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'Reforms remain elusive in global financial institutions'

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WHILE many regional economies and individual countries have made good progress in implementing financial sector restructuring programmes, fundamental reforms remain elusive in structure and governance of the global financial institutions, said a local banker.

Arab-Malaysian Banking Corp chairman Tan Sri Azman Hashim said regional economies have implemented reforms in the financial sector with more stringent prudential standards in place for governance and transparency, bank recapitalisation proceeding smoothly and plans adopted for the privatization of state-owned institutions.

At international level, he said, some improvements were made in enhancing transparency as well as standards and codes, which were considered essential for crisis prevention. "Some headway was also achieved by the International Monetary Fund (IMF) in streamlining its financing facilities and the conditions associated with the use of IMF conditionalities.

"However, fundamental reforms remain elusive in the area of reform and governance of the international financial institutions, and managing the risks of excessive volatility in international capital flows," he said in his address at the end of the 35th International General Meeting (IGM) of Pacific Basin Economic Council (PBEC) in Kuala Lumpur on Tuesday.

Other speakers at the session were Morgan Stanley chairman and chief executive officer Alasdair Morrison and Asia Chubb Corp senior vice president and managing director Chris Giles.

Speaking at the parallel session on "Striving for Growth in A Challenging Environment: Financial Markets Outlook", Azman said progress in international architecture reforms was limited.

He said the IMF had recently proposed a mechanism to deal with the complex issue of sovereign debt restructuring in an orderly, predictable and prompt manner.

However, he said many issues ranging from legal to political concerns, needed to be resolved before the mechanism could be implemented.

He noted that the international financial system over the past year has demonstrated some level of resilience in the face of several serious challenges.

Among them are the deflation of telecommunications, media and technology bubble, the onset of recession in the US followed by a synchronised global slowdown and financial crisis in Turkey.

Other challenges include a record number of bankruptcies, default by Argentina and the failure of energy firm Enron Corp.

On the home front, Azman said Malaysian financial sector has emerged from the East Asian crisis significantly strengthened.

The country has taken full advantage of the stable economic environment over the last three years to implement financial restructuring and structural reforms in the banking and corporate sector, he said.

He told PBEC IGM participants, who came from 20 economies across the Pacific region, that one major accomplishment for Malaysia was the successful consolidation of the domestic banking sector.

"Our financial sector is now well placed to chart the medium and long-term agenda as embodied in the Financial Sector Master Plan and the Capital Market Master Plan," he said.

Looking back, he said Malaysia was among the first to ask for reform in

the international financial system.

Early diagnosis of the cause of the East Asian turmoil in mid-1997 pointed to the mistakes of domestic policy, economic mismanagement, lack of transparency and corporate governance as well as "crony capitalism".

However, early in the day, Prime Minister Datuk Seri Dr Mahathir Mohamad put the blame of the crisis more on the global financial architecture with no transparency and regulations for capital flows, hedge funds and currency speculators.

He said today, serious commentators came to realise that, whatever the problems of domestic policymaking, there are serious flaws in the international financial order, particularly relating to the volatility of foreign capital flows and currency, and stock market speculators.

"So, it was not too long before a more balanced and operationally useful assessment appeared, in which the central issue was identified as the combination of two major weaknesses - huge capital flows, and a fragile and inefficient functioning of domestic financial system," he said.

This, he said, led to the call for reforms in the East Asian crisis-affected economies as well as the global financial architecture.

Azman also raised issues which need to be addressed such as other fault lines that can caused new shocks which would again test the resilience of the global financial system; whether the turnaround of the world markets and equity market rally on the expectations of a global economic recovery led by the US was justified by fundamentals, and the role of private sector in forestalling and resolving financial crises.

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