

## I. Executive Summary

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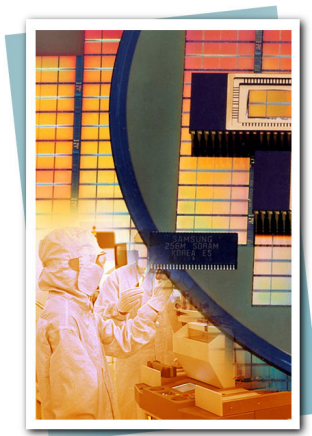
#### I. Executive Summary

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- Korean economic growth continues to be stable in spite of moderating domestic consumption, thanks to a surge in exports. Production in the manufacturing sector grew considerably in November, on the strength of capital and construction investments.
- Consumer prices increased 3.7 percent year-on-year in December due mostly to a spike in the cost of agricultural products, as well as public and private service charges. It is expected that the upward momentum of consumer prices from December will continue for the time being since such costs as international oil prices continue to rise.
- The unemployment rate swelled to 3.0 percent in December as large numbers of college students began looking for work prior to graduation. The diminishing demand for workers in the agricultural and fishery sectors is another factor contributing to the increasing unemployment rate.
- The current account recorded a US\$1.1 billion surplus in November 2002, down slightly from US\$1.4 billion the previous month. The current account surplus shrinkage was mainly due to a widening service account deficit, surging import amount of capital goods, and higher energy product prices.

## II. Trends in the Real Economy



### Industrial Production

Industrial production grew 7.1 percent year-on-year in November, led by a surge in semiconductors and audio-visual equipment. Shipments rose 7.0 percent compared to the same month the previous year due to an upswing in semiconductors, audio-visual communication equipment, and machinery deliveries. The on-year total inventory, meanwhile, contracted 1.1 percent because less machinery equipment and fewer automobiles are being kept on hand. The average operating capacity ratio of manufacturing plants was 76.5 percent in November, a razor-thin 0.5 percent decline from the previous month.

	2001	2002				
	Nov.	2 <sup>nd</sup> Qtr	3 <sup>rd</sup> Qtr	Sep.	Oct. <sup>P</sup>	Nov. <sup>P</sup>
Industrial Production*	4.2	7.5	5.3	0.0	11.9	<b>7.1</b>
Shipments*	5.9	7.1	4.9	1.1	12.3	<b>7.0</b>
Total Inventory*	1.5	-4.9	-2.7	-2.7	-1.5	<b>-1.1</b>
Average Operating Capacity Ratio**	74.5	76.9	76.4	75.7	77.0	<b>76.5</b>

\* Figures represent percentage change from the same period the previous year

\*\* Figures use the year 2000 as the base year for 100.

P: preliminary



## Consumption

Wholesale and retail sales surged 4.8 percent year-on-year in November. This increase resulted from an overall upturn in wholesale and retail trade, as well as automobile and fuel sales. These same categories also grew 0.3 percent month-on-month, thanks in large measure to strong wholesale and retail trade.

Shipments of domestic consumer goods rose 7.7 percent year-on-year on the strength of cell phone, refrigerator, medical supply, and kerosene deliveries. This was a 3.3 percentage points slide from the previous month, and indicates a slower growth rate may be at hand.

The service sector expanded 5.6 percent on-year due to an increase in the medical services portion of health and social welfare projects, as well as a spurt in educational services. The month-on-month growth rate, however, eased 3.3 percentage points from the previous month.

	2001	2002				
	Nov.	2 <sup>nd</sup> Qtr	3 <sup>rd</sup> Qtr	Sept.	Oct. <sup>P</sup>	Nov. <sup>P</sup>
Wholesale & Retail	6.6	6.4	5.1	2.9	7.0	<b>4.8</b>
Domestic Consumer Goods Shipments	4.7	7.0	4.4	-0.9	11.0	<b>7.7</b>
Service Sector	7.8	9.0	7.9	6.2	8.9	<b>5.6</b>

Note: figures represent percentage change from the same period the previous year

p: preliminary

The consumer expectation index (CEI), a reflection of how consumers assess economic prospects for the next 6 months, edged up slightly from 93.4 the previous month to 94.8 in December, registering less than 100 benchmark for the third consecutive month.

	May. '02	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
CEI	109.1	110.6	107.8	106.2	103.9	97.1	93.4	<b>94.8</b>

## Investment

Capital investment grew 6.2 percent in November from a year earlier due to an increasing demand for communication equipment and special-purpose industrial machinery, etc. Domestic machinery orders increased 21.0 percent in November due to a surge in the private-sector demand for internal combustion engines, automobile air conditioning units, and communication equipment. The value of construction projects completed increased 5.7, due primarily to brisk private sector investment, while local construction orders increased 8.9 percent.

	2001	2002				
	Nov.	2 <sup>nd</sup> Qtr	3 <sup>rd</sup> Qtr	Sept.	Oct. <sup>P</sup>	Nov. <sup>P</sup>
Capital Investment	4.4	-0.2	0.1	2.5	1.4	<b>6.2</b>
Machinery Orders	-0.6	-9.3	-20.7	5.6	31.1	<b>21.0</b>
Value of Construction	14.9	3.8	-1.8	-10.1	6.7	<b>5.7</b>
Construction Orders	80.4	8.8	10.2	-17.9	19.8	<b>8.9</b>

Note: Figures represent percentage change from the same period the previous year.

p: preliminary

The Business Survey Index (BSI) for January stood at 91.9 points. This indicator has been below the 100 benchmark for three consecutive months. Although this is mostly due to internal, external, and seasonal uncertainties, it has resulted in dwindling confidence in the business community..

	2002								2003
	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
BSI	145.0	121.8	114.6	100.4	118.5	115.1	98.6	95.6	<b>91.9</b>

## Employment

The unemployment rate rose slightly to 3.0 percent in December, up 0.3 percentage point from a month earlier, but still 0.4 percentage point lower year-on-year. The number of unemployed swelled to 664,000, up 49,000 or 8.0 percent from the previous month. This is mostly due to the large number of college students who began looking for work before they graduate and shrinking demand for workers in the agricultural and fishery sectors. The seasonally adjusted unemployment rate, meanwhile, declined 0.2 percentage point month-on-month to 2.8 percent. There were 21.7 million workers employed in December, down 370,000 or 1.7 percent from a month earlier.

	2001	2002				
	Dec.	Aug.	Sept.	Oct.	Nov.	Dec.
Jobless*	762	658	573	605	615	<b>664</b>
Unemployment Rate (%)	3.4	2.9	2.5	2.6	2.7	<b>3.0</b>
- Seasonally Adjusted (%)	3.3	3.1	2.8	3.0	3.0	<b>2.8</b>

\* in thousands

## Business Indexes

The cyclical component of the coincident Composite Index (CI) - which is indicative of current economic conditions - edged upward to 100.5 in November, 0.2 point higher than the previous month. The coincident CI itself reached 132.1, a 0.5 percent increase from the previous month. The leading CI, meanwhile, was 152.0, a 0.3 percent hike from a month earlier. The leading CI grew 7.3 percent year-on-year in November, 0.6 percentage point lower than the previous month.

	Jun. '02	Jul.	Aug.	Sep.	Oct. <sup>p</sup>	Nov. <sup>p</sup>
Coincident CI*	129.4	129.0	129.1	130.5	131.4	<b>132.1</b>
- Cyclical Component*	100.0	99.4	99.1	99.9	100.3	<b>100.5</b>
Leading CI*	147.3	146.9	146.9	149.1	151.5	<b>152.0</b>
- Year-on-Year Growth (%)	7.9	7.0	6.3	7.0	7.9	<b>7.3</b>

\* Figures use 1995 as the base year for 100.

p: preliminary

## Inflation

The consumer price index (CPI) for December 2002 rose 0.5 percent month-on-month and 3.7 percent year-on-year, respectively. The main reason for the consumer price hike in December, 2002 was the rising cost of agricultural products, rent, and service charges. The core inflation rate, which does not include agricultural and energy prices, rose 0.4 percent month-on-month in December, while the on-year index rose 3.1 percent.

Producer prices, meanwhile, rose 0.1 percent month-on-month and 4.6 percent year-on-year in December 2002, continuing an upward trend since August. This is largely attributable to a hike in agricultural and fishery prices, as well as an increase in city bus fares and freight rates at seaports.

	Jul. '02	Aug.	Sep.	Oct.	Nov.	Dec.
Consumer Prices	-0.3	0.7	0.6	-0.3	0.1	<b>0.5</b>
Core inflation	0.1	0.1	0.3	0.2	0.2	<b>0.4</b>
Producer Prices	-0.2	0.3	0.4	0.5	0.4	<b>0.1</b>

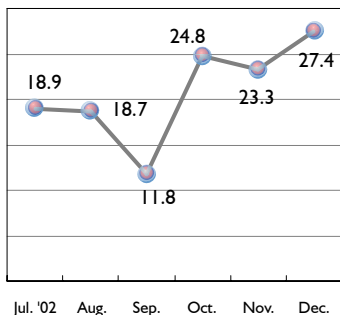
Note: figures represent percentage change month-on-month

## Imports and Exports

Exports totaling US\$15.2 billion were shipped in December, increasing by 27.4 percent year-on-year. The gain was led mainly by a rising overseas demand for semiconductors. Mobile communication equipment and computers were other products that help account for the increase.

Imports, meanwhile, rose 28.0 percent to US\$14.5 billion, the largest monthly import value ever. Volume increased due to higher energy product prices, as well as a surge in import amount of capital goods.

Exports (%)



There was a US\$ 0.7 billion trade surplus in December, maintaining its surplus trend for thirty fifth consecutive month since February 2000.

	Jul. '02	Aug.	Sep.	Oct.	Nov.	Dec.	2002
Exports (%)	18.9	18.7	11.8	24.8	23.3	27.4	8.2
Imports (%)	16.7	13.4	10.9	20.0	21.6	28.0	7.7
Trade Surplus*	5.8	11.0	9.3	13.0	12.0	7.0	102.1

Note: percent figures represent change year-on-year

\* Figures represent multiples of US\$ 100 million.

### Balance of Payments

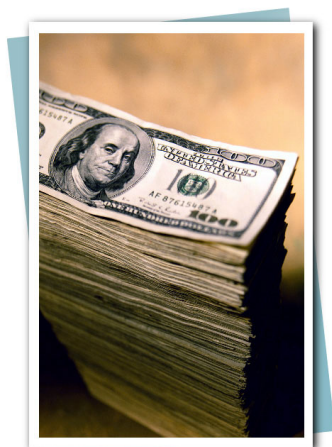
The current account recorded a US\$1.1 billion surplus in November 2002, down slightly from US\$1.4 billion the previous month. The current account surplus shrinkage was mainly due to a widening service account deficit and narrowing goods account surplus, which offset the large income account surplus.

The capital account, in the meantime, posted a US\$0.4 billion deficit, moderating from a US\$1.4 billion deficit in October. The deficit has been ascribed to soaring trade finance repayments, as well as foreign currency loans, even though there has been a net inflow of foreign funds into the domestic stock market.

(US\$ billion)

	2001		2002		
	Nov. <sup>r</sup>	Jan.-Nov. <sup>r</sup>	Oct.	Nov. <sup>p</sup>	Jan.-Nov. <sup>p</sup>
Current Account	0.5	8.4	1.4	1.1	6.7
Capital Account	1.5	-4.4	-1.4	-0.4	1.4

Note: r: revised, p: preliminary

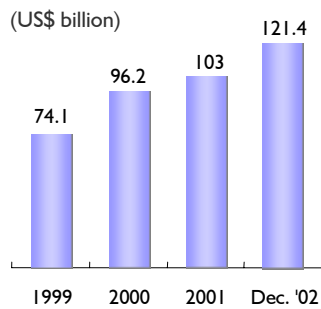


### Foreign Exchange Reserves

Foreign exchange reserves stood at US\$ 121.4 billion as of end-December 2002, increasing by US\$ 3.1 billion from end-November.

The increase in foreign exchange reserves during the month was mainly attributable to increases in operating gains and in the value of yen- and euro-denominated assets when converted into U.S. dollars. Another contributing factor was an increase in foreign currency reserve deposits by financial institutions at BOK.

### Foreign Reserves



As of end-November 2002, Korea held the fourth largest foreign exchange reserves after Japan, China, and Taiwan.

	(US\$ billion)					
	1999	2000	2001	Oct. '02	Nov. '02	Dec. '02
Foreign Reserves	74.1	96.2	103.0	117.0	118.3	121.4

### External Liabilities and Assets

Total external liabilities as of end-November 2002 increased by US\$ 1.8 billion over the previous month to US\$ 130.5 billion. This resulted from a US\$2 billion increase in long-term liabilities from the previous month, which offset a US\$0.2 billion decrease in short-term liabilities.

External assets grew US\$ 3.2 billion to US\$ 181.6 billion. As a result, Korea's net external assets reached US\$ 51.1 billion, up by US\$ 1.4 billion from the previous month, maintaining a net creditor position established in September 1999.

	(US\$ billion)						
	1997	1998	1999	2000	2001	Oct. '02	Nov. '02
External Liabilities	159.2	148.7	137.1	131.7	118.8	128.7	130.5
External Assets	105.2	128.5	145.4	164.7	165.4	178.4	181.6
Net External Assets	-54.1	-20.2	8.3	33.0	46.6	49.7	51.1

## III. Financial Market Trends

### Won / Dollar Exchange Rate

The value of the won has been gaining strength against the U.S. dollar due to both external and internal uncertainties. Its value increased 10.7 percent against the greenback in 2002. The strengthening of the won against the dollar is largely attributable to such external uncertainties as a potential U.S.-Iraq war and a surge in the U.S. current account deficit. The concerns over North Korea's nuclear program and the favorable fundamentals of the Korean economy have also strengthened the won against the dollar.

	1999	2000	2001	2002	Jan. 13. '03
Won-Dollar	1,138	1,264.5	1,313.5	1,186.2	1,178.4
Yen-Dollar	102.1	114.4	131.4	118.5	119.1
Won-100Yen	1,121.8	1,101.5	1,009.4	1,012.9	989.2

Note: figures represent change as of end-year

## Monetary Aggregates

According to the Bank of Korea it is estimated that M3 (banking and non-banking sector liabilities) growth might have slipped to the mid-13 percent level year-on-year in December, from the previous month's provisional 13.7 percent. This has been ascribed to a contraction in monthly government-supplied liquidity, as well as a continuing downturn in household lending. The year-on-year M2 (central and commercial bank liabilities) growth, meanwhile, was also down 2.2 percentage points to 10.5 percent in December.

'New M1' (demand and instant access deposits) growth dipped to 16.1 percent year-on-year in November, 2002, a decrease from 16.9 percent the previous month, even though instant access account deposits and MMFs increased. This was attributable in large measure to a technical decline effect from the unusually high mid-20 percent range growth of 'New M1' during November the previous year.

	Jun. '02	Jul.	Aug.	Sep.	Oct.	Nov.	Dec. <sup>p</sup>
Reserve Base	16.3	14.9	15.1	15.3	9.7	12.7	9.7
New M1	26.4	22.6	20.3	18.0	16.9	16.1	-
M2	13.8	12.3	11.8	12.1	12.1	12.7	10.5
M3	13.5	13.0	12.4	12.4	12.5	13.7 <sup>p</sup>	-

Note: Figures represent percentage change year-on-year; p: preliminary

## Interest Rates

Yields on benchmark 3-year Treasury bonds sank to 5.11 percent as of end-December, from 5.35 percent the previous month. The decline is due to growing domestic uncertainties stemming from the North Korean nuclear program, coupled with such external uncertainties as a potential U.S.-Iraq war. It has also been ascribed to changes in the supply of and demand for bonds, such as the planned curtailment in issuance of Treasury bonds for January 2003.

Despite the decline in bond yields, meanwhile, short-term interest rates, including yields on certificates of deposit and commercial paper, remained unchanged from the previous month due to their linkage to overnight call rate levels.

	Jul. '02	Aug.	Sep.	Oct.	Nov.	Dec.
Overnight call rate (1 day)	4.26	4.26	4.26	4.26	4.27	4.49
Certificate of deposit (91 days)	4.84	4.80	4.86	4.94	4.90	4.90
Treasury bonds (3 years)	5.54	5.45	5.30	5.33	5.35	5.11
Corporate bonds (3 years)	6.42	6.23	6.00	5.95	5.96	5.58

Note: End-month percentage figures



## Stock Market

The KOSPI stock index in December 2002 declined 627.55, a sizeable slide from 724.80 a month earlier. The KOSDAQ also fell to 44.36 from 51.90. Stock prices fell in December, as concerns rose about the sharp increase the previous month and declining U.S. Stock prices. The dispute over North Korea's nuclear program was another factor that pulled stock prices down.

	2001	2002			
		Sept.	Oct.	Nov.	Dec.
KOSPI	693.70	646.4	658.92	724.80	<b>627.55</b>
KOSDAQ Index	72.21	46.7	48.05	51.90	<b>44.36</b>

Note: Figures represent changes as of end-month

## Money Market

Bank deposits shrank 2.2 trillion won in December in a sharp turnaround from 8.3 trillion won posted a month earlier. This was due to the year-end redemption of loans by the corporate sector.

Receipts in investment trust management companies (ITMCs), meanwhile, also plummeted by 4.3 trillion won. The decline is ascribed to continuing sluggish sales of stock-related products, as well as the negative growth of deposits into MMFs since mid-December.

Trust bank account deposits continued to decline as maturity withdrawals from new post-retirement pension and installment trusts continued. This offset a steady increase in deposits into specific money in trust accounts.

(trillion won)

	2002				
	1 <sup>st</sup> Half	3 <sup>rd</sup> Qtr	4 <sup>th</sup> Qtr	Nov.	Dec.
Bank deposits	6.7	3.4	4.6	8.3	<b>-2.2</b>
Receipts in ITMCs	1.9	1.7	-0.07	2.6	<b>-4.3</b>
Trust bank account deposits	-1.0	-0.6	-0.06	-0.2	<b>-0.4</b>
Merchant bank deposits	-0.1	0.06	-0.3	0.1	<b>-1.7</b>

## Bank Loans and Corporate Financing

Bank loans to the corporate sector dropped by 4.0 trillion won in December, in line with the redemption of loans to reduce the corporate debt ratio at the end of the year. Household loans from banks also continued to decline, increasing only 2.3 trillion won.

Mortgage-based loans slightly increased 1.8 trillion won, representing a yearly low. Stable housing prices, deferred housing purchases following the adjustment of the beginning of winter vacation are several factors that help explain the small increase.

Corporate bonds worth 1.7 trillion won, meanwhile, were redeemed in December after November's net issuance. This was because of the large volume of bonds issued the previous month in preparation for the concentration of 1.6 trillion won in bonds that matured at the end of the year, coupled with restrained corporate bond issuance prior to year-end closing.

	(trillion won)					
	1 <sup>st</sup> H, '02	3 <sup>rd</sup> Qtr	4 <sup>th</sup> Qtr	Nov.	Dec.	Balance end-2002
Corporate Loans	24.1	8.2	4.9	3.1	-4.0	224
- Large Companies	1.6	-0.3	-1.2	0.2	-2.4	32.0
- SMEs*	22.4	8.5	6.1	2.8	-1.6	191.9
Household Loans	35.1	16.0	10.5	2.1	2.3	222.2
- Mortgage-based Loans <sup>1)</sup>	24.7	11.8	9.4	2.8	1.8	130.6
Corporate Bonds	-6.7	-0.8	-0.4	1.4	-1.7	-

1) Based on loans collateralized by bank accounts and mortgages

\* Small- and medium-sized enterprises

If you have any questions, suggestions, and/or comments, please feel free to call the Foreign Press and Public Relation Division at (82-2)503-8652, fax(82-2)503-8653, or e-mail us at [fprr@mofe.go.kr](mailto:fprr@mofe.go.kr).

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