The Thai Economy: The Current State and the Way Forward
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JCC Board of Directors,
JCC members,
Distinguished guests,
Ladies and gentlemen,
Good evening to you all,

Thank you very much for inviting me once again to give a talk at the Japanese Chamber of Commerce Thailand. This event is a great opportunity for us all to exchange our views and ideas on the Thai economy and its prospects as we move forward into the year 2019. Your opinions and feedback are undoubtedly valuable to policymakers, like myself, and I look forward to a very engaging session tonight.

Japan and Thailand have been in long-standing diplomatic relations for more than 132 years—and even much longer from a trade perspective, dating back to as early as 1600s. Time has shown that while the Thai economy has encountered many challenging transitions, business partnerships between Japan and Thailand have continued to remain strong, fostering economic opportunities for both our nations throughout the present day.

As you all know, this year is a very special one to all of the Thai people as well as the Japanese people as both our countries will hold national celebrations for our respective head of state in early May—to celebrate and honor the coronation of His Majesty the King Maha Vajiralongkorn and the ascension of Crown Prince Naruhito to the Imperial throne.

This year also marks a significant transition for Thailand to return to democracy as the general election was just held over the weekend.

Ladies and gentlemen,

Undoubtedly, one of the most pressing questions many audiences here today are wondering will certainly be on the implications of the outcome of the election and how that will impact the Thai economy. Unfortunately, it is too early for us to make a call as we still await ratification of the election result, formation of the new government, appointments of key members of the cabinet, and announcement of the economic policy. So instead, today I want to focus my talk on long-term perspective of the Thai economy and highlight key qualities of our economic resilience that have allowed the Thai economy to endure a number of domestic and external shocks—many of which in the past, I believe, were much more challenging compared to the impending political change post-election.

But before speaking about long-term perspective, allow me to talk briefly on our short-term outlook as our Monetary Policy Committee has just recently revised our economic projections.

Looking back the past few years, the recovery of the Thai economy had been largely driven by improvements on the external front from the recovery of global demand. Growth drivers were unbalanced; exports of goods and services acted as the main drivers of growth while domestic sectors were well-below historical average. Last year marked a turning point as growth became more balanced. Private consumption strengthened, supported by improvements in employment in major sectors as well as government measures to support low income groups, such as the state welfare card project. In addition, private investment expanded with increased investments in machinery and equipment along with greater construction activities as the overall growth became more broad-based. We have seen markedly increasing interest from foreign investors, especially in the EEC area.

Consequently, in 2018 the Thai economy expanded on a solid footing, with growth of 4.8 percent in the first half, before moderating in the second half due to slowing global demand. This weaker global demand was largely a result of slower economic growth in a number of major trading partners; a number of country-specific transitory factors; and uncertainties surrounding trade tensions between the US and China. Nevertheless, thanks to more balanced growth engines, the Thai economy grew 4.1 percent in 2018, an improvement from 4.0 percent growth in 2017. It was also the first time in a decade that the Thai economy registered consecutive annual growth of 4 percent.

Looking ahead, the Thai economy is projected to continue to expand around its potential, with growth this year will slightly moderate to 3.8 percent as slower growth of major trading partners weighs on the export sector. Domestic demand would remain the key growth driver, as private consumption continues to be supported by government welfare measures and underpinning factors, such as employment and consumer confidence, remain strong. Furthermore, private investment is expected to continue to improve, aided by more investments in the EEC area, further progress in the public-private partnership infrastructure projects, and relocation of production bases to Thailand in industries such as electronics, automotive parts, and rubber. Meanwhile, the tourism sector is expected to continue to expand mainly due to improved confidence and return of Chinese tourists. It is expected that the number of foreign tourists will exceed 40 million this year.

Ladies and gentlemen,

Although our outlook indicates a sustained growth, a number of risk factors remain. These include

(1) The potential impacts from US protectionist policies and trade tensions with China, which so far have had mixed effects on the Thai economy. The direct effect of US safeguard measures on certain products led to slowdown in exports of solar cells and washing machines, though they have had small impact on our overall exports [1]. Meanwhile, US trade measures against China could have indirect impact on Thai exports as a number of Thai firms are part of Chinese production and supply chain networks; potential reduction in Chinese exports has reduced the demand for Thai supply. Furthermore, the measures can lead to trade diversion, the consequence of which remains to be determined. On one hand, the Thai economy may benefit from new investments from relocation of Chinese factories. Thai firms may be able to supplant Chinese competitors in exporting to the US. On the other hand, trade diversion can lead to increased competition within Thailand as excess supplies of goods from China are diverted to the Thai market and priced at discount to compete with local products.

Besides, prolonged uncertainties surrounding trade measures had led to unusual front-loading of exports in 2018 and will weigh on export growth in 2019—just when the global demand has begun to moderate. It can also impair business sentiments, preventing firms from taking on new investment projects. Ultimately, as the US-China trade disputes remain unresolved and the US's inclination for further trade

[1] Both products make up less than 1 percent of Thailand's total exports

protectionism remains, such as potential US auto tariff measure, trade disputes will certainly be the key concern for all authorities.

(2) Slowdown in the Chinese economy is another concern. While the slowdown may be in line with the Chinese authorities' goal of restructuring the economy towards a long-run sustained growth model, in the short-term it can have significant impact on the Thai economy. This is because of high degree of linkages in terms of supply chain and production networks, tourism, and property investment. For instance, China is Thailand's second largest export partner following the ASEAN region, making up about 12 percent of our exports in term of value while the Chinese tourists represent nearly 30 percent of total foreign tourists. Besides, slowdown in the Chinese economy may contribute to higher volatility of the Chinese Yuan; the movements of which can influence movements of the Baht and other currencies in the region. Against this backdrop, short-term slowdown in the Chinese economy needs to be closely monitored.

(3) Geopolitical risks in many parts of the world remain elevated. These include long-standing issues such as the US-North Korea relations, Middle East conflicts, and development on Brexit. In addition, new sources of fragilities continue to emerge, such as the recent disputes between India and Pakistan and Venezuelan political tensions. While some of these conflicts may not be directly related to the Thai economy, the presence of geopolitical risks could introduce bouts of uncertainties and impair sentiments, leading to capital flow volatility in Thailand and other emerging market economies.

(4) Lastly, on the domestic political front, given the unofficial result of our general election over the weekend, uncertainties remain on how a new coalition government is to be formed. The result of which will play a big part in determining major government policies going forward.

Ladies and gentlemen,

Talking only about short-term risk factors may curb the appetite of many in audience tonight. So, let me now turn to the long-term perspective on the Thai economy.

Despite the risk issues highlighted, I am confident that the Thai economy possesses the resilience to support long-term growth and cushion against these risk factors. Recent history has shown that the Thai economy has the resilience to withstand adverse events and has been quick to recover. Over the past ten years the economy has had to endure a number of shocks—externally, from the global financial crisis of 2009 to the beginning of quantitative tightening; and internally, from the domestic political turmoil throughout the decade, big flood of 2011, to the passing of His late Majesty King Bhumibol Adulyadej in 2016. And yet, over the past decade the Thai economy grew on annual average of 3.3 percent; it registered positive current account surplus in eight of the last ten years; and the Thai Baht has been one of the most stable currencies in the region.

The economy has been able to overcome these challenges, because it possesses a unique set of qualities, qualities that contribute to our resilience. These key qualities are macroeconomic stability, diversified growth engines, and ability to adapt to new challenges.

Ladies and gentlemen,

Having sound macroeconomic stability is important for an economy to ensure confidence and provide environment conducive to growth. It also acts as a critical buffer, especially for small open economy, against episodes of external shocks and capital flow volatility. The Thai economy possesses macroeconomic stability in at least four key areas**:**

(1) Our external stability remains strong, with ample foreign reserves, covering 3.4 times short-term external debt. Our current account surplus has been in the positive for five consecutive years and is projected to be around at 34.5 billion USD this year, or around 6.4 percent of GDP. In addition, the economy has low dependency on external financing, with external debt to GDP ratio below the median level of emerging market economies[2].

(2) The banking sector is robust, with high capital adequacy ratio and stable domestic funding. At the end of 2018, the capital adequacy ratio of the banking system stood at 18.3 percent, a level well above minimum international requirement and among the highest in the region. Meanwhile, loan growth has picked up in line with our economic expansion while level of non-performing loans has stabilized.

(3) The fiscal position remains strong and has sufficient space to support the economy in case of downturn. Public debt to GDP is around

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[2] Thailand's external debt to GDP is 35.3 percent as of 2018 vs the median of 37.8 percent for EM economies. IMF data calculated by BOT

42 percent, a level below the commonly accepted threshold of 60 percent. Meanwhile, the enactment of Fiscal Responsibility Act would ensure fiscal discipline through improvement in spending transparency and limit conduct of open-ended populist policies.

(4) Domestic price pressure remains moderated and stable, largely as a result of slow recovery in the global oil price and positive structural factors, such as globalization and technological advancement. Low and stable domestic price pressure will continue to provide favorable environment conducive for economic activity.

While the overall macroeconomic stability is sound, pockets of risk remain. In response, the Bank of Thailand took on a number of actions including implementation of new limits on credit card and personal loans to address problem of household debt; establishment of debt clinic to help restructure debt for individuals with multiple creditors; and tightening up of mortgage loan underwriting standards to curb speculation in the housing market. Along the same line, on the back of strong economic performance and ample liquidity, the Monetary Policy Committee raised the policy rate in December of last year largely to preempt potential build-up of financial vulnerabilities from investor's "search-for-yield" behavior and underpricing of risk during prolonged period of ultra-low interest rate.

Ladies and gentlemen,

Let me now turn to the resilience supported by having diversified growth engines, which in turn enable the Thai economy and its agents to mitigate adverse events.

While I previously stated at the beginning of my talk that drivers of growth have become more balanced, structurally—being a small open economy—export performance still plays an important role as the main growth driver. But, looking closely at our export portfolio, you would find that it is well-diversified and can provide cushion against market-specific or product-specific risks. This is because Thailand has established export ties with over 80 countries; and exporters have become less reliance on major economies. Just over ten years ago, exports to G3 economies made up around 40 percent of total export value while those to ASEAN economies stood at 21 percent. In contrast, the ratios today stand at 31 percent and 27 percent, respectively. In terms of product mix, the economy neither depends on a specific commodity nor on a particular manufacturing sector. This has allowed for growth and development of new industries to serve both domestic and external demands. Certainly, efforts to attract new investments in the EEC area will further enhance our ability to diversify, with establishment of industries of the future.

The tourism industry is another well-diversified sector. With many unique destinations and attractions, the tourism industry is able to cater to wide range of customers in term of pricing and activities—from luxurious wellness centers for medical tourists to affordable accommodations for first-time foreign travelers. In fact, recent tourist patterns may have indicated that there is no longer low season in Thailand. The number of incoming foreign tourists has become relatively stable throughout the year with different mixes across different seasons. More importantly, given the choice of attraction and selection of price range, Thailand is in a unique position to attract many first-time foreign tourists, especially those rising middle class from China, India, Indonesia, and Vietnam.

Last but not least is the ability for the economy and Thai people to adapt to change. The notion of adaptability is important for economic resilience not just to respond to adverse events and uncertainties but also to cope with disruptive changes, especially against the backdrop of changing landscape brought about by technological advancement.

Speaking on behalf of the Thai people, I believe our history has played a big part in influencing our actions and our mindsets, allowing us to cope with new challenges. Specifically, Thailand's long history as an open trading nation—having limited resources and military strength, and operating under the landscape of continued foreign threats—has implanted the mindsets of the Thai to be open-minded and receptive to new opportunities while flexible in our approach to adversities. It is with this mindset that has allowed our nation to adapt to changing environment and withstood various threats.

Looking ahead, our resilience will certainly be tested by disruptive changes brought about by technological advancement. Thus far, the Thai people have shown that they are able to adapt and be receptive of new opportunities that have come with new technologies. This can be seen in the remarkable rate of adoption of the PromptPay faster-pay service since its launch just over two years ago, with now over 47 million subscribed accounts, a large number considering the total population of Thailand is just over 66 million. During that same period, usage of digital payment almost doubled, reaffirming receptiveness of the Thai people to new payment channel. Moreover, the Thai population is digitally engaged, ranking among top countries with the highest number of social media users[3]. This has created opportunities for new platforms to emerge and innovations to prosper.

Besides the people, increasing number of Thai businesses have incorporated new technologies into their work processes. Over the past few years, manufacturers have invested heavily in machineries and systems to increase utilization of automation as evidenced by increasing robot installations in Thai factories[4]. Firms in non-manufacturing sector are also moving fast in adopting new technologies—from banks and telcos offering more efficient digital financial services; shops abandoning physical storefront and employing e-commerce and social-commerce platforms; and to firms advertising through social media platforms.

To encourage further technological adoption and improve adaptive capabilities, to ultimately build resilience, it is also important that regulatory environment is conducive to fostering innovations. And it is with this goal of facilitating innovative environment that the Bank of Thailand took on a number of initiatives in recent years. These include

- Continuing regulatory reform on foreign exchange regulations to remove outdated requirements, allow for greater flexibility in foreign exchange management, and improve ease of doing business;
- Relaxing money transfer business ownership requirements to allow for greater competition and reduce cost of cross-border money transfer;
- Streamlining our regulatory sandbox scheme to allow new fin-tech products to reach market faster;
- Collaborating with the banking industry to explore use of central bank digital currency for domestic wholesale banking settlement operations; and

[3] For instance, Thailand is ranked top ten in number of Facebook users according to Statista (2019). https://www.statista.com/statistics/268136/top-15-countries-based-on-number-of-facebook-users/

[4] According to International Federation of Robotics, Thailand's robot sales increased by over 30 percent between 2015 and 2017 and are expected to grow at an annual average of more than 20 percent over the next three years. International Federation of Robotics. World Robotics 2018.

- Promoting adoption of interoperable e-payment infrastructures within Thailand as well as among regional partners

In summary, the ability to adapt to new environment along with having macroeconomic stability and diversified growth engines have enabled the Thai economy to have the resilience to endure adverse incidents and will safeguard us from impacts from future uncertainties and disruptions.

Ladies and gentlemen,

I have now come to the end of my talk. Let me give you a brief summary of what I have said today. The Thai economy is expected to continue to expand, though at a slightly slower pace, with domestic demand being the main drivers of growth. The risks and concerns going forward include prolonged trade disputes, slowdown of the Chinese economy, geopolitical risks, and transition of the Thai political landscape. Nevertheless, with the economy possessing three important qualities of resilience, namely macroeconomic stability, diversified growth engines, and ability to adapt, I am confident that the Thai economy can withstand various challenges in the years to come.

Again, it is my great honor to be here this evening with our long-time friends who have supported Thailand's economic and financial development. Let me assure you that the Bank of Thailand will continue to strengthen our economic resilience and stay firmly committed to our principal mandate to support sustainable economic growth while maintaining price and financial stability.

Thank you.