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The IMF Rescue Program in Korea: What Went Wrong?*

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The International Monetary Fund (IMF) has recently received heavy criticism for its handling of the Asian financial crises in 1997. Among others, focus has been put upon the IMF's macroeconomic stabilisation measures of tight monetary policy and fiscal policy, and more fundamental measures of structural reform. The purpose of this paper is to clarify the ongoing debate on the role of the IMF in the Asian financial crisis, with special reference to the case of Korea. Most critics of the IMF claim that there is no fundamental reason for the Asian financial crisis except financial panic itself. Using the analogy between human stroke and financial crisis, however, this paper admits that fundamental weaknesses have accumulated in Korea and this, along with other causes, contributed to the occurrence of the financial crisis. In addition this paper, in line with the stroke analogy, systematically evaluates the IMF's original program as an emergency measure, and explains why it went wrong.

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1. INTRODUCTION

The International Monetary Fund (IMF) has recently received heavy criticism for its handling of the Asian financial crises in 1997. Among others, focus has been put upon the IMF's macroeconomic stabilisation measures of tight monetary policy and fiscal policy, and more fundamental measures of structural reform.

Sachs (1998a), for instance, claims that the tightening measures with immediate bank closures added both to the panic and to the contractionary force of the financial crisis that were already underway. Also, Feldstein (1998) asserts that the IMF's emphasis on imposing major structural reforms, rather than focusing on balance-of-payments adjustments, will have adverse consequences.

Camdessus, Managing Director of the IMF, rejects such criticism arguing that "the basic approach proves to have been appropriate" (See Camdessus, 1998). Fischer, First Deputy Managing Director of the IMF, argues that "the reluctance to tighten interest rates forcefully at the beginning has been an important factor in perpetuating the crisis" (See Fischer, 1998). In response to Feldstein's criticism of the IMF's fundamental measures, he further argues that "There is neither point nor excuse for the international community to provide financial assistance to a country unless that country takes measures to prevent future such crises".

The purpose of this paper is to clarify the ongoing debate on the role of the IMF in the Asian financial crisis, with special reference to the case of Korea. Most critics of the IMF claim that there was no fundamental reason for the Asian financial crisis except financial panic itself. Using the analogy between human stroke and financial crisis, however, this paper admits that fundamental weaknesses had accumulated in Korea and this, along with other causes, contributed to the occurrence of the financial crisis. In addition this paper, in line with the stroke analogy, systematically evaluates the IMF's original program as an emergency measure, and explains why it went wrong.

2. EVOLUTION OF THE CRISIS AND THE IMF PROGRAM

2.1. Causes of the Financial Crisis

Korea's financial crisis underwent a process very similar to a typical human stroke.¹⁾ The human stroke happens with the sudden blockage of an artery in the brain by a blood clot or other debris carried in the bloodstream. A stroke erupts all of a sudden in a person who has been living his/her life quite normally. However, it does not strike a real healthy person. It normally has its roots in fundamental weaknesses: it only strikes people whose physical constitution is weak because of high blood pressure, high blood cholesterol, diabetes and obesity, which cause hardening of the arteries. Unfriendly surroundings, such as family disputes, competitive personal relationships and a heavy burden of work, also contribute to the likelihood of having a stroke. Strokes normally occur after giving several different kinds of warning beforehand, such as sudden loss or blurring of vision in one eye. If the person fails to react properly to the warning signs, then a stroke may finally occur when there is a sudden sharp stress or a sudden exposure to cold weather, which work as a trigger.

To most people, the financial crisis appears to have erupted all of a sudden when the panicked foreign investors turned their backs on Korea. In retrospect, however, it underwent a process similar to a typical stroke: fundamental weaknesses, policy mistakes, unfriendly international circumstances and exogenous shocks all contributed to the crisis.

That is, the financial crisis of Korea had its roots in fundamental weaknesses in the Korean economy. Since the late 1980s the government-led economic policy which was considered to have led the nation to its remarkable economic success in the 1960s-1980s, was no longer suited as the Korean economy became larger and more complex and as global competition intensified. Instead it resulted not only in corruption, but also in moral hazard and inefficiency in the general economic sector, and a weakening of

¹⁾ The reader is referred to Lee (1999) for a more detailed stroke-analogy approach on the causes of the Korean financial crisis.

the international competitiveness of Korean corporations.

On the other hand the international environment, which had been friendly to Korea's export-oriented growth strategy, became rapidly hostile. Since the late 1980s Korean companies faced intense competition from foreign companies in both domestic and international markets. Competition has mainly come from the rapid opening of Korea's domestic market, and the rapid catch-up growth of the newly industrialising countries such as China, Indonesia, Thailand and Malaysia. This also put downward pressure on Korea's competitiveness, and made the Korean economy more vulnerable to sudden changes in the world economy.

However, the Korean government overlooked the signs of weakening competitiveness and possibility of financial crisis and, instead, aggravated the situation by making consecutive mistakes, especially in its exchange rate policy and financial sector supervision.

Finally, sudden exogenous shocks in early 1997 triggered the financial crisis to erupt. There were two different shocks in early 1997: one came from inside, and the other came from outside. Along with the economic cycle of downturn in early 1997 a series of large corporate bankruptcies began with Hanbo Steel, the fourteenth largest *chaebol* (huge family-controlled conglomerates) in Korea. Before Korea turned to the IMF for assistance in November, seven out of the top thirty *chaebols* including Kia Motors, the eighth largest, faced insolvency. This resulted in a surge of non-performing loans held by the commercial banks. At the end of September 1997 non-performing loans of all financial institutions recorded W 32 trillion (7 per cent of GDP), about double their level at the end of 1996. Specifically non-performing loans of commercial banks stood at W 21.9 trillion, which was 6.4 per cent of total credit and was double the W 12.2 trillion at the end of 1996. At the same time merchant banks recorded non-performing loans of W 3.9 trillion at the end of October 1997, nearly three times the W 1.3 trillion at the end of 1996.

On the other hand, the financial crisis in Southeast Asia acted in two ways as another trigger of the Korean crisis. First, a drastic devaluation of the currencies of the crisis countries impeded Korea's already-worsened international competitiveness, and this contributed to strong downward

pressure on the Korean currency. Second, trouble in Southeast Asia acted as a wake-up call for foreign investors to re-evaluate the risk of Korea, and to find out that Korea was already experiencing difficulties in the financial market with the surge in non-performing loans. When the Hang Seng Index of the Hong Kong stock market recorded a big downturn on October 23, 1997, foreign investors suddenly started together in a panic to withdraw their investment and to cut back their short-term loans to Korea. The won depreciated by about 20 per cent against the US dollar through November 30 and the stock market index fell by about 30 per cent to a ten-year low. Usable foreign currency reserves declined sharply as the Bank of Korea financed the repayment of short-term debt of Korean commercial banks' offshore branches.

Finally, Korea turned to the IMF on November 21, 1997 as the rollover ratio of short-term external borrowings by domestic financial institutions kept decreasing and the country's usable foreign currency reserves plummeted to US\$ 7.3 billion, down sharply from US\$ 22.3 billion only a month before.

2.2. The IMF Program

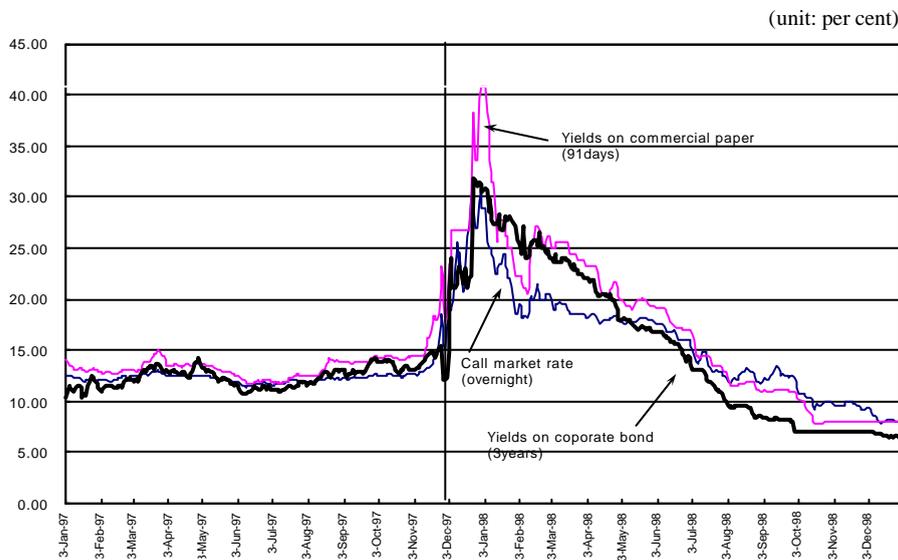
On December 3, 1997 Korea and the IMF signed an agreement for a financial aid package totalling US\$ 58.3 billion, subject to a broad range of conditions including macroeconomic stabilisation and structural reform. The IMF committed emergency funds amounting to US\$ 21 billion. Additional US\$ 14 billion was committed by the World Bank and the Asian Development Bank. As a second line of defence an additional US\$ 23.3 billion was pledged by the United States, Japan, Australia and other interested countries.

When the IMF program was announced the IMF expected that the large financing package and reform plan would be enough to turn around market sentiment. Accordingly, upon the announcement of the program, only US\$ 5.5 billion was disbursed, and any discussion on debt rescheduling with international creditors was not attempted.

In line with the IMF Stand-By Arrangement the Korean government was required to implement tough measures including tight monetary policy, fiscal

austerity and the immediate closure of insolvent financial institutions. As an emergency measure the Korean government was asked to raise interest rates sharply. This measure was expected to stem the outflow of foreign funds and the rapid depreciation of the exchange rate. The call rate was raised from 12.3 per cent on December 1, 1997 to 20.7 per cent on December 3, and further to 30.1 per cent on December 23. As a consequence yields on three-year corporate bond soared from around 14 per cent before the crisis to above 30 per cent, and yields on 91-day commercial paper rose sharply from 13-14 per cent to peak at 40.8 per cent on December 31 (Figure 1). Broad money growth (M3) was reduced to 13.9 per cent at the end of December 1997 from 16.3 per cent at the end of November 1997. The IMF also asked Korea to take fiscal contractionary adjustments by 1.5 per cent from previous year and generate a surplus in 1998.

Figure 1 Market Interest Rates January 1997 to December 1998



Source: The Bank of Korea.

Troubled financial institutions would be closed or, if they were deemed viable, to be restructured and/or recapitalised. Nine insolvent merchant banks which had been suspended on December 2 were required to submit a rehabilitation plan within 30 days. If these plans were not approved the institution's license would be revoked. The remaining merchant banks were required to present a program of recapitalisation by December 31, 1997. They were required to meet at least a 4 per cent capital adequacy ratio of the Bank for International Settlements (BIS) by March 31, 1998. Other commercial banks were also required to prepare a plan to meet the BIS 8 per cent minimum requirement by September 1998. In addition, virtually all capital account restrictions on foreign investors' access to the bond markets were to be lifted as of January 1, 1998.

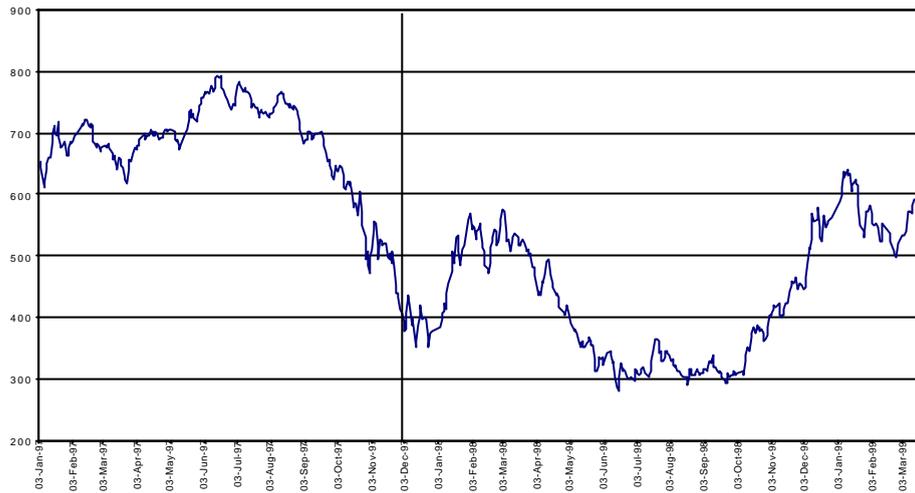
However, the rollover ratio of short-term debt went further down sharply and usable official reserves were almost depleted in mid-December. For example, the rollover ratio of the seven largest commercial banks fell to 32.2 per cent in December from 58.8 per cent in November and 86.5 per cent in October. After a brief increase to 435 on December 6 from 379 on December 3, the Korea Stock Price Index (KOSPI) kept sliding to reach 351 on December 24 (Figure 2). As the speed of depreciation accelerated the exchange rate rose from about W/US\$ 1,150 at the beginning of the month to almost W/US\$ 2,000 at the end of the year²⁾ (Figure 3). All of these were in fact much worse than the IMF had predicted.

When Korea faced imminent default by December 24 the IMF, backed by the U.S., decided to press the foreign commercial banks to roll over their short-term credits on an enforced basis. The IMF insisted on the comprehensive debt rollover as a condition for further disbursements of the IMF lending package. Initially the banks and the Korean government announced a freeze on debt servicing. On January 16 the Korean government and the banks formally agreed to a complete rollover of all short-term debts falling due in the first quarter of 1998. On January 28 an agreement was reached to convert US\$ 24 billion in short-term debt into claims of maturities between 1 and 3 years. The new arrangements put a

²⁾ On December 16 the Korean government shifted to a free-floating exchange rate system.

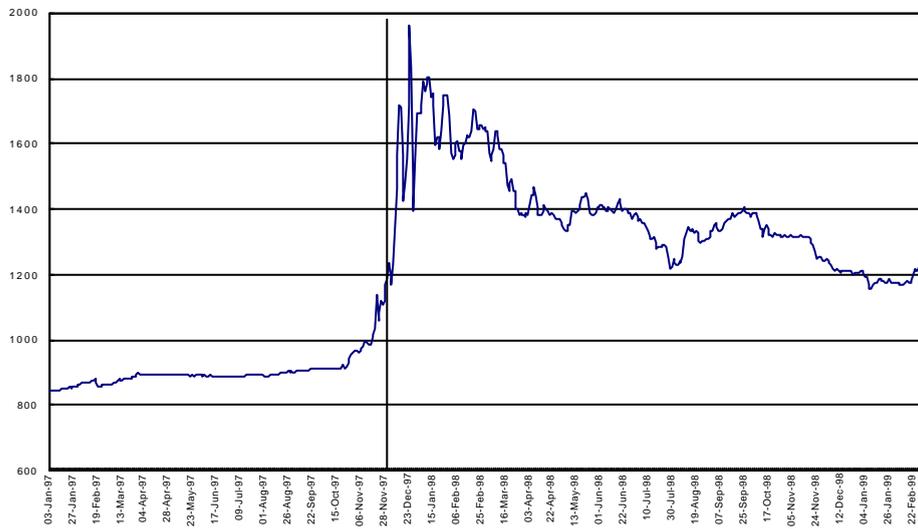
brake on the fall of the won, and on the decline in the stock market in Korea.

Figure 2 Korea Stock Price Index January 1997 to December 1998



Source: The Bank of Korea.

Figure 3 W/US\$ Exchange Rate January 1997 to March 1999



Source: The Bank of Korea.

2.3. Consequences

As market interest rates soared to the 30 to 40 per cent level the financial difficulties of corporations became deeper. As the IMF program required financial institutions to meet the BIS capital adequacy ratios they became reluctant to provide corporations with funds for fear of incurring new non-performing loans. Even strong banks came under intense pressure as foreign creditors refused to roll over loans and domestic depositors fled to foreign owned banks. The merchant banks, in particular, which used to provide corporations with short-term funds, virtually suspended new lendings to corporations and tended to refuse rolling over loans falling due.

This, in turn, made the situation even worse for the debt-ridden corporations, resulting in a boost of the number of insolvencies (especially of small and medium-sized companies) to three times the pre-crisis level. Bankruptcies in Korea hit 3,197 in December 1997 and the figure rose to 3,323 in January 1998, before falling back to 2,749 in March 1998. The ratio of dishonoured bills rose drastically to 2.1 per cent in December 1997 from 0.5 per cent in November 1997.

On the other hand the contractionary prescriptions led to a dramatic reduction in consumption, resulting in a 29 per cent fall in domestic demand in the first quarter of 1998. During the first quarter of 1998 real GDP recorded a negative growth rate of -3.6 per cent for the first time in eighteen years, followed by -7.2 per cent, -7.1 per cent and -5.4 per cent in the second, third and fourth quarters respectively. In 1998, real GDP dropped 5.8 per cent on a year-on-year basis.

Almost 1.66 million jobs were lost in 1998 boosting the unemployment rate from 2.2 to 7.9 per cent in December 1998, despite a sharp decline in participation rates. The yearly unemployment rate for 1998 was 6.8 per cent, also in stark contrast to the 2.6 per cent of 1997. Per capita GNP is estimated to have remained at about US\$ 6,300 in 1998, down sharply from US\$ 9,511 in 1997 and US\$ 10,542 in 1996, and fell short of the \$ 6,745 recorded in 1991.³⁾ Nominal wages dropped 2.5 per cent in 1998 from 1997.

³⁾ The sharp fall in per capita GNP was attributed not only to the economic contraction, but also

Meanwhile, the current account, which had recorded a deficit every month until October 1997, recorded a surplus after November 1997. In 1998, the current account recorded a surplus of US\$ 40 billion, which was the largest in history. However, this was brought about mainly by a decline in imports rather than an increase in exports. Despite the potential for increased profitability from the exchange rate depreciation, exporters were also badly affected because exporters with confirmed orders were unable to obtain trade credits. In 1998 Korean exports declined 2.8 per cent on a year-on-year basis to US\$ 132.3 billion, while imports plunged 35.5 per cent to US\$ 93.3 billion.

3. EVALUATION

Recovery from a stroke depends on how big an area of the brain is affected, and how promptly and well it is treated. If treatment for a stroke starts within hours the clot causing the damage may be dissolved with fewer complications and less disability. Someone who has just had a stroke is also at very high risk of having another, possibly more serious, stroke over the next few days. Therefore an early and appropriate treatment is imperative to help prevent having another stroke and which could result in serious complications. In the medium- and long-term treatment for the fundamental causes of strokes such as high blood pressure and diabetes should follow.

Similarly, recovery from a financial crisis depends on how extensive the capital outflow and exchange rate depreciation are, and how promptly this trend can be reversed. The first and most immediate way to treat the financial crisis should be to (1) break the self-reinforcing capital outflows and to stabilise the domestic currency (i.e., minimise the likelihood of recurrence) and (2) prevent a collapse of the real sector (i.e., prevent complications). In the medium- and long-term, structural reforms are needed to address the root causes of the crisis.

largely to the won's sharp depreciation.

3.1. Were the Program's Diagnosis and Prognosis Correct?

A good treatment is based on a thorough examination of the symptoms and a precise prognosis. As the IMF later admitted, however, the initial targets proved wrong as the key economic variables such as real growth rate and unemployment rate turned out to be worse than initially predicted. As shown in Table 1 the depth of the slowdown was not foreseen in the initial program projections, and major macroeconomic projections were revised sharply and successively downward during the course of the program.⁴⁾

That there were sharp revisions to projections for growth and exchange rates meant that the program was built on an unreliable (to put it more precisely, 'wrong') diagnosis and prognosis. This implies that the IMF program (especially the original one) may have been an inadequate treatment for the Korean financial crisis. As the projections failed to be realised, confidence in the program may have been undermined.

Table 1 The IMF's Macroeconomic Projections and Actual Results for 1998

	Original Program (12/97)	First Quarterly Program (2/98)	Second Quarterly Program (5/98)	Third Quarterly Program (7/98)	Fourth Quarterly Program (11/98)	Actual Results (12/98)
Real GDP growth rate	+3.0 %	+1.0 %	-1.0 %	-4.0 %	NA	-5.8 %
Inflation rate	Below 5 %	Below 10%	Below 10 %	9.0 %	NA	7.5 %
Exchange rate (W/US\$)	1,186	1,426	1,417	1,440	1,425	1,399
Current account (US dollars) (% of GDP)	Deficit of NA Below 1 %	Surplus of 8 billion 2.5 %	Surplus of 23 billion 7 %	Surplus of 35 billion NA	NA NA	Surplus of 40 billion 10.6 %
Fiscal target (% of GDP)	Surplus of 0.2%	Deficit of 1.5%	NA	Deficit of 4.0%	Deficit of 5.0%	Deficit of 5%

Note: The inflation rate is the percentage change in the consumer price index on a year-on-year basis.

⁴⁾ The IMF also made similar mistakes in forecasting the consequences of financial crisis and their program of other crisis countries. For example, the major projections for Thailand and Indonesia were revised four times, respectively in the first year of the program.

As will be discussed below, the wrong projections (prognosis) led to inappropriate measures (treatment), and these obviously contributed to the recession (complication). As Jack Boorman, Director of the IMF's Policy Development and Review Department, admits, "the original IMF program was based on the view that the Korean economy would experience a slowdown in growth, but not a deep recession." (see Boorman, 1999) So measures such as tight monetary and fiscal policy along with high interest rates were adopted. These contributed to the recession, and were reversed when the recession turned out to be deeper than expected. At their meetings in January 1998 the Korean government and the IMF agreed to allow for an increased fiscal deficit. In February 1998 the two sides also agreed to allow for lower interest rates, and the downward rate adjustment was implemented over the following months. But when the tightening was reversed and an expansionary policy was adopted it was too late, as the IMF program measures put a heavy strain on the already-troubled real economy and caused the economic contraction to be a full-fledged one.

Why did the IMF's major macroeconomic projections turn out to be wrong? Hubert Neiss, Director of the IMF's Asia and Pacific Department, argues that this was because "important decisions in several complex and painful areas had to be made almost overnight and without full information" (see Neiss, 1998). This argument may hold for the original projections of the program. But how was it possible for the projections to be changed significantly five times in less than a year? The IMF claims that this reflects the flexibility of the program. But this raises a question about the credibility of the IMF as a doctor.

3.2. Did the Program Help Stabilise the Financial Market?

In short, some measures of the initial rescue program failed to meet the objective of restoring market confidence, and actually intensified the panic psychology of the international investors. In the first few weeks after the IMF arrangement was announced, the exchange rate depreciated even further (Figure 3).

There were many reasons for this. First, based on a naive projection of

the economy, the IMF did not attempt to press the foreign commercial banks to roll over their short-term credits on an enforced basis. Only when the situation became even worse did the IMF insist on a comprehensive debt rollover as a condition for further disbursements of the IMF lending package. In retrospect, some debt relief in the shape of loan rollovers and restructuring were necessary to allow more time for repayment.

Second, despite the pledge of US\$ 58.3 billion in emergency funds to Korea, only a limited amount of funds was disbursed. Upon announcement of the Stand-By Arrangement, only US\$ 5.5 billion was disbursed; by the end of 1997, only US\$ 13.2 billion was actually disbursed. This amount was reached only after the emergency acceleration of disbursements on December 24. Of the total emergency funds US\$ 22 billion were contingency funds as the 'second lines of defence' from individual countries, and the precise terms and conditions under which the second lines of defence would be disbursed were never clearly specified. The IMF economists, Lane, *et al.* (1999), admit that uncertainties about the availability of the second lines of defence may have influenced market participants in their decision to continue their exit.

Third, recommendations on tight budgets, bank closures and high interest rates contributed to even higher number of business insolvencies, and this in turn worsened investors' perceptions of Korea's external creditworthiness. This point deserves more detailed discussion as the IMF points to the ultimate steady appreciation of the won as proof of the correctness of their prescriptions.

When domestic and foreign currency bonds are perfect substitutes the foreign exchange market is in equilibrium only if the interest parity condition holds:

$$R_w = R_s + (E_{w/\$}^e - E_{w/\$}) / E_{w/\$} \quad (1)$$

where R_w is the interest rate on domestic currency (W) deposits, R_s is the interest rate on foreign currency (\$) deposits, $E_{w/\e is the expected future W/\$ exchange rate, and $E_{w/\$}$ is the current W/\$ exchange rate. For a given dollar interest rate R_s , if the won interest rate increases then the Korean won

will appreciate against the US dollar as investors all try to shift their funds into won. This was what the IMF program of high interest rate policy expected to see.

However, when domestic and foreign currency bonds are imperfect substitutes, the condition does not hold any longer. Instead, the equilibrium condition above needs to incorporate a risk premium. Thus equation (1) becomes (2)

$$R_w = R_s + (E_{w/\$}^e - E_{w/\$}) / E_{w/\$} + \mathbf{p} \quad (2)$$

where \mathbf{p} is a risk premium that reflects the difference between the riskiness of domestic and foreign bonds. If the IMF was right, a sharp increase in interest rates should have stabilised the exchange rate. As seen in Figure 3, however, the exchange rate quickly depreciated far below the targets set in the program. The tight money supply and high interest rates triggered more corporate failures, and this was, of course, far from improving public confidence. The resulting financial instability and unrest might have caused risk premium, δ , to rise sharply, resulting in net capital outflow instead of the inflow. This may have resulted in the free-falls of the Korean currency.

Furthermore there is very little evidence that the hikes in interest rates brought about capital inflow. For instance, during the first quarter of 1998 the net foreign portfolio investment was merely US\$ 7.5 billion, which is too little to stabilise the exchange rate. The Korean won appreciated during the same period because of the international financial assistance of US\$ 21.4 billion, a success in rolling over most short-term external debt of banking sector totalling US\$ 21.8 billion in March 1998, and a record trade surplus of US\$ 12.3 billion.

As Radelet and Sachs (1998b) point out the first signs of the end of the currency free-falls only came on December 24, when the IMF initiated a different approach to the problem based on debt restructuring, accelerated disbursements of international funding, and more comprehensive and rational financial sector restructuring.

3.3. Did the Program Help Prevent Complication?

As noted above the IMF measures were based on seriously inaccurate projections of the Korean economy. Accordingly, the original program included measures such as immediate closures of some financial institutions, tight budgets and high interest rates.

These measures were designed mainly to stabilise the financial market. But, as noted above, it is doubtful that they were successful in stabilising the financial market as they increased perceptions of risk in the Korean economy. These measures needlessly aggravated the distress of the real sector and intensified the crisis, as the much higher interest rates and cuts in domestic demand caused many profitable but high debt-equity firms into bankruptcy. Thus the external liquidity crisis became a full-fledged economic crisis as the full extent of the collateral damage to the real sector became apparent. Even in the United States, or in any other advanced countries, many firms would experience severe financial difficulties if market interest rates were over 30 per cent.

The IMF reversed the tightening and adopted an expansionary policy in early 1998, when the real economy started sliding into a recession. But this policy change came too late to prevent the massive economic contraction. In sum, the IMF's serious inability to make credible projections resulted in wrong prescriptions and treatment, which in turn deepened the woes of the already-troubled Korean economy.

3.4. Did the Program Address the Fundamental Causes Properly?

As briefly discussed above the Korean crisis had its roots in the weakened fundamentals of the Korean economy. Therefore, attempting to stabilise only the financial market without an emphasis on structural reforms is like treating symptoms without addressing causes.

As a matter of fact the IMF program had a heavy emphasis on structural reforms of the Korean economy. Since the beginning of the IMF program Korea has undertaken structural reforms in the financial sector, corporate sector, labour market, and public sector, which are considered to be essential

for the revival of sustained growth. Nonetheless, two points are made with regard to the timing of the fundamental measures of the IMF program.

First, when the IMF program was first implemented in December 1997, it should have concentrated on helping Korea to cope with temporary foreign exchange shortages and regaining access to international capital markets. Also, the rescue fund should not have been contingent upon the process of economic reform. This is not because the Korean economy was fundamentally healthy and structural reform was not necessary, but because an emergency measure for stabilisation should have come first in order to prevent unnecessary complications of the crisis. That is, an emergency measure should have come first to achieve the short-run goal of financial stabilisation, and then the fundamental measures should have come next to achieve the long-run goal of structural reform.

Secondly, as a condition for financial aid, the IMF required Korea to undertake reforms that were not closely related to restoring market confidence and Korea's ability to repay its debt. To be more specific a timetable for trade liberalisation was required to be set to eliminate trade-related subsidies, restrictive import licensing, and the import diversification program. It is questionable, however, how it would help Korea, which would need enormous current account surpluses to repay its foreign debts and recover from the crisis. As the IMF insisted, trade liberalisation would enhance domestic competition. But this was a measure which should have been pursued at a later stage because the corporations were already severely hit by high interest rates, credit crunches and a drastic downfall in demand for their products

4. CONCLUDING REMARKS

Like a stroke, which strikes a person all of a sudden, financial crisis erupted in Korea with a surprise in late 1997. Korea was first taken to a hospital – the IMF, where it underwent an emergency operation. The IMF's emergency operation, however, was built on a wrong diagnosis and prognosis, obviously intensified the financial crisis, and caused the economic

contraction to be a full-fledged one.

Of course, the opposite approach would not have been desirable either. Pursuing an expansionary monetary policy and lowering interest rates would have caused the exchange rate to over-depreciate, have led to hyperinflation and damaged companies with unhedged obligations needing to repay large foreign debt. The point here is that the initial program should have avoided excessive tightening, and should have concentrated on the rescheduling of the foreign debt.

In addition, instead of using most of the emergency IMF loans to meet the debt servicing obligations coming due, a portion of the IMF loans should have been used to help finance credits for manufactures and exporters who were facing a sharp credit squeeze because of the financial crisis.

The IMF has never publicly acknowledged that the original policies were too contractionary. However, the IMF implicitly acknowledged this when it reversed these policies later. The IMF should acknowledge its mistakes and commit itself publicly to avoiding a repetition of them.

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