



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. 62/2007

Further Relaxation of Measures to Manage Capital Flows

Mrs. Suchada Kirakul, Assistant Governor, Financial Markets Operations Group, Bank of Thailand, disclosed details about the further relaxation of measures to manage capital flows as follows:

The Bank of Thailand (BOT) has introduced an unremunerated reserve requirement (URR) on short-term capital inflows since 18 December 2006 as a temporary measure to regulate short-term capital inflows, prevent speculation on the Thai baht, and avoid excessive volatility and appreciation of the Thai baht, which are not consistent with Thailand's underlying economic fundamentals. This measure has resulted in improved exchange rate stability, with the baht movements more in line with other regional currencies. Meanwhile, the real and export sectors have been able to better adapt to the exchange rate changes, through diversification of export markets and hedging of foreign exchange risk.

The BOT has been mindful of adverse effects that this measure had on the financial transactions of domestic private sector and foreign investors. This has led to gradual relaxation of the measure in order to increase flexibility in conducting business, such as (1) providing a fully hedge option as an alternative to the reserve requirement, particularly for loans and for investment in fixed income securities and mutual fund units, and (2) waiving the reserve requirement on investments in equity-like securities, namely, warrants and exchange traded fund (ETF) units. In addition, regulations on foreign currency deposit and transfer have been relaxed to increase the flexibility for Thai businesses in managing their foreign currencies and investment abroad, which should lead to more balanced capital flows in the longer term.

At present, the external factors remain highly volatile, particularly linked to the instability in the US subprime market and the tightening conditions in international credit and financial markets. These factors have led to increasing pressure on the exchange rates of major currencies and on international capital flows, with possible repercussions on the world economy and the Thai economy. The BOT therefore considers it necessary to keep the URR measure in place for the time being in order to maintain the stability of the Thai economy. However, to lessen the burden on the business sector, BOT deems it appropriate to further relax the URR measure, as well as regulations on capital outflows, as follows:

1. Relaxation of the URR measure on foreign currency borrowings by Thai corporations and on non-residents' investment in property funds, to reduce the cost of funds for Thai corporations and support domestic investment, as follows:

1.1 Foreign currency borrowings, in an amount not exceeding USD 1 million, as specified on the relevant agreement or contract, and having a maturity of at least 1 year, by Thai juristic persons are exempted from both the URR and the fully hedged requirement.

1.2 Thai juristic persons wishing to borrow in foreign currency and having future foreign currency proceeds from international trade or services covering the repayment

of that borrowing (i.e. having a natural hedge) can submit the request to the BOT for exemption of the URR and the fully hedged requirement.

1.3 Investments in newly issued units of existing property funds by unit holders, whose names appear on the unit holder registration as of the book closing date, are exempted from both the URR and fully hedged requirement.

2. Additional relaxation of regulations on foreign currency deposit and transfer to allow Thai businesses greater flexibility and efficiency in managing their foreign currencies as follows:

2.1 Raising the maximum limit of Thai residents' foreign currency deposits, and allowing Thai residents to deposit foreign currencies originated abroad without proof of evidence of future foreign exchange obligations. Details of changes in the regulations are as follows:

a. Foreign currency account with funds originating from abroad: No limit placed on the outstanding balance, and no requirement to prove future foreign exchange obligations;

b. Foreign currency account with funds originating from domestic sources:

- For deposits without future foreign exchange obligations, the total outstanding balances are limited to USD 100,000 for an individual or USD 300,000 for a juristic person;

- For deposits with future foreign exchange obligations, the total outstanding balances are limited to USD 1 million for an individual and USD 100 million for a juristic person. Should Thai residents wish to deposit in excess of the specified balance, only the amount not exceeding the foreign exchange obligations within the next 12 months can be deposited.

2.2 Raising the limit and expand the scope for investment and lending abroad for Thai companies to include subsidiaries and affiliated companies abroad with no direct shareholding but under the same parent company, as follows:

a. A parent company in Thailand can transfer funds for the purpose of direct investment in, or lending to, subsidiary and affiliated companies abroad in an aggregate amount not exceeding USD 100 million per year;

b. A subsidiary company in Thailand can transfer funds for the purpose of direct investment in, or lending to, parent company abroad, subsidiary and affiliated companies of the parent company abroad in an aggregate amount not exceeding USD 100 million per year,

c. Companies registered with the Stock Exchange of Thailand can transfer funds for investments according to (a) and (b) with no limit and can lend according to (a) and (b) in an amount, in each case, up to USD 100 million per year.

2.3 Increase the limit for purchase of properties abroad from USD 1 million to USD 5 million.

The relaxation of the URR measure according to 1. shall take effect from 18 December 2007. The relaxation of regulations on the deposit and transfer of foreign currency according to 2. shall take effect following the issuance of the relevant Ministerial Regulations.

The BOT will continue to assess the Thai economic conditions, domestic and external financial market conditions, as well as international capital flows. The URR measure will be lifted when deemed appropriate, taking into account several factors such as improvement in domestic demand, volatility of major currencies, global financial market conditions as well as the balance in foreign exchange flows from trade and capital transactions.

The Notice regarding the relaxation on the URR measure can be viewed at www.bot.or.th under the heading “Highlights”. Further information can be obtained through the BOT’s Hotline at 0-2283-6011.

Bank of Thailand

17 December 2007