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**Monetary Policy and
Monetary Policy Instruments**

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Understanding Financial Terms

Savings Accounts, Fixed Deposits, and Promissory Notes:
What is the difference?

- ▶ If borrowers and lenders can agree on the amount, duration, and interest rate directly, there is no issue.
- ▶ However, since needs often mismatch (e.g., a lender wants short-term while a borrower wants long-term), the Banking System acts as the intermediary.

The Banking Intermediary Flow

- ▶ **Commercial Banks:** Receive **Deposits** (Savings Books) → Provide **Loans** (Loan Agreements).
- ▶ **Finance Companies:** Issue **Promissory Notes (P/N)** → Provide **Loans** (Loan Agreements).

Financial Markets

Definition: A market that facilitates the transfer of funds from "Surplus Units" (Savers) to "Deficit Units" (Investors).

- ▶ **Money Market:** Deals with short-term fundraising and credit (less than 1 year).
- ▶ **Capital Market:** Deals with long-term savings mobilization and credit (1 year or more).

Evolution of the Thai Financial Market

- ▶ **Early Stages:** High reliance on foreign capital for economic development.
- ▶ **Modern Era:** Shift toward domestic stability and more complex financial instruments.

Monetary Policy Definition

- ▶ **Monetary Policy** is the management of money supply and interest rates by the **Central Bank** (Bank of Thailand) to achieve economic objectives:
- ▶ **Price Stability:** Controlling inflation.
- ▶ **Economic Growth:** Supporting sustainable GDP growth.
- ▶ **Financial Stability:** Maintaining the strength of the financial system and exchange rates.

Monetary Policy Instruments

To control the economy, the Central Bank uses:

- ▶ **Policy Interest Rate:** The primary signal for market rates.
- ▶ **Open Market Operations (OMO):** Buying/selling government bonds to adjust liquidity.
- ▶ **Reserve Requirements:** Setting the minimum cash reserves commercial banks must hold.

Inflation Targeting Framework

- ▶ The Bank of Thailand uses Inflation Targeting as its core framework.
- ▶ The Central Bank announces a target for the next 1–2 years.
- ▶ Key Indicator: Consumer Price Index (CPI).
- ▶ Current Target: The Ministry of Finance and the Monetary Policy Committee (MPC) have set a target range of 1% – 3% for general inflation.

Reasons for the 1–3% Target

1. Flexibility: Allows the economy to handle price shocks.
2. Credibility: Anchors the public's inflation expectations.
3. Stability: Ensures the cost of living remains manageable while allowing for economic expansion.