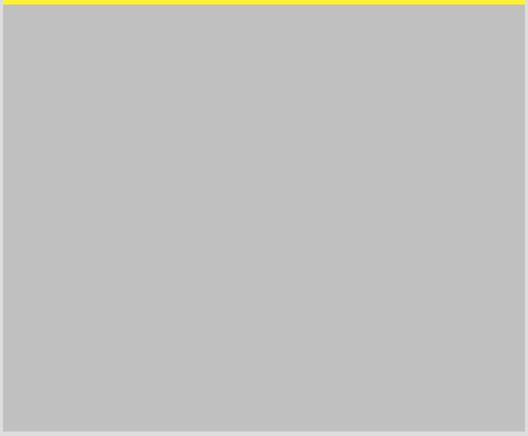

Korn Chatikavanij

In the fiscal tool box

OGB talks to Korn Chatikavanij, Minister of Finance

What will be the key policy measures required to deal with the impact of the global financial crisis?

CHATIKAVANIJ: There is a major difference between the economic problems currently besetting Thailand and those problems faced by many industrialised economies worldwide in that we are completely devoid of a financial institutions crisis. In effect we went through a strikingly similar catastrophe 11 years ago which was caused by symptoms akin to those seen today such as excessive lending, unscrupulous investment and asset prices bubbles. The past decade has been one in which Thailand's financial institutions have been dedicated to slowly repairing their balance sheets and subsequently employing exceptional prudence in their lending practices. The Asian financial crisis in 1997-98 resulted in a new *modus operandi* which has helped to shield them against the current risks and excesses that Western banks undertook. Local financial institutions were funded entirely by a domestic deposit base, with negligible exposure to foreign-denominated assets. When turmoil began to strike economies across the globe, Thailand was quite fortunate to the extent that government efforts could be concentrated entirely on the real economy, which is surely a tall order in and of itself. The task of mitigating the economic downturn without having to plug holes in the balance sheets of local financial institutions has permitted us to consolidate our efforts.

What monetary and fiscal policy tools would help to get the economy back on track?

CHATIKAVANIJ: Fortunately, from a fiscal perspective, leverage among corporations and at the government level is relatively low in relation to many other countries. While employing a budget deficit of approximately 4.5% of GDP, public debt is expected to progress upward to approximately 42% of GDP, which still leaves quite a bit of room for manoeuvrability. Also encouraging is our foreign reserve levels, which are at record levels, with the majority of funds denominated in US dollars. At the corporate sector, leverage is at very low levels; however, we must still find a way to utilise these strong balance sheets to stimulate activity. At the government level, our abilities are limited in that the public sector accounts for barely 20% of GDP which means we cannot entirely fill the gap left by declines across the board in exports, domestic demand and private investment. The economic stimulus package, which is equivalent to about 1.2% of GDP, began flowing into the system in April 2009, almost entirely directed towards stimulating domestic consumption. When the new fiscal year begins in October 2009, we will have a second stimulus budget. The new annual budget will likely increase national debt by an additional 3-4%. Following spending packages, if we can maintain unemployment at below 3% we should remain relatively resilient.

What can be done to lower banking interest rates for businesses and boost commercial lending?

CHATIKAVANIJ: As a former banker, I believe that the growth spreads are clearly very high. The behaviour of interest rate movements subsequent to policy rate reductions are indicative of the fact that the additional savings in funding costs are not being passed onto customers. The ministry does not have the tools to directly intervene in the issue. However, at the root of the problem is that commercial banks are able to command these margins because they operate in an oligopolistic system where the largest five banks control 60% of the market. There is no other form of competition. Foreign banks are dead in the water and capital markets have been in decline for many years in both primary and secondary offerings, so in short, there is no competition for bank lending. From a policy perspective, the long-term solution is to foster an environment of greater competition through the development of capital markets and liberalisation of the banking system, which would eliminate collusion among the country's largest banks. In the intermediate term, banks will hopefully begin to feel a degree of moral pressure to cooperate and recognise the greater purpose of their duty.