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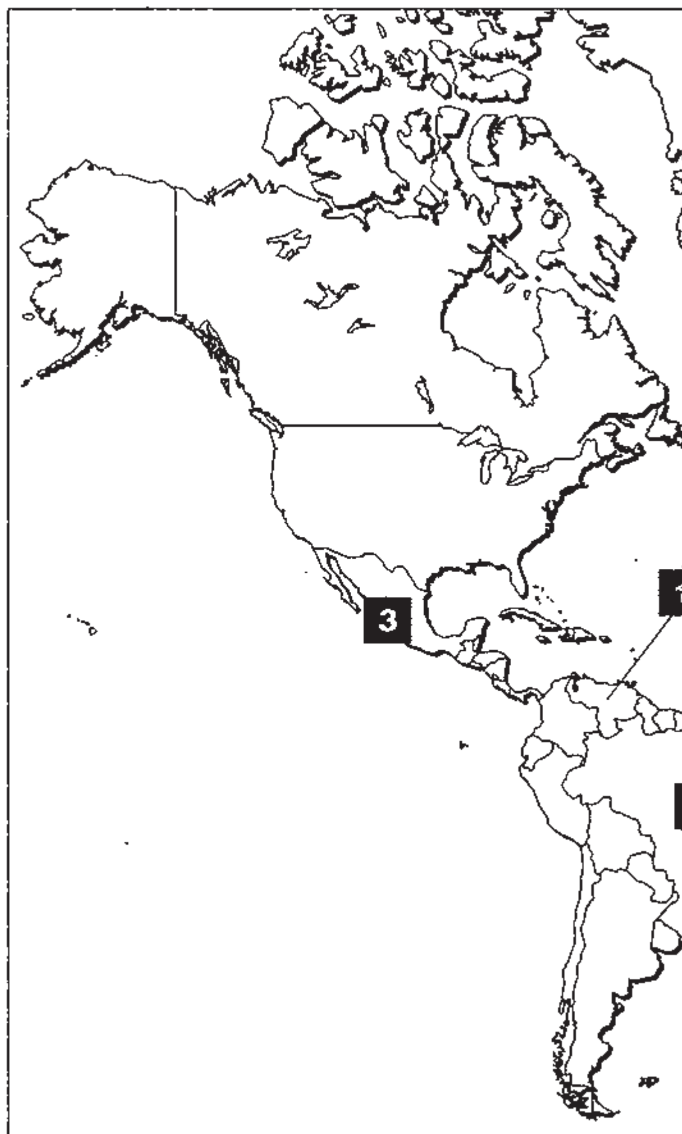
Ides of March comes to financial markets

Contrary to the public claims of government of cials and bankers, the crisis that struck Asia last fall is by no means over. Beware the Ides of March!



1. Venezuela: On Feb. 16, Finance Minister Freddy Rojas announced $2.5 billion in cuts in public spending, because of the sharp drop in the international oil price. The government is considering a Value Added Tax, which had been eliminated in 1994. Capital ight was $820 million for the rst three weeks of January. Interest rates are 35-40%, which threatens to blow out the banks. Moody's has downgraded Venezuelan debt paper from "stable" to "negative."

2. Brazil: Brazil squeaked by the October-November 1997 crisis by doubling interest rates, slashing the government budget, and announcing plans to privatize about $30 billion in state assets in 1998. But the crisis continues. Public debt stood at $228 billion in November 1997. Nearly $200 billion of this is short-term paper, and $60 billion comes due in the rst quarter of 1998 alone; $35 billion is in dollar-denominated NTN-Ds. The private foreign debt is reported to be well over $100 billion. Foreign banks are lending directly on the domestic market, building up de facto foreign obligations for the country, which may total as much as another $40 billion. The Brazilian derivatives market is the fourth largest in the world, with a 1997 negotiated volume of nearly $7 trillion.

3. Mexico: The collapse of the oil price has brought to ruin Mexico's carefully laid nancial plans. The government has announced budget cuts of close to $2 billion, the gradual devaluation of the peso is picking up speed, and interest rates on government paper are starting to rise again. The purchasing power of wages fell by 14.7% in 1997, while the of cial minimum salary of 30 pesos per day (about $3.50) bought only 6 out of the 34 products in the of cial market basket of consumer goods. About 70% of the workforce make less than three minimum salaries.

4. Japan: Japanese banks, the world's largest, sit on $1 trillion in bad loans to the Tokyo real estate bubble, to which have just been added, formerly good loans to companies in the rest of Asia, just made bad by nancial crises. On March 31, Japan's banks must declare their annual nancial gures. They are under pressure to show an adequate ratio of their capital to their loan assets, when much of the book value of their capital comes from share values on the Tokyo stock exchange. The government adopted an unprecedented $238 billion domestic bailout package, for the purpose of selectively buying shares, backing deposits, and doing other things to prop up banks and nancial entities.

5. South Korea: The South Korean won collapsed by 95%, from 700 per dollar to 1,600 in late 1997, under speculative attack by hedge funds, causing foreign banks to call in over $24 billion in short-term loans. Those were rolled over on New Year's Eve; a 90-day to three-year stretch-out was subsequently arranged, but some $25 billion in short-term loans are due in March. The won has been stabilized by harsh IMF conditions of 30% interest rates, 1 million layoffs, and a rewrite of ownership laws, allowing foreign investors to buy up Korean assets. The harsh rates and lack of credit, however, will soon send another 50,000 companies into bankruptcy, snowballing the Korean banks' bad loans.

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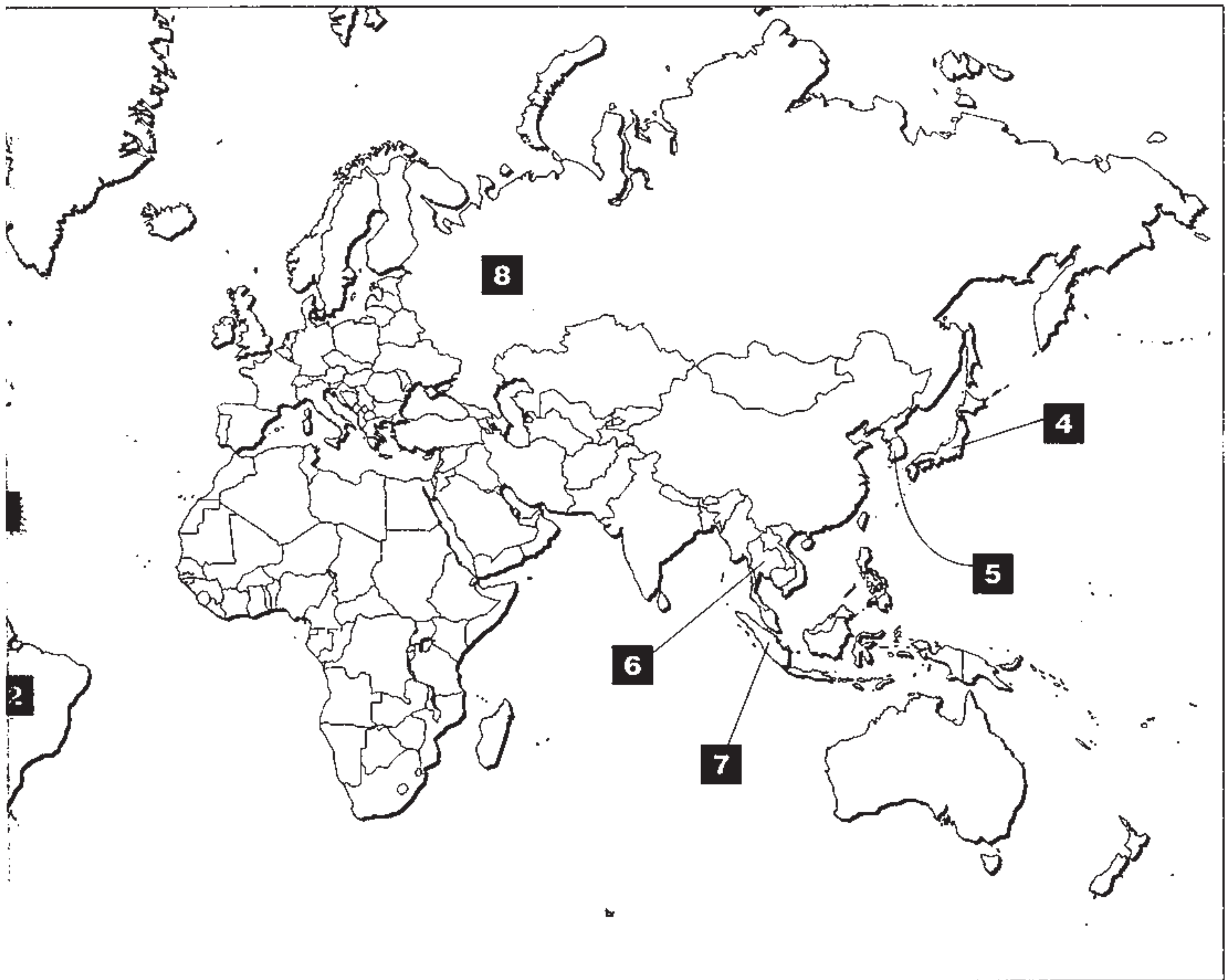

6. Thailand: The Commerce Minister says that Thailand won't hit bottom before mid-1998. Some 80-90% of $72 billion private sector foreign debt was rolled over for only three months at the end of December 1997. By mid-1998, 15 state-sector rms must nalize privatization plans. Four of 15 commercial banks have been taken over by Bank of Thailand for failure to meet capitalization plans against non-performing loans. The IMF's third letter of intent abandons 1% budget surplus, but hikes bank capital requirements against bad loans. Thailand is seeking urgent trade nancing credits from Japan, the European Union, and the United States. Thailand has received only $7.9 billion of a $17.2 billion IMF 1997 "bailout" package.

7. Indonesia: Moratorium on $74 billion in private foreign debt still in effect, as Indonesia goes into a Presidential election period March 1-11. Foreign reserves are at $17.7 billion, down $2.3 billion since January. The currency was devalued nearly 80% since July 1997. The rupiah at 9,500:$1 (on Feb. 24) means that virtually the entire corporate sector is bankrupt. Emergency aid from the World Bank has nanced medical imports, which now cost 500% more. Per-capita income is down 43% since 1998. Food-price riots are spreading.

8. Russia: Portions of the $56 billion in GKOs (government treasury borrowings) come due periodically, and are carrying variable interest rates, which saw a high of over 40% (annual rate) in early February. Paycheck arrears continue for millions. In order to meet a Jan. 1 deadline for state-sector wage arrears, the government borrowed in the range of $800-950 million abroad. The international oil price collapse is creating havoc; 75% of the value of Russian exports comes from oil, gas, and commodities. In February, an IMF team was in Moscow for two weeks, demanding deep budget cuts, and trade and tax bene ts favoring foreign over national interests. But as of late February, the Duma had refused to pass the budget.