Welcoming Remarks by

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Seminar on *"The Ongoing Financial Crisis and its Global Implications"*

Conference Room 401, Office of Permanent Secretary, Ministry of Finance

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Distinguished Guests, Ladies and Gentlemen,

It is a tremendous privilege for me to welcome you all to the seminar on "The Ongoing Financial Crisis and its Global Implications" this morning. On behalf of the Ministry of Finance I would like to express my sincere appreciation to the International Monetary Fund (IMF) for agreeing to send two highly distinguished speakers to join us today. I am also delighted to see so many people from various government agencies as well as the private sector, so thank you all for coming.

We gather here today at a time when the world economy is facing one of the most challenging times in recent history. What began as a sub-prime crisis in the US, the financial turmoil has now reached crisis proportions in recent months and on a global scale. We have seen the collapse of major banks and financial institutions, where most have had to be nationalized both in the US and in Europe. Unemployment and private sector bankruptcies are rapidly rising. The credit market is also in crisis as evident by the credit default swap spread being at their historical high. The IMF has lowered its global GDP forecast to 2.2% next year. In addition, the Japanese economy is now officially in recession. Talks were even emerging that the magnitude of this crisis could be comparable to that of the Great Depression in the early 1900's.

Despite this being said, I have reasons to be optimistic. The severity of the ongoing crisis maybe just as or even more severe than that of the great depression but the crucial difference is clearly the speed at which governments responded to the crisis. Back in 1929 when the stock market crashed in the US, it took the US administration more than 3 years to initiate and implement a series of measures to end the depression. It was simply too late and the result was devastating. The US economy plunged into the worst financial collapse in history where thousands of banks failed, significant reduction in output, deflation set in and unemployment rose by 25%.

Whereas today, the US government made interventions by unleashing drastic measures less than a year when the crisis first broke out in August 2007, arguably at a time when it wasn't even certain that severe crisis was looming. In a period of 2 weeks the Federal Reserve and the Treasury between them nationalised the country's two mortgage giants, Fannie Mae and Freddie Mac;

took over AIG, the world's largest insurance company; in effect extended government deposit insurance to $3.4 trillion in money-market funds; temporarily banned short-selling in over 900 mostly financial stocks and; most significant of all, pledged to take up to $700 billion of toxic mortgage-related assets on to its books.

These actions extended beyond that of the US. We also saw a concerted effort to battle against the financial crisis by the European countries with policies mainly aimed at injecting capital into major banks and financial institutions to ensure that there is sufficient liquidity as well as capital to support funding of banks. The Europeans have also rightly been actively cutting interest rates, earlier in the month the European Central Bank (ECB) cut the rates by half a percentage points and the Bank of England drastically cut interest rate by a massive 1.5%.

All in all, it must be said that it is pleasing that there has been such a comprehensive and coherent approach by governments and central banks around the globe to swiftly implement measures to limit the severity of the financial crisis. These actions, I believe, will be the catalyst in preventing the ongoing financial crisis to expand to reach the magnitude of that of the Great Depression.

Let me now turn to domestic matters.

For the past year, Thailand and other emerging markets have witnessed the financial crisis spread from its epicenter in the United States across the globe. Initially, when the sub-prime crisis broke out, we could afford to believe that we were just a distant observer of the financial storm. This is no longer the case as painfully evident by the plunge of the SET index in recent months. In addition, sectors that are sensitive and vulnerable to external factors will be severely affected. In particular, exports to the developing world are expected to slow in the remainder of this year and next year. We also expect a significant reduction in tourism figures in the upcoming high season. To make matters worse, our problems is further exacerbated by the political instabilities.

In spite of this, I have confidence that the fundamentals of the Thai economy remain strong. Thailand's GDP is still expected to grow 5.1% by the year end which is an improvement from last year, at 4.8%. Internal stability is expected to improve as inflation is expected to moderate to around 6.3% after the collapse of the oil price. While external economic stability remains strong, current account in 2008 is expected to be in surplus by 0.4 percent of GDP.

However, economic and political uncertainties still very much exist and in order to limit the damage of the ongoing crisis and to push the economy forward. Especially, for the year 2009 where we expect that the economy will slow further with both consumption and investment declining. It has also been estimated that if the government does nothing, the number of job losses may be as high as 1 million and reduce growth rate to around 3%. To prevent this from happening, the government has initiated a stimulus package aimed at increasing domestic spending and investment as well as to restore confidence in the Thai economy. Let me now highlight some of these measures.

The first of these will be the increase in the 2009 budget deficit by 100 billion baht to spur the economy and guard against mass layoffs in light of global economic recession and fears of mass job losses. The additional budget is expected to be allocated to both the Megaprojects and to grass roots program where it can create more jobs.

Specifically, the government plans to speed up the grass roots stimulus programs to create more jobs and opportunities for the poor, some of the measures include the “One Village, One Product” Project to enhance productivity, small- and medium-sized lending (SML) program, the establishment of the “Village Fund” for villages and urban communities, and the “People’s Bank” to give the poor better access to formal financial services and funding as well as the debt suspension program.

Another major channel for capital injection is through Megaproject investments. The government has continued to accord high priorities to Megaprojects investment and we are seeing progress in most sectors of Megaprojects. Most notably, in our efforts to extend the Mass Transit Network as we have signed loan agreement with Japan International Cooperation Agency (JICA) for the Purple lines earlier this year. JICA and ourselves are also engaged in further talks to obtain loans for the Red and Blue lines, which we expect to sign the loan agreements by March next year. The line ministries are also working very hard to expedite investment in other sectors including transportation, water resources, health care and education. Furthermore, projects under the SOEs such as energy/power and telecommunications continue to make good progress.

Some of you may have some concerns with regards to the difficulties to accessing funds during the current financial market climate. I am pleased to be able to inform you that the Ministry of Finance has access to a wide range of borrowing sources both domestically and externally. We continue to supply the market with sufficient amount of benchmark bonds to both serve government's financial obligations as well as to develop the domestic bond market. The Public Debt Management Office (PDMO) has also informed me that in addition to JICA, talks are also at an advanced stage with other concessional sources including the program loans from the World Bank and from Asian Development

Bank (ADB). In addition, there are also no concerns regarding the excessive Debt to GDP and I am also pleased to say that even over the period of next 5 years, we will not breach the debt sustainability target of 50 %, as our forecast indicates that the Public Debt to GDP will fluctuate at around 40%.

Apart from the increase in government expenditures, the government has also been pushing for regional financial cooperation with ASEAN and ASEAN plus 3. We expect that Thailand and countries under the ASEAN + 3 will be in a better position to guard ourselves against the financial turmoil if we are more integrated. Specifically, there will be two measures to be implemented including CMI Multilateralisation process aimed at supporting the ASEAN plus 3 member countries to address short-term liquidity problem and the balance of payments difficulties. The other measure is the bond financing for infrastructure projects under the Asian Bond Markets Initiative (ABMI) and Credit Guarantee and Investment Mechanism (CGIM) in the form of a trust fund.

Before I conclude, I would like to praise the effort of already made by the IMF to assist the emerging markets to limit the damage from the financial crisis. I understand that the IMF has already pledged around 30 billion USD to Hungary and standby arrangement for the Ukraine to help ease the financial stress and achieve the long term economic goals. As for Thailand, I certainly hope that the role of IMF for Thailand in the ongoing crisis will be limited to providing valuable technical assistance and that the IMF will be much less active for us now than in 1997 when the Asian economies were hit with the crisis.

We are extremely fortunate to have Mr. Anoop Singh and Mr. Daisuke Kotegawa here with us today. Mr. Singh as the Director of Western Hemisphere department is responsible for issues related to the US economy and has been at the centre stage in the battle against the ongoing financial crisis. In addition, I would like to congratulate him for taking up a new assignment as the Director of Asia-Pacific Department and wish him the best of luck. Kotegawa san, Executive Director for Japan, was formerly one of the most powerful men in the Japanese Ministry of Finance; someone who helped successfully engineer Japan's economic recovery.

Finally, I hope that what we will learn here today, including lessons learnt from the Japanese crisis will be invaluable in our bid to tackle the ongoing financial crisis. I wish this seminar every success. Thank you.