

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

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INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES

MULTILATERAL INVESTMENT GUARANTEE AGENCY

INTERNATIONAL MONETARY FUND

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Press Release No. 30

September 23 - 25, 1997

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

**Statement by H.E. Dr. Thanong Bidaya
Governor of the Bank for Thailand
at the 1997 IBRD/IMF Joint Annual Meetings**

Mr. Chairman, Fellow Governors,
Ladies and Gentlemen,

I deem it an honor and a privilege to address the 1997 Joint Annual Meetings. On behalf of the people and the government of the Kingdom of Thailand, I would like to particularly express our appreciation to the government of the People's Republic of China and Hong Kong for the excellent arrangement for the Meetings.

It is most imperative to present before this meeting Thailand's bold and substantive program to overcome the present macroeconomic and financial sector problems and financial disruption that is confronting not only Thailand but also all other Asian economies. I shall be brief in presenting the key elements of program and shall circulate the full text.

I wish to also express our deep and sincere appreciation to the IMF, the World Bank, Asian Development Bank, Japan and all Asian and Pacific friends for the timely support and assistance extended to assist us in overcoming these problems. We are confident that Thailand will return to its former long term sustainable growth path by the year 2000.

Mr. Chairman,

Our program of action is divided into two concurrent phases. The first phase is macroeconomic stabilization and rehabilitation of the financial sector. Both are designed to address the issue of restoring confidence in the viability and stability of the Thai economy and the Thai financial system. The second phase will deal with medium term prospects for sustainable growth, improving competitiveness of the Thai exports and industrial restructuring.

On the macroeconomic front as regards the reduction of the current account deficit from 8% in 1996 to 5% in 1997, and 3% in 1998, the first part of the reduction has been carried out by cutting the budget for the fiscal year 1997 by over 100 billion baht and instituting the Value Added Tax increase from 7% to 10%. For the fiscal year 1998, we aim for a fiscal surplus of 1% of GDP and the budget has been approved this week by the parliament consistent with this objective. Additionally, state enterprise investments will be reviewed and reprioritised with the assistance of the World Bank and the Asian Development Bank to focus on the most essential investments.

The problems of financial sector rehabilitation are a major concern and many questions have arisen on the strategy to achieve an early and comprehensive solution. We regard our present difficulties as offering the opportunity to solve the fundamental problems of the system in a transparent way so that it can better manage the risk and rewards of large capital inflows.

In August, we agreed with the IMF on the basic principles of our strategy to rehabilitate the financial sector as an integral part of achieving broader macroeconomic stability and sustainable economic growth. Now, we are moving rapidly to finalize the details of the strategy which began with the suspension of 58 finance companies that were financially weak and in difficulties. The central objectives briefly are:

- to restore confidence of depositors, creditors, and investors in the financial sectors;
- to restore the solvency, profitability, and liquidity of the broader financial system;
- Given the large need for recapitalization, more stringent rules of loan classification and provisioning, and the limited availability of local capital; limits on foreign participation will be liberalized in order to broaden potential sources for capital injection;
- to effect medium term reforms in legal, regulatory, supervisory, and public disclosure practices, to strengthen the structure of the financial system and create stronger incentives for market discipline;
- all shareholders and creditors of subordinated debt will take the first hit in the burden of rehabilitating financial institutions and payments of their losses;
- in the suspended companies, creditors will also take share in these losses; and
- uniform rules will be applied, and strict criteria will be set on the suspended finance companies regarding re-opening, merger, liquidation, and repayment of liquidity support from the Financial Institute Development Fund (FIDF).

Mr. Chairman,

The principle of socializing debt will be avoided. However, if necessary, the use of public fund to rehabilitate the ailing financial institutions will be minimized and be tied to strict conditions to avoid moral hazard.

The restructuring process will be directed and coordinated centrally by the Bank of Thailand under the supervision of the Minister of Finance and will directly have the full support of the Royal Thai Government.

Our goal is to establish a strong and viable financial system, complemented by the most stringent international standard criteria which will restore the full confidence of both domestic and international creditors and depositors.

This will be a firm and durable basis upon which normal credit flows and investments both into and within Thailand can be resumed and maintained for private and public investments.

Mr. Chairman,

Because of the urgent need to make concrete decision now to restore confidence, I have set a deadline for completing all details of this strategy, which is being formulated with technical assistance teams of the World Bank and the IMF by October 15, 1997. On that date, I intend to announce the full details which will determine our future policy on this issue and it will be binding for all agencies concerned. There is full political consensus on these issues and there should be no further doubt, or question about the direction we are determined to move. I believe that this will restore full confidence from all concerned.

Mr. Chairman,

Confidence is a two-way street in which one cannot exist without the other. I would like to reassure market players, friends, and well-wishers in the international financial community that the Royal Thai Government will forcefully address the underlying factors that have contributed to the current crisis.

We shall and must solve the immediate issues of financial sector reforms and the restoration of normalcy and calm in the value of the baht.

We pledge that we shall never waver from any and all actions required to restore stability, confidence, and prosperity to our people, the region, and the rest of the world.

The task is clear. The targets have all been agreed upon. The understanding and partnerships of the world financial leaders, both public and private, to stand by us will be the hallmark of true international financial cooperation. We look for your continued hand of friendship and support in this task to restore peace and calm for ASEAN, Asia, and the world.

Mr. Chairman,

Let me now turn to the issues related to the policies and operations of the Bank. I wish to congratulate the Bank for another year of successful operation under the leadership of Mr. James D. Wolfensohn and his vision that is embodied in the Bank's Strategic Compact. We firmly support the Strategic Compact which is now under implementation and look forward to the tangible result, particularly in terms of effectiveness and result on the ground. However, such changes should not create higher burden to the clients in terms of higher cost of the Bank's product.

On the Official Development Assistance (ODA), we recognized the falling trend which stands at about US\$41 billion in 1996 compared with US\$51.7 billion in 1995. However, while the private capital flow to developing countries continues to be on the rise which is a welcoming trend, the destination of the private flow tends to limit to few emerging markets. We, therefore, would like to urge the donor communities to redouble their efforts to reverse the decline in ODA, especially at this time when majority of developing economies are under going reform.

With regard to the Bank's product, we welcome the development of lending and guarantee products aiming to tailor to various client needs and encourage the Bank to continue improve these lending products so that borrowers can better manage their debt outstandings. In addition to greater choice of products, further improvement in the Bank's response to client needs for both lending and non-lending products should be strengthened.

We support the Bank's policy regarding the allocation of net income and urge the Bank to continue accords high priority to waivers for interest and commitment charges as appropriate way to ensure equitable distribution of benefits of the Bank's operations.

Mr. Chairman,

Let me now turn briefly to Fund matters. We welcome the agreement achieved in the Eleventh Quota Review and as recent beneficiary of Fund resources, would strongly urge for its expeditious ratification. We also welcome the agreement obtained on the issue of SDR allocations. This will ensure that members can enjoy the fruits of an equitable share of international liquidity.

On capital account convertibility, given the complexity and sensitivity of the issue, in particular in view of the recent currency turmoil in the Southeast Asia region, we would be more comfortable if the Fund would proceed in a more cautious and gradual manner. In addition, we believe that giving the Fund jurisdiction over the capital account should not be construed as an obligation for members to liberalize, but rather for the Fund to ensure the orderly and smooth operation of international flows. In this regard, we believe that a number of aspects of the recent currency turmoil belies the issue of externality - for example investors confidence in a country or a region is to a significant extent determined by factors beyond a country's control, namely, the contagion effect - and therefore calls for the Fund, as a multilateral institution to coordinate and perhaps internalize such externality. Moreover, efforts should be made to devise an appropriate mode of monetary operation to deal with the dilemma of exchange rate versus growth effect of high interest rate policy to ward-off currency attacks.

In conclusion, on behalf of the Royal Thai Government, I would like to take this opportunity to record our heartfelt gratitude and appreciation for the Fund's expeditious approval of the request for our Stand-by Arrangement, and for the overwhelming support we have received from bilateral creditors, international development institutions, namely, the IBRD and the Asian Development Bank, and members of the Bank for International Settlements. The spirit of solidarity and faith shown at the Tokyo Meeting and subsequent financial assistance, demonstrate the strong international consensus underlying the efforts to help Thailand during this most difficult period. Thailand is fully cognizant that the process of adjustment will clearly take time. We wish to reaffirm our commitment to this strong program. The help, goodwill and support of the international community will gradually and ultimately bring the Thai economy back on a sustainable and balanced growth path.

Thank you.