

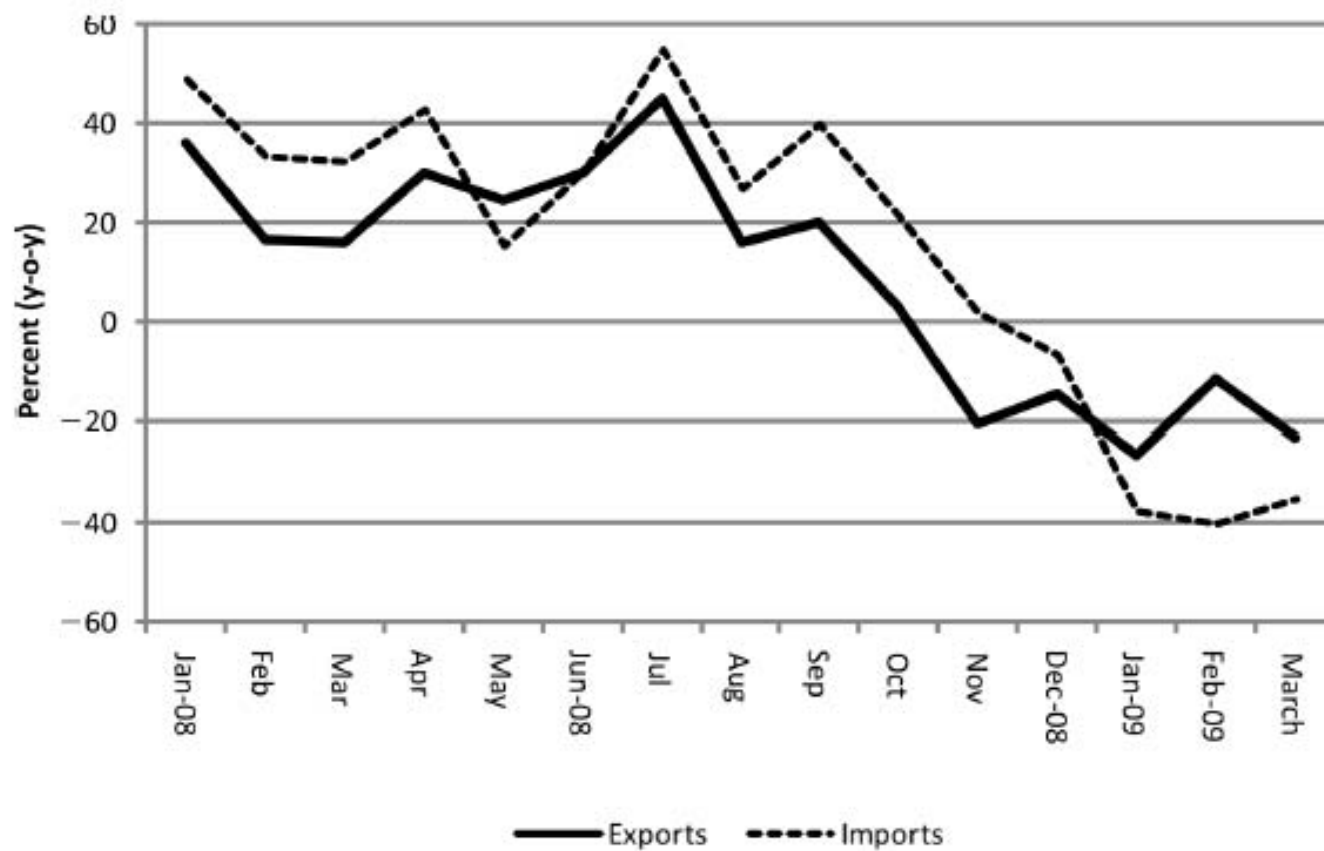
# The hard road ahead for recovery after the GFC

Bhanupong

Lecture 10

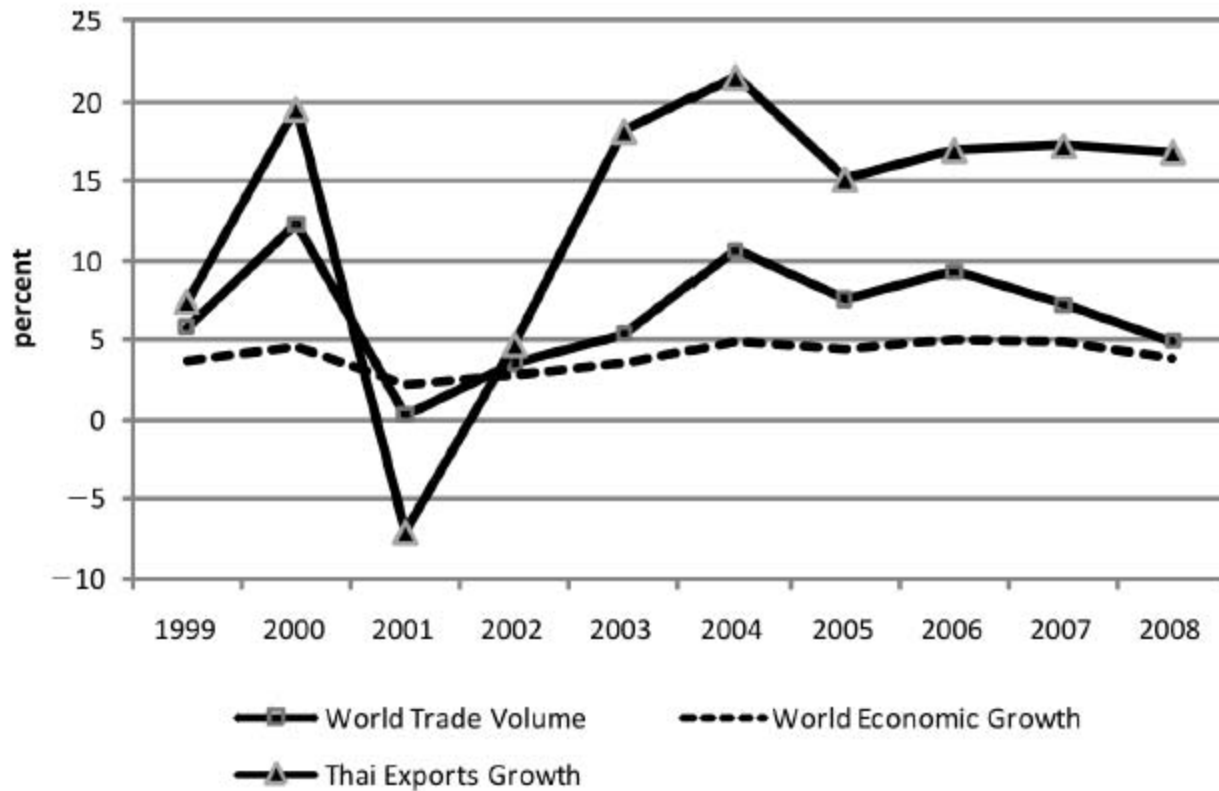
## The Hard Road Ahead for Thailand's Economic Recovery

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

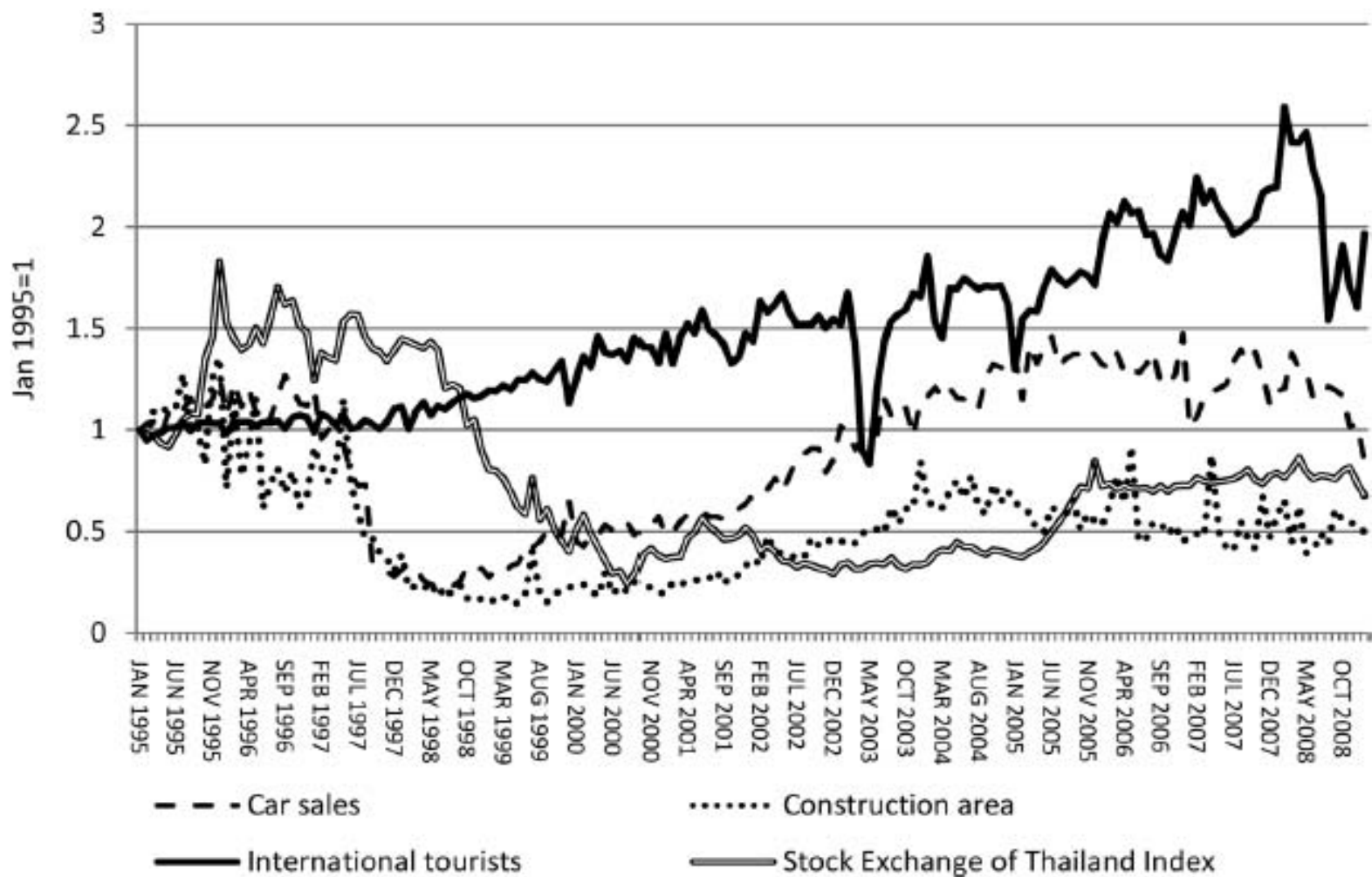
	1995-98	1999-2005	2006-08	1995-2008
Domestic oriented	74.3	69.6	79.3	74.4
Export oriented	60.6	63.7	68.5	64.3
Ultra-export oriented	71.5	68.8	66.4	68.9

*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.*

## The Hard Road Ahead for Thailand's Economic Recovery

Figure 3. Signs of imminent recession



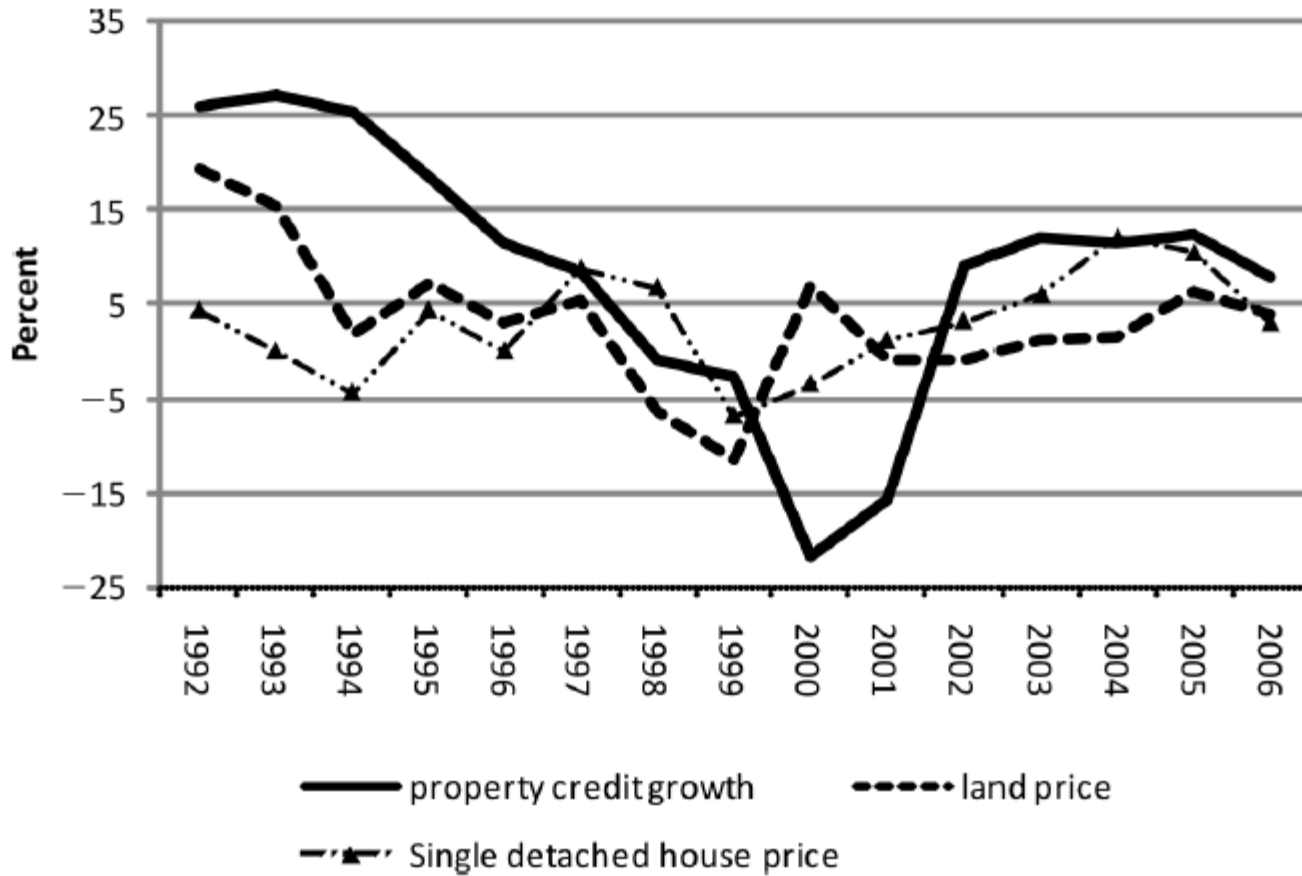
## The Hard Road Ahead for Thailand's Economic Recovery

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.*

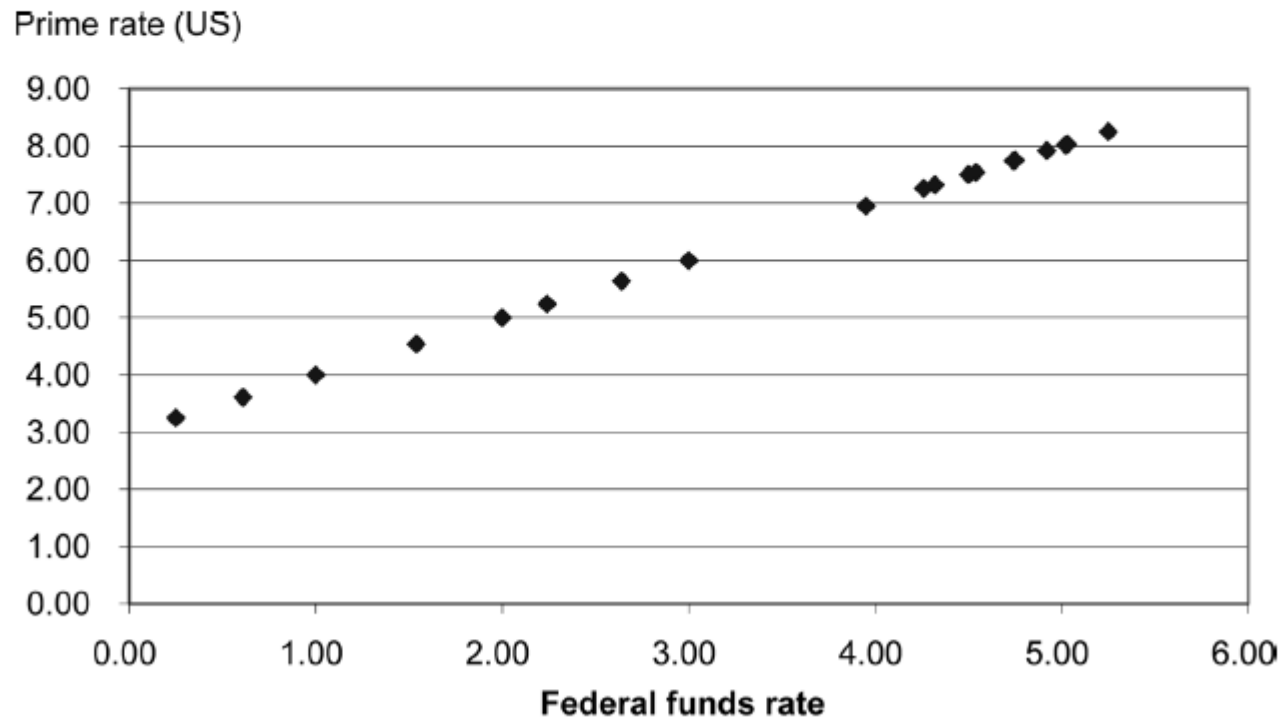
Figure 4. Real estate bubbles and property credit

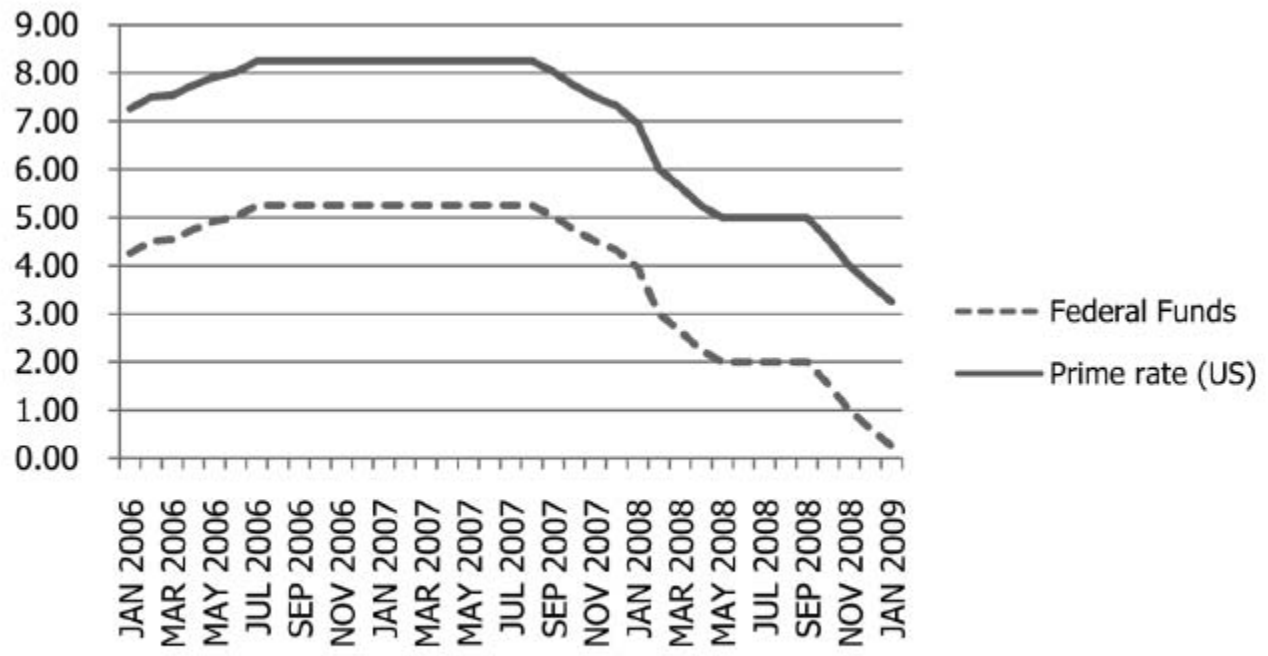


## The Hard Road Ahead for Thailand's Economic Recovery

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

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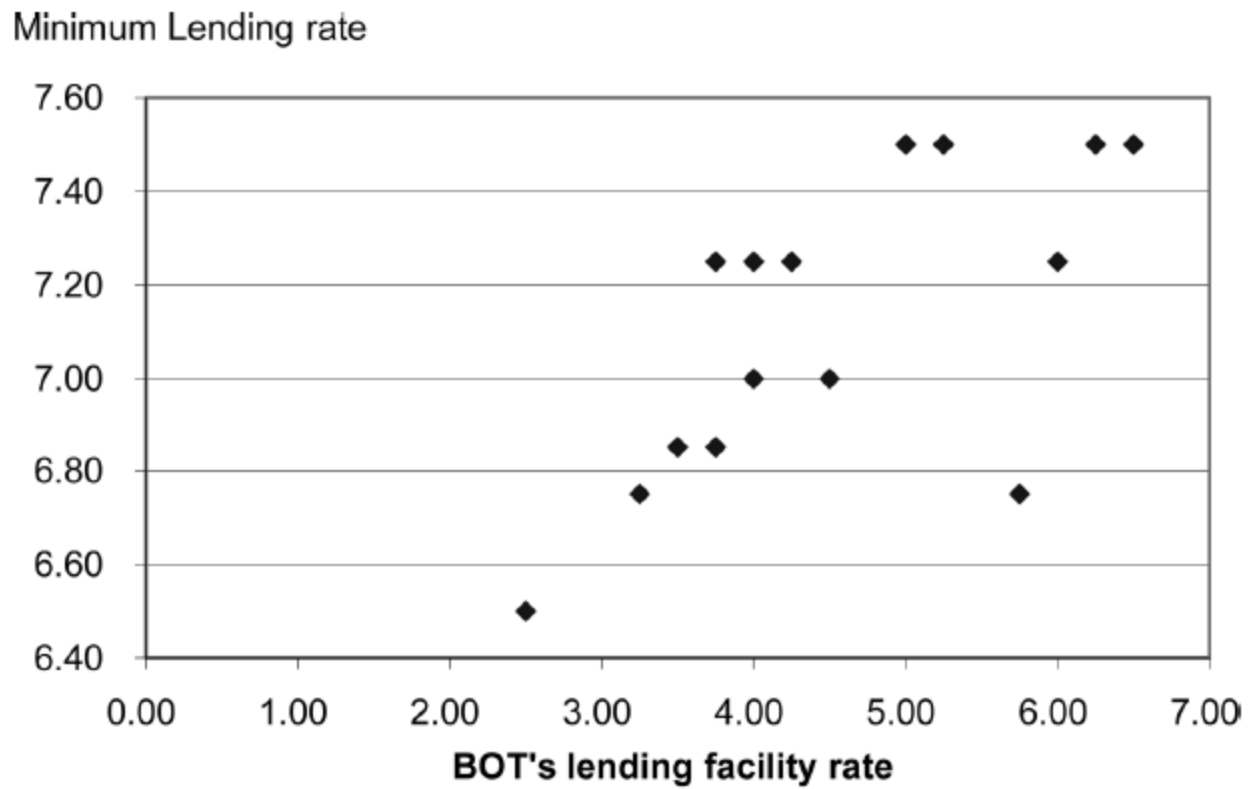


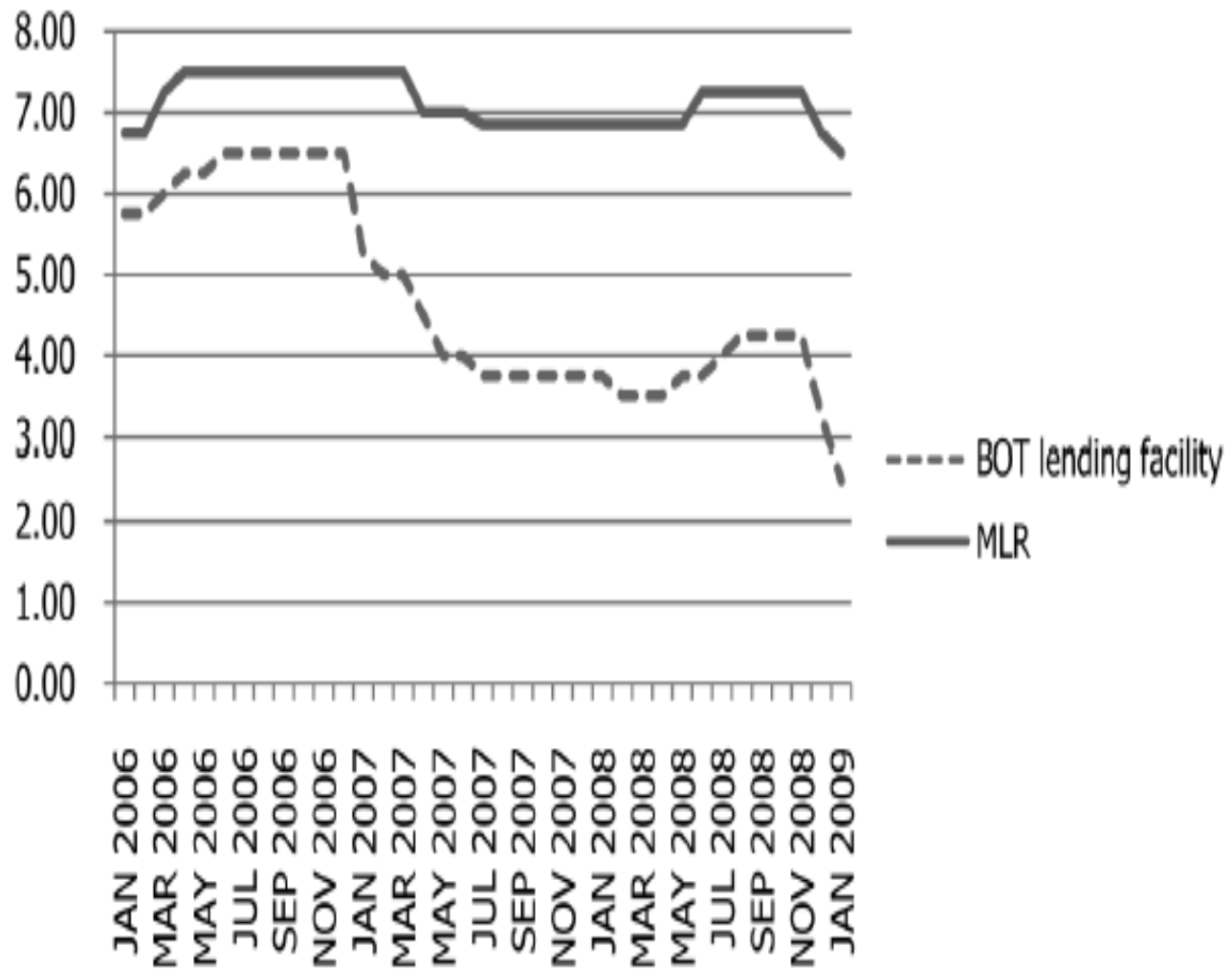


Source: Bank of Thailand.

The Hard Road Ahead for Thailand's Economic Recovery

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

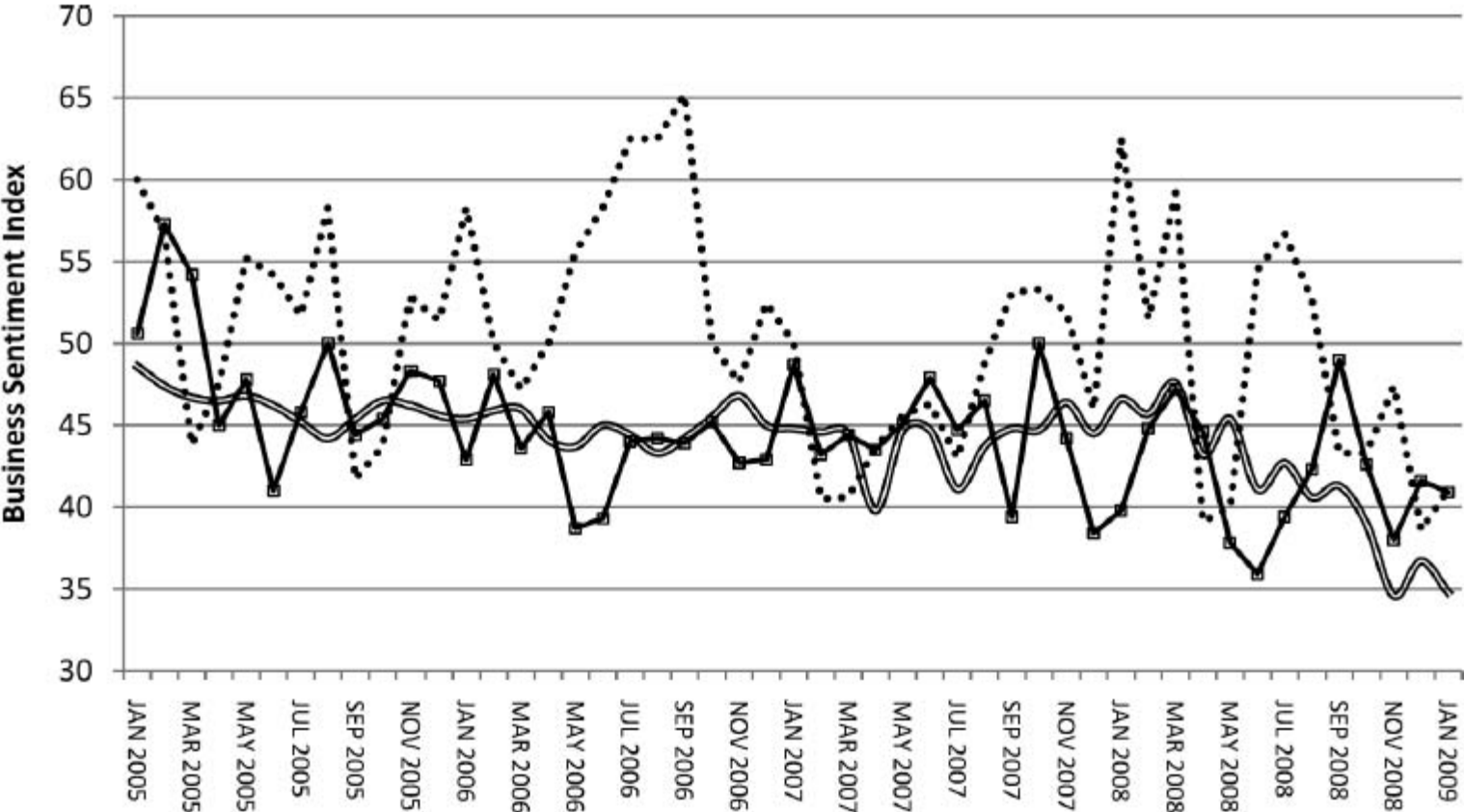




Source: Bank of Thailand.

- 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

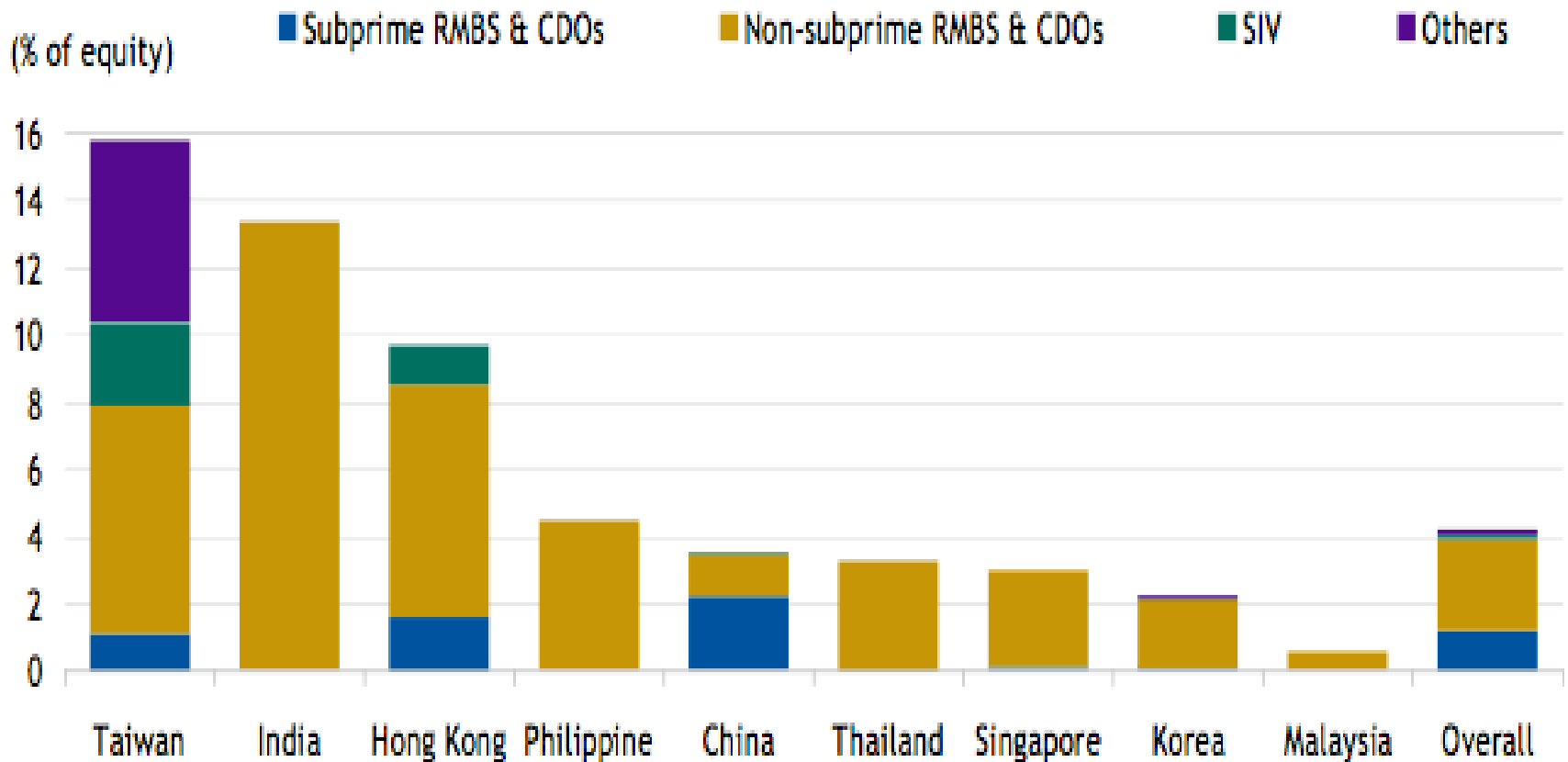
- Fiscal policy is the only option left. Unless the government maintains law and order to restore business sentiment and enhance consumer confidence, both the monetary
- and fiscal policy package would fail miserably. Ultra-populist policy would lead to an unsustainable fiscal position.
- Fiscal discipline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

# 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

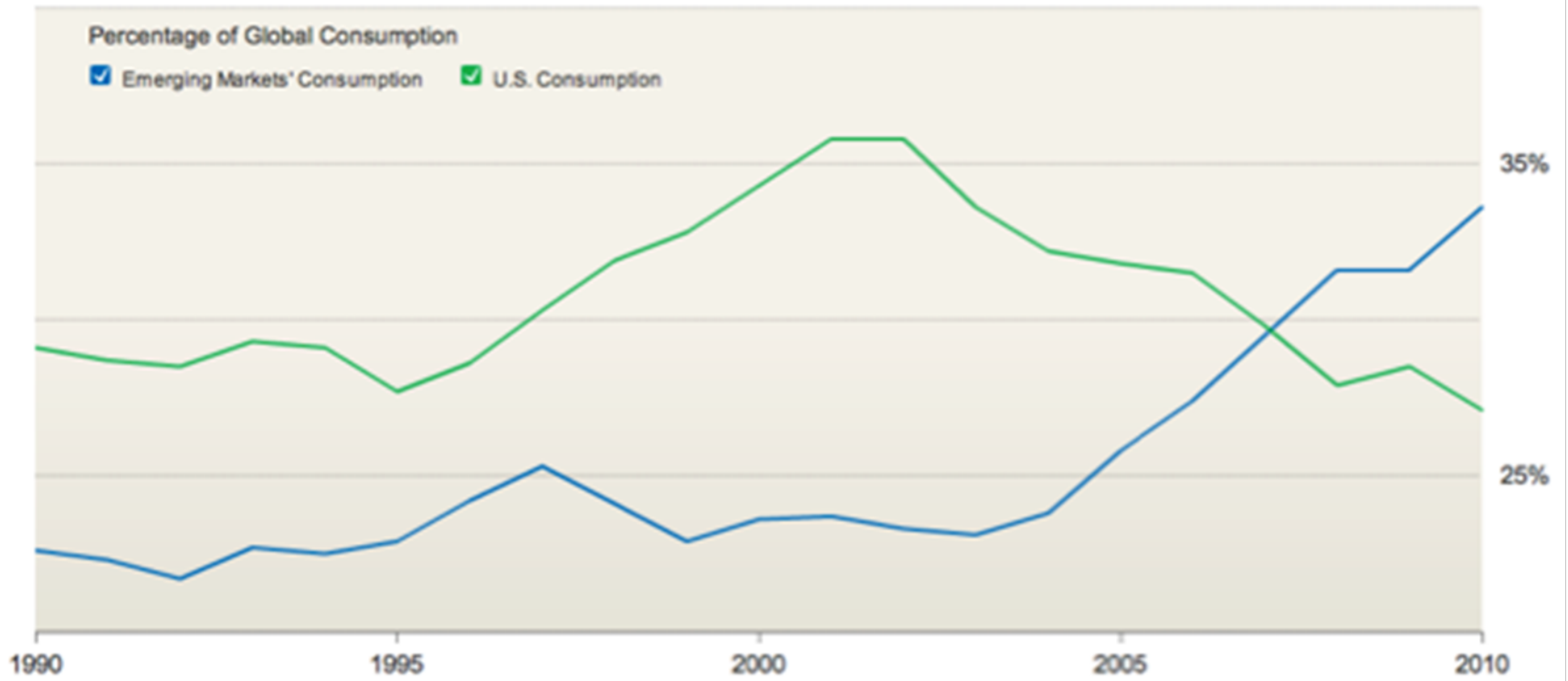


Source: Respective banks and Fitch's computation

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

## Uneven Recovery

Consumer spending in emerging markets surpassed spending by U.S. consumers during the crisis.

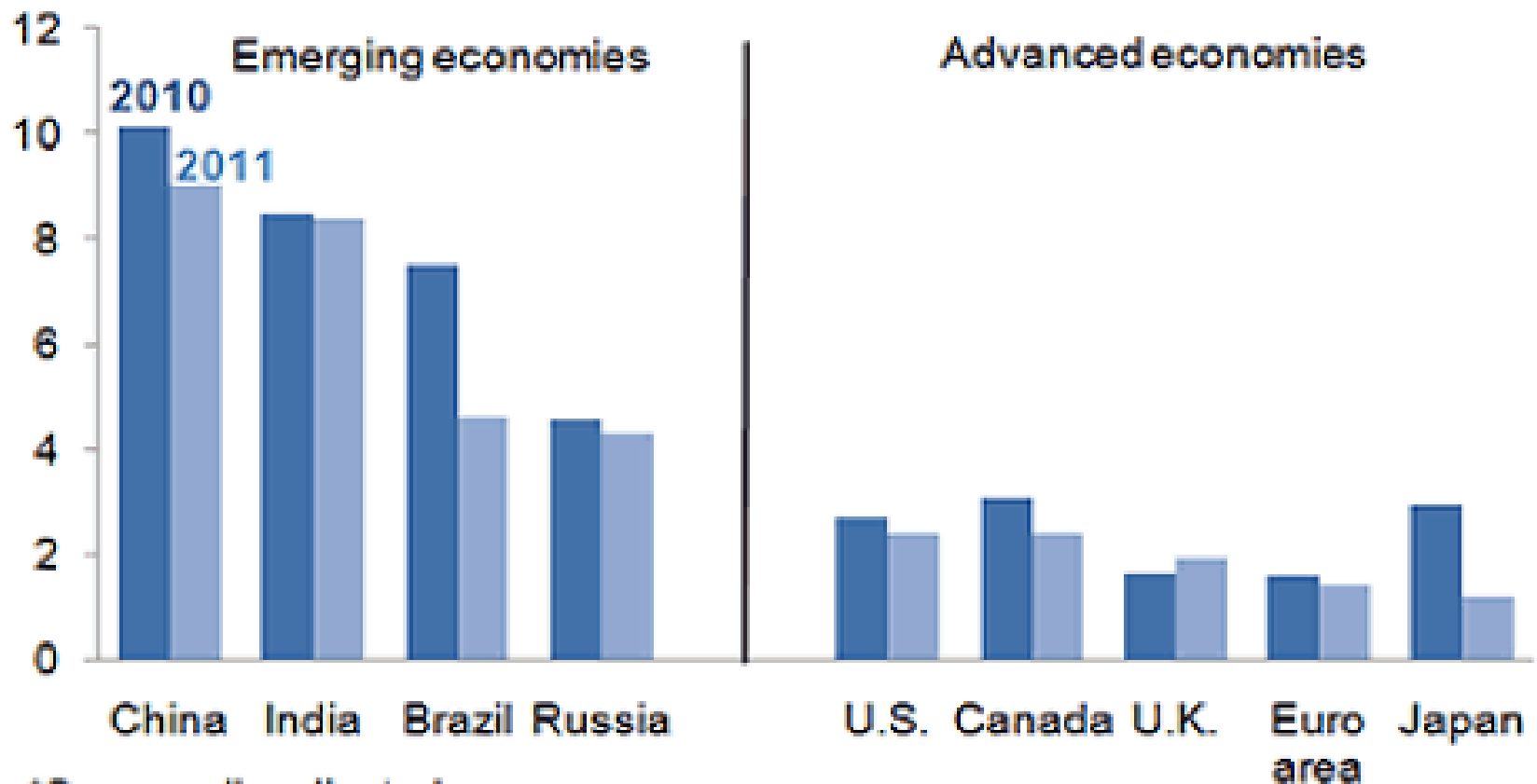


Source: JPMorganChase

## Chart 1

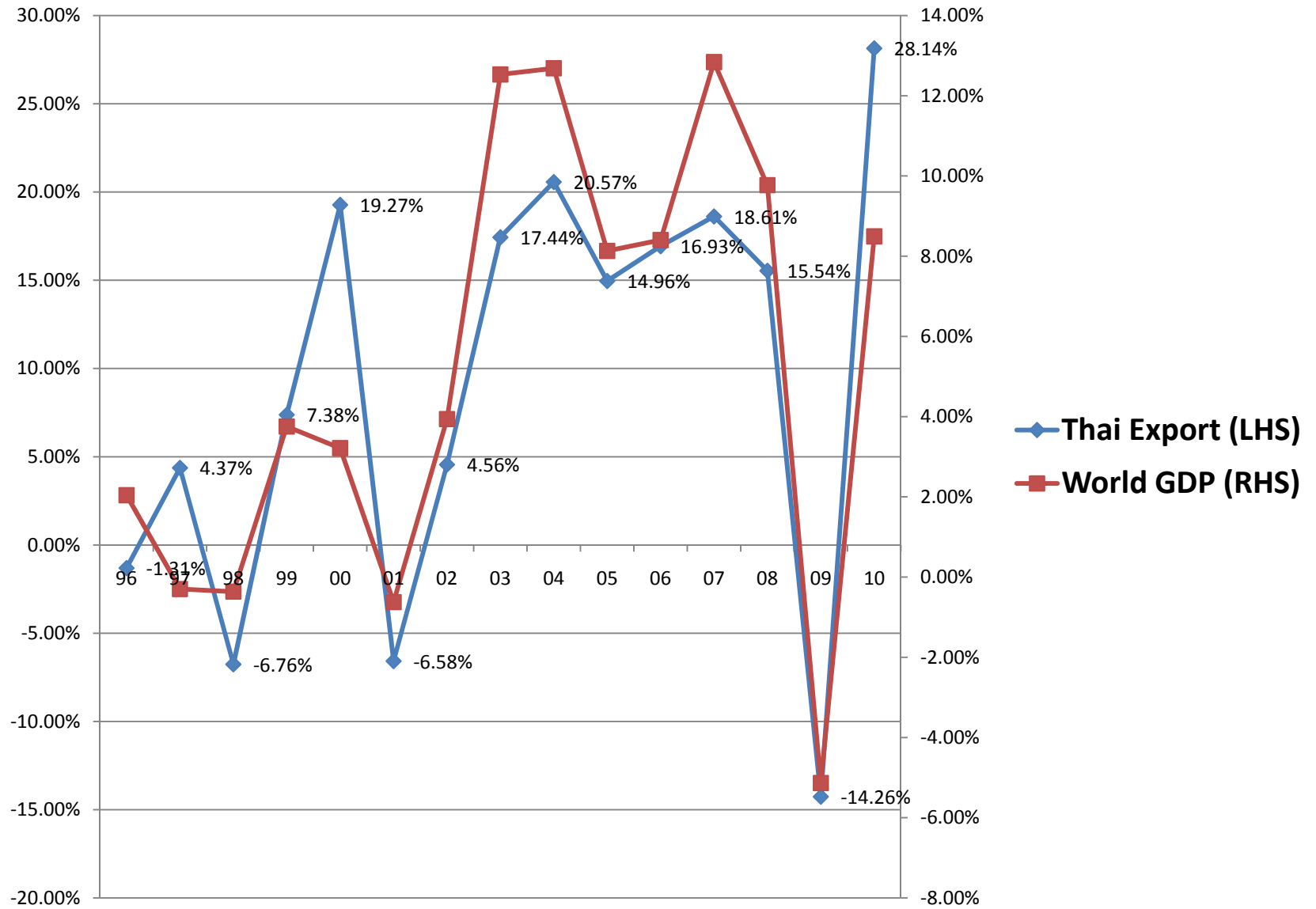
### Real GDP Growth to Flourish in Emerging Economies

Percent\*

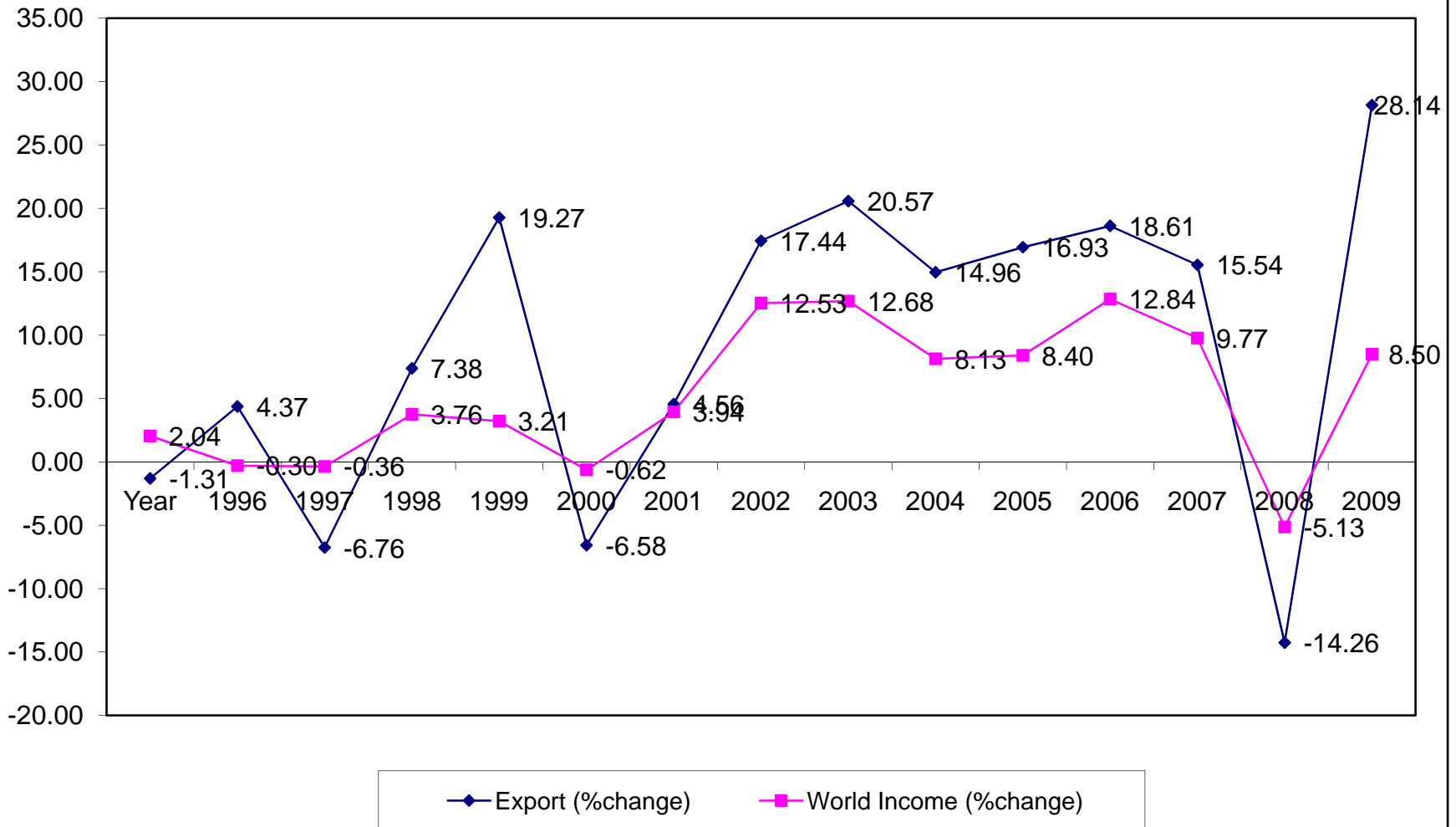


\*Seasonally adjusted.

SOURCE: Consensus Economics.



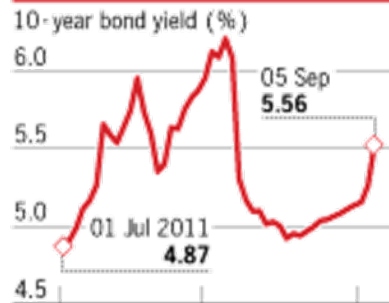
## Thai Export VS World GDP in Dollar



# 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.

### Italian bonds



### German bonds



### Xetra Dax



### European banks



Source: Thomson Reuters Datastream