

## V. Korean Economy This Week

### *The Week In Review*

- Unemployment continues to increase in Korea, spurred by the continuing domestic downturn and the ongoing corporate restructuring efforts. As of the middle of June, the unemployment rate had risen to 7.0% (seasonally adjusted 7.7%), with a record 1.529 million workers out of a job. The unemployment rate has continuously risen since the start of Korea's economic crisis at the end of last year. In addition, the number of "discouraged workers," including those working less than 18 hours a week (460,000) and those on temporary leave (182,000) bringing total number of displaced worker to over 2 million.

- Household consumption fell a whopping -10.5% in the first quarter of this year compared to the same period last year, far surpassing the previous record of -3.1% in the fourth quarter of 1980. Consumption is falling far more than the drop in income. Urban households' income fell 2.8% in the first quarter, while their consumption fell 8.8%, with savings increasing by 9.5%. A worrisome vicious cycle is emerging: the drop in consumption is forcing businesses to cut back on production, leading to increased unemployment and lowered incomes, which in turn is reducing consumption even further.

- The won/dollar exchange rate continues to fall, largely thanks to the excess supply of dollars in the currency market. As of June 25, the exchange rate stood at 1,245 won/dollar, the lowest rate since December 5 when it was at 1,230. In spite of a rise in the yen/dollar rate because of a possible hike in U.S. interest rates, Korean firms continue to sell dollars since the supply remains plentiful while demand is weak with the huge drop in imports.

- In the financial markets, the interest rate indicators continue to fall, but credit remains restricted. Thanks to the government's determination to lower interest rates and the expanded money supply, market liquidity has increased, but most of this is

concentrated among financial institutions and the big five business groups. The inter-bank call rate has fallen to the 11% range, while the rates on 3-year corporate bonds, CPs, and CDs have stabilized in the 13% range. However, since May, the amount of loans called in has exceeded new credit issued, and except for the big five group subsidiaries or other superior firms, most businesses are experiencing major difficulties in obtaining new credit, as are households.

### *The Week Ahead*

- In the coming week, June's figures for a number of key economic indicators will be announced, which should provide a better indication of the state of the Korean economy for the first half of 1998. The Government is expected to announce statistics on the dishonored bill ratio, the weighted average of market interest rates, industrial activity, and the current account (tentative), and most agree they will paint a worrisome picture of a prolonged depression lasting well into next year.

- The Korean Government and the IMF recently concluded their third quarterly review, with the results expected to be announced on Wednesday. Indications are that both sides have agreed that the Korean economy will contract around -4% this year. The IMF has apparently agreed to let the Korean government widen its fiscal deficit to 4% of GDP to strengthen the social safety net to help the growing ranks of the unemployed. In addition, interest rates may be lowered and the money supply expanded to try to boost the domestic economy. In the second half, Korea's macroeconomic indicators should stabilize, which will hopefully hasten the restructuring process. The Korean Government should work with not only the IMF, but also other organizations such as the IBRD (World Bank) and the OECD to address sectoral microcosmic bottlenecks which are hindering the economic restructuring process.

- Also this week, the Planning and Budget Commission is expected to announced the second stage of its plans for the privatization and management reform of Korea's public corporations.

(Edward Park [Parked@hri.co.kr](mailto:Parked@hri.co.kr) ☎ 724-4028)