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Camdessus says PM's point valid (HL)

Fauziah Ismail; Adeline Ong; Wendy Lim

MR MICHEL Camdessus, the IMF boss, agrees with Prime Minister Datuk Seri Dr Mahathir Mohamad that currency traders should not have too much leverage position, but regulating currency trading, he says, is "a tough call to make".

"Dr Mahathir has frequently said that it is no good that currency traders have such leverage position. I agree with him on that. But it is difficult to find a proper equilibrium point for regulation," he told a press conference in Kuala Lumpur yesterday.

He was asked about the International Monetary Fund's position on regulating currency trading, a call that Dr Mahathir has championed and which is gaining acceptance in the wake of the South-East Asian currency and stock market turmoil.

Camdessus said the IMF has arrived at some preliminary findings based on a study on regulating currency trading. It expects to conclude the study by the first week of next year.

Where hedge funds are concerned, Camdessus said the IMF believes there is a need to strengthen the funds' reporting requirements. The US has already implemented this.

He also suggested that countries could work with the monetary authorities to limit position taking.

There is need to ensure that offshore financial centres do not attract too much hedge funds because "we might then have even more serious problems of disorder in the market."

In stressing the need for greater discipline, Camdessus said he personally believes that something needs to be done to ensure that offshore centres do not create more disorder, discourage "herd behaviour" among market participants and avoid conditions of one-way bets.

"We should never forget hedge funds and market participants are there to make money. They are harsh when they have one-way bets and 'certainty' to make money.

"Who has the power to prevent them? Maybe governments with some authorities. This is where the role of the IMF is relevant," he added.

Of the preliminary findings, Camdessus said: "The more you go into the reality, the more complexities you discover. The more powerful the microscope, the more diversity and complexities you see.

"One of the findings is that it would be simplistic to attribute the misfortune of Asean countries to hedge funds and speculation and market turmoil."

Market turmoil is an extremely unpleasant damaging symptom of a crisis. "However, that is no more a symptom of the crisis than of more deeply rooted problems which would have to be addressed," he added.

On defining regulations for currency regulation, Camdessus said it is "a tough call to make."

"You must understand that if you want to regulate, you must make sure that hedge funds are not prevented from doing the good job that they do from time to time.

"We have experienced the unpleasant activity of hedge funds pushing currencies down but there is also the opposite phenomenon that nobody talks about. When a country deserves greater confidence, the hedge funds push its currency up and help it find an exchange rate equilibrium."

Later at the joint press conference of Asean Finance Ministers and

finance ministers/representatives of Australia, China, Hong Kong, South Korea, Japan and the US, Deputy Prime Minister Datuk Seri Anwar Ibrahim said the ministers welcomed the preliminary findings of the study.

They urged the IMF to extend the scope of the study to examine the structure of the global financial markets and short-term capital flows, including the impact of hedging activities on the banking sector as well as the impact and implications of technology on capital flows.

At the Conference on Asean Financial Initiatives for the 21st Century in the morning, Camdessus underlined seven basic principles or "pillars of new wisdom" in economic management.

They are the adoption and maintenance of:

- * a flexible exchange rate regimes to provide signals for policy adjustment or avoid reckless behaviour on the part of borrowers and lenders;

- * consistent and solid fiscal and monetary policy-mix;

- * transparency and free flow of information;

- * strong structural policies and prudent supervision of the financial system;

- * mutual surveillance among neighbouring countries;

- * a second generation of reforms to promote domestic competition; and

- * a market-friendly approach.