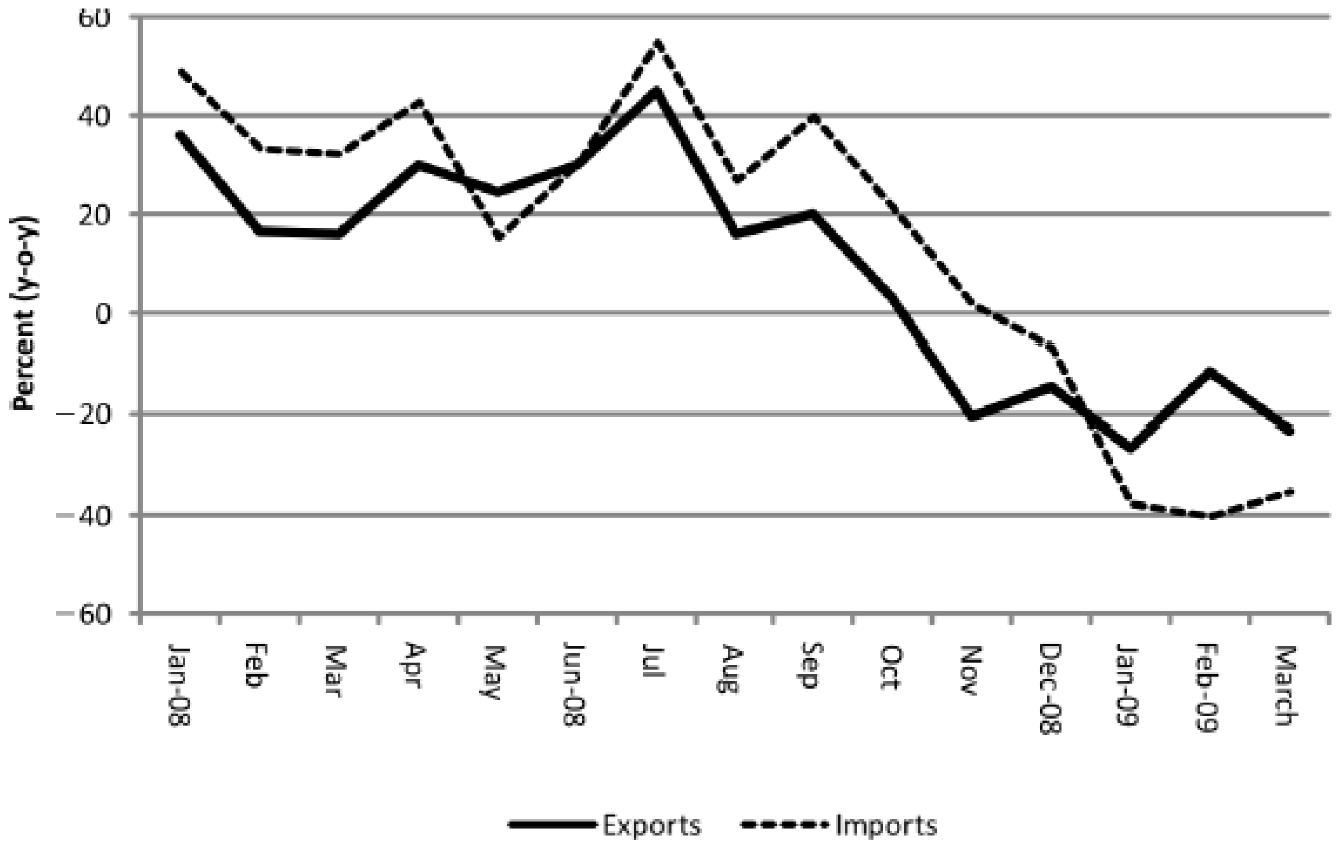
The recovery after the GFC

Bhanupong

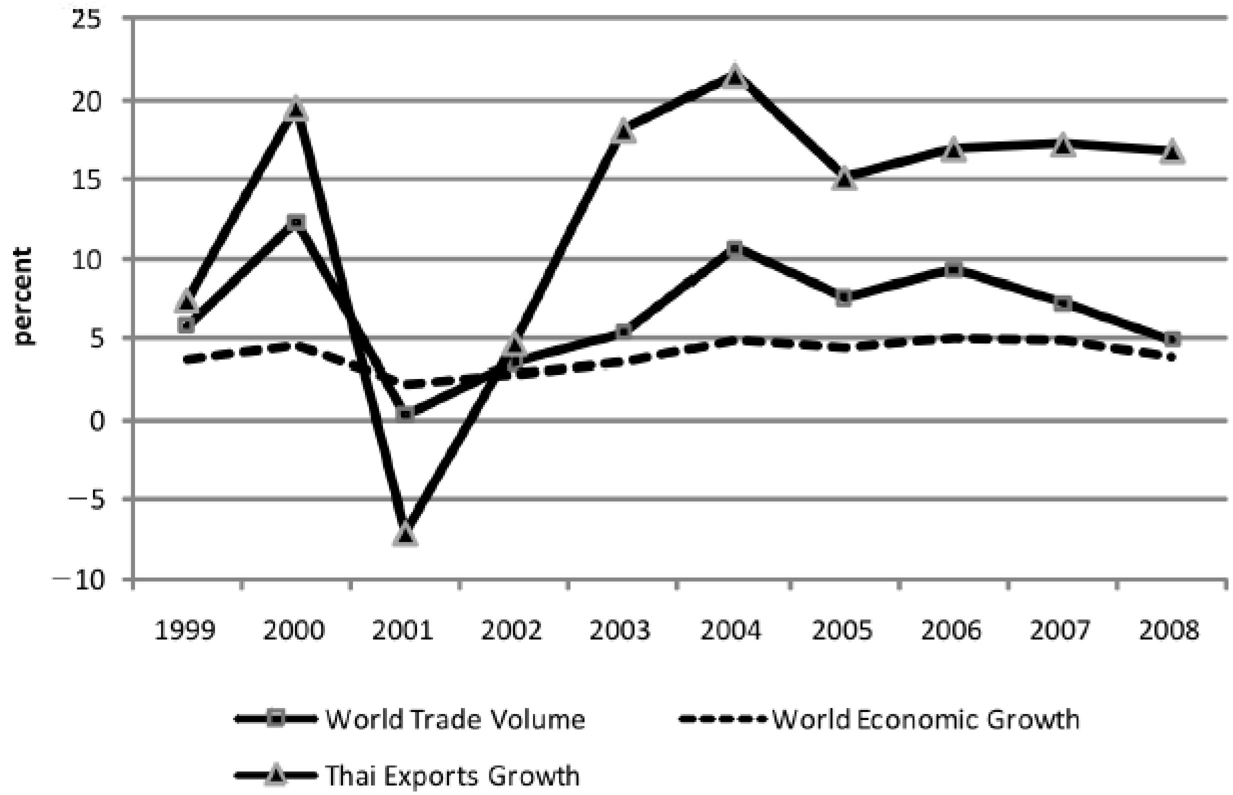
Lecture 10

Figure 1. The collapse of the last engine of growth



Source: *Ministry of Commerce*

Figure 2. Impact of shrinking world trade



Source: *Bank of Thailand.*

The Hard Road Ahead for Thailand's Economic Recovery

Table 1. Rate of industrial capacity utilization by market orientation

	1995–98	1999–2005	2006–08	1995–2008
Domestic oriented	74.3	69.6	79.3	74.4
Export oriented	60.6	63.7	68.5	64.3
Ultra-export oriented	71.5	68.8	66.4	68.9

Source: *Bank of Thailand.*

Note: *Domestic market–oriented industry is defined as the industry that exports less than 30 percent of total production, as export-oriented if exports are between 30 and 60 percent, and as ultra-export-oriented if exports are more than 60 percent, respectively.*

Figure 3. Signs of imminent recession

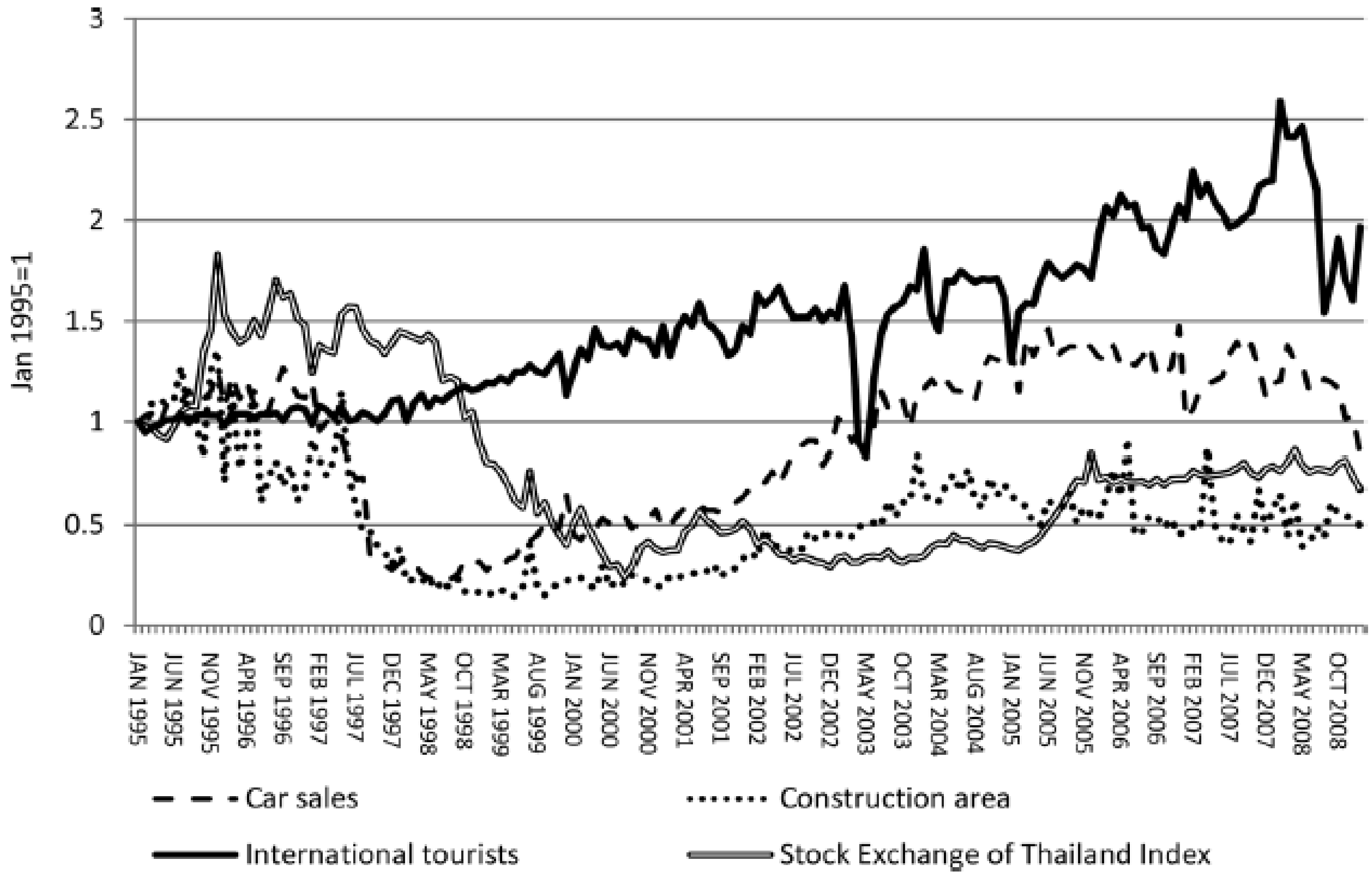


Table 2. Contribution to GDP growth of demand components (percent)

	1990–96	1997–98	1999–2005	2006–07
Private consumption	51.2	−57	63.8	25.3
Government consumption	8.8	−8	10.0	16.8
Investment	57.0	−313	48.8	−8.1
Net exports	−17.0	278	−22.6	65.9

Source: *Author's calculation.*

Figure 4. Real estate bubbles and property credit

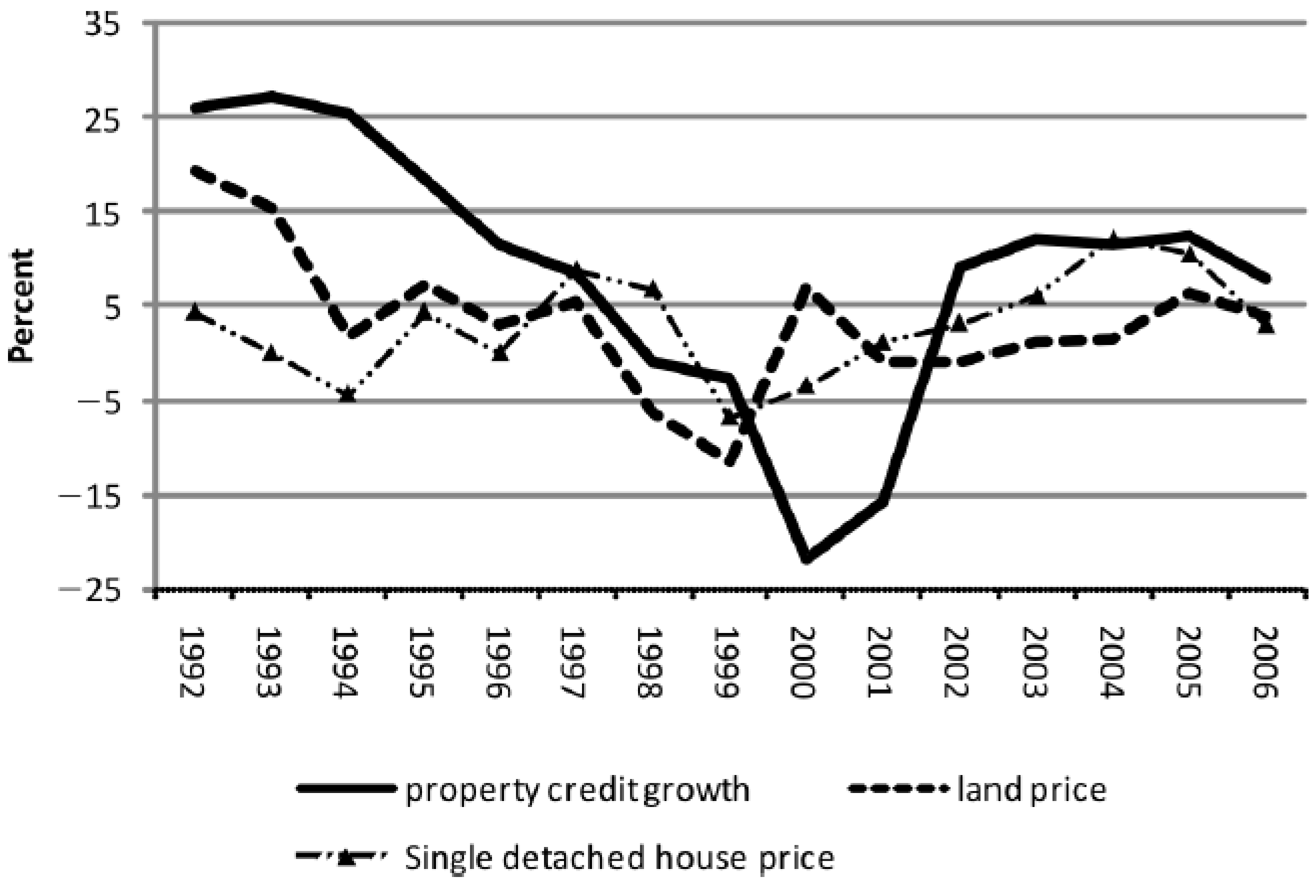
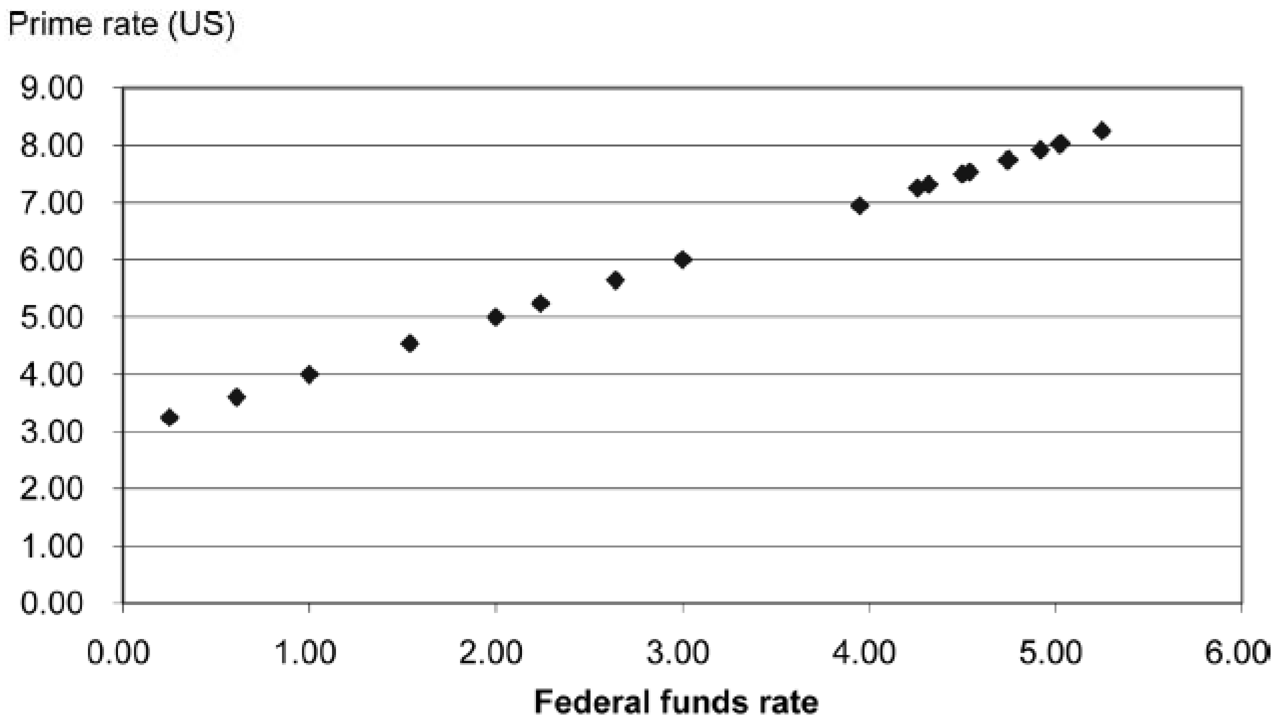
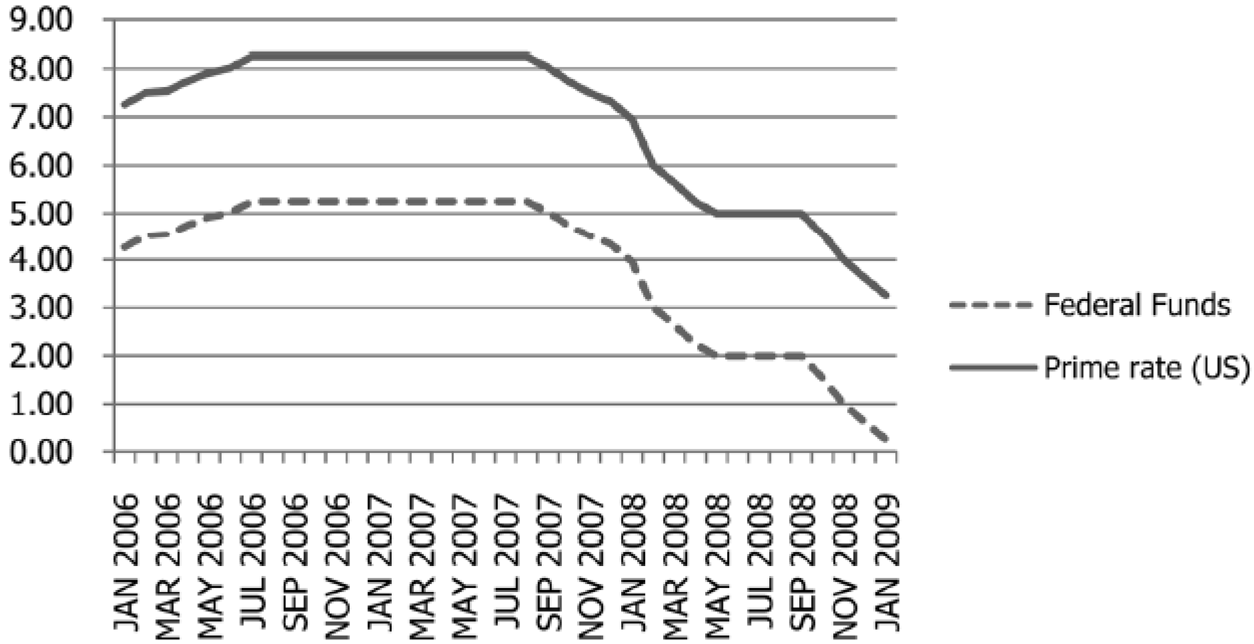


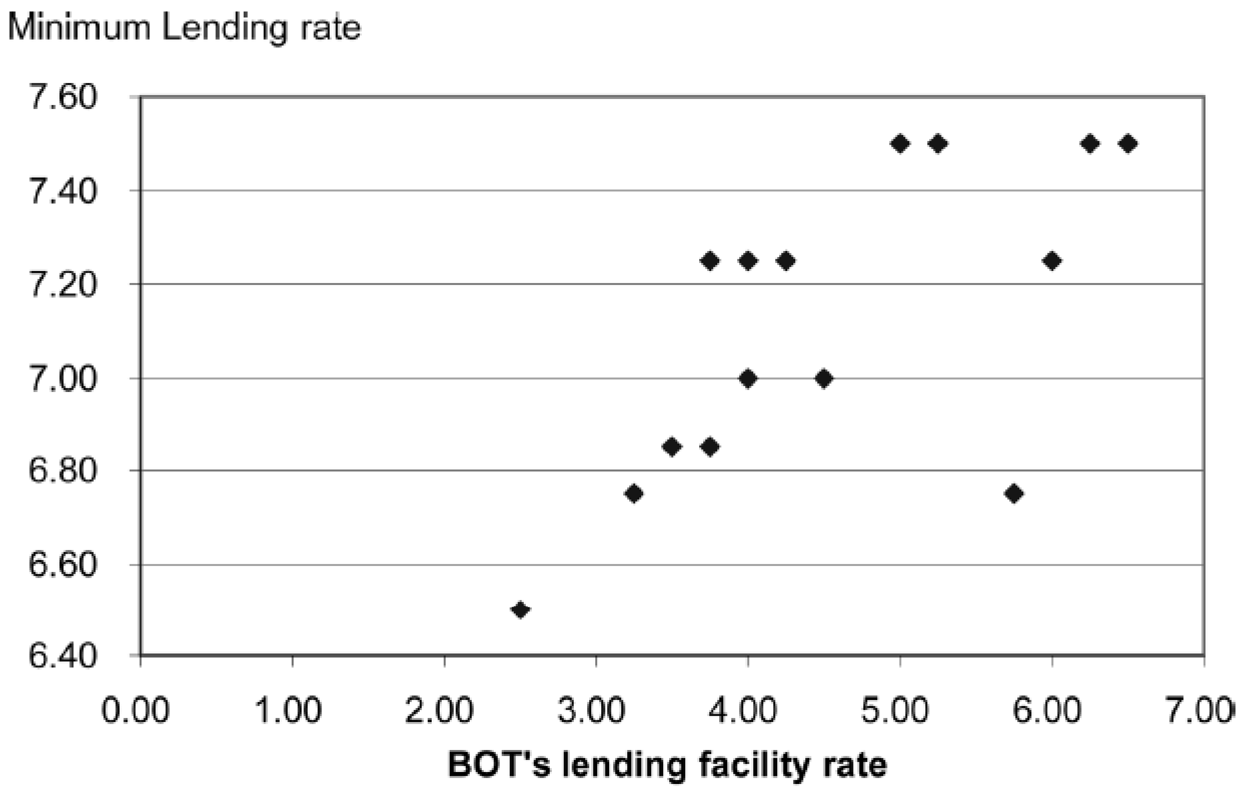
Figure 5a. Impact of the key policy rate in the United States

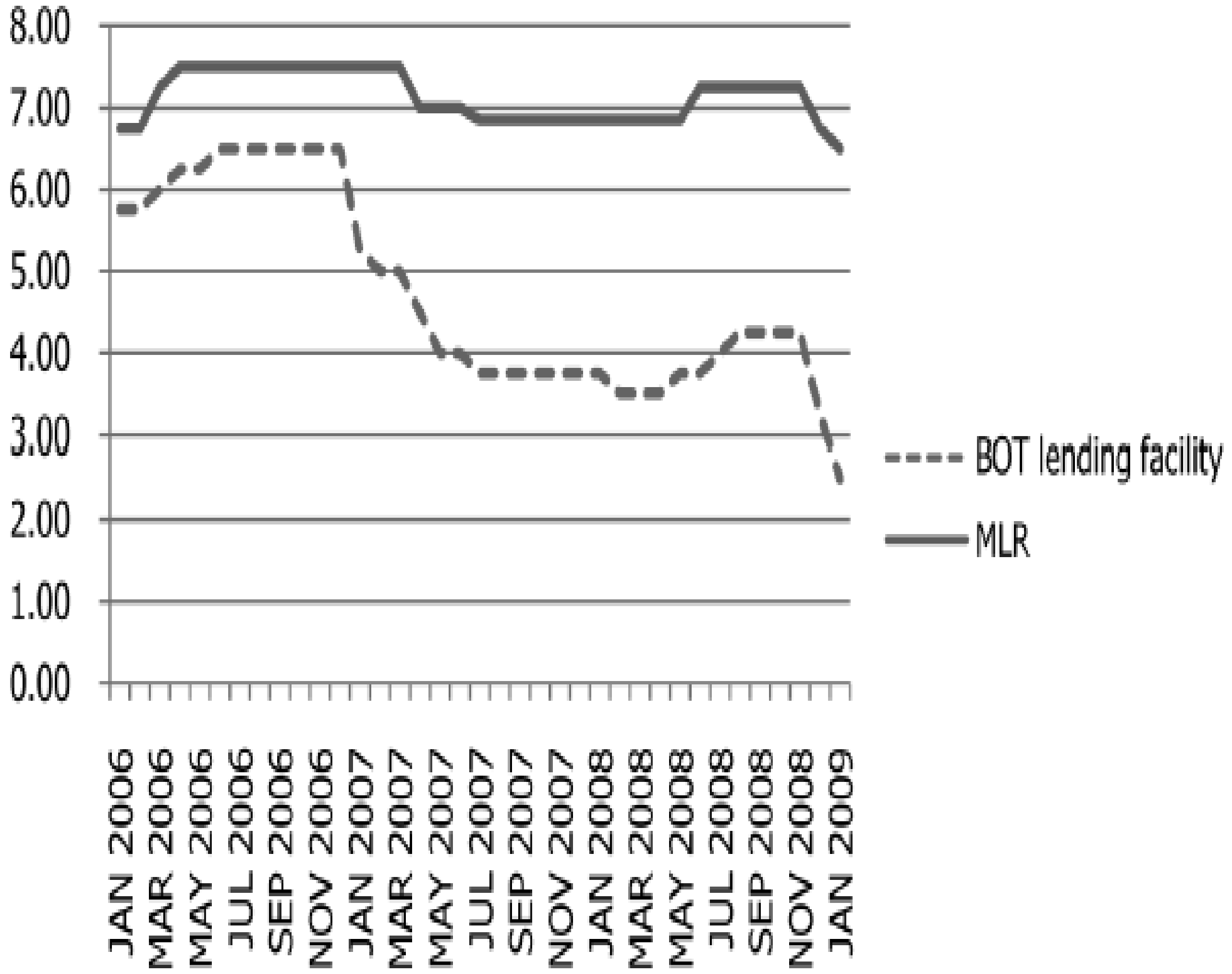




Source: *Bank of Thailand.*

Figure 5b. Impact of the key policy rate in Thailand

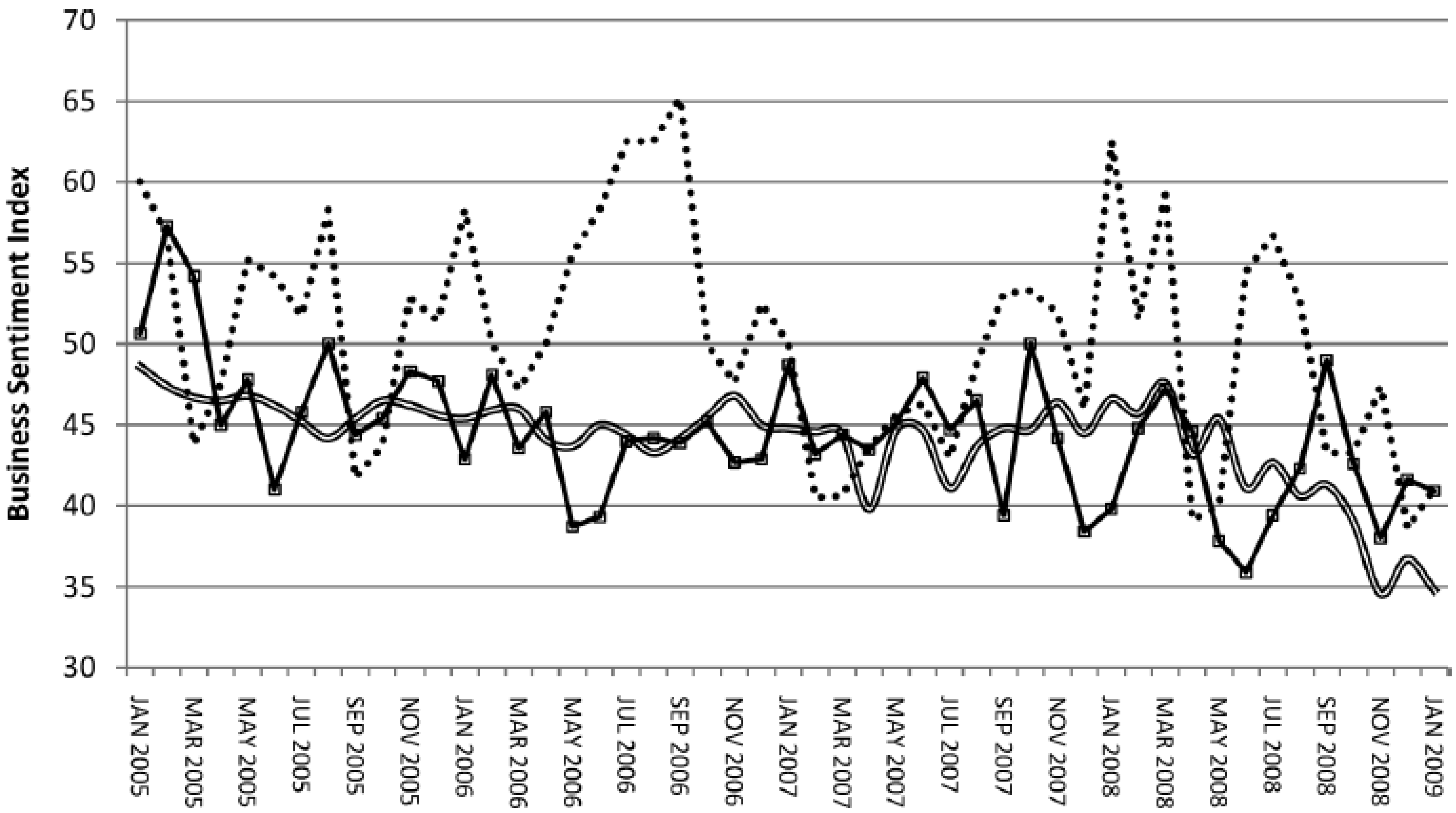




Source: Bank of Thailand.

- In a mild business cycle, fear of recession and pessimistic expectations can increase the perception of the fall in future income and it can turn a mild recession into a depression.
- During the boom investment would expand in response to strong sales growth.
- In turn, capital spending on new plants would generate employment and income that further induce more capital formation.

Figure 6. Loss of business confidence



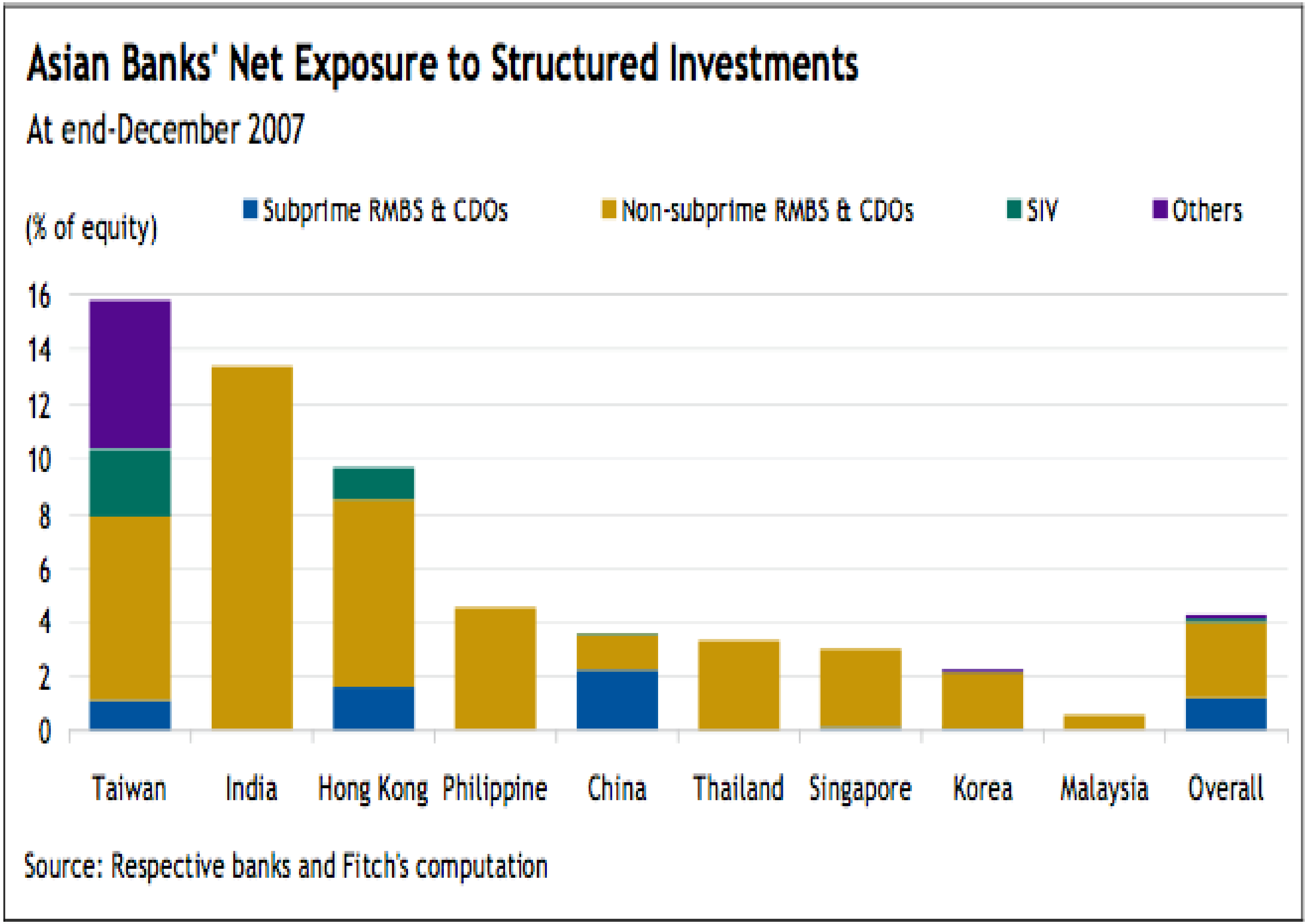
- Business sentiment can be restored and maintained by policy consistency. If the government
- and the public adhere to the rule of law, political shocks can be minimized as a concern for fairness would be eased.
- Once we allow elements of unknowns to violate established social obligations and contracts, business confidence erodes quickly; eventually it could lead to a negative long-term impact on economic growth.

Short-term gain

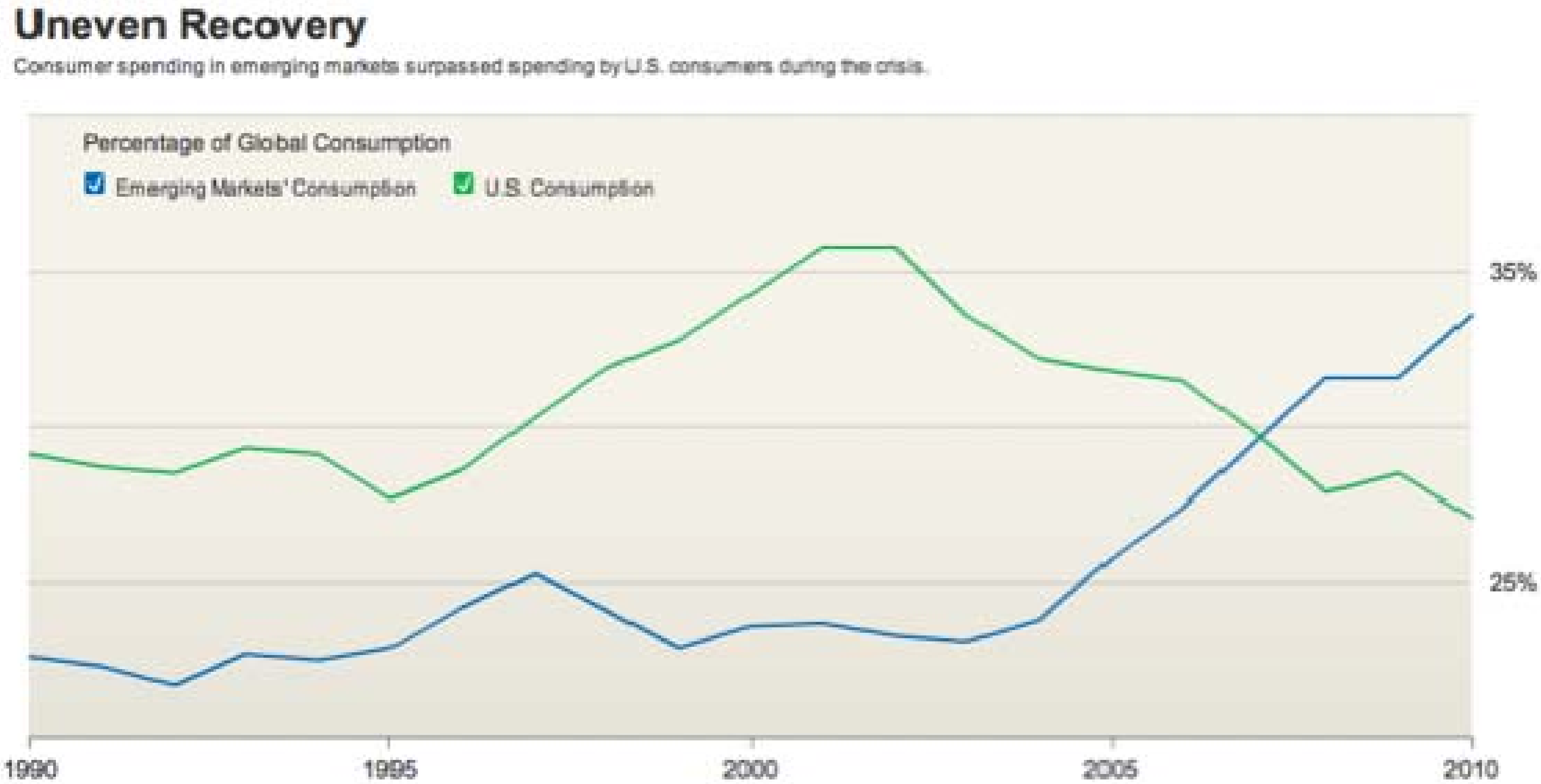
- Fiscal policy is the only option left. Unless the government maintains law and order to restore business sentiment and enhance consumer confidence, both the monetary
- and fiscal policy package would fail miserably. Ultra-populist policy would lead to an unsustainable fiscal position.
- Fiscal discipline has been neglected in the pursuit of short-run political gain at the expense of the long-term economic growth and stability

Khun Manisa: What makes Asian economies lead the global recovery?

- The World Bank president, Robert Zoelick, noted that “the developing world was not the cause of the crisis, but it could be an important part of the solution”

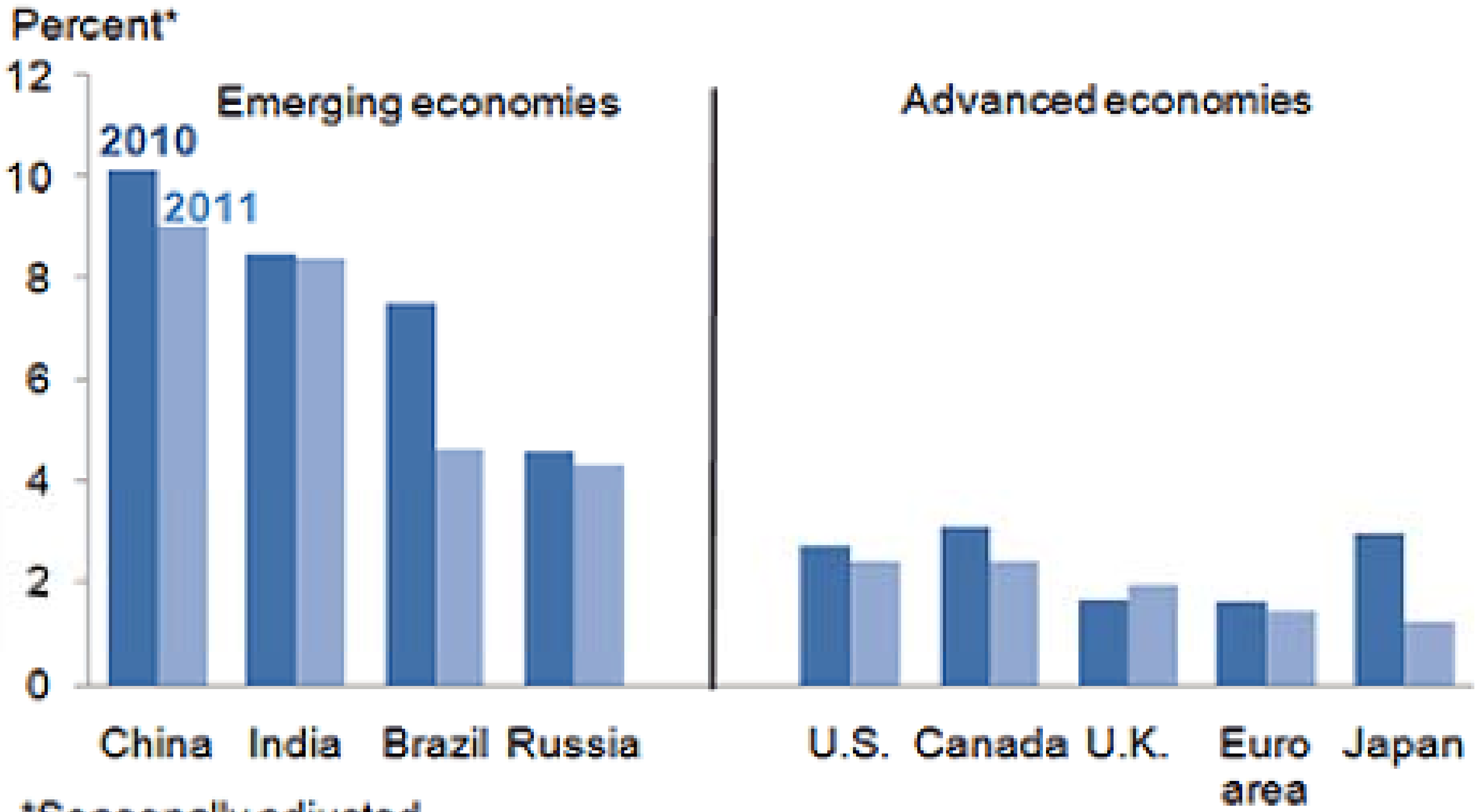

Asian Banks' Net Exposure to Structured Investments
At end-December 2007
(% of equity)
Subprime RMBS & CDOs
Non-subprime RMBS & CDOs
SIV
Others
16
14
12
10
8
6
4
2
0
Taiwan
India
Hong Kong
Philippine
China
Thailand
Singapore
Korea
Malaysia
Overall
Source: Respective banks and Fitch's computation

It is no exaggeration to conclude that the global recovery was made in the U.S. but the recovery is being made in Asia.



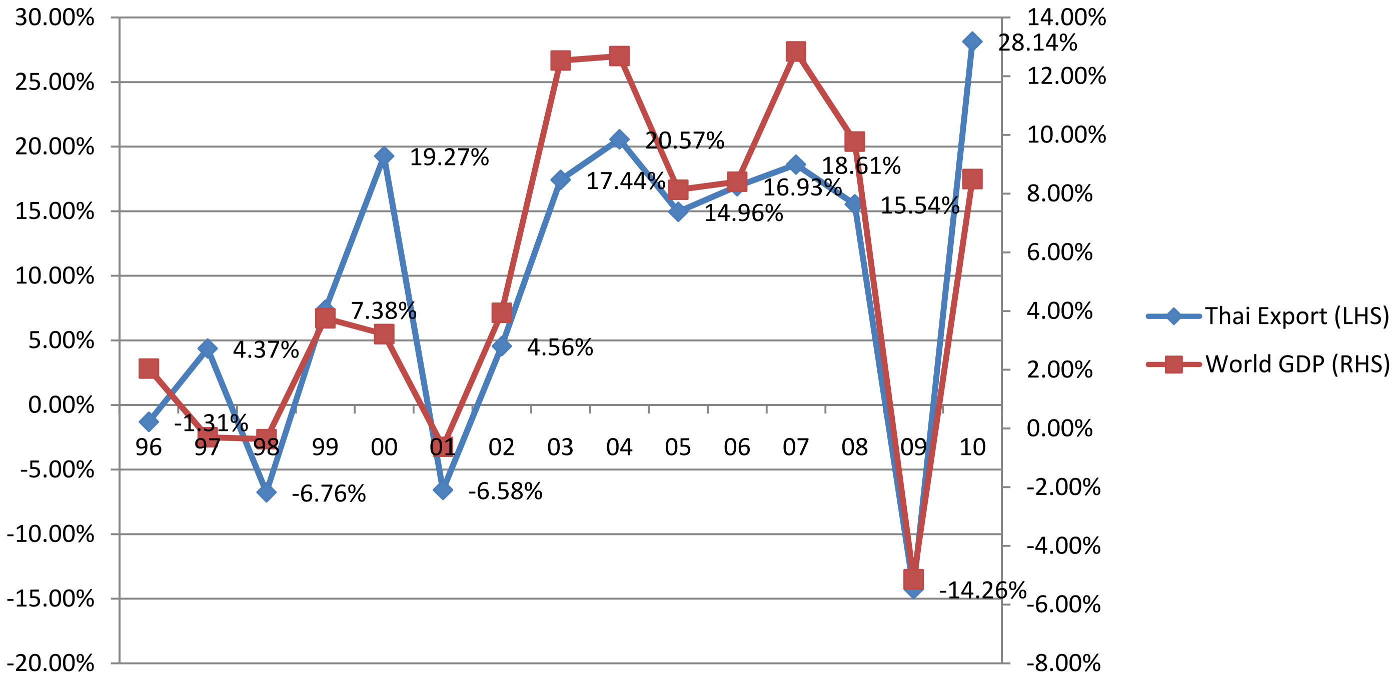
Source: JPMorganChase

Chart 1
Real GDP Growth to Flourish in Emerging Economies

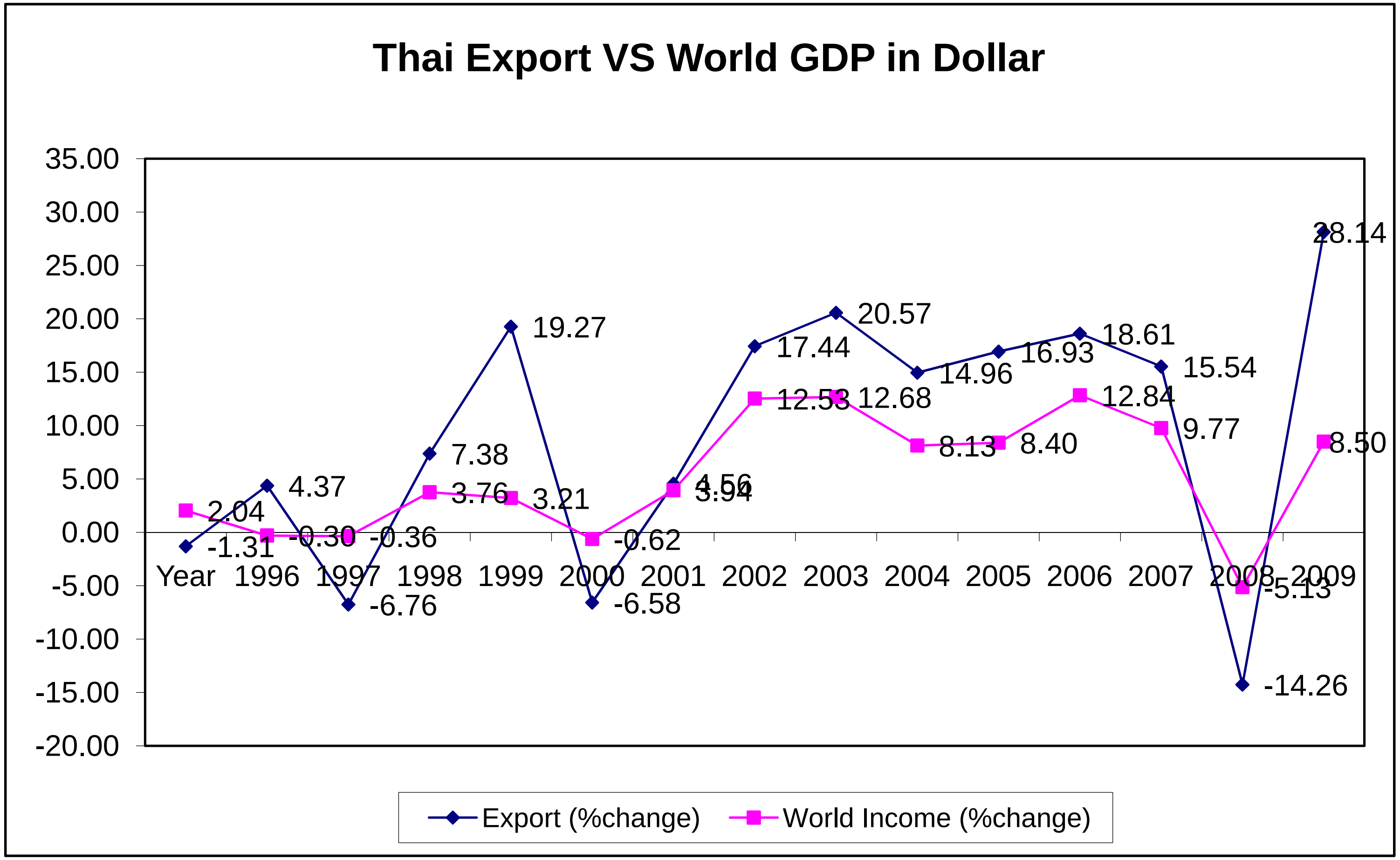


*Seasonally adjusted.
SOURCE: Consensus Economics.

From Khun Gong



By Krittin



Thai Export VS World GDP in Dollar
35.00
30.00
25.00
20.00
15.00
10.00
5.00
0.00
-5.00
-10.00
-15.00
-20.00
Year
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
-1.31
4.37
-6.76
7.38
19.27
-6.58
4.56
17.44
20.57
14.96
16.93
18.61
15.54
-14.26
28.14
2.04
-0.30
-0.36
3.76
3.21
-0.62
3.94
12.53
12.68
8.13
8.40
12.84
9.77
-5.13
8.50
Export (%change)
World Income (%change)

Fears rise again over Europe debt crisis

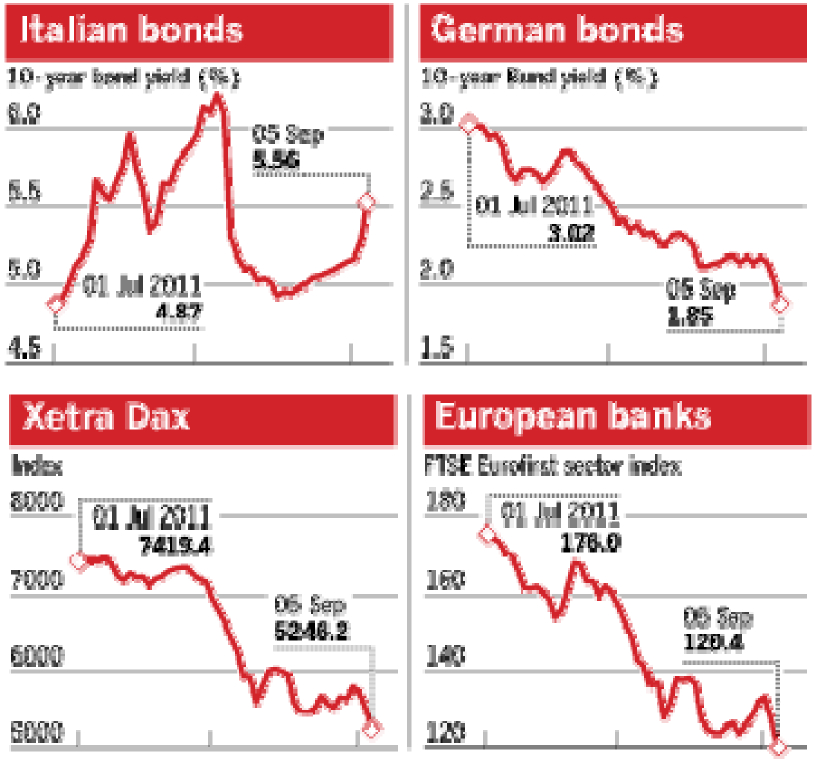
- German benchmark borrowing costs fell below 2 per cent to all-time lows while Italy's shot up as worries about the eurozone debt crisis and the fragility of banks once more intensified.

- European lenders bore the brunt of a broad-based sell-off across equity markets while the cost of insuring bank and government debt hit record highs as investors fled from risky assets to safer ones.

- German 10-year Bund yields fell 16 basis points to 1.85 per cent, their lowest ever. The move below 2 per cent tracked that of US Treasuries, which closed below that level for the first time since 1950.

- Angela Merkel, the German chancellor, told parliamentary colleagues that the situation in Greece and Italy was "extremely fragile"

- Investors' intense concerns about the likelihood of a Greek default were underlined by Greek 1-year bond yields rising to a record 82.1 per cent.



Source: Thomson Reuters Datastream

Financial Times, September 8, 2011

- The fall in German Bund yields meanwhile will heighten fears that some western markets could be sucked into a Japanese-style scenario of extremely weak economic growth and poor returns for shares.
- Once Japanese yields dropped below 2 per cent in 1997 they only rose above it again for a few weeks.
- Italy, which has the world's third-largest bond market, saw the sharpest rise in its benchmark costs in almost two months with 10-year yields leaping 27bp to 5.56 per cent. Investors have been unnerved by the political disputes over a new austerity package in Rome.