

Pongpen Ruengvirayudh: The current economic situation and recent monetary policy developments

Opening remarks by Ms Pongpen Ruengvirayudh, Deputy Governor for Monetary Stability of the Bank of Thailand, at the Joint Foreign Chamber of Commerce in Thailand (JFCCT), Bangkok, 21 May 2014.

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Distinguished Guests,

Ladies and Gentlemen,

1. It is my pleasure to be back here at the Joint Foreign Chambers of Commerce (JFCCT). First of all, I would like to thank JFCCT for inviting me and would also like to thank all the members of JFCCT for your continuing contribution to the economic development here in Thailand.

Economic outlook

2. A great deal has changed both domestically and externally since I was here last year. With respect to domestic economy, the prolonged political stalemate has weighed considerably on confidence, exacerbating the already fragile economy. Externally, the announcement of the US Fed to scale down its Quantitative Easing program since May 2013 has led to turmoil in financial markets across emerging economies. Today, I therefore would like to take this opportunity to share briefly with you my thoughts on the country's economic outlook, the medium-term challenges we face and monetary policy of the Bank of Thailand.

3. When it comes to current economic assessment, the slowdown of the Thai economy over the last year, in combination with uncertainty over the ongoing political conflict, is a growing concern for many. The NESDB two days ago announced that GDP growth in 1Q14 contracted by 0.6% (YOY), compared to same period last year. Signs of moderation were witnessed in various economic activities, such as consumption and investment, as well as in government spending, despite signs of a rise in some exports. As the political deadlock lingers, tourism has begun to feel the impact. In the last MPC meeting of April 23rd, the committee projected that the Thai economy will grow less in 2014 than the previously assessed at 2.7 percent. This will be mainly due to the weaker-than-expected economic momentum in the first quarter of the year and the political impasse posing downside risks to domestic demand and tourism. However, the economy is expected to resume its normal growth in 2015.

4. Notwithstanding the short-term headwinds, there are also causes for optimism. Global economic activity has been firming up. Growth has gathered momentum in the US, the Euro area and Japan. Recent government's attempts in China to reform the financial sector should support sustained growth in the longer term, although with some impacts on short-term growth. In emerging economies, the turbulence in financial markets has somewhat receded following these economies' attempts to address vulnerabilities and also in Thailand, the financial market has stabilized. Volatilities in foreign exchange market have been contained. The IMF, in their April report, projected that the global economy will grow at 3.6 per cent this year, which is an improvement from 3.0 percent growth last year. This more favorable external environment should benefit export-reliant countries such as Thailand.

Medium-term challenges

5. Ladies and Gentlemen, looking at the more medium-term prospects, I am convinced that the underlying fundamentals that have been attracting international investors to Thailand over the years are still in place. The country's overall macroeconomic fundamentals remain

sound against the back-drop of a healthy banking system, low and well-anchored inflation, and the government's relatively strong financial position. A flexible exchange rate and our strong position in terms of international reserves provide ample cushioning for the central bank to be able to manage capital flow volatility. These solid fundamentals command trust from investors and credit rating agencies. Recently, Moody reaffirmed Thailand's stable credit outlook citing that "in many respects, Thailand's credit metrics remain well positioned compared with its immediate rating peers".

6. Having said this, we cannot take things for granted. In fact, many problems point toward a need for structural reform. The MPC, in its last meeting, expressed concern over a number of structural issues, which, if not addressed, could restrain the country's potential growth in the long run. These problems include fiscal sustainability, inequality in terms of both income distribution and access to education and health care, as well as supply bottlenecks such as a labor shortage. These problems cannot be solved by monetary policy, but require a concerted effort from all stakeholders.

7. In addition, as we are all aware, the prospect of the Thai economy is largely clouded by political uncertainty, which continues to impair the ability of the government to steer the economy forward. Public investment in infrastructure, as a source of potential growth, has been put on hold. I do hope that the political instability will not drag on for a long time and that an acceptable solution will be reached among all stakeholders in society soon.

Monetary policy

Ladies and Gentlemen, let me turn to my last subject, that of monetary policy.

8. The MPC's ultimate mandate is to safeguard the macroeconomic and financial stability of the country. In the last few years, the Bank of Thailand has maintained an accommodative monetary policy stance. Mindful of imminent downside risks to growth, the policy rate was cut three times in the MPC meetings of May and November 2013, and again in March 2014. In these three meetings, the MPC were of the view that the reductions of policy interest rate were necessary to ensure sufficient support to the domestic economy. The current real policy interest rate, which is now in a negative territory, aims to help alleviate the financial burden on households and corporations, allowing them to withstand short-term shocks.

9. However, as the current policy interest rate is already low, further easing would not be without concerns. In the last meeting in April 2014, the MPC decided to maintain the policy at 2.00 percent. The rationales behind this decision were that the current monetary policy stance was accommodative enough to support the economy as the prolonged political uncertainties were the main cause for risk to growth, not the financial conditions. Meanwhile, room for further policy accommodation was diminishing, and any possible side effects of keeping the interest rate low for a protracted period, needed to be taken into account.

10. I would like to end my remarks by thanking you all again for your contributions to the Thai economy and let me assure you that the Bank of Thailand will continue our works to ensure a stable and resilient financial and economic environment, conducive to economic growth of the country.

Thank you very much.