

Bid to strengthen financial system

APEC leaders yesterday agreed to strengthen the international financial architecture to prevent future financial instability and to resolve crises more effectively.

The declaration signed by 21 leaders was read out by Prime Minister Datuk Seri Dr Mahathir Mohamad at the end of the Apec Summit in Cyberjaya.

It stated that the leaders agreed that now was the time to effect changes aimed at strengthening the international financial system.

This is to capture the full benefits of international capital flows and global markets while minimising risk of destructive disruptions.

The leaders also agreed that strengthened global arrangements were important to enable them to benefit from increased globalisation while avoiding the difficulties many Apec members are now facing.

"In particular we welcome and support the establishment of the new International Monetary Fund (IMF) facility for a precautionary line of credit for economies with sound policies supported by the IMF that are threatened by contagion," said the declaration.

The leaders stated that the close collaboration and participation of the industrialised economies and the emerging market economies was vital to the success of such efforts to strengthen the international financial system.

They said as Apec had already played a major role in promoting improvements in the international community's ability to respond to crises through instruments such as the IMF's Supplemental Reserve Facility, they pledged to



continue such collaboration.

The leaders said they would work together to support an early and sustained recovery in the region to contain the risk of contagion and prevent the possibility of a global recession.

The declaration stated that there had been substantial degree of financial stability in the Apec economies which were directly affected by the crisis.

Among the progress in the affected economies are:

- EXCHANGE rates have remained relatively stable and have strengthened in many of these economies over the past few months, thus permitting substantial reductions in nominal interest rates to levels which, in some cases, are below those prevailing before the crisis;

- SHORT-TERM external debt burdens have been reduced and reserves have begun to be replenished in many economies;

- OUTPUT declines have been more extensive than many had anticipated but are now moderat-

ing; and

- SEVERAL economies including Indonesia, South Korea and Thailand have made impressive efforts to strengthen and restructure their respective corporate and financial sectors.

The declaration also stated that the developments had been reinforced in recent weeks by the reduction of short-term interest rates in a number of industrialised economies.

Japan's commitment of substantial public resources to strengthen its financial system also contributed to the reinforcement of positive development.

The declaration stated that the Japanese authorities had made clear their intention that the essential swift and effective action in the banking sector would be taken as a matter of urgency.

Such action, with a sustained boost to domestic demand is the key to the restoration of market confidence and growth in the Asian region, it said.

The leaders said they were committed to pursuing a co-operative growth strategy with the following dimensions:

- GROWTH-ORIENTED prudent macroeconomic policies, appropriate to the specific requirements of each of the Apec economies;

- A RENEWED commitment to the Bogor goals of achieving free and open trade and investment within Apec; and

- LOOKING toward the longer term, urgent work among the economies and with other economies and institutions to develop and implement measures to strengthen the international financial system.