

# Exchange rate dynamics and the effects of foreign exchange intervention in a small open semi-structural model: Evidence from Thailand

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## Abstract

This paper investigates exchange rate dynamics and examines the effect of foreign exchange intervention, using a small open semi-structural model tailored for the Thai economy. We find that foreign exchange intervention is more effective than conventional monetary policy to curb headline inflation. This result suggests a practical challenge for the Bank of Thailand—that of seeking an optimal balance between conventional monetary policy and intervention under inflation targeting. On the other hand, we also find that the response of the exchange rate to an exchange rate shock is long lasting and volatile. This may imply that the recent developing fluctuations in the exchange rate produce uncertainty in the efficacy of the intervention.

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Key words: foreign exchange intervention; inflation targeting; small open economy