

## MAJOR INTEREST RATES KEEP ON DECLINING

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In December, most interest rates continued to drop. The three-year corporate bond rate dropped to around 8% and the interbank offered call rate dropped to 6.7%, while the CD rate stayed around 7.7%.

There are three main reasons for continuous 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 reduce their interest rates including the federal funds rate of the U.S. Finally, the new issuance of government and corporate bonds decreased compared to the issuance levels of previous several months.

In addition to the decline in interest rates, the availability of funds for firms has shown signs of improvement as well. Banks' attitudes toward lending have changed positively due to the now-sufficient liquidity supply by the Bank of Korea as well as progress in financial and corporate reform. The decrease in the volume of bank lending and corporate bonds issuance in December is not the result of a shrinkage in the credit supply but the result of reduced money demand among firms. The sharp increase in

new share issuances in the stock market provides firms with an environment in which they can reduce their debt ratios. Regarding the availability of funds, the most important indicator is the increased lending volume which became allocable to relatively small firms. For instance, bank lending given to small firms in November reached 2.1 trillion won which is much bigger than the 1 trillion won in the previous month.

It is likely that the major interest rates fluctuate around the current levels in the very short term. 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 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 preference for low interest rates, major market rates will have downward pressure. New restrictions on big corporations' borrowing from banks and bonds markets will also have a downward impact on market interest rates by reducing demand for money. **VIP**

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<Table> Major Interest Rates

(End of Period, %)

	1997	1998			
		Sep.	Oct.	Nov.	Dec. 30
Corporate Bond Yield(3 yr.)	28.98	11.90	10.00	9.25	8.00
CP Rate(91 days)	25.00	10.12	7.70	7.70	7.90
Call Rate(1 day)	26.59	7.38	7.40	7.16	6.53