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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

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CURRENT ECONOMIC POSITION  
AND PROSPECTS  
OF  
THE REPUBLIC OF KOREA

April 19, 1963

A  
BR-1

Department of Operations  
Far East

CURRENCY EQUIVALENTS

U.S. \$1.00 = Won 130  
Won 1,000 = U.S. \$7.69  
Won 1,000,000,000 = U.S. \$7,692,308

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STATISTICAL APPENDIX

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BASIC DATA

Area 38,020 sq. miles  
of which cultivated 7,790 sq. miles

Population (1960 census) 25.0 million  
Annual Growth 2.5 - 2.8%

Gross National Product (1962, billion won) 279.8  
Annual rate of growth (1961-1962) 2.9%  
Per capita income US\$75

Total Available Resources (1962, billion won) 313.8  
Contribution of net capital inflow 8.6%  
Gross fixed capital formation 12.3%

Government Finances (billion won)

	<u>1958</u>	<u>1960</u>	<u>1961</u>
Total revenue	19.4	32.2	31.6
Current expenditures	27.8	32.7	40.1
of which defense	(12.4)	(14.3)	(16.6)
Current account deficit	8.4	0.5	8.5
Capital expenditure	13.4	10.2	17.0
Total deficit	21.8	10.7	25.5
U.S. Aid	17.0	13.3	21.3
Residual surplus/deficit	-4.8	+2.6	-4.2

Balance of Payments (US\$ million)

	<u>1958</u>	<u>1960</u>	<u>1961</u>	<u>1962 (est.)</u>
Exports & sales to U.N. Forces	74.9	95.5	120.6	137
Imports	377.6	342.6	310.1	430
of which U.S. aid imports	(311.0)	(246.3)	(196.8)	(225)
Other current transactions (net)	17.7	4.4	15.7	35
Current account balance	-285.0	-242.7	-173.8	-258
Public grants	316.3	243.1	224.2	205
Other capital movements	-	3.2	-1.8	3
Net increase (-) in assets	-31.8	-1.5	-47.0	50
Errors and omissions	0.5	-2.1	-1.6	-

Money Supply (1957 = 100)

<u>1960</u>	<u>1961</u>	<u>1962</u>
151	215	253

Wholesale Price Index (1957 = 100)

<u>1960</u>	<u>1961</u>	<u>1962</u>
106	126	142

## Summary and Conclusions

- i. The democratic party Government under John H. Chang, which succeeded Syngman Rhee in July 1960, proved ineffective because of internal dissensions and was overthrown by a military coup d'etat in May 1961. The new Government quickly consolidated its position and vigorously pursued its declared political aims which were to punish criminal profiteers, stamp out corruption and cleanse the political life of the country before restoring democratic Government. In December 1962 a new Constitution, giving more power to the President and less to the Constituent Assembly was promulgated and approved at a referendum. Elections for President and Parliament in 1963 have been announced.
- ii. The Government announced that it would pursue an expansionary economic policy in order to revive the economy which had languished under the strict policy of monetary stability of the previous Government. It proposed substantially to increase agricultural incomes by a comprehensive system of support prices particularly for grains. It published an ambitious 5-year Development Plan which envisaged the investment of won 320 billion (US\$2,500 million) in the period. It announced that, as an essential ingredient of its drive to eradicate corruption, civil and military emoluments would be raised substantially. The fundamental assumption behind these economic proposals was the continued receipt of U.S. aid of about US\$250 million a year.
- iii. The Government's vigorous farm policy has had marked effect on agricultural prosperity. Its price support policy has resulted in higher prices each year; for example, the government purchase price for rice from the 1962 harvest is 60% above the 1960 price. Agricultural usury has been eliminated by refunding usurious debts and replacing them by co-operative credit at reasonable rates.
- iv. Under the stimulus of large government spending accompanied by increased bank credit and the provision of ample finance for imports of materials for processing, the manufacturing industry gradually became more active until by the fourth quarter of 1962 it was working at nearly full capacity. The rise in output in 1962 was accompanied by a rise of about one third in the value of imports. In mining, the drive to increase coal output was successful, it rose 30% during 1961/62.
- v. The 5-year Development Plan proposes expenditures far beyond the capacity of the economy to sustain, notwithstanding the assumption that foreign finance for 58% of investment outlays (won 185 billion; US\$1,425 million) will be forthcoming; the plan proposes to hold domestic consumption rigorously in check so that domestic savings will provide the remainder. The plan will undoubtedly have to be drastically cut down but it is probable that before the necessary careful reappraisal of possibilities is undertaken and completed many projects will have been started which would find no place in a well-balanced smaller plan within the capacity of the economy to carry out. Besides being much too ambitious, the plan is seriously deficient in other respects.
- vi. Government's financial operations are a reflection of its economic policies. In 1960, the year before the Government came into power there was

an overall surplus of won 2.6 billion. After crediting U.S. aid, in 1961 there was a deficit of won 6.3 billion; for 1962 the deficit will probably prove to have been over won 10 billion, and the prospects are that the deficit for 1963 will be even larger. In three years current expenditures have increased by over 60%, but recurrent tax revenues by only 20%. Almost the whole of these deficits have been, or will have to be, financed by bank credit.

vii. Government's expansionary policy caused a widening gap between total demand and current resources which was reflected in the increase in the money supply which rose by over 70% between April 1961 and December 1962. During these two years net domestic credit almost doubled. Overall, wholesale prices increased by 17% in 1961 and by a further 16% in 1962.

viii. Except for increased rice exports in 1962 from the 1961 bumper crop, exports have stagnated; buoyant demand and high prices in the domestic market made them unattractive. Increased imports and reduced U.S. aid have resulted in a serious diminution of foreign exchange reserves which stood at US\$120 million at the end of 1962. If sufficient imports to keep manufacturing going at full capacity in 1963 are permitted, and all other foreign exchange commitments are duly met, the Korean foreign exchange reserves will probably be approaching exhaustion before the middle of 1964. The hoped-for financial settlement with Japan may provide some relief but will by no means solve the problem.

ix. Comprehensive corrective measures to reverse the inflationary trend are urgently necessary to restore stability to the economy. The Government has recently begun to show some concern, but it appears doubtful that the measures so far proposed will avert the danger of increasing inflationary pressures and of seriously depleting foreign exchange reserves in 1963.

## CURRENT ECONOMIC POSITION AND PROSPECTS OF

### THE REPUBLIC OF KOREA

#### I. The Political and Social Background

1. External political factors have influenced Korea's economic situation, policies and course of development to an unusual extent. Thirty-five years of Japanese rule which ended in 1945 brought the country many of the features of a modern economy. Yet the economy was primarily developed to complement Japanese production. Industrialization was not accompanied by simultaneous development of managerial and technical skills among Koreans. Consequently, after liberation, Korea found itself with an ill-balanced industrial structure and lacking in managerial and technical experience. Japan's refusal fully to accept Korea's large claims for reparations, coupled with Korea's inability completely to bury the past, has, up to the present, prevented the establishment of normal diplomatic and commercial relations with Japan and deprived Korea of the benefits of full-scale trade with Japan and of Japanese technical and managerial assistance.

2. External political events after the liberation further aggravated Korea's economic difficulties. Liberation coincided with partition of the country. Partition meant for South Korea the loss of a major source of supply of heavy industrial goods, raw materials and power, as well as of an important market for agricultural and manufactured products. Moreover, there was a large inflow of refugees from the North.

3. The division of the Korean peninsula between hostile political blocs was followed by the Korean war which brought widespread destruction to the economy, caused another large inflow of refugees and has led the Republic of Korea to decide to maintain a standing army of 600,000 men ever since. These were consequences of far-reaching economic and political significance. Above all, the U.S. became so deeply involved in Korean military and political affairs that it was virtually committed to financial support of Korea.

4. Dr. Syngman Rhee, elected as the first President of the Republic in 1948, continued in office through and after the war until, in April 1960, popular demonstrations against him and his Liberal Party for corruption, dictatorial actions and fraudulent elections forced him to resign and leave the country. The subsequent elections in July 1960 gave a majority to the Democratic Party under John M. Chang, but internal party quarrels rendered the Government ineffective and little was done to tackle the country's many serious social and economic problems.

5. In May 1961, Chang's Government was overthrown by a military coup d'etat. The Legislative Assembly was replaced by a military junta, the Supreme Council for National Reconstruction (SCNR), but the office of President of the Republic and the Cabinet system were retained. In March 1962, the President of the Republic resigned and General Park Chung Hee, Chairman of the SCNR, assumed, in addition, the post of Acting President. The junta's declared policy was to fight communism, to abolish corruption, to develop the country's economic resources, and to restore parliamentary government "as soon as the revolutionary pledges are fulfilled". The new Government soon consolidated its position. Martial law was imposed. A

considerable number of former officials and private businessmen were found guilty under new laws of amassing wealth by corrupt means. Fines and levies for these offenses are said to exceed won 5.7 billion (\$45 million).

6. The junta quickly established complete control over government administration. Although many of the military have now been withdrawn from ministerial and civil service posts, there can be little doubt that the civilian cabinet wields little effective power in its own right and is subject, often in matters of detail, to instructions from the SCNR. Among the civil servants, many were dismissed and some prosecuted and convicted for corruption and other offenses. Corruption among civil servants has practically been eliminated and, by raising their grossly inadequate salaries, the poverty that made many of them take to bribery has been appreciably alleviated. Much good has undoubtedly been achieved, although a bewildering succession of changes in the senior civil service has considerably impaired its efficiency.

7. The present political situation is unclear and the outlook for the near future is uncertain. Until recently, events seemed to indicate that elective Government would be restored around mid-1963 as promised by the junta. The military which initially had appeared determined to make an all-out effort to gain control of the new Government, began to show some willingness to accord civilians a larger role and Chairman Park announced that he would not be a candidate for the Presidency. However, in mid-March Chairman Park reversed this decision and declared that, if approved by referendum, military rule would be extended for four years. This proposal met with strong opposition. Attempts to work out a compromise between the military and civilian politicians failed to produce a workable solution. As a result, Chairman Park postponed until September 1963 the decision whether his proposal for prolonged military rule will be submitted to referendum or elective Government be restored before the end of the year as the amended Constitution demands. In the meantime, the junta intends to remain in office.

## II. The Economic Setting

### Economic Developments, 1953 to mid-1961

8. By May 1961, when the military coup d'etat took place, Korea had advanced a long way from the condition of utter poverty and widespread destruction left by the war in 1953. During the seven years between 1953 and 1960, GNP at constant prices had risen by almost 40% which raised per capita income above its pre-war level despite the influx of refugees during the war and the subsequent rapid population increase. Moreover, the Korean economy appeared to have been set more firmly on the path to industrialization. Output of secondary industry - manufacturing, mining, and construction - grew on the average at the rate of 12% a year. This sector contributed well over 40% of the growth in Korea's real GNP since 1953 and raised its share of the total from 13 to 20%.

9. Under agreements with the United States, the Government had begun in 1957 to work towards monetary stabilization which had been completely absent in preceding years when the money supply and prices had increased annually by almost 50%. The stabilization program became effective as the Government ceased to incur rapidly mounting deficits in excess of U.S. aid by raising substantially more revenue and by holding the line on non-defense current and development outlays. After 1958, the rate of increase in the money supply declined abruptly. Prices were brought to approximate overall stability. Steps were taken towards a more realistic exchange rate. An auction system was introduced in 1958 for certain categories of foreign exchange, followed by successive official devaluations in 1960 and early 1961. The effective exchange rate was thus raised from 50 to 130 won per dollar.

10. The monetary stabilization program was a remarkable success in that it enabled the economy to devote a larger share of its resources to investment as public dissavings were drastically reduced and private savings rose. Domestic savings jumped from 3% of GNP in 1953-1958 to 6% in 1959-1960<sup>1/</sup>. As for U.S. aid, stabilization marked the end of a period during which conversion into local currency at an artificially low exchange rate required an inordinate amount of saleable commodities - i.e. raw materials finished and semi-finished consumer goods - in order to support Korea's defense and general budget through counterpart fund proceeds. The result was a cut in the annual level of U.S. aid from US\$330 million in 1956-1958 to US\$230 million by 1959-1960. In the improved financial circumstances, the Korean economy was able to sustain this reduction in U.S. aid and still raise the level of fixed capital

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<sup>1/</sup> The level of domestic savings in Korea is, of course, strongly influenced by the very large size of the defence establishment and the large amount of U.S. assistance. For purposes of more general comparability one might regard about half of Korea's defense outlays as a kind of external service for which a corresponding amount of U.S. aid was compensation. If this approach is adopted and some adjustment of the entirely unrealistic official exchange rate is made, domestic savings were about 6% of GNP in 1953-1958 and 11% in 1959-1960.

formation from 11% of GNP in 1953-1958 to 13% in 1959-1960.

11. The drive for monetary stability had, however, depressing effects upon the whole economy. Strong inflation had stimulated domestic production, especially in the manufacturing sector, by rapidly increasing total demand, rising prices, artificially low cost of imported raw materials and machinery, and ample credit at negligible or no real cost. On the road to stability the economy faltered. Agriculture was adversely affected by falling prices as Government funds for price support were severely cut at a time when stocks sharply increased. Manufacturing was hit hard by slackening demand, rising import costs and lack of credit, and large idle capacities resulted. Growth rates of GNP (at constant prices) fell from a peak of 8.7% in 1957 to 2.0% in 1960 and by mid-1961 the indications were that the growth rate for the year would hardly exceed 1%. Slower growth accentuated the already serious problem of unemployment; at the end of 1960 the unemployed (excluding the underemployed) were estimated to number 1.5 million, equal to 15% of the total labor force.

12. Political uncertainties exerted an additional depressing effect after the Syngman Rhee regime came to an end early in 1960. The much publicised report that economic growth was faster in North Korea than in the South, although not based on verifiable information, led to additional criticism of the Government. The serious economic situation and general dissatisfaction with an ineffective Government were undoubtedly the main causes of the coup d'etat of May 1961. It brought to power the present Government which put expansion in the forefront of its policies. As a short term remedy, it resorted to the injection of purchasing power. As a long term remedy, it announced the adoption of a Five-Year Economic Development Plan to begin on January 1, 1962.

#### The Five-Year Economic Development Plan, 1962-1966

13. The Government's decision to postulate an average growth rate of 7.1% for GNP over the 1962-1966 period, required extensive revisions of the economic plan which was already nearing completion at the time of the coup in mid-1961. According to this directive, a 41% increase in GNP was projected between the base year, 1960, and 1966; annual growth rates were to rise from 5.7% in 1962 to 8.3% in 1966. This high growth target became the central point around which the whole plan revolved. On this basis and in conjunction with an estimated overall capital-output ratio, total investment required over the five-year period was calculated at won 320 billion (US\$2,500 million). Attainment of this target presupposes that annual investment will increase by 140% between 1960 and 1966, as compared with an actual increase of 20% in 1955-1959. It implies further that the share of investment in gross national expenditure will rise from 13% in 1960 to 23% in 1966.

14. During the plan period the increases in investment outlays over the 1960 level correspond to three-quarters of the projected rise in GNP. Quite obviously, this would involve an unbearable burden on Korea's domestic resources. The plan, therefore, assumes that foreign assistance will provide won 185 billion (US\$1,425 million), or 58% towards financing

total investment of won 320 billion, but that its share will decline from 80% of investment in 1962 to 43% in 1966 when it will have returned approximately to the 1960 level of US\$250 million. Despite this substantial external contribution, the plan implies that domestic consumption is held rigorously in check so that domestic savings may cover the remaining won 135 billion, or 42%, of the proposed investment. It is assumed that private consumption per capita would be reduced slightly and only be restored to the 1960 level in 1966. Public consumption outlays are similarly restricted. In summary, the plan argues for stringent austerity in consumption. It projects, on the average, a marginal savings rate close to 60%, while annual marginal savings rates are assumed to decline from almost 100% in 1962 to 25% in 1966.

15. Increased industrialization is looked upon as Korea's most promising avenue towards achievement of satisfactory economic growth and the long-run goal of a self-supporting economy. The current plan period is regarded as the period of preparation for industrialization. Thus, while the present plan attaches high priority to measures designed to raise productivity and incomes in agriculture, it places its main emphasis on the development of power, coal and other energy sources, the provision of an adequate infrastructure, and the expansion of key industrial facilities. In its broad sectoral allocation of investment, the plan differs from the past pattern mainly by a reduction of investment in commerce and service industries. Of total investment, 17% is allocated to agriculture, forestry, and fisheries, 34% to manufacturing and mining, and of the remaining 49% the greatest part is earmarked for power, transportation, communications, and housing.

16. There can be no doubt that Korea's Five-Year Economic Development Plan, 1962-1966, is a valuable first step towards an assessment of the country's development possibilities. However, because of its practical deficiencies it gives little assurance that the necessary restraint will be exercised on uneconomical investment which seriously impaired the economy's growth in the past. Although it must be recognized that the 7.1% growth rate was decided upon primarily for its psychological effect - internally as well as, vis-a-vis North Korea, externally - it had important operational consequences for the plan and led to an investment program which by far exceeds the economy's capacities. As its overall size is too large, the investment program gives the impression that the Government wants the economy to move in all directions at once and at a uniformly high speed. In other words, the need to arrive at an investment target that could support the postulated growth rate led the planners to surround the core of much needed projects with so many other less essential schemes that a consistent set of basic policy decisions about the direction of growth and about priorities is no longer discernible. This is especially true of industrial development, but it pervades the whole program. It must be concluded, therefore, that an attempt to carry out the five-year plan in its original form raises the prospect not only of an unbearable strain on Korea's material resources which will express itself in strong inflationary pressures, but also of an over-loaded administrative and financial machine that will impede the speedy execution of the core of much-needed projects. However, an appraisal of Korea's development effort and policies in their effect upon its economic and financial prospects

cannot be based solely on the five-year plan in its original form. At the time the plan became effective, much depended on the annual implementation programs which will be discussed later.

### III. The Current Economic Position

#### National Income

17. A record crop of rice and other grains in 1961 upset preliminary estimates which had predicted that GNP growth (at constant prices) would hardly exceed 1%. The 9% increase in agricultural production by itself corresponded to a 3.7% rise in GNP. Every other sector, except mining and construction, showed either little growth or some decline in output so that the overall rise in GNP was 3.5%. Declines in activity were limited to the service sector. Manufacturing output, the main target of massive stimulation by the new Government, expanded hardly at all and continued to show the decline in growth rates that had been apparent for several years.

18. According to preliminary estimates, GNP (at constant prices) went up by about 2.3% in 1962. This is less than the 5.7% growth rate forecast for 1962 in the five-year plan, but taking into account 1961 for which no increase in GNP had been assumed, growth since 1960 has slightly exceeded the plan target. As compared with 1961, the pattern of growth during the year was reversed. Extremely unfavorable weather wiped out the gains made in agriculture in the previous year and reduced production by about 10%, equivalent to a 3.9% decline in GNP. All the other sectors, however, benefited greatly from the increased purchasing power of the rural population, created by the record 1961 crop and higher Government purchasing prices for agricultural produce, and from the continuation of the Government's expansionary fiscal and monetary policies. Increases in output ranged from 5% to 15% approximately. Gains in manufacturing ranked among the highest as recovery from the depressed mid-1961 level accelerated on a broad front during the year under the stimulation of quickly rising domestic demand.

19. The data on GNP growth during the past two years suggests that the Government has succeeded in accelerating the rate of income growth which had been slowing down since 1957. However, this should not be interpreted as an indication that the economy has once again been set on a path of more rapid expansion that can be maintained, for it must be recognized, as will later be explained in detail, that only part of the recent increase in output represents solid achievement. This appears to have been the case in agriculture, mining, and a few other fields. However, the remarkable recovery of manufacturing industry seems to depend heavily on an artificially stimulated level of consumer demand which is directly related to a serious deterioration in Korea's financial situation. Internally, it created conditions that conflict with the Government's announced policy of austerity and greatly increased savings. Externally, it put an increasingly severe strain on Korea's foreign exchange position.

#### Recent Trends in Output

##### 1. Agriculture and Fisheries

20. Agriculture which together with forestry and fisheries provides income for almost two-thirds of the population and contributes about 40%

of GNP, has greatly benefited from increased attention to its pressing problems in the past two years. In 1962 the Government refunded usurious farm debt and expanded institutional credit. Great efforts were made to distribute fertilizer, pesticides and improved seeds on time. More extension officers were sent into the field where they conducted an apparently very successful instructional campaign in better farming methods. Simple farm machinery and implements were beginning to be used to an increasing extent. As a result, 1962 promised to produce a bumper crop of rice almost equal to that obtained with the help of exceptionally favorable weather, in 1961. Adverse weather conditions prevented this and the rice crop only came up to the average for the previous five years. This meant a decline of 12% from the 2.7 million ton output in 1961 which had established a record at almost 19% above the 1960 level. Other grains followed almost the same pattern, but the fluctuations in output were smaller.

21. Conditions in agriculture appear definitely to have improved, and output may be expected to follow a somewhat steeper upward trend than it did in the latter 1950s (2-3%). Nevertheless, formidable problems remain to be solved in the agricultural sector. These are primarily related to the small size of the average farm. Viability of Korea's agriculture requires much higher yields than are presently attained, and questions of the optimal use of fertilizer and of its composition require urgent attention. It would also seem necessary to study the role that reclamation of upland and tide land areas could play within a comprehensive development program for agriculture. Government grain purchases at a minimum price and similar price support programs for a variety of other agricultural products have for a number of years attempted to alleviate the difficulties arising from inadequate farm incomes, pending a solution of the fundamental problems. Since 1960, the Government purchase price of rice has been increased by 60% and now stands at US\$170 per ton of unpolished rice. Prices of other products were raised similarly. Partly, these increases merely compensated farmers for reduced fertilizer subsidies, previous lags in agricultural prices behind other prices and a further rise in the general price level since 1960. But the indirect subsidy to be borne by the rest of the economy has probably increased. Moreover, a price level has been established which makes the export of rice and other agricultural products (plan target for 1966: US\$22 million) through ordinary channels impossible without a considerable Government subsidy. At present it is not clear that agriculture's basic problems will be tackled effectively. Early in 1962 the Government established a committee for the structural review of agriculture, but its report has not yet been completed.

22. Fisheries in Korea make only a small contribution to GNP and employment - 2 and 3% respectively. However, exports are substantial as roughly one fourth of output is sold abroad, amounting to US\$6.4 million, or 16% of total exports, in 1961. Moreover, the industry has been growing rapidly. Marine production increased from an average of 277,000 tons in 1952-1956 to 387,000 tons in 1957-1961. In 1962, output jumped by almost 18%. In the past two years, growth was stimulated by the discovery of rich shrimp banks off the coast near Pusan which led to the formation of new private companies that invested considerable amounts in

new boats, wharves and processing plants, and developed an export market in the United States. The fishing grounds off the Korean coast appear to offer opportunities for substantial further growth of the industry, but mechanization of the fishing fleet is essential. Progress in this direction was slow in the past. A start was made in 1962 in carrying out the five-year plan's proposal for increased Government financial assistance in the construction of new boats and mechanization of old ones.

## 2. Manufacturing

23. The restoration of prosperity to the once buoyant manufacturing industry which had been hit hard by monetary stabilization and the introduction of a realistic exchange rate, was one of the principal aims of the military Government. The essence of its plan was to revive consumer demand by quickly increasing the rate of Government spending, even at the cost of a large budgetary deficit, coupled with a bold program of agricultural price supports. Also, credit to industrialists was expanded and ample finance for imports of raw materials and partly finished goods was made easily available. Strict measures to prevent illegal sales of U.N. and Korean army goods and to stop smuggling from Japan, both of which were thought to have reached large proportions, were enforced. Manufacturing output was slow to respond to these stimulants as the reviving demand was met largely from accumulated stocks which manufacturers were eager to reduce in order to ease their financial difficulties, as also were many large industrialists who had been heavily fined for illegal activities during the previous regime and were under compulsion to find large sums in cash to pay their fines.

24. Manufacturing output showed little growth in 1961 but revival became more vigorous in 1962, although interrupted in the middle of the year by Government's abortive attempt to freeze large bank balances as part of a scheme of monetary reform. During the fourth quarter several branches of manufacturing were working to full capacity and it is estimated that output as a whole increased by 15% for the year. Every branch of industry benefited, especially textiles which account for one-fifth of the total value of all manufactures and had been depressed for several years. This impressive recovery, while beneficial to the economy in terms of additional income and employment, depended heavily on Government's pursuit of policies that were causing Korea's financial situation to deteriorate seriously. The rise in prices which was the direct result of these policies brought about the recovery that accounted largely for the increase of well over US\$100 million in imports, as compared with 1961, while exports again became unattractive, despite increased subventions and other encouragements.

25. Thus, recent financial policies have tended to work against a correction of the fundamental weaknesses in Korea's manufacturing industry - its dependence on an artificially stimulated level of domestic demand for consumer goods and on a large net inflow of goods from abroad. If production throughout 1963 continues at the level reached in the fourth quarter of 1962, the total output for the year will show an increase, again of roughly 15%, over that for 1962. But, as further discussed later, the level of production in 1963 and for some time thereafter is

likely to be critically influenced by the availability of foreign exchange to pay for imported raw materials and semi-finished goods. It seems certain that the current level of U.S. aid for commodity imports plus the foreign exchange earnings from exports likely to result from current policies, will prove insufficient to maintain manufacturing production at this level. In the longer run, investments under the five-year plan should ease the foreign-exchange problem. For example, the proposed oil refinery and the fertilizer plants under construction or planned should quickly effect savings of foreign exchange once they come into production. But many other projects cannot be expected similarly to help make available the approximate amount of US\$170 million needed each year for imports of raw materials and semi-finished goods to maintain existing manufacturing facilities in full production. The potential foreign-exchange savings are in many cases lost for the near future by financing through relatively short-term suppliers' credits. Numerous other projects would not help solve the immediate problem, but would effect foreign-exchange savings only in the sense that they would eliminate the need for additional imports which would, in their absence, arise from an expansion of the economy as projected by the five-year plan. The conclusion is that for some time to come, the level of production from existing facilities that Korea's foreign payments position permits to be maintained, will depend precariously upon the amount of aid available for commodity imports, unless a determined and comprehensive effort is undertaken to channel a much larger part of present production into exports.

### 3. Mining

26. Mining, measured by its 2% share in GNP, plays a minor role in the economy, but nevertheless made a significant contribution to the improvement of the country's foreign-payments position. The remarkable increase in coal output, from less than a million tons in 1953 to 5.4 million in 1960 and then to 7.0 million in 1962 turned Korea from a large importer of coal (US\$25 million in 1956) into a small net exporter. Another mineral, tungsten, is one of Korea's chief exports and although output and particularly prices have greatly fallen since the 1953 boom, current earnings are still about US\$4-5 million. Iron ore output, too, has increased rapidly in recent years; almost all the 500,000 tons now being produced are exported, earning roughly US\$4 million.

27. Substantial investments are planned to be undertaken for the development of coal mining to provide fuel for the planned large increase in thermal electric power and to permit coal to replace wood and rice straw as the major domestic fuel. Despite the poor quality of most coal deposits and difficult mining conditions, this program is sound, since Korea with a relatively low level of real wages will probably continue to be a low cost producer, and, anyhow, will have insufficient foreign exchange to pay for fuel imports to replace home-produced coal. The target of almost 12 million tons may not be fully reached by 1966 because substantial increases in output beyond the current level depend on the exploitation of new deposits and a reorganization of the private mining industry involving the consolidation of numerous small holdings. But some progress in this direction was made last year, and a further significant increase in output should be achieved in the next few years.

#### 4. Other Activities

28. Among other activities, electric power generation, transportation and housing deserve special mention because, despite heavy investments in the past, they require substantial further capital outlays. Together, they are allocated a good part of the US\$1,250 million investment which the five-year plan proposes to be undertaken in fields other than agriculture, fisheries, manufacturing and mining. Electric power has for some time been a bottleneck as the existing generating capacity of 366 MW proved to be insufficient to assure uninterrupted supply, especially to the growing manufacturing sector. Some improvement was achieved during the last two years by using power barges as well as by reducing the substantial distribution losses that were occurring. Korea undoubtedly needs to expand its power supply markedly in order to satisfy present and expected future demand as well as to lay the basis for accelerated industrialization.

29. Record crops and increased imports made heavy demands on the railroad in 1962 when freight traffic rose by over 10%. Over the last two years, passenger traffic has increased by nearly 20%. A large part of the railroad's investment program, equivalent to about US\$100 million, is directly related to the expected increase in coal output which will require additional coal cars and locomotives as well as an extension of the railroad network in the coal-producing area. The program also includes substantial sums for modernizing and increasing the freight-car fleet and for completing dieselization. The program appears to be sound, but consideration should be given to the possibility of curbing the embarrassing increase in passenger travel by higher fares before the proposal to buy passenger cars in addition to the original program is adopted. In housing, Korea still has a critical shortage despite the construction of 800,000 dwelling units between 1951 and 1960. During the plan period, a total investment of US\$200 million, mostly from private sources, is proposed for the construction of 475,000 units - an increase of roughly 15%, or little more than the rate of household formation - but it is doubtful if this goal can be reached. Very little has been done to establish the organizational basis for such a program, and, especially, to mobilize private savings to ensure the most economical and beneficial use of Government funds.

#### IV. The Use of Resources and the Financial Situation

##### The Allocation of Resources

##### 1. The Overall Picture

30. Total available resources which had been rising at an average rate of 5.25% in the reconstruction period, 1953-1957, grew only by 2.8% annually in 1959-1960. While it had been possible for consumption and investment outlays (at constant prices) to increase by over 5% a year, the scope for further expansion of expenditure was severely limited in 1959-1960. However, by deliberately restricting the growth of consumption outlays, primarily through fiscal policies, the Government succeeded in channelling most of the increase in resources into investment. The share of consumption expenditure in GNP declined from an average level of 97% in 1953-1957 to 94% in 1959-1960, while fixed capital formation rose from 10.5 to 13%. Significantly, reduced negative savings of the public sector played an important role in raising the level of domestic savings from 3 to 6% of GNP.

31. The accession to power of the new Government in May 1961 brought with it a return to expansionary policies. These were accompanied by some rise in GNP growth rates, as compared with 1960, probably to around 2.9% a year in 1961-1962. However, they also tended to raise the level of consumption at the expense of savings so that the gap between total expenditures and domestic resources widened. This effect was still limited in 1961 and apparent only from a significantly higher level of consumption among the rural population which benefited directly from the Government's efforts to expand purchasing power, and some increase in the current deficit of the public sector. But, on the whole, consumption (at constant prices) declined slightly, chiefly because rising expenditures of the rural population on manufactured goods were met primarily from stocks and, therefore, had little effect on manufacturing output and on urban incomes. Thus domestic savings maintained their 1959-1960 relationship to GNP. To some extent, this result was, of course, misleading because it reflected the considerable increase in grain inventories which resulted from the year's bumper crop. The subsequent sale of these inventories at high, government-supported prices was undoubtedly a factor which reinforced the stimulating effect on domestic consumption of substantially higher Government expenditures, involving a large deficit, in 1962. An analysis of preliminary national income aggregates in 1962 indicates a strong trend towards higher private and public consumption outlays which greatly reduced domestic savings. In fact, the data shows that the Government's concurrent efforts to raise the standard of living and to increase capital outlays resulted in a current account deficit on the balance of payments whose relative magnitude is reminiscent of the years preceding the achievement of financial stabilization.

Saving and Investment  
(in billion won, at current market prices)

	<u>1953</u>	<u>1956</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u> <sup>1/</sup>
Fixed Capital Formation	3	13	22	27	25	30	39
Change in Inventories	3	-7	3	4	1	7	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Gross Investment in % of GNP	6 (15.4)	6 (4.8)	25 (14.1)	31 (16.4)	26 (12.4)	37 (15.5)	39 (13.9)
Private Savings	4	-6	14	22	11	19	12
Public Savings	<u>-1</u>	<u>-5</u>	<u>-6</u>	<u>-6</u>	<u>-4</u>	<u>-5</u>	<u>-7</u>
Total Savings in % of GNP	3 (7.4)	-11 (-8.7)	8 (4.5)	16 (8.6)	7 (3.4)	14 (5.9)	5 (1.8)
Deficit in % of GNP	3 (8.0)	17 (13.5)	17 (9.6)	15 (7.8)	19 (9.0)	23 (9.6)	34 (12.1)

<sup>1/</sup> Rough preliminary estimate.

2. The Pattern of Investment

32. The annual investment programs for 1962 and 1963 do not deviate significantly from the original plan in total amount of investment and broad sectoral allocations. The size of the 1962 investment program equalled the original target of won 50 billion (equivalent to 20% of the 1962 GNP as projected in the plan). When the 1963 program was prepared, it was initially set at won 70 billion, but subsequently the amount was, for financial reasons, reduced to won 59 billion. In nominal price terms, this equals the original plan target for 1963, but in terms of 1961 prices it is roughly 8% lower. The 1962 program allocated about 70% of total investment to planned projects which were identified individually, while the remainder represented an assumption about investment that would be undertaken by the private sector in small schemes (so-called non-planned projects). Of the investment program for 'planned' projects in 1962, roughly 30% was earmarked for agriculture and fisheries, 7% to mining, 13% to manufacturing, 17% each to electric power and transportation, and the remaining 16% to other sectors, primarily housing. The 1963 program introduces some significant changes in the pattern of investment. Allocations for so-called non-planned projects are almost completely eliminated. The share of agriculture and fisheries is reduced to 20%, while that of manufacturing is raised to 20%. Moreover, while the 1962 program called for 75% of all investment in planned projects to be financed

ANNUAL INVESTMENT PROGRAMS

	1962			1963		
	Foreign Exch. (US\$ million)	Local Currency (won billion)	Total (won billion)	Foreign Exch. (US\$ million)	Local Currency (won billion)	Total (won billion)
<b>I. Planned Projects</b>						
<u>Agriculture</u>	0.9	6.8	6.9	2.0	10.4	10.7
Livestock	0.9	1.2	1.3	0.9	1.1	1.2
Farmland improvement	-	1.5	1.5	-	1.6	1.6
Reforestation, erosion control	-	0.5	0.5	0.2	4.7	4.7
Loans to farmers	-	3.2	3.2	-	0.7	0.7
Others	-	0.4	0.4	0.9	2.3	2.5
<u>Fisheries</u>	0.5	0.7	0.8	6.1	0.8	1.6
Construction, import of vessels	0.5	0.1	0.2	5.6	0.3	1.1
Others	-	0.6	0.6	0.5	0.5	0.5
<u>Mining</u>	7.2	1.5	2.4	9.9	2.0	3.3
Coal mining	4.0	1.1	1.6	7.9	1.3	1.4
Tungsten mining	0.9	0.2	0.3	0.2	0.1	0.1
Iron mining	0.8	0.1	0.2	0.9	0.2	0.3
Others	1.5	0.1	0.3	0.9	0.4	1.5
<u>Manufacturing</u>	37.2	7.1	12.0	50.2	6.2	12.7
Oil refinery	4.6	0.1	0.7	6.4	0.2	1.0
Fertilizer plant	0.6	0.6	0.7	1.7	0.2	0.4
Fertilizer plant	16.5	0.1	2.3	-	0.4	0.4
Chungju fertilizer plant exp.	-	-	-	-	0.3	0.3
Soda ash plant	1.9	0.1	0.3	3.8	0.1	0.6
PVC plant	-	-	-	-	0.1	0.1
Cement plants	4.3	0.1	0.6	16.5	0.5	2.6
Combined steel products	0.4	1.4	1.4	-	-	unsettled
Transp. workshop	0.3	0.4	0.4	2.6	0.5	0.8
Machinery works	-	-	-	-	-	unsettled
Shipyards	2.8	0.6	1.0	1.2	0.3	0.4
Others	5.8	3.7	4.6	18.1	3.7	6.1
<u>Electric Power</u>	8.3	2.0	3.1	28.2	3.5	7.2
<u>Transportation</u>	3.0	2.2	2.6	19.6	3.2	5.9
Rail track extension improvement	1.1	0.9	1.1	0.1	0.3	0.3
Coaches	-	-	-	1.2	-	0.2
Diesel locomotives	-	-	-	-	-	-
roads and bridges	1.9	0.7	0.9	1.4	0.7	0.9
Vessels	-	-	-	14.3	0.1	1.9
Others	-	0.6	0.6	2.6	2.2	2.6
<u>Communications</u>	6.6	0.4	1.2	18.8	1.0	3.5
<u>Housing</u>	-	6.0	6.0	-	4.8	4.8
<u>Other Services</u>	-	-	-	2.7	4.3	4.5
Total	63.7	26.7	35.0	137.7	36.3	54.2
<b>II. Non-planned Projects</b>	n.a.	n.a.	15.0	2.1	1.8	2.1
<b>III. Local Government</b>	-	-	-	3.2	2.6	3.0
GRAND TOTAL			50.0	143.0	40.7	59.3
of which:						
Government			24.9			23.5
Gov't-owned enterprises			7.0			6.7
Private Sector			18.1			29.1

by the Government and government-owned enterprises, this proportion is reduced to 55% in 1963.

33. It is beyond doubt that annual programs of such magnitude as proposed for 1962 and 1963 are impossible to achieve. Shortage of financial resources appears to be the most restrictive factor, especially as long as the Government does not curtail increases in consumption. In 1962, the Government had to rely heavily on relatively short-term suppliers' credits of which about US\$150 million were planned to be contracted. As a result, projects so financed will, during the period of repayment, not effect the foreign exchange savings that were projected by the plan. Moreover, down payments and service payments on these credits, in addition to considerable payments under contracts financed out of Korea's own foreign exchange, will begin to create a serious strain on Korea's payments position towards the end of 1963 or early in 1964, which may well preclude any further financing of projects from these sources. And long-term financing from foreign sources is unlikely to be available in the amounts required by the proposed investment programs. The shortage of internal resources will probably be even more restrictive. On the one hand, this is resulting in under-financing of projects - a problem that has plagued Korea's manufacturing industry for many years. On the other hand, it is driving the Government into inflationary financing and into continued efforts to raise the amount of counterpart generating aid which, even if successful, may well be self-defeating because additional imports of food and other consumables, apart from their disincentive effects on local production, would probably require policies designed to increase absorptive capacity for such goods and detrimental to savings. In addition, programs of the proposed magnitude exceed by far the economy's absorptive capacity in public administration, financial institutions and the private sector. It is quite apparent that the Government's attempt to reach the 1962 target overloaded the administrative and financial machine so much that the speedy execution of much needed projects was seriously impeded.

34. Preliminary data for 1962 indicate that total capital outlays for the year amounted to won 38 billion, or 75% of the proposed amount. Compared with this actual achievement, the 1963 program in its present form calls for an increase in investment of over 40%. This large increase suggests that the reduction in the 1963 program from the initial proposal of won 70 billion to the present amount of won 59 billion falls short by far of the cut required to bring planned investment into line with resources. Moreover, this reduction affected only the allocation for non-planned projects, i.e. smaller schemes to be undertaken by the private sector. As experience in 1962 has shown, this part of the program had very little chance of being carried out anyway, without much more support by the Government and its financial institutions. Therefore, this reduction cannot be regarded as a step towards relieving the pressure on resources. At the same time, it emphasizes the Government's pre-occupation with the

large 'planned' projects, without regard for the importance which the smaller, 'non-planned' projects have for the economic justification of many of the large 'planned' projects.

35. Thus it appeared to the mission, that the Government was actively pursuing its original investment targets for 'planned' projects, e.g. in cement and power where even in the context of the full program the estimated output requirements seemed far too high, and that it did not recognize the need for a balanced reduction in the investment program. The expansion of cement production from 700,000 to 2,000,000 tons by 1964, as then planned, would undoubtedly create substantial excess capacity in the context of a feasible, much smaller investment program. Planned investment in electric power facilities would increase generating capacity from 366 to well over 1,000 MW by 1966. Plants currently under construction will almost double capacity within the next two years, and it would appear necessary to review the remainder of the program within a thorough reappraisal of the whole five-year plan in order to avoid construction of considerable surplus capacity. According to recent information, the Government has deleted one cement plant from the program and is reviewing the plans for power development.

36. Analysis of the investment programs for 1962 and 1963 reveals that a sizeable number of 'planned' projects are apparently being undertaken without a thorough examination that proves convincingly that they represent the optimum use of scarce resources. There is the development of the Ulsan Industrial Complex on the Southeast coast of the Korean peninsula. This will not only involve the Government in substantial outlays - probably around won 6.7 billion (US\$50 million), but will also burden the plants to be erected there with extremely high cost for levelling and for housing which has to be provided for employees. Three hydro-electric projects are currently being undertaken and more are planned. Not only are the comparisons of hydro- and thermal electric power costs biased by the use of unrealistically low interest rates, but capital cost estimates also fail to make an adequate allowance for the cost of resettling the farmers who will have to be dispossessed. Moreover, the political necessity of providing new land to the dispossessed farmers will inevitably involve the Government in costly reclamation schemes whose economic justification has not yet been proved. In addition, resettlement will require most of the tidal land areas that could be reclaimed for several years to come and will thus eliminate one possible approach to a solution of Korea's problem of overcrowding on existing farmland.

37. The investment program for the manufacturing sector suffers perhaps more than any other part from disregard of the limitations set by lack of managerial and technical experience, shortage of domestic investment capital and market conditions. As a result, much of the planned outlays appears to be of questionable justification at this stage of Korea's overall development, such as the 350,000 ton blast furnace and rolling mill, the shipyard expansion, and some synthetic fiber and chemical plants. While in the long run the solution of Korea's economic difficulties

undoubtedly lies in increased industrialization, the present program does not seem to provide a balanced and feasible course to that end. Although it contains a core of highly desirable projects, in its entirety it threatens to perpetuate, and possibly increase the weaknesses which have adversely affected the manufacturing sector in the past.

38. In summary, it is apparent that so far the deficiencies of the original five-year plan have not been corrected in the process of implementation. In their present form, the annual investment programs are essentially a collection of inadequately examined projects whose execution is largely determined by accidental factors, e.g. the availability of foreign financing, and not by rational choice. Recently, the Government has begun to re-examine the five-year plan with a view to eliminating its structural deficiencies and improving the investment programs from 1964 onwards. At the moment, it is too early to judge the outcome of this review, although the relatively short period of time allowed for this review, if adhered to, is bound severely to limit the usefulness of the effort.

### The Internal Financial Situation

#### 1. Money Supply and Prices

39. After May 1961, the 2½ years of approximate monetary stability came to an end. The widening imbalance between total demand and current resources, including foreign aid, was reflected in the deteriorating financial situation as evidenced by the rapidly expanding money supply which rose by 42%, to won 32.1 billion, between April and December 1961. During 1962, the rate of expansion appears to have slowed down to roughly 18% as the money supply increased to about won 37 billion by the end of the year. However, the source and significance of the expansion changed considerably between 1961 and 1962. In the former year, accumulating foreign exchange reserves were the main source of expansion, accounting for almost two-thirds of the increase, while rising net credit to the public sector was responsible for only 10% and bank credit to the private sector for 25% of the total. In contrast, the won 6 billion expansion in 1962 occurred despite a substantial drawdown of foreign assets, while domestic credit increased by about won 11 billion, equivalent to 37% of the money supply at the end of 1961. Moreover, this increase was due almost exclusively to rapidly rising net credit to the public sector. Gross credit to the private sector also grew substantially, but its effect on money supply was largely compensated by a sharp increase in savings deposits, partly attracted by substantially higher interest rates (up to 16% p.a.) and partly, it is thought, due to the accumulation of liquid funds by businessmen convicted of illicit profiteering to meet their fines.

40. In the first months of 1962, the Government apparently became increasingly troubled by the slow response of the economy to its policies.

Continuous injection of purchasing power was evidently having little success in stimulating production, but the resultant increase in money supply had begun late in 1961 to raise prices. In addition, private investment activity did little to support the Government's ambitious program, and it was suspected that large idle balances were being accumulated. On June 10, 1962, the Government, therefore, announced a currency reform. The hwan was replaced by a new monetary unit, the won, at the rate of 10 to 1. The principal object of the reform, however, was to uncover the supposedly numerous large currency balances and their transference to blocked accounts as a preliminary to compulsory conversion into debentures of a projected government development corporation which would use the money to further the five-year plan. Actually, large currency balances were much less than suspected, amounting in value to less than 3% of the total. There was, however, a paralysing effect on trading activity and a number of amending regulations was passed in quick succession until, on July 13, the whole scheme was virtually abandoned.

41. In 1961, prices reacted with some lag to the continuous increase in money supply. In fact, at the end of the year the wholesale price index stood slightly below the April level. However, this was only due to the seasonal decline in grain prices; prices for other commodities had begun to rise towards the end of 1961 and were 6% above the mid-year level. Following the introduction of increased excise taxes in January 1962, prices for commodities excluding grains rose sharply; they continued to go up until August when extensive price controls were imposed on essential commodities. Grain prices, however, increased almost continuously, until, in December the wholesale price index for all commodities was about 16% above the level of December 1961.

## 2. Public Finance

	<u>Government Finances</u> (in billion won)						<u>Revised</u>
	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>Estimate</u>	<u>Budget</u>
						<u>1962</u>	<u>1963</u>
Revenue, excluding foreign aid	15.47	19.35	26.22	32.17	31.63	40.04	45.59
Current expenditures	<u>24.30</u>	<u>27.83</u>	<u>32.91</u>	<u>32.69</u>	<u>40.15</u>	<u>52.65</u>	<u>53.36</u>
Current Deficit	8.83	8.48	6.69	0.52	8.52	12.61	7.77
Capital expenditures and advances	<u>10.74</u>	<u>13.38</u>	<u>10.24</u>	<u>10.16</u>	<u>17.00</u>	<u>24.90</u>	<u>23.51</u>
Total Deficit	<u>19.57</u>	<u>21.86</u>	<u>16.93</u>	<u>10.68</u>	<u>25.52</u>	<u>37.51</u>	<u>31.28</u>
Foreign aid proceeds	18.83	17.08	12.04	13.32	21.31	30.44	27.13
Residual Surplus Deficit	-0.64	-4.78	-3.99	+2.64	-4.21	-7.07	-4.15

42. In 1960, for the first time, Government revenue from all sources, including foreign aid, exceeded total expenditures, leaving a surplus of won 2.6 billion. However, since the military Government came to power fiscal developments have been a practical expression of the new economic policy which was described in the 1962 budget message as a "bold policy for expenditures even at the risk of a large deficit in the budget, abandoning the old stabilization - first principle". Mounting deficits, practically fully financed by bank credit, resulted. According to preliminary estimates, current expenditures went up by approximately 60% between 1960 and 1962, reflecting a much needed increase of emoluments for civil and military personnel, a sizeable rise in military expenditures and an expanded relief and welfare program. Capital outlays jumped by 150%. Total outlays went up by more than three-fourths which represents a massive increase, even considering that the devaluations of 1961 raised the won costs of foreign procurements considerably. Revenues proceeds did not keep pace with outlays. Nevertheless, tax receipts rose remarkably as tax collection was improved and a tax reform carried out which raised indirect taxes and lowered direct taxes to a more realistic and enforceable level. Allowing for the discontinuation of the foreign exchange tax after the 1961 devaluation, domestic revenue appears to have gone up by about 45%. However, the total deficit, before aid, rose from won 10.7 to 37.5 billion. Foreign aid proceeds probably doubled between 1960 and 1962, almost entirely as a result of the higher exchange rate.

43. It is now estimated that non-tax revenue and foreign aid proceeds in 1962 did not reach the estimates. As a result, the budget deficit to be covered by domestic borrowing apparently exceeded the budget estimate of won 7.1 billion by a considerable amount. To the budget deficit must be added the result of extra-budgetary operations. In particular, the Government policy of agricultural price supports involved large purchases of grain which were financed by means of bank overdrafts. Higher purchase prices and larger purchases raised the amount of overdrafts required in 1961 and 1962 by about won 2 billion each year. If these amounts are added to the budget deficit, the Government's total cash position shifted from a won 2.6 billion surplus in 1960 to a deficit of won 6.3 billion in 1961. In 1962, the deficit was apparently in excess of won 10 billion which was almost entirely financed from inflationary sources.

44. The 1963 budget provides for total revenue, including foreign aid, of won 72.7 billion - an increase of about 9% over the estimated result for 1962 - and total expenditures of won 76.9 billion, a slight reduction as compared with 1962. The resulting deficit is won 4.2 billion. However, an analysis of the budget estimates reveals that the Government's financial policies as reflected in the budget would produce a deterioration rather than an improvement of the budgetary situation in 1963. The estimated non-tax revenues include won 1.5 billion from penalties and indemnifications and won 5.6 billion from sales of government-owned property and shares. These estimates appear excessive. In particular, the proposed sale of large blocks of shares must prove difficult, because the level of current private savings is low and the Seoul Stock Exchange, despite all Government efforts, was in a chaotic state during the greater part of 1962 and is still inoperative. Thus receipts from this source will, at best, reach perhaps

won 3.0 billion. US grant aid is estimated at won 27.1 billion (US\$210 million), but, according to the best of our information, actual receipts from current appropriations and some reduction in aid carried over from previous years will, at most, be won 22 billion (US\$170 million). Allowing for some increase in tax receipts beyond the original estimates, total revenue, including aid, may reach won 66 billion instead of won 72.7 billion. As regards expenditure, supplementary provisions will doubtless be required. As is shown by the authorized increase in the number of civil servants, the budget contemplates extending Government services, although the total provision for current expenditure remains practically unchanged. Moreover, no allowance is made for the effect of price increases on Government outlays. For these reasons, supplementary provisions of about won 2 billion would seem necessary. In addition, the Government's program of agricultural price supports will require a net increase in bank overdrafts of almost won 2 billion if grain is purchased in the same quantity and at the same price as in 1962. Thus actual expenditure may total won 81 billion, and the resulting overall deficit would be around won 15 billion.

45. Since the mission's departure, the Government has reconsidered the budget with a view to reducing the deficit. However, it takes a much more optimistic view of the deficit to which execution of the original budget would lead. The Government expects US\$210 million in US aid as included in the budget, and it believes that, as in 1962, tax receipts will exceed the original estimates and that this excess will compensate for the likely shortfall in non tax revenue. Thus the Government still expects to realize total revenue, including aid, of won 72.7 billion as estimated in the budget, without an increase in taxes. As for expenditures, the Government aims at limiting supplementary provisions to won 1 billion. It also plans to limit additional bank overdrafts for financing grain purchases to won 1 billion which implies an intention to reduce the quantity of grain purchased by about one-third and to allow no higher purchase price than in 1962. By these means, the Government hopes to keep total expenditures to won 78.9 billion and the overall deficit to won 6.2 billion. It also expects that cuts in current expenditure will further reduce the deficit and limit the need for inflationary financing to about won 3 billion. As is evident from the proposed corrective measures, the Government takes an optimistic view of the situation. In these circumstances, it is unlikely that the Government will take in 1963, the drastic measures needed to effect an improvement on the adverse results of 1962. Even if the proposals are carried out effectively, it is difficult to foresee a deficit below won 12 billion in 1963.

### 3. Credit to the Private Sector

46. In the last two years, gross bank credit to the private sector doubled and reached roughly won 50 billion at the end of 1962. It expanded at fairly uniform rates between May 1961 and September 1962, when further expansion was arrested by the imposition of a ceiling on bank credit, except for specified purposes related to export trade and investment under the 1962 program. Total credit, including loans by the Government-owned Korean Reconstruction Bank, rose somewhat less rapidly, by 75%. The distribution of new loans made during the two-year period closely resembled the pattern of investment. Loans to the electric power industry showed

the fastest growth and almost quadrupled. Credits to agriculture nearly doubled. In contrast, loans to manufacturing industries which had led the expansion in previous years, only increased by just over 40%.

47. Little genuine progress was made in 1962 towards a solution of two distinct but related problems which have for a long time impaired the effectiveness of Korea's Government-owned financial institutions. A rational appraisal of alternative investment proposals continues to be all but impossible because interest rates on loans, depending on the specific source of funds from which they are financed, range from 3% to 18%. There is, in addition, the problem of the Korean Reconstruction Bank, the largest source of investment financing, which in the past has had neither the independence from the Government nor the competent management essential for sound lending operations. The new Government has granted somewhat more freedom, initiated reforms in management, and permitted equity investments. But effective reorganization of the Bank to transform it into an effective instrument of development has still to be achieved.

The External Financial Situation

	<u>Balance of Payments</u> (in US\$ million)			
	<u>1956</u>	<u>1960</u>	<u>1961</u>	<u>1962 (estimate)</u>
Exports, incl. sales to U.N. Forces	48.8	95.5	120.6	137
Imports	-386.1	-342.6	-310.1	-430
Trade deficit	-337.3	-247.1	-189.5	-293
Net invisible receipts	24.1	4.4	15.7	35
Current account	-313.2	-242.7	-173.8	-258
Public grants	314.2	243.1	224.2	205
Other capital	-	3.2	-1.8	3
Reduction in net assets	-6.3	-1.5	-47.0	50
Errors and omissions	5.3	- 2.1	-1.6	-

48. In 1959-1960, Korea achieved a considerable improvement in its foreign-payments position, although the current account continued to show a large chronic deficit. Compared with an average of US\$340 million in 1956-1958, the trade deficit was reduced to US\$235 million. In 1961 it declined further to US\$190 million as exchange earnings from exports and sales to U.N. Forces in Korea rose and imports were depressed by the two successive devaluations of the won early in the year and by the low level of economic activity during the greater part of 1961. This trend was reversed in 1962.

49. Between 1956-1957 and 1959-1961, imports fell almost 25%. Nearly half of this reduction was due to lower food imports, reflecting

improved domestic production after the bad crop of 1956, but food imports in 1959-1961 were still 10% of the total. Imports of coal declined from over US\$20 million to about US\$4 million. However, all other imports remained almost stable. Imports of fertilizer continued at an annual level around US\$55 million, or nearly 20% of total imports. Some decline in manufactured products, including machinery and transport equipment, was offset by a corresponding rise in imported raw materials. In 1962, however, imports are estimated to have returned to the 1956-1957 level of US\$430 million, an increase of more than US\$100 million over the 1959-1961 level. This is about US\$25 million less than had been projected in the five-year plan. However, it is significant to note that imports of machinery and transport equipment reached only US\$50 million, instead of the projected amount of US\$125 million. Moreover, food imports roughly equalled the estimated amount and were approximately the same as in 1959-1961. This means that imports of other commodities increased substantially and exceeded the projected amount by about US\$50 million. Analysis of the import statistics reveals that apart from some increase in finished manufactures and fertilizer, imports of raw material and semi-finished goods accounted for roughly three-fourths of the US\$100 million increase in total imports and for a large part of the excess over the plan projection.

50. Earnings from exports and sales to U.N. Forces in Korea rose in 1962. At US\$137 million they were US\$37 million above the average 1959-1961 level and continued the advance which, since 1959, has raised earnings by over 80%. Exports have trebled during this period, but the momentum appears to have slowed down in 1962. Of the US\$12 million increase achieved in 1962, roughly three-fourths resulted from exports of rice made possible by the record crop of 1961, while exports of minerals and manufactured products stagnated.

51. Thus higher earnings from exports and sales to U.N. Forces mitigated the effect of larger imports on the balance of payments. Nevertheless, the trade deficit rose from a 1959-1961 average of US\$220 million to US\$300 million in 1962. Receipts from invisibles, primarily private donations, increased considerably so that the current account deficit was only enlarged from US\$210 million to US\$260 million. While the current account deficit increased by US\$50 million, receipts of U.S. aid declined from an average of US\$225 million in 1959-1961 to about US\$205 million in 1962. This decline reflected primarily organizational, rather than substantive changes in the U.S. aid program. These changes separated project aid from supporting assistance (including PL480 and technical assistance) and transferred it to development loans. In fact, the current level of U.S. aid was thereby reduced because approved development loans remained far below the previous level of project aid and disbursements were very small. Indeed, the reduction in the current level of aid was substantially higher than the US\$20 million indicated by the decline in receipts. It was almost US\$55 million, but by using a US\$35

million carry-over, its immediate effect on receipts was partly compensated. In addition, Korea had also to draw down its exchange reserves by about US\$50 million, whereas they had increased slightly in 1959-1960 and substantially in 1961. In summary, foreign payments in 1962 exceeded the level of current receipts by about US\$85 million. As a result, the amount of U.S. aid in the process of collection was reduced to US\$50 million and net foreign exchange reserves declined to about US\$120 million by the end of the year.

52. As a result of these developments in 1962, it can now be foreseen that Korea will face a serious shortage of foreign exchange towards the end of 1963 or early in 1964. In the present circumstances, it appears that export earnings are unlikely to rise appreciably in the near future. Following the smaller crop of 1962, rice exports will certainly dwindle in 1963; moreover, any sale of rice abroad will require heavy subsidies at current domestic prices. Higher exports of manufactured products might possibly be achieved despite the lack of marketing experience abroad; but they will hardly materialize in conditions of high domestic demand and prices which, at the present exchange rate, make any effort in this direction unattractive despite Government subsidies and other encouragements.

53. The upsurge of imported raw materials and semi-finished goods in 1962 reflected, of course, the recovery of the manufacturing sector. The conclusion is inescapable that if manufacturing output is maintained at the level reached in the fourth quarter of 1962, these imports will continue to rise, possibly by about US\$ 25 million or 15% in 1963. In addition, food imports will almost certainly be higher. As the import of capital goods for the major investment projects in the near future will predominantly be financed by foreign loans which have already been arranged, this item can safely be disregarded in this connection. Nevertheless, payments for imports of capital goods in 1963 will be at least the same as in 1962, as substantial payments on suppliers' credits and on projects financed by the Government become due. Thus, leaving aside investment goods financed by foreign loans, total payments are likely to reach about US\$470 million in 1963. Receipts, on the other hand, are not likely to exceed US\$360 million, including U.S. aid of US\$170 million, earnings from exports and sales to UN Forces of US\$150 million, and invisibles US\$40 million. These estimates indicate that Korea may exhaust its existing net foreign exchange reserves in 1963 or early in 1964. To avert this danger, import restrictions will almost certainly have to include raw materials and semi-finished goods and thus hurt the manufacturing industry. However, it would seem feasible to minimize this effect if all non-essential imports were eliminated and all possibilities for reducing import costs fully exploited. Early in 1963, the Government took some measures designed to curtail imports. A special duty, ranging from 10% to 100%, was imposed on 23 non-essential items. In addition, foreign exchange allocations for imports were, with some exceptions, linked to export earnings. However, the exceptions were subsequently broadened . .

considerably as shortages of imported goods developed and prices rose. Thus, in effect new import restrictions have so far remained mild and cannot be expected significantly to improve the foreign exchange prospects for 1963. Moreover, as experience with the export-import link system has shown, import restrictions alone will not solve Korea's financial problems, a comprehensive program designed to restore financial stability in all its aspects will be required. As yet there is no evidence of corrective measures equal to the gravity of the situation.

## V. The Conclusions

54. An appraisal of Korea's economic situation and policies must fully take account of the intractable nature of Korea's basic economic weakness. Far removed from the main trade routes of the world, with a dense and rapidly growing population, but only meager natural resources, the country would, in any case, find it difficult, without foreign aid, to provide its people with more than the bare necessities of life. And it must be recognized that even with the best of intentions and the soundest of policies, the country's achievement of a self-supporting economy would be a very distant goal and progress towards it slow. In fact, the country's financial situation has deteriorated seriously during the last two years. As a result, dependence on a net inflow of goods, financed largely by grant aid of the United States, has even increased considerably and prospects for a marked improvement have dimmed. In these circumstances, it appears unlikely for some time to come that Korea can be considered for a Bank loan.

55. In 1961, the new Government appeared intent upon enforcing strict standards of austerity in consumption. It also adopted a development plan which constituted the country's first comprehensive effort to appraise its development opportunities. While this plan was deficient in many respects and far too ambitious, there was also widespread recognition of its shortcomings and the promise that they would be corrected in the process of implementation. These hopes have not been fulfilled. In 1962, Korea's financial situation deteriorated so seriously that it overshadows all accomplishments. It reflects the Government's failure to recognize the limitations that Korea's resources impose upon its efforts to produce a spectacular improvement in the country's economic situation in a brief period of time. On the one hand, it has permitted consumption outlays to rise noticeably and to all but eliminate domestic savings. On the other hand, it has so far not realized the consequences which rising consumption outlays will have on its development efforts and has not yet revised its annual investment programs in the light of a re-assessment of attainable resources.

56. As a result, inflationary pressures gained considerable strength in 1962, especially in the second half of the year. Prices rose by over 15%, and imports increased by one-third, requiring exchange reserves to be drawn down by about US\$50 million to US\$120 million. On the basis of present trends and policies, it must be expected that inflationary pressures will not abate in 1963 and that imports will exert such a drain on reserves that they will be all but depleted in the next 12-18 months. At the same time, the evolving investment pattern reflects the Government's failure to face the task of establishing sound investment priorities within the limits of resources.

57. There have been discussions between the Korean and Japanese Governments about the settlement of Korea's financial claims. At present, it is impossible to judge when an agreement will be concluded and what its terms will be, although it is known that Japan may make available fairly large amounts, in grants and loans, over a number of years.

However, even if the settlement became effective in the near future, it would only ease the task of stabilization, but not resolve all of Korea's current economic and financial difficulties. The Government would still be required to take comprehensive and painful measures to stabilize the country's financial situation and to correct the basic deficiencies of its five-year plan.

KOREA - EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31,  
1962

(In thousands of U.S. dollar equivalents)

Item	Debt outstanding December 31, 1962	
	Net of undisbursed	Including undisbursed
TOTAL EXTERNAL PUBLIC DEBT <sup>/1</sup>	<u>28,696</u>	<u>201,750</u>
Privately-placed debt	<u>22,201</u>	<u>154,300</u>
U.S. Government loans (AID)	<u>6,495</u>	<u>33,450</u>
International Development Association credit	<u>--</u>	<u>14,000</u>

<sup>/1</sup> Does not include three loans with ₩ 574,819,973 outstanding which are payable in local currency.

Statistics Division  
IBRD-Economic Staff  
February 14, 1963

KOREA - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF  
DECEMBER 31, 1962 /1

(In thousands of U.S. dollar equivalents)

Year	Debt out- standing plus un- disbursed January 1	Payments during year			Year	Debt out- standing plus un- disbursed January 1	Payments during year		
		Amorti- zation	In- terest	Total			Amorti- zation	In- terest	Total
Total debt				Privately-placed debt <sup>2/</sup>					
1963	201,750	8,750	147	8,897	1963	154,300	8,750	88	8,838
1964	193,000	9,324	1,081	10,405	1964	145,550	9,324	973	10,297
1965	183,676	10,253	2,394	12,647	1965	136,226	10,253	2,239	12,492
1966	173,423	15,766	5,743	21,509	1966	125,973	15,766	5,540	21,306
1967	157,657	21,423	6,997	28,420	1967	110,207	21,423	6,748	28,171
1968	136,234	21,045	5,660	26,705	1968	88,784	21,045	5,363	26,408
1969	115,191	19,896	4,357	24,253	1969	67,741	19,896	4,014	23,910
1970	95,295	17,606	3,135	20,741	1970	47,845	17,606	2,742	20,348
1971	77,689	13,234	2,105	15,339	1971	30,239	13,234	1,667	14,901
1972	64,455	11,147	1,300	12,447	1972	17,005	11,147	814	11,961
1973	53,308	2,337	750	3,087	1973	5,858	1,083	232	1,315
1974	50,971	1,784	692	2,476	1974	4,775	530	186	716
1975	49,187	1,784	660	2,444	1975	4,245	530	165	695
1976	47,403	1,784	627	2,411	1976	3,715	530	143	673
1977	45,619	1,784	593	2,377	1977	3,185	530	122	652
U.S. Govt. loans - AID				IDA credit					
1963	33,450	-	59	59	1963	14,000	-	-	-
1964	33,450	-	100	100	1964	14,000	-	8	8
1965	33,450	-	142	142	1965	14,000	-	13	13
1966	33,450	-	184	184	1966	14,000	-	19	19
1967	33,450	-	225	225	1967	14,000	-	24	24
1968	33,450	-	266	266	1968	14,000	-	31	31
1969	33,450	-	308	308	1969	14,000	-	35	35
1970	33,450	-	350	350	1970	14,000	-	43	43
1971	33,450	-	391	391	1971	14,000	-	47	47
1972	33,450	-	433	433	1972	14,000	-	53	53
1973	33,450	1,114	459	1,573	1973	14,000	140	59	199
1974	32,336	1,114	444	1,558	1974	13,860	140	62	202
1975	31,222	1,114	429	1,543	1975	13,720	140	66	206
1976	30,108	1,114	414	1,528	1976	13,580	140	70	210
1977	28,994	1,114	398	1,512	1977	13,440	140	73	213

KOREA - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL PUBLIC  
DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1962 /1

(In thousands of U.S. dollar equivalents)

FOOTNOTES

- /1 Includes debt service on all debt listed on preceding tables.
- /2 Terms and debt-service schedules of suppliers' credits are partly estimated by the mission; amortization payments in 1963, 1964 and 1965 include some down-payments.

Table I

GROSS NATIONAL EXPENDITURE  
(in billion won, at current market prices)

	<u>1953</u>	<u>1956</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962<sup>5/</sup></u>
I. <u>Private Consumption<sup>1/</sup></u>	<u>32.3</u>	<u>119.3</u>	<u>139.2</u>	<u>140.2</u>	<u>170.1</u>	<u>189.3</u>	<u>227.1</u>
Food	17.5	62.3	74.2	71.4	83.9	99.3	
Beverages and tobacco	2.3	7.6	9.4	10.8	11.8	13.0	
Textiles, apparel, footwear	4.1	14.8	17.1	19.2	20.0	19.8	
Housing <sup>2/</sup>	3.5	10.4	14.6	16.9	19.9	20.5	
Other goods and services	6.4	19.8	27.6	31.6	33.3	39.4	
Adjustment <sup>3/</sup>	-1.5	4.4	-3.7	-9.7	1.2	-2.7	
II. <u>Public Consumption</u>	<u>3.7</u>	<u>13.3</u>	<u>25.1</u>	<u>29.4</u>	<u>33.5</u>	<u>37.9</u>	<u>47.5</u>
III. <u>Gross Investment</u>	<u>6.0</u>	<u>5.9</u>	<u>24.4</u>	<u>30.5</u>	<u>26.2</u>	<u>37.3</u>	<u>39.1</u>
Residential construction	0.7	2.2	3.0	4.2	4.8	3.8)	38.6
Plant and equipment	2.2	10.7	19.0	22.3	19.9	26.0)	
Change in inventories	3.1	-7.0	2.4	4.0	1.5	7.5	0.5
IV. <u>Current Account Balance<sup>4/</sup></u>	<u>-3.1</u>	<u>-16.5</u>	<u>-16.6</u>	<u>-14.6</u>	<u>-19.1</u>	<u>-23.1</u>	<u>-34.0</u>
Exports of goods and services	1.6	3.3	5.5	6.6	9.9	18.0	21.5
Imports of goods and services	-4.7	-19.8	-19.8	-17.9	-25.2	-40.9	55.5
Adjustment <sup>4/</sup>	-	-	-2.3	-3.3	-3.8	-0.3	-
V. <u>Gross National Product</u>	<u>38.9</u>	<u>122.0</u>	<u>172.1</u>	<u>185.5</u>	<u>210.7</u>	<u>241.4</u>	<u>279.7</u>

(See footnotes on next page)

Table I

FOOTNOTES

1/ Based primarily on family budget surveys; total adjusted to correspond to private consumption expenditure as calculated as the residual between GNP and the other expenditure items.

2/ Includes fuel and light

3/ The following adjustments have been made:

	<u>1953</u>	<u>1956</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
<u>Budget Survey Data</u>	<u>33.8</u>	<u>114.9</u>	<u>142.9</u>	<u>149.9</u>	<u>168.9</u>	<u>192.0</u>
Expend. by residents abroad	0.1	0.3	0.5	0.5	0.6	0.8
Expend. by non-residents	-0.2	-0.6	-1.0	-1.0	-1.2	-3.2
Inventory adjustment	-1.5	3.9	-1.6	-6.9	-	-
Foreign exch. tax adjustment	-	-	2.3	3.3	3.8	0.3
Statistical discrepancy	<u>0.1</u>	<u>0.8</u>	<u>-3.9</u>	<u>-5.6</u>	<u>-2.0</u>	<u>-0.6</u>
Total	-1.5	4.4	-3.7	-9.7	1.2	-2.7

4/ The current account balance has been adjusted to include collections from the foreign exchange tax on aid funds (equivalent to the difference between actual and official exchange rates).

5/ Preliminary

Source: Economic Statistics Yearbook, 1961 and 1962; Monthly Statistical Review, August - September 1961; information provided by the Bank of Korea.

Table Ia

## SAVING AND INVESTMENT

(in billion won, at current market prices)

	<u>1953</u>	<u>1956</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962<sup>1/</sup></u>
1. <u>Domestic Gross Investment</u>							
a. <u>Fixed capital formation</u>							
Private	2.5	9.7	14.6	18.2	16.1	17.3	n.a.
Public	0.4	3.2	7.3	8.3	8.6	12.4	n.a.
Total	2.9	12.9	21.9	26.5	24.7	29.7	33.6
b. <u>Change in inventories<sup>2/</sup></u>	3.1	-7.0	2.5	4.0	1.5	7.6	0.5
c. <u>Total domestic gross investment</u>	6.0	5.9	24.4	30.5	26.2	37.3	39.1
2. <u>Domestic Gross Saving</u>							
a. <u>Private saving</u>							
Disposable income	35.8	110.6	151.5	160.5	179.1	201.9	234
Consumption <sup>3/</sup>	33.2	121.5	144.1	146.3	175.3	190.8	230
Net private savings	2.6	-10.9	7.4	14.2	3.8	11.1	4
Capital consumption allowance	1.4	4.7	6.9	7.4	7.8	8.2	8
Gross private saving	4.0	-6.20	14.3	21.6	11.6	19.3	12
b. <u>Public saving</u>							
Government revenue <sup>4/</sup>	2.6	10.0	19.2	23.5	29.8	36.7	43
Current expenditure <sup>5/</sup>	3.9	15.3	26.9	30.7	36.2	43.9	53
Net public saving	-1.3	-5.3	-7.7	-7.2	-6.4	-7.2	-10
Capital consumption allowance	0.2	0.9	1.2	1.5	1.9	2.1	3
Gross public saving	-1.1	-4.4	-6.5	-5.7	-4.5	-5.1	-7
c. <u>Total domestic gross saving</u>	2.9	-10.6	7.8	15.9	7.1	14.2	5.1
3. <u>Deficit</u>	-3.1	-16.5	-16.6	-14.6	-19.1	-23.1	-34.0
4. <u>Relationship to GNP (in %)</u>							
a. <u>Domestic gross investment</u>							
Fixed capital formation	7.4	10.5	12.7	14.3	11.7	12.3	13.8
Change in inventories	8.0	-5.7	1.4	2.1	0.7	3.2	0.2
Total	15.4	4.8	14.1	16.4	12.4	15.5	14.0

Table Ia (continued)

SAVING AND INVESTMENT  
(in billion won, at current market prices)

	<u>1953</u>	<u>1956</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
b. <u>Domestic gross saving</u>							
Private	10.2	-5.1	8.3	11.6	5.5	8.0	4.3
Public	<u>-2.8</u>	<u>-3.6</u>	<u>-3.8</u>	<u>-3.0</u>	<u>-2.1</u>	<u>-2.1</u>	<u>-2.5</u>
Total	7.4	-8.7	4.5	8.6	3.4	5.9	1.8
c. <u>Deficit</u>	<u>8.0</u>	<u>13.5</u>	<u>9.6</u>	<u>7.8</u>	<u>9.0</u>	<u>9.6</u>	<u>12.2</u>

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1/ Rough preliminary estimate.

2/ Large fluctuations in inventories reflect predominantly exceptionally poor crops (e.g. 1956) or good ones (e.g. 1961).

3/ Derived as a residual; not identical with data given in Table I because private consumption expenditures in this table include estimated capital consumption allowances in the private sector and exclude Government subsidies and transfer payments to the private sector.

4/ Comprises general government revenue and surplus of government enterprises (monopoly enterprises, transportation, communications, and postal life insurance and annuities); general government revenue in 1958, 1959, 1960 and 1961 excludes collections from the foreign-exchange tax on foreign-aid funds (equivalent to the difference between actual and official exchange rates) which are treated as part of the deficit on the current account of the balance of payments.

5/ Comprises general government current expenditure; exceeds public consumption data of Table I by the amount of subsidies and transfer payments to the private sector.

Source: Economic Statistics Yearbook, 1961 and 1962; Monthly Statistical Review, August/September 1961; information provided by the Government and the Bank of Korea.

Table II

INDUSTRIAL ORIGIN OF GROSS NATIONAL PRODUCT  
(in billion won, at constant 1955 market prices)

	<u>1953</u>	<u>1956</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u> <sup>2/</sup>
1. <u>Primary Industry</u>	<u>36.8</u>	<u>37.8</u>	<u>44.2</u>	<u>44.9</u>	<u>45.2</u>	<u>49.4</u>	<u>45.2</u>
Agriculture	33.5 <sup>1/</sup>	33.9	39.7	40.4	40.2 <sup>1/</sup>	44.8	40.5
Forestry	2.0 <sup>1/</sup>	2.4	2.7	2.7	3.2 <sup>1/</sup>	2.7	2.5
Fishery	1.3	1.5	1.8	1.8	1.8 <sup>1/</sup>	1.9	2.2
2. <u>Secondary Industry</u>	<u>11.0</u>	<u>16.2</u>	<u>20.7</u>	<u>23.4</u>	<u>24.3</u>	<u>25.3</u>	<u>28.9</u>
Mining, Quarrying	0.8	1.0	1.4	1.7	2.2	2.6	3.1
Manufacturing	7.1	12.3	14.8	16.2	17.1	17.2	19.8
Construction	3.1	2.9	4.5	5.5	5.0	5.5	6.0
3. <u>Tertiary Industry</u>	<u>37.4</u>	<u>40.0</u>	<u>44.5</u>	<u>46.9</u>	<u>48.1</u>	<u>46.9</u>	<u>50.3</u>
Electricity, Water, Sanitary Service	0.5	0.6	0.8	0.9	1.0	1.0	1.1
Transportation, Storage, Communications	1.9	3.1	3.8	4.3	4.9	5.0	5.4
Wholesale, Retail Trade	14.2	14.6	16.4	17.6	18.3	17.4	18.6
Other	20.8	21.7	23.5	24.1	23.9	23.5	25.2
4. <u>Rest of the World</u>	<u>1.7</u>	<u>1.3</u>	<u>1.3</u>	<u>1.3</u>	<u>1.3</u>	<u>1.4</u>	<u>1.5</u>
Total	86.9	95.3	110.7	116.5	118.9	123.0	125.9

<sup>1/</sup> Roughly estimated on the basis of output data.

<sup>2/</sup> Preliminary.

Source: Economic Statistics Yearbook 1962; information provided by the Bank of Korea.

Table III

COMPOSITION OF GROSS FIXED CAPITAL FORMATION  
(in percent, on the basis of constant 1955 market prices)

	<u>1953</u>	<u>1956</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
Primary Industry	14.9	13.8	10.2	11.0	14.0	18.8
Secondary Industry	16.4	18.3	20.5	22.3	18.6	15.5
Tertiary Industry	68.7	67.9	69.3	66.5	67.4	65.7
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
<u>Gross Fixed Cap. Formation</u> (in billion won at constant 1955 market prices)	9.3	9.7	14.3	16.4	13.6	14.3

Source: Economic Statistics Yearbook, 1961 and 1962; information provided  
by the Bank of Korea.

Table IV

PRODUCTION OF MAIN AGRICULTURAL CROPS  
(in 1,000 MT)

	<u>1953</u>	<u>1956</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u> <sup>1/</sup>
Rice	2,049	1,852	2,406	2,311	2,740	2,395
Barley	299	355	425	437	460	294
Naked Barley	296	298	395	385	432	n.a.
Wheat	102	134	163	158	172	165
Rye	20	22	24	23	25	25
Soybeans, other pulses	222	172	158	151	190	175
Potatoes	798	635	689	757	872	n.a.
Vegetables	566	705	723	774	887	n.a.
Fruit	108	117	167	166	151	n.a.
Cotton	47	49	25	19	28	22
Hemp, Ramie	7	8	8	7	6	7

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<sup>1/</sup> Preliminary

Source: Economic Statistics Yearbook, 1962  
Ministry of Agriculture and Forestry

Table V

INDEX OF INDUSTRIAL PRODUCTION  
(1960 = 100)

	<u>Weight</u>	<u>1954</u>	<u>1957</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
1. <u>Mining</u>	<u>15.2</u>	<u>23.9</u>	<u>52.2</u>	<u>76.1</u>	<u>100.0</u>	<u>113.4</u>	<u>134.6</u>
Coal	72.6	16.6	45.6	77.3	100.0	110.0	137.8
Metal	23.3	55.2	71.4	69.8	100.0	124.1	129.3
Non-Metal	4.1	n.a.	n.a.	n.a.	100.0	113.2	108.1
2. <u>Manufacturing</u>	<u>80.5</u>	<u>47.0</u>	<u>77.2</u>	<u>95.1</u>	<u>100.0</u>	<u>104.3</u>	<u>121.8</u>
Food	9.8	44.2	86.9	95.2	100.0	109.9	105.7
Beverage	4.2	34.7	69.2	94.5	100.0	105.1	99.2
Tobacco	4.1	79.1	91.2	101.5	100.0	108.6	121.2
Textiles	23.4	55.2	96.5	103.2	100.0	91.2	105.6
Wood, Cork	5.7	78.2	89.8	99.6	100.0	93.5	111.5
Paper, Paper Products	3.1	39.3	49.7	76.7	100.0	122.3	145.4
Printing, Publishing	4.8	40.6	57.9	86.5	100.0	80.9	99.7
Leather, Leather Products	0.4	94.4	128.2	113.9	100.0	123.0	126.2
Rubber Products	5.8	51.4	61.7	104.0	100.0	94.7	99.9
Chemicals	5.9	25.7	38.9	74.5	100.0	120.2	142.1
Petroleum, Coal Products	3.0	n.a.	n.a.	n.a.	100.0	137.3	160.9
Glass Prod., Ceramics	9.0	36.5	67.1	97.6	100.0	99.8	130.6
Basic Metal	2.9	24.7	53.7	89.3	100.0	85.6	115.2
Metal Products	3.1	35.7	93.4	92.5	100.0	107.7	134.1
Machinery	2.8	104.2	136.1	134.1	100.0	145.9	199.7
Electrical Machinery	1.3	28.8	59.8	111.3	100.0	134.9	248.8
Transport Equipment	3.2	73.3	144.7	79.4	100.0	146.8	148.2
Miscellaneous	1.6	85.9	102.7	105.2	100.0	101.2	144.0
3. <u>Electricity</u>	<u>4.3</u>	<u>53.0</u>	<u>77.9</u>	<u>99.3</u>	<u>100.0</u>	<u>104.3</u>	<u>110.5</u>
4. <u>Total Production</u>	<u>100.0</u>	<u>43.0</u>	<u>72.6</u>	<u>91.8</u>	<u>100.0</u>	<u>105.7</u>	<u>123.5</u>

Source: Monthly Bulletin of Statistics, Bank of Korea.

Table VI

## ANALYSIS OF FACTORS AFFECTING THE MONEY SUPPLY

(in billion won)

End of Year	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
<b>I. Public Sector</b>							
1. <u>Bank credit to the Government</u> <sup>1/</sup>	<u>21.4</u>	<u>30.4</u>	<u>30.7</u>	<u>30.0</u>	<u>29.0</u>	<u>34.9</u>	<u>41.8</u>
a) Bank of Korea	21.0	30.0	30.3	29.6	28.7	34.5	41.4
b) Commercial banks	0.4	0.4	0.4	0.4	0.3	0.4	0.4
2. <u>Bank credit to Gov't. financial inst.</u> <sup>2/</sup>	<u>0.2</u>	<u>4.3</u>	<u>3.3</u>	<u>2.5</u>	<u>4.8</u>	<u>5.1</u>	<u>1.0</u>
a) Bank of Korea	0.2	4.3	3.3	2.5	4.4	4.7	0.6
b) Commercial banks	-	-	-	-	0.4	0.4	0.4
3. <u>Gross credit to the public sector</u>	<u>21.6</u>	<u>34.7</u>	<u>34.0</u>	<u>32.5</u>	<u>33.8</u>	<u>40.0</u>	<u>42.8</u>
<u>Offsets:</u>							
4. <u>Government cash balances</u> <sup>3/</sup>	3.7	5.3	6.0	4.6	6.3	11.5	8.5
5. <u>Cash balances of KRB</u> <sup>4/</sup>	0.8	1.5	0.7	0.5	0.5	2.7	1.2
6. <u>Counterpart fund balances</u>	11.0	18.9	16.2	14.1	14.7	8.9	8.4
7. <u>Miscellaneous accounts (net)</u> <sup>5/</sup>	-	<u>-0.1</u>	<u>-0.1</u>	<u>0.2</u>	<u>1.2</u>	<u>4.7</u>	<u>1.5</u>
8. <u>Total offsets</u>	<u>15.5</u>	<u>25.6</u>	<u>22.8</u>	<u>19.4</u>	<u>22.7</u>	<u>27.3</u>	<u>19.6</u>
9. <u>Net credit to the public sector</u>	6.1	9.1	11.2	13.1	11.1	12.2	23.2
<b>II. Private Sector</b>							
10. <u>Loans, discounts, overdrafts</u>	7.1	10.7	16.0	18.5	24.3	32.7	46.0
11. <u>Securities</u>	-	-	<u>0.2</u>	<u>0.4</u>	<u>0.4</u>	<u>0.8</u>	<u>1.0</u>
12. <u>Gross credit to the private sector</u>	<u>7.1</u>	<u>10.7</u>	<u>16.2</u>	<u>18.9</u>	<u>24.7</u>	<u>33.5</u>	<u>47.0</u>
<u>Offsets:</u>							
13. <u>Time and savings deposits</u>	1.3	1.3	1.7	4.7	5.0	8.2	15.3
14. <u>Fiscal funds lent to banks</u> <sup>6/</sup>	-	1.0	6.3	7.7	8.6	11.5	16.0
15. <u>Bank of Korea credit to NACF</u>	-	3.5	1.7	0.9	2.8	3.1	0.6
16. <u>Miscellaneous acc. of commercial banks</u>	<u>0.1</u>	<u>0.3</u>	<u>0.6</u>	<u>0.2</u>	<u>0.4</u>	<u>0.5</u>	<u>4.5</u>
17. <u>Total offsets</u>	<u>1.4</u>	<u>6.1</u>	<u>10.3</u>	<u>13.5</u>	<u>16.8</u>	<u>23.3</u>	<u>36.4</u>
18. <u>Net credit to the private sector</u>	5.7	4.6	5.9	5.4	7.9	10.2	10.6
19. <u>Net domestic credit</u>	11.8	13.7	17.1	18.5	19.0	22.4	33.8

TABLE VI (continued)

ANALYSIS OF FACTORS AFFECTING THE MONEY SUPPLY  
(in billion won)

End of year	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
<u>III. External Sector</u>							
20. Net foreign assets <sup>7/</sup>	1.7	2.9	4.1	3.9	5.2	18.2	13.9
21. Devaluation profits (-) <sup>8/</sup>	-	-	-	-	<u>1.2</u>	<u>6.5</u>	<u>6.5</u>
22. Adjusted foreign assets	1.7	2.9	4.1	3.9	4.0	11.7	7.4
23. Deposits of foreign org. (-) <sup>9/</sup>	1.4	2.1	1.9	1.4	1.1	2.9	4.5
24. Net external sector	0.3	0.8	2.2	2.5	2.9	8.8	2.9
<u>MONEY SUPPLY</u>							
	12.1	14.5	19.3	21.0	21.9	31.2	36.7
Annual change		2.4	4.8	1.7	0.9	9.3	5.5
Annual change in %		20%	33%	9%	4%	42%	18%

<sup>1/</sup> Includes securities held by the banking system.

<sup>2/</sup> Comprises the Korean Reconstruction Bank (KRB), National Agricultural Co-operative Federation (NACF) and Medium Industry Bank (MIB).

<sup>3/</sup> Deposits of the central Government only.

<sup>4/</sup> Includes only KRB deposits with the Bank of Korea.

<sup>5/</sup> Consists of other assets and liabilities of the Bank of Korea, NACF and MIB which are not separately classified in this table. Miscellaneous accounts of the Bank of Korea in 1960, 1961 and 1962 have been adjusted to exclude devaluation profits.

<sup>6/</sup> Comprises funds lent by the Government to the NACF, MIB and commercial banks as well as loans to banking institutions by the BOK out of the counterpart loan fund; excludes Government loans to the KRB which is treated as part of the public sector.

<sup>7/</sup> Balance of foreign exchange assets and liabilities as it appears in statements of condition of the Bank of Korea.

<sup>8/</sup> Comprises estimated profits arising out of devaluations (won 1.2 billion in 1960 and won 5.3 billion in 1961).

<sup>9/</sup> Includes counterpart funds under US ownership.

Source: Economic Statistics Yearbook, 1961 and 1962; Monthly Statistical Review (October 1962); information provided by the Bank of Korea

Table VII

PRICE INDICES<sup>1/</sup>  
(1955 = 100)

	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>May</u> <u>1961</u>	<u>December</u> <u>1961</u>	<u>May</u> <u>1962</u>	<u>December</u> <u>1962</u>
1. <u>Wholesale Price Index</u>									
Grains	159.5	183.2	150.0	131.4	157.4	218.1	172.9	213.7	217.5
All Commodities, excluding grains	122.4	142.9	141.4	151.6	164.2	191.7	199.9	219.4	225.8
Producer Goods	138.5	156.3	156.1	173.9	192.3	231.4	243.1	255.9	260.7
Consumer Goods	128.8	151.6	138.1	135.1	149.7	183.3	171.4	200.7	207.1
2. <u>Seoul Consumer</u> <u>Price Index</u>	122.9	151.3	146.0	150.6	162.9	182.9	168.3	189.8	197.7

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<sup>1/</sup> Data for 1956 - 1960 are annual averages.

Source: Monthly Statistical Review, Bank of Korea.

TABLE VIII

CONSOLIDATED GOVERNMENT REVENUE AND EXPENDITURE  
(in billion won)

	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962<sup>1/</sup></u>	<u>1963<sup>2/</sup></u>
<u>REVENUE</u>							
1. <u>Tax Revenue</u>	<u>13.60</u>	<u>16.87</u>	<u>24.49</u>	<u>27.55</u>	<u>27.57</u>	<u>30.52</u>	<u>33.18</u>
Direct taxes	<u>4.00</u>	<u>4.28</u>	<u>6.09</u>	<u>6.24</u>	<u>10.59</u>	<u>9.26</u>	<u>11.25</u>
Indirect taxes on domestic goods <sup>3/</sup>	7.22	8.20	10.12	11.11	11.43	15.74	16.05
Indirect taxes on foreign goods <sup>4/</sup>	<u>2.38</u>	<u>4.39</u>	<u>8.28</u>	<u>10.20</u>	<u>5.55</u>	<u>5.52</u>	<u>5.88</u>
2. <u>Other Revenue</u> <sup>5/</sup>	<u>1.87</u>	<u>2.48</u>	<u>1.73</u>	<u>4.62</u>	<u>4.06</u>	<u>9.52</u>	<u>12.41</u>
<u>TOTAL REVENUE</u>	<u>15.47</u>	<u>19.35</u>	<u>26.22</u>	<u>32.17</u>	<u>31.63</u>	<u>40.04</u>	<u>45.59</u>
<u>EXPENDITURE</u>							
1. <u>Current Expenditure</u>	<u>24.30</u>	<u>27.83</u>	<u>32.91</u>	<u>32.69</u>	<u>40.15</u>	<u>52.65</u>	<u>53.36</u>
Defense	<u>10.99</u>	<u>12.42</u>	<u>13.71</u>	<u>14.32</u>	<u>16.60</u>	<u>20.72</u>	<u>21.25</u>
Other current	<u>13.31</u>	<u>15.41</u>	<u>19.20</u>	<u>18.37</u>	<u>23.55</u>	<u>31.93</u>	<u>32.11</u>
2. <u>Capital Expenditure</u>	<u>10.74</u>	<u>13.38</u>	<u>10.24</u>	<u>10.16</u>	<u>17.00</u>	<u>24.90</u>	<u>23.51</u>
Economic Services	<u>4.40</u>	<u>5.23</u>	<u>4.54</u>	<u>5.07</u>	<u>13.20</u>	<u>20.10</u>	<u>19.01</u>
Other capital <sup>6/</sup>	<u>6.34</u>	<u>8.15</u>	<u>5.70</u>	<u>5.09</u>	<u>3.80</u>	<u>4.80</u>	<u>4.50</u>
<u>TOTAL EXPENDITURE</u>	<u>35.04</u>	<u>41.21</u>	<u>43.15</u>	<u>42.85</u>	<u>57.15</u>	<u>77.55</u>	<u>76.87</u>

<sup>1/</sup> Revised estimates.

<sup>2/</sup> Approved budget.

<sup>3/</sup> Including revenues from Government monopolies.

<sup>4/</sup> Including premium on foreign exchange sold by auction in 1958, 1959 and 1960.

<sup>5/</sup> Including net receipts on pensions, annuities and insurance fund accounts; receipts from Government enterprises; receipts from sales of Government shares and property and other non-recurrent revenue.

<sup>6/</sup> Including loans and advances, to Government enterprises and agencies from budget funds.

Source: Bank of Korea and Government Budget Bureau.

Table VIIIa

FINANCING OF DEFICIT  
(in billion won)

	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u> <sup>1/</sup>	<u>1963</u> <sup>2/</sup>
Revenue	15.47	19.35	26.22	32.17	31.63	40.04	45.59
Current Expenditures	<u>24.30</u>	<u>27.83</u>	<u>32.91</u>	<u>52.69</u>	<u>40.15</u>	<u>52.65</u>	<u>53.36</u>
Current Deficit	8.83	8.48	6.69	0.52	8.52	12.61	7.77
Capital Expenditure	<u>10.74</u>	<u>13.38</u>	<u>10.24</u>	<u>10.16</u>	<u>17.00</u>	<u>24.90</u>	<u>23.51</u>
Total Deficit	<u>19.57</u>	<u>21.86</u>	<u>16.93</u>	<u>10.68</u>	<u>25.52</u>	<u>37.51</u>	<u>31.28</u>
Financing:-							
1. Foreign Aid Proceeds <sup>3/</sup>	18.83	17.08	12.94	13.63	21.31	30.44	27.13
2. Foreign Borrowing	-	-	-	-0.31	-	-	-
3. Domestic Borrowing (net)	5.15	1.23	-4.71	5.50	3.00	7.07	4.15
Gross Borrowing	21.50	20.26	11.79	18.59	4.28	7.87	5.11
Repayments	16.35	19.03	16.50	13.09	1.28	0.80	0.96
Net Borrowing	5.15	1.23	-4.71	5.50	3.00	7.07	4.15
of which -							
Bank of Korea	3.95	-0.27	-4.88	4.93	3.58	5.97	2.85
Non-bank public	1.20	1.50	0.17	0.57	-0.58	1.10	1.30
4. Use of Cash Balances <sup>3/4/</sup>	<u>4.41</u>	<u>3.55</u>	<u>8.70</u>	<u>-8.14</u>	<u>1.21</u>	<u>-</u>	<u>-</u>
Total	<u>19.57</u>	<u>21.86</u>	<u>16.93</u>	<u>10.68</u>	<u>25.52</u>	<u>37.51</u>	<u>31.28</u>

<sup>1/</sup> Revised Estimates

<sup>2/</sup> Approved Budget

<sup>3/</sup> Proceeds usually differ from the actual use of counterpart funds. Data refer to proceeds because they are more comprehensive. Differences between proceeds and actual use produce changes in net cash balances of counterpart funds which are included in the "Use of Cash Balances" figures in the table.

<sup>4/</sup> Data differ from those in Table VI (Money Supply) because they refer to accounts for fiscal years which are closed in February, while monetary data refer to the end of the calendar year.

Source: Bank of Korea and Government Budget Bureau.

Table IX

PRIVATE CREDIT FROM BANKING INSTITUTIONS<sup>1/</sup>  
(in billion won)

	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
<u>Primary Industry</u>	7.3	8.3	8.8	12.2	17.3	18.7
Agriculture	6.8	7.9	8.2	11.5	16.5	17.2
Forestry	0.1	-	-	-	-	-
Fisheries	0.4	0.4	0.6	0.7	0.8	1.5
<u>Secondary Industry</u>	8.6	13.7	18.1	20.9	24.6	32.2
Manufacturing	7.6	11.7	14.7	17.0	20.2	27.2
Mining, Quarrying	0.8	1.1	1.4	1.6	1.8	2.1
Construction	0.2	0.9	2.0	2.3	2.6	2.9
<u>Tertiary Industry</u>	4.3	4.4	5.5	6.9	11.1	18.2
Electricity, Gas	1.6	1.7	1.6	1.7	5.3	7.6
Transport, Storage	0.5	0.5	0.9	0.9	0.8	1.3
Others	2.2	2.2	3.0	4.3	5.0	9.3
Total	20.2	26.4	32.4	40.0	53.0	69.1

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<sup>1/</sup> Comprises commercial banks, Korean Reconstruction Bank, Medium- and Small-Scale Industry Bank, and National Agricultural Co-operatives Federation (Korean Agriculture Bank); includes credit to Government-owned enterprises.

Source: Economic Statistics Yearbook 1961 and 1962; information provided by the Bank of Korea.

Table X

BALANCE OF PAYMENTS  
(in US\$ million)

	1953	1956	1959	1960	1961	1st half 1961	1st half <sup>1/</sup> 1962	Estimate <sup>2/</sup> 1962
<u>Current Account</u>								
<u>Merchandise</u>								
Exports f.o.b.	39.7	24.7	19.8	32.9	40.9	18.0	22.5	52
Sales to UN Forces <sup>3/</sup>	30.6	24.1	63.3	62.6	79.7	33.1	41.1	85
Imports c.i.f.	<u>-345.4</u>	<u>-386.1</u>	<u>-302.7</u>	<u>-342.6</u>	<u>-310.1</u>	<u>-175.7</u>	<u>-187.7</u>	<u>-430</u>
Commercial	-153.6	-66.2	-83.9	-96.3	-113.3	-48.0 <sup>4/</sup>	-74.3 <sup>4/</sup>	-205
Aid	<u>-191.8</u>	<u>-319.9</u>	<u>-218.8</u>	<u>-246.3</u>	<u>-196.8</u>	<u>-127.7<sup>4/</sup></u>	<u>-113.4<sup>4/</sup></u>	<u>-225</u>
Trade Balance	-275.1	-337.3	-219.6	-247.1	-189.5	-124.6	-124.1	-293
<u>Other Current (net)</u>								
Transport and insurance	-2.1	-0.1	1.5	-0.2	5.1	-0.3	-0.5	1
Investment income	0.5	1.7	3.5	4.3	4.4	1.9	2.5	5
Other invisibles	-3.2	-0.3	-12.9	-19.3	-18.4	-5.4	0.1	1
Private donations	<u>0.1</u>	<u>22.8</u>	<u>17.2</u>	<u>19.6</u>	<u>24.6</u>	<u>10.9</u>	<u>18.2</u>	<u>28</u>
Total	-4.7	24.1	9.3	4.4	15.7	7.1	20.3	35
Current Balance	-279.8	-313.2	-210.3	-242.7	-173.8	-117.5	-103.8	-258
<u>Capital Account</u>								
Private Capital, Official Loans	-	-	0.2	3.2	-1.8	-3.1	-4.8	3
Public grants (net)	194.2	314.2	215.1	243.1	224.2	142.8	95.9	205
Reduction in net assets	<u>35.7</u>	<u>-6.3</u>	<u>-4.6</u>	<u>-1.5</u>	<u>-47.0</u>	<u>-21.1</u>	<u>14.4</u>	<u>50</u>
Total	279.9	307.9	210.7	244.8	175.4	118.6	105.5	258
Errors and Omissions	-0.1	5.3	-0.4	-2.1	-1.6	-1.1	-1.7	-

<sup>1/</sup> Preliminary.

<sup>2/</sup> Estimated on the basis of data for January-September 1962; estimated 'other current' items not fully comparable to data for earlier years.

<sup>3/</sup> Comprises receipts from the sale of commodities, services, and local currency.

<sup>4/</sup> Estimate.

Source: IFS, information provided by the Bank of Korea.

Table XI

EXTERNAL ASSETS  
(in U.S.\$ million)

End of	<u>1953</u>	<u>1956</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
Gross assets of Bank of Korea <u>1/</u>	108.7	98.5	147.3	157.0	207.0	167.4
Other assets <u>2/</u>	8.5	8.9	13.1	5.4	5.4	5.4 <u>3/</u>
Total gross assets	<u>117.2</u>	<u>107.4</u>	<u>160.4</u>	<u>162.4</u>	<u>212.4</u>	<u>172.8</u>
Liabilities	24.4	46.1	44.5	45.0	48.0	50.3 <u>3/</u>
of which Japan-Korea account	(24.4)	(46.1)	(44.2)	(44.1)	(16.2)	(49.4)
Total net assets	92.8	61.3	115.9	117.4	164.4	122.5
Change in net assets	-85.7	6.4	4.7	1.5	47.0	-41.9

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- 1/ Excludes assets of overseas branches of the Bank of Korea  
2/ Comprises net IMF position, claims on UN Forces, and other assets  
3/ Estimate

Source: Economic Statistics Yearbook, 1962; information provided by  
the Bank of Korea

Table XIIIa

COMPOSITION OF IMPORTS <sup>1/</sup>  
(in U.S.\$ million)

	1956	1958	1959	1960	1961	Jan.-August 1962
Food	44.0	65.5	27.3	31.6	40.1	26.5
Dairy products	0.9	2.1	1.1	1.3	1.1	1.5
Grains and its products	31.2	51.1	17.5	20.6	30.2	21.6
Fruits, vegetables	0.1	0.3	0.3	0.2	0.2	0.2
Beverages, Tobacco	10.1	4.1	-	-	-	-
<u>Crude Materials</u>	<u>45.8</u>	<u>69.1</u>	<u>62.3</u>	<u>68.5</u>	<u>63.3</u>	<u>54.4</u>
Hides, skins	0.9	0.6	0.4	0.5	0.4	0.3
Oilseeds	0.2	0.2	0.3	0.3	0.9	0.4
Raw rubber	5.0	4.5	6.7	7.6	5.8	4.3
Wood, lumber	8.8	11.0	6.4	8.1	7.4	9.3
Pulp	0.9	1.7	2.6	3.4	5.0	5.3
Textile fibers	28.5	48.8	43.9	46.4	42.1	32.0
Crude fertilizers	0.3	0.2	0.3	0.6	0.5	0.9
<u>Mineral Fuels</u>	<u>44.6</u>	<u>37.1</u>	<u>38.2</u>	<u>23.0</u>	<u>27.4</u>	<u>18.4</u>
Bituminous coal	24.7	15.4	9.0	0.6	4.3	1.1
Petroleum products	19.9	21.7	29.2	22.4	23.1	17.3
<u>Animal, Vegetable Oils</u>	<u>2.5</u>	<u>2.7</u>	<u>2.5</u>	<u>2.5</u>	<u>3.9</u>	<u>1.9</u>
<u>Chemicals</u>	<u>74.6</u>	<u>68.6</u>	<u>68.7</u>	<u>76.1</u>	<u>61.7</u>	<u>73.3</u>
Chemical elements, comp.	4.5	5.1	4.4	5.4	5.6	7.5
Dyestuffs	2.3	3.3	3.7	3.4	4.0	1.5
Medicines, pharmaceuticals	4.2	5.3	4.1	3.4	5.2	3.7
Essential oils	0.2	0.3	0.4	0.4	0.7	0.6
Fertilizers	58.3	46.0	48.0	55.4	40.3	53.7
Explosives, other chem.	4.8	7.8	7.9	8.0	5.5	4.9
<u>Manufactured Goods</u>	<u>70.7</u>	<u>56.7</u>	<u>38.1</u>	<u>47.0</u>	<u>39.5</u>	<u>40.6</u>
Rubber products	2.0	0.2	0.1	0.1	0.1	0.2
Wood products	0.2	0.2	0.1	0.1	0.1	0.1
Paper, paper products	10.9	15.7	7.1	7.7	4.5	2.5
Textile yarn, fabrics	29.3	12.7	15.8	18.1	18.8	18.0
Non-metallic manufactures	8.4	7.6	1.8	3.3	3.1	2.2
Base metals	17.1	18.5	12.1	14.7	11.1	15.1
Manufactures of metal	2.8	1.9	1.1	3.0	1.8	2.5
<u>Machinery, Transport Equip.</u>	<u>42.8</u>	<u>36.7</u>	<u>41.8</u>	<u>40.1</u>	<u>42.4</u>	<u>36.9</u>
Non-electric machinery	21.6	18.2	25.5	28.4	22.4	17.9
Electric machinery	13.3	10.6	9.4	10.5	18.7	16.4
(TV, radio, etc.)	(0.8)	(0.6)	(0.7)	(0.7)	(0.6)	(2.3)
Transport equipment	7.9	7.9	6.9	1.2	1.3	2.6
(passenger cars)	(-)	(0.4)	(-)	(-)	(-)	(0.4)
<u>Miscellaneous Manuf.</u>	<u>9.6</u>	<u>11.6</u>	<u>6.3</u>	<u>6.0</u>	<u>5.7</u>	<u>6.3</u>
Misc. fixtures	2.9	0.3	0.1	0.3	0.2	0.4
Clothing	2.1	2.8	0.3	0.1	0.1	0.1
Instruments	2.4	4.9	3.9	3.9	3.6	4.1
(cameras, films etc.)	(0.3)	(1.0)	(0.8)	(0.6)	(0.6)	(1.1)
(watches, clocks)	(0.2)	(1.4)	(1.4)	(0.8)	(1.1)	(1.0)

1/ Comprises commercial and aid imports. For composition of aid imports see Table XIIb.

(continued on next page)

Table XIIIa (continued)

	<u>1956</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>Jan.-August</u> <u>1962</u>
Miscellaneous (musical instruments)	2.0 (0.2)	3.1 (0.5)	1.9 (0.5)	1.7 (0.5)	1.8 (0.4)	1.6 (0.6)
(books)	(0.4)	(0.8)	(0.6)	(0.6)	(0.7)	(0.7)
<u>Others</u>	<u>41.4</u>	<u>26.1</u>	<u>6.5</u>	<u>48.7</u>	<u>32.1</u>	<u>0.8</u>
Total	386.1	378.2	291.6	343.5	316.1	259.1

Source: Economic Statistics Yearbook, 1961 and 1962; information provided  
by the Economic Planning Board.

Table XIIIb

COMPOSITION OF AID IMPORTS<sup>1/</sup>  
(in US\$ million)

	1956	1958	1959	1960	1961	Jan.-June <sup>3/</sup> 1962
<b>I. Non-Project Assistance</b>						
1. <u>Agricultural Commodities</u>	70.7	89.6	43.8	56.7	61.9	27.0
Food	39.2	56.0	11.6	20.7	30.6	12.8
Others, mainly cotton	31.5	33.6	32.2	36.0	31.3	14.2
2. <u>Fuels</u>	23.5	35.4	20.6	24.5	20.3	11.3
Petroleum, oil	20.2	24.7	19.4	22.0	19.5	11.3
Bituminous coal	3.0	10.6	1.0	2.1	0.6	-
Others	0.3	0.1	0.2	0.4	0.2	-
3. <u>Raw Mat., Semi-finished Prod.</u>	107.2	98.0	88.9	76.5	55.2	61.7
Fertilizers	55.7	47.7	45.6	40.7	27.7	34.0
Raw rubber	5.9	3.8	5.5	4.7	3.4	-
Textile yarns	21.0	17.7	13.5	8.1	2.5	0.4
Chemicals	3.3	5.9	5.3	3.3	4.5	0.1
Pulp, paper	7.7	8.4	3.8	4.4	2.6	-
Plastics	2.2	3.1	2.0	3.2	0.5	-
Others	11.4	11.4	13.2	12.1	14.0	27.2
4. <u>Investment Goods</u>	17.3	26.6	22.7	36.9	25.7	4.8
Lumber, logs	2.5	4.0	5.1	7.8	4.2	0.4
Flat glass	1.7	0.1	-	0.1	0.2	-
Cement, constr. mat.	2.3	1.6	0.3	1.1	1.0	-
Machinery	3.8	9.7	9.1	12.3	10.6	1.6
Iron, steel shapes	2.8	4.6	2.8	2.2	3.3	2.2
Others	4.2	6.6	5.4	13.4	6.4	0.6
Total	218.7	249.6	176.0	194.6	163.1	104.8
<b>II. Project Assistance</b>						
1. <u>Agriculture, Nat. Res.</u>	1.8	4.6	6.9	5.0	1.9	0.1
2. <u>Industry, Mining</u>	26.0	22.4	12.3	19.3	14.2	3.7
3. <u>Transportation</u>	42.1 <sup>2/</sup>	20.2 <sup>2/</sup>	10.1	8.9	8.5	1.6
4. <u>Health, Sanitation</u>	2.1	3.8	3.1	3.2	0.6	-
5. <u>Education</u>	1.0	3.2	3.7	4.2	2.3	0.3
6. <u>Public Administration</u>	0.1	1.4	1.2	1.5	1.9	0.4
7. <u>Social Welfare, Housing</u>	9.0	4.9	2.5	4.0	2.9	0.1
8. <u>General, Miscellaneous</u>	3.3	3.4	3.8	4.4	3.8	1.1
Total	85.4	63.9	43.6	50.5	36.1	7.3
<b>Grand Total</b>	<b>304.1</b>	<b>313.5</b>	<b>219.6</b>	<b>245.1</b>	<b>199.2</b>	<b>112.1</b>

<sup>1/</sup> Imports under AID(ICA) and PL480 programs; includes technical assistance and administration expenditures of the aid agency in local currency; includes imports under Development Loans (DLF).

<sup>2/</sup> Includes coal imports for the Korean National Railways.

<sup>3/</sup> Preliminary.

Source: Economic Statistics Yearbook, 1961 and 1962;  
Monthly Statistical Review.

Table XIII

COMPOSITION OF EXPORTS  
(in US\$ million)

	<u>1956</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>Jan.-June</u> <sup>1/</sup> <u>1962</u>
<u>Food</u>	<u>1.5</u>	<u>2.5</u>	<u>4.1</u>	<u>9.7</u>	<u>8.9</u>	<u>8.6</u>
Fish, fish products	0.8	2.3	1.2	2.7	4.0	3.6
Grain, grain products	-	-	0.8	3.8	0.5	4.3
Fruits, vegetables	0.1	0.1	0.1	0.1	0.4	0.2
Seaweeds	0.6	-	1.2	1.3	0.9	-
<u>Beverages, Tobacco</u>	<u>-</u>	<u>-</u>	<u>0.1</u>	<u>0.5</u>	<u>0.2</u>	<u>0.1</u>
<u>Crude Materials</u>	<u>20.5</u>	<u>10.6</u>	<u>11.7</u>	<u>15.8</u>	<u>21.0</u>	<u>8.7</u>
Textile fibers, mainly silk	2.8	1.0	1.0	1.4	3.4	1.5
Crude Minerals	2.7	1.9	1.8	2.5	3.0	1.1
Iron ore	n.a.	2.2	2.2	2.5	4.3	1.6
Tungsten ore, concentrates	n.a.	2.5	3.4	4.7	4.5	2.1
<u>Mineral Fuels</u>	<u>-</u>	<u>0.3</u>	<u>0.7</u>	<u>1.1</u>	<u>2.2</u>	<u>1.5</u>
Anthracite	-	0.3	0.7	1.1	2.2	1.5
<u>Animal, Vegetable Oils</u>	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.1</u>	<u>0.1</u>
<u>Chemicals</u>	<u>-</u>	<u>-</u>	<u>0.1</u>	<u>0.4</u>	<u>0.6</u>	<u>0.5</u>
<u>Manufactured Goods</u>	<u>2.1</u>	<u>2.4</u>	<u>2.1</u>	<u>3.9</u>	<u>4.0</u>	<u>1.9</u>
Veneer sheets, plywood	-	-	-	-	1.2	1.1
Textile fabrics	-	0.9	1.4	2.4	0.9	0.6
<u>Machinery, Transp. Equip.</u>	<u>0.2</u>	<u>-</u>	<u>-</u>	<u>0.1</u>	<u>0.9</u>	<u>0.6</u>
<u>Miscellaneous</u>	<u>0.2</u>	<u>0.5</u>	<u>0.2</u>	<u>1.1</u>	<u>3.0</u>	<u>0.5</u>
 Total	 24.6	 16.5	 19.2	 32.8	 40.9	 22.5

<sup>1/</sup> Preliminary.

Source: Economic Statistics Yearbook, 1961 and 1962;  
Information provided by Economic Planning Board.