



BANK OF THAILAND NEWS

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Measures to Curb Short-term Capital Inflows

Dr. Tarisa Watanagase, Governor of the Bank of Thailand, (BOT) announced that the rapid appreciation of Thai Baht resulting from the depreciating trend of the US Dollar and the economic stability of Thailand and the Asian region has caused capital to flow from USD-denominated markets into the Asian markets including Thailand. In addition, the BOT found significant short-term inflows into the debt securities market which also contributed to increased volatility of Thai Baht.

To prevent speculation in Thai Baht, the BOT, on 4 December 2006 sought cooperation from financial institutions in Thailand to monitor short-term transactions with nonresidents as follows:

1. Financial institutions are asked to refrain from selling and buying all types of debt securities through sell-and-buy back transactions for all maturities. Such transactions are financial instruments which nonresidents can undertake to evade the BOT's measures of preventing Thai Baht speculation.
2. Financial institutions are allowed to sell and buy foreign currencies with nonresidents or to credit or debit the Nonresident Baht Accounts for the settlements relating to investments in government bonds, treasury bills or BOT bonds only when such investments are longer than 3 months.
3. Financial institutions are allowed to borrow Thai Baht from nonresidents including through sell-buy swap transactions when there is no underlying trades and investments in Thailand for a maturity of longer than 6 months, an increase from 3 months from the previous measure.

These measures aim at lessening the volatility in the foreign exchange market while minimizing the adverse impacts on the bond and other debt securities markets. The BOT will closely monitor and evaluate the effects of the measures and is fully prepared to impose additional measures if necessary. As for any potential impacts that these measures may have

on the money market, the BOT is ready to supply sufficient liquidity into the market which should prevent any unfavorable effect.

In addition, due to an increase in the issuance of corporate debt securities, the BOT therefore seeks cooperation from Thai businesses not to issue or sell short-term debt securities to nonresidents. Furthermore, financial institutions are also asked to refrain from selling short-term corporate debt securities to nonresidents.

Nonresidents that have invested in government bonds, treasury bills and the BOT bonds prior to these measures are allowed to sell securities regardless of holding periods. For new inflows, the measures shall take effect immediately.

Bank of Thailand

4 December 2006