

# Flow of Funds in 1996

## I. Introduction

In 1996, the GDP growth of the Korean economy fell from 8.9 percent (in 1995) to 7.1 percent due chiefly to the slowdown in equipment investment and the current account deficit widened due to the worsening trade position and invisible account, centering on overseas travel expenses. These movements within the real economy were closely reflected in the flow of funds.

The business sector's financial deficit enlarged greatly from 59 trillion won to 71 trillion won, owing to the slowdown in exports growth and the build up of inventories, while the individual sector's financial surplus expanded slightly from 39.5 trillion won to 40.3 trillion won. As a result, the ratio of the individual sector's financial surplus to the business sector's financial deficit declined from 66.9 percent to 56.7 percent.

Meanwhile, the business sector increased its reliance on overseas fund-raising. Specifically, the ratio of direct and indirect fund raising both declined while that of borrowings from abroad increased. The scale of the business sector's utilization of funds expanded, centering on deposits at financial institutions.

The individual sector increased its borrowings from deposit money banks and the newly founded installment credit companies due to the deceleration of income growth. In its utilization of funds, a larger amount was placed on deposit at deposit money banks in time & savings deposits, mutual installment savings, etc., as a result of the realignment of the trust account system.

In the government sector, the amount of both fund raising and utilization shrank owing to the reduction in the issuance of long-term government and public bonds, the repayment of borrowings from financial institutions and the slowing down of the growth of tax revenues as a result of gloomy economic conditions.

In the case of the financial sector, fund raising and utilization showed only

a slow pace of increase compared to the preceding year. On the fund raising side, the issuance of bonds such as long-term financial debentures decreased and on the fund utilization side, the value of share holdings also declined amid the protracted depression of the stock market.

[Table 1] Principal Economic Indicators

	1992	1993	1994	1995	1996
<b>Growth rates(%)<sup>1)</sup></b>					
G D P	5.1	5.8	8.6	8.9	7.1
Private consumption	6.6	5.7	7.6	8.3	6.9
Gross fixed capital formation	-0.8	5.2	11.8	11.7	7.1
Construction	-0.6	8.9	4.5	8.7	6.3
Equipment	-1.1	-0.1	23.6	15.8	8.2
<b>Balance of payments (billion dollars)</b>					
Current account balance	-45.3	3.8	-45.3	-89.5	-237.2
Trade account balance	-21.5	18.6	-31.5	-47.5	-152.8
Exports	751.7	809.5	936.8	1,232.0	1,282.5
Imports	773.2	790.9	968.2	1,279.5	1,435.3

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

## II. Financial Surpluses and Deficits by Economic Sector

In terms of financial balances(the balance between financial saving and financial investment) during 1996, the business sector and the financial sector both showed a financial deficit. In contrast, the individual and the government sectors exhibited a financial surplus. The overseas sector's financial surplus exceeded that of the previous year.

The financial deficit of the business sector amounted to 71 trillion won, representing a sharp increase of 20.4 percent. Its expansion, which occurred despite the abrupt deceleration of the growth of its facilities investment, was caused by the slowing down of the pace of exports and the accumulation of inventories. The ratio of its financial deficit to nominal GNP stood at 18.4

percent, which was the highest since 1975(18.5%).

The individual sector maintained a financial surplus of 40.3 trillion won representing a 2.1 percent increase over the previous year. Consumer spending has constantly increased whereas the growth of incomes has been held back by the depressed state of the economy.

Meanwhile, the government sector showed a 13.4 trillion won surplus, representing a decrease of 9.3 percent compared with the previous year. This was influenced by the faltering of the increase in tax revenues while government outlays on infrastructure investment and small business, farm and fishery aid rose.

The volume of the overseas sector's financial surplus amounted to 18.5 trillion won, 2.3 times that of the previous year, as the current account deficit widened.

[Table 2]

Financial Balances by Sector

Unit : billion won, percent

	1992	1993	1994	1995	1996
Business sector's deficit	30,966.3	35,957.4	49,122.2	58,953.9	70,994.5
Individual sector's surplus	24,331.1	28,166.1	32,893.6	39,465.7	40,276.6
Government sector's surplus	3,016.1	6,285.4	9,471.5	14,797.5	13,419.1
Overseas sector's surplus	2,662.8	267.6	4,992.9	8,029.8	18,504.4
Ratio of financial balances to nominal GNP					
Business sector's deficit	13.0	13.5	16.2	16.9	18.4
Individual sector's surplus	10.2	10.6	10.8	11.3	10.4
Government sector's surplus	1.3	2.4	3.1	4.2	3.5
Overseas sector's surplus	1.1	0.1	1.6	2.3	4.8
Ratio of the individual sector's financial surplus to the business sector's financial deficit					
	78.6	78.3	67.0	66.9	56.7

### III. Fund Raising and Investment by Non-Financial Sectors

#### 1. Business Sector

During 1996, the business sector raised a total amount of 118.2 trillion won through the financial market. Of this, 71 trillion won was allocated to fund its equipment investment.

Its raising of external funds showed a 18.2 percent increase, which was higher than the previous year's 12.3 percent. This was brought about by the increased demand for operating funds in response to the weakness of exports and the accumulation of inventories, which more than offset the effects of the slowdown in equipment investment.

Looking at the pattern of funds raised, the share of indirect finance, i.e., borrowings from financial institutions, and of direct finance, i.e., the issue of securities such as stocks and corporate bonds both fell. In contrast, there was a substantial increase in the share of borrowings from overseas.

The proportion of the sector's funds raised through indirect finance eased back to 31.3 percent from the previous year's 31.8 percent, owing to the decline in borrowings from non-banks, which more than outweighed the increase in borrowings from banks.

Borrowings from deposit money banks increased greatly from 14.9 trillion won to 18.6 trillion won, owing to the increased need for operating funds and the big increase in deposit money banks' general loans following the boost to their funding power given by the realignment of the trust account system.

Borrowings from non-banks expanded somewhat from 17 trillion won to 18.4 trillion won as loans from trust accounts and insurance companies both increased even though there was a decline in those made by merchant banks.

Funds raised through direct finance expanded from the 48.1 trillion won of the previous year to 55.6 trillion won, due to the active issuance of commercial paper, corporate bonds and government and public bonds such as Seoul Metropolitan Subway Bonds. The share of direct finance in the business sector's total fund raising showed a relative downswing from 48.1 percent to 47.0 percent as borrowings from overseas increased.

The issuance of commercial paper expanded massively from 16.1 trillion won to 20.7 trillion won, reflecting the increased demand for operating funds and the keener appetite for commercial paper, which bears competitively high yields. Corporate bonds also swelled from an issuance of 15.4 trillion won of

[Table 3] Fund Raising and Utilization by the Business Sector

Unit : billion won, percent

	1994		1995		1996	
	Amount	%	Amount	%	Amount	%
Financial deficit(A-B)	49,122.2		58,953.8		70,994.5	
Fund raising(A)	89,040.5	100.0	100,016.2	100.0	118,201.0	100.0
Indirect finance	39,649.6	44.5	31,854.8	31.8	36,995.3	31.3
Borrowings from DMBs	18,441.9	20.7	14,897.8	14.9	18,571.1	15.7
Borrowing from non-banks	21,207.7	23.8	16,957.0	17.0	18,424.2	15.6
Investment & finance companies	3,864.1	4.3	503.6	0.5	-390.2	-0.3
Insurance companies	2,096.5	2.4	2,718.1	2.7	3,860.4	3.3
Trust accounts of banks	6,971.5	7.8	6,075.1	6.1	7,735.0	6.5
Others	8,257.0	9.3	7,660.2	7.7	7,219.0	6.1
Direct finance	33,939.9	38.1	48,070.6	48.1	55,600.6	47.0
Government and public bonds	350.6	0.4	-939.2	-0.9	319.6	0.3
Commercial paper	4,405.0	4.9	16,096.2	16.1	20,690.6	17.5
Stocks	13,198.2	14.8	14,444.5	14.4	13,342.1	11.3
Corporate bonds	12,605.6	14.2	15,350.8	15.3	19,945.8	16.9
Borrowings from abroad	4,407.3	4.9	8,392.3	8.4	12,062.9	10.2
Others <sup>1)</sup>	11,043.6	12.4	11,698.5	11.7	13,542.2	11.5
Trade credits	6,134.6	6.9	4,960.7	5.0	6,859.3	5.8
Fund utilization(B)	39,918.3	100.0	41,062.4	100.0	47,206.5	100.0
Deposits	17,986.9	45.1	17,884.0	43.5	18,591.4	39.4
Deposit money banks	7,784.4	19.5	6,631.0	16.1	8,611.2	18.2
Demand deposits	872.6	2.2	1,218.0	3.0	-780.6	-0.2
Time & savings deposits	4,667.0	11.7	3,685.5	9.0	7,004.4	14.8
CDs	1,386.0	3.5	555.3	1.4	1,127.7	2.4
Cover bills	822.7	2.1	270.4	0.7	706.7	1.5
Non-banks	10,198.5	25.5	11,253.0	27.4	9,980.2	21.1
Merchant banking corporations	1,832.8	4.6	4.3	0	-530.4	-1.1
Trust accounts of banks	6,301.6	15.8	9,319.7	22.7	7,611.7	16.1
Others	2,199.9	5.5	1,251.8	3.1	2,729.6	5.8
Securities	5,166.6	12.9	9,922.4	24.2	10,303.5	21.8
Beneficiary certificates	1,106.7	2.8	947.2	2.3	395	0.8
Commercial paper	345.1	0.9	4,480.1	10.1	4,039.3	8.6
Corporate bonds	1,270.5	3.2	-1,591.2	-3.9	1,779.2	3.8
Stocks	483.0	1.2	3,452.6	8.4	3,222.9	6.8
Financial debentures	1,264.3	3.2	1,661.8	4.0	139.5	0.3
Government & public bonds	687.2	1.7	1,135.6	2.8	699.4	1.5
Foreign claims	2,619.1	6.6	4,034.9	9.8	4,550.7	9.6
Others <sup>2)</sup>	14,145.8	35.4	9,221.1	22.5	13,760.9	29.2
Trade credits	8,336.3	20.9	8,100.3	19.7	7,936.0	16.8

Notes : 1) Trade credits, borrowings from government, bills payable, etc.

2) Trade credits, currency, bills receivable, etc.

## 2. Individual Sector

The amount of funds raised by the individual sector reached 37.1 trillion won, a 23.6 percent rise over the previous year owing to a large increase in borrowings from deposit money banks and installment credit companies.

Looking at the pattern of funds raised, borrowings from deposit money banks more than doubled to 11.2 trillion won from the 5 trillion won of the previous year, affected by the lowering of interest rates on loans and banks' strategic refocussing on the loan business. However, borrowings from non-bank financial institutions eased from the 20.2 trillion won of the previous year to 19.5 trillion won, as borrowings from the trust accounts of banks and mutual savings & finance companies decreased.

Meanwhile, borrowings from installment credit companies, which had commenced business early in the year, amounted to 3.9 trillion won, boosted by the enlargement in April of the scope of financing objects to include dwellings.

The volume of funds invested by the individual sector in the form of financial assets during 1996 rose to 77.4 trillion won, an 11.4 percent increase over the previous year. Looking at funds utilization, the share of securities holdings rose while that of deposits at financial institutions declined.

Deposits at financial institutions increased from the previous year's 55.9 trillion won to 58.9 trillion won, the increase in deposits at deposit money banks more than offsetting the downturn in those at non-banks.

Among financial instruments offered by deposit money banks, time & savings deposits and mutual installment deposits both experienced increases, thanks to the shift of funds from money-in-trust and the introduction of tax-exempt long-term household savings. This brought the total amount placed with deposit money banks by the individual sector up from the previous year's 12.3 trillion won to 15.9 trillion won as of the year-end 1996, representing an upswing in deposits at deposit money banks' share in its total fund utilization from 17.6 percent to 20.6 percent.

In contrast, deposits at non-bank financial institutions decreased from 43.6 trillion won to 43 trillion won, and their share in the sector's fund utilization fell back from 62.8 percent to 55.5 percent.

Viewing the detailed picture, deposits in trust accounts contracted, led downward by non-specific money-in-trust and retirement installment trusts for employees. This decrease offset the growth of deposits at mutual credit facilities of agricultural, fisheries and livestock cooperatives and those at com-

the previous year to 19.9 trillion won as institutional investors tended to hold bonds in preference to stocks, which were in decline. The issuance of stocks fell from the 14.4 trillion won of the previous year to 13.3 trillion won, affected by the slump of the trading market.

Borrowings from overseas increased greatly from 8.4 trillion won to 12.1 trillion won. The upsurge was driven mainly by increased trade credits, direct investment by foreigners and increased issuance of foreign currency denominated bonds by companies, owing to the easing of foreign exchange and capital account restrictions.

On the funds investment front, the amount of funds utilized by the business sector stood at 47.2 trillion won which was a 15 percentage point (6.1 trillion won) increase from the previous year.

Viewing the pattern of fund utilization by type of asset, deposits at financial institutions rose from the 17.9 trillion won of the preceding year to 18.6 trillion won as those at deposit money banks increased despite the decline in deposits at non-bank financial institutions. Deposits at deposit money banks rose from 6.6 trillion won to 8.6 trillion won. This resulted mainly from a large increase in holdings of time & savings deposits following the lowering of reserve requirements and the lengthening of the maturity of trust accounts, and market-linked financial instruments such as cover bills and CDs.

Deposits at non-bank financial institutions shrank from 11.3 trillion won to 10 trillion won due to decreased deposits at merchant banking corporations and trust accounts.

Holdings of securities increased modestly from 9.9 trillion won to 10.3 trillion won with a rise in holdings of corporate bonds being partially offset by declines in those of commercial paper, stocks and financial debentures.

The holdings of corporate bonds increased from a negative position of 1.6 trillion won to 1.8 trillion won as their yields rose.

However, holdings of commercial paper decreased from the 4.5 trillion won of the previous year to 4 trillion won, centering on unsecured intermediated commercial paper. There was also a decrease in the sector's holdings of stocks from 3.5 trillion won to 3.2 trillion won.

The utilization of the sector's funds in the form of foreign claims increased from the 4 trillion won of the previous year to 4.6 trillion won owing to the steady growth of its foreign direct investment and the extension of long-term trade credits associated with exports made on a deferred-payment basis.

munity credit cooperatives.

The sector's holdings of securities increased from 12.8 trillion won to 15.1 trillion won and the share of this item in its total fund utilization moved up from 18.4 percent to 19.6 percent. This expansion was driven by increased holdings of stocks and beneficiary certificates, which outweighed the effects of the reduction in holdings of financial debentures and commercial paper.

[Table 4] Fund Raising and Utilization by the Individual Sector

Unit : billion won, percent

	1994		1995		1996	
	Amount	%	Amount	%	Amount	%
Financial surplus(B-A)	32,893.6	—	39,465.7	—	40,276.6	—
Fund raising(A)	33,286.9	100.0	30,018.9	100.0	37,101.1	100.0
Borrowings	29,845.6	89.7	25,266.0	84.2	30,687.3	82.7
Deposit money banks	8,346.4	25.1	5,048.0	16.8	11,175.0	30.1
Non-banks	21,499.2	64.6	20,218.0	67.4	19,512.3	52.6
Installment credit companies	—	—	—	—	3,887.6	10.5
Others	3,441.3	10.3	4,752.9	15.8	2,526.2	6.8
Trade credits	2,201.6	6.6	3,139.6	10.5	1,076.7	2.9
Fund utilization(B)	66,180.5	100.0	69,484.6	100.0	77,377.7	100.0
Deposits	53,594.1	81.0	55,908.8	80.5	58,880.7	76.1
Deposit money banks	17,089.2	25.8	12,260.2	17.6	15,911.4	20.6
Demand deposits	805.2	1.2	1,190.2	1.7	-1,294.7	-1.7
Time & savings deposits	12,578.0	19.0	9,644.2	13.9	14,874.2	19.2
CDs	2,497.9	3.8	889.1	1.3	899.7	1.2
Cover bills	1,208.2	1.8	536.7	0.8	1,432.2	1.9
Non-banks	36,504.9	55.2	43,648.6	62.8	42,969.3	55.5
RPs	-245.2	-0.4	1,471.8	2.1	-138.6	-0.2
Life insurance & pension funds	6,562.5	9.9	16,526.5	23.8	16,955.4	21.9
Trust accounts of banks	10,807.4	16.3	15,611.4	22.5	8,359.0	10.8
Merchant banking corporations	1,224.9	1.9	-463.8	-0.7	218.5	0.3
Others	18,155.3	27.4	10,502.7	15.1	17,575.0	22.7
Securities	10,893.9	16.5	12,752.5	18.4	15,128.4	19.6
Beneficiary certificates	6,111.3	9.2	2,629.7	3.8	3,881.5	5.0
Commercial paper	198.7	0.3	1,501.9	2.2	1,364.0	1.8
Stocks	306.2	0.5	5,234.4	7.5	6,244.3	8.1
Financial debentures	198.7	1.8	1,761.1	2.5	199.9	0.3
Corporate bonds	590.7	0.9	-921.1	-1.3	557.7	0.7
Others <sup>1)</sup>	1,692.5	2.6	823.3	1.2	3,368.6	4.4

Note : 1) Currency, bills receivable, etc.

The volume of beneficiary certificates holdings increased from the previous year's 2.6 trillion won to 3.9 trillion won, centering on the newly introduced money market funds, and that of stock holdings from 5.2 trillion won to 6.2 trillion won, with the rise representing shares in new and unlisted corporations rather than established listed companies in view of the depressed state of the stock market.

Meanwhile, holdings of financial debentures shrank dramatically from 1.8 trillion won to 0.2 trillion won, affected by the reduced volume issued, and holdings of commercial paper slipped back from 1.5 trillion won to 1.4 trillion won.

### 3. Government Sector

In 1996, the amount of funds raised by the government sector in financial markets declined sharply from 4.1 trillion won to 2.1 trillion won as the volume of issuance of long-term government and public bonds decreased and borrowings from financial institutions showed a net redemption position for the second successive year.

The amount of funds operated by the government sector in the form of financial assets contracted from the 18.9 trillion won of the previous year to 15.5 trillion won owing to the decrease in its external fund-raising and the decline in tax revenues amid depressed economic conditions.

By type of asset holding, deposits at financial institutions shrank from the previous year's 7 trillion won to 6.4 trillion won. This was largely attributable to the central government's increased expenditure, drawing down its checking account, and the deceleration of the growth in its other types of deposit despite the inflow of short-term funds into certificates of deposit from newly-autonomous local government.

Capital participations in the stock of government managed companies such as Korea Petroleum Development Corporation shrank markedly to 0.1 trillion won as against 2.9 trillion won in the previous year, when the figure had been boosted by the conversion of the Petroleum Business Fund to a capital participation.

[Table 5] Fund Raising and Utilization by the Government Sector

unit : billion won, percent

	1994		1995		1996	
	Amount	%	Amount	%	Amount	%
Financial surplus(B-A)	9,471.5	—	14,797.5	—	13,419.1	—
Fund raising(A)	1,690.0	100.0	4,110.9	100.0	2,129.2	100.0
Short-term public bond issues	-530.1	-31.4	-100.0	-2.4	0.0	0.0
Long-term public bond issues	2,062.6	122.1	2,791.9	67.9	1,721.9	80.9
Borrowings from financial institutions	-90.6	-5.4	-267.2	-6.5	-462.0	-21.7
Others	248.1	14.7	1,686.2	41.0	869.3	40.8
Fund utilization(B)	11,161.6	100.0	18,908.3	100.0	15,548.3	100.0
Deposits	3,697.5	33.1	6,983.7	36.9	6,400.8	41.2
Demand deposits	380.7	3.4	1,157.8	6.1	443.0	2.8
Time & savings deposits	171.6	1.5	953.3	5.0	749.8	4.8
Certificates of deposit	890.9	8.0	1,198.4	6.3	1,332.0	8.6
Checking account deposits	1,000.0	9.0	-439.3	-2.3	-457.0	-2.9
Trust accounts of banks	1,307.5	11.7	2,235.0	11.8	2,748.2	17.7
Others	-155.0	-1.4	1,129.0	6.0	857.3	5.5
Loans	2,276.4	20.4	3,482.9	18.4	2,987.2	19.2
Others	5,187.7	46.5	8,441.7	44.6	6,160.4	39.6
Stocks	1,440.0	12.9	761.0	4.0	727.2	4.7
Capital participations	1,340.3	12.0	2,861.6	15.1	98.8	0.6
Bonds	610.8	5.5	-19.3	-0.1	1,207.5	7.8

#### 4. Overseas Sector

During 1996, the domestic sector's borrowings from abroad expanded to 31.1 trillion won, a 30.6 percent increase over the previous year, as the current account deficit widened. Meanwhile its claims on the rest-of-the-world decreased to 12.6 trillion won, a 20.1 percent decrease from the previous year. Therefore, Korea's financial deficit with the rest-of-the-world(the rest-of-the-world's surplus) widened sharply, swelling from the previous year's 8 trillion won to 18.5 trillion won.

The overseas sector's claims(Korea's external liabilities) rose from the 23.8 trillion won of the preceding year to 31.1 trillion won. The expansion was influenced by domestic firms' increased issue of securities in international markets and by the raising of ceilings on foreign portfolio investment in domestic

stocks. Trade-related credits to domestic companies from the rest-of-the-world also expanded greatly, led by short-term trade credits.

In contrast, the domestic sector's claims on the rest-of-the-world(fund raising by the overseas sector) declined from the previous year's 15.8 trillion won to 12.6 trillion won. The main reason was an abrupt slow down in the growth of holdings of foreign exchange as the current account deficit widened. Together these were only partially offset by the increases in outward foreign direct investment and in holdings of foreign-currency denominated securities.

[Table 6] Flow of Funds between the Domestic and Overseas Sectors

			Unit : billion won, percent		
			1994	1995	1996
Financial surplus of overseas sector(A-B)			4,992.9	8,029.8	18,504.4
Foreign debts	By type	Loans	-248.9	996.7	759.3
		Public loans	-226.1	-401.7	-392.0
		Commercial loans	-275.7	-185.9	-119.0
		Bank loans	-249.7	-301.3	-981.2
		Merchant bank loans	294.9	1,575.6	1,898.7
		Direct investment	609.5	953.8	1,576.3
		Foreign trade credits	1,891.2	2,949.4	4,034.0
		Foreign-currency denominated bonds	3,211.1	5,243.9	8,141.8
		Foreigners' stock investment	8,217.5	2,683.6	4,194.6
		Others <sup>1)</sup>	8,217.5	11,005.7	12,419.6
		Call money	466.9	423.6	332.9
		Overseas inter-office a/c's	2,002.6	1,584.8	2,353.0
		Funds utilized(A)			13,680.4
	By sector	Financial sector	7,658.5	13,089.7	14,515.3
		Government sector	143.0	-345.5	-227.8
		Business sector	5,878.9	11,625.6	12,062.9
Foreign claims	By type	Foreign exchange holdings <sup>2)</sup>	4,327.0	5,409.0	313.0
		Foreign claims	6,874.7	10,394.3	12,308.2
		Funds raised(B)	11,201.9	15,803.3	12,621.2
	By sector	Financial sector	8,244.0	11,620.9	7,636.9
		Government sector	338.8	147.5	433.6
		Business sector	2,619.1	4,034.9	4,550.7

Notes : 1) Overseas inter-office a/c's, refinance, deposits in foreign currency, etc.

2) Held by the Bank of Korea and Foreign Exchange Stabilization Fund.

## IV. Financial Transactions by the Financial Sector

### 1. Fund Raising

#### A. By type of institution

During 1996, the financial sector raised 134.1 trillion won which was a 2.1 percent decrease from the previous year's 137 trillion won. Looking at its fund raising by type of institution, the share of deposit money banks increased from 32.9 percent to 35.7 percent, that of insurance companies and pension funds from 14.7 percent to 15.7 percent and that of other financial institutions from 50.7 percent to 51.8 percent.

[Table 7] Fund Raising by Type of Institution in the Financial Sector

	Unit : billion won, percent					
	1994		1995		1996	
	Amount	%	Amount	%	Amount	%
BOK	3,562.8	3.0	4,095.8	3.0	-4,138.4	-3.1
Deposit money banks	40,561.0	34.2	43,642.6	32.9	47,841.0	35.7
Non-banks	74,747.1	63.0	89,423.8	65.3	90,612.4	67.6
Insurance companies & pension funds	8,763.6	7.4	20,118.6	14.7	21,116.4	15.7
Other financial institutions	65,983.5	55.6	69,413.8	50.7	69,496.0	51.8
<b>Total</b>	<b>118,683.5</b>	<b>100.0</b>	<b>136,969.8</b>	<b>100.0</b>	<b>134,124.0</b>	<b>100.0</b>

The volume of funds raised by deposit money banks expanded to 47.8 trillion won, a 9.6 percent increase over the previous year. Thus the share of this item in the financial sector's total fund raising moved up from 32.9 percent to 35.7 percent. This result was attributable to the increases in time & savings deposits, the sales of cover bills, and borrowings from government and overseas despite the reduction in stock issuance and borrowings from the Bank of Korea.

[Table 8]

## Fund Raising by Deposit Money Banks

Unit : billion won, percent

	1994		1995		1996	
	Amount	%	Amount	%	Amount	%
Deposits	26,622.9	65.6	24,865.8	57.0	28,190.9	58.9
Demand deposits	2,435.8	6.0	4,406.3	10.1	330.6	0.7
Time & savings deposits	17,490.3	43.1	14,404.3	33.0	23,697.0	49.5
CDs	3,298.6	8.1	3,136.9	7.2	1,224.5	2.6
Cover bills	2,252.0	5.6	1,148.5	2.6	2,688.0	5.6
Securities	2,913.9	7.2	2,915.5	6.7	2,594.9	5.4
Bonds	808.3	2.0	1,736.6	4.0	1,767.3	3.7
Stocks	1,874.7	4.6	1,163.9	2.7	707.6	1.5
Borrowings	110.3	0.3	1,566.6	3.6	1,049.4	2.2
from BOK	-2,462.6	-6.1	-2,376.0	-5.4	-4,340.8	-9.1
from Government	2,128.8	5.2	3,237.3	7.4	3,857.2	8.1
Others	10,913.9	26.9	14,294.8	32.8	16,005.8	33.5
Borrowings from abroad	5,207.0	12.8	8,438.7	19.3	9,457.4	19.8
<b>Total</b>	<b>40,561.0</b>	<b>100.0</b>	<b>43,642.6</b>	<b>100.0</b>	<b>47,841.0</b>	<b>100.0</b>

Meanwhile, funds raised by other financial institutions showed little change, edging up from 69.4 trillion won to 69.5 trillion won. Specifically there was an increase in fund-raising by investment institutions, but declines in that by savings institutions, securities institutions and public financial institutions.

The volume of funds raised by investment institutions expanded from the 13.6 trillion won of the previous year to 14.3 trillion won, boosted by increased deposit-taking of investment trust companies following the launch of money market funds and merchant banking corporations in connection with the issue of their paper.

The volume of funds raised by savings institutions decreased slightly from 49.6 trillion won to 49.4 trillion won. This was mainly attributable to extensive portfolio shifts following the realignment of the bank trust account system which resulted in a sharp decline in inflows to banks' trust accounts and a migration of funds to their time deposits and mutual installment deposits.

[Table 9]

## Fund Raising by Other Financial Institutions

Unit : billion won, percent

	1994		1995		1996	
	Amount	%	Amount	%	Amount	%
Development Institutions	7,719.9	11.7	6,705.9	9.7	6,017.3	8.7
Bonds	4,811.8	7.3	3,352.1	4.8	1,748.0	2.5
Financial debentures	3,581.9	5.4	3,352.1	4.8	1,748.0	2.5
Savings Institutions	42,069.3	63.8	49,618.3	71.5	49,414.2	71.1
Deposits	35,457.0	53.7	45,051.5	64.9	44,684.3	64.3
Trust accounts of banks	20,057.6	30.4	31,470.8	45.3	23,144.4	33.3
Investment Institutions	11,467.7	17.4	13,574.6	19.6	14,305.5	20.6
Deposits	3,828.6	5.8	414.4	0.6	2,292.0	3.3
Bonds	9,107.6	13.8	7,089.3	10.2	8,567.4	12.3
Beneficiary certificates	8,448.8	12.8	6,140.9	8.8	7,817.2	11.2
Borrowings	-1,687.3	-2.6	2,337.1	3.4	2,557.7	3.7
Securities Institutions	2,889.6	4.4	2,671.7	3.8	584.8	0.8
Public Financial Institutions	2,265.5	3.4	2,507.2	3.6	2,122.6	3.1
<b>Total</b>	<b>65,983.5</b>	<b>100.0</b>	<b>69,413.8</b>	<b>100.0</b>	<b>69,496.0</b>	<b>100.0</b>

## B. By type of financial instrument

Looking at fund raising by type of financial instrument, the share of deposit-taking and borrowings from the domestic sector expanded, while that through the issuance of bonds shrank.

Deposit-taking increased from the 86.4 trillion won of the preceding year to 90.5 trillion won, bringing its share of the total financial market up from the 63.1 percent of the previous year to 67.5 percent. The increase was driven mainly by an increase in time & savings deposits, including time deposits and mutual installment savings, whose buoyancy more than compensated for the contraction of demand deposits, certificates of deposit and, in particular, money-in-trust with non-specific money-in-trust no longer being offered after January.

Borrowings from the domestic sector registered 3.2 trillion won, which was a steep increase from the 1.9 trillion won of the previous year, owing to the rise in borrowings from government funds. Borrowings from overseas also swelled from 12.6 trillion won to 14.4 trillion won, driven by higher short-

term borrowings from overseas by merchant banks and the expanded issuance of foreign-currency denominated bonds by deposit money banks and development institutions.

However, fund-raising through the issue of bonds decreased from the 13.6 trillion won of the previous year to 12.7 trillion won and its share in the financial sector declined from 10 percent to 9.5 percent. This resulted from the reduced issuance of financial debentures, notably Long-Term Credit Debentures and the net redemption position of Monetary Stabilization Bonds despite the larger volume of beneficiary certificates issued.

[Table 10]

Fund Raising by Instrument Type

Unit : billion won, percent

	1994		1995		1996	
	Amount	%	Amount	%	Amount	%
Deposits	76,126.3	64.1	86,388.2	63.1	90,496.2	67.5
Demand deposits	2,451.1	2.1	4,428.9	3.2	276.6	0.2
Government checking accounts	1,040.1	0.9	462.6	0.3	96.0	0.1
Time & savings deposits	17,490.3	14.7	14,404.5	10.5	23,696.2	17.7
CDs	3,298.6	2.8	3,136.9	2.3	1,224.5	0.9
RPs	295.3	0.2	1,112.5	0.8	-65.0	0.0
Trust accounts of banks	19,558.1	16.5	31,862.8	23.3	23,144.8	17.3
Bonds	16,558.0	14.0	13,635.5	10.0	12,728.0	9.5
Short-term	690.8	0.6	125.8	0.1	-568.1	-0.4
Long-term	15,867.3	13.4	13,509.7	9.9	13,296.1	9.9
Financial debentures	4,619.6	3.9	6,037.2	4.4	4,265.6	3.2
Beneficiary certificates	8,448.8	7.1	6,140.9	4.5	7,817.2	5.8
Stocks	2,947.9	2.5	1,894.3	1.4	2,265.4	1.7
Borrowings	-1,630.2	-1.4	1,894.1	1.4	3,191.8	2.4
from BOK	-2,479.1	-2.1	-2,396.0	-1.7	-4,340.8	-3.2
from DMBs	-1,840.7	-1.6	121.3	0.1	1,710.2	1.3
from Government	2,260.3	1.9	3,468.7	2.5	4,297.1	3.2
Foreign debts	5,723.3	4.8	12,647.0	9.2	14,387.2	10.7
Others	18,958.2	16.0	20,510.7	15.0	11,055.4	8.2
<b>Total</b>	<b>118,683.5</b>	<b>100.0</b>	<b>136,969.8</b>	<b>100.0</b>	<b>134,124.0</b>	<b>100.0</b>

## 2. Fund Utilization

### A. By type of institution

The funds utilized by the financial sector shrank from the 133.6 trillion won of the previous year to 132.9 trillion won during the year under review. Looking at the pattern of fund utilization by type of financial institution, the share of other financial institutions such as savings institutions and investment institutions declined from 52.8 percent to 50.6 percent, whereas that of deposit money banks increased from 31.4 percent to 36.7 percent and that of insurance companies and pension funds grew from 13.4 percent to 14.5 percent.

[Table 11] Fund Utilization by Institutional Type

	Unit : billion won, percent					
	1994		1995		1996	
	Amount	%	Amount	%	Amount	%
BOK	4,035.1	3.4	3,618.7	2.7	-2,194.6	-1.6
Deposit money banks	41,766.0	34.7	41,950.7	31.4	48,833.3	36.7
Non-banks	74,834.0	62.1	88,362.3	66.1	86,579.2	65.1
Insurance companies & pension funds	8,816.5	7.3	17,864.3	13.4	19,296.9	14.5
Other financial institutions	66,017.5	54.8	70,498.0	52.8	67,173.8	50.6
Total	120,447.7	100.0	133,630.8	100.0	132,918.4	100.0

In the case of deposit money banks, the amount of funds utilized increased from the 42 trillion won of the previous year to 48.8 trillion won, a 16.4 percent increase. Looking at their application of funds in detail, holdings of stocks decreased from the 1.3 trillion won of the previous year to 0.7 trillion won, while holdings of bonds increased from 7.9 trillion won to 8.4 trillion won, centering on corporate bonds; and loans expanded sharply from 20.2 trillion won to 31.5 trillion won, driven by those for operating funds to businesses and individuals.

[Table 12]

## Fund Utilization by Deposit Money Banks

Unit : billion won, percent

	1994		1995		1996	
	Amount	%	Amount	%	Amount	%
Deposits at BOK	903.5	2.2	1,844.5	4.4	-4,112.7	-8.4
RPs	37.7	0.1	-698.6	-1.7	-40.5	-0.1
Securities	8,336.8	20.0	9,150.0	21.8	9,102.5	18.6
Bonds	5,259.1	12.6	7,864.3	18.7	8,441.3	17.3
Financial debentures	4,510.7	10.8	4,358.9	10.4	4,499.0	9.2
Corporate bonds	181.5	0.4	2,605.3	6.2	3,712.3	7.6
Stocks	3,077.7	7.4	1,285.6	3.1	661.2	1.4
Loans	25,051.1	60.0	20,177.3	48.1	31,503.0	64.5
To businesses	18,441.9	44.2	14,897.8	35.5	18,571.1	38.0
To individuals	8,346.4	20.0	5,048.0	12.0	11,175.0	22.9
Others	7,436.9	17.7	11,477.5	27.4	12,381.0	25.4
<b>Total</b>	<b>41,766.0</b>	<b>100.0</b>	<b>41,950.7</b>	<b>100.0</b>	<b>48,833.3</b>	<b>100.0</b>

Meanwhile, the volume of funds utilized by other financial institutions contracted from 70.5 trillion won to 67.2 trillion won. This was attributable to the decrease in the amount of funds utilized by savings institutions, investment companies, and securities institutions despite an increase in the scale of development institutions' funds utilization.

In the case of savings institutions, funds utilized decreased from 47.9 trillion won to 46.3 trillion won as the holdings of stocks decreased, although deposits at merchant banking corporations increased.

The scale of investment institutions' utilization of funds shrank from the 14.1 trillion won of the previous year to 10.1 trillion won as their stock purchases shifted from a positive flow to a negative flow and deposits at financial institutions contracted despite the increase of the holdings of bonds, especially corporate bonds.

[Table 13]

## Fund Utilization by Other Financial Institution

Unit : billion won, percent

	1994		1995		1996	
	Amount	%	Amount	%	Amount	%
Development Institutions	7,456.2	11.3	6,702.8	9.5	7,265.4	10.8
Savings Institutions	42,014.4	63.6	47,923.2	68.2	46,305.0	68.9
Deposits	584.4	0.9	327.4	0.5	2,549.2	3.8
CDs	-762.0	-1.2	-682.0	-1.0	-585.8	-0.9
Bonds	7,739.2	11.7	16,085.3	22.9	20,155.1	30.0
Commercial paper	4,367.4	6.6	9,172.8	13.1	12,986.5	19.3
Corporate bonds	2,815.6	4.3	5,012.4	7.1	5,451.2	8.1
Beneficiary certificates	670.8	1.0	1,018.3	1.4	923.7	1.4
Stocks	2,618.9	4.0	1,038.0	1.5	-108.9	-0.2
Loans	25,751.3	39.0	22,158.4	31.5	21,176.1	31.5
Investment Institutions	11,234.2	17.0	14,107.5	19.8	10,087.4	15.0
Deposits	-1,364.1	-2.1	2,960.8	4.2	195.1	0.3
Bonds	4,830.4	7.3	5,996.2	8.6	6,389.8	9.5
Commercial paper	-818.9	-1.2	889.3	1.3	605.2	0.9
Corporate bonds	5,503.3	8.3	6,319.4	9.0	6,536.7	9.7
Stocks	3,720.3	5.6	320.0	0.5	-960.6	-1.4
Loans	4,035.7	6.1	1,662.2	2.4	697.6	1.0
Securities Institutions	2,884.4	4.4	3,834.9	5.5	-805.4	-1.2
Public Financial Institutions	2,856.7	4.3	3,593.5	5.1	7,269.8	10.8
<b>Total</b>	<b>66,017.5</b>	<b>100.0</b>	<b>70,498.0</b>	<b>100.0</b>	<b>67,173.8</b>	<b>100.0</b>

## B. By type of financial asset

Looking at the fund utilization of the financial sector by type of financial asset, the share of loans and bonds, notably corporate bonds showed an increase while that of stocks contracted.

In the case of bond holdings, the amount crept up to 39.7 trillion won from 33.8 trillion won thanks to the increased investment on commercial paper despite the decrease of stock holdings caused by a sluggish stock market. Consequently, the share in the financial sector's fund utilization swelled from 25.3 percent to 29.9 percent.

Loans expanded greatly from 55.3 trillion won to 66.1 trillion won, increasing their share in the financial sector's total fund utilization from 41.4 percent

to 49.7 percent. The substantial rise was fuelled by firms' heightened demand for working capital, which was met by loans from deposit money banks and from insurance institutions.

Meanwhile, the bulk of stocks invested diminished from 4.2 trillion won to 1.2 trillion won as the financial institutions changed their investment objectives from stocks to bonds, reducing the proportion of stocks in their overall fund utilization from 3.1 percent to 0.9 percent.

[Table 14] Fund utilization by Type of Financial Asset

Unit : billion won, percent

	1994		1995		1996	
	Amount	%	Amount	%	Amount	%
Deposits at BOK	844.6	0.7	1,819.5	1.4	-4,123.2	-3.1
Deposits	-166.8	-0.1	5,705.6	4.3	6,495.0	4.9
Time & savings	73.8	0.1	121.6	0.1	1,068.4	0.8
CDs	-1,476.2	-1.2	494.1	0.4	-2,134.9	-1.6
RPs	703.7	0.6	-1,056.1	-0.8	-58.3	0.0
Bonds	20,320.1	16.9	33,772.0	25.3	39,710.6	29.9
Financial debentures	2,596.7	2.2	2,477.6	1.9	2,963.5	2.2
Commercial paper	3,925.0	3.3	10,060.9	7.6	15,389.4	11.6
Corporate bonds	10,562.8	8.8	17,794.9	13.3	17,268.6	13.0
Beneficiary certificates	711.8	0.6	2,434.2	1.8	2,248.1	1.7
Stocks	11,402.4	9.5	4,207.3	3.1	1,218.5	0.9
Loans	65,514.1	54.4	55,279.1	41.4	66,115.3	49.7
Deposit money banks	25,051.1	20.8	20,177.3	15.1	31,503.0	23.7
Insurance companies	4,671.7	3.9	5,927.8	4.4	7,053.8	5.3
Merchant banks	4,058.9	3.4	801.5	0.6	-452.5	-0.3
Others	34,211.5	28.4	30,768.6	23.0	32,551.8	24.5
Foreign exchange holdings	4,327.0	3.6	5,409.3	4.0	313.0	0.2
Others	18,206.3	15.1	27,438.0	20.5	23,189.2	17.4
<b>Total</b>	<b>120,447.7</b>	<b>100.0</b>	<b>133,630.8</b>	<b>100.0</b>	<b>132,918.4</b>	<b>100.0</b>

## V. Accumulation of Financial Assets

As of the end of 1996, overall financial assets held by domestic non-financial sectors recorded 985.9 trillion won, which was a 15.2 percent increase over the 856.1 trillion won at the end of 1995. Accordingly, the ratio of financial asset accumulation to nominal GNP moved up from 2.45 to 2.55.

Reviewing financial asset accumulation by sector, that of the individual sector was greatest at 536.1 trillion won, a share of 54.4 percent, and that of the business sector stood at 342.4 trillion won, representing a 34.7 percent share, and that of the government sector at 107.4 trillion won, a 10.9 percent share.

[Table 15] Financial Assets Outstanding by Domestic Non-financial Sector<sup>1)</sup>

		Unit : billion won, percent					
		1994		1995		1996	
		Amount	%	Amount	%	Amount	%
By sector	Business	261,970.9	36.0	297,234.7	34.7	342,387.7	34.7
	Individual <sup>2)</sup>	396,168.9	54.5	467,112.6	54.6	536,112.9	54.4
	Government	68,910.5	9.5	91,795.4	10.7	107,393.7	10.9
Total		727,050.2	100.0	856,142.7	100.0	985,894.3	100.0
By type	Deposits	390,743.6	53.7	471,520.3	55.1	555,251.9	56.3
	DMBs	130,659.4	18.0	151,613.8	17.7	181,534.8	18.4
	Non-banks	260,084.2	35.7	319,906.5	37.4	373,717.1	37.9
	Securities	165,648.6	22.8	188,475.1	22.0	203,633.2	20.7
	Others <sup>3)</sup>	170,657.8	23.5	196,147.3	22.9	227,009.2	23.0

Notes : 1) On the basis of financial assets outstanding.

2) Including households, private nonprofit organizations and small-scale private businesses (in the case of agency businesses and brokerages, those with annual sales of less than 75 million won, and in manufacturing and other businesses, those with annual sales of less than 300 million won).

3) Currency, trade credits, borrowings from government, bills receivable, etc.

On the other hand, looking at the share of  $M_2$  and  $M_3$  in total asset acquisition by domestic non-financial sector, the share of  $M_2$  was 16.1 percent, showing a reversal of the decreasing trend that had brought the previous year's figure down to 16.0 percent.

In contrast, the share of  $M_3$  registered 57.5 percent, having been showing

an unbroken increasing trend since 1991. Its large share shows that domestic non-financial sectors prefer to accumulate financial assets offering high yields.

[Table 16] Scale of the Domestic Non-financial Sector's Financial Assets and Monetary Aggregates

Unit : billion won, percent

Year	Financial assets (rate of increase)	Nominal GNP (rate of increase)	Financial assets/ nominal GNP	M <sub>2</sub> (rate of increase)	M <sub>2</sub> / Financial assets	M <sub>3</sub> / Financial assets
1987	201,692.4(21.7)	18.1	1.84	18.8	17.9	46.3
1988	239,957.3(19.0)	19.7	1.83	18.8	17.9	49.5
1989	307,603.4(28.2)	12.6	2.08	18.4	16.5	48.9
1990	375,220.1(22.0)	20.5	2.10	21.2	16.4	46.4
1991	450,892.1(20.2)	20.2	2.10	18.6	16.2	48.6
1992	523,356.9(16.1)	11.4	2.19	18.3	16.5	51.1
1993	609,588.4(16.5)	11.2	2.30	18.7	16.8	53.4
1994	727,050.2(19.3)	14.4	2.39	15.6	16.3	54.6
1995	856,142.7(17.8)	14.9	2.45	15.5	16.0	55.6
1996	986,093.4(15.2)	10.8	2.55	16.2	16.1	57.5

Meanwhile, the financial interrelation ratio(domestic financial assets outstanding/ nominal GNP), which measures the degree of financial asset accumulation in the economy as a whole, rose from the 5.26 of the preceding year to 5.55. However, compared with that in other countries, Korea's financial interrelation ratio remains somewhat low, trailing that of Japan(8.43 in 1995), the U.S.A.(7.22 in 1995), and Taiwan(6.11 in 1994).

Reviewing the financial interrelation ratio by type of financial asset, the ratio of currency, deposits and insurance rose from 1.51 to 1.60. That of securities also increased, edging up from 1.25 to 1.29.

**[Table 17] Financial Interrelation Ratios of Selected Countries**

	Unit : times				
	Korea		Japan	Taiwan	U. S. A
	1995	1996	('95)	('94)	('95)
Financial Interrelation Ratio	5.26	5.55	8.43	6.11	7.22
(Non-financial sector)	(2.45)	(2.55)	(4.27)	(3.67)	(4.04)
Currency, Deposits, Insurance	1.51	1.60	2.92	2.42	1.65
Securities	1.25	1.29	1.91	1.12	2.80