

SLOW RECOVERY FROM THE MONEY MARKET CRISIS

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Money Market Crisis in December 1997

In December the Korean money market suffered from severe instability in the foreign exchange and stock markets. In spite of the IMF assistance program, the Korean financial markets did not stabilize; the won continued its sharp devaluation against the dollar, stock prices plunged, and interest rates continued their endless rise. Ultimately, the Korean financial markets have not played their roles of connection to real economy.

Signs of Slow, but Steady Recovery

The tight monetary policy of IMF program will be executed in 1998 to rescue the current debt-laden industries. Therefore, high market interest rates can be expected fundamentally. The conclusion of debt-restructuring talks in New York on Jan. 29, 1998, provides South Korea with a good start for solving the imminent FX market crisis and credit crunch problem. This is because if South Korean banks are granted debt extensions by their foreign creditors, South Korea would

have time to stabilize its finances and improve its credit rating, thereby offering the prospect of lower interest rates on any new financing. But the New York talks only constitute a good beginning for stabilizing the currency crisis. The domestic liquidity shortage in the Korean financial market will continue at least throughout the first half of this year. With annual interest rates around 20%, no Korean firm can survive the financial pressure if its business is heavily dependent on debt. Therefore, the IMF might allow South Korea to ease the high-interest rate policy and hold additional negotiations on the nation's macroeconomic targets for 1998. Signs of a currency crisis recovery will have positive effects on the domestic financial markets and lower market interest rates within the limits.

How much Korea's sovereign rate will be upgraded and how much additional foreign currency flows in will determine how much market interest rates will decline. Toward this end, South Korea should continue its efforts to increase its current-account surplus and implement drastic economic restructuring reforms so that confidence is completely restored among foreign investors as well as lenders. 

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〈Table〉 Major Bond Yields(%)

	Corporate ¹	Bank Debenture ²	Monetary Stabilization ²	National Housing ³
Nov. 1 ('97)	12.60	13.00	12.80	11.25
Dec. 1 ('97)	17.50	15.50	14.80	14.35
Dec. 31 ('97)	28.98	22.00	14.80	17.15
Jan. 30 ('98)	18.50	18.50	14.80	15.95

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