

Financing Sustainable Growth in Thailand

Speech by Mr. Thirachai Phuvanatanarubala
Secretary-General, Securities & Exchange Commission, Thailand
At the Asian Capital Markets Forum Series, Bangkok, March 29, 2005

Good Morning, Ladies and gentlemen

1. I am honored that you have invited me to share some thoughts with you today on the issue of financing sustainable growth in Thailand.

2. Emerging markets and sustainable growth are often the two terms that do not go together for very long. Often growth would spurt and flourish for a time, only to have a bubble burst and collapse later. Thailand had perhaps more than our fair share of this bad experience in 1997. After that crisis, Thailand has recovered. In the past 6-7 years, various forms of fiscal stimulus were used to pump prime the economic engine. Government resources were spent in the resolution of non-performing loans. The government recapitalized some banks and set up funds for grass root financing at the village level.

3. These measures, along with many others, have enabled the economy to turn the corner. They enabled the private sector to heal itself and the capital market to become once again vibrant. At one time after the crisis, our stock market was off the world investors' map. Today, it is back in the area of attention.

4. The key question for future growth is therefore – what should be our concerns to make sure that future growth in Thailand is sustainable.

5. The first concern should be for the government to maintain fiscal discipline. Actually, the government has the aim to do just this. They intend to cap public debt to the present level, in term of the percentage of GDP, and to achieve a balanced budget within the next 4-5 years. However, they also plan to make substantial investments in mega-infrastructure projects in the coming 5-6 years. These projects will eventually help directly or indirectly lower the operating costs of all firms. The question is therefore - how can these investments be made without adding on too much public debt?

6. The answer is that we have to speed up development of the capital market, particularly the bond market to allow the projects to borrow by themselves, in some cases using their own future income flows to back up their borrowings. This means that we have to develop the debt market further. It also means that we have to pave the way for securitization.

7. Development of the debt market should progress substantially this year. The Stock Exchange of Thailand has been tasked with introducing an electronic trading platform for bonds within this year. To ensure proper price discovery process, we have agreed that the Bank of Thailand will require all their primary dealers to make firm two-way quotations via this electronic trading platform. The quotations must be good for a minimum deal size. We are thinking of Baht 10 to 20 million. And these quotes must cover all liquid government bond benchmark issues.

8. The system of settlement will also be upgraded within the first half of this year to allow for the system of delivery against payment. It will also facilitate securities lending and borrowing activity so that players can short bonds more easily. Finally, the Thai Bond Dealer Club shall be tasked with the role of day-to-day market surveillance. Within this year, for the first time, bond-trading information from the front offices shall be matched with bond-trading information generated out of the settlement back rooms. The Thai Bond Dealer Club will therefore be able to act as the self-regulatory body that is able to police the market closely and take action against market manipulation as necessary.

9. Success in future privatization will also be very important. Privatization will make state enterprises run more efficiently. It will lessen the government's burden in having to help finance their future expansions. It will also add financial resources to the government's pocket that can be used for other projects.

10. The second concern should be how to make the private sector avoid the unnecessary over-investment, over-capacity and over-diversification as happened in the past. How to avoid misallocation of resources!

11. The central bank has been successful to a large extent in changing the habit of commercial banks from relying solely on collaterals to instead placing greater emphasis on customers' business prospects and cash flows. The capital market has to add more to this. It can do so by insisting on transparency. For funds raised through the capital market, we have to encourage more comprehensive and objective analysis of the proposed investments by stockbrokers, rating agencies and mutual fund managers. The system has to make sure that only the projects that are truly worthwhile can gain support from the capital market.

12. The third concern must definitely be how we can further raise domestic savings.

13. If things proceed as planned, the next 4-5 years will be the years of big investments both by the public sector and the private sector. To finance these investments, you need savings. And if you do not have enough domestic savings, you have to seek savings from abroad. When that happens, it will result in a widening current account deficit. I should not have to remind you that one of the main causes of our economic crisis was the big current account deficit financed by short-term foreign debts. Because at that time we did not have sufficient domestic savings.

14. This time around, therefore, we have to rely more on domestic savings. But how can we do that? The capital market will have to play a big role in boosting domestic savings.

15. The capital market can help by making sure that investors are well protected. We have to ensure proper transparency of corporate information. We have to foster good corporate governance. And we have to make sure that trading in the capital market itself is well regulated and fair to all.

16. But investors will demand not only protection and fairness, but they will also want to have tools available for their risk management. They will want things such as the futures market. We are therefore rushing to introduce the futures market within this year, and

hopefully to clear the remaining tax issues regarding the OTC derivatives within the same time frame.

17. Ladies and gentlemen. I shall close by repeating that for an emerging market like Thailand, achieving a sustainable growth is not automatic. It is a big challenge. Capital markets must play an important role in making sure that growth is sustainable. For the Thai capital market, I think we have made a substantial progress and should be even better within this year. However, there is still a list of things remaining to be done. But the SEC is eager to address all the problems.

18. So in the next two sessions, I very much hope that we will hear important issues and recommendations. Not only details of the current development, the current thinking by the authorities, but also any constructive complaints, concerns or suggestions that may be raised by both issuers and investors.

19. Sustainable growth can be achieved best by welcoming contributions from all parties.

Thank you.