INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

Public Information Notice (PIN) No. 00/110
FOR IMMEDIATE RELEASE
December 20, 2000

IMF Concludes Post-Program Monitoring Discussion on Thailand

On December 13, 2000, the Executive Board of the International Monetary Fund (IMF) concluded a Post-Program Monitoring discussion on Thailand based on information available through that date.[1]

Background

Thailand successfully completed a 34-month Stand-By Arrangement on June 19, 2000. Over the course of the arrangement, a total of US$14.1 billion (including US$3.2 billion from the Fund) was drawn from bilateral and multilateral contributors to the US$17.2 billion official financing package. The first scheduled repayment to the Fund was made in November.

Thailand experienced a severe economic crisis during 1997-98. Strong capital inflows in the preceding years facilitated rapid growth, which concealed financial fragilities and led to large current account deficits. Underlying external imbalances contributed to a loss of reserves, forcing the authorities to abandon their pegged exchange rate in mid-1997. The large depreciation—compounded by regional contagion—and ensuing recession, resulted in a large increase in non-performing loans.

Sound policy implementation during the IMF-supported program facilitated a rebuilding of international reserves. A supportive policy framework has fostered a recovery since 1998. Concurrently, external vulnerability has been substantially lowered with reductions in foreign debt, especially short-term. The authorities also moved decisively to address the substantial problems in the financial sector. Nonviable institutions were taken over by the state, while a comprehensive deposit guarantee was put in place to preserve confidence. Private banks have raised almost $11 billion in new capital, and Thailand is emerging from the crisis with three-quarters of the banking system in private hands. Meanwhile, the privatization of intervened banks has progressed.

More recently, concerns over global demand and high oil prices have adversely affected markets across Asia. In Thailand, political uncertainty ahead of the elections, and the slow pace of nonperforming loan (NPL) resolution have also been key factors. External demand continues

[1]Post-Program Monitoring provides for more frequent consultations between the Fund and members whose arrangement has expired but that continue to have Fund credit outstanding, with a particular focus on policies that have a bearing on external viability. There is a presumption that members whose credit outstanding exceeds 100 percent of quota would engage in Post-Program Monitoring.

to be strong, softening the impact of higher oil prices and weaker domestic demand. Given low capacity utilization, inflation remains low, well within the Bank of Thailand's inflation target. Meanwhile, international reserves are expected to remain comfortable, with external debt repayments by corporates and lower net inflows being matched by a substantial current account surplus.

Executive Board Assessment

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 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.

Thailand: Selected Economic Indicators, 1997-2000

	1997	1998	1999 Estimate	2000 Projection
Real GDP growth (percent)	-1.4	-10.8	4.2	4.5– 5
Consumption	-1.3	-9.5	3.5	5.2
Gross fixed investment	-21.1	-45.1	-4.0	5.0
CPI inflation (end period, percent)	7.7	4.3	0.7	2.0
CPI inflation (period average, percent)	5.6	8.1	0.3	1.7
Saving and investment (percent of GDP)				
Gross domestic investment	33.3	20.3	19.9	20.0
Gross national saving	31.2	33.1	30.2	28.2
Foreign saving	2.1	-12.8	-10.2	-8.2
Fiscal accounts (percent of GDP) 1/				
Central government balance	-0.9	-2.4	-2.8	-2.2
Revenue and grants	18.6	16.2	15.5	15.4
Expenditure and net lending	19.5	18.7	18.3	17.6
Overall public sector balance 2/	-2.1	-3.3	-4.5	-3.6
Cost of financial sector assistance 3/	0.6	2.5	1.8	1.9
Overall public sector balance, augmented for the cost of financial sector assistance	-2.7	-5.8	-6.2	-5.5
Monetary accounts (end period, percent)				
M2A growth	2.0	6.1	1.3	2.5
Balance of payments (billions of US$)				
Current account balance	-3.2	14.3	12.5	10.2
(percent of GDP)	-2.1	12.8	10.2	8.2
Exports, f.o.b.	56.7	52.9	56.8	68.2
Growth rate (in dollar terms)	3.8	-6.8	7.4	20.0
Growth rate (volume terms)	7.3	8.5	11.1	24.6
Imports, c.i.f.	61.3	40.6	47.5	61.8
Growth rate (in dollar terms)	-13.4	-33.8	16.9	30.0
Growth rate (volume terms)	-8.8	-29.1	23.9	29.0
Capital account balance 4/	-15.4	-16.7	-10.4	-13.0
Medium- and long-term	9.5	5.5	2.1	-2.2
Short-term 4/	-24.8	-22.2	-12.5	-10.8
Overall balance	-10.6	2.6	5.2	-2.8
Gross official reserves (end year)	27.0	29.5	34.8	32.0
(Months of following year's imports)	8.0	7.5	6.8	5.5
(Percent of maturing external debt)	57.1	77.6	109.9	115.3
Forward position of BOT (end year)	18.0	6.6	4.8	2.0
External debt				
In percent of GDP	72.3	93.9	78.4	66.3
In billions of US$	109.3	105.1	95.6	82.0
Public sector	24.1	31.1	36.0	35.9
Private sector	85.2	74.0	59.6	46.2
Debt service ratio 5/	15.3	20.8	19.0	19.9

Sources: Information provided by the Thai authorities; and staff estimates.

1/ On a cash and fiscal year basis. The fiscal year runs from October through September such that, for example, the column for 2000 refers to October 1999 through September 2000.

2/ Includes extrabudgetary funds, local government and state enterprises.

3/ Imputed interest cost of servicing the total stock of financial sector assistance, including off-balance sheet liabilities.

4/ Includes outflows associated with the closing of swap and forward contracts by the Bank of Thailand, and errors and omissions.

5/ Percent of exports of goods and services.