Moving Thailand Towards a New Business and Financial Landscape
Speech by Dr. Veerathai Santiprabhob
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Your Excellencies, EU Ambassador Jesus Miguel Sanz,

Ambassadors of EU Member States,

EABC President, Mr. Rolf-Dieter Daniel,

Distinguished Guests,

Ladies and Gentlemen,

A very good evening.

It is a great honor for me to be here this evening and I would like to thank the European Association for Business and Commerce (EABC) for the warm welcoming arrangement of this event. I am very delighted to address this prestigious group of audience including ambassadors and leading businesspersons, among which many are Thailand's beloved and longtime friends. I would also like to acknowledge the EABC Board of Directors and the President, Mr. Rolf-Dieter Daniel, for ongoing efforts and hard work to improve Thailand-EU economic relationship. I hope this dinner has provided opportunity for all of us to exchange ideas and share perspectives. For myself, there is much to learn from the business community and I am grateful for all the feedbacks I received. Business partnership with foreign investors has always been important to Thailand's economy. In fact, not only has Thailand gained much benefits from international trades and investments, including ones with the European Union (EU), we also have benefited from the "needs" to meet standards and requirements set by the international community. These reform efforts might result in short term setback, but will certainly result in long term gains that promote sustainability and further enhance our competitiveness and business partnership with foreign partners.

My talk this evening on Moving Thailand Towards a New Business and Financial Landscape will consist of three parts. First, I will briefly discuss Thailand's current economic development. Second, I will elaborate on several important sets of recently enacted and upcoming laws that will upgrade Thailand's business and financial landscape. Lastly, I will briefly discuss Bank of Thailand's policies to support the new business and financial landscape.

With regard to the current economic development, we expect the Thai economy to continue its recovery at the rate of around 3.2% in 2017 in spite of headwinds from the global economy and market volatility. Our fiscal stimulus programs and accommodative monetary policy continue to support the economy while export growth started to show sign of a more broad-based recovery. Nevertheless, there are challenges ahead, especially from a high level of household debt, which moderates consumption growth while private investment remains subdued. In addition, the mourning period might have temporarily dampened some of the economic activities. We expect them to resume normalcy in the near future as the fundamental strengths of the Thai economy remain intact. Notably, our unemployment rate continues to dwell at a low level, while external stability is sound, with current account surplus expected to be around 7 percent of GDP this year, declining from 10% of GDP in 2016. Moreover, our international reserves are ample at about three times the size of short-term external debt. Non-residents holding of Thai bonds is less than 10 percent of total bond outstanding, a level much lower than our peers. Although the NPL ratio is rising moderately, banks' balance sheets are healthy, with a capital adequacy ratio of over 18 percent and low currency mismatch. Meanwhile, inflation returned to our target range in December and will continue to be in the range as the effects of falling oil price dissipate and the output gap narrows.

It is also worth noting that the past decade has seen exponential growth in Thailand's economic ties with the ASEAN peers, especially the CLMV neighbors. The growth rates of trade and investment have been impressive. Since 2005, Thailand's export value to the CLMV has increased more than fourfold and is now making up over 10 percent of our exports, comparable to the size of our exports to the EU. During that same period, Thailand's direct investment into these countries has increased by about sixfold, highlighting the opportunities that businesses foresee. Certainly, businesses have benefited from Thailand's proximity to these markets, and it is our goal as a central bank to encourage greater financial connectivity with the CLMV and the ASEAN partners as a whole. I will elaborate on this issue when discussing Bank of Thailand's policy later on.

Ladies and gentlemen, despite our economic stability and growing opportunity in the region, we do acknowledge a moderation in Thailand's economic growth compared to the period before the Global Financial Crisis. During 2001 – 2007, the average growth rate was as high as 5.4 percent; we are now growing at a more moderate pace of around 3.0 - 3.5 percent on average. While part of the subdued growth can be attributed to external factors such as weak global demand, one cannot deny that longer term structural issues have also played a part in restraining Thailand's competiveness, productivity, and potential growth.

The government acknowledges these problems and has implemented many initiatives. You may have heard of Thailand's efforts to promote digital economy, R&D, innovation, new s-curve as well as various investments in infrastructure projects, all of which are aimed at uplifting Thailand's potential growth. But, one area that, in my view, is less frequently discussed is the implication of several new laws on the future of Thailand's economic and business landscape. The discussion of these laws constitutes the second part of my talk.

Ladies and gentlemen, in general, there are three main goals that policymakers want to achieve. First, we want to attain a high level of economic growth to raise standard of living. Second, the growth must be sustainable; there is no point to achieving high growth only to find oneself in a crisis at a later stage. Third, the foundation of growth must be based on good governance and provides economic opportunity for people across all segments of the society. Social stability cannot be sustained with only selected few enjoying the benefits. Having said all this, one necessary foundation in support of achieving these goals is to have a well-functioning legal framework that promotes governance, productivity, sustainability and equal opportunity.

For Thailand, there is much room to improve on our legal framework. In a fast changing world, specifically with technology and liberalization, laws can quickly become outdated, stalling business progress and creating high costs of compliance, especially for SMEs. At the same time, new risks may not be properly regulated as dynamic technological and social progress has created the needs for regulation in areas once not deemed necessary. Therefore, it is the responsibility of the policymakers to continue to improve the legal framework to support their policies and goals.

For these reasons, I want to highlight a set of laws – mainly laws relevant to businesses that will support and shape Thailand's future business landscape. Some of the laws that I will discuss are already in effect; some are being reviewed at the National Legislative Assembly; and some are being considered at the Council of the State after having been endorsed by the cabinet. While several of these laws can have wide ranging effects on Thailand's business landscape, for the ease of this talk, I will loosely categorize them into three groups, namely (1) laws that promote governance and improve the distribution of economic opportunity, (2) laws that support productivity enhancement, and (3) laws that strengthen macroeconomic stability.

Let me start by highlighting a few laws in the first group that aims at promoting governance and improving the distribution of economic opportunity. The amended **Securities and Exchange Act**, which was effective since December last year, would boost governance in the capital market. In particular, enforcement mechanism to punish market misconduct will be more effective. The law expands coverage of wrongdoings and seals several loopholes of the previous law to prevent malpractices including front-running of client orders and usage of insider information. Moreover, a perpetrator is no longer subjected to only criminal punishment, but is also responsible for civil liability, which makes the punishment process more efficient. Overall, with this revision, investors should expect the Thai capital market to have better governance and fairer trading environment.

Another sector undergoing significant governance upgrade is the State-Owned Enterprises or SOEs in short. It is important to acknowledge that SOEs are the driving force behind several strategic sectors of the Thai economy, including energy, transportation, and telecommunication – with a total annual spending budget twice that of the central government. There is no denying that improving the governance of the SOEs will lead to more efficient resource allocation in many sectors. On the other hand, not doing so may lead to greater contingent liabilities for the government and higher costs of doing business in Thailand.

One key challenge with the current SOE system lies in its complex governing structure that is prone to conflicts of interest. This is because government agencies or senior government officials involved with SOEs often assume multiple, and at time, conflicting roles – namely, the roles of policymaker, regulator, operator, and owner. **The bill on the governance of the State-Owned Enterprises** aims to tackle this problem head on; it sets forth principles that dismantle these roles into separate governing entities. Going forward, operation of the SOEs will be supervised by the State Enterprise Policy Committee, who will also set the SOEs' five-year strategic plans. A separate entity – the holding corporation – will be established to act as the owner of incorporated SOEs to ensure long-term competitiveness and financial viability. Furthermore, operation of SOEs will become more transparent with a better check and balance system. The bottom line is, this new law will lay a path for structural changes in the governance, the management, and hence the performance of the SOEs going forward. The new governing structure will also be more immune to political intervention.

Note that, while this new legislation on SOEs is expected to be effective in the coming year, some SOE reform initiatives have already taken place. In particular, the Bank of Thailand now has the authority, bestowed by the government, to supervise and regulate the Specialized Financial Institutions (SFIs), which account for around 25% of Thai financial system's total assets. In light of this, new sets of rules have already been imposed on SFIs to improve governance, operational capability, credit risk management as well as transparency.

Along with improving SOE performance, businesses, are expected to compete in a fairer environment than before through better law enforcement. The revision of the **Trade Competition Act**, currently being considered at the National Legislative Assembly, will establish an independent commission - the Trade Competition Commission - to review and regulate business competition, thereby ensuring a fairer and more competitive environment among businesses. The commission will be more independent and less prone to influence from both the public and private sectors, unlike the current structure in which the committee is chaired by the Minister of Commerce and half of the committee can consist of representatives from large companies. In addition, the law is expanded to cover commercial operation of SOEs[1], and antitrust penalties will be more penal. Therefore, the law is expected promote a more level playing field not only among private firms but also between private firms and public enterprises.

On top of this, access to credit for small and medium sized firms will be improved. The **Business Securities Act**, effective since July of last year, widens the scope of eligible collateral for secured lending. Prior to this, only real estates and certain types of movable property can be used as collateral. With this new Act, a firm can further gain access to funding by putting up inventories, machineries, and intellectual property as collateral. Given this, Thailand's small and medium enterprises, which constitute 95 percent[2] of the total number of firms and make up 30 percent of total employment[3], are expected to gain better access to credit, thus representing a better distribution of economic opportunity.

Ladies and gentlemen, allow me to reiterate that, although I group this set of laws as ones that promote governance and improvement in economic opportunity, in actuality, they all have positive spillover towards enhancing economic growth and productivity. After all, having a well-functioning capital market, better managed SOEs, a fairer and more competitive environment, and more access to credit will allow

[1] Excluding activities to preserve national security

[2] Source: The Office of SMEs Promotion, 2014

[3] Average over 2015, National Statistical Office of Thailand calculated by the Bank of Thailand

greater efficiency among players both in the public and private sectors. I will now turn to the legislation that will help improve productivity. There are three laws in particular that I believe will be of your interest.

First is the **Licensing Facilitation Act**, which is already in effect since July last year. The law intends to make acquiring a permit easier and more transparent for all businesses. Relevant government agencies are now required to provide manuals and guidelines regarding permit application under their jurisdiction to the general public. This includes listing of all necessary procedures and the expected timeframe of approval, resulting in predictability of permit acquisition and lower chances of bribery. As such, the efficiency of civil service will be improved and costs associated with time lag minimized.

Next is the **Royal Decree on Review of Laws and Regulations**. The Decree requires that all laws and regulations be reviewed once every five years. This is to ensure that necessary adjustment can be made to accommodate dynamic changes in business practices. The Bank of Thailand alone has roughly 180 laws and regulations under our jurisdiction to be reviewed. Moreover, under this Decree, the general public can submit petition to voice their suggestions to relevant agencies. This will ensure that laws are practical, up to date, and serve public needs.

The third law that will enhance productivity is the **Payment System Bill**, which is meant to replace the old governing laws and regulations that are dispersed under many different authorities. This payment system bill will consolidate fragmented laws relating to payment systems, especially electronics and digital payments, and allow the Bank of Thailand to be the sole regulator in this field. Under a single unified law, businesses will find it easier to comply with regulations; and at the same time the Bank of Thailand will strive to maintain flexibility in our supervision of payment systems in a way that mitigates risks but does not hinder innovation. In addition, the bill also provides assurance of payment finality and float protection, thus upgrading Thailand's payment system to international standards. We acknowledge the importance of payment infrastructure in supporting the digital economy. The emergence of Financial Technology or FinTech along with its various innovations cannot be fully realized without having a good legal support and a clear policy. I will elaborate more on Thailand's payment system in the third part of this talk.

Before moving on to the next group of laws, I want to remind the audience that while I chose to highlight these three laws, there are many other legal reforms taking place that would enhance business productivity. One example is the **Eastern Economic Corridor Bill**, approved by the cabinet this October, which will establish a special economic zone across three provinces to attract investment in industries of the future. The zone is designed to facilitate business operations with extensive infrastructure investments to support transport, logistics, and public utilities. Firms operating within the special zone will receive additional incentives including tax-related and foreign labor employment benefits.

Ladies and gentlemen, so far I have discussed laws that promote governance, economic opportunity, and productivity. The last group is sustainability. As central bankers, we want to generate growth up to our full potential while securing economic stability through the use of monetary policy. Nevertheless, monetary policy is half a story; fiscal spending also has a significant implication on economic sustainability. While

Thailand has never been in a sovereign debt crisis, we have had numerous experiences with inefficient uses of public resources, especially those related to open-ended populist policies. As such, it is important to have a solid framework that sets forth a good fiscal discipline.

In this context, the cabinet approved the **Fiscal Responsibility Bill** since March last year, which is now being reviewed by the Council of the State. This bill imposes fiscal discipline through improvement in public spending transparency and better governance of overall fiscal management. One key feature of this bill is the formal establishment of medium-term fiscal framework that requires medium term projections of the fiscal position. Also, fiscal rules – some of which already in use *de facto* – will be legally imposed to ensure fiscal discipline. For example, the public debt ceiling will be set by law at 60 percent of GDP. More importantly, the channel to conduct open-ended populist policies will be more difficult to carry out as the law requires the government to calculate costs and identify sources of fund ex-ante. Although our debt to GDP ratio is currently at 43[4] percent, one should not be complacent. The government must have enough fiscal buffers to support the economy in time of need.

At the same time, the introduction of the **Inheritance Tax Act** and the **Land and Building Tax Bill** will augment prudent spending by expanding the government's ability in revenue collection. These laws will ensure a better tax structure to deal with future liabilities, promote greater fiscal balance as well as reduce wealth inequality.

As for the Bank of Thailand, we play an important role in ensuring stability in the financial system. The experience of the Global Financial Crisis taught us an important lesson of a timely and efficient crisis management. In this regard, we have proposed an amendment to the Bank of Thailand Act to equip the Bank of Thailand with a broader set of resolution mechanism and enhanced safety nets in the financial system in time of systemic crisis.

Ladies and gentlemen, my discussion today regarding recent and upcoming laws provides a snapshot of the legal framework to support our goal of sustainable growth. In the meantime, while one must accept that there will be many challenges ahead, particularly implementation issues, these new laws will at least set forth a necessary path for Thailand to move forward – a path I believe must be complemented by a firm policy direction. This leads to the last part of my talk, which I will focus on the Bank of Thailand's policy direction and initiatives to support the country's reform efforts.

We are now at the onset of the third phase of the Financial Sector Master Plan (FSMP III), spanning over 2016 – 2020. This phase focuses on making the financial sector even more competitive, more inclusive, with improved regional connectivity and greater sustainability. All of this is to serve the diverse needs from fast changing technology as well as to support rising trade, investment, and financial linkages in the region. This leads to two themes that I want to highlight, namely **digitization** and **regionalization**.

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[4] Figure as of November 2016.
Source: PDMO and NESDB

First, digitization has geared many countries towards less costly cash transactions, which benefit everyone. The concept of "financial services anywhere, anytime" cannot be achieved without developing the necessary infrastructure that fosters more efficient as well as safer electronic transactions. Successful implementation will lower transaction costs for businesses as well as for the banking sector.

The Bank of Thailand and the Ministry of Finance have initiated the **National e-Payment Master Plan** to support this digitization trend. The plan consists of five parts aiming at (1) promoting a fast payment system, or PromptPay, at very low costs; (2) advocating the widely use of electronic debit cards; (3) developing an efficient e-Tax system; (4) improving the Government e-Payment System to make all government's payment especially welfare transfers electronic; and lastly, creating greater e-Payment literacy. It is important to note that the benefit of e-Payment extends beyond lowering transaction cost; it can also encourage payment transparency, which limits potential leakages and corruption in the payment process and provide e-commerce opportunities for SMEs.

Another rising trend is FinTech, which brings about innovation and business solution in various forms. The Bank of Thailand does not view FinTech as a risky competition to our financial environment. Rather, we believe FinTech can enhance productivity and promote greater financial inclusion, which complement the current system. Nonetheless, as with many new innovations, risks are sometimes underestimated, and thus it is the responsibility of a supervisory body to strike a good balance between prudent regulation and adequate room for innovation. In light of this, the recently issued Regulatory Sandbox Framework allows banks and non-banks to test their innovations with limited group of customers before launching their services to the broader public.

Ladies and gentlemen, having a good financial intermediation and payment system will greatly boost trade and investment. **Regionalization** is the second area that I would like to highlight. Since 2007, the GDP of ASEAN economies has almost doubled, reaching over 2.4 trillion US dollars and has continued to grow firmly, thanks in part to trade liberalization of goods and services. ASEAN policymakers strive to build on this important relationship with further integration in the financial sector. On this note, I would like to highlight some of the regional initiatives that the Bank of Thailand will focus on.

First, we position Thailand as a springboard for cross-border financial services with the CLMV partners for the benefit of all parties involved. Companies with regional operations are encouraged to set up Treasury Centers (TC) in Thailand to gain benefit from more flexible foreign exchange regulations. So far, 17 companies have obtained TC licenses, most of which are multinational corporations.

Second, ASEAN banks and their branches are expected to gain broader access within the AEC region. Under the ASEAN Banking Integration Framework (ABIF), ASEAN countries may enter into bilateral agreements to allow Qualified ASEAN Banks (QABs) to establish branches in the partnering country. To attain QAB status, banks must meet governance and several operating standards as well as other criteria agreed on a bilateral basis. For Thailand, this is an ongoing process, and we are now under QAB negotiations with Indonesia, Malaysia and Myanmar.

Third, we promote the use of local currencies for cross-border transactions. This helps reduce transaction costs and mitigates the exchange rate risks amidst the backdrop of high foreign exchange volatility in advanced economies. For liquidity support of regional currencies, Thailand has established several Bilateral Swap Arrangements with neighboring countries including China, Malaysia, Cambodia, and Laos. Further arrangement is expected, especially with Indonesia and other CLMV partners.

These aforementioned developments are initial steps that could lead countries in the region into a new regional financial landscape that further integrates trade and financial services.

Ladies and gentlemen, I hope my talk today is not overloaded with too many details, but I think it is a good opportunity to share some of the reform efforts in Thailand that may be less frequently discussed. Let me end my talk by providing you a quick summary. Despite global challenges, the Thai economy still carries on its recovery, with sound financial system and good macroeconomic stability. With fundamental strengths remaining in place, we expect a stronger and more resilient recovery going forward, especially through the legal reform initiatives that would ensure better governance, improve the distribution of income and economic opportunities, enhance productivity, and foster sustainability. Making all these happen will continue to be a challenging task and require continued efforts from all parties involved. We look forward to strengthening our business cooperation and partnership with our European friends and investors like yourselves in the years to come. Thank you for your kind attention.