



International Monetary and Financial Committee

Thirty-Ninth Meeting
April 12–13, 2019

**IMFC Statement by Veerathai Santiprabhob
Governor
Bank of Thailand**

On behalf of
Brunei Darussalam, Cambodia, Republic of Fiji, Indonesia,
Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines,
Singapore, Thailand, Tonga, and Vietnam

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Introduction

Global growth has lost some momentum towards the end of 2018 due to a combination of cyclical and one-off factors, as well as a larger-than-expected decline in international trade volume. The global economic expansion will continue but is subject to substantial downside risks, many of which have their roots in changes in trade policies and geopolitical factors. Against this backdrop, the Fund has a critical role to play in encouraging policymakers to avoid policy missteps and strengthen domestic resilience in preparation for more challenging conditions.

Regional Prospects

Economies in our constituency (Southeast Asia Voting Group: SEAVG) continue to be resilient in the face of a less favorable outturn in the global environment. Robust domestic demand and a modest pick-up in exports supported strong growth in 2018, notwithstanding evidence of softening momentum in line with global trends. Looking ahead, SEAVG economies are expected to continue to expand, with growth underpinned by healthy labor market conditions and resilient domestic demand.

Nonetheless, near-term risks are skewed to the downside, notably from external factors including persistent trade tensions and other uncertainties that are weighing on business and investment confidence. The recent accommodative tilt by major central banks is expected to help to support growth while reducing the immediate risk of a disruptive tightening in financial conditions. However, the accommodative policy shift, if not managed carefully, could contribute to the continued buildup of financial vulnerabilities. Given elevated uncertainty, a sharp market reassessment of global growth prospects could trigger further bouts of volatility.

Our policymakers will continue to enhance resilience by strengthening policy buffers and are prepared to utilize available policy tools as necessary. Fiscal room to maneuver is generally adequate with public debt levels below statutory limits for the most part. Following some tightening of their monetary policy stance in 2018, central banks in the region remain alert to financial stability risks. For some, lower commodity prices and more accommodative

monetary policy in advanced economies have also created additional room for further easing if needed. Our authorities are committed to implementing structural reforms to strengthen medium-term prospects and tackle longer-term challenges including infrastructure gaps, slower productivity growth, demographic shifts and climate change.

The Fund's Surveillance and Policy Advice

The Fund has a crucial role to play to safeguard global economic and financial stability by providing tailored policy advice for member countries to pursue growth and stability objectives. To this end, we welcome the Managing Director's Global Policy Agenda (GPA) that calls for timely and appropriate policy actions on both domestic and international levels. While countries' priorities are to keep their houses in order, joint efforts are needed to tackle common challenges and reap the shared rewards.

The Fund should continue to strengthen its analytical frameworks and policy advice. We welcome the ambitious scope of the 2020 Comprehensive Surveillance Review and its emphasis on enhancing the added value of the Fund's advice to the membership. Against the backdrop of deepening macrofinancial and external linkages and rising spillovers, we support the work to develop a deeper understanding of various policy combinations, as well as complementarities and trade-offs among different policy levers. The Fund should also continue to engage with member countries to have a better account of country idiosyncrasies and policy priorities, which could help the Fund in designing tailored and pragmatic policy advice that could achieve better traction.

- Fiscal policy needs to strike a balance to ensure that growth can be achieved sustainably and equitably. We support the Fund's recommendation for fiscal policymakers to adopt a longer-term orientation and welcome the Fund's engagement on issues of social spending. In doing so, we emphasize that the advice on the optimal spending envelope and mix should be considerate of social objectives, political economy considerations and implementation capacity.
- While key priorities of central banks are domestic price and financial stability, they will have to remain vigilant against risks from external shocks in light of growing financial interconnectedness. Volatile global financial conditions can lead to destabilizing capital flows, particularly where the size of foreign exchange and financial markets remains relatively small. Policymakers will need to deploy a combination of policy tools to deal with such uncertainties and preserve domestic financial stability. The Fund's view on the appropriate policy mix should adapt to the need for a flexible combination of policy instruments as warranted by the prevailing risks and country-specific circumstances. For emerging market policymakers, this pragmatism has supported us in managing these multifaceted and evolving risks. In this regard, we welcome the Fund's ongoing work on the Integrated Policy Framework, as it should provide a holistic view on the appropriate mix of interest rate policy, macroprudential measures, foreign exchange

intervention and capital flow management measures. In addition, we encourage the Fund to also assess the longer-term implications of unconventional monetary policy of advanced countries, especially on the volatility of global capital flows, and provide alternative policy advice to mitigate their adverse impact.

- While we appreciate the call on the membership to reduce external imbalances, the Fund should be cautious in interpreting and communicating the results of external balance assessments and avoid over-reliance on near-term exchange rate adjustments, given that the underpinning empirical work cannot fully capture country circumstances and specific factors. It should be noted that other structural and supply-side adjustments are also needed rather than relying on exchange rate adjustment alone.

The Fund is well-positioned, with its universal membership and macroeconomic expertise, to provide analytical support in resolving our shared challenges and coordinate multilateral cooperation. The issue of trade tensions is one such area that is of particular importance to small-open economies, in which the degree of impact will depend on individual countries' position in the global value chains and the outcome of trade negotiations. We call on the Fund to remain committed in its advocacy for free and multilateral trade by putting forth a compelling case that highlights the negative consequences of trade restrictions and the potential gains from further trade liberalization that can be shared by all.

Making the Global Financial Safety Net Stronger and More Inclusive

We are deeply disappointed that the 15th General Review of Quotas (GRQ) has failed to yield consensus on a quota increase. This is a missed opportunity to put Fund resources on a more permanent footing and to advance governance reform in line with past calls by the IMFC.

In support of the Fund's role at the center of the global financial safety net (GFSN), our constituency stands ready to work with member countries to reinforce the Fund's lending capacity. We stress that any increase in temporary resources must not disincentivize efforts to deliver a quota increase in the near future. It is of utmost importance to the credibility and legitimacy of the Fund that governance reforms remain in motion, and that the halt is only temporary. The 16th GRQ should revisit the adequacy of quotas, as well as agree on a realignment of quota shares and a new quota formula. This realignment should result in increased quota shares for dynamic economies in line with their relative positions in the world economy, and hence, a likely increase in the share of emerging market and developing countries as a whole, while protecting the voice and representation of the poorest members. We also call for full implementation of the 2010 governance reforms without further delay.

Concurrently, we encourage the Fund to step up efforts in addressing existing gaps in the GFSN, and explore additional means to support members in coping with short-term liquidity pressures that could arise from capital flow volatility. We encourage the Fund to consider expanding its lending toolkit with liquidity facilities such as the previously-discussed Short-

term Liquidity Swap (SLS). We appreciate the Fund's work towards harmonizing operational guidelines of the Chiang Mai Initiative Multilateralization (CMIM) with the Fund's facilities, which will improve the CMIM's readiness for crisis prevention and resolution.

Strengthening Support for Member Countries

We welcome the Fund's continued support for small and fragile states, particularly those facing difficulties from climate- and security-related shocks. We are encouraged by measures under consideration in the Fund's review of its concessional lending facilities, especially to better meet the needs of disaster-prone countries. The Fund's policy advice is rightly focused on improving fiscal management and building resilience to climate-related risks. We also recognize the importance of strengthened collaboration between the Fund and development partners in aiding resilience-building efforts for self-sustenance over the long-run.

Our constituency deeply appreciates the Fund's technical assistance and capacity development (CD) programs, and ongoing efforts to deepen their integration with surveillance activities. SEAVG members have benefited greatly from CD and training initiatives especially through regional centers such as the IMF Capacity Development Office in Thailand, the Pacific Financial Technical Assistance Centre, the IMF-Singapore Regional Training Institute, the IMF Regional Office for Asia and the Pacific, as well as the IMF Headquarters.