Prasarn Trairatvorakul: Overview of the global economy

Statement by Dr Prasarn Trairatvorakul, Governor of the Bank of Thailand, at the International Monetary and Financial Committee (IMFC) Twenty-Fourth Meeting, International Monetary Fund, Washington DC, 24 September 2011.

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On behalf of the Constituency representing Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao P.D.R., Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga and Vietnam.

Global and domestic policy actions

The IMFC is convening at a time when global growth outlook has dimmed considerably since our Spring meeting. Recovery in major advanced economies has weakened in the last several months. Meanwhile, growth in emerging market economies has moderated. Stresses in the Eurozone periphery have not abated and have impacted larger economies, undermining market confidence. Consequently, the clearest risks currently to the global economy are unstable debt dynamics, sluggish economic performance, banking sector funding stresses and policy responses perceived by markets as inadequate. Further, risk aversion in the current environment has already had an impact on emerging market economies, including those with strong fundamentals.

Risks to the global economy and financial system demand decisive policy responses. For advanced economies with some fiscal space, this means a credible medium-term fiscal consolidation plan and policy flexibility to support growth in the near term. Eurozone economies under market pressure should deliver credible commitment to fiscal consolidation and implementation. While we welcome the measures announced at the Eurozone summit in July, further resolute measures to strengthen the banking sector, credibly restore debt sustainability in the Eurozone periphery, and lift long-term growth potential through structural reform are necessary to restore market confidence in the short term and contribute to global growth and stability in the long term. The Fund should be pro-active in proposing solutions and mediating their adoption.

We believe that progress in structural reforms will be key to restoring growth in the medium- and long-term. Although each crisis is different, our efforts during the Asian crisis that brought about a relatively fast recovery may provide a useful lesson for countries facing current difficulties. From our experience, the determination to undertake and stick with structural reforms, particularly in the financial sector, was a crucial factor that led to an improvement in confidence, competitiveness and growth.

The fund’s response

i) Global Financial Safety Nets (GFSN)

With substantial downside risks to growth in the global economy and heightened volatility in financial markets, the Fund should assess the adequacy of its resources against expected financing needs. At a minimum, there should be no reduction in Fund resources during this time. In this regard, countries in our constituency which are participants of the New Arrangements to Borrow fully support the extension of the activation period to March 2012.

We also regard as particularly relevant the Fund’s work to develop a more coherent response to systemic events, including short-term liquidity provision to crisis bystanders. Rapid liquidity support at an early stage is critical to help pre-empting temporary liquidity difficulties in sound economies from escalating into a wider crisis. We call on the Fund to review its lending toolkit and emphasise that potential solutions should minimise stigma, and send effective signals that differentiate crisis bystanders as fundamentally sound economies. A study of gaps and new solutions can be undertaken together with an early review of the Flexible Credit Line and Precautionary Credit Line. The latter should be aimed at improving the accessibility and flexibility of these instruments whilst limiting moral hazard.

ii) Surveillance

The Fund's credentials on surveillance suffered a setback after it had not given sufficient warning in the run-up to the 2008/9 crisis. The 2011 Triennial Surveillance Review (TSR) is therefore a good opportunity for the Fund to address the shortcomings. On the whole, we welcome the key TSR objective of making the Fund's surveillance as interconnected as the global economy itself. Given its universal membership, cross-country experience and deep technical expertise, the Fund is uniquely placed to identify global challenges and facilitate dialogue with country authorities to undertake appropriate policy responses. To leverage on this strength, the Fund needs to invest time to build stronger trust and consensus amongst members on its surveillance and analytical frameworks.

The Fund is also well placed to integrate its macroeconomic and financial surveillance, and thus to identify latent vulnerabilities, interconnections and transmission channels. Such an integrated, risk-focused approach should aim to inform timely policy interventions and limit contagion. In this context, we welcome both the spillover reports and the Consolidated Multilateral Surveillance Report presented at this meeting as steps in the right direction to understand and act on the implications of increasing interconnectedness among members. In addition, the Fund needs to have a broader, more balanced surveillance mandate that better reflects the major areas of risks confronting the global economy, including risks in sovereign balance sheets and the financial system. We call on the Fund to adopt a new Integrated Surveillance Decision that replaces the 2007 Decision, which focused too narrowly on exchange rates.

International monetary system

We encourage the Fund to continue its work to strengthen the international monetary system. The experience of countries in our constituency attests to the complex policy challenges posed to emerging market economies by volatile capital flows. We expect the Fund's work in this area to continue to be even-handed, non-prescriptive and to take into account country specificities. Further, we look forward to the extension of staff analysis of capital flows and associated policies to cover both source and recipient countries. We also support the Fund's work on examining the case for broadening the SDR basket. This could contribute towards the diversification of reserve holdings, thereby strengthening the stability of the international monetary system over the longer term.

Governance reform

Governance underpins the legitimacy and traction of the Fund's activities and advice. For this reason, we support the Managing Director's call for greater progress in implementing the 2010 quota reform and re-composition of the Executive Board. We also emphasise the importance of completing a review of the quota formula by January 2013.