



BANK OF THAILAND NEWS

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Lifting of the Reserve Requirement on Short-term Capital Inflows

Mrs. Tarisa Watanagase, Governor of the Bank of Thailand, announced the lifting of the unremunerated reserve requirement on short-term capital inflows, effective 3 March 2008. The details are summarized as follows:

The Bank of Thailand (BOT) has introduced the unremunerated reserve requirement (URR) on short-term capital inflows since 18 December 2006 to deter short-term capital inflows and one-way speculation on the Thai baht that led to excessive volatility of the Thai baht that might have caused wider economic instability particularly at the time when domestic demand was moderating and robust export growth was the main driver of the economy.

The URR measure has lessened the pressure of baht speculation and been pivotal in ensuring the baht stability and its movement more in line with regional currencies. Aware of the adverse effects of the URR measure on financial costs of businesses that need to raise funds from abroad, the BOT has therefore relaxed the measure over time. The BOT has also been communicating consistently the intention to use this measure only temporarily and to lift it when the situation is appropriate.

After careful consideration of changes in the environment and factors, the BOT deems that it is now the appropriate time to lift the URR measure for the following reasons:

- Economic data in the fourth quarter of 2007 and January 2008 indicates a healthier recovery in domestic demand along with continued robust export growth. Moreover, additional fiscal stimulus by the government that helps boost confidence will further lend support to the continuation of this recovery.
- Foreign exchange inflows/outflows have become more balanced from moderating trade account surplus in January 2008, increasing amount of Thai investment abroad, and regulations that permit residents to deposit foreign currencies effective early February 2008.
- Real sector and exporters have been adjusting well to the appreciation of the baht through a much greater amount of foreign exchange hedging and improvements in production efficiency, management, and market diversification.
- The BOT has more instruments to manage liquidity and the currency under the new Bank of Thailand Act. In addition, plans by the Ministry of Finance to adjust the structure and management of public debt along with consideration to make use of the soon-effective Public Debt Management Act will further improve the balance of capital flows.
- Recently, there have been widespread expectations of the lifting of the URR measure and market participants have adjusted their behaviors in

line with these expectations. This has eroded the effectiveness of the URR measure.

To help manage the inflows/outflows of capital after the lifting of the URR measure, the BOT deems appropriate the following supporting measures:

- 1) Encourage portfolio investment abroad by increasing the foreign investment limit for the Securities and Exchange Commission (SEC) to USD 30 billion to allocate to securities companies, mutual fund companies, and individual investors (through investments with private funds or securities companies).
- 2) Improve the measures to prevent Thai baht speculation
 - 2.1) Revise the rule for domestic financial institutions to borrow baht from non-residents by reducing the limit for transactions with no underlying trade or investment for all maturities to no more than 10 million baht outstanding balance per group of non-residents so as to limit channels of speculation.
 - 2.2) Revise the rules regarding the provision of Thai baht liquidity by domestic financial institutions to non-residents by expanding each institution' limits for transactions with no underlying trade or investment to no more than 300 million baht outstanding balance per groups of non-residents so as to increase demand for purchases of foreign currencies and two-way flows.
- 3) Revise the structure of Non-resident Baht Account (NRBA) by segregating into Non-resident Baht Account for Securities (NRBS) and Non-resident Baht Account (NRBA) so as to help monitor fund flows of non-residents. Under the new structure, the transfer of baht between the same types of accounts is allowed while the transfer between different types of account is prohibited.

To support the adjustment and improve the production efficiency of SMEs, the BOT has launched the following temporary supportive programs:

1. Program to support production efficiency improvement of SMEs by providing soft loans through financial institutions totaling 40,000 million baht for a period of three years.
2. Facility to purchase (back-to-back) foreign currency that SMEs sold forward to financial institutions for a period of 6 months.

The BOT is confident that the implementation of the aforementioned measures under the managed float regime will ensure that the Thai baht moves in line with economic fundamentals without excessive volatility.

The notification of the lifting of the URR measure, the rules for the non-resident baht account, and the circulation letter on the measures to prevent Thai baht speculation can be viewed at www.bot.or.th under the “Highlights” Section. Further information can be obtained at 02-283-6000.