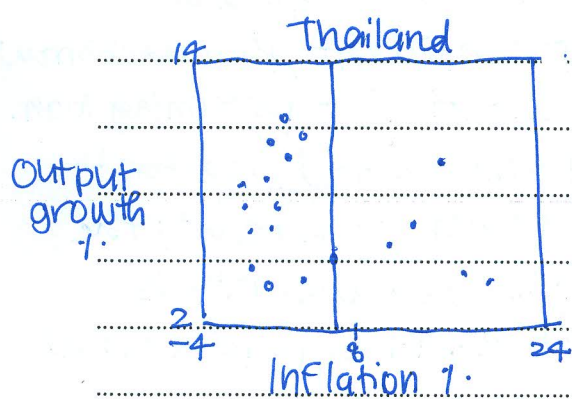


3. Examine why the Thai economy was able to grow rapidly with price stability prior to the Asian Financial Crisis, but has failed to sustain growth in the period after the Global Financial Crisis. Is there anything wrong with Thailand's macroeconomic policy after the 1997 crisis?

Prior to Asian Financial crisis, Thailand was able to grow rapidly with price stability due to many factors. Government in that time adopted a multiple exchange rate system, and as a result of such act, Thai baht value or our exchange rate became stable; this leads to stable economic condition in financial aspect that impacts ability of Thailand to respond to expanding economic activities. As preferable economic environment continued to contribute to high growth, external shocks did not bring about inflation along with upward pressure on consumer price level because monetary growth rate was moderate. To emphasize more that Thailand was able to grow fast without trade off with price stability as there was no accelerating inflation, the empirical data shows accordingly only except for four years of double-digit inflation.



Nevertheless, what happened after contributes to different outcome for period after the Global Financial Crisis in 2008. After our exchange rate collapsed after it was floated, Foreign debt value accelerates

(Bhanupong Nidhiprabha, Asia Rising, p. 347: Source: Bank of Thailand)

in term of Thai baht. Policies employed after the crisis aim to prevent the same disaster

(continue)

to repeat along with improvement in economic environment that potentially, allowed or even triggered the crisis in the past.

The crisis in 1997 occurred because when we were growing rapidly, the whole economy became optimistic and had high exuberant aspect toward economy, time and saving deposits exceed currency and demand deposit generating "financial deepening". For that, commercial banks' main sources of loanable funds increased; loans in Thailand went up high. Moreover, Thailand reached financial liberalization which led to high capital flow while people were also enjoying foreign debt with lower rate than domestic one. For all these happened with extreme exuberant view, we forgot that at some point amount of capital inflow would affect current account balance which would make it harder to maintain fixed exchange rate; we tried to make impossible dilemma possible; dilemma of having fixed exchange rate, capital flow and monetary policy effectiveness. As a result, our currency could not fight and collapse once we ran out of foreign reserve. The lesson learnt from the crisis was that baht should be allowed to adjust according to economic condition and market pressure, liberalizing should take gradual approach and creditability of a country is crucial to survive the downfall time.

✓ Policies after the crisis focusing on financial discipline of commercial banking because they were overconfident, thus overborrow which led to the problem, direction of loan shifted to performing loan. Likewise, capital inflow's direction shifted from nontrade sector to the sectors that can contribute to economic growth, as a result; the importance and support of FDI increase. While exchange rate is made much more realistic with little intervention; Foreign reserve once again was accumulated to be able to cover short-term debt. Fiscal policy focused on grassroots economy. With these policies economic structure of Thailand became much better. Nevertheless, we were not able to sustain growth after Global Financial Crisis because both internal and external factors. Internally, we still relied on importing oil. Externally, the whole world's economy collapse, many countries are our major trading partners and we were not able to diversify source of growth in time. Our export is dependent of focused group of products, not diversified. Moreover, the crisis made foreign investment which were our source of growth dropped as foreigners pulled their money out.

→ our policies fail to diversify source of growth and support stable growth from internal economy. #2