

SAFE HARBOUR IN STORMY SEAS: BANK OF THAILAND SAVINGS BONDS

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VOLATILE MARKETS, a US downgrade, soaring then dropping gold prices, and fluctuating exchange rates has everyone sitting on edge.

Each new week brings with it both expected and unexpected news, but currently more of the latter prevails. Stock markets are jittery and so are investors. Even investors in Thailand who are half way across the globe feel this. Investments must be carefully planned and chosen. This is time to invest in something safe. Something that guarantees your money does not vanish in a blink of an eye. Bonds and savings bonds for that matter are a safe investment alternative.

The Bank of Thailand's Bt50 billion savings bonds are now available, with 3 and 7-year maturity, targeted towards retail investors and non-profit organizations. If you have children, in lieu of savings, you can also buy the savings bond in their name.

Investing in savings bonds is not for those who are in search of high risk and high return, but what it does offer is a safe and secure investment in which your principal amount remains guaranteed. Put simply, this is comparable to placing your money in a fixed deposit account; the differences are that the maturity is longer and rather than receiving your interest at the end like a fixed deposit account you get it in quarterly payments (every three months) or semi-annual (twice a year) payments depending upon if you choose the 3-year or 7-year savings bond. This is an added benefit for those who would like to have regular cashflows.

"Ok so bonds are safe," you might say, "but I'd rather have my money in savings accounts where I can withdraw them anytime I want." My reply to you is this: although savings bonds are not as flexible as having them in savings accounts, I am sure that there must be a portion of your savings that are lying untouched in your bank account. Since the minimum amount to purchase the Bank of Thailand Savings

Bonds is merely Bt50,000, why not dedicate a portion of your savings account to savings bonds? There is no limit on how much you can purchase.

After a minimum holding period of three months for the initial period (i.e. after November 26) you may transfer the bond ownership to someone else. Alternatively, you can sell the savings bond to anyone, banks, or individuals.

Savers earn 1.70 to 2.00 percent for 3-month fixed deposits at the four largest banks and stand to gain nothing if the sum is withdrawn prior to the agreed fixed period. But no penalty is imposed if you sell savings bonds.

Historically, savings bonds offer higher interest rate than fixed deposits. These two tranches of BOT Savings Bonds offer quite attractive rates. The interest rate for the first coupon payment for the 3-year Savings Bond is 3.58125 percent and the step-up interest rate for the 7-year Savings bond ranges from 3.5-5 percent, averaging out to 4.00 percent. Three-year savings bonds are also liken to money market fund, but they do not charge management fees.

Floating against the 3-month BIBOR means that every three months the coupon payment is reset at the market rate which is announced two days prior to the next coupon payment period. You will therefore not lose out on the opportunity to receive market rates. However, if you prefer the certainty of knowing what the rate of interest will be throughout the entire period, then the 7-year Savings Bond with predetermined step-up interest rates is the choice.

Of course, as with any investment please use your judgment. If you want high risk, high return then savings bonds are not for you. It is rather a safer alternative where principal repayments are guaranteed. It is indeed an alternative investment that will put your mind at ease amidst the jittery stock markets.

The savings bonds are available until Sept 6. Information is available at the Bank's website www.bot.or.th or visit your nearest bank branch for more information.

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

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