

SPECIAL ANNOUNCEMENT BY
DEPUTY PRIME MINISTER LIM CHANG -YUEL

The following is an unofficial translation of a speech by Deputy Prime Minister Lim Chang-Yuel on December 24, 1997, after the decision of the IMF and others to accelerate the disbursement of funds to Korea.

Korean authorities and the IMF team have concluded discussions and reached agreement on strengthening the economic program and accelerating its implementation. The key elements are in the areas of monetary policy, financial sector restructuring, capital market opening, trade policy and reserve management policies.

On the basis of the intensified program of macroeconomic stabilization and structural reform, the IMF Management has decided to recommend to the IMF Board an acceleration of resources available to Korea under the stand-by arrangement through an additional disbursement of \$2 billion on December 30.

The World Bank and the Asian Development Bank have today disbursed \$3 billion and \$2 billion respectively, in support of our intensified program of structural reforms and financial sector restructuring.

Governments of the G-7 and other countries have also indicated their support for the Korean program and, in the context of our efforts to reach understandings with commercial banks on a voluntary consolidation of the short term debt, would be willing to disburse \$8 billion in early January, under their supplementary commitments to the financing package for Korea.

The Korean government welcomes the timely financial support and expresses its gratitude to the governments participating in this operation, and to the IMF and the multilateral development banks. On its own part, the government will implement promptly and fully the agreed program.

We have started discussions with commercial creditor banks on the possibilities for a voluntary increase in the roll over of short-term debt of Korean financial institutions and on the possibility of access to market borrowing in early 1998.

The following is an excerpt from the letter dealing the measures Korea will take to strengthen the economic program as stated in the Korea - IMF Arrangement, and to further stabilization and reform.

1. Monetary policy - to restore order in the foreign exchange market and provide appropriate incentives for holding won-denominated assets, interest rates have been raised substantially, reaching about 30 percent on December 24. Further increases will be implemented, if necessary. At the same time, care is being taken to ensure that unequal distribution of liquidity in the system that has developed in recent weeks does not lead to a liquidity crunch in important sectors of the economy that could cause bankruptcies of viable firms.

2. Capital market opening - the government will lift all capital account restrictions on foreign investors access to the government, corporate, and special bond markets as of January 1, 1998, and will accelerate the announced schedule for liberalizing equity inflows. We will, according to a timetable to be set in consultation with the IMF mission in mid-January 1998, eliminate all barriers to capital inflows in the money market.

3. Financial sector restructuring - the government is developing and implementing a comprehensive restructuring plan for the financial sector that will include the merger and closure of insolvent institutions. In this context, measures will be accelerated wherever feasible, and will be guided by the procedures set out in our earlier letter, most notably that existing shareholders will bear the first burden. Details of the restructuring strategy are being worked out

with financial and technical support from the World Bank and the ADB under their structural lending operations.

4. Reserve management and exchange rate policy - we have taken further measures to reduce recourse of banks to the BOK to cover their debt-service obligations, including a further substantial increase in the penalty rate of BOK loans to commercial banks. We intend to increase this rate progressively as needed in order to provide strong incentives for banks to seek alternative sources for servicing their short-term debts. As soon as the viability of the foreign exchange cashflow is restored, the separate window will be abolished and banks will have to obtain their total foreign exchange requirements in the market. We intend to take this action at the earliest opportunity in consultation with the Fund.

5. Trade policy - we will accelerate measures to open the economy to imports and eliminate trade-related subsidies in order to increase competition and efficiency in the domestic

economy. We will make binding under WTO the liberalization of financial services as agreed with the OECD.

6. Labor market policies - while the program aims to minimize the inevitable slowdown in economic growth, we will aim to facilitate the necessary movement of workers from declining firms to other employment possibilities. The government expects to shortly announce its views on labor market and wage issues, as well as on a fair sharing of the burden between employers and workers in the case of labor redundancies.

7. Fiscal policy - the initial fiscal adjustment of the program will be maintained despite higher costs to the government associated with the larger depreciation of the won and with financial sector restructuring.

8. Data publication - we intend to publish periodically, after completion of preparatory work, data on total external debt and its relevant components. **VIP**

A Call for Restructuring-(cont'd)

(J. C. Kim)

or commercial paper discounting as well as traditional banking.

Insurance companies are also expected to pursue M&As to compete with foreign insurance companies. The expected direction is M&As between life insurance companies and property & casualty insurance companies. Other financial institutions such as merchant banks not involved in M&A with banks or securities companies, trust companies and finance companies are expected to focus on specialized areas.

Weeding Out Non-Competitive Financial Institutions and M&As are Keys for Reform

In summary, Korean financial reforms center around the processes of clearing out non-

competitive financial institutions and promoting M&As between different financial institutions. A few interesting characteristics are expected to result from these processes. It is highly possible that most of remaining financial institutions will become bigger in terms of their capital size. Different financial institutions' marketing areas are expected to be integrated so that most financial institutions will deal with similar work. Finally, as the government is planning to restructure financial institutions' ownership structure, conglomerates can become one of the major shareholders of the banks. Whether or not financial reforms are a ticket promising a better future for the Korean economy, the era of the IMF's rescue package is starting now. **VIP**