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The Acting Chairman's Summing Up at the Conclusion of the Post-Program Monitoring Discussion on Thailand Executive Board Meeting 00/123—December 13, 2000

Executive Directors welcomed this first formal application of the Fund's new policy on Post-Program Monitoring. They agreed with the thrust of the staff appraisal. They were pleased that GDP growth is likely to approach 5 percent in 2000, and that inflation remains firmly under control. Directors were particularly encouraged by the strong response of exports to robust external demand. They also noted that the current account surplus remains sizable and the reserve level is comfortable. Against this background, and in view of the sharp reduction in private short-term external debt, Directors considered that Thailand's external vulnerability has been much reduced.

Despite these positive developments, Directors noted that market sentiment is weak, as evidenced by the sharp decline in the stock market and the recent weakness of the baht. They attributed this to both regional concerns over weakening global demand and high oil prices, and—more significantly—to political uncertainty ahead of the general elections and to the slow pace of nonperforming loan (NPL) resolution and debt restructuring. Noting the evidence of a weakness of domestic demand, Directors observed that the risks to the recovery have increased somewhat. They also stressed that Thailand is sensitive to a possible deterioration in the external economic environment. Directors, nevertheless, viewed growth of 4 to 5 percent in 2001 as achievable, provided that there is a return of investor and consumer confidence following the elections, as well as prudent macroeconomic policies and faster progress in structural reforms.

To sustain the pace of recovery, Directors considered that a supportive macroeconomic policy stance remains appropriate. With inflationary pressures still at bay, they endorsed the Bank of Thailand's continued accommodative monetary policy stance. Directors also viewed as appropriate some moderation in the pace of fiscal consolidation, as recently announced by the authorities for the present fiscal year. They considered that the projected comprehensive public sector deficit of 4¾ percent of GDP in 2000/01 (down from 5½ percent of GDP in 1999/00) struck an appropriate balance between the need to begin the process of fiscal consolidation and the maintenance of some fiscal stimulus. However, they stressed that over the medium term, further fiscal consolidation will be needed to reduce the level of public debt.

Directors commended the authorities for the progress made over the past few years in financial sector reform, but noted that a number of serious concerns are weighing on investor and consumer sentiment. On the positive side, Thailand has emerged from the crisis with a strengthened and largely private banking system. Moreover, all private banks meet the

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regulatory capital adequacy standards, and have advanced the required regulatory provisioning against nonperforming loans. However, Directors expressed concern about the slow pace and questionable quality of corporate debt restructuring.

Accordingly, Directors urged the next government to treat as a priority the speedy implementation of reforms to accelerate corporate debt restructuring. They emphasized, in particular, the urgent need to strengthen the legal framework for debt restructuring, especially with respect to the design and application of the insolvency law and the enforcement of creditor claims. To accelerate the pace of asset resolution by the public sector, Directors stressed the need for a comprehensive and accelerated approach to dealing with NPLs in state banks and asset management companies (AMCs) owned by the Financial Institutions Development Fund (FIDF). They also urged further progress in restructuring and privatizing state banks.

Directors noted that the existing capital support schemes that were put in place in August 1998 are due to expire at the end of this year. They encouraged the next government to consider implementing a new public support scheme as a safety net with appropriate safeguards. This would bolster market confidence and enable private banks to engage in more aggressive debt restructuring.

To ensure effective regulatory oversight of the banking system, and enhance the independence of the Bank of Thailand, Directors also urged the new government to secure early passage of pending financial sector laws. They called for an early Parliamentary passage of the Financial Institutions Law, the Central Bank Act, and the Currency Act, which should be treated as key priorities.

While expressing confidence in Thailand's recovery, Directors emphasized that maintaining the momentum of the recovery will require a strong commitment by the new government to tackle the above challenges in a timely and convincing manner. They looked forward to continued close collaboration between the Fund and Thailand in support of these goals.