

## LETTER FROM THE EDITOR

The state of the Korean economy in April can be summarized by continued improvement in the real economy and increased uncertainty in the financial market. Exports in April recorded double-digit growth, to regain ground from thirteen consecutive months of minus growth. An export recovery however doesn't mean that the economy will see an accelerated upturn. Export volume is still lower than that in 2000. Unless the terms of trade (relative prices of exports and imports) recover quickly, a mere turnaround in the y-o-y export growth rate is not a sufficient sign for faster-than-expected growth of the entire economy. In addition, domestic private consumption, which prevented the economy from declining further during its slump, doesn't seem likely to expand beyond last year's growth. The greatest factor in the consumption slowdown is the increasing debt burden of households. Meanwhile, the growth rate of corporate facility investment is still at a mediocre level. Usually, facility investment used to follow export increases, but at this time, it is still ambiguous whether the Korean big businesses who lead investment will repeat this pattern. Apart from real economic indicators, indexes for economic sentiment have shown promising figures. In sum, real economic indicators are confirming a steady but not-so-fast recovery of the economy.

Meanwhile, the other part of the economy is experiencing a "correctional" stage. In the financial market where most indicators move faster than in the real economy, there is an overall reflection that expectations may have been prematurely high. In addition, the general consensus is that market interest rate is a little too high compared to the major policy tool, i.e. the call rate. Outside the economy, a notion that the U.S. dollar should "adjust" to the reality of a widening U.S. trade deficit is spreading. Altogether, these markets are and will have to correct these discrepancies. The problem is, however, that correction often means an up-and-down fluctuation rather than a "single movement." This is the primary reason why one should accept that increased uncertainty in those markets may be inevitable for several months ahead.

This month's VIP Millennium Report sketches these macroeconomic aspects of the Korean economy in the Macroeconomy and Financial Market section. The other sections include subjects other than macro issues. The Business Focus section examines the relation between Korea's role as host of the 2002 World Cup and the enhancement of the country's cultural capital stock. This is an important issue with the increasing importance of intangible assets in this present era. The Current Issues section also presents some interesting topics. The first article examines the knowledge stock base of big name domestic corporations. Although the current methodology used to measure knowledge stock base remains controversial, this attempt will definitely shed some light on future study and policy-making. The second article is an update of a routine index of the conditions perceived by Korean venture companies. The third article looks at economic conditions perceived by domestic households. The main focus of the survey is changes in asset prices and the ensuing response.

The issue in the Korean economy for upcoming months is whether the sentiments and indicators that were fostered during the past several months are robust enough not to be deterred by these market uncertainties. While policy-makers need to offset the negative impact from uncertainty in respective markets, people in business and households will be tested on their belief and loyalty in economic recovery as well. This test will be less exciting, but the importance is far greater than the contests in the World Cup tournament. **VIP**