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**Keynote speech**

**M.R. Pridiyathorn Devakula**

**Governor, Bank of Thailand**

**at the 'Horizon's Night'**

**The Changing Value of Thai Society**

**19 May 2006**

**Shangri-La Hotel, Bangkok**

Mr. President,

Distinguished Guests,

Ladies and Gentleman,

On the occasion of the 21<sup>st</sup> anniversary of the Graduate

School of Business of Assumption University, I would like to express my warmest

congratulations to the Assumption University for the long years of services in producing

many qualified graduates for the country, thus contributing to our continued development in this very competitive global environment.

When Brother Bancha invited me to deliver an address on any subject I see fit, I had to ponder long and hard on what would be an appropriate topic for the celebration of the Business School. Your organizing committee proposed that I talk about my concern on the recent development in the Thai society that I have voiced publicly during the New Year, and that is on the Changing Value of the Thai society. I am not sure whether the subject will suit tonight's celebration, but I promise that I will do my best not to spoil your festive mood.

As our economy grows, we have become influenced more and more by Western values and ways of thinking. This has inevitably led to various changes in our behavior and day-to-day life.

One such example is the recent rapid expansion in credit card businesses which could be potentially harmful to the Thai society, if not supervised appropriately. If all credit card holders graduated from Business School such as yours, or if people earned enough income to pay their own bills, or if everyone had adequate financial literacy to properly understand and assess his or her own ability to pay and service debt, we would have nothing to worry about. The point is we are not talking about the educated or the financially literate group of our society. We are talking about the grass root level. It appears that this group has become the target of non-bank credit card companies, most of which are foreign-owned. They have targeted those at very low-income levels-people earning as little as 6,000 baht per month. With their own disposable incomes barely enough to pay for daily living expenses, credit cards provide them with an extra source of funds and the ability to satisfy their pent-up demand for many items which would otherwise not be within their reach.

However, after a few big ticket purchases, situations often arise where their income is insufficient to cover upcoming installments. This problem is compounded by very tough debt collection procedures for borrowers who are unable to pay. Finally their purchased merchandises would be repossessed and their high debt levels sometimes lead to job losses.

Historically, the Bank of Thailand had no authority to regulate these non-bank credit-card companies, due to their status as non-deposit-taking institutions. However, as we continued to witness the potential danger of these companies' behavior, the Bank of Thailand decided to step in. After requesting and receiving the Government endorsement on this course of action, the Bank of Thailand is now entrusted with the oversight role of all credit card providers, including non- deposit-taking companies. Since November 2002, the Bank of Thailand has issued circulars to regulate the provision of credit card services. A minimum income requirement for cardholders has been set at 15,000 baht, and a cap on the maximum interest rate charged set at 18% per annum. This initial action has somewhat slowed the expansion of credit card businesses; however, further measures were needed.

In April 2004, the Bank of Thailand revised regulations to raise the minimum amount of monthly payments from no less than 5% to 10% of outstanding debt, and shorten the term for debt payment from 20 to 10 months. The increase in the minimum monthly payment to 10% aims to prevent cardholders from spending more than their ability to repay, as well as help pace their purchasing of items in order to prevent an excessive debt repayment burden in the future.

After the second regulatory revision, the annual growth rate of credit outstanding for installments of credit cards issued by commercial banks declined from 40% to 17 %, a rate which may be less likely to create problems. With more stringent supervision in the credit card business by the Bank of Thailand, a new phenomenon has arisen: growth

in the personal loan business, particularly since 2003. This has proliferated in various types of institutions, including commercial banks - especially foreign-owned commercial banks, and existing credit card companies. In addition, new foreign-owned non-bank companies, registered as limited companies and not as financial institutions, can undertake the business of lending to individuals, without requiring approval from the Bank of Thailand, as they are not deposit-taking institutions. These companies have opened branches in many major provinces throughout the country. In many cases, these businesses rent a shop-house as an office to provide personal loans to low-income borrowers, for example, at around 4,000 r baht per month.

While Thai commercial banks charged interest on personal loans at the rate between 12 - 24% p.a., foreign banks charged between 12 to 46% per annum, and foreign-owned non-bank companies charged an even higher rate of 12-58% per annum. Charges by non-bank companies sometimes seem misleading as they split the monthly interest charge into two parts: one part called interest rate, and the remaining part called fee. But their fee calculations are done in the same way as interest rate charges. For example, one non-bank company charges an interest of 0.99% per month plus a service fee of 3.98% per month. Many borrowers, who do not fully understand this financial technique, misunderstand that they have to pay a one-time fee of 3.99% and an interest rate of 0.99% each month, which seems quite reasonable. In reality, however, such a company charges an effective rate of up to 58% per annum. Only when they begin their debt payment, would they realize that out of a total loan of 10,000 baht, and a monthly

installment of 600 baht every month, they would need up to eight years to repay the aggregate amount of debt!

Ladies and Gentlemen,

The Bank of Thailand has also sought for the expansion of our regulatory framework to oversee the personal loan business. The Ministry of Finance has issued a notification giving authority to the Bank of Thailand on July 2005 to set the ceiling on interest rates at 28% per annum. Every enterprise now needs to register for a license and bring its ceiling rate down to no more than 28% per annum. Likewise, the Bank of Thailand has urged these licensed operators to clearly and transparently disclose the computation of their interest rate calculation in order to prevent confusion among consumers. Currently, we are monitoring closely the situation of consumer loans. If any further problems arise, the Bank of Thailand will not hesitate to take appropriate action.

Ladies and Gentlemen,

The proliferation of credit card and personal loan businesses have provided greater opportunity for people to spend more on necessary items before they start to save. This way of life would do no harm if individuals exercised self-control on their' spending and were able to evaluate their capability to meet the expense of each installment. However, the effect of this easier means of payment is more likely to stimulate people to buy at the wrong time. Not surprisingly, the "save now, pay later" culture has been reversed. In the United States, the "pay now, save later" culture has worked for the US economy, as people have better job opportunities. We should not promote such culture in our

economy because generally people, especially those in the provinces, cannot easily earn: extra income to pay for their increased debt burdens. This is why I try to tell people that we should not adopt the Western way of "pay now, save later" mentality too rapidly, or allow this mentality to become a norm in our society; otherwise a host of problems would arise.

Credit card and personal loan business still have benefits for consumers in terms of their convenience, particularly for those customers who have financial literacy and self-control. However, there is a need to control and supervise this business to prevent retail customers from overspending and, at the same time, prevent the operators from overcharging interest rates and fees.

Ladies and Gentlemen,

Let me bring you to the second issue that concerns me even more than the change in value placed on our saving culture. Recently I notice that business and economy are putting greater emphasis on size and growth. People get excited with large investment projects; such as the newly opened 12 billion baht shopping complex. People admire big businesses with large earnings and profits, and businesses that achieve high rates of growth and expansion. Investors in stock market are interested in businesses that are merging in order to gain size, increase their market share, and squeeze out their smaller rivals. In some cases, this leads to monopolistic power, with ability to take even more advantage of their customers and consumers.

The younger generation places importance on success measured by numbers and quantity rather than quality, value, and merit. The government, which is supposed to be a role model for the public in general, seems to be concerned only with high GDP growth rates - the higher the better. Issues such as mega projects and the rally in the stock index are more welcomed. All success factors are tied-in with increases in monetary value, or in other words, "only money matters".

Under this environment of "only money matters", and with growth and profit as key determinants of success, the business sector naturally strives to achieve these goals without regard to what is destroyed or lost along the way.

For example, many tourist destinations have been created at the expense of local natural habitats and environments. In order to minimize their own costs, industrial factories release untreated wastewater into our waterways, creating adverse consequences for our communities. In the retail sales business, Western influences have attracted us to large chain stores and franchises, such as Tesco-Lotus supermarkets or 7-11 convenience stores. At the same time, traditional family-run businesses and mom-and-pop stores are fast disappearing. The intimate and warm relationship between customer and shopkeeper, and sense of community has also disappeared with this new phenomenon. In its place are brightly-lit neon hyper stores, which while luxurious and comfortable, lack the human touch of familiar faced shop-owners. Throughout the nation, the livelihood of the owners of these family-run stores has been taken away, and profits accumulated with a few large chains and franchises. Shop owners who previously ran their own businesses have no option but to become employees of these large corporations instead.

This situation has arisen because we have opened our society to Western culture and influence. We have stood by and watched small, family-run shops fight a battle against the large chain stores with incomparable financial standing - a battle they are sure to lose. If authorities recognize the importance of the distribution of **income** as well as the distribution of **opportunities**, these family-run businesses would be able to continue with their livelihoods, and large multinational corporations could be prevented from overwhelming these small businesses.

The process of globalization will bring about access to new technologies, which will help improve the efficiency of our various economic sectors. But in the meantime, the process of globalization opens our economy to the possibility of large multinational corporations taking over local businesses. We should welcome globalization in as much as it helps us enhance efficiency, reduce costs, and improve competitiveness, in the business which has to compete in the international arena. The sake of efficiency, however, should not be a reason to allow large enterprises to take over businesses that produce products or provide services for domestic and local consumers, if it has a detrimental effect of destroying jobs and livelihoods of these people or the local customs and ways of life.

The traditional mom-and-pop stores have no impact on our competitiveness at the international level; they do not need to rely on "know how" of the western model of trade to improve their efficiency, which is usually at the expense of tradition. We can now only hope that authorities will not allow the impact of globalization, brought about

through hasty FT As, to destroy the livelihoods of local people in small businesses, such as barbers, restaurants, truck drivers, and farming.

The process of globalization, which began with the industrialized nations of the West, has had important influence on our values, as I have mentioned earlier. If our government is in favor of this creed of globalization without reservation, there will be no one to stop globalization from eventually overtaking our local businesses. More importantly, social values which give us a sense of satisfaction and happiness will be gradually eroded. It is up to the government, who is tasked with the management of the country, to selectively choose which technology to be brought in to improve efficiency, and only where necessary and appropriate. They should take heed not to allow new developments to overwhelm local traditions and livelihoods. Only then will globalization not change the existing traditional social values.

Ladies and Gentleman

The last item I would like to touch upon today is another related issue befitting today's theme of Changing Value of Thai Society, and that is the measure of economic development and prosperity. Today's measure focuses almost exclusively on GDP growth figures. Actually, there are MANY measurement of economic development, such as employment, per capita income, and income distribution, but it appears that the government focuses almost exclusively on GDP growth figures.

Quantitative-oriented national leaders focus on this measure-so much so that any activities that will help boost GDP growth are given priority over all other concerns. Importance and priority are also being placed on large economic and investment projects, overlooking social development and preservation. Their scope becomes myopic, focusing on short- term investments with immediate results and effect on GDP growth figures in the next quarter, rather than on longer-term projects which foster education and preservation of cultural heritage.

It is an undisputable fact that in the case of Thailand, we have focused our energy in promoting growth in industrial production to achieve economic growth and development, One effect has been a rapid depletion of our natural resources, Deforestation resulting from logging and other industries for short-term economic gain is a stark example (on this may I add that we are lucky that some visionaries in previous governments realized these dangers and declared a forest closed-door policy which helped stop deforestation).

What seems to be the inevitable consequences of a solely GDP-driven growth strategy include problems of water shortages, which we now see repeatedly on a yearly basis. More worryingly, this trend seems to be intensifying each year as the demand for water continues to rise and is projected to double within twenty years (with current rates of population and economic growth). These coming water shortages have begun to take effect on manufacturing industries; but the more worrying impact has been on villages and communities with limited ability to reserve water. At the same time, opposite, . extreme events have also occurred, such as destructive seasonal floods. Recently, bouts of intermittent drought and flood have both caused much destruction.

In addition, the expansion of large cities and construction which has interfered with natural drainage routes, such as in the case of Had Yai or the natural water drainage on the Eastern side of Bangkok, are good examples of economic development which have intensified the problem of flooding.

The tourism industry is another sector that has seen remarkable growth and has helped sustain high rates of GDP growth. But in the past, such tourism growth has been to no small degree at the expense of our natural environment and destruction of our natural resources. In some places, the environment and natural ecosystem have been put off-balance. Natural scenery which has been part of our national identity and drawn tourists to our country has been diminished, or in some cases ruined.

To prevent these problems from getting out of hand, our country's development should be undertaken in a way that does not place importance on GDP growth at the expense of all else, but aims to strike a balance between GDP growth and the preservation and conservation of natural resources and the environment. Rapid development should not be undertaken unless the environment and natural resources are able to sustain and support such development. The public needs to have greater interest in resource management, particularly water management, in order to allow sustainable use, alongside the growing needs from agriculture and industry. We need to restore nature and the natural balance of the environment, which can thrive in parallel with the growing economy, increased tourism demands, as well as improved living standards for all Thais in general.

Hence, in order for economic development to continue in, the right direction, development should not be measured solely by GDP growth, but by other development indicators as well. There has been increasing discussion on the concept of Green GDP, although this has not yet been put into practice.

[In Bhutan, instead of adopting traditional GDP measures, the Bhutanese have adopted "Gross National Happiness", or GNH as their development philosophy. In recognition that human happiness is a composite of both the material and non-material needs, GNH is meant to address this. GNH is a more comprehensive measure that incorporates economic development, environmental preservation, cultural promotion, and good governance.] It is a shame that such an understanding of the intricacies of development and human satisfaction are not more widely understood and appreciated.

As for Thailand, we may begin to foster this philosophy through adopting a more diverse array of measures of development and success. Agencies such as the NESDB should publicly announce and raise awareness of the diverse aspects of development, success, and prosperity. For example, these indicators can include rates of water accumulation for use and amount available in reservoirs each year, the number of villages that face water shortages each year, increase (or decrease) in forested areas, ratios of industrial factories with substandard water treatment procedures, oil dependency ratios of the industrial sector, or teacher-to-student ratios, to name a few. Our country's leaders need to commit to certain goals and targets that are clearly and publicly announced. The public's perception that growth and development is reflected only in growth of GDP should be corrected.

Listening to me today, I am sure many of you may think that my visions are only a dream that will be hard pressed to find their way into reality. I do admit that many of these proposals will be difficult to put in place in practice, but they are not impossible. They are actions which we need to push towards, and at the soonest. I have discussed these issues in other venues and fora and with many positive reactions. And I will continue to speak on this topic to convince more people of its importance. I hope that this persistence will one day show results, whereby our country's leaders and administrators truly understand the need to change their way of thinking. I firmly believe that this dream is truly within our reach.

Thank you for your attention.