2000

ANNUAL REPORT

THE BANK OF KOREA

March 2001

In accordance with the provision of Article 102 of the Bank of Korea Act, and with the sanction of the Monetary Policy Committee, we herewith publish the Annual Report of the Bank, analyzing economic and financial conditions in Korea during calendar year 2000 and outlining the condition of the Bank, its operations, its monetary policies and the foreign exchange policies of the government and financial system management during the same period.

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Governor
The Bank of Korea

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I. General Economic Trends

Summary

During the year under review, the Korean economy maintained the rapid growth exhibited in the preceding year, with price rises keeping within their target range and the current account remaining in surplus. In the latter half, however, the upward trend of prices accelerated, while growth shrank sharply during the fourth quarter due to the worsening of the domestic and international environments.

The GDP growth rate, which had marked a high level of around 10 per cent until the third quarter, slowed to 4.6 per cent during the fourth quarter to register an annual average of 8.8 per cent. Prices held stable throughout the first half, but increased sharply during the latter half of the year due to the surge in international oil prices and hikes in public utility charges. Accordingly the rates of increase in the Consumer Price Index(C.P.I) and core inflation stood at 2.3 per cent and 1.8 per cent, respectively. Despite the high growth rate of imports, the current account registered a $11 billion surplus thanks to favorable exports, remaining in the black for the third straight year since 1998.

In the financial market, a differentiation according to credit status widened owing to the lack of progress in corporate restructuring. As a result, yields on Treasury bonds and high-grade corporate bonds dropped considerably, but enterprises with low credit ratings faced difficulties in mobilizing funds. In the meantime, stock prices fell sharply, affected by the expanded supply following massive rights and public offerings of the previous year, by the uncertainties surrounding corporate and financial restructuring, and by the plunge of stock prices in major international markets, including the U.S. NASDAQ market.

Throughout the year, the Bank of Korea implemented its monetary policy in such a way as to stabilize the financial market, while focusing its efforts on achieving its inflation target.

The Bank of Korea had kept its call rate target at the 4.75 per cent level, in view of the market unease that had prevailed after Daewoo Group's debt problems emerged in July the previous year. As the market's concerns over the redemption of Daewoo Group's outstanding bonds gradually abated, the central bank raised its call rate target by 0.25 of a percentage point to the 5 per cent level on Feb. 10. The financial markets subsequently showed signs of instability due to the emergence of liquidity problems at some large enterprises. Accordingly, the Bank of Korea held the call rate target at the 5 per cent level. As worries over inflationary pressures mounted in the latter half due to the sustained rapid economic growth and the surge in international oil prices, the Bank of Korea raised its call rate target by 0.25 of a percentage point to 5.25 per cent. The Bank of Korea supplied reserve money flexibly in order to encourage the expansion of the supply of fund enhanced through banks. It also exerted all-out efforts to help supply funds to enterprises smoothly by easing the phenomenon of a maldistribution of funds among banks through open market operations.

To support the effectiveness of monetary policy, steps were taken to heighten the stability of payment and settlement systems by reducing settlement risk. They include the introduction of an intraday overdraft system and a change in the method of adjusting differences between financial institutions. Also, it strengthened its collection of financial information and analysis of banks' management status by conducting joint examinations with the Financial Supervisory Service (FSS) and introducing a bank management analysis system.

Throughout the year, the government and the Bank of Korea continued their efforts to stabilize the foreign exchange market by seeking the stabilization of the foreign exchange rate and the expansion of foreign exchange holdings which putting in place of supplementary measures in preparation for the second-phase of foreign exchange liberalization. The government closed down non-viable financial institutions using of public funds to clear their outstanding deposit liabilities, while arranging for the provision of additional public funds for financial restructuring. The work of revising and updating financial legislation continued with, for example, the passage of the 'Act Concerning Financial Holding Companies.'

The prospect for the year 2001 is that the Korean economy will, for the time being, continue the slowdown which began in the fourth quarter of the previous year. The economic growth rate is expected to drop sharply and prices are likely to rise more rapidly, but the current account is expected to remain in surplus owing, in part, to the dampening of demand. Although the financial markets had been showing signs of improvement, a complete return to normal is not yet in sight.

In light of these conditions, the emphasis of macroeconomic policy for 2001 should be placed on price stabilities in order to build a basis for the long-term growth of the Korean economy, while implementing policy in a flexible manner according to the economic situation. At the same time, the government should seek an early restoration of the normal working of the financial markets and improve economic conditions fundamentally by pressing ahead unremittingly with restructuring. The potentcial growth rate of the economy should, meanwhile, be boosted through the expansion of research and development (R&D) investment and the fostering of human capital in advanced technology. Initiatives should also be strengthened to ease the disparities in growth between industries, and between regions, and imbalances in income distribution.

Economic Trends

Growth of World Economy Slowed in the Latter Half of the Year

During the first half of the year under review, the world economy continued its brisk growth of the previous year, but its pace slowed rapidly in the latter half, led dominantly by the U.S. economy. Although the U.S. economy registered a high growth rate of over 5 per cent in the first half, this dropped sharply to 1-2 per cent in the latter half as consumer and business confidence were dampened by surging oil prices and plunging stock prices following the disappointing business performance from firms in the information and communications sector. The Japanese economy, similarly, showed signs of a recovery in the first half, but slid back into the doldrums in the latter half. But, in eurozone, steady economic growth continued throughout the year thanks to brisk consumption and exports.

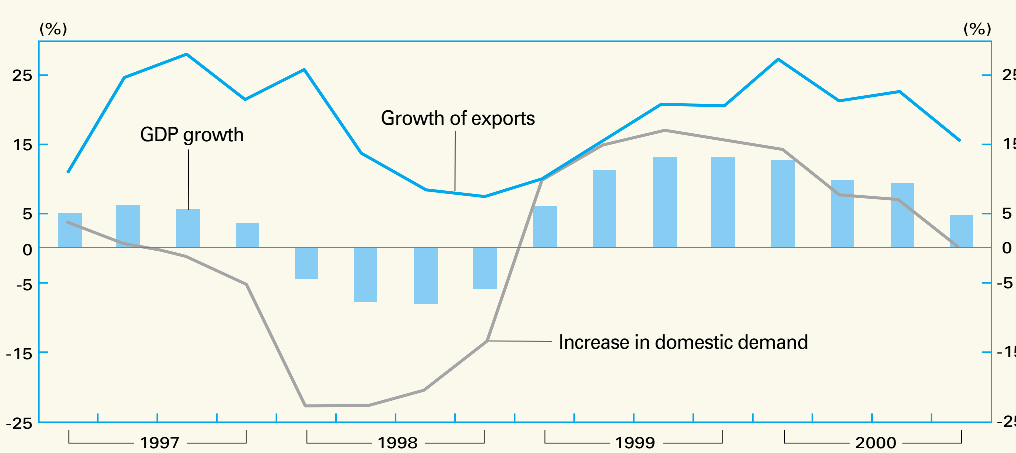
Viewing interest rates in major countries, the U.S. Federal Reserve Board and the European Central Bank implemented a series of steps to raise policy rates in order to curb inflationary pressure. As a result, short-term interest rates rose, but long-term interest rates showed a declining trend due to expectations of an easing of inflation and an expanded flow of funds into the bond market in the wake of the fall in stock prices. The yen softened markedly against the U.S. dollar from early November because of the uncertainties surrounding the Japanese economy. Meanwhile, the euro, which had for sometime continued to show a weakening tone, returned to an appreciating trend in the fourth quarter as the growth rates of the United States and Euroland were transposed.

International oil prices moved sharply higher owing to the rising demand for crude oil in the wake of the rapid growth of the world economy and the OPEC members' curtailment of production during the period from 1998 to 1999, but they fell back toward the end of the year with the dwindling demand as the world economy slowed. Among other major raw material prices, those of industrial raw materials, notably copper and raw cotton, shifted to an increase, but those of cereals stabilized.

Economic Growth Rate Drops Sharply from the Fourth Quarter

Boosted by domestic demand, especially in the form of consumption and facilities investment, and brisk exports, real GDP rose year-on-year by around 10 per cent up until the end of the third quarter, growing by around 2 per cent on a seasonally adjusted basis quarter-to-quarter. During the fourth quarter, however, the growth rate of GDP dropped sharply to 4.6 per cent compared to the same quarter of the previous year, entering a period of adjustment of following the recent bout of rapid growth amid worsened conditions both at home and abroad, which included the mounting uncertainties surrounding restructuring, continued high oil prices, and the slowdown of the U.S. economy. Compared with the previous quarter, GDP decreased by 0.4 per cent during the fourth quarter. For the year as a whole and as a net consequence of these movements, the GDP growth rate posted a high level of 8.8 per cent mainly owing to the rapid growth during the first three

[Chart 1] **Changes in Real GDP[1]**



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

quarters. In the meantime, GNI, which reflects trading gains and losses from changes in the terms of trade and net factor income from the rest of the world, increased by a mere 2.3 per cent due to the fall in export prices of semiconductor products and a rise in import prices of crude oil. In terms of real purchasing power, as a result, the increase in GNI fell far short of GDP growth.

Viewing the total domestic production by demand sector, private consumption maintained a relatively high growth rate and government consumption increased slightly, bringing about a solid growth performance of 6.2 per cent in overall consumption. Private consumption increased by 7.1 per cent for the year as a whole. It rose at a rapid rate of 9.9 per cent in the first half, but its pace dropped back sharply to 4.5 per cent in the latter half due to falling stock prices and households' growing concerns over the economic situation.

Despite inactive construction investment, the growth rate of fixed investment accelerated from the previous year, backed by active facilities investment. Facilities investment registered a high growth rate of over 30 per cent until September, centering on the information-communication sector, but this plunged to the singe-digits in the fourth quarter because of the reduction in business confidence brought about by the murkiness of the reduction in economic outlook. Construction investment decreased again owing to the sluggishness of investment in infrastructure and lackluster construction of buildings and houses.

Exports of goods and services, in real terms, increased by 21.6 per cent, boosted by brisk exports of semiconductors and information & communication equipment. Imports of goods and services, in real terms, also posted a 20.0 per cent increase due to the expansion of import demand, chiefly for capital goods, and the increase in the number of Koreans traveling abroad.

Information and Communication Industry Leads Production Activity

Viewing production activity during the year under review by industry, production in the construction and agricultural, forestry, and fishery industries continued in the doldrums, but that in the manufacturing and service industries remained brisk, following on from the previous year.

Manufacturing led overall economic growth, showing a growth rate of 15.4 per cent during the year. Production in information and communication-related sectors, such as semiconductors, radio and communication equipments, and computers, witnessed robust high growth thanks to brisk exports and that in industrial machinery saw a steady expansion. Production in the light industrial sector, however, including footwear and textiles, was sluggish. In heavy and chemical industry, the growth of production in compounds for industrial use and in transportation equipment dropped sharply.

The service sector increased its output by 9.0 per cent, maintaining the high growth rate of the previous year. Transport, storage and communications continued its buoyant, thanks to an expansion of the quantity of goods transported and the burgeoning use of mobile phones and value added communications. The wholesale & retail trade, restaurants & hotels sector showed steady growth, but the financing and insurance sector performed poorly due to the depressed stock market. Social and personal services faltered owing to the temporary suspension of service at medical and outpatient clinics.

Construction continued to post negative growth with the sharp decline in private construction being coupled with sluggishness in government construction including roads and other infrastructure projects.

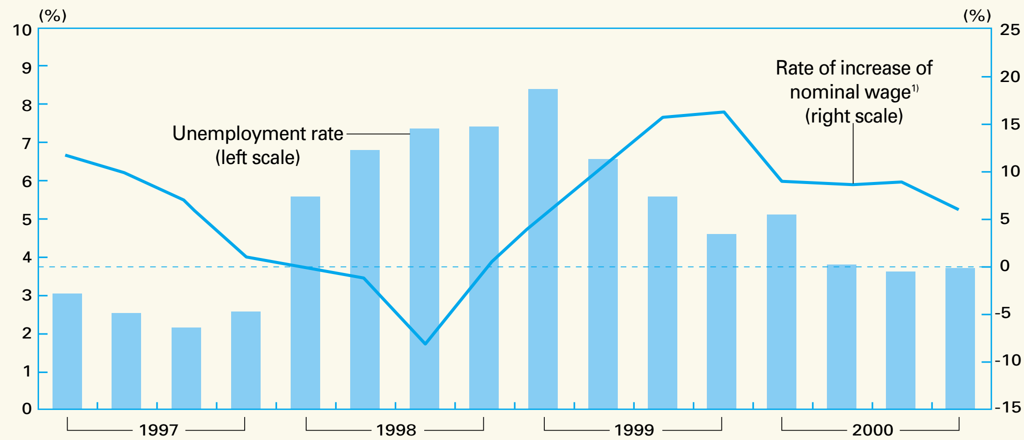
Meanwhile, the electricity, gas and water sector maintained its rapid growth thanks to brisk industrial activities and the expansion of the piped gas network. Agriculture, forestry and fishing production remained unchanged due to poor crops of fruit and vegetables as a result of fishing typhoon damage and the poor catches from inshore.

Employment Situation Improves, Wage Increase Rate Slows Down

The unemployment situation was improved markedly the expansion of job-openings thanks to the business upswing and the government's continued initiatives to counter unemployment. The unemployment rate decreased from 6.3 per cent in the previous year to 4.1 per cent. From November onwards, however, the business activity slackened off and unemployment rose agin.

The number of persons in employment during the year under review increased by 3.8 per cent, with the pace of expansion accelerating from the previous year. In particular, the rate of increase in the number employed in the manufacturing and service sectors was high, helped by the business upswing and the increased number of start-ups of one-man businesses. However, as many companies expanded the number of those working on a temporary or casual basis rather than taking on permanent employees, the share of those

[Chart 2] **Trends in Unemployment and Nominal Wages**



Note : 1) Wages in all industries compared with the same period of the previous year.

working on a temporary or casual basis in the total employment increased substantially.

The rate of increase of the nominal wages of regular employees slowed to 8.0 per cent during the year under review. Unit labor costs in manufacturing industry showed a declining trend as the growth of labor productivity outpaced the rate of increase in wages, but they are estimated to have risen slightly during the fourth quarter as the rate of increase in labor productivity slipped due to the economic slowdown.

Consumer Price Inflation Accelerates from June

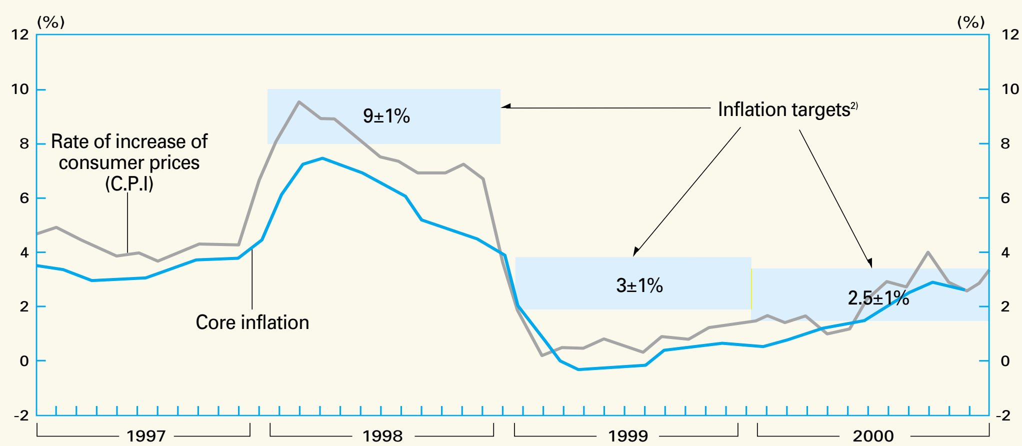
Consumer prices showed a stable pattern of movements until late May thanks to the won's appreciation against the U.S. dollar and the balanced interplay of demand and supply of agricultural products. From June onwards, however, consumer price inflation accelerated with the annual average rate of increase in the C.P.I accelerating from the 0.8 per cent of the previous year to 2.3 per cent. This was caused by the surge in international oil prices and a large rise in public utility charges, as well as greater demand pressure in the wake of the continuation of rapid economic growth.

Viewing price rises by category, service prices led the hike in overall consumer prices owing to increases in public utility charges, including medical insurance fees and transportation fares, and in private service charges. Despite a sharp rise in the prices of oil products, the prices of manufactured goods increased only slightly thanks to the stability of prices of other manufacturing products as a result of intense competition. The prices of agricultural, livestock and marine products also maintained a relatively stable pattern, apart from a temporary spike as a result of a typhoon damage.

Core inflation, which excludes the prices of agricultural products except cereals and of petroleum fractions from the C.P.I., posted an annual average rate of increase of 1.8 per cent, keeping within the target range (2.5±1%) set by the Bank of Korea early in the year under review. The fact that the core inflation rate was lower than rate of increase in the C.P.I. was because prices of petroleum fractions, which are excluded from core inflation, showed a much higher rate of increase than other products rate, running at the a 10 per cent level due to rise in international oil prices. Viewing the movements of core inflation by period, at the outset, it maintained its stable pattern of the previous year, registering a low rate of increase of less than 1 per cent year-on-year. Its rate of increase gradually rose however and it stood at the 3 per cent level in December compared with the same month of the previous year.

In the real estate markets, housing prices maintained a relatively stable pattern of movements, but housing rents showed a pronounced upward trend owing to the deepened imbalance

[Chart 3] Trends in Consumer Prices and Core Inflation[1)]



Notes : 1) Compared with the same month of the previous year.
2) Based on core inflation.

between the demand and supply of rented housing, centering on the metropolitan area.

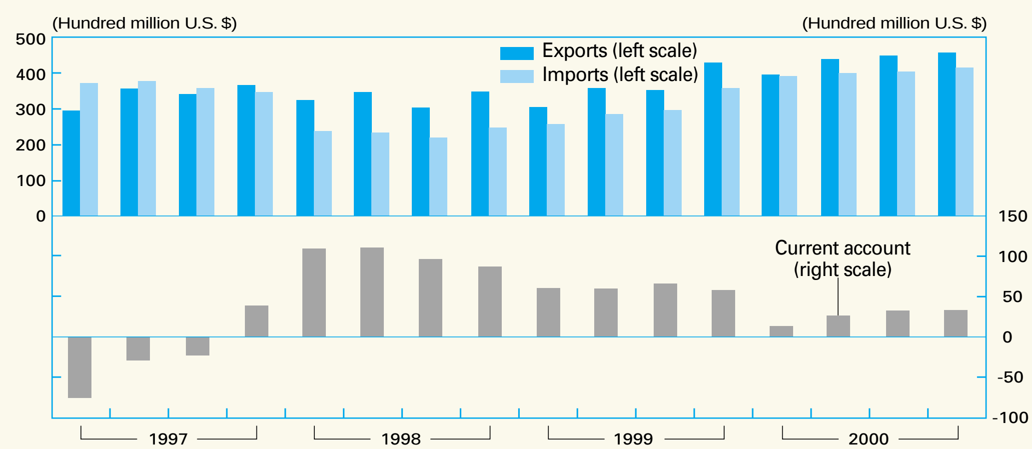
Current Account Surplus Continues

The current account in the year under review registered a surplus for the third consecutive year since 1998 thanks to brisk exports, even though the high growth rate of import, persisted from the previous year.

Exports, on a customs-clearance basis, increased by 19.9 per cent on a year-on-year basis to 172.3 billion U.S. dollars. Along with the rapid growth of the world economy, led by the information and communication sector, the export of major items such as semiconductors, computers, mobile phones, and automobiles increased sharply. Imports, on a customs-clearance basis, swelled by 34.0 per cent to 160.5 billion U.S. dollars, owing to the expansion of domestic demand in the wake of the economic upturn and the surge in international oil prices. By quarter, the export growth maintained a brisk pace throughout the first three quarters, but dropped sharply to the single digits in the fourth quarter due to the slow-down in demand worldwide and the fall in semiconductors prices . Final quarter import growth also fell sharply owing to the contraction of domestic demand.

Reflecting these export and import trends, the goods account posted a sizable surplus of 16.6 billion U.S. dollars. As a result, the current account registered a surplus of 11 billion U.S. dollars, following that of 24.5 billion U.S. dollars the previ-

[Chart 4] Trends of Exports/Imports and Balance of Payments



ous year, notwithstanding the deficit on the services and income accounts.

The capital account recorded a net inflow of 11.7 billion U.S. dollars, a sharp increase from that of 2 billion U.S. dollars the previous year, owing to the massive influx of foreign direct and indirect investment.

Meanwhile, the nation's foreign exchange reserves stood at 96.2 billion U.S. dollars as at the end of 2000, an increase of 22.1 billion U.S. dollars from the previou year-end of 1999. Total external debt decreased slightly to 136.3 billion U.S. dollars.

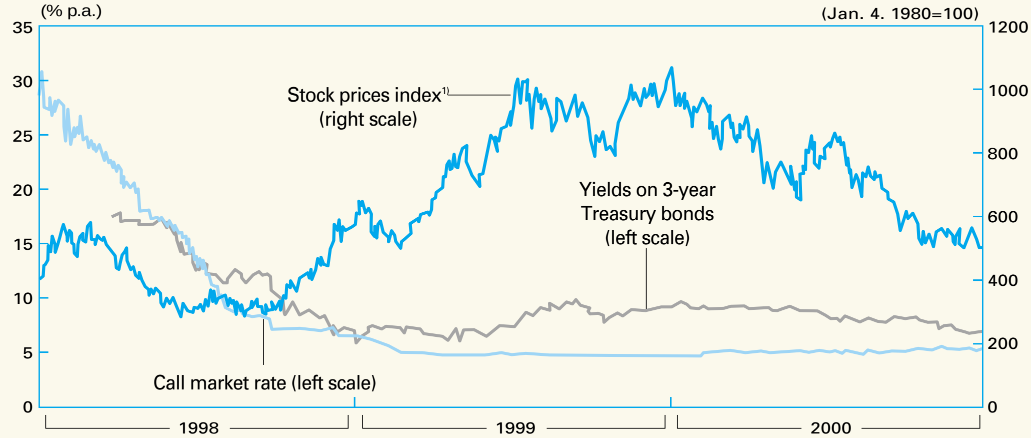
Interest Rates and Stock Prices Fall, and after Mid-November Won Depreciates Sharply

Yields on Treasury bonds and high-grade corporate bonds fell back and stock prices dropped sharply during the year under review while the Korean won maintained a generally stable pattern before depreciating sharply against the U.S. dollar from mid-November.

Despite the economic upturn, market interest rates showed a relatively stable pattern until early May due to the ample market liquidity and the soothing of market unease following the interim settlement of the question of the redemption of Daewoo bonds. With the emergence of liquidity problems at some large enterprises in the mid-May, a flight to quality took hold in the financial markets. Consequently, yields on Treasury bonds and high-grade corporate bonds continued their declining trend, but those on corporate bonds with speculative credit ratings remained unchanged in general, with the widening of differentiation in interest rates according to credit rating. In the meantime, the lending and deposit rates of financial institutions showed a moderate decreasing trend. Long-term market interest rates, including those on Treasury bonds, fell while financial institutions had ample liquidity to hand.

Stock prices dropped sharply during the year under review due to the dousing of investor's expectations as a result of the oversupply of stocks following the massive rights and public offerings in the preceding year, the uncertainties surrounding corporate and financial restructuring, the sharp fall in the U.S. NASDAQ market, and the serious liquidity problems of several large enterprises. The composite Korean stock price index (KOSPI) of shares traded in the Korea Stock Exchange stood at 504.6 at the end of 2000, about half of its level at the end of 1999, and the KOSDAQ Composite index plummeted 79.5 per cent over the same period to end the year at 52.6.

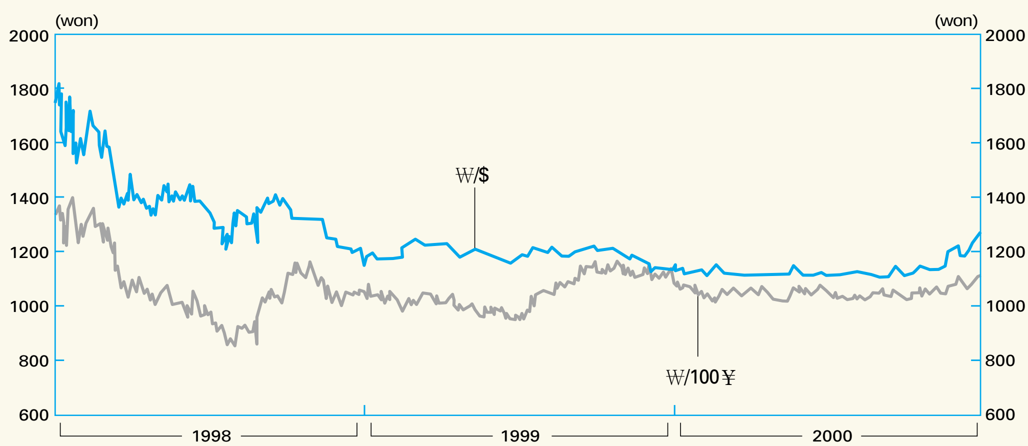
[Chart 5] Trends of Market Interest Rates and Stock Prices



Note : 1) KOSPI (Korea Composite Stock Price Index), all shares traded in the Korea Stock Exchange.

The Korean won exhibited a stable pattern of movements, against the US dollar until the middle of November, trading within a range of between 1,110 and 1,140 won per dollar. Its strength reflected the persistent excess in the domestic

[Chart 6} Korean Won Exchange Rate Trend1)



Note : 1) The won-dollar exchange rate is based on the market closing rate, and the won-100 yen exchange rate is based on the cross rate notified by the Korea Financial Telecommunications and Clearings Institute.

exchange market engendered by the continuation of the current account surplus and large net inflows of foreigners' stock investment funds. Thereafter, however, the won depreciated at a rapid pace owing to the shift of the Japanese yen to a weakening tone and the slow down in the growth of exports. It stood at 1,264.5 won per U.S. dollar at the end of the year under review, a depreciation of 10.0 per cent from the end of the previous year.

Market Funds Flow to Banks

Reflecting the subdued state of the direct financial market, including the stocks, corporate bond, and CP markets, and the market's preference for safety in advence of the implementation of the partial deposit guarantee system at the wait of the following year, deposit-taking by investment trust companies, merchant banking corporations, and banks' trust accounts decreased sharply in the year under review. On the other hand, deposit-taking by banks and the Post Office expanded dramatically.

As a result of these major portfolio shifts, the divergence between the growth paths of the money aggregates continued.

The growth rate of M3 (period-average basis) maintained a low level of 4 to 6 per cent in the year due to the reduced fund intermediation by secondary financial institutions in the aftermath of the restructuring of investment trust companies and merchant banks, and with the persistent depression of the stock market. On the other hand, the growth rates of M2 and MCT+(M2 plus CD plus money in trust plus cover bills plus RPs plus financial debentures) showed high rates of 24.5 per cent and 14.1 per cent, respectively, on the basis of average December figures, reflecting the expanded inflow of funds to the banks.

Despite the sharp contraction of the direct financial market, corporate fund raising became much easier as banks' ability to lend increased substantially due to the continuation of portfolio shifts away from the secondary financial institutions and the Bank of Korea's flexible adjustment of reserve requirements. Because of financial institutions' policy of differentiating more strongly according to credit ratings, however, the financial situation of sound companies was favorable, but companies with a fragile financial structure faced difficulties in attracting funds.

Major Economic Policies During the Year

Monetary Policy Conducted in a Flexible Manner

The Bank of Korea conducted monetary policy with a focus on achieving price stability while seeking to stabilize the financial markets.

After consulting with the government, the Bank of Korea fixed the inflation target for the year at 2.5±1 per cent based on core inflation, which strips out the prices of petroleum fractions and agricultural products except cereals from the Consumer Price Index(CPI). At the same time, the Bank of Korea announced a medium-term inflation target of 2.5 per cent to maintain the consistency of monetary policy and curb inflationary expectation. Along with this, the central bank set a target range for the annual rate of M3 growth at 7 to 10 per cent, giving consideration to the inflation target, the prospects for the economic growth, and the velocity of money circulation.

Early in the year, the Bank of Korea maintained the overnight call rate target at the 4.75 per cent level, taking into account the financial market unease aroused by the collapse of the Daewoo Group in July 1999.

With the soothing of the markets' fears following the interim solution of the question of the redemption of Daewoo's outstanding bonds, in early February the Bank of Korea moved to ease the bunching of funds at the short-term end of the market by narrowing the gap between long-term and short-term interest rates and heightening the linkages between them so as to promote the effectiveness of the interest rate policy. It rased its target level for the overnight call rate by 0.25 of a percentage point to 5 per cent on February 10. After this move, the Bank of Korea continued to operate the call rate at around 5 per cent as the financial market showed signs of instability owing to the emergence in some areas of a credit crunch following the eruption of liquidity problems at some large enterprises. The Bank, however, raised the overnight call rate target by a further 0.25 of a percentage point to around 5.25 per cent on Oct. 5 as worries over an acceleration of inflation mounted because of the preceding period of rapid economic growth, the surge in international oil prices, and the hike of public utility charges.

As the climate for corporate fund raising worsened due to the contraction of the direct financial market, the Bank of Korea supplied reserve money in a flexible manner in order to encourage the expansion of money supply via the banks. In the process of financial restructuring, market funds had concentrated on banks primarily involved in retail banking which tended to reduce the supply of corporate funds. Accordingly, the Bank of Korea acted through its open market operations to ease this fund maldistribution of funds so as to improve the flow of funds to enterprises. To help small- and medium-enterprises ease the financial burden imposed by their bill transactions, the Bank of Korea introduced a Corporate Procurement Loan system in May. At the same time, it increased the Aggregate Credit Ceiling allocations to its branches in order to expand financial support for regionally-based small- and medium-enterprises. The Bank of Korea also introduced a Liquidity Adjustment Loan system in August in a bid to supply emergency funds promptly to banks suffering from temporary shortages of liquidity in the process of financial restructuring.

Improvement of Payment and Settlement System and Augmentation of Bank Supervisory Function

The Bank of Korea exerted its utmost efforts to insure the stability of the payments and settlements system, which is closely linked with the effectiveness of monetary policy. In order to reduce settlement risk between financial institutions, the Bank of Korea introduced an intraday overdraft system in September, whereby funds are automatically supplied to financial institutions in real time, allowing them to make settlement during the day despite a temporary shortage of funds. The compensation for the deferment of settlement by one business day was changed from one based on the adjustment of the accrued nominal principal of the funds to one based on the adjustment of the accrued interest on the principal. The Bank of Korea introduced a check truncation for cashier's checks in May. To handle the expansion of e-commerce conducted on-line, the Bank of Korea constructed an e-commerce payment and settlement relay system in December, so as to speed up the intrabank settlement process and ease the burden imposed on financial institutions by settlement business.

To grasp the financial and management status of banks, an essential task for the effective operation of monetary policy, the Bank of Korea conducted a joint examination with the Financial Supervisory Service on the business of three banks, including Hanvit Bank, the first since the Financial Supervisory Service was separated from the central bank. Along with this, the Bank of Korea constructed a management analysis system for financial institutions to analyze their actual management situation. It also conducted inspections on the banks' loan extension criteria and the policy toward lending every quarter, using its findings as basic sources for monetary policy.

Continuing Efforts to Stabilize the Foreign Exchange Market

The government and the Bank of Korea continued their strenuous efforts to stabilize the foreign exchange market by stabilizing the exchange value of the Korean won, expanding foreign exchange reserves, and drawing up complementary measures in preparation for the second-phase of foreign exchange liberalization. In its conduct of foreign exchange policy, the Bank of Korea in principle let the exchange-rate be decided by the conjuncture of demand and supply in the domestic foreign exchange market. In the case of overly wide swings in the exchange value of the won due to a temporary factors, the central bank undertook appropriate measures to smooth out the interplay of demand and supply by, for example, the issuance of Foreign Exchange Stabilization Bonds.

Seeking to strengthen the nation's external credibility, the Bank of Korea also steadily built up the foreign exchange reserves by the collection of foreign currency deposits placed with domestic financial institutions.

Supplementary measures were, meanwhile, devised to deal with possible surges in capital flow or capital flight involving gray market funds in the run-up to the implementation of the second-phase of foreign exchange liberalization in 2001.

The Bank of Korea continued to implement a prior declaration system for capital transactions and made it obligatory for a report to be filed with it where a large amount of money is the remitted abroad as a donation. At the same time, it finished the additional development of the foreign exchange information network which began operating from Sept. 1, allowing the fuller monitoring of foreign exchange transactions as a whole.

Financial Restructuring Continues

In the year under review, 175 ailing financial institutions, predominantly mutual savings and finance companies and credit unions, were forced to exit the market and wound up. The government also split up both Korea and Daehan Investment Trust Companies, whose financial structure had been fatally weakened as a consequence of the collapse of the Daewoo Group, into two successor companies: a securities company and an investment trust management company and extended public funds were then injected into the securities companies.

Public funds were also provided for the recapitalization of Hanvit, Peace, Kwangju, and Kyongnam Banks, whose independent survival was deemed no longer possible following the appraisal of their management improvement plans, and it was decided that they should all be brought under a new financial holding company to be set up in 2001.

During the year under review, the government devoted about 35 trillion won in public funds in the process of financial restructuring for the recapitalization of financial institutions, the resolution of bad loans, and the repayment of deposits under guarantee. In the expectation that the non-performing assets of financial institutions would be expanded by the collapse of the Daewoo Group and the introduction of Forward Looking Criteria (FLC), standards for the classification of the asset soundness based on borrowers' future repayment ability, the government decided to raise an additional 40 trillion won in public funds, for which it duly received the approval of the National Assembly.

To facilitate the establishment of financial holding companies, the Financial Holding Company Act was passed. This sets out the criteria for the establishment of financial holding companies, their governance structure, and matters relating to their soundness. A Public Fund Management Committee was set up to oversee the operation of public funds so as to heighten the fairness and transparency of their administration. In order to facilitate the resolution of bad loans held by financial institutions, the government also introduced a system of Corporate Restructuring Vehicles. To prevent possible instability of the financial market, which might stem from rapid portfolio shifts among financial institutions upon the implementing action in the following year of a system under which deposits would be only partially guarantee, ceiling on the principal of deposits to be covered by guarantee was raised from 20 million won to 50 million won.

Policy Tasks and Monetary Policy Stance in 2001

During the year 2001, the Korean economy is expected to continue the downturn that became evident in the fourth quarter for some time with the economy growing much more slowly than in the year under review. The upward trend of price movements is expected to accelerate under the impact of high oil prices and the won's depreciation, which persisted for some length of time. The current account is expected to remain in surplus due to the contraction of domestic demand. In the meantime, the financial markets cannot be said to have returned to completely normal pattern, even though there has some improvement as evidenced by the expanded issuance and successful absorption of corporate bonds.

In light of these points, macro economic policy should be pursued along the following lines in future. While its priority should be firmly placed on price stability, it should be implemented in a flexible manner, carefully watching the evolution of the economic situation. The government should meanwhile seek to bring about an early return to the normal working of the financial markets and a fundamental improvement in the structure of the Korean economies, by pressing ahead unremittingly with corporate and financial restructuring. In this context, it is important that the recently-introduced systems of ongoing structural adjustment in accordance with market principles and of financial holding companies should operate with maximum effectiveness. While enhancing the growth potential of the economy through the promotion of technology development and the fostering of human resources in advanced technologies, the government should strengthen its policy initiatives to ease the disparities in growth between industries and between regions, and the unbalanced distribution of income, which have emerged as structural problems of the Korean economy.

To enable it to deal flexibly with the rapidly changing economic situation, while placing its priority on price stability, the Bank of Korea set the inflation target for the year 2001 at 3.0±1%.

It also decided to maintain the mid-term inflation target at the 2.5 per cent level so as to build a foundation for price stability over the medium- and long-term.

Monetary policy throughout the year will be focused on the achievement of the inflation target and will be carried out in such a way as to bring about the recovery of the real economy's vitality and the stabilization of the financial markets.

Against this backdrop, the Bank of Korea will adjust the overnight call rate target in a flexible manner, taking into account the economic trends and the financial market situation, as well as price movements.

Liquidity will be supplied in consideration of financial market conditions without rigidities. Although it had long managed the growth rate of M3 as the intermediate target, the Bank of Korea will employ it only as a monitoring range starting from the year following that under review. The monitoring range of M3 for the year 2001 has been set at between 6 and 10 per cent on the basis of the annual average outstanding. In doing so, the Bank of Korea gave consideration to the inflation target and the prospects for economic growth.

What is more, it intends to strengthen its efforts to ease rigidities in the supply of funds to small- and medium-enterprises and to stabilize the financial markets. To that end, the Aggregate Credit Ceiling has been raised by 2 trillion won (7.6 trillion won → 9.6 trillion won) as of the beginning of the year 2001 and the way in which it is allocated has been changed so as to channel additional resources under the facility to those banks that expand their corporate lending. The Bank of Korea intends to encourage banks' extension of loans to enterprises by ensuring a smooth supply of funds through its open market operations and to consolidate financial market stability by making use of the system of Liquidity Adjustment Loans.

II. Monetary and Credit Policy

1. Inflation Target

From the year 2000 onwards, the Bank of Korea has improved the way in which its inflation target is established in order to heighten the effectiveness of monetary policy and maintain consistency in policy implementation.

It changed its benchmark indicator to be targeted to core inflation, which strips out the prices of petroleum fractions and agricultural products except cereals from the Consumer Price Index(CPI). Along with an annual target for each year, the Bank of Korea also decided to announce a mid-term inflation target, toward which monetary policy would be directed over several years.

The background to the change in the way the inflation target is set is as follows.

For the first year it introduced inflation targeting, 1998, and the following year, 1999, the Bank of Korea set its inflation target based on the rate of increase in the CPI for the year concerned. However, as monetary policy works through to prices with a considerable time lag, it is important for the Bank of Korea to conduct monetary policy consistently from a medium and long-term viewpoint so as to establish a foundation for price stability. The CPI includes items whose prices are greatly affected by temporary and short-term factors, such as natural disasters or surges in international crude oil prices. Accordingly, in the case of wide fluctuations in the prices of such items, the CPI is likely to move away from its basic underlying trend, lowering its suitability as a signal of price movements for decisions as to the monetary policy stance. Considering this point, the Bank of Korea decided to set its inflation target based on core inflation, which strips out from the CPI petroleum fractions and agricultural products except cereals, whose prices are largely affected by temporary and external impulses. At the same time, the Bank of Korea decided to suggest a mid-term inflation target to be pursued over the medium and long-term horizon, along with the annual target for the year concerned. These changes allow the Bank, from the year under review, to plan monetary policy and carry it out in keeping with the basic trend of prices.

Early in the year under review, the Bank of Korea anticipated that inflationary pressure would be greater than in the preceding year in view of economic circumstances both at home and abroad. First of all, on the cost push side, the Bank of Korea forecast that international oil prices would maintain a higher level than in 1999 due to the imbalance between demand and supply in the wake of the policy of major oil producers, including members of OPEC, to continue reducing oil production, and that prices of other raw materials would also go up owing to rising demand amid buoyant economic activity worldwide. The Bank also predicted that wages would continue their upward trend against a background of brisk economic growth, acting to raise firms' production costs. At the same time, the Bank judged that the rapid growth of domestic demand, including consumption and equipment investment, along with that of exports, would lead to a business upswing, bringing a strong possibility of inflationary pressure arising on the demand side. Taking these factors into consideration, the Bank anticipated that consumer prices on the basis of the CPI in 2000 would increase by about 3 per cent on an annual average basis, a higher rate than in 1999, and that core inflation, which excludes petroleum fractions and agricultural products except cereals from CPI, would remain at a level slightly lower than 3 per cent.

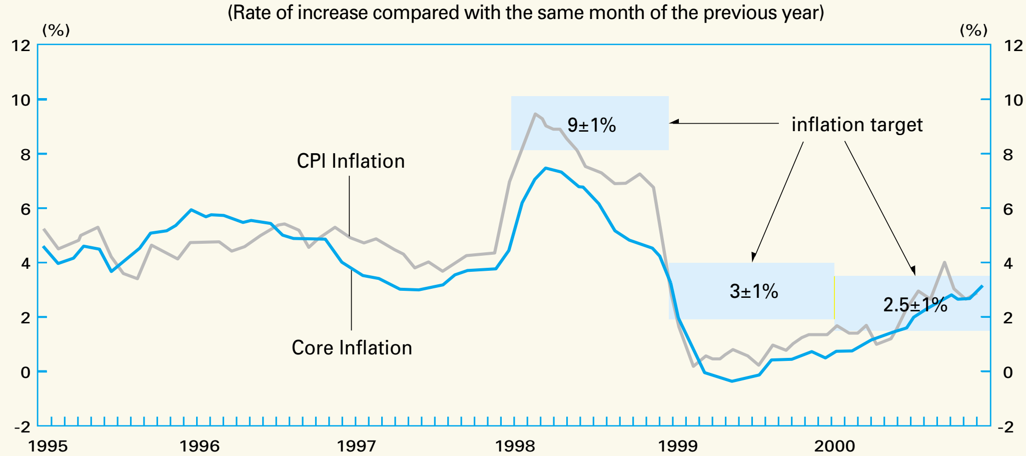
Considering the outlook for prices and the level of inflation that the Korean economy should pursue, the Bank of Korea set its 2000 inflation target based on core inflation at 2.5±1 per cent after consultation with the government and deliberation and decision on the matter by the Monetary Policy Committee. The Bank also announced a level of 2.5 per cent for the mid-term inflation target level.

Viewing the trends of consumer prices on a CPI basis during the year 2000, until May their rate of increase remained at the 1 per cent level compared with the same month of the previous year due to the appreciation of the won and the stabilization of the balance between demand and supply for agricultural, livestock, and fishery products. However, the upward trend accelerated after June as the domestic prices of petroleum-based fuels rose sharply owing to the surge in international oil prices, coinciding with hikes in various public utility charges, including medical service charges and transportation fares, to bring the rate of increase in consumer prices to 3.0 per cent in the latter half year compared with the same period a year earlier. Accordingly, the annual average rate of increase of consumer prices registered 2.3 per cent, higher than the 0.8 per cent of the previous year.

Core inflation in general showed similar movements to those of the CPI, stabilizing at 1.1 per cent compared with the same period of the previous year during the first half. However, the upward trend accelerated gradually after July, posting a

[Chart 7] **Inflation Targets, CPI and Core Inflation**

(Rate of increase compared with the same month of the previous year)



2.6 per cent increase compared with the same period of the previous year during the second half as a whole. As a result, annual average core inflation stood at 1.8 per cent, keeping within the range of the inflation target.

2. Interest Rates

During the year 2000, the Bank of Korea conducted monetary policy in such a way as to bring about the stabilization of the financial market, while keeping its focus on achieving the inflation target.

Early in the year, the Bank of Korea maintained the overnight call rate target at the 4.75 per cent level, taking into account the unstable financial market conditions prompted by Daewoo Group's debacle in July 1999. However, financial market unrest eased as the scale of redemption of investment trust companies' beneficiary certificates with exposure to Daewoo Group bonds subsequently, after the payout ratio on their surrender was increased on February 2, proved smaller than had been expected. Accordingly, on February 10, the Bank of Korea raised its target for the overnight call rate by 25 basis points to around 5 per cent. This move was undertaken in order to enhance the effectiveness of interest rate policy; easing the concentration of funds into the short-term financial instruments and strengthening the linkages between short-term and long-term interest rates through the narrowing of the gap between short-term and long-term interest rates.

In spite of the increase in the call rate, the financial markets remained relatively stable until early April, helped by the easing of uncertainties surrounding the redemption of investment trust companies' beneficiary certificates and the ample market liquidity. The real economy, meanwhile, showed rapid growth with the GDP growth rate running at 12.7 per cent in the first quarter. Despite this economic upswing, prices were relatively stable, but the rapid narrowing of the current account surplus brought worries over the possibility of external imbalance. Moreover, as the financial market began to be disturbed by Saehan Group's placement on a workout program and the liquidity crisis of Hyundai Engineering & Construction from May, the tightness in the financial market condition reappeared, increasing the desirability of stable operation of interest rate policy. The Bank of Korea, accordingly, held the overnight call rate at the 5 per cent level until the end of May.

From June onwards, consumer prices shifted to a steeply increasing trend. In addition, the GDP continued its fast growth, registering the growth rate of 9.6 per cent in the second quarter, generating worries that the surplus supply capacity in the economy would be exhausted, leading to pressure from the excess demand. In this situation, the Bank of Korea recognized the necessity of raising the call rate to deal preemptively with the inflationary pressure. From August, however, the financial market instability became more widespread as Hyundai Engineering & Construction faced another liquidity crisis and the stock market showed an unstable pattern of movements owing to the sharp fall in semiconductor prices, the surge in international oil prices, and the deterioration in Korea's international creditability in the wake of the collapse of negotiations for the sale of the troubled Daewoo Motor Company to foreign carmaker. Considering these factors together, the Bank of Korea continued to operate the call rate at around 5 per cent until September.

On October 5, however, the Bank of Korea changed the policy stance it had maintained since March, and raised its target for the overnight call rate by 25 basis points to around 5.25 per cent as the apprehensions over the inflationary pressure became greater due to the continued high economic growth, the surge in international oil prices, and hikes in public utilities charges.

From November, the real economy, which had expanded at a rapid pace since the second quarter of 1999, showed signs of a slowdown, reducing inflationary pressure on the demand side to some extent. The exchange rate, meanwhile, showed a

[Table 1] **Monthly Decisions on Operation of Interest Rate Policy**

	Policy Directions
Jan.	Overnight call rate maintained at around its current level(4.75%)
Feb.	Target for the overnight call rate raised by 25 basis points(5.00%)
Mar.~Sep.	Overnight call rate maintained unchanged at around its current level
Oct.	Target for the overnight call rate raised by 25 basis points(5.25%)
Nov.~Dec.	Overnight call rate maintained unchanged at around its current level

sharp rise and the financial market uncertainty failed to be dispelled to any great extent by the announcement on November 3 of a list of potentially non-viable enterprises. Under these circumstances, the call rate was maintained unchanged at around 5.25 per cent throughout the remainder of the year.

3. Money Supply

During the year 2000, the Bank of Korea supplied money flexibly, placing priority on the stabilization of financial markets.

As the climate for corporate fund raising worsened due to a contraction of the direct financial markets from the early 2000 onwards, corporate demand for bank loans increased sharply. Under these circumstances, the Bank of Korea supplied reserve money in order to induce the smooth flow of funds to enterprises through banks. From May, in particular, the Bank of Korea supplied liquidity in a more flexible manner in order to prevent the credit differentiation caused by the worsened financial situation of some leading large-size enterprises from developing into full-scale credit crunch.

As a result, the growth rate of reserve money stood at 20.0 per cent during the year on an annual average basis, a sharp rise from the 12.1 per cent of the previous year. In addition, reflecting the expansion of bank loans to the private sector, M2 and MCT+ posted high growth rates of 30.2 per cent and 15.1 per cent, respectively, on an annual average basis. The growth rate of M3, however, dropped sharply from 11.3 per cent in the previous year to 5.6 per cent, falling below the lower bound of its target of 7 to 10 per cent on an annual average basis. This was caused by severely weakened fund intermediation of secondary financial institutions, most notably investment trust companies, trust accounts of banks, and merchant banking corporations, and the massive decline in the outstanding balance of M3 in the early 2000 following the brisk repayment of bank loans by enterprises to reduce their debt ratios as of the end of the previous year. Although M3 growth declined, the growth rates of M2 and MCT+ maintained a high level during 2000, indicating the relatively ample liquidity conditions.

The Bank of Korea strived to induce the smooth supply of funds to enterprises by way of its open market operations. During the year, in the process of financial restructuring, deposit-taking concentrated on those banks specializing in retail banking, aggravating the maldistribution of funds among banks. The consequence was a tendency for the pool of corporate funding to dry up. To ease this retail-oriented phenomenon, the Bank of Korea absorbed excess funds from these retail-oriented banks through its open market operations and supplied sufficient liquidity to those banks whose business focus was on corporate lending.

To promote the restructuring of investment trust companies, the Bank of Korea in its open market operations, during the period from June to September provided a total of 1.5 trillion won in refinancing to Korea Development Bank and Industrial Bank of Korea, for subsequent lending to the Korea Deposit Insurance Corporation, which had injected public funds into Korea and Daehan Investment Trust Companies. The Bank also accommodated Kookmin Bank and Housing and Commercial Bank with 1.5 trillion won, through RP transactions to bridge their liquidity shortages arising from a run on deposits following strike action by their staff toward the year-end.

While supplying funds in a flexible manner to stabilize the financial market, the Bank of Korea made full collection, in two installments, of the special loans amounting to 1 trillion won that it had extended to Korea First Bank in September

[Table 2] Trends of Reserve Money Supply and Scale of Market Liquidity Adjustment

(changes during the period on the basis of December average figures)

Unit : billion won, %

	1999	2000
Reserve money	4,783	2,822
	(12.1)	(20.0)
Market liquidity adjustment	9,491	11,203
MSBs	6,678	14,652
RPs	2,813	-3,449

Note : Figures in parentheses represent percentage changes on an annual average basis compared with the previous year.

[Table 3] **Outstanding Balance of MSBs and Supply of Reserve Money through the Foreign Channel**

Unit : billion won

	1996	1997	1998	1999	2000
Outstanding balance[1]	25,030	23,475	45,673	51,489	66,378
(Change)	(-795)	(-1,555)	(22,198)	(5,816)	(14,889)
Supply of reserve money through the foreign channel[2]	28,148	15,241	36,266	73,522	110,143

Notes : 1) Outstanding basis as at the year-end 2) During the period

1997. The Bank of Korea, during the year, also collected 9.04 billion U.S. dollars of foreign currency deposits placed with domestic banks, reducing their outstanding balance to 8.43 billion U.S. dollars at the end of December.

In the meantime, as a massive amount of money was supplied through the foreign channel thanks to the current account surplus and the inflows of foreign direct and portfolio investment funds, the Bank of Korea sterilized a large part of it through the issuance of MSBs. Consequently, the total balance of MSBs outstanding reached to 66.4 trillion won as of the end of 2000, an increase of 14.9 trillion won from the end of the previous year.

4. Credit Policy

(1) Improvement of the Aggregate Credit Ceiling System

During the year 2000, the Bank of Korea improved the method of operation of the Aggregate Credit Ceiling in order to help enterprises facing difficulties in obtaining funds in the process of corporate and financial restructuring, and particularly to encourage bank lendings to small and medium enterprises.

The Bank of Korea sought to achieve a normal pattern flows by changing the method of allocation of the Aggregate Credit Ceiling for individual banks. During the year, banks wary of the growing corporate credit risk focused their business on the expansion of loans to households, whose general credit risk is lower than that of enterprises. This pattern of bank lendings resulted in a shrinkage of fund supply to enterprises, and worked as a major obstacle to easing the credit crunch. Consequently, in September the Bank of Korea changed its method of appraising banks' performance on the lending to small and medium enterprises, which is used for calculating the quota for individaul banks under the Aggregate Credit Ceiling. It did so in such a way as to help those banks expanding corporate lending to receive a larger allocation than other banks focusing on retail credit.

In the meantime, Financial institutions were reluctant to extend loans to leading large-size enterprises with relatively poor credit ratings and such enterprises also faced difficulties in redeeming or issuing CPs or corporate bonds. As a result, the financial market conditions of corporate fund raising were not smooth. To cope with these problems, in December the Bank of Korea changed the method of allocation of the Aggregate Credit Ceiling to set aside a large quota for banks, which expanded lending to enterprises, including leading large-size enterprises (excluding those affiliated with the Four largest *Chaebol*), or increased their purchases of corporate bonds and CP. It put in place an interim measure to take effect a one-year period from January 2001. In addition, to induce an expansion of lending to regionally-based small and medium enterprises suffering difficulties in the process of corporate restructuring, the Bank of Korea also increased the Ceiling for its regional branches by a total of 500 billion won (from 2.2 trillion won to 2.7 trillion won) effective from December.

(2) Introduction of Corporate Procurement Loan Scheme

In Korea, enterprises had for long mainly made use of commercial bills for the settlement of commercial transactions. This practice, however, caused problems in that small and medium enterprises which had received commercial bills had to wait for a considerable time before they could obtain cash settlement in full, aggravating their financial burden. What is more, a default on the part of the company which had issued commercial bills ran the risk of causing a chain of defaults by those companies which had received or accepted them. In this regard, many discussions took place on the abolishment of commercial bill system. Its sudden abolition was nevertheless feared to give rise to a number of negative side-effects, including confusion in the settlement of commercial transactions. The Bank of Korea accordingly introduced the Corporate Procurement Loans scheme in May to reduce the use of commercial bills step by step and induce the expansion of cash settlement.

Under the scheme, a supplier, after the supply of goods and services draws up a bill designating the purchaser as the payer. The supplier then asks its bank to collect the bill. In case the purchaser faces a temporary shortage of liquidity, the bank lends him the money to ensure settlement for the bill in cash. In other words, the Corporate Procurement Loans scheme thus represents a new procedure for the settlement of commercial transactions, under which corporations procuring goods borrow settlement funds from banks, paying the suppliers in cash rather than commercial bills.

As an incentive to secure the widespread adoption of the Corporate Procurement Loans scheme, the Bank of Korea made available refinancing under the Aggregate Credit Ceiling to banks for up to half of their total Corporate Procurement Loans. It also simplified the lending procedures for the convenience of both enterprises and financial institutions. The related quota of the Aggregate Credit Ceiling was subsequently raised from 1 trillion won at the time of its introduction to 2 trillion won with effect from January 2001.

Thanks to the Bank of Korea's supportive provision of incentives and the favorable response on the part of enterprises and banks, the scheme has become rapidly established. The outstanding balance of loans extended under the new scheme surged from 65.1 billion won at the end of June to 3.3 trillion won at the end of December. The number of corporate beneficiaries of the scheme also soared from 135 to 5,458 during the corresponding period.

In contrast to the sharp rise in the utilization of the scheme, the value of commercial bills discounted continued to decrease. At the end of December, the Corporate Procurement Loans were equivalent to 17.2 per cent of total discounts of commercial bills, indicating that cash settlement through the Corporate Procurement Loans was well on its way to

[Table 4] Trends of Outstanding Amounts of Corporate Procurement Loans and Commercial Bills Discounted

(End of period)

Unit : billion won

	2000		
	June	Oct.	Dec.
Corporate Procurement Loans(A)	65.1	1,989.7	3,361.7
Commercial Bills Discounted(B)[1]	18,453.7	18,336.2	19,566.6
A / B (%)	0.4	10.9	17.2

Note : 1) Based on small and medium enterprises.

replacing settlements by way of commercial bills.

The Corporate Procurement Loans scheme is anticipated to be used more widely, with the more general recognition of the advantages among enterprises and substantial deduction in the corporate tax (or income tax) resulting from the use of the scheme under the relevant amendments of the "The Special Tax Treatment Control Law" in October.

5. Monetary Policy Instruments

(1) Introduction of Liquidity Adjustment Loans System

Following the currency crisis of 1997, the Aggregate Credit Ceiling system had come to be used as a means of easing the corporate credit crunch, making it difficult for the central bank's lending system to perform its original inherent function. In this situation, the Bank of Korea introduced a system of Liquidity Adjustment

[Table 5] Current Lending Systems of the Bank of Korea

	Function	Loan Ceiling	Lending Rate
Liquidity Adjustment Loans	· Signal the monetary policy direction by flexible adjustment of the lending rate on them in keeping with the monetary policy stance · Stabilize the financial market by supplying necessary liquidity promptly to banks if and when they apply for borrowings due to temporary shortages of liquidity	3 trillion won	4.5% p.a. (In case of borrowings for more than three straight months, annual 5.5%)
Loans with an Aggregate Credit Ceiling	· Induce the expansion of bank loans to small and medium enterprises	9.6 trillion won	3.0% p.a.
Temporary Loans	· Provide loans to banks to meet shortages of funds for payment and settlement (or reserve requirements)	Within the amount of the shortfall of funds	Call market rate plus 2 per cent
Intra-day Overdraft	· Provide loans to banks for temporary shortages of funds for payment and settlement during the day	100% of reserve requirements on the averaged outstanding basis	No interest charged

Loans in August, aside from the Aggregate Credit Ceiling system.

This made it possible for the Bank to fine-tune its lending rate on Liquidity Adjustment Loans in a flexible manner corresponding to its current monetary policy stance, thereby signalling its policy intentions to the financial markets more clearly. At the same time, in case banks face a temporary shortage of liquidity, the Bank of Korea is able to supply the necessary liquidity to them promptly at any appropriate time. The introduction of the Liquidity Adjustment Loans equipes the Bank of Korea with a new lending system that combines its public announcement and financial market stabilization functions.

The lending rate on Liquidity Adjustment Loans was set at 4.5 per cent as of the end of December. To cope promptly with possible disturbances in the financial market in the process of financial restructuring, the Bank of Korea expanded the ceiling on them from 2 trillion won to 3 trillion won with effect from January 2001.

(2) Introduction of Intra-Day Overdraft System

Effective from September, the Bank of Korea introduced a intra-day overdraft system to enhance the safety and efficiency of the payment and settlement system.

Its introduction was designed to cope effectively with the increasing incidence of temporary queuing for the payment and settlement as the interbank settlement volume had dramatically increased due to the expansion in the scale of the economy and in financial transactions.

With the introduction of the system, the Bank of Korea is able to extend loans covering their temporary shortages of funds for payment and settlement during a day automatically to financial institutions subject to a certain limit in real time. The loan ceiling is equivalent to the respective financial institution's current deposit balance with the Bank of Korea on an averaged outstanding basis. The Bank of Korea decided not to impose interest charges on the loans, considering the fact that financial institutions deposit reserve requirements with the central bank carrying zero interest and the central bank collects the intra-day overdraft from financial institution completely before the closing of the business day. Following the introduction of the intra-day overdraft system, the queuing ratio for settlements due to a shortage of settlement funds and the number of banks in the queue up for settlement dropped sharply.

[Table 6] **Trend of Queuing Status of BOK-Wire for Settlements**

		Before Introduction			After Introduction		
		Jul. 2000	Aug.	Sep.	Oct.	Nov.	Dec.[1]
Queuing Ratio(%)	Volume	24.6	21.3	24.1	20.8	20.6	21.6
	Amount	36.4	31.3	34.9	24.9	24.5	30.1
Daily average number of banks queuing		13.1	12.0	12.8	4.9	4.6	6.7

Note : 1) The increase in the queuing ratio and the number of banks held in a queue during the December was due to the strike action of some banks and liquidity shortages on the part of troubled banks, and the seasonal increasing settlement.

(3) Lowering the Reserve Requirement of Resident's Deposits in Foreign Currency

In April, the Bank of Korea lowered the reserve requirement on resident's foreign currency deposits. In doing so it sought to increase such deposits by resident companies and individuals by inducing domestic banks to raise interest rate on them and bringing their reserve requirement into line with that imposed on Korean won deposits. Therefore, the reserve requirement ratio on resident's foreign currency deposits, which had previously been set at a uniform 7 per cent, was lowered to 5 per cent to the demand deposits and 2 per cent on the time and savings deposits.

III. The Conduct of Business Related to Monetary Policy

1. Payment and Settlement Business

During the year under review, the emphasis in the Bank of Korea's conduct of payment and settlement related business was placed on improving the efficiency of the payment system and reducing settlement risk.

To increase the operational efficiency of the Bank of Korea Financial Wire Network(BOK-Wire), the large-value interbank funds settlement system, the scope of eligibility for the Cash Payment Application System through BOK-Wire, which could formerly only be accessed by those financial institutions maintaining accounts with the Bank's Head Office, was

[Table 7] **Settlement Through BOK-Wire[1)]**

Unit : number, billion won, %

	1999 (A)		2000 (B)		change (B-A)	%change
<Volume>						
Domestic Currency Funds Transfers	4,064	(86.6)	4,092	(85.8)	28	0.7
Gross Settlement	3,208	(68.3)	3,299	(69.2)	91	2.8
Net Settlement	856	(18.2)	793	(16.6)	-63	-7.4
Treasury Funds	578	(12.3)	625	(13.1)	47	8.1
BOK Loans and Discounts	43	(0.9)	37	(0.8)	-6	-14.0
Government and Public Bonds	9	(0.2)	13	(0.3)	4	44.4
Total	4,694	(100.0)	4,767	(100.0)	73	1.6
Foreign Exchange Funds Transfer	13	(-)	10	(-)	-3	-23.1
<Value>						
Domestic Currency Funds Transfers	64,755	(96.6)	61,077	(95.6)	-3,678	-5.7
Gross Settlement	51,500	(76.8)	48,962	(76.7)	-2,538	-4.9
Net Settlement	13,255	(19.8)	12,115	(19.0)	-1,140	-8.6
Treasury Funds	1,012	(1.5)	1,459	(2.3)	447	44.2
BOK Loans and Discounts	748	(1.1)	637	(1.0)	-111	-14.8
Government and Public Bonds	518	(0.8)	694	(1.1)	176	34.0
Total	67,033	(100.0)	63,867	(100.0)	-3,166	-4.7
Foreign Exchange Funds Transfers (million US$)	390	(-)	97	(-)	-293	-75.1

Note : 1) Daily average. Figures in parentheses are percentage shares in total.

expanded from May onwards to cover additionally those transacting with its branches and sub-branches. From August onwards when the government withdraws national funds such as the Post Office Insurance Fund and the Postal Transfer Fund placed on deposit with financial institutions, redemption may be made by BOK-Wire rather than through the issue of checks.

During the year under review, the daily average number of transactions through BOK-Wire was 4,767 for a total value of 63.9 trillion won, increasing by 1.6 per cent in volume terms but decreasing by 4.7 per cent in value terms over the previous year. The number of BOK-Wire participants edged up to 132 at the end of 2000 from 131 as of the end of the preceding year.

In order to reduce the risk associated with the interbank net settlement systems, the Bank of Korea carried out the improvements to the system of adjusting interbank funds in clearing to take effect from March 2001. Previously, a bank holding a debit position compensated its counterpart with a credit position by providing it a interest-free loan equivalent to the settlement balance multiplied by the number days to use the funds in addition to the net settlement position before recovering the accrued amount on the following business day. This is changed to a system whereby the amount of interest accrued on the funds is paid in addition to the net position for settlement.(Where, however, the net settlement position involves cashier's checks, the previous system remains in force.) As part of its efforts to increase the recognition of the management of the foreign exchange settlement risk, the Bank surveyed 36 major banks handling foreign exchange between July and October on their management of settlement risk, and prepared risk reduction measures.

The total amount of net debit caps of the participating banks in the net settlement system, which was set up to reduce settlement risks involved in the net settlement such as the Interbank CD/ATM System and the Interbank Funds Transfer (IFT) System, stood at 8.8 trillion won as of the end of 2000, representing an increase of 1.6 trillion won over the previous year. The total amount of collateral posted by the financial institutions with the Bank of Korea stood at 3.3 trillion won.

The Bank of Korea also started to operate check truncation in May in the Seoul area to improve the efficiency of the banks' management of paper-based documents such as cashier's checks and giro documents. The use of the truncation system for giro documents was extended nationwide from July to include payment in Korea Electric Power Corporation(for electricity bills), National Health Insurance Corporation(for insurance premiums), National Pension Corporation (for pension contributions) and Korea Telecom(for phone charges).

The Bank of Korea expanded and improved the retail payment system to allow faster settlement in preparation for the expansion of online commercial and financial transactions. In December, the Bank built and started to operate Payment Gateway, an electronic payment system for B2C e-commerce whereby the relevant funds are transferred to the seller's account on the following business day in the e-commerce transactions through Internet shopping malls. It was decided that the funds transfer service of the home/firm banking system, which had been handled via the Interbank CD/ATM System and the IFT System, should be instead integrated into the Shared Network System for Electronic Banking, with effect from April 2001. Accordingly, the ceiling on transfers for the home/firm banking system will be increased from 100 million won to 500 million won, and the service will be provided 24 hours a day, seven days a week.

In a further move, with a view to speeding up suppliers' collection of bill drawn under domestic dollar denominated letter of credit, the Bank changed the previous method of collection via Korea Exchange Bank to one whereby the bills are cleared through clearing houses(KFTC). The electronic money(K-CASH) developed jointly by Korean financial institutions in close cooperation with the Bank of Korea whose deputy governor chairs the Committee for Financial Informatization was launched in several areas including the Yeoksam-dong area of Seoul from July. Besides this, the remaining problem of critical leap year dates in connection with the Y2K computer question was successfully overcome.

2. Supervision of Banks

During the year under review, in fulfillment of its bank supervision role, the Bank of Korea requested the Financial Supervisory Commission(FSC) to examine financial institutions and carried out joint examinations with it, analyzing financial institutions' performance, developing analytical tools, and surveying banks' lending behavior.

Firstly, the Bank actively exercised its legal right to have the Financial Supervisory Commission examine financial institutions and to request joint examination with it of financial institutions, which the Bank had previously refrained from exercising because of the unstable economic conditions and financial restructuring. In consequence, the Bank conducted joint examinations with the FSC on three banks, namely, Hanvit Bank (April 28 - May 27, 2000), Korea Exchange Bank (June 26 - July 26, 2000) and Daegu Bank (November 7 - 24, 2000).

Through the joint examination, the Bank was able to gather more precise information on the business status of the banks, and correct violations of regulatory guideline in their handling of Aggregate Credit Ceiling Loans, thereby improving the efficiency of its monetary and credit policy. At the same time, it was able to rectify unauthorized handling of foreign currency deposits, and errors in their report filed on foreign currency related business.

The Bank requested the Financial Supervisory Commission twice, in January and June, to investigate whether banks were abiding by the relevant laws and regulations on monetary and credit policy and the accuracy of their reports. The Bank received examination findings on forty financial institutions.

It also analyzed the performance of banks based on their regular annual reports and financial statements, and used the results as basic source materials for its implementation of monetary policy and continuing surveillance of individual banks.

The Bank extended the coverage of two analytical models for bank performance, namely the Trend Analysis Model (CLEAR MODEL) and the Forecast Analysis Model (FORESEE MODEL), from commercial banks to special banks such as the National Agricultural Cooperative Federation, the National Fisheries Cooperative Federation, and the Industrial Bank of Korea. In December, it developed new analytical technique for branches of foreign banks. In tandem with these moves, it measured the credit and market risks faced by each commercial bank and conducted on-site examination of risk management practices twice a year. The findings and results from these were employed to complement the evaluation made by analytical tools and also served as reference materials for the joint examinations with the FSC.

In August 2000, the Bank completed the FAIR System (Financial Analysis and Information Retrieval System), work on which had commenced in May 1999 and which was designed to secure continuing surveillance and to provide more sophisticated analysis on management and performance of financial institutions.

Besides this, the Bank carried out regular surveys (quarterly) of lending behavior such as loan handling standard and loan officer's lending attitude, utilizing the findings as reference materials for its monetary policy.

3. Foreign Exchange and International Finance Business

(1) Foreign Exchange Management Business

In preparation for the second stage of foreign exchange liberalization, the Bank of Korea revised its regulations on foreign exchange transactions including the working rules for operations and these were scheduled to come into effect as of January 1, 2001. It abolished the restrictions that had been imposed on the length of deposit for non-residents' Korean won time deposits, and modified standards for examination following expansion of the number of the inspection items concerning foreign exchange transactions delegated to the Governor of the Bank of Korea.

Meanwhile, the Bank completed the second stage of the development of its Foreign Exchange Information Network, work on which had started at the beginning of the year, and put it into operation on September 1. The network was expected to bring such benefits as the better monitoring of foreign exchange transactions, more efficient collection of statistics, strengthened supervision and post-facto management of foreign exchange transactions, and a reduction of working hours in reporting organizations.

The Bank simplified its funding facilities for the supply of short-term foreign currency working capital through the repurchase of export bills by integrating the basic 3-month facility with the temporary 1-month facility as a 3-month credit facility. At the same time it lowered the deposit rate by 0.5 of a percentage point both on these funding facilities for the supply of short-term foreign currency working capital and on those for the support of liquidity provided during the 1997. On August 14, the Bank made additional cut in the deposit rate on the facilities for the supply of short-term foreign currency working capital of 0.25 of a percentage point. Through these measures, it saught to improve foreign currency borrowing conditions for domestic banks and encourage them to reduce the level of their exchange commission on purchases of export bills.

In addition, on April 8, the Bank lowered the reserve requirement ratio for residents' foreign currency deposits from a uniform 7 per cent to 5 per cent for demand deposits and to 2 per cent for saving deposits. On May 29, it improved the method of settlement for U.S. dollar-denominated bill drawn under the local L/Cs, changing it from individual settlement through Korea Exchange Bank to net settlement across foreign currency deposit accounts held with the Bank of

Korea after clearing has been completed by the Korea Financial Telecommunications & Clearings Institute.

(2) International Finance Business

Korea's official foreign exchange reserves amounted to 96.2 billion U.S. dollars as of year-end 2000, representing an increase of 22.1 billion U.S. dollars over the previous year-end. This rapid increase in the reserves resulted mainly from the Bank of Korea's withdrawal of its foreign currency deposits held with domestic banks as the foreign exchange market showed a persistent oversupply of foreign exchange due to the continued surplus on the current account, the increased inflows of foreign investment funds, and increased profits accruing from the operation of foreign currency-denominated assets.

Breaking the reserves down by component, foreign exchange, the largest component, which includes deposits and securities, amounted to 95.9 billion U.S. dollars as of the end of the year under review, showing an increase of 22.2 billion U.S. dollars since the previous year-end, while other components such as gold, SDRs and the reserve position in IMF showed relatively little change.

Meanwhile, the Bank of Korea made payments in Korean won and convertible currencies to a total value of 67 million U.S. dollars to international financial institutions during the year. The Bank subscribed 26.21 million SDRs, equivalent to 36.33 million U.S. dollars, to the International Development Association(IDA); 40.86 billion won, equivalent to 3.58 million U.S. dollars, to the Asian Development Bank(ADB); 372.15 million yen, equivalent to 3.55 million U.S. dollars, to the European Bank for Reconstruction and Development(EBRD); 0.33 million U.S. dollars to the Multilateral Investment Guarantee Agency(MIGA), and 14.59 billion won, equivalent to 13.03 million U.S. dollars, to the African Development

[Table 8] Changes in Foreign Exchange Reserves

Unit : million U.S.$

	End of 1999	End of 2000	Change
Foreign Exchange Reserves	74,054.5	96,198.1	22,143.6
Gold	67.1	67.6	0.6
SDRs	0.7	3.5	2.8
Reserve Position in IMF	286.5	271.8	-14.7
Foreign Exchange	73,700.3	95,855.1	22,154.9

Fund(AfDF). In addition the Bank of Korea contributed 0.78 million U.S. dollars to the IMF and 10.62 billion won, equivalent to 9.51 million U.S. dollars, to the Asian Development Fund(ADF).

4. General Business

(1) Loans and deposits

During the year under review, the Bank of Korea's outstanding loans to financial institutions decreased by 1,017.8 billion won mainly through the redemption in full of a special loan to Korea First Bank, bringing the total to 8,025.9 billion won as the end of the year.

By type of facility, lending classified as Aggregate Ceiling Credits decreased by 237 billion won over the course of year. This decline was due to the failure to take up much of the credit line for Corporate Procurement Loans, which were introduced in May. The special loan amounting to 1 trillion won to Korea First Bank, which had been rolled over the previous year, was redeemed in full.

Meanwhile, general loans decreased by 50.8 billion won, largely reflecting their continuing collection, new lending having been suspended since March 1994.

Fertilizer Account Fund Loans remained at the same level as the previous year, but other loans increased by 270 billion won, in response to the introduction of Liquidity Adjustment Loans.

Meanwhile, deposits with the Bank, which had shrunk by 11,028.9 billion won in the previous year, showed an increase of 3,419.6 billion won during the year to stand at 30,258.5 billion won as of the end of the year. Their increase was largely attributable to enlarged Korean

[Table 9] **Loans and Discounts of the Bank of Korea[1)]**

Unit : billion won

	Outstanding		Change during	
	1999	2000	1999	2000
Aggregate ceiling credits	7,597.1	7,360.1	1,235.5	-237.0
Special loans	1,000.0	-	-	-1,000.0
General loans	76.6	25.8	-165.0	-50.8
Loans for the procurement of fertilizer	370.0	370.0	-	-
Other loans	-	270.0	-83.3	270.0
Total	9,043.7	8,025.9	-5,259.9[2)]	-1,017.8

Notes : 1) Excludes loans to government.
2) Includes the balance of 6,247 billion won repaid by the Financial Market Stabilization Fund.

[Table 10] **Deposits with the Bank of Korea**

Unit : billion won

	Outstanding		Change during	
	1999	2000	1999	2000
Won deposits	15,165.3	15,351.1	-12,450.6	185.8
Reserve deposits by deposit money banks	5,934.6	6,727.9	1,555.3	793.3
Private deposits[1)]	66.7	174.1	-410.0	107.4
Deposits by non-residents[2)]	9,164.0	8,449.1	-13,595.9	-714.9
Foreign currency deposits	11,673.5	14,907.4	1,421.6	3,233.9
Reserve deposits by deposit money banks	227.5	1,639.3	-757.6	1,411.8
Deposits by Foreign Exchange Stabilization Fund	11,446.0	13,268.1	2,179.2	1,822.1
Total	26,838.9	30,258.5	-11,028.9	3,419.6

Notes : 1) Includes reserve deposits by the Korea Development Bank.
2) Includes won deposits by foreign institutions including the IMF.

won deposits. Having decreased by 12,450.6 billion won in the previous year, they showed a mild increase of 185.8 billion won during the year. Meanwhile, foreign currency deposits rose by 3,233.9 billion won over the same period.

(2) Issuance of Banknotes and Coins

During the year, a total of 29,565.4 billion won in banknotes and coins was issued, and a total of 30,713.9 billion won withdrawn, resulting in a net withdrawal of 1,148.5 billion won representing 5 per cent reduction over the previous year.

The decline was largely attributable to the withdrawal of the extra currency issued, mainly in the form of 10,000 won notes in order to be prepared for possible contingencies arising from the Y2K problem at the turn of the century.

Broken down by denomination, the shares of banknotes and coins were 95 per cent and 5 per cent respectively, resulting in slight decline in the share of banknotes, particularly the 10,000 won note.

Meanwhile, the Bank of Korea issued three types of commemorative coins during the year. It issued five hundred fifty thousand 2,000 won coins in January to commemorate the new millenium, a total of seventy thousand 5,000 won coins in June to commemorate the 50th anniversary of the Bank of Korea, and a total of three thousand 20,000 won coins to commemorate ASEM 2000.

The Bank also issued a new type of 10,000 won banknote incorporating

[Table 11] **Banknotes and Coins Issued by Denomination**[1]

Unit : billion won and %

	1999		2000				Change
	Outstanding(A)		Issued	Withdrawn	Outstanding(B)		(B-A)
Banknotes	21,570.3	(95.6)	29,444.3	30,698.3	20,316.4	(94.8)	-1,254.0
10,000 won	20,164.3	(89.3)	28,232.2	29,550.2	18,846.3	(88.0)	-1,318.0
5,000 won	575.3	(2.5)	546.5	509.9	611.9	(2.9)	36.6
1,000 won or less	830.7	(3.7)	665.6	638.2	858.2	(4.0)	27.4
Coins	1,003.0	(4.4)	121.1	15.6	1,108.5	(5.2)	105.5
Total	22,573.4	(100.0)	29,565.4	30,713.9	21,424.9	(100.0)	-1,148.5

Note : 1) Figures in parentheses are percentage shares in total banknotes and coins in circulation.

improved anti-counterfeiting, putting them into circulation alongside the old notes.

(3) Treasury Transactions

During the year, Treasury funds received came to 749.9 trillion won, and those disbursed reached 748.4 trillion won, resulting in net receipts of 1,481 billion won. This increased the year-end figure of government deposits from the 9,126.3 billion won of the previous year to 10,607.3 billion won.

As for loans to government, during the year, the Bank of Korea collected from the government a long-term loan of 419 billion won made earlier from the Bounty Fund on Workmen's Property Formation Deposits and one of 370 billion won from the Special Account for Grain Management, while lending 410 billion won to the same account. The result was that the balance of loans to government at the end of the year declined by 379 billion won over the previous year to stand at 410 billion won.

The Bank of Korea set the overall ceil-

[Table 12] **Loans to Government**

Unit : billion won

	1999	2000			Change
	Outstanding(A)	Loans	Redemptions	Outstanding(B)	(B-A)
Bounty Fund on Workmen's Property Formation Deposits	419.0	0.0	419.0	0.0	-419.0
Special Account for Grain Management	370.0	410.0	370.0	410.0	40.0
Total	789.0	410.0	789.0	410.0	-379.0

[Table 13] **Ceilings on Loans to Government**

Unit : billion won

	1999	2000 (A)	2001 (B)	Change(B-A)
Ceiling on Temporary Loans	6,697.4	3,644.4	4,324.4	680.0
Ceiling on Long-term Loans	35.0	0.0	0.0	0.0
Total	6,732.4	3,644.4	4,324.4	680.0

ing on its loans to government in 2001 at 4,324.4 billion won, representing an increase over that set the previous year of 680 billion won, which was wholly accounted for by an increase in the ceiling on Temporary Loans.

The number of Treasury agencies of the Bank and its Treasury collection agencies decreased by 172 during the year, reducing the total to 7,562 at the end of the year. This was attributable to the consolidation of the National Agricultural Cooperative Federation and the National Livestock Cooperatives Federation and the reduction of banks' branch networks as part of their structural adjustment. By type of agency, Treasury agencies decreased by 11, Treasury Collection Agencies by 158, and Treasury Collection Offices by 3.

(4) Securities Operations

During the year, Monetary Stabilization Bonds(MSBs) to the value of 98,773.6 billion won were issued while MSBs to the value of 83,885.1 billion won were redeemed, resulting in a net emission of 14,888.5 billion won. As a result, MSBs outstanding totaled 66,377.7 billion won, which represented an increase of 28.9 per cent compared with the previous year. This large expansion reflected the need to absorb the excess liquidity generated from the large balance of payments surplus.

By method of issuance, the total amount of MSBs was by public offerings. Those issued by general sale amounted to

[Table 14] **Issuance and Redemption of Monetary Stabilization Bonds(MSBs)**

Unit : billion won

	1999	2000			Change
	Outstanding(A)	Issued	Redemption	Outstanding(B)	(B-A)
Public offerings	51,489.2	98,773.6	83,885.1	66,377.7	14,888.5
Over-the-counter sale	22,913.9	80,390.6	66,876.1	36,428.4	13,514.5
Competitive bidding	28,575.3	18,383.0	17,009.0	29,949.3	1,374.0

[Table 15] Issuance and Redemption of Government Bills and Bonds[1]

Unit : billion won

	1999	2000			Change
	Outstanding(A)	Issued	Redemption	Outstanding(B)	(B-A)
Treasury Bonds	34,232.7	15,161.8	6,839.5[2]	42,555.0	8,322.3
Foreign Exchange Stabilization Fund Bonds	6,199.8	5,799.9	3,599.8	8,399.9	2,200.1
Public Land Compensation Bonds	1.7	-	1.6	0.1	-1.6
Total	40,434.2	20,961.7	10,440.9	50,955.0	10,520.8

Notes : 1) Issuance and redemption of the government bills and bonds by the Bank of Korea acting for the government.
2) Includes early redemption of 1,609.8 billion won worth of bonds made in order to alleviate the burden of redemptions, falling due in 2001.

80,390.6 billion with the remaining 18,383 billion won being issued by competitive bidding.

Meanwhile, government bills and bonds whose issuance and redemption are handled by the Bank of Korea, registered a total issuance of 20,961.7 billion won while 10,440.9 billion won worth was redeemed. This brought the year-end's outstanding balance to 50,955 billion won, an increase of 10,520.8 billion won over the figure at the preceding year-end. By type of government bill and note issued, Treasury bonds, issued to raise public funds, amounted to 15,161.8 billion won and the Foreign Exchange Stabilization Fund Bonds, issued to stabilize the value of Korean won, amounted to 5,799.9 billion won.

Meanwhile, in order to activate the government bond market, a system of fungible issue was introduced under which government bills and bonds, issued within a specific time frame, carry the same maturity period and coupon rate.

(5) Government Funds Management

The Public Capital Management Fund(which the Ministry of Finance consolidated with Government Bond Management Fund on April 1, entrusting its operation and management to the Bank of Korea) raised a total of 36,453.9 billion won via the issue of Treasury Bonds and deposits from the Post Office and from other Funds. It placed deposits with the Government Loan Special Account (5,935.4 billion won), the General Account (2,354.7 billion won) and the National Housing Fund (1,239.9 billion won). It made payments of 9,259.8 billion won in interest and principal on the Treasury Bonds, and repaid deposits to the value of 9,450 billion won, resulting in a net profit for the period of 74.9 billion won. The Fund's assets stood at 87,781.1 billion won as of the end of the year.

The Foreign Exchange Stabilization Fund raised 12,892.8 billion won, consisting of 5,799.9 billion won from the issue of Korean won denominated bonds, 808.4 billion won from interest revenue, and 5,464.9 billion won from the withdrawal of foreign currency deposits. Among the use of the Fund, 7,268.4 billion won was operated in the form of foreign currency deposits, 159.5 billion won in the form of foreign currency call loans, and 3,600.1 billion won was used for the payment of interest and principal on its bonds.

Despite a 415.3 billion won operating loss due to a negative operating margin, the Fund realized 493.2 billion won in current net income for the year thanks to 908.5 billion won in translation gains as a result of the Korean won's appreciation. The scale of the assets stood at 14,484.9 billion won as of the end of the year, an increase of 2,636.6 billion won compared to the end of the previous year.

The National Investment Fund, which nowadays only undertakes the outstanding loans, gathered 32.7 billion won consisting of 6.3 billion won from the receipt of principal and interest payments and 19.7 billion won from the sale of investment securities. The Fund utilized 32.2 billion won mainly for the purchase of securities and realized 6.2 billion won in current net income. The scale of its assets stood at 35.4 billion won as of the end of the year, an increase of 6.6 billion won over the end of the previous year.

The Bounty Fund on Workmen's Property Formation Deposits raised 430.4 billion won during the year, of which 423 billion won represented contributions from the Bank of Korea. As for the Fund's uses, 427.7 billion won was paid in redemption of borrowings from the Bank of Korea and 500 million won as legal subsidies to depositors. In consequence, the Fund suffered a net loss of 3.5 billion won. The Fund, which was to be wound up after the closing of its books for the fiscal year of 2000, paid all of its remaining assets, a total of 2.2 billion won, to the Treasury.

The Bounty Fund on Farmers's and Fishermen's Property Formation Deposits raised 269.2 billion won during the year, consisting principally of contributions of 143.3 billion won from the Bank of Korea, and 96.7 billion won from the government. It utilized 180.4 billion won, mainly in the payment of legal subsidies to depositors, and recorded a net profit of 1.8 billion won for the year.

IV. Foreign Exchange Policy of the Government and Financial System Management

1. Foreign Exchange Policy

(1) Continuation of Efforts to Stabilize the Foreign Exchange Market

During the year under review, the government and the Bank of Korea continued their efforts to stabilize the foreign exchange market by the stabilization of the exchange rate, the adjustment of the demand-supply conjuncture in the market, and the expansion of foreign exchange reserves.

In principle, the exchange rate of the Korean won was allowed to fluctuate freely according to demand and supply conditions in the local foreign exchange market. However, some countermeasures were also employed to prevent exchange rate misalignment and excessive fluctuations in the value of the won, which might have led to economic disturbances.

As the persistent oversupply of foreign exchange in the local market put upward pressure on the won against the U.S. dollar from early in the year, Foreign Exchange Stabilization Fund Bonds to a total of 5.8 trillion won were issued on eight occasions up until mid-November to secure funds for the purchases of foreign exchange.

At the same time, the government induced financial institutions to set aside a revaluation reserve for their foreign currency-denominated assets based on valuation at the market prices and to strengthen their foreign exchange risk management vis a vis business corporations with heavy foreign currency-denominated debts.

When the won depreciated sharply within a short period from late November due to the concentration of foreign exchange demand for settlement and market turmoil both at home and abroad, the Bank sought to enlarge the supply of foreign exchange by urging state-owned business corporations to dispose of their foreign exchange holdings.

Also, in order to heighten the external credibility of Korea, the national reserves were steadily expanded through the brisk collection of the foreign currency deposits placed by the Bank with domestic financial institutions.

(2) Establishment of Supplementary Measures for the Second Stage of Foreign Exchange Liberalization

The government resolved to implement

the second stage of foreign exchange liberalization from 2001 as originally planned after adjusting the liberalization schedule concerning some items. At the same time, it mapped out various supplementary measures, to guard against possible negative side effects when comprehensive foreign exchange liberalization was put in place.

Some matters that go to the core of foreign exchange market stabilization were held over through the revision of some provision of the sunset articles of the Foreign Exchange Transactions Act on October 23. The provisions concerning the obligatory repatriation of external claims and the restrictions on Korean won funding by non-residents were retained in order to maintain a basis for the restrictions of unauthorized foreign exchange transactions and ward of possible attacks on the won by speculators. Restrictions on short-term external borrowings by financially unsound business corporations also continued in place to ensure the effective management of external debt.

At the same time, the government also kept some safeguards, to be used in an emergency situation such as a massive surge in capital flows. These included the system for the suspension of external payments, the system of approvals for capital transactions, and variable deposit requirements.

Through the revision of the Enforcement Decree of the Foreign Exchange Transaction Act on December 27, and the Foreign Exchange Transaction Regulation on December 29, supplementary measures were put in place in preparation for the possibility of an increase in illegal foreign exchange transactions in the wake of the liberalization or a sudden surge in capital outflows following the worsening of economic conditions both at home and abroad.

Looking into their major details, firstly, in other to cope effectively with the abolition of ceilings on external payments, filling requirements with the National Tax Service and the Korea Customs Service were strengthened concerning materials relating to the external payments, including the remittance of donations and overseas travel expenses, and the materials associated with export, import, and service transactions. A requirement was also imposed that persons making very large payments abroad should notify the Bank of Korea before the payment.

With the prospect of full capital account liberalization, the principle of prior reporting was retained for capital transactions, while overseas deposits or trusts assets exceeding a certain amount had to be notified to the National Tax Service and a report had to be filed yearly with the Bank of Korea on their annual balance once a year.

At the same time, the regulations on foreign exchange soundness were applied to providers of foreign currency-denominated insurance or equipment leasing services. Non-residents, for their part, were requested to make deposits or engage in trust transactions through Non-resident Free Won Accounts and to receive approval from the Bank of Korea for won-denominated borrowings of more than 1 billion won.

The second stage of the development of the Foreign Exchange Information Network was completed on September 1, which brought the effective monitoring on foreign exchange transactions. Besides this, post-facto supervision through inspection was strengthened and coordinated monitoring involving the various supervisory agencies was introduced to eradicate unauthorised foreign exchange transactions involving black or grey market fund.

(3) Expansion of Liberalization of Foreign Exchange Transactions

In advance of the launch of the second stage of foreign exchange liberalization, which was slated for January 1, 2001, the government deregulated some of the remaining restrictions on capital transactions.

Through the revision of the Foreign Exchange Transaction Regulations on July 3, foreign business corporations were allowed to list on the Korea Stock Exchange or register with KOSDAQ, and venture capital business associations were permitted to purchase overseas securities subject to a ceiling of 30 per cent of their equity capital.

The ceiling on foreigners' equity holdings in Pohang Iron & Steel Co.(POSCO) was abolished on November 15 and the sole such remaining restriction, that on their aquisition of the equity of Korea Electric Power Corp.(KEPCO), was raised from 30 per cent to 40 per cent.

2. Financial System Management

(1) Restructuring of Financial Institutions

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

A. Resolution of non-viable financial institutions

The government ordered six banks (Hanvit, Chohung, Korea Exchange, Peace, Kwangju, and Cheju), which had been recapitalized by public funds or whose capital adequacy ratios were below the BIS 8 per cent guideline as of the end of June 2000 plus Kyongnam Bank, whose financial status was expected to worsen due to the realization of potential bad loans, to submit their management improvement plans. After appraising their turnaround blueprints, the government announced a comprehensive restructuring plan for these banks in November. First, it allowed Chohung Bank and Korea Exchange Bank to pursue their management improvement plans independently, including the recapitalization and the resolution of non-performing assets. Judging that it would be difficult for Hanvit, Peace, Kwangju, and Kyongnam Banks to improve their financial status independently, the government extended public funds to them for the improvement of their financial status and decided to bring them under a financial holding company to be established by the Korea Deposit Insurance Corporation (KDIC). The government also injected public funds into Cheju Bank, which was considered to have little possibility of improving its management unaided, and decided that it should be included in a financial holding company to be established by Shinhan Bank.

In the meantime, the National Livestock Cooperative Federation was merged with the National Agricultural Cooperative Federation in July 2000. The government also decided to push for the sale of Seoul Bank to a foreign company in the first half of 2001. Should it fail to attract a buyer, however, it was decided that it should be brought under the financial holding company to be established by the KDIC.

The government suspended the operation of Nara, Yeungnam, Korea, Central, H&S, and Regent Merchant Banking Corporations, which were suffering a flight of deposits due to the worsening of their credibility in the wake of Daewoo's financial problems. Nara Merchant Banking Corporation was stripped of its license in May and Yeungnam, Korea, Central, and H&S were merged into Hanaro Merchant Banking Corporation, which was established by the KDIC to consolidate those four corporations on a purchase and assumption (P&A) basis in November. As a result, the number of merchant banking corporations in normal operation decreased from 30 before the outbreak of the financial crisis to just five including Hanaro as of the end of 2000.

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

Out of the seven non-viable life insurance companies – Chosun, Kookmin, Pacific, Handuk, Korea, Doowon, and Dongah – whose sale to domestic or foreign companies had been sought by the

[Table 16] Changes in the Number of Financial Institutions[1] during 1998~2000

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

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

government since 1999, Doowon Life Insurance had its license revoked in March, Chosun and Korea Life Insurance Companies merged, and the other four were taken over by SK Life Insurance (Kookmin, Handuk), Tongyang Life Insurance (Pacific) and Kumho Life Insurance (Dongah). After appraising the financial status of eight life and six non-life insurance companies whose payment reserve requirement ratios were below 100 per cent, the government ordered three life insurers(Samshin Allstate, Hyundai, and Hanil) and two non-life insurers(First Fire and Marine, and Kukje Hwajae) to implement prompt corrective actions to attain a 100 per cent ratio. It subsequently designated the three life insurance companies which had failed in the interim to implement prompt corrective actions as non-viable financial institutions, and pressed ahead with their public sale. Should they fail to attract a buyer, the government plans to proceed with their resolution through P&A or by means of liquidation.

In 2000, 41 mutual savings and finance companies and 125 credit unions with little possibility of staging a turnaround due to the worsening of their financial status as a result of accumulated bad loans and unauthorized operations either exited the market or merged with other institutions.

B. Support for Financial Institutions from Public Funds

In the process of financial restructuring, the government devoted about 35 trillion won in public funds to support financial institutions through their recapitalization, the repayment of deposits, and the purchase of their NPLs. As a result, the total amount of public funds devoted to this purpose during the period from November 1997 to the end of 2000 stood at some 127 trillion won.

Categorizing the sources, the KDIC provided a total of 22.6 trillion won. Of this amount, 4.1 trillion won was used for recapitalizing Seoul Bank and Hanvit, Peace, Kwangju, and Kyongnam Banks, which are scheduled to be grouped under a financial holding company to be established by the KDIC, and Cheju Bank, which is to be brought under a financial holding company to be established by Shinhan Bank. Another 1.5 trillion won was spent for recapitalizing Hanaro Merchant Banking Corporation, and Yeungnam, Korea, Central, and H&S Merchant Banking Corporations, which were merged into it. A total of 4.9 trillion won was injected into Korea and Daehan Investment Trust Securities, and the amount of 3.7 trillion won into four troubled life insurance companies and Seoul Guarantee Insurance. Also 0.7 trillion won was used to compensate for losses sus-

[Table 17] **Public Funds Injected[1)]**

(November 1997~December 2000)

Unit : billion won

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

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

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

tained by the financial institutions that had acquired troubled financial institutions at government request. In addition, a total of 5.4 trillion won was used to purchase the assets of financial institutions, including 3.1 trillion won to purchase Korea First Bank's non-performing assets following exercise of its putback option and 0.3 trillion won to purchase assets rejected by life insurers that had acquired troubled life insurance companies. A total of 2.4 trillion won was made available for the repayment of deposits at merchant banking corporations, mutual savings and finance companies, and credit unions that had exited the market.

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

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

Viewing assistance from public funds by type of financial institution, 11.4 trillion won in public funds went to banks, 2.8 trillion won to merchant banks, and 4.6 trillion won to insurance companies. Among securities companies, 4.9 trillion won in public funds was spent for the recapitalization of Korea and Daehan Investment Trust Securities. Another 1.0 trillion won in public funds went to mutual savings and finance companies and credit unions.

In the meantime, the government decided to raise an additional 40 trillion won in public funds after duly receiving approval from the National Assembly in December in the anticipation that they would be needed due to the collapse of the Daewoo Group and the introduction of forward looking criteria (FLC), standards for the classification of asset soundness based on borrowers' future repayment.

(2) Revision of Legislation and Regulations Related to the Financial Sector

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

A. Facilitation of the Establishment of Financial Holding Companies

To facilitate the restructuring of financial institutions and in a push for bigger, universal banking systems, the Financial Holding Company Act (effective from Nov. 24, 2000) was enacted together with its associated Enforcement Decree (effective from Dec. 20, 2000).

A financial holding company is a company governing financial institutions or financing-related companies as the largest shareholder. An amount equivalent to over 50 per cent of the total value of its assets must consist of holdings of its subsidiaries' stocks.

In addition, the government limited the business of financial holding companies to the management of their subsidiaries and accompanying businesses, prohibiting them from themselves engaging in for-profit business activities.

If an enterprise intends to establish or convert itself into a financial holding company, it must receive approval from the Financial Supervisory Commission (FSC). Before giving the green light to the establishment of a financial holding company, the FSC must consult with the Fair Trade Commission (FTC) on the issues concerning the conditions for compliance and possible restriction of competition as stipulated under the Monopoly Regulation and Fair Trade Act (Fair Trade Act). If a financial holding company intends to bring an existing company within its fold or set up a subsidiary *de novo*, it also must receive approval from the FSC. A financial holding company must possess the stocks of its subsidiaries equivalent to a level exceeding the minimum equity ratio stipulated in the Fair Trade Act. Where it sets up an intermediary holding company, it must possess 100 per cent of its stocks.

Financial institutions other than mutual funds which are operated by persons specializing in financial business cannot own a financial holding company. In the case of a bank holding company which owns a bank as a subsidiary, no single individual or corporation may possess more than 4 per cent of the total equity of the bank holding company (more than 15 per cent in the case of a provincial bank holding company). This limitation on ownership, though, does not apply to the government or the KDIC. Those specializing in financial business are able to hold up to a 10 per cent equity stake in a bank holding company on reporting it to the FSC. Above this limit (15 per cent in the case of a provincial bank holding company), separate approvals must be obtained from the FSC when the scale of the holdings surpasses the 10 per cent, 25 per cent, and 33 per cent levels. Under the new Act, staff members of a financial holding company cannot engage in the business of other companies, except where they become executives of its subsidiaries. A financial holding company with total assets of over 100 billion won or a financial holding company which has a subsidiary that must select outside directors for over half of the total number of its directors in accordance with the relevant legislation is itself obliged to select outside directors to make up more than half (three at least) of the total number of its directors. At the same time, it is required to establish an audit committee, two-thirds of whose members should be outside directors.

The Act calls for a financial holding company to make investment in its subsidiaries within its own net worth as a means of preventing it from making investment in its subsidiaries using borrowing funds. Only a bank holding company or a financial holding company controlled by those specializing in financial business can possess stocks of companies other than its subsidiaries. In such a case, it is able to possess stocks up to 5 per cent of the outstanding shares of the relevant company, but must exercise its voting rights from a position of neutrality. Besides this, the Act sets ceiling on credit extension to a single borrower or its largest shareholder by a financial holding company group which has banks, merchant banks, and securities companies as subsidiaries. Subsidiaries are prohibited from holding stocks of their own financial holding company, granting it credit, or acquiring stocks of other subsidiaries.

B. Strengthening the Management of Public Funds

To enhance the fairness and transparency of the management of public funds and push for their effective use, the Public Fund Management Act (effective from Dec. 20, 2000) and its associated Enforcement Decree (effective from Feb. 14, 2001) were passed into law. It provided for the establishment of a Public Fund Committee at the Ministry of Finance and Economy, entrusted with the comprehensive oversight of the operation of public funds and screening and coordinating their provision and collection. The Minister of Finance and Economy should submit a quarterly report on the use of public funds to the National Assembly, and the Public Fund Committee should publish a white paper on the management of public funds by the end of August every year.

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

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

At the same time, the Depositor Protection Act (effective from Jan. 1, 2001) was revised. In the event of designating financial institutions as non-viable financial institutions or financial institutions showing signs of insolvency, the KDIC is also able to demand that the relevant financial institutions submit to it documents concerning their business and property status or itself investigate this directly. Where the KDIC judges it necessary to suspend the repayment of deposits or cancel the license of financial institutions following its investigation of their business and property status, it may request the FSC to take the appropriate actions to deal with the troubled financial institutions. The Act stipulates that defaulters on debt repayments to ailing financial institutions should be included among those bad-loan related persons whose relevant business and property status can be investigated by the KDIC. The KDIC is also entitled to withhold the payment of deposit insurance claims to those responsible for bad loans and those having a special relationship with them.

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

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

To facilitate the resolution of bad loans held by financial institutions, the Corporate Restructuring Vehicle Act (effective from Oct. 23, 2000) and its associated Enforcement Decree (effective from Oct. 31, 2000) were promulgated. A corporate restructuring vehicle (CRV) is a paper company which generates profits through asset operations and distributes them to its shareholders. The operation of its assets is done by making investments in companies which have signed a corporate improve-ment planning agreement with creditor financial institutions, or by purchasing bad loans from the financial institutions which have concluded such agreements. To establish a CRV, more than three promoters, including at least two creditor financial institutions, should register it with the FSC. The minimum capital of a CRV is 500 million won and its maximum life is five years. Creditor financial institutions are entitled to hold stocks of the CRV in excess of the investment limit stipulated in business-related legislation, including the General Banking Act.

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

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

D. Heightening Financial Market Stability

To guard against possible destabilization of the financial market as a result of rapid portfolio shifts among financial institutions when the announced partial deposit guarantee system was brought in, the Enforcement Decree of the Depositor Protection Act was revised (effective from Jan. 1, 2001). This system, which had originally mandated deposit insurance coverage of only 20 million won per depositor in terms of aggregated principal and interest, had been provided for under an earlier revision of the Enforcement Decree in July 1998 and had been scheduled to come into effect from January 1, 2001. The subsequent revision adjusted the deposit guarantee limit upward to 50 million won per depositor and fully guaranteed non-interest bearing settlement deposits until the end of 2003 so as to ensure the safety of commercial transactions.

As for the deposits at member cooperatives of National Agricultural Cooperative Federation, the National Federation of Fisheries Cooperatives, and Forestry Cooperatives, the government revised the relevant legislation to enable the upward adjustment of the guarantee limit for the mutual credit depositor protection fund from 20 million won to 50 million won. The deposit principal guarantee limit for community credit cooperatives was also raised from 30 million won to 50 million won.

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

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

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

E. Enhancing the Transparency of Financial Regulations

The government at the prime minister's instruction issued the "Regulations Concerning the Accountable Management of Financial Institutions and the Guarantee of the Transparency of the Financial Administration", which came into force on Nov. 13, 2000, in order to help the financial supervisory institution establish financial policy and carry out its supervisory duties through objective and transparent procedures. Under the regulations, the financial supervisory institution may not make unwarranted interventions in the management of financial institutions. When requesting cooperation or support from financial institutions, the financial supervisory body must make such a request in writing or at a formal meeting. To heighten the managerial autonomy of those financial institutions, the government and the KDIC were meanwhile requested to dispose promptly of their shareholdings in those financial institutions.

During the year under review, the pertinent legislation was revised with a view to making the regulations governing new entry, business turf and managerial soundness more transparent.

The government, in the revised Enforcement Decrees of the respective Acts, also stipulated the minimum capital of securities companies and insurance companies, according to the classification of the kinds of business undertaken by them.

The specific scope of ancillary business and combination of business of banks and merchant banking corporations was stipulated under the Enforcement Decrees of their respective Acts. Securities companies, meanwhile, were additionally permitted to combine future-related business and investment consulting with their original activities. Besides this, the government set the capital adequacy ratio for the net worth of securities companies and futures companies at 100 per cent, and brought the supervisory standards related to soundness, including single borrower ceilings, of Korea Development Bank, Export-Import Bank of Korea and Industrial Bank of Korea into line with these applied under the General Banking Act through the amendment of the Enforcement Decrees of the respective Acts.

V. Financial Status and Organizational Changes

1. Financial Status

(1) Assets

Total assets of the Bank of Korea, as of the end of the year under review, amounted to 156.0 trillion won, representing a rise of 25.8 trillion won over the previous year-end. This was mainly due to a large increase in its securities holdings and fixed assets, which served to more than offset the reduction in due from banks and loans against bills.

Securities holdings during the year rose by 37.3 trillion won, led by those of foreign-currency denominated securities, which increased by 38.3 trillion won, in line with the build-up of foreign exchange reserves. This more than compensated for the reduction in holdings of government and public bonds (0.9 trillion won) caused by the redemption of Grain Management Fund Bonds.

The Bank's fixed assets grew by 222.8 billion won, chiefly owing to the expansion (200 billion won) of the Bank's capital contribution to the Export-Import Bank of Korea.

Due from banks, however, decreased by 11.5 trillion won, in a development largely attributable to the Bank's collection of its foreign currency deposits with domestic banks. Loans against bills decreased by 1.0 trillion won, largely due to the collection in full of a special loan (1 trillion won) to Korea First Bank.

(2) Liabilities and Capital

Total liabilities of the Bank, as of the end of 2000, stood at 149.9 trillion won, representing an increase of 26.9 trillion won over the previous year-end. By type of liability, Monetary Stabilization Bonds (MSBs) issued, government deposits, and deposits all expanded, but currency issued contracted.

MSBs issued increased by 14.9 trillion won since they were used as the main instrument for absorbing the liquidity arising from the influx of foreign capital. Government deposits expanded by 1.5 trillion won, reflecting the increase of general revenue. In addition, deposits by banks increased by 3.4 trillion won owing to the rise in their deposits with the Foreign Exchange Stabilization Fund. The reserve for losses on exchange revaluation adjustment increased by 8.4 trillion won during the year owing to the effects of the Korean won's depreciation against the U.S. dollar.

[Table 18] **Financial Status**

Unit : billion won

	1999	2000	Change
Assets	130,255.7	156,033.7	25,778.0
Current Assets	125,464.3	151,019.6	25,555.3
Cash	305.8	5.7	-300.1
Gold and silver bullion	71.7	79.3	7.6
Holdings of SDRs	0.8	4.4	3.6
Securities	82,926.7	120,244.1	37,317.4
Due from banks	29,062.4	17,560.7	-11,501.7
Loans against bills	9,043.7	8,025.9	-1,017.8
Securities bought under repurchase agreement	0	147.0	147.0
Loans to government	789.0	410.0	-379.0
Loans to international financial institutions	95.5	92.6	-2.9
Other current assets	3,168.7	4,449.9	1,281.2
Fixed Assets	4,791.4	5,014.2	222.8
Liabilities and Capital	130,255.7	156,033.7	25,778.0
Liabilities	123,075.4	149,936.3	26,860.9
Current liabilities	122,437.5	149,319.3	26,881.8
Currency issued	22,573.4	21,424.9	-1,148.5
Monetary Stabilization Bonds issued	51,489.2	66,377.7	14,888.5
Government deposits	9,126.3	10,607.3	1,481.0
Deposits	26,838.9	30,258.5	3,419.6
Allocation of SDRs	113.5	118.8	5.3
Securities sold under repurchase agreements	5,500.0	5,625.0	125.0
Other current liabilities	6,796.2	14,907.2	8,111.0
(Exchange revaluation reserve)	(5,459.1)	(13,856.8)	(8,397.7)
Long-term liabilities	638.0	617.0	-21.0
Allowances	140.8	131.6	-9.2
Liabilities to international financial institutions	497.2	485.5	-11.7
Capital	7,180.3	6,097.4	-1,082.9
Legal reserve	795.1	1,113.1	318.0
Voluntary reserve	3,204.9	3,500.8	295.9
Undivided profit surplus	3,180.3	1,483.4	-1,696.9
(Net profit for the period)	(3,180.3)	(1,483.4)	(-1,696.9)

In contrast, currency issued decreased by 1.1 trillion won as a result of the evaporation of the heavy demand for cash in preparation for possible Y2K problems.

The Bank's capital, at the end of the year, amounted to 6.1 trillion won, a decrease of 1.1 trillion won during the year. This drop, which occurred despite the registration of a net profit for the period of 1.5 trillion won, was attributable to the Bank's payment of 2 trillion won of its undivided profit surplus from the previous year into the government's General Revenue Account, and its contribution of 0.6 trillion won to two savings promotion funds for workers, and for farming and fishing households.

(3) Income and Expenses

For the year under review, the net profit of the Bank came to 1.5 trillion won, a decrease of 1.7 trillion won from the previous year (3.2 trillion won). The large reduction was chiefly attributable to the expansion of interest payments on MSBs, which offset the effects of a rise in interest income on foreign currency securities.

Total operating income decreased by 1.3 trillion won to 8.8 trillion won during the year. By item, interest on deposits declined by 0.2 trillion won from the previous year to 2.0 trillion won as a result of the contraction of the average deposit balance (31.4 billion U.S. dollars → 28.2 billion U.S. dollars). Interest on loans against bills fell by 94.4 billion won, affected by the collection in full of a special loan (1 trillion won) to Korea First Bank. Profit on foreign exchange transactions amounted to 0.8 trillion won, 2.6 trillion won less than for the previous year. Interest received on securities rose by 1.3 trillion won from the previous year to stand at 4.9 trillion won due to the increase in holdings of foreign securities (average balance 54.4 billion U.S. dollars → 77 billion U.S. dollars), which offset a contraction in holdings of government and public bonds (average balance 8.3 trillion won → 6.8 trillion won). Profit on sales of securities increased by 0.3 trillion won from the previous year owing to the lowering of interest rates in major countries and the opportune timing of the purchase and sale of foreign securities.

Meanwhile, total operating expenses stood at 6.7 trillion won, an increase of 1 trillion won over the previous year. By item, interest on MSBs increased by 0.9 trillion won from the previous year to 4.7 trillion won due to the increase in their average outstanding balance (50.1 trillion won → 62.8 trillion won). Interest payments on securities sold under repurchase agreements, similarly, increased by 215.9 billion won owing to the expansion of their average outstanding balance (5.9 trillion won → 8.2 trillion won). Interest on deposits rose by 241 billion won from the previous year to 831.5 billion won, affected by the expansion of deposits with the Foreign Exchange Stabilization Fund on an annual average basis (8.4 billion U.S. dollars → 10.8 billion U.S. dollars). Miscellaneous interest paid, though, decreased by 323.7 billion won from the previous year to 377.2 billion won due to a reduction in interest payments on emergency borrowings from the IMF. Besides this, banknote and coin manufacturing expenses increased by 21.9 billion won due to a rise in the volume of production.

2. Organizational Changes

During the year under review, the Bank of Korea pressed swiftly ahead with the restructuring of its organization, which

[Table 19] **Income Statement**

Unit : billion won

	1999	2000	Change
Operating income	10,113.0	8,809.7	-1,303.3
Interest and discounts received	6,459.6	7,440.8	981.2
Interest on securities	3,657.0	4,920.1	1,263.1
Interest on deposits	2,218.8	1,984.8	-234.0
Interest on loans against bills	360.5	266.1	-94.4
Interest on securities bought under resale agreements	89.9	157.4	67.5
Interest on loans to government	31.3	19.0	-12.3
Interest on loans to international financial institutions	3.6	3.9	0.3
Miscellaneous interest received	98.6	89.5	-9.1
Commissions received	12.1	37.6	25.5
Profit on sales of securities	219.2	493.5	274.3
Profit on foreign exchange transactions	3,422.1	837.8	-2,584.3
Other operating income	0	0	0
Operating expenses	5,650.5	6,695.0	1,044.5
Interest and discounts paid	5,337.7	6,337.4	999.7
Interest on deposits	590.5	831.5	241.0
Interest on Monetary Stabilization Bonds issued	3,799.2	4,665.7	866.5
Interest on securities sold under repurchase agreements	247.1	463.0	215.9
Miscellaneous interest paid	700.9	377.2	-323.7
Other interest and discounts paid	0	0	0
Commissions paid	37.2	21.3	-15.9
Loss on sales of securities	2.1	15.1	13.0
Banknote and coin manufacturing expenses	86.4	108.3	21.9
Provision for severance pay	14.2	24.9	10.7
General and administrative expenses	156.6	170.6	14.0
Other operating expenses	16.4	17.4	1.0
Net operating income	4,462.5	2,114.7	-2,347.8
Net non-operating profit[1)]	13.4	12.7	-0.7
Net non-operating expenses[2)]	29.7	25.8	-3.9
Net profit before taxes	4,446.2	2,101.6	-2,344.6
Taxes	1,266.0	618.2	-647.8
Net profit for the period	3,180.3	1,483.4	-1,696.9

Notes : 1) Includes extraordinary gains.
2) Includes extraordinary losses.

had commenced in May 1998. This places a focus on the inherent functions of the central bank, through the reform of its organization and organizational procedures, and job analysis and evaluation.

In the case of the restructuring of its Head Office, the Bank reorganized and expanded Reserves Management Office, which came within International Department, upgrading it to Reserves Management Department in May 2000. Its aim in doing so was to build an effective operational system for foreign currency assets holding in keeping with the increase in overseas operation of the Bank's foreign currency assets. As a result, the previous three teams-Reserves & Analysis Team, and Reserves Management Teams I and II - were expanded to form six teams - Reserves Management Planning Team, Risk Management Team, Settlement & Systems Service Team, and Reserves Management Teams I, II, and III. In a move to help solve problems concerning difficulties and financial flow problems of employees, the Bank established Staff Counselling Team within General Affairs Department on October 31.

In the branch network, out of the eight detached offices in charge of issue and withdrawal of bank notes, four - Yeongdeungpo, Weonju, Tongyeong, and Cheonan - were closed on October 31. However, the Bank established an Issue Division at three branches - Chuncheon, Jeonju, and Changwon - to avoid inconvenience as a result of their closure.

As for overseas representative offices, Brussels Representative Office was closed on July 31 in 2000, following the closure of Paris Representative Office in 1998, and Singapore Representative Office in 1999, in conformity with the decision that these representative offices should be closed to slim down the Bank's organization.

In the meantime, the Bank set up Strategic Planning Team within Budget & Management Department to draw up medium- and long-term development strategies, while establishing the International Financial System Study Team on an interim basis within International Relations Office in International Department to undertake investigations and studies on major topics related to discussions concerning the international financial system. The Year 2000 Project Team and the Fiftieth Anniversary Project Team were disbanded on May 19 and September 4, respectively, having successfully completed their assigned responsibilities.

As of the end of the year under review, the Bank's organization consisted of twelve departments, two offices, and ten offices attached to departments and reporting to assistant governors at the

Head Office. It also had sixteen domestic branches around Korea (fifty divisions and three representative offices), and five overseas representative offices. Meanwhile, the number of employees of the Bank decreased to 2,083 at the end of 2000, having fallen by forty-three over the previous year-end.

Members of the Monetary Policy Committee

December 31, 2000

Chol-Hwan Chon	(Governor of the Bank of Korea)
Jong-Yong Yoon	(Recommended by the Chairman of Korea Securities Dealers Association)
Seung-Woo Chang	(Recommended by the Chairman of Korea Federation of Banks)
Eui-Gak Hwang	(Recommended by the President of the Korea Chamber of Commerce and Industry)
Yung-Joo Kang	(Recommended by the Minister of Finance and Economy)
Won-Tai Kim	(Recommended by the Governor of the Bank of Korea)
Namkoong, Hoon	(Recommended by the Chairman of the Financial Supervisory Commission)

Executives of the Bank of Korea

December 31, 2000

Title	Name
Governor	**Chol-Hwan Chon**
Deputy Governor	**Cheul Park**
Assistant Governor	**Myung-Chul Lee**
Assistant Governor	**Kwi-Sup Yoon**
Assistant Governor	**Seongtae Lee**
Assistant Governor	**Hyung Moon Kang**
Assistant Governor	**Sung-Il Lee**
Auditor	**Woo-Suk Kim**

The Organization of the Bank of Korea

(As of the end of 2000)

- Monetary Policy Committee
- Governor
- Deputy Governor
- Assistant Governor
- Assistant Governor
- Assistant Governor
- Assistant Governor
- Assistant Governor
- Auditor

Budget & Management Department	Planning & Coordination Team, Planning & Budget Team, Organization & Development Team, Accounting System Team, Expense Accounting Team, Job Evaluation Team
Legal Office	Legal Planning Team, Legal Application Team
Public Information Office	Economic Information Team, Information Service Team
Monetary Policy Committee Office	Committee Administration Team, Committee Member Assistance Team
Secretariat	
Press Office	
General Affairs Department	Personnel Management Team, Payroll & Welfare Team, Labor & Management Cooperation Team, Staff Counselling Team
Human Resource Development Institute	Training Administration Team, Training Planning Team, Training Management Team, Instruction & Research Team
Support Services & Properties Office	Support Services Team, Facilities Administration Team, Properties Administration Team
Security Department	Security & Emergency Planning Team, Guard Team
Research Department	Administrative Service Team, Economic Forecasting Team, Monetary Analysis Team, Banking & Fiscal Analysis Team, Financial System Team, Inflation Research Team, Economic Activities Team, Industry Analysis Team, Regional Economies Team, International Trade Team, International Finance Team, Overseas Economic Information Team, North Korean Economic Studies Team, Library
Economic Studies Office	Monetary Studies Team, Finance Studies Team, International Economics Team, Structural Studies Team, Macroeconomic & Quantitative Studies Team
Economic Statistics Department	Statistics Planning & Development Team, Monetary & Financial Statistics Team, Flow of Funds Statistics Team, Balance of Payments Statistics Team, Financial Statement Analysis Team, Price Statistics Team, National Income Statistics Team, Input-Output Statistics Team
Monetary Policy Department	Policy Planning & Coordination Team, Reserves & Credit Policy Team, Finance & Economy Analysis Team, Policy Analysis & Assessment Team, Financial Systems Planning & Analysis Team, Policy Cooperation Team, Policy Research Team
Financial Markets Department	Monetary Affairs Team, Market Operations Team, Financial Markets Analysis Team, Money Market Analysis Team, Stock Market Analysis Team, Bond Market Analysis Team, Corporate Finance Analysis Team
Banking Institutions Department	Planning & Analysis Team, External Relations Team, Banking Research Team, Analysis Development Team, Bank Analysis Team Ⅰ·Ⅱ·Ⅲ·Ⅳ
Issue Department	Issue Policy Team, Cash Planning Team, Cash Processing Division, Verification & Counting Division
Payment Systems & Treasury Service Department	Payment Systems Planning Team, Payment Systems Management Team, Electronic Banking Team, Loans & Settlement Service Division
Treasury Service & Securities Office	Treasury Service Division, Securities Division
Information Systems Management Department	Systems Planning Team, Systems Management Team, Server, PC & Network Team, Accounting Systems Team Ⅰ, Accounting Systems Team Ⅱ, BOK-Wire Systems Team, Information Systems Team, Foreign Exchange Information Systems Team
International Department	International Finance Planning Team, International Finance Research Team, Foreign Exchange Business Team, Foreign Exchange Review Division, Foreign Exchange Market Team, Foreign Exchange Monitoring Team, Foreign Exchange Analysis Team, External Debt Analysis Team, Foreign Exchange Information Team
International Relations Office	International Cooperation Team, Central Bank Cooperation Team, International Organizations Team
Reserves Management Department	Reserves Management Planning Team, Risk Management Team, Settlement & Systems Service Team, Reserves Management Team Ⅰ·Ⅱ·Ⅲ
Branch: Busan, Daegu, Mokpo, Gwangju, Jeonju, Daejeon, Cheongju, Chuncheon, Incheon, Jeju, Suwon, Changwon, Gangneung, Ulsan, Pohang, Gangnam	General Affairs Division, Planning & Research Division, Business Division, Cash Processing Division, Verification & Counting Division, Representative Office
Representative Office: New York, Frankfurt, Tokyo, London, Hong Kong	
Audit Department	Audit Planning Team, Audit Team Ⅰ·Ⅱ·Ⅲ·Ⅳ·Ⅴ·Ⅵ

Main Economic Indicators

Main Economic Indicators

	Unit	1996	1997	1998	1999	2000	2000.1	2000.2
Money[1]								
Reserve money								
<Period-Averages>	billion won	24,832.1	21,116.0	19,593.0	21,961.7	26,357.0	25,975.1	26,008.0
	%	(2.1)	(-15.0)	(-7.2)	(12.1)	(20.0)	(28.6)	(21.2)
<End of period>	billion won	25,722.4	22,519.3	20,703.0	28,486.7	28,238.1	26,618.7	25,172.4
	%	(-12.2)	(-12.5)	(-8.1)	(37.6)	(-0.9)	(29.5)	(19.7)
M2								
<Period-Averages>	billion won	159,190.8	189,819.5	225,829.1	288,939.2	376,190.5	330,846.1	342,826.5
	%	(16.2)	(19.2)	(19.0)	(27.9)	(30.2)	(27.6)	(28.1)
<End of period>	billion won	178,311.6	203,531.5	258,538.4	329,317.4	413,048.8	333,653.7	346,176.0
	%	(15.8)	(14.1)	(27.0)	(27.4)	(25.4)	(27.4)	(26.7)
MCT								
<Period-Averages>	billion won	308,356.2	355,570.5	382,413.1	411,681.5	470.778.5	439,013.5	449,857.1
	%	(21.7)	(15.3)	(7.5)	(7.7)	(14.4)	(12.2)	(13.7)
<End of period>	billion won	338,661.8	377,499.4	394,389.7	437,486.5	493,012.7	441,231.4	451,883.8
	%	(17.4)	(11.5)	(4.5)	(10.9)	(12.7)	(12.6)	(13.0)
M3								
<Period-Averages>	billion won	566,793.3	659,019.0	750,850.5	835,924.5	882,764.3	851,325.3	856,891.9
	%	(19.0)	(16.3)	(13.9)	(11.3)	(5.6)	(6.1)	(4.7)
<End of period>	billion won	614,961.5	700,285.4	787,627.3	850,827.8	911,641.8	853,025.5	862,312.8
	%	(16.7)	(13.9)	(12.5)	(8.0)	(7.1)	(5.0)	(4.8)
Interest rates								
Call market rate(overnight)[2]	percent per annum	12.4	13.3	14.9	4.9	5.1	4.7	4.9
Yields on corporate bonds[3]	〃	11.9	13.4	15.0	8.9	9.3	10.3	10.0
General loan[4]	〃	11.1	14.6	11.3	8.6	8.4	8.6	8.6
Ratio of dishonored checks[5]	%	0.14	0.40	0.38	0.33	0.26	0.36	0.19
G D P[6]	%	6.8	5.0	-6.7	10.9	8.8	-	-
Private Consumption	〃	7.1	3.5	-11.4	11.0	7.1	-	-
Construction Investment	〃	6.1	2.3	-10.1	-10.3	-4.1	-	-
Equipment Investment	〃	9.1	-8.7	-38.8	36.3	34.3	-	-
Exports of goods and services	〃	11.2	21.4	13.2	15.8	21.6	-	-
Imports of goods and services	〃	14.2	3.2	-22.4	28.8	20.0	-	-
Agriculture, Forestry & Fishing	〃	3.3	4.6	-6.6	5.4	0.1	-	-
Manufacturing	〃	6.8	6.6	-7.4	21.0	15.4	-	-
Electricity, Gas & Water	〃	12.0	11.5	0.6	10.4	12.6	-	-
Construction	〃	6.9	1.4	-8.6	-9.1	-3.7	-	-
Services	〃	7.8	5.4	-7.2	11.9	9.0	-	-

Notes : 1) Figures in parenthesis are rates of increase compared with the same period of the previous year.
2) Two days average, based on intermediated transactions, except from Nov. 28, 1997 the call-market trades of investment trust companies.
3) Bonds with three-year maturity, period-average.

2000.3	2000.4	2000.5	2000.6	2000.7	2000.8	2000.9	2000.10	2000.11	2000.12
25,083.6	25,472.2	25,508.3	25,604.1	26,497.0	26,150.7	27,892.1	27,147.1	27,131.5	27,814.3
(19.9)	(21.4)	(21.8)	(22.6)	(24.4)	(21.4)	(19.0)	(16.8)	(14.7)	(11.3)
24,806.1	25,906.4	25,492.1	26,674.5	27,604.6	26,335.5	26,725.0	27,655.3	27,923.7	28,238.1
(10.7)	(17.4)	(21.5)	(24.4)	(33.1)	(19.2)	(7.6)	(18.4)	(16.4)	(-0.9)
351,653.2	361,125.0	368,483.5	377,930.4	385,897.6	389,949.3	396,779.9	396,011.5	402,234.0	410,549.2
(27.2)	(29.6)	(33.6)	(36.3)	(37.8)	(34.9)	(30.4)	(28.3)	(25.5)	(24.5)
350,646.0	366,993.4	370,901.9	379,872.2	386,708.3	393,312.0	392,834.5	399,465.3	405,561.7	413,048.8
(26.0)	(32.5)	(34.3)	(37.7)	(36.6)	(33.0)	(28.4)	(27.8)	(25.5)	(25.4)
456,389.5	462,903.3	465,217.1	471,752.1	477,340.4	479,217.6	484,562.5	483,314.8	486,998.4	492,776.0
(13.7)	(15.4)	(16.2)	(17.3)	(17.5)	(15.7)	(13.9)	(13.3)	(11.8)	(12.0)
455,332.5	466,008.3	465,022.1	472,812.7	477,332.6	482,345.8	480,231.5	485.430.9	489,089.1	493,012.7
(13.7)	(16.2)	(15.9)	(17.6)	(16.6)	(15.3)	(12.7)	(13.1)	(12.4)	(12.7)
865,400.5	871,979.9	874,281.9	878,847.5	882,861.5	889,579.7	898,091.7	899,467.3	907,866.2	916,578.4
(5.0)	(5.0)	(5.0)	(5.1)	(4.9)	(5.3)	(6.2)	(6.7)	(6.6)	(6.7)
865,141.6	877,062.7	876,562.6	879,406.7	887,357.6	896,444.5	895,857.4	902,773.6	912,068.2	911,641.8
(5.4)	(5.8)	(5.0)	(5.6)	(4.7)	(6.2)	(6.3)	(6.7)	(6.5)	(7.1)
5.0	5.0	5.0	5.0	5.1	5.1	5.0	5.3	5.3	5.3
10.0	10.0	9.9	9.7	9.1	9.0	9.0	8.7	8.4	8.1
8.8	8.6	8.6	8.5	8.5	8.4	8.4	8.5	8.5	8.4
0.15	0.16	0.19	0.16	0.35	0.18	0.30	0.22	0.63	0.27
12.6	-	-	9.7	-	-	9.2	-	-	4.6
10.8	-	-	8.9	-	-	5.7	-	-	3.2
-6.8	-	-	-4.2	-	-	-3.5	-	-	-2.5
62.6	-	-	41.6	-	-	31.9	-	-	8.1
27.1	-	-	21.4	-	-	22.5	-	-	16.4
31.6	-	-	20.6	-	-	22.4	-	-	8.2
1.1	-	-	-1.8	-	-	-2.1	-	-	2.0
22.3	-	-	16.9	-	-	17.7	-	-	6.5
18.7	-	-	11.4	-	-	10.8	-	-	9.3
-7.9	-	-	-3.9	-	-	-2.8	-	-	-1.6
12.0	-	-	10.3	-	-	8.7	-	-	5.5

4) Average lending rate of deposit money bank, on new lending, annual figures are based on the end month of the year.
5) Nationwide dishonored value basis.
6) Compared with the same period of the previous year, figures for the 3rd, 6th, 9th & 12th months are rates of increase on a quarterly basis.

	Unit	1996	1997	1998	1999	2000	2000.1	2000.2
Price Index[7]								
Consumer price	%	4.9	4.5	7.5	0.8	2.3	1.6	1.4
	〃	(4.9)	(6.6)	(4.0)	(1.4)	(3.2)	(0.2)	(0.3)
Producer price	〃	3.2	3.9	12.2	-2.1	2.0	2.0	2.1
	〃	(3.7)	(9.6)	(3.6)	(0.9)	(1.7)	(-0.1)	(0.0)
Employment								
Number of the person employed	thousand persons	20,817	21,106	19,994	20,281	21,061	20,131	20,149
Number of the person unemployed	〃	426	556	1,461	1,353	889	1,127	1,121
Unemployment rate	%	2.0	2.6	6.8	6.3	4.1	5.3	5.3
Wages[8]								
All industry	thousand won	1,367,501	1,463,300	1,426,797	1,599,210	1,727,338	1,642,944	1,697,647
	%	(11.9)	(7.0)	(-2.5)	(12.1)	(8.0)	(17.0)	(4.9)
Manufacturing	thousand won	1,261,168	1,326,241	1,284,477	1,475,500	1,601,468	1,484,013	1,615,586
	%	(12.2)	(5.2)	(-3.1)	(14.9)	(8.5)	(23.5)	(3.4)
Industry activities indexes								
Production[9]	%	8.3	4.5	-6.6	25.0	17.1	28.8	26.1
Shipment[9]	〃	8.7	6.2	-8.8	25.6	16.7	30.6	28.8
Inventory[9]	〃	16.6	4.6	-17.2	2.3	16.4	5.5	7.5
Average capacity utilization ratio	〃	80.7	79.2	68.0	76.5	78.3	80.1	78.6
Balance of payment								
Current account	billion U.S. $	-23.0	-8.2	40.4	24.5	11.0	0.3	0.8
Goods	〃	-15.0	-3.2	41.6	28.4	16.6	0.6	0.9
Services	〃	-6.2	-3.2	1.0	-0.7	-4.0	-0.5	-0.2
Capital account	〃	23.3	1.3	-3.2	2.0	11.7	3.2	2.3
Foreign trade[10]								
Exports	billion U.S. $	129.7	136.2	132.3	143.7	172.3	12.2	12.7
	%	(3.7)	(5.0)	(-2.8)	(8.6)	(19.9)	(31.4)	(35.8)
Imports	billion U.S. $	150.3	144.6	93.3	119.8	160.5	12.6	12.0
	%	(11.3)	(-3.8)	(-35.5)	(28.4)	(34.0)	(46.0)	(57.5)
Foreign exchange holdings[11]	billion U.S. $	29.4	8.9	48.5	74.1	96.2	76.8	79.7
Exchange rate of won[12]	won	844.90	1,695.00	1,204.00	1,138.00	1,264.50	1,123.20	1,131.00
against U. S. dollar	%	(-8.2)	(-50.2)	(40.8)	(5.8)	(-10.0)	(1.3)	(0.6)

Notes : 7) Compared with the same period of the previous year, figures in parenthesis are rates of increase compared with the previous month, figures in yearly data indicate rates of increase compared with the last month of the previous year.
8) Figures in parenthesis are rates of increase compared with the same period of the previous year.
9) Compared with the same period of the previous year.

2000.3	2000.4	2000.5	2000.6	2000.7	2000.8	2000.9	2000.10	2000.11	2000.12
1.6	1.0	1.1	2.2	2.9	2.7	3.9	2.8	2.6	3.2
(0.3)	(-0.3)	(-0.1)	(0.5)	(0.3)	(0.8)	(1.5)	(-0.3)	(-0.4)	(0.4)
2.4	1.9	1.2	2.6	2.9	2.5	2.5	1.8	1.3	1.7
(0.1)	(-0.3)	(-0.3)	(0.7)	(0.2)	(0.3)	(0.6)	(0.2)	(0.1)	(0.2)
20,660	21,065	21,349	21,390	21,501	21,253	21,432	21,573	21,366	20,857
1,028	900	828	793	804	818	804	760	797	893
4.7	4.1	3.7	3.6	3.6	3.7	3.6	3.4	3.6	4.1
1,599,313	1,636,020	1,523,488	1,836,768	1,708,092	1,750,644	1,888,266	1,658,903	1,552,351	2,227,689
(5.8)	(11.1)	(8.0)	(7.3)	(8.6)	(15.0)	(3.7)	(9.6)	(7.6)	(2.4)
1,392,965	1,535,402	1,392,840	1,678,676	1,583,224	1,732,319	1,698,806	1,596,855	1,392,957	2,105,653
(4.3)	(11.3)	(7.6)	(6.6)	(12.4)	(19.5)	(2.2)	(10.5)	(7.4)	(1.0)
18.0	17.6	20.6	18.5	19.9	25.6	15.8	11.9	6.4	4.5
18.2	14.5	21.6	19.0	19.7	25.7	15.8	9.3	3.5	3.7
10.5	11.6	11.8	9.7	13.5	12.7	13.5	17.7	18.1	16.4
79.4	75.8	79.6	81.1	80.6	81.5	77.7	76.0	75.2	73.9
0.3	-0.6	1.6	1.7	1.0	0.9	1.7	1.0	1.1	1.2
0.9	0.5	1.9	2.2	1.3	1.8	2.4	1.4	1.1	1.7
-0.3	-0.2	-0.3	-0.3	-0.3	-0.7	-0.3	-0.3	-0.3	-0.5
3.8	2.5	1.1	0.7	0.9	0.5	-0.9	-0.7	-2.0	0.2
14.4	13.5	14.6	15.3	14.5	14.8	15.1	15.3	15.0	15.0
(23.8)	(17.6)	(28.1)	(19.0)	(23.0)	(30.1)	(26.5)	(13.4)	(5.6)	(0.1)
14.2	13.3	13.3	13.2	13.7	13.4	13.3	14.1	14.2	13.2
(52.7)	(46.6)	(40.5)	(29.2)	(39.8)	(36.4)	(31.3)	(24.2)	(20.7)	(4.7)
83.7	84.6	86.8	90.2	90.4	91.4	92.5	92.7	93.3	96.2
1,106.00	1,109.10	1,129.40	1,115.00	1,116.70	1,108.80	1,115.00	1,139.00	1,214.30	1,264.50
(2.9)	(2.6)	(0.8)	(2.1)	(1.9)	(2.6)	(2.1)	(-0.1)	(-6.3)	(-10.0)

10) On a custom-clearance basis, figures in parenthesis are rates of increase compared with the same period of the previous year.
11) End of period.
12) Closing rate of the end of the period, figures in parenthesis indicate appreciation (depreciation) rates of the won compared with the end of the previous year.

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