

The Bank of Thailand has successfully defied the government's pressure for a rate cut, as yesterday's decision to maintain the policy rate at 2.75 per cent did not cause a further appreciation in the baht as feared.

The Nation, February 21, 2013

The baht was quite stable yesterday at 29.83-29.84 per US dollar, up 0.12 per cent from the previous day but down 0.07 per cent from end-January.

The Monetary Policy Committee (MPC)'s decision, supported by six of seven members, was anticipated by most economists, given the robust economic conditions in the fourth quarter of last year. Deputy Prime Minister and Finance Minister Kittiratt Na-Ranong earlier expressed his wish for a rate cut to weaken the Thai currency in order to maintain export competitiveness and lessen the central bank's foreign-exchange stabilisation costs. He said the rate was too high relative to US and Japanese rates, and helped attract currency inflows to Thailand.

All eyes were on the meeting yesterday to see whether the MPC would yield to the government's pressure. The National Economic and Social Development Board (NESDB)'s fourth-quarter economic figures, released on Monday, came as something of a gift to the central bank. The fourth quarter robustness boosted annualised growth last year to 6.4 per cent, and the NESDB maintained its 4.5-5.5 per cent growth forecast for this year.

"The baht moved in line with expectation that the rate would not be cut. Investors are now in a wait-and-see mode, pending new monetary policies in Japan. Without the policies, the yen has weakened by 20 per cent [since the new government took office]," said Thiti Tantikulanan, Kasikornbank's capital markets business division head.

A treasurer at TMB Bank said the baht would likely strengthen further to 29 per dollar in the next one to two years, and possibly to 25 per dollar in the next three to five years, thanks to the natural decline in US dollar demand in Asia as well as Thailand's strong economic fundamentals.

"The no-change decision amid all the government pressure for a cut was an important message to the markets that: 1) the MPC continues to make decisions rationally, and, as Governor Prasarn said in the lead-up to today's meeting, decisions that are based on more than one single factor, ie. interest rate differentials; 2) that it remains credible and independent. This should put to rest any fears that market participants may have had since October's surprise rate cut that the MPC is at risk of buckling under government pressure without too much resistance," said HSBC economist Su Sian Lim in her research note.

Kittiratt yesterday sneaked out of Government House without giving interviews to reporters. It was reported that he had received a dinner invitation from Bank of Thailand Governor Prasarn Trairatvorakul. Prime Minister Yingluck Shinawatra yesterday told reporters that Kittiratt would soon discuss with the central bank new measures to deal with the strong baht and its economic impacts.

Paiboon Kittisrikangwan, secretary of the MPC, said after the meeting that the committee is of the view that the economy is performing better than expected, thanks mainly to domestic demand and a gradual recovery in the export sector.

"All seven committee members made their decision on the same set of information. One member saw the risks stemming from volatile capital flows and fragile economic momentum as warranting a 0.25-percentage-point reduction [in the policy rate]. All members, though, are concerned with volatility brought about by inflows. Going forward, the MPC will continue to closely monitor risks to financial stability as well as the capital-flow situation and stand ready to take action as appropriate," he said.

Paiboon said the main objective of the monetary policies is to boost growth and keep inflation low, in order to prevent financial instability. As such, the MPC needs to take into account various factors such as capital flows, currency movement, export-sector performance, employment, regional economic conditions and asset prices. Political pressure is not one of the factors, he said.

He added that at all recent meetings the MPC has reviewed data for any signs of asset bubbles, following fast growth in some loan types. The Thai bourse has rallied despite foreign net-sells this month. The Stock Exchange of Thailand index yesterday hit a new 18-year high at 1,546.64 points on turnover of Bt63 billion.

In a statement, the MPC said that the current rate is accommodative to sustained growth of the economy, while inflation has been kept within the target range. It views the global economy as having become more stable and exhibiting signs of improvement since the last meeting. Against improvements in the US and China, the euro-zone public debt remained a downside risk, as well

as the US fiscal consolidation. Against this backdrop, the Thai economy has expanded briskly and is expected to grow faster than previously projected in the periods ahead, with domestic demand being a key growth driver together with a gradual recovery of exports, it said.