

Stabilisation will Prove an Important Priority for 2009

Chirathep Senivongs Na Ayudhya

As 2008 drew to a close, someone wise told me the best gift for the New Year would be to sleep through it and wake up on January 1, 2010. Essentially, many hope that 2009 is only a nightmare. Having said this, we must somehow make it through the reality of the next 12 months with as little pain as possible. To do this, the three important things of which entrepreneurs and policy-makers should be mindful are realistic formation of expectations, healthy cash-flow management and cautiously optimistic risk objectives.

Forming a realistic expectation of the overall economic environment will be important for economic management by both the private and public sectors. This is especially relevant to the expected speed of fiscal disbursement and monetary policy transmission. While timely and pre-emptive monetary policy will be crucial fiscal money must truly get into the hands of the people and not pile up in the bank accounts of provincial authorities.

Moreover, timely budgetary disbursement must be accompanied by speedy approval of projects and advanced preparations for project implementation. In fact, the government needs to watch out for the cash flow of contractors of public projects. My experience with fiscal management in the aftermath of 1997 reminds me that if government contractors are in financial distress, they will not be able to implement the projects even when the government budget is readily available.

This leads to the second important factor, which is cash-flow management. Healthy cash flows will help keep businesses afloat, at least covering their variable costs, including employment costs, though not fixed costs. As long as cash flows are reasonable, employers could possibly avoid laying off workers to cut costs in the short term, as rehiring and retraining costs could be expensive when growth resumes.

Last but not least, risk-management objectives have to be revisited. Excessive risk-protection may cause the overall cash flow to exacerbate and undermine confidence. This does not mean that one should take higher risks when times are bad, as this would be absurd, But 2009 may require risk managers to assess individual risk factors more closely and to truncate risks

more, instead of bunching them. After all, experience of the past crisis should remind us that those who can get through tough times are those with whom you wish to keep cautious optimism in doing business.

To close, another wise person told me that when an aircraft is nose-diving, it would take too much fuel to elevate the plane compared with keeping it flying at a lower altitude. Therefore, stabilisation is an important priority in difficult economic times. Importantly, one needs to form a realistic expectation of the world to ensure that confidence, or what is left of it, will not be eroded by self-fulfilling over pessimism. On this front, closely coordinated fiscal and monetary stimuli with common and clearly informed objectives will be essential to help stabilise confidence and maintain cash flows and the purchasing power of the overall Thai economy.

CHIRATHEP SENIVONGS NA AYUDHYA is director of the Office of the Governor at the Bank of Thailand. Views expressed are the author's own.

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