# Contents

<table>
<thead>
<tr>
<th>List of Tables</th>
<th>ix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abbreviations and Acronyms</td>
<td>x</td>
</tr>
<tr>
<td>The Author</td>
<td>xii</td>
</tr>
<tr>
<td>Preface</td>
<td>xiii</td>
</tr>
</tbody>
</table>

1 Introduction 1

2 Current Structure and Operation of the Financial System 4
   An Overview of the General Economic Situation 4
   Domestic Economic Developments 6
   External Sector Developments 11
   Korea's Financial Institutions 14
   The Deposit Money Banks 14
   Nonbank Financial Institutions 17
   Financial Institutions Other Than Banks and NBFIs 24
   Size and Relative Shares of Financial Institutions 28
   How Korea's Financial System Operates 30
   Past Monetary Policy 32
   Supervisory Institutions 34

3 Financial Reform Prior to the 1997 Crisis -38
   Financial Reform Measures During 1979-1991 38
   Financial Reform Measures Prior to November 1997 39
   The August 1993 Real-Name Reform 41
   The Presidential Advisory Council for Financial Reform 43
   Government Measures in 1997 to Reform the Financial Sector 45

4 The Basic Underlying Problems of the Economy 51
   Financial System Problems 51
   Structural Flaws in the Financial System 51
   Government Intrusion in the Financial System 53
   Management Deficiencies in the Financial System 55
   The Nonperforming Loans Problem 56
   Corporate Sector Problems 57
   Problems in the Nonfinancial Business Sector 58
7 Reform and Restructuring of the Corporate Sector 123
   The Predominance of the Chaebols and Their Problems 123
   Government Measures for Corporate Sector Reform 125
      The Five-Point Accord of January/February 1998 125
      The Government's Program for the Top 6 to 64 Chaebols 126
   Eliminating Cross Debt Payment Guarantees 127
   Liberalizing Mergers and Acquisitions 128
   The Corporate Restructuring Fund 129
   New Requirements for Financial Statements and Audits 129
   Authorization for the Issue of Asset-Backed Securities 131
Corporate Restructuring 131
   The Main Goals of Corporate Restructuring 132
   Improving Corporate Governance 133
   Empowerment of Minority Shareholders 136
   Corporate Downsizing and Other Restructuring Actions 136
   Reducing the Debt/Equity Ratios 138
   Workout Programs and the London Approach 139
Korea's Inadequate Bankruptcy System 140
The Big Deals and Chaebol Restructuring 143
   Restructuring Agreements Between the Government and the Chaebols 143
   The Big Deals 145
   The Daewoo Near Bankruptcy 148
A Brief Assessment 150

8 Overall Assessment 156
   An Assessment of Financial Sector Reform Since the Crisis 157
      Unresolved Problems 159
      The Continuing NPL Problem 160
      Potential Problems in the Banking Sector 164
      Problem Institutions Among the NBFIs 165
      Capital and Money Markets 171
Corporate Sector Reform and Restructuring 173
   Negative Developments 175
   The Big Deals 176
   The Workout Programs 177
   Circumventing the Bans on Cross Subsidiary Financing 178
   Some Moderate Changes in Corporate Governance 179
   Reform of the Bankruptcy System Needed 180
   The Dismantling of the Daewoo Group 181
   Gaps in the Corporate Institutional Structure 182
   Reform in the Labor and Government Sectors 184
Final Assessment and Economic Outlook 188