Ⅱ. Economic and Financial Movements

1. Overseas Economy

A. Economic Growth and Trade

<Table Ⅱ-1>

Trends of Major Overseas Economic Indicators

(%, annual %)

	1997	1998	1999	2000e
Growth[1]				
World	4.1	2.6	3.4	4.7
Industrialized nations	3.4	2.4	3.2	4.2
U.S.A.	4.4	4.4	4.2	5.0
Japan	1.6	-2.5	0.2	1.7
Euro area	2.3	2.7	2.4	3.5
(Germany)	1.4	2.1	1.6	2.9
Asian emerging markets[2]	5.8	-2.3	7.8	7.9
Developing nations	5.7	3.5	3.8	5.6
Asia	6.5	4.1	5.9	6.7
Latin America	5.4	2.2	0.3	4.3
World trade growth[1]	9.8	4.3	5.1	10.0
Long-term interest rates[3]				
U.S.A.	5.74	4.65	6.44	5.11
Japan	1.94	2.22	1.65	1.64
Germany	5.35	3.87	5.35	4.84
Exchange rates[4]				
¥/U$	129.9	115.2	102.0	114.9
U$/euro	1.099	1.172	1.007	0.942
Prices of international raw materials				
Rise in crude oil prices[5]	-5.6	-32.0	38.5	55.6
Others[6]	-4.8	-17.5	-14.0	1.9

Notes: 1) Based on the IMF statistics apart from the growth of the U.S. and Japan, which are based on their respective statistics.
2) Korea, Taiwan, Singapore and Hong Kong.
3) Based on the yields of 10-year government bonds and on period-end figures.
4) Based on the local closing rate and on period-end figures.
5) Based on annual average of WTI, Brent and Dubai oil prices.
6) Based on annual average of Reuters' Product Price Index.
Source: "World Economic Outlook" (Oct. 2000) by the IMF.

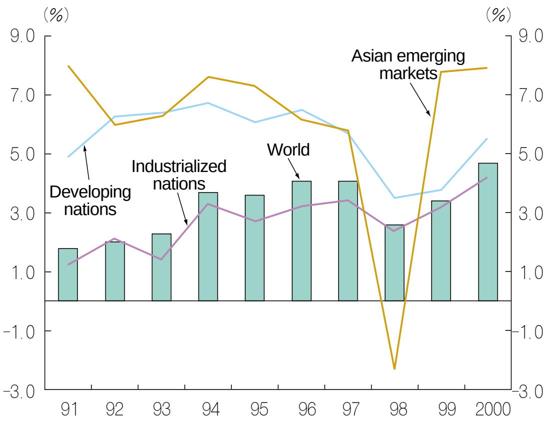
The growth of the global economy during the year 2000 registered around 4.7%. This performance was attributable to a pick-up of economic activity in the euro-area and the clearly marked recovery in emerging Asian and Latin American markets, whose effects together offset those of rising oil prices and the economic downturn in the U.S. in the second half of the year.

The U.S. economy posted high growth of around 5%(annualized quarter-to-quarter change) in the first and second quarters. Moving into the latter half of the year, however, its upswing slowed, bringing growth down to merely 2.2% in the third and 1.1% in the fourth quarter. The fourth quarter's 1.1%, it may be noted, is the lowest since the second quarter of 1995(0.8%). This resulted from a contraction of business and consumer confidence owing to the rise in oil prices and the plunge of stock prices, under the impact of the reduced profitability of the information technology(IT) sector. Despite this setback, the U.S. economy still registered annual growth of 5% in 2000 as a whole.

The Japanese economy, which had experienced negative growth in the second half of 1999, shifted to positive growth of 10.3%(annualized quarter-to-quarter change) in the first quarter of 2000, bolstered by an increase in exports and the revival of facilities investment. Its GDP growth remained positive in the second quarter; however, it stood at only 0.9% owing to the renewed contraction of facilities investment. In the third quarter, their sluggishness and subdued consumer spending resulted in negative growth of 2.4%. This, though, was followed by positive growth of 3.2% in the fourth quarter. For 2000 as a whole, Japanese economic growth stood at the one and a half percent level.

<Figure Ⅱ-1>

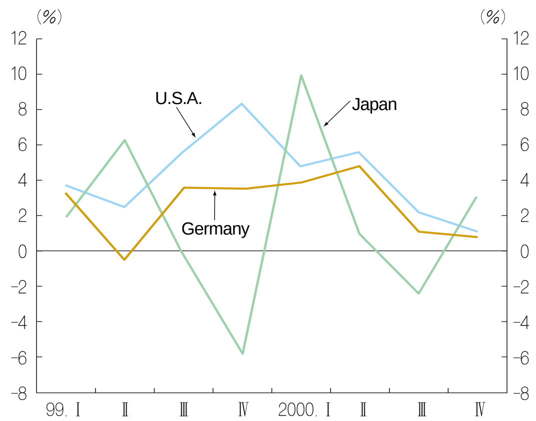
Trends of World Economic Growth



In the euro-area, the economy continued its upward trend evident since the latter half of 1999. It registered solid growth of around three and half percent in the first half of 2000 driven by the expansion of domestic demand and increased exports thanks to the buoyant global economy and the weakness of the euro. Moving into the latter part of the year though, economic growth was blunted by the reduction in household purchasing power because of higher oil prices and the effects of the rise in interest rates by the European Central Bank(ECB), slipping back to stand at 2.6% for the third quarter. Thus the euro-zone's growth for the year as a whole marked at around 3.5% which is higher than in 1999.

<Figure Ⅱ-2>

Trends of Economic Growth in Major Industrialized Nations[1]



Note: 1) Annualized quarter-to-quarter changes.

The Asian region's economic upswing that started in 1999 was continued during the year. Particularly, the emerging market economies, Korea, Taiwan, Singapore and Hong Kong, maintained their rapid growth at the 8% level for the second consecutive year. However, Indonesia and the Philippines, which experienced political and social unrest, saw their economies grow more slowly than other Asian countries. The Latin American economies, which had remained in recession since the Brazilian financial crisis in January 1999, showed clear signs of recovery, boosted by brisk exports as the prices of internationally traded raw materials rose. The region's growth for the year as a whole moved back up to the 4% level.

During the year under review, the exports of both advanced and developing nations expanded thanks to the favorable global economic conditions. As a result, world trade grew by more than 10%, twice as fast as that of 1999(5.1%).

B. International Interest Rates and Foreign Exchange Rates

Viewing interest rate movements in major countries during 2000, short-term interest rates rose in response to increases in their central banks' policy target rates in order to hold inflation in check. Long-term interest rates, meanwhile generally fell or remained stable. Since early 2001 though, both short- and long-term interest rates have been on the decline, reflecting the slowdown in the global and the U.S. economies.

<Table Ⅱ-2>

Trends of Short- and Long-Term Interest Rates in Major Countries
(period-end basis)

(annual %)

	1999	2000				2001	
	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.	Feb.
Short-term interest rates[1]							
U.S.A.	5.21	5.86	5.86	6.21	5.87	4.96	4.82
Japan	0.08	0.08	0.17	0.32	0.40	0.33	0.15
Germany	2.95	3.71	4.33	4.64	5.15	4.63	4.66
Long-term interest rates[2]							
U.S.A.	6.44	6.01	6.02	5.78	5.11	5.11	4.89
Japan	1.65	1.77	1.76	1.84	1.64	1.50	1.30
Germany	5.35	5.20	5.20	5.22	4.84	4.79	4.74

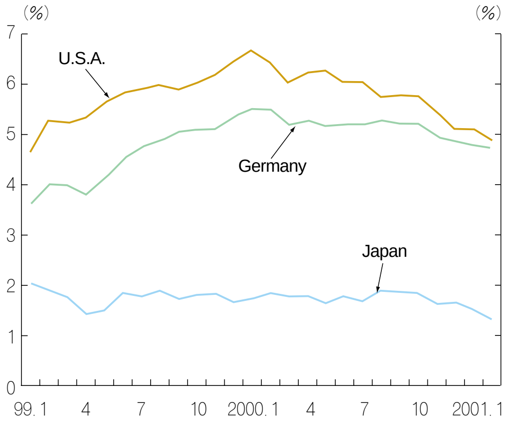
Notes: 1) Based on the yields on 3-month Treasury bills.
2) Based on the yields on 10-year government bonds.

In line with the Federal Reserve's hike of its target federal funds rate by a total of 175 basis points in six steps between June 1999 and May 2000, U.S. short term interest rates continued to rise. Moving into 2001, however, they shifted to a downturn because the Fed, in January cut its target rate by a total of 100 basis points in two steps. Meanwhile, long-term interest rates maintained their downward trend. This was attributable to the reduced supply of Treasury bonds due to the growing surplus on the fiscal account at a time when funds were migrating out of stocks, whose prices were falling, and into the bond market which saw strong demand for Treasury bonds in investors' flight to quality in their asset-holdings.

Japanese short- and long-term interest rates maintained the 1999 levels up until August 2000 when short-term interest rates rose rather sharply on the news that the Bank of Japan was abandoning its "zero interest

<Figure Ⅱ-3>

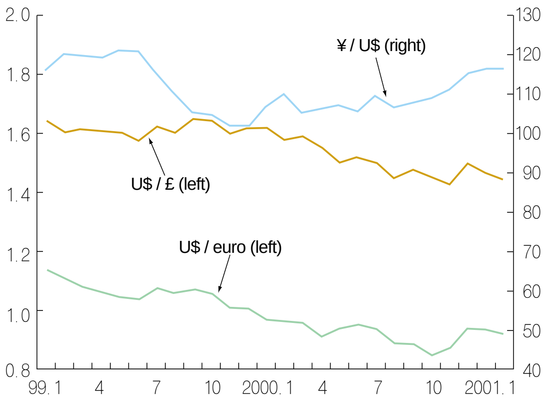
Trends of Long-Term Interest Rates of Major Countries[1]
(period-end basis)



Note: 1) Based on the yields on 10-year government bonds of each nation.

<Figure Ⅱ-4>

Trends of Major Exchange Rates[1]
(period-end basis)



Note: 1) Based on closing rates in local exchange markets.

policy" amid grawing expectations of economic recovery. Long-term interest rates were stable in the millenium year, maintaining their level of 1999. However, as concerns mounted early in the new year over the elusiveness of the economic recovery, both long and short-term rates have been declining in 2001. Against this backdrop, the Bank of Japan in February cut its redicount rate by 15 basis points from 0.5% to 0.35%.

In the euro-zone, the ECB raised the interest rates applied in its open market operations seven times during the period from November 1999 to June 2000, causing short-term interest rates to maintain an upward trend. Long-term interest rates showed a downward trend, moving in tandem with U.S. long-term interest rates. Since the beginning of 2001, euro-zone short- and long-term interest rates have both been declining, reflecting the worldwide economic downturn and the easing of international interest rates.

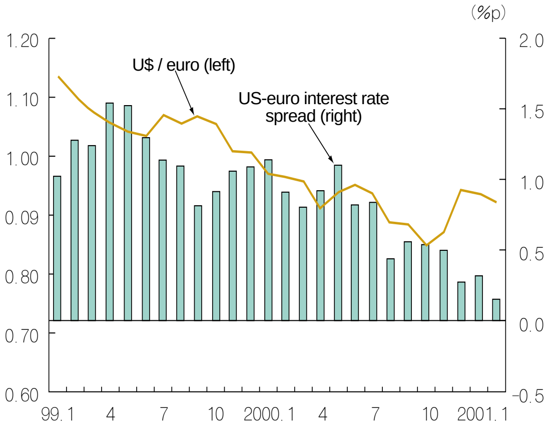
Viewing exchange rates during 2000, both the yen and the euro remained weak against the dollar in response to the brisk U.S. economy and Federal Reserve's hikes in interest rates. The euro, however, gained ground toward the end of the year on expectations that the gap between U.S. and euro-zone economic growth would be narrowed.

The yen maintained a feeble tone against the dollar from the beginning of 2000, falling to the 110 yen per dollar level by early February, in response to the widening gap between U.S. and Japanese interest rates opened up by the Federal Reserve's series of hikes in the federal funds rate the previous year. The rate subsequently fluctuated between 105 and 110, reflecting expectations of economic recovery and the central bank's abandonment of its zero interest rate policy. In December 2000, however, the yen softened to 114 against the dollar, affected by the political uncertainty and growing skepticism over the economic recovery from November onwards.

<Figure Ⅱ-5>

Trends of Exchange Rates and Interest Rates Spreads between the US dollar and the euro[1)]

(period-end basis)



Note: 1) Spread between the yields on 10-year government bonds of the U.S. and Germany.

The euro remained weak against the dollar in 2000. Starting at 1.0262 dollars per euro at the beginning of the year, it softened further to fall below parity with the dollar in January, as the divergence of growth rates and the interest rate gap between the U.S. and the euro-area caused an outflow of funds to the U.S. The euro strengthened temporarily on coordinated intervention in its favor in the exchange market by the central banks of the G7 in late September. However, it fell back again after Denmark voted in a referendum not to adopt the euro, reaching a level of 0.827 dollars per euro, its lowest since the launch of the single currency in January 1999. With signs of a slowdown in the U.S. economy toward the end of the year, the euro regained some of its lost ground to stand at 0.94 dollars in December on anticipations of a closing of the gap between U.S. and euro-zone growth rates.

C. Prices of International Raw Materials

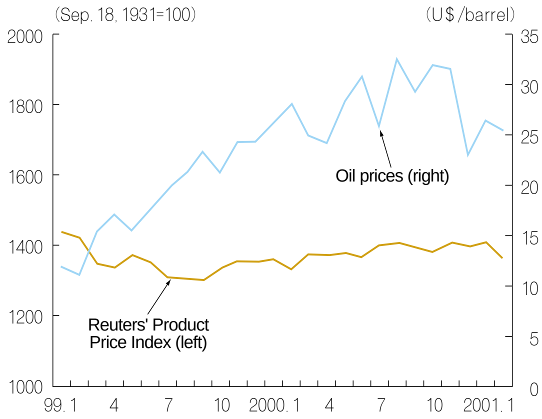
International oil prices registered a sharp upward trend as demand for crude rose amid the worldwide economic briskness. Nonferrous metals and grains also saw their prices rising.

International oil prices(benchmark Brent crude) maintained a rising trend in response to the supply shortfall of crude from the beginning of 2000, climbing to 32.2 dollars per barrel in March. Subsequently they fell back steeply to 20 dollars per barrel following OPEC’s decision to increase output and the seasonal cooling of demand. However, with the greater

<Figure Ⅱ-6>

Trends of Prices of International Raw Materials[1)]

(Period-end basis)



Note: 1) International oil prices are based on the average prices of WTI, Brent and Dubai.

buoyancy of the Asian and world economies, demand for oil rose steadily; and its prices remained high, ranging between 27~30 dollars per barrel from mid-May onwards. Prices climbed markedly higher from early August to reach 37 dollars per barrel in September, driven by the shortfall of crude inventories and heating oil in the U.S. and the deepening conflict between Israel and Palestine. Then in November, oil prices, after easing in the wake of the U.S. decision to release oil from its Strategic Petroleum Reserve(SPR), rose back to the 36 dollar level amid concerns over the escalation of the conflicts in the Middle East. From December, however, the repletion of crude inventories and heating oil supplies in the U.S. and the prospects of a U.S. and global economic downturn pulled its price down below 30 dollars per barrel.

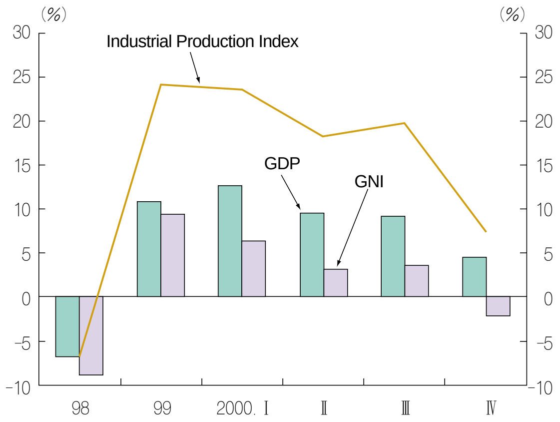
Meanwhile, the prices of grains and industrial raw materials, which had dropped steeply in 1999, decelerated their downward pace in 2000; and some items shifted to a rising trend. Having declined by 8.3% in 1999, Reuters' product price index showed an increase of 0.6 of a percentage point as of the end of February 2001, as compared with year-end 1999.

2. Economic Growth and Trade

A. Economic Growth

<Figure Ⅱ-7>

Trends of Major Economic Growth[1]) Indicators



Note: 1) Compared with the same period of the previous year.

During the year 2000, the Korean economy maintained its high growth rate for the second consecutive year. Annual GDP growth stood at 8.8%, led by the increasing exports and facilities investment. GDP growth registered 12.6%, 9.7% and 9.2% in the first, second and third quarters, respectively. However, in the fourth quarter, it fell sharply to 4.6% due to less favorable domestic and international conditions. Meanwhile, GNI growth, which covers the changes in the terms of trade and net factor income, continued to remain well below that of GDP.

(Demand)

Viewing the movements of demand during the year by sector, private consumption showed a slowdown, whereas exports and facilities investment increased sharply.

<Table Ⅱ-3>

Trends of Growth[1]) by Expenditure Item

(%)

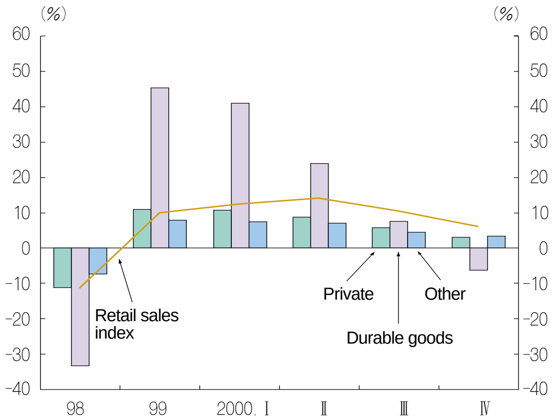
	1998	1999	2000^{p}				
			year	Ⅰ	Ⅱ	Ⅲ	Ⅳ
Final consumption expenditure	-9.8	9.4	6.2	9.5	7.8	4.9	3.0
Private	-11.4	11.0	7.1	10.8	8.9	5.7	3.2
Government	-0.4	1.3	1.3	1.5	1.1	0.5	1.8
Gross fixed capital formation	-21.2	3.7	11.0	21.9	13.2	10.5	1.6
Construction	-10.1	-10.3	-4.1	-6.8	-4.2	-3.5	-2.5
Facilities	-38.8	36.3	34.3	62.6	41.6	31.9	8.1
Increase in inventories[2])	-5.5	5.4	-0.9	0.5	-1.7	0.0	-2.4
Exports of goods and services	13.2	15.8	21.6	27.1	21.4	22.5	16.4
(Goods)	15.9	18.7	24.2	31.5	22.7	25.2	18.9
Imports of goods and services	-22.4	28.8	20.0	31.6	20.6	22.4	8.2
(Goods)	-24.8	32.8	21.1	35.4	21.8	21.6	8.5
GDP	-6.7	10.9	8.8	12.6	9.7	9.2	4.6

Notes: 1) Compared with the same period of the previous year.
2) Degree of contribution to GDP (percentage points).

Consumption expenditure registered lower growth compared with that of the previous year as private consumption marked a downturn while government spending edged up. Private consumption posted annual growth of 7.1%, rising at the 10% level in the first half of the year, but falling back steeply in the latter half, to hover around the 5% level. Its slowdown was attributable to the ebbing of consumer confidence and plunging stock prices in response to the worsening domestic and international economic environment. By item, consumption of durable goods, including automobiles and home appliances, increased 15.2% year-on-year. That of services rose 6% and that of semi-durables including clothes by 10.5%. Consumption of

<Figure Ⅱ-8>

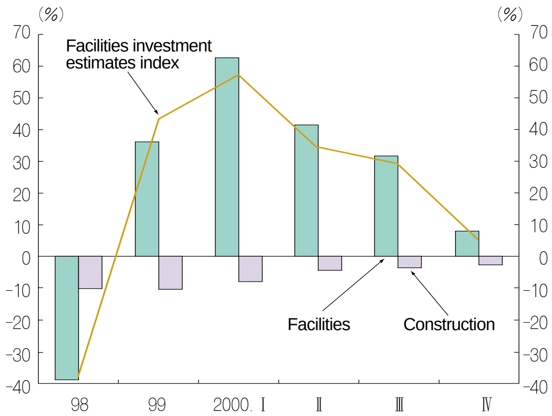
Trends of Major Consumption Growth[1] Indicators



Note: 1) Compared with the same period of the previous year.

<Figure Ⅱ-9>

Trends of Major Investment Growth[1] Indicators



Note: 1) Compared with the same period of the previous year.

non-durable goods grew by 3.3%. Durable goods, which are sensitive to economic fluctuations, registered relatively rapid growth up until the third quarter, but their consumption shifted to negative growth in the fourth quarter. The expansion of government spending showed the same low level as the previous year, centering on outlays for goods and services.

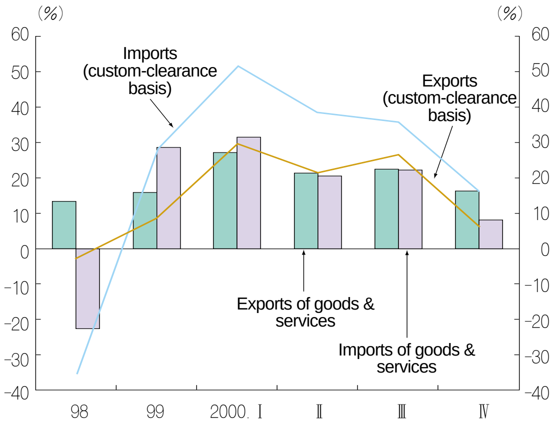
Viewing investment movements, fixed investment increased sharply while inventory investment accelerated its decreasing trend. Among categories of fixed investment, facilities investment, including that of industrial machinery, electric & electronic appliances and precision instruments, and transportation equipment were especially active, registering annual growth of 34.3%. In the fourth quarter, however, the growth of facilities investment slipped back to 8.1% amid a dramatic waning of business confidence. Construction investment continued to decline throughout the year as a sharp increase in non-residential building construction was offset by subdued investment in social infrastructure projects, including airport facilities, electricity and railways.

The scale of the decline in inventories expanded from the previous year. Accordingly, the contribution of changes in inventories to GDP growth turned mildly negative after having been substantially positive the previous year. This increased drawdown of inventories centered on the large reductions of imports and of agricultural and livestock products which more than offset a build-up of those of minerals and domestic manufactured goods.

The share in GDP of gross domestic investment (current-price basis), rose from the 26.9% of the previous year to 28.8% during 2000, led by the expansion of facilities investment. That of gross savings stood at 32.3%, lower than that of the previous year, reflecting the deceleration of the rise in gross national disposable income. As a result, the ratio of self sufficiency in investment resources, i.e. gross domestic savings divided by gross domestic investment, declined to 112% from the 122% of the previous year.

<Figure Ⅱ-10>

Trends of Major Import and Export Growth[1] Indicators



Note: 1) Compared with the same period of the previous year.

Real exports of goods and services registered an annual increase of 21.6%, up from the previous year. Those of goods showed rapid growth, centering on major Korean export items including semiconductors, computers, telecommunications equipment and other heavy and chemical industry products. Export of services increased slightly, thanks to improved earnings from consulting and the use of patent rights while transportation and telecommunication services maintained their level of the previous year.

The growth of imports of goods and services registered the high level of 20%. Imports of goods continued to grow rapidly, drawn in by the expansion of domestic and external demand, with imports of capital goods, raw materials, intermediate inputs and consumer goods all robust. Imports of services climbed sharply in line with the rise in domestic residents' overseas travel expenses and freight payments.

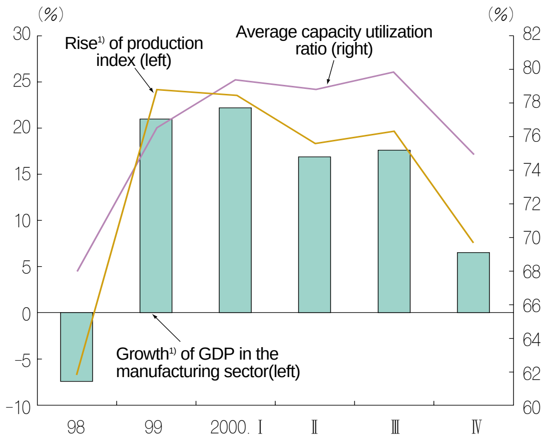
(Production)

Most industries apart from construction and agricultural and fishing, showed solid growth in 2000 as a whole. Production maintained steady growth up until the third quarter, after which its rising trend was blunted to a substantial degree by the weakening of domestic demand in the fourth quarter.

Manufacturing industry posted high growth of 15.4%,

<Figure Ⅱ-11>

Trends of Production and Capacity Utilization Ratio in the Manufacturing Sector



Note: 1) Rates of change compared with the same period of the previous year.

<Table Ⅱ-4>

Trends of Growth Rate[1] by Economic Activity

(%)

	1998	1999	2000^p year	Ⅰ	Ⅱ	Ⅲ	Ⅳ
Agriculture, forestry & fishery	-6.6	5.4	0.1	1.1	-1.8	-2.1	2.0
Mining	-24.0	5.3	2.2	0.4	5.0	0.4	2.3
Manufacturing	-7.4	21.0	15.4	22.3	16.9	17.7	6.5
Electric, gas & piped water	0.6	10.4	12.6	18.7	11.4	10.8	9.3
Construction	-8.6	-9.1	-3.7	-7.9	-3.9	-2.8	-1.6
Services[2]	-7.2	11.9	9.0	12.0	10.3	8.7	5.5
Wholesale & retail, hotels & restaurants	-10.9	14.1	9.4	13.1	11.1	8.5	5.8
Transport, storage & communications	-0.8	14.5	16.7	17.1	18.9	17.4	13.8
Finance, insurance, real estate & business services	-1.9	5.5	4.7	9.4	4.8	3.5	1.4
Social and private services	-5.9	11.1	4.5	8.0	3.6	1.8	4.4
Government & private non-profit services[3]	-0.6	1.2	0.9	1.1	0.7	0.7	1.1
GDP	-6.7	10.9	8.8	12.6	9.7	9.2	4.6
GNI	-8.8	9.4	2.3	5.5	3.1	3.6	-2.2

Notes: 1) Compared with the same period of the previous year.
2) Imputed bank service charge (less) and import duties included.
3) Includes household services.

leading the domestic economy for the second straight year. Industrial machinery and information & telecommunications equipment, including semiconductors, computers, and telecommunications equipment showed a high level of growth. However, the growth of automobiles and chemicals declined dramatically.

The capacity utilization ratio in the manufacturing sector stood at 78.3%, up from the previous year's 76.5% thanks to the brisk economic activities. In the fourth quarter, however, it fell to 75.0% due to the dramatic cooling of domestic and international demand. Most industries apart from textile products, automobiles & trailers and transportation equipment witnessed their capacity utilization ratio rising. In particular, the capacity utilization ratio of semiconductors, computers and telecommunications equipment, all of which enjoyed favorable business conditions, remained firm.

The growth of the electricity, gas and piped water industry stood at 12.6%, a slight increase from the previous year, in response to the increased consumption of electricity and demand for piped natural gas. Meanwhile the construction industry showed negative growth for the second consecutive year despite the continued positive growth of the construction of public buildings at a rate similar to the previous year's. This was attributable to the steep decline of the growth of private construction, centering on residential buildings and civil engineering.

The growth of services stood at 9.0%, maintaining a relatively high level. Even though the growth of the hotels & restaurants sub-sector decelerate sharply, the wholesale & retail and hotels & restaurant sector showed an overall upturn due to the briskness of the wholesale and retail sub-sector boosted by the growth of imports & exports and transactions involving industrial production. Transport, storage & telecommunications marked growth of 16.7%, thanks to the increased deployment of material resources and the sustained expansion of mobile phones and value-added telecommunication services. Despite the robust performance of advertising and other business services, finance, insurance, real estate and business services showed a low level of growth overall owing to the sluggishness of financial and insurance services, in line with the bearish stock market. Social and private services saw their growth slow, the expansion of the broadcasting sector notwithstanding. The major factor contributing to the deceleration was that the growth of the medical and public health sector was largely cut short by a suspension of medical services.

Meanwhile, the agriculture, forestry and fishery industry registered only slight growth. The reason was the weak performance of fishing which offset the expanded production of animal husbandry and cultivation.

<Table Ⅱ-5>

Trends of Major Employment Related Indicators

(ten thousand, %)

	1999	2000					2001
		year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Jan.
Economically active population	2,163	2,195	2,141	2,211	2,220	2,208	2,123
(rate of growth)[1]	0.8	1.5	2.6	1.4	1.3	0.5	0.0
Economic participation rate	60.5	60.7	59.5	61.3	61.3	60.8	58.5
Number of persons employed	2,028	2,106	2,031	2,127	2,140	2,127	2,029
(rate of growth)[1]	1.4	3.8	6.3	4.4	3.4	1.5	0.8
Number of persons unemployed	135	89	109	84	81	82	98
Unemployment rate	6.3	4.1	5.1	3.8	3.6	3.7	4.6
(SA)	-	-	4.5	3.9	3.9	3.9	4.1

Note : 1) Compared with the same period of the previous year.

B. Labor Market

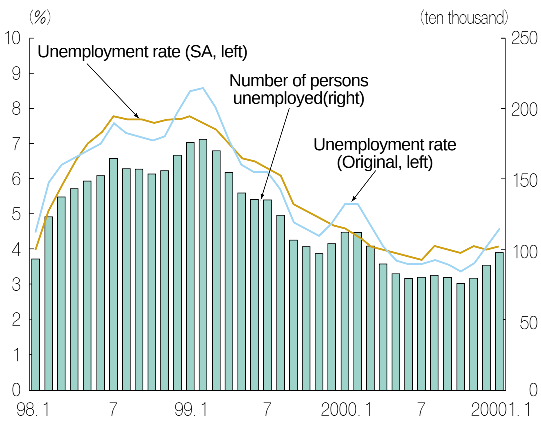
During the year 2000, the employment situation showed a slight improvement, but the rise in nominal wages was lower than in the previous year. From early in the fourth quarter, however, the situation worsened, reflecting the economic slowdown.

(Employment)

The economically active population rose by 1.5%, led by the re-entry to the labor market of persons who had previously given up hope of getting a job and by an

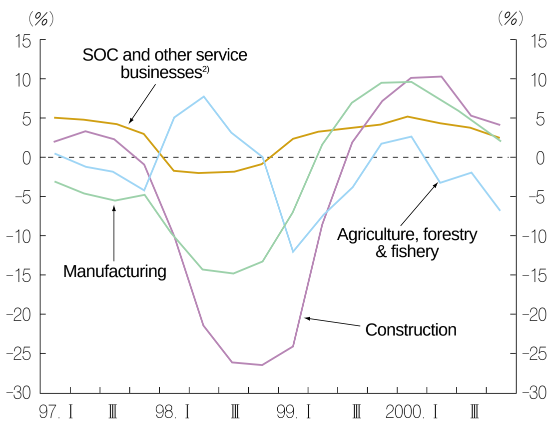
<Figure Ⅱ-12>

Trends of Unemployment Rate and Number of Persons Unemployed



<Figure Ⅱ-13>

Trends of Growth[1] in the Number of Persons Employed by Industry



Notes: 1) Compared with the same period of the previous year.
2) Excludes construction.

increasing number of new job seekers. Meanwhile the number of persons employed marked 3.8% growth, a large increase from that of the previous year; this was attributable to the increased demand for manpower in response to the convincing economic growth. From early in the fourth quarter, however, this rising trend was blunted by the economic slowdown and a second wave of corporate and financial restructuring.

As the growth of the number of persons employed continued to exceed that of the economically active population, the unemployment rate fell to 4.1% from the previous year's 6.3%. The number of persons unemployed dropped to 890,000 from the previous year's 1.35 million. Viewing the statistics by quarter, seasonal factors kept the first quarter unemployment rate at 5.1%, and left over 1 million persons seeking work despite the economic growth. However, from the second quarter, the unemployment rate eased to the 3% level with some 810,000 persons unemployed. In the fourth quarter, the economic slowdown and seasonal factors combined to cause a slight rise in the unemployment rate and the number of persons unemployed. During January 2001, the unemployment rate rose to 4.6% and the number of persons unemployed reached 980,000. This was attributable to the seasonal decline of employment in the agriculture, forestry & fishery and construction sectors, along with the increasing number of school-leavers and college graduates entering the job market.

By industry, the number of employed persons increased across all industries apart from agriculture, forestry and fishery. In particular, the number rose sharply in manufacturing and construction. From early in the third quarter, however, employment grow progressively more slowly across all industries and in some sectors it declined.

<Table Ⅱ-6>

Trends in the Structure of Employment and Working Hours

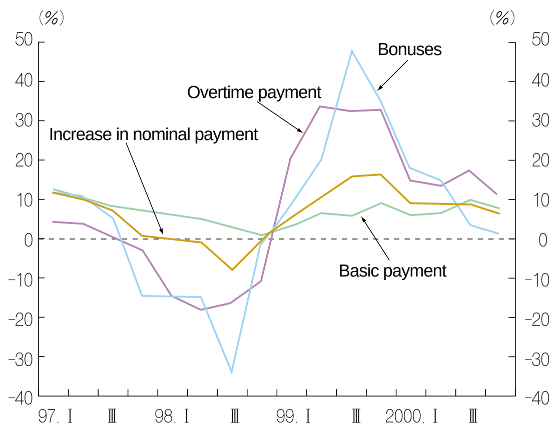
(%, hours)

	1998	1999	2000 year	Ⅰ	Ⅱ	Ⅲ	Ⅳ
Full time permanent[1]	53.0	48.3	47.6	47.2	47.6	47.7	47.9
Temporary and casual[1]	47.0	51.7	52.4	52.4	52.8	52.3	52.1
Monthly average working hours[2]	199	208	206	207	205	203	210
(overtime)	20	25	26	25	26	26	26

Notes: 1) Shares in total wage earners.
2) Based on businesses with 10 or more workers.

<Figure Ⅱ-14>

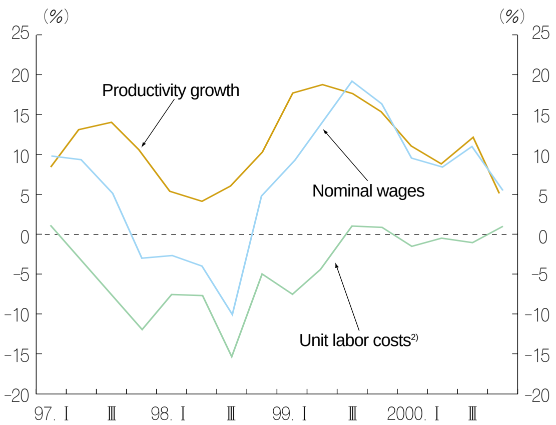
Trends in Wage Increases[1]



Note: 1) Compared with the same period of the previous year.

<Figure Ⅱ-15>

Trends of Increases[1] in Unit Labor Costs in the Manufacturing Sector



Notes: 1) Compared with the same period of the previous year.
2) Unit labor costs = noninal wages/(constant GDP ÷ the number of persons employed)

The structure of employment deteriorated slightly despite the increasing number of persons employed, a situation which reflected the increased flexibility of the labor market. Companies dealt with labor shortages by increasing working hours rather than hiring new employees. Even when they recruited people, they tended to do so on a temporary or casual basis rather than a full-time, permanent basis. As a result, temporary and casual workers made up 52.4% of total wage earners, rather more than their 51.7% share the previous year.

(Wages)

Nominal wage growth across all industries during the year 2000 declined to 8.0% year-on-year, reflecting their large rise of 12.1% in the base period. Also the growth of real wages, i.e. nominal wages adjusted for consumer price inflation, dropped to 5.6% from the previous year's 11.1%.

The growth of regular payments registered 7.3%, a slight increase from that of the previous year. Meanwhile that of overtime and special payments, both of which had risen sharply in 1999, fell to 13.7% and 8.1%, respectively. By industry, most industries witnessed slower wage growth than that of the previous year. However, in the wholesale & retail, hotels & restaurants sector and in social and individual services wages edged up compared with the previous year.

Unit labor costs in the manufacturing sector fell by 0.4 of a percentage point during 2000 as the brisk economic growth boosted the growth of labor productivity above that of nominal wages.

C. External Transactions

The current account, which had remained in the black since 1998, registered a surplus of 11 billion dollars during the year 2000. The size of the surplus though, was less than half the previous year's 24.5 billion dollars. The capital account saw its net inflow of funds increase to 11.7 billion dollars from the previous year's 2 billion thanks to expanded inflows of foreign investment funds, which more than offset domestic financial institutions' foreign debt repayments. The national reserves of the Bank of Korea, rose by 24.2 billion dollars in response to the surpluses on the current and capital account.

(Current Account)

The current account surplus narrowed to 11 billion dollars in the year 2000 from the previous year's 24.5 billion dollars. The reduced surplus on the goods account and the widening of the deficit on the service account were largely responsible for the decline.

The surplus on the goods account registered 16.6 billion dollars, down from the previous year's 28.4 billion dollars. This was attributable to the fact that even though exports were dynamic in line with the buoyancy of the global economy and the ongoing revolution in information and telecommunications technology, they were outpaced by imports, which were sucked in by the rapid economic growth and boosted by higher international oil prices. Since early in the year 2001, export growth has slowed in response to the worldwide economic downturn and plunging semiconductor prices; however, imports have declined due to the economic slowdown and stable international oil prices. This has resulted in a slightly positive position on the nation's import-export gap(customs-

<Table Ⅱ-7>

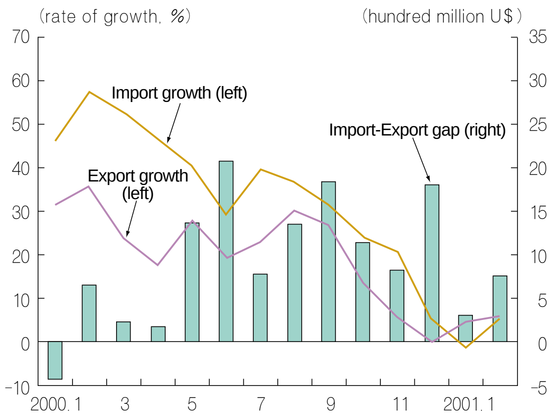
Balance of Payments

(hundred million US dollars)

	1998	1999	2000p
Current account	403.6	244.8	110.4
Goods & services	426.5	277.2	126.3
Goods	416.3	283.7	166.0
(exports)	1,321.2	1,451.6	1,757.8
(imports)	904.9	1,167.9	1,591.8
Services	10.2	-6.5	-39.7
(credit)	255.6	265.3	297.0
(debit)	245.4	271.8	336.7
Income	-56.4	-51.6	-22.0
Current transfers	33.5	19.2	6.2
Capital and financial account	-32.0	20.4	117.3
Financial account	-33.7	24.3	122.7
Direct investment	6.7	51.4	34.8
Portfolio investment	-18.8	86.8	121.1
Other investment	-21.6	-113.8	-33.2
Capital account	1.7	-3.9	-5.4
Changes in reserve assets	-309.8	-229.8	-241.9
Errors and omissions	-61.9	-35.3	-14.2

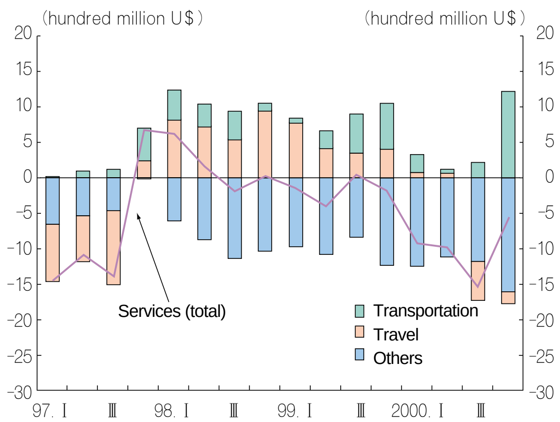
<Figure Ⅱ-16>

Trends of Import & Export Growth and Import-Export Gap



<Figure Ⅱ-17>

Trends of Service Account by Item



clearance basis) in January 2001.

Exports(customs-clearance basis, f.o.b. prices) amounted to 175.8 billion dollars, representing growth of 21.1% year-on-year. This upswing resulted from increased exports of automobiles and information & telecommunications products(semiconductors, computers, mobile phones, etc.) spurred on by the world economic upswing. Moving into 2001, however, their growth dropped to 5.3% in the first two months owing to the slowdown in the world economy.

Imports swelled(customs-clearance basis, c.i.f. prices) 36.3% year-on-year, amounting to 159.2 billion dollars during 2000. This sharp increase was attributable both to increased import demand caused by the economic upswing and higher international raw material prices, most notably for oil. Imports increased only slightly during January and February 2001 thanks to the easing of their growth in response to the economic slowdown and stable international oil prices.

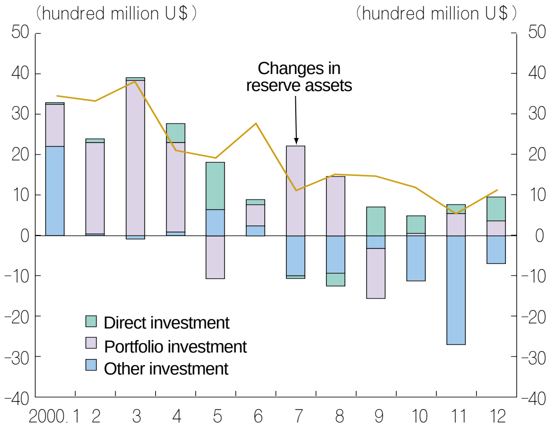
The service account in 2000 ran a deficit of 4 billion dollars, much wider than the previous year's 0.65 billion dollars. This resulted from increased payments of royalties and overseas travel expenses, which include overseas training and education.

The income account deficit contracted to 2.2 billion dollars from the previous year's 5.2 billion dollars. Major contributory factors were the increase in external assets in response to the continued current account surplus and the redemption of foreign debt.

The surplus on current transfers narrowed to 0.6 billion dollars, down from 1.9 billion dollars the previous year. This was because inward remittances by non-resident Koreans declined whereas outward remittances by

<Figure Ⅱ-18>

Trends of Capital Inflow



Korean residents increased.

(Capital Account)

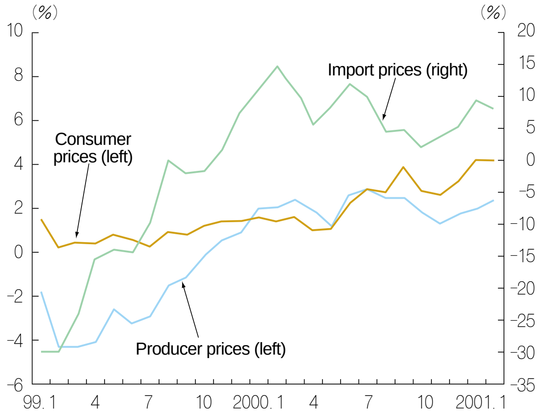
During 2000, the capital account saw the scale of its net inflow increase from the previous year's 2 billion dollars to 11.7 billion dollars, even after the redemption of overseas borrowings by financial institutions. This increase stemmed from the net inflows of foreign direct and indirect investment funds and the overseas issuance of securities by domestic companies.

By component, the direct investment account saw the scale of its net inflow contract to 3.5 billion dollars from the previous year's 5.1 billion dollars. This was because a sharp increase in outward direct investment by Korean residents largely offset the net inflow of foreign direct investment in response to corporate and financial restructuring. The portfolio investment account registered a surplus of 12.1 billion dollars, up from the previous year's 8.7 billion dollars thanks to a large expansion of foreigners' investment in domestic securities. Meanwhile the other capital account maintained its deficit at the level of the previous year.

3. Prices

<Figure Ⅱ-19>

Trends of Growth[1] of Consumer, Producer and Import Prices



Note: 1) Compared with the same period of the previous year.

Prices accelerated their upward trend during 2000 from the previous year despite the appreciation of the won and the stable interplay of supply and demand for the agricultural, livestock & marine products. Their fast pace was attributable to the rapid economic growth and hikes in both international oil prices and public service charges.

Import prices reverted to an increase of 7.6% from the previous year's decrease of 12.1% on an annual average basis. Producer prices shifted to an increase of 2.0% from -2.1% in the previous year. Consumer prices rose to 2.3% from the previous year's 0.8% on an annual average basis. From June onwards, the surge in international oil prices and successive hikes in medical insurance premiums and transportation fares spearheaded the upward trend of consumer prices. This resulted in their rise at the 3% level. In January and February 2001, consumer price inflation stood at 4.2%, its highest since November 1998(6.8%).

<Table Ⅱ-8>

Trends in Movements[1] of Import and Export Prices

(%)

		1999	2000					2001
			year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Jan.~Feb.
Import prices	Won-basis	-12.1 (7.5)	7.6 (5.3)	12.3 (0.8)	8.8 (1.4)	6.4 (2.2)	3.8 (0.7)	8.8 (3.6)
	(raw materials)	-13.2 (11.0)	11.1 (6.2)	17.7 (1.7)	12.8 (1.8)	9.4 (2.8)	5.4 (-0.2)	9.7 (4.0)
	(capital goods)	-8.3 (-4.7)	-4.9 (1.2)	-5.3 (-2.8)	-4.7 (-0.1)	-5.3 (-1.6)	-4.0 (5.9)	4.9 (1.6)
	Contract currency basis	-0.1 (12.9)	12.0 (0.5)	17.1 (3.3)	14.1 (1.2)	11.8 (2.8)	5.7 (-6.4)	-0.9 (0.6)
Export prices	Won-basis	-18.9 (-3.7)	-1.0 (4.2)	-0.2 (-0.1)	-1.0 (-0.6)	-1.1 (0.5)	-1.6 (4.5)	7.5 (2.3)
	Contract currency basis	-4.2 (2.8)	3.6 (-1.5)	5.2 (2.2)	5.1 (-0.8)	4.5 (0.9)	-0.3 (-3.7)	-3.2 (-0.8)

Notes: 1) Rates of change compared with the same period of the previous year.
2) Figures in parentheses refer to the rate of increase compared with the last month of the previous period.

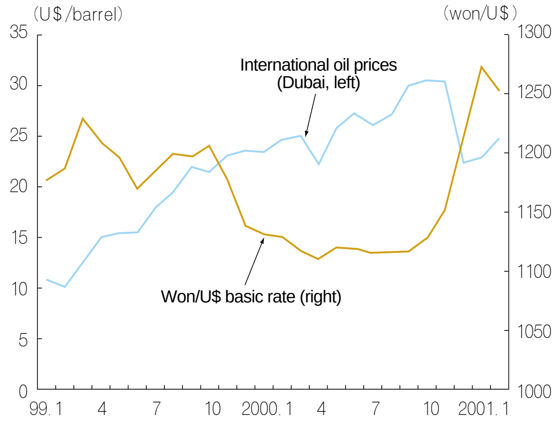
(Import and Export Prices)

During the year 2000, import prices(Korean won basis) rose 5.3% on the basis of the last month of the year and 7.6% on an annual average basis even though the won appreciated by 4.9% on an annual average basis. This was because import prices, based on the contract currency, shifted to an increase for the first time since 1995, standing at 12% on an annual average basis.

By type of product, prices of capital goods showed a downturn(-4.9%), centering on electric and electronic machinery. Those of international raw materials, however, shifted back to an increase of 11.1%, centering on crude oil and petroleum products (+49.9%), from the previous year’s decline of 13.2%.

<Figure Ⅱ-20>

Trends of International Oil Prices and Exchange rates



By period, the rise in prices declined from 10.4% in the first half to 5.0% in the second half of the year. A major contributory factor in this pattern was that international oil prices rose 87.6% in the first half, maintaining their upward trend that began in March 1999, but rose only 30.5% in the second half of the year.

Meanwhile this rising trend of import price has pushed up the burden of import costs on companies; and it is estimated to result in upward pressures on export, producer and consumer prices.

Export prices(Korean won basis) in the year 2000 rose by 4.2% based on the last month of the previous year, but declined 1.0% on an annual average basis. This was because the appreciation of the won offset the 3.6% growth of export prices(contract currency basis).

By item, the price hikes for international raw materials led to rising prices for petrochemicals and basic metal products. However, those of semiconductors and telecommunications equipment showed a downward pattern of movements due to technological innovation and fierce price competition.

By period, export prices showed a mild decreasing trend for most of the year, but shifted to an increase of 4.2% in December 2000. During January and February 2001, they accelerated to record a rise of 7.5%.

(Producer Prices)

Producer prices during 2000 shifted back to a positive track, rising 2.0% on an annual average basis in

<Table Ⅱ-9>

Trends in Movements[1] of Producer Prices

(%)

	1999	2000 year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	2001 Jan.~Feb.
Producer prices	-2.1 (0.9)	2.0 (1.7)	2.1 (0.0)	1.9 (0.2)	2.6 (1.0)	1.5 (0.5)	2.3 (0.7)
Goods	-2.1 (1.1)	2.2 (1.5)	2.5 (0.0)	2.0 (0.0)	2.8 (1.0)	1.5 (0.5)	2.1 (0.6)
(agriculture, forestry & marine products)	10.1 (3.6)	-2.6 (-7.9)	0.1 (0.6)	-3.9 (-2.0)	-1.5 (0.3)	-5.2 (-6.8)	-6.4 (4.4)
(industrial products)	-3.3 (0.7)	2.4 (2.2)	2.6 (-0.1)	2.2 (0.1)	2.9 (1.1)	1.8 (1.1)	2.5 (0.1)
(electricity, piped water & gas)	0.5 (5.4)	8.5 (7.9)	7.2 (2.0)	9.3 (1.5)	9.5 (0.0)	8.2 (4.1)	8.5 (2.6)
Services	-2.1 (0.3)	1.5 (2.0)	1.1 (-0.2)	1.3 (0.6)	2.0 (1.2)	1.7 (0.5)	3.1 (0.8)

Notes: 1) Rates of change compared with the same period of the previous year.
2) Figures in parentheses refer to compared with the last month of the previous period.

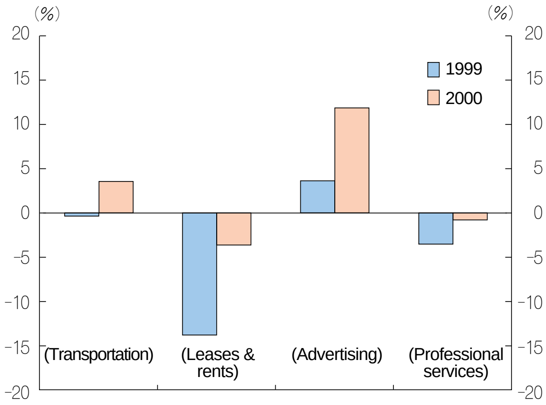
contrast to the previous year's negative growth of 2.1%. On the basis of the last month of the year they also registered an increase of 1.7% as appeared to the preceeding year's 0.9%.

Viewing the trends of producer prices, they declined by 0.5% between January and May, compared with the last month of the previous year. Major contributory factors to these movements were the appreciation of the won, plunging prices of agricultural, forestry and marine products in the wake of an outbreak of foot-and-mouth disease and the temporary drop in international oil prices after OPEC announced an increase in output on March 27. From June, however, prices continued to rise, influenced by a renewed surge in international oil prices and hikes in tariffs for transport, electricity, piped water and gas. For the first two months of 2001 prices rose 0.7% compared with December of previous year, maintaining their upward trend.

Broken down by commodity, the prices of agricultural, forestry and marine products declined by 2.6% on an annual average basis for the first time since the beginning of the previous decade. Their fall was attributable to increased shipments resulting from good harvest and the expanded opening of the market for farm imports. Another contributory factor was the cooling of demand in response to an outbreak of foot-and-mouth disease during the second quarter and the economic slowdown in the fourth quarter. Industrial products registered price increases of 2.4% on an annual average basis and 2.2% on the basis of the previous December. Their rise, which occurred despite the won's appreciation, stemmed from the surge of international oil prices which resulted in price rise for petroleum products(18.6%) and chemical products(4.6%). Another major factor was the price

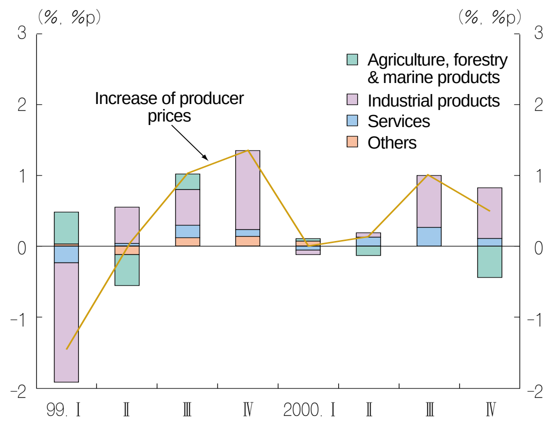
<Figure Ⅱ-21>

Movements of Producer Prices in Major Service Businesses



<Figure Ⅱ-22>

Degree of Contribution to the Rate of Increase of Producer Prices[1]



Note: 1) Compared with the last month of the previous period.

<Table Ⅱ-10>

Trends in Movements[1] of Prices by Stage of Manufacturing

(%)

	1999	2000					2001
		year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Jan.~Feb.
Gross index	-5.8 (1.3)	3.4 (4.2)	3.9 (0.5)	3.4 (0.2)	3.7 (1.0)	2.7 (2.5)	4.0 (-0.2)
Raw materials	-7.6 (20.1)	22.7 (21.9)	32.4 (5.4)	22.9 (1.4)	20.0 (2.1)	17.3 (11.7)	6.3 (-10.3)
Intermediate goods	-9.2 (0.6)	4.1 (4.4)	4.0 (0.2)	4.5 (0.3)	4.9 (1.2)	3.1 (2.5)	5.4 (0.5)
Final goods	-0.8 (-0.8)	-0.9 (0.3)	-0.7 (-0.3)	-1.4 (-0.3)	-0.6 (0.8)	-0.7 (0.2)	1.7 (1.4)

Notes: 1) Rates of change compared with the same period of the previous year.
2) Figures in parentheses refer to rates of increase compared with the last month of the previous period.

rises in paper and publishing(9.7%) on the heels of hikes in international raw material prices such as pulp. In the service sector, prices rose 1.5% on an annual average and 2.0% on a December to December basis.

By item, prices of leases & rents and professional services declined whereas those of transportation services shifted from their decrease of the previous year to a mild upward trend in response to the hike of petroleum product prices. Meanwhile the rate of price rises in advertising services accelerated to 11.9% from the previous year's 3.6%.

In consequence of these price movements the degree of contribution of agriculture, forestry and marine products to the rate of increase in annual producer prices(based on the previous year-end) turned to a negative contribution of 0.5 of a percentage point from the previous year's contribution of 0.2 of a percentage point. However, that of industrial products rose to 1.4 percentage points from 0.4 of a percentage point; and that of services climbed to 0.5 of a percentage point from 0.1 of a percentage point.

Meanwhile viewing prices by manufacturing stage, the sector weighted average of goods price and import price indices- the prices of raw materials and intermediate inputs rose respectively during 2000 by 22.7% and 4.1% year-on-year. They were largely driven upward by rising international prices for crude oil and raw materials. Final goods saw their prices decrease by 0.9% due to a drop in prices of capital goods, which outweighed the effects of the modest rise in prices of consumer items.

(Consumer Prices)

Consumer prices during the year 2000 increased by

2.3% on an annual average basis, as against the previous year's 0.8% rise. On a December to December basis they rose 3.2% compared to 1.4% in the preceding year.

<Table Ⅱ-11>

Trends of Movements[1] in Consumer Prices

(%)

	1999	2000					2001
		year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Jan.~Feb.
Consumer Prices	0.8 (1.4)	2.3 (3.2)	1.5 (0.8)	1.4 (0.1)	3.2 (2.7)	2.8 (−0.3)	4.2 (1.4)
Agriculture, livestock & marine products	7.2 (5.3)	2.0 (−1.2)	3.7 (1.4)	0.6 (−2.1)	4.3 (7.5)	−0.8 (−7.3)	−0.6 (2.9)
Industrial products	0.5 (1.6)	1.6 (2.9)	1.7 (−0.2)	0.7 (0.3)	2.0 (1.5)	2.0 (1.2)	3.8 (0.6)
(petroleum products)	1.2 (10.7)	11.2 (10.7)	14.4 (−2.1)	8.0 (1.9)	13.0 (7.4)	9.7 (3.3)	11.0 (−1.5)
Services	−0.8 (0.1)	2.9 (4.8)	0.9 (1.5)	2.3 (0.6)	3.8 (1.9)	4.5 (0.7)	6.0 (1.6)
(public services)	2.2 (3.1)	7.1 (10.5)	3.9 (1.9)	5.2 (1.2)	8.9 (5.9)	10.4 (1.2)	13.6 (3.3)

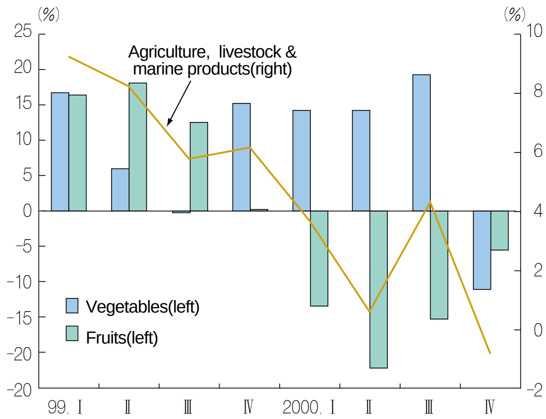
Notes: 1) Rates of change compared with the same period of the previous year.
2) Figures in parentheses refer to the rate of increase, compared with the last month of the previous period.

Viewing the trends of consumer prices(compared with the previous period), those of consumer items rose slightly, driven by price rises in agriculture, livestock and marine products, and increased charges for services, whose combined effect outweighed that of the decline in prices from the won's appreciation and the abolition of the special excise tax on home appliances in January. During April and May, prices shifted to a declining trend both because of the sharp drop in the prices of agriculture, livestock and marine products following an outbreak of foot-and-mouth disease and a fall in prices of petroleum products after the flexible tax rates on them were adjusted downward.

From early June, however, consumer prices rose at the 3% level in response to rising international oil prices, which pushed up public service charges, including bus and railway fares. Other contributory factors were rises in housing rents and medical insurance fees after a strict demarcation between medical clinics and pharmacies was imposed. Notably in September, the rate of price rises accelerated to 3.9% because *Chuseok*, Korean Thanksgiving Day, fell that month. During October and November, consumer prices showed a downward trend, led by lower prices for agriculture, livestock and marine products, which offset higher public service charges, including those for piped gas and waste disposal bags and the continued upward movement of housing rents. In December, however, the prices again shifted to an upward trend. In January and February 2001, they rose at a rate of 1.4% month-on-month and 4.2% year-on-year in line with the rises in tobacco tax, medical insurance premiums and tuition for private schooling. Consumer price inflation was also given extra momentum by the upward movement of agriculture, livestock and marine products, affected by such seasonal factors as heavy snowfalls and the celebration of Lunar New Year.

<Figure Ⅱ-23>

Trends of Movements[1] of Prices in Agriculture, Livestock and Marine Products

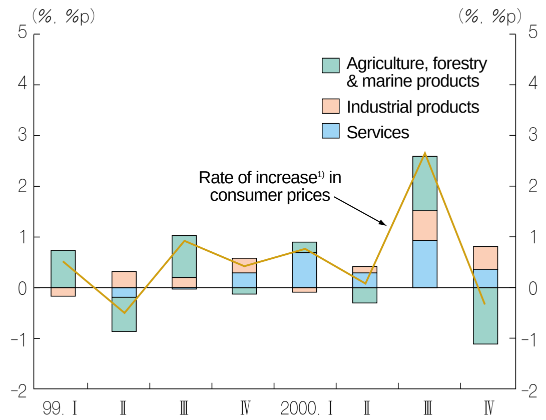


Note: 1) Rates of change compared with the same period of the previous year.

During the year 2000, seen by commodity groups, the prices of agriculture, livestock and marine products showed a stable pattern of movements, increasing 2.0% on an annual average basis, compared with the previous year's 7.2%. Their quiescence resulted from a decline of 14.5%(year-on-year) in the price of fruit in response to expanded imports, and from the sharp drop in vegetable prices due to good crops and sluggish demand during the fourth quarter. The prices of industrial products registered an increase of 1.6%(annual average basis), up from the previous year's 0.5% despite the won's appreciation. This was because the prices of petroleum and paper products climbed 11.2% and 5.5%, respectively, driven by the higher international prices of oil and raw materials, particularly pulp. The prices of service shifted to a rise of 2.9% on an annual average basis from the previous year's decline of 0.8%; the rise was 4.8% compared with the last month of the previous year. Their increase was attributable to upward trends of public service charges(7.1%) and charges for individual services (2.8%).

<Figure Ⅱ-24>

Degree of Contribution to the Rise in the Consumer Price Index

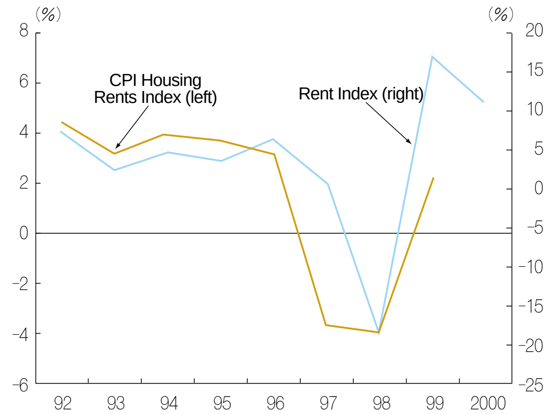


Note: 1) Compared with the last month of the previous period.

The rate of increase both in industrial products and services accelerated compared with the previous year. As a result, the degree of agriculture, livestock and marine products' contribution to the increase in consumer prices fell to -0.2 of a percentage point from the previous year's 0.7 of a percentage point. Meanwhile, that of industrial products rose to 1.1 percentage points from the previous year's 0.6 percentage points, and that of the service sector to 2.3

<Figure Ⅱ-25>

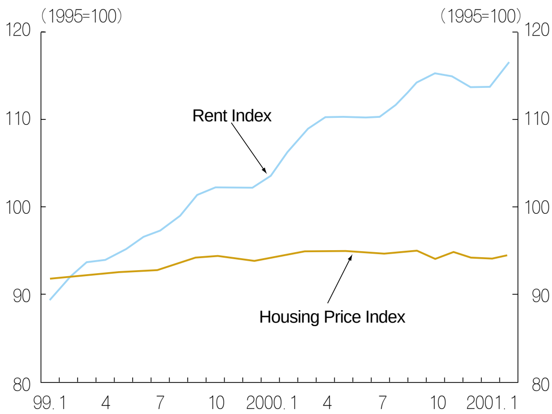
Trends of CPI Housing Rents and Rent Indices[1]



Notes: 1) Compared with the last month of the previous period
2) The CPI housing rents index is the rate of increase in a year after.

<Figure Ⅱ-26>

Trends of Housing Prices & Rent Indices



percentage points from the previous year's zero contribution. It was particularly noteworthy that the contribution of public service charges stood at 1.5 percentage points, accounting for 47% of the total increase in consumer prices(43% on an annual average basis).

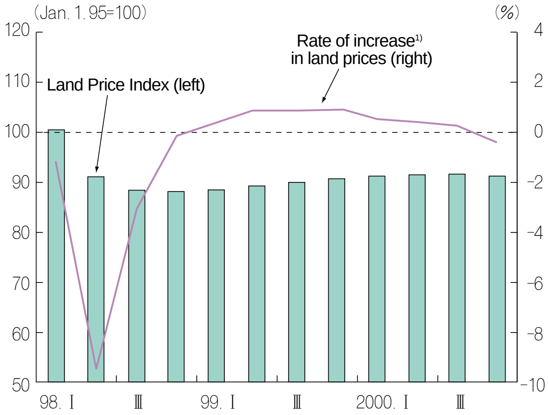
(Real Estate Prices)

During the year 2000, housing prices showed an increase of merely 0.4% based on the last month of the year, down from the previous year's 3.4%. By period, they rose by 1.2% in the first quarter due to the continued economic upswing and increasing demand for housing. However, they shifted to a decreasing trend between May and June when seasonal factors keep demand very low. After August, prices began to rise slightly, but from November onwards, overall demand turned sluggish due to the concerns over the economic slowdown and prices marked a declining path until the end of the year.

Housing rents continued to rise although their pace of increase decelerated somewhat. They put on 11.1%(based on the last month of the year) during the year, a slight decrease from the previous year's 16.8%. This large increase in housing rents, which contrasted with the small scale of that of housing sales prices, resulted from the fact that a relatively large proportion of housing rent contracts are now made in even years such as the year 2000. It was also attributable to the smaller number of new housing units for rent due to the slump in the construction business following the currency crisis. Viewed by period, housing rents rose by a total of 10 percentage points in the first and third quarters when seasonal demand is very high, accounting for 90% of the year's increase. However, in the fourth quarter, they dropped by 0.4%, reflecting the

<Figure Ⅱ-27>

Trends of Land Prices



Note: 1) Compared with previous period.

economic contraction.

Meanwhile land prices nationwide rose 0.7% year-on-year, rather less than the previous year's 2.9% rise. They continued to rise increasing by 0.4~0.5% in the first half of the year compared with the previous period. However, the pace of their acceleration slowed in response to the imposition in the second half of the year of stricter construction regulations designed to prevent reckless development. Notably in the fourth quarter, as business activity progressively slowed down, land prices slipped 0.5% due particularly to the falling in their prices of commercial and residential districts of metropolitan cities, which are more sensitive to economic fluctuations.

4. Financial Markets

A. Price Indicators

(1) Interest Rates

Long-term market interest rates remained on an underlying trend downward during the year 2000 in response to the Bank of Korea's conduct of monetary policy with an accent on the stability of the financial market. From early in January 2001, their downward course notably accelerated, centering on risk-free Treasury bonds amid expectations of an easing of monetary policy in response to the domestic economic slowdown and a "flight to quality" in asset holdings precipitated by concerns over credit soundness. Short-term market interest rates showed stable movements although the Bank raised its target overnight call rate on two occasions by a total of 0.5 of a percentage point during the year 2000. Following its downward adjustment of the target rate in February 2001, call rates maintained a slightly lower level.

<Table Ⅱ-12>

Trends of Major Interest Rates
(month-end basis)

(annual %)

	Dec.99	2000				2001	
		Mar.	Jun.	Sep.	Dec.	Jan.	Feb.
Call (one day)	4.7	4.9	5.2	5.0	6.0	5.3	5.1
CP (91 days)	8.0	7.4	7.6	7.2	7.2	6.7	6.2
Treasury bonds (3 yrs.)	9.0	9.0	8.3	8.0	6.7	5.7	5.4
Corporate bonds (3 yrs.)	10.0	10.0	9.4	8.9	8.1	7.4	6.8

The factors making for a rise in deposit interest rates such as competition among banks to attract customers were outweighed by those acting in the opposite direction including the decline in market interest rates and banks' ample liquidity. In consequence, banks' average deposit and lending rates showed a slight downturn.

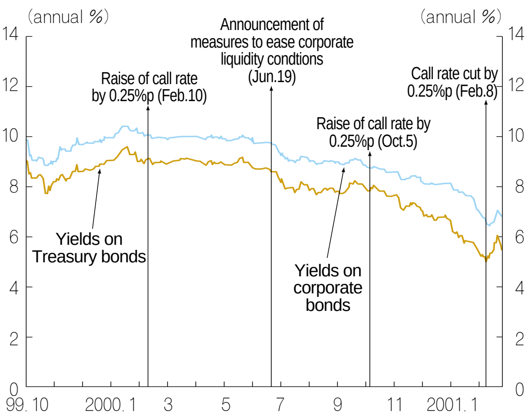
(Long-term Market Interest Rates)

Long-term market interest rates continued to fall as the market enjoyed abundant liquidity and the demand for risk-free assets surged.

Yields on three-year Treasury bonds and corporate bonds had continued to rise from November 1999 until early in 2000 in response to market unease and brisk economic activity. Particularly, as quotation yields on bonds were increasingly realized as yields on actual bond transactions, these rates climbed to 9% and around 10.5% respectively by mid January. In fact, quotation yields on bonds had long maintained a low level, having diverged from real yields on actual transaction. However, since the end of that month, yields on bonds fell again because the market's appetite for bond purchases revived with the emergence of a perception that their yields had risen too far.

<Figure Ⅱ-28>

Trends of Major Long-term Interest Rates



In February 2000, as the scale of the net redemption of Daewoo-related beneficiary certificates was not so great as had been expected, concerns over the financial market eased greatly. In addition, the Bank of Korea raised its target call rate by 0.25 percentage points so as to narrow the spread between short- and long-term interest rates. Those resulted in the drop of yields on Treasury and corporate bonds to the 8% and 9% levels, respectively.

After that, long-term interest rates remained mostly within an 8~9% band, showing a fairly narrow range of fluctuations. Although price instability and uncertainties over the corporate and financial restructuring had some impact on rates, their effects were offset by the ample liquidity in the market.

From early May, long-term interest rates began to move upward again in anticipation of an expansion of corporate bond issuance in relation to financial restructuring. Another factor was financial market unease as Saehan Group applied for protection from its creditors under a work-out program and Hyundai Group's ability to raise funds deteriorated. However, long-term interest rates shifted to a downturn as banks and investment trust companies stepped up bond purchases on expectations of more favorable financial market conditions. They did so following the announcement of stabilization measures regarding corporate credit(June 19), centering on the setting up of bond-type funds and the issue of Primary Collateralized Bond Obligations(CBO) as a means of credit enhancement. In advance of the semi-annual closing at the end of June, banks in particular, flush with liquidity, expanded their purchases of risk-free Treasury bonds and of corporate bonds in preparation for the setting up of bond-type funds. As a result, the yields on both types of bonds declined to the 7~8% level in early July.

From August onwards, long-term interest rates continued their underlying downward path while exhibiting a series of fluctuations in response to economic fundamentals and the interplay of short-term supply and demand forces. During this period, factors making for higher interest rates were soaring international oil prices, plunging semiconductor prices and Ford’s abandonment of its take-over bid for Daewoo Motor Co. Factors making for lower interest rates were financial institutions’ flight-to-quality in their asset holdings, the planned buy back and reduction of new issuance of Treasury bonds, the central bank’s conduct of its monetary policy with an emphasis on market stability and the government’s announcement of guidelines for the early completion of structural reform.

Long-term interest rates fell sharply, led downward by Treasury bond yields in the fourth quarter. This resulted from the easing of uncertainties over interest rate policy after the Bank of Korea’s raise of the target call rate, the prospect of the domestic economy’s slowdown and banks' need to improve their BIS capital adequacy ratios before the completion of their restructuring. Notably, in December, an early buy-back of Treasury bonds was carried out twice[1], consolidating the downward trend of long-term interest rates. Yields on Treasury bonds, which had been running at the 7.2% level at the end of November, dropped by half of a percentage point by the end of December to close the year at 6.7%.

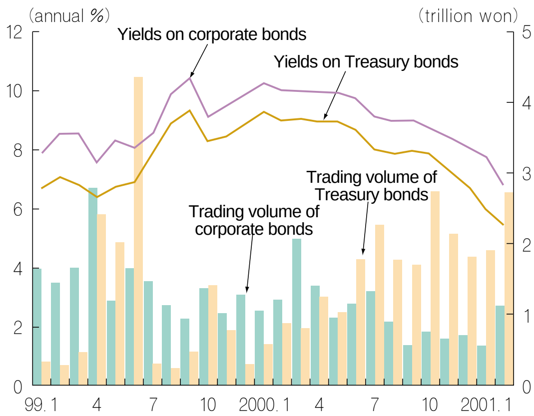
With the advent of the new year, in 2001, expectations of an easing of monetary policy gathered in response to the abrupt economic downturn, and "money plays" emerged in the financial markets boosted by ample liquidity and the two successive interest rate cuts by the Federal Reserve[2] in the U.S. Against this backdrop, interest rates accelerated their downward pace. Yields on Treasury bonds, after falling below the 6% level, an historic low, in mid-January, continued on the decline, registering a new low day after day. In early February, they again fell to below the 5.5% mark in response to the Bank's cut of its target call rate and on expectations of a reduction in the issue of new Treasury bonds. From about the twentieth of Feburary, though, yields showed a slight upward correction responding to concerns over their rapid decline.

Meanwhile bond market trading has become very brisk and the scale of the market has expanded rapidly amid the continued decline in long-term interest rates since February 2000.

In the Treasury bonds market, the average daily trading volume amounted to only 760 billion won in the first

<Figure Ⅱ-29>

Trends of Yields on Corporate and Treasury Bonds and Trading Volumes



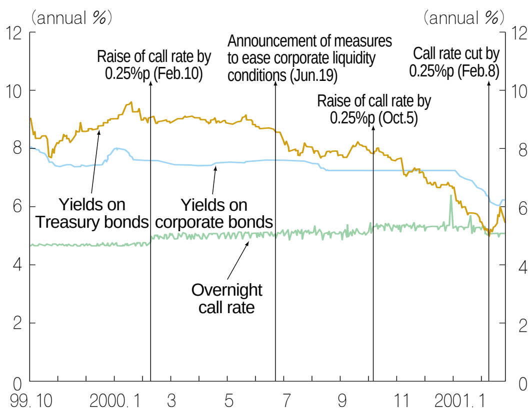
1) Early redemption of 1,144.3 billion won Treasury bonds was made on the 4th of December and of 465.5 billion won Treasury bonds on the 13th.
2) The U.S. Federal Reserve cut the interest rate on federal funds twice, on January 3 and 31, by 0.5 percentage points each time.

quarter when yields were running at the 9% level; however in the second quarter, it almost doubled in line with the decline of yields, amounting to 1.3 trillion won. Since June 2000 when yields started to fall sharply, arbitrage dealings for short-term profit-taking have become prevalent, which has swelled the trading volume, causing it to expand to nearly 2 trillion won in the third quarter and 2.2 trillion won in the fourth quarter.

Meanwhile, the average daily trading volume of corporate bonds contracted, despite the decline of their yields. This was mainly because market participants avoided transactions in them as financial institutions implemented stricter asset quality standards in response to growing corporate credit risk in the course of the restructuring. Accordingly, the average daily trading volume of corporate bonds, which had reached 1.4 trillion won in the first quarter of 2000, declined to 1.2 trillion won in the second quarter. From the second half onwards, corporate bonds showed a net redemption. As a result, the average daily trading volume amounted to only 710 billion won in the fourth quarter, less than half of that of the first quarter.

<Figure Ⅱ-30>

Trends of Major Short-term Interest Rates



(Short-term Market Interest Rates)

While short-term interest rates remained stable for most of the year, they showed some fluctuations, reflecting the Bank's conduct of monetary policy.

The overnight call rate remained at the 4.75% level from May 1999 till January 2000; it subsequently rose to the 5% level as the Bank raised its target call rate by 25 basis points on 10 February 2000 to narrow the spread between short- and long-term interest rates.

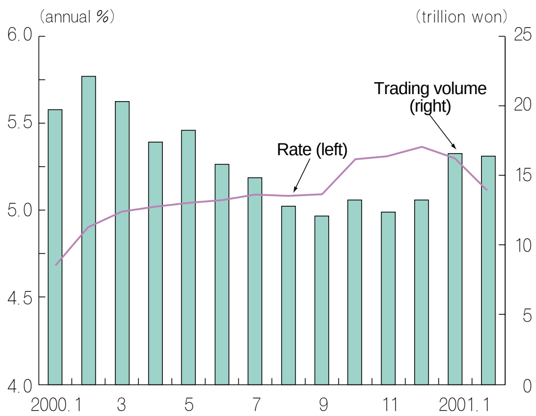
After this move, the overnight call rate remained stable until the Bank again raised its target rate by 25 basis points on October 5, designed to defuse inflationary expectations, causing the actual overnight rate to move up to the 5.25% level.

The average call rate stood at 4.69% between Jan. 1 and Feb. 9, 5.03% between Feb. 10 and Oct. 4, 2000 and 5.28% between Oct. 5 and Dec. 31, 2000.

In February 2001, the call rate declined to 5% level as the Bank cut its target rate by 25 basis points. The central bank undertook this move to cushion Korea's economic slowdown in an environment characterized by the lowering of U.S. interest rates on two occasions and the restoration of the stability in the local foreign exchange market.

<Figure Ⅱ-31>

Trends of Call Rate and Call Market Trading Volume

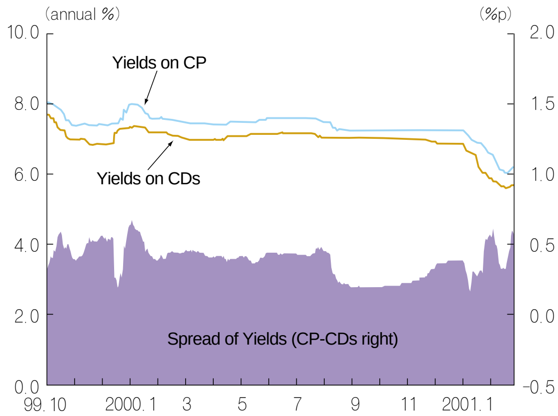


During the first half of the year 2000, the average daily trading volume of the call market amounted to 19 trillion won as investment trust management companies(ITMCs) invested their assets in call loans. They did so to prepare for an expected massive redemption of beneficiary certificates involving securities affected by Daewoo's insolvency and for the implementation of mark-to-market valuation for bond holdings. Moving into the second half, as redemption pressures were greatly alleviated, the ITMCs reduced the scale of their call loan operations. Thus the average daily trading volume of the call market shrank to 13 trillion won.

Yields on CP(91 days) continued on a generally downward trend throughout the year 2000. This was attributable to the increasing demand for CP as financial institutions tended to operate their assets on a short-term basis, wary of a rise in long-term interest rates. From May onwards, the yields showed little change, holding to the 7% level. During this period, transactions were mostly confined to high grade CP as the primary market shrank in response to the occurrence of liquidity problems at some companies and the heightened corporate credit risk with corporate restructuring underway. Moving into 2001, however, yields on CP fell below the 7% level in January, and declined further to below 6.5% during February as long-term interest rates dropped steeply.

<Figure Ⅱ-32>

Yields on CDs & CP and Spread of CP over CDs



Yields on CDs(91 days) showed stable movements, remaining 0.4 of a percentage point lower than those on CP, as they had in 1999, while otherwise tracking the latter very closely. The premium was because the issuer of CDs are banks, which have a comparatively higher credit standing and lower risk weighting than the companies which issue commercial paper. Accordingly, yields on CDs continued to ease from a level of around 7.5% at the beginning of 2000, falling to below 6.5% in January 2001 and to below 6% the following month.

(The Spread between Short- and Long-term Interest Rates)

The spread[3)] between short- and long-term interest rates, specifically between the overnight call and three year Treasuries, continued to narrow in the year 2000.

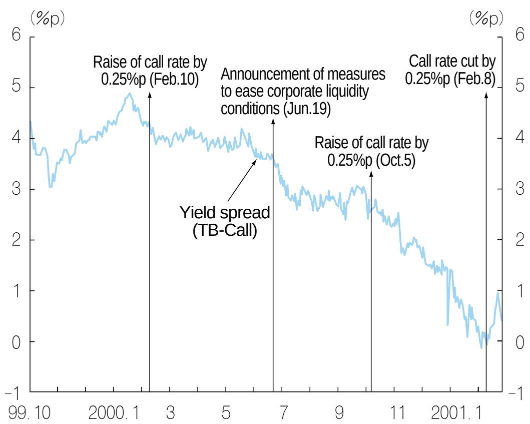
The spread, which had widened to 5 percentage points in January 2000, fell to below 4.5 percentage points in February as the call rate was raised while long-term interest rates eased.

3) During 1999, the spread of corporate bonds(3 yrs.) over the overnight call was used as the benchmark spread of short- and long-term interest rates. However, beginning 2001, considering that Treasury bonds became a benchmark and have a much larger trading volume, yields on Treasury bonds with maturity of 3 years became the benchmark long-term interest rate.

From March onwards, the spread showed a generally narrowing pattern as the Bank of Korea's stable operation of the call rate guided long-term interest rates downward. During the period from March to May, the spread did not narrow, standing at between 3.8~4.1 percentage points in line with the fluctuations of long-term interest rates due to the market instability. From mid-June onwards, when stabilization measures regarding corporate credit were announced, the financial market recovered stability, and long-term rates declined sharply. As a result, the spread contracted to 3 percentage points; and in July, it dropped below the 3 percentage point mark to move in a range of between 2.5~3.0 percentage points, a level similar to that prior to Daewoo's insolvency in 1999.[4)]

<Figure Ⅱ-33>

Trends of Spread between Short- and Long-term Interest Rates



It maintained this width up until late September; when it narrowed to below 2.5 percentage points, affected by the Bank's raise of the target call rate on October 5. With market participants' flight to quality due to high corporate credit risk, long-term interest rates continued to sink. In this context, the spread remained below 2 percentage points in November and hovered around the 1.5 percentage point mark in December.

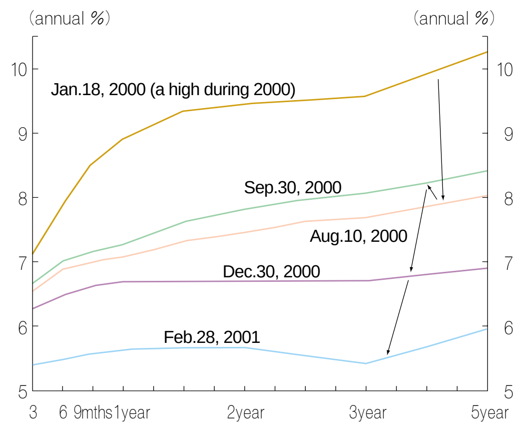
Just after New Year 2001, as long-term interest rates dropped by a large margin, the spread narrowed to less than 1 percentage point. In February, the spread came close to zero; and the phenomenon of an inverse yield curve emerged, with short-term interest rates at one stage higher than long-term rates. Lately, the spread has turned positive again and has been widening in line with the unstable movements of long-term interest rates.

4) The spread between short- and long-term interest rates stood at 2.64 percentage points during July 1~18, 1999(before the Daewoo insolvency).

It had been the norm for the spread between short- and long-term interest rates to widen in the wake of Daewoo's declaration of insolvency in July 1999, because long-term rates rose faster than short-term rates. As a result, market funds tended to be operated on a short-term basis with liquidity concentrated at the short-term end. The narrowing of the spread and the inversion of the yield curve, which both occurred recently, reflected the markets' skepticism concerning future economic conditions, and thus it does not seem to have had much impact on the flow of funds in the financial markets.

<Figure Ⅱ-34>

Yield Curves of Treasury Bonds



The yield curve on Treasury bonds generally showed a downward trend, indicating the continued expectations of an interest rate cut.

From January 18 when yields on Treasury bonds peaked until early August, the yield curve continued to flatten. In September, it moved upward temporarily as expectations for a rise of interest rates ran high as the sale of Daewoo Motor Company fell through, amid surging international oil prices and price instability. Since then, the curve has again turned shallow, and it became very flat on the target call rate cut in February 2001.

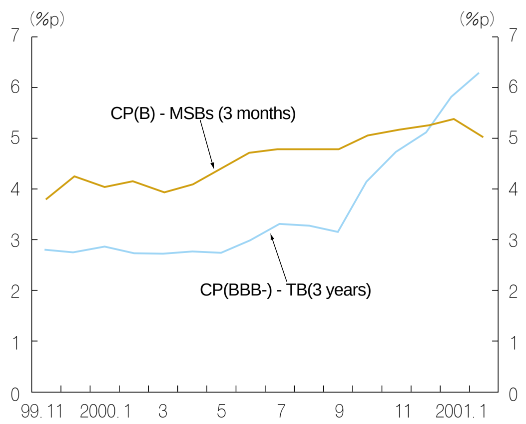
(Risk Premiums)

Risk premiums, spreads between the yields of risk-bearing assets and risk-free assets, exhibited a widening trend throughout 2000 in response to heightened instability of corporations' credit standing and increasing market uncertainty in line with the second wave of corporate and financial restructuring.

The short-term risk premium(yields on B rated CP with a maturity of 91 days versus yields on Monetary

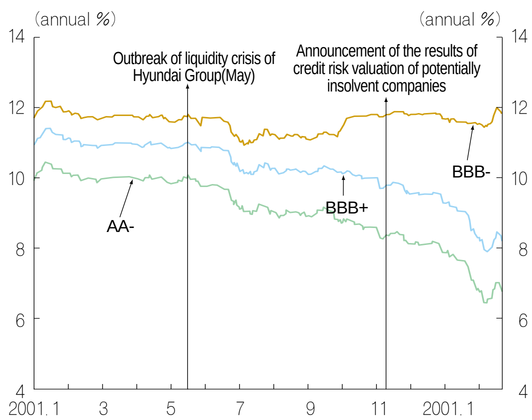
<Figure Ⅱ-35>

Trends of Risk Premiums



<Figure Ⅱ-36>

Trends of Yields on Corporate Bonds by Credit Rating



Stabilization Bonds(MSBs) with a maturity of 91 days) and the long-term risk premium(yields on BBB- rated corporate bonds with a maturity of three years as against yields on three-year Treasury bonds) showed little change in the period between October 1999 and April 2000. This was because market unrest remained greatly soothed with as, for example, the problem-free redemption of Dawwoo-related beneficiary certificates.

From the early part of May, however, both short- and long-term risk premiums widened in response to the worsened credit risk of some mainstay large companies, the spread of expectations of market instability caused by the problem of the Hyundai groups' shortage of liquidity and uncertainties concerning restructuring. In particular, the long-term risk premium widened sharply from October onwards as financial institutions' sensitivity to corporate credit risk heightened. By February 2001, it had increased to 6.4 percentage points.

Spreads among investment grade corporate bonds, which indicate the perceived risk of a company's default on its financial obligations, steadily widened from June 2000 onwards as credit discrimination deepened in the financial market. The benchmark spread between BBB- grade and AA- grade corporate bonds maintained a level of 1.7 percentage points between January and April; but it had risen to 1.9 percentage points by the end of June, 2.2 percentage points by the end of September, and 3.7 percentage points by late December. This trend continued on into 2001, and the benchmark spread reached 5.0 percentage points by the latter part of February. Affected by the fall in market interest rates, market participants showed an appetite for financial products that provide higher yields. Thus the issuance of BBB+ grade corporate bonds was brisk, and primary interest rates on them fell. As a result, their spread over AA-grade bonds did not widen any further.

Spreads for various grades of CP showed a similar pattern of movements to those on corporate bonds. The spread between B grade and A1 grade CP stayed around 3.4 percentage points between January and April. However it widened greatly from early May onwards to register 4.0 percentage points at the end of June and 4.4 percentage points at the end of December. From late January 2001, as concerns over corporate credit risk were partially alleviated, this spread declined slightly to 4.3 percentage points in February.

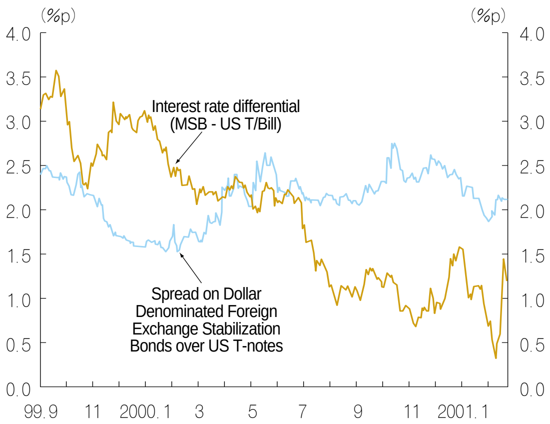
(Domestic-Foreign Interest Rate Differential and Premiums on Dollar Denominated Foreign Exchange Stabilization Bonds)

The domestic-foreign interest rate differential narrowed generally in 2000 owing to the decline in interest rates in the domestic market. But in early 2001, it widened again in response to the lower interest rates in the U.S.A.

The twelve-month domestic-foreign interest rate differential(yields on twelve-month MSBs versus yields on twelve-month U.S Treasury bills), which had maintained a relatively wide spread of around 3 percentage points since November 1999, narrowed to 2.4 percentage points in January 2000 as yields on domestic corporate bonds with shorter maturities declined sharply, led downward by those on MSBs in January 2000. Up until the end of June, the differential remained within a 2.1-2.2 percentage point range as yields on MSBs maintained a level of around 8.3 percent.

<Figure Ⅱ-37>

Trends of Interest Rate Differential and Spread of Dollar Denominated Foreign Exchange Stabilization Bonds over US T-notes

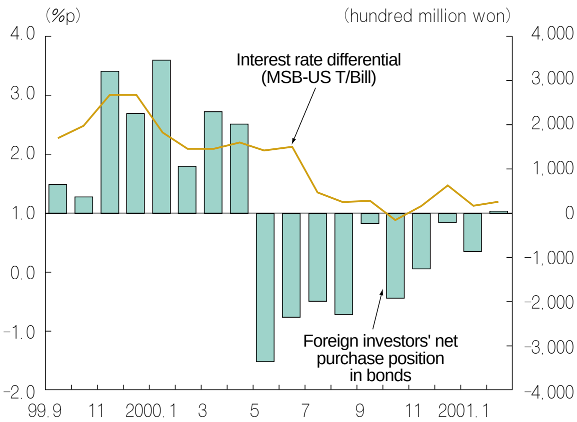


In July, yields on MSBs dropped sharply in line with the overall declining trend of interest rates. As a result, the domestic-foreign interest rate differential contracted to 1.4 percentage points. The downward trend of MSB yields continued through October, causing the differential to narrow to less than 1 percentage point at the end of that month

From early November, it began to widen again despite the sustained decline of interest rates in the domestic market. This was because interest rates on U.S Treasury bills dropped further in response to the prospects of a U.S. economic slowdown and expectations of an interest rate cut by the Federal Reserve. In January 2001, however, the differential again narrowed to less than 1 percentage point.

<Figure Ⅱ-38>

Trends of Interest Rate Differential and Foreign Investors' Net Purchase Position in Bonds



Viewing the pattern of foreign investors' investment in the domestic bond market, they maintained a net purchasing position in the first half of 2000 when the interest rate differential was relatively wide. During this period, they invested aggressively in short-term bonds, including MSBs. In the second half of the year, however, with the narrowing of the differential, their appetite for bond purchases weakened slowly. In this context, foreign investors shifted to a net selling position as they began profit-taking, centering on short-term corporate bonds, which had been perceived as low priced. Another reason for their unloading of bonds was the combination of financial and foreign exchange market instability.

The spread over U.S. Treasury notes on dollar-denominated Foreign Exchange Stabilization Bonds showed stable movements by and large during the year 2000.

The spread narrowed to around 160 basis points from November 1999 onwards in response to the upward adjustment of Korea's sovereign credit rating by international credit rating agencies. Subsequently, though, unfavorable factors including market instability in the Asian region, foreign investors' skepticism concerning Korea's restructuring process and Hyundai Group's liquidity shortages emerged. These combined to widen the spread to 265 basis points by May 22. From early June, it shifted to a narrowing trend, bolstered by the soothing of domestic financial market unease in line with the easing of Hyundai Group's liquidity problems and upgrades of the credit ratings of several domestic banks. But in November, it widened again as the demand for bonds by emerging markets issuers receded in response to the downgrading of the sovereign ratings of several South American countries.

In early 2001, on the heels of the U.S interest rate cuts, the premium over U.S. Treasury notes gradually eased as demand for emerging market' issues in general rose. As of the end of February, it registered 212 basis points.

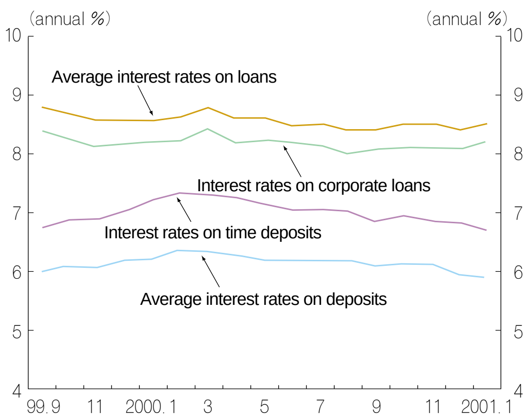
(Interest Rates on Deposits and Loans of Financial Institutions)

Interest rates on the deposits and loans of financial institutions maintained a low level in general, reflecting the decline of long-term market interest rates and the increased funds of financial institutions during 2000.

The average interest rate on bank account loans(on the basis of amounts newly extended) edged up during the first quarter to post its highest level for the year(8.6~8.8%), driven by the continued economic upswing, and the rising demand for indirect financing in the wake of

<Figure Ⅱ-39>

Trends of Interest Rates on Bank Deposits and Loans

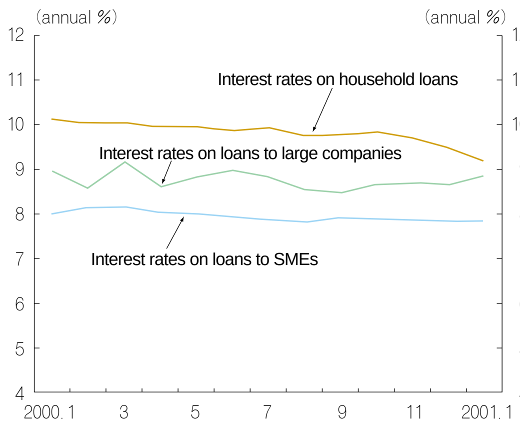


the contraction of fund raising through direct financing. During the second and third quarters, banks enjoyed abundant liquidity; and they strove to attract outstanding SMEs or individuals as prime customers while avoiding lending to mainstream large companies with the attendant high credit risk. This resulted in a continued decline of the average lending rate to the 8.4% level.

From October onwards, the average lending rate rose to the 8.5% level in response to increased lending to mainstream large companies with low credit ratings and to rising household loans, which bear relatively higher interest rates. Beginning from December, however, the average rate reverted to the 8.4% level as interest rates on household loans fell steeply amid lending competition among financial institutions.

<Figure Ⅱ-40>

Trends of Interest Rates on Bank Loans by Borrower



By borrower, loan interest rates showed a similar pattern of movements to those of loan interest rates as a whole. These on household loans dropped particularly sharply in 2000, to stand at 9.88% on a monthly average basis, down by 0.97 of a percentage point from the previous year's 10.85%. Their annual decline was larger than that of 0.73 of a percentage point on corporate lending during the same period(8.91% in 1999 → 8.18% in 2000). This was mainly because banks expanded their mortgage lending to the household sectors which carries a lower risk weighting than corporate lending in the calculation of the BIS capital adequacy ratio, and reduced their interest rates on this type of lending.

The average interest rate on bank deposits(on the basis of the amount of new deposit-taking) also showed an overall decline as banks reduced deposit interest rates, particularly on long-term deposits. They were able to do this thanks to their abundance of funding boosted by the continued migration of funds into the banking sector as investors showed a preference for safety amid market instability.

In the first quarter of 2000, deposit rates fluctuated within a range of between 6.2% and 6.4%, their highest levels for the year as deposits shifted to the long-term end of the yield-curve from their previous concentration at the short-term end, and competition among banks to attract deposits expanded.

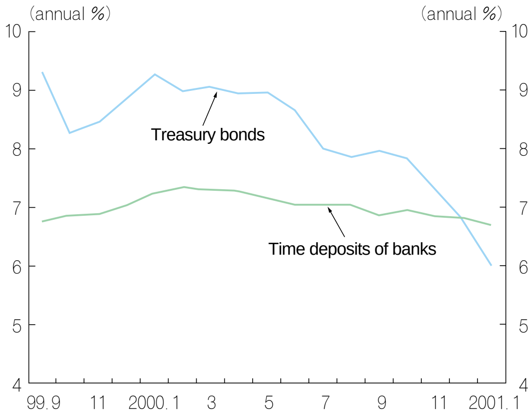
From April up until September, the average interest rate on deposits dropped by a relatively large margin. This stemmed from a migration of funds from nonbank financial institutions to banks as stock market capitalization contracted and the instability of financial market persisted. Another reason that banks cut the interest rates on deposit products was that their operating margins were squeezed by the decline of market interest rates.

Throughout October, in order to expand their deposits ahead of financial sector restructuring, some banks with lower credit ratings sought to attract an inflow of funds by raising interest rates on long-term deposits, which caused a slight rise in the average deposit rate. From November onwards, however, it continued on a downward trend, as banks experiencing difficulties in the operation of their funds, in general, lowered the rate they paid on deposits as a result of the fall in market interest rates.

The spread between yields on Treasury bonds and interest rates on time deposits of banks held steady at around the 2 percentage point level in the first half of the year. From early in the second half, though, it narrowed to 1 percentage point, affected by the plunge in yields on Treasury bonds. From early December,

<Figure Ⅱ-41>

Comparison of Interest Rates on Time Deposits of Banks and Yields on Treasury Bonds

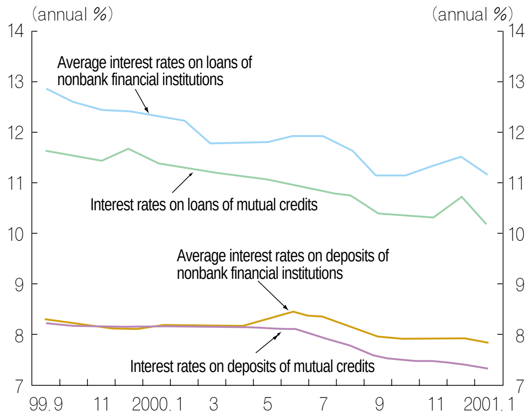


yields on Treasury bonds again dropped by a large margin with the emergence of excess demand for risk-free assets. As a result, the spread inverted with interest rates on time deposit higher than yields on Treasury bonds. This pattern of decline in long-term interest rates exerted a downward influence on banks' deposit interest rates.

The interest rates on the deposits and loans of nonbank financial institutions showed relatively stable movements during the year 2000.

<Figure Ⅱ-42>

Trends of Interest Rates on Loans and Deposits of Non-bank Financial Institutions



Their average interest rate on loans(on the basis of amounts newly extended) continued to slide during the first quarter as mutual savings & finance companies along with other nonbank financial institutions reduced their interest rates competitively to deal with the weakening demand for loans. From April onwards, however, loan rates shifted to an upturn as the corporate demand for short-term funds grew in response to the contraction of the direct financing market, which was compounded by the increase by merchant banking corporations of their CP discount rates in view of the heightened credit risk of some companies.

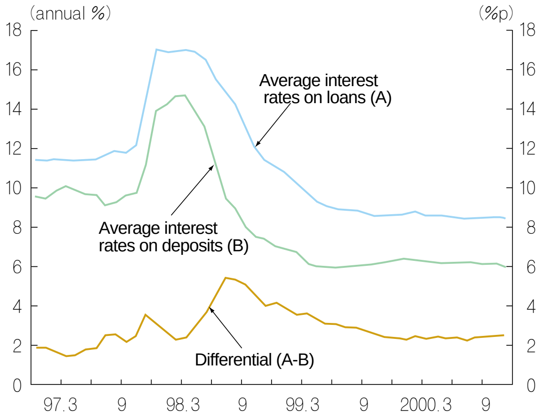
From early August onwards, the average interest rate on loans dropped sharply. This was because merchant banking corporations, credit unions and mutual credits all cut their lending rates in line with the decline in market interest rates and rates on bank loans. As a result, the gap between the loan rates of banks and nonbank financial institutions narrowed to 2.8 percentage points in November from 3.7 percentage points in January 2000. In December, interest rates on nonbank loans showed an upward trend; but moving into 2001, they shifted to a steeply downturn trend, affected by the fall in market interest rates.

The average nonbank interest rate on deposits(based on amount of new deposits taken at fixed interest rates) declined in keeping with that on loans. In fact, it showed a downward trend in the first quarter, but edged back up between May and July, driven by the raise of interest rates to stem an outflow of deposits.

From August onwards, however, the average deposit interest rate continued on a downward trend as the nonbank financial institutions lowered interest rates on their products in response to the decline of market interest rates and reductions in bank deposit interest rates. Notably in January 2001, the average deposit interest rate dropped by 0.1 of a percentage point month-on-month after nonbank financial institutions slashed their interest rates on long-term deposits, affected by banks' large reduction in their interest rate on time deposits.

<Figure Ⅱ-43>

Trends of Differential Between Interest Rates on Deposits and Loans of Banks



Meanwhile, the spread between banks' deposits and loans interest rates registered 2.4 percentage points in 2000, down from the 3.2 percentage points of 1999 and showing a level similar to that before the currency crisis. Its decline was attributable to the heated competition for deposit-taking, spearheaded by several banks whose credit ratings are relatively low.

(2) Stock Prices

Stock prices fell steeply during 2000. Investors lost confidence amid financial market instability and the deterioration of corporate profitability with an economic downturn looming. These factors came on top of a worsening of the external environment in the form of the instability of major stock markets worldwide and higher international oil prices. In the early months of 2001, however, ample liquidity, the interest rate cuts by the U.S. Federal Reserve, the net purchasing position

<Table Ⅱ-13>

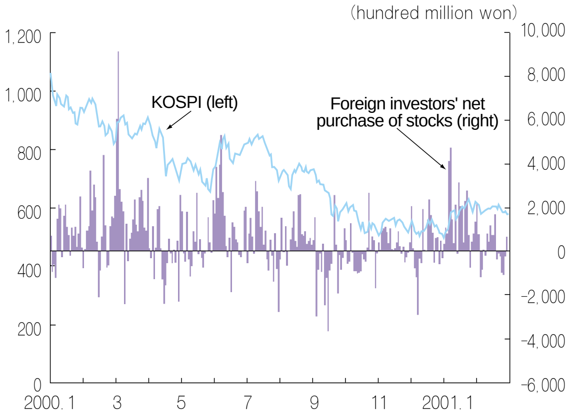
Stock Market Trends

	1999	2000		2001	
		first half	second half	Jan.	Feb.
KOSPI[1]	1,028.1 (+82.8)	821.2 (-20.1)	504.6 (-50.9)	617.9 (+22.5)	578.1 (+14.6)
Volume (ten thousand shares)[2]	27,525	28,135	32,878	50,041	37,578
Value (hundred million won)[2]	34,311	31,676	20,111	28,163	19,681
KOSDAQ Index[1]	256.1 (+240.6)	151.9 (-40.7)	52.6 (-79.5)	84.4 (+60.4)	76.8 (+46.0)
Volume (ten thousand shares)[2]	3,484	18,979	23,194	48,161	49,558
Value (hundred million won)[2]	4,289	32,026	15,391	23,732	27,326

Notes: 1) Based on period-end.
2) Daily average.
3) Figures in parentheses refer to percentage changes compared with the previous year-end.

<Figure Ⅱ-44>

Trends of KOSPI and Foreign Investors' Net Purchase of Stocks



of foreign investors, and the favorable evolution of external conditions combined to lift the stock market out of the doldrums where it had been drifting for some time.

(Korea Composite Stock Prices Index)

Stock prices witnessed a sharp rise during 1999 thanks to the economic briskness and the bullishness of overseas stock markets, including those in the U.S. The upward trend continued in the early months of 2000, thanks to the Y2K problem having been laid to rest and optimism for the new millenium running high. The Korea Composite Stock Price Index(KOSPI) registered 1,059 points on January 4, its highest since December 1, 1994(1,066 points)

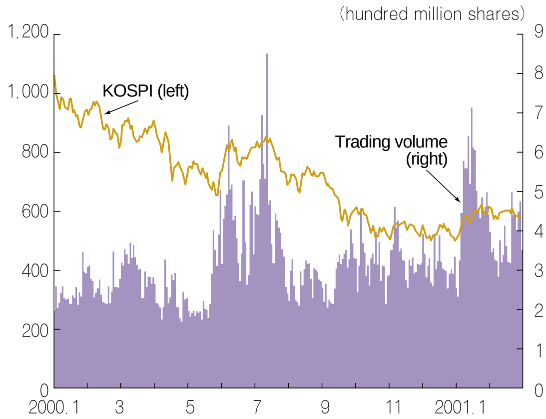
However, KOSPI slid to the 800 point level by the end of March amid an unfavorable external environment, including the cooling of the U.S. stock market and rising international oil prices. Another factor contributing to its decline was the sell-off of stocks by ITMCs as their funds under management in the form of stock-type beneficiary certificates declined. During this period, foreign investors anticipated higher corporate profitability in the wake of the domestic economic upswing and additional upgrades of sovereign credit ratings. They purchased those stocks they perceived as low priced, maintaining a net purchase position to the tune of 6 trillion won. However, they focused on buying and selling within a short period of time rather than holding stocks for a long period as they had in the past. This is evident from the higher turnover ratio of foreign investors' stock holdings[5].

5) The ratio of the value of foreign investors' transactions to the average aggregate value of listed stocks held rose to 18.0 percent as of the end of March 2000 from 11.5 percent as of the end of 1999.

From early April, investor confidence was heavily dampened by concerns over bubble-like phenomena in IT and high tech-related stocks, foreign investors' shift to a net selling position, and the restructuring of ITMCs. This resulted in a fall in the KOSPI to the 700 level. In May, uncertainty over domestic economic prospects and the restructuring and liquidity shortages of some large companies and other factors unsettling the markets pulled the index down to 655.9 points(May 29).

<Figure Ⅱ-45>

Trends of KOSPI and Trading Volume



In June, stock prices rebounded as investors' confidence recovered somewhat, bolstered by expectations of economic cooperation between the two Koreas and the announcement of stabilization measures regarding corporate credit on June 19. Thus the index reached the 800 level. However, because there was no fundamental solution of the problems unsettling the markets such as the liquidity shortages of several large companies, the stock market was characterized by erratic downward movements whenever these factors came into prominence. From August onwards, the index plunged as foreign investors off-loaded large volumes of semiconductor-related stocks in the wake of plummeting chip prices. The abandonment of the foreign take-over bid for Daewoo Motor Co. was another factor contributing to the plunge in stock prices. Moving into December, the stock market cooled further in response to concerns over the slow progress of restructuring in view of exchange rate instability and labor market unrest. As a result, KOSPI finished the year at 504.6 points, less than half the previous year-end's 1,028.1 points. Market capitalization, the aggregate value of listed stocks, declined to 188 trillion won in 2000 from 350 trillion won the year before.

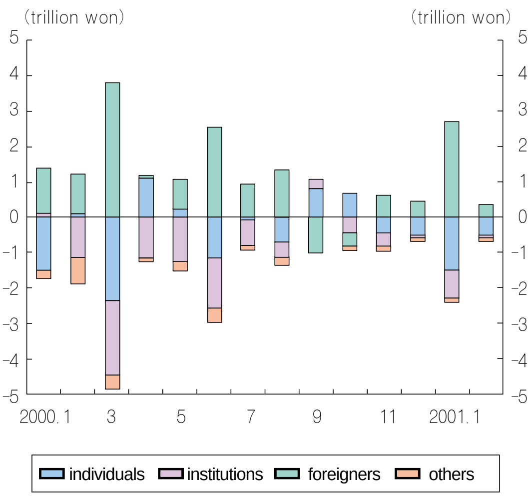
From early 2001, stock prices shifted to an upturn as foreign investors bought heavily on the U.S. interest rate cuts and expectations of accelerated restructuring. However, there was a limit set to the additional rise of share prices by the continuing prospect of an economic slowdown and the elusiveness of improvements in corporate profitability.

The scale of stocks transactions fluctuated sensitively to conditions in the stock market. Stock prices continued to slide between January and May 2000, resulting in a decline of the average daily trading volume to the 260 million share level from the 320 million share level of the fourth quarter of 1999. During the period of June and July, when the stock market showed signs of recovery, the volume hovered above 400 million shares; but after August it fell back to the 300 million share level.

Meanwhile in 2001, as stock prices showed a rising trend, the trading volume increased. During January, the average daily trading volume exceeded 500 million shares, with turnover of 700 million shares on the 12th, thanks to active transactions by foreign, institutional, and individual investors. In February, the daily volume averaged 380 million shares, a similar level to the same month of the previous year.

<Figure Ⅱ-46>

Trends of Net Purchase and Sale of Stocks of the KSE Market by Investor



Viewing stock transactions by investor, institutional investors, including ITMCs, and individual investors showed a net selling position while foreign and corporate investors maintained their net purchase position.

During 2000, foreigners bought actively on the basis of expectations of profiting from the continued economic briskness and the Korean won's strengthening trend. Their net purchase reached 11.5 trillion won, five times the previous year's 2.3 trillion won. Of this, stocks worth 9.6 trillion won were purchased in the first half

<Table Ⅱ-14>

Trends of Foreign Investors' Net Purchase and Net Inflow of Portfolio Funds

(based on changes)

	2000					2001	
	year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Jan.	Fab.
Net purchase (billion won)	13,134	7,672	3,253	1,373	836	2,964	359
Net inflow (100M U$)	115.6	76.2	25.4	9.2	4.8	21.7	6.4

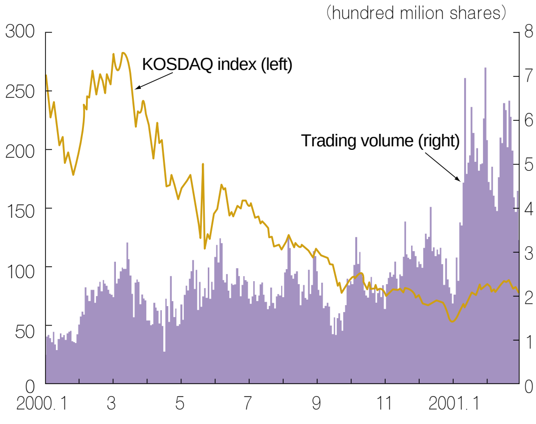
of the year, accounting for 83 percent of the total. In the second half, they scaled back their net buying position and during September and October, their net sales amounted at 1.4 trillion won. Moving into 2001, however, they shrugged off the won's depreciation, expanding their net buying position in view of the U.S. interest rate cut and their perception of Korean stocks as under-priced.

The scale of inflow of foreign portfolio funds to the domestic market reached 10.2 billion dollars in the first half of 2000, and 1.4 billion dollars in the second half of the year. In early 2001, as foreign investors expanded their net purchase position, the total inflow stood at 2.8 billion dollars for the two-month period of January and February.

(KOSDAQ Index)

<Figure Ⅱ-47>

Trends of KOSDAQ Index and Trading Volume



The KOSDAQ market, which had boomed in 1999, fell steeply with the recognition of the bubble in information & technology and internet related stocks in 2000, and the expanded volume of their supply.

Up until February 2000, the KOSDAQ market continued to outperform the Korean Stock Exchange (KSE) market as it had the previous year. This resulted from the bullishness of NASDAQ market in the U.S. amid the sustained confidence in the growth potential of the IT and high tech sectors. Accordingly, foreign investors made some adjustments in their portfolios, scaling down their purchases on the KSE and expanding those on KOSDAQ.

From March onwards, however, skepticism over the profitability of IT and internet related businesses became widespread worldwide. The NASDAQ market in the U.S. plummeted and, following its lead, the

KOSDAQ market shifted to a downturn. In addition, the KOSDAQ market was affected by the contraction of the KSE market following financial market instability and the imbalance of share supply and demand brought about by companies, large scale rights issues and public offerings to increase their capital.

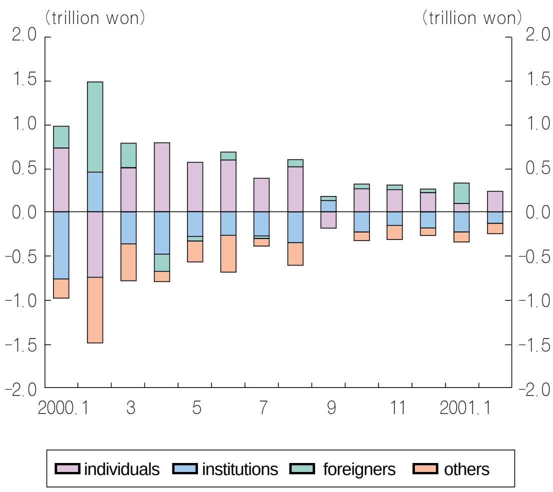
From early July, investors' sentiment cooled down further following revelations that some CEOs of internet- and new technology start-ups had engaged in unfair manipulation of their stocks. Foreign investors shifted to a selling position, and the KOSDAQ index continued to fall sharply until the end of the year. The index had started the year at 256.1 points, the figure recorded as of closing at year-end 1999 and recorded a high of 283.4 points on March 10. After then, it continued to sink and stood at 52.6 points as of the end of the year, a decrease of 79.5% year-on-year and of 81.4% compared with its peak during the year. The "Venture index", which had led the upward trend in the KOSDAQ, stood at 91.5 points as of the end of 2000, a loss of 88% of its highest value during the year: 787.5 points on March 9.

Early in 2001, despite the fall in the NASDAQ, expectations for a recovery of the KSE and the effects of the U.S. interest rate cut helped funds flow back into the KOSDAQ, causing it to post a short-lived rise. Accordingly as of the end of February, the index registered 76.8 points, 46% up from the 52.6 points at the end of the previous year.

The fall of the index notwithstanding, trading volumes tended to expand on the KOSDAQ market. This was because the number of companies registered on the market increased and day trading and stock splits were on the rise. The average daily trading volume marked 200 million share transactions during 2000, six times

<Figure Ⅱ-48>

Trends of Net Purchase and Sale of Stock on the KOSDAQ market by Investor



1999's 30 million shares. Strikingly, in the early months of 2001, the average daily volume expanded to 500 million shares, which brought it up above that of the Korea Stock Exchange. Its briskness was attributable to the rise in the prices of stocks registered on KOSDAQ.

Viewing trends of KOSDAQ stock transactions by type of investor, individuals and foreigners registered net purchases of 4 trillion and 1.6 trillion won, respectively, whereas institutional and corporate investors respectively registered a net sale of KOSDAQ stock holdings worth 2.8 trillion won. This pattern of trading has continued on into 2001.

B. Quantitative Indicators

(1) Money

In 2000, although the liquidity supplied through banks was generally sufficient, there were divergences between the growth of the major monetary aggregates due to the weakened intermediary function of nonbank financial institutions. After September, however, with financial market instability gradually easing, the divergences of the trends of the monetary aggregates narrowed.

<Table Ⅱ-15>

Growth Rate[1] of Major Monetary Aggregates

(%)

	1999	2000				2001	
	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.	Feb.
M1	22.0	16.1	18.3	13.9	11.8	13.2	10.0
M2	28.5	27.2	36.3	30.4	24.5	26.1	20.7
MCT+	11.8	13.6	18.2	15.4	14.1	15.9	13.1
M3	8.3	5.0	5.1	6.2	6.7	..	..
RB	23.7	19.9	22.6	19.0	11.3	15.1	8.6

Note: 1) Based on daily average, compared to the same period of the previous year.

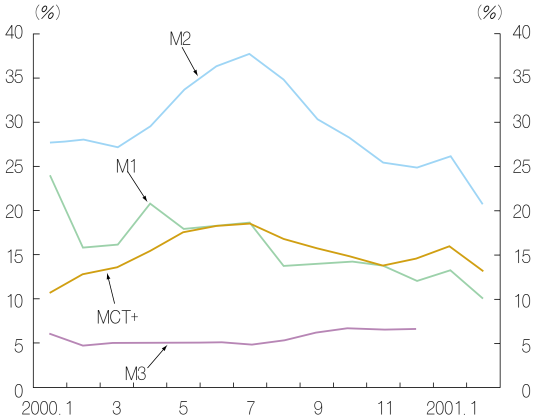
(Monetary Aggregates)

In 2000, while the growth rate of M3 remained at a low level, both M2 and MCT+ maintained high growth rates. Such discrepancies between the leading monetary aggregates were due to the fact that although the flexible supply of liquidity by the Bank of Korea to stabilize the financial market and to ensure a stable supply of funds to businesses helped expand the supply of liquidity by way of banks, nonbank financial institutions such as investment trust companies, bank trust accounts and merchant banks saw their role in the intermediation of funds dwindle amid the on-going efforts for financial and corporate restructuring. In addition, as of the end of 1999, there was a sharp fall in outstanding M3 balances as companies used stock issuance as a means of procuring the funds needed to bring down their debt ratios and to repay a large share of their borrowings from financial institutions. This also reduced year-on-year M3 growth.

Most notably, the growth rate of M3(based on daily average figures), which represents total liquidity and forms the broadest monetary aggregate, dropped to 4.7% in February 2000 with the phased increase of the Daewoo bond redemption ratio resulting in a sharp decline in deposits at investment trust companies. From March, delays in restructuring and other factors weakened deposit-taking by nonbank financial institutions and kept M3 growth low at around the 5% level. But after August, thanks to policies of the government and the Bank of Korea that sought to stabilize the financial market, general market conditions improved including the alleviation of anxieties among market participants, and the decline of deposit-taking by non-bank financial institutions slowed down. Accordingly, the growth of M3 gradually accelerated above the 6% mark, and reached 6.7% in December.

<Figure Ⅱ-49>

Growth Rates[1] of Major Monetary Aggregates



Note: 1) Based on daily average.

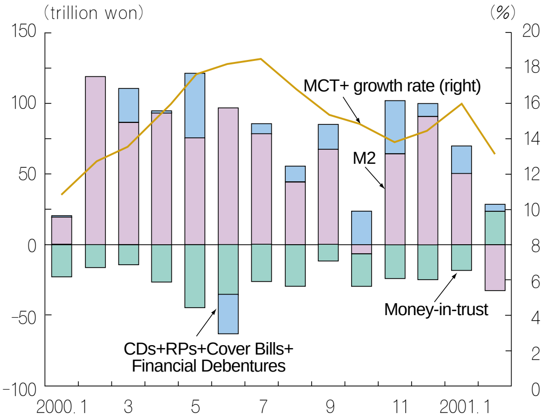
M1 and M2, which have a high degree of liquidity and whose balances are used mainly for settlement, maintained high growth rates throughout the year.

M2(based on daily average figures) recorded high growth of over 30% from May to September with a jump in credit to the private sector – especially to

SMEs and households – and an increase in the money supply through the foreign channel. In particular, in July, it rose to 37.8% – its highest figure of the year – reflecting the rise in banks' contributions of capital to bond type funds and the expansion of their lending. M2 showed a slightly decelerating trend thereafter, reflecting the slowdown in the business upswing in the latter part of the year, the halt in the decrease of credit from nonbank financial institutions which weakened the demand for private sector borrowings from banks, and the reduction in the money supply through the foreign channel. Nevertheless, it still stayed high at around the 20% level.

<Figure Ⅱ-50>

MCT+ Growth Rate[1] and Fluctuation by Component



Note: 1) Based on daily average, compared to the same period of the previous year.

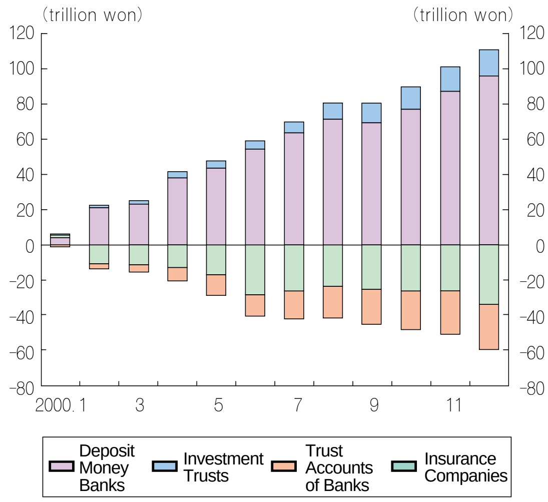
Although money in trust continued its decline, MCT+ (M2+CDs+money in trust+ cover bills+RPs+financial debentures), which reflects the total deposits of banks, maintained a high growth rate(based on daily average) throughout the year thanks to the strong increase in M2 and the popularity of short-term marketable deposit products including cover bills, RPs and financial debentures. During the year, it moved in a similar fashion to M2. From January to July, it grew at around the 18% mark and then dropped to around 14% with the growth of M2 also slackening its pace during the latter half of the year.

In line with such monetary movements in the financial sector, each type of financial institution's share in M3 also changed.

First, in the case of bank accounts, the growth of bank deposits pushed up the share of bank accounts in M3 from 39.7% as of the end of January to 47.2% as of the end of December 2000. This rise, which offset the continuing decline in trust account deposits, brought total bank deposits from a share of 50.7% in M3 as of the end of January to one of 54.8% as of the end of

<Figure Ⅱ-51>

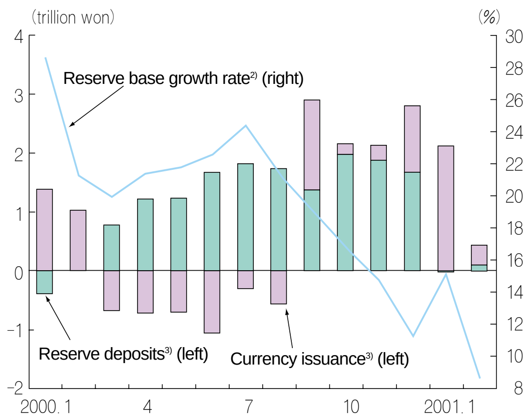
Changes[1] in Shares of M3 by Financial Institution Type



Note: 1) Compared to end of December 1999.

<Figure Ⅱ-52>

Reserve Base Growth Rate and Changes by Component[1]



Notes: 1) Based on daily average.
2) Compared to the same period of previous year.
3) Compared to the end of previous year.

December 2000. As for investment trust companies, which saw a big dip in their deposit-taking, their share in M3 dropped from 14.6% at the end of January to 9.8% at the end of December 2000.

The growth of the reserve base rose to 28.6% in January 2000, under the impact of the carrying-over of the expansion of cash holdings prompted by fears of Y2K problems. Until the end of August, with continuing M2 expansion pushing up the growth rate of deposits subject to reserve requirements, its overall growth stood at the high level of around 20%. After September, however, the slowdown in M2 growth pushed that of the reserve base down to 11.3% in December. Moving into 2001, various factors including the difference in the timing of the Lunar New Year holidays(February 5th in 2000 ; January 24th in 2001) temporarily raised its growth rate to 15.1%, but it quickly turned downward again, standing at 8.6% in February.

Looking at the changes of the reserve base by component, the steady rise in bank deposits increased reserve deposits by 1.7 trillion won during 2000. At the same time, the higher demand for settlement balances owing to the robust economic growth that continued until the third quarter also brought about an expansion of currency issuance by 1.2 trillion won.

(Fund Supply Structure)

The M3 supply structure for 2000 shows that, in the private sector, the scale of absorption rose sharply on a year-on-year basis. But in the government sector, the scale of supply was smaller than the previous year, and this applied also to supply through the foreign channel.

In the private sector, despite the increased fund supply from lending(+6.4 trillion won in 1999 → +22.9

<Table Ⅱ-16>

M3 Supply by Sector
(Changes based on year-end balance)

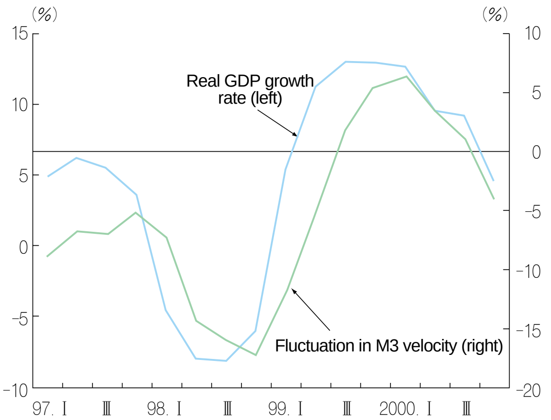
(hundred million won)

	1999	2000
M3 changes	632,006	608,140
Government	73,362	22,272
Public sector	348,882	90,451
Private sector	-4,909	-158,873
(Loans & discounts)	63,898	229,104
(Securities)[1]	41,404	-377,748
(Loans in foreign currency)[2]	-125,965	-47,586
Foreign sector	426,024	333,555[3]
Others	-211,353	320,736[3]

Notes: 1) Securities such as coporate bonds, CP, etc.
2) Advanced payment against foreign currency payment guarantees, foreign currency credits, etc.
3) Before foreign exchange conversion.

<Figure Ⅱ-53>

M3 Velocity Fluctuations and Real GDP Growth Trends[1]



Note: 1) Compared to the same period of the previous year.

trillion won in 2000), with the substantial decrease in the supply of funds from securities investment such as corporate bonds and CP purchases(+4.1 trillion won in 1999 → -37.8 trillion won in 2000), the scale of absorption rose steeply on a year-on-year basis. Money supply through the government sector dropped from 7.3 trillion won in 1999 to 2.2 trillion won in 2000 due to increase in tax revenues. That through the foreign channel decreased to 33.4 trillion won with a drop in the current account surplus being coupled with lower inflows of foreigners' securities investment funds.

(Velocity of Money)

The velocity of money in terms of M3 showed a highly unstable pattern in 2000. It began to show signs of a slowdown in early 2000 after maintaining an upward trend since the third quarter of 1999 and shifted to a downward trend in the fourth quarter of 2000.

During the first quarter of 2000, with M3 growth decelerating amid the continuing business upturn, the velocity accelerated by 6.4%. But by the second quarter, as business growth began to slow down, the growth of M3 began to gradually pick up and this lowered the increase in velocity to 3.6%. This pattern became consolidated from the third quarter and the velocity actually fell by 4.0% in the fourth quarter.

After exhibiting generally stable movements of -6 to -7%, M3 velocity decelerated sharply after the 1997 currency crisis. It subsequently shifted to an upward trend but more lately it has moved back to a decline.

(2) Deposits of Financial Institutions

In 2000, the redemption of beneficiary certificates issued by investment trust companies, the liquidity

<Table Ⅱ-17>

Trends in Deposits of Financial Institutions

(Changes during the period, trillion won)

	1999	2000					2001
		year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Jan.~Feb.
Deposit money banks	68.4	92.0	28.1	26.6	16.6	20.7	1.8
Real demand	3.0	4.1	-4.3	5.7	-1.8	4.5	-2.3
Time & savings	65.4	76.8	29.1	22.7	13.7	11.3	1.8
(Time)	27.9	56.0	21.8	16.4	14.4	3.4	2.2
(Instant access)	30.6	15.3	5.8	4.5	-3.0	8.0	-3.4
<MMDA>	16.8	3.3	2.2	2.6	-5.1	3.6	-2.8
CDs+RPs+ cover bills	0.1	10.9	3.3	-1.8	4.7	4.7	2.3
Money-in-trust	-38.0	-42.2	-8.1	-13.9	-9.6	-10.6	3.0
Additional	-	4.7	0.7	1.6	1.8	0.6	3.1
Unit	14.5	-12.0	1.3	-9.5	-2.5	-1.3	-0.5
New installment	-17.2	-11.0	-3.8	-1.4	-2.4	-3.4	-1.8
Specific	-15.5	4.9	1.8	2.5	1.3	-0.7	0.1
Development	-18.8	-18.3	-5.2	-5.0	-4.5	-3.6	-0.4
Others	-1.2	-10.5	-3.0	-2.2	-3.2	-2.1	2.5
Investment trust companies[1]	-5.6	-50.2	-22.1	-27.8	10.0	-10.3	14.1
Short term bond	-34.5	-10.2	-11.1	-10.3	-1.4	-0.3	2.5
Long term bond	-26.7	-26.1	-26.0	-13.6	10.1	3.4	2.0
MMF	8.3	4.2	5.7	-3.7	8.7	-6.4	13.2
Stock	47.2	-5.2	9.3	-0.2	-7.3	-7.0	-3.6
Merchant banks[2]	-6.0	-5.2	0.1	-2.3	0.6	-3.6	0.8
Bills issued	-4.5	-3.1	1.4	-2.0	0.9	-3.4	0.7
CMA	-1.5	-2.0	-1.2	-0.3	-0.3	-0.2	0.1
Post office[3]	3.5	7.6	1.3	1.9	2.1	2.2	1.4

Notes: 1) Pursuant to changes in product classification of Investment Trust Companies (as of June 12), short term bond investment trust figures excluded MMF from existing short term corporate bond investment trust type beneficiary certificates. Stock investment trust represents existing stock type beneficiary certificates (includes mixed investment trusts of new classification system).
2) Excludes notes sales; excludes Nara Merchant Bank from May due to cancellation of its business license (May 3).
3) Demand deposits+Time&savings deposits +RPs.

crises suffered by Hyundai Group and several other large companies and uncertainties arising from corporate and financial restructuring efforts facilitated an expanded pattern of portfolio shifts among financial institutions. Restructuring by nonbank financial institutions such as investment trust companies and merchant banks, the slump in the stock and bond markets and the planned implementation of the partial guarantee system for bank deposits from January 2001 steered a flow of market liquidity toward relatively stable bank deposits and Post Office deposit products – further widening the gap in deposit-taking between different financial institutions.

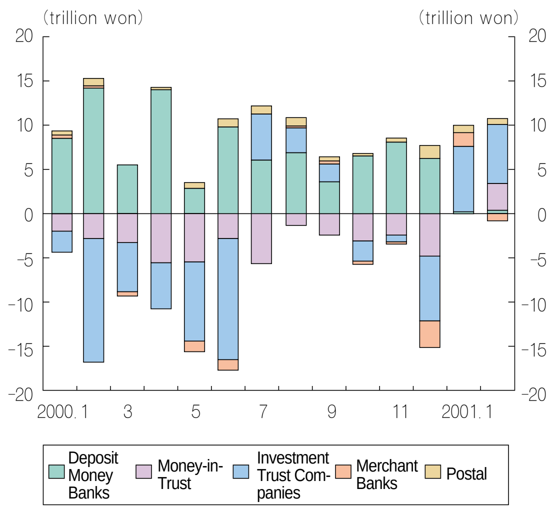
At the same time, even within the banking industry, differences in credibility meant funds inflow was concentrated on healthy institutions. Stability was the key incentive for people choosing deposit products at the Post Office. In 2001, the lopsided pattern of concentration of bank deposits has been easing with the continuing drop in bank deposit rates resulting from the steady decline in market rates. Thus more money has been flowing into short term financial products offered by nonbank financial institutions, attracted by their higher yields.

(Deposit Money Banks)

In 2000, deposits at deposit money banks rose by 92 trillion won – far exceeding the increase of previous year(68.4 trillion won). In terms of deposit type, the growth of time & savings deposits was most prominent while short-term marketable deposits such as CDs, RPs and cover bills, which had been sluggish the previous year, also recorded substantial increases. But in 2001, monthly average deposits have been hovering at around 900 billion won which is far below last year's level of 7.7 trillion won.

<Figure Ⅱ-54>

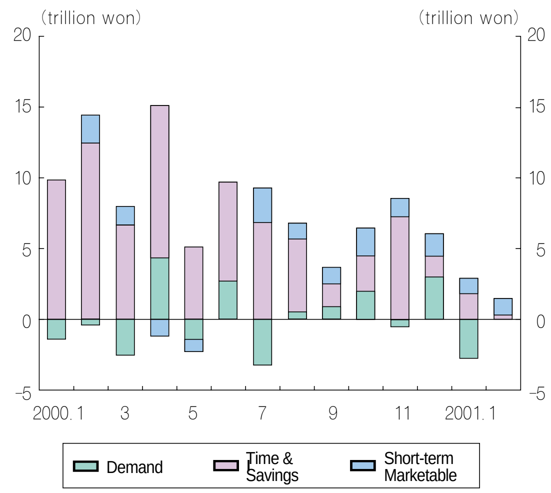
Deposits at Financial Institutions
(based on changes)



Time & savings deposits grew by 76.8 trillion won in 2000 being led by time deposits with an increase of 56 trillion won. The rise was mainly due to the diminished prospects for alternative investment instruments with the stock market continuing bearish. At the same time, the continuing instability in the financial market led to an increasing public preference for safe assets, which brought a migration of funds from investment trust companies and money-in-trust, etc. into other financial deposit products at banks considered safer such as banks' time deposits. Furthermore, the reduction in the deposit payment guarantee level announced for January 2001 and the implementation of the second round of financial restructuring fueled the growth of savings deposits at those banks with a reputation for sound management and strong profitability. In other words, the inflow of deposits showed wide divergences among banks depending on their perceived credibility. With uncertainties in the financial market steering market liquidity toward short-term products, instant access type deposit products like MMDA also attracted an additional 15.3 trillion won during the year.

<Figure Ⅱ-55>

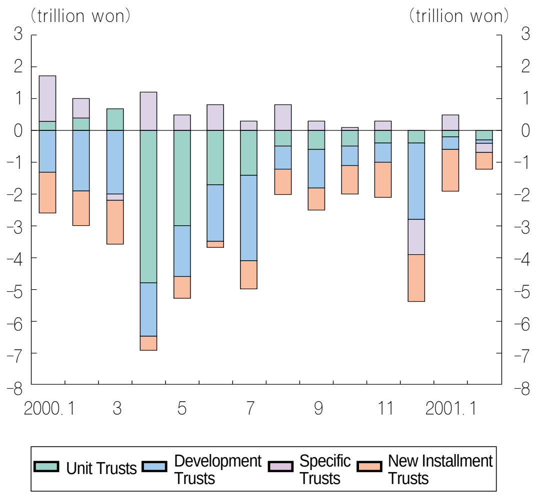
Deposits at Deposit Money Banks by Product
(based on changes)



Short-term marketable deposit products like CDs, RPs and cover bills, which had only seen a slight increase in 1999, rose by 10.9 trillion won in 2000. This was mostly due to the fact that while banks used short term marketable deposit products as the main funding source for investment in bond type funds and short term lending, some banks with low deposit inflows sold more CDs and RPs as a means of increasing their deposit-taking. The fact that in the latter half of the year, investment trust companies, flush with higher short term deposits, increased their purchases of CDs and RPs was another major factor underlying this development.

<Figure Ⅱ-56>

Deposits at Money-in-Trust by Product
(based on changes)



(Money-in-Trust)

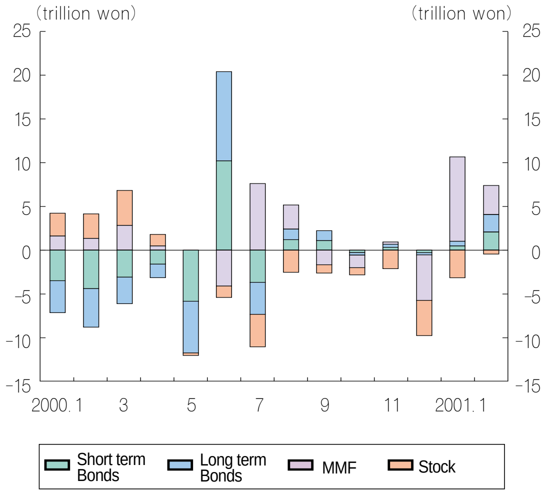
The decline of money-in-trust deposits continued from a drop of 38 trillion won in 1999 to one of 42.2 trillion won in 2000. By type of product, with unit money-in-trusts, which earned popularity after being introduced as a stock type product in April 1999, beginning to reach maturity from April 2000, post-maturity withdrawals recorded a sharp increase. On the other hand, the newly introduced additional money trusts (March 2000) and short-term money-in-trusts(June 2000) recorded lower than expected growth. Specific money trusts recovered from their heavy decline of the previous year to post an increase, thanks to the high growth of assets under management with many companies using this as a way to manage their own stocks. But the increase was not significant with the stock market still recording lackluster performance. The steep decline of new type installment and development trusts continued through the year as a result of massive outflows of funds at maturity. By 2001, with the maturity overhang of development trusts no longer a serious threat and with the strong growth of New Silver Years Life Pension Trusts and additional money-in-trusts offering relatively higher yields, deposit-taking by money-in-trust products turned positive again after a long-continued decline.

(Investment Trust Companies)

Deposit-taking by investment trust companies continued its downward trend from a decline of 5.6 trillion won in 1999 to a large-scale contraction of 50.2 trillion won in 2000. The trend was led by the continued drop in bond-type investment trusts since the preceding year associated with the general loss of confidence in investment trust companies and the bearish stock market, which caused the strong growth

<Figure Ⅱ-57>

Deposits at Investment Trust Companies by Product
(based on changes)



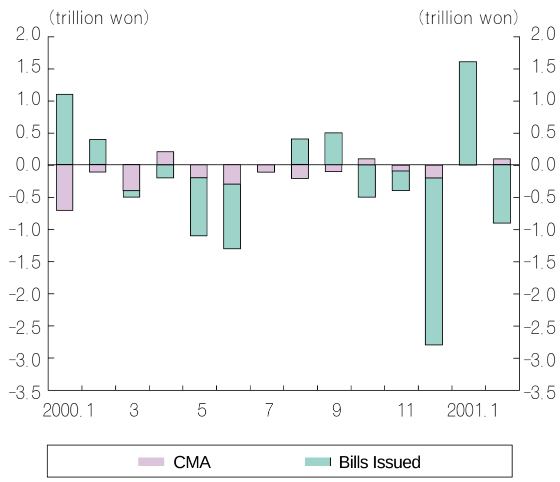
trend of the previous year in stock-type investment trusts(+47.2 trillion won) to shift to a decrease(-5.2 trillion won).

By period, in the first half of the year, deposits declined by 50 trillion won with the redemption of beneficiary certificates owing to the final increase in the Daewoo bond redemption ratio(from 80% to 95%) in February and the continuing restructuring efforts at investment trust companies. But by the third quarter, the newly launched tax-free fund products(July 1) and MMFs attracted short-term surplus funds and allowed deposits to record growth. In particular, MMFs were excluded from bonds subject to mark-to-market valuation. Thus the risk of a change in yields was relatively low and because the yields were also higher than those of the competing MMDAs, short-term surplus funds continued to be attracted to MMFs. But after October, as the growth of tax-free fund products underwent a slowdown and high yield funds and subordinated bonds reaching maturity recorded an increase in redemptions, deposits again began to show negative growth. The decline accelerated in December with companies withdrawing funds - mostly from MMFs - to repay debts prior to year end closing.

Deposits at investment trust companies have been rising in 2001, mainly owing to the rapid increase of MMFs. MMF yields became relatively higher on the sharp decline in market rates coupled with the return of funds withdrawn at year-end. But as the increase of long term deposits has not been prominent, it is not easy to judge that deposit-taking by investment trust companies has recovered.

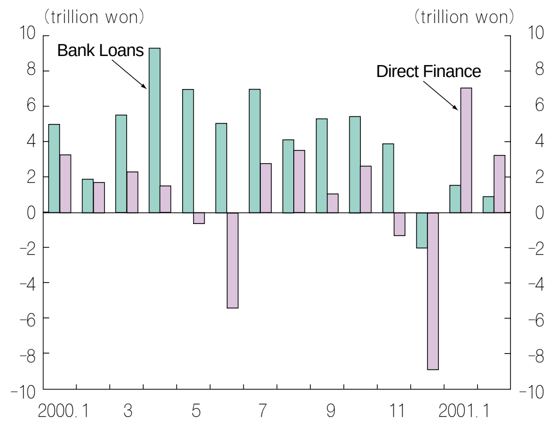
<Figure Ⅱ-58>

Deposits at Merchant Banks by Product
(based on changes)



<Figure Ⅱ-59>

Corporate Finance
(based on changes)



(Merchant Banks)

Deposits at merchant banks had dropped by 6 trillion won in 1999 and they fell by a further 5.2 trillion won in 2000. After recording a small increase at the beginning of the year with the return of some funds that had been withdrawn at year-end to reduce corporate debt ratios and for settlement purposes, deposit-taking showed a substantial decline in the second quarter associated with the cancellation of Nara Merchant Bank's business license(May 3) and the suspension of the operation of Young Nam Merchant Bank(May 24). In the third quarter, merchant bank deposits temporarily recorded an increase as banks and the Deposit Insurance Corporation bought notes issued by them to support their liquidity. But in the fourth quarter, with unauthorized lending by Regent Merchant Bank acting to suppress their growth, deposits again shifted to a steep fall. In 2001, the concentration of deposits on banks eased and the inflow of funds to nonbank financial institutions rose. As a result, deposit-taking by merchant banks again began to record an upswing.

(3) Corporate Finance

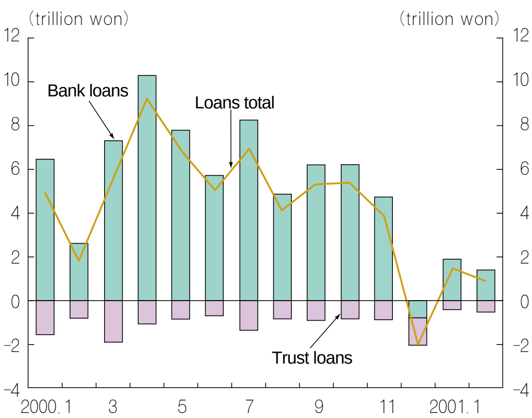
Overall, thanks to ample market liquidity, companies had few problems finding sources of funds in 2000. But with differentiation based on credit-worthiness in the financial market, some leading large companies with low credit ratings experienced difficulties in obtaining the necessary funds.

By source of funding, bank lending registered substantial growth. But funding through the direct financial market such as corporate bonds and CP was sluggish. In early 2001, however, with financial institutions applying detailed qualification standards in corporate lending, companies with BBB or lower ratings resumed their issuance of corporate bonds. In addition, the adoption of support measures for corporate funding such as prompt underwriting scheme for corporate bonds[6)] has been partially helping to ease the credit crunch.

(A) Bank Lending

<Figure Ⅱ-60>

Total Bank Lending
(based on changes)



In 2000, the total lending of deposit money banks (including trust account loans) registered 57.5 trillion won, which far surpassed the previous year's figure of 42.3 trillion won. By account, although bank account lending rose substantially, loans from trust accounts dropped because of the paucity of money-in-trust deposits. The increase in bank lending was made possible by a continuing migration of funds from nonbank financial institutions such as investment trust companies to banks and flexible reserve management by the Bank of Korea, which consequently brought abundance to banks' liquidity conditions. Furthermore, the drying up of direct funding sources such as corporate bonds and CP fueled demand for bank lending among companies. The increase of bank lending has continued in 2001.

(Lending by Sector)

By sector, lending to the private sector rose by 26.4 trillion won and lending to small and medium companies rose by 16.2 trillion won. In contrast, credit to large companies only increased by 7.2 trillion won.

Lending to the households continued strong throughout the year thanks to banks' efforts to increase retail

6) To alleviate the burden of refunding maturing corporate bonds issued in large quantities after the 1997 financial crisis, companies suffering from temporary shortages of liquidity purchased 20% of bonds to replace those reaching maturity and banks the remaining 80%.

<Table Ⅱ-18>

Bank Lending[1] by Sector
(Based on changes)

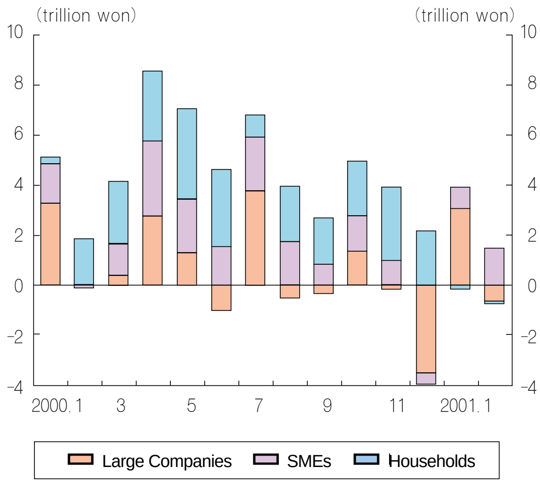
(trillion won)

	1999	2000					2001
		year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Jan.~Feb.
Large companies	1.5	7.2	3.6	3.0	2.9	-2.3	2.5
SMEs	18.3	16.2	2.8	6.8	4.7	1.9	0.7
Households	19.3	26.4	4.6	9.5	5.0	7.3	1.3
Others[2]	3.2	7.7	1.4	2.1	3.8	0.4	-2.1
Total	42.3	57.5	12.4	21.4	16.4	7.3	2.4

Notes: 1) Includes Trust Accounts lending (except discount of CP).
2) Lending to public and other legal entities.

<Figure Ⅱ-61>

Bank Lending by Sector
(based on changes)



financing through cuts in household lending rates and the expansion of cyber-lending schemes. As all banks were allowed to handle deposit products for housing subscription and with the increased scope of subscriber eligibility(March 27)[7], household lending rose to secure the funds needed to put down housing subscription deposits. In May, an increase in demand for housing funds and consumer spending[8] pushed the growth of household loans to its highest of the year(3.6 trillion won). But in July, weakened demand for funds for stock investment and banks' passivity in attracting household credits after their semi-annual closing resulted in a reduction of lending growth. By year-end, however, it rose significantly as banks opted to increase loans against housing collateral as this meant a low risk weighting when calculating the BIS capital adequacy ratio. In January 2001, year end and New Year bonuses resulted in a temporary decrease in household borrowings but they resumed their upward trend by February.

SME loans generally rose steadily with banks strengthening their efforts to expand lending by offering favorable lending terms such as lowering interest rates to small and medium enterprises with a high potential for growth and profitability. However, the growth rate showed a slight dip in February when most commercial paper[9] issued in late 1999 reached maturity, and then again in December with the strengthened control by banks of their BIS capital adequacy ratios. The upward trend, however, resumed in 2001.

7) From this date, all banks were allowed to handle deposits for housing subscriptions. Previously only the Housing & Commercial Bank had been allowed to offer this product. The eligible subscriber base was also expanded from one account per household to one account per person above 20 years of age.
8) For credit card payments, car purchases, etc.
9) Increase of 2.9 trillion won in December 1999 → Reduction of 1.2 trillion won in February 2000

As for lending to large businesses, with only weak demand for credit as companies had to reduce their debt ratios, a large part of the demand came from those large companies that could not tap the direct financial market due to their low credit ratings. In total, corporate lending to large companies rose by 7.2 trillion won in 2000. From August to September, however, it showed a decline because leading large companies repaid overdrafts at high rates with funds raised from the issue of corporate bonds that were classified as basic assets of primary CBO(Collateralized Bond Obligations), and financial institutions opted for conservative fund operation with the start of the second round of corporate and financial restructuring as well as the delay in the sale of Daewoo Motor Company. In December, lending to sound large companies that had a high volume of outstanding corporate bonds close to maturity recorded an increase. At the same time, thanks to the issuance of CLO(Collateralized Loan Obligations)[10], credits to leading large companies also shot up. But overall, figures showed a decline with companies trying to reduce their year-end debt ratios and banks focusing on close management of their BIS ratios. In 2001, with the re-extension of some loans that had been temporarily repaid at the end of last year, loans again began to record an increase.

(Lending by Products)

Commercial bill discount only rose by 1.9 trillion won, a substantial decline from the increase of 6.4 trillion won in 1999. The lack of increase was in reflection of the sluggish demand for short term loans by small and medium companies that enjoyed improved cash flow.

10) Pursuant to the money market stabilization measures announced on December 8, to promote new lending to companies with relatively low credit ratings, CLOs were issued using a new loan pool set up for these companies with partial guarantees by the Credit Guarantee Fund.

<Table Ⅱ-19>

Bank Lending by Products[1)]

(Based on changes)

(trillion won)

	1999	2000					2001^p
		year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Jan.~Feb.
Commercial bill discounts	6.4	1.9	-2.9	2.5	0.2	2.1	-4.8
Overdrafts	-1.6	2.2	2.0	1.2	0.7	-1.7	1.5
Foreign trade loans	2.1	2.7	1.4	1.1	0.9	-0.7	0.8
Corporate Procurement Loans	-	3.4	-	0.1	1.3	2.0	1.2
General loans	40.7	57.1	14	19.1	16.2	7.8	3.9

Note: 1) Based on bank-account lending.

In addition, to induce the usage of cash rather than bills in the settlement of commercial transactions between businesses, the Bank of Korea began to offer credits for banks' corporate procurement loans from May 2000. The new credit system is helping to change the medium of settlement from bills to cash.

With banks enjoying high liquidity coupled with rising demand for retail and corporate lending, general loans saw a larger increase(+57.1 trillion won) than in the previous year(+40.7 trillion won). In foreign trade loans, the Bank of Korea improved the foreign trade loan system to strengthen financial support to exporting companies in May 1999. This coupled with strong exports resulted in a continuing expansion of foreign trade loans(+2.1 trillion won in 1999 and +2.7 trillion won in 2000). In the case of overdraft lending, it had declined in 1999 with companies enjoying sound cash flow repaying overdrafts at high interest rates(-1.6 trillion won). But in 2000, some leading companies suffering from weak cash flow used overdrafts to meet their immediate funding requirements. In consequence, overdraft lending rose by 2.2 trillion won in 2000.

A total of 4.6 trillion won was handled as corporate procurement loans up until the end of February 2001, nine months after the adoption of the new credit system. The expansion was largely attributable to the fact that the Bank of Korea offered preferential treatment by refinancing 50% of banks' lending volume by way of low interest-rate(3% per annum) Aggregate Credit Ceiling funds, and the government also promoted usage of the new credit system by offering tax benefits.

(B) Direct Financing

Corporate direct financing continued downward in 2000. The decline in stock issuance accelerated, with

<Table Ⅱ-20>

Trends in Corporate Fund Raising by Direct Financing
(Based on changes)

(trillion won)

	1999	2000					2001p
		year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Jan.~Feb.
Corporate bond issuance (net)[1] (A)	-3.0	-8.5	-3.4	-1.9	1.4	-4.7	4.0
Primary CBO (B)	-	7.3	-	-	3.2	4.0	2.8[2]
A - B	-3.0	-15.8	-3.4	-1.9	-1.8	-8.7	1.2
CP issuance (net)[3]	-29.6	-0.7	8.8	-7.1	2.5	-4.9	6.3
Stock issuance[4]	29.7	11.6	1.8	4.4	3.4	2.0	0.1
Direct fiance total	-2.9	2.4	7.2	-4.6	7.3	-7.6	10.2

Notes: 1) Excludes those issued by companies under court receivership, in process of mediation or workout and ABS. Includes primany CBO and the share of new bond quickly underwritten by Korea Development Bank (KDB).
2) Includes those quickly underwritten by KDB.
3) Based on CP discount by securities companies, merchant banks and bank trusts accounts.
4) Based on companies listed on the Korea Stock Exchange or KOSDAQ, but excludes financial institutions.

<Table Ⅱ-21>

Trends in Issue of Corporate Bonds

(trillion won, %)

	1999	2000					2001p
		year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Jan.~Feb.
Issuance	26.3	25.0	2.6	4.3	9.3	8.8	8.9
Redemption	29.3	33.5	6.0	6.2	7.9	13.5	4.9
Net issuance	-3.0	-8.5	-3.4	-1.9	1.4	-4.7	4.0
(Top 4 groups)[1)2)]	34.1[3]	48.5	7.5	31.5	112.0	101.3	35.0
(Others)[2]	65.9[3]	51.5	92.5	68.5	-12.0	-1.3	65.0

Notes: 1) Samsung, LG, SK, Lotte.
2) Share in issuance amount.
3) 1999 is based on Top 5 Groups (Daewoo Group's are excluded after August 1999).

new issuance falling from 29.7 trillion won in 1999 to 11.6 trillion won and the reduction in net corporate bond issuance expanded from 3 trillion to 8.5 trillion won. The scale of the reduction in the net issuance of CP shrank substantially from 29.6 trillion to 700 billion won. As a result of these developments, the total amount of corporate fund-raising via direct financing changed from a decline of 2.9 trillion won in 1999 to an increase of 2.4 trillion won in 2000. In 2001, increased deposit-taking by nonbank financial institutions led to an increased appetite for corporate bonds and CP, facilitating fund-raising through direct financing.

(Issuance of Corporate Bonds)

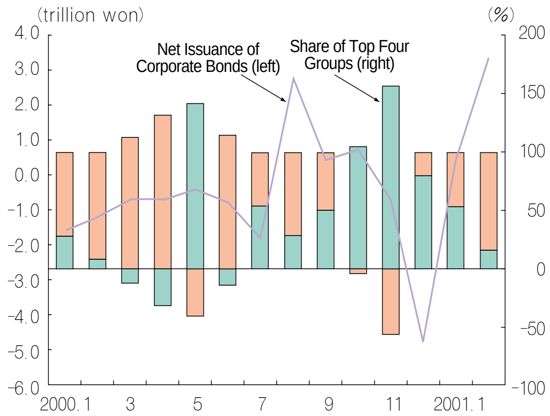
With investors increasingly risk-averse, the issuance of corporate bonds in 2000 recorded a net redemption of 8.5 trillion won as the underwriting availability of the main underwriters - investment trust companies and bank trust accounts - diminished. The reduced recourse to corporate bond issuance by large well-capitalized businesses who were enjoying a liquidity surplus also played a role in causing the overall figure to record a net redemption.

In particular, after May, with the liquidity problems of Hyundai Group becoming more prominent, the size of corporate bond redemptions rose with a decline in the corporate bond roll-over ratios of Hyundai companies and some other large companies with relatively low credit ratings. In July, the delay in implementation of the government’s initiative aimed at improving corporate liquidity shortages and the lowering of Hyundai Group companies’ credit ratings further heightened the instability in the financial market. This coupled with the increased sensitivity of financial institutions to potential corporate risk pushed up net redemptions to 1.8 trillion won - the highest figure for

January to July. At the same time, while large corporations in good credit standing took advantage of the ample liquidity to themselves redeem their corporate bonds reaching maturity, some large corporations with a weak financial structure used unorthodox means[11] to have the rolled-over portion of their corporate bonds absorbed.

<Figure Ⅱ-62>

Net Issuance of Corporate Bonds and Share[1] of Top Four Groups
(based on changes)



Note: 1) Share of total issued amount.

By August, however, with the adoption of a government initiative to promote liquidity for businesses, 2.5 trillion won worth of primary CBOs were issued and healthy large companies also issued more corporate bonds. This changed the trend to a net issuance of 2.7 trillion won(270 billion won excluding primary CBO). Some large companies which had regained the market's confidence through their own efforts toward recovery also greatly increased the roll-over ratio of their corporate bonds[12]. In all, although funding conditions gradually improved, the rollover of corporate bonds was still an uphill battle for companies with a weak financial structure.

In September and October, thanks, *inter alia*, to the issuance of primary CBO, corporate bonds continued to record net issuance. But corporate bonds excluding primary CBOs changed to a net redemption. Increased uncertainty stemming from slow economic growth, the second round of corporate and financial restructuring along with investors' growing dislike for risk further deteriorated conditions for corporate bond issuance for leading large businesses. Meanwhile, healthy large companies which were less affected by the tightness of direct financing opted for a strategy of preemptive

11) Offered put options for brokered redemption to underwriting organizations or had financial institutions that had a special relationship with the issuing companies act as underwriters.
12) In August, the rollover of BBB rated corporate bonds rose sharply (38.5% in July 2000 → 94.2% in August)

financing to secure the capital needed for the redemption of corporate bonds, whose maturities were concentrated around December, and to secure needed working capital. In November, despite issuance of 1 trillion won worth of primary CBOs, the issuance of corporate bonds shifted to a net redemption position and in December, with a large volume of corporate bonds reaching maturity(8.3 trillion won), net redemption stood at its highest monthly figure of the year at 4.8 trillion won.

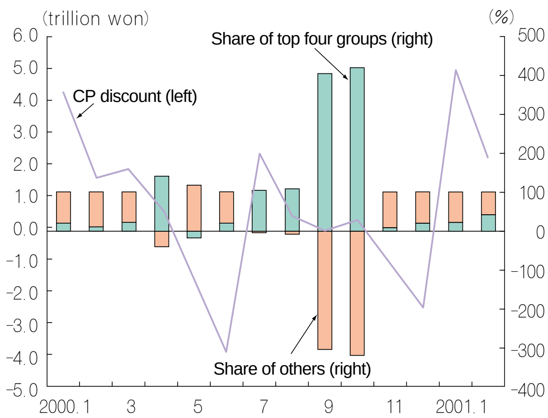
In response to the contraction of the corporate bond market, the government adopted a measure(December 26) to stimulate the reissue of expiring corporate bonds by facilitating the resources to support this by companies through credit guarantees for issuers by the Credit Guarantee Fund and the prompt underwriting of Korea Development Bank. To help alleviate the liquidity shortage of mainstay large companies and companies experiencing difficulty in funding because they had engaged in deals with mutual savings and finance companies whose business licenses had been suspended, the Bank of Korea for its part raised the ceiling on its aggregate credit by 2 trillion won(7.6 → 9.6 trillion won). Moreover, to heighten its agility in responding to potential instability in the financial market, it also increased the lending ceiling for liquidity adjustment by 1 trillion won(2 → 3 trillion won). These measures were announced as part of an overall plan to reduce the corporate credit crunch (December 14) and came into effect from January 2001.

Soothed by these support measures adopted by the government and the Bank of Korea, the financial markets settled down and deposits in non-bank financial institutions such as investment trust companies began to rise in 2001. At the same time, the sharp downward spiral in the yields of such stable assets as Treasury bonds and blue chip corporate bonds has been fostering demand for corporate bonds with lower credit ratings as alternative investment instruments. During January, corporate bonds reverted to a net issuance position for the first time since October the previous year and in February, they recorded net issuance of 3.4 trillion won, which was the highest since November 1998.(Publicly offered corporate bonds excluding primary CBO and those subject to prompt underwriting by Korea Development Bank also recorded a net issuance of 1.3 trillion won - the highest since January 1999.) The rollover ratio of corporate bonds BBB rated also recorded exponential growth[13].

(CP Issuance)

<Figure Ⅱ-63>

CP Discount and Its Share[1] of Top Four Groups
(based on changes)



Note: 1) Share of balance of CP discounts by securities companies

In terms of net issuance, the decline in CP narrowed substantially from -29.6 trillion won in 1999 to -700 billion won in 2000.

In the first quarter, investment trust companies and bank trust accounts increased their CP holdings as a means to secure the short-term liquidity to cope with deposit outflows. Companies also made use of CP with its relatively low interest rate to raise funds for the redemption of corporate bonds outstanding and as a way to overcome temporary fund shortages. Some large companies subject to the ceiling on credit from banks also relied on CP to procure needed funds.

From May, though, the application for workout by Sehan Group and rumors of a liquidity crunch at Hyundai Group heightened banks' sensitivity toward corporate credit risk, and CP recorded a large net

13) 7.9% in November 2000 → 20.0% in December → 60.4% in January 2001 → 119.4% in February

rollover led by issuance by some major companies. In July and August, CP shifted to record a net issuance position on higher buying demand from investment trust companies, which had increased deposit-taking from July, while CP issued by blue chip companies, which had registered a net redemption for a short period at the end of June, rebounded to a net issuance position led by that of large companies in good credit standing. But companies with low credit ratings(B or lower) still found their own names insufficient to issue CPs themselves and resorted in part to the use of CBO unit money-in-trusts[14]. By September, with a review of the viability of potentially insolvent companies coming up in October, eligibility for the discount of paper was restricted to companies with A1 and A2 ratings – resulting in expanded net redemption by leading large companies with lower credit ratings. In October, although financial companies related to well-capitalized large companies(card companies, capital companies, etc.) issued more CP, by November, with the deepening of credit differentiation, all recorded net redemptions except for A1 rated companies. In December, prior to the implementation of the comprehensive taxation on financial income, appetite for CP rose as a tool for reducing tax liabilities[15] resulting in financial companies such as capital companies increasing their issuance. However, as blue chip companies registered net redemptions on a large scale in the run-up to year end closing, the overall monthly figure showed a substantial decrease.

Moving into 2001, the net issuance of CP recorded high growth with part of the amount redeemed at the end of the past year being issued again in the new year.

14) More than 50% of assets under management consist of CP with a rating of B or lower

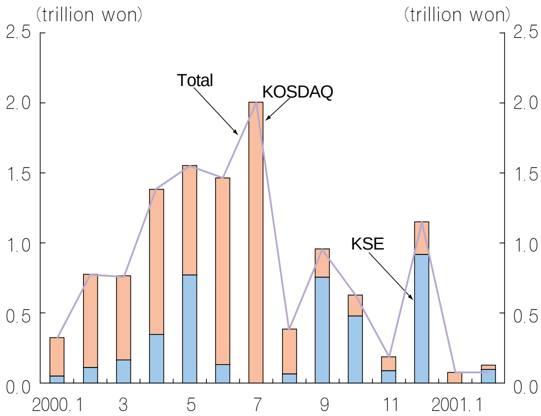
15) As interest income tax is withheld at purchase for CP that purchased in 2000 is excluded from this taxation even if it matures in 2001.

The large scale of the rise was also attributable to the demand for CP from investment trust companies boosted by active deposit-taking. In particular, the scope of eligible issuers, which had been limited to companies with the highest ratings(A1), was expanded to include companies with somewhat lower ratings(A3) while even some B+ rated companies were able to resume the issue of their paper. Accordingly, the phenomenon of the credit crunch has been showing a pattern of gradual improvement.

(Stock Issuance)

<Figure Ⅱ-64>

Trends in Stock Issuance[1)]



Note: 1) Based on companies listed on the KSE or KOSDAQ, excludes those issued by financial institutions.

Fund-raising through the issue of stocks stood at 11.6 trillion won in 2000 - a substantial drop from the 29.7 trillion won of 1999 - affected by the sluggish performance of the stock market. More specifically, thanks to bullish investment in venture start-ups until the early part of the third quarter, fund-raising through the KOSDAQ market registered 7.7 trillion won over the year far surpassing the figure raised through the Korea Stock Exchange(KSE)(3.9 trillion won). Stock issuance by KSE listed companies was poor due to the continued sluggish performance of that stock market which, in particular, saw virtually no stock issuance in July. On the other hand, KOSDAQ registered companies exhibited an active pattern of stock issuance from the beginning of the year on the back of the rush to invest in new economy start-ups from the latter half of 1999. It recorded the highest monthly issuance of the year in July with a total of 2 trillion won worth of new stocks. It can therefore be concluded that fund raising conditions were favorable for small and medium new-economy start-ups in the first seven months. But from August, the performance of fund-raising through KOSDAQ turned lackluster. In December, with the approach of year-end closing, companies increased for a while the scale of stock issuance, before it fell sharply in the new year once the wave of stock issuance to lower debt-to-equity ratios at year-end came to a close.

(C) Corporate Funding Conditions

Funding conditions over the course of 2000 are judged to have generally presented few difficulties for the majority of small and medium companies and leading blue chip companies.

Most strikingly, the ratio of bills and checks dishonored nationwide declined from a level of 0.52% in January to 0.23% by March and April. In July, an increase in amount of defaults on corporate bonds issued by Samsung Motor company, which was under court receivership, coupled with the failure of Hans Merchant Bank pushed the ratio to 0.54%. It then rose higher to stand at 0.97% in November in connection with the large-scale bankruptcies of Dongah Construction company and Korea Express company. But apart from these special circumstances, the bill dishonored ratio generally maintained a low level throughout the year. The draw-down ratio of overdrafts, a measure of a corporate need for urgent funds, remained low at around the 20% mark and in February 2001, reflecting the improved corporate funding conditions, it dropped to 17.7%. The average number of corporate bankruptcies fell steadily from 24 companies a day in January until September 2000, but began to rise from October to stand at 27 companies a day in December. By February 2001, though, it had dropped to 21 companies.

In 2000, the ratio of new companies established to corporate bankruptcies for the eight major cities of Korea including Seoul showed a healthy increase until the end of the first quarter led by the brisk launch of

<Table Ⅱ-22>

Dishonored Ratio[1] and the Number of Bankruptcies

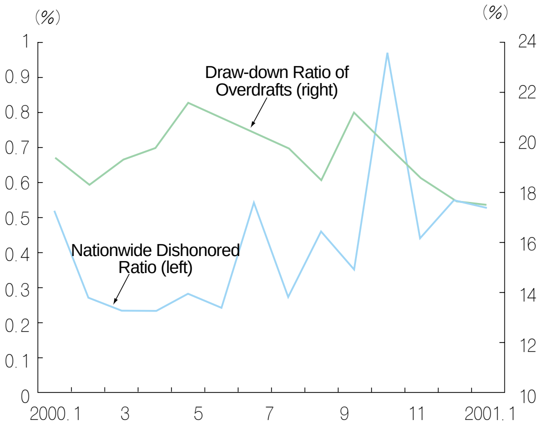
(%, number)

	1999	2000				2001	
	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.	Feb.
<Nationwide>							
Dishonored ratio	0.20	0.23	0.24	0.46	0.44	0.55	0.53
Number of bankruptcies	607 (24.3)	495 (19.0)	549 (22.0)	480 (20.9)	684 (27.4)	532 (23.1)	497 (20.7)
<Seoul>							
Dishonored ratio	0.20	0.22	0.21	0.46	0.40	0.55	0.54
Number of bankruptcies	242 (9.7)	174 (6.7)	189 (7.6)	181 (7.9)	250 (10.0)	203 (8.8)	202 (8.4)

Notes: 1) Amount basis. Before adjustment of balances settled electronically.
2) Figures in parentheses refer to the daily average number of bankruptcies.

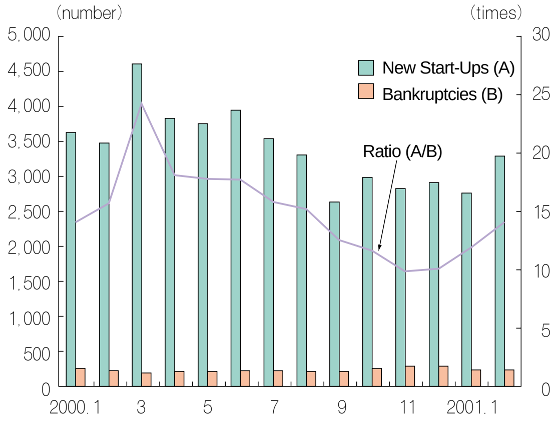
<Figure Ⅱ-65>

Nationwide Dishonored Ratio and Draw-down Ratio of Overdrafts



<Figure Ⅱ-66>

No. of New Corporate Start-Ups and Corporate Bankruptcies in Eight Major Cities



Note: 1) Seoul, Busan, Daegu, Incheon, Gwangju, Daejeon, Suweon, Ulsan.

new-economy start-ups. In March, in particular, its recorded the highest level of the year with new entrants exceeding bankruptcies by 24.4 times. However, after that, with some of the enthusiasm for new-economy start-ups evaporating, the ratio began to show a gradual deterioration. Still, apart from November when the numbers of bankruptcies were relatively a lot(by 9.8 times), the ratio of start-ups to bankruptcies remained at a level of more than 10 times throughout the year.

5. Foreign Exchange Markets

(Foreign Currency Supply & Demand)

With the current account continuing in surplus as in 1999 and a large influx of foreign direct and indirect investment, the foreign exchange market maintained a net surplus of supply in 2000.

In the first half of the year, with a recovery in investors' confidence owing to the high economic growth rate, foreign investment recorded a large net inflow centered on securities investment funds. In the second half of the year, although instability in the financial market resulted in a short-lived net outflow of foreign investment, it turned to a net inflow again from October onwards.

<Table Ⅱ-23>

Foreign Exchange Reserves
(period-end basis)

(hundred million U$)

	1998	1999	2000				2001
			Mar.	Jun.	Sep.	Dec.	Feb.
FX Reserve	485.1	740.5	836.5	901.8	925.3	962.0	953.3

The continuing surplus of foreign exchange supply expanded the foreign exchange reserves from 74.1 billion US dollars at the end of 1999 to 96.2 billion dollars at the end of 2000. As of the end of February 2001, however, debt repayments had caused the level of the reserves to fall slightly to 95.3 billion dollars.

(Foreign Debt)

<Table Ⅱ-24>

Foreign Debt
(year-end basis)

(hundred million U$)

	1998	1999(A)	2000(B)	Change (B-A)
Foreign debt	1,487.1	1,370.7	1,363.1	-7.6
Long term[1]	1,180.1 (79.4)	978.5 (71.4)	920.9 (67.6)	-57.6
Short term[1]	307.0 (20.6)	392.2 (28.6)	442.2 (32.4)	50.0
Foreign credit	1,285.3	1,454.0	1,668.9	214.9
Net foreign debt	201.8	-83.3	-305.8	-222.5

Note: 1) Figures in parentheses refer to shares in total (%).

As of the end of 2000, Korea had a total foreign indebtedness of 136.3 billion US dollars, 0.8 billion dollar less than a year before. Claims on the rest of the world, on the other hand, stood at 166.9 billion dollars or 21.5 billion dollars more than a year before. With a small drop in total foreign debt but a substantial increase in total foreign credit, Korea has been a net creditor nation since September 1999, and net credit stood at 30.6 billion dollars as of the end of December 2000, a 22.3 billion dollar increase over the end of the preceding year.

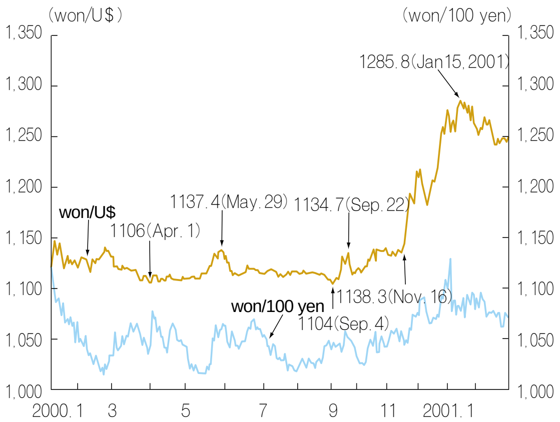
The fall in total foreign debt during the year was largely attributable to the continued contraction of the foreign debt of financial institutions in line with steady redemption of outstanding debt repayment, the effects of which more than offset the rapid growth of trade credits brought about by the expansion of external trade.

Looking at foreign debt by period, whereas long term foreign debt decreased, short term foreign debt rose centering on short term trade credits. As of the end of 2000, the share of short term foreign debt rose from its 28.6% at the end of the preceding year to 32.4%.

(Foreign Exchange Rate)

<Figue Ⅱ-67>

Trends of Won/U$ and Won/Yen



During 2000, the exchange rate of the Korean won against the US dollar showed generally stable movements thanks to the net excess of foreign currency supply. But after mid November, the exchange value of the Korean won fell rapidly due to uncertainties and concentrated demand for foreign currency for settlement.

Looked at by period, at the beginning of the year, the expanded inflows of direct and indirect foreign investment funds kept the won strong, trading at 1,110 won per US dollar by early April. During late May, destabilizing factors present in the domestic financial markets temporarily weakened the won. After that it resumed a stable pattern of movements at around the 1,110 won per dollar level until late August. From mid September, however, a surge in international oil prices, difficulties over the sale of Daewoo Motor and other destablizing factors at home and abroad again depressed the exchange value of the won. From mid-November, the won weakened further in sympathy

<Table Ⅱ-25>

Trends in Won/U$ Fluctuations[1]

(%, won)

	1999	2000					2001	
		year	Ⅰ	Ⅱ	Ⅲ	Ⅳ	Jan.	Feb.
Fluctuation over previous day[2]	0.29	0.29	0.33	0.20	0.18	0.43	0.57	0.36
(range)	(3.5)	(3.3)	(3.7)	(2.2)	(2.0)	(5.0)	(7.3)	(4.5)
Intra-day fluctuation[3]	0.57	0.46	0.56	0.32	0.27	0.68	0.96	0.53
(range)	(6.7)	(5.3)	(6.4)	(3.6)	(3.0)	(8.1)	(12.2)	(6.7)

Notes: 1) Based on daily average
2) [{(Today's closing-Previous day's closing price)/Previous day's closing price} Absolute value]×100(%).
3) [{Intra-day peak price – Intra-day bottom price)/Today's average exchange rate]×100(%).

with the softening trend of the Japanese yen and financial market instability along with a number of other unsettling external and internal conditions. By the end of the year, the Korean won stood at 1,265 won per dollar, a 10% depreciation from the end of the previous year. Moving into 2001, despite the large influx of foreign investment funds, the Japanese yen's sustained weakness and market uncertainties caused it to slip to 1,286 against the greenback by mid-January. During February though, its exchange value stabilized at a higher level than before.

Against the Japanese yen, the Korean won rose to stand at 1,015 won per 100 yen in May 2000 owing to the yen's weakness in US dollar terms stemming from Japan's economic recession. But by the year end, the won fell sharply to trade at 1,109 won per 100 yen despite the yen's weakness against the US dollar, since the exchange value of the Korean won against the US dollar exhibited a more rapid decline. In early 2001, after showing a range of unstable movements, the Korean won stood at 1,072 won per 100 yen as of the end of February.

In 2000, the exchange rate of the Korean won generally exhibited volatility at a similar level to that of the previous year. But in the fourth quarter, the won's sharp depreciation against the dollar resulted in a steep spike in the exchange rate. Fluctuation over the previous day's trading value had the same range as that of the previous year at 0.29%. But intra-day fluctuation dropped from the 0.57% of 1999 to 0.46% in 2000. In February 2001, fluctuation over the previous day and intra-day fluctuation fell respectively to 0.36% and 0.53% - mitigating the high degree of fluctuation that had been exhibited since the fourth quarter of the previous year.

(Foreign Borrowing Environment)

During the year 2000, Korea's sovereign rating maintained the improved level of "investment-grade" to which it had been upgraded in the preceding year. Then in March, Fitch IBCA again upgraded Korea's sovereign rating one notch in reflection of the improvement in Korea's foreign exchange liquidity and achievements in corporate and financial restructuring. In addition, leading international credit rating organizations continued to upgrade the ratings of Korean banks on several occasions, reflecting the reduced possibility of financial risk thanks to the massive injection of public funds and the improvements in banks' credit screening processes.

<Table Ⅱ-26>

Trends of Changes in Korea's Sovereign Rating

	Changes
Moody's	A1(Apr.4, 90)→A3(Nov.27, 97)→Baa1(Dec.10, 97)→Ba1(Dec.21, 97)→Baa3(Feb.12, 99)→Baa2 (Dec.16, 99)
S&P	AA-(May.30, 95)→A+(Oct.24, 97)→A-(Nov.25, 97)→BBB-(Dec.10, 97)→B+(Dec.22, 97)→BB+(Feb.17, 98)→BBB-(Jan.25, 99)→BBB(Nov.11, 99)
Fitch IBCA	A+(Nov.18, 97)→A(Nov.3, 97)→BBB-(Dec.11, 97)→B-(Dec.23, 97)→BB+(Feb.2, 98)→BBB-(Jan.19, 99)→BBB(Jun 24, 99)→BBB+(Mar.30, 2000)

The spread of Foreign Exchange Stabilization Fund Bonds over U.S. T-notes continued to widen until May owing to instability in Asian financial markets and the liquidity shortages of some large companies in Korea. Then the spread showed a narrowing trend again due to the holding of the South-North Korea summit meeting and the upward adjustment of the credit ratings of domestic banks. But after September, domestic financial market instability and the weakened demand for bonds issued by developing countries again caused it to widen and it closed the year 2000 at 240bp, a 80bp increase over the end of the previous year. In early 2001, the two interest rate cuts by the U.S. Federal Reserve heightened the demand for developing country bonds. Accordingly, the spread rate again narrowed, standing at 212bp as of February 2001.

<Table Ⅱ-27>

Spread[1] on Foreign Exchange Stabilization Fund Bonds

(period-end basis)

(bp)

	1998	1999	2000				2001	
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.	Feb.
Stabilization bonds (2003)	352	113	165	155	155	165	133	151
(2008)	382	160	222	226	222	240	204	212[2]
Industry & financial bonds (2004)	446	155	195	195	195	235	213	215

Notes: 1) Spread over US T-notes
2) Yield 7.04%(9.08% at the point of issuance)

The spread over Libor on the short term borrowings of domestic banks continued to narrow until late September. After widening slightly thereafter due to financial market instability, it stood at 80bp at year end- a 60bp drop from the end of the previous year.

<Table Ⅱ-28>

Spread on Short-term Borrowing of Domestic Banks

(period-end basis)

(bp)

	1998	1999	2000				2001
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Feb.
Spread[1]	299	124	91	76	58	76	51
Libor[2]	5.23	6.13	6.20	6.79	6.67	6.55	5.35

Notes: 1) Spread over Libor
2) 3 months, period average, %

Moving into 2001, the improved environment for foreign borrowings with foreign financial institutions expanding their supply of credit in anticipation of additional rate cuts by the U.S. Federal Reserve further narrowed the spread. As of end of February, it had narrowed another 51bp.