

Economists not in favour of rate cut

The Nation February 8, 2013 1:00 am

Negative impact amid robust consumption cited

A sizeable number of economists have voiced their disagreement at a proposed cut in the policy interest rate to tame foreign-capital inflows, saying lower rates could lead to negative repercussions at a time when Thailand's domestic consumption has expanded sharply.

More comments emerged as the Bank of Thailand is apparently under pressure from the Finance Ministry to cut the key rate when the Monetary Policy Committee (MPC) meets on February 20. The pressure has led to a rumour that Finance Minister Kittiratt Na-Ranong wanted to dismiss BOT Governor Prasarn Trairatvorakul for his failure to lower the rate to slow the baht's appreciation and cut the central bank's accounting losses.

"Please stop spreading this rumour," Kittiratt said yesterday.

Edward Teather, a senior economist at UBS Securities Asia, said cutting the policy rate could encourage foreign investors to bet on property prices. Meanwhile, capital controls should also be avoided, as this would affect the long-term image of the country. He favours macro-prudential measures targeting a particular sector that heats up on inflows.

He said strong economic activity in Thailand, in the aftermath of the 2011 floods and the euro-zone crisis, suggested rate tightening in the near future. UBS expects the BOT to raise the policy rate by 75 basis points to 3.5 per cent before the end of this year. Meanwhile, he predicted, the baht would continue strengthening to 27 to the US dollar, in line with policy tightening.

Raymond Maguire, strategist at UBS Investment Research, noted that a lower interest rate would only further fuel speculation in the stock market. Policy tightening could weaken the market's attractiveness, but in the long run, it would strengthen after infrastructure investment.

Korbsak Phutrakul, an executive vice president of Bangkok Bank, said in his regular column in Krungthep Turakij newspaper that a rate cut, if it is effected during an economic slowdown, would slow inflows and boost the economy. However, if the economy is performing well as it is doing now, a cut may discourage some inflows but a few years later it could lead to overspending and bubbles.

One Asset Management chief executive officer Win Udomratchavanich noted that as the real interest rate is in a negative area - though January inflation was 3.63 per cent - the MPC was likely to maintain the policy rate at 2.75 per cent. If inflation further eases this month and the baht strengthens, a rate cut may be made at the next meeting.

To date, overseas investment by Thais has not weakened the baht thanks to massive inflows. According to the Securities and Exchange Commission, Thailand's outstanding overseas portfolio investment at the end of 2012 was only US\$25.15 billion (Bt749 billion), only half of the \$50-billion ceiling. Of the total, 97.89 per cent is invested through mutual funds.

The baht has appreciated 3 per cent so far this year against the dollar, forcing exporters to change strategies as a majority of Thai exports is denominated in the greenback.

Sukij Kongpiyacharn, president of the Thai Garment Manufacturers Association, said many enterprises were affected by the appreciation as few had expected the rapid rise and bought forward contracts. He asked for a fund to help small and medium-sized enterprises now and a programme to educate exporters on the foreign-exchange markets.

Intervention sought

Vuttiphon Wanglee, managing director of Chaithip, a long-time exporter of Thai rice, said that if the baht rose further, the volume of rice exports would drop on the higher price. He asked for intervention when the baht falls below 29.5 per dollar.

Sea Value president Poj Aramwattananont said his company had coped with the stronger baht through cost-cutting measures, out of fear that clients may shift orders to exporters from other countries. He noted that Thai food is famous for its high quality, but persistently rising prices could lead to a shift in orders.

Suwanchai Lohawatanakul, secretary-general of the Association for the Promotion of Thai SMEs, noted that Thai SMEs were less affected by appreciation of the baht than in 2007 because of lessons learned in the past years.

Most of them have come up with three short-term approaches to cope with the stronger baht: quoting goods prices in buyers' currencies like the Singapore dollar or Malaysian ringgit; negotiating with buyers for quotations in baht; and currency hedging (eligible only for SMEs with bank credit facilities).

"Negotiation depends largely on the length of the relationship between the SMEs and their clients. If they have been doing business for some time, the clients are likely to agree on the new price quotations," he said.

Source: <http://www.nationmultimedia.com/business/Economists-not-in-favour-of-rate-cut-30199612.html>