



BANK OF THAILAND NEWS

Communications and Relations Office, Management Assistance Department
Tel. 0-2283-5016-7 FAX 0-2281-5648 www.bot.or.th

No. 121/2001

Adjustments of Standing Facility and Interest Rate on Overnight ILF

In accordance with the inflation targeting framework adopted since May 2000, the Bank of Thailand has used the 14-day repurchase rate as the policy interest rate while, at the same time, ensuring that the overnight interest rate does not fluctuate too widely and moves in conjunction with the policy rate. To further enhance the effectiveness of monetary operation mechanisms, the Bank of Thailand changes the existing standing facilities and the interest rate charged on overnight Intraday Liquidity Facility (ILF) as follows:

1. Adjustment to Current Standing Facilities

1.1 Objective

The new Standing facility will be the channel for financial institutions with insufficient liquidity at the end of the day to place collaterals to obtain liquidity from the BOT. The interest rate charged for this standing facility is based on the policy rate plus a margin. As a result, the rate will act as a ceiling for the 1-day R/P rate and help ensure that other short-term interest rates move consistently with the policy rate.

1.2 Background and reasons for adjustment

There are presently three windows of standing facilities:

- a) Loan window charging the fixed interest rate (Bank rate), currently set at 4% p.a.;
- b) R/P late hour charging the floating rate equal to the highest R/P rate plus 2.5%;
- c) Repurchase of notes charging a floating rate equal to 7-day R/P rate.

Owing to numerous conditions attached, actual borrowing through these windows has been minimal, thus limiting their effectiveness in serving as mechanisms to ensure money market stability. In addition, the rate charged is different for each window and is not consistent with the policy rate, thereby lessening the effectiveness of transmission mechanism.

1.3 Adjustments

1.3.1 Abolition of Loan Window

1.3.2 Abolition of RP late hour

1.3.3 Abolition of repurchase of notes

1.3.4 Abolition of Bank rate

1.3.5 Establishment of the End-of-day liquidity window as the only standing facility

- The interest rate charged for using this new window is equal to the policy rate plus an adjustable margin presently set at 1.5%. With the current policy rate at 2.5%, the interest rate charged will be 4%.

- There is no amount restriction for each institution.

- Eligible financial institutions are commercial banks, finance companies, finance and securities companies, and specialized financial institutions.

- Opening hour is from 17.00 to 17.30.

2. Adjustment to interest rate on overnight ILF

2.1 Objective

The adjustment is to ensure consistency of the rate charged for overnight ILF with that for end-of-day liquidity window and the policy rate.

2.2 Adjustments

2.2.1 Adjusting the ILF overnight rate to be equal to the policy rate plus a margin (instead of R/P rate plus margin)

2.2.2 Decreasing the margin from 6.5% to 1.5%, the same margin as that of the end-of-day liquidity window. Overnight ILF rate will be 4% p.a. at the current policy rate. The margin will no longer be adjusted according to frequency of overnight ILF usage.

All adjustments above are effective from 1 October 2001.

Bank of Thailand

20 September 2001