

Thai Central Bank Parallels US Credit Crisis With Asia Meltdown in 1990s

September 20, 2008

As financial markets continued to recover from the recent wave of selling, Thailand's central bank governor has recommended greater surveillance by regional central banks and the need for more policy measures in the hands of central banks to deal with similar crises in the future. As Ron Corben reports from Bangkok.

According to Thailand Central Bank Governor Tarisa Watanagase, an underlying similarity of the current financial crisis in the United States and Asia's financial troubles during the 1990s is poor management of the finance and banking sectors of the economy and unsound monetary policies.

Tarisa told a symposium of senior central bank officials Saturday the "complexity and magnitude" of the current crisis in financial markets also raised questions whether central banks had sufficient policy tools to deal with the turbulence. The financial markets, she said, had grown more complex over recent years.

"Looking at the overall picture, what is now going on in Wall Street may remind us of what happened in our region 11 years ago," said Tarisa. "At a glance, the root causes of both events are strikingly similar: investors taking excessively high risks creating asset price bubbles, against the background of lax prudential and monetary policy."

Asia's financial crisis swept away billions of dollars in investments and caused a sharp contraction in economic growth. Millions of people lost their savings and their jobs. Tarisa warned resolving the current financial crisis is likely to be more difficult.

"With today's financial environment, however, changes in the regulatory requirements, market players, business models of financial firms, as well as economic conditions have all played a part in escalating the impact of financial turmoil through the creation of a broader and deeper financial system," said Tarisa.

Tarisa said central banks need to be prompt with pre-emptive actions, given changing market conditions. She said policies need to be flexible to deal with evolving challenges, while central banks should remain independent to ensure credibility. She also called for greater regional cooperation among the central banks.

In the past week central banks, led by the United States, European Union, Japan, Australia and others in South East Asia, have pumped over \$200 billion into fragile capital markets to ease tight credit conditions and restore confidence.

Panic swept global financial and share markets after leading investment house, Lehman Brothers collapsed. The U.S. government was also called on to mount an \$85 billion rescue of troubled international insurer, AIG.

HEALY CONSULTANTS

The crisis raised questions over the U.S. financial system and the prospect of the merger of more financial firms to remain solvent. The crisis was a result of massive debts in the U.S. housing sector, that led to the most severe housing recession in 80 years.

Source: Voice of America