

Veerathai spoke to the Nikkei Asian Review about the bank's policy plans.

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Bank of Thailand governor

## It's the government's turn to stimulate growth



Veerathai Santiprabhob, governor of Bank of Thailand (Photo by Shinya Sawai)

BANGKOK -- The Thai central bank will maintain its current policy rate of 1.5% -- which is near its all-time low of 1.25% -- and wait for the government to get its fiscal stimulus program rolling, says Veerathai Santiprabhob, who at 46 is among the youngest to take the helm of the Bank of Thailand. A former economist at the International Monetary Fund, he became the central bank's governor in October. Veerathai spoke to the Nikkei Asian Review about the bank's policy plans.

The following interview was edited for brevity and clarity.

### **Q: How will Thailand's finances handle the coming year?**

**A:** I have to highlight that Thailand has fared better compared to other emerging markets because we have strong external positions and we have quite a number of buffers to go through the volatility. Firstly, our current-account surplus last year amounted to \$34 billion, which is slightly more than 8% of GDP. When you talk about the Fed [rate hike] and its implication on emerging markets, people are concerned about outflows or shortages of liquidity, particularly in foreign currencies.

But we have this buffer of a current-account surplus, which is huge, and Thailand, as an oil-importing country, will continue to benefit from the collapse of oil prices. A second buffer that we have is the amount of international reserves as compared to short-term external debt. Now the short-term external debt accounts for about one-third of the international reserves that we have. In many emerging markets, [the ratio] is 1-to-1. So if anything happens in the global financial markets, there would be much more volatility elsewhere than in the Thai market.

If you look at bonds -- such as government bonds, Bank of Thailand bonds and state-enterprise bonds -- foreign-investor holdings account for only about 8% of the total outstanding. In certain emerging markets this is as high as 50%.

In the stock market, foreign holdings used to be around 37-38% of the total market capitalization, but now they are only about 27-28%. Most of the remaining investors in the stock market tend to be strategic investors who continue to hold for a long time.

**Q: Will the Bank of Thailand's monetary stance be accommodative?**

**A:** When we decided to cut the policy rate twice last year, [those at the monetary policy meeting] realized that the growth engine was not performing at the level you would like to see. But during the second half of last year, we have seen the government become more proactive and effective in disbursing money while implementing government investment projects. And that process is continuing. So the monetary policy can maintain its status. As we all know, in a situation like this, fiscal policy is much more effective than monetary policy.

I am saying this for two reasons. Firstly, it is because growth momentum has picked up, but unevenly. The rural sector continues to be under pressure from stagnant commodity prices, and unfortunately we have had a drought this year. Fiscal policy can be targeted to help the rural economy. Monetary policy cannot be targeted [at certain] segments. Secondly, the [policy] interest rate is very low already, and the transmission mechanism [which pulls at interest rates that banks charge] is not as strong as when the [policy] interest rate is high.

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I think that there are a few things to look at with fiscal stimulus. One is to address those in need. Like the farmers -- they have been affected by global commodity prices, which are uncontrollable, the drought and also by the withdrawal of the huge [rice] subsidy that the previous government provided. Definitely, this is an unfortunate time

for the farmers. So the government has to help them. The reform of state-owned enterprises will also help improve investment opportunities.

Under the reform initiative, a new law is being proposed to the cabinet to improve governance of state enterprises and also to set up [sovereign wealth funds] like Temasek [Holdings] in Singapore or Khazanah [Nasional] in Malaysia. The amount of the state-enterprise budget each year is double the size of the central government's budget. These enterprises control strategic assets -- from spectrum to airports to transportation -- and if they are not effective, the cost of doing business in Thailand will be high. So improving efficiency and productivity will [bring long-term benefits].

**Q: Could you give us your view on the ASEAN economy as a whole? Is it resilient?**

**A:** I think ASEAN is a great combination of countries because we have so many different stages of development within the group and we can complement each other. For example, Thailand has benefited a lot from immigrant workers from neighboring countries because we have a shortage of labor.

Thailand, on the other hand, can be a funding place for Greater Mekong Subregion countries with our more developed financial markets. For example, the government of Laos and state enterprises of Laos are issuing bonds in Thai baht.

The CLMV countries [Cambodia, Laos, Myanmar and Vietnam] have been important for Thailand, and Thailand has been fortunate to be located in the center of these countries.

**Q: What do you think about the competitiveness of Thai banks, considering that institutions from Singapore and Malaysia already have strong footholds in the region?**

**A:** Definitely, Singaporean and Malaysian banks are ahead of Thai banks in terms of regional expansion. But with the development of financial markets -- like creating partnerships and financial technology -- expansion doesn't have to take brick-and-mortar form like it used to.

We have requests from nonbank companies to provide financial services to Thailand using financial technology, like peer-to-peer lending. Banks have to make sure that they keep up with the development of financial technology.

We will also promote the use of local currencies in cross-border transactions. Surprisingly, right now, in the huge expansion of border trade between Thailand and Malaysia, most transactions are in U.S. dollars or Singapore dollars. But by promoting the use of the Thai baht and Malaysian ringgit, we have to identify settlement banks that are willing to offer services in ringgit in Thailand and in Thai baht in Malaysia.

The central bank has to provide liquidity support. If [these settlement banks] are short of Thai baht, they can come to the Bank of Thailand. It is the right direction, to use local currencies in cross-border activities. We are working with other central banks in Asian countries. Hopefully this year, you will hear more news on this.

*Interviewed by Nikkei staff writers Yukako Ono and Hiroshi Kotani in Bangkok.*

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Monetary policy

## Thai central bank chief denies additional cut in policy rate

HIROSHI KOTANI, Nikkei staff writer



Veerathai Santiprabhob, governor of Bank of Thailand (Photo by Shinya Sawai)

**BANGKOK --** Bank of Thailand Gov. Veerathai Santiprabhob has no plans for an additional cut in the Thai central bank's policy interest rate following two reductions in 2015, noting that the country's monetary policy is already accommodative enough.

During an exclusive interview with the Nikkei Asian Review, Veerathai, 46, stressed the importance of structural reforms and improvements in industrial competitiveness, promoted by the government, for revitalizing the stagnating Thai economy.

Thailand has strengthened its macroeconomic and financial fundamentals since 1997, when the country triggered the Asian currency crisis. With uncertainties growing over emerging-market nations because of China's economic slowdown and other factors, the Thai economy is forecast to grow around 3% in 2016, falling below what is known as a cruising growth rate of 5% for the fourth year in a row. The projected growth is the smallest among the members of the Association of Southeast Asian Nations.

But Veerathai denied that an additional rate reduction was in the offing because the government is stepping up investment projects.

The central bank's policy rate now stands at 1.5%, close to its all-time low. The rate is "very low already" and spillover effects of a further cut on the banking sector are weak, Veerathai said.

At present, "fiscal policy is much more effective than monetary policy," he added.

Veerathai emphasized that the competitiveness of Thailand should be improved for the sake of a full-fledged economic recovery for the nation. Among specific measures are improvements in transport and communications infrastructures, hosting of foreign businesses generating high added value, and streamlining state-owned enterprises, he said.

To pull Thailand out of the "middle-income trap," where a country which attains a certain income gets stuck at that level, the government has successively introduced measures to advance Thai industry. For example, it targets a rise in the ratio of research and development investments to the nation's gross domestic product to 1% from the current 0.5%.

The central bank will seek to promote the integration of financial services in the region, which has been slower than the liberalization of trade, following the establishment of the ASEAN Economic Community, or AEC, at the end of 2015. Banks from other ASEAN members are welcome in Thailand, Veerathai said. Thailand will initially seek mutual market entries involving Thai, Indonesian and Malaysian banks.

Veerathai considers that the medium- and long-term economic growth of ASEAN will be enhanced if the foundation of banks in the region is reinforced.