

The Green Book: Current Economic Trends

Overview

The Korean economy overall continues to show signs of recovery, although the pace of recovery of real indicators such as consumption and investment is moderate.

Private consumption, which has been the main cause of sluggish economy, is continuing a modest recovery with improved consumer sentiment and progress in household debt adjustment.

As for investments, facility investment turned negative, whereas construction investment appeared slightly improving.

Export growth is slowing due to a base effect from the strong export growth of 31.0 percent last year. It is however maintaining a double-digit growth.

Manufacturing production growth has lowered following slowing export expansion. The service industry is pointing to a rebound on the back of signs of improving domestic demand despite at a modest level.

Employment is gradually improving with more people on payrolls.

Prices stabilized with consumer price index remaining in the low 3 percent range and core inflation staying below 3 percent.

However, the economy still in transition and a moderate pickup in domestic demand are not sufficient enough to compensate for the slowing export growth. External factors such as oil prices and foreign exchange rate have been more volatile than initially expected, posing a challenge to an early recovery.

Therefore, the government remains committed to revive the economy as early as possible in order for the economy to return early on a growth track commensurate with its growth potential and to help it to stay put once recovered.

The accommodative macroeconomic policy will be maintained, with fiscal frontloading in the first half and implementation of the Comprehensive Investment Initiative (CII) in the second half at the core. From a microeconomic perspective in parallel, sector-by-sector measures will be taken up, including deregulation such as land regulation reform, scheduled implementation of government projects, expanded supply of rental housing and strengthening service industry competitiveness.

1. Global economy

In the first quarter of 2005, the global economy maintained its robust growth led by the United States, China and Japan.

IMF world economic growth outlook (%, Apr 2005)

5.1 (2004) → 4.3 (2005^e) → 4.4 (2006^e)

e: estimation

Uncertainties are expected to rise due to upward pressure on oil prices ahead of an upcoming holiday season in the United States and mounting trade pressure on China including the yuan appreciation.

In the "Report to Congress on International Economic and Exchange Rate Policies" of trading partners, the U.S. Department of the Treasury said that no major trading partner of the U.S. met the technical requirements for designation under the Omnibus Trade and Competitiveness Act of 1988 during the second half of 2004. The report, however, suggested that China may be designated as a country manipulating foreign exchange rate if the country does not take any action to adopt a more flexible exchange rate over the next six months.

U.S.

Preliminary economic growth in the United States recorded 3.5 percent in the first quarter, up 0.4 percentage point from the expected growth of 3.1 percent as a sharp decline in import brought down the trade deficit in March, far larger than the earlier expectation of US\$61.9 billion, raising the contribution of net export to the trade balance.

Growth rate (q-o-q, annualized rate, %)

4.5 (Q1 2004) → 3.3 (Q2) → 4.0 (Q3) → 3.8 (Q4)
→ 3.5 (Q1 2005)

Industrial production was down 0.2 percent from the previous month due to slowdown in automobiles, parts, electricity and gas while employment greatly improved and retail sales also picked up led by automobiles and clothes.

Industrial production (m-o-m, %)

0.9 (Dec 2004) → -0.1 (Jan 2005) → 0.5 (Feb)
→ 0.1 (Mar) → -0.2 (Apr)

New non-farm payroll employment

(m-o-m, thousand)

155 (Dec 2004) → 124 (Jan 2005) → 300 (Feb)
→ 146 (Mar) → 274 (Apr)

Retail sales (m-o-m, %)

1.3 (Dec 2004) → 0.3 (Jan 2005) → 0.5 (Feb)
→ 0.4 (Mar) → 1.4 (Apr)

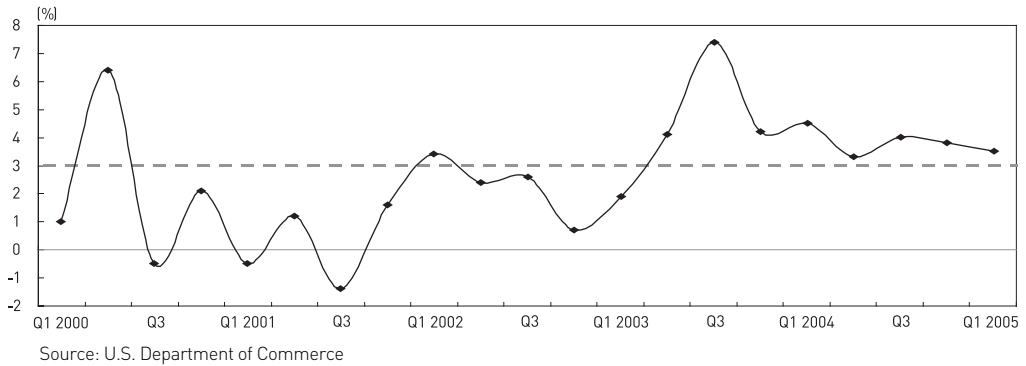
Inflationary pressure weakened a little in April from the previous month, although soaring oil and raw material prices continued to put upward pressure.

Consumer Price Index (m-o-m, %)

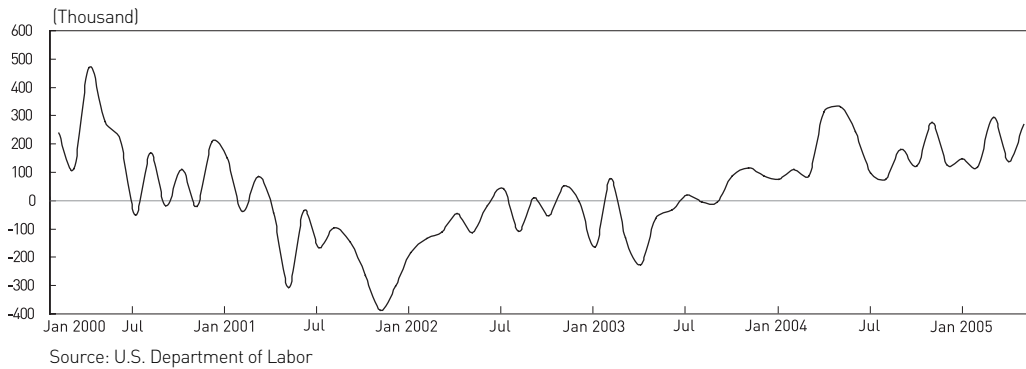
0.0 (Dec 2004) → 0.1 (Jan 2005) → 0.4 (Feb)
→ 0.6 (Mar) → 0.5 (Apr)

• m-o-m: month-on-month • q-o-q: quarter-on-quarter
• y-o-y: year-on-year

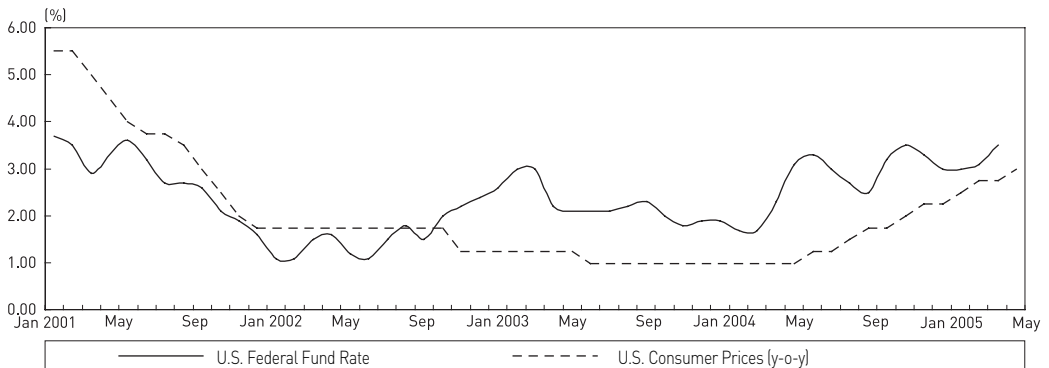
Graph 1-1: U.S. GDP (Q-o-Q, Annualized Rate)



Graph 1-2: U.S. Non-Farm Payroll Employment (M-o-M Change)



Graph 1-3: U.S. Federal Fund Rate and Consumer Prices



China

The Chinese economy continued to realize higher-than-expected growth this year.

With the growth rate of 9.4 percent in the first quarter, the Chinese economy has recorded a 9 percent range growth for seven consecutive quarters.

Growth rate (y-o-y, %)

9.8 (Q1 2004) → 9.6 (Q2) → 9.1 (Q3) → 9.5 (Q4)
→ 9.4 (Q1 2005)

Industrial production, investment in fixed assets, retail sales and exports remained solid in April.

Retail sales (y-o-y, %)

14.5 (Dec 2004) → 11.5 (Jan 2005) → 15.8 (Feb)
→ 13.9 (Mar) → 12.2 (Apr)

Industrial production (y-o-y, %)

14.4 (Dec 2004) → 20.9 (Jan 2005) → 7.6 (Feb)
→ 15.1 (Mar) → 16.0 (Apr)

Exports (y-o-y, %)

32.7 (Dec 2004) → 42.1 (Jan 2005) → 30.8 (Feb)
→ 32.8 (Mar) → 31.9 (Apr)

Accumulated investment in fixed assets (y-o-y, %)

27.6 (Dec 2004) → 24.5 (Feb 2005) → 25.3 (Mar)
→ 25.7 (Apr)

Japan

The Japanese economy recorded a high growth of 1.3 percent (5.3 percent in annualized terms) in the first quarter as domestic demand including consumer spending and facility investment revives.

Growth rate (q-o-q, %)

1.4 (Q1 2004) → -0.2 (Q2) → -0.3 (Q3)
→ 0.0 (Q4) → 1.3 (Q1 2005)

The economy is “recovering at a moderate pace” (*Cabinet Office said*) as production in the mining and manufacturing industries reversed

course to positive territory in 3 months fueled by growth in transportation equipment and electronic machinery, and exports sustained a solid growth led by recovering exports to EU.

Exports (y-o-y, %)

8.8 (Dec 2004) → 3.2 (Jan 2005) → 1.7 (Feb)
→ 6.1 (Mar) → 7.8 (Apr)

Production in mining and manufacturing industries (m-o-m, %)

-0.2 (Dec 2004) → 3.2 (Jan 2005) → -2.3 (Feb)
→ -0.3 (Mar) → 2.2 (Apr)

Eurozone

Concerns are mounting over possible economic slowdown in the Eurozone due to sluggish domestic demand caused by surging oil prices and high unemployment and growing uncertainties about Eurozone integration stirred by refusal of France and the Netherlands to ratify legislation of EU constitution.

Retail sales, however, slightly increased in March and industrial production decrease was eased as exports reversed course to positive growth.

Unemployment rate (%)

8.8 (Dec 2004) → 8.8 (Jan 2005) → 8.8 (Feb)
→ 8.9 (Mar)

Retail sales (m-o-m, %)

0.0 (Dec 2004) → 0.4 (Jan 2005) → 0.2 (Feb)
→ 0.3 (Mar)

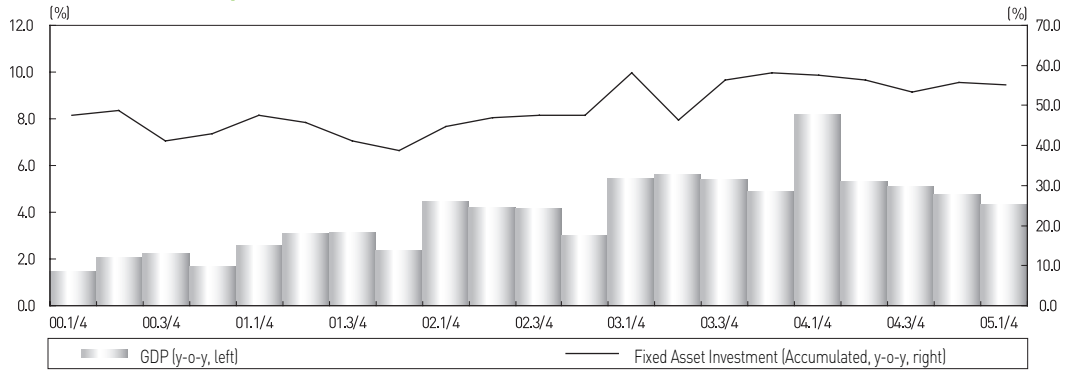
Exports (m-o-m, %)

-0.9 (Dec 2004) → -0.2 (Jan 2005) → -0.2 (Feb)
→ 0.0 (Mar)

Industrial production (m-o-m, %)

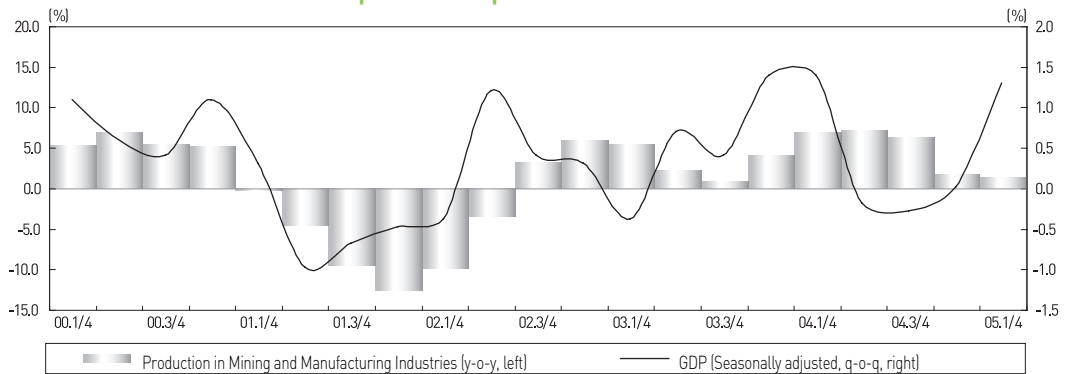
0.4 (Dec 2004) → 0.2 (Jan 2005) → -0.6 (Feb)
→ -0.2 (Mar)

Graph 1-4: China's GDP and Fixed Asset Investment



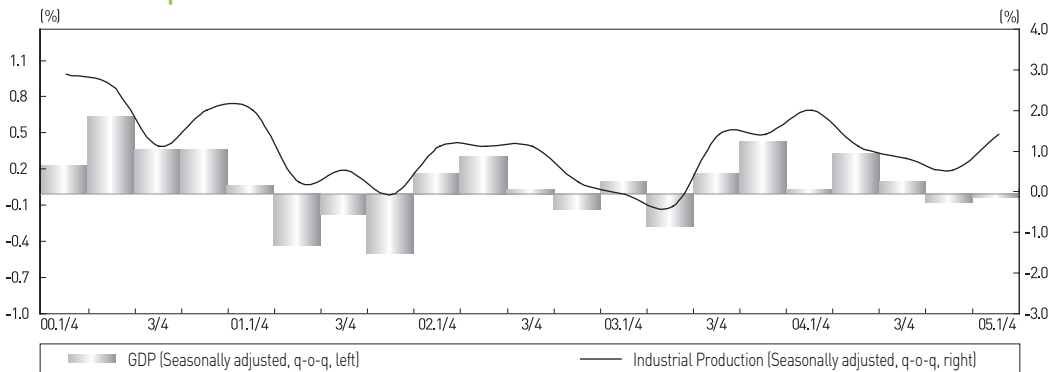
Source: National Bureau of Statistics of China

Graph 1-5: Japan's GDP Growth



Source: Cabinet Office & Ministry of Economy, Trade and Industry, Japan

Graph 1-6: Eurozone GDP Growth and Industrial Production



Source: Eurostat

2. Private consumption

Private consumption (*national accounts*) growth expanded in first quarter of 2005 after returning to positive territory for the first time in seven quarters in the previous quarter.

Private consumption (y-o-y, %)

-1.2 (2003) → -0.5 (2004) → -0.8 (Q3)

→ 0.6 (Q4) → 1.4 (Q1 2005)

(Seasonally adjusted q-o-q, %)

0.2 (Q3 2004) → 0.6 (Q4) → 0.7 (Q1 2005)

The recovery trend was sustained in April, although the pace was modest. Wholesale and retail sales grew 1.2 percent after climbing 1.4 percent in March. Wholesale sales were up for the second consecutive month, while retail sales maintained a 3 percent range growth following the previous month.

(Percentage change from same period in previous year)

	2004				2005			
	Apr	Q3	Q4	Annual	Q1	Feb	Mar	Apr ¹
Consumption	-0.3	-1.1	-1.4	-0.9	-1.0	-1.6	1.4	1.2
- Wholesale	1.0	-0.5	-1.1	0.2	-2.0	-4.4	0.4	0.9
- Retail	-0.8	-1.7	-1.6	-1.4	1.2	6.2	3.6	3.2
- Vehicles & fuel	-3.8	-1.4	-0.9	-3.0	-2.6	-9.1	0.6	-1.9

1. Preliminary figures

Source: Korea National Statistical office (Industrial Activity Trend)

The consumer goods sales gained ground 2.6 percent in April, sustaining the increasing trend for the third month in a row.

(Percentage change from same period in previous year)

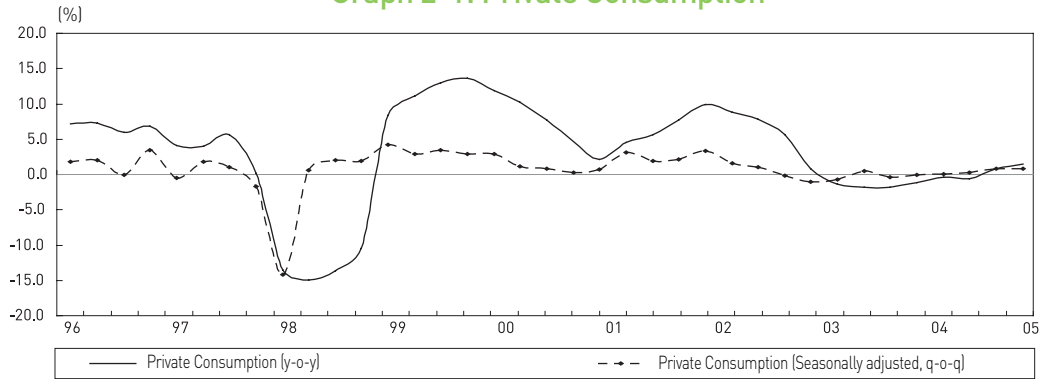
	Weight	2004			2005			
		Apr	Annual	Q1	Jan	Feb	Mar	Apr
Consumer goods sales	100	-2.3	-2.0	0.6	-4.8	3.1	3.7	2.6
- Durable goods ¹	25.4	2.3	-4.7	2.4	2.5	-3.0	7.5	2.5
- Semi-durable goods ²	24.0	-1.0	0.6	1.4	-1.2	0.8	4.7	6.3
- Non-durable goods ³	50.6	-5.1	-1.8	-0.9	-9.2	6.8	1.3	0.8

1. Passenger cars, electronic appliances, furniture, etc.

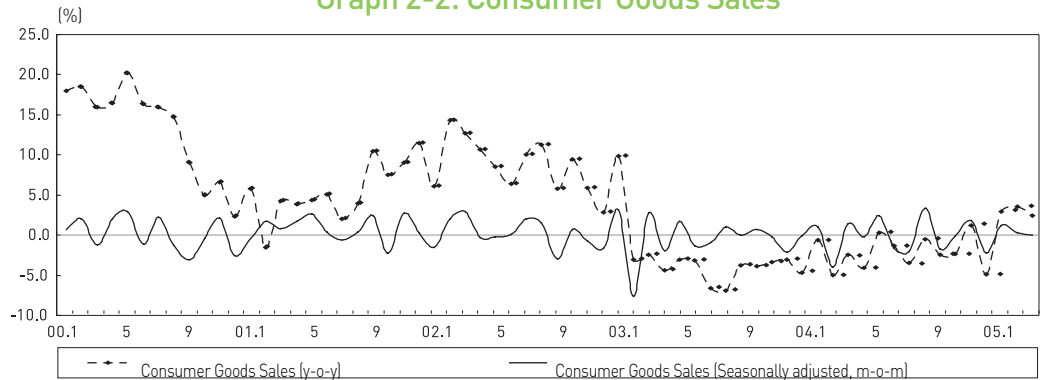
2. Clothing, household goods, etc.

3. Foods, medicine, cosmetics, fuel, etc.

Graph 2-1: Private Consumption



Graph 2-2: Consumer Goods Sales



Graph 2-3: Consumer Goods Sales by Type



Consumption was robust in May with credit card use expanding its upward trend and sales at department stores and large discount stores both continuing to rise.

Value of credit card usage

(y-o-y, %, Credit Finance Association)

4.9 (Q3 2004) → 10.6 (Q4) → 13.8 (Q1 2005),
17.3 (Mar 2005) → 18.3 (Apr) → 18.9 (May)

Department store sales (y-o-y, %)

-2.8 (Jan 2005) → 6.2 (Feb) → 4.8 (Mar)
→ 3.7 (Apr) → around 4 (May)

Discount store sales (y-o-y, %)

-9.1 (Jan 2005) → 26.3 (Feb) → 3.2 (Mar)
→ 3.1 (Apr) → around 2 (May)

Source: Ministry of Commerce, Industry and Energy
Ministry of Finance and Economy (May 2005)

Gasoline sales increased 6 percent year-on-year in May, while domestic automotive sales decrease slowed the pace.

Gasoline sales (%)

-1.0 (Jan 2005) → 13.5 (Feb) → 7.8 (Mar)
→ 4.7 (Apr) → around 6 (May)

Source: Korea National Oil Corporation
Ministry of Finance and Economy (May 2005)

Domestic sales of home-manufactured automobiles

(thousand): 92 (May 2004), 72 (Feb 2005)

→ 93 (Mar) → 94 (Apr) → 92 (May)

(y-o-y, %): -22.8 (May 2004), -19.9 (Feb 2005)

→ -1.3 (Mar) → -6.2 (Apr) → -0.7 (May)

Consumer confidence was above the benchmark 100, indicating rising expectations of economic recovery.

The April consumer expectation index released by the Korea National Statistical Office on May 10 surpassed the 100 baseline for the second month in a row, despite a slight decrease from the previous month.

Consumer expectation index

(Korea National Statistical Office, baseline = 100)

90.3 (Jan 2005) → 99.4 (Feb) → 102.2 (Mar)

→ 101.3 (Apr)

Private consumption is expected to recover led by on-going household debt restructuring and improving consumer confidence. However, the pace of recovery will likely be modest as income does not appear to improve much, for example, with Gross National Income (GNI) growth slowing due to deteriorating terms of trade.

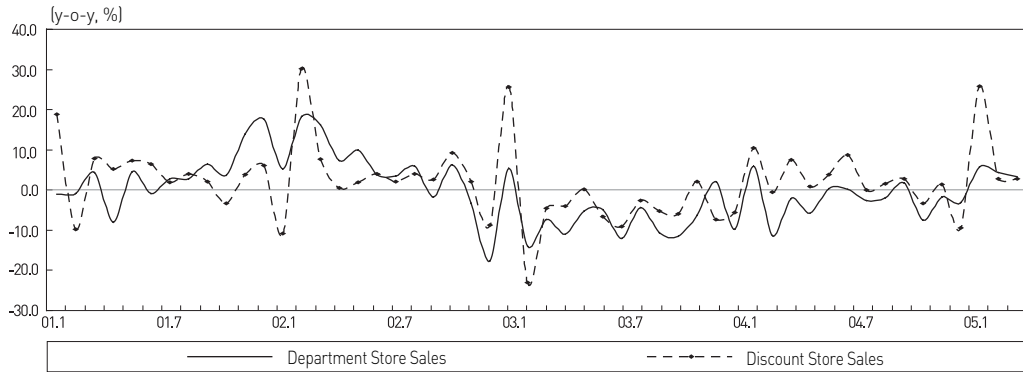
<Income-related indices>

(Growth rate, %)

	2001	2002	2003	2004	Q1 2005
Real GDP	3.8	7.0	3.1	4.6	2.7
Real GNI	2.8	7.0	1.9	3.8	0.5 ¹
Real wage	1.5	8.9	5.8	2.9	-

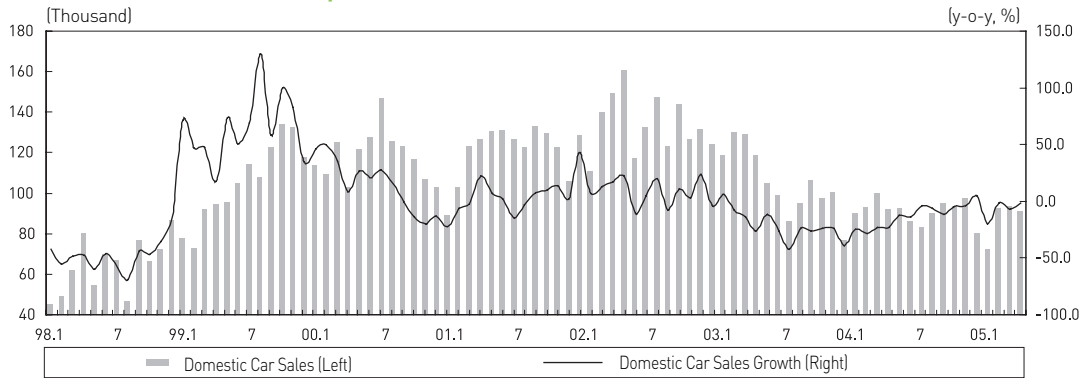
1. It is the GDI figure for the period as the GNI for the 1st quarter of 2005 is yet to be released.

Graph 2-4: Department Store and Discount Store Sales (Current Value)



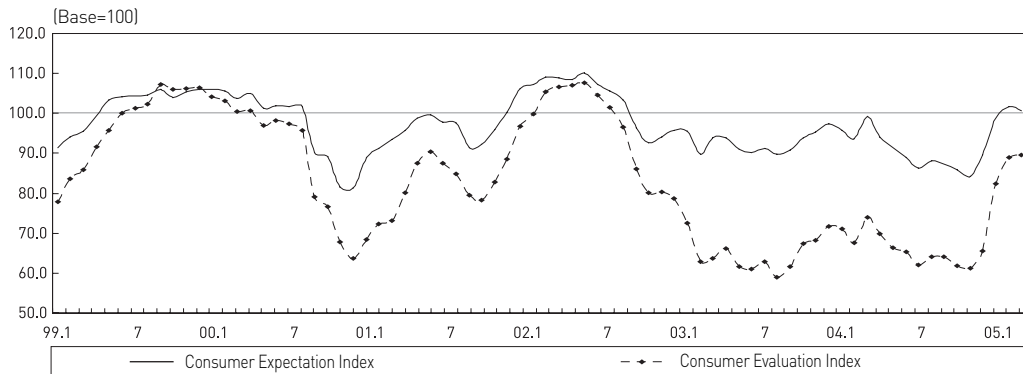
Source: Ministry of Commerce, Industry and Energy (Monthly Retail Sales)

Graph 2-5: Domestic Automobile Sales



Source: Korea Automobile Manufacturers Association (Monthly Automobile Industry Trend)

Graph 2-6: Consumer Expectation Index and Evaluation Index



Source: Korea National Statistical Office (Monthly Consumer Survey Index)

3. Facility investment

Facility investment (*national accounts*) grew 3.1 percent year-on-year in the first quarter of 2005 led by an increase in machinery investment after increasing 2.5 percent in the previous quarter. Facility investment in April (*estimation*)

edged down 0.3 percent year-on-year due to a sharp fall in transportation equipment investment and a modest rise in investment in machinery.

(Percentage change from same period in previous year)

	2004					2005		
	Annual	Q 2	Apr	Q 3	Q 4	Q 1	Mar ¹	Apr ¹
Facility investment (national accounts)	3.8	6.2	-	6.8	2.5	3.1	-	-
- Machinery	7.4	8.0	-	9.9	6.1	6.8	-	-
- Transportation equipment	-9.6	-0.4	-	-5.9	-12.2	-11.9	-	-
Estimation index of facility investment	1.4	3.2	-1.5	3.8	0.1	3.9	1.4	-0.3
- Machinery	3.6	4.2	-0.1	6.1	0.8	5.3	3.0	1.9
- Transportation equipment	-7.7	0.3	-4.2	-4.7	2.6	1.8	-4.1	-11.8

1. Preliminary figures

Business Survey Index (BSI) released by major economic organizations found that both outlook and actual figures for the economy fell from the previous month, indicating weakening business confidence.

Machinery import, which accounts for more than half the machinery investment, keeps growing, sending a positive signal for facility investment. However, full recovery of facility investment overall is not likely to be at hand for the time being as domestic machinery orders, one of leading economic indicators, remain sluggish and investment sentiment is not fully recovered yet.

BOK¹ BSI (Outlook, base=100)

73 (Feb 2005) → 87 (Mar) → 91 (Apr) → 91 (May) → 84 (Jun)

FKI² BSI

85.7 119.2 117.6 114.1 105.1

KFSB³ BSI

74.5 93.7 96.6 96.7 89.5

BOK¹ BSI (Actual, base=100)

74 (Jan 2005) → 76 (Feb) → 82 (Mar) → 85 (Apr) → 81 (May)

FKI² BSI

84.6 87.2 110.7 107.0 98.2

KFSB³ BSI

70.1 69.8 81.9 86.7 81.4

Machinery imports (y-o-y, %)

46.8 (Jan 2005) → 8.9 (Feb) → 10.1 (Mar)
→ 8.7 (Apr) → 16.9 (May 1~20)

Domestic machinery orders (y-o-y, %)

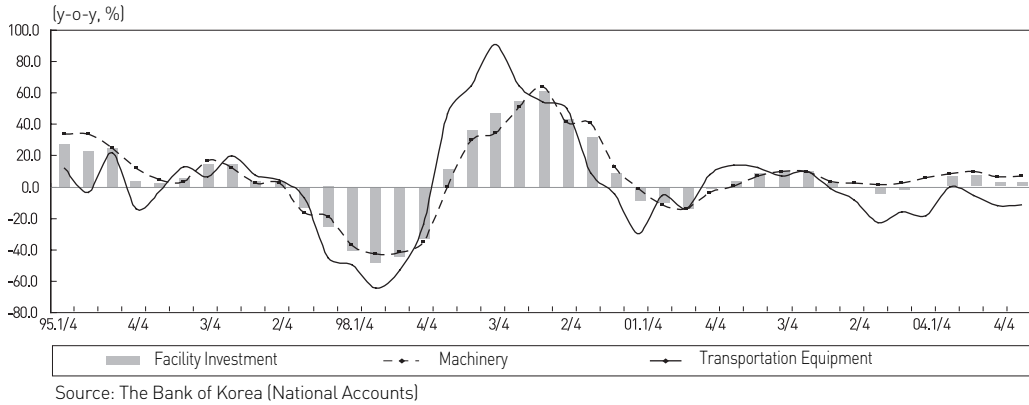
0.8 (Jan 2005) → -18.7 (Feb) → -3.2 (Mar)
→ -10.3 (Apr)

1. The Bank of Korea

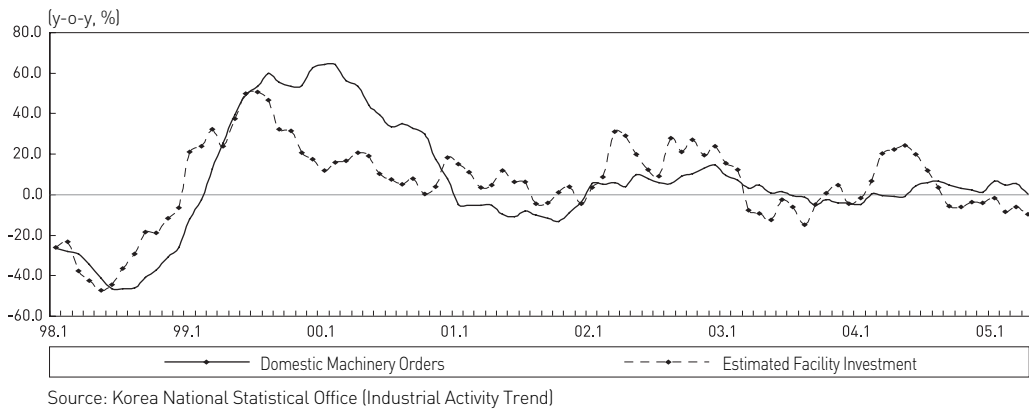
2. The Federation of Korean Industries

3. Korea Federation of Small and Medium Business

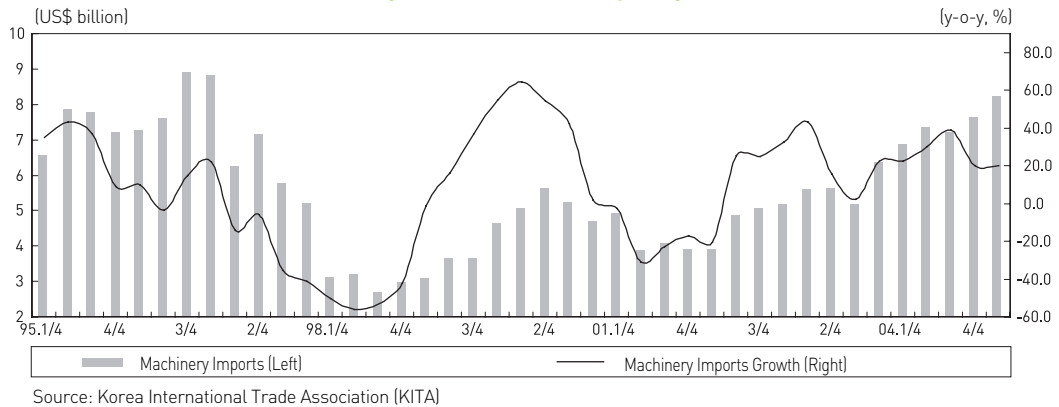
Graph 3-1: Facility Investment by Type



Graph 3-2: Machinery Orders and Estimated Facility Investment (3-Month Average)



Graph 3-3: Machinery Imports



4. Construction investment

Construction investment (*national accounts*) went down in the first quarter of 2005 for the second quarter in a row by decreasing 2.9 percent after falling 3.4 percent the previous quarter.

Although building construction fell 6.2 percent, civil engineering project investment took a

positive turn in two quarters, posting 4.0 percent growth.

The current value of completed construction projects climbed 8.3 percent, up from 5.3 percent in March, led by the growth in construction project investment.

(Percentage change from same period in previous year)

	2004				2005				
	Apr	Q3	Q4	Annual	Q1	Jan	Feb	Mar	Apr
Construction investment (national accounts, real basis)	-	1.3	-3.4	1.1	-2.9	-	-	-	-
- Building construction	-	1.1	-3.7	2.0	-6.2	-	-	-	-
- Civil engineering project	-	1.7	-3.0	-0.1	4.0	-	-	-	-
Construction completed (industrial activity, current value basis)	17.6	14.8	4.4	11.0	2.8	4.9	-2.4	5.3	8.3
- Construction project	19.3	17.1	8.3	14.1	1.1	3.9	-7.0	5.5	8.2
- Civil engineering project	14.2	10.3	-2.0	5.3	6.3	6.7	7.8	4.9	8.5

Construction sector is forecast to remain sluggish for the time being given the fall in leading indicators such as construction orders and floor area of building construction permits since the fourth quarter of 2003.

However, increases in construction orders and housing construction, and the improving business sentiment suggest possible recovery of construction sector in the future. Construction orders and floor area of construction permits each rose 29.1 percent and 30.5 percent in April.

(Percentage change from same period in previous year)

	2003	2004				2005	
	Q4	Q1	Q2	Q3	Q4	Q1	Apr
Construction orders	-0.1	-9.2	-23.8	-20.8	28.8	24.8	29.1
Floor area of building construction permits	-13.6	-27.7	-34.0	-15.0	14.7	0.2	30.5

The current value of housing construction projects completed climbed 35.5 percent in April, and the number of new units unsold fell.

(Thousand, %)

	2004			2005			
	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Housing construction	49.1	38.7	124.0	30.0	17.5	30.7	25.1
- Y-o-Y change	54.3	19.0	15.6	109.3	-29.6	25.8	35.5
Number of new units unsold	58.9	64.7	69.1	67.4	64.6	58.4	56.5
- M-o-M change	11.8	9.8	6.8	-2.5	-4.2	-9.6	-3.3

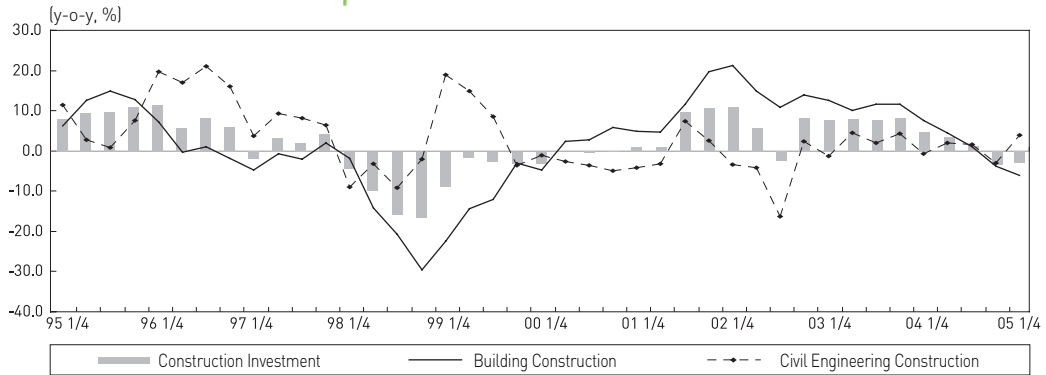
The Construction Business Survey Index (CERIK¹, base=100) for June is sustaining its rising trend, topping the benchmark 100.

Construction Business Survey Index

47.4 (Jan 2005) → 78.1 (Feb) → 78.4 (Mar)
→ 81.2 (Apr) → 96.4 (May) → 106.6 (Jun)

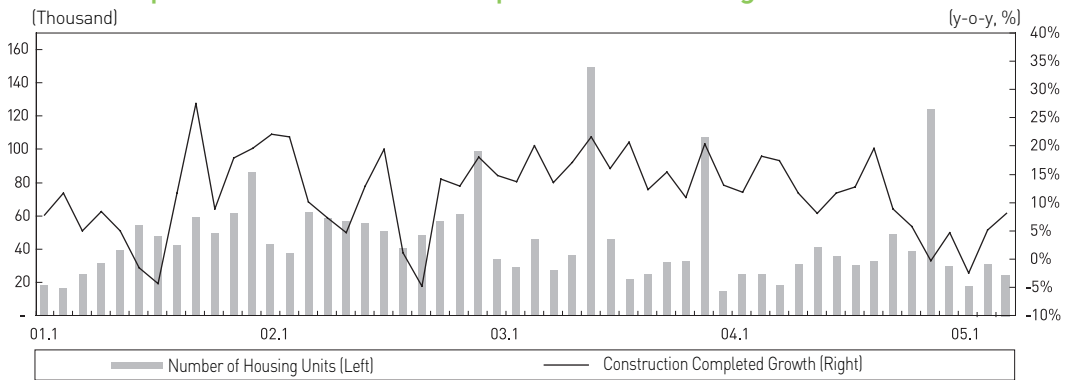
1. Construction and Economy Research Institute of Korea

Graph 4-1: Construction Investment



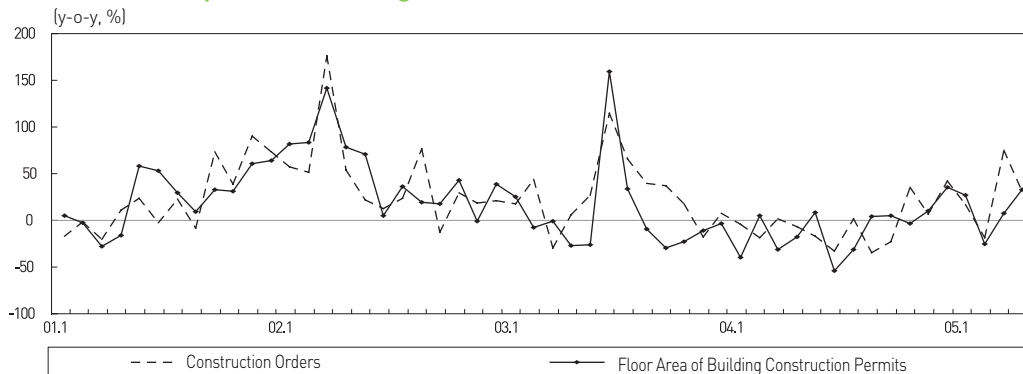
Source: The Bank of Korea (National Accounts)

Graph 4-2: Construction Completed and Housing Construction



Source: Korea National Statistical Office (Construction Completed)
Ministry of Construction and Transportation (Housing Construction)

Graph 4-3: Leading Indicators of Construction Investment



Source: Korea National Statistical Office (Construction Orders)
Ministry of Construction and Transportation (Floor Area of Building Construction Permits)

5. Exports and imports (customs clearance basis)

Exports exceeded the US\$23 billion mark to return to a double-digit growth in May. The average daily export value posted US\$1.01 billion maintaining the US\$1.0 billion range.

Major export items including semiconductors (10.2 percent), ships (86.7 percent), and automobiles (20.0 percent) posted solid growth, whereas exports of computers (-28.7 percent) and textiles (-3.2 percent) were down.

	2005				
	Jan	Feb	Mar	Apr	May
Exports (US\$ billion)	22.43	20.40	23.98	22.97	23.30
(y-o-y, %)	(18.1)	(6.6)	(13.2)	(6.9)	(11.8)
Average daily export (US\$ billion)	0.98	1.07	1.00	1.02	1.01

Imports expanded 18.4 percent year-on-year to US\$21.19 billion in May as international commodity prices continued to rise. The average daily import value stood at the US\$0.9 billion range for the fourth consecutive month.

Imports of raw materials (33.5 percent), capital goods (13.4 percent) and consumer goods (16.2 percent) all increased.

	2005				
	Jan	Feb	Mar	Apr	May
Imports (US\$ billion)	19.40	18.35	22.63	21.18	21.19
(y-o-y, %)	(19.7)	(5.0)	(18.3)	(12.5)	(18.4)
Average daily import (US\$ billion)	0.84	0.97	0.94	0.94	0.92

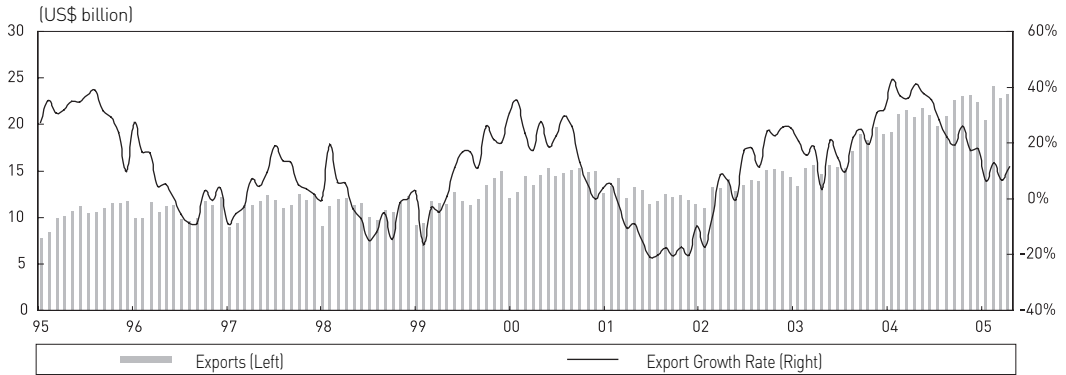
The trade balance increased from US\$1.79 billion the previous month to US\$2.11 billion in May. The figure, however, decreased US\$0.83 billion from a year earlier.

The export value is expected to maintain the level from May in June. Export growth, however, could slow considering the relatively high export value (US\$21.66 billion) from the same month in the previous year.

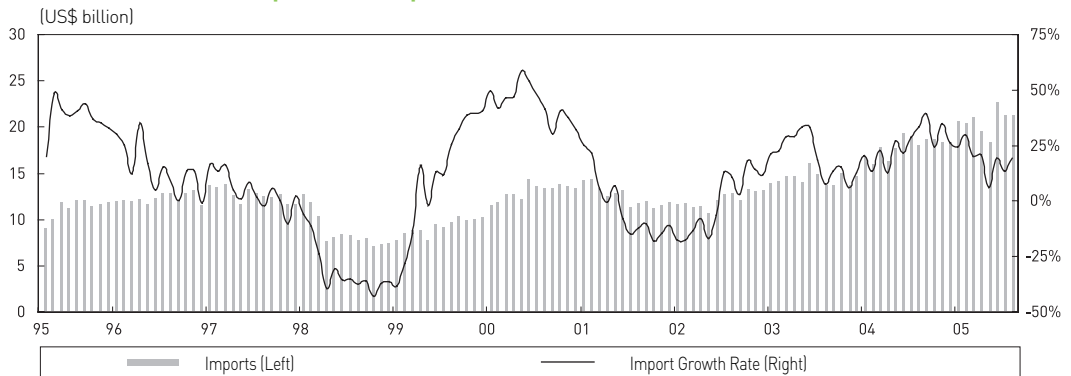
Trade balance (US\$ billion)

3.02 (Jan 2005) → 2.05 (Feb) → 1.35 (Mar)
→ 1.79 (Apr) → 2.11 (May)

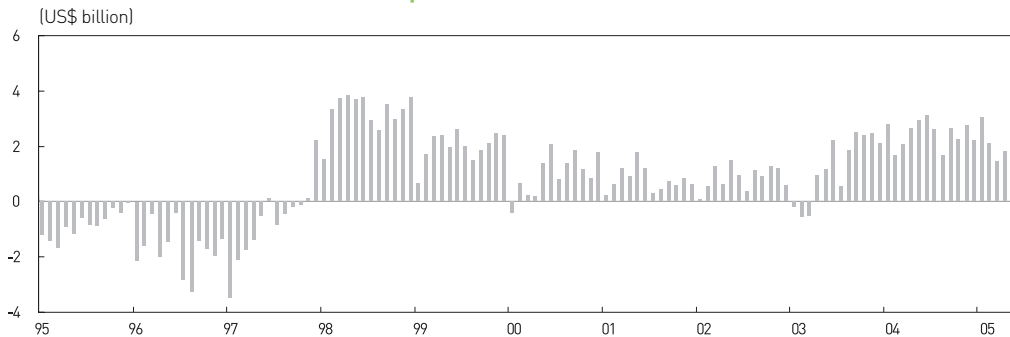
Graph 5-1: Exports (Customs Clearance Basis)



Graph 5-2: Imports (Customs Clearance Basis)



Graph 5-3: Trade Balance



6. Industrial activity

Industrial production rose 3.8 percent year-on-year in April after increasing 4.9 percent the previous month, and decreased 1.7 percent (*seasonally adjusted*) month-on-month. This was attributed to domestic demand not recovering fast enough to offset slowing export growth.

Exports (customs clearance basis, y-o-y, %)

18.1 (Jan 2005) → 6.6 (Feb) → 13.2 (Mar)
→ 6.9 (Apr)

Wholesale and retail sales (y-o-y, %)

-2.9 (Jan 2005) → -1.6 (Feb) → 1.4 (Mar)
→ 1.2 (Apr)

Output in semiconductors (13.8 percent), automobiles (11.3 percent) and audiovisual communications equipment (6.9 percent) increased, while cigarettes (-37.7 percent), textiles (-9.6 percent) and food & beverage (-3.8 percent) decreased.

The average manufacturing operation ratio stood at 78.9 percent in April, down 2.0 percentage points from the previous month. Overall producer inventory expanded 11.8 percent year-on-year in April after increasing 9.3 percent the previous month.

[Percentage change from same period in previous year]

	2004				2005			
	Apr	Q3	Q4	Annual	Q1 ¹	Feb	Mar ¹	Apr ¹
Industrial production	11.4	11.4	6.7	10.4	3.8	-7.3	4.9	3.8
- Semiconductors	60.1	35.1	22.5	41.0	15.5	10.2	15.6	13.8
- Automobiles	2.3	31.4	12.6	13.3	14.5	-12.0	15.4	11.3
- Audiovisual communications equipment	32.4	13.3	11.1	19.6	9.9	-6.5	10.7	6.9
- Textiles	-8.6	-7.8	-6.6	-7.5	-9.1	-19.2	-8.1	-9.6
- Food & beverage	2.7	0.7	1.7	2.1	-2.7	-11.4	-3.0	-3.8
Seasonally adjusted ²	0.3	-0.3	2.1	-	1.1	-4.6	3.9	-1.7
Average operation ratio (%)	80.5	79.2	80.4	80.3	80.0	77.2	80.9	78.9
Total inventory	1.5	5.2	9.4	9.4	9.3	9.3	9.3	11.8

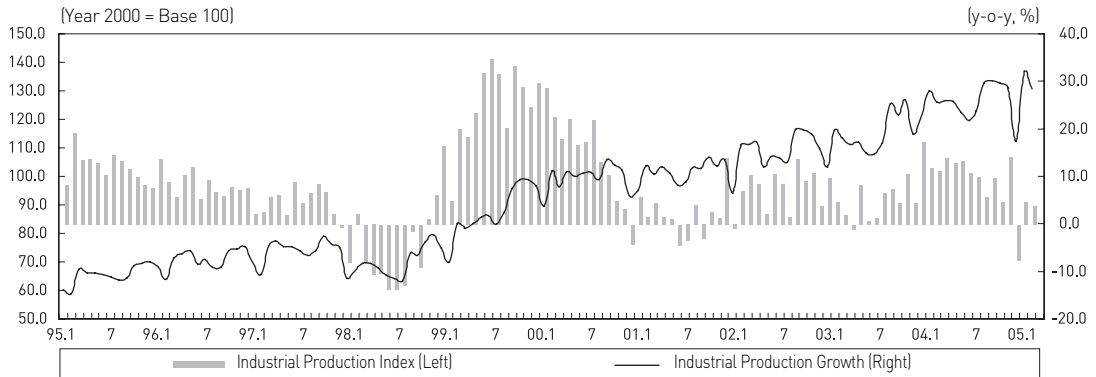
1. Preliminary figures

2. Percentage change from the previous period

Industrial production growth is likely to expand in May as exports returned to a double-digit

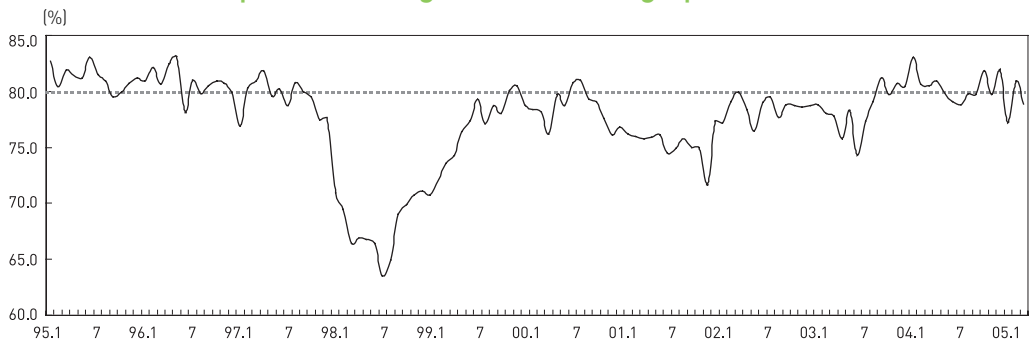
growth. Exports rose 11.8 percent in May after increasing 6.9 percent the previous month.

Graph 6-1: Industrial Production



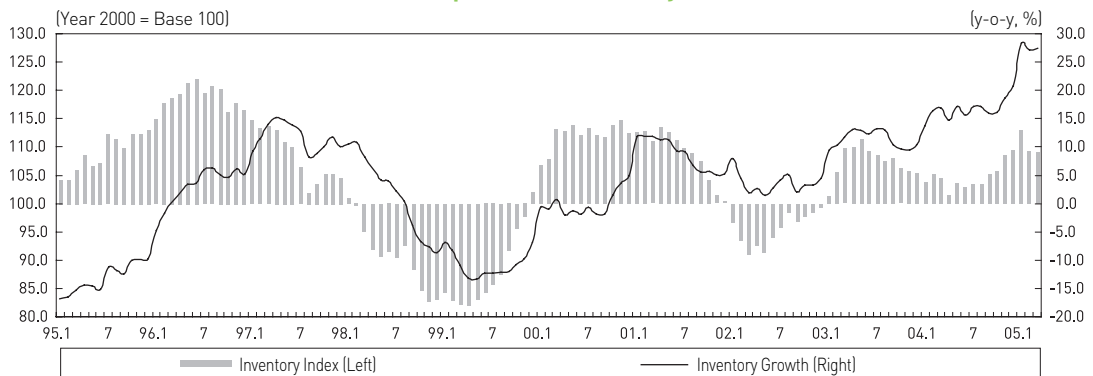
Source: Korea National Statistical Office (Industrial Activity Trend)

Graph 6-2: Average Manufacturing Operation Ratio



Source: Korea National Statistical Office (Industrial Activity Trend)

Graph 6-3: Inventory



Source: Korea National Statistical Office (Industrial Activity Trend)

7. Service sector activity

Service sector output was up 1.8 percent year-on-year in April after increasing 1.6 percent the previous month. Output is continuing its upward trend reflecting the positive signs of recovery in domestic demand this year. The second quarter output in the service sector is expected to increase faster than the previous quarter when service output climbed 0.7 percent year-on-year.

Service industry (y-o-y, %)

-0.5 (Q3 2004) → -0.2 (Q4) → 0.7 (Q1 2005),
1.0 (Jan 2005) → -0.5 (Feb) → 1.6 (Mar)
→ 1.8 (Apr)

Service sector output in overall industries increased in April with the exception of financial and insurance services with most industries contributing evenly to the 1.8 percent increase in total service output. In particular, educational services, entertainment, cultural and sports services turned to positive territory in the same month.

Service sector output is expected to continue its upward trend in May given increasing retail sales and credit card usage.

(Percentage change from same period in previous year)

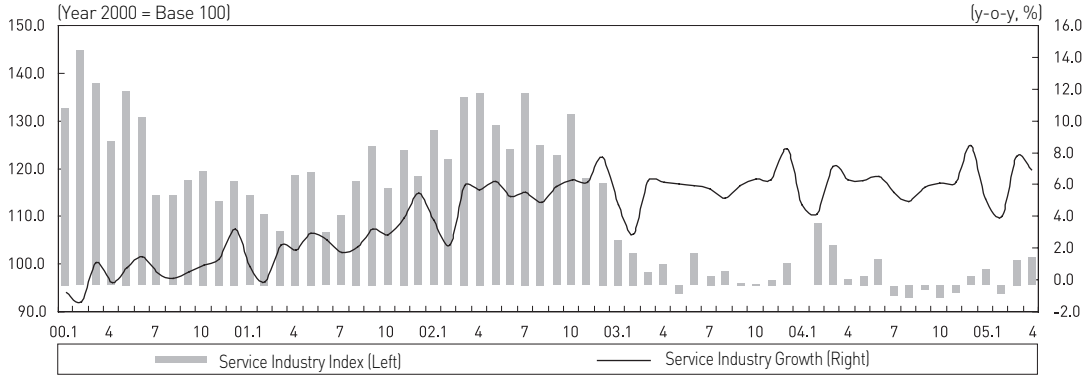
	Weight	2004				2005				Contribution ²
		Apr	Q3	Q4	Annual	Jan	Feb	Mar ¹	Apr ¹	
Service industry	100.0	0.4	-0.5	-0.2	0.6	1.0	-0.5	1.6	1.8	1.8
- Wholesale & retail ³	27.6	-0.4	-1.5	-1.5	-1.2	-3.3	-1.9	0.6	0.6	0.16
- Lodging & restaurant	7.7	-3.2	-0.1	1.6	-0.7	4.5	-9.8	1.8	0.9	0.06
- Transportation	8.8	6.7	6.5	3.1	6.2	5.3	0.4	3.5	4.0	0.36
- Communication services	5.8	10.2	2.6	3.8	5.8	5.2	1.2	7.7	4.3	0.30
- Financial & insurance services	17.6	-1.1	-2.9	-1.1	0.1	1.7	0.0	0.4	-0.5	-0.09
- Real estate & rentals	5.4	-9.4	-8.6	-4.5	-6.3	6.8	5.2	7.8	7.3	0.35
- Business services	8.5	3.3	1.9	0.7	1.9	5.4	-1.1	1.4	1.5	0.13
- Educational services	8.6	2.8	-0.2	0.8	1.6	-6.2	7.8	-2.0	1.2	0.11
- Health care & welfare services	4.0	4.2	3.1	4.9	5.0	3.1	-1.1	2.9	4.1	0.15
- Entertainment, cultural and sports services	3.5	-5.1	-3.4	-5.1	-3.3	1.2	-4.6	-0.1	3.7	0.13
- Other public & private services	2.6	-5.4	-1.1	-3.2	-1.1	1.3	-0.8	0.4	4.5	0.12

1. Preliminary figures

2. Contribution to April growth

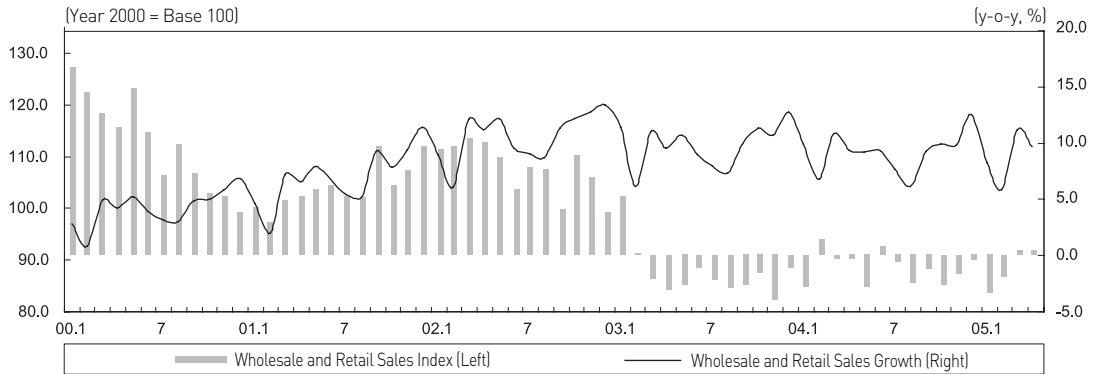
3. Calculated with value added weight

Graph 7-1: Service Industry



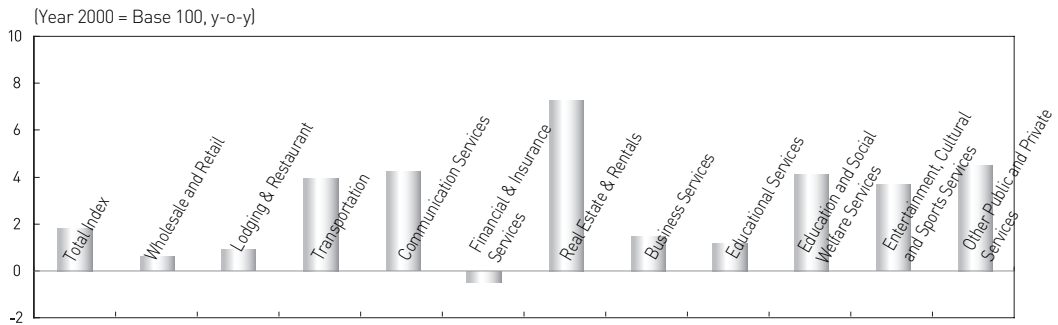
Source: Korea National Statistical Office (Service Industry Activity Trend)

Graph 7-2: Wholesale and Retail Sales



Source: Korea National Statistical Office (Service Industry Activity Trend)

Graph 7-3: April 2005 Service Industry by Business



Source: Korea National Statistical Office (Service Industry Activity Trend)

8. Employment

Employment improved in April compared to the previous month when employment began recovering from the sluggishness in January and February. The number of workers on payrolls rose by 260,000 year-on-year in April as hiring increased in overall service sectors excluding wholesale and retail sales (down 114,000), and decreased less in the construction sector (down 17,000). The number of employed, however, decreased by 52,000 in the manufacturing sector.

Employment increase: Business services (up 65,000), Public repair & personal services (up 95,000), Lodging & restaurant (up 33,000), Health care & welfare services (up 61,000), Cultural and sports services (up 45,000), Educational services (up 35,000)

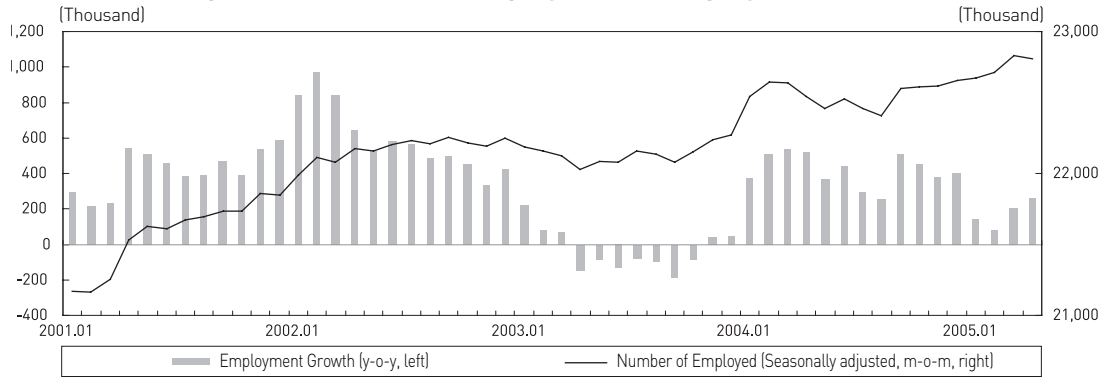
The seasonally adjusted number of employed was down 20,000 in April from the previous month with unusual high growth. However, the seasonally adjusted number of employed between January and April 2005 remained robust by increasing 153,000 from the end of last year.

The unemployment rate stood at 3.6 percent in April, hovering around the mid and high 3 percent range since the beginning of this year.

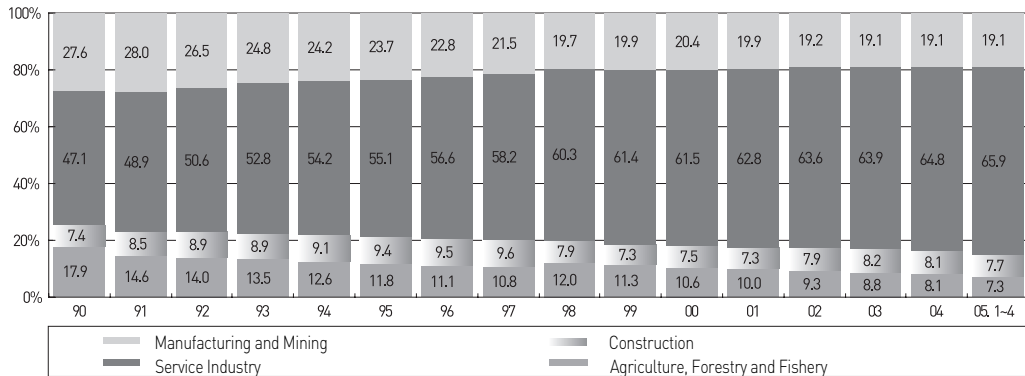
Employment is seen as recovering steadily although the pace is still not brisk enough. When supported by a real economic recovery driven by domestic demand, further employment growth is expected.

	2004	2005			
	Apr	Jan	Feb	Mar	Apr
Employment growth (y-o-y, thousand)	520	140	80	210	260
Seasonally adjusted (m-o-m, thousand)	-92	18	37	118	-20
Unemployment rate (y-o-y, %)	3.4	3.9	4.0	3.9	3.6
Seasonally adjusted (m-o-m, %)	3.4	3.6	3.5	3.5	3.6

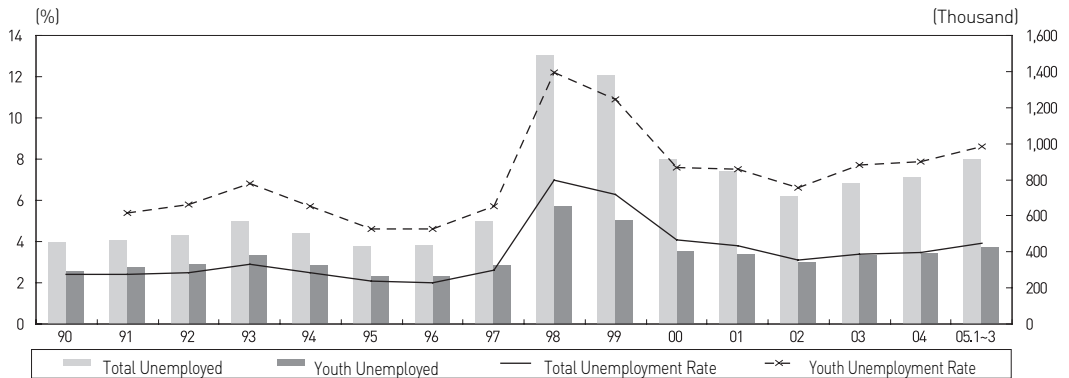
Graph 8-1: Number of Employed and Employment Growth



Graph 8-2: Share of Employed by Industry



Graph 8-3: Unemployment Rate and Number of Unemployed



9. Financial market

9.1 Stock market

The KOSPI in May rose 6.4 percent from the end of April as recovery in the global IT industry was expected and concerns on a possible slowdown of the U.S. economy eased. The KOSDAQ in May also gained 10.5 percent from the end of the previous month and the value of

stock traded in the KOSDAQ market reached close to the level of the KOSPI. After net stock selling (188.8 billion won) in April, foreign portfolio investors reversed course to become net buyers (166.1 billion won) in May.

(End period, point, trillion won)

	Securities market			Kosdaq market		
	2004	May 2005	Change ¹	2004	May 2005	Change ¹
Stock price index	895.9	970.2	+74.3p (8.3%)	380.3	471.5	+91.2p (24.0%)
Market capitalization	412.5	450.8	+38.3p (9.3%)	31.6	41.5	+9.9p (31.3%)
Average daily trade value (yearly base)	2.2	2.5	+0.3p (13.6%)	0.6	1.3	+0.7p (116.6%)

1. Change from end of previous year

9.2 Exchange rates

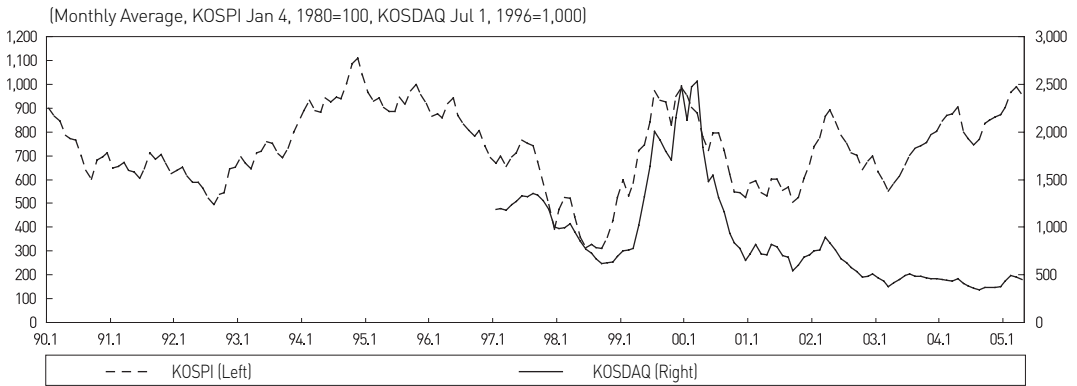
The won-dollar exchange rate increased in May on the back of the strong dollar although the increase was limited by expanded dollar supply. Following a downward trend at the end of April, the won-dollar exchange rate fluctuated between 998 and 1,000 won in early May, affected by Chinese press reports on the imminent revaluation of the Chinese yuan. It, however, reached 1,009 won on May 16 after

the announcement of the improved U.S. GDP growth in the first quarter. As the month neared end, the rate fell to the 1,000 won range with the increase in dollar supply by importer; however, finished the month higher at 1,007.7 won as the dollar gained strength with France's rejection to ratify the EU constitution.

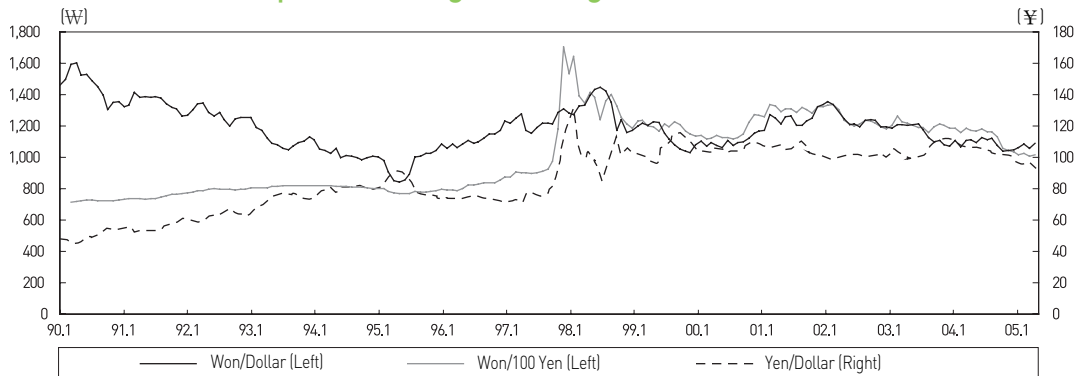
(End-period)

	2004	2005			
		Feb	Mar	Apr	May
Won/Dollar	1,035.1	1,006.0	1,015.5	997.1	1,007.7
Yen/Dollar	102.5	104.6	107.1	105.4	108.2

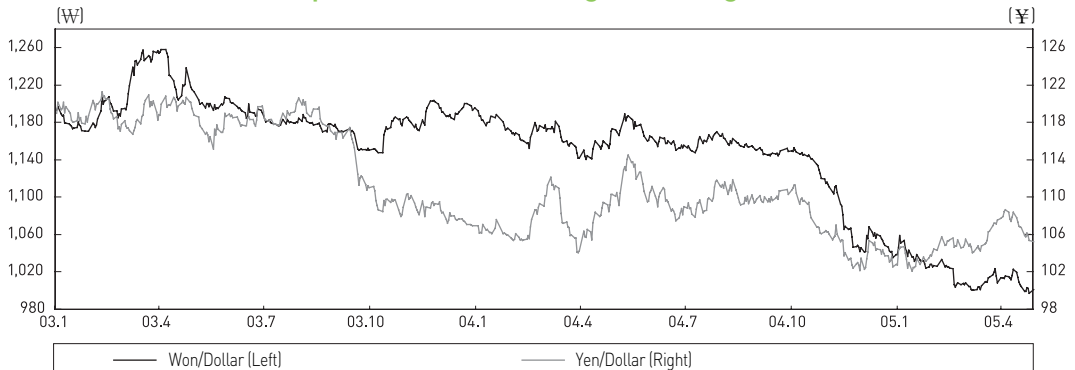
Graph 9-1: Stock Prices



Graph 9-2: Foreign Exchange Rate (Month-End)



Graph 9-3: Recent Foreign Exchange Rate



9.3 Bond market

Bond yields, such as Treasury bond yield, continued to stabilize in May, after having surged at the beginning of the year. Room for an increase in bond yields remained in May, such as an interest rate hike by the U.S. Federal Reserve Board and concerns over more issuances of long-term government

bonds. However, the downward trend in bond yields continued over eased expectations of a fast economic recovery and affected by the recent U.S. interest rates stabilizing downward and net purchase of Treasury bond futures by foreign investors.

(End-period)

	2005						
	Jan	Feb 11	Feb	Mar	Apr	May	Change ¹
Call rate (1 day)	3.24	3.24	3.26	3.25	3.25	3.26	+0.01
Treasury bonds (3 yr)	4.06	4.46	4.04	3.91	3.76	3.67	-0.09
Corporate bonds (3 yr)	4.53	4.90	4.49	4.34	4.18	4.08	-0.10

1. Percentage point change from the end of April 2005

9.4 Money supply & money market

The M3 growth rate is estimated to have edged up from the previous month to the mid 5 percent range in April as money supply from the private sector surged despite reduced

money supply from overseas. The M1 growth rate increased to the upper 8 percent range, driven by frontloading of fiscal spending and increased short-term deposits.

(Percentage change from same period in previous year, average)

	2004			2005			
	Nov	Dec	Annual	Jan	Feb	Mar	Apr
M1	6.2	7.5	8.1	5.6	7.7	8.7	Upper 8
M2	4.9	4.9	4.2	5.3	5.3	5.3	Mid 5
M3	5.9	6.3	5.8	6.1	5.8	5.4	Mid 5

Bank deposits swelled in April despite VAT payments worth 6.5 trillion won as government fiscal expenditures increased considerably and bank lending to households and enterprises rose as well.

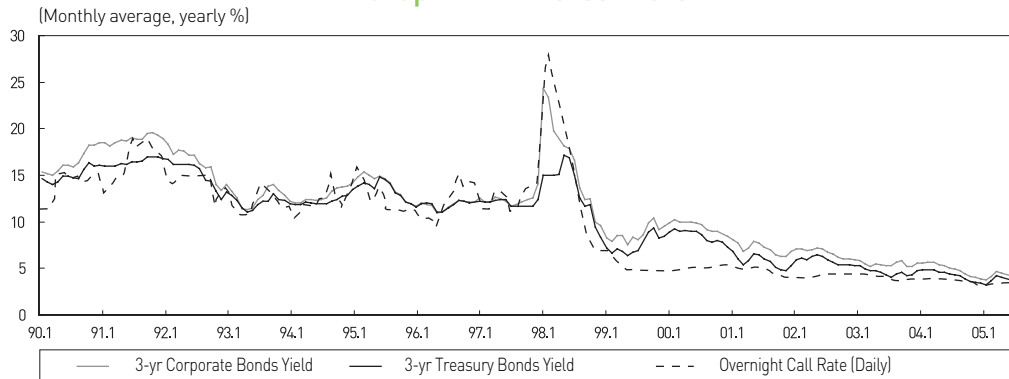
money market funds, equity-type bond beneficiary certificates and bond-equity-type beneficiary certificates. The pace of decrease in money inflow into bond-type beneficiary certificates substantially slowed influenced by falling stock prices and expectations of a downward stabilization in interest rates.

Investment trust management company (ITMC) receipts climbed as money steadily flowed into

(Average monthly change, trillion won)

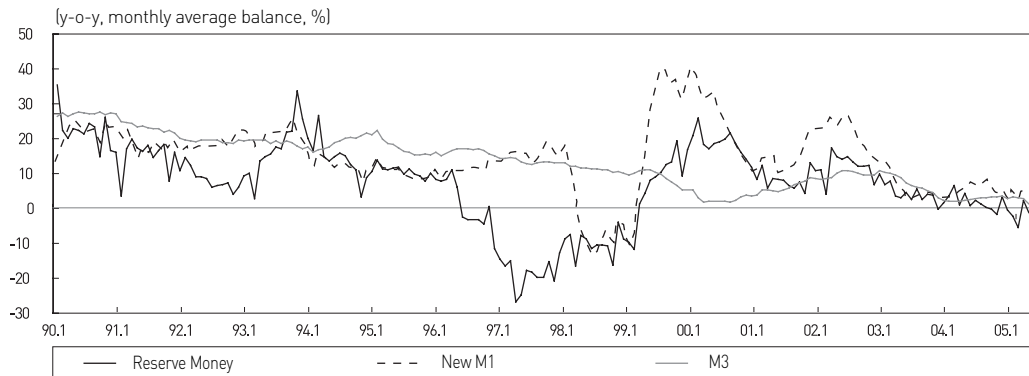
	2004					2005			
	Annual	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Apr
Bank deposits	-0.1	0.9	1.5	-0.6	-2.0	-7.4	11.7	-4.3	9.9
Bank trust	-0.8	-1.8	-0.1	-0.7	-0.5	0.31	0.9	-0.1	-1.3
ITMC receipts	3.8	5.7	-0.3	4.5	5.2	0.7	4.6	-0.1	3.3

Graph 9-4: Interest Rate



Source: The Bank of Korea

Graph 9-5: Total Money Supply



Source: The Bank of Korea

Graph 9-6: Share of Deposits by Financial Sector (M3 as of Year End)



Source: The Bank of Korea

* Retail Finance: Mutual Savings Bank & National Credit Union Federation of Korea, Others: Investment Banks, Post Office Savings, etc.

10. Balance of payments

Korea's current account reversed course from a US\$1.11 billion surplus to a US\$0.91 billion deficit in April as the income account deficit widened due to increased overseas dividend payments.

The goods account surplus narrowed from the previous month to US\$2.4 billion as the adjustment of the time difference between customs clearance and the delivery of exported ships served as a factor narrowing the surplus, although the surplus derived by the export-import gap on the customs clearance basis increased.

Export-import gap on the customs clearance basis (US\$ billion)

2.05 (Feb 2005) → 1.35 (Mar) → 1.79 (Apr)

Adjusted value of the time difference between customs clearance and the delivery of exported ships (US\$ billion)

-1.06 (Feb 2005) → 0.94 (Mar) → -0.28 (Apr)

The services account deficit narrowed to US\$0.91 billion from US\$1.13 billion the previous month as other services account deficits decreased although the travel account

deficit widened and the transport account surplus narrowed.

Travel balance (US\$ billion)

-0.59 (Feb 2005) → -0.62 (Mar) → -0.70 (Apr)

The income account deficit was up US\$1.41 billion from the previous month to US\$2.14 billion in April affected by seasonal factors such as increased overseas dividend payments by domestic firms which end their fiscal year in December.

Dividend payments (US\$ billion)

0.02 (Feb 2004) → 1.05 (Mar) → 1.60 (Apr),
0.41 (2004 monthly average), 0.28 (Feb 2005)
→ 1.48 (Mar) → 2.44 (Apr)

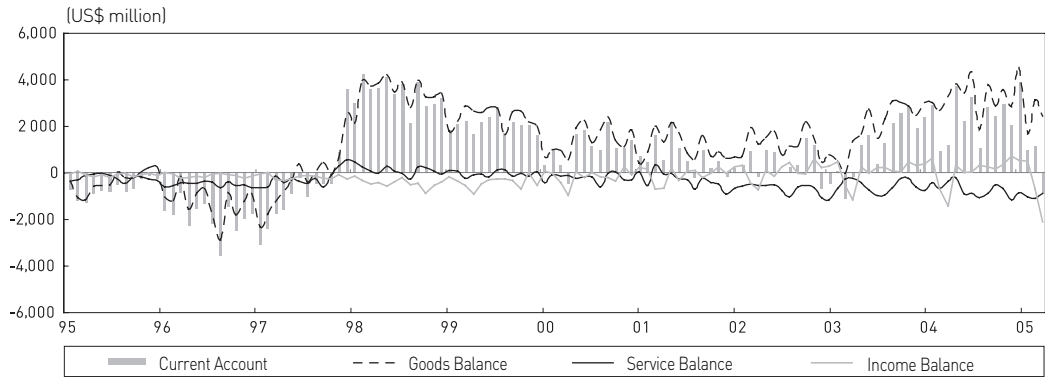
The capital account recorded a US\$1.96 billion surplus in April driven by an inflow of foreign direct investment.

The April current account deficit was a temporary phenomenon caused by seasonal factors including dividend payments. The current account is expected to rebound and maintain surplus from May.

(US\$ billion)

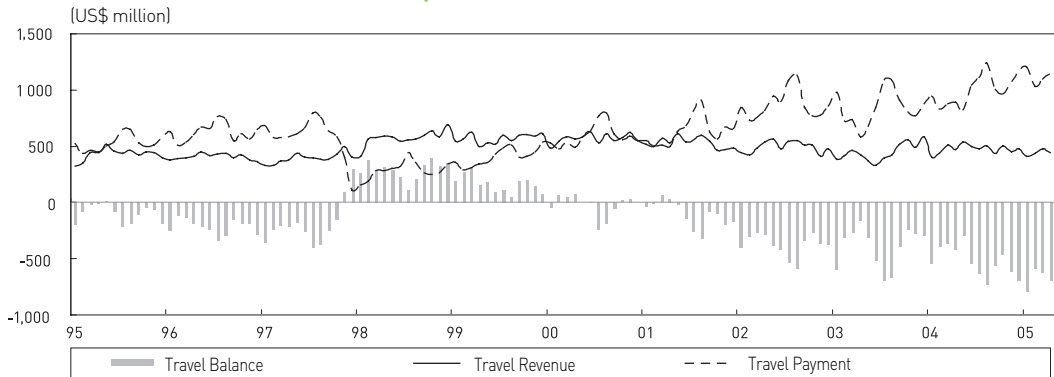
	Apr 2004	Jan - Apr 2004	Mar 2005	Apr 2005	Jan - Apr 2005
Current account	1.14	7.27	1.11	-0.91	5.04
- Goods balance	3.26	11.90	3.11	2.40	11.69
- Service balance	-0.39	-2.31	-1.13	-0.91	-3.96
- Income balance	-1.45	-1.24	-0.72	-2.14	-1.90
- Current transfer	-0.27	-1.07	-0.14	-0.26	-0.78
Capital account	0.98	4.44	3.54	1.96	5.17
- Financial account	1.14	4.99	3.72	2.20	5.91
- Other capital account	-0.16	-0.56	-0.18	-0.24	-0.74

Graph 10-1: Current Account Balance



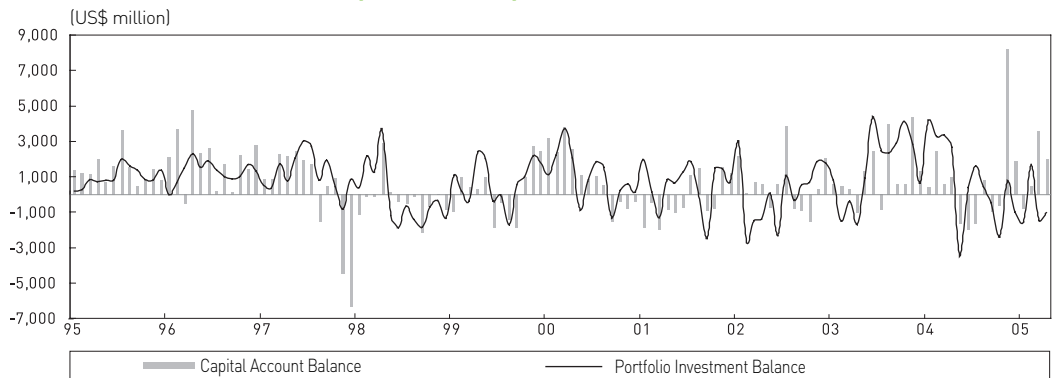
Source: The Bank of Korea (Balance of Payments Trend)

Graph 10-2: Travel Balance



Source: The Bank of Korea (Balance of Payments Trend)

Graph 10-3: Capital Account Balance



Source: The Bank of Korea (Balance of Payments Trend)

11. Prices and international commodity prices

11.1 Prices

Consumer prices continued to stay at around the low 3 percent range in May led by a stabilization in prices of agricultural, livestock and fishery products and housing rents.

Oil product price inflation slowed as international oil prices edged down recently.

International oil prices (Dubai crude, \$/B)

47.2 (Apr 2005) 45.4 (May)

Oil product price index (y-o-y, %)

9.8 (Apr 2005) 7.4 (May)

	2004	2005				
	Dec	Jan	Feb	Mar	Apr	May
Consumer price inflation (y-o-y, %)	3.0	3.1	3.3	3.1	3.1	3.1

<Consumer price inflation in May>

(y-o-y, %)

Consumer price inflation in May(y-o-y, %)	All items	Agriculture, forestry & fishing products	Industrial products	Oil products	Public utility	Housing rents	Private services
May 2005 (Contribution ratio, %p)	3.1	4.3 (0.52)	3.6 (1.18)	7.4 (0.44)	3.5 (0.51)	-0.2 (-0.03)	3.2 (0.87)
May average 2000-2004	3.2	5.6	2.1	6.0	3.6	2.9	3.5

Year-on-year core inflation, which excludes agricultural and energy products, stood at 2.5 percent, the lowest level since December 2000.

Core inflation (y-o-y, %)

2.9 (Dec 2000) 2.9 (Dec 2004) 3.1 (Jan 2005)
3.2 (Feb) 2.8 (Mar) 2.7 (Apr) 2.5 (May)

Consumer prices for basic necessities increased 4.7 percent year-on-year in May after increasing 4.9 percent in the previous month.

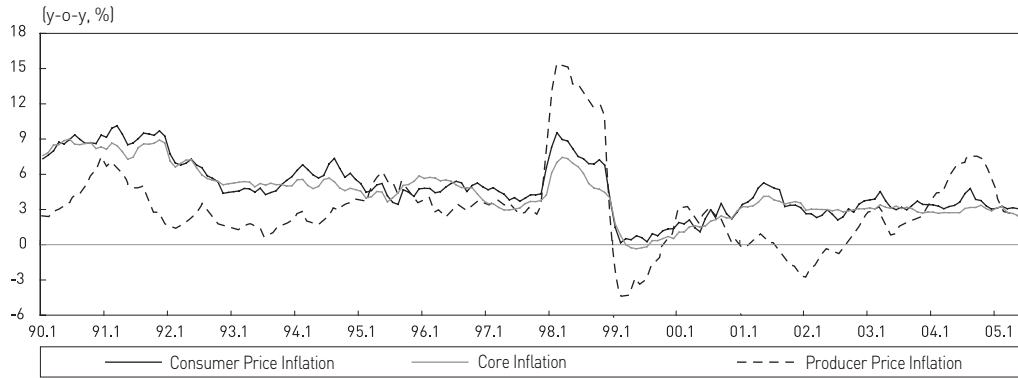
Consumer prices for basic necessities

(y-o-y, %)

4.5 (Dec 2004) 4.7 (Jan 2005) 4.9 (Feb)
4.5 (Mar) 4.9 (Apr) 4.7 (May)

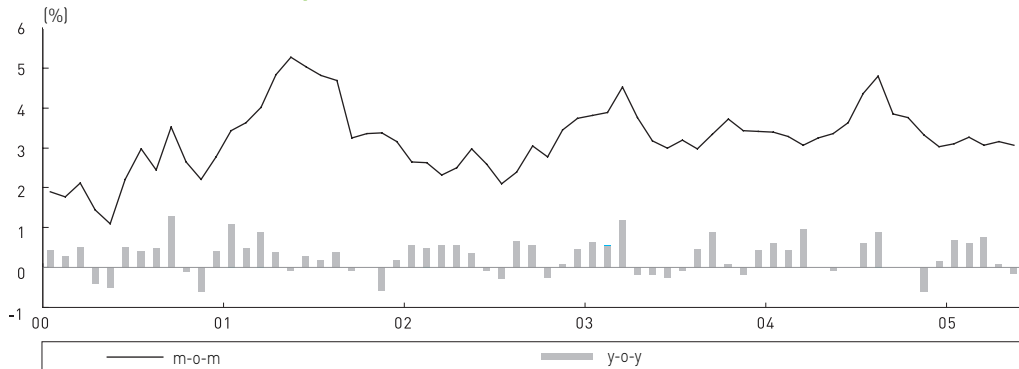
Consumer price inflation is expected to remain in the low 3 percent range in June as farm produce prices stabilize with increased fruit harvest.

Graph 11-1: Prices



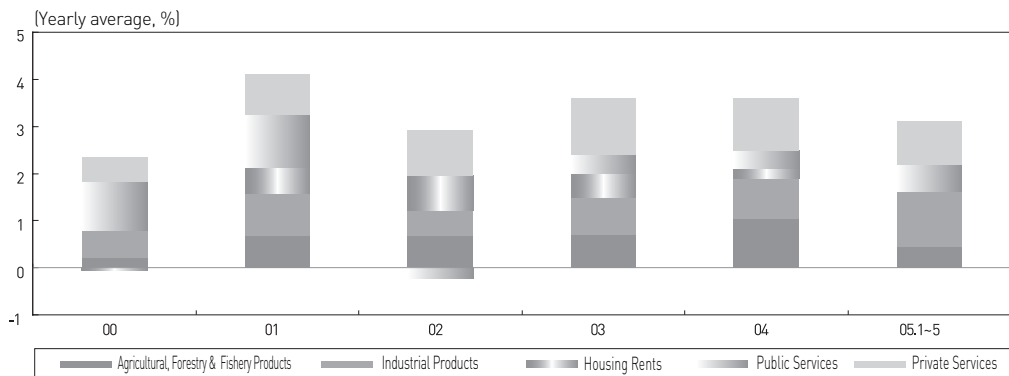
Source: Korea National Statistical Office (Consumer Prices, Core Inflation) & The Bank of Korea (Producer Prices)

Graph 11-2: Consumer Price Inflation



Source: Korea National Statistical Office (Consumer Price Trend)

Graph 11-3: Contribution to Consumer Price Inflation



Source: Korea National Statistical Office (Consumer Price Trend)

11.2. International oil and commodity prices

International oil prices fluctuated centering around US\$44 per barrel in early May due to increases in oil output supplied by the Organization of Petroleum Exporting Countries

(OPEC) and U.S. oil inventories, expectation of fall in global oil demand, and decreased speculative demand for oil.

[US\$/barrel]

	2003	2004		2005				Jan-May average
	Annual average	Annual average	Dec	Mar	Apr	May	May 31	
Dubai crude	26.8	33.6	34.2	45.9	47.2	45.4	46.6	43.3
Brent crude	28.7	38.2	40.0	53.0	50.9	46.9	49.4	48.1
WTI crude	31.1	41.4	43.2	54.3	52.9	49.9	52.1	50.5

Record high oil prices in 2005 (US\$/barrel)

Dubai crude: 50.5 (Apr 4)

Brent crude: 55.9 (Mar 18)

WTI crude: 57.6 (Apr 1)

Oil prices increased to the range of US\$46 per barrel in late May, as U.S. oil inventories fell again and demand for gasoline was expected to increase in the run-up to Memorial Day holiday week in the U.S.

It is not certain whether the recent fall in oil prices may lead to oil price stabilization given the usual uncertainties such as the imbalance between oil supply and demand and lack of adequate oil refinery facilities, and the upcoming U.S. summer holiday season.

As for other commodity prices, the Reuters index continued to be down in May with prices of nonferrous metals decreasing.

Reuters index

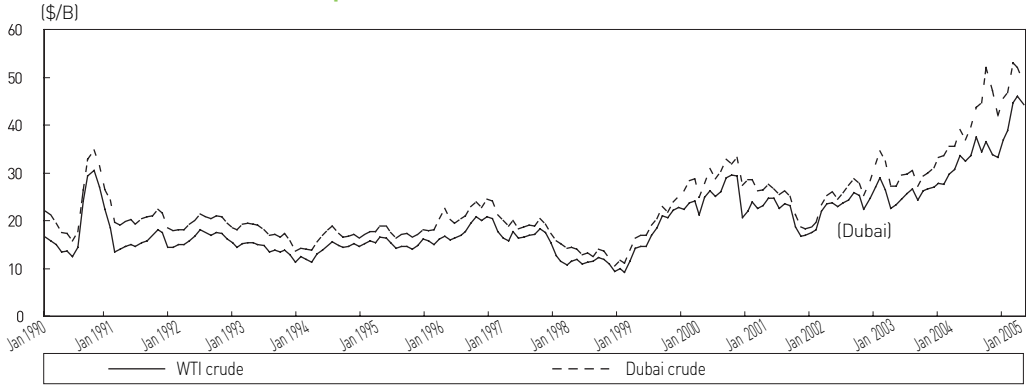
(a weighted average index of 17 major commodities)

1,493 (2003) 1,618 (2004) 1,632 (Feb 2005)

1,707 (Mar) 1,677 (Apr) 1,648 (May)

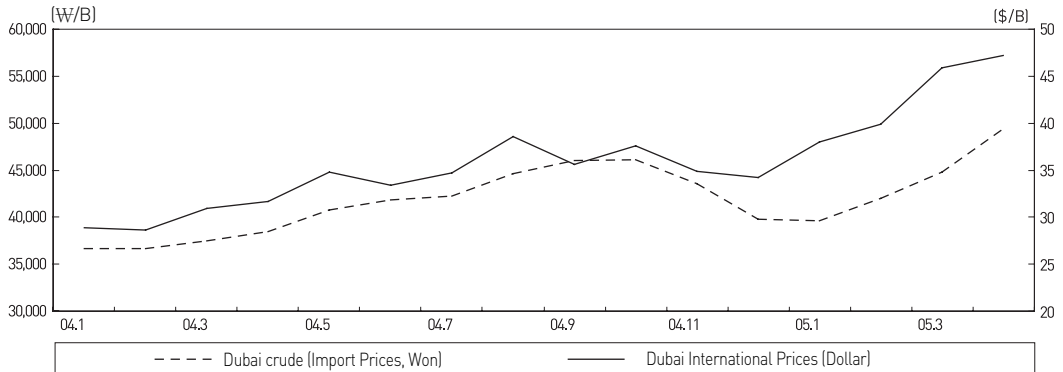
Nonferrous metal prices decreased on the back of expected slowdown of the global economy and sluggish demand. Agricultural product prices increased slightly as global demand was expected to increase and production to decrease.

Graph 11-4: International Oil Prices



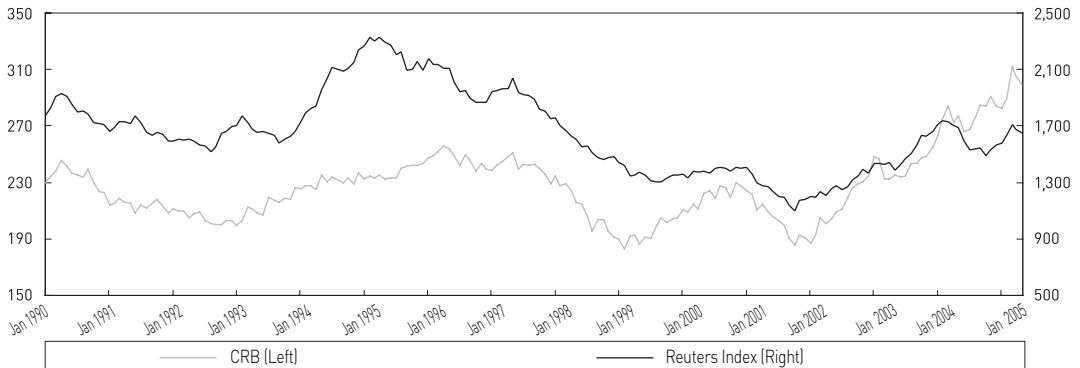
Source: Korea National Oil Corporation

Graph 11-5: International Oil Prices (Dubai crude) and Import Prices



Source: Korea National Oil Corporation

Graph 11-6: International Commodity Prices



Source: CRB (Bloomberg), Reuters Index (The Bank of Korea)

*CRB demonstrates futures price index of 21 commodities listed on the U.S. Commodity Transaction Market, including beans and other crops, crude oil and jewelry.

12. Real estate market

12.1 Housing market

Apartment price increase remained unchanged from the previous month at 0.8 percent in May, and the increase was bigger in Gangnam (southern Seoul) and Bundang (south of Seoul) areas than others.

<Sale prices of apartments>

(Percentage change from the previous period)

	2003	2004	2005								
	Annual	Annual	Jan	Feb	Mar	Apr	May	May 9	May 16	May 23	May 30
Nationwide	9.6	-0.6	-0.3	0.5	0.6	0.8	0.8	0.1	0.1	0.1	0.2
Seoul	10.2	-1.0	-0.3	1.0	0.5	1.2	1.0	0.1	0.2	0.1	0.4
Gangnam ¹	14.3	-1.3	-0.3	1.7	0.7	1.9	1.5	0.1	0.3	0.2	0.5

1. Southern Seoul
Source: Kookmin Bank

Prices of leased apartments remained stable overall, slightly increasing during marriage season.

<Lease prices of apartments>

(Percentage change from the previous period)

	2003	2004	2005								
	Annual	Annual	Jan	Feb	Mar	Apr	May	May 9	May 16	May 23	May 30
Nationwide	-0.4	-2.7	-0.4	0.4	0.7	0.6	0.4	0.0	0.0	0.1	0.1
Seoul	-3.2	-4.4	-0.6	0.2	0.3	0.4	0.1	0.0	0.0	0.0	0.1
Gangnam ¹	-2.3	-5.2	-0.7	0.4	0.2	0.6	0.3	0.1	0.1	0.1	0.1

1. Southern Seoul
Source: Kookmin Bank

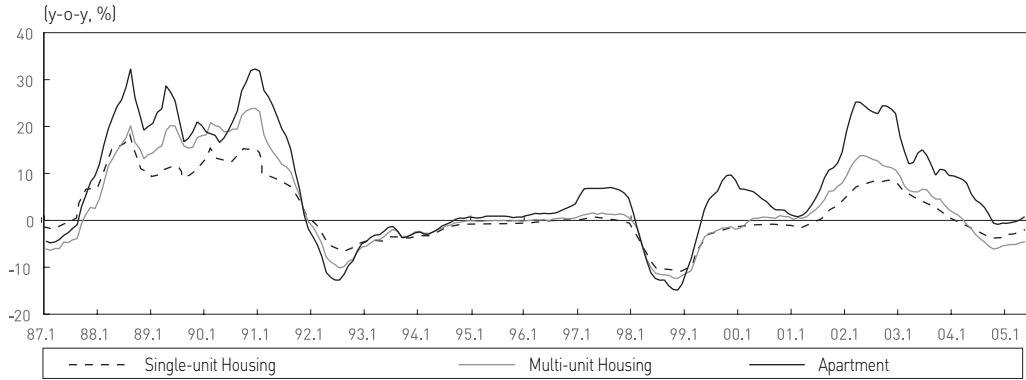
Apartment sales continued an increasing trend in May following the previous month.

<Number of apartment sale transactions>

(Monthly average, thousand)

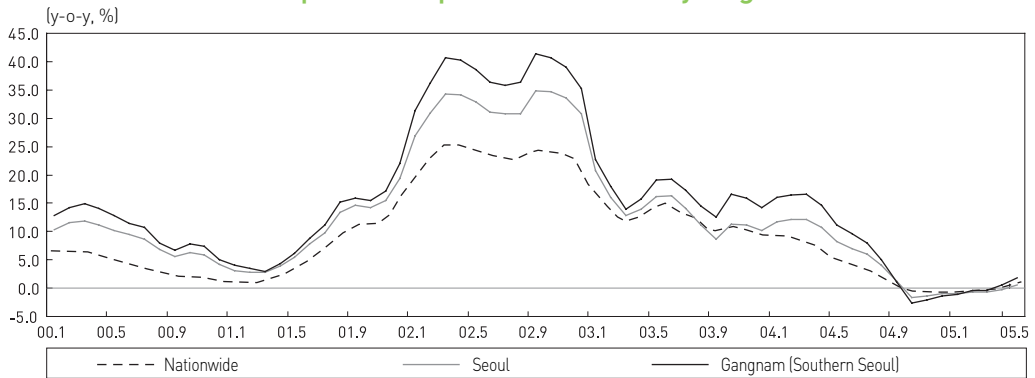
2003	2004				2005			
Annual	Jan-Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
91	62	65	67	75	68	63	90	94

Graph 12-1: Real Estate Prices



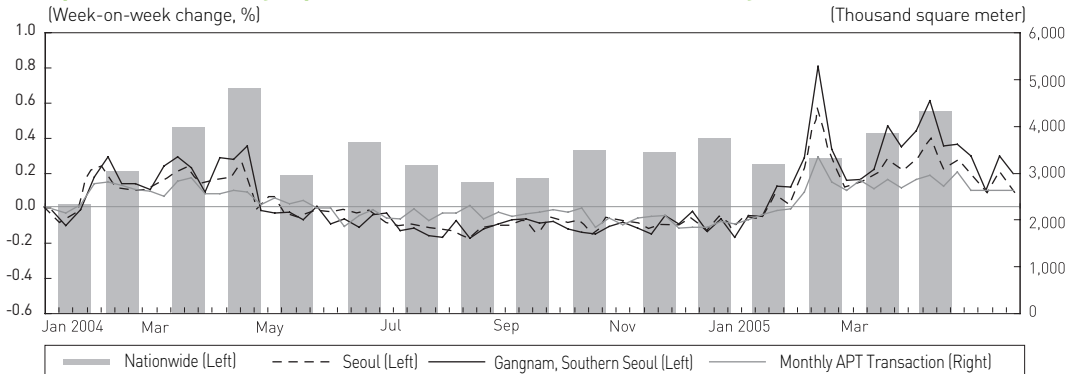
Source: Kookmin Bank (Nationwide Housing Price Trend)

Graph 12-2: Apartment Prices by Region



Source: Kookmin Bank (Nationwide Housing Price Trend)

Graph 12-3: Weekly Apartment Sale Prices and Monthly Transaction Volume



Source: Kookmin Bank (Weekly APT Price Trend) & Korea Land Corporation (Monthly Land Trade Trend)

12.2 Land market

Overall land price was up 0.53 percent month-on-month in April after rising 0.35 percent in March.

<Land prices by region>

(Percentage change from the previous period)

	2003	2004					2005			
	Annual	Q1	Q2	Q3	Q4	Annual	Jan	Feb	Mar	Apr
Nationwide	3.43	1.36	1.09	0.77	0.58	3.86	0.23	0.18	0.35	0.53
Seoul	5.23	2.10	0.95	0.59	0.39	4.09	0.19	0.14	0.40	0.73
Gyeonggi	5.12	1.96	1.74	1.16	1.13	6.12	0.37	0.26	0.32	0.59
South Chungcheong	4.81	2.40	4.65	3.93	0.25	11.65	0.46	0.53	1.15	0.80

Land price increases in some parts of the nation were higher with the plan for a multi-function administrative city materializing and expectations for various development projects mounting.

The top 5 areas with the steepest increase in land price include Yeongi-gun, South Chungcheong province (1.92 percent), Pyeongtaek-si, Gyeonggi province (1.53 percent), Yuseong-gu, Daejeon (1.42 percent),

Gongju-si, South Chungcheong province (1.39 percent), and Seo-gu, Daejeon (1.08 percent).

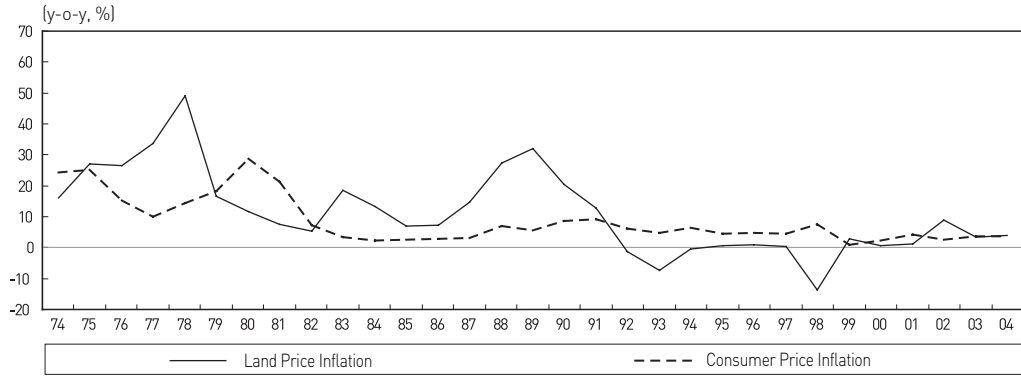
Land transactions were brisk in April driven by the plan for establishing a multi-function administrative city and various development projects.

<Number of land sale transactions>

(Monthly average, thousand)

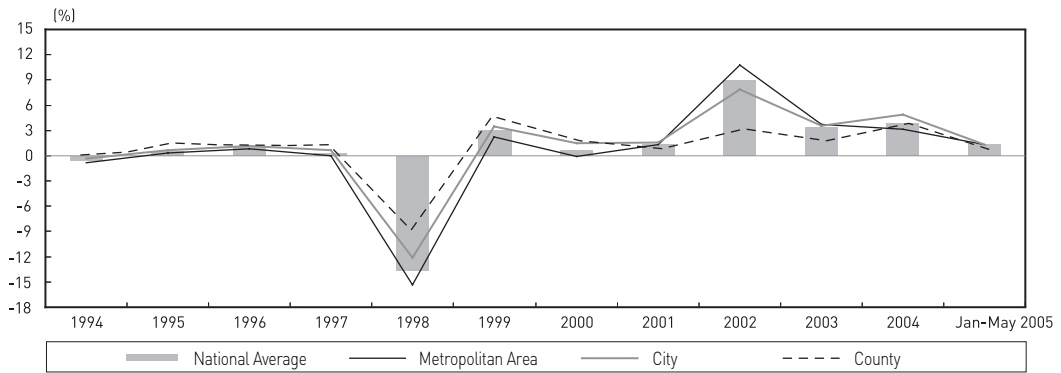
2003	2004					2005			
Annual	Jan-Sep	Oct	Nov	Dec	Annual	Jan	Feb	Mar	Apr
218	216	207	218	244	218	228	180	279	285

Graph 12-4: Land and Consumer Prices Since 1970s



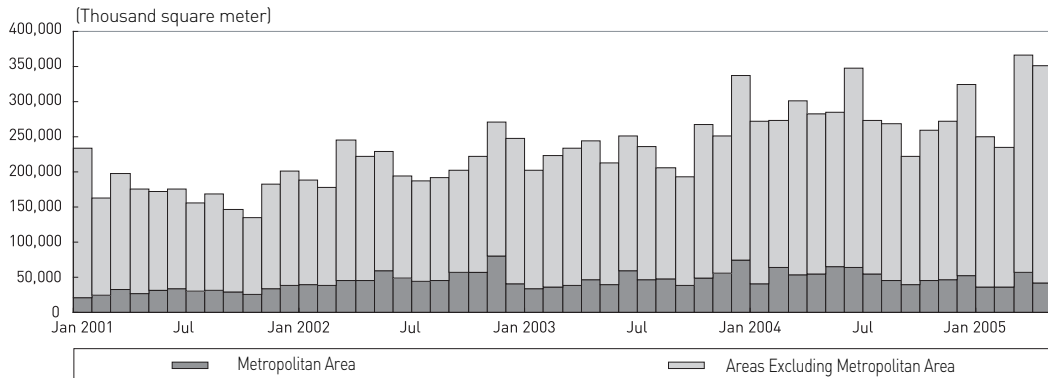
Source: Land Prices (Korea Land Corporation), Consumer Price Inflation (Korea National Statistical Office)

Graph 12-5: Land Prices by Region



Source: Korea Land Corporation (Land Price Trend)

Graph 12-6: Land Trade Volume



Source: Korea Land Corporation (Land Trade Trend)