

Kittiratt adds pressure

Letter sent to MPC suggesting rate cut

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The government has stepped up calls for the Monetary Policy Committee (MPC) to reduce the policy interest rate and ease pressure on foreign capital inflows and the baht.

Deputy Prime Minister and Finance Minister Kittiratt Na-Ranong sent an official letter to a meeting of the Bank of Thailand's board last week requesting it resolve its operating losses by reducing the rate.

The letter reaffirmed the government's ongoing call. It believes a lower rate would ease foreign capital inflows, a major cause for the baht run-up in the first two weeks of this year.

Mr Kittiratt said a lower domestic interest rate would also help reduce the central bank's interest rate burden on bonds it issued to sweep excess liquidity, thereby trimming the central bank's operating losses.

He said this was essential because by law the central bank was allowed to invest only in liquid, low-risk assets such as government bonds or US Treasury bills with near-zero return, leaving it with no way to earn more income.

The baht yesterday closed at 29.72/74 to the US dollar, slightly weaker than the levels in mid-January.

The MPC will meet again on Feb 20 to decide on the overnight interest rate for bank deposits, currently at 2.75%.

Somchai Sujjapongse, director-general of the Fiscal Policy Office, said the finance minister is exercising his rights under the Bank of Thailand Act in voicing concern that the central bank will increase its operating loss by keeping the policy interest rate high.

The law is vague regarding the need for the central bank to consider the government's economic policy in its operation.

"The MPC is the body that decides whether to reduce the policy interest rate," said Mr Somchai.

"But we think the central bank will run up increasing losses day by day by maintaining the present interest rate."

The MPC comprises three central bank officials and four external experts and is chaired by the central bank governor.

The Bank of Thailand is expected to continue showing record operating losses in 2012, increasing its cumulative losses from about 300 billion baht resulting mainly from its money market operations to weaken the baht in recent years.

Mr Somchai said the government's plan to finance the 2.2-trillion-baht infrastructure investment plan mainly with domestic borrowing could reduce excess liquidity and the central bank's interest rate burden.

Benjarong Suwankiri, a senior economist at TMB Bank, said the baht recently weakened after the Bank of Japan made clear in mid-January it will start increasing its asset purchases next year rather than this year.

The market has become divided on prospects of the MPC meeting, with some expecting it to cut the policy interest rate, he said.

"I think a rate cut will likely have only a small effect on stemming foreign capital inflows as investors look in the domestic market for other than interest-rate-bearing assets _ options such as shares and properties," said Mr Benjarong.

But MPC chairman Ampon Kittiampon insisted the letter from the Finance Ministry will be considered an "academic view" only and gave firm assurances the MPC will make its decision based on the stability of the economy.

As well, he reaffirmed that MPC members, who have extensive experience, will vote independently and transparently. "After nine years as MPC chairman, I can say that the letter will have no influence on our decision here. Instead, we'll take it as an opinion from the minister based on his experience, and I believe his opinion was given cautiously," said Mr Ampon.

Source: <http://www.bangkokpost.com/business/economics/334469/kittiratt-adds-pressure>