



International Monetary and Financial Committee

Tenth Meeting
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Statement by Mr. Devakula

Statement by Honorable M.R. Pridiyathorn Devakula
Governor of the Bank of Thailand
International Monetary and Financial Committee (IMFC)
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Representing the constituency consisting of Brunei Darussalam,
Cambodia, Fiji, Indonesia, Lao P.D.R., Malaysia, Myanmar, Nepal,
Singapore, Thailand, Tonga, and Vietnam

The Global Economy

1. We are very encouraged by the strong and broad-based recovery of the global economy. Nevertheless, we believe that the challenge, going forward, would center on the issue of the financial imbalances, both domestic and external, of the world's largest economy and the threats of the sharp reversal of market sentiments. This is likely to be compounded by the sustained increases in oil prices, which in turn, would complicate macroeconomic policy setting in a number of countries. To help reduce these uncertainties, the Fund should play a pro-active role in global surveillance. Moreover, to ensure prudence in policy advice during these uncertain times, the Fund should avoid being seen as over-optimistic in its outlook and forecasts, especially in its advice to larger economies.
2. While rising interest rates are useful policy tools to anchor price expectations, we need to keep in mind the consequences of rising interest rates to the real sector and costs of borrowing in developing countries. This is particularly important in this time of uncertainty, especially with regard to the oil price, and signs of moderation in the global recovery. Interest rates should therefore be used carefully, keeping in mind the need to ensure some flexibility in adjustments should there be sharp reversal in the recovery process. In areas where there might be pockets of weaknesses, such as credits or real estate bubbles, they may be mitigated by the use of well-designed and targeted prudential measures.
3. Going forward, a global recovery that is too reliant on a single growth locomotive, that is the US economy, demands a search for resolutions from other regions. The growing twin deficits in the US and the resultant unprecedented scale of financing flows represent a potential source of instability. All countries and regional groupings, therefore, need to play their respective parts in pursuing sound macroeconomic and financial policies, which are key to anchoring confidence in the international financial markets. This is all the more important in the problem country itself where an initial first step in reducing the twin deficits would be a welcome gesture.
4. In Asia, China has emerged as the regional economic locomotive supporting the buoyant intra-regional trade. Given the economic recognition that Asia has gained recently, Asia has been called upon to a bigger role in helping to correct the global current account imbalances. While the structural adjustments, such as fiscal or pension reform, have been allowed to occur over the medium to long term in other

regions, Asia should also be given time to make the adjustments on the exchange rate issue. A move towards greater exchange rate flexibility, if and when appropriate, needs to be well prepared and carefully sequenced. In this process, an initial first step of adjustment from the deficit country itself would be an encouraging development for the international community.

Effectiveness of Fund Surveillance

5. The world continues to rely on the Fund for its surveillance mechanism, which remains at the heart of the Fund's work. With the proliferation of regional economic groupings, Fund staff have been called upon to undertake surveillance of various regional groupings. While we commend the Fund for its continued efforts to improve the surveillance mechanisms, more efforts are needed on the vulnerability assessments of large countries and their impacts on smaller economies. As for new surveillance initiatives, such as the recently proposed Policy Monitoring Arrangement (PMA), we would like to caution the Fund against broadening its work through the introduction of new initiatives. Rather, the Fund should concentrate on improving its current surveillance function to ensure governance and credibility of Fund advice.
6. Because surveillance is the Fund's main operation that equally affects member countries, be they creditor or debtor countries, the independence of Fund staff with regard to advice to specific countries, as well as introduction of new Board agendas, are of crucial importance in ensuring the credibility of the Fund to the international financial community. We therefore strongly encourage the Fund to explore possibilities of reforms of its decision-making process. We urge the Fund to consider separating issues which relate to general surveillance, that is, not involving the use of Fund resources, from decisions which affect the Fund's financial assistance to members. The former can be conducted based on more equitable voting rights as it affects the universality of Fund membership. Moreover, the Fund should be steadfast and not being distracted from pressure to incorporate those areas outside its expertise and to avoid repetitive work and lessen personnel and resource burdens on the Fund itself.

The Fund and Low-Income Countries

7. To achieve a high sustainable level of growth consistent with the MDGs and poverty reduction, the Fund will need to remain involved in low-income countries through policy advice, technical assistance and financial support. However, a clear-cut division of labor has to be drawn between the Bank and the Fund in work relating to poverty eradication issues. The demand for "Poverty and Social Impact Analysis" (PSIA) in its work program with the LICs is welcome, but should be considered in line with effective resource utilization.
8. Indeed, the balance between poverty reduction, growth, and economic stability will need to be addressed in such a way as to clarify, if not modify, the Fund's current thinking. In particular, work relating to short-term stabilization problems should not be undertaken in isolation to those relating to their long-term and related developmental agenda. Given that most LICs are commodity traders and exporters, the Fund's roles in the promotion of multilateral trade is critical as it will have an impact on the terms of trade and debt sustainability of these LICs.
9. In policy advice, sufficient flexibility to adjust Fund programs to member countries' circumstances and changing conditions are strongly encouraged. With

limited resources, technical assistance programs need to be streamlined and tailored to individual countries' institutional capacity and this capacity will need to build up early on so that countries – particularly in the HIPC Initiative countries, are able to track and evaluate the effectiveness of their poverty-reducing spending.

Fund's Resources Allocation and Governance

10. Fund credit has recently been directed at a handful of countries. We in this constituency have experienced financial crises first hand and understand all too well that too little assistance can greatly affect market confidence of the program. However, too much allocation to any single country or region also poses a risk to the Fund's balance sheet and ability to serve the universal membership. We do not want the Fund's decision on this important issue to be influenced by larger member countries.
11. Unlike well-developed financial intermediaries in private markets, the Fund as an institution does not have a functioning mechanism to protect the rights of minority shareholders. Basic votes equally allocated to every member used to serve this function, but they have been eroding over the years. Our constituency strongly believes that a full-fledged reform of the Fund's governance is long over due. We implore majority shareholders to push forward with a concrete reform package involving increases in voice and participation of developing countries. Also of prime importance is the selection process of the Managing Director that is fair and transparent. As shareholders, regardless of size, we need the Fund to be an institution that has, and not only appears to have, the credibility in its advice to members on governance issues.

Concluding Remarks

12. As the current global recovery takes hold, attention should be focused on the orderly reduction of global imbalances, the management of risks to the global oil prices, and the structural rigidities still impeding economic growth and resilience. The Fund's role in coordinating policies and meeting the needs of members from different regions is even more critical. In order to deliver this important mandate in a cooperative way, the Fund needs to maintain its legitimacy with its members, with the issues of quotas, voice, and representation to be addressed urgently.
13. As a positive gesture in this direction, we welcome the Managing Director's intention to intensify efforts to maintain a close dialogue on the Fund's roles and supports on various regional initiatives in Asia, as well as to seek to appropriately increase the representation of Asian countries on the staff of the Fund. We hope to be able to see some concrete and tangible results on these fronts soon.
14. As a group of small shareholders, our constituency, comprising emerging market and developing countries, would like to see the Fund as an institution which practices even-handedness in its day-to-day operations and fair treatment, as well as respect for its minority shareholders. The influence and persuasiveness of the Fund are dependent upon its accountability, credibility and objectivity in its advice to members. We need the Fund with a strong and effective Executive Board that no longer finds it necessary to raise the question of country representation and legitimacy. At the bottom line, we wish to see the Fund that cherishes the practice of consensus building in reaching Board decisions.