



# Thailand

# THAILAND

*Covering an area of 514,000 square kilometres, Thailand's population registered at 66.94 million (as of September 2009). Bangkok is the capital city, and Thai is the official language. The official monetary unit is the baht (B), which is made up of 100 satang. Coins come in 25 satang, 50 satang and B1, B2, B5 and B10 denominations. Banknotes are issued in B20, B50, B100, B500 and B1,000 denominations. On 2 July 1997, the exchange rate regime was changed from a basket peg to a managed float. The exchange rate between the baht and the US dollar averaged at 34.34 baht per US dollar in 2009.*

## BANK OF THAILAND

**The Bank of Thailand** was established under the Bank of Thailand Act B.E. 2485 (1942). Apart from performing traditional central bank functions of issuing bank notes, being a banker to the Government, supervising commercial banks and other financial institutions, and maintaining currency stability, the Bank of Thailand has been instrumental in facilitating economic development for Thailand. The BOT Act (B.E. 2485) was revised several times, with the most recent revision of the Act coming into force as of March 2008 (referred to as “new BOT Act”).

### **Policy-Making Body and Committees**

**The Court of Directors** is the highest policy-making body of the Bank of Thailand. It consists of a Chairman selected from outside of the BOT, the Governor as Vice-Chairman, and 10 other members, comprising 3 BOT Deputy Governors, 2 ex-officio members (the Secretary General of the National Economic and Social Development Board, and the Director-General of the Fiscal Policy Office), and 5 external members. The external members, including the Chairman, are appointed by an independent selection committee in order to ensure impartiality from politics. In addition to its responsibility over general affairs (with the exception of duties taken up by special committees including the Monetary Policy Committee, the Financial Institutions Policy Committee, and the Payments System Committee), the Court of Directors is empowered to assess the performance of the BOT as well as that of the Governor in his or her general performance, as part of the mechanisms to ensure proper governance procedures are in place.

**The Monetary Policy Committee (MPC)** was appointed by the Court of Directors on 9 July 2001 to replace the former Monetary Policy Board which was first established on 5 April 2000. From March 2008, under the new BOT Act, the role, composition, and duties of the MPC have been stipulated in legislation. The MPC comprises the Governor as Chairman, 2 BOT Deputy Governors, and 4 external members appointed by the Court of Directors. The MPC's responsibilities include (1) determining a target for monetary policy, in conjunction with the Minister of Finance; (2) setting a policy framework for exchange rate management under an exchange rate arrangement as determined under the Currency Act; (3) setting the necessary measures to ensure consistency with the targets and policy frameworks in (1) and (2), and following up on these measures to ensure efficiency and correctness.

The **Financial Institutions Policy Committee (FIPC)** was appointed by the Governor on 31 October 2008. The FIPC comprises the Governor as Chairman, 2 Deputy Governors, 3 ex-officio members (the Director General of the Fiscal Policy Office, the Secretary General of the Office of Insurance Commission, and the Secretary General of Securities and Exchange Commission), and 5 specialists appointed by the Court of Directors. Its main responsibilities include determining policies concerning financial institutions, policies on opening and closing branches of the financial institutions, and prudential financial ratios with which financial institutions must comply under the Financial Institutions Business Act. The FIPC also makes recommendations concerning the establishment of new financial institutions.

The **Payment Systems Committee (PSC)** is responsible for formulating payment systems policies, with an ultimate goal of ensuring the safety and efficiency of BOT-Regulated payment systems and interbank electronic clearing systems. The PSC comprises the Governor as Chairman, 2 BOT Deputy Governors, the Chairman of the Thai Bankers' Association and 3 specialists appointed by the Court of Directors.

## **MONETARY POLICY IMPLEMENTATION**

### **Inflation Targeting Regime**

The Bank of Thailand announced the adoption of inflation targeting in May 2000, after the BOT made an extensive review of both the domestic and external environment, and concluded that targeting inflation would be more effective than the targeting of money supply. This review came about following the financial crisis in 1997, which resulted in a less precise relationship between money supply and output growth, as a result of increased uncertainty in credit extension and a rapidly changing financial sector.

Under the scope permissible by the existing legal framework at the time, the BOT established the Monetary Policy Committee (MPC), which would be responsible for implementing monetary policy, as part of the inflation-targeting strategy.

With its mandate set in legislation under the new BOT Act, the MPC determines the direction of monetary policy, with price stability as an overriding objective, in line with the inflation target. The MPC is also responsible for setting a policy framework for exchange rate management, in line with the exchange rate arrangement as determined under the Currency Act.

In early 2007, prior to the adoption of the new BOT Act, the Bank of Thailand took part in the IMF and World Bank's Financial Sector Assessment Program (FSAP). On monetary policy transparency, in particular, the FSAP concluded that the BOT has managed to overcome shortcomings in the existing legal framework by establishing a highly transparent monetary policy framework since 2000. This transparency extends to the policy decision making process, communications and information disclosure, as well as the BOT's overall accountability. The Report made a number of recommendations relating to incorporating facets of central bank independence and transparency in legislation. The adoption of the new BOT Act has helped to close many of these gaps identified in the Report, and has granted the central bank greater autonomy in its policy-making and operational capacities.

Under the inflation targeting framework, the Bank of Thailand implements its monetary policy by influencing short-term money market rates via the selected key policy rate, currently the 1-day bilateral repurchase transaction rate. The MPC signals shifts in monetary policy stance through announced changes in the key policy rate. The main objective of monetary policy is to attain price stability conducive to sustainable economic growth. The MPC sets monetary policy stance to keep core inflation within target.

The Bank of Thailand undertakes transactions in the financial market for monetary purpose as follows:

- Daily repurchase market operations,
- Outright purchase/sale of government securities,
- Issuance of Bank of Thailand bonds,
- Foreign exchange swaps, and
- Electronic BOT debt securities (e-PN) repurchase operation.

As the government's fiscal registrar, the Bank of Thailand is also engaged in the issuing, selling and book-keeping of government securities. A primary dealer system is currently established. Selected financial institutions, in return for a trading relationship with the Bank, participate actively in the auction and distribution of government securities. They also provide liquidity in the secondary market by quoting two-way prices for government securities.

**Policy Target** The new BOT Act mandates the Monetary Policy Committee (MPC), in agreement with the Minister of Finance, to formulate a monetary policy target for each following year, and submit it to the Cabinet for approval.

In 2009, the Cabinet approved the proposal which sets the target of monetary policy as the average quarterly rate of core inflation between 0.5-3.0% per annum; this range is slightly narrower than the old range of 0-3.5% adopted since 2000. The lower bound of the range was adjusted upwards by 0.5% to limit the risk of deflation, while the upper bound was lowered by the same amount to signal no change in the overall monetary policy stance.

This target range has been reaffirmed by the Cabinet for 2010, in order to continue to promote monetary policy transparency and ensure a strong anchor for long-term inflation expectations, which would facilitate the Bank of Thailand in fulfilling the price stability objective and foster sustainable economic growth for Thailand in the long run.

**Macroeconomic Model for Inflation Targeting**

The macroeconomic model is a system of equations that represents mechanisms in the economy and the relationships between economic variables. The model is one of the necessary tools for monetary policy-making and is used at the Bank for several purposes:

1. The model provides the MPC with information about the prospects for growth and inflation and assists the MPC in its monetary policy decisions;
2. The model aids in evaluating the effects of changes in economic conditions and policies on the economy, such as the economic impacts of changes in oil prices and exchange rate; and
3. The model can examine the link between monetary policy and inflation, both in term of the magnitude and lags of policy effects.

Nevertheless, another equally important element of the policy-making process is the MPC's judgment, which helps determine economic projections by taking other events or factors not included in the model into consideration.

**Current Monetary Policy**

From December 2008 to April 2009, the significant rise in risks to growth from the global financial crisis coupled with the decline in risks to inflation led the MPC to lower the policy interest rate cumulatively by 250 basis points, to a historically low level of 1.25%. These cuts aimed to alleviate the financial burden of firms and households, thereby mitigating NPL risks and the feedback from weakening macroeconomic conditions to the functioning of the financial sector. In addition, it aimed to shore up business and consumer confidence while fiscal stimulus has not yet fully materialised.

Since the end of 2009 Q2, the Thai economy began to show signs of continuous expansion, supported by (i) an acceleration in the disbursement of fiscal spending in both consumption and investment components, which helped spur private consumption and investment, (ii) restocking of finished goods and raw materials, and (iii) a recovery in manufacturing production, particularly in export-related industries. A combination of these factors helped end the economic contraction that began in 2008 Q2.

Nonetheless, risks to growth included uncertainty surrounding the global economic recovery and the potential impact of domestic political uncertainty on the continuity of fiscal stimulus. The key challenge to policymakers therefore was to promote a recovery that was both sustained and broad-based, and to foster a swift rebound in private consumption and investment given the backdrop of these risk factors. The MPC judged that the current policy interest rate at 1.25% per annum was appropriate and would continue to promote economic recovery. The MPC therefore decided to maintain the policy interest rate at 1.25% per annum at the 5 meetings in May 2009 to December 2009.

The projection of core and headline inflation is reviewed quarterly and is published in the *Inflation Report*. Details of the projection can be found in: <http://www.bot.or.th/English/MonetaryPolicy/Inflation/Pages/index.aspx>

For the latest information on the MPC's decision, please refer to the BOT's website at <http://www.bot.or.th>

## **Exchange Rate Policy**

Since 2 July 1997, Thailand adopted a managed-float exchange rate regime, whereby the value of the baht is determined by market forces and moves in line with economic fundamentals. The Bank of Thailand will intervene in the market to prevent excessive volatilities that could adversely affect economic activities. The floating regime provides more flexibility and enhances efficiency of the economy.

On 4 August, 2009, the BOT relaxed regulations on investment in securities abroad and derivatives transactions by institutional investors and persons in Thailand, in an attempt to provide alternative channels for investment and risk management, as well as allow more flexibility in undertaking foreign currency transactions. Details are summarised as follows.

1) Increase types of institutional investors by allowing juristic persons with assets of at least baht 5,000 million and whose principal businesses are in manufacturing, trading or services, to invest in securities abroad not exceeding US\$ 50 million per entity. Previously, only Government Pension Funds, Social Security Fund, provident funds, mutual funds, securities companies, insurance companies, and specialized financial institutions were allowed to do so.

2) Further allow institutional investors to engage in the following transactions to manage risks and enhance yields on investment: (1) Derivatives transactions that are linked to foreign variables such as exchange rates; interest rates; prices of debt securities, equity securities, commodities, and various indices. However, derivatives transactions related to exchange rates involving baht can only be transacted for hedging purposes. (2) Securities Borrowing and Lending (SBL) (3) Repurchase Agreement (Repo) and Reverse Repurchase Agreement (Reverse Repo).

3) Allow individuals and juristic persons with assets below Baht 5,000 million, which require approval from the BOT to invest in securities abroad through securities companies or private funds, to further invest in securities abroad and undertake financial transactions.

4) Further relaxation allowing persons in Thailand to engage in derivatives transactions for foreign exchange hedging with domestic commercial banks.

5) Allow persons in Thailand to engage in derivatives transactions, structured deposits or structured notes, whose returns are linked to foreign variables that are not related to exchange rates involving baht with domestic commercial banks in a wider scope, such as derivatives transactions that are linked to foreign interest rates; structured deposits or structured notes whose returns are linked to overseas stock market indices, or exchange rates not involving baht.

**Other Policy  
Information  
Released by the  
Bank of Thailand**

The Bank of Thailand holds regular press conference on the last working day of each month to provide key economic and monetary information. Major newswire services also publish the information. In addition, the Bank of Thailand produces a weekly release on the key elements of the Bank of Thailand's assets and liabilities (including monetary base and international reserves) through the BOT website. The Bank of Thailand also subscribes to the IMF's Special Data Dissemination Standard (SDDS). Monthly and quarterly bulletins, as well as annual reports are also published. Most economic and financial data, as well as announcements on major policy or regulatory changes are available in the BOT website ([www.bot.or.th](http://www.bot.or.th)), from which historical data can also be downloaded.

**FINANCIAL  
STABILITY**

**Authorities  
Responsible for  
Financial Stability  
and Supervision  
of the Financial  
Sector**

The Bank of Thailand is the main body responsible for financial stability of the overall economic system and supervision of financial institutions: commercial banks, finance companies, credit foncier companies, and non-banks (only credit cards and other non-collateralised personal loan activities). However, the MOF has the legal power to grant or revoke financial institution licenses.

**Institutional Coverage of the Financial Supervisory Authorities**

The institutional coverage of the financial supervisory authorities are as follows:

**Deposit-Taking Financial Institutions**

1. Thai Banks – commercial banks and retail banks
2. Foreign Banks – full branches and subsidiaries
3. Finance Companies
4. Credit Foncier Companies

*(Supervisory Authorities: Ministry of Finance and Bank of Thailand)*

5. Specialized Financial Institutions (SFIs)

*(Supervisory Authority: Ministry of Finance)*

6. Cooperatives

*(Supervisory Authority: Ministry of Agriculture and Cooperatives)*

**Non Deposit-Taking Financial Institutions**

1. Securities Companies
2. Mutual Fund Management Companies
3. Provident Funds

*(Supervisory Authority: The Office of the Securities and Exchange Commission)*

4. Life Insurance Companies

*(Supervisory Authority: The Office of Insurance Commission)*

5. Social Securities Fund

*(Supervisory Authority: Ministry of Labor and Social Welfare)*

6. Pawnshops

*(Supervisory Authority: Ministry of Interior)*

7. Non-banks (only credit card and other non-collateralised personal loan activities)

*(Supervisory Authority: Bank of Thailand)*

**Strategy for Supervision and Monitoring of Financial Stability**

The BOT uses both macro prudential and micro prudential framework in monitoring and safeguarding financial stability. The macro prudential framework comprises analysis of financial system stability, early warning systems, and regular dialogue with the market participants including bank management, external and internal auditors, and business sectors. The micro prudential framework comprises on-site and off-site risk based supervision and stress testing.

**Plan & Progress of Basel II Implementation**

BOT Notifications related to Pillar 1 and Pillar 3 were issued at the end of 2008. Accordingly, banks that adopted the Standardised Approach (SA) have commenced their Basel II capital charges since the end of 2008. On the other hand, banks that adopted the Advanced Internal Ratings-Based approach (AIRB) have commenced their Basel II capital charges for market risk and operational risk since the end of 2008, while their capital charges for credit risk under AIRB will commence at the end of 2009 according to the implementation timeframe.

The BOT Notification on Pillar 2 was issued in October 2009 requiring banks to develop Internal Capital Adequacy Assessments Processes (ICAAP) by the end of 2010. Subsequently, BOT will start the Supervisory Review and Evaluation Process (SREP) early in 2011.

During 2009, several Basel II related BOT Notifications were amended as follow:

- *Notification on Pillar 1 credit risk weighted asset calculation under the Standardised Approach (No. 2)*: Housing loans secured by collateral with market value of more than 10 million baht must have LTV of 80% or lower to be qualified for risk weight = 35%.
- *Notification on Pillar 1 credit risk weighted asset calculation under the Internal Ratings-Based Approach (No. 2)*: The regulation to recognise Double Default Effect for guarantee was added. In addition, some clarifications were made with signification modifications on the definition of default and the approval process for model changes and adjustments.
- *Notification on Pillar 3 market discipline*: The Pillar 3 disclosure period was extended from within 90 days to 4 months after the end of each accounting period. Banks are now required to disclose Pillar 3 information on their official websites.

**Future plan**

- Q2 2010: Issue a set of Consultative Papers (CP) on capital regulation for securitisation transactions under Basel II.
- Q2 2010: Issue Consultative Paper (CP) on counterparty credit risk exposure calculation for OTC derivative under Basel II's Standardised Method (SM) and Internal Model Method (IMM).
- Dec 2010: Issue Consultative Paper (CP) on capital regulation for operational risk under the Advanced Measurement Approaches (AMA).
- Dec 2010: Issue BOT Notification on capital regulation for securitisation transactions under Basel II.
- Dec 2010: Issue BOT Notification on counterparty credit risk exposure calculation for OTC derivative under Basel II's Standardised Method (SM) and Internal Model Method (IMM).

**CURRENT  
MONETARY  
OFFICIALS**  
*(as of December 2009)*

**Governor** Mrs. Tarisa Watanagase

**Deputy  
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Monetary Stability

Mr. Krirk Vanikkul  
Financial Institutions Stability

Mrs. Atchana Waiquamdee  
Corporate Support Services

**Assistant Governors** Mr. Paiboon Kittisrikangwan  
Monetary Policy Group

Mrs. Suchada Kirakul  
Financial Markets Operations Group

Ms. Pimpa Thawarayut  
Financial Institutions Policy Group

Mr. Sorasit Soontornkes  
Supervision Group

Mr. Vichan Amorojanavong  
Strategic Capabilities Group

Mr. Chim Tantiyaswasdikul  
Information Technology Group

Mr. Nopporn Pramojaney  
Operations Group

Mrs. Chittima Duriyaprapan  
Banknote Management Group

Mr. Arkabusik Krairiksh  
Management Assistance Group

Mrs. Tongurai Limpiti  
Financial Institutions Development Fund (FIDF) Management

**Department Heads/  
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Domestic Economy Department

Ms. Wongwatoe Potirat  
Financial Markets and Reserve Management Department

Ms. Nawaporn Maharagkaga  
Financial Institutions Strategy Department

Mrs. Pongpen Ruengvirayudh  
Prudential Policy Department

Mrs. Ruchukorn Siriyodhin  
Financial Institutions Monitoring and Analysis Department

Mrs. Salinee Wangtal  
Onsite Examination Department 1

Mr. Satorn Topothai  
Onsite Examination Department 2

Mr. Somchai Setakornnukul  
Human Resources Department

Ms. Charinya Kaewmanee  
Payment Systems Department

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Mrs. Amara Sriphayak  
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Ms. Sibporn Thavornchan  
Information Technology Department

Mr. Anuchart Chotimongkol  
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Mr. Priyavat Chainuvat  
Note Printing Works

Mrs. Wantana Hengsakul  
Management Assistance Department

Mr. Chanchai Boonritchaisri  
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Mrs. Povongtip Poramapojn  
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Mr. Phong-Adul Kristnaraj  
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Mr. Chirathep Senivongs Na Ayudhya  
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Mr. Amporn Sangmanee  
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Mr. Ronadol Numnonda  
Financial Risk Management and Operations Department

Mr. Vichit Kornvityakoon  
Planning and Development Department

Mrs. Niramom Asavamanee  
Financial Institution Applications Department

Mr. Padoongsak Tiensuwan  
Specialized Financial Institutions and Non-Bank Examination Department

Mr. Jaturong Jantarangs  
Risk Management and Information System Examination Department

Ms. Matana Waitayakomol  
Strategic Services Department

Mrs. Piengta Dattanonda  
Organization Development Department

Mrs. Sarida Sangchant  
Accounting Department

Mr. Charnchai Yotavongs  
Deposits and Debt Instruments Department

<b>Department Heads/ Directors</b>	Mrs. Nantinee Chatchayanusorn General Administration and Procurement Department
	Mr. Montree Weerawong Building Construction Projects and Maintenance Department
	Mr. Anothai Khunorn Security Department
	Mr. Woraporn Tangsaghasaksri Banknote Strategic Planning and Administration Department
	Mr. Ruengsak Kittisarakul Accounting and Supply Department
	Mrs. Supawadee Punsri Bank of Thailand Museum
	Mrs. Supawadee Punsri (Acting Director) Library and Archives
	Mr. Weerachat Sribunma Legal and Asset Collection Office
	<b>Senior Directors, Regional Offices</b>
	Ms. Nopawan Mahamusik Northeastern Region Office
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