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Urgent reform of international financial system needed

By FINTAN NG

KUALA LUMPUR: The international financial system, which reached its nadir last September with the bankruptcy of Lehman Brothers Holdings Inc and the rescue of American International Group Inc, is in urgent need of reform.

Hong Kong Monetary Authority chief executive Joseph Yam said central banks, international organisations and government authorities have to seize the initiative for reform before the crisis becomes a crisis of confidence in the system itself.

He added that the reforms must be organised along international lines since the crisis has affected every part of the world.

Yam said in the aftermath of the Asian financial crisis, calls were also made for a reform of the global financial architecture but there was a general absence of concrete measures on an international scale despite there being progress in regional cooperation.

"The present financial crisis has much in common with the Asian financial crisis in that it has involved massive failures in financial intermediation, a rapid transmission of problems and a strong element of surprise," he said in a special address at Bank Negara's 50th anniversary ceremony Sunday.

Yam said although there was greater determination to pool expertise and discuss possible solutions in various international forums after the Asian crisis, the political motivation for further reform weakened due to the strong global growth for most of the last decade.

He said central banks and regulators have learned much from the present crisis although they have faced criticism, not all of which were fair, for letting financial innovation get out of hand, for not responding quickly enough, and for not seeing or heeding the danger signals.

"Nevertheless, the crisis itself, and the very scale of the response, has brought central banks more into the foreground than ever before," Yam said, adding that as the full implications of what has happened unfold, there would undoubtedly be questions about their role and the policies they pursue.

He said international cooperation, already present by the commitment of the world's largest economies to implement far-reaching reform, would hopefully be a countervailing influence against trade protectionism.

"I need hardly point that, no less than trade protectionism, such a trend will deepen the hardship of the developing economies, many of which rely heavily on international finance," Yam said.

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Bank Rescues Raise Threat of Financial Protectionism, Yam Says

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By Nipa Piboontanasawat

Feb. 8 (Bloomberg) -- Bank rescues in developed economies may lead to financial protectionism, hurting developing nations, should governments buckle to political pressure, [Joseph Yam](#), chief executive of the Hong Kong Monetary Authority, said today.

Pressure "to include protectionist measures in rescue packages for troubled banking systems in the developed economies" is possible, Yam said in a speech in Kuala Lumpur today. "No less than trade protectionism, such a trend would deepen the hardship of developing economies, many of which rely heavily on international finance."

Officials in the U.S. are preparing to deploy billions of dollars more to help recapitalize banks, after already investing in excess of \$200 billion. International Monetary Fund Managing Director [Dominique Strauss-Kahn](#) yesterday urged faster efforts to fix the global banking system as the world economy threatens to grind to a standstill.

European Central Bank Governing Council Member [Nout Wellink](#), also speaking in Malaysia, said today that Europe had "not yet" done enough to fix the banking system. "We are in the process."

Yam's speech was at an event to mark the 50th anniversary of the Malaysian central bank.

The Hong Kong official called for central banks, international organizations and government authorities "to seize the initiative for reform so that the financial crisis does not become a crisis of confidence in the system itself."

'Largely Undamaged'

Asia's financial systems have been "largely undamaged by the first wave of the crisis," he said.

"But the second wave is now upon us, and this second wave may well carry greater risks to emerging markets," Yam said.

In Hong Kong, the HKMA has narrowed the gap between its base rate and the U.S. Federal Funds Target Rate to boost liquidity in the financial system. It also added money into the market by buying U.S. dollars with Hong Kong dollars.

Advanced economies are already in a "depression" and stimulus efforts will only succeed if confidence in banks is restored, the IMF's Strauss-Kahn said at a briefing in Kuala Lumpur yesterday.

The IMF cut last month its world-growth estimate for this year to 0.5 percent, the weakest pace since World War II.

"The worst cannot be ruled out," Strauss-Kahn said yesterday. "There's a lot of downside risk."

The U.S. economy has lost 3.57 million jobs since a recession started in December 2007, its biggest employment slump of any economic contraction in the postwar period, as companies from Macy's Inc. to Caterpillar Inc. cut

costs. The U.K. economy will shrink this year by the most since 1946, the IMF forecasts.

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