International Monetary Fund

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Seoul, Korea
May 2, 1998

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D. C. 20431

Dear Mr. Camdessus:

1. The inauguration of President Kim Dae-jung on February 25 launched a new administration committed to the principles of a market economy and determined to accelerate structural reform. The government's policies to restore financial stability, backed up by the strong leadership of the President and social stability ensured by the Tripartite Accord, have begun to regain the confidence of international investors. The current account has turned to a substantial surplus and usable reserves have increased to over US$30 billion. The conclusion of the restructuring of US$21.8 billion of banks' short-term debt facilitated Korea's return to the international capital market through a sovereign global bond issue of US$4 billion. The successful offering, four months after the onset of the crisis, was well received by the market, demonstrating investors' confidence in Korea's commitment to reforms.

2. While a corner has been turned in the current crisis, the impact on the real economy is still severe and difficult challenges remain ahead. Many viable firms continue to face a credit crunch; bankruptcies and unemployment are rising. The government is resolved to take all necessary measures to support a sustainable recovery and to this end, the focus of policies will now shift from the external side to structural reforms in the real sector. The government will continue to implement fully its commitments under the IMF-supported economic program. The main thrust of policies will be to accelerate reforms to address the roots of structural inefficiencies.

3. The attached Memorandum on the Economic Program for the Second Quarterly Review updates the Memorandum on the Economic Program of February 7, 1998. Corporate restructuring and financial sector reforms are priorities on our reform agenda as rapid progress in these areas are necessary prerequisites for a sound economy. Major steps are being taken to strengthen the legal and institutional framework to facilitate corporate restructuring through market discipline: improving transparency; enhancing corporate governance; liberalizing mergers and acquisitions; opening to foreign investment; and improving bankruptcy procedures. Corporate restructuring should be voluntary and based

on market principles, and public funds will not be used to bail out corporations. It is envisaged that banks will need to play a central role in restructuring corporate debt and in strengthening corporate balance sheets. The government is pushing ahead to restructure and recapitalize the banking sector and to strengthen prudential regulations and supervision. We will continue to work in close collaboration with the IMF and World Bank in our reform program in these areas.

4. Given the large financial resources needed to facilitate corporate restructuring and the current weak state of the banking system, it is important to expedite capital market development, particularly the development of equity and security markets and mutual funds. We seek active support from the international financial community and investors for this initiative. To maintain investor confidence, transparency has been increased in a number of ways, especially through the publication of our letters of intent, as well as by the regular release of statistical information (including Bank of Korea's (BOK) usable reserves, net forward positions, and external debt).

5. While accelerating structural reforms is essential to ensure a rapid recovery, the government also recognizes the need to have flexibility in policy implementation and make modifications to macroeconomic policies to take account of the evolving situation. In particular, a somewhat larger fiscal deficit will be permitted to take account of weaker growth and the ongoing structural adjustments. Interest rate policy will be conducted in a flexible manner reflecting market conditions, subject to the objective of maintaining stability in the foreign exchange market. To offset the credit crunch and the serious financing difficulties experienced by viable small- and medium-sized enterprises, the government will provide temporary assistance to these enterprises to facilitate trade financing.

6. The process of structural reforms will entail social costs of enterprise bankruptcies and unemployment. The government has strengthened the social safety net as part of its contribution to the Tripartite Accord. The maintenance of social stability agreed under the Tripartite Accord remains critical to keep the confidence of international investors. We intend to keep under review the adequacy of the social safety net in light of the evolving economic situation.

7. The government intends to seize the opportunity of a social consensus under the new administration to fully overcome our present difficulties and return the economy to a path of sustained growth.

/s/	/s/
Chol-Hwan Chon Governor Bank of Korea	Kyu-sung Lee Minister of Finance and Economy

Korea

Updated Memorandum on the Economic Program[1]
for the Second Quarterly Review, 1998

Objectives	Recognizing that the external financing crisis has caused serious damage to the real economy, economic policies aim to: —Sustain the restoration of confidence and consolidate the progress made in resolving the external financing crisis; —Minimize disruptions to the real economy and support economic recovery in the latter half of the year; and

	—Restructure the financial and corporate sector to minimize the risks of future crisis and lay the foundation for resumed growth.
Macroeconomic Policies	
Macroeconomic projections	Updated macroeconomic projections for 1998 are: —Real GDP growth of -1 percent; although more negative growth remains possible; —Inflation below double digits by the end of the year; and —Current account surplus of US$21–23 billion (about 7 percent of GDP).
Monetary/ exchange rate policy	—Interest rate policy will be conducted in a flexible and symmetric manner. Subject to the objective of maintaining stability in the foreign exchange market, call interest rates will continue to be lowered, in line with market conditions. —Exchange rate policy will remain flexible; BOK intervention will be limited to smoothing operations.
Reserve management policy	—Usable reserves are targeted to increase to US$32 billion by end-June, US$34 billion by end-September, and US$41 billion by end-December 1998.
BOK foreign exchange window	—With stabilization of the foreign exchange market, the foreign exchange window of BOK, opened during the crisis, will be closed on May 15, 1998. —The BOK will reach agreement, by June 30, 1998, with domestic banks on a schedule of repayment of the emergency support extended since November 1, 1997, with all repayments completed by end-June 1999. —Once repayment schedules are agreed, penalty interest rates on the amount of emergency support outstanding will be reduced to a uniform 400 basis points above LIBOR. Any overdue amounts will be subject to LIBOR plus 800 basis points.
Fiscal policy	—The Supplementary Budget passed in March 1998 plus commitments under the Tripartite Accord to strengthen the social safety net resulted in a projected deficit of 1.2 percent of GDP. —With the updated macroeconomic projections indicating weaker growth, and ongoing structural adjustment in the economy, a larger fiscal deficit (1¾ percent of GDP) will be permitted through the operation of automatic stabilizers.
Social safety net	—As part of its contribution to the social compact with labor and business, the government's commitments to provide expenditures on the social safety net, including unemployment insurance, now amount to W 7.9 trillion, about 1.7 percent of GDP. —The government will keep under review the adequacy of the social safety net in light of the economic situation.
	—The social safety net has now been expanded as follows: —Coverage of the unemployment insurance system widened from firms with more than 30 employees to firms with more than 5 employees; —Minimum benefit duration increased from 1 to 2 months; —Minimum benefit levels increased from 50 percent to 70 percent of the minimum wage; —Minimum contribution periods lowered temporarily to June 30, 1999 from 12 to 6 months; and —The social assistance budget has been raised from W 450 billion to W 600 billion. —In addition, the maximum duration of benefits may be temporarily increased across the board by up to 60 days should unemployment worsen further.
Temporary assistance to small- and medium-sized enterprises	—Up to US$3.3 billion in trade financing on commercial terms will be provided for a period of one year, comprising: —US$3 billion for import financing through KDB and KEXIM, of which: US$1 billion is funded by the World Bank's SAL; and up to US$2 billion from reserves in excess of the program targets; and —US$300 million in BOK rediscount of export bills. —Guarantee ceiling of Credit Guarantee Funds has been further raised from W 57 trillion to W 59 trillion through injection of W 100 billion.

	—Repayment of US$1 billion of commercial bank's long-term foreign currency loans to SMEs falling due in 1998 financed by the BOK will be deferred for one year.

Financial Sector Restructuring

Type of Measure	Measure	Timing
Merchant banks	Announce decisions on the suspended merchant banks following completion of the second-round evaluation.	April 30, 1998
	Guidelines were issued to all merchant banks whose rehabilitation plans were approved. The guidelines include: —A timetable to achieve a capital adequacy ratio of 6 percent by June 30, 1998 and 8 percent by June 30, 1999; and —Directives for achieving performance indicators specified in the rehabilitation plan. In the event that a plan is not implemented to the satisfaction of the FSC, the bank will have its licence revoked.	March 21, 1998
	All merchant banks will be encouraged to move progressively beyond the minimum 8 percent capital adequacy ratio after June 30, 1999.	
Korea First Bank (KFB) and Seoul Bank (SB)	Appoint outside experts to assist Privatization Committee to develop privatization strategy for KFB and SB.	April 17, 1998
	Select a lead manager for privatizing KFB and SB.	April 30, 1998
	Obtain bids for KFB and SB.	November 15, 1998
Undercapitalized commercial banks	The 12 banks that did not meet the 8 percent capital adequacy ratios (as of end-1997), based on full provisioning, to submit recapitalization plans to the FSC.	April 30, 1998
	The banks to sign contracts with internationally recognized accounting firms to: —Conduct diagnostic reviews on the 12 banks; and —Provide an assessment of recapitalization plans as an input into the FSC's evaluation of the banks. The reports of the accounting firms will be signed by both domestic and foreign partners.	April 30, 1998
	—Form an Appraisal Committee including international experts, to evaluate the recapitalization plans of the 12 commercial banks and make recommendations to the FSC; —The FSC to announce its decisions on the recapitalization plans; and —If the plan is approved, the bank will submit a memorandum of understanding to the FSC to implement the plan. In case a plan is not accepted, or is not implemented as agreed, the FSC will adopt appropriate measures to the full extent of its powers, including requiring mergers, acquisitions, or liquidation.	June 10, 1998 June 30, 1998 July 31, 1998
	Memoranda of understanding between banks and the FSC should include: —A clear timetable for achieving specified performance indicators; and —A clause requiring further capital increases whenever deemed necessary by the FSC, including on account of: (i)The results of diagnostic reviews commissioned by the authorities and any consequent reclassification of assets; (ii)Any further deterioration in asset quality; and (iii)The strengthening of supervisory rules and procedures.	
Other commercial banks	Sign contracts for diagnostic reviews by internationally recognized accounting firms.	September 30, 1998

	The report of the accounting firms will be signed by both domestic and international partners.	
	If a commercial bank falls below the 8 percent BIS capital-adequacy ratio, the FSC will order diagnostic reviews and the bank will be required to submit a recapitalization plan to the FSC.	
Specialized banks	The capital of the Industrial Bank of Korea will be increased by up to W 1.5 trillion to reach minimum capital adequacy standards.	
	Sign contracts for diagnostic reviews of specialized and development banks by internationally recognized accounting firms.	November 15, 1998
Use of public funds for bank restructuring	Public funds, including asset purchases by KAMCO and direct subscription to capital instruments, will be committed only in the context of: —Recapitalization plans or mergers and acquisitions approved by the FSC; —And when there is adequate burden sharing, which would be expected to involve contribution of capital from existing or new shareholders, and/or other stakeholders; —In the exceptional case, where there is not to be an adequate contribution of capital from existing or new shareholders and/or other stakeholders, the use of public funds would be undertaken after consultation with the Fund staff; or —As part of the process of liquidation.	Ongoing
Bank corporate governance	Submit legislation to abolish regulations that prohibit foreigners from becoming bank managers.	June 30, 1998
Financial legislation	Introduce legislation to allow full write-down of existing shareholder equity, eliminating the current minimum bank capital floor for this purpose.	June 30, 1998

Prudential Regulations and Supervision		
Type of Measure	**Measure**	**Timing**
Prudential regulations	The FSC will publish for comment proposals, to be issued in final form by August 15, to bring Korea's prudential regulations closer to international best practice as expressed in the Basle Committee's Core *Principles for Effective Bank Supervision*. These regulations will cover:	June 30, 1998
i.	Deduction from Tier 2 capital of all provisions in respect of all assets, except those classified as "normal" and "precautionary;"	January 1, 1999
ii.	Introduction of mark to market accounting for all traded securities and derivative positions other than those hedging assets valued at historic costs; and	January 1, 1999
iii.	Introduction of rules providing full disclosure to trust beneficiaries, and precluding any possibility of payment by managing banks to make good or guarantee any loss: —All trust accounts with guarantee would be regarded as on-balance sheet for all supervisory and accounting purposes. For capital adequacy purposes, assets in such accounts will be weighted at 50 percent as of January 1, 1999 and will be weighted fully as of January 2000; and —Introduction of restrictive rules to be applied to all trust accounts ensuring complete segregation for management and accounting purposes.	January 1, 1999 January 1, 2000
iv.	Revision of loan classification procedures:	

	—To incorporate the findings of diagnostic reviews of commercial banks to ensure that classification decisions by managements and review by examiners fully reflect capacity to repay and not simply past performance; and —To classify all loans more than 90 days past due as "substandard" or lower. v. Adjustment of provisioning requirements: —The rate for "precautionary" assets will be increased to 2 percent; and —The FSC will consult with the banking community concerning the desirability of increasing the provision on normal loans from 0.5 percent to 1 percent, which would continue to be included in Tier 2 Capital. For commercial banks and merchant banks: —Review the modalities and timetable for limiting lending to large shareholders and their affiliates, to directors or management, or to parties connected with them, in consultation with Fund staff; and —Review the timetable for accelerating the reduction of large exposure limits and of further reduction, in consultation with the IMF staff.	January 1, 1999 January 1, 1999 August 15, 1998
	Issue minimum supervisory standards on banks' problem-loan workout units.	August 15, 1998
Prudential regulations on short-term foreign borrowing and foreign exchange exposures	—Strengthen compliance with existing guidelines for commercial banks to limit maturity mismatches in foreign exchange which stipulate that banks: —Have short-term asset (less than 3 months) of at least 70 percent of short-term borrowing; and —Fund at least 50 percent of long-term assets (more than 3 years) with long-term borrowing. Announce similar guidelines for merchant banks to be phased in fully by December 31, 1999.	August 1, 1998
	Announce additional regulations for implementation as of January 1, 1999 that require commercial and merchant banks to: —Introduce internal liquidity control systems based on a maturity ladder approach; —Agree with FSB allowable maturity mismatches for sight to 7 days; 7 days to 1 month; 1 to 3 months; 3 to 6 months; 6 months to 1 year; and over 1 year. The mismatch should be positive for the first period, and from sight to 1 month, any negative mismatch should not exceed 10 percent of total foreign currency assets, effective January 1, 1999 for commercial banks, and July 1, 1999 for merchant banks; —The FSB will monitor implementation of the banks internal liquidity controls on a monthly basis; and —Banks will disclose publicly statistics on foreign currency liquidity.	August 15, 1998
	On foreign exchange exposure limits, which are defined in relation to capital, for banks: —Supervision of observance of these limits will be undertaken by the FSC. The BOK will provide regularly the information it collects on foreign exchange positions to the FSC; —Replace the separate limits on exposure with a single global limit on combined spot and forward positions; —Incorporate cross-currency positions in the measurement of exposure; and —Introduce consolidated limits for banks, including their offshore branches.	November 15, 1998

Disclosure, auditing, and accounting standards	The MOFE, the FSC, and the relevant regulatory bodies should work to improve disclosure, auditing, and accounting standards. These steps involve: —Introducing regulations that will ensure that accounting standards for financial institutions fully comply with the minimum requirements of IAS 30; —Reviewing regulation of the auditing profession to ensure that auditing standards reflect international best practices; —Improving reporting requirements for banks, in order to strengthen the ability of supervisors to be forewarned of potential problems; and —Ensuring that published financial statements, including off-balance sheet positions, are fully in line with international standards of disclosure.	
Specialized and development banks	The FSC will start supervising and regulating prudential aspects of all specialized and development banks by delegation of the MOFE.	June 30, 1998
	Issue regulations extending prudential regulations applied to commercial banks to specialized and development banks.	November 15, 1998
Consolidated supervision	Upon completion of the unification of supervisory organizations: —Enhance consolidated supervision to encompass the full range of banking risks, including foreign exchange risk, whether carried on in the principal bank or its foreign branches and domestic and overseas affiliates and subsidiaries; and —Extend the supervisory arrangements for commercial banks to all nonbank financial institutions, including securities companies and investment trust companies as appropriate.	January 1, 1999 January 1, 1999

Capital Account Liberalization

Type of Measure	Measure	Timing
Money market	Full liberalization of money market instruments issued by financial institutions.	December 31, 1998
Corporate borrowing	Comprehensive review of all remaining restrictions on corporate foreign borrowing, including restrictions on borrowing of 1–3 year maturities, as part of review of Foreign Exchange Management Law.	Ongoing, to be completed by December 31, 1998
Equity market and foreign direct investment	Submit legislation to abolish restrictions on foreign ownership of land and real estate properties on the basis of national treatment.	June 30, 1998
	Increase the permitted equity ownership by foreigners of Korean telephone service providers from 33 percent to 49 percent.	January 1, 1999
	Permit equity investment in nonlisted companies.	December 31, 1998
Foreign exchange liberalization	Review Foreign Exchange Management Law, in consultation with the IMF, and submit legislation to amend the law to accelerate liberalization of foreign exchange transactions, including changing the regulatory framework to a negative list system.	During 1998
	Eliminate aggregate ceiling on foreign investment in Korean equities.	December 31, 1998

Corporate Governance and Restructuring

Type of Measure	Measure	Timing
Corporate restructuring	Principles: —All corporate restructuring should be voluntary (i.e., not	

	government directed) and market oriented; and —Public funds will not be used to bail out corporations.	
	Submit legislation to fully liberalize rules on takeovers of nonstrategic Korean corporations by foreign investors by eliminating the ceiling on the amount of stock foreigners can acquire without approval by a company's Board of Directors.	June 30, 1998
	Encourage banks to set up voluntary creditor committees (with outside participation) to exchange information, and assess the need and modality of corporate debt restructuring.	
Disclosure and monitoring of conglomerates	—Require large conglomerates to disclose all liabilities (including external liabilities and off-balance sheet liabilities), projected cash flows, and interest coverage capabilities to their major creditor banks by September 30, 1998. —Ensure that banks create debt workout units and hire international experts to help assess corporate restructuring plans and strengthen corporate workout capabilities. —The FSC to establish an information and analysis unit staffed with the necessary expertise to compile and interpret financial disclosures from large conglomerates.	May 15, 1998 June 30, 1998 June 30, 1998
Capital market development	Submit legislation to allow for the creation of mutual funds.	August 31, 1998
	Submit legislation to allow the issuance of asset-backed securities.	August 31, 1998
Transparency	Require listed companies to publish: —Half-yearly financial statements prepared and reviewed by external auditors in accordance with international standards; and —Quarterly unaudited financial statements.	 August 31, 1998 January 1, 2000
Accountability to shareholders	Submit legislation to further lower the shareholding thresholds required for a shareholder to initiate legal action against a company or to request a change in auditors and directors.	June 30, 1998
	Require listed companies on the Korean Stock Exchange to have at least one-fourth of Board of Directors to be outsiders from FY 1999.	June 30, 1998
	Remove restrictions on voting rights of institutional investors in listed companies (Investment Trust Companies and trust accounts of banks).	August 31, 1998
	Review the possibility of allowing for class action suits against corporate executive and auditors.	September 30, 1998

Trade Liberalization

Type of Measure	Measure	Timing
Import liberalization	Phase out Import Diversification Program (presently covering 88 items) (committed to WTO by end-1999): —Liberalization of additional 40 items; —Liberalization of additional 32 items; and —Liberalization of remaining items.	 July 1998 December 1998 June 1999
	Review existing import certification procedures and present a plan to streamline them and bring them in line with international practice.	August 15, 1998
	Review all existing subsidy programs and their economic rationale. Present a proposal for rationalizing existing subsidy programs.	November 15, 1998
Services	Permit foreigners to engage in: —Securities dealings; —Insurance;	April 1, 1998

	—Leasing; and —Other property-related businesses.	

Transparency, Monitoring, and Data Reporting	
Type of Measure	**Measure**
Financial sector	—The BOK and the MOFE will record all public support for financial sector restructuring on a transparent basis.
	—Develop a set of indicators to monitor the soundness of the financial system, including regular reporting of such data to the IMF.
	—In publication of data on nonperforming loans on the BOK Web site, data on loans 3–6 months overdue will also be published.
External debt	—Continue developing the external debt reporting system to enhance debt management and monitoring. —Develop external vulnerability indicators as an "early warning system." —By October 31, 1998, introduce improvements to the reporting of off-balance sheet foreign currency denominated exposure of financial institutions. —By October 31, 1998, submit the necessary legislation to ensure compliance with reporting on external liabilities of the corporate sector.
Foreign reserves	—Data on usable reserves of the BOK will be published twice monthly (for 15th and the last day of each month) within five business days. Data on net forward position of the BOK is being published monthly. All of these data will be placed on the BOK Web site.

[1]It is the government's intention to seek the approval of the National Assembly for the measures that require the amendment of laws.

ANNEX A

Structural Performance Criteria

March 31, 1998

1. Complete second-round evaluation of the remaining 20 merchant banks and suspend operations of those banks which fail to pass the evaluation. **Completed February 26, 1998.**
2. Allow foreign banks and brokerage houses to establish subsidiaries. **Came into effect on March 31, 1998.**

June 30, 1998

1. Complete assessment of the recapitalization plans of commercial banks.
2. Introduce legislation to allow a full write-down of existing shareholder equity, eliminating the current minimum bank capital floor for this purpose.
3. Establish a unit for bank restructuring under the FSC with adequate powers and resources to coordinate and monitor bank restructuring and the provision of public funds. **Unit established on April 1, 1998.**

September 30, 1998

1. Submit legislation to allow for the creation of mutual funds (by August 31, 1998).
2. Require listed companies to publish half yearly financial statements prepared and reviewed by external auditors in accordance with international standards (by August 31, 1998).

December 31, 1998

1. Obtain bids for Korea First Bank and Seoul Bank (by November 15, 1998).

2. Introduce consolidated foreign exchange exposure limits for banks, including their offshore branches (by November 15, 1998).

3. Eliminate aggregate ceiling on foreign investment in Korean equities (by December 31, 1998).

ANNEX B

Monetary Sector

Outstanding Stock as of:	Limit (In billions of won)
Net domestic assets	
End-March 1998	
Adjusted performance criterion	21,630
Actual[1]	9,735
End-June 1998[2]	4,080
End-September 1998[2]	5,180
End-December 1998[2]	-5,170
Reserve money	
End-March 1998	
Indicative limit under the program	23,580
Actual	22,035
End-June 1998[3]	23,540
End-September 1998[3]	25,430
End-December 1998[3]	25,640

[1]With net foreign assets valued at program exchange rates.

[2]Performance criterion.

[3]Indicative limit.

Net domestic assets (NDA) is defined as the difference between reserve money and the won equivalent (converted at the program exchange rate) of net international reserves (NIR) as defined in the program. The NDA target is defined as the difference between the indicative limit on reserve money and the won equivalent (converted at the program exchange rate) of the adjusted NIR target.

The ceiling on NDA and the indicative limit on reserve money will be increased (decreased) for any increase (decline) in required reserve ratios.

ANNEX C

Net International Reserves of the Bank of Korea

	Floor (In billions of U.S. dollars)
End-March 1998	
Adjusted performance criterion	1.3

Actual	8.2
End-June 1998[1]	13.9
End-September 1998[1]	15.0
End-December 1998[1]	23.7

[1]Performance criteria.

For monitoring purposes, net international reserves (NIR) of the Bank of Korea (BOK) is defined as the U.S. dollar value of gross foreign assets in foreign currencies minus gross foreign liabilities.

Gross foreign assets will include all foreign currency denominated claims, including monetary gold, holdings of SDRs, and the reserve position in the Fund. Excluded from gross foreign assets will be participation in international financial institutions, as well as holdings of nonconvertible currencies, claims on residents, and deposits of the BOK at overseas branches and subsidiaries of Korean banks. Gross foreign liabilities are all foreign currency denominated liabilities of contracted maturity up to and including one year plus the use of Fund credit. All assets and liabilities will be valued at program exchange rates.

The net forward position is defined as the difference between the face value of foreign currency denominated BOK off-balance sheet (forwards, swaps, options, and any futures market contracts) claims on nonresidents and foreign currency obligations to both residents and nonresidents. However, the amounts of swaps included in the definition will exclude swaps entered into with regard to any support provided as part of the second line of defense.

The floor on NIR will be adjusted upward for any increase in the net forward position over the end-March 1998 position of US$5.9 billion (including swaps of US$2.4 billion).

ANNEX D

Fiscal Sector

	Floor (In trillions of won)
Cumulative balance from January 1, 1998 through March 31, 1998:[1]	
Program[2]	-3.0
Estimated actual[3]	...
Cumulative balance from January 1, 1998 to:[4]	
End-June 1998[2]	-6.0
End-September 1998[2]	-7.0
End-December 1998[2]	-7.8

[1]As defined in Annex D of EBS/98/20.

[2]Indicative floor.

[3]First quarter outcome not known until May.

[4]The definition of the central government balance has been expanded over the definition in Annex D of EBS/98/20 to include interest cost of IBRD/AsDB loans and unemployment expenditure falling outside the government budget.

The consolidated central government overall balance is defined as the consolidated balance of the central government (comprising the general account, the special accounts, and the special budgetary funds) and the public enterprises special accounts.

The consolidated central government overall balance will be measured through the government treasury accounts. It is defined as the change in the central government's deposits and treasury cash with the BOK; plus the change in deposits with commercial banks and nonbank financial institutions; plus the change in central government bonds outstanding; plus foreign borrowing by the government.