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Column: IMF urges inflow recipient countries to invest more			

IMF urges inflow recipient countries to invest more

While the International Monetary Fund suggests Asian developing economies should utilise foreign capital inflows to bolster consumption and investment, a local economist disagrees, saying rapid baht appreciation hurts Thai small and medium-sized enterprises (SMEs).

Petya Koeva Brooks, the chief of the IMF's World Economic Outlook report programme, said advanced economies needed to loosen their monetary policy in the short term and consolidate their fiscal stance in the medium term.

Restoring growth will be a struggle for advanced economies in the short term, as their interest rates are already near zero. Loosening monetary policy would hurt global demand in the short term, but would render benefits in the medium term as deficits are fixed.

The foreign capital inflows that are strengthening regional currencies also increase purchasing power in the short run, said Dr Brooks at a forum held by the Sasin Graduate Institute of Business Administration of Chulalongkorn University.

But Sethaput Suthiwart-Narueput, Siam Commercial Bank's chief economist, said the Bank of Thailand was being careful not to increase interest rates too rapidly to avoid more upward pressure on the baht. The rapid baht appreciation hurts SMEs linked to the export sector as they have difficulty buying hedging contracts from banks.

Dr Brooks said regional policymakers had to avoid capital inflows creating unsustainable asset bubbles by using foreign exchange intervention, prudential measures and capital controls.

The IMF expects advanced economies to grow 2.7% this year, slowing to 2.2% in 2011.

Roberto Cardarelli, the IMF's chief economist for Asia Pacific, said huge inflows were likely to cause long-term bond yields in regional economies to drop, even if central banks increase rates.

Asia depends on external demand more than other developing economies, therefore its policymakers urgently need to boost their domestic economies, he said. There is room for China to increase consumption, while Thailand and Indonesia should improve investment which is relatively low.

Growth in Asian developing economies is expected to slow next year, as India, Indonesia and Taiwan report increasing inflationary pressure. This will cause the region to tighten monetary policy as interest rates, inflation adjusted, are in negative territory. Yet capital inflows complicate central banks' efforts to tighten policy, he said.

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