March 2002

In accordance with the provision of Article 102 of the Bank of Korea Act, and with the sanction of the Monetary Policy Committee, we herewith publish the Annual Report of the Bank, analyzing economic and financial conditions in Korea during calendar year 2001 and outlining the condition of the Bank, its operations, its monetary policies and the foreign exchange policies of the government and financial system management during the same period.

CHOL-HWAN CHON

Governor
The Bank of Korea

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Summary

During 2001, the growth rate of the Korean economy slowed down significantly with prices accelerating their rising pace and the scale of the current account surplus narrowing.

The growth rate of gross domestic product(GDP) had slowed until the third quarter of the year due to reduced exports and sluggish facilities investment following the economic slowdown in world economy including that of U.S.A., but recovered somewhat in the fourth quarter, centering on consumption and construction investment. For the year as a whole, the growth rate dropped sharply to 3.0 per cent. In particular, the contribution ratio of domestic demand to growth rose sharply throughout the year, helped by pump-priming measures.

Consumer prices and core inflation posted relatively high rate of increase of 4.1 per cent and 3.6 per cent, respectively, on an annual average basis. During the first half of the year under review, the rate of increase in consumer prices accelerated sharply owing to a substantial rise in public utility charges and the Korean won's depreciation, but their upward pace slackened in the latter half due to persistent economic slowdown and a fall in international oil prices. The current account surplus shrank to $8.6 billion as both exports and imports dropped sharply.

In the financial market, there were unstable factors present, including a rapid downturn of the domestic economy and a bunching of maturing corporate bonds. Amid slow demand for funds by enterprises, however, market interest rates dropped due to the Bank of Korea's lowering of the call rate target and its flexible money supply. From late in September, stock prices rose sharply thanks to the upward adjustment of Korea's sovereign rating and expectations of early economic recovery. In the meantime, the Korean won fell sharply against the U.S. dollar compared with the end of the previous year, affected by the weak yen.

Throughout the year, the Bank of Korea implemented its monetary policy flexibly in such a way as to prevent excessive contraction of the economy and stabilize the financial market, while focusing its efforts on achieving its inflation target.

After considering all factors, including the economic conditions, prices, and the financial market, the Bank of Korea lowered the call rate target by a total of 1.25 percentage points(5.25 per cent per

annum → 4.0 per cent) in four steps — in February, July, August, and September.

The Bank lowered the call rate target by 0.25 of a percentage point from 5.25 per cent to 5.0 per cent in February to cope with the economic slowdown. Although the economic downturn continued thereafter, the Bank maintained the call rate target at that level due to the existence of inflationary factors such as the high international oil price and the Korean won's depreciation. But, as the inflationary pressures eased, the Bank lowered the call rate target by 0.25 of a percentage point in both July and August. In September when the economic slowdown aggravated further and worries over financial market unrest deepened owing to the terrorist attacks on the United States, the Bank lowered the call rate target by 0.5 of a percentage point, while reducing the lending rate on Aggregate Ceiling Credits by 0.5 of a percentage point from 3.0 per cent to 2.5 per cent.

Along with this, the Bank of Korea supplied liquidity flexibly through open market operations to stabilize the financial market and encourage banks to extend more loans to small and medium-sized companies. At the same time, the Bank of Korea increased its Aggregate Credit Ceiling by a total of 4 trillion won and changed the method of their allocation in such a way as to grant more favors to banks with a large amount of corporate loans.

To enhance the stability and the effectiveness of the payment and settlement system, the Bank of Korea also established the 'Regulation on the Operation and Management of the Payment System'. Meanwhile, it raised the ceiling on intraday overdrafts and built a computer backup center in preparation for possible disasters involving the main computer system.

Also, it conducted joint examinations on banks with the Financial Supervisory Service(FSS), appraised their management status, and investigated domestic banks' risk management behavior, making use of its findings in the formulation of its monetary and credit policy.

As most restrictions on foreign exchange and capital transactions were abolished in the wake of the implementation of the second-phase of foreign exchange liberalization in 2001, the government and the Bank of Korea carried out thorough monitoring of the overall trends of current and capital transactions through the foreign exchange information network. The government also established the Korea Financial Intelligence Unit(KoFIU) to strengthen its surveillance over inflows and outflows of speculative short-term capital and on illegal or illicit transactions, bolstering its efforts to stabilize the foreign exchange market.

Along with this, the government repaid the remainder of its borrowings from the International Monetary Fund(IMF) since the foreign exchange crisis ahead of schedule as its external repayment capacity had improved thanks to the building up of the foreign exchange reserves.

Throughout the year, the government continued to force ailing non-banking institutions into liquidation and it encouraged financial institutions to seek expansion of scale through the set-up of Woori Finance Holdings Co., while enacting the 'Corporate Restructuring Facilitation Act', to prompt corporate restructuring by financial institutions.

The recovery of the Korean economy is expected to become more pronounced during the year 2002, but inflationary pressure is likely to be greater with the current account surplus narrowing. The financial market is anticipated to show a stable pattern due to an improvement in companies' cash flow. Potential factors making for destabilization, such as the possibility of a spread of the U.S. war against terrorism, the Korean won's depreciation in sympathy with the weak yen, and a sharp rise in real estate prices, are likely to remain present in 2002, affecting the economic conditions, inflation, and the financial market.

In light of these conditions, the government should place the emphasis of macroeconomic policy on price stability, while carefully watching the developments of the economic situation, with the aim of building a basis for the stable growth of the Korean economy. To stabilize consumer prices, it is important for the government to cool down the inflationary psychology by employing measures to stabilize real estate prices, which have recently showed a sharp rise.

Along with this, the government should make more efforts to enable a system of continuous restructuring to take root at an early date and increase investment for technology development as a means of expanding growth potential, while bolstering its efforts to stabilize the employment market and narrow income difference through the creation of new jobs and the strengthening of vocational training.

Economic Trends

The World Economy Contracts Sharply

During the year 2001, the overall world economy shrank sharply due to the sluggish U.S. economy. The U.S. economy, which had seen its growth pace slow down significantly since the latter half of 2000 owing to the slump in the information and telecommunication(IT) industry and inventories adjustment, continued its downward trend in 2001 with the growth rate declining further. In particular, it recorded negative growth in the third quarter, mainly affected by the terrorist attacks of September 11.

Entering the fourth quarter, the U.S. economy showed signs of emerging from the doldrums as the shock of the terrorist attacks abated and Washington's policies of lowering interest rates and reducing taxes took effect, but its economic growth rate dropped sharply from 4.1 per cent of the previous year to 1.2 per cent.

The economy of the eurozone turned lacklustre from the second quarter of 2001 owing to the sluggishness of domestic and external demand, and the Japanese economy shifted into a negative growth from the second quarter amid the contraction of domestic consumption brought about by the delay in restructuring and the worsening overseas economic conditions. Affected by the economic sluggishness of the advanced countries, the economies of newly emerging countries, apart from China and India, both of which enjoyed a sustained high growth led by domestic consumption, saw their growth rates slow down remarkably or shift into negative territory.

Viewing interest rates in the United States, the short-term interest rate dropped sharply as the U.S. Federal Reserve Board lowered the Federal Funds rates in a series of steps, whereas long-term interest rates in general showed a steady downward trend, but rebounded slightly around the year-end due to expectations of economic recovery.

The yen maintained a weakening tone against the dollar following on the previous year due to the downturn of the Japanese economy and the delayed restructuring. Specifically, the exchange value of the yen plunged to 131 yen to the U.S. dollar around the year-end mainly owing to the spread of worries over the financial market. The euro also exhibited a weakening tone against the green back due to the economic slowdown in the eurozone.

Despite slow demand for crude oil amid the dampened world economy, international oil prices(Brent crude oil) fluctuated within a range of 24~28 dollars due to the OPEC members' curtailment of oil production. Prices temporarily surged right after the terrorist attacks on the United States owing to worries over the oil demand and supply situation, but dropped sharply to below 20 dollars due to concerns about the rapid downturn of the world economy and the ineffectiveness of OPEC's efforts to coordinate the curtailment of oil production.

Among other major raw material prices,

those of cereals showed stability throughout the year owing to crops being on a par with those of recent years, but prices of industrial raw materials, including nonferrous metal and raw cotton, decreased sharply because of lacklustre demand.

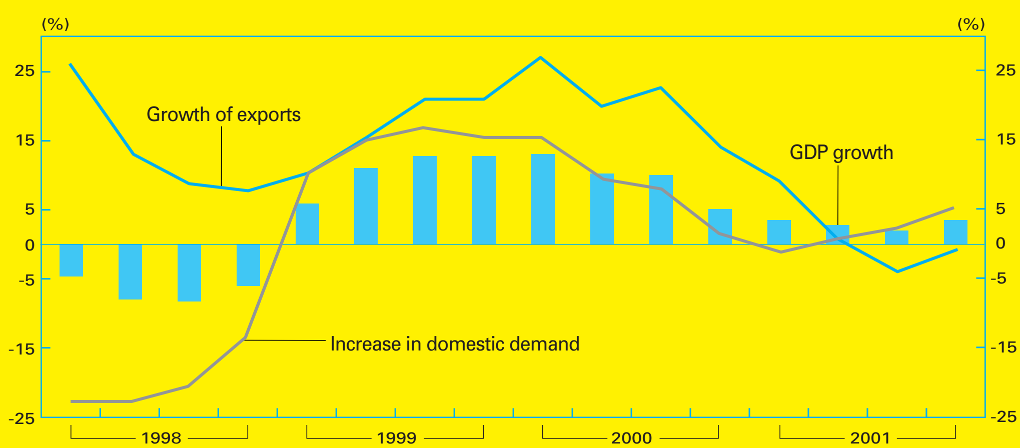
Economic Growth Rate Drops Sharply

Affected by a setback to exports and sluggish facilities investment following the reduced growth rate of world economy and that of the United States in particular, the growth rate of gross domestic product(GDP) declined markedly from 9.3 per cent in the previous year to 3.0 per cent in 2001.

GDP growth decelerated continually, slipping from 3.7 per cent in the first quarter to 2.9 per cent in the second quarter, and further to 1.9 per cent in third quarter. It then rebounded to 3.7 per cent in the fourth quarter as measures to stimulate the economy, including the lowering of the call rate target and an expansion of fiscal expenditures, made themselves felt.

Viewing total domestic production by demand sector, the growth rate of private consumption declined whereas government consumption increased slightly, bringing about growth of 3.7 per cent in overall consumption. Private consumption increased by 4.2 per cent for the year as a whole. It shrank sharply in the first quarter owing to an economic downturn and a rise in unemployment rate, but rose gradually after the second quarter due to a

<Chart 1> Change in Real GDP[1]



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

rise in housing and stock prices as well as a decline in unemployment thus serving to avoid an overly deep slowdown in the level of domestic economic activity.

Despite active construction investment, fixed investment shifted to a decreasing trend due to the weakness of facilities investment. Meanwhile, construction investment increased for the first time since 1997 owing to brisk investment in the construction of buildings, including houses, helped by the government's measure to activate the construction business as well as favorable investment in infrastructure, including electric power facilities and civil engineering.

The downward course of facilities investment continued to accelerate with lacklustre investment in most of its components, including machinery and transportation equipment. It improved somewhat in the fourth quarter, however, owing to a steady rise in consumption and construction investment as well as expectations of an early end of the U.S. war against terrorism, coupled with a rise in semiconductor prices.

Exports of goods and services, in real terms, edged up by only 1.0 per cent due to an economic downturn in major countries, including the United States, and sluggish commodity exports. Imports of goods and services, in real terms, dropped by 2.8 per cent owing to the slackness of imports of capital goods and raw materials brought about by the dearth of facilities investments and the setback to exports.

As both consumption and construction investment showed a relatively favorable performance throughout the year in contrast to the sluggishness of exports, the contribution ratio of exports to final demand plunged from 57.8 per cent in the previous year to 22.8 per cent in 2001. However, the contribution ratio of domestic consumption soared from 42.2 per cent in the previous year to 77.2 per cent.

As facilities investment dropped sharply offsetting the effects of brisker construction investment, the gross domestic investment ratio fell from 28.3 per cent in the previous year to 26.8 per cent in 2001, and the gross savings ratio also dropped from 32.4 per cent to 29.9 per cent owing to a rise in consumption.

In the meantime, real gross national income(GNI), which reflects trading gains and losses from changes in the terms of trade and net factor income from the rest of the world, increased by a mere 1.3 per cent due to a steep fall in export prices of semiconductor products.

Viewing nominal GNI from the distribution side, the ratio of compensation of employees to national income(NI) rose from 59.4 per cent in the previous year to 61.2 per cent in 2001 as compensation of employees maintained its upward pace whereas the operating surplus of corporate business shifted to a decrease as a result of deteriorating profitability following the economic slowdown.

Sluggish Production Activity of Most Industries, Except for Construction

Viewing production activity during the year under review by industry, the growth rate of most industries, except that of construction, slowed down. In particular, production activity in the manufacturing industry was extremely sluggish.

Manufacturing posted growth of just 1.7 per cent, serving as a key factor in pulling down the overall economic growth rate. Although production in the transportation equipment sector showed a high rate of increase thanks to brisk shipbuilding exports, that of information and telecommunication-related sectors, including semiconductors, computers, and audio and communication equipment, witnessed a sharp drop in growth. Production in the clothing and footwear sectors also showed a large decline.

The service sector increased its output by 4.1 per cent, showing relatively robust growth compared with the manufacturing sector, but its growth rate was lower than the previous year's.

The finance · insurance and real estate sector maintained growth similar to that in the previous year thanks to the briskness of real estate business which offset the sluggishness of insurance business. The social and personal service sector also enjoyed favorable expansion due to the rapid growth in educational institutions, movies, and entertainment subsector.

On the other hand, the growth rate of the wholesale & retail sector dropped sharply owing to sluggish commodity transactions following the economic slowdown. The transportation · storage and communications sector showed steady growth, led by mobile communications, but this was lower than that of the previous year.

Construction shifted to positive growth owing to a remarkable improvement in private construction coupled with a steady rise in government construction. The electricity, gas and water sector saw its growth rate drop owing to lethargic consumption of electric power as the pace of industrial activity cooled. The agriculture, forestry and fishing sector maintained a consistently low growth rate with a favorable performance by the fish farming industry, but cultivation and livestock sectors showed poor business performance owing to bad weather and an outbreak of mad cow disease.

Reflecting these industrial activities, the share of the manufacturing industry in nominal GDP slipped from 31.3 per cent in the previous year to 30.0 per cent, whereas the share of the service and construction industries rose slightly to 43.7 per cent and 8.2 per cent, respectively.

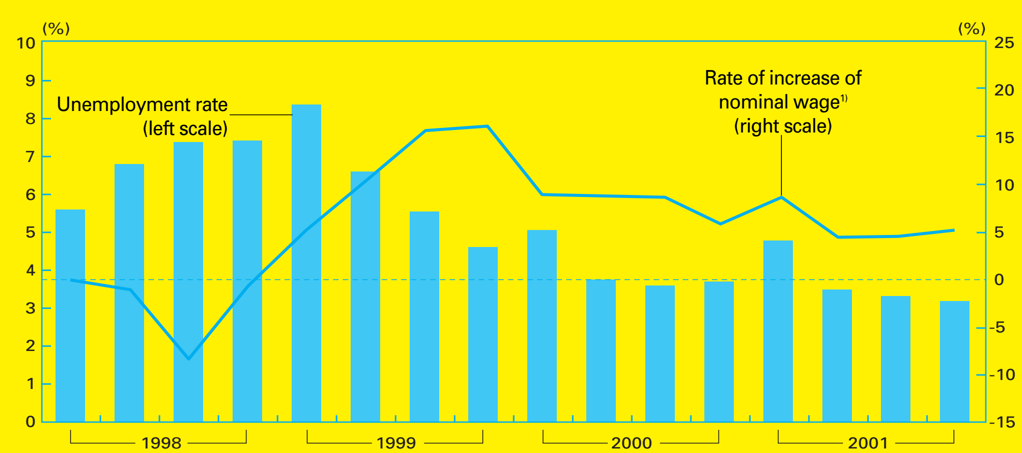
Unemployment Rate Drops, Wage Increase Rate Slows Down

Viewing the employment situation, the unemployment rate dropped slightly from 4.1 per cent in the previous year to 3.7 per cent owing to the relatively favorable business performance in the service industry, which has a strong impact on employment, despite the slowing of economic growth.

The number of persons in employment during the year under review increased by 1.4 per cent, with the pace of expansion slowing remarkably from the previous year. By industry, the number of the employed in the service industry showed a steady rise, whereas that in the manufacturing sector dropped. That in the construction industry increased in the fourth quarter, boosted by the favorable construction business, but remained at the previous year's level for the whole of the year.

The rate of increase of the nominal wages of regular employees eased down from 8.0 per cent in the previous year to 5.6 per cent owing to the economic downturn. Unit labor costs in the manufacturing industry shifted to an upward trend as the growth of labor productivity slowed rapidly despite the reduction in the rate of wage rises.

<Chart 2> Trends in Unemployment and Nominal Wage



Note : 1) Wages in all industries compared with the same period of the previous year.

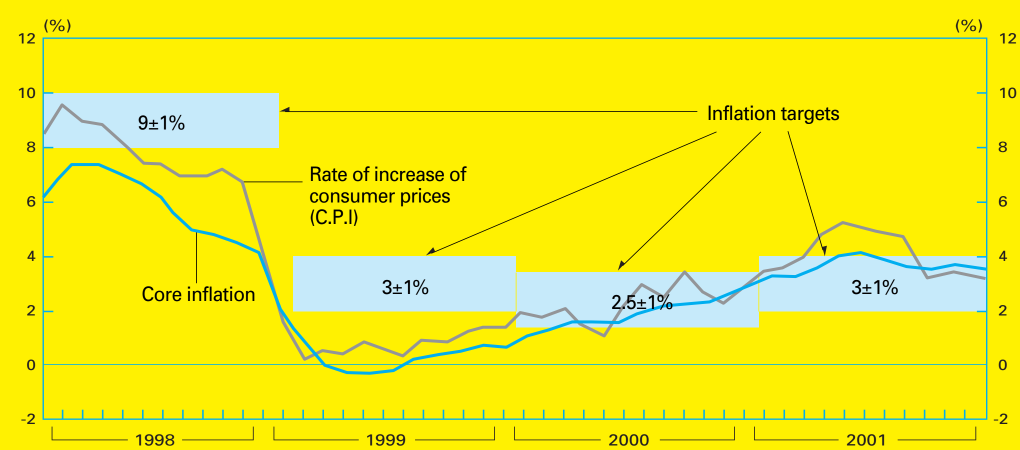
Consumer Price Inflation Slows Down from Latter Half

Despite a slowdown of the Korean economy, the annual average rate of increase of consumer prices accelerated from 2.3 per cent in the previous year to 4.1 per cent due to cost factors together with the upward trend of commodity prices that was sustained from the latter half of the previous year.

Viewing movements of consumer prices by period, consumer price inflation continued to accelerate until May owing to the high oil prices since the latter half of the previous year, a sharp hike in public utility charges, the won's depreciation, and the rise in housing prices. However, the upward pace slowed from June due to a fall in international oil prices in the wake of the subdued world economy, the government's curb on further hikes in public utility charges, and the downturn of the Korean economy.

Viewing price rises by category, service prices led the hike in overall consumer prices owing to increases in public utility charges, including medical insurance fees and piped natural gas, and housing rental charges. The prices of agricultural, livestock and marine products also rose sharply due to poor yields of some agricultural products following bad weather and a reduction in raising of some livestock. The prices of manufactured goods showed an upward trend centering on petroleum products, but regained stability after June thanks to a fall in international oil prices,

<Chart 3> Trends in Consumer Prices and Core Inflation[1)]



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

resulting in a slight rise in prices for the year as a whole.

Core inflation, which strips out the prices of agricultural products except cereals and of petroleum fractions from the C.P.I., witnessed its annual average increase rate accelerate from 1.9 per cent in the previous year to 3.6 per cent. Similarly to the rate of increase in consumer prices, the rising pace of core inflation accelerated in the first half, but slowed down in the latter half.

In the real estate market, both housing prices and housing rents rose sharply due to the deepened imbalance between the demand and supply of houses in the wake of the sluggishness of housing construction since the currency crisis coupled with an increase in the number of apartments under reconstruction.

Current Account Surplus Diminishes

The current account surplus in the year under review narrowed from 12.2 billion U.S. dollars to 8.6 billion U.S. dollars owing to a sharp drop in both exports and imports. Its ratio to nominal GDP also slipped from 2.7 per cent to 2.0 per cent.

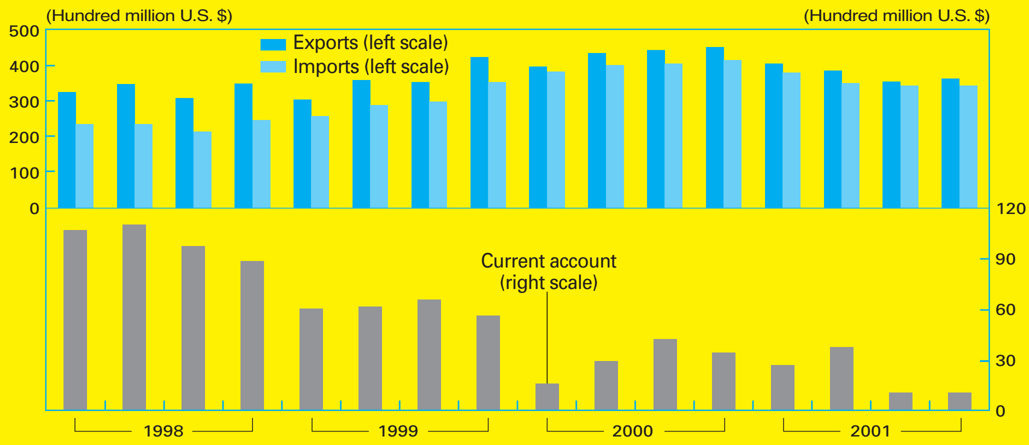
Exports, on a customs-clearance basis, decreased by 12.7 per cent on a year-on-year basis to 150.4 billion U.S. dollars. By item, exports of automobiles, ships and wireless communications equipment kept an increasing pace, but those of semiconductors and computers dropped sharply owing to a slump in the information and telecommunication industry, especially in the United States. Exports of steel and chemical goods also were sluggish because of the worldwide oversupply situation.

Imports, on a customs-clearance basis, decreased by 12.1 per cent on a year-on-year basis to 141.1 billion U.S. dollars owing to a steep fall in imports of capital goods and raw materials, mainly affected by inactive facilities investment and the setback to exports.

Although exports and imports dropped by a similar margin during the year, the surplus on the goods account narrowed from 16.9 billion U.S. dollars in the previous year to 13.4 billion U.S. dollars as the downward trend of exports, whose total volume is remained larger than that of imports, outpaced that of imports. This served as a major factor in the narrowing of the scale of the current account surplus. In the meantime, the service, income, and transfers balance posted a deficit similar to that of the previous year.

The capital account shifted from a net inflow of 12.1 billion U.S. dollars the previous year to a net outflow of 3.6 billion U.S. dollars due to a sharp drop in the introduction of foreign direct investment funds, the early repayment of the government's borrowings from the IMF(5.7 bil-

<Chart 4> Trends of Exports/Imports and Balance of Payments



lion U.S. dollars), and the repayment of trade credits and overseas borrowings by financial institutions.

As of year end 2001, the nation's foreign exchange reserves stood at 102.8 billion U.S. dollars, an increase of 6.6 billion U.S. dollars from the end of the previous year. Total external indebtedness decreased by 11.8 billion U.S. dollars from the previous year to 119.9 billion U.S. dollars, but its ratio to nominal GDP posted 28.4 per cent, a level similar to that of the previous year.

Interest Rates Fall, Stock Prices Rise, Won Depreciates

In the financial market during the year under review, long-term market interest rates in general fell and stock prices rose sharply from late in September, while the Korean won depreciated against the U.S. dollar compared with the end of the previous year.

Long-term market interest rates, including yields on Treasury bonds and high-grade corporate bonds, showed a downward trend early in the year owing to the slow demands for funds amid an economic downturn and the effects generated by the Bank of Korea's lowering of the call rate target. After late in February, rates shifted to a rising trend due to worries over high inflation in the wake of the Korean won's depreciation as well as an expansion in investment trust companies' sale of their bond holdings to cope with increased redemptions of their short-term money market funds(MMF).

From the end of April when the Bank

of Korea announced measures to stabilize the bond market, long-term market interest rates returned to a falling trend, which was prolonged owing to prospects for a delay in economic recovery as well as the Bank of Korea's step by step reductions of its call rate target.

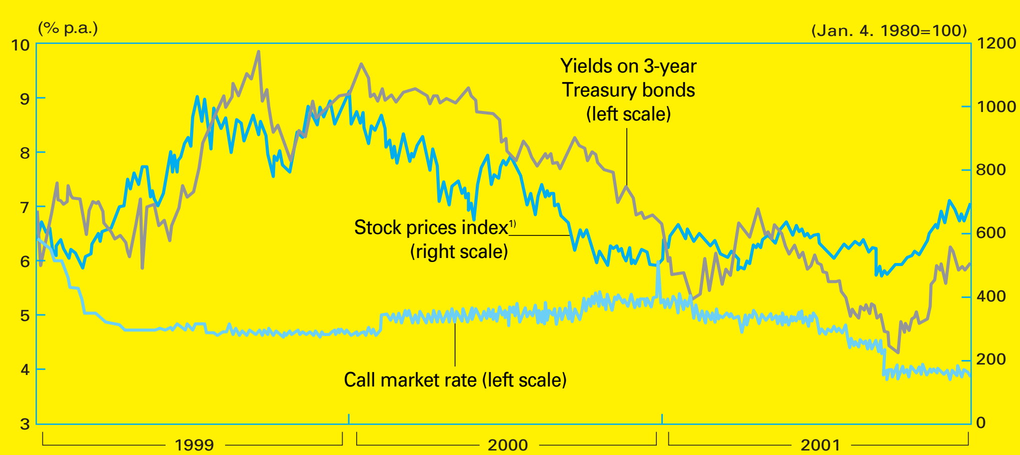
After October, long term rates rose slightly on concerns over disturbances in the demand and supply conjuncture as a result of a bunching of corporate bonds maturities and expectations of an early recovery of the Korean economy. On a year-end basis, benchmark long term rate as of the end of the year under review stood at a level which was around 1 percentage point below that of the previous year-end.

The differentiation of corporate bonds interest rates according to credit rating(BBB- - AA-) temporarily widened early in the year due to the delay of some large enterprises' restructuring, but narrowed to the 4 percentage point level after May as the conditions for corporate bond issuance improved gradually owing to the issuance of Primary CBOs.

With corporate demand for funds weak, the lending and deposit rates of financial institutions continued their declining trend throughout the year because of the fall in market interest rates, and the briskness of direct financing through the issuance of corporate bonds and CP, and public and rights issues.

There were repeated large swings in stock prices with factors making for a rise including the inflow of foreign portfolio

<Chart 5> Trends of Market interest Rates and Stock Prices



Note : 1) KOSPI(Korea Composite Stock Price Index), all shares traded in the Korea Stock Exchange.

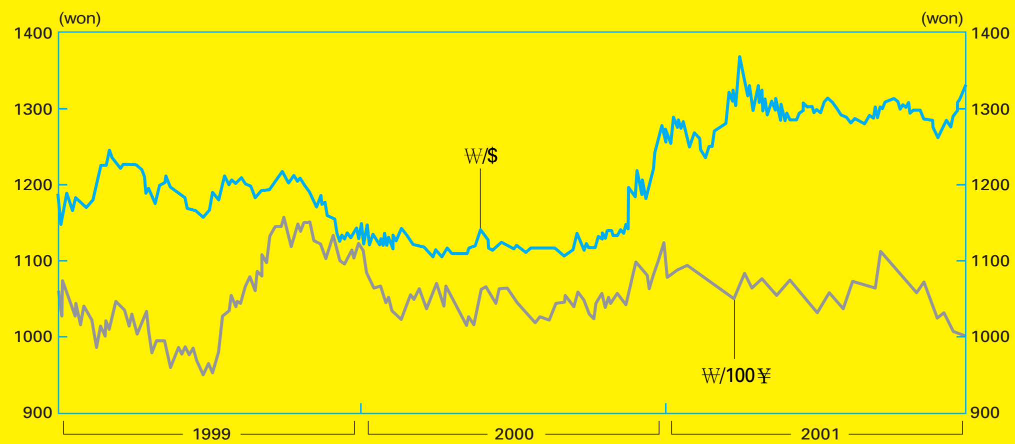
investment funds and the drop in market interest rates, and those making for a fall including the economic slowdown evenly mixed. But, with the composite stock price index(KOSPI) plunged to 468.8 points and the composite KOSDAQ to 46.1 on Sept. 17, right after the terrorist attacks on the United States, stock prices plummeted to the lowest level for the year.

From late September, however, stock prices rebounded sharply thanks to massive stock purchases by foreign investors, the upward adjustment of Korea's sovereign rating, and expectations for an early recovery of the Korean economy. As of the end of 2001, the KOSPI and the KOSDAQ index had risen by about 37 per cent from the end of the previous year to stand at 693.7 and 72.2, respectively.

The Korean won, which had depreciated sharply against the U.S. dollar since November 2000, recovered some of its lost ground due to a massive inflow of foreign stock investment funds. As the Japanese yen began to weaken against the U.S. dollar steeply from the end of February, the won also depreciated sharply, posting the year's lowest level of 1,365.2 won to the U.S. dollar on April 4 in terms of its exchange value.

Thereafter, the exchange rate maintained a relatively stable pattern owing to the more stable yen as well as the continued inflow of foreign stock investment funds. However, the won fell sharply against the U.S. dollar from mid-November in a movement analogous to

<Chart 6> Korean Won Exchange Rate Trend[1)]



Note : 1) The won-dollar exchange rate is based on the market closing rate, and the won-100 yen exchange rate is based on the cross rate notified by the Korea Financial Telecommunication and Clearing Institute.

that of the weakening yen, posting 1,313.5 won to the U.S. dollar at the end of the year, a 3.7 per cent depreciation against the greenback from the end of the previous year.

Growth Rate of Bank Deposits Slows, Deposits with Non-banking Institutions shift to an Increase

Viewing deposit-taking by financial institutions during the year under review, deposits with secondary financial institutions, including investment trust companies and banks' trust accounts, shifted to an increasing pace, whereas the growth of deposits with banks slowed down as products with performance based yields were more remunerative than fixed rate bank deposits offering due to the fall in market interest rates.

Meanwhile, as the downturn in short-term interest rates outpaced that in long-term interest rates and the private sector's preference for short-term funds heightened owing to an increase in corporate credit risk amid the prolonged economic slowdown and the delay in the restructuring of some large enterprises, short-term deposits expanded sharply, whereas the taking of long-term deposits remained in the doldrums.

With the easing of the gap in deposit-taking between financial institutions, the divergence of the various monetary indicators narrowed sharply. The growth rate of M2 slowed to 15.7 per cent due to enterprises' slow demand for loans coupled with a base-period effect from its sharp rise in the previous year, as a result of the banks' compensation for the reduced intermediation of secondary financial institutions. The growth rate of MCT+(M2 plus CD plus money in trust plus cover bills plus RPs plus financial debentures) also dropped, easing to 12.6 per cent.

On the other hand, the growth rate of M3, comprising the deposit of banks and secondary financial institutions, expanded by an annual average of 9.6 per cent(monitoring range of 6~10 per cent) from the previous year owing to the secondary financial institutions' recovery of their fund intermediary function.

Corporate funding conditions during the year under review were generally smooth: the demand for fund was not very great due to the economic slowdown; large companies engaged in brisk direct financing, including the issuance of corporate bonds and commercial papers; and financial institutions' corporate loans showed robust rate growth owing to the raising of the Bank of Korea's Aggregate Credit Ceiling and its flexibility in supplying money through open market operations.

In the meantime, financial institutions placed their emphasis on household loans, including mortgage lending, affected by enterprises' slow demands for funds. The share of household loans rose markedly from 35.3 per cent of total bank loans at the end of the previous year to 42.5 per cent at the end of 2001.

Major Economic Policies During the Year

Call Rate Target Lowered On Four Occasions

During the year under review, the Bank of Korea operated monetary policy in a flexible manner in such a way as to place the focus on price stability, preventing an excessive contraction of the economy, and stabilizing the financial market.

After considering the outlook for prices, the overall economic situation, and the inflation level that the Korean economy should seek to attain over the medium term, the Bank of Korea, in consultation with the government, fixed the inflation target for the year 2001 at 3.0±1 per cent based on core inflation, which strips out the prices of petroleum fractions and agricultural products except cereals from the Consumer Price Index(CPI).

At the same time, the Bank of Korea continued to keep a medium-term inflation target of 2.5 per cent to maintain the consistency of monetary policy and enhance confidence. Along with this, the central bank set a target monitoring range for the annual rate of M3 growth at 6 to 10 per cent, giving consideration to the inflation target and prospects for economic growth.

During the year, giving comprehensive consideration to the financial market trends and the economic situation, including commodity prices and business activity, the Bank of Korea adjusted the call rate target downwards by a total of 1.25 percentage points in a series of four steps in February, July, August, and mid-September.

Early in the year, as the domestic economy slowed down at a faster than expected pace due to the synchronized downturn of the world economy and that of the U.S.A. in particular, and consumer and business sentiment shrank abruptly, the Bank of Korea brought down the call rate target by 0.25 percentage points in February from 5.25 per cent to 5.0 per cent. Although the economic downturn subsequently continued, the Bank of Korea held its call rate target at the 5.0 per cent level owing to the persistently high level of inflation and the existence of further upside pressures, such as high oil prices and the Korean won’s depreciation.

The contraction of exports intensified due to the deepening of the world economic downturn and that in the U.S.A in particular, and the deceleration of the Korean economy gained further momentum owing to the shrinking of domestic consumption and facilities investment. At the same time, inflationary pressure was expected to weaken gradually. This view was premised on the easing of the demand pressure following the economic slowdown, and the stabilization of in the won's exchange value and of international oil prices. The Bank of Korea therefore lowered the call rate target by 0.25 of a percentage point in both July and August.

In mid-September as the economic slowdown deepened further and the financial market unrest was feared in the aftermath of the terrorist attacks on the United States, the Bank of Korea cut the call rate target by 0.5 of a percentage point to 4 per cent.

Although uncertainties over economic prospects still remained after October, the Bank of Korea maintained the call rate target at a 4.0 per cent level, considering it desirable, with the financial market, showing a generally stable pattern, to wait for the effects of the economy stimulation measures undertaken, including the lowering of interest rate and the expansion of fiscal expenditure to work through.

Flexible Money Supply

During the year under review, the Bank of Korea supplied money in a flexible manner through open market operations and raised the Aggregate Credit Ceiling in pursuit of the financial market stability and to encourage bank lending to small and medium-enterprises(SMEs).

In late April and late November, when interest rates spiked due to bond market unrest over a concentration of maturing corporate bonds, the Bank of Korea engineered an expansion of the reserve base, working energetically to stabilize the financial markets. It supplied liquidity in a flexible manner through the full retirement of maturing RPs, the early repurchase of Monetary Stabilization Bonds(MSBs), and outright purchases of government and public bonds.

With the emergence of worries over a possible reduction of financial sector backing for the corporate sector in response to the economic slowdown, the increased corporate credit risk of some large enterprises, and the structural adjustment of mutual savings and finance companies, the Bank of Korea raised its Aggregate Credit Ceiling by 4 trillion won, at the same time reducing its lending rate under this facility.

Also, it changed the credit allocation formula in such a way as to help banks that expanded their loans to enterprises receive more soft Aggregate Credit Ceiling funds as a means of expanding financial support for the corporate sector, especially SMEs. To accelerate the use of cash settlements in intercompany commercial transactions, the Bank of Korea expanded the allocation of the Aggregate Credit Ceiling devoted to the Corporate Procurement Loans that it had introduced the previous year.

Along with this, the Bank of Korea introduced Paperless Secured Receivable Loans(February). These are designed to help SMEs supplying large companies affiliated with business groups, unable to use Corporate Procurement Loans due to restrictions on credit to single borrowers, obtain the funds at an early date. The Bank also included performance in the extension of these loans among the eligible objects for financial support under the Aggregate Credit Ceiling.

Besides this, the Bank of Korea raised its ceiling on Liquidity Adjustment Loan Ceilings(January) to guard against possible financial market unrest in the course of the introduction of the Partial Insurance System and the pursuit of the second-phase of financial restructuring. In August and again in September when it reduced its the call rate target, it also made downward adjustments in its lending rate in its Liquidity Adjustment Loans.

Improvement of Payment and Settlement System and Augmentation of Bank Supervisory Function

During the year under review, the Bank of Korea undertook wide ranging efforts to heighten the stability and effectiveness of the payments and settlements system.

As a primary step in this, the Bank of Korea(December) established the 'Regulation on Operation and Management of the Payments and Settlements System'. Under this, in order to strengthen the central bank's role in the oversight of the payments and settlements system, it is empowered to give necessary instructions or counsel to institutions operating or participating in the payment and settlement systems, and those issuing payment instrument.

Along with this, in order to eliminate frictions in interbank payments and settlements, the Bank of Korea raised the ceilings on its daylight overdraft facilities for financial institutions and expanded the scope of the securities eligible as collateral, which had been limited to government bonds and Monetary Stabilization Bonds, to government-guaranteed bonds.

A Computer Back-up Center was established to enhance the security of BOK-Wire(November) and the ratio of the securities collateral to be posted with the Bank of Korea by banks participating in net settlement systems was raised from 10 per cent to 20 per cent of the net debit cap to reduce interbank settlement risk(August).

The Bank of Korea conducted joint examinations with the Financial Supervisory Service on the business of 13 banks during the year to grasp their financial and management status and check their compliance with legislation related to the monetary policy.

Also, the Bank of Korea appraised the management status of banks every quarter, conducted a survey of their lending practices, and investigated the risk management status of domestic banks on two occasions—in the first half and again in the second half of the year, drawing upon its findings as a basic resources for the formulation of monetary policy.

Strengthening Efforts to Stabilize the Foreign Exchange Market

As most restrictions on foreign exchange and capital transactions were abolished under the second-phase of foreign exchange liberalization which came into force on Jan. 1, 2001, the government and the Bank of Korea bolstered their efforts to stabilize the foreign exchange market.

The overall movements of current and capital transactions were closely monitored through the foreign exchange information network and the Korea Financial Intelligence Unit was established to strengthen surveillance against hot money flows and illegal or illicit transactions including those association with money laundering, and tax evasion.

In November, the 'Foreign Exchange Transaction Regulation' was revised. One of the main objectives of the revision was to prevent residents from engaging in transactions designed to circumvent the objectives of legislation by engaging, for example, in the irregular introduction of foreign capital through offshore funds. This closed up same loopholes in the system that had become evident since the second-phase of foreign exchange liberalization.

Meanwhile, as the foreign exchange reserves had built up substantially and the external payment capacity had improved due to the large scale of current account surpluses and continued inflows of foreign direct and portfolio investment funds, the government completed the repayment in full of the 19.5 billion U.S. dollars borrowed from the IMF by August 2001. It tightened up with the redemption of the remaining tranche of 5.7 billion dollars.

Financial Restructuring Continues

During the year under review, the government pressed ahead unremittingly with financial restructuring, pursuing enlargement of banks' scale and the exit of ailing financial institutions. Hanvit, Peace, Kwangju, Kyongnam banks, and Hanaro Merchant Banking Corp., all of whose capital had been subscribed in full by Korea Deposit Insurance Corp., were brought together under the umbrella of Woori Finance Holdings Co.. At the same time, the government forced the exit through the revocation of their license or compulsory of ailing merchant banking corporations, insurance companies, mutual savings & finance companies and credit unions.

In the process of restructuring ailing financial institutions, the government spent about 27 trillion won in public funds during the year under review for the repayment of the deposits of failed financial institutions, recapitalization, compensation for loss, and the purchase of non-performing loans. Among financially healthy financial institutions, meanwhile, Kookmin Bank and Housing & Commercial Bank merged to form Kookmin Bank(October), while Shinhan Bank and Shinhan Securities Co. jointly established Shinhan Finance Holding Co.(Sept.).

To accelerate regular corporate restructuring by financial institutions, the government also enacted the 'Corporate Restructuring Facilitation Act', which lays down procedures for the disposal of firms showing signs of insolvency and the adjustment of claims between financial institutions. Along with this, to strengthen the surveillance of boards of directors over the management of mutual savings and finance companies and credit card companies, the government made it obligatory for these financial institutions to appoint outside directors and establish audit committees. At the same time, the Financial Supervisory Committee was empowered to set standards of management soundness for credit specialized financial companies and take appropriate corrective actions.

Policy Tasks and Monetary and Credit Policy in 2002

During the year 2002, the pace of the Korean economy's recovery, which had emerged during the fourth quarter of the 2001, is expected to become more pronounced, but consumer prices, which have recently shown a stable trend, are likely to face greater upward pressure due to rising demand.

Exports are expected to rise owing to a recovery of the world economy and a hike in semiconductor prices, but imports are likely to increase at a faster pace, narrowing the volume of the current account surplus.

The demand for funds is likely to increase due to the economic upturn, but corporate direct fund-raising is expected to be brisk amid an improvement in the cash flow. As a result, the financial market is expected to show a relatively stable pattern.

There are, however, a number of factors present that have the potential to destabilize the economy, prices, and the financial market. They include the possibility of an expansion of the U.S. war against terrorism, the protracted weakness of the yen caused by the sluggish Japanese economy, the consequent depreciation of the Korean won, a sharp rise in real estate prices, and a loss of social discipline in the wake of a number of elections and international sports events.

In light of these points, the government should place the focus of macroeconomic policy in the future on the strengthening of efforts for price stability and the creation of a foundation for stable growth, while carefully watching the evolution of the economic situation.

For price stability, it is a very important task for the government to seek measures to stabilize real estate prices, which have recently shown a sharp rise, and to soothe the climate of the inflationary anticipations psychology. In order to heighten the growth potential of the Korean economy, an ongoing system of structural adjustment should be established at an early date while the government should also do more to foster parts and component industries, expand investment in technology development, and cultivate human resources in technological fields. Also, it should bolster efforts to expand the employment base, including the creation of new jobs and ensuring the augmentation of worthwhile educational training, and ease the imbalance in the distribution of income.

To enable it to deal flexibly with the rapidly changing economic situation while placing its priority on price stability, the Bank of Korea set the core inflation target for the year 2002 at 3.0±1 per cent, while keeping the mid-term inflation target at 2.5 per cent.

Monetary policy throughout the year will be focused on the achievement of the inflation target and will be carried out in such a way as to meet the changing economic conditions both at home and abroad in a flexible manner. In the light of this situation, the Bank of Korea will adjust its call rate target flexibly, taking account of price movements, the economy, the trends of the financial market, and overseas conditions. In the process, it will also pay keen attention to the movements of asset prices. So that prices converge on the mid-term target level at an early date, the Bank of Korea will implement its interest rate policy by extending the policy horizon to the medium term.

Liquidity will be supplied in a flexible manner in keeping with the call rate target. In this context, the Bank of Korea has set the monitoring range of the M3 growth rate at 8~12 per cent, slightly higher than the previous year's level, taking into account the rising demand for liquidity in the private sector amid an economic recovery.

At the same time, the Bank of Korea will make strenuous efforts to encourage financial institutions to expand corporate lending and credit based loans, while improving practices in the settlement of commercial transactions between companies. It has, to this end, already adjusted the method of allocation of the Aggregate Credit Ceiling in such a way as to channel additional resources under the facility to those banks that expand their lending to SMEs.

To accelerate the extension of Paperless Secured Receivables Loans, the Bank of Korea plans to reduce the weight given to performance in the discount of commercial paper in the allocation of the Aggregate Credit Ceiling. At the same time, it intends ensure a timely supply of liquidity as and when necessary by making use of the system of Liquidity Adjustment Loans.

II. Monetary and Credit Policy

1. Inflation Target

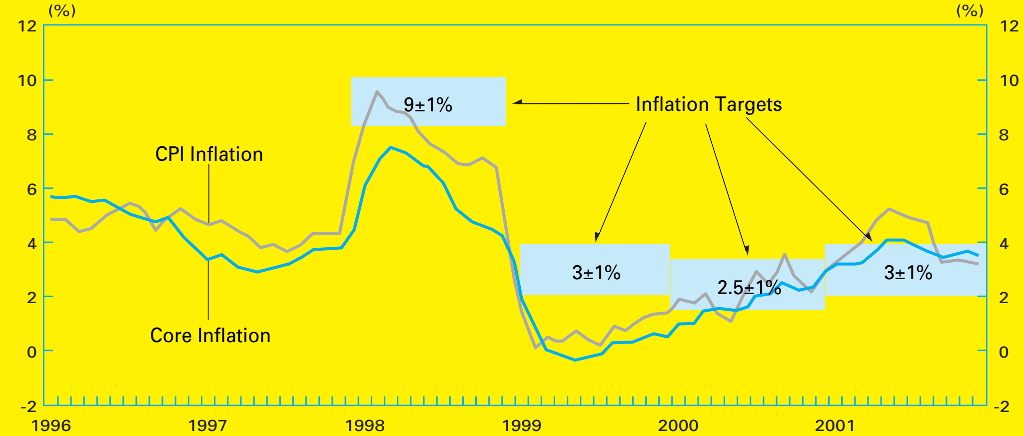
Early in 2001, the Bank of Korea forecast that inflation would be higher and that consumer price inflation and core inflation would stand at 3.7 per cent and 3.6 per cent, respectively, on an annual average basis. This forecast was grounded on expectations concerning the presence of some cost-push factors but the quiescence of demand-pull pressures because of the rapid economic downturn from the second half of 2000. The economy was expected to experience the knock-on effect of the hikes in oil prices and public service charges during the second half of 2000. Import prices were seen to be pushed up by the depreciation of the Korean won against the U.S. dollar that had begun in November 2000. Other contributory factors were the levy of consumption taxes and educational taxes on cigarettes(effective as of January) and the raising of the taxes on some fuels(effective as of July) in response to the restructuring of the energy price system.

Taking 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%), but lower than its inflation projection. But it permitted a fluctuation range of ±1 percentage point around the target mid-point, considering the high degree of uncertainty surrounding the outlook for the economy and prices. In the meantime, it decided to keep the inflation target that the Korean economy should pursue over the medium term unchanged at the 2.5 per cent level based on annual core inflation.

During 2001, however, consumer prices rose 4.1 per cent on an annual average basis, which was higher than expected. This was attributable to the much higher than anticipated rises in public service charges, housing rents and unit labor costs and the steeper than anticipated depreciation of the Korean won, all of which have a great impact on inflation. The consequent upward pressure on inflation more than offset the deflationary impulse provided by the very much lower than forecast GDP growth.

Viewing the trends of consumer prices during the year by period, until May the

<Chart 7> Inflation Targets and the Trends of the CPI and Core Inflation
(Rate of increase compared with the same month of the previous year)



rising pace of consumer price inflation accelerated and it registered a level of slightly over five per cent on a year-on-year basis in May. But it decelerated from June onward and the year-on-year rise declined to 3.2 per cent in December.

Meanwhile, core inflation stood at 3.6 per cent on an annual average basis, slightly lower than the increase rate of consumer prices. This lower figure was chiefly because prices of non-cereal agricultural products, notably vegetables and fruit, and those of petroleum fractions, both of which are stripped from the CPI, registered higher rates of increase than those of the other items due to abnormal weather conditions and the Korean won's weakness, respectively. Viewing the trends of core inflation during the year by period, in general it showed similar movements to those of consumer prices. Its pace accelerated during the first half and, having remained at a level of slightly over 3 per cent early in the year, it rose to a level of slightly over 4 per cent in May and June. It exhibited a mildly subdued pattern during the second half, however, and registered 3.6 per cent in December on a year-on-year basis.

2. Interest Rates

During the year 2001, the Bank of Korea conducted its monetary policy flexibly in such a way as to prevent excessive contraction of the economy and stabilize the financial market, while focusing on price stability.

Taking into overall account economic

activity, prices, and financial market developments, the Bank of Korea lowered the overnight call rate target by a total of 125 basis points from 5.25 per cent to 4.0 per cent in a series of four steps - in February, July, August, and mid-September.

Although an economic slowdown had become evident in early 2001, the Bank of Korea maintained the overnight call rate target at the 5.25 per cent level, taking into account the rising inflation in response to high oil prices and the won's depreciation, and the potential for price instability represented by the hikes of charges for public utilities and public services.

Domestic economic activity, however, slowed down more rapidly than had been anticipated owing to global economic downturn, and consumer and business confidence weakened sharply. Accordingly, the Bank of Korea lowered the overnight call rate target by 25 basis points from 5.25 per cent to 5.0 per cent on February 8 in an attempt to prevent an excessive contraction of the real economy.

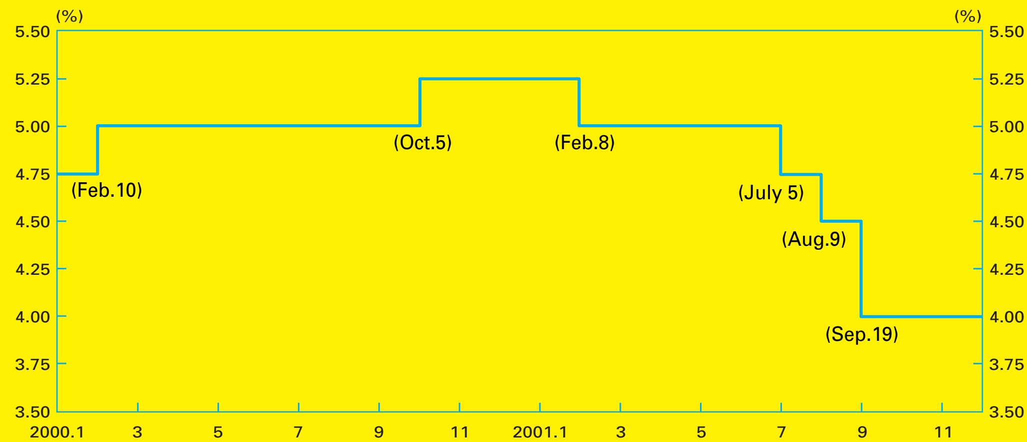
Although the economic downturn continued, the Bank maintained the overnight call rate target at the 5.0 per cent level until June in view of the persistently high level of core inflation, which was running above the upper limit of the inflation target(3.0±1%), and the continued presence of factors acting to accelerate it including high oil prices, the won's depreciation and a hike in some service charges.

Amid the faster pace of economic downturn resulting from the steep decline of exports due to the deepening recession of the global economy and the U.S. economy in particular, and the remorseless contraction of domestic consumption and facilities investment, inflationary pressures were expected to taper off gradually owing to the easing of total demand pressure by the downturn and the stability of the exchange rate and international oil prices.

Consequently, the Bank of Korea made a downward adjustment of the overnight call rate target by 25 basis points on July 5 and again on August 9, bringing it to 4.5 per cent, to ward off a deep recession and stabilize the financial market. Subsequently, in the wake of the terrorist attacks on the United States, with an increased likelihood of the economic slowdown more severe and worries mounting over the financial market instability, the Bank lowered the overnight call rate target by 50 basis points on September 19 from 4.5 per cent to 4.0 per cent.

Although uncertainties about economic prospects still remained after October, the Bank of Korea held the overnight call rate

<Chart 8> Overnight Call Rate Target Adjustments



Note : Figures in parentheses are the dates when the over- night call rate target was adjusted.

target around the 4.0 per cent level throughout the remainder of the year as it was considered desirable to wait for the effects of the economic stimulation measures already undertaken, including the step-by-step reduction of the policy interest rate and the expansion of fiscal expenditures, while financial market trends remained relatively stable.

3. Money Supply

During the year 2001, the Bank of Korea supplied money flexibly to stabilize the financial market and encourage banks to extend more loans to small and medium enterprises(SMEs).

At the same time, the Bank of Korea increased the Aggregate Credit Ceiling by 4 trillion won to induce banks to expand their loans to the corporate sector, including SMEs, and supplied liquidity flexibly through open market operations.

At times when market interest rates surged due to a temporary imbalance in the demand and supply of funds, the Bank of Korea actively strove to restore financial market stability by managing banks' reserve money in a flexible manner.

As interest rates in the bond market showed a sharp rise from mid-April due to persistently rapid pace of consumer price inflation and the dramatic contraction of short-term money market funds(MMF) at investment trust companies as a result of the lowering of expected yields and the collection of very large tax revenues, the Bank of Korea carried out the net redemption of Monetary Stabilization Bonds (MSBs) and expanded the liquidity supply by retiring 4.6 trillion won worth of matured repurchase agreements(RP) as a part of the bond market stabilization measures on April 27.

On November 26, as market interest rates had rebounded sharply in a short-term period due to the bond market's instability resulting from a bunching of maturing corporate bonds from mid-November, the improvement of several macroeconomic indicators both at home and abroad, and the spread of optimism concerning economic recovery amid the growing possibility of an earlier end of the U.S. campaign in Afghanistan, the Bank of Korea repurchased MSBs prior to maturity and undertook outright purchases of Treasury bonds to a combined total value of 1 trillion won.

Consequently, the growth rate of reserve money stood at 14.0 per cent in December, slightly higher than the 11.3 per cent recorded in the same month of the previous year on an annual average basis. The growth rate of M3 accelerated to 9.6 per cent on an annual average basis owing to a recovery of the fund intermediary function of secondary financial institutions. This was higher than the previous year(5.6 per cent), but still within its annual monitoring range of 6 to 10 per cent on an annual average basis.

Meanwhile, although money supply through the foreign channel declined compared with that of the previous year due to the modest scale of purchases of foreign currencies, the supply of reserve money expanded sharply owing to the raising of the Aggregate Credit Ceiling, an expansion of fiscal expenditures, and larger interest payments on MSBs outstanding. The major part of this expansion was absorbed through the issuance of MSBs.

Consequently, the total balance of

<Table 1>Trends of Reserve Money Supply and Scale of Market Liquidity Adjustment

(changes during the period on the basis of December average figures)

Unit : billion won, %

	1999	2000	2001
Reserve Money[1]	4,783.0	2,822.3	3,893.3
	(23.7)	(11.3)	(14.0)
Market Liquidity Adjustment	9,490.8	11,202.8	14,046.3
MSBs	6,677.5	14,651.5	12,141.7
RPs	2,813.3	-3,448.7	1,904.6

Note : 1) Figures in parentheses refer to percentage changes compare with the same period of the previous year.

<Table 2> Outstanding Balance of MSBs and Interest Payment on MSBs

Unit : billion won

	1998	1999	2000	2001
Outstanding Balance[1]	45,673.3	51,489.2	66,377.7	79,121.4
(Change)	(22,202.4)	(5,815.9)	(14,888.5)	(12,743.7)
Amount of Interest Payments[2]	4,841.2	3,799.2	4,665.7	4,873.0

Notes : 1) Outstanding basis as at the year-end. 2) During the period.

MSBs outstanding reached 79.1 trillion won as of the end of 2001, an increase of 12.7 trillion won from the end of the previous year. The interest payments on MSBs outstanding came to 4.9 trillion won during the year.

4. Credit Policy

(1) Raising of the Aggregate Credit Ceiling and Change of the Method of its Allocation

Concerns continued during the year 2001 over the contraction of banks' corporate lending due to the economic slowdown and the increase in the credit risk of some large companies. The Bank of Korea therefore strengthened the incentives for banks to provide credit to the corporate sector including SMEs by raising the Aggregate Credit Ceiling, lowering the lending rate under this facility, and changing the method of its allocation in such a way as to supply more Aggregate Credit Ceiling funds at low interest rates to banks that expanded their corporate lending.

The Bank of Korea increased the Aggregate Credit Ceiling, which had been set at 7.6 trillion won since September 1998, by 4 trillion won to 11.6 trillion won in the course of the year under review. In January the Aggregate Credit Ceiling was raised by 2 trillion won from 7.6 trillion won to 9.6 trillion won. The Bank of Korea took this action in order to prevent SMEs from experiencing difficulties in fund-raising due to suspension of the operation of mutual savings and finance companies as well as the cautious attitude of financial institutions to lending in response to the economic downturn, the worsening credit risk of some large companies, and the implementation of the second-phase of financial restructuring.

In September as the possibility of a deepening of the economic slowdown grew in the wake of the terrorist attacks on the United States, the Bank of Korea

<Table 3> Trends of the Aggregate Credit Ceiling and Lending Rate

	Dec. 1997~	Mar. 1998~	Sep. 1998~	Jan. 2001~	Sep. 2001~
Credit Ceiling (trillion won)	4.6	5.6	7.6	9.6	11.6
Lending Rate (% per annum)	5	5	3	3	2.5

raised the Aggregate Credit Ceiling by a further 2 trillion won to avoid an excessive contraction of banks' corporate lending, while lowering the lending rate under this facility by 0.5 of a percentage point from 3.0 per cent to 2.5 per cent. Along with this, the Bank of Korea changed the method of allocation of the Aggregate Credit Ceiling in such a way as to heighten incentives for banks to expand corporate lending.

Meanwhile, the Bank of Korea increased the allocation of Aggregate Credit Ceiling for Corporate Procurement Loans by 1 trillion won in January and by 500 billion won in April and again July, bringing it to a total of 3 trillion won. The Corporate Procurement Loans scheme had been introduced in May 2000 to help reduce the damage that resulted from chains of post-dated promissory notes and ease SMEs' burden of financial expenses by encouraging the expansion of cash settlement.

From September, the Bank of Korea no longer set a specific quota under the Aggregate Credit Ceiling for such lending but decided to refinance up to 50 per cent of financial institutions' total extension of Corporate Procurement Loans. Accordingly, the volume of these loans handled soared by 145 per cent from 3.4 trillion won at the end of 2000 to 8.2 trillion won at the end of 2001. The number of companies accessing the lending facility also leapt from 5,458 to 14,497 during the corresponding period. As cash settlement using the Corporate Procurement

<Table 4> Trends of Outstanding of Corporate Procurement Loans and Commercial Bills Discounted
(End of period)

Unit : billion won

	2000		2001			
	June	Dec.	Mar.	June	Sep.	Dec.
Corporate Procurement Loans(A)	65.1	3,359.4	4,627.1	6,391.4	8,222.2	8,243.6
Commercial Bills Discounted(B)[1]	18,453.7	19,310.1	15,552.4	15,402.7	15,889.5	15,243.8
A/B (%)	0.4	17.4	29.8	41.5	51.7	54.1

Note : 1) SME basis.

Loans scheme was rapidly replacing the bill settlement, the ratio of Corporate Procurement Loans to commercial bills discounted rose sharply from 17.4 per cent to 54.1 per cent during the year under review.

Besides this, the Bank of Korea expanded the quota of the Aggregate Credit Ceiling allocated to its branches by 300 billion won, raising it from 2.7trillion won to 3.0 trillion won in October to strengthen financial support to enterprises based in the provinces. At the same time, it expanded the scope of businesses eligible for support under this facility, which had been focused on manufacturing in the past, to the service industry, whose contribution ratio to the economic growth has been on a steady rise.

(2) Introduction of Electronically-Processed Secured Receivables Loans

Although extension performance of the Corporate Procurement Loans introduced in May 2000 has increased at a rapid pace, companies affiliated with the thirty largest interlinked business groups, had faced difficulties in accessing this facility to pay cash to their suppliers owing to the System of Credit Ceilings on Single Borrowers.

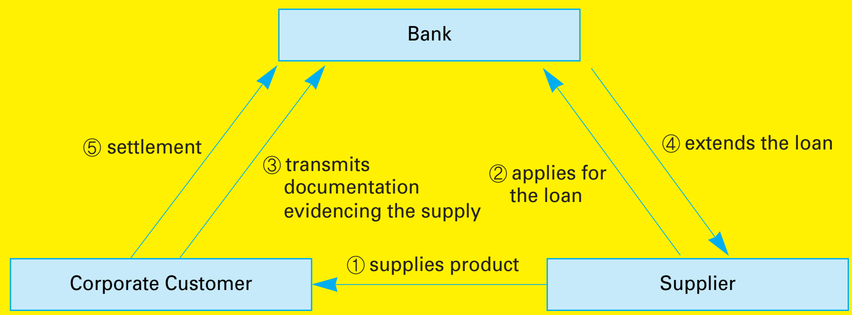
Accordingly, the Bank of Korea introduced Electronically-Processed Secured Receivables Loan in February, in addition to the Corporate Procurement Loan scheme, in order to help small and medium-sized companies trading with companies forming part of the thirty largest interlinked business groups which find it hard to access the Corporate Procurement Loan scheme collect payment in cash for the supply of their goods and thus ease the burden of financial expenses in a practical way.

Under the lending system, which represents a new type of payment and settlement system for commercial transactions, a supplier collects payment in cash for the supply of their goods by taking out a loan from a bank by offering its trade receivables as collateral. After a certain time has elapsed, the purchaser repays the loan to the bank directly in place of the supplier.

Furthermore, all procedures from the application for loans to the repayment are made through dedicated lines or via the Internet in electronic format without the issuance of physical bills. As a result, it is expected to contribute greatly to reducing the issuance of bills and improving the cash flow of suppliers like the Corporate Procurement Loan scheme.

To encourage the scheme of the Electronically-Processed Secured Receivables Loans to take firm root at an early date, the Bank of Korea made the banks' exten-

<Chart 9>Transition Flow of Electronically-Processed Secured Receivables Loan



<Table 5> Trend of the Electronically-Processed Secured Receivables Loans and Number of Enterprises Using Them

(End of period)

	Mar. 2001	June	Sep.	Dec.
Outstanding loans(billion won)	225.8	468.6	785.3	1,271.6
Enterprises Using these loans(no.)	2,675	4,931	8,842	13,428

sion of such credit eligible for support under the Aggregate Credit Ceiling. Helped by this move, these loans have increased at a rapid pace, reaching 1.3 trillion won at the end of December. The number of companies accessing this lending facility also came to 13,428.

(3) Increase of Ceilings on Liquidity Adjustment Loans and Intra-Day Overdrafts

In January 2001, the Bank of Korea raised the ceiling on Liquidity Adjustment Loans, which had been introduced in June 2000, from 2 trillion won to 3 trillion won in order to cope promptly with potential factors making for financial market instability in the wake of the implementation of the Partial Deposit Guarantee System and the pursuit of the second-phase financial restructuring.

Along with this, the Bank of Korea reduced the lending rate on them, which had been kept at 4.5 per cent since the introduction of this system, by 0.25 of a percentage point in August and a further 0.5 of a percentage point in September to 3.75 per cent.

In an additional move to ensure frictionless settlements between financial institutions, the Bank of Korea increased

<Table 6> Trends of Outstanding Amount of Intra-day Overdrafts

(on a daily average basis)

Unit: billion won

	Oct. 2000	Dec.	Mar. 2001	June	Sep.	Dec.
Nationwide Commercial Banks	77.4	67.6	63.5	58.5	185.4	142.5
Local Banks	1.8	2.0	0.4	0.4	0.5	0.5
Specialized Banks	0.7	32.6	8.1	14.9	28.6	21.1
Foreign Banks' Branches	7.4	7.7	4.5	5.2	27.5	56.8
Total	87.3	110.0	76.5	79.0	242.0	220.9

<Table 7> Current Lending System of the Bank of Korea

	Function	Loan Ceiling	Lending Rate	Maturity
Aggregate Credit Ceiling Loans	· Induce the expansion of bank loans to small and medium enterprises	11.6 trillion won	2.5% p.a.	one month
Liquidity Adjustment Loans	· Signal the monetary policy direction by flexible adjustment of their lending rate in keeping with the monetary policy stance · Stabilize the financial market by supplying necessary liquidity promptly to banks if and when they apply for borrowings due to temporary shortages of liquidity	3 trillion won	3.75% p.a. (In case of borrowings for more than three straight months, 4.75% p.a.)	less than one month
Temporary Loans	· Provide loans to banks to meet shortages of funds for payment and settlement or reserve requirements	Within the amount of the shortfall of funds	Call market rate plus 2 per cent	one day
Intra-day Overdrafts	· Provide loans to banks for temporary shortages of funds for payment and settlement during the day	200% of banks' current deposit balance with the BOK on an average outstanding basis in the month before the previous one	No interest charged	close of business on same day

the ceiling on intra-day overdrafts, which were introduced in September 2000, from 100 per cent of the corresponding bank's current deposit balance with the Bank of Korea on an averaged outstanding basis in the month before the previous one to 200 per cent, while expanding the scope of the securities eligible as collateral from Treasury bonds and MSBs to include also government-guaranteed bonds.

As a result, the outstanding amount of intra-day overdraft on a daily average basis has increased sharply since July, onwards to reach 220 billion won in December 2001, about double that of the same month in 2000.

III. The Conduct of Business Related to Monetary Policy

1. Payment and Settlement Business

During the year under review, the emphasis in the Bank of Korea's conduct of payment and settlement business was placed on strengthening the oversight activities of the Bank of Korea over the payment system as a whole and enhancing its stability and efficiency.

To strengthen the Bank of Korea's oversight of the payment system as a whole, the Regulation on the Operation and Oversight of Payment Systems was established in December 2001(effective from February 2002). With the passage of the new regulation, the Bank of Korea was empowered to give instructions or make recommendations to institutions operating or participating in payment systems as and when necessary. It also provided the legal basis for the Bank of Korea to have these institutions report to it such emergencies as a breakdown of their computer systems or the occurrence of a disaster and for it to take necessary steps to handle the situation. Along with this, the Bank of Korea was empowered to demand that these institutions and those issuing payment instruments file with it materials necessary for the operation and management of the payment system and the compilation of related statistics.

In preparation against possible disaster involving the main computer system, the Bank of Korea constructed and brought into operation the back-up center in November, which heightens the security of the Bank of Korea Financial Wire Network(BOK-Wire).

To reduce settlement risks associated with securities transactions, in October, the Bank of Korea included settlements between institutional investors arising from securities transactions on the Korea Stock Exchange and KOSDAQ market among transactions eligible for settlement by delivery versus payment(DVP) through BOK-Wire, which had been limited to over-the-counter bond transactions and repurchase agreement transactions.

In order to enhance the efficiency of the operation of BOK-Wire, the Bank of Korea changed the deadline for funds transfer between financial institutions from close of business to one hour after the applications for funds transfer in July.

During the year under review, the daily

<Table 8> Settlement Through BOK-Wire[1)]

Unit : number, billion won, %

	2000 (A)		2001 (B)		change (B-A)	%change
< Volume >						
Domestic Currency Funds Transfers	4,093	(85.8)	4,521	(85.8)	428	10.5
Gross Settlement	3,300	(69.2)	3,727	(70.7)	427	12.9
Net Settlement	793	(16.6)	794	(15.1)	1	0.1
Treasury Funds	625	(13.1)	702	(13.3)	77	12.3
BOK Loans and Discounts	37	(0.8)	35	(0.7)	-2	-5.4
Government and Public Bonds	13	(0.3)	11	(0.2)	-2	-15.4
Total	4,768	(100.0)	5,269	(100.0)	501	10.5
Foreign Exchange Funds Transfer	10	(-)	9	(-)	-1	-10.0
< Value >						
Domestic Currency Funds Transfers	61,077	(95.6)	72,504	(96.0)	11,427	18.7
Gross Settlement	48,962	(76.7)	60,047	(79.5)	11,085	22.6
Net Settlement	12,115	(19.0)	12,457	(16.5)	342	2.8
Treasury Funds	1,459	(2.3)	1,636	(2.2)	177	12.1
BOK Loans and Discounts	637	(1.0)	796	(1.1)	159	25.0
Government and Public Bonds	694	(1.1)	612	(0.8)	-82	-11.8
Total	63,867	(100.0)	75,548	(100.0)	11,681	18.3
Foreign Exchange Funds Transfer	97	(-)	113	(-)	16	16.5

Note : 1) Daily average. Figures in parentheses are percentage shares in total.

average number of transactions through BOK-Wire was 5,269 for a total value of 75.5 trillion won, increasing by 10.5 per cent and 18.3 per cent, respectively, in terms of volume and value over the previous year. The number of BOK-Wire participants was 132 at the end of 2001, remaining unchanged compared with the end of 2000.

In order to reduce the settlement risk associated with the interbank net settlement system, the Bank of Korea made an upward adjustment of the volume of collateral securities to be posted with the Bank of Korea by the banks participating in net settlement from 10 per cent to 20 per cent of the net debit caps. The Bank of Korea was allowed to differentiate the collateral amount to be posted for the net settlement by up to 15 per cent above or below the figure according to the management soundness of participating banks.

To augment the efficiency of the retail payment system, in April, the Bank of Korea separated funds transfer services by phone, PC or the Internet from the Interbank CD/ATM System and the

Interbank Funds Transfer System, by which they had previously been handled, to the Electronic Financing Network newly established for their exclusive use. The ceiling limit per transfer via the Electronic Financing Network is one billion won, and in contrast to other retail payment systems, the service is provided 24 hours a day, seven days a week. In a further move, customers at mutual savings and finance companies, credit unions and community credit cooperatives were from February 2002 given access to the retail payment systems, specifically the Bank Giro System, the Interbank CD/ATM System, the Interbank Funds Transfer System, and the Electronic Financing Network under the same conditions as bank customers.

To enable the electronic money(K-CASH) developed jointly by financial institutions and introduced in 2000 to be used as a payment instrument in commercial trade over the Internet, the Bank of Korea had the financial institutions jointly develop an on-line value charging system through the Internet in November. The Bank of Korea also had financial institutions develop a K-CASH Transportation System, and this was launched into commercial operation from December in Kimhae City. It also decided that the service should be extended to several other cities, including Suwon City, during 2002.

Besides this, a B2B e-Commerce Payment System, under which enterprises issue electronic claims on credit sales relating to commercial transactions for on-line settlement, was established through a joint banking network. So six banks(Chohung, Hanvit, Shinhan, Hana, Korea Exchange Bank and Industrial Bank of Korea) were selected to launch experimental operation of the system from March 2002.

2. Supervision of Banks

During the year under review, the Bank of Korea strengthened its joint examinations of financial institutions with the Financial Supervisory Service. It also analyzed and investigated financial institutions' management status, their risk management and lending patterns. International conferences were also held on the subject of financial supervision.

The Bank of Korea tightened its oversight on financial and managerial status of financial institutions by expanding the number of its joint examinations with the Financial Supervisory Service from three banks in the previous year to 13 banks during the year under review. Through these joint examination, the Bank of Korea was able to gather site information on asset quality, capital adequacy, liquidity and the profitability of financial institutions for use in the formation of monetary and credit policy. As a further step, it requested the Financial Supervisory Service to inspect 12 financial institutions' compliance with regulation concerning monetary and credit policy and the accuracy of their reports.

For the smooth execution of its joint examinations with the Financial Supervisory Service and its request for inspections by that organization, the Bank of Korea also revised the Working Rules for the Bank of Korea's Requests for the Examination of Banking Institutions and the relevant procedures in September. The Bank revamped the gathering of supporting evidence and post hoc management based on the results of its joint examinations. Along with this, the Bank of Korea made it obligatory for bank holding companies to submit data to the Bank of Korea, in the same way as individual banks, and included additionally a report on the management status of ceilings on large credits in the category of reports to be filed with the Bank of Korea by the Korea Development Bank and the Export-Import Bank of Korea.

The Bank of Korea appraised each quarter the management status of domestic banks by use of two analytical models, namely the Trend Analysis Model(CLEAR MODEL) and the Forecast Analysis Model (FORESEE MODEL). In addition, it measured the risk management status of domestic banks twice a year, once in the front-half and again in the latter-half of the year, while investigating every quarter lending behavior of financial institutions, including their lending attitude and lending terms. The findings serve as basic materials for the implementation of the monetary and credit policy and as reference materials for the routine surveillance of financial institutions.

Besides this, the Bank of Korea hosted several international conferences on themes related to financial supervision. These were the 10th EMEAP Bank Supervision Working Group Meeting(April 20-21), the 2nd SEACEN/FRS/World Bank/APEC Bank Supervision Seminar(Sept. 17-22) and the 4th SEACEN/APEC Bank Supervision Directors' Meeting(Sept. 24-26). Among the subjects discussed at these conferences with other central banks, financial supervisory institutions and international organization, were the New Basel Capital Accord of the Basel Committee on Banking Supervision, the globalization of finance, financial instability, and the soundness of the financial system.

3. Foreign Exchange and International Finance Business

(1) Foreign Exchange Management Business

In accordance with the implementation of the second stage of foreign exchange liberalization, the Bank of Korea brought into effect its revised regulation on foreign exchange transactions and relevant working rules for operations as of January 1, 2001.

It also eased restrictions on foreign currency loans by domestic financial institutions through the revision of its regulation on foreign currency deposits and loans, which came into effect as of June 22, in line with the recommendations of business related organizations. The Bank expanded the scope of eligibility for foreign currency loans to include those for repayment of foreign currency borrowings from domestic financial institutions and eliminated restrictions on import finance according to type of payment, which was expected to reduce enterprises' interest burden and to ease their difficulties in financing working capital.

In addition, to support foreign currency-denominated fund raising by small and medium enterprises(SMEs) and to improve the operating environment of foreign-invested companies, the Bank of Korea, on October 19, lifted restrictions on foreign currency loans and abolished the regulation on foreign currency deposits and loans. It retained, however, the provisions from this regulation concerning reserve requirements against foreign currency deposits and these were newly promulgated on October 19 as the regulation on reserve requirements against foreign currency deposits.

In a further more, the Bank of Korea simplified its system of foreign currency funding facilities by integrating those for the repurchase of export bills and those for the support of overseas branches as funding facilities for short-term foreign currency working capital, operation of which commenced on March 6. At that time, the deposit rates on these facilities were uniformly set at Libor+1.0 per cent, the rate previously applied on the facilities for the support of overseas branches. The Bank also reduced the deposit rate on the facilities for short-term foreign currency working capital by 0.25 of a percentage point on November 26.

On March 15, the Bank of Korea reduced the ceilings on swap facilities provided to foreign banks' branches, which had been increased sharply in the wake of the currency crisis, to the higher of the outstanding of the swap balance held with the Bank of Korea as of February 28 or 50 per cent of the ceiling limit as of the day, in view of the recent reduction in demand for them. Also, the Bank changed the system of calculating the guaranteed profit margin on swap transactions to a formula that reflected market interest rates, specifically yields on one-year Monetary Stabilization Bonds, from one based on the interest rate on Korean won-denominated loans of foreign banks' branches, which was expected to reduce their interest burden.

(2) International Finance Business

Korea's official foreign exchange reserves amounted to 102.8 billion U.S. dollars as of the end of 2001, representing an increase of 6.6 billion U.S. dollars over the previous year-end. This build-up of the reserves, which occurred in spite of the early repayment of borrowings from the IMF, resulted mainly from the Bank of Korea's withdrawal of its foreign currency deposits held with domestic banks in line with the expanded supply condition of foreign currency as the current account surplus and the inflows of foreign investment funds continued. Increased profits accruing from the operation of foreign currency-denominated assets also played a part.

Breaking the reserves down by component, foreign exchange, which comprises both deposits and securities, accounted for the largest share, amounting to 102.5 billion U.S. dollars as of the end of the year under review. This represented increase of 6.6 billion U.S. dollars, while other components such as gold, SDRs and the reserve position in IMF showed relatively little change.

Meanwhile, during the period from January to August of the year under review, the Bank of Korea completed early repayment of the remaining 5.7 billion U.S. dollars of the total of 19.5 billion U.S. dollars borrowed from the IMF in 10 drawings from December 5, 1997 to May 20, 1999. Redemption in full ahead of sched-

<Table 9> Changes in Foreign Exchange Reserves

Unit : million U.S.$

	End of 2000	End of 2001	Change
Foreign Exchange Reserves	96,198.1	102,821.4	6,623.3
Gold	67.6	68.3	0.7
SDRs	3.5	3.3	-0.2
Reserve Position in IMF	271.8	262.2	-9.6
Foreign Exchange	95,855.1	102,487.5	6,632.4

ule signaled the nation's greatly strengthened overseas payments capacity thanks to the large expansion of the foreign exchange reserves since the currency crisis.

During the year under review, the Bank of Korea made payments in Korean won and convertible currencies to international financial institutions to a total value of 63 million U.S. dollars. The Bank subscribed 26.21 million SDRs, equivalent to 33.45 million U.S. dollars, to the International Development Association(IDA); 330,000 U.S. dollars to the Multilateral Investment Guarantee Agency(MIGA); 372.15 million yen, equivalent to 3.05 million U.S. dollars, to the European Bank for Reconstruction and Development(EBRD); 7.07 billion won, equivalent to 5.36 million U.S. dollars, to the African Development Fund (AfDF); and 466.03 million won, equivalent to 360,000 U.S. dollars, to the African Development Bank(AfDB). In addition, the Bank of Korea contributed 870,000 U.S. dollars to the IMF; 23.45 billion won, equivalent to 18.3 million U.S. dollars, to the Asian Development Fund(ADF); and 1.3 million U.S. dollars to the Consultation Trust Fund of the International Bank for Reconstruction and Development(IBRD-CTF).

4. General Business

(1) Loans and deposits

During the year under review, the Bank of Korea's outstanding loans to financial institutions increased by 3,059.2 billion won to stand at 11,085.1 billion won at the end of the year due to a sharp rise in Aggregate Ceiling Credits.

By type of facility, lending classified as Aggregate Ceiling Credits increased by 3,350.1 billion won over the previous year

<Table 10> Loans and Discounts of the Bank of Korea[1)]

Unit : billion won

	Outstanding		Change during	
	2000	2001	2000	2001
Aggregate ceiling credits	7,360.1	10,710.2	-237.0	3,350.1
General loans	25.8	4.9	-50.8	-20.9
Loans for the procurement of fertilizer	370.0	370.0	-	-
Other loans	270.0	-	270.0	-270.0
Total	8,025.9	11,085.1	-1,017.8	3,059.2

Note : 1) Excludes loans to government.

<Table 11> Deposits with the Bank of Korea

Unit : billion won

	Outstanding		Change during	
	2000	2001	2000	2001
Won deposits	15,351.1	12,802.4	185.8	-2,548.7
Reserve deposits by deposit money banks	6,727.9	10,516.7	793.3	3,788.8
Private deposits[1]	174.1	64.9	107.4	-109.2
Deposits by non-residents[2]	8,449.1	2,220.8	-714.9	-6,228.3
Foreign currency deposits	14,907.4	14,546.6	3,233.9	-360.8
Reserve deposits by deposit money banks	1,639.3	885.1	1,411.8	-754.2
Deposits by Foreign Exchange Stabilization Fund	13,268.1	13,661.5	1,822.1	393.4
Total	30,258.5	27,349.0	3,419.6	-2,909.5

Notes : 1) Includes reserve deposits by the Korea Development Bank.
2) Includes won deposits by foreign institutions including IMF.

as the Bank raised the ceiling on Aggregate Ceiling Credits by 4 trillion won to help ease financial difficulties of small and medium-sized companies and to take effective action against a possible economic slowdown in the wake of the terrorist attacks on September 11.

General loans decreased by 20.9 billion won during the year under review, largely reflecting their continuing collection, as new lending has been suspended since March 1994. Fertilizer Account Fund Loans remained at the same level as the previous year, but other loans dropped by 270 billion won owing to the collection of Liquidity Adjustment Loans.

Meanwhile, deposits with the Bank of Korea, which had increased by 3,419.6 billion won in the previous year, showed a decrease of 2,909.5 billion won during the year to stand at 27,349 billion won as of the end of the year. Their decrease was largely attributable to the shift of Korean won deposits from an increase of 185.8 billion won in the previous year to a decrease of 2,548.7 billion won as well as the shift of foreign currency deposits from a rise of 3,233.9 billion won in the previous year to a reduction of 360.8 billion won in the year.

(2) Issuance of Banknotes and Coins

During the year, a total of 31,402.6 billion won in banknotes and coin was issued, and a total of 30,491.5 billion won withdrawn, resulting in a net issuance of 911.1 billion won. Accordingly, the out-

<Table 12> Banknotes and Coins Issued by Denomination[1)]

Unit : billion won and %

	2000	2001			Change
	Outstanding(A)	Issued	Withdrawn	Outstanding(B)	(B-A)
Banknotes	20,316.4 (94.8)	31,273.9	30,468.0	21,122.2 (94.6)	805.8
10,000 won	18,846.3 (88.0)	29,949.1	29,271.1	19,524.3 (87.4)	678.0
5,000 won	611.9 (2.9)	601.2	529.0	684.1 (3.1)	72.2
1,000 won or less	858.2 (4.0)	723.7	667.9	913.9 (4.1)	55.7
Coins	1,108.5 (5.2)	128.7	23.4	1,213.8 (5.4)	105.3
Total	21,424.9 (100.0)	31,402.6	30,491.5	22,336.0 (100.0)	911.1

Note : 1) Figures in parentheses are percentage shares in total banknotes and coins in circulation.

standing issuance of banknotes and coins represented an increase of 4.3 per cent over the previous year to 22,336 billion won at the end of the year.

Broken down by denomination, the shares of banknotes and coins were 94.6 per cent and 5.4 per cent, respectively, resulting in a slight decline in the share of banknotes, particularly the 10,000 won note.

It was also decided in April that 'linked banknotes' consisting of several printed banknotes should be issued following the approval of the government and the Monetary Policy Committee. Firstly, the Bank issued 55,000 sets of linked banknotes(110,000 banknotes), which connect two 1,000 won banknotes, in June. The Bank will diversify the types and numbers of linked banknotes in the future.

In May, the Bank issued seven types of commemorative coins(with a face value of 30,000 won gold coins, 20,000 won gold coins, four different types of 10,000 won silver coins, and 1,000 won gold & copper coins), numbering two hundred and sixty thousand coins in all to mark the '2002 FIFA World Cup Korea/Japan.' As counterfeiting especially for the 5,000 won banknotes had increased sharply, the Bank decided(Aug. 2) to issue a new type of 5,000 won banknote incorporating improved anti-counterfeiting features from June 2002.

(3) Treasury transactions

During the year, Treasury funds received came to 893,599.7 billion won, and those disbursed reached 886,253.1 billion won. The receipts increased by 136,744.4 billion won and disbursement rose by 140,005.1 billion won, resulting in net payment of 3,260.7 billion won. This reduced the year-end figure of govern-

<Table 13> Loans to Government

Unit : billion won

	2000	2001			Change
	Outstanding(A)	Loans	Redemptions	Outstanding(B)	(B-A)
Special Account for Grain Management	410.0	590.0	410.0	590.0	180.0

ment deposits from the 10,607.3 billion won of the previous year to 7,346.6 billion won.

As for loans to government, the Bank of Korea lent a total of 590 billion won to the Special Account for Grain Management on two occasions during the year and in September it collected an earlier long-term loan of 410 billion extended to that same account. As a result, the balance of loans to government at the end of the year increased by 180 billion won over the previous year to stand at 590 billion won.

The Bank of Korea set the overall ceiling on its loans to government in 2002 at 7,824.4 billion won, representing an increase of 3.5 trillion won over the previous year.

The number of Treasury agencies of the Bank and its Treasury collection agencies increased by 2,787 during the year to 10,348 at the end of the year. This was attributable to the Bank's move to allow all member associations of the National Agricultural Cooperative Federation and the National Federation of Fisheries Cooperatives to set up Treasury Collection Offices for the greater convenience of taxpayers in the agricultural and fishery regions. By type of agency, the number of Treasury agencies remained unchanged, and that of Treasury Collection Agencies declined by 39, but that of Treasury Collection Offices increased by 2,826.

Viewing the operation of Treasury funds during the year, meanwhile, the Bank disbursed a total of 31,875.8 billion won, representing an increase of 7,023.9 billion won over the previous year. The total broke down into 11,108.2 billion won in support for the underwriting of national bonds by primary dealers and

<Table 14> Ceilings on Loans to Government

Unit : billion won

	2000	2001 (A)	2002 (B)	Change(B-A)
Ceiling on Temporary Loans	3,644.4	4,324.4	7,824.4	3,500.0

distribution expenses, and 20,767.6 billion won for RP operations.

(4) Securities Operations

During the year, Monetary Stabilization Bonds(MSBs) to the value of 78,033.5 billion won were issued, while MSBs to the value of 65,289.9 billion won were redeemed, resulting in a net emission of 12,743.6 billion won. As a result, MSBs outstanding totaled 79,121.3 billion won, which represented an increase of 19.2 per cent compared with the previous year. This expansion reflected the need to absorb the excess liquidity generated from an increase in Aggregate Ceiling Credits and the balance of payments surplus.

By method of issuance, the full amount of MSBs was issued by public offerings. Those issued by competitive bidding amounted to 51,720.7 billion won with the remaining 26,312.8 billion won being issued by general sale.

Meanwhile, government bills and bonds whose issuance and redemption are handled by the Bank of Korea, registered a total issuance of 25,430 billion won while 16,766 billion won worth was redeemed. This brought the year-end's outstanding balance to 59,619 billion won, an increase of 8,664 billion won over the figure at the preceding year-end. By type of government bills and notes issued, Treasury bonds amounting to 21,830 billion won were issued to raise public funds and Foreign Exchange Stabilization Fund Bonds amounting to 3.6 trillion won were issued to stabilize the exchange rate of the Korean won.

Meanwhile, the volume of the Fungible Issue, a system whereby government bills and bonds are issued with the same maturity period and coupon rate within a specific time frame in order to help create a more active government bond market, amounted to 16,440 billion won, representing 64.6 per cent of government bonds issued during the year.

<Table 15> Issuance and Redemption of Monetary Stabilization Bonds(MSBs)

Unit : billion won

	2000	2001			Change
	Outstanding(A)	Issued	Redemption	Outstanding(B)	(B-A)
Public offerings	66,377.7	78,033.5	65,289.9	79,121.3	12,743.6
Competitive bidding	29,949.3	51,720.7	18,306.2	63,363.8	33,414.5
Over-the-counter sale	36,428.4	26,312.8	46,983.7	15,757.5	-20,670.9

<Table 16> Issuance and Redemption of Government Bills and Bonds[1)]

Unit : billion won

	2000	2001			Change
	Outstanding(A)	Issued	Redemption	Outstanding(B)	(B-A)
Treasury Bonds	42,555.0	21,830.0	13,466.0[2)]	50,919.0	8,364.0
Foreign Exchange Stabilization Fund Bonds	8,399.9	3,600.0	3,300.0	8,699.9	300.0
Public Land Compensation Bonds	0.1	-	-	0.1	-
Total	50,955.0	25,430.0	16,766.0	59,619.0	8,664.0

Notes : 1) Issuance and redemption of the government bills and bonds by the Bank of Korea acting for the government.

2) Includes early redemption of 1,963.0 billion won worth out of the total volume falling due in 2003.

(5) Government Funds Management

The Public Capital Management Fund raised a total of 44,926.1 billion won through the issue of Treasury bonds and deposits from the Post Office and other funds. It placed deposits amounting to 14,497.3 billion won with the Fiscal Financing Special Account, the General Account, and the National Housing Fund. It made payments of 17,495.5 billion won in interest and principal on the Treasury Bonds, and repaid 9,103.7 billion won in interest and principal on the deposits it received, resulting in a net profit of 23.2 billion won for the period. The Fund's assets stood at 95,827.7 billion won as of the end of the year.

The Foreign Exchange Stabilization Fund raised a total of 10,361.7 billion won, consisting of 3.6 trillion won from the issue of Korean-won denominated bonds, 746.1 billion won from interest revenue, and 5,755.8 billion won from the withdrawal of foreign currency deposits. Among the uses of the fund, 4,583 billion won was operated in the form of foreign currency deposits, 19.2 billion won in the form of foreign currency call loans, and 3.3 trillion won was used for the payment of interest and principal on the bonds.

The Fund recorded a net loss of 160.5 billion won for the period mainly as a result of 609 billion won operating loss brought about by the negative operating margin between operating interest rates. The assets of the Foreign Exchange Stabilization Fund amounted to 13,733.4 billion won, a decrease of 751.5 billion won compared to the end of the previous year.

The National Investment Fund, which has only collected existing loans since 1992, gathered 41.5 billion won during the year, consisting of 2.4 billion won from the withdrawal of principal and interest on loans and 32.2 billion won from the sale of investment securities. The Fund utilized 41.4 billion won mainly for the purchase of securities and realized 5.9 billion won in current net income. The scale of its assets stood at 41.7 billion won as of the end of the year, an increase of 6.3 billion won over the end of the previous year.

The Saving Encouragement Fund for Property of Agricultural & Fishing Houses raised a total of 248.6 billion won during the year, consisting principally of contributions of 96.2 billion won from the government and 62.4 billion won from the Bank of Korea. It utilized 188.4 billion won, mainly in the payment of legal subsidies to depositors, and recorded a net profit of 1.3 billion won for the year.

IV. Foreign Exchange Policy of the Government and Financial System Management

1. Foreign Exchange Policy

(1) Continuation of Efforts to Stabilize the Foreign Exchange Market

As most restrictions on foreign exchange and capital transactions were lifted due to the implementation of the second stage of foreign exchange liberalization on January 1, 2001, the government and the Bank of Korea reinforced their efforts for the stability of the foreign exchange market. Real-time monitoring of overall current and capital transactions was implemented through the Foreign Exchange Information Network in order to handle effectively the possibility of abrupt surges in capital flows, should the domestic and foreign economic conditions worsen.

Also, to bolster the system of surveillance against illegal fund transactions, new primary legislation to prevent money laundering came into effect from September 3, including the Financial Transaction Reports Act and the Proceeds of Crime Act. Under these Acts, Korea Financial Intelligence Unit(KoFIU) was set on November 28, and financial institutions are obliged to report to it foreign exchange and capital transactions in connection with which there is suspicion of tax evasion or of money laundering of the proceeds of crime.

In principle, the exchange rate of the Korean won was allowed to fluctuate freely according to demand and supply conditions in the foreign exchange market. However, measures were also employed to smooth abrupt changes in the exchange rate as a result of unsettled market conditions at home or abroad, or temporary imbalances between demand and supply in the foreign exchange market.

To deal with short-term imbalances of demand and supply of funds in the foreign exchange market, a total of 3.6 trillion won worth of Foreign Exchange Stabilization Fund Bonds were newly issued on six occasions during the year to secure funds for the purchase of foreign exchange.

Meanwhile, as the won depreciated sharply from late February onwards, mainly owing to the weakening of the Japanese yen and the spreading of market instability, the Bank of Korea announced the “Foreign Exchange Market Stabilization Measures” on April 5 to soothe the mood of unease gripping foreign exchange market participants.

(2) Expansion of Foreign Exchange Liberalization and Efforts for Its Early Settlement

With the implementation of the second stage of foreign exchange liberalization on January 1, most of the remaining restrictions on foreign exchange and capital transactions were abolished. As a result, the foreign exchange liberalization process that had been pursued in two stages since the announcement of the “Basic Plan for Foreign Exchange Liberalization” in June 1998 was completed.

Back-up measures were also put in place and efforts were made to improve the system so as to facilitate the trouble-free establishment of foreign exchange liberalization. These included the augmentation of the monitoring and surveillance of foreign exchange transactions, and the deferment of some elements of the liberalization program.

The government amended the Foreign Exchange Transaction Regulation on November 16 in order to clarify certain provisions and resolve difficulties that had emerged in the process of implementation of the second stage of foreign exchange liberalization. Firstly, to prevent possibility of their use for irregular transactions such as the unauthorized inducement of foreign capital or the circumvention of the ceiling on companies’ acquisition of their own shares and avoid the insolvency of such funds, the government strengthened supervision-related regulations by converting them from off-shore funds which are classified as a form of portfolio investment into off-shore financial companies which are classified as a form of overseas direct investments. Under the tightened supervisory regime, off-shore financial companies established by financial institutions were automatically made subject to supervisory regulations of the legislation governing that business, which call for, for example, the application of supervisory provisions to subsidiaries, including restrictions on establishment, ceilings on capital participations and credits, and the drawing up of consolidated financial statements.

At the same time, for the convenience of foreign investors in their business activities within Korea, the government raised the ceiling on residents’ lending of Korean won-denominated securities to non-residents from 1 billion won to 5 billion won. It also allowed non-residents to deposit or dispose of funds associated with securities lending & borrowing transactions in the non-residents’ accounts established exclusively for portfolio investment, and eased the requirements for the deposit and disposal of funds in non-residents’ free won accounts.

Beside this, for the convenience of visitors to the 2002 World Cup finals wishing to exchange foreign currencies into Korean won, the government allowed foreign financial institutions and money exchangers to trade Korean won on consignment for domestic banks' overseas branches. At the same time, to help Koreans studying abroad or staying overseas easily carry out money for overseas travel in addition to expenses for their study and stay abroad, they were allowed, like overseas travellers in general, to carry out up to 50,000 U.S. dollars on its declaration to customs.

2. Financial System Management

(1) Restructuring of Financial Institutions

During the year under review, the government pursued its drive toward enlargement of scale and expansion of business scope of financial institutions while unremittingly pressing ahead with the liquidation of non-viable financial institutions. The Korea Deposit Insurance Corporation (KDIC) established Woori Finance Holdings Company, bringing Hanvit, Peace, Kwangju, and Kyongnam Banks, and Hanaro Merchant Banking Corporation under its umbrella. At the same time, the government liquidated non-viable merchant banking corporations, insurance companies, mutual savings and finance companies and credit unions either through merger or the revocation of their license.

Among healthy financial institutions, meanwhile, Kookmin Bank and Housing & Commercial Bank merged to form Kookmin Bank in October, and in September Shinhan Bank and its affiliated companies established Shinhan Financial Group(financial holding company). In the process of financial restructuring, some 27 trillion won in public funds was disbursed during the year under review for the repayment of deposits, recapitalization, compensation for losses, and the purchase of non-performing loans.

A. 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), all of which had been fully recapitalized by KDIC together under Woori Finance Holdings Company. 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 latter's conversion into Woori Credit Card Company in

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 Corporation 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 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 had been sought to either domestic or foreign investors, after they had been designated as “ailing financial institutions” in 2000, the government revoked the licenses of Hyundai and Samshin Allstate Life Insurance Companies in November, which had previously been consolidated into Korea Life Insurance Company in April on a P&A basis. It also decided the exit of Hanil Life Insurance Company on a P&A basis. After appraisal of 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 against them including the issue of management improvement requirements or management improvement orders.

Along with this, the government during the year liquidated or engineered the merger of 24 mutual savings and finance companies and 49 credit unions which had 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 other foreign investors. Besides this, it was decided to dispose of Daishin Life and Daehan, Kukje, Regent Non-life Insurance Companies, which had failed to carry out prompt corrective actions as required 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 bank-

<Table 17>Changes in the Number of Financial Institutions[1] during 1998~2001

	Number of institutions at the end of 1997	1998~2000			2001			Number of institutions at the end of 2001
		Exit[2]	Merger[3]	Newly established	Exit[2]	Merger[3]	Newly established	
Banks	33	5	6	-	-	2[4]	-	20
Merchant banking corporations	30	18	3	1	4	3[5]	-	3
Securities companies	36	6	1	14	-	-	3	46
Investment trust (management) companies	31	6	1	3	-	-	3	30
Life insurance companies[6]	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 financial 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 three merchant banking corporations ceased to exist following the mergers.
6) Excluding Postal Insurance.

ing system. Kookmin Bank and Housing & Commercial Bank merged in October with the successor bank being termed Kookmin Bank, and in September Shinhan Bank, Shinhan Securities Company, Shinhan Capital Company, and Shinhan Investment Trust Management Company established Shinhan Financial Group(financial holding company).

B. 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.

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 had been depleted and 0.1

<Table 18> Public Funds Injected in 2001[1)]

Unit : billion won

	KDIC	Repayment of deposits	Recapitalization	Compensation for losses[2)]	Purchase of assets	KAMCO	Total
Banks	4,969	-	1,254	3,119	596	1,681	6,651
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	1,956
Merchant banking corporations	8,245	7,043	1,202	-	-	37	8,283
Securities companies	-	-	-	-	-	-	-
Insurance companies	8,056	-	7,100	956	-	35	8,092
Investment trust management companies	-	-	-	-	-	△17[3)]	△17
Mutual saving & finance companies · Credit unions	3,791	3,343	-	448	-	69	3,859
Others	-	-	-	-	-	149[4)]	149
Total	25,061	10,386	9,557	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.

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 for losses sustained by Hanvit, Peace, Kwangju, Kyongnam, Seoul, and Cheju Banks. The KDIC also contributed or loaned a total of 1.5 trillion won to four insurance companies including Korea Life Insurance, and to the 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.

Viewing assistance from public fund by type of financial institution during 2001, 8.3 and 8.1 trillion won in public funds respectively was injected into merchant banking corporations and insurance companies, 6.7 trillion won into banks, and 3.9 trillion won into mutual savings and finance companies and credit unions.

(2) Legislative Activity in the Financial Field

During 2001, 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 mutual savings and finance companies and credit card companies, and bolster prudential regulations concerning credit-specialized financial companies.

A. 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, a system was put in place to allow the setup of real estate investment companies for corporate restructuring and the period of corporate reorganization proceedings was shortened.

The Corporate Restructuring Promotion Act(which came into force on Sept. 15, 2001; subsequent dates in parentheses are dates of entry into effect) is to remain in effect as a temporary measure until the end of 2005, 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 that 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 gross credit outstanding to the company. Meanwhile, creditor financial institutions opposing the decision for joint management by creditor financial institutions, the readjustment of claims, 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 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 the 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 the Banking Act shall not apply.

To help financial institutions gauge the credit risk of companies accurately through greater transparency in corporate accounting, the Corporate Restructuring Promotion Act also calls for corporations with debts of at least 50 billion won or assets of at least 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 real estate investment companies for corporate restructuring 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 disposed by companies for the repayment of debts to financial institutions, or in accordance with an agreement to improve financial structure, or under a plan for a company's reorganization 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 duly approved by the Minister of Construction and Transportation is given responsibility for the management of the real estate investment company's assets.

In addition, the government revised the Company Reorganization Act(April 7, 2001) to shorten the period for the submission of a corporate reorganization plan so as to reduce the possibility of increasing the corporate liabilities due to the delay in corporate reorganization. Specifically, the creditors and shareholders may have submitted a corporate reorganization plan after the first meeting of interested persons in the past, but any creditor holding claims amounting to at least 50 per cent of the company's liabilities may submit a reorganization plan at the same time when applying for the corporate reorganization process.

B. 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 corporations 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 a responsibility for investment trust management companies to compensate investors for damages.

Under the revised Securities and Exchange Act(April 1, 2001) and its associated Enforcement Decree(July 7, 2001), registered companies, 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 of 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 because of the company's violation of the relevant legislation or the articles of the trust agreement or its negligence in carrying out its businesses.

In a further move, the government revised the Securities Investment Company Act(March 28, 2001). Under the amended Act, securities investment companies are required to prepare and provide an asset operation report to the shareholders in the form stipulated in the associated Enforcement Decree.

In addition, it enacted the Act Concerning the Structural Improvement of the National Agricultural Cooperative Federation(Dec. 13, 2001). The insurance premium of the National Agricultural Cooperative Federation(NACF) and member cooperatives was included among the deposit instruments covered by the Mutual Credit Depositor Protection Fund. Method of raising the fund's resources was expanded from the collections of insurance premiums, and contribution from the government and the NACF to the borrowings from the government, the Bank of Korea, the NACF and financial institutions, and bond issuance.

C. Improvement of Governance Structure of Non-Bank Financial Institutions

The government introduced the system of outside directors and audit committee to large mutual saving and finance companies and credit card companies to strengthen the management oversight function of the board of directors.

The government revised the Mutual Savings and Finance Company Act(June 29, 2001) and its associated Enforcement Decree(June 30, 2001). These call for mutual savings and finance companies with total assets of at least 300 billion won to designate outside directors for not less than half of the total board membership and to set up an audit committee on which outside directors should make up at least 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 at least 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 unfailingly propose candidates put forward by minority shareholders whose holdings make up at least 1 per cent of the equity capital.

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 more than 3 per cent of the equity capital are to be limited to 3 per cent, and an outside director should serve as chairman of the audit committee.

In addition, to facilitate the management oversight function of minority shareholders on large mutual savings and finance companies and credit card companies, the Mutual Savings and Finance Company Act(June 29, 2001) and its Enforcement Decree(June 30, 2001) and the Specialized Credit Financial Business Act(June 29, 2001) and its Enforcement Decree(June 30, 2001) were revised. For mutual savings and finance companies with total assets of at least 300 billion won and credit card companies with total assets of not less than 2 trillion won, the minimum requirements for exercising the rights of minority shareholders were eased to 1/200~1/2 of those described in the Commercial Act.

D. Strengthening Regulations Concerning the Soundness of Non-bank Financial Institutions

In 2001, regulations were strengthened concerning the soundness of non-bank financial institutions including 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 for the management soundness of credit-specialized financial companies as provided under the Act's Enforcement Decree and require prompt corrective actions against companies whose financial status no longer reached a certain level. In relation to compliance with 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, the Minister of Agriculture and Forestry is entitled to designate ailing member cooperatives and member cooperatives showing symptoms of insolvency, and impose management improvement recommendations, requirements, or orders on the said member cooperatives including the censure of the executives and officers, the suspension of its business, the transfer of its contracts and its amalgamation.

V. Financial Status and Organizational Changes

1. Financial Status

(1) Assets

Total assets of the Bank of Korea, as of the end of the year under review, amounted to 172,442.3 billion won, representing a rise of 16,408.6 billion won over the previous year-end. By item, its securities holdings and loans on bills increased, but its deposits holdings contracted.

Securities holdings during the year rose by 14,613.4 billion won. This was mainly due to an increase of 14,916.7 billion won in holdings of foreign currency denominated securities, which also reflected a rise in the foreign exchange reserves. Holdings of government and public bonds decreased by 303.3 billion won owing to the redemption at maturity of Foreign Exchange Stabilization Fund Bonds. Loans on bills, meanwhile, were increased by 3,059.2 billion won due to the expansion of Aggregate Ceiling Credits.

The Bank's fixed assets grew by 298 billion won, chiefly owing to the revaluation of the Bank's capital contribution to international financial organizations.

Due from banks, however, decreased by 1,914.3 billion won in a development largely attributable to the Bank's collection of its deposits with domestic banks.

(2) Liabilities and Capital

Total liabilities of the Bank, as of the end of 2001, stood at 163,193 billion won, representing an increase of 13,256.7 billion won over the previous year-end. By type of liability, Monetary Stabilization Bonds(MSBs) issued, securities under repurchase agreements, and currency issued expanded, but government deposits and all deposits contracted.

MSBs issued increased by 12,743.6 billion won since they were used as the main instrument for absorbing the liquidity arising from the expansion of Aggregate Ceiling Credit and the implementation of the government's supplementary budget. Currency issued also increased by 911.1 billion won owing to an expansion in the scale of transaction volumes.

Deposits decreased by 2,909.4 billion won due to the repayment of borrowings from the IMF. The exchange revaluation reserve also fell by 1,095.1 billion won as the Korean won appreciated against the Japanese yen and the euro.

The Bank's capital, at the end of the year, amounted to 9,249.3 billion won, representing a rise of 3,151.9 billion won. This increase, which occurred despite the Bank's payment of 1 trillion won of its

<Table 19> Financial Status

Unit : billion won

	2000	2001	Change
Assets	156,033.7	172,442.3	16,408.6
Current Assets	151,019.6	167,130.1	16,110.5
Cash	5.7	179.1	173.4
Gold and silver bullion	79.3	84.4	5.1
Holdings of SDRs	4.4	4.4	0.0
Securities	120,244.1	134,857.5	14,613.4
Due from banks	17,560.7	15,646.4	-1,914.3
Loans against bills	8,025.9	11,085.1	3,059.2
Securities bought under repurchase agreement	147.0	364.2	217.2
Loans to government	410.0	590.0	190.0
Loans to international financial institutions	92.6	90.6	-2.0
Other current assets	4,449.9	4,228.3	-221.6
Fixed Assets	5,014.2	5,312.2	298.0
Liabilities and Capital	156,033.7	172,442.3	16,408.6
Liabilities	149,936.3	163,193.0	13,256.7
Current liabilities	149,319.3	162,687.1	13,367.8
Currency issued	21,424.9	22,336.0	911.1
Monetary Stabilization Bonds issued	66,377.7	79,121.3	12,743.6
Government deposits	10,607.3	7,346.6	-3,260.7
Deposits	30,258.5	27,349.1	-2,909.4
Allocation of SDRs	118.8	119.6	0.8
Securities sold under repurchase agreements	5,625.0	11,521.6	5,896.6
Other current liabilities	14,907.2	14,892.8	-14.4
(Exchange revaluation reserve)	(13,856.8)	(12,761.7)	(-1,095.1)
Long-term liabilities	617.0	505.9	-111.1
Allowances	131.6	14.9	-116.7
Liabilities to international financial institutions	485.5	491.0	5.5
Capital	6,097.4	9,249.3	3,151.9
Legal reserve	1,113.1	1,261.5	148.4
Voluntary reserve	3,500.8	3,773.5	272.7
Undivided profit surplus	1,483.4	4,214.3	2,730.9
(Net profit for the period)	(1,483.4)	(4,214.3)	(2,730.9)

undivided profit surplus for 2000 into the government's General Revenue Account, was attributable to the generation of net profits amounting to 4,214.3 billion won during the year.

Viewing the details of the distribution of the undivided profit surplus for 2001 of 4,214.3 billion won, which was established at the end of February 2002, 421.4 billion won was allocated to the legal reserve, 30.8 billion won to the voluntary reserve for the purpose of the Bank's contribution to savings promotion funds for farming and fishing households, and the remaining 3,762.1 billion was passed into General Revenue Account of the government.

(3) Income and Expenses

For the year under review, the net profit of the Bank of Korea came to 4,214.3 billion won, an increase of 2,730.9 billion won from the previous year(1,483.4 billion won). The large increase was chiefly attributable to a sharp rise in profits on foreign exchange transactions coupled with a sizable increase in profits arising from transactions in foreign currency securities and from interest income on foreign currency securities.

Total operating income increased by 3,739.1 billion won from the previous year to 12,548.8 billion won. Profit on foreign exchange transactions rose by 2,204.4 billion won owing to the depreciation of the Korean won against the U.S. dollar(1,130.61 won per dollar → 1,290.83 won).

Interest received on securities rose by 1,059.2 billion won from the previous year to stand at 5,979.3 billion won due to the increase in holdings of foreign currency denominated securities(average balance 77 billion U.S. dollars → 91.8 billion U.S. dollars), which offset a contraction in holdings of government and public bonds(average balance 6,763.3 billion won → 6,247.6 billion won).

Profit on sales of securities increased by 1,566.4 billion won from the previous year owing to a rise in the sales volume of foreign currency denominated securities. On the other hand, interest on deposits declined by 1,072.2 billion won from the previous year to 912.6 billion won as a result of the contraction of the average deposit balance(28.2 billion U.S. dollars → 16.8 billion U.S. dollars) as well as a decline in international interest rates.

Meanwhile, total operating expenses stood at 6,424.5 billion won, a decrease of 270.5 billion won over the previous year. By item, interest on deposits decreased by 204.1 billion won from the previous year due to the lowering of the interest rate on deposits with the Foreign Exchange Stabilization Fund(annual average 6.81 per cent → 4.54 per cent) following a drop in international interest rates. Interest payments on securities sold under repurchase agreements, similarly, decreased by 130.3 billion won owing to the lowering of the interest rate paid on the securities(annual average 5.70 per cent → 3.21 per cent).

Miscellaneous interest paid decreased by 235.4 billion won from the previous year due to a reduction in interest payments on drawings from the IMF.

Interest on MSBs increased by 207.3 billion won from the previous year to stand at 4,873 billion won due to the increase in their average outstanding balance (62,841.5 billion won → 74,055.5 billion won).

<Table 20> Income Statement

Unit : billion won

	2000	2001	Change
Operating income	8,809.7	12,548.8	3,739.1
Interest and discounts received	7,440.8	7,369.3	-71.5
Interest on securities	4,920.1	5,979.3	1,059.2
Interest on deposits	1,984.8	912.6	1,072.2
Interest on loans against bills	266.1	294.9	28.8
Interest on securities bought under resale agreements	157.4	65.2	-92.2
Interest on loans to government	19.0	21.4	2.4
Interest on loans to international financial institutions	3.9	3.9	0.0
Miscellaneous interest received	89.5	92.0	2.5
Commissions received	37.6	68.9	31.3
Profit on sales of securities	493.5	2,059.9	1,566.4
Profit on foreign exchange transactions	837.8	3,042.2	2,204.4
Other operating income	0.0	0.0	0.0
Operating expenses	6,695.0	6,424.5	-270.5
Interest and discounts paid	6,337.4	5,974.9	-362.5
Interest on deposits	831.5	627.4	-204.1
Interest on Monetary Stabilization Bonds issued	4,665.7	4,873.0	207.3
Interest on securities sold under repurchase agreements	463.0	332.7	-130.3
Miscellaneous interest paid	377.2	141.8	-235.4
Other interest and discounts paid	0.0	0.0	0.0
Commissions paid	21.3	30.1	8.8
Loss on sales of securities	15.1	88.7	73.6
Banknote and coin manufacturing expenses	108.3	109.7	1.4
Provision for severance pay	24.9	11.3	-13.6
General and administrative expenses	170.6	189.4	18.8
Other operating expenses	17.4	20.4	3.0
Net operating income	2,114.7	6,124.3	4,009.6
Net non-operating profit[1]	12.7	22.5	9.8
Net non-operating expenses[2]	25.8	18.4	-7.4
Net profit before taxes	2,101.6	6,128.4	4,026.8
Taxes	618.2	1,914.1	1,295.9
Net profit for the period	1,483.4	4,214.3	2,730.9

Notes : 1) Includes extraordinary gains.
2) Includes extraordinary losses.

2. Organizational Changes

As the restructuring of organization which had commenced in May 1998 had become firmly established, the Bank of Korea augmented or expanded those functions necessary for its operations during the year under review.

Viewing the details of organizational changes in its headquarters, the Bank built Information Systems Disaster Recovery System within Daejeon Branch in July 2001 to maintain the continuity of its computerization business in the event of emergency or disaster. The Bank also established the Information Systems Disaster Recovery Team(April 19) within Information Systems Management Department and gave it exclusive responsibility for handling these duties.

In keeping with the opening of the Bank of Korea Museum(June 13) at Head Office, the Bank established Museum Research Team, which is responsible for research and study related to display materials and operation of the museum within Public Information Office of Budget and Management Department.

To improve the quality of statistics released by the Bank of Korea, the Bank also set up(July 13) the ‘Advisory Committee for Data Quality Assessment,’ which is made up of officials having work experience and expertise in this field.

The Bank established Financial Stability Analysis Team(April 19) within Banking Institutions Department to analyze the stability of the financial system. At the same time, for research and study on major topics related to international financial systems, the Bank set up International Financial System Team permanently(Sept. 7), abolishing the temporarily-constituted International Financial System Research Team.

In the case of the branches, the Bank dispatched officials to handle with economic monitoring business to the Planning and Research Divisions of 12 branches—Busan, Daegu, Gwangju, Jeonju, Daejeon, Cheongju, Chuncheon, Incheon, Jeju, Suwon, Changwon, and Ulsan—as a means of strengthening its function in research and study of regional economies.

As for its overseas representative offices, the Bank established the Foreign Currency Asset Operation Desk(Sept. 7) at New York Representative Office for the more efficient operation of Korea’s holdings of foreign currency assets, which have been on a steady rise.

Meanwhile, the Bank of Korea abolished(March 23) Strategic Planning Team, which had been temporarily established within Budget and Management Department to map out the Bank’s mid and long-term development strategies.

As of the end of the year under review, the Bank's organization consisted of fourteen departments—twelve departments and two offices—and ten offices attached to departments and reporting to assistant governors at Head Office. It also had sixteen domestic branches in Seoul and provincial regions(fifty divisions and three representative offices), and five overseas representative offices. Meanwhile, the number of employees of the Bank decreased by five to 2,078 at the end of 2001 over the previous year-end.

Members of the Monetary Policy Committee

December 31, 2001

Chol-Hwan Chon	(Governor of the Bank of Korea)
Jong-Yong Yoon	(Recommended by the Chairman of Korea Securities Dealers Association)
Seung-Woo Chang	(Recommended by the Chairman of Korea Federation of Banks)
Eui-Gak Hwang	(Recommended by the President of the Korea Chamber of Commerce and Industry)
Yung-Joo Kang	(Recommended by the Minister of Finance and Economy)
Won-Tai Kim	(Recommended by the Governor of the Bank of Korea)
Nam-Koong, Hoon	(Recommended by the Chairman of the Financial Supervisory Commission)

Executives of the Bank of Korea

December 31, 2001

Title	Name
Governor	Chol-Hwan Chon
Deputy Governor	Cheul Park
Assistant Governor	Seong-Tae Lee
Assistant Governor	Hyung-Moon Kang
Assistant Governor	Sung-Il Lee
Assistant Governor	Chang-Ho Choi
Assistant Governor	Jae-Ouk Lee
Auditor	Woo-Suk Kim

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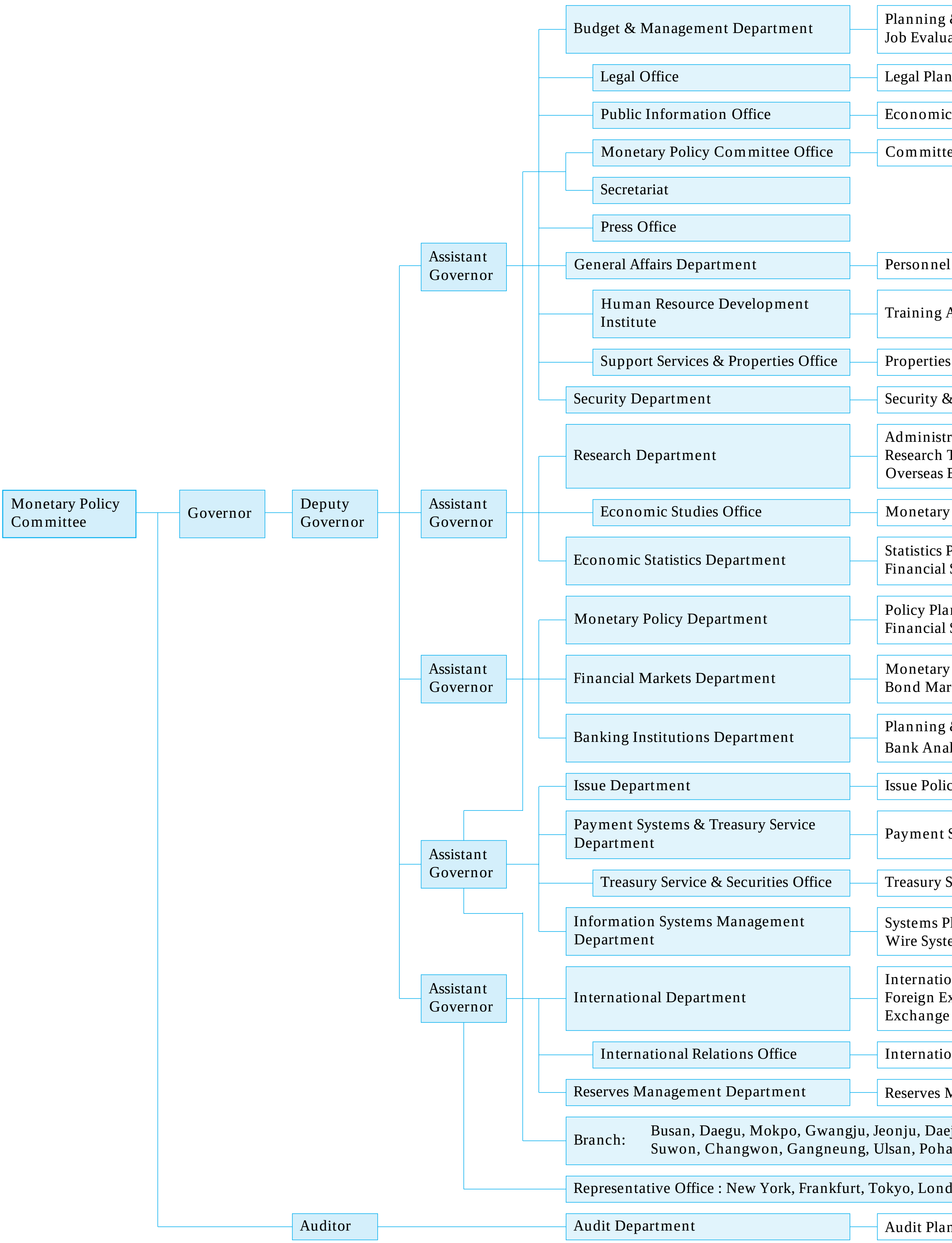

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& Coordination Team, Planning & Budget Team, Organization & Development Team, Accounting System Team, Expense Accounting Team,
tion Team

ning Team, Legal Application Team

Information Team, Information Service Team, Museum Research Team

e Administration Team, Committee Member Assistance Team

Management Team, Payroll & Welfare Team, Labor & Management Cooperation Team, Staff Counselling Team

dministration Team, Training Planning Team, Training Management Team, Instruction & Research Team

Administration Team, Facilities Administration Team, Support Services Team

Emergency Planning Team, Guard Team

ative Service Team, Economic Forecasting Team, Monetary Analysis Team, Banking & Fiscal Analysis Team, Financial System Team, Inflation
eam, Economic Activities Team, Industry Analysis Team, Regional Economies Team, International Trade Team, International Finance Team,
conomic Information Team, North Korean Economic Studies Team, Library

Studies Team, Finance Studies Team, International Economics Team, Microeconomics Team, Macroeconomic & Quantitative Studies Team

lanning & Development Team, Monetary & Financial Statistics Team, Flow of Funds Statistics Team, Balance of Payments Statistics Team,
tatement Analysis Team, Price Statistics Team, National Income Statistics Team, Input-Output Statistics Team

nning & Coordination Team, Reserves & Credit Policy Team, Finance & Economy Analysis Team, Policy Analysis & Assessment Team,
ystems Planning & Analysis Team, Policy Cooperation Team, Policy Research Team

Affairs Team, Market Operations Team, Financial Markets Analysis Team, Money Market Analysis Team, Stock Market Analysis Team,
ket Analysis Team, Corporate Finance Analysis Team

& Analysis Team, External Relations Team, Banking Research Team, Analysis Development Team, Financial Stability Analysis Team,
ysis Team Ⅰ·Ⅱ·Ⅲ·Ⅳ

y Team, Cash Planning Team, Cash Processing Division, Verification & Counting Division

ystems Planning Team, Payment Systems Management Team, Electronic Banking Team, Loans & Settlement Service Division

ervice Division, Securities Division

anning Team, Systems Management Team, Server, PC & Network Team, Accounting Systems Team Ⅰ, Accounting Systems Team Ⅱ, BOK-
ms Team, Information Systems Team, Foreign Exchange Information Systems Team, Information Systems Disaster Recovery Team

nal Finance Planning Team, International Finance Research Team, Foreign Exchange Business Team, Foreign Exchange Review Division,
change Market Team, Foreign Exchange Monitoring Team, Foreign Exchange Analysis Team, External Debt Analysis Team, Foreign
Information Team

nal Cooperation Team, Central Bank Cooperation Team, International Organizations Team, International Financial System Team

anagement Planning Team, Risk Management Team, Settlement & Systems Service Team, Reserves Management Team Ⅰ·Ⅱ·Ⅲ

eon, Cheongju, Chuncheon, Incheon, Jeju,
ng, Gangnam

General Affairs Division, Planning & Research Division, Business Division, Cash Processing
Division, Verification & Counting Division, Representative Office

on, Hong Kong

ning Team, Audit Team Ⅰ·Ⅱ·Ⅲ·Ⅳ·Ⅴ·Ⅵ

The Organization of the Bank of Korea

(As of the end of 2001)

- Monetary Policy Committee
- Governor
- Deputy Governor
- Assistant Governor (×5)
- Auditor

Budget & Management Department	Planning & Coordination Team, Planning & Budget Team, Organization & Development Team, Accounting System Team, Expense Accounting Team, Job Evaluation Team
Legal Office	Legal Planning Team, Legal Application Team
Public Information Office	Economic Information Team, Information Service Team, Museum Research Team
Monetary Policy Committee Office	Committee Administration Team, Committee Member Assistance Team
Secretariat	
Press Office	
General Affairs Department	Personnel Management Team, Payroll & Welfare Team, Labor & Management Cooperation Team, Staff Counselling Team
Human Resource Development Institute	Training Administration Team, Training Planning Team, Training Management Team, Instruction & Research Team
Support Services & Properties Office	Properties Administration Team, Facilities Administration Team, Support Services Team
Security Department	Security & Emergency Planning Team, Guard Team
Research Department	Administrative Service Team, Economic Forecasting Team, Monetary Analysis Team, Banking & Fiscal Analysis Team, Financial System Team, Inflation Research Team, Economic Activities Team, Industry Analysis Team, Regional Economies Team, International Trade Team, International Finance Team, Overseas Economic Information Team, North Korean Economic Studies Team, Library
Economic Studies Office	Monetary Studies Team, Finance Studies Team, International Economics Team, Microeconomics Team, Macroeconomic & Quantitative Studies Team
Economic Statistics Department	Statistics Planning & Development Team, Monetary & Financial Statistics Team, Flow of Funds Statistics Team, Balance of Payments Statistics Team, Financial Statement Analysis Team, Price Statistics Team, National Income Statistics Team, Input-Output Statistics Team
Monetary Policy Department	Policy Planning & Coordination Team, Reserves & Credit Policy Team, Finance & Economy Analysis Team, Policy Analysis & Assessment Team, Financial Systems Planning & Analysis Team, Policy Cooperation Team, Policy Research Team
Financial Markets Department	Monetary Affairs Team, Market Operations Team, Financial Markets Analysis Team, Money Market Analysis Team, Stock Market Analysis Team, Bond Market Analysis Team, Corporate Finance Analysis Team
Banking Institutions Department	Planning & Analysis Team, External Relations Team, Banking Research Team, Analysis Development Team, Financial Stability Analysis Team, Bank Analysis Team Ⅰ·Ⅱ·Ⅲ·Ⅳ
Issue Department	Issue Policy Team, Cash Planning Team, Cash Processing Division, Verification & Counting Division
Payment Systems & Treasury Service Department	Payment Systems Planning Team, Payment Systems Management Team, Electronic Banking Team, Loans & Settlement Service Division
Treasury Service & Securities Office	Treasury Service Division, Securities Division
Information Systems Management Department	Systems Planning Team, Systems Management Team, Server, PC & Network Team, Accounting Systems Team Ⅰ, Accounting Systems Team Ⅱ, BOK-Wire Systems Team, Information Systems Team, Foreign Exchange Information Systems Team, Information Systems Disaster Recovery Team
International Department	International Finance Planning Team, International Finance Research Team, Foreign Exchange Business Team, Foreign Exchange Review Division, Foreign Exchange Market Team, Foreign Exchange Monitoring Team, Foreign Exchange Analysis Team, External Debt Analysis Team, Foreign Exchange Information Team
International Relations Office	International Cooperation Team, Central Bank Cooperation Team, International Organizations Team, International Financial System Team
Reserves Management Department	Reserves Management Planning Team, Risk Management Team, Settlement & Systems Service Team, Reserves Management Team Ⅰ·Ⅱ·Ⅲ
Branch: Busan, Daegu, Mokpo, Gwangju, Jeonju, Daejeon, Cheongju, Chuncheon, Incheon, Jeju, Suwon, Changwon, Gangneung, Ulsan, Pohang, Gangnam	General Affairs Division, Planning & Research Division, Business Division, Cash Processing Division, Verification & Counting Division, Representative Office
Representative Office : New York, Frankfurt, Tokyo, London, Hong Kong	
Audit Department	Audit Planning Team, Audit Team Ⅰ·Ⅱ·Ⅲ·Ⅳ·Ⅴ·Ⅵ

Main Economic Indicators

Main Economic Indicators

	Unit	1997	1998	1999	2000	2001	2001.1	2001.2
Money[1]								
Reserve money								
<Period-Averages>	billion won	21,116.0	19,593.0	21,961.7	26,357.0	29,375.9	29,902.6	28,255.5
	%	(-15.0)	(-7.2)	(12.1)	(20.0)	(11.5)	(15.1)	(8.6)
<End of period>	billion won	22,519.3	20,703.0	28,486.7	28,238.1	32,826.9	30,974.3	29,053.8
	%	(-12.5)	(-8.1)	(37.6)	(-0.9)	(16.3)	(16.4)	(15.4)
M2								
<Period-Averages>	billion won	189,819.5	225,829.1	288,939.2	376,190.5	435,104.1	416,632.1	412,823.4
	%	(19.2)	(19.0)	(27.9)	(30.2)	(15.7)	(25.9)	(20.4)
<End of period>								
	billion won	203,531.5	258,538.4	329,317.4	413,048.8	466,785.8	412,555.9	409,959.4
	%	(14.1)	(27.0)	(27.4)	(25.4)	(13.0)	(23.6)	(18.4)
MCT								
<Period-Averages>	billion won	355,570.5	382,413.1	411,681.5	470,778.5	518,151,.7	496,389.7	495,831.8
	%	(15.3)	(7.5)	(7.7)	(14.4)	(10.1)	(13.1)	(10.2)
<End of period>	billion won	377,499.4	394,389.7	437,486.5	493,012.7	553,349.3	492,655.3	494,090.2
	%	(11.5)	(4.5)	(10.9)	(12.7)	(12.3)	(11.7)	(9.3)
M3								
<Period-Averages>	billion won	659,019.0	750,850.5	835,924.5	882,764.3	967,324.9	920,926.7	928,520.7
	%	(16.3)	(13.9)	(11.3)	(5.6)	(9.6)	(8.2)	(8.4)
<End of period>	billion won	700,285.4	787,627.3	850,827.8	911,641.8	1,017,715.3	919,051.9	931,646.0
	%	(13.9)	(12.5)	(8.0)	(7.1)	(11.6)	(7.7)	(8.0)
Interest rates								
Call market rate(overnight)[2]	percent per annum	13.2	14.9	4.9	5.1	4.7	5.3	5.1
Yields on corporate bonds[3]	〃	13.4	15.0	8.9	9.3	7.1	7.8	6.8
General loan[4]	〃	14.6	11.3	8.6	8.4	6.9	8.5	8.3
Ratio of dishonored checks[5]	%	0.40	0.38	0.33	0.26	0.23	0.32	0.31
G D P[6]	%	5.0	-6.7	10.9	9.3	3.0	-	-
Private Consumption	〃	3.5	-11.7	11.0	7.9	4.2	-	-
Construction Investment	〃	2.3	-10.1	-10.3	-4.1	5.8	-	-
Equipment Investment	〃	-8.7	-38.8	36.3	35.3	-9.8	-	-
Exports of goods and services	〃	21.4	14.1	15.8	20.5	1.0	-	-
Imports of goods and services	〃	3.2	-22.1	28.8	20.0	-2.8	-	-
Agriculture, Forestry & Fishing	〃	4.6	-6.6	5.4	2.0	1.4	-	-
Manufacturing	〃	6.6	-7.4	21.0	15.9	1.7	-	-
Electricity, Gas & Water	〃	11.5	0.6	10.4	14.0	5.7	-	-
Construction	〃	1.4	-8.6	-9.1	-3.1	5.6	-	-
Services	〃	5.4	-7.2	11.9	9.5	4.1	-	-

Notes : 1) Figures in parenthesis are rates of increase compared with the same period of the previous year.
2) Period-average, based on intermediated transactions, except from Nov. 28, 1997 the call-market trades of investment trust companies.
3) Bonds with three-year maturity, period-average.

2001.3	2001.4	2001.5	2001.6	2001.7	2001.8	2001.9	2001.10	2001.11	2001.12
27,950.5	28,318.4	28,888.9	28,053.1	28,844.4	28,888.9	29,913.1	31,508.1	30,859.2	31,707.5
(11.4)	(11.2)	(13.3)	(9.6)	(8.9)	(10.5)	(7.2)	(16.1)	(13.7)	(14.0)
30,740.4	30,259.1	29,529.8	27,674.2	30,634.1	29,568.9	33,107.6	30,875.5	30,334.1	32,826.8
(23.9)	(16.8)	(15.8)	(3.7)	(11.0)	(12.3)	(23.9)	(11.6)	(8.6)	(16.3)
415,384.5	420,042.7	427,459.3	430,559.5	436,824.4	439,782.0	447,454.8	451,335.5	455,977.2	467,387.0
(18.1)	(16.3)	(16.0)	(13.9)	(13.2)	(12.8)	(12.8)	(14.0)	(13.4)	(13.8)
413,527.8	423,136.9	426,912.3	434,894.9	436,159.0	440,619.3	457,839.4	450,348.3	458,871.2	467,577.2
(17.9)	(15.3)	(15.1)	(14.5)	(12.8)	(12.0)	(16.5)	(12.7)	(13.1)	(13.2)
499,685.3	503,329.8	509,631.1	512,192.5	518,859.3	522,328.5	529,819.9	535,107.4	541,318.8	553,424.6
(9.5)	(8.7)	(9.5)	(8.6)	(8.7)	(9.0)	(9.3)	(10.7)	(11.2)	(12.3)
497,848.7	505,826.4	509,476.0	517,043.0	518,729.5	522,543.0	540,852.2	535,103.7	544,484.3	554,019.9
(9.3)	(8.5)	(9.6)	(9.4)	(8.7)	(8.3)	(12.6)	(10.2)	(11.3)	(12.4)
934,036.4	939,345.9	946,229.5	955,894.2	969,577.9	981,556.2	994,272.6	1,005,363.6	1,011,586.1	1,020,588.8
(7.9)	(7.7)	(8.2)	(8.8)	(9.8)	(10.3)	(10.7)	(11.8)	(11.4)	(11.3)
932,271.4	937,726.8	949,992.3	961,911.4	972,028.9	983,742.9	1,004,629.6	1,005,570.4	1,011,009.5	1,017,715.3
(7.8)	(6.9)	(8.4)	(9.4)	(9.5)	(9.7)	(12.1)	(11.4)	(10.8)	(11.6)
5.0	5.0	5.0	5.0	4.8	4.6	4.3	4.0	4.0	4.0
7.2	7.9	7.7	7.2	7.0	6.5	6.3	6.3	6.8	7.1
8.3	8.1	8.0	7.9	7.8	7.4	7.3	7.1	6.9	6.9
0.34	0.28	0.21	0.21	0.24	0.25	0.11	0.23	0.13	0.15
3.7	-	-	2.9	-	-	1.9	-	-	3.7
1.5	-	-	4.1	-	-	4.8	-	-	6.6
1.5	-	-	1.1	-	-	8.2	-	-	10.7
-8.4	-	-	-11.2	-	-	-15.7	-	-	-3.1
9.0	-	-	0.7	-	-	-4.1	-	-	-1.1
0.2	-	-	-7.2	-	-	-5.5	-	-	1.1
-4.1	-	-	3.5	-	-	1.3	-	-	1.5
4.5	-	-	2.2	-	-	-1.7	-	-	2.1
7.5	-	-	4.7	-	-	4.3	-	-	6.0
2.4	-	-	1.5	-	-	7.6	-	-	9.5

4) Average lending rate of deposit money bank, on new lending, annual figures are based on the end month of the year.
5) Nationwide dishonored value basis.
6) Compared with the same period of the previous year, figures for the 3rd, 6th, 9th & 12th months are rates of increase on a quarterly basis.

	Unit	1997	1998	1999	2000	2001	2001.1	2001.2
Price Index[7]								
Consumer price	%	4.4	7.5	0.8	2.3	4.1	3.4	3.6
	〃	(6.6)	(4.0)	(1.4)	(2.8)	(3.2)	(1.1)	(0.5)
Producer price	〃	3.9	12.2	-2.1	2.0	1.9	2.3	2.4
	〃	(9.6)	(3.6)	(0.9)	(1.7)	(-0.7)	(0.5)	(0.2)
Employment								
Number of the person employed	thousand persons	21,106	19,994	20,281	21,061	21,362	20,286	20,196
Number of the person unemployed	〃	556	1,461	1,353	889	819	982	1,069
Unemployment rate	%	2.6	6.8	6.3	4.1	3.7	4.6	5.0
Wages[8]								
All industry	thousand won	1,463,300	1,426,797	1,599,210	1,727,339	1,824,826	1,992,025	1,665,876
	%	(7.0)	(-2.5)	(12.1)	(8.0)	(5.6)	(21.2)	(-1.9)
Manufacturing	thousand won	1,326,241	1,284,477	1,475,500	1,601,468	1,702,350	1,930,656	1,544,362
	%	(5.2)	(-3.1)	(14.9)	(8.5)	(6.3)	(30.1)	(-4.4)
Industry activities indexes								
Production[9]	%	4.5	-6.6	25.0	17.1	1.5	-0.1	8.7
Shipment[9]	〃	6.2	-8.8	25.6	16.6	0.7	-2.3	4.2
Inventory[9]	〃	4.6	-17.2	2.3	16.4	-1.7	16.5	15.4
Average capacity utilization ratio	〃	79.2	68.0	76.5	78.5	73.2	73.9	73.9
Balance of payment								
Current account	billion U.S. $	-81.7	403.6	244.8	122.4	86.2	7.6	4.1
Goods	〃	-31.8	416.3	283.7	168.7	133.9	4.2	8.7
Services	〃	-32.0	10.2	-6.5	-28.9	-35.3	0.5	-5.6
Capital account	〃	13.1	-32.0	20.4	121.1	-35.8	-18.4	-3.5
Foreign trade[10]								
Exports	billion U.S. $	1,361.6	1,323.1	1,436.9	1,722.7	1,504.4	126.4	133.5
	%	(5.0)	(-2.8)	(8.6)	(19.9)	(-12.7)	(4.0)	(5.3)
Imports	billion U.S. $	1,446.2	932.8	1,197.5	1,604.8	1,411.0	124.3	127.3
	%	(-3.8)	(-35.5)	(28.4)	(34.0)	(-12.1)	(-1.3)	(5.9)
Foreign exchange holdings[11]	billion U.S. $	88.7	485.1	740.5	962.0	1,028.2	954.2	953.3
Exchange rate of won[12]	won	1,695.00	1,204.00	1,138.00	1,264.50	1,313.50	1,259.00	1,250.80
against U. S. dollar	%	(-50.2)	(40.8)	(5.8)	(-10.0)	(-3.7)	(0.4)	(1.1)

Notes : 7) Compared with the same period of the previous year, figures in parenthesis are rates of increase compared with the previous month, figures in yearly data indicate rates of increase compared with the last month of the previous year.
8) Figures in parenthesis are rates of increase compared with the same period of the previous year.
9) Compared with the same period of the previous year.

2001.3	2001.4	2001.5	2001.6	2001.7	2001.8	2001.9	2001.10	2001.11	2001.12
4.0	4.8	5.3	5.0	4.8	4.7	3.3	3.4	3.4	3.2
(0.9)	(0.4)	(-0.1)	(0.3)	(0.2)	(0.4)	(-0.1)	(0.0)	(-0.6)	(0.2)
2.8	3.3	3.4	2.8	2.7	2.0	1.2	0.6	0.1	-0.7
(0.4)	(0.2)	(-0.1)	(0.0)	(0.1)	(-0.4)	(-0.2)	(-0.4)	(-0.4)	(-0.6)
20,728	21,504	21,779	21,748	21,760	21,524	21,797	21,863	21,810	21,347
1,035	848	780	745	760	752	684	699	714	762
4.8	3.8	3.5	3.3	3.4	3.4	3.0	3.1	3.2	3.4
1,702,639	1,718,162	1,599,600	1,911,213	1,802,909	1,773,371	2,019,533	1,738,254	1,646,009	2,336,544
(6.5)	(5.0)	(5.0)	(4.1)	(5.6)	(1.3)	(7.0)	(4.8)	(6.0)	(4.9)
1,520,006	1,625,598	1,442,889	1,792,445	1,662,328	1,711,457	1,872,629	1,634,634	1,473,188	2,228,325
(9.1)	(5.9)	(3.6)	(6.8)	(5.0)	(-1.2)	(10.2)	(2.4)	(5.8)	(5.8)
6.4	5.5	2.0	-3.2	-6.5	-4.9	4.7	-1.6	4.8	2.9
3.9	3.8	0.0	-1.2	-6.3	-6.0	4.2	-0.9	7.2	2.4
15.5	17.4	18.7	15.2	15.4	14.2	10.9	4.3	2.0	-1.7
74.0	74.5	75.0	73.4	70.6	72.6	73.3	72.4	73.0	71.8
16.0	6.1	21.2	10.2	4.4	-1.4	7.4	3.0	7.4	0.2
19.7	13.0	20.0	17.3	8.1	6.4	14.7	6.6	9.5	5.7
3.0	-1.0	-2.0	-3.5	-4.6	-7.0	-2.7	-1.8	-3.3	-7.4
-20.0	-8.8	-8.8	-12.7	8.4	14.1	-9.5	0.4	12.4	10.6
141.2	121.2	133.1	129.3	113.9	117.7	124.5	120.9	123.5	119.1
(-2.1)	(-10.4)	(-9.1)	(-15.2)	(-21.2)	(-20.4)	(-17.7)	(-20.7)	(-17.6)	(-20.4)
129.5	112.1	115.5	117.2	111.1	113.4	117.1	115.1	115.3	113.0
(-8.9)	(-16.0)	(-13.0)	(-11.1)	(-18.8)	(-15.6)	(-11.9)	(-18.4)	(-18.6)	(-14.2)
944.4	934.8	936.3	942.6	970.6	990.2	1,000.8	1,004.7	1,016.5	1,028.2
1,327.50	1,319.70	1,282.70	1,297.50	1,300.00	1,278.00	1,309.60	1,296.10	1,273.00	1,313.50
(-4.7)	(-4.2)	(-1.4)	(-2.5)	(-2.7)	(-1.1)	(-3.4)	(-2.4)	(-0.7)	(-3.7)

10) On a custom-clearance basis, figures in parenthesis are rates of increase compared with the same period of the previous year.
11) End of period.
12) Closing rate of the end of the period, figures in parenthesis indicate appreciation (depreciation) rates of the won compared with the end of the previous year.

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