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November 13, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Thailand - Exchange Arrangements

The attached paper on recent modifications in the exchange arrangements of Thailand is circulated for the information of the Executive Directors.

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Thailand - Exchange Arrangements

Prepared by the Asian and the Exchange
and Trade Relations Departments

Approved by Tun Thin and Manuel Guitian

November 9, 1984

In the attached communication dated November 8, 1984, the Governor of the Bank of Thailand has notified the Fund of recent modifications in Thailand's exchange arrangements.

On November 5, 1984 the baht's exchange rate was changed from B 23 = US\$1 to B 27 = US\$1, representing a depreciation of 14.8 percent in terms of the intervention currency, the U.S. dollar. The value of the baht had not changed in relation to the U.S. dollar since July 1981. ^{1/} The authorities have announced that under the new arrangement the baht will be allowed to float against a basket of currencies of major trading partners in line with domestic monetary and economic conditions. In addition, in order to help ensure an orderly foreign exchange market, commercial banks will be required (effective November 16, 1984) to keep their net combined spot and forward foreign exchange positions within 20 percent of their capital or US\$5 million, whichever is greater.

During the 1983 Article IV consultation with Thailand, the Executive Board supported the staff view that exchange rate developments had impeded external adjustment and that a greater use of exchange rate policy for the purpose of achieving such adjustment would be appropriate. The staff welcomes the exchange rate adjustment which has recouped the loss in external competitiveness that had taken place since 1981 (as measured by the real effective exchange rate of the baht). The staff will review the exchange rate management, and supporting policies, in the context of the 1985 Article IV consultation discussions with Thailand, which are scheduled to take place in early January 1985. No action by the Executive Board is recommended at this time.

Attachment

^{1/} The previous exchange rate adjustment vis-a-vis the intervention currency, from B 21 = US\$1 to B 23 = US\$1, was made on July 15, 1981 (EBD/81/211, 8/14/81).

MR. TUN THIN
DIRECTOR
ASIAN DEPARTMENT
INTERFUND, WASHINGTON, D.C.

MR. J. E. ISMAEL
EXECUTIVE DIRECTOR
INTERFUND
WASHINGTON, D.C.

I AM PLEASED TO INFORM YOU THAT THE AUTHORITIES HAVE DECIDED TO ADJUST THE EXCHANGE RATE SYSTEM AS FOLLOWS:

(1) AS FROM NOVEMBER 5, 1984, THE BAHT WILL NO LONGER BE PEGGED TO U.S. DOLLAR, BUT WILL BE ALLOWED TO FLOAT AGAINST A BASKET OF MAJOR TRADING CURRENCIES IN LINE WITH DOMESTIC MONETARY AND ECONOMIC CONDITIONS. THIS REGIME WILL STRENGTHEN THE STABILITY OF THE BAHT VIS-A-VIS THE CURRENCIES OF OUR PRINCIPAL TRADING PARTNERS.

(2) THE EXCHANGE EQUALIZATION FUND (EEF) WILL PRESCRIBE THE MIDDLE RATE FOR BAHT AND U.S. DOLLARS, STARTING FROM THE MIDDLE RATE OF BAHT 27 PER U.S. DOLLAR FOR NOVEMBER 5, 1984.

(3) ANY COMMERCIAL BANK WHOSE NET SPOT AND FORWARD FX POSITION ON NOVEMBER 2, 1984 WAS IN SURPLUS MUST SELL ITS NET SURPLUS TO BANK OF THAILAND BY END-DECEMBER 1984, VALUED AT THE MIDDLE RATE ENFORCED BY EEF ON NOVEMBER 2, 1984.

(4) TO HELP ENSURE ORDERLY FOREIGN EXCHANGE MARKET, EFFECTIVE NOVEMBER 16, 1984, COMMERCIAL BANKS ARE REQUIRED TO KEEP THEIR NET COMBINED SPOT AND FORWARD FX POSITIONS WITHIN 20 PERCENT OF THEIR CAPITAL FUND OR U.S. DOLLAR 5 MILLION, WHICHEVER IS GREATER. THE NET FX POSITION IS CALCULATED FROM THE WEEKLY AVERAGE OF NET FX POSITION AT THE END OF EACH BUSINESS DAY, STARTING ON FRIDAY AND ENDING ON THURSDAY.
BEST REGARDS.

KAMCHORN SATHIRAKUL
GOVERNOR
BANKCHAT

NOVEMBER 8, 1984