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WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
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Statement by the Hon. **CHALONGPHOB SUSSANGKARN,**
Governor of the Bank for **THAILAND,**
at the Joint Annual Discussion

Governor's Speech
2007 Annual Meetings of the Boards of Governors
of the International Monetary Fund and
the World Bank Group
By
H.E. Chalongphob Sussangkarn
Minister of Finance, Thailand

President Zoellick,
Managing Director De Rato,
Fellow Governors,
Ladies and Gentlemen,

Let me start by expressing my appreciation to the World Bank/IMF and the United States for their warm hospitality in hosting the 2007 World Bank/IMF Annual Meeting in Washington D.C. I would also like to join my fellow Governors in extending a warm welcome to Mr. Robert Zoellick on his appointment as the new President of the World Bank Group. I am confident that his vast knowledge and experience will enable the Bank to meet increasingly complex development challenges in the coming years. Also, I would like to express my appreciation to Managing Director de Rato for his contributions during his tenure. At the same time, I would like to welcome Mr. Dominique Strauss-Kahn as the new Managing Director of the Fund and look forward to working closely with him in the future.

This year's meetings take place against a global economic background characterized by growing uncertainties as a result of a surge in oil prices, the turmoil in the subprime market, continued global imbalances and growing capital market and exchange rate volatilities due to excessive liquidity in the global financial markets. These volatilities impose tremendous policy challenges to countries who need to shield their economies from the risks associated with the volatilities. The challenges are particularly severe for middle income countries in general. Most advanced economies are better able to cope with the volatilities. They have deep financial markets, a diverse array of financial instruments for hedging risks, sophisticated market participants and large financial resources to ease potential problems that may arise. Middle income countries on the other hand lack these characteristics. They have relatively thin markets so that moderate capital inflows and outflows can lead to large changes in asset prices. They do not have sufficient risk hedging instruments; market participants are not sophisticated in dealing with risks; and they have limited financial resources to deal with market disruptions.

As in many other middle income countries, the current global financial volatilities have certainly put tremendous strains on Thailand's ability to achieve a stable macroeconomic policy environment consistent with the maintenance of competitiveness and sustainable growth. We have had to impose capital control measures as additional tools to help moderate the impacts of large capital inflows into our capital markets on the exchange rate. While these controls may be regarded as second-best or even third-best policies in theory, analyses in text books do not deal with the kind of financial volatilities that we are experiencing today, and in practice, with such volatilities capital control measures are likely to become part of the tool-kits for policy makers in middle income countries out of necessity.

As far as Thailand's economic performance is concerned, I am happy to report that in spite of the volatile external environment and the uncertain domestic political situation Thailand should be able to achieve a reasonable growth rate of about 4.5 percent this year with a low rate of inflation of around 2 percent. The government has also given the go-ahead for three major mass transit projects amounting to more than US$ 3 billion. Construction for these projects will begin in 2008. Other large scale investment projects in the petrochemical sector are also in the pipeline. In addition, in spite of the political uncertainties, foreign direct investment has picked up. Applications to the Board of Investment during the first eight months of this year increased by more than 50 percent compared to last year, and over the last couple of months there have been announcements of major investment expansions by many multinational companies, particularly in the appliance and automotive sectors. These various investment projects, both by the public and private sectors, will stimulate domestic demand starting next year. This will help to cushion the impact of a potential slow down in exports as a result of potentially unfavorable external environment. Elections are due on December 23rd of this year. With political clarity after the elections and the investment stimulus from the groundwork laid by this government, it is expected that Thailand's economic growth in 2008 should easily exceed that in 2007.

Let me now turn to matters relating to the World Bank Group. On behalf of the Thai government, I would like to thank the World Bank for its continued fruitful engagement with Thailand even though Thailand has not borrowed from the World Bank for a number of years. Our relationship with the Bank is now evolving from a borrower-lender relationship, to more of a development partnership. As a development partner, the Bank has supported Thailand in a number of areas; namely human and social capital, competitiveness, poverty and income inequality, natural resources and environment, as well as on governance issues. Currently a Country Development Partnership between the World Bank and Thailand is under preparation and we look forward to a broadening and deepening of engagement with the World Bank over the next 5 years.

With regard to this year's agenda, we are fully in agreement with the Bank's emphasis on closing the development gaps among members and that specific attention should be given to the poorest countries while flexible policy should be utilized in engaging with fragile and post-conflict states. We are also in full support of the Bank's goal of greater engagement with middle income countries. As a middle income country, Thailand can still benefit a great deal from the expertise of the Bank, whether in project related issues or broader policy issues. With greater flexibility in the Bank's lending policy, particularly in terms of local currency lending, Thailand hopes to expand our engagement with the Bank in the future.

On Fund matter, I believe that much work remains to be achieved for the Fund to remain relevant, credible, and effective in the changing global environment. While some of the progress has been laid out in a "Report of the Managing Director to the International Financial and Monetary Committee on the IMF's Policy Agenda," we would like to take this opportunity to highlight a couple of issues.

First and foremost, the issue of **quota and voice reform** needs to be addressed to tackle the long overdue problem of the Fund's **governance.** In this connection, we view that the new quota formula should be simpler and transparent, yet comprise variables that reflect not only members' ability to contribute to the Fund, but also their relative economic positions in the world economy. In addition, a sizeable quota increase for the most underrepresented members would be needed to achieve a meaningful change and credible reform, realigning the quota shares of developing countries with their relative importance to the global economy.

Second, on the issue of **surveillance**, it is important that the Fund continue to strengthen its surveillance framework while ensuring evenhandedness among members. The recently adopted 2007 Decision on Bilateral Surveillance remains to be tested whether it could provide greater clarity on the Fund's surveillance exercise to members. We would like to emphasize that the Fund would need to pay due regard to the different exchange rate regimes as well as specific conditions and challenges of individual members in conducting surveillance over members' exchange rate policies. Too much attention of exchange rate policies as a key macroeconomic adjustment variable would be unproductive. At the same time, the Fund would also need to focus much more on how to reduce the global financial market volatilities that are major sources of risks to member countries, particularly the middle income countries. Focusing solely on members' policies without trying to reduce the external sources of risks faced by members would also be unproductive in my opinion.

Last but not least, I would like to express my appreciation to the Board of Governors, Management, and staff of the Bank and the Fund for their continued support and fruitful co-operations. Also, I wish them every success in their tasks of promoting global financial stability and eradicating poverty.

Thank you