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

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Mr. Chairman, Fellow Governors,
Ladies and Gentlemen,

It is a great pleasure and privilege for me to address the 2000 Bank-Fund Annual Meetings of the Boards of Governors. First of all, on behalf of the Thai delegation, I would like to extend our heartfelt congratulation on the appointment of the new IMF Managing Director, Herr. Horst KÖhler. Under his leadership and his vision on IMF reform, I am confident that IMF and the World Bank will continue to help member countries to achieve financial stability, sustain growth and reduce poverty. In addition, I also would like to thank our host, the Republic of Czech, for the very warm welcome and the excellent arrangement for the Meetings.

On this occasion, I would like to report to you about our progress in bringing the Thai economy out of the financial crisis. Having bottomed out in the second half of 1998, the Thai economy began to recover in the first quarter of 1999. Positive growth is continuing for the last six consecutive quarters, a 6.6 percent growth in the second quarter of this year. We expected growth to sustain, and rounding off around 5 percent for the whole year. In addition, exports grew by over 20% in the first half of this year which help maintain a sizable current account surplus although imports are increasing rapidly. This was partly caused by significant increase in direct foreign investment. Despite the oil price pressure, inflation is kept below 2%. As of now, our macroeconomic performance is well in place, and Thailand has exit from the Fund program since the middle of this year. At present, all the international rating agencies have placed Thailand back to the investment grade.

The government continues with the restructuring of both financial and real sectors. Banking sector restructuring has been near completion. The disposal of the 56 finance company asset is complete. Five out of 12 retail commercial banks have been open to international banks. Recapitalization of commercial banks are close to complete. At present, solving non-performing loans (NPLs) is the central point of financial restructuring. The government has provided all the necessary supports except using public money to directly buy private sector bad debt. In this connection, the commercial banks are making full provisioning for the bad assets and have set up their own Asset Management Companies (AMCs) to deal with NPLs. During this month, Krung Thai Bank has completed its transfer of bad assets amounting to about 10% of GDP to an AMC, thereby turning the state owned bank into a clean bank. The cabinet has also endorsed the modality for handling the bad debt of Bank Thai, another state owned bank. By separating the management of problem loans from ongoing bank activities, the banks should be able to refocus on new lending, thus helping revive the economy. We believe

that Thailand's market-based approach to banking sector restructuring and corporate debt restructuring is more effective to revitalize the Thai economy in long run.

Another key challenge facing us today is to sustain economic recovery with restructuring in the real sector. We are enhancing transparency and accountability both in the public and the corporate sectors. The work on economic and financial adjustment programs in Thailand does go hand in hand with the improvement in our political process introduced by the new constitution, with more check and balance vis-à-vis the executive branch and greater awareness of civil rights among the mass population. In this connection, we are undertaking public sector reform program with the support from the World Bank to increase efficiency and effectiveness in the bureaucracy. It is the first time that the number of government employees has declined. The privatization of Rachaburi power plant is starting by the end of this month and several other are following. Apart from this, major legal framework is in place. We have revised all the major laws involving bankruptcy codes and the government has provided full resources to the judicial branch together with a full independent status. The challenge is now implementation. The recent conclusion of a major petrochemical company deal should be evidence that the system is working. I would like to emphasize that throughout the last three years since the crisis, Thailand has never resorted to measures to protect weak industry. On the contrary, several rounds of tariff reductions and trade liberalization have been carried out with the view to enhance the country competitiveness, while consumer protection is gaining more weight. I believe that all these should provide a strong foundation for the Thai economy to recovery in a sustainable manner together with a more mature civil society .

Despite all the work in the last three years, certain sectors in the country have not benefited from the economic recovery. The drastic decline in non-oil commodity prices has adversely affected the livelihood of our farmers and they are further squeezed by the higher oil price. Moreover, the financial crisis has caused a loss of about 800,000 jobs in the formal sector. Thus far, the recovery has only returned about 600,000 jobs. In this connection, fiscal policy has been our major instrument to mitigate the social impact of the crisis. We are keen to restore fiscal integrity once the economy is fully back on track, as was in the case in the period before 1997.

Mr. Chairman, Ladies and Gentlemen,

As mentioned earlier, we strongly support the World Bank Group to help countries reduce poverty. In particular, the incorporation of the Bank financial support to the Poverty Reduction Strategy Paper (PRSP) will provide immediate efforts on addressing the structural and social agenda, improving the investment climate and coping with market volatility among member countries. It is also important that the Bank shares the same core set of principles with the Fund. On our part, we fully support the Bank to play a leading role in international communities in direct fight against poverty. As for the middle income countries, I support the World Bank to play a greater role in providing technical assistance, even though loans are not needed. In this connection, I would like to thank the Bank for its support to the privatization forum of APEC and I request the Bank

to support the initiative of the ASEM Finance Deputies to create a public debt management forum.

Let me turn to the proposed review of Fund facilities, which has recently gained considerable interest. As we believe that the Fund should retain the wide array of facilities to suit the differences of member countries, the Fund should keep SBA as the core facility, and complemented by the SRF, CCL and EFF. We support a strengthened Fund surveillance, which is centered on its traditional core areas of macroeconomic assessment. Regarding the Fund's proposed amendments of quota formulas, we believe that they do not adequately reflect the increasing role of emerging countries. Consequently, we urge Fund staff to further study this salient and sensitive issue to accommodate the interests of all members.

On the Fund's role in SDDS, we welcome the third review held in March this year and we wish that more members join the SDDS program. We support the transformation of the ESAF into the PRGF, as the debt burden of HIPC countries ought to be dealt with in a more systematic and rigorous manner.

Once again, I would like to call on the IMF to continue the policy on supporting Regional Financing Facility as a supplement to the Fund's financing support. Recently "Chiang Mai Initiative" is a joint effort among the central banks in ASEAN and China, Korea and Japan (The "ASEAN + 3"). I believe that with the support of the IMF and the Bank, "Chiang Mai Initiative" could be a proper mechanism to provide financial support for countries in need in the region.

In conclusion, I would like to see closer cooperation among the Bank, the Fund and various regional and international organizations in helping countries facing urgent needs. Various arrangements and facilities that are in the pipeline could enhance stability and safeguard the international community. I believe that sustainable growth could only be achieved if the whole community is better off without leaving anybody behind, and I hope that the outcome of the Prague Meetings will be a milestone in the path of the world's sustainable growth.

Thank you.