March 2004

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 2003 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.

S. Park

SEUNG PARK

Governor
The Bank of Korea

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CONTENTS

LIST OF TABLES AND CHARTS

Tables

Charts

I. General Economic Trends

Summary

During 2003, the Korean economy saw growth slow down significantly and inflation rise compared to the previous year. The scale of the current account surplus, however, widened greatly.

The growth rate of gross domestic product (GDP) decelerated significantly in the first half as private consumption and facilities investment were sluggish, affected by such economic uncertainties both at home and abroad as the dampened household credits, the Iraq war, and the North Korean nuclear issue. In the latter half, the GDP growth rate gained momentum again owing to expanded exports, but its growth rate for the year as a whole fell sharply from 7.0 percent in 2002 to 3.1 percent in 2003. Accordingly, the number of those in employment dropped for the first time since the foreign exchange crisis, 1998, and the unemployment rate rose, reflecting the worsened employment situation. However, there were signs of a certain improvement in the labor market during the fourth quarter.

The rate of increase in the Consumer Price Index (CPI) accelerated from the previous year due to a hike in the international oil price, a rise in public utility charges, and the persistently high rate of increase in wages. Owing to the reduced increase rate of prices of industrial goods other than petroleum derivatives, however, the core inflation rate stabilized at around the 3 percent level throughout the year. The current account posted a deficit for the first four months of the year, affected by the high oil price, but it subsequently registered a sizable surplus thanks to the rapid export growth.

The financial markets showed unstable movements early in the year owing to the Iraq war, the SK Global's accounting scandal, and worries over credit card companies' insolvency. However, they settled down gradually in the latter half, encouraged by the policy authorities' wide-ranging efforts to stabilize the financial market, the end of the Iraq war, and an economic recovery in advanced countries, including the United States. Reflecting this financial market environment, long-term market interest rates, which had showed a downward trend throughout the first half, shifted to an upward trend in the latter half, and stock prices adhered to a rising trend from the latter half of March, with the market emerging from its bearishness of the early part of the year.

In the meantime, the Korean won

depreciated against the U.S. dollar until early April, affected by the mood of unease following the run-up to the Iraq war and the North Korean nuclear issue, and the worsening of the current account. From mid-April, however, the Korean won firmed owing to the current account's shift into surplus and an inflow of foreigners' stock investment funds, but it began to weaken again from mid-October.

Throughout the year, the Bank of Korea conducted monetary policy so as to pay attention to the maintenance of price stability while providing support for the economic recovery. To counter the sluggishness of the real economy, which had continued from early in the year, the Bank of Korea lowered its call rate target by 25 basis points on two occasions: in May from 4.25 percent to 4.0 percent, and in July to 3.75 percent. Thereafter, the Bank of Korea kept the call rate target at 3.75 percent, considering the continuation of favorable exports against the backdrop of a clearly-marked recovery in advanced countries including the United States, the expectation of knock-on effects of the two-step lowering of the policy rate and the government's implementation of supplementary budget, as well as a continued rise in real estate prices.

In a move completing the deregulation of interest rate, in the meantime, the Bank of Korea abolished regulations on banks' demand deposit interest rate in December to expand the channels of transmission of interest rate policy and create conditions for fair competition between financial institutions.

Along with this, the Bank of Korea supplied liquidity promptly to prevent financial disturbance in the wake of the SK Global's accounting scandal, worries over the insolvency of some credit card companies', and strikes by some financial institutions. Through flexible operation of its Aggregate Credit Ceiling, the Bank of Korea augmented the financial assistance to small and medium-sized companies.

The Bank of Korea also established a framework for the central bank's oversight of the payment and settlement system and widened the objects of the transactions that could be conducted through BOK-Wire for the convenience of financial institutions and the reduction of settlement risk. At the same time, through joint examinations of financial institutions with the Financial Supervisory Service, the Bank of Korea gathered on-the-spot information necessary for the implementation of the monetary policy and checked on factors posing a risk to the nation's financial system.

In the meantime, the government liberalized capital transactions further by raising the ceiling on the capital of overseas financial institutions founded by domestic firms and expanding the scope of residents' investment in foreign currency-denominated securities. It also changed the opening and closing hours of the foreign exchange market in line with those of the stock and bond markets so as to enhance the inter-linkage of foreign exchange, stock, and bond transactions in real time. The Bank of Korea entered into a currency swap agreement with the central bank of Indonesia, following previous agreements with five central banks including those of Japan and China, to bolster the system of financial cooperation among East Asian central banks against possible crises.

Along with this, the "Bank of Korea Act" was revised in such a way as to promote the central bank's neutrality and independence, building the foundation for an advanced central bank system. The government also pressed ahead constantly with the reform of financial systems and the restructuring of ailing financial institutions for the protection of financial consumers and investors, as well as the improvement of the governance of financial institutions.

During 2004, the Korean economy is expected to push up from the previous year amid an economic recovery, the improvement of the employment situation, and the continuation of a current account surplus. However, turning to the pace of price rises, there remain such factors making for unrest as the possibility of a persistently high oil price and further rises in international raw material prices. Along with this, there is the presence of various uncertainties that may have a negative impact on the national economy. These include the problems of credit defaulters and credit card companies, as well as tense industrial relations.

In consideration of these points, future economic policy needs to place top priority on bolstering the recovering phase of the national economy, while paying keen attention to the possibility of inflationary pressure.

To the end, the government needs to conduct the macroeconomic policies appropriately and in a timely manner, while carefully watching the economic situation both at home and abroad. At the same time, it should actively seek micro measures to restore the depressed spirits of enterprises and households through stabilizing industrial relations and reducing the number of persons blacklisted for credit.

From a long-term viewpoint, at the same time, the government needs to devote its best efforts to expanding the growth potential of the national economy through the establishment of a transparent and fair market system and the fostering of the next-generation industries capable of leading growth.

Economic Trends

The World Economy Enters a Recovery Phase From the Latter Half

The world economy, which had been sluggish during the first half of 2003, moved to a clearly-marked recovering track from the latter half, led by the U.S. economy. This was mainly attributable to a significant easing of the geopolitical risks following the Iraq war and the halting of the spread of SARS (severe acute respiratory syndrome) in the latter half, coupled with the emerging effects of the active pump-priming measures by major countries, including the United States.

The growth rate of the U.S. economy rose from 2.2 percent in 2002 to 3.1 percent in 2003. In particular, the U.S. economy posted a high growth rate in the latter half as private consumption, housing construction and facilities investment all expanded sharply, boosted by a series of prior pump-priming measures including tax reductions and the maintenance of a low interest rate policy. The economy of the eurozone improved somewhat in the latter half, emerging from its subdued state in the first half. However, it posted low growth for the whole year compared with the previous year. The Japanese economy showed signs of escaping from its protracted downturn, owing to the recovery of exports and facilities investment.

The Chinese economy enjoyed continuous high growth, helped by active domestic consumption and exports. The economies of Southeast Asia also began to improve from the latter half owing to the economic recovery in major advanced countries.

Interest rates in the United States dropped due to the reduction of the policy rate by U.S. Federal Open Market Committee (FOMC) and investors' preference for safe assets in line with the heightened geopolitical risks. However, as the economic recovery became increasingly apparent in the latter half, long-term interest rates showed an upward trend. U.S. stock prices shifted to an upward path in mid-March amid expectations of an early conclusion of the Iraq war, and maintained the bullish tone owing to the economic recovery and the improvement of corporate results. Stock prices in the eurozone and Japan in general moved in concert with U.S. stock prices.

The U.S. dollar continued to weaken against other major currencies owing to investors' worries over the widened U.S. current account deficit, the maintenance of a relatively low U.S. interest rates, and the U.S. government's tolerance of a weak dollar. In particular, the U.S. dollar depreciated sharply against the euro from $1.05

per euro early 2003 to $1.26 per euro at the end of the year.

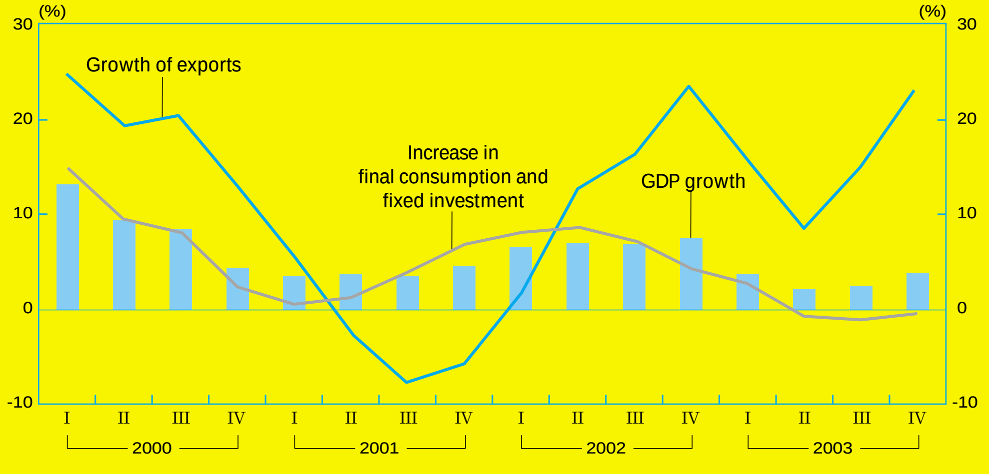
International oil prices, which had sustained high levels since early 2003, plunged temporarily around the time of an end of the Iraq war in April, but climbed back up again owing to the delayed normalization of oil exports by Iraq, the OPEC's policy of reducing oil production, and the rising demand for crude oil amid the global economic recovery. Among other major raw material prices, those of cereals rose sharply in the latter half due to poor crops and those of non-ferrous metals showed a steep upward trend owing to the conjunction of rising demand with reduced supply.

Slowdown of Domestic Economy

Viewing the domestic economy, exports showed a favorable performance, but domestic demand contracted sharply. Private consumption was sluggish due to excessive household debts, an increase in the number of persons listed by banks as "credit defaulters", and the worsened employment situation, while facilities investment was lackluster owing to the worsening economic conditions at home and abroad, including the Iraq war and uneasy industrial relations. Accordingly, the growth rate of gross domestic product (GDP) fell sharply from 7.0 percent in the previous year to 3.1 percent in 2003.

By quarter, GDP growth remained at

<Chart 1> Trends of Real GDP[1)]



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

3.7 percent in the first quarter owing to the sluggishness of private consumption and facilities investment, and fell further to 2.2 percent in the second quarter. Despite persistently lethargic domestic demand, it edged up gradually from 2.4 percent in the third quarter to 3.9 percent in the fourth quarter thanks to the acceleration of export growth.

Viewing total domestic production by demand sector, the growth rate of final consumption shifted from a 7.6 percent rise in the previous year to a 0.5 percent drop in 2003. The growth rate of government consumption slowed down while private consumption decreased by 1.4 percent due to a fall in household credit and the worsened employment situation.

The growth rate of fixed investment slowed down from the previous year owing to the decline of facilities investment, notwithstanding a pick-up in the growth of construction investment. The growth rate of construction investment accelerated owing to the favorable performance of buildings construction. Despite favorable exports, however, facilities investment shifted from a 7.5 percent increase in the previous year to a 1.5 percent fall in 2003 as sluggish consumption and uneasy labor-management relations dampened enterprises' willingness to invest amid growing uncertainties concerning the domestic and foreign economies.

Exports of goods and services, in real terms, soared by 15.7 percent during 2003, boosted by brisk exports to China and during the last four months an increase in exports to advanced countries including the United States and EU. In contrast, imports of goods and services, in real terms, saw their growth rate slow down from the previous year to 9.7 percent due to the reduced import demands generated by lackluster domestic demand.

Reflective of the sluggish domestic demands and favorable exports, the contribution ratio of final consumption and fixed investment to GDP growth plummeted from 97.6 percent in the previous year to 3.8 percent in 2003. On the other hand, that of net exports to GDP growth surged from a negative 3.1 percent contribution to a positive contribution of 89.8 percent during the corresponding period.

Meanwhile, real gross national income (GNI), which reflects trading gains and losses from changes in terms of trade and net factor income from the rest of the world, increased by a mere 1.8 percent, lower than GDP growth, due to a hike in prices of imported raw materials, notably crude oil.

Viewing nominal national income (NI) from the distribution side, the ratio of compensation of employees to NI rose from 58.2 percent in the previous year to

59.7 percent in 2003 as the compensation of employees increased sharply.

The gross saving ratio inched up from 31.3 percent in the previous year to 32.6 percent in 2003 due to the sluggish consumption, while the gross domestic investment ratio rose slightly from 29.1 percent to 29.5 percent owing to the accelerated growth of construction investment.

Sluggish Performance of Most Industries, except Construction Industry

Viewing production activity during the year under review by industry, the growth rate of the construction industry accelerated, but that of the manufacturing and service industries slowed down.

The manufacturing industry posted growth of 4.8 percent, lower than the previous year. By sector, production in information and telecommunication-related sectors, including semiconductors and audio & communication equipment, showed a high growth rate owing to brisk exports, whereas that of textiles, clothing and footwear was sluggish.

The service industry increased its output by a mere 1.8 percent, falling far behind the previous year's growth rate. By sector, the wholesale & retail and restaurant & hotel sector continued on a downward trend throughout the year and the growth rate of the finance & insurance, the real estate & business services, and the transportation & storage sectors slowed down sharply.

The electricity, gas, and water sector saw its growth weakened owing to reduced demand for electric power in the wake of lackluster industrial activities. The agriculture, forestry, and fishing sector showed a poor business performance as the production in the cultivation subsector reduced sharply due to bad weather and typhoons.

The growth rate of the construction industry accelerated sharply owing to brisk private construction amid buoyant housing business and a rise in the government's construction of roads and harbors.

Reflecting these industrial activities, the share of the construction industry in nominal GDP went up from 8.6 percent in 2002 to 9.6 percent in 2003, whereas the share of the manufacturing industry dropped from 26.9 percent to 26.6 percent during the corresponding period. That of services slipped back from 57.5 percent to 57.2 percent.

Employment Situation Worsens, Wage Rises Accelerate

The employment situation worsened. The number of jobs decreased due to an economic slowdown and the annual average unemployment rate rose from 3.1 percent in 2002 to 3.4 percent in 2003.

The number of persons in employment during the year under review decreased by 0.1 percent, the first decline since 1998. By industry, the number of the employed in the agricultural & forestry and manufacturing industries decreased continuously. The service and construction industries also saw a marked slowdown of the rate of increase in the number of those employed in them.

The nominal wages of regular employees posted a relatively high annual increase of 9.2 percent in 2003, but it was slightly lower than the previous year's growth. The rate of wage increases in large companies maintained a high level, leading the overall rise in wages.

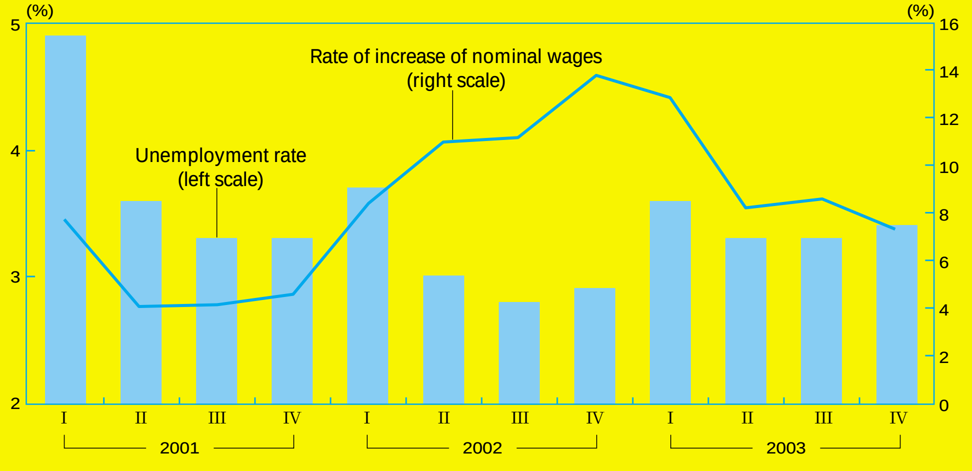
Accordingly, unit labor costs in the manufacturing industry showed an upward trend in 2003, following the previous year's pattern, as the rate of wage increases surpassed that of labor productivity growth.

Consumer Price Inflation Accelerates, Core Inflation Keeps Stable Trend

Despite the sluggish domestic economy, the annual average rate of increase of the Comsumer Price Index (CPI) rose from 2.7 percent in the previous year to 3.6 percent due to the high oil price, increases in public utility charges, and the persistent wage hikes.

Viewing movement of consumer prices by period, the rate of consumer price

<Chart 2> Trends of Unemployment and Nominal Wages[1)]



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

inflation exceeded the 4 percent level in the first quarter owing to a surge in the international oil price, a hike in prices of agricultural products, and a rise in public utility charges. However, it fell to a range of 3~3.5 percent level from the second quarter.

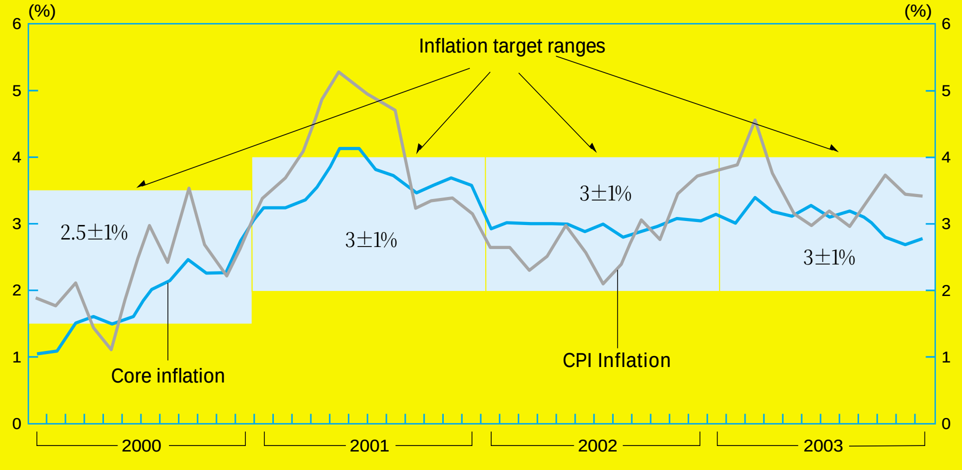
Viewing price rises by category, prices of agricultural, livestock, and marine products rose sharply as they had the previous year, owing to heavy rainfall and typhoons. The rate of price increases for industrial products also accelerated due to a rise in prices of petroleum derivatives. Despite the slowing of the rate of increase in housing rents, the growth rate of charges for services accelerated compared with the previous year, affected by the shift of those for public utilities to an upward trend and hikes in those for personal services.

Core inflation, which strips out the prices of agricultural products except cereals and petroleum fractions from the CPI, maintained its trend of underlying stability, edging up slightly from its 3.0 percent in the previous year to 3.1 percent on a year-on-year basis. Core inflation showed a very stable pattern of movements with no sharp fluctuations from its 3 percent level during the year under review.

In the real estate market, housing rents held stable, but housing prices showed an upward trend.

Housing prices, led by those of apartments in the Gangnam area of Seoul and around Daejeon, posted a high rate of increase, affected by the continued inflow

<Chart 3> Trends of CPI Inflation and Core Inflation[1]



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

of funds into the real estate market, the imbalance of housing demand and supply in some regions brought about by divergences in the quality of life, the reconstruction of old apartments, and the expectations of development windfall following the government's plan to move the country's administrative capital and build satellite cities. However, housing prices shifted to a downward trend from Oct. 29 when the government announced a comprehensive housing market stabilization package.

Current Account Surplus Expands Sharply

Helped by the widened goods account surplus, the scale of the current account surplus expanded sharply from $5.4 billion in the previous year to $12.3 billion. To the first four months of the year the current account remained in the red mainly owing to the high oil price, but subsequently the scale of the surplus progressively widened, boosted by the rapid growth of exports.

Exports, on a customs-clearance basis, saw their growth rate accelerate from 8.0 percent in the previous year to 19.3 percent. This was chiefly attributable to the sustained rapid growth of the Chinese economy and burgeoning overseas demand with the economic recovery in advanced countries. By period, exports, which showed a high growth rate early in 2003, saw the growth rate slow down in the middle of the year, but rebound sharply from September. Most major export items, notably wireless communication equipments, semiconductors, automobiles, and chemicals, showed a high growth rate.

Imports, on a customs-clearance basis, increased by 17.6 percent to $178.8 billion in 2003. By period, they posted a high growth rate in the first quarter due to a surge in the international oil price, but this subsequently slowed down. By item, imports of capital goods increased sharply led by parts and components for export-use, and those of raw materials registered a high rate of increase owing to the higher international prices of crude oil and raw materials.

As the growth of exports outpaced that of imports, the goods account saw its surplus rise sharply from $14.8 billion in the previous year to $22.2 billion. The deficit on the service account narrowed from the $8.2 billion of the previous year to $7.6 billion due to an increase in sea-cargo receipts. Meanwhile, the income account maintained a slight surplus, but the transfer account saw its deficit widen further owing to an increase in unrequited remittances.

The capital account witnessed its surplus expand from $6.3 billion in the previous year to $13.1 billion owing to a sharp rise in the inflow of foreigners' stock investment funds.

The nation's international reserves stood at $155.4 billion as of the end of 2003, an increase of $33.9 billion from the end of the previous year. Gross external liabilities rose by $15.8 billion from the end of the previous year to $159.8 billion, but its ratio to nominal GDP marked 26.4 percent, a level similar to that of the previous year, owing to the won's appreciation against the U.S. dollar.

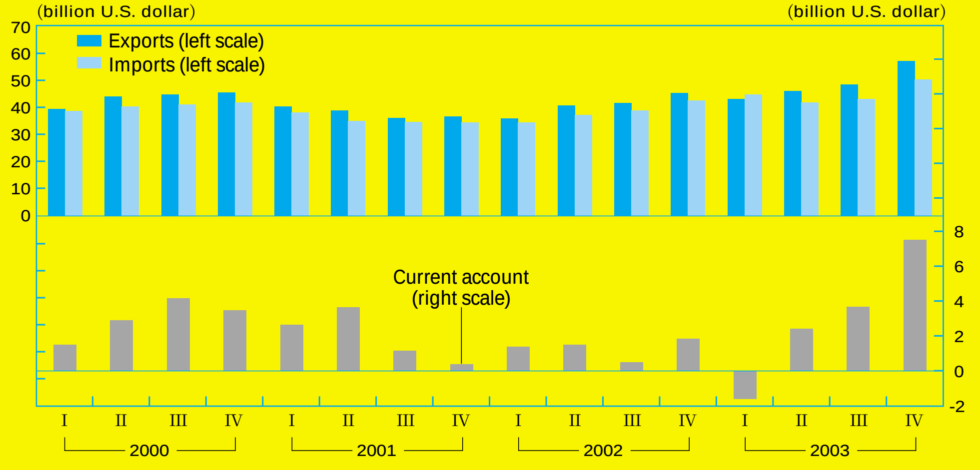
Net external assets, which represent gross external assets less gross external liabilities, increased by $24.7 billion during the year under review to $66.8 billion.

Interest Rates and Stock Prices Shift to Upward Trend, Annual Average Nominal Exchange Rate Appreciates Slightly

In the financial markets, stock prices, having fallen since the beginning of the year, rose again from the latter part of March on anticipation of an early ending of the war against Iraq and of an economic recovery. Market interest rates also showed an upward trend in the latter half.

Long-term market interest rates spiked in March, affected by the financial market unease occasioned by the SK Global's accounting scandal and worries over credit card companies' insolvency. Apart from the short-lived surge, the rates continued for some time on a downward trend with the yield on the 3-year Treasury bond

<Chart 4> Trends of Exports/Imports and Current Account

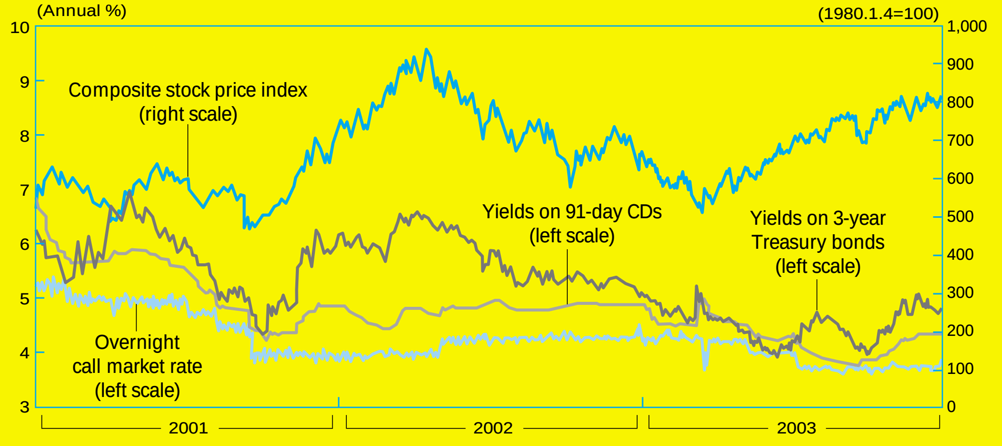


falling to a record low of 3.95 percent on June 18. From early in the latter half, the rates advanced steeply in line with those in major advanced countries, but they showed a downward trend in August and September owing to worries over the delayed economic recovery. Subsequently, they shifted back to an upward again owing to brisk exports, the high hopes of economic recovery, and the issuance of government bonds to finance a further supplementary budget, with the yield on the 3-year Treasury bond registering 4.8 percent at the end of the year.

Short-term market interest rates, while surging in March owing to the revelations of SK Global's accounting malpractice and worries over credit card companies' insolvency, kept a downward trend until September, affected by the delayed economic recovery and the lowering of the call rate target. Subsequently, they showed a slowly rising trend in keeping with the overall rebound in market interest rates with the yields on 91-day certificates of deposits (CDs) posting 4.4 percent at the end of 2003.

Accordingly, there was an inversion of the yield curve during the March~June period with the gap between long-term and short-term interest rates (yields on 3-year Treasury bonds versus yields on 91-day CDs), showing a negative figure when yields on Treasury bonds plunged due to the financial market unease. The gap later shifted to its customary positive position owing to a hike in long-term interest rate, It stood at 0.5 percentage points at the end of 2003, up from the 0.2 percentage points recorded at the end of the previous

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



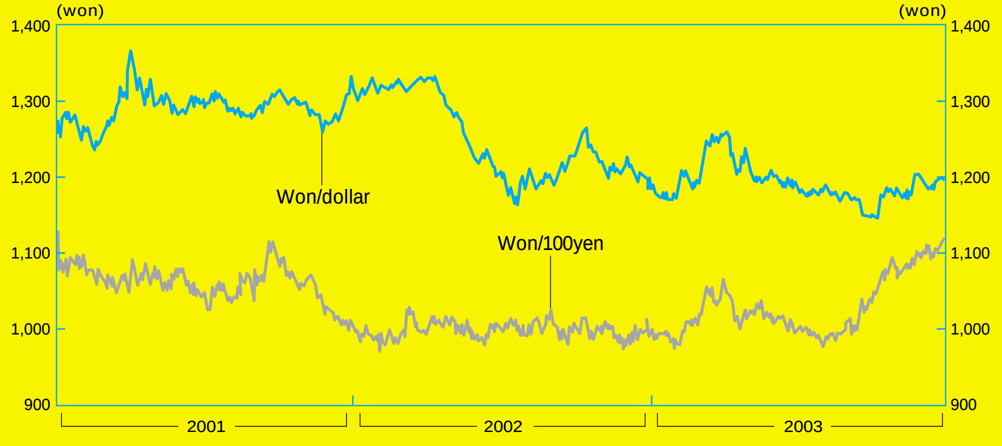
year. The differentiation of corporate bonds' yields by credit rating expanded from 3.4 percentage points at the end of 2002 to 4.3 percentage points at the end of 2003, reflecting the widespread avoidance of high risk assets in the financial market.

Meanwhile, banks' lending and deposit interest rates continued on a downward trend. However, they shifted to an upward trend, as market interest rates showed a clearly-marked rebound from early in the fourth quarter. Lending rates began to rise from October and deposit rates from November.

The Korea Composite Stock Price Index (KOSPI) fell to 515.2 on March 17, the year's lowest level because of the sluggishness of domestic business activity and the geopolitical risks. After then, however, it shifted to an upward trend, boosted by the rebound of stock prices in advanced countries amid expectations for an economic recovery and by foreigners' net purchase of stocks. KOSPI stood at 810.7 at the end of 2003, considerably above its 627.6 at the end of the previous year. The KOSDAQ index generally showed similar movements to those of KOSPI in the first half. From early in the latter half, however, it adhered to a downward trend due to the poor business performances of Internet-related companies, posting 44.9 at the end of 2003, similar to that of the end of 2002.

The Korean won, having strengthened against the U.S. dollar at the beginning of 2003, began to lose ground in February, affected by the looming war against Iraq, the North Korean nuclear issue, and the

<Chart 6> Trends of Korean Won Exchange Rates



worsened current account position. It changed hands at 1,258 won per dollar on April 4, its weakest level for the year.

Subsequently, the won appreciated up to 1,147 won per dollar by Oct. 13, owing to the shift into surplus on the current account, the expectations of a peaceful settlement of the North Korean nuclear issue, and the inflow of foreigners' stock investment funds. However, it began to lose ground again from mid-October to trade at 1,193 won per dollar at the end of 2003, a level similar to that at the end of the previous year. On an annual average basis, however, the Korean won appreciated by 4.9 percent higher than its level during the preceding year.

Bank Deposits Rise, but Growth Rate of Household Loans Slows Down

Viewing deposit-taking by financial institutions during the year under review, bank deposits increased whereas deposits at secondary financial institutions dropped sharply, due to the growing preference for asset safety in an unsettled financial market.

Despite a steep rise in loans to small- and medium-sized enterprises (SMEs) bolstered by active measures for their supports, bank loans including those from trust accounts saw their growth rate slow down sharply owing to a fall in lending to large companies and the dampening of the extension of household credits. In particular, household loans, which had expanded sharply in 2002, rose by only 30.6 trillion won in 2003, half the size of the previous year's increasement, owing to the downward adjustment of the loan to value ratio on mortgage loan and banks' tightened credit risk management.

Corporate funding conditions during the year under review were generally smooth as enterprises' demand for investment funds was not so large owing to the uncertain economic prospects at a time of ample market liquidity. As large companies were active in their retirement of corporate bonds and commercial papers (CPs) using their abundant liquidity, corporate bonds and CPs showed a net redemption during the year, and the issuance of stocks also declined from the previous year. However, some SMEs with low credit status faced difficulties in mobilizing funds owing to the sluggishness of domestic consumption and financial institution's tightening of their credit management.

Viewing the trends of monetary indicators, the annual average growth rate of M2, broad money, and M3, overall liquidity, fell from 11.5 percent and 12.9 percent, respectively, in the previous year to 7.9 percent and 8.8 percent owing to the subdued demand for fund. The annual average growth rate of M1, narrow money, plunged from 22.5 percent in the previous year to 6.9 percent, owing to the reduced demand for trading balances amid the economic slowdown and the sharp decrease in money market funds (MMFs).

Major Economic Policies During the Year

Call Rate Target Lowered Twice

During the year under review, the Bank of Korea conducted monetary policy in such a way as to pay close attention to the maintenance of price stability while providing support for the economic recovery.

In consultation with the government, the Bank of Korea fixed the inflation target for the year 2003 at 3.0±1 percent based on annual average core inflation, the same level as the previous year. Meanwhile, the Bank of Korea changed the midium-term inflation objective from the previous 2.5 percent point target to a band of 2.5 to 3.5 percent to reflect the midium-term inflation trends of the national economy and pursue the flexible operation of the monetary policy under uncertain inflation conditions.

The Bank of Korea made a downward adjustment of the call rate target by 25 basis points in May and again in July. The environment for prices, showing instability in the first four months of 2003 due to a rise in the international oil price and prices of domestic agricultural products, had improved by May thanks to the early ending of the Iraq war, and the slowdown of the domestic economy had been increasingly evident. The Bank of Korea therefore lowered the call rate target in May by 25 basis points from 4.25 percent to 4.0 percent.

In July, the Bank of Korea made a further downward adjustment of the call rate target to 3.75 percent owing to the persistence of the economic slowdown. It also lowered the interest rate applied on the Liquidity Adjustment Loans from 3.75 percent to 3.5 percent as part of efforts to back up the economic recovery. At that time, there was serious concern about the continuation of an upward trend in housing prices. However, the Bank of Korea judged that the problem would be best solved by microeconomic adjustment measures on the part of the government such as steps to curb speculation. Thereafter, the economies of major countries showed a clearly-marked recovery trend, the growth of the nation's exports accelerated, the effects of the two-step lowering of the policy rate and of the government's compilation and disbursement of a supplementary budget were expected to materialize, and real estate prices continued to rise. Considering these factors, the Bank of Korea maintained the call rate target at 3.75 percent.

In the meantime, as the system of monetary policy operation centered on interest rates had taken root to a certain extent, the Bank of Korea decided not to set and announce a monitoring range for M3 from 2003. In the course of conducting policy, however, it will continue to pay careful attention to the movements of various monetary indicators, including M3, as information variables.

In a further move, the Bank of Korea abolished remaining regulations on the interest rate of demand deposits at banks in December to expand the transmission channels of the interest rate policy and create conditions for fair competititon between financial institutions, completing the deregulation of interest rates.

Stabilization of Financial Market and Strengthening of Support to SMEs

During the year under review, the Bank of Korea strove to ensure financial market stability by promptly tackling the problems posed by large-scale withdrawals from investment trust companies' MMFs and strikes at some financial institutions, while bolstering its financial support to SMEs facing difficulties due to the economic slowdown.

Firstly, when in March the SK Global's scandal and worries over credit card companies' insolvencies sparked the large-scale withdrawals of funds from the MMFs offered by investment trust companies, the Bank of Korea supplied liquidity promptly through the open market operations and avoided the spread of a panic in the markets. Right after the outbreak of the Iraq war, the Bank of Korea also announced measures to stabilize the financial and foreign exchange markets, including an expansion of the supply of liquidity, seeking to soothe the anxieties of market participants. Faced with the possibility of a run on amounts of deposits ahead of a strike at Chohung Bank in June, the Bank of Korea fulfilled its role as the lender of last resort by extending 3 trillion won in Liquidity Adjustment Loans to the bank.

Throughout the year, the Bank of Korea flexibly adjusted the Aggregate Credit Ceiling in such a way as to expand financial support to small and medium exporters and SMEs outside the metropolitan areas. In May, it made available the entire 385 billion won of the unallocated reserve of the Aggregate Credit Ceiling, set at 9.6 trillion won, for the support of small and medium exporters. In October, it increased the scale of support for trade financing under the Aggregate Credit Ceiling by 1 trillion won. Notably in

August, the Bank of Korea enlarged the quota of the Aggregate Credit Ceiling made available to its regional branches from 3.6 trillion won to 4 trillion won in order to help financial institutions increase their lending to SMEs. In September, by drawing down unallocated reserve of the Aggregate Credit Ceiling, the Bank of Korea made available an additional 85 billion won as emergency relief funds for SMEs that had suffered damage from typhoon "Maemi". Along with the expansion support for SMEs under the Aggregate Credit Ceiling, meanwhile, the Bank of Korea reduced its support under that facility for bill substitution loans, keeping the overall level of the Aggregate Credit Ceiling unchanged.

At the same time, the Bank of Korea encouraged the settlement of business to business payments by means of cash and quasi-cash rather than bills and promissory notes. To expand the scale of support under the Aggregate Credit Ceiling for SMEs, the Bank of Korea lowered ratio of its allocation against performance in the discount of commercial bills from 50 percent to 30 percent in May, and further to 20 percent in October.

Strengthened Efforts to Enhance Stability of Financial System

During the year under review, the Bank of Korea undertook wide-ranging efforts to heighten the stability and effectiveness of the payment and settlement system. At the same time, it bolstered its efforts to collect the on-the-spot information concerning financial institutions and check their management status, necessary for its effective implementation of monetary policy.

Firstly, the Bank of Korea fully revised the "Regulation on the Operation and Management of the Payment and Settlement System" to exercise effectively the function of the system's holistic management and oversight that it had been endowed with under the revised "Bank of Korea Act."

Accordingly, in the Regulation the rules concerning on selection & appraisal of the payment and settlement systems subject to its oversight, and collection & analysis of their data were prepared, creating a foundation for the effective implementations of its surveillance role.

To reduce settlement risk between financial institutions, the Bank of Korea also allowed non-bank financial institutions and domestic branches of foreign banks to use the call transaction system of the BOK-Wire for the collection of call funds. It also added collateralized call transactions through money market brokers involving its exchange securities against loans to the objects eligible for settlement through its delivery versus payment (DVP).

The Bank of Korea established standards for the financial IC Card to enhance the safety of financial transactions and implemented an automatic receipt service through the CD/ATM network for Giro payments and public utility charges to promote convenience in settlement of these bills by the general public.

In the meantime, the Bank of Korea, with the Financial Supervisory Service (FSS), conducted joint examinations of 11 banks and requested the FSS to examine 4 banks.

Along with this, the Bank of Korea conducted analyses of financial institutions concerning their financial management status and their risk management, and surveys of their lending behavior, drawing on the findings as a basic resource for the establishment of the monetary policy and the routine surveillance of financial institutions. As part of a drive to heighten the central bank's role in ensuring financial market stability, the Bank of Korea launched the publication of "Financial Stability Report," which provides a close check on the debt servicing capacity of households and enterprises along with a comprehensive analysis and the evaluation of the safety of the financial system as a whole.

At the same time, the Bank of Korea pressed ahead with the conclusion of a Memorandum of Understanding (MOU) with the Financial Supervisory Service, Korea Deposit Insurance Corp., to expand information sharing.

Continuation of Efforts to Stabilize Foreign Exchange Market

The government raised the ceiling on the capital of overseas financial institutions founded by domestic firms from $100 million to $300 million and expanded the scope of residents' investment in foreign currency-denominated securities to include corporate bonds of investment grade rating. To link foreign exchange, stock, and bond transactions in real time, the operating hours of the foreign exchange market were changed from the previous 9:30 until 16:30 to 9:00 until 16:00.

The government floated $1 billion worth of U.S. dollar-denominated Foreign Exchange Stabilization Fund Bonds to improve borrowing conditions in the international financial market through the creation of a benchmark yield for Korean bonds. The government also repaid ahead of schedule $3.8 billion in public borrowing that it had induced when the nation faced the foreign exchange crisis.

In preparation for the possibility of

abrupt in- and outflows of capital, meanwhile, the government and the Bank of Korea closely monitored the trends of foreign exchange transactions making use of the Foreign Exchange Information Network and the Early Warning System. Through the Korea Financial Intelligence Unit, they meanwhile exercised vigilance against unlawful fund transactions. The Bank of Korea also concluded a currency swap agreement with the central bank of Indonesia, following similar agreements with those of Japan and China, strengthening the system of financial cooperation among central banks in East Asia against potential crises.

Revision of the Bank of Korea Act

The "Bank of Korea Act" was revised to promote the central bank's neutrality and independence, and strengthen its functions. The Act came into force on Jan. 1, 2004.

Viewing the major details of the revision, the right of the Korea Securities Dealers Association to nominate a member of the Monetary Policy Committee was abolished. The Act provides instead that the deputy governor of the Bank of Korea shall serve as an ex officio member, strengthening the linkages between policy decision-making and implementation. The Act also grants the Bank of Korea the authority for the holistic management and oversight of the payment and settlement system, augmenting the central bank's function in maintaining financial stability. Along with this, inflation target regime shifted from its previous annual target to a medium-term target, enabling the Bank of Korea to carry out monetary policy more effectively from a midium- and long-term perspective.

Besides, this revised Act narrowed the scope of the Bank of Korea's budgets requiring a prior approval from the Ministry of Finance and Economy to those items relating to the compensation of employees, thereby expanding the central bank's budgetary autonomy. Under the revised legislation the arrangements for the Bank of Korea to request to take part in joint examinations of banks together with the FSS or require the FSS to itself examine specific banks were augmented, raising the effectiveness of the system.

Financial Restructuring Continues

During the year under review, the government drove forward the financial restructuring centered on privatization of some banks and liquidation of some nonbank financial institutions the status of whose financial management was fragile, including securities firms, insurance companies, mutual savings banks, and credit unions.

In the process, the Korea Deposit Insurance Corp. and the Korea Asset Management Corp. provided support 2,165.7 billion won from public funds to financial institutions through the redemption of insured deposits, recapitalization, and the purchase of non-performing loans.

Primary and secondary legislation related to the financing was enacted or revised to improve the financial infrastructure. To bolster the protection of financial consumers, a system was introduced for the comparison and public disclosure of insurance contracts. To protect those placing investment with the asset management industry, the government also introduced a system of general meetings of beneficiaries and strengthened public disclosure requirements.

Along with this, regulations on the financial industry were constantly eased with, for example, the green light being given for bancassurance and the reduction of minimum capital for entry to the insurance business. As means of stimulating asset management industry, the government also expanded the range of investments open to asset management companies and eased regulations on the entry into the industry.

Policy Tasks and Monetary and Credit Policy in 2004

During 2004, the Korean economy is expected to show improvement over its performance during 2003. GDP growth rate is likely to rise amid improving employment owing to brisk exports aided by the faster growth of the world economy and a gradual recovery of the domestic consumption. The current account is anticipated to maintain its underlying surplus.

However, turning to prices, there are destabilizing factors present, notably as the possibility of a persistently high oil price and a further run-up in international raw materials prices. Along with this, there remain various uncertainties that could have a negative impact on the national economy, including the interrelated problems of large numbers of people blacklisted as credit defaulters and fragile credit card businesses, as well as unsettled industrial relations.

In consideration of these issues, future economic policy ought to give top priority to backing the economic recovery, while paying close attention to the possibility of inflationary pressure.

To that end, the government needs to conduct appropriate and timely macroeconomic policies, while keeping a careful watch on the economic situation both at home and abroad. At the same time, it should actively seek micro measures to revive confidence on the part of enterprises and households. The government should soothe financial market unease by employing effective measures to reduce the number of people placed on the banks' credit blacklist and force the exit of ailing financial institutions, while devoting the utmost efforts to bring about stable industrial relations.

Along with this, the government should exert continued efforts to expand the potential growth capacity of the national economy from a long-term viewpoint. To this end, it needs to make strenuous efforts to develop the economic system to the level of advanced countries through the establishment of a transparent and fair market economy and the building of a climate of mutually supportive relations between labor and management. At the same time, the government should exert every effort to foster the next-generation of industries that will lead growth and to handle the intensifying market opening and international competition proactively.

With the shift to a midium-term inflation target system following the implementation of the revised "Bank of Korea Act," meanwhile, the inflation target for the 2004~2006 period has been set as a band of 2.5~3.5 percent in terms of average core inflation during the period.

The Bank of Korea intends to conduct monetary policy more flexibly in keeping with the change to a midium-term inflation target system from 2004 onward. In particular, when prices deviate from the target range, the Bank of Korea will decide whether to react to this by a policy response and the strength of the policy response after carefully analyzing the causes of the deviation and considering the time lags for the transmission policy and the financial and economic conditions. In undertaking a policy response, it will seek to minimize any negative impact on the real economy and the financial markets.

In line with this fundamental stance, the Bank of Korea will place the first priority of the interest rate policy on holding prices stable within the bounds of the midium-term target by preemptive action to defuse against inflationary pressure while providing support for the economic recovery. Monetary policy will be conducted so as to bring about the formation of the overnight call rate at the target level, while retaining flexibility in the light of financial market conditions. Along with this, the Bank will improve the operation of its policy tools, including the Liquidity Adjustment Loan system and the reserve requirement systems.

The central bank will also further

strengthen relevant functions, in line with its heightened role in the management and oversight of the entire payments and settlements system and the greater effectiveness of the system for requesting the examination of financial institutions or their joint examination under the revised "Bank of Korea Act." In relation to the payments and settlements system, the Bank of Korea will put in place at an early date a framework for the oversight and appraisal of all aspects of it. Along with this, the central bank will conduct monetary policy in an appropriate and timely manner by making use of information gathered from its examinations of banks or those held jointly with the FSS. The Bank of Korea will keep a careful watch over potentially destabilizing factors in the financial markets and act promptly to tackle them through open market operations where necessary to maintain financial market stability.

II. Monetary and Credit Policy

1. Inflation Target

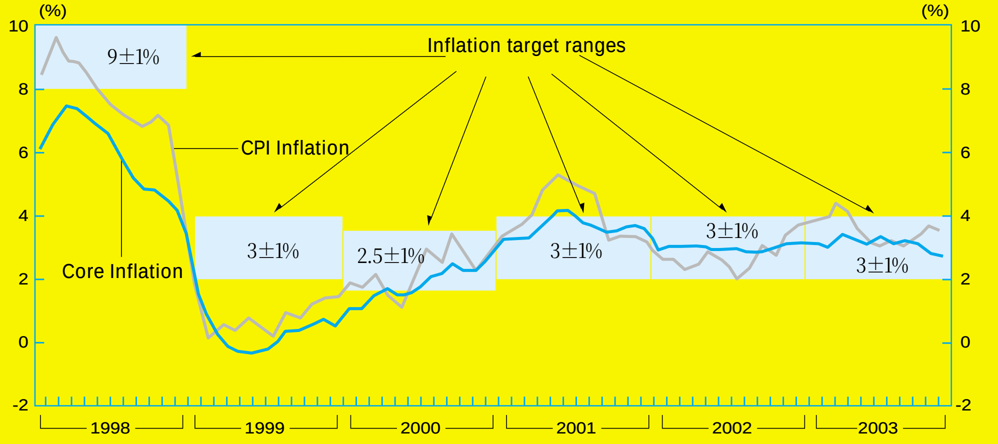
Early in 2003, the Bank of Korea forecast that prices would maintain their stable trend of the previous year, with the annual average rate of core inflation running at 3.1 percent. This forecast was based on expectations that wages would keep rising at a faster pace, public utility charges, which had been reduced in 2002, would shift to an upturn, but that inflationary pressure on the demand side was unlikely to be large along with the won's gentle underlying appreciation. On the other hand, the Bank of Korea predicted that the rate of increase in the Consumer Price Index (CPI) would accelerate somewhat from the previous year to 3.4 percent owing to a rise in prices of agricultural products and petroleum derivatives.

In setting the annual inflation target, the Bank of Korea took into account the price outlook and the level of inflation consistent with the underlying fundamentals of the Korean economy and the potential to support stable growth over the long term. After consultation with government and the deliberation and resolution of the Monetary Policy Committee, the Bank of Korea set the mid-point of annual inflation target range during 2003 at 3.0 percent on the basis of annual average rate of core inflation, the same level as the previous year, and a fluctuation range of 1 percentage point was tolerated around the mid-point considering the high degree of uncertainty surrounding the outlook for price movements.

Along with this, in view of the medium-term trend of inflation and the uncertainty surrounding the environment for price movements, the central bank made a slight upward adjustment of the medium-term inflation target that monetary policy should pursue after 2004 from the previous target (2.5 percent). However, as the target was established as a range rather than a particular level, the central bank set the target at 2.5~3.5 percent.

Viewing actual price movements during 2003, annual average rate of core inflation registered 3.1 percent, in line with earlier anticipations, converging toward the mid-point of its target range (3.0 $\pm$1 percent). This was attributable to the won's appreciation against the dollar and a sharp reduction in inflationary pressure on the demand side owing to the delayed recovery of the domestic economy, whose effects offset those of the high rate of wage increases. Viewing the movements of core inflation during 2003, it

<Chart 7> Inflation Targets and Inflation Trends[1)]



Note : 1) Rate of increase compared with the same month of the previous year.

showed a relatively stable pattern around the 3 percent level during the year, showing only mild fluctuations as it had the previous year.

In the meantime, CPI inflation registered an annual average of 3.6 percent in 2003, slightly higher than had earlier expected. This was ascribable to the run-up in prices of petroleum products, affected by the Iraq war, and a steep rise in prices of agricultural products resulted from severe weather conditions.

2. Interest Rates

During 2003, the Bank of Korea conducted monetary policy, paying close attention to the maintenance of price stability while providing support for the economic recovery.

From early in the year under review, the growth rate of the Korean economy slowed down significantly due to growing uncertainties surrounding the looming war against Iraq and the sluggishness of consumption in the wake of the squeezing of household credits. However, the Bank of Korea kept the call rate target at 4.25 percent until April owing to fears of an acceleration of inflation in response to the run-up in international oil price and a hike in prices for agricultural products.

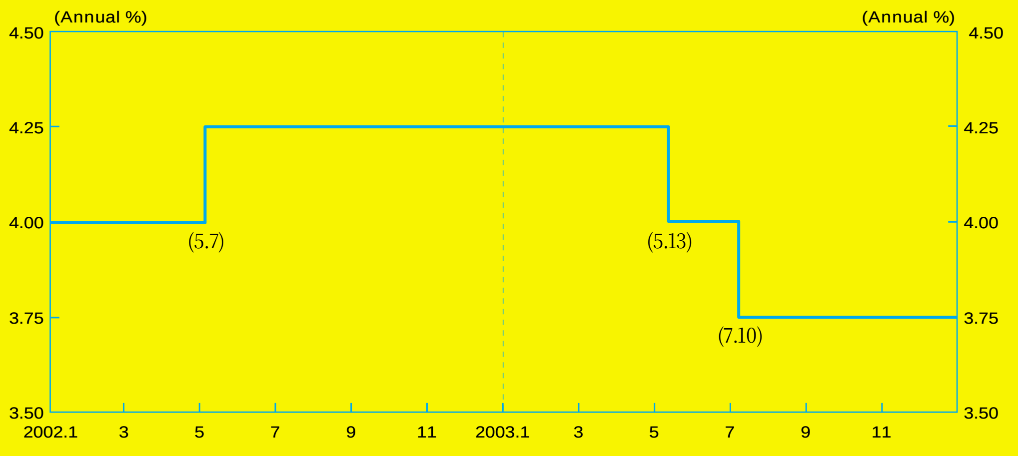
Thereafter, price conditions improved notably as the international oil price kept a downward trend and seasonal factors making for instability in the demand and supply of agricultural products faded away. However, as the domestic economy shrank sharply owing to the spread of severe acute respiratory syndrome (SARS), the North Korean nuclear problem, and the sluggish consumption under the burden of households' over-indebtedness, the Bank of Korea lowered the call rate target by 25 basis points from 4.25 percent to 4.0 percent on May 13.

Nevertheless, the economic slowdown persisted owing to lackluster domestic consumption. Accordingly, the Monetary Policy Committee brought down the call rate target by a further 25 basis points from 4.0 percent to 3.75 percent on July 10 and lowered the interest rate of Liquidity Adjustment Loans from 3.75 percent to 3.5 percent in a bid to give active support to economic recovery. At that time, there was grave concern about a continuation of the upward trend of housing prices. On this issue, however, the Bank of Korea judged that the government's micro measures including steps to curb speculation were needed.

Subsequently, considering the continuation of strong export growth on the back of the marked recovery of the major advanced economies, the anticipations of effects from the two-step lowering of the policy rate and the disbursement of the government's supplementary budget, and a continued rise in real estate prices, the Bank of Korea kept the call rate target at 3.75 percent.

In the meantime, as the monetary policy operation system that places its focus on interest rate had largely taken root, the

<Chart 8> Overnight Call Rate Target Adjustments[1)]



Note : 1) Figures in parentheses are the dates when the overnight call rate target was adjusted.

Bank of Korea decided not to set an M3 monitoring range from 2003. In the course of conducting monetary policy, however, the Bank of Korea indicated that it would keep a careful watch on the movements of various monetary indicators, including M3, as information variables.

Along with this, the Bank of Korea abolished regulations on the interest rates of demand deposits at banks in December to expand the transmission of interest rate policy and create conditions for fair competition between financial institutions, completing the deregulation of banks' deposit and lending interest rates under the "Four-Stage Interest Rate Liberalization Plan" announced in 1991. Accordingly, with effect from February 2, 2004, the Bank of Korea abolished regulations on the interest rate of demand deposits, including ordinary deposits, household current deposits, and special deposits, and corporate free deposits with a deposit period of less than 7 days.

However, taking into account that current deposits require higher handling costs than other deposits and the degree to which they can be mobilized as a source of funds is lower in view of their inferiority to other deposits in terms of the stability of funds, the Bank of Korea banned the payment of interest rate on current deposits, a prohibition applied in most major countries, including the United States and Japan.

3. Stabilization of Financial Market

During the year under review, the Bank of Korea pursued financial market stability through the flexible control of liquidity in case that there were concerns over the spread of uneasiness to the financial market due to the heightened volatility of market interest rates amid changes in the environment both at home and abroad.

In January 2003, for instance, a mood of unease spread rapidly through the financial markets as uncertainties mounted surrounding the looming Iraq war and the North Korean nuclear issue, resulting in soaring bond market demand for government and public bonds, a plunge in bond yields, and a narrowed spread between short-term and long-term rates. To tackle this, the Bank of Korea resumed over-the-counter sales of Monetary Stabilization Bonds (MSBs) after a nine-month lapse since April 2002 and expanded the supply of bonds, seeking to stabilize market interest rates.

As the SK Global's accounting scandal and credit card companies' insolvencies led to the massive redemption of investment trust companies' MMFs in March, the Bank of Korea announced measures to stabilize the financial market and supported liquidity promptly through open market operations, preventing the spread of market anxieties.

The Bank of Korea pumped in short-term liquidity amounting to 2 trillion won promptly through an RP purchase on March 13, and supplied another 2 trillion won through the outright purchase of government and public bonds and repurchase of MSBs prior to maturity on March 17.

Along with this, the Bank of Korea and the government jointly announced on March 17 comprehensive measures for credit card companies to stabilize the financial market, following this on April 3 with the unveiling of measures to resolve the liquidity problems of credit card and investment trust companies to stabilize the financial markets. As a mood of anxiety gripped in the financial markets upon the outbreak of the war against Iraq on March 20, the Bank of Korea that very day announced measures to stabilize the financial and foreign exchange markets. These called for the expansion in the supply of liquidity and of support to small- and medium-sized enterprises (SMEs). It also set up an emergency task force consisting of working level officials of relevant departments, in operation, which continued until the end of the Iraq war.

As Chohung Bank faced a crisis in June owing to customers' large-scale withdrawals of their deposits in connection with strike action to the sale of the bank, the Bank of Korea supplied 2 trillion won in short-term liquidity through an RP counterpart purchase on June 19 and

<Table 1> Main Measures Taken for Financial Market Stability

(During the year 2003)

	Background	Measures	Intended Effects
January	• Looming war in Iraq and North Korean nuclear issue	• OTC sales of MSBs (2 year maturity, 1.9 trillion won)	• Help stabilize market interest rates by expanding bond supply
March	• Accounting scandal at SK Global • Anxieties over ailing credit card companies • Heavy demands for redemption of ITC's MMFs	• Reverse RPs (2 trillion won) • Outright purchase of government bonds and repurchase of MSBs (2 trillion won)	• Supply urgently needed liquidity
〃	• Outbreak of Iraq war	• Constitution of emergency task-force	• Soothe financial & FX market anxieties
June	• Strike at Chohung Bank	• Reverse RPs (2 trillion won) • Liquidity Adjustment Loans (3 trillion won)	• Supply urgently needed liquidity

extended 3 trillion won in Liquidity Adjustment Loans as the lender of last resort on June 23. In November, the financial markets had a renewed attack of the jitters appearance again owing to the recurrence of liquidity problems at some credit card companies. However, judging that there was no problem in the level of market liquidity, the Bank of Korea refrained from supplying additional funds and paved the way for financial markets to absorb the shocks by themselves.

4. Credit Policy

During the year, the Bank of Korea flexibly adjusted the Aggregate Credit Ceiling in such a way as to expand financial support to small and medium exporters and provincial SMEs.

As small and medium exporters faced serious difficulties owing to a delay in the recovery of the world economy in the wake of the Iraq war and the spread of SARS, the central bank in May allotted 385 billion won, the unallocated reserve of the total amount available under the Aggregate Credit Ceiling of 9.6 trillion won, to supporting them. In October, it increased the scale of support for trade financing under Aggregate Credit Ceiling from 1.7 trillion won to 2.7 trillion won to help financial institutions extend more loans to small and medium exporters.

Along with this, in August the Bank of Korea raised the quota of the Aggregate Credit Ceiling made available to its regional branches from 3.6 trillion won to 4 trillion won in order to expand financial support to the provincial SMEs. In September, the Bank of Korea set aside an additional 85 billion won as emergency relief funds for SMEs that have suffered damage from typhoon “Maemi”.

Also, it made an exception to the rules and allowed the continued extension of trade financing to exporters who had received trade financing for production of export goods, but had been forced to entrust their production to other companies owing to flood damage. As for exporters facing difficulties in repaying trade financing because of shipment prob-

<Table 2> Trends of Aggregate Credit Ceiling and Lending Rate

	Dec. 1997~	March 1998~	Sept. 1998~	Jan. 2001~	Sept. 2001~	Oct. 2002~
Credit Ceiling(trillion won)	4.6	5.6	7.6	9.6	11.6	9.6
Lending rate (annual %)	5	5	3	3	2.5	2.5

lems arising from the damage of logistics facilities, the Bank of Korea allowed a prolongation of the period of the loans.

Meanwhile, the Bank of Korea continued its policy efforts to substitute cash-based payment for the use of bills in the settlement of commercial transactions between companies. For instance, the Bank of Korea lowered the ratio of its allocation of the Aggregate Credit Ceiling against performance in the discount of commercial bills from 50 percent to 30 percent in May, and further to 20 percent in October.

Helped by such efforts, bill substitution related loans such as Corporate Procurement Loans and Electronically-Processed Secured Receivables Loans increased by 4.2 trillion won from 14.5 trillion won at the end of the previous year to 18.7 trillion won at the end of 2003 on an outstanding basis. In particular, Electronically-Processed Secured Receivables Loans, introduced to help SMEs obtain payment from large companies for their supply of goods at an early date, rose by 2.9 trillion won from 3.4 trillion won at the end of 2002 to 6.3 trillion won at the end of 2003. The number of companies taking up such loans also more than doubled from 35 thousands to 71 thousands. As a result, the ratio of cash-based payments made through bill substitution related loans as opposed to commercial bills discounted went up from 104 percent at the end of 2002 to 142 percent at the end of 2003. However, judging that financial support should now be focused on small and medium exporters and SMEs outside the metropolitan areas, the Bank of Korea reduced the amount of the Aggregate Credit Ceiling for bill substitution related loans from 4.3 trillion won to 2.7 trillion won.

In a related context, as the necessity of enhancing monetary authorities' capacity

<Table 3> Trends of Bill Substitution Related Loans and Commercial Bills Discounted[1)]

Unit : billion won

	2002		2003			
	June	Dec.	March	June	Sept.	Dec.
Bill Sustitution Related Loans(A)	13,294.8	14,538.9	16,752.8	17,884.7	18,699.8	18,650.7
Corporate Procurement Loans	10,971.7	11,114.0	12,900.8	13,451.2	13,849.1	12,399.3
Electronically-Processed Secured Receivables Loans	2,323.1	3,424.9	3,852.0	4,433.5	4,850.4	6,251.4
Commercial Bills Discounted[2)](B)	14,246.8	14,035.2	12,959.9	12,810.4	12,377.1	13,157.1
A/B (%)	93.3	103.6	129.3	139.6	151.1	141.8

Notes : 1) Based on the end of month.
2) SME basis.

<Table 4> Trends of Outstanding Amount of Intra-day Overdrafts

(on a daily average basis)

Unit : billion won

	Dec.2001	Dec.2002	2003			
			March	June	Sept.	Dec.
Nationwide Commercial Banks	142.5	138.7	125.5	95.9	165.1	101.1
Local Banks	0.5	0.4	0.4	0.4	1.3	0.1
Specialized Banks	21.1	13.6	11.8	5.5	28.4	9.5
Foreign Banks' Branches	56.8	155.9	160.7	162.6	131.9	142.2
Total	220.9	308.6	298.4	264.4	326.7	252.9

<Table 5> Current Lending System of the Bank of Korea

(As of the end of Dec. 2003)

	Function	Loan Ceiling	Lending Rate	Maturity
Aggregate Credit Ceiling Loans	• Induce the expansion of bank loans to small and medium enterprises	9.6 trillion won	2.5% p.a.	one month
Liquidity Adjustment Loans	• Signal monetary policy direction by flexible adjustment of their lending rate • Stabilize the financial market by supplying necessary liquidity promptly to banks if and when they apply for borrowings due to temporary shortages of liquidity	5 trillion won	3.5% p.a. (in case of borrowings for more than three straight months 4.5% 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% points	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 account balance with the BOK on an average outstanding basis	No interest charged	close of business on same day
Special Loans	• Lender of last resort loans	Operate as required		

to cope effectively with financial institutions' liquidity shortages became apparent at the time of large-scale withdrawals of deposits from Chohung Bank in June, the Bank of Korea raised the ceiling on Liquidity Adjustment Loans from 3 trillion won to 5 trillion won from the third quarter.

The outstanding of intra-day overdrafts, which are used to smooth out the flow of payment settlements between financial institutions, declined to 252.9 billion won in December 2003 on a daily average basis from 308.6 billion won in the same month of the previous year.

III. The Bank of Korea's Conduct of Its Business

1. Payment and Settlement Business

During the year under review, the Bank of Korea conducted payment and settlement business placing its emphasis on the establishment of a framework of oversight for the payment and settlement system, the reduction of settlement risks, and the enhancement of convenience for financial consumers. In this, it sought the operation of the nation's payment and settlement system in a safe and effective manner.

As a first step, the Bank of Korea fully revised the "Regulation on the Operation and Management of the Payment and Settlement System" in December in readiness for the entry into effect (Jan. 1, 2004) of the revised "Bank of Korea Act," which grants the central bank the authority to manage and oversee the payment and settlement system as a whole.

Through the revision of this secondary legislation, the Bank of Korea clarified details of the scope of its oversight of the payment and settlement system, the individual payment and settlement systems subject to oversight, and appraisal standards. In the scope of matters pertaining to its oversight of the payment and settlement system, the central bank included the selection and classification of the individual payment and settlement systems subject to its oversight, the appraisal of safety and effectiveness, and orders for the improvement of appraisal results.

As the payment and settlement systems subject to its oversight, the Bank of Korea selected the payment and settlement system operated by the central bank itself (BOK-Wire), other payment and settlement systems where netted settlement is made through fund transfers across current accounts held at the central bank (the retail payment system of Korea Financial Telecommunications and Clearings Institute), and payment and settlement systems linked with BOK-Wire (the over-the-counter traded bond settlement system of Korea Securities Depository). Also, the Bank of Korea classified the payment and settlement systems into Systematically Important Payment Systems, Prominently Important Payment Systems, and other payment systems according to their degree of importance in the financial market, applying different appraisal methods and timing to each class. The Bank of Korea set the standards and timing for appraisal of the safety and effectiveness of the payment and settlement systems subject to its oversight, and it clarified materials that the central bank can request from institutions operating the payment and settlement systems subject to its oversight.

To enhance the safety of the BOK-Wire, besides, the Bank of Korea strengthened the qualifications on eligibility to join the BOK-Wire from the previous "institutions engaging in current account transactions with the central bank" to "institutions which are eligible to conduct current account transactions with the central bank, satisfy the management guidelines set by relevant supervisory institutions, and whose average monthly frequency of utilisation of the system exceeds a certain level." At the same time, in case that the result of the Bank of Korea's appraisal of a payment and settlement system falls behind a certain level, it is entitled to demand that either the operating institution or the body with responsibility for its supervision effect an improvement in the standard of operation.

The Bank of Korea gave deep consideration to various measures of reducing settlement risks. As an initial move, it changed the method of call funds settlement to one involving the use of BOK-Wire, putting this into practice in order to reduce settlement risk arising from the use of promissory notes in call transactions. To galvanise collateralized call transactions and reduce settlement risk, the Bank of Korea added collateralized call transactions intermediated by money market brokers to the eligible objects of transactions through the delivery versus payment (DVP) system of BOK-Wire, which enables the simultaneous supply of call funds and the delivery of collateral securities, and the subsequent simultaneous redemption of the call loan and the handing-back of the securities put up as collateral.

The Bank of Korea also pressed ahead with the construction of a payment versus payment (PVP) system, scheduled to be brought into operation by the end of 2004 to reduce foreign exchange settlement risk. Approval was given, in principle, by the board of directors of Continuous Linked Settlement (CLS) Bank to the designation of the Korean won as a settlement currency. CLS Bank is the bank specializing in the simultaneous settlement of international foreign exchange that has been set up by subscription from major commercial banks. Kookmin Bank and Korea Exchange Bank completed their investment in CLS Bank in September to qualify as settlement members. In keeping with this, the Bank of Korea prepared the institutional and technical environment for domestic banks to introduce PVP using the CLS bank system while pressing ahead with the task of linking the CLS Bank system and domestic banks, and the CLS Bank system and BOK-Wire.

Along with this, the Bank of Korea improved retail payment systems to heighten convenience in settlement for financial consumers. As a first step, it widened the scope of eligibility for transactions over the CD System of Korea Financial Telecommunications and Clearings Institute (KFTC), making possible the payment of public utilities charges through CD/ATM. It also added regional health premiums to the objects of transactions through the Electronic Bill Presentment and Payment (EBPP) of KFTC, enabling customers to pay taxes or public utility charges through Internet. To prevent illegitimate withdrawals of deposits through forged bank magnetic debit cards, the Bank of Korea pushed for the banks' joint project to convert magnetic debit cards into financial IC cards with a high degree of security. To this end it established standards for financial IC cards.

And the Bank of Korea enabled banks that had purchased domestic L/C bills to refer to the opening bank for relevant information through the Electronic Banking System of KFTC. It also changed the method of Korean won-denominated net settlement of domestic L/C bills from physical document exchange to electronic document exchange.

On the occasion of the strike of Chohung Bank's staff, the Bank of Korea mapped out emergency measures to ensure that all payment and settlement systems, including the BOK-Wire, would operate without incident. In preparation for the expected liquidity shortage of Chohung Bank, the central bank completed the registration and screening procedures for securities eligible as collateral for the extension of Liquidity Adjustment Loans, allowing them to be made promptly at the appropriate time. Besides this, in line with to the BOK-Wire contingency plan, the Bank of Korea carried out a simulated training exercise, which calls for the manual dealing of the fund transfer businesses between financial institutions, in order to maintain the BOK-Wire service without interruption in the event of emergency, such as a failure of computer systems or the occurrence of disaster or terrorism.

During the year under review, the daily average number of transactions through BOK-Wire was 6,412 for a total value of 88,042 billion won, showing an increase of 16.5 percent in volume and 9.7 percent in value over the previous year. The number of BOK-Wire participants was 128 including 58 banks at the end of 2003, an increase of two from the previous year.

<Table 6> Settlement Through BOK-Wire[1)]

Unit : number, billion won, %

	2002 (A)		2003 (B)		change (B-A)	% change
< Volume >						
Domestic Currency Funds Transfer	4,735	(86.0)	4,992	(77.9)	257	5.4
(Gross Settlement)	3,984	(72.4)	4,329	(67.5)	345	8.7
(Net Settlement)	751	(13.6)	663	(10.4)	-88	-11.7
Treasury Funds Receipt and Payment	730	(13.3)	1,379	(21.5)	649	88.9
BOK Loans and Discounts	27	(0.5)	26	(0.4)	-1	-3.7
Government and Public Bonds	11	(0.2)	15	(0.2)	4	36.4
Total	5,503	(100.0)	6,412	(100.0)	909	16.5
Foreign Exchange Funds Transfer	9	(-)	10	(-)	1	11.1
< Value >						
Domestic Currency Funds Transfer	76,961	(95.8)	83,930	(95.4)	6,969	9.1
(Gross Settlement)	62,812	(78.2)	70,041	(79.6)	7,229	11.5
(Net Settlement)	14,149	(17.6)	13,889	(15.8)	-260	-1.8
Treasury Funds Receipt and Payment	1,808	(2.3)	2,290	(2.6)	482	26.7
BOK Loans and Discounts	883	(1.1)	915	(1.0)	32	3.6
Government and Public Bonds	633	(0.8)	907	(1.0)	274	43.3
Total	80,285	(100.0)	88,042	(100.0)	7,757	9.7
Foreign Exchange Funds Transfer ($ million)	88	(-)	112	(-)	24	27.3

Note : 1) On the daily average basis. Figures in parentheses are percentage shares in total.

2. Supervision of Banks

During the year under review, the Bank of Korea gathered on-site information about financial institutions necessary for effective implementation of monetary policy either by undertaking joint examinations of banks with the Financial Supervisory Service (FSS) or by requesting the FSS to carry out the examination of financial institutions directly. It kept a constant watch on the stability of the financial system, publishing "Financial Stability Report," analysing the financial status of financial institutions, and surveying their risk management and lending policies.

In this context, the Bank of Korea selected 4 financial institutions and requested the FSS to examine them during the year. It also conducted joint examinations of 11 financial institutions with the FSS, capturing on-the-spot information necessary for the establishment of monetary and credit policy, including banks' financial status, the operation of their assets, their man-

<Table 7> Trends of Joint Examinations and Examination Requests

Unit : number

	Joint Examination						Examination Request					
	1999	2000	2001	2002	2003	Total	1999	2000	2001	2002	2003	Total
Domestic Banks	-	3	10	10	8	31	11	10	1	4	4	30
Foreign Banks' Branches	-	-	3	3	3	9	11	20	17	15	-	63
Total[1)]	- (-)	3 (13)	13 (74)	13 (85)	11 (56)	40 (228)	22 (13)	30 (11)	18 (-)	19 (6)	4 (6)	93 (36)

Note : 1) Figures in parentheses are the number of uncovered instances of the violation of regulation or the commission of errors in handling business.

agement strategies, and other relevant matters. Besides, the Bank of Korea checked financial institutions' compliance with regulations and guidelines related to monetary and credit policy such as lending under the Aggregate Credit Ceiling, reserve requirement for deposits, and payment and settlement. In the course of these examinations, the Bank of Korea brought to light a total of 56 instances of the violation of regulation or the commission of errors in handling business.

The Bank of Korea also published "Financial Stability Report" twice during the year, in April and October, comprehensively appraising the stability of the nation's financial system after surveying the risk factors affecting it, including macroeconomic conditions, changes in the financial market environment, the debt servicing capacity of households and enterprises, the soundness of banks, the financial infrastructure, and changes in domestic and foreign financial systems.

The Bank of Korea conducted surveys on risk management of banks, interviews on their lending behavior, and analysis on their management status by use of two analytical models; namely the trend analysis model (CLEAR Model) and the forecast analysis model (FORESEE Model). Its findings formed a basic resource for the establishment of monetary policy and for the routine supervision of financial institutions. Along with this, in connection with Basel II, the new BIS capital adequacy regulation system scheduled for introduction at the end of 2006, the Bank of Korea published materials analyzing its effects on domestic banks and appropriate measures to accommodate them. It also held explanatory meetings for domestic bank officials, encouraging domestic financial institutions to make careful preparations in advance.

In the meantime, the Bank of Korea

moved forward with the conclusion from August 2003 of a Memorandum of Understanding (MOU) with the FSS, the KDIC for an expansion in the sharing of information.

3. Foreign Exchange and International Finance Business

(1) Foreign Exchange Management Business

The Bank of Korea revised the "Procedures for Handling Foreign Exchange Transaction Business" on April 1, enabling foreign exchange banks to apply at any time for separate recognition of the ceiling on foreign exchange positions.

To improve its external credibility and heighten the international compatibility of its statistics, the Bank of Korea established new compilation standards for external assets and liabilities statistics in accordance with the Debt Guide worked out in November 2001 by 9 international organizations including the IMF. The Bank began to apply the new standards to statistics from the end of June. Under the new compilation standards for external liabilities, Korean won-denominated liabilities and funds raised by domestic companies' headquarters from overseas have been added to foreign currency-denominated debt, and the period for compilation and public disclosure has been changed from monthly to quarterly.

Through an amendment of the "Regulation on Reserve Requirements for Foreign Currency Deposits" on September 8, the Bank of Korea applied the same high reserve requirement ratio of 5 percent on short-term foreign currency time deposits with a deposit period of less than one month and foreign currency notice deposits as on Korean won-denominated deposits.

(2) International Finance Business

Korea's official international reserves amounted to 155.4 billion U.S. dollars as of the end of 2003, representing an increase of 33.9 billion U.S. dollars over the previous year-end. This build-up of the reserves resulted mainly from the year-round maintenance of an oversupply of foreign exchange, a steady inflow of earnings from operation of the Bank of Korea's foreign currency assets holdings, and gains from the translation into U.S. dollars of yen- and euro-denominated assets.

Breaking the reserves down by component, foreign exchange, which comprises both deposits and securities, amounted to 154.5 billion U.S. dollars as of the end of 2003, representing an increase of 33.7 bil-

<Table 8> Changes in International Reserves

Unit : million U.S.$

	End of 2002	End of 2003	Change
International Reserves	121,412.5	155,352.4	33,939.9
Gold	69.2	70.9	1.7
SDRs	11.8	21.0	9.2
Reserve Position in IMF	520.2	751.6	231.4
Foreign Exchange	120,811.4	154,508.8	33,697.4

lion U.S. dollars from the previous year-end. The nation's reserve position in the IMF increased by 231 million U.S. dollars during the year to stand at 752 million U.S. dollars, but holdings of gold and SDRs showed relatively little change.

As the international reserves increased sharply during the year, the Bank of Korea made strenuous efforts to improve its ability to operate the reserves so as to heighten profitability of its holdings of foreign currency assets while securing their safety and liquidity. As part of these efforts, the Bank of Korea had undertaken reform of related organization by expanding the previous sub-department (office) to an independent department in May 2000. And following establishing a local operation desk in its New York and London representative offices in 2001 and 2002 respectively, it began to operate a night desk at its headquarter from July 2003, building a 24-hour operation system.

Meanwhile, the Bank of Korea paid 89.78 million U.S. dollars in subscriptions or contributions to various international financial institutions in Korean won and convertible currencies for the alleviation of poverty and the economic development of developing countries and those that have emerged from conflicts.

Turning to international organizations, the Bank of Korea subscribed 50 billion won (41.94 million U.S. dollars) to the International Development Association (IDA); 16.4 billion won (13.8 million U.S. dollars) to the African Development Fund(AfDF); 370 million yen (3.19 million U.S. dollars) to the European Bank for Reconstruction and Development(EBRD); and 500 million won (380 thousand U.S. dollars) to the African Development Bank(AfDB). In addition, the Bank of Korea contributed 23.4 billion won (19.67 million U.S. dollars) to the Asian Development Fund(ADF); 10 million U.S. dollars to the International Development Association(IDA); 770 thousand U.S. dollars to the IMF; and 30 thousand U.S. dollars to the Common Fund for

Commodities(CFC).

The Bank of Korea also concluded 1 billion U.S. dollar currency swap contract with the central bank of Indonesia on December 24. Since the CMI (Chiang Mai Initiative), an agreement of finance ministers at the ASEAN+3 meetings held at Chiang Mai in Thailand in May 2000, Korea has concluded currency swap contracts having a total value of 8 billion U.S. dollars with six countries, China, Japan, Thailand, Malaysia, the Philippines, and Indonesia, bolstering the system of financial cooperation among regional central banks in readiness for the possible occurrence of a crisis.

Besides this, the Bank of Korea played a full and committed part in the activities of organizations for cooperation among central banks, including Bank for International Settlements (BIS), Executive Meeting of East Asian and Pacific Central Banks (EMEAP), and South East Asian Central Banks (SEACEN). Along with this, the Bank of Korea played an active role at the G-20 Meeting, comprising advanced countries and major newly emerging market economies. This meeting made it possible to check the pulse of the global economy, while engaging in discussion of ways to avoid and resolve sovereign debt crises, upgrade financial systems, and secure funds for development. In parallel with this, the Bank of Korea participated actively in the Asian Bond Fund, which is being promoted by EMEAP for the development of the region's bond markets and the effective operation of member central banks' foreign currency assets.

In addition, the Bank of Korea invited central bank officials of developing and transition countries, including Vietnam, Cambodia and Thailand, in September to take part in a Central Banking Study Program on the central bank's businesses and the payment and settlement system.

4. General Business

(1) Loans and Deposits

During the year under review, following the increased Aggregate Credit Ceiling, the Bank of Korea's outstanding loans to financial institutions rose by 1,863.8 billion won to stand at 9,824.9 billion won at the end of 2003.

The rise in central bank lending under the Aggregate Credit Ceiling was attributable to an additional allocation of 385 billion won in the quota for small and medium exporters and regional SMEs, coupled with the restoration to its previous level of the credit quota for banks that had their allocations cut by a total of 1.1 trillion won in 2002 because of failure to comply with the guideline ratio on

<Table 9> Loans and Discounts of the Bank of Korea[1]

Unit : billion won

	Outstanding[2]		Change during	
	2002	2003	2002	2003
Aggregate credit ceiling	7,591.1	9,454.9	-3,119.1	1,863.8
General loans	-	-	-4.9	-
Loans for the procurement of fertilizer	370.0	370.0	-	-
Other loans	-	-	-	-
Total	7,961.1	9,824.9	-3,124.0	1,863.8

Notes : 1) Excludes loans to government.
2) Based on the end of year.

lending to SMEs.

Meanwhile, deposits with the Bank of Korea, which had increased by 6,849.3 billion won the previous year, rose by a further 15,653.6 billion won during the year under review. The increase in Korean won deposits narrowed from the previous year's 2,987.5 billion won to 2,278.7 billion won in 2003, but that in foreign currency deposits expanded from the previous year's 3,861.8 billion won to 13,374.9 billion won centered on Foreign Exchange Stabilization Fund deposits. Accordingly, the outstanding deposits with the Bank of Korea totaled 49,852.0 billion won at the end of 2003, which broke down into 18,068.6 billion won for Korean won deposits and 31,783.4 billion won for for-

<Table 10> Deposits with the Bank of Korea

Unit : billion won

	Outstanding[2]		Change during	
	2002	2003	2002	2003
Won deposits	15,789.9	18,068.6	2,987.5	2,278.7
Reserve deposits by deposit money banks	13,907.0	16,351.8	3,325.4	2,444.8
Non-residents deposits[1]	1,882.9	1,716.8	-337.9	-166.1
Foreign currency deposits	18,408.5	31,783.4	3,861.8	13,374.9
Reserve deposits by deposit money banks	1,052.4	1,204.0	167.3	151.6
Deposits by Foreign Exchange Stabilization Fund	17,356.1	30,579.4	3,694.5	13,223.3
Total	34,198.4	49,852.0	6,849.3	15,653.6

Notes : 1) Won deposits of international organizations, including IMF.
2) Based on the end of year.

eign currency deposits.

(2) Issuance of Banknotes and Coins

During the year, a total of 29,670.9 billion won in banknotes and coins was issued, and a total of 29,354.1 billion won withdrawn, resulting in a net issuance of 316.8 billion won. Accordingly, the outstanding issuance of banknotes and coins represented an increase of 1.3 percent over the previous year-end to 24,490.9 billion won at the end of 2003.

The deceleration in the rate of growth of the outstanding issuance of banknotes and coins compared with the previous year's 8.2 percent rise was attributable to sluggish demand for cash in private sector as a result of the economic slowdown. In particular, the net issuance of coins represented a mere 36.5 billion won, the lowest level since 1998. This was ascribable to the fact that the issuance of coins reduced while withdrawal of coins from circula-

<Table 11> Banknotes and Coins Issued by Denomination[1]

Unit : billion won, %

	2002[2]		2003			2003[2]	
	Outstanding		Issued (A)	Withdrawn (B)	Change (A-B)	Outstanding	
Banknotes	22,834.2	(94.5)	29,587.1	29,306.8	280.3	23,114.5	(94.4)
10,000 won	21,105.5	(87.3)	28,320.2	28,078.4	241.7	21,347.2	(87.2)
5,000 won	760.8	(3.2)	579.0	549.5	29.6	790.4	(3.2)
1,000 won or less	967.9	(4.0)	687.9	678.9	8.9	976.9	(4.0)
Coins	1,339.9	(5.5)	83.8	47.3	36.5	1,376.4	(5.6)
Total	24,174.1	(100.0)	29,670.9	29,354.1	316.8	24,490.9	(100.0)

Notes : 1) Figures in parentheses are percentage shares in total banknotes and coins in circulation.
2) Based on the end of year.

<Table 12> Production of Banknotes and Coins[1]

Unit : billion won, millions, %

	Value		Number	
	2002	2003	2002	2003
Banknotes	7,650.0 (59.1)	9,168.0 (19.8)	1,220.0 (37.5)	1,369.0 (12.2)
Coins[2]	110.0 (-1.2)	112.2 (2.1)	800.0 (-22.3)	834.0 (4.2)
Total	7,760.0 (57.7)	9,280.2 (19.6)	2,020.0 (5.4)	2,203.0 (9.0)

Notes : 1) Figures in parentheses refer to percentage changes compared with the previous year.
2) Excludes commemorative coins.

tion increased remarkably due to a sharp rise in the reentry into circulation of coins that had been temporarily hoarded.

The respective shares of banknotes and coins in currency issued were 94.4 percent and 5.6 percent.

Meanwhile, new banknotes and coins received by the Bank of Korea after placing orders with Korea Minting & Security Printing Corp. amounted to 9,280.2 billion won in value, up 19.6 percent from the previous year. This consisted of 1,369 million banknotes and 834 million coins, up 12.2 percent and 4.2 percent, respectively, from the previous year.

(3) Treasury Transactions

During the year, Treasury funds received came to 1,115,318.5 billion won, and those disbursed reached 1,121,014.3 billion won, resulting in a net disbursement of 5,695.8 billion won. This narrowed the year-end figure of government deposits from 11,177.7 billion won at the end of the previous year to 5,481.9 billion won.

As for loans to government, the Bank of Korea lent a total of 1,940.0 billion won to the Special Account for Grain Management and collected 950.0 billion won that had been extended to that same account. The Bank of Korea lent 3.5 trillion won and 100 billion won to the General Account and in revolving funds to the Procurement Special Account, respectively, and subsequently collected the entire amount of the loans. As a result, the balance of loans to government at the end of the year increased by 990 billion won over the previous year to stand at 1.94 trillion won.

Following the assent of the National Assembly to an increase in the upper limit of government borrowings from the central bank, the Bank of Korea fixed an over-

<Table 13> Loans to Government

Unit : billion won

	2002[1]	2003			2003[1]
	Outstanding	Loans (A)	Redemption (B)	Change (A-B)	Outstanding
Special account for grain management	950.0	1,940.0	950.0	990.0	1,940.0
General account	0.0	3,500.0	3,500.0	0.0	0.0
Procurement special account (revolving funds)	0.0	100.0	100.0	0.0	0.0

Note : 1) Based on the end of year.

<Table 14> Ceilings on Loans to Government

Unit : billion won

	2002	2003 (A)	2004 (B)	Change(B-A)
Ceiling on Temporary Loans	7,824.4	7,500.0	10,630.0	3,130.0

all ceiling on its loans to government in 2004 at 10.63 trillion won, an expansion of 3.13 trillion won from the previous year.

Meanwhile, the number of Treasury collection agencies of financial institutions, which handle Treasury business, increased by 116 from the end of the previous year to stand at 10,646 at the end of 2003. This was mainly ascribable to the fact that the most newly opened branches of financial institutions during the year were designated as Treasury collection agencies.

The operating volume of Treasury surplus funds during the year increased by 15,462.4 billion won over the previous year to 34,827.0 billion won, with the entire amount being utilized in support for the circulating of government bonds by primary dealers.

In a further initiative, from January 1, 2003, the Bank of Korea changed the method of payment for Treasury funds from the use of Treasury checks to a real-time electronic transfer system linked with the computer systems of the government, the Bank of Korea, and financial institutions.

(4) Securities Operations

During the year, Monetary Stabilization Bonds (MSBs) to the value of 91,735.0 billion won were issued, while MSBs to the value of 70,516.2 billion won were redeemed, resulting in a net issuance of 21,218.8 billion won. As a result, MSBs outstanding totaled 105,496.7 billion won, which represented an increase of

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

Unit : billion won

	2002[1]	2003			2003[1]
	Outstanding	Issuance (A)	Redemption (B)	Change (A-B)	Outstanding
Monetary Stabilization Bonds	84,277.9	91,735.0	70,516.2	21,218.8	105,496.7

Note : 1) Based on the end of year.

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

Unit : billion won

	2002[2]	2003			2003[2]
	Outstanding	Issuance (A)	Redemption (B)	Change (A-B)	Outstanding
Treasury Bonds	55,615.2	34,520.0	8,651.9[3]	25,868.1	81,483.3
Foreign Exchange Stabilization Fund Bonds	15,849.9	7,800.0	0.0	7,800.0	23,649.9
Total	71,465.1	42,320.0	8,651.9	33,668.1	105,133.2

Notes : 1) Issuance and redemption of government bonds by the Bank of Korea acting for the government.
2) Based on the end of year.
3) Includes early redemption(Buy-back) of 1,600 billion won worth of bonds.

25.2 percent compared with the previous year. The steep rise in MSBs outstanding was ascribable to the expansion in the issuance of securities to siphon off the supply of liquidity through the overseas sector thanks to a widened current account surplus.

Meanwhile, government bonds whose issuance and redemption are handled by the Bank of Korea, registered a total issuance of 42,320.0 billion won during the year, while 8,651.9 billion won worth was redeemed. This brought the year-end's outstanding balance to 105,133.2 billion won, an increase of 33,668.1 billion won over the figure at the preceding year-end. By type of government bonds issued, there were net issuances of Treasury Bonds amounting to 25,868.1 billion won to raise funds for the compilation of a supplementary budget and the repayment of public funds, and of Foreign Exchange Stabilization Fund Bonds to the tune of 7.8 trillion won in order to stabilize the exchange value of the Korean won.

The volume of the Fungible Issue, the term given to a system whereby government 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 33,560.0 billion won, representing 79.3 percent of government bonds issued during the year, a remarkable rise from the previous year's 59.4 percent.

(5) Government Funds Management

The Public Capital Management Fund, which was established by the government to integrate the management of public funds, raised a total of 59,805.7 billion won through the issuance of Treasury Bonds, deposits from other funds and the

Post Office. It placed deposits amounting to 31,405.7 billion won with the Fiscal Financing Special Account, the General Account, and the Public Fund Redemption Fund, and the Foreign Exchange Stabilization Fund. The Public Capital Management Fund made redemption of 8,651.9 billion won in interest and principal on Treasury Bonds, and paid out 13,567.3 billion won in interest and principal on deposits it had received. Accordingly, these left a net surplus of 53.1 billion won for the period, and the Fund's assets stood at 114,095.8 billion won as of the end of the year.

The Public Fund Redemption Fund, which was set up to smooth the redemption of liabilities taken on for the purpose of financial restructuring by the Deposit Insurance Fund Bond Redemption Fund and the Non-performing Asset Resolution Fund, mobilized a total of 16,500.5 billion won, which broke down into 14,400.5 billion won from the issuance of Treasury Bonds and 2.1 trillion won in the transfer of funds from the General Account. And it paid out a total of 16,194.7 billion won, which consisted of 12,689.0 billion won to the Deposit Insurance Fund Bond Redemption Fund and 3,505.7 billion won to the Non-performing Asset Resolution Fund.

For its part, the Foreign Exchange Stabilization Fund raised a total of 18,936.7 billion won, consisting of 7.8 trillion won from the issuance of Korean won-denominated bonds, 1.2 trillion won from the issuance of foreign currency-denominated bonds, 5 trillion won from deposits at the Public Fund Management Fund, and 2,913.7 billion won from withdrawals of its foreign currency deposits. Among the uses of the Fund, 16,023.1 billion won was operated in the form of foreign currency deposits and 2,767.8 billion won was utilised for the payment of interest on Foreign Exchange Stabilization Bonds and the redemption of their principal. The assets of the Fund amounted to 30,865.1 billion won at year-end, an increase of 12,433.3 billion won compared to the previous year-end. The Fund recorded a net deficit of 521.9 billion won for the year mainly due to the negative spread between the interest rate on bonds issued and that obtained on the operation of its foreign currency-denominated assets.

Besides, the Bounty Fund on Farmers' and Fishermen's Property Formation Deposit raised a total of 199.7 billion won during the year, consisting principally of contributions of 76.1 billion won from the government and 92.4 billion won from the Bank of Korea. It utilized 126 billion won, mainly in the payment of legal subsidies to depositors, and recorded a net profit of 1.6 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

The government and the Bank of Korea closely monitored the trends of foreign exchange transactions during the year, while continuing their efforts to stabilize the foreign exchange market.

Firstly, in preparation for the possibility of abrupt inflow and outflow of capital, the trends of foreign exchange transactions were closely monitored in real time through the Foreign Exchange Information Network and the Early Warning System. At the same time, the system of surveillance by the Korea Financial Intelligence Unit to guard against illegal fund transactions was augmented .

The exchange rate of the won against the U.S. dollar was allowed to be formed automatically according to the interplay of demand and supply in the foreign exchange market. Appropriate measures were, meanwhile, devised to deal with sudden large fluctuations of the exchange rate within a short-term period resulting from domestic or external shocks both at home and abroad or temporary imbalances between demand and supply. In this connection, the government newly issued a total of 12.8 trillion won worth of Korean won-denominated Foreign Exchange Stabilization Fund Bonds and Treasury Bonds on 12 occasions during the year to secure funds for foreign exchange transactions designed to smooth out temporary imbalances between demand and supply.

In the meantime, the government issued U.S. dollar-denominated Foreign Exchange Stabilization Fund Bonds to the value of 1 billion dollars for the purpose of improving borrowing conditions through the creation of a benchmark interest rate for Korean bonds in the international financial market. The government also repaid 3.8 billion U.S. dollars out of the 10.7 billion U.S. dollars worth of public loans it had taken out from the International Bank for Reconstruction and Development (IBRD) and the Asian Development Bank (ADB) when Korea experienced a foreign exchange crisis.

(2) Upgrading the Foreign Exchange System

The government continued its efforts to

upgrade the foreign exchange market .

Firstly, through an amendment of the “Foreign Exchange Transaction Regulation” in January, the government allowed post office to handle gift-type payments and donations by Korean residents of less than 1,000 U.S. dollars. It also raised the ceiling on capital of an overseas financial institutions established by a non-financial institution resident from 100 million U.S. dollars to 300 million U.S. dollars per investment project. In November, for cases where a foreign invested company having made a domestic investment of over 10 million U.S. dollars makes an offsetting transaction about trading amounts, the government eased the relevant requirement from filing a report with the Governor of the Bank of Korea to filing a report with the head of a foreign exchange bank. From December, for cases where residents bring in foreign currency-denominated checks received as the proceeds of exports by method other than by physically carrying them, approval from the Governor of the Bank of Korea was no longer required.

In January, meanwhile, for cases where a foreign company intends to issue Korean won-denominated bonds, the government eased standards for the public disclosure of its financial information, preparing the foundation for the integration of the domestic capital market with international markets. In March, the government expanded the scope of residents’ investment in foreign currency securities by allowing them to invest in corporate bonds issued by foreign companies and in corporate bonds issued by domestic companies abroad, with investment grade rating.

For banks and merchant banking corporations, the government raised the minimum foreign currency liquidity ratio for obligations falling due within three months to 85 percent and that for the raising of financial resources through medium- and long-term foreign currency-denominated loans to 80 percent with effect from April 2004. The purpose of this move was to strengthen financial institutions’ capacity to deal with possible uneasiness in global financial markets.

Along with this, to link foreign exchange transactions with stock and bond transactions in real time, the opening and closing hours of the foreign exchange market were changed to bring them into line with securities markets from 9:30 and 16:30 to 9:00 and 16:00 from January 2004 onwards and the lunchtime closure of the foreign exchange market was discontinued.

2. Financial System Management

(1) Revision of the Bank of Korea Act

The “Bank of Korea Act” was revised to heighten the central bank’s neutrality and independence and augmented its functions. The revised legislation entered into effect on January 1, 2004.

Viewing the major points of the revision, the Korea Securities Dealers Association lost its right to recommend a member of the Monetary Policy Committee. Instead, it was provided that the Deputy Governor of the Bank of Korea should serve as an ex officio member. The procedure for the appointment of the Deputy Governor was changed from the previous direct appointment by the Governor to appointment by the President at the recommendation of the Governor.

Next, “fundamental matters concerning the operation and management of the payment and settlement system” were added to matters falling within the authority of the Monetary Policy Committee. Moreover an additional clause was inserted concerning payment and settlement business, which had previously been classified under other business. Specifically, the Bank of Korea was given the right to decide all necessary matters concerning payment and settlement systems operated by the central bank itself and to request institutions participating in them to submit relevant documentation to it. Concerning payment and settlement systems operated by institutions other than the Bank of Korea, the central bank was authorised to request institutions operating the systems or the relevant supervisory institutions to improve the operating standards. At the same time, under the revised legislation the Bank of Korea may require operating institutions to submit relevant materials to it, and all such requests must be met.

In regard to monetary policy, the Bank of Korea was freed from the obligation to set an inflation target on an annual basis imposed by the basic provisions concerning the inflation targeting system where the revised legislation provides for the establishment of a medium-term inflation targeting system. The frequency with which the Bank of Korea should report to the National Assembly about the implementation of monetary policy increased from at least once a year previously to at least twice a year.

Whereas hitherto the Bank of Korea had been required to obtain the prior approval of the Minister of Finance and Economy for its entire budget for expenditure, this was only required for that part of the budget devoted to salaries and compensation under the revised provisions.

Concerning bank supervision, the article stipulating that the FSS should comply with the request of the Bank of Korea in case the central bank requests the examination or joint examination of banks was revised so as to provide that the FSS should comply forthwith with such requests.

(2) Legislative Activity in the Financial Field

During 2003, the government revised legislation relating to finance with an emphasis on the protection of financial consumers and investors, the improvement of financial institutions' governance and the easing of financial regulation.

A. Strengthening the Protection of Financial Consumers

To strengthen the protection of financial consumers, the government introduced a system for the comparison and public disclosure of insurance contracts, while prohibiting insurance agents from engaging in sales activities for insurance products using improper methods.

As a first step, under the revised "Insurance Business Act" and its "Enforcement Decree" (implemented on Aug. 30, 2003; the following dates in parentheses refer to implementation dates) the requirement was imposed for the public disclosure of matters relating to insurance product, including insurance contracts, premiums, policy surrender values, and expected rates of interest. It was also made obligatory for the insurance association to set up an Insurance Product Notification Committee and to compare and disclose details of each insurance company's products' premium, insurance benefit, insurance period, insurance risk, premium rate and reasons for the exemption of responsibility on the part of insurers.

The activities to sell insurance products through the offering of money and other valuables, the vicarious payment of premiums, and the offering of special profits including the reduction of premiums without reasonable justification, were all prohibited under the revised legislation while sanctions against the violation of these provisions were strengthened. Following the provisions of this revised Act allowing financial institutions other than insurance firms, such as banks and securities companies, to sell insurance products, such institutions were prohibited from engaging in unfair or inappropriate activities to attract customers. For instance, insurance agents of financial institutions were barred from demanding the conclusion of an insurance contract as a condition for the provision of services such as the extension of a loan by the financial institutions concerned, including loans, and from including insurance premiums in loans without the consent of the contracting party.

To protect victims, in the case of compulsory insurance contracts where insurance is mandatory under various individual pieces of legislation, including the "Automobile Damage Compensation Guarantee Act," the "City Gas Business Act," the "Seamen's Act," and the "Basic Act for Youth," and where compensation for damages cannot be paid to victims owing to the cancellation of the business license of an insurance company or its insolvency, the revised legislation provides that in its place the Korea Non-life Insurance Association shall pay to the victims that part of the insured amount exceeding the sum (50 million won) guaranteed under the Depositor Protection Act up to the amount guaranteed by the specific legislation concerned.

The "Industrial Bank of Korea Act" (Dec. 11, 2003) was revised. According to its revised provisions, in case a small- and medium-sized company transacting with the Industrial Bank of Korea losses its status as such due to expansion of its scale, it may continue to transact with this Bank retaining its status as a small- and medium-sized company for a period of three years from the year following its declassification.

B. Strengthening the Protection of Investors

The "Indirect Investment Asset Management Business Act" (promulgated on October 4, 2003 and implemented on January 5, 2004) was passed to galvanise the asset management industry and strengthen protection for those placing investments with it by making identical asset management activities subject to identical regulations and widening the range of eligibility for the operation of assets under management. The new legislation consolidated the previous "Securities Investment and Trust Business Act" regulating investment trust management companies and the "Securities Investment Company Act" regulating mutual funds.

For the protection of investors, an investment trust fund, one of indirect investment institutions, was directed to establish a general meeting of beneficiaries consisting of all beneficiaries and gain its approval in the event of change of important stipulations of the entrustment contract or articles of incorporation, such as a rise in commissions, alteration of the period of entrustment and of the period of establishment of the investment company. At the same time beneficiaries holding at least 5 percent of the total beneficiary certificates were granted the right to call a general meeting of beneficiaries, while those beneficiaries opposed to decisions taken by the general meeting of beneficiaries were given the right to demand that the company purchase their beneficiary certificates.

When drawing up or changing a prospectus describing investment by an asset management company in charge of the operation of indirect investment assets, it was obligatory to receive confirmation from a trustee company or an asset depository company that its contents were in compliance with relevant legislation and the articles of the entrustment contract. At the same time, the new Act clarified asset management companies' responsibility concerning compensation for damages and the joint responsibility of the relevant directors in the event of deviation from the provisions of the investment prospectus, while prohibiting companies from enticing investors to purchase beneficiary certificates using a simple outline investment prospectus, which summarized important parts of the full investment prospectus.

Meanwhile, the existing system of public disclosure was strengthened with the change in the required frequency for the drawing up and provision of asset management reports from the "at least once every six months" to "at least once every three months". The specific items to be included in these reports, such as the assets & liabilities of the indirect investment institution, the basic price of indirect investment securities, and the status of earnings during the period of operation, were enumerated in the provisions of the Act itself, rather than in the Enforcement Decree as had hitherto been the case. In the event of important matters arising, including changes in the professional staff in charge of operations, decision to delay repurchase of beneficiary certificates, decisions made at a general meeting of beneficiaries, details of non-performing assets and their write-off ratios, it was made it obligatory for the company to make prompt full disclosure to indirect investors (beneficiaries or shareholders) through the introduction of a system of ongoing public disclosure.

Asset management companies were also obliged to explicitly state the conditions for delay of repurchase, have the decision approved by the general meeting of beneficiaries (investment trust fund) or the general meeting of shareholders (mutual fund), and report related matters to indirect investors. The new Act allows partial repurchase of indirect investment assets where this does not pertain to the reasons for the postponement of repurchase of beneficiary certificates. To prevent chaining insolvencies of asset management companies and sales companies and protect indirect investors, the legislation also bars asset management companies and sales companies from purchasing indirect investment securities whose redemption has already been requested.

For fair and accurate evaluation of indirect investment asset, the legislation requires asset management companies were obliged to form an indirect investment asset evaluation committee, set evaluation standards and procedures, and obtain confirmation of the details of such evaluation from a trustee company or an asset depository company.

Through reform of the external audit system, it was made obligatory for asset management companies to undergo an external audit by auditors stipulated under the "Act Concerning the External Audit of Corporations" for all indirect investment assets (investment trust assets and investment company assets), rather than simply investment trust assets as had previously been the case. To strengthen the independence of accountants conducting the audit, asset management companies are required under the new Act to receive approval from a trustee company or an asset depository company for their appointment of the accountants.

C. Improvement of Financial Institutions' Governance

In the dedicated pursuit of the improvement of the governance structure of financial Institutions, the legislation concerning transactions between financial institutions and large shareholders was tightened, and a "professional director" system was introduced for credit unions.

As a first step, the "Insurance Business Act" and its "Enforcement Decree" (Aug. 30, 2003) were revised, adjusting the ceiling on loans by an insurance company to its large shareholders and affiliates, and standards for calculation of ceilings on its holdings of bonds and stocks issued by them. The ceiling on loans to affiliated companies was adjusted from the previous 2 percent of total assets to the lesser of 40 percent of equity capital or 2 percent of total assets. The ceiling on investment in bonds and stocks issued by affiliated companies was also changed, being adjusted from the previous 3 percent of total assets to the lesser of 60 percent of equity capital or 3 percent of total assets.

In the event of the value of a single transaction falling within these ceilings on loans to affiliated companies and investment in their bonds and stocks but exceeding 0.1 percent of equity capital or 1 billion won, approval must be obtained from all registered directors at a meeting of the board of directors and the details of the transaction reported promptly to the Financial Supervisory Commission, and publicly disclosed through electronic media. In a further move, major shareholders of an insurance company were forbidden to obtain information in the non-public domain so as to exercise improper influence over it or to solicit the calling in prior to maturity of loans to their competitors so as to injure their business activities.

Through the revision of the "Credit Union Act" (Nov. 1, 2003) and its "Enforcement Decree" (Nov. 4, 2003), it was made obligatory for the National Credit Union Federation of Korea to select its representative director with responsibility for the credit & mutual aid business (one individual) and an inspection & oversight director (one individual) and to select more than one third of its total executive directors from outside persons (professional directors).

To oversee the prosecution of its business and the auditing of its accounts, the National Credit Union Federation of Korea was required to set up an audit committee, at least two thirds of whose members should be professional directors, as part of its board of directors. The Federation was also required to establish standards for its management and internal controls, stipulating the form of its organisation and business related matters, provisions to be complied with in the course of carrying out its business, and control measures in the event of violation of the standards. Along with this, it was required to appoint at least one compliance officer to watch out for internal controls and investigate possible violations of them.

Through improvement of the system of inspection of individual unions, the frequency of audits involving comparison and confirmation of members' deposit bankbooks, other documents, and the books and records of individual unions increased from "at least once a year" to the "at least once every half year."

Among individual unions with total assets of over 30 billion won at the end of the previous business year, those unions whose audit the Financial Supervisory Committee requested in consideration of the need for protection of its members were obliged to undergo external audit by a registered accountant.

D. Easing of Financial Regulation

The government revised the "Insurance Business Act" and its "Enforcement Decree" (Aug. 30, 2003) and allowed financial institutions other than insurance companies to sell insurance products. It also eased regulations on market entry by the reduction of the minimum capital requirement and expanded the scope for the operation of assets, thereby enhancing the managerial autonomy of insurance companies.

Banks, securities companies, mutual savings banks, and credit card companies were allowed to register as insurance agents or insurance brokers who are entitled to sell insurance products, and it was decided that the range of insurance products that they can handle would be gradually increased. In connection with entry barriers, the government lowered the minimum capital for insurance companies specializing in direct sales through the Internet and other communication media, which had had the same capital requirement as that for general insurance companies, to two thirds of that amount. It also allowed foreign individuals owning an insurance subsidiary, in addition to those carrying on insurance business directly in their home country, to set up an insurance company. Besides this, the government expanded the range of eligibility for operation of special accounts, which are managed and calculated separately from general insurance contract assets, permitting holdings of real estate for investment (within 15 percent of special account assets), of unlisted stocks (within 10 percent thereof), and of foreign exchange or overseas real estate (within 20 percent thereof).

The "Credit Union Act" (Nov. 1, 2003) and its "Enforcement Decree" (Nov. 4, 2003) were revised, raising the ceiling on loans to a single borrower, which had previously been set at within 15 percent of the equity capital of the individual union, to the greater of 20 percent of equity capital or 1 percent of total assets. Among the business handled by credit unions, lending and bill discounts by individual unions and the credit & mutual aid business of the Federation, both of which had previously could not be provided to nonmembers, were allowed to be delivered to them in so far as this did not damage the interests of members. Eligibility restrictions, previously established by the Federation and the Financial Supervisory Commision, were also lifted on borrowers of individual unions' funds, and the ceiling on such loans, hitherto set at the equivalent of the equity capital, was raised to the greater of the equivalent of its equity capital or 5 percent of total assets. This ceiling could, however, be exceeded upon gaining the approval of the Chairman of the Federation.

The "Industrial Bank of Korea Act" (Dec. 11, 2003) was revised. The issuance of securities, which had previously required special consent, was included among the core businesses of Industrial Bank of Korea, and surplus funds were required to be operated "as provided for in the Articles of Incorporation".

With an amendment of the "Enforcement Decree of the Securities and Exchange Act" (Feb. 24, 2003), stock investment products linked with stock prices or stock price indexes were included among securities objects traded by a securities companies and investment trust companies in order to widen the basis for stable long-term investment in stocks. To help galvanise the secondary securities markets, over-the-counter securities transactions between institutional investors were added to the list of eligible objects that can be brokered by professional securities companies for bond brokerage. To help expand the investment business entrusted to securities companies, the government abolished restrictions on the operation of their investment discretionary trusts, which had previously been restricted to placing a certain proportion (at least 30 percent) in bonds with below an investment grade rating.

The "Indirect Investment Asset Management Business Act" (Jan. 5, 2004) was also passed, easing entry barriers to the asset management industry, while expanding the range of institutions entitled to sell indirect investment securities. Provided the conditions were met for permission, including having over 10 billion won in capital within a certain period after the entry into effect of the legislation, qualification as asset management companies was awarded without special individual approval to merchant banking corporations, banks, insurance companies, and investment trust management companies established under the previous "Securities Investment and Trust Business Act" and mutual funds set up under the previous "Securities Investment Company Act." Insurance companies were also permitted to sell indirect investment securities, while asset management companies may sell indirect investment securities of indirect investment organizations that they themselves run considering the principle of equity with bank trust accounts.

Besides this, the government allowed the setup of funds through the subscription of securities, real estate and real property in addition to cash, and widened the range of objects eligible for asset management from the existing securities to over-the-counter derivative products, real estate and real assets. Through the introduction of a merger system for investment trust funds, it became possible to merge investment trust funds operated by a single asset management company. Provided approval was gained from all beneficiaries (shareholders) of an investment trust fund (mutual fund), payment of the proceeds of redemption of beneficiary certificates can now be made in the form of indirect investment property, forming an exception to the principle of redemption in cash.

E. Reform of Depositor Protection System

In connection with the entry into effect (Jan. 1, 2004) of the regulation (Article 1, Addendum) excluding credit unions from insured financial institutions under the revised "Depositor Protection Act" (Jan. 1, 2003), the "Credit Union Act" (Nov. 1, 2003) and its "Enforcement Decree" (Nov. 4, 2003) were revised providing for the establishment of a Credit Union Deposit Insurance Fund within the National Credit Union Federation of Korea and the setting up of a Fund Management Committee to screen and decide on important matters concerning the Fund's operation.

The Credit Union Deposit Insurance Fund is required to protect coverage of up to 50 million won for union members' deposits, the principal and interest of installment savings, and mutual aid funds. To ease the initial burden of credit unions following the transfer of the credit union account from the Korea Deposit Insurance Corp. to the National Credit Union Federation of Korea, the government allowed the postponement of the transfer for six years. The government strengthened individual unions' obligation to accumulate legal reserves, making it obligatory for them to set aside at least 10 percent of profits each business year until the accumulated amount reached twice the total paid-up subscriptions rather than total paid-up subscriptions as had previously been the case.

To facilitate the smooth liquidation of insolvent financial institutions, the "Depositor Protection Act" (Dec. 27, 2003) was revised, extending the period for the winding-up of liquidated financial institutions by two years from three years to five years.

F. Enactment of Korea Housing Finance Corporation Act

"The Korea Housing Finance Corporation Act" (promulgated on December 31, 2003 and implemented on March 1, 2004) was passed to accelerate the supply of housing finance on a long-term stable basis and pursue financial market stability through the absorption of short-term speculative capital.

Under the Act, the Korea Housing Finance Corporation was established together with the Housing Finance Credit Guarantee Fund, which is responsible for the provision of credit guarantees for housing finance and the securitization of assets in the form of housing mortgage loans and loans for academic tuition, in order to create an active market in housing finance backed by credit guarantees.

Korea Housing Finance Corporation, whose authorized capital amounts to 2 trillion won, was established upon the subscription of investments by the government and the Bank of Korea. This was required to set up a six-member Housing Finance Operation Committee as its top decision-making body. To provide active support to those in lower and middle income brackets who wish to purchase their own homes, the Corporation is focusing on the securitization of housing mortgage loans of less than 200 million won and with a period of more than 10 years.

(3) Restructuring of Financial Institutions

During the year under review, financial restructuring was pursued with an emphasis upon the reprivatisation of some nationalised banks and the clean-up of non-bank financial institutions.

The government sold off its entire stake in both Chohung Bank and Kookmin Bank. Ailing securities companies, insurance firms, mutual savings banks, and credit unions were forced to exit through sales, merger, and the cancellation of business licenses. In the process of financial restructuring during the year, the Korea Deposit Insurance Corp. (KDIC) and the Korea Asset Management Corp. (KAMCO) injected some 2,165.7 billion won in public funds for the repayment of deposits on behalf of ailing financial institutions, the recapitalization of financial institutions, compensation for losses, and the purchase of non-performing loans.

A. Mergers and Liquidations of Financial Institutions

Viewing the main points of the restructuring for financial institutions during 2003, the government disposed of its stake in Chohung Bank (80.04 percent of the equity) to Shinhan Financial Group in July to complete the privatization of the bank and the retrieval of public funds. It followed this with the sale in December of its entire stockholding in Kookmin Bank (9.10 percent of the equity) to 10 domestic and foreign investors including Kookmin Bank itself.

In the securities companies sector, in November the government entered into a formal contract with Prudential Financial Group for the sale of Hyundai Investment & Securities. Meanwhile, it delayed taking prompt corrective action against CJ Investment & Securities, whose operating net capital ratio had fallen short of the mandatory guideline of 150 percent, until the end of February 2004, in view of the fact that negotiations on its sale were in progress. To allow sales negotiations to proceed, it also extended by one year the grace period of prompt corrective actions for three securities companies, Korea Investment & Securities, Daehan Investment & Securities, and Tongyang Orion Investment Securities, for whom the grace period of appropriate corrective action had been due to terminate at the end of

December 2003. In January, Kunseol Securities, which had suffered financial distress owing to a more difficult operating environment, such as competition to lower brokerage commissions, went into liquidation according to a resolution passed by an extraordinary meeting of shareholders to cease trading in securities and wind up its business.

In the case of Daishin Life Insurance, whose sale the government had pursued since 2001, disposal of the company to Green Cross Life Insurance was made in June. In July, a management improvement recommendation was given to Lucky Life Insurance which attained a grade three in the management performance evaluation, and a management improvement request to Ssangyong Fire & Marine Insurance with a grade four.

In the meantime, the government ordered the exit of 145 credit unions and 3 mutual savings banks with weak financial management. Also, Woori Merchant

<Table 17> Changes in the Number of Financial Institutions[1] during 1998~2003

	Number of institutions at the end of 1997	1998~2002			2003			Number of institutions at the end of 2003
		Exit[4]	Merger[5]	Newly established	Exit[4]	Merger[5]	Newly established	
Banks	33	5	9	-	-	-	-	19
Merchant banking corporations	30	22	6	1	-	1[6]	-	2
Securities companies	36	6	3	18	1	-	1	45
Investment trust (management) companies	31	6	1	7	-	-	1	32
Life insurance companies[2]	31	7	5	1	1	-	1	20
Non-life insurance companies	14	-	1	2	1	-	2	16
Mutual savings banks[3]	231	99	28	13	3	-	-	114
Credit unions	1,666	337	105	9	145	2	-	1,086
Total	2,072	482	158	51	151	3	5	1,334

Notes : 1) Excludes branches of foreign financial institutions.
2) Excludes Postal Insurance.
3) The designation of mutual savings & finance companies was changed to mutual savings banks in March 2002.
4) Includes revocation of license (application), bankruptcy, and liquidation.
5) Number of financial institutions that ceased to exist following mergers.
6) Woori Merchant Banking Corp. was absorbed by Woori Bank in July 2003.
Source : Financial Supervisory Service.

Banking Corp. was absorbed by Woori Bank in July, and Kookmin Card was absorbed by Kookmin Bank in September.

With LG Card facing a liquidity crisis due to poor management, 8 banks accommodated it with liquidity amounting to 2 trillion won in November and 16 creditor financial institutions conducted a debt for equity swap valued at 2 trillion won in January 2004 and decided to make another debt for equity swap after extending an additional 1.65 trillion won in fresh loans. Several fragile converted securities companies whose efforts for normalization were deemed insufficient, including Korea Investment & Securities and Daehan Investment & Securities, were listed for sales negotiations with domestic and foreign investors.

Besides this, Dongwon Financial Holding Company was launched, having Dongwon Securities, Dongwon Mutual Savings Bank, and Dongwon Venture Investment as its subsidiaries. It is intended that its separation from Dongwon Business Group should be completed by the end of 2005.

B. Support for Financial Institutions from Public Funds

In the process of financial restructuring in 2003, KDIC and KAMCO devoted a total of 2,165.7 billion won in public funds for the payment of insured deposits, recapitalisation, and compensation for losses by financial institutions, and the purchase of non-performing loans.

Viewing the details of public funds injected into financial institutions by supporting institution, KDIC channeled in 2,230.4 billion won. KDIC devoted 1,095.6 billion won for the vicarious payment of deposit liabilities on behalf of financial institutions in liquidation. It also provided 607.7 billion won in compensation for losses suffered by financial institutions and 527.1 billion won for the purchase of non-performing loans from financial institutions. In the meantime, KAMCO did not inject fresh public funds during the year under review because the statutory period for the formation of financial resources for the Non-performing Asset Resolution Fund had ended in Nov. 2002. Instead, the outstanding of public funds extended by KAMCO decreased by 64.7 billion won in the process of the retirement of public funds previously provided.

Viewing the breakdown of public funds by type of financial institution in 2003, 1,095.0 billion won went to credit unions, 616.5 billion won to banks, 410.0 billion won to insurance companies, 64.8 billion won to merchant banking corporations, and 44.1 billion won to mutual savings banks.

<Table 18> Public Funds Injected in 2003[1]

Unit : hundred million won

	KDIC	Repayment of deposits	Recapitalization	Compensation for losses	Purchase of assets	KAMCO	Total
Banks	6,165	-		942	5,223	-	6,165
Merchant banking corporations	648	1	-	647	-	-	648
Securities companies	-	-	-	-	-	-	-
Insurance companies	4,100	-	-	4,052	48	-	4,100
Investment trust management companies	-	-	-	-	-	-	-
Mutual savings Banks	441	5	-	436	-	-	441
Credit unions	10,950	10,950	-	-	-	-	10,950
Others	-	-	-	-	-	-647[2]	-647
Total	22,304	10,956	-	6,077	5,271	-647	21,657

Notes : 1) These statistics were compiled provisionally by the Bank of Korea on the basis of the Public Fund White Paper issued by the Ministry of Finance and Economy in August 2003, press releases of the Public Fund Oversight Committee, and the Internet home pages of KDIC and KAMCO, so these are subject to subsequent adjustment.

2) Retired public funds in the process of KAMCO's purchases of non-performing loans. They are classified under "others" since full details are not being separately shown on the closing accounts.

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

V. Financial Status and Organizational Changes

1. Financial Status

(1) Assets

Total assets of the Bank of Korea, as of the end of 2003, amounted to 219,721.2 billion won, representing a rise of 40,178.6 billion won over the previous year-end. By item, its securities holdings increased sharply, and its deposits and loans against bills showed a modest rise.

Securities holdings during the year rose by 30,487.8 billion won. This was mainly due to an increase of 31,542.2 billion won in holdings of foreign currency-denominated securities reflected a rise in the foreign exchange reserves, despite a reduction of 1,054.5 billion won in holdings of government and public bonds as a result of redemptions at maturity of the Non-Performing Asset Resolution Fund Bond.

Due from banks increased by 6,705.5 billion won, boosted by an increase in overseas deposits, and loans on bills rose by 1,863.7 billion won due to strengthened trade financing support for small and medium exporters.

(2) Liabilities and Capital

Total liabilities of the Bank of Korea, as of the end of 2003, stood at 211,796.1 billion won, representing an increase of 40,646.8 billion won. By type of liability, Monetary Stabilization Bonds issued, deposits(other than government), securities sold under repurchase agreements and currency issued expanded, but government deposits declined.

There was a net issuance of MSBs amounting to 21,218.8 billion won to siphon off the expansion of liquidity brought about by the widened current account surplus. Deposits increased by 15,653.6 billion won mainly due to a rise in deposits at the Foreign Exchange Stabilization Fund. The exchange revaluation reserve, which reflects changes in the value of foreign currency assets in the wake of exchange rate fluctuations, increased by 6,596.8 billion won due to the won’s depreciation against the euro and the yen. On the other hand, government deposits dropped by 5,695.8 billion won mainly due to a rise in expenditure following the compilation of supplementary budgets.

Meanwhile, the Bank of Korea’s capital fund came to 7,925.1 billion won at the end of 2003, representing a drop of 468.1 billion won from the end of the previous year. This decrease, despite net profits

<Table 19> Financial Status

Unit : billion won

	2002[1]	2003[1]	Change
Assets	179,542.6	219,721.2	40,178.6
Current Assets	174,276.0	214,317.6	40,041.6
Cash	201.1	68.0	-133.1
Gold and silver bullion	77.6	79.5	1.9
Holdings of SDRs	14.1	25.0	10.9
Securities	143,282.0	173,769.7	30,487.8
Due from banks	16,917.1	23,622.6	6,705.5
Loans on bills	7,961.1	9,824.8	1,863.7
Securities bought under resale agreement	0.0	0.0	0.0
Loans to government	950.0	1,940.0	990.0
Loans to international finance organization	73.1	58.5	-14.6
Other current assets	4,799.9	4,929.5	129.6
Fixed Assets	5,266.5	5,403.6	137.1
Liabilities and Capital	179,542.6	219,721.2	40,178.6
Liabilities	171,149.3	211,796.1	40,646.8
Current liabilities	170,645.1	211,275.2	40,630.0
Currency issued	24,174.1	24,490.9	316.8
Monetary Stabilization Bonds issued	84,277.9	105,496.7	21,218.8
Government deposits	11,177.7	5,481.9	-5,695.8
Deposits	34,198.4	49,852.0	15,653.6
Allocation of SDRs	118.3	128.6	10.4
Securities sold under repurchase agreements	9,556.3	11,911.9	2,355.6
Other current liabilities	7,142.5	13,913.2	6,770.7
(Exchange revaluation reserve)	(5,870.7)	(12,827.5)	(6,596.8)
Long-term liabilities	504.1	520.9	16.8
Allowances	27.3	48.4	21.1
Liabilities to international monetary institute	476.8	472.5	-4.4
Capital	8,393.3	7,925.1	-468.1
Legal reserve	1,682.9	1,976.6	293.7
Voluntary reserve	3,773.5	3,773.5	0.0
Undivided profit surplus	2,936.8	2,175.0	-761.8
(Net profit for the period)	(2,936.8)	(2,175.0)	(-761.8)

Note : 1) Based on the end of year.

amounting to 2,175.0 billion won during the year, was attributable to the Bank's payment of 2,550.7 billion won in undivided profit surplus, which excluded legal reserve requirements, into the government's General Revenue Account.

Viewing the details of the distribution of the undivided profit surplus for 2003, of the sum of 2,175.0 billion won, which was finalized in February 2004, 217.5 billion won was allocated to the legal reserve, 80.4 billion won to the voluntary reserve for the Bank's contribution to the Bounty Fund on Farmers' and Fishermen's Property Formation Deposit, and the remaining 1,877.1 billion won was paid into the 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 2,175.0 billion won, a decrease of 761.8 billion won from the previous year's 2,936.8 billion won. This drop was chiefly attributable to a sharp fall in profits on foreign exchange transactions.

Total operating revenue decreased by 769.5 billion won from the previous year to 9,602.3 billion won. Profit on foreign exchange transactions dropped by 664.8 billion won from the previous year to stand at 408.2 billion won owing to the appreciation of the Korean won. Interest on deposits fell by 226.6 billion won from the previous year to 251.5 billion won due to a reduction in interest earnings translated into Korean won amid declining international interest rates and the won's strong return against the U.S. dollar. It also reflected a reduction in the volume of deposits available for operation.

Interest received on securities declined by 262.0 billion won from the previous year to 5,873.8 billion won due to a reduction in holdings of government and public bonds and a fall in international interest rates, coupled with firming of the Korean won against the U.S. dollar. However, earnings on sales of securities increased by 458.5 billion won from the previous year to 2,637.1 billion won, led by gains on sales of foreign currency-denominated securities.

Meanwhile, total operating expenses stood at 6,404.9 billion won, a rise of 181.7 billion won over the previous year. By item, interest on deposits increased by 50.2 billion won due to a rise in deposits with the Foreign Exchange Stabilization Fund. Interest on MSBs rose by 161.3 billion won from the previous year to 4,963.1 billion won owing to an expansion in their outstanding volume, despite a decline in the interest rate at which they were issued. However, interest on securities sold under repurchase agreements decreased by 126.7 billion won from the previous year owing to a drop in the volume of foreign currency securities sold under repurchase agreements.

<Table 20> Income Statement

Unit : billion won

	2002	2003	Change
Operating revenue	10,371.8	9,602.3	-769.5
Interest and discounts received	7,063.3	6,517.1	-546.2
Interest on securities	6,135.8	5,873.8	-262.0
Interest on deposits	478.2	251.5	-226.6
Interest on loans on bills	262.4	246.9	-15.6
Interest on securities bought under resale agreement	66.8	26.5	-40.4
Interest on loans to government	26.6	33.6	7.0
Interest on loans to international finance organization	1.9	1.2	-0.7
Miscellaneous interest received	91.6	83.7	-7.9
Commissions received	56.8	39.5	-17.4
Profit on sales of securities	2,178.7	2,637.1	458.5
Profit on foreign exchange transactions	1,073.0	408.2	-664.8
Other operating revenue	0.0	0.5	0.5
Operating expenses	6,223.2	6,404.9	181.7
Interest and discounts paid	5,577.4	5,661.7	84.3
Interest on deposits	429.5	479.7	50.2
Interest on MSBs issued	4,801.8	4,963.1	161.3
Interest on securities sold under repurchase agreement	314.7	188.0	-126.7
Miscellaneous interest paid	31.5	30.9	-0.5
Other interest and discounts paid	0.0	0.0	0.0
Commissions paid	36.2	46.3	10.1
Losses on sales of securities	253.7	296.2	42.5
Banknote and coin manufacturing expenses	108.3	113.8	5.5
Provision for severance pay	13.6	23.6	10.0
General and administrative expenses	212.0	238.8	26.7
Other operating expenses	22.0	24.5	2.5
Operating profit	4,148.6	3,197.4	-951.1
Non-operating revenue[1]	7.8	10.6	2.8
Non-operating expenses[2]	14.7	32.3	17.6
Profit before income taxes	4,141.7	3,175.8	-965.9
Income Taxes	1,204.9	1,000.8	-204.1
Net profit for the period	2,936.8	2,175.0	-761.8

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

2. Organizational Changes

To make good shortcomings that had emerged since the organizational reform in 1999 and incorporate the results of analysis service of its duties that had been carried out for a five-month period beginning in October 2002, the Bank of Korea established the Organizational Reform Promotion Committee in April and set out to strengthen its organizational capacity and heighten its managerial effectiveness.

This round of organizational reform was carried out with an emphasis placed on the establishment of an knowledge-creating organization by way of the rational improvement of job and staff systems, the elimination of overlap between functions and the duplication of businesses, the galvanization of a team-oriented system, and the heightening of officials' expertise. At the same time, the Bank of Korea pressed ahead with reforms oriented to the heightening of its functions in the fields of economic forecasting, financial stability, compilation of statistics, policy coordination, and public education in economics. The organizational reforms were eventually put in place in October 2003, taking into consideration the details of the revised "Bank of Korea Act".

To help gain the maximum synergy effects from the reorganization, 23 teams were abolished or merged so as to form larger teams, while 4 teams were newly created in those sectors necessary for the augmentation of its functions, including Economic Statistics Department, Payment Systems & Treasury Service Department, and Economic Information Office. To heighten the flexibility of its organizational framework, the Bank of Korea introduced the new designation "section" as a subordinate organizational division and altered the titles of one department and 33 teams in keeping with changes in the environment.

To help establish a non-hierarchical and open organizational culture, meanwhile, the Bank of Korea simplified the previous complex staff organization. The Bank of Korea also introduced a professional job grouping system and a line deputy director system to boost specialization of senior officials and gave a more prominent role to the position of deputy director, injecting fresh vigor into the organization.

Besides this, the Bank of Korea included overseas representative offices, which previously formed a separate division, into a subordinate organization affiliated with the International Department. The Beijing Representative Office opened in Beijing in October to strengthen exchanges and cooperation with China. To meet the increasing demand from provincial governments for research & study of regional economies, the Bank of Korea realigned and expanded the planning & research functions in its Busan, Daegu & Gyeongbuk, Gwangju & Jeonnam, Daejeon & Chungnam, and Gyeonggi branches. In keeping with the rising demand for cash in line with the expanded scale of regional economies, the central bank established note issuing teams in Chungbuk and Jeju branches.

Finally, viewing the status of the Bank of Korea's organization and human resources as of the end of 2003, the Bank had a total of 15 departments (86 teams) – 12 departments, 2 offices, and 1 institute – at its headquarter and 10 offices attached to departments (16 teams) and 1 institute (4 teams) reporting directly to assistant governors. It also had 16 regional branches (5 offices, 57 teams and 3 representative offices) in Seoul and the provinces and 6 overseas representative offices. Meanwhile, the number of employees of the Bank of Korea increased by 24 from the previous year to stand at 2,117 at the end of 2003.

Members of the Monetary Policy Committee

December 31, 2003

Seung Park	(Governor of the Bank of Korea)
Won-Tai Kim	(Recommended by the Governor of the Bank of Korea)
Namkoong, Hoon	(Recommended by the Chairman of the Financial Supervisory Commission)
Byung-Il Kim	(Recommended by the Chairman of the Korea Federation of Banks)
Tae-Dong Kim	(Recommended by the President of the Korea Chamber of Commerce and Industry)
Woon-Youl Choi	(Recommended by the Chairman of the Korea Securities Dealers Association)
Kun-Kyong Lee	(Recommended by the Minister of Finance and Economy)

Executives of the Bank of Korea

December 31, 2003

Title	Name
Governor	Seung Park
Deputy Governor	Seongtae Lee
Assistant Governor	Chang-Ho Choi
Assistant Governor	Jae-Ouk Lee
Assistant Governor	Kyuyung Chung
Assistant Governor	Shang-Heon Lee
Assistant Governor	Bang-Woo Jung
Auditor	Sang-Yong Lee

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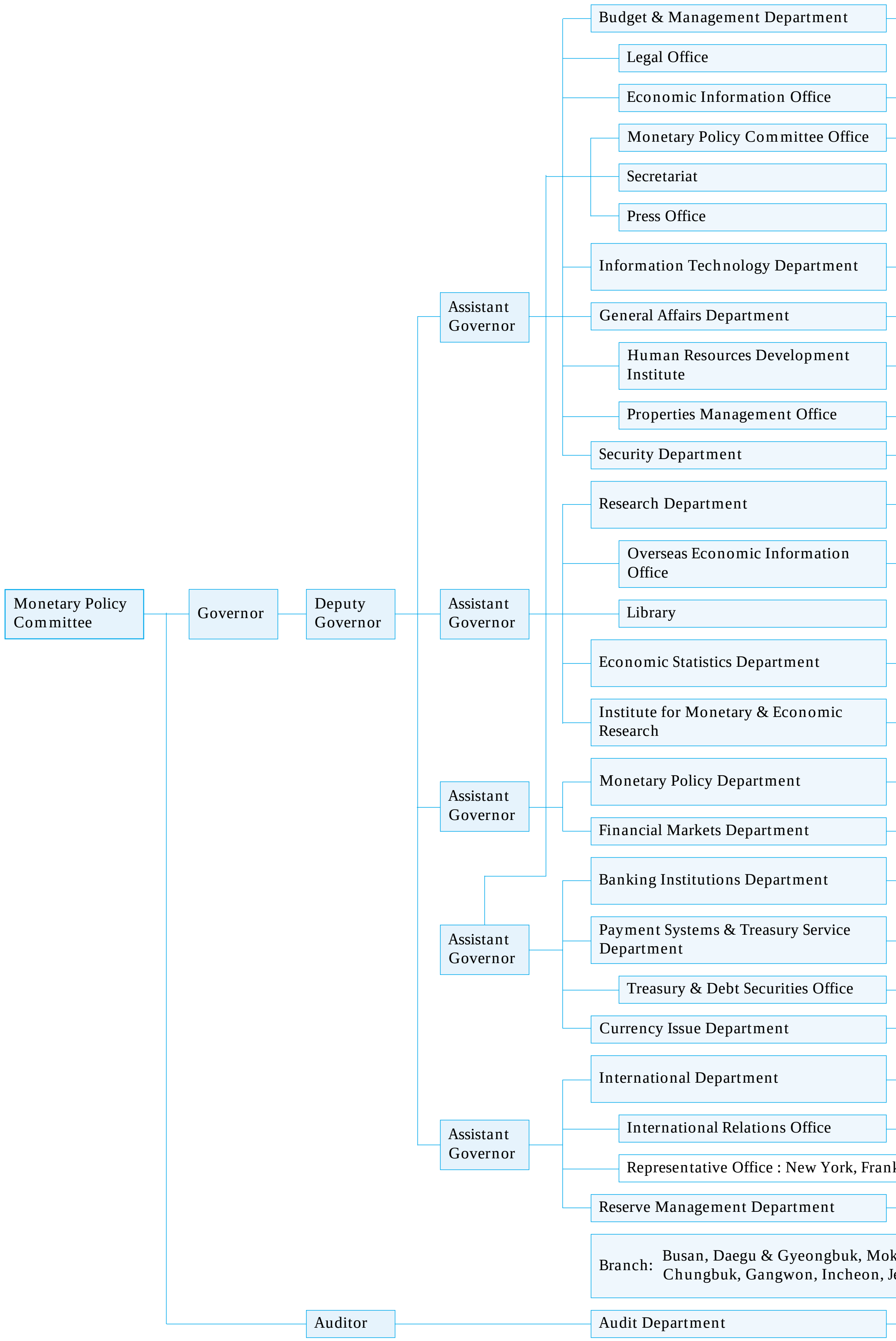

the Bank of Korea

ember 2003)

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

Information Team, Public Information Team, Economic Education Team

Administration Team, Committee Member Assistance Team

n Technology Planning & Coordination Team, Systems Management Team, Server, PC & Network Team, Accounting Systems Team,
Systems Team, BOK-Wire Systems Team, Information Systems Team, Foreign Exchange Information Systems Team

Management Team, Payroll & Welfare Team, Staff Relations Team

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

Administration Team, Facilities Administration Team, Procurement Service Team

Emergency Planning Team, Guard Team

earch & Forecasting Team, Monetary & Fiscal Research Team, Financial Industry Team, Economic Activities Analysis Team,
esearch Team, Industry Analysis & Regional Economies Team, International Trade Team

conomic Analysis Team, Europe & the Americas Team, Asia Team

Financial Statistics Team, Balance of Payments Statistics Team, Corporate Statistics Team, Price Statistics Team,
come Statistics Team, Input-Output Statistics Team, Statistics Development Team, Statistics Information Team, Economic Survey Team

lanning & Coordination Team, Monetary Studies Team, Finance Studies Team, International Economics Team, Microeconomics Team,
omics Team

olicy Planning & Coordination Team, Credit & Reserves Policy Team, Monetary Policy Analysis Team, Monetary Policy Cooperation Team,
olicy Research Team

ffairs Team, Market Operations Team, Money Market Team, Fixed Income Market Team, Equity Market & Corporate Finance Team

alysis & Coordination Team, External Affairs Team, Banking Research Team, Financial Stability Analysis Team,
sis Team Ⅰ· Ⅱ· Ⅲ· Ⅳ

ystems Policy Team, Payment Systems Stability Team, Payment Systems Management Team, Electronic Banking Team,
ttlement Team

eam, Debt Securities Team

Team, Planning Team, Issue Team, Verification & Counting Team

al Planning Team, International Finance Research Team, Foreign Exchange Business Team, Foreign Exchange Review Team, Foreign
arket Team, Foreign Exchange Monitoring & Information Team, Foreign Exchange Analysis Team

al Cooperation Team, Central Bank Cooperation Team, International Financial System Team

ndon, Hong Kong, Beijing

nagement Planning Team, Risk Management Team, Settlement Team, Reserve Management Team Ⅰ· Ⅱ· Ⅲ

Jeonnam, Jeonbuk, Daejeon & Chungnam,
Gyeongnam, Gangneung, Ulsan, Pohang, Gangnam

General Affairs Team, Planning & Research Office(Planning & Financial Research Team), Planning & Research Team, Credit & Reserves Team, Issue Team, Verification & Counting Team, Representative Office

ning Team, Audit Team Ⅰ· Ⅱ· Ⅲ· Ⅳ· Ⅴ· Ⅵ

Main Economic Indicators

Main Economic Indicators

	Unit	2000	2001	2002	2003	2003.1	2
Money[1]							
Reserve money							
<Period-Averages>	billion won	26,357.0	29,375.9	33,579.3	35,754.7	35,464.6	36,200.
	%	(20.0)	(11.5)	(14.3)	(6.5)	(10.7)	(6.5
<End of period>	billion won	28,238.1	32,826.8	37,987.4	40,749.0	36,241.7	35,688.
	%	(-0.9)	(16.3)	(15.7)	(7.3)	(19.7)	(7.5
M1							
<Period-Averages>	billion won	183,349.9	216,442.4	265,042.4	283,397.4	285,581.0	282,153.
	%	(24.5)	(18.0)	(22.5)	(6.9)	(13.7)	(9.5
<End of period>	billion won	196,714.5	246,720.5	283,580.8	298,952.9	283,236.9	280,848.
	%	(15.3)	(25.4)	(14.9)	(5.4)	(13.6)	(7.9
M2							
<Period-Averages>	billion won	691,393.5	739,337.0	824,227.8	888,988.6	880,250.7	883,643.
	%	(2.2)	(6.9)	(11.5)	(7.9)	(13.9)	(13.3
<End of period>	billion won	707,698.9	764,979.3	872,075.6	898,069.4	880,756.1	886,044.
	%	(5.2)	(8.1)	(14.0)	(3.0)	(14.3)	(12.8
M3							
<Period-Averages>	billion won	882,764.3	967,324.9	1,092,168.8	1,187,839.8	1,162,240.3	1,168,118.
	%	(5.6)	(9.6)	(12.9)	(8.8)	(13.1)	(12.5
<End of period>	billion won	911,641.8	1,017,715.3	1,155,739.8	1,209,750.8	1,166,299.6	1,172,767.
	%	(7.1)	(11.6)	(13.6)	(4.7)	(13.0)	(11.9
Interest rates							
Call market rate(overnight)[2]	percent per annum	5.05	4.65	4.18	3.97	4.28	4.2
Yields on corporate bonds[3]	〃	9.35	7.05	6.56	5.43	5.48	5.2
General loan[4]	〃	8.55	7.70	6.70	6.24	6.51	6.3
Ratio of dishonored bills[5]	%	0.26	0.23	0.06	0.08	0.04	0.0
G D P[6]	%	8.5	3.8	7.0	3.1	-	
Private Consumption	〃	8.4	4.9	7.9	-1.4	-	
Construction Investment	〃	-0.7	6.0	5.3	7.6	-	
Equipment Investment	〃	33.6	-9.0	7.5	-1.5	-	
Exports of goods and services	〃	19.1	-2.7	13.3	15.7	-	
Imports of goods and services	〃	20.1	-4.2	15.2	9.7	-	
Agriculture, Forestry & Fishing	〃	1.2	1.1	-3.5	-7.1	-	
Manufacturing	〃	17.0	2.2	7.6	4.8	-	
Electricity, Gas & Water	〃	12.8	7.2	7.7	5.7	-	
Construction	〃	-3.4	5.5	2.8	8.1	-	
Services	〃	6.1	4.8	7.8	1.8	-	

Notes : 1) Figures in parenthesis are rates of increase compared with the same period of the previous year.
2) Period-average, based on uncollateralized intermediated transactions, excluding bridge-call transactions between inves ment trust management & securities companies and investment trust management companies.
3) Bonds with three-year maturity, period-average.

3	4	5	6	7	8	9	10	11	12
34,854.8	35,625.4	35,162.7	35,412.2	34,976.9	35,544.9	36,836.1	35,519.3	36,377.7	37,080.3
(6.0)	(7.6)	(5.5)	(8.6)	(5.6)	(6.9)	(6.8)	(2.8)	(4.6)	(6.6)
38,149.9	35,940.8	36,336.7	37,312.2	35,377.1	36,243.2	38,913.4	37,234.4	36,423.1	40,749.0
(12.8)	(7.2)	(5.6)	(12.6)	(6.3)	(11.6)	(7.3)	(13.8)	(6.6)	(7.3)
282,509.9	277,971.1	276,666.5	278,561.3	277,602.5	279,840.7	286,391.5	286,354.8	291,032.3	296,103.4
(7.8)	(5.3)	(5.2)	(5.9)	(6.2)	(6.9)	(6.8)	(5.3)	(5.6)	(5.4)
276,134.0	273,012.0	279,348.2	276,009.5	276,267.6	282,840.2	282,404.6	290,277.7	293,796.1	298,952.9
(4.0)	(4.6)	(7.3)	(4.6)	(6.5)	(7.3)	(5.3)	(6.3)	(5.7)	(5.4)
892,494.8	890,351.6	886,410.8	886,769.4	886,242.9	886,880.8	891,154.2	885,171.7	896,674.7	901,818.6
(11.9)	(10.3)	(9.1)	(7.9)	(7.0)	(6.7)	(5.8)	(3.8)	(3.2)	(3.0)
887,799.0	881,195.8	885,498.0	881,989.1	883,237.5	890,077.2	880,971.9	889,773.1	901,002.1	898,069.4
(10.3)	(9.4)	(8.5)	(6.7)	(7.0)	(6.5)	(4.8)	(3.4)	(3.2)	(3.0)
1,177,872.1	1,177,246.3	1,177,553.5	1,183,812.6	1,191,441.2	1,190,755.5	1,201,779.7	1,198,490.1	1,210,856.4	1,213,911.2
(11.7)	(10.2)	(9.4)	(9.1)	(8.7)	(7.9)	(7.5)	(5.9)	(5.3)	(5.0)
1,171,186.0	1,169,894.6	1,180,174.4	1,179,114.2	1,187,230.3	1,194,167.7	1,194,411.3	1,204,613.6	1,217,128.6	1,209,750.8
(9.6)	(9.1)	(8.8)	(7.9)	(8.3)	(7.5)	(6.8)	(5.7)	(5.4)	(4.7)
4.23	4.23	4.05	4.00	3.81	3.73	3.73	3.74	3.77	3.77
5.44	5.39	5.26	5.28	5.65	5.87	5.24	5.18	5.53	5.61
6.48	6.41	6.28	6.24	6.20	6.03	5.97	6.00	6.13	6.20
0.14	0.08	0.08	0.10	0.07	0.09	0.08	0.06	0.06	0.08
3.7	-	-	2.2	-	-	2.4	-	-	3.9
0.3	-	-	-1.8	-	-	-1.9	-	-	-2.2
8.0	-	-	7.3	-	-	7.9	-	-	7.4
1.9	-	-	-0.6	-	-	-5.0	-	-	-2.4
15.9	-	-	8.4	-	-	14.9	-	-	23.1
14.2	-	-	5.2	-	-	7.7	-	-	11.7
-5.1	-	-	-1.3	-	-	-9.1	-	-	-9.1
5.1	-	-	2.6	-	-	3.3	-	-	8.0
7.1	-	-	8.9	-	-	3.1	-	-	3.7
8.4	-	-	7.7	-	-	8.1	-	-	8.4
1.9	-	-	1.1	-	-	1.6	-	-	2.4

4) Average lending rate on new lending of deposit money bank, excluding overdrafts.(Other revolving loans, i.e. minus loans, are excluded since Sep. 2001.)

5) Nationwide dishonored value basis, adjusted to reflect electronic settlement.

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	2000	2001	2002	2003	2003.1	2
Price Index[7]							
Consumer price	%	2.3	4.1	2.7	3.6	3.8	3.
	〃	(2.8)	(3.2)	(3.7)	(3.4)	(0.6)	(0.6
Producer price	〃	2.0	-0.5	-0.3	2.2	2.8	2.
	〃	(0.6)	(-2.5)	(2.3)	(3.1)	(0.7)	(0.6
Employment							
Number of the person employed	thousand persons	21,156	21,572	22,169	22,139	21,562	21,49
Number of the person unemployed	〃	913	845	708	777	789	82
Unemployment rate	%	4.1	3.8	3.1	3.4	3.5	3.
Wages[8]							
All industry	won	1,667,542	1,752,382	1,947,774	2,127,401	2,384,179	1,961,77
	%	(8.0)	(5.1)	(11.2)	(9.2)	(35.3)	(-2.7
Manufacturing	won	1,567,510	1,659,109	1,857,171	2,017,864	2,315,277	1,831,04
	%	(8.6)	(5.8)	(11.9)	(8.7)	(41.4)	(-5.6
Industry activities indexes							
(Manufacturing)							
Production[9]	%	17.1	0.2	8.2	5.2	3.4	9.
Shipment[9]	〃	16.7	1.0	7.9	4.2	3.3	7.
Inventory[9]	〃	12.8	0.4	-0.7	5.9	1.4	5.
Average capacity utilization ratio	〃	78.6	75.3	78.4	78.3	78.7	79.
Balance of payment							
Current account	hundred million U.S.$	122.5	80.3	53.9	123.2	-4.6	0.
(Goods)	〃	169.5	134.9	147.8	221.6	7.7	5.
(Services)	〃	-28.5	-38.7	-82.0	-76.1	-11.8	-7.
Capital account	〃	121.1	-33.9	62.5	131.3	12.0	3.
Foreign trade[10]							
Exports	hundred million U.S.$	1,722.7	1,504.4	1,624.7	1,938.2	143.2	133.
	%	(19.9)	(-12.7)	(8.0)	(19.3)	(25.8)	(21.0
Imports	hundred million U.S.$	1,604.8	1,411.0	1,521.3	1,788.3	145.0	138.
	%	(34.0)	(-12.1)	(7.8)	(17.6)	(28.0)	(32.3
Foreign exchange holdings[11]	hundred million U.S.$	962.0	1,028.2	1,214.1	1,553.5	1,229.1	1,239.
Exchange rate of won[12]	won	1,264.5	1,313.5	1,186.2	1,192.6	1,170.1	1,193.
against U. S. dollar	%	(-10.0)	(-3.7)	(10.7)	(-0.5)	(1.4)	(-0.6

Notes : 7) Compared with the same period of the previous year, figures in parenthesis are rates of increase compared with the prev
ous month, and figures in yearly data indicate rates of increase compared with the last month of the previous year.
8) Monthly earnings. 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.

3	4	5	6	7	8	9	10	11	12
4.5	3.7	3.2	3.0	3.2	3.0	3.3	3.7	3.4	3.4
(1.2)	(-0.2)	(-0.2)	(-0.3)	(-0.1)	(0.5)	(0.9)	(0.1)	(-0.2)	(0.4)
3.3	1.9	1.0	1.1	1.6	1.9	2.1	2.2	2.4	3.1
(1.0)	(-0.6)	(-0.5)	(-0.5)	(0.2)	(0.4)	(0.4)	(0.3)	(0.4)	(0.7)
21,837	22,156	22,370	22,383	22,456	22,126	22,301	22,452	22,425	22,096
807	756	744	755	781	756	730	765	792	825
3.6	3.3	3.2	3.3	3.4	3.3	3.2	3.3	3.4	3.6
1,961,553	2,012,357	1,865,924	2,167,653	2,072,309	2,144,414	2,281,784	2,033,897	1,938,805	2,709,688
(8.7)	(8.1)	(9.0)	(8.1)	(6.9)	(12.8)	(6.6)	(7.9)	(9.0)	(5.7)
1,808,017	1,881,811	1,712,584	2,032,638	1,966,499	2,058,900	2,145,748	1,962,933	1,781,092	2,722,210
(9.2)	(8.0)	(6.9)	(7.2)	(4.9)	(12.7)	(5.9)	(6.9)	(10.8)	(3.2)
4.8	1.7	-0.9	8.9	1.0	1.4	7.0	8.1	5.3	11.4
2.6	1.3	-1.4	9.0	1.3	1.1	5.2	7.2	4.0	10.3
9.9	10.4	11.6	9.5	9.0	7.9	8.4	6.3	6.3	5.9
77.9	77.7	76.3	78.0	74.7	77.2	78.9	81.1	79.6	80.4
-10.7	-2.6	10.8	16.0	3.5	13.0	21.1	24.4	27.7	24.5
-0.3	13.6	16.5	27.5	14.6	22.9	30.7	29.4	28.0	26.1
-3.8	-3.1	-5.4	-8.3	-10.3	-9.8	-6.4	-2.6	-3.0	-4.3
4.6	-7.5	15.7	16.7	-2.8	39.1	1.3	1.2	42.9	4.6
153.8	157.2	146.8	156.6	154.3	153.8	170.2	189.3	182.4	197.3
(16.1)	(19.2)	(3.5)	(21.4)	(15.2)	(10.1)	(22.4)	(25.5)	(20.0)	(31.3)
158.7	147.6	135.2	134.3	149.0	135.4	145.3	165.4	157.6	176.2
(32.4)	(17.5)	(6.5)	(12.5)	(14.3)	(5.3)	(11.9)	(19.7)	(12.6)	(22.0)
1,238.2	1,236.2	1,283.4	1,316.6	1,329.1	1,361.9	1,415.3	1,433.2	1,503.4	1,553.5
1,254.6	1,215.3	1,205.9	1,193.0	1,179.7	1,178.2	1,150.1	1,183.1	1,202.1	1,192.6
(-5.5)	(-2.4)	(-1.6)	(-0.6)	(0.6)	(0.7)	(3.1)	(0.3)	(-1.3)	(-0.5)

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 (+) or depreciation (-) rates of the won compared with the end of the previous year.