

BANKRUPTCIES BLEW THE MARKET

String of Bankruptcies Causes Plunge in KOSPI

During March, the Korean stock market fell 7.9 percent, and the Korea Stock Price Index (KOSPI) dropped 53.4 points to close at 623.13 points on March 22nd. The bearish moods of Korean stock market was mainly due to the string of bankruptcies of two large business conglomerates, the Hanbo and Sammi Groups.

The unexpected filing for court receivership by the Sammi Group early March led to a hike in interest rates and nearly froze the local financial market, causing numerous stocks of highly leveraged companies to tumble. Hardest hit were finance companies such as those in the banking and securities sectors. Sammi's filing for court receivership was a rude awakening to many market participants. Sammi Steel, the group's stainless steelmaker, had just recently sold off its major assets to Pohang Iron & Steel Co. (POSCO) for 720 billion won. However, the funds were immediately handed over to creditors, and Sammi's cash crunch continued, forcing them to seek court protection.

The string of recent bankruptcies and rumors of further bankruptcies have terrorized the financial community to such an extent that they have virtually stopped all lending activities, except to a few elite chaebol groups. Highly leveraged and otherwise financially unsound companies, especially affiliates of the newer chaebols who have been rapidly climbing the local corporate rankings through active expansion, have suffered as a result.

The series of bankruptcies caused domestic interest rates and local currency to increase rapidly. The three-year corporate bond rate, the

benchmark for the nation's market liquidity, jumped 45 basis points (0.45 percent) from 12.40 at end of the previous month to 12.85 percent on March 22nd, the highest in 18 months since September 1995. The Korean won has depreciated considerably against the US dollar. The exchange rate of dollar/won soared 20.7 won to 897.50 won on the 22nd of this month from 876.80 won at the end of February.

The Market Sentiment Will Ease in March

The new economic team announced its new policies on March 20th. It pledged that it will reduce the current account deficit and stabilize prices by keeping GDP growth at a moderate 5 percent level, while tightening government expenditures in order to minimize the crowding-out effect for investments. The group of CEOs of banks also broadcasted that all banks will endeavor to prevent additional bankruptcies by making loans to companies which are experiencing trouble in terms of operating funds. These announcements helped to turn around the recent market sentiment, and on March 25th, the KOSPI jumped 21.64 points to 638.90 points.

April will be better than March for stock investors. This is because of the expectations of a three percent foreign ownership limit expansion and the turnaround of the local economy. Of course, there are no solid signs of a turnaround in the economy, but then again, we also cannot find further signs of the local economy worsening. This will be the factor that will ease investors' sentiments. **VIP**

(Jong-Gon Park)

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