

Central bank chief says baht under control

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The Bank of Thailand appears less concerned about a stronger baht, saying appreciation has eased and stayed within the same range as other regional currencies.

But governor Prasarn Trairatvorakul said the central bank expects risk from foreign capital inflows to rise as crisis-hit rich economies struggle to emerge from their economic doldrums.

"The baht was stable during the past few days," he said. "But it is likely that foreign capital inflows will increase as a result of the measures of large economies that have seen stagnant growth in the past five years. The Thai economy has several tools to handle the impact."

The Monetary Policy Committee will convene next Wednesday to decide whether to leave the policy interest rate at 2.75%.

The Finance Ministry has strongly asserted its view that the high interest rate differential between the local market and high-income economies is the main factor attracting capital inflows and causing the baht to appreciate this year.

The ministry has been vocal in seeking a policy interest rate cut.

"In the case of Thailand right now, the foremost factor for capital inflows is external perception of risk that reflects investors' appetite to take on assets in a developing economy, followed by foreign exchange gains. The interest rate ranks third in inducing foreign inflows," said Mr Prasarn.

He said generally, a high local interest rate would draw capital inflows to the local bond market. But a low interest rate would fuel growth in asset markets and could lead to more capital inflows.

A more balanced capital account has reduced the need for the central bank to step in and buy US dollars from the markets, which in turn release baht.

"Too much market intervention could allow market players to speculate from anticipation that the baht will appreciate," said Mr Prasarn.

"But the central bank will not allow the baht to appreciate so fast that local businesses have no time to adjust. Lately we have not intervened much in the market. In fact, we've barely intervened."

He said capital control measures are recognised by credit rating agencies and the IMF as a tool, but harsh measures could have a bad effect on the economy.

