# V. Korean Economy This Week

*The Week In Review*

- Korea's macroeconomic situation remains less than desirable. Both consumption and investment demand are continuing their alarming contraction, which is causing worries that Korea's industrial base is deteriorating. Many are arguing that the money supply should be expanded in order to stimulate effective demand. Contrary to the hopes of some, the Korean economy will not recover on the basis of exports alone. Even though Korea continues to register current account surpluses of about US$4 billion each month, this is mostly the result of the drastic drop in imports. In fact, exports have been dropping for the last two months, a especially worrisome trend.

- The won/dollar exchange rate fell well into the 1,200 range last week, mainly due to the temporary excess supply of foreign currency in the market and also the Government's announcement that it would not intervene in the market. Many are concerned that an overvalued won could hurt Korea's export competitiveness. The exchange rate is expected to bounce back up into the 1,250~1300 range this week. Whether or not the Government should intervene in the market will probably be discussed at the quarterly review session with the IMF.

- Although the three-year corporate bond rate has fallen back down to around 14%, this is misleading since the stringent financial market shows no sign of improvement. Only a handful of top firms are able to obtain funds from the market at anything approaching this level. In addition to improving the availability of credit, developing a new benchmark interest rate which better reflects the actual market situation is another important task for the Government.

## *A Look Ahead*

- The 3rd-quarter review meeting with the IMF is currently underway. The results of this meeting should provide a clearer picture of what Korea's macroeconomic environment will be like in the second half of this year and what kind of leeway the Korean Government will have in making their policy guidelines, particularly with regard to monetary and fiscal policy.

- As an indication of the intensifying restructuring efforts, creditor banks will shortly announce a list of conglomerates among the top 6 to 64 business groups which will be forced to go through "workout" restructuring programs. The groups themselves will be allowed to survive, but they will be forced to get rid of unprofitable assets and subsidiaries, undergo drastic reorganization, and change their top management, it is believed.

- The seven commercial banks whose restructuring plans were conditionally approved will also have to hasten their reform efforts. The Financial Supervisory Commission has asked that the bank heads resign and the banks present concrete and detailed plans by July 31 on how they plan into improve their financial structures, be it through mergers with other banks or the inducement of outside capital.

- In addition, the second plan for the privatization and restructuring of Korean public firms will also be announced this week, after having been delayed for a week. Some opposition to the plan is expected from the labor unions of these state-run corporations, since the measures are expected to include a reduction of their workforces.

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