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# BULLETIN

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# Current Economic and Financial Movements

## Summary

The Korean economy showed signs of recovery during the last quarter of 2001. Consumer prices declined and the current account surplus sustained the level of the previous quarter.

GDP increased by 3.7 percent year-on-year in the fourth quarter as the rising trend of consumption and construction continued and the lackluster growth of exports and facilities investment eased. Meanwhile, gross national income(GNI) registered a 3.4 percent rise, helped by the improved terms of trade following the rises in international prices of semi-conductors.

The employment situation continued to improve in the quarter under review. Unemployment rate stood at 3.2 percent, 0.1 of a percentage point lower than in the preceding quarter. Due to seasonal factors, however, it increased to 3.7 percent during January 2002.

The current account surplus registered 1.1 billion dollars, a similar level to that of the previous quarter. This was attributable to the shift of the income account to a surplus, which offset the slight narrowing of the scale of the goods account surplus. For January, the current account surplus stood at 0.3 billion dollars.

Bolstered by the downward stability of international oil prices in the last quarter of 2001, consumer prices declined by 0.4 percent compared with the last month of the previous quarter. However, they increased slightly during January and February 2002 due to the rises in agricultural prices, brought about by seasonal factors including rising demand on the occasion of the Lunar New Year.

In the financial markets, the call rate maintained the target level of 4.0 percent during the last quarter. Long-term market interest rates, however, rose, led by the expectations of an early economic recovery. Meanwhile from January 2002 the

call rate remained at 4.0 percent, but long-term market interest rates shifted to a downward trend thanks to the prospects of a favorable interplay of bond supply and demand.

Stock prices rose sharply boosted by the massive net purchase position of foreign investors during the fourth quarter of 2001. At the beginning of 2002, they maintained the upturn while showing a series of fluctuations depending on the movements of overseas economic indicators and sentiment of foreign investors. As of the end of February, the KOSPI stood at 819.99, an 18.2 percent increase over the end of the previous year.

The Korean won weakened against the U.S. dollar at a rapid pace in December 2001 on the expectations of the won's depreciation in sympathy with the yen's weakness before it firmed at the end of the month in response to the inflows of portfolio funds of foreign investors. From the middle of January 2002, it softened again due to the weakening yen, but after that it showed stable movements. As of the end of February, the won stood at 1,323.8 won against the U.S. dollar.

The growth of M2 during the fourth quarter accelerated from that of the previous quarter as funds withdrawn from investment trust management companies (ITMC) flowed into banks. That of MCT+ increased slightly, helped by the shift to an increase in deposit-taking by banks' trust accounts. Meanwhile the

growth of M3 registered 11.5 percent, an expansion from the previous quarter. The growth rates of M2 and MCT+ during January 2002 fell in line with the net absorption role of the government sector. In February, however, they reverted to an increase, led by the expansion of fiscal expenditures and credit to the private sector.

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## Economic Movements

### Economic Growth

During the fourth quarter of 2001, the growth of GDP increased 3.7 percent year-on-year as private consumption and construction facilities showed signs of recovery. This growth was also attributable to some easing of the lackluster state of exports and facilities investment. Meanwhile, GNI, in real terms, registered 3.4 percent growth, led by the shift to a surplus of net factor income from the rest of the world. Another contributory factor in this was a slight improvement of the terms of trade following the rises in international prices of semiconductors.

Bolstered by an acceleration of the rising pace of private consumption, final consumption expenditure registered growth of 5.6 percent. Private consumption stood at 6.6 percent year-on-year, thanks to the continual sharp rise in

spending on services. Brisk spending on durables, centering on passenger cars, TV sets and mobile phones, also underlay this trend.

The growth of fixed investment increased 4.9 percent as construction investment expanded its upward trend and the pace of the contraction in facilities investment slowed greatly. Facilities investment decreased only 3.1 percent with a slowing of the pace of contraction in investment in machinery, brought about by an increased investment in computers and communications equipment. Another contributory factor in this levelling off was the deceleration of the declining pace in investment in transportation equipment. Construction investment meanwhile increased 10.7 percent, helped by the briskness of building construction for residential use (apartments, etc.) and robust investment in

infrastructure projects, such as electricity generation and transmission facilities and roads.

Exports of goods and services, in real terms, registered negative growth of 1.1 percent, due to sluggish exports of computers and automobiles. Meanwhile imports of goods and services, in real terms, increased by 1.1 percent, driven by an expansion of imports of consumer goods.

By type of economic activity, services and construction accelerated their rising pace, and manufacturing shifted to an increase, from the previous quarter's downturn.

The services sector posted 4.7 percent growth, showing an increase from the previous quarter. Led by the brisk increase in the number of private study-center students, and visitors to places offering entertainment services, the

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

Unit : per cent

	2000	2001 <sup>b)</sup>				Year
		I	II	III	IV	
G D P	9.3	3.7	2.9	1.9	3.7	3.0
G N I	3.6	0.5	1.3	-0.1	3.4	1.3
Final consumption expenditure	6.7	1.2	3.5	4.3	5.6	3.7
Private consumption	7.9	1.5	4.1	4.8	6.6	4.2
Government consumption	0.1	-0.7	-0.1	1.0	0.3	0.2
Gross fixed capital formation	11.4	-4.0	-4.8	-3.1	4.9	-1.7
Equipment	35.3	-8.4	-11.2	-15.7	-3.1	-9.8
Construction	-4.1	1.5	1.1	8.2	10.7	5.8
Exports of goods and services	20.5	9.0	0.7	-4.1	-1.1	1.0
Imports of goods and services	20.0	0.2	-7.2	-5.5	1.1	-2.8

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

2) p : preliminary.

growth of social and personal services stood at 9.8 percent. The growth of the transportation, storage and communications sector increased 6.8 percent, boosted by solid expansion in mobile communications, which more than offset the contraction in the storage sector. The finance, insurance, real estate and business service sector grew compared with the previous quarter on the back of securities companies' increased earnings from fee-based income and more active real estate brokerage. Despite a slowing for hotels, the wholesale and retail trade, and restaurants and hotels sector as a whole registered 5.1 percent growth, edging up from the preceding quarter thanks to the favorable evolution of domestic demand, including an increase

in sales of automobiles.

The construction industry sector registered growth of 9.5 percent as against the previous quarter's 7.6 percent, bolstered by building construction in the private sector, especially that for residential use such as apartments. In addition, there was a surge in civil engineering construction by the government sector, including harbors and roads.

The electricity, gas and water sector increased 6.0 percent as the consumption of electricity by the service sector expanded sharply and demand for piped gas increased steadily.

Meanwhile manufacturing industry shifted to positive growth of 2.1 percent, shrugging off the previous quarter's declining trend thanks to production

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

	2000	2001 <sup>2)</sup>				Year	Unit : per cent
		I	II	III	IV		
Agriculture, Forestry & Fishing	2.0	-4.1	3.5	1.3	1.5	1.4	
Manufacturing	15.9	4.5	2.2	-1.7	2.1	1.7	
Electricity, Gas & Water	14.0	7.5	4.7	4.3	6.0	5.7	
Construction	-3.1	2.4	1.5	7.6	9.5	5.6	
Services	9.5	3.9	4.0	3.8	4.7	4.1	
(Wholesale and retail trade, restaurants and hotels)	9.8	3.4	3.8	3.8	5.1	4.0	
(Transport, storage and communication)	17.9	8.2	6.8	7.7	6.8	7.3	
(Finance, insurance, real estate and business services)	4.9	4.4	4.2	4.2	5.5	4.6	
(Community, social and personal services)	5.1	3.9	5.8	10.0	9.8	7.3	
Government & Private Non-Profit Services	0.3	1.2	1.0	0.8	0.6	0.9	

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

2) p : preliminary.

growth, centering on semiconductors, communications equipment and shipbuilding. This counteracted the subdued growth in light industry with the exception of print and publishing.

The agriculture, forestry and fishery sector increased 1.5 percent despite the lackluster growth of animal husbandry. This was attributable to the briskness of fish farming and aquaculture and to increased crops of rice grains and fruits.

### Employment and Wages

The employment situation continued to improve during the fourth quarter of 2001. The number of persons unemployed stood at 730,000, a decrease of approximately 7,000 from the previous

quarter, and the unemployment rate correspondingly decreased by 0.1 of a percentage point to 3.2 percent. The seasonally adjusted unemployment rate registered 3.4 percent, representing a decline of 0.2 of a percentage point. This improvement resulted from the increase in the number of persons employed in the wholesale and retail trade as well as business, personal and public services. Meanwhile, the unemployment rate during January stood at 3.7 percent, an increase of 0.5 of a percentage point from that of the fourth quarter which was triggered by the sharp decrease in the number of persons employed in the construction and in the agriculture, forestry and fishery sector.

Per capita nominal wages rose by 5.2

[Table 3]

Employment<sup>1)</sup> Trends

	Unit : million persons, per cent									
	2000			2001				2002		
	III	IV	Year	I	II	III	IV	Year	Jan.	
Economically active population <sup>2)</sup>	22.2	22.1	22.0	21.4	22.5	22.4	22.4	22.1	21.8	
umbe	(1.3)	(0.5)	(1.5)	(0.1)	(1.6)	(1.0)	(1.4)	(1.1)	(2.7)	
Total number of persons in employment <sup>2)</sup>	21.4	21.3	21.1	20.4	21.7	21.7	21.7	21.4	21.0	
(Agriculture, forestry, and fishing)	2.5	2.2	2.3	1.7	2.4	2.4	2.2	2.2	1.7	
(Manufacturing)	4.2	4.3	4.2	4.2	4.2	4.2	4.2	4.2	4.2	
(Construction)	1.6	1.7	1.6	1.4	1.6	1.6	1.7	1.6	1.5	
(Wholesale, retail, restaurants, and hotels)	6.0	6.0	5.9	5.7	5.8	5.9	5.9	5.8	5.9	
(Business, personal, and community services)	4.9	5.0	4.9	5.2	5.5	5.5	5.5	5.4	5.6	
Unemployed persons	0.8	0.8	0.9	1.0	0.8	0.7	0.7	0.8	0.8	
Unemployment rate	3.6	3.7	4.1	4.8	3.5	3.3	3.2	3.7	3.7	
(Seasonally adjusted)	(3.9)	(3.9)	-	(4.1)	(3.7)	(3.6)	(3.4)	-	(3.2)	

Notes : 1) Actual figures.

2) Figures in parentheses refer to rates of change on a year-on-year basis.

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

Unit : per cent

	2000			2001				
	III	IV	Year	I	II	III	IV	Year
Nominal wages per worker	8.8	5.9	8.0	8.5	4.6	4.6	5.2	5.6
(Regular Payment)	9.6	7.2	7.3	7.7	6.8	5.7	6.0	6.5
(Overtime Payment)	7.3	10.0	13.7	7.5	-1.7	-3.2	-0.2	0.3
(Special Cash Payment)	3.5	1.0	8.1	11.5	-0.2	4.4	4.6	5.0
(Manufacturing)	11.0	5.5	8.5	11.2	5.5	4.6	4.7	6.3
(Construction)	7.8	9.1	8.8	-2.1	4.6	-0.4	-2.3	-0.3
(Transport, storage, communications)	14.4	9.6	12.4	2.9	-0.2	1.9	2.9	1.8
(Electricity, gas & water)	23.3	0.8	7.0	19.9	13.0	5.2	23.8	15.5
(Finance, insurance and real estate)	4.2	2.2	6.5	7.2	3.9	5.7	6.1	5.7

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

percent year-on-year during the last quarter of the year 2001, inching up from the previous quarter. Broken down by type of remuneration, growth rates of regular and special payments expanded slightly, and that of overtime payments saw its scale of contraction narrow sharply. By industry, wages in the construction industry dropped for the second quarter in a row while those in the electricity, gas and water as well as finance, insurance and real estate rose sharply.

### External Transactions

During the fourth quarter, exports amounted to 36.3 billion dollars with the rate of their decline marking 19.6 per cent, close to that of the previous quarter. The reason that exports were still sluggish was mainly attributable to the protracted poor economic performance of major

countries including the US, Japan, and the EU, the significant drop in the prices of IT related products such as semiconductors, and the dampening of automobile exports by the labor disputes involving some suppliers during December. Broken down by commodity group, exports of heavy industrial & chemical products contracted by 18.7 per cent year-on-year at a similar rate to that of the previous quarter as those of semiconductor, steel, and chemical products remained depressed and those of passenger cars and ships shifted to a downturn. Exports of light industrial products declined by 18.2 per cent year-on-year due to the slackening of those of textiles and clothing. By export-destination, the reduction of exports steepened in the case of most regions, including the US, Japan, and the EU, whereas it eased somewhat for those like Southeast Asia

[Table 5]

Exports by Sector and Destination<sup>1)</sup>

(Customs-clearance Basis)

Unit : billion US dollars

	Share <sup>2)</sup>	2000		2001						2002
		Year	Year	I	Jan.	II	III	IV	Dec.	Jan.
Exports	<100.0>	172.3 (19.9)	150.4 (-12.7)	40.1 (2.2)	12.6 (4.0)	38.4 (-11.6)	35.6 (-19.8)	36.3 (-19.6)	11.9 (-20.4)	11.4 (-9.8)
Heavy industrial & chemical products	<74.1>	127.6 (23.7)	111.5 (-12.6)	30.1 (3.7)	9.7 (7.2)	27.9 (-12.3)	25.9 (-21.3)	27.6 (-18.7)	9.0 (-20.2)	8.9 (-8.1)
Semiconductors	<9.5>	(38.0)	(-45.2)	(-10.3)	(-2.0)	(-43.0)	(-63.9)	(-54.5)	(-53.4)	(-35.9)
Information & communication equipment	<14.6>	(39.7)	(-6.2)	(-3.3)	(-9.0)	(-9.2)	(-9.7)	(-2.9)	(-6.2)	(11.8)
Passenger cars	<7.6>	(17.9)	(3.1)	(1.9)	(5.8)	(18.5)	(4.4)	(-8.3)	(-17.4)	(34.9)
Iron & steel products	<6.7>	(10.2)	(-11.7)	(-3.1)	(-4.5)	(-14.3)	(-13.1)	(-16.1)	(-14.1)	(-13.2)
Chemical products	<7.2>	(29.1)	(-10.9)	(0.6)	(-0.7)	(-11.7)	(-12.2)	(-19.4)	(-22.3)	(-7.3)
Ship	<6.4>	(9.9)	(17.9)	(76.2)	(241.7)	(17.1)	(3.9)	(-12.7)	(-19.8)	(-49.4)
Light industrial products	<17.5>	30.3 (1.9)	26.3 (-13.1)	6.5 (-6.2)	1.8 (-12.4)	7.1 (-14.2)	6.7 (-13.2)	6.0 (-18.2)	2.1 (-14.3)	1.8 (-4.0)
Textiles	<4.7>	(6.6)	(-17.7)	(-9.3)	(-20.7)	(-16.8)	(-18.4)	(-25.9)	(-23.1)	(-3.4)
Clothing	<2.9>	(3.2)	(-14.4)	(-14.8)	(-21.3)	(-15.4)	(-9.0)	(-19.7)	(-20.2)	(-2.2)
U S	<20.7>	(27.6)	(-17.0)	(-0.6)	(3.6)	(-16.2)	(-21.7)	(-26.0)	(-33.6)	(-7.6)
Japan	<11.0>	(29.0)	(-19.4)	(-1.1)	(4.2)	(-13.4)	(-28.9)	(-31.8)	(-35.9)	(-34.3)
E U	<13.0>	(15.7)	(-16.2)	(3.5)	(7.0)	(-16.4)	(-18.2)	(-29.9)	(-36.7)	(-7.1)
Southeast Asia	<21.1>	(17.4)	(-18.3)	(-9.5)	(-12.5)	(-17.5)	(-26.2)	(-19.3)	(-15.5)	(-2.3)
China	<12.1>	(34.9)	(-1.4)	(10.5)	(0.3)	(2.6)	(-7.1)	(-9.1)	(-6.6)	(19.7)
Central & South America	<6.5>	(8.4)	(3.8)	(29.8)	(57.7)	(9.5)	(-16.0)	(-6.3)	(-15.5)	(-32.0)

Notes : 1) Figures in parentheses refer to rates of increase compared with the same period of the previous year(%).

2) Based on the year 2001.

and Central and South America.

In January, exports amounted to 11.4 billion dollars, down by 9.8 per cent year-on-year. The rate of their decline substantially blunted month-on-month, thanks to the difference in the number of days worked caused by the migration of the Lunar New Year.

During the fourth quarter, imports declined substantially as they had in the preceding quarter, falling by 17.1 per cent year-on-year to reach 34.3 billion dollars. Broken down by type of product, imports of raw materials declined greatly,

a larger fall than in the preceding quarter, due to the significant decrease of those of crude oil which were driven downward by lower international oil prices. The trend of decline of those of capital goods, however, slowed down slightly centering on electric & electronic products and machinery. Meanwhile, imports of consumer goods rose by 9.0 per cent year-on-year centering on agricultural and fishery products, automobiles and clothing. Their pace of increase thus accelerated substantially from the preceding quarter.

During January, imports amounted to

[Table 6]

Imports by Sector and Use<sup>1)</sup>

(Customs-clearance Basis)

Unit : billion US dollars

	Share <sup>2)</sup>	2000		2001				2002		
		Year	Year	I	Jan.	II	III	IV	Dec.	Jan.
Imports	<100.0>	160.5 (34.0)	141.1 (-12.1)	38.1 (-1.8)	12.4 (-1.3)	34.5 (-13.4)	34.2 (-15.5)	34.3 (-17.1)	11.3 (-14.2)	11.3 (-8.9)
Consumer goods	<11.8>	16.1 (14.7)	16.6 (3.5)	3.8 (5.7)	1.2 (5.2)	4.0 (-2.5)	4.2 (1.7)	4.6 (9.0)	1.6 (18.5)	1.5 (25.6)
Raw materials & Fuels	<51.0>	79.0 (37.9)	72.0 (-8.9)	19.8 (1.3)	6.4 (-3.7)	18.0 (-5.4)	17.4 (-10.3)	16.8 (-20.3)	5.5 (-17.6)	5.8 (-9.8)
Crude oil	<15.1>	(70.6)	(-15.3)	(3.5)	(-3.0)	(-1.9)	(-18.1)	(-39.1)	(-37.2)	(-31.4)
Iron & steel products	<3.6>	(26.5)	(-16.3)	(-24.8)	(-22.8)	(-19.0)	(-16.0)	(-3.6)	(2.4)	(15.0)
Chemical products	<8.0>	(20.8)	(-4.8)	(1.3)	(3.0)	(-3.6)	(-6.5)	(-9.8)	(-11.9)	(2.0)
Capital goods	<37.2>	65.4 (34.9)	52.5 (-19.7)	14.6 (-7.5)	4.8 (0.4)	12.5 (-25.1)	12.5 (-25.7)	13.0 (-19.8)	4.2 (-18.4)	4.0 (-16.4)
Electric & electronic products	<24.0>	(36.7)	(-21.8)	(-9.3)	(-0.8)	(-24.1)	(-29.4)	(-23.6)	(-23.2)	(-17.1)
Machinery	<7.6>	(35.6)	(-18.2)	(0.8)	(5.2)	(-30.8)	(-26.1)	(-14.3)	(-15.2)	(-18.9)
For domestic use	<57.0>	(38.3)	(-8.9)	(-0.3)	(0.8)	(-13.5)	(-11.0)	(-10.3)	(-9.1)	(1.0)
For export	<43.0>	(29.1)	(-16.0)	(-3.7)	(-3.8)	(-13.1)	(-20.8)	(-25.0)	(-20.7)	(-20.9)

Notes : 1) Figures in parentheses refer to rates of increase compared with the same period of the previous year(%).

2) Based on the year 2001.

11.3 billion dollars, a drop of 8.9 per cent year-on-year, which was slightly smaller than the preceding month's 14.2 per cent decline. This development was, however, chiefly attributable to the difference in the numbers of days worked due to the migration of the Lunar New Year.

Reflecting these export and import trends, the surplus on the goods account

in the fourth quarter (balance of payment basis) registered 2.2 billion dollars, a slight fall compared with that of the preceding quarter, but the income account shifted into surplus, helped by the surge of profits on the operation of foreign assets. Accordingly, the current account surplus for the fourth quarter registered 1.1 billion dollars, close to that

[Table 7]

## Balance of Payments: Current Account

Unit : billion US dollars

	2000		2001				2002		
	Year	Year	I	Jan.	II	III	IV	Dec.	Jan.
Current account	12.2	8.6	2.8	0.8	3.8	1.0	1.1	0.0	0.3
Goods	16.9	13.4	3.3	0.4	5.0	2.9	2.2	0.6	0.7
Services	-2.9	-3.5	-0.2	0.1	-0.6	-1.4	-1.2	-0.7	-0.6
Income	-2.4	-0.9	-0.4	0.2	-0.5	-0.1	0.2	0.0	0.2
Current transfers	0.7	-0.4	0.1	0.1	-0.1	-0.3	-0.0	0.2	0.0

of the preceding quarter.

For January, the current account registered a surplus of 0.3 billion dollars, roughly on the same scale as that of December.

## Prices

During the fourth quarter of 2001, consumer prices, whose upward trend had decelerated from June 2001, dropped by 0.4 per cent compared with the last month of the previous quarter due to the downward stability of international oil prices and increased shipments of agricultural products. On a year-on-year basis, their rate of increase during the fourth quarter registered a level of around three and a half per cent, substantially lower than that of slightly over four per cent during the third quarter. Consumer prices showed an increasing trend in both January and February 2002 mainly owing to the rise in agricultural product prices in line with the decline of supply in the winter season and the spike of demand for the Lunar New Year. But their rates of increase month-on-month were lower than usual in both January and February. Accordingly, their year-on-year rate of increase during this period eased greatly to a level of around two and a half per cent.

From the fourth quarter of 2001, viewing consumer prices by sector in comparison to the last month of the pre-

vious period, those of agricultural, livestock and marine products dropped in October and November thanks to enlarged shipments of vegetables, fruit and grain with the harvest season. However, from December, they shifted back to an upward trend due to reduced shipments of vegetables and fruit with the onset of winter. In particular, prices of agricultural, livestock and marine products soared during February 2002, with the spike of demand around the Lunar New Year, and the expanding of the seasonal imbalance between demand and supply. Industrial product prices continued their decreasing trend during the fourth quarter of 2001 following on from the preceding quarter and responding to the reduced prices of petroleum products in line with the decline in international oil prices and the reduction of the special consumption tax imposed on air conditioners, cars, etc. However, they rose in January and February 2002 led by increased prices for petroleum products, in line with the won's weakness and the surge in import unit value for crude, and the higher taxes levied on tobacco to stabilize the public health insurance system. The rising trend of service prices accelerated from the previous quarter in the fourth quarter of 2001 due to the rises in personal service prices and the continued upward trend of housing rents following the increase in housing prices. Their upward trend was maintained on into

January 2002. In February, however, they shifted to a decline with the lowering of some public service charges such as those for piped natural gas and mobile phone use, which offset the effects of rises in housing rents and personal service charges.

Core inflation, which strips out non-cereal agricultural products and petroleum fractions from the CPI, rose by 0.6 per cent during the fourth quarter of 2001 from the last month of the previous quarter, and so continued its upward trend mainly due to the rises in housing rents and personal service charges. It also rose at a level of around three and a half per cent year-on-year, similar to that of the previous quarter. Its upward trend continued in January and February 2002. But its rates of increase month-on-month were below their respective averages of the preceding years. Consequently, core inflation rose by about 3 per cent year-

on-year during this period and the steepness of its rise was blunted further.

Producer prices, which had dropped slightly during the third quarter of 2001, saw their downward trend consolidate in the fourth quarter owing to the decline of international oil prices, the sluggishness of domestic and external demand, and the increase in seasonal supply of agricultural products. In December, their year-on-year rate of increase turned negative. But in January and February 2002, producer prices moved back to an upward trend month-on-month in the wake of the won's weakness, rises of some raw material prices and the seasonal decline in shipments of agricultural products. Nevertheless, their year-on-year rate of increase still continued to register negative figures.

Looking at the producer price movements by sector from the beginning of the fourth quarter of 2001 compared

[Table 8] Rates of Increase of Consumer Prices<sup>a</sup>

	Unit : per cent							
	2000		2001				2002	
	Year	I	II	III	IV	Year	Jan.	Feb.
Consumer prices	2.8 (2.3)	2.5 (3.6)	0.6 (5.0)	0.5 (4.2)	-0.4 (3.4)	3.2 (4.1)	0.6 (2.6)	0.5 (2.6)
Agricultural, livestock, and marine products	-2.3	9.4	0.2	3.6	-3.5	9.5	2.9	4.1
Industrial products	2.4	0.6	0.6	-0.3	-0.9	0.0	0.3	0.7
Services	4.3	2.3	0.8	0.3	0.7	4.0	0.3	-0.4
Core inflation <sup>b</sup>	2.9 (1.9)	1.8 (3.3)	0.7 (3.9)	0.5 (3.7)	0.6 (3.6)	3.6 (3.6)	0.3 (2.9)	0.3 (3.0)

Notes : 1) Comparison is with the last month of the preceding period. Figures in parentheses refer to rates of increase over the corresponding period of previous year.

2) The CPI after stripping out prices of petroleum fractions and agricultural products except cereals.

with the last month of the previous period, agricultural, forest and marine product prices fell substantially on increased shipments in October of agricultural products that were in season. After November, however, they marked an upward trend due to a reduction in catches for some fishery products. At the beginning of 2002, their rising pace accelerated with the imbalance between demand and supply caused by the seasonal decline in supply of agricultural products and the spike of demand for them over the Lunar New Year. Manufacturing industry product prices, which had shown a downward trend in the third quarter, saw this steepen during the fourth quarter as prices of petrochemical product and radio, television and communication equipment continued to decrease following lower international oil prices in the former case and the decline of their international prices amid the world economic slowdown in the lat-

ter. However, in January 2002, manufacturing industry product prices shifted back to an upward trend affected by increases in prices of some imported raw materials such as crude oil and wool, and the won's weakness. Their upturn continued in February on account of rises in international prices for petrochemical products and reinforcing bars as well as the higher taxes on cigarettes imposed to rehabilitate the public health insurance system. Service prices showed a stable trend during the fourth quarter of 2001, but they surged by 1.1 per cent month-on-month in January 2002 due to a rise in rents on the heels of an increase in real estate prices, higher wages for construction workers and an increase in TV advertising rates. In February, though, they regained stability in response to the lower international air fares with the end of the high-season despite rises in professional service charges, notably software development expenses.

[Table 9] Rates of Increase of Producer Prices<sup>1)</sup>

	Unit : per cent							
	2000	2001				2002		
	Year	I	II	III	IV	Year	Jan.	Feb.
Producer prices	1.7 (2.0)	1.1 (2.5)	0.2 (3.1)	-0.5 (2.0)	-1.4 (0.0)	-0.7 (1.9)	0.6 (-0.6)	0.6 (-0.2)
Agricultural, forest, and marine products	-7.9	9.7	0.4	-3.1	-0.7	6.1	3.5	1.5
Manufacturing industry products	2.2	0.2	0.2	-0.7	-2.1	-2.3	0.3	0.7
Electric power, water, and gas supply	7.9	2.6	1.1	0.0	-0.3	3.5	-2.8	0.0
Services	2.0	1.0	-0.2	0.6	0.2	1.6	1.1	0.1

Note : 1) Comparison is with the last month of the preceding period. Figures in parentheses refer to rates of increase over the corresponding period of the previous year

Export prices, which had shifted to a declining trend after the second quarter of 2001, fell steeply during the fourth quarter with the deepening of the bearish trends of major export product prices amid the heightened uncertainty surrounding the outlook for the world economy following the events of September 11 and the ensuing war on terrorism. In January 2002, however, export prices marked a substantial increase from the previous month affected by the won's weakness and the resurgence of semiconductor prices. Their rising trend continued on into February thanks to higher international raw material prices including those for crude oil, but it was greatly blunted compared to that in January.

Import prices, which had turned to a downward trend from the third quarter of 2001, also showed steeply declining movements during the fourth quarter, mainly in reaction to the sharp fall in international oil prices caused by worsening world economic prospect, the increase of petroleum stocks in the US, and the ineffectiveness of the production cuts agreed among OPEC countries. In

January 2002, though import prices rose remarkably from the previous month owing to the won's weakness, a rise in crude oil prices with the implementation of an agreement to reduce production among OPEC countries, and increased prices for lumber and crude rubber following the adverse weather conditions. In February, they continued their upward trend with a rise in international oil prices in line with the build-up, inter alia, of tension between the U.S. and Iraq. The steepness of their rise was, however, blunted from the preceding month's.

Viewing real estate prices from the fourth quarter of 2001 compared with the end of the preceding period, housing prices, which had maintained a steeply rising trend from the beginning of that year, showed a temporary lull during October and November 2001. This was due to the uncertainty of economic prospects following the events of Sep. 11, a mood of caution that the earlier rally might prove short-lived, and the end of the season favored for moving house. In December, however, they resumed their upward trend as the impact of the terror-

[Table 10] Rates of Increase of Export and Import Prices<sup>a)</sup>

	Unit : per cent							
	2000		2001				2002	
	Year	I	II	III	IV	Year	Jan.	Feb.
Export prices	4.2	4.2	-1.5	-1.4	-4.2	-3.1	1.9	0.3
Import prices	5.3	4.4	0.4	-3.0	-7.6	-6.2	1.8	1.0

Note : 1) Comparison is with the last month of the preceding period.

ists' attacks on the U.S. faded amid expectations of economic recovery. In January and February 2002, housing prices accelerated their upward pace with a sharp rise in the asking prices in the Seoul metropolitan area as expectations of a further increase in housing prices mounted with the approach of spring, which is a favored time for moving house. The sharp rises in housing prices in the Seoul metropolitan area also led through to push up prices sharply in other large cities and in small & medium cities. Housing rents had seen their upward pace checked in the fourth quarter of 2001 as autumn the house-moving season ended. In January and February 2002, however, they shifted to a rapidly increasing trend in response to the rises in housing prices. Another contributory factor was preemptive demand as people sought to secure properties ahead of time because of worries that prices would surge during the spring moving season.

Meanwhile, land prices in the fourth quarter of 2001 registered a slightly high-

er rate of increase than in the previous quarter centering on residential areas in the large cities, green areas and quasi-agricultural areas in small & medium cities with the rises in housing prices, the lifting of restrictions on development of green belts and the government's drive to develop new satellite towns. Even so, land prices maintained a relatively stable pattern of movements compared with those of other types of real estate such as housing.

## Financial Developments

### Financial Markets

The overnight call rate in the fourth quarter of 2001 moved around the 4.0 percent level at which the Bank of Korea kept its call rate target. Meanwhile, yields on Treasury bonds and corporate bonds which had maintained a declining trend from the end of April, 2001, exhibited a

[Table 11] Rates of Increase of Real Estate Prices<sup>1)</sup>

	Unit : per cent							
	2000		2001				2002	
	Year	I	II	III	IV	Year	Jan.	Feb.
Housing prices	0.4	0.8	2.2	4.8	1.7	9.9	2.6	2.5
(Apartments in Seoul)	4.2	2.2	4.8	8.6	2.6	19.3	6.5	4.4
Housing rents	11.1	4.9	3.2	6.4	1.1	16.4	2.1	2.8
(Apartments in Seoul)	12.1	6.8	5.2	9.7	0.1	23.4	3.3	4.2
Land prices	0.7	0.1	0.4	0.3	0.5	1.3	-	-

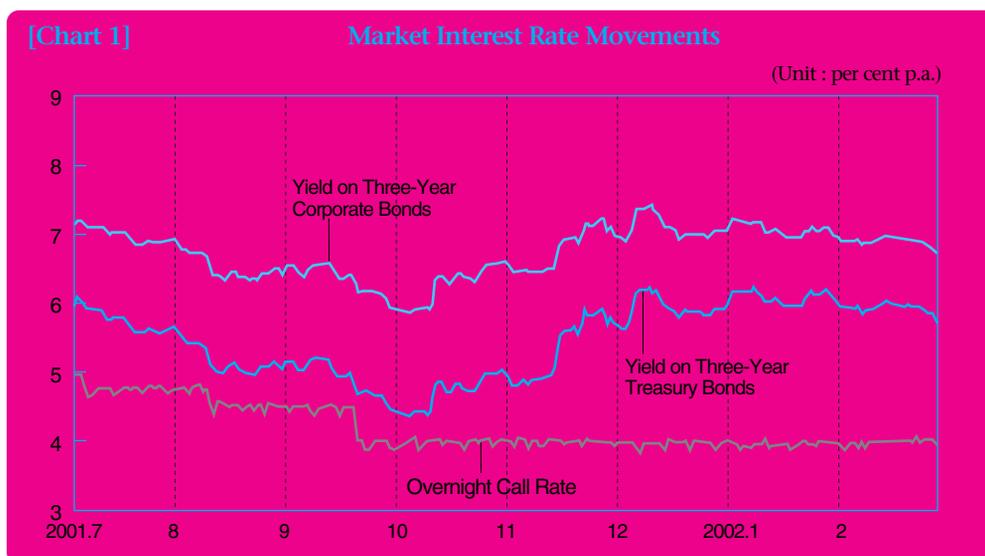
Note : 1) Comparison is with the end of the preceding period.

mild upward trend from October. This was in response to the heightened expectations of early economic recovery aroused by improved economic indicators at home and abroad and the instability of the interplay of bond supply and demand with the large net issuance of long-term Treasury bonds, while the expectations of an additional drop of market interest rates were weakened by the Bank of Korea's decision to maintain its call rate target unchanged in October. Accordingly, yields on Treasury bonds (3-year maturity) and corporate bonds (AA-grade, based on 3-year maturity) increased to 5.91 percent and 7.04 percent, respectively, at the end of December from their 4.45 percent and 5.95 percent at the end of September.

Moving into the new year, the call rate was held steady at around 4.0 percent, the call rate target of the Bank of Korea.

However, yields on Treasury bonds and corporate bonds showed a declining trend from the middle of January on prospects of an improved conjuncture of bond supply and demand to stand at 5.71 percent and 6.68 percent, respectively, as of the end of February.

From the beginning of October, the Korea composite stock price index (KOSPI), which had shown a declining trend after the September 11 terrorist attacks on the U.S., rebounded sharply helped by the large scale net purchases by foreign investors and the expectations of early economic recovery. It thus registered 704.50 points, its highest level of the year, on December 7. Thereafter the trend of KOSPI underwent a correction as investors turned cautious following the short-term rally and the depreciation of Japanese Yen, which brought it to 693.70 points as of the end of the year, a 44.6



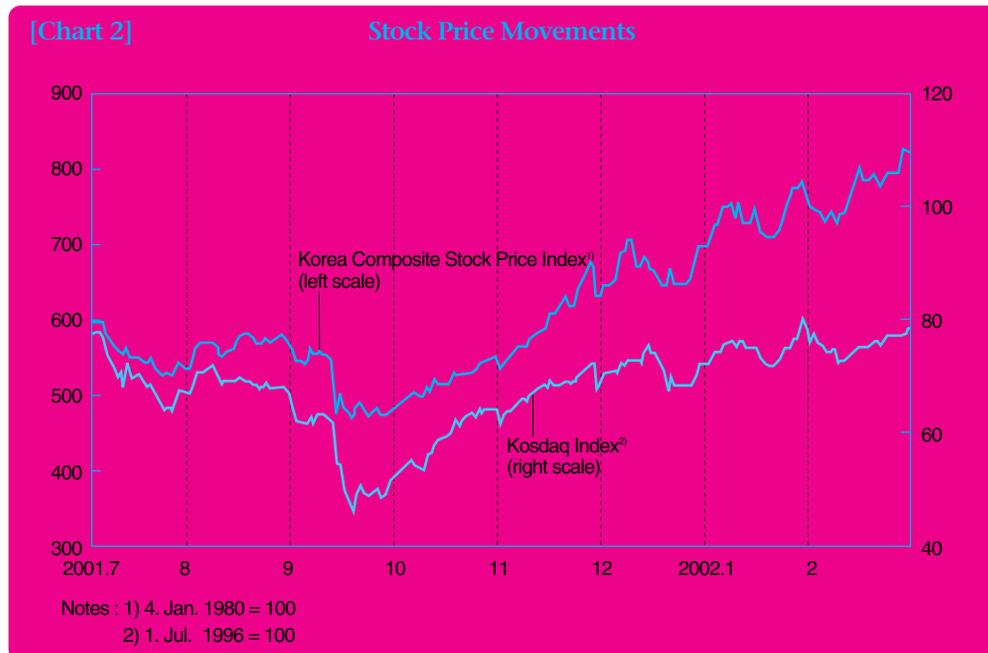
percent increase from the end of September's 479.68 points. The KOSDAQ composite index also showed a similar movement to that of KOSPI. The index stood at its highest for the year on December 13 at 75.30 points and registered 72.21 points as of the end of December.

In 2002, stock prices have maintained a generally upward trend while showing fluctuations in response to news of finalization of the negotiations for the disposal of Hynix Semiconductor, the fluctuation of stock investment by foreign investors and the movements of U.S. stock prices. Accordingly, the Korea composite stock price index and the KOSDAQ composite index as of the end of February recorded 819.99 points and 78.71 points, respectively, which represented increases of 18.2 percent and 9.0 percent

from the end of 2001.

The Korean won weakened steeply against the U.S. dollar in December, easing to a level of 1,329 won per dollar on expectations of its further depreciation in line with the rapid weakening of the Japanese yen. Toward the end of the month, though, it shifted to an appreciating trend due to the expanded supply of foreign currency with the inflow of foreign stock investment funds.

The Korean won continued to firm until mid January in 2002 before weakening again against the U.S. dollar in line with the fall in the yen to trade at a level of 1,330 won per dollar. Afterwards, however, it regained some of its lost ground thanks to the yen's stability and inflows of foreign stock investment funds. In February, the won showed stable pattern of

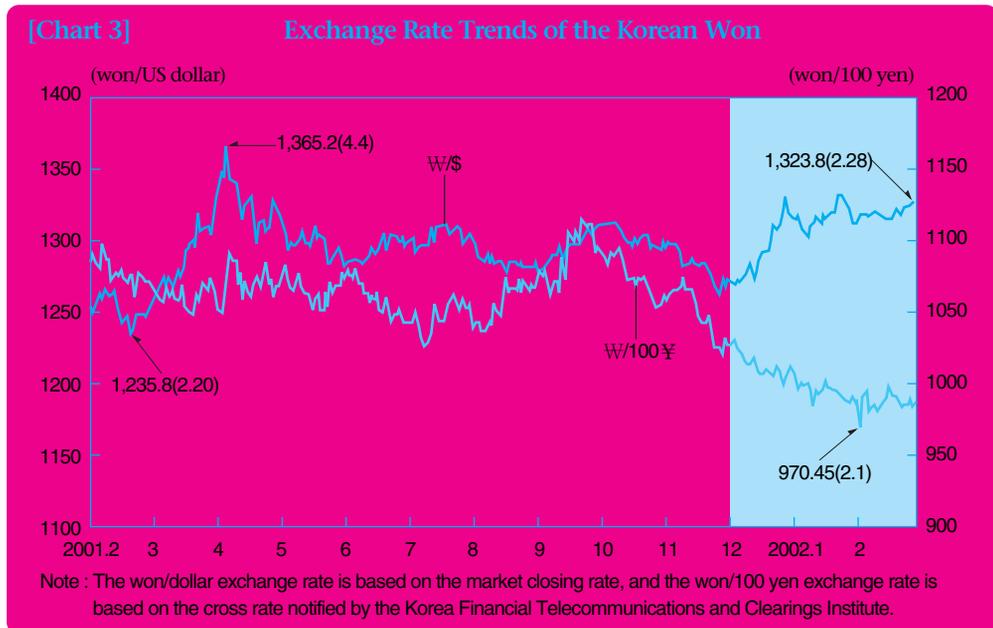


overall movements at around 1,310~1,320 won per dollar, closing the month at 1,323.8 won per dollar.

In the meantime, as the Japanese yen had continued to weaken in international financial markets, the won appreciated against it, trading at 1009.40 won per 100 yen at the end of December 2001 and at 989.65 won per 100 yen at the end of January 2002. From February onwards, however, the Korean won appreciated only slightly against the now stable Japanese yen, registering 988.35 won per 100 yen at the end of February.

Looking at the deposit-taking by financial institutions during the fourth quarter, that of banks saw a significant reduction of its increasing pace due to the large scale deposit withdrawals by companies for the payments of value

added tax in October and the redemption of borrowings ahead of annual closing at the end of the fourth quarter. However, bank trust accounts turned to an increase due to the good performance of Short-Term Specified Money Trusts of less than three months and the acceleration in the growth of tax incentive-linked financial products. In the meantime, deposit-taking by trust investment companies dropped significantly following the contraction of inflows to bond-type funds and MMFs, financial institutions' management of their funds to show up well in terms of their year-end BIS ratios and the withdrawal of corporate funds to reduce outstanding debts. Similarly deposit-taking by merchant banking corporations also declined with the withdrawal of funds to meet year-



[Table 12]

## Growth of Deposits at Financial Institutions

(Changes during the period)

Unit : billion won

	2000		2001						2002	
	IV	I	II	III	IV	Oct.	Nov.	Dec.	Jan.	Feb.
Deposit money banks <sup>1)</sup>	20,818	5,477	21,893	25,725	4,611	-2,513	6,422	702	2,836	12,526
Money-in-trust	-10,551	3,506	-2,752	-424	2,465	842	-477	2,100	-1,623	-2,590
Investment trust companies	-10,326	17,866	-8,838	26,029	-21,187	-1,207	-8,357	-11,623	3,827	6,508
Merchant banking corporations	-3,619	-581	-42	43	-1,091	34	648	-1,773	898	494

Note : 1) Bank deposits + CD + RP + Cover bills.

end payments.

In 2002, bank deposit-taking saw a marked acceleration with the return of funds withdrawn for year-end settlement and the repayment of borrowings. That of investment trust companies and merchant banking companies shifted to an increasing trend with the flowing back of funds which had been temporarily withdrawn. Money-in-trust, however, saw a decline in deposit-taking with the cooling in the attraction of funds to Short-Term Specified Money Trusts and the sharper contraction of those to New Pension Trusts.

### Monetary Aggregates

During the fourth quarter of 2001, the M2 growth rate rose to 13.7 percent, somewhat higher than the previous quarter's 12.9 percent. This reflected the fact that bank loans increased steadily and that funds withdrawn from investment trust companies and matured cover bills migrated to bank deposits. The growth rate of MCT+ also posted a moderate

increase, rising to 13.6 percent from the previous quarter's 12.3 percent following the expanded inflow of funds to money-in-trust products. The M3 growth rate marked 11.5 percent compared to the previous quarter's 10.3 percent. Reserve money increased by 14.6 percent which was substantially higher than the previous quarter's 8.9 percent rise due to the pronounced expansion of Money Market Deposit Accounts(MMDA), on which the reserve requirement is relatively high, and the rapid increase of the cash base generated by the seasonal demand around Chuseok.

Moving into 2002, M2 and MCT+ growth rates dropped steeply in line with the greatly expanded absorption by the government sector, including the increased collections of value added tax revenue during January. However, they rebounded in February following the expansion of government spending around the Lunar New Year and the large expansion of credit to the private sector. The movements of the reserve money showed a similar pattern to those of M2.

[Table 13]

Monetary Aggregate<sup>(1)</sup> Trends

(On the basis of average figures)

Unit : per cent

	2000				2001				2002	
	IV	I	II	III	IV	Oct.	Nov.	Dec.	Jan.	Feb.
M3	6.7	8.2	8.3	10.3	11.5	11.8	11.4	11.3 <sup>2)</sup>	-	-
M2	26.1	21.4	15.3	12.9	13.7	14.0	13.4	13.8	12.5	14.7
MCT+	14.2	13.5	11.2	12.3	13.6	13.8	13.4	13.6	12.3	13.9
Reserve money	14.2	11.7	10.6	8.9	14.6	16.1	13.7	14.0	7.1	20.3

Notes : 1) Percentage changes compared with the same period of the previous year.

2) Provisional figures.

## Corporate Finance

Banks lending to companies showed a significant increase during October and November of 2001, thanks to continuing efforts to expand the lending to small and medium companies and corporate demand for funds to meet the value added tax payments. But it contracted slightly for the fourth quarter as a whole, because of companies' wholesale repayment of borrowings to reduce the balance sheet liabilities at the year-end. Corporate bonds exhibited a substantial net repayment, as a large volume of corporate bonds matured and top-ranking large companies having ample liquidity opted not to roll over maturing issues in order to reduce the burden of the increase in interest expenses arising from the upward movement of market interest rates. CP also shifted to a net redemption prompted both by the reduced appetite of investment trust companies whose deposit-taking had declined as well as the large scale net redemption position of top

ranking large companies ahead of year-end closing. On the other hand, the upward trend of stock issuance steepened on the rise in stock prices.

From the beginning of 2002, bank loans showed a large scale increase due to renewed recourse to loans which had been repaid temporarily at the end of last year, the borrowing demand for payments of value added tax by small and medium companies and the seasonal demand for borrowings related to the Lunar New Year. CP also shifted to a net issuance position with the heightened appetite of investment trust companies boosted by a substantial increase of MMFs along the flowing back to them of funds which had been temporarily withdrawn at the end of the year. Corporate bonds maintained their net redemption trend.

[Table 14]

**Corporate Fund Raising**  
(Changes during the period)

Unit : billion won

	2000	2001							2002	
	IV	I	II	III	IV	Oct.	Nov.	Dec.	Jan.	Feb.
Bank loans <sup>1)</sup>	-3,402	32,753	37,483	62,927	-2,668	22,974	19,976	-45,618	48,177	29,476
Large Enterprises	-22,608	21,042	-23,902	-4,314	-26,820	10,142	514	-37,476	24,806	3,196
Small and Medium Enterprises	19,206	11,711	61,385	67,241	24,152	12,832	9,462	-8,142	23,371	26,280
Net bond issuance <sup>2)</sup>	-4,685	5,410	5,955	3,843	-6,389	-2,343	-1,712	-2,334	-2,459	-190
Net CP issuance <sup>3)</sup>	-4,884	6,955	189	3,356	-2,400	1,292	-987	-2,705	4,088	1,397
Stock issuance <sup>4)</sup>	1,960	448	893	1,015	2,282	436	214	1,632	324	159

Notes : 1) Excluding changes to bank accounts in connection with the disposal of bad loans and debt for equity swaps, but including CLO.

2) Issuance by general companies, excluding those under court management, court receivership and workout programs.

3) Based on the amount of CP discounted by securities firms, bank trust accounts, and merchant banking corporations.

4) Based on companies listed on the Korea Stock Exchange or registered with the KOSDAQ market, but excluding financial institutions.

# Summary of Monetary Policy

Adopted by the Monetary Policy Committee

## Monetary Policy in 2002\*

### I. Inflation Target

Following consultation with the government, the inflation target for the year 2002 has been set at 3±1 per cent, based on the annual rate of increase in the Consumer Price Index (CPI) after stripping out non-cereal agricultural products and petroleum-based products.

The mid-term inflation target will, meanwhile, be kept at 2.5 per cent on an annual average basis in order to stabilize inflationary expectations among the general public and maintain the credibility of monetary policy.

The utmost efforts will be exerted to stabilize consumer prices as soon as possible toward a level consistent with the mid-term inflation target from next year onwards.

### II. Monetary Policy in the Year 2002

#### <Basic Stance>

The Bank of Korea will conduct monetary policy flexibly in line with the developments of internal and external environments in order to boost the economy, paying keen attention to the development of inflationary pressures.

\* Unofficial English translation based on the Korean original that was decided upon by the Monetary Policy Committee on January 10, 2002

## 1. Interest Rate Policy

The Bank of Korea will adjust the overnight call rate flexibly in line with the state of prices and of the real and financial sectors and changes in the international environment with a view to assisting the economic recovery on the basis of price stability. It will also endeavor to slow the level of price increases to converge on the mid-term inflation target as soon as possible, extending the policy horizon to next year and beyond. Careful watch will be kept on the movements of real asset prices so that the low interest rate policy does not translate into heightened volatility of real asset prices, thereby generating inflationary expectations among the general public.

This year the government intends to carry out fiscal policy with a focus on early economic recovery, while increased volatility of price variables including interest rates, stock prices and foreign exchange rates is anticipated in accordance with the developments in the external environment. Therefore, there should be close coordination between interest rate, exchange rate and fiscal policies.

In addition, due to the enlarged transaction volume of financial markets and the improvement of the financial system, changes in financial asset prices have

become more useful as an information variable for the establishment of monetary policy. Therefore, the Bank of Korea will monitor and analyze them more closely and will take appropriate steps so that call rate adjustments are transmitted more effectively to the real and financial sectors.

## 2. Money Supply

This year's monitoring range for annual M3 growth rate has been set at 8 to 12 per cent, a little higher than that of last year. The private sector's demand for money is expected to expand over the year as the economy moves into a recovery phase while it is anticipated that money supply through the foreign channel will be maintained thanks to inflows of foreign investment funds.

A careful watch will be kept on the movements of monetary indicators including those newly compiled. New monetary indicators are to be introduced from this year, which are based on the degree of liquidity of financial products offered by financial institutions as a whole from this year. It is anticipated that the usefulness and promptness of monetary indicators will be correspondingly heightened.

### 3. Credit Policy

The allocation of the Aggregate Credit Ceiling will be changed to encourage banks to expand their supply of funds to firms and credit-based lending. The Aggregate Credit Ceiling system will be operated to support the constant amelioration of settlement practices in commercial transactions and the scale of loans allocated to the bank activities concerned will be well balanced within the current ceiling (11.6 trillion won).

The Bank of Korea stands ready to provide timely “Liquidity Adjustment Loans” to banks facing temporary liquidity shortages arising from the enlarged

portfolio shifts among financial institutions in the process of restructuring.

### 4. Other Activities

The Bank of Korea will analyze the transmission mechanism of monetary policy thoroughly and reflect the outcome in establishing its policy. Its information-gathering capacity will be augmented in the financial markets, through which the effects of monetary policy are transmitted, in line with the rapid changes of the financial environment including the move to develop large-sized banks, and its findings will be taken into account in the establishment and conduct of monetary policy.

## January ~ March 2002

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### Monetary Policy in January 2002\*

The economy showed signs of improvement during November last year. Industrial production increased while there was sustained growth of both consumption and construction investment and, notably, a shift of facilities investment to positive growth.

Consumer prices rose 3.2 per cent on a year-on-year basis(0.2 per cent on a

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\* Unofficial English translation based on the Korean original that was decided upon by the Monetary Policy Committee on January 10, 2002

month-on-month basis) in December owing to increases in the prices of farm-livestock-fishery products and housing rents, whose effects offset a decline in those of petroleum-based products. Core consumer prices, meanwhile, rose 3.9 per cent on a year-on-year basis(0.4 per cent on a month-on-month basis).

Financial markets continued to remain largely stable. Although the volatility of price variables such as interest rates, stock prices and the exchange rate increased substantially and corporate bonds continued to record a net redemption, conditions for corporate financing appeared to be relatively favorable, thanks mainly to the weak demand for funds from the corporate sector amid ample market liquidity.

Although there remains uncertainty over the external and domestic environments, conditions in the real sector have continued to improve. Therefore, the Monetary Policy Committee of the Bank of Korea decided today to maintain its benchmark overnight call rate at around its current level in January.

Monetary policy will continue to be conducted in a flexible manner, keeping a careful watch on the status of business activity, price movements and the financial markets.

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## Monetary Policy in February 2002\*

Although exports maintained their decline, the economy as a whole showed signs of improvement. During December last year, industrial production increased for the second consecutive month and the growth rates of consumption and construction investment accelerated while the increase in facilities investment continued.

Consumer prices rose 2.6 per cent on a year-on-year basis(0.6 per cent on a month-on-month basis) in January this year due mainly to increases in the prices of farm-livestock-fishery products and housing rents. Core consumer prices rose 2.9 per cent on a year-on-year basis(0.3 per cent on a month-on-month basis).

Financial and foreign exchange markets appear to remain largely stable as conditions for corporate financing were favorable with ample market liquidity. Meanwhile, price variables such as interest rates, stock prices and the exchange rate fluctuated during January in accordance with the evolution of expectations over the recovery of the domestic and foreign economies, the in- and out-flows of foreign portfolio investment funds and the movements of the Japanese yen against the dollar.

Although there still remains uncertainty surrounding the Korean economy, it is anticipated that the trend of improve-

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\* Unofficial English translation based on the Korean original that was decided upon by the Monetary Policy Committee on February 7, 2002

ment in the real sector and the stability of the financial markets will likely continue. Taking these factors into consideration, the Monetary Policy Committee of the Bank of Korea decided today to maintain its benchmark overnight call rate at around its current level in February.

Monetary policy will continue to be conducted in a flexible manner, keeping a careful watch on the developments of the external environment, the status of business activity, price movements and the financial and asset markets.

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## Monetary Policy in March 2002\*

The signs of economic recovery became more visible, although exports maintained their decline. During January, industrial production continued to be quite good and both consumption and construction investment grew steadily while the increase in facilities investment was maintained.

Consumer prices rose 2.6 per cent on a year-on-year basis(0.5 per cent on a month-on-month basis) in February due mainly to increases in the prices of farm-livestock-fishery products and industrial products. Core consumer prices rose 3.0 per cent on a year-on-year basis(0.3 per cent on a month-on-month basis).

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\*Unofficial English translation based on the Korean original that was decided upon by the Monetary Policy Committee on March 7, 2002

In the financial and foreign exchange markets, long- and short-term market interest rates and exchange rate of the Korean won against dollar showed largely stable movements while conditions for corporate financing became more favorable. In the meantime, the concentration of funds at the short end of market and rises in asset prices such as those of real estates have persisted as the household credits have continued to increase substantially and anticipation of economic recovery has been building up.

Although the trend of economic recovery led mainly by domestic demand is expected to continue, uncertainty still remains over the export environment. Therefore, the Monetary Policy Committee of the Bank of Korea decided today to maintain its benchmark overnight call rate at around its current level in March.

It was also noted that monetary policy would be conducted in a flexible manner, keeping a careful watch on the pace of economic recovery, price movements and changes in the external conditions. Along with this, it was considered desirable to take various measures to stabilize real estate markets, in order to prevent the recent rise of real estate prices from leading to heightened inflationary expectations among the general public.

# The Inflation Target and Monetary Policy for 2002

## I. Introduction

Since the adoption of inflation targeting<sup>1)</sup> in 1998 when the revised Bank of Korea Act came into effect, the Bank of Korea has made continuous efforts to ensure that inflation targeting can take hold as early as possible. The Bank increased the transparency of monetary policy and improved systems related to the operation of inflation targeting by rationalizing the benchmark indicator in setting the inflation target, introducing a medium-term inflation target and shifting M3 to a monitoring indicator.

In an early stage of its introduction in Korea(1998-1999), the Bank of Korea set its inflation target based on the Consumer Price Index(CPI), an inflation

indicator that the general public is familiar with and one of the macroeconomic indicators considered of great importance at consultations among the IMF, the Government and the Bank of Korea. However, consumer prices cannot properly represent the underlying trend of inflation because the prices of some items included in the CPI are likely to fluctuate sharply within a short period owing to their high degree of sensitivity to exogenous shocks. Consequently there were difficulties in the operation of monetary policy based on the full CPI. Thus since the year 2000, the Bank has shifted the benchmark indicator to core inflation in order to formulate and implement monetary policy more efficiently. Core inflation refers to consumer

1) The related provisions of the Act are as follows:

Article 6(Formulation of an Operational Plan for Monetary and Credit Policies)

(1) The Bank of Korea shall set a price stability target every year in consultation with the Government and formulate and promulgate an operational plan for monetary and credit policies including this price stability target.

(2) The Bank of Korea shall do its best to achieve the price stability target as provided for in Paragraph (1).

prices after stripping out non-cereal agricultural products and petroleum fractions,<sup>2)</sup> which are highly sensitive to such exogenous shocks as natural disasters and large fluctuations in international oil prices.

Meanwhile, considering that there exists a considerable time lag before monetary policy works through into price changes, and that price stability should be pursued continually on a medium- and long-term basis, the Bank has, since 2000, set and operated a medium-term target together with the annual inflation target.

Up until 2000, the Bank set the M3 growth rate as an intermediate target, and utilized the overnight call rate as an operating target; since 2001, however, it has decided to continue to use the overnight call rate as the operating target and the M3 growth rate not as an intermediate target, but a monitoring indicator. In consequence, the operational system of monetary policy has been shifted to a pure inflation targeting system.

Since the adoption of inflation targeting in 1998, the Bank has done its utmost in order to boost the transparen-

cy and credibility of monetary policy by releasing the minutes of the Monetary Policy Committee and submitting the Monetary Policy Report to the national assembly.

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## II . Inflation Target and Operational Performance of Monetary Policy in 2001

### 1. Inflation Target and Price Changes in 2001

In setting the inflation target for 2001, the Bank forecast that during the year under review, economic growth would decline owing to sluggish domestic and external demand, and that the scale of the current account surplus would shrink,<sup>3)</sup> and that inflation would be higher; it predicted that consumer prices and core inflation would stand at 3.7 per cent and 3.6 per cent, respectively, on an annual average basis. This forecast was grounded on expectations about some cost factors but discounting demand-pull pressures because of the rapid economic

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2) Non-cereal agricultural products include vegetables, fruit and other agricultural products shown in the CPI. Petroleum fractions comprise gasoline, kerosene, light oil, liquified petroleum gas and piped natural gas.

3) During 2001, the Korea economy was expected to register lower GDP growth than 2000 with both domestic sales and exports subdued. The overall slowdown represented an adjustment from the rapid growth during 2000, in the rebound from the severe economic recession that followed the currency crisis, and the unfavorable international environment, including the economic slowdown in the U.S. The scale of the current account surplus was expected to narrow compared with the previous year's, owing to the slump in exports in line with the sluggishness of global economic growth and a decline in semiconductor prices.

downturn from the second half of 2000. The economy was expected to experience the knock-on effects of the hikes in oil prices and public service charges during the second half of 2000. Import prices were expected to be pushed up by the depreciation of the won against the U.S. dollar that began in November 2000. Other contributory factors were the levy of consumption and education taxes on cigarettes (effective as of January) and the rise in petroleum tax (effective as of July) in response to the restructuring of the energy tax system.

Taken into account the forecast of core inflation, overall economic conditions and the inflation level that the Korean economy should pursue on a medium-

term basis, the Bank, in consultation with the Government, set the mid-point of the target range during 2001 at 3.0 per cent (on an annual average core inflation basis). This represented a rate slightly higher than the medium-term target (2.5%),<sup>4)</sup> but lower than its forecast. But it permitted a fluctuation range of  $\pm 1$  percentage point around the target mid-point, considering the high degree of uncertainty surrounding the outlook for economy and prices.

During 2001, however, consumer prices and core inflation rose 4.3 per cent and 4.2 per cent on an annual average basis, respectively, higher than expected.<sup>5)</sup> This was attributable to the movement far from its expectations of the exchange

4) This was based on the judgement that considering that the external shocks might play a leading role in price rises during 2001 and there exists a considerable time lag between monetary policy and price changes, if the Bank were to carry out its monetary policy on a medium-term target basis, the economy could shrink rapidly in response to adverse side effects.

5) From the release of figures for the CPI in January 2002, the base year was shifted to 2000 from 1995. Thus the previous time series, including 2001, were revised. However, considering that the CPI with the base year of 1995 (hereinafter referred to as the old figures) was used as an indicator of price conditions in operating monetary policy during 2001, the price movements during 2001 in this paper are described on the basis of old figures. By using the new and old figures, the trends of consumer prices and core inflation during 2001 are compared as follows:

#### Comparison of Consumer Prices and Core Inflation during 2001 by using the old and new figures

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Year
Unit : year-on-year, %													
CPI													
old figures (A)	4.2	4.2	4.4	5.3	5.4	5.2	5.0	4.7	3.2	3.6	3.4	3.2	4.3
new figures (B)	3.4	3.6	4.0	4.8	5.3	5.0	4.8	4.7	3.3	3.4	3.4	3.2	4.1
B-A	-0.8	-0.6	-0.4	-0.5	-0.1	-0.2	-0.2	0.0	0.1	-0.2	0.0	0.0	-0.2
Core Inflation													
old figures (A)	4.1	4.2	4.2	4.5	4.7	4.6	4.3	4.0	3.6	3.9	4.0	3.9	4.2
new figures (B)	3.2	3.2	3.3	3.6	4.1	4.1	3.8	3.7	3.5	3.6	3.7	3.6	3.6
B-A	-0.9	-1.0	-0.9	-0.9	-0.6	-0.5	-0.5	-0.3	-0.1	-0.3	-0.3	-0.3	-0.6

Source : National Statistical Office, Consumer Price Index Monthly

rate of the won against the U.S. dollar, public service charges, housing rents and unit labor costs, which have great influence on inflation. Their magnitude surpassed the effects of stable international oil prices and the rate of economic growth registering considerably lower than its forecast following the subdued domestic economy.<sup>6)</sup>

First, the exchange rate of the won against the U.S. dollar was forecast to maintain the level of the fourth quarter of 2000 (an average of 1,166 won per dollar during the quarter). However, it continued to depreciate from the end of November 2000 onward, moving in response to the yen's weakness, and stood at 1,365 won per dollar in early April 2001. Thereafter the won showed rather greater stability as the steepness of the yen's depreciation settled down; but it maintained a level of slightly over 1,290 won per dollar in the third and

fourth quarters of 2001 on the average. As a result, the won's annual average exchange rate registered 1,290 won per dollar level, a depreciation of 14 per cent from the average of the previous year, and this served as one of the principal factors causing actual inflation to exceed the inflation forecast in the year under review.<sup>7)</sup>

Public service charges, having been expected to exhibit a similar level of growth to those of the previous year (an annual average increase of 7.1%), in fact, registered an increase of more than 9 per cent despite government's efforts to curb their rise because of the larger than expected surge in health care fees in response to a reorganizations of the health insurance scheme.

Housing rents, which had been forecast to show a slight increase, maintained a monthly average of a 0.4-0.5 per cent increase as jeonse prices (deposit money

6) During 2001, international oil price (based on Brent oil) had been expected to stand at an annual average of 27 U.S. dollars, but registered slightly lower than its forecast owing to the weak demand for crude oil amid the global economic slowdown from the beginning of the year. After the attacks on the U.S. on September 11, in particular, it plunged to below 20 dollars with the uncertain outlook for the world economy. In consequence, it stood at an annual average of 24 dollars. Meanwhile, the rate of economic growth, predicted to maintain the level of potential growth, is estimated to register around 3 per cent, led by much lower than expected facilities investment and exports in response to the global economic slowdown.

7)

**Exchange Rate Trends of the won and yen against the U.S. dollar**  
(average figures during period)

	1999	2000		2001				Year
	Year	IV	Year	I	II	III	IV	
won/dollar <sup>1)</sup>	1,189 (-14.8)	1,166 (-0.5)	1,131 (-4.8)	1,272 (13.1)	1,305 (16.9)	1,294 (16.0)	1,292 (10.8)	1,291 (14.1)
yen/dollar <sup>1)</sup>	113.7 (-13.1)	109.9 (5.2)	107.8 (-5.2)	118.2 (10.5)	122.6 (14.8)	121.6 (12.9)	123.7 (12.6)	121.5 (12.7)

Note : 1) Figures in parentheses refer to year-on-year changes.

for the lease of a house) rose sharply in response to the imbalance between supply and demand following the reconstruction projects for large-scale apartment complexes and house owners' increased preference for letting on a monthly basis.<sup>8)</sup> This was another contributory factor to 2001's higher than expected inflation. In addition, although nominal wage increases during 2001 decelerated in comparison with those of 2000, unit labor costs climbed more than anticipated due to the subdued pace of increase in labor productivity owing to the business slowdown.<sup>9)</sup> This also served as a factor in price rises of 2001.

Viewing the trends of consumer prices during the year by period, until May the rising pace of consumer prices accelerated and they registered a level of around five

and a half per cent level on a year-on-year basis in May. This was due to the knock-on effects of high oil prices and hikes in public service charges during the latter half of 2000, the depreciation of the won against the U.S. dollar, and additional rises in some public service charges such as health care fees under the health insurance system and school tuition. Another contributory factor was the supply shortages of agricultural products following the heavy snow at the beginning of the year and drought in the spring. From June onward, however, the rising pace of prices began to decelerate. This stemmed both from the decline in the domestic petroleum prices in line with the falls in international oil prices due to the sluggishness of the world economy and the government's efforts to hold

8)

**Trends of Jeonse Price<sup>1)</sup>**

	Unit : %						
	1999	2000	2001				Year
			I	II	III	IV	
All cities	16.8	11.1	4.9	3.2	6.4	1.1	16.4
(Seoul)	(22.2)	(13.8)	(6.6)	(3.9)	(7.3)	(-0.1)	(18.7)

Note : 1) Comparison is with the last month of the preceding period.  
Source : Kookmin Bank, Monthly Housing Price Survey

9)

**Trends of Unit Labor Cost**  
(based on the manufacturing)

	Unit : year-on-year, %					
	1999	2000	2001			I ~ III
			I	II	III	
Nominal wage	14.9	8.5	11.2	5.5	4.6	6.5
Productivity of labor	17.0	11.7	7.2	2.6	1.0	3.5
Unit labor cost	-9.6	-1.5	7.4	3.5	4.1	5.0

Source : Ministry of Labor, Monthly Labor Survey  
Korea Productivity Center, Quarterly Productivity Review

[Table 1] Consumer Price Trends

Unit : year-on-year, %

	1999	2000	2001						
			I	II	III	IV	1st half	2nd half	Year
Consumer prices	0.8 (1.4)	2.3 (3.2)	4.2 (1.9)	5.3 (0.9)	4.3 (0.6)	3.4 (-0.2)	4.7 (2.8)	3.8 (0.4)	4.3 (3.2)
Agricultural, livestock and marine products	7.2 (5.3)	2.0 (-1.2)	0.2 (4.4)	5.7 (1.8)	5.9 (4.1)	7.0 (-2.0)	2.9 (6.2)	6.4 (2.0)	4.6 (8.4)
Industrial products	0.5 (1.6)	1.6 (2.9)	3.7 (0.3)	4.6 (0.8)	2.9 (-0.2)	1.0 (-0.9)	4.1 (1.1)	1.9 (-1.1)	3.0 (0.0)
Petroleum fractions	4.4 (10.7)	11.2 (10.7)	11.1 (-1.5)	12.7 (-0.6)	3.2 (-2.9)	-7.3 (-6.6)	11.9 (-2.0)	-2.3 (-9.3)	4.5 (-11.1)
Others	-0.2 (-0.2)	-0.3 (1.2)	2.1 (0.7)	2.9 (1.1)	2.9 (0.3)	2.7 (0.3)	2.5 (1.8)	2.9 (0.7)	2.6 (2.5)
Services	-0.8 (0.1)	2.9 (4.8)	6.0 (2.5)	5.8 (0.6)	4.8 (0.3)	4.3 (0.8)	5.9 (3.1)	4.5 (1.1)	5.2 (4.3)
Housing rents	-4.1 (-3.8)	-0.5 (2.1)	2.7 (1.0)	3.8 (2.1)	4.7 (0.9)	5.5 (1.9)	3.2 (3.1)	5.0 (2.8)	4.2 (6.0)
Public charges	2.2 (3.1)	7.1 (10.5)	13.3 (4.2)	11.7 (0.0)	7.5 (-0.2)	4.6 (0.3)	12.6 (4.2)	6.0 (0.1)	9.2 (4.2)
Personal services	-1.0 (-0.1)	2.0 (2.6)	2.8 (2.2)	3.0 (0.2)	3.1 (0.4)	3.4 (0.6)	2.9 (2.5)	3.3 (1.0)	3.2 (3.5)
Core inflation	0.3 (0.5)	1.8 (3.2)	4.2 (1.8)	4.6 (0.7)	4.0 (0.7)	3.9 (0.6)	4.4 (2.6)	3.9 (1.3)	4.2 (3.9)

Note : Figures in parentheses refer to changes compared with the last month of the preceding period.

[Chart 1] Trends of Inflation Target and Inflation Rates



back the rises in public service charges. The deceleration of prices was also assisted by increased shipments of agricultural products from September onward, which made up for the supply shortfalls. Thus by December, the year-on-year rise had declined to 3.2 per cent.

The upward trend of core inflation steepened, centering on service prices including public service charges. Thus it posted an increase of a level of slightly below 5 per cent (year-on-year) in May. But from June onward, core inflation began to ease, thanks to the curb on increases in public service charges and the stable trend of industrial product prices. In consequence, from September onward, its rate of increase stood at level of slightly below 4 per cent year-on-year.

## 2. Operational Performance of Monetary Policy in 2001

During 2001, laying stress on price stability, the Bank of Korea operated its monetary policy in a flexible manner with a focus on the prevention of a sharp economic slowdown and the stability of the financial market. Taking into account economic conditions, including prices, business activities, and financial market movements, the Bank cut the overnight call rate by a total of 1.25 percentage points in a series of four reductions, bringing it from 5.25 per cent to 4.0 per cent. It also encouraged banks' extension

of loans to enterprises through flexibility in money supply, the increase of Aggregate Credit Ceiling allocations and lower interest rates.

The Korean economic downturn gathered pace more rapidly than had been predicted during September and October 2000, in response to a weak export performance and dampened consumer and investor confidence. For that reason, the Bank cut the overnight call rate from 5.25 per cent to 5.0 per cent by 0.25 of a percentage point on February 8, in order to keep the real economy from slipping into recession. Although business activities remained subdued even after the rate cut, the Bank maintained the call rate at the 5.0 per cent level until June, in consideration of remaining factors making for price instability, such as the depreciation of the won while price trends remained upward persistently. Some blunting of this trend was expected from the second half of the year, led by the decline of international oil prices and intensified government's efforts to keep public service charges in check. The Bank cut the overnight call rate by 0.25 of a percentage point in both July and August as real economic activities were forecast to worsen owing to the deepening of the U.S. economic slowdown. It also took into account the worsening of corporate profitability in response to lackluster business activities and uncertainties surrounding the restructuring of

some large companies. With the unstable financial market and the possibility of a deepening of the slowdown in business activities after the September 11 attacks on the U.S., the Bank cut the overnight call rate by 0.5 of a percentage point from 4.5 per cent to 4.0 per cent on September 19. Although the outlook for the economy was still uncertain even after October, the Bank maintained the target call rate at the 4.0 per cent level. This was because the financial market showed overall stability and the Bank opted to wait until the measures to stimulate the economy produced the intended effects.

Meanwhile, in order to bring about the stability of the financial market, the Bank supplied money in a flexible manner through open market operations, etc. It also increased the Aggregate Credit Ceiling by 2 trillion won in January and again in September and lowered the interest rate on lending under this facility by 0.5 of a percentage point in September so that small and medium enterprises could avoid difficulties in fund-raising amid the economic slowdown and the “flight to quality” by financial institutions.

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### III . Inflation Target and Operational Plan of Monetary Policy for 2002

#### 1. Inflation Target and Price Outlook for 2002

Dividing price conditions during 2002 into domestic and external factors, first of all international oil prices are forecast to stay stable at around 19~20 dollars in the first half of the year, responding to the slowdown in the global economy. However, they could pick up during the second half, boosted by the slight recovery of demand owing to economic recovery in the U.S.<sup>10)</sup> But even if the oil prices in the second half register higher level than those of the first half, an annual average price is expected to lower than the level of 2001.<sup>11)</sup> Prices of international raw materials, excluding crude oil, will rise slightly higher than those of 2001 on the expectations of the increasing demand for raw materials for industrial use from the second half of the year when the world economy begins

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10) Some argue that the U.S. economic recovery may be delayed owing to the worsening of corporate profitability in line with the excessive investment in the IT industry. However, the more prevalent opinion is that thanks to interest rate cuts, tax reductions, the expansion of fiscal spending, together with the soothing of the atmosphere of insecurity in line with expectations of an early end to the war on terror, consumption will pick up its pace, and the U.S. economy will begin to recover around the middle of this year.

11) Major forecasting agencies forecast that international oil prices in 2002 would be lower by 13 per cent on average than those in 2001.

to recover.<sup>12)</sup>

On the domestic front, public service charges are expected to continue to rise, centering on school tuition, transportation fees, and charges for water use. But there are no exceptional inflationary fac-

tors present such as the health care fees during 2001, and some public service charges, including those for mobile communications and natural piped gas, are planned to decline. Therefore, the annual average rate of increase in public service

### Forecast of International Oil Prices (average during the period)

	2000	2001			2002 <sup>a)</sup>		
		1st half	2nd half	Year	1st half	2nd half	Year
EIA <sup>1)</sup>	27.7	24.0	21.0	22.5	19.4	20.5	19.9
Morgan Stanley <sup>2)</sup>	28.4	26.9	24.3	25.5	21.8	24.5	23.5
EIU <sup>2)</sup>	28.5	26.5	24.3	25.4	22.0	21.0	20.5
OEF <sup>2)</sup>	28.3	26.5	24.5	25.5	23.9	24.3	24.1
Reuters <sup>2)</sup>	28.6	26.6	23.0	24.9	..	..	..

Notes : 1) Based on import prices of U.S. oil companies

2) Based on Brent crude.

Sources : U.S. Energy Information Agency(EIA), Short-Term Energy Outlook, Nov. 2001

Morgan Stanley, Oil Services, Nov. 2001

The Economist Intelligence Unit, World Commodity Forecast, Oct. 2001

Oxford Economic Forecasting, Commodity Price Monitor, Oct. 2001

12)

### Outlook for Prices of Other Raw Materials (an average during the period)

	1999	2000	2001	2002 <sup>a)</sup>
	OEF	-7.0	2.6	-5.8 <sup>a)</sup>
IMF	-7.0	2.6	-2.6 <sup>a)</sup>	4.5
Reuters Commodity Index	-14.0	1.9	-9.7 <sup>b)</sup>	

Note : 1) Based on actual performance during Jan.-Nov.

Sources : OEF, Oxford Economic Forecasting, Oct. 2001

IMF, World Economic Outlook, Oct. 2001

13)

### Outlook for Economic Growth

	2001							2002 <sup>a)</sup>		
	I	II	1st half	III	IV <sup>a)</sup>	2nd half <sup>a)</sup>	Year <sup>a)</sup>	1st half	2nd half	Year
GDP	3.7	2.7	3.2	1.8	3.0	2.4	2.8	3.5	4.3	3.9
Private consumption	0.9	2.9	1.9	3.4	3.8	3.6	2.8	3.6	4.0	3.8
Equipment investment	-7.9	-10.8	-9.3	-15.4	-3.6	-9.9	-9.6	-4.4	7.6	1.3
Construction investment	1.4	0.9	1.1	8.3	9.2	8.8	5.3	7.4	5.2	6.1
Exports of goods	8.2	0.0	4.0	-5.5	-6.0	-5.8	-1.1	-0.3	8.7	4.1
Imports of goods	-1.0	-9.2	-5.1	-8.0	-3.7	-5.8	-5.5	-0.7	12.3	5.7

charges should be lower than that of the previous year. During 2002, meanwhile, GDP growth<sup>13)</sup> is expected to stand at the 3 per cent level in the first half of the year due to the sluggishness of exports and facilities investment which will be only partially offset by the continued expansion of consumption and construction investment. In the second half, it will rise to the 4 per cent level as exports expand and facilities investment increases somewhat in response to the recovery of the U.S. economy. Accordingly, Korea's economic performance for 2002 as a whole will be an improvement over the previous year with GDP growth of 3.9 per cent; but inflationary pressures on the demand side will not be large insofar as popular expectations of a slow pace of recovery prevail.

Considering all of these factors, consumer prices and core inflation for 2002 are expected to stand at 3.0 per cent and 3.2 per cent year-on-year, respectively, both of which are lower in 2001. By period, consumer price rises are forecast to come in at slightly below 3 per cent in

the first half as their deceleration, which began in June of the previous year, persists in the wake of stable international raw material prices, including those for crude oil. In the second half, they will rise to the 3 per cent level owing to the pick-up of the domestic economy and higher international raw material prices brought about by the global economic recovery.

Reflecting this trend of consumer prices, core inflation in the first half of the year is expected to decline to a level of slightly over 3 per cent. But its upward trend is forecast to intensify, bringing it to the 3.3 per cent level for the second half.

Although price rises during 2002 are predicted to slow compared with the previous year, the possibility cannot be ruled out that they may show movements quite different from those forecast given the high degree of uncertainty prevailing in the domestic and overseas environments. For instance, the timing and pace of recovery in the U.S. and world economy, still remain uncertain but they affect

[Table 2]

Outlook for Prices

Unit : year-on-year, %

	2000		2001			2002 <sup>a)</sup>			
	Year	1st half	III	IV	2nd half	Year	1st half	2nd half	Year
CPI	2.3 (3.2)	4.7 (2.8)	4.3 (0.6)	3.4 (-0.2)	3.8 (0.4)	4.3 (3.2)	2.7 (2.3)	3.3 (1.2)	3.0 (3.5)
Core inflation	1.8 (3.2)	4.4 (2.6)	4.0 (0.7)	3.9 (0.6)	3.9 (1.3)	4.2 (3.9)	3.1 (2.1)	3.3 (1.2)	3.2 (3.3)

Note : Figures in parentheses refer to those compared with the last month of the previous period.

not only international raw material prices, including those of crude oil, but also the timing and pace of the domestic economic recovery, which in turn influence prices by way of changes in excess demand pressures. Other factors characterized by a high degree of uncertainty are the likelihood of the yen continuing the softness, evident since the end of the previous year, and of a sympathetic depreciation of the won.

Taking into account the outlook for prices, the degree of uncertainty and the inflation level desirable for Korean economy, the Bank of Korea, in consultation with the government, has set its inflation target for 2002 as follows.

Core inflation, which strips out non-cereal agricultural products and petroleum fractions from the CPI, is used as the benchmark indicator as in 2001, and the mid-point of the target is set at 3.0 per cent, slightly lower than its forecast 3.2 per cent (based on the annual average increase). But a fluctuation range of  $\pm 1$  percentage point is tolerated around the target mid-point, considering the high degree of uncertainty surrounding the outlook for prices. In that inflation should be ratcheted down on a medium-term basis, the inflation target that Korea's monetary policy should pursue from 2003 onward will be maintained as before the 2.5 per cent level based on annual core inflation.

## 2. Operational Plan of Monetary Policy for 2002

### A. Operational Environment of Monetary Policy

During 2002, the Korean economy is expected to see its business activity improve slowly and achieve a higher rate of growth than that of the previous year. Thus labor market conditions will also improve and the current account will remain in surplus, albeit on a smaller scale. Meanwhile, the rising trend of prices is expected to be blunted as demand-pull pressures moderate and cost-push pressures ease off. Nevertheless, there is the possibility that the macroeconomic indicators will differ from their forecast levels since it is difficult to predict the timing and pace of economic recovery for the global economy, notably that of the U.S., and the movements of the yen against the U.S. dollar.

Despite the remaining structural fragility of the corporate and financial sectors, the financial market will maintain its stability. This will reflect the decreased corporate credit risk and the improvement of corporate profitability and cash flow in line with economic recovery. In the case of the demand for bank loans, that from the household sector will increase steadily, boosted by the recovery of consumer confidence. Together with economic recovery, the demand for corporate funds, centering

on small and medium sized enterprises, is expected to increase, but not to a great degree. This is because the pace of economic recovery is rather slow and it may take a long time to absorb the previous facilities investment excesses in some industries. In the bond market, meanwhile, demand for bonds is expected to decline somewhat with the rising of interest rates on expectations of economic recovery, leading to a slow growth of deposit taking by bond-type funds. However, considering that the volume of bonds to be issued will decrease compared with the previous year, led downward by the contraction of issuance of government and public bonds and a decrease in maturing corporate bonds, the balance between supply and demand will be maintained.

The foreign exchange market will experience a favorable interplay of supply and demand with a continued current account surplus and inflows of portfolio funds from foreign investors. In this context, unless external conditions worsen, e.g. a deepening of the yen's weakness, the exchange rate of the won against the U.S. dollar will remain stable.

Meanwhile, fiscal policy for 2002 will be carried out with an emphasis on the early recovery of the economy through the stimulation of domestic demand by disbursing more than 65 per cent of the total budget in the first half and expanding public infrastructure investment,

which is particularly effective in terms of economic pump-priming.

## B. Operational Plan for Monetary Policy

The Bank will implement monetary policy flexibly during 2002 in response to domestic and external economic conditions in order to stimulate business activities while focusing on minimizing inflationary pressures. In addition, it will strive to achieve financial and foreign exchange market stability in order to support economic growth and increase monetary policy efficiency.

In giving a prognosis as to the course of the Korean economy, there still exists a high degree of uncertainty as to global economic outlook and the continuation of the yen's weakness. Under these circumstances, considering economic conditions not just for 2002 but also for the following years and the consequent changes in pressures on the demand side, the Bank will carry out its interest rate policy so as to bring about an environment conducive to the convergence of inflation to the level of the mid-term target of 2.5 per cent while bolstering the recovery of economic vitality. It will remain alert to the influence of changes in real estate and stock prices on inflation and business activities in order to ensure that sharp fluctuations in asset prices do not stir inflationary pressures. Meanwhile, it will reinforce its monitoring of

financial asset prices whose importance as an information variable is growing with the expansion and improvement of the financial market. In addition, as the government plans to conduct its fiscal policy with a focus on early economic recovery, and there is the possibility of increased volatility for price variables, notably interest rates, stock prices and exchange rates, in line with the developments of external conditions, the Bank will conduct interest rate policy in harmony with fiscal and foreign exchange policies.

In terms of monetary policy operation, it will continue to monitor the monetary aggregates in circulation cautiously to establish a foundation for price stability on a medium-term basis. In this context, the Bank has set its monitoring range for M3 growth at 8-12 per cent, slightly higher than the previous year's (6-10 per cent on an annual average basis). In doing so, it took into account the prospects that demand for money will increase with the economic recovery during the year under review, and that money supply from the overseas sector is expected to continue to increase in response to the inflows of funds for direct

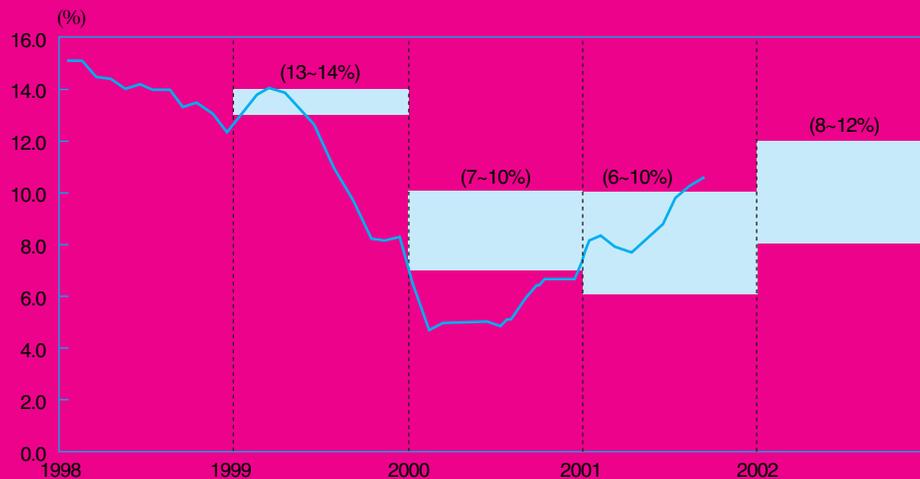
and indirect foreign investment. Since this upward adjustment of monitoring range is predicated on the expectation of higher economic growth and the level of the inflation target, it is judged that the expansion of money supply is not likely to translate into price increases. It is possible, however, that money velocity may accelerate more than expected in the course of the economic recovery. The Bank will, therefore, strive to maintain the monetary aggregate in circulation at an appropriate level to avoid an expansion of inflationary pressures. New monetary indicators<sup>14)</sup> are to be compiled and released from March this year, which are based on the liquidity of comprehensive financial instruments offered by banks and non-bank financial institutions. This is expected to increase the usefulness and timeliness as monetary indicators and the Bank will therefore monitor cautiously their movements together with those of existing indicators.

On the expectations of overall financial market stability and relatively ample liquidity in the corporate sector, the Bank will operate its credit policy within the present Aggregate Credit Ceiling of 11.6 trillion won. Meanwhile, it will change

14) The monetary indicators to be compiled and released from March 2002 are composed as follows:

- New M1 = M1 + instant access accounts offered by banks and non-bank financial institutions (demand deposits at the Korea Development Bank, savings deposits and MMDA at deposit money banks and MMFs at investment trust companies)
- New M2 = M1 + time & savings deposits (excluding those with a maturity of 2 years or more) + marketable products + performance-based products (excluding money in trust with a maturity of 2 years or more) + financial debentures

[Chart 2] Trends of M3 Growth Rate and Monitoring Range<sup>1)</sup>



Note : 1) Intermediate target during 1999-2000, and monitoring range from 2001 onward

the method of allocation under this facility in an effort to strengthen the incentives contributing to the expansion of both corporate lending, centering on small and medium sized enterprises, and credit-based lending. The Bank will maintain the limit on Corporate Procurement Loans under the Aggregate Credit Ceiling at the level of the end of the previous year(4.3 trillion won) to ensure the continued improvement of the settlement practices in commercial transactions among enterprises. Reflecting the changing trends in commercial transactions, including the reduced proportion represented by the clearing of commercial bills and the galvanization of e-commerce, it will also ratchet down the current applied ratio(80%), which is utilized in computing actual allocations from performance in the discount of commercial

bills, while increasing loans for foreign trade and collateral loans to factored clients. Apart from this, it will construct a monitoring system enabling the status of financial institutions' corporate lending, including changes in their lending practices, to be grasped promptly.

The Bank of Korea stands ready to provide Liquidity Adjustment Loans to financial institutions facing temporary liquidity shortages arising in the restructuring process. This stance has been adopted to facilitate financial restructuring and to prevent the spread of instability in the financial market.

The Bank will strive incessantly to diversify and stratify the financial market and financial instruments so as to facilitate the transmission mechanism of monetary policy while pursuing the improvement of financial market infra-

structure. It will undertake strenuous efforts to improve the operational structure of loan interest rates to ensure that changes in the overnight call rate target induce adjustment of bank lending rates. It is important to build up public confidence in monetary policy in order to increase its efficiency. It can indeed be fairly said that the success of a central bank's policies depends on its public credibility. In this context, the Bank will do its utmost to meet the inflation target through its policy; and help the general public understand its monetary policy better by giving full publicity to the rea-

sons should the inflation target not be met together with the prospects for inflation and measures to rein in it. Along with this, it will strengthen its information gathering in the financial market, the arena in which the monetary policy exerts its influence, in order to keep abreast with changes in the financial environment, including current trends such as the founding of big banks by M&A or the conduct of ancillary business through a holding company. It will also ensure that the information collected is fully reflected in its conduct of the policy.

# Financial Sector Restructuring in 2001

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## I. Foreword

The financial sector restructuring pursued by the government since the outbreak of the currency crisis continued throughout 2001. The government brought a number of financial institutions owned by the Korea Deposit Insurance Corporation (KDIC) under a financial holding company and liquidated ailing merchant banking corporations, insurance companies, mutual savings and finance companies, and credit unions. In this process, some 27 trillion won in public funds was disbursed for the repayment of deposits, recapitalization, compensation for losses, and the purchase of non-performing loans. The government meanwhile enacted new financial legislation and revised existing legislation to facilitate corporate restructuring by financial institutions, bolster the protection of stock investors, particularly minority shareholders, introduce

the system of outside directors and audit committees to large mutual savings and finance companies and credit card companies, and strengthen prudential regulations on credit-specialized financial companies.

This paper sets out the main details concerning the restructuring of financial institutions, including the resolution of non-viable financial institutions and support from public funds, and details of the new and revised financial legislation.

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## II. Restructuring of Financial Institutions

In the year 2001, the government brought four banks and one merchant banking corporation wholly owned by the KDIC under Woori Finance Holdings Company. At the same time, it revoked the license of four ailing merchant bank-

ing corporations and two ailing insurance companies, while liquidating a number of non-viable mutual savings and finance companies and credit unions. During the year, Kookmin Bank and Housing & Commercial Bank merged, and a financial holding company was established bringing together financial institution affiliates of Shinhan Bank.

### 1. Merger and Liquidation of Financial Institutions

In March 2001, the government brought Hanvit, Peace, Kwangju, and Kyongnam Banks and Hanaro Merchant Banking Corporation (renamed Woori Merchant Banking Corporation in September) which had been fully recapitalized by KDIC under Woori Finance Holdings Company.<sup>1)</sup> It also had Havit bank absorb the bank and trust accounts of Peace Bank, whose financial status worsened due to accumulated bad loans, and authorized the conversion of Peace Bank into Woori Credit Card Company (December).

The government also revoked the licenses of four merchant banking corporations – Korea, H&S, Yeungnam, and Central – which had been consolidated into Woori Merchant Banking Corpora-

tion on a purchase and assumption (P&A) basis in November 2000. It also permitted the merger of Regent Merchant Banking Corporation whose operations had been suspended in December 2000 with Tongyang-Hyundai Merchant Banking Corporation. As a result, the number of merchant banking corporations, which had reached around 30 before the currency crisis, dropped to three at the end of 2001.

Of the three life insurers (Hyundai, Samshin Allstate, and Hanil) whose sale the government had promoted both in the domestic and in foreign market after official designation as “ailing financial institutions” in 2000, the government revoked the licenses of Hyundai and Samshin Allstate Life Insurance Companies (November), which had been consolidated into Korea Life Insurance Company (April) on a P&A basis, while deciding to liquidate Hanil Life Insurance Company on a P&A basis. After appraising the management status of Daishin Life Insurance Company and four non-life insurers (Daehan, Kukje, Regent, and Ssangyong), whose solvency margin ratio failed to reach 100 per cent as of the end of 2000, the government initiated prompt corrective actions including the issue of management improvement requirements or management improvement orders.

1) Woori Finance Holdings Company was established through the transfer to it of the stocks of four banks and one merchant banking corporation, wholly owned by the KDIC, which consequently became the holder of the entire share capital of the financial holding company.

[Table 1] Changes in the Number of Financial Institutions<sup>1)</sup> during 1998-2001

	Number of institutions at the end of 1997	1998-2000			2001			Number of institutions at the end of 2001
		Exit <sup>2)</sup>	Merger <sup>3)</sup>	Newly established	Exit <sup>2)</sup>	Merger <sup>3)</sup>	Newly established	
Banks	33	5	6	-	-	2 <sup>4)</sup>	-	20
Merchant banking corporations	30	18	3	1	4	3 <sup>5)</sup>	-	3
Securities companies	36	6	1	14	-	-	3	46
Investment trust (management) companies	31	6	1	3	-	-	3	30
Life insurance companies <sup>6)</sup>	31	5	5	-	2	-	-	19
Non-life insurance companies	14	-	1	-	-	-	1	14
Mutual savings & finance companies	231	72	25	12	23	1	-	122
Credit unions	1,666	257	101	9	48	1	-	1,268
Total	2,072	369	143	39	77	7	7	1,522

Notes : 1) Excluding bridge financial institutions and branches of foreign institutions.

2) Including revocation of license(application), bankruptcy, and liquidation.

3) Number of financial institutions that ceased to exist following mergers.

4) Kookmin Bank and Housing & Commercial Bank merged as Kookmin Bank; Peace Bank converted into a credit card company.

5) Hyundai-Ulsan Merchant Banking Corporation and Tongyang Merchant Banking Corporation merged to form Tongyng-Hyundai Merchant Banking Corporation. This subsequently absorbed Regent Merchant Banking Corporation but was in turn absorbed by Tongyang Securities Company. As a result, the number of merchant banking corporation that ceased to exist following mergers was three.

6) Excluding Postal Insurance.

Along with this, the government during the year liquidated or engineered the merger of 24 mutual savings and finance companies and 49 credit unions with little possibility of staging a turnaround.

As the attempted sale of Seoul Bank to a foreign buyer, which had been pursued by the government since 1998, again collapsed during the year, the government decided to also seek its possible domestic sale or merger with a financially healthy bank. Due to the break-down of negotiations with AIG Consortium for the sale of Hyundai Investment Trust Securities

Company, which had been underway since 2000, the government decided to pursue its sale to alternative other foreign investors. Besides this, it was decided to sell Daishin Life and Daehan, Kukje, Regent Non-life insurers, which had not carried out prompt corrective actions, after their official designation as “ailing financial institutions”, to domestic or foreign investors.

During the year, several healthy banks merged or established a financial holding company as part of the drive toward enlargement of scale and a universal

banking system. Kookmin Bank and Housing & Commercial Bank merged as Kookmin Bank in October, and in September Shinhan Bank, Shinhan Securities Company, Shinhan Capital Company, and Shinhan Investment Trust Management Company established Shinhan Financial Group (financial holding company).

## 2. Support for Financial Institutions from Public Funds

About 27 trillion won of public funds was injected into financial institutions in the course of financial restructuring during the year 2001 for the repayment of deposits, recapitalization, compensation for losses, and the purchase of non-performing loans. This brought the amount of public funds injected during the period from November 1997 to the end of 2001 to a total of 155 trillion won.

Categorizing the sources, the KDIC provided 25.1 trillion won and the Korea Asset Management Corporation (KAMCO) 2.0 trillion won.

The KDIC used 10.4 trillion won for the repayment of deposits at financial institutions that had exited the market. Most of this outlay was for the repayment of deposits (7.0 trillion won) at merchant banking corporations and the remainder was for the repayment of deposits (3.3 trillion won) at mutual savings and finance companies and credit

unions. The KDIC also used 9.6 trillion won for the recapitalization of ailing financial institutions, including 7.1 trillion won for insurance companies (5.6 trillion won for Seoul Guarantee Insurance, 1.5 trillion won for Korea Life Insurance), 1.2 trillion won for Woori Merchant Banking Corporation, which had acquired the assets and liabilities of ailing merchant banking corporations, 1.2 trillion won for the National Federation of Fisheries Cooperatives, whose capital was eroded, and 0.1 trillion won for the National Agricultural Cooperative Federation, into which the National Livestock Cooperative Federation was merged.

Also 3.0 trillion won was used to compensate losses sustained by Hanvit, Peace, Kwangju, Kyongnam, Seoul, and Cheju Banks. The KDIC also contributed or loaned 1.5 trillion won to four insurance companies including Korea Life, and to National Agricultural Cooperative Federation, mutual savings and finance companies, and credit unions. In addition, 0.6 trillion won was used for the purchase of Korea First Bank's non-performing assets following the exercise of a putback option, and 64 billion won was spent to support the accumulation of loan loss reserves.

In the meantime, KAMCO provided a total of 2.0 trillion won for the purchase of financial institutions' non-performing loans (NPLs). Of the total, 1.7 trillion won was used to purchase the NPLs of banks.

[Table 2]

Public Funds Injected<sup>1)</sup>

Unit : billion won

	KDIC	Public Funds				KAMCO	Total
		Repayment of deposits	Recapitalization	Compensation for losses <sup>2)</sup>	Purchase of assets		
Banks	4,969	-	1,254	3,119	596	1,681	6,650
Nation-wide banks	3,098	-	-	2,502	596	804	3,902
Local banks	530	-	-	530	-	263	793
Specialized banks	1,341	-	1,254	87	-	614	1,955
Merchant banking corporations	8,245	7,043	1,202	-	-	37	8,282
Securities companies	-	-	-	-	-	-	-
Insurance companies	8,056	-	7,100	956	-	35	8,091
Investment trust management companies	-	-	-	-	-	△17 <sup>3)</sup>	△17
Mutual savings & finance companies · Credit unions	3,791	3,343	-	448	-	69	3,860
Others	-	-	-	-	-	149 <sup>4)</sup>	149
Total	25,061	10,386	9,556	4,523	596	1,954	27,015

Notes : 1) These statistics were provisionally compiled by the Bank of Korea on the basis of the Public Fund White Paper issued by the Ministry of Finance and Economy in August 2001, and the home pages of KDIC and KAMCO.

2) Contributions and loans.

3) Withdrawal of the difference between the contract price and the actual price paid for non-performing loans.

4) Purchase of non-performing loans related to Daewoo group held by foreign financial institutions and non-performing loans held by credit-specialized financial companies.

Sources : The Ministry of Finance and Economy, KDIC, KAMCO.

### III . Legislative Activity in the Financial Field

The government enacted and revised financial legislation to facilitate corporate restructuring orchestrated by financial institutions, strengthen the protection of stock investors, particularly minority shareholders, introduce the system of outside directors and audit committees for large-scale mutual savings and finance companies and credit card companies, and bolster prudential regulations on credit-specialized financial companies.

#### 1. Facilitation of Corporate Restructuring

To facilitate the prompt disposal of financial institutions' non-performing loans and avoid additional bad loans arising, the Corporate Restructuring Promotion Act was passed and a system was put in place to the setup of a corporate restructuring real estate investment companies.

The Corporate Restructuring Promotion Act (which came into force on Sept. 15, 2001; from here on, dates in parentheses are dates of entry into effect) is to

remain in effect as a temporary measure until the end of 2005,<sup>2)</sup> together with its associated Enforcement Decree (Sept. 15, 2001). It empowers creditor financial institutions to initiate prompt restructuring measures against companies displaying symptoms of insolvency and establish a system for the adjustment of outstanding credits among financial institutions. The Act calls for creditor banks to regularly appraise the credit risk of companies that have obtained credits from financial institutions to a total of at least 50 billion won and take appropriate measures for *post hoc* management.

In particular, where after appraisal of the business plan of a company considered to exhibit symptoms of insolvency on evaluation of its credit risk, the main creditor bank considers that its turnaround is feasible, it may have the company adopt measures for corporate restructuring. These may include joint management by creditor financial institutions, joint management by creditor banks, management by the main creditor bank, and composition of its debts or corporate reorganization. Where there appears no possibility of a turnaround, however, the main creditor bank is obliged to submit an application to the court for the company to be declared bankrupt or have the company file for dissolution,

liquidation or bankruptcy.

In the event of a main creditor bank pursuing the restructuring of a company exhibiting symptoms of insolvency through its joint management by creditor financial institutions or creditor banks, it should have the committee formed consisting of creditor financial institutions or creditor banks. The committee should make decisions on the designation of a company exhibiting symptoms of insolvency, the joint management by creditor financial institutions, the period for deferment of claims, the plans for the readjustment of claims or new credit extension, and the conclusion of an agreement to implement a management turnaround plan. The committee's decisions should be made with the approval of creditor financial institutions holding at least 75 per cent of the gross of credit outstanding to the company. Meanwhile, creditor financial institutions opposing the decision for joint management by creditor financial institutions, credit readjustment, or new credit extension are entitled to demand to the committee that the other creditor financial institutions purchase their loans. The main creditor bank should examine the performance of the company on a quarterly basis concerning its implementation of the turnaround plan after concluding

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2) In principle, corporate restructuring is to be carried out by the agreement reached independently among the parties involved such as creditor financial institutions. But as the autonomous system has not yet firmly become established, this legislation was introduced as a temporary measure.

an agreement with the company on its rehabilitation.

If on the basis of the findings of the quarterly examination, the committee considers that the execution of management rehabilitation plan will be problematic, the main creditor bank must halt the joint management agreement.

When a creditor financial institution carries out debt-equity swaps or readjusts outstanding claims under a resolution of the committee for the purpose of corporate restructuring, the restrictions on contributions or investments stipulated in financial business legislation such as in Banking Act shall not apply.

To help financial institutions gauge the credit risk of companies accurately through greater transparency in corporate accounting, the Act also calls for corporations with debts not less than 50 billion won or assets not less than 7 billion won as of the end of the preceding business year to put into force rules for internal accounting management concerning the preparation of accounting information and its public release together with a system for the management of such accounting information.

The government also revised the Real Estate Investment Company Act (July 1, 2001) and introduced a new system allowing the creation of corporate restructuring real estate investment companies to facilitate the sale of real estate for corporate restructuring. Such a company is a

paper company, which invests not less than 70 per cent of its total assets in real estate put up by companies for the repayment of debts to financial institutions, or in accordance with an agreement to improve financial structure, or a plan for a company's liquidation or the composition of its debts. The minimum capital of such a real estate investment company, which should be set up with the approval of Minister of Construction and Transportation, is 50 billion won. An asset management company, which has received due approval from Minister of Construction and Transportation, is responsible for the management of the real estate investment company's assets.

## **2. Strengthening the Protection of Investors Including Minority Shareholders**

To strengthen the protection of stock investors, including minority shareholders, the government made it obligatory for registered companies to include outside directors on their boards of directors and eased conditions for cumulative voting requirements and the exercise of minority shareholders' rights in listed or registered corporations, while establishing the responsibility of investment trust management companies to compensate investors for damages.

Under the revised Securities and Exchange Act (April 1, 2001) and its asso-

ciated Enforcement Decree (July 7, 2001), registered companies,<sup>3)</sup> excluding venture firms with total assets of less than 100 million won, should select a board of directors at least one quarter of whose membership should consist of outside directors. The number of outside directors for registered corporations with total assets of over 2 trillion won should be not less than three and they should make up at least half of the total membership of the board of directors. An audit committee should also be set up to oversee the exercise of their duties.

For the election of directors of listed or registered corporations with total assets of over 2 trillion won, the minimum shareholding required for the exercise cumulative voting rights was lowered from 3 per cent to 1 per cent. In relation to a vote to change the articles concerning cumulative voting, the voting rights of shareholders with a holding greater than 3 per cent were limited to 3 per cent.

When listed or registered companies give notice of a general meeting of shareholders, they should disclose details of transactions with the largest shareholder or those standing in a special relationship to them. In particular, where the scale of the transactions with the largest shareholder or those standing in a special relationship to them surpasses a certain level,

a listed or registered corporation with total assets of at least 2 trillion won must receive the requisite approval from the board of directors and report the details of the relevant transactions to the general meeting of shareholders.

In a further move to strengthen the rights of minority shareholders of listed or registered companies, the government eased the minimum requirements for the exercise of the rights to injunction and to inspect account books from 0.5 per cent and 1 per cent of the total issued stocks, respectively, to 0.05 per cent and 0.1 per cent.

Through the revision (March 28, 2001) of the Securities Investment Trust Business Act, the government also made it obligatory for an investment trust management company to compensate investors for losses of asset under trust management where these occur the company's violation of the relevant legislation or the articles of the trust agreement or their negligence in carrying out their businesses.

### **3. Improvement of Governance Structure of Non-Bank Financial Institutions**

Following the introduction of the outside director and audit committee systems for banks, merchant banking corpo-

3) In the case of listed companies, the outside director and audit committee systems were introduced in 2000.

rations, securities companies, insurance companies, and investment trust management companies in 2000 to bolster the management supervisory function of the board of directors, the government additionally mandated the system for large-scale mutual savings and finance companies and credit card companies.

The government revised the Mutual Savings and Finance Company Act (June 29, 2001) and its associated Enforcement Decree (June 30, 2001), which call for mutual savings and finance companies with total assets of over 300 billion won to designate outside directors for not less than half of the total board membership and set up an audit committee with the number of outside directors which should be not less than two-thirds of the total committee membership.

Through the amendment of the Specialized Credit Financial Business Act (June 29, 2001) and its associated Enforcement Decree (June 30, 2001), credit card companies with total assets of at least 2 trillion won were required to have at least three outside directors and have outside directors make up at least half of total board membership and establish an audit committee on which outside directors make up no less than two-thirds of the total membership.

The Securities and Exchange Act (March 28, 2001) was also amended. Under the revised legislation, it was provided that for securities companies with

total assets of not less than 2 trillion won, the committee formed to recommend candidates for outside directorships to the general meeting of shareholders must always propose candidates put forward nominated by those minority shareholders holding equity share of not less than 1 per cent.

In this context, it should be particularly noted that in the election of outside directors as members of the audit committee at the general meeting of shareholders of listed or registered securities companies with total assets of at least 2 trillion won, the voting rights of shareholders holding the equity share of more than 3 per cent are to be limited to 3 per cent, and an outside director should serve as chairmanship of the audit committee.

#### **4. Strengthening Regulations Concerning the Soundness of Non-bank Financial Institutions**

Over the last few years, relevant systems have been improved in such a way as to bolster the soundness of banks, securities companies, insurance companies, and investment trust management companies, which account for a large share of the financial market. In 2001, regulations were also strengthened concerning soundness of credit-specialized financial companies, mutual savings and finance companies, and the National

Agricultural Cooperative Federation.

Through an amendment of the Specialized Credit Financial Business Act (June 29, 2001), the Financial Supervisory Commission was empowered to set standards on the management soundness of credit-specialized financial companies as provided for by Enforcement Decree and require prompt corrective actions to companies whose financial status no longer reached a certain level. In relation to the observance of legislation and the protection of investors, the government made it obligatory for companies to lay down certain basic procedures and standards (internal control standards) that executives and officers of the company must observe in the conduct of their business. It also ordered the companies to appoint one or more compliance officers to check that the internal controls are observed and to report any failures to do so to the audit committee.

The government also revised the Mutual Savings and Finance Company Act, raising the minimum capital for mutual savings and finance companies from 6 billion won to 12 billion won in Seoul Metropolitan City, from 4 billion won to 8 billion won for those in other metropolitan cities, and from 2 billion won to 4 billion won for those in the provinces as of a date to be set by the Enforcement Decree (March 1, 2002).

And it also added to the list of cases in which the Financial Supervisory Service

recognizing the necessity of exercising control over mutual savings and finance companies' management may appoint a controller of its choice, the case in which excessive or repeated loans have been made to its subscribers, staff or officers, who are, in principle, banned from access to such loans. (March 28, 2001).

Along with this, the Act Concerning the Structural Improvement of the National Agricultural Cooperative Federation (Dec. 13, 2001) was passed in order to heighten the soundness of that body. Under the Act, Minister of Agriculture and Forestry is entitled to designate ailing cooperatives and cooperatives showing symptoms of insolvency, and impose management improvement recommendations, requirements, or orders on the said cooperatives including the censure of the executives and officers, the suspension of its business, the temporary transfer of its contracts and its amalgamation.

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## IV. Future Tasks

Since the outbreak of the currency crisis, the government has consistently pursued the financial restructuring to bring about the exit of ailing financial institutions, and the rehabilitation of viable financial institutions through the injection of public funds. Along with this, it has secured the institutional foundation

to prevent the insolvency of financial institutions and promote management transparency through the strengthening of prudential regulations, the introduction of system of management oversight by outside directors, and the improvement of financial institutions' system of accounts and disclosure.

Thanks in part to the government's unremitting financial restructuring efforts, the financial market has regained its stability and financial institutions have improved their soundness and profitability.

It is still considered, however, that corporate structural reform is proceeding more slowly than financial sector reform. Although the corporate financial structure seems to have been improved somewhat since the currency crisis due to a fall in the debt ratio, corporate financial structures still lag behind those of advanced countries in terms of debt volumes and interest coverage ratios (operating income / interest expenses). At the same time, factors making for instability in the financial market have not yet been

eliminated owing to the delay in the disposal of ailing enterprises.

Thus, to promote the improvement of corporate financial structures and the prompt resolution of ailing companies, it is vital to establish as soon as possible, under the leadership of the financial institutions, the more accurate valuation of corporate credit risk and the restructuring of financially troubled companies. Under the Corporate Restructuring Promotion Act which came into force in 2001, various procedures were introduced for the handling of corporations showing symptoms of impending insolvency under the leadership of financial institutions along with arrangements concerning procedures for the adjustment of outstanding credits to them among financial institutions. In view of the fact, however, that the Act will remain in effect for only five years, while pressing ahead with corporate restructuring under its provisions, financial institutions should continue developing and supplementing their techniques to supervise enterprises effectively and dispose of ailing companies.

# Payment and Settlement Trends in 2001

## I. Overview

During 2001, the average daily volume of payments settled through financial institutions' retail payment systems stood at 14.8 million, for a total value of 28,879.6 billion won. This represented an increase of 22.8 per cent in transactions, but a decrease of 6.6 per cent in value terms compared with the previous year.

This relatively sharp increase in the number of settlements was the result of the brisk growth(33.9%) in the use of electronic payment instruments, including Interbank Shared Networks and credit cards, thanks to their convenience in usage and government-backed incentives. It was also attributable to the sustained growth(29.8%) in the use of paper-based Bank Giro.

The decrease in value terms of total payments and settlements stemmed from the fall(15.4%) in the clearing of checks and bills owing to the widespread use of

such alternative payment media as the Corporate Purchase Fund Loans System and increased use of BOK-Wire by financial institutions. This more than offset an 18.4 per cent increase of value in electronic-based systems.

Thus the share of electronic payments in total payments stood at 63.6 per cent in volume terms and 31.9 per cent in value terms, representing increases of 5.3 percentage points and 6.8 percentage points, respectively, over the previous year.

Meanwhile, the total settlements through the Bank of Korea Financial Wire Network(BOK-Wire), large-value payment system, stood at 5,269 transactions for a value of 75,547.8 billion won on an average daily basis. These figures represented increases of 10.4 per cent by volume and 18.3 per cent by value in response to brisk bond and call market transactions between financial institutions in a period of the downward stability of market interest rates.

[Table 1]

Payments and Settlements in 2001

(daily average)

Unit : thousand, billion won, %

	2000		2001		Change	
	Volume	Value	Volume	Value	Volume	Value
Paper-based	5,013.1	23,152.8	5,376.6	19,679.3	7.3	-15.0
Checks and bills	3,700.8	23,017.4	3,672.8	19,476.4	-0.8	-15.4
Bank Giro	1,312.3	135.4	1,703.8	202.9	29.8	49.9
Electronic-based	7,015.4	7,772.0	9,396.8	9,200.3	33.9	18.4
Interbank Shared Networks <sup>1)</sup>	3,663.4	7,197.3	4,866.6	8,300.8	32.8	15.3
Bank Giro <sup>2)</sup>	1,141.6	114.1	1,142.7	127.9	0.1	12.1
Credit cards (bank affiliates)	2,210.4	460.6	3,387.5	771.6	53.3	67.5
<b>Retail Payment Systems</b>	<b>12,028.5</b>	<b>30,924.8</b>	<b>14,773.4</b>	<b>28,879.6</b>	<b>22.8</b>	<b>-6.6</b>
<b>BOK-Wire</b>	<b>4.8</b>	<b>63,867.2</b>	<b>5.3</b>	<b>75,547.8</b>	<b>10.4</b>	<b>18.3</b>

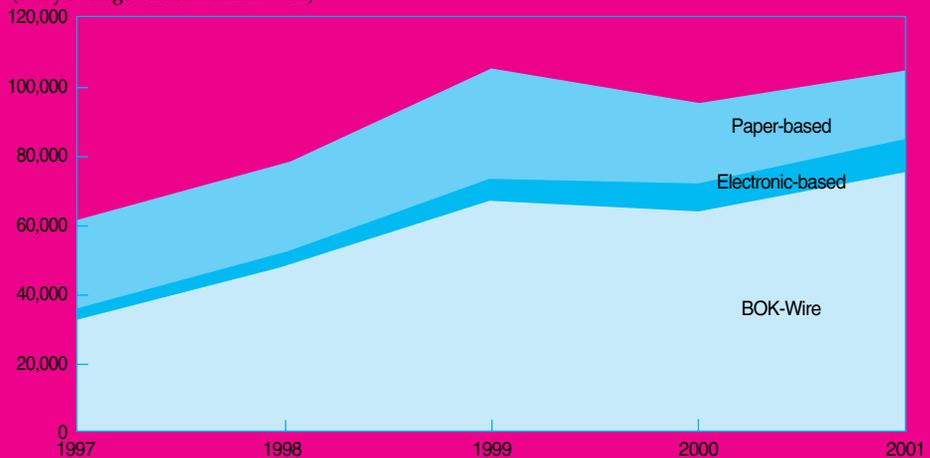
Notes : 1) Interbank Funds Transfer(IFT) System, CD/ATM System, Electronic Banking System, CMS System, Bank Line, etc.

2) Direct debits and direct credit transfers.

[Chart 1]

Trends of Payment and Settlement Figures

(Daily average value in billion won)



## II . Payment and Settlement Trends by Payment Media

### 1. Checks and bills

During 2001, average daily clearings of checks and bills registered 3.7 million transactions by volume and 19,476.4 billion won by value. These figures represented decreases of 0.8 per cent and 15.4 per cent, respectively, over the previous year.

By type, the use of cashier's checks, which account for 98 per cent of overall

check clearings by volume, decreased slightly by 0.4 per cent on a volume basis and 10.2 per cent on a value basis, compared with the previous year. Their daily clearings registered 3.6 million transactions by volume and 5,289.9 billion won by value.

The growth of clearings of 100,000 won-denomination check, which account for more than 80 per cent of the use of cashier's checks by volume, slowed sharply to stand at 2.7 per cent from the 13.5 per cent of the previous year (daily clearings of 297.4 billion won). Widespread use of credit cards and electronic

[Table 2] Clearing Figures for 100,000 won-denomination Check  
(daily average volume)

	1998	1999	2000	2001
Clearings	2,476	2,550	2,895	2,974
	(-20.4)	(3.0)	(13.5)	(2.7)

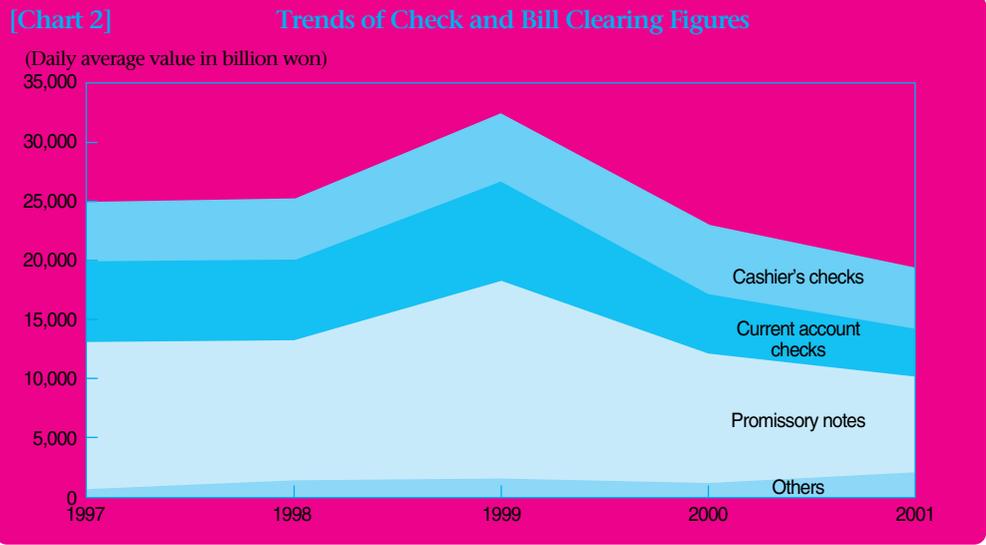
Note : 1) Figures in parentheses refer to changes compared with the previous year(%).

[Table 3] Clearing Figures for Checks and Bills in 2001  
(daily average)

			Change		Share <sup>2)</sup>	
	Volume	Value	Volume	Value	Volume	Value
	Unit : thousand, billion won, %					
Cashier's checks	3,602.0	5,289.9	-0.4	-10.2	98.1	27.2
Preset value	3,473.4	773.1	0.9	-4.5	96.4	14.6
(100,000 won denomination)	(2,974.2)	(297.4)	(2.7)	(2.7)	(85.6)	(38.5)
Non-preset value	128.6	4,516.8	-26.0	-11.1	3.6	85.4
Household checks	15.3	56.2	-28.2	-4.7	0.4	0.3
Current account checks	10.5	4,014.4	-18.6	-18.1	0.3	20.6
Promissory notes	27.1	7,977.6	-16.4	-26.7	0.7	41.0
Others <sup>1)</sup>	17.9	2,138.3	7.2	65.7	0.5	11.0
<b>Total</b>	<b>3,672.8</b>	<b>19,476.4</b>	<b>-0.8</b>	<b>-15.4</b>	<b>100.0</b>	<b>100.0</b>

Notes : 1) Bills of exchange, Treasury checks, Receipts of stock dividends, CDs, Receipts of call money repayments, Domestic L/C settlements, etc.

2) Shares relative to the direct above category.



based payment media, including Interbank Shared Network, contributed to this decline.

Furthermore, the use of other preset (i.e. excluding 100,000 won-denomination check) and non-preset cashier's checks declined 10.9 per cent on a value basis over the previous year.

Meanwhile, the use of current account checks dropped approximately 18 per cent year-on-year in volume and value terms, and that of promissory notes fell 16.4 per cent in volume terms and 26.7 per cent in value terms. This resulted from the widespread use of the check alternative payment media such as the Corporate Purchase Funds Loans System and the Electronic-based Receivables Secured Loans System.

## 2. Interbank Shared Networks

During 2001, the average daily figures for payments through the Interbank Shared Networks registered 4.9 million transactions in volume terms and 8,300.8 billion won in value terms, exhibiting increases of 32.8 per cent and 15.3 per cent, respectively, over the previous year.

In the Interbank Funds Transfer (IFT) System, which allows nationwide remittances to an account held at any branch of a participant bank in real-time, the volume and value registered declines of 3.9 per cent and 23.4 per cent, respectively, compared with the previous year. This resulted from the shift of Home/Firm Banking services and many large-value funds transfers to the Electronic Banking System with its launch early in the second quarter.

The use of the CD/ATM System con-

tinued to grow apace to show increases of 18.1 per cent in volume terms and 24.3 per cent in value terms over the previous year. This was mainly attributable to a more widespread recognition of the convenience of its services at unstaffed bank branches, led by the increasing issuance of various cards and extended business hours at unstaffed bank branches.<sup>1)</sup>

Meanwhile, the use of the Electronic Banking System, which is an upgraded version of the previous Automatic Response System(ARS) was brought into operation in mid-April 2001, showed solid expansion. It has been taking busi-

ness from the IFT System and CD/ATM System to a certain extent, boosted by its 24-hour service,<sup>2)</sup> higher transfer limit per transaction<sup>3)</sup> and the lower transfer commission(300 won for a transfer of 100 million won).

The payment volume and value channeled through the Cash Management Service(CMS) System<sup>4)</sup> showed rapid increases of 50.1 per cent and 91.8 per cent, respectively. This stemmed from the steady increase of the number of users<sup>5)</sup> as it handled more promptly and conveniently large-volume funds transfers, including receipts of credit cards use and payments of wages.<sup>6)</sup>

[Table 4] Payments Handled by Interbank Shared Networks in 2001

(daily average)

Unit : thousand, billion won, %

	Volume	Value	Change	
			Volume	Value
Interbank Shared Networks	4,866.6	8,300.8	32.8	15.3
IFT System	1,276.7	4,990.8	-3.9	-23.4
CD/ATM System	1,584.3	693.3	18.1	24.3
Electronic Banking System <sup>1)</sup>	725.4	3,329.4	-	-
CMS System	1,474.8	211.2	50.1	91.8
Bank Line	4.4	14.4	7.3	5.9
EFTPOS System	5.4	0.3	-11.5	-25.0

Note : 1) Based on days of actual operation in 2001.

1) As of November 9, 2001, the business hours of unstaffed bank branches were extended by 90 minutes from 08:00~22:00 to 08:00~23:30.

2) As of the end of 2001, twelve banks provide 24-hour service.

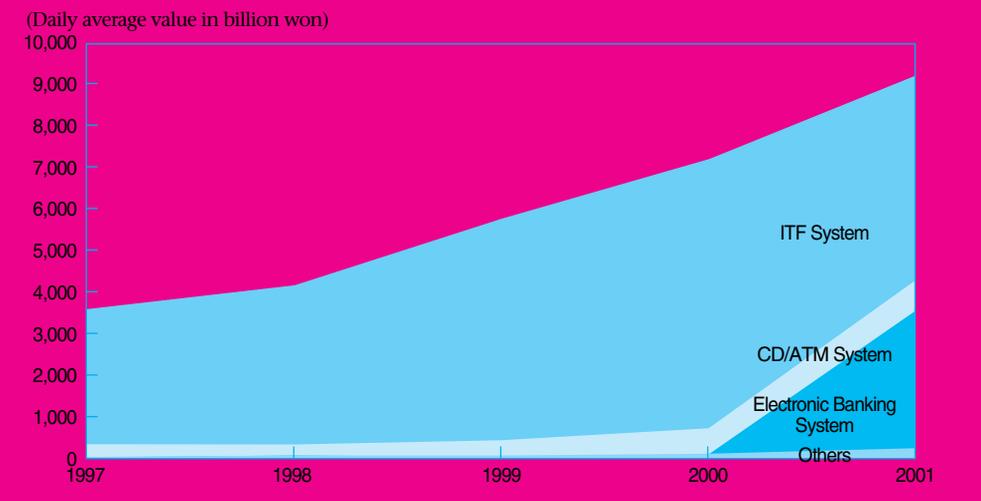
3) Since October 15, 2001, transfer limit increased to one billion won from 0.5 billion won.

4) Cash Management Service(CMS) enables a company having several accounts in more than one bank to make and receive a number of funds transfers electronically through its accounts with a single electronic link to any one of these banks or to the Korea Financial Telecommunications and Clearings Institute(KFTC).

5) As of the end of 1999 : 378, the end of 2000 : 532, the end of 2001 : 719.

6) In the case of the CMS, funds transfer service is provided on the following due date(for direct debits, three days after the due date).

[Chart 3] Trends of Interbank Shared Networks Use



The use of the Bank Line System<sup>7)</sup> marked a 6~7 per cent increase in volume and value terms, while that of EFTPOS<sup>8)</sup> remained a low level compared with other payment media and it exhibited a declining trend in volume terms.

### 3. Bank Giro

In 2001, the average daily transactions figures for the Bank Giro System registered 2.85 million by volume and 330.8 billion won by value, representing relatively higher growth of 16.0 per cent and 32.6 per cent, respectively, over the previous year.

The introduction(July 2000) of payments by giro for National Pension Fund

contributions and for National Health Insurance premiums boosted paper-based credit transfers by 29.8 per cent in volume terms and 49.9 per cent in value terms.

The use of direct debits(employed for payments of mobile communication bills, health insurance fees and credit card bills) and direct credit transfers(utilized for company payroll and dividend payments) maintained the level of the previous year in volume terms, but rose some 12 per cent, thanks to the increase in the value transferred per transaction.

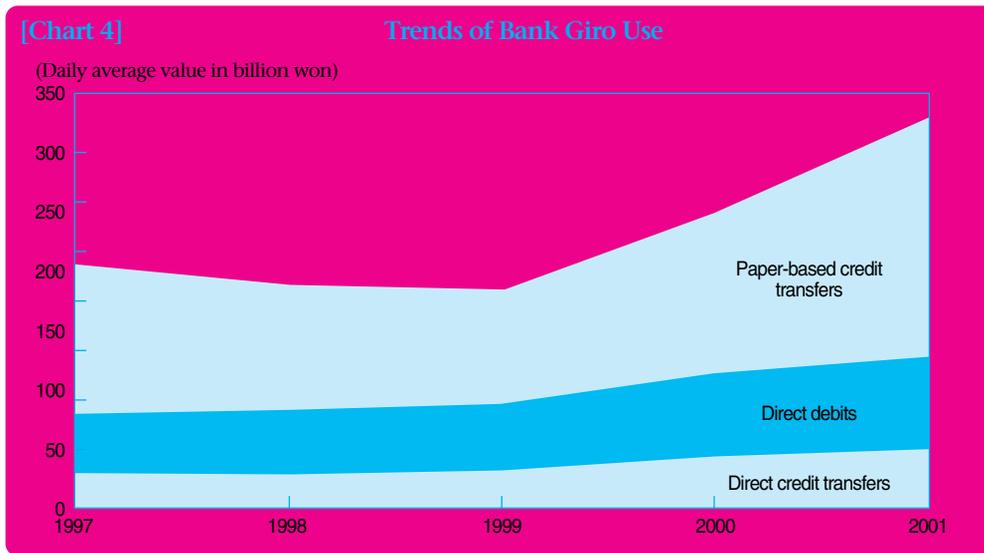
Membership of the Bank Giro System stood at 36,580 as of the end of 2001, having expanded by 1,090 compared with the end of the previous year.

7) This links the electronic networks of regional banks to that of the KFTC and enables a regional bank customer to deposit and withdraw funds at any branch of any regional bank.

8) This is a payment system allowing a customer holding a debit card to purchase goods and services from an affiliated retailer, his or her account being instantly debited, and the funds credited to the affiliated retailer's bank account.

**[Table 5] Payments Handled by Bank Giro in 2001**  
(daily average) Unit : thousand, billion won, %

	Volume	Value	Change		Share	
			Volume	Value	Volume	Value
Paper-based credit transfers	1,703.8	202.9	29.8	49.9	59.9	61.3
Direct debits	1,105.3	78.0	0.1	12.4	38.8	23.6
Direct credit transfers	37.4	49.9	-0.3	11.6	1.3	15.1
<b>Total</b>	<b>2,846.5</b>	<b>330.8</b>	<b>16.0</b>	<b>32.6</b>	<b>100.0</b>	<b>100.0</b>



#### 4. Credit Cards(bank-affiliated)

During 2001, bank-affiliated credit cards were used daily for an average of 3.4 million transactions and a turnover of 771.6 billion won, representing increases over the previous year of 53.3 per cent and 67.5 per cent, respectively. These figures for credit card use largely reflected government-backed incentives<sup>9)</sup> and the

rapid expansion of cash advance services and credit card payment in response to aggressive marketing by credit card companies.

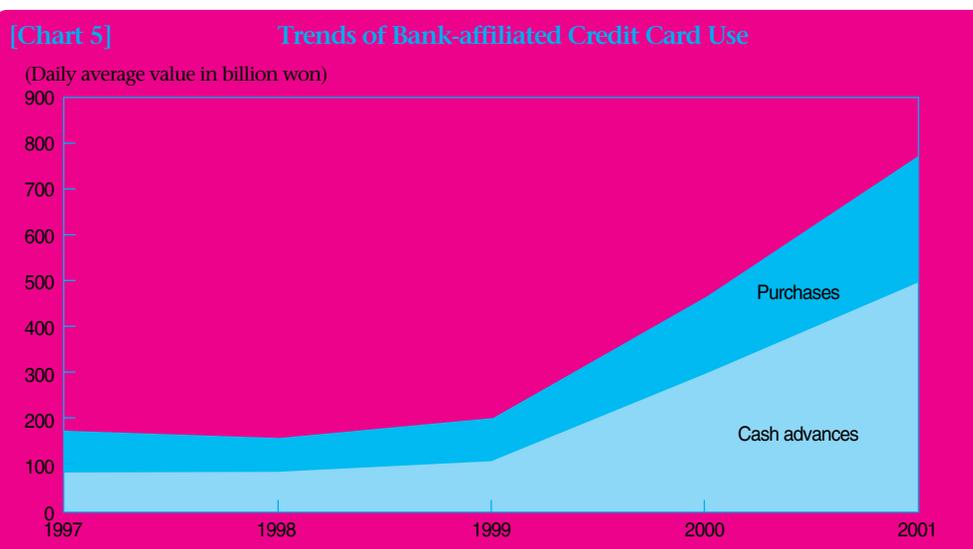
Use for purchases of goods and services increased by approximately 60 per cent both by volume and value. That for cash advance services rose 41.9 per cent in volume terms and 69.1 per cent in value terms; thus the share of

9) Since August 2001, if a cardholder's annual domestic purchases exceed 10 per cent of annual income, within a ceiling of 5 million won(previously 3 million won), an income tax reduction is granted on up to 20 percent of the excess(previously 10 per cent).

**[Table 6] Payments Involving Bank-affiliated Credit Cards<sup>1)</sup>**  
(daily average) Unit : thousand, billion won, %

	Volume	Value	Change		Share	
			Volume	Value	Volume	Value
Purchases	2,507.5	273.0	57.7	64.5	74.0	35.4
Cash advances	880.0	498.6	41.9	69.1	26.0	64.6
<b>Total</b>	<b>3,387.5</b>	<b>771.6</b>	<b>53.3</b>	<b>67.5</b>	<b>100.0</b>	<b>100.0</b>
Number of cards issued	48,934		34.8		-	
Affiliated stores	6,096		37.1		-	

Note : 1) Bank-affiliated credit cards are those cards issued by BC Card Company, Korea Exchange Credit Service Company and Kookmin Credit Card Company.



cash advance services in the total figures for credit card use came to 65 per cent. As of the end of 2001, the total number of credit cards issued reached 48.9 million, an increase of 34.8 per cent while 6.1 million retail stores and service providers accepted credit cards, showing a 37.1 per cent increase over the previous year.

## 5. The Bank of Korea Financial Wire Network(BOK-Wire)

During 2001, BOK-Wire handled a daily average of 5,269 transactions valued at 75,547.8 billion won, representing increases of 10.4 per cent by volume and 18.3 per cent by value.

Gross settlement of domestic currency funds transfers, which account for more

**[Table 7] Settlements Handled by BOK-Wire in 2001**  
(daily average) Unit : number, billion won, %

	Volume	Value	Change		Share <sup>2)</sup>	
			Volume	Value	Volume	Value
BOK-Wire	5,269	75,547.8	10.4	18.3	100.0	100.0
Domestic currency funds transfer	4,521	72,503.7	9.8	18.7	85.8	96.0
Gross settlement	3,727	60,047.2	12.1	22.6	82.4	82.8
(DVP) <sup>1)</sup>	(104)	(840.5)	(416.0)	(408.0)	(2.8)	1.4
Net settlement	794	12,456.5	0.0	2.8	17.6	17.2
Treasury funds transfer	702	1,636.4	16.7	12.1	13.3	2.2
BOK loans and discounts	35	795.6	-25.0	24.9	0.7	1.0
Government and public bonds	11	612.1	0.0	-11.8	0.2	0.8
Foreign currency funds transfer (million dollars)	9	113.0	-8.1	16.1	-	-

Notes : 1) Delivery versus Payment system(DVP) was introduced in November 1999.  
2) Shares relative to the direct above category.

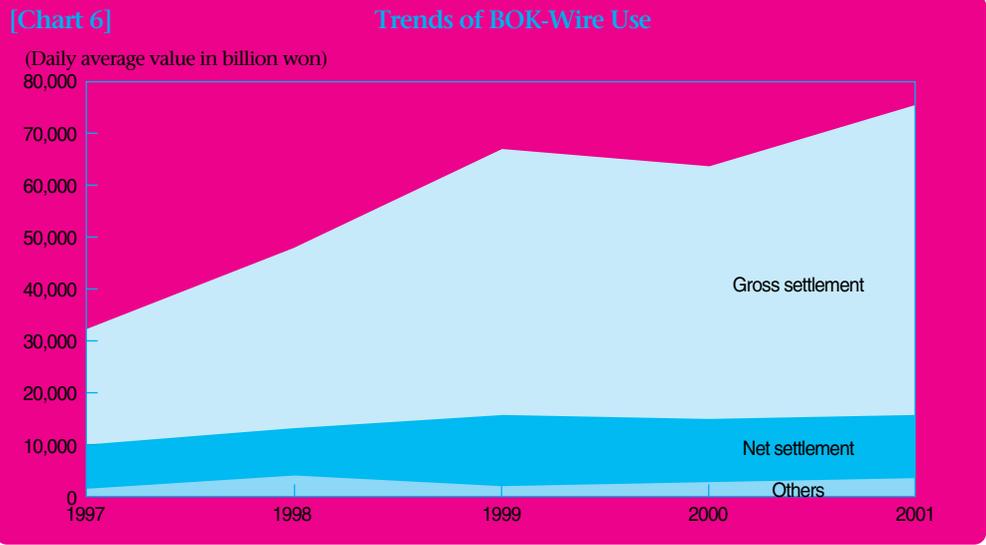
than 85 per cent of transactions through BOK-Wire, marked an average daily of some 3,700 in volume terms and over 60 trillion won in value terms. These figures represented increases of 12.1 per cent by volume and 22.6 per cent by value over the previous year and was attributable to the briskness of bond transactions among financial institutions, centering on those of higher rankings, in response to the downward stability of market interest rates during the year. Another contributory factor was greater call market activity induced by ample liquidity.

In contrast, the combined average daily value of the settlements of inter-bank multilateral netting positions (Check Clearing, Bank Giro, IFT System, etc.) rose only 2.8 per cent. Despite the increasing use of electronic-based payment media, this sluggishness reflected

the incessant decline in the volume of check clearing throughout the year in the face of check substitute schemes such as Corporate Purchase Funds Loans.

The average daily value of settlements through the Treasury Funds Transfer System, meanwhile, increased 12.1 per cent year-on-year thanks to the expansion of tax revenues. The average daily value of loans and repayments through the BOK's Loans and Discount System increased 24.9 per cent following expansion of a combined total 4 trillion won in the Aggregate Credit Ceiling on two occasions (January and September 2001). However, transactions of government and public bonds declined 11.8 per cent in value terms as the BOK's RP sales decreased.

The daily average volume of foreign currency funds withdrawals, deposits and



interbank funds transfers through commercial banks' foreign currency current accounts with the BOK declined 8.1 per cent year-on-year, but the daily average value increased 16.1 per cent.

As of the end of 2001, the number of institutions participating in BOK-Wire was 132(65 banks and 67 non-bank financial institutions), comprising with one less bank and one more non-bank financial institution than at the end of the previous year.

### III. Developments in Payment and Settlement Systems

Over the course of the year under review, the BOK carried out its payment

and settlement systems with an emphasis on the improvement of existing systems to satisfy international standards and reduce settlement risk, and on the development and expansion of payment media.

Firstly, the BOK placed its focus on reorganizing related systems in order to comply with the "Core principles for systemically important payment systems" and the "Responsibilities of a central bank," as set out by the BIS's Committee on Payment and Settlement Systems (CPSS). Accordingly, in December, it enacted the "Regulation on the Operation and Oversight of Payment Systems", which came into effect as of February 2002. It absorbed the main contents of "Regulation on the Operation of the Bank of Korea Financial Wire Network" and added a provision stipulating that

the central bank shall monitor the payment and settlement systems as a whole.

Secondly, to reduce the settlement risk in net-settlements, the BOK from March changed the method of funds adjustment for the net-settlement of interbank electronic transactions from compensating for the total amount of net-value to compensating for interest foregone. It improved the collateral management system which had been implemented since August by raising the share of collateral securities to be posted for settlement linked with net-debit caps from 10 per cent to 20 per cent, and also differentiating collateral amounts, within  $\pm 15$  per cent range, according to the assessment of banks' management.

Thirdly, it improved and put in place from July a scheme, the Queuing System under which completion of settlement is encouraged within one hour of a funds transfer instruction being made. This was done to prevent queuing for a long period for the use of BOK-Wire because of there being insufficient funds in the financial institution's account with the BOK.

Fourthly, to reduce settlement risk in stock transactions, the BOK included in the transactions of DVP(Delivery versus Payment) through BOK-Wire settlements between institutional investors for stock transactions on the KSE and KOSDAQ, in addition to the previous over-the-counter bond and RP transactions.

Fifthly, concerning the development and expansion of payment media, it plans to utilize K-CASH, which completed a pilot program in 2000, as a payment medium for transportation and e-commerce, so as to encourage its widespread use.

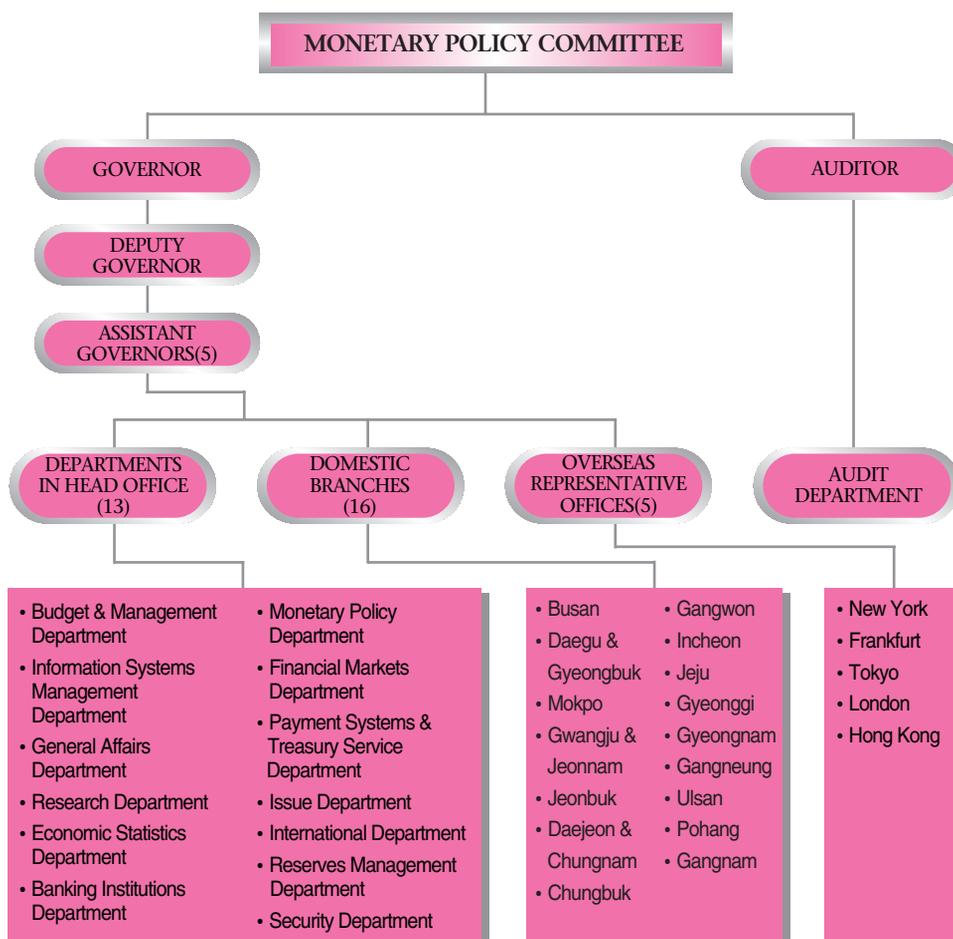
Sixthly, from mid-April, the BOK with the KFTC operated an Electronic Banking System, an upgraded version of the previous ARS, specializing in Home/Firm Banking services to offer more convenient service to the public. It also launched an Electronic Bill Presentment and Payment System(EBPP) in June for payments to the National Pension Fund together with 60 autonomous local bodies. Business to Business(B2B) electronic commerce, having been groomed inauguration throughout the year under review, is scheduled to put into operation during the first quarter of 2002.

Finally, it conducted in June a survey of implementation practice concerning financial institutions' security measures in order to reinforce the security of financial information network. In the wake of the terrorist attacks on the U.S., it heightened up the "security measures standard for financial information network". Security in the operation of BOK-Wire was heightened in November, by the establishment and operation of a remote backup center that enables its recovery from disaster within two hours.

# Organization of the Bank of Korea

(As of March 2002)

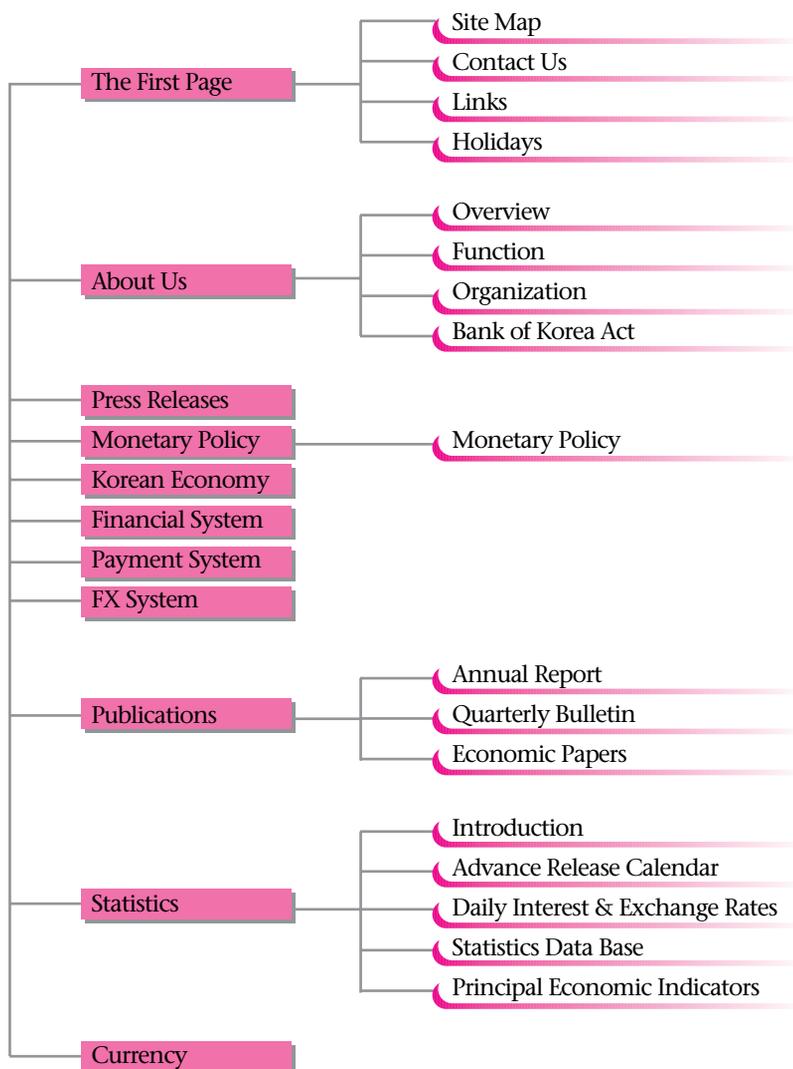
<b>Monetary Policy Committee</b> Chol-Hwan Chon, Chairman Jong-Yong Yoon Eui-Gak Hwang Yung-Joo Kang Won-Tai Kim Hoon Namkoong	<b>Governor</b> Chol-Hwan Chon  <b>Deputy Governor</b> Cheul Park  <b>Assistant Governor</b> Seong-Tae Lee Hyung-Moon Kang Sung-Il Lee Chang-Ho Choi Jae-Ouk Lee	<b>Auditor</b> Woo-Suk Kim
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## The Bank of Korea's Internet Web Site

1. Press releases and selected data from statistical series - National Accounts, etc - are posted on the Bank of Korea's Web Site (<http://www.bok.or.kr>)

2. Internet Web Site Menus are set out below :



## List of Publications

### ● Periodical

Title	Frequency	Language	Dissemination Type*
Annual Report	Annually	English	P, O
Quarterly Bulletin	Quarterly	English	P, O
Monthly Bulletin	Monthly	Korean	P, O
Working Paper	Occasionally	Korean	P
Economic Analysis	Quarterly	Korean	P, O
Economic Papers	Semiannually	English	P, O
Finance and Economics Working Paper	Occasionally	Korean	P
Financial System Review	Semiannually	Korean	P, O

\* Notes : P : printed publication, O : available on-line at the Bank of Korea's web site

### ● Statistics

Title	Contents	Frequency	Dissemination Type*
Monthly Statistical Bulletin	Major national economic statistics covering money and banking, prices, balance of payments, foreign trade, industry, employment, national accounts, etc.	Monthly	P, B
Economic Statistics Yearbook	Statistics included in the Monthly Statistical Bulletin and others	Annually	P, B
Principal Economic Indicators	Principal indicators and the statistics included in the Monthly Statistical Bulletin	Semimonthly	B
Money & Banking Statistics	Statistics on monetary aggregates(M1, M2, M3, MCT, etc.), the principal accounts of DMBs and other financial institutions, capital market trends, principal interest rates, etc.	Monthly	P, B

Title	Contents	Frequency	Dissemination Type*
Regional Financial Statistics	Statistics on the issuance and withdrawal of banknotes and coin by BOK's branches, the deposits and loans of BOK, DBMs, other financial institutions by province, etc.	Monthly	P
Balance of Payments	Current account, capital account, financial accounts, exports & imports by type of goods, indexes of foreign trade and terms of trade, etc.	Monthly	P, B
Price Statistics Summary	Brief review of price movements, statistical compilation procedures and statistics on the producer price index for 949 commodities, and export and import price indexes for 220 and 223 goods.	Every 5 years	P
Monthly Prices	Brief analysis of price movements and statistics on producer price index, export price index, import price index and prices of major world trade commodities, etc.	Monthly	P, B
Input-Output Tables	Outline of compilation method, inter-industrial structure of the Korean economy, transactions tables, input coefficients matrices, production inducements coefficients matrices, supporting tables	Every 5 years	C
National Accounts	Principal indicators of national accounts, consolidated accounts for the nation, income accounts by institutional sector, capital finance account by institutional sector, supporting tables	Annually	P, B, C
Gross Domestic Product	Gross domestic product by kind of economic activity, expenditure on gross domestic product	Quarterly	P, B

Title	Contents	Frequency	Dissemination Type*
Financial Statement Analysis	Summary of survey results, description of survey methods, explanation of company accounts and financial analysis ratios, statistics of estimated balance sheets, income statements, statistics of cost of goods manufactured, funds flow statements and financial ratios, series of major countries' financial analysis ratios, etc.	Annually	P, B
Flow of Funds	Financial surpluses and deficits by economic sector, fund raising and investment by non-financial sectors, the financial sector's sources and uses of funds, accumulation of financial assets	Quarterly	P, B

\* Notes : P : printed publication,  
 B : on-line database system (BOKIS, accessible via the Bank of Korea's Web Site),  
 C : CD-ROM

## List of Bank of Korea Working Papers\*

Serial No.	Title
2002-1	Why have Economic Indicators Moved in Mutually Contradictory Directions?

\* Published in Korean only.

## Titles of Articles Appearing in Monthly Bulletin\*

October ~ December 2001

### ● October 2001

- ☒ An Analysis of the Inflation Gap between Korea and Major Advanced Countries
- ☒ Flow of Funds in the First Half of 2001

### ● November 2001

- ☒ Reasons for the High Physical Distribution Costs in Korea and Proposed Solutions
- ☒ Financial Statement Analysis for the First Half of 2001

### ● December 2001

- ☒ Recent Development in Investment Funds for Bonds and the Policy Agenda
- ☒ World Economic Trends in 2001 and the Outlook in 2002
- ☒ Survey of Pollution Abatement and Control Expenditure in 2000 and Its Implications

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\* Published in Korean only.

## Titles of Articles Appearing in Quarterly Bulletin\*

March 2000 ~ December 2001

### ● March 2000

- ☒ Current Economic and Financial Movements
- ☒ The Inflation Target for 2000
- ☒ Financial Sector Restructuring in 1999
- ☒ Payment and Settlement Trends in 1999

### ● June 2000

- ☒ Governor's Speech on the 50th Anniversary of the Bank of Korea's Foundation
- ☒ Current Economic and Financial Movements
- ☒ Flow of Funds in 1999
- ☒ Financial Statement Analysis for 1999

### ● September 2000

- ☒ Current Economic and Financial Movements
- ☒ The Relationship between Business Survey Results and the Growth Rate of GDP

### ● December 2000

- ☒ Current Economic and Financial Movements
- ☒ Monetary Policy in a World of Increased Capital Flows
- ☒ Flow of Funds in the First Half of 2000

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\* Entitled 「Quarterly Economic Review」 until March 2000.

## ● March 2001

- ☒ Current Economic and Financial Movements
- ☒ The Inflation Target and Monetary Policy for 2001
- ☒ Financial Sector Restructuring in 2000
- ☒ Payment and Settlement Trends in 2000

## ● June 2001

- ☒ Governor's Speech on the 51st Anniversary of the Bank of Korea's Foundation
- ☒ Current Economic and Financial Movements
- ☒ Flow of Funds in 2000
- ☒ Financial Statement Analysis for 2000

## ● September 2001

- ☒ Current Economic and Financial Movements
- ☒ The Structure and the Interindustry Effects of the Korean Economy Based on the Input-Output tables of 1998
- ☒ Payment and Settlement Trends in the First Half of 2001

## ● December 2001

- ☒ Current Economic and Financial Movements
- ☒ Flow of Funds in the First Half of 2001
- ☒ Financial Statement Analysis for the First Half of 2001