was replaced with an indirect control system through more traditional rediscount and reserve requirements policies. In January 1984, as a further step towards decontrol, a narrow band of rates, ranging from 10-10.5 per cent was introduced within which banks were free to set rates based on borrowers' credit worthiness. The band was widened to 10-11.5 per cent range in October of the same year, and the ceiling on inter-bank call rates was lifted. As evidence of further reliance on direct control, though limited in scope, the BOK has recently begun to resort more frequently to open market operations.

A unique feature of the country's financial market is its duality: an unorganized market and an organized one, known commonly as the "kerb" market. The latter acts as a conduit between investors having short term (typically less than three months) idle funds, and enterprises in need of short-term credit. Some estimates place the magnitude of the informal market at more than US $5 billion a year (accounting for about 40 per cent of available loan funds).

A continuing series of tax reforms have been introduced to exert influence on the pattern of resource allocation and the course of economic development. Reforms between the Korean War and 1960 were designed to stimulate capital accumulation, curtail consumption and simplify the tax system. Sweeping reforms carried out mostly in the 1960's form the basis of the present system. The principle objectives of these reforms were to raise domestic savings, to replace economic aid and to hasten growth under the newly instituted economic plan. In addition to streamlining the tax machinery, these reforms, specifically included: raising tax rates and extending the tax base; a punitive new tax on speculative real estate transactions: replacing a per unit with an ad valorem tax; and extending the coverage of excise taxes, particularly on luxuries, monopoly products and imported goods. In addition, these reforms introduced measures to stimulate the growth of certain key industries, discourage imports and encourage exports; measures included: lowering of tax rates for the products of import-substitution industries; tax exemptions and accelerated depreciation of key industries; tax exemption for enterprises engaged in exports in proportion to their earning of foreign exchange; and exemption of customs duties on imports of raw materials destined for the production of exportable goods.

South Korea's tax burden rate (tax receipts as a share of GNP) is relatively low (18.8 per cent in the 1986 budget). It was expected to rise to 20.5 per cent by the end of the sixth Plan. This was to be achieved, not by raising tax rates or introducing new taxes, but through tax revisions, which include reduction in "unnecessary and excessive" tax incentives now granted to certain industries and individuals; reductions in the tax breaks for foreign busineses operating in the country; and favourable treatment of activities furthering technological progress; improving the productivity of small and medium sized enterprises, or raising the income of the low income group, particularly farmers,