



International Monetary and Financial Committee

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**International Monetary and Financial Committee (IMFC)
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On behalf of Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao P.D.R., Malaysia,
Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga and Vietnam

Introduction

1. We thank Mr. Youssef Boutros-Ghali for his contributions to the IMFC, especially his leadership in completing the 2010 Quota and Governance reform. We congratulate Minister Tharman Shanmugaratnam on his appointment as the new Chairman. With his rich experience in understanding the interests of advanced and emerging market countries, we have full confidence that Minister Tharman will be able to make significant progress in fostering a global consensus on many challenging policy issues.

2. Although the global recovery has gained strength since the last IMFC meeting, its prospect remains fragile as several downside risks continue to prevail. Having been successful in coordinating policies to contain the catastrophic damage from the global financial crisis, policymakers are now facing a more difficult task in forging a consensus on multilateral commitments for countries to take into account the impact of their policies on other members and the international monetary system (IMS). Such an agreement will not be easy to reach against the current backdrop of a multi-speed recovery and asymmetry in domestic policy requirements. Nevertheless, it should be stressed that the need for such a consensus is as great as before, since the reliance on accommodative policies of advanced countries has reduced their urgency for structural reforms and complicated the conduct of policies in emerging market economies. If the current stalemate were allowed to continue, there is a risk that the global recovery would not be sustained and the functioning of the IMS could become disorderly. In this context, the theme for this year's IMFC Plenary, "*Global Challenges, Global Solutions*" holds special significance.

Fund Surveillance

3. We look forward to the upcoming 2011 Triennial Surveillance Review (TSR). To avoid duplication, an independent opinion of the gaps in the Fund's surveillance framework can already be found in the IEO report on the Fund's performance in the run-up to the crisis. The IEO has identified several weaknesses in the Fund's culture that impedes effective oversight, such as a silo mentality amongst departments, fear of reprisals that inhibit candid

views, and a lack of evenhandedness in the treatment of members. Instead of searching for a new legal framework for surveillance, the Fund should concentrate its efforts on how best to implement the IEO recommendations. While the IEO report focuses on dealing with risks in the financial sector, we wish to highlight that surveillance should also focus on fiscal and/or debt sustainability problems, from which the next crisis could emanate. A more comprehensive consideration of the gaps in the Fund's surveillance framework is necessary to strengthen the effectiveness of the Fund's bilateral and multilateral surveillance.

4. Given its universal membership and deep technical expertise, the Fund is uniquely placed to identify global challenges, facilitate dialogue and propose policy adjustments. To leverage on such unique strengths, the Fund must earn the trust of its entire membership that its policy advice is formulated in an evenhanded manner. In this respect, the forthcoming spillover reports will be another important test of the Fund's commitment to this principle. Therefore, we hope that such reports will be written in a balanced manner without concentrating the burden of policy adjustment needs on any particular country or region. Lastly, these expanded exercises should not neglect bilateral surveillance exercises, as they remain the cornerstone of Fund surveillance, offering the safe haven of confidentiality that encourages candid discussions between Fund staff and country authorities.

International Monetary System Reform

5. The arguments relating to the deficiencies of the IMS are by now well-rehearsed. Yet, a consensus on what the most critical problems – let alone solutions – are, remains elusive. For emerging market countries, resurgent capital inflows have complicated the task of policymakers, especially as policy settings are being normalized to manage inflation risk. While capital inflows are by and large beneficial in promoting growth and investment, large and volatile episodes can pose significant challenges and overwhelm some recipient countries' ability to respond. Given their sometimes rapid and dynamic nature and the difficulty in differentiating between temporary and structural flows, it is difficult to envisage a determinate response path at the outset. Hence, the policy toolkit ought to entail a range of measures, not precluding any one option *ex ante*, with the flexibility to make adjustments over time. Recent experiences of emerging market economies – including several members of our region – attest to the capacity for policymakers to respond in a pragmatic and timely rather than strictly rules-based and sequential manner.

6. In this connection, the Fund's framework for managing inflows should serve only as an empirical study on country experiences in using capital flow management measures. It should not become an obligation for member countries as was the case with the 2007 Decision on exchange rate surveillance; otherwise the Fund will risk straining its relations with the membership. We also note that the above framework is part of a broader reform agenda on capital flows, which would entail examining both push and pull factors, as well as both source and recipient dimensions of flows. Moreover, the longer-term solution to managing capital inflows lies in developing deeper and broader financial markets, which

would enhance absorptive capacity and facilitate efficient use of capital. We therefore call on the Fund to further study this aspect to help members develop their capital markets.

7. We thank the Fund for its analytical work on assessing reserve adequacy, but we would like to stress that reserve holdings are not an economic policy goal, nor are they driven primarily by precautionary self-insurance motives, but are the outcome of a larger policy strategy for macroeconomic and financial stability. Thus, we view that the Fund's emphasis on assessing reserve adequacy might be misplaced and would add little value to policy dialogue in the Fund's surveillance process, the focus of which should be on the broader macro-policy mix in relation to economic policy objectives. Moreover, assessing reserve adequacy remains an inexact science, with theoretical underpinnings yet to be concretely established. The Fund's recent exercise may therefore be best viewed as an addition to ongoing research on this issue, which would help clarify expectations about what the new metric can and cannot achieve.

8. The Fund cannot hope to establish confidence in the IMS without building adequate financial safety nets to ensure the necessary backstops in the event of global systemic crises. We therefore call on the Fund to strengthen its financing toolkit, including the possible inclusion of a short-term liquidity line, taking into account reinforcing relationships with Fund facilities and other regional financing arrangements.

9. Over the long term, the eventual choice of a global reserve currency, or currencies, needs to reflect evolving international trade and investment flows and be widely accepted by the market. In this regard, we see potential value for the use of the SDR in enhancing the provision of global liquidity and asset diversification. We are also open to reflect in its basket the rising role of major emerging market economies.

Low-Income Countries

10. We welcome the work underway to develop an analytical framework for a Vulnerability Exercise for Low-Income Countries (LICs) as they are particularly vulnerable to sharp swings in commodity prices, natural disasters, and volatile external financing conditions. Due to LICs' greater vulnerabilities and the limited available counter-balancing analysis, the outcomes of this exercise should be treated with a higher level of care and confidentiality. Ongoing work on improving the debt sustainability analysis framework, to more accurately assess available fiscal space for growth-enhancing public investments, is also welcome.

Governance

11. Since we last met in October 2010, the Board of Governors has approved far-reaching reforms on quotas and governance and the 2008 Quota and Voice reforms have entered into force. These meaningful steps will undoubtedly strengthen the credibility, legitimacy and effectiveness of the Fund. However, we are still a long way from the desired outcomes and

need to proceed further to transform the Fund into a truly representative institution aligned with global economic realities. Further, we reiterate our call to reform the selection process of the IMF Managing Director and Deputy Managing Directors. The new selection process should be transparent and take into account the Fund's move towards diversity.

Conclusion

12. While all of us agree that crisis resolution is much more costly than crisis prevention, it is easier for the international community to come to a consensus on what needs to be done to resolve the crisis. At the current juncture, policymakers seem to have some policy space as the global recovery has gained traction. But we are not completely out of the woods yet as there are so many uncertainties along the way. Therefore, this is an important moment for the Fund to take the initiative to bring all stakeholders together and adopt a common understanding on what needs to be done. To do so, the Fund needs to approach these challenges in a balanced manner, by candidly identifying the sources of vulnerabilities and fairly assessing the capacity of member countries to make policy adjustments.