

Prasarn Trairatvorakul: Bank of Thailand's policy direction in 2012

Speech by Dr Prasarn Trairatvorakul, Governor of the Bank of Thailand, at the Bank of Thailand, Bangkok, 27 January 2012.

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Good afternoon, honorable guests and members of the press,

2012 is a special year because it is the Bank of Thailand's (BOT) 70th anniversary, a mark of extensive experience for an institution. Faced with numerous challenges to monetary policy and financial institutions policy implementation, the BOT has through the past 70 years upheld the institutional value that our policies must be based on sound principles, yet embracing enough flexibility to accommodate the changing environment. Our ultimate goal is to promote Thailand's long-term economic and financial stability.

Our policy direction in 2012 will continue to reaffirm our long-held determination to strengthen the country's economic resiliency and the well-being of the Thai people. Notwithstanding short-term economic obstacles that have weighed on current sentiments, the Thai economy's main challenge has remained the same since my address last year. This major challenge is how we all can become more proactive since idleness during a time of rising competition could easily cause us to fall behind. As such, all parties should always be ready to improve oneself and to prepare for uncertainties that may occur in the future. In this same spirit, the BOT has modified our strategy to fit the changing environment and is willing to work with all parties to ensure that the Thai economy can continually expand in line with its potential.

Policy implementation in 2011

Looking back at 2011, the BOT implemented our monetary policy to ensure stability against the backdrop of robust economic expansion in the first three quarters of the year. Thus, we continued to normalize the policy rate, as I had stated in last year's policy statement. After the economy was hit hard by the flood crisis amid the stagnating global economy in the final quarter, the BOT policy was adapted to the changing circumstances, evidenced by the Monetary Policy Committee's (MPC) decision to lower the policy rate in the last meeting of the year.

Throughout last year, the BOT also paid particular attention to policies that facilitate businesses in normal times and in crisis times. These included policies that ensure the exchange rate movements consistent with the underlying economic fundamentals and that its volatility remained manageable by Thai businesses. Moreover, our policy on financial sector regulation and supervision has ensured that Thai financial institutions maintain their status as a credible and efficient financial intermediary and able to meet private sector demands. These efforts included encouraging financial institutions to rationalize their transaction fees structure, introducing digital cheque-imaging system, and relaxing certain measures related to financial institutions to alleviate financial burdens of flood-affected victims.

Economic conditions and challenges for 2012

The path towards the future is not a smooth one. Ongoing challenges from the past and new challenges will increase obstacles for the Thai economy. Domestic issues still remain an important hurdle while emerging external issues have created new challenges. These challenges are inherent parts of the mega trends, which include the crisis facing western economies and advancing regional economic integration.

Currently, Thailand appears to be at a transitional gateway of these mega-trends, where the future looks blurry. The persistent economic slowdown plaguing the advanced economies of

United States and Europe leading up to sovereign debt crisis and continued financial system stresses do not yet have a clear resolution in place. Many observers, however, view that after this transitional gateway, Asia will be under the spotlight with China as the new leader, leading the economic expansion for other countries in the region. Despite this optimism, countries in Asia cannot afford to relax, sit back, and enjoy the ride, as economic volatility could arise intermittently via trade and financial channels from western economies. The degree of such impact depends on how well each economy is prepared for the potential disruption.

Another aspect of the transitional gateway is the ASEAN Economic Community (AEC) in 2015. This regional integration will bring not only changes in the regional investment and trade landscape, but also changes in people's attitude as an ASEAN citizen where travel and contact will become more frequent. Nonetheless, we should not view AEC as the final destination, but rather a stepping stone towards enhancing economic resiliency in the region by creating a single ASEAN market and production base. This would help foster value-added characteristics of the Thai economy and increase opportunities for our people, businesses, and everything else that will bring about a better standard of living for all.

The two mega-trends I have outlined, when combined with the flood crisis at the end of last year, mean that Thailand needs to quickly upgrade infrastructure to improve competitiveness. In particular, public investment in effective natural resources management system and improved governance of public administration will serve as an important driving force for sustainable economic growth.

Evolution of economic activities in line with the changing environment

While the immediate obstacles may have changed, the overall challenges that have remained require all parties to formulate a strategic framework and policy space, to enable the Thai economy to stride pass the transitional gateway smoothly.

For the **public sector**, the implementation of policy that promotes investment and enhances competitiveness effectively relating to infrastructure, education, and governance such as reducing corruption and improving political resiliency would be an important impetus to boost Thailand's position in the competitiveness race. This is because public investment attracts further investment from both private investors and foreign investors, the so-called crowding-in effect.

For the **private sector**, the search for new markets, improvements of production efficiencies, creation of value-added goods and services, and effective risk management are things that the private sector can do to prepare for new challenges. I also encourage the private sector to learn more about the complexity and risks of various financial products to be able to use them effectively for their businesses. This will help businesses to reduce cost and increase competitiveness, as well as allow the financial sector to play a bigger supporting role for the real sector.

For the **financial sector**, strengthening internal organization and promoting financial system efficiency will be the main factors that allow financial institutions to become more competitive. This will also increase the efficiency of business transactions as well as confidence in the financial system.

Policy address

Like all policymakers, the BOT faces not only the challenge of policy making but also that of communicating the policy choice to the general public. It is often the case that there is a gap between public expectation of near-term results and what the BOT aims to deliver: a firm foundation for the long-term, the results of which may not be seen for years to come. Upon assessing the changing global environment, risks and social dynamics together, the BOT

remains resolute in our commitment to preserve Thailand's economic resiliency and sustainable growth path. This can only be possible through a common vision among all stakeholders, for that would allow for policy integration and the creation of financial environment that would foster equitable progress and welfare.

Monetary policy and exchange rate policy

With regard to the implementation of monetary policy, the BOT will continue to safeguard economic stability mindful of the economic cycle, especially the risks arising from global economy. This year, inflationary risks look to moderate from last year. Therefore, monetary policy can shift focus to the promotion of private sector's growth and ability to cope with elevated uncertainties as a result of more volatile global environment.

At the same time, exchange rate management will remain adhered to the principle of flexible movement in line with economic fundamentals. Along with that, the BOT will continue to push forward the "Capital Account Liberalization Master Plan" to allow Thai entrepreneurs and retail investors more flexibility to manage overseas investment. It is hoped that, under this master plan, foreign exchange regulations will be streamlined to help reduce the cost for Thai investment abroad as well as develop domestic financial markets. Initiatives on promoting outbound investment will include expanding investor types and ceiling limits, relaxing existing rules and regulations, and increasing flexibility for risk management. Nevertheless, the BOT will maintain adequate safety valves in line with varying emergency scenarios. In this regard, we expect to organize a public hearing on the "Capital Account Liberalization Master Plan" to gather inputs from all key stakeholders.

Financial institutions policy

For financial institutions policy, the BOT aims to increase the competitiveness of financial institutions while ensuring continued systemic soundness, promoting efficient risk management, and ensuring their desirable role as effective financial intermediaries.

To increase the competitiveness of financial institutions, the BOT seeks to improve the financial system infrastructure, such as developing the payment systems to promote efficient business dealings and to prepare for cross-border transactions involving regional currencies. We also work toward raising the standard of Thai financial institutions to become Qualified ASEAN Banks (QAB), which is a standard used within the region to allow qualified financial institutions to expand their business within the region. The BOT has already formulated action plans for all of these aforementioned initiatives, and plan to accelerate implementation in tandem with Asia's growth and regional economic integration.

Ensuring financial institutions' role as effective financial intermediaries will help promote inclusive growth, which would lessen unequal access to financial services. To this end, the BOT will ensure that financial institutions provide quality financial services that meet various needs at a fair price especially for risk hedging instruments.

Along with greater provision of financial services, better consumer protection to create financial immunity for financial services users also tops our priority. To help consumers understand available products to better choose one that suits their needs, the BOT has set up the Financial Consumer Protection Center (FCPC). This center currently provides one-touch service through the hotline number 1213. The center also offers financial education to the public.

Conclusion

I would like to reiterate that the Bank of Thailand's policy direction for 2012 will focus on making the Thai economy more resilient and improve the people's standard of living. For us

to achieve this goal, the BOT will adhere to our economic and financial stability mandates while reaching out to other public policy dimensions to promote a common vision of all policymakers to achieve a more competitive Thai economy. This common vision must however reflect the desired policy result based on real needs of the people. Through outreach and humility, we will also engage more with our stakeholders in pursuit of Thailand's sustainable economic wellbeing so that Thailand can cross the transitional gateway and stand on the world stage with strength and stability.