



# BANK OF THAILAND NEWS

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## **Reform of the Bank of Thailand's Monetary Operation Framework**

To further enhance the efficiency and transparency of the Bank of Thailand's monetary policy implementation as well as to facilitate continued development of the Thai financial market, the Bank of Thailand (BOT), with the consent of the Monetary Policy Committee (MPC), will reform its monetary policy operation framework in three main areas, effective from 17 January 2007.

**1) Switch the monetary policy operating target (the policy rate) from the 14-day repurchase rate to the 1-day repurchase rate.** This change will enable the policy rate to better reflect short-term liquidity management of financial institutions in the money market and allow short-term interest rates to move in line with market expectations.

**2) Establish an End-of-Day Liquidity Adjustment Window through which the BOT offers both overnight lending and borrowing to financial institutions at the policy rate +/- 50 basis points.** The narrower interest rate corridor will help limit the volatility of money market interest rates more efficiently.

**3) Synchronize reserve maintenance periods with MPC meeting dates for all types of financial institutions that are required to hold reserves.** The reserve maintenance period will start on a Wednesday and end on a second Tuesday thereafter totaling 14 days in each period. This is to reduce volatility in money market liquidity and short-term interest rates particularly when there is a strong market expectation on interest rates.

The BOT envisages that this reform will bring enhanced efficiency and transparency to the Bank of Thailand's monetary policy operation framework as well as facilitate further development of the Thai financial market. These should lay a strong foundation for strengthening stability of the financial system and enable it to efficiently withstand rapid changes in the financial markets in the future.