

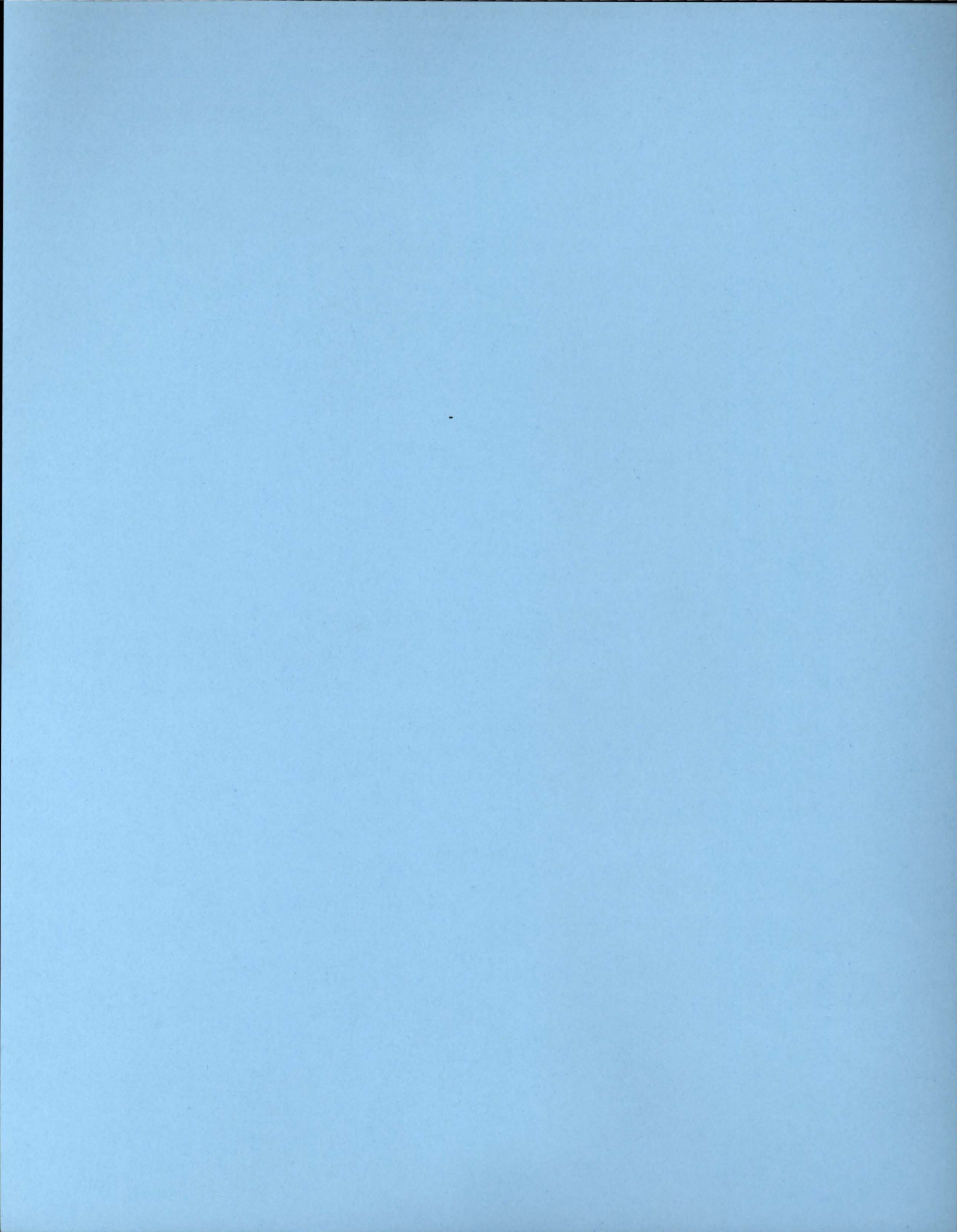
KOREA

Box 70 File 3

1987

RESIDENT REPRESENTATIVE

F.O.



Mr. Neiss

INTERNATIONAL MONETARY FUND

January 6, 1988

Mr. Baumgartner:

Lao P.D.R.--Staff Report

I am attaching my colleague's
comments with which I am in
agreement.

cc: Mr. Neiss
Mr. Belanger

Helen B. Junz

Lao P.D.R.--Comments on Draft Staff Report

The report is succinct and very well written. There are a few areas, however, where the reader would benefit from a somewhat more detailed discussion.

First, the report points to the large increase in credit and money during the last year (with the liquidity/GDP level doubling). While noting the difficulty of predicting appropriate rates of expansion of credit and money while some of the reforms are working their way through the system, the staff rightly calls for a strengthening of financial programming. The reader would be greatly helped if this recommendation could be tentatively quantified, even in broad terms.

A rather puzzling development is the appreciation of the kip in the parallel market in recent months at the same time as the balance of payments is deteriorating. What is the connection between the official and the parallel markets which makes this possible? Also, given the rather weak outlook for the balance of payments over the coming three years, it is somewhat surprising that the staff regards an exchange rate close to the current parallel market rate as appropriate.

A further elaboration of the assumptions underlying the medium-term scenario would also be useful. In particular, while the footnote on p. 19 mentions that public investment is assumed to be cut back for any shortfall relative to the Plan's public savings target, the current account deficit is projected to increase by about one third over the next three years. It would be useful to spell out the assumptions which underlay the projected weakening of the saving/investment balance of the nongovernment sector. Also, we would suggest that the last sentence of this section be turned around to put the emphasis first on the need for adjustment, including the promotion of exports.

Finally, although the report states on p. 7 that the discussions with the authorities focused on recent reforms and on additional measures needed to formulate such a program, the reader often remains unsure of the implications of the reform measures introduced so far and of other measures which should be taken. In particular, it would be most helpful if one could spell out in more detail what the additional policy measures are, which according to the staff appraisal (p. 23), will be the main issues in further discussions with the authorities on a program for a SAF; and also what an alternative "adjustment" scenario could look like.

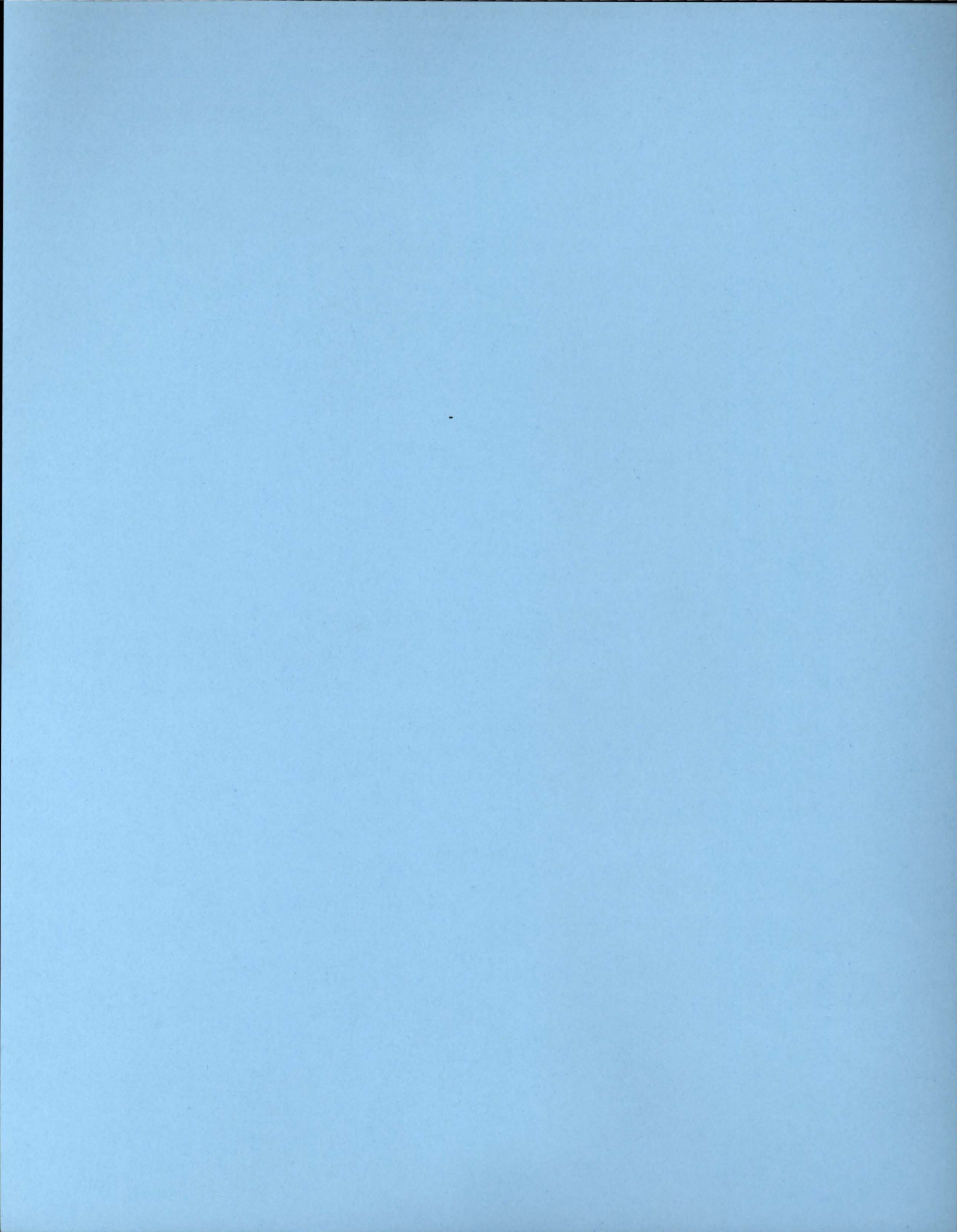
The following specific comments may also be of use.

Page 5a. A brief explanation of the sharp swing in the balance of payments on services with the convertible area would be useful.

Page 23, top. The recommendation in the first sentence remains very incomplete without some indication of what import licensing itself should be based on. One should presumably build up, in that respect, the recommendation to liberalize the trade regime.

Page 24. The recommendation for the cycle should be changed to the following standardized language:

It is recommended that the next Article IV consultation be held within 24 months in accordance with the bicyclic procedure.



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cc: DMD
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MR. HUBERT NEISS
DEPUTY DIRECTOR
ASIAN DEPARTMENT
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

REGARDING MR. ERB'S SPEECH, HE GAVE ME A CLEAN COPY WHICH WAS EVENTUALLY TRANSLATED AND RELEASED BY THE MOF. I HAD MINOR EDITORIAL SUGGESTIONS WHICH I DIDN'T THINK WORTHWHILE TO TRANSFER TO MR. ERB'S COPY, IN VIEW OF MOF'S REQUIREMENT OF LEAD TIME FOR TRANSLATION. I RECALL THAT MR. ERB ACTUALLY READ FROM A COPY IN WHICH MR. RYE HAD WRITTEN IN A FEW SUGGESTIONS. TO MY RECOLLECTION, THESE WERE MINOR AND JUST EDITORIAL IN NATURE.

REGARDS BABAN

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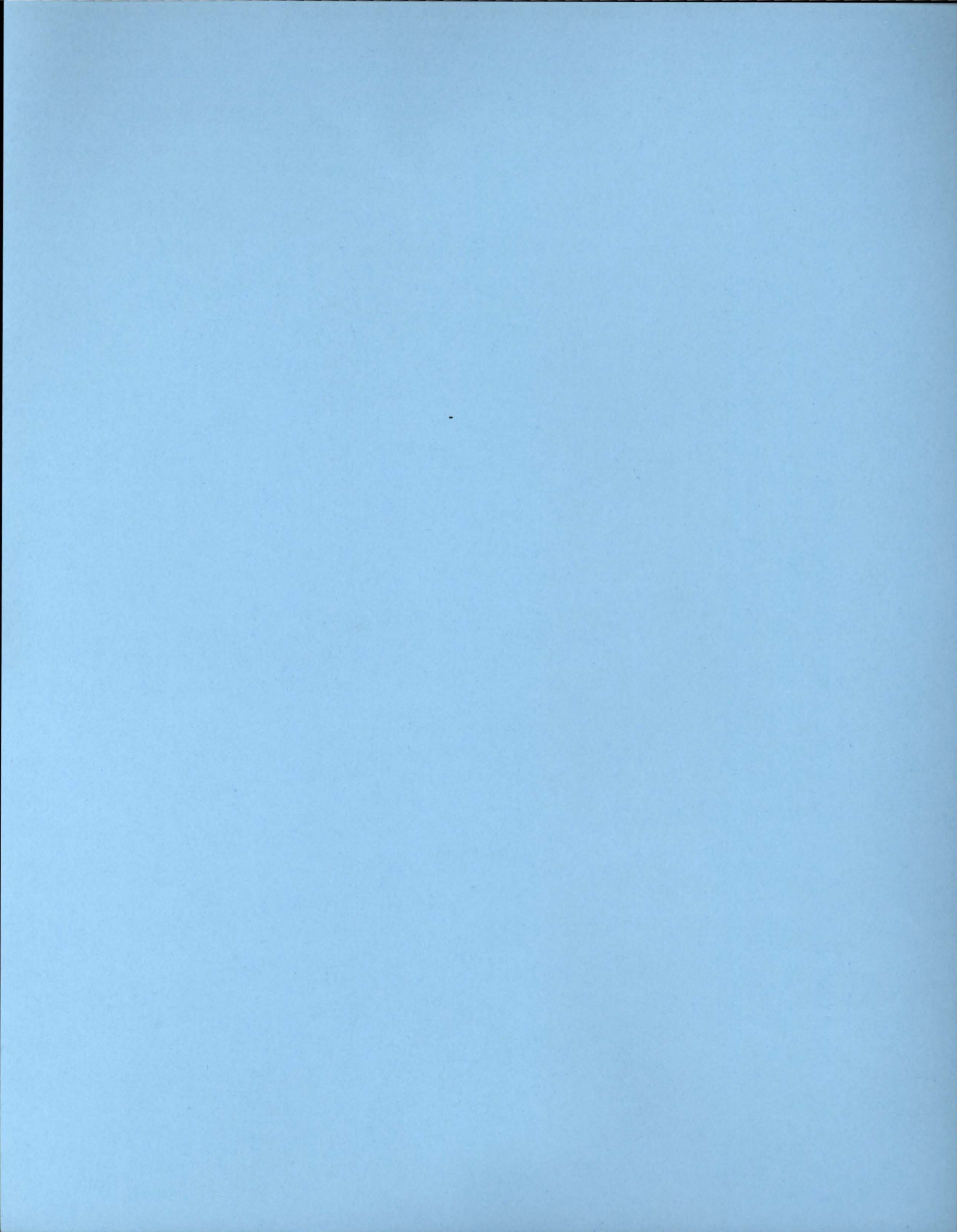


INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

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Group 2/3 (202) 623-7491

Facsimile Service Cover Sheet

Number of pages (including cover sheet) 1	Message number	Date 7/22/87
To	Name of addressee (type) Mr. Roy Baban IMF Resident Representative c/o Ministry of Finance Seoul Korea Facsimile telephone number	
From	Name of sender (type) H. Neiss	
Text or special instructions Mr. Erb would like a copy of his speech, as delivered (including last minute corrections). Kindly forward to me.		
Department and division (type) ASD	Extension (type) 7604	
Authorized by (type) H. Neiss	Signature <i>Neiss</i>	



Susan Schuler M-320 N

15 taking care of this.

cc: HN
SMS
Div.

To: Mr. P. R. Narvekar
Director, Asian Department
International Monetary Fund
Washington D.C. 20431
FAX NO. 202-623-4661/2

July 20, 1987

ORIG: ~~ASD~~ *1/10*
DMD
CC: ETR

From: R. Baban
Resident Representative
Seoul, Korea

Subject: IMF Survey Coverage of DMD's Recent Visit to Korea

Prior to Mr. Erb's departure from Seoul, he expressed interest in having his visit described in an article in the IMF survey. He also mentioned the desirability of including excerpts from the plaques presented by the Government of Korea in this article. For your reference, attached please find: (1) a draft article for the IMF Survey; (2) the speech delivered by the Minister of Finance at the ceremony on July 15, 1987; and (3) the text of the plaques presented by the Government to the IMF and the Resident Representative. Photos taken by official photographers will be sent as soon as possible.

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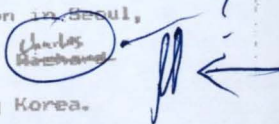
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H.O.F. P.01

July 18, 1987

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DRAFT ARTICLE FOR IMF SURVEY ON DMD'S VISIT TO KOREA

IMF Deputy Managing Director Richard D. Erb and Korean Finance Minister Il Sakong delivered keynote speeches at a ceremony commemorating the closure of the IMF Office in Seoul on July 15, 1987. The ceremony was attended by officials of economic ministries, presidents of public financial institutions, chairmen of trade associations, officials of the foreign bankers association in Seoul, the ambassadors of the United States and Denmark, and Mr. Charles Rye, Executive Director for the constituency representing Korea. 

In the light of Korea's favorable external position, which has recorded a surplus since 1986, the expiration of a stand-by agreement in March 1987, and increased demand for resident representatives among other developing countries, the IMF and Korea agreed to the closure of the IMF Office in Seoul effective end-July 1987. IMF Technical Advisors and Resident Representatives had continuously served in Korea since 1964.

In his speech, Minister Sakong described the closure of the IMF Office as a "bittersweet occasion," which marked the end of one era and the birth of another in Korea's economic history. He cited the various ways by which the IMF had contributed to economic development in Korea. Stand-by agreements were seen as providing "a guiding framework under which conflicting domestic claims on resources could be reconciled with supply" and "an independent affirmation of the government's resolve to pursue sustainable economic goals with prudent policies," thus facilitating Korea's access to international financial markets. Second, the annual consultations

were seen as a means to periodically examine Korean economic policies with the input of the IMF, resulting in a "richer menu of policy options." Third, the assistance of technical experts on central banking and public finance were viewed as enabling Korea to benefit from experience in other countries and to implement policies in these fields more successfully. Fourth, IMF Resident Representatives were credited with facilitating a continuous dialogue between the IMF and Korea and promoting a deeper appreciation of Korean economic policies and constraints. In addition, the Minister also cited the role of the IMF as an arbitrator in bilateral disagreements among member countries on issues of multilateral concern. He valued the IMF as "a forum under which the questions involved could be examined on their technical merits by a neutral staff."

In sum, the Minister characterized the contribution of the IMF to Korean economic development as "beyond measure." Without IMF support, he believed that "Korea may not have adjusted as rapidly and effectively as it did to a volatile external environment, thus preserving the basis for future noninflationary growth."

Turning to current economic policies, the Minister stated that the primary goals of the Government continued to be the maintenance of price stability, the achievement of stable growth to provide adequate employment opportunities, and the continuous improvement income distribution and social welfare. To these three goals, he added a fourth, namely, the containment of the external surplus to a level consistent with reductions in the external debt and with an accumulation of international reserves only to the extent necessary to keep pace with the level of imports. He expressed the Government's willingness to take

any further measures that may be necessary to achieve these objectives and to respond positively to proposals for increasing Korea's responsibilities in international financial institutions and the global economy.

In his speech, Deputy Managing Director Erb stated that during the tenure of IMF Resident Representatives, Korea had been transformed from an underdeveloped economy to one of the most dynamic industrializing countries in the world. He attributed this accomplishment to a dedicated civil service and an enterprising private sector.

The shift in Korea's external position from deficit to surplus posed new challenges to economic management and raised expectations among the Korean people and among Korea's trading partners, Mr. Erb stated. He commended the Korean authorities for taking timely and substantive measures, including those to remove restrictions on imports and invisible transactions, to reduce tariffs, to improve the transparency of procedures to deal with injurious imports, and to ease controls on both inward and outward direct investment.

Apart from enabling a further easing of exchange and trade controls and reductions in the level of the external debt, the improved external position also provided the latitude for other initiatives. Noting that human resources have played a major role in Korean economic development, Mr. Erb welcomed the direction of some of the gains from economic progress to expand the medical insurance system and to establish a national pension scheme, both within the framework of prudent budgetary policies. Moreover, Mr. Erb called on Korea to further contribute to economic development in other, such poorer countries through the increased opening of Korea's markets to developing country exports and through an increased commitment to development assistance, despite pressing domestic needs.

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He noted that countries in Asia and Latin America have already expressed interest in obtaining project and import financing from the Economic Cooperation Development Fund, established by Korea in early 1987 to provide long-term concessional loans to developing countries.

In the new stage of Korea's relations with the IMF, Mr. Erb saw a wider role for Korea. Korea was deemed to be a likely source of financing rather than a major user of Fund resources in the future. Moreover, Korean expertise shall be drawn upon in assisting other developing countries in highly specialized fields. In this regard, Mr. Erb noted that a number of Korean officials had been recently enrolled in the IMF's panel of experts for central banking and taxation. More generally, the recent Korean experience shall serve as a source for insights into successful external adjustment policies within the context of sustained growth.

After the speeches, Minister Sakong presented a painting entitled "Friendship" by Korean artist Min-Suk Ju as a commemorative gift to the International Monetary Fund. He also presented two plaques. The first, addressed to Managing Director Michel Camdessus, expresses the Government of Korea's "deep appreciation for the invaluable contribution of the Resident Representatives of the IMF to economic management in Korea" and "steadfast hope that the close bonds between Korea and the IMF, which have been forged by decades of cooperation, shall flourish in the years ahead." The second plaque, addressed to Mr. Roy C. Baban, the last IMF Resident Representative, states in part that with insight into Korean economic policies and developments gained from a unique vantage point, "you have added an independent point of view to our economic debate and promoted a deeper understanding in the IMF of our objectives and aspirations."

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At the close of the ceremonies, Mr. Erb presented the Government of Korea with a commemorative plaque to honor the Technical Advisors and Resident Representatives who had served in Korea. Inscribed in the plaque were the following names: J. Ahrensdorf, A. Raman, S. Kanesa-Thasan, S.A. Pandit, M.R.P. Salgado, X. Vongsathorn, R. Niebuhr, A. Hooke, W. Mahler, V. Sundararajan, D. Villanueva, and R.C. Baban.

- 0 -

A. Raman

IMF CONTRIBUTION TO KOREA'S DEVELOPMENT

7/10

Mr. Erb, Distinguished Guests:

I am pleased and honored to have this opportunity to say a few words this evening to commemorate the closure of the IMF Korea Resident Representative Office. I would like, first of all, to express my most heartfelt gratitude to Mr. Erb, our guest of honor, and also to our other guests who have come to celebrate this special occasion with us here in Seoul.

After 20 years of invaluable guidance, support and service, the formal departure of the IMF from Korea marks the end of an era in Korea's history. For many of us present here today, this is a bittersweet occasion. It is much like losing a loyal friend just when a hard-fought battle appears to be won. We cannot help but think back with warm feelings on all the endeavors accomplished successfully with the help of our friends at the IMF. In this regard, the IMF can be justly proud, as we all are here in Korea, of this nation's remarkable economic achievements.

At the same time, there is cause for celebration, since the end of one era means the birth of a new one. I am confident that the partnership currently existing between Korea and the IMF will be both strengthened and deepened as we work together to face new challenges in the future.

The IMF's contribution to Korean economic development has been invaluable.

During the last two decades, the IMF supported adjustment programs in Korea with stand-by agreements, the last of which expired only four months ago. The worth of these agreements went beyond the value of the financial amounts involved. They provided a guiding framework under which conflicting domestic claims on resources could be reconciled with supply. Moreover, by providing an independent affirmation of the government's resolve to pursue sustainable economic goals with prudent policies, these agreements facilitated our access to international capital markets by bolstering international confidence in Korea.

The annual consultation discussions between the Korean government and the IMF have also been a guiding influence over the Korean economy. These consultations have provided an opportunity to periodically examine Korean economic policy with the input of knowledgeable and objective IMF experts. The result has been a richer menu of policy options.

In line with these cooperative consultations, the IMF on several occasions provided technical experts in such areas as central banking and taxation at the request of the Korean government. With the guidance of these experts, the Korean government had

8/10
preserving the basis for future noninflationary growth. In this regard, the Korean government and people will not forget the support and guidance provided by the IMF during these past twenty years.

KOREA'S CURRENT ECONOMIC POLICY DIRECTION

At this juncture, I would like to turn briefly to the broad features of Korea's current economic policy direction, as I believe they illustrate not only how Korea has made such remarkable progress to date but also where it is headed in the future. The primary economic goals of the government have been threefold: first, to maintain price stability; second, to achieve a stable rate of real growth which would provide adequate employment opportunities; third, to continuously improve income distribution and social welfare. These goals remain but we now add a fourth: to contain our external surplus to a level consistent with reductions in the external debt. In this regard, international reserves will be allowed to rise only to the extent necessary to keep pace with the level of imports.

The government has adopted a wide range of measures towards achieving these objectives, despite the Korean economy's vulnerability to external shocks. If the underlying strength of the balance of payments proves to be greater than expected, the government stands ready to supplement these measures with further positive actions. I can say with confidence that our

opportunities to study relevant experiences in other countries, thus, enabling it to make policy implementation more successful.

On a different note, from time to time in the past, bilateral economic disagreements have arisen between Korea and its trading partners. When these disagreements related to multilateral issues, the IMF has provided a forum under which the questions involved could be examined on their technical merits by a neutral staff. In our experience, the IMF has been an appropriate arbitrator, whose recommendations have carried great weight in our economic decisions.

Finally, the presence of the IMF Resident Representative in Seoul for the last 20 years has made the on-going dialogue between IMF staff and Korean officials an effective and continuously improving process. In day to day contacts with officials at all levels in the various economic ministries, the IMF Resident Representative has gained a unique understanding of the Korean economy. This broad-based understanding has no doubt contributed greatly towards promoting a deeper appreciation in the IMF, as well as other financial institutions abroad, of Korean economic policies and the specific constraints we face.

Thus, as can be seen, the overall contribution of the IMF to Korean economic development has been beyond measure. Without its support, Korea may not have adjusted as rapidly and effectively as it did to a volatile external environment,

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external adjustment program will emphasize continued market opening and the liberalization of controls on foreign exchange transactions.

Through these and other policies, the government of Korea is firmly committed towards accepting greater responsibility in international financial institutions and the global economy, commensurate with the nation's strong growth and balance of payments position.

CONCLUSION

In closing, I would like to convey to Mr. Erb and to the IMF the depth of my government's gratitude for its invaluable contribution to Korea's economic development. It is our hope that the IMF will continue to play an important role in Korean economic affairs, especially as our country prepares to enter the ranks of the economically advanced nations. We look forward to exploring new forms of mutual cooperation with the International Monetary Fund and I have no doubt that we will respond positively to proposals made by your distinguished organization in the future.

Thank you all very much for listening and I would like now to propose a toast. Let's drink to enduring friendship and ever closer ties between Korea and the International Monetary Fund.

10/10

TEXT OF PLAQUE FOR THE IMF

July 15, 1987

Mr. Michel Camdessus
Managing Director
International Monetary Fund

The Government of the Republic of Korea wishes to express its deep appreciation for the invaluable contribution of the Resident Representatives of the International Monetary Fund to Korea's economic management during the past twenty years. The closure today of the IMF Resident Representative Office in Seoul commemorates the end of an era in Korea's economic history and the beginning of a new stage in Korea's partnership with the Fund.

It is our steadfast hope that the close bonds between Korea and the Fund, which have been forged by decades of cooperation, shall flourish in the years ahead.

Il Sakong
Minister of Finance
Republic of Korea

TEXT OF PLAQUE FOR R. BABAN

July 15, 1987

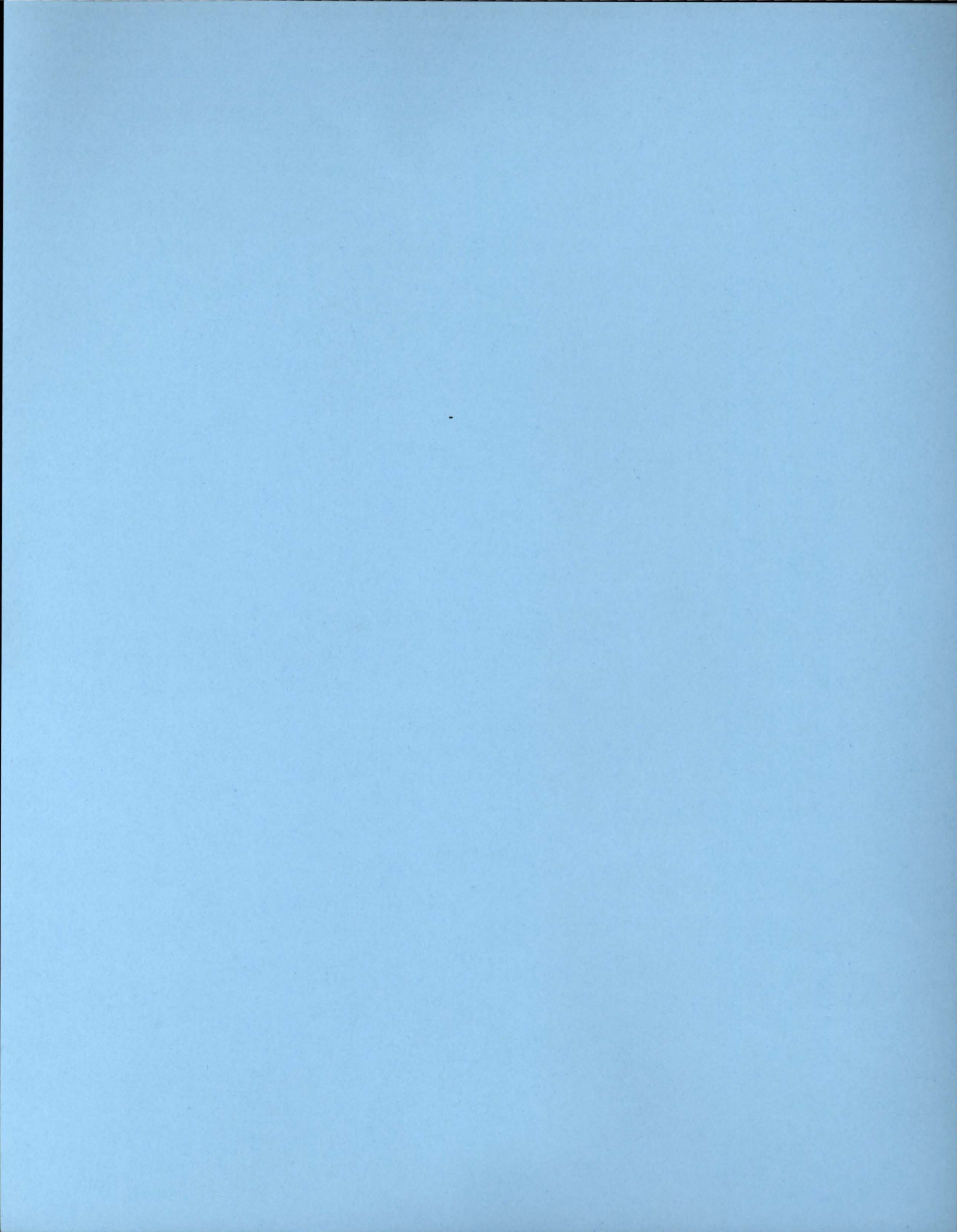
Mr. Roy C. Baban
IMF Resident Representative
Seoul, Republic of Korea

On behalf of the Government of the Republic of Korea, I take great pleasure in expressing our heartfelt gratitude for your invaluable contribution to Korean economic management during your stay in Korea.

Through day to day contacts with officials at all levels among the various economic ministries, you have gained insight into Korean economic policies and developments from a unique vantage point. With this knowledge, you have added an independent point of view to our economic debate and promoted a deeper understanding in the IMF of our objectives and aspirations.

In your all too short stay in Korea, we have highly appreciated your economic expertise and sensitivity to Korean conditions. As you return to IMF headquarters, we sincerely wish you success in your future endeavors.

Il Sakong
Minister of Finance
Republic of Korea



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a copy?
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TO: Mr. P.R. Narvekar
Director
Asian Department
Interfund, Washington DC

July 7, 1987

FROM: R. Baban
Resident Representative, Seoul

1. The following is the schedule for DMD's visit to Seoul:

July 14	2105	Arrival aboard NW 9
July 15	A.M.	Courtesy calls on Deputy Prime Minister, Finance Minister and Trade Minister
		Luncheon hosted by DPM
	P.M.	Courtesy calls on BOK Governor, Senior Secretary to the President for Economic Affairs, and KDI President
	Eve.	Dinner and ceremony, Shilla Hotel
July 16	A.M.	Visit to Korea Stock Exchange, Kor-Am Bank
	P.M.	Visit to Daewoo Auto Plant and Samsung Electronics
	Eve.	Dinner hosted by BOK Governor
July 17		Departure

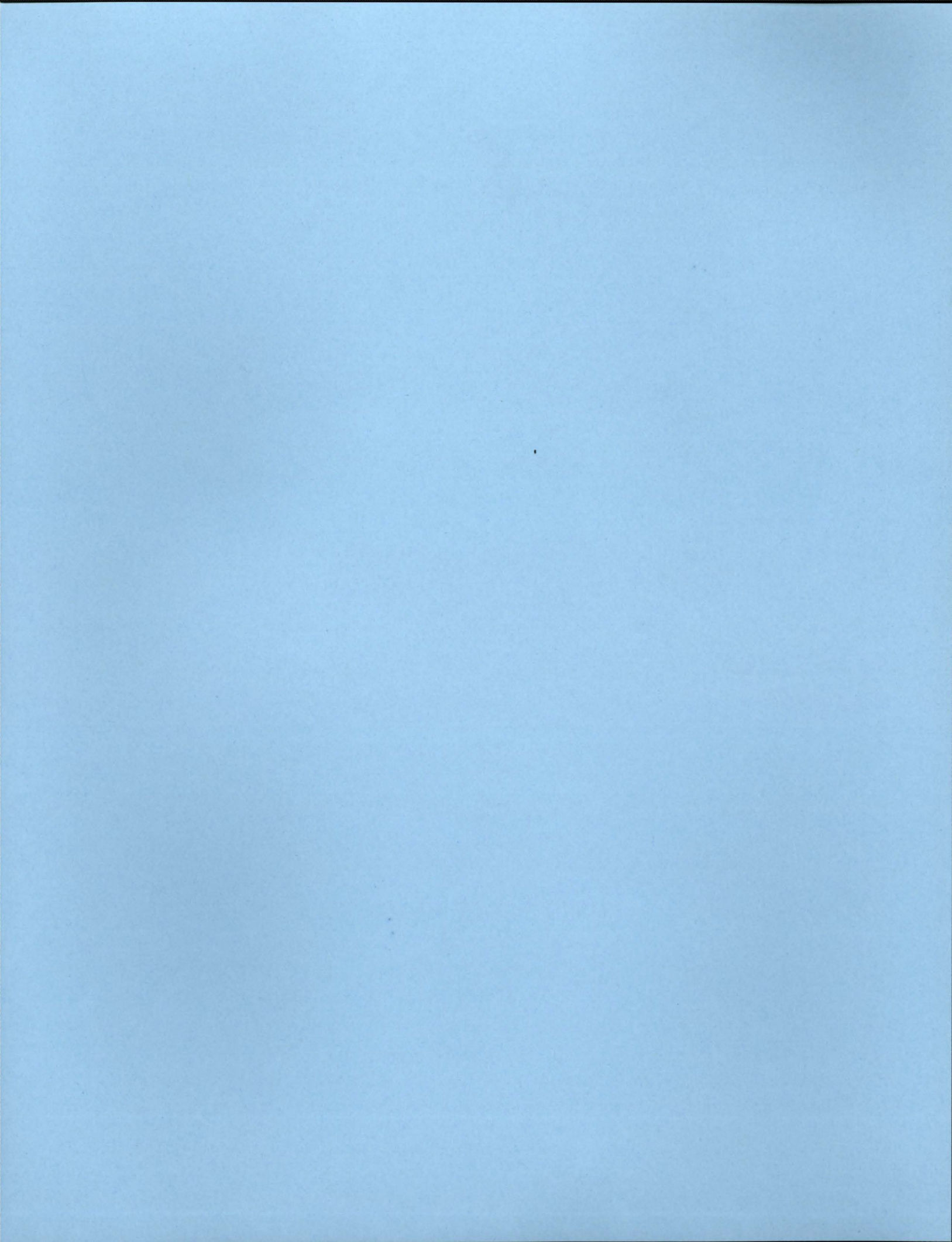
2. The invitation list for the July 15 dinner and ceremony is in the next page. For brevity, invited representatives of the local media are omitted.

INVITATION LIST

DINNER, JULY 15, 1987

- A. Ministry of Finance
 - Mr. Il Sakong, Minister of Finance
 - Mr. Yong-Euy Chung, Vice Minister, MOF
 - Mr. Dong-Ho Lee, Assistant Minister I, MOF
 - Mr. Young-Taek Suh, Assistant Minister II, MOF
 - Mr. Jae-Hyong Hong, Assistant Minister for Planning and Management
 - Mr. Hwan-Kyun Lee, Director-General, Int'l Finance Bureau
 - Mr. Tai-Won Kwon, President, National Tax College
- B. Economic Planning Board
 - Mr. Nyum Jin, Assistant Minister
 - Mr. You-Kwang Park, Assistant Minister for Int'l Policy Coordination
 - Mr. Bong-Gyun Kang, Director-General, Economic Planning Bureau
 - Mr. Bohn-Young Koo, Director-General, the third Bureau
- C. Ministry of Trade and Industry
 - Mr. Chul-Su Kim, Assistant Minister I
 - Mr. Deuk-Hwan Yu, Director-General, Int'l Trade Promotion Bureau
- D. Ministry of Foreign Affairs
 - Mr. Soon-Young Hong, Assistant Minister II
 - Mr. Seung Ho, Director-General, Int'l Economic Bureau
- E. Ministry of Agriculture, Forestry and Fisheries
 - Mr. Byung-Suk Lee, Assistant Minister II
- F. Ministry of Energy and Resources
 - Mr. Jin-Suk Choi, Assistant Minister for Resources Policy
- G. Blue House
 - Mr. Dai-Young Kim, Administrative Coordinator, Office of the Prime Minister
 - Mr. Young-Chul Park, Senior Secretary for Economics Affairs to the President
 - Mr. Hyung-Sup Shim, Secretary for Economics Affairs to the President
 - Mr. Yong-Sung Lee, Financial Policy Consultant, DJP
 - Mr. Kyu-Sung Lee, Principal Assistant to the Prime Minister
- H. National Tax Tribunal
 - Mr. Kwan-Haeng Cho, Commissioner, National Tax Tribunal
- I. National Assembly
 - Mr. Kong-Hyuk Ahn, Financial Committee National Assembly
- K. Bank of Korea
 - Mr. Sung-Sang Park, Governor, BOK
 - Mr. Jae-Yoon Kim, Deputy Governor
 - Mr. Chang-Soo Lee, Assistant Governor

- L. Other Financial Institutions
Mr. Hung-Ki Kim, Governor, The Korea Development Bank
Mr. Chang-Ki Whang, Chairman & President, The Export-Import Bank of Korea
Mr. Byung-Kug Choo, Chairman & President, The Korea Exchange Bank
Mr. Byong-Hyun Shin, Chairman, The Korea Federation of Banks
- M. Foreign Banks
Mr. John Torp, Managing Director, BOA
Mr. Hugh Spring, Managing Director, Westpac Banking Corp.
Mr. Douglas H. Short, Managing Director, Chemical Bank
- N. Trade Associations
Mr. Cha-Kyung Koo, Chairman, The Federation of Korean Industries
Mr. Soo-Chang Chung, President, The Korea Chamber of Commerce and Industry
Mr. Duck-Woo Nam, Chairman, The Korea Foreign Trade Association
Mr. Ki-Jung Ryu, President, Korea Federation of Small Business
- O. Research Institutes
Mr. Bon-Ho Koo, President, The Korea Development Institute
Mr. Moon-Shin Hong, President, The Korea Institute for Economics and Technology
Mr. Ki-Hwan Kim, President & Chairman of the Board, The Ilhae Foundation
Mr. Jong-Hyon Chei, President, The Korea Economic Research Institute
- P. Monetary Board
Mr. Chul-Hwan Chun, Professor, Choong Nam University
Mr. Kwang-Sik Boo, Professor, Kyung Buk University
Mr. Seung Park, Professor, Jungang University
Mr. Byung-Ju Kim, Professor, Sochang University
Mr. Ik-Hyun Kim, Professor, Chosun University
Mr. Seung-Doo Yoon, Former President, The Korea Stock Exchange



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23 **MR. ROY BABAN**
22 **IMF RESIDENT REPRESENTATIVE**
21 **C/O MINISTRY OF FINANCE**
20 **SEOUL, KOREA**

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17 TO BOP MANUAL, ANY INCREASE IN MONETARY GOLD HOLDINGS THAT
16 RESULTS FROM MONETIZATION IS SHOWN AS A DEBIT IN THE ITEM
15 FOR TOTAL CHANGES IN GOLD HOLDINGS, OFFSET BY A CREDIT IN
14 THE COUNTERPART ITEM FOR MONETIZATION. IF THE GOLD THAT
13 IS BEING MONETIZED HAS BEEN ACQUIRED FROM A NONRESIDENT
12 AND A CHANGE IN OWNERSHIP BETWEEN ECONOMIES HAS ALSO TAKEN
11 PLACE, THAT CHANGE SHOULD ALSO BE RECORDED--IN ADDITION TO
10 THE ENTRIES REQUIRED TO SHOW THE MONETIZATION DESCRIBED
9 ABOVE--AS AN IMPORT OF MERCHANDISE IN THE CURRENT ACCOUNT
8 AND AS A CREDIT ITEM FOR CHANGES IN FOREIGN EXCHANGE
7 RESERVES, ASSUMING THAT AUTHORITIES' FOREIGN EXCHANGE
6 RESERVES WERE USED TO PAY FOR THE GOLD. DEPUTY MANAGING
5 DIRECTOR'S DEPARTURE FROM KOREA IS JULY 17, 1987, FLIGHT
4 KA26, 10:50 A.M.

3 BEST REGARDS,

2 TSENG

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DATE: **7/7/87**

AUTHORIZED BY **Bijan B. Aghevli**

AUTHORIZED BY
NAME (TYPE):

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cc Div.

TO: Mr. P.R. Narvekar
Director, Asian Department
Interfund, Washington DC 20431
FAX NO. (202)-423-4661/2

July 6, 1987

FROM: R. Baban
Resident Representative
Seoul, Korea

ORIG: ASD

CC: ETR

SUBJECT: DMD's Visit to Korea

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1987 JUL -6 AM 9:43
ASIAN DEPARTMENT

1. With respect to the DMD's draft speech, kindly have the first paragraph amended as follows: "Minister Sakong, Governor Park, distinguished guests." Attached please find page seven of the draft speech, with revised versions of the last two paragraphs. Kindly note that the Minister's speech, which will precede the DMD's speech will also end with a toast.

2. After the two speeches, the Minister will present DMD with a painting and a commemorative plaque and the Resident Representative with a plaque of appreciation. As we had earlier discussed, it is also proposed that the DMD presents the authorities with a commemorative plaque.

3. Attached please find for your review a draft of the text for the plaque to be presented by the DMD to the Korean authorities. Would highly appreciate if you could have any amendment telexed to me as soon as possible.

Regards.

Have told Hwiseung
that Ahrensday + Raman
should be included even if
they were not Res Reps.

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the Government increasingly liberalizes its controls on external transactions, it would be also necessary to liberalize its controls on the domestic transactions, given the close linkage between them. In particular, the financial system is serving not only to meet normal commercial needs but also to implement a wide variety of official objectives, becoming highly complex in the process. This complexity could pose as an disincentive to innovation and risk-taking, redounding adversely to the quality of financial services available in Korea. Various official agencies have embarked on studies of the financial system, including the role of foreign banks, and it is hoped that the process of reform would be launched as soon as possible.

In closing, allow me to turn to the new stage in the partnership between Korea and the IMF, to which I alluded earlier. The last stand-by agreement expired in March 1987 and, given Korea's external position, no new agreement will be made in the near future. However, the annual consultations will continue to the benefit of both. Just as Korea gains from what we hope is impartial advice, the membership of the Fund also gains from insights into the management of a successful economy. In order to share Korea's experience in central banking and public finance with other members of the Fund, the IMF has recently enrolled a number of Korean officials into its panel of monetary and tax experts. As Korea's balance of payments strengthens further, the share of Special Drawing Rights in total reserves are likely to increase, thereby contributing to the use of the SDR as an international asset. Lastly, and consistently with Korea's external position, the IMF may call on Korea to support multilateral initiatives for the benefit of developing countries.

It only remains for me to thank my Korean hosts for their warm and lavish hospitality and to propose a toast. To the continued success of the Korean economy!

(SEAL OF THE IMF)

Ahrensberg
A. Raman ?

The close cooperation between the Government of the Republic of Korea and the International Monetary Fund in the process of economic development has been symbolized by the continuous presence in Seoul of IMF Resident Representatives during the last two decades. In commemoration of the closure of the IMF Office and the birth of a new stage in the long partnership between Korea and the IMF, and to honor the Resident Representatives who served with distinction and dedication, this plaque is presented by Hon. Richard D. Erb, IMF Deputy Managing Director, to Hon. Il Sakong, Minister of Finance, Republic of Korea, in Seoul, on July 13, 1987.

IMF Resident Representatives (1966-87)

Mr. S. Kanessa-Thanan	1966-67
Mr. S.A. Pandit	1967-69
Mr. M.R.P. Salgado	1969-70
Mr. X. Vongsathorn	1970-72
Mr. R. Niebuhr	1972-74
Mr. A. Hooke	1974-76
Mr. W. Mahler	1976-80
Mr. V. Sundarajan	1980-82
Mr. D. Villanueva	1982-86
Mr. R. C. Baban	1986-87

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TO: MR. HUBERT NEISS
DEPUTY DIRECTOR
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

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1. EFFECTIVE JULY 1, 1987, THE KOREAN TRADE COMMISSION ENTERED INTO OPERATION. THE COMMISSION CONSISTS OF FIVE MEMBERS: A PROFESSOR OF SEOUL NATIONAL UNIVERSITY (CHAIRMAN), A FULL-TIME COMMISSIONER, AN EPB ASSISTANT MINISTER, A PRIVATE LAWYER, AND AN EDITORIAL DIRECTOR OF HANKOOK ILBO (A MAJOR KOREAN NEWSPAPER).
2. EFFECTIVE JULY 1, 1987, 58 ITEMS WERE REMOVED FROM THE IMPORT SURVEILLANCE LIST. NAMES OF GOODS WILL BE SENT SHORTLY.
3. AS OF JUNE 30, 1987, US 756 MILLION IN FOREIGN CURRENCY LOANS HAVE BEEN EXTENDED UNDER THE SPECIAL USD 2.5 BILLION SPECIAL IMPORT FINANCING SCHEME. OF THIS AMOUNT, USD 488 MILLION REFERRED TO EQUIPMENT AND USD 268 MILLION REFERRED TO PARTS AND RAW MATERIALS.
4. THE BOK CONCENTRATION RATE AS OF JULY 1, 1987 IS W 808.9 PER US DOLLAR, REPRESENTING A 6.1 PERCENT APPRECIATION AGAINST THE US DOLLAR OVER THE LAST SIX MONTHS.
5. INFLATION INDEX NUMBERS FOR JUNE 1987 ARE 148.2 (CPI) AND 125.8 (WPI), INDICATING A DECELERATION OF INFLATION RATES ON A TWELVE MONTH BASIS TO 2.6 PERCENT AND 0.7 PERCENT, RESPECTIVELY.
6. ON JUNE 9, 1987, 53 ITEMS (CCCN 8 DIGITS) WERE ADDED TO THE TARIFF QUOTA SYSTEM. (AS OF THAT DATE, 40 ITEMS AT CCCN 4 DIGIT CLASSIFICATION WERE ALREADY UNDER THE TARIFF QUOTA SYSTEM). THIS SYSTEM IS USED TO FACILITATE THE IMPORT OF ITEMS IN SHORT SUPPLY BY REDUCING THE TARIFF RATE BY UP TO 40 PERCENTAGE POINTS FOR A GIVEN QUANTITY AND FOR A LIMITED TIME PERIOD. TARIFF REDUCTIONS UNDER THE TARIFF QUOTA SYSTEM MAY BE VIEWED AS TEMPORARY. THESE 53 ITEMS ARE COMPLETELY SEPARATE FROM THE 157 ITEMS ON WHICH TARIFFS WERE PERMANENTLY REDUCED EFFECTIVE JULY 1, 1987 WITHOUT LIMITS ON QUANTITY.

REGARDS

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TO: MS. WANDA TSENG
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

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1. THE BOK CONCENTRATION RATE AS OF JUNE 30, 1987 IS W 808.8 PER US DOLLAR.
2. IN TABLE V-4 (PAGE 211) OF THE ANSWERS TO THE QUESTIONNAIRE, BOK SUGGESTS THE REPLACEMENT OF FIGURES IN THE 1982 AND 1983 COLUMNS WITH THOSE IN THE BOK MONTHLY BULLETIN.
3. IN RESPECT OF MOF PROGRAM FOR LIBERALIZATION OF INVISIBLE TRANSACTIONS, INDIVIDUAL MEASURES WILL LIKELY BEGIN TO BE ANNOUNCED IN JULY 1987. IN EFFECT, MEASURES SCHEDULED TO BE TAKEN IN THE FIRST YEAR OF THE THREE-YEAR PROGRAM WILL NOT BE ANNOUNCED ALL AT ONCE. MOF OFFICIALS FIND GREAT DIFFICULTY IN QUANTIFYING THE BOP IMPACT OF THE PROPOSED MEASURES AND THUS THEIR RELATIVE IMPORTANCE. IF PRESSED FOR AN OPINION, I WOULD GUESS THAT THE MEASURES RELATING TO THE FOLLOWING ITEMS ARE THE MORE IMPORTANT: F/2, A/1 TO A/4, G, AND K/6
4. MTI STATES THAT THERE ARE ZYFVT C T CASES (NOT 23 CASES) NOW COVERED BY VOLUNTARY EXPORT RESTRAINTS. THE ORIGINAL 23 ARE AS FOLLOWS: STEEL PRODUCTS (US): STEEL PRODUCTS (EC), SILK PRODUCTS (JAPAN): TABLEWARE (US, UK, GERMANY): FOOTWEAR (CANADA, US): CONTAINERS (GENERAL: SEWN TOYS (US): PHOTO ALBUMS (US, EC): EYEGLASSES AND EYEGLASS FRAMES (US): VTR (EC): FOOTWEAR (IRELAND): LEATHER CLOTHING (NORWAY): COLOR TV (UK): FOOTWEAR (UK): WIGS (GENERAL): COTTON THREAD (AUSTRALIA, CANADA): EMBROIDERED FABRICS (MIDDLE EASTERN COUNTRIES): VELVET FABRICS (MIDDLE EASTERN COUNTRIES): PLASTIC BAGS (GENERAL): MISCELLANEOUS PERSONAL ITEMS (GENERAL): FUR CLOTHING (GENERAL): BASEBALL GLOVES (US): AND POLYESTER FABRICS (CERTAIN MIDDLE EASTERN AND AFRICAN COUNTRIES). THE 10 ITEMS RECENTLY ADDED TO THE LIST (COLOR TV, MICROWAVE OVENS, BLACK AND WHITE TV, VTR, BRONZE ARTIFACTS, TARPAULIN PRODUCTS, LEATHER BAGS, FISHING RODS, PIANOS, AND SEWN TOYS) ALL RELATE TO THE US AND IN THE CASE OF MICROWAVE OVENS TO THE EC AS WELL.
5. THE FOLLOWING IS A TABLE ON THE MEDIUM AND LONG-TERM EXTERNAL DEBT OF DMBS AND NONDMBS (SHORT-TERM BANK DEBT ARE VIRTUALLY ALL DMB LIABILITIES):

INCOMING CABLE/TELEX

	(MIL. USD)				
	82	83	84	85	86
OVER 3 YEARS	6,731	8,400	10,719	14,367	14,048
- D M B	3,526	4,153	5,463	7,228	6,965
- NON-DMB	3,205	4,247	5,256	7,139	7,083



1 - 3 YEARS	483	1,070	1,105	1,081	1,309
- D M B	381	1,007	971	1,033	1,273
- NON-DMB	102	63	134	48	36

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TO: MS. WANDA TSENG
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

ORIG: ASD
CC: ETR
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1. THE FOLLOWING ARE END-OF-MONTH FINANCIAL INDICATORS (CHANGES IN PERCENT):

	1987				
	JAN.	FEB.	MARCH	APRIL	MAY(P)
MONETARY SURVEY					
M2	21.8	19.0	14.7	18.2	16.6
M2 PLUS CDS	20.3	17.9	18.3	21.0	19.4
NET DOMESTIC CREDIT	12.7	11.3	11.4	14.8	14.6
PRIV. SECTOR CREDIT	14.4	13.8	14.5	16.7	16.8
FINANCIAL SURVEY					
M3	27.6	27.7	26.4	29.0	27.1
NET DOMESTIC CREDIT	17.3	17.2	16.6	19.0	17.5

2. APRIL FINAL 1987 (FIRST FIGURE) AND MAY PRELIMINARY 1987 (SECOND FIGURE) FOR TABLE 1 AND 2 ON CURRENT EXCHANGE RATE BASIS.

TABLE 1

A. 514, 365, B. -655, -915, B1. 2,111, 2,128, B2. 5, 5, B3. -, -, B4. 2,771, 3,048, B5. -, -, B6. -, -, C. 599, 710, C1. 456, 427, C2. 741, 734, C3. 956, 996, C4. 1,431, 1,421, C5. 1, -, C6. 278, 62, C7. -22, -5, C8. 39, 76, C9. 2,691, 2,735, C9A. 1,513, 1,536, C9B. 1,051, 1,060, C9C. 127, 139, D. -56, -205, E. 570, 570.

TABLE 2

A. 42,476, 42,736, A1. 49,872, 50,637, A1A. 514, 365, A1B. 49,358, 50,272, A2. -7,396, -7,901, A2A. -973, -, A2B. -2,606, -, A2C. /195, -, A2D. -2,606, -, A2E. 4,815, -, A2F. -1,803, -, B. 36,768, 37,403, B1. 34,495, 35,177, B1A. 8,327, 8,323, B1A 1) 3,212, 3,174, B1A 2) -, -, B1A 3) 10,357, 10,103, B1A 4) 5,242, 4,954, B1B. 26,168, 26,854, B2. 2,273, 2,226, C. -4,469, -4,371, C1. 8,069, 8,159, C1A. 3,423, 3,415, C1B. 4,646, 4,744, C2. 12,538, 12,530, C2A. 1,878, 1,900, C2B. 10,660, 10,630, D. 1,239, 962.

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3. APRIL FINAL 1987(FIRST FIGURE), MAY PRELIMINARY 1987
(SECOND FIGURE) ARE AS FOLLOWS:

MONETARY SURVEY

-4,469, -4,371, 8,069, 8,159, 12,538, 12,530, -1,239,
-962, 42,476, 42,736, 49,872, 50,637, 514, 365, 49,358,
50,272, -7,396, -7,901, 36,768, 37,403, 8,327, 8,323,
26,168, 26,854, 2,273, 2,226, 10.7, 10.5, 5.0, 5.2,
5.3, 3.7, 21.1, 20.6, -2.1, -2.4, 23.2, 23.0, -15.8,
-16.9, 21.0, 19.4 4.0, 2.8, 16.7, 16.8.

FINANCIAL SURVEY

-11,456, -10,428, 8,194, 8,263, 19,650, 18,691, 94,215,
94,459, -2,647, -2,567, 570, 570, 96,292, 96,456, 73,042,
74,011, 8,327, 8,323, 26,167, 26,854, 2,024, 1,966, 37,750,
38,295, 1,226, 1,427, 9,717, 10,020, 2,770, 3,118, -, -,
6,947, 6,902, 29.3, 27.4.

NBFIS SURVEY

-7,207, -6,277, 124, 104, 7,331, 6,381, 45,809, 45,914,
-2,591, -2,362, -, -, 48,400, 48,276, 37,750, 38,295,
-, -, -, -, -, -, 37,750, 38,295, 852, 1,342, 1,241,
1,277, -, -, -389, 65.

REGARDS

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1987 JUN 30 AM 7:23

ASIAN DEPARTMENT 775141

TO: MS. WANDA TSENG
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

ORIG: ASD
CC: ~~ETR~~
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FAD

1. MR. LEE HWAN-KYUN, MOF INSPECTOR-GENERAL, HAS BEEN CONFIRMED A
S
DIRECTOR-GENERAL, INTERNATIONAL FINANCE BUREAU. MOREOVER, MR. LEE
YOUNG-TAEK, DIRECTOR, OVERALL PLANNING DIVISION, EPB, HAS BEEN
PROMOTED TO DIRECTOR-GENERAL OF THE SAVINGS PROMOTION BUREAU, MOF.
IT MAY BE APPROPRIATE TO SEND LETTERS OF CONGRATULATIONS, POSSIBLY
FROM MR. NEISS, TO BOTH AT MOF.

2. KINDLY REQUEST SECRETARY TO SEND AS SOON AS POSSIBLE ANY MAIL
ACCUMULATED FOR ME AS OF JUNE 30. THEREAFTER, OTHER MAIL COULD JUST
BE KEPT UNTIL MY RETURN.

REGARDS

BABAN

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copy: Mr. Neuss



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1987 JUN 25 AM 10: 27

RECEIVED
IMF CABLE ROOM

1987 JUN 25 AM 7: 13

TO: MS. WANDA TSENG
DEPUTY DIRECTOR
ASIA
N DEPARTMENT
INTERFUND
WASHINGTON DC 20431

ASIA DEPARTMENT

1. DIRECTOR-GENERAL SHIM HYUNG-SUP OF THE INTERNATIONAL FINANCE BUREAU, MOF, WAS PROMOTED TODAY TO THE POSITION OF SECRETARY TO THE PRESIDENT ON ECONOMIC AFFAIRS. HIS YET UNCONFIRMED SUCCESSOR IS LIKELY TO BE MOF INSPECTOR-GENERAL LEE HWAN-KYUN. MR. LEE'S PREVIOUS POSITIONS INCLUDE FINANCIAL ATTACHE TO SAUDIA ARABIA AND DIRECTOR OF ECONOMIC COOPERATION DIVISION IN THE MOF. IT MAY BE APPROPRIATE TO SEND A CONGRATULATORY LETTER, POSSIBLE FROM MR.

NEISS, TO MR. SHIM AT

THE OFFICE OF THE PRESIDENTIAL SECRETARIAT, BLUE HOUSE, SEOUL.

2. IN TABLE 1 OF MATERIALS FACSIMILIED TO YOUR ON JUNE 25, THE CURRENT ACCOUNT SHOULD READ AND 5.0 AND FOR ALL COLUMNS, INSTEAD OF AND 9.

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AND 0.5 AND . SOURCES AND USES TOTALS SHOULD THEN BE EQUAL.

REGARDS

BABAN

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1987 JUN 24 2 45 AM 10: 31

1987 JUN 24 AM 7: 48

ASIAN DEPARTMENT

ORIG: ASD

TO: MR. HUBERT NEISS
DEPUTY DIRECTOR
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

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1. HAVE RECEIVED A COPY OF THE STAFF REPORT ON THE SUPPLEMENTAL CONSULTATION. WISH TO CLARIFY REFERENCES TO ADJUSTMENT AND EMERGENCY TARIFFS ON PAGES 6-7. FIRST, THE RATES OF SUCH TARIFFS IN TABLES GIVEN TO THE MISSION ARE INCLUSIVE OF BASIC RATES. THUS, THE ADDITIONAL TARIFF BURDEN IS 10-19.5 PERCENTAGE POINTS IN THE CASE OF EMERGENCY TARIFFS (19.5 PERCENTAGE POINTS IN THE CASE OF CRUDE OIL AND DIESEL AND LIGHT RESIDUAL FUEL OIL AND 10 PERCENTAGE POINTS FOR ACETAMINOPHEN, TALCUM POWDER, AND CASEIN), AND 10 PERCENTAGE POINTS IN THE CASE OF ADJUSTMENT TARIFFS. SECOND, WHILE THE ADJUSTMENT TARIFFS ON FIVE ITEMS (FERROMANGANESE, SILICOMANGANESE, TINNED IRON PLATE, BRASS SHEET, AND STATIC CONVERTERS) WILL BE ABOLISHED ON JULY 1, 1987, EMERGENCY TARIFFS WILL SIMULTANEOUSLY BE IMPOSED ON THE FIRST TWO PRODUCTS AT THE RATE OF 20 PERCENT (INCLUSIVE OF THE BASIC RATE). THIS NEW RATE WOULD BE 5 PERCENTAGE POINTS LESS THAN THE ADJUSTMENT TARIFFS (INCLUSIVE OF THE BASIC RATE) NOW APPLICABLE. IN EFFECT, 7 ITEMS WILL BE SUBJECT TO EMERGENCY TARIFFS (THE ORIGINAL 5 PLUS 2) ON JULY 1, 1987. THIRD, THE EMERGENCY TARIFF ON TALCUM POWDER WILL BE REDUCED ON JULY 1, 1987 TO 15 PERCENT. FOURTH, OFFICIALS STRESS THAT THE EMERGENCY TARIFF ON CRUDE OIL AND DIESEL AND LIGHT RESIDUAL FUEL OIL IS JUSTIFIED ON GROUNDS OF REVENUE AND CONSERVATION AND NOT ON GROUNDS OF PROTECTION.

2. THE FOLLOWING IS THE LIST OF 23 ITEMS CURRENTLY UNDER VOLUNTARY EXPORT RESTRAINTS: STEEL, FOOTWEAR, CONTAINERS, WIGS, TABLEWARE, KITCHENWARE, SEWN TOYS, PLASTIC BAGS, LEATHER CLOTHING, FUR CLOTHING

BASEBALL GLOVES, EYEGLASSES AND EYEGLASS FRAMES, AND MISCELLANEOUS PERSONAL ITEMS, MICROWAVE OVENS, COLOR TVS, BLACK AND WHITE TVS, PIANOS, VTRS, FISHING RODS, BRONZE ARTIFACTS, LEATHER BAGS, TARPAIL IN

PRODUCTS, AND STUFFED TOYS.

3. THE FOLLOWING IS THE EVOLUTION OF THE BOK CONCENTRATION RATE SINCE THE MISSION'S DEPARTURE (IN WON PER US DOLLAR): JUNE 10 (814.6): JUNE 11 (813.4): JUNE 12 (813.5): JUNE 13 (813.6): JUNE 15 (813.6): JUNE 16 (813.7): JUNE 17 (812.5): JUNE 18 (812.6): JUNE 19 (811.4): JUNE 20 (811.5): JUNE 22 (811.5): JUNE 23 (811.6): JUNE 24 (811.7).

4. THE FOLLOWING KOREAN OFFICIALS ATTENDED THE INFORMAL MEETING ON THE MISSION'S CONCLUDING STATEMENT: ASSISTNAT MINISTER HONG (MOF): D-G BONG-KYUN KANG (ECONOMIC PLANNING BUREAU, EPB): D-G HAN-GUN KIM (AGRICULTURAL POLICY BUREAU, MOAFF): D-G HYUNG-SUP SHIM



(INTERNATIONAL FINANCE BUREAU, MOF): DIRECTOR WON-HO LEE (TRADE POLICY DIVISION, MTI): AND DIRECTOR YOUNG-HOI LEE (INTERNATIONAL ORGANIZATIONS DIVISION, MOF).

REGARDS

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1987 JUN 18 AM 1987 JUN 18 AM 7:29

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ASIAN DEPARTMENT

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TO: MR. V NEISS
DEPUTY DIRECTOR
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

DETAILS OF MOF PROPOSAL FOR THE LIBERALIZATION OF CURRENT
INVISIBLE TRANSACTIONS WERE SENT TO YOU BY FACSO THURSDAY, JULY
18(P.M. SEOUL TIME). THE PROPOSED MEASURES CONSIST OF REMOVAL OF
LIMITS ON CERTAIN REMITTANCES, INCREASE OF LIMITS ON CERTAIN
REMITTANCES, SUBSTITUTION OF BOK APPROVAL WITH FOREIGN
EXCHANGE BANK APPROVAL UPON VERIFICI
ATION OF DOCUMENTS FOR CERTAIN
REMITTANCES. FOLLOWING INTERMINISTERIAL CONSULTATIONS, ADOPTION WITH
MINOR OR NO CHANGES IS EXPECTED EARLY IN HALF OF 1987.

REGARDS

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TO: MR. HUBERT NEISS, *Mr. Chang-yeop Lim*
 DEPUTY DIRECTOR *Alternate ED*
 ASIAN DEPARTMENT *IMF, WASHINGTON, DC*
 INTERFUND, WASHINGTON DC
 FAX NO. 202-623-4661/2

FROM: R. BABAN
 RESIDENT REPRESENTATIVE
 SEOUL
Young-Moi Lee
Int'l Org. Div.
MOF, Seoul

SUBJECT: LIBERALIZATION OF CURRENT INVISIBLE TRANSACTIONS, 11 PAGES

This note describes the current invisible transactions already liberalized and the liberalization measures proposed by the Ministry of Finance. The latter are likely to be adopted with few changes early in the second half of 1987. Attached are the OECD list of current invisible operations ("Annex A") and OECD standards relating to travel and tourism ("Annex III to Annex A").

A. Items already liberalized in accordance with the OECD Code of Liberalization of Current Invisible Operations (21 items)

B. Foreign Trade

B/1 Commission and brokerage, profit arising out of transit operations or sale of transshipment, banking commissions and charges, representation expenses.

B/2 Differences, margins and deposits due in respect of operations on commodity terminal markets in conformity with normal commercial practice.

B/3 Charges for documentation of all kinds incurred on their own account by authorized dealers in foreign exchange.

B/4 Ware housing and storage, customs clearance.

B/5 Transit charges.

B/6 Customs duties and fees.

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 CC: MR. LIM
 ETR

C. Transport

C/4 Air transport: passengers and freight, including chartering.

Payment by passengers of international air tickets and excess luggage charges; payment of international air freight charges and chartered flights.

Receipts from the sale of international air tickets, excess luggage charges, international air freight charges and chartered flights.

C/5 For all means of maritime transport: harbor services

C/6 Repair of ships: repairs of means transport other than ships and aircraft (i.e., transactions other than those covered by C/5 to the extent to which they do not constitute visible trade).

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D. Insurance

D/2 Insurance relating to goods in international trade.

F. Income from capital

F/3 Interest (including interest on debentures, mortgages, etc.).

F/4 Rent.

H. Personal income and expenditure

H/6 Subscription to newspapers, periodicals, books, and musical publications. Purchases of newspapers, periodicals, books, musical publications, and records.

J. Public income and expenditure

J/1 Taxes.

J/2 Government expenditure.

J/3 Settlements in connection with public transport and postal, telegraphic and telephone services.

J/4 Consular receipts.

K. General

K/2 Court expenses.

K/3 Damages.

K/5 Membership of associations, clubs and other organizations.

K/7 Refunds in the case of cancellation of contracts and refunds of uncalled-for payments.

2. Items (12) to be liberalized during the first year of the Three-year Plan (timing likely to be early in the second half of 1987).

A. Business and industry

A/6 Salaries and wages of frontier or seasonal workers and of other non-residents (Remark: the amounts to be transferred shall be the net salaries and wages, i.e. after deduction of living expenses, taxes, social insurance contributions or premiums, if any). Present limit is under \$500 per month. Under the proposal, no limit will be prescribed.

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A/7 Participation by subsidiary companies and branches in overhead expenses of parent companies situated abroad and vice versa. At present, only foreign invested companies covered by the Foreign Capital Inducement Law can remit overhead expenses. It is proposed that subsidiaries and branches covered under the Foreign Exchange Control Law be similarly permitted.

F. Income from Capital

F/1 Profits from business activity. At present, profits of company branches may be remitted only after a delay of three years after business establishment date. Under the proposal, no delay will be prescribed.

F/2 Dividends and shares from profits. At present, such remittances by subsidiaries covered by the Foreign Exchange Control Law require the approval of the Ministry of Finance. Under the proposal, only a foreign exchange bank needs to give approval upon verification of documents. Such remittances of company subsidiaries covered by the Foreign Capital Inducement Act had already been previously liberalized.

H. Personal Income and Expenditure

H/1 Pensions and other income of a similar nature. At present, such remittances need BOK approval. Under the proposal, only a foreign exchange bank needs to provide approval upon verification of documents.

H/2 Maintenance payments resulting from a legal obligation or from a decision of a court and financial assistance in cases of hardship. At present, such remittances over \$3,000 per transaction need BOK approval. Under the proposal, such remittances of any amount need only foreign exchange bank approval upon verification of documents.

H/3 Immigrants' remittances. Same treatment as A/6.

H/4 Current maintenance and repair of private property abroad. At present, BOK approval is needed. Under the proposal, such remittances need only foreign exchange bank approval upon verification of documents.

H/5 Transfer of minor amounts abroad. At present, BOK approval is required for any amount. Under the proposal, remittances of under \$500 per transaction (for weddings, funerals, etc.) need only foreign exchange bank approval.

K. General

K/1 Advertising by all media. At present, such remittances require BOK approval except for direct remittances to news media which need only foreign exchange bank approval. Under the proposal, all such remittances need only foreign exchange bank approval upon verification of documents.

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K/4 Fines. At present, remittances over \$3,000 need BOK approval. Under the proposal, remittances of any amount need only foreign exchange bank approval upon verification of documents.

K/8 Registration of patents and trade-mark. At present, remittances need BOK approval. Under the proposal, remittances need only foreign exchange bank approval upon verification of documents.

3. Items for which existing allowance limits would be increased during the first year of the three-year program of current invisibles liberalization

- A/1 Repair and assembly
- A/2 Processing, finishing, processing of work under contract and other services of the same nature
- A/3 Technical assistance (assistance relating to the production and distribution of goods and services at all stages, given over a period limited according to the specific purpose of such assistance, and including e.g. advice or visits by experts, preparation of plans and blueprints, supervision of manufacture, market research, training of personnel)
- A/4 Contracting (construction and maintenance of buildings, roads bridges, ports, etc., carried out by specialized firms)
- A/5 Authors' royalties (patents, designs, trademarks and inventions).

At present, remittances under A/1 to A/5 amounting to over \$10,000 needs BOK approval. Under the proposal, only those over \$50,000 needs BOK approval.

B. Travel and Tourist

Under the proposal, restrictions on export and import of banknotes, travellers cheques, and use of credit cards, and limitations on travel expenses will be amended to conform to the level of the OECD code (see attached Annex III of the OECD code). In particular, travel allowances per person per trip will be raised to \$2,000 per person per trip from the following present limits: \$1,000 for conjugal visits, other visits, and travel for employment abroad; \$1,000-\$1,500 for children under 12 years old; and \$1,000 for foreigners residing in Korea. The new limit of \$2,000 would exceed the OECD minimum of SDR 1,250 per person per trip.

K. General

K/6 Professional services (including services of accountants, artists, consultants, doctors, engineers, experts, lawyers, etc.). The treatment under the proposal will be the same as A/1 to A/5 above.

4. The second and third years under the three-year plan

Further liberalization in the fields of business and industry, transportation, insurance, films, travel, and professional services will follow. However, as most OECD member countries reserve some items such as transportation, insurance, and films in order to protect domestic industries, Korea would not be able to fully liberalize these items during the plan period.

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J. PUBLIC INCOME AND EXPENDITURE*

- ① J/1. Taxes.
- ② J/2. Government expenditure (transfer of amounts due by governments to non-residents and in connection with official representation abroad and contributions to international organisations).
- ③ J/3. Settlements in connection with public transport and postal, telegraphic and telephone services.
- ④ J/4. Consular receipts.

K. GENERAL

- * K/1. Advertising by all media.
- ⑤ K/2. Court expenses.
- ⑥ K/3. Damages.
- * K/4. Fines.
- ⑦ K/5. Membership of associations, clubs and other organisations.
- ⑧ K/6. Professional services (including services of accountants, artists, consultants, doctors, engineers, experts, lawyers, etc.).
- ⑨ K/7. Refunds in the case of cancellation of contracts and refunds of uncalled-for payments.
- * K/8. Registration of patents and trade-marks.

1. The items in this section apply to transfers only.

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Annex A
LIST OF CURRENT INVISIBLE OPERATIONS

A. BUSINESS AND INDUSTRY

- A/1. Repair and assembly.
- ⑩ A/2. Processing, finishing, processing of work under contract and other services of the same nature.

Remark: In cases where goods are involved, liberalisation applies only if the importation of the goods concerned is liberalised by the Member ordering such processing, finishing, etc.
- ⑪ A/3. Technical assistance (assistance relating to the production and distribution of goods and services at all stages, given over a period limited according to the specific purpose of such assistance, and including e.g. advice or visits by experts, preparation of plans and blueprints, supervision of manufacture, market research, training of personnel). See also Note 3, page 34.
- A/4. Contracting (construction and maintenance of buildings, roads, bridges, ports, etc., carried out by specialised firms, and, generally, at fixed prices after open tender).
- ⑫ A/5. Authors' royalties, patents, designs, trade marks and inventions (the assignment and licensing of patent rights, designs, trade marks and inventions, whether or not legally protected, and transfers arising out of such assignment or licensing). See also Note 3, page 34.
- A/6. Salaries and wages (of frontier or seasonal workers and of other non-residents).

Remark: Free transfer to the country of residence of the recipient. The amounts to be transferred shall be the net salaries and wages, i.e. after deduction of living expenses, taxes, social insurance contributions or premiums, if any.

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- 6/11
 A/7. Participation by subsidiary companies and branches in overhead expenses of parent companies situated abroad and vice-versa (i.e. overhead expenses other than those included under A/3 and A/5). See also Note 3, page 34.

B. FOREIGN TRADE

- B/1. Commission and brokerage.

Remark: In the case of goods, this item covers commission and brokerage in connection with their sale, purchase or movement.

Profit arising out of transit operations or sales of transshipment.

Remark: In cases where these profits are not covered by F/1 below.

Banking commissions and charges.

Representation expenses.

- B/2. Differences, margins and deposits due in respect of operations in commodity terminal markets in conformity with normal commercial practice.
- B/3. Charges for documentation of all kinds incurred on their own account by authorised dealers in foreign exchange.
- B/4. Warehousing and storage, customs clearance.
- B/5. Transit charges.
- B/6. Customs duties and fees.

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C. TRANSPORT

- C/1. Maritime freights (including chartering, harbour expenses, disbursements for fishing vessels, etc.).
Remark: See Note 1, page 33.

- C/2. Inland waterway freights, including chartering.

- C/3. Road transport: passengers and freights, including chartering.

- C/4. Air transport: passengers and freights, including chartering.

Payment by passengers of international air tickets and excess luggage charges; payment of international air freight charges and chartered flights.

Remark: Without prejudice to the provisions of Annex II.

Receipts from the sale of international air tickets, excess luggage charges, international air freight charges, and chartered flights.

Remark: The transfer of these receipts to the head office of the air transport company concerned shall be free.

- C/5. For all means of maritime transport: harbour services (including bunkering and provisioning, maintenance, repairs, expenses for crews, etc.).

Remark: In the case of repairs, current maintenance, voyage and emergency repairs: (see also C/6). (See Note 1, page 33.)

For all means of inland waterway transport: harbour services (including bunkering and provisioning, maintenance and minor repairs of equipment, expenses for crews, etc.).

Remark: In the case of repairs, current maintenance repairs only (see also C/6).

1. This item does not cover transport between two ports of the same State. Where such transport is open to foreign flags, transfers shall be free.
2. For definition of terms employed here and in the Remarks against C/6, see Note 2, page 33.

For all means of commercial road transport: road services (including fuel, oil, minor repairs, garaging, expenses for drivers and crews, etc.).

For all means of air transport: operating costs and general overheads, including repairs to aircraft and to air transport equipment.

Remark: Including all charges in connection with the delivery of oil and petrol to air transport companies which are incurred in the currency of the State where the delivery takes place.

C/6. Repair of ships.

Remark: Transactions other than those covered by C/5 (i.e. classification, conversion and other major repairs) to the extent to which they do not constitute visible trade.

Repairs of means of transport other than ships and aircraft.

Remark: Transactions other than those covered by C/5 to the extent to which they do not constitute visible trade.

D. INSURANCE

D/1. Social security and social insurance

Remarks:

1. Free transfer of:
 - a. contributions and premiums in respect of social security or social insurance payable in another Member State;
 - b. social security and social insurance benefits payable to an insured person or beneficiary residing in another Member State or, for their account, to a social security or social insurance authority in that other State.
2. If the transfer relates to an insurance considered as social insurance by only one of the Members concerned the provisions according the more liberal treatment shall apply.
3. Social insurance transactions carried out by private insurers shall also be subject to the provisions of Parts III and IV of Annex I.

1. For definition of terms employed here and in the Remarks against C/5, see Note 2, page 33.

Transactions and transfers in connection with direct insurance (other than social security and social insurance).

D/2. Insurance relating to goods in international trade.

D/3. Life assurance.

D/4. All other insurance.

D/5. Transactions and transfers in connection with re-insurance and retrocession.

Remark: The provisions of Part II of Annex I shall also apply.

D/6. Conditions for establishment and operation of branches and agencies of foreign insurers.

Remarks:

1. Authorization within the limits specified in Part III of Annex I for insurers of other Member States to establish themselves and to transact business.
2. Transfers between branches and agents of such authorized insurers and their head offices within the limits specified in Part IV of Annex I.

E. FILMS

E/1. Exportation, importation, distribution and use of printed films and other recordings - whatever the means of reproduction - for private or cinema exhibition, or for television broadcasts.

Remark: The provisions of Annex IV shall also apply. Members shall grant any authorization required for transactions which they had authorized on 1st January, 1959, in virtue of regulations or international agreements in force on that date.

1. Transaction shall be deemed to mean the conclusion of a direct insurance contract by a person in one Member State with an insurer in another Member State.
2. The provisions of this item do not apply to Canada which accordingly has neither obligations nor rights thereunder (OECD/C/61189 of 13th December, 1962 and C(63)154 (Final) of 3rd March, 1964).

Remark: Direct insurance transactions between insurers in one Member State and insured in another Member State, and transfers of premiums and contributions between insured and insurers in two different Member States. Transfers by insurers in one Member State of settlements and benefits paid or to be paid in another Member State, and transfers of sums necessary for the enforcement of claims arising under an insurance contract. Within the limits specified in Part I of Annex I.

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F. INCOME FROM CAPITAL

- ② F/1. Profits from business activity.
- ① F/2. Dividends and shares in profits.
- ⑤ F/3. Interest (including interest on debentures, mortgages, etc.).
- ⑧ F/4. Rent.

Remark: Does not apply to income deriving from capital acquired otherwise than in conformity with the laws covering the acquisition of capital.

③ G. TRAVEL AND TOURISM

Remark: This section covers all international travel as well as stays abroad for purposes other than immigration, such as pleasure, recreation, holiday, sport, business, visits to relatives or friends, missions, meetings, conferences or for reasons of health, education or religion.

No restrictions shall be imposed by Member countries on expenditure by residents for purposes of international tourism or other international travel. For the settlement of such expenditure, no restrictions shall be placed on transfers abroad by or on behalf of travellers or on the use abroad of cash cards or credit cards, in accordance with the provisions of Annex III. Travellers shall, moreover, be automatically permitted to acquire, export and import domestic and foreign bank-notes and to use travellers' cheques abroad in accordance with the provisions of Annex III; additional amounts in travellers' cheques and/or foreign bank-notes shall be allowed on presentation of justification. Lastly, travellers shall be permitted to undertake foreign exchange transactions according to the provisions of Annex III.

H. PERSONAL INCOME AND EXPENDITURE

- ① H/1. Pensions and other income of a similar nature.

Remark: In favour of persons who, after having spent their life in a Member State other than their State of origin, establish themselves in any other Member State including their own.

- H/2. Maintenance payments resulting from a legal obligation or from a decision of a court and financial assistance in cases of hardship.

- H/3. Immigrants' remittances.

Remarks: Free periodic transfer to the Member State of which the person demanding the transfer is a national, of salaries, fees, wages, and other current remuneration, after deduction of living expenses, taxes, and social insurance.

No less favourable treatment shall be accorded to demands for the transfer of earnings of self-employed persons or members of the liberal professions.

- ① H/4. Current maintenance and repair of private property abroad.

- H/5. Transfer of minor amounts abroad.

- ① H/6. Subscriptions to newspapers, periodicals, books, musical publications.

Remark: To the extent to which transactions in connection with these items do not constitute visible trade.

Newspapers, periodicals, books, musical publications and records.

- H/7. Sports prizes and racing earnings.

Remark: In accordance with the laws of the Members concerned.

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Annex III to Annex A
**INTERNATIONAL MOVEMENT OF BANK-NOTES AND
TRAVELLERS' CHEQUES, EXCHANGE OF MEANS
OF PAYMENT BY TRAVELLERS AND USE OF CASH CARDS
AND CREDIT CARDS ABROAD**

1. IMPORT OF DOMESTIC BANK-NOTES

When entering a Member State, non-resident travellers shall be automatically permitted to import at least the equivalent of 1 250 units of account in that Member's bank-notes. Resident travellers returning to their country of residence shall be automatically permitted to import bank-notes of that State up to the total amount exported on their departure therefrom, or lawfully acquired during their stay abroad.

2. EXPORT OF DOMESTIC BANK-NOTES

When leaving a Member State, resident and non-resident travellers shall be automatically permitted to export at least the equivalent of 150 units of account per person per journey in that Member's bank-notes. No justification shall be required concerning such export.

3. IMPORT OF TRAVELLERS' CHEQUES AND FOREIGN BANK-NOTES

When entering a Member State, resident and non-resident travellers shall be automatically permitted to import foreign bank-notes and travellers' cheques regardless of the currency in which they are denominated. This provision does not imply an obligation for the authorities of Member States to provide for the purchase or exchange of travellers' cheques and foreign bank-notes so imported beyond that contained in paragraph 5 below.

4. EXPORT OF TRAVELLERS' CHEQUES AND FOREIGN BANK-NOTES

a. Residents

When leaving a Member State, resident travellers shall be automatically permitted to acquire and to export in a proportion left to the traveller the equivalent of at least 1 250 units of account per person per journey in travellers' cheques, regardless of the currency in which they are denominated, and in foreign bank-notes. No request for justification shall be made concerning such acquisition and export. Under this provision, foreign exchange dealers shall be

free, within the limits of their national regulations, to obtain foreign bank-notes and to sell them to travellers. This present provision does not imply any obligation for the authorities themselves to provide such travellers' cheques or foreign bank-notes either directly to the travellers or to foreign exchange dealers.

b. *Non-residents*

When leaving a Member State, non-resident travellers shall be automatically permitted to export travellers' cheques, regardless of the currency in which they are denominated, and foreign bank-notes up to the equivalent of the total previously imported or lawfully acquired during their stay.

5. EXCHANGE OF MEANS OF PAYMENT: NON-RESIDENTS

Exchange into Member States' currencies

Non-resident travellers shall be permitted to exchange into means of payment in the currency of any foreign Member State:

- i) Means of payment in the currency of another foreign Member State which can be shown to have been lawfully imported; and
- ii) Domestic bank-notes which can be shown to have been acquired against such means of payment in the currency of another foreign Member State during their stay.

Under this provision foreign exchange dealers shall be free, within the limits of their national regulations, to exchange the means of payment in question. This provision does not imply any obligation for the authorities themselves to provide such means of payment either directly to the travellers or to foreign exchange dealers.

6. USE OF CASH CARDS AND CREDIT CARDS ABROAD

The principle of the free use of cash cards and credit cards abroad provided for under Section C of the Code does not imply any obligation for the agencies issuing cash cards or credit cards to amend the rules governing the use of such cards for the settlement of expenditure relating to travel or stays abroad or for obtaining cash abroad.



(000005)
 TO: MR. HUBERT NEISS, MR. Chang-Yeol Lim
 DEPUTY DIRECTOR Alternate ED.
 ASIAN DEPARTMENT IMF, WASHINGTON, DC
 INTERFUND, WASHINGTON DC
 FAX NO. 202-623-4661/2

FROM: R. BABAN
 RESIDENT REPRESENTATIVE
 SEOUL
 Young-Moi Lee
 Int'l Org. Div.
 MOF, SEOUL

SUBJECT: LIBERALIZATION OF CURRENT INVISIBLE TRANSACTIONS, 11 PAGES

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 ASIAN DEPARTMENT

This note describes the current invisible transactions already liberalized and the liberalization measures proposed by the Ministry of Finance. The latter are likely to be adopted with few changes early in the second half of 1987. Attached are the OECD list of current invisible operations ("Annex A") and OECD standards relating to travel and tourism ("Annex III to Annex A").

A. Items already liberalized in accordance with the OECD Code of Liberalization of Current Invisible Operations (21 items)

B. Foreign Trade

B/1 Commission and brokerage, profit arising out of transit operations or sale of transshipment, banking commissions and charges, representation expenses.

B/2 Differences, margins and deposits due in respect of operations on commodity terminal markets in conformity with normal commercial practice.

B/3 Charges for documentation of all kinds incurred on their own account by authorized dealers in foreign exchange.

B/4 Ware housing and storage, customs clearance.

B/5 Transit charges.

B/6 Customs duties and fees.

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C. Transport

C/4 Air transport: passengers and freight, including chartering.

Payment by passengers of international air tickets and excess luggage charges; payment of international air freight charges and chartered flights.

Receipts from the sale of international air tickets, excess luggage charges, international air freight charges and chartered flights.

C/5 For all means of maritime transport: harbor services

C/6 Repair of ships: repairs of means transport other than ships and aircraft (i.e., transactions other than those covered by C/5 to the extent to which they do not constitute visible trade).

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D. Insurance

D/2 Insurance relating to goods in international trade.

F. Income from capital

F/3 Interest (including interest on debentures, mortgages, etc.).

F/4 Rent.

H. Personal income and expenditure

H/6 Subscription to newspapers, periodicals, books, and musical publications. Purchases of newspapers, periodicals, books, musical publications, and records.

J. Public income and expenditure

J/1 Taxes.

J/2 Government expenditure.

J/3 Settlements in connection with public transport and postal, telegraphic and telephone services.

J/4 Consular receipts.

K. General

K/2 Court expenses.

K/3 Damages.

K/5 Membership of associations, clubs and other organizations.

K/7 Refunds in the case of cancellation of contracts and refunds of uncalled-for payments.

2. Items (12) to be liberalized during the first year of the Three-year Plan (timing likely to be early in the second half of 1987).

A. Business and industry

A/6 Salaries and wages of frontier or seasonal workers and of other non-residents (Remark: the amounts to be transferred shall be the net salaries and wages, i.e. after deduction of living expenses, taxes, social insurance contributions or premiums, if any). Present limit is under \$500 per month. Under the proposal, no limit will be prescribed.

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A/7 Participation by subsidiary companies and branches in overhead expenses of parent companies situated abroad and vice versa. At present, only foreign invested companies covered by the Foreign Capital Inducement Law can remit overhead expenses. It is proposed that subsidiaries and branches covered under the Foreign Exchange Control Law be similarly permitted.

F. Income from Capital

F/1 Profits from business activity. At present, profits of company branches may be remitted only after a delay of three years after business establishment date. Under the proposal, no delay will be prescribed.

F/2 Dividends and shares from profits. At present, such remittances by subsidiaries covered by the Foreign Exchange Control Law require the approval of the Ministry of Finance. Under the proposal, only a foreign exchange bank needs to give approval upon verification of documents. Such remittances of company subsidiaries covered by the Foreign Capital Inducement Act had already been previously liberalized.

H. Personal Income and Expenditure

H/1 Pensions and other income of a similar nature. At present, such remittances need BOK approval. Under the proposal, only a foreign exchange bank needs to provide approval upon verification of documents.

H/2 Maintenance payments resulting from a legal obligation or from a decision of a court and financial assistance in cases of hardship. At present, such remittances over \$3,000 per transaction need BOK approval. Under the proposal, such remittances of any amount need only foreign exchange bank approval upon verification of documents.

H/3 Immigrants' remittances. Same treatment as A/6.

H/4 Current maintenance and repair of private property abroad. At present, BOK approval is needed. Under the proposal, such remittances need only foreign exchange bank approval upon verification of documents.

H/5 Transfer of minor amounts abroad. At present, BOK approval is required for any amount. Under the proposal, remittances of under \$500 per transaction (for weddings, funerals, etc.) need only foreign exchange bank approval.

K. General

K/1 Advertising by all media. At present, such remittances require BOK approval except for direct remittances to news media which need only foreign exchange bank approval. Under the proposal, all such remittances need only foreign exchange bank approval upon verification of documents.

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K/4 Fines. At present, remittances over \$3,000 need BOK approval. Under the proposal, remittances of any amount need only foreign exchange bank approval upon verification of documents.

K/8 Registration of patents and trade-mark. At present, remittances need BOK approval. Under the proposal, remittances need only foreign exchange bank approval upon verification of documents.

3. Items for which existing allowance limits would be increased during the first year of the three-year program of current invisibles liberalization

A/1 Repair and assembly

A/2 Processing, finishing, processing of work under contract and other services of the same nature

A/3 Technical assistance (assistance relating to the production and distribution of goods and services at all stages, given over a period limited according to the specific purpose of such assistance, and including e.g. advice or visits by experts, preparation of plans and blueprints, supervision of manufacture, market research, training of personnel)

A/4 Contracting (construction and maintenance of buildings, roads bridges, ports, etc., carried out by specialized firms)

A/5 Authors' royalties (patents, designs, trademarks and inventions).

At present, remittances under A/1 to A/5 amounting to over \$10,000 needs BOK approval. Under the proposal, only those over \$50,000 needs BOK approval.

B. Travel and Tourism

Under the proposal, restrictions on export and import of banknotes, travellers cheques, and use of credit cards, and limitations on travel expenses will be amended to conform to the level of the OECD code (see attached Annex III of the OECD code). In particular, travel allowances per person per trip will be raised to \$2,000 per person per trip from the following present limits: \$1,000 for conjugal visits, other visits, and travel for employment abroad; \$1,000-\$1,500 for children under 12 years old; and \$1,000 for foreigners residing in Korea. The new limit of \$2,000 would exceed the OECD minimum of SDR 1,250 per person per trip.

K. General

K/6 Professional services (including services of accountants, artists, consultants, doctors, engineers, experts, lawyers, etc.). The treatment under the proposal will be the same as A/1 to A/5 above.

4. The second and third years under the three-year plan

Further liberalization in the fields of business and industry, transportation, insurance, films, travel, and professional services will follow. However, as most OECD member countries reserve some items such as transportation, insurance, and films in order to protect domestic industries, Korea would not be able to fully liberalize these items during the plan period.

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J. PUBLIC INCOME AND EXPENDITURE¹

- ① J/1. Taxes.
- ② J/2. Government expenditure (transfer of amounts due by governments to non-residents and in connection with official representation abroad and contributions to international organisations).
- ③ J/3. Settlements in connection with public transport and postal, telegraphic and telephone services.
- ④ J/4. Consular receipts.

K. GENERAL

- * K/1. Advertising by all media.
- ② K/2. Court expenses.
- ③ K/3. Damages.
- * K/4. Fines.
- ④ K/5. Membership of associations, clubs and other organisations.
- ⑤ K/6. Professional services (including services of accountants, artists, consultants, doctors, engineers, experts, lawyers, etc.).
- ⑥ K/7. Refunds in the case of cancellation of contracts and refunds of uncalled-for payments.
- * K/8. Registration of patents and trade-marks.

1. The items in this section apply to transfers only.

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Annex A
LIST OF CURRENT INVISIBLE OPERATIONS

A. BUSINESS AND INDUSTRY

- A/1. Repair and assembly.
- ① A/2. Processing, finishing, processing of work under contract and other services of the same nature.
Remark. In cases where goods are involved, liberalisation applies only if the importation of the goods concerned is liberalised by the Member ordering such processing, finishing, etc.
- ② A/3. Technical assistance (assistance relating to the production and distribution of goods and services at all stages, given over a period limited according to the specific purpose of such assistance, and including e.g. advice or visits by experts, preparation of plans and blueprints, supervision of manufacture, market research, training of personnel). See also Note 3, page 34.
- A/4. Contracting (construction and maintenance of buildings, roads, bridges, ports, etc., carried out by specialised firms, and, generally, at fixed prices after open tender).
- ③ A/5. Authors' royalties, patents, designs, trade marks and inventions (the assignment and licensing of patent rights, designs, trade marks and inventions, whether or not legally protected, and transfers arising out of such assignment or licensing). See also Note 3, page 34.
- A/6. Salaries and wages (of frontier or seasonal workers and of other non-residents).

Remark. Free transfer to the country of residence of the recipient. The amounts to be transferred shall be the net salaries and wages, i.e. after deduction of living expenses, taxes, social insurance contributions or premiums, if any.

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 A/7. Participation by subsidiary companies and branches in overhead expenses of parent companies situated abroad and vice-versa (i.e. overhead expenses other than those included under A/3 and A/5). See also Note 3, page 34.

B. FOREIGN TRADE

B/1. Commission and brokerage.

Remark: In the case of goods, this item covers commission and brokerage in connection with their sale, purchase or movement.

Profit arising out of transit operations or sales of transshipment.

Remark: In cases where these profits are not covered by F/1 below.

Banking commissions and charges.

Representation expenses.

B/2. Differences, margins and deposits due in respect of operations on commodity terminal markets in conformity with normal commercial practice.

B/3. Charges for documentation of all kinds incurred on their own account by authorised dealers in foreign exchange.

B/4. Warehousing and storage, customs clearance.

B/5. Transit charges.

B/6. Customs duties and fees.

C. TRANSPORT

C/1. Maritime freights (including chartering, harbour expenses, disbursements for fishing vessels, etc.).¹

Remark: See Note 1, page 33.

C/2. Inland waterway freights, including chartering.

C/3. Road transport: passengers and freights, including chartering.

C/4. Air transport: passengers and freights, including chartering.

Payment by passengers of international air tickets and excess luggage charges; payment of international air freight charges and chartered flights.

Remark: Without prejudice to the provisions of Annex II.

Receipts from the sale of international air tickets, excess luggage charges, international air freight charges, and chartered flights.

Remark: The transfer of these receipts to the head office of the air transport company concerned shall be free.

C/5. For all means of maritime transport: harbour services (including bunkering and provisioning, maintenance, repairs, expenses for crews, etc.).

Remark: In the case of repairs, current maintenance, voyage and emergency repairs: (see also C/6). (See Note 1, page 33.)

For all means of inland waterway transport: harbour services (including bunkering and provisioning, maintenance and minor repairs of equipment, expenses for crews, etc.)

Remark: In the case of repairs, current maintenance repairs only (see also C/6).

1. This item does not cover transport between two ports of the same State. Where such transport is open to foreign flags, transfers shall be free.
 2. For definition of terms employed here and in the Remarks against C/6, see Note 2, page 33.

For all means of commercial road transport: road services (including fuel, oil, minor repairs, garaging, expenses for drivers and crews, etc.).

For all means of air transport: operating costs and general overheads, including repairs to aircraft and to air transport equipment.

Remark: Including all charges in connection with the delivery of oil and petrol to air transport companies which are incurred in the currency of the State where the delivery takes place.

²⁾ C/6. Repair of ships.

Remark: Transactions other than those covered by C/5 (i.e. classification, conversion and other major repairs) to the extent to which they do not constitute visible trade.

Repairs of means of transport other than ships and aircraft.

Remark: Transactions other than those covered by C/5 to the extent to which they do not constitute visible trade.

D. INSURANCE

D/1. Social security and social insurance

Remarks:

1. Free transfer of:
 - a. contributions and premiums in respect of social security or social insurance payable in another Member State;
 - b. social security and social insurance benefits payable to an insured person or beneficiary residing in another Member State or, for their account, to a social security or social insurance authority in that other State.
2. If the transfer relates to an insurance considered as social insurance by only one of the Members concerned the provisions according the more liberal treatment shall apply.
3. Social insurance transactions carried out by private insurers shall also be subject to the provisions of Part III and IV of Annex I.

1. For definition of terms employed here and in the Remarks against C/5, see Note 2, page 33.

Transactions and transfers in connection with direct insurance (other than social security and social insurance).

²⁾ D/2. Insurance relating to goods in international trade.

²⁾ D/3. Life assurance.

²⁾ D/4. All other insurance.

²⁾ D/5. Transactions and transfers in connection with re-insurance and retrocession.

Remark: The provisions of Part II of Annex I shall also apply.

²⁾ D/6. Conditions for establishment and operation of branches and agencies of foreign insurers.

Remarks:

1. Authorisation within the limits specified in Part III of Annex I for insurers of other Member States to establish themselves and to transact business.
2. Transfers between branches and agents of such authorised insurers and their head offices within the limits specified in Part IV of Annex I.

E. FILMS

²⁾ E/1. Exportation, importation, distribution and use of printed films and other recordings - whatever the means of reproduction - for private or cinema exhibition, or for television broadcasts.²⁾

Remark: The provisions of Annex IV shall also apply. Members shall grant any authorisation required for transactions which they had authorised on 1st January, 1959, in virtue of regulations or international agreements in force on that date.

1. Transactions shall be deemed to mean the conclusion of a direct insurance contract by a person in one Member State with an insurer in another Member State.
2. The provisions of this item do not apply to Canada which accordingly has neither obligations nor rights thereunder (OECD/C16189 of 12th December, 1962 and C(63)154 (Final) of 3rd March, 1964).

Remark: Direct insurance transactions between insurers in one Member State and insured in another Member State, and transfers of premiums and contributions between insured and insurers in two different Member States. Transfers by insurers in one Member State of settlements and benefits paid or to be paid in another Member State, and transfers of sums necessary for the enforcement of claims arising under an insurance contract. Within the limits specified in Part I of Annex I.

8/11
F. INCOME FROM CAPITAL

- ① F/1. Profits from business activity.
① F/2. Dividends and shares in profits.
② F/3. Interest (including interest on debentures, mortgages, etc.).
① F/4. Rent.

Remark: Does not apply to income deriving from capital acquired otherwise than in conformity with the laws covering the acquisition of capital.

③ G. TRAVEL AND TOURISM

Remark: This section covers all international travel as well as stays abroad for purposes other than immigration, such as pleasure, recreation, holiday, sport, business, visits to relatives or friends, missions, meetings, conferences or for reasons of health, education or religion.

No restrictions shall be imposed by Member countries on expenditure by residents for purposes of international tourism or other international travel. For the settlement of such expenditure, no restrictions shall be placed on transfers abroad by or on behalf of travellers or on the use abroad of cash cards or credit cards, in accordance with the provisions of Annex III. Travellers shall, moreover, be automatically permitted to acquire, export and import domestic and foreign bank-notes and to use travellers' cheques abroad in accordance with the provisions of Annex III; additional amounts in travellers' cheques and/or foreign bank-notes shall be allowed on presentation of justification. Lastly, travellers shall be permitted to undertake foreign exchange transactions according to the provisions of Annex III.

H. PERSONAL INCOME AND EXPENDITURE

- ① H/1. Pensions and other income of a similar nature.

Remark: In favour of persons who, after having spent their life in a Member State other than their State of origin, establish themselves in any other Member State including their own.

- H/2. Maintenance payments resulting from a legal obligation or from a decision of a court and financial assistance in cases of hardship.

- H/3. Immigrants' remittances.

Remarks: Free periodic transfer to the Member State of which the person demanding the transfer is a national, of salaries, fees, wages, and other current remuneration, after deduction of living expenses, taxes, and social insurance.

No less favourable treatment shall be accorded to demands for the transfer of earnings of self-employed persons or members of the liberal professions.

- ① H/4. Current maintenance and repair of private property abroad.

- H/5. Transfer of minor amounts abroad.

- ① H/6. Subscriptions to newspapers, periodicals, books, musical publications.

Newspapers, periodicals, books, musical publications and records.

Remark: To the extent to which transactions in connection with these items do not constitute trade.

- H/7. Sports prizes and racing earnings.

Remark: In accordance with the laws of the Members concerned.

Annex III to Annex A

INTERNATIONAL MOVEMENT OF BANK-NOTES AND TRAVELLERS' CHEQUES, EXCHANGE OF MEANS OF PAYMENT BY TRAVELLERS AND USE OF CASH CARDS AND CREDIT CARDS ABROAD

1. IMPORT OF DOMESTIC BANK-NOTES

When entering a Member State, non-resident travellers shall be automatically permitted to import at least the equivalent of 1 250 units of account in that Member's bank-notes. Resident travellers returning to their country of residence shall be automatically permitted to import bank-notes of that State up to the total amount exported on their departure therefrom, or lawfully acquired during their stay abroad.

2. EXPORT OF DOMESTIC BANK-NOTES

When leaving a Member State, resident and non-resident travellers shall be automatically permitted to export at least the equivalent of 150 units of account per person per journey in that Member's bank-notes. No justification shall be required concerning such export.

3. IMPORT OF TRAVELLERS' CHEQUES AND FOREIGN BANK-NOTES

When entering a Member State, resident and non-resident travellers shall be automatically permitted to import foreign bank-notes and travellers' cheques regardless of the currency in which they are denominated. This provision does not imply an obligation for the authorities of Member States to provide for the purchase or exchange of travellers' cheques and foreign bank-notes so imported beyond that contained in paragraph 5 below.

4. EXPORT OF TRAVELLERS' CHEQUES AND FOREIGN BANK-NOTES

a. Residents

When leaving a Member State, resident travellers shall be automatically permitted to acquire and to export in a proportion left to the traveller the equivalent of at least 1 250 units of account per person per journey in travellers' cheques, regardless of the currency in which they are denominated, and in foreign bank-notes. No request for justification shall be made concerning such acquisition and export. Under this provision, foreign exchange dealers shall be

free, within the limits of their national regulations, to obtain foreign bank-notes and to sell them to travellers. The present provision does not imply any obligation for the authorities themselves to provide such travellers' cheques or foreign bank-notes either directly to the travellers or to foreign exchange dealers.

b. *Non-residents*

When leaving a Member State, non-resident travellers shall be automatically permitted to export travellers' cheques, regardless of the currency in which they are denominated, and foreign bank-notes up to the equivalent of the total previously imported or lawfully acquired during their stay.

5. EXCHANGE OF MEANS OF PAYMENT; NON-RESIDENTS

Exchange into Member States' currencies

Non-resident travellers shall be permitted to exchange into means of payment in the currency of any foreign Member State:

- i) Means of payment in the currency of another foreign Member State which can be shown to have been lawfully imported; and
- ii) Domestic bank-notes which can be shown to have been acquired against such means of payment in the currency of another foreign Member State during their stay.

Under this provision foreign exchange dealers shall be free, within the limits of their national regulations, to exchange the means of payment in question. The provision does not imply any obligation for the authorities themselves to provide such means of payment either directly to the travellers or to foreign exchange dealers.

6. USE OF CASH CARDS AND CREDIT CARDS ABROAD

The principle of the free use of cash cards and credit cards abroad provided for under Section C of the Code does not imply any obligation for the agencies issuing cash cards or credit cards to amend the rules governing the use of such cards for the settlement of expenditure relating to travel or stays abroad or for obtaining cash abroad.



4-320

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1987 JUN 15 AM 9:53

77286
ASIAN DEPARTMENT

RECEIVED
IMF CABLE ROOM

1987 JUN 15 AM 7:51

ORIG: ASD
CC: ETRD

TO: MR. HUBERT NEISS
DEPUTY DIRECTOR
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

cc Div.

WITH RESPECT TO DMD'S FORTHCOMING VISIT TO KOREA, KINDLY
HAVE HIS OFFICE NOTE THAT FRIDAY, JULY 17 (CONSTITUTION DAY) IS A
NATIONAL HOLIDAY. REGARDS

BABAN

248331 IMF UR 0935

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Tentative Schedule:

Arr July 13 (Mond) evening
Lv. July 16 (Thurs)

Phoned Mr. Erb's Sec
& she gave his
present tentative
Schedule as above.

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MIOFFI K23243

TO: MR. WERNER DANNEMANN
DIRECTOR
BUREAU OF STATISTICS
INTERFUND
WASHINGTON DC 20431

THE ISSUE OF LOCAL GOVERNMENT STATISTICS HAS BEEN INCLUDED IN THE AGENDA OF THE ARTICLE IV CONSULTATION MISSION NOW IN SEOUL. MR. M. KATZ, THE FAD ECONOMIST ON THE MISSION, MET WITH OFFICIALS OF THE MINISTRY OF HOME AFFAIRS, WHICH HAS JURISDICTION OVER THIS MATTER, AND THE MINISTRY OF FINANCE. REGARDING PROGRESS IN PROVIDING DATA ON LOCAL GOVERNMENTS TO GFS, KOREAN OFFICIALS STATED THAT DATA FOR 1986 WOULD BE SENT BY DECEMBER THIS YEAR. THEY EXPLAINED THAT THE TASK OF REVISING THE ACCOUNTING SYSTEM TO ONE COMPATIBLE WITH THE GFS HAS REQUIRED A GREAT DEAL OF WORK, WHICH STILL CONTINUES. ONCE THE ACCOUNTING SYSTEM FOR LOCAL GOVERNMENTS IS MADE COMPATIBLE WITH THAT OF THE CENTRAL GOVERNMENT, IT WILL BE POSSIBLE TO CONSOLIDATE THE TWO ACCOUNTS.

REGARDS

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1987 MAY 29 PM 9: 28

cc: Mr. Nuss
Mr. Scott
D.V.

ORIG: ASD

MIOFFI K23243

TO: MR. DOUGLAS SCOTT
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC

IN RESPECT OF DMD'S FORTHCOMING VISIT TO KOREA, THE FOLLOWING ARE REVISED SCHEDULES OF ECONOMIC MINISTERS: DEPUTY PRIME MINISTER AND MINISTER OF ECONOMIC PLANNING (NO TRAVEL PLANS FORESEEN FOR JUNE AND JULY); MINISTER OF FINANCE (ABROAD ON JUNE 15-17); AND MINISTER OF TRADE AND INDUSTRY (ABROAD ON JULY 1-12). ACCORDINGLY, THE PERIOD DURING WHICH DMD MAY VISIT KOREA HAS EXPANDED TO JUNE 18-JUNE 30 AND JULY 13-31. (THE EXECUTIVE BOARD DISCUSSION ON THE SUPPLEMENTAL CONSULTATION WITH KOREA IS PLANNED FOR END-JUNE).

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Mr. Navakar
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: CABINET-ROSTER:
NEW S. KOREAN CABINET LINEUP"
(ASIAN NEWS)

SEOUL, MAY 26 KYODO - FOLLOWING IS THE LINEUP OF THE NEW SOUTH
KOREAN CABINET FORMED TUESDAY:

PRESIDENT	CHUN DOO HWAN
PRIME MINISTER	LEE HAN KEY (NEW)
DEPUTY PRIME MINISTER AND MINISTER OF ECONOMIC PLANNING	CHUN IN YONG (NEW)
FOREIGN AFFAIRS	CHOI KWANG SOO (RETAINED)
HOME AFFAIRS	KOH KUN (NEW)
FINANCE	SAKONG IL (NEW)
JUSTICE	CHUNG HAE CHANG (NEW)
NATIONAL DEFENSE	LEE KI BAEK (RETAINED)
EDUCATION	SOHN JAE SOUK (RETAINED)
SPORTS	LEE SE KI (RETAINED)
AGRICULTURE AND FISHERIES	KIM JOO HO (RETAINED)
TRADE AND INDUSTRY	RHA WOONG BAE (RETAINED)
ENERGY AND RESOURCES	CHOI CHANG NAK (RETAINED)
CONSTRUCTION	LEE KYU HYO (RETAINED)
HEALTH AND WELFARE	RHEE HAI WON (RETAINED)

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LABOR	LEE HEUN KI (RETAINED)
TRANSPORT	CHA KYU HUN (RETAINED)
COMMUNICATIONS	LEE DAI SOON (RETAINED)
CULTURE AND INFORMATION	LEE WOONG HEE (RETAINED)
GOVERNMENT ADMINISTRATION	CHUNG KWAN YONG (RETAINED)
SCIENCE AND TECHNOLOGY	LEE TAE SUP (RETAINED)
NATIONAL UNIFICATION	HUH MOON DOH (RETAINED)
STATE MINISTER FOR POLITICAL AFFAIRS	CHOI KI SANG (RETAINED)

DIRECTOR, OFFICE OF LEGISLATION	KIM CHONG KON (NEW)
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DIRECTOR, AGENCY FOR PATRIOTS AND VETERANS AFFAIRS	KIM KEUN SOO (RETAINED)
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:CABINET:

CHUN REPLACES PREMIER; FIVE OTHER CABINET MINISTERS"
(ASIAN NEWS)

SEOUL, MAY 26 KYODO - PRESIDENT CHUN DOO HWAN TUESDAY REPLACED THE PRIME MINISTER AND FIVE OTHER CABINET MINISTERS WHO OFFERED THEIR RESIGNATIONS AMID MOUNTING PROTESTS BY OPPOSITION PARTIES AND DISSIDENTS AGAINST THE DEATH OF A UNIVERSITY STUDENT UNDER TORTURE BY POLICE.

LEE HAN KEY, FORMER CHAIRMAN OF THE BOARD OF AUDIT AND INSPECTION, REPLACED LHO SHIN YONG AS PRIME MINISTER, WHILE FINANCE MINISTER CHUN IN YONG TOOK OVER THE DEPUTY PREMIERSHIP AND THE POST OF ECONOMIC PLANNING MINISTER FROM KIM MAHN JE.

THE PRESIDENT ALSO REPLACED CHANG SE DONG, DIRECTOR OF THE NATIONAL SECURITY PLANNING AGENCY, WITH AN MOO HYUK, CHIEF OF THE NATIONAL TAX ADMINISTRATION.

CHANG AND LHO HAVE BEEN CHUN'S TOP AIDES.

IT WAS THE FIRST MAJOR CABINET RESHUFFLE BY CHUN SINCE FEBRUARY 1985. LHO AND 21 MEMBERS OF THE CHUN ADMINISTRATION TENDERED THEIR RESIGNATIONS EN BLOC EARLIER IN THE DAY APPARENTLY TAKING RESPONSIBILITY FOR THE STUDENT'S DEATH AND A FINANCIAL SCANDAL INVOLVING A LARGE SHIPPING COMPANY.

FIVE POLICE OFFICIALS HAVE BEEN ARRESTED IN CONNECTION WITH THE DEATH OF PAK JONG CHOL, A SEOUL NATIONAL UNIVERSITY STUDENT, IN JANUARY.

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:CABINET 2 SEOUL:

. PAK, 21, DIED DURING QUESTIONING AT THE NATIONAL SECURITY HEADQUARTERS.

THE RULING DEMOCRATIC JUSTICE PARTY (DJP) HEADED BY CHUN HAS BEEN CALLING FOR A MAJOR CABINET SHAKE-UP BEFORE ITS NATIONAL CONVENTION JUNE 10 TO NAME A CANDIDATE FOR A PRESIDENTIAL ELECTION SET FOR DECEMBER.

CHUN HAS SAID HE WILL STEP DOWN IN FEBRUARY NEXT YEAR AFTER SERVING A SINGLE, SEVEN-YEAR TERM AS STIPULATED BY THE CONSTITUTION.

THE REUNIFICATION DEMOCRATIC PARTY, THE LARGEST OPPOSITION FORCE, AND DISSIDENT GROUPS ARE PLANNING A RALLY IN SEOUL JUNE 10 TO COINCIDE WITH THE DJP CONVENTION IN PROTEST AGAINST THE ACTIONS OF THE GOVERNMENT AND POLICE AUTHORITIES OVER THE STUDENT'S DEATH.

THERE HAS BEEN SPECULATION THAT THE AUTHORITIES HAVE CONCEALED FACTS CONCERNING THE INCIDENT.

;;MORE

:CABINET 3 SEOUL:

NEW PRIME MINISTER LEE, 69, WAS DEAN OF THE SEOUL NATIONAL UNIVERSITY'S LAW SCHOOL BEFORE HE BECAME DIRECTOR OF THE BOARD OF AUDIT AND INSPECTION IN 1980.

A 1943 GRADUATE OF THE UNIVERSITY OF TOKYO, LEE HAS BEEN DIRECTOR OF THE KOREA-JAPAN CULTURAL EXCHANGE FOUNDATION SINCE 1985. HE HAS ALSO BEEN CHAIRMAN OF AN ASSOCIATION WHICH SUPPORTS THE DJP.

THE FOLLOWING IS A LIST OF THE FOUR OTHER NEW CABINET MINISTERS WITH THEIR PREVIOUS POSTS IN PARENTHESES:

HOME AFFAIRS -- KOH KUN (DJP PARLIAMENTARIAN),

FINANCE -- SAKONG IL (SENIOR PRESIDENTIAL SECRETARY FOR ECONOMIC AFFAIRS),

JUSTICE -- CHUNG HAE CHANG (DEPUTY DIRECTOR OF THE PROSECUTOR GENERAL'S OFFICE),

OFFICE OF LEGISLATION -- KIM CHONG KON (CHIEF PRESIDENTIAL SECRETARY).

CHUN ALSO NAMED VICE JUSTICE MINISTER YI JONG NAM AS NEW PUBLIC PROSECUTOR-GENERAL.

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MARKETING (FEATURE):



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

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Facsimile Service Cover Sheet

Number of pages (including cover sheet) 2		Message number	Date 5/21/87
To	Name of addressee (type) Mr. Roy Baban IMF Resident Representative Ministry of Finance Seoul, Korea Facsimile telephone number (822) 503-9324		
From	Name of sender (type) Hubert Neiss Deputy Director Asian Department		
Text or special instructions Please find attached my itinerary.			
Department and division (type) ASD		Extension (type) 7604	
Authorized by (type) Hubert Neiss		Signature <i>Neiss</i>	

INTERNATIONAL MONETARY FUND

I T I N E R A R Y

ASIAN DEPARTMENT

Name: Hubert NeissDate: May 22, 1987Purpose: Korea--Article IV ConsultationCity: Seoul

DATE & DAY	LV/AR	PLACE	TIME	FLIGHT	ADDRESS
May 25	Mon.	lv. Wash.(Nat.)	7:15 am	PA 780 coach	
		ar. N.Y.Kennedy	8:30 am		
		lv. N.Y.	11:00 am	JL 7 (seat 1A)	
May 26	Tues.	ar. Narita	13:45 pm		Narita Prince (JAL expense) <u>Telephone: 33-1111 1/</u>
May 27	Weds.	lv. Narita	10:00 am	JL 951 (seat 4A)	
		ar. Seoul	13:15 pm		Lotte Hotel (res.rep.) <u>9-011-92-2-77-110</u> Time difference: 14 hrs (both countries on d/s)
June 7	Sun.	lv. Seoul	18:00 pm	JL 956 (seat 2A)	
		ar. Narita	19:05 pm		
		lv. Narita	22:00 pm	JL 72 (seat 1A)	
June 7		ar. Honolulu	10:05 am		Outrigger 808-923-0711
June 8		lv. Honolulu	20:00 pm	TWA 2 waitlisted	
June 9		ar. St. Louis	8:50 am		
		lv. St. Louis	9:45 am	TW 410	
		ar. Washington (Nat.)	12:39 pm		

 or Narita View, telephone 9-011-81-476-32-1111



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1987 MAY 19 AM 6:24

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CC: HN
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MJOFFI K23243

TO: MR. HUBERT NEISS
DEPUTY DIRECTOR
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

IN RESPECT OF DMD'S FORTHCOMING VISIT TO SEOUL, KEY
MINISTERS ARE PROJECTED TO TRAVEL ABROAD ON THE FOLLOWING DATES:
DEPUTY PRIME MINISTER AND MINISTER OF ECONOMIC PLANNING (JUNE 16-25):
MINISTER OF FINANCE (JUNE 15-17): AND MINISTER OF TRADE AND INDUSTRY
(JULY 1-11). IN ORDER TO MEET ALL OF THE ABOVE, DMD'S OFFICE COULD
PLAN A VISIT (EXCLUDING DAYS OF ARRIVAL AND DEPARTURE) DURING JUNE
29-30 OR DURING JULY 13-31, 1987. BESIDES DMD'S PREFERRED PERIOD OF
VISIT, MOF WOULD ALSO APPRECIATE BEING INFORMED IF HE WOULD BE
ACCOMPANIED BY HIS WIFE.

REGARDS

BABAN

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TO: MR. HUBERT NEISS
DEPUTY DIRECTOR
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

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ASIAN DEPARTMENT

INCOMING
CABLE/TELEX

1. WITH REGARD TO DMD'S FORTHCOMING VISIT TO KOREA, WOULD HIGHLY APPRECIATE IF HIS OFFICE COULD BE INFORMED THAT THE **DEPUTY PRO XXX PRIME MINISTER AND MINISTER OF ECONOMIC PLANNING KIM MAHN-JE WOULD BE DEPARTING FOR A CONFERENCE IN BANGKOK ON JUNE 18 AND RETURNING POSSIBLY ON JUNE 21.** ACCORDINGLY, IT WOULD BE APPROPRIATE TO **RESCHEDULE DMD'S VISIT TO A LATER TIME.** THE MOF IS PREPARED TO SET AN ALTERNATE DATE CONVENIENT TO DMD.

2. OFFICIALS HAVE BEEN INFORMED OF DMD'S DESIRE TO HAVE INFORMAL MEETINGS WITH SENIOR STAFF AT THE KOREA DEVELOPMENT INSTITUTE AND THE KOREA BANK AND TO VISIT THE KOREA STOCK EXCHANGE, THE DAEWOO LEMANS AUTO PLANT, AND SAMSUNG ELECTRONICS. THIS IS IN ADDITION TO COURTESY CALLS WITH TOP POLICY OFFICIALS AND THE EC X EREMONY COMMEMORATING THE CLOSURE OF THE FUND OFFICE. AFTER CONSULTING WITH OFFICIALS ON THE LOGISTICS INVOLVED, WE WOULD **RECOMMEND A STAY OF AT LEAST TWO FULL DAYS (THAT IS, EXCLUDING THE ARRIVAL AND DEPARTURE DAYS).** IN FACT, IT WOULD BE HELPFUL FOR SCHEDULING PURPOSES IF DMD'S OFFICE COULD PLAN FOR AN AFTERNOON RATHER THAN MORNING DEPARTURE.

REARDS

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Sous-fonds:	Asia and Pacific Department Divisions Records, 1965-2008, predominant 1973-1997
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Date Reviewed:	2022-02-16

DETAILS OF WITHDRAWN MATERIAL

Date:	1987-05-13
Type:	Facsimile Service Cover Sheet and contents
To:	Roy Baban
From:	Wanda Tseng
Subject/Title:	CV's
No. of Pages:	4
Authority:	International Monetary Fund
Language:	English

The Chairman's Comments on Korea
Executive Board Meeting 87/72 - May 8, 1987

Executive Directors will recall that during the latest world economic outlook discussions, concern was expressed about exchange rate developments and trade imbalances not only between large industrial countries, but also between those countries and some of the newly industrialized countries. In this connection, the recent strengthening of Korea's current account position has raised questions about the appropriateness of Korea's exchange rate and other external policies. I discussed that issue informally with the Vice Prime Minister of Korea and the Finance Minister on the occasion of the most recent Interim Committee meeting, and I am in a position today to inform you that I have decided to initiate and conduct, with the authorities' full concurrence, a supplemental consultation with Korea pursuant to the principles and procedures of surveillance. I am convinced that such a consultation can play a constructive role within the cooperative framework of the Fund's multilateral surveillance activities.

As you know, the next Article IV consultation with Korea has been scheduled to be held in the near future. Accordingly, it seems reasonable to combine the discussions between the staff and the authorities for the supplemental and Article IV consultations, and these discussions will commence on May 18. Although I initially proposed that the discussions begin on May 20, the Finance Minister indicated that he was ready to start as soon as the staff was available. The discussions will allow an analysis of current account developments in the context of the full range of domestic and external policies that I believe are essential for a full appreciation and balanced assessment of the situation.

A report on the supplemental consultation will be issued soon after the discussions with the objective of placing it before the Executive Board as soon as possible--I hope before the end of June. The principal content of the report will be an examination of Korea's exchange rate policy in a broad context, including, inter alia, trade policy--especially import liberalization--demand management policies, and capital market policies. Developments and policies in those areas will be further reviewed in the report for the regular Article IV consultation that will be brought to the Board at a later time.

I wish to stress again that these modalities were worked out in full agreement with the Korean authorities, who have taken a very positive attitude. I am confident that this exercise will benefit both Korea and the international community.



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cc: DIV.
Susan

1987 MAY 12 AM 7:34

MIOFFI K23243

TO: MR. HUBERT NEISS
DEPUTY DIRECTOR
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

1. IN CONNECTION WITH DMD'S FORTHCOMING VISIT, WOULD HIGHLY APPRECIATE RECEIVING HIS RESUME AND TWO PASSPORT SIZE PHOTOS. THESE WOULD BE NECESSARY FOR HIS COURTESY CALL WITH THE PRESIDENT. *Lilian is taking care of this*

2. SHOULD DMD WISH TO SPEND AN EXTRA DAY FOR VISITS TO SITES OF ECONOMIC INTEREST, THE FOLLOWING ARE SUGGESTED: DAEWOO AUTO PLANT (MANUFACTURES LEMANS MODEL WITH ADVANCED ROBOTICS): SAMSUNG ELECTRONICS (MANUFACTURES TV AND VTR): SAMSUNG SEMI-CONDUCTOR: AND A TEXTILE PALNT. ALL OF THESE ARE WITHIN SHORT DRIVING DISTANCES FROM SEOUL AND COULD BE VISITED IN THE SAME DAY. KINDLY NOTE THAT TEXTILES, ELECTRONICS, AND AUTOMOBILES ARE IMPORTANT EXPORT CATEGORIES. HEAVY INDUSTRIES (SHIPBUILDING AND STEELWORKS) ARE LOCATED AT MORE DISTANT SITES AND WOULD REQUIRE A LONGER STAY.

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TO: MR. HUBERT NEISS
DEPUTY DIRECTOR
ASIAN DEPARTMENT
WASHINGTON DC 20431

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1. IN APRIL 1987, EXPORTS ON A CUSTOMS CLEARANCE BASIS CONTINUED TO GROW AT A VERY RAPID PACE. THOUGH THE RATE OF INCREASE OF EXPORT PRICES ACCELERATED, THE INCREASE IN EXPORT GROWTH WAS MOSTLY ATTRIBUTABLE TO INCREASES IN VOLUMES. THE RATE OF INCREASE OF LETTERS OF CREDIT PRESAGES CONTINUED ROBUST EXPORT GROWTH IN THE NEAR FUTURE, CONTRARY TO WIDELY-HELD EXPECTATIONS. EFFORTS OF EXPORTERS TO ACCELERATE SHIPMENTS IN THE LIGHT OF THE APPRECIATING WON MAY BE A CONTRIBUTING FACTOR BUT THIS COULD NOT BE SUSTAINED VERY LONG IF ULTIMATE DEMAND DOES NOT JUSTIFY IT. AS TO IMPORT PRICES, THE APPARENT ACCELERATION IN APRIL 1987 REFLECTS MAINLY THE RAPID DECLINE RECORDED A YEAR EARLIER, WHEN OIL PRICES WERE DROPPING. PARTLY REFLECTING MOVEMENTS IN TRADE PRICES, INFLATION HAS ACCELERATED BUT REMAINS AT A MODERATE LEVEL.

2. LATEST TRADE AND PRICE STATISTICS:

	APRIL			JAN-APRIL		
	1986	1987	PERCENT GROWTH	1986	1987	PERCENT GROWTH
TRADE: CUSTOMS CLEARANCE BASIS						
EXPORTS, FOB	2,555.5	3,621.0	41.7	9,469.1	12,988.6	37.2
IMPORTS, CIF	2,611.8	3,036.3	26.6	10,159.4	11,474.5	12.9
TRADE BALANCE	-56.3	314.7		-690.3	1,514.1	
TRADE DOCUMENTS:						
LETTER OF CREDIT	2,015.8	3,145.5	56.0	7,712.8	11,265.6	46.1
IMPORT LICENSES	2,177.6	2,086.0	28.9	8,450.4	10,222.7	21.0
PRICE INDICES						
EXPORT	96.2	101.9	5.9	95.7	100.0	5.1
IMPORT	76.9	81.8	6.4	83.3	80.5	-3.4
(MINERAL FUELS)	50.0	59.3	18.6	70.2	57.4	-18.2
CPI	143.6	147.0	2.4	143.6	145.9	1.6
WPI	124.9	126.5	1.3	127.0	125.3	-1.3



3. EXCHANGE RATES PER USD FOR APRIL 1987 WERE: W834.10 (END) AND W840.85 (AVERAGE). END-MONTH FIGURE REPRESENTS AN APPRECIATION PER USD OF 1.5 PERCENT OVER MARCH 1987 AND 3.2 PERCENT OVER DECEMBER 1986

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TO: MS. WANDA TSENG
ASIAN DEPARTMENT
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WASHINGTON DC 20431

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1. THE GROWTH RATE FOR TANGIBLE FIXED ASSETS (TFA) BY SECTOR (IN TABLE ON MAJOR BUSINESS INDICATORS IN FINANCIAL STATEMENTS ANALYSIS

BOOK) IS BASED ON THE SUM OF ABSOLUTE LEVELS OF A SAMPLE OF FIRMS IN EACH SECTOR. THE BOK DOES NOT HAVE ESTIMATES OF THE TOTAL VALUE OF TFA BY SECTOR BASED ON THESE SAMPLES. ALSO PLEASE NOTE THAT THE SERIES ON TANGIBLE FIXED ASSETS PER CAPITA (IN THOUSAND WON) COULD NOT BE USED TO CONSTRUCT THE TOTAL VALUE OF TFA BY SECTOR. TFA PER CAPITA IS EQUAL TO THE DIFFERENCE BETWEEN TFA AND RESERVE CONSTRUCTION FUNDS DIVIDED BY THE NUMBER OF EMPLOYEES IN THE SECTOR . AGAIN, THE TFA USED IN THE DENOMINATOR IS BASED ON A SAMPLE AND BY VIRTUE OF ITS SMALL SCALE CAN BE USED TO REPRESENT THE SECTORAL RATE OF CHANGE BUT NOT THE SECTORAL LEVEL.

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2. WITH RESPECT TO SUMMARY PUBLIC FINANCE FIGURES, THERE HAS BEEN NO RECLASSIFICATION OF ACCOUNTS. AS YOU KNOW, FOR EITHER REVENUE OR EXPENDITURES, THE DIFFERENCE BETWEEN THE CONSOLIDATED PUBLIC SECTOR (CPS) AND THE CENTRAL GOVERNMENT (CG) IS EQUAL TO NONFINANCIAL PUBLIC ENTERPRISE FUNDS MINUS INTERGOVERNMENTAL TRANSACTIONS. IN 1986, INTERGOVERNMENTAL TRANSACTIONS INCREASED SUBSTANTIALLY WHICH IMPLIES, BY VIRTUE OF THE IDENTITY, THAT THE DIFFERENCE BETWEEN CPS AND CG DECREASED. TO PUT IT ANOTHER WAY, THE GREATER THE OVERLAP BETWEEN CG AND PUBLIC ENTERPRISE FUNDS THE SMALLER THE DIFFERENCE BETWEEN CPS AND CG. TREASURY BUREAU OFFICIALS WOULD REQUIRE MORE TIME TO VERIFY THE REASONS BEHIND THE SUBSTANTIAL INCREASE IN INTERGOVERNMENTAL TRANSACTIONS IN 1986.

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TO: MR. HUBERT NEISS
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ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

CLAIMING THAT LAST YEAR'S RENTAL RATE WAS EXCESSIVELY LOW, THE COMPANY FROM WHICH WE HAD PREVIOUSLY RENTED COMPUTERS IS NOW ASKING FOR WON 20,000 PER SYSTEM PER DAY. EVEN THOUGH THE SYSTEM WOULD INCLUDE CPU, PRINTER, AND SOFTWARE (LOTUS 123 AND PFS:WRITE), AS IN THE YEAR BEFORE, THE CHARGE APPEARS EXCESSIVE. THE TOTAL BILL FOR THREE SYSTEMS FOR TWO WEEKS WOULD AMOUNT TO A LITTLE OVER US 1,000 DOLLARS. THE RENTAL MARKET IS NOT DEVELOPED AND WE FOUND THIS COMPANY LAST YEAR ONLY AFTER AN EXHAUSTIVE TELEPHONE SEARCH. WE WERE THEN ITS FIRST RENTAL CUSTOMERS. AIDED BY MOF COLLEAGUES, I AM SEARCHING FOR ALTERNATIVE AND LESS EXPENSIVE SOURCES. IN THE MEANWHILE, HOWEVER, FOR INSURANCE THE MISSION MAY WISH TO EXPLORE BRINGING LAPTOP COMPUTERS, TO AUGMENT THE PORTABLE PC IN THE OFFICE. IN RESPECT OF SOFTWARE, KINDLY NOTE THAT THE OFFICE HAS LOTUS 123 (OLD VERSION), ESP, AND MULTIMATE WITH MANUALS.

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TO: MR. HUBERT NEISS
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1. MOF EASED SOME FOREIGN EXCHANGE CONTROL REGULATIONS EFFECTIVE MAY 1, AS FOLLOWS:

A. THE FOREIGN EXCHANGE ALLOCATION FOR LIVING EXPENSES ABROAD OF GRADUATE STUDENTS AND PARTICIPANTS IN APPROVED TRAINING COURESSES WAS RAISED BY USD 1,000 TO USD 1,500 PER MONTH. IN ADDITION, THE ALLOCATION FOR ACCOMPANYING FAMILY MEMBERS WAS RAISED FROM A FLAT AMOUNT OF USD 500 REGARDLESS OF FAMILY SIZE TO USD 500 FOR SPOUSE AND USD 300 PER CHILD. THE BASIC ALLOCATION FOR SETTLEMENT EXPENSES REMAINED AT USD 2,000 PER STUDENT AND USD 1,000 PER FAMILY MEMBER.

B. KOREANS TRAVELLING ABROAD WERE AUTHORIZED TO USE CREDIT CARDS TO PAY FOR MEDICAL CHARGES, SHIPPING FEES, AND PURCHASES OF BUSINESS-RELATED MATERIALS AND BOOKS. PREVIOUSLY, CREDIT CARDS COULD BE USED ONLY TO SETTLE CHARGES FOR TRANSPORTATION, HOTELS, AND FOOD. MOREOVER, THE AMOUNT OF CASH THAT MAY BE CARRIED PER TRIP WAS RAISED FROM USD 500 TO USD 1,000 GENERALLY, AND TO USD 2,000 FOR TRIPS LASTING TEN DAYS OR LONGER AND INVOLVING STOPS TO AT LEAST TWO COUNTRIES.

C. FOREIGN EXCHANGE PAYMENTS FOR SERVICES DIRECTLY LINKED TO EXPORTS AND IMPORTS (E.G., FREIGHT CHARGES, INSURANCE PREMIUMS, AGENTS' COMISSIONS, PORT USAGE FEES, AND INTEREST PAYMENTS ON DOCUMENTS AGAINST ACCEPTANCE) WOULD HENCEFORTH NO LONGER REQUIRE PERMISSION FROM BANKS AUTHORIZED TO DEAL IN FOREIGN EXCHANGE. TO EFFECT THESE PAYMENTS, ONLY CONFIRMATION OF DOCUMENTATION BY SUCH BANKS WOULD BE REQUIRED.

D. CONTRACTS INVOLVING FOREIGN EXCHANGE PAYMENTS FOR INFORMATION AND COMMUNICATION SERVICES, WHICH PREVIOUSLY REQUIRED THE APPROVAL OF THE BANK OF KOREA, WOULD NOW NEED THE PERMISSION ONLY OF BANKS AUTHORIZED TO DEAL IN FOREIGN EXCHANGE.

2. MOF ALSO ANNOUNCED THE FORMATION OF A TASK FORCE TO FORMULATE A THREE-YEAR PROGRAM FOR THE FURTHER LIBERALIZATION OF EXCHANGE



CONTROLS ON INVISIBLE TRADE. THIS BODY WILL BE COMPOSED OF OFFICIALS
FROM MOF, THE BANK OF KOREA, THE FOREIGN EXH
XXX EXCHANGE BANK, AND FIVE
COMMERCIAL BANKS.

REGARDS

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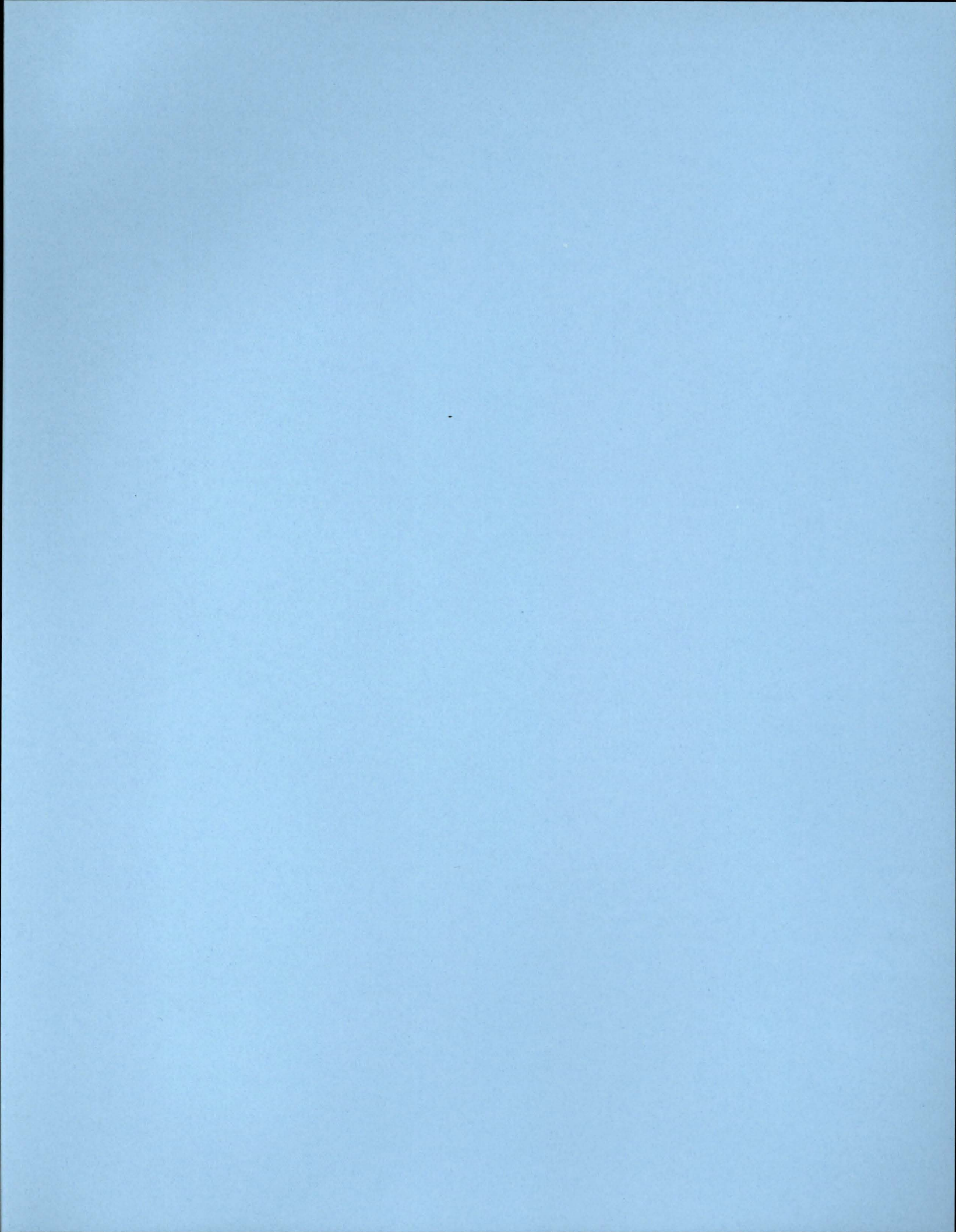
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ORIG: MR. NEISS

CC: MR. SZAPRY

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MESSRS. NEISS AND SZAPRY
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1. IN 1986, KOREA'S DEBT SERVICE RATIO ROSE BY ABOUT 1 PERCENTAGE POINT TO 24.8 PERCENT, REFLECTING EARLY AMORTIZATION PAYMENTS. EXCLUDING SUCH PAYMENTS, WHICH AMOUNTED TO US 1.2 BILLION, THE DEBT SERVICE RATIO WOULD HAVE FALLEN TO 22 PERCENT. IN 1987, THE DEBT SERVICE RATIO IS FORECAST TO FALL TO 21.5 PERCENT (INCLUDING ABOUT US 950 MILLION IN EARLY AMORTIZATION PAYMENTS) OR TO 19.4 PERCENT (EXCLUDING SUCH PAYMENTS. THE TABLE BELOW FOLLOWS THE FORMAT OF TABLE V-16 IN THE 1986 CONSULTATION QUESTIONNAIRE. THE 1987 FIGURE FOR EXPORTS OF GOODS AND SERVICES CORRESPONDS TO EPB'S OFFICIAL BALANCE OF PAYMENTS FORECAST (WHICH IMPLES A CURRENT ACCOUNT SURPLUS OF USD 5 BILLION). A MORE OPTIMISTIC FORECAST WOULD RESULT IN AN EVEN LOWER DEBT SERVICE RATIO.

2. DEBT SERVICE, 1985-87 (IN USD MILLIONS)

	1985	1986	1987
	----	----	----
INTEREST	3687	3686	3270
MEDIUM/LONG	2692	2913	2580
SHORT	995	773	690
AMORTIZATION	4192	6700	6600
FINANCIAL INST.	810	1983	2200
PUBLIC SECTOR	704	1006	1100
PRIVATE SECTOR	1128	1526	1600
OTHER	1550	2185	1700
TOTAL DEBT SERVICE	7879	10386	9870
DEBT SERVICE RATIO	23.9	24.8	21.5
INTEREST RATIO	11.2	8.8	7.1
AMORTIZATION RATIO	12.7	16.0	14.4

MEMO ITEMS:

AVE. INTEREST (PERCENT PER ANNUM)	8.2	7.9	7.5
3-MONTH LIBOR (PERCENT PER ANNUM)	8.4	6.8	6.3
EXPORTS OF GOODS AND SERVICES	32931	41796	45920

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1. PRELIMINARY FISCAL DATA FOR 1986 INDICATES THAT ACTUAL PERFORMANCE SUBSTANTIALLY EXCEEDED BUDGETARY FORECASTS IN RESPECT OF THE SIZES OF THE CENTRAL GOVERNMENT (CG) AND THE CONSOLIDATED PUBLIC SECTOR (CPS), AND THEIR DEFICITS RELATIVE TO GNP. CONSISTENTLY WITH THE TREND OBSERVED IN RECENT YEARS, THE RATIO OF EXPENDITURE AND NET LENDING OF THE CPS TO GNP DECLINED BY ABOUT 2 PERCENTAGE POINTS TO 19 PERCENT. WITH THE CPS ACCOUNT IN VIRTUAL BALANCE, THE RATIO OF THE DEFICIT TO GNP DECLINED BY ABOUT 1 PERCENTAGE POINT TO A NEGLIGIBLE FIGURE. THESE FAVORABLE DEVELOPMENTS LARGELY REFLECT THE IMPROVED PERFORMANCE OF THE CENTRAL GOVERNMENT. THE LATTER, IN TURN, IS MAINLY ATTRIBUTABLE TO: (1) A HIGHER THAN EXPECTED SURPLUS IN THE GENERAL ACCOUNT; (2) LOWER THAN EXPECTED DEFICITS FOR THE NATIONAL HOUSING FUND AND THE NATIONAL INVESTMENT FUND; AND (3) A LOWER THAN EXPECTED DEFICIT FOR EXTRABUDGETARY ACCOUNTS (PRIMARILY OWING TO LOWER FOREIGN BORROWING ON-LENT TO THE PRIVATE SECTOR). THE GRAIN MANAGEMENT FUND, WHICH HAD BEEN OF PARTICULAR INTEREST AMONG THE VARIOUS PUBLIC ENTERPRISE FUNDS, REGISTERED A SURPLUS OF W 64 BILLION INSTEAD OF THE BUDGETED FIGURE OF W 110 BILLION, LARGELY OWING TO A WIDENED GAP BETWEEN BUYING AND SELLING PRICES AND A MORE FAVORABLE HARVEST. THE 1987 BUDGET REFLECTS A MORE EXPANSIONARY FISCAL STANCE, PARTLY ATTRIBUTABLE TO EXPENDITURES RELATED TO AN ELECTION YEAR AND THE EXPANSION OF SOCIAL WELFARE PROGRAMS.

2. OPERATIONS OF THE CENTRAL GOVERNMENT AND CONSOLIDATED PUBLIC SECTOR

	1985 ACTUAL	1986 BUDGET	1986 ACTUAL	1987 BUDGET
(IN BILLIONS OF WON)				
CENTRAL GOV'T				
REVENUE	13,922	15,458	15,841	17,323.0
EXPENDITURE	14,867	16,986	15,927	18,602.9
OF WHICH: NET LENDING	(1,530)	(1,671)	(978)	(1,772.0)
BALANCE	-945	-1,528	-86	-1,279.9
NET FINANCIAL TRANSACTIONS B/W CENTRAL GOV'T AND THE PUBLIC FUNDS	232	21	21	-20.9

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CONS. PUBLIC SECTOR				
REVENUE	14,505	15,774	15,856	17,356.8
EXPENDITURE	15,218	17,281	15,921	18,657.9
OF WHICH: NET LENDING	(1,443)	(1,562)	(908)	(1,714.2)
BALANCE	-713	-1,507	-65	-1,300.8
FINANCING				
DOMESTIC	713	1,507	65	1,300.8
BANK	273	1,211	221	1,284.8
NON BANK	(40)	(562)	(24)	(424.5)
FOREIGN	(233)	(649)	(197)	(860.3)
	440	296	-156	16.0

MEMO ITEMS:

GNP NOMINAL (WON BILLIONS)	72,850	83,833	83,833	92,571
RATIOS TO GNP:				
CENTRAL GOV'T				
EXP. AND NET LENDING	20.4	20.3	19.0	20.1
REVENUE	19.1	18.4	18.9	18.7
DEFICIT	-1.3	-1.9	-0.1	-1.4
CONS. PUBLIC SECTOR				
EXP. AND NET LENDING	20.9	20.6	19.0	20.2
REVENUE	19.9	18.8	18.9	18.8
DEFICIT	-1.0	-1.8	-0.1	-1.4

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1. THE FOLLOWING ARE END-OF-MONTH FINANCIAL INDICATORS (CHANGES IN PERCENT)

	1986		1987		
	NOV.	DEC.	JAN.	FEB.	MAR(P)
MONETARY SURVEY					
M2	18.8	18.6	21.8	19.0	14.7
M2 PULS CDS	18.9	18.6	20.3	17.9	16.5
NET DOMESTIC CREDIT	13.0	14.4	12.7	11.3	11.1
PRIV. SECTOR CREDIT	13.6	15.1	14.4	13.8	14.3
FINANCIAL SURVEY					
M3	25.8	25.6	27.6	27.7	26.5
NET DOMESTIC CREDIT	17.6	18.0	17.3	17.2	16.3

IN MARCH 1987, THE RATE OF GRWOTH OF MOST MONETARY AGGREGATES DECELERATED, REFLECTING A FURTHER TIGHTENING OF MONETARY POLICY PROMPTED BY THE IMPACT ON DOMESTIC LIQUIDITY OF THE GROWING BALANCE OF PAYMENTS SURPLUS. WHILE THE GROWTH OF DOMESTIC CREDIT OF THE BANKING SYSTEM DECELERATED SLIGHTLY, AN ABSOLUTE DROP IN PUBLIC SECTOR CREDIT REQUIREMENTS ENABLED SOME ACCELERATION IN THE GROWTH OF PRIVATE SECTOR CREDIT. LARGELY ON ACCOUNT OF DIRECT CREDIT RESTRAINTS AND THE ISSUE OF MONETARY STABILIZATION BONDS, THE GROWTH OF M2 FELL BELOW THE OFFICIAL TARGET RANGE OF 15-18 PERCENT.

2. FEBRUARY FINAL 1987(FIRST FIGURE) AND MARCH PRELIMINARY 1987 (SECOND FIGURE) FOR TABLE 1 AND 2 ON CURRENT EXCHANGE RATE BASIS.

TABLE 1

A. 1,176, 672, B. -206, -419, B1. 2,075, 2,087, B2. 5, 5, B3. -, -, B4. 2,286, 2,511, B5. -, -, B6. -, -, C. 812, 521, C1. 500, 452, C2. 625, 638, C3. 915, 879, C4. 1,547, 1,528, C5. 16, 1, C6. 220, 370, C7. -12, -13, C8. 57, 17, C9. 2,526, 2,603, C9A. 1,378, 1,456, C9B. 1,031, 1,026, C9C. 117, 121, C. 606, 102, E. 570, 570.

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TABLE 2

 A. 41,746, 41,432, A1. 48,249, 48,388, A1A. 1,176, 672, A1B. 47,073, 47,716, A2. -6,503, -6,956, A2A. -891, ..., A2B. -3,443, ..., A2C. +277, ..., A2D. 2,570, ..., A2E. -4,061, ..., A2F. -955, ..., B. 35,392, 35,563, B1. 34,030, 33,463, B1A. 8,505, 7,768, B1A 1) 3,283, 3,202, B1A 2) -, -, B1A 3) 9,849, 10,276, B1A 4) 4,627, 5,710, B1B. 25,525, 25,695, B2. 1,362, 2,100, C. -4,896, -4,487, C1. 8,642, 8,350, C1A. 3,974, 3,524, C1B. 4,668, 4,826, C2. 13,538, 12,837, C2A. 1,882, 1,878, C2B. 11,656, 10,959, D. 1,458, 1,382.

3. FEBRUARY FINAL 1987(FIRST FIGURE), MARCH PRELIMINARY 1987 (SECOND FIGURE) ARE AS FOLLOWS:

MONETARY SURVEY

-4,896, -4,487, 8,642, 8,350, 13,538, 12,837, -1,458, -1,382, 41,746, 41,432, 48,249, 48,388, 1,176, 672, 47,073, 47,716, -6,503, -6,956, 35,392, 35,563, 8,505, 7,768, 25,525, 25,695, 1,362, 2,100, 10.5, 11.2, 3.3, 3.8, 4.1, 1.5, 16.3, 15.8, -2.8, -3.8, 19.1 19.6, -12.2, -14.3, 17.9, 16.5, 3.0, 1.1, 13.8, 14.3.

FINANCIAL SURVEY

-11,920, -11,536, 8,807, 8,482, 20,727, 20,018, 90,561, 91,041, -1,769, -2,277, 570, 570, 91,760, 92,748, 69,676, 70,322, 8,505, 7,768, 25,525, 25,695, 1,126, 1,852, 35,740, 36,613, (1,220), (1,606), 8,965, 9,183, 2,273, 2,797, -, -, 6,692, 6,386, 28.0, 26.3.

NBFIS SURVEY

-7,250, -7,276, 166, 132, 7,416, 7,408, 43,929, 44,542, -2,375, -2,379, -, -, 46,304, 46,921, 35,740, 36,613, -, -, -, -, -, -, 35,740, 36,613, -, -, 939, 563, 6,692, 6,386, -, -,
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.SUBAAB: MIOFFI K23243
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MESSRS. NEISS AND SZAPARY
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

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MOF HAS ANNOUNCED MEASURES TO FURTHER RESTRICT CREDIT TO LARGE EXPORTERS, TO INFLUENCE THE DIRECTION OF TRADE, TO DISCOURAGE SPECULATIVE CAPITAL INFLOWS, AND TO INCREASE CERTAIN CAPITAL OUTFLOWS. THE MEASURES TOOK EFFECT APRIL 21, UNLESS OTHERWISE INDICATED.

1. THE EXPORT FINANCING RATIOS (IN WON PER US DOLLAR) WERE REDUCED FURTHER AS FOLLOWS:

	SEPT 12	OCT 21(&)	FEB 12	FEB 12(&)	APR 21(&)
PRODUCTION OF EXPORT GOODS	710	690	680	650	580
PURCHASE OF DOMESTIC RAW MATERIALS	780	760	750	720	650
PURCHASE OF IMPORTED RAW MATERIALS	520	430	530	450	360
PURCHASE OF DOMESTIC FINISHED GOODS	590	570	580	550	480
WEIGHTED AVERAGE	700	670	680	645	575

(&) LARGE ENTERPRISES ONLY (DEFINED AS THOSE WITH ANNUAL EXPORTS EXCEEDING USD 8 MILLION, EMPLOYEES EXCEEDING 1,000, AND TOTAL ASSETS EXCEEDING WON 30 BILLION).

2. BANKS WERE BANNED FROM EXTENDING NEW LOANS TO THE 30 LARGEST CONGLOMERATES FOR INVESTMENTS IN EXPORT FACILITIES. THIS MEASURE AND THE LOWER FINANCING RATIOS ARE ESTIMATED TO REDUCE THE AVAILABILITY OF BANK FINANCING TO LARGE BUSINESS GROUPS BY WON 400 BILLION.



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3. BANKS WERE AUTHORIZED TO FINANCE 100 PERCENT OF IMPORTS OF INDUSTRIAL FACILITIES AND PARTS FROM COUNTRIES WITH WHICH KOREA HAS A TRADE SURPLUS. THE PREVIOUS LIMIT OF 80 PERCENT CONTINUES TO APPLY TO SUCH IMPORTS FROM OTHER COUNTRIES.

4. FOR IMPORTS OF RAW MATERIALS AND PARTS FROM COUNTRIES WITH WHICH KOREA HAS A TRADE SURPLUS, DOMESTIC BANKS WERE AUTHORIZED TO EXTEND THE USANCE PERIOD FROM 60 DAYS TO 90 DAYS. THE USANCE PERIOD FOR JAPAN AND OTHER NEIGHBORING COUNTRIES (HONG KONG AND SOUTHEAST ASIAN COUNTRIES) WILL REMAIN AT 30 DAYS, REGARDLESS OF TRADE BALANCES, BECAUSE OF PROXIMITY.

5. ALL IMPORTS FROM COUNTRIES WITH WHICH KOREA HAS A TRADE SURPLUS WOULD BE ELIGIBLE FOR IMPORTATION ON A USANCE BASIS. IMPORTS FROM OTHER COUNTRIES ON A USANCE BASIS WOULD CONTINUE TO BE SUBJECT TO THE REQUIREMENT THAT TARIFFS BE LOWER THAN 10 PERCENT GENERALLY AND LOWER THAN 5 PERCENT IN THE CASE OF JAPAN, HONG KONG, AND NEIGHBORING SOUTHEAST ASIAN COUNTRIES, REGARDLESS OF TRADE BALANCES.

6. EFFECTIVE JUNE 1, THE MAXIMUM DELAY IN THE PAYMENT OF IMPORT DUTIES ON ITEMS USED FOR EXPORTS WILL BE SHORTENED AS FOLLOWS:

ORIGINAL PERIOD IN MONTHS	NEW PERIOD IMPORTS FROM JAPAN	NEW PERIOD IMPORTS FROM OTHERS
1	0	1
2	1	2
3	1	2
4	2	3

THE FINANCIAL BURDEN IMPLIED BY THIS MEASURE TO IMPORTERS IS ESTIMATED AT ABOUT WON 200 BILLION IN 1987.

7. REMITTANCES OF KOREANS RESIDING ABROAD VALUED AT USD 10,000 OR MORE WILL BE MONITORED TO DISCOURAGE SPECULATION IN THE STOCK MARKET AND THE REAL ESTATE MARKET. THE OFFICE OF NATIONAL TAX ADMINISTRATION ALREADY INVESTIGATES REMITTANCES OF USD 50,000 OR MORE TO DETERMINE THEIR PURPOSE AND TO COLLECT ANY GIFT TAXES DUE.

8. TO FURTHER ENCOURAGE OVERSEAS EQUITY INVESTMENTS BY KOREAN FIRMS, NO PRIOR APPROVAL WOULD BE REQUIRED FOR INVESTMENTS OF UP TO USD 3 MILLION (PREVIOUSLY USD 2 MILLION).

9. SUBSIDIARIES ABROAD OF KOREAN FIRMS WILL BE SUBJECT TO REDUCED ACCESS TO LOANS FROM BANKS ABROAD BY MEANS OF YET UNDISCLOSED MEASURES.



SUCH LOANS AMOUNTED TO ABOUT USD 2.5 BILLION AT THE END OF 1986. IN EFFECT, KOREAN FIRMS WILL BE ENCOURAGED TO FINANCE SUCH SUBSIDIARIES FROM FUNDS RAISED IN KOREA, THEREBY PROMOTING CAPITAL OUTFLOWS.

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10. IN ADDITION, THE MOF SIGNALLED THAT FURTHER MEASURES WOULD BE TAKEN IN THE FUTURE TO REDUCE FOREIGN EXCHANGE CONTROLS. EASIER PROCEDURES WOULD APPLY TO THE PROVISION OF FOREIGN EXCHANGE FOR INVISIBLE PAYMENTS. THE REGULATIONS ON THE HIRING OF FOREIGN ENGINEERS AND CERTIFIED PUBLIC ACCOUNTANTS WOULD BE EASED. DEFERRED PAYMENT EXPORTS WOULD BE ELIGIBLE FOR LOANS DENOMINATED IN KOREAN WON. NON-RESIDENT

FOREIGNERS WOULD BE PERMITTED TO OPEN BANK ACCOUNTS DENOMINATED IN WON, FROM WHICH WITHDRAWALS MAY BE MADE PARTLY IN FOREIGN EXCHANGE. ULTIMATELY, THE KOREAN WON WOULD BE MADE ACCEPTABLE FOR INTERNATIONAL SETTLEMENTS.

MESERS. NETISS AND STAPARY
REGARDS DEPARTMENT
INTERFUND
WASHINGTON DC 20431
BABAN

MIOFFI K23243 NCED MEASURES TO FURTHER RESTRICT CREDIT TO LARGE EXPORTERS, TO INFLUENCE THE DIRECTION OF TRADE, TO DISCOURAGE SPECULATIVE CAPITAL INFLOWS, AND TO INCREASE CERTAIN CAPITAL OUTFLOWS. THE MEASURES TOOK EFFECT APRIL 21, UNLESS OTHERWISE INDICATED.

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	SEPT 12	OCT 21(&)	FEB 12	FEB 12(&)	APR 21(&)
PRODUCTION OF EXPORT GOODS	710	690	680	650	580
PURCHASE OF DOMESTIC RAW MATERIALS	780	760	750	720	650
PURCHASE OF IMPORTED RAW MATERIALS	520	430	360		
PURCHASE OF DOMESTIC FINISHED GOODS	590	570	580	550	480
WEIGHTED AVERAGE	700	670	680	645	575

(&) LARGE ENTERPRISES ONLY (DEFINED AS THOSE WITH ANNUAL EXPORTS EXCEEDING USD 9 MILLION, EMPLOYEES EXCEEDING 1,000, AND TOTAL ASSETS EXCEEDING WON 30 BILLION).

2. BANKS WERE BANNED FROM EXTENDING NEW LOANS TO THE 30 LARGEST CONGLOMERATES FOR INVESTMENTS IN EXPORT FACILITIES. THIS MEASURE AND THE LOWER FINANCING RATIOS ARE ESTIMATED TO INCREASE THE SHARE OF BANK FINANCING TO LARGE BUSINESSES FROM 40% TO 50% BY 1990.

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1987 APR 27 AM 10: 29

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ASIAN DEPARTMENT 765045

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.SUBDTG: 04270347

ORIG: MR. NEISS

.SUBSEQ: BFMIO551

CC: MR. SZAPRY

.SUBAAB: MIOFFI K23243

.TEXT:

ETR

MIOFFI K23243

MESSRS. NEISS AND SZAPARY
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

THE MINISTRY OF TRADE AND INDUSTRY ANNOUNCED ON APRIL 25 A NUMBER OF MEASURES TO INCREASE IMPORTS FROM THE UNITED STATES, WITH THE AIM OF KEEPING KOREA'S 1987 BILATERAL SURPLUS TO THE 1986 LEVEL OF USD 7.3 BILLION.

1. MTI DREW UP A PURCHASING LIST VALUED AT USD 2.624 BILLION, OF WHICH USD 2.144 BILLION SHALL EFFECTED BY THE PRIVATE SECTOR AND USD 0.48 BILLION BY THE PUBLIC SECTOR (SEE TABLE BELOW). GIVEN THAT THERE ARE ONLY EIGHT REMAINING MONTHS IN THE YEAR, ACTUAL 1987 PURCHASES UNDER THIS PROGRAM IS OFFICIALLY ESTIMATED TO AMOUNT TO ABOUT USD 2.2 BILLION.

2. IN A SURVEY OF BUSINESSES, IT WAS SHOWN THAT ONE IMPORTANT FACTOR INHIBITING IMPORTS OF MACHINERY FROM THE UNITED STATES WAS THE INADEQUACY OF AFTER SALES SERVICE AVAILABLE IN KOREA. TO REMOVE THIS BOTTLENECK, THE GOVERNMENT INTENDS TO REORGANIZE KOREAN IMPORT AGENTS (NUMBERING ABOUT 3600) BY PRODUCT CATEGORY SO AS TO ESTABLISH A MORE EFFECTIVE AFTER SALE SERVICE NETWORK.

3. TO PROVIDE FOCAL POINTS FOR US EXPORTERS TO RESOLVE ANY DIFFICULTIES THEY MAY FACE, CONSULTING OFFICES WILL BE ESTABLISHED IN THE KOREA TRADERS ASSOCIATION, THE KOREA TRADE PROMOTION CORPORATION, AND THE KOREA ASSOCIATION OF FOREIGN TRADE AGENTS.

4. WITHOUT SPECIFICS, MTI ALSO ANNOUNCED THE FOLLOWING POLICY DIRECTIONS: EXPANSION OF DOMESTIC INVESTMENT, MORE RAPID OPENING OF THE KOREAN MARKET TO IMPORTS, FURTHER REDUCTIONS IN TARIFFS, LIBERALIZATION OF SPECIAL LAWS WHICH HAVE THE EFFECT OF RESTRAINING IMPORTS, FURTHER LIBERALIZATION OF THE MARKET FOR SERVICES, AND

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VOLUNTARY EXPORT RESTRAINTS, IT MAY BE NOTED THAT FOR NEW DOMESTIC INVESTMENT TO ALLEVIATE RATHER THAN EXACERBATE THE TRADE IMBALANCE WITH THE UNITED STATES, IT WOULD HAVE TO BE EITHER IMPORT-INTENSIVE OR UNRELATED TO EXPORTS OR BOTH, MARKING A SUBSTANTIAL SHIFT AT THE MARGIN IN THE ORIENTATION OF INVESTMENT.

5. PURCHASING LIST FOR U.S. GOODS (FIGURES IN USD MILLIONS):

A. PRIVATE SECTOR

- 719 WHEAT, CORN, SOYBEANS, RAW COTTON
- 250 PARTS AND RAW MATERIALS FOR ELECTRONICS, SHIPBUILDING, AND STEEL PRODUCTS
- 50 RAW MATERIAL RESERVES: ALUMINUM, ZINC, POLYETHYLENE, COLD ROLLED SHEETS AND PLATES, ETC.
- 425 EQUIPMENT FOR SMALL AND MEDIUM SIZED FIRMS
- 700 EQUIPMENT FOR INDUSTRIAL MODERNIZATION OF THE ELECTRONICS, MACHINERY, AND PETROCHEMICAL INDUSTRIES

B. PUBLIC SECTOR (GOVERNMENT AND GOVERNMENT AGENCIES)

- 15 SUPERCOMPUTERS
- 10 HELICOPTERS, AMBULANCES, MOTORCYCLES, LIMOUSINES
- 391 TESTING EQUIPMENT, NUCLEAR STEAM SUPPLY SYSTEMS, FUEL, CABLES, CIGARETTES, BROADCASTING EQUIPMENT, ETC.

C. PUBLIC SECTOR (UNIVERSITIES AND HOSPITALS)

- 14 LABORATORY EQUIPMENT
- 50 MEDICAL EQUIPMENT

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ASIAN DEPARTMENT
765002

ORIG: MR. NEISS

CC: MR. SZAPRY

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MIOFFI K23243

MESSRS. NEISS AND SZAPARY
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

1. IN MARCH 1987, THE LEVEL OF THE EXTERNAL DEBT DECLINED FURTHER IN ABSOLUTE TERMS, REFLECTING A POLICY PREFERENCE TO DEBT REDUCTION OVER FOREIGN RESERVE ACCUMULATION. THE AMOUNT OF DEBT EXCLUDING FUND CREDIT WAS ABOUT 9 PERCENT LOWER THAN A YEAR AGO AND ABOUT 1 PERCENT (OR USD 0.3 BILLION) LOWER THAN AT THE END OF 1986. THE RATIO OF SHORT TERM DEBT TO TOTAL DEBT (EXCLUDING FUND CREDIT) REMAINED JUST UNDER 21 PERCENT.

2. THE FOLLOWING ARE LATEST EXTERNAL DEBT FIGURES.

	FEBRUARY 1987		MARCH 1987
	CONSTANT	CURRENT	CURRENT (PREL.)
A	30,958	33,466	32,546
A1.	11,177	11,316	11,248
A2.	5,309	5,857	5,822
A3.	8,216	9,076	8,370
A4.	3,070	3,690	3,589
A5.	1,750	1,750	1,750
A6.	1,189	1,530	1,551
A7.	247	247	216
B.	2,018	2,018	1,668
B1.	1,160	1,160	1,160
B2.	858	858	505
C.	8,630	8,630	8,606
C1.	2,571	2,571	2,504
C2.	544	544	600
C3.	1,390	1,390	1,237
C4	297	297	301
C5	2,014	2,014	2,002
C6	1,814	1,814	1,962
D	41,606	44,114	42,820
E	40,417	42,584	41,269

MEMO ITEMS:

GROWTH OF ITEM E (12 MONTHS PERCENT)	-8.0	-6.2	-8.9
C/E (PERCENT)	21.4	20.3	20.9

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ORIG: ASD
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MESSRS. NEISS AND SZAPARY
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

1. MOF IS MAILING TODAY A FORMAL INVITATION FROM THE MINISTER OF FINANCE TO DMD TO ATTEND A SPECIAL CEREMONY TO COMMEMORATE THE CLOSURE OF THE FUND OFFICE. AT THAT TIME, THE DMD WOULD BE EXPECTED TO ADDRESS A GATHERING OF HIGH OFFICIALS. THE TIMING OF THIS OCCASION IS LEFT OPEN AT THE MOMENT AND WOULD DEPEND PARTLY ON DMD'S SCHEDULE. KOREAN OFFICIALS WOULD PREFER THIS CEREMONY TO TAKE PLACE POSSIBLY IN JULY 1987, SEPARATELY FROM THE FUND'S CONSULTATION MISSION. ON OUR SIDE, I HAD PROPOSED TO MR. NARVEKAR THE HANDING OVER OF A PLAQUE WITH THE NAMES OF ALL RESREPS AND THEIR DATES OF TENURE. ANY OTHER SUGGESTION WOULD BE MOST WELCOME.
2. THE GOVERNMENT ANNOUNCED TODAY THAT THE NATIONAL ASSEMBLY WILL BE CONVENED FOR A SPECIAL SESSION OF 10 DAYS BEGINNING MAY 4. PROCEEDINGS WILL INCLUDE INTERPELLATION ON ECONOMIC QUESTIONS.
3. IN MY TELEX OF APRIL 23 ON THE KOREA-US TRADE TALKS, ITEM C ON THE PROVISION OF FOREIGN CURRENCY LOANS AND AUTHORIZATION OF THE ISSUE OF CONVERTIBLE BONDS BOTH FOR PURCHASES OF CAPITAL IMPORTS WAS ANNOUNCED JUST ~~RRR~~ PRIOR TO SECRETARY BALDRIGE'S ARRIVAL AND WAS THEREFORE NOT, STRICTLY SPEAKING, PART OF THE AGREEMENT.

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1. IN MARCH 1987, THE EXTERNAL CURRENT ACCOUNT REGISTERED A RECORD SURPLUS OF USD 0.9 BILLION, RAISING THE CUMULATIVE AMOUNT FOR THE FIRST QUARTER TO USD 2 M

X BILLION. CONTRARY TO EXPECTATIONS, REAL EXPORT GROWTH ACCELERATED TO ABOUT 37 PERCENT IN MARCH 1987 AND ABOUT 30 PERCENT IN THE FIRST QUARTER OF 1987, POSSIBLY REFLECTING THE EXPEDITING OF SHIPMENTS BY EXPORTERS IN THE LIGHT OF THE APPRECIATING TREA

XXXX TREND OF THE WON. IN THE SERVICES ACCOUNT, SEVERAL LINES CONTINUE TO SHOW IP

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IMPROVEMENT IN Q1-1987 OVER TE
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XX THE SAME PERIOD

LAST YEAR. NET RECEIPTS FROM TRAVEL IS 3.5 TIMES LARGER. NET INVESTMENT INCOME PAYMENTS IS ABOUT 35 PERCENT LOWER, OWING TO LOWER INTEREST RATES AND A LOWER LEVEL OF EXTERM

N
NAL DEBT.

NET RECEIPTS FROM OVERSEAS CONSTRUCTION HAVE RECOVERED, PARTLY REFLECTING THE COLLECTION OF RECEIVABLES IN WAKE OF THE IMPROVEMENT OF OIL PRICES. DIRECTION OF TRADE IMBALANCES APPEAR TO BE WIDENING. IN 1

Q
X Q1-1987, THE TRADE SURPLUS WITH THE UNITED STATES IS ABOUT 42 PERCENT HIGHER AND THE TRADE DEFICIT WITH JAPAN IS ABOUT 16 PERCENT HIGHER THAN IN Q1-1986. THE KOREAN OFFICIAL TARGET IS TO KEEP TE

XX THE 1987 BILATERAL SURPLUS WITH THE UNITED STATES AT ABOUT LAST YEAR'S LEVEL OF USD 7.3 BILLION.

2. SUMMARY BALANCE OF PAYMENTS (IN MILLIONS OF US DOLLARS)

	MAR (P)		JAN-MAR (P)	
	1986	1987	1986	1987
CURRENT	57	919	-438	2,058



	1986	1987	1986	1987	1986	1987
TOTAL	1,609 8 8 8	2,411	2,048	2,031	-440	380
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	334	407	183	188	151	219
OTHER TRANS	150	216	362	448	-212	-232
TRAVEL	226	457	142	159	84	298
INVESTMENT INCOME	201	262	995	783	-794	-521
OVERSEAS CONST.	146	355	28	11	118	344
OTHER	551	714	338	442	213	272

4. DIRECTION OF TRADE (IN MILLIONS OF USD, CUSTOMS CLEARANCE BASIS)

	JAN- MAR 1986			JAN-MAR 1987		
	EXPORTS	IMPORTS	BALANCE	EXPORTS	IMPORTS	BAN XXX BALANCE
UNITED STATES	2,811	1,515	1,296	3,551	1,713	1,838
JAPAN	1,090	2,187	-1,096	1,600	2,869	- 1,268
U.K.	227	138	89	305	180 XXX 127	178
CANADA	315	189	126	307	180	127
TOTAL	6,894	7,548	-654	9,367	8,168	1,469

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INCOMING CABLE/TELEX



TRADE BALANCE	130	607	-176	1,438
EXPORTS FOB	2,491	3,577	6,804	9,260
IMPORTS CIF	2,361	2,970	6,980	7,822
SERVICES, NET	-140	216	-440	380
TRANSFERS, NET	67	96	178	240

CAPITAL ACCOUNT

MEDIUM/LONG, NET

-3	-421	1	-133	60
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SHORT-TERM, NET

-53	4	-106		109
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84	68	373		-51
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OVERALL BALANCE

IMF	85	570	-304	2,176
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BOK	127	517	-128	2,051
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(NON-DMB SWAPS)	42	-53	176	-125
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PERCENTAGE CHANGE:

EXPORTS FOB	14			
	.7	43.6	17.5	36.1
EXPORT PRICES	-0.7	5.0	-1.6	4.8
IMPORTS CIF	13.5	25.8	10.6	12.1
IMPORT PRICES	112			
	XXX			
	-12.2	1.4	-6.9	-6.2

INCOMING CABLE/TELEX

3. SERVICES ACCOUNT (IN MILLIONS OF USD)

JAN-MAR

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PAYMENTS

NET



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 .SUBDTG: 04230258
 .SUBSEQ: IMF3375
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 248331 IMF UR
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THE FOLLOWING AGREEMENTS WERE MADE DURING THE KOREA-UNITED STATES TRADE TALKS ATTENDED BY U.S. SECRETARY OF COMMERCE BALDRIGE:

A. KOREA WILL PERMIT THE IMPORTATION OF ANALOG COMPUTERS, HYBRID COMPUTERS, AND CARD PUNCHERS ON JULY 1, 1987, A YEAR

EARIER THAN SCHEDULED.

B. KOREA WILL SEND THREE BUYING MISSIONS TO THE UNITED STATES BEFORE THE END OF 1987 TO MAKE PURCHASES IN THE FOLLOWING CATEGORIES: GENERAL, MACHINERY, AND ELECTRONICS. THESE MISSIONS ARE EXPECTED TO CONTRIBUTE TOWARD KEEPING KOREA'S BILATERAL SURPLUS WITH THE UNITED STATES IN 1987 TO ABOUT THE 1986 LEVEL OF USD 7.3 BILLION.

C. TO ENCOURAGE IMPORTS, THE KOREAN GOVERNMENT WILL MAKE AVAILABLE OVER THE NEXT 12 MONTHS USD 2.5 BILLION OF FOREIGN CURRENCY LOANS FOR THE PURCHASE OF CAPITAL IMPORTS. THESE LOANS, TO BE MAINLY DENOMINATED IN US DOLLARS, WILL BEAR AN INTEREST RATE OF 1.5 PERCENT OVER LIBOR. WITH THE APPRECIATING TREND OF THE KOREAN WON, THE EFFECTIVE RATE OF INTEREST IN WON IS EXPECTED TO BE NEGLIGIBLE. IN ADDITION, THE GOVERNMENT WILL AUTHORIZE FIRMS TO ISSUE USD 500 MILLION OF CONVERTIBLE BONDS ABROAD FOR THE PURCHASE OF CAPITAL GOODS IMPORTS.

D. EFFECTIVE JULY 1, 1987, KOREA WILL ABOISH THEMANDATORY DOMESTIC CONTENT RATIO IN LARGE COMPUTER PURCHASES BY PUBLIC ORGANIZATIONS AND CRT TERMINALS PURCHASES BY BANKS. THE ANALOGOUS RATIO FOR PURCHASES OF PERSONAL COMPUTUERS WILL BE ABOLISHED ON JANUARY 1, 1988.

E. KOREAN INSPECTION PROCEDURES FOR IMPORTED AUTOMOBILES WILL CONFORM WITH THOSE IN DEVELOPED COUNTRIES. (THIS IS TO PREVENT INSPECTION PROCEDURES FROM BECOMING IN EFFECT A BARRIER TO TRADE).

F. THE NUMBER OF AUTOMOTIVE PARTIS REQUIRED TO BEAR THE KOREA STANDARD MARK WILL BE REDUCED FROM ELEVEN TO TWO ITEMS.

G. THE QUARANTINE PERIOD FOR IMPORTED CHOCOLATES WILL BE REDUCED



FROM 25 DAYS TO 12 DAYS.

H. KOREA WILL HOST A TRADE SHOW FOR US PRODUCTS ON NOVEMBER 2-5
1987.

I. THE US WILL REFRAIN FROM RESTRICTING ORDERLY EXPORTS FROM
KOREA OF AUTOMOBILES, SEMICONDUCTOR CHIPS, MACHINE TOOLS. THE US
WILL REFRAIN FROM CURTAILING KOREAN PRIVILEGES UNDER THE US GSP.
MOREOVER, THE US ADMINISTRATION WILL EXERCISE ITS BEST EFFORTS TO
RESTRAIN PROTECTIONIST LEGISLATION AFFECTING KOREA.

REGARDS
BABAN

248331 IMF UR 8881

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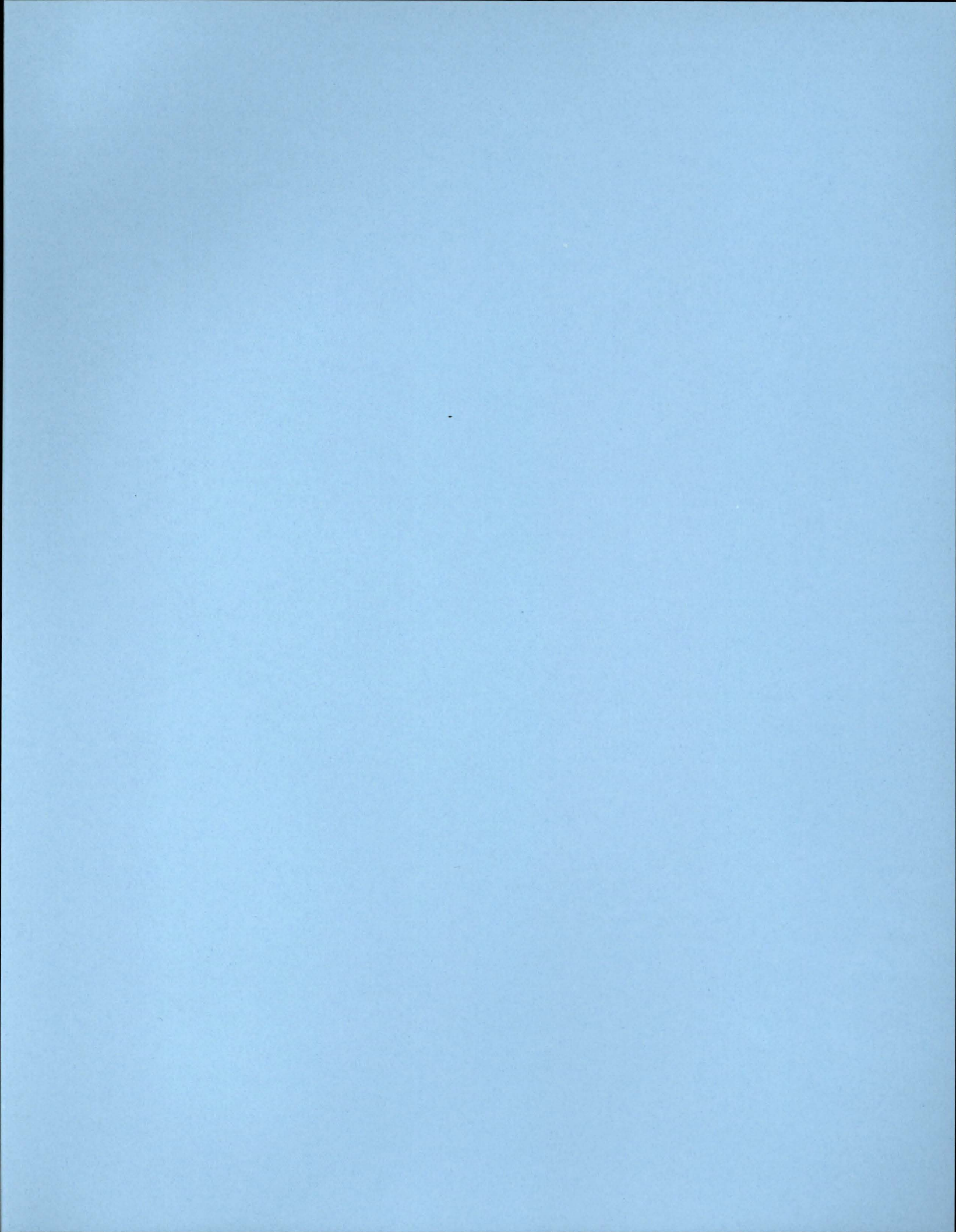
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23 MR. ROY BABAN

22 IMF RESIDENT REPRESENTATIVE

21 C/O MINISTRY OF FINANCE

20 SEOUL, KOREA

19

18 REURTELEX OF APRIL 14, AHRENSDORF AND RAHMAN PROVIDED

17 TECHNICAL ASSISTANCE FOR THE IMPLEMENTATION OF A FLOATING

16 RATE SYSTEM PRIOR TO THE OPENING OF THE RESIDENT

15 REPRESENTATIVE'S OFFICE IN OCTOBER 1965.

14 REGARDS,

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C TELEX NO.: MIOFFI K23243

D DRAFTED BY NAME (TYPE): WTSENG/de

EXT.: 7367 DEPT.: ASD DATE: 4/14/87

E AUTHORIZED BY NAME (TYPE): G. Szapary

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 ASIAN DEPARTMENT

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TO: MRSSRS. SZAPARY AND WILLIAMS
 ASIAN DEPARTMENT
 INTERFUND
 WASHINGTON DC 20431

INCOMING CABLE/TELEX

1. IN MARCH 1987, BOTH EXPORTS AND IMPORTS REGISTERED VERY HIGH RATES OF INCREASE ON A CUSTOMS CLEARANCE BASIS. THESE WERE ATTRIBUTABLE MAINLY TO INCREASES IN REAL TERMS, IN VIEW OF THE MODERATE INCREASES IN TRADE PRICES. SO FAR IN THE FIRST QUARTER, THE TRADE SURPLUS AMOUNTED TO USD 1.1 BILLION, COMPARED WITH A DEFICIT OF USD 0.6 BILLION IN THE SAME PERIOD LAST YEAR. BOTH CONSUMER AND WHOLESALE PRICES POINT TO A FIRING TREND BUT THE RATES OF INCREASE REMAIN LOW (CPI) OR NEGATIVE (WPI).

2. LATEST TRADE AND PRICE STATISTICS:

	MARCH			JAN-MARCH		
	1986	1987	PERCENT GROWTH	1986	ENT1987	PERCN GROWTH
TRADE: CUSTOMS CLEARANCE BASIS						
EXPORTS, FOB	2,572.8	3,063.8	40.1	6,913.6	9,335.6	35.0
IMPORTS, CIF	2,546.8	3,142.6	23.4	7,547.6	8,190.5	8.5
TRADE BALANCE	26.0	460.7		-634.0	1,145.1	
TRADE DOCUMENTS:						
LETTER OF CREDIT						
	2,139.2	3,142.7	46.9	5,697.0	8,106.6	42.3
IMPORT LICENSES	2,165.9	2,718.3	25.5	6,272.8	7,425.2	18.4
PRICE INDICES (+)						
EXPORT	96.0	100.8	5.0	95.6	100.2	4.8
IMPORT	80.2	81.3	1.4	85.4	80.1	-6.2
(MINERAL FUELS)	60.6	59.8	-1.3	(76.9)	(56.8)	(-26.2)
CPI	143.6	146.0	1.7	143.6	145.5	1.3
WPI	125.9	125.1	-0.6	127.7	124.8	-2.3

(+) JANUARY - MARCH FIGURES ARE TWO-MONTH AVERAGES.

3. EXCHANGE RATES PER USD FOR MARCH 1987 WERE: W846.9 (END) AND W 851.47 (AVERAGE). END-MONTH FIGURE REPRESENTS AN APPRECIATION PER USD OF 0.9 PERCENT OVER FEBRUARY 1987 AND 1.7 PERCENT OVER DECEMBER



1986.

4. FOR MS. TSENG: MOF ARCHIVES SUGGEST THAT MR. AHRENSDORF AND MR. A RAHMAN (MAY 65 TO MAY 66) MAY HAVE SERVED IN KOREA IN SOME CAPACITY BEFORE MR. KANESA-THASAN. KM KINDLY VERIFY IF THEY WERE RESIDENT REPRESENTATIVES.

5. IN LIEU OF ANNUAL LEAVE TODAY (APRIL 14), INTEND TO TAKE ANNUAL LEAVE ON THURSDAY, APRIL 16.

REGARDS

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C/O MINISTRY OF FINANCE
3RD GOVT. BLDG., RM. 422
KWACHEON, KYUNGKI-DO, 171-11
REPUBLIC OF KOREA

Tlx. MIOFFI K23243
Tel. 503-9269

April 10, 1987

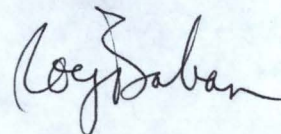
Mr. P.R. Narvekar
Director
Asian Department
International Monetary Fund
Washington D.C., USA 20431

Dear Mr. Narvekar:

Attached please find a note entitled "The United States and Korean Exchange Rate Policy." It suggests that appreciation of the won would be an inefficient instrument to redress the bilateral imbalance between the two countries. Moreover, because Korea has no influence on the level of absorption in the United States, it should take vigorous measures to directly reduce the trade imbalance with the United States if it wishes to avoid doing it indirectly through appreciation of the won. Designing these direct measures would require skill because they would need to favor the United States in outcome without doing so in principle so as to be consistent with the GATT.

Best wishes.

Very truly yours,



ROY C. BABAN

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ASIAN DEPARTMENT

THE UNITED STATES AND KOREAN EXCHANGE RATE POLICY

1. Introduction

In recent months, the United States has applied constant pressure on Korea to revalue the won, in the light of the shift in Korea's external account to surplus in 1986 and the burgeoning bilateral trade imbalance favoring Korea. Such pressure has been conveyed through diplomatic channels, high-level bilateral discussions, congressional testimonies of U.S. Administration officials, and the introduction of bills in the U.S. Congress which would link U.S. bilateral deficits with an examination of trading partners' exchange rate policies.

Underlying this pressure is the threat of protectionist action against Korean exports to the United States. The potency of this threat is underscored by the role of the United States as Korea's largest export market. In 1986, the United States absorbed about 40 percent of Korea's exports and incurred a bilateral trade deficit of \$7.3 billion. Only five years earlier, the U.S. absorbed 27 percent of Korean exports and the bilateral trade balance favored the United States.

This note reviews the recent evolution of Korea's effective exchange rate and examines the United States' position on Korean exchange rate policy.

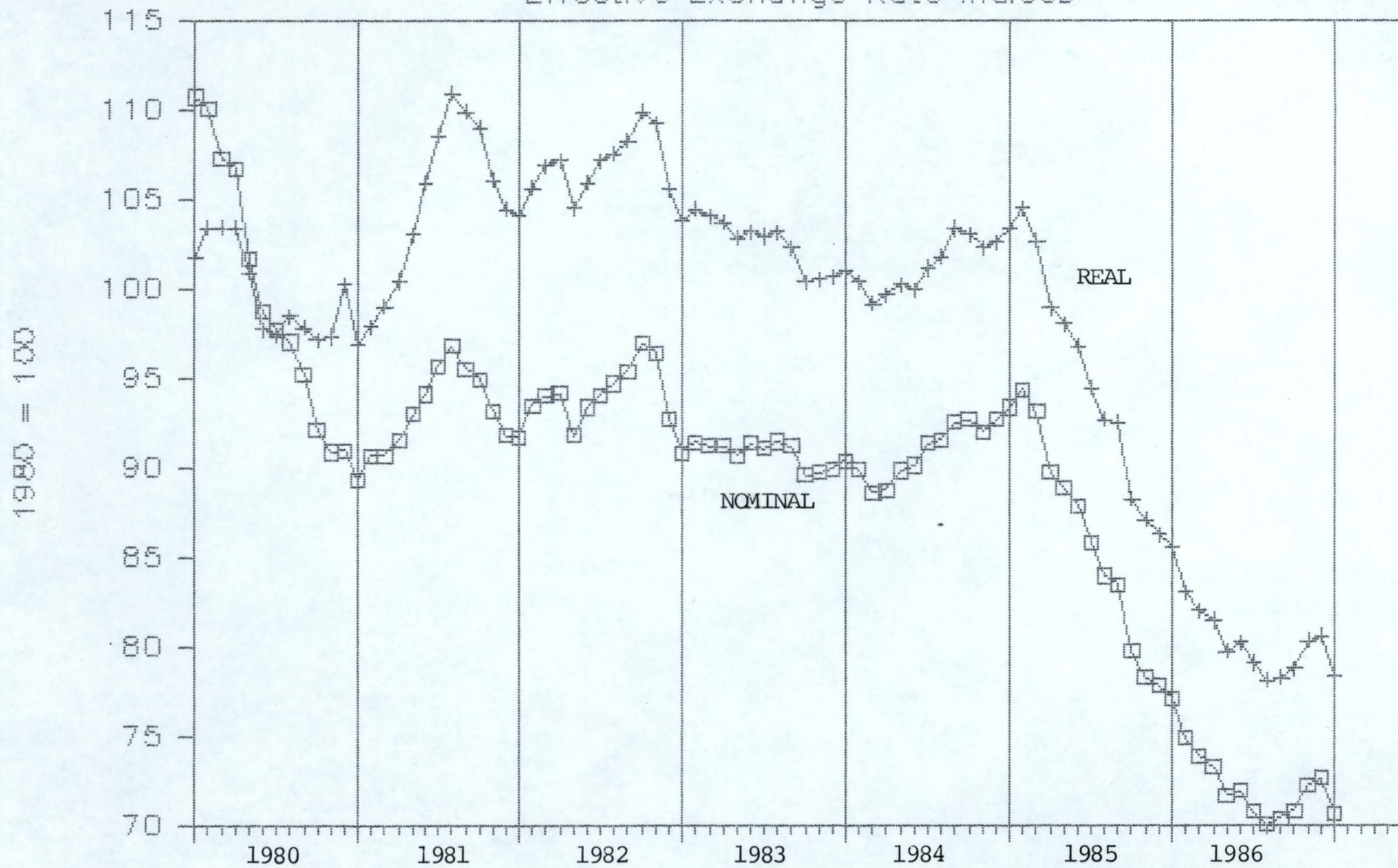
2. Recent exchange rate developments

Prior to discussing issues relating to exchange rate policy, it is worthwhile reviewing recent movements in Korea's exchange rate. Chart 1 shows trade-weighted effective exchange rate indices for Korea as calculated by the Asian Department of the International Monetary Fund. ^{1/} During the period 1980-84, the real effective exchange rate (REER) index fluctuated around a moderately declining trend. In contrast, from February 1985 to August 1986, the REER index depreciated by about 26 percent. Currency baskets with different sets of trading partners and weights based on trade shares should yield figures broadly in the same neighborhood.

The exchange rates of the won vis-a-vis the currencies of other newly industrializing countries have followed different patterns. Chart 2 indicates that the real exchange rate of the won (the nominal exchange rate adjusted by relative consumer prices) vis-a-vis the Taiwan dollar followed a depreciating trend from late 1982 and levelled off from September 1986. Chart 3 indicates that the real exchange rate of the won vis-a-vis the Singapore dollar followed a depreciating trend for a longer period, from early 1980 to late 1985. Thereafter, an appreciating trend is discerned, largely reflecting Singapore's more active use of exchange rate policy to stimulate growth and offset the aftereffects of rapid wage increases

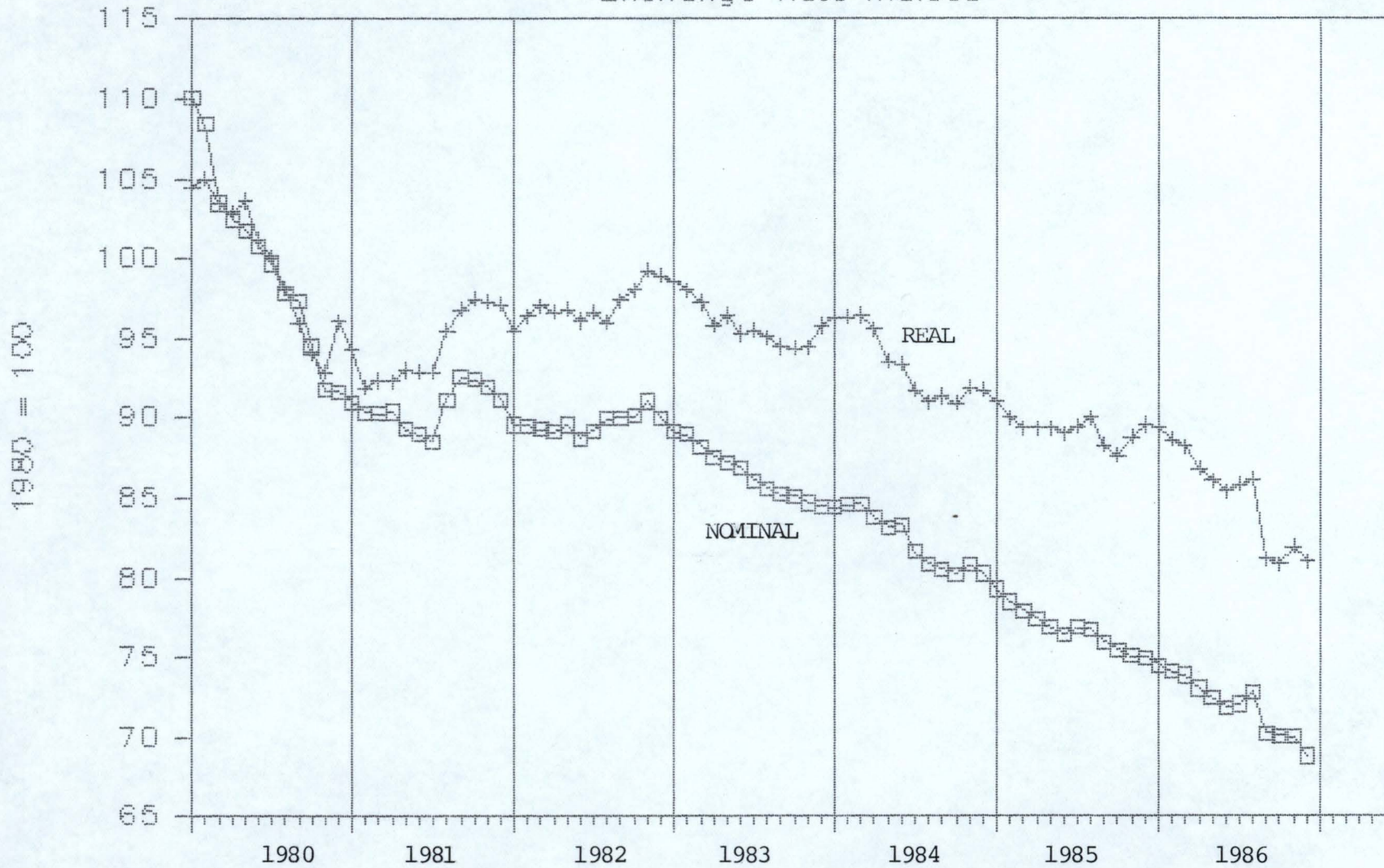
^{1/} These indices involve 16 trading partners with the following weights (in percent): Japan (31.36); United States (25.11); West Germany (6.66); United Kingdom (4.79); Hong Kong (3.99); Taiwan (3.89); Italy (3.72); Canada (3.68); France (3.62); People's Republic of China (2.41); Saudi Arabia (2.13); Belgium (2.01); Netherlands (1.99); Australia (1.85); Singapore (1.58); and Indonesia (1.20).

Chart 1. Korea: Trade-Weighted
Effective Exchange Rate Indices



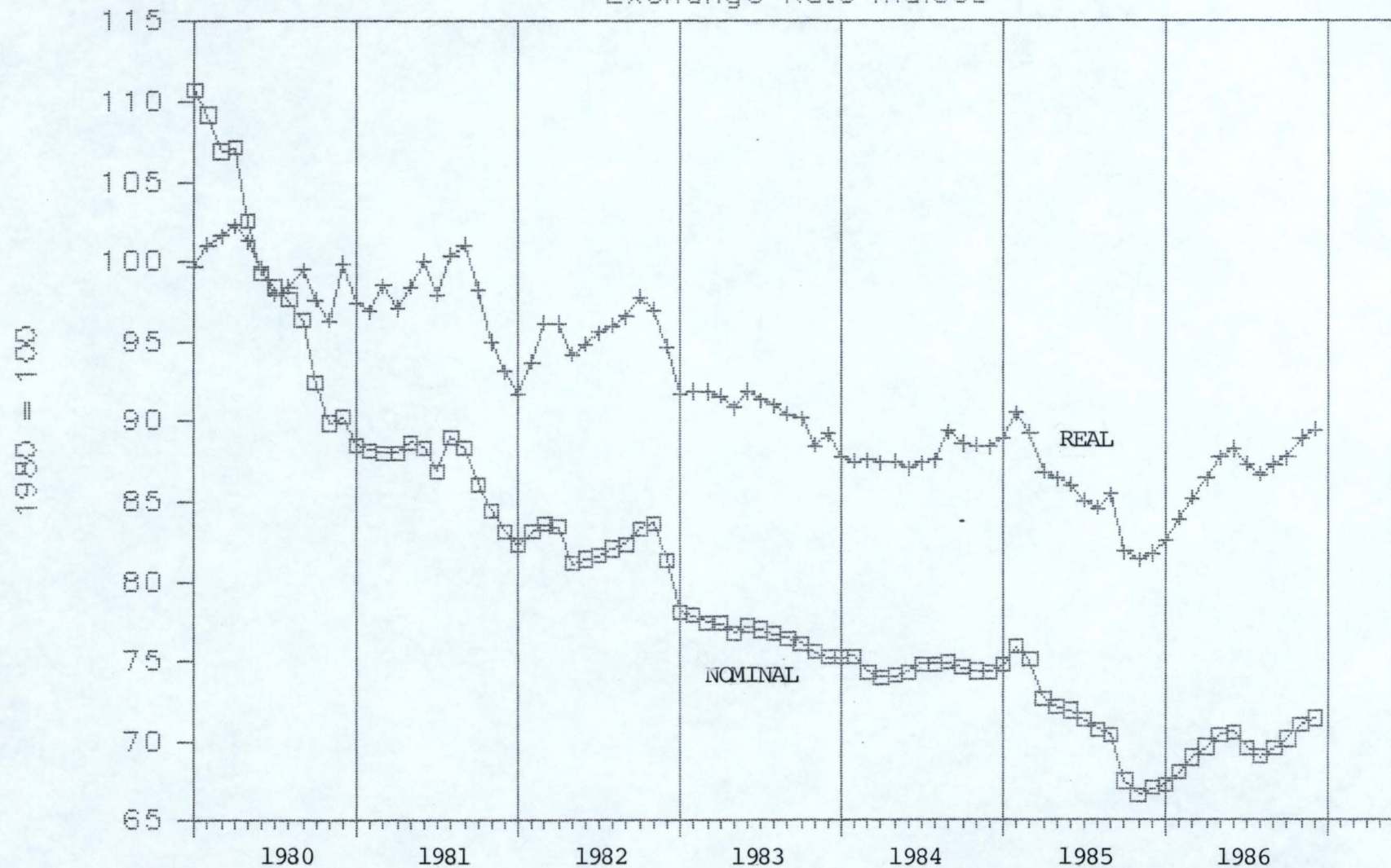
Source: International Monetary Fund

Chart 2. Korea-Taiwan Bilateral Exchange Rate Indices



Source: International Monetary Fund

Chart 3. Korea—Singapore Bilateral Exchange Rate Indices



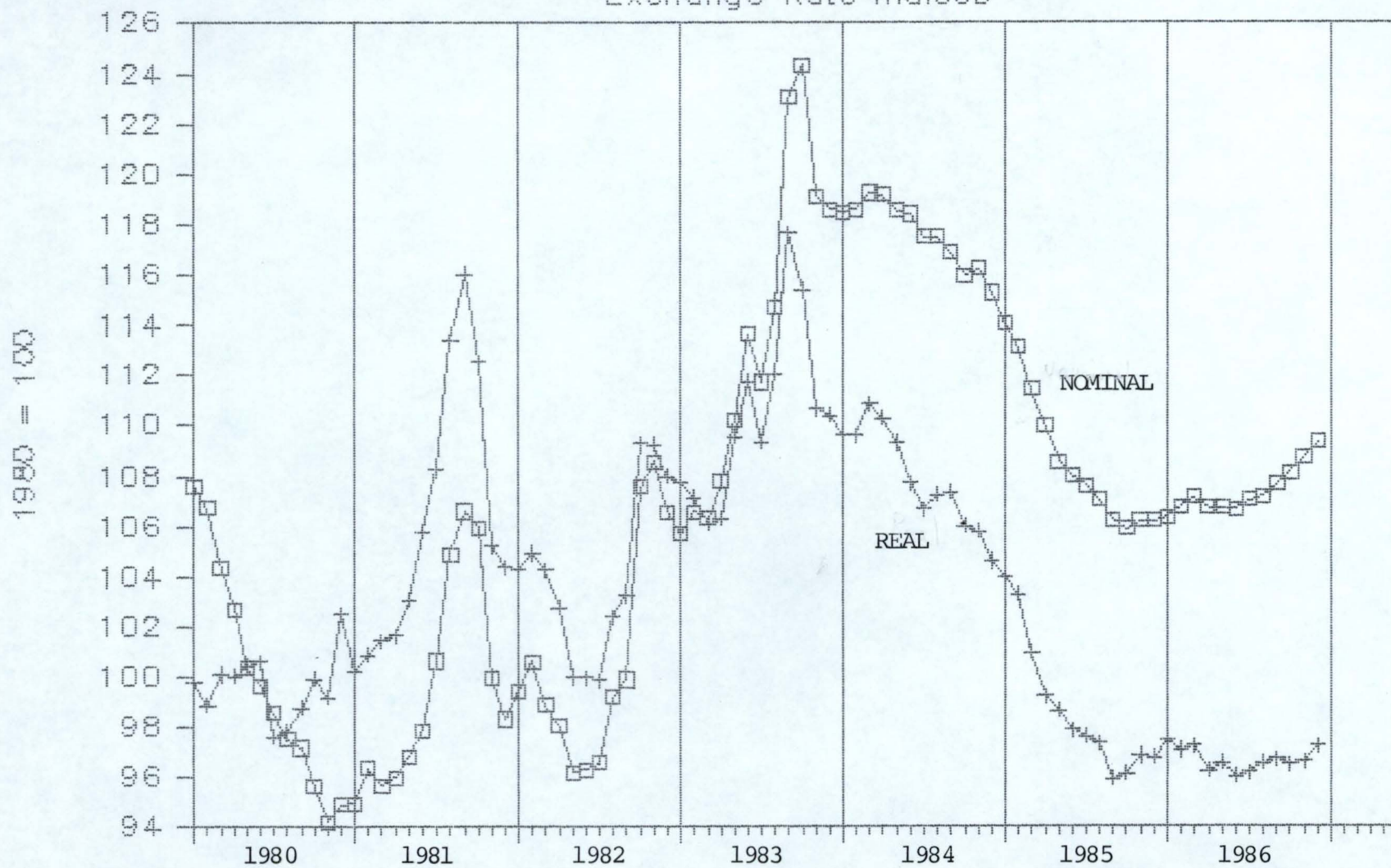
Source: International Monetary Fund

in 1979-82. The position of the real bilateral exchange rate index at the close of 1986 was about equal to its position at the beginning of 1985. Chart 4 indicates that the real appreciation of the won relative to the Hong Kong dollar from 1980 to late 1983 had been more than reversed by September 1985. Thereafter, a flat trend prevails, indicating that Korea and Hong Kong have been following broadly the same exchange rate policy in terms of purchasing power parity. To summarize, during 1985-86, Korea gained external competitiveness against Taiwan and Hong Kong, while gaining external competitiveness against major trading partners as a whole.

The initial impetus for the more rapid depreciation of the won in early 1985 appears to have been the evident slowing down of the economy from the third quarter of 1984. The depreciation of the won continued beyond September 1985, when a G-5 accord led the U.S. dollar to decline further against some major international currencies. The bottoming out of the won's depreciation in August 1986 coincided with a determination by an IMF mission that the won should not depreciate further and with the start of the United States campaign for a revaluation of the won. The won subsequently began to appreciate moderately, against the background of evidence that a robust economic recovery was underway and that the balance of payments would shift from deficit to a substantial surplus in 1986.

The substantial depreciation of the won in 1985-86 provided the main impetus to the export boom of 1986. The 27 percent increase in export volume against the background of moderate world trade growth reflected a diversion of export demand at the margin, which would not have resulted from lower oil prices and lower international

Chart 4. Korea-Hong Kong Bilateral Exchange Rate Indices



Source: International Monetary Fund

interest rates alone. On the supply side, the rapidity of supplier response to enhanced external competitiveness was facilitated initially by the existence of excess capacity in the wake of slower growth in 1985, and eventually by the expansion of plants. The depth of the depreciation of the won brought particular benefits to the textile industry, the exports of which rose 24 percent in value in 1986. The productive capacity of this industry had been slated to contract under an industrial restructuring program prepared by the Ministry of Trade and Industry. However, the remunerability of marginal firms was resuscitated by the depreciation of the won and the programmed reduction in capacity for the sector as a whole appears to have been postponed indefinitely.

The depreciation of the won also resulted in direct and indirect benefits to the travel industry, the unsung jewel in last year's economic outturn. In 1986, arrivals for tourism increased by 16 percent (the same rate for total arrivals), while the export boom generated a 25 percent increase in business arrivals. The holding of the Asian Games in September 1986 does not appear to have been an important contributing factor inasmuch as total arrivals, arrivals for business, and arrivals for tourism in that month was actually lower than either August and October 1986. It seems that some visitors expected overcrowding in September and either advanced or postponed their trips. At any rate, as a result of the doubling of receipts from travel in 1986, net receipts rose 5 times to \$0.9 billion, about 20 percent of the current account surplus registered in that year.

3. The position of the United States

The demand of the United States that Korea should appreciate the won is tantamount to suggesting that an instrument which affects the level of trade should be used ^{to} adjust the direction of trade. In effect, Korea's overall trade surplus should be reduced to redress the bilateral trade surplus with the United States. The use of the exchange rate towards this purpose would clearly involve a welfare loss for Korea because, to use the language of the theory of commercial policy literature, the instrument won't be applied at the point of distortion. In 1986, a marginal increase of one U.S. dollar in total exports was associated with 40 cents of exports to the United States and 21 cents of imports from the United States. Thus, other things being equal, total exports would need to decline by one U.S. dollar to reduce the bilateral surplus with the United States by 19 cents. In other words, Korea would be led to unnecessarily reduce its trade surplus (or increase its trade deficit) with countries with whom there is no trade friction.

Because exchange rate policy affects all external transactions, potential welfare losses could also arise outside the trade account. In particular, an appreciation of the exchange rate would tend to reduce competitiveness in the travel account even though the travel surplus, by itself, is not considered to be a problem.

The absence of strong measures to restrain absorption in the United States is leading the U.S. Government to rely excessively on exchange rate adjustments to reduce its trade deficit. This policy-

mix pressures trading partners in a surplus position to appreciate their currencies by amounts in excess of what would be required if the U.S. is pursuing a more balanced adjustment program. For Korea in particular, the appreciation of the won is not a perfect substitute for a reduction in absorption in the United States. Lower absorption in the United States would impact generally on all trading partners, requiring them to compete more intensively on a reduced market, while an appreciation of the won would impact specifically on Korea.

Selective exchange rate adjustments without substantive reduction in absorption in the United States raises another problem. Korea's most dynamic exports, textiles, footwear, and electronics are available from other countries. Thus, reducing Korea's competitiveness through exchange rate appreciation is likely to divert U.S. import demand at the margin to other countries, much like the recent appreciation of the Japanese yen diverted import demand at the margin to Korea and Taiwan. While the scope for substitutions of import sources for electronics may be limited, this is not the case for textiles and footwear. To the extent that U.S. import demand is merely shifted, the U.S. balance of trade would not improve.

The foregoing suggests that since Korea has no influence on the level of absorption in the United States, it must take vigorous measures to directly reduce the trade imbalances with the United States if it wishes to avoid doing it indirectly through appreciation of the won. Designing these direct measures would require skill because they would need to favor the United States in outcome without doing so in principle in order to be consistent with the General Agreement on Trade and Tariffs.

START ADDRESS IN THE BOX

23 MR. ROY BABAN
22 IMF RESIDENT REPRESENTATIVE
21 C/O MINISTRY OF FINANCE
20 SEOUL, KOREA

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18 REURTELEX OF APRIL 6, LIST OF RESIDENT REPRESENTATIVES
17 TO KOREA IS COLON

16	S. KANESA-THASAN	MAY 1966-JULY 1967
15	S.A. PANDIT	JULY 1967-MAY 1969
14	M.R.P. SALGADO	MAY 1969-JUNE 1970
13	X. VONGSATHORN	JUNE 1970-JUNE 1972
12	R. NIEBUHR	JUNE 1972-JULY 1974
11	A. HOOKE	JULY 1974-JULY 1976
10	W. MAHLER	JULY 1976-JULY 1980
9	V. SUNDARARAJAN	SEPT. 1980-SEPT. 1982
8	D. VILLANUEVA	SEPT. 1982-FEB. 1986
7	R. BABAN	FEB. 1986-JULY 1987

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cc: Mr. Syapary
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~~MS. WANDA TSENG~~
ASIAN DEPARTMENT, RM. 41216

INTERFUND
WASHINGTON DC 20431

1. A PLAQUE CONTAINING THE NAMES OF ALL RESIDENT REPRESENTATIVES TO KOREA IS LIKELY TO BE GIVEN TO MOF IN JULY. WOULD HIGHLY APPRECIATE IF A LIST OF RESREPS WITH DATES OF TENURE (MONTH AND YEAR) COULD BE DRAWN UP. PERHAPS, MRS. DE PELET-COLACO'S OFFICE COULD BE OF ASSISTANCE.

2. DURING MY ANNUAL LEAVE, I COULD BE REACHED AT MY RESIDENCE. WILL INFORM IF PLANS CHANGE.

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MESSRS SZAPARY AND WILLIAMS
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

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1. THE FOLLOWING ARE RECENT CHANGES IN MOF STAFF. MR. JAE-HYONG HONG (PREVIOUSLY ASSISTANT MINISTER FOR THE INTERNATIONAL POLICY COORDINATION OFFICE AT THE ECONOMIC PLANNING BOARD) REPLACED MR. TAE-WON KWON AS ASSISTANT MINISTER FOR PLANNING AND MANAGEMENT. MR. KUN-HO CHO (PREVIOUSLY DIRECTOR, INTERNATIONAL ORGANIZATIONS DIVISION. MR. SEUNG-WOO KWON HAS TAKEN UP THE POST OF ADVISOR TO THE ED FOR KOREA AT THE WORLD BANK. MR. YOUNG-HOI LEE (PREVIOUSLY DIRECTOR OF THE FOREIGN CAPITAL MANAGEMENT DIVISION) HAS BEEN APPOINTED AS DIRECTOR, INTERNATIONAL ORGANIZATIONS DIVISION.

2. A NOTE ON THE DETERMINANTS OF ERRORS AND OMISSIONS IN THE BALANCE OF PAYMENTS HAS BEEN MAILED TO MR. NARVEKAR.

3. WOULD LIKE TO REQUEST AUTHORIZATION TO TAKE ANNUAL LEAVE ON APRIL 2 AND APRIL 6-15. EXCEPT FOR APRIL 13-15, I INTEND TO REMAIN IN SEOUL. THE IMF OFFICE WILL REMAIN OPEN DURING THIS PERIOD.

REGARDS

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TO: MR. G. SZAPARY
 ASIAN DEPT., M RM. 4-216
 INTERNATIONAL MONETARY FUND
 WASHINGTON DC 20431

FOLLOWING ARE DETAILED BOP ACCOUNTS FOR JANUARY-DECEMBER, 1986
 (REVISED), JANUARY 1987(REVISED).

	/ JANUARY-DECEMBER, 1986(REV)			JANUARY, 1987(REV)		
	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET
Y1	33,913	29,707	4,206	2,827	2,245	582
Y2	8,052	8,679	-628	692	669	24
Y3						
Y4	1,223	1,039,185	88	15	73	
Y5			4,617			679
Y6			-1,076			264
Y7	2,500	2,532	-32	172	117	55
Y8	880	1,006	-126	67	36	31
Y9	1,620	1,526	94	105	81	24
Y10	478	43	435	37	-	37
Y11	1,736	2,142	-406	79	87	-8
Y12	1,172	2,142	-970	76	87	-11
Y13	564	-	564	4	-	4
Y14	543	1,181	-638	12	120	-108
Y15	906	-	906	53	-	53
Y16	203	143	60	-	9	-9
Y17	151// 79	2 -	150	78		
Y18	-	1,042	-1,042	-	1	-1
Y19	293	368	-75	26	17	9
Y20	10	15	-5	1	3	-2
Y21	-	319	-319	251	-	251
Y22	1	111	-110	-	92	-92
Y23	12,974	13,366	-392	-	-	46
Y24	12,388	12,790	-403	1,195	1,149	40
Y25	587	576	11	28	28	-
Y26			-544	-	220	-221
Y27	-	-	2,606	-	-	768
Y28	-	-	-2,606	-	-	-768
Y29	-	226	-226	-	-	-253
Y30	-	207	-207	-	389	-389
Y31	-	20	-20	135	-	135
Y32	-	-	-2,379	-	-515	-
Y33	527	1,794	-1,267	29	234	-205
Y34	-	126	-126	-	32	-32

INCOMING CABLE/TELEX



Y35	-	762	-762	-	149	-149
Y36	-	906	-906	-	53	-53
Y37	527	-	527	29	-	29
Y38	439	1,837	-1,398	-	-	-75
Y39	-	1,837	-1,837	-	343	-343
Y40	368	-	368	-	29	-29
Y41	71	-	71	296	-	296
Y42	-	-	286	-	235	-235
Y43			8,627			8,929
Y44			7,955			8,344
Y45			672			585

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TO: MR. G. SAZPARY
 ASIAN DEPT., RM. 4-216
 INTERFUND
 WASHINGTON DC 20431

INCOMING CABLE/TELEX

FOLLOWING ARE DETAILED BOP ACCOUNTS FOR FEBRUARY (PREL.),
 JANUARY-FEBRUARY (PREL.), 1987

	FEBRUARY, 1987(PREL)			JANUARY-FEBRUARY, 1987(PREL)		
	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET
Y1	2,863	2,628	235	5,690	4,873	817
Y2	727	617	110	1,419	1,286	133
Y3						
Y4	94	19	75	182	34	147
Y5	-	-	419	-	-	1,098
Y6	-	-	217	-	-	481
Y7	156	124	32	328	241	87
Y8	68	34	35	135	70	66
Y9	88	90	-3	193	172	21
Y10	25	-	25	62	0	62
Y11	179	42	136	258	129	129
Y12	155	42	112	230	129	101
Y13	24	-	24	28	-	28
Y14	129	117	9	-9	-	-
Y15	19	-	19	72	-	72
Y16	-	4	-4	-	13	-13
Y17	-	-	-	79	-	79
Y18	-	0	0	-	1	-1
Y19	10	13	-4	35	30	5
Y20	-	-	-	1	3	-2
Y21	25	-	25	-	-	276
Y22	-	4	-4	0	96-96	-
Y23	-	-	87	-	-	133
Y24	1,214	1,132	82	2,404	2,276	128
Y25	31	26	5	59	53	6
Y26	-	-	136	-	-	-84
Y27	-	-	18527	-	-	-
Y28	-	-	-859	-	-	-1,627
Y29	-	-	-83	-	-	-336
Y30	-	-58	-58	-	447	-447
Y31	-	-25	-25	111	-	111
Y32	-	-	-776	-	-	-1,291
Y33	-	68	-68	19	292	-273
Y34	-	39	-39	-71	-72	/// -71



Y35	-	01	-0	-149	-149	
Y36	-	19	-19	-	72	-72
Y37	-	10	-10	19	-	19
Y38	-	711	-711	-	786	-786
Y39	-	334	-334	-	677	-677
Y40	-	73	-73	-	102	-102
Y41	-	304	-304	-	8	-8
Y42	4	-	4	-	232	-232
Y43	/		9,006			
Y44			8,402			
Y45			604			

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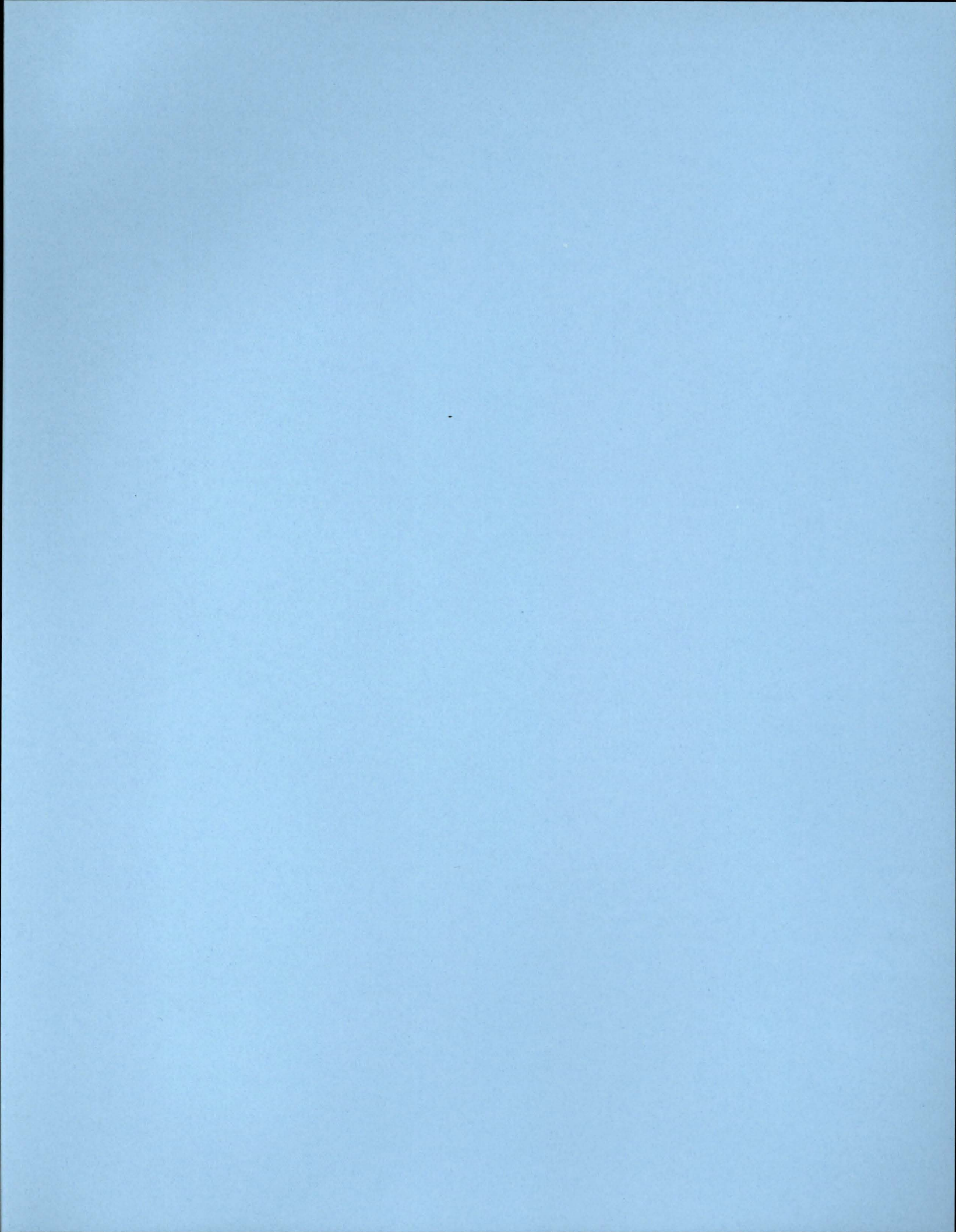
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MESSRS. SZAPARY AND WILLIAMS
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

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1. IN FEBRUARY 1987, THE OUTSTANDING EXTERNAL DEBT DECLINED IN ABSOLUTE TERMS AND THE MATURITY STRUCTURE IMPROVED FURTHER, REFLECTING POLICY RESTRAINTS ON NEW FOREIGN BORROWING AND SOME ADVANCE REPAYMENTS ON EXISTING DEBT, TOTAL DEBT (EXC. FUND CREDIT) DECLINED BY USD 0.4 BILLION SO FAR IN 1987,

. THIS COMPARES WITH A REDUCTION OF USD 2.3 BILLION IN 1986 AND A TARGET REDUCTION OF ABOUT USD 2.7 BILLION IN 1987. GIVEN A SUBSTANTIAL REDUCTION IN SHORT-TERM REFINANCING ABROAD, THE RATIO OF SHORT-TERM DEBT TO TOTAL DEBT (EXC. FUND CREDIT) DECLINED IN FEBRUARY 1987 TO 20.2 PERCENT, ABOUT 2 PERCENTAGE POINTS BELOW THE RATIO RECORDED A YEAR EARLIER.

THE FOLLOWING ARE LATEST EXTERNAL DEBT FIGURES.

	JANUARY 1987		FEBRUARY 1987
	CONSTANT	CURRENT (REV)	CURRENT (PREL.)
A	31,224	33,457	33,457
A1	11,147	11,281	11,316
A2	5,607	5,859	5,857
A3	8,221	9,075	9,082
A4	3,002	3,686	3,689
A5	1,736	1,736	1,736
A6	1,264	1,573	1,530
A7	247	247	247
B	2,082	2,082	2,067
B1	1,183	1,183	1,173
B2	899	899	894
C	9,242	9,242	8,601
C1	2,485	2,485	2,550



C2	527	527	557
C3	1,724	1,724	1,390
C4	275	275	298
C5	2,076	2,076	2,003
C6	2,155	2,155	1,803
D	42,548	44,781	44,125
E	41,284	43,208	42,595

MEMO ITEMS:

GROWTH OF ITEM E (12 MONTHS PERCENT)	-5.6	-3.8	-6.2
C/E (PERCENT)	22.4	21.4	20.2

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MESSRS. SZAPARY AND WILLIAMS
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

1. IN FEBRUARY 1987, THE EXTERNAL CURRENT ACCOUNT REGISTERED A SURPLUS OF USD 0.4 BILLION, RAISING THE CUMULATIVE SURPLUS SO FAR IN 1987 TO USD 1 BILLION. WHILE THE SURPLUSES IN THE TRADE AND TRANSFERS ACCOUNTS REMAIN ROBUST, A FAVORABLE TREND IS EMERGING IN THE SERVICES ACCOUNT. LARGELY REFLECTING HIGHER RECEIPTS FROM TRAVEL AND LOWER NET INVESTMENT INCOME PAYMENTS, THE SERVICES ACCOUNT HAS SHIFTED FROM DEFICIT TO SURPLUS. THE PRESSURE OF THE EXTERNAL SURPLUS ON DOMESTIC LIQUIDITY IS INCREASING. DURING JANUARY-FEBRUARY 1987, INTERNATIONAL RESERVES GREW BY USD 379 MILLION, GREATER THAN THE USD 244 MILLION INCREASE RECORDED FOR 1986 AS A WHOLE. THE REDUCTION OF EXTERNAL DEBT OUTSTANDING REMAINS A HIGH PRIORITY AND IT IS UNLIKELY THAT RESERVE ACCUMULATION WILL BE SUSTAINED AT THIS RATE.

2. SUMMARY BALANCE OF PAYMENTS (IN USD MILLIONS)

	1986 (REV)		FEB (PREL)		JAN-FEB (PREL)	
	7	1986	1986	1986		
		1987				
CURRENT ACCOUNT	4,617.0	-112	419	-494	1,098	
TRADE BALANCE	4,205.9	-98	235	-306	817	
EXPORTS FOB	33,913.2	2,225	2,863	4,313	5,690	
IMPORTS CIF	29,707.3	2,323	2,628	4,619	4,873	
SERVICES, NET	-627.5	-74	109	-299	133	
TRANSFERS, NET	1,038.6	60	75			
111	148					
CAPITAL ACCOUNT	-2,011.5	57	440	105	529	
MEIDUM/LONG, NET	-1,075.9	-76	217	-130	481	
SHORT TERM, NET	-392.1	158	87	-53	133	
E/O	-543.5	782				

INCOMING CABLE/TELEX



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OVERALL BALANCE

IMF	2,605.5	-55	859	-389	1,627
BOK	1,699.5	76	840	-255	1,556
(NON-DMB SWAPS)	(-906.0)	(131)	(-19)	(134)	(-71)

PERCENTAGE CHANGE:

EXPORTS FOB	28.3	19.1	28.7	19.1	31.9
EXPORT PRICES	1.3	-1.5	4.9	-2.0	4.7
IMPORTS CIF	12.3	19.3	13.1	9.9	5.5
IMPORTS PRICES	-14.3	-5.9	-6.1	-4.3	-9.7

3. SERVICES ACCOUNT (IN MILLIONS OF USD)

JAN-FEB

		RECEIPTS		PAYMENTS		NET	
986	1987	1986	1987	18			
TOTAL		998	1,419	1,298	1,286	-300	133
FREIGHT/INS		208	236	118	124	90	112
OTHER TRANS		91	147	238	291	-147	-144
TRAVEL		137	292	95	106	42	186
INVESTMENT INCOME		135	158	611	456	-476	-298
OVERSEAS CONST.		78	132	17	8	61	124
OTHER		349	454	219	301	130	154

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4. DETAILED BOP TABLES WILL BE CABLED SEPARATELY. REER CALCULATIONS BY MS. TSENG RECEIVED WITH THANKS.

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INTERNATIONAL MONETARY FUND

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C/O MINISTRY OF FINANCE
3RD GOVT. BLDG., RM. 422
KWACHEON, KYUNGKI-DO, 171-11
REPUBLIC OF KOREA

Tlx. MIOFFI K23243
Tel. 503-9269

March 24, 1987

Mr. P.R. Narvekar
Director, Asian Department
International Monetary Fund
Washington D.C.
U.S.A. 20431

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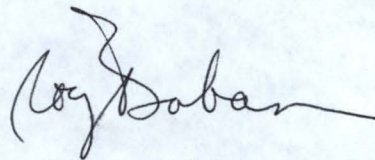
Dear Mr. Narvekar:

Attached please find a note entitled "Korea: Determinants of Errors and Omissions in the Balance of Payments." This study was prompted by the recent exchange of communications between the Fund staff and Korean authorities on staff studies on capital flight.

This note concludes that, on the basis of statistical tests, errors and omissions partially reflect both capital flows and systematic statistical discrepancies in trade accounting. Whether the capital flows component of errors and omissions which respond rationally to opportunity costs should be considered merely as "unrecorded" capital flows or "capital flight" would be a matter of definition. It is clear, however, that the treatment of errors and omissions as wholly generated by capital flows, whether flight or nonflight, would be unwarranted. In future studies of capital flows in Korea, it may be useful to distinguish between the "explained" and "unexplained" components of errors and omissions.

Best wishes.

Very truly yours,



ROY C. BABAN

Roy Baban: March 20, 1987

Korea - Determinants of Errors and Omissions
in the Balance of Payments

1. Introduction

The purpose of this note is to examine the determinants of the errors and omissions entry in Korea's balance of payments of Korea. Three recent studies by Fund and World Bank staff 1/ have used errors and omissions in estimating "capital flight" directly or in estimating residents' external claims, a fraction of which is then calculated as capital flight. Errors and omissions is an obscure entry and it is a big leap from being uncertain of its nature to assuming it as generated entirely by flows of capital, whether flight or nonflight.

Section 2 examines the errors and omissions series and Korean officials' views about the process underlying it. Section 3 examines the possible determinants of errors and omissions. Section 4 tests three hypotheses: (1) that errors and omissions reflect capital flows; (2) that errors and omissions reflect systematic statistical discrepancies in the trade account; and (3) since these two hypotheses are not mutually exclusive, that errors and omissions reflect both.

1/ See: (1) M. Deppler et al, "Capital Flight - Concepts, Measurement, and Issues," (SM/87/24, 1/23/87); (2) M. Dooley, "Country-Specific Risk Premiums, Capital Flight and Net Investment Income Payments in Selected Developing Countries," (DM/86/17, 3/11/86, forthcoming in IMF Staff Papers), and; (3) M. Khan and N. Ul Haque, "Capital Flight From Developing Countries," Finance and Development, March 1986.

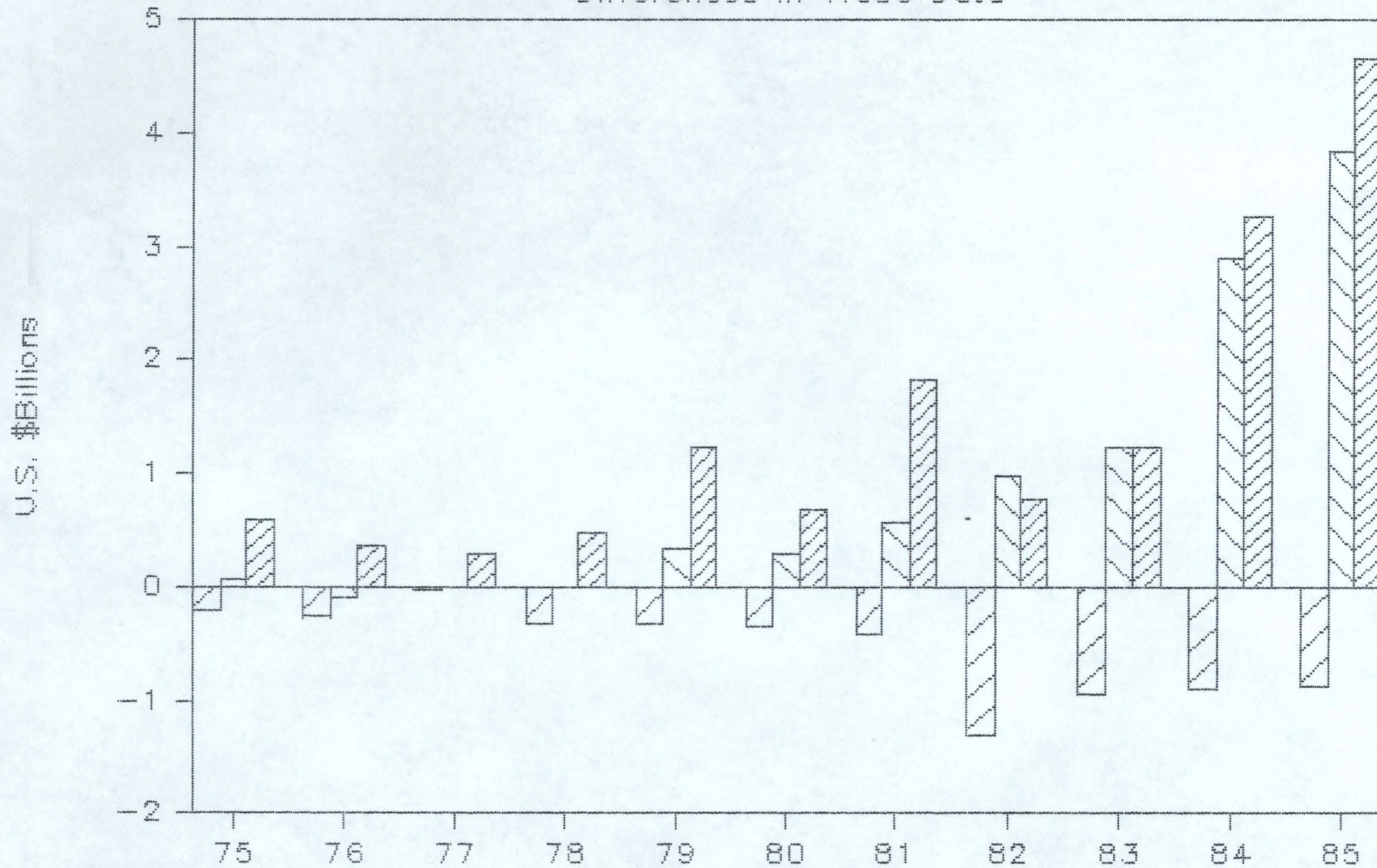
On the basis of the tests conducted, it may be concluded that the errors and omissions entry in Korea's balance of payments partially reflects both capital flows and systematic statistical discrepancies in trade accounting. Whether the capital flows component of errors and omissions which respond rationally to opportunity costs should be considered as "unrecorded" capital flows or "capital flight" would be a matter of definition. It is clear, however, that the treatment of errors and omissions as wholly generated by capital flows, whether flight or nonflight, would be unwarranted. In future studies on capital flows in Korea, it may be useful to divide errors and omissions into "explained" and "unexplained" components.

2. Background on errors and omissions

The hypothesized linkage between errors and omissions and capital flows raises non-trivial issues in Korea. Though some quarterly entries are positive, annual entries have been consistently negative since 1975 (Chart 1). Furthermore, from 1982 to 1985, negative errors and omissions have hovered around a new and higher plateau of around \$1 billion per annum, or about 2 percent of annual trade. During the period 1975-85, cumulative negative errors and omissions amounted to nearly \$6 billion, or about 13 percent of the external debt at end-1985.

The sudden increase in negative errors and omissions in 1982 is puzzling. In that year, domestic inflation declined sharply (by three-quarters to 5 percent in the case of WPI and by two-thirds to 7 percent in the case of the CPI), real growth decelerated slightly but

Chart 1. BOP Errors & Omissions and
Differences in Trade Data



Errors & Omissions
 DEXPO
 DIMP

Legend: DEXPO = Exports (customs basis) minus exports (balance of payments basis)

DIMP = Imports (customs basis) minus imports (balance of payments basis)

was still respectable at 5.4 percent, and the current account deficit declined by 43 percent to US \$2.65 billion. Moreover, the political situation seemed stable, inasmuch as the political transition had been effected two years earlier. In short, this does not appear to be a scenario which would cause unrecorded capital outflows (proxied by negative errors and omissions) to triple. The maintenance of negative errors and omissions at high levels in the following years is also puzzling. Except for the slowdown in economic growth in 1985, most macroeconomic indicators showed progressive improvement.

Prompted by the sudden rise in negative errors and omissions in 1982, Korean officials conducted an internal study of this entry. The study did not solve the puzzle. However, it shed some light on the complexity of the accounting procedures for trade flows, particularly those referring to shipbuilding and ship repairing (e.g., on a customs basis, trade rather than just servicing is defined to occur if the ratio of repairs to a ship's estimated value exceeds a certain threshold). With high levels of trade, the scope for statistical discrepancies in the trade account is correspondingly large. Korean officials believe that errors and omissions are essentially being driven by these discrepancies rather than by capital flows.

Intuitively, this point of view appears to have some substance. The increase in negative errors and omissions during 1982-85 coincided with the widening of differences between the customs and balance of payments valuation of exports and imports (see Chart 1). This issue will be explored further below. Incidentally,

the nature of these differences will change beginning in 1987 when customs data will be purged of ship repair statistics.

3. Determinants of errors and omissions

If the assumption that errors and omissions reflect capital flows is true, then it should be correlated with variables usually associated with capital flows. Dooley (1986) provides a point of departure. He regresses his estimate of "capital flight" in several developing countries on three independent variables: domestic inflation, "financial repression," and a "political risk premium." Domestic inflation is defined to stand for a vector of variables which tend to impose an inflation tax on assets denominated in domestic currency. "Financial repression" is defined as the degree to which differences between the nominal interest rates in the United States and Korea are not compensated for by actual exchange rate changes. With capital flight being given a positive sign, the expected signs for these independent variables are positive. That is, there would be more capital flight the higher the domestic inflation rate and the greater the degree of "financial repression."

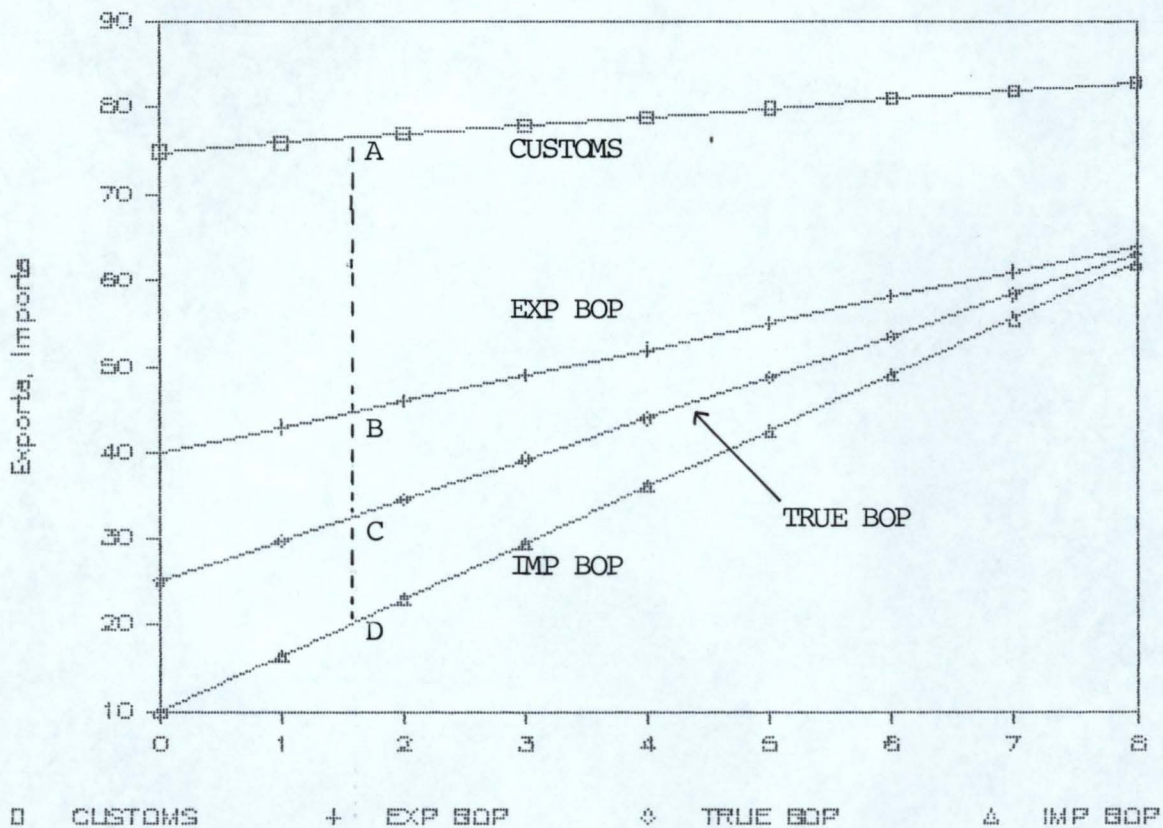
The "political risk premium" is defined by Dooley as the difference between the rate effectively paid by a borrowing developing country and the rate paid by the best borrowers. Two series on political risk premia are constructed for Korea. One is based on external claims as derived from balance of payments statistics and another based on OECD external debt tables. The specific formulas which derive these series are described on pages 32-33 of his paper and need not detain us here.

Dooley suggests that the expected sign for the political risk premium should be negative, that is, the higher the risk premium the lower the capital flight (a lower positive number). This may not necessarily be so. The expected sign could be negative or positive if, in the absence of a specific model, one considers the risk premium as the differential at which lenders provide just the right amount of capital flow desired by borrowers, given lenders' perception of default risk. Thus, if the risk premium rises because borrowers desire a capital inflow, then the expected sign would be positive. If the risk premium rises to stem an outflow to lenders, then the expected sign would be negative. Lastly, if the risk premium rises to prevent an outflow of capital, then there would be no correlation. In short, the expected sign for the "political risk premium" would be indeterminate.

The second hypothesis, to the effect that errors and omissions reflect systematic statistical discrepancies in the trade account, is more difficult to state in testable form. We know that errors and omissions has been consistently negative and that this would follow if export accounting is biased upward and import accounting is biased downward. These biases may be inherent in the way adjustments are made on raw customs clearance trade data to calculate exports and imports for the balance of payments. The difficulty is that these biases are not observable.

Chart 2 suggests a way by which systematic statistical discrepancies can be detected in errors and omissions. The y-axis represents illustrative U.S. dollar values, while the x-axis represents observations. The CUSTOMS line indicates the value of

Chart 2. Customs & BOP Data



CUSTOMS = customs clearance value of exports or imports
EXP BOP = balance of payments value of exports
IMP BOP = balance of payments value of imports
TRUE BOP = unobserved "true" balance of payments value of exports or imports

either exports or imports on a customs clearance basis. The TRUE BOP line represents the unobservable correct value of exports or imports on a balance of payments basis. The EXP BOP line and IMP BOP lines represent the observable balance of payments entries for exports and imports, respectively. The vertical difference BC represents the overestimation of exports in balance of payments data and the vertical difference CD represents the underestimation of imports. To put it another way, for negative errors and omissions to arise, the EXP BOP line must lie above and the IMP BOP line below the TRUE BOP line. The critical assumption made here is that BC could be systematically represented by AB and that, analogously, CD could be systematically represented by AD. By a systematic relationship I mean that the larger the observed difference between customs data and balance of payments data the larger would be the unobserved difference between balance of payments data and the "true" unbiased balance of payments figures. Following Dooley's convention of taking the absolute value of (negative) errors and omissions, the expected sign for export data differentials (DEXPO) would be positive whereas the expected sign for import data differentials (DIMP) would be negative.

4. Test results

The regressions shown in Table 1 are divided in three parts. Equations 1-6 tests the hypothesis that errors and omissions are related to capital flows. Equations 7-8 tests the hypothesis that errors and omissions are related to systematic statistical errors in the trade account. Equations 9-10 tests the joint hypothesis. Let us examine each group in turn.

Equations 1-6 replicates the regressions in Dooley (1986) with errors and omissions as the dependent variable in lieu of an estimated value of "capital flight." In Equation 1 and 4, the risk premia RPO and RPB are statistically significant (though with signs contrary to Dooley's expectation). Domestic inflation DLPK has the wrong sign and is not consistently statistically significant. Financial repression FR has the wrong sign also and is not statistically significant in both equations.

An examination of the residuals indicated that the regression would improve with the addition of a dummy variable associated with the sudden increase and maintenance of errors and omissions at a high level beginning in 1982. The dummy variable assumes the value of zero up to 1981 and one thereafter. In Equation 2 and 5, both DLPK and FR have correct signs but only DLPK is statistically significant (Equation 2). With RPO and RPB again not statistically significant, Equations 3 and 6 reruns the regression without them. In these regressions, both DLPK and FR have the correct signs and are statistically significant. The use of a dummy variable which has no behavioral basis to obtain the correct signs and improve R^2 is unsatisfactory. Nevertheless, the equations provide evidence that errors and omissions are partially associated with capital flows.

Equations 7 and 8 support the hypothesis that errors and omissions are correlated, with the expected signs, to systematic statistical discrepancies in the trade account as proxied by the differences between customs and balance of payments data. Adjusted

R^2 declines when the sample period is extended to include 1984 and 1985, indicating that the specification could not adequately explain the continued high level of errors and omissions in those year. The use of a dummy variable (not shown) does not lead to more satisfying results.

Equations 9 and 10 provide evidence that errors and omissions are associated with both capital flows and systematic errors in trade accounting. In both equations, the coefficients for DLPK, FR, DEXPO, and DIMP are all statistically significant and have the expected signs. Moreover, adjusted R^2 is reasonably high. Again, however, the fall of adjusted R^2 when the sample period is extended to 1984 and 1985 indicates that the specification inadequately accounts for the continued high level of errors and omissions in those years.

In considering DEXPO and DIMP as independent variables, no expectation was made about the possible size of the coefficients. Nonetheless, the coefficients in equations 7-10, particularly Equations 9 and 10, intuitively appear to be on the high side. This factor and the apparent variability of the coefficients from one specification to the next suggest that further refinement would be required in the process of estimating systematic errors in trade accounting.

KOREA: TABLE 1. SELECTED REGRESSIONS ON ANNUAL DATA

Dependent Variable	Sample Period	Constant	Independent Variable	Independent Variable	Independent Variable	Independent Variable	Adjusted R2	D.W. Statistic
1. EOB	1976-83	1.31 (4.53)	-3.58 DLPK (-1.64)	-0.25 FR (-0.17)	0.18 RPD (2.26)*		0.50	2.35
2. EOB (CORC)	1976-83	-0.24 (-0.82)	4.64 DLPK (3.02)**	1.87 FR (2.23)	0.01 RPD (0.19)	1.17 DUM (5.27)**	0.91	2.67
3. EOB (CORC)	1976-83	-0.28 (2.59)*	4.81 DLPK (4.74)**	1.86 FR (2.77)**		1.20 DUM (13.14)**	0.94	2.68
4. EOB	1976-83	1.28 (4.85)**	-6.71 DLPK (-3.02)**	-0.77 FR (-0.58)	0.23 RPB (2.50)*		0.55	2.42
5. EOB (CORC)	1976-83	0.09 (-0.24)	3.38 DLPK (1.15)	1.60 FR (1.68)	0.04 RPB (0.53)	1.06 DUM (3.68)**	0.94	2.69
6. EOB (CORC)	1976-83	-0.28 (-2.59)*	4.81 DLPK (4.74)**	1.86 FR (2.77)**		1.20 DUM (13.14)**	0.94	2.69
7. EOB	1976-83	0.34 (2.42)*			0.93 DEXPD (4.71)**	-0.29 DIMP (-1.58)	0.77	2.69
8. EOB (CORC)	1975-85	0.53 (2.85)**			0.64 DEXPD (2.85)**	-0.41 DIMP (-2.11)*	0.60	1.55
9. EOB	1976-83	0.14 (-0.88)	9.59 DLPK (4.09)**	4.55 FR (4.17)**	2.04 DEXPD (7.05)**	-1.24 DIMP (4.99)**	0.94	2.22
10. EOB	1976-85	0.01 (0.02)	9.35 DLPK (2.14)*	4.39 FR (2.21)*	1.79 DEXPD (3.20)**	-1.30 DIMP (-3.07)**	0.69	1.83

LEGEND:

- EOB Absolute value of (negative) errors and omissions, in billions of U.S. dollars, BOK Monthly Bulletin.
DLPK Difference in the logarithm of the CPI (PK) index.
PK Korean CPI index, annual average, IFS line 64.
FR "Financial repression" = $\log(1+(RUS/100)) - \log(1+(RK/100)) - \log(EXCH) + \log(EXCH(-1))$.
RUS U.S. 90-day Treasury bill rate, annual average, IFS line 60c, in percent.
RK Rate on 3-month time deposits in Korea banks, annual average, in percent, BOK Monthly Bulletin.
EXCH Won per U.S. dollar, end of period, IFS line ae.
RPD "Political risk premium," OECD external debt table basis, in percentage points. See Dooley (1986), p. 32-33.
RPB "Political risk premium," balance of payments table basis, in percentage points. See Dooley (1986), pp. 32-33.
DUM Dummy variable: zero from 1976 to 1981 and 1 thereafter.
DEXPD Exports (customs clearance basis) less exports (bop basis), in U.S. \$billions, BOK Monthly Bulletin.
DIMP Imports (customs clearance basis) less imports (bop basis), in U.S. \$billions, BOK Monthly Bulletin.
CORC Regression was corrected for autocorrelation using Cochrane-Orcutt method.
* T-statistic in parenthesis indicates statistical significance at the 10 percent level.
** T-statistic in parenthesis indicates statistical significance at the 5 percent level.

Korea: Table 2. Data Base

obs	EOB	PK	DLPK	RK	RUS	EXCH
1975	0.214000	45.20000	NA	NA	5.820000	484.0000
1976	0.243000	52.10000	0.142068	13.60000	4.990000	484.0000
1977	0.032000	57.40000	0.096880	14.56000	5.270000	484.0000
1978	0.313000	65.70000	0.135054	14.20000	7.220000	484.0000
1979	0.328000	77.70000	0.167757	15.00000	10.04000	484.0000
1980	0.338000	100.0000	0.252315	18.11000	11.62000	659.9000
1981	0.410000	121.3000	0.193097	14.82000	14.08000	700.5000
1982	1.301000	130.1000	0.070036	10.40000	10.72000	748.8000
1983	0.942300	134.5000	0.033261	7.600000	8.620000	795.5000
1984	0.894400	137.6000	0.022787	6.000000	9.570000	827.4000
1985	0.880400	141.0000	0.024409	6.000000	7.490000	890.2000

Korea: Table 2. Data Base(concluded)

obs	FR	RPO	RPB	DUM	DEXPO	DIMP
1975	NA	NA	NA	0.000000	0.078000	0.600000
1976	-0.078818	-3.300000	-1.700000	0.000000	-0.099000	0.370000
1977	-0.084570	-3.000000	-1.000000	0.000000	0.001000	0.288000
1978	-0.063069	-3.500000	-0.200000	0.000000	0.000000	0.481000
1979	-0.044088	-3.600000	0.200000	0.000000	0.351000	1.230000
1980	-0.366520	-1.200000	1.900000	0.000000	0.291000	0.694000
1981	-0.066172	-0.100000	2.100000	0.000000	0.583000	1.832000
1982	-0.063783	-0.100000	1.100000	1.000000	0.974000	0.778000
1983	-0.051064	-1.600000	-0.900000	1.000000	1.241000	1.225000
1984	-0.006193	NA	NA	1.000000	2.910000	3.260000
1985	-0.059199	NA	NA	1.000000	3.841000	4.675000



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To	Name of addressee (type) Mr. Roy Baban IMF Resident Representative c/o Bank of Korea Seoul, Korea Facsimile telephone number (822) 5039324		
From	Name of sender (type) Ms. Wanda Tseng International Monetary Fund Washington, D.C. 20431		
Text or special instructions As you requested, attached are the nominal (NEER) and real (REER) effective exchange rates for Korea and the nominal and real bilateral values of the won. Increase indicates appreciation.			
Department and division (type) ASD - D		Extension (type) 7308	
Authorized by (type) Hubert Neiss		Signature <i>Wei</i>	



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1. PRELIMINARY NATIONAL INCOME ACCOUNTS FOR 1986 INDICATE A REAL GNP GROWTH RATE OF 12.5 PERCENT (COMPARED WITH THE FLASH ESTIMATE OF 12.2 PERCENT AND THE 1985 RATE OF 5.4 PERCENT). REFLECTING THE EASING OF TRADED GOODS PRICES AND FAVORABLE AGRICULTURAL PERFORMANCE, THE GNP DEFLATOR DECLINED FROM 4.1 PERCENT IN 1985 TO 2.3 PERCENT IN 1986. BY INDUSTRY, THE ACCELERATION OF REAL GROWTH IN 1986 LARGELY REFLECTS THE EXPANSION OF THE MANUFACTURING AND COMMERCE SECTORS. THE SHARE IN GDP OF THE MANUFACTURING SECTOR INCREASED FROM 30.7 PERCENT IN 1985 TO 32.3 PERCENT IN 1986, LARGELY AT THE EXPENSE OF THE SHARE OF AGRICULTURE, WHICH DECLINED BY ONE PERCENTAGE POINT TO 13.3 PERCENT. IN RESPECT OF EXPENDITURE ON GDP, IT MAY BE NOTED THAT THE ACCELERATION IN THE GROWTH RATES OF CAPITAL FORMATION AND TRADE WAS ALSO ACCOMPANIED BY AN ACCELERATION IN THE GROWTH OF FINAL CONSUMPTION, BOTH PRIVATE AND PUBLIC.

2. SUMMARY NATIONAL INCOME STATISTICS (IN BILLIONS WON)

	CURRENT PRICES		1980 PRICES		PERCENT INCOME	
	1985	1986	1985	1986	1985	1986
A. MAIN INDICATOR						
GNP	72,849.8	83,833	52,705.4	59,289.8	5.4	12.5
GNP DEFLATOR					4.1	2.3
MANUFACTURING	21,285.1	25,965.5	16,805.0	19,736.4	3.8	17.4
AGRI, FORESTRY,						
FISHING	10,158.0	10,648.5	7,809.2	8,156.5	4.8	4.4
COMMERCE	9,721.6	11,294.9	7,107.4	8,209.0	5.8	15.5
B. EXPENDITURE ON GDP						
FINAL CONS.	52,019.2	56,358.5	37,191.6	39,689.5	5.1	6.7
HOUSEHOLDS	43,568.7	46,846.6	31,676.3	33,657.8	4.8	6.3
PRIV. NON-PROFIT	557.1	627.3	370.1	406.7	14.0	9.9
GOVN'T	7,893.4	8,884.6	5,145.2	5,625.0	6.4	9.3
GROSS CAPITAL FORM	22,644.8	25,281.1	17,769.1	19,639.3	1.6	10.5

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GROSS FIXED CAP.	22,436.3	26,245.7	17,355.7	19,950.4	4.4	15.0
INC. IN STOCKS	208.5	-964.6	413.4	-311.1	-	-
EXPORTS: GOODS/SERV.	27,326.9	35,340.6	20,279.5	25,682.3	2.1	26.6
IMPORTS: GOODS/SERV.	26,992.8	30,354.6	20,124.1	23,859.0	-1.7	18.6
STAT. DISC.	442.6	-115.7	-441.7	14.3	-	-
GDP	75,510.7	86,509.9	54,674.4	61,166.4	5.4	11.9

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1. THE FOLLOWING ARE END-OF-MONTH FINANCIAL INDICATORS (CHANGES IN PERCENT):

	1986			1987	
	OCT	NOV	DEC	JAN	FEB(P)
MONETARY SURVEY					
M2	18.3	18.8	18.6	21.8	18.9
M2 PLUS CDS	18.6	18.9	18.6	20.3	17.8
NET DOMESTIC CREDIT	12.5	13.0	14.4	12.7	11.3
PRIV. SECTOR CREDIT	13.7	13.6	15.1	14.4	13.8
FINANCIAL SURVEY					
M3	25.6	25.8	25.6	27.6	27.7
NET DOMESTIC CREDIT	15.1	17.6	18.0	17.3	17.2

THE MODERATION IN THE GROWTH OF PRIVATE SECTOR CREDIT IN FEBRUARY REFLECTS THE FURTHER TIGHTENING OF CREDIT POLICY, MAINLY IN RESPECT OF EXPORT FINANCING AND IMPORT USANCE BILLS. MONETARY POLICY CONTINUES TO BE GUIDED BY AN M2 TARGET RANGE OF 15-18 PERCENT. THE ACCELERATION IN M3 OWES MAINLY TO THE GROWTH OF DEPOSITS IN INVESTMENT TRUSTS AND SAVINGS COMPANIES, WHICH EARN HIGHER YIELDS THAN BANK TIME DEPOSITS OF SIMILAR MATURITIES.

2. JANUARY FINAL 1987 (FIRST FIGURE) AND FEBRUARY PRELIMINARY 1987 (SECOND FIGURE) FOR TABLE 1 AND 2 ON CURRENT EXCHANGE RATE BASIS.

TABLE 1

A. 1,256, 1,202, B. -169, -206, B1. 2,075, 2,075, B2. 5, 5, B3. -, -, B4. 2,249, 2,286, B5. -, -, B6. -, -, C. 855, 838, C1. 532, 503, :2. 595, 624, C3. 896, 912, C4. 1,587, 1,543, C5. -, -, C6. 190, 174, C7. -17, -5, C8. 24, 57, C9. 2,558, 2,518, C9A. 1,395, 1,370, C9B. 1,049, 1,031, C9C. 114, 117, D. 686, 632, E. 570, 570.

TABLE 2

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A. 42,137, 41,768, A1. 48,092, 48,266, A1A. 1,256, 1,202,
 A1B. 46,841, 47,064, A2. -5,780, -6,478, A2A. -753, ...,
 A2B. -3,473, ..., A2C. +355, ..., A2D. 2,571, ..., A2E.
 -3,461, ..., A2F. -1,019, ..., B. 35,152, 35,357, B1. 33,858,
 33,992, B1A. 8,155, 8,492, B1A 1). 3,583, 3,286, B1A 2). -,
 -, B1A 3) 8,201, 9,844, B1A 4) 3,629, 4,638, B1B. 25,703,
 25,500, B2. 1,294, 1,365, C. -5,678, -4,953, C1. 8,484,
 8,554, C1A. 3,771, 4,021, C1B. 4,713, 4,533, C2. 14,162,
 13,507, C2A. 1,914, 1,882, C2B. 12,248, 11,625, D. 1,487
 1,458.

3. JANUARY FINAL 1987 (FIRST FIGURE), FEBRUARY PRELIMINARY
 1987 (SECOND FIGURE) ARE AS FOLLOWS:

MONETARY SURVEY

-5,678, -4,953, 8,484, 8,554, 14,162, 13,507, -1,487, -1,458,
 42,317, 41,768, 48,097, 48,266, 1,256, 1,202, 46,841, 47,064,
 -5,780, -6,498, 35,152, 35,357, 8,155, 8,492, 25,703, 25,500,
 1,294, 1,365, 8.4, 10.4, 2.9, 3.3, 9.0, 4.1, 18.6, 16.3,
 -1.6, -2.7, 20.2, 19.0, -9.6, -12.2, +20.3, +17.8, 6.6, 3.1,
 14.4, 13.8.

FINANCIAL SURVEY

-12,674, -11,976, 8,636, 8,703, 21,310, 20,679, 88,970, 90,501,
 -1,762, -1,745, 570, 570, 90,162, 91,6676, 68,026,
 ////////////////////////////////////// 91,676, 8
 6,026,
 69,497,
 8,155, 8,492, 25,703, 25,500, 1,045, 1,133, 34,465, 35,754,
 (1,342), (1,382), 8,270, 9,028, 1,983, 2,441, -, -, 6,287,
 6,587, 27.6, 27.7.

NBFIS SURVEY

-7,226, -7,251, 152, 149, 7,738, 7,400, 42,465, 43,962, -2,448,
 -2,377, -, -, 44,913, 46,339, 34,465, 35,754, -, -, -, -,
 -, -, 34,465, 35,754, -, -, 774, 957, 1,983, 2,441, -, -,
 -1,209, -1,484.

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1. ON A CUSTOMS CLEARANCE BASIS, EXPORT GROWTH DECELERATED FROM 37 PERCENT IN JANUARY 1987 TO 25 PERCENT IN FEBRUARY, A PROCESS EXPECTED TO CONTINUE AS THE 1986 BASE TAKES INTO GREATER ACCOUNT THE EXPORT BOOM LAST YEAR. MOREOVER, IMPORT GROWTH SHIFTED TO A POSITIVE RATE. AS A RESULT, THE TRADE BALANCE AMOUNTED TO ONLY USD110 MILLION, THE LOWEST MONTHLY TRADE SURPLUS RECORDED SINCE MAY 1986.

2. CONTRACT PRICES FOR OIL IMPORTS ROSE BY 18 PERCENT IN FEBRUARY. ITS IMPACT ON IMPORT COSTS WILL BE APPARENT IN ABOUT 2-3 MONTHS. HOWEVER, NO DIRECT EFFECT ON DOMESTIC OIL PRICES IS ANTICIPATED UNDER CURRENT ENERGY POLICY. INCREASES WHICH RAISE THE OIL IMPORT PRICE UP TO USD 18 PER BARREL WILL BE ABSORBED BY THE VARIABLE IMPORT LEVY. THIS LEVY CURRENTLY AMOUNTS TO USD 8.69 PER BARREL AND COULD BE REDUCED TO THE POLICY MINIMUM OF 50 US CENTS PER BARREL. FURTHER INCREASES WHICH RAISE THE PRICE TO USD 21 PER BARREL WILL BE ABSORBED THROUGH REDUCTIONS IN THE TARIFF, WHICH CURRENTLY STANDS AT 24.5 PERCENT. FURTHER INCREASES WHICH RAISE THE PRICE BEYOND USD 21 PER BARREL WILL LEAD TO SUBSIDIES FROM THE RESERVES OF THE PETROLEUM BUSINESS FUND AND OTHER UNSPECIFIED MEASURES.

3. LATEST TRADE AND PRICE STATISTICS:

	FEBRUARY			JAN-FEBRUARY		
	1986	1987	PERCENT GROTH	1986	1987	PERCENT GROTH
TRADE: (CUSTOMS CLEARANCE BASIS)						
EXPORTS, FOB	2,301.2	2,870.8	24.8	4,340.8	5,702.2	31.4
IMPORTS, CIF	2,565.4	2,760.7	7.6	5,012.2	5,067.1	1.1
TRADE BALANCE	-264.2	110.1		-671.4	635.1	
TRADE DOCUMENTS:						
LETTER OF CREDIT	1,916.3	2,660.2	38.8	3,557.9	4,951.6	39.2
IMPORT LICENSES	2,020.6	2,218.6	9.8	4,106.9	4,277.6	4.2
PRICE INDICES (+)						
EXPORT	95.7	100.4	4.9	95.4	99.9	4.7
IMPORT	86.4	81.1	-6.1	88.0	79.5	-9.7
(MINERAL FUELS)	79.9	59.9	-25.0	85.1	55.3	-35.0



CPI	143.8	145.3	1.0	143.6	145.2	1.1
WPI	127.9	124.8	-2.4	128.7	124.7	-3.1

+ JANUARY-FEBRUARY FIGURES ARE TWO-MONTH AVERAGES.

4. EXCHANGE RATES PER USD FOR FEBURARY 1987 WERE: W 854.8(END) AND W 856.3 (AVERAGE). END-MONTH FIGURE REPRESENTS AN APPRECIATION PER USD OF 0.3 PERCENT OVER JANUARY 1987 AND 0.8 PERCENT OVER DECEMBER 1986.

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THIS TELEX REPORTS ON THE FINANCIAL PERFORMANCE OF THE PUBLIC SECTOR IN THE FIRST THREE QUARTERS OF 1986 AND PRESENTS THE 1987 BUDGET IN THE IMF FORMAT.

1. WHILE BOTH THE CENTRAL GOVERNMENT (CG) AND THE CONSOLIDATED PUBLIC SECTOR (CPS) HAS USUALLY INCURRED DEFICITS DURING THE FISCAL YEAR (WHICH CON

XXX COINCIDES WITH THE CALENDAR YEAR), THE PRONOUNCED SEASONALITY OF EXPENDITURES PARTICULARLY IN RESPECT OF THE GRAIN MANAGEMENT FUND USUALLY LEADS BOTH TO INCUR SURPLUSES UP TO THE FIRST THREE QUARTERS OF THE YEAR. IN Q1-Q3 1986, THE RATIO OF THE SURPLUS TO GNP INCREASED BY 0.8 PERCENTAGEP

X POINT IN THE CASE OF THE CG AND

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0.5 PERCENTAGE POINT IN THE CASE OF CPS. THE ABSOLUTE REDUCTION IN NET LENDING IN BOTH ACCOUNTS LARGELY REFLECT DECREASES IN THE NET LENDING OF THE NATIONAL HOUSING FUND AND THE NATIONAL INVESTMENT FUND. ALSO NOTEWORTHY IS THE DISTRIBUTION OF THE HIGHER CPS SURPLUS IN TERMS OF TYPES OF FINANCING. THE IMPROVED SURPLUS RESULTED MAINLY IN THE RETIREMENT OF INDEBTEDNESS TO BANKS, THOUGH IT ALSO PROVIDED AN OPPORTUNITY TO REDUCE RECOURSE TO FOREIGN FINANCING. FIGURES ON THE OUTTURN FOR 1986 AS A WHOLE WOULD BE AVAILABLE AROUND EARLY APRIL.

2. THE 1987 BUDGET IS PROJECTED TO BE CLOSER TO BALANCE THAN THE 1986 BUDGET. THE RATIOS OF THE DEFICIT TO GNP FOR BOTH THE CG AND CPS ARE EXPECTED TO BE AROUND 1.4 PERCENT, 0.4-0.5 PERCENTAGE POINT LOWER THAN IN THE 1986 BUDGET. THE RATIOS OF EXPENDITURE AND NET LENDING TO GNP ARE PROJECTED TO DECLINE DESPITE EXPENDITURE INCREASES ASSOCIATED WITH AN ELECTION YEAR AND AN EXPANDED WELFARE PROGRAM, AND DESPITE NET LENDING INCREASES ASSOCIATED PARTLY WITH THE ESTABLISHMENT OF THE ECONOMIC COOPERATION DEVELOPMENT FUND (TO FINANCE PROJECTS IN DEVELOPING COUNTRIES) AND THE AGRICUL TURAL AND FISHERIES DISTRICTS DEVELOPMENT FUND.

3. OPERATIONS OF THE CENTRAL GOVERNMENT AND PUBLIC SECTOR

	1985	1986	1987	JAN-SEPT (ACTUAL)
L)	ACTUAL	BUDGET	BUDGET	



1985 1986
(IN BILLIONS OF WON)

CENTRAL GOV'T					
REVENUE	13,922	15,458	17,323.0	10,552.2	
11,904.9					
EXPENDITURE	14,867	16,986	18,602.9	10,322.0	
11,182.3					
OF WHICH: NET LENDING	(1,530)	(1,671)	(1,772.0)	(857.1)	(627.0)
BALANCE	-945	-1,528	-1,279.9	230.2	2
					722.6
NET FINANCIAL TRANSACTIONS					
B/W CENTRAL GOV'T AND					
THE PUBLIC FUNDS	232	21	-20.9	448.4	329.3
CONS. PUBLIC SECTOR					
REVENUE	14,505	15,774	17,356.7	11,910.5	
14,337.0					
EXPENDITURE	15,218	17,281	18,657.5		11,231.9
13,285.1					
OF WHICH: NET LENDING	(1,443)	(1,562)	(1,714.2)	(792.3)	(586.2)
) BALANCE	-713	-1,507	-1,300.8	678.6	1,051.9
FINANCING					
-1,051.9	713	1,507	1,300.8	-678.6	
DOMESTIC	273	1,211	1,284.8	-881.2	
-1,136.5					
BANK	(40)	(562)	(424.5)		
(-661.5) (-1,067.4)					
NON BANK	(233)	(649)	(860.3)	(-219.7)	
(-69.1)					
FOREIGN	440	296	16.0	202.6	84.6
MEMO ITEM					

GNP NOMINAL	66,408	72,850	82,815.7	49,628.8	
56,440.2					
RATIOS					
S TO GNP					
(IN PERCENT)					
CENTRAL GOV'T					
EXP. AND NET LENDING	20.4	20.5	20.1	20.8	19.8
REVENUE	19.1	18.6	18.7	21.3	21.1
DEFICIT	-1.3	-1.9	-1.4	0.5	1.3
CONS. PUBLIC SECTOR					
EXP. AND NET LENDING	20.9	20.9	20.2	22.6	23.5
REVENUE	19.9	19.1	18.8	24.0	25.5
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DEFICIT	-1.0	-1.8	-1.4	1.4	1.9

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THE FOLLOWING IS A SUMMARY OF REVISIONS IN THE FOREIGN INVESTMENT LAW PROPOSED BY THE MOF. THE PURPOSE OF THESE PROPOSED REVISIONS IS TO MAKE FURTHER PROGRESS TOWARDS PUTTING FOREIGN AND DOMESTIC INVESTORS ON THE SAME COMPETITIVE BASIS. THESE PROPOSALS COME AT THE HEELS OF THE FURTHER OPENING OF THE MANUFACTURING SECTOR TO FOREIGN INVESTMENT. EFFECTIVE JANUARY 1, 1987, 27 ADDITIONAL SECTORS WERE OPENED TO FOREIGN INVESTMENT, LEAVING CLOSED ONLY 12 OUT OF 522 MANUFACTURING SECTORS UNDER THE KOREAN STANDARD INDUSTRIAL CLASSIFICATION (FURTHER DETAILS IN MY JANUARY 30 TELEX TO YOU).

1. PROJECTS WHICH IMPROVE THE BALANCE OF PAYMENTS.

A. PROJEGCTS WHICH MEET THE OBLIGATORY EXPORT RATIO. TO BE ELIGIBLE FOR EXEMPTION FOR FIVE YEARS FROM CORPORATE INCOME TAX AND DIVIDENDS TAX, THE RATIO OF EXPORTS TO TOTAL TURNOVER WOULD NEED TO BE GREATER THAN OR EQUAL TO 50 PERCENT (VERSUS 30 PERCENT AT PRESENT) PLUS THE RATIO OF IMPORTED RAW MATERIALS COST TO TOTAL TURNOVER.

B. PROJECTS WHICH HAVE AN IMPORT-SUBSTITUTION EFFECT. THESE PROJECTS ARE DEFINED AS THOSE WHERE ITEMS PRODUCED ARE IMPORTABLE WITH AUTOMATIC APPROVAL, WHERE DOMESTIC PRODUCTION ACCOUNTS FOR 30 PERCENT OR LESS OF TOTAL CONSUMPTION, AND WHERE THE RATIO OF IMPORTED RAW MATERIALS COST TO TOTAL TURNOVER IS 30 PERCENT OR LESS. THESE PROJECTS WOULD NO LONGER BE ELIGIBLE FOR FIVE YEAR EXEMPTIONS FROM CORPORATE INCOME TAX AND DIVIDENDS TAX. CAPITAL IMPORTS FOR THESE PROJECTS WOULD NO LONGER ENJOY EXEMPTIONS FROM CUSTOMS DUTIES.

2. PROJECTS ACCOMPANIED BY ADVANCED TECHNOLOGY. THESE PROJECTS WOULD NO LONGER BE ELIGIBLE FOR FIVE YEAR EXEMPTIONS FROM CORPORATE



INCOME TAX AND DIVIDENDS TAX UNLESS THEY ARE IN THE FORM OF JOINT VENTURES WITH DOMESTIC COMPANIES, A REQUIREMENT NOT EXISTING UNDER PRESENT LAW.

3. PROJECTS ACCOMPANIED BY LARGE AMOUNTS OF CAPITAL.

A. FOREIGN INVESTMENTS OF USD5 MILLION OR MORE IN TOURIST HOTELS WOULD NO LONGER BE ELIGIBLE FOR FIVE YEAR EXEMPTIONS FROM CORPORATE INCOME TAX AND DIVIDEND TAX. CAPITAL GOODS IMPORTS FOR THESE PROJECTS WOULD NO LONGER ENJOY EXEMPTION FROM CUSTOMS DUTIES.

B. PROJECTS INVOLVING FOREIGN INVESTMENTS OF USD10 MILLION OR MORE AT ONE TIME AND PRODUCES GOODS SUBJECT TO AUTOMATIC IMPORT APPROVAL AND TO TARIFFS OF 10 PERCENT OR LESS WOULD NO LONGER ENJOY EXEMPTIONS FROM CORPORATE INCOME TAX, DIVIDENDS TAX, AND CUSTOMS DUTIES ON CAPITAL IMPORTS.

4. PARTLY FOR REGIONAL DEVELOP E

MENT PURPOSES, FOREIGN INVESTED PROJECTS IN SEOUL METROPOLITAN AREA, TAEGU, AND PUSAN (KOREA'S MAJOR CITIES) WOULD NO LONGER ENJOY FIVE-YEAR EXEMPTIONS FROM LOCAL TAXES, SUCH AS PROPERTY AND ACQUISITION TAXES.

5. FOREIGN INVESTED PROJECTS THAT ARE ELIGIBLE FOR EXEMPTIONS FROM TAXES, SUCH AS CORPORATE INCOME TAX AND DIVIDENDS TAX, WOULD BE ELIGIBLE TO RECEIVE 70 PERCENT EXEMPTION FROM CUSTOMS DUTIES ON CAPITAL IMPORTS (VERSUS 100 PERCENT FOR THE MANUFACTURING SECTOR AND THE TOURIST HOTEL SECTOR AT PRESENT).

6. TO SIMPLIFY APPROVAL PROCEDURES, FOREIGN INVESTMENTS OF USD 3 MILLION OR LESS WILL BE APPROVED AUTOMATICALLY (INSTEAD OF USD 1 MILLION OR LEE

SS AT PRESENT), PROVIDED THAT SUCH INVESTMENTS DO NOT EXCEED 50 PERCENT OF TOTAL EQUITY. MOREOVER, THE LAPSE OF TIME FOR AUTOMATIC APPROVAL WILL BE REDUCED FROM THE PRESENT 30 DAYS TO 10 DAYS.

7. COMPANIES LISTED IN THE KOREA STOCK EXCHANGE AND WITH FOREIGN INVESTMENT AMOUNTING TO LESS THAN 20 PERCENT OF EQUITY WOULD BE ABLE TO EXPAND THEIR BUSINESS LINES WITHOUT THE PRIOR APPROVAL FROM THE GOVERNMENT REQUIRED AT PRESENT. ONLY A REPORT TO THE GOVERNMENT WOULD BE NEEDED.

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1. THE PERFORMANCE CRITERIA FOR DECEMBER 1986 WERE ALL FULFILLED AS FOLLOWS:

	CEILING (IN BILLIONS OF WON)	ACTUAL (IN BILLIONS OF WON)
NET DOMESTIC ASSETS OF THE BANKING SYSTEM	46,400	42,366
NET CREDIT TO THE PUBLIC SECTOR FROM THE BANKING SYSTEM	2,313	2,037
	(IN MILLIONS OF US DOLLARS)	
DISB. EXTERNAL DEBT (EXC. FUND CREDIT)	45,940	40,932
OUTSTANDING SHORT-TERM DEBT	10,530	9,256

2. THE FOLLOWING ARE ELEMENTS IN THE CALCULATION OF NDA FOR DECEMBER 1986:

A. EXCHANGE RATES FOR OCTOBER 1985 (PER USD 1): JAPANESE YEN (212.4): DM (2.6323): SWISS FRANCS (2.157): POUND STERLING (0.6974): FRENCH FRANCS (8.0257): SAUDI RIYAL (3.651): AND SDR (.93314).

B. NONDMB SWAPS IN ORIGINAL CURRENCIES (IN MILLIONS): USD (941): JAPANESE YEN (115,000): DM (200): AND SWISS FRANCS (50).

C. FOREIGN ASSETS AND LIABILITIES OF BANKING SYSTEM IN ORIGINAL CURRENCIES (IN MILLIONS):

ASSETS LIABILITIES

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GOLD (USD)	13.4	0
USD	7,497.5	12,109.7
JAPANESE YEN	136,773.2	227,720.8
DM	806.6	228.6
SWISS FRANCS	42.7	
	9	
		849.1
POUND STG	146.5	147.6
FRENCH FRANCS	248.2	141.9
SAUDI RIYAL		
	16.9	13.1
SDR	15.3	1,266.2

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23 MR. ROY BABAN
22 IMF RESIDENT REPRESENTATIVE
21 C/O BANK OF KOREA
20 SEOUL, KOREA
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18 REURTLX OF MARCH 3, FUND DELEGATES TO INTERAMERICAN
17 DEVELOPMENT BANK MEETING IN MIAMI WILL BE MR. WIESNER
16 AND MR. PUENTES, SENIOR INFORMATION OFFICER, EXR
15 SEMICOLON TO ASIAN DEVELOPMENT BANK MEETING IN OSAKA,
14 MR. NARVEKAR.
13 KIND REGARDS,
12 SAITO
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EXT: 7367

DEPT: ASD

DATE 3/3/87

E AUTHORIZED BY NAME (TYPE) K. Saito

AUTHORIZED BY NAME (TYPE)

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TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

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K. Saito

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.TEXT:
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1987 MAR -3 AM 8:48

cc, Div

CS 3

TO: MR. KUNIO SAITO
SAI
XXX ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

TO ASSIST IN PLANNING FOR APPOINTMENTS, MOF WOULD HIGHLY APPRECIATE KNOWING WHO WOULD BE THE LIKELY FUND DELEGATES TO MEETINGS OF INTERAMERICAN DEVELOPMENT BANK (MIAMI, MARCH 23) AND ASIAN DEVELOPMENT BANK (PS XX OSAKA, APRIL 27).

REGARDS

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ASIAN DEPARTMENT

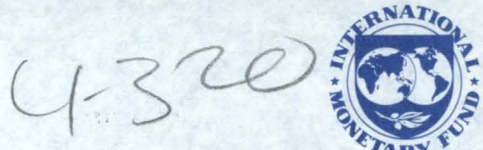
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ORIG: ASD
 CC: ETRD

MESSRS. SAITO AND WILLIAMS
 ASIAN DEPARTMENT
 INTERFUND
 WASHINGTON DC 20431

1. THE PERFORMANCE CRITERIA FOR DECEMBER 1986 WERE ALL FULFILLED AS FOLLOWS:

	CEILING (IN BILLIONS OF WON)	ACTUAL
NET DOMESTIC ASSETS OF THE BANKING SYSTEM	46,400	42,366
NET CREDIT TO THE PUBLIC SECTOR FROM THE BANKING SYSTEM	2,313	2,037

	(IN MILLIONS OF US DOLLARS)	
DISB. EXTERNAL DEBT (EXC. FUND CREDIT)	45,940	40,932
OUTSTANDING SHORT-TERM DEBT	10,530	9,256

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A. EXCHANGE RATES FOR OCTOBER 1985 (PER USD 1): JAPANESE YEN (212.4): DM (2.6323): SWISS FRANCS (2.157): POUND STERLING (0.6974): FRENCH FRANCS (8.0257): SAUDI RIYAL (3.651): AND SDR (.93314).

B. NONDMB SWAPS IN ORIGINAL CURRENCIES (IN MILLIONS): USD (941): JAPANESE YEN (115,000): DM (200): AND SWISS FRANCS (50).

C. FOREIGN ASSETS AND LIABILITIES OF BANKING SYSTEM IN ORIGINAL CURRENCIES (IN MILLIONS):

	ASSETS	LIABILITIES
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DM	806.6	228.6
SWISS FRANCS	42.9	849.1
BOUND STG	146.5	147.6
FRENCH FRANCS	248.2	141.9
SAUDI RIYAL	16.9	13.1
SDR	15.3	1,266.2

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cc: DW

TO: MR. HUBERT NEISS
 DEPUTY DIRECTOR
 ASIAN DEPARTMENT
 INTERFUND
 WASHINGTON DC

YOUR FEBRUARY 5 MEMO ON THE WORK PROGRAM OF ASD RESIDENT REPRESENTATIVES WAS RECEIVED ONLY TODAY. MATERIAL REQUESTED WILL BE MAILED TOMORROW, FEBRUARY 27. REGARDS

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 ASIAN DEPARTMENT

INCOMING CABLE/TELEX

TO: SAITO AND WILLIAMS
 ASIAN DEPT
 INTERFUND
 WASHINGTON DC 20431

1. THE FOLLOWING ARE END-OF-MONTH FINANCIAL INDICATORS (PERCENTAGE CHANGE):

	1986				J1987
	SEPT	OCT	NOV	DEC	JAN
<u>MONETARY SURVEY</u>					
M2	16.1	18.3	18.8	18.6	21.9
M2 PLUS CDS	16.1	18.3			
15 55)5 5 ???66	18.9	63		53	
18.6 20.3					
NET DOMESTIC CREDIT	11.9	12.5	13.0		
14.4 12.9					
PRIV. SECTOR CREDIT	13.2	13.7	13.6	15.1	14.4
<u>FINANCIAL SURVEY</u>					
M3	24.0	25.6	25.8=25.6		
27.5					
NET DOMESTIC CREDIT	17.0	15.1	17.6	18.0	17.0

2. THE LEVELS OF M2 AND OF M2 PLUS CDS IN JANUARY 1987 ARE VIRTUALLY EQUAL TO THOSE RECORDED IN THE PREVIOUS MONTH. HOWEVER, THE GROWTH OF THESE INDICATORS APPEAR TO HAVE ACCELERATED BECAUSE THE CORRESPONDING FIGURES IN JANUARY 1986 DECLINED IN ABSOLUTE TERMS. NEVERTHELESS, IN VIEW OF THE APPARENT TENDENCY OF M2 TO INCREASE AT A RATE EXCEEDING THE OFFICIAL 1987 TARGET RANGE OF 15-18 PERCENT, THE GOVERNMENT HAS DECIDED TO TIGHTEN CREDIT POLICY FURTHER BY REDUCING THE AMOUNT OF WON EXPORT FINANCING PER US DOLLAR OF EXPORTS.



3. LENDING RATES FOR EXPORT FINANCING (IN WON PER USD)

PREVIOUS	FEBRUARY 13			
	LARGE CO.	SMALL CO.	LARGE CO.	SMALL CO.
LOANS FOR PRODUCTION EXPENSES	690	710	650	680
LOANS FR IMPORTS OF RAW MATERIALS FOR REEXPORT	450	530	430	520
LOANS FOR PURCHASE OF RAW MATERIALS	760	780	720	750
LOANS FOR IMPORTS OF FINISHED GOODS	570	590	550	580
COMPREHENSIVE LOANS				-
0	-	680		
AVERAGE	670	700	645	680

(NOTE: &SMALL COMPANIES& ARE DEFINED AS THOSE WITH EMPLOYEES NUMBERING 300 OR LESS. &COMPREHENSIVE LOANS& ARE DEFINED AS LOANS EXTENDED TO TRADING COMPANIES HANDLING LESS THAN USD 700,000 WORTH OF EXPORTS ANNUALLY. THE AMOUNT OF EXPORT FINANCING FOR THESE COMPANIES JUST EQUALS THE AVERAGE AND DOES VARY WITH PURPOSE)

4. EARLIER, ON FEBRUARY 11, THE BANK OF KOREA RAISED THE CEILING ON CDS ISSUED BY BANKS FROM 1.4 TRILLION WON TO 2 TRILLION. THE LEVEL OF BANK CDS OUTSTANDING AS OF THE END OF JANUARY 1987 WAS 1.296 TRILLION AND THE INCREASE IN THE CEILING WAS INTENDED MAINLY TO PROVIDE THE BANKS WITH SOME ROOM FOR MANUEVER IN REMAINING COMPETITIVE VIS-A-VIS NONBANKS IN THE CD MARKET.

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TO: MR. KUNIO SAITO
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FOLLOWING ARE DETAILED BOP ACCOUNTS FOR JANUARY, 1987 (PREL).

JANUARY, 1987 (PREL)

	CREDIT	DEBIT	NET
Y1	2,831	2,278	553
Y2	672	677	-5
Y3			
Y4	93	19	74
Y5			622
Y6			266
Y7	172	117	55
Y8	67	36	31
Y9	105	81	24
			2
Y10	37	-	37
Y11	73	92	-19
Y12	69	92	-23
Y13	4	-	4
Y14	12	120	-108
Y15			53
Y16		2	-2
Y17	-	-	-
Y18	-	1	-1
Y19	19	14	5
Y20	-	-	-
Y21	260	-	260
Y22	-	13	-13
Y23	1,172	1,157	15
Y24	1,152	1,131	21
Y25	20	26	-6
Y26	-	198	-198
Y27			705



Y28			-705
Y29			-216
Y30	-	33	
		355	
		355	-355
Y31	140	-	140
Y32			-489
Y33			-263
Y34	-	32	-32
Y35	-	-149	-149
Y36			-53
Y37			-30
Y38			3
Y39	-	343	-343
Y40	22	-	22
Y41	323	-	323
Y42	-		
	/		
	1	230	-229
Y43			8,901
Y44			8,310
Y45			591

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MESSES. SAITO AND WILLIAMS
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

- EXTERNAL DEBT STATISTICS ON A CONSTANT EXCHANGE RATE BASIS
INDICATE FULFILLMENT OF QUANTITATIVE CEILINGS FOR DECEMBER 1986. OUTSTANDING DISBURSED DEBT OF ALL MATURITIES EXCLUDING IMF CREDIT WAS USD 40,932 MILLION (VERSUS A CEILING OF USD 45,940 MILLION), WHILE OUTSTANDING SHORT-TERM DEBT WAS USD 9,256 MILLION (VERSUS A CEILING OF USD 10,530).
- EXTERNAL DEBT ON A CURRENT EXCHANGE RATE BASIS INCREASED NEGLIGIBLY IN JANUARY 1987 OVER THE DECEMBER 1986 LEVEL. HOWEVER, OUTSTANDING LONG-TERM BANK LOANS AND SHORT-TERM REFINANCING CONTINUED TO DECLINE. THE RATIO OF SHORT-TERM DEBT TO THE TOTAL (EXCLUDING FUND CREDIT) REMAINED AT 21.5 PERCENT.

3. THE FOLLOWING ARE LATEST EXTERNAL DEBT FIGURES (IN MILLIONS OF US DOLLARS)

	DECEMBER 1986		JANUARY 1987
	CONSTANT	CURRENT (REV)	CURRENT (PREL.)
A	31,072	33,407	33,415
A1	11,119	11,250	11,281
A2	5,282	5,836	5,860
A3	8,411	9,199	9,075
A3			
R			
4			
///			
A4	3,062	3,622	3,701
A5	1,678	1,678	1,678
A6	1,243	1,545	1,573
A7	277	277	247
B	1,847	1,847	2,080



B1	1,213	1,213	1,183
B2	634		
		634	87
			// 897
C	9,256	9,256	9,297
C1			
	2,445	2,445	2,491
C2	498	498	497
C3	2,066	2,066	1,724
C4			
	223	223	277
C5	2,105	2,105	2,127
C6	1,919	1,919	2,181
D	42,175	44,510	44,792
E	40,932	42	
		,965	43,219

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MEMO ITELS:

GROTH OF ITEM E (12 MONTHS PERCDN E T)	-7.3	-5.1	-3.8
C/E (PERCENT)	22.6	21.5	21.5

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MESSRS. SAITO AND WILLIAMS
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

1. IN JANUARY 1987, THE EXTERNAL CURRENT ACCOUNT REGISTERED A SURPLUS OF USD 662 MILLION, LARGELY REFLECTING THE 35 PERCENT INCREASE IN EXPORTS AND SUSTAINED IMPROVEMENT IN THE SERVICES ACCOUNT. IF THE UNDERLYING TRENDS CONTINUE, THE EXTERNAL CURRENT SURPLUS FOR 1987 COULD REACH AROUND USD 7 BILLION, WELL EXCEEDING THE EPB PROJECTING OF USD 5 BILLION (UNDER WHICH EXPORTS ARE FORECAST TO INCREASE BY ONLY 12 PERCENT IN NOMINAL TERMS). CORRESPONDINGLY, THE EPB FORECAST OF 8 PERCENT REAL GROWTH IN 1987 MAY BE VIEWED AS THE LOWER BOUND OF THE RANGE OF POSSIBLE OUTTURNS.

2. SUMMARY BALANCE OF PAYMENTS (IN BILLIONS OF U.S. DOLLARS)

	JANUARY	
	1986	1987
CURRENT ACCOUNT	-334	662
TRADE BALANCE	-184	553
EXPORTS	2,102	2,831
IMPORTS	2,286	2,278
SERVICES ACCOUNT, NET	-201	-5
UNREQUITED TRANSFERS, NET	51	74
CAPITAL ACCOUNT	0	83
MEDIUM/LONG TERM	-54	266
SHORT TERM, NET	-211	15
E/O	265	-198
OVERALL BALANCE		
IMF	-334	705
BOK	-331	652
(NON-DMB SWAPS)	(3)	(-53)
PERCENTAGE CHANGE		
EXPORTS	19.8	24.7
IMPORTS	1.3	-0.4
EXPORT PRICE INDEX	-2.5	4.5
IMPORT PRICE INDEX	-2.7	-13.1

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3. SERVICES ACCOUNT (IN MILLIONS OF USD)

JANUARY

	RECEIPTS		PAYMENTS		NET	
	1986	1987	1986	1987	1986	1987
TOTAL	467	672	668	677	-201	-5
R						
F						
FREIGHT/INS.	68	109	44	63	24	46
OTHER TRANS.	46	74	108	151	-62	-77
TRAVEL	64	149	51	54	13	95
INVESTMENT INCOME	79	68				
		342				
		/// 68	342	250	-263	-182
OVERSEAS CONST.	31	49	9	2	22	47
OTHER	179	223	114	157	65	66

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MESSRS. SAITO AND WILLIAMS
ASIAN DEPARTMENT
WASHINGTON DC 20431

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CABLE/TELEX

THE BANK OF KOREA APPROVED ON FEBRUARY 19 A NUMBER OF MEASURES DESIGNED PRIMARILY TO FACILITATE THE ADVANCE REPAYMENT OF EXTERNAL DEBT AND TO MAKE REGULATIONS ON ACCESS TO SHORT TERM LOANS IN FOREIGN CURRENCY PARALLEL TO THOSE ON ACCESS TO IMPORT FINANCING ON A USANCE BASIS.

1. THE BANK OF KOREA AUTHORIZED BANKS TO EXTEND FOREIGN CURRENCY LOANS TO FIRMS WISHING TO REPAY EXTERNAL DEBTS IN ADVANCE. SUCH LOANS WOULD BE LIMITED TO 80 PERCENT OF REPAYMENTS, WITH THE REMAINDER TO BE RAISED FROM OWN FUNDS. LOANS WOULD BE SUBJECT TO A FLOATING RATE OF 1.5-2 PERCENTAGE POINTS OVER LIBOR AND WOULD BE REPAYABLE OVER TEN YEARS. WHILE THERE WOULD BE A ONE TO ONE SUBSTITUTION OF EXTERNAL DEBT WITH INTERNAL DEBT IN FOREIGN CURRENCY TO THE EXTENT OF 80 PERCENT OF THE REPAYMENT, DOMESTIC LIQUIDITY WOULD BE ABSORBED TO THE EXTENT THAT COMPANIES WOULD NOT BE ALLOWED TO BORROW TO FINANCE THE REMAINING 20 PERCENT.

2. THE RESERVE REQUIREMENT ON FOREIGN CURRENCY DEPOSITS WITH BANKS WAS REDUCED FROM 20 PERCENT TO 4.5 PERCENT. WITH THE INTEREST RATE ON SUCH DEPOSITS REGULATED BY THE BOK, THIS MEASURE WOULD AFFECT NOT AS MUCH THE ABILITY OF BANKS TO ATTRACT FOREIGN CURRENCY DEPOSITS AS THE PROFITABILITY OF THEIR LOANS IN FOREIGN CURRENCY.

3. TO COMPLEMENT MEASURES TAKEN IN RESPECT USANCE CREDITS ON FEBRUARY 13, THE REPAYMENT PERIOD OF FOREIGN CURRENCY LOANS FOR IMPORTS OF CRUDE OIL WAS REDUCED FROM 90 DAYS TO 60 DAYS. MOREOVER, THE SCOPE OF FOREIGN CURRENCY LOANS FOR THE IMPORT OF RAW MATERIALS FOR REEXPORT WAS RESTRICTED TO RAW MATERIALS WITH TARIFFS OF LESS THAN 10 PERCENT. PREVIOUSLY, NO LIMITATIONS BASED ON THE APPLICABLE

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TARIFF EXISTED.

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MESSRS. SAITO AND WILLIAMS
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC 20431

1. FURTHER CHANGES IN THE EXCHANGE AND TRADE SYSTEM HAVE BEEN ANNOUNCED TO TAKE EFFECT IN THE NEAR FUTURE. THE ENTRIES FOR JULY 1 ARE ADDITIONS TO LIBERALIZATION MEASURES PREVIOUSLY SCHEDULED TO TAKE EFFECT ON JULY 1, 1987.

MARCH 1. A 5 PERCENT IMPORT SURCHARGE WOULD BE LEVIED ON IMPORTS OF SUGAR, COFFEE, AND COCOA. THE PROCEEDS WILL BE USED TO FUND RURAL DEVELOPMENT PROJECTS.

JULY 1. THE TARIFF RATES ON 24 ITEMS WOULD BE REDUCED BY 5 PERCENTAGE POINTS AS FOLLOWS: (1) RAISINS, ALMONDS, AND FRESH CHERRIES TO 45 PERCENT; (2) CANNED CORN, CHOCOLATE, CHOCOLATE CONFECTIONERY, PERFUMES, SCENTS AND TOILET WATERS, COSMETICS FOR SKINCARE, SHAMPOOS AND SHAVING CREAMS, ANIMAL-BASED TOILET PREPARATIONS, DENTAL HYGIENE PRODUCTS, AQUEOUS DISTILLATES OF ESSENTIAL OILS, AND TENNIS RACKETS TO 30 PERCENT; (3) 30-40 MM POSITIVE COLOR FILM, COLOR NEGATIVE FILM NOT EXCEEDING 30MM IN WIDTH,



30-40MM COLOR NEGATIVE FILM, OTHER COLOR POSITIVE FILE EXCEEDING 40MM IN WIDTH, AERIAL PHOTOGRAPHIC FILM, X-RAY PAPERS AND ELECTRO-CARDIOGRAPHIC PAPERS TO 20 PERCENT; AND (4) LUMBER HEWED FROM CEDAR, OREGON PINE, RED PINE, AND OTHER NUT PINES TO 15 PERCENT. JULY 1. THE BAN ON THE IMPORTATION OF LEMON AND CRANBERRY JUICES WOULD BE LIFTED. MOREOVER, THE BAN ON THE IMPORTATION OF ALFALFA PELLET FEED WOULD BE LIFTED, BUT WITH A LIMIT OF UP TO 10,000 TONS PER YEAR.

JULY 1. THE BAN ON THE IMPORTATION OF CARS WITH ENGINE DISPLACEMENT OF 2,000 CC. OR MORE, AUTO COOLING COMPRESSORS, CRT TERMINALS, AND CARD READERS WOULD BE LIFTED. AUTOMOBILE IMPORTS WILL BE SUBJECT TO A 60 PERCENT TARIFF, A 40 PERCENT EXCISE TAX, AND A 10 PERCENT DEFENCE TAX.

2. WOULD HIGHLY APPRECIATE RECEIVING A COPY OF THE DRAFT &GUIDE TO MONEY AND BANKING STATISTICS IN IFS&.

REGARDS

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.SUBSEQ: BFMIO341
.SUBAAB: MIOFFI K23243
.TEXT:

ORIG: ASD
CC: ETRD

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MESSRS. SAITO AND WILLIAMS
ASIAN DEPT
INTERFUND
WASHINGTON DC 20431

INCOMING
CABLE/TELEX

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1987 FEB 17 AM 11:30
ASIAN DEPARTMENT

THE GOVERNMENT HAS ANNOUNCED FURTHER MEASURES TO SLOW DOWN THE GROWTH OF BANK CREDIT:

1. EFFECTIVE FEBRUARY 13, THE SCOPE OF IMPORTS WHICH COULD BE MADE ON A USANCE BILL BASIS WAS REDUCED. ELIGIBLE COMMODITIES WERE LIMITED TO (A) THOSE SUBJECT TO TARIFF RATES LOWER THAN 5 PERCENT IN THE CASE OF IMPORTS FROM JAPAN, HONG KONG, AND SOUTHEAST ASIAN COUNTRIES AND (B) THOSE SUBJECT TO TARIFF RATES LOWER THAN 10 PERCENT IN THE CASE OF IMPORTS FROM OTHER COUNTRIES. PREVIOUSLY, ALL IMPORTS SUBJECT TO TARIFF RATES LOWER THAN 20 PERCENT WERE ELIGIBLE. AS A RESULT OF THESE CHANGES, ABOUT 1,093 ITEMS BECAME INELIGIBLE FOR IMPORTATION ON A USANCE BILL BASIS.

2. EFFECTIVE APRIL 1, THE MATURITY OF USANCE BILLS FOR IMPORTS OF CRUDE OIL AND LIQUEFIED PETROLBUM GAS WAS REDUCED FROM 90 DAYS AFTER SIGHT TO 60 DAYS AFTER SIGHT. YOU MAY RECALL THAT AS ANNOUNCED IN AUGUST 1986, THE MATURITY OF SUCH USANCE BILLS WAS REDUCED FROM 120 DAYS TO 90 DAYS EFFECTIVE JANUARY 1, 1987.

3. OFFICIALS ESTIMATE THAT THESE MEASURES, AS WELL AS THE LOWERING OF LENDING RATES FOR EXPORT FINANCING ON FEBRUARY 13, WOULD REDUCE POTENTIAL CREDIT DEMAND BY ABOUT W 900 BILLION, OR ABOUT 2.5 PERCENT OF M2 PLUS CDS AT THE CLOSE OF 1986.

REGARDS

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ASIAN DEPARTMENT

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TO: SAITO AND WILLIAMS
ASIAN DEPT
INTERFUND
WASHINGTON DC 20431

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1. THE FOLLOWING ARE END-OF-MONTH FINANCIAL INDICATORS (PERCENTAGE CHANGE):

	1986				J1987	
	SEPT	OCT	NOV	DEC	JAN	
<u>MONETARY SURVEY</u>						
M2	16.1	18.3	18.8	18.6	21.9	
M2 PLUS CDS	16.1	18.3	18.9	18.6	20.3	
NET DE DOMESTIC CREDIT	11.9	12.5	13.0	14.4	14.4	12.9
PRIV. SECTOR CREDIT	13.2	13.7	13.6	15.1	14.4	
<u>FINANCIAL SURVEY</u>						
M3	24.0	25.6	25.8=25.6			
27.5						
NET DOMESTIC CREDIT	17.0	15.1	17.6	18.0	17.0	

2. THE LEVELS OF M2 AND OF M2 PLUS CDS IN JANUARY 1987 ARE VIRTUALLY EQUAL TO THOSE RECORDED IN THE PREVIOUS MONTH. HOWEVER, THE GROWTH OF THESE INDICATORS APPEAR TO HAVE ACCELERATED BECAUSE THE CORRESPONDING FIGURES IN JANUARY 1986 DECLINED IN ABSOLUTE TERMS. NEVERTHELESS, IN VIEW OF THE APPARENT TENDENCY OF M2 TO INCREASE AT A RATE EXCEEDING THE OFFICIAL 1987 TARGET RANGE OF 15-18 PERCENT, THE GOVERNMENT HAS DECIDED TO TIGHTEN CREDIT POLICY FURTHER BY REDUCING THE AMOUNT OF WON EXPORT FINANCING PER US DOLLAR OF EXPORTS.

3. LENDING RATES FOR EXPORT FINANCING (IN WON PER USD)



LARGE CO. SMALL CO. LARGE CO. SMALL CO.

LOANS FOR PRODUCTION EXPENSES	690	710	650	680
LOANS FR IMPORTS OF RAW MATERIALS FOR REEXPORT	450	530	430	520
LOANS FOR PURCHASE OF RAW MATERIALS	760	780	720	750
LOANS FOR IMPORTS OF FINISHED GOODS	570	590	550	580
COMPREHENSIVE LOANS	-	700	-	680
AVERAGE	670	700	645	680

(NOTE: &SMALL COMPANIES& ARE DEFINED AS THOSE WITH EMPLOYEES NUMBERING 300 OR LESS. &COMPREHENSIVE LOANS& ARE DEFINED AS LOANS EXTENDED TO TRADING COMPANIES HANDLING LESS THAN USD 700,000 WORTH OF EXPORTS ANNUALLY. THE AMOUNT OF EXPORT FINANCING FOR THESE COMPANIES JUST EQUALS THE AVERAGE AND DOES VARY WITH PURPOSE)

4. EARLIER, ON FEBRUARY 11, THE BANK OF KOREA RAISED THE CEILING ON CDS ISSUED BY BANKS FROM 1.4 TRILLION WON TO 2 TRILLION. THE LEVEL OF BANK CDS OUTSTANDING AS OF THE END OF JANUARY 1987 WAS 1.296 TRILLION AND THE INCREASE IN THE CEILING WAS INTENDED MAINLY TO PROVIDE THE BANKS WITH SOME ROOM FOR MANUEVER IN REMAINING COMPETITIVE VIS-A-VIS NONBANKS IN THE CD MARKET.

REGARDS

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MESSRS. SAITO AND WILLIAMS
 ASIAN DEPARTMENT
 INTERFUND
 WASHINGTON DC

1. NATIONAL TAX REVENUE DATA INDICATE THAT COLLECTIONS IN 1986 WAS MODERATELY OVER BUDGET AND THAT THE RATIO OF SUCH REVENUE TO GNP ROSE NEGLIGIBLY TO 16.4 PERCENT. THE HIGHER THAN EXPECTED REAL GROWTH RATE (THE BUDGET ASSUMED 7 PERCENT VERSUS THE ESTIMATED RATE OF 12 PERCENT) BOOSTED COLLECTIONS OF CERTAIN INTERNAL TAXES, PARTICULARLY THE VAT, THE INDIVIDUAL INCOME TAX, AND SPECIAL EXCISE TAXES. CUSTOMS DUTY COLLECTIONS SLIGHTLY EXCEEDED THE BUDGET FIGURE, DESPITE LOWER THAN ASSUMED IMPORT VALUE (THE BUDGET ASSUMED USD 33.5 BILLION ON A CUSTOMS CLEARANCE BASIS VERSUS AN ACTUAL FIGURE OF USD 31.2 BILLION) AND LOWER THAN ASSUMED AVERAGE EXCHANGE RATE (THE BUDGET ASSUMED AN AVERAGE RATE OF 900 WON PER DOLLAR VERSUS AN ACTUAL FIGURE OF 881 PER DOLLAR). ONE FACTOR OFFSETTING THESE DEVELOPMENTS WAS AN INCREASE IN THE EFFECTIVE AVERAGE DUTY RATE BY HALF OF A PERCENTAGE POINT TO 9 PERCENT, PARTLY REFLECTING THE THREE-STEP INCREASE IN THE TARIFF ON PETROLEUM IMPORTS FROM 1 PERCENT TO 15 PERCENT.

2. NATIONAL TAX REVENUE
 (IN BILLIONS OF WON)

	1985	1986		1986 ACTUAL	
		BUDGET	ACTUAL	PERCENTAGE CHANGE OVER BUDGET	OVER 1985
5					
TOTAL	11,876.4	13,197.5	13,603.4	3.1	14.5
INTERNAL TAX	7,496.9	8,119.3	8,464.0	4.2	12.9
INCOME TAX	1,481.5	1,603.8	1,784.6	11.3	20.5
CORP. TAX	1,126.7	1,175.7	1,191.4	1.3	5.7
VAT	2,401.2	3,138.1	3,272.2	4.3	12.8
SPECIAL EXCISE	980.8	1,041.9	1,085.5	4.2	10.7
LIQUOR	501.2	598.7	555.8	-7.2	10.9
OTHER	505.5	561.1	574.5	2.4	13.6
CUSTOMS DUTIES	1,566.1	1,906.3	1,942.5	2.1	24.0
DEFENSE TAX	1,663.2	1,857.7	1,840.5	-0.9	10.7
INTERNAL	1,123.5	1,205.3	1,262.6	4.8	12.4
CUSTOMS	384.1	477.8	406.5	-14.9	5.8
LOCAL	155.6	174.6	171.4	-1.8	10.1
EDUCATION TAX	321.2	334.2	372.4	11.4	16.0
MONOPOLY PROFITS	829.0	984.0	984.0	--	18.7

INCOMING CABLE/TELEX



MEMO TIMES:

NOMINAL GNP (EST.)	
72,849.8	82,815.7
NATIONAL TAX/GNP 16.3	16.4
CUSTOMS DUTIES/IMPORTS (BOP)	
8.5	9.0

REGARDS

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1987 FEB -6 AM 7:38

TO: MR. BIJAN AGHEVLI
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC

AND URGENT AND

1. THE FOLLOWING TELEX HAS BEEN SENT TO MR. MORRIS GOLDSTEIN,
QUOTE: THE INVITATION OF MD AND WORLD BANK PRESIDENT TO DEPUTY PRIME
MINISTER HAS BEEN BROUGHT TO DPM'S ATTENTION. IN ORDER TO FACILITATE
A DECISION, HIS OFFICE URGENTLY REQUESTS (1) A LIST OF PARTICIPANTS:
AND (2) A DETAILED SCHEDULE OF THE CONFERENCE. KINDLY HAVE THIS
INFORMATION TRANSMITTED TO DPM'S OFFICE; CARE OF MR. HAKCHUNG CHOO,
COUNSELOR TO DPM, ECONOMIC PLANNING BOARD EITHER BY TELEX (DPMEPB
K23202) OR BY FAX (503-9138). IT WOULD BE HIGHLY APPRECIATED IF THIS
INFORMATION COULD BE RECEIVED BY SATURDAY MORNING LOCAL TIME, BEFORE
GOVERNMENT OFFICES CLOSED FOR THE WEEKEND. UNQUOTE

2. AS OF THREE PM, FEBRUARY 6, I HAVE RECEIVED ONLY A COPY OF THE
INVITATION TO DPM BUT NOT THE LIST OF PARTICIPANTS.

REGARDS

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MESSRS. SAITO AND WILLIAMS
ASIAN DEPARTMENT
INTERFUND
WASHINGTON DC

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1. THE FOLLOWING ARE FURTHER CHANGES IN THE EXCHANGE AND TRADE SYSTEM:

1986

SEPTEMBER 30. THE CUSTOMS DUTY ON RYE SEED IMPORTS WAS LOWERED TEMPORARILY FROM 7 PERCENT TO ZERO. THIS REDUCTION WOULD APPLY ONLY TO 3,905 TONS IMPORTED DURING SEPTEMBER-DECEMBER 1986.

OCTOBER 27. TO FOSTER THE IMPORTATION OF EQUIPMENT WHICH WOULD FACILITATE THE LOCALIZATION OF MACHINERY AND PARTS, THE LIST OF INDUSTRIES ELIGIBLE FOR CUSTOMS REDUCTIONS WAS EXPANDED TO INCLUDE MANUFACTURING OF METALLIC FILM, OPTICAL RECORDING MEDIA, AND SYNCHRONIZER HUBS. AT THE SAME TIME, MANUFACTURING OF AIR HAMMERS, LOADERS, CRANES, CHEMICAL MACHINERY AND COMBINATION METERS WERE MADE INELIGIBLE FOR CUSTOMS REDUCTIONS. WITH THESE ADJUSTMENTS, THE NUMBER OF INDUSTRIES ELIGIBLE FOR CUSTOMS REDUCTIONS FELL TO 80.

1987

JANUARY 1. THE TARIFF ON CRUDE OIL WAS RAISED FROM 15 PERCENT TO 24.5 PERCENT.

JANUARY 1. THE SIMPLIFIED CUSTOMS DUTY WHICH IS APPLIED TO IMPORTS BY TRAVELLERS AND WHICH IS THE SUM OF THE TARIFF, THE DEFENCE TAX, AND THE DOMESTIC EXCISE TAX WAS REVISED FOR 17 ITEMS. SIMPLIFIED REXX RATES ON 15 ITEMS, INCLUDING WATCHES AND COSMETICS, DECLINED BY 10-20 PERCENTAGE POINTS, REFLECTING REDUCTIONS IN TARIFF RATES. SIMPLIFIED RATES ON VTRS AND MICROWAVE OVENS INCREASED BY 20-30 PERCENTAGE POINTS DUE TO INCREASES IN EXCISE TAX RATES.

JANUARY 1. NINE ITEMS, INCLUDING WASTE PAPER AND ALUMINA CEMENT, WERE REMOVED FROM THE TARIFF QUOTA SYSTEM. AT THE SAME I





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Office Memorandum

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2/18/87
cc: SW

TO: The Deputy Managing Director
(via Director of Administration) *MM*

FROM: P. R. Narvekar *PRN*

SUBJECT: Korea--Resident Representative Post

January 29, 1987

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Attached for your signature, if you approve, is a draft cable to Minister Chung. The cable formalizes the agreement to close the resident representative post in Seoul in mid-1987 by proposing a six months' extension of Mr. Baban's term, which otherwise would expire at the end of this month. It also indicates that we will be responding to the Minister's proposal concerning Fund recruitment of Korean fixed-term appointees.

25% COTTON FIBER USA

Attachment

1987 JAN 30 AM 11:27
OFFICE OF THE
DEPUTY MANAGING DIRECTOR

RECEIVED
1987 FEB -2 AM 10:28
ASIAN DEPARTMENT

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23 HONORABLE IN YONG CHUNG
 22 MINISTER OF FINANCE
 21 MINISTRY OF FINANCE
 20 SEOUL, KOREA

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DISTRIBUTION

cc: MR. LIM
ROOM
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ADM
ASD

18 THANK YOU FOR YOUR LETTER OF JANUARY 14, 1987
 17 CONFIRMING THE PROPOSAL TO CLOSE THE FUND'S RESIDENT
 16 REPRESENTATIVE POST IN KOREA IN MID-1987. ACCORDINGLY,
 15 WE PROPOSE TO EXTEND MR. BABAN'S TERM, PRESENTLY DUE TO
 14 EXPIRE AT END-JANUARY, BY SIX MONTHS TO END-JULY UNDER
 13 THE EXISTING TERMS AND CONDITIONS.

12 YOUR PROPOSAL CONCERNING POSSIBLE RECRUITMENT OF
 11 FIXED-TERM APPOINTEES FROM KOREA'S MINISTRY OF FINANCE
 10 IS A MOST INTERESTING AND CONSTRUCTIVE ONE, AND COULD
 9 INDEED PROVE TO BE A FRUITFUL METHOD OF ENHANCING FUTURE
 8 COLLABORATION BETWEEN THE FUND AND KOREA. WE WILL BE IN
 7 TOUCH WITH YOU REGARDING THE IMPLEMENTATION OF YOUR
 6 PROPOSAL.

5 I WOULD LIKE TO THANK YOU ONCE AGAIN FOR YOUR
 4 CONSIDERATION AND HELPFUL COOPERATION ON THIS MATTER.

3 REGARDS,
 2 RICHARD D. ERB

1 DEPUTY MANAGING DIRECTOR, INTERFUND

IF REQUIRED INITIAL BELOW

PRN

SPECIAL INSTRUCTIONS TEXT MUST END HERE

Cleared with Administration *[Signature]*

TELEX NO MIOFFI K23243

DRAFTED BY NAME (TYPE) MFetherston/de

EXT. 8761 DEPT. ASD DATE: 1/29/87

AUTHORIZED BY NAME (TYPE) Richard D. Erb

AUTHORIZED BY NAME (TYPE) (**)

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

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[Signature]

SIGNATURE PLEASE KEEP SIGNATURE IN SPACE ALLOWED SIGNATURE



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cc: Div.

MIOFFI K23243

752435

1987 JAN 28 AM 7:39

TO: MR. KUNIO SAITO
ASIAN DEPT
INTERFUND
WASHINGTON DC 20431

ORIG: MR. SAITO
CC: ~~MR. KRONINBERG~~

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THESE ARE RESPONSES TO QUESTIONS IN YOUR TELEX OF JANUARY 22:

1. IMPORT DEPOSITS ARE ALSO REQUIRED ON DOCUMENTS AGAINST ACCEPTANCE AND DOCUMENTS AGAINST PAYMENT. THESE FORMS OF PAYMENT ARE RARELY USED.
2. IMPORTERS ARE COMPLETELY FREE TO CHOOSE THE METHOD OF IMPORT PAYMENT.
3. IMPORT DEPOSITS ARE IMPOSED BY BANKS ON THEIR OWN FOR COMMERCIAL CONSIDERATIONS AND NOT AT THE BEHEST OF GOVERNMENT POLICY.
4. KINDLY NOTE THAT IMPORT DEPOSITS ON SIGHT LETTERS OF CREDIT WERE IMPOSED IN JULY 1978 (NOT IN JULY 1986 AS INADVERTENTLY STATED IN THE JANUARY 22 TELEX).

REGARDS

BABAN

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1987 JAN 28 AM 7:38

cc: div. p

MESSRS. SAITO AND WILLIAMS
ASIAN DEPT
INTERFUND
WASHINGTON DC 20431

ORIG: ASD
CC: ETR

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1. THE EXTERNAL CURRENT ACCOUNT RECORDED A SURPLUS OF USD 0.5 BILLION IN DECEMBER 1986, RESULTING IN A SURPLUS OF USD 4.7 BILLION FOR 1986 AS A WHOLE. THIS COMPARES WITH A DEFICIT OF USD 0.9 BILLION IN 1985. THE SHIFT FROM DEFICIT TO SURPLUS OWED TO IMPROVEMENTS IN THE TRADE BALANCE (77 PERCENT), THE SERVICES BALANCE (15 PERCENT), AND NET TRANSFERS (8 PERCENT). THE EXPORT BOOM, PARTLY ATTRIBUTABLE TO A RISE IN COMPETITIVENESS VIS-A-VIS JAPAN, WAS COMPLEMENTED BY A DECLINE IN PETROLEUM PRICES, WHICH SAVED ABOUT USD 2 BILLION IN FOREIGN EXCHANGE COSTS. IN THE SERVICES ACCOUNT, RECEIPTS FROM TOURISM DOUBLED, OWING MAINLY TO INCREASED EXTERNAL COMPETITIVENESS AND INCREASED BUSINESS TRAVEL. MOREOVER, WITH LOWER INTERNATIONAL INTEREST RATES AND A REDUCTION IN THE OUTSTANDING EXTERNAL DEBT, NET INVESTMENT INCOME OUTFLOWSWERE CONTAINED AT THE 1985 LEVEL. THESE FAVORABLE DEVELOPMENTS MORE THAN COMPENSATED FOR THE DECLINE IN NET RECEIPTS FROM OVERSEAS CONSTRUCTION. NET UNREQUITED TRANSFERS INCREASED BY AN UNEXPECTED 78 PERCENT IN 1986, AS PRIVATE REMITTANCES

SURGED IN THE LIGHT OF THE KOREAN WON'S APPRECIATING TREND. PARTLY REFLECTING OFFICIAL PREFERENCE FOR ADVANCE REPAYMENT OF EXTERNAL DEBT OVER THE ACCUMULATION OF RESERVES, TOTAL GROSS EXTERNAL RESERVES AT THE CLOSE OF 1986 AMOUNTED TO USD 8,572 MILLION OR 3.5 MONTHS OF IMPORTS, COMPARED WITH USD 8,383 MILLION OR 3.8 MONTHS AT THE CLOSE OF 1985.

2. SUMMARY BALANCE OF PAYMENTS (IN USD MILLIONS)

	DEC		JAN-DEC	
	1985	1986	1985	1986
CURRENT ACCOUNT	180	484	-887	4,654
TRADE BALANCE	309	513	-19	4,255
EXPORTS	2,864	3,559	26,442	33,881
IMPORTS	2,555	3,046	26,461	29,626
SERVICES, NET	-191	-126	-1,446	-628
TRANSFERS, NET	62	97	578	1,027
CAPITAL ACCOUNT	-317	-467	-1,616	-1,790
MEDIUM/LONG, NET	-91	-1,072	-148	-1,141
SHORT-TERM, NET	92	241	-588	-409
E/O	-318	364	-880	-240
OVERALL BALANCE				
IMF	-137	17	-2,503	2,864
BOK	-250	-573	-1,254	1,958
(NON-DMB SWAPS)	(-113)	(-590)	(1,249)	(-906)

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PERCENTAGE CHANGE:

EXPORTS	8.7	24.2	0.4	28.1
IMPORTS	11.1	19.3	-3.3	12.0

3. SERVICES ACCOUNT (IN MILLIONS OF USD)

	JAN-DEC					
	RECEIPTS		PAYMENTS		NET	
	1985	1986	1985	1986	1985	1986
TOTAL	6,664	8,039	8,110	8,667	-1,446	-6-
28						
FREIGHT/INS.	1,325	1,442	522	715	803	727
OTHER TRANS	758	735	1,346	1,498	-588	-763
TRAVEL	784	1,546	606	626	178	920
INVESTMENT INCOME	794	839	3,977	4,003	-3,183	-3,164
OVERSEAS CONST.	985	637	214	177	771	460
OTHER	2,018	2,840	1,445	1,648	573	1,192

4. PLEASE NOTE THAT MOF WILL BE CLOSED ON THURSDAY, JANUARY 28 (LUNAR NEW YEAR).

REGARDS

BABAN

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cc: Div.

ORIG: ASD
CC: ETR

MESSRS. SAITO AND WILLIAMS
ASIAN DEBT
INTERFUND
WASHINGTON DC 20431

CA

THE FOLLOWING ARE DETAILED BOP ACCOUNTS FOR NOVEMBER 1986(REVISED),
DECEMBER 1986(PREL) AND JANUARY-DECEMBER 1986.

FOLLOWING ARE DETAILED BOP ACCOUNTS FOR NOVEMBER (REVISED), DECEMBER
(PREL.), AND JANUARY-DECEMBER.

	NOVEMBER, 1986(REV)			DECEMBER, 1986(PREL)		
	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET
Y1	3,063	2,330	733	3,559	3,046	513
Y2	760	663	97	843	969	-126
Y3						
Y4			105			97
Y5			934			484
Y6			-70			-1,072
Y7			-76			-261
Y8	107	86	22	66	207	-141
Y9	62	159	-97	69	189	-119
Y10	142	5	136	58	6	52
Y11	195	205	-10	136	293	-158
Y12	181	205	-24	115	293	-179
Y13	14	-	14	21	-	21
Y14	139	34	106	-	698	-698
Y15	43	-	43	590	-	590
Y16	14	14	-	12	15	-3
Y17	-	-	-	-	-	-
Y18	-	136	-136	-	343	-343
Y19	19	27	-8	19	14	5
Y20	4	3	1	-	-	-
Y21			-123			-251
Y22	-	3	-3	-	7	-7
Y23			-141			241
Y24	1,018	1,164	-145	1,461	1,228	233
Y25	25	20	5	26	17	9
Y26			-73			364
Y27			651			17
Y28			-651			-17
Y29			-58			147
Y30	-	26	-26			150
Y31	-	32	-32			-3
Y32			-593			-164
Y33			-530			-686
Y34						
	-	51	-51	-	-	-
Y35	-	467	-467	-	-	-

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Y36	-	43	-43	-	84	-84
Y37	31	-	31	-	590	-590
Y38			-63		12	-12
Y39	-					509
Y40	144	142	-142	442	-	442
Y41		-	144	48	-	48
Y42	-	65	-65	20	-	20
Y43	-	-	-	12	-	12
Y44			8,692			8,572
Y45			8,060			7,910
			632			662

JANUARY-DECEMBER, 1986

	CREDIT	DEBIT	NET
Y1	33,881	29,626	4,255
Y2	8,039	8,667	-628
Y3			
Y4			1,027
Y5			4,654
Y6			-1,141
Y7			-32
Y8	880	1,006	-126
Y9	1,619	1,526	94
Y10	487	62	445
Y11	1,737	2,143	-407
Y12	1,173	2,143	-971
Y13	564	-	564
Y14	543	1,180	-637
Y15	906	-	906
Y16	198	138	60
Y17	151	2	149
Y18	-	1,038	-1,038
Y19	284	367	-83
Y20	9	15	-6
Y21			-389
Y22	-	112	-112
Y23			-409
Y24	12,304	12,726	-423
Y25	580	566	14
Y26			-240
Y27			2,864
Y28			-2,864
Y29			-170
Y30			-162
Y31			-8
Y32			-2,695
Y33			-1,320
Y34	-	126	-126
Y35	-	762	-762
Y36	-	906	-906
Y37	474	-	474
Y38			-1,411
Y39	-	1,837	-1,837
Y40	409	-	409
Y41	17	-	17

INCOMING CABLE/TELEX



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MESSRS. SAITO AND WILLIAMS
ASIAN DEPT
INTERFUND
WASHINGTON DC 20431

ORIG: ASD
CC: ETRD

1. ON A CUSTOMS CLEARANCE BASIS, EXPORTS GREW BY 15 PERCENT IN 1986. WHILE EXPORT PRICES HAVE BEEN STRENGTHENING IN THE COURSE OF THE YEAR, THE AVERAGE ANNUAL INCREASE WAS NEGLIGIBLE. IMPORTS GREW BY ABOUT THE SAME RATE IN REAL TERMS AS EXPORTS, WHILE REGISTERING NO INCREASE IN VALUE. THE ABSOLUTE DECLINE IN IMPORT PRICES LARGELY REFLECTS LOWER PETROLEUM PRICES. WITH EASING DOMESTIC FUND PRICES, INFLATION REMAINED MODERATE (CPI) OR NEGATIVE (WPI).

2. LATEST TRADE AND PRICE STATISTICS:

	DECEMBER			JAN-DECEMBER		
	1985	1986 RO	PERCENT GROWTH	1985	1986	PERCENT GROWTH
TRADE: CUSTOMS CLEARANCE BASIS						
EXPORTS, FOB	3,812.5	3,520.7	-7.7	30,283.1	34,740.0	14.7
IMPORTS, CIF	3,704.3	2,860.2	22.8	31,135.7	31,230.0	0.3
TRADE BALANCE	108.2	660.5		-852.6	3,510.0	
TRADE DOCUMENTS:						
LETTER OF CREDIT						
	1,893.9	2,556.6	35.0	19,470.5	25,228.7	29.6
IMPORT LICENSES						
	2,329.4	2,493.5	7.0	24,240.7	26,798.6	10.6
PRICE INDICES (+)						
EXPORT	94.5	99.2	5.0	95.8	97.0	1.3
IMPORT	90.0	76.7	-14.8	90.7	77.7	-14.3
(MINERAL FUELS)	(91.4)	(47.4)	(-48.1)	(91.8)	(53.0)	(-42.3)
CPI	142.6	144.5	1.3	141.0	144.2	2.3
WPI	129.3	124.5	-3.7	128.3	125.5	-2.2

(+) JAN-DECEMBER FIGURES ARE TWELVE-MONTH AVERAGES.

3. EXCHANGE RATES PER USD FOR DECEMBER WERE: W861.40 (END) AND W864.09 (AVERAGE). END-MONTH FIGURE REPRESENTS AN APPRECIATION VIS-A-VIS THE U.S. DOLLAR OF 2.9 PERCENT OVER END-JUNE 1986 AND 3.3 PERCENT OVER END-DECEMBER 1985.

REGARDS

BABAN

INCOMING CABLE/TELEX



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ASAIN DEPT
INTERFUND
WASHINGTON DC 20431

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1. AT THE CLOSE OF 1986, THE LEVEL OF THE EXTERNAL DEBT DECLINED BY ABOUT 5 PERCENT TO USD 44.4 BILLION(INC. FUND CREDIT) OR USD 42.9 BILLION (EXC. FUND CREDIT). REDUCTIONS IN SHORT-TERM DEBT ACCOUNTED FOR ABOUT TWO-THIRDS OF THE DECLINE IN THE TOTAL.

2. THE FOLLOWING ARE LATEST EXTERNAL DEBT FIGURES.

	NOVEMBER 1986		DECEMBER 1986
	CONSTANT	CURRENT (REV)	CURRENT (PREL.)
A	31,979	34,386	33,387
A1	11,252	11,391	11,250
A2	5,373	5,956	5,836
A3	9,074	9,866	9,230
A4	3,125	3,678	3,619
A5	1,630	1,630	1,630
A6	1,243	1,533	1,545
A7	282	282	277
B	2,089	2,089	1,833
B1	1,219	1,219	1,207
B2	870	870	626
C	8,455	8,455	9,225
C1	2,374	2,374	2,495
C2	338	338	448
C3	1,625	1,625	2,067
C4	177	177	219
C5	2,098	2,098	2,158
C6	1,843	1,843	1,858
D	42,523	44,880	44,445
E	41,280	43,347	42,900

MEMO ITEMS:

GROWTH OF ITEM E (12 MONTHS PERCENT)	-5.8	-3.6	-5.2
C/E (PERCENT)	20.5	19.5	21.5

REGARDS

BABAN

248331A IMF UR

INCOMING CABLE/TELEX

START ADDRESS IN THE BOX

23 MR. ROY BABAN
22 IMF RESIDENT REPRESENTATIVE
21 C/O MINISTRY OF FINANCE
20 SEOUL, KOREA

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MARK XX FOR CODE
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START TEXT HERE

18 A. IN REVIEWING CHANGES IN KOREA'S EXCHANGE AND
17 TRADE SYSTEM DURING 1986, CERTAIN QUESTIONS AROSE IN
16 CONNECTION WITH ONE OF THE MEASURES ADOPTED IN LATE
15 AUGUST. THE MEASURE WAS CITED IN YOUR TELEX OF
14 AUGUST 22 AS FOLLOWS: (QUOTE) BANKS WOULD BEGIN
13 REQUIRING 10 PERCENT DEPOSITS FOR USANCE-BASIS LETTERS
12 OF CREDIT. PREVIOUSLY, SUCH DEPOSITS WERE REQUIRED ONLY
11 FOR SIGHT-BASIS LETTERS OF CREDIT. (UNQUOTE)
10 B. IN YOUR ABSENCE, I TELEXED DIRECTOR GENERAL SHIM
9 ON JANUARY 8 SEEKING CLARIFICATION OF THE MEASURE. IN
8 REPLY OF JANUARY 20, HE CONFIRMED THAT: (1) MEASURE WAS
7 ADOPTED AS CITED SEMICOLON (2) DEPOSITS ARE NORMALLY
6 NONINTEREST BEARING SEMICOLON (3) AVERAGE DURATION OF
5 DEPOSITS IS 50 DAYS SEMICOLON (4) THAT OTHER FORMS OF
4 PAYMENT SUCH AS DOCUMENTS AGAINST PAYMENTS (D SLASH P)
3 AND DOCUMENTS AGAINST ACCEPTANCE (D SLASH A) ARE
2 AVAILABLE TO IMPORTERS SEMICOLON AND (5) THE 10 PERCENT

Mr. Kroninberg
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23 MR. ROY BABAN
22 IMF RESIDENT REPRESENTATIVE
21 C/O MINISTRY OF FINANCE
20 SEOUL, KOREA

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18 DEPOSIT ON SIGHT LETTERS OF CREDIT WAS INTRODUCED IN
17 JULY 1986.

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Mr. Kroninberg

16 C. FURTHER CLARIFICATION OF POINT (4) OF PARAGRAPH B
15 IS NECESSARY. SPECIFICALLY, WE NEED TO KNOW:

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14 (1) WHETHER THESE ALTERNATIVE FORMS OF IMPORT PAYMENT
13 ALSO REQUIRE ANY FORM OF ADVANCE DEPOSIT SEMICOLON AND
12 (2) WHETHER IMPORTERS ARE FREE TO CHOOSE FORM OF PAYMENT
11 REGARDLESS OF GOODS BEING PURCHASED.

Y
P

10 WOULD APPRECIATE YOUR EARLIEST REPLY.

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9 PLEASE CONVEY OUR THANKS TO MR. SHIM FOR HIS TELEX OF
8 JANUARY 20.

7 REGARDS.

6 SAITO

5 INTERFUND

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