

CONTINUING DOWNWARD MOVEMENTS IN INTEREST RATES

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From November to early December, most interest rates continued to drop. The three year corporate bond rate dropped to 8% and the inter-bank offered call rate dropped under 7%, while the CD rate stayed around 7.7%.

There are three main reasons for the continued downward movements in interest rates. First, the government revealed its strong willingness to lower interest rates further to boost the sagging economy. Second, most market participants were expecting that industrialized nations are likely to cooperate to cut their interest rates including the U.S. federal fund rate. Finally, the new issuance of government and corporate bonds in November decreased compared to those in September or October.

Even more pleasing news for companies came from a report of the Ministry of Finance and Economy, which showed that banks' lending rate were starting to drop, which would provide real benefit to bank-dependent firms. The percentage of loans made with 15% or higher financing cost is now only 12.3% of total loans. Meanwhile, lower cost loans of below 12% account for 17.9% of total loans. In April and August, higher cost loans of above 15% accounted for 81% and 51% of total loans

respectively. Even though there is still big gaps among firms with different credit ratings, financially healthy firms are now taking the opportunity to borrow money with cheap costs of funding. With the reduction of real costs for funding, the availability of funds as well improved. In November, net volume of bank lending turned to positive figures. This shows the possibility that the credit crunch in Korea may be resolved.

It is likely that major interest rates will fluctuate around the current level in the near future. However, the downward trend in interest rates is expected to continue in the longer term. The recently announced government intention to lower interest rates further supports this expectation. The Ministry of Finance and Economy unofficially revealed that the government will try to reduce the RP rate from the current 7% range to the 4~5% range in the next year. Since the market perceives the government's strong intention, major market rates will have downward pressure. Also, new restrictions on big corporations' borrowing from banks and bonds markets will also have a downward impact on market interest rates by reducing big corporations' demand for money. **VIP**

<Table> Major Interest Rates

(End of Period, %)

	1997	1998				
		August	September	October	November	December 11
Corporate Bond Yield(3 yr.)	28.98	11.70	11.90	10.00	9.25	8.00
CD Rate(91 days)	25.00	10.20	10.12	7.70	7.70	7.70
Call Rate(1 day)	26.59	8.70	7.38	7.40	7.16	6.95