
Published on : June 30, 2005 (VOL. 37 NO. 2)

Publisher : SEUNG PARK
Governor, the Bank of Korea

Editor : JAE CHUN KIM
Director General,
Research Department

Published by : The Bank of Korea
Seoul, Korea

Printed by : Jungmoonsa Printing Co., Ltd.

Seoul Metropolitan Government

Registration No. : Seoul Ba-00141/Registered on : April 15, 1969

QUARTERLY

BULLETIN

Table of Contents

Address upon the 55th Anniversary of the Foundation of the Bank of Korea
/ 3

Current Economic and Financial Movements
/ 9

Monetary Policy
/ 27

Summary of Financial Stability Report
/ 31

Flow of Funds in 2004
/ 39

Financial Statement Analysis for 2004
/ 50

Organization of the Bank of Korea / 71

The Bank of Korea's Internet Web Site / 72

List of Publications / 73

List of Bank of Korea Working Papers / 76

Titles of Articles Appearing in Monthly Bulletin / 77

Titles of Articles Appearing in Quarterly Bulletin / 78

Address upon the 55th Anniversary of the Foundation of the Bank of Korea

Fellow members of the Bank of Korea family,

We gather together today to mark the 55th anniversary of the founding of the Bank of Korea and to refresh recognition of its role and vision matching the wealth of experience this represents. Let me first of all most sincerely thank all those persons who have been unstinting in their guidance and encouragement. I should also like to commend all members of staff for their devotion in carrying out their duties in a spirit of faithfulness.

In the course of the last couple of years, the Korean economy, as you are aware, has experienced growing polarisation while the prospect of a fully-fledged recovery has receded. Exports have grown consistently, but the employment situation has shown little improvement due to the lacklustre facilities investment. While firms have achieved high earnings, the rate of increase of household incomes has remained flat so that the economic troubles of the general public have continued. What is more, the impact of external factors including international oil prices, exchange-rate movements and the North Korean nuclear issue has been more unfavourable than had originally been anticipated. Price trends have shown sustained stability, but real estate prices have marked a comparatively steep upward trend since the beginning of this year.

Dear colleagues,

For some time now, the Bank of Korea has kept in place its accommodative policy stance in view of the greater concern over the downside risks to growth than the upward pressures on prices. The target call interest rate has been cut to its lowest-ever level of

3.25% while ample liquidity has been supplied. Meanwhile, the method of operation of the Aggregate Credit Ceiling system has been improved so as to heighten the practical efficiency of financial support for those small and medium businesses that are heavily dependent on domestic demand.

Such financial easing has not been as effective as had been hoped because of the uncertainty surrounding conditions at home and abroad, but by reducing the burden of financial expenses of economic agents, it is assessed as having maintained the basis for the economic livelihood. Strikingly, the ratio of firms' financial expenses fell from around 7% in 1999 to the 1% level in 2004. This is analysed as having contributed greatly to the sustained expansion of exports over the last few years by enabling firms to absorb the weakening of their profitability brought about by the appreciation of the Korean won. This easing process, though, has not been without its side effects. The stability of the financial markets has seen a comparative reduction through the shift of financial institutions' deposit structures toward the short-term, and those dependent on financial savings have suffered a loss of income.

During the latter half of the year, the Korean economy can expect to see a continuation of the solidly-based export growth while private consumption and facilities investment show a gradual improvement. GDP growth for the year as a whole is still seen to come in at close to the 4% level that we originally forecast at the end of last year. Prices are showing a generally stable pattern of movements in the absence of major demand pressures. High oil prices and the run-up in real estate prices, though, represent potentially destabilising factors. The current account surplus is expected to be maintained thanks to the underlying surplus trend of the goods account.

In this way the Korean economic situation seems set to take a turn for the better in the remainder of the year, but the problem of its polarisation is unlikely to be greatly lessened while anticipations of an improvement in public perceptions of the state of the economy are likely to be disappointed. This is an unavoidable occurrence in the process of the substitution of the growth engine of those sectors that have lost their competitive edge in line with the era of unbounded competition. In accordance with the difficulties that the Korean economy is facing, we need to figure out a solution with patience to ease the birth pangs associated with the emergence of a new growth dynamic.

Through ongoing structural adjustment we have to find a way for this new growth

dynamic to restore the pro-cyclical structure of exports and domestic demand and of growth and employment. In keeping with initiatives to improve the investment climate such as the easing of regulations, outstanding firms must feel emboldened to set afoot facilities investment projects designed to secure competitiveness from a broad management perspective. Besides this, policy initiatives should be strengthened to foster industries producing parts and components, helping to establish a framework for the common growth of both large businesses and small and medium firms. We also intend to be unstinted in our support of knowledge based service industries and high-tech industries including information technology, biotechnology and nano technology.

Fellow members of the Bank of Korea family,

Let me now tell you about the areas on which the Bank of Korea will focus in its conduct of monetary policy during the second half of the year.

While principally seeking to achieve a balance between growth and stability, interest rate policy will be conducted so as to underpin a business recovery and to tackle preemptively inflationary pressures that may arise. In this context, a close watch will be kept on the movements of real estate prices, which are feared to kindle inflationary expectations among the general public. Additionally the predictability and transparency of policy will be constantly heightened so as to bolster policy efficiency by securing market credibility. At the same time, we intend to study plans that would promote the facilities investment of small and medium enterprises by improving the operation of the Aggregate Credit Ceiling System as a policy instrument.

We will redouble our efforts dedicated to financial stability. As the deposit structure of financial institutions has shifted toward the short-term end, it may prove difficult to avoid frictions in the supply and demand for long-term funds once business begins to pick up, and there is concern that market interest rates may show unstable movements. In future we will give close attention to financial market trends and, if symptoms of stress are detected, we will take prompt action to counter them. We also intend to heighten the stability and efficiency of the payment and settlement system. In line with the widening use of electronic means of payment, we intend to work out a plan to reduce the consequent settlement risk. In the intended redesign of BOK-Wire we will also give attention to reducing the burden on financial institutions of carrying settlement funds.

A key project for us this year is the issue of new banknotes. This is an undertaking that we must carry out without the slightest error. The purpose is to enable members of the public to make use of the new banknotes conveniently and with confidence. It is served by the incorporation of the latest devices to deter counterfeiting into the new banknotes and their redesign. During the first half of 2006, the 5,000-won banknotes will be issued and the 10,000-won banknotes and the 1,000-won banknotes will be released during the first half of 2007. We commit ourselves to nothing less than complete perfection in all aspects of this project from the printing and management of the new currency to the friction-free exchange of old notes for new, the reconfiguration of ATMs and the provision of information to the public.

From this year, too, we have to press ahead successfully with the programme of public education about the economy, expanding our target coverage to the whole population. We plan to enable the completion of training by some 200,000 people, carrying out wide ranging economic training for all types of institutions and organisations and teachers of social studies in all levels, children attending elementary, middle and high school and university students.

To this end, we need to strengthen online economics education by developing new educational media and delivering more varied content. By dint of these efforts, we can successfully contribute greatly to raising the level of understanding and awareness concerning economic issues of the Korean public.

Another key focus of the Bank's business during the year ahead is the expansion of our capabilities in the operation of the foreign exchange assets. We intend to reach a great level of sophistication in this area by building up our operating skills and developing heightened expertise in all the disparate elements involved in the foreign currency asset management framework such as investment, risk management and funds settlement.

In May this year a foreign currency asset operation management system was constructed to support the specialisation of foreign currency asset operation business in terms of electronic systems. Before long, then, the Bank of Korea will rank second to none among central banks around the world in its foreign currency asset management capacity.

Fellow members of the Bank of Korea family,

The Bank of Korea has achieved phenomenal development.

Now more than ever, emphasising creativity and innovation along with the market function, the role of monetary policy has become of overwhelming importance and the Bank's position has been greatly strengthened. Following the entry into effect of the revised Bank of Korea Act, its strict independence in the formulation and implementation of monetary policy has been secured to a degree fully on a par with that of the central banks of advanced countries.

We can also point to epic improvement in terms of organizational management. In keeping with this global age, we need to attract outstanding human resources to foster talent and to greatly broaden training opportunities at home and abroad. A personnel management system that emphasises performance and skills must be established while firmly rejecting old boy networks and regional loyalties. Following the large-scale overhaul of the organizational framework in 2003, the functions of the Institute for Monetary and Economic Research have been greatly expanded and a new director for it has been appointed through outside recruitment. All this is designed to bring about a constant strengthening of the Bank's capacity for research and investigative studies. Additionally, to promote public education about the economy more efficiently, the former Economic Information Office has been reorganised and enlarged to become the Economic Education Centre. In addition, the purchase of Sogong Annex has provided a fundamental solution to the problem of a shortage of operating space.

The Bank of Korea's international profile has also been greatly heightened. Channels for policy cooperation and information-sharing between the three Northeast Asian countries of Korea, China and Japan have been greatly augmented. On May 27, we gathered some of the first fruits in the form of our entry into a currency swap agreement with the Bank of Japan and the doubling of the scale of our swap line with the People's Bank of China. In connection with the IMF and World Bank, Korea's experience in overcoming the foreign currency crisis such as its financial reform has been passed on to developing countries and to emerging market countries. The Bank's standing was also bolstered by the holding of the recent 'Bank of Korea 2005 International Conference' to mark its 55th anniversary, in which a number of central bank governors from major countries, senior officials from international financial organisations and eminent academics took part.

Dear fellow members of the Bank of Korea family,

At this juncture, the Bank of Korea is about to take a further step forward from its pre-

sent position to one of the world's preeminent central banks. For this a fervent sense of mission and untiring effort on the part of the entire staff are of overriding importance. Let each and every one of us resolve to become the foremost experts in our particular field of business. In addition, we should set out to constantly heighten the degree of openness and competition within our organizational structure so as to secure global competitiveness.

Let us all now once more dedicate ourselves as one to our calling as central bankers on this 55th anniversary of the Bank of Korea.

I wish you all and your families the greatest of health and happiness.

Thank you very much.

June 10, 2005

Seung Park
Governor
The Bank of Korea

Current Economic and Financial Movements

Summary

During the first quarter of 2005, the Korean economy saw its growth rate slow down and the employment situation worsen somewhat, but the current account continued to post handsome surplus while prices showed stable trends.

Real gross domestic product (GDP) grew by a mere 2.7 percent in the first quarter year-on-year, less than in the previous quarter, due to sluggish construction investment. Considering the steady export growth and mild recovery of facilities investment & private consumption, however, the composition of the growth showed signs of improvement. Real gross national income (GNI) also showed a paltry 0.5 percent growth rate, much lower than that of GDP, owing to the worsening of the terms of trade.

The unemployment rate stood at 3.5 percent, similar to the previous quarter, but the employment situation worsened

somewhat, as the number of those employed (before seasonal adjustment) increased by just 142,000, much lower than that of 408,000 in the previous quarter.

During the first quarter, the growth rates of both exports and imports (customs clearance basis) slowed down, but retained a generally favorable trend. Exports rose by 12.6 percent from the same period of the previous year to 66.8 billion dollars, and imports increased by 14.4 percent to 60.4 billion dollars. Accordingly, the current account recorded a large surplus of 6.0 billion dollars.

Consumer prices in the first quarter showed a high rate of increase of 2.1 percent over the previous quarter owing to hikes in prices of agricultural products and petroleum products as well as a rise in public utility charges, but the year-on-year rate of increase slowed down to 3.2 percent.

Core inflation, which strips out prices

of petroleum fractions and non-cereal agricultural products from the CPI, rose by 1.4 percent from the previous quarter owing to rises in cigarette prices and several public utility charges, but the year-on-year growth rate slowed to 3.0 percent.

The yield on Treasury bonds (3-year maturity) rose until the middle of February. But thereafter it showed a downward trend owing to weakened expectations of economic recovery and the government's steps to stabilize the bond market.

The Korea composite stock price index (KOSPI) has posted a steep rise early in the year, but from mid-March, it fell back slightly on uncertainties over economic recovery. KOSPI posted a sharp fall in April owing to sluggish IT business and worries over the global economy, but it rose again in May, affected by improved investment sentiment.

After an abrupt depreciation against the U.S. dollar early this year, the Korean won showed an appreciating trend. From March, however, it began to lose ground again owing to the U.S. Federal Reserve's hike of interest rates and the net outflow of foreign stock investment funds. From the middle of April, the won regained its strength, affected by rumors that a revaluation of the Chinese yuan was imminent.

The growth rate of M3 has slowed down from 6.2 percent in the previous quarter to 5.7 percent in the first quarter

due to the low ebb of the supply through the overseas sector, which offset the constancy of that through the government sector. In April it decelerated further 5.4 percent.

In contrast, the growth rate of M1 rose slightly from the previous quarter's 7.2 percent to reach 7.4 percent.

Economic Movements

Economic Growth

During the first quarter of 2005, real gross domestic product (GDP) grew by 2.7 percent, lower than its 3.3 percent rate in the previous quarter, due to the sluggishness of construction investment, whose effects offset the mild upswing in facility investment and private consumption.

Real gross national income (GNI), which represents the real purchasing power of incomes, showed a rise of 0.5 percent, lower than real GDP growth rate as real trade losses expanded sharply following the deterioration of the terms of trade.

Final consumption expenditures increased by 1.7 percent year-on-year owing to the speedier growth of both private and government consumption.

Private consumption rose by 1.4 percent year-on-year due to a hike in expen-

ditures for service, which counteracted the reduction in expenditures on quasi-durable goods, including tableware and books. Government consumption similarly increased by 3.2 percent, centering on expenditures for goods.

Fixed investment shifted to an increase of 0.1 percent year-on-year owing to heavier facilities investment, the sluggishness of construction investment notwithstanding.

Facilities investment continued its upward trend owing to the expansion of investment in machinery, including general machinery and electric & electronics equipment, even though transportation equipment investment fell back sharply.

Construction investment shrank by 2.9 percent year-on-year owing to lacklustre investment in the construction of buildings for both non-residential and residential use, although investment in

civil engineering work, including transportation facilities, electric power and communication facilities, shifted to an increase.

The year-on-year rate of increase of exports of goods and services decelerated slightly but still showed steady growth at the 7.4 percent level.

Exports of goods, led by such heavy & chemical industrial products as semiconductors, communication equipment, and automobiles, continued their steady growth, but exports of services posted a slight rise owing to a drop in non-residents' spending on travel in Korea, that offset the rise in receipts from cargo freight.

Imports of goods and services grew by 5.2 percent in the first quarter year-on-year, much lower than the previous quarter's 11.1 percent.

Imports of goods saw its growth rate

[Table 1] Growth Rates by Component of Expenditure¹⁾

	Unit : percent						
	2003		2004 ²⁾			2005 ²⁾	
	Year	Year					
GDP	3.1	4.6	5.3	5.5	4.7	3.3	2.7
GNI	1.9	3.8	4.7	4.7	3.6	2.3	0.5
Final consumption expenditure	-0.3	0.2	-0.5	0.4	-0.1	0.9	1.7
Private consumption	-1.2	-0.5	-1.3	-0.5	-0.8	0.6	1.4
Government consumption	3.8	3.0	3.0	4.2	2.9	1.9	3.2
Gross fixed capital formation	4.0	1.9	2.2	4.3	3.0	-1.2	0.1
Construction	7.9	1.1	4.9	3.6	1.3	-3.4	-2.9
Facilities	-1.2	3.8	-0.3	6.2	6.8	2.5	3.1
Exports of goods and services	15.6	19.7	26.9	26.9	17.7	9.8	7.4
Imports of goods and services	10.1	13.8	12.3	20.7	12.0	11.1	5.2

Notes : 1) Compared with the same period of the previous year.

2) p : preliminary

slow down, led downward by the fall in imports of both petroleum products and nonferrous metal products. Imports of services, however, continued their upward trend owing to a rise in the payments for passenger fares and the use of patent rights and royalties, as well as the expansion of residents' overseas travel spending.

Viewing growth by type of economic activity, the construction industry was subdued whereas services marked a recovering trend, and manufacturing and electricity, gas and water supply both posted relatively strong growth.

The agriculture, forestry and fishing industry posted year-on-year growth of only 2.6 percent owing to a decrease in the production of cultivated crops, which offset the buoyant production of the livestock sector.

Manufacturing posted a growth rate of 5.3 percent, a slight decline from the 8.0 percent of the previous quarter, being affected by a fall in the number of working days and a sharp drop in the production of cigarettes.

By sector, the production of semiconductors, electronic parts, mobile phone handsets, and automobiles all increased driven by brisk exports, but that of the tobacco, textiles & apparel, and wood & lumber all dropped.

The construction industry exhibited negative growth of 3.0 percent year-on-year due to sluggish construction activi-

ties for buildings for both residential and commercial use, which more than offset the rise in civil engineering work.

The growth rate of the service industry accelerated, posting a year-on-year rise of 2.2 percent, owing to favorable business performance in financial intermediation, communication, real estate, renting and business activities sectors, despite a poor performance in the wholesale & retail trade sector.

The wholesale & retail trade, restaurant & hotel sector showed signs of emerging from its downward trend, affected by good performance in the hotel sector and the slowed rate of decrease in the wholesale & retail trade sector.

The growth rate of the transportation, storage and communication industry slowed down from the previous quarter's 4.3 percent to 3.4 percent, owing to the reduced pace of the communication industry's growth which acted to offset the slight acceleration of that of the transportation industry, helped by a rise in the number of railroad passengers and the quantity of cargo exports.

The financial intermediation, real estate, renting and business activities industry posted 2.5 percent growth due to the shift of the financial intermediation sector to an upward trend and the accelerated growth pace of the real estate, renting and business activities sectors.

[Table 2] Growth Rates by Sector of Economic Activity¹⁾

Unit : percent

	2003		2004 ²⁾				2005 ²⁾
	Year	Year					
Agriculture, Forestry & Fishing	-5.3	7.4	6.8	3.1	5.3	10.4	2.6
Manufacturing	5.5	11.4	12.2	13.7	12.0	8.0	5.3
Electricity, Gas & Water supply	4.7	6.2	6.3	6.6	7.4	4.3	6.3
Construction	8.6	1.7	4.9	3.7	2.2	-2.2	-3.0
Services	1.6	1.3	1.5	1.7	1.3	0.6	2.2
(Wholesale and retail trade, restaurants and hotels)	-2.8	-0.5	-1.5	-0.3	-0.1	-0.1	0.0
(Transport, storage and communication)	4.8	5.7	6.8	6.6	5.0	4.3	3.4
(Financial intermediation, real estate and other service activities)	2.1	0.8	1.2	1.2	0.9	0.0	2.5

Notes : 1) Compared with the same period of the previous year.

2) p : preliminary

Employment and Wages

During the first quarter, the employment situation worsened somewhat. The number of the employed (before seasonal adjustment) increased by a mere 142,000

from a year earlier, much lower than the rise of 408,000 in the previous quarter.

However, the seasonally-adjusted unemployment rate registered 3.5 percent similar to the previous quarter. The rate of participation in economic activi-

[Table 3] Employment Trends

Unit : thousand persons, percent

	2003		2004				2005	
	Year	Year					Apr.	
<Seasonal Adjusted>								
Labor Force	- 23,034	-	23,401	23,317	23,320	23,445	23,569	23,657
(Participation Rate)	- 61.5	-	62.3	61.9	61.7	61.9	62.0	62.0
Unemployment Level	- 814	-	794	808	832	817	831	848
(Unemployment Rate)	- 3.5	-	3.4	3.5	3.6	3.5	3.5	3.6
Employment Level	- 22,221	-	22,607	22,509	22,489	22,628	22,738	22,809
<Not Seasonally Adjusted>								
Labor Force	22,916	23,119	23,370	22,982	23,531	23,434	23,534	23,159
(Participation Rate)	61.4	61.7	62.0	61.2	62.5	62.0	62.2	60.9
Unemployment Level	777	794	813	878	787	787	802	912
(Unemployment Rate)	3.4	3.4	3.5	3.8	3.3	3.4	3.4	3.9
Employment Level ¹⁾	22,139	22,325	22,557	22,104	22,744	22,647	22,733	22,247
	(-30)	(-1)	(418)	(472)	(441)	(353)	(408)	(142)

Note : 1) Figures in parentheses refer to the change compared with the same period of the previous year.

[Table 4]**Rates of Increase of Nominal Wages¹⁾**

Unit : percent

	2003		2004		2005			
	Year	Year	Year	Year	Year	Year	Year	Year
Nominal wages per worker	9.2	7.3	6.0	3.9	5.0	7.3	7.7	7.5
(Regular Payment)	8.8	9.0	6.8	7.0	6.6	6.9	6.7	8.0
(Overtime Payment)	7.3	8.5	1.7	3.1	2.5	2.5	-1.0	7.8
(Special Cash Payment)	11.4	2.0	4.6	-5.4	-0.5	9.8	13.3	5.7
(Manufacturing)	8.7	6.3	9.5	6.2	8.1	10.4	13.1	9.9
(Construction)	11.5	11.1	2.8	4.3	4.2	2.8	0.0	-2.1
(Wholesale, retail, restaurants and hotels)	8.8	7.0	4.0	2.4	2.6	5.2	6.0	10.6
(Transport, storage, communication)	10.4	6.2	2.0	1.3	1.5	1.6	4.0	9.3
(Finance, insurance and real estate)	8.9	7.1	3.5	-0.5	2.2	7.4	4.9	5.8
(Business, personal, and community services)	8.6	8.3	4.3	4.8	4.2	4.6	3.4	3.4

Note : 1) Compared with the same period of the previous year.

ties rose by 0.1 of a percentage point to 62.0 percent.

In the meantime, seasonally adjusted unemployment rate in April in 2005 posted 3.6 percent, up 0.1 of a percentage point from the first quarter.

Nominal wages rose by 7.5 percent year-on-year during the first quarter, a slight slowdown from the previous quarter's 7.7 percent. This was because the growth rate of regular wages and overtime wages rose slightly, but the rate of increase of special wages slowed down sharply.

By industry, the rate of wage increases in the retail & wholesale, restaurants and hotels sector accelerated, but slowed in manufacturing. Meanwhile, that of the construction industry shifted to a downward trend.

External Transactions

During the first quarter of 2005, exports rose by 12.6 percent over the same period of the previous year to stand at 66.8 billion dollars.

Broken down by commodity group, exports of IT products saw their growth rate slow down owing to a steep fall in exports of computers and a slackening of increasing pace of exports of wireless communication apparatus. Most non-IT products other than textiles, however, posted a high rate of increase.

By export destination, the growth rate of exports to Southeast Asia slowed down sharply, whereas those to advanced countries including the EU and to China showed robust growth.

In April 2005, meanwhile, exports rose

[Table 5]

Exports by Sector and Destination¹⁾

(Custom-clearance Basis)

Unit : billion US dollars

	Share ²⁾	2004						2005		
		Year	Jan.-Apr.					Apr.	Jan.-Apr.	
Exports	<100.0>	253.8 (31.0)	59.3 (37.8)	80.8 (37.5)	64.0 (38.9)	61.6 (28.9)	68.9 (21.2)	66.8 (12.6)	22.9 (6.7)	89.7 (11.1)
IT products	<30.5>	77.5 (30.2)	18.3 (44.2)	24.8 (46.0)	19.9 (53.7)	19.2 (21.5)	20.2 (11.1)	19.3 (5.4)	6.4 (-0.4)	25.7 (3.9)
Semiconductors	<10.4>	(35.7)	(46.7)	(52.0)	(64.6)	(28.4)	(14.7)	(20.2)	(6.1)	(16.3)
Computer	<6.5>	(11.6)	(45.8)	(47.3)	(36.5)	(-5.6)	(-17.7)	(-29.1)	(-31.1)	(-29.6)
Wireless Communi- cation apparatus	<8.2>	(39.8)	(41.2)	(41.0)	(59.6)	(33.0)	(31.2)	(15.5)	(10.5)	(14.3)
Non-IT products	<69.5>	176.3 (31.3)	41.0 (35.1)	56.0 (34.0)	44.1 (33.2)	42.5 (32.5)	48.8 (25.8)	47.5 (15.9)	16.5 (9.7)	64.0 (14.2)
Automobile	<12.6>	(39.6)	(45.8)	(42.1)	(39.3)	(54.5)	(27.0)	(29.5)	(23.9)	(27.9)
Ships	<6.0>	(38.0)	(61.3)	(44.6)	(18.1)	(7.3)	(79.8)	(10.7)	(2.4)	(8.6)
Machinery	<6.6>	(31.7)	(35.3)	(36.7)	(41.5)	(29.8)	(22.5)	(21.9)	(19.3)	(21.2)
Iron & steel products	<7.3>	(42.2)	(37.1)	(38.6)	(43.3)	(46.7)	(41.3)	(33.6)	(22.3)	(30.6)
Chemical products	<8.1>	(39.0)	(26.7)	(28.3)	(34.9)	(48.2)	(44.4)	(43.2)	(27.8)	(39.2)
Textile & Apparel	<5.6>	(-1.4)	(1.4)	(2.5)	(1.9)	(-2.5)	(-6.0)	(-8.1)	(-6.2)	(-7.5)
U S	<16.9>	(25.2)	(19.8)	(21.5)	(36.0)	(31.9)	(15.2)	(10.7)	(-2.1)	(7.1)
Japan	<8.5>	(25.6)	(30.1)	(29.9)	(30.1)	(32.0)	(25.5)	(9.3)	(7.0)	(8.7)
E U	<14.9>	(40.2)	(36.7)	(38.5)	(36.7)	(48.8)	(36.7)	(19.9)	(13.4)	(18.2)
China	<19.6>	(41.7)	(50.6)	(53.1)	(50.6)	(63.6)	(36.8)	(23.7)	(20.5)	(22.8)
Southeast Asia	<20.5>	(23.9)	(47.8)	(44.5)	(47.8)	(33.5)	(21.6)	(-6.5)	(-11.9)	(-8.0)
Central & South America	<4.6>	(31.4)	(6.8)	(11.2)	(6.8)	(29.6)	(21.5)	(25.3)	(37.4)	(28.4)

Notes : 1) Figures in parentheses refer to rates of increase compared with the same period of the previous year(%).

2) Based on the year 2004.

by 6.7 percent over the same month of the previous year to register 22.9 billion dollars.

By item, most products, except computers and textile goods, posted increasing pace similar to that of the first quarter. In particular, automobiles, chemical products and iron & steel products posted a high rate of export growth.

During the first quarter, imports increased by 14.4 percent year-on-year to stand at 60.4 billion dollars.

By item, imports of raw materials con-

tinued their rapid growth due to rising international raw material prices. However, imports of capital goods slowed their upward pace due to the slowdown of import growth of machinery and imports of consumer goods fell owing to a sharp drop in gold imports.

Meanwhile, imports in April 2005 showed a 12.6 percent increase over the same month of the previous year to 21.2 billion dollars.

By item, imports of raw materials continued their upward trend, affected by a

[Table 6]**Imports by Sector and Use¹⁾**

(Custom-clearance Basis)

Unit : billion US dollars

	Share ²⁾	2004						2005		
		Year	Jan.-Apr.					Apr.	Jan.-Apr.	
Imports	<100.0>	224.5	52.8	71.6	55.3	54.7	61.7	60.4	21.2	81.6
		(25.5)	(19.4)	(21.4)	(32.5)	(27.3)	(23.6)	(14.4)	(12.6)	(13.9)
Raw materials & Fuels	<50.7>	113.8	25.8	35.0	27.5	27.5	33.1	32.4	11.7	44.0
		(31.7)	(15.5)	(18.3)	(36.4)	(32.8)	(42.4)	(25.3)	(26.9)	(25.7)
Crude oil	<13.3>	(29.6)	(-1.6)	(2.4)	(39.2)	(37.8)	(46.9)	(39.3)	(44.2)	(40.6)
Iron & steel products	<9.4>	(55.9)	(49.5)	(54.2)	(61.0)	(48.8)	(63.2)	(42.3)	(26.8)	(37.9)
Chemical products	<8.1>	(26.2)	(22.3)	(20.0)	(22.6)	(26.6)	(32.8)	(21.1)	(27.8)	(22.8)
Capital goods	<37.5>	84.1	20.1	27.1	20.9	21.1	22.1	22.0	7.3	29.3
		(22.2)	(21.9)	(22.5)	(29.8)	(26.6)	(12.7)	(9.6)	(4.0)	(8.1)
Electric & electronic products	<22.3>	(17.6)	(21.4)	(22.3)	(26.9)	(18.8)	(6.0)	(5.1)	(2.5)	(4.4)
Machinery	<8.3>	(28.4)	(26.8)	(24.4)	(28.7)	(36.9)	(22.1)	(13.5)	(7.7)	(12.0)
Consumer goods	<11.8>	26.5	6.9	9.5	6.9	6.2	6.6	6.0	2.2	8.3
		(12.3)	(27.9)	(31.0)	(26.2)	(9.3)	(-7.8)	(-12.2)	(-14.6)	(-12.8)
For domestic use	<58.5>	(25.8)	(16.7)	(19.6)	(31.2)	(29.1)	(26.4)	(18.5)	(10.9)	(16.4)
For export	<41.5>	(25.2)	(23.3)	(24.1)	(34.4)	(24.9)	(19.7)	(8.9)	(15.0)	(10.4)

Notes : 1) Figures in parentheses refer to rates of increase compared with the same period of the previous year(%).

2) Based on the year 2004.

hike in prices of internationally-traded raw materials. The increasing pace of imports of capital goods slowed down owing to a fall in imports of semiconductors. Imports of consumer goods continued on their downward trend, affected by a drop in imports of durable consumer goods and gold.

Reflecting these export and import trends, the goods account (B.O.P. basis) in the first quarter registered a surplus of 9.3 billion dollars, similar in scale to that of 9.2 billion dollars of the previous quarter. The current account during the first quarter was 6.0 billion dollars in the black, less than the surplus on the good

[Table 7]**Balance of Payments: Current Account**

Unit : billion US dollars

	Year	2004					2005		
		Jan.-Apr.					Apr.	Jan.-Apr.	
Current Account	27.6	6.1	7.3	7.0	7.1	7.4	6.0	-0.9	5.0
Goods	38.2	8.6	11.9	10.5	9.9	9.2	9.3	2.4	11.7
Services	-8.8	-1.9	-2.3	-1.5	-2.9	-2.4	-3.1	-0.9	-4.0
Income	0.7	0.2	-1.2	-1.2	0.5	1.2	0.2	-2.1	-1.9
Current Transfers	-2.5	-0.8	-1.1	-0.7	-0.4	-0.6	-0.5	-0.3	-0.8

account, being reduced by the widened deficit on the services account.

Meanwhile, the current account in April 2005 posted a deficit of 0.9 billion dollars, its first in two years, owing to its widened deficit on the income account as a result of the remittance of dividends and the narrowed surplus on the goods account.

Prices

Consumer prices, which had marked a downward trend in the fourth quarter of the preceding year, shifted to an upward trend in the first quarter of 2005, owing to a hike in prices of agricultural goods and petroleum products, as well as a rise in some public utility charges. The year-on-year rate of increase in the consumer price index(CPI), however, slowed down somewhat.

In April and May, the pace of increase in the CPI slowed down from the previous quarter due both to a fall in prices of agricultural products in the wake of expanded shipments and to stable housing rent prices and charges for private services.

Viewing the trend of consumer prices by items, prices of agricultural, livestock, and marine products have shown a steep upward trend during the first quarter due to the high demand around the Lunar New Year holidays and a reduction in supply in the winter season. With the

coming of spring, however, prices of agricultural, livestock, and marine products shifted to a downward trend in April and May owing to expanded shipments.

Prices of industrial products in the first quarter accelerated their upward trend, affected by a rebound in international oil prices and a hike in prices of cigarettes and processed foods. However, the steepness of their rise slackened off somewhat in April and May as prices of petroleum products stabilized, in response to stable international oil prices.

The rate of increase of charges for services accelerated to some degree in the first quarter owing to hikes in public utility charges, including national health insurance premiums, and in school tuition for the new semester and fees for study at private educational institutions.

In April and May, however, service prices stabilized owing to a fall in housing leasehold deposits and housing rents, as well as the slower rate of increase in charges for private services.

Meanwhile, the growth rate of core inflation, which strips out non-cereal agricultural products and petroleum fractions from the CPI, rose by 1.4 percent in the first quarter, accelerating its upward trend.

This was attributable to the increases in cigarette prices and in charges for some public utilities, which counteracted the effects of a fall in cereal prices in the wake of the preceding year's good har-

[Table 8]

Rates of Increase of Consumer Prices¹⁾

Unit : percent

	2003		2004				2005			
	Year	Year					Mar.	Apr.	May	
Consumer Prices	3.4 (3.6)	3.0 (3.6)	2.1 (3.3)	-0.1 (3.3)	1.5 (4.3)	-0.4 (3.4)	2.1 (3.2)	0.8 (3.1)	0.1 (3.1)	-0.2 (3.1)
Agricultural, livestock and marine products	8.9	3.2	6.6	-3.3	7.2	-6.5	6.2	0.4	0.5	-1.5
Industrial products	1.4	2.8	1.2	0.5	1.0	0.1	1.9	0.6	0.5	-0.2
Services	3.5	3.1	1.7	0.2	0.6	0.6	1.2	0.9	-0.2	0.1
Core inflation ²⁾	2.8 (3.1)	2.9 (2.9)	1.5 (2.8)	0.4 (2.7)	0.7 (3.2)	0.2 (3.2)	1.4 (3.0)	0.6 (2.8)	0.0 (2.7)	0.0 (2.5)

Notes : 1) Compared with the last month of the preceding period. Figures in parentheses refer to rates of increase compared with the same period of the previous year.

2) The CPI after stripping out prices of petroleum fractions and agricultural products except cereals.

vests and stability in prices of livestock products.

Meanwhile, the year-on-year rate of core inflation slowed to 3.0 percent in the first quarter, as the previous year's good harvest decreased cereal prices and livestock prices stabilized due to weak demand and increased import. And it slipped below the 3.0 percent mid-point of the inflation target range in April and May, affected by the stability of the prices of cereal, livestock and marine products, as well as service charges.

Producer prices turned to an upward trend in the first quarter as the run-up in international raw material prices increased prices of industrial products and seasonal, factors caused a steep rise in prices of agricultural, forest and marine products. On year-on-year basis, though, the upward pace of producer prices slowed sharply to 3.3 percent from the previous quarter's 6.5 percent.

In April and May, the upward trend was blunted by the fallen prices of agricultural, forest, and marine products on the back of increase in shipments of vegetables and fruits, and by the stabilized charges for services.

Viewing the trend of producer prices by items, prices of agricultural, forest, and marine products registered a steep rise in the first quarter, affected by such seasonal factors as strong demand around the Lunar New Year holidays and a reduction in the supplies in the winter season.

Prices, however, shifted to a downward trend again in April and May due to an increase in shipments of vegetables and fruits.

Prices of manufacturing industry products showed an upward trend as the prices of petroleum, chemical and metal products soared, more than offsetting the fall in prices of electronics parts, radio, TV & communication equipments, brought by

[Table 9] Rates of Increase of Producer Prices¹⁾

Unit : percent

	2003	2004					2005			
	Year	Year						Mar.	Apr.	May
Producer Prices	3.1 (2.2)	5.3 (6.1)	3.6 (4.2)	0.7 (6.2)	1.7 (7.3)	-0.6 (6.5)	1.0 (3.3)	0.5 (2.7)	0.6 (2.9)	-0.5 (2.0)
Agricultural, forest and marine products	12.1	-4.4	10.8	-5.6	2.9	-11.2	11.8	1.4	1.6	-4.1
Manufacturing industry products	2.7	8.1	4.4	1.6	2.1	-0.3	0.7	0.8	0.9	-0.6
Electric power, water, and gas supply	0.6	4.6	0.4	0.2	2.0	1.9	-3.4	-2.4	0.0	1.3
Services	2.9	2.1	1.2	-0.1	0.6	0.4	0.4	0.1	-0.1	-0.1

Note : 1) Compared with the last month of the preceding period. Figures in parentheses refer to rates of increase compared with the same period of the previous year.

the won's appreciation against the dollar and weak demand.

The upward trend ended in May as international prices of raw materials, including crude oil and nonferrous metal, fell back.

Charges for service showed a somewhat steep upward trend in January, led by those for financial and professional services, but, from February onwards, they regained their stability, led by leasing and renting services affected by the won's appreciation against the U.S. dollar.

Export prices continued their downward trend in the first quarter, following on from the fourth quarter of 2004; and their year-on-year growth rate also shifted to a falling trend.

This was attributable to the steep fall in prices of sound, image & comm. equipment & apparatus resulting from sluggish demand, which more than offset the

effect of a rise in prices of petroleum, chemical and rubber products in the wake of a surge in international oil prices.

From early April, export prices also continued their downward trend, influenced by sluggish overseas demand and intense competition between firms.

Import prices in the first quarter showed a somewhat steep upward trend because of a rebound in the international oil price and stronger demands, but their year-on-year growth rate slowed sharply.

From early April, the year-on-year rate of increase of import prices accelerated as prices of raw materials rose sharply owing to a run-up in prices of international raw materials, including crude oil, whose effects more than offset those of a fall in prices of capital and consumer goods amid lacklustre demand.

Housing prices, which had shown a downward trend since the second quarter

[Table 10] Rates of Increase of Export and Import Prices¹⁾

Unit : percent

	2003	2004					2005			
	Year	Year					Feb.	Mar.	Apr.	
Export prices	3.3	-2.8	1.1	1.3	3.7	-8.5	-0.7	-0.1	0.4	-0.1
	(-2.2)	(6.2)	(2.6)	(6.4)	(11.0)	(5.0)	(-4.9)	(-4.9)	(-4.5)	(-4.4)
Import prices	6.5	0.7	3.1	1.9	2.9	-6.9	3.9	0.4	3.2	2.1
	(1.8)	(10.2)	(4.8)	(11.7)	(16.0)	(8.4)	(0.1)	(-0.3)	(1.4)	(3.6)

Note : 1) Compared with the last month of the preceding period. Figures in parentheses refer to rates of increase compared with the same period of the previous year.

of the previous year, shifted to an upward trend in the first quarter, centering on apartments slated for reconstruction in the exclusive Gangnam area of Seoul and apartments near the new dormitory city of Pangyo.

Housing leasehold deposits also shifted to an upward trend owing to the seasonal demand for house moving and the demand associated with relocation in connection with reconstruction. This upward trend, though, moderated somewhat in May as the seasonal factors faded.

Meanwhile, the upward pace of land prices accelerated somewhat in the first quarter, centering on regions touted as sites for new administrative cities and regions associated with new satellite cities in the greater Seoul conurbation.

In April, land prices continued their upward trend, which centered on regions whose prospects as sites for the development of new towns or corporate cities had been boosted by favorable news reports.

[Table 11] Rates of Increase of Real Estate Prices¹⁾

Unit : percent

	2003	2004					2005			
	Year	Year					Mar.	Apr.	May	
Housing prices	5.7	-2.1	0.0	-0.1	-0.9	-1.1	0.4	0.4	0.6	0.5
(Apartments in Seoul)	10.2	-1.0	0.9	0.7	-1.3	-1.3	1.2	0.5	1.2	1.0
Housing leasehold deposits	-1.4	-5.0	0.1	-1.0	-2.2	-2.0	0.2	0.4	0.4	0.1
(Apartments in Seoul)	-3.2	-4.4	0.8	-1.0	-2.3	-1.9	-0.1	0.3	0.4	0.1
Land prices	3.4	3.9	1.4	1.1	0.8	0.6	0.8	0.3	0.5	-

Note : 1) Compared with the end of the preceding period.

Financial Developments

Financial Markets

In the first quarter, long-term market interest rates moved up sharply until the middle of February, affected by the government's January announcement of its expansion of the issuance of treasury bonds and weakened expectations of a further reduction of the central bank's policy rate.

After that, they fell back again on dampened hopes of a business recovery and the government's steps to stabilize the markets, including the adjustment of the volume of government and public bonds issued.

Accordingly, yields on Treasury bonds (three-year maturity) and corporate bonds (AA-grade, three-year maturity)

rose by 63 and 62 basis points, respectively, from 3.28 percent and 3.72 percent at the end of the previous quarter to 3.91 percent and 4.34 percent at the end of March.

From early April, long-term market interest rates continued on a downward trend, affected by the uncertainties surrounding external economic conditions, including the possibility of the U.S. economy hitting "soft patch", and the ebbing of hopes of an early recovery of the domestic economy.

As a net result, yields on Treasury bonds (three-year maturity) and corporate bonds (AA-grade, three-year maturity) marked 3.67 percent and 4.08 percent, respectively, at the end of May, down 25 basis points and 26 basis points, from the end of the previous quarter.

The Korea composite stock price index

[Chart 1] Market Interest Rate Movements



Note : 1) Figures refer to the interest rates at the end of month

(KOSPI) posted a steep rise in the early weeks of the year, affected by the favorable business results of enterprises, an increase in the inflow of funds into the stock market, and foreign investors' net purchase position, but from mid-March, it eased back slightly due to foreign investors' net selling and the question marks over the pace of economic recovery.

Accordingly, KOSPI strode at 965.7 at the end of March, an increase of 7.8 percent over the end of the previous quarter (895.9)

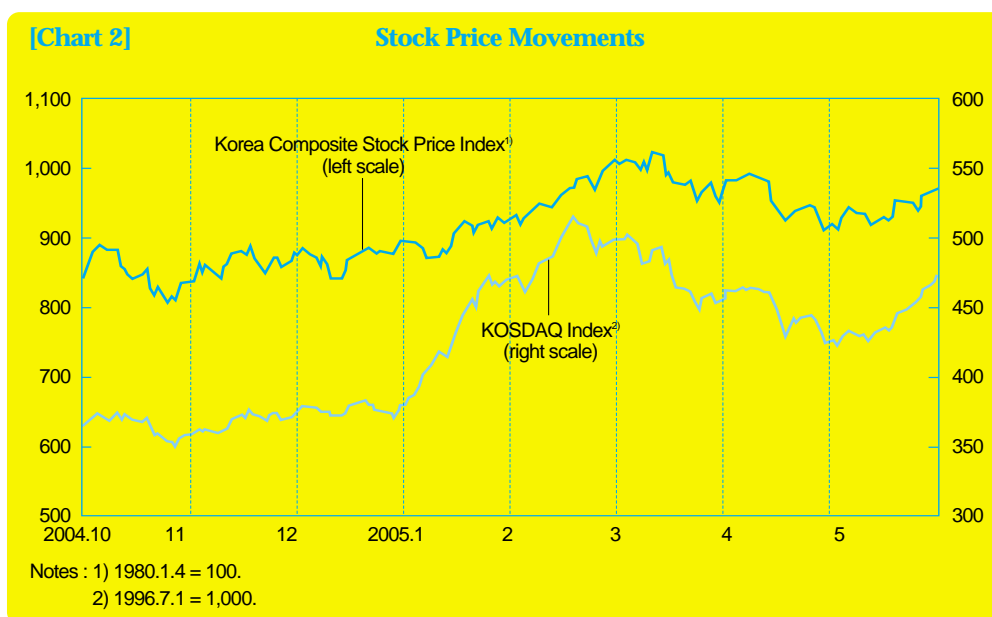
The KOSDAQ index also surged owing to the government's announcement to stimulate high-tech start-ups and the tech-heavy KOSDAQ market, posting 455.0 at the end of March, up 19.6 percent from 380.3 recorded at the end of

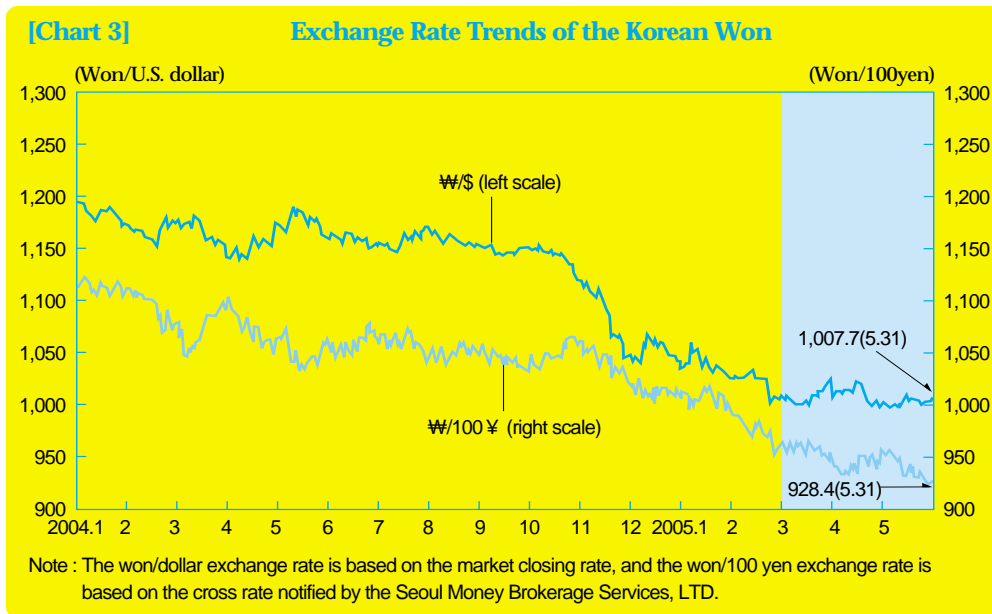
the previous quarter.

KOSPI fell sharply in April, affected by the poor business results of some IT-centered businesses and concerns about a slowdown of the global economy. In May, however, KOSPI rebounded on improved investor sentiment following the reduced likelihood of a hike in U.S. interest rates.

As of the end of May, KOSPI stood at 970.2, up 0.5 percent from the end of March. The KOSDAQ index similarly rose over this same period, moving up 3.5 percent from the end of March to stand at 471.5.

The Korean won showed an appreciating trend early this year. From March, however, it began to lose its ground affected by the U.S. Federal Reserve's hike of interest rates and the continued net





outflow of foreign stock investment funds. As a result, the exchange rate of Korean won registered 1,023.6 won per the US dollar on March 30.

After this, the pace of its depreciation slowed owing to an increase in the supply of funds from exports and sales of dollars to realize marginal profits. Affected by foreign investors' remittance of dividends, however, the won depreciated again to stand at 1,022.5 won per dollar on April 15.

Influenced by rumors that a revaluation of the Chinese yuan was imminent, the Korean won regained its strength against the dollar and then showed a pattern of reiterated fluctuations posting 1,007.7 won against the dollar as of the end of May.

Meanwhile, against the Japanese yen,

the Korean won, after depreciating slightly since the middle of April, kept its firm trend in May, closing the month at 928.4 won per 100 yen.

The scale of the contraction of deposits at banks during the first quarter narrowed markedly as short-term deposits rose, led upward by those in instant-access accounts and short-term marketable deposits increased, responding to the government's fiscal spending and the liquidity supply through the overseas sector.

On the other hand, the pace of increase of deposits at investment trust companies slowed sharply as the inflow into bond-type beneficiary certificates fell back steeply owing to a hike in market interest rates, which counteracted the effects of the acceleration of the increas-

[Table 12]**Growth of Deposits at Financial Institutions**

(Changes during the period)

Unit : billion won

	2004				2005		
					Apr.	May	
Deposit money banks ¹⁾	2,570.1	4,630.3	-1,943.3	-5,862.4	-72.0	9,949.4	1,891.0
Money-in-trust	-5,540.2	-346.0	-2,160.5	-1,501.6	1,019.7	-1,284.8	-447.9
Investment trust companies	17,043.5	-1,438.0	13,680.1	14,832.3	5,293.9	3,338.7	1,327.9
Merchant banking corporations ²⁾	684.0	-318.2	-866.4	735.3	392.7	770.2	62.9

Notes : 1) Bank deposits + CDs + RPs + Cover bills

2) Bills Issued + CMA

ing pace of MMFs.

Deposit-taking by banks shifted to a sharp rise in April, influenced by the government's disbursement of fiscal funds and the consolidation of the upward pace of bank lending. Although the upswing in deposit-taking continued in May, it flattened out markedly.

From early April, deposits at investment trust companies also shifted to an increase owing to steady inflow of funds into MMFs and into both stock-type and mixed-type beneficiary certificates.

Monetary Aggregates

The growth rate of M3 slowed down

from 6.2 percent in the previous quarter to 5.7 percent in the first quarter as the volume of money supply through the overseas sector narrowed from the previous year's level, offsetting the effects of the continued expansion through the government sector.

The growth rate of M1 accelerated slightly from the 7.2 percent of the previous quarter to 7.4 percent in the first quarter.

The growth rate of M3 in April is estimated to have registered 5.4 percent, a slight rise from March, as the reduction of money supply through the overseas sector was more offset by a sharp expansion of that through the private and gov-

[Table 13]**Monetary Aggregate Trends¹⁾**

(On the basis of average figures)

Unit : percent

	2004				2005		
					Apr.	May	
M3	5.1	5.8	6.2	6.2	5.7	5.4 ^p	—
M1	7.3	9.4	8.6	7.2	7.4	8.6	—
M2	2.6	3.8	5.0	5.3	5.3	5.5	—
Reserve money	6.9	4.4	2.4	3.3	1.5	2.5	—

Note : 1) Compared with the same period of the previous year

ernment sectors.

The growth rate of M1 in April is similarly estimated to have posted the high level of 8.6 percent, similar to that in March, affected by the government's front loading of its fiscal expenditures and a rise in short-term deposits.

Bank Loans and Corporate Finance

Bank lending to enterprises shifted from its decrease in the previous quarter to an increase in the first quarter as lending to enterprises expanded owing to the re-extension of loans that had been temporarily retired at the year-end.

However, the pace of expansion of bank lending to enterprises slowed as against the same period of the previous year owing to banks' conservative atti-

tude toward lending to small and medium-sized companies and enterprises' weak demand for funds.

Bank lending to households also saw its pace of increase slow from the previous quarter as the growth rate of housing-finance loans eased owing to the weak performance of banks' lending to housing association groups.

Meanwhile, the net issuance of corporate bonds turned positive again as enterprises expanded issuance to improve their debt structure.

From early April, the growth rate of bank lending to enterprises accelerated owing to the re-extension of loans that had been temporarily retired at the end of March and several banks' efforts to expand lending to small and medium-sized companies.

The growth of bank lending to house-

[Table 14]

Bank Lending and Corporate Funding

(Changes during the period)

Unit : billion won

	2004				2005		
					Apr.	May	
Bank Loan ¹⁾ to Enterprises	8,192.1	1,657.0	1,540.1	-7,583.0	2,066.0	3,044.7	1,720.5
(Large enterprises)	1,241.1	-2,316.7	-136.7	-1,881.7	92.9	1,147.0	266.2
(Small and medium enterprises)	6,951.0	3,973.7	1,676.8	-5,701.3	2,158.9	1,897.7	1,454.3
Bank Loan to Household	5,140.2	6,338.9	5,324.6	5,707.7	2,844.1	3,105.8	4,183.9
Net bond issuance ²⁾	-1,675.2	1,928.7	-2,451.4	-181.2	194.9	757.9	-1,088.5
Net CP issuance ³⁾	2,268.4	-3,018.7	1,733.2	-2,964.4	993.2	1,060.8	460.9

Notes : 1) Excludes changes to bank accounts in connection with the disposal of bad loans and debt-for-equity swaps, but includes trust accounts and CLO.

2) Excludes under court management, court receivership and workout programs, by financial companies, and by state-run corporations, but includes Primary CBO that was accepted by Korea Development Bank in its prompt underwriting arrangements and that was redeemed prior to maturity.

3) Based on the amount of CP discounted by securities firms and merchant banking corporations and excluded the amount of financial institution's issuance

holds also accelerated owing to a steep rise in housing finance loans following banks' large scale of extension of such loans to housing association groups and their intense competition to expand lending.

Corporate bonds in April maintained

their net issuance from March, but in May they shifted to a net redemption, affected by the expansion in the volume of maturing corporate bonds and a base period effect that reflected the previous month's issuance to achieve prior refinancing.

Monetary Policy

Adopted by the Monetary Policy Committee

April ~ June 2005

Monetary Policy in April 2005*

In the real economy, while exports continue to exhibit steady growth and private consumption and facilities investment appear to be improving, construction investment shows a lackluster movement.

Meanwhile, the current account has still run a surplus, thanks to that on the goods account.

Both core inflation and consumer price inflation are maintaining overall stability, as upward pressure from the demand side has been subdued. Nevertheless, the medium-term evolution of price movements still calls for caution when considering the increasing pressure from the cost side mainly due to high oil prices, and signs of a rebound in housing prices.

In the financial markets, overall liquidity conditions are favorable, yet the lend-

* An unofficial English translation based on the Korean original of the decision on monetary policy taken by the Monetary Policy Committee on April 7, 2005 is attached.

ing activities of financial institutions including loans to small- and medium-sized enterprises remain sluggish.

Taking the above economic and financial conditions into consideration, the Monetary Policy Committee of the Bank of Korea decided today to maintain the benchmark call rate (uncollateralized overnight rate) at its current level (3.25 percent) for the intermeeting period.

Monetary Policy in May 2005*

In the real economy, while exports continue to exhibit steady growth and private consumption and facilities investment appear to be improving, construction investment shows a lackluster movement.

Meanwhile, the current account has still run a surplus, thanks to that on the goods account.

Both core inflation and consumer price inflation continue to exhibit overall stability, as upward pressure from the demand side has been subdued. Nevertheless, the medium-term evolution of price movements still calls for caution when considering the underlying pressure from the cost side mainly due to

* An unofficial English translation based on the Korean original of the decision on monetary policy taken by the Monetary Policy Committee on May 12, 2005 is attached.

high oil prices and a rise in real estate prices.

In the financial markets, overall liquidity conditions are favorable and the lending activities of financial institutions including loans to small- and medium-sized enterprises seem to be slowly improving.

Taking the above economic and financial conditions into consideration, the Monetary Policy Committee of the Bank of Korea decided today to maintain the benchmark call rate (uncollateralized overnight rate) at its current level (3.25 percent) for the intermeeting period.

Monetary Policy in June 2005*

In the real economy, while exports continue to exhibit steady growth and private consumption appears to be improving, construction investment shows signs of some alleviation of its sluggishness. On the other hand, an improvement of facilities investment has not yet become evident.

Meanwhile, the current account is still running a surplus, thanks to that on the goods account.

* An unofficial English translation based on the Korean original of the decision on monetary policy taken by the Monetary Policy Committee on June 9, 2005 is attached.

Despite the persistence of high oil prices, both core inflation and consumer price inflation continue to exhibit overall stability as upward pressure from the demand side has been subdued. Nevertheless, real estate prices have continued to rise.

In the financial markets, overall liquidity conditions are favorable and loans to small- and medium-sized enterprises and households are increasing.

Taking the above economic and financial conditions into consideration, the Monetary Policy Committee of the Bank of Korea decided today to maintain the benchmark call rate (uncollateralized overnight rate) at its current level (3.25 percent) for the intermeeting period.

Summary of Financial Stability Report

The global economy has continued to expand, and the Korean economy is finally showing some indication of recovery from the protracted downturn of domestic demand.

With inflationary pressures gradually building up in the US as a result of soaring oil prices and other factors, the growth of the US economy may slow down if the Federal Reserve starts to accelerate the pace of its ratcheting up of the policy rate. The Chinese economy has been cooling down, but the pressure on the Chinese authorities to revalue the yuan is increasing. The economies of Japan and the euro-area are experiencing temporary weakness on their recovery paths.

In the international financial markets, the US dollar started 2005 slightly stronger, after having shown significant weakness in 2004; stock prices in major economies are rising; and long-term interest rates remain stable. The yield spread on corporate bonds has remained narrow as investors persisted in what is termed a 'search for yields' in the low interest rate environment, and financial institutions in major economies are reporting stronger profits and heightened soundness.

Even though the real GDP growth rate itself went up in 2004, the perceived strength of economic recovery still remained feeble. In 2005, however, domestic demand is showing signs of a modest recovery from its prolonged stagnation, with indicators such as the consumer confidence index rebounding.

Inflation remains subdued despite the run-up in oil prices and other factors, partly

due to the strength of the Korean won, and the current account continues to register a surplus.

Households' debt servicing capacity is showing signs of gradual improvement, suggesting that the current obstacles to a revival of private consumption in the form of the excessive overhang of household debt may be beginning to dissolve, but the weakening of the credit of vulnerable groups has persisted.

Households' financial liabilities has been rising at an annual rate of around 5% since 2003, representing a sharp decrease compared with their upward pace until 2002. In 2004, the personal savings ratio rose, and the ratio of interest payments to disposable income fell, which, put together, may indicate a partial improvement in households' debt servicing capacity. Even though the process of household debt restructuring is still underway, the forecast is that debt should weigh less and less heavily on consumer spending.

After peaking in April 2004, the number of "credit delinquents" has shifted to a mild downward trend, largely thanks to government initiatives to support them and help them rebuild their credit standing. However the weakening of the debt servicing capacity of low income families has been protracted by stubbornly high unemployment and the stagnation of the real incomes of low-income households.

The debt servicing capacity of the corporate sector improved, though corporate earnings have been showing signs of a slight decline from the second half of 2004 arising from the higher prices for raw materials and the appreciation of the Korean won against the US dollar.

With the improvements in profitability, financial soundness, and liquidity of companies listed on the Korea Stock Exchange and KOSDAQ and the fall in the number of companies categorized as high risk, the corporate sector as a whole is now evaluated to have improved its capacities to repay debt and cope with external shocks. Nevertheless, the rise in raw material prices and the strengthening of the Korean won have slightly dented corporate profits since the second half of 2004, and the possibility of a hike in interest rates means that additional reductions in financial expenses are unlikely, which in turn may have adverse effects on businesses' future debt servicing capacity.

Residential property prices have been stable since November 2003 despite increases in prices of apartments in some areas whereas land prices continue to rise.

Maintaining stability in the housing market naturally entails limiting the volatility in prices. Even more important in this regard is the question of whether there is a gap between the current housing prices and the fundamental market value of the assets and, if so, how big the gap is. The phase of stabilization of the housing market since the end of 2003 has not been significant enough in terms of its duration and amplitude compared with the phase of upswing in 2001-2003. The real prices of apartments in specific areas of Seoul such as Gangnam, furthermore, are still well above the peak of the long-term time series trend. In addition, the relatively high expected rate of return on residential real estate means that inflows of investment funds may well be renewed at any time which, taken together with the factors mentioned above, means that it would be overly hasty to conclude that an adequate level of stabilization had already been achieved.

Unlike housing prices, land prices maintained an upswing edging up again slightly in 2004. Further increases in land prices could bring about another run-up in housing prices, which might in turn increase the volatility of the real estate market as a whole.

In the lending market, corporate and household lending rose at a slower rate while the loan interest rates remained downwardly stable in 2004, before shifting to a pattern of mild increases in early 2005, with the increases most pronounced in the case of bank loans.

Lending by financial institutions, that of banks in particular, is rising at a slower pace, but it does not seem that there would be any major difficulties for them to meet the heavier future demand for funds arising from the economic recovery. Not only will financial institutions' ability to supply funds improve, but rising competition in the domestic banking industry is also causing banks to ease lending standards. There is some concern that the large volume of corporate and household debt falling due in 2005 could destabilise the lending market, but financial institutions should be able to roll over much of the debt seamlessly because the ratio of maturing loans to total loans denominated in Korean won remains stable, and banks seem to have already achieved substantial progress in restructuring their loan portfolios.

The insolvency and subsequent restructuring of the credit card companies in 2003 led to a credit crunch for households with low-income households worst affected. Business performances, however, have recently been improving in part for the credit card issuers as delinquency rates have been falling since the second half of 2004, and losses have been narrowing, raising hopes that a greater supply of funds will be gradually made available to households through the credit card sector.

The bond market experienced high volatility and temporary instability in the beginning of 2005 with bond yields excessively declining toward the end of 2004, especially for long-term bonds, before rebounding sharply in 2005.

The high volatility in bond yields was a result of market-expectations of further rate cuts that caused investors to purchase a huge volume of long-term bonds in the weeks up until the end of 2004 and to reduce their bond positions substantially in early 2005 amid prospects of the increased supply of long-term bonds and economic recovery. The bond yield curve had become unusually flat in late 2004, but has since begun to steepen again.

The low interest rates have been increasingly conducive to the issuance of corporate bonds, but the interest rate spread between Korea Treasury bonds and BBB grade corporate bonds is still wider than it was before the SK Networks and credit card debacles in 2003, and it is much wider than in other countries.

The stock market has rallied since August 2004 on robust corporate earnings and mounting expectations of economic recovery, showing improvements in its liquidity and resilience.

The stability of the stock market is improving because falling yields on bonds and other financial instruments are luring investors into stocks, and the increasing capitalization of long-term investment funds such as installment-type funds is affording institutional investors longer time horizons for investment, which in turn has caused stock prices to mark a steady but gradual advance. Unlike in the 1990s, the expected returns from stock investment since the first half of 2000 have been higher than those on Korea Treasury bonds: the risk premiums of the stock market have reverted to positive.

The price differentiation between large-cap stocks and small- and mid-cap stocks has been narrowing, and financing conditions for small and medium enterprises have improved, since the fourth quarter of 2004, as foreign investors, who typically focus on large-caps, have been reducing their positions, resulting in comparatively high rates of increase in the prices of small- and mid-cap stocks. However, foreign investors still account for a relatively high share of total market capitalisation compared to other countries and institutional investors have a lower share, possibly attenuating the wealth effect of stock price increases and rendering the stock market more unstable.

In the foreign exchange market, the predominance of foreign currency supply in the interplay of supply and demand has continued owing to the constant widening of the current account surplus, and as the won-dollar exchange rate declined, volatility increased to the levels of the yen-dollar and dollar-euro rates.

The share of short-term debt in domestic banks' total external debt is falling as financial institutions prefer long-term borrowings to short or medium-term borrowings, and the maturity gap between the foreign-currency denominated assets and liabilities of domestic banks continues to demonstrate a pattern of long-term fund-raising and short-term operation of funds. This pattern seems to prove that banks are placing higher priority on securing liquidity in their management of foreign currency assets and liabilities.

The trend of the strengthening of the Korean won against the US dollar seems to have faltered somewhat in April 2005 and the pace of its appreciation against the greenback over the medium to longer term is assessed to have been nearly in lockstep with that of the yen and the euro. The heightened volatility of the won-dollar exchange rate was largely attributable to herd behavior as to market expectations on the policy stance of the foreign exchange authorities and market participants' outlook on foreign exchange movements. It may also be ascribed to the relatively small scale of the Korean foreign exchange market and the order-driven transaction system.

Commercial banks recorded a net profit of 6.7 trillion won in 2004, a substantial rise from a year before and saw improvements in their BIS capital adequacy ratios, with improved financial soundness in a trend that is expected to continue on well into 2005.

Banks' credit risk in corporate lending is gradually declining as corporate debt servicing capacity has improved, and banks have reduced their exposure to high-risk businesses. Credit risk in the household sector is also declining step by step as well thanks to slower growth in exposures, the decline in credit card delinquency rates, and improved risk management in relation to more fragile segments of household sector. Nevertheless, the rising delinquency rates of SMEs in early 2005 and the lack of credibility of the basic statistics, such as credit information on individuals and SMEs, could work as a factor enhancing credit risk.

Banks' profits have greatly improved with increased income from fees and commissions, higher net profits from lending business, and reduced deficits on their credit card operations. However, potential valuation losses on marketable securities and the high volatility of their earnings from deposit and lending operations may have a negative effect on their profitability. Consolidation in the banking industry has resulted in high-level concentration, so that the performance of the new mega-sized banks has a growing impact on the stability of the financial system as a whole.

Banks' capital adequacy improved in 2004 on stronger earnings and the slower growth of risk-weighted assets with the BIS capital ratio by the end of the year having increased to 11.29%. Given the high volatility of bank profits and their lower Tier 1 capital ratios relative to advanced foreign banks, however, they should continue to work for the stability of their net profits as well as the increase of their capital base through new issues of shares and the retention of a higher share of their earnings.

-] Non-bank lenders, such as mutual savings banks, credit unions and community credit cooperatives, that target households in relatively low-income brackets are losing ground in the financial industry: their competitiveness and profitability are declining.

Mutual savings banks suffered deficits on their operations in 2004, shifting from the surpluses recorded in previous years with massive losses reported by some and continuing high delinquency rates of over 20% since 2003. Their capital adequacy did not improve as large shareholders failed to subscribe additional capital, despite the steady decline in their average BIS capital ratio since 2002.

Credit unions and community credit cooperatives are heavily dependent on deposits for funding and have a low share of investments by their members. This situation

threatens to undermine the stability of their funding and to discourage the exercise of discipline through supervision and restraint by their members, which may ultimately lead to an increased likelihood of insolvency. In addition, credit unions and community credit cooperatives entrust one-fourth of their assets to their federations for management - a practice that can disperse the risks associated with asset management of individual firms, but may also increase systemic risk because the asset management skills of the federation will affect the business performance and credibility of all member institutions.

The demise of these financial service providers would restrict access to the organised financial system for a larger proportion of the population and weaken the structure of the financial system. Therefore, supervision over these institutions must be stepped up; disclosure requirements must be strengthened; and unnecessary or discriminatory regulations removed.

-] In relation to the payment and settlement system, the Bank of Korea conducted an extensive assessment of systematically important, or core, payment and settlement systems, secured a legal framework to guarantee settlement finality, and made efforts to reduce foreign exchange settlement risk substantially, laying a foundation to ensure the safe and efficient operation of the payment and settlement system.

Under the provisions of the revised Bank of Korea Act that entered into effect on January 1, 2004, the Bank of Korea appraised six core payment and settlement systems including BOK-Wire for their safety and efficiency in terms of international standards, such as the core principles of the BIS. Drawing on the findings of the assessment, the Bank of Korea directed operators of the systems in which shortcomings were identified to make the necessary improvements. It also formulated business continuity plans in preparation for potential system failures or disasters in relation to the operations of BOK-Wire. Furthermore, the Bank of Korea successfully urged the insertion of a provision on settlement finality into the 'Act concerning Bankruptcy and Debtor Rehabilitation' in accordance with recommendations from international bodies such as the BIS. Not only does this ensure the effectiveness of the payment and settlement system, even in the event of the failure of financial institutions, but it has laid a firm legal foundation for the payment and settlement systems in compliance with global standards.

In order to avoid the foreign exchange settlement risk associated with time differences between financial institutions around the world involved in foreign exchange transactions, the Bank of Korea constructed, and brought into operation on December 6, 2004, a continuous linked foreign exchange settlement system linking BOK-Wire to the payment-versus-payment system of CLS Bank which specializes in the simultaneous settlement of international foreign exchange transactions.

-] With the global economy continuing to expand and the domestic economy showing signs of recovery, Korea's overall financial system is considered to have shown an overall improvement in view of the heightened soundness of the banking sector and the consolidation of financial market stability.

Banks exhibited great progress in terms of net profits and financial soundness with credit risk in the corporate and household sectors on the decline. However, the banking sector has become a great deal more concentrated with the enlargement of banks' scale as a result of a series of mergers and acquisitions.

Mutual savings banks, credit unions and community credit cooperatives, however, have become less competitive due partly to the slow pace of their restructuring. Their demise would deny adequate access to credit to a larger percentage of the population and hinder the development of a multilayered financial structure, ultimately posing greater systemic risk.

The financial market is more stable than before despite the greater volatility in the bond and foreign exchange markets as the stock market has become more liquid and resilient, the bond yield curve has regained a normal profile. However, the high credit premium demanded for high-risk (BBB grade) corporate bonds is weakening the liquidity and profitability of businesses burdened with low credit ratings.

Flow of Funds in 2004

I. Introduction

During 2004, the financial transactions of the domestic economic agents increased slightly, affected by brisk exports and the government's expansion of fiscal expenditures, whose influence offset that of the sluggishness of domestic consumption.

Reviewing the trend of financial transactions by sector, the scale of the business sector's fund-raising decreased from a year earlier, responding to the decreased demand for working capital stemming from sluggish facilities investment and a reduction in borrowings from deposit money banks in the wake of their tightening of credit screening. Accordingly, the scale of the fund utilization also declined.

In the case of the individual sector, the scale of fund-raising increased, affected by a reduction in the net redemption of loans extended by card companies. The

scale of the fund utilization also expanded, centering on beneficiary certificates and deposits at non-banking financial institutions. In this way, as the rate of growth of the fund utilization outpaced that of its fund-raising, the scale of the individual sector's fund surplus widened from the previous year.

In the financial sector, the volume of funds supplied to domestic non-financial sectors (businesses, individuals, and government) declined slightly from the previous year as the pace of increase of loans extended by deposit money banks slowed down sharply, offsetting the effect of an expansion in the purchase of government and public bonds.

In the government sector, the volume of fund-raising increased from the previous year owing to the expanded issuance of government and public bonds, and the scale of the fund utilization also rose owing to a sharp rise in government loans. As a result, the government sector

shifted from a fund deficit in 2003 to a fund surplus in 2004.

The overseas sector exhibited a widening of its deficit of funds (net increase in Korea's external assets) in response to the expanded volume of the current account surplus.

Meanwhile, as of the end of 2004, the debt of non-financial sectors stood at 1,367.2 trillion won, up 4.9 percent from the end of 2003. Reviewing the debt of each of the non-financial sectors, that of the government sector showed a high growth rate of 32.1 percent, whereas the business and individual sectors posted increases of just 0.4 percent and 5.3 percent, respectively.

As of the end of 2004, total financial assets outstanding amounted to 4,894.0 trillion won. The financial interrelation ratio (financial assets outstanding/nominal GNI) fell slightly from 6.44 at the end of the previous year to 6.28.

Financial Transaction Characteristics by Sector

1. The Business Sector

A. Fund-Raising

During the year 2004, the volume of fund-raising (increase in financial debts) by the business sector decreased to 63.8 trillion won from the previous year's 76.6 trillion won due both to a fall in the demand for external funds brought about by sluggish investment and to a drop in borrowings from deposit money banks in the wake of their tightening of lending guidelines.

Looking at the pattern of fund-raising in the business sector, the amount of indirect financing decreased sharply to 11.2 trillion won from the 29.7 trillion won of the previous year due to the sharp fall in the growth of borrowings from

[Table 1] Fund Raising by the Business Sector

	Unit : billion won, %					
	2002		2003		2004p	
	Amount	Share	Amount	Share	Amount	Share
Fund Raising	83,318	100.0	76,625	100.0	63,785	100.0
Indirect finance	50,102	60.1	29,701	38.8	11,223	17.6
Borrowings from DMBs	41,137	49.4	32,597	42.5	7,099	11.1
Borrowings from non-banks	8,606	10.3	-2,886	-3.8	4,234	6.6
Direct finance	20,009	24.0	26,908	35.1	25,628	40.2
(Commercial paper)	-3,777	-4.5	-4,397	-5.7	-4,161	-6.5
(Stocks)	28,720	34.5	27,536	35.9	24,443	38.3
(Corporate bonds)	-7,857	-9.4	-1,925	-2.5	134	0.2
Borrowings from overseas	2,446	2.9	11,640	15.2	14,564	22.8
Others ¹⁾	10,761	12.9	8,376	10.9	12,370	19.4

Note : 1) Commercial trade credits, borrowings from government, bills payable, reserves for retirement allowance, etc.

deposit money banks, which was only partially offset by a shift from the previous year's net redemption to net borrowings from non-bank financial institutions, including credit specialized institutions.

The volume of fund-raising through direct financing eased slightly from 26.9 trillion won in the preceding year to 25.6 trillion won due to a slower rate of increase in the issuance of stocks, whose effects outweighed those of a shift to the net issuance of corporate bonds.

Meanwhile, borrowings from overseas increased from the previous year's 11.6 trillion won to 14.6 trillion won, centering on trade credits and foreigners' direct investments in Korea.

B. Fund Utilization

During 2004, the scale of the business sector's fund utilization (increase in

financial assets) decreased from the previous year's 43.4 trillion won to 38.8 trillion won.

Viewing the pattern of fund utilization by type of asset, deposits at financial institutions increased by a mere 0.6 trillion won. This was engendered by a continued drop in deposits at non-bank financial institutions coupled with the slower growth of savings deposits.

The business sector's holdings of securities increased by 13.4 trillion won from the previous year owing to enlarged holdings both of stocks and of beneficiary certificates.

C. Financial Deficit

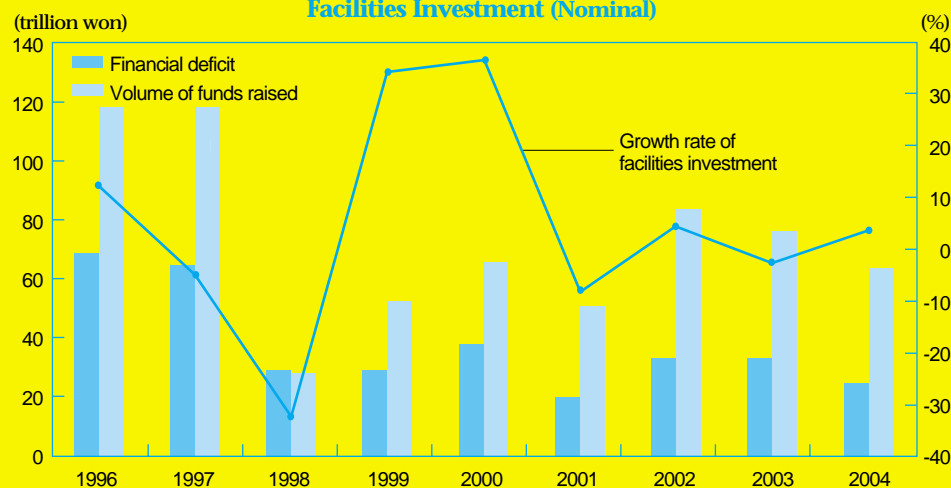
In the year 2004, the financial deficit (= fund-raising > fund utilization = investment > savings) of the business sector narrowed to 25.0 trillion won from the 33.2 trillion won of the previous year. Accord-

[Table 2] Fund Utilization by the Business Sector

	Unit : billion won, %					
	2002		2003		2004p	
	Amount	Share	Amount	Share	Amount	Share
Fund Utilization	50,636	100.0	43,388	100.0	38,810	100.0
Deposits	12,362	24.4	12,245	28.2	643	1.7
Deposit money banks	9,763	19.3	15,375	35.4	2,442	6.3
Non-banks	2,599	5.1	-3,130	-7.2	-1,799	-4.6
Securities	14,829	29.3	7,580	17.5	13,365	34.4
(Beneficiary certificates)	4,897	9.7	-6,159	-14.2	6,021	15.5
(Commercial paper)	1,508	3.0	-4,600	-10.6	-2,456	-6.3
(Corporate bonds)	-1,714	-3.4	5,329	12.3	683	1.8
(Stocks)	2,827	5.6	7,778	17.9	8,511	21.9
Foreign claims	3,787	7.5	5,842	13.5	6,399	16.5
Others ¹⁾	19,658	38.8	17,721	40.8	18,402	47.4

Note : 1) Cash, commercial trade credits, bills receivable, etc.

[Chart 1] Business Sector's Financial Deficit and Growth Rate of Facilities Investment (Nominal)



[Table 3] Business Sector's Financial Deficit and Growth Rate of Facilities Investment (Nominal)

	Unit : billion won, %							
	1997	1998	1999	2000	2001	2002	2003	2004p
Financial deficit	63,911	29,204	28,997	37,944	19,651	32,682	33,237	24,976
Financial deficit ratio ¹⁾	13.1	6.1	5.5	6.6	3.2	4.8	4.6	3.2
Volume of funds raised	118,045	28,018	52,995	65,759	50,645	83,381	76,625	63,785
Growth rate of facilities investment	-4.8	-32.5	34.2	36.3	-8.1	4.5	-2.7	3.7

Note : 1) Financial deficit / nominal GNI

ingly, the business sector's financial deficit ratio (financial deficit/nominal GNI) fell from the 4.6 percent of the previous year to 3.2 percent.

Looking at the trend of the business sector's financial deficit since the foreign exchange crisis, the volume of its financial deficit has shrunk sharply from its 60~70 trillion won in the pre-crisis period and has remained at a level of 20~30 trillion won, affected by corporate restructuring and an increase in internal financing.

2. The Individual Sector

A. Fund-raising and Utilization

During the year 2004, the amount of funds raised by the individual sector came to 29.3 trillion won, an increase from the previous year's 24.8 trillion won. This was attributable to the shift from the previous year's net redemption to a net increase in borrowings from non-bank financial institutions.

Meanwhile, the volume of the individual sector's utilization of funds expanded

to 59.8 trillion won from the previous year's 45.0 trillion won, centering on non-bank financial institution deposits and beneficiary certificates.

Looking at the pattern of funds utilized, deposits at financial institutions decreased sharply from the previous year's 45.8 trillion won to 24.9 trillion

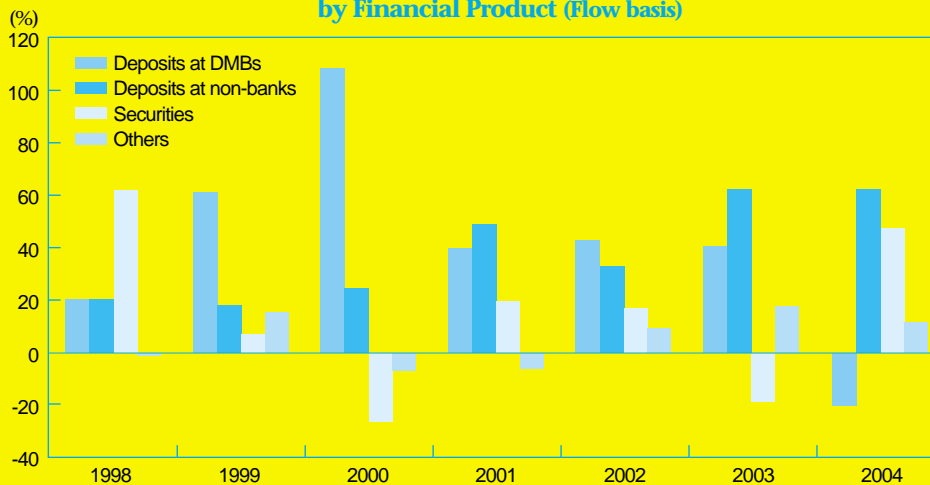
[Table 4] Fund Raising and Utilization by the Individual Sector

Unit : billion won, %

	2002		2003		2004p	
	Amount	Share	Amount	Share	Amount	Share
Fund Raising(A)	103,690	100.0	24,778	100.0	29,250	100.0
Borrowings from DMBs	71,915	69.4	33,421	134.9	23,776	81.3
Borrowings from non-banks	31,497	30.4	-9,671	-39.0	5,031	17.2
Fund Utilization(B)	99,004	100.0	45,012	100.0	59,845	100.0
Deposits	74,095	74.8	45,817	101.8	24,858	41.5
Deposit money banks	41,688	42.1	17,993	40.0	-12,401	-20.7
(Demand deposits)	3,479	3.5	971	2.2	2,122	3.5
(Time & savings deposits)	37,643	38.0	12,188	27.1	-16,197	-27.1
Non-banks	32,408	32.7	27,824	61.8	37,258	62.3
(Life insurance & pension funds)	27,201	27.5	16,406	36.4	20,821	34.8
(Others)	16,116	16.3	20,095	44.6	20,607	34.4
Securities	16,431	16.6	-8,504	-18.9	28,117	47.0
(Beneficiary certificates)	7,100	7.2	-13,114	-29.1	18,967	31.7
(Stocks)	3,983	4.0	-6,511	-14.5	5,017	8.4
Others ¹⁾	8,478	8.6	7,700	17.1	6,870	11.5
Difference in balance(B-A)	-4,686		20,234		30,595	

Note : 1) Cash, bills receivable, etc.

[Chart 2] Composition of Individual Sector's Fund Utilization by Financial Product (Flow basis)



won as savings deposits at deposit banks fell sharply, affected by the decline in interest rates, offsetting a slight rise in deposits at non-banking financial institutions, including insurance companies and pension funds.

In the meantime, its acquisition of securities increased by 28.1 trillion won owing to a sharp rise in the volume of funds utilized in the form of beneficiary certificate and stock holdings.

Looking at the composition of financial assets held by the individual sector during the period, the share of deposits at banks fell sharply from the 40.0 percent of the previous year to 20.7 percent, while that of securities holdings soared from 18.9 percent in the previous year to 47.0 percent.

This indicates that individuals expanded their investments in securities rather than in bank deposits as their appetite for performance related dividend products has been growing in line with the downward trend of interest rates.

B. Financial Surplus

During the year 2004, the individual sector posted a financial surplus of 30.6

trillion won, an increase from the 20.2 trillion won of the previous year. This was largely due to the fact that income growth outpaced that of consumption expenditures while investment in housing slowed as prices stabilized.

3. The Financial Sector

During the year 2004, the amount of funds supplied to domestic non-financial sectors (business, individual and government sectors) by the financial sector decreased slightly from the 61.3 trillion won of the previous year to 57.8 trillion won. This was attributable to the slower growth of loans extended by deposit money banks, which was not fully counteracted by expanded purchases of government and public bonds.

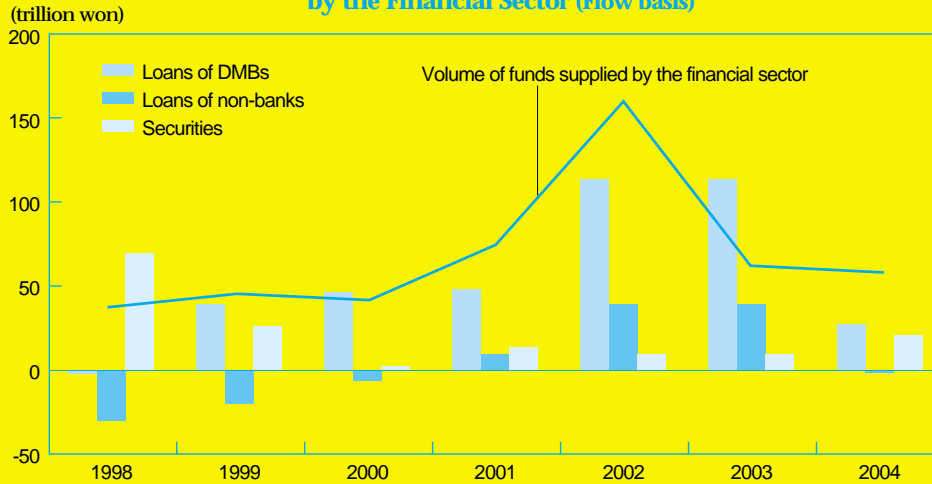
Looking at the pattern of funds supply in the financial sector, the amount of funds supply through the acquisition of securities rose sharply from the 7.9 trillion won of the previous year to 20.7 trillion won. Loans extended by deposit money banks in contrast, decreased sharply from 69.4 trillion won to 26.7 trillion won over the same period.

[Table 5] Indicators Related with the Individual Sector's Financial Surplus

	1999	2000	2001	2002	2003	Unit : % 2004p
Growth rate of GNI ¹⁾	9.9	10.1	7.8	10.3	5.9	7.5
Growth rate of private consumption ¹⁾	15.1	13.6	10.0	11.0	2.1	3.0

Note : 1) National accounts basis(Nominal).

[Chart 3] Volume of Funds Supplied to the Non-financial Sectors by the Financial Sector (Flow basis)



[Table 6] Volume of Funds Supplied to the Non-financial Sectors by the Financial Sector (Flow basis)

Unit : billion won

	1999	2000	2001	2002	2003	2004p
Total	45,368	41,241	73,956	158,552	61,337	57,773
Loans	19,039	39,063	60,197	152,185	63,197	25,834
DMBs	39,071	45,909	49,437	112,993	69,367	26,740
Non-banks	-20,033	-6,846	10,760	39,193	-6,170	-907
Securities	26,330	2,178	13,759	6,367	7,918	20,714

4. The Government Sector

During the year 2004, the scale of funds raised by the government sector expanded sharply from the 19.7 trillion won of the previous year to 43.0 trillion won.

The amount of funds utilized by the government also burgeoned from the

19.0 trillion won of the previous year to 58.6 trillion won due to a steep rise in government loans coupled with the steady growth of its holdings of securities, especially of bonds.

Accordingly, the government sector shifted from its record deficit of funds of 0.8 trillion won the previous year to a funds surplus of 15.7 trillion won.

[Table 7] Fund Raising and Utilization by the Government Sector

Unit : billion won, %

	2002		2003		2004p	
	Amount	Share	Amount	Share	Amount	Share
Fund Raising(A)	7,043	100.0	19,732	100.0	42,973	100.0
(Public bond issue)	4,436	63.0	26,061	132.1	42,698	99.4
(Borrowings from financial institutions)	-1,330	-18.9	-32	-0.2	-2,971	-6.9
Fund Utilization(B)	39,770	100.0	18,981	100.0	58,626	100.0
Deposits	4,801	12.1	-1,150	-6.1	-9,817	-16.7
(Government deposits at BOK)	2,590	6.5	-3,287	-17.3	-2,989	-5.1
Government Loans	4,455	11.2	-6,990	-36.8	31,951	54.5
Securities	31,916	80.3	30,779	162.2	29,929	51.1
(Stocks)	3,830	9.6	3,963	20.9	1,910	3.3
(Equities other than Stocks)	2,306	5.8	3,955	20.8	3,402	5.8
(Bonds)	25,781	64.8	22,861	120.4	24,617	42.0
Others	-1,402	-3.5	-3,658	-19.3	6,562	11.2
Difference in balance(B-A)	32,727		-752		15,652	

5. The Overseas Sector

During the year 2004, the overseas sector saw its financial deficit (increase in Korea's net external assets) widen to 32.6

trillion won due to the nation's expanded current account surplus.

The volume of the overseas sector's fund-raising (increase in Korea's external assets) swelled from the 45.1 trillion won

[Table 8] Fund Raising and Utilization by the Overseas Sector

Unit : billion won, %

	2002		2003		2004p	
	Amount	Share	Amount	Share	Amount	Share
Fund Raising (Foreign Claims)(A)	19,282	100.0	45,144	100.0	66,425	100.0
Foreign exchange holdings	21,337	110.7	37,964	84.1	48,387	72.8
Foreign trade credits	-541	-2.8	-33	-0.1	38	0.1
Overseas direct investment	3,279	17.0	4,071	9.0	5,476	8.2
Foreign currency dominated bonds	6,243	32.4	5,260	11.7	11,205	16.9
Others	-11,036	-57.2	-2,119	-4.7	1,319	2.0
(Short term loans in foreign currency)	-5,349	-27.7	5,610	12.4	1,271	1.9
Fund Utilization (Foreign debts)(B)	13,787	100.0	32,661	100.0	33,807	100.0
Foreign direct investment	2,987	21.7	4,179	12.8	7,803	23.1
Foreign trade credits	2,915	21.1	7,513	23.0	7,633	22.6
Foreign currency dominated bonds	5,652	41.0	8,251	25.3	8,276	24.5
Financial debentures	58	0.4	307	0.9	1,605	4.7
Others	2,175	15.8	12,411	38.0	8,489	25.1
(Short term borrowings by DMBs)	5,595	40.6	-571	-1.7	2,684	7.9
Difference in balance(B-A)	-5,495		-12,483		-32,618	

of the previous year to 66.4 trillion won owing to a substantial rise in its holdings of foreign exchange and external bonds.

The scale of the overseas sector's fund utilization (increase in Korea's external debts) increased slightly from 32.7 trillion won in the previous year to 33.8 trillion won, affected by the expansion of inward foreign direct investment.

As of the end of 2004, total financial assets outstanding increased by 4.8 percent from the end of the previous year to stand at 4,894.0 trillion won. During the year 2004, the scale of the rise of financial assets widened from the 268.1 trillion won of the previous year to 308.3 trillion won.

Accordingly, the financial interrelation ratio (financial assets outstanding/nominal GNI), which measures the degree of financial asset accumulation in the economy as a whole, inched down slightly from 6.44 at the end of the previous year to 6.28.

Compared with the ratios in most other countries, Korea's financial interrelation ratio still remains low, trailing that of Japan (11.49 in 2004) and of the United States (9.26 in 2004).

Accumulation of Financial Assets and Debts of Non-Financial Sectors

1. Accumulation of Financial Assets

[Table 9] Accumulation of Financial Assets

	Unit : billion won					
	1999	2000	2001	2002	2003	2004p
Amount of increase in financial assets	264,491	265,359	352,674	449,558	268,101	308,330
Financial assets outstanding	3,267,312	3,592,478	4,003,716	4,385,654	4,671,460	4,893,952
Financial interrelation ratio (times)	6.24	6.24	6.45	6.40	6.44	6.28

[Table 10] Financial Interrelation Ratios of Selected Countries

	Unit : times			
	Korea		Japan(2004p)	U.S.A(2004p)
	2003	2004p		
Financial interrelation ratio ¹⁾	6.44	6.28	11.49	9.26
(Non-financial sectors)	(2.70)	(2.69)	(4.54)	(3.55)
Cash, deposits, and insurance ²⁾	1.63	1.55	3.73	1.87
Securities ²⁾	1.93	1.94	3.25	3.86

Notes : 1) Total financial assets outstanding / nominal GNI.

2) Relevant financial assets outstanding / nominal GNI.

2. Debts of Non-financial Sectors

As of the end of 2004, the debt of the non-financial sectors (outstanding basis) stood at 1,367.2 trillion won, representing a 4.9 percent rise over the end of the previous year. The ratio of the debt of the non-financial sectors to nominal GNI slipped somewhat from the 1.80 of the previous year to 1.75.

Reviewing the debt of the various non-

financial sectors, that of the government sector showed a high growth rate of 32.1 percent, whereas that of the business sector posted a rate of increase of 0.4 percent and that of the individual sector one of 5.3 percent.

Meanwhile, the total financial assets outstanding of the individual sector amounted to 1,044.0 trillion won at the end of 2004, exhibiting a level 2.1 times that of its financial debts outstanding.

[Table 11] Debts and Assets of Non-Financial Sectors¹⁾

Unit : billion won

	2001	2002	2003	2004p
Debts of non-financial sectors (A)	1,076,880	1,228,954	1,303,163	1,367,177 (4.9)
Business sector	635,410	677,463	709,291	711,939 (0.4)
Individual sector	352,373	458,543	482,300	507,789 (5.3)
Government sector	89,097	92,948	111,572	147,448 (32.1)
(A) / nominal GNI (times)	1.73	1.79	1.80	1.75
Assets of non-financial sectors	1,470,211	1,618,807	1,707,135	1,819,721 [1.3]
Individual sector	861,493	951,245	993,287	1,044,026 [2.1]

Notes : 1) Excluding non-interest bearing debts and assets such as commercial trade credits and other financial debts (assets).

2) Figures in parentheses indicate the rate of change(%) compared with the previous year. Figures in [] indicate the ratio of financial assets / financial debts (times).

[Table 12] Movements of Financial Transactions in 2004

Unit : billion won

		2000	2001	2002	2003	2004p
Business Sector	Fund raising (A)	65,759	50,645	83,318	76,625	63,785
	Indirect finance	11,768	-313	50,102	29,701	11,223
	Direct finance	17,204	37,735	20,009	26,908	25,628
	Borrowings from overseas	16,820	633	2,446	11,640	14,564
	Fund utilization (B)	27,815	30,994	50,636	43,388	38,810
	Difference in balance (B-A)	-37,944	-19,651	-32,682	-33,237	-24,976
Individual Sector	Fund raising (A)	36,307	69,385	103,690	24,778	29,250
	Fund utilization (B)	68,770	82,887	99,004	45,012	59,845
	Difference in balance (B-A)	32,463	13,502	-4,686	20,234	30,595
Government Sector	Fund raising (A)	10,504	12,784	7,043	19,732	42,973
	Fund utilization (B)	40,209	41,045	39,770	18,981	58,626
	Difference in balance (B-A)	29,705	28,262	32,727	-752	15,652
Overseas Sector	Fund raising (A)	35,025	10,302	19,282	45,144	66,425
	Fund utilization (B)	22,496	-2,740	13,787	32,661	33,807
	Difference in balance (B-A)	-12,528	-13,042	-5,495	-12,483	-32,618
Financial Sector	Fund raising (A)	117,764	209,558	236,225	101,821	105,896
	Fund utilization (B)	106,069	200,488	246,360	128,058	117,243
	Difference in balance (B-A)	-11,695	-9,071	10,135	26,237	11,347
Amount of increase in financial assets		265,359	352,674	449,558	268,101	308,330
Financial assets outstanding		3,592,478 (6.24)	4,003,716 (6.45)	4,385,654 (6.40)	4,671,460 (6.44)	4,893,952 (6.28)
Assets of non-financial sectors ¹⁾		1,276,376	1,470,211	1,618,807	1,707,135	1,819,721
(Business sector)		292,688	354,289	374,740	397,952	404,313
(Individual sector)		775,245	861,493	951,245	993,287	1,044,026
Debts of non-financial sectors ¹⁾		990,991	1,076,880	1,228,954	1,303,163	1,367,177
(Business sector)		618,886	635,410	677,463	709,291	711,939
(Individual sector)		293,539	352,373	458,543	482,300	507,789

Notes : 1) Excluding non-interest bearing debts and assets such as commercial trade credits and other financial assets(debts)

2) Figures in parentheses indicate the financial interrelation ratio(times), [financial assets outstanding/nominal GNI]

Financial Statement Analysis for 2004

. Overview

Korean firms showed their best financial stability and profitability in four decades during 2004. By the end of 2004, the all-industry debt ratio stood at its lowest level since 1966, thanks to constant improvement of the corporate financial structure since 1998 following the economic crisis. The ordinary income to sales ratio reached a peak to match the level of 1968. Korean firms' management performance was good, even compared with firms from major advanced countries, such as the United States and Japan, in view of their remarkably improved profitability. Amid such a significant improvement in the corporate financial structure and profitability, the gap in management performance between large enterprises and small and medium sized enterprises (SMEs) and between exporting companies and domestic demand-oriented companies widened. Mean-

while, management indicators such as sales growth rate exhibited a sharp increase; however, those indicators like tangible assets growth rate through which growth potential may be measured experienced only an insignificant increase.

In terms of the financial structure, the all-industry debt ratio at the end of the year 2004 stood at 114.0 percent, marking a drop of 17.3 percentage points from its 131.3 percent at the end of 2003. Such a change is attributable to a sharp rise in the redemption of borrowings, mostly by large enterprises, as firms' retained earnings rose. In particular, the debt ratio in the manufacturing industry decreased by 19.2 percentage points from 123.4 percent in December 2003 to record 104.2 percent at the end of the year 2004. The figure was significantly lower than that of major advanced countries such as the U.S (141.2 percent) at the end of 2004 and Japan (145.4 percent) from the end of

March 2004. The all-industry ratio of total borrowings and bonds payable to total assets also declined from 29.1 percent at the end of the year 2003 to 25.6 percent in December 2004. Manufacturing industry, in particular, marked a drop from 28.3 percent to 24.0 percent in this ratio over the same period. In view of all this, it can be concluded that the trend of improvement of the financial structure has continued since the economic crisis.

In terms of profitability, major indicators all improved from the previous year; the ordinary income to sales ratio, operating income to sales ratio, and interest coverage ratio increased from 4.8 percent to 7.0 percent, from 6.4 percent to 6.8 percent, and from 351.2 percent to 483.4 percent, respectively. These profitability indicators have exhibited steady improvement since 2002. Such a change can be explained mainly from both the increase of retained earnings arising from brisk exports and the non-operating balance shifting into surplus on the back of a decline of interest rates and the upswing of the Korean won against the U.S. dollar. The remarkable rise in the interest coverage ratio, in particular, was bolstered by the decline of interest rates and the redemption of borrowings, which implies that the capacity to shoulder the burden of corporate financial expenses has improved markedly.

In terms of growth, the all-industry sales growth rate in 2004 surged to 13.3

percent, driven by the expansion of exports, marking a sharp advance in the pace of growth from the previous year's 4.0 percent increase. The growth rate of tangible assets including machinery and equipment was at a much lower level than in the 1990s or before, although it rose slightly from the previous year. Also, the ratio of tangible assets to total assets dropped for the third consecutive year while the ratio of cash to total assets continued to swell for the fifth straight year. Somewhat lacklustre growth in tangible asset holdings was observed across all industries in line with these indicators.

. Financial Structure

Regarding the all-industry financial structure as of the end of 2004, the debt ratio and the ratio of total borrowings and bonds payable to total assets dropped sharply from 131.3 percent to 114.0 percent and from 29.1 percent to 25.6 percent, respectively, while the ratio of stockholders' equity to total assets moved up from 43.2 percent to 46.7 percent. In fact, these figures have continued to improve since the 1998 economic crisis.

This improvement has been mainly attributable to a sharp increase in retained earnings, owing to improved corporate profitability, and decreased debt holdings as a result of the redemp-

tion of borrowings. In particular, the debt ratio, which is the benchmark index for financial stability, registered its lowest level since the 106.2 percent of 1966, for the all-industry figure, standing at 114 percent. Meanwhile that for manufacturing industry stood at its lowest since the 93.7 percent of 1965, marking 104.2 percent. The debt ratio stood lower than

those of major advanced countries including the US and Japan.

1. Manufacturing Industry

As of the end of 2004, the debt ratio in the manufacturing industry was 104.2 percent, down by 19.2 percentage points from 123.4 percent at the end of 2003.

[Table 1] All-industry Indicators of Financial Stability

Unit : %

	1997	1998	1999	2000	2001	2002	2003	2004	Japan (2004.3)	U.S. (2004)
Debt ratio ¹⁾	424.6 (396.3)	336.4 (303.0)	235.1 (214.7)	221.1 (210.6)	195.6 (182.2)	144.7 (135.4)	131.3 (123.4)	114.0 (104.2)	253.6 (145.4)	- (141.2)
Stockholders' equity to total assets ²⁾	19.1 (20.2)	22.9 (24.8)	29.8 (31.8)	31.1 (32.2)	33.8 (35.4)	40.9 (42.5)	43.2 (44.8)	46.7 (49.0)	28.3 (40.7)	- (41.6)
Total borrowings and bonds payable to total assets ³⁾	50.0 (54.2)	48.5 (50.8)	41.3 (42.8)	40.3 (41.2)	38.4 (39.8)	30.6 (31.7)	29.1 (28.3)	25.6 (24.0)	39.3 (28.7)	- (22.9)

Notes : 1) (Debt/stockholders' equity) × 100

2) (Stockholders' equity/total assets) × 100

3) (Borrowings + bonds payable)/total assets × 100

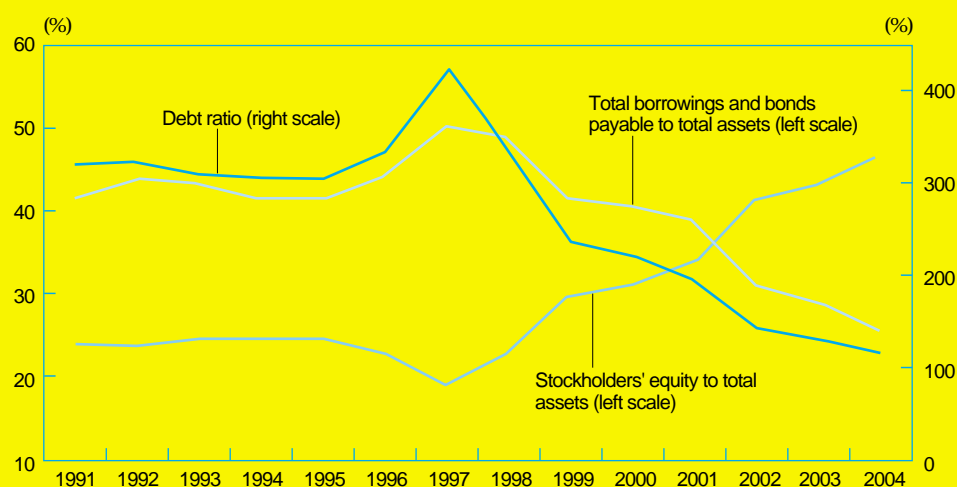
4) Figures in parentheses refer to manufacturing

Sources : The Bank of Korea, 「Financial Statement Analysis」

U.S. Department of Commerce 「Quarterly Financial Report」, Fourth Quarter 2004, Apr. 2005

Japan, Ministry of Finance, 「Ministry of Finance Statistics Monthly」 vol. 628, Aug. 2004

[Chart 1] All-industry Indicators of Financial Stability



The ratio of total borrowings and bonds payable to total assets also marked a decrease of 4.3 percentage points from 28.3 percent to 24.0 percent while the ratio of stockholders' equity to total assets rose by 4.2 percentage points from 44.8 percent to 49.0 percent. To sum up, there was an improvement across all the financial structure-related indicators.

The repayment of borrowings by large enterprises in the manufacturing industry marked a sharp hike of 14.3 percent, which led to a drop in the debt ratio of 21.8 percentage points from 113.5 percent at the end of the year 2003 to 91.7 percent at the end of December 2004. The ratio of total borrowings and bonds payable to total assets also fell from 25.9

percent to 20.4 percent, a decrease of 5.5 percentage points. SMEs, whose borrowings repayment was mildly negative at -0.8 percent, exhibited only an 8.9 percent decline from 147.6 percent to 138.7 percent in terms of debt ratio, and a 1.6 percentage points decline in terms of the ratio of total borrowings and bonds payable to total assets from 33.5 percent to 31.9 percent. The financial structure improvement of large enterprises was relatively greater than that of SMEs. The ratio of stockholders' equity to total assets recorded a 5.4 percentage points rise from 46.8 percent to 52.2 percent for large enterprises, while the figure for SMEs struggled to achieve a decidedly modest rise of 1.5 percentage points from

[Table 2] Key Indicators of Financial Stability in Manufacturing

Unit : %

	Debt ratio			Total borrowings and bonds payable to total assets			Stockholders' equity to total assets		
	2003 (A)	2004 (B)	B-A (%p)	2003 (A)	2004 (B)	B-A (%p)	2003 (A)	2004 (B)	B-A (%p)
Manufacturing	123.4	104.2	-19.2	28.3	24.0	-4.3	44.8	49.0	4.2
<By company size>									
Large enterprises	113.5	91.7	-21.8	25.9	20.4	-5.5	46.8	52.2	5.4
SMEs	147.6	138.7	-8.9	33.5	31.9	-1.6	40.4	41.9	1.5
(50 billion won and over in sales)	125.5	112.8	-12.7	27.9	25.5	-2.4	44.3	47.0	2.7
(under 50 billion won in sales)	157.7	152.6	-5.1	35.7	34.8	-0.9	38.8	39.6	0.8
<By export to sales>									
Export enterprises (50% and over)	115.3	95.1	-20.2	24.5	19.1	-5.4	46.4	51.3	4.9
Domestic enterprises (under 50%)	129.7	112.9	-16.8	31.1	28.2	-2.9	43.5	47.0	3.5
(20~50%)	121.3	101.0	-20.3	32.3	27.0	-5.3	45.2	49.8	4.6
(under 20%)	136.0	122.7	-13.3	30.3	29.2	-1.1	42.4	44.9	2.5

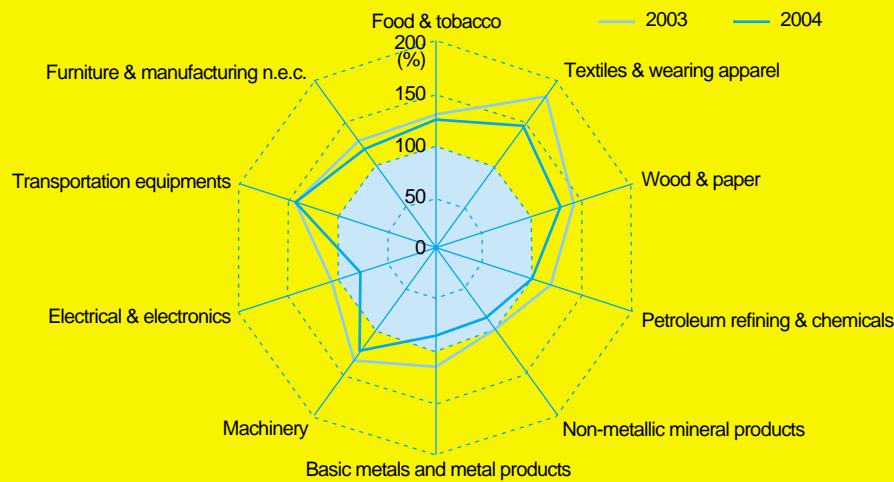
40.4 percent to 41.9 percent.

When SMEs are divided into a group with sales of at least KRW 50 billion and one with sales less than KRW 50 billion, the first showed a 12.7 percentage points decline in their debt ratio to 112.8 percent and 2.4 percentage points decline in the ratio of their total borrowings and bonds payable to total assets to 25.5 percent. The latter group showed a 5.1 percentage points decline in terms of their debt ratio, which marked 152.6 percent, and 0.9 percentage points decline in the ratio of total borrowings and bonds payable to total assets which stood at 34.8 percent. The first group attained a ratio of stockholders' equity to total assets of 47.0 percent, representing growth of 2.7 percentage points, while the second group's record stalled out at 39.6 percent, having increased only 0.8 percentage points. These figures show the degree to which SMEs' financial structural improvement differed according to the scale of their sales.

Firms of whose exports accounted for 50 percent or more of their total sales achieved a 20.2 percentage points decline in their average debt ratio from 115.3 percent at the end of 2003 to 95.1 percent. Their ratio of total borrowings and bonds payable to total assets was down by 5.4 percentage points from 24.5 percent to 19.1 percent. In contrast, the debt ratio eased from 129.7 percent to 112.9 percent to mark a 16.8 percentage points

drop for domestic demand-oriented companies whose exports make up less than 50 percent of their total sales while the ratio of their total borrowings and bonds payable to total assets lowered by 2.9 percentage points from 31.1 percent to 28.2 percent. The scale of the decrease was relatively smaller for the second group than the first. The former experienced a 4.9 percentage points rise in the ratio of stockholders' equity to total assets from 46.4 percent to 51.3 percent, while the latter observed a 3.5 percentage points rise from 43.5 percent to 47.0 percent. In the meantime, domestic demand-oriented companies whose exports made up 20~50 percent of the total sales registered a debt ratio of 101.0 percent, a drop of 20.3 percentage points, and a ratio of total borrowings and bonds payable to total assets of 27.0 percent down by 5.3 percentage points. Companies whose exports accounted for less than 20 percent of the total sales exhibited a decline of 13.3 percentage points in their debt ratio and 1.1 percentage points decline in the ratio of total borrowings and bonds payable to total assets. All in all, the higher the ratio of exports to total sales was, the greater was the scale of the improvement.

As of the end of 2004, by the manufacturing subsector the debt ratio was down in most sectors including textiles & wearing apparel, where it fell from 182.3 percent at the previous year-end to 145.2

[Chart 2] Debt Ratio by Manufacturing Subsector**[Table 3] Key Indicators of Financial Stability by Manufacturing Subsector**

Unit : %

	Debt ratio			Total borrowings and bonds payable to total assets			Stockholders' equity to total assets		
	2003 (A)	2004 (B)	B-A (%p)	2003 (A)	2004 (B)	B-A (%p)	2003 (A)	2004 (B)	B-A (%p)
Manufacturing	123.4	104.2	-19.2	28.3	24.0	-4.3	44.8	49.0	4.2
Food & tobacco	129.6	124.6	-5.0	32.9	30.6	-2.3	43.6	44.5	0.9
Textiles & wearing apparel	182.3	145.2	-37.1	38.8	36.0	-2.8	35.4	40.8	5.4
Wood & paper, publishing	140.3	127.7	-12.6	33.6	31.8	-1.8	41.6	43.9	2.3
Petroleum refining & chemicals	116.4	99.7	-16.7	32.1	27.2	-4.9	46.2	50.1	3.9
Non-metallic mineral products	98.9	83.4	-15.5	28.6	24.5	-4.1	50.3	54.5	4.2
Basic metals & fabricated metal products	113.7	84.2	-29.5	30.0	26.1	-3.9	46.8	54.3	7.5
Machinery, electrical & electronic products	109.9	84.1	-25.8	26.3	20.8	-5.5	47.6	54.3	6.7
(Machinery)	133.2	122.4	-10.8	27.1	24.4	-2.7	42.9	45.0	2.1
(Electrical & electronic products)	105.0	76.2	-28.8	26.1	19.8	-6.3	48.8	56.8	8.0
Transportation equipment	141.1	145.0	3.9	18.4	15.8	-2.6	41.5	40.8	-0.7
Furniture & manufacturing n.e.c.	127.3	119.7	-7.6	30.2	27.2	-3.0	44.0	45.5	1.5

percent, in basic metals & fabricated metal products, from 113.7 percent to 84.2 percent, and in electrical & electronic products, from 105.0 percent to 76.2 percent. Consequently, the debt ratio became stable at below 150 percent in all manufacturing subsectors. However, the figure increased slightly in the transportation equipment sector, where it rose from 141.1 percent to 145.0 percent because profitability deteriorated in response to the run-up in the price of steel, which is the major raw material for motor vehicles and ships, alongside the swelling of trade payables from tying in contracts for materials at an early date.

2. Non-Manufacturing Industry

Both the debt ratio and the ratio of total borrowings and bonds payable to total assets in the electricity and gas industry declined sharply, owing to the increase in electric power demand resulting from a particularly sultry summer and large translation gains on foreign currency debts. The former eased from 70.4 percent to 66.0 percent and the latter from 27.8 percent to 24.6 percent.

As the construction industry made up its shortage of working capital through borrowings, its debt ratio rose from 165.0 percent to 165.8 percent, and its ratio of total borrowings and bonds payable to total assets also increased from 22.8 percent to 24.1 percent. Its shortage of cash-

flow was attributable to the 23.2 percent increase of outstandings from sales and notes receivables.

The debt ratio and the ratio of total borrowings and bonds payable to total assets in the service industry both shrank significantly, compared to the end of the previous year, particularly for wholesale & retail trade, transport and telecommunications sectors. In wholesale & retail trade, the debt ratio and the ratio of total borrowings and bonds payable to total assets fell from 180.5 percent to 153.0 percent and from 27.9 percent to 26.3 percent, respectively, thanks to the improvement of financial structure in the international export-import business which offset the sluggish domestic demand. In the transport sector, the debt ratio and the ratio of total borrowings and bonds payable to total assets fell from 285.4 percent to 197.6 percent and from 54.7 percent to 40.1 percent, respectively, because of the buoyant air and sea transport sectors and a sharp increase in retained earnings from net gains on foreign currency translation as well as a reduction in debts through loan redemption. Meanwhile, the ratio of stockholders' equity to total assets in the transport sector rose from 26.0 percent to 33.6 percent. In the telecommunications sector, the debt ratio and the ratio of total borrowings and bonds payable to total assets declined from 158.9 percent to 137.1 percent and 41.6 percent to 38.8 percent,

[Table 4] Key Indicators of Financial Stability by Non-manufacturing Subsector

Unit : %

	Debt ratio			Total borrowings and bonds payable to total assets			Stockholders' equity to total assets		
	2003 (A)	2004 (B)	B-A (%p)	2003 (A)	2004 (B)	B-A (%p)	2003 (A)	2004 (B)	B-A (%p)
Electricity & gas	70.4	66.0	-4.4	27.8	24.6	-3.2	58.7	60.3	1.6
Construction	165.0	165.8	0.8	22.8	24.1	1.3	37.7	37.6	-0.1
Services	170.1	144.7	-25.4	32.4	29.3	-3.1	37.0	40.9	3.9
Wholesale & retail trade	180.5	153.0	-27.5	27.9	26.3	-1.6	35.7	39.5	3.8
Transport	285.4	197.6	-87.8	54.7	40.1	-14.6	26.0	33.6	7.6
Telecommunications	158.9	137.1	-21.8	41.6	38.8	-2.8	38.6	42.2	3.6
Business activities	98.7	89.7	-9.0	13.2	14.7	1.5	50.3	52.7	2.4
Recreational, cultural & sporting activities	144.5	137.3	-7.2	16.4	20.7	4.3	40.9	42.1	1.2

respectively, while the ratio of stockholders' equity to total assets increased from 38.6 percent to 42.2 percent. The change was mainly driven by a sharp rise in retained earnings from the disposal of SK Telecom's treasury stocks in 2003. Meanwhile, the ratio of stockholders' equity to total assets in the telecommunications sector rose from 38.6 percent to 42.2 percent.

. Profitability

In 2004, the all-industry ordinary income to sales ratio, operating income to sales ratio, and interest coverage ratio, which are major profitability indicators, rose from 4.8 percent to 7.0 percent, from 6.4 percent to 6.8 percent and from 351.2 percent to 483.4 percent, respectively,

continuing their upward trend evident since 2002. The operating balance's shift into surplus based on robust exports and the fall of interest rates and appreciation of the won also helped bolster these figures. The surplus in the non-operating balance is the first since all-industry financial statement statistics were first compiled. The all-industry ordinary income to sales ratio, which is a major indicator of profitability, posted its highest level since 1968 (7.1 percent) at 7.0 percent while that for manufacturing industry chalked up a record high of 7.8 percent at the end of 2004, almost matching its performance in 1965 (7.9 percent).

1. Manufacturing Industry

The ordinary income to sales ratio of the manufacturing industry in 2004

[Table 5] All-industry Indicators of Profitability

	1997	1998	1999	2000	2001	2002	2003	2004	Japan (2003)	U.S. (2004)
Ordinary income to sales ¹⁾	-0.2 (-0.3)	-1.2 (-1.8)	-0.3 (1.7)	0.9 (1.3)	1.0 (0.4)	4.3 (4.7)	4.8 (4.7)	7.0 (7.8)	2.7 (3.9)	- (9.0)
Operating income to sales ²⁾	5.6 (8.3)	4.2 (6.1)	3.9 (6.6)	5.6 (7.4)	5.1 (5.5)	5.7 (6.7)	6.4 (6.9)	6.8 (7.6)	2.8 (3.9)	- (6.6)
Interest coverage ratio ³⁾	115.0 (129.1)	61.3 (68.3)	71.5 (96.1)	140.8 (157.2)	146.1 (132.6)	263.5 (260.3)	351.2 (367.1)	483.4 (575.8)	360.1 (578.2)	- (397.1)

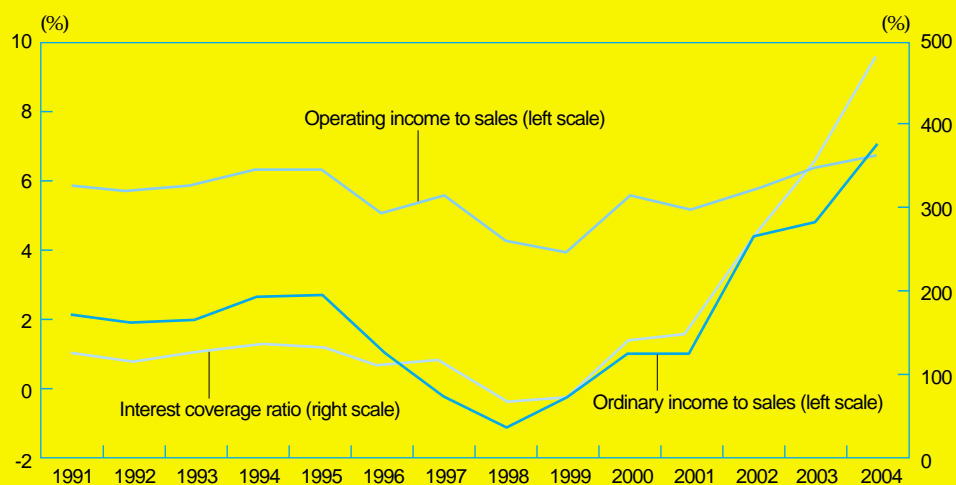
Notes : 1) (Ordinary income/sales) × 100

2) (Operating income/sales) × 100

3) (Operating income/interest expenses) × 100

4) Figures in parentheses refer to manufacturing

[Chart 3] All-industry Indicators of Profitability



moved up rapidly by 3.1 percentage points to reach 7.8 percent from 4.7 percent in 2003. This stemmed from the improvement in the ratio of operating income to sales from 6.9 percent to 7.6 percent based on favorable conditions in

the export market and a sharp improvement in the non-operating balance from -2.2 percent to 0.2 percent attributable to the reduction in financial expenses through the fall of interest rate and lower borrowings.¹⁾ An increase of net gains on

1) Trends of Borrowing interest rate & Korean won exchange rates

	1997	1998	1999	2000	2001	2002	2003	2004
Borrowing interest rate (annual %, average)	11.8	15.2	9.4	8.6	7.7	6.7	6.2	5.9
₩/US\$ (at the end of year)	1,415.2	1,207.8	1,145.4	1,259.7	1,326.1	1,200.4	1,197.8	1,043.8

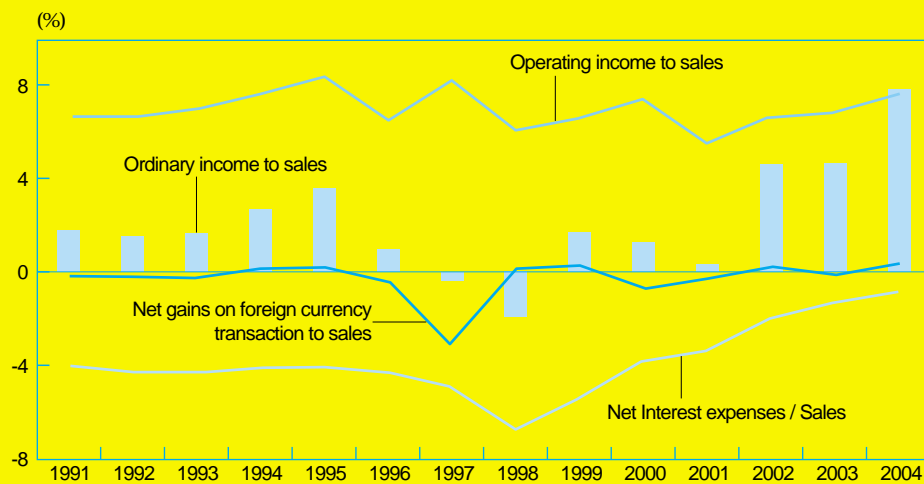
[Table 6] Profitability in Manufacturing¹⁾

	Unit : %									
	1997	1998	1999	2000	2001	2002	2003	2004	Japan (2003)	U.S. (2004)
COGS, selling & administrative expenses	91.7	93.9	93.4	92.6	94.5	93.3	93.1	92.4	96.1	93.4
Operating income	8.3	6.1	6.6	7.4	5.5	6.7	6.9	7.6	3.9	6.6
Non-operating income ²⁾	-8.6	-8.0	-4.9	-6.1	-5.1	-2.0	-2.2	0.2	0.0	2.4
(Net interest expenses)	-4.9	-6.7	-5.4	-3.8	-3.3	-1.9	-1.3	-0.8	..	..
<Interest expenses>	-6.4	-9.0	-6.9	-4.7	-4.2	-2.6	-1.9	-1.3	-0.7	-1.7
(Net gains on foreign currency transactions) ³⁾	-3.1	0.1	0.3	-0.7	-0.3	0.4	-0.1	0.5	..	..
(Equity income)	..	..	0.1	0.2	-0.3	0.4	0.1	0.8	..	..
Ordinary income	-0.3	-1.9	1.7	1.3	0.4	4.7	4.7	7.8	3.9	9.0
Net Income	-1.0	-4.4	0.0	-2.0	0.0	6.3	3.8	6.2	1.6	7.0

Notes : 1) (+) refers to profit, (-) refers to loss

2) Non-operating income = Non-operating gains – Non-operating loss

3) including foreign currency translation gains

[Chart 4] Profitability in Manufacturing

foreign currency transactions and translation from the appreciation of the Korean won also contributed to this change.

The interest coverage ratio in the manufacturing industry during 2004 posted its highest level since 1962 at 575.8 per-

cent, following a sharp hike of 208.7 percentage points from its 367.1 percent during 2003. This was attributable to the rise of the ordinary income to sales ratio from 6.9 percent to 7.6 percent. The interest coverage ratio, which measures

companies' capacity to meet their financial expenses, consists of the ordinary income to sales ratio and the interest expenses to sales ratio.²⁾ A higher ratio of

ordinary income to sales along with a declining interest expenses to sales ratio indicates a rise in the interest coverage ratio.

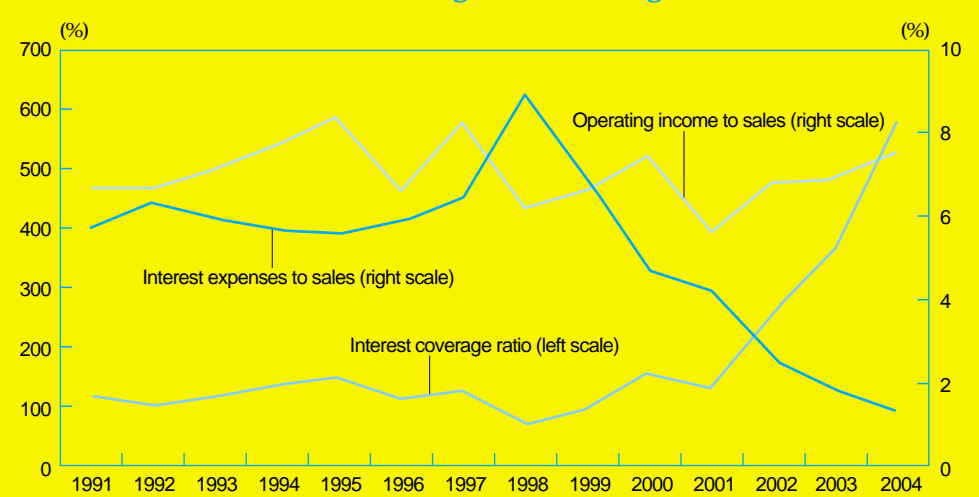
[Table 7] Manufacturing Interest Coverage Ratio

	1997	1998	1999	2000	2001	2002	2003	2004	Japan (2003)	U.S. (2004)
Interest coverage ratio	129.1	68.3	96.1	157.2	132.6	260.3	367.1	575.8	578.2	397.1
Ordinary income to sales	8.3	6.1	6.6	7.4	5.5	6.7	6.9	7.6	3.9	6.6
Interest expenses to sales	6.4	9.0	6.9	4.7	4.2	2.6	1.9	1.3	0.7	1.7

The interest expenses to sales ratio, which is one element of the interest coverage ratio, registered 1.3 percent, marking a drop of 0.6 percentage points from 1.9 percent in the previous year to reach its lowest ever level since 1962. The main

reason was because the average borrowing interest rate and the ratio of total borrowings and bonds payable to total assets both declined greatly while the total assets turnover ratio improved.³⁾

[Chart 5] Manufacturing Interest Coverage Ratio



2) interest coverage ratio = ordinary income to sales ÷ interest expenses to sales

3) interest expenses to sales = average borrowing interest rate × ratio of total borrowings and bonds payable to total assets × the inverse of total assets turnover ratio

[Table 8] Interest Expenses to Sales in Manufacturing

	Unit : %							
	1997	1998	1999	2000	2001	2002	2003	2004
Interest expenses to sales	6.4	9.0	6.9	4.7	4.2	2.6	1.9	1.3
Interest expenses to total borrowings and bonds payable	10.6	13.5	11.5	10.5	9.4	7.7	6.8	5.9
Total borrowings and bonds payable to total assets	54.2	50.8	42.8	41.2	39.8	31.7	28.3	24.0
Total assets turnover (times)	0.90	0.82	0.82	0.96	0.98	1.08	1.10	1.20

Looking at the profitability of the manufacturing industry by size of enterprise, the ordinary income to sales ratio of large enterprises rose sharply from 6.0 percent to 10.2 percent, while SMEs exhibited a more modest increase from 2.5 percent to 3.3 percent. As for the operating income to sales ratio, that of large enterprises moved up from 8.2 percent to 9.4 percent while that of SMEs marked a drop from 4.6 percent to 4.1 percent. This points clearly to a phenomenon of polarization between large enterprises and SMEs.

The ordinary income to sales ratio of the top 30 large enterprises increased significantly from 7.7 percent to 13.5 percent, but other large enterprises posted a relatively smaller rise from 3.8 percent to 5.7 percent. The operating income to sales ratio for the top 30 large enterprises rose from 9.5 percent to 11.8 percent, while that of other large enterprises declined from 6.4 percent to 6.1 percent instead. In view of this, the existence of polarization became clear even among large enterprises. SMEs with annual sales

of KRW 50 billion or more realized an increase of its ordinary income to sales ratio by 1.9%p from 3.9% to 5.8%, while its operating income to sales was same to that of previous year.

However, the ordinary income to sales ratio of SMEs with less than 50 billion won in sales increased by a mere 0.1 percentage points from 1.9 percent to 2.0 percent, while its operating income to sales ratio diminished from 4.0 percent to 3.1 percent. Results clearly varied by the size of enterprise.

In the manufacturing industry, the ordinary income to sales ratio of enterprises with a ratio of at least 50 percent of exports to sales improved greatly from 4.9 percent to 9.3 percent, hand in hand with an increase in operating income to sales ratio from 7.0 percent to 8.2 percent. Firms with an export to sales ratio lower than 20 percent saw their ordinary income to sales ratio increase from 4.6 percent to 4.7 percent, while the ratio of their operating income to sales slipped from 6.6 percent to 5.7 percent. The greater the proportion of exports, the

[Table 9] Profitability by Size and Export to Sales in Manufacturing

Unit : %

	Ordinary income to sales			Operating income to sales		
	2003 (A)	2004 (B)	B-A (%p)	2003 (A)	2004 (B)	B-A (%p)
Manufacturing	4.7	7.8	3.1	6.9	7.6	0.7
<By company size>						
Large enterprises	6.0	10.2	4.2	8.2	9.4	1.2
Top 5 enterprises	10.9	17.0	6.1	12.2	14.9	2.7
Top 30 enterprises	7.7	13.5	5.8	9.5	11.8	2.3
Below Top 30 enterprises	3.8	5.7	1.9	6.4	6.1	-0.3
SMEs	2.5	3.3	0.8	4.6	4.1	-0.5
50 billion won and over in sales	3.9	5.8	1.9	6.1	6.1	0.0
under 50 billion won in sales	1.9	2.0	0.1	4.0	3.1	-0.9
<By export to sales>						
Export (50% and over)	4.9	9.3	4.4	7.0	8.2	1.2
Domestic (under 50%)	4.5	6.5	2.0	6.8	7.0	0.2
(20-50%)	4.5	8.9	4.4	7.0	8.7	1.7
(under 20%)	4.6	4.7	0.1	6.6	5.7	-0.9

greater the profitability.

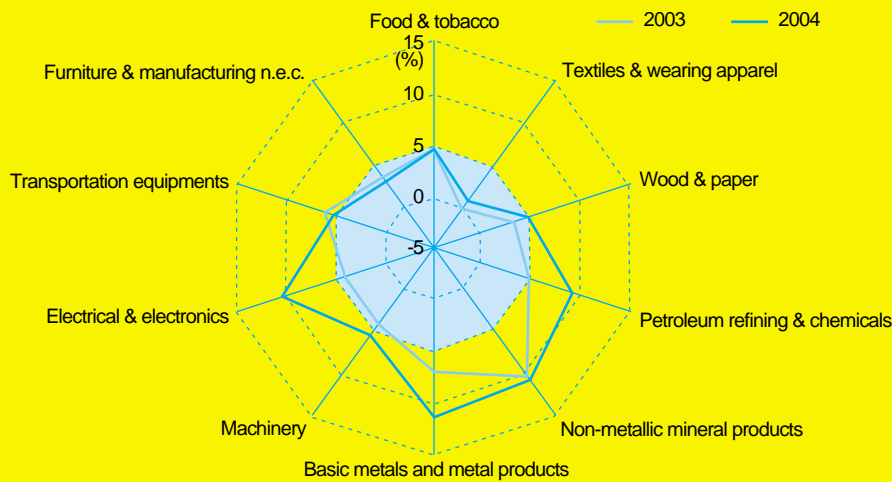
By sector of the manufacturing industry, the manufacturing industry, except for transportation equipment and furniture & manufacturing n.e.c., achieved an increase in the ratio of ordinary income to sales from the previous year. However, the transportation equipment sector saw a drop on that indicator of 0.8 percentage points from 6.2 percent to 5.4 percent based on a considerable decline in the operating income to sales ratio from 6.0 percent to 3.5 percent in view of the price hike of steel (its major raw material) and lackluster sales of motor vehicles in the domestic market. It nevertheless witnessed an improvement in its non-operating balance of 1.9 percent.

In terms of the ratio of operating

income to sales, the petroleum refining & chemicals (6.6 percent 8.5 percent), basic metal & fabricated metal products (9.1 percent 10.8 percent) and electrical & electronic products (7.8 percent 10.4 percent) all showed gratifying trends. The numbers, however, were poorer for other sectors which saw a drop from a year earlier.

In the meantime, the interest coverage ratio improved in all subsectors of manufacturing, except for the textiles & wearing apparel (109.0 percent 89.1 percent), transportation equipment (470.8 percent 355.5 percent) and furniture & manufacturing n.e.c. (370.6 percent 262.7 percent) sectors.

[Chart 6] Ordinary Income to Sales by Manufacturing Subsector



[Table 10] Key Indicators of Profitability by Manufacturing Subsector

Unit : %

	Ordinary income to sales			Operating income to sales			Interest coverage ratio		
	2003 (A)	2004 (B)	B-A (%p)	2003 (A)	2004 (B)	B-A (%p)	2003 (A)	2004 (B)	B-A (%p)
Manufacturing	4.7	7.8	3.1	6.9	7.6	0.7	367.1	575.8	208.7
Food & tobacco	4.5	4.7	0.2	8.3	8.3	0.0	349.2	504.7	155.5
Textiles & wearing apparel	-0.4	0.7	1.1	2.7	1.8	-0.9	109.0	89.1	-19.9
Wood & paper, publishing	3.4	4.3	0.9	5.5	4.5	-1.0	211.6	213.4	1.8
Petroleum refining & chemicals	4.9	9.2	4.3	6.6	8.5	1.9	334.2	605.0	270.8
Non-metallic mineral products	10.4	10.8	0.4	12.6	11.3	-1.3	409.4	526.9	117.5
Basic metals & fabricated metal products	7.0	11.3	4.3	9.1	10.8	1.7	416.1	828.7	412.6
Machinery, electrical & electronic products	4.0	9.5	5.5	7.4	9.4	2.0	465.5	892.1	426.6
(Machinery)	4.1	5.6	1.5	5.7	5.8	0.1	307.6	413.6	106.0
(Electrical & electronic products)	4.0	10.5	6.5	7.8	10.4	2.6	513.4	1073.3	559.9
Transportation equipment	6.2	5.4	-0.8	6.0	3.5	-2.5	470.8	355.5	-115.3
Furniture & manufacturing n.e.c.	3.5	2.9	-0.6	4.6	3.2	-1.4	370.6	262.7	-107.9

2. Non-Manufacturing Industry

The ordinary income to sales ratio in transport increased approximately 4 times from 2.0 percent to 7.9 percent. The change can be explained by the rise of net translation gains including those on transactions in the air and seafreight sectors. The robust performance of the seafreight sector coupled with the appreciation of the Korean won also consolidated these gains too. The ordinary income to sales ratio in construction (4.4 percent → 4.8 percent) and most service sectors including, wholesale & retail trade (3.4 percent → 4.3 percent) and business services (2.3 percent → 3.8 percent) rose slightly due to the surplus on the non-operating balance.

Meanwhile, the sluggish domestic demand lowered the level of the operat-

ing income to sales ratio in most non-manufacturing industries, including electricity & gas, construction, wholesale & retail trade, and telecommunications from 11.5 percent to 9.5 percent, from 5.3 percent to 5.1 percent, from 4.1 percent to 3.8 percent, and from 16.0 percent to 15.1 percent, respectively. The transport sector and business activities in contrast, saw the respective indices increase from 4.3 percent to 5.9 percent and from 3.1 percent to 4.2 percent.

The interest coverage ratio rose in all sectors marking an improvement over the previous year. The two exceptions were electricity & gas, which saw a drop from 466.2 percent to 461.5 percent, and recreational, cultural & sporting activities, where it declined from 504.5 percent to 446.7 percent.

[Table 11] Key Indicators of Financial Stability by Non-manufacturing Subsector

Unit : %

	Ordinary income to sales			Operating income to sales			Interest coverage ratio		
	2003 (A)	2004 (B)	B-A (%p)	2003 (A)	2004 (B)	B-A (%p)	2003 (A)	2004 (B)	B-A (%p)
Electricity & gas	12.6	12.3	-0.3	11.5	9.5	-2.0	466.2	461.5	-4.7
Construction	4.4	4.8	0.4	5.3	5.1	-0.2	341.9	408.6	66.7
Services	3.9	5.7	1.8	5.3	5.5	0.2	310.3	368.6	58.3
Wholesale & retail trade	3.4	4.3	0.9	4.1	3.8	-0.3	398.1	446.3	48.2
Transport	2.0	7.9	5.9	4.3	5.9	1.6	126.0	223.1	97.1
Telecommunications	10.6	10.8	0.2	16.0	15.1	-0.9	340.6	381.5	40.9
Business activities	2.3	3.8	1.5	3.1	4.2	1.1	406.2	566.3	160.1
Recreational, cultural & sporting activities	13.0	13.4	0.4	14.4	12.7	-1.7	504.5	446.7	-57.8

. Growth

The major corporate growth indicators include sales growth rate which shows the current pace of growth, and the tangible assets growth rate that points to the future growth potential. Year to year sales

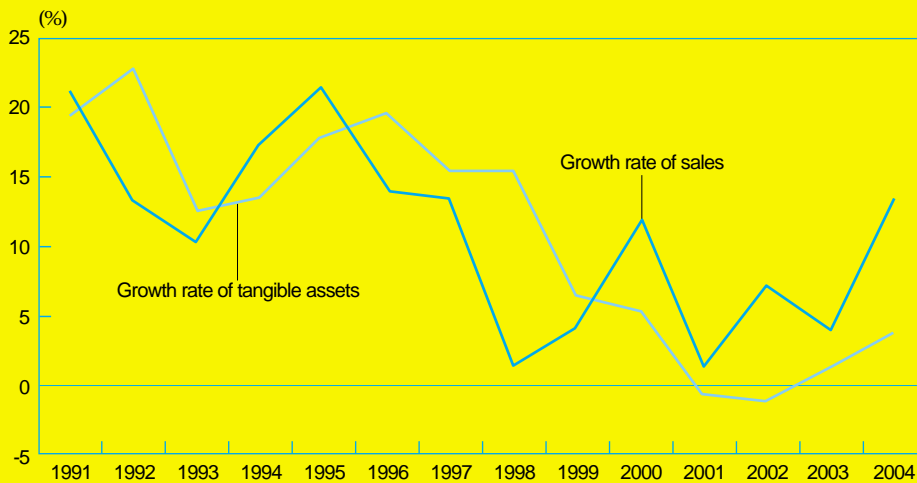
in all-industry in 2004 rose 13.3 percent as against the previous year's 4.0 percent, boosted by brisk exports. However, the tangible assets grew 3.8 percent as against 1.3 percent in 2003 as investment gather pace but it still remained at a much lower level than before the 1990s.⁴⁾

[Table 12] All-industry Growth Indicators

	1997	1998	1999	2000	2001	2002	2003	2004	Japan (2003)	U.S. (2004)
Sales growth rate ¹⁾	13.4 (11.0)	1.5 (0.7)	4.3 (8.0)	12.0 (15.2)	1.5 (1.7)	7.3 (8.3)	4.0 (6.1)	13.3 (17.1)	0.6 (2.0)	- (12.5)
Tangible assets growth rate ²⁾	15.4 (13.7)	15.4 (17.2)	6.4 (0.0)	5.3 (2.4)	-0.4 (-1.5)	-1.0 (-2.2)	1.3 (1.7)	3.8 (4.8)	-2.2 (-2.7)	- (-0.2)

Notes : 1) year on year basis 2) year-end to year-end basis
3) Figures in parentheses refer to manufacturing

[Chart 7] All-industry Growth Indicators



4) The trend of tangible asset growth rate

	1970's	1980's	1990's	2000's
All-industry	28.7	17.9	16.1	1.8
Manufacturing	29.8	18.9	14.5	1.0

1. Manufacturing Industry

The sales growth rate of the manufacturing industry in 2004 surged to 17.1 percent from its 6.1% in 2003, marking its fastest pace since the 20.4 percent of 1995.

The sales growth rate of both large enterprises and SMEs rose sharply from the previous year, the former from 6.6 percent to 19.9 percent and the latter from 5.4 percent to 12.3 percent. This implies that the growth rate was higher the larger the scale of the firm. Meanwhile, SMEs with less than KRW 10 billion in sales lost ground only slightly in 2004, with sales growth of -0.3 percent, as against -5.3 percent in the previous year. The phenomenon of a polarization of profitability unfavorable to small-scale SMEs was observed.

By export to sales ratio, exports from the previous year led the increase in sales; the sales growth rate of those exporting firms whose exports accounted for 50 percent or more of their total sales registered 19.8 percent. Domestic demand-oriented companies having a ratio of less than 50 percent of exports to sales achieved only sales growth of 14.8 percent. The latter group is further divided into companies with an export to sales ratio of 20~50 percent and those with a ratio of less than 20 percent; the first sub-group posted a 22.0 percent sales growth rate boosted by robust sales in the steel and petrochemical industries. However, the second sub-group chalked up a relatively lower 10.1 percent.

Looking at the year-on-year sales growth rate by sector in manufacturing industry, a pronounced upward trend

[Table 13] Sales Growth Rate by Size and Export to Sales in Manufacturing

Unit : %

	2003(A)	2004(B)	B-A(%p)
Manufacturing	6.1	17.1	11.0
<By company size>			
Large enterprises	6.6	19.9	13.3
Top 30 enterprises	10.2	24.7	14.5
Below Top 30 enterprises	2.3	13.7	11.4
SMEs	5.4	12.3	6.9
50 billion won and over in sales	10.9	22.3	11.4
under 50 billion won in sales	3.2	7.9	4.7
(under 10 billion won in sales)	(-5.3)	(-0.3)	(5.0)
<By export to sales>			
Export enterprises(50% and over)	8.6	19.8	11.2
Domestic enterprises(under 50%)	4.3	14.8	12.5
(20~50%)	7.1	22.0	14.9
(under 20%)	2.5	10.1	7.6

was evident in basic metals & fabricated metal products (from 12.5 percent to 28.1 percent), electrical and electronic products (from 8.2 percent to 23.1 percent) and petroleum refining & chemicals (from 5.9 percent to 20.4 percent), thanks to favorable export market condi-

tions. Meanwhile, non-metallic mineral products slowed down slightly from 5.4 percent to 3.4 percent and furniture & manufacturing n.e.c. from 10.6 percent to 10.1 percent due to the sluggish demand.

[Table 14] Sales Growth Rate by Manufacturing Subsector

	Unit : %		
	2003(A)	2004(B)	B-A(%p)
Manufacturing	6.1	17.1	11.0
Food & tobacco	2.9	7.5	4.6
Textiles & wearing apparel	-3.2	3.2	6.4
Wood & paper, publishing	-1.9	3.8	5.7
Petroleum refining & chemicals	5.9	20.4	14.5
Non-metallic mineral products	5.4	3.4	-2.0
Basic metals & fabricated metal products	12.5	28.1	15.6
Machinery, electrical & electronic products	7.9	21.9	14.0
(Machinery)	6.1	18.4	12.3
(Electrical & electronic products)	8.2	23.1	14.9
Transportation equipment	7.8	14.6	6.8
Furniture & manufacturing n.e.c.	10.6	10.1	-0.5

The growth rate of tangible assets, including machinery and equipment in manufacturing industry rose from 1.7 percent in 2003 to 4.8 percent; however, the ratio of tangible assets to total assets fell for the third consecutive year due to

inactive investment. The cash holding ratio (cash/total assets) in the manufacturing industry has risen consistently for five straight years from 5.3 percent at the end of 1999 to 9.9 percent.

By sector of manufacturing industry, a

[Table 15] Investing-related Indicators in Manufacturing

	Unit : %							
	1997	1998	1999	2000	2001	2002	2003	2004
Tangible assets growth rate	13.7	17.2	0.0	2.4	-1.5	-2.2	1.7	4.8
Machinery & equipment growth rate	22.3	26.9	0.0	0.5	-5.9	-4.9	0.6	3.2
Tangible assets/total assets	39.2	43.6	43.8	45.2	45.2	43.2	41.6	40.6
Cash/total assets	6.4	6.5	5.3	5.9	6.0	8.1	9.7	9.9

relatively higher upward trend was shown in electrical & electronic products (from 6.2 percent to 14.6 percent) and basic metals & fabricated metal products (from -2.0 percent to 5.5 percent) in terms of the tangible assets growth rate based on the expansion of investment in machinery and equipment. In contrast, a

decline was registered over the same period by the food & tobacco (from 1.0 percent to -0.1 percent), textiles & wearing apparel (from -0.8 percent to -3.1 percent) and petroleum refining & chemicals (from -0.5 percent to -1.0 percent) sectors.

[Table 16] Tangible Assets Growth Rate by Manufacturing Subsector

Unit : %

	2003(A)	2004(B)	B-A(%p)
Manufacturing	1.7	4.8	3.1
Food & tobacco	1.0	-0.1	-1.1
Textiles & wearing apparel	-0.8	-3.1	-2.3
Wood & paper, publishing	-0.1	0.2	0.3
Petroleum refining & chemicals	-0.5	-1.0	-0.5
Non-metallic mineral products	0.0	6.4	6.4
Basic metals & fabricated metal products	-2.0	5.5	7.5
Machinery, electrical & electronic products	5.3	12.5	7.2
(Machinery)	1.4	2.1	0.7
(Electrical & electronic products)	6.2	14.6	8.4
Transportation equipment	4.5	6.4	1.9
Furniture & manufacturing n.e.c.	4.5	0.0	-4.5

Looking at the assets management structure of the manufacturing industry as of the end of 2004, there was year-on-year growth registered in current assets (from 40.8 percent to 41.8 percent) such as cash & deposits (from 9.7 percent to 9.9 percent) and inventories (10.8 percent to 11.5 percent) and also in investment assets (from 17.6 percent to 18.6 percent) posted a year-on-year growth. Meanwhile, the ratio of tangible assets to total assets fell from 41.6 percent to 40.6 percent, as firms favored the use of surplus funds for the

redemption of borrowings, the securing of liquidity, and the expansion of their holdings of investment securities rather than for facilities investment to expand growth potential because of the uncertainties surrounding the corporate investment environment last year. As a result, the current ratio (current assets/current liabilities) rose by 7.2 percentage points from 109.8 percent at the end of 2003 to reach 117.0 percent while the fixed ratio (fixed assets/stockholders' equity) fell from 132.2 percent to 118.9 percent instead.

[Table 17] Assets-related Indicators in Manufacturing

	1998	1999	2000	2001	2002	2003	2004	Japan (2004.3)	U.S. (2004)
Current ratio ¹⁾	89.8	92.0	83.2	97.9	106.1	109.8	117.0	128.6	131.8
Fixed ratio ²⁾	242.5	202.3	198.5	181.6	145.1	132.2	118.9	167.4	128.5
Cash ratio ³⁾	15.4	13.7	13.5	16.4	22.3	26.1	27.6	16.4	27.9
Current assets /total assets	37.8	35.7	36.1	35.6	38.4	40.8	41.8	30.6	47.5
Cash & deposits /total assets	6.5	5.3	5.9	6.0	8.1	9.7	9.9	3.9	10.1
Inventories /total assets	9.4	9.1	10.0	9.6	9.9	10.8	11.5	8.9	9.0
Tangible assets /total assets	43.6	43.8	45.2	45.2	43.2	41.6	40.6	20.3	29.0
Investment assets ⁴⁾ /total assets	17.7	20.5	18.7	19.1	18.5	17.6	18.6	49.1	23.3
(Investment securities /total assets)	9.2	12.0	11.3	10.6	11.7	11.2	11.9	-	15.8

Notes : 1) (Current assets/current liabilities) × 100 2) (Fixed assets/stockholders' equity) × 100
 3) (Cash & deposits/current liabilities) × 100 4) Investment assets including intangible assets

2. Non-Manufacturing Industry

The transport and the wholesale & retail trade sectors observed sales growth rates of 18.1 percent and 8.1 percent, respectively, thanks to the briskness of

exports. Recreational, cultural & sporting activities also experienced a sharp increase in sales growth of 10.3 percent because of the impact from the widespread adoption of the five-day week. Meanwhile, the sales growth rate in con-

[Table 18] Growth Rate by Non-manufacturing Subsector

	Sales growth rate			Tangible assets growth rate ¹⁾		
	2003 (A)	2004 (B)	B-A (%p)	2003 (A)	2004 (B)	B-A (%p)
Electricity & gas	8.5	9.1	0.6	1.1	3.0	1.9
Construction	16.4	8.9	-7.5	-1.9	13.6	15.5
Services	-3.1	9.0	12.1	1.1	1.9	0.8
Wholesale & retail trade	-7.0	8.1	15.1	5.4	4.8	-0.6
Transport	8.3	18.1	9.8	-0.8	2.4	3.2
Telecommunications	-0.3	7.6	7.9	-4.1	-5.3	-1.2
Business activities	8.0	5.3	-2.7	7.0	8.9	1.9
Recreational, cultural & sporting activities	9.5	10.3	0.8	6.3	5.5	-0.8

Note : 1) Year-end to year-end basis

struction fell back sharply from 16.4 percent in 2003 to 8.9 percent.

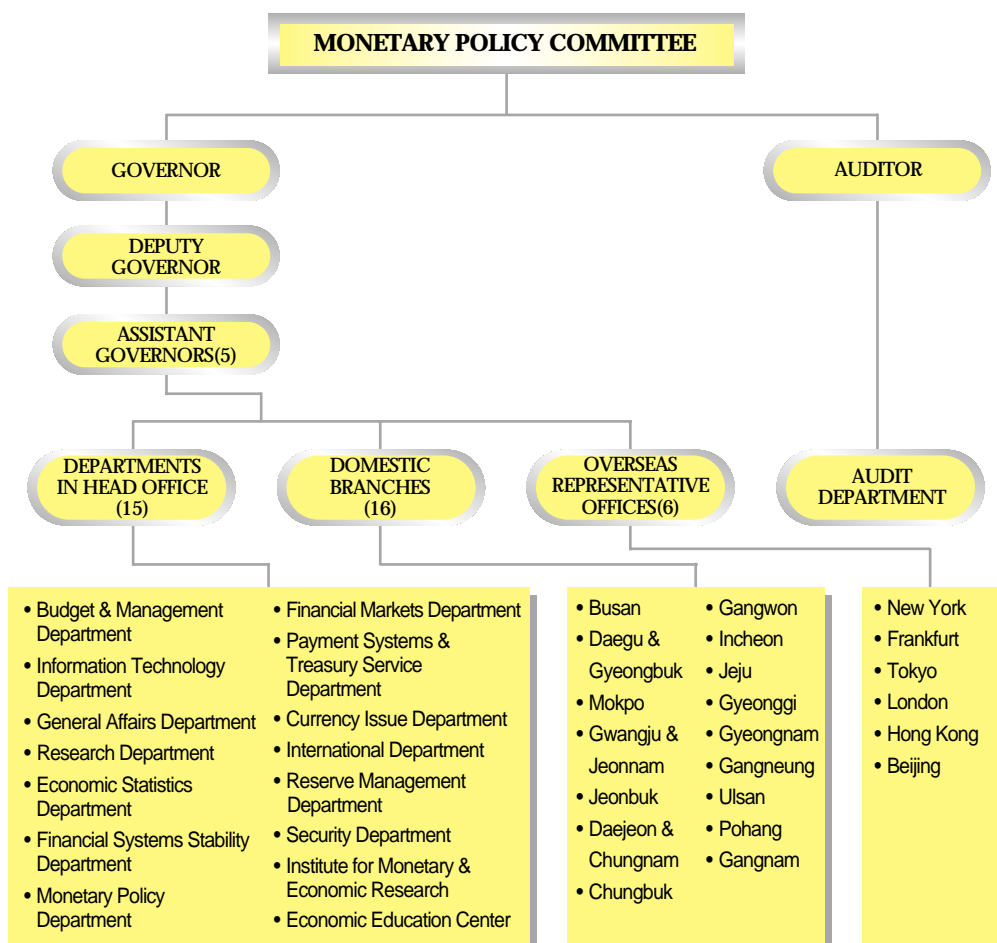
While the growth of tangible assets rose greatly in construction to reach 13.6 percent driven by the purchase of build-

ings and structures for the expansion of business, that of the telecommunications sector continued to exhibit negative growth, registering -5.3 percent, following on from -4.1 percent a year earlier.

Organization of the Bank of Korea

(As of June 2005)

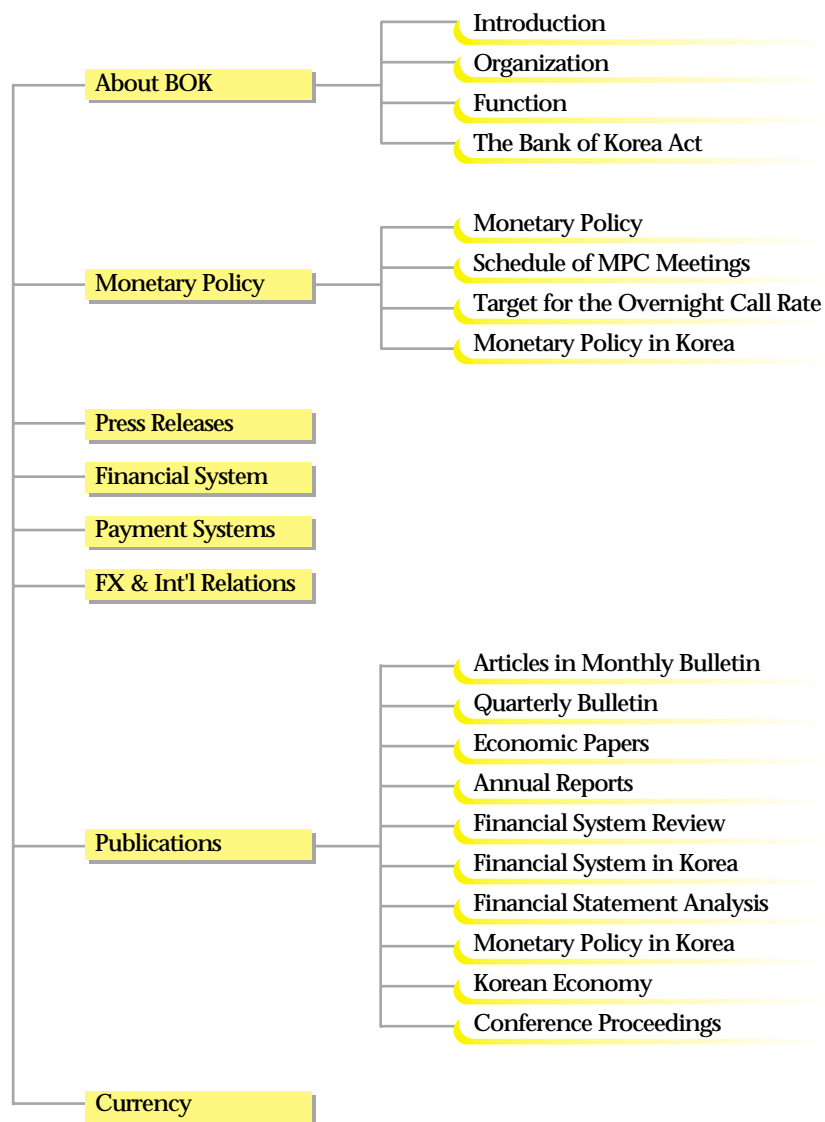
Monetary Policy Committee Seung Park, Chairman Tae-Dong Kim Seong-Tae Lee Jong-Chang Kim Moon Soo Kang Duk-Hoon Lee Sung-Nam Lee	Governor Seung Park Deputy Governor Seong-Tae Lee Assistant Governors Kyu Yung Chung Bang-Woo Jung Jae-Hwan Park Soo-Myung Kim Yeung-Kyun Rhee	Auditor Sang-Yong Lee
--	--	---------------------------------



The Bank of Korea's Internet Web Site

1. Press releases and selected data from statistical series - National Accounts, etc - are posted on the Bank of Korea's Web Site (<http://www.bok.or.kr>)

2. Internet Web Site Menus are set out below :



List of Publications

Periodical

Title	Frequency	Language	Dissemination Type*
Annual Report	Annually	English	P, O
Quarterly Bulletin	Quarterly	English	P, O
Monthly Bulletin	Monthly	Korean	P, O
Working Papers	Occasionally	Korean	P
Economic Analysis	Quarterly	Korean	P, O
Economic Papers	Semiannually	English	P, O
Finance and Economics Working Papers	Occasionally	Korean	P
Financial System Review	Semiannually	Korean	P, O

* Notes P : printed publication, O : available on-line at the Bank of Korea 's web site

Statistics

Title	Contents	Frequency	Dissemination Type*
Monthly Statistical Bulletin	Major national economic statistics covering money and banking, prices, balance of payments, foreign trade, industry, employment, national accounts, etc.	Monthly	P, B
Economic Statistics Yearbook	Statistics included in the Monthly Statistical Bulletin and others	Annually	P, B
Principal Economic Indicators	Principal indicators and the statistics included in the Monthly Statistical Bulletin	Semimonthly	B
Money & Banking Statistics	Statistics on monetary aggregates(M1, M2, M3, etc.), the principal accounts of CBs & SBs and other financial institutions, capital market trends, principal interest rates, etc.	Monthly	P, B

Title	Contents	Frequency	Dissemination Type*
Regional Financial Statistics	Statistics on the issuance and withdrawal of banknotes and coin by the BOK's branches, the deposits and loans of the BOK, CBs & SBs, other financial institutions by province, etc.	Monthly	P
Balance of Payments	Current account, capital account, financial accounts, exports & imports by type of goods, indexes of foreign trade and terms of trade, etc.	Monthly	P, B
Price Statistics Summary	Brief review of price movements, statistical compilation procedures and statistics on the producer price index for 923 commodities, and export and import price indexes for 227 and 222 goods.	Every 5 years	P
Monthly Prices	Brief analysis of price movements and statistics on producer price index, export price index, import price index, prices of major world trade commodities, etc.	Monthly	P, B
Input-Output Tables	Outline of compilation method, inter-industrial structure of the Korean economy, transactions tables, input coefficients matrices, production inducements coefficients matrices, supporting tables	Every 5 years	C
National Accounts	Principal indicators of national accounts, consolidated accounts for the nation, income accounts by institutional sector, capital finance account by institutional sector, supporting tables	Annually	P, B, C

Title	Contents	Frequency	Dissemination Type*
Gross Domestic Product	Gross domestic product by kind of economic activity, expenditure on gross domestic product	Quarterly	P, B
Financial Statement Analysis	Summary of survey results, description of survey methods, explanation of company accounts and financial analysis ratios, statistics of estimated balance sheets, income statements, statistics of cost of goods manufactured, funds flow statements and financial ratios, series of major countries' financial analysis ratios, etc.	Annually	P, B
Flow of Funds	Financial surpluses and deficits by economic sector, fund raising and investment by non-financial sectors, the financial sector's sources and uses of funds, accumulation of financial assets	Quarterly	P, B

* Notes P : printed publication,
B : on-line database system (BOKIS, accessible via the Bank of Korea's Web Site),
C : CD-ROM

List of Bank of Korea Working Papers*

Serial No.	Title
2005-1	Changes in the Relation between Nominal Interest Rates & Inflation and It's Implications
2005-2	The Dollar's Underlying Weakness : A Diagnosis and Prognosis
2005-3	Analysis of the Stimulative Effect of the Inter-Governmental Fiscal Transfer System on Balanced Regional Development
2005-4	The Influence of Regional Industrial Specialization Strategies on Regional Economics
2005-5	The Sustainability of the U.S. Current Account Deficit and Desirable Policy Options

* Published in Korean only.

Titles of Articles Appearing in Monthly Bulletin*

April June 2005

● April 2005

Estimation of Demand-pull Price Pressures and Their Implications

Comparative Status of Business Operations of U.S. Investment

Banks and Their Korean Counterparts

The Balance of Payments in 2004

● May 2005

The Construction of a New BOK Quarterly Macroeconomic Model

Flow of Funds in 2004

● June 2005

The Linkages between the Korean Industrial Structure and Business

Volatility

Financial Statement Analysis for 2004

* Published in Korean only.

Titles of Articles Appearing in Quarterly Bulletin*

March 2000 March 2005

March 2000

Current Economic and Financial Movements

Inflation Target for 2000

Financial Sector Restructuring in 1999

Payment and Settlement Trends in 1999

June 2000

Governor's Speech on the 50th Anniversary of the Bank of Korea's
Foundation

Current Economic and Financial Movements

Flow of Funds in 1999

Financial Statement Analysis for 1999

September 2000

Current Economic and Financial Movements

The Relationship between Business Survey Results and the Growth
Rate of GDP

December 2000

Current Economic and Financial Movements

Monetary Policy in a World of Increased Capital Flows

Flow of Funds in the First Half of 2000

* Entitled 'Quarterly Economic Review' until March 2000.

March 2001

Current Economic and Financial Movements
The Inflation Target and Monetary Policy for 2001
Financial Sector Restructuring in 2000
Payment and Settlement Trends in 2000

June 2001

Governor's Speech on the 51st Anniversary of the Bank of Korea's
Foundation
Current Economic and Financial Movements
Flow of Funds in 2000
Financial Statement Analysis for 2000

September 2001

Current Economic and Financial Movements
The Structure and the Interindustry Effects of the Korean Economy
Based on the Input-Output Tables of 1998
Payment and Settlement Trends in the First Half of 2001

December 2001

Current Economic and Financial Movements
Flow of Funds in the First Half of 2001
Financial Statement Analysis for the First Half of 2001

● **March 2002**

Current Economic and Financial Movements

The Inflation Target and Monetary Policy for 2002

Financial Sector Restructuring in 2001

Payment and Settlement Trends in 2001

● **June 2002**

Governor's Speech on the 52nd Anniversary of the BOK's
Foundation

Current Economic and Financial Movements

The Redefined Monetary Aggregates

Flow of Funds in 2001

Financial Statement Analysis for 2001

● **September 2002**

Current Economic and Financial Movements

Payment and Settlement Trends in the First Half of 2002

● **December 2002**

Current Economic and Financial Movements

Flow of Funds in the First Half of 2002

Financial Statement Analysis for the First Half of 2002

March 2003

Current Economic and Financial Movements
The Inflation Target and Monetary Policy for 2003
Financial Sector Restructuring in 2002
Payment and Settlement Trends in 2002

June 2003

Governor's Address upon the 53rd Anniversary of the Foundation
of the Bank of Korea
Current Economic and Financial Movements
Summary of Financial Stability Report
Flow of Funds in 2002
Financial Statement Analysis for 2002

September 2003

Current Economic and Financial Movements
Short and Long-run Exchange Rate Determinants of the Korean
Won
Payment and Settlement Trends in the First Half of 2003

December 2003

Current Economic and Financial Movements
Summary of Financial Stability Report
The Structure of the Korean Economy in the 2000 Input-Output
Tables
Flow of Funds in the First Half of 2003
Financial Statement Analysis for the First Half of 2003

March 2004

Current Economic and Financial Movements
Medium-term Inflation Target and Monetary Policy for 2004
Major Details of Financial Sector Restructuring in 2003
Payment and Settlement Trends in 2003

June 2004

Address upon the 54th Anniversary of the Foundation of the Bank of Korea
Current Economic and Financial Movements
Summary of Financial Stability Report
Flow of Funds in 2003
Financial Statement Analysis for 2003

September 2004

Current Economic and Financial Movements
Payment and Settlement Trends in the First Half of 2004

December 2004

Current Economic and Financial Movements
Summary of Financial Stability Report
Flow of Funds in the First Half of 2004

March 2005

Current Economic and Financial Movements

Analysis of Price Trends in 2004

Major Changes of Financial Legislation during 2004

Payment and Settlement Trends in 2004