

THE KOREAN ECONOMY IN 2000 : HRI SURVEY RESULTS¹⁾

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As of late, the economy has been showing signs of an upturn, and many economic experts and others are showing greater interest in how the Korean economy will fare in 2000. According to a recent survey by HRI, economic experts have optimistic opinions on the economy in 2000 on the whole. At the same time, however, they point out the possibility that high unemployment, unrest on the part of labor and worsened external conditions could obstruct economic recovery.

The more detailed results of the survey are as follows.

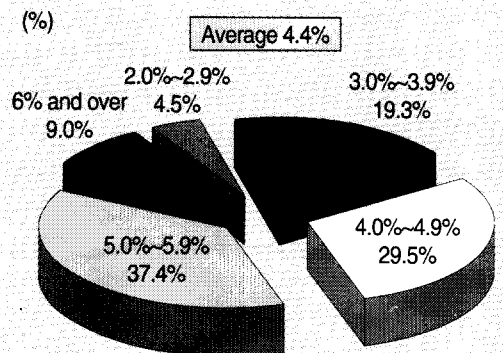
Major Economic Indicators in 2000

Growth Rate: Most of the economic experts forecast that the strong recovery trend of the Korean economy will continue in 2000. This means that a real business upturn will start in 2000. In truth, the economic growth increase in 1999 is largely a technical rebound from the economic contraction in 1998. However, even though they see the economy recovering, they do not feel that the Korean economy will regain the high economic growth rates of the past.

It is forecast that the growth rate in 2000 will

be between 4.0 percent and 5.0 percent, with the average growth rate of all respondents being 4.4%.

Figure 1. Growth Rate in 2000



Current Account: To be able to withstand another possible currency crisis and pay back foreign debts as early as possible, it is important to maintain a sufficient current account surplus. However, there is not much possibility of the current account surplus reaching the record level in 1998. The increase in imports as the economy recovers is the main factor for the decreasing surplus. The overwhelming majority of respondents see the current account surplus contracting even

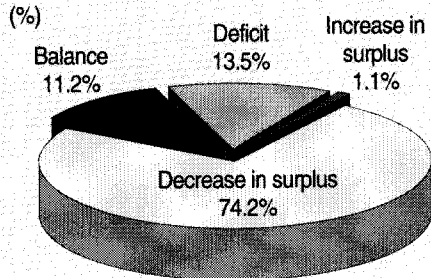
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Outline of Survey

- Target: Total 88 persons in economic-related fields (economic research institutes (29 persons), academia (20 persons), government organizations (24 persons), business entities(15 persons)).
- Period: April 28, 1999 (Wed) ~ May 3, 1999 (Mon)
- Method: Answer by Fax
- Survey Institute : Hyundai Research Institute (HRI)

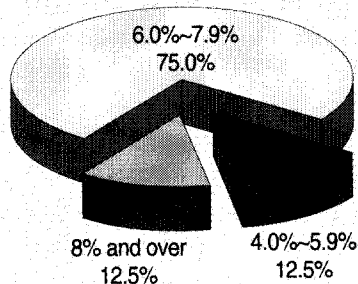
though it will remain a surplus in 2000.

Figure 2. Current Account in 2000



Unemployment Rate: High unemployment will last through 2000 though the unemployment rate will show a downward trend owing to the economic recovery. Many respondents answered that unemployment rate will be between 6 percent and 7 percent in 2000. This suggests that the anxiety of social unrest because of high unemployment will remain in 2000 and act as a possible constraint on the recovery of consumption.

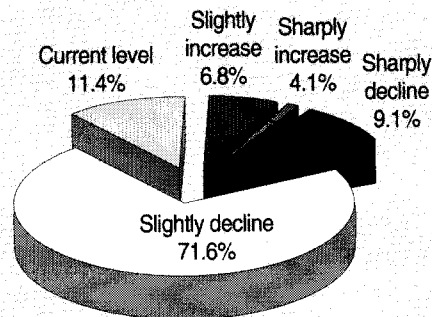
Figure 3. Unemployment Rate in 2000



Exchange Rate: According to the survey results, the won/dollar exchange rate will show a downward trend in 2000. The main reason to

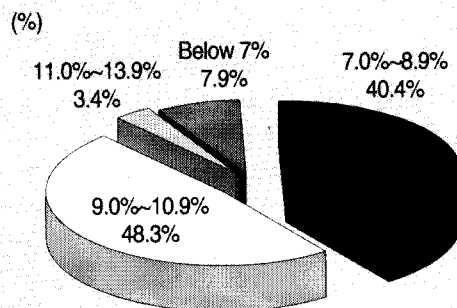
expect a downward movement in the exchange rate in 2000 is that there should still be a surplus in the dollar supply because of continuing current account surplus and inflow of foreign capital. The majority answered that the won/dollar rate fall down within narrow limits.

Figure 4. Exchange Rate in 2000



Interest Rates: The survey results show that the 3-year corporate bond yield, which has been staying at the 8% level recently, is expected to slightly rise in 2000. The main reason is that corporate money demand will increase as economy recovers. But it is unlikely that the corporate bond yield will move up to pre-crisis 11~13 % level, thanks to the improved efficiency of the financial intermediary function.

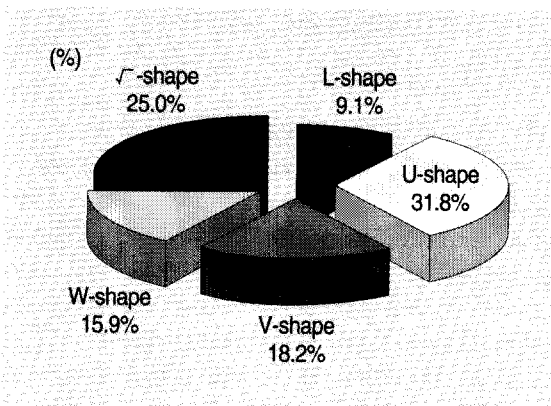
Figure 5. Interest Rates in 2000



Economy in the Future

Business Cycle: The prospects for the business cycle path in the future are divided into two parts. Half of the economic experts who answered the survey forecast that business conditions will show an improving trend like a U-shape or V-shape one or two years later. The other half thinks that recent economic recovery cannot continue owing to many obstacle, so the business cycle will show stagnancy or recession again, like a √-shape, L-shape or W-shape.

Figure 6. Business Cycle Pattern



Potential Growth Rate : It seems that the potential growth rate of Korean economy is lower than the pre-crisis-era level. Before the currency crisis, the potential growth rate was estimated in the 7 % range. The majority of survey respondents now answered that the current potential growth rate is between 5.0 percent and 6.0 percent. The average rate of all respondents was 5.4 percent.

When will the real growth rate reach the potential growth rate? Many of the experts think that the time will be 2001, although there are some optimistic opinions that the potential growth rate can be achieved in 2000.

Figure 7. Potential Growth Rate

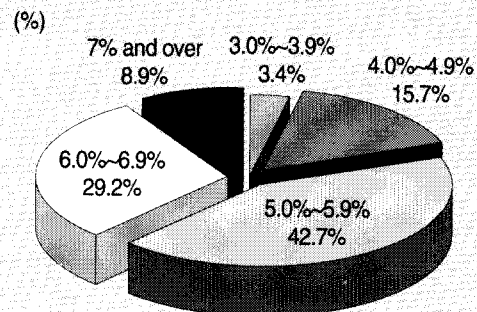
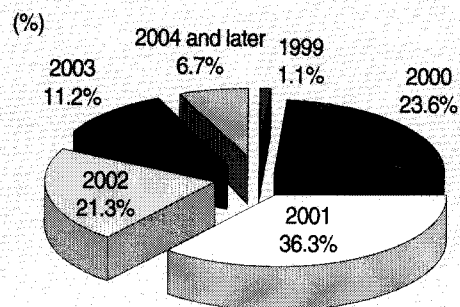


Figure 8. Time of Reaching Potential Growth Rate



Leading Factor of Economic Growth : For the leading factors of Korean economic growth in future, many experts chose economic structural reform (34.1%), increasing exports (23.5%) and consumption (21.2%). On the other hand, they chose labor-management disputes (20.0%), aggravation of external conditions (18.8%), and inefficiency of public sector (15.3%) for obstacles to economic recovery. Another 10.6 percent thought that the backward state of politics would also tie up the recovery of the economy. **VIP**

Figure 9. Leading Factor in Economic Growth

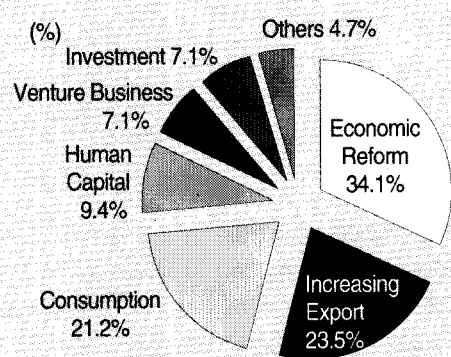


Figure 10. Obstacles to Economic Recovery

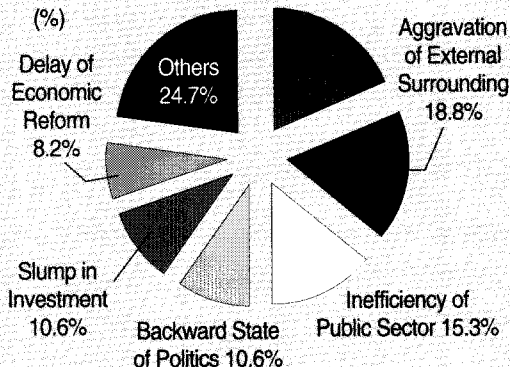


Table 1. Results of Survey

<Growth rate in 2000>					
2.0~2.9%	3.0~3.9%	4.0~4.9%	5.0~5.9%	6% and over	Avg
4.5	19.3	29.5	37.4	9.0	4.4%
<Current account in 2000>					
Deficit	Balance	Decrease in surplus		Increase in surplus	
13.5	11.2	74.2		1.1	
<Unemployment rate in 2000>					
4.0~5.9%	6.0~7.9%			8.0% and over	
12.5	75.0			12.5	
<Exchange rate in 2000>					
Sharply decline	Slightly decline	Current level	Slightly increase	Sharply increase	
9.1	71.6	11.4	6.8	1.1	
<Interest rates in 2000>					
Below 7.0%	7.0~8.9%	9.0~10.9%		11.0~14.9%	
7.9	40.4	48.3		3.4	
<Business cycle pattern>					
W-shape	L-shape	√-shape	U-shape	V-shape	
15.9	9.1	25.0	31.8	18.2	
<Potential growth rate>					
3.0~3.9%	4.0~4.9%	5.0~5.9%	6.0~6.9%	7.0% and over	
3.4	15.7	42.7	29.2	8.9	
<Time of recovering potential growth rate>					
1999	2000	2001	2002	2003	2004 and later
1.1	23.6	36.3	21.3	11.2	6.7