

## “Navigating through Uncertainties for Thailand’s Sustainability”

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The Chairman of the Association of International Banks,  
Chief Executive Officers and top management of leading financial institutions,  
Ladies and gentlemen,  
A very good evening to you all.

It is my pleasure to return to this year’s AIB dinner talk, to be among distinguished guests of executives and clients of international banks who have all been dedicated companions in Thailand’s journey of financial and economic sustainability.

It is always about a journey: life, business, and country development. Every successful journey begins with a clear destination and a focus on making progress in the right direction. Our goal is to become a more sustainable economy, the one that works and develops towards its full potential while withstanding domestic and external shocks with resilience, the one that accommodates and works for its people. And the way towards this goal is through our efforts in advancing three important areas, which will be the emphases of my talk tonight, they are, **Productivity, Immunity, and Inclusivity**. I will come back to these three important keywords during the second half of my talk.

Ladies and gentlemen,  
Before and during any journey, say a road trip, it is wise to perform **a regular checkup** on the conditions of the vehicle as well as the route that would lead us to the destination. Engine needs maintenance for possible leaks and clogs, and along the way puddles and potholes need to be avoided. While we have no control on the weather and road conditions, we can best prepare and equip ourselves to make the journey as smooth as possible. Every day, we carry on our journey in different corners of the very same world. So let’s perform a checkup of our current environment together.

**Looking out**, there are large global political and policy uncertainties clouding over the horizon. We are living in the time of changes, where outcomes can be abrupt and hard-to-predict. We live in a VUCA world, which is highly Volatile, Uncertain, Complex, and Ambiguous. Against this complex backdrop, the task of steering and navigating our vehicle, the economy, in the right direction becomes increasingly challenging.

The world has observed **rising political uncertainties and geopolitical tensions** in recent years, sending series of shocks and surprises. We have observed the surge of inward-looking sentiments and populist policies in many advanced economies. There is also a tail risk of intensified geopolitical tensions in the Middle East and Korean Peninsula, which though of very low probability, could induce catastrophic consequences across markets.

Political economy in the superpower like the US also plays a large part in determining today's global conditions. The **uncertain and ambiguous US trade and economic policy implementation** has put global trade, investment, and production decisions under suspense. On the trade front, the outlook is vague and unpredictable as **the increasing trend of protectionism** – not limited only to the US – could induce many undesirable consequences. For one, the process involved would require lengthy negotiations, not only between nations through bilateral arrangements, but also between domestic political and interest groups, which may not guarantee the first-best outcome. This only adds uncertainties as well as inefficiency in the playing field.

Moreover, **the US tax reform**, in particular tax amnesty for large corporates, likely results in a surge of capital outflow from our region as US profits abroad will be repatriated to enjoy a lower income tax at home. Though the degree of tax amnesty is still pending, this, in conjunction with fiscal spending, will eventually affect US deficit financing and also the yield curves across the world. On top of this, **the timing and speed of Fed policy rate increases and balance sheet normalization as well as its implications on US dollars** also influence global trade and growth momentum, an important consideration for small, export-oriented economies, including Thailand.

Recent developments across the Atlantic do not look promising either. Despite the improving condition of the European economies, the political uncertainties remain high. The relationship between the UK and the EU, particularly the Brexit negotiation, is complicated further by the result of the UK election. The prospect of minority government as well as its weakening bargaining power could mean a not-so-hard Brexit strategy. However, the final outcome – which would change the overall economic relationships between the counterparties – remains highly uncertain. Political evolution in the UK as well as on the Continent over the next two years will continue to play a major role in determining the long-term business environment of the region, including trade, investment and immigration policy directions.

Now, **looking in** at the Thai economy, our vehicle, the **output and prices** are running at moderate speed with gradual and more broad-based recovery. Our latest projection for the output growth is 3.4% for this year and 3.6% for 2018, on the back of firmer recovery in global growth. The improvement in global economic outlook allows for favorable export expansion, as well as continued drive from public spending especially in terms of infrastructure investments. Tourism also recovered as the effects of the illegal tour-operator crackdown and the nation-wide mourning period had eased. However, there is a possibility that inflation may be temporarily lower than the target band in some periods due to supply-side factors, especially on account of lower fresh food prices this year from last year high base on the back of the severe drought.

The **banking sector** remains in good shape, with stable profits and high capital buffers, despite moderate credit expansion. Nevertheless, credit quality has deteriorated somewhat in the first quarter of this year as NPLs slightly increased to about 3% of total loans, especially in the corporate and SME categories. As NPL is a rather lagging indicator, it will take a while after a solid economic recovery before we start to see a clear downward trend of NPLs. In addition, concerns are still warranted over NPLs in certain sectors, especially for

small-and-medium sized enterprises (SMEs) which partly reflect a structural issue of their weak competitiveness that needs to be addressed by broader structural policies.

**Domestic demand, though clearly recovers in a broad-based manner, remains a soft spot** that needs attention, much like slightly deflated tires that cannot accommodate a speedy drive. Let's look at domestic demand in more detail. First, **private consumption** has improved from a recovery in farm income and consumer confidence. However, consumption continues to be constrained by the legacy of high **household debts**, which are now at 80% of GDP, slightly decelerating from last year. Over the past 7 years, the household debt data shows that Thai people start accumulating debts from a younger age, over a longer period, and of a larger amount. Indeed, data from the National Credit Bureau highlights some concerns on certain subgroups, especially young working population, age around 30. Half of this group has already subscribed to loans, and around 20% – equivalent to one in every five – of debtors in this age range are having debts considered as NPLs.

Second, **private investment** has been subdued over the past two decades, despite the improvement in business balance sheets. After the Asian Financial Crisis, the private sector's share of fixed capital formation has reduced by half, from 40 to merely 16 percent of GDP, coinciding with a similar decline in output and productivity growth. It should also be noted that this is far from a Thailand-specific phenomenon. Cross-country experience on the post GFC slowdown in business investment, both in advanced and emerging economies, has been widely shared among policymakers as one of the main policy challenges in most countries. Moreover, despite the highly accommodative monetary policy stance, the hurdle rates used by businesses to assess investment projects remain at high levels.

There is also the issue of the evolving form of private investment. Given the growing importance of service sectors and the investment expenditure in intangible assets such as human capital and intellectual properties, these may not be fully accounted for under the traditional definition of physical investment.

Aside from the cyclical factors of weak domestic demand and high policy and political uncertainties, other **structural issues** are also at play, including the fast aging society that further dampens prospects of domestic demand, as well as the trend of stalling global value chain growth which discourages the capital-intensive export sectors.

Given the VUCA condition of the road, the poor visibility from clouds of uncertainties, as well as the weakness of some growth engines, we, as a nation, must avoid complacency while continue to make progress towards the right directions: **Productivity, Immunity, and Inclusivity**.

Ladies and gentlemen,

**On the Bank of Thailand part**, we are working toward the same goals with the nation, by advancing a number of initiatives to increase the efficiency of the financial sector while making it easier and safer to serve more people.

**On boosting productivity**, we currently have at least three undertakings. First, the Bank of Thailand is strongly promoting the use of **e-Payment and digital banking**, which we have seen a fast rising trend. In 2016, the number of e-Payment transactions totaled 3.2 billion. Averaging

over five years period (2011-2016), the growth of e-Payment transactions was almost 20% per year, with mobile banking transactions observed the largest expansion at 97% and internet banking at 23% per year.

Such a strong increase in payments through electronic platforms benefits consumers in terms of convenience and time efficiency through services anytime anywhere. At the same time, this also translates into less use of cash, saving operating costs for commercial banks in terms of lower demand for physical branches and manpower as well as reducing the cost of cash management which could amount to a saving for banks of as much as 20 billion Baht per year<sup>1</sup>. For the whole nation, the efficiency gain will certainly be even greater.

Second, the Bank of Thailand also supports the development of **Fintech** industry and related innovations, which offer not only greater efficiency, but also new business opportunities. At this early stage, the Bank of Thailand has launched “**Regulatory Sandbox**”, as a platform to test-drive the new technology under controlled environment to promote innovation, competition and growth of the industry, while balancing the risks to financial system as a whole.

The Bank of Thailand acts as both a regulator and a facilitator, not only carefully assessing the business model, risk management features, as well as consumer protection plan, but also reaching out to new players to identify barriers to entry and development such as regulatory hindrances. At the moment, we already have one approved project, and many more in the pipeline under consideration. Two additional projects will likely be approved by the end of this month.

Third, according to latest World Bank report<sup>2</sup>, Thailand’s **ease of doing business** was ranked among the top 5 of the East Asia-Pacific region, and 46<sup>th</sup> in the world. On this front, the Bank of Thailand has been working on simplifying rules and regulations within its perimeter. Earlier this month, we announced the result of the “**FX Regulatory Guillotine**” project that aimed to streamline exchange control regulations.

This project was an important milestone of collaboration between public and private sectors through a taskforce of legal experts, regulators, and business representatives including the Thai Chamber of Commerce, commercial banks, as well as business owners. Most of the relaxations are expected to be completed by the end of this year. The FX regulatory reform project, which started late last year, carefully reviewed and rationalized the purposes and requirements of FX regulations, and attempted to simplify them in order to lower unnecessary regulatory burdens for businesses in FX transactions. The effect on operation cost reduction for businesses during this early stage is expected at more than one billion baht per year.

This achievement is, however, only a starting point and the Bank of Thailand will keep on working hands in hands with our stakeholders to further improve the ease of doing business. Through more relaxed regulations, not only business competitiveness will be improved, but also the regional connectivity can be enhanced through greater local currency transactions.

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<sup>1</sup> <http://thaipublica.org/2016/05/boontuck-tba-5-year-plan/>

<sup>2</sup> [http://www.doingbusiness.org/reports/~/\\_media/WBG/DoingBusiness/Documents/Profiles/Regional/DB2017/EAP.pdf](http://www.doingbusiness.org/reports/~/_media/WBG/DoingBusiness/Documents/Profiles/Regional/DB2017/EAP.pdf)

**On building immunity and resilience** for the economy, the Bank of Thailand has strived to mitigate impacts from an array of domestic and external shocks. Against external volatilities, our **flexible exchange rate regime** has served as the first line of defense. And apart from the strong cushions from high international reserves and current account surplus, a range of policy tools are also available to be deployed should the need arise, including macroprudential and capital flow management measures.

Immunity is also integrated in our conduct of monetary policy. We have put great emphasis on maintaining financial stability which is necessary for sustainable growth. By stepping up our capability to analyze the linkages in the financial system, we are better informed of potential areas of weakness that may pose systemic risks going forward. The use of big data and available technology help regulators to be able to detect an early signal of imbalances and respond pre-emptively. In terms of policy space, our policy interest rate has been prudently preserved to handle with unexpected events, while continues to provide sufficient accommodation to the economic recovery.

The Bank of Thailand also works on **international cooperation** to bring in bilateral and multilateral financial safety nets for our economy. The pioneering work on promoting the use of local currencies for regional trade and investment settlement is also aimed at providing alternatives to the traditional US dollar payment. By directly transacting via local currencies, the region can bypass the uncertainties with respect to the US dollar volatility.

Moreover, given the growing trend of e-Payments and digital financial services already mentioned, we need to be mindful of the accompanying **cyber security risks**, which have become a major concern for all stakeholders. For consumers, in particular, this risk may hit closer to home than they might perceive, as more and more people integrate mobile financial transactions in their lifestyle. On this front, the Bank of Thailand together with the National Broadcasting and Telecommunications Commission (NBTC), has worked to step up cooperation on security features of financial transactions over mobile phones. In addition, last year, the Bank of Thailand, with cooperation from commercial banks, has encouraged the adoption of greater security requirements through chip and pin debit cards. This, we believe, would help protect the consumers against the card skimming activities and personal data crimes.

**On inclusivity**, I would like to share three main areas of the Bank of Thailand's work. They are: PromptPay, financial literacy and market conducts.

With the strong support from the Thai Bankers' Association (TBA) as well as the Association of International Banks (AIB), the Bank of Thailand has advanced the **PromptPay** initiative under the National e-Payment Master Plan, which aimed not only to boost the payment system efficiency but also to improve financial access for all, through greater convenience and lower costs for individual and business fund transfers. Indeed, PromptPay users can enjoy the world's lowest fee for fund transfers. The transfer amount up to 5,000 Baht is free of charge, and the top-tiered fee is up to a maximum of merely 10 Baht for the amount over 100,000 Baht. Currently, there are more than 28 million registered user accounts, from both mobile and national ID numbers. Accumulated over six months since inception (December 2016-May 2017), the value of PromptPay transfers has totaled almost 50 billion baht, over

the 7.4 million transactions. The volume of PromptPay transfers now peaks at 100,000 transactions per day.

Given the growing importance and complexity of financial products and services, the Bank of Thailand has put a priority tag on enhancing consumers' **financial literacy**. In the low interest rate environment, the increase in search-for-yield behaviors of both investors and savers pose a concern over financial stability risks, while financial frauds are also on the rise. Consumers need to be equipped with both awareness and information to avoid being victimized. As such, the Bank of Thailand has worked to provide public at large with sufficient information to make the right and timely decisions. Both traditional and social media are employed to disseminate information on saving tools, financial disciplines, fraud awareness as well as investment planning.

Financial literacy benefits most when start early, and that is why the Bank of Thailand has put a focus on engaging with young people. It is important to equip the future generations, particularly Generation Y such as new graduates who will start earning regular income, with financial disciplines and financial planning skills that will guide them throughout their journey of becoming responsible adults.

This is because we understand that without these skills, individuals no matter how young or old, may run the risk of getting into a situation of financial distress. Just like what we have mentioned, the high level of household debts has become both a concern and a challenge, not only for the households themselves but also for policymakers. Therefore, we are pleased to observe the general public's high interest in addressing the debt overhang problem through the "Debt Clinic", which is the collaboration between the Bank of Thailand together with the AIB, Thai Bankers' Association, as well as Sukhumvit Asset Management (SAM). Within just one month since the launch in late May, it has received a considerable amount of attention and interest. For the participants in the Debt Clinic, financial literacy is an important part to ensure the success and sustainability of debt restructuring program.

At another end, the Bank of Thailand has also worked on enhancing **market conduct** to promote fairness in selling financial products and handling clients' personal data. Consumer complaints and enquiries have been monitored to identify areas of concerns such as product bundling and excessive sales pitches. We have collaborated with other regulators, the Securities and Exchange Commission, Office of Insurance Commission, and Office of the Consumer Protection Board, to require financial institutions, both banks and non-banks, to supply consumers with clear, correct, and complete information before selling financial products and services.

Ladies and gentlemen,

We are on board this journey together. Business community also has an important role to play. In fact, each and every one of us is handling the steering wheel of our own enterprise and hence partly responsible for the drive of this economy. That is why, not only policymakers, but also businesses and individuals need to be on the lookout. The condition of the road of our journey, the world, is changing at an accelerating pace, accompanied by uncertainties and shocks which would only be amplified by technological advancement and interconnectedness. Amid these short-term challenges of the road before us, we need to navigate the drive by focusing on the right direction of **Productivity, Immunity, and Inclusivity**.

Tonight, we have gone through a number of initiatives and works by the Bank of Thailand in these key areas. Now it is your turn as the drivers of the business world to devise and decide how to best navigate and move ahead toward our common goal of sustainability. How to invest in new technology to increase productivity; how to build cushion against rising competitors with new and unexpected business models, and lastly; how to enhance inclusivity of the public at large in benefiting from our economic growth which can, in turn, benefit your business in the longer run. It is through your vision and decisions that determine the future of not only the company, but also the industry and the country. It is my hope that the perspective and the works of the Bank of Thailand that I shared tonight would serve as a starter for you.

Ladies and gentlemen,

Everyone in this room has a role to play in this journey towards sustainability. Although our talk tonight comes to the end, the efforts must continue. In order to ensure sustainability of the Thai economy, we need to work hard on securing sources of future growth, while building resilience to withstand different kinds of adverse shocks. And that does not suffice. We must also ensure that the benefits of the economic development, the higher standard of living, are shared as widely as possible. Through **Productivity, Immunity, and Inclusivity**, we can find the right direction towards our desired destination.

It is not an overstatement that we are together in this journey as one, be it as a central bank, financial institutions, businesses, or individuals. With this companionship, our contribution and cooperation collectively add up to the synergy of the whole economy.

In this challenging environment, complacency is costly. As much for the country as for businesses, it separates winners and losers, who can proceed and who will be left behind. The best strategy for us is to be well-prepared and ready to take on both challenges and opportunities. No matter how bad the weather or how bumpy the road is, we must carry on improving our performance as well as preparing for challenges ahead.

Over our long road trip, it is easy to be distracted by the potholes and uncertainties of the short-term horizon. However, once we have a clear vision of the long-term goal and set the right direction, we can be certain that the successful journey is already well on course.

Let me thank AIB once again for hosting this dinner talk tonight and an opportunity to share my views with you all.

Thank you.