Global Risks and Thailand's Economic Outlook
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Fitch Ratings Thailand's Annual Conference 2018
October 2, 2018

Ladies and gentlemen,

I am delighted to be here with you this morning, and I would like to thank Fitch Ratings (Thailand) for inviting me to speak at this event.

When I was asked to deliver the opening speech for this event, I thought, what would be the most important message I can share with you as a central banker? I thought that, in many ways, the job of the central bank and that of a credit rating agency are similar. We both need to look far ahead into the future; we both need to be conservative; and we both need to assess risks to the economy. With this in mind, I would like to share with you my thoughts on the risks that the Thai economy is facing, where Thailand stands in terms of dealing with those risks, and how we can ensure a solid footing going forward.

Ladies and gentlemen,

As evidenced by vulnerable fund flows and sharp currency movements, there is no denying that the global financial markets have become increasingly turbulent. The complex financial network that has helped facilitate efficient flows of fund across the world could, in times of turbulence, become a contagion linkage that disrupts economic activities. As a part of this interconnected financial network, Thailand is no exception. Today I would like to highlight four key risks that could create more turbulence in the short- to medium-run: the tightening global financial conditions, growing trade disputes, geopolitical risks, and domestic financial stability risks resulting from the prolonged period of very low interest rates.

Soon after the Global Financial Crisis, Thailand's economy—like that of other EMEs—felt the unintended consequences of advanced economies' unconventional monetary policy stimulus. Large capital inflows in search for higher yields caused significant upward pressure in asset prices as well as on EMEs' currencies and corporate debt. It is inevitable that the reversal of that extreme measures—i.e., monetary policy normalization—would have the same sizable effect on EMEs as well, and this constitutes our first source of risk. In addition to the Fed, more central banks are expected to normalize their monetary policies in the coming years. As excessive liquidity unwinds, higher yields will drive up costs of capital faced by firms and governments, while EMEs with vulnerable external conditions and weak currencies will also face with increased external debt liabilities measured in local currencies. Moreover, according to the Institute of International Finance, approximately 2.7 trillion US dollars of EME bonds and syndicated loans are due by the end of 2019, with approximately a third of that amount denominated in foreign currencies. Weaker currencies and high correlation of EMEs' long-term bond yield to the US Treasury yield could reduce the ability of EME firms to service debt and could undermine economic stability. We have already seen some EME countries with idiosyncratic factors such as Argentina and Turkey experiencing these pressures.

The second source of risk is headlined almost daily in the news: the escalating trade protectionism and especially trade tension between the US and China. The back-and-forth between the two countries and the unpredictability of the outcome have driven much of the macroeconomic as well as financial volatility in the past few months. Up until now, the impact of the announced tariffs between the two countries on global trade has been limited since it takes time for the effect to be fully passed through.

Nonetheless, the full impact of the ongoing trade war is expected to come next year, and the series of trade disputes could be far from over. If further tariffs were carried out, supply chain and production networks across the region could be disrupted. While the trade volume would certainly be directly affected, perhaps the more serious casualty is private investment, which—as we have seen in our recent past—decline under uncertainty. To the extent that uncertainty brings about reduced investment, prolonged trade war will reduce the productive capacity for future growth and delay technological upgrading for firms.

Along with the growing trade disputes, the escalation of geopolitical risks—the third source of risk that we are facing—is one of the most pronounced trends of the past few years. In addition to long-standing issues that are awaiting resolution such as conflicts in the Middle East, tensions in the Korean Peninsula, and Brexit, new sources of potentially abiding fragility keep adding on to this list. The US-Russia conflict, Iran nuclear sanction, the militarization of the South China Sea, and the increased cyber-attacks by both state- and nonstate-actors, are some of the issues that have emerged over the past few years.

While heightening geopolitical risks have not led to a serious market correction or slowdown in global economic activities, persistent geopolitical risks still warrant close monitoring, as these could heighten volatility in the financial market and commodity prices, especially that of oil.

The last source of risk that I would like to highlight is on the domestic front. While financial stability remains sound overall, there are some pockets of risk that might pose vulnerabilities to financial stability going forward. The prolonged period of low interest rate environment leads to search-for-yield and underpricing of risks. This is especially challenging in a multi-regulator environment, since increased regulations by one agency is likely to simply push the potentially risky financial activities out of the agency's regulatory umbrella. The evidence of this is presented by risk areas that span across all regulatory bodies' responsibilities: delayed deleveraging of household debts; large expansion of foreign investment funds with high concentration in some emerging economies; saving cooperatives' rapidly growing deposits; maturity mismatch of corporate borrowers; and rapid growth of corporate bonds, especially unrated bonds. More recently, we also notice an upward trend in mortgage loans to homebuyers who search for rental yield and capital gain, driven partly by high LTV ratio for mortgage loans offered by the intense competition in the financial sector. Furthermore, mortgage loan NPLs, especially among second- and third-home buyers have continued to rise.

Ladies and gentlemen,

I have outlined for you the four sources of risk that we are currently facing. Even though I talk about them separately, the interplay between these risk factors make it so that the slightest change in circumstances could have a huge effect on an economy. The latest market turbulence in Turkey speaks volume about how markets can sometimes overreact, leading to a sell-off in a general risk-off mood. Closer to home, we have seen some of our Southeast Asian neighbors faced with difficult financial market conditions despite their robust economic growth. Lastly, in addition to the four risks I mentioned, there are other developments that could at some point become one of the key risk factors, such as the rapid technological advancement that could disrupt traditional business models, or the effects of climate change that are projected to intensify in the coming years.

With all these risks in mind, there comes a question: where does Thailand stand amidst these risks?

If we look back over the past few years, we would notice that Thailand's growth was filled with imbalances. While exports of goods and services expanded robustly, the growth of domestic demand continued to register well below historical average, creating the so-called "two-speed economy." However, concerns over the economic recovery have lessened over the past few quarters, as the economy has shown signs of a more balanced growth. We begin to see that the growth in export sector started to spill over to other parts of the economy, particularly private consumption and private investment. According to our projection, private consumption was projected to continue its solid expansion, as the underpinning factors such as employment and consumer confidence continued to show signs of improvements. Private investment continued to expand with additional supports from public investment projects as well as heightened overall confidence. In our latest forecast, the economy is projected to grow at 4.4 percent this year and 4.2 percent in 2019—the strongest two-year performance since 2008.

Nonetheless, in this multidimensional nature of financial and economic development, bounded by the tight-knitted inter-country financial linkages, a strong domestic economy alone may not be enough to safeguard itself from external shocks. Thus, the best thing a country can do to protect itself is to build immunity and resilience for the economy.

Against external volatilities and volatile fund flows, our flexible exchange rate regime has served as the first line of defense, with foreign exchange interventions being used to calm disorderly markets. Our international reserves are around 3.2 times short-term external debt (compared to only 0.7 during the Asian Economic Crisis in 1997). Our current account surplus has been running in the positive for 4 years and is projected to be at 35.4 billion USD for this year, or 7 percent of GDP. Moreover, Thai corporations and banks rely mostly on domestic funding and thus carry with them low currency mismatch. These factors provide us with particularly strong cushions and allow us to exercise our domestic monetary policy with autonomy. In conjunction with these buffers, a range of policy tools are also available to be deployed should the need arise, including macroprudential measures.

In addition to building immunity against external volatilities, the Bank of Thailand also puts great emphasis on maintaining financial stability on the domestic front which is necessary for a sustainable growth. As mentioned earlier, the search-for-yield behavior under the prolonged period of low interest rate environment poses vulnerabilities to financial stability. In response, the Bank of Thailand strives to mitigate impacts from these underpricing of risk behaviors. We continually monitor warning signs of the aforementioned risks and address them accordingly. Last year, we tightened credit card regulations as well as uncollateralized personal loan limits to mitigate household debt problems. We will soon conduct a public hearing on mortgage lending standard to curb underpricing of risks in the mortgage market.

Financial stability is also engrained in the Bank of Thailand's monetary policy conduct. It is our view that macroprudential measures alone is not sufficient in preventing potential risks in the financial system. Monetary policy must be conducted with caution as to not contribute to further build-up of financial vulnerabilities. Furthermore, amidst the prolonged period of low interest rate and the increasing search-for-yield behaviors, it is our view that supervisory coordination is increasingly imperative for effective risk monitoring to make sure that the regulations across different regulators are broadly aligned and that financial activities cannot simply move from a regulated to an unregulated umbrella. This is reflected through our close collaborations with other regulatory bodies such as the Securities and Exchange Commission (SEC) and the Office of Insurance Commission (OIC).

Ladies and gentlemen,

While we have adequate external buffers to withstand short-term vulnerability in the global market, what would ensure the economy's stability and resilience in the longer-run are productivity-enhancing infrastructures and ecosystem. This is crucial for the country's competitiveness in the years to come. I am delighted to say that we are on the path of productivity improvement. With the limited time I have, it is difficult to do justice to all the projects that have been initiated. Some of the most notable examples are the Eastern Economic Corridor (EEC) and transportation and digital infrastructure projects that have been long-overdue.

On our side, the Bank of Thailand is doing its part to develop infrastructure and ecosystem needed for the ongoing transition towards the digital economy. Under the e-Payment Masterplan, we, together with the Ministry of Finance and the Thai Bankers' Association, launched PromptPay, which has allowed real-time fund transfers among individuals and businesses. This has significantly reduced transaction costs for all involved and has the potential to generate significant growth in Thailand's e-commerce sector, as well as radically change the way government welfare payments are distributed. To date, more than 44 million PromptPay accounts have been registered with more than 100 million transactions per month, and we expect to see a continual growth in these numbers as more people, especially business sectors, utilize the system. With systematically recorded e-payment data, banks will be able to evaluate potential SME borrowers and make it possible for SMEs with little credit history or collaterals to get credit. Electronic payments will help transform the ecosystem for SME finance, from collateral-based lending to information-based lending.

In addition to the development of electronic payment systems, we are investigating the use of blockchain technology in the finance industry. The Thailand Blockchain Community Initiative, a collaboration between 14 Thai banks and 7 leading businesses and state-owned enterprises, started a pilot project to offer blockchain-based letters of guarantee. The Bank of Thailand has initiated two other projects. The first project is scriptless bond issuance using distributed ledger technology, which would significantly speed up saving bond allocation to retail investors from 15 days to only two days as well as granting more flexibility for bond issuers. Another project in the pipeline is "Project Inthanon", an experiment on a new way of conducting interbank settlement using wholesale central bank digital currency.

These efforts should pave way for faster and cheaper transaction and validation, making the entire system more efficient.

Let me now turn to the legal side of our financial infrastructure. Regulations must keep up with the fast-moving financial innovations. To create an environment inducive to financial innovations, the Bank of Thailand introduced a regulatory sandbox framework which allows financial institutions to test new financial technologies in a limited scale to ensure that operational risks are contained, and that proper regulatory framework is put in place before the technology is deployed to the public. In addition to the regulatory sandbox, regulatory guillotine is another approach the Bank of Thailand has adopted to revise and, in some instances, revoke laws and regulations to make them relevant in today's context and reduce unnecessary legal costs for everyone.

I should also note that in April of this year, the new Payment Systems Act became effective. The Act unifies previously fragmented payment laws and regulations and enables us to oversee the development of Thai payment systems in a manner conducive to new payment innovations. On the external front, we introduced the Foreign Exchange Regulation Reform to make cross-border financial transactions more flexible and efficient. We have also made arrangements with regional central banks to support the use of local and regional currencies in trade and investment. These initiatives will help reduce transaction costs and mitigate exchange rate risks in today's volatile financial market.

Ladies and gentlemen,

In this challenging global landscape, complacency is costly and could be dangerous. We—the central bankers, credit rating agencies, and everyone in this room—must continue to be vigilant. We must maintain good buffers and build immunity. Despite many immediate challenges ahead, we also need to look at our long-term goals.

Let me end by talking about something I like to do when I have some free time: hiking. There are two types of hiker. The first likes to admire the scenery, birds, trees, and the majestic mountain range far beyond, while the second only focuses on the path in front. The first inevitably trip on rocks or fallen branches, and the other sometimes looks up to find themselves lost. We cannot complete our journey only looking up or only looking down, and we need to pay as much attention to the short-term risks as we do to our long-term aspiration.

I wish you all a fruitful conference this morning.

Thank you very much.