

Q U A R T E R L Y B U L L E T I N

# QUARTERLY BULLETIN

*MARCH*

*2003*

Q  
U  
A  
R  
T  
E  
R  
L  
Y  
B  
U  
L  
L  
E  
T  
I  
N

M  
A  
R  
C  
H  
2  
0  
0  
3

T  
H  
E  
B  
A  
N  
K  
O  
F  
K  
O  
R  
E  
A

THE BANK OF KOREA

---

Published on : March 31, 2003 (VOL. 35 NO. 1)

---

Publisher : SEUNG PARK  
Governor, the Bank of Korea

Editor : KYU-YUNG CHUNG  
Director General,  
Research Department

Published by : The Bank of Korea  
Seoul, Korea

Printed by : Jungmoonsa Printing Co., Ltd.

---

Seoul Metropolitan Government

Registration No. : Seoul Ba-00141/Registered on : April 15, 1969

---

# QUARTERLY

# BULLETIN

## **Table of Contents**

**Current Economic and Financial Movements**  
/ 3

**Monetary Policy Decision**  
/ 21

**The Inflation Target and Monetary Policy for 2003**  
/ 25

**Financial Sector Restructuring in 2002**  
/ 36

**Payment and Settlement Trends in 2002**  
/ 53

*Organization of the Bank of Korea / 67*

*The Bank of Korea's Internet Web Site / 68*

*List of Publications / 69*

*List of Bank of Korea Working Papers / 71*

*Titles of Articles Appearing in Monthly Bulletin / 72*

*Titles of Articles Appearing in Quarterly Bulletin / 73*

# Current Economic and Financial Movements

## Summary

During the fourth quarter of 2002, the Korean economy showed a brisk performance with a widened current account surplus and an acceleration of the upward trend of prices.

Real gross domestic product(GDP) grew by 6.8 percent in the fourth quarter due to the shift of construction investment to an increase and the more rapid growth of exports. However, real gross national income(GNI) increased by just 4.1 percent owing to worsened trade terms and conditions.

The employment situation worsened somewhat with the unemployment rate rising by 0.1 of a percentage point from the third quarter to stand at 2.9 percent. The number of those unemployed also increased by about 11,000 from the previous quarter to 660,000 in the fourth quarter. The unemployment rate in January 2003 rose again to 3.5 percent due to

an increase in the numbers of those actively seeking employment prior to college graduation.

Both exports and imports saw the growth rate accelerate in the fourth quarter, and the upward trend continued in January 2003. The current account registered a surplus of 2.0 billion dollars in the fourth quarter, a sharp rise from the previous quarter. This increase was largely attributable to the widening of the surplus on the goods account from the previous quarter. In the meantime, in January 2003 the current account posted a deficit of 0.3 billion dollars.

The year-on-year increase rate of consumer prices accelerated to 3.3 percent in the fourth quarter owing to a seasonally upward trend of prices of agricultural products and a hike in petroleum products and some public utility charges. The increase rate went up further to between 3.5 and 3.9 percent during the January-February period of 2003.

The year-on-year increase rate of producer prices also accelerated further to the 4 percent level in the fourth quarter, and the rising trend gained further momentum to reach the 5 percent level during the January-February period of 2003. Meanwhile, the core inflation showed a stable trend, posting an increase at the 3 percent level in the fourth quarter and in the first two months of the new year.

In the financial markets, the call rate fluctuated around the 4.25 percent level, the target set by the Bank of Korea in the fourth quarter. The yield on Treasury bonds(3-year maturity) generally moved within a narrow range amid continuing uncertainties over external conditions, but dropped sharply in December owing to the North Korean nuclear issue, registering its lowest level for 2002 at 5.11 percent at the end of the year. The downward trend continued on into 2003, with yields falling to 4.60 percent by the end of February.

After posting the year's lowest level on Oct. 10, the Korea Composite Stock Price Index(KOSPI) rebounded only to drop sharply again due to uneasiness over the international situation, registering 627.55 at the end of December which was lower than its 646.42 at the end of the preceding quarter. KOSPI continued its downward trend during the first two months of 2003 to mark 575.43 at the end of February.

As the U.S. dollar depreciated against other major currencies, including the yen, in December and the net inflow of foreign funds increased, Korean won firmed against the U.S. dollar until the end of January 2003. It lost ground for a while in February, but appreciated again in the latter part of the month, posting 1,193.7 won to the dollar at the end of February. Meanwhile, the won traded at 1,008.5 won to 100 yen at the end of February.

The growth rate of M3 went up from 12.6 percent in the third quarter to 13.2 percent in the fourth quarter owing to a net inflow of foreign stock investment funds, but it slowed down slightly during the first two months of 2003. The growth rate of M1 slipped to 16.1 percent in the fourth quarter due to a base period effect following its sharp rise during the final quarter of 2001. M1's declining trend was maintained in the January and February of the new year.

---

## Economic Movements

### Economic Growth

During the fourth quarter of 2002, real gross domestic product(GDP) expanded by 6.8 percent year-on-year, up from 5.8 percent in the previous quarter as the construction output shifted from a

decrease to an increase and the growth rate of exports accelerated together offsetting the effects of the slowdown in the expansion of private and government consumption. Meanwhile, the growth rate of real gross national income(GNI) registered 4.1 percent, lower than the real GDP growth rate as the trading losses from changes in real terms of trade widened from a year earlier.

The rate of increase of final consumption expenditures slowed to 3.8 percent owing to the subdued growth of both private and government consumption. Private consumption increased by a mere 4.3 percent owing to the slower growth of spending on semi-durables and services. Government consumption also rose by 1.0 percent, showing a subdued pace of increase.

The growth rate of fixed investment soared from 0.5 percent in the third quar-

ter to 6.8 percent in the fourth quarter due to the continuation of a recovery trend in facility investment and the shift of construction investment's growth into positive territory in the fourth quarter from its decrease in the previous quarter. The growth rate of facilities investment accelerated from 7.8 percent in the third quarter to 8.2 percent in the fourth quarter as investment in machinery recorded a 7.8 percent growth, the same level as in the previous quarter, while the growth rate of investment in transportation equipment accelerated. The rate of increase of construction investment, which had shown a decrease of 4.6 percent in the third quarter, posted a year-on-year hike of 6.0 percent in the fourth quarter owing to a slight rise in the rate of increase of investment in buildings and the shift of infrastructures investment from negative growth into positive.

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

	2002	2002 <sup>2)</sup>				Year
		I	II	III	IV	
G D P	3.1	6.2	6.6	5.8	6.8	6.3
G N I	1.4	7.7	5.6	2.7	4.1	4.9
Final consumption expenditure	4.2	8.4	7.4	5.5	3.8	6.2
Private consumption	4.7	8.9	7.9	6.2	4.3	6.8
Government consumption	1.3	5.3	4.4	1.5	1.0	2.9
Gross fixed capital formation	-1.8	6.6	5.4	0.5	6.8	4.8
Equipment	-9.6	3.8	7.5	7.8	8.2	6.8
Construction	5.3	9.7	3.8	-4.6	6.0	3.3
Exports of goods and services	0.7	2.4	12.8	20.3	24.2	14.9
Imports of goods and services	-3.0	6.5	18.8	20.5	20.0	16.4

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

2) p : preliminary.

The growth rate of exports of goods and services in the fourth quarter rose from the 20.3 percent of the previous quarter to 24.2 percent, affected by a slight improvement in exports of services and active exports of commodities. On the other hand, the growth rate of imports of goods and services slowed slightly from 20.5 percent to 20.0 percent due to the subdued growth of imports of both goods and services.

Viewing growth by type of economic activity, the slowdown of the agricultural, forestry, and fishery industry became more pronounced and the growth rate of the service industry slowed down somewhat. But the manufacturing industry enjoyed a brisk business performance and the construction industry shifted from a declining pace in the previous quarter to a rapid increase in the fourth quarter.

Despite the favorable showing of animal husbandry, the agricultural, forestry, and fishery industry posted negative growth of 6.3 percent owing to the poor performance of the horticultural and market gardening sector and reduced catches in the fishery sector.

The service sector posted 8.6 percent growth, slightly lower than the previous quarter's 9.5 percent. The growth rate of the financial, insurance, real estate and business services sector slowed from the previous quarter to 8.3 percent in the fourth quarter due to the poor perfor-

mance of the securities sector resulted as a result of the subdued stock market.

The growth rates of the transportation, storage, and communication sector slowed to 5.5 percent owing to the sluggishness of the transportation industry and that of the social and personal service sector decelerated to 8.0 percent, in response to a slowdown in movie, broadcasting, and entertainment-related services. Despite the reduced growth in the retail sector as a result of flagging consumption demand, the wholesale & retail, restaurant, and hotel sector expanded by 6.8 percent thanks to increased sales of automobiles and brisk business in the hotel industry.

In the meantime, the manufacturing industry posted a high growth rate of 8.8 percent as automobile production soared and export demand for semiconductors and communication equipment increased steadily, even though sales of transportation equipment, including ships were weak.

Encouraged by the brisk activity of civil engineering, including ports and roads, and notably the rehabilitation work related to typhoon, the construction industry grew by 6.3 percent, a shift from its negative 3.8 percent in the previous quarter.

In the meantime, the electricity, gas and piped water sector expanded by 14.0 percent, boosted by a steady rise in the extension of the network of piped natur-

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

Unit : percent

	2001	2002 <sup>2)</sup>				Year
		I	II	III	IV	
Agriculture, Forestry & Fishing	1.9	0.7	-3.7	-2.2	-6.3	-4.1
Manufacturing	2.1	4.2	6.6	5.5	8.8	6.3
Electricity, Gas & Water	5.1	13.7	13.1	11.7	14.0	13.2
Construction	5.6	8.6	3.1	-3.8	6.3	3.2
Services	3.9	8.1	9.2	9.5	8.6	8.8
(Wholesale and retail trade, restaurants and hotels)	4.0	4.1	4.9	6.3	6.8	5.6
(Transport, storage and communication)	10.5	9.4	8.2	6.7	5.5	7.4
(Finance, insurance, real estate and business services)	3.0	11.2	11.3	11.8	8.3	10.6
(Community, social and personal services)	4.5	12.2	13.8	11.6	8.0	11.4
Government & Private Non-Profit Services	0.9	0.7	0.6	1.4	1.5	1.1

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

2) p : preliminary.

al gas and in the consumption of electricity and gas by the public.

### Employment and Wages

The unemployment rate rose slightly to 2.9 percent in the fourth quarter, and the number of persons unemployed came to 660,000, an increase of about 11,000 from the previous quarter. This was mainly attributable to such seasonal factors as the advent of the fallow season for farming and reduced construction activity in the winter.

As a net result, the seasonally-adjusted jobless rate was 3.0 percent in the fourth quarter, similar to that of the previous quarter. But it subsequently climbed to 3.5 percent in January, up 0.6 percentage

points from the fourth quarter due to the increased numbers of those actively seeking employment prior to graduation.

Nominal wages rose by 13.8 percent year-on-year during the fourth quarter, a sharp rise from the previous quarter. By type of remuneration, the rate of increase of special cash payments accelerated sharply and that of the decline in overtime payments slowed while the high growth rate of regular payments was maintained.

By industry, the growth rate of wages in most industries accelerated significantly, especially in manufacturing.

**[Table 3]****Employment<sup>1)</sup> Trends**

Unit : million persons, percent

	2001			2002				2003	
	III	IV	Year	I	II	III	IV	Year	Jan.
Economically active population <sup>2)</sup>	22.7 (1.5)	22.7 (1.8)	22 (1.6)	22.3 (3.0)	23.1 (2.0)	23.1 (1.8)	23 (1.4)	23 (2.1)	22 (0.7)
Total number of persons in employment <sup>2)</sup>	21.9 (1.9)	21.9 (2.3)	21.6 (2.0)	21.5 (4.3)	22.4 (2.7)	22.4 (2.4)	22.3 (1.8)	22.2 (2.8)	21.6 (1.0)
(Agriculture, forestry, and fishing)	2.4	2.1	2.1	1.7	2.3	2.3	2.0	2.1	1.6
(Manufacturing)	4.2	4.3	4.3	4.2	4.3	4.2	4.3	4.2	4.1
(Construction)	1.6	1.7	1.6	1.6	1.8	1.8	1.8	1.7	1.7
(Wholesale, retail, restaurants, and hotels)	5.9	6.0	5.9	6.0	6.0	6.0	6.0	6.0	6.0
(Business, personal, and community services)	5.6	5.7	5.5	5.8	6.0	6.0	6.0	5.9	5.9
Unemployed persons	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.8
Unemployment rate	3.3	3.3	3.8	3.7	3.0	2.8	2.9	3.1	3.5
(Seasonally adjusted)	(3.6)	(3.5)	-	(3.2)	(3.1)	(3.1)	(3.0)	-	(3.1)

Notes : 1) Actual figures.

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

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

Unit : percent

	2001			2002				
	III	IV	Year	I	II	III	IV	Year
Nominal wages per worker	4.2	3.5	5.1	9.4	11.1	11.2	13.8	11.2
(Regular Payment)	5.7	6.2	6.3	11.9	12.0	11.6	12.7	12.1
(Overtime Payment)	-4.9	-2.5	-1.6	-8.2	-2.8	-3.3	-1.4	-3.9
(Special Cash Payment)	2.7	-2.6	3.4	2.3	12.9	14.7	22.2	13.4
(Manufacturing)	4.3	4.2	5.8	7.3	10.7	11.9	17.3	11.9
(Construction)	-1.1	-4.6	-0.9	9.9	8.6	9.0	12.9	10.2
(Transport, storage, communications)	2.0	1.9	1.9	4.7	8.3	9.2	10.8	8.4
(Electricity, gas & water)	5.0	13.9	15.3	7.1	6.9	25.5	12.6	13.1
(Finance, insurance and real estate)	5.0	2.6	5.1	11.5	16.0	8.9	11.4	10.4

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

**External Transactions**

During the fourth quarter of 2002, exports(customs clearance basis) rose 24.6 percent in value terms over the same

period of the previous year to 45.3 billion dollars, much higher than the previous quarter.

Broken down by commodity group, exports of IT-related products continued

their high growth rate thanks to the briskness of those of semiconductors and wireless communication equipment, which helped offset lackluster exports of computers. Meanwhile, exports of goods other than IT-related products saw their upward pace accelerate remarkably as the growth of those of automobile, steel, and chemical products accelerated and those of textile products turned positive after their negative growth in the previous quarter. By export destination, the

growth rate of exports to Southeast Asia slowed, but that of those to China, the United States, and EU picked up.

In January 2003, exports rose by 25.8 percent over the same month of the previous year to 14.3 billion dollars, their highest level for January in terms of current US dollars. By item, the rate of increase of IT-related products slowed owing to a fall in semiconductor prices, but that of goods other than IT-related products accelerated somewhat.

[Table 5]

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

(Customs-clearance Basis)

Unit : billion US dollars

	Share <sup>2)</sup>	2001		2002				2003		
		Year	Year	I	Jan.	II	III	IV	Dec.	Jan.
Exports	<100.0>	150.4 (-12.7)	162.5 (8.0)	35.7 (-11.1)	11.4 (-10.0)	40.3 (4.9)	41.3 (15.9)	45.3 (24.6)	15.0 (26.1)	14.3 (25.8)
IT products	<30.0>	40.6 (-26.2)	48.8 (20.0)	10.8 (-4.8)	3.5 (-10.3)	11.8 (22.8)	12.3 (34.5)	13.8 (31.7)	4.3 (33.8)	4.4 (24.7)
Semiconductors	<10.2>	(-45.2)	(16.6)	(-23.7)	(-35.9)	(9.6)	(53.6)	(57.7)	(59.6)	(39.6)
Computers	<7.8>	(-24.0)	(15.6)	(0.7)	(4.9)	(31.4)	(27.9)	(6.6)	(4.9)	(-0.8)
Wireless communication equipment	<6.7>	(23.0)	(34.6)	(27.1)	(19.1)	(39.8)	(31.7)	(38.4)	(50.2)	(40.3)
Non-IT products	<70.0>	109.8 (-6.3)	113.7 (3.5)	24.8 (-13.7)	7.9 (-9.9)	28.5 (-1.0)	28.9 (9.4)	31.5 (21.8)	10.7 (23.2)	10.0 (26.5)
Automobile	<10.6>	(1.4)	(12.3)	(9.9)	(30.7)	(-2.3)	(7.4)	(33.2)	(48.4)	(16.7)
Ships	<6.6>	(17.9)	(10.0)	(-27.7)	(-49.6)	(8.3)	(45.2)	(37.8)	(58.1)	(96.8)
Machinery	<6.7>	(-2.9)	(10.8)	(-12.2)	(-0.9)	(5.0)	(24.1)	(29.5)	(25.2)	(25.9)
Iron & steel products	<6.3>	(-11.7)	(2.8)	(-17.5)	(-13.6)	(0.3)	(9.7)	(22.0)	(24.3)	(38.0)
Chemical products	<7.3>	(-10.9)	(9.4)	(-8.0)	(-7.4)	(6.2)	(12.7)	(29.8)	(28.8)	(29.3)
Textile & Apparel	<9.1>	(-14.0)	(-2.3)	(-14.1)	(0.3)	(-4.7)	(-1.2)	(11.8)	(4.8)	(4.7)
U S	<20.2>	(-17.0)	(5.0)	(-6.8)	(-7.7)	(4.8)	(4.3)	(18.4)	(24.5)	(4.9)
Japan	<9.3>	(-19.4)	(-8.3)	(-30.9)	(-34.7)	(-13.5)	(3.2)	(15.6)	(22.1)	(31.4)
E U	<13.4>	(-16.2)	(10.5)	(-10.7)	(-7.2)	(1.9)	(15.9)	(39.3)	(48.3)	(26.6)
China	<14.6>	(-1.4)	(30.6)	(4.7)	(18.8)	(17.8)	(35.6)	(64.2)	(68.4)	(55.8)
Southeast Asia	<21.7>	(-18.3)	(10.8)	(-3.4)	(-2.6)	(13.1)	(19.6)	(15.3)	(10.8)	(17.9)
Central & South America	<5.5>	(3.8)	(-8.9)	(-30.8)	(-31.9)	(-7.8)	(14.5)	(-2.9)	(-30.2)	(28.1)

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

2) Based on the year 2002.

During the fourth quarter, imports (customs clearance basis) picked up their pace of growth by 23.1 percent year-on-year to register 42.3 billion dollars. By item, imports of raw materials shifted to an increase owing to higher oil prices, and those of steel and chemical products rose sharply.

The growth rate of imports of capital goods accelerated owing to a sharp rise in imports of machinery and semiconductors. Imports of consumer goods, centered on passenger cars and clothing, also maintained a high rate of increase.

In the meantime, imports in January 2003 increased by 27.3 percent to 14.4 billion dollars. By item, imports of raw

materials rose sharply due to expanded imports of crude oil following a surge in oil prices and those of consumer goods, led by clothing, meat, and grain, kept their high rate of increase. However, the growth rate of capital goods slowed somewhat from the previous month due to slower expansion of those of semiconductors and machinery.

Reflecting these export and import trends, the surplus on the goods account (B.O.P. basis) widened greatly to 3.9 billion dollars in the fourth quarter from 2.8 billion dollars in the previous quarter. This caused the current account surplus to widen sharply from the previous quarter to 2.0 billion dollars.

[Table 6]

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

(Customs-clearance Basis)

Unit : billion US dollars

	Share <sup>2)</sup>	2001		2002				2003		
		Year	Year	I	Jan.	II	III	IV	Dec.	Jan.
Imports	<100.0>	141.1 (-12.1)	152.1 (7.8)	33.8 (-11.4)	11.3 (-8.9)	37.2 (7.8)	38.9 (13.8)	42.3 (23.1)	14.5 (27.9)	14.4 (27.3)
Raw materials & Fuels	<48.6>	71.9 (-8.9)	73.9 (2.7)	17.0 (-14.0)	5.8 (-9.9)	18.1 (0.6)	18.6 (6.7)	20.2 (20.6)	7.0 (27.8)	7.5 (30.2)
Crude oil	<12.6>	(-15.3)	(-10.1)	(-32.0)	(-31.3)	(-14.8)	(-2.7)	(18.5)	(31.3)	(43.3)
Iron & steel products	<4.1>	(-16.3)	(24.6)	(13.1)	(14.9)	(24.6)	(33.2)	(26.6)	(27.5)	(32.8)
Chemical products	<8.1>	(-4.8)	(8.8)	(-5.0)	(2.0)	(7.4)	(13.0)	(20.8)	(29.2)	(15.6)
Capital goods	<38.1>	52.5 (-19.7)	58.0 (10.4)	12.3 (-15.3)	4.1 (-16.2)	14.2 (13.7)	15.1 (20.2)	16.4 (26.5)	5.6 (32.7)	5.1 (26.6)
Electric & electronic products	<23.7>	(-21.8)	(6.4)	(-15.3)	(-17.6)	(5.9)	(16.6)	(21.2)	(27.7)	(18.0)
Machinery	<8.2>	(-18.2)	(15.8)	(-23.0)	(-18.8)	(29.2)	(29.2)	(38.7)	(51.3)	(35.1)
Consumer goods	<13.3>	16.6 (3.5)	20.3 (21.8)	4.4 (17.7)	1.5 (25.8)	4.9 (22.3)	5.2 (24.4)	5.7 (22.2)	1.9 (15.5)	1.8 (18.5)
For domestic use	<59.6>	(-8.9)	(12.7)	(-5.4)	(1.1)	(13.0)	(17.1)	(27.7)	(36.1)	(23.5)
For export	<40.4>	(-16.0)	(1.3)	(-19.0)	(-21.0)	(1.2)	(9.5)	(16.7)	(15.8)	(33.2)

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

2) Based on the year 2002.

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

Unit : billion US dollars

	2001		2002				2003		
	Year	Year	I	Jan.	II	III	IV	Dec.	Jan.
Current account	8.2	6.1	1.6	0.3	1.6	0.9	2.0	-0.6	-0.3
Goods	13.5	14.2	3.1	0.7	4.4	2.8	3.9	0.4	0.9
Services	-3.8	-7.5	-1.5	-0.6	-1.6	-2.2	-2.1	-1.0	-1.2
Income	-1.2	0.5	0.0	0.2	-0.9	0.6	0.7	0.2	0.3
Current transfers	-0.2	-1.1	-0.1	0.0	-0.3	-0.3	-0.4	-0.2	-0.3

In January 2003, however, the current account posted a deficit following on from that registered in December although its scale narrowed somewhat to 0.3 billion dollars. This was attributable to an expansion in the surplus on the goods account, which partially offset the widened deficit on the services account.

### Prices

The rate of increase of consumer prices, which had marked a low level of around 2.5 percent year-on-year until the third quarter of 2002, rose to the 3 percent level during the fourth quarter owing to a seasonal rise in prices of agricultural products and charges for personal services as well as a hike in petroleum products and some public utility charges. From early 2003, international oil prices surged and a hike in agricultural products and public utility charges followed. Accordingly, the rate of increase of consumer prices rose to a level of slightly below 4 percent year-on-year during the

January-February period.

Viewing the trend of consumer prices by item from the beginning of the fourth quarter of 2002 based on the rate of increase over the last month of the preceding period, prices of agricultural, livestock, and marine products showed a downward trend due to an increase in shipments of agricultural products during the months of October and November, the harvest season. However, the prices showed a high rate of increase during the period from December 2002 to February 2003 owing to reduced supply of vegetables and fruit during the winter season coupled with the rising demand in connection with the Lunar New Year. Prices of industrial products rose sharply from the fourth quarter of 2002 owing to price hikes for petroleum products and some processed foodstuffs. Prices of petroleum products moved upward as international oil prices soared, affected by strikes in Venezuela and the heightened possibility of a war against Iraq. Prices of some processed foodstuffs, including instant

**[Table 8] Rates of Increase of Consumer Prices<sup>1)</sup>**

	Unit : percent							
	2001	2002				2003		
	Year	I	II	III	IV	Year	Jan.	Feb.
Consumer prices	3.2 (4.1)	1.6 (2.5)	0.8 (2.7)	0.9 (2.6)	0.3 (3.3)	3.7 (2.7)	0.6 (3.8)	0.6 (3.9)
Agricultural, livestock and marine products	9.5	5.7	0.5	6.0	-5.1	6.9	2.8	1.2
Industrial products	0.0	1.1	1.6	0.2	1.2	4.1	0.4	0.9
Services	4.0	1.0	0.6	0.4	0.8	2.8	0.4	0.1
Core inflation <sup>2)</sup>	3.6 (3.6)	1.2 (2.9)	0.6 (3.0)	0.5 (2.9)	0.7 (3.1)	3.1 (3.0)	0.4 (3.1)	0.2 (3.0)

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

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

noodles, biscuits, and beer, were also raised due to the surge in prices of international raw materials. Service prices in general showed a stable pattern until November. But, from December, their rising pace accelerated with the raising of charges for public utilities, including piped natural gas, city bus fares, and health care fees. Charges for personal services, including overseas tour costs and public bath fees, were also raised substantially. However, the rate of increase slowed significantly in February, by the lowering of some public utility charges, including mobile phone call rates and electric charges.

Meanwhile, the year-on-year increase rate of core inflation held stable at the 3 percent level during the fourth quarter of 2002 and this trend continued during the first two months of 2003. The stable pattern of core inflation's movements, in stark contrast to those of consumer

prices, was attributable to the exclusion of non-cereal agricultural products and petroleum fractions from its components, which posted high increases during the corresponding period.

The year-on-year increase rate of producer prices rose sharply to the 4 percent level during the fourth quarter of 2002 as prices of agricultural, forest and marine products soared due to reduced supply in the winter season, coupled with a hike in prices of international raw materials, including crude oil. The upward trend accelerated further in 2003.

Viewing the trend of producer prices by item from the fourth quarter of 2002 based on the rate of increase compared with the last month of the preceding period, those of agricultural, forest and marine products showed a temporary drop in October owing to enlarged shipments of agricultural products during the harvest season. However, they rose

steeply from November as shipments of agricultural products declined with the advent of winter, causing their upward trend to accelerate sharply for the fourth quarter as a whole. Moving into 2003, their acceleration continued, affected by reduced supplies during the winter season and the spike of demand around the Lunar New Year. In February, however, prices of agricultural, forest and marine products dropped. It was attributable to the decline of prices of livestock products and fruit in the wake of the reduced demand for them once the Lunar New Year holidays were over. The rate of increase of prices of manufacturing industry products accelerated further during the fourth quarter compared with the previous quarter, headed by petrochemical and metal products. Their upsurge reflected the hike in prices of raw materials, most notably crude oil and nonferrous metals. The upward trend consolidated itself in 2003 owing to the surge of

international oil prices. Service prices dropped temporarily in November, affected by a fall in machinery leasing charges following the won's appreciation against the dollar. However, they showed a relatively high rate of increase during the fourth quarter as a whole over the previous quarter owing to the hike of freight charges and city bus fares. The rising pace of service prices accelerated in January owing to a sharp rise in expenses for construction design and supervision by the hikes in construction wages. But it slowed down in February, affected by the cut in mobile phone call rates.

Export prices, which had shown an upward trend during the third quarter due to a hike in prices of raw materials and the won's depreciation against the dollar, shifted to a downward trend during the fourth quarter as prices of petrochemical products and communication equipment fell sharply owing to the renewed stability of international oil

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

	Unit : percent							
	2001		2002				2003	
	Year	I	II	III	IV	Year	Jan.	Feb.
Producer prices	-0.7 (1.9)	1.7 (-0.2)	1.4 (1.2)	0.5 (1.5)	1.0 (4.0)	4.6 (1.6)	1.0 (5.1)	0.6 (5.2)
Agricultural, forest and marine products	6.1	5.9	-0.2	0.0	3.3	9.1	1.9	-2.7
Manufacturing industry products	-2.3	1.7	1.7	0.6	0.7	4.9	0.9	1.1
Electric power, water and gas supply	3.5	-2.7	-0.2	0.5	1.4	-1.0	0.6	0.2
Services	1.6	1.4	1.0	0.4	0.9	3.7	1.2	0.3

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

prices, and the won's appreciation against the dollar, as well as reduced demand both at home and abroad. Export prices continued their downward trend in January 2003, but rose sharply in February, led by those of petrochemical and metal products. This upsurge was attributable to the won's depreciation against the dollar coupled with a rise in prices of international raw materials, including crude oil and nonferrous metals.

The rate of increase of import prices slowed down significantly during the fourth quarter, affected by stable international oil prices and the won's appreciation against the dollar. After December, however, the rising trend accelerated again as oil prices in the world market surged owing to the heightened risk of a war with Iraq and prices of raw materials, notably nonferrous metals, soared due to the reduction of supplies by major producers.

In the meantime, the upward movement of housing prices slowed down sig-

nificantly during the fourth quarter of 2002 owing to the slackness of demand in a season not favored for moving house and a series of government's measures to stabilize real estate prices. In particular, nationwide housing prices in January posted a month-on-month decline for the first time in two years, affected by the sharp fall of apartment prices in Seoul. Moving into February, however, they shifted to an upward trend again as prices of apartments in Seoul and Seoul Metropolitan Area rose slightly, led by those scheduled for reconstruction, while those in some cities, notably Daejeon, showed a sharp rise. Housing rents had maintained a downward trend since October last year owing to stable housing prices and the reduced seasonal demand, but they shifted back to a rising pattern in February this year due to increasing seasonal demand.

Meanwhile, land prices, registered a relatively high rate of increase during the fourth quarter of 2002, centered on residential and green zones in Seoul and

**[Table 10] Rates of Increase of Export and Import Prices<sup>1)</sup>**

	Unit : percent							
	2001		2002				2003	
	Year	I	II	III	IV	Year	Jan.	Feb.
Export prices	-11.6 (-3.8)	7.6 (-8.7)	-8.5 (-8.6)	0.5 (-7.9)	-0.1 (-2.2)	-1.1 (-7.0)	-0.5 (-4.3)	2.5 (-3.6)
Import prices	-8.5 (3.5)	6.3 (-8.5)	-4.9 (-8.5)	1.7 (-8.0)	0.1 (0.8)	2.9 (-6.2)	0.9 (2.5)	3.5 (5.2)

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

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

	Unit : percent							
	2001		2002				2003	
	Year	I	II	III	IV	Year	Jan.	Feb.
Housing prices	9.9	7.6	2.1	5.2	0.8	16.4	-0.1	0.5
(Apartments in Seoul)	19.3	15.0	2.3	11.7	-0.5	30.8	-1.6	0.3
Housing rents	16.4	7.3	1.6	2.6	-1.6	10.1	-0.1	0.8
(Apartments in Seoul)	23.4	11.2	1.8	3.9	-5.3	11.4	-0.4	0.8
Land prices	1.3	1.8	1.3	3.3	2.3	9.0	-	-

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

Seoul Metropolitan Area, but this rise represented a slight deceleration from the previous quarter.

## Financial Developments

### Financial Markets

During the fourth quarter, the overnight call rate fluctuated mildly around the 4.25 percent level, the target set by the Bank of Korea. Yields on Treasury(three-year maturity) and corporate bonds(AA-grade, three-year maturity) fluctuated within a relatively narrow range(Treasury bonds: 5.3~5.5 percent, corporate bonds: 5.8~6.0 percent) amid the continued uncertainties surrounding external conditions, including worries over a war against Iraq. In December, however, bond yields fell sharply, affected by the North Korean nuclear issue and the government's plan to reduce its issuance of national bonds during the fol-

lowing month. Accordingly, yields on Treasury and corporate bonds posted the year's lowest levels of 5.11 percent and 5.68 percent, respectively, at the end of the year.

From the beginning of this year, yields on Treasury and corporate bonds continued their downward trend, due to the deepening geopolitical risks and the imbalance between bond demand and supply. So they stood at 4.60 percent and 5.14 percent, respectively, at the end of February.

The Korea Composite Stock Price Index(KOSPI) posted its low for the year of 584.04 on October 10, after which it bounced back owing to a bullish U.S. stock market and the return to a net inflow of foreign portfolio investment funds. In December, however, KOSPI fell sharply again, affected by the uneasiness over the international situation, including the growing likelihood of a US-Iraq war and the North Korean nuclear issue. Therefore it dropped from 646.42 at the end of September to 627.55 at the end of

[Chart 1]

Market Interest Rate Movements



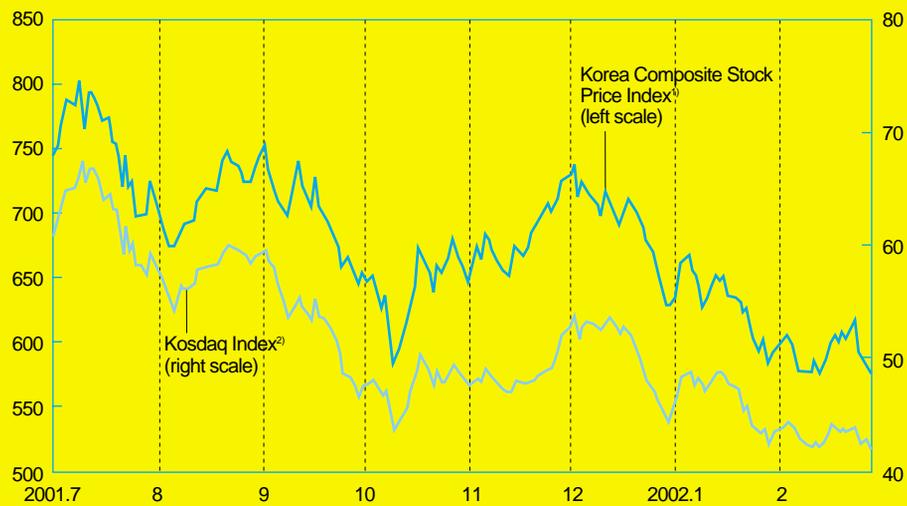
December. The KOSDAQ index showed similar movements to KOSPI, falling from 46.71 to 44.36 over the same period.

With the introduction of this year,

affected by the darkened foreboding of a geopolitical crisis and the subdued U.S. stock market, both the KOSPI and KOSDAQ indexes continued to lose ground, and stood at 575.43 and 41.78, respec-

[Chart 2]

Stock Price Movements



Notes : 1) 1980.1.4 = 100.  
2) 1996.7.1 = 100.

tively, at the end of February.

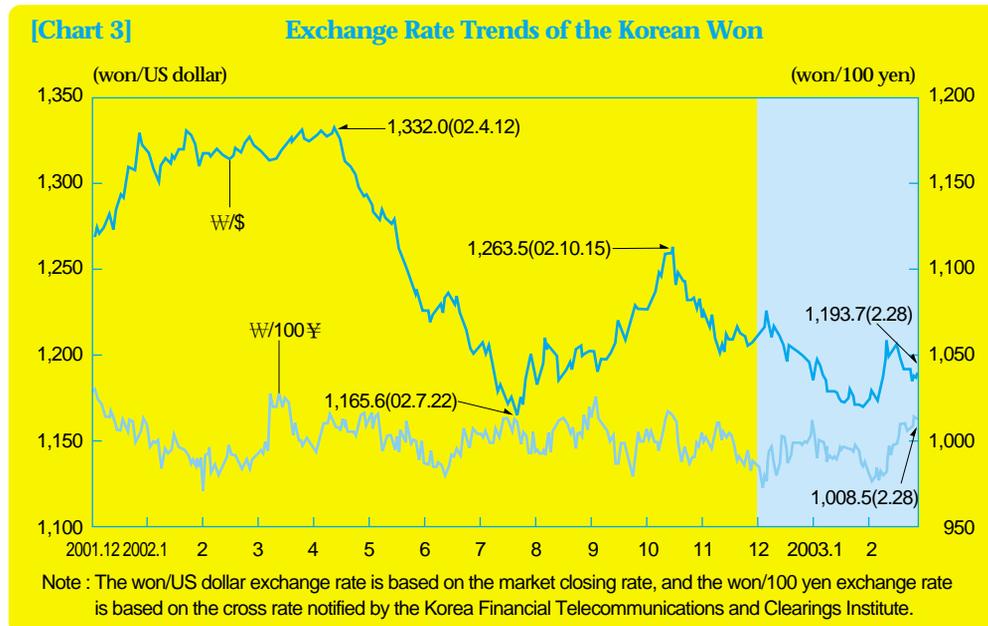
The Korean won appreciated sharply against the U.S. dollar to register 1,170.1 won against the greenback on Jan. 30, its highest in six months. This was attributable to the weakness of the U.S. dollar against other major currencies, including the yen, in the wake of the heightened threat of a war against Iraq and an increase in net inflows of foreign currency from the net introduction of foreign stock investment and Non-Deliverable Forward(NDF) sales by non-residents.

However, the Korean won shifted to a decline against the dollar early in February as the yen softened against it and the geopolitical risk posed by the North Korean nuclear issue became accentuated on the Korean peninsula. On Feb. 11, the exchange value of the won in dollar

terms fell by 17 won to stand at 1,209.2 won following the U.S.-based Moody's Investors Service's downward adjustment (positive → negative) of Korea's sovereign credit rating.

Thereafter, the won shifted to an upward trend against the dollar in a movement reflecting the strengthening of the Japanese yen. But, the Korean won posted a relatively slight rise, compared with that of the Japanese yen owing to the escalation of the geopolitical risk surrounding the Korean peninsula and worries over the worsening trade balance. As a result, the exchange rate of the won stood at 1,193.7 won per U.S. dollar at the end of February.

Meanwhile, against the Japanese yen the Korean won softened in December as the yen's appreciation against the dollar



[Table 12]

## Growth of Deposits at Financial Institutions

(Changes during the period)

Unit : billion won

	2001		2002					2003		
	IV	I	II	III	IV	Oct.	Nov.	Dec.	Jan.	Feb.
Deposit money banks <sup>1)</sup>	4,611	29,004	11,618	10,389	13,853	7,729	8,329	-2,206	-6,858	2,766
Money-in-trust	2,465	-5,299	-683	-1,882	-171	401	-219	-353	-970	176
Investment trust companies	-21,187	15,046	-3,454	4,966	-216	1,515	2,570	-4,300	10,880	5,740
Merchant banking corporations	-1,091	1,956	-1,095	174	-1,026	534	127	-1,687	1,686	462

Note : 1) Bank deposits + CDs + RPs + Cover bills.

was far greater than that of the won. After the mid of January, however, the won shifted to an upward trend, posting 976.6 won per 100 yen on Feb. 3 as the Japanese foreign exchange authorities intervened in the market to slow the yen's appreciation. As the yen then appreciated sharply against the dollar after the mid of February, however, the won plummeted against the yen to stand at 1,008.5 won per 100 yen at the end of February.

In the meantime, deposits at banks rose sharply during the fourth quarter due to a handsome rise in short-term money market deposits, including MMDAs, CDs, and RPs. On the other hand, money-in-trusts at banks continued its declining trend owing to an increase in the withdrawal of funds at maturity like New Pension Trusts and New Reserving Trusts. Deposit-taking by investment trust companies shifted to a downward trend owing to the contraction of MMFs in line with companies' preparation for year-end closing of accounts and sluggish sales of equity-

linked financial products.

During January and February of this year, banks' deposit-taking decreased due to a migration of funds that had been placed in demand deposits for year-end settlement to investment trust companies, along with seasonal factors such as Lunar New Year's holidays. Deposit-taking by investment trust companies, however, rose sharply, led by MMFs. This reflected the expansion of short-term standby funds arising from the following back of funds that had been temporarily withdrawn at the end of last year, the narrowing of interest rates spread, and the mounted uncertainties over economic prospects.

### Monetary Aggregates

During the fourth quarter, the growth rate of M3 posted 13.2 percent, up from its 12.6 percent in the previous quarter, due to an increase in the government's fiscal expenditures and a net inflow of foreign stock investment funds. Despite the rise of MMDAs at banks and MMFs at

[Table 13]

## Monetary Aggregate Trends

(On the basis of average figures)

Unit : percent

	2001				2002				2003	
	IV	I	II	III	IV	Oct.	Nov.	Dec.	Jan.	Feb.
M3	11.5	12.1	13.7	12.6	13.2	12.5	13.7	13.4	13.1	-
M1	25.1	26.8	27.9	20.3	16.1	16.9	16.1	15.2	13.7	-
M2	9.0	9.5	12.4	10.9	13.0	11.6	13.3	14.1	13.9	-
Reserve money	14.6	14.9	17.0	15.1	10.7	9.7	12.7	9.7	10.7	6.5

investment trust companies, the growth rate of M1(narrow money) slowed from 20.3 percent in the previous quarter to 16.1 percent in the fourth quarter due to a base-period effect from its sharp rise during the base period of the previous year.

In the first two months of 2003, the growth rate of M3 fell because of the reduced supply of private credit such as household loans. Despite the steady expansion of MMFs at investment trust companies, the growth rate of M1 also slowed because of a base-period effect and the following back of cash withdrawn temporarily for Lunar New Year.

### Bank Loans and Corporate Finance

The pace of increase of bank lending to enterprises slowed down during the fourth quarter, as enterprises repaid their borrowings in a bid to lower their debt ratios at the end of the year. The growth rate of household loans extended by banks also subdued significantly, affected

by stable housing prices and government steps to rein in household loans. The net redemption of corporate bonds declined from the previous quarter, as enterprises sought to increase the issuance of corporate bonds to convert their short-term debts to long-term liabilities through the issuance of long-term debt securities at the lower prevailing rates, although the retirement of Primary CBOs at maturity continued. The net issuance of CPs saw its upward pace slow down, as enterprises tried to lower their debt ratios prior to year-end closing.

During the first two months of this year, bank lending to large enterprises declined slightly, but that to small and medium-sized companies continued its upward trend owing to banks' extension of loans that had been paid back at the end of last year and their efforts to expand corporate loans. Bank lending to households, which had decreased slightly in January due to seasonal factors, rose sharply in February again, as loans for households holding overdraft-accounts soared, affected by the rising

[Table 14]

Bank Lending<sup>1)</sup> and Corporate Funding

(Changes during the period)

Unit : billion won

	2001		2002						2003	
	IV	I	II	III	IV	Oct.	Nov.	Dec.	Jan.	Feb.
Bank loans <sup>1)</sup>	14,519	30,715	28,164	24,451	15,239	12,063	4,945	-1,768	6,141	4,342
Enterprises	-267	12,717	11,649	8,614	4,871	5,764	3,099	-3,992	6,751	1,543
(Large enterprises)	-2,682	3,344	-1,705	-278	-1,242	886	225	-2,354	751	-1,002
(Small and medium Enterprises)	2,415	9,268	13,197	8,514	6,113	4,877	2,873	-1,638	6,000	2,545
Household	16,987	17,436	17,634	16,012	10,514	6,122	2,094	2,298	-272	2,693
Public and Others	-2,201	668	-961	-203	-145	177	-230	-74	-338	88
Net bond issuance <sup>2)</sup>	-6,389	-3,199	-3,612	-803	-447	-153	1,418	-1,711	-167	-553
Net CP issuance <sup>3)</sup>	-2,400	4,901	3,435	2,499	251	2,206	840	-2,795	4,680	-9

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

2) Excludes under court management, court receivership and workout programs, by financial companies, and by state-run corporations, but includes Primary CBO that accepted by Korea Development Bank in its prompt underwriting arrangements and that redeemed prior to maturity.

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

demand for loans for school expenses. The net redemption trend of corporate bonds continued, following on from the previous year, but the net issuance of CPs

rose owing to the active issuance of CPs that had been retired temporarily at the year-end.

# Monetary Policy Decision

## Adopted by the Monetary Policy Committee

January ~ March 2003

### Monetary Policy Decision\*

Despite the slowdown of private consumption, the economic upswing has continued steadily, as evidenced by strong industrial production and exports.

Consumer price inflation accelerated in December mainly owing to a sharp rise in agricultural product prices and increases in public and private service charges. Core inflation, however, stayed within its annual target range last year. Real estate prices remained stable following on from the previous month.

Domestic and overseas uncertainties weakened financial markets sentiment in December, as was demonstrated by the decline of both stock prices and long-term interest rates. Fund-raising conditions for the corporate sector, however, remained favorable. Meanwhile, banks' expansion of household credit slowed down, following its slower growth in the preceding month.

\* Unofficial English translation based on the Korean original that was decided upon by the Monetary Policy Committee on January 9, 2003

In the external environment, international oil prices have risen sharply due to the heightened possibility of a war between the U.S. and Iraq, and the tension over North Korea's nuclear program has been growing.

Taking these into consideration, the Monetary Policy Committee of the Bank of Korea decided today to maintain the benchmark overnight call rate at its current level for the inter-meeting period.

#### Inflation Target in 2003

In consultation with the government, the inflation target for the year 2003 has been set at  $3 \pm 1$  percent, based on the annual rate of increase in core inflation\*.

\* Consumer Price Index after stripping out non-cereal agricultural products and petroleum-based products

The medium-term inflation target has been set as a range from 2.5 to 3.5 percent.

---

## Monetary Policy Decision\*

The economic upswing seems to be continuing, as evidenced by the rapid growth of exports. The pace appears to be decelerating, however, due to weaker consumer and investor confidence.

Core inflation remained stable at around the 3 percent level in January. Consumer prices, in contrast, showed a rapid rise owing to the hikes in petroleum-based products and the increases in agricultural product prices due to seasonal factors.

In the financial markets, investor sentiment has become even weaker, as demonstrated by sharp declines in both stock prices and market interest rates, mainly due to increased geopolitical risks. Banks' household lending slowed down remarkably in January, due to the effects of steps taken to rein it in and to seasonal factors.

Meanwhile, uncertainty in the external environment is increasing due to the possibility of a war breaking out between the U.S. and Iraq and the tension over North Korea's nuclear program.

Taking these into consideration, the Monetary Policy Committee of the Bank of Korea decided today to maintain the benchmark overnight call rate at its current level for the inter-meeting period.

---

\* Unofficial English translation based on the Korean original that was decided upon by the Monetary Policy Committee on February 6, 2003

---

## Monetary Policy Decision\*

The Korean economy has continued to slow down, due to contracting private consumption and flagging business investment. The current account shifted into the red last December, and the trade balance registered a deficit for two months in a row this year.

Core inflation remains stable at around the 3 percent level. However, consumer prices rose sharply, driven by the higher crude oil prices.

Investor sentiment in the financial markets seems to remain weak, judging from the continuous declines in stock prices and long-term interest rates. On the other hand, credit conditions for the corporate sector are assessed to have been favorable, and roll-overs of household lending proceeded smoothly.

In the external environment, growing geopolitical risks reduced the prospect of early recovery of the world economy.

Taking these into consideration, the Monetary Policy Committee of the Bank of Korea decided today to maintain the benchmark overnight call rate at its current level for the inter-meeting period.

---

\* Unofficial English translation based on the Korean original that was decided upon by the Monetary Policy Committee on March 6, 2003

# The Inflation Target and Monetary Policy for 2003

## I . Introduction

Since the adoption of inflation targeting in April 1998 when the revised Bank of Korea Act<sup>1)</sup> came into effect, the Bank of Korea has set an inflation target every year in consultation with the government.

Viewing the development of inflation targeting in this period, the Bank of Korea set an annual inflation target for 1998, right after the foreign exchange crisis, at a high level of  $9.0 \pm 1\%$ , based on the annual average rate of increase of the consumer price index(CPI), but adjusted this downward in two steps to  $3.0 \pm 1\%$  in 1999, and  $2.5 \pm 1\%$  in 2000. From 2000, however, it set the inflation target based on core inflation, which refers to

consumer prices after stripping out non-cereal agricultural products and petroleum fractions. And it made a small upward adjustment of the annual inflation target for 2001 to  $3.0 \pm 1\%$ , and retained it at  $3.0 \pm 1\%$  in 2002.

Meanwhile, since the year 2000, the Bank has set a medium-term inflation target(2.5 percent based on annual average core inflation), together with the annual inflation target. The medium-term inflation target was set up both in consideration of the fact that a time lag exists before a change in monetary policy takes effect and to give the public confidence in the consistency of monetary policy in achieving price stability over the medium and long term.

The Bank of Korea officially announced

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

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

(1) The Bank of Korea shall set a price stability target every year in consultation with the government and formulate and promulgate an Operational Plan for Monetary and Credit Policies including this price stability target.

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

an operational plan for monetary policy for 2003, including an inflation target, after its deliberation and adoption by the Monetary Policy Committee in a resolution on January 9. Chapter II deals with the developments of prices and the details of operation of the monetary policy during 2002, and Chapter III introduces the inflation target and operational plan of monetary policy for 2003.

than its 3.6 percent in the previous year, and was held at the mid point of its inflation target of  $3.0 \pm 1\%$  for 2002 set earlier in the year. Also, the rate of increase of CPI eased from 4.1 percent in 2001 to 2.7 percent in 2002.

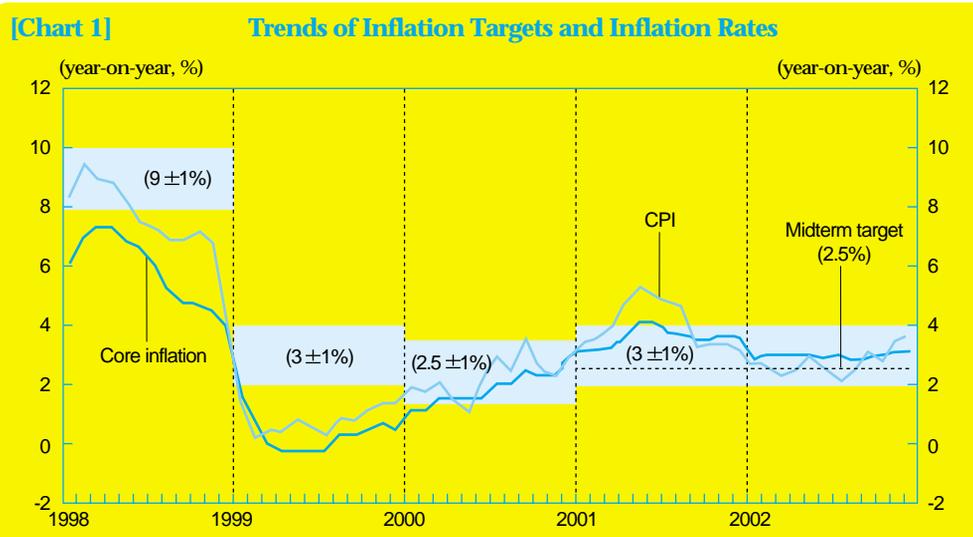
This easing was mainly attributable to the stability of the exchange rate of won against the U.S. dollar, the exceptional reduction of public service charges as well as the mildness of inflationary pressures on the demand side. Their combined effect acted to more than offset the acceleration of wage rises and a surge in real estate prices.

During 2002, nominal wages rose by 11.2 percent on a year-on-year basis, their upward pace having accelerated from 5.1 percent in the previous year. And real estate prices in terms of apartments soared 22.8 percent, following a 14.5 percent hike the previous year. Mean-

## II . Price Changes and Operational Performance of Monetary Policy in 2002

### 1. Price Changes in 2002

During 2002, core inflation rose 3.0 percent on an annual average basis, lower



**[Table 1] Trends of Main Economic Indicators**

	Unit : year-on-year, % , won/dollar									
	2001					2002				
	1/4	2/4	3/4	4/4	Year	1/4	2/4	3/4	4/4	Year
GDP	3.8	3.0	2.1	3.5	3.1	6.2	6.6	5.8	6.8	6.3
CPI	3.6	5.0	4.2	3.4	4.1	2.5	2.7	2.6	3.3	2.7
Core Inflation	3.3	3.9	3.7	3.6	3.6	2.9	3.0	2.9	3.1	3.0
Nominal Wages <sup>1)</sup>	7.8	4.1	4.2	4.6	5.1	8.4	11.0	11.2	13.8	11.2
Housing Purchase Price <sup>2)</sup> (apartments)	1.6	3.3	6.7	2.3	14.5	11.0	2.0	7.4	1.0	22.8
Exchange Rate (average of the period)	1,272 (13.1)	1,305 (16.9)	1,294 (16.0)	1,292 (10.8)	1,291 (14.1)	1,320 (3.7)	1,269 (-2.8)	1,197 (-7.5)	1,220 (-5.5)	1,251 (-3.1)

Notes : 1) Based on work places with at least five regular employees in all industries.

2) Comparison is with the last month of the preceding period.

3) Figures in parentheses refer to year-on-year changes.

while Korean won which had hovered above 1,300 won per dollar early in the year, shifted sharply to an appreciation trend in April due to the international weakness of the U.S. currency. Its exchange then has stabilized at around 1,200 won per dollar from the latter part of July, so its annual exchange value in U.S. dollar terms rose by 3.1 percent from 1,291 won per dollar in 2001 to 1,251 won per dollar. Public service charges, which had shown a high rate of increase at an annual average of 6.4 percent during the 1996-2001 period, exceptionally posted drop of 1.3 percent in 2002 due to the lowering of mobile phone call rates and city gas charges, and health care fees.

Viewing the trend of consumer prices by item, the prices of agricultural, livestock, and marine products rose by 6.2 percent, similarly to their 6.3 percent the previous year, being affected by torrential

rains and typhoons. Prices of industrial products posted a mere 1.7 percent rise, lower than the 2.6 percent in the previous year, as prices of petroleum fractions maintained a lower level than the previous year until the third quarter owing to the appreciation of the Korean won and low international oil prices during the first half of the year. Despite a continuing rise in housing rents and personal service charges, service prices increased by a mere 2.8 percent, lower than 4.6 percent in the previous year, mainly affected by a fall in public service charges.

[Table 2]

## Consumer Price Trends

Unit : year-on-year, %

	2000	2001	2002						
			1/4	2/4	3/4	4/4	1st half	2nd half	Year
Core Inflation	1.9 (2.9)	3.6 (3.6)	2.9 (1.2)	3.0 (0.6)	2.9 (0.5)	3.1 (0.7)	3.0 (1.8)	3.0 (1.2)	3.0 (3.1)
CPI	2.3 (2.8)	4.1 (3.2)	2.5 (1.6)	2.7 (0.8)	2.6 (0.9)	3.3 (0.3)	2.6 (2.5)	3.0 (1.2)	2.7 (3.7)
Agricultural, livestock and marine products	1.9	6.3	8.5	6.9	4.6	5.2	7.7	4.9	6.2
Industrial products	1.6	2.6	0.1	1.3	1.6	3.5	0.7	2.6	1.7
Petroleum fractions	11.0	4.2	-6.9	-2.1	-1.1	7.4	-4.5	3.1	-0.8
Services	2.9	4.6	2.9	2.7	2.8	2.7	2.8	2.8	2.8
Housing rents	-0.5	4.1	6.0	5.9	5.7	5.3	5.9	5.5	5.8
Public charges	7.1	7.5	-0.4	-1.6	-1.9	-1.3	-0.9	-1.6	-1.3
Personal services	2.0	3.1	3.2	3.6	3.9	3.8	3.4	3.9	3.7

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

## 2. Operational Performance of Monetary Policy in 2002

During 2002 monetary policy was conducted with an emphasis on supporting the economic recovery while paying careful attention to price stability.

The Bank of Korea raised the call rate target by 25 basis points from 4.0 percent to 4.25 percent on May 7, taking into the account the overall economic situations, including prices and business, as well as the developments in the financial market. This upward adjustment was made because of the possibility of heavy inflationary pressure resulting from the faster than expected economic upturn and the necessity of reining in household loans to an appropriate level as they had risen sharply on the back of low interest rates and a surge in real estate prices. Amid the

continuation of an economic upturn encouraged by brisk exports, the bank kept the call rate target at the 4.25 percent level from June. This was attributable to an increase in a feeling of uneasiness about a recovery of the world economies, including the United States, and a deepening of uncertainties both within the domestic and overseas economies due to the likelihood of a war between the United States and Iraq. In the meantime, as household loans soared again in line with the surge in real estate prices from the third quarter amid a murky economic situation, the bank reduced the Aggregate Credit Ceiling to its previous level of 9.6 trillion won in October, after having increased it to 11.6 trillion won right after the attack on Sept. 11, 2001.

The implementation of monetary poli-

cy in this manner is regarded as contributing not only to stabilizing prices within the annual target but also to economic recovery by supporting a steady rise in private consumption and construction investment, and bolstering the profitability of enterprises through a reduction in their burden of financial expenses. Along with this, it seems to have helped the stabilization of the financial market, taking into account both the narrowed interest rate spreads among corporate bonds depending upon their credit ratings, and favorable funding situation of enterprises amid the downwardly stable trend of long-term market interest rates and interest rates on loans & deposits at financial institutions. But, the maintenance of the accommodating monetary policy stance has brought about expectations of a hike in real estate prices and an increase of household loans, with consequent negative side effects such as a surge in housing prices and a sharp expansion of household debt.

### III . The Inflation Target and Monetary Policy for 2003

#### 1. The Inflation Target for 2003

The Bank of Korea set an inflation target of  $3.0 \pm 1\%$  for the year 2003, based on annual average core inflation. Along with this, the Bank decided that it will strive to maintain annual average core inflation within the range of 2.5~3.5 percent from the year 2004 onward.

These inflation targets were made after comprehensively considering the price forecasts, the financial and economic situation both at home and abroad, and the appropriate level of inflation for the Korean economy. The background of the setting of these inflation targets is described in detail below.

Viewing price conditions this year, the inflationary pressure on the demand side seems to be not all that large since GDP growth is unlikely to deviate from its potential level greatly, and the exchange

[Table 3] Outlook for Economic Growth

Unit : year-on-year, %

	2002							2003 <sup>o)</sup>				
	1/4	2/4	3/4	4/4	1st half	2nd half	Year	1/4	2/4	1st half	2nd half	Year
GDP	6.2	6.6	5.8	6.8	6.4	6.3	6.3	5.6	5.4	5.5	5.9	5.7
Private Consumption	8.9	7.9	6.2	4.3	8.4	5.3	6.8	4.6	5.1	4.9	5.8	5.3
Equipment Investment	3.8	7.5	7.8	8.2	5.6	8.0	6.8	6.1	9.2	7.7	13.3	10.4
Construction Investment	9.7	3.8	-4.6	6.0	6.3	1.0	3.3	2.1	2.3	2.2	2.7	2.5
Exports of goods	3.8	15.3	22.9	26.5	9.5	24.8	17.1	15.3	10.9	13.0	6.8	9.7
Imports of goods	4.3	19.9	22.5	21.8	11.7	22.1	16.9	10.7	9.5	10.1	11.9	11.0

rate of the won is expected to remain generally stable.

However, the high level of international oil prices resulting from the prospect of a war between the United States and Iraq, and the strike at a state-run oil company in Venezuela appear to be working as inflationary factors for the time being, and prices of raw materials, apart from crude oil, are expected to accelerate their upward pace, riding on the gradual recovery of the world economy. Also, wages are likely to continue on an upward trend, and the surge in housing prices that had already taken place is expected to have continuing impact on prices after a time lag. In addition, public service charges, which, exceptionally, had shown a stable trend last year, are expected to register an upward trend this year due to a hike in transportation fares whose effects will offset the lowering of mobile phone call rates early this year.

Considering these factors, consumer prices are expected to rise by 3.4 percent this year, slightly higher than their 2.7 percent in the previous year. But core

inflation is projected to rise by 3.1 percent, similar to last year's 3.0 percent on an annual average basis. However, there are potential inflationary factors present. If war between the U.S. and Iraq breaks out and lasts for a long period, international oil prices will surge and the inflation rate may be expected to exceed these forecasts. In the meantime, the financial market is expected to show a relatively stable pattern this year with the Korean economy maintaining growth at around its potential level and the current account remaining in surplus.

In these financial and economic conditions, an appropriate inflation rate, which would underpin the stable growth of the Korean economy, was judged to be a 3.0 percent level. As a result, the Bank of Korea set the mid-point of the inflation target at 3.0 percent for this year. But a fluctuation range of  $\pm 1$  percentage point is tolerated around the target mid-point, considering the high degree of uncertainty surrounding the financial and economic situation at home and abroad.

Meanwhile, the Bank of Korea adjust-

[Table 4]

Outlook for Prices

Unit : year-on-year, %

	2001		2002				2003 <sup>a)</sup>			
	Year	1st half	III	IV	2nd half	Year	1st half	2nd half	Year	
Core Inflation	3.6 (3.6)	3.0 (1.8)	2.9 (0.5)	3.1 (0.7)	3.0 (1.2)	3.0 (3.1)	3.0 (2.0)	3.2 (1.1)	3.1 (3.2)	
CPI	4.1 (3.2)	2.6 (2.5)	2.6 (0.9)	3.3 (0.3)	3.0 (1.2)	2.7 (3.7)	3.5 (2.3)	3.4 (1.0)	3.4 (3.3)	

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

**[Table 5] Trends of Inflation Targets<sup>1)</sup> and Actual Inflation Rates**

	Unit : annual average, %					
	1998	1999	2000	2001	2002	2003
Medium-term target	-	-	2.5	2.5	2.5	2.5~3.5
Annual target	9.0 ±1	3.0 ±1	2.5 ±1	3.0 ±1	3.0 ±1	3.0 ±1
Inflation rate						
Core inflation	5.9	0.3	1.9	3.6	3.0	3.1 <sup>9)</sup>
CPI	7.5	0.8	2.3	4.1	2.7	3.4 <sup>9)</sup>

Note : 1) The targets before 2000 are in terms of the CPI, and those after 2000 in terms of core inflation.

ed the medium term inflation target from the previous 2.5 percent to 2.5~3.5 percent based on annual average core inflation, taking into account the following factors.

Under the estimation that the medium term inflation trend of the Korean economy slightly exceeds 2.5 percent, the Bank made a slight upward adjustment to the target in such a way as to bring about a convergence between the medium term target and price conditions. Consumer prices in Korea are greatly affected by import prices, unit labor costs and public service charges, and the inflationary pressure from these factors is estimated to be around 3.0 percent. Reflecting this, core inflation has continued above 2.5 percent since 2001 and this trend is expected to persist unless productivity improves noticeably or other conditions change significantly in the future. If the Bank were to maintain the medium term target at the previous level of 2.5 percent and conduct monetary policy based on this target without considering these price conditions, nega-

tive side effects might arise such as a slowdown of growth, which is a high price to pay for disinflation, and restriction on its flexibility of monetary policy operation.

Along with this, the Bank of Korea set the medium term inflation target as a specific range, rather than a point, to secure the scope to operate monetary policy in a flexible manner, taking into account the uncertainties surrounding price conditions. Nor did it establish a mid-point for the medium-term target, considering that there is a limit to the accuracy of long-term price forecasts.

## 2. Operational Plan of Monetary Policy for 2003

### A. Operational Environment of Monetary Policy

During 2003, the Korean economy is expected to see an economic growth at the potential growth rate level, boosted by brisk exports and a recovery in facilities investment, which will counteract the effect of slowing consumption.

Although the current account for this year is likely to continue in a surplus, the scale of the surplus is expected to dwindle due both to an increase in imports drawn in by the recovery of facilities investment and an expansion in the deficit on the service account. Although inflationary pressure on the demand side will be not all that large, the upward trend of consumer prices is expected to accelerate further. This outlook is predicated on the continuation of the upward trend of nominal wages and the knock-on effects of a previous surge in housing prices as well as increases in public service charges. However, there are many latent uncertainties underlying these macro-economic prospects, including a likely war between the United States and Iraq, the possibility of a delay in the recovery of the world economy, and the North Korean nuclear issue, etc.

Financial and foreign exchange markets are expected to remain stable. In the lending market, the attitude of financial institutions to lending is expected to be more prudent, and the demand for loans is likely to decline, as government measures to curb household loans act to cool borrowings by the household sector. Also, even if the climate for facilities investment improves, corporate lending is unlikely to increase greatly since enterprises hold ample funds and place emphasis on profitability. In the bond market, a large volume of rollover issues

are expected, centering on national bonds and financial debentures, but the net issue volume is expected to diminish slightly compared with that of last year. There is a possibility that the appetite for bonds will cool after the latter half in this year due to expectations of a rise in market interest rates following the spread of an upbeat economic mood and a flow of funds into the stock market. In the foreign exchange market, the oversupply trend of foreign exchange is expected to last owing to the continuation of current account surplus, and inflows of direct and indirect foreign investment funds as well as the continual issue of overseas securities by the private sector.

In the meantime, the government's budget for this year is presumed to have been drawn up with a neutral stance on the future economy for the first time since the foreign exchange crisis. First of all, the rate of increase of the consolidated budget (general account plus special accounts, net account basis) was 6.6 percent (4.0 percent if the supplementary budget is included) rather higher than last year's original budget. This points too its having been drawn up at a slightly lower level than the nominal economic growth rate. Meanwhile, the consolidated fiscal balance, which excludes social security funds, is expected to shift slightly into surplus and the issue of national bonds to finance the deficits on the general account is likely to be suspended.

## B. Operational Plan of Monetary Policy

The Bank of Korea will place the focus of its monetary policy for 2003 on achieving balanced growth and stability. To be specific, it will make strenuous efforts to stabilize prices within their target range and keep economic growth running at the level of the potential rate of growth, while maintaining the surplus on the current account. In keeping up with changes in the financial environment, the Bank will also make efforts to improve the policy instruments in order to boost the efficiency of the monetary policy, and heighten the public's understanding of monetary policy and confidence in it.

As a first step in this direction, the Bank of Korea will operate interest rate policy in a flexible and discreet manner in order to keep a balance between growth and stability, while paying close attention to the possible occurrence of domestic and external imbalances on the medium-term horizon. It will also strive to coordinate monetary policy with fiscal and foreign exchange policies, in view of the financial tightening or easing effects resulting from changes in fiscal policy and foreign exchange rates.

In its operation of the monetary aggregates, while keeping alert to the financial

markets the Bank will implement its policy in a flexible manner so that the overnight call rate stays at the target level, set by the Monetary Policy Committee. As the system of monetary policy operation making interest rates as the main operating target is now taking firm root, the Bank decided not to set and announce a monitoring range<sup>2)</sup> for the M3 growth rate from the year 2003 onward.

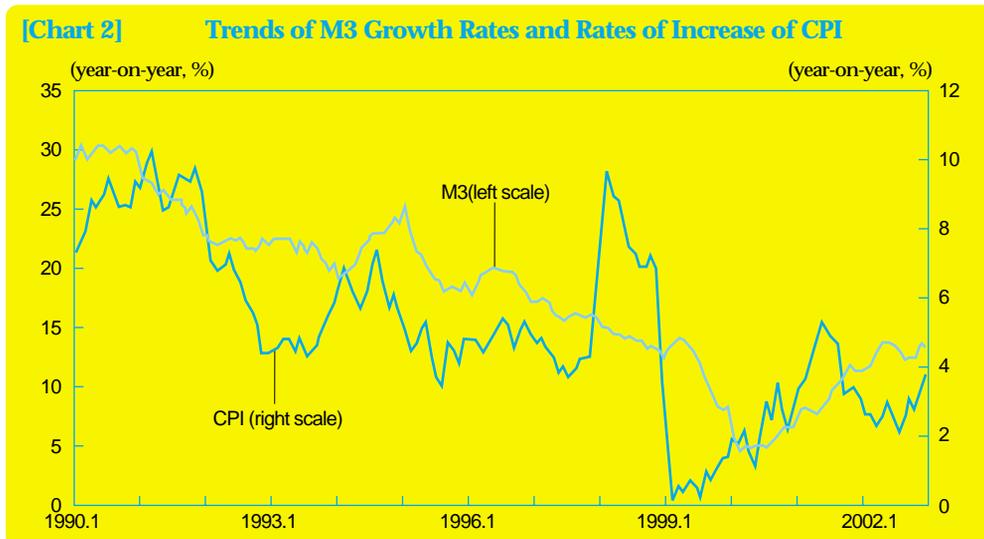
Its decision not to do so reflects its intention to clear up possible misunderstandings of the operating system of monetary policy. For instance, despite the implementation of inflation targeting, many people in the financial markets have still been looking on M3 not as a monitoring indicator but as the intermediate target, because they are largely affected by their experiences concerning the operation of monetary targeting, which was in place for a long time. As a result, if the actual M3 growth rate were to exceed the upper limit of the monitoring range, people might suffer from the misunderstanding that monetary policy was too loose and vice versa; i.e. they might mistakenly assume that the monetary policy was overly tight if the M3 growth rate fell below the lower limit. Such misunderstandings might give rise to concerns over the various negative side

2) The Bank of Korea changed the operational system of monetary policy to a pure inflation targeting system in 2001. It changed M3 as a monitoring indicator, not an indicator to be targeted, and established and made official announcement of the monitoring range of M3.

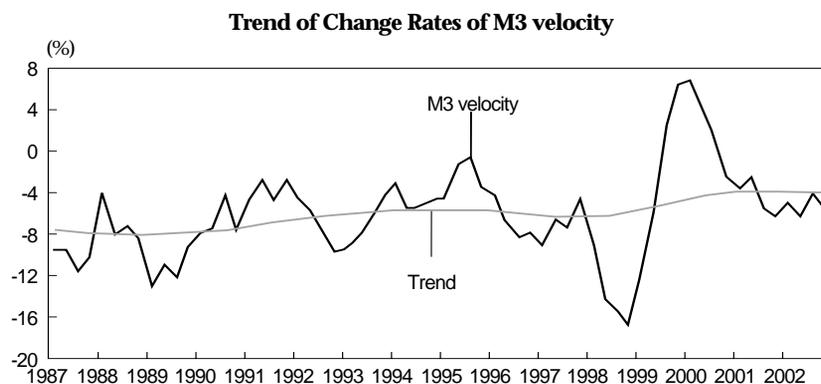
effects<sup>3)</sup>. In addition, the Bank also takes into account that it is very difficult to set the monitoring range of M3 at a level that would correspond to an annual inflation target. This difficulty is caused by the fact that the relationship between

the monetary aggregates and prices is not clear, given the instability of money demand over the short-term.

However, as money is in a stable relationship<sup>4)</sup> with prices on a long-term, we can grasp the trend path of fluctuations



- 3) For example, provided that inflation remains within the target range, the Bank of Korea will try to keep the current direction of monetary policy unchanged focusing on prices, even if M3 growth rate exceeds the upper limit. But the financial markets would expect the central bank to adopt a retrenchment policy to pull the money growth rate back within its monitoring range. In this case, there is a possibility that liquidity conditions in the market would be tightened more than the central bank intends due to the rise in market interest rates.
- 4) Considering that the rate of change of monetary velocity, which fluctuated on a large scale after the foreign exchange crisis, does not diverge greatly from its long-term trend line these days, it is estimated that the stability of monetary demand has now become comparatively high.



in prices through the changes of monetary aggregates. Thus, as an information variable, the changes in the monetary aggregates will be constantly seen as an important factor. Also, as we can learn from the fact that a surge in household loans led to a sudden rise in housing prices last year, credit indicators offer useful information for the prospects and trend of asset prices. Accordingly, the Bank of Korea will pay keen attention to movements of credit indicators, including private credit and loans by borrowers.

The Bank will fully free up interest rates on bank demand deposits, which are still subject to regulation, and thus complete the Four Stage Interest Rate Liberalization Plan<sup>5)</sup>, which has been progressively implemented since 1991. In keeping with the changes in the financial environment for small and medium sized enterprises, it will draw up a plan to rearrange in an efficient manner the support facilities provided for them under the Aggregate Credit Ceiling and allow to resume its main operating function of

the rediscount system to orthodox task of adjusting liquidity and interest rates. In addition, reserve requirement policy will be modified to prepare for the spread of electronic money and induce financial institutions to achieve an appropriate balance between long-term and short-term deposits. Furthermore, it plans to issue short-term Monetary Stabilization Bonds on a regular basis and carry out a gradual reduction in the number of its financial institution counterparts for the more effective implementation of open market operations.

Besides all these moves, the Bank of Korea will make greater efforts to heighten the public's understanding of monetary policy and confidence in it. At the same time, it will make more active use of examination of financial institutions to check their compliance with monetary policy, thereby confirming the transmission channel of monetary policy and incorporating the outcome in subsequent monetary policy.

---

5) According to the Four-stage Interest Rate Liberalization Plan announced in August 1991, the Bank of Korea carried out the first three stages of interest rate liberalization during the period from November 1991 to November 1995. With the interest rates on savings deposits with a maturity of less than three months being freed up in July 1997, almost all interest rates, except those on short-term deposits such as demand deposits and lending rates on credits supported from fiscal funds, were deregulated.

# Financial Sector Restructuring in 2002

---

## I . Foreword

During the year 2002, the government, which had pushed ahead with financial restructuring since the currency crisis, sold off some state-owned financial institutions, including Seoul Bank and Korea Life Insurance Company, and liquidated ailing mutual savings banks and credit unions. In this process, it injected a total of 3.7 trillion won in public funds for the repayment of deposits, recapitalization, compensation for losses and the purchase of non-performing loans of financial institutions. Also, it enacted new financial legislation and revised existing legislation mainly to strengthen protection for financial consumers and investors, improve the ownership and governance structure of banks and bank holding companies, ease the financial regulations, and prepare the measures for the recoupage of public funds.

This paper sets out the main points

concerning the restructuring of financial institutions, including the resolution of non-viable financial institutions and support from public funds, and provides details of the new and revised financial legislation.

---

## II. Restructuring of Financial Institutions

In 2002, 44 ailing financial institutions, including 35 credit unions and six mutual savings banks, exited the market or merged. And the government used a total of 3.7 trillion won in public funds for the repayment of deposits for financial institutions, recapitalization, compensation for losses, and the purchase of non-performing loans of financial institutions.

## 1. Merger and Liquidation of Financial Institutions

Viewing the details of the restructuring of financial institutions during the year 2002, the government lifted (April) the prompt corrective action for five banks – Chohung, Hanvit, Korea Exchange, Kwangju, and Kyongnam Banks – as they had succeeded in achieving their management improvement target, satisfying the BIS capital adequacy ratio. It also arranged for Cheju Bank to be brought into Shinhan Financial Group (May) and sold Seoul Bank to Hana Bank (November).

Among insurance companies, the government sold Korea Life Insurance Company to a consortium led by Hanwha Group (October) on an open bidding basis and sold Kukje Fire & Marine Insurance Company to Kunwha Pharmaceutical Company (January). It also decided to dispose on a purchase and assumption (P&A) basis Regent Fire & Marine Insurance Company<sup>1)</sup>, which had been designated an ailing financial institution in 2001 (June). In the meantime, the prompt corrective action orders, which were imposed on First Fire & Marine Insurance Company and Ssangyong Fire & Marine Insurance Company in 2002 and 2001, respectively, were lifted as the two insurance companies had fulfilled

their management improvement plans (August).

Among securities companies, Regent Securities Company merged with Ileun Securities Company to become Bridge Securities Company (January). Good Morning Securities Company merged with Shinhan Securities Company and changed its name to Good Morning Shinhan Securities Company, becoming a subsidiary of Shinhan Financial Group (July).

Among credit unions, three unions were merged, whereas 140 financially distressed unions were placed under the management of the Financial Supervisory Commission(FSC), and 32 out of those unions were closed down. In the case of mutual savings banks, six mutual savings banks were forced to exit or merge.

In the meantime, viewing the present status of mergers and exits of financial institutions now underway, the government is engaging in negotiations with Shinhan Financial Group, which was selected as the preferred negotiating partner (January in 2003) for the sale of Chohung Bank, which was nationalized on the receipt of public funds. The government also decided to sell Hanil Life Insurance Company, which had been designated as an ailing financial institution (October), to a foreign investor, but it is now pushing ahead with the resale of

1) Its business license was cancelled in January 2003.

the company on an open bidding basis as the sales negotiations broke down. It is also pushing for the sale of Ssangyong Fire & Marine Insurance Company again after the breakdown of negotiations with a foreign investor for its sale.

In the case of Daishin Life Insurance Company whose sale to a third party the government had pursued since 2001, Green Cross Corporation and a consortium led by Isu Chemical Company were selected (December) as the preferred negotiating partners and sales negotiations with them are now underway. Besides this, since early 2002, the government has been involved in negotiations

with Prudential Financial Group for the sale of Hyundai Investment & Securities Company. This had been pursued through earlier negotiations since 2000 with AIG Consortium, but these were broken off in 2001.

Following the establishment of Woori Finance Holdings Company and Shinhan Financial Group in March and September, 2001, respectively, Dongwon Financial Holding Company (provisional name) obtained a preliminary approval for the establishment of a financial holding company (December).

**[Table 1] Changes in the Number of Financial Institutions<sup>1)</sup> during 1998~2002**

	Number of institutions at the end of 1997	1998~2001			2002			Number of institutions at the end of 2002
		Exit <sup>2)</sup>	Merger <sup>3)</sup>	Newly established	Exit <sup>2)</sup>	Merger <sup>3)</sup>	Newly established	
Banks	33	5	8	–	–	1 <sup>4)</sup>	–	19
Merchant banking corporations	30	22	6	1	–	–	–	3
Securities companies	36	6	1	17	–	2	1	45
Investment trust (management) companies	31	6	1	6	–	–	1	31
Life insurance companies <sup>5)</sup>	31	7	5	–	–	–	1	20
Non-life insurance companies	14	–	1	1	–	–	2	16
Mutual savings banks <sup>6)</sup>	231	95	26	12	4	2	1	117
Credit unions	1,666	305	102	9	32	3	–	1,233
Total	2,072	446	150	46	36	8	6	1,484

Notes : 1) Excludes bridge financial institutions, including Hanarum Merchant Banking Corp. and Hanarum Mutual Savings & Finance Co., and branches of foreign financial institutions.

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

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

4) Hana Bank merged with Seoul Bank.

5) Excludes Postal Insurance.

6) The designation of mutual savings & finance companies was changed to mutual savings banks in March, 2002.

## 2. Support for Financial Institutions from Public Funds

In the process of financial restructuring in 2002, the government disbursed about 3.7 trillion won in public funds for the repayment of deposits, recapitalization, compensation for losses and the purchase of non-performing loans of financial institutions. As a result, the public funds injected into financial institutions during the period from November 1997 to the end of 2002 amounted to about 159 trillion won.

Categorizing the sources of public funds, the Korea Deposit Insurance Corporation(KDIC) provided 3.4 trillion won and the Korea Asset Management Corporation(KAMCO) 0.3 trillion won.

The KDIC used 2,378 billion won for the repayment of deposits at financial institutions that had exited the market. Most of this outlay was for the repayment of deposits (1,606 billion won) at credit unions and the remainder was for the repayment of deposits (772 billion won) at mutual savings banks.

The KDIC also used 316 billion won to compensate the losses of financial institutions. Viewing the details, 117 billion won was contributed to Woori Merchant Banking Corporation, which took over the assets and debts of four merchant banking corporations – Yongnam, Korea, Central, and H&S – and another 144 billion won was contributed to Green Fire &

Marine Insurance Company (74 billion won), Daehan Fire & Marine Insurance Company (13 billion won), and the mutual savings banks (10 savings banks, 57 billion won). Besides, the KDIC devoted 665 billion won to the purchase of non-performing loans held by Korea First Bank following the exercise of a put-back option and 55 billion won to support the accumulation of loan loss reserves.

In the meantime, KAMCO provided 349 billion won for the purchase of financial institutions' non-performing loans(NPLs). Of the total, 169 billion won was used for the purchase of the NPLs of investment trust (management) companies, 101 billion won for those of banks and 15 billion won for those of mutual savings banks.

Categorizing the financial sectors supported by public funds in 2002, 2,450 billion won was injected to mutual savings banks and credit unions, 821 billion won to banks, 169 billion won to investment trust (management) companies, 117 billion won to merchant banking corporations and 89 billion won to insurance companies.

**[Table 2] Public Funds Injected in 2002<sup>1)</sup>**

Unit : billion won

	KDIC	Repayment of deposits	Recapitalization	Compensation for losses	Purchase of assets	KAMCO	Total
Banks	720	-	-	55	665	101	821
Merchant banking corporations	117	-	-	117	-	-	117
Securities companies	-	-	-	-	-	-	-
Insurance companies	87	-	-	87	-	2	89
Investment trust management companies	-	-	-	-	-	169	169
Mutual savings banks <sup>2)</sup> · Credit unions	2,435	2,378	-	57	-	15	2,450
Others	-	-	-	-	-	62 <sup>3)</sup>	62
Total	3,359	2,378	-	316	665	349	3,708

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 2002, and the home pages of KDIC and KAMCO, so these are subject to subsequent adjustment.

2) The designation of mutual savings & finance companies was changed to mutual savings banks in March 2002.

3) Purchase of non-performing loans related to Daewoo Group held by foreign financial institutions and non-performing loans held by credit-specialized financial companies and the Resolution & Finance Corporation.

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

### III . Legislative Activity in the Financial Field

The government enacted and revised financial legislation to strengthen protection for financial consumers and investors, improve the ownership and governance structure of banks and bank holding companies, ease financial regulations, and prepare measures for the recoupment of public funds.

#### 1. Strengthening of Protection of Financial Consumers

To strengthen the protection of financial consumers, the government set a

ceiling on money-lending companies' maximum loan rates and on credit financial institutions' maximum interest rate on arrears. It also tightened the procedures for the issue of credit cards and the recruitment of card holders, while strictly regulating procedures related to financial institutions' provision of information to those requesting information on financial transactions.

Firstly, to protect users of private financing and foster the money-lending business, the government enacted the Act Concerning the Registration of the Money-lending Businesses and the Protection of Financial Consumers (which came into force on Oct. 27, 2002 ; here-

inafter, dates in parentheses are those of entry into force) and its Enforcement Decree (Oct. 28, 2002). This Act stipulates that those intending to operate a money-lending business, including the extension or brokerage of loans, should register with the city mayor or the governor of province administering the places of their business. In the case of loans extended by such businesses to individuals or small-sized corporations, it limited the maximum interest rate on principal not exceeding 30 million won to 66 percent per annum. Where this ceiling is violated, the Act stipulates that provisions relating to the interest in excess of the ceiling are null and void and that debtors may apply for the return of interest paid in excess of the maximum allowed. The Act also prohibits that lenders from engaging in illegal credit collection activities, the city mayor or the governor of province can order lenders to report or submit materials related to their business and relevant property, and the government officials concerned can conduct on-site examination of lenders. Along with this, this Act has the regulations banning illegal credit collection activities apply to all financial institutions dealing with the credit business, including banks, mutual savings banks, and installment financing companies. At the same time, lending businesses are prohibited from receiving overdue interest exceeding a limit set by the Bank of Korea (in the case of banks,

bank holding companies, the credit business sector of the National Agricultural Cooperative Federation and the National Federation of Fisheries Cooperatives) or by the Financial Supervisory Commission (FSC) (in the case of other financial institutions). The limit is to be calculated considering the financing costs for loans, overdue amounts & period, and expenses for the management of arrears.

Through the revision of the Specialized Credit Financial Business Act (July 1, 2002) and its Enforcement Decree (July 1, 2002), the government also strengthened the protection of credit card holders. The legislation stipulates that credit card companies should confirm that an application for the issuance of a new credit card or debit card is made by the applicant in person. When renewing or substituting cards, credit card companies should obtain the approval of the card holder. This Act limits persons who may normally be issued a credit card to those who are aged 18 or older as of the date of application for credit cards and have the financial capacity to make settlements for the use of the credit cards. In the case of minors wishing to obtain a credit card, they have to submit the written consent of their parent or legal guardian along with documents substantiating the income of that person. Along with this, in relation to the issuance of credit cards, credit card companies were banned from engaging in activities to recruit card

members through the offering of economic benefits or the promise to do so. The recruitment of card holders on the street or through home or work place visits was also banned.

This Act also stipulates that the quarterly average balance of credit (outstanding cash advance service and card loans) arising from the extension of loans to card holders by credit card companies should not exceed the quarterly average balance of credit (balance of sales on credit) arising from the use of credit cards for the purchase of goods or services by credit card holders. This provision was designated to have credit card companies concentrate on commitment to their original business, i.e. the settlement of charges in respect of the use of credit cards rather than on ancillary business.

To strengthen the protection of confidentiality and remove factors infringing privacy and human rights, the government revised the Act on Real Name Financial Transactions and Guarantee of Secrecy (July 1, 2002) and its Enforcement Decree (July 1, 2002). Firstly, where those seeking to obtain financial transaction information request financial institutions to provide the relevant information, they should apply on a standard form designated by the Minister of Finance and Economy. The Act also shortened the permissible period of delay, where such a postponement is requested by the party seeking the finan-

cial transaction information before informing the person concerning whom financial transaction information was sought, of the provision of such information. And it stipulates that the recording and management of the details of financial transaction information should be made in the form prescribed by the Minister of Finance and Economy. The period during which the details of the information should be stored and managed was extended from three years to five years.

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

To strengthen the protection of stock investors, including minority shareholders, the government eased the conditions for minority shareholders of banks and bank holding companies to exercise their rights and required investment trust (management) companies and securities investment companies (mutual funds) to be active in exercising the voting rights for stocks they held.

As a first step, it revised the Banking Act (July 28, 2002) and the Financial Holding Company Act (July 28, 2002) and lowered the minimum holding requirements for the exercise of the right of minority shareholders of banks and bank holding companies, to obtain an injunction from 0.25 percent to 0.025

percent of total issued stocks and to inspect the account books from 0.5 percent to 0.05 percent.

Also, the government revised the Securities Investment Trust Business Act (July 28, 2002) and its Enforcement Decree (Sept. 26, 2002), along with the Securities Investment Company Act (July 28, 2002) and its Enforcement Decree (Sept. 26, 2002) to bolster the protection of securities investors' rights. To help investment trust (management) companies (hereinafter including securities investment companies and asset management companies which are entrusted to exercise the voting rights of relevant securities investment companies) be active in exercising the voting rights of stocks they hold, the government made it obligatory for them to record and keep the details of their exercise of voting rights on the stock holdings in corporations whose market value amounts to over 1 billion won or 5 percent of trust assets (total assets), and set out the details on a business report.

In the past, where investment trust (management) companies affiliated with large business conglomerates hold stocks issued by their fellow affiliates, the government had allowed them exercise their voting rights in a non-partisan manner. However, the revised Act allows investment trust (management) companies affiliated with business conglomerates subject to the mutual contribution regulation to be active in exercising their vot-

ing rights when they anticipate the sustaining of losses on their trust assets (securities investment companies) in the event of exercising their voting rights in a non-partisan manner, in connection with the merger, transfer of business, appointment & dismissal of officers and amendment of the articles of incorporation, for up to 30 percent of the total stocks issued by their fellow affiliates after adding in the number of stocks held by specially related persons of fellow affiliates.

### **3. Improvement of Ownership and Governance Structures**

To encourage the emergence of sound financial capital and promote the accountable management of financial institutions, the government raised the single shareholder ceiling on the holding of stocks (hereinafter stocks with voting rights) issued by a bank or a bank holding company and strengthened restrictions on transactions between such institutions and major shareholders.

As an initial move, it revised the Banking Act (July 28, 2002) and its Enforcement Decree (Aug. 21, 2002) along with the Financial Holding Company Act (July 28, 2002) and its Enforcement Decree (Aug. 21, 2002) and raised the single shareholder ceiling on the ownership of stocks of a bank (hereinafter including a bank holding company) from 4 percent

**[Table 3] Regulations on the Ownership of Stocks Issued by a Bank or a Bank Holding Company**

	Basic limit	Whether to possess in excess of the basic limit
A single shareholder <sup>1)</sup> who is not the operator of non-financial business	10% <sup>2)</sup>	Ownership of over 10% <sup>2)</sup> , 25%, and 33% is possible where approvals are obtained from the FSC.
Operator of a non-financial business	4% <sup>2)</sup>	Ownership of 10% is possible where the approval is gained from the FSC. But the exercise of voting right on equity in excess of 4% is prohibited.

Notes : 1) A shareholder himself/herself and persons standing in a special relationship to that person (relatives, companies which these relatives have and companies affiliated with the same business conglomerate in case of business conglomerates).

2) 15% in the case of a local bank or a local bank holding company.

to 10 percent. In case the limit exceeds, it also allowed a single shareholder to possess stocks in the excess of the limit by stage. After gaining the requisite approvals at such stage from the Financial Supervisory Commission, single shareholder is also now allowed to own more than 10 percent (15 percent for local banks or local bank holding companies), 25 percent, and 33 percent of the equity.

The legislation, however, retains at the ceiling on the ownership of bank stocks by persons exercising effective control over a non-financial business to 4 percent (15 percent for local banks or local bank holding companies), the same level in the past. Where the required approval is obtained from the Financial Supervisory Commission, however, they may own up to 10 percent of the equity subject to a prohibition on their exercise of the voting rights for that portion held in excess of the 4 percent limit.

In the meantime, to promote the

soundness of banks, a limit was placed on the extension of credit by a bank to all major shareholders combined to 25 percent of its equity capital (net total equity capital of the entire group for a bank holding company) and interlocking credit extensions with other banks aimed at avoiding this limit were banned. The maximum amount of stocks issued by one of its major shareholders that a bank might acquire was limited to one percent of a bank's equity capital.

Where a bank intends to provide credit exceeding the lower of 0.1 percent of its equity capital or 5 billion won to a major shareholder, or acquire stocks issued by a major shareholder valued at the lower of 0.1 percent of its equity capital or 5 billion won, it is obliged under the legislation to obtain unanimous preliminary approval of all registered directors at a board meeting. A report should be made to the Financial Supervisory Commission right after extending the credit or acquiring the stocks. Along with

**[Table 4] Regulation on Transactions between a Bank & a Bank Holding Company and a Major Shareholder<sup>1)</sup>**

Transaction		Restriction on Transaction
Credit extension	Credit extension to all major shareholders	25% of a bank's equity capital <sup>2)</sup> . Interlocking credit extensions with other banks aimed at avoiding this limit are banned.
	Credit extension exceeding the lower of 0.1% of a bank's equity capital <sup>2)</sup> or 5 billion won to major shareholder	Unanimous preliminary approval from all registered directors at a board meeting and report to FSC after extending credit
Acquisition of stocks	Acquisition of stocks issued by a major shareholder	1% of a bank's equity capital <sup>2)</sup>
	Acquisition of stocks issued by a major shareholder amounting to lower of 0.1% of a bank's equity capital <sup>2)</sup> or 5 billion won	Unanimous preliminary approval from all registered directors at a board meeting and report to FSC after acquisition of stocks

Notes : 1) A single shareholder holding more than 10% of the stocks with voting rights (more than 15% for a local bank or a local bank holding company), or a single shareholder who while holding more than 4% of the stocks with voting rights is the largest shareholder or exercise effective influence over its principal management affairs.

2) Net total equity capital of the entire group in the case of a bank holding company.

this, banks are required to make a quarterly public disclosure of matters concerning the extension of credit to major shareholders and the acquisition of stocks issued by major shareholders, through computer communications.

Should there be a fear that the soundness of a bank (a bank holding company group) may be significantly worsened due to the insolvency of a major shareholder, the Financial Supervisory Commission can restrict financial transactions with a major shareholder, including credit extension to the major shareholder of a bank (a bank holding company group). And the government banned a major shareholder from demanding that a bank (a bank holding company group) furnish information that is not for external exposure, or exercising undue influence through collusion with other sharehold-

ers in return for promised economic benefits.

Along with this, the government allowed a bank to hold stocks issued by other banks so as to make it possible for a bank (hereinafter excluding a bank holding company) to own a subsidiary bank or make portfolio investment in bank stocks. In this case, the regulation setting a ceiling on the ownership of bank stocks by a single shareholder still applies.

In the meantime, it prohibited a subsidiary bank from holding stocks issued by its affiliate banks and from holding more than 15 percent of the total stocks of other banks. To secure the soundness of banking subsidiaries, they were banned from extending credit to its parent bank and from extending loans to officers and employees of affiliated banks. At the same time, it limited to 10 percent

**[Table 5] Regulation on Transactions of a Subsidiary Bank**

Transaction		Restriction on Transaction
Possession of stocks	Possession of stocks of affiliated banks	Prohibited
	Possession of stocks of banks other than affiliated banks	15% of the stocks issued by the bank that is the object of investment
Credit extension	Credit extension to the parent bank	Prohibited
	Credit extension to a single affiliated subsidiary bank	10% of its own equity capital of the subsidiary bank concerned
	Credit extension to all affiliated subsidiary banks	20% of its own equity capital of the subsidiary bank concerned
	Loan extension to officers and employees of affiliated banks	Prohibited

of its own equity capital a subsidiary bank's extension of credit to a single affiliated subsidiary bank, and to 20 percent thereof its extension of credit to all its affiliated subsidiary banks.

Apart from this, the officers and employees of a bank were allowed to serve concurrently as those of a subsidiary bank and/or of its bank holding company and/or of other subsidiary banks of its bank holding company. In particular, the standing officers of a bank were allowed to serve concurrently as the officers and employees of its financial subsidiaries.

#### 4. Easing of Financial Regulations

The government continuously pushed ahead with the easing of financial regulations during the year 2002. First of all, it revised the Financial Holding Company Act (July 28, 2002) and its Enforcement

Decree (Aug. 21, 2002) and allowed the sharing of personal credit information among financial institutions affiliated with a financial holding company group as a means of boosting the synergy effects of such groupings and the effectiveness of their risk management. For the strict administration of personal credit information, financial holding company groups were instructed to designate more than one of its officers as credit information managers. Credit information managers should develop business guidelines in compliance with those set by the Financial Supervisory Commission(FSC) with whom a report should be filed giving details of guidelines.

The Banking Act (July 28, 2002) was revised to abolish the chief executive candidate recommendation committee system, thereby facilitate the selection of chief executives according to the relevant provisions of the Commercial Act. And the method whereby outside directors are

recommended was also changed, so that they would be recommended by an outside directors recommendation committee of whose membership outside directors should make up at least half.

Under the revised provisions of the Securities Investment Trust Business Act (July 28, 2002) and its Enforcement Decree (Sept. 26, 2002) and of the Securities Investment Company Act (July 28, 2002) and its Enforcement Decree (Sept. 26, 2002), an Exchange Traded Fund (ETF) and a Fund of Funds were introduced to cater to the demand for stable stock investment. And the minimum capital required to establish a securities investment company were reduced from 400 million won to 100 million won, but the minimum net assets to be maintained were raised from 200 million won to 1 billion won.

## 5. Enhancement of Transparency of Financial Regulations

The Depositor Protection Act (Jan. 1, 2003) and its Enforcement Decree (Jan. 1, 2003) was revised to strengthen the Korea Deposit Insurance Corporation (KDIC)'s function of examining and investigating insured financial institutions. Where in order to protect depositors and maintain the stability of financial system, the KDIC asks the Governor of the Financial Supervisory Service(FSS) to conduct an examination of an insured

financial institution, pass on the results of the examination, hold a joint examination together with it and submit materials relating to an insured financial institution, the Governor of the FSS was under the previous legislation required to comply with the request unless he has a special reason not to do so. The revised legislation, though, calls for the Governor of the FSS to comply with the request without fail.

Where the KDIC needs a confirmation of the facts of materials relating to an insured financial institution that it has received from the Governor of the FSS in order to judge the risk of an insurance incident involving an financial institution, it may ask him to confirm the facts through the examination of the insured financial institution within one month. Where the KDIC fails to obtain adequate confirmation, it may itself investigate the business and financial status of the insured financial institution.

Moreover where it is necessary with a view to legal procedures or the vicarious exercise of rights to claim compensation for damages, the objects of investigation for the KDIC were widened to include the business and financial status of present and former officers and employees of insolvent financial institutions, financial institutions showing signs of insolvency, and insolvent companies in addition to those organizations.

And credit unions pursuing mutual

assistance among union members and regional National Federation of Fisheries Cooperatives were excluded from the scope of insured financial institutions. Where the KDIC extends financial support to an insured financial institution, the revised legislation makes it obligatory for the recipient institution to enter into an agreement with the KDIC to carry out management rehabilitation with a view to achieving the smooth collection of the support funds through an early management turnaround.

## **6. Preparation of Measures to Recoup Public Funds**

For the smooth recoupment of public funds injected in the course of financial restructuring, the government established the Fund for the Repayment of Public Funds and the Fund for the Repayment of Deposit Insurance Fund Bond and instructed insured financial institutions to pay a special contribution for the repayment of Deposit Insurance Fund Bonds.

As an initial move, the Fund for the Repayment of Public Funds Act (Jan. 1, 2003) and its Enforcement Decree (Jan. 1, 2003) were passed to establish the Fund for the Repayment of Public Funds and have it extend financial support to the Fund for the Repayment of Deposit Insurance Fund Bond and the Non-performing Loan Resolution Fund for the

repayment of public funds, thereby placing some part of the losses of public funds over onto the fiscal account.

The major financial resources of the Fund for the Repayment of Public Funds comprise deposits from the Public Capital Management Fund, contributions from the government account, the settlement surplus of the government's general accounts, and contributions from the Communication Business Special Account and the Postal Insurance Special Account. The Fund is operated and managed by the Minister of Finance and Economy and its period of operation is set for 25 years from Jan. 1, 2003 to Dec. 31, 2027. In the meantime, the government exempted KDIC and KAMCO from the obligation to repay borrowings that they had received from Special Accounts for Treasury Loans for the repayment of interest on Deposit Insurance Fund Bonds and Non-performing Loan Resolution Fund Bonds, thereby reducing the burden of their repayment of principal and interest.

With the revision of the Depositor Protection Act (Jan. 1, 2003) and its Enforcement Decree (Jan. 1, 2003), the Fund for the Repayment of Deposit Insurance Fund Bond was newly set up within the KDIC, the fund to liquidate the existing Deposit Insurance Fund, separately from the Deposit Insurance Fund. The new Fund assumes comprehensively the assets, debts, and other rights and duties

of the Deposit Insurance Fund registered before Jan. 1, 2003. It is itself to be wound up before Dec. 31, 2027 with the remaining assets, debts, and other rights and duties reverting to the Treasury or the Deposit Insurance Fund.

The major financial resources of the Fund for the Repayment of Deposit Insurance Fund Bond consist of contributions from the Fund for the Repayment of Public Funds, special contributions for the repayment of Deposit Insurance Fund Bonds, and the funds raised from bonds issued by the Fund for the Repayment of Deposit Insurance Fund Bond. Among these, the special contributions for the repayment of Deposit Insurance Fund Bonds will be levied on insured financial institutions at a rate of 0.1 percent of the average balance of deposits every year until the year of 2027.

---

#### IV. Future Tasks

Financial restructuring since the currency crisis in 1997 has been pursued for the purpose of improving the effectiveness of the economy by enhancing soundness and profitability of financial sector through the liquidation of ailing financial institutions incapable of rehabilitation, improvement of the financial structure of viable financial institutions, and the reform of systems relating to

management transparency.

To cope effectively with the collapse of confidence in the soundness of financial institutions, the government closed down ailing financial institutions and reduced financial system risk by devoting public funds to the repayment of deposits, the purchase of non-performing loans, and recapitalization. And the soundness of financial institutions was improved through the introduction of a prompt corrective action system for financial institutions showing signs of insolvency, the lowering of the ceiling on credit extension to a single individual, and the tightening of standards for classifying asset soundness. At the same time, through the introduction of an outside director system and an auditor committee system, the exercise of management supervision by outside persons was enhanced while management transparency was heightened through the launch of mark-to-market bond evaluation system and quarterly disclosure to bring the accounting and disclosure systems in line with international standards.

Thanks to these financial restructuring initiatives, NPLs outstanding at financial institutions dropped from 102.7 trillion won at the end of 1998 to 34.7 trillion won at the end of September 2002, and the ratio of the NPLs outstanding to total loans fell from 17.8 percent to 4.3 percent, during the corresponding period. At commercial banks, the ratio of NPLs

plunged from 13.6 percent of the total at the end of 1999 to 2.5 percent at the end of September 2002, and the average BIS capital adequacy ratio rose sharply from 8.2 percent at the end of 1998 to 10.6 percent at the end of September 2002. Commercial banks' return on assets (ROA) and the return on equity (ROE) ratios, which had continued in negative territory since the currency crisis, rose to 0.8 percent and 15.9 percent, respectively, in 2001.

Thanks to the improved soundness and profitability of financial institutions, the financial resilience of the financial sector to external shocks increased sharply, so that Korea's financial market was able to remain stable despite various external shocks, including a slowdown of the world economy. Under the impetus of the exit of ailing financial institutions, the financial market's previous impressions about the government's willingness to save financial institutions were erased, and the practice of placing greater

emphasis on profitability than on the expansion of the business volume has gradually taken hold. At the same time, the supervisory function of market discipline has been strengthened as is shown by the fall in the stock prices of financial institutions that failed to secure management transparency.

Since the currency crisis, Korea has achieved considerable success in financial restructuring, but still lags far behind advanced countries in terms of financial institutions' financial structure, profitability, and management transparency. Accordingly, to improve the competitiveness of the economy through the enhancement of the soundness and profitability of the financial sector, it is desirable for the government to press ahead with financial restructuring to be consistent and persistent. In particular, it is very important for financial institutions to pursue restructuring spontaneously in keeping with market discipline, while making up for shortcomings so as to

**[Table 6] Trend of Indicators of Profitability and Soundness of Financial Institutions**

		Unit : %				
Classification		1998	1999	2000	2001	2002.9
Total Financial Institutions	Outstanding NPLs (trillion won) <sup>1)</sup>	102.7	88.0	64.6	35.1	34.7
	Ratios of NPLs <sup>1)</sup>	17.8	14.9	10.3	5.5	4.3
Commercial Banks	Ratios of NPLs <sup>1)</sup>	-	13.6	8.8	3.3	2.5
	BIS Capital Adequacy Ratios <sup>1)</sup>	8.2	10.8	10.5	10.8	10.6
	ROA <sup>2)</sup>	-3.3	-1.3	-0.6	0.8	-
	ROE <sup>2)</sup>	-52.5	-23.1	-11.9	15.9	-
	Net Profit (100 million won) <sup>2)</sup>	-125,106	-59,960	-28,405	41,672	40,164 <sup>3)</sup>

Notes : 1) As of the end of quarter, 2) During the period, 3) Jan.-Sept.

maximize the benefits of financial restructuring-related systems introduced so far.

Firstly, it is vital for financial institutions themselves to take the lead in heightening their competitiveness to help Korea's financial industry support the robust growth of the real economy and take a secure place as a core knowledge-intensive industry in the 21st century. As competition between the mega banks of advanced countries and domestic banks is expected to become fiercer in the domestic and foreign financial markets in the future, domestic banks are required to push ahead with bolstering the foundation for enlarging their size and business scope. On the other hand, small and medium-sized banks, which face difficulties in expanding their scale, need to specialize in a specific niche or focus on a particular region as a means of heightening their competitiveness.

In the insurance industry, if bancassurance is allowed from August 2003 as scheduled, business alliances between banks and insurance companies with a high recognition level are expected to become brisk. On the other hand, those insurance companies that fail to enter into a business tie-up with a bank are likely to face difficulties in securing a product distribution network. Accordingly, such insurance companies are required to exert restructuring efforts voluntarily through merger or placing them-

selves under the umbrella of a financial holding company as a subsidiary.

In the case of the securities industry, as the number of securities companies has increased due to the establishment of many brokerage houses specializing in cyber transactions among whom competition has intensified, brokerage commissions, the major profit source, were greatly reduced aggravating the profitability. As a result, large-scale securities companies are expected to diversify their profit sources through the expansion of investment banking business, while voluntary mergers between small and medium-sized securities companies are likely to take place.

Another important task is to establish a system of accountable and self-governing management at financial institutions by re-privatizing the state-owned financial institutions that were nationalized in the process of financial restructuring.

In the meantime, the government needs to improve and develop the system of financial regulation and supervision in a market-friendly manner. To that end, it is desirable for the government to encourage market participants, including depositors, creditors, and shareholders, to exercise their supervisory function voluntarily by improving the relevant systems and allowing market discipline to operate effectively. To enhance the transparency of the management of financial institutions, it also needs to strengthen the dis-

closure system, encourage the outside director system to become deeply rooted at an early stage, and establish an effective system to monitor operational risk in preparation for the introduction of the new BIS capital adequacy ratio frame-

work. Along with this, ways should be sought to develop a seamless system of cooperation and of mutual checks and balances between supervisory institutions for the sake of effective financial supervision.

# Payment and Settlement Trends in 2002

## I. Overview

During 2002, average daily settlements through financial institutions' retail payment systems stood at 17.4 million in volume terms, for a total value of 33.1 trillion won. This represented an increase of 17.6 percent in volume and 14.6 percent in value from the previous year.

The substantial rise in settlement volume and value, which occurred despite the only slight change in settlements made through paper-based systems such as bills and checks, which dropped by 0.5 percent in volume terms but rose by 2.3 percent in value terms, was mainly attributable to a sharp increase in electronic-based settlement including that via interbank shared networks such as Electronic Banking Network, CD/ATM Network, and CMS System, and by credit card, which together rose by 27.9 percent in volume terms and 40.7 percent in value terms compared with the previous year.

Accordingly, the share of electronic-based settlement in overall retail payment systems registered 69.2 percent in volume terms and 39.1 percent in value terms, up 5.6 percentage points and 7.2 percentage points, respectively, from the previous year.

In the meantime, the average daily volume of fund transfers and settlements between financial institutions through the Bank of Korea Financial Wire Network (BOK-Wire), a large-value funds transfer system, was 5,502 transactions for an average value of 80.3 trillion won, representing an increase of 4.4 percent in volume terms and of 6.3 percent in value terms from the previous year. The rise in the settlement volume was largely ascribable to an expansion in settlements through the Delivery versus Payment (DVP) System involving securities and interbank call transactions through the call transaction system.

**[Table 1]**

**Payments and Settlements in 2002**

(daily average)<sup>1)</sup>

Unit : thousand, billion won, %

	2001		2002		Change	
	Volume	Value	Volume	Value	Volume	Value
Paper-based	5,376.8 (36.4)	19,679.4 (68.1)	5,352.1 (30.8)	20,139.9 (60.9)	-0.5	2.3
Checks and bills	3,672.9	19,476.5	3,697.9	19,931.9	0.7	2.3
Bank Giro	1,703.8	202.9	1,654.2	208.0	-2.9	2.5
Electronic-based	9,391.0 (63.6)	9,200.5 (31.9)	12,008.7 (69.2)	12,942.9 (39.1)	27.9	40.7
Interbank Shared Networks <sup>2)</sup>	4,864.2	8,300.8	6,210.1	11,716.1	27.7	41.1
Electronic Bank Giro <sup>3)</sup>	1,139.4	128.0	1,221.3	144.1	7.2	12.6
Credit cards(bank affiliated)	3,387.5	771.6	4,577.3	1,082.7	35.1	40.3
<b>Retail Payment Systems<sup>4)</sup></b>	<b>14,767.8 (100.0)</b>	<b>28,879.9 (100.0)</b>	<b>17,360.9 (100.0)</b>	<b>33,082.8 (100.0)</b>	<b>17.6</b>	<b>14.6</b>
BOK-Wire <sup>5)</sup>	5.3	75,547.8	5.5	80,284.9	4.4	6.3

Notes : 1) Despite the adoption of a five-day week at banks from July 1, 2002, the daily average figures for the retail payment systems are uniformly based on a six-day week as in the past. The rationale for this is that usage patterns at weekends differ according to the type of settlement media e.g. bills, checks, and internet banking. Meanwhile, for the large-value funds transfer system the daily average figures are calculated based on a five-day week, reflecting the five-day week adopted at the Bank of Korea since August 1, 2002.

2) Electronic Banking Network, Interbank Fund Transfers(IFT) System, CD/ATM Network, CMS System, Bank Line, EFTPOS System, etc.

3) Direct debits, Standing orders and Direct credit transfers.

4) Payments between financial service users whose financial institutions differ are cleared through the Korea Financial Telecommunications and Clearings Institute (KFTC) and are finally settled through BOK-Wire.

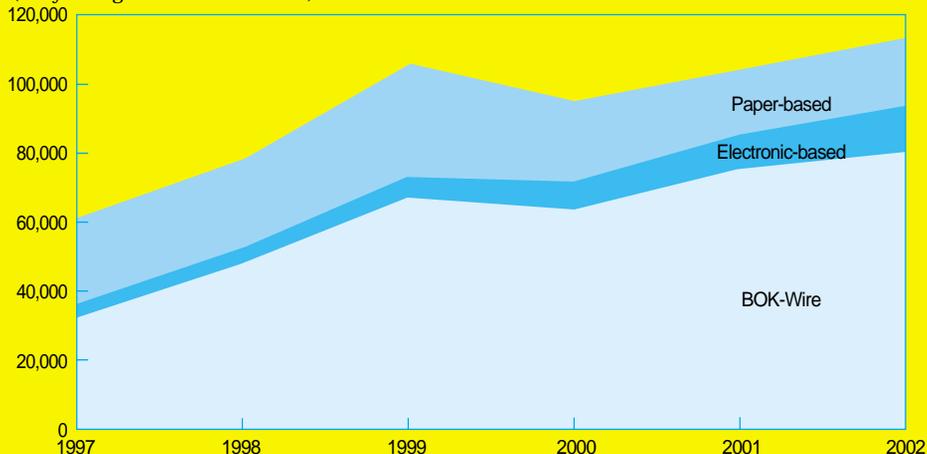
5) These figures, which represent settlements through BOK-Wire, include not only real time gross settlements but also netted retail settlements.

6) The figures in parentheses are shares in the retail payment systems(%).

**[Chart 1]**

**Payment and Settlement Trends**

(Daily average value in billion won)



## II . Payment and Settlement Trends by Payment Medium

### 1. Checks and bills

During 2002, the average daily clearings of checks and bills recorded 3.7 million in volume terms and 19.9 trillion won in value terms. These represented increases of 0.7 percent and 2.3 percent, respectively, from the previous year.

Viewing clearings of checks and bills by type, the use of current account checks increased by 13.6 percent in value terms from the previous year as large

domestic enterprises frequently used such checks instead of promissory notes, influenced by an increase in the volume of their cash holdings.

Despite a downward trend in the amount of commercial bills discounted<sup>1)</sup> following the increased use of bill substitution schemes<sup>2)</sup>, including corporate procurement loans, that offered various tax incentives, the use of promissory notes rose by 2.2 percent in value terms from the previous year due to an increase<sup>3)</sup> in the issuance of promissory notes for the redemption of call loans between financial institutions. In spite of a rise in the use of the 100,000-won-denomination check,

[Table 2] Clearing Figures for Checks and Bills in 2002

(daily average)

Unit : thousand, billion won, %

	Volume	Value	Change <sup>1)</sup>		Share	
			Volume	Value	Volume	Value
Promissory notes	25.4	8,149.6	-6.5	2.2	0.7	40.9
Current account checks	11.2	4,562.1	6.3	13.6	0.3	22.9
Non-preset-value cashier's checks	118.6	4,591.5	-7.8	1.7	3.2	23.0
Preset-value cashier's checks (100,000-won-denomination)	3,516.7 (3,045.7)	757.3 (304.6)	1.2 (2.4)	-2.0 (2.4)	95.1 (82.4)	3.8 (1.5)
Household checks	13.0	43.2	-15.5	-23.3	0.4	0.2
Others <sup>2)</sup>	13.1	1,828.2	-26.8	-14.5	0.4	9.2
<b>Total</b>	<b>3,697.9</b>	<b>19,931.9</b>	<b>0.7</b>	<b>2.3</b>	<b>100.0</b>	<b>100.0</b>

Notes : 1) Compared with the previous year.

2) Receipts of domestic L/C settlement payments, receipts of call money repayments, receipts of stock dividends, CDs, etc.

1) The value of commercial bills discounted(based on small and medium-sized companies) came to 14.0 trillion won at the end of 2002 on an outstanding basis, a decrease of 1.1 trillion won(-7.4 percent) from a year earlier.

2) Corporate procurement loans amounted to 11.1 trillion won and loans with accounts receivable as collateral amounted to 3.4 trillion won at the end of 2002 on an outstanding basis, up 34.8 percent and 168.4 percent, respectively from a year earlier.

3) The amount of average daily call transactions came to 19.4 trillion won in 2002, an increase of 1.5 trillion won from a year earlier.

**[Table 3] Clearing Trends of 100,000-won-denomination Checks**

(daily average)

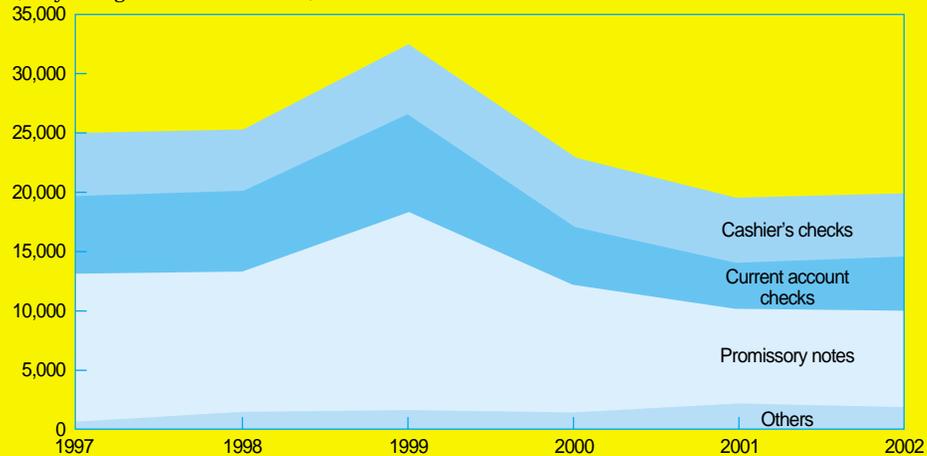
Unit : thousand, %

1997	1998	1999	2000	2001	2002
3,109.2	2,476.3	2,549.9	2,894.6	2,974.2	3,045.7
(7.6)	(-20.4)	(3.0)	(13.5)	(2.7)	(2.4)

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

**[Chart 2] Check and Bill Clearings Trends**

(Daily average value in billion won)



the overall use of preset-value cashier's checks decreased by 2.0 percent in value terms from the previous year due to a drop in the use of other denominations.

The use of current account checks and preset-value cashier's checks increased by 6.3 percent and 1.2 percent in volume terms, respectively, from the previous year, whereas that of non-preset-value cashier's checks and promissory notes dropped by 7.8 percent and 6.5 percent in volume terms, respectively. The use of 100,000-won-denomination checks, which accounted for 82.4 percent of total clearings of checks and bills, rose by 2.4

percent in volume terms from the previous year.

## 2. Interbank Shared Networks

During 2002, the average daily figures for payments through the interbank shared networks registered 6.2 million in volume terms and 11.7 trillion won in value terms, exhibiting steep rises of 27.7 percent and 41.1 percent, respectively, over the previous year. This was attributable to the sharp expansion in the use of the Electronic Banking Network, the Cash Management Service(CMS) System<sup>4)</sup>, and

the Cash Dispenser and Automated Teller Machine(CD/ATM) Network, whose effects offset that of a steady decline in the use of the Interbank Fund Transfer (IFT) System.

By settlement system type, the use of the Electronic Banking Network, including internet banking, soared by 162.4 percent in volume terms and 184.9 percent in value terms from the previous year owing to the shift of a considerable portion of the use of the IFT System to the Electronic Banking Network which is available around the clock<sup>5)</sup> and levies relatively cheap transfer charges. On the other hand, the use of IFT System dropped by 16.9 percent in volume terms and 25.9 percent in value terms from the

previous year.

The use of the CD/ATM Network increased by 12.1 percent in volume terms and 20.9 percent in value terms, respectively, from the previous year due to the expansion in fund withdrawals using credit cards.

The use of the CMS System also showed high growth rates of 35.8 percent in volume terms and 67.6 percent in value terms from the previous year. These hikes were attributable to the more rapid expansion in the number<sup>6)</sup> of corporations enrolled in the system, including card companies, wire & wireless communication companies, and insurance firms.

In the meantime, fund transfers through Bank Line<sup>7)</sup>, the Local Banks'

**[Table 4] Payments through Interbank Shared Networks in 2002**

(daily average)

Unit : thousand, billion won, %

	Volume	Value	Change <sup>1)</sup>		Share	
			Volume	Value	Volume	Value
Electronic Banking Network <sup>2)</sup>	1,367.0	6,812.5	162.4	184.9	22.0	58.1
IFT System	1,060.9	3,696.0	-16.9	-25.9	17.1	31.5
CD/ATM Network	1,775.9	838.5	12.1	20.9	28.6	7.2
CMS System	1,999.2	353.9	35.8	67.6	32.2	3.0
Bank Line	3.2	14.9	-27.4	3.8	0.1	0.1
EFTPOS System	3.9	0.3	-27.6	-22.4	0.1	0.0
<b>Total</b>	<b>6,210.1</b>	<b>11,716.1</b>	<b>27.7</b>	<b>41.1</b>	<b>100.0</b>	<b>100.0</b>

Notes : 1) Compared with the previous year.

2) Until March 2001, it consisted of payments through the ARS(Automatic Response Service) System.

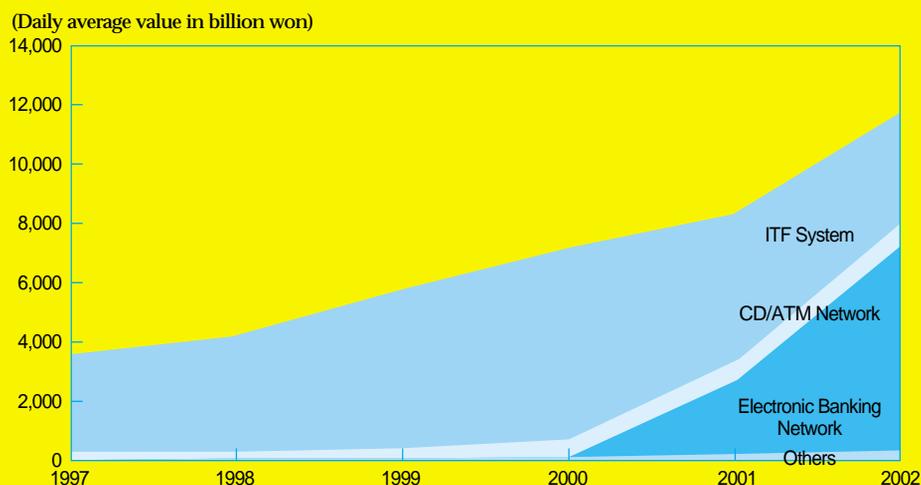
4) CMS(Cash Management Service) refers to a system, which enables a company having several accounts in more than one bank to make and receive a number of fund transfers electronically through its accounts with a single electronic link to any of these banks or to KFTC.

5) Owing to service and other types of competition between banks, nine banks out of twenty-two provided 24-hour service and most of the others delivered service from 07:00 to 23:00 as of the end of 2002.

6) 378 at the end of 1999, 532 at the end of 2000, 719 at the end of 2001, 2,269 at the end of 2002

7) This links the electronic networks of regional banks to that of KFTC and enables regional bank customers to make deposits and withdrawals at any branches of other regional banks.

**[Chart 3] Trends in the Use of Interbank Shared Networks**



Shared Network System, fell by 27.4 percent in volume terms, but rose by 3.8 percent in value terms. Fund transfers through the Electronic Funds Transfer at the Point of Sale (EFTPOS) System<sup>8)</sup> decreased by 27.6 percent in volume terms and 22.4 percent in value terms from the previous year, affected by a steady rise in the use of credit cards.

### 3. Bank Giro

During 2002, average daily transactions through the Bank Giro System registered 2.9 million in volume terms for a value of 352.1 billion won, representing a 1.1 percent rise in volume terms, and a 6.4 percent hike in value terms from the previous year.

Paper-based credit transfers decreased by 2.9 percent in volume terms, but posted a 2.5 percent rise in value terms as some of the payments for the use of credit cards and communication charges that had been settled through the Giro System in the past, were shifted to CMS account transfers.

The use of direct debits(including standing orders), chiefly employed for the payment of electricity & telephone charges and insurance premiums, rose steadily due to their convenience for the collection of payments.

The scale of direct credit transfers, which accounted for a small share of Bank Giro use in volume terms but a relatively large one in value terms, increased by 33.9 percent in volume terms and

8) This payment system allows instant automatic fund transfer from the deposit account of a customer holding a debit card to the deposit account of a seller through computerized networks when the customer buys commodities or services from the seller.

**[Table 5] Payments through Bank Giro in 2002**

(daily average)

Unit : thousand, billion won, %

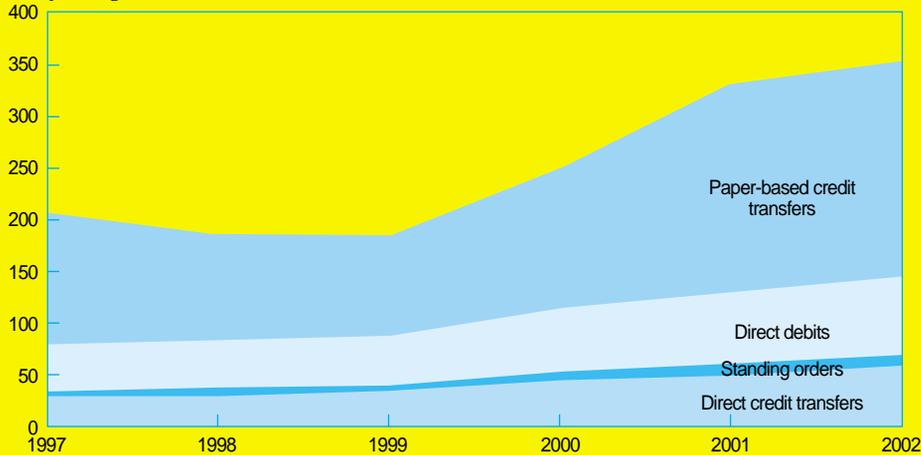
	Volume	Value	Change <sup>1)</sup>		Share	
			Volume	Value	Volume	Value
Paper-based credit transfers	1,654.2	208.0	-2.9	2.5	57.5	59.1
Direct debits <sup>2)</sup>	1,113.6	74.0	5.6	9.3	38.7	21.0
Standing orders <sup>2)</sup>	57.5	13.2	22.0	27.0	2.0	3.7
Direct credit transfers <sup>2)</sup>	50.1	57.0	33.9	14.0	1.7	16.2
<b>Total</b>	<b>2,875.5</b>	<b>352.1</b>	<b>1.1</b>	<b>6.4</b>	<b>100.0</b>	<b>100.0</b>

Notes : 1) Compared with the previous year.

2) Electronic-based system.

**[Chart 4] Trends of Bank Giro Use**

(Daily average value in billion won)



14.0 percent in value terms, as the Ministry of Patriots & Veterans Affairs began to pay pensions and allowances to patriots, veterans, and the bereaved families through direct credit transfers from March 2002.

Meanwhile, the number of users of the Bank Giro System stood at 36,996 at the end of 2002, an increase of 522 or 1.4 percent compared with the end of the previous year.

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

During 2002, bank-affiliated credit cards were used for a daily average of 4.6 million transactions in volume terms for a value of 1.1 trillion won, increases of 35.1 percent and 40.3 percent, respectively, from the previous year, that were largely attributable to tax incentives for credit card users.

Within these figures, average daily

transactions for purchases of goods and services rose sharply by 43.1 percent in volume terms and 61.2 percent in value terms over the previous year. However, the growth rate of transactions involving

cash advance services slowed to 12.5 percent in volume terms and 28.9 percent in value terms, affected by the government's package of measures<sup>9)</sup> concerning credit cards. As a result, the share(based

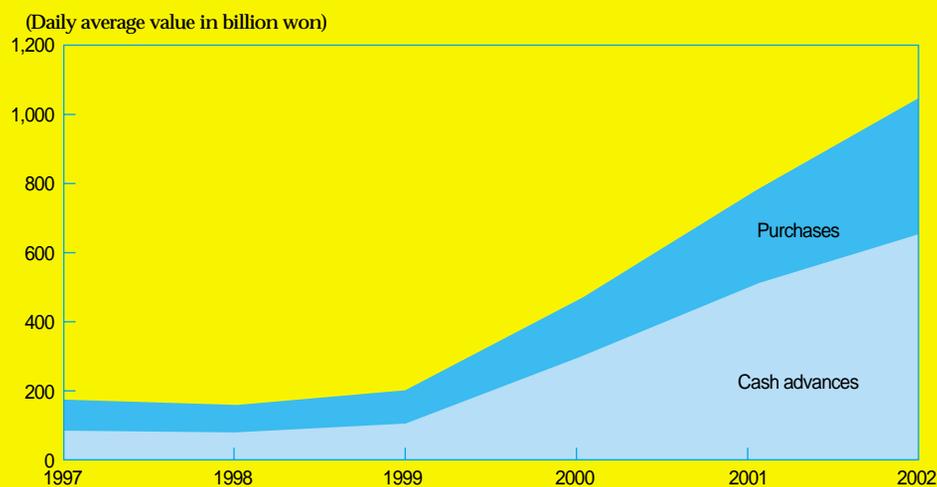
**[Table 6] Payments Involving Bank-Affiliated Credit Cards in 2002**  
(daily average) Unit : thousand, billion won, %

	Volume	Value	Change <sup>1)</sup>		Share	
			Volume	Value	Volume	Value
Purchases	3,587.0 (5,880.6)	440.0 (858.2)	43.1 (..)	61.2 (62.6)	78.4 (78.5)	40.6 (41.7)
Cash Advances	990.3 (1,612.1)	642.7 (1,199.6)	12.5 (..)	28.9 (33.7)	21.6 (21.5)	59.4 (58.3)
<b>Total</b>	<b>4,577.4</b> <b>(7,492.7)</b>	<b>1,082.7</b> <b>(2,057.9)</b>	<b>35.1</b> <b>(..)</b>	<b>40.3</b> <b>(44.4)</b>	<b>100.0</b>	<b>100.0</b>
Number of cards issued	58,026(104,319)		18.6(17.9)		-	
Number of affiliated stores	7,864(15,573)		29.0(24.2)		-	

Notes : 1) Compared with the previous year.

2) Figures in parentheses include those for non-bank credit card companies.

**[Chart 5] Trends of Bank-affiliated Credit Card Use**



9) The government announced a comprehensive package of credit card-related measures on May 23, 2002, which called for credit card companies to curb their credits arising from cash loans(cash advance services and card loans) to below 50 percent of their total credits from July 1, 2002. In regard to outstanding credits in excess of the 50 percent limit as of May 23, the government instructed credit card companies to reduce them by the end of 2003 on a step-by-step basis.

on value) of cash advance services in total credit card use dropped by 5.2 percentage points from the previous year to 59.4 percent in 2002.

Meanwhile, as of the end of 2002, the total number of credit cards issued stood at 58.0 million, up 18.6 percent from the end of the previous year, and the number of merchants accepting them rose by 29.0 percent over the end of the previous year to 7.9 million.

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

During 2002, BOK-Wire handled a daily average of 5,502 transactions in volume terms valued at 80.3 trillion won, representing an increase of 4.4 percent in volume terms and 6.3 percent in value terms over the previous year.

Real-time gross settlements, which

account for the majority of transactions through BOK-Wire, marked a daily average of 3,984 in volume terms and 62.8 trillion won in value terms, up 6.9 percent and 4.6 percent, respectively, over the previous year.

This was mainly attributable to active settlement through the DVP System for securities trading, which soared by 81.7 percent in volume terms and 51.2 percent in value terms, over the previous year, and brisk interbank call between banks through the call transaction system, which rose by 5.1 percent and 6.2 percent, respectively.

In the meantime, net settlements between financial institutions arising from the exchange of checks and bills and from fund transfers through the Bank Giro System and interbank shared networks dropped by 5.4 percent in volume terms, but rose by 13.6 percent in

**[Table 7] Settlements through BOK-Wire in 2002**

(daily average)

Unit : number, billion won, %

	Volume	Value	Change <sup>1)</sup>		Share	
			Volume	Value	Volume	Value
Gross settlements	3,984	62,812.1	6.9	4.6	72.4	78.2
(General transfers)	3,613	51,472.7	4.7	0.1	65.7	64.1
(Call transaction system)	183	10,068.9	5.1	6.2	3.3	12.5
(DVP) <sup>2)</sup>	189	1,270.5	81.7	51.2	3.4	1.6
Net settlements	751	14,149.2	-5.4	13.6	13.6	17.6
Others <sup>3)</sup>	767	3,323.6	2.6	9.2	13.9	4.1
<b>Total</b>	<b>5,502</b>	<b>80,284.9</b>	<b>4.4</b>	<b>6.3</b>	<b>100.0</b>	<b>100.0</b>
Foreign currency fund transfers (million dollars)	9	88.1	-2.2	-22.0	-	-

Notes : 1) Compared with the previous year.

2) Delivery versus Payment System for securities trading introduced in November 1999.

3) Treasury funds transfer, BOK loans and discounts, Government and Public bonds, etc.

value terms from the previous year. The rise in net settlements in value terms was ascribable to an increase in the use of electronic-based means of payment, including CD/ATM Network, CMS System, Electronic Banking Network, as well

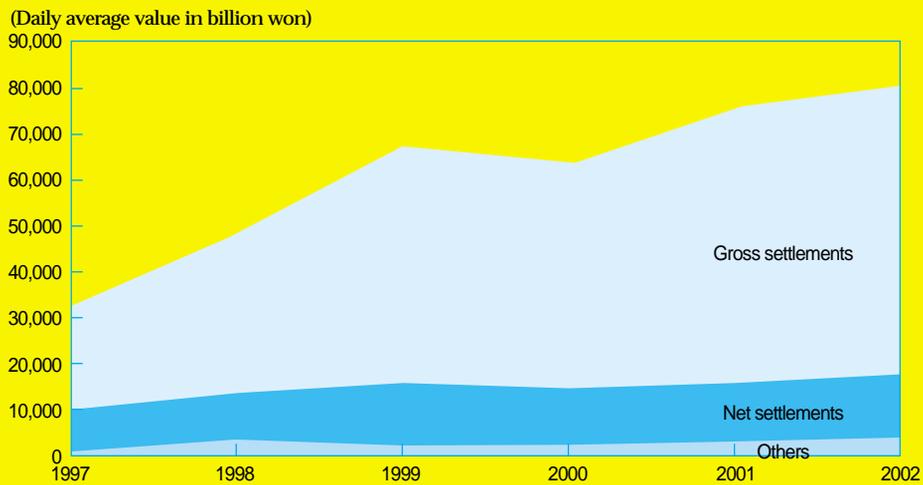
as an increase in fund adjustment transactions arising from cashier's checks<sup>10</sup> in the wake of the implementation of a five-day week in the banking industry from July last year.

As of the end of 2002, the number of

**[Table 8] Changes in BOK-Wire Participants in 2002**

	New Participants(+)	Withdrawal following closure of branch(-)	Withdrawal following merger(-)
Banks		Hualien Business Bank, Seoul Branch	Peace Bank Fuji Bank, Seoul Branch Housing and Commercial Bank
Non-banks	Daehan Life Insurance Samsung Life Insurance Lehman Brothers International		JP Morgan Securities Dongyang Merchant Bank Hyundai Merchant Bank Il-Eun Securities Shinhan Securities

**[Chart 6] Trends of BOK-Wire Use**



10) Transactions that offset gains and losses relevant to cashier's checks exchanged between banks. A bank in a net debit position which has to pay an amount of money as a result of cashier's checks exchange between banks additionally provides the same amount of money without interest during a certain period of time(usually one day) to another bank in a net credit position that has the right to receive money as a result of cashier's check exchange between banks.

institutions participating in BOK-Wire stood at 126(61 banks and 65 non-banks), a decrease of six(four banks and two non-banks) from the end of the previous year.

### III . Developments in Payment and Settlement Systems

During 2002, the emphasis in the Bank of Korea's operation of the payment and settlement systems was placed on improving the operation of BOK-Wire to enhance the safety and effectiveness of payment and settlement systems, reducing the systemic risk of interbank net settlement systems, upgrading and expanding electronic retail payment systems, and strengthening the central bank's role in the management and oversight of payment and settlement systems.

As a first step, with regard to the operation of BOK-Wire, the Bank of Korea began to adjust<sup>11)</sup> the system of fees for the use of BOK-Wire from March in order to ease the phenomenon whereby large-

value fund transfers between financial institutions are concentrated in the payment deadline zone.

In August, it introduced an "Optimization Routine<sup>12)</sup>" to speed up fund settlements by easing the phenomenon of fund transfers being delayed due to temporary shortages of current account balances with the Bank of Korea in the case of fund transfers between participating institutions.

As a follow-up step, to reduce the systemic risk of the interbank net settlement systems, it made substantial improvement to the collateral requirements and loss-sharing arrangements and brought them into effect from August.

Most notably, the Bank of Korea adjusted upwards the ratio for the posting of collateral guaranteeing settlement by banks participating in the real-time electronic fund transfer systems of interbank shared networks, including the CD/ATM Network and Interbank Fund Transfer(IFT) System, and the Electronic Banking Network, from 20 percent of the net debit cap<sup>13)</sup> of participating banks to 30 percent.

It also included fund adjustment trans-

11) To reflect the cost of constructing the BOK-Wire electronic back-up center, the BOK raised its charges for the use of BOK-Wire(250 won → 300 won per trade), but cut them where that settlement occurs before 4:00 P.M.(250 won → 100 won per trade) to ease the concentration of large-value fund transfers between financial institutions in the period just before conclusion of service. Also, it cut charges for the DVP system to 150 won(100 won per trade before 4:00 P.M.) to encourage its usage.

12) A method in which, among queued fund transfers, settlements occur simultaneously within the available balance of relevant counterpart's current accounts for fund transfer orders when both banks involved debtor institutions and creditor institutions to the other.

13) A net debit cap is the total amount of payment orders sent minus the total amount of payment orders received(the net liability limit).

actions arising from cashier's checks, which had previously been exposed to credit risk due to their exclusion from the loss-sharing arrangements, among the eligible objects for them. At the same time, it made an upward adjustment of the ratio of collateral to be posted for fund adjustment transactions arising from cashier's checks from 30 percent of the average daily exchange net payment in the past to 75 percent of the average daily fund adjustment repayment amount.

Along with this, to help ease the burden on banks participating in net settlement systems of sharply increasing their collateral, the Bank of Korea excluded from collateral requirements those bill clearings where the paying bank fails to make settlement and the bills are consequently reexchanged<sup>14)</sup> as there is no need for loss-sharing arrangements in such cases.

In the meantime, to improve and expand the electronic retail payment system, it allowed community-oriented financial institutions such as Korea Federation of Savings Banks, Korean Federation of Community Credit Cooperatives, and National Credit Union Federation of Korea, to link up to the interbank shared networks, including the Interbank Fund

Transfer(IFT) System, CD/ATM Network, and CMS System, as means of offering greater convenience to their customers.

Also, through promotion by the Sectional Committee on Financial Informatization Promotion(Chairman: Deputy Governor of the Bank of Korea), the Bank of Korea introduced the "Business to Business(B2B) e-Commerce Payment Settlement System" in March, which connects the internet e-commerce system and the fund settlement system of the interbank shared networks for the clearing of payments arising from e-commerce transactions via the internet between enterprises through the interbank shared networks.

It also expanded the coverage of "Cashier's Check Truncation<sup>15)</sup>," which had been implemented out only for the Seoul region since May 2000, to the whole country in September, making it possible anywhere in the country to receive cash for cashier's checks issued by other banks on the next day after their deposit.

It steadily expanded during the year the coverage of the EBPP(Electronic Bill Presentment and Payment) System, an electronic notification and payment system allowing the notification and payment of taxes and public charges through

---

14) A procedure whereby the original paper bills are returned to the bank which received them and the amount of the payment is calculated anew.

15) This system is that a depository bank which receives a cashier's check has the custody of the original paper check and sends the check data, instead of the original paper check, to a paying bank which issued it.

an electronic-based method, by linking it with the National Tax Payment System of the National Tax Service and the State Finance Information System of the Ministry of Finance and Economy. In the case of local taxes, 98 provincial governments were using the EBPP System by the end of 2002.

Also, the Bank of Korea has been actively fostering the use of K-Cash(e-money), now in commercial service after the joint development with financial institutions, by extending it to the transportation field and internet e-commerce transactions.

Finally, the Bank of Korea has meticulously complied with international standards related to the safety and effectiveness of the payment and settlement systems. To strengthen the central bank's oversight function, it also issued the "Procedure on the Operation and Oversight of Payment Systems" in January 2002 based on the "Regulation on the Operation and Oversight of Payment Systems" and the associated "Working Regulation" that were issued at the end of 2001, and brought the relevant regulations and procedures into force from February 2002.

It also concluded an agreement to guarantee the observance of the "Regulation on the Operation and Oversight of Payment Systems" with Korea Financial Telecommunications & Clearings Institute, which undertakes final settlement

of transactions between financial institutions and their customers.

Under the revised "Enforcement Decree of the Securities and Exchange Act," the Bank of Korea is entitled to require Korea Securities Depository to provide materials concerning securities depository and settlements necessary for the implementation of monetary policy including open market operations. It began to operate a system for the sharing of information concerning deposited securities and securities settlement information with Korea Securities Depository from June.

Besides this, the Bank of Korea has mapped out detailed appraisal standards related to its oversight and guidance in order to help ensure major domestic payment settlement systems meet the standards("Core Principles for systemically important payment systems") laid down by the Bank for International Settlements(BIS), while guiding Korea Financial Telecommunications & Clearings Institute to carry out self-evaluation of its operation of the major retail payment systems.

Along with this, in May 2002 the Bank of Korea held a seminar on the subject of the "Payment Systems and Financial Stability," in which domestic and foreign experts participated, in order to enhance recognition of the importance of the settlement risk management in securities and foreign exchange transactions.

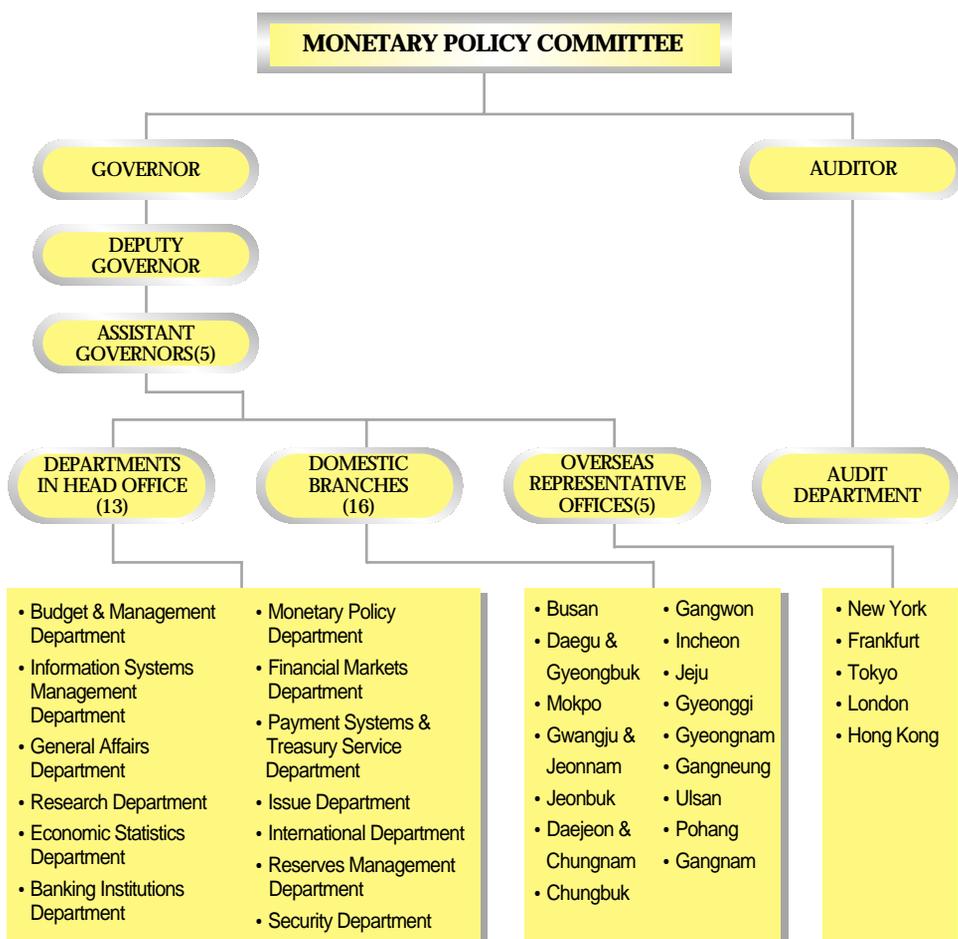
Meanwhile, in order to reduce possible settlement risk in Korea's foreign exchange transactions, it is exploring ways in which domestic banks could participate in Continuous Linked Settle-

ment(CLS) Bank, which was set up to provide the simultaneous settlement of foreign exchange transactions in major currencies worldwide.

# Organization of the Bank of Korea

(As of March 2003)

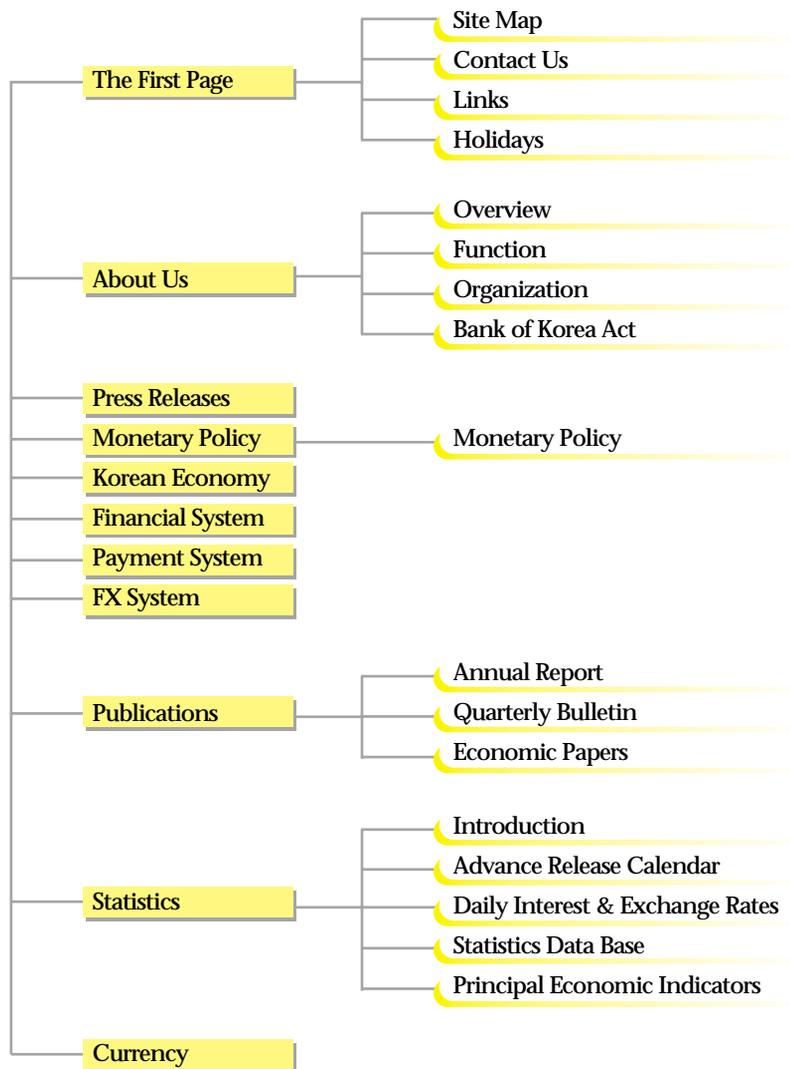
<p><b>Monetary Policy Committee</b> Seung Park, Chairman Won-Tai Kim Hoon Namkoong Byung-Il Kim Tae-Dong Kim Woon-Youl Choi Kun-Kyong Lee</p>	<p><b>Governor</b> Seung Park</p> <p><b>Deputy Governor</b> Cheul Park</p> <p><b>Assistant Governor</b> Seong-Tae Lee Hyung-Moon Kang Sung-Il Lee Chang-Ho Choi Jae-Ouk Lee</p>	<p><b>Auditor</b> Woo-Suk Kim</p>
---	---	---------------------------------------



## The Bank of Korea's Internet Web Site

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

2. Internet Web Site Menus are set out below :



## List of Publications

### Periodical

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

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

### Statistics

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

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

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

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

## List of Bank of Korea Working Papers\*

Serial No.	Title
2003-1	An Analysis of the Competitive Relationships between the Semiconductor Industries of Korea, Japan and Taiwan
2003-2	Medium and Long-term Tasks Facing the Korean Economy

\* Published in Korean only.

## Titles of Articles Appearing in Monthly Bulletin\*

January ~ March 2003

### ● January 2003

- ☒ The Governor's New Year Speech
- ☒ The Bank Lending Channel of Monetary Policy in Korea :  
The Evidence from Bank Balance Sheets
- ☒ Financial and Foreign Exchange Market Trends During 2002

### ● February 2003

- ☒ An Analysis of the Factors Determining the Short and Long-term  
Exchange Rate Movements of the Korean Won
- ☒ Economic Effect of the Arrival of an Aging Society
- ☒ Financial Sector Restructuring in 2002

### ● March 2003

- ☒ The Influence of the Wider Opening of the Economy on the  
Growth of Total Factor Productivity
- ☒ Outline for Government Budget for 2003
- ☒ Payment and Settlement Trends in 2002

---

\* Published in Korean only.

## Titles of Articles Appearing in Quarterly Bulletin\*

March 2000 ~ December 2002

### ● March 2000

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

### ● June 2000

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

### ● September 2000

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

### ● December 2000

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

---

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

### ● **March 2001**

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

### ● **June 2001**

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

### ● **September 2001**

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

### ● **December 2001**

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

## ● **March 2002**

- ☒ Current Economic and Financial Movements
- ☒ The Inflation Target and Monetary Policy for 2002
- ☒ Financial Sector Restructuring in 2001
- ☒ Payment and Settlement Trends in 2001

## ● **June 2002**

- ☒ Governor's Speech on the 52nd Anniversary of the BOK's Foundation
- ☒ Current Economic and Financial Movements
- ☒ The Redefined Monetary Aggregates
- ☒ Flow of Funds in 2001
- ☒ Financial Statement Analysis for 2001

## ● **September 2002**

- ☒ Current Economic and Financial Movements
- ☒ Payment and Settlement Trends in the First Half of 2002

## ● **December 2002**

- ☒ Current Economic and Financial Movements
- ☒ Flow of Funds in the First Half of 2002
- ☒ Financial Statement Analysis for the First Half of 2002

