

# Economists expect MPC to keep policy rate at 2 per cent

**ERICH PARPART**  
THE NATION

**ECONOMISTS EXPECT** the Bank of Thailand's Monetary Policy Committee (MPC) to maintain the Kingdom's key interest rate at 2 per cent after its meeting tomorrow, since the economy is still struggling and lowering lending rates would not help growth at this time.

Somchai Amornthum, executive vice president of the research department at Krungthai Asset Management, said what was truly needed right now was fiscal policy. The government did well to accelerate its budget disbursement in the first quarter of fiscal 2015 (October-December) despite missing the target, but it has to keep up this effort as its investment projects help increase economic activity.

"Domestic consumption has yet to recover while export of merchandise is still doing poorly," he said.

Somchai said export volume had receded from the higher numbers seen at the end of last year, which were due to the pending termination by the European Union of Thailand's Generalised System of Preferences privileges. Overall export value dropped because of the falling oil and oil-product prices.

Overall export value was US\$17.249 billion in January, down 3.46 per cent year on year. The export value of agricultural products contracted by 13 per cent, while that of industrial products expanded by a mere 0.6 per cent.

"Lowering the policy interest rate would not help while the baht is strong [compared with neighbours currencies] because of the foreign capital that is flowing into Thailand's stock and bond markets. The value of outflows has dropped since the global oil prices went down by 50 per cent," Somchai said.

According to the Stock Exchange of Thailand's website, there was a net inflow of Bt3.383 billion from foreign investors from March 1 to March 6.

## Rate expected to stay for year

Somchai expects the MPC to maintain the policy rate at 2 per cent for the whole year. He also believes that the US Federal Reserve will begin to raise its benchmark lending rate by midyear from the current level near zero to end up at 1.25 per cent by the end

of 2015.

Tim Leelahaphan, an economist at Maybank Kim Eng Securities (Thailand), said government spending was a more effective tool to boost economic growth than low interest rates. The securities firm believes that the central bank is putting less weight on the temporary benign supply-side inflation, as it is mainly the result of falling oil prices, and is focusing more on demand momentum.

Headline inflation was negative-0.52 per cent in February, lower than the BOT's full-year target of 1-4 per cent. The central bank maintained earlier that headline inflation would be in the positive zone this year because it expected oil prices to increase in the second half.

Tim said the government had to step up its investment efforts as it is under pressure to shore up the economy. Maybank expects the recovery momentum to continue.

He said consumption was expected to continue to be the driving force for the economy in 2015 while investments are coming into play, and the effects of government's stimulus package announced last year would be seen later this year.

He said the government was accelerating budget disbursement and its efforts to stimulate private consumption were expected to run at full throttle in the second half of the year. As of February 27, the government had disbursed Bt1.1 trillion or 42.7 per cent of its Bt2.575-trillion budget.

Deputy Prime Minister MR Pridiyathorn Devakula said last month that only 17.9 per cent or Bt80.5 billion of the Bt449-billion government investment budget had been disbursed but the rate was expected to reach 30 per cent by the end of this month.

Pimonwan Mahujchariyawong, deputy managing director at Kasikorn Research Centre, also expects the MPC to maintain the policy rate at 2 per cent to support the economic recovery.

She believes that small and medium-sized government investment projects will start soon after being delayed by the need to recalculate costs after the price of oil dropped.

She also expects the US Fed to raise its key rate by June or July, a view that is shared by Somchai, so she believes that the BOT will probably look for long-term stability.

The majority of the MPC is predicted to vote to maintain the policy interest rate instead of lowering it ahead of expected fund flow volatility during the Fed rate-hike period.

The latest Bangkok Poll found that 68.2 per cent of 66 economists believed that the MPC would maintain the 2-per-cent policy rate at its next meeting.