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Table of Contents

Current Economic and Financial Movements

Summary

The Korean economy slowed down at a rapid pace during the fourth quarter of 2000. The scale of the current account surplus narrowed slightly, while consumer prices dropped.

GDP growth slowed to 4.6 per cent in the fourth quarter year-on-year. This was largely attributable to a sharp reduction in the pace of expansion rate of equipment investment, and a slowed increase rate in consumption and exports. For the year as a whole, though, the annual GDP growth stood at the high level of 8.8 per cent in 2000, boosted by the rapid growth in the first three quarters. Gross national income (GNI), which incorporates changes in trade conditions and factor income, nevertheless, increased by a mere 2.3 per cent.

The employment situation worsened somewhat in the fourth quarter, when the number of the unemployed increased by 8,000 to 817,000. Owing to an economic slowdown and seasonal factors, the unemployment rate edged up by 0.1 of a percentage point from the previous quarter to 3.7 per cent in the fourth quarter. The employment situation continued to deteriorate in early 2001 due to an economic slowdown and seasonal factors, bringing the unemployment rate to 5.0 per cent in February.

The current account registered a surplus of 3.31 billion dollars in the fourth quarter, a slight reduction from the 3.65 billion dollars of the previous quarter, which was largely attributable to the narrowing of the surplus on goods account, which offset the effects of the reduced deficit on the services account and the shift of the income account into surplus thanks to an increase in profits from the operation of external assets. The current account surplus for January 2001 again narrowed somewhat from the preceding month due to the reduced surplus on the

goods account.

Consumer prices fell by 0.3 per cent in the fourth quarter compared with the last month of the previous quarter, led downward by the fall in prices of agricultural, livestock, and fishery products. However, they shifted to an upward track in January 2001 due to the surge in prices of agricultural, livestock, and fishery products brought about by supply shortages in the wake of a cold wave and rising demand on the occasion of the Lunar New Year, as well as a sharp rise in service charges. This sharply upward trend of consumer prices continued in February.

In the financial market, the call rate fluctuated mildly around the 5.25 per cent mark during the fourth quarter following as the Bank of Korea's action in raising its call rate target by 0.25 of a percentage point to 5.25 per cent on October 5. Long-term market interest rates marked a sharp fall due to prospects for the slowdown of the business upswing, a growing flight to quality, and the early redemption of Treasury bonds. After the Bank of Korea lowered its call rate target by 0.25 of a percentage point in February in 2001, the call rate fluctuated around the 5.0 per cent mark. Long-term interest rates fell steeply amid fears of prolonged economic slowdown and the lowering of interest rate by the U.S. Federal Reserve Board, but they rebounded smartly around the middle of February, since then they have moved within a relatively wide range.

Stock prices continued to fall during the fourth quarter as investors' confidence was dampened by the decline in U.S. stock prices and the prospects of an economic slowdown. Early in the new year, they enjoyed a strong rally, boosted by the Fed's lowering of interest rates and massive net buying of stocks by foreign investors, but later they shifted back to a downward track following the plunge in the U.S. Nasdaq index.

The Korean won continued to weaken against the U.S. dollar at a rapid pace from mid December, closing the year at its lowest level of 1,264.5 won. The won continued to lost ground in January 2001, weakening to the 1,280 won level against the dollar. After the middle of the month, however, the won firmed somewhat thanks to expanded inflows of foreign investment funds.

The growth rate of M3 registered 6.7 per cent during the fourth quarter, higher than the rate in the previous quarter. The growth rates of M2 and MCT+ slowed during the fourth quarter compared with the previous quarter owing to the reduction in the money supply through the overseas sector. The growth of M2 and MCT+ accelerated in January 2001 on the renewed expansion of money supply by the overseas sector amid active inflows of foreign stock investment funds, before slowing again in February.

Economic Movements

Economic Growth

During the fourth quarter of 2000, the growth rate of GDP slowed to 4.6 per cent due to a sharp reduction in the pace of expansion of equipment investment, and a slowdown in the rates of increase of consumption and exports. Boosted by the rapid growth in the first three quarters, though, year-on-year GDP growth marked the relatively high level of 8.8 per cent in 2000. However, gross national income (GNI), which incorporates changes in trade conditions and factor income, grew by just 2.3 per cent due to a fall in export prices and a hike in crude oil import prices.

Final consumption expenditure rose by a mere 3.0 per cent during the fourth quarter compared with the same quarter of the previous year because of the slower pace of increase in private consumption. The growth rate of private consumption slowed to 3.2 per cent compared with the same quarter of the previous year, pulled down by lower expenditures on durable goods, notably passenger cars, TVs, and sound equipment, and the slower pace of increase in the consumption of semi-durables and nondurables.

Because of the sharp slowdown in the rate of increase of equipment investment, which was coupled with the continued sluggishness of construction investment, fixed investment rose by a meager 1.6 per cent compared with the same period of the previous year. Owing to a drop in investment in transportation equipment centering on automobiles and the reduced machinery investment, the growth rate of equipment investment shrank sharply to 8.1 per cent compared

[Table 1] Growth Rates by Component of Expenditure[1)]

Unit : per cent

	1999	2000p				
		Ⅰ	Ⅱ	Ⅲ	Ⅳ	Year
G D P	10.9	12.6	9.7	9.2	4.6	8.8
G N I	9.4	5.5	3.1	3.6	-2.2	2.3
Final consumption expenditure	9.4	9.5	7.8	4.9	3.0	6.2
Private consumption	11.0	10.8	8.9	5.7	3.2	7.1
Government consumption	1.3	1.5	1.1	0.5	1.8	1.3
Gross fixed capital formation	3.7	21.9	13.2	10.5	1.6	11.0
Equipment	36.3	62.6	41.6	31.9	8.1	34.3
Construction	-10.3	-6.8	-4.2	-3.5	-2.5	-4.1
Exports of goods and services	15.8	27.1	21.4	22.5	16.4	21.6
Imports of goods and services	28.8	31.6	20.6	22.4	8.2	20.0

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

with the same period of the previous year.

Despite the slowness of investment in buildings for residential use, investment in buildings increased slightly thanks to the rapid growth of investment in buildings for non-residential use. Overall, construction decreased by 2.5 per cent compared with the same period of the previous year, chiefly because of the sluggish investment in other construction.

Exports of goods and services, in real terms, increased by 16.4 per cent compared with the same period of the previous year thanks to brisk exports of passenger cars, and information and technology equipment. Meanwhile, imports of goods and services, in real terms, rose by just 8.2 per cent compared with the same period of the previous year due to the cooling of demand engendered by the economic slowdown.

Breaking down economic activity by type, the growth rate of manufacturing dwindled sharply. Those of the electricity, gas and water industry and service, slowed somewhat. The agricultural, forestry, and fishery industry shifted to a slight rise, but construction continued its negative growth, which was nevertheless shallower than in the preceding quarter.

The growth rate of manufacturing industry fell sharply to 6.5 per cent compared with the same quarter of the previous year. Production in the leather & fur, footwear, and textile sectors decreased greatly, and the growth rate of production in other sectors of the light industries slowed. That in the electric & electronic sector, including computers, semiconductors, and communication equipment, and that in the industrial machinery sector, including lathes and milling machines, showed a high growth rate, albeit lower than in the preceding quarter, because of weaker demand at home and abroad. Because of the subdued line of the textile section, the production of synthetics also experienced a mild downward trend. Transportation equipment and industrial chemicals meanwhile shifted to negative production.

The electricity, gas, and water industry registered growth of 9.3 per cent in response to the increased electricity consumption in the public and service sectors and the constant expansion of city gas supply.

The growth rate of services slowed somewhat to 5.5 per cent from the 8.7 per cent of the previous quarter. The transportation, storage, and communication sector marked relatively high growth of 13.8 per cent, boosted by the brisk expansion of the communication sector centering on mobile phones and the internet.

The growth rate of wholesale and retail trade, restaurants and hotels sector dropped to 5.8 per cent owing to the sluggishness in wholesale & retail trade typified by the dullness increase in transactions involving manufacturing industry products, exports and imports.

As the advertising revenues of broadcasting companies showed a steady rise which was accompanied by a gradual recovery of the medical clinics and hospital service subsector, the community, social and personal service sector expanded by 4.4 per cent. Despite the rapid growth of the judicial affairs and accounting-related services, the finance, insurance, real estate and business service sector grew by a mere 1.4 per cent due to a sharp fall in securities companies' commissions amid the stock market's slump.

The construction industry registered shallower negative growth of 1.6 per cent due to the slower decrease in private construction centering on the construction of building.

Despite a reduction in catches haul of fish, the agriculture, forestry, and fishing sector expanded by 2.0 per cent owing to an increase in rice production and a recovery in the hog and poultry raising businesses.

Employment and Wages

The employment situation worsened somewhat during the fourth quarter. The number of persons unemployed increased by 8,000 from the previous quarter to stand at 817,000 in the fourth quarter, and the unemployment rate correspondingly increased by 0.1 of a percentage point to 3.7 per cent. This was attributable to the slowdown in the

[Table 2] Growth Rates by Sector of Economic Activity[1)]

Unit : per cent

	1999	2000[p]				
		Ⅰ	Ⅱ	Ⅲ	Ⅳ	Year
Agriculture, Forestry & Fishing	5.4	1.1	-1.8	-2.1	2.0	0.1
Manufacturing	21.0	22.3	16.9	17.7	6.5	15.4
Electricity, Gas & Water	10.4	18.7	11.4	10.8	9.3	12.6
Construction	-9.1	-7.9	-3.9	-2.8	-1.6	-3.7
Services	11.9	12.0	10.3	8.7	5.5	9.0
(Wholesale and retail trade, restaurants and hotels)	14.1	13.1	11.1	8.5	5.8	9.4
(Transport, storage and communication)	14.5	17.1	18.9	17.4	13.8	16.7
(Finance, insurance, real estate and business services)	5.5	9.4	4.8	3.5	1.4	4.7
(Community, social and personal services)	11.1	8.0	3.6	1.8	4.4	4.5
Government & Private Non-Profit Services	1.2	1.1	0.7	0.7	1.1	0.9

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

growth of the number of persons employed in manufacturing, construction, and the wholesale & retail trade and restaurants and hotels sector which coincided with reduced employment in the agriculture, forestry, and fishery sector.

The deterioration in the labor market continued in 2001 owing to a reduction in new recruitment following the economic slowdown. The number of persons unemployed rose to 1.07 million approximately and the unemployment rate reached 5.0 per cent in February.

Per capita nominal wages rose by 5.9 per cent during the fourth quarter compared with the same period of the previous year, more slowly than the growth rate in the previous quarter. Broken down by type of remuneration, the rate of increase of regular and overtime payments slowed to 7.2 per cent and 10.0 per cent, respectively, in the fourth quarter from 9.6 per cent and 17.3 per cent in the previous quarter. Meanwhile, special cash payments recorded a very low increase rate of 1.0 per cent, reflecting the effects of their rapid rise in the base period of the previous year and the business slump.

By industry, the rates of wage increase in the manufacturing industry, the electricity, gas and water industry and the finance, insurance and real estate sector marked a slowdown while those in con-

[Table 3] **Employment[1] Trends**

Unit : million persons, per cent

	1999	2000					2001	
	Year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Year	Jan.	Feb.
Economically active population[2]	21.6	21.4	22.1	22.2	22.1	22.0	21.3	21.3
	(0.8)	(2.6)	(1.4)	(1.3)	(0.5)	(1.5)	(0.0)	(0.0)
Total number of persons in	20.3	20.3	21.3	21.4	21.3	21.1	20.3	20.2
employment[2]	(1.4)	(6.3)	(4.4)	(3.4)	(1.5)	(3.8)	(0.8)	(0.2)
(Manufacturing)	4.0	4.2	4.2	4.2	4.3	4.2	4.2	4.2
	(2.8)	(9.9)	(7.5)	(5.0)	(1.9)	(5.9)	(0.2)	(-0.4)
(Construction)	1.5	1.4	1.6	1.6	1.7	1.6	1.4	1.4
	(-6.5)	(10.2)	(10.1)	(5.4)	(4.1)	(7.2)	(2.2)	(1.5)
(Wholesale, retail, restaurants,	5.7	5.9	5.9	6.0	6.0	5.9	5.8	5.7
and hotels)	(2.7)	(5.4)	(4.6)	(3.6)	(1.7)	(3.8)	(-6.8)	(-7.0)
(Agriculture, forestry, and fishing)	2.3	1.9	2.5	2.5	2.2	2.3	1.6	1.6
	(-5.3)	(2.8)	(-3.3)	(-1.9)	(-6.8)	(-2.6)	(3.3)	(1.2)
(Business, personal, and	4.7	4.8	5.0	4.9	5.0	4.9	5.2	5.2
community services)	(6.0)	(5.2)	(4.3)	(4.4)	(4.0)	(4.5)	(4.7)	(3.0)
Unemployed persons	1.4	1.1	0.8	0.8	0.8	0.9	1.0	1.1
Unemployment rate	6.3	5.1	3.8	3.6	3.7	4.1	4.6	5.0
(Seasonally adjusted)	(6.3)	(4.4)	(3.9)	(3.9)	(3.9)	(4.1)	(4.1)	(4.2)

Notes : 1) Actual figures.
2) Figures in parentheses refer to rates of change on a year-on-year basis.

[Table 4] Rates of Increase[1] of Nominal Wages

Unit : per cent

	1999			2000				
	Ⅲ	Ⅳ	Year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Year
Nominal wages per worker	15.6	16.1	12.1	9.0	8.7	8.8	5.9	8.0
(Regular Payment)	5.9	8.9	6.1	5.9	6.6	9.6	7.2	7.3
(Overtime Payment)	32.4	32.5	30.1	14.7	13.2	17.3	10.0	13.7
(Special Cash Payment)	47.2	34.8	28.3	17.8	14.6	3.5	1.0	8.1
(Manufacturing)	19.3	16.4	14.9	9.6	8.4	11.0	5.5	8.5
(Construction)	21.3	15.9	12.6	12.2	6.7	7.8	9.1	8.8
(Transport, storage, communications)	15.0	24.8	16.7	11.2	14.6	14.4	9.6	12.4
(Electricity, gas & water)	1.4	32.1	15.1	3.3	1.7	23.3	0.8	7.0
(Finance, insurance and real estate)	1.7	24.7	16.1	12.3	8.4	4.2	2.2	6.5

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

struction and the transport, storage, communication industry maintained relatively rapid increases.

External Transactions

During the fourth quarter, exports amounted to 45.2 billion dollars, close to the level recorded in the previous quarter, but the rate of increase dropped sharply in value terms to 6.1 per cent on a year-on-year basis as against 26.5 per cent in the previous quarter. This deceleration came in response to the slowdown in the growth of the world economy, the continued decline in D-RAM prices together with the comparison effect against the base period of the previous year when the rate of increase was high.

Broken down by commodity group, exports of passenger cars and information & telecommunications equipment rose by around 20 per cent, but those of semiconductors and steel products registered only a slight rise. Exports of light industrial products, including textiles and clothing, declined by 2.2 per cent.

By export-destination, the growth rate of exports to both advanced and developing countries slowed significantly. In particular, exports to developing countries posted a very low rate of increase owing largely to the poor performance of exports to the ASEAN and Middle East countries.

In January 2001, exports stood at 12.7 billion dollars, an increase of 4.7 per cent compared with the same period of the previous year.

During the fourth quarter, imports registered 41.4 billion dollars, a slight rise from the previous quarter. The growth rate over the same quarter of the previous year dropped sharply from 35.8 per cent

[Table 5] **Exports by Sector and Destination[1)]**

(Customs-clearance Basis)

Unit : billion U.S. dollars

	Portion[2)]	1999		2000						2001
		Ⅳ	Year	Ⅰ	Jan.	Ⅱ	Ⅲ	Ⅳ	Year	Jan.
Exports	<100>	42.6	143.7	39.3	12.2	43.4	44.4	45.2	172.3	12.7
		(22.7)	(8.6)	(29.8)	(31.4)	(21.5)	(26.5)	(6.1)	(19.9)	(4.7)
Heavy industrial & chemical products	<74.1>	31.5	103.2	29.1	9.0	31.8	32.9	33.9	127.6	9.7
		(27.4)	(15.0)	(35.8)	(39.3)	(26.1)	(31.0)	(7.7)	(23.7)	(7.9)
Semiconductors	<12.4>	(5.4)	(10.8)	(0.3)	(0.4)	(19.1)	(29.4)	(4.0)	(12.9)	(-3.7)
Information & communication equipment	<16.3>	(147.5)	(87.6)	(124.6)	(167.8)	(87.4)	(88.6)	(19.2)	(68.0)	(-6.8)
Passenger cars	<6.4>	(-1.6)	(15.3)	(51.6)	(65.4)	(-6.3)	(17.0)	(22.1)	(17.9)	(5.9)
Iron & steel products	<6.6>	(9.1)	(-7.3)	(20.0)	(21.1)	(16.9)	(5.6)	(0.2)	(10.2)	(-2.3)
Chemical products	<7.0>	(24.1)	(4.3)	(38.9)	(39.0)	(48.0)	(25.0)	(10.8)	(29.1)	(0.0)
Ship building	<4.8>	(10.1)	(-6.5)	(44.2)	(51.9)	(7.5)	(32.5)	(-12.2)	(9.9)	(244.1)
Light industrial products	<17.6>	7.6	29.7	7.0	2.1	8.2	7.7	7.4	30.3	1.9
		(-0.5)	(-8.5)	(1.9)	(-3.8)	(2.1)	(6.4)	(-2.2)	(1.9)	(-11.7)
(Excluding gold)	<16.7>	(18.4)	(3.7)	(17.3)	(14.8)	(11.5)	(5.4)	(-2.1)	(7.5)	(-12.9)
Textiles	<4.9>	(28.0)	(1.9)	(18.1)	(18.4)	(12.5)	(4.5)	(-5.9)	(6.6)	(-20.3)
Clothing	<2.9>	(11.3)	(4.6)	(9.7)	(7.5)	(6.9)	(2.3)	(-4.5)	(3.2)	(-20.6)
Advanced countries	<51.4>	(30.0)	(14.2)	(31.6)	(32.0)	(20.2)	(30.9)	(8.7)	(21.6)	(6.6)
U.S.	<21.8>	(47.3)	(29.2)	(38.9)	(43.0)	(24.7)	(36.0)	(15.6)	(27.6)	(4.4)
Japan	<11.9>	(56.9)	(29.6)	(50.5)	(61.4)	(38.5)	(37.7)	(3.4)	(29.0)	(5.6)
Developing countries	<48.6>	(15.6)	(3.4)	(28.0)	(30.6)	(22.7)	(22.2)	(3.3)	(18.1)	(2.8)
China	<10.7>	(30.7)	(14.6)	(37.1)	(36.7)	(37.4)	(44.4)	(23.1)	(34.9)	(1.0)

Notes : 1) Figures in parentheses refer to rates of increase compared with the same period of the previous year(%).
2) Based on the year 2000.

to 16.2 per cent due to low domestic demand.

Broken down by type of product, imports of capital goods rose by only 10.8 per cent due to lackluster imports of electric & electronics and machinery, but those of raw materials and consumer goods increased at a relatively high rate of around 20 per cent.

Considering imports by use, imports for the domestic market increased by 16.8 per cent, showing a slightly higher growth rate than the 15.5 per cent of those for use in export processing, etc.

During January, imports decreased by 1.2 per cent to 12.4 billion dollars compared with the same month of the previous year. This represented the first year-on-year monthly fall in exports since February 1999(-3.2 per cent).

Reflecting these export and import trends, the surplus on the goods account (balance of payments basis) narrowed slightly from the previous quarter to stand at 4.16 billion in the fourth quarter. The deficit on the services account

[Table 6] **Imports by Sector and Use[1]**

(Customs-clearance Basis)

Unit : billion U.S. dollars

	Portion[2]	1999		2000						2001
		Ⅳ	Year	Ⅰ	Jan.	Ⅱ	Ⅲ	Ⅳ	Year	Jan.
Imports	<100>	35.7	119.8	38.8	12.6	39.8	40.4	41.4	160.5	12.4
		(44.8)	(28.4)	(51.9)	(46.0)	(38.4)	(35.8)	(16.2)	(34.0)	(-1.2)
Consumer goods	<10.0>	3.5	14.0	3.6	1.2	4.1	4.1	4.2	16.1	1.2
		(-2.9)	(10.7)	(5.3)	(-0.6)	(4.4)	(30.7)	(21.0)	(14.7)	(5.4)
(Excluding gold)	<8.6>	(46.7)	(30.8)	(43.1)	(45.6)	(27.1)	(30.9)	(21.6)	(29.8)	(4.5)
Raw materials	<49.2>	17.6	57.3	19.5	6.6	19.0	19.4	21.0	79.0	6.4
		(54.0)	(25.6)	(64.5)	(60.0)	(42.1)	(34.4)	(19.7)	(37.9)	(-3.6)
Crude oil	<15.7>	(87.6)	(31.5)	(134.3)	(122.7)	(81.2)	(68.2)	(35.0)	(70.6)	(-3.0)
Iron & steel products	<3.7>	(110.4)	(43.1)	(55.1)	(61.1)	(43.8)	(28.9)	(-7.7)	(26.5)	(-22.9)
Chemical products	<7.4>	(40.0)	(22.9)	(33.3)	(28.8)	(24.5)	(21.6)	(7.6)	(20.8)	(3.0)
Capital goods	<40.8>	14.6	48.5	15.7	4.8	16.7	16.9	16.2	65.4	4.8
		(52.0)	(38.4)	(52.7)	(44.7)	(45.8)	(38.7)	(10.8)	(34.9)	(0.5)
Electric & electronics products	<27.0>	(53.8)	(46.7)	(50.3)	(43.3)	(46.5)	(39.8)	(16.6)	(36.7)	(-0.8)
Machinery	<11.5>	(53.9)	(25.7)	(63.2)	(54.0)	(48.6)	(42.4)	(4.4)	(36.3)	(3.8)
For domestic demand	<55.0>	(55.3)	(32.6)	(62.5)	(55.2)	(45.2)	(37.1)	(16.8)	(38.3)	(0.7)
For export	<45.0>	(34.6)	(23.8)	(40.4)	(36.6)	(30.4)	(34.3)	(15.5)	(29.1)	(-3.5)

Notes : 1) Figures in parentheses refer to rates of increase compared with the same period of the previous year(%).
2) Based on the year 2000.

contracted slightly from 1.22 billion dollars in the previous quarter to 1.02 billion dollars helped by the reduction in patent and royalty payments. The income account shifted from a 0.62 billion dollars deficit to a 0.10 billion dollars surplus thanks to an increase in the profits from the operation of external assets. The surplus on the current transfers account came to 0.08 billion dollars, the same level recorded in the previous quarter.

Accordingly, the current account surplus dwindled slightly from 3.65 billion dollars in the previous quarter to 3.31 bil-

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

Unit : billion U.S. dollars

	1999		2000							2001
	Ⅳ	Year	Year	Ⅰ	Jan.	Ⅱ	Ⅲ	Ⅳ	Dec.	Jan.
Current account	5.68	24.48	11.04	1.34	0.29	2.73	3.65	3.31	1.24	0.68
Goods	6.78	28.37	16.60	2.44	0.64	4.59	5.41	4.16	1.70	0.49
Services	-0.18	-6.51	-3.97	-0.92	-0.48	-0.81	-1.22	-1.02	-0.45	-0.19
Income	-1.29	-5.16	-2.20	-0.45	0.03	-1.23	-0.62	0.10	-0.03	0.30
	0.36	1.92	0.62	0.28	0.10	0.18	0.08	0.08	0.03	0.09

lion dollars in the fourth quarter of 2000.

In January, the current account surplus amounted to 0.68 billion dollars, a slight decrease from 1.24 billion dollars recorded in the preceding month, but an increase over the 0.29 billion dollars recorded in the same month of the previous year.

Prices

During the fourth quarter of 2000, consumer prices dropped by 0.3 per cent compared with the last month of the previous quarter due to a fall in prices of agricultural, livestock, and marine products resulting from a combination of increased supplies and sluggish demand. In January 2001 though, they shifted to a sharply increasing trend.

In particular, January consumer prices recorded the high rate of increase of 1.1 per cent compared with the previous month. This was mainly attributable to a surge in prices of agricultural, livestock, and marine products that resulted from supply shortages in the wake of heavy snowfalls and a severe cold wave, and rising demand for the Lunar new year. Sharp rises in public service charges, including medical insurance premiums and city gas, private service charges such as tuition fees for private academies, and house rents also served as factors contributing to the higher consumer price inflation.

The rising trend in consumer prices continued in February when they increased by 0.2 per cent from the previous month. They were pushed up by higher charges for services including some public utility fees such as water supply and sewage set by local governments, private service centering on tuition fees for private academies, and price increases for industrial products, led by publica-

[Table 8] Rates of Increase of Consumer Prices[1]

Unit : per cent

	1999	2000					2001	
	Year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Year	Jan.	Feb.
Consumer prices	1.4	0.8	0.1	2.7	-0.3	3.2	1.1	0.2
	(0.8)	(1.5)	(1.4)	(3.2)	(2.8)	(2.3)	(4.2)	(4.2)
Agricultural, livestock, and marine products	5.3	1.4	-2.1	7.5	-7.3	-1.2	2.8	0.1
Manufacturing products	1.6	-0.2	0.3	1.5	1.2	2.9	0.4	0.2
Services	0.1	1.5	0.6	1.9	0.7	4.8	1.1	0.4
Core inflation[2]	0.5	0.9	0.3	1.6	0.3	3.2	1.1	0.2
	(0.3)	(0.8)	(1.4)	(2.4)	(2.8)	(1.8)	(4.1)	(4.2)

Notes : 1) Comparison is with the last month of the preceding period. Figures in brackets refer to rates of increase over the corresponding period of the previous year.
2) CPI stripping out the prices of petroleum fractions and agricultural products except cereals.

tions and medical supplies.

Core inflation rose by 0.3 per cent during the fourth quarter of 2000 from the last month of the previous quarter due to the hike of prices of industrial products and charges for services. In January 2001, core inflation soared by 1.1 per cent compared with the previous month, the highest rise since February 1998. The rising trend continued in February when an increase of 0.2 per cent was registered compared with the previous month.

Producer prices increased by 0.5 per cent during the fourth quarter of 2000 compared with the last month of the previous quarter, continuing the rising trend evident since that June. They went on to maintain the increasing trend through February 2001.

In January, producer prices rose by 0.5 per cent compared with the previous month due to a hefty rise in prices of agricultural, forestry, and marine products that result from the demand and supply unbalances for vegetables in the wake of heavy snowfalls, a cold wave, and rising demand for the Lunar New Year. Costs for construction planning and administration, freight rates, and city gas & water charges also rose, affected by rising labor costs and the won's depreciation, contributing to the rise of producer prices.

Producer prices also increased by 0.2 per cent in February as prices of agricultural, forestry, and marine products, led by vegetables and fresh fishery goods, and industrial products rose due to the won's depreciation and hikes in international raw material prices.

Export prices rose by 4.5 per cent during the fourth quarter of 2000 compared with the last month of the previous quarter. By months although they shifted to a downward trend in October due to a fall in export prices of semiconductors and petrochemical products, they rose sharply again in November because of the won's

[Table 9] Rates of Increase of Producer Prices[1)]

Unit : per cent

	1999	2000					2001	
	Year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Year	Jan.	Feb.
Producer price	0.9	0.0	0.2	1.0	0.5	1.7	0.5	0.2
	(-2.1)	(2.1)	(1.9)	(2.6)	(1.5)	(2.0)	(2.3)	(2.4)
Agricultural, forest,and marine products	3.6	0.6	-2.0	0.3	-6.8	-7.9	3.4	1.0
Manufacturing industrial products	0.7	-0.1	0.1	1.1	1.1	2.2	-0.1	0.2
Electric power, water, and gas supply	5.4	2.0	1.5	0.0	4.1	7.9	2.6	0.0
Services	0.3	-0.2	0.6	1.2	0.5	2.0	0.8	0.0

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

rapid depreciation.

Mainly affected by the rapid weakening of the won and a hike in prices of transportation equipment, export prices climbed by 4.5 per cent in January 2001 compared with the previous month, continuing their rising trend.

However, export prices dropped by 2.0 per cent in February compared with the previous month as prices of semiconductors, pictures & sound equipment, communication equipment, and primary metal goods fell due to oversupply and slow demand amid a world wide business slowdown and the Korean won regained some of its lost ground.

Despite stabilized international oil prices, import prices rose by 0.7 per cent during the fourth quarter of 2000 compared with the last month of the previous quarter owing to the won's rapid loss of its exchange value from early in November.

Due to won's persistent rapid depreciation coupled with the shift back of an upward trend for international oil prices, import prices rose up by 3.9 per cent in January 2001 compared with the previous month.

However, import prices fell by 0.3 per cent in February compared with the previous month as the Korean won gained back some of its lost ground and international prices of industrial raw materials, including nonferrous metals and pulp, and chemical products, slipped due to the weak demand amid of the general slowing of the world economy.

Owing to the sluggish demand for real estate thought about by seasonal factors and the gloomy future economic prospects, the trade prices and rents of housing by 0.8 per cent and 0.4 per cent, respectively, during the fourth quarter of 2000 from their September levels.

Although the real estate market continued subduced in January 2001, real estate prices maintained a similar level to the previous month due to the increase in demand for moving as winter school holiday drew to the close.

With the consumption and investment both in the doldrums owing to the economic slowdown, the ongoing corporate and financial restructuring, and uneasy financial market nervousness,

[Table 10] Rates of Increase of Export and Import Prices[1)]

Unit : per cent

	1999	2000					2001	
	Year	I	II	III	IV	Year	Jan.	Feb.
Export prices	-3.7	-0.1	-0.6	0.5	4.5	4.2	4.5	-2.0
Import prices	7.5	0.8	1.4	2.2	0.7	5.3	3.9	-0.3

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

[Table 11] Rates of Increase of Real Estate Prices[1)]

Unit : per cent

	1999	2000					2001
	Year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Year	Jan.
Housing prices	3.4	1.2	-0.3	0.4	-0.8	0.4	-0.1
(Apartments in Seoul)	12.5	3.6	-0.1	2.1	-1.4	4.2	0.1
Housing rents	16.8	6.5	1.2	3.5	-0.4	11.1	0.1
(Apartments in Seoul)	32.5	8.7	1.5	4.7	-3.0	12.1	0.9
Land prices	2.9	0.5	0.4	0.2	-0.5	0.7	-

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

land prices dropped by 0.5 per cent during the fourth quarter of 2000. Their fall was led downward by those for land in commercial and residential areas in large cities which are particularly sensitive to the movements of the real economy.

Financial Developments

Financial Markets

The Bank of Korea raised its call rate target by 0.25 of a percentage point to 5.25 per cent in October, concerned that inflationary expectations might be generated. It subsequently maintained at this level, with the overnight call rate fluctuating slightly around the target level during the fourth quarter.

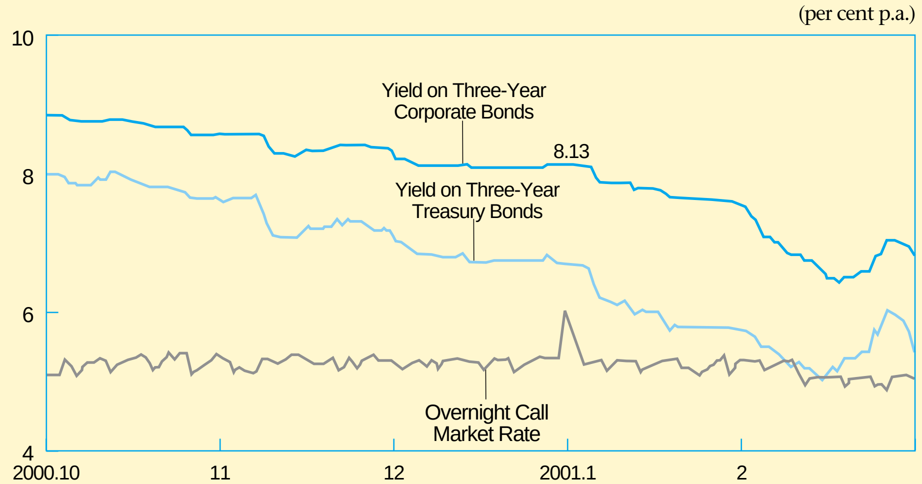
Meanwhile, long-term market interest rates such as yields on Treasury bonds and on corporate bonds posted a sharp drop during the fourth quarter due to the prospects of an economic slowdown, a flight to quality by institutional investors, and the early redemption of Treasury bonds.

At the end of 2000, accordingly, yields on Treasury bonds and corporate bonds stood at 6.70 per cent and 8.13 per cent, respectively, representing decreases of 1.37 percentage points and 0.91 of a percentage point from the end of September.

The overnight call rate maintained a level of close to 5.25 per cent in early 2001. As the Bank of Korea lowered its call rate target by 0.25 of a percentage point in February, however, the call rate then moved around the 5.00 per cent level.

Long-term market interest rates continued to fall due to the prospects of an economic slowdown and the lowering of interest rates by the U.S. Federal Reserve Board. After the middle of February, however, rates rebounded sharply, boosted by a widespread recognition among market participants that the steepness of their fall had been excessive. Since then they have

[Chart 1] Market Interest Rates Movements



moved within a relatively wide band.

The growth rate of deposits at banks increased sharply during the fourth quarter. This was caused by portfolio shifts out of investment trust companies and banks' money-in-trust account products into bank deposits amid an increasing flight to quality on the part of investors.

In the meantime, deposit taking by investment trust companies shifted to a decreasing trend because of a drop in deposits in stock investment trust products and high-yield funds. Deposits placed in banks' money-in-trust products continued to fall due to the withdrawal of funds at maturity.

From early 2001, the growth rate of deposits at banks slowed remarkably, affected by the lowering of interest rates, but deposits at investment trust companies increased sharply, led by MMF, which offered relatively higher yields in the wake of the fall in the market interest rates.

The composite stock price index (KOSPI) fluctuated in a range between

[Table 12] Growth of Deposits at Financial Institutions

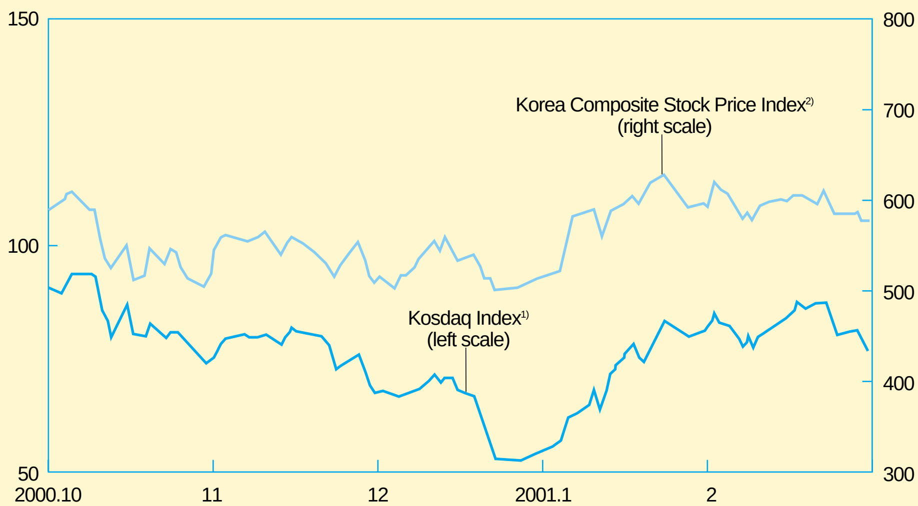
(Change during the period)

Unit : billion won

	1999	2000						2001	
	Ⅳ	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Nov.	Dec.	Jan.	Feb.
Deposit money banks[1]	19,815	28,028	26,567	16,581	20,818	8,091	6,181	200	1,593
Money-in-trust	-14,075	-8,080	-13,888	-9,644	-10,551	-2,502	-4,903	-62	3,016
Investment trust companies	-35,144	-17,139	-27,592	10,047	-10,326	-697	-7,336	7,434	6,664
Merchant banking corporations	2,987	-523	-3,451	611	-3,619	-336	-2,855	1,558	-686

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

[Chart 2] Stock Price Movements



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

500 and 600 points during the fourth quarter. But stock prices fell throughout on the whole due to the fall in U.S. stock prices and anticipations of an economic slowdown.

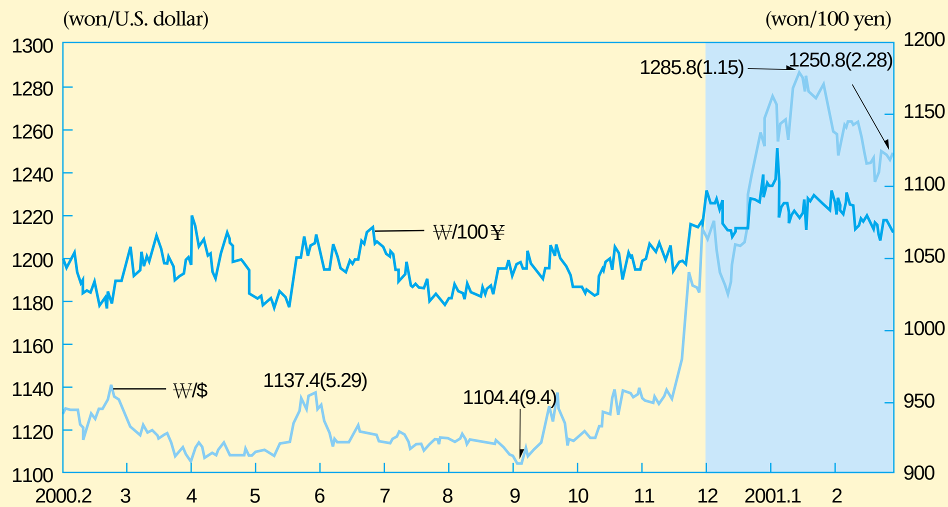
From new year onwards, stock prices rebounded sharply thanks to improved external conditions, including the lowering of interest rates by the U.S. Federal Reserve Board, and massive net buying of stocks by foreign investors, but they shifted back to a declining track again later owing to the plunge of the U.S. Nasdaq index which sparked heavy selling.

The Korean won weakened against the U.S. dollar from mid December onwards, closing the year at 1,264.5 won per dollar, its nadir in terms of exchange value in the year for 2000. Its decline was caused by the increased demand for the greenback for the settlements of imports and widespread expectations of its further depreciation in the wake of the Japanese yen's slide in international financial markets and the slowing pace of export growth.

The Korean won continued to lose its exchange value until mid January in 2001, trading at a level of 1,280 won per dollar. Afterwards, however, it regained some of its lost ground thanks to increased inflows of foreign investment funds and the stabilized yen to stand at 1,250.8 won per dollar at the end of February.

Although the Japanese yen had continued to weaken in international financial markets from last September, the scale of the Korean won's depreciation

[Chart 3] Exchange Rate Trends of the Korean Won



Note : The won/dollar exchange rate is based on the market closing rate, and the won/100 yen exchange rate is based on the cross rate notified by the Korea Financial Telecommunications and Clearings Institute.

against the dollar was larger than that of the yen in December. As a result, the Korean won weakened against the yen, trading at 1,101.52 won per 100 yen at the end of the month.

From January 2001 onwards, however, it showed an appreciating trend against the yen because of the latter's further slide against the dollar, registering 1,093.78 won per 100 yen at the end of January and 1,071.48 won per 100 yen at the end of February.

Monetary Aggregates

The growth rate of M3 during the fourth quarter increased to 6.7 per cent, higher than in the previous quarter. This was caused by the effect of the very low M3 growth rate recorded in the base period of the fourth quarter of the preceding year as enterprises strove to improve their financial structure.

Meanwhile, the growth rates of M2 and MCT+ declined compared with the previous quarter, affected by the reduction in money supply through the foreign channel following the outflow of foreign portfolio investment funds and their high growth rates during the base period in the fourth quarter of the previous year led by investments in the Bond Market Stabilization Fund and the expansion of bank lending.

The growth rates of M2 and MCT+ expanded in January 2001 due to the renewed net inflow of foreign stock investment funds, but they slipped back in February in response to reduced inflows of foreign funds. Meanwhile, the

[Table 13] **Monetary Aggregate Trends**

(On the basis of daily average figures, compared with the same period of the previous year)

Unit : per cent

	1999	2000						2001	
	Ⅳ	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Nov.	Dec.	Jan.	Feb.[2]
M3	8.2	5.3	5.0	5.5	6.7	6.6	6.7	8.2	‥
M2	26.4	27.7	33.2	33.4	26.1	25.5	24.5	25.9	20.7
MCT+	10.3	12.4	16.3	17.0	14.2	13.8	14.1	15.5	13.1
Reserve money[1]	18.4	23.1	22.0	21.5	14.2	14.7	11.3	15.1	8.6
	(23,960)	(25,689)	(25,528)	(26,847)	(27,364)	(27,132)	(27,814)	(29,994)	(28,226)

Notes : 1) Figures in parentheses indicate daily averages during the period(billion won).
2) Provisional figures.

growth rate of reserve money eased sharply to 14.2 per cent during the fourth quarter as compared with 21.5 per cent in the preceding quarter.

The volume of bank lending (including trust loans) dropped sharply during the fourth quarter compared with the previous quarter. Corporate fund-raising through banks, though, seems to have kept up robustly rising underlying trend. Since bank lending had been increasing steadily until the latter half of December when it declined sharply toward the end of the fiscal year to allow the favorable massaging of corporate debt ratios and banks' capital adequacy ratios.

In the meantime, corporations' ability to raise funds directly from the markets

[Table 14] **Corporate Fund Raising**

(Changes during the period)

Unit : billion won

	1999	2000						2001	
	Ⅳ	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Nov.	Dec.	Jan.	Feb.
Bank loans[1]	9,754	12,639	21,314	16,413	7,303	3,890	-2,013	1,053	904
Bank account loans	12,104	16,635	23,908	19,485	10,223	4,755	-785	1,915	1,428
Trust account loans[2]	-2,350	-3,996	-2,594	-3,072	-2,920	-865	-1,228	-412	-524
Net bond issuance[3]	-5,504	-4,036	-2,452	558	-4,685	-672	312	673	3,374
Discount of CP[4]	-14,039	8,405	-7,095	2,506	-4,884	-837	-396	6,498	-224
Stock issuance[5]	13,911	2,176	3,773	3,468	1,960	188	1,082	79	70

Notes : 1) Excluding changes on account books in connection with the disposal of bad loans and the debt for equity swap, including CLO.
2) Excluding discount of CP.
3) Issuance by general companies, excluding those under court management, court receivership and workout program.
4) Based on the amount of CP discounted by securities firms, bank trust accounts, and merchant banking corporations.
5) Based on companies listed on the Korea Stock Exchange or registered with the Kosdaq market, but excluding financial institutions.

worsened significantly compared with the previous quarter as the risk-aversion of investors deepened. Accordingly, enterprises registered a net redemption position on the issuance of CP and corporate bonds, and their fund-raising through the issuance of stocks decreased compared with the previous quarter because of the fall in stock prices.

From early January, bank lending decreased somewhat, but enterprises' fund-raising through the direct financial market increased sharply due to reduced worries over corporate credit risk and the increased appetite for CP following the rise in MMF deposits at investment trust companies.

Summary of Monetary Policy

Adopted by the Monetary Policy Committee

January ~ March 2001

Monetary Policy in January 2001*

The economy shows signs of more rapid slow-down than expected. The growth of both production and domestic demand has declined steeply. Also, the growth rate of exports has flattened out markedly.

Consumer prices have shifted to a rising trend in December, following their decline over the last two months. This represents the effect of the hike in industrial product prices and service charges. Moreover, there are underlying factors that could push up prices further including the recent depreciation of the won and the expected rise in public service charges.

In the financial markets, while the concern over corporate credit risk has not been dispelled, financial institutions' conservative attitude toward lending to the corporate sector remains unchanged amid the uncertainties surrounding the

* Unofficial English translation based on the Korean original that was decided upon by the Monetary Policy Committee on January 11, 2001

restructuring of the banking sector, and so forth. Recently, however, stock market trading has become somewhat brisker and the corporate credit crunch has begun to give slight indication of easing.

Taking overall account of the evolution of the real and financial sectors, the Monetary Policy Committee of the Bank of Korea today decided to maintain the overnight call rate at around its current level in January. The committee, nevertheless, noted that monetary policy would be flexible in its response to the economic situation, watching the movements of the real economy warily.

To help bring about the continued lightening of the corporate credit crunch, the Bank of Korea will be flexible in its supply of liquidity and will do all it can to facilitate the flow of financial resources to the corporate sector.

Monetary Policy in February 2001*

The economy has contracted more rapidly than had been anticipated. Industrial production slowed for four straight months from last September onwards. The growth of exports has also seen a sharp deceleration. Consumer and business confidence has declined markedly.

* Unofficial English translation based on the Korean original that was decided upon by the Monetary Policy Committee on February 8, 2001

Consumer prices rose significantly in January due to the higher prices of farm-fisheries products and public services. There are destabilizing factors present, including the influence of the recent depreciation of the Korean won, which could further push up prices. Demand-side pressures are, however, subsiding owing to the rapid economic slow-down.

In the financial markets, market interest rates have shown a gradual decline and there appears to be a partial easing of the corporate credit crunch. However, there are underlying factors making for market instability including the possibility of a worsening of corporate cash-flow resulting from the economic slow-down and lingering concerns over the credit risk of corporations that are liable to turn distressed.

Taking this situation in the real and financial sectors into consideration, the Monetary Policy Committee of the Bank of Korea today decided to lower its target for the overnight call rate from 5.25 per cent to 5.0 per cent.

The MPC also noted that a close watch would be kept on economic developments as well as price movements so as to respond to them through monetary policy. To help bring about the continued easing of the corporate credit crunch, that has recently become evident, the

Bank of Korea will do all it can to facilitate the flow of financial resources to the corporate sector.

In order to restore firmly-based financial market stability against the background of the recent partial improvement that has occurred in the financial markets, it is essential to pursue financial and corporate restructuring in an effective manner.

Monetary Policy in March 2001*

Real sector activity has continued to slow, while consumer and business confidence seems to be improving to some extent. Industrial production increased somewhat in January and signs of a revival of exports emerged. Consumer prices increased by more than 4 per cent on a year-on-year basis in February for the second successive month. There are still destabilizing factors present, including the rise of some service charges and the effect of the depreciation of the Korean won.

Despite underlying factors making for market instability such as lingering concerns over corporate credit risk in the financial markets, the corporate credit crunch appears to be easing. There has been a large increase in the corporate sector's issuance of bonds and commercial

* Unofficial English translation based on the Korean original that was decided upon by the Monetary Policy Committee on March 8, 2001

paper while market interest rates have maintained an underlying downward trend.

Taking overall account of the evolution of the real and financial sectors, the Monetary Policy Committee of the Bank of Korea today decided to maintain the overnight call rate at around its current level in March.

The Committee also noted that monetary policy would be flexible in its response to the economic situation, watching developments in the external economic environment as well as the business conditions and price movements. In order to maintain stable movement of market interest rates and bring about a constant improvement in corporate fund-raising, it is vital to lower corporate credit risk by promptly putting in place market-based structural reforms in a systematic manner.

The Inflation Target and Monetary Policy for 2001

I. Introduction

Even up until the early 1970s, the predominant view was that inflation could be tolerated to a certain extent for the sake of maintaining economic growth, in accordance with the Phillips curve which posits a trade-off between growth and inflation. However, with the emergence of stagflation, representing price rise amid the economic depression after the first oil crisis, it became evident that there is no trade-off between growth and inflation in the medium and long term. Rather, studies showed that inflation hinders economic growth because it lowers the efficiency of resource allocation, increases uncertainties over the future and distorts income distribution. Therefore today, price stability is perceived as a prior requisite for sustainable economic growth.

Over the medium and long term, the key is to maintain aggregate demand within the supply capacity in order to achieve price stability. In that aggregate demand is ultimately determined by market liquidity, the central bank's role in price stability has been accentuated. Recently some nations, mainly from the industrialized group, have adopted inflation targeting, a system that makes price stability as the direct target of monetary policy. Inflation targeting is a framework for the operation of monetary policy by which the central bank announces a specific inflation target to the public and makes use of a variety of policy tools so as to achieve it. First introduced in 1990 by New Zealand, it has since spread to over ten nations, including the U.K, Australia and Canada.

Korea also adopted inflation targeting under the provisions of the completely revised Bank of Korea Act of late 1997, which came into effect in April 1998. The new Act stipulates that the Bank of Korea should set an inflation target in consultation with the government on an annual basis and strive to reach that target.[1)]

In compliance with the related provisions, the Bank of Korea has set the inflation target for 2001 in consultation with the government, and confirmed the annual plan of monetary policy, incorporating this target following the deliberations and resolution of the Monetary Policy Committee. The main details are set out below:

Ⅱ. Inflation Target for 2001

1. Inflation Target and Performance in 2000

A. Inflation Target in 2000

The Bank of Korea set an inflation target of 2.5±1 per cent for the year 2000, based on an annual average core inflation rate. Core inflation refers to consumer prices stripping out non-cereal agricultural products,[2)] and petroleum fractions.[3)]

The biggest change in setting an inflation target in 2000 was the adoption of core inflation as the benchmark indicator.

The Bank of Korea set the inflation target based on the Consumer Price Index (CPI) during the 1998~1999 period.[4)] This resulted from the judgement that the CPI was most appropriate as the key anchor for the operation of scheme because it represents the most familiar indicator of inflation to the general public. In addition, the CPI was viewed as one of the most important macroeconomic indicators in the policy consultations conducted since the currency crisis of 1997 between the International Monetary Fund and the Government of the Republic of Korea as well as the Bank of Korea.

Some problems can arise, however, when the CPI is taken as the benchmark indicator in setting the inflation target. When the central bank places the focus

1) The related provisions of the Act are as follows:
Article 1(purpose) The purpose of this Act shall be to establish the Bank of Korea and to contribute to the sound development of the national economy by pursuing price stability through the formulation and implementation of efficient monetary and credit policies.
Article 6(Formulation of an Operational Plan for Monetary and Credit Policies)
(1) The Bank of Korea shall set a price stability target every year in consultation with the Government and formulate and promulgate an operational plan for monetary and credit policies including this price stability target.
(2) The Bank of Korea shall do its best to achieve the price stability target as provided for in Paragraph(1).

2) Non-cereal agricultural products include vegetables, fruit and other agricultural products shown in the CPI.

3) Petroleum fractions include gasoline, kerosene, light oil, liquified petroleum gas and piped natural gas.

4) In 1999, the BOK adopted the CPI as the benchmark indicator. However, it added a provisory clause that the benchmark indicator should exclude changes in the inflation rate caused by *force majeure* such as price fluctuations of agricultural products due to the natural disasters and price adjustment attributable to the revision of tax legislation.

of its monetary policy on price stability, an inflation target becomes the nominal anchor. Therefore the benchmark indicator should represent the underlying trend of prices. However, the CPI cannot properly reflect the underlying trend of inflation[5] because some of the items included are seriously affected by temporary and transitory shocks with a consequent impact on the index of consumer prices as a whole.

Consequently, the central bank needs to identify core inflation, which represents the underlying trend of prices, and base its implementation of monetary policy upon it. The Bank of Korea, therefore, decided to exclude from the CPI non-cereal agricultural products and petroleum fractions, which are most highly sensitive to such external shocks as natural disasters and fluctuations of international oil prices, and to make use of this core inflation as the benchmark indicator.[6]

Meanwhile in setting the annual inflation target for 2000, the Bank of Korea set a mid-term inflation target for the medium and long term. This was taken because of the considerable time lag between the operation of monetary policy and price changes. The Bank also sought to build the public confidence in the consistency of monetary policy to achieve price stability, thereby eliminating inflationary expectations. The mid-term inflation target was set at 2.5 per cent based on annual core inflation.

B. Performance in 2000

Up until May 2000, consumer prices of each month rose only at the level of 1 per cent year-on-year, restrained by the appreciation of the Korean won and the stable conjuncture of supply and demand for agricultural, livestock and marine products. However, from early June they began to rise continually, centering on medical fees, transportation fares and other public service charges while the prices of domestic petroleum fractions were also increasing sharply, affected by the hikes in international oil prices. As a result, during the latter half of the year, the rise in consumer price registered 3.0 per cent year-on-year. Thus for the year 2000 as a whole consumer prices rose by 2.3 per cent, up from the previous year's 0.8 per cent.

Meanwhile, core inflation showed similar movements to those of the CPI, maintaining a stable increase of 1.1 per

5) In 2000, the CPI in August increased by 2.7 per cent year-on-year, however, in September it rose by 3.9 per cent as the prices of agricultural products soared. This occurred because typhoon damage led to supply shortfalls. Meanwhile in October, the rise in the CPI slowed to 2.8 per cent following the disappearance of this supply problems. The wide fluctuations in the CPI resulting from abrupt changes in agricultural product prices and other similar transitory shocks make it difficult to gauge the state of inflation precisely.

6) For further information, please refer to "The Inflation Target for 2000" in the Quarterly Bulletin, the Bank of Korea(Mar, 2000).

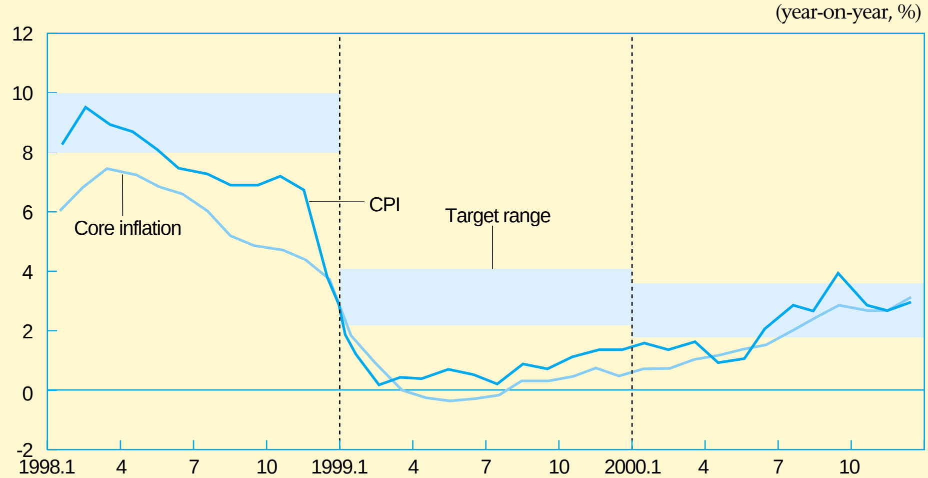
[Table 1] Trends of Consumer Price Growth[1)]

Unit : per cent

	1998	1999	2000 Ⅰ	2000 Ⅱ	2000 Ⅲ	2000 Ⅳ	2000 1st half	2000 2nd half	2000 Year
Consumer prices	4.0	1.4	0.8	0.1	2.7	-0.3	0.8	2.3	3.2
	(7.5)	(0.8)	(1.5)	(1.4)	(3.2)	(2.9)	(1.5)	(3.0)	(2.3)
Agricultural, livestock & marine products	7.7	5.3	1.4	-2.1	7.5	-7.3	-0.7	-0.4	-1.2
Industrial products	4.3	1.6	-0.2	0.3	1.5	1.2	0.1	2.8	2.9
<Petroleum-fractions>	<-0.8>	<9.3>	<-1.3>	<2.4>	<6.5>	<3.8>	<1.0>	<10.5>	<11.7>
Services	2.6	0.1	1.5	0.6	1.9	0.7	2.1	2.7	4.8
<Public charges>	<7.8>	<3.1>	<1.9>	<1.2>	<5.9>	<1.2>	<3.0>	<7.2>	<10.5>
Core inflation	4.0	0.5	0.9	0.3	1.6	0.3	1.2	2.0	3.2
	(5.9)	(0.3)	(0.8)	(1.4)	(2.4)	(2.9)	(1.1)	(2.6)	(1.8)

Notes : 1) Rates of change compared with the last month of the previous period.
2) Figures in parenthesis or angle brackets are rates of year-on-year price changes.

[Chart 1] Trends of Inflation Target and Inflation Rates



cent year-on-year in the first half. Towards the latter half of the year, however, it accelerated its pace, hovering above the mid-point of its target range since September. Thus for the second half of the year, the core inflation registered 2.6 per cent year-on-year. Accordingly average annual core inflation remained within the bounds of the inflation target range, registering 1.8 per cent.

2. The Inflation Target for 2001

A. Outlook for Prices in 2001

The world economy in 2001 is projected to see lower growth, affected by the impact of the hikes in oil prices and the economic slowdown in the U.S. This will lead to a decline in the expansion of world trade growth. Also international oil prices, which rose sharply during 2000, are expected to remain firm during the first quarter, before shifting to a decline from the second quarter when demand slows due to seasonal factors. The effect will be to push down oil prices to a level lower than in 2000 in terms of the annual average.

The Korean economy faces lower GDP growth, a narrowed current account surplus and higher inflation. The overall slowdown represents an adjustment of the rapid growth out of the severe economic recession that followed the currency crisis and the unfavorable international economic environment.

Firstly, GDP growth is expected to slip to around 5 per cent from the previous year's 9 per cent level due to the slowing of domestic and overseas demand. By component of expenditure, private consumption is seen to cool rapidly as consumer confidence contracts, depressed by the employment instability during the ongoing restructuring process, and the slowing of real income growth. Equipment investment, which expanded greatly during the 1999~2000 period, is forecast to increase slightly in line both with the deceleration of consumption and export, and with corporate and financial restructuring. Construction investment is predicted to see a narrow increase, centering building construction although overall investment will continue to be dull. Export growth in volume terms will be lower than that of last year, held back by the decline in global trade growth and the economic slowdown among major importers of Korean products including U.S.

Viewed by the period, growth in the first half of 2001 will slacken rapidly owing to the contraction of production and the increase of unemployment in the course of the second wave of corporate and financial restructuring. However, from early in the second half, growth is expected to show a recovery with the easing of these negative conditions.

The current account will remain in surplus, but its scale is forecast to shrink to about 4.5 billion U.S. dollars. Export growth is projected to slow sharply from the previous year's 20 per cent to around 8 per cent as the global economy moves into a downturn, and prices of semiconductors, one of the Korea's major export items, decline. The growth of imports will be lower than in the previous year, affected by the weakening of domestic demand and the decrease in international oil prices, but it will still outstrip that of exports. Meanwhile, the service account is predicted to incur a widening deficit as the number of Koreans traveling abroad increases.

Consumer prices and core inflation

during 2001 are forecast to rise 3.7 per cent and 3.6 per cent respectively on an annual average basis. This rising trend will result from some cost factors although there will be no demand-pull pressures because of the economic downturn in 2001. Import costs for raw materials are expected to be pushed up by the Korean won's depreciation against the U.S. dollar that began in November last year in response to the knock-on effects[7] of the hikes in international oil prices. In addition, some indirect taxes, especially those on petroleum-based fuels are expected to be raised[8] in a restructuring of energy tax system, and medical fees and other public service charges will also be raised. These will all constitute the factors contributing to the acceleration of inflation.

Breaking down expected price movements this year by period, in the first half, consumer prices are expected to rise by approximately 4 per cent, affected by the repercussions of the previous high oil prices. From the beginning of the latter half, however, consumer price inflation rate is forecast to decline slightly to around 3 per cent due to an expected decline of oil prices in the second quarter and the effects of economic slowdown from the fourth quarter of last year to the first half of the year.

B. The Inflation Target for 2001

In setting the inflation target for 2001, the Bank of Korea took into account the outlook for prices during 2001, the inflation level that the Korean economy should seek to attain and its overall status.

The Bank of Korea adopted core inflation that is the CPI stripping out non-cereal agricultural products and petroleum fractions, as the benchmark indicator as in 2000. The mid-point of the target

[Table 2] **Outlook for Prices**

Unit : year-on-year, per cent

	1999	2000							2001[e]
	Year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	1st half	2nd half	Year	Year
CPI	0.8	1.5	1.4	3.2	2.9	1.5	3.0	2.3	3.7
Core CPI	0.3	0.8	1.4	2.4	2.8	1.1	2.6	1.8	3.6

7) Since the end of 2000, international oil prices have been decreasing. However, there is a time lag before a decline in oil prices affects the domestic petroleum products. Therefore, the prices of domestic petroleum products are forecast to hover above those of the previous year on an annual average basis. Meanwhile these price hikes will result in the increase of production costs for the related industries.

8) As of January 1, 2001, excise and education taxes on cigarettes, and import charge on piped natural gas were raised. Starting July 1, it is planned to raise transportation and special excise taxes on diesel, LPG for transportation, kerosene and heavy oils as a part of the rearrangement of the energy tax system.

range is set at 3.0 per cent (on an annual average basis) lower than this year's projection, 3.6 per cent. In view of the uncertainties to which price movements are subject, a range of 1 percentage point either side of the mid-point of the target will be allowed as in 2000.

The mid-point of the target range in 2001 is above the mid-term inflation target decided when the inflation target for 2000 was set. This results from the judgement that if the central bank were to formulate and implement the monetary policy for 2001 based on the annual target equivalent to the mid-term target, the economy could slip into recession, especially given the presence of cost-push pressures including the repercussions of high oil prices, the hike of public service charges and other factors that cannot be dealt with by monetary policy in isolation.

The Bank of Korea decided to keep its mid-term inflation target at the 2.5 per cent level even after 2002. This is because the repercussions of the high oil prices are likely to subside after having affected the economy up until the end of its first half of 2001.

Ⅲ. Monetary Policy for 2001

The Bank of Korea will place the focus of its monetary policy for 2001 on achieving the annual inflation target and strengthening the foundation for price stability. Subject to these constraints, it will remain flexible in its conduct of policy, taking into account the situation prevailing in the real sector and the financial market.

The Bank will make use of the annual target figure for M3 growth as a monitoring indicator rather than as the intermediate target. The short-term interest rate, represented by the overnight call rate, will remain the operating target for monetary policy.

Up until 2000, the Bank set M3 growth as its intermediate target, and then the overnight call rate as its operating target. In the financial restructuring process, however, the appropriateness of M3 as a monetary indicator was greatly weakened by some factors such as portfolio shifts among financial institutions. As a result, the central bank made use of M3 growth as an important information variable, rather than as an intermediate target in its implementation of policies. Since the appropriateness of M3 is not expected to improve, it is not desirable to take M3 growth rate as the intermediate target in 2001. Accordingly the Bank of Korea has decided to use it as a monitoring indicator starting from 2001.

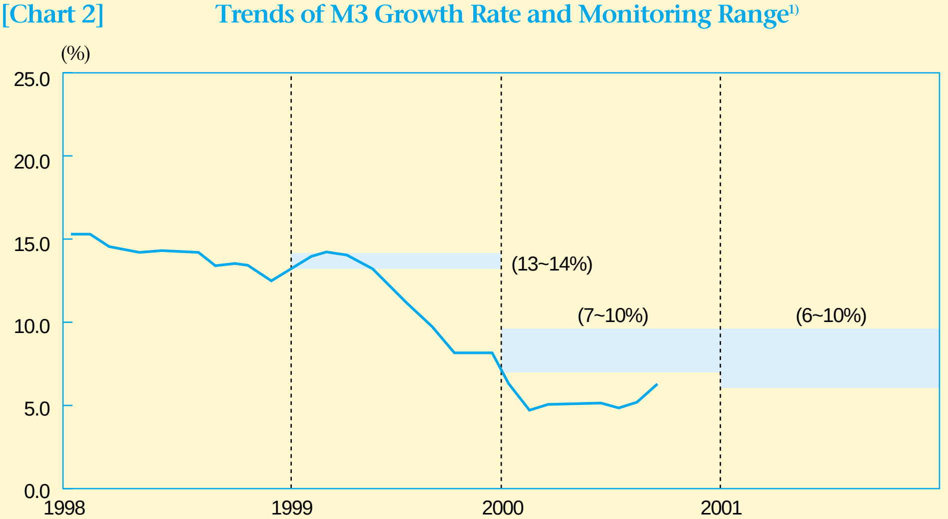
In this case, the Bank will set and announce the monitoring range of M3 growth rate so as to ease the inflationary expectations of the public and keep the excessive monetary expansion in check. However if the monetary supply deviates from the range, the Bank will analyze the causes and strive to induce it back on its desired course.

Meanwhile, in implementing its interest rate policy, the Bank will respond flexibly to changes in the domestic and overseas economic environments while placing its priority on attaining price stability. It will also endeavor to bring about an environment conducive to the convergence of inflation to the level of mid-term target by suppressing the reemergence of inflationary expectations. Thus the central bank will continue to monitor closely whether interest rates are consistent with the mid-term inflation target.

After taking into consideration the level of the inflation target and the projection of GDP growth, the monitoring range of M3 growth was set at 6~10 per cent.

Meanwhile, viewing expected financial market trends this year, the demand for bank loans is not expected to expand rapidly, being held back by the economic slowdown and the contraction of consumer confidence. The demand for working capital will increase slightly in response to the deceleration of the firms' cash flow caused by the weakening of domestic demand. There will be a constant demand for funds on the part of large companies with low credit ratings to allow their redemption of maturing corporate bonds. In terms of the supply of

[Chart 2] Trends of M3 Growth Rate and Monitoring Range[1)]



Note : 1) Intermediate target range for 1999 and 2000.

funds, the conservative attitude of banks towards lending is projected to persist for the time being, in line with the existence of corporate credit risk and heightened efforts to improve asset quality as a consequence of financial structuring.

Considering these market conditions, the Bank of Korea will conduct its credit policy to facilitate the enlargement of the flow of funds into the corporate sector and buttress the stability of the financial market.

To be more specific, the central bank adopted a corporate purchase fund loans scheme last year so that small and medium suppliers could receive their payments due for delivered goods promptly. It has also decided to introduce a new lending facility to reduce the issue and circulation of post-dated promissory notes in commercial transactions. This facility will be electronically-based and take the form of a system of lending against the collateral of sales-on-credit receivables.

The Bank increased the Aggregate Credit Ceiling by 2 trillion won, from last year's 7.6 trillion won to 9.6 trillion won, and changed allocation under this facility to encourage financial institutions to expand their supply of funds to firms. Those financial institutions that purchase corporate bonds and commercial paper (CP), or increase their corporate lending[9) will receive increased allocations under the Aggregate Credit Ceiling.

In addition, the Bank intends to upgrade the settlement practice in commercial transactions so as to improve the cash flow of small and medium enterprises and reduce chain bankruptcies through the efficient operation of its lending facilities.

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

9) Excludes lending to the top 4 conglomerates.

Financial Sector Restructuring in 2000

Ⅰ. Foreword

The financial sector restructuring pursued by the government since the outbreak of the financial crisis continued throughout 2000, with the recapitalization or liquidation of ailing financial institutions. In the expectation that additional public funds would be needed due to the collapse of Daewoo Group and the introduction of forward-looking criteria (FLC), standards for classifying asset soundness based on the future repayment ability of borrowers, the government decided to raise a further 40 trillion won in public funds and received approval for this from the National Assembly. At the same time, new financial legislation was enacted and existing legislation revised to facilitate financial sector restructuring and bring about the financial market stability.

This paper sets out the main details concerning the restructuring of financial institutions during 2000, including the turnaround or exit of ailing financial institutions, their support from public funds, and details of the new and revised financial legislation.

Ⅱ. Restructuring of Financial Institutions

In the year 2000, 175 ailing financial institutions, most of them mutual savings and finance companies and credit unions, either exited the market or were merged with other institutions. And the government devoted about 35 trillion won in public funds to support financial institutions through their recapitalization, the repayment of deposits, and the purchase of their non-performing loans (NPLs).

1. Resolution of Non-Viable Financial Institutions

Six banks[1](Hanvit, Chohung, Korea Exchange, Peace, Kwangju, and Cheju Banks) which had been recapitalized by public funds or whose capital adequacy ratios were below the BIS 8 per cent guideline as of the end of June 2000, plus Kyongnam Bank whose financial status was expected to worsen due to the realization of potential bad loans, were required to submit rehabilitation plans. After appraising their turnaround blueprints, the government announced a comprehensive restructuring plan for these banks in November.

First, it allowed Chohung Bank and Korea Exchange Bank to pursue their management improvement plans independently, including the recapitalization and the resolution of non-performing assets. Judging that it would be difficult for Hanvit, Peace, Kwangju, and Kyongnam Banks to improve their financial status independently, the government extended public funds to them for the improvement of financial structure and decided to bring them under a financial holding company that the Korea Deposit Insurance Corporation (KDIC) would establish. The government also injected public funds into Cheju Bank, which has fewer possibilities of improving its management unaided, and decided that it should be included in a financial holding company to be established by Shinhan Bank.

In the meantime, the National Livestock Cooperative Federation was merged with the National Agricultural Cooperative Federation in July 2000. The government decided to push for the sale of Seoul Bank, whose disposal had been delayed, to a foreign company in the first half of 2001. In case of failure to do so, however, it determined that it would be brought under a financial holding company that would be established by the KDIC.

The government suspended the operation of Nara, Yeungnam, Korea, Central, H&S, and Regent Merchant Banking Corporations, which were suffering a flight of deposits due to the worsening of their credibility in the wake of Daewoo's financial problems. Nara Merchant Banking Corporation was stripped of its license in May and Yeungnam, Korea, Central, and H&S[2] were merged into Hanaro Merchant Banking Corporation, which was established by the KDIC to consolidate

1) Those required to submit management improvement plan were those which had received public funds namely, Chohung, Hanvit, Seoul, and Korea Exchange Banks, and those whose capital adequacy fell short of the BIS 8 per cent guideline, i.e, Hanvit, Seoul, Peace, Kwangju, and Cheju Banks. Seoul Bank, however, was exempted from this requirement in view of its drive to achieve a management turnaround in consultation with Deutsche Bank.

2) The government revoked the license of these four merchant banking corporations on January 19, 2001.

those four corporations on a purchase and assumption (P&A) basis in November. As a result, the number of merchant banking corporations in normal operation decreased from 30 before the outbreak of the financial crisis to just five including Hanaro as of the end of 2000.

In dealing with the investment trust companies, the government in June split both Korea and Daehan Investment Trust Companies, whose normal operation had been impossible due to the worsening of their financial structure in the wake of Daewoo's financial problems, into two units – a securities company and an investment trust management company. While extending public funds to the securities companies for the improvement of their financial structure, the government concluded a memorandum of understanding (MOU) concerning management normalization with them, which called for their self-rescue efforts, including the disposal of assets and the rationalization of their staff and branch network. As a result, the structure of the investment trust industry, which had been divided between investment trust companies handling both the management of trust property and the sale of trust commodities, and investment trust management companies handling the management of trust property, was simplified so as to consist solely of investment trust management companies.

Out of the seven non-viable life insurance companies – Chosun, Kookmin, Pacific, Handuk, Korea, Doowon, and Dongah – whose sale to domestic or foreign companies had been sought by the government since 1999, Doowon Life Insurance had its license revoked in March, Chosun and Korea Life Insurance Companies merged, and the remaining four were acquired by other life insurers.[3)]

After appraising the financial status of eight life and six non-life insurance companies whose payment reserve requirement ratios were below 100 per cent, the government ordered three life insurers (Samshin Allstate, Hyundai, and Hanil) and two non-life insurers (First Fire and Marine, and Kukje Hwajae) to implement prompt corrective actions to obtain a 100 per cent ratio. It subsequently designated the three life insurance companies which had failed in the interim to implement prompt corrective actions, as non-viable financial institutions, and pressed ahead with their public sale. Should they fail to attract a buyer, the government plans to proceed with their resolution through P&A or by means of liquidation.

In 2000, 41 mutual savings and finance companies and 125 credit unions with little possibility of staging a turn-

3) Kookmin and Handuk Life Insurance Companies were acquired by SK Life Insurance, Pacific Life was taken over by Tongyang Life, and Dongah Life by Kumho Life.

[Table 1] Changes in the Number of Financial Institutions[1] during 1998~2000

	Number of institutions at the end of 1997	1998			1999			2000			Number of institutions at the end of 2000
		Exit[2]	Merger[3]	Newly established	Exit[2]	Merger[3]	Newly established	Exit[2]	Merger[3]	Newly established	
Banks	33	5	3	-	-	2	-	-	1	-	22
Merchant banking corporations	30	16	-	-	1	3	-	1	-	1	10
Securities companies	36	6	-	1	-	-	1	-	1	12	43
Investment trust (management) companies	31	6	-	-	-	1	-	-	-	3[4]	27
Life insurance companies[5]	31	4	-	-	-	-	-	1	5	-	21
Non-life insurance companies	14	-	1	-	-	-	-	-	-	-	13
Mutual savings & finance companies	231	22	2	4	21	10	6	28	13	2	147
Credit unions	1,666	69	14	9	105	45	-	83	42	-	1,317
Total	2,072	128	20	14	127	61	7	113	62	18	1,600

Notes : 1) Excluding bridge financial institutions and branches of foreign institutions.
2) Including revocation of license(application), bankruptcy, and liquidation.
3) The number of financial institutions that ceased to exist following mergers.
4) Taekwang, I, and Mirae Asset Investment Trust Management Companies.
5) Excluding Post Office Insurance.

around due to the worsening of their financial status as a result of accumulated bad loans and unauthorized operations either exited the market or merged with other institutions.

2. Support for Financial Institutions from Public Funds

A total of 35 trillion won of public funds was injected into financial institutions in 2000, bringing the accumulated total to around 127 trillion won during the period from November 1997 to the end of 2000.

Categorizing the sources, the KDIC provided a total of 22.6 trillion won. Of this amount, 4.1 trillion won was used for recapitalizing Seoul Bank and Hanvit, Peace, Kwangju, and Kyongnam Banks, which are scheduled to be grouped under a financial holding company to be established by the KDIC, and Cheju Bank, which is to be brought under a financial holding compnay to be established by Shinhan Bank. Another 1.5 trillion won was spent for recapitalizing Hanaro Merchant Banking Corporation, and Yeungnam, Korea, Central, and H&S Merchant Banking Corporations, which were merged into it. A total of 4.9 trillion won was injected into Korea and Daehan Investment Trust Securities, and the amount of 3.7 trillion won into four troubled life insurance companies and Seoul Guarantee Insurance. Also 0.7 trillion won was used to compensate for losses sustained by financial institutions that had acquired troubled financial institutions at government request. In addition, a total of 5.4 trillion won was used to purchase the assets of financial institutions, including 3.1 trillion won to purchase Korea First Bank's non-performing assets following exercise of its putback option and 0.3 trillion won to purchase assets rejected by life insurance companies that had acquired troubled life insurance companies. A total of 2.4 trillion won was made available for the repayment of deposits at merchant banking corporations, mutual savings and finance companies, and credit unions that had exited the market.

Meanwhile, the Korea Asset Management Corporation (KAMCO) provided a total of 12.1 trillion won for purchasing the NPLs of financial institutions. Of the total, 8.2 trillion won was used to purchase the NPLs of investment trust management companies.

The government devoted a total of 0.1 trillion won from fiscal resources in 2000 to the Korea Development Bank for its recapitalization. The Bank of Korea similarly injected 0.2 trillion won into the Export-Import Bank of Korea which was expected to face difficulties in its trade finan-cing activities due to the repayment within the year of IBRD loans.

[Table 2] **Public Funds Injected**[1)]

(November 1997~December 2000)

Unit : billion won

Source	Support type	Nov. 1997~Dec. 1999	Jan. 2000~Dec. 2000	Total
KDIC	Recapitalization	21,928	14,166	36,094
	Compensation of losses	11,453	704	12,157
	Purchase of assets	3,279	5,355	8,634
	Repayment of deposits	12,988	2,384	15,372
	Subtotal	49,648	22,609	72,257
KAMCO	Purchase of NPLs	22,776	12,087	34,863
Fiscal sources	Recapitalization	12,407	100	12,507
	Purchase of subordinated debentures	6,371	-	6,371
	Subtotal	18,778	100	18,878
Bank of Korea	Recapitalization	700	200	900
	Total	91,902	34,996	126,898

Note : 1) These statistics were provisionally compiled by the Bank of Korea on the basis of the Public Fund White Paper issued by the Ministry of Finance and Economy in September 2000, and the home pages and annual reports of KDIC and KAMCO.

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

Ⅲ. Legislative Activity in the Financial Field

The legislative activity in the financial field during 2000 fell generally into four main areas, namely, facilitating the establishment of financial holding companies, strengthening the management of public funds, accelerating the resolution of financial institutions' non-performing assets, and enhancing the stability of the financial market.

1. Facilitation of the Establishment of Financial Holding Companies

To facilitate the restructuring of financial institutions and push for bigger, universal banking systems, the Financial Holding Company Act (effective from Nov. 24, 2000) was enacted together with its associated Enforcement Decree (effective from Dec. 20, 2000). A financial holding company is a company governing financial institutions or financing-related companies as the largest shareholder. And an amount equivalent to over 50 per cent of the total value of its assets must consist of holdings of its subsidiaries' stocks. In addition, the government limited the business of financial holding companies to the management of their subsidiaries and accompanying businesses, prohibiting them from themselves engaging in profit-seeking business.

If an enterprise intends to establish or convert itself into a financial holding company, it must receive approval from the Financial Supervisory Commission (FSC). Before giving the green light to the establishment of a financial holding company, the FSC must consult with the Fair Trade Commission (FTC) on the issues concerning the conditions for compliance and possible limitation of competition as stipulated on the Monopoly Regulation and Fair Trade Act (Fair Trade Act).

If a financial holding company intends to bring an existing company within its fold or set up a subsidiary *de novo*, it also must receive approval from the FSC. A financial holding company must possess the stocks of its subsidiaries equivalent to a level exceeding the minimum equity ratio[4] stipulated in the Fair Trade Act. Where it sets up an intermediary holding company, it must possess 100 per cent of its stocks.

Financial institutions other than mutual funds which are operated by persons specializing in financial business cannot own a financial holding company. In the case of a bank holding compa-

4) The minimum equity holding ratio is 30 per cent for a subsidiary listed on the Korea Stock Exchange (KSE) or Korea Securities Dealers Automated Quotation (KOSDAQ), and 50 per cent for a subsidiary which is not listed on the KSE or KOSDAQ.

ny, which owns a bank as a subsidiary, a single individual or corporation cannot possess more than 4 per cent of the total equity of the bank holding company (more than 15 per cent in the case of a provincial bank holding company). This limitation of ownership, though, does not apply to the government or the KDIC. Those specializing in financial business are able to own up to a 10 per cent equity of a bank holding company on reporting it to the FSC. Above this limit (15 per cent in the case of a provincial bank holding company), separate approvals must be obtained from the FSC when it surpasses the 10 per cent, 25 per cent, and 33 per cent levels.

Under the new act, staff members of a financial holding company cannot engage in the business of other companies, except where they become executives of its subsidiaries.

A financial holding company with total assets of over 100 billion won or a financial holding company which has a subsidiary that must select outside directors for over half of the total number of its directors in accordance with the relevant legislation, is itself obliged to select outside directors for more than half (three at least) of the total number of its directors. At the same time, it is required to establish an audit committee, two-thirds of whose members should be outside directors.

The act calls for a financial holding company to make investment in its subsidiaries within its own net worth as a means of preventing from making investment in its subsidiaries using borrowing funds. Only a bank holding company or a financial holding company controlled by those specializing in financial business can possess stocks of companies other than its subsidiaries. In such a case, it is able to possess stocks up to 5 per cent of the outstanding shares of the relevant company, but must exercise its voting rights from a position of neutrality.

2. Strengthening the Management of Public Funds

To enhance the fairness and transparency of the management of public funds and push for their effective use, the Public Fund Management Act (effective from Dec. 20, 2000) and its associated Enforcement Decree (effective from Feb. 14, 2001) were passed into law.

The law stipulated that public funds were funds for the restructuring of financial institutions provided by the Deposit Insurance Fund, Non-performing Assets Management Fund, Public Capital Management Fund, or from national property, the Bank of Korea's investments in financial institutions, and foreign public loans. Under its provisions, a Public Fund Committee was to be established at the Ministry of Finance and Economy. It was to be entrusted with the comprehensive oversight of the operation of public funds and screening and coordinating their provision and collection. The Minister of Finance and Economy should submit a quarterly report on the use of public funds to the National Assembly, and the Public Fund Committee should publish a white paper on the management of public funds by the end of August every year.

As a means of preventing moral hazard on the part of financial institutions, those which receive public funds are obliged to conclude an MOU for the implementation of management normalization plans with the government or the KDIC. Management normalization plans should include details concerning the target capital adequacy ratio, the profit to assets ratio, the bad loan ratio, restructuring plans, and the written consent of the in-house labor union to restructuring.

In a bid to promote the recoupment of public funds, a Sales Screening Subcommittee was to be set up under the Public Fund Committee and given the task of screening the appropriateness of the sale of assets, including the financial institution stock holdings of government, the KDIC, and the KAMCO. Should a financial institution which has received public funds become insolvent or be dissolved, the court is obliged to designate the KDIC or a member of its staff as a receiver or liquidator, other pertinent legislation notwithstanding.

At the same time, the Depositor Protection Act (effective from Jan. 1, 2001) was revised in order to accelerate the collection of public funds by the KDIC and to strengthen provisions against new bad loans arising in financial institutions. In case of designating financial institutions as non-viable financial institutions or financial institutions showing signs of insolvency, the KDIC is also able to demand that the relevant financial institutions submit to it documents concerning their business and property status or itself investigate this directly. Where the KDIC judge it necessary to suspend the repayment of deposits or cancel the license of financial institutions following its investigation of their business and property status, it may request the FSC to take the appropriate actions to deal with the troubled financial institutions.

The act stipulates that defaulters on debt repayments to ailing financial institutions should be included among bad-loan related persons whose relevant business and property status can be investigated by the KDIC, and the KDIC is also entitled to withhold the payment of deposit insurance claims to those responsible for bad loans and those having a special relationship with them.

In preparation for possible losses stemming from fraud or embezzlement by the staff of financial institutions or their misdeeds, the KDIC is able to demand that financial institutions buy compensation liability insurance. If financial institutions decline to buy such insurance, the KDIC is authorized to conclude an insurance contract with an insurance company on their behalf and at their own expense.

3. Facilitation of the Resolution of Bad Loans Held by Financial Institutions

To facilitate the resolution of bad loans held by financial institutions, the Corporate Restructuring Vehicle Act (effective from Oct. 23, 2000) and the associated Enforcement Decree (effective from Oct. 31, 2000) were introduced.

A corporate restructuring vehicle (CRV) is a paper company which generates profits through asset operations and distributes them to its shareholders. The operation of its assets is done by making investments in companies which have signed a corporate improvement planning agreement with creditor financial institutions, or by purchasing bad loans from the financial institutions which have now concluded such agreements. To establish a CRV, more than three promoters, including at least two creditor financial institutions, should register it with the FSC. The minimum capital of a CRV is 500 million won and its maximum life is five years. Creditor financial institutions are entitled to hold stocks of the CRV in excess of the investment limit stipulated in business-related legislation, including the General Banking Act.

A CRV should operate over 50 per cent of its total assets through the purchase of securities floated by companies that have concluded corporate improvement planning agreements, the purchase of credit for loans to such companies, or the extension of loans and payment guarantees to such companies. A CRV may borrow funds up to twice its equity capital and float corporate bonds up to an amount ten times its capital and reserves.

In a parallel move, the government revised the Enforcement Decree of the Act Concerning Efficient Disposal of Financial Institutions' Non-Performing Assets and Establishment of the Korea Asset Management Corporation (effective from May 29, 2000). This extended those financial institutions from which KAMCO may acquire non-performing loans to subsidiaries that are established by financial institutions for the purchase and resolution of claims, and financial institutions established under the Depositor Protection Act to resolve claims.

4. Heightening Financial Market Stability

To guard against possible destabilization of the financial market as a result of rapid portfolio shifts among financial institutions when the announced partial deposit guarantee system was brought in, the Enforcement Decree of the Depositor Protection Act was revised (effective from

Jan. 1, 2001). This system, which mandated deposit insurance coverage of only 20 million won per depositor in terms of aggregated principal and interest, had been provided for under an earlier revision of the Enforcement Decree in July 1998 and had been scheduled to come into effect from January 1, 2001. The subsequent revision adjusted the deposit guarantee limit upward to 50 million won per depositor and fully guaranteed non-interest bearing settlement deposits until the end of 2003 so as to ensure the safety of commercial transactions.

In order to expand the financial resources of the Deposit Insurance Fund, the government amended the Enforcement Decree of the Depositor Protection Act (effective from Aug. 5, 2000) to allow the upward adjustment of the deposit premium rate from 0.05~0.15 per cent to 0.1~0.3 per cent.

Through the revision of the Enforcement Decree of the Insurance Business Act (effective from Dec. 30, 2000) aimed at expanding the basis of long-term, stable demand for securities, the government raised the limit on holdings by an insurance company of stocks and bonds floated by a single business group from 5 per cent of its total assets to 10 per cent, and raised the ceiling on its holdings of stocks of a single company from 10 per cent of issued total stocks to 15 per cent.

To help small companies mobilize funds more easily, the Enforcement Decree of the Mutual Savings and Finance Companies Act was revised (effective from June 27, 2000), raising the ceiling on loans to a single small company by a mutual savings and finance company from the previous 10 per cent of equity capital within the limit of 4 billion won to 20 per cent of equity capital within the limit of 8 billion won. At the same time, the government made it obligatory for mutual savings and finance companies to observe a mandatory ratio of at least 50 per cent of their total loans to individuals and small companies based in their operational zones.

Ⅳ. Future Tasks

As financial transactions are always accompanied by credit risk, the creation of confidence between trading partners encourages financial transactions by reducing the associated uncertainties. Specifically, steps should be taken to heighten the confidence of investors in enterprises and financial institutions and that of financial institutions in their corporate counterparts in order to boost financial intermediation and institutional investment.

To help the financial industry regain the credibility lost in the wake of the financial crisis, the government liquidated a slew of non-viable financial institutions, used 127 trillion won in public funds, and sought the modernization of the financial system through the revision of relevant legislation. As a result, a considerable part of the non-performing assets held by financial institutions were resolved and their financial structure was improved. At the same time, the government introduced and implemented a variety of systems to enhance the soundness of financial institutions and strengthen their external supervision, including a system of prompt corrective actions, asset quality classification standards for financial institutions based on forward-looking criteria, an outside director system, a partial deposit guarantee system, and a system of accounting and of public disclosure.

Considering, however, the portfolio shifts among financial institutions, the rapid expansion of deposits at the Post Office, which is a publicly-financed financial institution, and the weakness of demand for financial products with yields based on performance such as investment trust products, all of which phenomena emerged in the latter half of 2000 prior to the scheduled implementation of the partial deposit guarantee system, public confidence in financial institutions seems well short of a full recovery as yet. Under these circumstances, it is difficult to expect financial institutions to play a stable role as financial intermediaries.

Accordingly, financial restructuring should focus on insuring the substantiality of operational systems and the recovery of credibility. In order to hasten the latter financial institutions should first minimize the potential risk from bad loans by strengthening their credit screening capacity and internal control systems for risk management. It is also important for them to transform themselves into profitable business by enabling a performance-based management culture.

The government, for its part, is required to provide an environment, in which financial institutions are able to make a precise evaluation of the financial status of enterprises, by tightening its regulation against window dressing practices and inadequate public disclosure on the part of enterprises. It also should exert its best efforts to prevent the occurrence of bad loans by strengthening its inspection of financial institutions to ensure the effective working of the management surveillance including outside director system and internal controls over risk management.

Payment and Settlement Trends in 2000

Summary

During 2000, the average daily volume of payments settled by financial institutions and the central bank stood at 12.0 million transactions, for an average daily value of 94.8 trillion won. This represented an increase of 25.3 per cent in transactions, but a decrease of 10.3 per cent in turnover from the previous year.

The sharp increase in settlement transactions was attributable to the sustained growth in the use of electronic payment instruments, which are a common substitute for cash in consumer spending, particularly that of credit cards. The decrease in the value of payments and settlements, on the other level stemmed from the fall in the clearing of current account checks and promissory notes, which are mainly used for commercial and financial transactions between corporations. A further contributory factor to this was the reduction in the volume of interbank funds transfers through BOK-Wire(the Bank of Korea Financial wire Network).

The use of electronic payment media maintained a strong pace, thanks to a continuous increase in the use of the Interbank Shared Network and credit cards. Meanwhile, the total use of paper-based payment instruments, such as cheques and bills, decreased over the previous year, led by a fall in clearings of current account checks and promissory notes. The use of BOK-Wire increased in volume terms, but decreased in value terms over the previous year, due to the reduction of interbank funds transfers.

The major reasons for the greater utilization of electronic payment instruments in the course of the year can be cited as the expanded co-operation between bank and non-bank institutions through firm banking, the increased use of tele-banking and PC-banking, the

introduction of the system allowing funds transfers through third banks, the increased number of corporations utilizing the CMS(Cash Management Service) system, and tax incentives for the use of credit cards.

Over the course of the year under review, with a view to promoting, the safety and efficiency of domestic payment and settlement systems, various measures were taken to improve existing systems and offer more convenient service to the public. These included the widening of the range of services available through BOK-Wire and the introduction of cheque truncation, the Shared e-business Payment System (Payment Gateway), and K-CASH (e-money).

Ⅰ. Introduction

During 2000, the average daily volume of payments settled by financial institutions and the central bank stood at 12.0 million transactions, to the value of 94.8 trillion won. This represented an increase of 25.3 per cent in transactions, but a decrease of 10.3 per cent in turnover from the previous year.

In the retail payment systems, the average daily use of paper-based systems, comprising cheques, bills, and paper-based giro credit transfers, recorded 5.0 million transactions and 23.2 trillion won, an increase of 10.1 per cent by volume but a decrease of 28.9 per cent by value, from the previous year. This decrease in the value of paper-based systems stemmed from the fall in the use of current account checks and promissory notes.

Meanwhile, the use of electronic payment systems grew by 37.6 per cent in volume terms and by 27.2 per cent in value terms, over the previous year. This was attributable to the sustained expansion of the electronic banking services offered to the public.

Thus, the share of electronic payments in retail payment systems increased to 58.3 per cent in 2000 from 52.6 per cent in 1999 by volume, and to 25.1 per cent from 15.7 per cent by value, reflecting the persistence of the shift to electronic media from paper-based instruments in the domestic payment and settlement systems.

The value of daily settlements through BOK-Wire, the Bank of Korea's large-value funds transfer system, stood at 4,800 transactions for a total value of 63,867 billion won on a average daily basis. These figures represented an increase of 1.6 per cent and a decrease of 4.7 per cent, respectively, their lackluster performance reflecting the contraction of the equity, and corporate bond markets.

[Table 1] **Payment and Settlement Figures for 1999-2000**

		1999 Total	1999 Daily Average	1999 Change[5] (%)	1999 Share (%)	2000 Total	2000 Daily Average	2000 Change[5] (%)	2000 Share (%)
Volume (thousand units)	Retail Payment Systems	2,860,931	9,601	10.2	100.0	3,548,477	12,028	24.0	100.0
	Paper-based	1,357,428	4,555	0.3	47.4	1,478,925	5,013	10.1	41.7
	Cheques & bills	1,027,172	3,447	1.4	35.9	1,091,782	3,701	7.4	30.8
	(Cashier's cheques)	(1,002,521)	(3,364)	(1.9)	(35.0)	(1,067,193)	(3,618)	(7.6)	(30.1)
	Bank Giro	330,256	1,108	-3.1	11.5	387,143	1,312	18.4	10.9
	Electronic-based	1,503,503	5,046	20.9	52.6	2,069,552	7,015	37.6	58.3
	Bank Giro[1]	305,990	1,027	-5.4	10.7	336,798	1,142	11.2	9.5
	Interbank Shared Networks[2]	820,862	2,755	28.7	28.7	1,080,698	3,663	33.0	30.4
	Credit cards[3]	376,651	1,264	33.8	13.2	652,056	2,210	74.8	18.4
	BOK-Wire[4]	1,399	4.7	-1.8	-	1,406	4.8	1.6	-
	Total	2,862,330	9,605	10.2	-	3,549,883	12,033	25.3	-
Value (billion won)	Retail Payment Systems	11,509,399	38,622	30.0	100.0	9,122,742	30,925	-20.7	100.0
	Paper-based	9,706,405	32,572	28.8	84.3	6,830,031	23,153	-28.9	74.9
	Cheques & bills	9,677,298	32,474	28.9	84.0	6,790,075	23,017	-29.1	74.4
	(Cashier's cheques)	(1,747,260)	(5,863)	(12.1)	(15.2)	(1,738,002)	(5,892)	(0.5)	(19.1)
	Bank Giro	29,107	98	-5.8	0.3	39,956	136	38.8	0.5
	Electronic-based	1,802,994	6,050	36.8	15.7	2,292,711	7,772	27.2	25.1
	Bank Giro[1]	26,087	88	4.8	0.2	33,654	114	29.5	0.3
	Interbank Shared Networks[2]	1,717,232	5,762	37.7	14.9	2,123,193	7,197	24.9	23.3
	Credit cards[3]	59,675	200	26.6	0.5	135,864	461	130.5	1.5
	BOK-Wire[4]	19,975,759	67,033	39.8	-	18,840,784	63,867	-4.7	-
	Total	31,485,158	105,655	36.0	-	27,963,526	94,792	-10.3	-

Notes : 1) Direct debits, Standing orders, Direct credit transfers.
2) Interbank Funds Transfer System, CD/ATM System, ARS System, EFTPOS System, CMS System, Local Banks' Shared Network System.
3) Bank-affiliated.
4) U.S. dollar-denominated transactions excluded.
5) Rates of change compared with the previous year.
6) Numbers may not total because of rounding.

Ⅱ. The Interbank Payment and Settlement Systems

1. Cheque Clearing

During 2000, average daily clearings of cheques and bills recorded 3.7 million transactions by volume and 23.0 trillion won by value. These figures represented an increase of 7.4 per cent and a decrease of 29.1 per cent, respectively. The increased volume was attributable mainly to the increase of fixed-denomination cashier's cheques, which account for the majority of overall cheque clearings by volume. The decrease in value terms stemmed from the fall in the use of current account checks and promissory notes.

By type, the use of cashier's cheques rose slightly, edging up by 0.5 per cent on a value basis. Their daily clearing volume recorded a leap of 7.6 per cent, in response to the increased utilization of fixed-denomination cashier's cheques in spite of the decreased utilization of non-preset-value cashier's cheques. Among fixed-denomination cashier's cheques, there was increased use of the 100,000-won-denomination cheque, which is a common substitute for cash in consumer spending, but the use of other denominations decreased.[1)]

Meanwhile, the use of promissory notes dropped 34.8 per cent in value terms, effected by the ongoing restructuring process among large companies and

[Table 2] Clearing Figures for Cheques and Bills

	1999				2000			
	Total	Daily Average	Change (%)	Share (%)	Total	Daily Average	Change (%)	Share (%)
Volume(thousand units)	1,027,172	3,447	1.4	100.0	1,091,782	3,701	7.4	100.0
Cashier's cheques	1,002,521	3,364	1.9	97.6	1,067,193	3,618	7.6	97.7
(Preset-value)	(928,502)	(3,116)	(1.9)	(90.4)	(1,105,894)	(3,444)	(10.5)	(93.0)
(Non-preset-value)	(74,019)	(248)	(1.6)	(7.2)	(51,299)	(174)	(-29.8)	(4.7)
Promissory notes	9,605	32	-13.5	0.9	9,557	32	0.0	0.9
Current account cheques	3,984	14	-12.5	0.4	3,819	13	-7.1	0.3
Household cheques	6,579	22	-21.4	0.7	6,286	21	-4.5	0.6
Others	4,483	15	0.0	0.4	4,927	17	13.3	0.5
Value(billion won)	9,677,298	32,474	28.9	100.0	6,790,075	23,017	-29.1	100.0
Cashier's cheques	1,747,260	5,863	12.1	18.0	1,738,002	5,892	0.5	25.6
(Preset-value)	(234,933)	(788)	(-0.9)	(2.4)	(238,734)	(809)	(2.7)	(3.5)
(Non-preset-value)	(1,512,327)	(5,075)	(14.4)	(15.6)	(1,499,268)	(5,083)	(0.2)	(22.1)
Promissory notes	4,973,505	16,690	39.8	51.4	3,208,770	10,877	-34.8	47.3
Current account cheques	2,477,532	8,314	25.4	25.6	1,445,293	4,899	-41.1	21.3
Household cheques	17,565	59	-50.0	0.2	17,414	59	0.0	0.2
Others	461,436	1,548	22.0	4.8	380,596	1,290	-16.7	5.6

1) **Use of Fixed-Denomination Cashier's Cheques in 2000**
(On a daily volume basis)

Unit : per cent

Denomination(won)	100,000	300,000	500,000	1,000,000	Total
Rate of increase	13.5	-12.5	-9.3	-2.2	10.5
Share of total	84.1	0.2	1.4	14.3	100.0

non-bank financial institutions since late the previous year, and by the adoption of Corporate Purchase Fund Loans. The volume of transactions, however, remained unchanged.

The use of current account cheques declined 7.1 per cent in volume terms but 41.1 per cent in value terms. This was due to the issue of cheques of lower average denomination per transaction. Meanwhile, the use of household cheques dropped 4.5 per cent by volume compared with the previous year, with the value of transactions remaining unchanged.

2. Interbank Shared Networks

During 2000, the average daily figures for payments through the Interbank Shared Networks registered 3.7 million in volume terms and 7.2 trillion won in value terms, exhibiting rapid rates of increase of 33.0 per cent and of 24.9 per cent, respectively, over the previous year.

In the Interbank Funds Transfers(IFT) System, which allows nationwide remittances to an account held at any branch of a participant bank in real-time, the average daily figures stood at 1.3 million in volume terms and 6.5 trillion won in value terms, increasing by 23.5 per cent and 37.7 per cent, respectively. Their dynamism was attributable to the expanded co-operation in the area of firm banking between banks and non-bank institutions, and to the steady increase of funds transfers by means of tele-banking and PC-banking.

Daily use of the Interbank CD/ATM System, through which customers can make cash withdrawals and funds transfers using Cash Dispensers or Automated Teller Machines, increased by 23.3 per cent in volume terms to stand at 1.3 million transactions on a daily average, and by 22.2 per cent in value terms to average at 557 billion won per day. This was mainly due to the more widespread recognition of the convenience of its services, and to the provision of CD/ATM funds transfer services through third banks.[2)]

Meanwhile, the average daily payment volume and value channeled through the Cash Management Service(CMS) System, which enables a company having several accounts in more than one bank to make and receive a number of funds transfers electronically through its accounts with a single electronic link to any one of these banks or to the KFTC(Korea Financial Telecommunications and Clearings Institute), continued their rapid upward trends to stand at 983 thousand transactions and 110 billion

2) This service, allowing a customer holding a cash card to transfer funds to his own or someone else's account in another receiving bank through the CD/ATM of a third bank(transmitting bank), came into operation in June 1999.

[Table 3] Payments Handled by Interbank Shared Networks

	1999			2000		
	Total	Daily Average	Change (%)	Total	Daily Average	Change (%)
Volume(thousand units)	820,862	2,755	28.7	1,080,698	3,663	33.0
IFT System	320,603	1,076	18.6	392,112	1,329	23.5
CD/ATM System	324,312	1,088	24.3	395,645	1,341	23.3
Cash withdrawals	231,613	777	22.2	254,370	862	9.8
Cash advance service	9,771	33	-5.7	19,205	65	97.0
Off-site CDs	18,378	62	12.7	18,580	63	1.6
Funds transfers	64,550	216	45.0	103,490	351	62.5
ARS System	142	0.5	-37.5	56	0.2	-60.0
EFTPOS System	1,892	6.3	31.3	1,786	6.1	-3.2
CMS System	172,717	580	67.1	289,881	983	69.5
Local Banks' Shared Network System	1,196	4.0	-18.4	1,218	4.1	2.5
Value(billion won)	1,717,232	5,762	37.7	2,123,193	7,197	24.9
IFT System	1,589,201	5,333	37.7	1,922,115	6,516	37.7
CD/ATM System	109,972	369	37.2	164,484	557	22.2
Cash withdrawals	46,595	156	24.8	53,188	180	15.4
Cash advance service	2,903	10	-9.1	6,775	23	130.0
Off-site CDs	1,796	6	20.0	1,558	5	-16.7
Funds transfers	58,678	197	53.9	102,963	349	77.2
ARS System	12	0.04	-42.9	6.5	0.02	-50.0
EFTPOS System	98	0.3	50.0	106	0.4	33.3
CMS System	14,582	49	69.0	32,466	110	124.5
Local Banks' Shared Network System	3,368	11	-8.3	4,015	14	27.3

won, showing increases of 69.5 per cent and 124.5 per cent, respectively. These hikes were attributable to the more rapid expansion in the number of corporations enrolled in the system, inspired by its comparative advantage over the Bank Giro System thanks to speedier[3] and more efficient large-volume direct credit transfers and direct debits. The number of corporations linked to the system jumped to 532 at the end of 2000 from 378 at the end of the previous year.

Daily transactions through the EFT-POS(Electronic Funds Transfer at the Point of Sale), a payment system in which when a customer holding a debit card purchases goods and services from an affiliated retailer, his or her bank

3) It takes just one day until the funds are credited to a beneficiary's account through the CMS system, while for the Bank Giro System(direct debits) the process requires three business days.

account can be instantly debited, with the funds being credited to the affiliated retailer's bank account the next day, are still at a low absolute level, averaging 6.1 thousand in volume terms and 400 million won in value terms. The former represented a 3.2 per cent decrease over the previous year and the latter a 33.3 per cent increase.

Funds transfers through the ARS System, in which customers make funds transfers between accounts held with the same bank using touch-tone telephones or PCs, averaged only the low levels of 200 transactions and a total daily value of 20 million won. The daily figures for the Local Banks' Shared Network System (Bank-Line), which links the electronic networks of local banks to that of the KFTC, and enables a local bank customer to deposit and withdraw funds at any branch of any local bank, averaged about 4.1 thousand in volume terms and 14 billion won in value terms. These were increases of 2.5 and 27.3 per cent, respectively.

3. Bank Giro

In 2000, the average daily transaction figures for the Bank Giro System registered 2.5 million by volume and 250 billion won by value, representing growth over the previous year of 14.9 per cent and 34.4 per cent, respectively. Performance figures were boosted by the introduction(July 2000) of inpayment by giro for the National Pension Fund contributions and for National Health Insurance premiums.

By type, paper-based giro transfers, on a daily basis, averaged 1.3 million by volume and 136 billion won by value, representing respective increases of 18.4 and 38.8 per cent. Electronic giro transfers, meanwhile registered 1.1 million in volume terms and 114 billion won in value terms, an 11.2 per cent increase and a 29.5 per cent increase, respectively, over the previous year. Among electronic giro transfers, direct debits increased by 10.8 per cent in volume terms and by 27.8 per cent in value terms. Direct credit transfers, mainly used for companies' payrolls, advanced by a substantial 22.6 per cent in volume and 32.4 per cent in value terms as against the preceding year. Among overall giro transfers, the share of paper-based giro transfers rose from 51.9 per cent in 1999 to 53.5 per cent in volume terms, and from 52.7 per cent in 1999 to 54.3 per cent in value terms, due to the introduction of payments by giro for National Pension Fund contributions and for National Health Insurance premiums.

The number of user members of the Bank Giro System expanded by 1,832 during 2000 to stand at 35,490 by year-end. Among these the number of user members of the direct credit transfers system increased by 4, to total 734.

[Table 4] Payments Handled by Bank Giro

	1999				2000			
	Total	Daily Average	Change (%)	Share (%)	Total	Daily Average	Change (%)	Share (%)
Volume(thousand units)	636,246	2,135	-4.3	100.0	723,941	2,454	14.9	100.0
Paper-based	330,256	1,108	-3.1	51.9	387,143	1,312	18.4	53.5
Electronic-based	305,990	1,027	-5.4	48.1	336,798	1,142	11.2	46.5
(Direct debits)[1]	(296,819)	(996)	(-6.1)	(46.7)	(325,724)	(1,104)	(10.8)	(45.0)
(Direct credit transfers)	(9,171)	(31)	(24.0)	(1.4)	(11,074)	(38)	(22.6)	(1.5)
Value(billion won)	55,194	186	-1.1	100.0	73,610	250	34.4	100.0
Paper-based	29,107	98	-5.8	52.7	39,956	136	38.8	54.3
Electronic-based	26,087	88	4.8	47.3	33,654	114	29.5	45.7
(Direct debits)[1]	(15,991)	(54)	(-1.8)	(29.0)	(20,461)	(69)	(27.8)	(27.8)
(Direct credit transfers)	(10,096)	(34)	(17.2)	(18.3)	(13,193)	(45)	(32.4)	(17.9)
No. of participant institutions[2]	33,658	-	6.1	-	35,490	-	5.4	-

Notes : 1) Includes standing orders.
2) End of period.

4. Credit Cards[4]

During 2000, bank-affiliated credit cards[5] were used for a average daily of 2.2 million transactions and a turnover of 461 billion won, increases over the previous year of 74.8 and 130.5 per cent, respectively. These figures for credit card use largely reflected the pervasiveness of credit cards and the expansion of card affiliation by retailers and providers of services, backed by government support.[6]

Of these totals, average daily transactions for purchases of goods and services made up 1.6 million in volume terms and 166 billion won in value terms, respective increases of 72.5 per cent and 74.7 per cent, over the previous year. Transactions involving cash advance services accounted for 0.6 million in volume terms but 295 billion won in value terms, rates of increase of 81.3 per cent and of 181.0 per cent.

Meanwhile, as of the end of 2000, the total number of credit cards issued stood at 36.3 million, while 4.45 million retail stores accepted credit cards. These figures represented respective rates of increase of 39.1 per cent and 38.3 per cent over the previous year.

4) Excludes credit cards issued by merchants and vendors, due to difficulties in collecting the relevant data.
5) Bank-affiliated credit cards are those cards issued by BC Card Company, Kookmin Credit Card Company, and Korea Exchange Bank Credit Service Company, which are owned by banks.
6) An income tax reduction has been granted for domestic purchases using credit cards since the fourth quarter of 1999, and those holding receipts for credit card use have been entered in a lottery for prizes since early 2000.

[Table 5] Payments by Bank-affiliated Credit Cards

	1999				2000			
	Total	Daily Average	Change (%)	Share (%)	Total	Daily Average	Change (%)	Share (%)
Volume(thousand units)	376,651	1,264	33.8	100.0	652,056	2,210	74.8	100.0
Purchases	274,759	922	41.4	72.9	469,186	1,590	72.5	72.0
Cash advances	101,892	342	16.7	27.1	182,870	620	81.3	28.0
Value(billion won)	59,675	200	26.6	100.0	135,864	461	130.5	100.0
Purchases	28,469	95	23.4	47.5	48,966	166	74.7	36.0
Cash advances	31,206	105	29.6	52.5	86,898	295	181.0	64.0
Number of cards issued(thousand units)[1]	29,098	-	-4.4	-	36,303	-	39.1	-
Affiliated stores(thousand units)[1]	3,213	-	25.8	-	4,445	-	38.3	-

Note : 1) end of period.

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

During 2000, BOK-Wire handled a daily average of 4,767 transactions valued at 64 trillion won. These figures represented a 1.6 per cent volume increase but a 4.7 per cent value decrease over the previous year, and resulted from the reduction in interbank funds transfers.

Viewing the main categories of functions, interbank domestic currency funds transfers, which account for the majority of transactions through BOK-Wire, marked a average daily of 4,092 in volume terms and 61.1 trillion won in value terms in 2000. In comparison with the previous year, these figures represented an increase of 0.7 per cent and a decrease of 5.7, respectively.

Of this, the average daily funds transfer for gross settlement registered 3,299 transactions by volume and 49.0 trillion won by value, an increase of 2.8 per cent and a decrease of 4.9 per cent, respectively, over the previous year. The combined average daily volume and value of the settlements of interbank multilateral netting positions(the Cheque Clearing, the Bank Giro, the CD/ATM and the IFT Systems, and the float adjustment funds in cheque clearing) stood at 793 transactions for a value of 12.1 trillion won. Both figures were down from those of the previous year, by 7.4 and 8.6 per cent, respectively.

Meanwhile, the average daily volume and value of settlements in the Treasury Funds Transfer System, which handles the central government's treasury disbursements to and receipts from fiscal agents, totaled 625 transactions and 1.5 trillion won, representing increases over the previous year of 8.1 and 44.2 per cent, respectively, due to the expansion of both annual revenue and disbursements.

The average daily volume and value of loans and repayments through the BOK's Loans and Discounts System averaged 37 by volume and 637 billion won by value, exhibiting decreases of 14.0 per cent and 14.8 per cent, respectively, over the previous year.

Transactions involving the issuance, repurchase or redemption of government bonds through the Government and Public Bonds System averaged 13 per day for a value of 694 billion won, jumps of 44.4 and 34.0 per cent, respectively, from 1999.

[Table 6] Settlements Handled by BOK-Wire

	1999				2000			
	Total	Daily Average	Change (%)	Share (%)	Total	Daily Average	Change (%)	Share (%)
Volume(units)	1,398,913	4,694	-1.8	100.0	1,406,351	4,767	1.6	100.0
Ⅰ. Domestic Currency Funds Transfers	1,211,107	4,064	-0.9	86.6	1,207,248	4,092	0.7	85.8
[Gross settlement]	956,032	3,208	5.1	68.3	973,355	3,299	2.8	69.2
Interbank	863,925	2,899	10.3	61.8	904,929	3,067	5.8	64.3
Intrabank	71,569	240	-24.5	5.1	61,449	208	-13.3	4.4
Third party	4,454	15	25.0	0.3	6,977	24	60.0	0.5
Intra BOK	16,084	54	-41.9	1.2	0	0	-100.0	0.0
[Net settlement]	255,075	856	-18.4	18.2	233,893	793	-7.4	16.6
Ⅱ.Treasury Funds Transfers	172,325	578	0.3	12.3	184,369	625	8.1	13.1
Ⅲ. BOK Loans and Discounts	12,744	43	-41.1	0.9	11,045	37	-14.0	0.8
Ⅳ. Government and Public Bonds	2,737	9	-71.9	0.2	3,689	13	44.4	0.3
Foreign Currency Funds Transfers(units)	3,732	13	-35.2	-	2,923	10	-23.1	-
Value(billion won)	19,975,616	67,032	39.8	100.0	18,840,784	63,867	-4.7	100.0
Ⅰ. Domestic Currency Funds Transfers	19,296,836	64,754	46.7	96.6	18,017,747	61,077	-5.7	95.6
[Gross settlement]	15,346,676	51,499	49.4	76.8	14,443,747	48,962	-4.9	76.7
Interbank	14,490,335	48,625	54.5	72.5	13,728,442	46,537	-4.3	72.9
Intrabank	666,229	2,236	3.1	3.3	598,816	2,030	-9.2	3.2
Third party	67,188	225	139.4	0.3	116,489	395	75.5	0.6
Intra BOK	122,924	413	-43.8	0.6	0	0	-100.0	0.0
[Net settlement]	3,950,160	13,255	37.3	19.8	3,574,000	12,115	-8.6	19.0
Ⅱ. Treasury Funds Transfers	301,670	1,012	55.2	1.5	430,480	1,459	44.2	2.3
Ⅲ. BOK Loans and Discounts	222,826	748	-8.1	1.1	187,957	637	-14.8	1.0
Ⅳ. Government and Public Bonds	154,284	518	-78.0	0.8	204,600	694	34.0	1.1
Foreign Currency Funds Transfers(million US$)	116,169	390	26.2	-	28,711	97	-75.1	-

The daily combined average volume and value of foreign currency funds withdrawals, deposits, and interbank funds transfers through commercial banks' foreign currency current accounts with the Bank of Korea registered 10 transactions and 97 million U.S. dollars, respectively. These figures represented respective decreases of 23.1 and 75.1 per cent.

Meanwhile, as of the end of 2000, the number of institutions participating in the BOK-Wire was 132, one less than a year earlier.

Ⅲ. Developments in Payment and Settlement Systems

Over the course of the year under review, the safety and efficiency of payment and settlement systems were heightened by various measures to improve existing systems and offer more convenient service to the public. These included the widening of the range of services through BOK-Wire and the introduction of cheque truncation, the Shared e-business Payment System(Payment Gateway) and K-CASH(e-money), a Korean type stored-value card developed jointly by commercial banks and card companies.

In May 2000, applications for cash withdrawals through BOK-Wire was made possible not just for commercial banks holding current accounts with the Bank of Korea's head office but also for those banking institutions holding accounts with the Bank's branches and representative offices. From August, too, the government was able to make use of BOK-Wire for the collection of government and public funds such as Postal Insurance Funds and Post Office Transfer Funds deposited at commercial banks, which had formerly been settled by means of checks drawn on their current accounts with the Bank of Korea.

The DVP(Delivery versus Payment) securities settlement system, which had been put into operation in November 1999, was changed, so that the Bank of Korea can provide the Korea Securities Depository with the information on the status of buying institutions application for the funds transfer in real-time.

The introduction is expected from March 2001 of a change in the method of interbank float adjustment from the current interest-free lending to interest payment. This will allow the more efficient management of settlement risk, resulting in the deferred net settlement of electronic payment media, such as the CD/ATM and Interbank Funds Transfers, etc. With the implementation of "cheque truncation"[7], there is a move toward greater efficiency in the processing of paper-based payments by banks. This came into operation for cashier's checks in May 2000, and for giro payments to four major service providers[8] from July onwards.

Moreover, in keeping with the expansion of commercial and financial transactions on line, a shared e-commercial payment system(Payment Gateway) was constructed as an interbank funds transfer system. Allowing the electronic transfer of funds to the vendor's account from the purchaser's account on the next business day following a purchase, this will facilitate rapid settlement of e-commerce. It began operating from December.

Given the heightened recognition accorded to the importance of managing foreign exchange settlement risk, a survey was carried out in the July to October period of the current status of the foreign exchange settlement risk faced by the principal foreign-exchange banks. A plan to reduce such risk was then drawn up based on the survey's findings. In order to enable suppliers of goods against bills drawn under a U.S. dollar denominated domestic letter of credit to receive payment promptly, the previous method whereby the proceeds were collected via the Korea Exchange Bank was changed to one involving the simple exchange of bills at the Clearing House. Led by the Committee for the Promotion of Financial Informatization, financial institutions launched a trial of their jointly-developed K-Cash(e-money) from July in the Yeoksam-dong area of Seoul.

Finally, the Y2K problem, which had threatened to disrupt electronically-based payment and settlement systems, failed to materialize thanks to the coordinated actions to counter by the financial sector including banks, securities companies, insurance companies and merchant banking corporations.

7) Check truncation : Refers to the use of electronic information systems, rather than physical delivery of documents, for the processing of payment documents such as bills or cheques received by banks, thereby allowing interbank clearing through the exchange of electronically transferred information. Truncation of paper-based documents in Korea is expected to represent a major advance toward greater efficiency in the processing of payments by banks, speeding up the clearing process and reducing the associated costs considerably.

8) Korea Electric Power Corporation(electricity bills), National Health Insurance Corporation(National Health Insurance premiums), National Pension Corporation(National Pension Fund contributions), Korea Telecom(telephone bills)

Organization of the Bank of Korea

(As of March 2001)

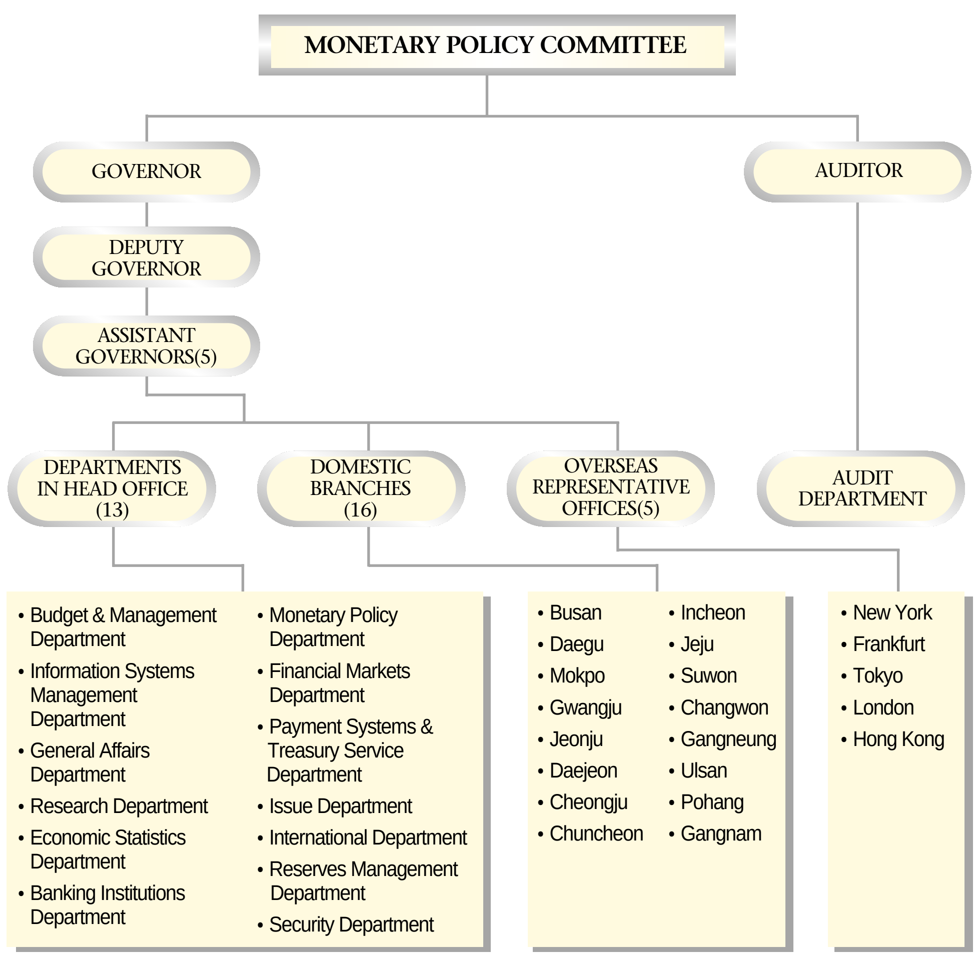
Monetary Policy Committee
Chol-Hwan Chon, Chairman
Jong-Yong Yoon
Seung-Woo Chang
Eui-Gak Hwang
Yung-Joo Kang
Won-Tai Kim
Hoon Namkoong

Governor
Chol-Hwan Chon

Deputy Governor
Cheul Park

Assistant Governor
Myung-Chul Lee
Kwi-Sup Yoon
Seong-Tae Lee
Hyung-Moon Kang
Sung-Il Lee

Auditor
Woo-Suk Kim



The Bank of Korea's 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 :

- The First Page
  - Site Map
  - Contact Us
  - Links
  - Holidays
- About Us
  - Overview
  - Function
  - Organization
  - Bank of Korea Act
- Press Releases
- Monetary Policy
  - Monetary Policy
- Korean Economy
- Financial System
- Payment System
- FX System
- Publications
  - Annual Report
  - Quarterly Bulletin
  - Economic Papers
- Statistics
  - Introduction
  - Advance Release Calendar
  - Daily Interest & Exchange Rates
  - Statistics Data Base
  - Principal Economic Indicators
- Currency

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	Qccasionally	Korean	P
Weekly Overseas Economic Trends	Weekly	Korean	P, O
Financial System Review	Semiannually	Korean	P, O

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

Statistics

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

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

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

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

Serial No.	Title
2001-1	The Current Status of South-North Economic Cooperation and the Prospects
2	Changes in the Financial Sector and Trends of Supervisory Policy
3	Adequate Level of International Reserves for Korea

* Published in Korean only.

Titles of Articles Appearing in Monthly Bulletin*

January ~ March 2001

January 2001

- The Governor's New Year Speech
- Recent Foreign Exchange Market Movements in Korea and Their Policy Implications
- The Inflation Target and Monetary Policy for 2001
- Movement of Financial and Foreign Exchange Markets in 2000

February 2001

- The Structural Movements of Exports and the Imports by Principal Commodity and the Implications
- Financial Sector Restructuring in 2000

March 2001

- An Analysis of the Asymmetric Effects of Inflation Determinants on the Economic Cycle
- Outline for Government Budget for 2001
- Payment and Settlement Trends in 2000

* Published in Korean only.

Titles of Articles Appearing in Quarterly Bulletin*

March 2000 ~ December 2000

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 Surrey 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.

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