

Table 1. Domestic Macro Economic Performance and Outlook

	1997	1998	1999	2000	2001(p)	2002(e)
<b>Growth Rate(%)</b>	5.0	-6.7	10.9	9.3	3.0	6.2
<b>GNI per person(\$)</b>	10,315	6,744	8,595	9,770	8,900	9,400-9,600
<b>Domestic Account</b>						
<b>Total Consumption(%)</b>	3.2	-10.1	9.4	6.7	3.7	6.5
<b>Private Consumption(%)</b>	3.5	-11.7	11.0	7.9	4.2	6.7
<b>Investment(%)</b>	-2.2	-21.2	3.7	11.4	-1.7	7.0
<b>Construction Investment(%)</b>	2.3	-10.1	-10.3	-4.1	5.8	6.9
<b>Facility Investment(%)</b>	-8.7	-38.8	36.3	35.3	-9.8	7.4
<b>Foreign Transactions</b>						
<b>Current Account(\$100m)</b>	-81.7	404	245	122	86	80
<b>Balance of Payments(\$100m)</b>	-84	390	239	118	95	79
<b>Exports(\$100m)</b>	1,362	1,323	1,437	1,723	1,504	1,640
<b>Growth Rate(%)</b>	(5.0)	(-2.8)	(8.6)	(19.9)	(-12.7)	(9.0)
<b>Income(\$100m)</b>	1,446	933	1,198	1,605	1,411	1,561
<b>Growth Rate(%)</b>	(-3.8)	(-35.5)	(28.4)	(34.0)	(-12.1)	(10.6)
<b>Misc.</b>						
<b>Consumer Price(Avg. %)</b>	4.4	7.5	0.8	2.3	4.1	3.5
<b>Interest Rate(3year government bond, %, end of term)</b>	15.0	6.95	9.03	6.70	5.91	6.6
<b>Won/\$ Exchange Rate (Avg., Won)</b>	951	1,399	1,190	1,131	1,291	1,210~1,230
<b>Unemployment Rate (%)</b>	2.6	6.8	6.3	4.1	3.7	3.1

\*Note: All figures are for the end of the period unless noted otherwise.

## The Economy

In 2001, Korea's GDP growth rate recorded 3.0%, and this year the economy is expected to show a recovery led by consumption and construction investment. However, the trade surplus is expected to decline this year, lowering the contribution of exports to growth, and facility investment is not expected to rise significantly. As a result, the GDP growth rate in 2002 is expected to be about 6.2%, and per capita GNI will likely hover around \$9,500 (thus remaining under \$10,000 mark for two years in a row).

	1997	1998	1999	2000	2001	2002(E)
GDP Growth Rate (%)	5.0	-6.7	10.9	9.3	3.0	6.2
Nominal GDP (US\$ bil)	476.6	317.7	405.8	461.7	422.2	477.3
GNI per capita (US\$)	10,307.0	6,723.0	8,551.0	9,770.0	8,900.0	9,500.0
Gross Saving Rate	33.4	33.9	32.9	32.4	29.9	-

## Industry

Industrial production in May increased 7.7% y-o-y due to factors such as increased auto and semiconductor production. Wholesale and retail sales maintained their uptrend, increasing by 7.5% y-o-y. Facility investment increased by 5.1% y-o-y, while construction orders recorded a 2.6% increase due to a rise in orders from the private sector. The average facility utilization rate was 76.5%, a slight decline from the previous 2 months, while inventory declined by 13.7% y-o-y.

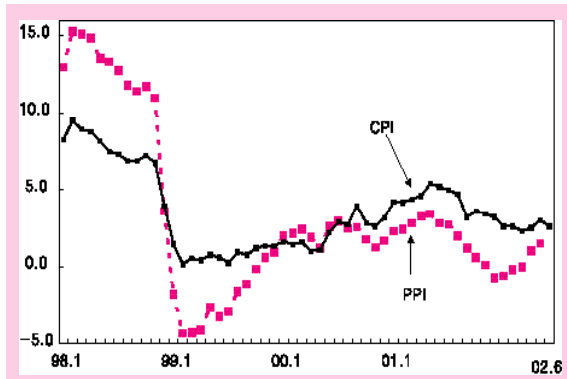
Industrial Indexes (y-o-y, %)	2000	2001					2002		
		Q1	Q2	Q3	Q4	Avg.	Q1	4	5
Industrial Production Indexes	16.8	5.0	1.7	-1.8	2.3	1.8	3.9	7.3	7.7
Wholesale and Retail Trade Indexes	9.8	2.5	4.4	4.9	6.5	4.6	8.0	7.7	7.5
Domestic Machinery Orders Received	11.7	3.7	-2.8	-5.7	-7.1	-1.0	33.3	21.9	-13.3
Domestic Construction Orders Received	15.1	-25.3	1.7	17.0	60.1	14.4	85.6	31.3	2.6

## Employment

The number of unemployed in May fell by 46,000 (-6.5%) and fell by 116,000 (-15.3%) y-o-y. The unemployment rate was 2.9%, a decrease from April (the seasonally adjusted rate stayed same at 3.1%). Compared to April, excluding people who are in their 30's, there has been an across the board decrease of both unemployed and unemployment rate. The largest decline was shown in people who are in their teens and 20's. The number of new employees rose by 163,000 from April due to an increase in primary sector jobs, such as agriculture and fisheries, and public and private service jobs. The number of persons willing and able to work but who have given up the job search fell by 7,000 from April to 66,000 and the unemployment rate by OECD standards fell by 0.2% to 3.1%

	2001						2002				
	Q1	Q2	Q3	Q4	12	year	Q1	1	2	3	4
Total Employed (thousand)	20,403	21,748	21,754	21,673	21,347	21,362	21,216	21,025	22,563	21,523	22,060
Unemployment Rate (%)	4.8	3.3	3.2	3.2	3.4	3.7	3.6	3.7	3.7	3.4	3.1
Total Number of Unemployed (thousand)	1,029	745	748	725	762	819	769	819	770	769	707

**Prices**

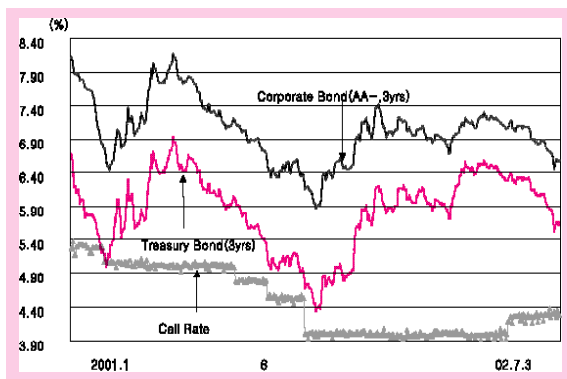


In June, prices for housing expenses and miscellaneous increased, but prices for transportation, communication, entertainment, and food fell, causing consumer prices to fall by 0.1% compared to May (2.6% y-o-y). While living necessities prices fell by 0.4% compared to April, they fell by 2.3% y-o-y, slightly lower than the rate of increase in consumer prices. Although some inflationary pressure exist in both domestic demand and external supply (especially in oil), the inflation rate for this year is expected to be slightly below that of 2001.

Prices*(%)	2000	2001				2002				
		10	11	12	year	1	2	3	4	5
Consumer Prices (%)	2.3	3.4	3.4	3.2	4.1	2.6	2.6	2.3	2.5	3.0
Producer Prices (%)	2.0	0.6	0.1	-0.7	1.9	-0.6	-0.2	0.0	1.0	1.5

\*Percentage change over a year ago

**Interest Rates**



Interest rates have dramatically decreased because of a large drop in the US national bond's earning rates and poor performance in domestic and international stock markets have caused investment in bonds to increase. Although the US economic indicators, such as ISM index, orders in durable goods, and conference board's leading indicators, are showing positive trends, accounting scandals plaguing several major US corporations and resulting rapid depreciation of the US dollar and decline of the US stock markets are causing a crisis in trustworthiness of the US economy. This crisis has caused not only a decline in the US markets, but also have caused overall decline

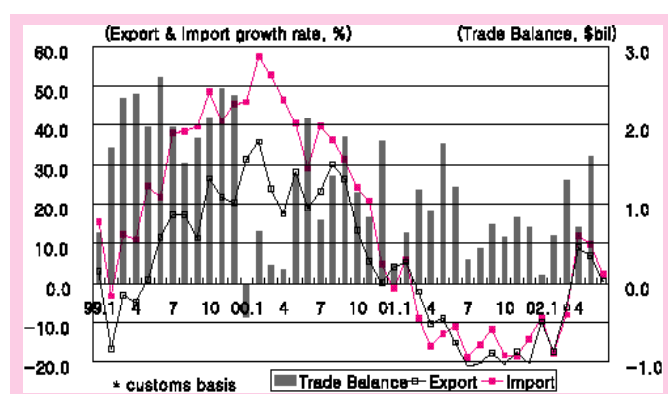
in Korean markets. Disappointed by a poor performance in stock markets, investors looked to bond markets as an alternative and this have caused a rapid decline in interest rates.

Even though there are some uncertainties about speed of the US's economic recovery, domestic economy of Korea is showing a rising trend and supply shortage of Bonds will likely be solved. Considering these factors, interest rates are expected to rise slightly.

Domestic Interest Rates* (%)	2000				2001				2002	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	7.10
Call Rate (overnight)	5.11	5.16	5.03	6.01	5.01	5.04	3.97	4.01	4.04	4.28
Yield on CP (91 days)	7.28	7.61	7.40	7.13	5.97	5.62	4.62	5.01	4.98	5.05
Yield on Corporate Bonds (3 years)	10.01	9.41	9.04	8.13	7.67	7.10	5.95	7.04	7.07	6.75

\*End of period

## Trade



Exports in June recorded 13 billion dollars, a 0.5% increase y-o-y. Imports amounted to 11.97 billion, a 2.2% increase y-o-y, resulting in a trade surplus of 1.03 billion dollars, continuing the 29 months streak of trade surplus since February, 2000. Compared to May (6.9%), export has drastically decreased. Decreased work days, worker's strikes and rapid appreciation of Korean Won are main reasons for this decline. Consumer goods imports have maintained an increasing trend but on the other hand, capital goods imports have slowed down, resulting in an overall

slowdown in import growth.

In July, an a high growth trend is expected to continue. This rising trend in growth rate is expected to be maintained for the rest of the year. However, growth will be limited by several factors such as: a decline in Won/U.S. dollar exchange rate and decrease in foreign demand. Due to these reasons, an expected annual growth rate is 9.0% and trade surplus will be in the neighbourhood of 7.9 billion dollars.

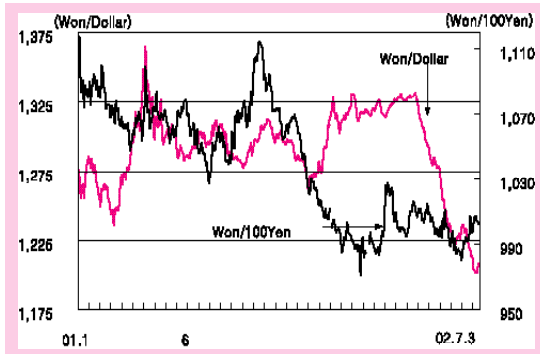
External Transaction (US\$ bil)	98	99	2000	2001	2002		
					Q1	Apr	May
Export (FOB)	132.3	143.6	172.3	150.4	35.7	13.2	14.3
Imports (CIF)	93.3	119.8	160.5	141.1	33.7	12.5	12.7
Current Account	40.4	24.5	12.2	8.6	1.7	0	-
Goods	41.6	28.4	16.9	13.4	3.2	1.2	-
Services	1.0	-0.7	-2.9	-3.5	-1.4	-0.3	-
Income	-5.6	-5.2	-2.4	-0.9	0	-0.7	-
Current Transfer	3.3	1.9	0.7	-0.4	-0.1	-0.1	-
FX Reserves*	48.5	74.1	96.2	102.8	106.1	107.7	109.6

\*end of period

External Liabilities* (US\$ bil)	98	99	2000	2001	2002		
					Jan	Feb	Mar
Long Term	118.0	97.8	83.7	78.5	80.0	78.9	78.3
Short Term	30.7	39.2	47.9	39.1	39.7	40.0	41.2
Total	148.7	137.1	131.7	117.7	119.7	118.9	119.5

\*end of period

## Exchange Rates



The Won/Dollar rate rapidly declined as the US dollar is continuously showing a worldwide weakening trend. Accumulation of current account deficit, delay in the recovery of IT industry and WorldCom's accounting scandal have caused trustworthiness of the US to drop drastically, causing the US dollar to depreciate rapidly. On top of these factors, US president Bush's speech that approves the weak U.S. dollar, strengthening of Euro, and large scale sell-off by money traders contributed to the depreciation of US dollar.

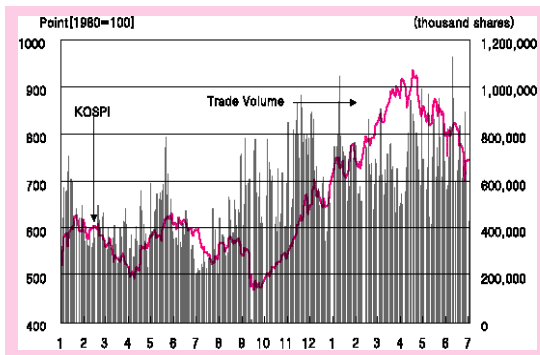
Depreciation of the US dollar will likely going to continue but the rate of depreciation will slowdown considerably. Several factors, such as the leading US indicators are showing positive signs, uncertainties in recovery of Japanese and European economies, and government's intervention in foreign currency market, will influence the Won/dollar rate adjustment.

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Exchange Rates*	1999				2000				2001				2002
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
₩ / \$	1,191.4	1,157.6	1,204.0	1,138.0	1,108.3	1,114.9	1,115.0	1,265.0	1,327.5	1,319.7	1,309.0	1,313.0	1,325.9
¥ / \$	118.2	133.2	114.0	102.2	102.7	105.9	108.1	114.3	123.2	123.8	119.5	120.5	132.8

\* end of period

## Stock Market



Stock prices remained stable even after the "triple-witching day". A continuous slump of the US stock market afterwards, however, caused a rapid decline in stock price across the board. Since then, stock prices have recovered somewhat, primarily due to some bargain hunting. Stock prices were relatively stagnant after triple-witching day and not really gaining momentum. Investors, however, lost confidence because of rapid downturn in the US market and this have caused the decline in Korean stock prices as well. The Korea Stock Price Index went below 700 point level for a short period of time but foreign bargain hunting caused the rebound.

This rebounding trend is expected to continue because of the market overreaction and high level of confidence in current economic situation. Recent decline in stock prices are primarily caused by a lack of confidence in domestic economy. Positive signs that are currently appearing across all the sectors will eventually bring confidence back to the economy. Further, Fitch company's announcement of two-level increase in Korea's financial trustworthiness will help to bring back confidence as well.

Stock Market*	2000				2001				2002	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	7.10
Composite Stock Price Index (end)	860.94	821.22	613.22	504.62	523.22	595.13	479.68	693.70	895.58	794.71
Traded Volume (Avg, ten thousands)	12,155	45,908	34,279	23,968	41,438	22,298	42,029	50,969	45,492	73,164

\* end of period