

16/09/1998

Clinton calls for interest rate cut (HL)

KUALA LUMPUR, Tues. - As the Asian economic crisis spreads to Latin America and Russia, and with the International Monetary Fund admitting its wrong approach to the crisis, the world superpowers yesterday called for a new strategy to adapt to the present international financial scenario.

US President Bill Clinton yesterday called for finance ministers and central bank chiefs from the Group of Seven developed nations and emerging-market countries to meet in Washington within a month to devise long-term solutions to the financial crisis.

Calling the economic crisis as the "biggest financial challenge facing the world in a half century", Clinton, in a speech in New York, said the meeting should recommend ways to adapt the international financial architecture to the 21st century.

The G7, in a statement, echoed US' worries and feared that the risk of a global slowdown had increased because of the rapid spread of financial turmoil across the world.

The IMF, on its part, admitted that it had failed to play an effective role in helping Asian economies tackle the current economic problems.

The 1998 IMF's executive board annual report released in Washington said the Fund acknowledged that it had failed to anticipate much of Asia's financial turbulence, had imposed excessively harsh policies on economies in crisis and lacked the expertise to deal with many of the region's problem.

The candid assessment of its own role in the Asian crisis also included the IMF's frank admission that it was "taken by surprise" by many events in Asia over the past year and that the design of its emergency rescue programmes for countries like Indonesia was seriously flawed.

The report also stated that there had been considerable debate within 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.

In a related commentary, the Far Eastern Economic Review (see CORRECTION above) said the IMF report also disclosed that its directors could not agree on its own role.

"Some, we learn, believe the IMF is too free in handing its money to troubled countries, helping to make governments more reckless. They are divided on whether hedge funds should be better regulated and whether the biggest economies should consider the state of the world when they raised their domestic interest rates, or worry only about their own domestic affairs."

Already, Clinton, in the same speech, had hinted that he favoured a lowering of interest rates, and repeated the warning from the Federal Reserve Board chairman Alan Greenspan that the US cannot forever remain "an oasis of prosperity" in an expanding desert of turmoil.

The new "message" from the developed nations, which groups US, UK, Japan, Italy, France, Germany and Canada, somewhat echoes the opinion of Prime Minister Datuk Seri Dr Mahathir Mohamad who has repeatedly called for a change to the global financial system, including regulated currency trading and the lowering of interest rates.

The US is expected to convene, within a month, a meeting of G7 finance ministers to recommend new ways to tackle the present world financial situation and devise a strategy to promote global growth.

(END)