

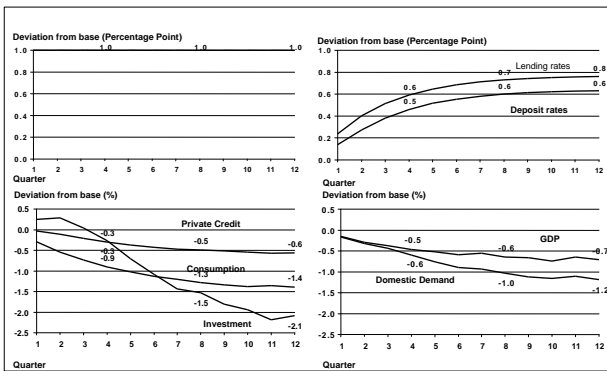
Commercial Banks and Monetary Policy in Thailand

by
Kobsak Pootrakool

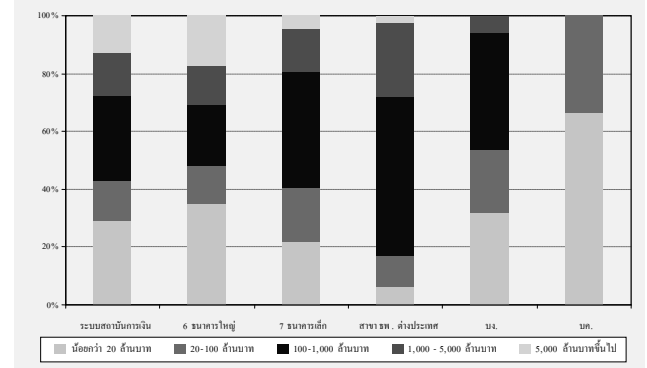
Plan of Presentation

- Banks' heterogeneity and monetary policy
- Bank soundness and monetary policy
- Future challenges -- changing banking and financial systems and implications on monetary policy

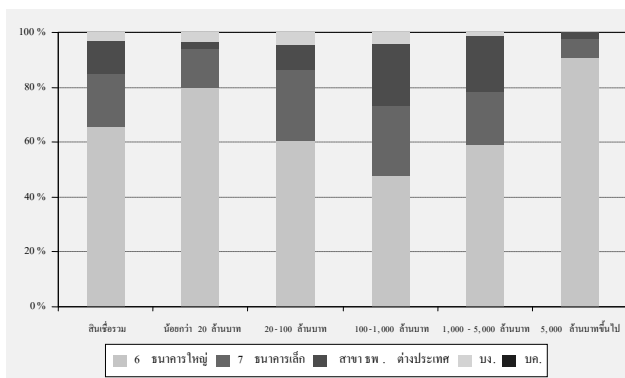
Baseline Simulation of Monetary Transmission Mechanism



Banks' Heterogeneity: Lending Structures



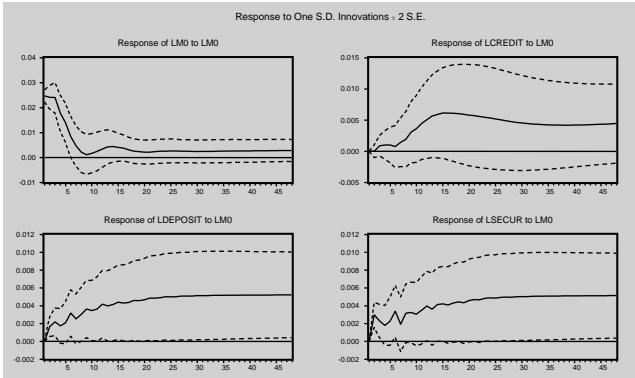
Banks' Heterogeneity: Market Shares



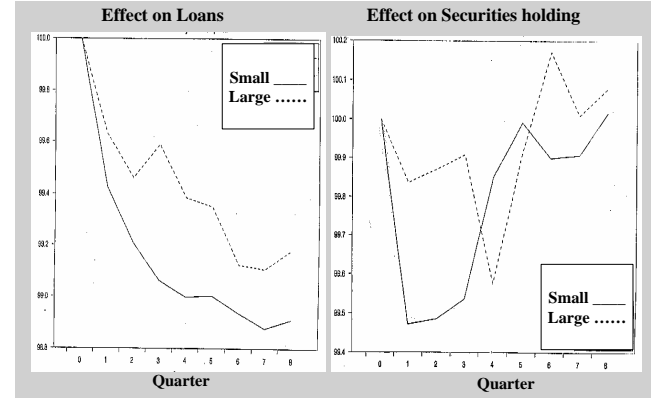
I. Banks' Heterogeneity and Monetary Policy

- Changing monetary conditions can have different effects upon different commercial banks
- Large and liquid banks will be less effected than small banks
- Large customers/firms will be less effected than small customers/firms

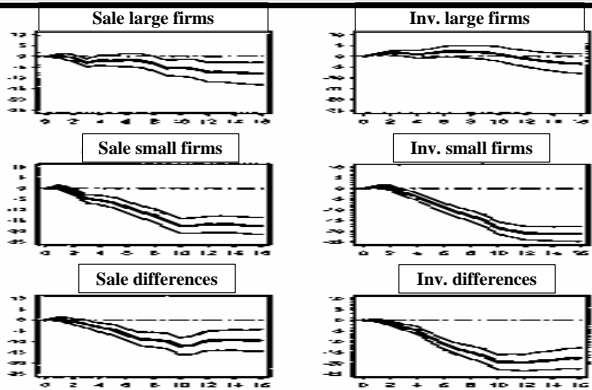
Typical impacts of changing monetary conditions on banks' balance sheet



Large Banks v.s. Small Banks



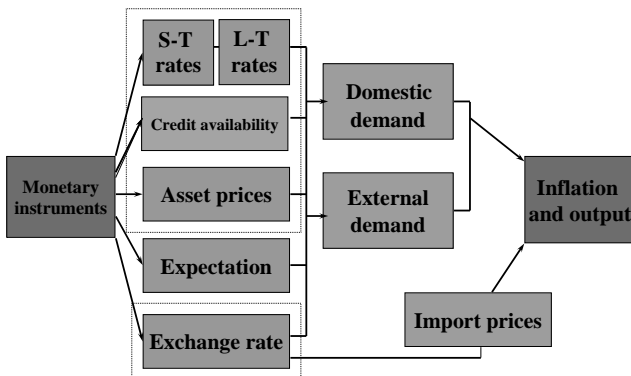
Large Customers v.s. Small Customers



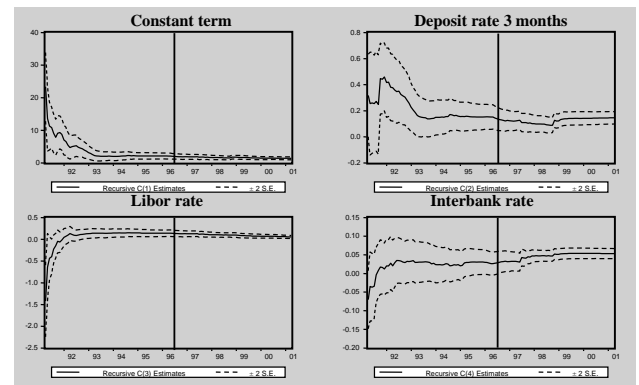
II. Bank Soundness and Monetary Policy

- Banks perform critical tasks in the economy
- The recent banking crisis has hampered the role of the commercial banks as a main medium to transmit monetary policy
- This argues for proper prudential regulation policy by the central bank to ensure the effectiveness of monetary policy

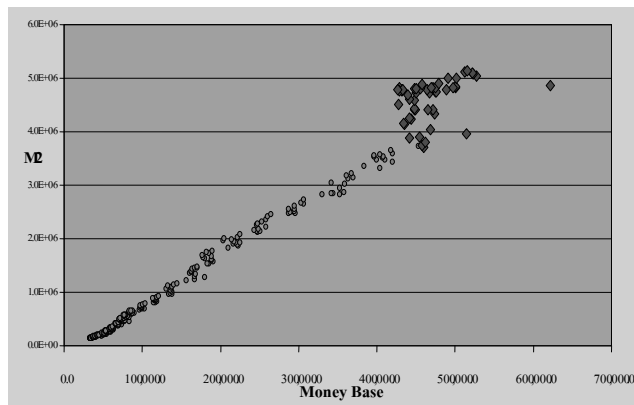
Roles of commercial banks in the monetary policy transmission



Linkages between short term rates and commercial rates (MLR)



Less stable money supply relationship



Liquidity within the banking system

	1996	1998	2000
RP	17,493	356,449	154,990
Government Bonds	17,895	154,192	271,393
Private Securities	90,126	104,161	176,378
Non-resident Banks	179,985	462,497	720,057
Total	305,479	1,077,299	1,322,818

III. Future challenges: Changing banking and financial systems and monetary policy

- Similar to unsoundness in the banking sector, changing financial landscapes can reduce the effectiveness of monetary policy
- The list includes issues such as
 - Financial innovation
 - Closer financial integration
 - Entry of foreign banks, etc.

Ensuring the effectiveness of monetary policy

3 Issues

- **Distributional impacts of monetary policy**
- **Bank soundness**
- **Evolving financial structures**

At least 3 Measures

- **Conduct detailed analyses to complement the macro-model**
- **Maintain appropriate prudential regulation**
- **Institute a long-term development policy**

Conclusion

- An integrated approach is required by the central bank in dealing with commercial banks to ensure effectiveness of monetary policy
- These include (1) the appropriate prudential regulation and (2) a long-term development plan for the financial sector
- Both will complement our ongoing work to improve the framework of monetary policy conduct and will provide foundation for a sustainable development

Conclusion (cont.)

“ธนาคารพาณิชย์ก็คล้ายๆ กับเครื่องมือของธนาคารชาติ เมื่อเราไม่รู้จักรถยนต์ หรือว่าควบคุมรถยนต์ไม่ได้ หรือว่าเครื่องมือที่ต่อเติมที่ การที่จะเลือกใช้นโยบายอะไร ก็ไม่มีประโยชน์.....”