

BOT losses 'no cause for worry'

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Prasarn says many central banks carry such losses in their balance sheets

Bank of Thailand Governor Prasarn Trairatvorakul yesterday launched a strong counterattack, saying the central bank's losses should be of no concern to the government as taxpayers' money will not be sought to erase them from the books.

"We're not in a situation where we will seek a government budget or public taxes. That point will come when damage is done or when the central bank is deemed a failure. Now, BOT bonds still attract overwhelming interest," he said.

At his monthly press conference, Prasarn insisted that the monetary authority's losses would not affect its operation if it can maintain economic stability. He did not envision a day when the central bank would run to the government seeking financial help as long as there was public confidence in the institution.

Up to now, foreign investors have never mentioned such concerns over the central bank's operations, he said.

Earlier this month, Finance Minister Kittiratt Na-Ranong sent a letter to central bank chairman Virabongsa Ramangkura suggesting that the mounting losses - stemming from foreign exchange stabilisation - would make it difficult for the central bank to carry out its operations. He urged it to lower the policy rate to curb capital inflows and lower the outlays needed to stabilise the dollar/baht rate.

All eyes are on the Bank of Thailand's Monetary Policy Committee, which will meet on February 20.

Prasarn pointed out that other central banks in countries like Chile, Peru, Singapore, the Philippines and Malaysia also suffer losses, but they can perform their job of maintaining economic stability quite well.

The central bank is waiting for the government gazette for its balance sheet, while conceding that its 2012 loss is about Bt530 billion, which comes from the banking account. After taking these numbers along with the profit in the currency account of more than Bt800 billion, the central bank made a profit.

Prasarn said the loss arising from the 2 per cent higher interest expense above interest income may be of concern to some parties. If revenue is taken into consideration, the central bank also earns income from issuing bank notes. Thailand sees bank note circulation amounting to

Bt1.4 trillion, which is expected to rise 8 per cent per year, and that could lower the central bank's losses.

Prasarn said the central bank's key performance indicator is not profit but maintenance of economic stability.

"The central bank's supervision of economic stability is like a pencil's rubber eraser, which is like a flexible buffer to tolerate a hit at a certain level to the central bank's finances, instead of letting it hit the country," he said.

Conflicts between the government and the central bank were usual in economic policy implementation.

"These policies [interest rate and capital movement] aim to maintain economic stability and we need to look at several factors, depending on who weights a factor more," he said. Other factors for capital movement include sovereign risk, regulation risk, liquidity, and interest rate and exchange rate trends.

"In the case of Thailand, it [the Thai baht] appreciated 3 per cent [last year, lower than other regional currencies,] as in early 2012 there was not not much confidence because of the floods [in the last quarter of 2011]. The South Korean and Philippine currencies appreciated about 7 per cent. In the first two to three weeks of this year, we [the baht] appreciated more than the others and came close to the Korean and the Philippine currencies. The baht started becoming stable as it followed regional peers," he said.

Capital inflows will continue to come from major countries due to Thailand's growing economy. The central bank has tools in its toolbox, including flexible exchange rates and promotion of capital outflows including overseas investment by Thai companies and investors,

Another tool is intervention in the money market. There are other measures, starting from foreign investors reporting on their transactions, registration of overseas borrowings and time limits on foreign money holdings to capital controls and interest rate cuts.