

COLLAPSE OF THE 800-PT. LINE: WHERE WILL THE MARKET GO?

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During hot and humid August, the Korean Stock Market nosedived under 800 points. The 800-point level has long been believed to be an important barrier, acting as a psychological support line since the KOSPI hit 796.65 points on Nov. 13, 1993. However, since reaching 991 points on May 8, 1996, the KOSPI has been riding downhill and is not showing any sign of recovery. As the end of August approached, it has even started to show a significant decrease in trading volume, causing doubts about the liquidity of stock.

The main reasons for this collapse of the Korean Stock market are the increases in interest rates, the imbalance of supply-demand, and the impact of the sagging economy. Listed companies have reported poor performances for the first half, dealing a major blow to the stock market and causing a large decline in the KOSPI. The poor earnings were largely caused by foreign exchange losses and increased interest expenses which resulted from the government's efforts to devalue the won to support the depressed export sector. Further devaluation of the won will depend on the government's policy and will act as a strong factor for the second-half performance of listed companies one way or the other.

Prescription for the Stock Market: Will It Work?

Investors have been waiting for an effective treatment by the government to revive the stock market. So far, the government has taken several actions, which did not work out as planned. Furthermore, the Korean government has fewer tools to work with than in the past as it is moving toward an open market system as part

of its efforts to become a member of the OECD. But with the current stock market conditions, the government has no choice other than to come up with another prescription to revive the stock market.

The government will allow the Korea Europe Fund, a country fund for European investors in Korean stocks, to increase its capital by \$80 million in October this year. It is expected that the capital increases will bring an inflow of foreign equity investment worth 64 billion won into the Korean stock market in October alone. With this increase, the total paid-in capital of the fund will rise to \$360 million.

Also, the daily limit for price change of listed stocks will be broadened from plus/minus 6 percent to 8 percent, scheduled for November, and will be further stretched to 10 percent during the first half of next year. While taking this measure, the ministry has tightened the eligibility requirement for IPOs, but there will be no regulations on the amount of stocks to be issued. The tightened regulations for IPOs will effectively bar two-thirds of the companies eligible under the current policy from issuing new shares. Furthermore, the government will allow foreign investors to conduct friendly takeovers of domestic firms. However, to takeover a Korean firm as a foreign investor, several requirements need to be met before this can be completed.

The government has taken several measures to revive the stock market, but investors have been disappointed many times already and the current market conditions are too blue to change its color simply because of the new policies. There will be a slight technical adjustment in the stock market as a result of the government's new policies, but it will be too weak to curb the current stream. **VIP**

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