

A SILVER LINING BEHIND THE CLOUDS OF ECONOMIC GLOOM

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During this festive time of the year, it is not quite as festive to think that the moment of truth may have already arrived for the Thai economy. Amidst this current round of global economic downturn, we may all want to seek solace in domestic demand, trusting that the domestic demand, trusting that the domestic economy has some resilience in store.

A quick glance at this year's three quarters shows a stable trend of private consumption while private investment continued to decelerate. Since the second quarter, both consumer and business sentiment have been eroded steadily by political developments and an inflation surge. Thus far, government stimuli have not materialized effectively.

For 2009, an expected number of unemployed persons reaching one million, if not above, has been widely quoted. Moreover, softening manufacturing and commodity prices in line with world demand could result in lower expected income. This would likely weigh down the overall consumption atmosphere, even during this peak season of gift-giving and celebrations.

The picture of private investment is more complicated. On top of weak domestic consumption and business sentiment, turbulent conditions in the global financial market have resulted in tightening world liquidity. Even though Thailand's banking sector remains strong, stringent credit standards have been observed. Furthermore, as private investment is closely related to domestic-market expansion, Thailand's dimmer economic outlook could markedly dampen private investment prospects.

Nevertheless, the old saying "Every cloud has a silver lining" reminds us not to give up hope. In all fairness, a number of favorable factors still prevail for Thailand, especially the strong economic fundamentals and financial sector. High level of international reserves preserve sound economic stability. Concerning business infrastructure and support systems, Thailand stood 13th out of 181 countries in the World Bank's Doing Business 2009 survey in terms of providing investors with ease of doing business, improving six rankings from last year. Commercial banks' performance in the third quarter of 2008 remained satisfactory with profitability on the plus side and strong capital build-up. The ratio of gross NPL to total credits continued to fall.

Compared to the 1997 financial crisis, macroeconomic policies today have much greater flexibility and a larger set of tools to react to shocks. The accommodative monetary policy, with a historic cut of 100bps by the MPC, projected a solid intention to shore up the consumption and investment environment. The low public debt to GDP ratio also gives room for fiscal stimulus, particularly public investment, to take a lead in restoring overall sentiment and inducing "crowding-in" effects. In the near term, more impulse is also expected from the Bt100-billion supplementary budget to buoy domestic demand.

Christmas is just around the corner, and it is almost time to flip open a new calendar. Now that the political climate has improved, with the new government in place, anticipation is forming fast for synergy and cooperation from all sectors to start healing the economy. This is just the beginning, and time is ticking.

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Views expressed are the author's own.

Source: The Nation