

Capital Flows Issues and Thailand's Experience

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In the past, we have seen three big cycles of capital flows since 1972

1. Recycling of petrodollars 1975-81 which ended in the international debt crisis of 1982
2. The emerging markets boom 1990-96 which ended in the East Asia crisis of 1997-98
3. The capital market boom of 2003-08 which ended in the GFC of 2008-09
4. The current inflows of capital to EMs starting in 2010, stimulated by a two-speed global economy

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Capital flows: *Old issue but this time the context is new*

1. A global phenomenon, rather than country-specific problem, driven by loose monetary policies of major economies
2. Strong spillover effects due to interconnectedness of financial markets
3. Domestic policy response seems less effective due to the global nature of capital flows

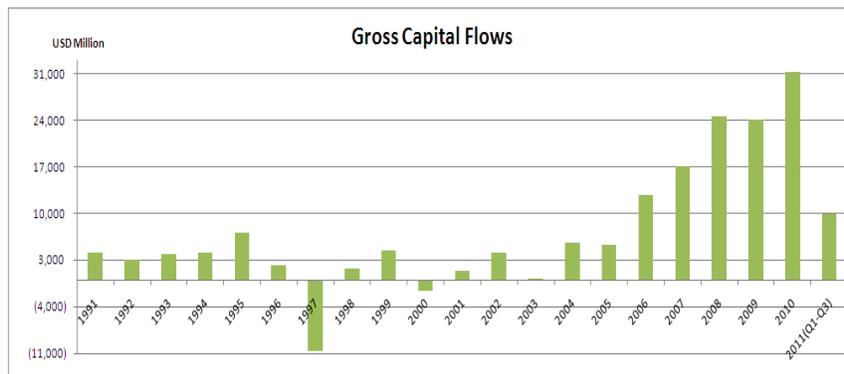
Three key risks of capital inflows to EMs

- oComplicating monetary policy from an overshooting of exchange rate
- oRapid domestic credit expansion leading to inflation, asset price bubble, and sustained current account deficits
- oSudden reversals of capital inflows

Instruments to manage capital flows by EMs

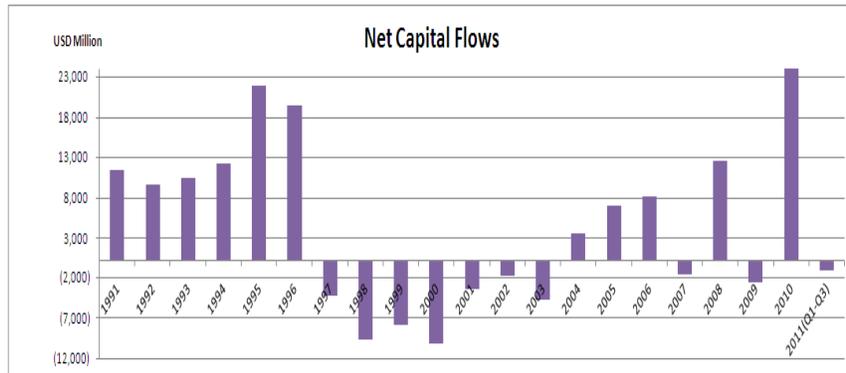
- Exchange rate appreciation/Reserve accumulation
- Monetary Policy
- Capital controls
- Sterilization
- Fiscal policy
- Macro-prudential measures
- Capital account liberalization (outflows)

*Thailand has gone through **two major episodes of capital inflows***



Source: Bank of Thailand

Thailand: *Net capital flows*



Source: Bank of Thailand

Thailand's experience : *Managing capital inflows*

	Two Episodes	
	1990's	2000's
Exchange rate appreciation/depreciation	√	√
Monetary policy	√	√
Fiscal policy	√	√
Capital controls	√	√
Macro-prudential measures	√	√
Liberalization of capital outflows	√	√

Key Policy lessons for Ems

- Market pressure and risk from capital flows can be overwhelming
- Because of its global nature, the problem needs to be corrected at the source i.e., global growth imbalance
- Policy flexibility, disciplined conduct of macro-policy , and financial system resilience are key to a better management of capital flows
- Collaboration of policy responses to capital flows at a regional level between countries can be effective

Q & A