

## **Fitch Address**

By Mr. Thirachai Phuvanatananubala  
Secretary-General, Securities & Exchange Commission, Thailand  
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1. It will be no understatement for me to say that we are living in a period of time with many challenges. And this poses a lot of difficulties for financial analysts when they try to peer into, and forecast the future.
2. The first challenge that is faced by virtually all countries is the ever increasing oil price. All countries except, of course, the oil producers. There is a difference between this present increase and some of the past increases. In the past, oil price sometimes went up because of temporary disruptions in supply, or because of uncertainty about global politics. This time, however, oil price increased because of greater demand from emerging markets, especially China and India. The rapid rise of the middle class, the emergence of the motor society in these gigantic emerging market countries, is pushing up prices for us all. Only a slow down in these economies will lessen the price pressure. But as yet there are very few signs pointing to this happening any time soon.
3. The second challenge is posed by the equally rapid rise of many other primary commodities. The price of steel, the price of copper, and many other products including soya beans and rubber also went up substantially. Anything that has to do with either consumption or production in these emerging countries has seen their prices gone up. This has put upward pressure on inflation in many countries, and has led many central banks to tighten their monetary policies. The higher interest rates around the world are therefore another factor that made the costs of production of business firms go up. Hence, the challenge on the ability of firms to continue to make high profits in the future.
4. The challenges are particularly acute for banks and financial institutions. The hike in interest rates is putting pressure on net disposable income of households, many of which have built up high debts during the era of low interest rates.
5. The higher cost of money, coming at a time when the share of petrol and traveling expenses that also expanded, coming at a time when business investment is still not picking up as much as we hope, hence making employment prospect less secured, can, unless managed well, lead to an increase the risk of defaults among consumers.
6. The higher cost of money, also coming at a time when the exchange rate becomes more volatile, coming at a time when costs of factors of production tend to increase and hurting profitability can also put pressure on business competitiveness, when compared to other regional countries. It can also, unless managed well, lead to payment difficulties and non-performing loans among some business firms.
6. Finally, if you have been keeping track of the international money market, you will be aware that for the past few years, international investors have not been adequately

compensated for their risk taking. High liquidity in the international market has resulted in the search for yield, driving the rate of return for international debt issues to historic lows.

7. The emerging market spread to US treasuries which 5-6 years ago was around 500 – 600 bsp is today as low as 250 bsp. But this will not go on forever. And when it happens, it will cause capital movement.

8. When the international market becomes less and less liquid, emerging market risks will be reappraised. And some capital market will win, while some may lose. Emerging markets therefore have to be prepared to work harder than in the past to attract capital inflows.

9. On top of all this, in the case of Thailand, we also have another layer of complication in the form of political uncertainty. For international investors, these challenges need to be well analyzed and monitored. I am pleased therefore to see Fitch organizing this Annual Conference to identify the key investor risks for 2007. You have outlined the agenda to cover both the regional view and the country specific view. And you have on your panels the best experts on the subject. As the result, I have no doubt that the conference will be both successful and interesting. But what is more important is that the conference will be able to convey the concerns and the worries that international investors might presently have about Thailand. If compared to food, their views might be raw and far from delicious, but they are something we all must take away and digest.