GURUSPEAK: THAILAND'S STRONG EXTERNAL POSITIONS HELP CUSHION IMPACT OF ONGOING TURMOIL

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Worrying news of the collapse of several major financial institutions in the US in recent weeks has raised serious concerns among investors and policy-makers alike about the implications for the Thai economy of potential US financial meltdown and prolonged recession. With the memory of the 1997 Asian crisis, it is understandable that many are apprehensive of another crisis contagion spreading to emerging economies, including Thailand. When major economies like the US sneeze, people expect other countries to catch a cold.

Certainly, recent large sell-offs of local equities by foreign investors conjure up once again the images of the sudden flow reversal, sliding currency and choking credit crunch of years past. Yet this time the Thai economy is in a much stronger position to cope with such shifts in investor sentiment.

To begin with, our external balance sheets are in much healthier shape without any significant imbalances or mismatches. The accumulation of reserves over the past few years on the back of current-account surpluses and capital inflows has ensured that we have adequate liquidity to cover potential sudden outflows and thus minimise the likelihood of panic selling in the first place.

It also helps that the composition of Thailand's foreign liabilities has shifted favourably with a much lower share of external debt, especially the short-term type, and more in the form of portfolio equity and, particularly, FDI, which is less likely to experience sudden out-flow due to its lengthier liquidation process.

Granted, the recent sell-off of portfolio equity proves again that with a marked increase in risk aversion and tight liquidity, foreign investors are willing to take a price hit on their assets. This underscores the importance of having adequated external liquidity to absorb potential flow reversals, not only for short-term debt, which was the Achilles heel of the past crisis, but for some liquid portions of other types of gross foreign liabilities as well. At US$114.8 billion (Bt3.9

trillion) as of September 12, the net reserves stand ready to smooth out the exchange-rate adjustment of any potential outflows by any reasonable measures.

In additions, with its healthy balance sheets, limited exposure to toxic assets abroad and relatively comfortable liquidity, the Thai banking system is expected to be in a position to provide necessary credits to drive the real sector forward. Though expected tighter credit standards may mean lower lending growth and even higher costs of capital. The scenario of severe credit crunch is very unlikely.

Of course, the important lesson for us is not to be complacent. The fast-moving nature of this financial crisis highlights the need to be vigilant.

Emerging Asian economies like Thailand are not completely decoupled from the US economy, but we are better insulated.

The key is to continue with the prudent macro-economic framework with emphasis on pursuing long-term stability and promoting effective risk management at all levels. After all, it is what has brought us much improved economic compared to 10 years ago. Perhaps we cannot avoid catching a cold, but it need not be the flu this time around.

Source: The Nation