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Statement by Mr. Taylor on Thailand
(Preliminary)
Executive Board Meeting 97/83
August 20, 1997

I note from the IMF documents on Thailand's request for a stand-by arrangement (para 13) that the Thai authorities have been persuaded to publish data on the outstanding stock of BoT's forward and swap liabilities.

I do not dispute the general case for transparency in policy-making or the need to have safeguards against central banks building up, over time, unsustainable foreign exchange liabilities. The practical issue here, however, is that Thailand has to traverse an extremely delicate transition from the current unsustainable position to a more secure one. During this transition, it is vital that market confidence be maintained.

The general opinion in the Asian region is that Thailand's net reserves are about half the published gross reserves, and publishing the figures contained in the IMF paper may well trigger a reassessment by the market, based on a misunderstanding of the gross forward commitment figures. The market will be tempted to net off all the forward commitments directly against Thailand's gross reserve position. The thinking underlying such arithmetic is that the swaps are a short-term obligation and will be run off. But the reality is that a large part of these swaps will be rolled over. Commercial banks need baht if they are to unwind these swaps, which gives BoT leverage to encourage them to roll the swaps. In short, those swaps should not be seen as simple offsets to the BoT's gross foreign exchange position.

These arguments are quite subtle ones, and it seems likely that when the figures are released, nervous market participants will do a simple offset and call this "foreign exchange reserves". Markets tend to react first and think afterwards.

The Australian authorities have already had some indications of strong demand by international banks for baht liquidity. The RBA has recently had approaches from such banks to purchase baht, which they see as being available because of the proposed $1 billion swap arrangements by the RBA with BoT. This baht is not, of course, available for such transactions, but it is an indication that there is at least some prospect of retaining a better foreign reserve position than the net position would indicate.

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Colleagues will recall that I have on several recent occasions advocated a stronger line from the Fund to encourage members to meet their legal and moral obligation in the provision of data. Relevant to consideration here, however, is the fact that, to our knowledge, it is not common practice among central banks to give detailed, up to date and frequent information about swap positions. In Australia, we publish this figure one a year (and are considering publishing it once a month, but with some publication delay). Our understanding is that the United States publishes its foreign exchange transactions, including any swap positions, once a quarter (again with some delay). It seems curious, to say the least, that we should be requiring a higher degree of disclosure by the Thais, at a time of such sensitivity, than most developed countries are willing to adhere to even in a time of stability. On our recollection, this sort of information was not made available by European countries during the ERM crisis of 1992, and participant monetary authorities might well have thought that to provide it would be playing into the hands of speculators.

Of course, it can be argued with hindsight that if such information had been available earlier, the present situation would be better. That may well be so. But we start off from a particular point in the sequence of events, and the issue is a purely practical one of whether it will be useful, in the delicate transition of the next few months, to have markets focus on this information. Our suggestion would be that this information be published, but only when the elements of the financing package are firmly in place - i.e. with the disbursement of the second tranche of the IMF proposed stand-by in November.

As a separate (and much less important) issue, we might note that if this degree of disclosure is required, it will reduce the effectiveness of the swap arrangements proposed by ourselves, Singapore and Indonesia. Taken literally, a netting would negate the usefulness of our contributions in supplementing BoT's "shop window" foreign exchange reserve levels.