

Measuring the Roar of the Year of the Tiger

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Last year, many emerging economies blamed the US policy of “Quantitative Easing” for pushing cheap money into financial markets and subsequently leading to an increase in upward pressure on emerging markets’ currencies. With this excessive amount of capital inflow, the baht gradually appreciated by close to 9 percent against the US dollar, from 33.23 Baht to USD in January to 30.15 Baht to USD on December 30, 2010, raising concerns on Thai exports.

The Bank of Thailand (BOT) welcomed the Year of the Tiger by relaxing some restrictions on foreign currency hedging in order to encourage Thai companies to hedge their foreign currency risks and facilitate foreign exchange transactions. Starting from the end of 2009, exporters, as well as importers, have been allowed to undertake foreign currency hedging based on their one-year forecasted export proceeds. Then, in February 2010 the BOT also began permitting companies to freely unwind all derivatives undertaken for foreign currency hedging transactions for goods and services; again, this further allowed Thai businesses to reduce costs, and also increased their flexibility when managing risks, particularly in the event that the market were to move in an unexpected direction. These two policy relaxations help create more incentives to hedge against foreign exchange exposure and to promote the development of a foreign exchange market.

As the Year of the Tiger roared on, with the intention of encouraging more balanced capital movements in order to stabilize local currencies, the BOT continued to relax some regulations on outflows to promote international investment for Thai investors, as well as boost the competitiveness of Thai companies. Two policy changes that the BOT instituted were allowing Thai companies to freely invest abroad in the form of direct investment and extending the limits on portfolio investment for investors under the supervision of the Securities and Exchange Commission to USD 50 billion.

Besides, the maximum lending amount that Thai companies can lend to non-affiliated companies abroad, as well as for purchases of immovable properties overseas have both been raised to USD 50 million and USD 10 million, respectively. Also, any export proceeds of value less than USD 50,000 are now exempt from the repatriation requirement. That is to say, exporters can now leave part of their income abroad to pay for future obligations instead of bringing every cent of their revenues back to Thailand. All of these measures provide more opportunities for Thai residents to enhance their flexibility in conducting foreign exchange transactions, in addition to promoting more outflows of capital to moderate currency fluctuations.

Additionally, the restrictions on foreign currency deposit (FCD) accounts have been loosened to facilitate Thai companies in conducting their businesses. Foreign currency fund transfers between the Treasury Center and its affiliated companies in Thailand are now permitted in order to enhance efficiency of business sector in managing their foreign currency and liquidity as well as to encourage multi-national companies to relocate their foreign exchange business into Thailand. Furthermore, Thai residents who have revenues in foreign currency can now pay for products in that currency by transferring funds from their FCD accounts to their counterparties' accounts without having to convert into Thai Baht and then into another currency which reduces costs on foreign exchange transactions. Also, Thai residents can now purchase foreign currency to deposit into their FCD accounts up to an amount of USD 500,000. In short, these relaxations make it both more convenient and more flexible for Thai entrepreneurs to reduce transaction costs and their foreign exchange risks.

Although the Year of the Tiger has already come to an end, the Year of the Rabbit has just bounced in. The BOT will carry on with the improvements to the balance of capital movements and continue helping Thai businesses to be able to stand strong on their own feet. The ultimate goal is to achieve a resilient economy in which Thai companies are able to adapt and adjust to any unforeseen situations. In this Year of the Rabbit, the US and other Western European countries are the eager bunnies that have already raced ahead of us, but in doing so, they ran too fast and accidentally bumped into the wall and are currently hospitalized. Thailand should grasp this opportunity to be a turbo turtle

that never quits no matter how difficult the going gets, but unwaveringly keeps walking step-by-step towards the finish line. If the lessons in the story hold true, perhaps, Thailand will have a gold finish of its own.

(The views expressed are the author's own.)

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