

# Asian economies rebounding, but crisis debate still on

TOKYO, May 26: Asia's financial crisis may be over but debate still rages on its causes and treatment, with the role of the IMF criticised in a new report by the Asian Development Bank Institute, reports AFP.

"Given the new nature of the crisis the inadequacy of the initial policy responses may be partially forgiven but the same mistakes should not be repeated in the future," the institute's report says.

The study offers "a new set of policies to cope with the new Asian-type systemic currency crisis."

Asia's economic crisis was "unique by its severity, duration and contagion," the institute says.

The turmoil that spread across the region from Thailand nearly two years ago was like a double phenomenon, with a capital account crisis, marked by sharp reversals of private capital flows, and a banking crisis linked to a massive credit crunch.

The vital mistake was made when policy prescriptions for current account crisis were applied to this capital account crisis," the report says.

In other words the programmes put in place by the

International Monetary Fund proposed classic remedies of strict monetary policies and budgetary austerity as well as drastic moves to clean up the financial system.

That meant "the capital account crisis became a full-fledged domestic financial and real economic crisis."

In fact, the countries ravaged by crisis needed a "neutral" monetary policy while the high interest rates regarded as indispensable for stabilising the currency suffocated the banks and companies.

When we have two targets to achieve we need two instruments not one: first of all an injection of liquidity to address the currency crisis and then low interest rates to address the banking crisis, Masaru Yoshitomi, dean of the Tokyo-based institute, told the Foreign Correspondents' Club of Japan Tuesday.

Yoshitomi has worked as an economist at the Organisation for Economic Cooperation and Development, at the IMF and at Japan's Economic Planning Agency, where he was director general.

In the case of a new crisis the institute put forward recom-

mendations for both international players and local governments. The former should provide quickly and in practical terms, without conditions, the financing needed to contain any liquidity crisis.

It cannot be emphasised too much that an impressive sum committed upfront makes an enormous difference to market psychology which in turn thwarts the crisis and minimises the amount that needs to be actually withdrawn," the report says.

On the other hand, "foreign creditors wanting to pull out from the countries affected by a systemic crisis should be told collectively to wait and maintain exposure," the institute says.

Short-term private debt could be restructured into long-term debt or turned into equity, it says.

Then the Group of Seven leading industrialised nations and the countries concerned should tackle the problem of under-valued currencies with clear messages and intervention, without resorting to harmful interest rate rises.

Countries that are able should stimulate their domestic

demand in a coordinated way, which would be a much more preferable alternative to competitive devaluations which only spread crisis, the institute says.

But analysts warned today it may be too early to say the package has succeeded in the absence of more complete data and rises in consumer confidence in coming months.

Nevertheless, barely two months since the package cut the value added tax to seven per cent from 10, Thai department store sales have gradually risen and automobile sales have picked up.

Manufacturing production has also shown signs of further improvement after the package was put in place, she said.

Production activity has also improved. But the figure will be officially released as monthly data on May 28," she added.

Automobile sales surged 27.6 per cent year-on-year in April to 14,035 units.

Sales of building materials

such as cement, and steel

showed no substantial increase in April but forward orders for the month ahead have risen, industry sources said.

Projects include building of roads, reservoirs, dams, and dredging of canals.

Bank of Thailand officials

told Reuters preliminary department store sales, an indicator of consumer confidence, rose to 8.7 billion baht (\$234 million) in April from 7.8 billion in March and 7.5 billion in February after the VAT cut.

The preliminary figure we have received from department stores has increased from the previous month," said a central bank official. "The VAT cut is

likely to have something to do with the increase. However, there is also a seasonal factor here as well since April is a major holiday month."

Provincial and district offices nationwide are seeking to hire more workers for new infrastructure projects created by the government under the terms of the package.

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"But we have no doubts that demand will pick up, once the infrastructure project under the package gather steam," he added.

The government has looked at an increase in spending and tax cuts in the package as another way to spur demand.

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Call money rate closed lower and ranged between 6.5 and 7.5 per cent.

In the kerb market, cash US dollar notes traded between BDT 49.80 and BDT 50.00.

In the international markets, dollar steadied against yen but was not able to pull too far away from the 12-day low set overnight amid persistent concern about the health of the US stock market. Dow Jones Industrial Average shed more than one per cent for the second consecutive day fanning worries that foreigners quitting the US asset market could sell dollars for other currencies and that US consumer confidence could suffer. Concerns about Latin America was also seen hobbling dollar markets in the region. Meanwhile, sentiment is negative towards euro. The single currency is being weighed down by Germany's economic outlook gloom.

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