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Press Conference of Stanley Fischer

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MR. HOLE: Good morning, ladies and gentlemen. Welcome to this briefing by Mr. Stanley Fischer, First Deputy Managing Director on the stand-by arrangement for Korea which the Executive Board of the Fund approved last evening. You will have received the press release on the stand-by, and this morning, we have made available on the table at the back of the room a summary of the program which the stand-by is in support of.

Joining Mr. Fischer at the table this morning, to his right is Mr. Hubert Neiss, Director of the Asia and the Pacific Department who led the negotiations in Seoul; on my left, Mr. Bijan Aghevli, Deputy Director of the Asia and Pacific Department; and on Mr. Neiss' right, Mr. Tomàs Baliño, Assistant Director in the Monetary and Exchange Affairs Department of the Fund who was also recently in Seoul as head of a team working on the restructuring of the financial sector, a team which, of course, overlapped and worked closely with Mr. Neiss and his team.

The contents of this briefing are under embargo for use in any form until 15, 1-5, minutes after the end of the briefing. Mr. Fischer has some introductory remarks, and then, we will take your questions.

MR. FISCHER: As you know, the Executive Board yesterday approved a 3-year stand-by credit for Korea for an amount of about US\$21 billion. The first disbursement, which was triggered by Board approval, of about US\$5.56 billion was made available immediately at the end of the Board meeting yesterday to the Korean Government. A further amount of about US\$3.6 billion will be made available 2 weeks from yesterday, on December 18, on Board approval of the first program review and another US\$2 billion on January 8 after approval of the second review. Subsequent disbursements would be made available based on attainment of agreed targets and, in some cases, program reviews.

In addition, as you know, to the IMF financing of US\$21 billion, the President of the World Bank has indicated the Bank's readiness to provide US\$10 billion, up to US\$10 billion, in support of specific structural reform programs in accordance with Bank policy, and the President of the Asian Development Bank has indicated his readiness to provide up to US\$4

billion in support of policy and institutional reforms, bringing the commitment from the multilateral institutions to US\$35 billion.

In addition, a number of countries: Australia, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States have indicated that they are prepared, in the event that unanticipated adverse external events create the need for additional resources to supplement Korea's reserves and resources from the international institutions to consider making available supplemental financing, the so-called second line of defense, which is expected to exceed US\$20 billion.

Let me say a word or two about the process of this crisis and negotiation. The crisis in Korea unfolded with overwhelming speed and severity. The negotiating team led by Mr. Neiss left Washington for Seoul only 10 days ago, and we have reached agreement with the Korean authorities on a strong program in record time. The agreement with the Fund management and staff was reached in the early hours of December 3, two days ago, Eastern Standard Time. The Managing Director briefed the press in Seoul soon after, and at 9:00 a.m. Eastern Standard Time, which was late at night in Seoul, he briefed the IMF Executive Board on the agreements by a videoconference link.

The authorities' letter of intent and the staff report on the economic program was sent from Korea and issued to Executive Directors on December 3 and in the early morning of December 4 respectively, all these being unprecedentedly rapid speeds at which these difficult documents were created and distributed.

These were very difficult negotiations, as the program required a quantum leap in policies that the authorities had been planning to implement gradually over a number of years. Their decision to join the OECD obviously implied that their capital markets would be opened and that a lot of the other structural measures now in the program would be implemented in due course, but they have had to be implemented much more rapidly.

The results that have been achieved would not have been possible without the extraordinary efforts of the staff mission in the field, led by Hubert Neiss, who is here on the podium, and by Mr. Baliño in the field as well as Mr. Aghevli, who headed the headquarters staff and, of course, without the personal involvement of the Managing Director on the last and unexpectedly long day of negotiations.

The drama of this negotiation resulted from the realization when the mission arrived in Seoul on Wednesday, November 26, of the alarming state of the foreign reserves. As the Managing Director has said, when we were invited in, Korea was possibly 10 days away from a financial catastrophe, and the urgency to compress negotiations into one week required a ruthless concentration on priorities.

Inevitably, therefore, a number of details remain to be worked out, and some policy commitments have yet to be translated into time-bound actions. This work is being done by our staff team, which will remain in Seoul for another 2 weeks, and the work will be continued by our next review mission in January. The work will also involve cooperation with the World Bank and with the Asian Development Bank as they move in to define their parts of the overall reform program in cooperation with the Korean authorities.

I would like to say one other thing. We focus, naturally, on the difficulties confronting our staff, and they were formidable. The Korean authorities similarly operated under enormous difficulties. There was a new deputy prime minister and finance minister, Mr. Lim, who fortunately had been an Alternate Executive Director at the Fund and also at the World Bank in the 1980s, so, he was familiar with these institutions. But he came in just over 2 weeks ago into a situation which must have been far worse than he could have imagined, and he had to negotiate this agreement with a lack of full understanding in his country of the depths of the problems he was confronting.

He was a very tough negotiator, and that is only to be expected, and I believe that the agreement that has been reached shows a lot of courage and a lot of wisdom for the future of the Korean economy.

The program itself aims in the immediate run to staunch the crisis and permit a return over a longer period of economic stability and growth. The staunching of the crisis requires a tightening of policies and the provision of this unprecedentedly large external financing package. Those two things together are aimed at restoring market confidence.

The early reactions have been promising. The won has appreciated by about 2.5 percent from its Wednesday trough. The stock market has rebounded by 15 percent since the Wednesday trough, and, perhaps more important, the hemorrhaging

of Korea's foreign reserves has stopped over the last 3 days. While these immediate reactions are welcome, they will be sustained only if the Korean economic program is rigorously implemented and is seen to be being rigorously implemented by the markets.

In terms of macro objectives, the program is intended to narrow the external current account deficit to below 1 percent of GDP in 1998 and 1999, contain inflation at or below 5 percent and, hoping for an early return of confidence, limit the deceleration in real GDP growth to about 3 percent in 1998, followed by a recovery toward potential growth in 1999.

To demonstrate the authorities' resolve to stem the crisis, the short-term crisis, monetary policy has been tightened substantially. In line with this policy, the short-term interest rate, the call rate, has been raised from 12.5 percent on December 1 to 21 percent yesterday and to 25 percent today. A flexible exchange rate policy will be maintained, with intervention limited to smoothing operations, and fiscal policy will remain tight--Korea has traditionally run a tight fiscal policy--to alleviate the burden on monetary policy and to provide for the still uncertain costs of restructuring the financial sector.

The heart of the program is in the area of financial restructuring, and let me focus on some of those issues. First, a series of financial sector reform bills submitted to the National Assembly are expected to be passed before the end of the year. A revised Bank of Korea Act providing for central bank independence, a bill to consolidate supervision of all of the banks, including specialized banks, merchant banks and other financial institutions in an agency with operational and financial autonomy and independence with all of the powers that are needed to deal with the financial institutions now in distress.

There will also be a bill requiring that corporate financial statements be prepared on a consolidated basis and be certified by external auditors. The nonconsolidated statements are already prepared in standard fashion.

In addition, troubled financial institutions will be closed or, if deemed viable, restructured and/or recapitalized. The Government has already suspended nine insolvent merchant banks. That was 3 days ago. These banks have been placed under the control of the Ministry of Finance and are required to submit a rehabilitation plan within 30 days. These plans will be assessed in consultation with Fund staff and possibly World Bank staff, and, if not approved, the institution will have its license revoked.

A credible and clearly-defined exit strategy will include closures as well as mergers and acquisitions by domestic and foreign institutions, provided the new groupings are viable, and clear principles on the sharing of losses among equity holders and creditors will be established. The disposal of nonperforming loans will be accelerated. Present blanket guarantees which will end within 3 years will be replaced by a limited deposit insurance scheme. A timetable will be established for all banks to meet or exceed Basle standards. Prudential standards will be updated to meet Basle core principles. Any support to financial institutions, including the foreign exchange loans, will be given on strict conditions, and all support to financial institutions other than Bank of Korea liquidity credits will be provided according to preestablished rules and transparently recorded. There are also important reforms in the areas of corporate governance and trade liberalization that are described in the documents we have.

Now, this is a strong economic program that deserves the support of the international community and has obtained the support of the international community through the Fund, through our sister organizations and in the expressions of bilateral support. The strength of the program, together with the financial difficulties experienced by Korea justify this exceptional level of support, and it is totally extraordinary.

Given the level of support and the speed of the operation, we in the Fund are confident that the authorities will do their part by meeting their policy commitments. The Managing Director has received assurances from the three presidential candidates in the forthcoming Korean elections indicating that they are committed to implementing the program, so that we are confident of the strong ownership of the program by the authorities, and we should not forget that Korea has been through crises in the past, including in the 1980s, and has shown an ability to take very difficult measures quickly and to deal with crisis situations. What has been done in the last few days indicates their resolve.

Let me say a word also about the international environment. These are extraordinary times. What has happened in Asia in the last 6 months is extraordinary and unprecedented, particularly for the Asian economies. We have been doing our best in our programs with Korea, Indonesia and Thailand to support members' efforts to address their emerging difficulties, and we are confident that the programs for Thailand, Indonesia and Korea will succeed if they are fully implemented. We will

do our best, together with our colleagues in the World Bank and the Asian Development Bank, to help ensure that the programs are implemented, and we are confident that doing so is the best way of restoring the growth of the miracle economies of East Asia; that these programs will be implemented; and that market confidence and growth will be restored.

QUESTION: I'm Erin Basu with Radio Free Asia. My question is the economic restructuring that is being recommended, what does that do to the chaebol system? Is it going to simply restructure the conglomerates? Or is it going to, in time, dissolve this whole system of chaebols and replace it with a different system of corporate governance?

MR. FISCHER: I don't think we can tell at the moment whether the chaebol system will survive. What is clear is that the transparency of the financial relations among the chaebols will be enhanced; that foreign investment in the Korean stock market will be permitted, 50 percent ownership by a single foreign entity, will be permitted by the end of this year already so that the market discipline on the chaebols and on other Korean companies is certainly going to be enhanced in the coming year or years.

Whether they survive as they are restructured is something that the market will decide, but there is no particular guarantee of them not surviving or surviving for that matter. We'll just see what the market brings forth. But it is clear that market forces, through the financial sector, banking and equity markets, are going to be strengthened enormously.

QUESTION: San Yab Kim, Mail Business Newspaper from Seoul, Korea. Well, before asking my question, I would like to confirm some statistics. According to the information your IMF released yesterday, the expected economic rate of 1998 was 2.5 percent, but as Mr. Fischer noted, we understand the proper economic growth rate is about 3 percent. Is there any difference? That is my first question.

And among the financial institutions, are banks included too--is there any agreement that some weak banks should be closed down or not? Could you identify that? Thank you.

MR. FISCHER: Thanks; on the growth assumption, I first want to be clear that the Fund does not target the growth rate or require the growth rate. It is not an objective of an IMF program. It's an assumption. To do the other calculations, we need to make an assumption about the growth rate, to get all the figures right. There is a great deal of uncertainty about what will happen next year, and we should not pretend to excess precision on the growth target.

We believe, Mr. Neiss in his negotiations indicated to the Korean authorities, that we thought the number would be in the range of 2.5 to 3 percent. It could well be outside it on either side, and we specified one of the numbers in the range. We would be comfortable to say 3 percent; we would be comfortable to say 2.5. I don't think that anybody at this time could realistically know whether it's going to be that one number or the other. That is in the range on which we have based our program, both numbers are within the range on which we have based our program.

On the banks, perhaps I can ask Mr. Neiss to address that issue.

MR. NEISS: The financial restructuring program comprises both the merchant banking sector as well as the commercial banking sector. The aim in both cases is to create a stronger financial system. In the case of the merchant banking sector, the measure started by suspending some clearly unviable units, nine. But the program doesn't stop at that. The aim is to strengthen the remaining institutions in both sectors through a program of recapitalization, a program of strengthened supervision, a program to aim at higher standards of provisioning, of accounting, of definitions of nonperforming loans and so on.

QUESTION: (Mr. Kim follow-up) There is a strong assertion that not only the merchant banks but also major commercial banks--some of the major commercial banks which are facing very difficult situations should be or should not be closed down. So, last night, the Government denied that there is that kind of agreement between the IMF and the Korean Government, but there is still some rumor or unidentified information that the major commercial bank can be closed down. Can you confirm that?

MR. NEISS: Yes; there is agreement that all commercial banks should go through a process of strengthening and rehabilitation.

QUESTION: Barry Wood, VOA. Could you address a couple of elements of the program, one being that the money goes to the treasury, into the reserves, but many of the big conglomerates may have financial difficulty stemming from ambitious

expansion plans. How do we know that that money won't go through various Korean institutions short-term to shore up the finances of the conglomerates? And a second element, some complain that you're forcing Korea into recession by insisting that interest rates short-term be raised as much as they have. Could you address that?

MR. FISCHER: Yes; let me take the second question first because it is an important one. The growth slowdown that Korea will experience now is a result of things that happened before the IMF was called onto the scene. Given the situation of the economy 2 weeks ago, 10 days ago when our mission arrived, there was no way that Korea could have avoided a significant period of growth slowdown and restructuring. Things had just gone too far.

So, the right view is that without our assistance, this would have been a much deeper recession, and the amount of readjustment in Korea would have had to be even greater. There will be a considerable amount of restructuring. So, this is a problem that was created well before we arrived. It's extremely unfortunate, and we're trying to mitigate it.

Second, on how the money goes, can't this money leak from the reserves into support for the chaebols? You should be aware that there has been a significant change in Korea already. A number of chaebols have gone bankrupt in the last year and a half. The Government is not any longer in the business of bailing out the chaebols in the way it would have done in the 1980s.

Secondly, we have firm agreements, and we will monitor all this very closely, on how the bankruptcy laws--and Korea has well-defined bankruptcy laws--will be applied and on how state assistance will be provided both to the banking system and to corporations. So, there are agreements on that. This money is intended to bolster the reserves and to assist the restoration of confidence, and for the rest, there is a well-defined fiscal program that includes and defines whatever support, and it's practically none, is planned to be given directly to the corporate sector.

QUESTION: Parasuram, Press Trust of India. What has been called the Japan and Korea, Incorporated system has produced some spectacular results. My question is whether the decision now to switch over to market forces and dismantle the system was based on political grounds or economic grounds and whether it was possible, with international assistance, to carry out--to reform the system and deal with these weaknesses within the Korea, Incorporated system of industrial policy, or was it necessary to just dismantle it, and what lesson does it have on various other countries to whom East Asia has been held up as a model until now?

MR. FISCHER: I don't think it was possible to achieve this restructuring within the Korean model or within what you call the Japan, Inc. model. Korea itself had realized this in the last few years, but what you have had here is a breakdown of economic relations caused by that system, by the fact that the banks were being used to funnel money from abroad into corporations without those corporations being subjected to market discipline or without its being clear what, precisely, their financial structure was.

It seems that the attempt to use the international economy without fully integrating into it, without fully integrating the capital markets, is actually an important part of the reasons for these problems that confront Korea. And I believe one of the lessons we will learn is that as you modernize your economy and seek to reach the levels of an advanced industrial country, and Korea is well on its way, then, the sophistication of the industrial structure has to be matched by the sophistication of the financial system and that that sophistication was missing in the Korean case and that it is necessary and that that is one of the lessons.

What has happened in Korea in this period, that's one of the lessons. What are the other lessons? When this crisis began, there was a great emphasis on the question about the wisdom of opening capital markets. I believe it's significant that the country which was best known for not opening its capital markets has suffered as big a crisis if not bigger than those who had opened their capital markets, and this reinforces our general view that capital market liberalization is a necessary part of economic development. It does not have to be done all at once; it needs to be done with care, proper prudential regulations, proper accounting standards, proper banking supervision has to be in place. It can be done gradually, but it has to be done if a country is to enjoy the benefits of the global economy.

QUESTION: Janet Guttman from Reuters. Over the next 6 weeks or so, if things go well, South Korea will be receiving US\$10 billion, which is 20 percent of what you have said are your reserves at the moment. Has the IMF got enough money?

MR. FISCHER: Well, it's US\$11 billion.

We have still probably after allowing for the amounts already committed, not amounts that have yet been disbursed, including for Korea, we have about US\$44 billion in uncommitted, usable resources in the General Resources Account of the Fund. We also have the ability to access the GAB, The General Agreement to Borrow, up to an amount of about US\$25 billion, and there is, of course, the prospect of the NAB coming into existence, which would double the resources that are available under the GAB, so that in the event of more major crises, and we certainly hope we don't see them, we would have access to reasonable amounts of funding that would, however, drive our liquidity position to very uncomfortable levels, and that's why it's important that member countries agreed in Hong Kong to increase the quotas by 45 percent.

When that is done and given a reasonably optimistic view of the current situation, we should be comfortable, not excessively so, equipped to deal with foreseeable crises but still concerned that the situation might have to be revisited if the type of crisis we are seeing now were to reappear.

QUESTION: Tim Shorrock of the Journal of Commerce. You mentioned the 1980 period, when South Korea also received international assistance. At that time and in the whole post-war period, South Korea has had an extraordinarily close relationship with the United States. At that time, the United States stood next to the military rulers of South Korea during a severe crisis and urged international banks to continue lending to South Korea, including American banks, which expanded their loans in that period.

In light of the fact that the United States is unwilling to provide much bilateral assistance and is lending very little under this plan, don't you think that the United States has some special responsibilities in this situation, some responsibility, perhaps, for the crisis that occurred, because it seemed to be willing to bail out South Korea no matter what happened? I would also note that the debt levels of the Korean conglomerates have been at this four-to-one equity level since the early 1970s. Could you please address that question?

MR. FISCHER: Yes, it's clear--the last point first--that the debt-equity ratios in South Korea are very, very high and contribute to the instability that we've just seen. If you're so indebted, then when things turn bad you get into financial trouble and bankruptcy very quickly. And one of the goals of the corporate governance parts of this program is to find ways of ensuring that debt-equity ratios go down.

As to the United States contribution, there are two things to be said. First, \$5 billion is still a lot of money by most people's reckoning, and that is the amount the United States has committed in bilateral support. Secondly, the United States is the largest shareholder in the IMF and also in the World Bank, and the support that is being provided through these institutions is precisely part of the international effort to assist South Korea.

I think that the United States has in recent years moved to the conclusion that the international institutions were put there to deal with these crises and that they should deal with them in the way we have dealt with the most recent crises, and that we should constitute the first line of defense, and that is clearly the way we're moving. That's clearly what was implied by the meeting in Manila in November on Asian financing mechanisms, that these institutions should be in the first line of defense, and that's a widely supported review.

As to responsibilities from the 1980s and all that, perhaps; but I don't have any sense that that's a major factor in this crisis.

QUESTION: Deanna Gregg with BNA. Back in September when you issued the World Economic Outlook, you had a pretty upbeat view of the world economy, and I just wondered if you could comment now whether that is going to be revised or just in general what do you see is the impact of all these troubled Asian economies on the bigger picture.

MR. FISCHER: What's happened since September is two things. First, the outlook in Asia, including Japan, has worsened significantly. There would be some adverse effects of the Asian crisis on growth of the G-7 countries, the non-Japan G-7 countries. Depending on the countries, we estimate those numbers as somewhere in the range of a quarter percent to half a percent. But at the same time, the prospects for United States growth in 1998 and for European growth have gone up; so that while the components of the world growth forecast will change, the aggregate growth figure will be about the same when our revised forecasts are produced.

QUESTION: Soon Yong Cho with the Korean Broadcasting System. There were several experts or think tanks in the newspaper saying that the program of the IMF with South Korea is too severe, or to some, kind of unnecessary or

inadequate. Could you have any comment on that?

The second question is: In my understanding, this program is a three-year term. Is it enough?

MR. FISCHER: The program itself has to be looked at very carefully. There is very little fiscal tightening. Korea has had a balanced budget. We essentially ask Korea to take measures to maintain a balanced budget or budget with a small fiscal surplus, taking into account the cost of financial sector restructuring. But the fiscal adjustment would be small. We don't have any desire or intent to do things which would reduce growth beyond the levels to which they will be reduced.

On the interest rate side, which is the other place that people point to, that's a situation in which, if you do things up front, the benefits are very large. If you avoid doing what's necessary, you can prolong the problem.

We have urged the Korean authorities and they have accepted the need to raise interest rates sharply now to restore confidence and stop this period of instability. As that is done, the interest rate can begin to come down.

As we've seen in many other countries, if you don't do that at the beginning of a program, the period of instability of the foreign exchange markets and of the stock market is prolonged, and you end up having to do it six months later, having wasted those six months.

So we see this program as having very little fiscal adjustment, just the necessary amount, and an upfront monetary policy adjustment to stop the rot of confidence, restore it, and then take it away. And I don't see any excesses in that regard in this program.

As to whether three years is long enough, yes, I believe three years will be long enough. This program is heavily frontloaded. A lot has to be done quickly. We expect the Korean Government will do that. We will maintain the relationship over the three years. But if the program works, it is entirely possible that Korea will not need to draw on the later tranches of the program.

QUESTION: Bob Davis, Wall Street Journal. You talked about how implementation is the heart of the program. A question on enforcement. How do you actually enforce this program? There are some out there who say that the stick that you have, withholding further money, is too large a stick, that you wouldn't, given how tenuous things are in Asia, that you wouldn't use that at this point; and in some of the things that you're trying to enforce, for instance, closure of banks and that sort of thing, that these are fairly fuzzy areas. I mean, how many do you close? What does closing actually mean?

As a for instance, when you were talking about closing the merchant banks, does the IMF have an actual veto over that? You said you were going to review it in tandem with the financial authorities.

MR. FISCHER: The argument that the Fund wouldn't use conditionality because it's too dangerous is not one we can accept. The stakes are very high on both sides. If the program is not implemented, it will fail, and the cost to Korea and to the international system will be very severe. Under those conditions, if we had to use our conditionality, we would, and I think you've seen in other countries at least as important to the world system as Korea, that we have stopped payment despite unfortunate consequences. I don't myself have any doubt that we would do what had to be done to maintain the effectiveness of Fund conditionality.

Sorry, what was the second question? Oh, on the financial sector.

I think if you look at the other countries in the region, particularly Thailand, you'll understand that while these things are very complicated, the review process works, and at each stage we have to approve what has been done.

Now, I don't know that we have a veto, but we have the right to say overall whether the process is being done well or badly, and if in the judgment of the staff the process is not being done as it should be, broadly speaking, then we would simply say that it's not adequate. And, again, I'd point you to the Thai case where you will see within a few days that very effective actions are being taken to deal with these problems.

QUESTION: Paul Blustein with the Washington Post. I want to focus on this issue of the emergency that you found yourself confronted with and the point you were making, Mr. Fischer, that the mission had to leave some details unspecified at the moment.

My first question about that is: This implies, perhaps, that the Korean authorities were not behaving, before the mission arrived, with quite the level of forthrightness that the Fund would have found helpful, to put it mildly and in terms you might want to use. And the second question is: One area that I wonder in which the unspecified details might be a problem is in whether foreign banks will be really allowed to come in and take over troubled Korean banks. I mean, how firm are the Korean commitments on that? How specific have they been in their promises to allow foreign banks to take over Korean banks?

Also, I understand that one problem with taking over a Korean bank is that, you know, there are all these restrictions on firing people. And I wonder how firm their commitment has been to allow, for example, excessive bank employees to be fired if a foreign bank were to come in and take over.

MR. FISCHER: Thanks very much. On the withholding of information, there are agreements on how rapidly we're provided with information on reserves in particular, which was, I suspect, the area you had most in mind. This situation changed with extraordinary speed, as it tends to do in countries that are going into a crisis. And there was no withholding of information in the sense that we were given information on schedule. It's just that the normal schedule was quite inappropriate--was quite--was not very useful under these circumstances. But there were contacts between the Fund and Korea before this formal start of negotiation that gave us some idea --not the numbers but some idea--of the seriousness of the situation.

On the role of foreign banks and how easy it will be for them to enter, let me turn to Mr. Baliño, please.

MR. BALIÑO: Thank you. While there is a clear undertaking by the Korean authorities that, in the case of merchant banks, foreign banks will be allowed to have 100 percent equity participation, in the case of commercial banks there is a limitation under current law that any shareholder, be Korean or foreigner, cannot hold more than 4 percent. However, there is a provision that the Korean authorities are prepared to allow much higher levels of equity participation in those cases where they consider that important for the restructuring of the system.

Now, as to the powers that revert to the level of employment, of course, this will have to be designed according to Korean legislation. There is no specific undertaking that in the case of banks this will be done any differently.

QUESTION: As we all know, South Korea will hold elections in a couple of days, and the political situation is quite kind of difficult. Now South Korean newspapers start to complain that the IMF somehow urged the three candidates to support the programs, forcing them to undersign a kind of paper of support. Could you comment on that?

MR. FISCHER: Yes. This is obviously a complicated issue. We're initiating the largest program in our history two weeks before an election, presidential election. Not only is it the largest program in our history, it's one of the most frontloaded in our history. The needs of Korea were extraordinary, and it means that disbursements will be made within the period of a month before and after the election that are bigger than almost any other program we've ever had.

It was, therefore, essential that we be able to assure, that the Managing Director be able to assure the Board that this program would be carried out. What had to be done to help South Korea required of the international community an amount of trust that is quite extraordinary, and to buttress that trust we needed assurances that the program would be supported by whoever the next government would be.

We've confronted this situation in the past. We've always sought assurances and held discussions with other political leaders, and sometimes labor leaders, so that we could tell the Board, yes, management believes this program will be implemented; or we've used tranching, that is, disbursed very little up front and left all the bulk of the financing for later. But we couldn't do that this time. We had to do the disbursement up front; therefore, we had to get these agreements from the presidential candidates. They were a request from the current President of South Korea to his potential successors to provide those assurances, and they did.

QUESTION: Blair Pethel from Bridge News. Two questions, one specific, one general.

There is a 30-day timetable for the nine suspended merchant banks to submit restructuring plans. Has there been a timetable set for the remaining banks, including the commercial banks, to bring themselves up to Basle standards, number one?

Secondly, this regional crisis really started in July and has tumbled downhill since then. We've had five months and more

than \$100 billion now poured into that region, but there are few signs that it's contained, let alone reversed. There's talk in the market about other countries, about Brazil, about Russia, Malaysia, et cetera, et cetera? Why is this not stopping it?

MR. FISCHER: On the timetable, there is a timetable for the remaining banks to come up to standard. I believe it's in the summary of the program that is being handed out.

Let me, incidentally, just make in passing a comment. The Korean Government has been extraordinarily open with the public in what it has been willing to do to make this program public. This is typically a decision of the government as to whether they publish the details. We were given permission to publish, make the summary of the staff report that you have just received available by the Korean Government. They will be publishing the letter of intent later today. These are very unusual--we hope they will become more frequent-- measures and they are a sign of the commitment of the Korean Government to telling their people and the markets what will be done and what has to be done.

On the length of the crisis, crises don't end immediately or quickly. If you remember the Mexican crisis, it started in December. Signs of confidence really only emerged in April. There was an aftershock in November a year later than the start of the program. That's the way these things go. There's been a profound change in investors' views of what is happening in East Asia, and it will take time for that to settle down.

Some of the contagion that is taking place is rational. When a set of exchange rates adjusts, then it affects the competitive positions of other countries. Some of what is being revealed about financial systems is casting new light on systems in other countries. So part of what is happening is rational contagion. Some of what is happening is probably excessive as this shock changes the perceptions of the markets.

We don't want to predict and we can't predict when this will end. But we have seen in the case of Brazil that when the government is willing to take decisive action in the face of an impending attack, when it raises interest rates--and these were real interest rates--to 3 percent a month to beat off an attack, when it tightens fiscal policy decisively, the markets respond.

As long as governments defend themselves, they will succeed in the near future--but precisely when, we can't say--in reversing the crisis. And I am quite confident, I think we in the Fund are, that in a couple of years the Asian growth record will return, perhaps not to the super normal 9 percent and 8 percent rates of the past; but 6 to 7 percent rates, which are also historically extraordinary, are quite within reach for most of these economies. And you'll get used to them a couple of years from now.

QUESTION: Jane Erath from Reuters Financial TV. Mr. Fischer, how concerned are you about moves in the U.S. Congress to try block the use of U.S. funds for the Korea project or other IMF bailouts?

MR. FISCHER: It would be unfortunate. It's, of course, a decision for the Congress to make. The markets are reassured by the provision of the second line of financing by the United States. The United States plays a leadership role in the international economy.

The second line of defense is there in extreme circumstances. We fully anticipate that the first line of defense is sufficient. That sort of back-up safety net second line of defense should provide reassurance that, if things go very bad, there will be support. We really do not expect it to be used. I think it's important that all the countries that have agreed to support this package are able to do so.

QUESTION: Unter Kon, Daily Newspaper, South Korea daily newspaper. There is a suspicion about the possibility that U.S. put bilateral issue with Korea into the package in Korea. And my second question: Can you single out the main factor who is to take the most responsibility of the financial crisis in Korea? And the last question is: Is there any possibility of renegotiating between the IMF and South Korea about the package deal?

MR. FISCHER: On the U.S. role, the U.S. is the largest shareholder in the IMF. Its views naturally count for a lot in the IMF Board. We heard those views. We heard the views of our entire Board as we kept them informed of the negotiations.

I don't believe that what you describe as the bilateral issues, many of which are trade related, had any particular role. I believe that the advice we were getting from the United States and Japan and other countries who are represented in the Fund was based on their perception of what needed to be done to stop this crisis and return the Korean economy to

growth.

As to whether we can single out who is responsible, those postmortems have to be done. We ourselves in the Fund always ask after every crisis what are the lessons. Korea will have to assess those responsibilities and draw conclusions about how policy ought to be conducted in the future, but that's not a job we can do now, nor do we particularly want to. That's a problem for the Korean political system to deal with.

On renegotiation, let me be clear. Fund programs are continuously renegotiated in the following sense: that as circumstances change, we adjust the targets in IMF programs. If the assumptions we have here turn out to be very wrong, and there is no guarantee at a time of extreme crisis of what will happen in the next six months, then we'll have to adjust the program accordingly. So that possibility is always there.

What I can't imagine is that the major areas of structural reform would be renegotiated or taken off the table. Those are very firm commitments which are essential to the continuation of the program.

QUESTION: Jeremy Pelofsky from Bloomberg News. I wonder, given that you have about \$44 billion prior to the Korean crisis here in your liquidity of reserves on hand now, and the new agreement to borrow is a bit far off, as well as the U.S. refusing to--or Congress refusing to put up a portion of that, do you anticipate any trouble or problems in increasing quotas that were talked about back in September?

MR. FISCHER: Just to clarify, the \$44 billion is after the Korean program, not before, which makes a \$21 billion difference. So that matters.

Our membership committed itself very strongly on the quotas. The agreement was negotiated in Hong Kong. It had been a long and arduous negotiation. There was total agreement at the end that the world hadn't seen, we hadn't seen the extent of this crisis even just two months ago. I would be surprised if the countries who constitute the membership of this organization, 181 countries, were to form a judgment that what they had agreed to was excessive. I expect that it will have the strong support of every member. I'm also quite sure that serious people who look at what has happened in the international economy now as they've understood the consequences for individual countries and for the system of potential failures of major economies and major financial systems, would be more anxious to be sure that the Fund has the capacity to deal with these situations if they should arise in the future.

It is quite possible that this crisis has passed its peak, but it's not guaranteed, and it would be better to be safe than to be sorry.

I need to make one more announcement. I am told that I got it wrong on the World Economic Outlook projection. In fact, the projection will show a significant decline in world growth from 4.3 to 3.5 percent for 1998. We are planning to publish an interim World Economic Outlook on the 22nd of December, and there's a press conference tentatively scheduled for the 19th of December in which we'll explain how these events have affected the growth outlook.

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