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May 25, 1989

To: Members of the Executive Board
From: The Secretary
Subject: Korea - Supplementary Background Material for the GATT

The attached paper has been prepared by the staff to supply more recent background information on Korea in connection with the forthcoming consultations between the CONTRACTING PARTIES to the GATT and Korea (EBD/89/148, 5/15/89). This paper updates the information contained in the latest report on recent economic developments in Korea (SM/88/101, 5/4/88). In the absence of objection from an Executive Director by noon on Thursday, June 1, 1989 the paper will be transmitted to the CONTRACTING PARTIES for their information and use.

Mr. Marquez-Ruarte (ext. 7180) is available to answer technical or factual questions relating to this paper.

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INTERNATIONAL MONETARY FUND

KOREA

Supplementary Background Material for the GATT

Prepared by the Asian Department

Approved by Hubert Neiss and Anupam Basu

May 24, 1989

Overview

The Korean economy continued to grow rapidly in 1988, buoyed by strong domestic and foreign demand. Real gross national product (GNP) grew by over 12 percent for the third consecutive year; labor markets tightened; and both cost and demand factors pushed the average rate of inflation up to 7 percent, double that of the previous year (Table 1). The current account surplus increased from 8 percent to 8 1/2 percent of GNP. The increase was more pronounced in U.S. dollars terms, from \$10 billion to \$14 billion, owing primarily to higher trade prices. The early months of 1989 were marked by widespread labor unrest, sharply lower output and export growth, continued import growth, and inflationary pressures. Strike-related disruptions to production cut industrial output and exports, and the first quarter current account surplus fell to less than half that recorded last year. Still, gross official reserves continued to rise, reaching \$14 billion at end-March (equivalent to three months of 1988 imports of goods and services), while external debt declined to \$31 billion (20 percent of 1988 GNP).

Recent Economic Developments

The continued growth of real GNP at about 12 percent in 1988 was supported primarily by domestic demand (Table 2). Increased consumption, stimulated by rising real incomes, offset the lower growth of private and public investment. Overall, domestic demand expanded by 11 percent, compared with 10 1/2 percent in 1987. After climbing by more than 20 percent annually in 1986-87, real export growth slowed to 13 percent; real import growth was also lower, reflecting the high import content of exports. On a net basis, the external contribution to real GNP growth declined to 1 1/2 percent from 2 percent in 1987 and 3 1/2 percent in 1986. On the production side, output growth was maintained by the sharp turnaround in agricultural production (the

Table 1. Korea: Selected Economic Indicators, 1985-89

	1985	1986	1987	1988 Pref.	1989 Q1 Pref.
<u>Growth (annual percent change)</u>					
Real GNP	7.0	12.9	12.8	12.2	...
Real domestic demand	5.5	9.4	10.3	10.9	...
<u>Inflation (change in percent)</u>					
GNP deflator	4.1	2.7	3.5	4.3	...
CPI (period average)	2.5	2.8	3.0	7.1	6.6
CPI (end of period)	3.2	1.4	6.1	7.4	4.7
<u>Unemployment rate</u>	4.0	3.8	3.1	2.5	3.5
<u>Terms of trade (percent change)</u>	0.5	8.8	2.5	2.8	...
<u>Consolidated central government 1/</u>					
Revenue (growth in percent)	11.2	9.3	19.1	22.3	...
Expenditure (growth in percent)	9.0	4.6	17.0	15.2	...
Overall surplus or deficit (percent of GNP)	-0.9	--	0.2	1.3	...
Borrowing from the banking system (percent of GNP)	--	--	-0.6	-1.6	...
Foreign borrowing (net) (percent of GNP)	0.6	-0.2	--	-0.6	...
Concessional	--	--	--	--	...
Commercial	0.6	-0.2	--	-0.6	...
<u>Money and credit (end of period; percent change)</u>					
Total domestic credit	18.0	15.9	14.5	10.9	11.2
Total liquidity (M2 plus certificates of deposit)	16.8	18.6	19.3	20.5	19.0
Yield on corporate bonds	14.2	12.8	12.8	14.5	13.7
<u>Balance of payments (\$ bn.)</u>					
Exports	26.4	33.9	46.2	59.6	14.0
Of which: Oil	(0.7)	(0.4)	(0.6)	(0.5)	...
Imports	26.5	29.7	38.6	48.2	13.0
Of which: Oil	(5.6)	(3.3)	(3.7)	(3.7)	...
Current account	-0.9	4.6	9.9	14.2	1.3
Of which: Interest payments	(3.7)	(3.7)	(3.2)	(2.7)	(0.4)
Current account (percent of GNP)	-1.0	4.5	7.7	8.4	...
Overall balance (\$ bn.)	-2.5	2.6	6.8	12.2	0.2
<u>Reserves (end of year, \$ bn.)</u>					
Gross official reserves	2.9	3.3	3.6	12.3	14.1
(In months of imports of goods and services)	(1.0)	(1.0)	(0.9)	(2.5)	(2.9) 2/
Net official reserves	1.3	1.7	3.0	12.3	14.1
<u>External debt (end-of-year stock, \$ bn.)</u>					
Medium- and long-term, nonmonetary	36.0	35.3	26.3	21.4	20.0
Of which: Use of Fund credit	1.5	1.5	0.5	--	--
Short-term, nonmonetary	10.7	9.3	9.3	9.7	11.2
Total (percent of GNP)	55.8	46.8	30.0	20.0	...
Debt service (\$ bn.)	7.9	10.4	17.3	10.1	1.5 3/
Of which: Prepayments	--	1.2	9.0	3.9	0.5 3/
Debt service in percent of current earnings	23.8	24.7	30.8	14.3	14.3 3/
<u>Use of Fund resources (SDR mn.)</u>					
EFF	--	--	--	--	--
SBA	135.9	120.0	--	--	--
CFB	--	--	--	--	--
RT	--	--	--	--	--
Repurchases	361.8	226.8	896.5	369.8	--
Present arrangement (amount of gross drawings and date of arrangement)	None				
Fund holdings of currency (percent of quota, end of period)	396.5	373.5	179.8	99.9	99.9
<u>Exchange rate</u>					
Exchange rate regime	Managed float				
Won per U.S. dollar (end of period)	890.2	861.4	792.3	684.1	671.9
Nominal effective exchange rate 4/	100.0	93.1	88.8	102.6	107.4
Real effective exchange rate 4/	100.0	93.1	91.6	109.3	114.0
<u>Quota (SDR mn.)</u>	462.8				

Sources: Bank of Korea, Monthly Statistical Bulletin; IMF, International Financial Statistics; and data provided by the Korean authorities.

1/ Fiscal year coincides with calendar year; includes central government and nonfinancial public enterprises.

2/ In months of 1988 imports of goods and services.

3/ January and February, 1989.

4/ Information Notice System indices; end of period; December 1985 = 100. Increase is appreciation.

Table 2. Korea: Gross National Product by Expenditure, 1985-88

	1985	1986	1987	1988				1988
				Q1	Q2	Q3	Q4	
Expenditure on GDP (In trillions of won at 1985 prices)								
Consumption	56.0	60.6	65.6	16.3	17.2	18.8	19.8	72.1
Private	47.9	51.6	56.0	13.9	14.8	16.1	16.5	61.3
Government	8.1	9.0	9.6	2.4	2.4	2.7	3.2	10.8
Investment	23.7	26.5	30.5	6.6	7.6	8.3	11.9	34.5
Gross fixed capital formation	22.8	25.3	29.7	6.7	8.2	8.7	9.7	33.2
Change in stocks	0.8	1.2	0.8	--	-0.6	-0.4	2.3	1.2
Aggregate domestic demand	79.7	87.2	96.1	22.9	24.8	27.2	31.7	106.6
Exports of goods and services	27.9	35.2	42.8	11.2	11.9	12.4	13.0	48.5
Imports of goods and services	26.9	31.7	37.9	9.9	10.4	11.4	10.9	42.5
Statistical discrepancy	0.1	0.2	0.5	0.2	0.1	0.3	-0.1	0.5
Gross domestic product	80.8	90.9	101.6	24.4	26.6	28.5	33.6	113.1
Net factor income from abroad	-2.8	-2.7	-2.2	-0.4	-0.4	-0.3	-0.3	-1.5
Gross national product	78.1	88.2	99.4	24.0	26.1	28.2	33.3	111.6
Expenditure on GDP (Year-on-year percent change)								
Consumption	6.3	8.2	8.2	10.4	7.8	11.2	10.4	10.0
Private	6.4	7.8	8.4	10.5	9.1	9.9	9.1	9.6
Government	5.6	10.8	6.9	9.6	0.7	19.0	17.3	11.8
Investment	3.8	12.1	15.1	21.2	8.4	15.2	10.3	13.0
Gross fixed capital formation	4.7	10.9	17.4	13.5	10.3	13.3	10.4	11.8
Change in stocks 1/	1.1	1.5	0.9	-0.1	-2.5	-1.6	7.6	1.3
Aggregate domestic demand	5.5	9.4	10.3	13.3	8.0	12.4	10.3	10.9
Exports of goods and services	4.5	26.1	21.6	22.4	6.9	13.9	11.0	13.1
Imports of goods and services	-0.6	17.8	19.4	20.4	6.9	17.1	6.1	12.2
Gross domestic product	6.9	12.4	11.8	14.6	8.1	11.7	11.2	11.3
Gross national product	7.0	12.9	12.8	15.2	8.9	12.4	12.6	12.2
External stimulus 1/	1.7	3.3	2.2	2.1	1.0	-0.1	3.4	1.7

Source: Bank of Korea, Monthly Statistical Bulletin.

^{1/} Contribution to real GNP.

result of a bumper rice crop in the fourth quarter) and continued strength in construction and services. In the manufacturing sector, growth slowed from 18 percent to 13 percent, reflecting the deceleration in exports and investment.

Consumer price inflation, which began to accelerate in mid-1987, leveled off by mid-1988 and declined somewhat during the first quarter of 1989 (Table 3). Strong domestic demand and rising wages have been the principal underlying factors. Most of the increase in inflation was accounted for by higher prices for food, services, and rental housing. Prices of manufactured goods and goods sold at wholesale were relatively stable, in part owing to direct measures taken to reduce the prices of petroleum products and electricity and to the appreciation of the won, which lowered the domestic cost of imported intermediate goods. Tight labor market conditions led to large wage increases in late 1987 and the spring of 1988 that pushed wages in manufacturing up 20 percent in 1988, and put upward pressure on unit labor costs. The unemployment rate fell to a historically low 2 1/2 percent in 1988.

The widening of the external surplus was primarily accounted for by the larger trade balance (Tables 4 and 5). More than half of the increased trade balance was due to higher dollar-denominated trade prices, reflecting the initial trade imbalance and a small terms of trade gain. Export volume growth halved, despite the strengthening of foreign demand, as the continued loss of price competitiveness took effect. ^{1/} The trade and current account improvement was greater in the latter half of 1988 owing to seasonal and other factors. With the won appreciating, there was an incentive to bring forward foreign exchange earnings. Also, late in the year, imports were delayed to take advantage of the substantial tariff cuts scheduled for January 1, 1989. The increase in the balance on services was due to higher tourist receipts and lower interest payments on external debt. Net long-term capital repayments continued in 1988, but on a smaller scale.

In the first quarter of 1989, the current account surplus (not seasonally adjusted) fell to \$1.3 billion, compared with \$2.9 billion a year earlier (Table 6). Preliminary trade price data suggest that real exports declined by 3 percent, while real imports rose by 10 percent (in part owing to the January 1 tariff cuts). The production of export goods was adversely affected by the spread of labor disputes; official estimates indicate that strikes during the first quarter of 1989 cut exports by \$650 million. Letters of credit, a leading indicator of export shipments, increased by only 4 percent (year-on-year) in the first quarter of 1989, compared with 27 percent in the same period last year; in April, however, they increased by 15 percent.

^{1/} The growth of non-oil import volume in Korea's foreign markets increased by over 9 percent in 1988 compared with 6 1/2 percent in 1987.

Table 3. Korea: Prices, Wages, and Unemployment, 1985-89

	1985	1986	1987	1988	1989 Mar. <u>1/</u>
	<u>(Annual percent change)</u>				
GNP deflator	4.1	2.7	3.5	4.3	...
Wholesale price index	0.9	-1.5	0.5	2.7	1.3
Consumer price index	2.5	2.8	3.0	7.1	4.7
Food	3.7	2.4	3.0	10.3	6.5 <u>2/</u>
Nonfood	1.6	3.0	3.0	5.2	4.8 <u>2/</u>
Average monthly earnings, manufacturing (quarterly averages)	9.9	9.2	11.3	19.7	...
Productivity in mfg. <u>3/</u>		17.6	13.3	14.9	...
Unit labor costs in mfg. <u>3/</u>		-8.4	-2.0	4.8	...
Unemployment rate (percent)	4.0	3.8	3.1	2.5	3.5

Sources: Bank of Korea, Monthly Statistical Bulletin; IMF, International Financial Statistics; and data provided by the Korean authorities.

1/ Percent change from March 1988.

2/ Percent change from February 1988 to February 1989.

3/ Not adjusted for cyclical variation.

Table 4. Korea: Balance of Payments, 1984-89 ^{1/}

(In billions of U.S. dollars)

	1984	1985	1986	1987	1988 Prel.	1989 Q1 Prel.
Trade balance	-1.0	--	4.2	7.7	11.4	1.0
Exports	26.3	26.4	33.9	46.2	59.6	14.0
Imports	-27.4	-26.5	-29.7	-38.6	-48.2	-13.0
Services	-0.9	-1.4	-0.6	1.0	1.3	0.1
Receipts	7.3	6.7	8.1	10.0	11.3	2.8
Payments	-8.2	-8.1	-8.7	-9.0	-10.0	-2.7
Transfers (net)	0.5	0.6	1.0	1.2	1.4	0.1
Current account balance	<u>-1.4</u>	<u>-0.9</u>	<u>4.6</u>	<u>9.9</u>	<u>14.2</u>	<u>1.3</u>
Capital account	<u>0.9</u>	<u>-0.7</u>	<u>-1.5</u>	<u>-4.3</u>	<u>-1.3</u>	<u>-2.0</u>
Debt-related flows	0.6	0.6	-0.7	-4.8	-2.8	-1.1
Medium- and long-term capital	1.5	1.1	-0.3	-4.8	-3.6	-1.1
Short-term capital	-0.9	0.5	-0.4	--	0.8	--
Other asset transactions	0.3	-1.3	-0.8	0.5	1.4	-0.9
Medium- and long-term capital	0.2	-1.2	-0.8	0.5	0.9	-0.7
Short-term capital	0.1	-0.1	--	--	0.5	-0.2
Errors and omissions	-0.9	-0.9	-0.5	1.2	-0.6	0.9
Overall balance	<u>1.4</u>	<u>-2.5</u>	<u>2.6</u>	<u>6.8</u>	<u>12.2</u>	<u>0.2</u>
Financing	<u>1.4</u>	<u>2.5</u>	<u>-2.6</u>	<u>-6.8</u>	<u>-12.2</u>	<u>-0.2</u>
Assets (increase in reserves)	-0.8	--	-0.2	-1.2	-10.8	-1.5
Liabilities	2.2	2.5	-2.4	-5.6	-1.4	1.3
Memorandum items:						
Gross international reserves	8.2	8.4	8.6	10.2	20.9	...
Gross official reserves	2.8	2.9	3.3	3.6	12.3	14.1
In months of imports of goods and services	0.9	1.0	1.0	0.9	2.5	2.9 ^{2/}
Current account/GNP	-1.6	-1.0	4.5	7.7	8.4	...
Export volume (percent change)	15.7	7.5	12.2	23.9	13.0	...
Import volume (percent change)	15.4	6.0	8.1	20.9	14.3	...

Sources: Bank of Korea, Monthly Statistical Bulletin; and data provided by the Korean authorities.

^{1/} Components may not add to totals due to rounding.

^{2/} In months of 1988 imports of goods and services.

Table 5. Korea: External Sector Developments, 1985-88
(Annual percentage changes, unless otherwise indicated)

	1985	1986	1987	1988 Prel.
Exports--value (U.S. dollars) <u>1/</u>	3.5	14.6	36.2	28.4
Volume	7.5	12.2	23.8	13.0
Unit value	-3.8	2.1	10.1	13.6
Imports--value (U.S. dollars) <u>1/</u>	1.6	1.4	29.9	26.3
Volume	6.0	8.1	20.9	14.3
Unit value	-4.2	-6.2	7.5	10.5
Terms of trade	0.5	8.8	2.5	2.8
Real effective exchange rate <u>2/</u>	-15.9	-6.9	-1.6	19.3
Foreign market growth <u>3/</u>	3.3	5.0	6.5	9.2
Export volume growth minus market growth	4.2	7.2	17.3	3.8
Real GNP	7.0	12.9	12.8	12.2

Sources: The Bank of Korea, Monthly Statistical Bulletin; World Economic Outlook database; and data provided by the Korean authorities.

1/ Customs clearance basis.

2/ Trade-weighted (INS) ratio of domestic to foreign consumer price indexes adjusted for exchange rate movements; end of period.

3/ Export-weighted average of growth in real non-oil imports in Korea's trading partner countries.

Table 6. Korea: Recent Current Account Developments, 1988-89

(In millions of U.S. dollars)

	1988					1989				
	Jan.	Feb.	Mar.	Jan.- Mar.	Jan.- Dec.	Jan.	Feb.	Mar.	Jan.- Mar.	Apr.
Trade balance	660	805	924	2,258	11,445	407	301	339	1,048	
Exports	4,037	4,139	4,775	12,960	59,648	4,446	4,301	5,254	14,006	
Imports	3,377	3,334	3,851	10,702	48,203	4,039	4,005	4,915	12,958	
Services	-11	49	122	163	1,267	67	27	21	115	
Receipts	748	815	923	2,486	11,252	936	850	992	2,778	
Payments	759	766	801	2,323	9,985	869	823	971	2,663	
Transfers	131	155	208	482	1,448	43	32	62	138	
Current account	780	1,009	1,254	2,903	14,161	518	360	423	1,301	

(Percentage change from a year ago)

Exports										
Value <u>1/</u>	42.8	44.9	33.6	40.0	29.0	10.1	4.0	10.0	8.1	
Price <u>2/</u>	12.3	11.8	13.4	12.6	13.5	12.5	11.8	9.7	11.3	
Letters of credit, arrival	37.0	22.8	22.5	26.6	23.0	8.6	4.0	2.6	3.7	14.6
Imports										
Value <u>1/</u>	50.4	27.9	29.2	36.6	24.6	19.6	19.3	27.6	21.1	
Price <u>2/</u>	16.2	13.3	12.5	14.0	14.2	11.0	11.6	11.0	11.2	
Licenses issued	48.1	47.6	29.8	40.7	26.7	28.3	5.0	3.2	11.4	29.1

Sources: Bank of Korea, Monthly Statistical Bulletin; and data provided by the Korean authorities.1/ Balance of payment basis.2/ Fixed-weight contract prices.

Policy Developments

In 1987, when the external current account moved into large surplus, economic policies were reoriented toward supporting a high rate of growth, while reducing the external surplus and limiting inflation to less than 5 percent. The adjustment strategy has emphasized market opening and currency appreciation, together with economic restructuring. Accordingly, the nominal and real effective exchange rates of the won rose steadily during 1988 and early 1989 (Chart 1). The nominal effective rate appreciated by 15 1/2 percent from December 1987 to December 1988, and by a further 4 1/2 percent to March 1989. The consumer price-based real effective exchange rate appreciated somewhat more, 25 percent from December 1987 to March 1989, owing to relatively higher consumer price inflation in Korea.

For 1988, the budget had aimed for a moderate stimulus to support domestic demand and external adjustment. In the event, tax revenues were substantially higher than budgeted. Reflecting the high elasticity of the tax system and rapid income growth, the share of tax revenue in GNP rose from 18 percent in 1987 to 18 3/4 percent in 1988. Expenditures, by contrast, remained at about 17 1/2 percent of GNP. Thus, the fiscal balance moved from a small surplus in 1987 to one equivalent to almost 1 1/2 percent of GNP in 1988 (Table 7).

Monetary and credit policies have focused on keeping the growth of broad money within the range considered consistent with growth and inflation objectives (about 18 percent for 1988 and 15-18 percent for 1989). To this end, the authorities undertook large-scale sales of monetary stabilization bonds (MSBs) to offset the monetary effects of increasing foreign exchange reserves. This, together with direct controls, reduced the growth of credit to the private sector and put upward pressure on interest rates (Table 8). Other direct steps taken to control monetary growth and inflation included: raising the discount rate from 7 percent to 8 percent in September; retiring external debt; and reducing various consumer taxes, charges, price controls, and import tariffs.

At the end of September, the authorities suspended the sale of MSBs in a move to bring interest rates down in preparation for their deregulation; ^{1/} however, sales resumed in early 1989 when monetary growth exceeded 20 percent. Liquidity growth was fueled by increased credit demand from companies adversely affected by labor disputes and the continued inflow of foreign reserves. As an emergency step, the

^{1/} In December, a partial liberalization of interest rates was implemented. Interest rates were deregulated on about 80 percent of commercial bank loans and on virtually all loans from nonbank financial institutions. Rates on several money market instruments were also freed. On the deposit side, only rates on longer-term time and saving deposits were liberalized, affecting about one fourth of total deposits.

Table 7. Korea: Operations of the Central Government and the Consolidated Central Government, 1985-88

	1985	1986	1987	1988	
				Budget	Prel. Est. ^{1/}
(In billions of won)					
Central government ^{2/}					
Revenue	13,922	15,841	18,658	19,701	22,890
Tax	(12,105)	(13,882)	(16,690)	(17,522)	(20,389)
Nontax	(1,632)	(1,839)	(1,820)	(1,939)	(2,169)
Capital	(185)	(119)	(148)	(240)	(332)
Expenditure	14,867	15,927	18,180	21,008	20,881
Current	(11,523)	(12,830)	(14,325)	(16,452)	(16,746)
Capital	(1,814)	(2,119)	(2,619)	(2,728)	(2,708)
Net lending	(1,530)	(978)	(1,236)	(1,828)	(1,427)
Deficit (-) or surplus	-945	-86	478	-1,307	2,009
Consolidated central government ^{3/}					
Revenue	14,505	15,856	18,882	19,870	23,101
Expenditure	15,218	15,921	18,622	21,442	21,458
Deficit (-)	-713	-65	260	-1,572	1,643
Financing	713	65	-260	1,572	-1,643
Domestic	273	211	-270	1,574	-928
Bank ^{4/}	(319)	(-169)	(-671)	(746)	(-1,996)
Nonbank	(-46)	(380)	(401)	(828)	(1,068)
Foreign	440	-146	10	-2	-715
(In percent of GNP)					
Central government					
including public funds					
Revenue	18.6	17.5	17.9	16.1	18.7
Expenditure	19.5	17.6	17.6	17.4	17.4
Deficit (-) or surplus	-0.9	--	0.2	-1.3	1.3
Memorandum item:					
GNP (in billions of won)	78,088	90,544	105,630	123,579	123,579

Source: Data provided by the Korean authorities.

^{1/} Data include the revised supplementary budget and are derived on the basis that the government purchase price of rice in 1988 is higher by 16 percent compared with that of 1987.

^{2/} The central government comprises the General Account, Special Accounts, and Government Funds.

^{3/} Includes the central government and nonfinancial public enterprises.

^{4/} Bank financing as defined in the monetary survey.

CHART 1
KOREA
EXCHANGE RATE INDICATORS, 1981-89
(Index, 1980=100)

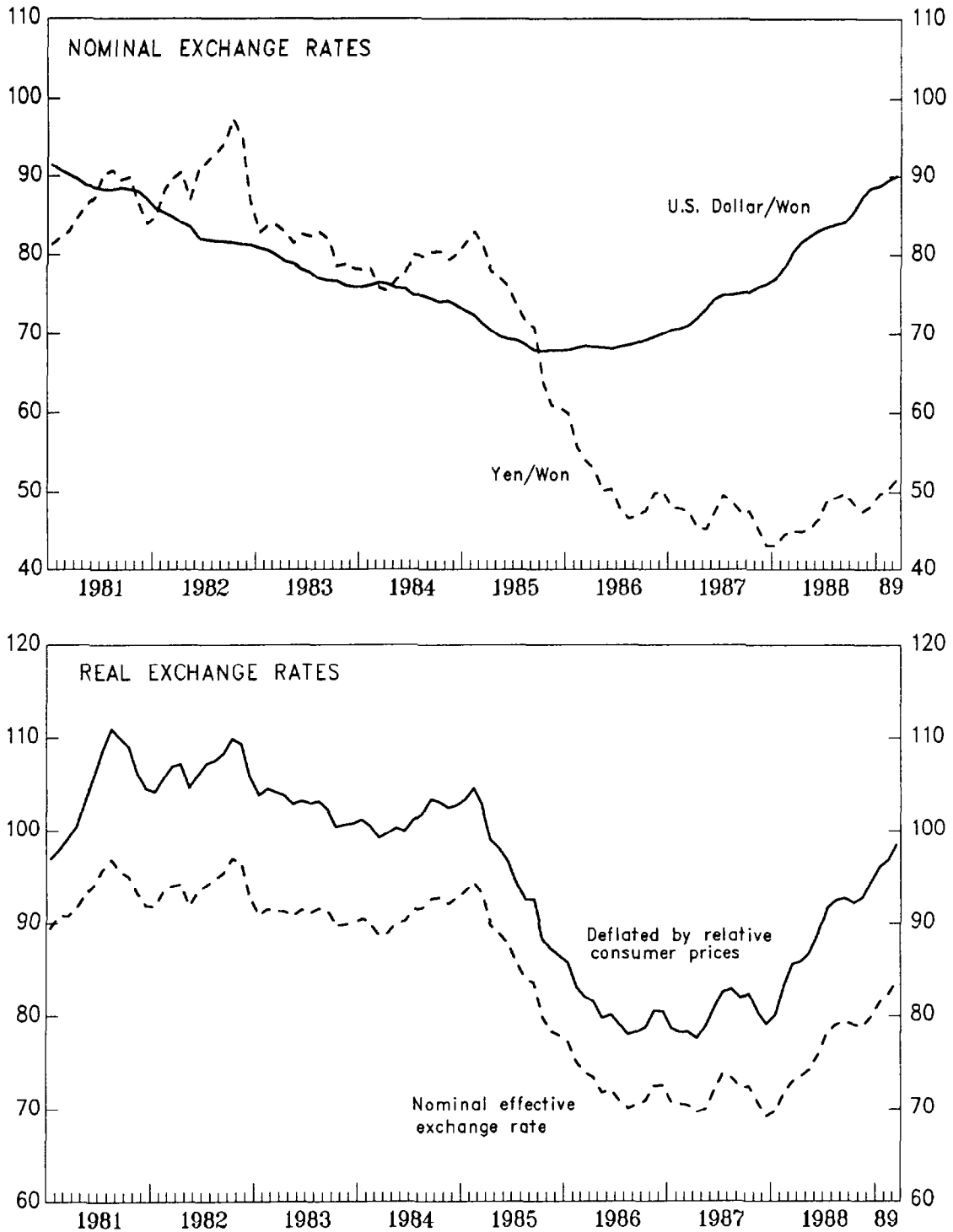


Table 8. Korea: Monetary Survey, 1984-89

End of Period	1984	1985	1986	1987				1988				1989		
				March	June	Sept.	Dec.	March	June	Sept.	Dec.	Jan.	Feb.	March
(In billions of won)														
Net foreign assets	-6,191	-7,697	-6,128	-4,522	-3,918	-3,090	-1,605	1,445	3,417	6,468	7,251	7,298	7,190	7,721
Assets	7,375	8,122	8,332	8,131	8,055	8,312	8,647	11,023	12,320	14,922	14,901	15,009	15,047	16,011
Liabilities	13,566	15,819	14,460	12,653	11,973	11,402	10,252	9,578	8,903	8,454	7,650	7,711	7,857	8,290
Swaps with nondeposit money banks	-1,234	-2,333	-1,566	-1,382	-787	-145	-145	-117	-113	-113	-113	-105	-105	-97
Net domestic assets	32,802	39,669	42,805	41,410	42,926	43,363	43,651	39,943	40,211	40,182	43,370	42,261	40,982	41,480
Domestic credit	36,059	42,561	49,320	49,047	51,680	54,021	56,485	55,515	57,580	58,937	62,639	61,488	60,896	61,736
Public sector	(1,973)	(2,013)	(2,183)	(860)	(301)	(-337)	(549)	(-1,094)	(-1,910)	(-3,132)	(-1,637)	(-3,629)	(-4,097)	(-4,769)
Private sector	(34,086)	(40,548)	(47,137)	(48,187)	(51,379)	(54,358)	(55,936)	(56,609)	(59,490)	(62,069)	(64,276)	(65,117)	(64,993)	(66,505)
Net other items	-3,257	-2,892	-6,515	-7,637	-8,754	-10,658	-12,834	-15,572	-17,369	-18,755	-19,270	-19,227	-19,914	-20,256
Of which:														
Monetary Stabilization Bonds	(-1,525)	(-528)	(-3,088)	(-4,262)	(-5,104)	(-6,106)	(-7,399)	-11,397	-12,543	-14,474	-14,833	-15,328	-16,858	-17,197
Exchange Equalization Fund Bonds	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	-1,225	-918	-920	-929	-805
Broad money plus CDs 1/	25,377	29,639	35,110	35,507	38,221	40,127	41,901	41,271	43,515	46,537	50,509	49,453	48,066	49,103
Narrow money	6,821	7,558	8,809	7,712	8,283	9,632	10,107	8,543	9,247	10,372	12,151	10,631	9,755	10,029
Quasi-money	17,885	21,007	25,024	25,697	27,716	28,404	30,172	31,270	32,831	34,741	36,787	37,252	36,773	37,710
CDs 1/	671	1,074	1,277	2,096	2,222	2,091	1,621	1,458	1,437	1,424	1,570	1,571	1,537	1,364
(Annual change in percent of the stock of broad money) 2/														
Net foreign assets	-4.8	-5.9	-5.3	11.1	12.8	10.5	12.9	16.8	19.2	23.8	21.1	19.5	16.3	15.2
Swaps with nondeposit money banks	-1.6	-4.3	2.6	3.8	5.3	6.3	4.0	3.6	1.8	0.1	0.1	—	—	0.1
Net domestic assets	17.1	27.0	10.6	1.5	2.9	4.7	2.4	-4.1	-7.1	-7.9	-0.7	0.7	0.4	3.7
Domestic credit	18.4	25.6	22.8	14.7	18.9	22.4	20.4	18.2	15.4	12.3	14.7	14.6	13.2	15.1
Public sector	(-0.2)	(0.1)	(0.6)	(-4.8)	(-4.2)	(-4.5)	(-4.7)	(-5.5)	(-5.8)	(-7.0)	(-5.2)	(-8.0)	(-8.3)	(-8.9)
Private sector	(18.6)	(25.5)	(22.2)	(19.5)	(23.2)	(27.0)	(25.1)	(23.7)	(21.2)	(19.2)	(19.9)	(22.6)	(21.5)	(24.0)
Net other items	-1.3	1.4	-12.2	-13.2	-16.0	-17.8	-18.0	-22.3	-22.5	-20.2	-15.4	-13.9	-12.8	-11.3
Of which: Open market operations 3/	(-2.2)	(3.9)	(-8.7)	(-12.1)	(-13.1)	(-12.4)	(-12.5)	(-20.1)	(-19.5)	(-23.9)	(-19.9)	(-14.4)	(-14.1)	(-16.0)
Broad money plus CDs 1/	10.6	16.8	18.5	16.4	21.0	21.5	19.3	16.2	13.9	16.0	20.5	20.3	16.8	19.0
Net domestic assets 4/	13.5	20.9	7.9	1.1	2.2	3.7	2.0	-3.5	-6.3	-7.3	-0.6	0.7	0.4	3.8
Private sector credit 4/	14.3	19.0	15.1	14.1	16.6	19.6	18.7	17.5	15.8	14.2	14.9	16.6	15.8	17.5

Sources: Bank of Korea, Monthly Statistical Bulletin; and data provided by the Korean authorities.

1/ Certificates of deposit issued by commercial banks.

2/ Stock of broad money a year ago.

3/ Monetary Stabilization Bonds issued by the Bank of Korea and Exchange Equalization Fund Bonds issued by the Government.

4/ Annual percentage change.

authorities imposed a credit freeze on loans extended by some 20 commercial banks. Also, a 30 percent marginal reserve requirement was introduced in mid-May, on top of the standard 10 percent requirement.

The process of internationalization continued at an accelerated pace during 1988 and early 1989. With the lifting of remaining restrictions on current international transactions, Korea accepted the obligations under Article VIII of the Fund Agreement in November. By early 1989, the goals of the import liberalization and tariff reform programs initiated in 1984 were essentially achieved, with most manufactured goods freely importable. During 1988-89, restricted items requiring licensing were reduced to 5 percent of total items, compared with 7 percent in 1987. Of the remaining items, another 40 percent will be freed by 1991, bringing down the ratio of restricted items to less than 3 percent. A three-year import liberalization schedule for 243 agricultural, forestry, and fisheries products was announced in April 1989. According to the timetable, the liberalization ratio for these items will increase from 72 percent in 1988 to 85 percent by 1991. ^{1/} The average tariff rate was cut from 19 percent in 1987 to 18 percent in 1988. On January 1, 1989 the average tariff rate was further reduced to 13 percent as the first phase of the new tariff schedule passed in December, which will reduce tariffs to 8 percent (similar to levels in industrial countries) by 1993. The use of the surveillance list and adjustment tariffs to prevent import surges of newly liberalized items was abolished. ^{2/}

Individual laws restricting imports for reasons of public health and safety were also reviewed and simplified. As a result, the number of items affected by these laws was reduced from 25 percent (CCCN 8-digit classification) of total items at end-1986 to about 19 percent (H.S. 10-digit classification) by July 1988. More importantly, in February 1989, procedures were adopted to systematically reduce restrictive measures. Many of the changes made relate to pharmaceutical products and include streamlining import procedures for quality inspection and approval. Preferential credit for exporters was reduced for small- and medium-scale enterprises and eliminated for large conglomerates.

In addition to trade measures, steps were taken to liberalize financial markets. In December, a four-year phased program was established to open up the domestic equity market to foreign investors so that, by 1992, direct investment in portions of the equity market will be allowed. Overseas investment by Korean residents was encouraged

^{1/} Excluded from the schedule of agricultural items to be liberalized were some fresh fruits and fruit juices, staple food grains such as rice and barley, certain meats, poultry, dried milk, and processed cheese.

^{2/} In July 1987, the Foreign Trade Act introduced a new system of safeguards intended to replace the surveillance list and adjustment tariffs. Under the new procedures, the Korean Trade Commission, at the request of domestic producers, determines whether imports of specific products have caused injury and, if so, imposes relief measures.

by two measures. In mid-1988, the enactment of the Promotion Measure for Acquisition of Foreign Real Estate permitted corporations to invest in nonbusiness-related properties. Effective March 1, 1989, individuals were allowed to invest up to \$2 million in foreign real estate, with Bank of Korea approval required for investments exceeding that amount.

