THE CRISIS IN KOREA 1997/98 – A 20 YEAR RETROSPECTIVE

Hubert Neiss

Seoul

May 23, 2017

– INTRODUCTION –

When Korea became a member of the IMF in 1955, it was considered “a basket case”. In contrast, by the mid-nineties, 40 years later and just a little more than 20 years ago, Korea’s spectacular economic development was admired world wide. Korea was then described as the most prominent of the “Asian Tigers”, who performed the “Asian miracle”. After joining the WTO and the OECD, the IMF classified it among the group of “advanced economies”.

But suddenly, towards the end of 1997, Korea’s FX reserves were depleted, its banks where on the verge of collapse, and its economy fell into a sharp recession. What had happened?

Talking again about this extreme change of economic events revives the shock and agony of those of us who lived through this dramatic experience. Fortunately, the story had a happy ending: a rapid recovery, followed by sustained economic growth.

But why should we go through this history again, which has already been told many times over the years?
I think that two points can be made:

- First, with 20 years hindsight, we may be in a better position to tell what was going right and what was going wrong during the crisis;

- Second , and more important, we may be able to draw some lessons for future economic policy in Korea, on how to avoid, or at least minimize, new crises, and how to keep the economy on an even keel during changing domestic and global circumstances.

In my presentation, I will first provide an overview of the dramatic events in late 1997 and early 1998, from the perspective of my personal experience as a participant in the IMF negotiating team. Then I will describe the policies under the stabilization program, as well as the controversies surrounding them at the time. I will also try to give my personal evaluation of the management of the crisis – by the Korean government as well as by the IMF and the broader international community, again with 20 years of hindsight. Finally I will express some thoughts on lessons from the Korean experience with regard to prevention or mitigation of future crises, to the effective management of crises, and to the future conduct of Korean economic policy.

– OVERVIEW OF EVENTS –

THE PRE-CRISIS PERIOD

The crisis in Korea came as a surprise to everyone, although there were several warning signs during the months preceding it:

- the investment boom was ending;
- export growth slowed; and
- a number of large corporations went bankrupt.

While there was concern about these developments in the government and in the IMF, we all were confident that these difficulties could be overcome.

However, there were other warning signs on which only partial information was available, and where we in the IMF did not persist in obtaining more detailed information:

- short-term borrowing by Korean banks from international banks increased; while
- their loan portfolio (long-term loans to domestic enterprises) deteriorated.

Thus, the opportunity was missed to take timely corrective action.

The crisis was triggered when foreign creditors lost confidence, the roll-over of short-term loans declined, and capital flight accelerated. As a result, the ER and the FX reserves of the BOK came under increasing pressure.

The Korean government and the IMF came to realize that there was a need for international financial support. But the Korean authorities were initially reluctant to turn to the IMF. (This was regarded by many as "below dignity" for an "advanced economy.") Instead, they explored the possibility of bi-lateral assistance from Japan and the US, but this proved to be unsuccessful. A BIS credit line to the BOK was also considered, but not pursued further.

Eventually, a secret visit by the IMF's MD, Michel Camdessus, was arranged to inform him of the government's decision to seek IMF assistance. (I joined the MD in this meeting; we were checked into the hotel under assumed names late in the evening and left early next morning). In the meeting, DPM Kan and Governor Lee revealed the difficult FX situation (although not to the full extent, as we found out later), and said that a public announcement of Korea approaching the IMF would be made soon. However, no announcement was made, since DPM Kan was replaced within a few days. His successor, Mr. Chang Yuel Lim (a former alternate ED in the IMF), was again initially hesitant to ask for IMF assistance. However, as the crisis worsened, and after a brief visit by the IMF's first DMD, Mr. Fischer, DPM Lim set the stage for negotiations with the IMF.

THE CRISIS – THE INITIAL PERIOD

The first of several IMF missions (which I led, together with Wanda Tseng), arrived soon to discuss a crisis program with the Korean authorities. On the evening of our arrival we checked the FX reserve position of the BOK and we were shocked to learn that it was much worse than we had previously believed. A large part of the reserves had been deposited with branches of Korean banks abroad, who held them as security against their short-term obligations. These reserves were not useable by the BOK: With roll-overs of short term loans declining, they were increasingly used for repayment. Withdrawing them would have forced the banks to default. The BOK could therefore run out of usable reserves within a matter of days. We sent an urgent message about this new situation to headquarters, and indicated three options to avoid an imminent depletion of FX reserves:

- a bridging loan by friendly Central banks (we thought of the BOJ and the US Fed) to provide funds until a program with the IMF was in place and international financial support would be forthcoming;

- an agreement with creditor banks to pay short-term debt with medium-term securities (guaranteed by the government);

- completion of a program with the IMF within a week (an option we stated was the least desirable, because such a program might not be credible).

Headquarters, nevertheless, chose the last option as the most realistic one under the circumstances. (A few years later, when I was invited by President Kim Dae Jung to the opening of the 2002 FIFA World Cup, he asked me what my most difficult time was during the crisis. I answered that it was right after our negotiating team's arrival, when we found out that Korea was on the brink of default.)

So the Korean government team, led by DPM Lim, and the IMF team had to settle on a comprehensive stabilization program in an unprecedented rush (usually it takes 2-3 weeks to complete negotiations). There were prolonged discussions during the day and late into the night, in addition to memoranda to and telephone calls with headquarters. To shield the discussions from reporters, they were held in a room in the basement of the hotel, which we could reach through a secret passage. (The government team had also taken up residence in the hotel.)

Important issues were still unresolved by the last day of the negotiations, when the MD arrived early in the morning in Seoul, to meet President Kim Yang Sam and to conduct the final negotiations.

In the meeting at the Blue House (where I was also present), the President emphasized the need for a rapid conclusion of an agreement and pleaded that conditions in the program were not too onerous. The MD stressed the critical importance of a strong program to unlock the large international financial support required. To make the program credible, he also requested to obtain statements by the three candidates in the forthcoming presidential election, that they would implement the program agreed by the present government with the IMF. After some hesitations, the President consented.

In the afternoon of that day the negotiations continued, the tensions gradually relaxed, and agreement on the program was reached. The MD informed the ED's of the IMF via video conference. (While the last points of the agreement were still being discussed, I left the meeting and was taken to the airport, to catch a plane to Washington D.C., so I could be at headquarters the next morning, when the Korean program was discussed, and approved, in the EB.)

The program provided for exceptionally large financing by the IMF and a large disbursement up front, supplemented by loans from the WB and the ADB, as well as by pledges of bi-lateral financial assistance from 13 countries.

Despite the large amount of total financing and a strong program, with several measures taken up front, the agreement did not have the impact on market confidence which we all had expected. Indeed, the roll-over rate, which was tracked on a daily basis by the BOK, continued to fall further.

The reasons for the continued negative market sentiment included political uncertainty about the implementation of the program after the presidential elections, and concern about the adequacy of the financial support, given the magnitude of the short-term debt. And there were doubts whether the funds pledged bi-laterally would actually be forthcoming. Even after a further disbursement by the IMF at the bi-weekly review of the program, market confidence did not improve.

THE CRISIS – THE SECOND PHASE

The Korean government and the international community were seriously concerned about this situation and realized that new initiatives were required. These were taken and announced on December 24 (the IMF team spent Christmas in Seoul). The new measures comprised two elements:

- **a revised program** approved by the IMF's EB, providing for accelerated implementation of measures already agreed as well as for strengthening these measures (including a raise in interest rates above 30%). It also provided for accelerated disbursement of funds;

- **a roll-over agreement of short-term debt** with creditor banks, to be followed by an agreement to restructure short-term into medium-term debt with a government guarantee. (The roll-over required a concerted effort by the authorities in G7 countries to persuade the banks. It was initiated by the MD and eventually had the full support of the US Treasury and the other G7 finance ministries.) The agreement was closely monitored by the BOK with international assistance and was observed by the majority of creditor banks.

The G-7 announcement, which endorsed the revised program and confirmed support from bilateral pledges, was critical to finally turn market sentiment around. A further assurance by President-elect Kim Dae Jung to fully back the stabilization program provided additional support to market confidence. (The MD had asked him earlier to make a public announcement of his endorsement of the program. On his next visit, he met privately with him and was highly impressed by his determination to pursue an effective stabilization program. Later, I was also invited to a breakfast meeting with the president-elect and some of his aides, to discuss the program. I assured the him that the IMF would do its best to help Korea overcome the crisis and to reform its economy.)

THE CRISIS – RECESSION AND RECOVERY

While markets turned around gradually, the recession was running its course: GDP and imports fell sharply, as corporate bankruptcies and UE rose. A large part of the population suffered considerable hardship, but reacted to it in a admirable way (I still remember watching on TV people lining up to donate gold jewelry to the government, to ease the scarcity of foreign reserves).

The IMF team returned to Seoul several times to review progress under the program and to discuss necessary adjustments. Starting in January we tried to ease macro policy by reducing interest rates and switching the budgetary position, without jeopardizing market stability, and to extend work on structural policies. The active support of the new President, and the devotion of government officials, as well as the broad support of the people during this difficult period, was impressive and essential for effective crisis management.

In the following months the situation began to normalize, and within a year a strong recovery started – earlier and stronger than had been anticipated, especially by the opponents of the program. GDP rebounded, FX reserves were replenished, and Korea successfully re-entered the international bond market. A favorable global economic environment was conducive to this turn-around, but the main reason was the decisive policy response by the Korean government and the timely financial support of the international community.

– ECONOMIC POLICIES –

THE POLICY RESPONSE TO THE CRISIS

The strategy comprised two parts:

- **stabilization,** followed by cautious reflation; and
- **structural reforms** to lay the basis for sustained growth over the medium term.

Stabilization was achieved through emergency measures in three areas:

- at the macro-level: A sharp rise in interest rates to arrest the depreciation of the ER, and a tightening of the budget to provide scope for the cost of bank rescue;
- at the financial level: support of banks through liquidity credits from the BOK, a blanket guarantee of bank deposits, the temporary taking over of troubled banks by the government, and the closure of unviable institutions;
- at the international level: provision of large official credits and a roll-over agreement with private creditor banks.

In each area, difficulties had to be overcome. With regard to interest rate policy, the authorities were quite hesitant to permit a substantial increase because of its negative effect on enterprises, and there was also a legal ceiling on interest rates. Unions protested the closure of banks because it contributed to further unemployment. With regard to financing, the IMF had also lending restrictions, and governments were initially hesitant to pledge bi-lateral support. Creditor banks would only be prepared to roll-over short-term debt as part of a collective action, which was difficult to organize. These obstacles to meet the emergency were, however, soon overcome, as a cooperative spirit had set in at all levels.

As stabilization was achieved and macro policies were cautiously relaxed, the structural reforms which had been started during the stabilization phase, were broadened and intensified.

The most important component was **banking reform**, which included, in addition to the emergency measures taken at the outset of the crisis, a comprehensive set of further measures:

- the transfer of non-performing loans to KAMCO;
- the recapitalization of banks (through government bonds), conditional on restructuring programs;
- mergers of institutions;
- bringing prudential rules up to international standards;
- strengthening bank supervision;

- setting up a deposit insurance scheme to replace the blanket guarantee;
- strengthening the independence of the BOK.

For some of these measures the IMF arranged for technical assistance by its in-house experts as well as by experts from the WB, the ADB, and other institutions.

Beside the measures in the financial sector, structural reforms were undertaken in several other areas:

- liberalization of trade and capital flows, in particular of foreign investment in Korea. This was aimed at stimulating competition and efficiency as well as strengthening the BOP through long-term capital inflows;
- relaxation of labor market regulations, in particular of restrictions of dismissal of workers which, together with setting up facilities for retraining, would ease the transfer of workers from declining to expanding industries;
- corporate restructuring aimed at reducing the debt/capital ratio through debt work-outs (lengthening of maturities, "haircuts", debt equity swaps), and at improvements of corporate governance (transparency, minority shareholder's rights, abolition of cross-guarantees), as well as increasing market guidance and reducing government interference;
- improvements of the social safety net, mainly through extending the coverage of UE benefits, health insurance, and pensions to less privileged workers, and to provide financial support for needy persons outside the labor force.

Improvements in social protection were of great concern to the MD and he regarded them as a necessary complement to labor market reform. At his suggestion, a "Tripartite Commission" was established, consisting of representatives of government, corporations, and unions, to cooperate in implementing corporate, labor market and social reforms.

Needless to say, there was resistance to the reforms by those groups which were unfavorably affected by them, and compromises had to be made to make the measures politically acceptable.

To further a favorable climate for the support of reforms, the MD during his visits to Korea met officials of corporations and unions, as well as bankers, students and church representatives to explain the present difficulties and the need for actions to overcome them. He also addressed the public on several occasions through newspapers and television. (He encouraged me to do the same, so I also gave frequent interviews to newspapers and on television, and met with various groups to discuss the stabilization program.)

Misgivings about important elements of the program were not only voiced inside Korea but also by outside observers, including some well known academic economists. IMF officials, most prominently Stan Fischer, and a few other economists (Fred Bergsten, Rudiger Dornbusch a.o.) defended the rationale of the program, and a lively controversy started.

POLICY CONTROVERSIES

Before giving my own views, I will summarize the arguments on both sides on those issues where the controversy was most intense:

- on top of this was **interest rate policy**. Several economists, in particular Joseph Stiglitz (at that time Chief Economist in the WB) argued vehemently against high interest rates which lead to corporate bankruptcies and deepen the recession. The IMF argued that high interest rates were, nevertheless. needed temporarily to stop the rapid ER depreciation which was also bankrupting corporations, especially those with high foreign debt, and was also potentially inflationary.

- related to this issue was **budgetary policy**. Geoffrey Sachs, in particular, argued that Korea did not have a fiscal problem at the outset of the crisis, and fiscal policy should be countercyclical instead of pro-cyclical, to mitigate the recession. The IMF, and also the Korean government expressed the view that the budget had to make room for the expected large costs of bank restructuring and thus preserve confidence in the government's fiscal management. (The cost of bank restructuring turned out to be substantial indeed.)

- there was also criticism, especially in Korea, of the steps to l**iberalize international trade and capital flows**. It was argued that these measures were not related to the crisis, but reflected the desires of other IMF member countries, and they pointed in particular to the US and Japan. The counterargument was that Korea had joined the group of advanced economies and had to adjust its trade and financial system accordingly to remain competitive. Furthermore, the respective measures in the program had already been agreed in principle with the WTO and the OECD;

- a lot of dissent surrounded the inclusion of **structural reforms** in the program. Martin Feldstein (also James Tobin and Max Cordon) expressed the view that these measures, however useful they might be, were not directly related to combatting the crisis, which was the first priority of the government. Undertaking them now diverted the government's energy and political effectiveness from its main task. It was also argued that these measures were an inappropriate intrusion into Korea's internal policy. The IMF argued that these measures dealt with long-standing weaknesses, which the government did recognize, and which had been contributing to the outbreak of the crisis. In the effort to restore domestic and foreign confidence, it was, therefore, necessary to deal with these problems now. The obvious case for the timeliness of such measures was bank restructuring, because without it a recovery would not be feasible. (The argument to postpone these measures through "regulatory forbearance" had already been disproved by the experience in Japan).

At the bottom of the structural controversy were two different views on the nature of the crisis:

- one was that it was mainly an investor panic, and that domestic and international efforts had to concentrate on providing liquidity. The various structural measures were, therefore, not directly relevant for crisis resolution;

- the other was that the crisis exposed several long-standing structural weaknesses in the financial, corporate and labor markets. Beginning to deal with them was not only necessary to restore confidence, but also to trigger the required international financial support. Furthermore, it would ensure that the recovery would be sustainable.

The IMF and the Korean government had firmly taken the latter view and stuck to the basic outline of the structural reforms in the program, despite the controversies surrounding them, and the difficulties in implementing them.

– EVALUATION OF POLICIES –

The arguments and counterarguments continued long after the crisis had passed, and, I think, will never be fully resolved. In my own evaluation, I would like to provide first some perspective on the circumstances and constraints under which policies had to be formulated and decided upon during the crisis:

- judgements had to be made within a very short time, without the luxury of studies and prolonged debates;

- judgements had also to be made under great uncertainty about developments in a volatile situation (and we know now that not all events were correctly anticipated);

- judgements had to take into account the obvious political and social resistance to certain policies, and that compromises were necessary to ensure that the program could be effectively implemented.

In the IMF team we realized that the program could not be formulated in a vacuum, but that we had to take care in the negotiations that the policies eventually agreed upon would be acceptable at three levels:

- first, IMF senior staff and management must approve the program before it would be presented to the EB, whose vote on it would determine the release of financial support;

- second, the IMF member governments must accept the program before they would instruct their respective ED's to vote in favor of it. (votes are weighed by the economic importance of member countries);

- third, the Korean government must accept the program, and it would only do so, if it was reasonably confident that it would be able to implement it.

Given these realities, we should not expect that the policy package was perfect. The relevant question, however, is whether, despite its imperfections, it was on the whole an appropriate response to the crisis.

With this perspective in mind, I will now look at the main elements of the program:

- **stabilization policy** had to deal with a dilemma between the goals of arresting the precipitous decline in the ER and combatting the recession. The former required a tightening and the latter a loosening of monetary policy. The program's focus on stabilizing the FX market first, mainly through a sharp increase in interest rates, and subsequently start relaxing restrictive macro policies, was the right sequence under the circumstances. A further sharp fall in the ER would have done great harm to the economy through increasing the severe import constraint and through bankruptcies of enterprises, especially those with high foreign indebtedness. And no alternative to higher interest rates for stabilizing the chaotic FX market was available: The large amount of financial support required to be disbursed up front would not have been forthcoming from bilateral or multinational sources; nor could a bridging loan by central banks be arranged; reaching a stand-still agreement with creditor banks was not immediately feasible; and a default was rightly ruled out by Korea and the IMF because of its disastrous effect not only on Korea, but also on the wider region.

While the high interest rate policy was necessary and appropriate, the timing of action, however, was not ideal. As I have mentioned, at the beginning of the crisis the Korean authorities hesitated to raise interest rates sharply because of the negative impact on corporations. Later, after markets had calmed, the IMF was hesitant to reduce them quickly, because of fear that this could cause renewed market turbulence. All this is understandable. Nevertheless, an earlier decisive increase and a shorter duration of extremely high rates would have reduced the cost of stabilization to the real economy.

- **fiscal policy** was also tightened initially to support the stabilization effort, although the tightening was moderate. The later reversal in the fiscal position occurred initially by accepting an emerging deficit through the work of "automatic stabilizers" (mostly falling tax receipts and rising payments for UE compensation), and through increased expenditures for bank restructuring.

The initial tightening was an error. It was not essential to the stabilization effort and would not have occurred, if we had correctly anticipated the depth of the recession. The later loosening was fully appropriate, but was too cautious, especially from the Korean government's side. However, as the data show, the negative effect of fiscal policy on the real economy was exaggerated by the critics. Nevertheless, in the absence of an initial tightening, and if subsequently greater priority had been given to reflation, the recession would have been somewhat less severe.

- The measures of **trade and capital account liberalization** were, on the whole, appropriate. They helped to accelerate the integration of the Korean economy into the world economy, as well as to increase competition and efficiency in the domestic economy. Some measures were not a high priority, but as I have pointed out, it was necessary to include them, in order to ensure a favorable vote on the program by the EB.

- The inclusion of **structural measures** in the program was also highly appropriate. It was not only essential in restoring confidence, by demonstrating Korea's commitment to reform, but also in fostering a sustained recovery by correcting important weaknesses in economic management. This is not only true for bank restructuring, but also for reforms in the corporate sector, in the labor market, and in the social safety net. It is remarkable that none of the early critics of these measures has since called for their retraction, although the government of Korea could have done so after the IMF program had expired.

- The **agreement with creditor banks**, including the roll-over and re-scheduling of the short-term debt of Korean banks, was an essential step for stabilization of the FX market and for the early re-entry of Korea in the international financial market.

It had not been possible, unfortunately, to achieve coordinated action of international banks at the onset of the crisis. This would have mitigated the market turbulence at an earlier stage. But, as I mentioned, no established framework for such a procedure existed, and it was feared that an ad-hoc call for a meeting of international banks would intensify market nervousness and capital flight.

To summarize my personal evaluation: The policy response to the crisis was on the whole appropriate, although a number of shortcomings – some of them unavoidable – raised the economic and social cost of stabilization.

The proof that policies were basically right is the early and strong recovery, and the emergence of a more open, more efficient, and more competitive economy. It is worth repeating once more the key elements to this success:

- decisive political leadership;
- effective policy implementation;
- public solidarity; and
- a cooperative international community.

– LESSONS –

Many observers and institutions have drawn lessons from the Korean experience in 1997/98. Some of these were subsequently forgotten or only half-learned.

The most important lesson refers to the **prevention of another crisis** or, at least, to limiting its severity. If warning signs during 1997 had been sufficiently recognized and corrective action been taken, the events following would have been less dramatic. The particular lessons in this respect are:

- have a comprehensive and reliable statistical reporting system to keep policymakers up to date on developments. (This was not fully the case in some South European countries prior to 2008);

- monitor in particular the banking system (e.g. its net foreign position, non-performing assets), short-term external capital flows, and external debt, and act promptly to correct any dangerous developments. (10 years later this lesson had not been fully learned by the authorities in the US and Europe.);

- maintain a flexible ER and a comfortable level of FX reserves.

Korea has learned these lessons, and its economy is less vulnerable to crisis, as developments in 2008/9 have shown. However, these lessons could prove to be insufficient in the future, because "the next crisis" will always be different from the last one.

There are also some lessons to be drawn with respect to **crisis management**, based on the successes and shortcomings of the Korean policy response in 1997/98:

- take emergency measures as early as possible and do so decisively;

- implement a stabilization program which addresses all elements that contributed to the crisis;

- be flexible and adjust policies in the light of evolving events;

- if international financial support and/or support from international banks is needed, make a decisive approach at an early stage. (Again, this did not occur in South European countries in the 2008 crisis);

- set confidence building measures (e.g. a blanket guarantee on bank deposits, commitment to overdue reforms); and

- make a serious effort to ensure popular support for the policies needed. (The governments and international institutions failed to do this during the 2008/9 crisis in Europe.)

– CONCLUSION –

Finally, does the experience 20 years ago have any bearing on future economic policy in Korea, which now has a vastly different economy? Here are just a few thoughts:

The reforms, which were started during the crisis pointed in the right direction to ensuring the maintenance of economic advance and of social harmony in the future. As we are aware, progress in several areas of reform remain incomplete, in particular in corporate and labor market reform and in the extension of the social safety net. Further efforts should, therefore, be directed to these areas, and they should go beyond the ideas discussed during the crisis.

Reform is a work in progress, and has to react to new challenges which are constantly emerging. Among these, two are particularly important:

- to maintain **high economic growth** in the face of declining population growth, structural shifts between industries, and increased global competition. Two standard policy prescriptions to meet this challenge have often been emphasized: reorienting the education system (which in Korea is already of high quality) and fostering innovation in enterprises;

- to maintain **social cohesion** in the face of growing income inequality as a result of technological change and global competition (a trend shared with most developed countries). In Korea this requires, among other things, a phasing out of the remaining dual labor market (as IMF consultation reports have persistently pointed out), and the establishment of a broader, but sustainable system of social protection.

(In this context, I refer briefly to the economic policies of the new government, as the organizers of the seminar have asked me to comment on four current issues:

• changing paradigm from development-first to distribution-first

Development and distribution are not alternative strategies, but are closely interdependent. Development produces the wealth available for distribution. Without development, only a shrinking pie could be distributed, and people would be unhappy about shrinking living standards. The policies initiated during the crisis rightly combined measures to enhance economic growth with improvements in social conditions. Because of subsequent demographic, technological, and international developments, both of these goals have become more urgent. The strategies to achieve them have to be pursued side by side, if they should be economically and socially successful.

• business reformation

This process, necessary to maintain a healthy economy, was also started during the crisis, and I have mentioned the various measures taken regarding the financial structure of corporations, governance, shareholders' rights, cross-shareholdings of chaebols, and openness. They were aimed also at replacing government directives by market signals, and, in general, reducing government influence on corporations and vice versa. These reforms are still unfinished. A renewed focus of government policy on them should be highly welcome.

• job creation

The most important contribution will come from the strategy for economic growth and development. In addition, a number of specific measures, which were started during the crisis, will have to be continued and expanded: labor market flexibility, retraining opportunities, full participation in the international market – maintaining a free international trading system should be of great interest to Korea. Beyond that, there should also be job opportunities in the domestic service industries, and government policies can help to promote this sector.

• low growth

While potential growth of the Korean economy cannot be expected to be as high as in the past, there are several areas where measures to support growth can, and should, be taken: better utilization of the active labor force through expanded retraining and a higher retirement age; expansion of the active labor force through higher female participation and increased immigration of foreign workers (a policy that several Asian countries are reluctant to pursue); incentives for research and development, and for investment in technological improvements which raise labor productivity; as well as incentives for the introduction of managerial improvements and for the establishment of new enterprises.)

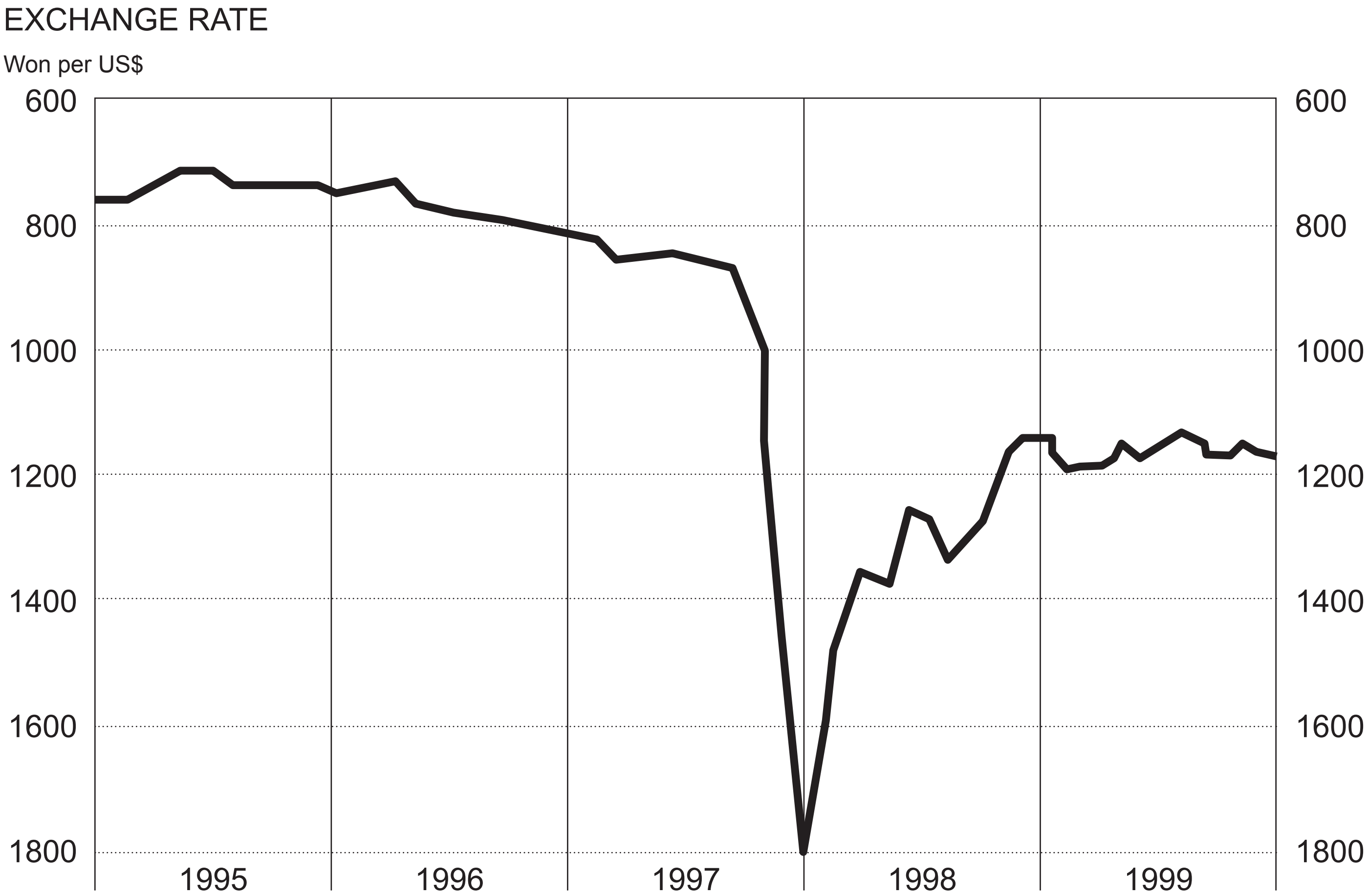
It is, of course, easy to state these policy requirements in general terms, but we are all well aware that it is quite another matter to translate them into concrete and effective actions. Under the existing political and social conditions, this is complicated and difficult, and we cannot expect perfection. But there is no ground for pessimism: looking not only at the crisis 20 years ago, but at the longer economic history of Korea, we realize that the government and its people have been able to successfully meet the challenges on the way to economic and social progress. This should give us hope, that Korea's future will be bright.

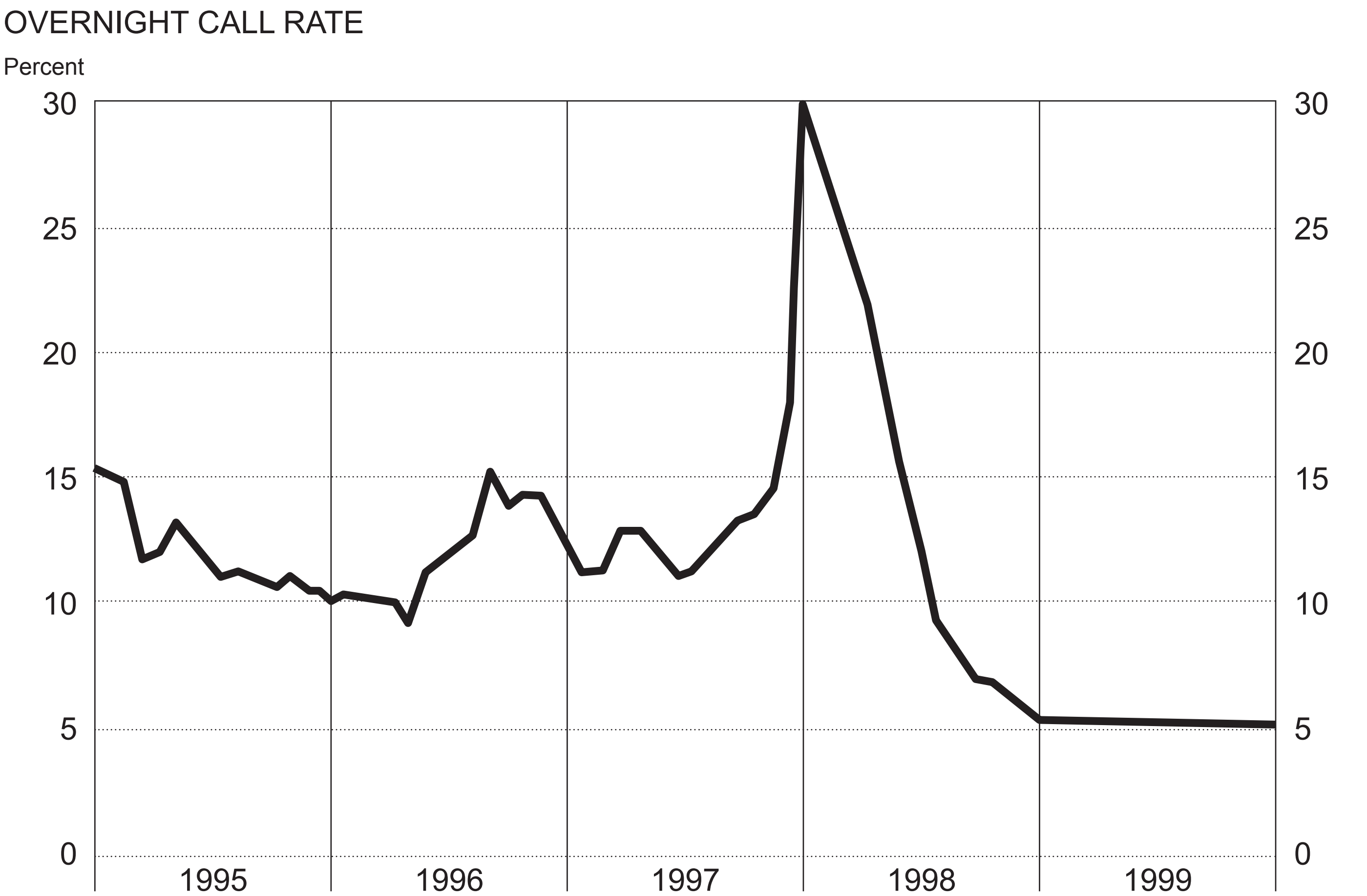
Korea – The 1997/98 Crisis and Recovery
Economic Indicators

	1996	1997	1998	1999	2000
Real GDP (% change)	7.6	5.9	-5.5	11.3	8.9
Investment (% of GDP)	39.7	37.4	27.8	30.9	32.9
Import Volume (% change)	15.6	1.5	-24.5	28.6	19.0
Export Volume (% change)	17.7	14.6	19.0	11.8	20.9
Unemployment (% of labor force)	2.1	2.6	7.0	6.6	4.4
BOP Current Account (% of GDP)	-4.0	-1.8	10.7	4.5	1.9
Real Exchange Rate (% change during year)	3.5	-6.0	-25.6	13.5	8.1
Consumer Prices (% change during year)	4.9	6.6	4.0	1.4	2.8
International Reserves (bill US$, end of year)	33.2	20.4	52.0	74.0	96.1
Fiscal Balance (% of GDP)	0.0	-1.7	-4.3	-3.3	1.3

Source: IMF

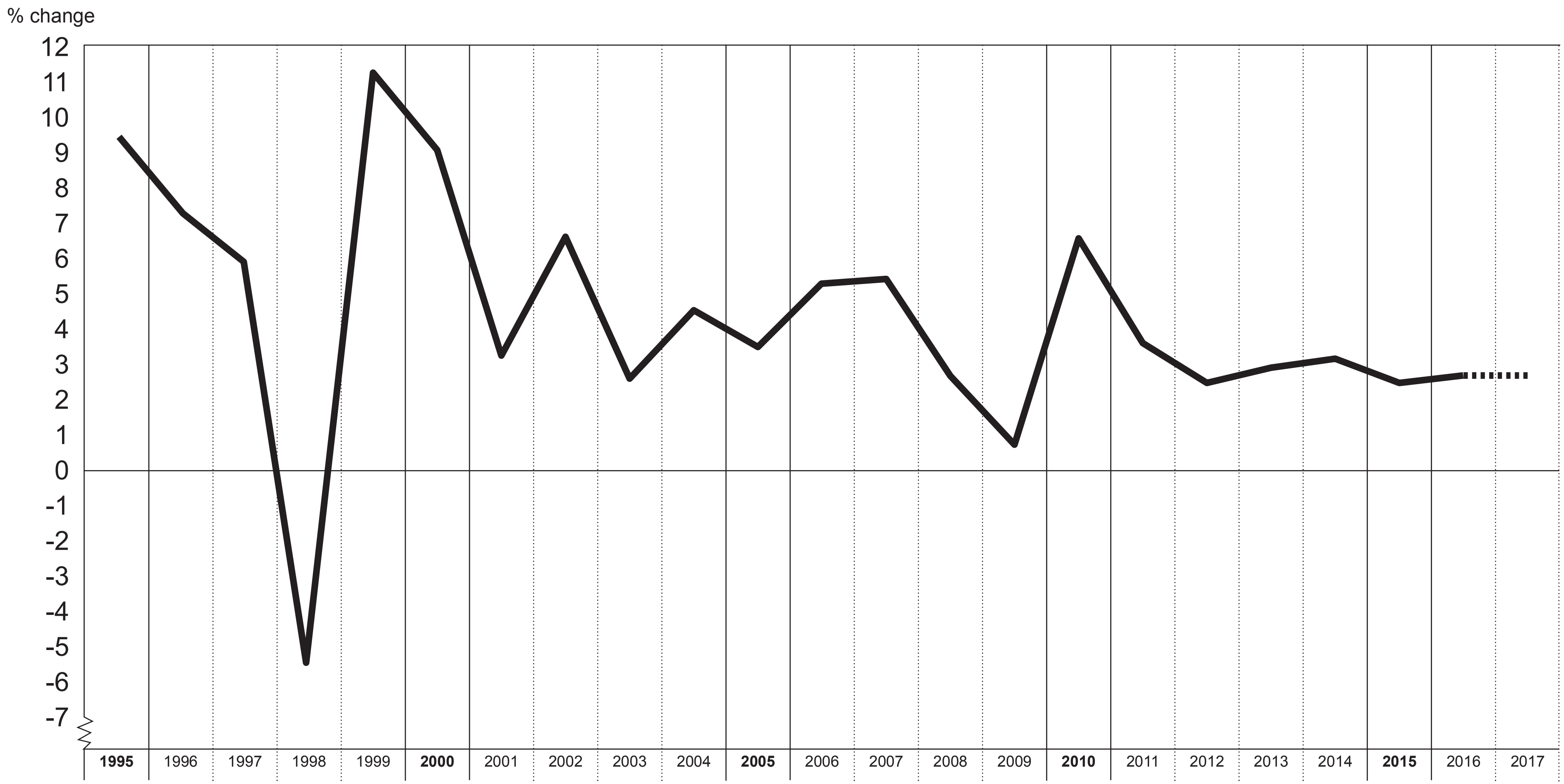
Korea – The 1997/98 Crisis
Exchange Rate and Interest Rate





Source: IMF

Korea – GDP GROWTH
1995-2017



Source: IMF