2002 ANNUAL REPORT

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THE BANK OF KOREA

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March 2003

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 2002 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.

S. park

SEUNG PARK

Governor
The Bank of Korea

Monetary Policy Committee

Seung Park, Governor
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Summary

During 2002, the Korean economy showed a favorable performance with its growth rate rising sharply, prices stabilizing within their target range, and the current account maintaining a surplus.

The annual growth rate of gross domestic product (GDP) rose from 3.1 percent in 2001 to 6.3 percent in 2002 thanks to the briskness of domestic consumption in the first half as a result of low interest rates and the lowering of the special excise tax, and to a sharp rise in exports in the latter half. Despite a substantial rise in wages, prices stabilized, helped by the won's appreciation against the dollar and reductions in public utility charges: the rate of increase in the Consumer Price Index(CPI) and the core inflation rate eased to 2.7 percent and 3.0 percent, respectively, on an annual average basis. After November, however, the rate of increase in the CPI accelerated sharply owing to a rise in agricultural product prices and the international oil price. Boosted by the improvement on the goods account, the current account remained in surplus but its scale narrowed from $8.2 billion in 2001 to $6.1 billion in 2002 due to a sharply widened service account deficit.

In the financial markets, long-term market interest rates showed a declining trend in general owing to the sluggish demand for funds as a result of the improved cash flow of domestic enterprises in the sustained low interest rate environment. Stock prices fell sharply, affected by the opacity of prospects for the economies of major advanced countries, including the United States, coupled with the possibility of a war between the United States and Iraq. In the meantime, the Korean won appreciated considerably against the U.S. dollar compared with the end of the previous year as the U.S. dollar weakened against major currencies, including the Japanese yen.

Throughout the year, the Bank of Korea implemented its monetary policy flexibly in such a way as to back up price stabilization and keep the economy on an upward trend.

Concerned that a sharp rise in household loans and steeply rising real estate prices in an environment characterized by a rapid economic recovery and low interest rate might threaten economic stability, the Bank of Korea raised the call rate target by 25 percent basis points from 4.0 percent to 4.25 percent on May 7. It subsequently gave repeated consideration to

an additional increase of the call rate target as the domestic economic upswing continued and household loans showed a high rate of growth. Considering the slowing of the global recovery and growing uncertainties surrounding the possibility of a war in Iraq, however, it was decided to leave the call rate target unchanged. Meanwhile, to cope effectively with the surge in household loans, the Bank of Korea reduced its Aggregate Credit Ceiling by a total of 2 trillion won and changed the method of its allocation in such a way as to curb household loans and expand loans to small and medium-sized enterprises(SMEs).

Along with this, the Bank of Korea exerted continuous efforts to enhance the effectiveness and the stability of the payment and settlement system. It also improved the settlements method of BOK-Wire to allow more rapid large-value funds transfers between financial institutions. By making an upward adjustment of the ratio of securities to be posted as collateral against settlements, it bolstered the stable operation of interbank retail settlement systems. The Bank of Korea made it possible for the payment of B2B transactions to be settled through the joint banking network, expanded the coverage of the 'Electronic Notice and Payment System' for taxes and public imposes, and expanded the number of collecting institutions for the greater convenience of users.

Also, it collected the on-site information concerning financial institutions necessary for the effective implementation of the monetary policy through joint examinations of financial institutions with the Financial Supervisory Service (FSS) and confirmed the stability of the financial system.

In the meantime, the government unveiled its 'Three-Stage Medium and Long-term Plan for the Development of Foreign Exchange Market' on April 16 and as an initial step in July, it greatly eased a variety of existing regulations related to the foreign exchange transactions of enterprises and individuals. At the same time, the government and the Bank of Korea exerted every effort to stabilize the foreign exchange market by carefully monitoring foreign exchange transactions trends through the Foreign Exchange Information Network and the Early Warning System.

During 2003, the state of the Korean economy is expected to depend to a great extent on the degree of risk and the duration of geopolitical problems, such as the war in Iraq and the North Korean nuclear issue. Provided these threats can be laid to rest at an early date, however, the growth and stability of the Korean economy are unlikely to be put at risk by them.

The recovery of the economy is expected to slow down in the first half of 2003 but accelerate again in the latter half of 2003 with prices regaining their stability amid a fall in international oil prices. Despite a steady rise in exports, the current account is likely to worsen further compared with the previous year due to the increased burden of imports in the wake of a hike in international oil prices and the widened service account deficit. If the geopolitical risks persist for a long time, however, we can not rule out the possibility that the Korean economy will face serious difficulties owing to the subdued global economy, a renewed surge in international oil prices, and domestic financial market unease.

The domestic financial markets, meanwhile, are characterized by the presence of factors potentially making for instability including worries over household loans turning sour, the window dressing of corporate accounts, and the worsened managerial status of credit card companies. Accordingly, major price variables, including interest rates, share prices, and the exchange rate, may show sharp fluctuations in line with the future evolution of the geopolitical risks.

In the light of these points, future economic policy should place its top priority on the maintenance of stable growth. To that end, the government needs to conduct macroeconomic policies in a timely and appropriate manner, while actively pursuing micro measures to lighten the mood of unease among economic agents, stabilize prices, and avoid further worsening of the current account position.

Along with this, the government should redouble its efforts to expand the growth potential of the national economy through the expansion of the participation of women and older persons in economic activity, the easing of all types of restrictions, and the development of new technologies. At the same time, it should strive for ongoing restructuring in every sector of the economy and the construction of a fair and transparent economic system.

Economic Trends

Gradual Weakening of the Pace of Global Economic Recovery

During the year 2002, the world economy as a whole, with the U.S. economy, showed signs of emerging from the slowdown, but the pace of recovery gradually weakened due to financial market unease and an increase in geopolitical risks. Helped by expansionary monetary and fiscal policies, the growth rate of the U.S. economy rose from 0.3 percent in 2001 to

2.4 percent in 2002, but it showed abrupt fluctuations from quarter to quarter. In particular, GDP growth rate slowed down significantly in the second quarter, due to the spread of the accounting scandals at some large companies, and again in the fourth quarter owing to the dampening of consumer and business confidence in the wake of the heightened geopolitical risks.

The growth rate of the economy of the eurozone slowed further from the previous year due to the sluggishness of the German economy, while that of the Japanese economy was also sluggish owing to the contraction of domestic consumption. Among newly emerging market economies countries, those of Asian countries posted higher growth centering on China, but those of Latin American countries were stagnant, affected by spreading financial instability in Argentina and Brazil, and the tense political situation in Venezuela.

Viewing interest rates in the United States, both short and long-term interest rates fell because of investors' preference for safe assets against the backdrop of the faltering uneasy pace of economic recovery, the interest rate reductioins by the U.S. Federal Open Market Committee (FOMC), and worries over a looming war in Iraq. U.S. stock prices also fell sharply during the year due to investors' loss of confidence in corporate accounting and growing uncertainties about the economy. The U.S. dollar continued to weaken against other major currencies, including the yen and euro, owing to the widening of the U.S. current account deficit and the heightened geopolitical risks. Strikingly, the U.S. dollar fell from $0.90 per euro early 2002 to $1.05 per euro at the end of the year.

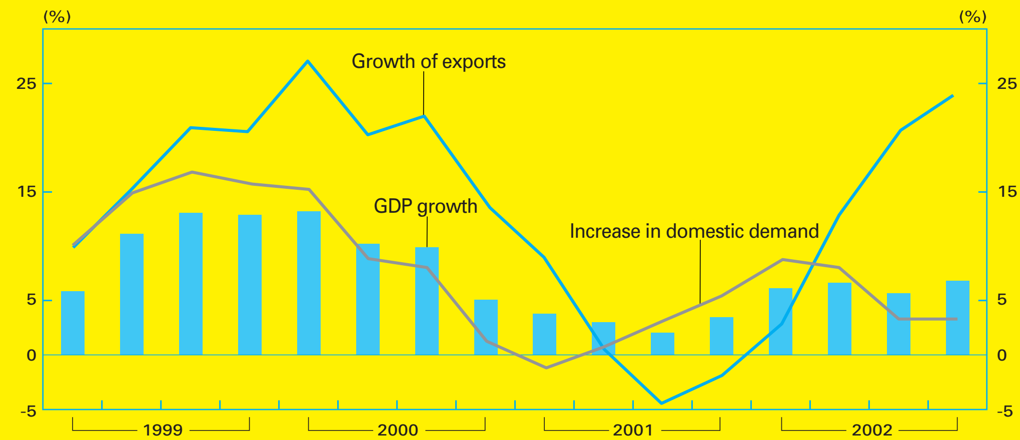
International oil prices continued on an upward trend, affected by output reductions by oil producing countries and the troubled political situation in the Middle East, but they fell back for a while in October after Iraq had accepted the United Nation's proposal for arms inspections. In early December, however, oil prices rose again due to concerns about a war in Iraq and the strike at the Venezuelan state-run petroleum company with the price of Brent crude oil moving above $30 per barrel late that month.

Among major raw material prices, those of cereals rose sharply due to poor harvests as a result of bad weather while those of non-ferrous metals showed an overall upward trend owing to reduced supplies.

Recovery of Domestic Economy

Affected by a steady rise in consumption and the rapid recovery of exports from the second quarter, the growth rate

<Chart 1> Trends of Real GDP[1]



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

of gross domestic product (GDP) rose from 3.1 percent in the previous year to 6.3 percent in 2002.

By quarter, GDP growth, which centered on consumption and construction investment, moved up from 6.2 percent in the first quarter to 6.6 percent in the second quarter, but slipped to 5.8 percent in the third quarter due to flood and typhoon damage. It then rebounded to 6.8 percent in the fourth quarter, boosted by favorable exports.

Viewing total domestic production by demand sector, the growth rate of consumption rose from 4.2 percent in the previous year to 6.2 percent in 2002. Private consumption expanded by 6.8 percent due to an increase in real wages, the continuation of the low interest rate, the knock-on effect from the lowering of special excise tax the previous year, and a sharp rise in real estate prices. In contrast government consumption edged up by 2.9 percent.

Fixed investment shifted to a mild upward trend, driven by a slight recovery in facilities investment, whose effects offset those of the deceleration of construction investment. Meanwhile, construction investment saw reduced growth of 3.3 percent year on year as the growth rate of buildings construction, which had been brisk early in the year, counteracting the sluggishness of infrastructure investment, slowed in the second quarter, affected by the government's measure to stabilize the real estate market. Facilities investment shifted from a 9.6 percent decrease in the previous year to a 6.8 percent rise in 2002 helped by increased investment in most items, notably machine tools and transportation equipment, despite the growing uncertainty surrounding economic conditions at home and abroad and the existence of unused excess capacity.

Exports of goods and services, in real terms, soared by 14.9 percent, boosted by brisk exports to China, whereas imports of goods and services, in real terms, rose by 16.4 percent helped by the domestic economic upturn.

As the export growth rate accelerated markedly, the contribution ratio of exports to final demand rose sharply from 15.2 percent in the previous year to 60.8 percent. However, the contribution ratio of domestic consumption plunged from 84.8 percent to 39.2 percent during the corresponding period.

In the meantime, real gross national income (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 only 4.9 percent, less than GDP growth, because of a fall in the prices of export goods, particularly semiconductors. Per capita GNI stood at $10,013, exceeding the $10,000 mark for the first time since the foreign exchange crisis.

Viewing nominal GNI from the distribution side, the ratio of compensation of employees to national income (NI) slipped from 62.0 percent the previous year to 60.9 percent in 2002 as the nominal compensation of employees increased sharply, but the operating surplus of corporate businesses expanded by a greater margin on the back of the economic recovery and the easing of the burden of financial expenses.

The gross saving ratio dropped from the 30.2 percent of the previous year to 29.2 percent in 2002 due to an increase in consumption, while the gross domestic investment ratio fell from 27.0 percent to 26.1 percent owing to the reduced growth of construction investment.

Revival of Production Activity in the Manufacturing and Service Industries

Viewing production activity during the year under review by industry, the growth rate of the construction industry slowed down, but that of the manufacturing and service industries accelerated significantly.

Manufacturing industry posted annual growth of 6.3 percent. By sector, production in the shipbuilding, textile, and footwear sectors was sluggish, but that of automobiles and of information and telecommunication-related sectors, most notably semiconductors and audio & communication equipment, witnessed a sharp rise.

The service industry expanded its output by 8.8 percent, surpassing the previous year's growth rate. The growth rate of the finance and insurance sector rose sharply due to an increase in income from fees and commissions. The social and personal service sector also enjoyed favorable growth, led by broadcasting, movies, and educational institutions. The growth rate of the wholesale & retail sector and the transportation & storage sector accelerated, affected by increased commodity transactions amid the economic upturn. The communication sector also enjoyed favorable business, but its growth rate slowed down compared with the previous year owing to the base period effects of its surge at that time.

The growth rate of the construction industry slowed down compared with the previous year due to sluggishness in government construction, including roads and harbors, which was only partially offset by relatively brisk private construction.

The electricity, gas, and water sector saw its growth rate rise steeply owing to the increased demand for electric power and the extension of city gas pipeline network following the economic upturn. However, the agriculture, forestry, and fishing sector made a poor showing as the production in the plant cultivation and the in-shore fishing businesses receded sharply due to typhoons and the reduction in fishing areas.

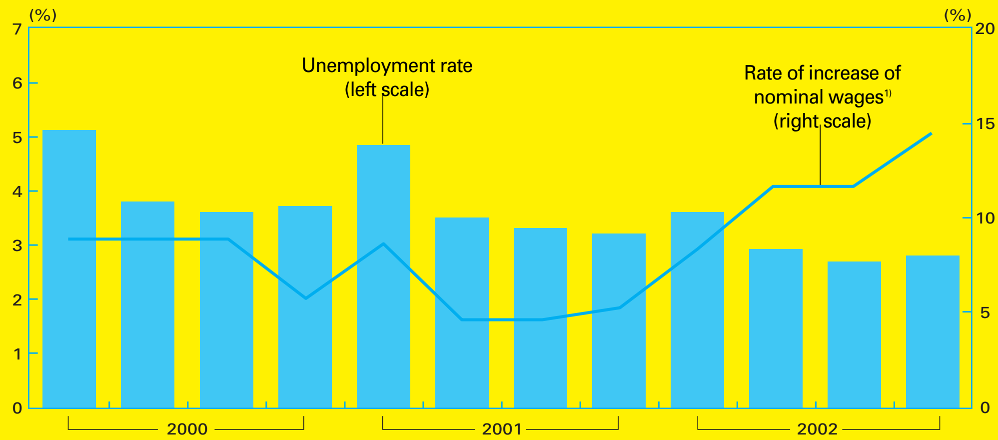
Reflecting these industrial activities, the share of the service industry in nominal GDP rose from 43.4 percent in 2001 to 44.6 percent in 2002, whereas that of manufacturing dropped from 30.5 percent to 29.2 percent, during the corresponding period. The construction industry showed no significant change, maintaining its share of 8.5 percent.

Unemployment Continues to Fall, Upward Trend of Wages Accelerates

Viewing the employment situation, the annual average unemployment rate dropped from 3.8 percent in 2001 to 3.1 percent in 2002 owing to the increased rate of participation in economic activities coupled with the rising demand for manpower in the wake of the economic recovery.

The number of persons in employment during the year under review increased by 2.8 percent, showing a faster growth rate than the previous year. By industry, the number employed in the service industry showed a steady rise, and that in the construction industry expanded sharply, led by that in building construction. However, that in the manufacturing industry decreased, despite the business upswing. This was attributable to the low level of employment inducement in the informa-

<Chart 2> Trends of Unemployment and Nominal Wages



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

tion & communication sector, which led the growth, as well as enterprises' efforts to reduce personnel expenses through the automation of facilities.

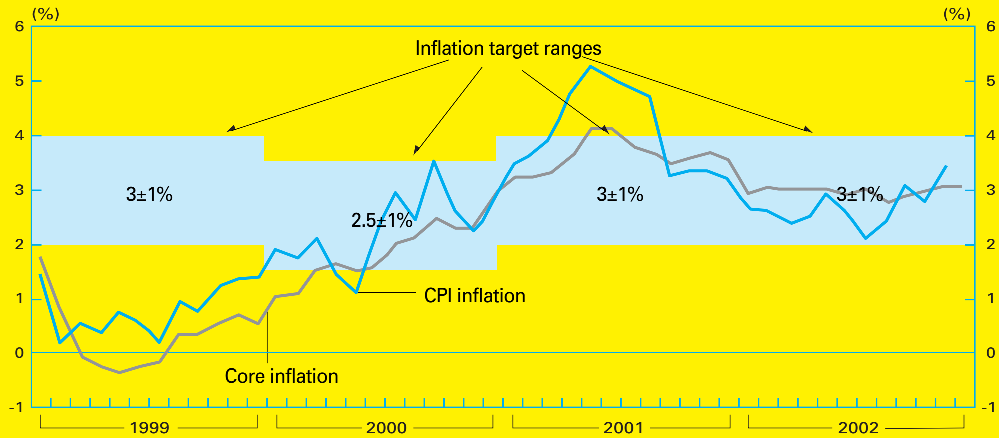
The nominal wages of regular employees posted a high rate of annual increase of 11.2 percent, centered on fixed wages and special bonuses. Accordingly, the growth rate of unit labor costs in manufacturing accelerated further from the previous year despite the remarkable improvement in labor productivity that resulted from firms' increased investment for rationalization projects.

Consumer Price Inflation Slows Down

Despite the acceleration of wage rises and a rise in housing prices, the annual average rate of increase of the Consumer Price Index (CPI) eased from 4.1 percent in the previous year to 2.7 percent. This was mainly attributable to the won's appreciation against the dollar, the reductions in public utility charges as well as to slightness of inflationary pressure on the demand side.

Viewing the movements of consumer prices by period, the rate of increase of the CPI remained at the 2 percent level until October on a year-on-year basis owing to the reduction of public utility charges and the stabilized prices of petroleum products. After November, however, CPI inflation soared to around 3.5 percent, affected by rising prices of agricultural products, the surge in international oil prices together with the hikes of some charges

<Chart 3> Trends of CPI Inflation and Core Inflation[1]



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

for public utilities and personal services.

Viewing price rises by category, prices of agricultural, livestock, and marine products rose sharply as they had in the previous year, owing to heavy rainfall and typhoons. The rate of increase of industrial product prices, however, slowed down due to the won's appreciation against the U.S. dollar. Despite the more rapid rate of increase in housing rents and charges for personal services, the rate of increase of charges for services slowed down from the previous year, affected by the reductions in charges for public utilities.

Core inflation, which strips out non-cereal agricultural products and petroleum fractions from the CPI, eased from 3.6 percent of the previous year to 3.0 percent. In contrast to CPI inflation, which saw sharp fluctuations, core inflation showed very stable movements at around the 3 percent level during the year under review.

In the real estate market, both housing prices and housing rents kept an upward trend until September, showing an unstable pattern. This was mainly attributable to the following factors. The return on financial assets fell in a low interest rate environment and it became relatively easy to borrow money for the purchase of houses from financial institutions due to the intense competition among them to extend household loans. In this situation, anticipations of higher housing prices became widespread centering on apartments scheduled for reconstruction. However, both housing prices and housing rents began to stabilize from October due to the Bank of Korea's efforts to rein in the growth of household loans, together with a series of government measures to stabilize the real estate market, including the strengthening of the imposition of the capital gains tax and a limit on the resale of apartment purchase contracts.

Current Account Remains in Surplus

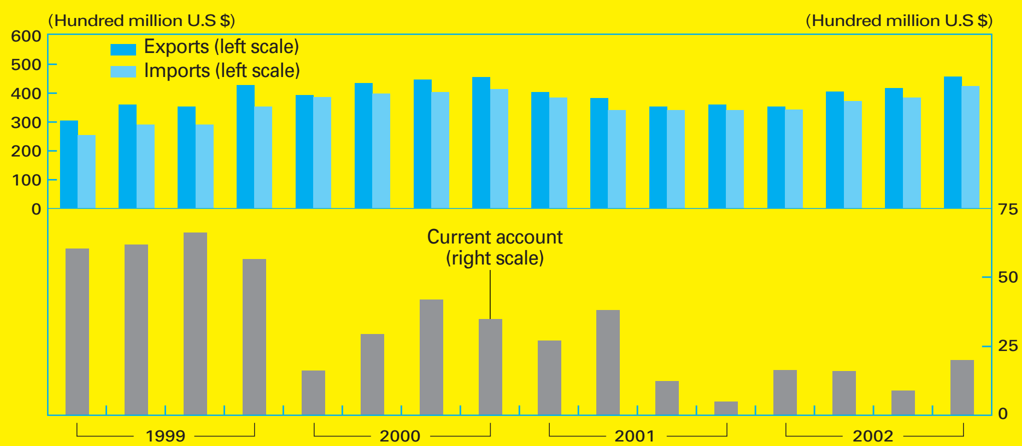
The current account had maintained a surplus since 1998, helped by the improvement of the goods account. However, the scale of the surplus narrowed from $8.2 billion in the previous year to $6.1 billion in the year under review owing to a sharp rise in the deficit on the services account, which includes the travel account.

Exports, on a customs-clearance basis, shifted from a 12.7 percent drop in the previous year to an 8.0 percent rise, posting $162.5 billion in 2002. They continued the declining trend until the first quarter, following on from the previous year, but started to recover at a rapid pace from the second quarter owing to brisk exports to China and a slight revival in shipments to advanced countries. By item, exports of textiles and steel products were sluggish, but those of major items, particularly mobile handsets, semiconductors, and passenger cars, showed a high growth rate.

Imports, on a customs-clearance basis, increased by 7.8 percent to $152.1 billion in 2002. Their expansion was ascribable to a hefty rise in imports of consumer products coupled with a handsome rise in imports of capital goods, affected by favorable exports and a recovery of facilities investment.

As a result, the goods account surplus

<Chart 4> **Trends of Export/Import and Current Account**



widened slightly from $13.5 billion in the previous year to $14.2 billion. However, the deficit on the services account expanded greatly from $3.8 billion in the previous year to $7.5 billion largely because of increased payments for overseas travel expenses and business services. Meanwhile, the income account shifted from a deficit in the previous year to a slight surplus in 2002 due to lower external interest payments, but the transfers account moved more deeply into the red.

The capital account shifted from a net outflow of $3.3 billion in the previous year to a net inflow of $1.5 billion owing to a sharp rise in financial institutions' overseas borrowings and the inducement of trade credits, whose combined effects offset those of the reduction in both direct foreign investment in Korea and the inflow of foreign stock investment funds.

The nation's foreign exchange reserves stood at $121.4 billion as of the end of 2002, an increase of $18.6 billion from the end of the previous year. Total external indebtedness rose by $12.2 billion from the end of the previous year to $131 billion, but its ratio to nominal GDP stood 27.5 percent, a level similar to that of the previous year, owing to the won's appreciation against the U.S. dollar.

Interest Rates and Stock Prices Fall, Won Appreciates

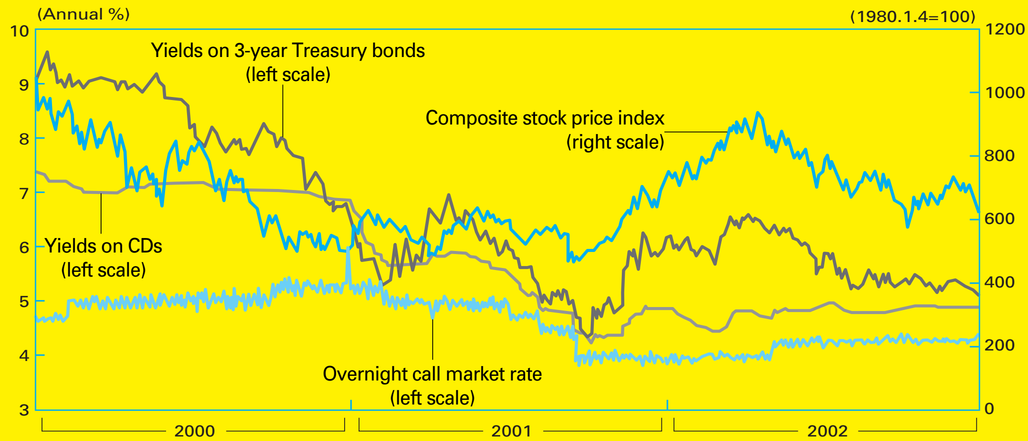
In the financial market, long-term market interest rates and stock prices in general fell from April onwards, while the Korean won appreciated against the U.S. dollar compared with the end of the previous year.

Long-term market interest rates, including yields on Treasury bonds, which had shown a downward trend early in the year, stayed a short-lived rise in March, affected by the economic upturn and stock market exuberance. After mid-April, however, they dropped steadily with yields on three-year Treasury bonds falling to 5.1 percent by the end of the year.

The decline of long-term market interest rates was attributable to the improved cash flow of enterprises in the continued low interest rate environment, the consequent reduced issuance of corporate bonds, the contraction of Treasury bond issuance as a result of the fiscal surplus and price stability.

On the other hand, short-term market interest rates, including yields on certificates of deposit(CDs) and commercial paper(CPs), showed relatively stable movements as the central bank's call rate target was maintained at the 4.25 percent level from early May onwards. Accordingly, the gap between short-term and long-

<Chart 5> Trends of Market Interest Rates and Stock Prices

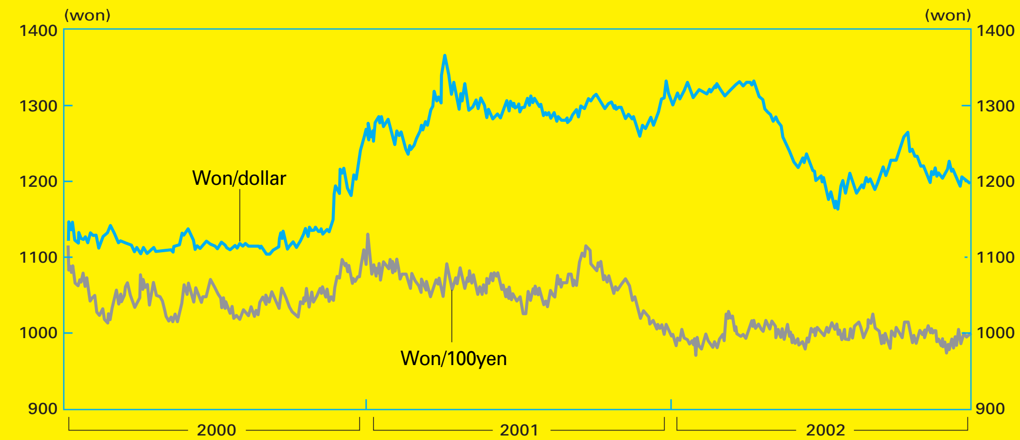


term interest rates(yields on 3-year Treasury bonds versus yields on 91-day CDs) narrowed sharply from 1.1 percentage points at the end of the previous year to 0.2 percentage points by the end of 2002. The differentiation of corporate bond yield by credit rating narrowed continuously with the reduction of corporate credit risk brought about by the economic upturn.

Banks' lending rates were steadily reduced owing to enterprises' lackluster demand for funds and banks' fierce competition to expand lending to financially sound businesses. However, deposit rates were held at a level similar to that at the end of 2001 in view of banks' efforts to attract long-term deposits in order to raise their Korean won liquidity ratios.

Although stock prices maintained the upward trend, that had become evident in the preceding year, during the early part of the year, they began to drop from mid-April, mainly affected by worries over the sustainability of the economic recovery in major countries, including the United States, and the sharp fall in U.S. stock prices. The Korea composite stock price index(KOSPI) dropped to low for the year of 584.0 on Oct. 10. Subsequently, stock prices rose temporarily on a rebound of U.S. stocks and a shift to a net purchase position by foreign investors, but they fell back again in December amid increased geopolitical risks and concerns over the slowing domestic economy. As of the end of 2002, KOSPI and the KOSDAQ index had dropped sharply from the end of the previous year to stand at 627.6 and 44.4, respectively.

<Chart 6> Trends of Korean Won Exchange Rates



The Korean won, which had held steady at around 1,320 won against the U.S. dollar from early in the year, appreciated at a rapid pace from mid-April as the U.S. dollar weakened its strength against major currencies, including the Japanese yen. It stood at 1,165.6 won per U.S. dollar on July 22, its highest exchange value for the year.

Thereafter, the won depreciated to 1,263.5 won per U.S. dollar on Oct. 15 owing to the weakening of the yen and the net outflow of foreign stock investment funds, but it regained lost ground at a rapid pace owing to the heightened risk of a war in Iraq. At the end of the year it traded at 1,186.2 won to U.S. dollar, an appreciation of 10.7 percent from the end of the previous year.

Bank's Deposit taking Household Loans Accelerates

Viewing deposit-taking by financial institutions during the year under review, the private sector sharply increased the operation of its fund in the form of financial assets with a high degree of liquidity sharply due to the narrowed spread between short-term and long-term interest rates and the deepening uncertainties surrounding the domestic and global economy. Accordingly, banks and investment trust companies saw an acceleration of the growth rate of their deposits, centering on short-term products. In contrast deposits at secondary financial institutions, including bank's trust accounts and mutual savings banks, shifted to a declining trend or saw their growth rate slow down.

Bank loans, including those from trust accounts, increased sharply as banks stepped up their efforts to expand lending to households and SMEs in view of large companies' lackluster demand for funds. In particular, household loans posted rapid growth, boosted by the continuation of low interest rates and households' soaring demand for funds in expectation of future rises in housing prices. As a result, the share of household loans increased from 44.2 percent of total loans at the end of 2001 to 48.1 percent at the end of 2002. After November, however, the growth rate of household loans slowed down significantly, affected by a series of government's measures to curb household loans and stabilize the real estate market.

Corporate funding conditions during the year under review were generally smooth: the demand for funds was not all that large, because of the improved profitability of enterprises and a delay in the full-blown recovery of facilities investment, while there was ample liquidity, in a low interest rate environment. Reflecting these conditions, corporate bonds showed a net redemption despite a fall in issuance interest rates, and the volume of paid-in rights issues and further public offerings decreased sharply.

Viewing the trends of monetary indicators, the annual average growth rate of M3, which includes the deposits of banks and secondary financial institutions, rose from 9.6 percent of the previous year to 12.9 percent owing to a sharp rise in household loans. This rate was slightly above the monitoring range of 8~12 percent that had been set early in the year. The growth rate of M2, broad money, increased from 6.9 percent of the previous year to 11.5 percent in 2002. Meanwhile, the annual average growth rate of narrow money M1, accelerated from 18.0 percent of the previous year to 22.5 percent, owing to a surge in short-term deposits, notably money market funds(MMF).

Major Economic Policies During the Year

Flexible Operation of Interest Rate Policy

During the year under review, the Bank of Korea operated monetary policy in a flexible manner in such a way as to bolster price stability and keep economy on a recovering pace.

In consultation with the government, the Bank of Korea fixed the inflation target for the year 2002 at 3.0±1% 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 held its medium-term inflation target at 2.5 percent. Along with this, the central bank widened its target monitoring range for the annual average rate of M3 growth from 6~10 percent to 8~12 percent, anticipating a continuation of the economic upturn and of money supply through the overseas sector.

During the year, taking into overall account the actual economic situation, in terms of growth and price movements, and the financial market trends, the Bank of Korea undertook a single upward adjustment of the call rate target by 25 basis points.

The domestic economy recovered at a relatively rapid pace early in the year, led by consumption and construction investment. From the second quarter, the recovery pace accelerated further due to a sharp rise in exports. Along with this, in an environment characterized by low market interest rates, household loans increased sharply and real estate prices showed a steep rise. Taking the view that these financial and economic conditions, if left unchecked, would lead to rising prices and a worsening of the current account position that would detract from the foundation for stability, the Bank of Korea made an upward adjustment of the call rate target to 4.25 percent on May 7.

Subsequently, it repeatedly considered an additional hike of the call rate target as the economic upturn continued and household loans showed a persistently high growth rate. However, the central bank maintained the call rate target unchanged as stock prices continued to fall, in reflection of the lack of business confidence, brought about by the falling recovery of the global economy, the accounting scandal involving major U.S. corporations, and the likelihood of a war in Iraq. The stabilization of real estate prices as well as the slower growth rate of household loans in the fourth quarter were also taken into consideration in its judgement.

Operation of Credit Policy to Rein in Household Loans and Expand Lending to SMEs

During the year under review, the Bank of Korea, while maintaining its low interest rate policy, lowered the Aggregate Credit Ceiling to rein in the surge in household lending by financial institutions.

The growth rate of household loans, which had slowed down somewhat after the upward adjustment of the call rate target on May 7, accelerated again in the third quarter along with a rise in housing prices. To counter this effectively, the Bank of Korea lowered the Aggregate Credit Ceiling, which had been raised to 11.6 trillion won right after the terrorist attacks on the United States, by 2 trillion won in October to 9.6 trillion won, returning its level prior to September 2001.

Along with this, the Bank of Korea changed the method of allocating credit under the facility in such a way as to curb financial institutions' extension of household loans and expand their lending to SMEs. In determining the allocation of the quota's of individual banks under the Aggregate Credit Ceiling, the Bank of Korea changed its credit allocation formula by raising the assessment weighting given to household loans, a deduction item, from 40 percent to 80 percent, in a bid to prevent banks that were overactive in extending household loans from financing them through receiving more low-cost funds from the central bank.

It also made an upward adjustment of the amount deducted from the Aggregate Credit Ceiling quota for banks failing to observe the mandatory guideline on lending to SMEs from 50 percent of the amount of the shortfall to 75 percent. In October, although the Bank of Korea reduced the overall Aggregate Credit Ceiling, it raised the quota allocation to its branches to help financial institutions extend more loans to provincial-based small and medium-sized companies.

Along with this, in allocation of the Aggregate Credit Ceiling to banks, the central bank continued its efforts to bring about the substitution of the bill-oriented settlement practice in commercial transactions between companies by cash-based settlement by progressively raising the ratio of the Aggregate Credit Ceiling, allocated according to the results of the extension of Corporate Procurement Loans, while lowering that reflecting the commercial paper discount performance.

Strengthened Efforts to Enhance Stability of the Financial System

During the year under review, the Bank of Korea undertook wide ranging efforts to heighten the stability and effectiveness of the payment and settlement system. At the same time, it bolstered its efforts to collect the on-site information from financial institutions necessary for effective implementation of the monetary and credit policy and check their management status.

For the effective operation of BOK-Wire, the Bank of Korea introduced queuing management system whereby interbank payments awaiting settlement may be offset in order to ease the phenomenon of their failure to be settled immediately because of the bunching of orders at the deadline. Along with this, it lowered the applicable BOK-Wire fees to bolster the usage of the Delivery versus Payment (DVP) system for the settlement of securities transactions by BOK-Wire. Meanwhile, it made an upward adjustment of the ratio of securities to be posted as collateral against settlements, seeking to consolidate the stability of the operations of the interbank retail payment systems.

Besides this, the Bank of Korea made it possible for settlements arising from B2B e-commerce between companies, to be made through Interbank Funds Transfer Network. It also expanded the coverage of the 'electronic notification and payment system' for the advice and payments of various taxes and public utility charges, and the number of payment institutions in order to provide greater convenience for the general public in settlement.

In the meantime, the Bank of Korea conducted joint examinations with the Financial Supervisory Service (FSS) on the business of 13 banks, and requested the FSS's inspection of further 19 financial institutions. In June 2002, an incident occurred in which the FSS rejected the Bank of Korea's demand for a joint examination. Following the conclusion of a memorandum of understanding (MOU) between the two institutions concerning the examination of financial institutions, however, joint examinations were resumed in October.

Pursuing the stability of the financial system, the Bank of Korea appraised and analyzed the lending patterns of financial institutions every quarter in order to incorporate its finding in the drawing up of monetary policy. Similarly, its utilization of a bank management appraisal model enables it to appraise and analyze the current and future management soundness of individual banks.

Moves to Upgrade and Stabilize the Foreign Exchange Market

The government unveiled its 'Medium and Long-term Plan for the Development of Foreign Exchange Market' on April 16 and declared its intention of abolishing in three stages by the year 2011 all those remaining restrictions that had been kept in place during implementation of the first and second phase Foreign Exchange Liberalizations in order to avoid possible instability in the foreign exchange market. As an initial step on July 1, it abolished the system of the Bank of Korea's confirmation for large value external payments by individuals thereby greatly easing the remaining restrictions on foreign exchange transaction procedures. At the same time, it allowed securities companies and insurance firms to participate in the inter-bank foreign exchange market, while permitting financially healthy securities companies to engage in over-the-counter transactions in derivatives in order to help broaden and deepen the foreign exchange market.

Meanwhile, the government and the Bank of Korea closely monitored foreign exchange transactions through the Foreign Exchange Information Network and the Early Warning System. They also exerted their efforts to stabilize the foreign exchange market by strengthening their surveillance activities through the Korea Financial Intelligence Unit, which was inaugurated in November 2001, against illegal fund transactions so as to identify and root out illegitimate fund transactions.

Financial Restructuring Continues

During 2002, the government pressed ahead unremittingly with financial restructuring through the liquidation of ailing financial institutions and the revision of relevant laws and regulations for protection of financial consumers and the active recollection of public funds.

Seoul Bank was sold to Hana Bank, and the status of ailing insurance companies, mutual saving banks, and credit unions was rehabilitated through sale or merger, or they were forced into liquidation following the cancellation of their business license. In this process, the Korea Deposit Insurance Corporation (KDIC) and the Korea Asset Management Corporation (KAMCO) spent about 3.7 trillion won in public funds for the repayment of deposits, recapitalization, and the purchase of non-performing loans of financial institutions.

To encourage the emergence of sound financial capital, through the revision of the Banking Act and the Financial Holding Company Act, the government raised the single shareholder ceiling on the holding of stocks issued by a bank or a bank holding company and strengthened restrictions on the credit extension to major shareholders of financial institutions in order to promote the soundness of the management of financial institutions. In addition, to strengthen the protection of financial consumers, the government introduced the Act Concerning the Registration of the Money-lending Businesses and the Protection of Financial Consumers and set ceiling on lending businesses' maximum loan interest rate and on credit financial institutions' maximum interest rate of arrears. Through the revision of the Specialized Credit Financial Business Act, it also tightened the procedures for the issue of credit cards and the recruitment of card holders.

For the active collection of public

funds, the government revised the Depositor Protection Act and instructed insured financial institutions to pay a special contribution for the newly established Fund for the Repayment of Deposit Insurance Fund Bond. Along with this, the government enacted the Fund for the Repayment of Public Funds Act, establishing the Fund for the Repayment of Public Funds and had it extend financial support to the Fund for the Repayment of Deposit Insurance Fund Bond and the Non-performing Loan Resolution Fund for the repayment of public funds, thereby placing some part of the losses of public funds over onto the fiscal account.

Policy Tasks and Monetary Policy in 2003

During 2003, the state of the Korean economy is expected to depend to a large extent on the degree of risk and the duration of the geopolitical dangers in the form of the war in Iraq and the North Korean nuclear issue. In the event of a solution being reached in these matters at an early date, however, the growth and stability of the Korean economy are unlikely to be unduly affected by them.

The pace of the economic recovery is expected to slow down for a while, affected by dampened spirits of economic actors in the wake of the heightened geopolitical risks and the government's measures to curb household loans since the fourth quarter of the previous year, but it is seen to pick up again in the latter half. Prices are also likely to accelerate their upward trend due to high international oil prices, but to regain stability again once international oil prices fall back.

Despite a steady rise in exports, the current account position is likely to worsen further from the previous year because of a surge in imports as a result of high international oil prices and the widened deficit on the services account.

If geopolitical risks persist for a long time, however, we cannot rule out the possibility that the Korean economy will face serious difficulties owing to the depressed global economy, a surge in international oil prices, and domestic financial market instability.

In the financial market, meanwhile, there are such destabilizing factors as worries over household loans turning sour, the window dressing of corporate accounts, and worsened managerial status of credit card companies. Accordingly, major price variables, notably interest rates, stock prices, and exchange rates, are feared to show sharp ups and downs in keeping with the evolution of the geopolitical risks.

Viewing these points, the first priority of future economic policy should be placed on the maintenance of stable growth. To that end, the government needs to conduct macroeconomic policies in an appropriate and timely manner, while carefully watching changes in economic situations both at home and abroad. At the same time, micro measures need to be found to lift the mood of unease among economic actors, stabilize prices, and prevent a further worsening of the current account.

Along with this, the government should redouble its efforts to expand the growth potential of the national economy through the expansion of the participation of older persons and women in economic activity, the easing of all types of restrictions, the increase of inward foreign direct investment, and the development of new technologies. At the same time, it should strive for persistent restructuring in every sector of the economy and the construction of a fair and transparent economic system.

Taking into overall account the prospects for commodity price movements, the economic situation both at home and abroad, and the optimum inflation level that the Korean economy should aim at, the central bank set an inflation target of 3.0±1 percent for the year 2003, based on core inflation. Along with this, it resolved to make strenuous efforts to keep the annual average core inflation rate after 2004 within a range of 2.5 to 3.5 percent.

Meanwhile, the Bank of Korea adjusted its medium-term inflation target from the previous 2.5 percent to a range of 2.5~3.5 percent. This reflected the fact that the medium-term inflation rate of the Korean economy is estimated to be slightly higher than 2.5 percent, toghther with the high degree of uncertainty of price conditions.

The Bank of Korea intends to conduct the monetary policy during 2003 in a flexible manner, carefully watching the evolution of economic conditions both at home and abroad from a medium-term viewpoint and sticking a balance between growth and stability.

In the meantime, as the monetary policy operation system that places its focus on interest rates had taken deep root, the central bank decided not to set and announce a monitoring range for M3. However, it will continue to monitor carefully the movements of various quantitative indicators, including M3, as information variables for the conduct of policy.

At the same time, active support will be provided to SMEs so that they do not experience difficulties in fund raising given the possibility of a deterioration of their operating environment. In particular, it plans to do its utmost to heighten the effectiveness of support for SMEs based in the provinces in order to bolster the dynamic growth of the regional economies.

The central bank will adjust effectively the systems of support under the Aggregate Credit Ceiling. At the same time, it will deliberate on ways to make the best use of the interest rate disclosure and liquidity control functions of the rediscount system.

Along with this, it will seek rational improvement of the reserve requirement system in order to keep a well balanced term structure of deposit on the part of financial institutions and make preparations for the spread of the use of e-money.

While carefully watching the overall conditions of the financial market, the Bank of Korea plans to liberalize interest rates on demand deposits as the final step of the 'Four-Step Interest Rate Deregulation Plan' that has been pursued since 1991.

At the same time, it will strengthen its efforts to promote the confidence and understanding of the general public concerning the monetary policy, while making active use of its function of supervision of the compliance of financial institutions. It will also endeavor to improve the operating system of the BOK-Wire and strengthen the management of settlement risk to heighten the safety and effectiveness of the payment and settlement system.

II. Monetary and Credit Policy

1. Inflation Target

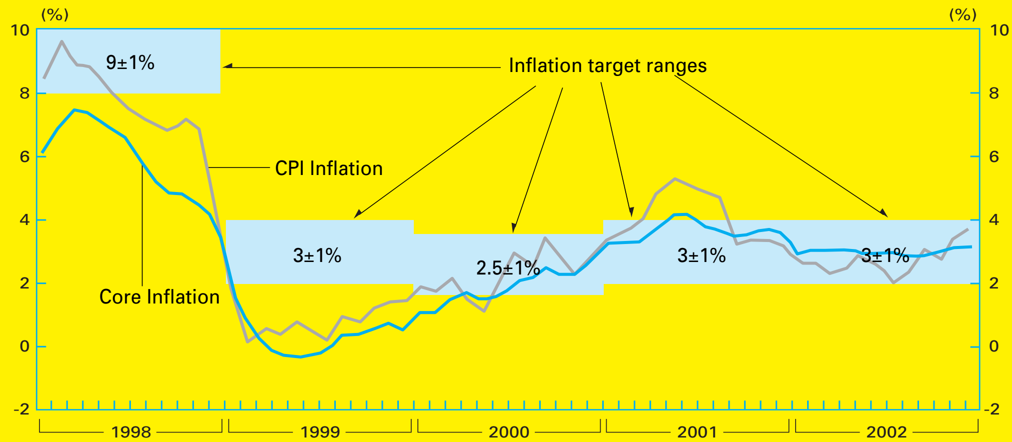
Early in 2002, the Bank of Korea forecast that the upward pace of prices would slow down with annual average core inflation and CPI inflation standing at 3.2 percent and 3.0 percent, respectively. This forecast was grounded on expectations that prices of international raw materials, including crude oil, would stabilize in view of the sluggishness of the global economy until the end of the first half of the year and that rate of increase of public utility charges would fall owing to the reduction of mobile phone call rates and city gas tariffs. It was also anticipated that the domestic economy, even if it showed a recovery in the latter half, would pick up only slowly and the inflationary pressure on the demand side would not be very large. However, as the timing and speed of recovery of the global and domestic economies, and the movements of the exchange rate of the won against the U.S. dollar were uncertain, there was still the latent possibility that prices would exhibit a different pattern.

Taking into account the prospects for prices and the inflation level that the Korean economy should pursue, the Bank of Korea set the mid-point of the annual inflation target range during 2002 at 3.0 percent on the basis of annual average core inflation after negotiation with the government and the deliberation and resolution of the Monetary Policy Committee. This mid-point figure represented a rate slightly lower than the Bank's inflation projection (3.2 percent). But, a fluctuation range of 1 percentage points was tolerated around the mid-point, in view of the high degree of uncertainty surrounding the outlook for prices. Along with this, taking the standpoint that the inflation rate should be brought down gradually over the medium term, it was decided to keep the inflation target that monetary policy should pursue after 2003 unchanged at the 2.5 percent level.

Viewing actual price movements during 2002, the annual average rate of core inflation stood at 3.0 percent, lower than the previous year's 3.6 percent, staying at the mid-point of the inflation target (3.0 ±1%) for 2002. This was attributable to the won's appreciation against the dollar and the exceptional reduction of public utility charges, which occurred amid relatively mild inflationary pressure on the demand side. The combined effects of these benign factors acted to offset those of the accelerated rate of wage increases

<Chart 7> **Inflation Targets and Inflation Trends**

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



and the surge in real estate prices. Viewing the movements of the core inflation rate during 2002, it showed a very stable pattern, staying at the 3 percent level throughout.

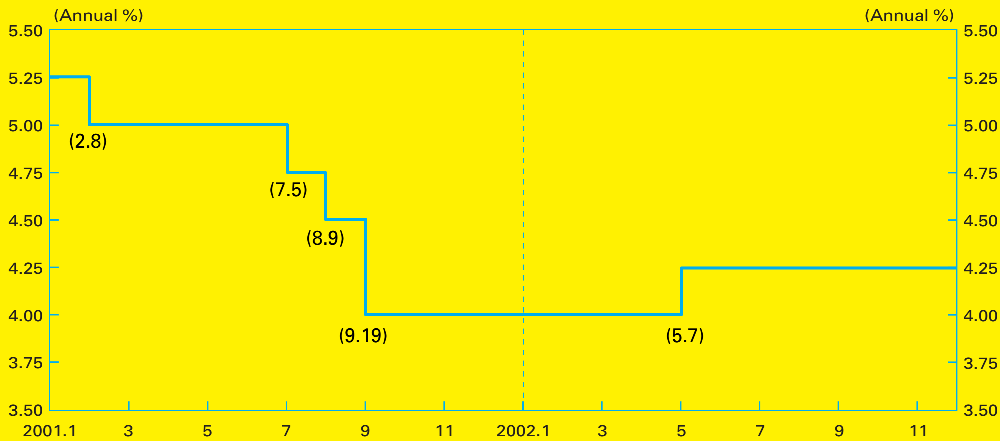
In the meantime, CPI inflation dropped sharply from its annual average of 4.1 percent in 2001 to 2.7 percent in 2002. This sharp decline relative to the core inflation was mainly caused by the fall in prices of petroleum products, thanks to stable international oil prices and the won's appreciation against the dollar until the third quarter, despite a steep rise in prices of agricultural, livestock, and marine products.

2. Interest Rates

During 2002, the Bank of Korea implemented its monetary policy flexibly in such a way as to consolidate price stability and keep the economy on an upward track.

The domestic economy had staged a fast paced recovery from early in the year, that was led by consumption and construction activities. However, as prices showed a relatively stable pattern while sluggish facilities investment and exports remained lackluster, the Bank of Korea kept the call rate target at 4 percent until April. As the economy shifted to a full blown upturn in the early part of the second quarters thanks to the recovery of exports, worries began to mount over higher inflation. Moreover, there was a large expansion of household

<Chart 8> **Overnight Call Rate Target Adjustments**



Note : Figures in parentheses are the dates when the overnight call rate target was adjusted.

loans in a low interest rate environment and real estate prices mounted sharply. In the judgment that these financial and economic conditions, if left unchecked, would bring about higher inflation and a worsening of the current account, threatening the basis for economic stability, the Bank of Korea raised its call rate target from 4.0 percent to 4.25 percent on May 7.

Nevertheless, the domestic economic uprising continued and the strong marked growth of household loans persisted. This led the Bank of Korea to consider a further increase of the call rate target, but the mood of unease among economic actors deepened and stock prices fell further amid growing concern over the fraudulent accounting practices of some large American corporations, the growing likelihood of a US-led war against Iraq, along with the uncertainties surrounding the global economy. From early in the fourth quarter, real estate prices stabilized, and the growth of household lending slowed down significantly. Putting all these factors together, the Bank of Korea decided to leave the call rate target unchanged at 4.25%.

3. Money Supply

During the year 2002, the Bank of Korea operated the call rate target at a low level and supplied money flexibly by reducing the Aggregate Credit Ceiling to cope with the surge in household lending by financial institutions.

To cope effectively with the renewed expansion in the third quarter of household loans, which had slowed down somewhat soon after the upward adjustment of the call rate target on May 7, the Bank of Korea in October reduced the Aggregate Credit Ceiling by 2 trillion won, reversing the 2 trillion won increased to 11.6 trillion undertaken right after the terrorist attack on the United States in September 2001, and returning it to the previous level of 9.6 trillion won.

Consequently, the growth rate of reserve money dropped sharply to the 10 percent level in the fourth quarter after having the high level of around 15 percent in the third quarter on an annual average basis due to the increase in reserve requirements generated by the surge in banks' short-term deposits which bear a high reserve requirement.

The net issuance of Monetary Stabilization Bonds(MSBs) during the year was decreased by 5.2 trillion won from the previous year's 12.7 trillion won owing to the reduced money supply through the overseas sector brought about by the narrowed current account surplus and the net outflow of foreign stock investment funds. As of the end of 2002, the balance of MSBs outstanding came to 84.3 trillion won.

By quarter, their net issuance continued until the third quarter, but net redemption was undertaken in the fourth quarter to supply liquidity to the market as temporary upward pressure on call rates was anticipated due to the lowering of the Aggregate Credit Ceiling. Interest payments on MSBs outstanding decreased somewhat from the previous year to 4.8 trillion won in 2002 owing to the fall in interest rates. However, the ratio of interest payments to net MSB issuance surged to 93.1 percent in view of the sharp drop in their net issuance volume.

<Table 1> Trends of Reserve Money Supply and Scale of Liquidity Adjustment

(Average changes during the period)

Unit : billion won, %

	2001[1]	2002				
		Yearly[1]	Ⅰ	Ⅱ	Ⅲ	Ⅳ
Reserve Money[2]	3,994.0	3,348.6	1,607.4	59.7	595.0	1,086.5
	(11.5)	(14.3)	(14.9)	(17.0)	(15.1)	(10.7)
Market Liquidity Adjustment	15,678.8	4,115.9	3,504.7	301.5	2,779.9	-2,470.2
MSBs	12,682.6	5,447.6	1,322.2	4,140.0	1,791.5	-1,806.1
RPs	2,996.2	-1,331.7	2,182.5	-3,838.5	988.4	-664.1

Notes : 1) Aggregate changes during the period.
2) Figures in parentheses refer to percentage changes compared with the same period of the previous year.

<Table 2> Outstanding Balance of MSBs and Interest Payments on MSBs

Unit : billion won

	1999	2000	2001	2002
Outstanding Balance[1]	51,489.2	66,377.7	79,121.3	84,277.9
(Amount of Change)(A)	(5,815.9)	(14,888.5)	(12,743.7)	(5,156.6)
Interest Payments[2](B)	3,799.2	4,665.7	4,873.0	4,801.8
B / A (%)	65.3	31.3	38.2	93.1

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

4. Credit Policy

During the year 2002, the Bank of Korea changed the Aggregate Credit Ceiling allocation formula in such a way as to curb financial institutions' extension of household loans and expand their lending to SMEs in order to avoid their suffering difficulties in fund-raising.

As an initial step in March, to allow banks expanding their credit based loans to SMEs, rather than households, to receive a larger quota under the Aggregate Credit Ceiling, the Bank of Korea raised the assessment weighting given to household loans, a deduction item in allocating the Aggregate Credit Ceiling, from 40 percent to 60 percent.

Subsequently in May, it raised this assessment weighting given to household loans further from 60 percent to 80 percent again. At the same time, it increased the scale of the deduction for the banks that failed to meet the mandatory rates of lending to SMEs from 50 percent of the shortfall to 75 percent thereof.

It also raised from 300 billion won to 500 billion won the net quota of the Aggregate Credit Ceiling earmarked to support the 50 percent refinancing of the net increment in funds eligible under the Aggregate Credit Ceiling(excluding Corporate Procurement Loans).

In the fourth quarter, coinciding with the reduction of 2 trillion won in the total Aggregate Credit Ceiling, it raised the quota it allocated to its branches for the active support of SMEs based in the provinces by 600 billion won to help smooth the flow of bank loans into the outstanding support sectors and distinctive regionally specialized industries in each region.

Emergency support of 30 billion won under the Aggregate Credit Ceiling was provided to the Gangnung region, which suffered particularly severe damage from typhoon and heavy rainfall early in September, while disaster-hit companies in other affected areas were assisted fol-

<Table 3> Trends of Aggregate Credit Ceiling and Lending Rate

	Dec. 1997~	March1998~	Sept. 1998~	Jan. 2001~	Sept. 2001~	Oct. 2002~
Credit Ceiling(trillion won)	4.6	5.6	7.6	9.6	11.6	9.6
Lending rate (annual %)	5	5	3	3	2.5	2.5

lowing their designation as preferential objects of support.

From October, to encourage bank lending to SMEs, the Bank of Korea made a downward adjustment of the allocation ratio for eligible funds under the Aggregate Credit Ceiling from 43.6 percent to 40.0 percent against banks' outstanding loans, and from 43.6 percent to 20.0 percent against newly extended loans. At the same time, it greatly raised the ratio of allocation on the basis of the net increment, bringing it up from 12.8 percent to 40.0 percent.

To assist the early establishment of the System of Corporate Procurement Loans, the Bank of Korea in February set a separate ceiling in support of their refinancing of 4.3 trillion won within the Aggregate Credit Ceiling itself while lowering step by step the refinancing ratio based on performance in the discount of commercial bills from 80 percent to 50 percent.

Boosted by this step, the value of Corporate Procurement Loans handled by financial institutions soared by 34.8 percent from 8.2 trillion won at the end of the previous year to 11.1 trillion won at the end of 2002. The number of companies accessing the lending facility also expanded from some 14,000 to 20,000. The ratio of Corporate Procurement Loans to commercial bills discounted rose sharply from 54.1 percent at the end of the previous year to 79.3 percent.

Electronically-Processed Secured Receivables Loans, which were introduced in February in 2001 to help SMEs collect

<Table 4> Trends of Outstanding Corporate Procurement Loans

Unit : billion won

	2001		2002			
	End of June	End of Dec.	End of March	End of June	End of Sept.	End of Dec.
Corporate Procurement Loans(A)	6,391.4	8,243.6	9,559.9	10,971.7	11,799.2	11,114.0
Commercial Bills Discounted(B)[1]	15,402.7	15,243.8	14,414.6	14,246.8	13,216.2	14,019.5
A / B (%)	41.5	54.1	66.3	77.0	89.3	79.3

Note : 1) SME basis.

payments in cash from large companies for the supply of their goods at an early date, increased at a rapid pace in terms of both their outstanding and the number of companies tapping them. In this they were encouraged by the central bank's utilization for their refinancing of the balance of the Aggregate Credit Ceiling freed up by the reduction in the weighting of commercial bill discount performance. The outstanding balance of Electronically-Processed Secured Receivables Loans more than doubled from 1.3 trillion won at the end of the previous year to 3.4 trillion won at the end of 2002, and the number of companies accessing this lending facility rose from 13,000 to 35,000.

The outstanding amount of intra-day overdrafts, which were introduced to ensure frictionless interbank settlement in September 2000, reached 310 billion won in December on a daily average basis, an increase of 39.7 percent from 220 billion won in the same month of the previous year, reflecting the steady rise in financial institutions' use of the facility.

<Table 5> Trends of Electronically-Processed Secured Receivables Loans and Number of Enterprises Using Them

	2001		2002			
	End of March	End of Dec.	End of March	End of June	End of Sept.	End of Dec.
Outstanding loans(billion won)	225.8	1,276.2	1,694.6	2,323.1	2,828.7	3,424.9
Firms making use of these Loans (number)	2,632	13,209	17,680	21,752	24,895	34,520

<Table 6> Trends of Outstanding Amount of Intra-day Overdrafts
(on a daily average basis)

Unit : billion won

	Dec.2000	Dec.2001	2002			
			March	June	Sept.	Dec.
Nationwide Commercial Banks	67.6	142.5	150.5	136.3	185.1	138.7
Local Banks	2.0	0.5	1.0	0.4	1.7	0.4
Specialized Banks	32.6	21.1	14.2	5.8	28.6	13.6
Foreign Banks' Branches	7.7	56.8	63.4	66.6	131.1	155.9
Total	110.0	220.9	229.1	209.1	346.5	308.6

<Table 7> **Current Lending System of the Bank of Korea**

(As of the end of Dec. 2002)

	Function	Loan Ceiling	Lending Rate	Maturity
Aggregate Credit Ceiling Loans	• Induce the expansion of bank loans to small and medium enterprises	9.6 trillion won	2.5% p.a.	one month
Liquidity Adjustment Loans	• Signal monetary policy direction by flexible adjustment of their lending rate • 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	3.75% p.a. (in case of borrowings for more than three straight months 4.75% p.a.)	less than one month
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% points	one day
Intra-day Overdrafts	• Provide loans to banks for temporary shortages of funds for payment and settlement during the day	200% of banks' current account balance with the BOK on an average outstanding basis	No interest charged	close of business on same day
Special Loans	• Lender of last lender loans	Operate as required		

III. The Conduct of Business Related to Monetary Policy

1. Payment and Settlement Business

During the year under review, the Bank of Korea placed the emphasis in its payment and settlement business on enhancing safety and effectiveness of the payment and settlement systems and strengthening the central bank's function of oversight over them.

As an initial step, the Bank of Korea improved some of the operating methods of the Bank of Korea Financial Wire Network (BOK-Wire) and completely revised all aspects of contingency planing.

'Optimization Routine' was put in place by the Bank of Korea in August to speed up the overall process of fund settlement by easing the phenomenon of fund transfers being delayed by one counterpart's temporary shortage on its current account with the Bank of Korea where there is a bunching of fund transfers between participating financial institutions. The new method allows the offsetting of amounts between participants and settlement of the balance across their current accounts in such cases.

To encourage the use of the Delivery versus Payment (DVP) System of BOK-Wire for securities transactions, in March it lowered fees for the use of this system.

In order to enable the large value payment system to continue operating without interruption in the event of disaster or computer breakdown (system failure), the Bank of Korea motivated by the terrorist's attacks on the U.S. of Sept. 11, 2001, undertook a thoroughgoing revision of the BOK-Wire contingency plan and circulated details of it in August to all participating institutions.

During the year under review, the daily average number of transactions through BOK-Wire was 5,503 for a total value of 80.3 trillion won showing an increase of 4.4 percent in terms of volume and 6.3 percent in value terms, respectively over the previous year. The number of BOK-Wire participants was 126, including 59 banks, at the end of 2002, a drop of six from the previous year. This was attributable to the reduction in the number of eligible financial institutions as a result of mergers, acquisitions, and closures.

In order to reduce the settlement risk arising from net settlements between banks, in August it undertook major improvement of the arrangements for the prior posting of collateral, and for the

<Table 8> **Settlement Through BOK-Wire[1]**

Unit : number, billion won, %

	2001 (A)		2002 (B)		change (B-A)	%change
< Volume >						
Domestic Currency Funds Transfer	4,521	(85.8)	4,735	(86.0)	214	4.7
(Gross Settlement)	3,727	(70.7)	3,984	(72.4)	257	6.9
(Net Settlement)	794	(15.1)	751	(13.6)	-43	-5.4
Treasury Funds Transfer	702	(13.3)	730	(13.3)	28	4.0
BOK Loans and Discounts	35	(0.7)	27	(0.5)	-8	-22.9
Government and Public Bonds	11	(0.2)	11	(0.2)	0	0.0
Total	5,269	(100.0)	5,503	(100.0)	234	4.4
Foreign Exchange Funds Transfer	9	(-)	9	(-)	0	0.0
< Value >						
Domestic Currency Funds Transfer	72,504	(96.0)	76,961	(95.9)	4,457	6.1
(Gross Settlement)	60,047	(79.5)	62,812	(78.2)	2,765	4.6
(Net Settlement)	12,457	(16.5)	14,149	(17.6)	1,692	13.6
Treasury Funds Transfer	1,636	(2.2)	1,808	(2.3)	172	10.5
BOK Loans and Discounts	796	(1.0)	883	(1.1)	87	10.9
Government and Public Bonds	612	(0.8)	633	(0.8)	21	3.4
Total	75,548	(100.0)	80,285	(100.0)	4,737	6.3
Foreign Exchange Funds Transfer ($ million)	113	(-)	88	(-)	-25	-22.1

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

joint sharing of settlement fund shortages to ensure the finalization of settlement between all participating institutions at the appointed time even if some participants failed to meet their obligations on time, while pursuing the stable operation of the interbank retail payment system.

First of all, the Bank of Korea made an upward adjustment of the ratio for the securities to be posted as collateral to guarantee settlement by banks participating in the real-time electronic funds transfer systems, i.e. the Interbank CD/ATM system, the Interbank Funds Transfer (IFT) System and the Electronic Banking Network, from 20 percent of the net liability limit of a participant's to 30 percent.

It also included 'Cashier's Check Funds Adjustment Transactions,' which were exposed to credit risk due to their exclusion from the coverage of settlement fund shortage joint sharing system. At the same time, it made an upward adjustment of the ratio of securities collateral to be posted for 'Cashier's Check Funds Adjustment Transactions' from 30 percent of the average daily exchange net payment amount to 75 percent of the average daily fund adjustment repayment amount. Along with this, to help ease the burden on banks participating in the net settlement system from the sharp increase of collateral required, the Bank of Korea excluded bill clearings from the requirement that collateral be posted in advance.

The Bank of Korea improved the retail settlement system to enhance convenience in settlement for enterprises and individuals. In February as an initial step, it allowed customers of mutual savings banks, credit unions, and community credit cooperatives to use Giro, the Interbank Fund Transfer (IFT) System, the Interbank CD/ATM System, CMS, and the Electronic Banking Shared Networks.

Also, the Bank of Korea launched the 'Business to Business (B2B) E-commerce Payment System' in March, which connects the Internet E-commerce System and the Funds Settlement System of the Interbank Shared Networks for the handling through the Interbank Shared Networks of payments arising from e-commerce transactions on the Internet between enterprises.

It also linked the National Tax Payment System of the National Tax Service (April) and the State Finances Information System of the Ministry of Finance and Economy (August) with the EBPP System, an electronic notification and payment system, which sends advice of taxes and public utility charges and allows their payment electronically. It also increased the coverage of the system and the number of collecting institutions.

Along with this, the Bank of Korea expanded the 'Cashier's Check Electronic Information Exchange System,' which had been put into operations only in the Seoul region since May 2000, to cover the whole country in September, making it possible to cash a cashier's check issued by any bank nationwide the day after its deposit anywhere in the country.

The Bank of Korea brought into force from February the 'Regulation on the Operation and Oversight of Payment Systems'(the Monetary Policy Committee) that had been issued on December 27, 2001 to meet the international standards on the design and operations of the payment and settlement system laid down by the Bank for International Settlements (BIS).

Under the regulation, the Bank of Korea's supervisory function in regard to the payment and settlement system was strengthened empowering it to instruct institutions operating payment and settlement systems to report or take necessary steps in case of emergencies, such as a system failure or a strike. At the same time, to ensure compliance with the provisions of regulation, the Bank of Korea concluded an agreement in January with the Korea Financial Telecommunications and Clearings Institute, the institution operating the retail settlement systems and the Korea Securities Depository, an institution operating a DVP system for the settlement of securities transactions.

In a further move to enhance the transparency of its implementation of the payment and settlement business, the Bank of Korea compiled for the first time a 'Report on the Operations and Management Status of the Payment and Settlement Systems,' which explains payment and settlement trends during the previous year and its implementation of related measures. The report was submitted to the Monetary Policy Committee and published in March.

As the 'Enforcement Decree of the Securities and Exchange Act' was revised (with effect from Feb. 9, 2002) following the Bank of Korea's recommendations to the government, the central bank gained the authority to request that the Korea Securities Depository provide such materials concerning securities depository business and settlements as were necessary for the implementation of the monetary and credit policy.

In this context, the Bank of Korea and the Korea Securities Depository signed an agreement in May on information exchange and business cooperation, and in June they jointly constructed and put into operation the Securities Depository and Settlement Information Sharing System, enabling the two institutions to share information in real time on the current status of securities deposits and settlement.

Besides this, as banks started to operate a "five-day week" system from July 1, the Bank of Korea revised the relevant regulations so as to exclude the previous Saturday morning business hours (09:30~13:30) on Saturdays from the stipulated hours for the operation of BOK-Wire.

2. Supervision of Banks

During the year under review, the Bank of Korea confirmed the soundness of financial system and collected the on-site information about banks necessary for the effective implementation of monetary and credit policy through its request to the Financial Supervisory Service (FSS) to carry out examinations of banks and its conduct of joint examinations of financial institutions with that body. For the same reasons it also undertook the analysis of the banks' management status, risk management status, and a survey of their lending characteristics and trends.

Through its joint examination with the FSS of 13 financial institutions, the Bank of Korea gathered on-site information necessary for drawing up monetary and credit policy, including that on the financial status, operation of assets, and management strategies of financial institutions. At the same time, it was able to check the precise status of household loans, which showed a sharp rise.

In this process of examination, the Bank of Korea uncovered a total of 83 instances of the violation of regulations or the commission of making errors in business dealings related to the Aggregate Credit Ceiling, reserve requirements for Korean won or foreign currency-denominated deposits, or to payment and settlements. It issued correction orders in connection with these findings.

Along with this, the Bank of Korea requested the FSS to examine 19 financial institutions' compliance with regulations concerning monetary and credit policy and the accuracy of their reports, and received the relevant examination results.

In the course of the year there was one case in June 2002 in which the FSS rejected the Bank of Korea's request for the conduct of a joint examination. Nevertheless joint inspections were resumed in October as the two sides signed an MOU concerning the joint examination of financial institutions.

Under the MOU, the FSS is to notify the Bank of Korea of its examination schedule in advance and it is to obtain the sets of examination materials requested by the two institutions, providing an official window. For this purpose, the two institutions agreed to share access to the information acquired in the process of the examination.

At the same time, however in response to the FSS's denial of the Bank of Korea's request for joint examinations, it became desirable to introduce an examination system that would enable the Bank of Korea to grasp at the appropriate time the information about financial institutions and markets needed for its effective implementation of monetary policy.

<Table 9> Trends of Joint Examination and Examination Requests

Unit : bank, number

	Joint Inspection					Inspection Demand				
	1999	2000	2001	2002	Total	1999	2000	2001	2002	Total
Domestic Banks	-	3	10	10	23	11	10	1	4	26
Foreign Banks' Branches	-	-	3	3	6	11	20	17	15	63
Total	-	3	13	13	29	22	30	18	19	89

The Bank of Korea appraised each quarter the management status of domestic banks by the use of two analytical models, namely the Trend Analysis Model (CLEAR MODEL) and the Forecast Analysis Model (FORESEE MODEL). In addition, it held talks with domestic banks twice during the year on their risk management status and conducted surveys on this and engaged in the same activities containing the lending patterns of financial institutions every quarter. Its findings were incorporated as basic materials for the establishment of the monetary policy and the routine surveillance of financial institutions.

In the additional move, the Bank of Korea intends to publish during the year 2003 a 'Financial Stability Report,' which will give its comprehensive assessment of the stability of the nation's financial system.

3. Foreign Exchange and International Finance Business

(1) Foreign Exchange Management Business

The Bank of Korea revised 'Foreign Currency Asset Domestic Operation Regulation' on Aug. 27 so as to lower step by step the ceilings on swap facilities provided to foreign bank branches with a view to their abolition. The Bank of Korea altered the ceiling on swap transactions for foreign bank branches to the larger of two options: either 50 percent of the ceiling limit as of July 31 or the outstanding of the swap balance. It announced that this ceiling would be reduced by one third of the ceiling every year so as to adhere its complete abolition by September 2005. Should the scope of the items recognized as the equity capital of foreign bank branches be widened, however, the swap transaction system will be dismantled at an earlier date.

This step reflected both the expansion of foreign exchange reserves and the reduced need on the part of foreign bank branches for swap transactions following the sharp decline in their demand for them in response to the diversification of their means of raising won-denominated funds and the recognition of long-term borrowings from their head offices as equity capital (July 2001).

(2) International Finance Business

Korea's official foreign exchange reserves stood at 121.4 billion U.S. dollars as of the end of 2002, which represented an increase of 18.6 billion U.S. dollars over the previous year-end. This build-up of

<Table 10> **Changes in Foreign Exchange Reserves**

Unit : million U.S.$

	End of 2001	End of 2002	Change
Foreign Exchange Reserves	102,821.4	121,412.5	18,591.1
Gold	68.3	69.2	0.9
SDRs	3.3	11.8	8.4
Reserve Position in IMF	262.2	520.2	257.9
Foreign Exchange	102,487.5	120,811.4	18,323.9

the reserves resulted mainly from the Bank of Korea's withdrawal of its foreign currency deposits with domestic banks along with the sustained current account surplus during the year and the expansion of overseas borrowings by deposit money banks. Increased profits stemming from the operation of foreign currency-denominated assets and the sharp rise in the value of the yen and euro-denominated assets, which are translated into U.S. dollars, also played a part in view of the strong exchange value of the yen and the euro.

Breaking the reserves down by component, foreign exchange, which comprises both deposits and securities, accounted for the largest share, amounting to 120.8 billion U.S. dollars as of the end of the year under review, and representing an increase of 18.3 billion U.S. dollars from the previous year-end. The reserve position in the IMF also marked a sharp rise to 520 million U.S. dollars at the end of the year under review, but gold and SDRs showed relatively little change.

During the year under review, the Bank of Korea paid 56.24 million U.S. dollars in subscriptions or contributions to international financial institutions in Korean won and convertible currencies. Viewing the breakdown of this by international organization, the Bank of Korea subscribed 26.21 million SDRs, equivalent to 32.9 million U.S. dollars, to the International Development Association (IDA); 372.15 million yen, equivalent to 2.82 million U.S. dollars to the European Bank for Reconstruction and Development (EBRD); and 446.49 million won, equivalent to 350,000 U.S. dollars to the African Development Bank (AfDB).

In addition, the Bank of Korea contributed 650,000 U.S. dollars to the IMF; and 23,445.69 million won, equivalent to 19.52 million U.S. dollars to the Asian Development Fund (ADF).

Along with this, according to the outcome of the 13th Financial Resource Replenishment Negotiations of the IDA and the 9th Financial Resource Replenishment Negotiations of the AfDF, which were finally concluded in July and December 2002, respectively, the Bank of Korea decided to subscribe 149.98 billion won, equivalent to 0.91 percent of the total financial resource of the IDA during the 2003~2005 period, and 15 million SDRs, equivalent to 0.61 percent of the total financial resources of the AfDB during the 2003~2004 period.

At the second round of the ASEAN+3 meetings held two session in April and May, the Bank of Korea was involved in discussions of how best to strengthen financial cooperation among required countries, including the conclusion of currency swap agreements in line with the Chiang Mai Initiative, and the strengthening of policy cooperation and monitoring. In a follow-up to these negotiations, the Bank of Korea entered into a currency swap agreement for a total of 2 billion U.S. dollars with the People's Bank of China on June 24. It also signed a currency swap contract valued at 1 billion U.S. dollars with the central banks of Thailand on June 25, of Malaysia on July 26, and of Philippines on Aug. 9.

Besides this activity, as the necessity for policy cooperation and the exchange of information is intensifying due to the rapid changes in the international financial environment and the advance toward globalization, the Bank of Korea participated enthusiastically in the activities of central bank cooperation organizations during the year under review, including those of the Bank for International Settlements (BIS), Executive Meeting of East Asian and Pacific Central Banks (EMEAP) and South East Asian Central Banks (SEACEN) and discussed ways to strengthen systems of cooperation and international financial issues with its fellow central banks.

4. General Business

(1) Loans and deposits

During the year under review, the Bank of Korea's outstanding loans to financial institutions decreased by 3,124 billion won to stand at 7,961.1 billion won at year-end of 2002 due to the large reduction in the Aggregate Credit Ceiling.

By type of facility, lending under the Aggregate Credit Ceiling decreased by 3,119.1 billion won over the previous year as the Bank of Korea lowered the ceiling to its previous level, which had been raised by 2,000 billion won right after the Sept. 11 terrorist attacks on the United States to cope with possible economic setbacks. The move reflected banks' adequate funding situation, and it also withdrew

<Table 11> **Loans and Discounts of the Bank of Korea[1)]**

Unit : billion won

	Outstanding		Change during	
	2001	2002	2001	2002
Aggregate credit ceiling	10,710.2	7,591.1	3,350.1	-3,119.1
General loans	4.9	-	-20.9	-4.9
Loans for the procurement of fertilizer	370.0	370.0	-	-
Other loans	-	-	-270.0	-
Total	11,085.1	7,961.1	3,059.2	-3,124.0

Note : 1) Excludes loans to government.

some part of the quota under the ceiling from financial institutions which had violated regulations. Meanwhile, the Bank of Korea collected all of its outstanding general loans during August, the fresh extraction of general loans having been suspended in March 1994 when the facility was abolished.

Meanwhile, deposits with the Bank of Korea, which had decreased by 2,909.5 billion won in the previous year, showed an increase of 6,849.3 billion won during the year under review. Korean won deposits expanded by 2,987.5 billion won in 2002 owing to a rise of 3,325.4 billion won in the deposit of reserve requirements, which offset the effect of a reduction of 337.9 billion won in the central bank's Korean won denominated subscriptions to international organizations.

<Table 12> **Deposits with the Bank of Korea**

Unit : billion won

	Outstanding		Change during	
	2001	2002	2001	2002
Won deposits	12,802.4	15,789.9	-2,548.7	2,987.5
Reserve deposits by deposit money banks	10,581.6	13,907.0	3,679.6	3,325.4
Non-residents deposits[1)]	2,220.8	1,882.9	-6,228.3	-337.9
Foreign currency deposits	14,546.7	18,408.5	-360.8	3,861.8
Reserve deposits by deposit money banks	885.1	1,052.4	97.3	167.3
Deposits by Foreign Exchange Stabilization Fund	13,661.6	17,356.1	-458.1	3,694.5
Total	27,349.1	34,198.4	-2,909.5	6,849.3

Notes : 1) Won deposits of international organizations, including IMF.

<Table 13> **Banknotes and Coin Issued by Denomination**[1)]

Unit : billion won, %

	2001	2002			2002
	Outstanding	Issued (A)	Withdrawn (B)	Change (A-B)	Outstanding
Banknotes	21,122.2 (94.6)	32,373.5	30,661.5	1,712.0	22,834.2 (94.5)
10,000 won	19,524.3 (87.4)	31,090.8	29,509.6	1,581.2	21,105.5 (87.3)
5,000 won	684.1 (3.1)	601.9	525.1	76.7	760.8 (3.2)
1,000 won or less	913.9 (4.1)	680.9	626.8	54.0	967.9 (4.0)
Coin	1,213.8 (5.4)	146.3	20.2	126.1	1,339.9 (5.5)
Total	22,336.0 (100.0)	32,519.8	30,681.8	1,838.1	24,174.1 (100.0)

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

Foreign currency deposits, centered on Foreign Exchange Stabilization Fund deposits, shifted from a reduction of 360.8 billion won in the previous year to an increase of 3,861.8 billion won in 2002.

Accordingly, outstanding deposits with the Bank of Korea totaled 34,198.4 billion won at the end of 2002, which broke down into 15,789.9 billion won in Korean won deposits and 18,408.5 billion won in foreign currency deposits.

(2) Issuance of Banknotes and Coin

During the year, a total of 32,519.8 billion won in banknotes and coin was issued, and a total of 30,681.8 billion won withdrawn, resulting in net issuance of 1,838.1 billion won. Accordingly, the issuance of banknotes and coin outstanding represented an expansion of 8.2 percent over the previous year to 24,174.1 billion won at the end of 2002.

Broken down by denomination, the shares of banknotes and coin were 94.5 percent and 5.5 percent, respectively.

In its issuance of commemorative coins, the Bank of Korea released the second issue of seven types (190,000 sets) of commemorative coins to mark the '2002 FIFA World Cup Korea/Japan' in April, and six types (90,000 sets) of commemorative coins to mark the '14th Asian Games in Pusan' in September.

Diversifying the denomination and types of linked banknotes, the Bank of Korea issued new linked banknotes, two connected 5,000 won banknotes, and another type of linked banknote, consisting of four connected 1,000 won banknotes in June. This brought to three, the number of types of linked banknotes, including the existing linked banknotes, with two connected 1,000 won banknotes.

To counter the refinement of counterfeiting skills, the Bank of Korea began to issue a new type of 5,000 won banknote incorporating improved anti-counterfeiting features from June 2002.

(3) Treasury Transactions

During the year, Treasury funds received came to 892,100.0 billion won, and those disbursed reached 888,268.9 billion won, resulting in the net receipts of 3,831.1 billion won. This raised the year-end figure of government deposits from 7,346.6 billion won at the end of the previous year to 11,177.7 billion won.

As for loans to government, the Bank of Korea lent a total of 950 billion won to the Special Account for Grain Management and collected 590 billion won that had been extended to that same account. It also lent 100 billion won in revolving funds to the Procurement Special Account, collecting all of the amount lent later. As a result, the balance of loans to government at the end of the year increased by 360 billion won over the previous year-end to stand at 950 billion won.

The Bank of Korea set the overall ceiling on its loans to government in 2003 at 7,500 billion won, a decrease of 324.4 billion won from the previous year, as the upper limit of the government's borrowings from the Bank of Korea was fixed after gaining the approval of the National Assembly.

Meanwhile, the number of Treasury

<Table 14> Loans to Government

Unit : billion won

	2001	2002			2002
	Outstanding	Loans (A)	Redemption (B)	Change (A-B)	Outstanding
Special account for grain management	590.0	950.0	590.0	360.0	950.0
Procurement special account (revolving funds)	0.0	100.0	100.0	0.0	0.0

<Table 15> Ceilings on Loans to Government

Unit : billion won

	2001	2002 (A)	2003 (B)	Change(B-A)
Ceiling on Temporary Loans	4,324.4	7,824.4	7,500.0	-324.4

collection agencies of financial institutions handling the Treasury business, increased by 182 from the end of the previous year to 10,530 at the end of 2002. This was mainly ascribable to the fact that corporate financing branches of financial institutions were designated as additional Treasury collection agencies.

The operating volume of Treasury surplus funds during the year dropped by 12,511.2 billion won over the previous year to 19,364.6 billion won due to the brisk administration of fiscal funds. The total broke down into 12,056.6 billion won in support for the underwriting and circulating of government bonds by primary dealers and 7,308.0 billion won for RP buy-ins.

Moreover, the Bank of Korea newly developed a Treasury funds real-time transfer system in keeping with the switch-over on January 1, 2003 of the method of payment of Treasury funds from Treasury checks to real time account transfers to creditors.

(4) Securities Operations

During the year, Monetary Stabilization Bonds (MSBs) to the value of 69,840.4 billion won were issued, while MSBs to the value of 64,683.8 billion won were redeemed, resulting in the net emission of 5,156.6 billion won. As a result, MSBs outstanding totaled 84,277.9 billion won, which represented an increase of 6.5 percent compared with the previous year.

Meanwhile, government bills and bonds, whose issuance and redemption are handled by the Bank of Korea, registered a total issuance of 26,850.1 billion won, while 15,004.1 billion won worth was redeemed. This brought the year-end's outstanding balance to 71,465.0 billion won, an increase of 11,846.0 billion won over the figure at the preceding year-end. By type of government bill or note issued, there was net issuance of Treasury Bonds amounting to 4,696.1 billion won to raise funds for deposits at the Fiscal Financing Special Account, and of Foreign Exchange Stabilization Fund Bonds to the

<Table 16> Issuance and Redemption of Monetary Stabilization Bonds (MSBs)

Unit : billion won

	2001	2002			2002
	Outstanding	Issuance (A)	Redemption (B)	Change (A-B)	Outstanding
Public offerings	79,121.3	69,840.4	64,683.8	5,156.6	84,277.9

<Table 17> **Issuance and Redemption of Government Bills and Bonds[1]**

Unit : billion won

	2001	2002			2002
	Outstanding	Issuance (A)	Redemption (B)	Change (A-B)	Outstanding
Treasury Bonds	50,919.0	19,350.1	14,654.0[2]	4,696.1	55,615.1
Foreign Exchange Stabilization Fund Bonds	8,699.9	7,500.0	350.0	7,150.0	15,849.9
Public Land Compensation Bonds	0.1	-	0.1	-0.1	0.0
Total	59,619.0	26,850.1	15,004.1	11,846.0	71,465.0

Notes : 1) Issuance and redemption of government bills and bonds by the Bank of Korea acting for the government.
2) Includes early redemption(Buy-back) of 3,195 billion won worth of bonds.

volume of 7,150.0 billion won to stabilize the exchange rate of the Korean won. Meanwhile, the volume of the Fungible Issue, a system whereby government bills and bonds issued within a set period have the same maturity period and coupon rate in order to help create a more active government bond market, amounted to 15,940.0 billion won, representing 59.4 percent of government bonds issued during the year. The maturities of government bonds issued during the year were of three types for Treasury bonds – 3, 5, and 10 years, and for Foreign Exchange Stabilization Fund Bonds – 3, 5, and 10(overseas issuance only) years.

(5) Government Funds Management

The Public Capital Management Fund, which was established to manage public funds consolidatedly, raised a total of 41,856.9 billion won through the issuance of Treasury Bonds and deposits from the Post Office and other funds. It placed deposits amounting to 10,335.5 billion won with the Fiscal Financing Special Account, the General Account, and the Grain Securities Consolidating Fund. It made payments of 18,562.2 billion won in interest and principal on Treasury Bonds, and repaid 10,725.3 billion won in interest and principal on the deposits it received. In consequence a net profit for the periond of 85.1 billion won was registered and the Fund's assets stood at 96,183.9 billion won as of the end of the year.

The Foreign Exchange Stabilization Fund raised a total of 10,926.0 billion won, consisting of 7,500.0 billion won from the issuance of Korean won-denominated bonds, 414.7 billion won from interest revenue, and 2,906.2 billion won from the withdrawal of foreign currency deposits.

Among the uses of the fund, 8,003.0 billion won was operated in the form of foreign currency deposits, 16.8 billion won in the form of foreign currency call loans, and 1,865.4 billion won was used for the payment of interest and principal on Foreign Exchange Stabilization Fund Bonds.

The assets of the Foreign Exchange Stabilization Fund amounted to 18,447.9 billion won as of year-end, an increase of 4,714.5 billion won compared to the end of the previous year. The Fund recorded a net loss of 1,773.5 billion won for the year mainly due to the negative operating margin between the bond issuance interest rate and the operating interest rate of foreign currency assets and a translation loss as a result of the won's appreciation against the U.S. dollar.

The National Investment Fund, which has only collected existing loans since 1992, gathered 46.4 billion won, consisting largely of the withdrawal of surplus funds amounting to 41.4 billion won. The Fund utilized 46.4 billion won for deposits at financial institutions, realizing 4.9 billion won in net profit for the period. The Fund was wound up as of January 2, 2003 under the provisions of "Act Concerning the Abolition of the National Investment Fund Law."

The Bounty Fund on Farmers' and Fishermen's Property Formation Deposit raised a total of 152.6 billion won during the year, consisting principally of contributions of 60.7 billion won from the government and 30.8 billion won from the Bank of Korea. It utilized 122.9 billion won, mainly in the payment of legal subsidies to depositors, and recorded a net profit of 700.0 million won for the year.

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

1. Foreign Exchange Policy

(1) Drive to Upgrade the Foreign Exchange System

The government unveiled on April 16 'The Medium and Long-term Plan for the Development of Foreign Exchange Market' with a view to promoting the domestic foreign exchange market as the International Financial Hub of East Asia and announced its intention to abolish step by step regulations that had been left in place to avoid possible unrest in the foreign exchange market in the course of implementing the first and second-phases of foreign exchange deregulation (April 1999, January 2001).

As an initial move, the government drew up a 'Plan for the upgrading of the Foreign Exchange System'. This calls for the wholesale easing of remaining restrictions on foreign exchange transaction procedures, the expansion of the foreign exchange market and a drive for the internationalization of the domestic currency, and it was launched on July 1.

First of all, the government abolished the system of the Bank of Korea's confirmation for large-value external payments by individuals by allowing them to execute overseas gift-type remittances of above $50,000, pay expenses for stay and study in a foreign country exceeding $100,000 or carry out travel expenses of more than $50,000 per case.

To handle the expansion of e-commerce, it also abolished the credit card settlement ceiling ($5,000 per case) for external transactions. It also permitted companies operating in Korea, but whose seat is located in foreign countries, to engage in the multi-netting of current and capital transactions between its head office and branches or between branches, which had precisely been allowed only for companies which have their seat of business in Korea. Through this step, the government helped foreign-invested companies reduce the burden of expenses arising from foreign exchange transactions and exchange risk management. Besides this, it simplified the procedures related to export and import settlements by recognizing a copy of the certificate proving the report of exports and imports or an electronic document as a document proving payment in the case of settlements of remittance-style export and import settlements of up to $100,000 per case.

Along with this, the government pursued the expansion of the foreign exchange market by allowing securities and insurance companies to participate in the inter-bank foreign exchange market, permitting securities companies having an equity capital of over 100 billion won and in good financial status to engage in financial transactions of over-the-counter foreign exchange derivatives. It also converted the authorization system for foreign exchange brokerage companies to a registration system.

At the same time, the government abolished the Bank of Korea's permit system for the carrying in or out of Korean won as a means of accelerating the internationalization of the won. However, it imposed an obligation to report to Korea Customs Service should the combined amount of Korean won, foreign currency, and cashier's checks exceed $10,000. In particular, it allowed financial institutions to make an ex post facto report to the Bank of Korea without reporting to Korea Customs Service when carrying out domestic currency for the purpose of money exchange abroad, simplifying the procedures.

Besides this, it eased other foreign exchange-related restrictions by raising the ceiling on foreign currency lending to non-residents by domestic corporations from $300,000 to $10 million, adjusting upward amount free from the obligatory repatriation of external claims from $50,000 per case to $100,000, allowing installment finance companies to handle the foreign exchange business, as well as easing restrictions on funds transfers between the general and offshore accounts of foreign exchange banks.

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

The government and the Bank of Korea seeking foreign exchange market stability carried out a 'Plan for the Upgrading of the Foreign Exchange System' to prevent possible harmful effects including foreign exchange speculation that might emerge due to the expansion of foreign exchange liberalization.

The government has constantly collected the details of transactions to a value of more than $1,000 through the Foreign Exchange Information Network, and made it obligatory to notify the National Tax Service by way of Korea Customs Service details of the carrying out of means of payment including those denominated in Korean won, exceeding the equivalent of $10,000 won.

In the past, foreign exchange banks had to notify Korea Customs Service of export and import-related matters, among the offset-items of foreign exchange transactions between corporations' main offices and their branches or between their branches et al. But this regulation was changed so that the Bank of Korea should now receive a report on the offset-items of foreign exchange transactions between enterprises' main offices and branches or between their branches et al., and notify them the Korea Customs Service and the National Tax Service.

In particular, to be prepared for the possibility of abrupt in or outflows of capital, it closely monitored trends of foreign exchange transactions through the Foreign Exchange Information Network and the Early Warning System. At the same time, it strengthened the system of surveillance to guard against illegal fund transactions through Financial Intelligence Unit (FIU), which was launched at the end of November last year.

During the year, the Bank of Korea let the exchange rate of the won against the U.S. dollar find its own level according to the interplay of demand and supply in the foreign exchange market. To avoid abrupt fluctuations of the exchange rate within a short-term period arising from external or domestic shocks or a temporary mismatch of demand and supply, it prepared the appropriate measures to ease such strains.

In this context, the Bank of Korea newly issued a total of 7.5 trillion won worth of Foreign Exchange Stabilization Fund Bonds on 12 occasions during the year to secure funds for foreign exchange transactions designed to smooth out temporary imbalances between demand and supply.

2. Financial System Management

(1) Restructuring of Financial Institutions

During the year 2002, financial restructuring was pursued with an emphasis on the privatization of some of state-owned banks and the clean-up of non-bank financial institutions. Seoul Bank, which had been solely owned by the Korea Deposit Insurance Corporation, was sold to Hana Bank. Ailing insurance companies, mutual savings banks and credit unions were liquidated through disposition, merger and revocation of license. In this process, the Korea Deposit Insurance Corporation (KDIC) and the Korea Asset Management Corporation (KAMCO) provided a total of 3.7 trillion won in public funds for the repayment of deposits, recapitalization and the purchase of nonperforming loans of financial institutions.

A. Mergers and Liquidations of Financial Institutions

Viewing the details of the restructuring of financial institutions during the year 2002, the government lifted (April) the prompt corrective action for five banks – Chohung, Hanvit, Korea Exchange, Kwangju, and Kyongnam Banks – as they had succeeded in achieving their management improvement target, satisfying the BIS capital adequacy ratio. It also arranged for Cheju Bank to be brought into Shinhan Financial Group (May) and sold Seoul Bank to Hana Bank (November).

Among insurance companies, the government sold Korea Life Insurance Company to a consortium led by Hanwha Group (October) on an open bidding basis and sold Kukje Fire & Marine Insurance Company to Kunwha Pharmaceutical Company (January). It also decided to dispose on a purchase and assumption (P&A) basis Regent Fire & Marine Insurance Company, which had been designated an ailing financial institution in 2001 (June).

Among securities companies, Regent Securities Company merged with Ileun Securities Company to become Bridge Securities Company (January). Good Morning Securities Company merged with Shinhan Securities Company and changed its name to Good Morning Shinhan Securities Company, becoming a subsidiary of Shinhan Financial Group (July).

Among credit unions, three unions were merged, whereas 140 financially distressed unions were placed under the management of the Financial Supervisory Commission (FSC), and 32 out of those unions were closed down. In the case of mutual savings banks, six mutual savings banks were forced to exit or merge.

In the meantime, In the case of Daishin Life Insurance Company whose sale to a third party the government had pursued since 2001, Green Cross Corporation and a consortium led by Isu Chemical Company were selected (December) as the preferred negotiating partners and sales negotiations with them are now underway. As the sales negotiations of Hanil Life Insurance Company and Ssangyong Fire & Marine Insurance Company with foreign investors broke down, it is now pushing ahead with the resale of the companies on an open bidding basis. Besides this, since early 2002, the government has been involved in negotiations with Prudential Financial Group for the sale of Hyundai Investment & Securities Company. This had been pursued through earlier negotiations since 2000 with AIG Consortium, but these were broken off in 2001.

Following the establishment of Woori Finance Holdings Company and Shinhan Financial Group in March and September

<Table 18> Changes in the Number of Financial Institutions[1] during 1998~2002

	Number of institutions at the end of 1997	1998~2001			2002			Number of institutions at the end of 2002
		Exit[2]	Merger[3]	Newly established	Exit[2]	Merger[3]	Newly established	
Banks	33	5	8	-	-	1[4]	-	19
Merchant banking corporations	30	22	6	1	-	-	-	3
Securities companies	36	6	1	17	-	2	1	45
Investment trust (management) companies	31	6	1	6	-	-	1	31
Life insurance companies[5]	31	7	5	-	-	-	1	20
Non-life insurance companies	14	-	1	1	-	-	2	16
Mutual savings banks[6]	231	95	26	12	4	2	1	117
Credit unions	1,666	305	102	9	32	3	-	1,233
Total	2,072	446	150	46	36	8	6	1,484

Notes : 1) Excludes bridge financial institutions, including Hanarum Merchant Banking Corp. and Hanarum Mutual Savings & Finance Co., and branches of foreign financial institutions.
2) Includes revocation of license (application), bankruptcy, and liquidation.
3) Number of financial institutions that ceased to exist following mergers.
4) Hana Bank merged with Seoul Bank.
5) Excludes Postal Insurance.
6) The designation of mutual savings & finance companies was changed to mutual savings banks in March 2002.

2001, respectively, Dongwon Financial Holding Company (provisional name) obtained a preliminary approval for the establishment of a financial holding company (December).

B. Supports for Financial Institutions from Public Funds

In the process of financial restructuring in 2002, the Korea Deposit Insurance Corporation (KDIC) and the Korea Asset Management Corporation (KAMCO) poured about 3.7 trillion won in public funds for the repayment of deposits, recapitalization, compensation for losses and the purchase of non-performing loans of financial institutions.

Categorizing the sources of public funds, the KDIC provided 3.4 trillion won and the KAMCO 0.3 trillion won.

The KDIC used 2,378 billion won for repayment of deposits at liquidated financial institutions. It also used 665 billion won for the purchase of non-performing

<Table 19> **Public Funds Injected in 2002[1)]**

Unit : billion won

	KDIC	Repayment of deposits	Recapitalization	Compensation for losses	Purchase of assets	KAMCO	Total
Banks	720	-	-	55	665	101	821
Merchant banking corporations	117	-	-	117	-	-	117
Securities companies	-	-	-	-	-	-	-
Insurance companies	87	-	-	87	-	2	89
Investment trust (management) companies	-	-	-	-	-	169	169
Mutual savings Banks[2)] · Credit unions	2,435	2,378	-	57	-	15	2,450
Others	-	-	-	-	-	62[3)]	62
Total	3,359	2,378	-	316	665	349	3,708

Notes : 1) These statistics were compiled provisionally by the Bank of Korea on the basis of the Public Fund White Paper issued by the Ministry of Finance and Economy in August 2002, and the home pages of KDIC and KAMCO, so these are subject to subsequent adjustment.
2) The designation of mutual savings & finance companies was changed to mutual savings banks in March 2002.
3) Purchase of non-performing loans related to Daewoo Group held by foreign financial institutions and non-performing loans held by credit-specialized financial companies and the Resolution & Finance Corporation.
Sources : The Ministry of Finance and Economy, KDIC, KAMCO

loans held by financial institutions and 316 billion won for compensation for losses of financial institutions.

In the meantime, the KAMCO provided 349 billion won for the purchase of financial institutions' non-performing loans (NPLs). Of the total, 101 billion won was used for the NPLs of banks, 169 billion won for those of investment trust (management) companies and 15 billion won for those of mutual savings banks.

Categorizing the financial sectors supported by public funds in 2002, 2,450 billion won was injected to mutual savings banks and credit unions, 821 billion won to banks, 169 billion won to investment trust (management) companies, 117 billion won to merchant banking corporations and 89 billion won to insurance companies.

(2) Legislative Activity in the Financial Field

The government enacted and revised financial legislation to strengthen protection for financial consumers and investors, improve the ownership and governance structure of banks and bank holding companies, ease financial regulations, and prepare measures for the recoupment of public funds.

A. Strengthening of Protection of Financial Consumers

To strengthen the protection of financial consumers, the government set a ceiling on money-lending companies' maximum loan rates and on credit financial institutions' maximum interest rate on arrears. It also tightened the procedures for the issue of credit cards and the recruitment of card holders, while strictly regulating procedures related to financial institutions' provision of information to those requesting information on financial transactions.

Firstly, to protect users of private financing and foster the money-lending business, the government enacted the Act Concerning the Registration of the Money-lending Businesses and the Protection of Financial Consumers (which came into force on Oct. 27, 2002; hereinafter, dates in parentheses are those of entry into force) and its Enforcement Decree (Oct. 28, 2002). This Act stipulates that those intending to operate a money-lending business, including the extension or brokerage of loans, should register with the city mayor or the governor of province administering the places of their business. In the case of loans extended by such businesses to individuals or small-sized corporations, it limited the maximum interest rate on principal not exceeding 30 million won to 66 percent per annum. Where this ceiling is violated, the Act stipulates that provisions relating to the interest in excess of the ceiling are null and void and that debtors may apply for the return of interest paid in excess of the maximum allowed. The Act also prohibits the money-lenders from engaging in illegal credit collection activities, the city mayor or the governor of province can order money-lenders to report or submit materials related to their business and relevant property, and the government officials concerned can conduct on-site examination of money-lenders.

Along with this, this Act has the regulations banning illegal credit collection activities apply to all financial institutions dealing with the credit business, including banks, mutual savings banks, and installment financing companies. At the same time, lending businesses are prohibited from receiving overdue interest exceeding a limit set by the Bank of Korea (in the case of banks, bank holding companies, the credit business sector of the National Agricultural Cooperative Federation and the National Federation of Fisheries Cooperatives) or by the Financial Supervisory Commission (FSC) (in the case of other financial institutions). The limit is to be calculated considering the financing costs for loans, overdue amounts & period, and expenses for the management of arrears.

Through the revision of the Specialized Credit Financial Business Act (July 1, 2002) and its Enforcement Decree (July 1, 2002), the government also strengthened the protection of financial consumers. When renewing or substituting cards, credit card companies should obtain the approval of the card holder. This Act limits persons who may normally be issued a credit card to those who are aged 18 or older as of the date of application for credit cards and have the financial capacity to make settlements for the use of the credit cards. In the case of minors wishing to obtain a credit card, they have to submit the written consent of their parent or legal guardian along with documents substantiating the income of that person.

This Act also stipulates that the quarterly average balance of credit (outstanding cash advance service and card loans) arising from the extension of loans to card holders by credit card companies should not exceed the quarterly average balance of credit (balance of sales on credit) arising from the use of credit cards for the purchase of goods or services by credit card holders. This provision was designated to have credit card companies concentrate on commitment to their original business, i.e. the settlement of charges in respect of the use of credit cards rather than on ancillary business.

To strengthen the protection of confidentiality and remove factors infringing privacy and human rights, the government revised the Act on Real Name Financial Transactions and Guarantee of Secrecy (July 1, 2002) and its Enforcement Decree (July 1, 2002). Firstly, where those seeking to obtain financial transaction information request financial institutions to provide the relevant information, they should apply on a standard form designated by the Minister of Finance and Economy. The Act also shortened the permissible period of delay, where such a postponement is requested by the party seeking the financial transaction information before informing the person concerning whom financial transaction information was sought, of the provision of such information.

B. Strengthening the Protection of Investors Including Minority Shareholders

To strengthen the protection of stock investors, including minority shareholders, the government eased the conditions for minority shareholders of banks and bank holding companies to exercise their rights and required investment trust (management) companies and securities investment companies (mutual funds) to be active in exercising the voting rights for stocks they held.

As a first step, it revised the Banking Act (July 28, 2002) and the Financial Holding Company Act (July 28, 2002) and lowered the minimum holding requirements for the exercise of the right of minority shareholders of banks and bank holding companies, to obtain an injunction from 0.25 percent to 0.025 percent of total issued stocks and to inspect the account books from 0.5 percent to 0.05 percent.

Also, the government revised the Securities Investment Trust Business Act (July 28, 2002) and its Enforcement Decree (Sept. 26, 2002), along with the Securities Investment Company Act (July 28, 2002) and its Enforcement Decree (Sept. 26, 2002) to bolster the protection of securities investors' rights. To help investment trust (management) companies (hereinafter including securities investment companies and asset management companies which are entrusted to exercise the voting rights of relevant securities investment companies) be active in exercising the voting rights of stocks they hold, the government made it obligatory for them to record and keep the details of their exercise of voting rights on the stock holdings in corporations whose market value amounts to over 1 billion won or 5 percent of trust assets (total assets), and set out the details on a business report.

In the past, where investment trust (management) companies affiliated with large business conglomerates hold stocks issued by their fellow affiliates, the government had allowed them exercise their voting rights in a way that the exercise might not affect the decision by other shareholders. However, the revised Act allows investment trust (management) companies affiliated with business conglomerates subject to the mutual contribution regulation to be active in exercising their voting rights actively when they anticipate the sustaining of losses on their trust assets (securities investment companies) in the event of exercising their voting rights in a non-partisan manner, in connection with the merger, transfer of business, appointment & dismissal of officers and amendment of the articles of incorporation, for up to 30 percent of the total stocks issued by their fellow affiliates after adding in the number of stocks held by specially related persons of fellow affiliates.

C. Improvement of Ownership and Governance Structures

To encourage the emergence of sound financial capital and promote the accountable management of financial institutions, the government raised the single shareholder ceiling on the holding of stocks (hereinafter stocks with voting rights) issued by a bank or a bank holding

<Table 20> **Regulations on the Ownership of Stocks Issued by a Bank or a Bank Holding Company**

	Basic limit	Whether to possess in excess of the basic limit
A single shareholder[1] who is not the operator of non-financial business	10%[2]	Ownership of over 10%[2], 25%, and 33% is possible where approvals are obtained from the FSC.
Operator of a non-financial business	4%[2]	Ownership of 10% is possible where the approval is gained from the FSC. But the exercise of voting right on equity in excess of 4% is prohibited.

Notes : 1) A shareholder himself and persons standing in a special relationship to that person(relatives, companies which these relatives have and companies affiliated with the same business conglomerate in case of business conglomerates).
2) 15% in the case of a local bank or a local bank holding company.

company and strengthened restrictions on transactions between such institutions and major shareholders.

As an initial move, it revised the Banking Act (July 28, 2002) and its Enforcement Decree (Aug. 21, 2002) along with the Financial Holding Company Act (July 28, 2002) and its Enforcement Decree (Aug. 21, 2002) and raised the single shareholder ceiling on the ownership of stocks of a bank (hereinafter including a bank holding company) from 4 percent to 10 percent. In case the limit exceeds, it also allowed a single shareholder to possess stocks in the excess of the limit by stage. After gaining the requisite approvals at such stage from the Financial Supervisory Commission, single shareholder is also now allowed to own more than 10 percent(15 percent for local banks or local bank holding companies), 25 percent, and 33 percent of the equity.

The legislation, however, retains at the ceiling on the ownership of bank stocks by persons exercising effective control over a non-financial business to 4 percent (15 percent for local banks or local bank holding companies), the same level in the past. Where the required approval is obtained from the Financial Supervisory Commission, however, they may own up to 10 percent of the equity subject to a prohibition on their exercise of the voting rights for that portion held in excess of the 4 percent limit.

In the meantime, to promote the soundness of banks, a limit was placed on the extension of credit by a bank to all major shareholders combined to 25 percent of its equity capital (net total equity capital of the entire group for a bank holding company) and interlocking credit extensions with other banks aimed at avoiding this limit were banned. The maximum amount of stocks issued by one of its major shareholders that a bank

<Table 21> Regulations on Transactions between a Bank or a Bank Holding Company and a Major Shareholder[1)]

Transaction		Restriction on Transaction
Credit extension	Credit extension to all major shareholders	25% of a bank's equity capital[2)]. Interlocking credit extensions with other banks aimed at avoiding this limit are banned.
	Credit extension exceeding the lower of 0.1% of a bank's equity capital[2)] or 5 billion won to a major shareholder	Unanimous preliminary approval from all registered directors at a board meeting and report to FSC after extending credit
Acquisition of stocks	Acquisition of stocks issued by a major shareholder	1% of a bank's equity capital[2)]
	Acquisition of stocks issued by a major shareholder amounting to lower of 0.1% of a bank's equity capital[2)] or 5 billion won	Unanimous preliminary approval from all registered directors at a board meeting and report to FSC after acquisition of stocks

Notes : 1) A single shareholder holding more than 10% of the stocks with voting rights (more than 15% for a local bank or a local bank holding company), or a single shareholder who while holding more than 4% of the stocks with voting rights is the largest shareholder or exercise effective influence over its principal management affairs.

2) Net total equity capital of the entire group in the case of a bank holding company.

might acquire was limited to one percent of a bank's equity capital.

Where a bank intends to provide credit exceeding the lower of 0.1 percent of its equity capital or 5 billion won to a major shareholder, or acquire stocks issued by a major shareholder valued at the lower of 0.1 percent of its equity capital or 5 billion won, it is obliged under the legislation to obtain unanimous preliminary approval of all registered directors at a board meeting. A report should be made to the Financial Supervisory Commission right after extending the credit or acquiring the stocks. Along with this, banks are required to make a quarterly public disclosure of matters concerning the extension of credit to major shareholders and the acquisition of stocks issued by major shareholders, through computer communications.

Should there be a fear that the soundness of a bank (a bank holding company group) may be significantly worsened due to the insolvency of a major shareholder, the Financial Supervisory Commission can restrict financial transactions with a major shareholder, including credit extension to the major shareholder of a bank (a bank holding company group). And the government banned a major shareholder from demanding that a bank (a bank holding company group) furnish information that is not for external exposure, or exercising undue influence through collusion with other shareholders in return for promised economic benefits.

<Table 22> Regulations on Transactions of a Subsidiary Bank

Transaction		Restriction on Transaction
Possession of stocks	Possession of stocks of affiliated banks	Prohibited
	Possession of stocks of banks other than affiliated banks	15% of the stocks issued by the bank that is the object of investment
Credit extension	Credit extension to the parent bank	Prohibited
	Credit extension to a single affiliated subsidiary bank	10% of its own equity capital of the subsidiary bank concerned
	Credit extension to all affiliated subsidiary banks	20% of its own equity capital of the subsidiary bank concerned
	Loan extension to officers and employees of affiliated banks	Prohibited

Along with this, the government allowed a bank to hold stocks issued by other banks so as to make it possible for a bank (hereinafter excluding a bank holding company) to own a subsidiary bank or make portfolio investment in bank stocks. In this case, the regulation setting a ceiling on the ownership of bank stocks by a single shareholder still applies.

In the meantime, it prohibited a subsidiary bank from holding stocks issued by its affiliate banks and from holding more than 15 percent of the total stocks of other banks. To secure the soundness of banking subsidiaries, they were banned from extending credit to its parent bank and from extending loans to officers and employees of affiliated banks. At the same time, it limited to 10 percent of its own equity capital a subsidiary bank's extension of credit to a single affiliated subsidiary bank, and to 20 percent thereof its extension of credit to all its affiliated subsidiary banks.

Apart from this, the officers and employees of a bank were allowed to serve concurrently as those of a subsidiary bank and/or of its bank holding company and/or of other subsidiary banks of its bank holding company. In particular, the standing officers of a bank were allowed to serve concurrently as the officers and employees of its financial subsidiaries.

D. Easing of Financial Regulations

The government continuously pushed ahead with the easing of financial regulations during the year 2002. First of all, it revised the Financial Holding Company Act (July 28, 2002) and its Enforcement Decree (Aug. 21, 2002) and allowed the sharing of personal credit information among financial institutions affiliated with a financial holding company group as a means of boosting the synergy effects of such groupings and the effectiveness of their risk management.

The Banking Act (July 28, 2002) was revised to abolish the chief executive candidate recommendation committee system, thereby facilitate the selection of chief executives according to the relevant provisions of the Commercial Act. And the method whereby outside directors are recommended was also changed, so that they would be recommended by an outside directors recommendation committee of whose membership outside directors should make up at least half.

Under the revised provisions of the Securities Investment Trust Business Act (July 28, 2002) and its Enforcement Decree (Sept. 26, 2002) and of the Securities Investment Company Act (July 28, 2002) and its Enforcement Decree (Sept. 26, 2002), an Exchange Traded Fund (ETF) and a Fund of Funds were introduced to cater to the demand for stable stock investment. And the minimum capital required to establish a securities investment company was reduced from 400 million won to 100 million won, but the minimum net assets to be maintained were raised from 200 million won to 1 billion won.

E. Enhancement of Transparency of Financial Regulations

The Depositor Protection Act (Jan. 1, 2003) and its Enforcement Decree (Jan. 1, 2003) were revised to strengthen the Korea Deposit Insurance Corporation (KDIC)'s function of examining and investigating insured financial institutions. Where in order to protect depositors and maintain the stability of financial system, the KDIC asks the Governor of the Financial Supervisory Service (FSS) to conduct an examination of an insured financial institution, pass on the results of the examination, hold a joint examination together with it and submit materials relating to an insured financial institution, the Governor of the FSS was under the previous legislation required to comply with the request unless he has a special reason not to do so. The revised legislation, though, calls for the Governor of the FSS to comply with the request without fail.

Where the KDIC needs a confirmation of the facts of materials relating to an insured financial institution that it has received from the Governor of the FSS in order to judge the risk of an insurance incident involving a financial institution, it may ask him to confirm the facts through the examination of the insured financial institution within one month. Where the KDIC fails to obtain adequate confirmation, it may itself investigate the business and financial status of the insured financial institution.

Moreover, where it is necessary with a view to legal procedures or the vicarious exercise of rights to claim compensation for damages, the objects of investigation for the KDIC were widened to include the business and financial status of present and former officers and employees of insolvent financial institutions, financial institutions showing signs of insolvency, and insolvent companies in addition to those organizations.

And credit unions pursuing mutual assistance among union members and regional National Federation of Fisheries Cooperatives were excluded from the scope of insured financial institutions. Where the KDIC extends financial support to an insured financial institution, the revised legislation makes it obligatory for the recipient institution to enter into an agreement with the KDIC to carry out management rehabilitation with a view to achieving the smooth collection of the support funds through an early management turnaround.

F. Preparation of Measures to Recoup Public Funds

For the smooth recoupment of public funds injected in the course of financial restructuring, the government established the Fund for the Repayment of Public Funds and the Fund for the Repayment of Deposit Insurance Fund Bond and instructed insured financial institutions to pay a special contribution for the repayment of Deposit Insurance Fund Bonds.

As an initial move, the Fund for the Repayment of Public Funds Act (Jan. 1, 2003) and its Enforcement Decree (Jan. 1, 2003) were passed to establish the Fund for the Repayment of Public Funds and have it extend financial support to the Fund for the Repayment of Deposit Insurance Fund Bond and the Non-performing Loan Resolution Fund for the repayment of public funds, thereby placing some part of the losses of public funds over onto the fiscal account.

The major financial resources of the Fund for the Repayment of Public Funds comprise deposits from the Public Capital Management Fund, contributions from the government account, the settlement surplus of the government's general accounts, and contributions from the Communication Business Special Account and the Postal Insurance Special Account. The Fund is operated and managed by the Minister of Finance and Economy and its period of operation is set for 25 years from Jan. 1, 2003 to Dec. 31, 2027. In the meantime, the government exempted the KDIC and the KAMCO from the obligation to repay borrowings that they had received from Special Accounts for Treasury Loans for the repayment of interest on Deposit Insurance Fund Bonds and Non-performing Loan Resolution Fund Bonds, thereby reducing the burden of their repayment of principal and interest.

With the revision of the Depositor Protection Act (Jan. 1, 2003) and its Enforcement Decree (Jan. 1, 2003), the Fund for the Repayment of Deposit Insurance Fund Bond was newly set up within the KDIC, the fund to liquidate the existing Deposit Insurance Fund, separately from the Deposit Insurance Fund. The new Fund assumes comprehensively the assets, debts, and other rights and duties of the Deposit Insurance Fund registered before Jan. 1, 2003. It is itself to be wound up before Dec. 31, 2027 with the remaining assets, debts, and other rights and duties reverting to the Treasury or the Deposit Insurance Fund.

The major financial resources of the Fund for the Repayment of Deposit Insurance Fund Bond consist of contributions from the Fund for the Repayment of Public Funds, special contributions for the repayment of Deposit Insurance Fund Bonds, and the funds raised from bonds issued by the Fund for the Repayment of Deposit Insurance Fund Bond. Among these, the special contributions for the repayment of Deposit Insurance Fund Bonds will be levied on insured financial institutions at a rate of 0.1 percent of the average balance of deposits every year until the year of 2027.

V. Financial Status and Organizational Changes

1. Financial Status

(1) Assets

Total assets of the Bank of Korea, as of the end of 2002, amounted to 179,542.6 billion won, representing a rise of 7,100.3 billion won over the previous year-end. By item, securities holdings and deposits increased, whereas loans on bills and the holdings of securities bought under resale agreements decreased.

Securities holdings during the year rose by 8,424.5 billion won. This was mainly due to an increase of 9,296.4 billion won in holdings of foreign currency denominated securities, which was associated with a rise in the foreign exchange reserves (102.8 billion dollars → 121.4 billion dollars). The combined effects of these more than offset the reduction of 871.9 billion won in holdings of government and public bonds as a result of the net redemption of Treasury bonds reaching maturity.

Loans on bills, meanwhile, decreased by 3,124.0 billion won due to the reduction of Aggregate Credit Ceiling. The Bank of Korea's fixed assets also dropped by 45.7 billion won owing to a revaluation of its subscriptions to international finance organizations.

On the other hand, due from banks increased by 1,270.7 billion won, boosted by an increase in overseas deposits.

(2) Liabilities and Capital

Total liabilities of the Bank of Korea, as of the end of 2002, stood at 171, 149.3 billion won, representing an increase of 7,956.4 billion won. By type of liability, Monetary Stabilization Bonds issued, government deposits, deposits(other than government), and currency issued expanded, but securities sold under respurchase agreements declined.

MSBs saw net issuance amounting to 5,156.6 billion won as a result of efforts to siphon off the expansion of liquidity resulting from the current account surplus. Government deposits increased by 3,831.1 billion won, mainly due to a buoyant tax revenues and a rise in non-tax revenue generated by sales of government-held stocks in public corporations. Deposits rose by 6,849.3 billion won owing to an increase in deposits with the Foreign Exchange Stabilization Fund.

The exchange revaluation reserve, which reflects changes in Korean won value of foreign currency assets in the wake of exchange rate fluctuations,

<Table 23> **Financial Status**

Unit : billion won

	2001	2002	Change
Assets	172,442.3	179,542.6	7,100.3
Current Assets	167,130.1	174,276.0	7,145.9
Cash	179.1	201.1	22.0
Gold and silver bullion	84.4	77.5	-6.9
Holdings of SDRs	4.4	14.0	9.6
Securities	134,857.5	143,282.0	8,424.5
Due from banks	15,646.4	16,917.1	1,270.7
Loans on bills	11,085.1	7,961.1	-3,124.0
Securities bought under resale agreement	364.2	0.0	-364.2
Loans to government	590.0	950.0	360.0
Loans to international finance organization	90.6	73.1	-17.5
Other current assets	4,228.3	4800.1	571.8
Fixed Assets	5,312.2	5,266.5	-45.7
Liabilities and Capital	172,442.3	179,542.6	7,100.3
Liabilities	163,193.0	171,149.3	7,956.4
Current liabilities	162,687.1	170,645.1	7,958.0
Currency issued	22,336.0	24,174.1	1,838.1
Monetary Stabilization Bonds issued	79,121.3	84,277.9	5,156.6
Government deposits	7,346.6	11,177.7	3,831.1
Deposits	27,349.1	34,198.4	6,849.3
Allocation of SDRs	119.6	118.2	-1.4
Securities sold under repurchase agreements	11,521.6	9,556.3	-1,965.3
Other current liabilities	14,892.8	7,142.5	-7,750.3
(Exchange revaluation reserve)	(12,761.7)	(5,870.7)	(-6,891.0)
Long-term liabilities	505.9	504.1	-1.8
Allowances	14.9	27.3	12.4
Liabilities to international monetary institute	491.0	476.8	-14.2
Capital	9,249.4	8,393.3	-856.1
Legal reserve	1,261.5	1,682.9	421.4
Voluntary reserve	3,773.5	3,773.5	0.0
Undivided profit surplus	4,214.3	2,936.8	-1,277.5
(Net profit for the period)	(4,214.3)	(2,936.8)	(-1,277.5)

dropped by 6,891.0 billion won due to the won's appreciation against the U.S. dollar.

The Bank of Korea's capital came to 8,393.3 billion won at the end of 2002, representing a drop of 856.1 billion won from the end of the previous year. This decrease, which occurred despite net profits amounting to 2,936.8 billion won during the year, was attributable to the Bank's payment of 3,762.1 billion won, in its profit surplus for the previous year apart from the allocation to the legal reserve, into the government's general revenue account.

Viewing the details of the allocation of the undivided profit surplus for 2002 of 2,936.8 billion won, which was confirmed in February 2003, 293.7 billion won was allocated to the legal reserve and 92.4 billion won to the voluntary reserve for the Bank's contribution to Bounty Fund on Farmers' and Fishermen's Property Formation Deposit, while the remaining 2,550.7 billion won was paid into general revenue account of the government.

(3) Income and Expenses

For the year under review, the net profit of the Bank of Korea came to 2,936.8 billion won, a decrease of 1,277.5 billion won from the previous year's 4,214.3 billion won. The drop was chiefly attributable to a sharp fall in profits on foreign exchange transactions.

Operating revenue decreased by 2,177.0 billion won from the previous year to 10,371.8 billion won. Profits on foreign exchange transactions decreased by 1,969.2 billion won from the previous year to mark 1,073.0 billion won largely owing to the appreciation of the Korean won against the U.S. dollar (1,290.83 won per dollar → 1,251.24 won).

Interest on deposits dropped by 434.5 billion won from the previous year to 478.1 billion won largely due to a reduction in interest revenues on translation against the backdrop of a fall in international interest rates and the won's appreciation against the U.S. dollar.

However, interest received on securities rose by 156.5 billion won from the previous year to 6,135.8 billion won due to the expansion of the scale of operations of foreign currency denominated securities (average balance: 91.8 billion U.S. dollars → 105.6 billion U.S. dollars), which more than offset the effects of the reduction in holdings of government and public bonds (average balance: 6,247.6 billion won → 5,608.6 billion won). Profits on sales of securities increased by 118.8 billion won from the previous year to 2,178.7 billion won, led by profits on sales of foreign currency denominated securities.

Meanwhile, operating expenses stood at 6,223.2 billion won, a decrease of 201.3 billion won over the previous year. By item, interest on deposits decreased by 197.9 billion won owing to the reduction of the interest rate on deposits with the Foreign Exchange Stabilization Fund (annual average 4.54% → 2.80%) following a drop in international interest rates.

Miscellaneous interest paid decreased by 110.3 billion won from the previous year due to the completion (August in 2001) of the repayment of borrowings from the IMF.

Interest on MSBs decreased by 71.2 billion won from the previous year to 4,801.8 billion won because of the cut in the issuance interest rate (annual average 6.58% → 5.76%), which counteracted the effects of an increase in their outstanding balance (average balance : 74,055.5 billion won → 83,300.0 billion won).

<Table 24> **Income Statement**

Unit : billion won

	2001	2002	Change
Operating revenue	12,548.8	10,371.8	-2,177.0
Interest and discounts received	7,369.3	7,063.3	-306.0
Interest on securities	5,979.3	6,135.8	156.5
Interest on deposits	912.6	478.1	-434.5
Interest on loans on bills	294.9	262.4	-32.5
Interest on securities bought under resale agreement	65.2	66.8	1.6
Interest on loans to government	21.4	26.6	5.2
Interest on loans to international finance organization	3.9	1.9	-2.0
Miscellaneous interest received	92.0	91.6	-0.4
Commissions received	68.9	56.8	-12.1
Profit on sales of securities	2,059.9	2,178.7	118.8
Profit on foreign exchange transactions	3,042.2	1,073.0	-1,969.2
Other operating revenue	0.0	0.0	0.0
Operating expenses	6,424.5	6,223.2	-201.3
Interest and discounts paid	5,974.9	5,577.4	-397.5
Interest on deposits	627.4	429.5	-197.9
Interest on MSBs issued	4,873.0	4,801.8	-71.2
Interest on securities sold under repurchase agreement	332.7	314.7	-18.0
Miscellaneous interest paid	141.8	31.5	-110.3
Other interest and discounts paid	0.0	0.0	0.0
Commissions paid	30.1	36.2	6.1
Losses on sales of securities	88.7	253.7	165.0
Banknote and coin manufacturing expenses	109.7	108.2	-1.5
Provision for severance pay	11.3	13.6	2.3
General and administrative expenses	189.4	212.0	22.6
Other operating expenses	20.4	22.1	1.7
Operating profit	6,124.3	4,148.5	-1,975.8
Non-operating revenue[1]	22.5	7.7	-14.8
Non-operating expenses[2]	18.4	14.6	-3.8
Profit before income taxes	6,128.4	4,141.6	-1,986.8
Income Taxes	1,914.1	1,204.8	-709.3
Net profit for the period	4,214.3	2,936.8	-1,277.5

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

2. Organizational Changes

During the year under review, the Bank of Korea realigned organization and functions to augment the effectiveness of its management and complete the organizational restructuring that had been pursued since May 1998.

Viewing the details of the organizational changes, the Bank of Korea expanded and reorganized the 'Economic Studies Office' at the Research Department as an independent department, 'Institute for Monetary and Economic Research,' in a bid to strengthen its medium and long-term research and study functions. To heighten its role in economic research and analysis concerning major countries, the Bank of Korea reorganized the 'Overseas Research Team' to the 'Overseas Economic Information Office'.

In the meantime, as the number of joint examination of banks had increased steadily, the Bank of Korea established a new 'Bank Analysis Ⅴ Team' at the Banking Institutions Department. For the effective operation of its holdings of foreign currency denominated assets, it established a foreign currency asset operation desk at the London Office, following that already set up at the New York Office.

Finally, viewing the Bank of Korea's organization and manpower status as of the end of 2002, the Bank had a total of 14 departments – twelve departments and two offices – and ten offices attached to departments and two institutes under the direct control of assistant governors at Head Office. It also had sixteen regional branches (fifty teams and three representative offices) in the provinces and in the metropolitan area and five overseas representative offices. Meanwhile, the number of employees of the Bank of Korea increased by 15 over the previous year to reach 2,093 at the end of 2002.

Members of the Monetary Policy Committee

December 31, 2002

Seung Park	(Governor of the Bank of Korea)
Won-Tai Kim	(Recommended by the Governor of the Bank of Korea)
Namkoong, Hoon	(Recommended by the Chairman of the Financial Supervisory Commission)
Byung-Il Kim	(Recommended by the Chairman of Korea Federation of Banks)
Tae-Dong Kim	(Recommended by the President of the Korea Chamber of Commerce and Industry)
Woon-Youl Choi	(Recommended by the Chairman of Korea Securities Dealers Association)
Kun-Kyong Lee	(Recommended by the Minister of Finance and Economy)

Executives of the Bank of Korea

December 31, 2002

Title	Name
Governor	**Seung Park**
Deputy Governor	**Cheul Park**
Assistant Governor	**Seong-Tae Lee**
Assistant Governor	**Hyung-Moon Kang**
Assistant Governor	**Sung-Il Lee**
Assistant Governor	**Chang-Ho Choi**
Assistant Governor	**Jae-Ouk Lee**
Auditor	**Woo-Suk Kim**

The Organization of the Bank of Korea

(As of 31 December 2002)

- Monetary Policy Committee
  - Governor
    - Deputy Governor
      - Assistant Governor
        - Budget & Management Department — Planning & Coordination Team, Planning & Budget Team, Organization & Development Team, Accounting System Team, Expense Accounting Team
          - Legal Office — Legal Planning Team, Legal Application Team
          - Public Information Office — Economic Information Team, Information Service Team, Museum Research 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 — Properties Administration Team, Facilities Administration Team, Support Services Team
        - Security Department — Security & Emergency Planning Team, Guard Team
      - Assistant Governor
        - 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, North Korean Economic Studies Team
          - Overseas Economic Information Office — Overseas Economic Analysis Team, The Americas Team, Asia Team, Europe Team
          - Institute for Monetary & Economic Research — Monetary Studies Team, Finance Studies Team, International Economics Team, Microeconomics Team, Macroeconomic & Quantitative Studies Team
          - Library
        - 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
      - Assistant Governor
        - 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, Risk Analysis Team, Financial Stability Analysis Team, Bank Analysis Team Ⅰ·Ⅱ·Ⅲ·Ⅳ·Ⅴ
      - Assistant Governor
        - Issue Department — Issue Policy Team, Cash Planning Team, Cash Processing Team, Verification & Counting Team
        - Payment Systems & Treasury Service Department — Payment Systems Planning Team, Payment Systems Management Team, Electronic Banking Team, Loans & Settlement Service Team
          - Treasury Service & Securities Office — Treasury Service Team, Securities Team
        - Information Systems Management Department — Systems Planning Team, Systems Management Team, Server, PC & Network Team, Accounting Systems Team, BOK-Wire Systems Team, Information Systems Maintenance Team, Information Systems Development Team, Foreign Exchange Information Systems Team, Information Systems Disaster Recovery Team
      - Assistant Governor
        - International Department — International Finance Planning Team, International Finance Research Team, Foreign Exchange Business Team, Foreign Exchange Review Team, 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, International Financial System Team
        - Reserves Management Department — Reserves Management Planning Team, Risk Management Team, Settlement & Systems Service Team, Reserves Management Team Ⅰ·Ⅱ·Ⅲ
      - Branch: Busan, Daegu & Gyeongbuk, Mokpo, Gwangju & Jeonnam, Jeonbuk, Daejeon & Chungnam, Chungbuk, Gangwon, Incheon, Jeju, Gyeonggi, Gyeongnam, Gangneung, Ulsan, Pohang, Gangnam — General Affairs Team, Planning & Research Team, Business Operation Team, Cash Processing Team, Verification & Counting Team, Representative Office
      - Representative Office : New York, Frankfurt, Tokyo, London, Hong Kong
  - Auditor
    - Audit Department — Audit Planning Team, Audit Team Ⅰ·Ⅱ·Ⅲ·Ⅳ·Ⅴ·Ⅵ

Main Economic Indicators

Main Economic Indicators

	Unit	1998	1999	2000	2001	2002	2002.1	2002.2
Money[1]								
Reserve money								
<Period-Averages>	billion won	19,593.0	21,961.7	26,357.0	29,375.9	33,579.3	32,037.0	33,980.3
	%	(-7.2)	(12.1)	(20.0)	(11.5)	(14.3)	(7.1)	(20.3)
<End of period>	billion won	20,703.0	28,486.7	28,238.1	32,826.8	37,987.4	30,286.7	33,184.3
	%	(-8.1)	(37.6)	(-0.9)	(16.3)	(15.7)	(-2.2)	(14.2)
M1								
<Period-Averages>	billion won	113,659.4	147,285.2	183,349.9	216,442.4	265,042.4	251,204.1	257,612.5
	%	(-3.6)	(29.6)	(24.5)	(18.0)	(22.5)	(25.6)	(28.1)
<End of period>	billion won	121,731.1	170,659.4	196,714.5	246,720.5	283,580.8	249,420.1	260,253.9
	%	(-5.6)	(40.2)	(15.3)	(25.4)	(14.9)	(27.0)	(31.1)
M2								
<Period-Averages>	billion won	596,168.3	676,674.7	691,393.5	739,337.0	824,227.8	772,614.7	779,654.9
	%	(23.6)	(13.5)	(2.2)	(6.9)	(11.5)	(8.5)	(8.8)
<End of period>	billion won	639,664.3	672,544.4	707,698.9	764,979.3	872,075.6	770,533.8	785,244.3
	%	(23.7)	(5.1)	(5.2)	(8.1)	(14.0)	(8.3)	(9.5)
M3								
<Period-Averages>	billion won	750,850.5	835,924.5	882,764.3	967,324.9	1,092,168.8	1,027,795.0	1,038,624.1
	%	(13.9)	(11.3)	(5.6)	(9.6)	(12.9)	(11.6)	(11.9)
<End of period>	billion won	787,627.3	850,827.8	911,641.8	1,017,715.3	1,155,739.8	1,031,829.7	1,047,973.6
	%	(12.5)	(8.0)	(7.1)	(11.6)	(13.6)	(12.3)	(12.5)
Interest rates								
Call market rate(overnight)[2]	percent per annum	15.07	4.93	5.05	4.65	4.18	3.96	3.99
Yields on corporate bonds[3]	〃	15.10	8.86	9.35	7.05	6.56	7.07	6.89
General loan[4]	〃	11.33	8.58	8.41	6.91	6.65	6.90	6.78
Ratio of dishonored bills[5]	%	0.38	0.33	0.26	0.23	0.06	0.06	0.09
GDP[6]	%	-6.7	10.9	9.3	3.1	6.3	-	-
Private Consumption	〃	-11.7	11.0	7.9	4.7	6.8	-	-
Construction Investment	〃	-10.1	-10.3	-4.1	5.3	3.3	-	-
Equipment Investment	〃	-38.8	36.3	35.3	-9.6	6.8	-	-
Exports of goods and services	〃	14.1	15.8	20.5	0.7	14.9	-	-
Imports of goods and services	〃	-22.1	28.8	20.0	-3.0	16.4	-	-
Agriculture, Forestry & Fishing	〃	-6.6	5.4	2.0	1.9	-4.1	-	-
Manufacturing	〃	-7.4	21.0	15.9	2.1	6.3	-	-
Electricity, Gas & Water	〃	0.6	10.4	14.0	5.1	13.2	-	-
Construction	〃	-8.6	-9.1	-3.1	5.6	3.2	-	-
Services	〃	-7.2	11.9	9.5	3.9	8.8	-	-

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

2002.3	2002.4	2002.5	2002.6	2002.7	2002.8	2002.9	2002.10	2002.11	2002.12
32,879.5	33,119.5	33,342.4	32,613.9	33,129.4	33,242.9	34,487.4	34,554.2	34,779.8	34,785.2
(17.6)	(17.0)	(17.8)	(16.3)	(14.9)	(15.1)	(15.3)	(9.7)	(12.7)	(9.7)
33,825.7	33,513.8	34,397.2	33,148.6	33,265.9	32,482.6	36,277.9	32,730.1	34,178.5	37,987.4
(10.0)	(10.8)	(16.5)	(19.8)	(8.6)	(9.9)	(9.6)	(6.0)	(12.7)	(15.7)
262,008.4	263,954.0	262,936.9	262,948.0	261,444.5	261,835.5	268,114.5	271,961.4	275,624.4	280,864.0
(26.8)	(28.9)	(28.4)	(26.4)	(22.6)	(20.3)	(18.0)	(16.9)	(16.1)	(15.2)
265,594.1	260,881.3	260,399.6	263,885.4	259,465.7	263,555.9	268,185.0	272,990.9	277,823.9	283,580.8
(30.8)	(30.9)	(28.4)	(26.7)	(22.7)	(22.0)	(13.8)	(16.8)	(16.8)	(14.9)
797,428.3	806,857.1	812,805.7	822,108.1	827,976.7	831,521.4	842,512.0	853,092.8	868,756.6	875,405.5
(11.1)	(12.3)	(12.4)	(12.5)	(11.5)	(10.7)	(10.6)	(11.6)	(13.3)	(14.1)
805,123.3	805,605.0	816,288.0	826,520.5	825,334.8	835,937.6	840,325.0	860,241.5	873,189.8	872,075.6
(11.8)	(12.1)	(12.0)	(12.1)	(10.6)	(11.0)	(9.3)	(12.5)	(13.9)	(14.0)
1,054,965.4	1,068,263.3	1,076,229.2	1,085,397.7	1,095,821.5	1,103,157.4	1,117,925.4	1,131,444.3	1,149,973.2	1,156,429.1
(12.9)	(13.7)	(13.7)	(13.5)	(13.0)	(12.4)	(12.4)	(12.5)	(13.7)	(13.3)
1,069,071.5	1,072,411.1	1,084,412.1	1,092,615.3	1,096,245.2	1,111,047.8	1,118,240.3	1,139,728.8	1,154,916.5	1,155,739.8
(14.7)	(14.4)	(14.1)	(13.6)	(12.8)	(12.9)	(11.3)	(13.3)	(14.2)	(13.6)
3.99	4.00	4.24	4.29	4.27	4.28	4.29	4.29	4.29	4.30
7.05	7.20	7.07	6.76	6.59	6.23	6.06	6.01	5.90	5.88
6.79	6.82	6.80	6.78	6.79	6.72	6.71	6.77	6.72	6.65
0.11	0.08	0.04	0.04	0.06	0.05	0.05	0.05	0.04	0.07
6.2	-	-	6.6	-	-	5.8	-	-	6.8
8.9	-	-	7.9	-	-	6.2	-	-	4.3
9.7	-	-	3.8	-	-	-4.6	-	-	6.0
3.8	-	-	7.5	-	-	7.8	-	-	8.2
2.4	-	-	12.8	-	-	20.3	-	-	24.2
6.5	-	-	18.8	-	-	20.5	-	-	20.0
0.7	-	-	-3.7	-	-	-2.2	-	-	-6.3
4.2	-	-	6.6	-	-	5.5	-	-	8.8
13.7	-	-	13.1	-	-	11.7	-	-	14.0
8.6	-	-	3.1	-	-	-3.8	-	-	6.3
8.1	-	-	9.2	-	-	9.5	-	-	8.6

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	1998	1999	2000	2001	2002	2002.1	2002.2
Price Index[7]								
Consumer price	%	7.5	0.8	2.3	4.1	2.7	2.6	2.6
	〃	(4.0)	(1.4)	(2.8)	(3.2)	(3.7)	(0.6)	(0.5)
Producer price	〃	12.2	-2.1	2.0	1.9	1.6	-0.6	-0.2
	〃	(3.6)	(0.9)	(1.7)	(-0.7)	(4.6)	(0.6)	(0.6)
Employment								
Number of the person employed	thousand persons	19,938	20,291	21,156	21,572	22,169	21,342	21,420
Number of the person unemployed	〃	1,490	1,374	913	845	708	847	836
Unemployment rate	%	7.0	6.3	4.1	3.8	3.1	3.8	3.8
Wages[8]								
All industry	won	· ·	1,543,600	1,667,542	1,752,382	1,947,774	1,762,593	2,017,051
	%	(· ·)	(· ·)	(8.0)	(5.1)	(11.2)	(-7.6)	(25.9)
Manufacturing	won	· ·	1,442,921	1,567,510	1,659,109	1,857,171	1,637,872	1,939,178
	%	(· ·)	(· ·)	(8.6)	(5.8)	(11.9)	(-12.8)	(28.6)
Industry activities indexes								
Production[9]	%	-6.6	25.0	17.1	0.9	7.3	14.7	-1.1
Shipment[9]	〃	-8.8	25.7	16.7	1.4	7.3	13.9	1.2
Inventory[9]	〃	-17.2	2.3	12.3	0.6	0.4	-3.1	-6.6
Average capacity utilization ratio	〃	68.1	76.5	78.6	75.1	76.9	76.9	76.4
Balance of payment								
Current account	hundred million U.S.$	403.7	244.8	122.4	82.4	60.9	2.6	3.6
Goods	〃	416.3	283.7	168.7	134.9	141.8	6.6	6.1
Services	〃	10.2	-6.5	-28.9	-38.3	-74.6	-6.2	-4.8
Capital account	〃	-32.0	20.4	121.1	-32.7	15.2	19.1	-5.8
Foreign trade[10]								
Exports	hundred million U.S.$	1,323.1	1,436.9	1,722.7	1,504.4	1,624.7	113.8	110.2
	%	(-2.8)	(8.6)	(19.9)	(-12.7)	(8.0)	(-10.0)	(-17.5)
Imports	hundred million U.S.$	932.8	1,197.5	1,604.8	1,411.0	1,521.3	113.3	104.7
	%	(-35.5)	(28.4)	(34.0)	(-12.1)	(7.8)	(-8.9)	(-17.8)
Foreign exchange holdings[11]	hundred million U.S.$	520.4	740.5	962.0	1,028.2	1,214.1	1,043.0	1,050.9
Exchange rate of won[12]	won	1,204.0	1,138.0	1,264.5	1,313.5	1,186.2	1,314.4	1,323.8
against U. S. dollar	%	(40.8)	(5.8)	(-10.0)	(-3.7)	(9.7)	(-0.1)	(-0.8)

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) Monthly earnings. 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. Figures in yearly data of inventory indexes indicate rates of increase compared with the last month of the previous year.

2002.3	2002.4	2002.5	2002.6	2002.7	2002.8	2002.9	2002.10	2002.11	2002.12
2.3	2.5	3.0	2.6	2.1	2.4	3.1	2.8	3.5	3.7
(0.6)	(0.6)	(0.4)	(-0.1)	(-0.3)	(0.7)	(0.6)	(-0.3)	(0.1)	(0.5)
0.0	0.7	1.5	1.2	0.9	1.6	2.2	3.1	4.0	4.6
(0.6)	(1.0)	(0.7)	(-0.3)	(-0.2)	(0.3)	(0.4)	(0.5)	(0.4)	(0.1)
21,770	22,301	22,455	22,515	22,534	22,223	22,490	22,538	22,389	22,052
803	734	689	643	659	691	605	639	648	702
3.6	3.2	3.0	2.8	2.8	3.0	2.6	2.8	2.8	3.1
1,805,170	1,862,180	1,712,045	2,005,697	1,939,089	1,901,050	2,141,452	1,884,437	1,778,304	2,563,427
(9.8)	(12.7)	(10.6)	(9.9)	(11.6)	(11.8)	(10.3)	(12.8)	(11.9)	(15.7)
1,655,272	1,742,254	1,602,152	1,896,851	1,875,110	1,826,222	2,026,079	1,836,973	1,607,021	2,637,441
(11.2)	(9.9)	(13.0)	(9.4)	(15.2)	(9.8)	(10.8)	(15.4)	(11.1)	(22.8)
7.3	10.8	9.4	2.3	9.5	7.0	-0.2	11.7	6.9	9.7
7.9	10.9	9.5	1.3	8.2	5.9	1.0	12.3	6.8	9.4
-8.4	-7.1	-7.9	-4.9	-4.0	-1.3	-2.6	-1.3	-1.0	0.4
78.0	78.1	77.0	75.1	76.9	76.8	76.4	77.4	77.1	77.0
9.7	-0.9	9.6	7.3	0.8	3.2	5.3	14.9	11.2	-6.5
18.5	11.2	15.0	17.4	7.1	10.3	10.9	21.2	13.6	3.9
-4.0	-4.3	-5.6	-6.1	-7.3	-9.2	-5.7	-5.1	-6.0	-10.4
-5.9	0.9	-9.4	4.9	28.6	6.3	-11.1	-13.8	-3.3	4.8
132.5	131.9	141.7	128.9	134.0	139.6	139.0	150.9	152.0	150.3
(-6.2)	(8.8)	(6.5)	(-0.3)	(17.6)	(18.6)	(11.7)	(24.8)	(23.1)	(26.1)
119.9	125.6	127.0	119.3	130.3	128.6	129.9	138.2	139.9	144.5
(-7.4)	(12.0)	(9.9)	(1.8)	(17.3)	(13.4)	(10.9)	(20.1)	(21.3)	(27.9)
1,060.9	1,076.6	1,096.3	1,124.4	1,155.0	1,165.4	1,166.9	1,170.0	1,183.3	1,214.1
1,325.9	1,294.0	1,226.3	1,201.3	1,188.0	1,201.9	1,227.8	1,221.6	1,208.8	1,186.2
(-0.9)	(1.5)	(7.1)	(9.3)	(10.6)	(9.3)	(7.0)	(7.5)	(8.7)	(10.7)

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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