

## Prasarn Trairatvorakul: “Challenges and Opportunities”

Speech by Dr Prasarn Trairatvorakul, Governor of the Bank of Thailand, at the German Business Talks event, Bangkok, 28 February 2012.

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Good evening,

Ambassador Rolf Schulze,

Distinguished guests,

Ladies and Gentlemen,

I would like to thank the German Embassy for inviting me to give the key-note speech at the German Business Talks event. Germany is by far the biggest trading partner of Thailand within Europe, accounting for over 20 per cent of total trade volume between Europe and Thailand. With the increasing presence of German multinational corporations in Thailand, I hope that our businesses will become more integrated and continue to prosper together into the future. In this session, I would like to focus on two key issues. The first concerns the future challenges facing Thailand. The second issue is about the Bank of Thailand’s (BOT) role in meeting these challenges.

Let us begin with the challenges.

***On the external front, the global economy is beset by substantial risks and uncertainties.*** Major advanced economies are still grappling with fragile recoveries. In the US, despite some recent positive news from the labor market, economic activity continues to be weighed down by substantial debt over-hang. This inhibits a full recovery in the housing sector and consumer spending, which together form the backbone of the US economy. In the euro-area, everyone here is obviously keenly aware of the unfolding sovereign debt crisis. Against the backdrop of fear and uncertainty, banks have tightened their lending and consumers have become more cautious in their spending. This will act as a drag on the euro-area economy going forward.

***A key constraint for both the US and euro-area, as well as many other advanced economies, is the limited policy space available to authorities.*** In these countries, monetary policy and fiscal stimulus have been pushed to their limits. Limited capacity to respond to new shocks thus represents a real risk for these economies, and for the global economy, that we must be wary of. In this setting, and given the deep-seated nature of the problems being faced, meaningful remedies rest just as much on political factors as on economic ones. How governments respond and how their electorates receive these responses will be an important source of uncertainty.

***In contrast, the rising economies in Asia offer a more positive outlook.*** Despite the slowdown in exports of many Asian countries, reflecting the softer global economic backdrop, domestic demand remains robust. More fundamentally, the continued rise of China and the formation of the ASEAN Economic Community (AEC) will generate enormous economic opportunities for the region. As will be discussed later, ***the key challenge for Thailand will be how to optimally position ourselves to reap the full benefits of this trend.***

***This brings me to the internal challenges.*** The overriding focus for Thailand this year is ensuring domestic recovery and restoration after the devastating floods in 2011, as well as putting in place short and long-term plans to prevent a repeat of these events. The damage from the floods was severe, with widespread disruptions in the agriculture and manufacturing industries in affected areas. As a result, economic activity contracted by 9 per cent year-on-year in the last quarter of 2011 and the economy barely grew over the year as a whole.

In the face of such dramatic numbers, it is important to remind ourselves of the nature of the shock that Thailand faced. **Floods, like other natural disasters, are temporary one-off events.** They hit you out of nowhere, but then disappear. This is very different from growth slowdowns due to inherent weaknesses in the economy, such as financial crises. As we are witnessing in many parts of the developed world, such retrenchment in economic activity tend to be long-lasting as previous excesses have to be worked out from the system. The aftermath of one-off shocks, on the other hand, is generally characterized by rapid resumption of economic activity as things get back on track.

**Thus there is no question that Thailand will recover quickly and strongly from the floods.** We project that economic growth will rebound to 4.9 percent in 2012, boosted by private and public spending for post-flood restoration. In 2013, economic growth is projected to gather momentum, expanding by 5.6 percent. This positive trajectory reflects a number of key fundamental strengths in the Thai economy. **First**, our human capital remains intact and strong. Thailand's flexible and skilled workforce will continue to provide a solid foundation for businesses to flourish and expand. **Second**, the corporate sector boasts healthy balance sheets from accumulated savings and profits, enabling them to rebuild and invest. **Third**, the banking sector is strong and well-placed to provide the financing necessary to sustain the investment cycle. **Finally**, Thailand is well positioned geographically to serve as a supply-chain hub for many industries and to reap the benefits of an expanding as well as more integrated Asian economic block.

As alluded to earlier, **the process of regional integration will provide Thailand with enormous opportunities to expand our role in the region through increased trade in goods and services.** Realizing these opportunities will not be easy, nor will they be automatic. The key impetus falls on structural reforms that lift Thailand's international competitiveness. Considerable adjustment and transformation of our economy will be required. Factors of production will have to be reallocated to activities that offer the most promising way forward. Government policies and laws will have to be updated and changed to best facilitate such structural adjustments, all the while making sure that the burden of adjustment on those who stand to lose is bearable. **The pursuit of economic growth should not be absolute, but inclusive.**

As should be apparent, such challenges cannot possibly be completely met in the short-term, let alone in 2012. I suppose it should not be a surprise that the challenges I have outlined involve relatively long horizons. As a central banker, we are trained to focus always on the medium to long run. After all, it is precisely such a focus that enables central banks to best serve as pillars of economic stability over time.

**Against this backdrop, let me now turn to the BOT's role in meeting these challenges.**

**Starting with monetary policy, the key focus at this juncture is to strike the right balance between accommodating the domestic recovery while ensuring stability in the long-term.** In the context of the sharp slowdown in economic activity from the floods, moderating inflationary risks, and pronounced headwinds from the global economy, the MPC decided to ease policy during the last two meetings. These policy actions have helped to shore up private sector confidence and accelerate the return of economic activity to normal levels. The MPC is firmly committed to maintaining long-term price stability and interest rates are currently at a level that is deemed to be consistent with that goal.

Moving further afield, it is clear from my earlier remarks that setting Thailand on a path to long-run economic prosperity will entail lifting the competitiveness of our economy. **What contribution can the BOT make in this regard?**

**First and foremost, as well as most obviously, the BOT needs to deliver on its mandate of macroeconomic stability.** Ample evidence has demonstrated that a stable macroeconomic environment is a key prerequisite for sustainable growth in the long run. Such an environment will also make the process of adjustment and economic transformation easier. In this respect, I believe that **we have the right monetary framework to best**

**achieve this.** The BOT's inflation targeting framework has served us very well since its adoption over 10 years ago.

Apart from serving as an anchor for macroeconomic stability, the BOT can also undertake steps, or act as a catalyst for the necessary changes, that will serve to enhance Thailand's competitiveness and augment economic adaptability. Most directly, **the BOT can strive to enhance the effectiveness of the financial sector in serving as intermediaries of capital.** Our current strategy is to broadly deliver tangible improvements in four key dimensions. **First**, encourage financial innovation and the expansion of available financial instruments. **Second**, broaden the choice available to firms and households in terms of financial services. **Third**, reduce the cost of these financial services. And **finally**, improve access to them.

To this end, the BOT has embarked on a multi-pronged approach that involves a number of strategic plans. Chief and foremost is the second **Financial Master Plan**. This plan, which takes into account major global developments such as regional integration and global regulatory reform, will further this vision of a modern and inclusive financial sector landscape. At the same time, we are pursuing ways to **improve financial system infrastructure**, including through upgrades to the payment systems to promote more efficient settlement of private sector transactions.

Complementing these efforts is our development of the **Capital Account Liberalization Master Plan** aimed at facilitating and encouraging more outward investment by Thai residents in foreign assets. Apart from the sizeable diversification gains to be had, a more streamlined capital account and foreign exchange regulatory regime will help to boost financial market development and reduce costs for the private sector. Finally, in recognition of the fact that the full benefits of improvements in financial services cannot be realized without adequate readiness on the part of consumers, we have recently launched the **Financial Consumer Protection Center** to provide financial education to the public.

In all this, it must be stressed that the BOT can only do so much. Effective upgrading of Thailand's competitiveness and lifting our level of productivity requires strong commitment from all segments of the economy. **A common vision among all stakeholders is necessary**, especially when it comes to implementing tough structural reforms. **The BOT will strive to be an active participant in pushing forward the national agenda on reforms**, particularly on issues that involve the public sector, to upgrade the efficiency of our economy.

Let me end by thanking the German business community for the substantial contribution that you have made to our economy and I very much hope to see the mutually beneficial relationship between our countries continue to blossom into the future. Thank you.