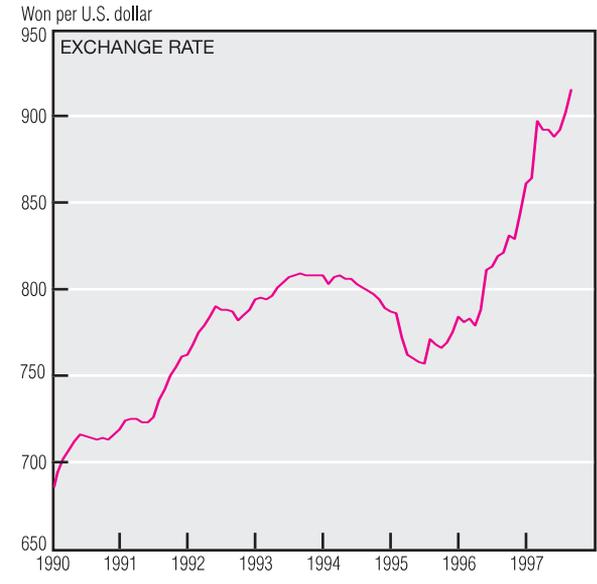
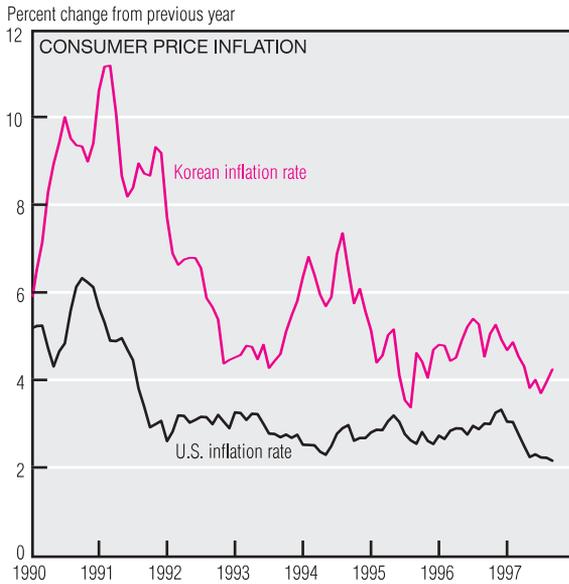
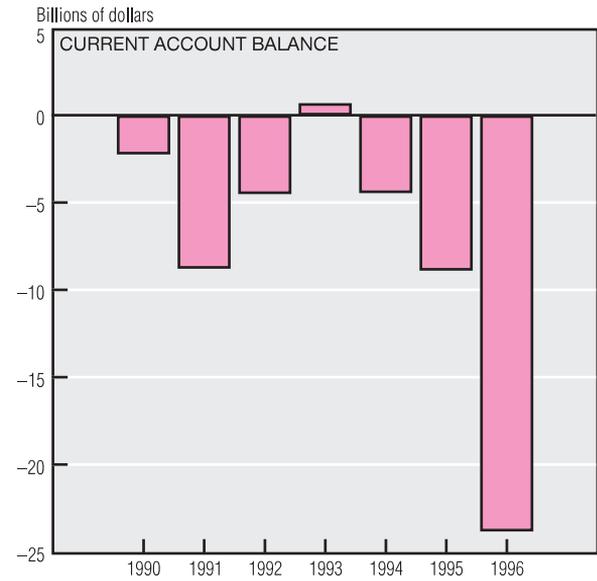
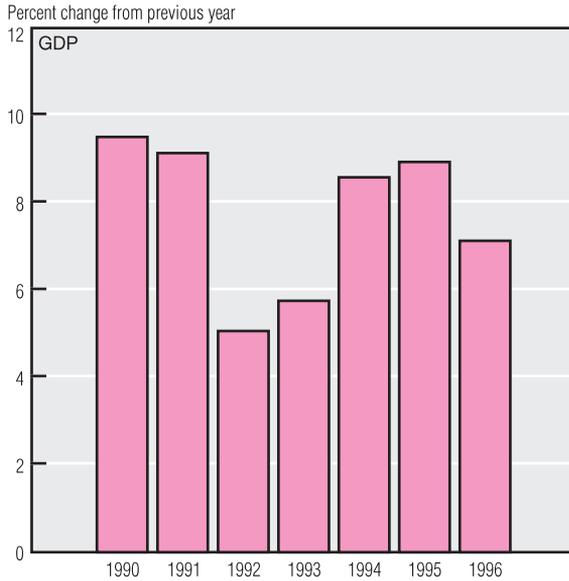


Korean Financial Turmoil



SOURCE: International Monetary Fund, *International Financial Statistics*, various issues.

The recent wave of Southeast Asian financial problems broke against Korean shores in November, sending the country's currency and stock market swirling. Like many nations in the region, Korea built a solid macroeconomic performance on a weak financial foundation and shielded much of its economy from the full force of market competition.

Korea's real economic growth has

averaged 7.4% per year since 1990. This is not all that surprising. Most economic models suggest that emerging market economies—those with low, but growing, capital-to-labor ratios—will expand faster than those that are capital-rich. Like most developing countries, Korea has financed its growth with foreign capital. Its current account deficit, the mirror image of its capital flows, grew sharply last year to \$23 billion.

The country also added approximately \$1.3 billion (equivalent) to its \$33.2 billion (equivalent) portfolio of foreign exchange reserves in 1996.

Korean inflation, although higher than in the U.S., is fairly moderate. The won's depreciation against the dollar should be sufficient to offset this inflation differential. The U.S. accounts for approximately half of Korea's trade.