Thailand to Levy 15% Tax on Foreigners’ Bond Income (Update2)

(Adds Prime Minister Abhisit’s comment in sixth paragraph.)

By Yumi Teso and Suttinee Yuvejwattana

Oct. 12 (Bloomberg) -- Thailand will remove a 15 percent tax exemption for foreigners on income from domestic bonds, joining South Korea and Brazil in seeking to curb currency gains that threaten exports.

The move will help slow inflows into the debt market, Finance Minister Korn Chatikavanij said today. The baht has advanced 10.9 percent versus the dollar this year, the best performance among major currencies in Asia outside Japan, as the fastest economic growth in 15 years attracted global funds.

Developing nations have been selling their own currencies and taxing global investors to curb appreciation, prompting calls for the International Monetary Fund to play a greater role in monitoring capital flows and exchange-rate policy. Brazil last week doubled a tax it charges foreigners on investment in fixed-income securities to 4 percent to curb appreciation in the real, while Japan last month intervened for the first time in six years to restrain the yen.

“What Thailand is doing is similar to what Brazil has done and if you look at Brazil, their currency continued to strengthen,” said Sim Moh Siong, a Singapore-based currency strategist at Bank of Singapore Ltd. “It may have a knee-jerk reaction and may slow down the pace of appreciation, but I don’t think it will change the medium-term trend.”

Baht Gains

The baht gained 0.1 percent to 30.01 per dollar as of 2:30 p.m. in Bangkok after falling by as much as 0.3 percent earlier, according to data compiled by Bloomberg. The currency touched 29.81 on Oct. 8, the strongest level since July 1997, the year its devaluation triggered the so-called Asian financial crisis.

Today’s decision won’t weaken the baht in the short term, Prime Minister Abhisit Vejjajiva said. Additional measures to boost private investment may be proposed by the finance ministry in the next two weeks, he said.

The Cabinet also approved measures to help boost outflows by accelerating budget disbursements in foreign currencies, Korn said. In the fourth quarter, the government plans to spend 48.99 billion baht ($1.63 billion) in foreign currencies, he said.

Other measures approved today to support small- and medium-sized exporters struggling with the rising baht include state banks providing help with forward contracts and offering dollar loans, according to the statement issued by the finance ministry.

‘Happy Problem’

Korn at the weekend said the appreciation of the baht was a “happy problem,” that reflects economic strength even as it means goods made in Thailand become more expensive for overseas buyers. “I don’t think a country like ours can forcibly change the fundamental direction of our currency,” Korn said in an Oct. 9 interview in Washington.

Brazil's Real has added 1.2 percent since the tax increase was announced on Oct. 4. South Korea's won strengthened 1.2 percent since Oct. 5, when regulators said they will start an audit of lenders handling foreign-currency derivatives on Oct. 19, through yesterday. The won today dropped 1.3 percent on concern the Bank of Korea will intervene to curb gains.

Indonesia's central bank said on June 16 it will require investors in one-month bills to hold the securities for at least four weeks. The rupiah has appreciated 2.3 percent since then.

Thailand, Southeast Asia's biggest economy after Indonesia, had its best two consecutive quarters of growth since 1995 in the first half. The finance ministry on Sept. 27 raised its 2010 forecast for the third time in six months, to as much as 7.8 percent from a June estimate of 6 percent. That would be the fastest pace of economic expansion in 15 years.

Export-Led Recovery

Exports, which account for about two-thirds of Thailand's economy, increased 23.6 percent in August from a year earlier after rising 21.2 percent in July and 47.1 percent in June, official figures show.

Government bonds rose today. The yield on the 3.625 percent debt due May 2015 dropped 14 basis points to 2.569 percent, according to Bloomberg data. The rate yesterday rose the most in five months. The removal of the tax exemption won't cause an outflow of funds because the rule doesn't apply to investors who bought bonds earlier, Korn said today.

Overseas investors have poured a net $1.1 billion into Thai bonds this month after pumping a net $4.9 billion into the debt in the third quarter, according to Thai Bond Market Association. The average daily trading of foreign investors in the secondary market doubled to 5 billion baht in the first nine months from 2.5 billion baht last year, Thai Bond Market Association President Niwat Kanjanaphoomin said yesterday.

"The tax measures may help slow down the baht's strength and foreign buying in Thai bonds," he said. "But I don't think the impact will be massive and it won't drive away foreign investors."

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