The Role of Monetary and Fiscal Policies in Thailand after the Global Financial Crisis

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The impacts of the Global Financial Crisis (GFC) had transmitted from advanced economies to the Emerging Market Economies (EMEs). Among EMEs, Thailand also confronts with the economic slowdown. Recently, the US economy has continued to recover from the GFC. However, the slow recovery progress in other advance economies e.g. EU and Japan, make world exports value expand slowly. When the external demand is too weak to drive the economy, the push in domestic demand is required for economic stimulus. Therefore, the expansionary monetary and fiscal policies have continued to implement in Thailand after the GFC. However, both policies have their limitation. Specifically, the effects of monetary policy depend on its transmission mechanism from policy interest rate to the real economic activities. For fiscal policy, the multiplier effects, crowding-out and size of government expenditure in the GDP are the factors that influence its effectiveness. Moreover, rising inflation, political instability and limitation of fiscal space are the important factors for using expansionary monetary and fiscal policies for a prolonged period. Therefore, we focus on the role of monetary and fiscal policies to support output growth in Thailand after the GFC. The objectives of this paper are to estimate transmission mechanism of monetary and fiscal policies in Thailand using macroeconometric model and then measure the effectiveness of monetary and fiscal policies after the GFC. From the monetary policy side, the Bank of Thailand gradually decreases the policy interest rate from 3.5 percent in October 2011 to 2.0 percent in March 2014. We firstly measure the transmission mechanism of monetary policy. The results show that monetary policy increases the GDP growth by 0.22, 0.33 and 0.37 percent in 2012, 2013 and 2014, respectively. Considering the fiscal policy, Thai government increases public expenditure by 4.6, 4.1 and 1.9 percent during 2012 to 2014. The transmission channels of fiscal policy are computed accounting for multipliers and crowding out effects. The effects of fiscal policy can stimulus GDP growths by 1.0, 0.9 and 0.6 during this period. Notably, since the government spending cannot be used for lengthy period, the effect of fiscal policy drops in 2014. In sum, our results show that the fiscal policy has bigger effects to Thai economy than that of monetary policy.

Keyword: Monetary Policy, Fiscal Policy, Global Financial Crisis, Macro Economic Model, Thai Economy

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