# Letter from the Editor

On Monday, September 29, President Kim Dae-jung announced that while continuing to push forward with the ongoing reform and restructuring efforts, economic policies from this point onward would also center around boosting the economy. The President's announcement came at a timely moment, with the current economic problems seemingly getting worse and some beginning to feel that the government's policies are losing momentum and direction. It is now realized that the economy must be boosted to a certain degree to facilitate the restructuring process and ensure that Korea's manufacturing base is not permanently crippled.

Reforms will be expediently pushed in the financial, corporate, labor, and public sectors. In particular, the first stage of financial restructuring is scheduled to be completed by the end of September, and attention will now be placed of resolving the brutal credit crunch. The government will be much more active in buying up bad loans and injecting new capital in order to normalize the restricted flow of money. At the same time, credit analysis will be improved by rationalizing the loan decision making system, and the financial supervision and regulation will be made more transparent.

To stimulate the economy and to increase employment, the government will employ a flexible monetary policy and increase the budget deficit. The money supply will be expanded and interest rates will be lowered. The larger budget deficit (the IMF has already agreed up to 5% of GDP or 20 trillion won) will be used to focus on social overhead capital, information systems, and future-oriented industries. Meanwhile, to deal with the rising problem of massive unemployment, renewed emphasis will be placed on sustaining employment, industrial training, job creation, and improving the social safety net, with a total of 10.7 trillion being budgeted toward this end.

This month, we start our **Current Issues** by looking at the controversial issue of capital controls. Malaysia's recent implementation of capital controls is fueling intense debate in economic circles as to whether or not such controls will help stabilize capital movements and promote economic recovery.

Our second article analyzes the recent changes in the Korean bond market and how the market mechanism is now functioning better. As financial restructuring progresses, the bond market now better reflects the actual status and risks of the products and companies involved, indeed an encouraging trend.

In our third **Current Issues** selection, we examine the string of bank mergers and the implications this will have on the future course of financial sector restructuring. More mergers are expected, and when the dust settles, the Korean banking industry should be composed of fewer, but healthier, larger banks which will be more competitive and better able to handle the needs of the Korean economy.

And finally, in this issue of the *VIP Economic Report*, we present our forecasts and analysis for the Korean economy in 1999, by no means an easy task given the uncertainties both inside and outside the Korean economy.

The government's candid admission of the economy's critical situation should help Korea get its second wind for the ongoing drive to restructure the economy and begin its recovery. It would be dangerous to be complacent or to lose sight of the need for fundamental reform. Many obstacles still remain in the restructuring process, including fully clearing out the bad loans in the financial sector, the repeated occurrences or threats of strikes, clearing out or implementing workouts for failing companies, and the privatization and downsizing of public firms. Furthermore, the external environment is very unfavorable at the moment, particularly with the emerging market crisis. In light of this, Korea must remain resolute in its drive to restructure the economy to be better able to withstand external and internal shocks. VIP