

**Opening Address**  
by  
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at the  
**Euromoney Seminar**  
**Amazing Thailand: Funding the**  
**Future & Accessing Opportunities**  
**Shangri-La Hotel, Bangkok**  
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**9.10-9.30 hrs.**

Good morning, Ladies and Gentlemen,  
Distinguished Guests,

It is a great pleasure to be present here at this year's **Euromoney Seminar on the theme of "Amazing Thailand: Funding the Future & Accessing Opportunities"**. Two years ago in October 2003, the Bank of Thailand organized a seminar with the Euromoney in Bangkok on the topic of Developing Asian Bond Markets.

At that time, East Asia and Pacific Central Banks had just launched its first Asian Bond Fund 1 in June 2003. The ABF1 invests in US dollar denominated bonds issued by 8 member countries. Now that the Asian Bond Fund 2 has been launched in local currency, we are progressing further on the development of local currency bond markets in the region. Today's conference therefore comes at an opportune moment as it is carrying the theme forward in a broader context of how we could use the bond markets in Asia as instruments of funding for the regional projects that accompany the fast-growing intra-regional trade.

I would therefore like to take this opportunity today to share with you some thoughts on the challenges of the global economic environment and - to use the title of today's conference - the "amazing" resilience of

the Thai economy in the face of global and domestic uncertainties. These assessments coupled with the investment opportunities that will be presented to you in the coming sessions should help you in making your decisions on the investment prospects in Thailand.

### ***Current global environment and risks***

Ladies and Gentlemen,

The present global economic and financial environment poses a challenge for Thailand and the Asian region. The rise in global crude oil prices by over 80% in the past two years had inevitable impacts on inflation and the current account deficits of oil importing countries.

To cope with the rising oil prices, the world is stepping up efforts at energy conservation and the search for alternative energy supply. A study by the Cambridge Energy Research Associates reveals that oil prices are currently at levels which are high enough to create economic incentives to search for new sources of oil and alternative sources of energy. A hole-by-hole survey of oil fields shows that global oil production could potentially increase to as much as 20 percent or 16 million barrels a day by 2010. Meanwhile, the more widespread search for alternative sources of energy could result in as much as 30 percent of oil usage being substituted by new forms of energy, such as oil sand and geo-thermals. However, these efforts will take time, and it is expected that oil prices will continue to fluctuate at high levels for a number of years.

Against the background of rising price levels worldwide, the policy priorities of central banks would be to ensure economic stability by addressing pressure on both inflation and the current account. This would imply an environment of higher interest rates, and the global economy

would have to live with the high oil price and the consequent risk of slower growth and inflation for the next 3-4 years.

### *Thailand's economic resilience*

Ladies and Gentlemen,

I must say that against the backdrop of uncertain global environment and many unfortunate domestic events, the Thai economy has turned in a respectable performance in 2005, both in terms of growth and stability, with the continuation expected for 2006.

To appreciate the challenge confronting us early this year, we must recall that during 2003-2004, the Thai economy grew at an average of 6.5 percent accompanied by very tame inflation and current account surpluses.

However, the situation deteriorated in the beginning of the year, with growth falling to 3.9% in the first half of this year. The current account deteriorated from a surplus of 6.6 billion US dollars last year to a deficit of 6.2 billion US dollars for the first half of this year.

What went wrong with the Thai economy, is there a potential crisis, is the recovery sustainable?

Our assessment is that the sharp deterioration was due to several adverse shocks that hit the economy simultaneously between the latter half of 2004 and early 2005. The dominant one is, of course, the high world **oil prices**. But also influential are the prolonged drought, the tsunami and unrest in the southern part of Thailand. The downturn of the global electronics cycle, as well as the slowdown in global demand have also dampened our exports in the early part of the year.

With the compounding effects of these shocks which hit us during the same period of time, it really is not surprising why growth in the first half of this year was 3.9%. What surprises me somewhat, is the fact that the economy has been hit by a perfect storm and yet there is **no sign of deterioration in the inherent strength of the economy**. The NPL ratio continues to be on the decline, bank profitability remains sound, and bank credits are expanding satisfactorily. The banking sector is now strong enough to withstand adverse shocks and is supportive of overall economic growth.

The corporate sector is also demonstrating good health. Firms continued to report rising profitability, increased retained earnings and falling leverage ratio.

For the economy as a whole, even though the current account was in deficits throughout the first half of 2005, **international reserves** have remained above 48 billion US dollars since the beginning of the year. The **ratio of reserves to short-term debt** of over 3 times indicates a comfortable external position.

***Ladies and gentlemen,***

On the whole, what do these statistics say? I think all signs are supporting the assessment that the Thai economy is now quite resilient and able to withstand adverse shocks with composure. We have seen GDP growth slowing and stability deteriorating somewhat, but resilience means that the economy has inherent strength to charge ahead once the turbulence subsides. The good news is that the turbulence has already begun to do just that.

**First of all**, it is very unlikely that we will be hit by another devastating disaster as the tsunami. **Secondly**, the drought conditions

have much improved, and with the recent heavy rainfalls, the water levels in the reservoirs have returned to normal. **Thirdly**, exports have picked up strongly. In the third quarter of this year, exports grew by 22.7%, up from the average of 13.2% in the preceding six months. The recent turnaround in the global electronics cycle plays an important contributing factor to this favourable development.

I believe that the ability of the Thai economy to bounce back quickly is the fruits of our reform efforts. The authorities and corporate sectors have worked hard at eliminating the weaker links and to bring about the strength, flexibility and resilience of our economy. Supervisory authorities have strictly adhered to international standards and best practices, especially risk management in the financial sector. Preemptive actions have also been taken through the use of prudential tools to curtail financial excesses and prevent possible build-up of imbalances—or bubbles—that started to appear in some sectors of the economy.

With continued policy prudence and improved supervision, our firms and banks are now much stronger and—more importantly—more risk-prudent. Debt to equity ratios of listed companies have come down from close to 2 times during pre crisis to about 1.2 times. Banks have recapitalized, restructured, reformed, adopted better risk management and have become much more resilient. The government sector has consolidated and adhered strongly to their fiscal prudence framework and discipline, with the ratio of public debt to GDP well below 50 percent and falling.

Besides the favourable trend of exports, **private investment** is likely to step up to become a key driver of growth going forward. Demand for investment is driven to a large part by rising industrial capacity utilization. Now the average for the entire industrial sector has

risen to above 70%, with several key industries operating well above 80%, including petrochemicals, pulp and paper, commercial cars, and motorcycles. This means that businesses would soon to hit their production limit and new investment must take place to relieve that constraint.

Together with private investment, **public investment** is likely to accelerate with the government's mega project plans. These mega projects aim to help relieve infrastructure bottlenecks and take the economy on a new trajectory of growth, both in the short-term when investment activities pick up and in the longer-term as the economy works its way towards a new competitive edge.

With an additional boost from exports as well private and public investment, **GDP growth** is likely to pick up in the latter half of 2005. GDP growth for the third quarter is likely to be above 4.5% and the BOT has recently revised upward the growth forecast. For the entire year 2005, growth is likely to reach the upper bound of the range of 4.25-4.75 %. In other words, GDP growth for the second half of this year is likely to turn in above 5%. This growth momentum is expected to continue and would be sustained even with some increase in world oil prices.

Furthermore, an increase of net exports in the third quarter has reduced current account deficit of 6.2 billion US dollars for the first six months down to 5.1 billion US dollars for nine months and likely to finish the year with a current account deficit of less than 4 billion US dollars or less than 2% of GDP, which is quite acceptable.

Ladies and Gentlemen,

*Intra regional trade and trade financing*

It became quite apparent with the export pickup since the second quarter this year that there is some inherent explanation behind this. If one digs deeper into the statistics, one can see that a common feature among the countries in the region is the expansion of trade among ourselves. I believe that this intra-regional trade has been a key driver of growth in this region and has helped to provide further resilience against shocks to our economies.

Allow me to cite you a few statistics. The value of trade among the non-Japan, Asia-9 economies, has outgrown total world trade over the last decade. In 1994, trade among these economies grew by 24.6 percent, surpassing world trade growth of 13.7 percent. Last year, trade among Asia-9 grew 26.5 percent while global trade grew by 21.6 percent. As a consequence, the share of Intra-regional trade in **non-Japan** Asia-9 rose from about 26 percent of total trade in 1988 to over 40 percent in the first five months of 2005. During the same period, Asia-9's trade with the G3 fell from 55 percent to about 40 percent. When we talk about Non-Japan Asia-9 economies, we mean ASEAN-5, China, Hong Kong, Chinese Taipei and Korea.

Indeed, intra-regional trade and the accompanying cross-border economic activities would become an increasingly more important engine of growth for the region. This is especially needed when growth in Europe has slowed down and Japan is just out of disinflation. Importantly, the risk of a US slowdown also brings a strong case for the promotion of **intra-regional trade** as an alternative engine of growth for Asia.

China and East Asia have the potential to maintain their high growth rates driven by strong intra-regional trade flows. If Asia can trade more among ourselves, in the way that our European counterparts are doing, we can increase aggregate domestic demand of the region, thus reducing our dependency on the US market.

As intra-regional trade continues to grow, financial institutions would increasingly be called upon to provide a wide array of trade-financing services to their customers. In turn, financing would expand present trade links, which would require further financing schemes. At the end of the day, a self-perpetuating “virtuous cycle” of trade and trade financing would be created, adding liquidity and lowering costs, which will enhance the role of intra-regional trade as another engine of growth for Asia.

### **New business models and capital market development**

Ladies and Gentlemen,

The growth of intra regional trade in Asia by over 20 percent in the past decade has been attributed, in part, to the new business model of production, where each country or region has become so integrated with the world that it has become part of the global production chain. This is apparent in practically all manufactured goods, be they automobile production, electronics or textile and garments.

This new global production model brings with it a new dimension for trade. Raw materials are being sourced in one country, whilst assembly production or designs of that same product could be made in another country - all based on the location where they best have the comparative advantage.

The new business model brings both challenge and opportunities for Thai firms and businesses. It brings opportunities for the country to ride on the wave of growth of China and other East Asian countries. It also brings about challenges because foreign direct investments have so many choices of destination that they can easily pull out of one country to relocate to the other. It is against this challenge that Thailand must keep up its competitiveness. Today you will hear many speakers talk about the mega project initiatives that aims to relieve the bottleneck and bring Thailand on a higher level of competitiveness.

In the same way that intra-regional trade should be supported by the development of trade financing, the new business models will also need the support of more long-term funding and sophisticated financial services – hence the initiatives to develop capital markets in Asia. These services are needed to support cross-border investments, mergers and acquisitions, strategic alliances or partnership agreements between firms in the region. The Asian Bond Fund 2, with its objective of developing local currency bond markets, will have an important role in developing long-term financing and hedging.

On our part, Thailand is taking the opportunity to further improve the funding, the investment and trading of bonds to the local stakeholders. In addition to the groundwork for developing both government and corporate bond markets, we are moving to develop a Bond Electronic Exchange, which functions as provider for electronic bond trading. A derivatives exchange market is also expected to be launched in early 2006. These developments are being implemented with the view to creating a broad-based financing infrastructure for Thai firms to provide viable alternatives to the traditional banking channels.

At the regional level, capital markets in the regions have been building bridges to integrate with one other. Thai corporations have the choice of listing in the Singapore stock exchange. Thai investors have been recently permitted to invest in equities abroad through the vehicle of mutual funds. Opening up the markets for each other means more diverse sources of funds for firms on one side, and more alternatives for investors on the other side. This may be just the beginning. But I believe that we are on the right track towards creating not only a sound region-wide market infrastructure, but also awareness among policymakers and market stakeholders that investment opportunities are merely next door, and not necessarily only in Wall Street. Over time, regional capital markets will serve to mobilize and distribute Asian savings for Asian investment.

### ***Conclusion***

Ladies and gentlemen,

Thailand stands with and in the region that is prospering with its own growth engine, namely intra-regional trade. Policymakers are well aware of the risks inherent in the present global environment of persistent high oil prices and global imbalances. We have begun tightening monetary policy cycle since last year. We have resorted to prudential measures to mitigate excesses in some sectors of the economy, such as real estate and consumer loans. This is to ensure sustainable growth and stability.

At the same time, policymakers are advancing further with the reform agenda to enhance competitiveness while expanding to necessary infrastructure to alleviate existing and anticipated bottlenecks. These reform efforts have borne fruit and the Thai economy is expected to grow with continued momentum and strength.

The evidence of Thailand's economic resilience this year has proven that we have been on the right path of economic policy implementation. It should be mentioned again here that our adherence to international standards and best practices have also contributed to these achievements. Nevertheless, going forward, we need investors to be in partnership with the authorities in coming up with clear common strategic directions in regards to new trade and investment opportunities and ways of financing them. I hope that this Euromoney seminar will serve as yet another step forward in achieving that goal.

It remains for me to wish all of you successful deliberations of this seminar.

Thank you for your attention.