'BIBORING' Money Market: Alternative Fixing, Gearing towards Stability

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THE WIND of changes during 2008-2009 caused by the US-subprime mortgage had brought some anomalies in global financial markets.

Thailand especially, in the FX Swap market, is not an exemption. The origin of the crisis problem could be boiled down to USD liquidity squeeze. On one side, FX Swap is used to manage THB liquidity and interest rate risk, the rate derived from transaction is so-called "implied THB interest rate", it is also known as THBFIX, when fixed and announced daily by a news wire as market index. On the other, during the crisis, FX Swap was exploited as means to obtain USD liquidity; as a result, THBFIX simply reflected USD rather than THB liquidity. In other words, THBFIX gave false indication of domestic money market condition.

When THBFIX became less justified in many aspects, for instance, excessively volatile, vulnerable to external dynamics and not being able to reflect local market THB liquidity condition, market participants started calling for the adoption of BIBOR . Unfortunately, this was not possible then. Interbank transactions have long been on short-term basis (more than 90% is one-day transactions) and there was rarely longer-dated borrowing and lending. The Bank of Thailand (BOT) realised that situation of having unreliable reference rates may recur in greater magnitude due to prolonged undermining US economic outlook and the USD itself. The recent crisis has certainly accelerated the importance of BIBOR as reference rate. The BOT has advocated the adoption of BIBOR since 2001. The development process is complicated. Many impediments have been addressed and resolved accordingly, for instance, the reduction of special business tax (SBT) from 3.3% to 0.011% for interbank borrowing and lending transactions was in place. Building BIBOR as an alternative index, thus, is one of the market priorities. BIBOR contributing banks began to set aside their liquidity and manage in longer span. Their efforts bear fruit as development has been observed, outstanding of term interbank lending and borrowing has increased circa 10 folds over 2005-2010 and one-month interbank activities have been well achieved. Although, it is still too short to serve as a reference. On non-money market front, BIBOR-based corporate loan and derivatives have risen substantially and will be in expanding mode for time to come.

With regards to international convention, interbank offered rates ie., LIBOR (London), EURIBOR (Eurozone), TIBOR (Tokyo) and SIBOR (Singapore), are common interest rates that have been widely used in each market. Other things being equal, BIBOR has desirable properties compared to THBFIX. It is stable, transparent and could shield-out effects from external factors, reflect liquidity condition as well as interest rate expectation.

On 19 April 2011, "BIBOR Awards 2011" were presented to outstanding contributors by the BOT. Primary objectives of the event are to express strong intention in supporting BIBOR as an alternative reference, create public awareness and praise contributing banks that have prominent roles in promoting uses of BIBOR in different areas. These include interbank transactions, corporate lending, floating rate bonds and derivatives activities. The grand prize is the "Best BIBOR Award" granted to a contributor who has well-balanced performance in most criteria.

As market participants have learnt to be less concentrating in recycling short term funds in excess liquidity environment and with strong support from public sector, term interbank lending and borrowing transactions have been extended from 1 to 2 and 3 months but still with thin volume. On balance, it is fair to say that BIBOR development is promising yet there are hindrances that require close collaboration between market and authorities to overcome. Consistently, BIBOR will soon establish itself to be key reference interest rate.

(The views expressed in this column are the writer's own.)

Published in the Nation on Monday, April 25, 2011