

8% of GDP last year, in contrast to less than 3% in pre-crisis 1996. Furthermore, the relaxation of foreign ownership restrictions and corporate de-leveraging suggest that external financing will continue to be dominated by equity investment inflows. In a recent review, the IMF cautioned that while strong growth and the stock market boom have helped improve corporate liquidity, "Daewoo's failure clearly shows that it is not possible to simply grow out of structural problems." The momentum of structural reforms must be maintained to ensure sustained strong growth over the longer term.

Industrial production has shown a steady rebound with the average manufacturing capacity utilization rate climbing from its low of below 70% in 1998 to over 80% in 1999. This trend is expected to continue in 2000. Along with this, the unemployment rate has slightly dropped from 6.8% in 1998 to 6.3% in 1999. But in the year 2000, it is expected that the rate will reach a stable 4.3%. Consumer prices recorded their slowest annual increase in 1999, rising by 0.8%. The inflation outlook for 2000 appears benign for now; indeed the Bank of Korea (BoK) recently lowered its inflation

forecast to 3.1% from an earlier 3.8%. In addition, the CPI stayed low in December at -0.2% month to month. It follows that inflation will have a limited near-term impact on the macro-policy stance. Nonetheless, policy tightening is possible in the second half of 2000, if inflation is higher than government expectations in response to rising domestic wage pressures as Korea's output gap turns positive, the hike of oil prices, and the won's appreciation.

On the other hand, the government is likely to continue moderating the pace of won appreciation in the near term. Monetary and exchange rate policies will probably remain fairly easy in the near term, at least until the National Assembly elections this April and when liquidity concerns among investment trust companies (ITCs) are out of the way. (Several ITCs have brought forward the February 8 effective date: the Daewoo-debt redemption rate has been raised to 95% since late December.) The dollar-won exchange rate is likely to stay mostly range-bound, as appreciation pressures are capped by official intervention. However, the strengthening trend over the medium term is unlikely to be reversed. **VIP**

Figure 1. Trend of Macroeconomic Indicators, 1991-1999

