

## **Moody's doubts policy rate to be cut**

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Chalongphob Sussangkarn, joined Thirachai, saying Kittiratt's letter to Virabongsa was not constructive.

Moody's Analytics does not envisage a cut in Thailand's key interest rate this year given excessive lending that could lead to bubbles in asset prices.

"Policy-makers must also pay close attention to excessive lending growth. Prior to the global financial crisis in 2008, lending increased an average of 6 per cent per year, while nominal GDP [growth was] 9 per cent," Fred Gibson, an analyst of Moody's Analytics, said in a report on "Thailand Outlook: Spreading the Benefits of Growth".

"Since 2010, however, lending growth has averaged 11 per cent compared with 7-per-cent nominal GDP growth. When borrowed funds aren't used for domestic investment or consumption, they tend to be invested either offshore or in domestic assets. If sustained, the latter can feed asset-price bubbles."

Monetary-policy makers can keep the interest rate on hold for most of 2013, with a new tightening cycle starting late in the year, to preempt price pressure from stronger exporter incomes.

The report was released at a time when the Bank of Thailand is under pressure to reduce the policy rate to slow down capital

inflows. Finance Minister Kittiratt Na-Ranong recently warned BOT chairman Virabongsa Ramangkura about the central bank's ballooning losses stemming from foreign-exchange stabilisation.

Thailand's policy rate is 2.75 per cent, against 0-25 per cent in the United States.

Kittiratt was criticised for this "intervention" by former finance minister Thirachai Phuvanat-naranubala. Yesterday, another ex-finance minister, Chalongphob Sussangkarn, joined Thirachai, saying Kittiratt's letter to Virabongsa was not constructive.

He said the main role of the central bank was not to make profit but to maintain financial stability, and it was inevitable that sometimes such actions could incur losses, given massive inflows of hot money.

Gibson's report indicated that inflation might not remain within the central bank's target of 0.5-3 per cent without a softening in global commodity prices and slower global growth in gross domestic product.

The analyst admitted that the quantitative-easing policies in the US and more recently Japan had increased the flow of hot money to Thailand, causing the baht to soar against the US dollar.

While some believe the rise in the minimum wage will fuel inflation, Gibson is convinced that government initiatives will support consumption and investment and that exports should improve with the global economy, with momentum picking up in the second half.

Foreign investment grew at a steady pace in 2012, a trend that is expected to continue this year, he said. The government's infrastructure development efforts should also strengthen capital spending. Investment is forecast to grow 9.5 per cent, significantly ahead of private consumption, which is forecast to rise by 4.4 per cent.

Despite softness in agricultural shipments, the other key export industry, electronics, enjoyed stronger demand after smartphones and tablets were launched in the second half of last year. This strength should last through the first half of this year. Production of hard drives and PC components is still in the doldrums, however, as global business investment remains soft.

"We expect that an upturn in US business investment later this year will lift Thai exports of PCs and hard drives. Improving global demand is expected to buttress auto shipments through 2013. Japan's recent policy reforms, aimed at ending that nation's 20-year slump, will also boost Thai exports.

"We expect overall export growth to improve significantly in 2013, with momentum picking up in the second half. Downside risks continue to centre mainly on fiscal policy uncertainty in Europe and the US. A new fiscal crisis in either region could knock the global economy back into recession."

Thailand grew around 6 per cent in 2012 as reconstruction and pent-up demand from the devastating floods in 2011 lifted output above trend. Government subsidies have also spurred growth, while the soft global economy has crimped export-facing industries. Growth will ease toward trend rates in 2013 as the reconstruction boost fades, although robust domestic demand will keep the economy expanding at a decent clip.

Minimum wage laws introduced across the seven most industrialised provinces in April 2012 were extended to the rest of the country in January. The minimum wage has been set at THB300 (US\$10) per day, which is expected to lift the incomes and consumption of lower-income households. While the policy could hurt labour-intensive industries, it highlights a policy shift in favour of consumption and income equality.

The government also introduced a subsidy for first-time car buyers, worth Bt100,000 (US\$3,260). This caused car production and consumption to surge through 2012—even after accounting for low base effects from the floods. The subsidy was slated to end in 2012,

although reports suggest the finance ministry is seeking to extend the program through mid-2013. Whilst the subsidy isn't sustainable in the long run, it has encouraged investment in Thailand's auto industry. Toyota recently announced it will spend \$404 million on a second plant to boost its capacity.

Not all the government's policies will have positive long-run benefits. A scheme to buy rice from farmers at up to \$200 per ton above the world price will encourage inefficient farming practices. Unlike the auto subsidy, which was aimed at lifting demand, the rice purchases are supposed to lift producer incomes. Yet intervening in the market has crimped rice shipments, as the government has been unable to offload its stockpiles: The World Bank estimates the government would lose close to \$4 billion if it were to sell its rice stocks at current global prices.