

## Thirachai Phuvanat naranubala: Preparing for rapid growth

Speech by Mr Thirachai Phuvanat naranubala, Deputy Governor of the Bank of Thailand, at the Payment Card Business Forum, Bangkok, 28 June 2002.

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Distinguished delegates, ladies and gentlemen,

I am pleased to be invited to address this meeting of prominent members of the financial community from the neighbouring countries of Cambodia, Laos, and Vietnam as well as some of the familiar faces from the Thai financial institutions.

The dynamism of the payment service industry in this region is fast catching the attention of international community, and the future promises yet more potential.

The theme of this seminar, "Preparing for Rapid Growth" is certainly very timely. I am sure the discussion will focus on both the return and the risks involved.

But timely as it is, and growth is certainly a good thing, but when growth is rapid, there always is a danger. Thus, discussion on international best practices, risk management and good corporate governance at this early phase of growth is extremely important. These good things take time to build up.

### Economic growth in South East Asia

This year we are seeing most South East Asian economies firmly back on the path of recovery. They are poised to regain their growth potentials. Luckily, the tragic event of September 11th has not pushed them off this steady course.

This improvement is reflected in the improved sovereign ratings which has allowed many countries to re-access the international financial market with new bond issues.

In the case of **Thailand**, the economic growth which slowed down to 1.8% last year has picked up significantly to 3.9% in the first quarter of this year. Unemployment rate has also declined, helping to strengthen consumer confidence.

Our growth was driven by private consumption and government stimulus. For the remainder of the year and the next, contribution from fiscal pump priming will be less, but we are confident that the recovery of exports will take up the slack.

We think that our exports will recover because we believe the improvement in the US economy will continue, even though at a more moderate pace than originally forecasted. The bottoming of the electronic cycle will also revive growth of many of our neighbours, who are our most important export customers.

The only point of disappointment is in business investment growth which has been slow due to the still high excess capacity in many industries in Thailand. These are the industries that cater for the domestic market, although the capacity utilization rate is rising quickly in recent months.

However, I am optimistic that the buoyant consumer demand will soon make it more and more attractive for some businesses to start thinking about expansion or diversification. I believe similar development is also being seen in varying degrees throughout South East Asia.

The rate of inflation was only 1.6% last year, allowing the central bank to conduct an accommodative monetary policy. The reduction of external debt has been steady. External debt is now only 60% of GDP compared to 90% at its peak.

Financial institution performance in Thailand has also strengthened considerably. Last year the banking system recorded an operating profit of 0.68 % on assets, boosted by both improved interest income and fee-based income.

The transfer of non performing loans to the government owned, Thai Asset Management Corporation, has reduced the NPL ratio in the banking system to 11.5%. With less need for provisioning, the average BIS ratio of the Thai banks now stands at approximately 13% at the end of March this year.

Last week the Thai authority also finalized the measures to deal with losses from the financial sector intervention. The government will fiscalize the losses by issuing bonds to cover them in full. The servicing of the interest rates will be entirely from the government budget.

The retirement of the principals will be borne by the central bank. But it will be paid out of the central bank's future yearly profits which would be earned mostly from the international reserves and would normally be paid over to the government in its yearly appropriation of the profits anyway. Thus the scheme will not affect the Bank of Thailand's ability to formulate monetary policy in the future.

The scheme also makes more clear the path of fiscal deficit in Thailand. With fiscal consolidation beginning next year when the economy firmly recovers, the scheme sets a limit of fiscal burden at approximately 60% of the GDP which is still quite a manageable limit.

The environment is therefore becoming more optimistic, the business prospects are becoming bright, and one should now plan for growth. What then, ladies and gentlemen, are the issues that we should pay attention to when we plan for growth?

### **Preparing for rapid growth**

For emerging markets like ours, I think we have to address issues both at macro and micro levels.

At the macro level, the authority has to ensure that there is adequate infrastructure to handle high volume of transactions safely and efficiently. The need here covers not only that of the point of sale hardware and communication technology.

The problem is that these things become obsolete quickly and one has to ensure that the domestic system in use is compatible with the international system, as well as the level of security required.

But far more important is the financial and legal infrastructure. I will highlight a few, starting with

First, the need to clearly define the rights and obligations of card issuers, card users and other parties involved in the transactions particularly in case of frauds. In Thailand, we have now drafted the Credit Card Act to set this framework but its enactment is still pending.

Secondly, the need to set up a good credit information system to help card issuers in their risk management. The minimum is a system that allows the sharing of negative information or some kind of black lists. But one should quickly migrate towards pooling and sharing positive information as well.

A well functioning credit information system is not harmful to the consumers. Instead it enables the borrowers on the margin to obtain credit, those who would have been refused in its absence. In Thailand we already have two credit bureaus operating, and the Credit Bureau Act will soon be enacted to govern their businesses.

Third, the need to protect the consumers. The charges and expenses levied against them should be made clear and easy to compare between various issuers. Interest rates should be declared as effective annual rates and sufficient lead time should be allowed and communicated to consumers before changes in terms and conditions come into effect.

In Thailand, we are planning to set a uniform standard for the whole industry regarding such things as interest free periods, the setting of due dates and calculation methods for past due balances.

Finally, if internet transactions become prevalent or poised for rapid growth, there is the need to define its proper legal framework. On this issue, we have just passed the relevant laws and are in the process of drafting the subsidiary regulations at ministerial level.

At the micro level, and this is your direct responsibilities, card issuers have to put in place a good system of risk management. This means able to identify what events will pose risk to you, which risks you should take, how they should be monitored and what measures can be employed to mitigate those risks.

I must emphasize here that proper risk management simply cannot be done without a sophisticated system to gather process and analyse the information.

The last issue I would raise today is that of accounting. Card issuers must ensure that they hold adequate and prudent levels of provision against bad debts in their accounts. Probability of default should be carefully analysed by various methods, making full use of the modern techniques available at credit bureaus.

Ladies and gentlemen: For the next 2-3 years, I am looking only for a moderate growth, not a rapid growth. I am hoping for a firm and sustainable recovery in South East Asia. But for the recovery to be firm and sustainable, we must indeed plan for the event of rapid growth. And that means we have to be prepared in every way.

Thank you for your attention.