



ธนาคารแห่งประเทศไทย

สำนักผู้ว่าการ ธนาคารแห่งประเทศไทย โทร. ๒๘๒๖๖๕๘

No.45/1997

CHANGE IN THAILAND'S EXCHANGE RATE SYSTEM

1. The Minister of Finance, upon the recommendation of the Bank of Thailand, on 2 July 1997 issued a Notification determining that the value of the baht would henceforth be set by market forces.

2. As from 2 November 1984, the baht value had been set in reference to a basket of currencies of Thailand's major trading partners. The exchange rate of the baht against the United States dollar was announced daily by the Exchange Equalization Fund, which stood ready to buy and sell US dollars with commercial banks at determined rates. This system resulted in the baht becoming one of the most stable currencies in the world and supported Thailand's rapid growth over the years.

3. The tight monetary policy followed by the Bank of Thailand since 1995 in order to contain incipient pressures on inflation and the current account have had the desired effect on economic stability. However, the coincidental sharp slowdown of exports and capital inflows in 1996, together with problems in financial institutions resulted in a rapid deceleration of investment and growth. Calls for a relaxation of monetary policy evoked widespread speculation that exchange rate policy might be adjusted to allow for reductions in interest rates. While the authorities' interventions were successful in containing speculative pressure in foreign exchange markets, the confidence of domestic businesses in the authorities' exchange rate policy continued to weaken in the wake of widespread speculation and criticisms.

4. In order to end uncertainty over Thailand's exchange rate policy, **Thailand's exchange rate system will from 2 July 1997 be a managed float**, whereby the value of the baht will be determined by market forces to reflect economic fundamentals.

5. Under the new system, movements in the exchange rate are expected to be quite large at the initial stage. However, relative stability should be attained after a brief adjustment period. The Bank of Thailand will intervene in foreign exchange markets from time to time to achieve policy objectives and guard against excessive fluctuations.

6. To support the new foreign exchange regime, a cautious monetary policy stance will continue to be followed. Effective today, the Bank of Thailand has raised the bank rate from 10.5 to 12.5 percent. In due course, the Bank will allow market forces to adjust interest rates downward in the context of a stable or strengthening baht. In the longer run, the managed float system will enable the authorities to implement monetary policy consistent with domestic policy objectives and support healthy capital inflows.

7. Some slowdown in economic activity must be accepted in wake of the new exchange rate regime. However, this will lay the groundwork for growth with stability in the years ahead. In the short run, so as to alleviate any negative effect on debt servicing and prices that may result from an adjustment in the baht value, the authorities are prepared to consider implementing supplementary measures, particularly those related to prices of goods considered as necessities, tax deduction for businesses suffering exchange losses, and financing facilities for priority economic sectors.

8. The Ministry of Finance and the Bank of Thailand believe that the managed float system will benefit Thailand's overall economic development. The new system will provide sufficient flexibility to accommodate developments in Thailand's economy and respond to the situation in financial and foreign exchange markets.

Ministry of Finance
Bank of Thailand
2 July 1997

NOTIFICATION OF THE MINISTRY OF FINANCE

Re : Change of Foreign Exchange System

By virtue of the power conferred upon him under section 8 Paragraph Three of the Currency Act, B.E. 2501, as amended by The Currency Act (No. 4), B.E. 2516,

The Minister of Finance, upon the recommendation of the Bank of Thailand, hereby issues this notification as follows:

1. The Notification of the Ministry of Finance dated 2 November B.E. 2527 Re: Change of Foreign Exchange System is hereby repealed.
2. The foreign exchange system shall be such that the value of the Baht is set by conditions in foreign exchange markets.
3. The Bank of Thailand shall engage in buying and selling of foreign currency for the purpose of maintaining the stability of the Baht under the system mentioned in 2.
4. The Bank of Thailand shall from time to time as deemed necessary, publish the exchange rates between the Baht and foreign currencies for use as a reference rate in conversion of foreign currencies into Baht.

Given on 2nd July B.E. 2540

(signed) Tanong Bhidaya

Minister of Finance