

## ABSTRACT

Korea could accomplish rapid economic growth by inducing total 51 billion dollars of foreign capital during the last two decades. However, recent world-wide recession and high international interest rates caused many developing countries to reschedule their external debt. Moreover, Korea's relatively higher ratios of total outstanding debt to GNP and debt service payments to GNP than other developing countries become another red signal on debt servicing.

Thus, firstly, we tried to present the external debt accumulation procedure and situation. Secondly, we found indicators of the likelihood that developing countries may experience debt servicing difficulties. Thirdly, we evaluated and forecasted the debt servicing capacity of Korea in the past and near future. Lastly, we suggested tentative policy recommendations.

We used discriminant analysis based on minimizing the expected cost of errors in classifying the populations into rescheduling and nonrescheduling countries. In order to obtain the notion of the relative importance of variables, we ran the usual regression tests by using twenty biggest debtor countries' eleven years (1971-1981) pooled time series and cross section data on eighteen independent variables which were expected to affect the debt servicing capacity of each country. As a result of this, a

further experiment on the discriminant function was confined to six variables and quadratic function based on unequal covariances. The final discriminant function had 14.3 percent of type I error (three out of 21 cases) and 9.8 percent of type II error (16 out of 163 cases). In total, 10.3 percent of error was recorded (19 out of 184 cases).

Korea had never experienced severe debt servicing difficulties although she had a little difficulties in 1981 due to the sluggish export earnings, negative GDP growth rate and high international interest rates according to this study. Finally, this study showed that Korea's debt servicing capacity will be worsened from 1986, even if critical values are far above these years' Z values, if she keeps the pace of debt increasing rate. Thus, the policies for lowering the increasing rate of debt by active inducement of foreign direct investment and raising national savings ratio, increasing exports with higher pace, maintaining the past pace of economic growth rate and inducing more advantageous loans might be relevant for improvement of debt servicing capacity.