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Mahathir-Currency

DR MAHATHIR: LENDING CUTS TO HEDGE FUNDS CAN MINIMISE TURBULENCE

By: Yong Soo Heong

DAVOS, Jan 30 (Bernama) -- Prime Minister Datuk Seri Dr Mahathir Mohamad said that if banks keep within prudential levels of lending to hedge funds, the turbulence in the financial system would be minimised.

He cited four main points for curbing excessive currency speculation, among which was the need to control the leverage of hedge funds and currency traders, especially when they had been given funds amounting to 20 or 200 times their capital.

"Can't the Malaysian government have that kind of leverage?" he said when asked how he thought excessive currency speculation could be contained during a question-and-answer session after delivering a luncheon talk on "Malaysia" Bouncing back from the brink" here, Friday.

Citing a hypothetical case, Dr Mahathir, who is here to attend the annual meeting of the World Economic Forum (WEF), also asked whether there would be banks willing to lend to the Malaysia government an amount equivalent to 20 times of its foreign reserves, say at US\$20 billion.

"Why are currency speculators favoured?" he asked.

The prime minister said the Federal Reserve and central banks of other countries could monitor the lending levels so that such market players would not have such excessive leverage.

The other measures he mentioned are the need to have proper rules and regulation, transparency and establishing a register of the currency traders concerned in the countries they operated.

Meanwhile, Canadian prime minister Jean Chretien and Singapore senior minister Lee Kuan Yew spoke of the need to have a new global financial architecture at the WEF Friday.

Lee said he was not prepared to allow his country's currency to be rubbished by speculators while Chretien said there was a need to find a mechanism for some control on currency trading.

Meanwhile, Harvard University professor Jeffrey Sachs told a press conference that the International Monetary Fund's prescriptions when the currency crisis erupted in Asia had caused more panic instead of saving the situation.

He also lambasted the IMF for failing to provide stability to Brazil in the latter's financial crisis.

Referring to the outlook for Asian economies after they had been hit by the financial crisis, he said they were in a better position when compared with their Latin American counterparts, especially with the eruption of the Brazilian currency crisis.

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