



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

FIRST DEPUTY MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

February 7, 1997

Dear Minister Amnuay:

Following the Managing Director's letter of January 31, 1997, we have continued to watch the situation in Thailand with great concern. While welcoming the statements that you have made this week—particularly with regard to maintaining a tight monetary policy at the present time—the situation remains serious, and decisive action is needed to address it. To continue to support the exchange rate at its present level will require not only maintaining high real interest rates for the foreseeable future (with serious effects on the banking system) but also entails the risk of a rapid rundown in reserves.

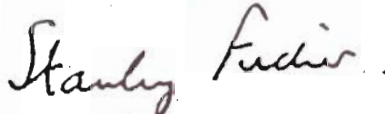
In our view, the situation calls for action in the following four areas: the exchange rate; additional fiscal measures; maintaining monetary conditions sufficiently tight to support the exchange rate; and a package to rescue distressed financial institutions (including those that may be affected by the devaluation itself). Such a package would ensure a substantial improvement in the current account position, and greatly strengthen market confidence.

I appreciate, of course, that it may not in practice be possible to implement the entire package of supporting policies immediately. In that case, you could announce and implement as much as possible of the fiscal, monetary and financial package, along with the exchange rate action. The remaining elements of the package could then be implemented as soon as feasible thereafter.

An alternative possibility would be to announce and implement as much as possible of the fiscal, monetary and financial package, but delay action on the exchange rate until all remaining elements of the package can be put in place. This would have the advantage of allowing the exchange rate adjustment to take place when fully supported by measures. However, this option is feasible only if pressures on the exchange rate can be swiftly contained. You are, of course, in a better position to assess this, but, in our judgment such an approach runs a substantial risk of eroding your buffer of international reserves.

In conclusion, Mr. Minister, let me state that the Fund stands ready to provide financial resources, if needed, in support of an appropriate program and any other support you may need in the present situation. Mr. Aghevli, Deputy Director of the Asia and Pacific Department, whom I have asked to bring this letter to you, will be prepared to discuss more specifically the issues I have raised here.

Sincerely yours



Stanley Fischer
Acting Managing Director

His Excellency Amnuay Viravan
Deputy Prime Minister and Finance Minister
Rama VI Road
Bangkok 10400, Thailand

cc: The Honorable Rerngchai Marakanond
Governor, Bank of Thailand



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

May 14, 1997

Personal and confidential

Dear Minister Amnuay:

I am writing to you in continuation of our conversations in Phuket and in Cebu in recent months. We agreed in those discussions that the situation in Thailand warranted very close watching, and on the imperative of maintaining the confidence of financial markets for the success of your economic objectives.

We have watched the events of recent days, therefore, very closely. Recalling our previous conversations, and your own intentions to take decisive actions as needed to maintain confidence, it is my considered judgment that the time is appropriate to implement expeditiously a comprehensive—and integrated—package of measures in all the key areas that we have previously discussed (the details of which were elaborated by the staff during the recent consultation discussions).

Finally, allow me to reiterate that we stand ready to provide any support you may need in the present situation toward the adoption of such a package and its successful implementation.

Handwritten Thai text:
ขออนุญาตส่งมอบเอกสารฉบับนี้ให้ท่าน
ในวันที่ 1-15 พ.ค. 1997

Sincerely yours,

Handwritten signature of Michel Camdessus

Michel Camdessus

Handwritten Thai text:
ขอแสดงความยินดีเป็นอย่างสูง
ต่อความสำเร็จของประเทศไทย
ในการแก้ไขปัญหาเศรษฐกิจ
ในช่วงที่ผ่านมา

His Excellency Amnuay Vitayakul
Deputy Prime Minister and Finance Minister
Rama VI Road
Bangkok 10400
Thailand

cc: The Honorable Rangchai Marakanond
Governor, Bank of Thailand

Handwritten Thai text:
สวทท



MANAGING DIRECTOR

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431CABLE ADDRESS
INTERFUND

May 20, 1997

Dear Mr. Prime Minister:

I recall with great pleasure our meeting in Bangkok last December and it was with great interest that I have learned that you have assumed a much larger supervisory and oversight role over economic policy. The economic situation in Thailand certainly requires the close attention of the highest levels of government, and I agree completely with your recent statement that the economic problems have to be dealt with immediately.

Deputy Prime Minister Amnuay will have informed you that I have addressed a letter to him last week on the economic situation, reiterating our view that the time is overdue for decisive action (attached). The letter should be viewed against the background of several recent discussions—by myself, other members of our management team, and the IMF staff—with Minister Amnuay, Governor Rerngchai, and their senior officials.

The main concern that we have emphasized consistently on all of these occasions has been that the economic situation in Thailand needs an integrated package of measures in a number of key areas in order to address vulnerabilities, retain the full confidence of markets, and set the basis for the resumption of rapid economic growth. I need hardly add that the continuing vulnerability of Thailand's economy was demonstrated only too clearly last week, when renewed speculative pressures resulted in sizeable intervention by the Bank of Thailand—at substantial cost to the country's foreign exchange reserves.

Although exchange markets have calmed in recent days, I believe that the threat of further turbulence in exchange markets has not yet been removed. Key vulnerabilities remain in the size of the current account deficit, in a deteriorating fiscal outlook, in the high stock of short-term indebtedness, in a weakened reserve position of the Bank of Thailand, and in the difficulties of banks and finance companies. Pre-emptive measures are, therefore, urgently needed. Let me repeat, therefore, the following principal elements of such a package:

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- A devaluation of 10-15 percent, accompanied by a move to greater exchange rate flexibility. While we recognize the difficulties in moving in this direction during periods of exchange market pressure, this shift in exchange market regime is now overdue, and can only be postponed further at the cost of substantial erosion to reserves.
- A fiscal tightening of at least 1 1/2-2 percent of GDP on an annual basis, to ensure the central government remains in surplus and to provide a margin to meet the likely costs of financial sector restructuring.
- A tight monetary policy to support the rate within the new band (there would be scope to reduce real interest rates when markets have settled).
- A comprehensive package of measures to strengthen the financial sector, following a full assessment of the true size of the problems.

It will be crucial that the authorities present a united front behind the package.

I appreciate that some measures have been taken in recent weeks, and additional measures were announced a few days ago, but it is my considered assessment that they fall considerably short of a comprehensive package outlined above.

We are happy to continue the dialogue with you on these crucial matters and, if it is convenient to you, I propose that Mr. Stanley Fischer, my First Deputy Managing Director, who is currently in Tokyo, stop briefly in Bangkok on his way back to Washington; this would be on Thursday of this week, May 22.

Your Excellency, I would like to assure you that the IMF stands ready to assist you and your Government in the coming days in every possible way toward the earliest adoption of an effective package of measures and its successful implementation. This assistance can take a number of forms, and I have always made clear our readiness to provide both technical and financial support, were your government to request it.

With my highest regards.

Sincerely yours,



Michel Camdessus

// Attachment