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MMF-A – POUKE SLUČAJA
JUŽNE KOREJE 1997. – 2000.**

**FINANCIAL CRISES AND THE
ROLE OF IMF – LESSONS
FROM THE CASE OF SOUTH
KOREA 1997 – 2000**

SAŽETAK: Južna Koreja danas je dvanaesta ekonomska sila svijeta i jedna od glavnih izvoznika visoke tehnologije. Rapidan uspon Koreje prema toj poziciji krenuo je devedesetih godina prošloga stoljeća, ali se već 1997. pokazalo da nedostaje strukturna podloga za ubrzani rast. Loša ekonomska regulacija i manjak tržišnih mehanizama doveli su Koreju do kraha i *stand-by* aranžmana. Rad prati ključnu ulogu MMF-a u Južnoj Koreji prilikom njezina oporavka od krize iz 1997. Autor najprije pokazuje kako je liberalizacija kapitalnih tijekova pridonijela rješavanju problema likvidnosti, ali i potaknula strane investitore na povratak u zemlju. Iduće se prikazuje pozitivan utjecaj *stand-by* aranžmana na cjelokupan bankovni sustav te niz reformi koje su dovele do poboljšanja njihovih bilanca. Prikazuje se i kako je restrukturiranje korporativnog sektora dovelo do porasta njegove profitabilnosti i učinkovitosti, ali i kako je postavljen niz regulacija koje sprječavaju njegovu novu krizu. Dokazuje se da je prijedlog MMF-a za restriktivnu monetarnu politiku bio pravi odabir za stabilizaciju valute, ali i to da je odluka o povećanju proračunskog deficita pozitivno utjecala na brži oporavak. Na kraju se prikazuje niz lekcija koje su

ABSTRACT: Today, South Korea is the twelfth-largest economy in the world and one of the leading exporters of high technology. Such a rapid rise began in the 1990s, but by 1997, it became evident that there was a lack of structural foundation for accelerated growth. Poor economic regulation and a shortage of market mechanisms led Korea to a collapse and thus to a stand-by arrangement. The IMF played a crucial role in South Korea's recovery from the 1997 crisis. The author first demonstrates how the liberalization of capital flows helped address liquidity problems and encouraged foreign investors to return to the country. Next, the positive impact of stand-by program on the overall banking system is depicted, along with a series of reforms that led to improvements in the balance sheets of banks. The reconstruction of the corporate sector is shown to have boosted its profitability and efficiency, alongside the implementation of regulations to prevent another crisis. Arguments are provided to support the IMF's proposal of restrictive monetary policy played a positive role for currency stabilization, as well as how the decision to enlarge the budget deficit positively affected



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iz krize izvukle Koreja i MMF, ali i onih koje može primijeniti ostatak svijeta.

KLJUČNE RIJEČI: Južna Koreja, dužnička kriza, kapitalni tijekovi, restrukturiranje bankovnog i korporativnog sektora, monetarna politika, fiskalna politika

UVOD

Prema Francisu Fukuyami, završetkom hladnog rata došlo je do pobjede demokracije i kapitalizma te samim time i do kraja povijesti (Fukuyama, 1992). Gotovo sve države na planetu prihvatile su ideju tržišta kao civilizacijske tvorevine i popratile trend ekonomske liberalizacije, a uslijed takvih trendova zapadni su investitori pohrlili prema Aziji. Prema njihovoj procjeni, azijske države jamčile su veći povrat investicija jer su imale kombinaciju fiksnog tečaja i kulturnih vrijednosti (Napier, 2020). Fiksni tečaj azijskih valuta prema dolaru obećavao je stabilnost povrata ulaganja (engl. ROI), a veće direktne strane investicije (engl. FDI) rezultirale bi i popuštanjem monetarne politike s obzirom na rastući pritisak prema valutama. Na taj bi način dodatno jačalo tržište vrijednosnica. Potpora cijeloj ideji bila je kultura štednje i radišnosti, koju Napier (2020) uspoređuje s Weberovim djelom *Protestantska etika i uspjeh kapitalizma*. Predsjednik Kim Young Sam (1993. – 1998.) popratio je trend zapadnih investitora kroz program *seguehwa* (globalizacija), kojim je želio globalizirati utjecaj *chaebola* (korejskih obiteljskih konglomerata). Da bi to ostvario, 1993. započeo je ulazak u OECD, što je i uspješno proveo 1996. (Kalinowski i Cho, 2009). Međutim, cijeli plan administracije trebao je postupno uvesti Koreju u međunarodnu tržišnu konkurenciju pa su regulacije za strane investicije maknute samo za kratkoročna financiranja. Kalinowski i Cho (2009) navode da je takva parcijalna liberalizacija

faster recovery. Finally, a series of lessons learned from the crisis is shown through the perspectives of Korea, the IMF, as well as lessons that the rest of the world can draw from.

KEY WORDS: South Korea, debt crisis, capital flows, banking system reconstruction, corporate system reconstruction, monetary policy, fiscal policy

INTRODUCTION

According to Francis Fukuyama, the end of the Cold War marked the victory of democracy and capitalism and with it the end of a history (Fukuyama, 1992). Nearly all states on the planet accepted the idea of a market as an invention of the civilisation and followed the trend of economic liberalisation, leading western investors to rush toward Asia. According to their estimations, Asian countries were guaranteed to yield higher returns on investment since they offered a combination of a fixed exchange rate and cultural values (Napier, 2020). Fixed exchange rate of Asian currencies against the dollar promised stability of return on investment (ROI), and greater foreign direct investment (FDI) would result in loosening the monetary policy with consideration to the rising pressure toward currencies. In this way the stock market would strengthen additionally. Supporting the entire idea was the culture of saving and laboriousness that Napier (2020) compares to Weber's work *The Protestant Ethic and the Spirit of Capitalism*. President Kim Young-sam (1993-1998) followed the trend of western investors through the *seguehwa* (globalisation) programme by which he wanted to globalise the effect of *chaebols* (Korean family conglomerates). In order to achieve this, in 1993 he initiated the accession into OECD that he successfully implemented in 1996 (Kalinowski and Cho, 2009). However, the entire administration plan was supposed to introduce Korea into the international market competition, so

provedena da bi se istodobno otvorio utjecaj *chaebola* u svijetu, ali i da bi se zaštitili interesi korejskih obitelji, koje su se bojale inozemnog preuzimanja vodstva kroz kapitalne udjele i dugoročne investicije. Plan je proveden uspješno pa je razina korejskog vanjskog duga porasla s 44 milijarde američkih dolara u 1993. godini na 120 milijardi dolara u 1997. (Kalinowski i Cho, 2009). Međutim, nagli rast imao je i skrivenu stranu. Krugman (1994.) predvidio je da takve stope rasta nisu održive jer počivaju isključivo na ideji da će se trend rasta nastaviti u budućnosti, no vanjski šok mogao je promijeniti mišljenje stranih investitora i tržište pokrenuto likvidnošću (engl. *liquidity driven market*) posrnulo bi prema dnu te sa sobom povuklo i tečajeve. Nagli ekonomski rast Koreje zapravo je stajao na krhkim nogama, ali mnogi investitori nisu to vidjeli jer je vanjski dug iznosio samo 30 % BDP-a, a deficit platne bilance samo 3 % u 1996. godini (Chopra i suradnici, 2001). Niz takvih vanjskih šokova zahvatio je Koreju u razdoblju od 1995. do 1997. Prvi vanjski šok bio je pad potražnje za poluvodičima za 22 % od 1995. do 1997. (Chopra i suradnici, 2001). Nadalje, Kina je 1994. deprecirala renminbi za 30 % (Corsetti i suradnici, 1998). Ne možemo kvantitativno točno odrediti utjecaj slabijeg renminbija na izvoznu konkurentnost Koreje, ali je utjecaj sigurno bio u negativnom spektru. Drugi vanjski valutni šok bio je preokret politika američkog Ministarstva financija (US Treasury). Cijela regija očekivala je slab dolar, koji bi omogućio lakše kreditiranje, ali je Robert Roubin 1995. najavio da je jak dolar u interesu administracije Clintona i SAD-a (Kihwan, 2006). Rast dolara prema jenu značio je i slabiju kompetitivnost korejske robe, a dodatna je poteškoća bila sličnost izvoznih proizvoda dviju zemalja. Takav splet okolnosti rezultirao je trgovinskim deficitom i smanjenim profitom stranih investicija. Dodatni problem jakog dolara bio je slabljenje kreditiranja japanskog sektora, koji je izgubio izvor jeftinih deviznih kredita te se usredotočio na domaće jensko kreditiranje (Napier, 2020). Zadnji vanjski šok, koji je zapečatio sudbinu Južne Koreje,

the regulations for foreign investors were removed only for short-term investments. Kalinowski and Cho (2009) claim that such a partial liberation was implemented in order to simultaneously open the impact of *chaebols* in the world, but also to protect the interests of Korean families who feared the foreign takeover of leadership through equity shares and long-term investments. The plan was successfully implemented, raising the level of Korean external debt from USD 44 billion in 1993 to USD 120 billion in 1997 (Kalinowski and Cho, 2009). Nevertheless, there was a hidden side to the sudden increase, so Krugman (1994) predicted that such growth rates are not sustainable as they solely lie on the premise that the growth trend will continue in future. One external shock could change the opinion of foreign investors and the liquidity driven market would plummet, taking the exchange rates with it. In fact, the rapid economic growth of Korea stood on shaky ground, but a lot of investors did not see it since the external debt was only 30% of the GDP and the deficit in the balance of payments only 3% in 1996 (Chopra et.al., 2001). In the period from 1995 to 1997, Korea saw a number of such external shocks. The first external shock was the decrease in demand for semiconductors by 22% from 1995 to 1997 (Chopra et.al., 2001). Furthermore, China depreciated the renminbi by 30% in 1994 (Corsetti et.al., 1998). We cannot determine the exact quantitative effect of the weaker renminbi on Korean export competitiveness, but the effect was certainly negative. The second external currency shock was the turn in the US Treasury policy. The entire region also expected a weak dollar that would facilitate easier lending, but in 1995, Robert Roubin announced that a strong dollar was in the interest of the Clinton's administration and the USA (Kihwan, 2006). The rise of the dollar against the yen also meant a weaker competitiveness of Korean goods, with an additional difficulty in the similarity of export goods of the two countries. These circumstances resulted in a trade deficit and reduced profit from foreign investments. An additional problem caused by the strong dollar was the decrease in

bila je nagla deprecijacija tajlandskog bahta u ljeto 1997. Naime, Tajland je morao početi posuđivati devize da bi održao fiksni paritet tečaja. Deficit bilance iznosio je 4 % BDP-a (Feldstein, 1998), a jači dolar i slabiji jen značili su dodatno otežavanje fiksnog pariteta. Jaki dolar otežavao je kreditiranje, koje se približavalo desnoj strani Lafferove krivulje dugova (Krugman, 1988), a slabiji jen postavljao je rizik za kompetitivnost tajlandske robe. Budući da vlada nije mogla obraniti fiksni tečaj, u ljeto 1997. najavljena je deprecijacija, koja je uzrokovala bijeg investitora iz Tajlanda, a naglo se počela propitivati i stabilnost cijelog kontinenta. Da situacija bude lošija, parcijalna liberalizacija predsjednika Younga Sama dovela je do toga da je većina korejskog duga bila kratkoročna pa je budućnost korejske stabilnosti izgledala slično, ako ne i lošije od tajlandske. Američke banke procijenile su da je kratkoročni dug Koreje u iznosu od 110 milijardi američkih dolara tri puta veći od njezinih deviznih rezervi, što je bilo praktički neodrživo (Feldstein, 1998). Do kraja 1997. kratkoročni dug iznosio je 323 % ukupnih deviznih rezervi, a budući da su *chaeboli* bili glavni pokretači loših bilanca, polako su počeli proglašavati svoju nesolventnost (Chopra i suradnici, 2001). Investitori su panično počeli bježati iz Koreje još početkom 1997. nakon proglašenja bankrota *chaebola* „Hanbo steel“ (Kalinowski i Cho, 2009). Korejska središnja banka u tom je trenutku morala koristiti svoje devizne rezerve da obrane paritet tečaja od naglog opadanja. Ideja je bila da će stabilni tečaj jamčiti inozemni prinos na kapital, ali je to nastojanje istrošilo sve devizne rezerve pa je Južna Koreja u studenom 1997. pozvala MMF u pomoć. Sljedećeg mjeseca won je izgubio 50 % svoje vrijednosti prema dolaru, a ekonomija je pala za 6,9 % (Kalinowski i Cho, 2009). MMF je kroz *stand-by* program dao 57 milijardi dolara, najveću likvidnost do tada, ali je tražio niz reformi ekonomskog sustava, čak njih 90 (Goldstein, 2000). To je bio ključ za izlazak iz krize i vraćanje povjerenja u strane investitore, bez obzira na kritike mnogih ekonomista, poput Radeleta i

lending to the Japanese sector that lost the source of cheap foreign currency loans, thus focusing on the domestic yen lending (Napier, 2020). The last external shock that sealed the fate of South Korea was the sudden depreciation of the Thai baht in the summer of 1997. Namely, Thailand had to start borrowing foreign currency in order to maintain the fixed parity of the exchange rate. The balance deficit was 4% of the GDP (Feldstein, 1998), and a stronger dollar and a weaker yen meant additional aggravation for the fixed parity. The strong dollar aggravated lending that was approaching the right side of the debt Laffer curve (Krugman, 1988), and the weak yen posed a risk to the competitiveness of Thai goods. Since the government could not defend the fixed exchange rate, in summer of 1997, depreciation was undertaken, causing investors to run from Thailand and bringing the stability of the entire continent into question. To make matters worse, president's Young-sam's partial liberalisation led to the majority of Korean debt being short-term, so the future of Korean stability appeared similar to, if not worse than that of Thailand. American banks estimated that the short-term Korean debt of USD 110 billion was three times higher than its foreign currency reserves, which was practically unsustainable (Feldstein, 1998). By the end of 1997, the short-term debt was 323% of total foreign currency reserves, and since the *chaebols* were the main initiators of bad balances, they slowly started announcing their insolvency (Chopra et.al., 2001). Investors started fleeing from Korea in panic at the beginning of 1997 after the *chaebols* announced bankruptcy „Hanbo steel“ (Kalinowski and Cho, 2009). At that moment, the Korean Central Bank had to use its foreign currency reserves to defend the exchange rate parity from a sudden fall. The idea was that the stable exchange rate would guarantee foreign return on capital, but the same tendency exhausted all foreign currency reserves, making South Korea to turn to IMF for help in November 1997. The following month, the won lost 50% of its value against the dollar, and economy dropped by 6.9% (Kalinowski and Cho, 2009). Via its stand-by

Sachs (1998), koji smatraju da je MMF trebao stati nakon davanja deviznih sredstava. Iako bi injekcija likvidnosti omogućila reotkup dugova, neminovno je da bi se kriza u skorijoj budućnosti ponovila i da se investitori nikada više ne bi vratili u Koreju sa svojim kapitalom, jer dugoročna stabilnost ekonomije ne bi bila ostvarena. S obzirom na izneseno, u radu se prikazuje kako su zahtjevi MMF-a za reforme ekonomije pridonijeli brzom oporavku i dugoročnoj stabilnosti Koreje, vrativši je na put ekonomskog uspona. U prvom dijelu autor prikazuje kako su liberalizacije kapitalnih tijekova dovele do rješavanja problema kratkoročnih dugova i ostavile pozitivan utjecaj na strane investitore koji su se vratili u Koreju. Kroz MMF-ove reforme financijskog sektora prikazuje se niz metoda koje vraćaju likvidnost i solventnost bankarskog sustava, ali i načine za prevenciju ponovnog kriznog stanja. Autor prikazuje i kako je MMF posredovao u rekonstrukciji korporativnog sektora, a nakon toga prikazan je bitan utjecaj restriktivne monetarne politike na oporavak od krize. Dokazuje se da je inzistiranje MMF-a na kvantitativnom stezanju monetarne politike ipak bio pravi potez bez obzira na mnoge kritike znanstvenika. Kroz inzistiranje na ekspanziji fiskalne politike MMF je dokazao da je omogućeno brže provođenje programa. Na kraju se prikazuje kako je Južna Koreja izašla iz krize velikom brzinom upravo zato što je pratila odrednice MMF-a.

LIBERALIZACIJA KAPITALNIH TIJEKOVA

Prvi zahtjev MMF-a prema Koreji bio je deregulacija i liberalizacija inozemnih kapitalnih tijekova da bi se razriješio uzrok kratkoročnog zaduživanja, a samim time i loše bilance i valutne nestabilnosti. Ta je reforma bila *sui generis* cijelog programa, a novi predsjednik Kim Dae Jung bio je tržišno orijentiran pa je proces liberalizacije krenuo brže i učinkovitije nego za vrijeme bivše administracije. Prvi korak bila je potpuna liberalizacija inozemnih vanjskih zaduživanja. S

programme, the IMF granted USD 57 billion, the highest liquidity by that time, but asked for a range of reforms of the economic system, 90 in total (Goldstein, 2000). This was crucial to exit the crisis and restore trust of foreign investors regardless of criticism by many economists such as Radelet and Sachs (1998) who think that the IMF should have stopped after providing foreign currency means. Although an injection of liquidity would enable the repurchase of debt, the crisis would certainly re-emerge in the near future and investors would have never returned to Korea with their capital, as the long-term economic stability would not have been achieved. Taking the above-mentioned into account, the paper shows how the IMF's demands for economic reform contributed to the rapid recovery and long-term stability of Korea, returning it to the path of economic growth. In the first part, the author shows the contribution of capital flow liberalisation to solving the issue of short-term debts and having a positive impact on foreign investors who returned to Korea. The overview of the IMF's financial sector reform shows several methods that restored liquidity and solvency of the banking system, but also methods of preventing the re-emergence of crisis. The author presents the IMF's intermediation in the reconstruction of the corporate sector, followed by the presentation of the significant impact of the restrictive monetary policy on recovery from the crisis. The IMF's insisting on quantitative restriction of the monetary policy is nonetheless proven as the right move regardless of criticism by plentiful researchers. By insisting on the expansion of the fiscal policy, the IMF proved the facilitation of faster programme implementation. In the end, the author shows the high speed at which South Korea exited the crisis, due to the very fact it followed the IMF's provisions.

CAPITAL FLOW LIBERALISATION

The first IMF's demand from Korea was the deregulation and liberalisation of foreign capital flows to resolve the cause of short-term borrowing,

većim mogućnostima zaduživanja pala bi cijena dugovanja i maknuo bi se pritisak s domaćeg bankarskog sektora koji je reciklirao strane devizne kredite (Napier, 2020). Reforma je imala pozitivan učinak pa je dugoročni dug porastao s 25 milijardi američkih dolara 1997. godine na 30 milijardi dolara do kraja 1999. godine (Kalinowski i Cho, 2009). Veliki problem stranim investitorima bila su i zakonska ograničenja koja su onemogućavala kupnju vrijednosnica i obveznica na korejskom tržištu. Prije krize stranci nisu smjeli imati kapitalni udio iznad 7 %, dok je kolektivni udio bio ograničen na 26 % (Kalinowski i Cho, 2009). Već u studenome vlada je oba praga podigla na 50 %, da bi u svibnju 1998. godine potpuno maknula ograničenja (Chopra i suradnici, 2001). Također, u potpunosti je liberalizirana kupnja vrijednosnica radi spajanja kompanija i njihovih akvizicija. Nadalje, stranim investitorima dopušteno je kupovanje korporativnih obveznica sa i bez jamstva (Saito, 2000). Uz veći udio stranog kapitala u vrijednosnicama i obveznicama korejska uprava *chaebola* bila je pred rizikom preuzimanja od inozemnih uprava, čime je u korporativni i bankarski sektor pasivno uvedena tržišna disciplina. Da bi se ta ideja ojačala, ukinuti su stari zakoni o imenovanju uprave *chaebola*, koji su do tada korejskim obiteljima omogućavali potpunu upravu uz samo 4 % kapitalnog udjela (Chopra i suradnici, 2001). Jednako tako, sve tvrtke s vrijednosnicama na korejskoj burzi morale su u upravnom odboru imati jednu četvrtinu stranaca (Goldstein, 2000). Doneseni su i zakoni koji su sitnim dioničarima omogućavali pravo na tužbu protiv uprave u slučaju da smatraju da vodi neprofitabilnu politiku, a istodobno su mogli i tražiti uvid u poslovanje same kompanije. Nadalje, sve kompanije morale su uživo prezentirati godišnja poslovanja pred dioničarima, upravama drugih kompanija i predstavnicima banaka. Važnost ove reforme dokazuju Johnson i suradnici (2000), koji prikazuju kako prava malih dioničara direktno utječu na količinu inozemnog kapitala i samim time određuje cijenu vrijednosnica i valute. Kvantitativni dokaz pruža činjenica da se strani

as well as poor balance and currency instability. This was the sui generis reform of the entire programme, and since the new president, Kim Dae-jung was market oriented, the liberalisation process took off faster and more effectively than was the case with former administration. The first step was the complete liberalisation of foreign external borrowing. The better borrowing opportunities would reduce the price of debt and remove the pressure from the domestic banking sector that was recycling foreign currency loans (Napier, 2020). The reform had a positive effect, increasing the long-term debt from USD 25 billion in 1997 to USD 30 billion by the end of 1999 (Kalinowski and Cho, 2009). Also, foreign investors faced a significant issue with legal limitations hindering the purchase of securities and bonds on the Korean market. Before the crisis, foreigners could not hold a capital share exceeding 7%, while the collective share was limited to 26% (Kalinowski and Cho, 2009). As early as November, the government raised both thresholds to 50%, only to eliminate them completely in May 1998 (Chopra et.al., 2001). Likewise, the purchase of securities for merging with and acquiring companies was completely liberalised. Furthermore, foreign investors were allowed to purchase corporate bonds with and without warrants (Saito, 2000). With the larger share of foreign capital in securities and bonds, the Korean *chaebol* administration risked being taken over by foreign administration, which led to the passive introduction of market discipline into the banking and corporate sectors. To strengthen this idea, old acts were abolished on appointing the *chaebol* administration, which up to that point, enabled Korean families to have a complete hold over the administration, regardless of only 4% equity share (Chopra et.al., 2001). Similarly, all management boards of companies listed on the Korean stock market had to be made up of a quarter of foreigners (Goldstein, 2000). Likewise, acts were adopted that gave small stockholders the right to sue the management in case they felt they were pursuing an unprofitable policy, being able at the same time to request an insight into the company's business

kapital do kraja 2000. ugradio u velike korejske tvrtke u sljedećim postotcima: 57 % u Samsungu, 56 % u POSCO-u i 50 % u Hyundaiju. Strane korporacije poput Renaulta i Chryslera također su investirale u Hyundai s 15 %. Ukupne strane investicije skočile su s 3 milijarde američkih dolara godišnje na gotovo 9 milijardi tri godine nakon krize (Chopra i suradnici, 2001). Posljednja velika reforma bila je liberalizacija uvoza, kojom se nastojalo natjerati *chaebols* na proizvodnju prilagođenu cijenama i standardima svjetskog tržišta. Omogućavanje dolaska stranog kapitala dovelo je do refinanciranja nesolventnosti ekonomije, ali je istodobno i osiguralo injekciju kapitala koji domaći bankarski sektor tada nije mogao dati. Smanjen je i pritisak na državu, koja je već imala velik pritisak za restrukturiranje dugova kroz KAMCO obveznice (Kihwan, 2006).

REKONSTRUKCIJA BANKARSKOG SUSTAVA KOREJE

U trenutku dolaska MMF-a u Koreju bankarski sustav bio je pred kolapsom zahvaljujući kratkoročnom dospelju deviznih dugova i slomu korporativnog sektora koji je uništio bilance samih banka. Posredstvom MMF-a, u siječnju 1998. postignut je dogovor između stranih komercijalnih banaka i Koreje, čime je omogućeno restrukturiranje gotovo 95 % ukupnog kratkoročnog duga (Kihwan, 2006). MMF je u tome odigrao ključnu ulogu, jer su komercijalne banke u prosincu 1997. kolektivno odbijale reotkup dugova, ali je obećanjem ekonomskog restrukturiranja dogovor ipak postignut. Značenje je bilo golemo, ali dugoročno je i dalje trebalo vratiti povjerenje stranih investitora. Da bi se to postiglo najprije je trebalo ukloniti moralne rizike korejskog bankarskog sustava. Postojeći narativ bio je da će visoke stope rasta utjecati i na rast tržišta vrijednosnica, zbog čega je država jamčila kreditiranje privatnih projekata (Corsetti i suradnici, 2001). Iz toga je slijedio narativ da su sve investicije prema

activity. Furthermore, all companies had to hold live presentations of annual performance before their stockholders, other companies' management boards and bank representatives. The significance of this reform was proven by Johnson et.al. (2000), who showed that the rights of small stockholders directly affect the amount of foreign capital and thus setting the price of securities and currency. A quantitative proof lies in the fact that by the end of 2000, foreign capital was integrated into Korean companies with the following shares: 57% in Samsung, 56% in POSCO and 50% in Hyundai. Foreign corporations such as Renault and Chrysler also invested in Hyundai with 15%. The total leap in foreign investment rose from USD 3 billion a year to almost USD 9 billion three years after the crisis (Chopra et.al., 2001). The last great reform was the liberalisation of import aimed at making *chaebols* adapt production to the prices and standards of the global market. Enabling the arrival of foreign capital led to refinancing the economy's insolvency, but at the same time it facilitated a capital injection, which the current domestic banking system could not provide. Also, the pressure on the state was reduced, as it was already highly pressured to restructure debt through KAMCO bonds (Kihwan, 2006).

RECONSTRUCTION OF THE KOREAN BANKING SYSTEM

At the moment of IMF's arrival in Korea, the banking system was facing a collapse owing to the short-term maturity of foreign debt and the crash of the corporate sector that destroyed the balances of the banks themselves. In January 1998, the IMF's interference achieved an agreement between commercial banks and Korea, which facilitated the restructuring of almost 95% of total short-term debt (Kihwan, 2006). This is where the IMF played a crucial role, as commercial banks collectively refused to repurchase debts in December 1997; however, a promise of economic restructuring led to achieving the agreement. The significance was resounding, but still there was an issue of

Koreji otporne na vanjske šokove. U realnosti su kreditiranja išla prema projektima koje nije verificiralo tržište, što je 1996. dovelo do toga da je povrat na uloženi kapital pao ispod razine početne investicije za 20 od 30 najvećih *chaebola* (Corsetti i suradnici, 1998). MMF je zato zahtijevao napuštanje državnih garancija za kreditiranje te je cijeli bankarski sustav želio pomaknuti prema tržišnom standardu kreditiranja profitabilnih projekata. Od tada su uvjeti za kreditiranje temeljeni na mogućnosti otplate u budućnosti, dok je u prošlosti gledana samo povijest naplata (Kihwan, 2006). Godine 2000. uvedena je i mogućnost klasifikacije kredita neučinkovitim ako su rizici naplate veliki, iako postoji redovita otplata. Banke su sada morale eksplicitno navoditi vrijeme dospijeća njihovih dugovanja, a računovodstvo je podvrgnuto međunarodnim standardima IAS 30 da bi bilanca bila transparentnija (Chopra i suradnici, 2001). Ideja MMF-a bila je da će transparentno računovodstvo i zaduživanje onemogućiti skrivanje deficita i neprofitabilnih kredita, koji su bili iznimno prisutni kod *chaebolskih* trgovinskih banaka. Da bi se povećala marginalna zarada u tržišnim uvjetima, broj zaposlenih u bankarskom sektoru smanjen je za 30 %. Nadalje, cijelom sustavu određena je minimalna zarada za kapital i imovinu s ciljem pomicanja cilja poslovanja od rasta bilance na profitabilnost (Chopra i suradnici, 2001). Godine 1998. osnovana je Financijska komisija za superviziju sa zadaćom nadgledanja financijskih institucija (FSS) (Kihwan, 2006). Osobita pozornost sada je posvećena reguliranju i nadgledanju kratkoročnih posudba i posudba velikim dužnicima te nadgledanju uvjeta posudbe. Jednako tako, FSS izdaje kvartalno izvješće o mogućim rizicima za financijski sektor. Navedene uloge oduzete su drugim vladinim institucijama pa je FSS time dobio jedinstvenu regulatornu i supervizijsku ulogu u bankarskom sustavu. Na taj je način uklonjen problem regulatorne arbitraže i cijeli je sustav postao uspješniji (Chopra i suradnici, 2001). Korejska središnja banka također je počela provoditi mjesečna testiranja

restoring foreign investors' trust. To achieve this, the moral risks of the Korean banking system were to be eliminated first. The existing narrative was that the high growth rates would affect the growth of the securities market; therefore, the state guaranteed loans to private projects (Corsetti et.al., 2001). This was followed by the narrative that all investments directed to Korea were resistant to external shocks. In reality, lending was directed toward projects that the market had not verified, which led to the 1996 situation, when the return on the invested capital fell below the initial investment value for 20 of the 30 largest *chaebols* (Corsetti et.al., 1998). As a result, the IMF demanded the abandonment of state guarantees for loans, wishing to move the entire banking system toward the market standard of lending to profitable projects. From then on, lending requirements have been based on the possibility of future repayment, whereas in the past, only the collection history was viewed (Kihwan, 2006). In 2002, the possibility of classifying loans as ineffective was introduced, if the collection risks were high, despite regular repayment. Banks were now obliged to explicitly state maturity of their debts, and accounting was subjected to IAS 30 international standards to make the balance more transparent (Chopra et.al., 2001). The IMF's idea was that transparent accounting and borrowing would disable deficit and unprofitable loan cover-ups that were largely present in *chaebol* trade banks. To increase the profit margin in market conditions, the number of banking system employees was reduced by 30%. Furthermore, the minimal profit for capital and assets was set for the entire system, aimed at moving the business objective from balance growth to profitability (Chopra et.al., 2001). In 1998, the Financial Supervisory Commission (FSC) was founded with the task of overseeing financial institutions (Kihwan, 2006). From then, special attention was paid to regulating and supervising short-term loans, lending to high debtors and supervising loan requirements. Similarly, the FSC issued a quarterly report on the possible financial sector risks. The above-mentioned roles were

otpornosti na vanjske šokove za bankarski sustav, a uspostavljen je i sustav upozoravanja na dolazeće šokove (Kihwan, 2006). Jednako tako, banke su same morale biti odgovorne za svoje platne bilance u sustavu tržišnih natjecanja. Banke koje nisu mogle ispuniti uvjete reformi MMF-a imale su opciju spajanja ili likvidacije. Time je ukupan broj banaka smanjen s 33 na 18, a ukupan broj financijskih institucija sa 142 na 127 (Kalinowski i Cho, 2009). Tu se informaciju ne smije krivo interpretirati, jer je glavni fokus MMF-a bio na spašavanju nesolventnih banaka kroz dokapitalizaciju. Banke su dobile rok od dvije godine za doseganje kapitala dostatnog da nastave poslovanje, a da bi se takav cilj postigao trebalo je restrukturirati bilance (Chopra i suradnici, 2001). Neke su banke privremeno nacionalizirane dok se ne riješi njihova bilanca, ali je Koreja obećala brzu reprivatizaciju nakon razrješavanja krize. Problem nacionaliziranih banaka, ali i cijelog sustava, bile su prevelike količine dugovanja koje su tjerale dug prema regresivnom djelu Lafferove krivulje dugova, čime vjerovnici gube inicijativu za kreditiranje (Krugman, 1988). Geneza problema riješena je kroz zakonsku uredbu kojom je smanjen postotak dopuštenog individualnog zaduženja komercijalnog i bankarskog sektora. Također su postroženi uvjeti zaduživanja za kompanije s velikim kapitalom, koje su od tada morale navoditi postotak zaduženja u godišnjim financijskim izvješćima (Chopra i suradnici, 2001). Problem bilanca razriješen je kroz novoosnovanu Korporaciju Koreje za spajanje imovine (KAMCO), s ciljem reotkupa i preprodaje nestabilnih vrijednosnica u bilancama banaka u vrijednosti od 104 milijarde wona (Kalinowski i Cho, 2009). Chopra i suradnici (2001) dokazuju da je u godinu dana djelovanja KAMCO-a broj problematičnih kredita njegovim posredovanjem smanjen za 10,5 %. Banke koje nisu mogle ispuniti uvjete reformi MMF-a imale su opciju spajanja ili likvidacije. Ukupno je spojeno ili likvidirano 37 % svih financijskih institucija. Osobito lošu sudbinu doživjele su trgovinske banke, kojih je 14 ugašeno, a 22 su izgubile licencu za rad. Njihov

taken away from other state institutions, giving the FSC a singular regulatory and supervisory role in the banking system. This eliminated the problem of regulatory arbitrage, making the entire system more successful (Chopra et.al., 2001). The Korean Central Bank also started implementing monthly tests for external shocks to the banking system, and a warning system was established for upcoming shocks (Kihwan, 2006). Likewise, the responsibility for balance of payments within the market competition system fell onto the banks. Those banks that could not meet the IMF's reform requirements had the option to either merge or be liquidated. Thus, the total number of banks was reduced from 33 to 18, and the total number of financial institutions from 142 to 127 (Kalinowski and Cho, 2009). This information should not be misinterpreted because the main focus of the IMF was set at saving insolvent banks through capital injections. The banks were given a period of two years to reach sufficient capital to continue with their business activity, and to achieve this, balances needed to be restructured (Chopra et.al., 2001). Some banks were nationalised temporarily until their balance was resolved, but Korea promised a rapid re-privatisation after resolving the crisis. The problem of nationalised banks, as well as the entire system lied in the excessive amounts of debt that pushed debt toward the regressive end of the Laffer curve, making creditors loose lending initiatives (Krugman, 1988). The problem's genesis was resolved with the legal regulation that reduced the percentage of allowed individual borrowing of the commercial and banking sectors. Also, more stringent borrowing requirements for companies with large equity made them state the percentage of borrowing in the annual financial reports (Chopra et.al., 2001). The current balance issue was resolved with the newly founded Korea Asset Management Corporation (KAMCO) aimed at repurchasing and reselling unstable securities in banks' balances with the value of 104 billion won (Kalinowski and Cho, 2009). Chopra et.al. (2001) prove that the KAMCO mediation reduced the number of problematic loans by 10.5% within a

ukupan broj 2003. godine smanjen je na samo tri banke (Kihwan, 2006). Razlog leži u tome što su te banke financirale dugoročne *chaebol* projekte kroz kratkoročne devizne kredite, a većinski su bile u njihovu vlasništvu (Kihwan, 2006). Sve navedene reforme zahvatile su i sustav osiguravajućih kuća, koje su 1999. podvrgnute standardima EU-a (Chopra i suradnici, 2001).

Uspješnost reformi MMF-a vidljiva je kroz profit bankarskog sektora u 2001., koji je iznosio 24 milijarde wona. Jednako tako došlo je do jačanja aktivnosti tržišta vrijednosnica te je 2001. čak izdana državna obveznica s dospijecem od deset godina (Kihwan, 2006). Količina loših kredita pala je s 13,6 % u 1999. na 0,2 % u 2000. godini (Kalinowski i Cho, 2009) Može se zaključiti da je restrukturiranje bankarskog sustava dovelo do njegove profitabilnosti te je obnovio svoje povjerenje kod stranih investitora. Dokaz tome je uspješnost plana prodaje domaćih banaka stranim investitorima, koji je rezultirao sa 65 % bankarskog sektora u stranom vlasništvu do sredine 2000-ih godina (Kalinowski i Cho, 2009). Jednako tako, rapidno rješavanje nestabilnih bilanca smanjilo je pritiske na devizne rezerve pa je izbjegnuta potencijalna dugoročna restriktivna monetarna politika koja bi ostavila svoj trag na stopama rasta. Restrukturiranjem dugova i reformama sustava zapravo je otvoren put makroekonomskom oporavku.

KORPORATIVNO RESTRUKTURIRANJE

Korporativni sektor nalazio se u sličnim problemima kao i bankarski. Postotak zaduženja prema kapitalu iznosio je 333 % za 30 najvećih *chaebola*, a ICR (engl. *intrest rate coverage*) za 11 od njih iznosio je manje od jedan (Corsetti i suradnici, 1998). Akumulacija kratkoročnog deviznog duga postala je neizdrživa za *chaebol* „Hanbo steel“, koji je proglasio bankrot, a u studenome ga je slijedilo još pet *chaebola* (Chopra i suradnici, 2001). Kraha je doveo do naglog sloma vrijednosnica korejskih

year. Banks that could not meet the IMF's reform requirements had the option of either merging or being liquidated. A total of 37% of all financial institutions were merged or liquidated. Especially cruel was the fate of commercial banks, 14 of which were dissolved, and 22 of which lost their banking license. Their total number decreased to only 3 in 2003 (Kihwan, 2006). This was because they were financing long-term *chaebol* projects through short-term foreign currency loans, while being in their majority ownership (Kihwan, 2006). All the above-mentioned reforms also related to insurance companies, which were subjected to EU standards in 1999 (Chopra et.al., 2001).

The success of the IMF's reforms is visible through the banking profit in 2001, that totalled 24 billion won. Similarly, the activity of the securities market strengthened, so that a government bond with a 10-year maturity was issued in 2001 (Kihwan, 2006). Likewise, the amount of bad loans fell from 13.6% in 1999 to 0.2% in 2000 (Kalinowski and Cho, 2009). A likely conclusion it that the restructuring of the banking system led to its profitability and restored the trust of foreign investors. Illustrating this is the success of the plan to sell domestic banks to foreign investors, resulting in 65% of the banking sector being in foreign ownership by mid-2000 (Kalinowski and Cho, 2009). Equally, the rapid resolution of unstable balances reduced the pressure on foreign currency reserves, thus having avoided a potential long-term restrictive monetary policy that would impact growth rates. In fact, debt restructuring, and system reforms paved the path to the macroeconomic recovery.

CORPORATE RESTRUCTURING

The corporate sector was experiencing similar problems as the banking sector. Debt to equity percentage was 333% for the 30 of the largest *chaebols*, and the interest coverage ratio (ICR) for 11 of them was below one (Corsetti et.al., 1998). The accumulation of short-term foreign

kompanija, a samim time i bilance bankarskog sustava. Posredovanje MMF-a u rekonstrukciji kratkoročnih potražnji pratio je niz reformskih zahtjeva koji su trebali vratiti strane investicije i profitabilnost. Međusobne garancije *chaebola* davale su prije krize slabije profitabilnim tvrtkama ulaz na kapitalna tržišta i mogućnost podizanja kredita iznad njihovih mogućnosti. Budući da su garancije davane proizvoljno, bankrot jedne tvrtke napravio bi lančanu reakciju cijelog sustava. Takav oblik garancija sada je bio zakonski zabranjen, što je donijelo dvostruki napredak (Saito, 1999). Smanjena je fragilnost korporativnog sektora, ali su istodobno menadžeri fokus kompanije morali stavljati na profitabilnost i granični prinos koji bi omogućio ekonomski rast, a time i podizanje kredita (Chopra i suradnici, 2001). Takav iskorak prema transparentnosti i tržištu bio je krucijalan za vraćanje stranih investitora. Sljedeći problem bila je proliferacija *chaebolskih* biznisa, nastalih uslijed masovnih kreditiranja i netržišnih ideja jačanja bilance umjesto profitabilnosti. Tako su se mnoge od proširenih poslovnih ideja *chaebola* našle u već zasićenim privrednim tržištima i samo otežavale prekomjerni dug (engl. *debt overhang*). Trojnim dogovorom banaka, korporacija i država postavljeni su sljedeći zahtjevi za najveće *chaebole*: smanjivanje omjera duga i kapitala, smanjivanje broja privrednih područja na najviše pet i smanjivanje broja zaposlenih radi rasta marginalne zarade (Chopra i suradnici, 2001). Osnovano je i Povjerenstvo za koordinaciju rekonstrukcije korporativnog duga da bi se olakšala medijacija između vjerovnika i dužnika. Ti su zahtjevi trebali omogućiti rekonstrukciju golemog duga korporativnog sektora. Da bi eliminirali njegovu genezu, financijski izvještaji morali su imati istaknut profit / gubitak da bi investitori i tržište pravilno mogli odrediti cijenu vrijednosnica (Saito, 1999). Tvrtke koje se nisu mogle snaći u procesu restrukturiranja bile su izložene opciji likvidacije ili spajanja. Iako zvuči brutalno, takav proces ulijeva povjerenje stranim investitorima, koji su svjesni da je ideja tržišta u potpunosti prisutna, što znači da će uprava

currency debt became unbearable for the *chaebol* „Hanbo steel“, which declared bankruptcy, followed by 5 more *chaebols* in November (Chopra et.al., 2001). The collapse led to a sudden crash in securities by Korean companies, and accordingly in the banking system balance. The IMF’s mediation in the reconstruction of short-term liabilities was followed by a range of reform demands aimed at restoring foreign investments and profitability. Before the crisis, the mutual guarantees by *chaebols* gave less profitable companies a way to enter capital markets and the possibility of excessive borrowing. Since the guarantees were given arbitrarily, the bankruptcy of one company would cause a chain reaction to the entire system. This type of guarantees was now legally forbidden, which led to a dual advancement (Saito, 1999). First, the fragility of the corporate sector was diminished, but at the same time, managers needed to place focus of the company on the profitability and marginal yield that would enable economic growth and accordingly, lending (Chopra et.al., 2001). This step forward toward transparency and the market was crucial for the return of foreign investors. The next problem was the proliferation of *chaebol* businesses, which emerged after massive lending and non-market ideas of strengthening balance instead of profitability. Thus, many of the *chaebols’* expanded business ideas found themselves in the already saturated trade markets and only made the debt-overhang more difficult. The tripartite agreement among banks, corporations and the state established the following demands for the largest *chaebols*: a decrease in debt-to-equity ratio, a reduction of the number of economic areas to a maximum of five, and a decrease in the number of employees because of a rise in marginal yields (Chopra et.al., 2001). The Corporate Restructuring Coordination Committee was founded to facilitate mediation between creditors and debtors. These demands would facilitate the reconstruction of the enormous corporate sector debt. In order to eliminate its genesis, the financial reports needed to emphasise profit /

osobito paziti na profitabilnost. Da bi se smanjio negativan utjecaj porasta nezaposlenosti, glavni fokus MMF-a i vlade bila je izgradnja socijalnog sustava. S tim ciljem osnovana je Konfederacija sindikata (KCTU), koja je uključena u pregovore o rekonstrukcijskim procesima s korporacijama, pa je vlada dobila znatnu podršku *stand-by* programu (Kalinowski i Cho, 2009). KCTU je sa sindikatima dogovorio fiksne manje plaće, pristanak na porast nezaposlenosti, ali i izgradnju socijalnog sustava koji ne bi dopustio da nezaposleni žive ispod određenog standarda (Chopra i suradnici, 2001). Takav je slijed događaja igrao golemu ulogu u makroekonomskom oporavku, jer je prema Philipsu (1967) porast nezaposlenosti značio i pad inflacije, što je omogućilo zaobilaznje visoke eskontne stope. Time je omogućeno i lakše restrukturiranje te lakša dostupnost kapitalnih tijekova. Navedene reforme donijele su makroekonomsku sigurnost, a empirijska uspješnost vidljiva je kroz pad omjera duga i kapitala s 400 % na početku krize na samo 64,6 % 2006. godine. Korporativna štednja narasla je sa 66 milijardi na 138,6 milijardi američkih dolara, a isplata dividendi s 2 milijarde na 11,3 milijardi dolara u istom razdoblju (Kalinowski i Cho, 2009). To je bilo od presudne važnosti za rast tržišta kapitala, jer su prema Krugmanu (1988) preveliki dugovi za sobom vukli i prevelike kamate, što je smanjivalo marginalnu zaradu i snižavalo kapital tvrtke. Sada se događao obratan proces, koji je vodio do rasta cijelog korporativnog sektora, ali i cjelokupne ekonomije.

MONETARNA I FISKALNA POLITIKA

Većina je azijskih zemalja tijekom krize doživjela naglu aprecijaciju valute, no u Koreji je bio obratan slučaj (Napier, 2020). Kriza također nije bila standardnog dužničkog karaktera poput onih koje su zahvatile Latinsku Ameriku krajem 80-ih godina prošloga stoljeća. Koreju je zahvatila kriza likvidnosti paralelno s dužničkom krizom. Rast inozemnih potraživanja prema Koreji skočio je

loss so that the investors and the market would appropriately assess the price of securities (Saito, 1999). The companies that could not survive the process of restructuring were subject to either liquidation or merging. Although the process seemed brutal, it built trust of foreign investors who were aware that a market idea was completely present, which meant that the management would pay special attention to profitability. To diminish the negative impact of the rise of unemployment, the main focus of the IMF and the government was the foundation of a social system. For this purpose, the Korean Confederation of Trade Unions (KCTU) was founded, which was included in the reconstruction process negotiations with corporations, providing the government with a significant support in the stand-by arrangement (Kalinowski and Cho, 2009). The KCTU agreed with the trade unions on fixed lower salaries, acceptance of the rise in unemployment, but also the foundation of a social system that would not allow the unemployed to live below a certain standard (Chopra et.al., 2001). This course of events played a huge role in the macroeconomic recovery, since, according to Philips (1967), the rise in unemployment also meant a fall in inflation, enabling the avoidance of a high discount rate. This also enabled a simpler restructuring and easier accessibility of capital flows. The result of all the above-mentioned reforms led to macroeconomic security, and an empirical success was visible in the reduction of debt-to-equity ratio from the initial 400% at the beginning of the crisis to only 26% in 2006. Corporate savings grew from USD 66 billion to USD 138.6 billion, and dividend payments from USD 2 billion to USD 11.3 billion in the same time period (Kalinowski and Cho, 2009). This was crucial to capital market growth, because according to Krugman (1988), excessive debts were followed by excessive interest rates, which affected the decrease in marginal yields and the company's capital. Now, this process was reversed and led toward growth of the entire corporate sector, as well as the entire economy.

s 45 milijardi dolara u 1993. na 116 milijardi u 1997. godini. Korejski omjer kapitala i duga prema BIS-u iznosio je 297 % (Corsetti i suradnici, 1998). U ljeto 1997. paritet wona prema dolaru iznosio je oko 910, a u ranu jesen krenuo je padati. Pri najavi *stand-by* aranžmana tečaj je iznosio 1150 wona za jedan dolar, a krajem prosinca 1997. won je dosegao dotad najveću razinu deprecijacije u paritetu 1965 wona za jedan dolar (Kihwan, 2006). Glavni zahtjev MMF-a bila je restriktivna monetarna politika da bi se što prije vratila stabilnost valute (Fischer, 1998). Korejska središnja banka reagirala je podizanjem kamate preko noći s 15 % na 25 % (Chopra i suradnici, 2001). Ideja je bila da će jaka restriktivna monetarna politika spriječiti inflaciju i ojačati povrat stranim investicijama, što bi obnovilo inozemna ulaganja. Na taj bi način devizni priljev jačao simultano s pritiskom za jačanje wona pa bi se negativni učinci restriktivne monetarne politike sukladno smanjivali. Feldstein (1998) tvrdi da su zahtjevi MMF-a za restriktivnu monetarnu politiku uzrok ekonomskom usporavanju i porastu nezaposlenosti. Prema njemu, visoka eskontna stopa od 25 % dovela je cijelu korejsku industriju pred rizik od bankrota, a njezin primarni cilj nema smisla jer je stopa inflacije relativno niska. Jednako tako navodi da je šteta koju bi uzrokovao slabi tečaj prema velikom vanjskom dugu bila manja od posljedica visokih eskontnih stopa. Tvrdi da će visoka eskontna stopa dovesti do kreditnog sloma. Protuargument MMF-a bio je da su negativne posljedice restriktivne monetarne politike imale malen utjecaj, s obzirom na to da je obuhvaćeno razdoblje od sedam mjeseci, a da je won do kraja 1998. dosegao stabilnost pariteta od 1200 wona za jedan dolar (Kihwan, 2006). U razdoblju restriktivne monetarne politike najveća eskontna stopa iznosila je 35 %, što nije pretjerano visoko za zemlje zahvaćene krizom (Chopra i suradnici, 2001). MMF je bio svjestan i deflacijskog pritiska uslijed restriktivne monetarne politike, ali je upravo iz tog razloga pritisnuo zapadne komercijalne banke na rekonstrukciju, što je omogućilo

MONETARY AND FISCAL POLICY

During the crisis, the majority of Asian countries experienced a sudden appreciation of currency; however, the opposite happened in the case of Korea (Napier, 2020). Similarly, the crisis did not have the standard debt character, such as those that happened in South America at the end of the 1980-s. Korea was simultaneously hit by liquidity crisis and debt crisis. The rise in foreign debt in Korea leapt from 45 billion dollars in 1993 to 116 billion dollars in 1997. The Korean debt-to-equity ratio according to BIS was 297% (Corsetti et.al., 1998). Thus, in summer of 1997, the won/dollar parity was 910 and in early autumn it began to drop. Upon the announcement of the stand-by arrangement, the won/dollar exchange rate was 1,150, and at the end of December 1997, won reached a record high depreciation in the parity of 1,965 won/dollar (Kihwan, 2006). The main IMF's request was a restrictive monetary policy to restore the currency stability as soon as possible (Fisher, 1998). The Korean Central Bank reacted by raising the overnight interest rate from 15% to 25% (Chopra et.al., 2001). The idea was that a strict restrictive monetary policy would prevent inflation and strengthen the return to foreign investments, which would renew foreign investments. In doing so, the foreign currency influx would grow stronger together with the pressure to strengthen won, so the negative aspects of the restrictive monetary policy would chronologically decrease. Feldstein (1998) claims that the IMF's demands for a restrictive monetary policy cause the economy to slow down and unemployment to rise. According to him, the high discount rate of 25% brought the entire Korean industry to the risk of bankruptcy, and its primary objective does not make sense since the inflation rate was relatively low. Similarly, he states that the damage caused by a weak exchange rate against foreign debt would be less in comparison to the consequences of high discount rates. He claims that the high discount rate will lead to a credit collapse. The IMF's counterargument was that the negative consequences of the restrictive

manji pritisak na postojeću likvidnost (Chopra i suradnici, 2001). Paritet je već u siječnju 1998. narastao na 1550 wona za jedan dolar, a nakon dogovora došlo je do smanjivanja restriktivne politike i jačanja povjerenja u likvidnost tržišta. Jednako tako, količina novca u samom *stand-by* programu iznosila je 57 milijardi dolara, što je bila najveća do tada dana likvidnost (Goldstein, 2000), čiji je cilj bio sprječavanje neminovnog bankrota, ali i deflacijskih pritisaka davanjem prijeko potrebne likvidnosti. Čak i da je dan veći novčani iznos, bez zahtjeva za reformu sustava, došlo bi samo do kratkoročnog oporavka. Bio bi utrošen novi golemi iznos, a praksa moralnog hazarda u korporativnom i bankarskom sustavu bila bi nastavljena do ponovnog sloma. Takva je praksa hipotetski mogla dodatno vremenski udaljiti i otežati neizbježno rekonstruiranje bilanca bankarskog i korporativnog sektora. Borensztein i Lee (2000) dokazuju da je smanjena kreditna aktivnost banaka prouzrokovana novom idejom kreditiranja samo tržišno verificiranih projekata koji donose marginalnu zaradu. Budući da je takvih projekata bilo malo, proporcionalno s time kretala se i količina kreditiranja. Ideja suprotna prijedlogu MMF-a bila je da bi popuštanje monetarne politike olakšalo rekonstrukciju korporativnih i financijskih dugova te smanjilo rizik od bankrota jer bi ponuda kredita bila veća. To bi spriječilo bijeg kapitala u inozemstvo i nagle deprecijacije. Iako takav prijedlog teoretski zvuči dobro, Goldstein (2000) dokazuje da kvantitativno monetarno popuštanje ne bi dovelo do većeg kreditiranja i bržeg oporavka bankarskog sustava, jer je padala i sama potražnja za kreditima među solventnim bankama. Baig i Goldfajn (2002) kvalitativno dokazuju korisnost restriktivne monetarne politike kroz formulu:

$$E[i] = i^* + E[\Delta e] + R$$

$E[\Delta e]$ predstavlja očekivanu deprecijaciju, $E[i]$ predstavlja povrat investicije u domaćoj ekonomiji, i^* je nerizični prinos jednak prinosu na međunarodnu vrijednosnicu, R je premija rizika koju zahtijevaju investitori zbog fluktuacije tečaja.

monetary policy had a small impact, as the time period in question was in the duration of 7 months, and by the end of 1998, won reached a stable parity of 1,200 won/dollar (Kihwan, 2006). In the period of the restrictive monetary policy, the highest discount rate was 35%, which is not excessively high for countries facing crisis (Chopra et.al., 2001). The IMF was also aware of the deflation pressure following the restrictive monetary policy, but for this very reason it pressured western commercial banks to reconstruct, which enabled a weaker pressure on the existing liquidity (Chopra et.al., 2001). Immediately in January 1998 the won/dollar parity grew to 1,550, and after the agreement, the restrictive policy weakened and the trust in the liquidity of the market strengthened. Similarly, the amount of money in the stand-by arrangement was USD 57 billion, the greatest liquidity provided until then (Goldstein, 2000). The provided liquidity aimed to prevent the imminent bankruptcy, but also to provide the necessary liquidity that would prevent deflation pressures. Even with a higher monetary amount, without system reform demands the recovery would only be short-term. The new vast amount would be spent, and the moral hazard in the corporate and banking sector would continue until the next collapse. Hypothetically, this practice could delay and impede the unavoidable reconstruction of balances of the corporate and banking sector. Borensztein and Lee (2000) prove that the reduced lending activity of banks was caused by the new idea of lending to only market-verified projects that generate marginal yields. Since such projects were few, the quantity of lending was proportionate to it. An idea opposite to the IMF's was that the quantitative weakening of the monetary policy would facilitate the reconstruction of corporate and banking debts and reduce bankruptcy risk, as the loan supply would be bigger. This would prevent the escape of capital abroad and sudden depreciation. Although this recommendation sounds good in theory, Goldstein (2000) proves that quantitative monetary weakening would not lead to increased lending and quicker recovery of the banking system, since the demand for loans

Zapravo se prikazuje da ojačana eskontna stopa povećava zaradu međunarodnim investitorima i tako privlači strani kapital prema domaćem tržištu. Takva injekcija stranog kapitala povećava količinu dolara i odmah povećava paritet tečaja. Pored toga, viša eskontna stopa otežava spekulacije protiv tečaja, jer je posuđivanje u domaćoj valuti radi investiranja u strane tada otežano za postotak rasta eskontne stope. Autori zaključuju da je Koreja donijela ispravnu odluku primijenivši restriktivnu monetarnu politiku jer je jači tečaj smanjio realni dug korporativnog sektora. Također navode da je opcija restriktivne monetarne politike najbolja u situaciji prezaduženog korporativnog sektora. U tom je slučaju negativan utjecaj monetarne politike slabiji od pozitivne posljedice jačanja valute i smanjivanja prevelikog duga.

Jačanje tečaja trebalo je pratiti i jačanje proračunskog suficita da bi se vratila ekonomska stabilnost zemlje. Prije krize Koreja je vodila konzervativnu fiskalnu politiku, u skladu s kojom nije trošila novac prije osiguravanja izvora financija. Uslijed krize MMF je tražio promjenu fiskalne politike u kejnezijansku ideju potpore ekonomiji. Problem je bio u tome što je proračun za 1998. godinu donesen ujesen 1997., prije izbijanja krize. Tadašnja procjena bila je rast od 6 %, dok je realnost pokazala pad od 0,5 %, popraćen cijenom rekonstrukcije od dodatnih 0,75 % BDP-a (Kihwan, 2006). Da bi se smanjio deficit povećani su porezi na fosilna goriva, a smanjene su plaće državnog sektora i troškovi (Saito, 1999). MMF je predložio novu ideju – jačanje deficita radi suzbijanja deflacijskih pritisaka, ali i financiranja već spomenutog socijalnog programa. Vlada je pod njegovim utjecajem u ožujku 1998. povećala potrošnju za 1,5 % BDP-a. Iste godine ujesen donesen je novi proračun, koji se nastojalo popuniti novim porezima na dobit jer je očekivani deficit bio 5 % (Chopra i suradnici, 2001). Sredinom 1999. godine pokazala se učinkovitost reformi MMF-a pa je deficit iznosio samo 3,25 % BDP-a. Već sljedeće godine budžet je prešao u suficit od 1 % BDP-a umjesto očekivanog deficita

was also decreasing among solvent banks. Baig and Goldfajn (2002) qualitatively prove the benefits of the restrictive monetary policy with the formula:

$$E[i]=i^*+E[\Delta e]+R$$

$E[\Delta e]$ represents the expected depreciation, $E[i]$ represents the return on investment in the domestic economy, i^* is the non-risk yield equal to the yield on an international security, R is the risk premium demanded by investors due to exchange rate fluctuation. In essence, it is shown that the strengthened discount rate increases earnings for international investors and thus attracts foreign capital toward the domestic market. Such a foreign capital injection increases the amount of dollars and immediately raises the currency parity. Besides, the higher discount rate hinders speculations against the exchange rate, since borrowing in the domestic currency to invest in foreign currency is now made difficult by the percentage of the discount rate growth. The authors conclude that Korea made the right decision with the restrictive monetary policy, since the stronger exchange rate reduced the real corporate sector debt. Likewise, they argue that the restrictive monetary policy is the best option in situations of an over-indebted corporate sector. In this case, the negative impact of the restrictive monetary policy is weaker than the positive consequences of strengthening currency and reducing excessive debt.

The strengthening of the exchange rate should also follow the strengthening of the budget surplus in order to restore economic stability of the country. Before the crisis, Korea led a conservative fiscal policy, not spending money before insuring the source of financing. Following the crisis, the IMF requested a change of the fiscal policy to Keynesian ideas of supporting economy. The problem was that the budget for 1998 was brought in autumn of 1997, before the crisis arose. At that time, the estimation was a growth by 6%, while the reality showed a fall by 0.5% followed by the price of reconstruction of an additional 0.75% of the GDP (Kihwan, 2006). To reduce the deficit, fossil fuel

od 2,5 % (Chopra i suradnici, 2001). Time je cilj fiskalnog suficita ostvaren četiri godine ranije nego što je planirano, dokazavši učinkovitost svih navedenih mjera. Zahtjev MMF-a za fiskalni deficit također se uspostavio učinkovitim.

LEKCIJE KOREJSKE KRIZE I ZAKLJUČAK

Suradnja MMF-a i Koreje tijekom korejske likvidne krize donijela je bitne lekcije za obje strane, ali i cijeli svijet. MMF je svijetu dokazao da su upravo strukturne promjene koje je zahtijevao u svojem *stand-by* programu dovele do brzog izlaska iz krize. Već sama najava uplitanja MMF-a zasigurno je pozitivno utjecala na međunarodnu percepciju korejskog tržišta, a takav se stav intenzivirao zbog spremnosti nove administracije da prati *stand-by* aranžman. Upravo zahtijevanje reformi i njihovo provođenje omogućilo je da zapadne banke pristanu na restrukturiranje kredita. Injekcija likvidnosti sama za sebe ne bi dugoročno riješila problem jer bi se banke bojale ponavljanja krize. Posredstvom MMF-a spriječeno je i potencijalno prelijevanje krize prema zapadnim zemljama, s obzirom na to da su njihove banke bile većinski izložene. Reforme su također otklonile uzrok skeptičnosti vanjskih investitora, što je ponovno otvorilo put stranom kapitalu. MMF je prvi put odlučio napustiti ideju striktno restriktivne budžeta, zamijenivši je kejezizjanskom idejom ekonomske potpore. Taj se novi pristup pokazao vrlo uspješnim: problemi restrukturiranja znatno su smanjeni, a to je omogućilo veliku brzinu izlaska iz krize. Također se pokazalo da velik broj zahtjeva za reforme donosi pozitivne posljedice za zemlju koja sudjeluje u *stand-by* programu.

Južna Koreja također je izvukla niz pozitivnih zaključaka, a svi su vodili tome da je ideja zapadnog tržišnog kapitalizma superiorna tadašnjim domaćim ekonomskim idejama. Kvalitativno je dokazano da ideja regulacije stranih investicija donosi suprotan učinak na ekonomiju, dok je

taxes were raised, and the public sector salaries and expenses decreased (Saito, 1999). The IMF suggested a new idea of strengthening the deficit to suspend deflation pressures, but also of financing the previously mentioned social programme. Under these circumstances, the government increased spending by 1.5% of the GDP in March 1998. In the same year, a new budget was adopted, with a tendency to feed it with the new profits tax, since the expected deficit was 5% (Chopra et.al., 2001). In mid-1999, the effectiveness of IMF's reforms was evident, so the deficit was only 3.25% of the GDP. The following year already, the budget moved to a surplus of 1% of the GDP instead of the expected 2.5% deficit (Chopra et.al., 2001). Thereby, the goal of the fiscal surplus was achieved four years ahead of the plan, proving the effectiveness of all previously mentioned measures. The IMF's request for a fiscal deficit also proved effective.

LESSONS FROM THE KOREAN CRISIS AND CONCLUSION

The cooperation between the IMF and Korea during the Korean liquidity crisis brought about important lessons for both parties, and also the entire world. The IMF proved to the world that the structural changes it requested with its stand-by arrangement led to a fast recovery from the crisis. The announcement itself of the IMF's interference certainly affected the international perception of the Korean market positively, and this attitude intensified as the new administration showed willingness to follow the stand-by arrangement. The demand for and implementation of reforms were the ones that enabled western banks to accept restructuring of lending. The liquidity injection on its own would not resolve the problem in the long-term because banks would fear the re-emergence of crisis. The IMF's intermediation also prevented the potential crisis spillover onto the western countries, since their banks were majorly exposed. The reforms also eliminated the cause of foreign investors' scepticism, thus reopening the path to

transparentnost stranog zaduživanja *sui generis* za normalno funkcioniranje ekonomije. Isplativost tržišnog natjecanja u bankarskom i korporativnom sektoru dokazala se kroz „ozdravljenje“ njihovih bilanci. Međutim, nisu sve azijske zemlje zahvaćene krizom izvukle jednaku lekciju i jednake rezultate kao Koreja. Primjerice, Indonezija je većinski zaobilazila zahtjeve MMF-a za reforme pa je njezin oporavak tekao znatno sporije i teže. Preporuka autora za daljnje istraživanje utjecaja reformi MMF-a bila bi upravo primjer suradnje MMF-a i Indonezije od 1997. godine.

foreign capital. For the first time, the IMF decided to abandon the strict budget restriction idea and went with the Keynesian economics instead. This approach proved highly successful, since the restructuring problems significantly decreased, enabling high speed of recovery from the crisis. Similarly, a great quantity of reform demands was proven to mean a positive implication for a country participating in a stand-by arrangement.

South Korea also drew a range of positive conclusions, all leading toward the idea that the western market capitalism is superior to the existing domestic economic ideas at that time. The ideas of foreign investment regulation were qualitatively proven to bring the opposite effect on the economy, and that the transparency of foreign borrowing was *sui generis* for normal economic functioning. The efficiency of market competition of the banking and corporate sectors was proven by the recovery of their balance sheets. However, not all Asian countries facing crisis drew the same lessons and results as Korea. For example, Indonesia mainly bypassed the IMF's reform demands, so its recovery took significantly longer and was more difficult. The author's recommendation to further research the effects of IMF's reforms would be on the very example of the cooperation between the IMF and Indonesia from 1997.

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