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REPORT: CRISIS

REPORT: NEED FOR APPROPRIATE SAFEGUARDS AND MECHANISMS

KUALA LUMPUR, March 31 (Bernama) -- In the wake of the current financial crisis, it is necessary for appropriate safeguards and mechanisms to be put in place to manage capital flows and prevent the manipulation of currencies, Bank Negara Malaysia said,

The central bank added in its 1998 annual report released here that these safeguards and mechanisms should maximise the benefits of globalisation and mitigate the potential destabilising effect of volatile short-term capital flows.

In an article on "The Asian Crisis: A Survey of Views On The Causes and Policy Response" contained in the report, BNM said the search for solutions had focused increasingly on reforms to the international financial architecture in an orderly manner.

It said there has been growing literature on the causes and consequences of the Asian crisis but economic and financial reforms must be implemented by individual countries, although such efforts alone were not sufficient.

"As the crisis became more prolonged and severe than anticipated, there is a growing international recognition that remedial actions are needed at the international level as well," the report added.

Unlike previous crises, which originated mainly from the public sector, the source of instability in the Asian countries emanated mainly from the private sector.

The general consensus was that the rapid accumulation of private short-term foreign debt triggered the crisis.

Among the proponents of the view that the crisis reflected domestic policy weaknesses was the International Monetary Fund (IMF) which raised concerns that overheating pressures were becoming evident in many countries in the region as a result of large current account deficits, property and stock market bubbles.

The IMF further suggested that the crisis stemmed from weaknesses in domestic financial systems and governance in these countries.

The World Bank shared the view that the key problems were in the financial sector where distorted incentives, weak regulatory standards, poorly managed financial liberalisation and inadequate disclosure encouraged excessive risk taking.

The World Bank also said that these financial sector weaknesses led to poor investments and a proliferation of non-performing loans.

In contrast to views that blamed the crisis mainly on domestic economic conditions and policies in Asian countries, an alternative view pointed to the weaknesses in the international financial system.

The main proponent of this view was Professor Jeffrey Sachs of Harvard University who believed that economic fundamentals in the crisis-affected countries were basically sound.

This view noted that the financial system in the affected countries were not adequately prepared to deal with the risks of rapid financial liberalisation which rendered the countries vulnerable to external shocks.

Malaysia, among the first countries to voice the view that the crisis was due to shortfalls in the management of the international financial system, was of the view that volatile flows of speculative short-term capital had disrupted trade and real economic activities.

Prime Minister Datuk Seri Dr Mahathir Mohamad had called for an

international mechanism to regulate short-term capital flows which met with initial differences in opinion. But today there is growing consensus that the Asian crisis also reflected flaws in the international financial architecture.

The article also summarised the evolving views on the roots of the Asian crisis by Professor Jagdish Bhagwati of Columbia University, Hong Kong Monetary Authority chief executive Joseph Yam and academician Professor Paul Krugman.

It concludes that both domestic and international factors contributed to the crisis and that an appropriate response would be needed to address weaknesses on both fronts. -- Bernama

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