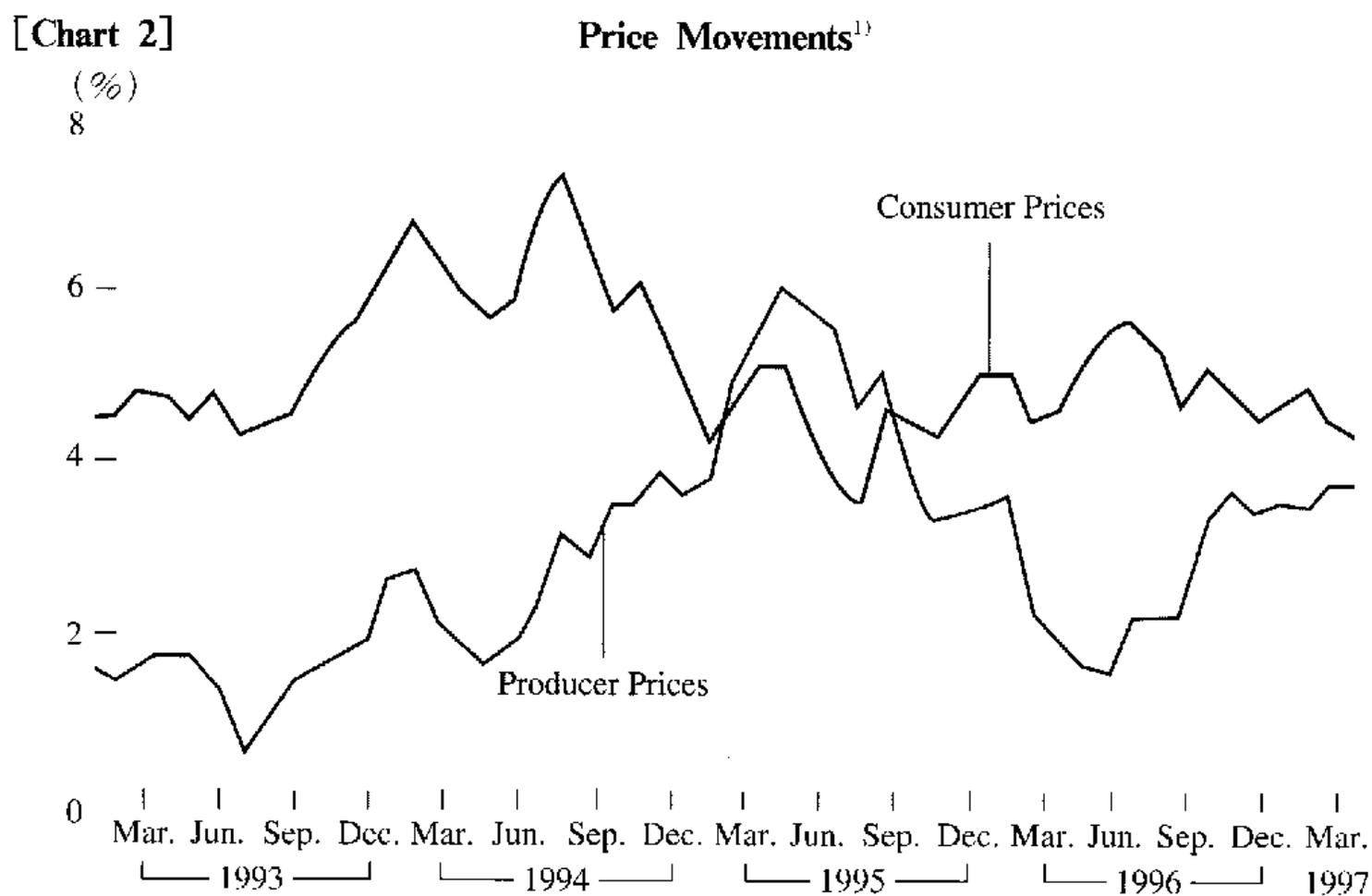
	1996				1997		
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May
U. S. dollar(W/\$)	828.70	844.20	861.30	863.90	897.10	892.10	891.80
	(-6.5)	(-8.2)	(-2.0)	(-2.3)	(-5.9)	(-5.4)	(-5.3)
Japanese yen(W/100¥)	727.79	726.51	705.69	715.30	723.18	702.72	767.14
	( 2.9)	( 3.1)	( 3.0)	( 1.6)	( 0.5)	( 3.4)	(-5.3)
Deutsche mark(W/DM)	538.47	542.89	525.82	511.80	534.53	517.01	522.90
	( 0.2)	(-0.7)	( 3.2)	( 6.1)	( 1.6)	( 5.0)	( 3.8)

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

## Prices

Consumer prices held relatively stable during the January-April period, as they rose by only 2.2 per cent over December of the previous year, lower than the 2.9 per cent increase of the same period of the previous year. Producer prices also exhibited a relatively slight increase rate of 1.8 per cent.

Viewing their movements by item, the prices of manufacturing goods showed a sharp upward trend centering on petroleum products at the beginning of the year, but slowed markedly from March onwards as demand pressure weakened, thanks to the dullness of domestic business conditions and the stability of international petroleum prices. Charges for services slowed abruptly. This deceleration reflected not only the moderation of increases in charges for public utilities, which had risen steeply in the same period of the previous year, but also the overall stability in the prices of private services. However, the prices of agricultural, forestry and marine products showed unstable movements, owing to supply-demand imbalances for fruit and vegetables.



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

Meanwhile, during the January-April period, housing prices rose by 2.5 per cent over the last month of the previous year. During January-February, housing prices showed a sharp increase as actual demand grew, centering on the Seoul metropolitan area, ahead of the 4.3 per cent rise in the standard cost of apartment construction effective from March 1, 1997. From March onwards, however, they slowed thanks to the rigid enforcement of regulations against speculation. On the other hand, during the January-April period, housing rents rose by 2.6 per cent, lower than that in the same period of last year. Land prices continued stable, posting an increase of only 0.1 per cent during the first quarter.

[Table 9] Trends of Real Estate Prices<sup>1)</sup>

	1995		1996				1997			
	Year	I	II	III	IV	Year	I	Apr.	Jan.~Apr.	
Housing prices	-0.2	0.6	0.0	0.5	0.4	1.5	2.4	0.1	2.5	
(Apartments)	0.7	1.2	0.0	1.1	1.2	3.5	4.4	0.1	4.5	
Land prices	0.7	0.2	0.2	0.2	0.3	0.9	0.1	—	—	
Housing rents	3.6	3.2	0.7	2.3	0.2	6.5	2.5	0.1	2.6	

Note : 1) Rates of change during the period.

## Money and Banking Movements

### Money

During the first quarter of 1997, the annual growth rate of MCT( $M_2$ +CDs + Money-in-trust) eased to 18.3 per cent from its 20.0 per cent in the fourth quarter of the previous year and further slowed to 16.6 per cent in April. This was mainly due to the shift of funds from financial products such as certificates of deposit (CD) to cover bills in response to regulatory changes including the imposition of reserve requirements on CDs and the elimination of ceilings on individual banks' issue of cover bills. In contrast, the growth rate of  $M_2$  rose to 19.5 per cent from the 18.3 per cent of the fourth quarter of the previous year and it rose further to 20.8 per cent in April.

[Table 10]

**Rates of Increase<sup>1)</sup> of Monetary Aggregates**  
(Average of daily figures)

Unit : per cent

	1996					1997				
	I	II	III	IV	Year	I	Jan.	Feb.	Mar.	Apr. <sup>2)</sup>
MCT	22.3	22.7	21.9	20.0	21.7	18.3	18.4	18.6	17.8	16.6
M <sub>2</sub>	14.0	15.2	17.3	18.3	16.2	19.5	18.1	19.8	20.6	20.8
Reserve Money	11.9	3.1	-0.6	-5.5	2.1	-16.3	-13.4	-11.9	-23.6	-21.6
Currency-in-Circulation	9.4	9.4	6.2	8.1	8.3	6.1	6.5	7.5	4.1	3.9
M <sub>1</sub>	11.3	9.9	9.1	7.1	9.3	5.6	5.7	6.3	4.7	2.8
M <sub>2</sub> A <sup>2)</sup>	14.2	13.1	14.1	12.8	13.5	13.0	11.7	13.7	13.6	13.9
M <sub>2</sub> +CD	13.5	14.9	16.1	17.1	15.5	17.7	17.1	18.2	17.8	16.5
M <sub>3</sub>	18.6	19.9	19.7	17.9	19.0	17.3	17.1	17.6	17.3	16.2

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

2) M<sub>2</sub>A=M<sub>2</sub> 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 two years.

3) P : Preliminary.

Surveying the increase of MCT by sector during the first quarter, based on changes in period-end figures, the private sector supplied 20,295 billion won. This was led by a sharp increase in bank loans, largely to highly evaluated corporations, in spite of financial market instability caused by the insolvencies of several large corporations such as Hanbo Iron & Steel Co. and Sammi Steel Co.. The government sector absorbed 6,178 billion won, reflecting an increase in tax receipts associated with the value added tax and the corporation tax. The foreign sector siphoned off 3,610 billion won, as the current account deficit widened although capital account surplus maintained a similar level to that of the previous quarter. The other sector soaked up 5,676 billion won, led by the enlarged sales of cover bills.

In April, the increase of claims on the private sector continued on a high level, while the size of absorption in the government and other sectors decreased.

In its conduct of monetary policy during the first quarter of 1997, the Bank of Korea exercised flexibility in its supply of liquidity in order to stabilize financial market instability arising from several large corporate insolvencies. In doing so, it offered a larger volume of purchases of government and public bonds under resale agreements, termed reverse RPs, than sales of them under repurchase agreements.

[Table 11]

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

	Unit : billion won						
	1996					1997	
	I	II	III	IV	Year	I	Apr. <sup>b)</sup>
Claims on government sector	-5,097	-1,717	-2,946	7,160	-2,600	-6,178	-736
Claims on private sector	13,950	20,022	25,427	11,645	71,044	20,295	5,295
(Loans)	(4,602)	(11,920)	(18,579)	(-654)	(34,447)	(10,693)	(3,331)
(Securities)	(8,037)	(5,944)	(3,973)	(6,694)	(24,648)	(9,134)	(1,106)
Foreign sector	424	1,956	-4,949	290	-2,279	-3,610	-1,196
Other sector	-2,963	-4,087	-2,760	-6,178	-15,988	-5,676	-660
MCT	6,315	16,174	14,772	12,917	50,178	4,832	2,703

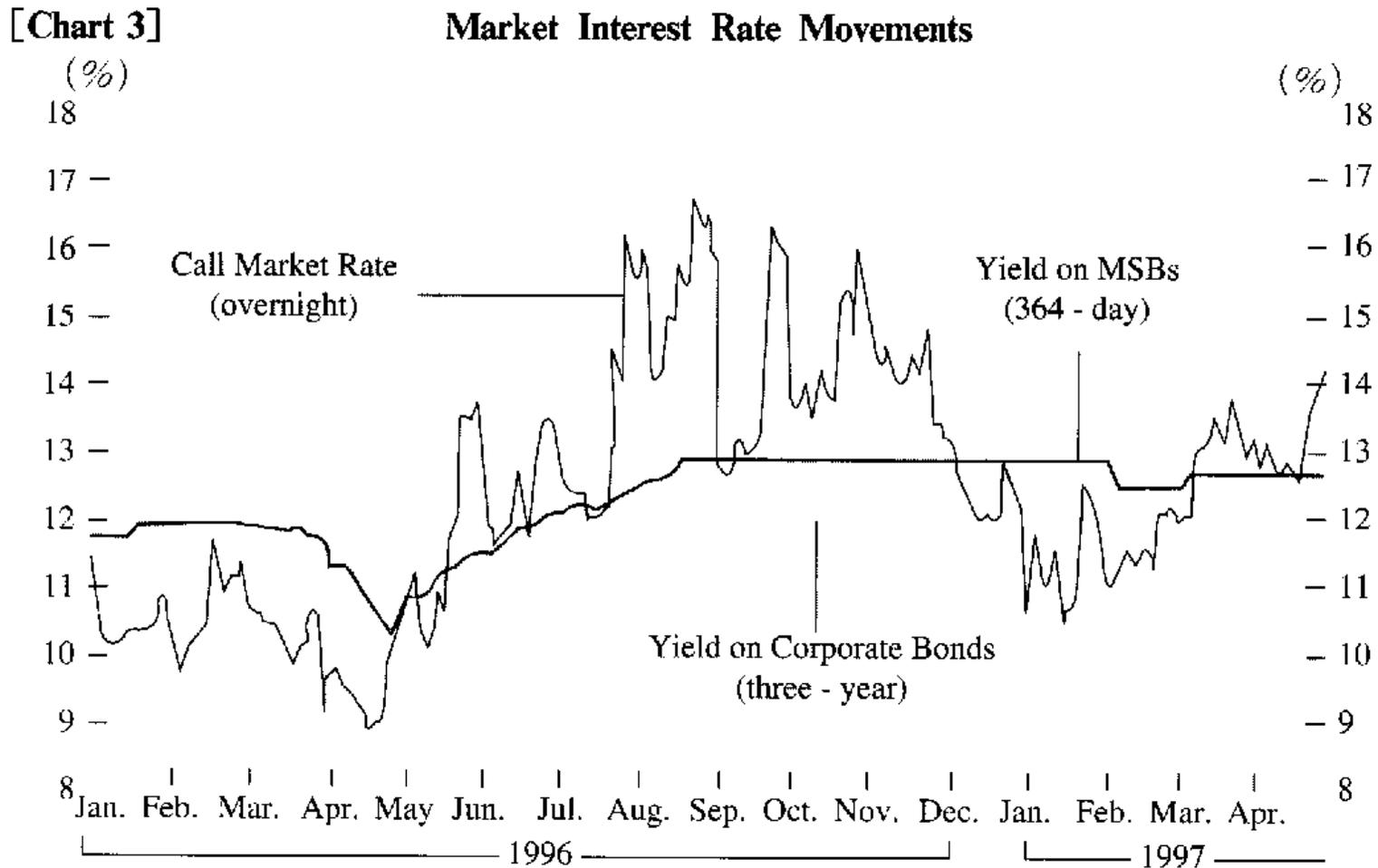
Note : 1) P : Preliminary.

The Bank also made efforts to improve its monetary policy instruments in order to pave the way for the setting up of a market-based indirect monetary management system. As of February 10, it abolished the restriction on the maximum term of bank deposits and reduced the scope of the restraints on banks' lending. With effect from February 17, it eliminated the ceilings on individual banks' issue of CDs and cover bills. On February 23, the Bank reduced the reserve requirement ratios on banks' deposit liabilities, bringing down the average ratio by 2.13 percentage points from 5.45 per cent to 3.32 per cent, but it imposed a reserve requirement on CDs, setting the ratio at 2 per cent. On February 24, the Bank lowered the ceiling on its aggregate credit to the banking sector by 2.8 trillion won in connection with reduction in reserve requirements. The Bank also improved the short-term loan system, formerly known as B2 loans, by allowing banks which face a temporary shortage of funds to borrow loans from the Bank at their own discretion. At the same time, the Bank shifted to competitive open bidding for its issues of Monetary Stabilization Bonds (MSBs) and its offers of repurchase agreements involving government and public bonds.

## Financial Markets

During the first quarter, market interest rates showed an upward trend reflecting the financial market apprehension caused by the insolvencies of several large corporations, but they shifted downward toward the end of March as apprehension was slightly pacified. In April, the yield on corporate bonds

exhibited stable movements around a level of 12.5 per cent. Call rates, however, showed a temporary sharp rise at the end of the month, affected by the expansion of the demand for funds for tax payments and increase of the money-at-call of securities companies and merchant banking corporations.



Turning to deposits at financial institutions during the first quarter, deposit-taking by banks' trust accounts continued to show only a weak advance. Deposits at deposit money banks and merchant banking corporations exhibited a similar increase to that in the previous quarter. Deposits taken by investment trust companies changed from a decrease to a remarkable increase.

Among the products offered by deposit money banks, the growth in the sales of cover bills expanded markedly reflecting the elimination of ceilings on individual banks' issue of cover bills. Sales of CDs, however, continued to contract, affected by the imposition of reserve requirements. Meanwhile, the growth of installment-type deposits, which have exhibited a considerable increase influenced by portfolio shifts from trust accounts, showed a slowdown. In the case of merchant banking corporations, while their sales of own paper expanded sharply, CMAs and sales of commercial paper experienced a weaker increase than in the previous quarter. As for securities investment trust companies, although stock funds showed a slower increase, short-term bond funds maintained a similar increase to that in the previous quarter, and long-term

bond funds shifted to an increase. Among banks' trust accounts, products such as non-specific money-in-trust and development trusts continued weak performances as a consequence of the realignment of the trust account system, and specific money-in-trust which had experienced a favourable increase, showed slower growth.

In April, deposits at deposit money banks continued a rising trend. This was because, although sales of cover bills grew only slightly, demand deposits

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

	Unit : billion won						
	1996					1997	
	I	II	III	IV	Year	I <sup>2)</sup>	Apr. <sup>2)</sup>
Deposit money banks	727	9,651	9,866	7,894	28,137	7,156	2,782
Demand deposits	-3,031	985	748	1,941	643	-2,596	579
Time and savings deposits	2,074	7,768	6,498	6,607	22,946	5,616	2,106
Short-term savings deposits	1,150	2,087	1,720	413	5,370	454	-397
Time deposits	86	3,113	719	711	4,629	1,038	873
Installment-type deposits	838	2,569	4,059	5,482	12,948	4,124	1,631
CDs	1,574	626	1,002	-1,302	1,901	-1,924	-247
Cover bills	109	272	1,619	648	2,648	6,059	344
Merchant banking corporations	8,585	3,721	3,782	7,636	23,723	7,738	-3,019
Sales of own paper	354	230	4,922	96	5,602	837	1,327
CMAs	1,223	-534	-1,392	842	139	684	-36
Sales of commercial paper	7,008	4,025	251	6,698	17,982	6,217	-4,309
Investment trust companies	4,905	2,808	1,210	-586	8,337	3,852	-2,239
Short-term bond funds	1,396	-303	1,421	2,025	4,538	2,158	-465
(MMFs)	(-)	(-)	(1,750)	(4,216)	(5,666)	(3,120)	(-237)
Long-term bond funds	3,978	3,984	-1,087	-3,306	3,568	1,107	-592
Stock funds	-604	-773	894	740	256	447	-948
Trust-type securities savings	53	-76	-8	29	-1	209	-229
BMFs	83	-23	-10	-73	-24	-69	-4
Money-in-trust	8,508	8,044	3,683	5,968	26,203	3,490	956
Company money-in-trust	990	-8	-760	-951	-728	-540	-307
Household money-in-trust	6,202	4,022	1,175	604	12,002	-574	-754
Specific money-in-trust	655	126	1,422	3,428	5,631	3,059	1,540
Individual pension-trust	-498	-119	-384	-345	-1,346	-679	-253
Other trusts <sup>1)</sup>	1,158	4,023	2,229	3,233	10,643	2,224	730

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

2) P : Preliminary.

regained increased momentum and installment-type deposits exhibited a favourable increase. On the other hand, deposit-taking by merchant banking corporations and investment trust companies decreased remarkably and banks' trust accounts exhibited a lackluster performance.

The stock market continued depressed during the first quarter, mirroring market concerns influenced by unfavorable economic conditions, labor strikes at the beginning of the year, insolvencies of several large corporations and instability of the foreign exchange market. As a result, the fund raising through rights issues contracted considerably. In the bond market, issuance of corporate bonds was subsided due, not only to the contraction of firms' demand for funds, but also to the cancellation of issuance of some corporations' corporate bonds as banks and security companies were reluctant to guarantee issuance of corporate bonds after the insolvencies of Hanbo Iron & Steel Co. and Sammi Steel Co..

[Table 13]

Securities Markets

Unit : billion won

	1996					1997	
	I	II	III	IV	Year	I	Apr. <sup>P)</sup>
<b>&lt;Stock Market&gt;</b>							
Value of stocks traded	381	680	407	481	487	515	608
(Daily average)							
Korea Composite Stocks							
Price Index <sup>1)</sup>							
(End of period)	874.2	817.4	789.7	651.2	651.2	677.3	703.2
(Daily average)	865.9	910.6	808.3	749.2	833.4	673.8	694.3
Stock issued	970	983	1,631	1,459	5,043	383	43
Public issues	264	159	118	851	1,392	98	0
Rights issues	706	824	1,514	608	3,652	285	43
<b>&lt;Bond Market&gt;</b>							
Value of bonds traded	873	814	524	601	701	726	674
(Daily average)							
Government & public bonds	322	289	199	224	258	334	346
Corporate bonds	551	524	325	377	443	392	327
Net bond issuance	7,911	9,123	2,763	5,562	25,359	1,448	1,603
Government & public bonds	3,082	5,612	-125	502	9,071	-1,328	338
(Monetary control bonds)	(-240)	(3,219)	(-1,517)	(-2,256)	(-795)	(-3,410)	(-167)
Corporate bonds	4,829	3,511	2,888	5,060	16,288	2,775	1,265

Notes : 1) 1980. 1. 4=100.

2) P : Preliminary.

In April, the stock market displayed signs of a recovery helped by easing of the upward trend in interest rates, foreign exchange rates and the announcement of raising of the ceiling in total foreign portfolio investments. Issuance of corporate bonds also increased slightly.