**Kim Jong Un’s “Idle Money” Conundrum**

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*“The sovereignty of the country is being violated as currencies of other countries are publicly circulating at home, but the financial and banking sector has not taken decisive measures. The flaws appearing in financial and banking work owe to the fact that the functionaries of this sector lack the revolutionary consciousness that they are the masters in charge of the country’s economy, have fallen into defeatism, and are unable to implement with a do-or-die spirit the party’s fiscal and financial policies.” [[1]](#footnote-1)*

Kim Jong Un letter to assembled banking and finance functionaries in Pyongyang, 13 December, 2015.

Eight years later important progress has been made in stabilizing North Korea’s currency and in lessening inflation but at a cost to the socialist system’s growth aspirations and potentially to the regime’s control over the people and the economy. US dollars and Chinese yuan cash continue to circulate widely, often held in reserve apparently not by the state but by the citizens. Ironically, despite Kim’s well-founded concerns over loss of sovereignty, this use of foreign currency may be saving the won by forcing the authorities to print less of it, raising its relative value and causing the very tight monetary and fiscal policies, slowing growth and restraining state expenditures. Most importantly, for the first time since the DPRK was created, with relatively stable money, the public can save at least a little for their own financial future, lessening dependence on the Party and the state, a scary thought for Kim and his regime. The trick for Kim, as he seems to understand, is to take those savings and put them to use, investing in capacity building. So far this does not seem to be happening; the savings seem to go under the proverbial mattresses and in US hundred-dollar bills, “idle” money as he complains. Kim tackles a host of other financial issues in his letter, trying to square the contradictions of what we would call capitalism and his socialism, and I expect ends up confusing everyone.

The discipline of finance--think money, credit, and capital--and the subject of North Korea don’t usually mix very well. Add “reform” to the picture and not many want to touch it, least of all Kim Jong Un. But it is something as leader of his country he can’t avoid and we, if we are to understand North Korea, must not either. In this respect I would like to congratulate Rachael Lee and Bob Carlin for their work in Stinson’s 38 North in bringing to light this very important “letter” on banking, as translated in their December, 2021 article. [[2]](#footnote-2) I have some differences, mainly about what is causing the changes, but their research into how North Korean scholars are using the letter is illuminating. Understanding the country’s financial predicament, the fight over who controls money, whether it is the state or the people, can go a long way to figuring out our best ways of influencing and dealing with Pyongyang.

First, let’s go over a few basics. Finance has three sub-disciplines, and we will touch lightly on each as does Kim in his letter. They all involve money, and all are integrated, that is they intractably influence each other. And socialism aside, they all default to the individual.

1. Personal finance, what you do with your savings and borrowings.
2. Corporate finance, how companies raise funds for investments and cover their losses.
3. Public finance, how governments manage their budgets and through the banking system and capital markets, influences how much money is created and how it circulates.

Each sub-discipline has a domestic and foreign component, hence Kim’s concern over dollarization. Capitalist countries live off of finance. Our country depends hugely on foreign investments to finance both our savings-investment gap—we invest much more than we save—and our enourmous federal fiscal deficit. Or one could put it another way; without the foreign inflow, our savings and fiscal accounts would necessarily be in balance, a lot less investment and a balanced budget. That is essentially the case for North Korea; lacking an inflow of investment, it is forced into fiscal and savings balances. But it also has something perhaps better—it has apparently fairly large private holdings of foreign cash, US dollars and Chinese yuan, used by its citizens for savings and for purchases of large capital items, such as apartments. In this odd way it is a remarkably liberal dollarized economy, something like Hong Kong, an economy without its own independent monetary or fiscal policy. This is a burden on the rulers no doubt hence Kim’s lament that he has lost sovereignty.

Marxist economies try to avoid finance, even money since the thought is that returns on money, interest and profits, makes the “rich richer and the poor poorer” the core of the ideology. Kim here shows he is no capitalist. As he says in his letter, a socialist state should own all of a country’s capital, the means of production, and should direct its formation and use by powerful state planning, what we call a command economy. In other words the state should own and direct investment, not the people through their banks or markets. Kim repeatedly states his frustration that this planning is not happening in North Korea, blaming the functionaries, and complains that control and circulation of money has spread far beyond the confines of the state system. He is acknowledging reality. In fact this command type system has broken down everywhere it has been tried and the solutions he refers to, use of new commercial banks and “international tools” to control exchange rates, sound very much like capitalism. The functionaries probably understand better than he that these are likely to only accelerate change and raise state-private tensions.

North Korea’s Marxist, or as Kim prefers to say, socialist control of money lasted from about 1956 to 1996, finally collapsing in a great famine. Critical to our understanding of North Korea’s finance today is what has happened since. First, goods and services markets spontaneously opened up filling the void left by the broken rationing system, using wads of local currency as money. But the economy was awash in these useless won notes, leading quickly to hyperinflation, with prices rising at double digit annual rates and with the Kim Jong Il regime adding zeros to the notes. He tried to control the inflation with price controls and money manipulation but, without access to normal banking tools, a commercial banking system to suck in cash deposits, interest rates or even a tax system, he failed, leading to a financial crisis in 2009, as people took to the streets complaining the state was stealing their money. Even Da Kung Pao, the strict communist newspaper in Hong Kong, criticized the North Korean theft in bold headlines. It was thievery and the repercussions continue even today. North Koreans for good reason have little trust in their money. Kim’s letter is addressed in part to trying to build that trust back. By 2023, it seems he has had some progress.

A large part of Kim’s concern is what he calls “idle” money, that is cash held by citizens and enterprises and not deposited in banks. It is the proverbial money under a mattress and in North Korea’s case is probably $100 bills. The reasons are obvious; the banks offer very limited interest and are generally not trusted to return deposits on demand. Won’s value, though stable now for six years, can again evaporate at a moment’s notice so it is better to have cash that can be used to buy real products in an emergency, accelerating inflation. But to the extent that these private and enterprise savings have increased, they have reduced the money in circulation and have helped constrain inflation. Won spent to buy dollars means less household money to buy commodities. Unless these saved funds are loaned out and spent, they are, as Kim says, idle and do not create investments or incentives to invest in tangible capital that would improve productivity and growth. Casual observation over the past decade suggests this has been the case, with the country devoid of productivity enhancing investment, hence its slow or even negative growth. Consumption may be increasing, improving living standards, but is eating away at the country’s once significant capital stock.

Kim, in his letter, does seem to allow these branch or “commercial” banks to use what he calls “international tools”, probably a cover word for capitalism and higher interest rates, to encourage deposits, this a true reform if it has indeed happened. But the banks need income from their lending if they are to cover these new costs and it is not clear that this is legal. New “commercial banks”, branch banks that have been sliced out of the central bank, must now cover their costs, presumably by charging interest or other fees while limiting the inevitable bad loans. They don’t really compete for deposits, however, since they are local monopolies. All of this points to a huge contradiction in Kim’s letter. He wants the banking and finance functionaries to creatively and energetically lend funds to expand the economy, yet he wants the finance ministry and the central bank to stop what he deems too much money circulating outside the control of the state. It is all very confusing.

Kim Jong Un was “leader in waiting” during his father’s financial panic and must have learned some hard lessons. Inflation is a much more insidious danger to his regime than are American nukes, and it had to be killed. The only way to do that, aside from executing the hapless Party finance minister, was to stop printing too much won or allowing new credit, loans to state enterprises. He thus slammed the breaks on monetary and fiscal policy, starving state investment and state worker incomes but succeeding remarkably in halting inflation. As he says, the important thing was to balance state fiscal policy. The (old) Chicago School would love it. But this, of course, halted the growth of the economy and forced the state to begin a slow process of selling assets and licenses. It is very reluctant to do so, in effect selling its socialism, and has a long way to go in this respect. But it is a path now long tread by China, very successfully, and in my view is unlikely to be turned back. The Party owns the country so there is a long way they can go with this.

Something else was happening as warned by Kim. Beginning with the hyperinflation and the lost trust in won, foreign cash, mostly US dollars and Chinese yuan, began seeping in and circulating as real money. This is not new, it was endemic in past centuries in Korea, with gold and copper coins entering from China. How it got there is everybody’s guess since the country’s foreign trade always seems to be in deficit and there is essentially no inward foreign investment. Foreign aid has played a part. But I suspect foreign remittances by the large ex-patriot Korean populations in China, Japan, Russia, South Korea, and the US have and are playing a large part. Ownership of these funds, moreover, seems to be private; the Pyongyang government always seems to be devising schemes to get claims on it, unsuccessfully since its own officials are probably the largest private owners. The Chang Song Thaek story is a great example. He was executed probably because of his hoard of millions of US dollars. By now there are probably many more such entrepreneurs.

Illicit or cyber theft is likely also playing a part in bringing in foreign cash although this might be somewhat exaggerated by news stories. Much of these funds likely circulate in the cyber world, far distant from North Korean wallets. And the thieves are probably losing funds as well, it is a very risky business, and we see no estimates of losses, only ill-begotten gains of hundreds of millions of dollars a year. An important question is who ends up in control of this money and what happens when it is lost. As with remittances, I suspect some, perhaps much of it, ends up in private hands or in state units independent of the central government’s financial authorities, that is the Finance Ministry or the Chosun Bank. Kim Jong Un gets his private take, as do military and nuclear research activities, but there is likely a great deal of corruption, corruption that leaks hard currency and weakens the ability of the state to meet its planned requirements.

An example is the Pyongyang hospital project of a few years ago. Kim Jong Un made it a high priority and indeed the structure was built at a record pace, probably with military units paid with ration incomes, and construction materials the government stocks in abundance. But funds ran out for setting up the equipment and furnishings which need to be purchased, domestically and abroad, so it just sits there, apparently empty. Surely an embarrassment. The new luxury apartment buildings might be faring better since their new owners may be able to independently purchase their furnishings. Why did the hospital fiasco happen, or for that matter the tourist resorts? Surely a strong man government could finish the deals. But no, it ran out of money, budget. So the hospital tried to sell bonds, a very capitalist practice, but no one would buy them since it wasn’t clear what the hospital’s income would look like and because ten-year bonds values would be crushed should inflation resume. But the fact that the hospital tried, and the fact that potential investors backed away, is important to our understanding of a changing economy. I would say it’s actually a very positive indicator of a regime facing tight budget constraints. North Korea is thus becoming just a little more normal.

While there are positives regarding use of foreign money, Kim’ concerns about its circulation and the loss of sovereignty are well taken. Most national governments do not allow that to happen, insisting on holding a monopoly on the creation of domestic money so the state can maintain independent monetary and fiscal policies. To prevent people from selling off won and buying dollars, the state has been forced to protect the value of won by not printing very much of it, that is maintaining a severely restrictive monetary policy with little or no deficit spending. Without a tax system, the authorities are always clamoring for higher fees. This has enabled it to squash inflation and currency depreciation but has likely come at a huge cost to credit creation and investment generally. Economic growth has been very slow and industrial investment near zero. But it is slowly adding to trust in won, a huge positive for marketization and for the people’s savings. This is seen in a generally rising value of won against the dollar and yuan, although in recent months, with a reopening of some border trade, imports are rising much faster than exports hence the demand for foreign currency has increased. An export push, difficult in the sanctions environment, but potentially enabled by soaring prices for North Korea’s non-ferrous metals and rare earths, is needed lest the won again crumble in value.

Much will depend on how well these foreign exchange markets, and the so-called commercial banking work out. A perplexing issue, as illustrated in bi-weekly data provided by two news services with contacts in North Korea, Daily NK and Asia Press, has been unusual changes in cross rates for US dollars and Chinese yuan. Until the pandemic border closures stopped foreign trade in 2020, thus limiting transactions demand for foreign currency, the dollar and yuan traded with each other at rates very close to international levels, as should be expected. But as transactions demand likely fell, the value of the dollar rose substantially against yuan, suggesting high profits could be made through arbitrage but for some reason were not. This may suggest much of the demand for the US currency is for savings and held in illiquid 100-dollar bills, whereas the demand for yuan is for trade transactions and held in much smaller denominations. Given very thin and poorly informed foreign exchange markets, a wide discrepancy seems to have been created. This year, with the partial opening of trade, the value of yuan has risen against the dollar so the cross rate has returned to the international level, suggesting markets are working much better.

Kim in his 2015 letter also argued for a modernization of North Korean banking technology and this does appear to be happening. Again though he may worry about the results. For instance we see more North Koreans using electronic cards instead of cash and many more have smart phones with links to banks. The highest printed won denomination is still only 5,000, only worth about 60 cents, so the cards are very convenient. Why don’t they print 50,000 or 500,000 won notes? Probably because it would signal inflation to the public. The cards are mostly debit cards—you buy them with cash and draw them down, like gift cards. A bank may or may not be involved. More recently banks have been selling them; they don’t really change the national money supply given their 100 percent cash backing. Importantly, they generally are not bank issued credit cards, yet. Some appear to be denominated in dollars, others in won, depending on the currency used to buy them. When one observes the incredibly rapid development of electronic and cyber currency developments in next door China, a smart phone call away, one wonders how long Pyongyang’s financial authorities will be able to withstand the onslaught of something like WeeChat money. The North Korean marketplace is probably ripe for an enterprising, and brave, company, to issue its own card, in effect its own money.

One thing is pretty clear. Once people get used to buying and selling with money, credit enters the picture. A buyer always wants credit to get a little more. A seller will provide credit to make the sale. And with credit, defaults and losses inevitably will happen, credit scores will become important, and disputes will erupt. A financial infrastructure will develop organically, whether the state wants it or not. Traditional Korea had such an infrastructure, but it was largely lost with the communist takeover. Even without personal credit, the current return to a money-based economy is tremendously positive for human rights in North Korea, a development that I do not think is adequately studied. In his letter, Kim emphasizes, though likely with much public skepticism, even tongue in cheek, that banks need to cultivate private depositors, saying accounts must be considered confidential, and that they, the banks, must accept the fact that the deposits are owned privately, a nod to capitalism for sure. A move to credit money, where the public can borrow and lend funds through a bank, rather than through dangerous unregulated curb markets, will be necessary if savings are to flow through to investments making the country more productive as he seems to want. There would be winners and losers and the authorities would need to figure out how to handle both. Most worrisome to Kim, the winners, with big pools of cash, might cause the socialist regime its biggest problems.

1. Kim Jong Un letter to assembled banking and finance functionaries, as provided by 38 North. [2015-1213\_KJU-Letter-to-Finance-Workers.pdf (38north.org)](https://www.38north.org/wp-content/uploads/pdf/2015-1213_KJU-Letter-to-Finance-Workers.pdf) [↑](#footnote-ref-1)
2. [Understanding Kim Jong Un’s Economic Policymaking: Pyongyang’s Views on Banking - 38 North: Informed Analysis of North Korea](https://www.38north.org/2021/12/understanding-kim-jong-uns-economic-policymaking-pyongyangs-views-on-banking/) [↑](#footnote-ref-2)