

Monetary policy under the new Bank of Thailand Act (B.E. 2551)

The amendment of the original Bank of Thailand Act (B.E. 2485) which was enacted over 60 years ago started off with the intention to provide the Bank of Thailand (BOT) with a legal framework that was relevant and appropriate for the operation of a modern central bank under the present day environment. A new legal framework would also reflect the principles of good governance which were in line with international standards. The new BOT Act therefore aimed to create a well-rounded framework for policy-making which was both transparent and accountable, and consistent with the objectives, goals, and responsibilities of a central bank. The new BOT Act clearly states these objectives in legislation, namely as achieving monetary stability, financial institutions stability, and payments system stability.

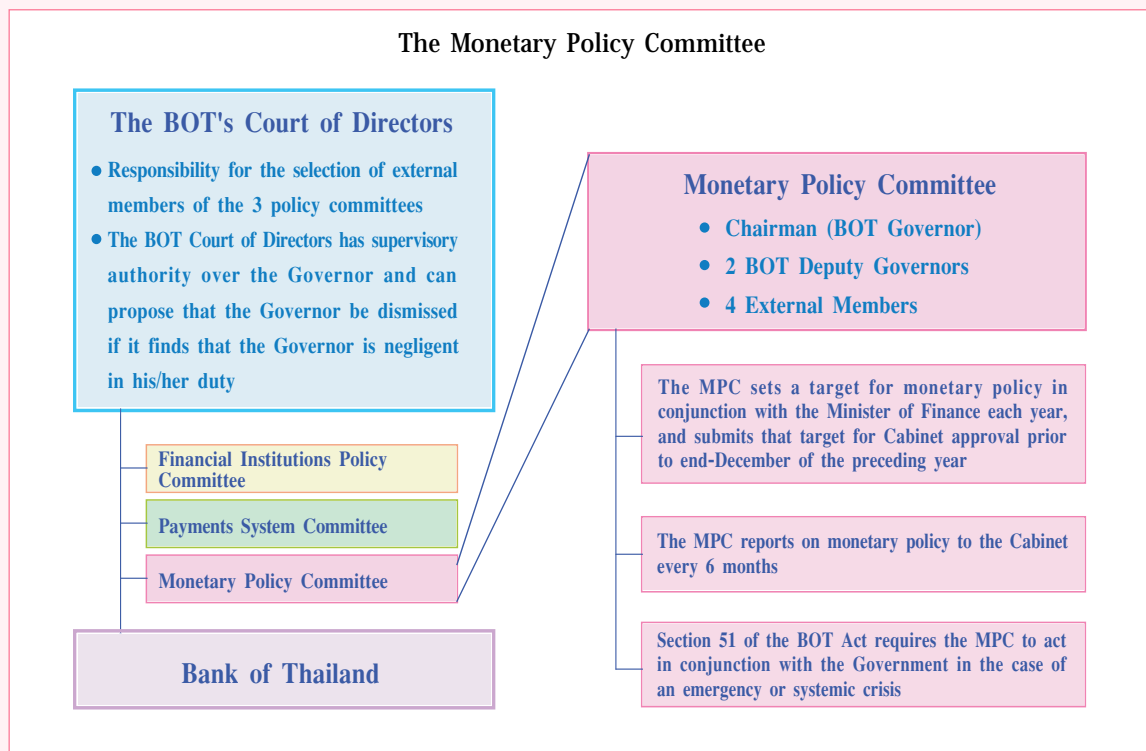
In an attempt to enshrine the principles of good governance in legislation, the BOT Act (B.E. 2551) purposely delegates the policy-making authority of the BOT into the hands of various policy committees. This move also reflects the intention of decentralizing policy-making authority away from the Governor alone, as was the case in the past. In addition, the new BOT Act establishes a principle whereby distinguished external experts outnumber internal members in all top committees, to ensure that each committee is well-rounded in terms of views, backgrounds, and expertise. Each committee would draw from the varied experiences of external members, along with the expertise provided by high-level executives from within the Bank.

Authority and responsibility over monetary policy is placed in the hands of the Monetary Policy Committee (MPC). The MPC is comprised of 7 members, as in the present day arrangement. The BOT Governor is Chairman of the Committee, given the Governor's responsibility in ensuring that policy decisions are carried out at the operational level. In addition, the Governor's role as Chairman of the Bank's two other policy committees, namely the Financial Institutions Policy Committee and the Payments System Committee ensures continuity and consistency between the main policy boards and the overall policy direction. Additionally, the remaining MPC members comprise of two deputy governors from the BOT and 4 external members, which are selected by the Bank's Court of Directors.¹ Each external member has a fixed term of 3 years, and may not serve in that position for more than 2 consecutive terms.

The BOT Act (B.E. 2551) places great emphasis on ensuring a balance of policy-making authority, as detailed earlier, but at the same time seeks to ensure greater freedom from political pressure for the BOT Governor in the management and operations of the Bank to serve the main objectives as set out in legislation, as well as foster greater governance within the organization. For example, the Governor's term in office is fixed at 5 years, with a limit to 2 terms in office. The Governor is prevented from taking any position in a financial institution for 2 years subsequent to the end of their tenure as Governor. In addition, the new BOT Act aims to reduce political pressure in policy-making by setting out in legislation the conditions by which the Cabinet can dismiss the central bank Governor. Such conditions are limited to behaviour resulting in severe damage, corruption, severe negligence of duty, or a decline in the ability to perform the duties of office. Importantly, the Cabinet is required to clearly spell out the reasons for such dismissal.

^{1/} The Bank's Court of Directors is comprised of the Governor, 3 Deputy Governors, the Director-General of the Fiscal Policy Office (FPO), the Secretary-General of the National Economic and Social Development Board (NESDB), and 6 external members, one of whom will hold the position as Chairman of the BOT Court of Directors.

The new BOT Act also clearly specifies the scope of responsibilities of the Monetary Policy Committee, in order to ensure clarity of purpose and transparency. These responsibilities include (1) setting the target for monetary policy, taking into account the government's policy stance as well as Thailand's economic and financial conditions, (2) setting a target for exchange rate management, under the exchange rate regime set out under the Currency Act, (3) setting out measures to ensure that the targets set out in (1) and (2) are met, and (4) following up on the measures undertaken by the Bank of Thailand as per (3) to ensure correctness and efficiency.



In setting a target for monetary policy with the aim of achieving price stability, the new BOT Act emphasizes the need for consistency with the Government's overall policy direction, and in following-up on monetary policy decisions. The new BOT Act therefore requires the MPC to set out the monetary policy target for the following year before the month of December, in conjunction with the Minister of Finance, which will be sent for approval by the Cabinet. Every 6 months, the MPC is also required to report to the Cabinet regarding its policies and their effects. Going forward, the MPC is required to review the appropriateness of the current monetary policy target and set a target for 2009 in conjunction with the Minister of Finance, which then needs to be submitted for approval by the Cabinet by the end of December 2008.

Overall, the amendment of the BOT Act is aimed at increasing the credibility of monetary policy, through greater clarity of responsibilities and increased transparency of the MPC's decision making process. The balancing of authority, and the increased operational flexibility provided to the Bank of Thailand in implementing the MPC's policy decisions, and the systematic requirements for reporting to the Government should together lead to a more well-rounded policy decision making process. This should also maximize the benefits of appropriate monetary policy to the economy in the long-run, going forward.