

**BOARDS OF GOVERNORS ● 2002 ANNUAL MEETINGS ● WASHINGTON, D.C.**

INTERNATIONAL MONETARY FUND

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL FINANCE CORPORATION  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES  
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Press Release No. 21

September 29, 2002

Statement by the Hon. **SUCHART JAOVISIDHA**,  
Governor of the Bank for **THAILAND**,  
at the Joint Annual Discussion

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**Mr. Chairman,  
Excellencies,  
Distinguished Governors,  
Ladies and Gentlemen,**

**Introduction**

It is indeed an honour and a great pleasure for me to address the 2002 Annual Meetings of the International Monetary Fund and the World Bank Group. On behalf of the Thai delegation, I would like to express our sincere appreciation to our host, the Government of the United States for the warm welcome and hospitality during these meetings. I would like to take this opportunity to congratulate Mr. Horst Kohler and James Wolfensohn on their achievements over the past years and applaud them for the many bold initiatives and positive changes. I am certain that they will be a great benefit to member countries, especially those in the developing world.

Since we met in Prague two years ago, the landscape of the global economy has changed significantly. The impact of the slowdown of the Information Technology industry and the September 11 tragedy stifled the progress of world's economy. Moreover, recent volatility in global markets has affected investors' confidence.

In case of Thailand, the present government, having come into office since February last year, has introduced a new development paradigm, namely, the "Dual Track" approach that aims to achieve a more balanced and dynamic economic structure by systematically strengthening domestic economy while strategically enhancing our international trade performance. With full support of political will and commitment, the goal is to attain sustainable quality-oriented growth that will propel Thailand's future progress and prosperity.

In spite of the global uncertainties during the past 2 years, the Thai economy has been able to achieve macroeconomic stability and steady recovery. While the economy expanded by 1.8 percent in 2001, it has since grown at an accelerated rate of 4.5 percent in the first half of this year. The projection for 2002 growth is presently estimated at 4.0-4.5 percent.

Strong performance of the domestic economy coupled with gradually improving export have been the key driver of Thailand's economic progress during the past two years. Latest indicators point to continued strength in

domestic economy and expansion of export performance. With inflation in check, growing international reserves, a stable baht, and a vigilant maintenance of fiscal sustainability, Thai economy should continue on track for growth.

**Looking forward, Thailand has two top priority objectives. The first is to maintain the momentum and stability of economic growth. The second is to undertake essential reforms and restructuring programs to lay a solid foundation and fundamentals for sustainable, quality-oriented growth.**

These top priority goals are critical to Thailand's progress as we recognize that it is impossible for our nation to stride forward without a vibrant and dynamic economy that can effectively cope with the fast changing and increasingly competitive global marketplace. To achieve these goals, Thailand needs to undertake systematic reforms beginning at the grassroots level. In this regard, the government has been pro-active in working with the private sector to initiate necessary social and economic reform programs, key examples of which are highlighted below.

To directly promote systematic development and address problems of the grassroots economy such as poverty and lack of opportunities, a series of specifically formulated programs have been successfully launched. These include the revolving village development fund, the one-village-one product scheme, and the People Banks to stimulate income and create employment opportunities in the rural areas, thereby promoting greater self-reliance and sustainable grassroots progress.

Furthermore, we are focusing on fostering a dynamic and productive base of Small and Medium Enterprises (SMEs) as a key driver of future growth. Leveraging unique local skills and knowledge such as craftsmanship, the grassroots-based SMEs possess great potentials for development in terms of manpower, products, and resources. The government's basic aim is to provide necessary support and infrastructure for the systematic development of SME networks throughout the country. Such support includes education and professional training, marketing and distribution network, and financial access. In addition, Thailand is also working with countries with experience and expertise in the development of SMEs. Ultimately, it is envisioned that a strong SME base will play a major role in Thailand's highly productive, open economy, one that is more structurally balanced and better suited to sustain growth in today's fast changing global environment.

Concurrently, industrial reform is being carried out. Through the strategy of specialization, we aim to create sustainable expertise and competitive edges in high potential industries. In addition, the clustering approach is employed to upgrade the productivity of related and supporting industries, many of which are SMEs. In sum, we are attempting to create flexible, value-adding, expertise-

focused networks capable of generating vibrant local and cross-border economic activities, thereby serving as the cornerstone of Thailand's future industrial strengths.

However, reforms in the real sector cannot succeed without a fully functioning financial sector. Heavily affected by the 1997 Asian crisis, Thailand's financial landscape has significantly changed with positive improvements yielding good results. With the state-founded Thai Asset Management Corporation (TAMC) in full operation, non-performing loans have been successfully dealt with. From the total NPLs of 17 billion dollars transferred from banks, the TAMC has resolved 40 percent of the amount. Most importantly, accelerated progress in NPL resolution is contributing to successful de-leveraging of the corporate sector, which is highly crucial to the genuine revival and reform of Corporate Thailand.

Another important component of financial reform, bank consolidation is also progressing well. Of the 3 remaining state-intervened banks, two have been merged last year and one is being privatized this year. The largest state-owned bank has also launched its privatization. In general, Thai banks have become much healthier and returned to profitability. Looking ahead, financial sector reform will receive important boost from the new and unified Financial Institution Act that places great emphasis on transparency, accountability, and good governance.

Public sector reform is also gaining momentum. While two state enterprises went public with their share offerings last year, more state enterprises in key industries such as telecommunications, transportation, and energy are preparing for privatization this year and beyond. Furthermore, to improve the efficiency and coordination of the state agencies, the new government bureaucratic structure is taking effect this year.

To create conducive and sound environment for our economy to prosper, legal reform is essential. Under the promulgation of the new Constitution in 1997, Thailand has further enhanced the democratization of the decision-making process of the state, and provided citizens broader rights and privileges. Numbers of acts are being amended while significant numbers of bills are to be approved. In addition, a special panel of the nation's legal experts has been appointed to review and recommend changes to improve the existing commercial regulations and code.

Though various measures undertaken by the government to ensure continued progress have brought positive results, Thailand cannot afford to be complacent. As an open economy, Thai economy remains sensitive to the global trend and external uncertainty. The government is therefore, firmly committed to build a solid foundation for sustainable, quality-oriented progress primarily through the carrying out of necessary reforms and restructuring. Striving towards our goals, Thailand looks forward to continued active engagement with the

country's international partners and reaffirms our commitment to work closely with leading international institutions such as the World Bank and the International Monetary Fund to advance the common good of the global community.

The most important global initiative on the Bank's agenda is of course, poverty reduction. In this regard, we welcome the individual and collective announcements made to significantly increase ODA, as well as on the successful conclusion of the IDA-13 replenishment, which agreed to increase the overall level and concessionality of financing. This decision was in line with the Monterrey Consensus in which the Bank and the Fund are expected to provide more and better assistance in both financial and technical terms. It also focused on economic dialogue in the context of strong national ownership programs and partnerships. We strongly believe that we all have the responsibilities of eradicating the world poverty.

On the issue of the Bank's activities in Thailand, we are pleased with the implementation of assistance through the Country Development Partnerships (CDPs). The CDPs, which cover the areas of public sector reform, financial and corporate sector development, poverty analysis and monitoring, environment and social protection, are aimed to prepare Thailand for the challenges ahead. Even though Thailand's external financing needs are limited in the near future, we are committed in working together with the Bank in developing non-lending programs to enhance our capacity building strategy.

In matters relating to the International Monetary Fund, stringent and arbitrary Fund conditionality imposed on crisis countries has been among the critiques of the Fund in the past decade. We are grateful that the Managing Director has played an instrumental role in streamlining Fund conditionality on Fund-supported programs. Through the subsequent proposal of new set of guidelines, we look forward to a clearly defined Fund conditionality that stresses the parsimony of conditions. Another welcoming development is the adoption of the principle of "country ownership", whereby member countries—and not only the Fund itself—would play a significant role in the design of conditionality.

Fund staffs have also been proposing novel quota formula alternatives, which more accurately reflect the increasing importance of emerging market and developing countries. In spite of our disappointment on the decision to maintain of the status quo formulas, we are hopeful that at least the Fund would agree to a general increase in quotas as part of the 12<sup>th</sup> General Review.

The Fund has recently been a key advocate of international standards and codes through its Reports on the Observance of Standards and Codes, or ROSC program. Thailand is making necessary preparations to participate in various areas of this important exercise.

Finally, as a result of the tragic events last September, there has been a shift in policy of the Fund towards the anti-money laundering/combating of the financing of terrorism (AML/CFT). While we fully support the notable role of the Fund in the war on terrorism, it is important to underscore that the Fund and Bank should concentrate on their areas of expertise, namely, matters relating to AML/CFT that could pose potential risks to the macroeconomic and financial stability of a country or the regional and global systems as a whole.

### **Conclusion**

Looking ahead, I believe that our economy is on the right track for sustainable growth as reforms are beginning to show results. The challenge before us is to maintain the momentum of this remarkable development and to take the opportunity to deepen reforms. I am optimistic that the new chapter of Thailand's economic development has been written. In this regard, we have begun to build a new economic foundation to serve as a high performance platform for future progress that will also provide strengths to cope with the external uncertainty.

In closing, I trust that these Annual Meetings have been a highly valuable and useful occasion for all of us to share thoughts and innovative ideas in pursuit of our common goal.

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