



***Thailand 10 years after 1997:  
Past Lessons for New Challenges***

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Deputy Governor, Bank of Thailand  
Singapore, 25 June 2007***



## The 1997 crisis was brought on by accumulated systemic vulnerabilities and policy inconsistency

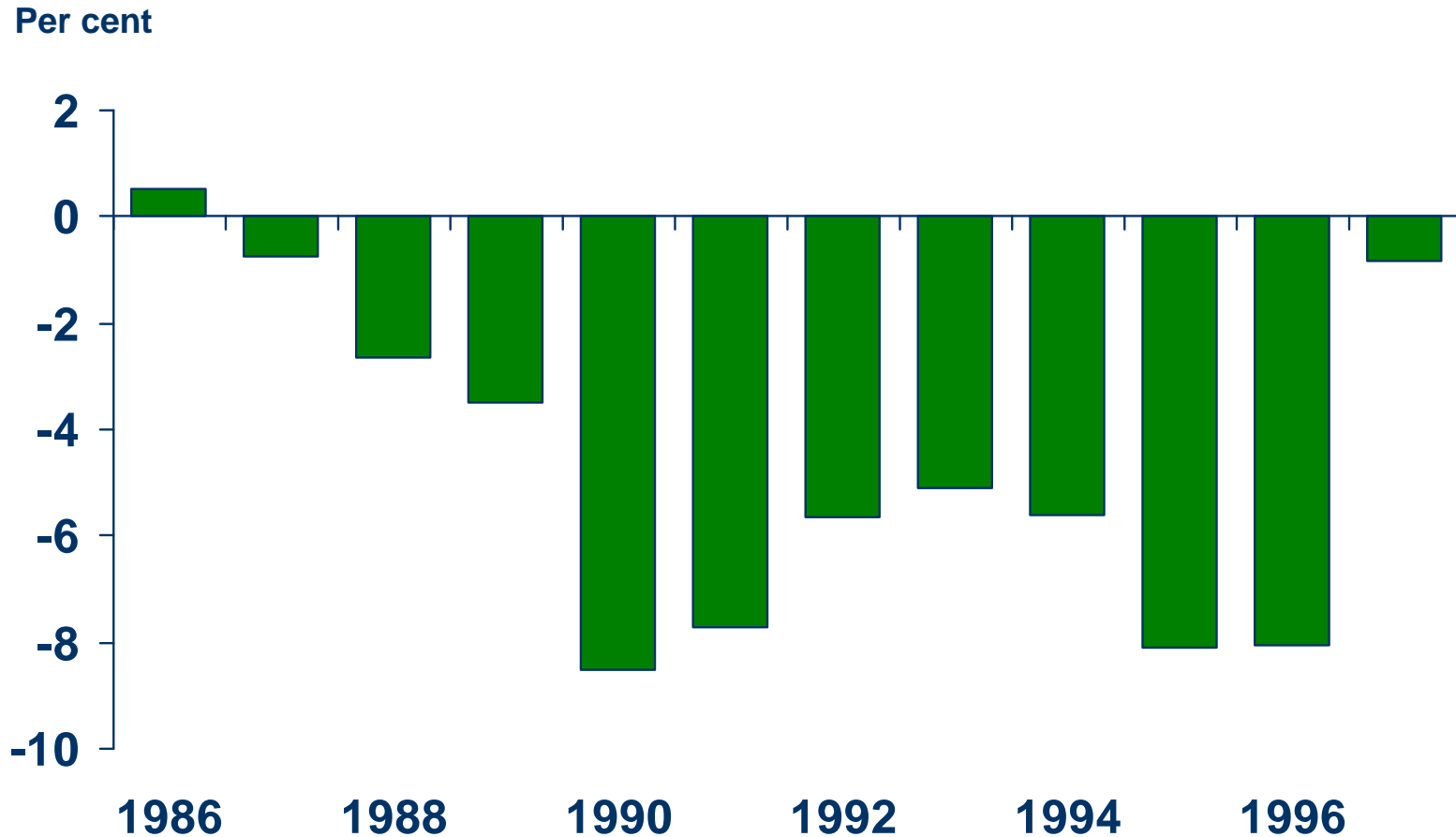
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- **Persistent, large current account deficits**
- **Balance sheets of financial intermediaries were already weak**
  - **Weak governance at corporate firms and financial intermediaries**
  - **Large-scale maturity and currency mismatch on balance sheets**
- **Forbearance of supervisory authority**
- **Lack of correct and timely capital flows data**
- **Given pegged exchange rate, these factors invited speculative attacks**



# A persistent shortfall of domestic saving vis-à-vis investment

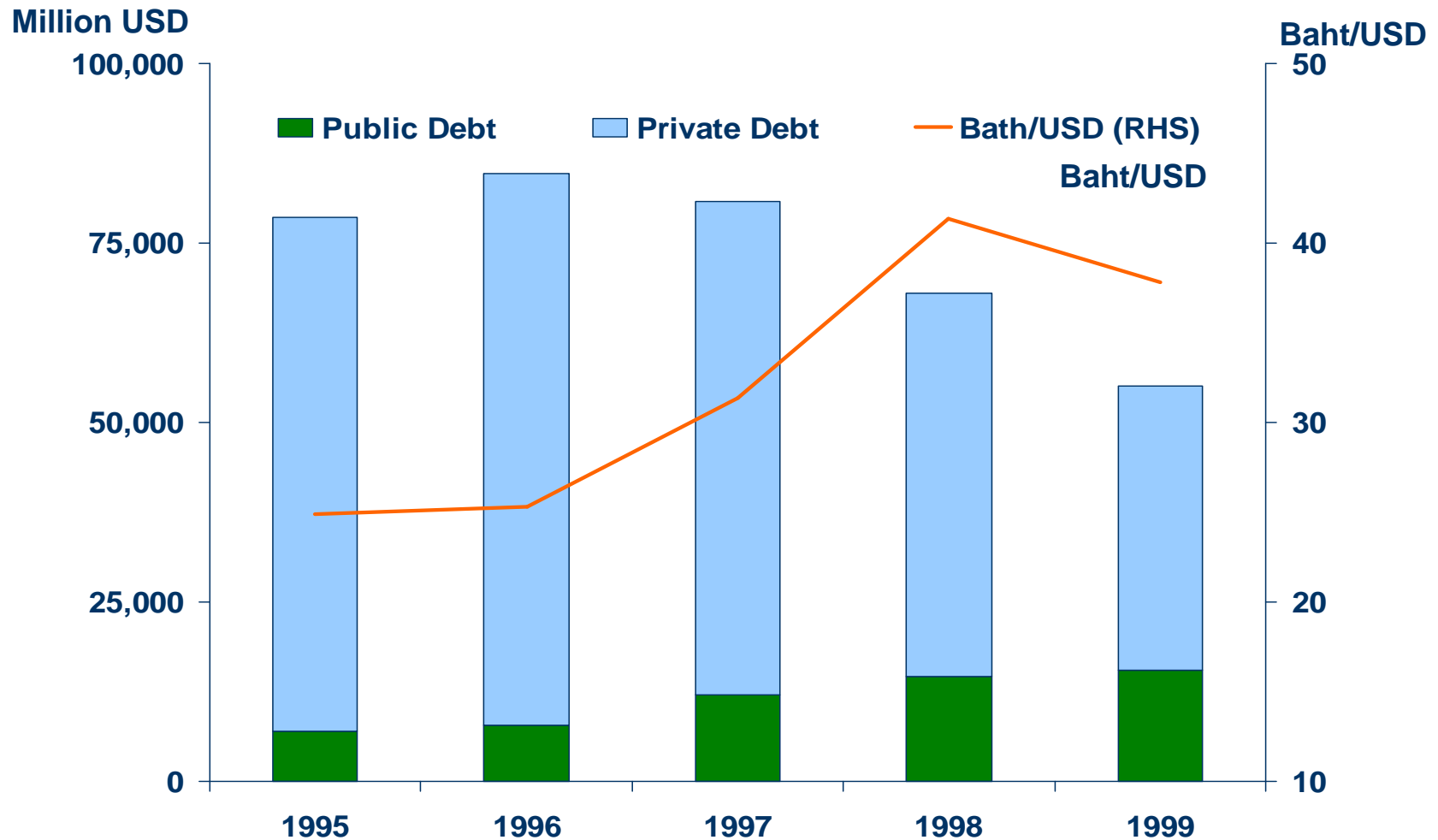
## Current Account/GDP





Excess investment provided rationale for capital market liberalization.  
Foreign debt buildup followed. Most borrowing was private.

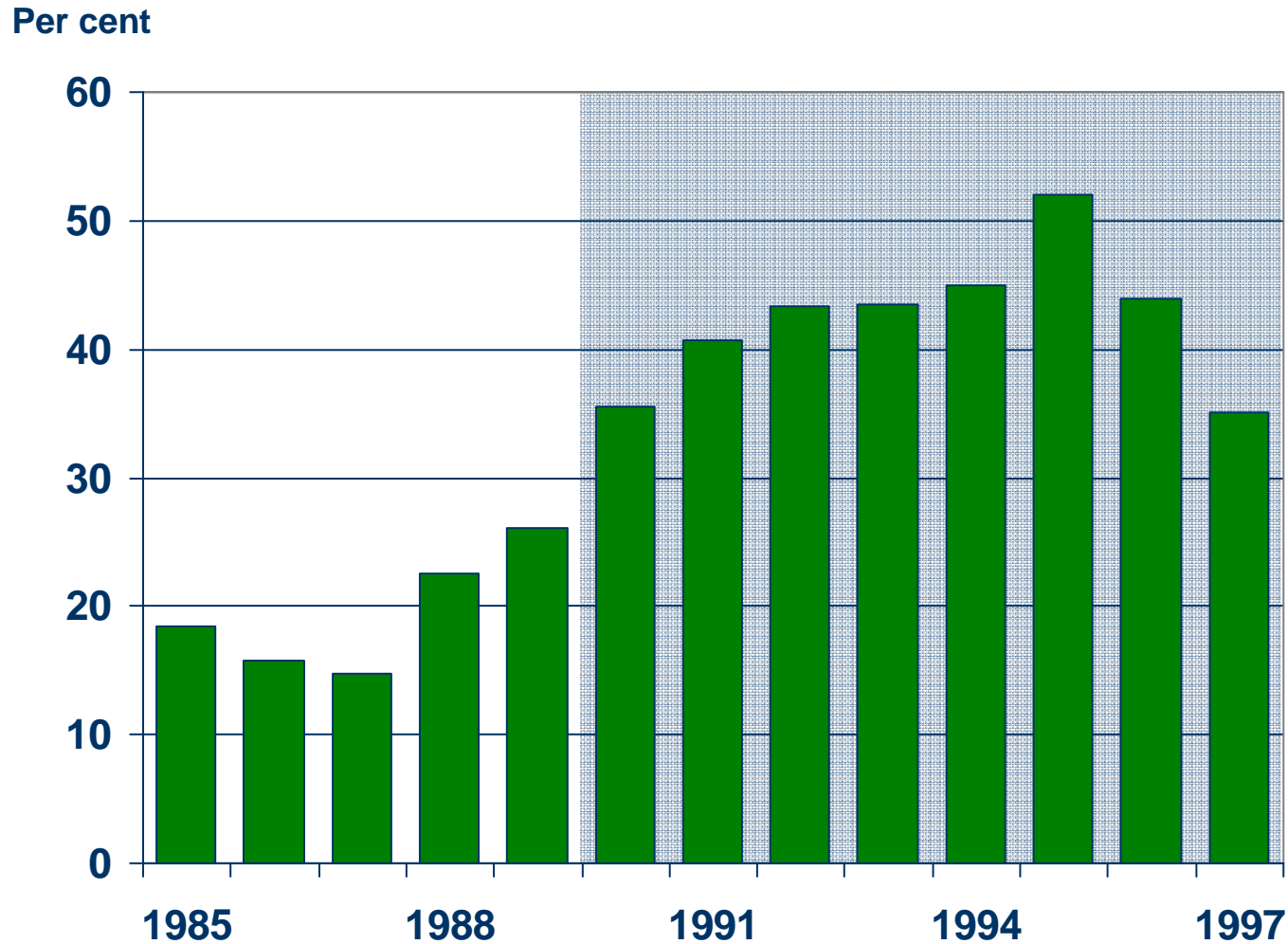
### External private and public debt (in USD)





Creditors' safeguard against credit risks favored short-term debt, setting stage for a financial crisis when the peg became non-credible.

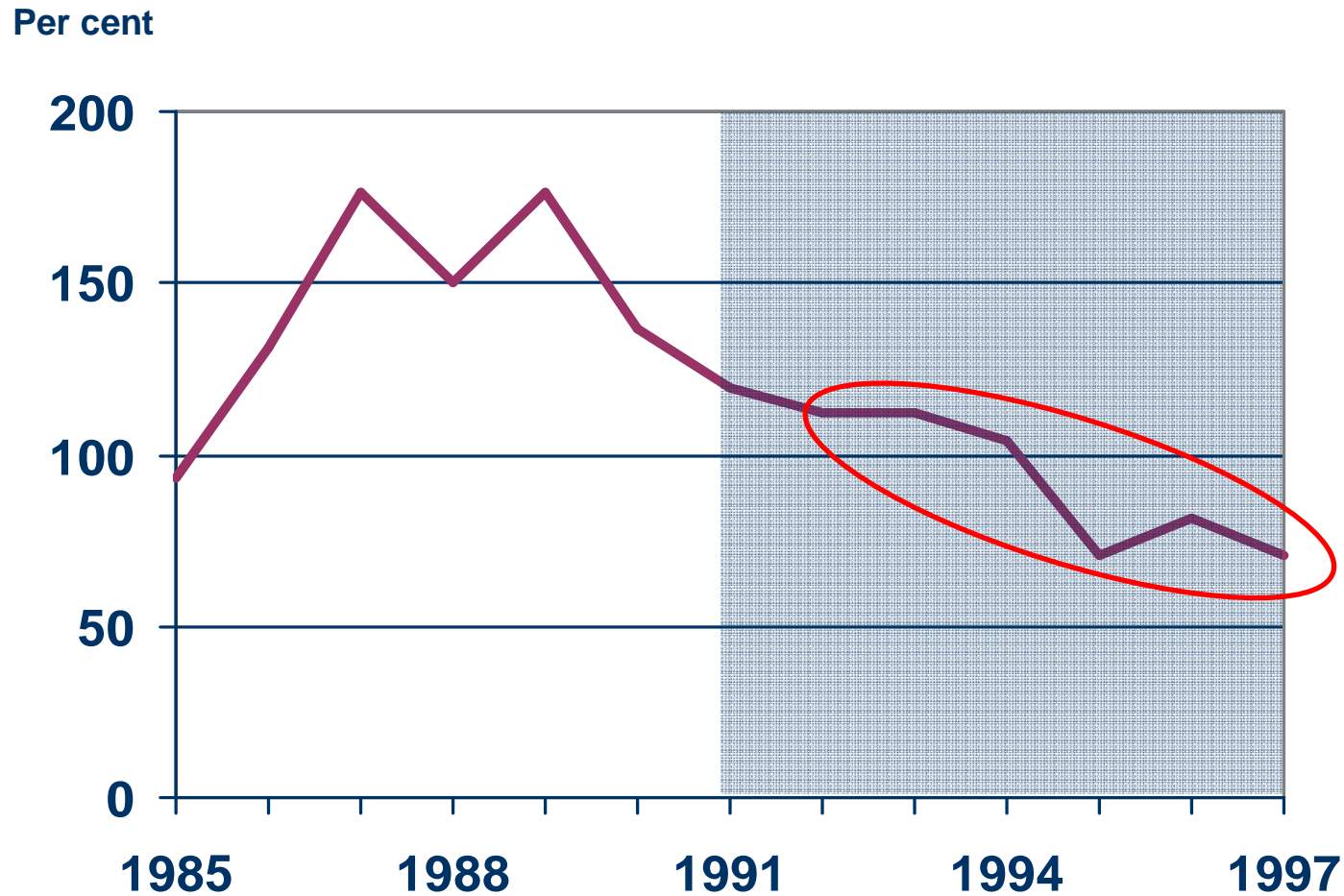
### Short-term to Total External Debt





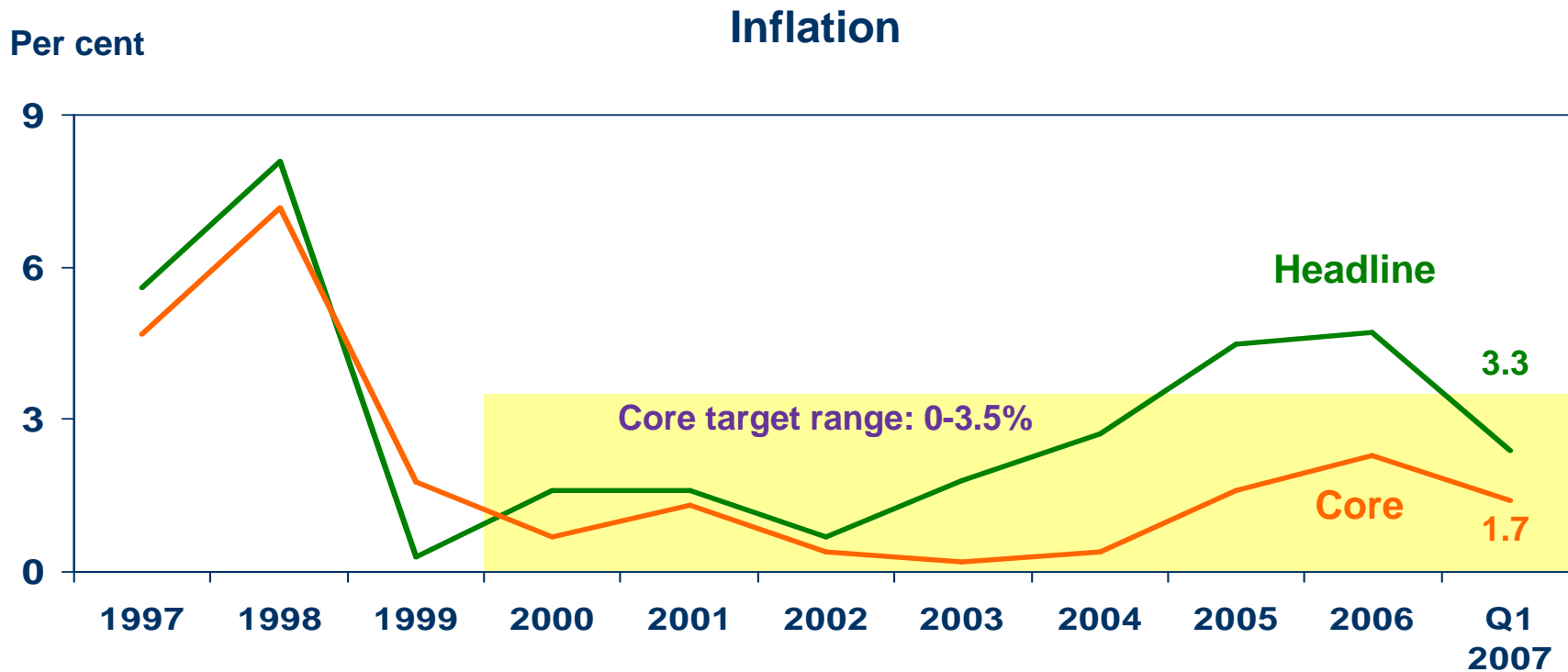
Vulnerability to speculative attacks increased as reserves to short-term debt declined. Under attack, reserves fell precipitously, leading to the abandonment of the fixed parity. <sup>6</sup>

## International Reserves to Short-Term Debt



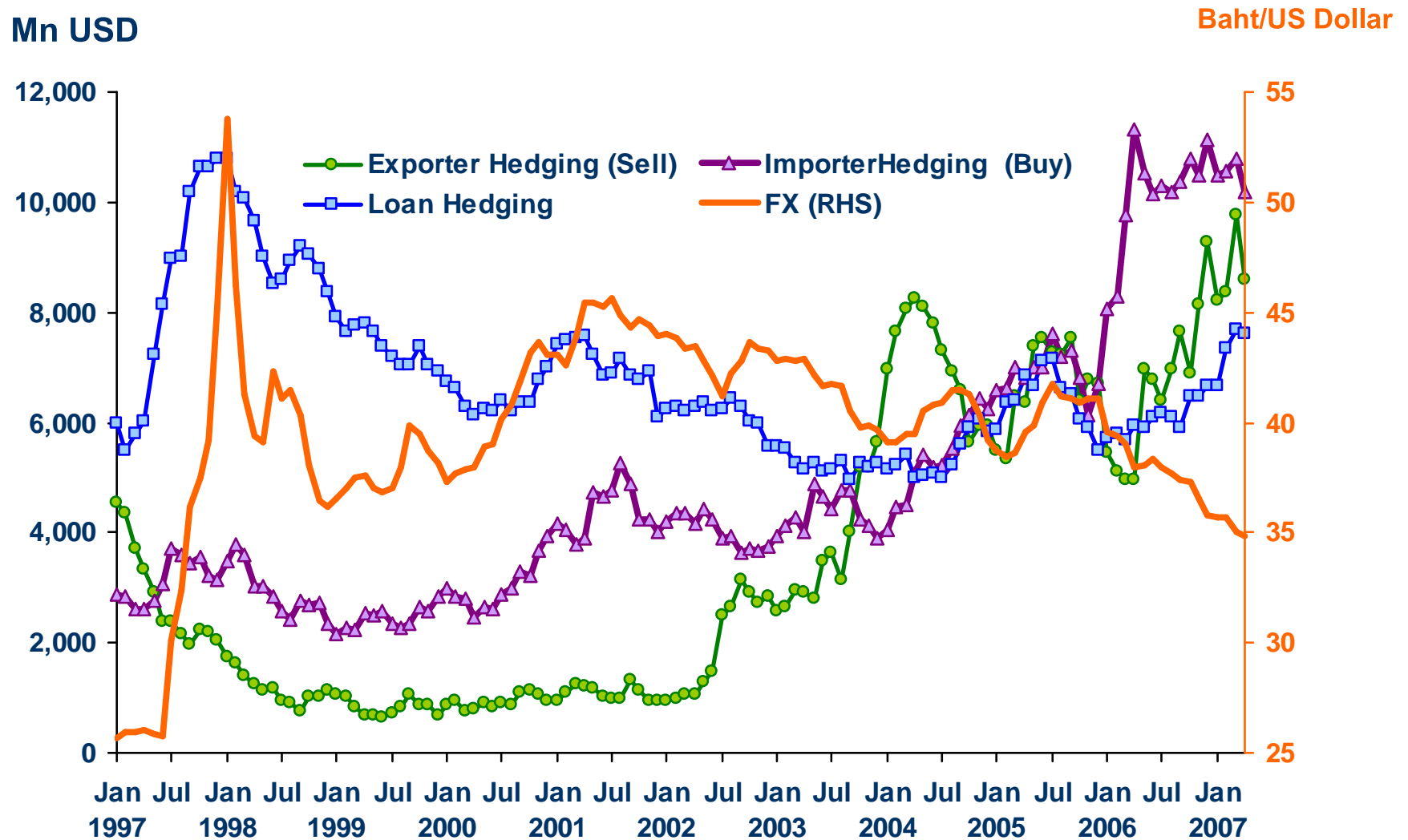


**BOT has learned from the crisis. Monetary regime has been re-designed. Assign policy interest rate to target low inflation.**





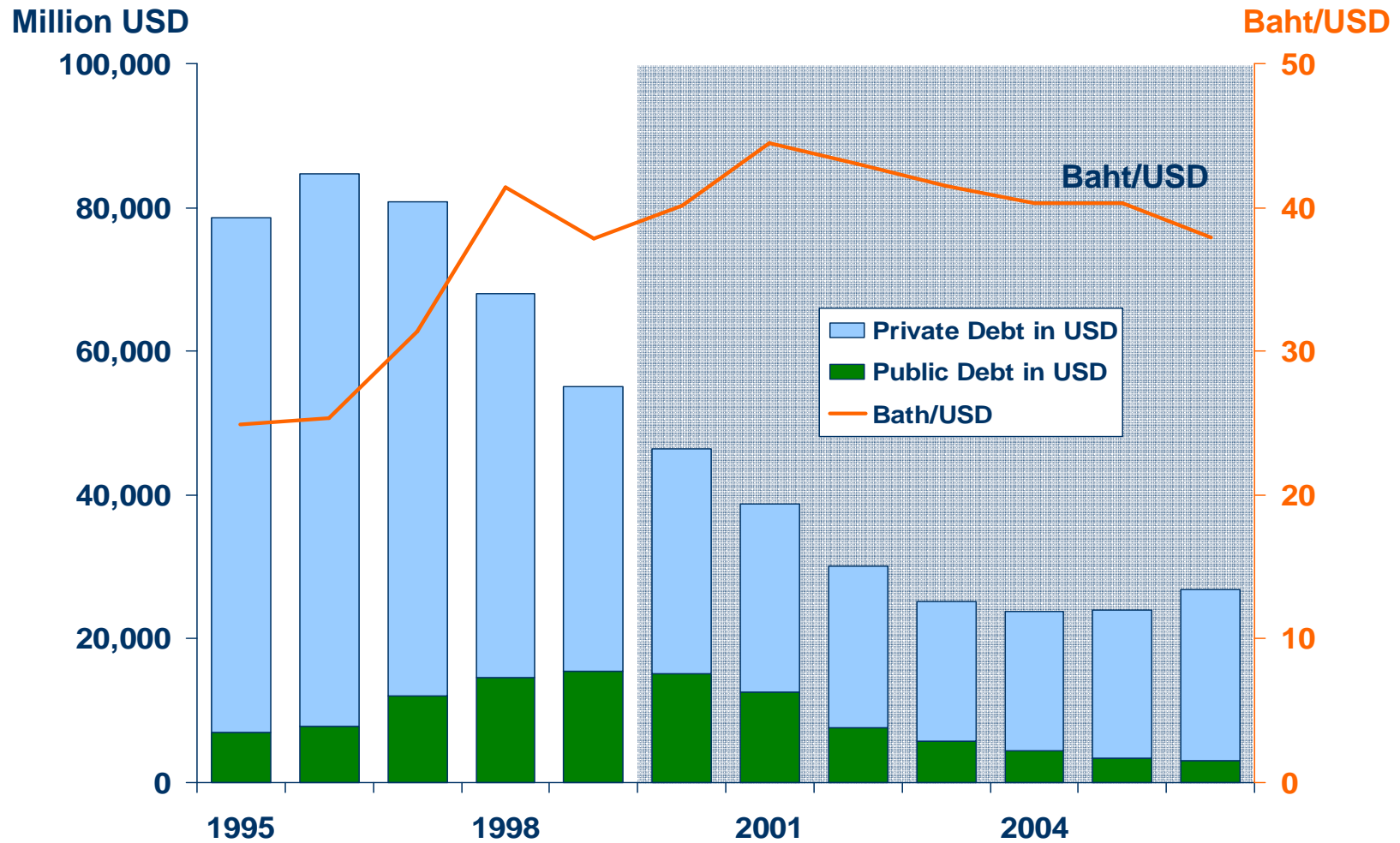
# Managed floating enhances financial prudence. Hedging increases as market learns to live with flexible exchange rate.





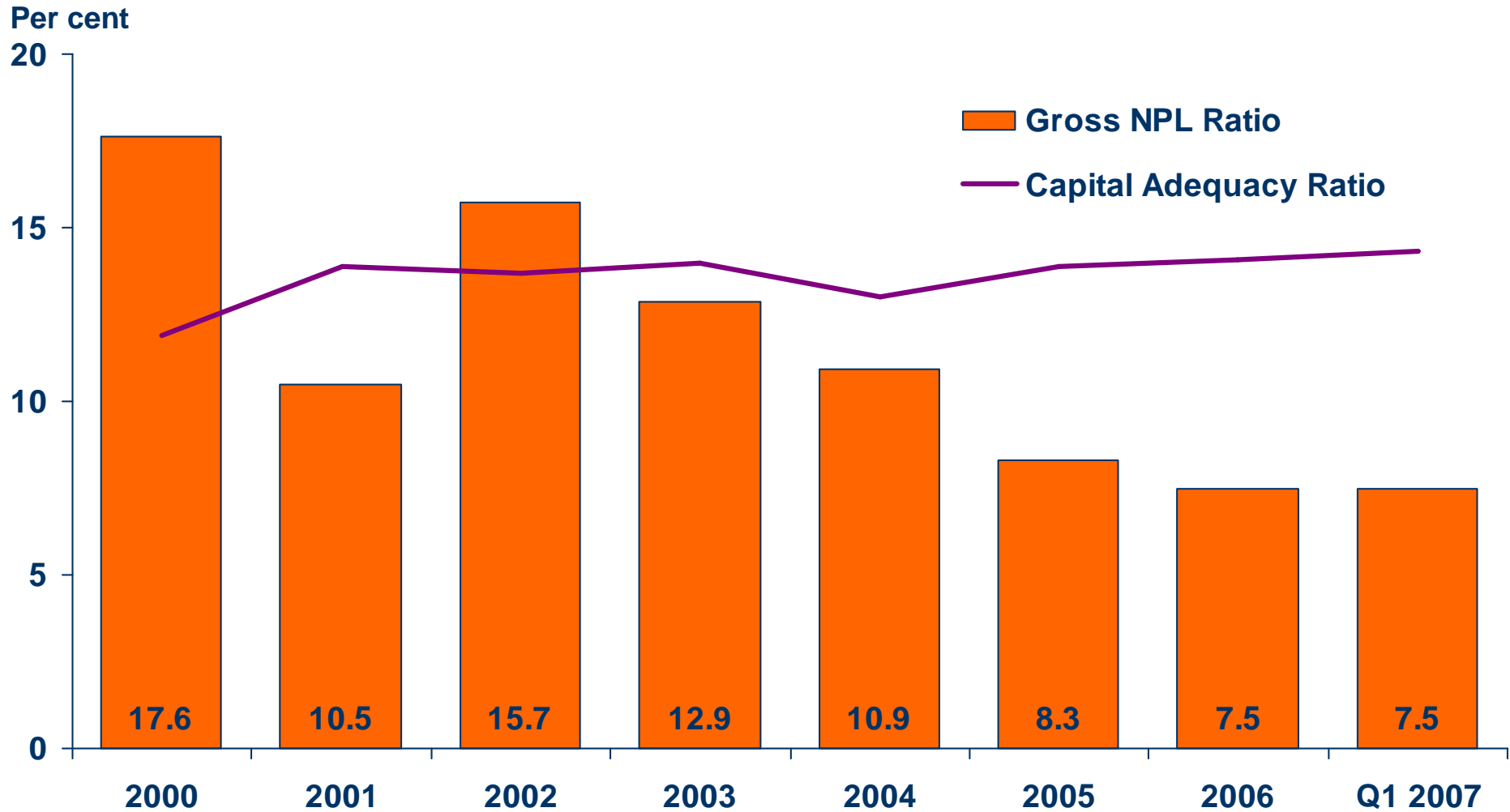
Thailand is now less vulnerable. Foreign-currency debt is well contained.

### External private and public debt (in USD)



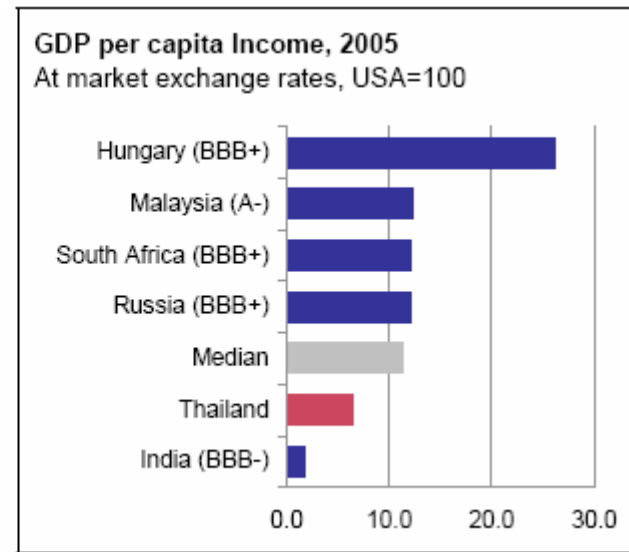
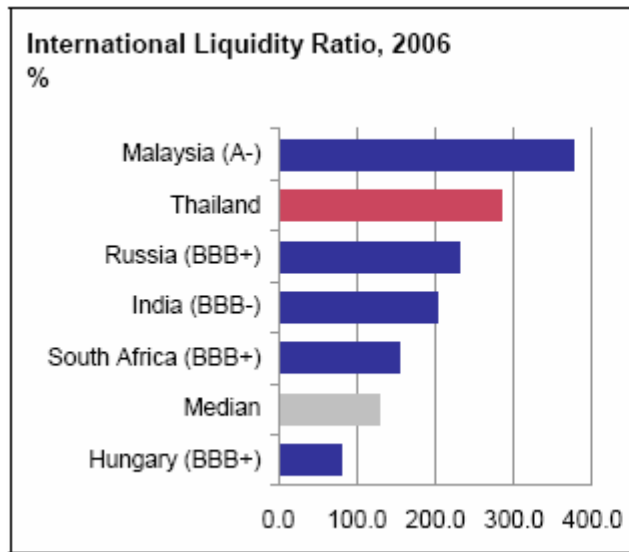
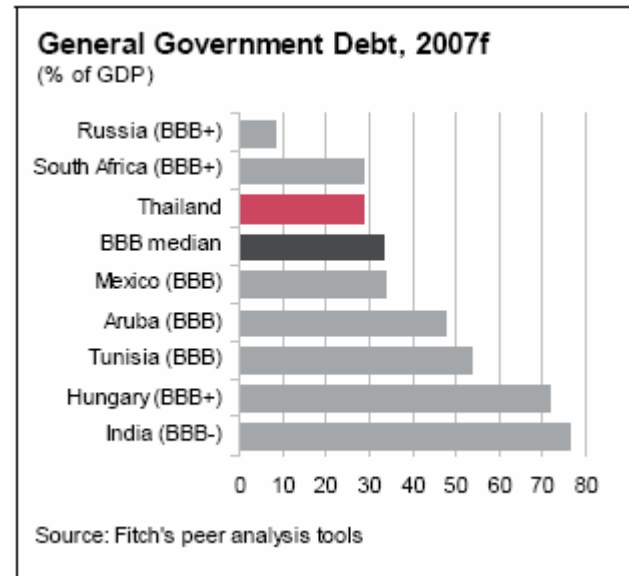
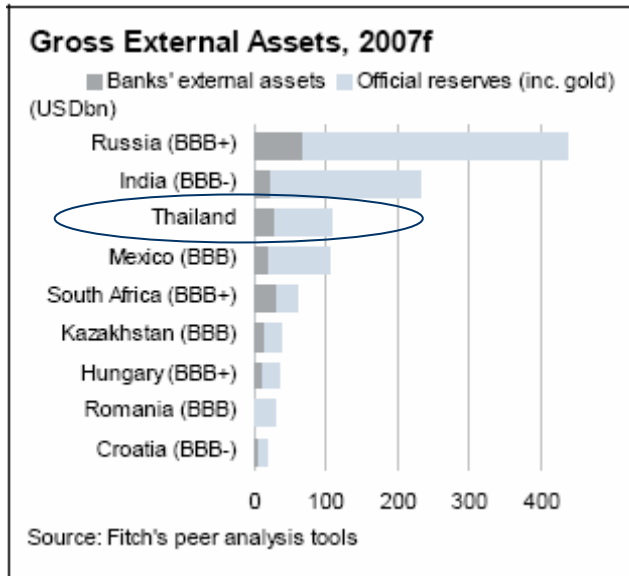


# Financial sector restructuring leads to better preparedness and less vulnerability. The banking sector is in good health and improving.





**Lower systemic vulnerability is reflected in sovereign credit rating upgrades to BBB+, where Thailand ranks high among peers.**





## Today, small open emerging economies are facing the “challenge of abundance”

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- **Global liquidity glut and its sources**
  - Money and transitory factors
  - Structural factors
- **The search for yield and the period of seemingly low financial market risks.**
  - Do low risk premium translate into low actual riskiness?
  - Is “excessive” optimism or bullishness at work?
  - How long can low financial volatility last this time?
  - How much should we be concerned?



## Today, small open emerging economies are facing the “challenge of abundance”

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- **Failure of uncovered interest parity and the size of carry trades**
  - **What are the implications on capital flows, exchange rate and monetary policy going forward?**
  - **Specifically, how to manage capital flows in this era of liquidity glut?**
  - **How to strike a balance between financial market development and financial stability?**