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The Mangled Miracle and the Alchemy of Finance

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Abstract

In this chapter I introduce the basic problems for a new theory of 21st century financial crises in light of the Asian and other subsequent crises. Do these crises all have somethimg in common, or are they idiosyncratic events? My contention is that there are deep structural causes at work in the global markets that affect the political economy of countries and regions. Methodologically, new concepts, models and theories are needed to conduct further meaningful empirical work leading to relevant policy conclusions. This book belongs to the beginning of intellectual efforts in this direction.

The Mangled Miracle and the Alchemy of Finance[1]

GRONTE: It seems to me you are locating them wrongly: the heart is on the left and the liver is on the right.

SGANARELLE: Yes, in the old days that was so, but we have changed all that, and we now practice medicine by a completely new method.

Molière: *Le Médecin malgré lui*

It was the best of times getting even better if that can happen when things came crashing down in Asia. Nothing as dramatic as what happened in Asian financial markets in 1997 has occurred since the great crash of the thirties. This is not mere hyperbole, but the sad truth about the Great Asian Crash of 1997. When economic historians look back they will mark not only Asia's progress and unparalleled growth, but also its rapid descent into chaos within a few short months. But Asia was by no means an exception. In 1994,another crash had already happened in Mexico, and in 1998 Brazil and Russia also faced financial crises. Finally, Argentina in early 2002 descended into an economic and policy chaos that was not foreseen by the media pundits and many mainstream financial forecasters. At about the same time, starting with the ENRON scandal, the serious misgovernance of several large US firms came to light. Thus, as far as international finance and corporate governance are concerned, the twentieth century ended not with a bang, but with a whimper. While the twentieth century crises may have been merely unfortunate, the twenty first century ones seem like stubborn wrecklessness.

Do these crises share something in common, or are they just idiosyncratic events--- each one a unique tragedy, but with no connections to the others, or any deeper common causal mechanisms? If the uniqueness hypothesis is true, then the logical implication is that no single underlying causal structure can be expected to have operated in all cases. On the other hand, how plausible is the uniqueness claim? This is the first task to which any serious student of these crises must turn.

[1] Forthcoming in Haider A. Khan, *Global Markets and Financial Crisis: A Theory for the 21st Century Crises Based on the Asia's Mangled Miracle*, Chapter 1, Macmillan/Palgrave, 2004.

At the same time, if all of these cases, including the Asian case, turn out to have been unique, the sequence of crises still poses many difficult and embarrassing questions. In this book, I will focus mainly on Asia. Clearly, in this instance we need to ask: How did it happen to Asia? How did a devaluation of baht in July 1997 precipitate a cascading wave of currency crisis spreading all the way to Korea in less than six months? How did Asia develop the symptoms of a debt crisis that was not supposed to happen there?

Not only did Asia suddenly develop a debt crisis, it also seemed to have been plunged into a full development crisis. Output plummeted precipitously in the affected countries. Living standards followed suit. Unemployment rose. Millions of poor people added to their anguished lives even more misery. Millions more became poor even by the modest official standards used to measure poverty. It is no exaggeration to say that Indonesia, Thailand and South Korea were pushed into depressions comparable to the historic crisis in Europe and North America in the 1930s.Although recovery did occur in Korea,it is questionable if the former growth rate can be restored on a sustainable basis for long. Recovery in Thailand has continued to be fragile. Finally, Indonesia still could not emerge from the multiple crises as of Spring, 2002.

We need to think long and hard about the causes of these crises. According to the euphoric descriptions during the heydays of Asian growth--- and Russian, Brazilian and Argentinean economic prospects heralded by the Wall street and the believers in the so-called Washington consensus--- these economic disasters were not supposed to happen. Yet they very palpably did happen.

And in case of Asia in particular,when the dizzying growth was replaced with a sobering shakedown, there was immediately a cacophony of condemnations of the `Asian way' of doing things. Wise heads were shaking in Washington in triumph as fingers were being pointed at Asian heads of state and government officials. Some wise Western economists would even write articles with the title "I told you so."

Yet in sober moments most reflective people – professional and non-professionals alike – had to admit that the Asian crisis in particular, was baffling in several respects. For one thing the so-called macroeconomic fundamentals seemed sound in Asia going into crisis. For another, unlike Mexico or other Latin American countries most of the debt was not sovereign. It was a private sector debt crisis. So once again, the question arises, how did this come to be?

This book is really an attempt to answer this deceptively simple question by appealing to the historical facts, and economic theory. It will turn out that a fully satisfactory analysis and the crises that followed, must include a consideration of both international and national political economies. It is also hoped that by understanding this unusual crisis, the global forces that dominate our economic lives can be better controlled through necessary institutional innovations. But before we go any further, it will be instructive to examine briefly some attempts to explain the crisis away, as it were, initially. The insights gained from this exercise will help us appreciate the genuine intellectual challenges posed by the Asian crisis.

A few months into the crisis in 1997 the dominant view of the crisis from the U.S. was a round condemnation of the Asian version of capitalism. Robert Wade (1998) called this view, somewhat dramatically, `the death throes of Asian state capitalism.' According to Wade, "the chairman of the US Federal Reserve, Alan Greenspan [became] the most prominent if not the most eloquent, exponent of the idea." Indeed Greenspan in early December 1997 had said:

> The current crisis is likely to accelerate the dismantling in many Asian countries of the remnants of a system with large elements of government-directed investment, in which finance played a key role in carrying out the state's objectives. Such a system inevitably has led to the investment excesses and errors to which all similar endeavors seem prone…
>
> Government-directed production, financed with directed bank loans, cannot readily adjust to the continuously changing patterns of market demand for domestically consumed goods or exports. Gluts and shortages are inevitable…[2]

Greenspan further linked this position with what he identified as a global move towards "the Western form of free market capitalism." The note of triumphalism was barely concealed. "What we have here is a very dramatic event towards a consensus of the type of market system

[2] Alan Greenspan, speech at the New York Economics Club, December 1997, quoted in Wade (1998) p. 2.

we have in this country," he said in his testimony before the U.S. Senate Foreign Relations Committee in February, 1998.

George Soros advised the Korean government on Korean national television to invite foreigners buy up Korean companies and to let the rest go bankrupt. Stanley Fischer of IMF blamed domestic causes such as the failure to dampen overheating, maintenance of pegged exchange rate in the face of credibility problems, and lack of prudential regulations and political will.

On the face of it Fischer's list of problems is not incorrect. But the problem is that such analysis lacked depth. This was revealed in 1998 when IMF was forced to change its stance. In retrospect the flaws have become much clearer now. We will offer a detailed critique of the then dominant U.S. Federal Reserve-Treasury and IMF views in chapter 5 later.

For the moment let us turn to an alternative explanation offered by "structuralists" such as Wade, and more surprisingly by "dissident" neoclassicals such as Jeffrey Sachs. In this view the problem was a crisis of confidence in an otherwise sound but underregulated system. Sudden investor pull outs then caused a severe debt-deflation. As Wade (1998) describes this view:

> These, then, are the pre-conditions of the Asian crisis: (1) Very high rates of domestic savings, intermediated from households to firms via banks, creating a deep structure of *domestic* debt. (2) Fixed-exchange-rate regimes, with currencies pegged to the US dollar (apart from Japan, and partially, Korea), that created the perception of little risk in moving funds from one market to another. (3) Liberalization of capital markets in the early to mid 1990s and deregulation of domestic financial systems at about the same time, without a compensating system of regulatory control. (4) Vast international inflows of financial assets, coming from excess liquidity in Japan and Europe being channeled through financial institutions scouring Asia for higher returns and lending at even lower nominal rates than domestic borrowers could borrow from domestic sources, creating a deep structure of *foreign debt*.[3]

[emphases in the original]

This is not the place to evaluate these rival arguments. An attempt will be made in chapter 5 to assess both the validity of the Asian model and its sudden fall from grace. But it is significant

3 Wade (1998) p. 9.

that the Asian crisis rekindled fundamental debates about the role of governments and markets in capitalist development. Furthermore, this time the general theoretical debate which is ongoing has a global dimension. This last point has not always been made clear. It is one of the major arguments of this book that the global dimension is indeed critical. This will be developed throughout, but particularly in the chapter on global financial architecture.

Clearly, in retrospect the East Asian financial crisis was by all accounts the most significant event in the world economy in 1997. The topic dominated the headlines, attracted the attention of the world and generated much despairing rhetoric. As we have seen, the economists naturally joined the cacophony of condemnations. Truly, the dismal science had never looked so dismal since the great depression of the 30s. Without doubt, the speed and depth of the collapse of financial markets in East Asia caught all by surprise. Neither the existing surveillance mechanisms nor markets warned the euphoric investors adequately of impending calamity. The reversal of fortunes in East Asia came suddenly and surprised even the experts. The contagion spread rapidly, engulfing a number of economies in quick succession. It started as a currency crisis, then became a financial crisis. By 1998 it had become a full-blown economic crisis. To recapitulate briefly, and anticipate a little, the actual trigger for the crisis was the 1996 export slowdown in Asia. The cyclical downturn in the demand for electronics, in conjunction with a rising dollar and a declining yen, slowed export growth, and led to some skepticism about future growth. The initial export downturn and growing skepticism threatened the inflow of foreign capital, now badly needed to sustain the increasing current account deficits. This in turn led to market concerns about the more or less fixed exchange rates, culminating in pressure on them and their eventual collapse. Investors suffering losses started to withdraw from these markets, and the bubble in asset prices burst. Falling asset prices resulted in insolvency of financial intermediaries, resulting in a full-fledged financial crisis.

Although the 1996 export slowdown triggered the currency crisis, the roots of the financial crisis go much deeper. It is important to note the fact that the crisis occurred in those countries in the region that were more advanced and more integrated with global financial markets and, for that reason, were more successful in attracting large inflows of foreign private capital. In this sense, the crisis can be viewed as a new challenge facing the Asian developing countries as they move up the ladder of economic development. It is fair to say that the problems were not confined just to the affected economies and they can emerge in other developing countries when they reach a similar stage of economic development and integration globally. But this would be cold comfort for the economies that were so affected, at least in the short-run.

Why were the affected countries so vulnerable? To begin with, there were weaknesses in financial and exchange rate management in these economies. For all practical purposes, these countries had all pegged their currencies to the US dollar for a decade or so. With good investment potential built up by past economic success, foreign capital inflows accelerated, especially since the capital accounts were liberalized. To keep the local currencies from appreciating and to curb inflation, much of the foreign capital inflow was sterilized. The sterilization led to an increase in the gap between domestic interest rates and international market rates, which, coupled with a fixed exchange rate system, further encouraged foreign capital to flow into the countries. Clearly, massive capital inflows increased the level of investment. But the institutional capacities in the financial sectors of these countries were not robust enough to manage these inflows effectively. In essence, these countries lacked the capability to allocate capital resources efficiently through a mechanism that would penalize excessively risky behavior while rewarding productive use of capital. Poor corporate governance due to lack of transparency as well as inadequate accounting and auditing standards also contributed to the emergence of such overly risky behavior. Short-term external loans were often used for financing projects with long gestation periods. This led to a mismatch in maturities of financial instruments. Part of the foreign capital inflows were also invested in real estate and other non-traded sectors which are prone to speculation. Such risky behavior in the asset markets created bubbles that had to burst eventually. Thus, in contrast to the earlier Latin American crises, the Asian crisis was mostly a private sector phenomenon.

To make the situation worse, a self-reinforcing vicious circle developed between currency and asset market declines and banking and corporate failures. The falling currency drastically increased the local currency equivalent of the foreign debt owed by local enterprises, which in turn exacerbated the currency decline. The fall of asset market prices decreased the capital of the banks which held the assets, and increased the level of non-performing loans to the corporate sector which used assets as collateral. The vicious circle contributed to the drastic depreciation of currencies and a large number of banking and corporate bankruptcies.

For all intents and purposes, the Asian financial crisis put a halt to the steady capital accumulation in Southeast Asia and South Korea for at least some time. I have suggested here that the standard neoclassical orthodox explanations really do not explain the specificities of the crisis. The “structuralist” explanations do somewhat better. But we are still left with the puzzle of how quickly these “sound” economies succumbed to the crises. It is also remarkable that both the post-Keynesian and the structuralist views do not have any sharp predictions regarding how adversely long-run capital accumulation prospects are affected during financial crises. The neoclassical steady state prediction ignores the path-dependent nature of accumulation and technological change entirely.. An alternative theoretical approach which is consistent with the “structuralist” position but has a greater reach is called for. An attempt to do this at least partially will be made throughout this book at both the macro and sectoral levels as well as at the microeconomic level of corporate governance. But first we need to see how sweeping the crises really were. For driving this point home, three of the most important affected economics have been selected. The next three chapters look at the proximate causes of the unfolding crises during 1997-1998. First we look at Thailand, where the crisis started in July 1997 as a currency crisis. Next we study the case of Indonesia which suffered much greater turmoil – both economic and political – than any pundits had predicted in early 1997. Finally, we investigate the important (and also tragic) developments in South Korea. Initially, it appeared that all three were sudden and unexpected victims. But was it really to be so unexpected? An even better way to pose the question is perhaps to ask: Why were these crises so unexpected? What caused the blindless and what caused the insights to be shallower than they needed to be after the initial blindness was cured? The next three chapters will gradually lead us to these and other relevant questions.

It should be mentioned here that I do subscribe to the view that the Asian Crisis was a new-fangled type in so far as it was the capital account that was the immediate locus of the problems. However, to call it a “capital account crisis” is not to offer an explanation, and certainly not a deep causal explanation. Therefore, to me this characterization can only be a beginning of any sustained inquiry into the causes and consequences of the crisis. Both the explorations in financial economic theory and the political economic analysis developed later will be used to substantiate this claim.

A note about the two appendices that follow this chapter and the appendix to chapter 3 that describes the structural CGE model may be helpful here at the outset. Appendix 1.1 gives some basic statistical information about the affected Asian economies. The particular chapters will give only minimum relevant information so as not to distract the reader from following the causal patterns of the events described. Therefore, supplementary information given in Appendix 1.1 and in the appendices to the three-country chapters can be used to elaborate on some of the statistical aspects mentioned in these chapters. In an analogous way, appendix 1.2 offers a detailed chronology of events in 1997 as the crisis unfolded. It covers all the affected countries (and also some not directly affected), and gives a journalistic blow-by-blow account of the events. For the interested reader, this can provide additional details that have been omitted from the country chapters. Finally, the `structural’ computable general equilibrium model in the appendix to chapter 3 is applicable not only to Indonesia but to all other countries as well. My intention here has been to show that the marriage between formal modeling based on modern economic theory and classical and modern `ordinary language’ political economy approaches need not end in an acrimonious divorce. Rather, like yin and yang, the two approaches can combine to produce a genuinely dialectical motion picture of a complex reality that is constantly changing.

Finally, the “complexity” approach developed later in this book as an overall framework to study needs to be mentioned briefly here. The premise on which the theory presented here is based is simply that global, regional and national financial structures are complex. Intuitively, this means that characterizations of financial markets by analogy with other simple markets such as apples or oranges are inaccurate. More formally, complexity is associated with nonlinear structures, asymmetric information, different types of risk, fundamental uncertainties and bounded rationality of economic agents. In general, such an approach leads to a world of multiple equilibria and instabilities. It is the task of this book to examine these equilibria and instabilities carefully and suggest some theoretical and practical answers to the problems of studying and containing financial crises.

Appendix 1.1: Economic and Financial Conditions in Asian Countries

Panel A: Per Capita Income and Recent GDP Growth Rates

	1995 Per Capita (US$)	GDP Growth Rates (% per year)					
		1991	1992	1993	1994	1995	1996
Indonesia	980	7.6	7.0	4.1	4.0	7.6	6.0
Malaysia	3,890	8.7	8.0	9.0	9.1	10.1	8.8
Philippines	1,050	-0.6	0.3	2.1	4.4	4.4	5.5
Singapore	26,730	7.3	6.2	10.4	10.5	8.8	7.0
Thailand	2,740	8.5	8.1	8.3	8.9	8.7	6.7

Panel B: Gross National Savings Rates (as % of GNP)

	1991	1992	1993	1994	1995	1996
Indonesia	30.4	32.3	32.8	31.9	31.4	33.7
Malaysia	29.9	34.1	35.3	35.5	36.4	38.8
Philippines	18.2	19.4	18.1	19.0	19.0	20.5
Singapore	45.8	46.5	45.9	49.2	49.9	49.7
Thailand	35.4	34.5	34.2	35.2	35.0	35.3

Panel C: Change in Consumer Prices (% per year)

	1991	1992	1993	1994	1995	1996
Indonesia	9.4	7.6	9.6	8.5	9.4	7.9
Malaysia	4.4	4.7	3.6	3.7	3.4	3.5
Philippines	18.7	8.9	7.6	9.0	8.1	8.4
Singapore	3.4	2.3	2.3	3.1	1.7	1.4
Thailand	5.7	4.1	3.4	5.1	5.8	5.9

Panel D: Current Account Balances (as % of GNP)

	1991	1992	1993	1994	1995	1996
Indonesia	-3.5	-2.1	-1.4	-1.6	-3.6	-4.1
Malaysia	-9.2	-3.9	-4.6	-6.0	-9.0	-6.3
Philippines	-2.2	-1.8	-5.5	-4.5	-3.3	-4.1
Singapore	11.1	11.1	7.3	15.9	17.6	15.3
Thailand	-7.8	-5.8	-5.2	-5.8	-8.3	-8.1

Panel E: Central Government Budget Surpluses (as % of GNP)

	1991	1992	1993	1994	1995	1996
Indonesia	-0.7	-0.4	-0.4	0.2	-0.2	-
Malaysia	-2.0	-0.8	0.2	2.3	0.9	0.6
Philippines	-2.1	-1.2	-1.5	1.0	0.6	0.3
Singapore	4.7	5.4	4.6	3.4	7.4	5.4
Thailand	4.3	2.6	1.9	2.7	3.0	0.9

Source: ADB (1997).

Appendix 1.1 – Table 2
Product Structure of Developing Countries' Merchandise Exports, 1973-95

(Percent based on value figures)

	1973	1980	1985	1990	1995
Agricultural products	30	15	17	14	14
Mining products	47	65	47	34	22
-Fuels	39	61	43	29	19
Manufacturers	22	19	34	50	62

Source: World Trade Organization.

Appendix 1.1 – Table 3
Exports Classified by Sectors

	1990	1991	1992	1993	1994	1995	1996
Indonesia							
Agricultural products	4.15	4.46	5.00	5.15	6.38	7.88	9.67
Mining products	17.62	17.46	17.09	16.54	16.44	16.63	16.89
Manufactures	78.23	78.08	77.91	78.31	77.19	75.50	73.44
Thailand							
Agricultural products	28.67	27.02	26.17	21.99	21.11	19.35	19.84
Mining products	6.62	6.13	5.92	5.37	5.74	6.47	7.41
Manufactures	64.72	66.85	67.90	72.64	73.15	74.18	72.75
Malaysia							
Agricultural products	4.38	404	3.77	3.43	2.98	2.65	2.70
Mining products	39.86	33.89	30.23	25.32	21.63	20.33	19.37
Manufactures	55.77	62.07	66.00	71.25	75.39	77.02	77.93
Philippines							
Agricultural products	13.84	14.86	12.07	12.07	10.22	7.92	7.02
Mining products	13.52	11.36	12.47	8.68	8.28	9.39	6.73
Manufactures	72.64	73.78	75.46	79.25	81.50	82.70	86.24
Korea							
Agricultural products	3.32	3.16	2.87	2.59	2.50	2.24	2.25
Mining products	2.60	3.48	3.68	3.67	3.32	3.42	4.28
Manufactures	94.08	93.36	93.45	93.74	94.19	94.33	93.47
Singapore							
Agricultural products	4.33	4.78	4.80	4.44	4.07	3.48	3.30
Mining products	22.03	20.23	16.00	14.53	11.43	10.14	10.91
Manufactures	73.64	74.98	79.21	81.04	84.50	86.38	85.78
ASEAN-4							
Agricultural products	24.95	23.66	23.02	19.40	18.55	17.07	17.40
Mining products	10.84	9.61	8.92	7.90	7.86	8.31	9.05
Manufactures	64.21	66.73	68.06	72.70	73.59	74.62	73.54

Source: Key Economic indicators, Asian Development Bank, 1997.

Appendix Table 1.1 – Table 4
Intra-Regional Exports of East Asian Countries

(% of each country's total exports to the world)

	1990	1991	1992	1993	1994	1995	1996
Thailand	37	39	40	43	47	48	49
Indonesia	69	65	61	59	55	56	51
Malaysia	56	57	55	54	52	52	56
Philippines	38	38	34	35	34	40	43
Singapore	44	46	43	47	49	52	52
Japan	30	32	33	36	38	42	51
Korea	35	37	40	42	44	46	42

Source: Direction of Trade, International Monetary Fund, 1997.

Appendix Table 1.1 – Table 5
Inter-Regional Exports of Selected East Asian Countries

	1990	1991	1992	1993	1994	1995	1996
East Asian	39	42	43	43	46	48	49
USA	27	25	25	24	25	23	23
EU	19	19	18	16	15	15	15

Appendix Table 1.1 – Table 6
Intra-Regional Imports of East Asian Countries

	1990	1991	1992	1993	1994	1995	1996
Thailand	55	54	56	50	55	55	52
Indonesia	48	49	47	47	50	49	48
Malaysia	55	59	60	60	58	58	58
Philippines	43	47	45	47	53	50	45
Singapore	51	53	53	53	56	58	54
Japan	27	29	30	32	33	34	35
Korea	36	40	39	40	40	39	35

Source: Direction of Trade, International Monetary Fund, 1997.

Appendix Table 1.1 – Table 7
Inter-Regional Imports of Selected East Asian Countries*

	1990	1991	1992	1993	1994	1995	1996
East Asian	41	47	49	49	50	51	49
USA	16	16	15	15	14	14	14
EU	13	12	12	12	13	13	13

*Japan, Korea, Thailand, Indonesia, Malaysia, Philippines, and Singapore.

Source: Direction of Trade, International Monetary Fund, 1997.

Appendix Table 1.1 – Table 8
Current Account Deficits of Selected East Asian Countries

(% of GDP)

	Singapore	Korea	Japan	Thailand	Malaysia	Indonesia	Philippines
1987	-0.8	7.4	3.6	-0.7	8.1	-2.8	-1.3
1988	7.3	8.0	2.7	-2.7	5.4	-1.7	-1.0
1989	9.6	2.4	2.0	-3.5	0.8	-1.2	-3.4
1990	8.3	-0.07	1.2	-8.5	-2.0	-2.8	-6.1
1991	11.2	-2.8	2.0	-7.7	-8.9	-3.7	-2.3
1992	11.3	-1.3	3.0	-5.7	-3.8	-2.2	-1.9
1993	7.2	0.3	3.1	-5.1	-4.8	-1.3	-5.5
1994	15.9	-1.0	2.8	-5.6	-7.8	-1.6	-4.6
1995	16.8	-2.0	2.2	-7.9	-10.0	-3.3	-4.4
1996	15.7	-4.9	1.4	-7.9	-4.9	-3.3	-4.7
1997	15.2	-2.0	2.2	-2.2	-4.8	-2.6	-5.4
1998	14.3	5.5	3.0	3.9	-0.5	1.9	-3.2
1999	14.4	4.9	2.9	2.2	-1.9	0.5	-2.9

Source: International Financial Statistics, International Monetary Fund, 1997.

Appendix Table 1.1 – Table 9
External Debt Outstanding (Billions of US$)

	1990	1991	1992	1993	1994	1995	1996
ASEAN-4							
External debt	144.3	166.1	180.9	194.1	221.8	257.0	274.5
Short-term debt	25.7	33.8	41.7	49.6	58.2	69.8	80.4
(% of total debt)	17.8	20.3	23.0	25.6	26.2	27.2	29.3
Long-term debt	118.6	132.3	139.2	144.5	163.6	187.2	194.1
(% of total debt)	82.2	79.7	77.0	74.4	73.8	72.8	70.7
Indonesia							
External debt	69.8	79.9	88.3	89.6	96.6	116.3	118.1
(% of GDP)	65.9	68.4	69.0	56.6	54.6	53.3	52.0
Short-term debt	11.1	14.3	18.1	18.0	17.1	24.3	29.3
(% of total debt)	15.9	17.9	20.5	20.1	17.7	20.9	24.8
Long-term debt	58.7	65.6	70.2	71.6	79.5	92.0	88.8
(% of total debt)	84.1	82.1	79.5	79.9	82.3	79.1	75.2
Debt-service ratio	30.9	32.0	31.6	33.8	30.0	33.7	33.0
Malaysia							
External debt	16.0	18.1	19.8	23.2	24.8	33.2	31.6
(% of GDP)	37.6	37.9	34.6	37.1	37.5	40.3	38.1
Short-term debt	1.9	2.1	3.6	6.9	6.2	7.3	7.5
(% of total debt)	11.9	11.6	18.2	29.8	25.0	22.0	23.7
Long-term debt	14.1	16.0	16.2	16.3	18.6	25.9	24.1
(% of total debt)	88.1	88.4	81.8	70.2	75.0	78.0	76.3
Debt-service ratio	10.3	7.7	6.6	7.7	7.7	6.1	6.0
Philippines							
External debt	30.3	32.2	33.3	35.7	39.3	39.5	45.7
(% of GDP)	69.1	71.5	62.3	66.1	61.3	53.2	56.0
Short-term debt	4.4	4.9	5.3	5.0	5.7	6.0	6.3
(% of total debt)	14.5	15.2	15.9	14.0	14.5	15.2	13.8
Long-term debt	25.9	27.3	28.0	30.7	33.6	33.5	39.4
(% of total debt)	85.5	84.8	84.1	86.0	85.5	84.8	86.2
Debt-service ratio	27.0	23.0	24.4	25.5	18.5	15.1	15.4
Thailand							
External debt	28.1	35.9	39.5	45.7	61.1	68.1	79.0
(% of GDP)	32.9	36.4	35.5	41.7	45.3	47.0	49.9
Short-term debt	8.3	12.5	14.7	19.7	29.2	32.2	37.3
(% of total debt)	29.5	34.8	37.2	43.1	47.8	47.3	47.2
Long-term debt	19.8	23.4	24.8	26.0	31.9	35.9	41.7
(% of total debt)	70.5	65.2	62.8	56.9	52.2	52.7	52.8
Debt-service ratio	16.9	13.0	13.7	18.5	15.6	11.7	14.5

Sources: International Financial Statistics, 1997; World Debt Tables, 1996.

Appendix Table 1.1 – Table 10
Net Capital Flows (% of GDP)

	1983-88	1989-95	1991	1992	1993	1994	1995	1996	1997
China									
Net private capital flows	1.2	2.5	1.7	-0.9	4.5	5.6	5.2	4.7	3.7
Net direct investment	0.4	2.9	0.9	1.7	5.3	5.9	4.8	4.6	4.3
Net portfolio investment	0.2	0.2	0.1	-	0.7	0.7	0.1	0.3	0.2
Other net investment	0.5	-0.6	0.7	-2.6	-1.5	-0.9	0.2	-0.3	-0.8
Net official flows	0.3	0.5	0.3	0.8	0.9	0.4	0.3	0.2	-0.1
Change in reserves	-0.4	-2.2	-3.7	0.5	-0.4	-5.6	-3.2	-4.0	-4.5
Indonesia									
Net private capital flows	1.5	4.2	4.6	2.5	3.1	3.9	6.2	6.3	1.6
Net direct investment	0.4	1.3	1.2	1.2	1.2	1.4	2.3	2.8	2.0
Net portfolio investment	0.1	0.4	-	-	1.1	0.6	0.7	0.8	-0.4
Other net investment	1.0	2.6	3.5	1.4	0.7	1.9	3.1	2.7	0.1
Net official flows	2.4	0.8	1.1	1.1	0.9	0.1	-0.2	-0.7	1.0
Change in reserves	-	-1.4	-2.4	-3.0	-1.3	0.4	-0.7	-2.3	1.8
Malaysia									
Net private capital flows	3.1	8.8	11.2	15.1	17.4	1.5	8.8	9.6	4.7
Net direct investment	2.3	6.5	8.3	8.9	7.8	5.7	4.8	5.1	5.3
Net portfolio investment	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other net investment	0.8	2.3	2.9	6.2	9.7	-4.2	4.1	4.5	-0.6
Net official flows	0.3	-	0.4	-0.1	-0.6	0.2	-0.1	-0.1	-0.1
Change in reserves	-1.8	-4.7	-2.6	-11.3	-17.7	4.3	2.0	-2.5	3.6
Philippines									
Net private capital flows	-2.0	2.7	1.6	2.0	2.6	5.0	4.6	9.8	0.5
Net direct investment	0.7	1.6	1.2	1.3	1.6	2.0	1.8	1.6	1.4
Net portfolio investment	-	0.2	0.3	0.1	-0.1	0.4	0.3	-0.2	-5.3
Other net investment	-2.7	0.9	0.2	0.6	1.1	2.5	2.4	8.5	4.5
Net official flows	2.4	2.0	3.3	1.9	2.3	0.8	1.4	0.2	0.8
Change in reserves	0.5	-1.1	-2.3	-1.5	-1.1	-1.9	-0.9	-4.8	2.1
Thailand									
Net private capital flows	3.1	10.2	10.7	8.7	8.4	8.6	12.7	9.3	-10.9
Net direct investment	0.8	1.5	1.5	1.4	1.1	0.7	0.7	0.9	1.3
Net portfolio investment	0.7	1.3	-	0.5	3.2	0.9	1.9	0.6	0.4
Other net investment	1.5	7.4	9.2	6.8	4.1	7.0	10.0	7.7	-12.6
Net official flows	0.7	-	1.1	0.1	0.2	0.1	0.7	0.7	4.9
Change in reserves	-1.4	-4.1	-4.3	-2.8	-3.2	-3.0	-4.4	-1.2	9.7

Source: World Economic Outlook, December 1997.

Appendix 1.2: A Chronology of the Onset of the Crisis in 1997[4]

January, 1997	-	Hanbo Steel, a large Korean chaebol, collapses under $6bn in debts - first bankruptcy of a leading Korean conglomerate in a decade.
February 5, 1997	-	Somprasong is first Thai Company to miss payments on foreign debt.
March 10	-	The Thai government says it will buy $3.9bn in bad property debt from financial institutions but reneges on this promise. IMF Managing Director Michel Camdessus says: "I don't see and reason for this crisis to develop further".
March 28	-	The Malaysian central bank restricts loans to property and stocks to head off a crisis.
March	-	Sammi Steel, a Korean conglomerate, fails provoking fears of a looming corporate debt crisis.
Early May, 1997	-	Japanese officials, concerned about the decline of the yen, hinted that they might raise interest rates. The threat never materialized. But it proved to be one of the first signs of the Asian crisis. The Japanese threat shifted the decisions of global investors, who immediately began to sell Southeast Asian currencies, setting off a tumble not only in the currencies but in the local stock markets as well.
May 14-15, 1997	-	Thailand's currency is hit by a massive attack by speculators who decided Thailand's slowing economy and political instability meant it was time to sell. Thailand and Singapore jointly intervene to defend the baht.
	-	*The Philippines is affected. The central bank raises the* overnight rate 1-3/4 percentage points to 13 percent and dumps dollars.
May 23	-	Moves to save Finance One, Thailand's largest finance company, fail.
June 19	-	Amnuay Viravan, staunchly against devaluing the baht, resigns as Thailand's finance minister. The PM Chavalit Yongchaiyudh says: "We will never devalue the baht".
	-	*Philippines, the overnight rate rises to 15 percent.*
June 27	-	The Thai central bank suspends operations of 16 cash-strapped finance companies and orders them to submit to merger or consolidation plans.
June 30	-	Thai Prime Minister Chavalit Yonchaiyudh assures the nation in a televised address there will be no devaluation of the baht.
July	-	Korea's third largest car maker Kia suffers credit crunch and asks for emergency loans.
July 2	-	The Bank of Thailand announces a managed float of the baht and calls on the International Monetary Fund for "technical assistance." The announcement effectively devalues the baht by about 15-20 percent. It ends at a record low of 28.80 to the dollar. This is the trigger for the East Asian crisis.
	-	In Manila, the Philippines central bank is forced to intervene heavily to defend the peso.
July 3	-	The Philippine central bank raises the overnight lending rate to 24 percent from 15 percent.
July 8	-	Malaysia's central bank Bank Negara has to intervene aggressively to defend the ringgit.
July 11	-	The Philippine central bank says in a statement it will allow the peso to move in a wider range against the dollar. The IMF backs the move and Managing Director Camdessus says he would recommend the IMF

[4] This chronology is based on newspaper sources from Asia and abroad and the information at N. Rubini's website at New York University.

		board approve the Philippines' request for an extension of its Extended Fund Facility (EFF).
	-	*In Indonesia, the rupiah is starting to be affected. In a* surprise move, Jakarta widens its rupiah trading band to 12 from eight percent.
July 14	-	The IMF offers the Philippines almost $1.1 billion in financial support under fast-track regulations drawn up after the 1995 Mexican crisis. The Malaysian central bank abandons the defense of the ringgit.
July 17	-	The Singapore monetary authority allows the depreciation of the S$. It falls to *lowest* level since February 1995.
July 26	-	Malaysian PM Mahathir names hedge fund manager George Soros as the man responsible for the attack on the ringgit.
July 28	-	Thailand calls in the IMF.
Aug. 5	-	Thailand unveils austerity plan and complete revamp of finance sector as part of IMF suggested policies for a rescue package. Central bank suspends 48 finance firms.
Aug. 11	-	The IMF unveils in Tokyo a rescue package for Thailand including loans totaling $16 billion from the IMF and Asian nations.
Aug. 13	-	The Indonesian rupiah begins to come under severe pressure. It hits a historic low of 2,682 to the dollar before ending at 2,655. The central bank actively intervenes in its defense.
Aug. 14	-	Indonesia abolishes its system of managing the exchange rate through the use of a band and allows it to float. The rupiah plunges to 2,755. Bank Indonesia tries mopping up liquidity with high interest rates.
Aug 15	-	Speculators attack Hong Kong dollar; overnight interest rates up 150 basis points from previous day to 8%. Stock market sharply lower.
Aug. 16	-	An unnamed Beijing source tells a local Hong Kong newspaper that China is prepared to use US$50 billion to defend the Hong Kong dollar.
Aug. 20	-	IMF approves a $3.9 billion credit for Thailand. The package now totals $16.7 billion. Brunei later adds $500 to million the bailout package, bringing it to a total of $17.2 billion.
Sept. 4	-	Carnage in the Philippine peso continues. It falls to a record low of 32.43 to the dollar before central bank intervention helps it up slightly to end at 32.38.
	-	Malaysian Ringgit breaks through 3.0000 to the dollar barrier. Mahathir delays several multi-billion dollar construction projects.
Sept. 16	-	Indonesia says it will postpone projects worth 39 trillion rupiah in an attempt to slash the budget shortfall.
Sept. 20	-	*Mahathir* tells delegates to the IMF/World Bank annual conference in Hong Kong that currency trading is immoral and should be stopped.
Sept. 21	-	Soros says "Dr. Mahathir is a menace to his own country."
Oct. 6	-	The Indonesian rupiah hits a low of 3,845.
Oct. 8	-	Indonesia says it will ask the IMF for financial assistance.
Oct. 14	-	Vietnam, bowing to months of pressure on its currency, doubles the permitted trading range to 10 percent either side of the daily official rate.
	-	Devaluation of the Taiwan dollar.
Oct. 17 Friday	-	Malaysia presents a belt-tightening budget to try to stop the economy sliding into recession.
Oct. 20-23		
Monday-Thursday	-	The Hong Kong stock market suffers its heaviest drubbing ever, shedding nearly a quarter of its value in four days on fears over interest rates and pressures on the Hong Kong dollar. The fall, more severe than the 1987 crash, forces the Hang Seng index 23.34 percent down to 10,426.30 at Thursday's close, after 13,601.01 the previous Friday.

- *The* devaluation of the Taiwan dollar the previous week, the latest in a string of Southeast Asian currency devaluations, created doubt about Hong Kong changing its long-standing peg to the U.S. dollar." I think the biggest thing to scare Hong Kong was the devaluation in Taiwan," said John Bender, vice president at HSBC James Capel. "[Taiwan] is a country with substantial foreign exchange reserves." In short, Taiwan is a lot like Hong Kong and Taiwan was unable to keep up the link.

Oct. 27 - After regaining 718 points on Oct. 24, the Hang Seng loses another 646.14 points or 5.80 percent to 10,498.20. The loss ripples through global markets. On Wall Street, the Dow Jones industrial average posts its single-biggest point loss ever, falling 554.26 points or 7.18 percent to 7,161.15. The Nasdaq plunges 115.43 points and the S&P 500 index tumbles 64.65 points. The decline is so steep it prompts stock exchange officials to suspend trading. Stock markets throughout Latin America suffered record losses Monday as Asia's markets crisis rippled to other vulnerable emerging markets and investors frantically sold their holdings. Stock prices in Brazil, Argentina and Mexico saw their biggest single-day loss.

Oct 30 - Speculators scenting a fresh kill outside Asia's wounded financial markets took aim at Latin American stocks and currencies on Thursday, causing heavy losses in Brazil and Argentina. Fears about the value of Brazil's currency and a liquidity crunch in its banking system quickly spread to neighboring Argentina and also infected Mexico's volatile markets -- sending prices to their lowest levels in months.

Oct. 31 - IMF gives Indonesia $23 billion financial support package. The International Monetary Fund announces a $23 billion multilateral financial package involving the World Bank and Asian Development Bank to help Indonesia stabilize its financial system. The United States is willing to lend about $3 billion to Indonesia to back up the loan from the International Monetary Fund to help Indonesia stabilize its financial system.

- *Concerns over the fate of world financial markets* dominate U.S. stocks in a week that saw both record losses and record gains posted in record volumes of trading. After several wide gyrations, stocks closed on a positive note Friday, but ended the week well below where they were a week ago. The Dow Jones industrial average gained 60.41 points to close at 7,442.08, some 273.33 points down from last' Friday's closing level of 7,715.41.

- The market started the day with a boost from a 2.5 percent gain in Hong Kong overnight. The blue-chip Hang Seng index, whose swings had been at the heart of world markets' recent troubles, rose 260.92 to close at 10,623.78. It was followed by markets in Tokyo, where the Nikkei 225 index was up 94 at 16,458.94, and Singapore, where the Straits Times industrials index gained 44.68, or 2.9 percent, to 1,586.07.

- Brazilian shares rose Friday after the nation's central back nearly doubled interest rates to fight off currency speculators. In early trading, the Sao Paulo exchange's benchmark Bovespa index gained 57 to 8912. Brazil's Central Bank raised its basic interest rate late Thursday to 3.05 percent monthly from 1.58 percent. The government was pushed into the move as speculators began an attack on the country's currency, the real, sensing that it would suffer the same fate as Asian currencies driven ever downward. A presidential spokesman said that the Central Bank already had spent $5 billion in defending the currency.

Nov 3 - Asian stock markets rallied on Monday as a financial aid package for Indonesia helped restore calm to the region, enabling investors there to refocus on their domestic markets and helping European markets to get off to a good start. On Monday, Hong Kong saw some of the most dramatic gains, with the Hang Seng index rising 2.62 percent at the opening before zooming ahead amid fresh interest in China related shares. The Dow Jones Industrial Average soared 3.12 percent, or 232.31 points, on Monday to 7,674.40 spurred on by advances in Asian markets.

Nov 4 - Asian stock markets got an early boost on Tuesday from Wall Street's powerful rally, but a big retreat in Hong Kong spilled over to other markets in the region, erasing many of the early gains. The recent gains in Asia reflected optimism some calm may be returning to the region after Indonesia agreed on a financial aid package with the International Monetary Fund (IMF). But many traders remained wary about whether the gains could be sustained.

Nov 6 - The Bank of Korea once again intervened Thursday in an attempt to halt the local currency's slide versus the dollar. The dollar was quoted at 973.65 won. Traders said the dollar rise versus the won reflected the U.S. currency's strength versus the yen. 'The dollar's sharp rise against the Japanese yen in global trade boosted the U.S. currency against the won in Korea,' said a dealer at Seoul Bank. In addition, dealers said sentiment about South Korea was negative, based on media reports in the Western press stating that South Korea's economic crisis was set to get worse. International Monetary Fund Managing Director Michel Camdessus said Thursday the fund's multi-billion dollar financial support package for Indonesia should break a vicious cycle of economic destabilization in Asia.

- Camdessus said that although South Korea was affected by the crises in Thailand and in Indonesia, the measures the South Korean government had taken seemed adequate so far. Despite continuing turmoil on South Korea's financial markets, Camdessus believed the country would be spared the sort of financial crisis which hit Indonesia. 'I don't believe that the situation in South Korea is as alarming as the one in Indonesia a couple of weeks ago.' We are following (the South Korea situation) very attentively and with an attitude of confidence,' he said.

- However, the IMF is gloomier on the outlook for Thailand, confident the IMF's $17.2-billion assistance will work, but only once the country's political instability is over. Thursday, rival political parties racing to form Thailand's new government said they had gathered enough Parliament seats to form the country's next government, lending a farcical air to the proceedings. The opposition Democrat Party led by former Prime Minister Chuan Leekpai said its government would consist of seven parties encompassing 196 members of Parliament, making it one parliamentary seat short of a majority. However, the ruling coalition of Prime Minister Chavalit Yongchaiyudh announced it would form the next government with a coalition consisting of 198 members of Parliament.

- Brazilian shares dropped 3.74 percent to 9,615 points in early trade as investors dumped equities on continuing uncertainty in the local financial markets after two weeks of global turmoil, traders said. After the shakeup in worldwide markets the last few weeks, business leaders' biggest concern was that a collapse of the Brazilian currency would devastate the economy and drag all of Latin America into a prolonged recession like that which followed the 1994 Mexican peso debacle. Brazil's central bank nearly doubled interest rates in October in an attempt to fight off currency speculators. Shares on the nation's stock exchange initially rose after the hike, but now seem to be running scared.

Nov 7

- Asia stocks nosedived on Friday as currency jitters shook South Korea and high interest rates and falling property prices rattled Hong Kong. Hong Kong stocks fell four percent and plunged through the 10,000-point barrier, before recovering slightly. The Hang Seng Index finished down 2.96 percent, or 308.06 points, at 10,104.50. "However good the monetary authorities in Hong Kong are at defending the (Hong Kong/dollar) peg, interest rates will stay high here because of the problems in Korea, Thailand and Indonesia," a banker said.
- Heavy losses in Asia and the U.S. extended to Latin American markets on Friday, where investors in Brazil and Mexico ran scared from the global turmoil. Brazilian shares closed down 6.38 percent, off earlier lows but still sharply weaker as players shed positions on drops in global equities and spill-over from wobbly Asian financial markets, brokers said. The mood was further darkened by renewed concerns that Brazil's real may be the next emerging market currency to come under speculative attack as a result of its looming budget and current account deficits. The Mexican bourse took its cue from the shaky Brazil market and also posted sharp losses. The leading share IPC index ended down 115.72 points, or 2.42 percent, at 4,664.49 points. The story was continued in Argentina, where stocks swooned in sympathy with an international market sell-off. The blue-chip MerVal index fell 5.1 percent to 651.18, wiping out gains mustered earlier in the week. Finally, Venezuela was also hit by the global losses, as the key Bursatil index dropped 319.92 points to close at 9,211.41

Nov 8

- Market prices fell sharply for a second day Saturday as foreign investors pulled out, fearing South Korea faced an economic crisis on the scale of Southeast Asia's. The government blamed the drop on "speculative foreign press reports." The benchmark Korea Composite Stock Price Index fell 19.93 points, or 3.9%, to end Saturday's half-day trading at 495.70. On Friday, the index plunged a record 6.9% to 515.63. Declining issues outnumbered advancers 684 to 157. A total of 196 shares fell to daily permissible lows. In South Korea, the price of a stock is allowed to rise or fall no more than 8% a day. Continuing worries over the falling value of South Korea's currency, the won, led foreign investors to sell $71 million of shares in the half-day trading, the exchange said. They bought only $6.4 million. The currency has lost 14% of its value this year to reach an all-time low of 979.90 against the dollar Friday. On Saturday, the government protested recent foreign press reports that have suggested the country's financial turmoil may surpass the recent market meltdowns in Thailand, Indonesia and the

Philippines. Officials at the Finance and Economy Ministry suggested that panic triggered by "sheer speculative foreign press articles" was driving foreign investors out. Those reports -- carried in major international publications -- have also indicated South Korea's foreign reserves were dwindling and that the country may also need such assistance from the International Monetary Fund. IMF head Michel Camdessus rejected that assessment Thursday, but said the IMF was ready to help if needed. The fund so far this year has organized multibillion-dollar bailout programs for Thailand and Indonesia and $1 billion in aid for the Philippines. South Korea's woes began when its trade deficit ballooned beginning last year and the value of its currency slipped. Then, Southeast Asian market shock waves reached the country. That came at a time the market was saddled with billions of dollars of bad loans in the wake of a series of major bankruptcies. International ratings agencies have downgraded South Korea's foreign debt -- estimated at more than $100 billion, about 80% of which is said to be short-term. Interest rates soared. The stock market plummeted 28% this year to reach a five-year low at the end of October. The central Bank of Korea repeatedly intervened and defended the won by selling dollars from its estimated $30.05 billion foreign currency reserves. It hasn't revealed how much it spent. Despite such efforts, the markets started falling again Thursday. Jitters were renewed when two more South Korean conglomerates were declared in financial trouble in the past week, analysts said.

- International investors are dismissing South Korea's claims that its financial system is sound -- and hastening the system's deterioration in the process. The latest market action highlights a shift in focus by increasingly risk-averse global investors, who are turning their attention to South Korea's financial position, and becoming frightened by what they see. It also raises the specter of a new round of North Asian financial turmoil that could be even more violent than the Southeast Asian crisis still raging. South Korea is the world's 11th-largest economy larger than Thailand, Indonesia and Malaysia put together -- and the prospect of a financial crisis has put everyone from Japanese exporters to investors in Latin American debt on edge. "We are convinced that the buildup of selling pressures on the Korean won will explode in the immediate term," Daniel Lian, head of Asian research at ANZ Investment Bank, told clients in a weekend fax. "We foresee a 20% instant devaluation if the managed regime were to turn floating."
- And it wasn't just Korean debt that fell on worries about the country. Taiwan's stock and currency markets plunged on Friday and Saturday as traders cited fears that a collapse in the won would wipe out Taiwan's competitiveness against South Korea in key industries such as electronics and refining. A weaker won would likely force Japan to weaken the yen against the dollar as well, in order to keep its exports competitive in world markets, currency traders say.

Nov 10 - Turmoil in global financial markets took its toll on Asian stocks again on Monday, but the losses were not as dramatic as in recent sessions as even bearish Hong Kong managed to climb briefly into positive territory before sliding back. Investors remained generally bearish about the region's outlook, citing uncertainties over the near-term trend for regional currencies as one of many factors dampening sentiment. But at least two government leaders tried to inject a note of optimism into the future. Hong Kong Chief Executive Tung Chee-hwa said the territory's financial crisis would be short-lived and reiterated his pledge that the local dollar's peg to the U.S. dollar would not be abandoned. Wall Street's 1.33 percent Friday fall set the tone for Monday's trading in Asia. News that the U.S. unemployment rate had fallen to 4.7 percent in October -- its lowest level in 24 years -- triggered fears of renewed inflation.

- Brazil on Monday unveiled an $18 billion budget belt-tightening plan designed to reassure investors it was prepared to swallow whatever bitter medicine was necessary to defend the economy against attack. The measures, which include a 10 percent hike in income tax, a 15 percent cut in 1998 federal spending and almost 33,000 job losses in the public sector, are Brazil's latest attempt to shore up its defenses against global financial turmoil. Last month, the Central Bank almost doubled prime interest rates to an annualized 43.3 percent to ward off speculative attacks against the real as currency traders turned their attention from Asia to Latin America's economic powerhouse. Brazil is seen as vulnerable to devaluation pressures because of its wide current account deficit, its bleeding public sector accounts and its overvalued real currency. Market reaction to the plan was positive but cautious. At the Sao Paulo stock exchange blue chips retreated from earlier highs to end up 1.96 percent. Bankers described the government plan as aggressive but warned the measures would slow economic growth in 1998, and might even lead to recession. Higher taxes are unlikely to boost Cardoso's popularity as he heads towards October 1998 with re-election in mind. But, having staked his political future on the continuing success of the "Plano Real" economic stabilization plan which brought hyperinflation down to just 10 percent last year, Cardoso has vowed to defend the real currency at all cost.

Nov 11

- Asian stocks ended mixed on Tuesday, although the small pluses and minuses belied the underlying drama in some markets. But it was Hong Kong that garnered much of the attention as wide-spread rumors of financial problems at some banks was met with a well-orchestrated round of assurances from local officials and bank executives that all was well. The Hang Seng Index ended little changed up 0.11 percent, or 11.29 points, at 10,004.13, after swinging between the day's high of 10,251.65 and a low of 9,967.42.
- While already down over 15% this year due to financial instability at home, the South Korean won is expected to suffer more blows as the Japanese yen continues to fall against the dollar, economists say. After opening at 999.90 won to the dollar, the South Korean currency recovered somewhat to 989.8 won/dollar at Tuesday's close, on repeated intervention by the central Bank of Korea (BOK). Although the central bank managed to keep the dollar from rising about 1,000 won, traders and economists say the local currency will soon fall far below that psychologically important level on overwhelmingly bearish sentiment toward

the country's financial industry. And worsening troubles in neighboring Japan only mean more pressure on the local currency, they say. 'A slow gradual depreciation of the won isn't going to be erased quickly but will persist for some time,' says Tim Condon, regional economist at Morgan Stanley Asia Ltd. in Hong Kong. 'If we see a sharp weakening of the yen against the dollar, it would be accompanied by a move in won' versus the dollar. The two largest Asian economies share many of the same exports, including electronics, steel, semiconductors, chemicals and automobiles. Over 50% of Korea's exports compete directly with Japanese products, according to analysts. Hence, the won's moves against the dollar often mirror the yen's trading movements versus the U.S. currency, as local exporters vie to make their products more attractively priced compared with the products of their Japanese rivals. 'Any positive effects of the won's depreciation are effectively cancelled out by the yen's decline versus the dollar,' says Kim Joo-hyung, head of research at LG Economic Research Institute in Seoul. 'If the yen was stable and the won depreciated by around 10%, then the price competitiveness of Korean export products would be greatly enhanced.' Meanwhile, the increasingly shaky banking sector and battered financial markets are undermining a recovery of the won.

-The South Korean won's prolonged decline started to accelerate after Kia Group's financial troubles arose on July 15. Since the eighth-largest conglomerate's troubles surfaced, several more of South Korea's largest conglomerates collapsed or fell into financial turmoil. In total, eight of the country's 30 largest conglomerates went bankrupt or are facing severe financial strains this year. An official at the Ministry of Finance and Economy said Monday, even if the won continues to fall sharply versus the dollar, the government won't alter or abandon its market-average system of currency trade. 'I don't think its possible,' Chin Young-wook, director of international finance at the ministry, told Dow Jones. 'If we abandon our current system, we'd have to freely liberalize the market completely. It's too early to do that in view of our economic status right now and in view of the fact that the won isn't fully convertible now.' Adopted in March 1990, the won is kept in a band of 2.25% above and below a base rate set daily by the central bank. The daily base rate, or the market average rate, is calculated from the weighted average of the previous day's transactions.

- South Korea's Ministry of Finance and Economy said Tuesday it plans to put forth all efforts to stabilize the country's currency against the U.S. dollar by resolving concerns about financial market turmoil. 'The dollar has rapidly risen against the won recently because of bearish sentiment toward the domestic financial market,' said a ministry spokesman. 'So, the government will use all its means to calm such worries.' However, the official declined to disclose what means the government would take to stabilize the current jitters. Local newspapers, meanwhile, said the government may soon announce a package of measures, which includes widening overseas borrowings by state-run corporations and a restructuring in merchant banks.

Nov 12

- Asian stock markets once again felt the scourge of currency and interest rate jitters on Wednesday, resulting in steep declines in Japan and Hong Kong and prompting early morning dips in Europe. In Tokyo, the benchmark Nikkei 225-share index fell to its lowest level in more than two years as the yen slid against the U.S. dollar. The Nikkei finished 2.73 percent, or 433.06 points, lower, at 15,434.17. Interest rate jitters sent the Hang Seng Index down nearly five percent in afternoon trade, dragging other less active Asian markets with it. The Hang Seng recovered slightly to end 3.96 percent, or 396.22 points, lower at 9,607.91.
- Other markets in the region turned in mixed performances. Shares in Kuala Lumpur, Manila, Seoul, Shanghai, Shenzhen, Sydney and Wellington all ended the day lower, while markets in Bangkok and Taipei rose. In Tokyo, the Nikkei Stock Average dropped 2.7%, or 433.06 points, to 15434.17, the lowest close since July 1995. In Hong Kong, economic worries continued to dog the market. "I think the deflation trend in Hong Kong will continue," said Tina So, a fund manager at Schroder Investment Management (HK) Ltd. "Since we cannot adjust our foreign-exchange rate to regain competitiveness, we need to have that adjustment internally through lower wages, lower inflation, and also lower rentals."
- U.S. stocks suffered heavy losses Wednesday on lingering investor concerns about a world financial crisis affecting markets from Hong Kong to Brazil. The Dow Jones industrial average lost more than 155 points, closing at about 7,400. Stocks were hit by heavy selling in the last hour of trading after the Federal Reserve left key interest rates unchanged as had been expected.
- After tripping circuit-breakers that halted trading, Brazilian stocks remained depressed as they resumed trading late afternoon Wednesday. Investors, already worried about a fiscal austerity package unveiled by the government earlier this week, were unnerved by another sharp decline in the Asian stock markets overnight. Trading on the Sao Paulo Stock Exchange was halted in the afternoon when the benchmark Bovespa index fell 10% to 7841 points. Traders said the mood before trading opened Wednesday was pessimistic following Tuesday's 3.3% drop and continued concerns about the economic effect of the fiscal austerity package announced by the Brazilian government Monday.

Nov 13

- World stock markets regained their composure following Wednesday's turbulence that rippled across Asia, Europe and Latin America. Asian stock markets went on a rollercoaster ride on Thursday after a sharp sell-off in New York overnight further unnerved the region. By the close, the volatile Hong Kong market had swung back into positive territory, although the rest of the region failed to shake off the gloom. A firmer yen enabled Tokyo stocks to recover from early lows, although dealers agree the currency remains vulnerable to a strong U.S. dollar and that the stock market is still a hostage to Japan's weak economy. Contributing to the more upbeat mood, International Monetary Fund

Managing Director Michel Camdessus dismissed speculation about a possible banking crisis in Hong Kong, saying, "These are solid institutions. I would be very surprised if a systemic banking crisis was to emerge in Hong Kong." Federal Reserve chief Greenspan said that turmoil in Asian markets is "cause for concern," but it has "fallen short of anything that would have really serious threats" to the U.S. economy. Although Latin American markets had a volatile day, Brazil closed 3.2% higher after a 10.2% drop a day earlier, Mexico gained 1.2% and Argentina rose 1.3%. And the Dow Jones World Stock Index rose 0.98, or 0.62%, to 160.00.

Nov 14 - U.S. stock markets ended the week with flying colors, as Wall Street took its tone from friendly inflation data at home and put financial turmoil in Asia and a growing conflict with Iraq behind for a day. The Dow Jones industrial average gained 84.72 points, or 1.13 percent, to close at 7,572.48. Wall Street once again kept a close watch on Asian markets, where on Friday it was Japan's turn to stage a major sell-off. Tokyo's key Nikkei 225 index lost 344.75 points, or 2.23 percent, to 15,082.52, amid rising concerns about the health of the financial system supporting the world's second-largest economy. The Nikkei 225 is down 753.84 points, or 4.76 percent on the week. But Hong Kong ignored the Japanese market's meltdown as the Hang Seng index rose 236.55 points, or 2.43 percent, to 9,957.33. Faced with a potential financial crisis, South Korea's majority party vowed Friday to pass a reform package it says will clean up debt-ridden banks. The proposed reform -- the first of its kind in half a century -- calls for a major shakeup of the nation's banking industry to encourage foreign investors to return to South Korea. The package would set up a single watchdog agency, under the Finance and Economy Ministry, that would replace three agencies currently overseeing banks, brokerage houses and insurance companies. It also lays a foundation for mergers and acquisitions among the nation's troubled merchant banks.

Nov 17 - There was a sharp recovery in Tokyo's stock market, where the Nikkei 225 index soared 1,200.80, or 7.96 percent, to 16,283.32. Tokyo's rally was due to investor hopes that the Japanese government is taking active steps to help the country's troubled financial sector. The failure on Monday of the Hokkaido Takushoku Bank, the first of Japan's big banks to collapse under the weight of bad loans, is the latest -- and strongest -- sign yet that the Japanese government is prepared to allow market forces to reconfigure the domestic financial landscape. With at least 3 other banks among Japan's 20 largest in no better shape than Hokkaido Takushoku, and many regional banks in worse straits, the once-sacrosanct financial system is being pushed to modernize and consolidate.

- South Korea abandoned its defense of the battered won Monday, sending the currency smashing through the psychological 1,000/dollar level. The sudden weakening of the won sent stocks plunging by more than 4 percent and put renewed pressure on money market interest rates, dealers said. Officials hinted broadly that economic factors had less to do with abandoning the line than political ones. A Bank of Korea official told Reuters the central bank was simply following a decision by the Ministry of Finance and Economy. The Ministry of Finance and Economy has been trying to get 13 financial reform bills passed in parliament before the session ends Tuesday. The bills have stalled over the opposition's unhappiness with two of the bills, which define a new role for the central bank and consolidate supervision of all financial sectors into one agency under the finance ministry. In Moscow, leading Russian shares bucked the general upward trend on European bourses and closed down as fears of further domestic turmoil outweighed positive news from Asia and New York. Bearish sentiment was not helped by news that leading market reformer Anatoly Chubais only narrowly survived dismissal over the weekend. Wall Street nearly recovered from its sharp losses three weeks ago, staging a powerful rally on the back of an overnight surge in Japanese stocks. The Dow Jones industrial average gained more than 120 points to close at about 7,697.

Nov 18

- The failure to Pass Financial Reform Bills in Korea suggests that the IMF will be required to bail out Korea. The failure of the financial reform bills to be passed by the National Assembly in their entirety is a bad sign. It now seems clear that, until the IMF is called in, there will be no flanking policy forthcoming to support the won. The Bank of Korea's retreat yesterday from active intervention to keep the currency stronger than KRW1000: US$ was a recognition of that fact. The rest of the world has made it quite clear that the IMF must lead the way in formulating rescue packages. It is likely that the Korean authorities will request IMF assistance before the presidential elections on December 18. The uncertainty surrounding Korea has, as expected, pressured regional currencies. The uncertainty surrounding Korea has, as expected, pressured all regional currencies. Hardest hit have been the Thai baht (down 3.5% since last Friday), the Philippine peso (2.9%), and the Malaysian ringgit (2.8%). The New Taiwan Dollar has weakened by 1.7%, the Indonesian rupiah by 1.0%, and the Singaporean dollar by 0.5%. These currencies are likely to continue to weaken until Korea requests IMF assistance. There were mixed signals from Asia overnight, with Tokyo posting more solid gains but Hong Kong ending in negative territory. The Nikkei 225 index rose 443.25, or 2.72 percent, to 16,726.57, while the Hang Seng index lost 174.57, or 1.68 percent, to 10,245.18. Fallout from a sell-down on the Malaysian stock exchange and a weaker Singapore dollar gave Singapore shares a knock on Tuesday, dealers said. Malaysia's key Composite Index had lost more than six percent by Tuesday's close, falling 45,20 points to 622.09. The Straits Times Industrials Index followed, losing 9.64 points to 1,689.01 on a combination of concerns about regional economies and selling of the Singapore dollar.
- Brazilian Finance Minister Pedro Malan denied Tuesday that his government is contemplating any financing agreement with the International Monetary Fund to bolster markets hit hard by the global volatility in equities. Despite repeated denials by government officials of such an agreement, the presence of a four-member IMF delegation in Brasilia this week to study a broad fiscal package unveiled last week continues to fuel speculation. The visit has been described as "routine" by government and IMF officials. Mr. Malan also said his interview in Monday's editions of Argentine newspaper La Nacion had been blown out of proportion. He was quoted as saying "an accord with the IMF would be

positive for Brazil," which Brazilian newspapers took as a sign that an agreement was in the works.

Nov 19

- Deputy finance ministers meeting in Manila on Wednesday issued a statement that proposed the formation of a new mechanism that would enhance the International Monetary Fund's role in identifying possible financial crises in Asia and addressing them when they happen. The communique from 12 Asian finance ministries, plus the U.S. and Canada, the IMF, the World Bank, and the Asian Development Bank, said the framework for cooperation would include meetings at least twice a year. It didn't mention specific participants in the new mechanism. By the end of the two-day Manila meeting of deputies, no hard numbers emerged for the possible size of financing arrangements that would always be supplements to the resources put forward by the IMF. On the need to establish a new mechanism for regional surveillance to complement the IMF's global monitoring efforts, the deputies said the move would help identify potential risks to financial stability. Exactly what form a cooperative financing arrangement will take also remains unclear. Several ministers said it would resemble the model used in October's Indonesia bailout, where individual countries pledged money toward a rescue that now totals nearly $40 billion. The pledges were contingent on the country adhering to an IMF program. Furthermore, donors pledged funds that could be tapped by the recipient country if the IMF's contribution runs out. The IMF was also asked by the deputies to come up with a short-term facility, which U.S. Deputy Treasury Secretary Lawrence Summers said is needed because the crises that are being seen now in Asia aren't balance of payments problems, but confidence issues that can't be addressed in the same way as traditional IMF packages. Wednesday's joint communique suggested none of the months of acrimonious debate that followed Japan's efforts, starting in September, to champion a new facility for the region. Many Asian countries were quick to back the original Japan initiative to create a wholly Asian structure, a body that they said would be complete with a permanent secretariat and funding that might amount to US$100 billion. But the IMF objected - along with the U.S. and other Western members of the Group of Seven - to the idea. They said a new pool of money would simply add a target for speculators and create moral hazards, by indicating to countries that they might get aid even if they failed to adopt tough economic reform.
- South Korea's new finance and economy minister said Wednesday he will form an emergency economic presidential advisory committee to tackle the country's current troubles, but he doesn't foresee the country requiring assistance from the IMF. The Korean stock market rallied after the news, regaining some of the dramatic losses from Tuesday. Shares closed up 7.93 points, or 1.6 percent, at 502.59. Finance and Economy Minister Lim Chang-yuel, had taken over South Korea's top economic post just hours before, after having served as minister of trade, industry and energy. He replaced outgoing minister Kang Kyong-shik, who resigned in order to take responsibility for the crisis. Determined to save its economy without turning to the International Monetary Fund, the South Korean government announced Wednesday a sweeping set of financial support measures aimed at stemming the country's deepening financial crisis. Although a step in the right direction,

analysts and economists say the measures are too little too late, as IMF support seems the only way to restore foreign and domestic confidence in the local economy. In Korea, where the policy announcement came after markets closed Wednesday, the foreign-exchange market remained paralyzed. Trading was halted for a third consecutive day only minutes after the market opened when the Korean currency, the won, fell to its daily permissible limit at 1,035.50 won per dollar. The benchmark interest rate, the three-year corporate bond yield, climbed again, to 14% from 13.65%. The new policies include widening the daily trading band for the currency to 10% from 2.25%, opening more of the local bond market to foreign investors and increasing the size of a bank-bailout fund.

- In Japan, the Nikkei 225 average plunged 5.3%, 884.11 points to 15,842.46 -- the biggest point drop this year. Brokers in Japan said weak bank shares were responsible for the overall losses as investors, discouraged by the prime minister's denial that he was considering using public funds to help ailing banks, sold off shares in the sector. The losses grew larger in the afternoon as worried investors sold off shares of banks and brokerages with financial health worries, brokers said. Around Asia, markets tuned in to the developments in Korea and Japan. In Hong Kong, stocks dropped nearly 300 points during morning trading on worries about the won's depreciation and heightened fears of an attack on Hong Kong's own currency, although the market closed the day down slightly less than 1%, partly because of a successful land auction. Shares in Bangkok, Kuala Lumpur, Manila, Singapore, Shanghai, Sydney and Wellington all closed the day lower, while stocks in Taipei rose on a surge in buying of technology shares.
- One large burden now weighing on Asian markets' performance is that Korea's currency turmoil is unlikely to stop at its own borders. If the won depreciates, the yen is likely to depreciate as well, analysts say. "People are saying the yen will go to 150 if the won goes to 1,200 or 1,300," says one Hong Kong-based hedge-fund manager, citing the two countries' linked economies and shared trading partners. "Basically it means the whole currency contagion is not over yet." In that environment, the fund manager says, few investors will be willing to wade into regional stock markets. The further depreciation of the won may also prove to be a final slap in the face for hopes of an Asian export-led recovery. If the won depreciates another 15% to 20%, as many think it may, Korean exports -- for example, in the high-tech sector -- will become much more competitive against those of regional neighbors such as Taiwan, Singapore and Japan. Global deflationary pressures will also increase. Shares dropped 4.3% in Indonesia partly because of concerns about pullbacks in Korean loans to the already cash-starved corporate sector. In Hong Kong, pressure also began to build again on the local currency's peg to the U.S. dollar. The sky-high interest rates the city saw in October have yet to reappear, but many think that another attack

could be likely when attention turns from the won to the last fixed exchange rate in the region's open economies. Although the Hong Kong Monetary Authority chief, Joseph Yam, said he saw no evidence of speculators, the three-month Hong Kong interbank offered rate was quoted at 12.1%, up from 11.3% on Tuesday.

- To understand how the Asian malaise can spread, consider the recent travails of China Steel Corp., Taiwan's largest steelmaker. Shortly after the plant rumbled to life in June, Asia's currencies began their tumultuous fall and the region's economy began to teeter. Since then, steel prices have fallen 3% in Southeast Asia, and demand has dried up. Now comes worse news: The company's Korean rivals are trying to export their way out of misery. Instead, they're spreading it. China Steel now hears from customers that Korea Inc. is offering steel on the cheap. "Hong Kong, Taiwan, Southeast Asia -- they're everywhere," frets Tsou Jo-chi, vice president of the commercial division at China Steel. Price slashing by Asia's industrial giants will hit companies around the world, not just regional players like China Steel. Industries as diverse as polyester and personal computers will soon feel the pinch, analysts say, as Korean companies -- already huge exporters within the region -- cut prices in a bid to boost exports and earn foreign currency to service massive debts. Even strong companies in fundamentally healthy countries are being sucked into the turmoil by the very nature of their trade-driven economies. The looming price war in these industries could be especially fierce, for two reasons: With Korea's currency losing value by the day -- it hit a new low Wednesday, closing at 1035.5 won to the U.S. dollar -- its companies can afford to further slash export prices. And as their foreign debts balloon, cash-starved companies could be driven to more devastating cuts just to earn foreign currency to stave off creditors.
- The Ukrainian National Bank said Wednesday that reserves are adequate to defend its fledgling currency, the hryvna, despite recent pressure on foreign exchange markets. On Nov. 1, the central bank said, reserves totaled $2.5 billion. 'The fall of the hryvna is impossible,' said Viktor Lisitsky, aide to chairman of National Bank of the Ukraine. 'We have reserves and they are sufficient.' Lisitsky added that the central bank will continue to defend its declared corridor for the hryvna. 'There won't and can't be an abolition of the currency corridor,' he said. 'That can't happen ever. That's dictated to us by life and we're happy that the International Monetary Fund (IMF) supports it as well.' The hryvna has been under increasing pressure in recent weeks due to the selloff in emerging markets around the world.

Nov 20

- Dashing any early hope for controlling its financial turmoil, South Korea's currency fell 10% in trading Thursday, a day after the country unveiled an emergency bailout package. Most regional currencies fell sharply following the fall in the Korean Won. Relative to the US$, the Indonesian Rupiah fell 1.86%, the Malaysian Ringgit by 2.09%, the Philippines Peso by 1.85%, the Taiwan Dollar by 2.59%. South Korea acknowledged that it could not resolve its trouble without outside help, and asked Japan to help persuade its banks to roll over maturing short-term loans to South Korea. South Korea's self-rescue measures included, among other things, allowing its currency to fluctuate by up to 10% per day. The previous limit was 2.5%. Officials hoped that would boost investors' appetite for the won. But initial response on Seoul's foreign exchange and stock markets was not encouraging. After half an hour of trading, the South Korean currency had plunged by the daily permissible 10% to 1,139 won per dollar. After reaching its limit low, trading was suspended. Dealers said the central bank didn't intervene in the market. The won has plunged to its daily limit low for the fourth consecutive session, and trading has been suspended on the local exchange also for the fourth straight day. "Because of the pent-up pressure on the won, the currency is expected to drop another 10% Friday, and then it may begin stabilizing," said Chang Dong Ryul, an analyst at the First National Bank of Chicago. South Korea's economy is interlocked with those of the U.S. and Japan. The falling won could hurt Japanese and American exporters by making South Korean goods cheaper in overseas markets, while making their goods more expensive in South Korea. South Korean companies compete with Japan and Taiwan in semiconductors, shipbuilding and other exports. The Korea Composite Stock Price Index, meanwhile, dropped 14.18, or 2.8%, to 488.41. The equities market was hit on news that investors had rushed to withdraw their deposits at investment-trust companies earlier in the day.

- Tokyo stock prices were bolstered by optimism that the government will use taxpayer money to aid banks burdened with bad loans: Japan's equities market rose nearly 3% Thursday. However, turmoil in the South Korean and Malaysian markets sent Asian-Pacific investors into the sell mode. Hong Kong's market fell 1% as investors remain concerned about a possible spillover of South Korea's financial turmoil into the Hong Kong economy. The key index at the Malaysia's Kuala Lumpur Stock Exchange fell 11% as investor confidence in the market caved in following a series of bad news recently. Rumors of bank runs added the final push to the market's plunge. The Malaysian ringgit tumbled to new lows against the dollar late Thursday in Asia, at one point sinking to 3.5201 ringgit against the dollar, its lowest level since it was officially floated in 1973. In late trading, the dollar was at 3.5130 ringgit, up from 3.4850 ringgit late Wednesday. In Taiwan, stocks fell slightly on worries over an unstable currency. Philippine shares were mixed as bargain-hunting on blue-chip stocks fizzled out towards the end of the session. In Thailand, the key index dipped to the lowest level in more than eight years as investors fretting over the South Korean economy dumped stocks in most East Asian countries. Indonesian shares fell sharply on investors' concern over the country's high foreign debts and the fall of some regional major markets. Singapore's shares were also dragged down by Malaysia's decline.

Nov 21

- South Korea, buckling under the pressure of a slumping currency and crumbling investor confidence, said it would seek a rescue package from the International Monetary Fund. The decision, announced by the country's new finance minister, Lim Chang Yuel late Friday in Seoul, had been widely expected. Mr. Lim said he expected his country would receive the funds within three to four weeks and that the country intended to ask the IMF to arrange a $20 billion loan and open a line of credit. A high-ranking ministry official, speaking on condition of anonymity, said Mr. Lim and other officials were alarmed by news reports that the country might need up to $60 billion in IMF loans. The official said South Korea hoped to deal with its problems with a much smaller loan, and reports of a massive bailout would only mislead foreign and domestic investors about the depth of the crisis. An IMF bailout is a humiliating necessity for South Korea, proud of its meteoric rise from a war-torn nation to the world's 11th-largest economic powerhouse. Although its problems were spinning out of control, the country insisted as recently as last week that it would never seek help from the IMF, which requires stringent economic reforms and policy controls. Although South Korea's announcement came after its markets had closed,

- The currency and stock prices rallied on reports leading up to the news. Breaking a four-day falling streak, the South Korean won closed 7.9% higher Friday at 1,056 won to the dollar, compared with 1,139 won at Thursday's close. The South Korean composite index rose 17.66 points Friday, or 3.6%, to close at 506.07.
- In Tokyo, Yamaichi Securities Co. said Saturday it is considering whether to close down, with a final decision planned for Monday. The company, one of Japan's so-called "Big Four" securities houses, is facing severe financial problems and pressure from government regulators over newly discovered debts. Yamaichi made the announcement after news reports that late Friday that the firm had decided to close down. The reports of Yamaichi's closure shook up financial markets Friday. Nikkei News reported that Yamaichi, with debts of about Y3 trillion ($23.82 billion), had decided to inform the Finance Ministry of its decision to close. There is a suspicion that Yamaichi has more than Y200 billion ($1.6 billion) of off-balance sheet debt, Mr. Nagano said. Bank of Japan governor Yasuo Matsushita and other top officials have said they won't allow individual financial collapses to destabilize the overall financial system. Nikkei News reported that the central bank would extend special loans to protect the assets of Yamaichi's customers. Tokyo's Nikkei 225 index posted a 2.5% rise, while Hong Kong's Hang Seng jumped 5%.
- Share prices rose Friday in the key equities markets of Latin America, lifted by growing confidence in local shares as well as strong gains in Asia. A strong performance in Asia relieved investors' fears about the outlook for emerging markets in Latin America. In Brazil, progress in government reforms and currency stability bolstered confidence. Mexican and Argentine stocks rose on gains in the U.S. market.

Nov 21 - South Korea, said it would seek a rescue package from the International Monetary Fund. The decision, was announced by the country's new finance minister, Lim Chang Yuel late Friday in Seoul. South Korean shares dropped 4.1% Saturday, the first trading session following Mr. Lim's announcement.

- Foreign investors have been briskly pulling money out of Russia's bond market in recent weeks, the central bank chairman said Friday. Sergei Dubinin said about $5 billion had recently left the market and Russian banks have been buying dollars in an attempt to cover the outflow. He told the state Duma, the lower house of parliament, that if world markets stabilize in the coming weeks, the pressure on Russia also will ease. "The next seven to 10 days will be decisive," Mr. Dubinin said. Also Friday, a World Bank official said Russian economic reforms are "broadly on track," and that the government could receive a $250 million loan installment aimed at revamping its welfare and pension system. Speaking to reporters later, Mr. Dubinin said the central bank's foreign exchange and gold reserves totaled $21.5 billion as of Friday. On Nov. 10, Mr. Dubinin reported reserves of $22.6 billion. On Friday, he noted the central bank has had to spend heavily from its reserves in recent weeks to steady the ruble currency. Mr. Dubinin also said the bank wasn't planning another increase in interest rates, and predicted that rates would decline "when the situation on our market and in the world settles down" -- perhaps before the end of the year. On Nov. 10, the central bank raised its key lending rate to 28% from 21% to try to ease pressure on the financial markets. Before the rate increases, Mr. Dubinin noted, the central bank had hoped the international market instability would pass Russia by. "This view turned out to be overly optimistic," he said.

Nov 24 - Monday delivered bad news for Asian economies on two separate fronts, sending ripples of apprehension throughout world markets. First, troubled Tokyo brokerage Yamaichi Securities Co. Ltd., the fourth-largest in Japan, announced that it was closing its doors. Then, South Korea's announcement that it will ask the IMF for funds to bail out the won triggered the Seoul market's largest-ever percentage loss with shares falling a record 7.17 percent of their total value. Japan's fourth-largest brokerage, Yamaichi Securities, announced it would shut down, casting a spotlight on the continuing woes of the country's troubled financial sector. The 100-year-old firm was one of Japan's "Big Four" brokerages. Its failure was Japan's largest financial debacle ever and the third financial institution to close this month. Yamaichi said that the massive weight of its 3 trillion yen ($23.6 billion) in debt brought about the downfall. The move was anticipated after Japan's finance ministry virtually cut loose Yamaichi over the weekend. However, the country's central Bank of Japan said Monday it will extend special unsecured loans to Yamaichi in order to protect the assets of the securities firm's clients. Markets in Japan were closed for an official holiday, while Hong Kong's Hang Seng index managed to end the day with a modest 38.16-point gain at 10,586.36. But South Korea, Southeast Asia's latest wounded tiger, suffered heavy losses, with stocks there plunging to a 10-year low amid investor concerns about the impact of an International Monetary Fund rescue package on the country's troubled economy.

Nov 25 - The yen tumbled to its lowest level against the dollar in more than five years on Tuesday and Tokyo stocks plunged five percent. Standard & Poor's ratings agency on Tuesday lowered South Korea's currency ratings because of its growing financial crisis and warned that current events could result in another downgrade in the next few months. The agency dropped South Korea's foreign currency long-term credit rating to an A- from an AA+, said spokesman Joydeep Mukherji. The agency also issued a "credit watch negative" designation for South Korea, meaning current events could have a negative fiscal effect and result in another downgrade, Mukherji said. South Korea has about $25 billion in reserves, enough to keep the government going, Standard & Poor's said. But the problem is private sector short-term debt totals $70 billion -- well above the IMF bailout package. The agency lowered the country's short-term foreign currency rating from A2 to A1. The local currency rating was dropped from A1+ to A1. The credit watch status will depend on a range of factors, including: the results of the presidential elections on Dec.18; the administration's willingness to start market-based reforms to reduce private sector debt.

- The 18-member Asia Pacific Economic Cooperation forum on Tuesday ended an annual summit with a call for greater trade freedom and common front against the economic turmoil gripping the region. "Certain of the dynamism and resilience of the region, we underline our resolve to achieve sustainable growth and equitable development and to unlock the full potential of the people who live here," the group said in the communique issued after a two-day summit. This year's summit has been overshadowed by economic crises in East Asia and fears over Japan's ability to spearhead a recovery. The APEC leaders said it was "critically important" to act quickly against the Asian turmoil. Their communique said the region's underlying economies were "exceptionally strong" and it "welcomed and strongly endorsed" a plan forged in Manila last week to entrust a financial bailout to the International Monetary Fund. The leaders also supported a proposal to begin liberalizing trade in nine key sectors in 1999 and urged that talks under the World Trade Organization to open up financial services markets should be successfully concluded by a Dec. 12 deadline.

Nov 26

- Asian currencies stabilized on Wednesday as the flow of bad news out of Japan slowed. The yen fell in early trade and looked poised to test five-year lows but then rallied back a little. The other regional currencies followed suit, paring early losses. But the general trend still appeared to be downwards and analysts said some currencies could fall further. "Sentiment is as bearish as ever," said Andy Tan, general manager at Standard & Poor's/MMAS in Singapore. "Nothing much has changed, but the events in Japan are gradually being factored into the regional currencies." The morning news from Tokyo was grim -- another failure, this time the regional Tokuyu City Bank. Foreign exchange markets swirled with unconfirmed rumors that more Japanese banks may have done "tobashi" deals -- where losses are hidden by shifting them around between clients. But the mood was noticeably calmer than it had been at the beginning of the week when news of the closure of Yamaichi Securities rocked financial markets. The yen hit an early low of 127.84 to the dollar, but then made another sortie on 127 to stand around 127.16/21 late in the Asian afternoon. The South Korean won gained a little to trade around 1,110, up from 1,122 at Tuesday's close, due to reduced dollar demand. Dealers said eight troubled Korean merchant banks were expected to sell dollars after the government ordered them to give up their foreign-exchange assets and transfer them to their commercial bank counterparts as early as possible. But the early yen weakness helped depress several other currencies, most of which had their own problems to worry about. The Malaysian ringgit fell through 3.50 to the dollar in morning trade as a slide in Kuala Lumpur shares and worries over bad loans weighed on the market. The Thai baht fell to an early low of 40.20 to the dollar in the onshore market as Thai firms bought dollars to repay outstanding loans. But it came back later to stand around 39.95/40.05. The Singapore dollar remained steady with no immediate sign of a break below the 1.60 level to the U.S. dollar seen on Tuesday. It traded around 1.5952/62 in the late Asian afternoon. The Indonesian rupiah was steady around 3,650/60 for most of the afternoon but then rose after Bank Indonesia said it intervened to sell dollars. It ended around 3,635/50. The Taiwan dollar was firmer at 2.386/405 from 32.500 at Tuesday's close.

- Japan made an extraordinary appeal Wednesday for calm among the public and financial markets over the country's economic crisis. A rare joint statement by Finance Minister Hiroshi Mitsuzuka and Bank of Japan Governor Yasuo Matsushita, also promised there are no more major bankruptcies among financial institutions ahead for the nation. In a sign of how the closure of four financial institutions, including two in the past three days, has rattled the public, the statement said people were withdrawing their deposits from banks. Against the trend, the Tokyo stock market's key 225-share Nikkei index rose, buoyed by hopes that politicians are moving towards deciding on the controversial step of using public funds to help clean up the financial sector's mess. The Nikkei closed 1.12 percent, or 178.02 points, up at 16,045.55 after falling more than five percent Tuesday. Still, rumors of dubious deals and more bank and brokerage failures sparked heavy selling of shares in the sectors. Banks and other major brokerage houses had to take the unseemly action of denying rumors of imminent failures. There was more gloom when Moody's Investors Service said it is looking at downgrading credit ratings of five banks, Long-Term Credit Bank of Japan Ltd., Nippon Credit Bank Ltd., Mitsui Trust & Banking Co. Ltd., Yasuda Trust & Banking Co. Ltd. and Chuo Trust & Banking Co. Ltd. The economic fundamentals of the five banks are very weak, the rating agency said. U.S. stocks ended their pre-Thanksgiving session mixed, as some investors picked bargains while others cashed in on the day's early gains: the Dow Jones industrial average closed 11.44 points lower at 7,797.51.

Nov 27

- Markets in Tokyo rallied Thursday while other Asian markets used the U.S. Thanksgiving holiday to take a breather from their recent roller-coaster rides. In Tokyo, share prices were boosted by hopes that public money will be used to cope with Japanese financial firms' bad loan mess, but policy-makers face an uphill battle to repair confidence in the country's financial sector. Tokyo share prices rose steadily from the start to close up a hefty 3.48 percent, or 557.65 points -- the fifth-largest point gain this year -- at 16,603.20. A rare statement of assurance by the Bank of Japan and the Finance Ministry Wednesday evening eased jitters sparked by a recent string of financial failures, including Monday's collapse of "Big Four" brokerage Yamaichi Securities Co Ltd.

Despite growing hopes for public funds, jittery investors again sold shares in some financial firms as worries persisted about potential failures, and foreign and domestic lenders to Japanese financial institutions grew increasingly cautious. Meanwhile, Hong Kong stocks closed marginally down, supported by futures-related trading, lower interest rates and a recovery in other Asian markets. But brokers said they still are wary of regional trends. "We are in a little bit better shape," said Lennon Chan, executive director at Tai Fook Securities. "But we will have to watch the trend in the early part of next week to see if we are really going better." The Hang Seng Index closed 7.01 points, or 0.07 percent, lower at 10,583.10 after bouncing off a low of 10,385.14 early in the day. The battered South Korean market also closed lower as brokerage stocks plunged on worries that several of them could be forced to shut down in a widely anticipated restructuring of the local financial industry. Seoul's market stabilization steps, announced Wednesday, failed to impress investors, who were disappointed at the lack of an immediate inflow of cash into the market. The Seoul stock market composite index ended down 5.60 points at 433.10. As South Korea's market turmoil eased, the government said the World Bank and Asia Development Bank had expressed a willingness to join a bailout effort led by the International Monetary Fund (IMF). Separately, the Finance Ministry said the head of the IMF delegation had indicated the fund would finish its assessment of South Korea's financial crisis earlier than expected to head off further market volatility. Finally, markets in Singapore, which have so far managed to escape the worst of the Southeast Asian turmoil, ended mostly firm, with banks and electronic stocks leading the way. The benchmark, Straits Times industrial index ended 2.58 points lower at 1,650.97.

Nov 28 - Japanese stocks closed marginally higher on Friday while the Hong Kong market dropped slightly in "directionless" trading. Market jitters over Japan's financial institutions were eased following official assurances on stability in the financial system and a rebound in financial stocks, brokers said. The key Nikkei average inched up 33.06 points or 0.20 percent to finish at 16,636.26. Brokers said the stock market had been on a roller-coaster ride for the past two weeks due to uncertainty over the possible use of public funds to protect the financial system and a string of domestic business failures, including the collapse of Yamaichi Securities Co. Ltd. Finance Minister Hiroshi Mitsuzuka reiterated at a morning news conference on Friday that no more financial failures were imminent after the Yamaichi failure on Monday. He also said that the ministry and the Bank of Japan stood ready to provide sufficient liquidity to the market. Hong Kong stocks closed lower on Friday despite a late afternoon rally dispelling some of the gloom generated by bad news for the crucial real estate market, but brokers said buyers could be back next week. The Hang Seng index closed 56.18 points, or 0.53 percent, lower at 10,526.92, after gapping down to 10,441.20 at the open. Singapore stocks closed marginally higher, buoyed by a report in the Strait Times Friday that the United States and Japan will lead a move to hold a finance ministers' meeting to discuss the Asian economic crisis. Shares on the Strait Times index closed up 9.62 points at 1,660.59.

Dec 1 - Boosted by investor optimism about U.S. inflation and hopes for an end to Asia's financial woes, Wall Street charged ahead on Monday, pulling the Dow industrials up above 8,000 for the first time in more than a month. The Dow Jones industrial average rallied 189.98 points, or 2.43 percent, to 8,013.11. The bond market joined the rally, rising after the release of weaker-than-expected economic reports from the Commerce Dept. and the National Association of Purchasing Management. Relief that Japanese financial institutions might not have to sell Treasuries to raise cash also helped the market. The benchmark 30-year Treasury bond gained 6/32 in price to yield 6.03 percent. Wall Street was also boosted by rallying overseas markets. Japanese investors, encouraged by government assurances that the country's troubled financial system must be stabilized, lifted the Nikkei 225 index 2.23 percent to 17,007.59. Meanwhile, bargain hunters pushed Hong Kong's Hang Seng index up 2.13 percent to 10,769.10.

- South Korea was the only major trouble spot in Asia overnight, with Seoul's composite stock price index losing 3.6 percent to 393.16 as investors worried about the impact of an International Monetary Fund rescue package on the Korean economy. South Korea and the International Monetary Fund resumed talks Monday on a package to rescue the world's 11th-largest economy after an initial deal floundered. Hours after the talks were resumed, Seoul's Finance and Economy Minister Lim Chang-yuel said the talks were at a closing stage. Both sides had disagreed over South Korea's growth rate next year and the IMF's demand that 12 merchant banks be liquidated. The Korean Broadcasting System (KBS) also reported that the package called for total loans of $55 billion, with $20 billion coming directly from the IMF and the remainder from other countries and international institutions. Analysts said South Korea will need at least $40 billion to $60 billion from an IMF-led rescue package. The World Bank and the ADB have said they would contribute, and other countries, especially the United States and Japan, are expected to come up with additional financial aid now that there is an agreement with the IMF. Camdessus said South Korea would experience lower growth for "a year, a year and a half". But just how low that growth would be has apparently been a bone of contention in the negotiations in Seoul. A growth rate of between 2.0 and 3.0 percent in gross domestic product would halve this year's projected 6.0 percent GDP increase. It also would be far less than the 8.6 percent average annual growth rate Korea has enjoyed over the past 30 years. KBS said the two sides also haggled over how to deal with the country's banking system. Devastated by bankruptcies and debt defaults, several Korean commercial and merchant banks are on the brink of collapse. It was all very dispiriting for the stock market, which continued its two-month downward march Monday. The key composite index broke through the once unthinkable 400 barrier, down 3.6 percent to close at 393.16.

Dec 2

- Federal Reserve Chairman Alan Greenspan said Tuesday financial crises in Asia would subside and leave the nations with stronger economies. "While the adjustments may be difficult for a time, these crises will pass." Greenspan said the current Asian crisis will likely accelerate the move from large amounts of government-directed investment to a system that encourages more private-sector involvement. He said the booming stock markets of the 1990s led many in Asia to expect unrealistic returns. While Asia's troubles have rattled investors, Greenspan said they were largely inevitable, but characterized them as only temporary. "There is no reason that above-average growth in countries that are still in a position to gain from catching up with the prevailing technology cannot persist for a very long time, provided their markets are opened to the full force of competition."

- Worries over the terms of a financial rescue package for South Korea weighed heavily on most Asian markets Tuesday, depressing currencies and trimming share gains, despite sharp rallies on Wall Street and in Hong Kong. Dealers were dismayed that an agreement on financial aid for Seoul, which had been estimated at US$55 billion, had still not yet been sealed several days after final details were anticipated. The result was a flight to the safe haven of the U.S. dollar, which made big gains against several Asian currencies. The gloom also held back gains on most Asian stock markets, which had been expected to jump after New York's Dow Jones Industrial Average made its fourth-biggest points gain and closed above the key 8,000-mark for the first time in six weeks. "It is still too early to talk about a situation where the worst is over in Asia," said Kim Teo, managing director of Nicholas-Applegate Capital Management Asia in Singapore. The Hang Seng index closed up 4.33 percent, or 465.47 points, at 11,216.35. Singapore's Straits Times Industrials Index rose moderately, gaining 0.18 percent, or 3.07 points, to 1,697.26. But South Korea stocks slipped to a 10-year low after news of the suspension from business of nine troubled merchant banks. Seoul's composite stock price index shed 4.14 percent, or 16.29 points, to end at 376.87, its lowest level since May 1987. The Korean won hit a record low of 1,290 to the dollar during the morning before recovering somewhat, finally closing at 1,235 on Monday. "Everybody is panicking," said Yoon San-yoon, a strategist at LG Securities. "There seems no way out of this situation." Tokyo stocks were also lower, ending four consecutive sessions of advances, pressured by selling of financial shares. The Nikkei 225 average also fell, slipping 0.57 percent, or 97.30 points, to close at 16,910. "Worries over the Japanese financial system have eased, but the economy still has fundamental problems," said a broker at a second-tier Japanese securities house.
- Russia's central bank raised interest rates for the second time in less than a month, giving up efforts to shore up the country's slumping currency and bond markets with direct intervention. The move, which was announced late in the day, came as the International Monetary Fund and World Bank appeared ready to step in with nearly $2 billion in loans before year end to help steady the government's finances. And German Chancellor Helmut Kohl on Sunday pledged to help Russia obtain more financial support from Western governments. Early Monday, the central bank sharply raised its daily intervention limit for the dollar, effectively letting the market go. The ruble recorded its sharpest one-day drop this year, falling to the central bank's limit of 5,963 rubles per dollar, from 5,931 Friday. "Everyone's scared -- no one wants to sell dollars," said Alexander Grushko, a trader at Inkombank. "Nobody wants to take any risk." Government bond prices also plunged Monday as the central bank stopped supporting that market. Yields surged to 35%-45% -- the highest levels in a year -- as investors dumped their holdings. After bond trading closed, the central bank announced its rate change. Lombard lending rates, which the central bank charges to commercial banks for short-term loans secured by government bonds, were lifted to 36%. Previously, Lombard rates ranged between 22% and 28%, depending on term.

Dec 3

- South Korea's economic plight and delays in signing a loan agreement with the International Money Fund sent Asian money markets sinking on Wednesday and left stock exchanges in a state of nervous anticipation. The new downturn in Seoul's difficulties sent mixed signals to stock and currency markets as South Korea, the world's eleventh-largest economy, only announced after the end of Asian trading that it had signed a letter of intent with the IMF to bail out its troubled currency. The Korean key share index recovered some composure, shaking off a five percent loss in early trade to end the day up 2.44 points at 379.31, breaking an eight-day losing streak in the second-busiest trading day in the Korea Stock Exchange's history. But major exchanges in Japan and Hong Kong posted declines. Hong Kong stocks slipped to a slightly lower close after seesawing throughout the day to end down 8.77 points at 11,207.58 in moderate trading, down from Wednesday's HK$13.87 billion at HK$10.21 billion. Tokyo's Nikkei shed 1.9 percent to 16,585.51 as the market grappled with fears about restructuring in Japan's beleaguered financial sector. Turnover totaled 457 million shares, down from 563 million on the previous day. Singapore's falling dollar, which hit a 52-month low against the greenback of 1.6170, dampened market sentiment and the Straits Times Industrials Index edged down 0.97 points to 1,696.29.
- The won, rupiah, baht and ringgit were each sent crashing to all-time lows against the dollar. The Singapore dollar also slumped in line with the regional trend, hitting its lowest level against the U.S. currency since July 1993. And although most market commentators agree that Asian currencies are now massively undervalued according to fundamental economic measures, few are predicting a rebound anytime soon. "At these levels nearly every regional currency is undervalued, but that does not mean that the market could not continue to force them lower in the future. The danger at this stage is that the downward momentum will build up and become self-reinforcing. Sentiment being what it is, people will just jump on the band wagon," said Tim Condon, regional economist at Morgan Stanley in Hong Kong.
- Latin American countries have so far withstood the ripples from Asia's financial turmoil, but the region is not immune to the effects of the crisis, top finance officials said Tuesday. U.S. Treasury Secretary Robert Rubin said the impact on the U.S. economy will not be strong enough to change the Clinton administration's projections of continued "solid growth with low inflation." He attributed Latin America's good performance to its sound macroeconomic policies in recent years. The Asian crisis and its repercussions was expected to dominate the discussions of the top financial officials from around the Americas. The need for stronger supervision and regulations of international financial flows and banking operations was also on the agenda. Chilean Finance Minister Eduardo Aninat agreed that the effects of the Asian turmoil "are substantially less than those of the already resolved 1994 Mexican crisis." But he warned that the crisis in Asia may threaten countries on the American continent, and some of them have already had to adopt measures to defend their currencies. Latin American currencies have been feeling the effects of the Asian turmoil. Central banks in Brazil and Chile were forced to intervene to support their currencies as they quickly lost terrain to the U.S. dollar.

Dec 4

- A record loan package led by the International Monetary Fund to bail out South Korea helped calm jitters in most regional markets, but Tokyo traders concentrated on signs of growing economic problems at home. Seoul stocks soared after Korean officials and IMF Managing Director Michel Camdessus signed a letter of intent on Wednesday covering an international accord to provide Korea, the world's 11th-largest economy, with $57 billion to help dig it out of its financial mess. "It's a collective sigh of relief that South Korea has finally turned the corner," said Yoo In-chae, vice-president of Hanjin Investment and Securities. The agreement brought an end to weeks of tension that had gripped financial markets. Investors gave the agreement a rousing welcome and the stock market rallied throughout the day before closing just shy of seven percent higher, in what the Korean Stock Exchange said was the biggest percentage gain in any day in its history. News that foreigners will now be able to hold up to 50 percent of an individual stock also boosted blue-chips seen as potential targets of foreign buying. Volume hit a record 111.1 million shares, worth 571.3 billion won (US$488 million). The previous record was the 88.2 million shares worth 452.9 billion won traded on Wednesday. The composite index ended up 6.99 percent, or 26.50 points, at 405.81. The won ended firmer at 1,170 against the U.S. dollar, compared with Wednesday's finish of 1,196.

- The IMF-led rescue package for South Korea was expanded to a record $57 billion Thursday, and many South Koreans reacted with humiliation and anger to the deal even though it has breathed new life into the country's ailing economy. The militant Korea Confederation of Trade Unions promised to wage "all-out strikes" if companies push for layoffs as a result of concessions to the IMF. South Korea was rocked by a month of worker unrest earlier this year after the government rammed a controversial labor law through parliament. The government was forced to postpone until 1999 a provision that would have made layoffs easier. The Finance Ministry said the package of IMF-arranged loans had grown by $2 billion to $57 billion after Italy said it would join in and three other countries increased their donations. About $5.5 billion of the package was to arrive in Seoul Friday evening local time, and more than $10 billion will be provided by year-end, the ministry said. The increases brought the total value of other nations' portion of Seoul's aid package to $22 billion. The money is intended to be used only if the $35 billion committed by the IMF, World Bank and Asian Development Bank is inadequate. Details are expected to be disclosed after the pact is formally approved by the IMF board of governors Thursday in Washington. It is expected to call for Seoul to put the brakes on economic growth, liquidate or restructure troubled banks at the heart of the country's debt crisis, further open the financial markets and end restrictive trade practices. The pact also is expected to call for more transparency in government data and in the bookkeeping practices of major conglomerates. Newspapers complained that the United States and Japan had used South Korea's financial crisis as leverage to force Seoul to open its markets further. As part of the IMF deal, Seoul agreed to raise its foreign stock ownership ceiling on a combined or individual basis to 50 percent, effective Dec. 15. At present, the shareholding limit for foreign individuals is 7 percent in a specific stock, while the combined foreign shareholding limit is 26 percent. South Korea also agreed to allow Japanese products greater access to the Korean market, finance ministry officials said. Previously, imports of Japanese goods had been restricted because of Japan's large trade surplus with

South Korea. South Korean markets responded to the package enthusiastically. Seoul is desperate for assistance because of a ticking time-bomb in the form of its short-term debt, the reason it called in the IMF. South Korean media reported this week that the central Bank of Korea had been forced to pay $10 billion in short-term foreign debt on behalf of Korean banks over the last few days. About $66 billion of Korea's estimated $120 billion in foreign debt is short-term, and about $20 billion is due at the end of this year, analysts said. The IMF package for South Korea is its biggest rescue effort to date, exceeding the $50 billion rescue program for Mexico in early 1995. Similar IMF packages were provided recently for Thailand and Indonesia. Thailand received $17.2 billion and Indonesia $40 billion under IMF-led rescues that also involved offerings from other countries.

- Most Asian stock markets joined in the Korean rally, albeit to varying degrees, with Japan the exception on concerns over its own fragile financial system. The key Nikkei 225-share index fell 1.68 percent, or 278.72 points, to 16,306.79. The latest negative shot was fired by Moody's Investors Service, which put another group of Japanese banks under review for a possible downgrade. "After the failure of Yamaichi Securities, the market has become very sensitive to credit ratings," said Noboru Yorita, Tachibana Securities general manager. Hong Kong stocks powered ahead, driven by gains in the futures market and bargain-hunting. The Hang Seng Index ended 2.39 percent, or 267.36 points, higher at 11,474.94. Market sentiment was, however, seen to be strong." There is more of a feel-good factor in Asia now that they are starting to sort things out," said Rory McAllister in institutional sales at HSBC James Capel. "But we are not out of the woods yet by any means." Stocks in Singapore were little changed, with the Straits Times Index finishing up 3.94 points to 1,700.23.
- Russian financial markets powered to strong gains Thursday as the Kremlin looks to be winning its psychological war against foreign investors. The Russian stock market followed Asian equities higher to post a 6.3% gain on volume of $96 million, the highest in nearly three weeks. The most dramatic rebound, however, was in the government's Treasury market, where yields at the weekly auction fell to 33% from 41%, largely on the strength of foreign buying. "We seem to have turned the corner," said Eric Fine, Russian debt strategist with Morgan Stanley in London. "It's obvious to the world now that the rumors about Russia were overdone." Russia remains susceptible to the fluctuations of global emerging markets and faces considerable financial challenges ahead. But for now, investors are looking beyond immediate domestic concerns and buying into a package of both real actions taken by the government and perceived assistance coming from the West -- even though no new money yet has been committed. Russia insisted all along that it didn't suffer the same financial problems as Asian nations. Yet it watched its markets steadily deteriorate as investors panicked amid government inaction. Then, in an unusual display of coordination, the Kremlin launched a belated emergency plan largely at the behest of foreign investors in Moscow. It dispatched top finance officials to Washington to negotiate additional assistance from the International Monetary Fund. No money was pledged, and bankers say the IMF is only considering a $1.6 billion stabilization package and the release of a $700 million loan installment suspended because of Russia's poor tax collection. But investors got the message: The IMF and the West stood behind

Russian reforms. The message was driven home after German Chancellor Helmut Kohl offered another unspecified aid package. Meantime, the World Bank stepped in by saying it would provide up to $1 billion in loans by year end. A top Russian businessman said Thursday that the government should devalue the ruble and that it doesn't have enough money to defend the currency at its current levels until the end of the year. Boris Berezovsky, believed to be one of Russia's wealthiest individual with holdings in the automobile, media, oil and aviation industries, didn't say why he thinks the government should devalue the ruble, which has come under intense pressure in recent weeks amid market turmoil in Japan and on world emerging markets. But Berezovsky, who recently lost a high-level post on Russia's National Security Council, is a sharp critic of top officials in the government and their policies. Berezovsky estimated that the ruble would fall to 7,500 per dollar if the central bank abandoned its current trading corridor and allowed the ruble to float. That would be down around 21% from its current spot level of around 5,928.5 rubles per dollar. 'We need to devalue the ruble,' Berezovsky said.

Dec 5

- South Korea agreed to lower its economic growth to 3 percent in 1998 from a projected 6 percent this year under the terms of its International Monetary Fund (IMF) rescue package, the Finance Ministry said on Friday. South Korea also said it would set an inflation target of 5 percent in 1998. Inflation this year has been projected at 4.5 percent which was last year's inflation level. On the budget, South Korea agreed with the IMF to seek a budget surplus through spending cuts and tax hikes. Earlier, the International Monetary Fund approved a $21 billion loan for South Korea, opening the door to a record-breaking $57 billion rescue package for the troubled Asian state. The IMF said in a statement that Seoul would receive the first payment of $5.6 billion immediately, while a second payment of $3.6 billion would be available from Dec.18, after the first review of the comprehensive economic reform program underpinning the loan. South Korea also said it would restrain its current account deficit to less than one percent of Gross Domestic Product or about $5 billion in 1998 and1999 from a projected $14 billion in 1997 and $23 billion last year. South Korea also said insolvent financial institutions should close under the agreement with the IMF. "Ailing financial institutions deemed impossible to recover should close down," a statement from the Finance Ministry said. South Korea would also allow foreign banks and stock brokerages to set up subsidiaries by mid-1998. In addition, South Korea would demand that financial institutions speed up the write-offs of non-performing loans, the statement said. The Finance Ministry also said it would draw up measures to reduce cross-debt payment guarantees among units of a conglomerate. All controls on overseas borrowings by private companies would be removed, the ministry said, although it gave no time table.
- Monetary stability in Southeast Asia was short-lived as most currencies showed renewed volatility on a variety of regional concerns.
- Hardest hit was the Malaysian ringgit, which reached an all-time low of 3.8650 to the U.S. dollar before struggling back to the 3.6950 level. The ringgit's rebound was prompted by the Finance Minister Anwar Ibrahim's announcement that the government would cut spending on several large government projects and tighten credit in an attempt to restore confidence in the economy. It was a rare occurrence for a

Malaysian government officials' remarks to calm the markets. On several occasions, the country's prime minister, Mahathir Mohamad, has roiled the waters by attacking speculators of his country's currency. As recently as Thursday, Mahathir sank the ringgit again as he announced the country would continue its construction of a expensive land bridge. Singapore's dollar took its cue from Malaysia and recovered from a year-low of 1.6250 to the U.S. dollar to 1.6100/10.

- The Korean won, which had managed to stem some of its losses in the wake of a bailout agreement with the International Monetary Fund, slipped back down Friday to 1,230.00 to the U.S. dollar, compared to Thursday's close of 1,170.00. Indonesia's rupiah hit a record low on Friday of 4,020 to the dollar as traders shrank from Southeast Asian currencies. However, the country's central bank came to the rescue, selling off dollars and stabilizing the rupiah at 3,965. The stalwart of Friday's currency trading was the Taiwan dollar, which remained virtually unmoved, closing at 31.75 to the U.S. dollar.
- The International Monetary Fund is revising down its forecasts for world economic growth as Asia's economies crumble under the sustained impact of a deep financial crisis. IMF First Deputy Managing Director Stanley Fischer told a news conference Friday that the new forecast, to be released Dec. 22, will put 1998 economic growth at 3.5 percent, down from 4.3 percent predicted just three months ago. Fischer said healthy economic performances in Europe and the United States are offsetting some of the impact of the Asia turmoil, which started in July when the Thai baht collapsed, and then spread across the region and beyond. But he said growth in Asia and Japan is likely to be lower than the IMF predicted in its last report, issued in September during the annual meetings of the IMF and World Bank. The closely followed World Economic Outlook projects growth and inflation in developed and developing states. The September report forecast U.S. growth of 2.6 percent next year and said the Japanese economy would grow by 2.1 percent.

Dec 8

- Stocks in Seoul and Tokyo were dragged lower Monday by concerns over local financial problems, while other regional markets reacted positively to the news of the International Money Fund's bailout of the South Korean economy.
- Korean stocks fell nearly five percent amid heavy selling by cash-short institutions and other corporate investors having trouble raising funds in the money market. "Institutional and corporate investors are dumping their shareholdings in the market to secure operating cash," said Lee Jong-woo, a trader at Daewoo Securities. With the Halla Group becoming the latest victim of Korea's financial jungle with a default on its debt payments, investors remain wary of the near-term outlook. They foresee a long, hard road ahead as the country tries to meet the conditions laid down in the IMF's package. Korea's composite index ended sharply lower at 414.83, down 4.80 percent, or 20.90 points.
- Already awash with grim corporate news over the weekend, South Korea saw more carnage across the business landscape on Monday with announcements of a government takeover of a major bank and a merger in the ailing auto industry. And a U.S. economist reiterated concerns that last week's record-breaking $57 billion bailout package for Korea organized by the International Monetary Fund would not be enough. SEOULBANK said on Monday the government would become the bank's major shareholder by taking 1.1 trillion won ($901.6 million) of planned new shares by the end of the year. Analysts said

the bank was on the verge of bankruptcy with bad loans estimated at 1.4 trillion won after being hit by a series of corporate failures this year. South Korea's unlisted Daewoo Motor Co. Ltd. said on Monday it had agreed to buy a 53.5 percent stake in ailing Ssangyong Motor Co. Ltd., a unit of sixth-ranked Ssangyong Group, a Daewoo Motor spokesman said. Over the weekend, Halla Group, the nation's 12th-largest "chaebol" or conglomerate, announced it planned to apply for court protection for three core units and that its flagship, unlisted Halla Engineering and Heavy Industry Co. had applied for court receivership. The group's 6.34 trillion won of debts at the end of 1996 was nearly 20 times shareholders' equity of 319.2 billion won, according to finance ministry figures. About half of Halla's debts was owed to merchant banks, whose precarious financial footing has been one of the root causes of the country's debt crisis. The government last week suspended the business of nine merchant banks until the end of this year, citing mismanagement and massive withdrawals from investors. Their business licenses would be canceled if they failed to improve their financial structure by March 1998. Analysts say financial institutions will become even more reluctant to lend money to troubled companies to minimize their losses and to meet new standards for banks set by the IMF. Under the terms of last week's IMF bailout package, banks have to meet the prudential standards of the Bank for International Settlements. Analysts predict a new wave of bankruptcies in the coming months because of the coming credit squeeze.

- Eight of the country's top 30 conglomerates have gone bankrupt or applied for court protection against creditors so far this year. The market is also worried more financial institutions could follow Coryo Investment & Securities into bankruptcy. On Friday, Coryo was declared bankrupt by its creditors, the first failure of a Korean financial institution in more than three decades. U.S. economist Rudiger Dornbusch said on Monday the country's problems were far from over. The Massachusetts Institute of Technology economics professor told Reuters Financial Television in Tokyo a supplementary IMF aid package would be needed soon. "Short-term debt is very large and we don't even know, with the obsession for secrecy in the ministry (of finance), just how much short-term debt is rolling off in the next six months and whether the IMF money goes through February or whether it's already gone by that time," Dornbusch said. Seoul is set to receive $11 billion by mid-January if it adheres to tough terms from the IMF. It has already received a first payment of $5.6 billion and a further $3.6 billion will be made available from December 18, after a first review of the economic reform program agreed with the IMF. December 18 is also the date of South Korea's presidential election. Markets in Seoul reacted to all the grim news with a collective shudder. The won plunged to an historic low 1,330 versus the dollar before recovering slightly at 1,342.4. Stocks were down nearly five percent, drooping 20.90 points to close at 414.83 .
- In Tokyo, overall concern about domestic growth pressured stocks, leaving the key Nikkei 225-share index 1.78 percent, or 292.91 points, lower to close at 16,131.57. Trading was nervous ahead of the ruling party's proposals to stabilize the Japanese financial system due out later this week, and its overall package to stimulate the economy, due next week. Trading also took a cue from the New York markets, which gained 1.23 percent on Friday as investors went on a buying spree, ignoring a stronger than-expected employment data for November.

Hong Kong's Hang Seng Index extended its gains in afternoon trade on Monday, rising 2.37 percent to 11,800 points. Elsewhere, Hong Kong stocks trailed New York but succumbed to profit-taking at the close. The last time the blue-chip index traded at 11,800 points was on October 22, the day before the Hang Seng crashed 1,211.47 points, or 10.4 percent. Singapore's Straits Times Index was 2.33 percent, or 39.86 points, higher to end at 1,753.63.

- Indonesia President Suharto on Friday began an unprecedented 10-day rest at home -- a period that's likely to refocus attention on Indonesia's uncertain political succession. News that the president was taking a rest also came on the day when the rupiah briefly fell below 4,000 to the dollar for the first time. The dollar traded at 4,020 rupiah before central-bank intervention helped it weaken to 3,965 rupiah.
- Malaysia is finally confronting its mounting financial woes. Now the country's leaders must summon the political will to enforce austerity measures that promise to inflict pain on some of Malaysia's biggest companies. Deputy Prime Minister and Finance Minister Anwar Ibrahim set the new economic agenda Friday, announcing Malaysia's most sweeping policy changes in a decade. Among other things, he pledged to slash government spending by 18%, curb big-ticket imports and restrict bank credits and stock-market fund raising. Datuk Seri Anwar said there will be "no question of any bailout" for financially ailing concerns, adding that Malaysian "banks need to be protected against any excesses" of their customers. The measures marked the end of a decade dedicated to the rapid growth strategies favored by Prime Minister Mahathir Mohamad. That boom was characterized, in part, by a proliferation of costly infrastructure and property projects, many of them ventures undertaken by politically well-connected companies and financed by heavy bank borrowing and stock-market transactions. Tough enforcement of the new policies would hit corporate Malaysia hard. It will mean rising interest rates, a slowdown in domestic investment and consumption, a listless stock market and pinched corporate earnings in 1998 and perhaps beyond. That could force some debt-ridden companies and entrepreneurs to sell assets or face bankruptcy. Investors reacted positively to the news of the measures, sending the benchmark index up 69.0 points. The Composite Index, which tracks 100 blue-chip stocks, rose 11.37% to 676.47. The index, however, has shed some the gains made earlier in the day when it rose about 14% as profit-taking set in late in the session, dealers said. Traders said both international and local funds were behind much of the buying Monday, although foreign funds were seen more active later in the session. "We have reached a stage where we must undertake further strategic but painful measures to strengthen the nation's resilience so that we can withstand any systemic risks," Datuk Seri Anwar told reporters, predicting that Malaysia's inflation-adjusted economic growth will slow from 7.5% this year to 4% to 5% next year -- its lowest level since 1986. "We didn't have the choice," he said. "We'll have to take these tough measures if we want to help ourselves." Independent economists think the expected pain is worth it. They hope the austerity measures can arrest a deterioration in Malaysia's financial system and its currency, and avert any need for Kuala Lumpur to ask the International Monetary Fund for help. Indeed, some analysts were quick to characterize the Malaysian measures as a kind of domestic IMF program without the IMF. If the new programs work, they reckon, Malaysia may avoid the

fate of foreign-debt-ridden Thailand, Indonesia and South Korea, all of which were compelled to seek multibillion-dollar IMF bailouts in recent months. Still, Malaysia must demonstrate that the new policies are credible. Datuk Seri Anwar's forceful assertions aside, some analysts wonder whether Malaysia's political leadership, particularly 71-year-old Dr. Mahathir, will stick to the tough new measures. During the last decade, Dr. Mahathir has evolved an elaborate vision of Malaysia as a fully developed economic powerhouse by 2020 and has rushed ahead with ambitious projects intended to fulfill that goal. Supported by the 1990s boom, Dr. Mahathir has nurtured a system of command capitalism, in which the government entrusted private-sector tycoons to create quasiofficial "national" projects. Among these are large privatized infrastructure projects -- often awarded to prominent entrepreneurs without a competitive bidding process -- as well as an array of other ventures begun with Dr. Mahathir's personal endorsement. The result: a business culture in which political patronage and privilege often counted as much as, or more than, technical expertise or management skill. With easy credit and a lively stock market sustaining the system, the commercial merits of such ventures were often ignored by proponents, creditors and investors alike. This helped spawn an attitude of complacency among Malaysia's new business elite, many of whom have never had to manage their way through a period of extended adversity such as that which the country now faces. Some observers worry that the prime minister might be reluctant to sacrifice business leaders as part of a macroeconomic cleanup. "Dr. Mahathir is a guy who has always believed in loyalty and personal relationships," said Bruce Gale, Singapore-based regional manager at Political & Economic Risk Consultancy. Economists want to be convinced the new policies are firmly in place, in part Because of Dr. Mahathir's and Datuk Seri Anwar's sometimes-contradictory remarks on Malaysia's economy in recent months. Indeed, comments attributed to Dr. Mahathir caused fresh confusion Thursday, when he was quoted as saying that a 10 billion ringgit ($2.7 billion) road, rail and pipeline project would proceed, just one day after the Malaysian cabinet had decided to halt all such infrastructure ventures.Malaysia's new stance appears to some analysts to be an attempt by Datuk Seri Anwar, 50, to assert himself as the country's dominant economic strategist. They note that Dr. Mahathir has spent the last week attending an air show and maritime exhibition on his beloved resort island of Langkawi. Meanwhile, Datuk Seri Anwar, together with Finance Ministry and central bank technocrats, hammered out details of the new policy package. Datuk Seri Anwar said he had discussed Malaysia's economic problems with Michel Camdessus, the IMF's managing director, who was in Kuala Lumpur for an Asian finance ministers' meeting. A Malaysian government source said the IMF chief had suggested that part of Malaysia's "problem is the political rhetoric," a tacit reference to Dr. Mahathir's high-profile complaints that the Malaysian economy has been undermined by foreign currency speculators and not by internal shortcomings. Analysts said the measures address their core concerns about Malaysia's economy: the health of the banking system and the weakening of the country's foreign-reserve position as a result of a 33% depreciation in the ringgit's value against the U.S. dollar since July. Unlike Thailand and Indonesia -- which have huge foreign-debt exposure and suffer from high interest rates that are sapping economic growth -- Malaysia's problems center on individuals and companies stranded in a stock market that has slumped by more than 50% this year. Many can't raise money for projects in the moribund market or meet financial commitments to complete transactions set at much-higher stock prices. Malaysian brokerage firms and banks have been propping up such customers by continuing to finance those ever-more costly obligations. Some analysts fear a chain reaction of defaults that could undermine Malaysia's broking and banking industries and ultimately erode the country's so-called real economy, which some economists maintain is still generally sound. Datuk Seri Anwar acknowledged that private corporate debt was the biggest threat to the banking system. He said Malaysia needed to act forcefully and quickly after economic growth slowed in November and currency and stock markets went into a free fall. Such talk is "absolutely on target," said Nicholas Brooks, Singapore-based Southeast Asia economist for Peregrine Securities. "You want to prevent stronger banks and financial institutions from being infected by those who are overextended in the stock market and property sector," he said. According to the central bank, nonperforming loans in the banking system amount to less than 6% of total outstanding loans of about 393 billion ringgit at the end of October. But some bank analysts predict that percentage will rise to double digits next year. Datuk Seri Anwar contends Malaysian banks are strong enough to weather the coming slowdown without government bailouts -- but only if they tighten credit policies now. Measures announced Friday will require stricter and earlier disclosure of nonperforming loans, increase bank provisions for bad debts and bar fresh lending to "nonproductive" activities such as property development and stock purchases. Datuk Seri Anwar said he wanted a "substantial reduction in credit growth" -- currently expanding at more than 25% per year -- and in total outstanding bank loans. And he stressed that banks will be free to cut off credit to corporate or individual borrowers who are unable to service debts or meet margin calls to increase payments to banks when the value of stock held as collateral slides. "There is a perception government will not allow big players to be touched," said Datuk Seri Anwar. But, he added, "Banks must be allowed to take necessary action. The government will not interfere on that."

- Economists expect interest rates -- currently about 10% for banks' best clients -- to rise as credit supplies contract. Datuk Seri Anwar acknowledged Friday that the IMF's Mr. Camdessus thinks Malaysia's interest rates are "too low," but the Malaysian official said only that Kuala Lumpur was studying its options on interest-rate policy. Kuala Lumpur will also try to shore up foreign-exchange reserves -- which have slipped to about $24 billion from more than $27 billion at the end of 1996. Datuk Seri Anwar said he wanted foreign-exchange reserves -- now equivalent to about 3 1/2 months of imports -- to rise to a more-comfortable four months' import cover. The government also aims to reduce the country's deficit in the current account, a measure of trade in goods and services plus financial transfers, to the equivalent of 3% of gross national product from about 5% of GNP last year.

Dec 9

- Rumors that Indonesia's President Suharto is gravely ill swept Southeast Asian currency markets Tuesday, sending the rupiah into a tail spin.

- Major Asian stock markets were mixed on Tuesday, with Tokyo posting dramatic gains on hopes of an infusion of funds into the financial system while Seoul stocks continued to decline as investors took flight. On Tuesday, shares in Tokyo rallied on news the government may issue 10 trillion yen in new bonds to support the financial system. Although the news hurt the Japanese bond market, it was welcomed by equities traders who took the view that stability in the financial sector would support the nation's ailing economy. The key Nikkei 225-share index ended up 3.44 percent, or 554.94 points, at 16,686.51.
- A plunge in South Korea's won to around 1,465, another record low, and continued tight conditions in the money market led stocks downward. "Sentiment was devastated by the paralysis in the money market, fueling worries about mass corporate failures," said Kim Dae-hee, a trader at LG Securities. In addition, the country's financial markets were stunned by revelations of just how low its foreign currency reserves had fallen prior to the record $57 billion bailout package it agreed with the International Monetary Fund last week. South Korea Tuesday threw a lifeline to two ailing banks -- Korea First Bank and Seoulbank - by approving the government's plan to take a majority stake. The cabinet endorsed the plan to increase shareholder equity in each of the two banks to two trillion won ($1.5 billion) from the current 820 billion won ($615.4 million) and take 59 percent of the banks' equity. New shares issued by the banks would be swapped for shares of state-run firms or directly purchased by the government this week, the finance ministry said. "It looks like the only way to save those two banks," said Lee In-hyung, senior economist at LG Economic Research Institute. "But what about the fate of other financial institutions? They have to go under instead?" A ministry official said the government had no choice considering the massive adverse impact the demise of the two major commercial banks would inflict on the country. "Letting those two banks go bankrupt would certainly shatter the people's faith in banks," said the official. "Imagine people rushing to banks en masse to withdraw their money. That would really be a disaster." Some analysts said collapse of the banks could paralyze the entire financial system, blocking fund flows between banking institutions and corporate groups. "I sympathize with the government," said Steve Martin, head of research at Ssangyong Investment and Securities. "But I don't think the government decision is right economically and in the long-term perspective." But the government appears to face even harder work ahead, economists said. "It is really foolish for the government to try to save all banks while pressure for restructuring is mounting," said an economist at the Korea Institute of Finance.
- Selling also hit other markets in Asia as investors turned cautious, with Hong Kong shares ending a three-day winning streak. "People are getting a bit more cautious. The market hit resistance levels yesterday . . . and people think there are not many factors to support it further from here," said Kelvin Tang, an analyst at ImPac Asset Management. The Hang Seng Index fell 1.98 percent, or 232.28 points, to end at 11,490.66. Singapore's Straits Times Index was off 1.11 percent, or points, at 1,734.22. Although some players wondered if the plague of Asian economic jitters might

spread again, the overall mood was calm. "I think the Asian situation is now mainly passed in terms of the instability coming from their markets," said Richard Herring, a dealer with Burrell & Co. Thai stocks also succumbed to profit-taking, which erased some of Monday's gains that followed news the government would close all but two of the ailing finance firms that had been suspended. "Investors are waiting for fresh news. Yesterday's announcement . . . is expected to strengthen investor confidence in the long-term," one broker said. The SET index was down 6.47 percent, or 26.43 points, to 388.00 at the close of trading.

- Asia's continuing economic and financial turbulence started taking its toll on Wall Street Tuesday, dragging U.S. stocks down after a major technology company, Oracle, blamed its poor results on the Asian flu.

Dec 10

- Hong Kong stocks led a day of selling in major Asian markets Wednesday, with shares tumbling in the last half hour of trade to close sharply lower. The Hang Seng Index closed 468.25 points, or 4.08 percent, lower at 11,022.41, the low for the day. Brokers blamed a lack of institutional interest for the fall, adding that an upswing looked unlikely before the end of the year. "We have fallen 700 points in two days, not a very encouraging sign," said a broker. "I think that's it for the year." The market was also influenced by regional and U.S. market weakness, analysts said. Jakarta, Bangkok and Manila all traded lower on Wednesday, while Taipei and Kuala Lumpur bucked the trend with good gains. Tokyo stocks closed modestly lower on Wednesday as the market grew wary about the effectiveness of a proposal to issue new bonds to stabilize the nation's financial system, brokers said. The key 225-share Nikkei average lost 208.39 points or 1.25 percent to end at 16,478.12. Nikkei December futures fell 190 points to end at 16,520. "The proposal to stabilize the financial system was good news," said Tetsuya Ishijima, chief strategist at Okasan Securities Co. Ltd. "But we still have to see the 'tankan' survey and the LDP's economic package."
- South Korea on Wednesday unveiled a package of steps to stabilize its faltering financial markets, but analysts said more comprehensive restructuring will still be required to repair the nation's economy. In a desperate effort to remove the bottleneck in the financial system, the Finance Ministry also suspended the business operations of an additional five troubled merchant banks. "The problem is that people, especially foreign investors, do not trust the South Korean government," said Yi Seung-gook, head of research at ABN Amro Hoare Govett Asia. "The government needs to come up with a more clear-cut restructuring plan." Analysts said anxiety over the December 18 presidential election was keeping the government from adopting more fundamental measures. The Finance Ministry had said last week after ordering nine merchant banks to close that there would be no further merchant bank suspensions. However, Finance Minister Lim Chang-yuel told reporters on Wednesday the government would also suspend operations of Nara Banking, Daehan Investment Banking, Shinhan Investment Bank, Central Banking and Hanwha Merchant Bank until the end of January.

- "Five merchant banks were now unable to pay their loans, estimated at a combined one trillion won daily," Lim said. "They were only disturbing operations of other merchant banks and corporate groups." "But we will firmly support the remaining merchant banks by moving the state deposits to them," Lim said. The five merchant banks were told to submit plans for capital increases or mergers and acquisitions by the end of this year. In spite of Wednesday's 3.05 percent rise that lifted the composite stock index 11.85 points to 399.85, analysts doubt there will be a big influx of foreign funds. "The government is setting up a table for foreign investment in a great hurry," said Yoo In-chae, vice president of Hanjin Investment & Securities. "There is no reason not to buy South Korean stocks. There are still some good stocks to pick up," Yoo said, adding that the risk factors were already out in the open and the won's plunge looked overdone. The ministry also said it would allow banks to buy commercial paper directly from corporations until the end of next year, freeing them from the requirement of going through a merchant bank. "Banks will be able to buy commercial papers in their trust accounts without brokering by merchant banks," the ministry said. The ministry also said the central Bank of Korea would guarantee call loans that banks extended to merchant banks.
- Despite repeated denials by South Korea's Minister of Finance and Economy Lim Chang-yuel that he hasn't discussed the closure of commercial banks with the International Monetary Fund, an internal IMF document shows that unviable local commercial banks will be closed. 'Two commercial banks in distress will be required to submit a plan for approval in consultation with the Fund, within two months, to meet the Basle capital standards within four months after approval of the plan,' according to the report. 'That plan could initially include a merger with another financial institution or disposal of some or all of their banking business, to restore their profitability to an acceptable level, and meet the minimum solvency requirements set by the supervisory authorities.' The report added, 'if the head of the supervisory authority concludes that rehabilitation has not been successful within four months, the institution will be closed.' The finance ministry refuses to comment on the fund's report. The Korea First Bank (q.kfb) and Seoul Bank (q.bsl), which are suffering from mounds of non-performing loans from the chain collapse of local companies this year, are rumored to be the two banks most likely to be liquidated under the IMF-Korea agreement, as bank officials said the banks have suffered a sharp drop in their deposits recently. Asked whether the Korean government and IMF discussed the shutdown of any local commercial banks, Lim said last Friday: 'The two sides haven't discussed the closure of commercial banks.' On Tuesday, the Korean government said it would invest 1.18 trillion won in each of the two banks. The report also showed that the Korean government took action to bring the call rate to 25% by Dec. 5 before the IMF Board approved the stand-by arrangement for Korea.
- The report also revealed South Korea's foreign-exchange reserves have run dangerously low, with its official reserves standing at $23.9 billion on Dec. 2, down from $30.5 billion at the end of

October. Of the $23.9 billion, $6 billion 'usuable funds.' $17.9 billion of the reserves have been deposited at overseas branches of local commercial banks. 'Gross reserves declined sharply, with a large amount used to finance the repayment of the short-term debt of Korean commercial banks' offshore branches,' according to the bailout agreement document entitled 'Request for Stand-By Arrangement.' The document also states that of the country's foreign reserves, $6.2 billion is committed to forward dollar contracts the government bought in its defense of the won in recent months. But only 400 million of the forward dollar obligations are due this year, according to the document.

- In addition, the country's short-term external liabilities, including 'debt contracted by residents, nonresident branches and affiliates of domestic financial institutions, and offshore banking debt contracted by domestic banks,' are estimated at about $100 billion at the end of September, the statement reports. This contradicts the finance ministry's statement that South Korea's short-term foreign debt was $65.6 billion at the end of September. The finance ministry said its figures are correct, as under internationally recognized definitions of external debt, nonresident borrowing is excluded. 'Korea's external financing situation deteriorated markedly in late October following the decline in the Hong Kong stock market on October 23 and a downgrading of Korea's sovereign risk by Standard and Poor's,' the agreement states. 'New external financing virtually dried up and substantial difficulties were experienced in rolling over the relatively large amount of short term debt.' The IMF also indicates South Korea waited too long to approach the fund for aid. 'Despite the sharp turn for the worse in the external situation in late October, the authorities waited until November 21 to approach the Fund. 'By this stage, market sentiment had turned overwhelmingly negative, and an increasing share of gross official reserves had become 'unusable' as they had been deposited by the Bank of Korea at overseas branches and subsidiaries of domestic banks, which then used the deposits to repay their short-term debt that was not being rolled over. 'This process led to a sharp depletion of reserves.' Of the country's short term external debt, totaling $65.6 billion excluding nonresident borrowing, $39.9 billion is held by financial institutions while $25.8 billion is held by the private non-banking sector as of the end of Sept, according to the agreement. The agreement also calls for more transparency in reporting data on international reserves. 'A key issue is the need for greater transparency in reporting data on international reserves. Reported reserves include deposits at overseas branches of Korean financial institutions. Hence, the recent shifting of the Bank of Korea's foreign currency deposits to these institutions for liquidity support purposes is not apparent in the official reserve data,' the agreement said. 'The reporting of Korea's international reserve position would be made more transparent by including only deposits held at foreign monetary institutions and high quality short-term foreign government securities as gross reserves.' The IMF said that data that separately identifies the forward position of the Bank of Korea's reserves will be reported every two weeks under the program, while data on short-term external debt will be publish every three months. On financial sector restructuring, current deposit guarantees, intended to 'facilitate an orderly restructuring of the financial system in the present circumstances,' will be eliminated by Dec. 31, 2000, to enhance market discipline and minimize moral hazard problems, according to the agreement. The current system will be replaced by a regular deposit insurance system that will only protect small depositors and be financed solely by contributions from the financial sector.

- Indonesia's currency rebounded Wednesday on news that Suharto plans to attend a meeting of Asian leaders. The announcement eased rumors the president is in poor health, talk that pushed the rupiah down 10% Tuesday. Still, the currency's gyrations illustrate the continued weakness in Asian markets. Multibillion-dollar international rescue plans haven't yet brought stability to the region's jittery markets. Suharto will go to Kuala Lumpur for the informal meeting of leaders of the Association of Southeast Asian Nations, State Secretary Murdiono said Wednesday. The Indonesian currency gained in response, climbing to 4,395 rupiah to the dollar, an upward currency revaluation of 2.3% from 4,495 rupiah to the dollar on Tuesday.

Dec 11

- Thursday. Ripples from South Korea's economic crisis spread throughout Asia on Thursday as Asian stock markets wilted from the contagion effect. Traders said equity investors throughout the Pacific Rim could not afford to ignore the economic meltdown currently occurring in South Korea.
- The ravaging of South Korea's financial markets continued on Thursday as the tide turned against the country's effort to regain foreign confidence in its economy, traders and analysts said. Currency trading again came to a halt in the first few minutes after the won plunged by its 10-percent daily limit to 1,719.8 on the dollar. The stock market slumped nearly six percent to 377.37 during the day. A trader at Jardine Fleming in Seoul said, "Buy orders were almost nil. Foreign investors were not interested in buying South Korean stocks because of the won's fall against the dollar." On Thursday, South Korean President Kim Young-sam apologized to the public for the second time in a month for the country's economic crisis. "I feel bitterly responsible that the economy has reached the current situation," he said in a nationwide address. But his remarks touched no one as frustration and cynicism were growing toward the government's handling of the crisis. "Government policy has lost its consistency," said Kim Wan-hee, chief trader at Dongsuh Securities. The Finance Ministry's hasty decision to move up the stock-market opening schedule to Thursday from next Monday showed how desperate it was, brokers said. "Foreign investors saw it as another Korean joke," said a broker at Daewoo Securities. The government was telling the world that it was flat broke in dollars, brokers said. "It seems the South Korean government is really trying to do its best but it doesn't have much mileage," said Lee In-hyung, a research director at LG Economic Research Institute. The composite stock price index closed Thursday's trading down 5.62 percent, or 22.48 points, at 377.37, heading back toward the year's low of 356.82 registered on Dec. 3. The plunge was a slap in the face for the South Korean stock market because it was opened to 50 percent foreign investment on Friday, compared to the previous aggregate limit of 26 percent. "Buy orders were almost nil," said a broker at Jardine Fleming. "Who would buy? If they buy South Korean stocks today,

they may lose 10 percent in currency tomorrow." The won's agony was casting a long shadow on the stock market, traders said. "The enormous risk of the Korean currency is scaring off even the most daring investors," said Oh Yon-suk, a director of Hannuri Investment & Securities. "I am really scared," said one trader at Dongsuh Securities. "The mayhem will go on and on." An executive at a local brokerage added: "It's a massacre. Even the country's president is helpless." The South Korean currency has lost more than half of its value against the dollar so far this year. "If the government lets the market stay as it is, the dollar will head for 2,000 on Monday," a foreign bank dealer said. "But it has run out of ammunition." LG economist Lee said: "The situation will become worse. The won must gain stability, corporate default risks go down and South Korean paper overseas do better. But we don't see any of those things happening." South Korean credit ratings have been battered on an almost daily basis. Overnight, Moody's Investors Service lowered South Korea's foreign debt currency ceiling and downgraded the ratings of 31 Korean issuers. On Thursday, Standard & Poor's cut ratings on three South Korean financial institutions. Traders said South Korea was caught in a vicious circle with the currency crisis driving away foreign investors despite the allure of a cheap and now open stock market. "As long as the won doesn't recover, foreign funds will not flow in," said Wang Jang-sik, a broker at Shin Young Securities .

- South Korea's escalating financial crisis sent currencies and stock prices across the rest of Asia reeling -- even renewing fears for the future of the so-far-untoppled Hong Kong dollar. Hong Kong stocks plummeted 5.5% on fears that the Hong Kong dollar could come under attack again and as interbank rates moved up again. Most markets in Asia fell with Indonesia down 4.8%, Malaysia down 7.4%, the Philippines down 4.9%, Singapore 2.3% lower, and Thailand off 4.9%. Tokyo stocks were jittery and additionally affected by Japan's ongoing financial problems. The 225-share Nikkei average fell 427.97 points, or 2.60 percent, to 16,050.15.
- Hong Kong's exchange rate weakened and its interbank interest rates surged Thursday as the Korean won sank to a new low. In Hong Kong, regional currency worries caused the Hang Seng index to fall 5.46 percent, losing 602.19 points to end at 10,420.22. The blue chip index has lost 1,302.72 points, or 11.11 percent, over the last three days. Analysts said 10,200 points looked like support in the near term and it would be important to see if the index could hold above 10,000 points. "Currencies are falling about our ears," said Miles Remington, sales trader at SocGen Crosby Securities The market in Hong Kong was not helped by a weakening Hong Kong dollar and a government land auction, the results of which did not live up to expectations Concerns about the Hong Kong dollar, which trades near a fixed rate of HK$7.80 to the U.S. dollar, threw the local stock market's recent mini-rally sharply into reverse. "The center of the problem is the Korean crisis," said Sean Lai, a fund manager at London-based Pictet Asset Management. For one, fund managers are increasingly worried about Korea's links to regional economies. They also fear that the won's swan dive might spark another debilitating round of competitive depreciations throughout Asia. In particular, sentiment toward Hong Kong is souring fast. That marks a sharp turnaround: Until two days ago,

stocks had rallied nearly 30% from their lows of late October. Buoying stock-market bullishness were Hong Kong's interest rates, which earlier this week touched their lowest level in months. Suddenly, though, jitters spurred by Korea's woes are sending investors rushing to buy U.S. dollars. That has squeezed Hong Kong interest rates sharply higher. Hong Kong's three-month interbank rate jumped to 11% Thursday, up from 10% Wednesday and sharply above 8.78% on Monday. The U.S. dollar, meanwhile, edged higher against the Hong Kong dollar in Asian trading, rising to HK$7.7484, compared with HK$7.7440 late Wednesday. "The position covering is coming from everywhere," said Tony Ma, a treasurer at Bank of America in Hong Kong. Andrew Fung, treasurer at Commonwealth Bank of Australia, dismissed the notion that hedge funds were behind the selling: "There are a lot of corporates buying back U.S. dollars, rather than speculators." But few analysts or fund managers expect the Hong Kong dollar to collapse anytime soon. Official data for October show a slight shift among bank depositors away from Hong Kong dollars to U.S. dollars -- but not enough to rock the banking system. Speculators, meanwhile, would have a hard time destabilizing the currency because trading in the interbank market is thin. That makes speculative positions hard to accumulate. But the high interest rates needed to protect the linked exchange rate are torpedoing prospects for economic growth next year, which many analysts predict will fall to 3% or less from over 5% this year. Meanwhile, China trade -- on which Hong Kong is hugely dependent -- looks likely to slow, too, as the mainland economy weakens. All that makes for a compelling reason to avoid Hong Kong stocks. Pauline Gately, regional strategist at BZW Asia Ltd., says she downgraded Hong Kong's weighting last week, arguing that the market was ripe for a correction.

- Wall Street had a third-straight day of severe losses as investors went on a selling spree, worried about the Asian turmoil's impact on U.S. corporate earnings. The Dow Jones industrial average closed 129.80 points, or 1.63 percent, lower at 7,848.99. Boeing. Oracle. Microsoft,. J.P. Morgan. Coca-Cola. The list of companies suffering from the current economic crisis in Asia seems to get longer every day. And, with less than three weeks to go before the end of the quarter, experts say the list is likely to get even longer as more firms come forward to warn investors that the Asian economic crisis is going to take a big bite out of U.S. corporate profits. "December, as the last month of the quarter and the last month of the year, is true confessions month," John Manley, investment strategist at Salomon Smith Barney told CNNfn. "For the first time we are seeing real, numerical signs that Asia is having a bigger impact on earnings than we expected." Indeed, since the Asian crisis first surfaced last month a steady stream of companies have come out with warnings to investors, sending the price of their stocks, and the overall market, lower.
- In Latin America, after several weeks' respite from the effects of Asian economic woes, jittery Latin and global investors took their cue from the U.S. Thursday and sold off Latin stocks because of renewed concerns about South Korea. In Latin America, Brazil's Bovespa Index, which was down more than 6% during the day, closed down 3.7% to 9108, Argentina's Merval Index

declined 1.5% to 662.93, and Mexico's IPC index closed down 1.8% to 4953.04. The declines followed what some analysts had hailed as the "decoupling" of Asian and Latin markets. From mid-November until last week, Latin bolsas had rallied about 17% while Asian markets dropped about 16%. Over that period, many analysts and investors had attempted to demonstrate that Asia and Latin America have few economic ties. They also attempted to show that Latin countries, having already lived through the painful deregulation and market reforms now required of Asia, are more fundamentally sound. But many of those distinctions were lost Thursday as investors rushed to bail out of the most liquid Latin stocks, regardless of their actual links to Asia. Brazil's overvalued currency and looming deficits came under renewed scrutiny, despite the fact that the government took strong steps last month to bolster the economy and assuage investor concerns. Despite the day's sharp declines, traders said losses were stunted by the fact that most investors have much lighter positions in Latin America than they did a month ago, making it feel "safer" to trade in and out of the markets.

Dec 12 - Friday. Its currency melting down, South Korea must either renegotiate a $57 billion rescue package or risk large-scale defaults on international loans, bankers and economists said -- even as the framers of the bailout package insisted that it be implemented as is. With the ink barely dry on last week's International Monetary Fund-led bailout, fears have mounted this week that Korea faces a wholesale debt crisis. The country's currency plunged its daily permissible limit of 10% repeatedly this week, before posting a slim gain on Friday. Only central bank intervention -- the first in several weeks -- managed to support the won Friday. Early in the day, the won fell its permissible limit to a low of 1891.40 won per dollar, but its strengthened to 1600 won to the dollar after the central bank sold dollars. The won jumped so strongly because, with foreign-exchange trading thin as Koreans clutch their remaining dollars, the central bank's won-buying packed a wallop. The won's weakness this week have helped to fulfill the very prophesies of financial doom that have dragged the won down this year. A vicious cycle took hold: Borrowers scrambled to buy dollars before the won fell more -- and in the process, they bid down the value of the Korean currency further still. Despite Friday's signs of life, the won's recovery remains uncertain. The lower won makes it difficult for Korea's government, banks and companies to pay off their heavy foreign-currency borrowings, more than $100 billion of which comes due in less than one year. In an effort to ease the cash crunch, the Cabinet Friday ordered the central bank to extend $6.3 billion in special, low-interest loans to cash-short banks, securities firms and investment trust companies. The government also said it would lift controls on long-term overseas borrowing by private businesses, state-run companies and provincial governments to help ease the cash crunch. The Korean gloom gripped stock and bond markets across Asia much of the week. On Friday, the South Korean market dropped 7.1%, while the Indonesian market -- roiled by new concerns about the health of the President Suharto -- dropped 7.6%. The Japanese stock market lost 0.9%, but the Hong Kong market climbed 1.9%.

- Despite reports that Korean officials seek to change the terms of the pact to get funds disbursed more quickly, IMF and U.S. officials don't see any immediate need to change the agreement, reached Dec. 3 after weeks of tense discussions. Implementation of the IMF program is "the absolute key to ... re-establishing confidence in the financial market," Treasury Secretary Robert Rubin said. "They've taken important steps but there's a lot that remains to be done and that is the key to success." IMF and U.S. Treasury officials say South Korea must carry out the reforms to which it has agreed before there can be any talk of new money. The IMF is to release an additional $5.6 billion by Jan. 8, if Korea eases restrictions on foreign investment, as promised, and makes its banking system more accountable to market forces. The Asian Development Bank plans to make $2 billion available by Jan. 1. The World Bank, which has pledged $10 billion, is scurrying to finish negotiations with Seoul, and announce its schedule for loans, by the new year. International bankers said, and the continued depreciation of the won signaled, that the question isn't whether Korea will need a new bailout, but when. "There's going to have to be more money made available," said Deutsche Bank Asia-Pacific economist Angus Armstrong. "The won will just keep going down until a new package is negotiated." Foreign lenders are increasingly reluctant to extend or renew loans and credit facilities to Korean banks; the banks in turn are short of the dollars needed to roll over loans to the country's debt-heavy conglomerates, known as chaebols. In addition to the won's problems, the equities market has been depressed by news that Dongsuh Securities Co. was declared bankrupt after failing to honor maturing debts for two straight days. In South Korea, a company is declared bankrupt when it defaults on maturing loans for two consecutive days. Dongsuh Securities is the second local brokerage house to go bankrupt, following last week's collapse of Coryo Investment & Securities Co. Citing the prospect of a liquidity squeeze, Standard & Poor's has cut South Korea's long-term foreign-currency credit rating by three notches to BBB-minus, just one level above junk-bond status, from A-minus, while Moody's Investors Service trimmed the country's rating to Baa2 from A3, a two-notch downgrade. A $2 billion international bond issue for this week was delayed by state-owned Korea Development Bank. Such problems will complicate what now appears inevitable: a fresh round of Korean negotiation with the IMF, Japan and the U.S. As the won falls and the burden of servicing Korea's debt rises, the IMF may face an unappetizing choice: raise more cash for Korea, or let Korea's banking system implode, unable to meet its international obligations. Even if the IMF can renegotiate a new package that will stabilize the won, economists say, Korea Inc. shows disturbing signs that it isn't taking the original agreement seriously enough. Between the end of October and early December, the government deposited about $10 billion into the overseas branches of Korean commercial banks to help them meet short-term debt payments. That has exasperated international economists, who were assured Korea's offshore banking affiliates would have to fend for themselves, said P.K. Basu, economist at UBS Securities in Singapore. "Now the Bank of Korea is trying to shore up all the Korean entities," said Mr. Basu. "It boggles the mind."

- Among the key conditions of the IMF agreement is a commitment to keep interest rates high and to curtail public spending. That means public-works projects, the lifeblood of the construction companies around which many chaebols are built, will dry out at a time when the domestic market is being opened to foreign competitors. Demand from Southeast Asia, which accounted for 70% of Korean contractors' orders overseas, has also diminished as the region grapples with its own economic woes. And the construction companies' principal asset, Korean real estate, has been steadily shedding value. Rising interest rates will make it difficult for Korean construction companies to retire their debt. Some are preparing for the worst. Half of the 300 middle managers at the construction affiliate of Anam Group, Korea's 26th-largest conglomerate, resigned to help the company "lose weight in these tough times," said a spokesman. "The construction sector is extremely vulnerable," said Stephen Marvin, head of research at Ssangyong Investment & Securities Co. "And that means no chaebol is safe."
- Indonesian stocks plunged 7.6% and the nation's currency, the rupiah, sank on Friday as concerns about the health of President Suharto returned on news he won't attend an Asian summit next week after all. Assurances earlier this week that the 76-year-old president would travel to Kuala Lumpur for the Southeast Asian Nations Summit had helped to stabilize Indonesia's markets. They plunged earlier on rumors that he was gravely ill, talk that government officials had moved aggressively to quash. But on Friday, official word emerged that Suharto would heed the advice of doctors, who urged him not to make the trip. The reaction in the markets was swift. The Jakarta Stock Exchange index lost 30.255, or 7.6%, to 365.853. Before Friday's announcement, the currency had already slumped on Friday amid fresh rumors about Suharto's health. Then, within minutes of the disclosure, panic selling sent the currency crashing through the key psychological barrier of 5,000 rupiah to the U.S. dollar. Late in the day, the Indonesian currency was traded at around 5,150 rupiah to the U.S. dollar, compared with 4,580 rupiah to the dollar late on Thursday -- an 11% devaluation. The rupiah is down 22% for the week and 54% for the year, making it the worst performing currency in the region so far this year. The currency freefall has led to predictions by some economists that Indonesia will experience a recession next year, as the rupiah's plunge makes places an impossible debt-servicing burden on Indonesian corporations. That would be the first contraction in growth since Suharto came to power in the 1960s, and raises fears of social unrest. These worries are starting to dwarf previous concerns about Indonesia's commitment to the economic reforms mandated by the International Monetary Fund as part of its $40 billion bailout.
- In Russia, the International Monetary Fund's (IMF) decision Friday to recommend restarting a $10 billion loan program will provide much-needed financial support for the government amid persistent market tension, analysts said. 'It's very welcome news,' said Charles Blitzer, who covers European emerging markets for Donaldson, Lufkin and Jenrette in London. 'It gives credibility to Russia's macro-economic program, particularly its renewed efforts to deal with fiscal problems.' Although the $700 million IMF

disbursement isn't expected to come until early January, the decision to recommend release of the loan opens the way for as much as $1 billion in credit from the World Bank before the end of the year. The money comes just in time. With borrowing costs spiraling and tax revenue slumping, the government is desperately short of cash to meet President Boris Yeltsin's Jan. 1 deadline for paying nearly $2 billion in wage arrears to state workers. Concern about the government's financial problems, combined with the plunge in emerging markets worldwide, worsened this week after Yeltsin was hospitalized with a bad cold. Investors unloaded Russian assets and sold the ruble on the news earlier in the week. Local markets were closed for a national holiday Friday, but in the offshore market for hard-currency Russian debt, prices rose on the IMF news, analysts said. 'It was largely expected, but not fully discounted,' said Stuart Brown, head of research for Europe, the Middle East and Africa at Paribas in London. He said Russian debt, especially the securities generated out of the London Club debt-rescheduling deal, are good buys at current levels, in contrast to ruble-denominated debt (GKO), which yields 30%-35% and is fraught with currency risk. 'I don't think you're being paid for the risk in GKOs,' Brown said. He said the ruble remains at risk if another shock - either domestic or foreign, such as the worsening problems in Korea - hurt confidence among foreign investors. 'We're going into Jan. 1 with a very uncomfortable ratio of foreign ownership of GKOs to foreign-exchange reserves,' he said. The central bank plans to lift remaining restrictions on foreign investment in the bond market from Jan. 1. Reserves, drained by heavy intervention in recent weeks, total about $18 billion, while foreign investors hold about $16 billion in GKO, according to central bank figures.

Dec 15

- South Korea stepped back from the financial brink as the prospect of billions of dollars in emergency credit from the International Monetary Fund restored confidence in the country's shattered markets. The won rose 10 percent to 1,563.9 against the dollar after tumbling by almost a third inside two weeks. The benchmark stock index soared 7.22 percent -- its biggest one-day percentage rise ever -- paring its loss for the year to 41 percent. The IMF board, meeting in Washington today, will consider a Korean request to speed delivery of a portion of the $60 billion international bailout announced Dec. 3, Korean newspapers reported. Several Korean government officials said they are unaware of any such request.
- The Indonesian rupiah plunged as much as 12 percent to the U.S. dollar, leading the rout in Southeast Asian currencies, as a possible freeze on Indonesian loan repayments raised concerns of a deepening financial crisis. The rupiah has lost 58 percent of its value this year, making it the world's worst performer against the dollar. The Philippine peso plunged to the lowest in more than 25 years, the Thai baht plummeted 5.3 percent to 47.35 a dollar, the lowest since the Thai central bank started keeping records in 1969, and the Malaysian ringgit fell 3.7 percent to its lowest since it was floated in 1973.
- Stock prices fell on most major Asia-Pacific markets on Monday, sunk by weak currencies across the region. But a rise in the value of the South Korean currency helped spark a 7.2% advance in Seoul. The Malaysian market dropped 2.9%, while shares in the

Philippines lost 1.9% and those in Singapore fell 2%. The Hong Kong market followed the lead of other slumping markets, dropping 1.7%. The decline erased much of an advance that was posted on Friday, leaving the index with an 11% loss for the past five sessions. Tokyo's shares rallied toward the close of trading to end little changed. The market dropped earlier in the day on a weaker-than-expected tankan survey of business sentiment. Issues dropped in Taiwan amid profit-taking.

Dec 16

- Tuesday. New hopes for fresh dollar infusions helped the South Korean won defy recent Asian exchange trends Tuesday by surging nearly 16 percent after the central bank decided late on Monday to scrap its trading band and allow it to float. The won ended at 1,425.0 against Monday's 1,563.9 close. Dealers said the won was benefiting from expectations of heavy dollar inflows under the IMF's nearly $60 billion bailout scheme for South Korea, which had moved players to unwind long dollar positions built during the won's near 50 percent drop last week. The government's decision to float the won, as requested by the International Monetary Fund (IMF), sell off one or two troubled banks and push forward with a $10 billion sovereign bond issue boosted Korean financial markets on Tuesday. But dealers said sentiment could quickly turn negative if more of the pledged IMF loans were not disbursed soon. The won was also expected to face selling pressure from importers seeking dollars towards the weekend. But the won's sudden surge against the dollar fueled another buying spree on the stock market on Tuesday, pushing the composite index 4.78 percent higher to 404.26 by the close. The country on Tuesday scrapped the 10 percent daily band on won/dollar trading and fully floated the local currency against the dollar.
- Other key Pacific Rim equity markets ended cautiously higher on Tuesday as analysts and brokers said that a new wave of concern is setting in over necessary economic restructuring plans. Although South Korean shares rallied for the second consecutive day and the Nikkei recovered somewhat, the Hong Kong market closed down by nearly one percent. Fears about more bankruptcies, provoked by a loan default by Shin Poong Pharmaceutical Co. Ltd., invited bouts of selling and brought the main stock index down from day highs, brokers said. The composite index still closed up 4.78 percent, 18.56 points higher at 404.26. The Korea Stock Exchange suspended trading in shares of Shin Poong after the firm failed to honor 91 million won of promissory notes on Monday. Hong Kong stocks slumped to a weak close on Tuesday with investors liquidating positions ahead of the year-end as the region's currency troubles encouraged them to reduce their exposure, brokers said. The Hang Seng Index fell 88.77 points, or 0.85 percent, to close at 10,346.38 after hitting a low of 10,305.91. Turnover was a low HK$7.22 billion, down from HK$7.77 billion on Monday. Tokyo stocks closed slightly higher on Tuesday, as most participants retreated to the sidelines ahead of the release of the Japanese ruling party's third batch of economic stimulus measures, brokers said. The 225-share Nikkei average gained 75.82 points or 0.48 percent to end at 15,985.21.The LDP's economic package will be finalized on Wednesday. Singapore shares closed more than two percent down on Tuesday as

investors dumped stocks on fears over the local currency's fall against the U.S. dollar.

- Moved by lower inflation numbers and the deepening financial crisis in Asia, the Federal Reserve's Open Markets Committee opted Tuesday to leave interest rates unchanged. The Fed policy board's decision, taken at its last meeting of the year, was widely expected. It leaves the fed funds rate -- the amount banks charge each other for overnight loans -- at 5.5 percent. The fed funds rate was last raised in March, then the first hike in more than two years. The announcement pushed the price of the 30-year Treasury bond down 2/32, moving the yield up to 5.97 percent. Analysts say the Fed was likely influenced by forecasts that the Asia crisis will slow U.S. growth by anywhere from a quarter percentage point to three-quarters of a percentage point during 1998. That would slow economic expansion from the 4 percent seen over the past year to a more sustainable rate. The move was also widely expected following Labor Department statistics released Tuesday that showed the consumer price index rose only 0.1 percent in November, below the 0.2 percent increase expected by economists.

Dec 17

- Bowing to foreign and domestic pressure to rescue Japan's faltering economy, Prime Minister Ryutaro Hashimoto on Wednesday announced a special two trillion yen ($15.7 billion) cut in personal income taxes. The United States applauded as Tokyo share prices surged, and the yen soared against the dollar on the unexpected news. But economists warned that the measure, while welcome, would not be enough to ensure a recovery and could cloud the political outlook for Hashimoto, who has made a pledge of fiscal reform a key pillar of his policy platform. The announcement came less than one day after a meeting between Hashimoto and Southeast Asian leaders at which he had pledged not to let Japan's economic and financial woes drag down the region and spark a world recession. Hashimoto has faced heavy pressure from within as well as outside his own ruling party to ease his tight fiscal stance, aimed at curbing the nation's huge budget deficit and preparing for the burden of a rapidly aging population. On Tuesday, an LDP panel approved a financial system stabilization plan including a call for the government to contribute 10 trillion yen ($78.7 billion) worth of bonds to the Deposit Insurance Corp. (DIC) to protect depositors and help boost capital at troubled financial firms. Another party panel unveiled proposals for corporate and other tax cuts worth 837 billion yen ($6.59 billion), but analysts and markets had dismissed the plan as too timid. Economists welcomed the income tax cuts, which basically reinstate a rebate abandoned this year in tandem with a rise in the consumption tax to five percent from three percent. The austere fiscal stance, combined with fallout from Asia's currency crisis and a domestic credit crunch born of Japan's financial woes, depressed corporate and consumer sentiment and looked set to drive the economy into a recession.
- The dollar was knocked sharply lower against the yen on Wednesday in Tokyo after the Japanese government's surprise announcement of a planned special income tax cut and market intervention by the Bank of Japan (BOJ). The dollar briefly fell as low as 125.70 yen, down nearly six yen from the day's high

of 131.53 yen on the pair of events. In late Tokyo trade, the dollar was quoted around 127 yen, compared with Tuesday's New York close of 130.72/82. Currency dealers and investors said the greenback could remain vulnerable in the near term, but over the medium term the yen's weak tone of the past several months is likely to continue as the proposed tax cut may not be enough to shore up confidence in the Japanese economy. The dollar's fall accelerated after talk began whirling through the market that the BOJ had begun selling dollars at about 129 yen. Eisuke Sakakibara, Japan's Vice Finance Minister for international affairs, later said Japan had taken steps to counter an excessive weakening of the yen. "We have taken decisive measures to cope with an excessive depreciation of the yen," said Sakakibara, who is known as "Mr. Yen" among currency traders because of the ability of his comments to move markets. In this case, his remarks were made in response to a question about the BOJ intervention. Dealers said the BOJ was estimated to have sold more than one billion dollars for yen in Wednesday's intervention, the first such action in the market since August 1992.

- Equities on all major Pacific Rim exchanges surged Wednesday, driven by the surprise news of a Japanese income tax cut aimed at rescuing the economy and by persistent central bank intervention. Seoul stocks surged for the third consecutive day on Wednesday, the eve of the country's presidential election, on hopes that the next government might better handle the economic crisis, brokers and analysts said. The composite stock index gained another 3.52 percent, or 14.23 points, to close at 418.49. It peaked at 422.52. "Whoever takes office, it will be better than under the current government," said Na Dong-ik, a broker at Daishin Securities. Hong Kong stocks surged to trade sharply higher on the afternoon, inspired by the firmer markets elsewhere in Asia and Wall Street's gains overnight, brokers said. The Hang Seng Index closed up 346.32 points, 3.35 percent higher at 10,692.70. Singapore shares pared morning gains in dreary afternoon trade on Wednesday with investor caution scotching dealers' hopes that a technical rebound might help revive the flagging stock market. The 30-share Straits Times Industrials Index closed up 7.76 points at 1,569.51, well off its intra-day high of 1,579.25.

Dec 18

- Fed up with their economy's freefall, voters in South Korea Thursday elected longtime dissident Kim Dae-jung to serve a five-year term as president, leaving some concerned that the country's financial markets will be further battered. Of the three major candidates, Kim was the most critical of the International Monetary Fund (IMF) bailout that is so crucial to the nation's recovery. He already has rattled financial markets with threats to renegotiate the IMF bailout plan. Both the Korean won and the stock market rallied 20 percent this week after the out-going government announced a series of reforms. But those measures still must be passed in the National Assembly. That is where uncertainty comes into play. Kim has been slow to embrace restructuring and certain election promises may make it difficult for him to push through change. During the campaign, he kept his ties with powerful labor unions and forged new ones with key industrialists, raising doubts about whether he can stand up to either group. Small and medium sized businesses fear that conglomerates, whose massive debt levels sparked the crisis, will continue to dictate economic policy.

- Pacific Rim markets drifted apart on Thursday with Tokyo stocks giving back a large portion of Wednesday's gains as excitement faded over Japan's surprise tax cut, while Hong Kong led Southeast Asian markets to a thin rally. The South Korean stock exchange was closed for the national elections. The key Nikkei average closed down 379.42 points or 2.29 percent at 16,161.64. It gained 555.85 points on Wednesday. "Today's decline does not mean the market is denying the positive impact of the special tax cut," said Masaaki Higashida, a Nomura Securities strategist. "But the market is realizing the [one-time] tax cut will have only a limited impact on consumer spending and have digested the impact," he said. Hong Kong stocks, lifted by firmer sentiment in Southeast Asian markets, shrugged off opening losses to close modestly higher on Thursday, although brokers said trading was thin ahead of the Christmas holiday. The Hang Seng Index ended up 61.41 points, or 0.57 percent, at 10,754.11 after losing about 30 points at the opening. As regional currency turmoil appeared to settle down, a broker said, Asian stocks were generally higher on Thursday -- except for Tokyo. Singapore shares regained 21.90 points, leaping 1.4 percent to close at 1,591.41.

Dec 19

- The failure of a foodstuffs trader renewed concerns about the precarious state of the Japanese economy, forcing shares in Tokyo into a 5 percent plunge and dragging down stock sentiment all over the Pacific Rim. The benchmark Nikkei average collapsed 846.75 points -- more than five percent -- to finish at 15,314.89. It was the Nikkei's third biggest point drop for the year. A triple-digit loss for U.S. stocks overnight contributed to the grim market mood, traders said. Investors say the collapse on Thursday of foodstuffs trader Toshoku Ltd. -- the fourth-largest bankruptcy in post-war Japan - provided more evidence that debt-ridden Japanese banks have tightened lending so severely the economy is in the grip of a credit crunch. Toshoku, a major player in the international grain markets, said after the markets closed on Thursday it was forced to file for bankruptcy protection because banks were tightening the screws on lending. The economic pessimism prompted the barrage of selling. Shares of stocks that are hovering near their face value were particularly vulnerable.
- South Korea's financial markets faltered on Friday, one day after presidential elections, as concerns about the country's economy resurfaced. Seoul stocks plunged to 397.02, losing 21.47 points or 5.13 percent on renewed concerns about hardships accompanying the International Monetary Fund (IMF)-led rescue package, brokers said. South Korean shares fell even as president-elect Kim Dae-jung promised to faithfully abide by the country's financial agreements with the International Monetary Fund (IMF). Responding to a question on what he would do about unemployment, Kim said he would continue consultations with the IMF to "minimize" massive unemployment and defaults. He said he would try to see that legislation implementing IMF reforms is adopted by the National Assembly. Kim also said it would be impossible to undertake reforms without pain. Thursday the IMF approved a second installment of a $21 billion emergency loan to South Korea to help get its ailing economy on track. IMF managing

director Michel Camdessus said the agency's board had approved lending the equivalent of $3.5 billion in special drawing rights , the quasi currency the IMF uses to denominate its loans. The IMF made $5.5 billion available to South Korea when it approved a $21-billion loan for the nation earlier this month.

- Hong Kong stocks closed sharply lower on Friday after tumbling at the open on negative Wall Street and Tokyo sentiment, but brokers said a minor pre-holiday rally was possible next week. The Hang Seng Index closed 348.30 points, or 3.24 percent, lower at 10,405.81, but off the day's low of 10,352.68. Singapore shares closed weaker on Friday as fears of interest rate rises, volatility in the Singapore dollar and weakness in regional stock markets sent investors scurrying to the sidelines. The benchmark Straits Times Industrials Index dropped 18.80 points to 1,572.61 by the close on weak volume.
- In the US., the Dow Jones industrial average tumbled 269 points at one point on Friday but recovered to end down 90.21 on a combination of Asian turmoil and "triple witching" expirations.

Dec 22

- Asian currencies were mostly weaker in thin pre-holiday trade Monday after Moody's Investors Service downgraded the sovereign debt of four countries, lowering three of them to junk-bond status. Moody's said it had downgraded the foreign currency ceiling for bonds and bank deposits of Indonesia, Malaysia and South Korea in view of Asia's continuing financial woes. It also downgraded Thailand's foreign currency ceiling for bonds and confirmed the ceiling for bank deposits. The ratings agency attributed the moves to concerns about Seoul's near-term foreign currency financing needs, the ability of Indonesia's corporate sector to meet overseas f debt obligations given the rupiah's drop of over 50 percent and Malaysia's increased vulnerability to financial instability in the region. Moody's confirmed the foreign currency ceiling for bonds and bank deposits of China, Hong Kong, Japan, Singapore, Taiwan, Philippines and Vietnam.
- News of the downgrades, which would ordinarily have sparked a selling spree in bearish Asian currency markets, caused little more than a hiccup as most players had already closed their books and were unwilling to commit themselves before the end of the year. In South Korea, the won ended at 1,715 to the dollar against Friday's 1,550, depressed by Moody's move and importer demand for dollars in a market short of the U.S. currency. Dealers dismissed the Finance Ministry's efforts to liberalize foreign investment in bonds of state and state-run companies and in short-term corporate bonds. The Taiwan dollar ended at T$32.603 per U.S. dollar against a previous T$32.374 close due to the U.S. dollar's overall strong tone. The Hong Kong dollar and forwards were steady in slow trade. Most Southeast Asian currencies looked soft, but dealers said they expected range trading due to a lack of participation. The Indonesian rupiah outshone its regional counterparts, firming to 5,050/100 to the dollar at 1050 GMT against early levels of around 5,200/5,300 despite the Moody's downgrade. The Thai baht slid to 47.00/20 per dollar onshore against 45.90/46.30 late on Friday on corporate demand for dollars. The offshore rate was at 44.70/45.20 against 45.05/45.45. News of Moody's downgrades of Thailand's foreign currency ceiling for bonds to a junk bond grade had very limited impact as players had

expected the worst and some companies had already closed their books for the year. The Singapore dollar remained weak at 1.6750/80 to the U.S. dollar against 1.6710/40 on Friday. Dealers said there was no sign of the de facto central bank after last week's apparent interventions, which rescued the currency from six-year lows. Some said the appointment of Deputy Prime Minister Lee Hsien Loong as chairman of the Monetary Authority of Singapore (MAS) was keeping the U.S. dollar well bid, reflecting the market's unease with changes in the current environment. The ringgit slipped to a low of 3.8680 to the dollar after ratings downgrades of Malaysia's sovereign debt and selected companies. Dealers said its drop was exaggerated by very poor liquidity. The Philippine peso closed at 40.08 to the dollar from Friday's 39.540 close as demand for dollars rose after the central bank suspended its intervention. The Bankers Association of the Philippines said it would temporarily stop selling dollars to the central bank, effective Tuesday, cutting off supply to a pool of funds meant to stem the peso's slide by providing dollars for companies in need of them.

- A new wave of selling brought the Tokyo stock market's key index to a two-year low on Monday, taking Asian markets along for the bumpy ride. The market was dragged down by fears that tightened bank lending may cause more corporate bankruptcies, and that in turn may increase banks' problem loans, brokers said. The Nikkei 225 average closed down 515.49 points, or 3.37 percent, at 14,799.40, after briefly dipping as low as 14,569.43. The Nikkei average last finished below 15,000 on July 5, 1995. The concern about more corporate bankruptcies was fueled by last week's insolvency filing by foodstuffs trading house Toshoku Ltd. Sentiment in the Tokyo stock market was also darkened by a setback on Wall Street, where the Dow industrials closed Friday down 90.21 points or 1.15 percent at 7,756.29. In South Korea, financial markets were dealt another blow when a leading credit rating agency lowered the country's foreign currency ceiling on bonds and bank deposits. The news from Moody's, although expected, which ordinarily would have sparked a selling spree on the stock market, hardly sent a ripple through Seoul's stock market as investors focused more on domestic factors. The composite stock index closed at 396.06, down 1.03 percent or 4.13 points against Saturday's close. "The market won't be shaken up by Moody's as the negative factors have already been reflected and nothing fundamental has changed. It's not a shock for investors," said Peter Kim, a broker at HSBC James Capel. "The market will move in a narrow band of 30 points up and down from 400 until the year-end unless a chaebol [large conglomerate] goes bankrupt," he added. However, the won lost ground, closing at 1715.0 against the dollar, compared to Friday's close of 1,550.0. Brokers said the won's weakness and soaring interest rate did not hit stocks hard thanks to large customer deposits. Hong Kong stocks slipped to a sharply lower Monday close, dented by Wall Street's drop on Friday, slumping stocks in Tokyo and falling futures, brokers said. The Hang Seng Index finished 233.34 points, or 2.24 percent, lower at 10,172.47. "I think a lot of people are a bit pessimistic about next year after the IMF's correction of its previous forecast on Asian economies," said Li. Singapore shares closed in a depressed mood on Friday with no sign of any Christmas cheer to lift trading volumes and prices, dealers said. The key Straits Times Industrials Index sagged 1.97 percent, or 30.96 points, to 1,541.65.

- Asia's raging financial crisis threatens to put a damper on global growth but there is no reason to be overly pessimistic about the world economy's prospects, the International Monetary Fund said in its World Economic Outlook report. In the report, an interim revision compiled after the fund had to adjust its original 1998 estimates amid Asia's financial woes, the IMF forecast sharp falls in Asian growth. But the fund said overall world output would still grow by a buoyant 3.5 percent next year, 0.8 percentage points below its previous forecast in October and 0.6 points below this year's estimated rate of expansion. "The threat to global growth from the present crisis is reasonably limited," the report said. While noting that growth in North America and Europe looked "well sustained in the period ahead," the IMF warned that "a sharp slowdown in economic growth is an unavoidable consequence of the type of crisis affecting a number of the Asian economies." Three former "Asian tigers" - Indonesia, Thailand and South Korea - have had to appeal to the international community for help over recent months as a financial tornado ripped through the region. The IMF has put together international bailout packages for those countries totaling more than $100 billion. Admitting that it originally had misjudged the extent of the turmoil, the fund appealed to troubled Asian nations to urgently reform their fiscal systems, keep monetary policy tight and overhaul weak financial sectors. Still, it warned the risk of the Asian trouble spreading to other countries had grown and that there was no way of knowing whether the world had yet seen the worst. The lending agency warned that a further slowdown in the already sluggish Japanese economy posed the "key risk" to advanced economies elsewhere in the world. In the gloomiest section of the report, the IMF predicted the Japanese economy would grow by only 1.1 percent in 1998 compared with 1.0 percent this year. It said Japan's recovery had "essentially stalled" this year and that the country's economy was "now expected to experience markedly slower growth in both 1997 and 1998 than in 1996." The IMF forecast Thailand's economy to stagnate next year, a marked downturn from the fund's predictions of as much as 7 percent growth for Thailand as recently as May. Growth in South Korea was expected to fall to 2.5 percent next year from 6.0 this year, the IMF said. The turmoil in Asia is widely expected to dampen growth as well as inflation prospects in major industrialized economies by reducing their exports to the region and keeping a lid on the prices of goods they import from Asia

Dec 23

- News that three countries in Asia had their sovereign debt downrated to junk bond status bludgeoned a number of key markets on Tuesday, with South Korea falling the lowest as stocks posted record percentage point losses. However, shares on the Hong Kong exchange closed up on a boost from Wall Street, while the Tokyo market was closed for a national holiday. The key composite index on the Korea Stock Exchange ended the day at 366.36 points, or 7.50 percent lower than Monday -- a record one-day plunge in percentage terms. Brokers said concerns that rising interest rates could push companies into default caused investors to dump shares by the wheelbarrow load. "The only shares that seemed to be trading were those of the large conglomerates," said Na Young-hwan at Kyobo Securities. "Small and medium-sized companies were largely ignored as investors feared domino defaults even among healthy companies." Of 861 stocks which dropped, 772 hit their daily lower limit. Brokers and dealers said the markets slid as confidence in South Korea was shaken by comments from President-elect Kim Dae-jung and further downgrades by Moody's Investor Service and Standard & Poor's. "We don't know whether we could go bankrupt tomorrow or the day after tomorrow," Kim told local media on Monday. "I can't sleep since I was briefed [about the financial situation]. I am totally flabbergasted." Standard & Poor's cut the country's long-term and short-term foreign currency ratings to junk bond status from investment grade -- more severe than the downgrading issued by Moody's Investors Service the day before. "The won's nose-dive was the major factor to ruin the debt market," said Oh Byung-geun at Daishin Securities. Dealers said the won's turbulence reminded the debt market of the possibility of debt defaults by South Korea. "Some investors are cautiously whispering about the possibility of a [debt] moratorium, which they're concerned about more than anything else," an LG Securities dealer said. The Finance Ministry has estimated short-term debt due in December at between $14-$15 billion with another $15 billion due in January.

- Analysts say much mystery still surrounds South Korea's debt picture and the unknown factor is spooking the markets. "There's too much cloak and dagger stuff," said one analyst with an international brokerage. "Only they [the government] know how dire it really is. But the exchange rate is saying how the markets feel how dire it is."
- The World Bank approved a $3 billion loan for economically troubled South Korea Tuesday as part of an International Monetary Fund-sponsored rescue package, officials said. "That loan has already been disbursed this afternoon," World Bank spokesman Mark Malloch Brown told a news conference in Washington.
- Hong Kong stocks ended Tuesday higher with support from Wall Street's gains overnight after thin trading ahead of Christmas had sent the market on a bumpy ride. The Hang Seng Index almost erased Monday's losses and closed 195.63 points, or 1.92 percent, higher at 10,368.10. Singapore shares gave up their gains to end lower on Tuesday as earlier cheer from Wall Street's rebound was swamped by worries about Malaysia debt rating being downgraded to junk bond status. "The focus was on Malaysia," said a dealer with a local institution. "Standard & Poor's (S&P) downgrading of the country's credit ratings just weighed on the entire market." After hitting a high of 1,1557.09, the Straits Times Industrials Index ended at 1,536.31, down 5.34 points.
- US investors appeared more concerned with last-minute holiday shopping than with stock buying as the latest chapter of South Korea's financial woes weighed on the market. The Dow Jones industrial average plunged 127.54 points Tuesday to end at 7,691.77 -- the lowest closing level since Nov. 18. A late round of computer-generated sell orders also contributed to the decline. "The bias at this time of year should be up and, if it's

not, it will be because of Southeast Asia," said James Awad, president of Awad & Associates.

Dec 24

- Seoul stocks were the center of attention among Asia's markets which turned in mixed performances on Wednesday before the Christmas break. South Korean shares plunged six percent at the opening on concerns Korea's present financial crisis could lead to a debt moratorium. After Tuesday's record fall in percentage terms of 7.50 percent, the composite index fell a further 6.29 percent to 343.32 points shortly after trading started. But a recovery in the Korean won helped drag prices up from early lows and the index closed at 351.45, a fall of 14.91 points or 4.07 percent. "The market will remain extremely volatile in the next four or five days," said a foreign bank dealer in Seoul. Some U.S. banks appear to be concerned about the ability of South Korean companies to repay their loans in the wake of the country's ongoing financial crisis. Several of these banks are considering restructuring their loans to South Korean customers, the Wall Street Journal said Wednesday. Those banks include BankAmerica, which has $613 million in short-term loans, and an additional $96 million in longer-term loans. BankAmerica admitted that it is exploring the possibility of working out an arrangement to give its lendees more time to repay. South Korea is in the midst of financial turmoil which recently resulted in the country receiving a $57 billion loan package put together by the International Monetary Fund. The United States pledged $5 billion in backup loans toward the cause, which were to be used only as a second line of defense for South Korea. However, U.S. officials are now considering a move toward lending some of that money to South Korea now. The World Bank also came to the aid of South Korea on Tuesday, rushing through an additional $3 billion in loans to the nation. The mood in Korea has been made more gloomy by the country's president-elect, Kim Dae-Jung, who said that he feared Korea "may go bankrupt" although his party quickly downplayed his statements. Kim continued his Cassandra-like statements on Wednesday, saying that noncompetitive companies should be allowed to fail. He went on to address the politically sensitive issue of layoffs in South Korea. "We can try a wage freeze and if that doesn't work, we can try wage cuts. If that also fails, we have no choice but to lay off," said Kim.
- Other Asian markets tended to be mixed with sentiment dictated by local factors, the approach of the festive season and Wall Street's 127.63 point fall to 7,691.77 overnight, dealers said. The Tokyo stock market's key index snapped a three-session losing streak on Wednesday, advancing on a plan by the ruling Liberal Democratic Party (LDP) to stabilize Japan's financial system, brokers said. But many brokers said the rebound was mostly technical after recent sharp losses, and that the market's underlying sentiment remained dismal. The 225-share Nikkei average closed 125.58 points or 0.85 percent higher at 14,924.98. Hong Kong closed slightly lower on Wednesday in a half-day pre-holiday session, resilient in the face of bigger falls in overseas markets and lingering uncertainties about the near-term outlook, brokers said. The Hang Seng Index closed down 25.66 points, or 0.25 percent, at 10,342.44 after zigzagging in and out of positive territory during the session. Singapore stocks were boosted by news that Singapore Press Holdings was proposing to scrap its dual listings. Dual listings

of shares with local and foreign trances were originally introduced in Singapore to protect companies considered to be strategically important, such as Singapore Airlines. At the close, the Straits Times Index was up 2.39 percent at 1,572.96.The US stock market ended the Christmas Eve-shortened trading session with minuscule losses as some companies slipped in earnings warnings while many Wall Streeters were out of town. The Dow Jones industrial average closed 31.64 points lower at 7,660.13.

- The International Monetary Fund (IMF), the United States and 12 other nations Wednesday pledged to speed $10 billion in bailout money to South Korea to support its embattled economy. But for Seoul to recover, they said it was critical that international commercial banks agree to a "significant" debt rescheduling to aid ailing Korean financial institutions. The IMF said in a statement that it would make $2 billion available to South Korea on Dec. 30 from the $21 billion it had already set aside for the financially troubled country. The IMF plans to dole out another $2 billion to Seoul on Jan. 8. The United States, Japan, France, Germany, Britain, Canada, Italy, Australia, Belgium, the Netherlands, New Zealand, Sweden and Switzerland said they would hand over $8 billion to South Korea by early January. The $8 billion is part of $24 billion those countries had already pledged, but was previously expected to be used only as a last resort. The United States said it would chip in $1.7 billion. Tokyo's contribution will be $3.33 billion. Britain said it would provide more than $400 million. "This is a major world event and they have made extraordinary efforts," U.S. Treasury Secretary Robert Rubin said of Seoul's newly-elected government. "It seemed appropriate for the (Group of Seven) industrial countries and other nations involved in the second line of defense" to move their aid effort forward, he added. South Korea turned reluctantly to the international community for help last month as its financial system crumbled under the strain of bad loans and a weakening currency. The nearly $60 billion rescue package that the IMF put together, even bigger than a U.S.-led international bailout for Mexico in 1995, was the third multibillion-dollar loan masterminded by the fund this year. The IMF has also led costly bailout programs for Thailand and Indonesia. At a briefing for reporters Wednesday, Rubin defended his decision to let Seoul draw on what was expected to be a second line of defense. He said the disbursements were needed because South Korean stability was "critically important" to U.S. economic and national security interests. South Korea already has taken significant steps to open up its economy and to reform its management, and it was fitting for its trading partners to take an extra step to speed the effort, Rubin said. Finance Minister Lim Chang-yuel said earlier in Seoul that South Korea had agreed to several fresh reforms in exchange for the swift aid -- opening capital markets much quicker, and allowing foreign banks and security firms to open wholly-owned subsidiaries. South Korea's inability to get lenders to roll over short-term debt has been at the heart of the crisis. About $15 billion of an estimated $100 billion in short-term debt was coming due this month and another $15 billion next month. Lim said Seoul was in talks with commercial banks about possible debt rollovers. He said he was also discussing "the possibility of access to market borrowing in early 1998." At a briefing in Washington, senior IMF officials said they expected major commercial banks to agree to a "significant" increase in debt rollovers or maturity extensions. "The commercial banks have to do their part," said one IMF official, who asked not to be identified. "This is to be done on a voluntary basis. We expect that will be done." Japanese officials said the rolling-over of existing loans by private banks to South Korea would be a precondition for support by donor countries. In a joint statement released in New York, six top U.S. banks said they may provide supplemental funding to help South Korea. The banks said they planned to meet early next week to discuss "how such funding can be mobilized expeditiously." "We intend to discuss with other major financial institutions active with Korea how the private sector can best augment the accelerated disbursements or public funding announced today," the six banks said. U.S. Treasury chief Rubin said he was very confident the U.S. contribution -- which will come from a special fund administered by Treasury that does not require Congress' spending approval -- will be repaid by Seoul.

- The Indonesian rupiah plunged to a new record low Wednesday, as domestic demand for dollars again reached panic levels on reports that the country's short-term debt burden is higher than previously thought. After falling as far as 6,300 rupiah to the dollar from a Tuesday closing of 5,450 rupiah, the currency bounced back after reports of late afternoon intervention by Bank Indonesia, the nation's central bank, trading late Wednesday in Asia at around 5,750 rupiah versus the dollar. But analysts said the currency may head still lower in coming days. In addition to worries about the short-term debt burden faced by Indonesian companies, the rupiah was hurt by the recent downgrades of Indonesian debt by major ratings agencies. The downgrades heightened fears international banks will be unwilling to roll over their loans to the corporate sector. Earlier this week, Moody's Investor Service lowered its rating for Indonesia to Ba1, a junk rating. What is needed, analysts say, is more evidence that the government is prepared to take serious steps to control the crisis -- such as measures to create more competition in the financial sector and open up the property market to foreigner investment. Little new has emerged since Indonesia implemented some reforms after turning to the International Monetary Fund in October for a near $40 billion bailout. Thailand and Malaysia, meanwhile, now appear to be taking the need for reform seriously, analysts say. The market had been hoping for substantive policy news at a cabinet meeting headed by President Suharto Wednesday. But the meeting proved a disappointment for the markets -- yielding little more than a request for Indonesians to refrain from buying imported items. And the threat from Indonesia's debt obligations is apparently much worse than initial projections, according to a December report by European investment house Indosuez W.I. Carr Securities. Indosuez estimates that total Indonesian debt is likely to be closer to $200 billion, as opposed to the Indonesian government's official figure of $117 billion. Indosuez estimates that at least $44 billion in offshore bond borrowings are not included in the official government figures, nor are short-term, off-shore borrowings. And the fear that international banks won't roll over their loans after the Moody's downgrade spurred Indonesian companies to buy dollars Wednesday, even at exorbitant rates. The hopes for new reform will now likely focus on Mr. Suharto's Jan. 6 budget speech, analysts said. In addition, the capital market regulator, Bapepam, said the government will unveil 15 new regulations Friday in a bid to bolster the sentiment on the country's sagging capital market. Market speculation has focused on a possible liberalization of the nation's financial-services sector and a reduction in barriers to foreign ownership of property. They were also looking for a government action plan for dealing with corporate insolvencies. The Jakarta Stock Exchange index eased 0.5 to 396.531 Wednesday.

- The rupiah's fall on Wednesday has left other regional currencies largely unaffected in late Asian trading. The ringgit was at 3.8750 ringgit to the U.S. dollar, up from 3.8848 ringgit at Tuesday's close. The Singapore dollar was also higher at S$1.6740, up a touch from S$1.6750 late Tuesday. In the offshore market, the Thailand baht was at 46.30 baht to the dollar, higher than 47.85 baht late the previous day. The Philippine peso earlier closed at 39.97 pesos, up from 40.22 pesos at Tuesday's close. The only exception was the New Taiwan dollar, which has slipped to NT$32.615 to the U.S. dollar, from NT$32.520 at the end of trading on Tuesday.
- The outlook for Japan's financial sector worsened Wednesday as Standard & Poor's cut its ratings on two of that country's major banks. The influential ratings agency downgraded Sanwa Bank Ltd. and Sakura Bank, both of which are among Japan's top 10 commercial banks. S&P said it took the action against Sanwa because, despite aggressively writing off of some bad debts, the bank will still need to set aside about $5.7 billion toward credit costs. Those costs resulted from the declining value of Sanwa's real estate holdings, S&P said, along with a generally weaker financial situation in Japan. Sanwa, like many banks, has been hurt by the burst of the "bubble economy" in the late 1980s and early 1990s when a run-up in real estate prices collapsed, leaving banks holding many bad debts. Similar bad debts also led S&P to lower rating on Sakura. The bank is in a weaker financial position than other Japanese banks, S&P said, leaving it more vulnerable to the country's market and economic problems. S&P's outlook for Sanwa was brighter, however. It said that Sanwa's accelerated plan to get rid of its problem loans is a positive step, even though it will be costly in the short term. In the long term, Sanwa's high liquidity, stable base of deposits and strong place in the country's market should help it maintain its position. Four other Japanese banks. Asahi Bank Ltd., Fuji Bank Ltd., Industrial Bank of Japan Ltd., and Tokai Bank Ltd. had their credit ratings placed on CreditWatch with negative implications. CreditWatch is a review process conducted by S&P which looks at circumstances which could change a company's rating. In the case of the four banks, the negative implication means their ratings could be revised downward.

Dec 25

- South Korean financial institutions could face a severe cash shortfall and possible default at the end of this month if Seoul sticks to International Monetary Fund conditions and restrains money market liquidity, bankers in Tokyo said Thursday. Monetary sources said that under South Korea's IMF-led bailout package, Seoul had agreed in principle to reduce money market cash liquidity to no more than 25 trillion won by the market close Dec. 31. "If Seoul strictly meets this IMF conditionality . . . some banks will have to face a de facto default in the market," said a senior banker at a major Japanese bank. If the conditions are met, South Korean monetary authorities may be forced to suspend business at banks unable to raise necessary funds for two to three months from Dec. 31, bankers said. The possible liquidation or closure of debt-laden banks might not occur, however, until the new administration is formally installed in Seoul, they said. South Korea's president-elect Kim Dae-jung officially takes office Feb. 25. The bankers also said that an agreement early Thursday to disburse a further $10 billion from South Korea's IMF bailout plan by early January will provide little relief for cash-strapped Korean financial institutions. This is because the money was expected to be used mostly for the repayment of foreign borrowing, they said. The bankers said South Korea's foreign debt obligations falling due between Jan. 1 and Jan. 10 are believed to total as much as $10 billion. They said South Korea's central bank settlement system had recently been operating until midnight every day to cope with banks' fund-raising demand. Bank of Korea Governor Lee Kyung-shick arrived in Tokyo Tuesday for a three-day visit and met top officials from Tokyo's biggest banks in an apparent bid to encourage the rolling over of loans to South Korean financial institutions. Lee was also to meet Bank of Japan Governor Yasuo Matsushita and top officials of Japan's Finance Ministry Thursday. Earlier Thursday, South Korea said it agreed to new reforms with the IMF in return for the early disbursal of $10 billion. Donor nations to the country's record IMF-led bailout package of nearly $60 billion have promised $8 billion by early January while the IMF plans another $2 billion disbursement to Seoul on Jan. 8, in addition to the $2 billion it expects to make available Dec. 30.

Dec 30 - The world's major banks prepared on Tuesday to join an effort to throw ailing South Korea a lifeline by rolling over a mountain of short-term debt due to be paid on Wednesday. The effort, beginning Monday with an announcement from a group of key U.S. and German banks, is expected to help Korea manage its estimated $100 billion in short-term debt, of which $15 billion comes due by Dec. 31 and another $15 billion next month. Overnight, leading institutions from Asia, Europe and North America pledged to work to restore South Korea to fiscal health, with short-term debt seen as its major problem. Leading Dutch banks ABN AMRO and ING said they have agreed to roll over South Korean debt following a request from the International Monetary Fund, but on the condition that other G-10 nations as well as Australia and New Zealand do the same. After two separate meetings in New York, bankers issued statements of support for South Korea in a move aimed at giving a psychological boost to the global bailout effort. Neither statement gave specifics of what the banks would do but people familiar with the situation said it was clear the major lenders were willing to roll over billions of dollars in short-term credits coming due as soon as the year ends on Wednesday, possibly for as long as 18 months. ING and ABN agreed to the rollover in informal talks with the Dutch central bank, which received an IMF request to ask commercial banks about a voluntary debt restructuring. A spokesman for the central bank said the same request had been made to other national central banks. An ING spokeswoman said that the rollover was the only concession agreed by Dutch banks regarding South Korea. She would not disclose the amounts involved. European banks have been the most aggressive lenders to South Korea in recent years, with their combined exposure amounting to $33.8 billion by the end of 1996, according to figures from the Bank for International Settlements. U.S. banks were owed a combined $9.36 billion. Japanese banks, which have been reducing their exposure, still remain heavily involved, with claims of $24.3 billion. Individual figures for bank exposure to South Korea are not released, but the overall exposure of Dutch banks to South Korea was just short of $2 billion at the end of 1996. The talks in New York, led by New York Federal Reserve President William McDonough, followed reports from Tokyo and London that banks worldwide were preparing to extend short-term loans to Seoul to help resolve the economic crisis there which has roiled markets around the world. Germany's top banks pledged on Monday to take part in an international private-sector financing initiative to prevent South Korea from defaulting on its debts and to protect the global financial system. The Wall Street Journal said on Tuesday banks in the United States, Europe and Japan were considering extending new credit of as much as $10 billion to the government of South Korea, after the high level meetings on Monday. Sources in Frankfurt, Germany's financial hub, said the provision of fresh loans was not under serious discussion at the moment, but would be an option at a later stage. A German source said his impression of the meeting of German bank representatives in Frankfurt on Monday had been that the current focus would be on rolling over debt.

The International Monetary Fund approved a $2 billion payment for troubled South Korea Tuesday, bringing IMF payments to more than $11 billion in just under a month, a spokesman said. The money, being paid under an accelerated schedule approved by creditors last week, is intended to ease a painful credit crunch in South Korea. It is part of a record-breaking $60 billion international rescue package that includes $21 billion from the IMF. The IMF said last week that Managing Director Michel Camdessus would recommend the $2 billion payment, designed to help restore confidence in South Korean financial markets. The money originally was to have been handed over next year(1998).