ข่าวธนาคารแห่งประเทศไทย
สำนักผู้ว่าการ ธนาคารแห่งประเทศไทย โทร. ๒๘๒๖๖๔๘

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## NEGATIVE GROWTH FORECAST REBUTTED

Following recent publication by Credit Lyonnais Securities Asia on the negative growth forecast for Thailand, the Bank of Thailand wishes to make the following comments:

1. Economic slowdown in Thailand is a **natural outcome** after a very long period of high growth during the past decade. Emerging signs of overheating prompted the authorities to tighten monetary policy and trade off growth for stability, which has recently shown significant improvement. Inflation now stands at 4.3 percent, affirming stability on the internal front, while the first quarter current account deficits narrowed markedly by 38 percent from the corresponding period last year.

2. Any forecast of a negative growth rate for Thailand this year is simply **absurd** and **irresponsible**, especially when the conclusion has been drawn from pure speculation and prejudice, without any due regard for proper macroeconomic analysis. Production in all economic sectors continues to expand, with some sectors growing by over 6 percent including manufacturing, transportation and communication, trade, electricity and water supply, while the remainder experience lower growth rates. Exports have also improved since the beginning of the year, and are set to expand further. With fundamental growth being observed, a negative economic growth for 1997 is an unlikely outturn.

3. Government expenditure cut was promptly implemented in 1997 as soon as potential revenue shortfall emerged, and certain taxes were raised to help strengthen the fiscal position. A surplus is expected in the second half of this fiscal year, bringing the overall 1997 budget close to a balanced position. For 1998, a balanced budget will be kept in line with the

tradition of fiscal prudence and discipline. There is, therefore, no need for the Government to resort to borrowing and crowd out private sector credits.

4. Moreover, measures to deter speculative activities on the currency are only temporary and will have minimal effect on the real sector and overall economic growth, as they seek to limit only the transactions that could potentially facilitate speculative activities, while transactions underlying *bona fide* international trade and investments activities can proceed as normal. It is true that foreign capitals helped finance the country's high investment in the first half of 1990s. It is not true, however, that foreign capitals have been the only source of financing for the Thai economy. In fact, during the first half of this decade, much of the liquidity resulting from capital inflows was absorbed through contractionary fiscal position and monetary policy absorption. The recent adjustment has only shifted the source of private financing from foreign to domestic, thus improving Thailand's external debt profile, while foreign direct investments continue to come onstream.

5. The authorities are fully aware of the immediate challenges confronting the Thai economy , including the financial institutions and property sectors. To this end, both short- and long-term measures have been instituted to maintain liquidity and solvency, including restructuring. Meanwhile, structural adjustments in major export and industry sectors are ongoing, involving both skills and technology upgrading. These policy measures will take time to materialize. After this period of adjustment, the Thai economy should resume its sustainable growth path.

Bank of Thailand
11 June 1997