

## **BOT FOCUSES ON DEVELOPING STABLE FINANCIAL MARKET**

**Vanaporn Laksanasut**

As the fundamental function of financial markets and intermediaries is to channel funds from those who have surplus savings to those who have deficit, financial markets that function efficiently should improve allocation of resources, reduce the cost of capital, and allow for risk-sharing and risk-diversification. Moreover, well-balanced financial markets, having well-developed banking system as well as capital markets, not only help contribute to higher productivity growth of an economy, also allow the economy to better manage and absorb shocks because the intermediary function of capital does not depend entirely on the banking sector.

Realizing the importance of an efficient capital market, the Bank of Thailand (BOT) has been taking part in developing Thailand's capital market through its indirect role of maintaining price stability and ensuring financial system stability, and through a more direct role via involvement in the National Capital Market Development Committee and the Domestic Bond Market Development Sub-committee. These committees were set up to coordinate the country's capital market development efforts among government agencies and among the private sector. Additionally, as the bond market is also very important to the BOT as a central bank in terms of its monetary policy operations, the BOT also plays an active role in developing this market.

In the primary market, while meeting with the sterilization needs, the issuance of BOT bonds and bills have been designed to promote the bond market in many aspects. The BOT coordinates closely with the Ministry of Finance on issuance schedule to provide regular and predictable supply, reduce auction frequency and consolidate issuance to reduce number of issues in order to facilitate secondary market trading. In fact, the steady supply of BOT bonds have helped widen investor base as interests grew from institutional investors other than commercial banks, and contributed to the growth of mutual fund industry, as retail investors are seeing this vehicle as an alternative to bank deposit. The introduction of floating rate notes was also aimed to add diversity to the products in the market.

Other efforts undertaken by the BOT have been in the areas of developing the private repo and interest rate swap markets to enhance the bond market liquidity. Having a well-developed private repo market helps enhance liquidity in the secondary market as bond collateral placed

with the lender of funds can be used for further transaction or delivery to a third party, while having a liquid interest rate swap market helps ensure availability of tools for bond market participants to hedge or manage their bond positions. Apart from this, a decision to centralize the settlement of bonds at the Thailand Securities Depository (TSD) was also aimed to improve settlement efficiency and provide an important foundation for international linkage of the clearing and settlement system in the future.

These are only some examples of the earlier and ongoing efforts that the BOT was involved. Continued cooperation with other relevant parties would contribute to further development and deepening of the Thai bond market in years to come.