

**Coping with Economic Downturns:
Roles of Public and Private Sectors**

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Good evening, ladies and gentlemen,

I would like to thank the Japanese Chamber of Commerce for the invitation to speak before you tonight. It has been exactly one year since our last meeting and I am very pleased to be back. With the long presence in Thailand, the Japanese Chamber of Commerce continues to play an active role in promoting common understanding between Thai government agencies and the Japanese community here. Indeed, the importance of this role has elevated during times of economic difficulties, such as the one we are currently facing.

Ladies and gentlemen,

During last-year's talk, we had a lively exchange of ideas on monetary policy and exchange rates. If you recall, the Thai economy, along with the rest of the world at that time, were experiencing a surge in inflation in addition to a strengthening currency. We also

had a good discussion on the tightening of monetary policy to maintain overall economic stability and confidence. Over the course of one year, the situation has changed completely. The greatest economic contraction worldwide from the western-led crisis has caused a sharp decline in inflation and world demand for goods and services especially in emerging markets.

Tonight, I would like to focus on three related and timely topics. I will begin with my view on the global uncertainties and the prospect of the Thai economy. Then, I would like to outline what I think is necessary for public policies to restore confidence of businesses and households under the higher risk environment. And lastly, I would like to stress why I think Japan and Thailand should continue to maintain our partnership through this difficult time.

Ladies and gentlemen,

The global economic community is currently facing with one of the greatest crises of all times. While it still remains impossible to gauge the true extent of the crisis, it is even more difficult to predict how long the crisis is expected to last. Recent figures in both developed and developing economies continue to point towards a downward trend, indicating that the trough of the current economic cycle is yet to be seen. At the same time, predictions about the recovery phase going forward continue to be pushed out.

What are the economies of the world expected to do in the face of this simultaneous global downturn? Of course, taking the lead role in supporting global economic recovery should be no one else but the G3 countries, especially the US economy, as the G3 together accounts for more than 40 per cent of the world GDP. The hope that Asian countries may have ample strength to uphold the world economy seems to be wishful thinking. This is because no less than 35 per cent of Asian exports, including that of China, have their final demand in those G3 economies.

The International Monetary Fund and other respectable investment houses have continued to revise downwards their growth projections for the global and G3 economies. Some broad consensus seems to have been reached that the recovery phase would likely start some time in 2010. We are all closely monitoring the releases of new data for signs of a recovery in the US economy. The easing of credit conditions, improved confidence levels, as well as the pick-up in house prices should be some of the important and indicative signs for the US recovery.

Ladies and gentlemen,

Much has happened for Thailand as well. Even though countries at this end of the globe are positioned at the tail-end of this storm, impacts are unavoidable. The weakening global demand has turned inflationary pressure in Thailand towards the downside with the latest headline rate of -0.1 per cent in February compared to the

average of 5.5 per cent for the previous year. Concurrently, the uncertainty of global economic recovery has also deteriorated consumer and business sentiment. The Thai economy is expected to have a negative growth this year.

The direct impact of the global financial turmoil on the Thai banking sector has been minimal, in part due to the numerous reforms in the banking system since the 1997 crisis, and the heightened risk awareness and cautious approach taken by both the public and private sectors. However, the last quarter's data indicated that the indirect (or second-round) impact will be much more severe. Thailand's exports contracted by more than 25 per cent in value in the last quarter, in line with figures across the region. Market confidence has significantly eroded due to the gloomy economic outlook and hence adversely affected domestic consumption and investment. The impact on the production side has also been, if not par, more severe, particularly in export-oriented businesses. Moreover, the crisis has not only worsened the firms' profit conditions, but may inevitably lead to employment issues in the immediate future. The question is, therefore, what should be our plan amidst this global slowdown and great uncertainty?

Ladies and gentlemen,

Under the circumstances where private sector confidence continues to deteriorate, public policy has an important role in shoring up confidence and providing an initial boost to jump start the

economic recovery. Policy responses to this crisis around the globe have been extraordinary and unprecedented, both in terms of scope and scale, depending on the root-cause and the severity of the impact. In particular, countries have turned to fiscal policy to play a vital role in arresting the downward spiral in global demand and output. This has taken the form of massive stimulus packages which are generally in the range of 1- 2% of GDP. For export-led economies such as those in Asia, these stimulus packages are attempts to help support domestic demand to somewhat cushion the economy from the decline in exports.

The Thai authorities have also been taking proactive monetary and fiscal measures to provide maximum support for the weakening economy. Monetary policy in the past few months has been eased in an unprecedented scale and speed. The Monetary Policy Committee's sizeable, "front-loaded" cuts in the policy rate were aimed to restore the weakening confidence by sending a strong message that the Committee would adopt easing stance, in an aggressive manner if needed, to support economic growth during a period when fiscal policy is working toward its full implementation.

At this juncture, the important challenge for monetary policy is whether previous aggressive policy rate cuts will be able to stimulate the domestic spending and lower borrowing costs. This is since the transmission mechanism has been affected by increased risk premium. Indeed, the higher risk environment has kept the cost of borrowing

relatively high for households and firms, especially small and medium-sized businesses, while also discouraging banks from new lending.

Having said this, policy tools have not been exhausted. In the case of Thailand, policy measures have aimed directly at the real economy where the adverse impact concentrated. In this regard, the provision of 'credit guarantees' should help relax banks' tightening in extension of loans from credit concerns. Currently, government authorities, in consultation with the Bank of Thailand, have started to expand the existing credit guarantee scheme to support SMEs and exporters, who require funds for working capital. Such scheme is expected to help lubricate firms' liquidity condition which will, in turn, enable them to continue their operations amidst the plunge in product demand. Moreover, the continued operation of firms will help to cushion employment and prevent further worsening of domestic demand.

Given limitations of the monetary policy transmission as I have mentioned, fiscal policy must play the lead role to stimulate the people's ability to spend, by targeting domestic consumption spending and restoring private sector's confidence. In fact, the supplementary budget of 116 billion baht, or 1.3 per cent of the GDP, was recently approved by the cabinet. This will soon be followed by another 3-year spending package of 1.56 trillion baht starting fiscal year 2010.

Given all these policy packages in place and future ones on the way, my own experience in coping with the crisis reminds me that the effectiveness of these policy measures is largely determined by how they are communicated to the public. Communication is extremely essential to establish realistic expectations of the policy outcome. In this regard, the authorities need to be transparent about their plans and communicate efficiently how each measure would help cushion the economy, particularly in cases where such “measures” are new and unfamiliar to the public.

Ladies and gentlemen,

Let me turn to the final part of my talk by sharing with you my views on how we can maintain our long-time partnership and why Thailand should continue to be your choice for business and for investment, even in these hard times.

Japan and Thailand have had long history of partnership for over a century (celebrated 120th anniversary in 2007). The bilateral trade between Japan and Thailand has remained strong, with Japan being the second largest exporting market for Thailand, amounting to 20 billion USD in 2008. As for import market, Japan had the largest share of Thailand’s total import in 2008, with the amount of 33 billion USD.

This was in part supported by the Japan-Thailand Economic Partnership Agreement (JTEPA), which came into force in November

2007. In the same vein, the ASEAN-Japan Comprehensive Economic Partnership (AJCEP), which is expected to come into force within the first half of this year, should further strengthen trade ties between Japan and ASEAN as a whole. Going forward, the partnership is expected to provide even more opportunities to investors and businesses from both sides.

With the Japanese businesses and community being well-established here in Thailand, the country has been a reliable site for Japan to base outsource of their manufacturing and well-equipped with flexible and skilled workers. Together with being the strategic location as a gateway to Indochina that will eventually become the growth-generating part of the world, many of the manufacturing firms have positioned Thailand as their production hubs and gain full benefit of the large economies of scale. The good example for this case is the Japanese auto-industry that uses Thailand as a hub and can exports more than 25 per cent on average of their production to the neighboring countries.

Let me also say that, the recent crisis has proven the resiliency of the Thai economy. Despite the gloomy outlook, I do not believe we are heading for an abyss. The recent export contraction that has largely contributed to our negative GDP growth in the last quarter of 2008 has little to do with the strength of domestic fundamentals. Thailand's external position has been satisfactory with low level of

external debt. We also expect the current account balance to be strong, due partly to the contraction of imports.

Let me say a few words here about the exchange rate. Going forward, the movement of the baht will likely be driven by external factors, namely the US dollar and other major currencies that are still subject to great uncertainty of the global economic growth and recovery in world trade. Nevertheless, the Bank of Thailand will closely monitor the movement of the currency and stand ready to curb any excess volatility in the foreign exchange market in order to allow effective business decisions and plans during the crisis period.

On the domestic side, debts of the government, the corporate sector, and households are low. We also have no bubble in the real estate sector. The Thai banking sector has remained in good health with very low exposure on the ‘toxic’ assets connected to the sub-prime crisis and well-above-standard capital adequacy ratio. Nevertheless, we will keep vigilance on the issue of non-performing loans.

Overall, the severity of the crisis this time round seems to depend much upon horizon of the impact, but the resilient economic fundamental should allow the Thai economy to withstand this storm until the recovery takes place in the near future. In this light, I would like to urge businesses to take a longer-term view. I say this especially because not all the changes have been for the worse. Those of you that closely follow domestic developments will agree that

political stability in Thailand has now returned to normalcy compared to a year ago. The current government is working with every effort to achieve political stability and national reconciliation based on democratic principles and the rule of law with transparency and accountability.

Furthermore, the current problems can be viewed as challenges going forward. As the world recovers from the current crisis, it is likely that the global economic landscape will be altered from the way it stands today. Demand from emerging markets may continue to rise, as countries like China and India continue to grow relentlessly, despite the global slowdown. However, these countries may demand more cost-effective products which may differ from the products currently assembled for the west. As a result, this may imply a change in the production of such goods. Thailand has proven over the years to be a reliable, adaptable, and dependable partner in the production processes of Japanese firms. Your continued investment in the Thai economy will undoubtedly provide you with long-term gains, and the ability to reap the benefits of a recovery sooner than otherwise.

Ladies and gentlemen,

Over the next few years, the road ahead will be an uncertain one. However, I do believe that economies that have already undergone financial reform and maintain suitable policy courses should well-survive this painful crisis. However, it will also be

challenging for policy makers to be innovative in the policy designs as well as effective in planning communication schemes to warrant the effectiveness of such measures. This includes a close consultation between the public and private sectors, and I hope tonight's event will provide us with an opportunity to do so. To my mind, despite the turbulence at the tail-end of the storm, if we remain steady on our course of action to strengthen ourselves, we should be able endure this difficult time and maintain the prosperity of our trade and investment partnership in the years to come.

Thank you for your attention.