GRADUAL RETURN TO A STABLE MONEY MARKET

Monetary Authority Tried to Calm Market

The market interest rates have somewhat stabilized recently. For instance the yields on three-year corporate bonds, after rising to 13 percent in late March, the highest level in the last year and a half, have returned to the mid-12 percent range in April. However, some disturbances still exist in the domestic money market. The bankruptcies of the Hanbo and Sammi Groups and now the recent financial difficulties of the Jinro Group over the last few weeks have led banks as well as other lending financial institutions to pursue conservative fund management. Thus, the decline in demand for facility investment and the influx of public funds amid the increased liquidity did not lower the money market interest rates significantly but did help a little to calm the financial market in April. In addition, the Government recently announced that it would establish a "corporate clinic" which has put the market participants at ease to some degree. While it is unclear as to what exact effect this entity will have, nonetheless, it shows that Government will not ignore further bankruptcies by large companies.

Stable Decrease in Rates Likely in May

Lowering interest rates has become an increasingly controversial issue and could have the effect of ensuring that the market interest rates at least will not rise rapidly. There is consensus that the Government will not ignore the increases in interest rates for the time being because high interest rates lower national competitiveness. Although there is some worry about inflation due to rises in liquidity, the monetary authority may supply money flexibly. Another reason to expect stable rates is that most firms' demand for money for facility investment will not increase in the next few months, which is reflected by the volume of new issuance of bonds. Thus the market is likely remain stable on the demand side. However, all these factors are not enough to mitigate institutional investors' worries about the recent disorder of the money market. Because they believe that the problems of bankruptcies from extraordinary facility investment amidst an economic recession cannot be easily cured unless the economy indicates an upward trend, noticeable decreases in rates are not expected in the near future. VIP

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〈Table 1〉 Major Bond Yields(%)

	Corporate[1]	Bank Debenture[2]	Monetary Stabilization[2]	National Housing[3]
Jan. 3	12.42	12.95	12.80	11.50
Feb. 1	12.00	12.50	12.80	11.10
March 1	12.43	12.50	12.40	11.10
April 1	12.48	13.00	12.60	11.55
April 26	12.50	12.95	12.60	11.45

Note: 1) 3-year maturity, 2) 1-year maturity, 3) 5-year maturity