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Asian crisis: IMF admits it made mistakes

THE International Monetary Fund (IMF) admits that it made several mistakes in dealing with Asia's financial crisis, including forcing economies in crisis to adopt excessively harsh policies.

It also admitted, in the 1998 annual report of its executive board, that it failed to anticipate much of the crisis and lacked the expertise to deal with many of the region's problems.

According to an article in the Australian Financial Review, the IMF has also acknowledged that the Asian crisis, and the ensuing financial turmoil in other areas, has been such a drain on its resources that it has less than US\$9 billion (US\$1 = RM3.80) now to lend to economies needing emergency funding.

And it has warned that the huge drain on its funds will make it much harder to respond effectively to new problem areas, particularly in Latin America. The IMF annual report was released in Washington on Monday.

According to the Review, the IMF report includes a frank admission that it was "taken by surprise" by many of the events in Asia over the past year and that the design of its emergency rescue programmes for countries like Indonesia were seriously flawed.

The report also shows there has been considerable debate within the IMF over whether it should condone the use of exchange rate controls by developing countries to regulate short-term capital flows as a way of easing pressure on their currencies, the Review said.

But the most alarming issue that the report has raised is the potential problems the IMF would face if a major bailout of Latin American economies was required soon, the Review reported.

IMF deputy managing director Stanley Fischer had told a press conference in Washington on Monday that the agency had less than US\$9 billion to lend. He had also said the recent instability in Latin American markets meant it was imperative that the US Congress approve a further US\$18 billion contribution to the IMF.

The release of the IMF annual report came just a day before a Group of Seven deputy finance ministers met in London to discuss ways to stabilise the Russian economy and to prevent further destabilisation of global markets.

According to the Review, the IMF report also acknowledges that its performance in identifying problem areas in Asia had been mixed, noting that it had not attached "sufficient urgency" to the financial tensions which were emerging in South Korea early last year.

"The IMF report also acknowledged that the tough fiscal conditions which it placed on some Asian countries as part of their rescue packages was an inappropriate policy response.

"Attempts at complying with a fiscal rule through excessive reliance on tax rate increases and unsustainable or cosmetic expenditure cuts, or one-off measures, might tend to be counter-productive."

According to the Review the IMF report also highlighted the need for more expertise within the agency on financial sector reform.

"Member countries drew about US\$25.6 billion from the IMF's general resources account in the 12 months to April this year, nearly four times the level of the previous year," the paper said.

"The IMF report pointed out the intensity of the debate over the role which capital controls could play in a new global financial architecture.

"A number of directors saw merit in imposing selective capital controls to limit the severity of the currency depreciation in the aftermath of an exchange rate crisis, as well as to reduce the risks of crises in the first instance."

Meanwhile, Mr Peter Hartcher, writing for the Australian Financial Review, said the IMF's annual report has revealed that it is not only broke financially but confessed intellectually.

Hartcher said while the fund's managing director Michel Camdessus is bravely declaring that it is standing by ready to help flailing Latin American nations with emergency support, the agency has to take into consideration that its declining fund.

"The IMF now has between US\$5 billion and US\$9 billion in lendable resources ... this is not enough to create a credible support package for even one medium-sized economy," Hartcher said, adding the IMF may break its own rules and will not have sufficient fund if it decides to use its "reserve tank" to help the Latin American economies.

"There are two problems with this. First it breaks the IMF's own rules. This account was designed to be used only by the 11 countries that set it up. And second, it is still not enough."

Hartcher noted that the IMF has already dipped into the "reserve tank" once - to provide US\$8.2 billion to Russia as part of an overall US\$22 billion line of credit - but it was completely inadequate.

"The Russian collapse showed that the IMF was, in effect, already exhausted financially," he added.

The International Herald Tribune yesterday quoted US President Bill Clinton as hinting at strongly his preference for lowering of interest rates. This stand has been advocated by Malaysian Prime Minister Datuk Seri Dr Mahathir Mohamad.

While saying that the US was enjoying "unsurpassed economic strength", Clinton repeated a warning from the Federal Reserve Board chairman Alan Greenspan that the country could not forever remain an "oasis of prosperity in an expanding desert of turmoil".

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