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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Statement by the Hon. **CHATU MONGOL SONAKUL**,
Governor of the Fund for **THAILAND**,
at the Joint Annual Discussion

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**Mr. Chairman,
Distinguished Delegates,
Ladies and Gentlemen,**

It is an honour for me to address the Bank-Fund Annual Meetings which will be the last in this century. Looking back over the past years, there are many accomplishments that the two Bretton Wood Institutions can be proud of. We have gained virtually universal membership. Economic development has kept a strong momentum although disparity continues to widen between the developed and developing worlds. While we are witnessing many positive trends, challenges remain large for developing and transition economies as they enter the next millennium.

Global Economy

It is worth noting that the global economy is yielding surprises, recovering more rapidly than previously expected from the severe effects of the currency and financial crisis. The net effect of interest rate cuts in the industrialized countries, fiscal stimulus in Japan, stabilization and modest growth of Asian imports, and improved financial conditions in emerging markets have been stronger than expected, leading to increased global growth forecasts. These events and trends have been bolstered by a number of positive developments, including the unexpected speed with which some larger developing countries are adjusting to adverse shocks, the stronger-than-expected Asian recovery, the continued strong performance of the US economy despite some signs of slowing, and the strong first quarter advance in Japan. With the rapid recovery in Asia, world trade has rebounded strongly, stimulating activity around the world. And in Asia itself, strong interregional trade is accelerating the recovery in domestic activity.

Though these are all positive developments, 1999 remains a year of weak growth for developing countries, particularly relative to pre-crisis levels. The overhang of bad debt and troubled banks and other financial institutions will limit our prospects for a rapid growth rate. Not surprisingly, capital flows to developing countries remain disappointing. Spreads remain high and banks continue to reduce their exposure to emerging markets. Nevertheless, liquidity conditions in emerging markets have loosened considerably this year, with lower domestic interest rates, rising equity prices, and, in some cases, upward pressure on currencies.

The overall outlook remains positive. A stronger and positively reinforcing Asian recovery and a sharper rebound in Europe are both upside possibilities. A stock market correction and hard landing in the US and a relapse into recession in Japan are the principal downside risks. Nevertheless, the considerable reform efforts undertaken in

many developing countries make it unlikely that another currency crisis will trigger the contagion effects of 1997/98. As in Thailand, I hope the global economy continues to surprise on the upside as we put the recent crisis behind us and move into the new millennium.

Thai Economy

I am pleased and encouraged that Thailand, along with many other countries, has turned the corner on the recent crisis. Having bottomed out in the second half of 1998, we expect positive growth of 3-4% this year – driven by export growth, increased government expenditure and private consumption. A stable macroeconomy with inflation of less than 1% a current account surplus of US\$11.5 billion and reserves of US\$33.5 billion, intensified efforts to resolve financial sector difficulties and broad-based structural reform will all help to ensure that the recovery is sustainable.

Of course, obstacles remain. Unemployment remains significant. Bank lending remains sluggish in light of remaining problems with risk and non-performing loans. NPLs remain unacceptably high at 47.7% and reflect the difficulties many businesses still face in restructuring.

I am confident, however, that Thailand is laying the groundwork for a sustained recovery. Demand, both domestic and export, has picked up. And on a more fundamental level, we have also seen a positive supply-side adjustment, with a sustainable portion of businesses shifting toward the tradable sector. Foreign direct investment and foreign strategic partnership have strongly supported the adjustment.

Efforts have been intensified to resolve financial sector difficulties. A voluntary market-based approach to corporate debt restructuring had been facilitated. Overall recapitalization has advanced at an impressive rate, with over 725 billion baht raised by banks and finance companies since the beginning of 1998. With new strategic partners, banks are acquiring better technology, management and professional skills – leading to increased strength, transparency and competitiveness. Recognizing the importance of legal and regulatory reforms as the foundation for sustained recovery, we have intensified the momentum for reform. We are now in the final stages of drafting a new Financial Institution Law and new Bank of Thailand Law. The Code of Civil and Commercial Procedure Bill on Default Judgement is well on its way to timely passage. The new Bankruptcy Court is now in session, with more than 100 cases currently under consideration.

To preserve and enhance human resources so as to strengthen the adjustment and consolidate the recovery over the medium-term through increased productivity and competitiveness, Thailand is embarking upon broad restructuring in social and public sectors as well as implementing social and welfare programs, emphasizing training, health care and job creation. The international community has supported these efforts through structural adjustment lending and social safety net programs.

Macroeconomic policy will continue to support recovery. The latest fiscal package, announced in August, aims at ensuring a sustained recovery and facilitate the restructuring of the manufacturing sector and strengthening private sector competitiveness. The package focuses on the SMEs as a cornerstone for recovery. The government continues to maintain the expansionary fiscal stance to stimulate the economy and alleviate social ills. On the monetary side, policy will continue to accommodate the recovery while remaining vigilant against the build-up of inflationary pressures and excessive exchange rate volatility. In addition, Thailand is moving to adopt flexible inflation targeting as a monetary objective in the medium-term, helping to preserve our remarkable record of low inflation, even with the removal of the nominal anchor of the fixed exchange rate.

Thailand's outlook has improved dramatically since last year's meetings, and with continued progress and reform, together with favorable external conditions, we fully expect further improvement by next year this time. With macroeconomic stability firmly established and financial and corporate sector adjustments steadily advancing, we will increasingly turn our attention to implementing supply-side policies.

Bank and Fund Matters

Let me now turn to Fund matters, we would like to compliment the Fund on its role and contribution towards the reform of the international financial architecture. In this area, a number of issues on transparency, international standards, and the strengthening of the Interim Committee. The voluntary preparation and publication of transparency reports, focusing on a description of a member country's practice and progress on meeting the standard is an important step towards strengthening the overall financial system. Many crucial issues, however, still require further work. We urge that concrete mechanisms be established for securing private sector involvement in resolving and forestalling the financial crisis. In this regard, careful consideration should be given to allow the international community to sanction a temporary stay on creditor litigation in extreme circumstances. Regarding the Fund's role in the liberalization of capital movements, we would like to reiterate that the sequence and pace of liberalization should be closely linked to stage of economic development and to a country's individual circumstances, given the complexity of the issues.

On the HIPC initiative, we welcome the Bank and Fund's efforts in providing faster, deeper, and broader debt relief for the poorest countries which demonstrate a commitment to reform debt and poverty reduction. We therefore support the off-market gold sale and other initiatives to secure the ESAF-HIPC financing. We, however, share the concerns with other developing countries regarding the financial burden that the enhanced HIPC framework will have on the multilateral development banks (MDBs). We urge that major industrialized economies take a strong leadership in this important endeavor through bilateral contributions based on a fair burden sharing principle.

As regards Bank matters, I believe the World Bank and the Asian Development Bank have been helpful partners throughout the crisis, supporting our initiatives and complementing the efforts of the Fund. I am gratified by the way the Bank has helped putting together assistance for financial and corporate restructuring as well as its role in supporting our social agenda to cushion impact of the crisis on the poor and vulnerable. The role it plays also reflects very much the approach embodied in the Comprehensive Development Framework which we fully support. However, strong partnership and ownership of the Government must be central to the CDF initiative and we urge that Bank must be flexible and mindful of the Government's view.

The Bank also has a crucial role to play in the new international financial architecture and must go beyond its current role as coordinator and collaborator and influence the consensus at the international level with the perspective of the developing countries. It also has key role in the international trade agenda to promote issues of interest to developing countries. With the resource and knowledge that it has, the Bank can help developing countries to prepare and develop the trade agenda as well as to support their institutional capacity for trade negotiation.