

Korea's Current Economic Trends & Economic Outlook for 2004

I. Real Economy Trends

Industrial Production, Inventory and Operations

Industrial production grew 6.6 percent on-year in September, thanks largely to an increase in semiconductor, automobile, and audio-visual communication equipment output, in spite of slowing office accounting equipment and textile output. Overall on-year inventory rose 9.2 percent in September as more automobiles, chemical products, and nonmetallic mineral products were kept on hand, although there was a decline in semiconductor, office accounting equipment, and textile inventories. The average operation ratio in the manufacturing sector was 78.7 percent in September, a 2.2 percentage point increase from the preceding month.

	2002			2003				
	Sept.	4 th Qtr.	Annual	1 st Qtr.	2 nd Qtr.	3 rd Qtr. ^P	Aug. ^P	Sept. ^P
Industrial Production ¹⁾	1.8	11.5	8.0	6.1	3.0	2.9	1.5	6.6
Total Inventory ¹⁾	-3.3	-0.4	-0.4	10.1	9.9	9.2	8.7	9.2
Average Operation Capacity Ratio ²⁾	77.7	78.8	78.3	78.6	77.2	76.3	76.5	78.7

1) percentage change over the same period of the previous year

2) percent

p: preliminary

Source: Korea National Statistical Office

Consumption

Wholesale and retail sales contracted 3.0 percent on-year in September due to a decrease in automobile, fuel, and parts sales. A drop in general intermediary industrial product, food and grocery, and department store sales also contributed to the contraction.

Domestic consumer goods shipments sank 6.2 percent on-year in September led by a decline in such durable goods shipments as passenger cars and water purifiers, and non-durable goods shipments, including off-the-rack suits and books.

(percentage change over the same period of the previous year)

	2002			2003				
	Sept.	4 th Qtr	Annual	1 st Qtr	2 nd Qtr	3 rd Qtr ^p	Aug. ^p	Sept. ^p
Wholesale & Retail Domestic Consumer Goods Shipments	4.8 -0.8	7.1 9.5	8.3 8.3	1.5 -1.6	-1.7 -7.4	-2.6 -6.4	-2.6 -9.4	-3.0 -6.2

p: preliminary

Source: Korea National Statistical Office

Investment

Facility investment contracted 2.3 percent on-year in September, due largely to a decrease in automobile and precision instrument investments, but its decline rate slowed from 7.8 percent the previous month. Domestic machinery orders, however, reversed a downward trend to post a 17.3 percent on-year increase in September led by a surge in public-sector orders.

The value of completed construction projects also grew 13.2 percent on-year primarily because private sector construction growth continued. Domestic construction orders increased 38.3 percent on-year thanks largely to a substantial increase in public-sector demand for road, bridge, housing, and government/public office construction.

(Percentage change over the same period of the previous year)

	2002			2003				
	Sept.	4 th Qtr	Annual	1 st Qtr	2 nd Qtr	3 rd Qtr ^p	Aug. ^p	Sept. ^p
Facility Investment	3.4	3.1	1.6	-3.4	-3.7	-7.0	-7.8	-2.3
Machinery Orders	5.0	22.9	21.0	-18.2	-4.8	-8.3	-23.8	17.3
Value of Construction	-10.8	8.0	3.7	16.0	15.8	17.8	21.9	13.2
Construction Orders	-19.3	12.7	21.3	-2.0	56.3	52.3	44.2	38.3

p: preliminary

Source: Korea National Statistical Office

Business Indexes

The Coincident Composite Index (CI) grew 0.7 percent on-month in September to 116.2 due largely to an increase in the value of exports and imports. The cyclical component of the coincident CI, a snapshot of current business conditions, also rose modestly to 99.2, up 0.3 point from the preceding month.

The leading CI stood at 107.7 in September, down 0.2 percent from the preceding month due mainly to a decline in construction permit areas and the employment accession/separation rate. The on-year leading CI growth remained unchanged, down 0.1 percentage point from a month earlier.

(Base year: 2000)

	2003						
	Mar.	Apr.	May	Jun.	Jul.	Aug. ^P	Sept. ^P
Coincident CI	114.9	114.5	114.4	114.6	114.7	115.4	116.2
Cyclical Component	100.7	99.9	99.4	99.1	98.8	98.9	99.2
Leading CI	106.3	105.6	105.4	106.6	107.1	107.9	107.7
Year-on-Year Change (%)	0.9	-0.4	-1.2	-0.6	-0.5	0.1	0.0

p: preliminary

Source: Korea National Statistical Office

Business Survey and Consumer Expectation Indexes

The BSI for October rose above the 100-point benchmark for the second month since May 2003 by registering 110.3. Factors contributing to the increase include expectations of an economic recovery in Korea as signs of an upturn in advanced countries such as the United States and Japan combine with on-going export growth momentum, including expanding export to China.

	2003									
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.
BSI	91.9	89.3	109.0	90.2	108.1	96.4	90.3	91.4	109.6	110.3

Source: Federation of Korean Industries

The Consumer Expectation Index (CEI), a reflection of how consumers assess economic prospects for the next 6 months, declined to 91.5 in October from 90.4 the previous month.

	2003									
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.
CEI	96.4	96.1	90.4	94.5	94.5	91.7	90.8	92.0	90.4	91.5

Source: Korea National Statistical Office

II. External Transactions

Imports and Exports (customs clearance basis)

Export growth in double digits continued for the fifth consecutive month by climbing 26.2 percent on-year to US\$19.0 billion in October, led by increases in automobile, semiconductor, wireless communication device, and computer exports. Shipments to advanced countries such as the United States, EU, and Japan continued to grow, while those to China – a growing and currently the largest portion of Korean exports – also contributed to the increase.

On-year import growth grew 19.6 percent in October – the second consecutive month in double digits – to US\$16.5 billion due primarily to a surge in crude oil imports prior to a surcharge increase November 17, and double digit growth in capital goods imports, including industrial machinery and electric & electronic products, as well as consumer goods such as household electric appliances, automobiles, and vegetables.

	2003							
	1 st Qtr.	2 nd Qtr.	1 st Half	3 rd Qtr.	Jul.	Aug.	Sept.	Oct. ^p
Exports ¹⁾	20.7	14.4	17.4	16.3	15.3	10.3	23.4	26.2
Imports ¹⁾	30.9	12.1	21.0	10.4	14.1	5.1	11.9	19.6
Trade Balance ²⁾	-1.2	4.4	3.2	5.1	0.6	1.9	2.6	2.5

1) percentage change over the same period of the previous year 2) US\$ billion

p: preliminary

Source: Ministry of Commerce, Industry, and Energy

Balance of Payments

The on-month current account posted a surplus for the fifth straight month ending with a US\$2.35 billion surplus in September, up US\$0.96 billion from the previous month. This steady increase was a result of a surge in goods trade balance surplus and narrowing service balance, despite the narrowing income balance surplus and widening current transfer account deficit.

The goods trade balance surplus stood at US\$3.22 billion, up US\$0.85 billion from the previous month. The service balance deficit narrowed to US\$0.59 billion from US\$ 0.99 billion the previous month as the transport balance surplus grew led by a hike in cargo

shipment income and a shrinking travel balance deficit as fewer Koreans travel overseas, and reduced patent royalty payments. The income balance surplus decreased from US\$0.28 billion to US\$0.06 billion as external asset operational gains decreased. The current transfer balance deficit increased from US\$0.27 billion to US\$0.34 billion from the previous month.

The capital account recorded a US\$ 0.04 billion surplus in September, up US\$3.69 billion from US\$3.73 billion in August. This was due primarily to a steady net inflow of foreign portfolio investment funds and an increase in mid- and long-term foreign currency-denominated bond issuances by domestic financial institutions.

	(US\$ billion)					
	2003					
	1 st Qtr.	2 nd Qtr.	3 rd Qtr.	Jul.	Aug	Sept. ^P
Current Account Balance	-1.72	2.52	4.17	0.43	1.39	2.35
- Goods Trade Balance	1.23	5.70	7.16	1.57	2.37	3.22
- Service Balance	-2.57	-1.62	-2.66	-1.08	-0.99	-0.59
- Income Balance	0.31	-0.99	0.53	0.18	0.28	0.06
- Current Transfer	-0.68	-0.56	-0.85	-0.24	-0.27	-0.34
Capital Account Balance	1.77	2.36	3.91	0.13	3.73	0.04

p: preliminary

Source: Bank of Korea

Foreign Exchange Reserves

Foreign exchange reserves stood at US\$143.3 billion at the end of October, a US\$1.8 billion increase from the previous month. This increase has been attributed to a steady influx of operating gains on certain foreign currency holdings, as well as an increase in the value of assets denominated in such foreign currencies as the euro and yen when converted into the U.S. dollars. The Korean foreign exchange reserve is the fourth largest in the world, trailing only Japan, China, and Taiwan.

	(End of period, US\$ billion)							
	1999	2000	2001	2002	2003			
					Jul.	Aug.	Sept.	Oct.
Foreign Reserves	74.1	96.2	102.8	121.4	132.9	136.2	141.5	143.3

Source: Bank of Korea

III. Prices and Employment

Prices

Consumer prices inched up 0.1 percent on-month in October 2003 led primarily by a spike in agricultural, livestock, and fishery product prices, while the cost of public services and industrial products declined. The on-year consumer prices rose 3.6 percent.

The on-month core inflation index which does not include agricultural and energy prices, however, edged down 0.1 percent on-month in October.

Producer prices grew 0.3 percent on-month in October 2003, led by an increase in fruit, textile, and electrical machinery prices, as well as out-port freight rates. The on-year producer prices rose 2.2 percent.

										(month-on-month, percent)
2003										
	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	
Consumer Prices	0.6	1.2	-0.2	-0.2	-0.3	-0.1	0.5	0.9	0.1	
Core inflation	0.2	1.0	0.1	0.2	0.2	-0.1	0.2	0.2	-0.1	
Producer Prices	0.6	1.0	-0.6	-0.5	-0.5	0.2	0.4	0.4	0.3	

Source: Korea National Statistical Office

Employment

The September 2003 unemployment rate declined 0.1 percentage point on-month to 3.2 percent as more job seekers were able to find employment, although the on-year rate increased 0.6 percentage point. The actual number of unemployed workers decreased 26,000 or 3.4 percent from a month earlier, while the seasonally adjusted rate was unchanged.

There were 22,300,000 employed workers in September, up 175,000 or 0.8 percent from the preceding month, although this was 189,000 fewer or 0.8 percent less than the previous year.

	2002	2003						
		Sept.	Mar.	Apr.	May	Jun.	Jul.	Aug.
Jobless (thousands)	605		807	756	744	755	781	756
Unemployment Rate (%)	2.6		3.6	3.3	3.2	3.3	3.4	3.3
- Seasonally adjusted (%)	2.9		3.1	3.2	3.4	3.6	3.6	3.5

Source: Korea National Statistical Office

IV. Financial Market Trends

Interest Rates

Long-term interest rates such as yields on three-year Treasury bonds rose considerably from 4.11 percent at the end of September to finish October at 4.48 percent. This was due in large measure to domestic and overseas expectations of an economic recovery and a surge in bond issuances. CD yields also rose in response to a hike in long-term interest rates.

(End-month percentage)								
	2001	2002	2003					
			Mar.	Jun.	Jul.	Aug.	Sept.	Oct. 2
Treasury bonds (3 yr.)	5.91	5.11	4.62	4.16	4.58	4.46	4.11	3.98
Corporate bonds (3 yr.)	7.04	5.68	5.38	5.45	5.87	5.60	5.05	4.93
CDs (91 days)	4.86	4.90	4.70	4.30	3.96	3.85	3.89	3.88

Source: Bank of Korea

Stock Market

The KOSPI entered record territory in October by reaching 782.36 on the strength of a bullish U.S. stock market and domestic and overseas expectations of an economic recovery.

The KOSPI rose 84.84 points or 12.16 percent from end-September and finished October at 782.36. The KOSDAQ also rose 1.52 points or 3.38 percent to finish at 46.38.

(End-month indexes)

	2001	2002	2003						
			Mar.	Jun.	Jul.	Aug.	Sept.	21 st Oct.	Oct.
KOSPI	693.70	627.55	535.70	669.93	713.52	759.47	697.52	779.89	782.36
KOSDAQ	72.21	44.36	37.77	49.75	49.33	49.54	44.86	47.80	46.38

Source: Bank of Korea

Exchange Rates

The won-to-dollar exchange rate declined to 1,147 won on October 13 in response to such factors as a worldwide trend toward a depreciating U.S. dollar and the net purchases of domestic shares by foreign portfolio investors.

The rate rebounded to the 1,180 won range, however, as intra-Asian and offshore financial institutions that had sold dollars for speculative purpose repurchased them.

	2002	2003					
		Mar	Apr	Aug.	Sept.	Oct. 13	Oct.
Won/Dollar	1,186.2	1,254.6	1,215.3	1,178.2	1,150.1	1,147.2	1,183.1
Yen/Dollar	118.5	119.9	119.6	116.7	110.7	108.4	108.9
Won/100 Yen	999.9	1,044.7	1,014.0	1,009.6	1,038.6	1,058.2	1,086.4

Source: Ministry of Finance and Economy

Money Market

Bank deposits shrank 9.4 trillion won in September, as short-term deposits including time deposits with maturities of 6 months or less, were used to redeem Deposit Insurance Fund Bonds (DIFBs) and Non-performing Claim Resolution Fund Bonds (NCRFBs).

Investment Trust Management Company (ITMC) receipts decreased 1.0 trillion won. This slowdown was due largely to lackluster MMF and bond-type beneficiary certificate investments at ITMCs as funds were withdrawn to redeem DIFBs and NCRFBs, as well as an on-going decline in equity-type beneficiary certificate investments.

(trillion won)

	2002	2003					
		Annual	1 st Qtr.	2 nd Qtr.	3 rd Qtr.	Jul.	Aug.
Bank deposits	5.4	2.8	4.9	-0.8	0.7	6.2	-9.4
ITMC Receipts	1.4	-2.7	-3.0	2.1	7.2	0.1	-1.0

Source: Bank of Korea

Money Supply

The on-year M3 growth rate slipped further from 8.7 percent the previous month to 7.9 percent in August and is estimated to have fallen to the low-7 percent range in September, as fewer corporate and individual bank loans were made.

New M1 increased 6.9 percent on-year in August, however, a 0.7 percentage point hike from the preceding month. The growth rate is estimated to have risen further to the low-7.0 percent range in September.

(percentage change from same period the previous year)

2001	2002				2003					
	1 st Qtr.	2 nd Qtr.	3 rd Qtr.	4 th Qtr.	1 st Qtr.	2 nd Qtr.	3 rd Qtr.	Jul.	Aug.	
M3 ¹	9.6	12.1	13.7	12.6	13.2	12.4	9.6	About 8.0	8.7	7.9 ^p
New M2 ²	6.9	9.5	12.4	10.9	13.0	13.1	9.1	Low-6.0	7.0	6.7
New M1 ³	18.0	26.8	27.9	20.3	16.1	10.3	5.5	mid-6.0	6.2	6.9

1) Currency in circulation + deposits at bank and non-bank financial institutions+ bank debentures issued + commercial bills sold + CD + RP + cover bills (includes cover bills since Nov. 1989)

2) Deposits with up to 2-year maturities (excluding life insurance and securities companies)

3) Demand deposits + instant access accounts + deposits in MMFs at ITMCs

p: preliminary

Source: Bank of Korea

Corporate Financing and Household Loans

Corporate loans increased a modest 0.7 trillion won in September, slowing from 1.7 trillion won the previous month. Loans to large companies decreased 0.8 trillion won as the demand for funds remained sluggish and efforts to lower end-of-the-quarter debt ratios were redoubled.

Loans to small- and medium-sized enterprises (SMEs) increased a modest 1.4 trillion won in September, less than the 1.9 trillion won increase the previous month. When special circumstances such as non-performing asset write-offs to lower end-of-the quarter delinquency ratios are taken into account, the actual amount of credit extended to SMEs continued a strong expansion of approximately 3 trillion won.

Net corporate bonds issuances slipped 0.8 trillion won for September due to lackluster corporate demand for funds. The decline in outstanding commercial paper (CP) issuances widened compared to the previous month.

Bank lending to individuals grew 3.2 trillion won on-month in September, led by an increase in mortgage-based loans, mostly to such groups as apartment buyer collectives seeking installment credit.

	2002	2003					
	Annual	1 st Qtr.	2 nd Qtr.	3 rd Qtr.	Jul.	Aug.	Sept.
Corporate Loans	37.2	16.4	11.0	7.4	5.1	1.7	0.7
- Large Companies	0.1	1.8	-1.0	0.1	1.1	-0.2	-0.8
- SMEs	37.1	14.7	11.9	7.3	4.0	1.9	1.4
Corporate Bonds	-8.1	-1.0	-1.0	-3.1	-1.3	-1.0	-0.8
CPs	10.9	2.3	-13.3	-3.0	-0.9	-0.2	-1.9
Household Loans	61.6	4.8	9.1	8.7	2.3	3.2	3.2
- Mortgage-based Loans*	45.8	2.5	5.3	6.1	1.7	2.0	2.3

* Based on loans collateralized by bank accounts and mortgages

Source: Bank of Korea

V. Economic Outlook for 2004

A 5% economic growth seems to be possible as the overall internal and external conditions improve with less uncertainty than this year.

As domestic demand recovers in earnest in the second half of 2004, the economy is expected to show a stronger recovery in the second half rather than in the first half of 2004. Major research institutions also share the view that the economy will gradually recover, recording about 5% economic growth rate. A 5% economic growth rate seems to be possible due to some technical and relative rebound from this year's sluggish economic activities.