

“Global Risks and the Outlook for Thailand”

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Distinguished speakers and panelists,

Ladies and Gentlemen,

I would like to thank Fitch Ratings (Thailand)’s for inviting me to give an opening address at this year 10th Anniversary Annual Conference. I also like to say that the conference theme “Global Risks and Outlook for Thailand” is most timely and should stimulate quite active discussion among the distinguished audience in this room. I am sure that the conference will help bring new insights on how we should look at the world, advanced, and Asian economies in the period ahead underlined by great uncertainties. For my part, I would like to highlight some key issues that can have potentially significant policy implications. I will touch briefly on three areas, namely the prospects of the advanced and Asian economies, Thailand’s economic outlook, and finally the key policy challenges going forward.

At the outset, it is fair to say that prospects of the global economy could be quite murky over the year ahead. There are greater uncertainties with regard to the speed of recovery and additional policy actions in the US and Eurozone economies, and the risks of misforecasting are high. Worldwide, policymakers and markets have anticipated that the US sluggish recovery could face further downside risks as US fiscal and monetary policies could run out of ‘bullets’ to provide the much needed stimulus. For the Eurozone, doubts on the potential contagion of sovereign debt crisis to other European countries remain, reflecting the ineffective impact of domestic policy on the economic recovery in these economies. Looking ahead, a more positive sentiment on the Eurozone is contingent on the growth performance of Germany and France in particular. But, recent signs of economic weakness in external and domestic demand in these countries have been somewhat worrisome, and new data release could either calm or jerk market sentiments.

Despite these rather gloomy prospects in advanced economies, I remain cautiously optimistic on the performance of Asian economies for the rest of this

year. My assessment is conditional on the ability of Asian economies to maintain economic resilience and pursue an appropriate policy mix to preserve economic and financial stability. Evidenced since the 2009 US crisis, major economies in Asia have been able to cushion the adverse impact of global economic roller coaster by expanding domestic demand, supported by expansionary fiscal policy and monetary accommodation.

Once world trade has resumed growth after the initial contraction in the aftermath of 2008 US crisis, Asian exports have continued to grow robustly on the back of regional trade expansion and strong growth in Asia, particularly China and India. Notably, some studies have shown that the ratio of Asian exports for final consumption within Asia has risen, though varying among individual countries. For example, approximately 70 percent of Indonesian exports to China are for final consumption in China. Such ratios for Singapore and Korea are 50 and 40 percent, respectively. That said, it is wise not to jump quickly to conclusion because Asian economies and trade remain critically linked to the G3 economies.

While this negative spillover from advanced economies to Asian economies could be partially cushioned on the trade side, I have greater concern on the potential spillover through volatility in international capital flow and financial market movements. In addition to the risk aversion in time of market stress, emerging market economies have tried to live with spillover from exceptionally easy monetary policy in advanced countries. Such practices have created excess global liquidity leading to volatile capital flows into emerging market countries including Thailand. Moreover, excess global liquidity has been an important factor behind the rapid rise in oil and other commodity prices.

Unless the advanced economies manage to get themselves out of sluggish growth path, all of us have to be vigilant and cannot rule out the possibility that the US may need to find creative policy actions to stimulate its economy. And the impact of these efforts on emerging markets can be quite unpredictable and inconsistent with economic theories, due to the international currency status of the US dollar and the safe haven status of US dollar investment.

Distinguished audience,

Against the background of quite an unpredictable external environment, I believe that the Thai economy would still turn in reasonable growth rate for the year 2011. On the demand side, I see consumption and investment continuing on the rise. Consumer spending is expected to benefit from a high level of farm income from rising output and agricultural prices, high employment, and good

consumer confidence. Meanwhile, investment by the private sector is also expected to grow, though at a slower rate than the periods following the crisis recovery. Currently, business sentiment and future investment plans are still showing an improving sign. And, public investment spending remains a key factor to keep demand momentum going forward.

What we need to assess more cautiously is the future export performance. Of course, our export sector would be affected by the slowdown in the global economy to the extent that a large proportion of final demand for Asian and Thai exports remains in G3 economies. Having said that, I believe that exports will continue to grow along with world trade as long as the US and EU growth slowdown does not cause another global recession. I also want to stress that the process of export diversification in Thailand has advanced continuously in terms of markets and products. Today, the proportion of Thai exports to non-G3 countries growing significantly higher, particularly to China, and ASEAN. In parallel, the share of G3 in Thai exports has declined from more than 50 percent in 1995 to less than one-third.

Ladies and Gentlemen,

Turning to the final part of my talk. As a central banker, our challenge is to constantly weigh the balance between risks from global slowdown on our economic growth versus rising domestic inflation pressure. Despite more downside risk on growth at present, the central bank assesses that the Thai economy is growing at around its potential and demand pressure could transmit readily to higher inflation outcome as well as expectations. To this end, the Monetary Policy Committee has been raising the policy rate to normalize monetary policy and bring the real policy rate closer to the positive range, yet remaining sufficiently accommodative to cushion the downside risk on growth.

With many uncertainties ahead, it is wise to keep the inflation rate low to ensure that the economy remains competitive and to minimize pockets of instability, whether through excessive growth of bank credits, fiscal spending, or asset price bubbles. Low inflation helps keep the health of the economy in check and preserve the purchasing power or real income of all segments of the population. This is especially important for salary earners and the poor, whose real income could easily be eroded by higher inflation. Worse is to allow inflation expectation to run away because it will be costly to get expectation well anchored again.

Worth noting is that, similarly to Thailand, many Asian economies have also capitalized on the opportunities to lessen monetary policy easing during the period of good economic performance since the latter part of 2010. The main objective has been to preserve fiscal and monetary policy space for potentially more difficult times ahead. For Thailand, I believe that our policy space remains appropriate. But, any higher public spending should be done with special care. At this juncture, the need to increase government consumption is less urgent and the fiscal focus should be put on public investment to expand our potential output. Therefore, the stimulus should be prioritized and carefully planned to leave some policy space for future needs.

Ladies and gentlemen,

I would like to end my talk today by stressing that we now live in a different and difficult world. Current global risks from the slowdown in advanced economies have clearly heightened. Given good economic fundamentals, the Thai economy should be resilient enough to cope with such risks. I would like to urge investors not to swing between over pessimism and over-confidence and behave in a herd-like manner. Instead, all parties, public and private, should be cautious and prepared for the global risks in moving the country forward. It is my firm believe that protecting domestic purchasing power and let everyone have equal chance to benefit from the economic growth can strengthen the future well being of the Thai economy in a sustainable manner in years ahead.

Without further delay, may I officially open the Fitch Ratings (Thailand)'s 2011 10th Anniversary Annual Conference and wish everyone a fruitful deliberation.

Thank you for your attention.