EXCERPTS FROM OFFERING MEMORANDUM OF
KOREAN GOVERNMENT-AFFILIATED ENTITY

RECENT DEVELOPMENTS

An investment in the Notes involves risk. You should carefully consider the matters discussed below, together with the other information in this Offering Memorandum, before deciding to purchase the Notes.

Overview

Since early 1997, a number of developments described below have adversely affected the Korean economy. Korean companies, including the conglomerates known as “chaebols” that dominate the Korean economy, banks and other financial institutions have struggled financially, and a number of them have failed. Factors that contributed to the financial difficulties include excessive investment by Korean companies and high levels of debt, including debt denominated in foreign currencies, incurred by Korean companies.

Aspects of the Republic’s financial and economic difficulties have included:

- exchange rate fluctuations;
- interest rate fluctuations;
- reduced credit from foreign banks;
- reduced liquidity in the economy;
- volatile stock prices;
- reductions in the Republic’s foreign currency reserves (which have largely been replenished);
- credit rating changes for the Republic and Korean financial institutions, including us, and companies; and
- higher unemployment.

The economic difficulties of certain Southeast Asian countries beginning in 1997 and, more recently, of Russia also contributed to Korea’s problems. In addition, the continuing weakness of the Japanese economy and the recent volatility of the Japanese Yen against the U.S. dollar increase the uncertainty of economic stability in Asia in general and may hinder the Republic’s ability to recover quickly from its own economic difficulties. Future adverse developments in Southeast Asia, Japan and elsewhere in the world could worsen Korea’s economic difficulties by, among other things, affecting Korean financial institutions that have lent to borrowers in such countries, Korean exporters that export to such countries and Korean companies and financial institutions that rely on credit from Japanese lenders.
Developments in Korea

Financial Difficulties of Korean Companies

Beginning in early 1997 and continuing through 1999, a significant number of Korean companies, including member companies of chaebol groups, experienced financial difficulties due to excessive investment in some industries, weak export prices and high levels of debt and foreign currency exposure. The Financial Supervisory Service of the Financial Supervisory Commission (formerly, the Banking Supervisory Authority) announced on March 29, 1998 that, as of December 31, 1997, the 30 largest conglomerates in the Republic owed approximately W111.3 trillion in loans and payment guarantees to Korean banks. In addition, the widespread practice of cross guarantees within chaebols means that the difficulties of financially weaker companies threaten stronger ones as well. The reluctance and reduced ability of banks to renew or extend additional credit have made these problems worse.

Since early 1997, a number of significant Korean companies have failed. In January 1997, four companies in the Hanbo Group applied to the courts for corporate reorganization, and in March 1997, five companies in the Sammi Group also filed for corporate reorganization. Court orders froze the assets and liabilities of these companies and suspended repayment of their debts. The creditors and the courts approved reorganization plans for some of the companies in the Hanbo Group and Sammi Group in 1998.

Other corporate failures followed the Hanbo Group and Sammi Group bankruptcies. In October 1997, some lenders to Kia Motors Corporation announced that, with the support of the Government, they would seek court receivership for Kia Motors. On April 15, 1998, Kia Motors and an affiliate, Asia Motors Co., Ltd., came under court receivership under which their debt would be restructured and their interest payment obligations suspended. In July 1998, a committee of creditors of Kia Motors and Asia Motors arranged for the sale of the two companies by auction. In October 1998, it was announced that a consortium led by Hyundai Motors Corporation was the winner of the auction, and in December 1998 Hyundai Motors signed an agreement to purchase new shares to be issued by the two companies. The creditors and the court approved the reorganization plan for Kia Motors and Asia Motors in December 1998.

On July 19, 1999, member companies of the Daewoo Group, one of Korea’s largest chaebols, entered into arrangements with their respective creditors to delay repayment of short-term debt and to borrow a total of W4.0 trillion in additional funds. On August 16, 1999, the Daewoo Group companies and representatives of their Korean creditors entered into an agreement to improve the capital structure of those companies, which includes, among other things, plans to sell assets of the Daewoo Group other than those of its automobile manufacturing and related operations and its trading company and plans for debt restructuring, debt for equity swaps and additional financing. On August 26, 1999, the FSC announced that 12 member companies of the Daewoo Group will be placed under workout programs. The workout plan for each company is under preparation by each main creditor bank. On September 6, 1999, upon the recommendation of the FSC, the main creditor banks of 10 Daewoo Group companies announced that they are considering dispatching their officers to those companies to administer their assets. The creditors agreed to provide an initial facility in the aggregate amount of
US$700 million to these companies, and the Government announced comprehensive measures to support the subcontractors of such companies.

Numerous other Korean companies have failed, including companies in the Jinro Group, the Dainong Group, the Ssang Bang Wool Group, the New Core Group, the Tae-il Precision Group and the Halla Group. The series of major corporate failures in 1997 and 1998 contributed to increases in the Republic’s unemployment rate, which rose to 5.7% as of August 31, 1999, and labor unrest.

**Worsened Financial Condition of Korean Banks and Other Financial Institutions**

The capital adequacy and liquidity of most Korean banks and other financial institutions, including us, were hurt by:

- the financial difficulties of corporate borrowers;
- high levels of short-term foreign currency borrowings from foreign financial institutions; and
- the consideration of non-market oriented factors in making lending decisions.

The Government in late 1997 and 1998 ordered many of the worst-affected financial institutions to close. In addition, the Government took control of two large commercial banks, Seoul Bank and Korea First Bank, by recapitalizing them; the Government is currently arranging the sale of controlling interests in Korea First Bank to a foreign investor. For a discussion of the Government’s oversight of financial institutions, see “The Republic of Korea—The Economy—Post-IMF Reforms—Financial Sector Restructuring”.

The Government estimates that, as of June 30, 1999, banks and non-bank financial institutions held non-performing assets, defined to include loans and other credits on which interest had not been paid for at least three months, totaling approximately W63.4 trillion. The Government also estimates that, as of June 30, 1999, commercial banks held non-performing assets totaling W25.9 trillion, compared to W22.2 trillion as of December 31, 1998. The Non-Performing Asset Management Fund managed by the Korea Asset Management Corporation (“KAMCO”) has purchased W46.1 trillion of non-performing assets of banks and non-bank financial institutions.

Further Government financial support of Korean financial institutions may be necessary to enable them to meet capital adequacy requirements. In 1997, the Government approved the issuance of W64.0 trillion of financial restructuring bonds by December 31, 1999, of which the Government had issued W40.9 trillion by December 31, 1998. In addition, proceeds realized by the Government upon the privatization of banks or by KAMCO upon the disposition of non-performing assets purchased by KAMCO may also be used in the restructuring effort. The allocation of additional funds for the financial sector would require the approval of the National Assembly, which cannot be assured. Continued poor financial condition of Korean financial institutions would likely reduce the amount of credit otherwise available to Korean companies, impairing the prospects for economic growth.
Concerns Regarding Liquidity and Foreign Currency Reserves

The Republic’s foreign currency reserves fell 32.8%, to US$20.4 billion as of December 31, 1997 from US$33.2 billion as of December 31, 1996, mostly due to:

- the repatriation by foreign investors of their investments in Korea;
- the repayment of a portion of the Republic’s private and governmental external debt;
- the unavailability of credit from foreign sources; and
- the intervention in the foreign currency market to stabilize the Won.

The usable portion of the reserves, defined as the total foreign currency reserves less amounts on deposit with overseas branches of Korean financial institutions and swap positions between The Bank of Korea and other central banks, totaled only US$8.9 billion as of December 31, 1997. The Government’s usable foreign currency reserves have increased to US$65.3 billion as of September 15, 1999 primarily due to balance of trade surpluses and loans received from the International Monetary Fund (the “IMF”), the World Bank and the Asian Development Bank (the “ADB”), a portion of which has been repaid. For a more extensive discussion of the Republic’s recent foreign currency reserves positions, see “The Republic of Korea—Balance of Payments and Foreign Trade—Foreign Currency Reserves”.

The Republic’s private and governmental external liabilities, using standards set by the IMF, totaled US$158.1 billion as of December 31, 1997, US$149.4 billion as of December 31, 1998 and, based on preliminary data, US$141.4 billion as of June 30, 1999. The Government estimates that, as of June 30, 1999, the short-term external debt of Korean financial institutions, including all offshore borrowings by domestic financial institutions and their branches and subsidiaries, was approximately US$42.6 billion. In addition, the Government estimates that, as of June 30, 1999, offshore borrowings by Korean companies (excluding their overseas branches and subsidiaries) totaled approximately US$29.7 billion. The ability of the Republic and Korean financial institutions and companies to repay foreign currency obligations could depend on the willingness of foreign lenders to extend the terms of existing loans or to offer new loans. For a more extensive discussion of the Republic’s debt position, see “The Republic of Korea—Debt—External Debt”.

In addition, any adverse developments impairing the ability of Korean financial institutions and companies to repay loans when due could increase corporate failures, impair the country’s and our financial situation and increase the level of our non-performing assets.
Credit Rating Changes

In October 1997, the Republic’s long-term foreign currency rating ceiling on bond obligations, as announced by Moody’s, was A1 and its long-term foreign currency rating as announced by each of Standard & Poor’s and Fitch IBCA was AA—. Since that time, the rating agencies have changed the country’s ratings significantly. The table below charts the credit ratings downgrades for the Republic from December 1997 to January 1998.

<table>
<thead>
<tr>
<th>Date</th>
<th>Rating Agency</th>
<th>Instrument</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 1997</td>
<td>Moody’s (1)</td>
<td>Foreign currency rating on bond obligations</td>
<td>Baa2</td>
<td>Bal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Foreign currency rating for long-term bank deposits</td>
<td>Ba2</td>
<td>B1</td>
</tr>
<tr>
<td>Standard &amp; Poor’s (2)</td>
<td></td>
<td>Long-term foreign currency rating</td>
<td>BBB-</td>
<td>B+</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Long-term local currency rating</td>
<td>A-</td>
<td>BBB-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Short-term foreign currency rating</td>
<td>A-3</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Short-term local currency rating</td>
<td>A-2</td>
<td>A-3</td>
</tr>
<tr>
<td>January 1998</td>
<td>Moody’s (3)</td>
<td>Long-term foreign currency rating</td>
<td>BBB-</td>
<td>B-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Foreign currency rating for bank deposits</td>
<td>B1</td>
<td>Caal</td>
</tr>
</tbody>
</table>

__________

(1) Moody’s noted Korea’s short-term foreign currency needs and the diminished level of its foreign exchange reserves. It also noted the generally deteriorating economic conditions in Asia.

(2) Standard & Poor’s stated that the country’s efforts to aid the banking sector threatened its own external position and conflicted with the spirit of the country’s agreements with the IMF.

(3) Fitch IBCA noted the further fall in the country’s foreign exchange reserve.

(4) Moody’s viewed the forced rollover of interbank credits in late December 1997 as a default and noted that Korea’s external payments position, combined with regional factors, could prolong the rollover period.
The table below charts the credit rating upgrades for the Republic since February 1998.

<table>
<thead>
<tr>
<th>Date</th>
<th>Rating Agency</th>
<th>Instrument</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 1998</td>
<td>Standard &amp; Poor’s (1)</td>
<td>Long-term foreign currency rating</td>
<td>B+</td>
<td>BB+</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Long-term local currency rating</td>
<td>BBB-</td>
<td>BBB+</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Short-term foreign currency rating</td>
<td>C</td>
<td>B</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Short-term local currency rating</td>
<td>A-3</td>
<td>A-2</td>
</tr>
<tr>
<td></td>
<td>Fitch IBCA (2)</td>
<td>Long-term foreign currency rating</td>
<td>B-</td>
<td>BB+</td>
</tr>
<tr>
<td>January 1999</td>
<td>Standard &amp; Poor’s (3)</td>
<td>Long-term foreign currency rating</td>
<td>BB+</td>
<td>BBB-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Long-term local currency rating</td>
<td>BBB+</td>
<td>A-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Short-term foreign currency rating</td>
<td>B</td>
<td>A-3</td>
</tr>
<tr>
<td></td>
<td>Fitch IBCA (4)</td>
<td>Long-term foreign currency rating</td>
<td>BB+</td>
<td>BBB-</td>
</tr>
<tr>
<td>February 1999</td>
<td>Moody’s (5)</td>
<td>Foreign currency rating on bond obligations</td>
<td>Bal</td>
<td>Baa3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Foreign currency rating for long-term bank deposits</td>
<td>Caa1</td>
<td>Ba2</td>
</tr>
<tr>
<td>June 1999</td>
<td>Fitch IBCA (6)</td>
<td>Long-term foreign currency rating</td>
<td>BBB-</td>
<td>BBB</td>
</tr>
</tbody>
</table>

(1) Standard & Poor’s also removed the ratings from CreditWatch. The upgrade reflected the progress of the Government’s reform program and the expectation of an agreement extending the short-term external debt of Korean financial institutions.

(2) Fitch IBCA viewed the agreement on January 28, 1998 extending the short-term external debt of Korean financial institutions as improving the country’s external financing position.

(3) Standard’s & Poor’s cited the Government’s progress in corporate and financial sector restructuring, as well as its improved external debt position.

(4) Fitch IBCA noted that the prospect of a repetition of Korea’s liquidity crisis in 1997 was remote due to the country’s improved foreign currency reserves.

(5) Moody’s noted the country’s improved external liquidity position and a government policy stance that should foster continued improvement in 1999. Moody’s also changed the Republic’s outlook to positive.

(6) Fitch IBCA noted the improvement in the country’s economy from increased exports and domestic consumption, the improved external liquidity position, the increase in foreign investment and decrease in external debt.

Credit downgrades hinder the ability of the Republic and Korean financial institutions and companies to raise funds at favorable interest rates in the capital markets.

You should note that ratings do not represent a recommendation to purchase, hold or sell securities. They also do not comment as to market prices or suitability for your investment. Rating agencies assign ratings based on current information furnished to or obtained by them. Rating agencies may change, suspend or withdraw ratings.
Interest Rate Fluctuations

Due to adverse economic conditions, the depreciation of the Won and the Government’s reform policy, interest rates payable by Korean borrowers fluctuated substantially, both domestically and externally, in late 1997 and 1998. The average annual interest rate on three-year Won-denominated, non-guaranteed corporate bonds, rose from 12.6% as of September 30, 1997 to 29.0% as of December 31, 1997 but fell significantly during the fourth quarter of 1998 and was 10.6% as of September 22, 1999. Internationally, the spreads over United States treasury bonds on benchmark dollar-denominated bonds issued by the Republic and Korean financial institutions and companies have also fluctuated considerably since the second quarter of 1998, but have generally improved since the second half of 1998. If interest rates rise in the future, the debt service costs of Korean borrowers and the possibility of defaults on debt repayments would increase.

Exchange Rate Fluctuations

Due to adverse economic conditions and reduced liquidity, the value of the Won in relation to the U.S. dollar and other major foreign currencies declined substantially in 1997 but generally rose in 1998. Because of market pressure, on December 16, 1997 the Government allowed the Won to float freely. The market exchange rate as announced by the Korea Financial Telecommunications and Clearings Institute fell to W\(1,202.7\) to US$1.00 as of September 22, 1999 from W\(914.8\) to US$1.00 on September 30, 1997. For a more extensive discussion of exchange rates, see “The Republic of Korea—Monetary Policy—Foreign Exchange”.

Won depreciation increases substantially the amount of Won revenue needed by Korean companies to repay foreign currency-denominated debt, increases the possibility of defaults, and results in higher prices for imports, including key raw materials such as oil, sugar and flour.

Stock Market Volatility

The Korea Composite Stock Price Index declined by over 56% from 647.1 on September 30, 1997 to 280.0 on June 16, 1998. The index was 941.6 on September 22, 1999, representing an increase of 236.3% since June 16, 1998. For a more extensive discussion of the Korean securities markets, see “The Republic of Korea—The Financial System—Securities Markets”.

Significant sales of Korean securities by foreign investors and the repatriation of the sales proceeds could drive down the value of the Won, reduce the foreign currency reserves held by financial institutions in the Republic and hinder the ability of Korean companies to raise capital.
**Other Factors that May Potentially Affect the Republic’s Economic Situation**

The Republic’s economic situation could be affected by a number of factors, including:

- higher unemployment;
- economic developments in other countries; and
- proposals to amend the Republic’s governmental structure.

**Unemployment.** Higher unemployment rates can be expected to lead to a decrease in income tax revenue and a substantial increase in the Government’s expenditures for unemployment insurance and other social programs, thereby materially contributing to the Government’s anticipated budget deficit in 1999. Higher unemployment could also lead to social and labor unrest. For a discussion of recent labor market developments and reform measures in Korea, see “The Republic of Korea—The Economy—Post-IMF Reforms—Labor Market Reform”.

**Economic Developments in Other Countries.** The Republic’s economic situation will be affected by economic developments in other countries. Korean companies may find it more difficult to export their goods to neighboring countries, including Japan, China and Russia, if the economies of those countries deteriorate further. In addition, any depreciation of the Japanese yen against the U.S. dollar, by effectively reducing the price of Japanese goods in U.S. dollar terms, would hurt Korean exports, as many products exported by Korean companies compete with Japanese exports. Finally, the Republic’s increased reliance on exports to service foreign currency debts could cause friction with trading partners if Korea develops large trade surpluses with those countries.

**Proposed Change of the Republic’s Governmental Structure.** During his campaign for the presidency, President Kim Dae Jung proposed creating a parliamentary system of government, a change which would require a constitutional amendment. Any disagreements among the major political parties, including any arising from disputes concerning this proposal, could delay the implementation of economic reforms. For a discussion of the proposed change in governmental structure, see “The Republic of Korea—Land and History—Political History”.

**Government Measures**

The Government has taken a number of steps in response to recent economic developments, including the following:

- negotiation with the IMF of the IMF financial aid package involving loans in an aggregate amount of approximately US$58 billion;
- negotiation of an agreement with a substantial number of international creditors of Korean financial institutions to extend the maturities of an aggregate of approximately US$21.8 billion of Korean financial institutions’ short-term foreign currency obligations owed to those international creditors by exchanging the obligations for longer-term floating rate loans guaranteed by the Government;
• the Government’s issuance of U.S. Dollar-denominated bonds in the aggregate principal amount of US$4 billion in April 1998; and

• the announcement and implementation of a number of important economic, financial sector, labor and other reforms.

The Government may need to take further measures to adequately address the country’s economic difficulties.


While the Government anticipates that its reforms of the Korean economy will alleviate its current economic difficulties and improve the economy over time, in the short term implementation of the reform measures may:

• slow economic growth;

• cause a budget deficit because of a decrease in tax revenues and an increase in Government expenditures;

• increase the rate of inflation;

• increase the number of bankruptcies of Korean companies; and

• increase unemployment.

Continued implementation of certain elements of the Government reform plan may require further action by the National Assembly and political processes not directly within the control of the President or the Government will likely affect at least some elements of the reform plan. Accordingly, the reforms may not be fully implemented as currently contemplated. If the country fails to continue to implement reforms, the IMF and other international lenders may determine to reduce or withdraw their financial support. Declines in liquidity and availability of credit, further deterioration in the Republic’s economy and increased downward pressure on the value of the Won could result.
THE REPUBLIC OF KOREA

The Economy

Economic Policy and the Five Year Plans

Since 1962, the Republic has shifted the focus of its economy from agricultural production and the export of raw materials, textiles and clothing to the production and export of manufactured goods, particularly electronic products, ships, machinery, automobiles and steel. During the two decades prior to 1998, the Republic’s GDP increased at an average annual rate of approximately 9%, largely due to an industrious and well-trained labor force and Government policies favoring export-led growth.

The Government, without owning the means of industry and commerce, has actively established and implemented economic policy objectives to maintain national security, encourage industrial development and improve living standards. The Government has influenced the economy by controlling approvals and licenses and allocating credit, although the Government expects its influence to diminish because of its recent reform policies.

The Ministry of Finance and Economy formerly developed Five Year Economic and Social Development Plans to guide economic policy. Over the years, the Five Year Plans emphasized a range of goals, including establishing domestic industries to replace imports, building up infrastructure and developing export industries. Recent plans focused on economic stabilization, liberalization of the economy, reduction of restrictions on foreign direct investment and improvements in social conditions. The Five Year Plan announced in 1993 promoted not only fiscal, financial and administrative reforms, but also stable growth, globalization of the economy and quality of life improvements. The Government does not currently intend to formulate any more Five Year Plans.

Current Economic Difficulties and Initial Reform Efforts

As discussed in “Recent Developments”, since early 1997 Korea has experienced significant economic difficulties. In response, the Government has implemented a range of measures to restore the confidence of financial market participants in Korea by strengthening the country’s economic fundamentals.

The Government has focused its reform measures on restructuring the country’s financial sector. In April 1997, a presidential committee introduced short-term reform measures, including:

- allowing commercial banks, securities firms and insurance companies to compete;
- permitting the issuance of financial debentures by commercial banks and securities firms;
- increasing the size of deposit insurance funds;
- improving public disclosure systems and accounting standards; and
• eliminating interest rate controls.

In June 1997, the Government announced medium- and long-term measures relating to the restructuring of The Bank of Korea and financial institution supervisory systems. The Government accelerated implementation of these measures in connection with the IMF financial aid package and related reforms. For a more extensive discussion of these measures, see “The Republic of Korea—The Economy—Post-IMF Reforms—Financial Sector Restructuring”.

To support troubled financial institutions and to stabilize the Republic’s financial markets, on August 25, 1997 the Government announced a financial aid package, including special loans and other measures, for certain commercial and merchant banks with large amounts of bad loans. The Government also announced measures to increase the Republic’s foreign currency reserves, including guaranteeing the overseas foreign currency borrowings of Korean commercial banks.

On October 19, 1997, the Ministry of Finance and Economy established the Non-Performing Asset Management Fund to assist certain commercial banks and other financial institutions. The ministry restructured and expanded KAMCO in November 1997 and mandated it to manage the Non-Performing Asset Management Fund and purchase and dispose of non-performing assets of financial institutions. In December 1998, the Government increased the size of the Non-Performing Asset Management Fund to approximately W33.6 trillion, to be funded by W32.5 trillion in proceeds from the issuance of Government guaranteed bonds (of which W19.2 trillion worth of bonds have been issued), a W0.5 trillion loan from us and a W0.6 trillion contribution from the Republic’s financial institutions. In 1997, the Non-Performing Asset Management Fund purchased approximately W11 trillion worth of non-performing assets from commercial and merchant banks for about W7 trillion. In 1998, the Non-Performing Asset Management Fund purchased approximately W33 trillion worth of non-performing assets from commercial banks, specialized banks and other forms of financial institutions for approximately W13.0 trillion. The fund uses cash and three- to five-year Government guaranteed notes to pay for its acquisitions.

As uncertainty about the stability of the Republic’s financial markets persisted, on November 19, 1997 the Government announced additional comprehensive measures to aid the financial sector, including:

• providing faster settlement of bad loans purchased by KAMCO from financial institutions;
• offering incentives for financial institutions to merge;
• requiring the merger of certain troubled financial institutions with other financial institutions;
• monitoring the condition of individual financial institutions;
• insuring all amounts deposited with banks, non-bank financial institutions, and securities investment companies, and all amounts due from life insurance companies, until the end of 2000;
• increasing the daily exchange rate band within which the Won may float from 2.25% to 10% (the band was subsequently removed); and

• exploring the expansion of the Republic’s foreign currency borrowings from international capital markets.

On December 12, 1997, The Bank of Korea approved approximately ₩11.3 trillion in aid to stabilize the financial markets. Commercial banks, merchant banks and securities companies facing difficulties because of among other things, the paralysis of the call loan market, received approximately ₩7.3 trillion and troubled securities companies, merchant banks and investment trust companies facing liquidity problems received about ₩4.0 trillion.

**IMF Financial Aid Package**

To help address the country’s liquidity crisis and its generally difficult economic situation, the Government sought assistance from the IMF on November 21, 1997 and reached agreement with the IMF on an aid package on December 3, 1997. The aid package called for the Republic to receive loans totaling US$58 billion from the IMF, the World Bank, the ADB and the governments of certain countries, subject to compliance with several conditions. The loans have helped to replenish the Republic’s foreign currency reserves and support the Republic’s banking sector.

While it receives aid from the IMF, the Government does not plan to have any new external payment arrears, impose new restrictions on payments and transfers for current international transactions, introduce or modify multiple currency practices or conclude bilateral payments agreements inconsistent with its agreement with the IMF or impose new import restrictions for balance of payments reasons. For a discussion of the aid package’s conditions, see “The Republic of Korea—The Economy—Post-IMF Reforms”.

The aid package consists of US$21 billion over three years from the IMF in standby credits, US$10 billion from the World Bank to support specific structural reform programs and US$4 billion from the ADB to support policy and institutional reforms. In addition, Japan, the United States, France, Germany, the United Kingdom, Italy, Australia, Canada, Belgium, The Netherlands, Sweden, Switzerland and New Zealand pledged supplemental financing totaling approximately US$23 billion; to date, Korea has not utilized any of the supplemental financing.
The following table sets out the funds disbursement schedule of the IMF.

**IMF Funds Disbursement Schedule**

<table>
<thead>
<tr>
<th>Scheduled Disbursement Date</th>
<th>Amount (billions of dollars)</th>
<th>Special Drawing Rights (billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 5, 1997(1)</td>
<td>5.5</td>
<td>4.1</td>
</tr>
<tr>
<td>December 18, 1997(1)</td>
<td>3.5</td>
<td>2.6</td>
</tr>
<tr>
<td>December 30, 1997(1)</td>
<td>2.0</td>
<td>1.5</td>
</tr>
<tr>
<td>January 8, 1998(1)</td>
<td>2.0</td>
<td>1.5</td>
</tr>
<tr>
<td>February 17, 1998(1)</td>
<td>2.0</td>
<td>1.5</td>
</tr>
<tr>
<td>May 29, 1998(1)</td>
<td>1.8</td>
<td>1.4</td>
</tr>
<tr>
<td>August 28, 1998(1)</td>
<td>0.98</td>
<td>0.725</td>
</tr>
<tr>
<td>December 14, 1998(1)</td>
<td>0.98</td>
<td>0.725</td>
</tr>
<tr>
<td>February 15, 1999(1)</td>
<td>0.245</td>
<td>0.18125</td>
</tr>
<tr>
<td>May 15, 1999(1)</td>
<td>0.245</td>
<td>0.18125</td>
</tr>
<tr>
<td>August 15, 1999(2)</td>
<td>0.245</td>
<td>0.18125</td>
</tr>
<tr>
<td>November 15, 1999(2)</td>
<td>0.245</td>
<td>0.18125</td>
</tr>
<tr>
<td>February 15, 2000(2)</td>
<td>0.245</td>
<td>0.18125</td>
</tr>
<tr>
<td>May 15, 2000(2)</td>
<td>0.245</td>
<td>0.18125</td>
</tr>
<tr>
<td>August 15, 2000(2)</td>
<td>0.245</td>
<td>0.18125</td>
</tr>
<tr>
<td>November 15, 2000(2)</td>
<td>0.245</td>
<td>0.18125</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21.0</strong></td>
<td><strong>15.5</strong></td>
</tr>
</tbody>
</table>

---

(1) Disbursed.
(2) The disbursement is conditioned on the Republic attaining certain macroeconomics targets and on IMF approval.

The IMF disbursements constitute loans to The Bank of Korea. Except for the initial disbursement of US$5.5 billion on December 5, 1997, each disbursement by the IMF in 1997 and 1998 will be repaid in two equal installments, the first due 12 months after disbursement and the second due 6 months after the first. Other amounts borrowed from the IMF, including the initial disbursement of US$5.5 billion, mature 39 months after the disbursement date. Amounts disbursed on December 5, 1997 and to be disbursed in 1999 and 2000 bear interest at a rate equal to the IMF’s floating rate for its Special Drawing Rights plus fees, together estimated, as of the end of 1998, at 3.89% per annum. Amounts disbursed on December 18 and December 30, 1997 and in 1998 bear interest at 3.0% per annum above the floating Special Drawing Rights rate.
The Republic repaid the IMF a total of US$13.5 billion between December 1998 and September 1999.

The following table sets out the funds disbursement schedule of the World Bank and the ADB.

**World Bank and ADB Funds Disbursement Schedule**

<table>
<thead>
<tr>
<th>Organization</th>
<th>Scheduled Disbursement Date</th>
<th>Amount (billions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>December 23, 1997(1)</td>
<td>3.0</td>
</tr>
<tr>
<td></td>
<td>March 27, 1998(1)</td>
<td>2.0</td>
</tr>
<tr>
<td></td>
<td>October 22, 1998(1)</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td>May 11, 1999(1)</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>3.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>10.0</td>
</tr>
<tr>
<td>ADB</td>
<td>December 24, 1997(1)</td>
<td>2.0</td>
</tr>
<tr>
<td></td>
<td>January 5, 1998(1)</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td>December 30, 1998(1)</td>
<td>0.7</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>0.3</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>4.0</td>
</tr>
</tbody>
</table>

(1) Disbursed

The US$3.0 billion disbursed by the World Bank on December 23, 1997 bears interest at 100 basis points above LIBOR and must be repaid in 10 equal semi-annual installments starting in the sixth year after disbursement. The US$2.0 billion disbursed by the World Bank on March 27, 1998 and the US$2.0 billion approved by the World Bank on October 22, 1998, of which US$1.0 billion was disbursed on October 22, 1998 and US$1.0 billion was disbursed on May 11, 1999, bear interest at 75 basis points over LIBOR and must be repaid in 20 equal semi-annual installments starting in the sixth year after disbursement.

All ADB loans bear semi-annual interest of 40 basis points above LIBOR and mature seven years after disbursement.

**Post-IMF Reforms**

**Overview of Conditions to IMF Aid**

As a condition to the IMF aid package, the Government announced a series of reforms, intended to address the structural weaknesses in the Korean economy and the financial sector. The reforms accelerate a number of the liberalization measures previously announced by the Government.
As outlined in a Ministry of Finance and Economy statement, the reform measures include:

- meeting revised macroeconomic targets for real GDP growth, external current account position and inflation;
- restructuring and recapitalizing the financial sector and making it more transparent, market-oriented, better supervised and free from political intervention;
- improving corporate governance;
- removing restrictions on foreign investment in the country;
- removing restrictions on trade; and
- improving the transparency and timely reporting of economic data.

On December 24, 1997, the Government announced measures in addition to those agreed with the IMF to enhance the Government’s stabilization and structural goals. The new measures concentrate on:

- monetary policy;
- foreign investment restrictions;
- the financial sector;
- exchange rate policy and reserve management;
- trade policy;
- labor market policies; and
- fiscal policy.

**Macroeconomic Targets**

The Republic agreed with the IMF to limit growth of real GDP in 1998 to approximately 3%, contain inflation at or below 5%, and build international reserves to more than two months of imports. The agreement allowed GDP to grow more rapidly in 1999. Because of greater than expected depreciation of the Won and substantial interest rate increases in 1997, however, the Government, in consultation with the IMF, revised its projections. Based on preliminary data, GDP fell by approximately 5.8% and inflation was 7.5% in 1998. GDP is estimated to have grown by approximately 4.6% during the first quarter of 1999 and by 9.8% during the second quarter. The Republic projects inflation in 1999 to be approximately 2.0%.

On September 2, 1998, the Government announced plans to stimulate the Korean economy by, among other things:

- increasing expenditures for public investment projects;
- lowering interest rates;
- increasing the money supply;
• providing new loans and tax incentives to corporations for facility investments; and
• introducing new measures to facilitate exports.

Monetary and Exchange Rate Policies

The Government intends to implement monetary and exchange rate policy in close consultation with the IMF. The Republic agreed to tighten monetary policy to restore and sustain calm in the markets and contain the inflationary impact of the Won depreciation in late 1997. Accordingly, the Government allowed interest rates to rise substantially, reaching approximately 30% on December 31, 1997. The Government also allowed the Won to float freely. To control inflation, the Government agreed to reduce broad money growth in 1997 and 1998. Subsequently, the Government, following consultation with the IMF, has increased broad money growth and interest rates have fallen. The Government expects financial restructuring and the sharp slowdown in economic growth to suppress the demand for money, helping the country reach its monetary goals. The Government intends to use open market operations to contain the expansion of the net domestic assets of The Bank of Korea.

Fiscal Policy

The Government maintained a tight fiscal policy in 1998 to help meet the country’s macroeconomic goals and provide for the still uncertain costs of the financial sector restructuring. Nevertheless, the Government recorded a fiscal deficit of 4.2% of GDP in 1998 and estimates the fiscal deficit in 1999 to be approximately 4% of GDP because of higher expenditure related to economic reform. To help meet the country’s fiscal goals, on December 29, 1997, the National Assembly supplemented revenues by increasing the transportation tax rate on gasoline and the special excise tax on luxury items, effective January 9, 1998. Other revenue enhancing measures included widening the tax base of the corporate, income and value-added taxes. In 1998, the Government issued approximately ₩22.3 trillion of Government bonds in the domestic and overseas markets. To lower expenditures, the Government revised its 1998 budget to reduce net lending and low priority capital expenditures. In the first half of 1999, the Government issued approximately ₩14.2 trillion of Government bonds in the domestic market, and plans to issue approximately ₩14.5 trillion of Government bonds in the second half of 1999.

Financial Sector Restructuring

General Goals. Beginning in late 1997, the Government undertook a comprehensive restructuring of its financial sector with the following goals:

• improving supervision of the financial sector and strengthening the legal and regulatory framework for such supervision;
• conforming accounting standards and disclosure rules to international “best practice”;
• requiring the audit of large financial institutions by internationally recognized accounting firms following auditing standards reflecting international “best practice”;
• upgrading the standards of prudential supervision applicable to financial institutions;
strengthening risk management; and
introducing a stronger market orientation in the activities of financial institutions.

Financial Support for Financial Institutions. To support troubled financial institutions, the National Assembly on December 22, 1997 authorized guarantees of up to US$20 billion of external debt of Korean banks, and on January 21, 1998, additional guarantees of up to US$7 billion of external debt of Korean commercial and merchant banks and up to US$8 billion of external debt of The Bank of Korea. The Government used the guarantees to help Korean financial institutions with their short-term foreign currency debt. In January 1998, the Government reached agreement with 13 international creditor banks to extend the maturity of short-term foreign currency obligations incurred by certain Korean financial institutions by replacing them with one-, two- and three-year loans guaranteed by the Government. In March 1998, 134 creditor banks tendered US$21.8 billion of eligible short-term debt in exchange for the guaranteed loans. The banks received the following guaranteed loans:

<table>
<thead>
<tr>
<th>Term of Loan</th>
<th>Principal Amount</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>One year</td>
<td>US$3.8 billion</td>
<td>225 basis points above the six-month London Interbank Offered Rate (“LIBOR”)</td>
</tr>
<tr>
<td>Two year</td>
<td>US$9.8 billion</td>
<td>250 basis points above six-month LIBOR</td>
</tr>
<tr>
<td>Three year</td>
<td>US$8.3 billion</td>
<td>275 basis points above six-month LIBOR</td>
</tr>
</tbody>
</table>

The two-year and three-year loans may be prepaid at the option of the obligors prior to maturity in whole or in part without premium or penalty. The Korean financial institution obligors of the new loans paid fees to the Government in return for the guarantees.

On December 24, 1997, the Public Money Management Fund, which manages public funds, including pension funds of civil servants, acquired approximately W4,369 billion of subordinated bonds from 27 Korean financial institutions to supplement their capital base. In addition, The Bank of Korea in December 1997 placed a substantial portion of its official reserves on deposit with overseas branches of Korean banks.

Legislation. On December 29, 1997, a special session of the National Assembly passed 13 financial reform bills, which included the following measures:

- amending The Bank of Korea Act to provide for the central bank’s independence, with price stability as its main mandate;
- establishing the Financial Supervisory Commission as of April 1, 1998 to supervise and regulate all financial institutions in Korea, and establishing in 1999 the Financial Supervisory Service as the Financial Supervisory Commission’s executive arm, consolidating the functions of a number of previous regulatory bodies;
- introducing measures to deal effectively with unsound financial institutions, including reducing the capital of financially troubled institutions and allowing for capital injections by the Government on a case by case basis;
• consolidating various deposit insurance institutions into the Deposit Insurance Corporation and expanding the source of funding for deposit insurance;

• permitting the issuance and sale of long-term bearer debt securities in amounts up to W5 trillion during 1998 without disclosing the identity of purchasers; and

• repealing the Republic’s usury law which had previously limited the legal maximum interest rate to under 40% per annum.

Also in December 1997, the National Assembly adopted measures allowing foreign financial institutions to merge with and acquire domestic financial institutions. Merchant banks may now be 100% foreign-owned.

In December 1997, the Government decided to allow during 1998 the sale or deposit of foreign currencies through Korean financial institutions and the purchase of certain bonds, including Government bonds, without requiring the real-name identification of the depositor or purchaser. This deviated from the generally applicable law requiring financial institutions to ascertain the identity of their clients. The Government also strengthened confidentiality protections for private financial transactions.

As of January 8, 1998, the Government abolished regulations restricting foreign ownership of domestic securities companies and allowed foreign securities companies to establish subsidiaries in the Republic, subject to guidelines issued by the Ministry of Finance and Economy on April 3, 1998.

The Government also subjected specialized banks and development institutions to the same prudential standards as commercial banks, and the same external audit requirements as other financial institutions.

On July 25, 1998, the Government announced that all amounts deposited with Korean banks, financial institutions, securities companies and insurance companies by July 31, 1998, plus interest, would be insured until the end of the year 2000. However, the Republic limits insurance coverage for deposits made after July 31, 1998 in the following way:

<table>
<thead>
<tr>
<th>Principal deposited</th>
<th>Amount Insured</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than or equal to W20 million</td>
<td>Principal and a limited amount of interest</td>
</tr>
<tr>
<td>Greater than W20 million</td>
<td>Principal only</td>
</tr>
</tbody>
</table>

After December 31, 2000, all deposits will be insured only up to W20 million regardless of the amount deposited.

Restructuring and Recapitalizing the Financial Institutions Sector. Since December 1997, the Government has started restructuring and recapitalizing troubled financial institutions, including closing insolvent financial institutions and those failing to carry out rehabilitation plans within specified periods. In particular:

• The Government took control of Korea First Bank and Seoul Bank by recapitalizing them. In September 1999, it signed a binding terms of investment with an international investor to sell its controlling interest in Korea First Bank;
The Government closed 16 of the country’s 30 merchant banks and required the other 14 to achieve a capital adequacy ratio of 8% by June 30, 1999 or be penalized. The Government monitors progress of the remaining 14 in implementing their rehabilitation plans. The Government established a bridge merchant banking corporation to acquire, manage and sell certain assets and liabilities of the closed merchant banks;

In June 1998, the Government closed two securities companies, one securities investment trust company, 31 mutual savings and finance companies and 50 credit unions and suspended operations of two securities companies and a securities investment trust company. One securities company decided to liquidate;

In June 1998, the Financial Supervisory Commission, after reviewing the restructuring plans submitted by 12 commercial banks (not including Seoul Bank and Korea First Bank) that failed to meet Bank of International Settlement capital adequacy standards as of December 31, 1997, ordered the suspension of operations of five commercial banks and the assignment of their assets and liabilities to five other commercial banks and KAMCO. The Government provided certain tax benefits to the five banks that purchased and assumed the assets and liabilities of the banks being closed. KAMCO granted the five purchasing banks “putback” options if the assets deteriorated within six months from the purchase. The five banks could also request compensation from the Korea Deposit Insurance Corporation for certain losses arising from the purchase and assumption of the assets and liabilities. In addition, the Korea Deposit Insurance Corporation injected capital into the purchasing banks by buying subordinated bonds or stocks. The Government allowed the seven other commercial banks to continue operations after they submitted revised restructuring or rehabilitation plans. The Government will monitor the implementation of the restructuring plans and rehabilitation measures; and

In October 1998, after reviewing the rehabilitation plans submitted by four securities companies that had failed to meet the Government’s minimum capital adequacy ratios, the Government suspended the operation of two and approved the rehabilitation of the other two if they supplemented their rehabilitation plans and provided detailed implementation plans.


The Financial Supervisory Commission generally expects banks to adhere to a specific timetable to achieve specified performance, objectives, including:

- improving their capital ratios to 6% by March 1999 and to 8% by March 2000;
- improving operating performance to enhance risk management and profitability; and
- continuing to identify and resolve non-performing loans.
The Financial Supervisory Commission has also encouraged banks to increase their capital ratios to 10% by December 2000.

Regional banks that do not engage in international lending and national banks that do not lend in excess of W5 billion to individual corporate borrowers and do not engage in international lending must improve their capital ratios to 4% by March 1999, 6% by March 2000 and 8% by December 2000.

On May 20, 1998, the Ministry of Finance and Economy announced plans to issue up to W50 trillion of additional Government guaranteed bonds in the domestic market to finance the Non-Performing Asset Management Fund managed by KAMCO and the fund insuring deposits.

The Korea Deposit Insurance Corporation has spent approximately W21.0 trillion as of December 31, 1998, to recapitalize banks and life insurance companies, compensate certain banks and life insurance companies for their losses incurred in acquiring assets and liabilities of other banks and life insurance companies and to pay deposits amounts to depositors of certain failed financial institutions.

The Government has been monitoring the borrowing and lending activities of overseas branches of Korean banks to ensure their financial soundness. The Government has also gradually reduced the Bank of Korea’s deposits with nonresident branches and affiliates of domestic financial institutions.

To receive public funds, whether in the form of KAMCO purchases or capital injections, a bank must comply with Government requirements, including:

- receiving certification from the Financial Supervisory Commission that it is performing its role in the corporate sector restructuring process; and
- reducing its exposures, including off balance sheet, to single borrowers or groups of borrowers. The Government mandates that each bank reduce its exposure to a single borrower or group of borrowers in excess of 45% of total capital of June 1998 by 50% by June 1999 and eliminate the excess by December 1999. Starting January 2000, banks must progressively reduce this exposure to 25% of total capital by the end of December 2002.

*Trade Liberalization*

The Republic promised the World Trade Organization that it would eliminate trade-related subsidies by the end of 1998 and phase out the import diversification program, which limits certain imports mainly from Japan, by the end of 1999. Under its agreement with the IMF, the Government abolished one type of trade-related subsidy in January 1998, and in March 1998 the National Assembly passed a bill abolishing two additional subsidies and revising one. The Government phased out the import diversification program in June 1999.

In January 1998, the Government reduced the number of items subject to adjustment tariffs, and on August 15, 1998, it submitted to the IMF a plan to streamline and improve the
transparency of import certification procedures. The Government expects to agree with the OECD on removing restrictions on the provision of financial services by foreign firms.

**Foreign Investment Liberalization**

The agreement with the IMF calls for removing restrictions on foreign investment and capital market activities. As of December 11, 1997, the Government allowed foreigners, whether individually or in the aggregate, to acquire beneficial ownership of up to 50% of any class of shares listed on the Korea Stock Exchange. The Government eliminated, with certain limited exceptions, the aggregate and individual foreign ownership limits effective May 25, 1998. In addition, as of July 1, 1998, the Government eliminated all investment ceilings on the purchase by foreigners of all types of listed or unlisted bonds and later allowed foreign investment in Korean Government and corporate bonds, in money market instruments issued by corporations, including commercial paper, in certificates of deposit and in repurchase agreements.

The Government also prepared clear guidelines on the investment by foreign financial institutions in the equity securities of Korean financial institutions and, on March 31, 1998, allowed foreign banks and brokerage houses to establish subsidiaries in Korea, subject to guidelines established by the Ministry of Finance and Economy.

As of July 1, 1998, the Government permitted domestic corporations to directly incur long-term external debt through commercial loans or foreign-currency denominated bond offerings. This approach deviated from the traditional Korean policy of channeling international borrowings through domestic financial institutions for on-lending to the corporate sector. According to the IMF, the traditional approach made the financial system more vulnerable to changes in general conditions in international capital markets and shifts in investor sentiment toward Korea.

**Corporate Governance and Corporate Structure**

The agreement with the IMF calls for increased transparency in corporate governance, in particular through improved accounting, disclosure and auditing standards. It also requires the elimination of Government influence in credit allocation and other corporate decisions and the adoption of a more market-based approach.

In late 1997 and 1998, the National Assembly passed a broad range of measures restructuring the corporate and financial sectors, including:

- providing tax benefits, such as tax deferrals or exemptions, for mergers and acquisitions occurring as part of a corporate restructuring;
- rendering interest expenses on excessive corporate borrowing not deductible for tax purposes beginning in the year 2000 to discourage excessive borrowing;
- raising the foreign investor shareholding threshold which triggers the requirement of board approval from the target company from 10% to one-third of the company’s
outstanding shares, to facilitate the acquisition of Korean companies by foreign investors (the board approval requirement was subsequently abolished);

• repealing the mandatory tender offer rule, which previously had required any acquirer of 25% or more of shares of a corporation listed on the Korea Stock Exchange or registered in KOSDAQ to make a tender offer bid for more than 50% of the target company’s shares;

• repealing the ceiling on the amount of its own shares that a listed company may hold;

• strengthening the legal protection for minority shareholder interests;

• requiring the preparation of combined financial statements for chaebols, commencing from fiscal year 1999;

• amending the Republic’s insolvency laws, including creating a “management committee” composed of qualified professionals to assist the district courts’ handling of the management of insolvent companies, limiting the availability of composition proceedings to large-sized companies by reinforcing eligibility requirements and expediting the time frames applicable to corporate reorganization and composition proceedings;

• eliminating the ceiling on equity investment by chaebols;

• phasing out by March 2000 outstanding cross-guarantees by one chaebol member of its affiliates’ indebtedness, and prohibiting the issuance of new cross-guarantees;

• adopting a new foreign investment law to facilitate foreign investment by streamlining the investment procedure;

• adopting a law to facilitate the securitization of assets held by the Republic’s corporations and financial institutions; and

• providing the Financial Supervisory Commission with greater authority to require the restructuring of the Republic’s financial institutions.

In 1998, the Government arranged for US$3.3 billion of trade financing, with maturities of up to one year, for small- and medium-sized companies and larger companies not affiliated with the top five chaebols. US$0.4 billion remained available at the end of 1998. In addition, in 1999 the Government increased the amount of credit guarantees available for small- and medium-sized companies by W24 trillion.

In line with the Government’s corporate restructuring policies, in June 1998 a committee composed of representatives of Korean commercial banks announced the names of 55 financially unsound Korean corporations, including 20 companies belonging to the five largest Korean chaebols, which would be liquidated through measures such as the restriction of credit. To date, most of the original 55 companies have started liquidation proceedings, are being consolidated with affiliates or have applied for corporate reorganization or composition proceedings. The Government helped establish an overall framework for creditors and debtors for the voluntary restructuring of many of the country’s largest corporations. In October 1998, the five largest chaebols decided to liquidate an additional 25 financially unsound companies.
In September 1998, Korea’s top five chaebol groups, the Hyundai, Samsung, Daewoo, LG and SK Groups, announced that, to restructure Korea’s business sectors and to enhance their competitiveness and financial soundness, the chaebols had agreed in principle to establish joint venture companies or to form consortia in the following seven sectors:

- semiconductors;
- petrochemicals;
- aircraft parts;
- rolling stock;
- power generation equipment and ship engines;
- oil refining; and
- automobile industries.

The proposed restructurings would involve the consolidation of existing companies or relevant business divisions. They announced that the plan would be subject to:

- regulatory approvals by the Government;
- the scope of applicable tax exemptions;
- the willingness of various financial institutions to restructure their debt and/or to permit the removal of existing cross-guarantees;
- the inducement of foreign investment; and
- the adoption in Korea of international rules governing anti-competition and fair trade.

There can be no assurance that these restructuring plans will be carried out.

It was reported that in December 1998, the top five chaebols agreed with their respective major creditor banks to:

- eliminate certain cross guarantees by the end of 1998 or 1999, as applicable;
- lower their respective average debt to equity ratio to below 200% by the end of 1999 by repaying existing debt, disposing of their assets or raising equity; and
- reduce the number of their affiliates.

There can be no assurance that such chaebols will comply with the agreements.

The Government intends to monitor closely the restructuring plans and the agreements with the major creditor banks to ensure that the top five chaebols and the banks share the restructuring burden so as not to undermine their respective financial conditions.

**Labor Market Reform**

In 1997, the Government revised the unemployment insurance system by:
• expanding coverage to workers in companies with more than 10 employees, as opposed to 30, starting January 1, 1998 and to workers in companies with 5 employees starting March 1, 1998;

• increasing minimum benefits to 70% of average monthly wage, starting March 1, 1998;

• from March 1, 1998 to June 30, 1999, extending eligibility for unemployment compensation to those workers who paid unemployment insurance premiums for only six months as opposed to 12 months; and

• increasing the minimum benefit period from 30 to 60 days, starting March 1, 1998.

Effective April 1, 1999, unemployment benefits will become available to workers in companies with fewer than five employees and to part-time and temporary workers. The Government expects 530,000 individuals to receive unemployment benefits in 1999. Furthermore, the Government has budgeted ₩800 billion in 1999 for job training for 320,000 individuals.

On February 6, 1998, a committee of representatives of labor unions, corporations and the Government agreed to implement labor reform measures, including:

• amending the labor laws to enable corporations to lay off workers for business reasons;

• permitting, starting July 1999, the formation of teachers’ unions; and

• allocating up to ₩5 trillion to stabilize the labor market.

The agreement calls for companies to make all reasonable efforts to avoid layoffs, consult with a representative of the employees 60 days before the planned layoffs, notify the Ministry of Labor about the planned layoffs, select workers to be laid off based on a fair and rational standard and make an effort to rehire the laid-off workers when business conditions improve. The Government endorsed the agreement, and the National Assembly passed legislation regarding the labor reform measures on February 14, 1998.

Since the agreement was announced, one of the labor unions whose representative participated in the committee rejected certain terms of the agreement and called for a nationwide strike. Although the strike was subsequently canceled, members of the union vowed to resist the labor reform measures, including the layoff of workers for business reasons. In May 1999, two labor unions and representatives from corporations announced their intention to withdraw from the committee of labor unions, corporations and the Government. In August 1998, Hyundai Motors, which had announced plans for substantial layoffs of workers due to deteriorating business conditions, agreed to significantly reduce the number of workers laid off after its labor union staged a prolonged strike to protest the plans. Actions like these by labor unions may hinder the implementation of the labor reform measures and disrupt the Government’s plans to create a more flexible labor market.
Information Provision and Reform Policy Monitoring

To improve transparency and allow market participants to make an informed assessment of economic developments in the Republic, Korea agreed to improve publication and dissemination of its key economic data. The Government has published the following data since early 1998:

<table>
<thead>
<tr>
<th>Data</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign exchange reserves (including composition and net forward positions)</td>
<td>Twice Monthly (with a five business day delay)</td>
</tr>
<tr>
<td>Financial institution data (including non-performing loans, capital adequacy and ownership and affiliations)</td>
<td>Semi-annually</td>
</tr>
<tr>
<td>Short-term external debt</td>
<td>Quarterly</td>
</tr>
</tbody>
</table>

The Government plans to improve the timeliness of data on local government finances.

The Government has set quarterly ceilings on net domestic assets of The Bank of Korea and floors on net international reserves of The Bank of Korea to quantitatively monitor the effects of its reform program. The Government also has been measuring its performance against projected minimum budget surplus levels on a cash basis (including the cost of supporting the financial sector).