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Market fall prompts Thais to lift stock rules

After the market plunged almost 15 percent on Tuesday, the Thai government said it would lift controls on foreign investment in stocks.

By Michael Casey

Associated Press

BANGKOK, Thailand - The Thai government said it would lift controls on foreign investment in stocks after the market plunged nearly 15 percent on Tuesday, rattling regional bourses amid worries about a repeat of the 1997 Asian financial crisis.

Finance Minister Pridiyathorn Devakula said that the controls -- announced just a day earlier -- would remain on foreign investments in bonds and commercial paper as part of central bank's measures to stem the surge in the Thai baht, which had risen to a nine-year high versus the dollar on Monday.

Investors dumped stocks in Hong Kong, India, Indonesia, Malaysia, South Korea and the Philippines amid contagion concerns that the plunge might to spread through the region and trigger the kind of slump that enveloped Asia nearly 10 years ago.

The Stock Exchange of Thailand's benchmark SET Index tumbled 14.8 percent to close at 622.14, after plunging as much as 19.5 percent earlier.

It was the market's biggest one-day drop ever and brought the benchmark index to its lowest since October 2004. The hardest hit sectors were banking, energy and telecommunications.

The plunge came after the Bank of Thailand announced late Monday its toughest measures yet to clamp down on speculative inflows that have lifted the Thai currency, the baht, to a nine-year high of 35.09 to the dollar.

The measures said that starting Tuesday, all banks were required to hold in reserve for one year 30 percent of capital inflows that aren't trade- or services-related, or repatriation of Thai residents' investments abroad. Also, foreign investors must pay a 10 percent penalty unless they keep funds in the country for a year.

Effectively, the central bank's new rules mean that if a foreign investor allocated the equivalent of 100 million baht to the Thai bond market, the investor could only buy 70 million baht of bonds, while the remainder would be withheld by the central bank, earning no interest.

If the investor wanted to withdraw the money in less than a year, only two-thirds of the amount withheld would be returned, an effective 10 percent tax on the initial investment amount.

The moves seemed to have some effect on the currency: On Tuesday, the baht weakened to 35.93 per dollar.

But they spooked international investors, who punished the market by dumping shares.

David Cohen, chief of Asian economic forecasting for Action Economics in Singapore, said the worries may be unfounded because the situation in Thailand now is fundamentally different from the events surrounding the 1997-98 Asian financial crisis.

The big problem 10 years ago was currency weakness; now, it's currency strength.

"I would emphasize the contrast to the situation in '97 and '98. The measures the Bank of Thailand felt obliged to impose were to resist the appreciation of their currency," Cohen said.

Ben Kwong, chief operating officer at KGI Asia in Hong Kong, said regional economies are now "relatively healthy" compared to 1997.

"Many regional economies have achieved more balanced accounts, and currencies are likely to go up, not down," he said.

Malaysian Deputy Prime Minister Najib Razak told national news agency Bernama that Malaysia's economy was strong and would not be hurt by Thailand's move. He dismissed suggestions that another financial crisis was brewing in the region.

"Our [economic] fundamentals are strong," he said.

Around Asia, markets took a beating. Indonesia's Jakarta Compositie Index fell by 2.9 percent, while the Kuala Lumpur Composite Index lost 2 percent. Hong Kong's Hang Seng Index fell 1.2 percent and the Bombay Stock Exchange's 30-stock Sensitive Index, or Sensex, dropped 2.5 percent.