



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. 51/2006

The Reserve Requirement on Short-Term Capital Inflows

Dr. Tarisa Watanagase, Governor of the Bank of Thailand (BOT), announced that despite recent measures aiming at discouraging short-term capital inflows and limiting Thai baht speculation, short-term speculative inflows of various forms continue to persist, as evidenced by the volatility of the Thai baht and its rapid pace of appreciation.

The BOT, therefore, decided to implement an unremunerated reserve requirement on short-term capital inflows. Financial institutions are required to withhold 30 percent of foreign currencies bought or exchanged against the Thai baht, except those related to trades in goods and services, or repatriation of investments abroad by residents. The details of the measure and related operational procedures are summarized as follows:

1. After one year, customers whose foreign currencies have been withheld can request for refunds by submitting related evidence to prove that the funds have been in Thailand for at least one year.
2. Once financial institutions have examined and certified the one-year minimum stay period, they shall inform the BOT to return the funds, through them, to their customers.
3. Should any customers wish to repatriate their funds earlier than one year, they would be refunded only two-thirds of the amount.
4. Foreign exchange transactions which have been traded prior to 19 December 2006 are exempt from this reserve requirement.
5. Foreign direct investments or unrequited transfers would initially be subject to the reserve requirement but shall be refunded upon submission of supporting evidence through financial institutions. Once financial institutions have examined and certified the legitimacy of such claims and the BOT deems it appropriate, the BOT shall promptly return the full amount.
6. Financial institutions shall remit the required reserves, in the form of foreign currencies, to the BOT on the 7th of the subsequent month.
7. The earnings received from this measure would be earmarked for public benefits.

In order to regulate foreign short-term capital inflows, several countries have imposed reserve requirements on such inflows during critical times. The BOT views that the present situation warrants the introduction of such measure to prevent speculative pressure on the Thai baht. The BOT will closely monitor and assess the impact of this measure.

Bank of Thailand
18 December 2006