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Deputy Governor, Thirachai called on the major countries to curb bank credit to hedged funds

Mr. Thirachai Phuvanatnaranubala, Deputy Governor - Financial System Stability, Bank of Thailand, proposed in the International Conference of Banking Supervisors on September 19, 2002 that developed countries should curb bank credit to highly leveraged institutions (or hedged funds). This was made in his presentation at the bi-annual conference organized by the BIS Basel Committee. This year the event was held in Cape Town, South Africa.

He advised the emerging markets that wish to join the process of globalization to prepare themselves well. They must have the right macro-economic policy mix, strong supervision of the financial system as well as proper infrastructure such as credit bureaus, legal framework. The emerging markets are at risk because they have to rush to put in place all these prerequisites in a short time.

Despite the preparation, however, he warned that there would be temporary periods of imbalances, causing the currency or the stock market of the emerging markets to be out of line. This is when the emerging markets badly need some time to iron out the problems. But an attack by hedged funds would rob the countries of this precious time. He therefore proposed two ideas.

First, since these hedged funds use oversize credits from large international banks. He Therefore called on the developed countries to impose regulations to require the banks that are exposed to these funds to weigh the assets in their capital adequacy calculations at more than 100 per cent.

The idea of weighing some loans at more than 100 per cent is currently being discussed for the new Capital Accord that will require loans rated below certain grades to be weighed at 150 per cent. Mr. Thirachai said that this idea should be applied to hedged funds, and the percentage to be used should be much higher.

Second, he saw an urgent need for an international debt - restructuring framework to allow debtor countries to renegotiate their foreign debts just like normal businesses, without imposing an insurmountable handicap that will prevent the countries from returning to the market in future. The creditors should have the opportunity to bear their shares of responsibility in future crisis resolutions.

He said that globalization was a two way street and funds flowed to emerging markets not out of charity, but because they were able to generate better returns. The developed countries, because they also derive benefits from this process, should therefore help the emerging markets in developing tools and safeguards to deal with adverse situations better.

(Full text of speech at www.bot.or.th under Speeches - How to create a stable financial environment in emerging market economies)

Bank of Thailand

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