

THE PARTY IS NOT OVER YET, MR. RECESSION

Controversy over Business Cycle Peak

There is some concern that Korea's total foreign debt as of the end of June this year was \$70 billion for the first time, which was about 3 percent of the nation's GNP (Gross National Product). The debt, however, was due to the nation's large current account deficit.

The Korean economy grew at 9.6 percent in the second quarter and 9.8 percent in the first half from a year ago, the highest since the January-June period of 1993, when the GDP (Gross Domestic Product) grew at 10 percent. Leading economic indicators predicting economic activities about three to six months in advance declined 0.5 percent in July, compared with a 0.1 percent rise in June. Some economists forecast, based on July's leading economic indicators, that the Korean economy will be in a business expansion phase that will peak in the fourth quarter of this year. We, however, expect that the expansion will last until the first quarter of next year.

Output from factories, mines, and utilities rose 14.9 percent in July from a year ago, showing a continuing expansionary phase. The output growth was up from 10 percent for June, 12.2 percent for the second quarter and 14.1 percent for the

first quarter this year, due to brisk exports in heavy and petrochemical industries. Production from heavy industries rose 15.2 percent in July over the same month of last year, while production from light industries increased only 5.9 percent. The huge gaps between heavy and light industries will continue to prevail.

The average operating rate was down to 81.9 percent in July this year from 82.4 percent in the second quarter, while business inventories in July increased 11.7 percent from a year ago. However, shipments rose 13 percent in July over the same period last year. The unemployment rate was low as of July. The seasonally-adjusted unemployment rate stood at 2.0 percent in July, down from 2.1 percent in June.

Overall, economic expansion should continue until early next year. Some slowdown in economic activity can be considered as normal business adjustment. In addition, the economy is projected to achieve a soft landing in the first quarter of next year with a 7.6 percent growth rate unless some unexpected adverse economic shocks hit the economy during the remainder of this year.

Won has been Climbing against Dollar

Sharp appreciation of the dollar in the middle of August owed much to the mutual cooperation between the U.S. and Japan in the international foreign exchange markets. The won plunged against the dollar during the same period. Since the last time when the won-dollar rate stood at about 783, it has decreased to 770 with some fluctuations.

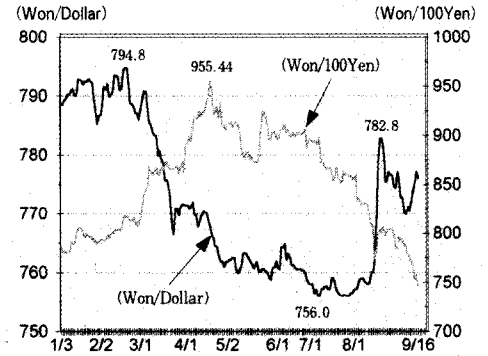
The rising value of the dollar in the international foreign exchange markets along with the increase in the flow of foreign capital into the nation's stock market caused the won to appreciate against the dollar. The appreciation was also due to the rosy outlook for the trade deficit as far as the rest of this year is concerned.

The amount of foreign capital inflow into the

Economic Trends

Exchange Rates

stock market from July 1 to August 25 was about \$2.2 billion. Since the yen-dollar rate has been stable since the middle of August, the won-100yen rate has not fluctuated much. To maintain the current won-dollar rate, the government may limit the amount of foreign capital into the domestic money market to \$10 billion from the previously expected \$14 billion due to the progress in financial liberalization plans in the second half of this year. In any event, the won-dollar rate is likely to fluctuate between 765 and 775 at the end of this year.



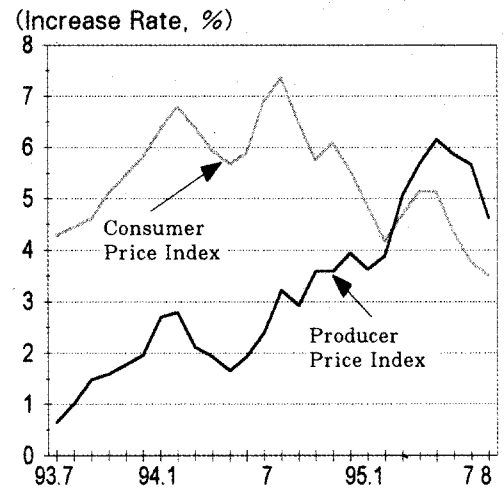
Lowest Price Level in 9 Years

Prices

The recent economic boom was not accompanied by high inflation. The consumer price index increased 3.5 percent in August from a year ago, and 0.1 percent from July. It was the lowest since August 1986 when it grew 2.7 percent. The rate of increase in consumer prices has slowed down in the last 3 months due to the stable prices of food and utilities. Prices of agricultural products, livestock, and fisheries decreased 1.7 percent from a year earlier, but increased 1.2 percent from July. Prices of manufactured goods rose 2.9 percent per annum during the same period.

consumer price level is likely to reach 5.7 percent per annum.

Even though there is some concern about future price hikes due to the rise in public utilities rates for the rest of this year, there is little fear of inflation as the stable price level has prevailed for the last several months. The rate of increase in the



Trade Deficit Likely to Narrow

International Trade

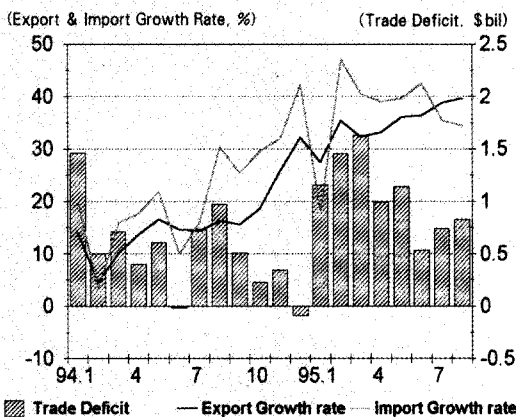
Korea registered a current account deficit of \$484.4 million in July, the smallest this year on a monthly basis due to a reduction in imports. The cumulative current account deficit, however, was

\$6.42 billion during the first seven months of this year, the highest since the January-July period of 1991 when it was \$6.67 billion.

The trade deficit in July hit \$50.4 million, down

significantly from \$755 million in June and \$133.2 million in July 1994, as the rate of increase in exports was higher than that of imports for the first time this year. Exports rose to \$10.66 billion while imports increased to \$10.71 billion on a free-on-board basis in July from a year earlier. The invisible trade deficit climbed to \$252.5 million in July owing to a huge increase in travel expenses and transportation costs.

The trade deficit is likely to narrow for the remainder of this year and reach about \$9 billion at the end of 1995. This projection is based on a reduction of machinery imports reflecting sluggish economic growth.



Stable Market Interest Rates So Far

Money supply(M2) in August, increased 14.7 percent from the beginning of the year as money market rates remained stable. M2 measures currency in circulation plus demand and savings deposits. It was the lowest monthly rise this year. Market interest rates have been stable since August due to weak corporate demands for funds to finance facilities investment and ample liquidity provided to local businesses resulting from brisk exports. A sufficient flow of funds in securities firms following the raising of the ceiling on foreigners' stock investment also lowered market interest rates.

Recently, the yield on three-year bank-guaranteed corporate bonds (CBY), one of the benchmark long-term interest rates, and the yield on 91-day certificates of deposits (CD) and the overnight call rate (CALL), both benchmark short-term interest rates, have shown low rates with some fluctuations. These market interest rates, however will probably be unstable in October because many individual investors are likely to change

investment strategies to avoid global taxation on financial income, which takes effect in early next year. **VIP**

(Kim Chan-jin)

Interest Rates

