1998

Annual Economic Report 1998

Bank of Thailand

ANNUAL ECONOMIC REPORT

1998

CONTENTS

Summary Report

Economic Developments in 1998

Boxes

Report of the Auditors and Financial Statements for the Years 1998 and 1997

Administration and Personnel

Statistical Tables

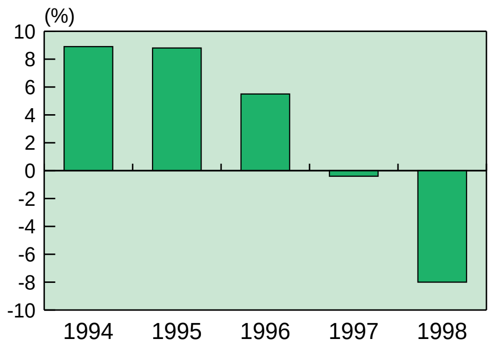
SUMMARY REPORT

Table 1
Thailand's Key Economic Indicators

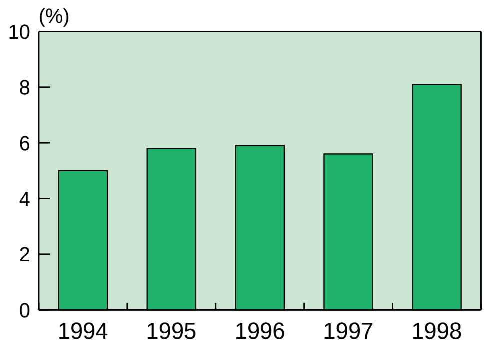
	1994	1995	1996	1997	1998 P
1. Population (million persons)	59.10	59.46	60.12	60.82	61.47 E
2. GDP (% change)					
2.1 Real GDP at 1988 prices	8.9	8.8	5.5	-0.4 E	-8.0 E
– Agriculture	5.3	2.5	3.8	1.4 E	1.0 E
– Nonagriculture	9.4	9.7	5.7	-0.7 E	-9.1 E
2.2 GDP at current prices (billion baht)	3,630.8	4,188.9	4,598.3	4,827.2 E	4,817.5 E
(% change)	(14.5)	(15.3)	(9.7)	(5.0)	(-0.2)
2.3 Per Capita GNP (baht)	60,612	69,047	74,585	77,246 E	75,893 E
3. Inflation (Consumer Price Index : average)	5.0	5.8	5.9	5.6	8.1
4. External Sector (US$ billion)					
4.1 Exports	44.7	55.7	54.7	56.7	52.9
(% change)	(22.5)	(24.8)	(-1.9)	(3.8)	(-6.8)
4.2 Imports	53.4	70.4	70.8	61.3	40.7
(% change)	(18.1)	(31.9)	(0.6)	(-13.4)	(-33.8)
4.3 Trade balance	-8.7	-14.7	-16.1	-4.6	12.2
4.4 Current account balance	-7.8	-13.2	-14.4	-3.1	14.3
(as percentage of GDP)	(-5.4)	(-7.8)	(-7.9)	(-2.0)	(12.3)
4.5 Capital movements (net)	12.2	21.9	19.5	-9.1	-9.6
– Private 1/	12.0	20.8	18.2	-8.1	-15.6
– Public	0.2	1.1	1.3	1.6	2.0
– Bank of Thailand	–	–	–	-2.6	4.0
4.6 Overall balance of payments	4.2	7.2	2.2	-10.6	1.7
4.7 International reserves (US$ billion)	30.3	37.0	38.7	27.0	29.5
4.8 Total outstanding debt (US$ billion)	64.9	82.6	90.5	93.4	86.2
(Public debt)	(15.7)	(16.4)	(16.8)	(24.3)	(31.5)
4.9 Debt service ratio	11.7	11.4	12.2	15.6	20.8
(Public sector)	(3.4)	(2.8)	(2.5)	(2.6)	(3.2)
5. Public Finance (fiscal year)					
5.1 Cash balance (billion baht)	+65.8	+112.5	+104.3	-31.1	-115.0
(as percentage of GDP)	(+1.8)	(+2.7)	(+2.3)	(-0.6)	(-2.4)
6. Money and Banking					
6.1 Money supply (M_2) (billion baht)	2,829.4	3,310.6	3,726.6	4,339.3	4,754.5
(% change)	(12.9)	(17.0)	(12.6)	(16.4)	(9.6)
6.2 Money supply (M_2a) (billion baht)	3,551.1	4,193.4	4,725.2	4,821.8	5,119.2
(% change)	(17.4)	(18.1)	(12.7)	(2.0)	(6.2)
6.3 Domestic credit (% change)	28.9	23.1	14.0	34.5	-1.0
Commercial bank 2/ (including BIBF)					
(% change)	30.3	24.1	14.4	30.5	-7.9
6.4 Deposits 3/ (% change)	13.1	18.2	13.7	16.0	8.8
6.5 Interest rates (year end)					
– Prime rates	11.75	13.75	13.0-13.25	15.25	11.5-12.0
– Time deposit (1 year)	8.25-10.25	10.25-11.0	8.50-9.25	10.0-13.0	6.00
7. Exchange Rate (annual average)					
Baht : US$ (Exchange Equalization Fund) 4/	25.15	24.92	25.34	31.37	41.37

Notes : P = *Preliminary figures*
E = *Estimates*
1/ *Including commercial banks and BIBF.*
2/ *Including financial state enterprises.*
3/ *Excluding foreign currency deposits and interbank deposits.*
4/ *Using average interbank exchange rate starting July 1997.*

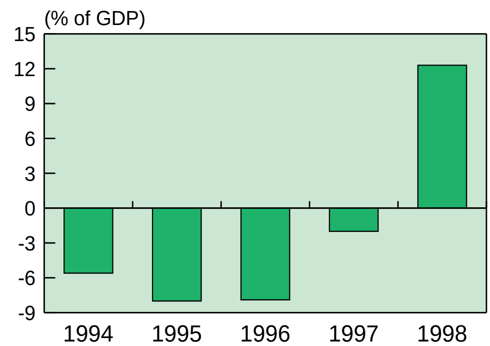
Real GDP Growth



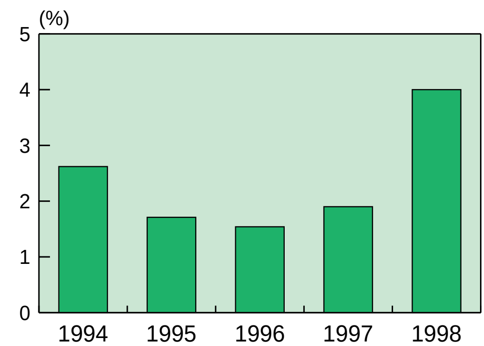
CPI Inflation



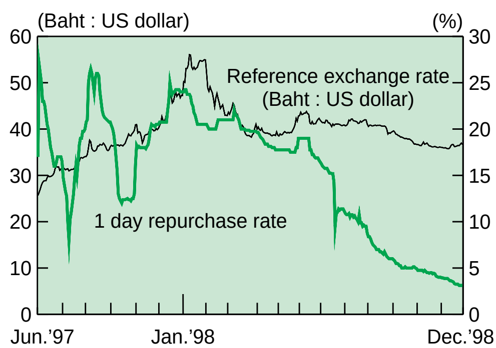
Current Account Balance



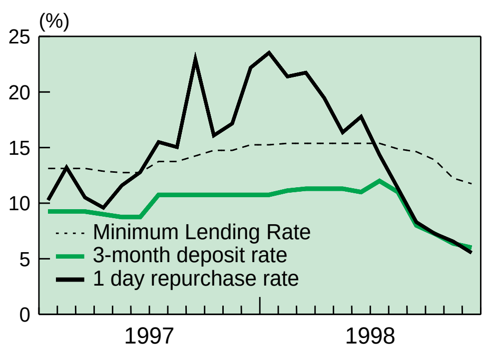
Unemployment Rate



Movement of Exchange Rate and Repurchase Rate



Interest Rate



Economic Performance in 1998

1. In 1998, the Thai economy contracted by 8 percent owing to the decrease in domestic spending, both consumption and investment by the private and public sectors. Private consumption fell on account of reduced purchasing power and greater caution in spending, linked to higher unemployment and job uncertainties, respectively. Private investment decreased as no new investment was necessary due to the prevailing excess production capacity. Moreover, the interest rate level was high throughout the first half of the year while the credit supply was inadequate to satisfy business needs. Meanwhile, the government expenditure also decreased as the budget was cut to contain the cash deficit within the limit agreed with the International Monetary Fund (IMF) in line with lower revenue collection.

2. Economic stability, in terms of the current account balance and inflation, improved significantly. The current account recorded a surplus of US$14.3 billion, equivalent to 12.3 percent of GDP. Pressure of exchange rate depreciation on inflation eased successively, resulting in inflation declining from a peak of 10.7 percent in June 1998 to 4.3 percent in the last month of the year. These improvements mirrored, in part, the sharp contraction of economic activities.

3. The total value of exports fell by 6.8 percent, resulting from the slowdown of the world economy and financial crises in Asian countries which were major trading partners of Thailand. The value decline was caused mainly by the reduction in export prices while the export volume increased at a lower rate than in the previous year. Imports contracted in all categories in line with the economy's contraction and reductions in stocks of raw materials. This was, in part, because businesses suffered from the shortage of liquidity and working capital.

4. Private capital continued to record a significant outflow owing to loan repayments by BIBF, commercial banks, and private businesses. There were, however, net inflows of portfolio investment and foreign direct investment for business acquisition, to increase equity holdings in joint ventures with Thai companies, and to provide financial assistance from foreign parent firms to affiliated companies in Thailand. As of end-1998, international reserves amounted to US$29.5 billion, with foreign exchange forward obligations declining to US$6.6 billion. Total external debt amounted to US$86.2 billion, comprising US$54.7 billion of private debt and US$31.5 billion of public debt.

5. The value of the Thai baht stabilised successively after volatile movements during 1997 and January 1998 when the baht value was weakest. The improvement was partly the result of the current account surplus which increased the supply of US dollar in the domestic market, increased confidence in the ex-

change rate compared to the previous year, and the abolition of two-tier foreign exchange markets since end-January.

6. The liquidity situation, which was very tight in the first quarter of 1998, improved gradually on account of a continued expansion of deposits reflecting higher savings and greater caution in spending. Meanwhile, financial institutions were cautious in extending credits and their ability to extend credit was reduced by problems of non-performing loans and inadequate capital funds. Moreover, there continued to be uncertainties in the financial environment, difficulties in recapitalisation, the repayment of foreign debt by the private sector, and the provisioning for sub-standard loans according to the BIS guidelines as required by the authorities.

The expansion of liquidity resulted in successive reductions of the deposit rates, lending rates, and money market interest rates. They declined significantly, particularly in the latter half of the year.

7. Notwithstanding the high liquidity in the financial system and falling interest rates, businesses continued to suffer from a severe shortage of funds. This was the result of cautious credit extension by domestic financial institutions and loan call-backs by foreign financial institutions. Moreover, poor business confidence also led to the decrease in inter-firm domestic trade credits. These factors contributed to the sharper-than-envisaged contraction of the economy and exacerbated the problem of non-performing loans, which accelerated during the second half of the year.

8. The stock market index and trading volume decreased continuously during the first three quarters of the year, reflecting poor profitability of listed companies, particularly commercial banks. In addition, foreign investors became more cautious of investing in emerging markets as the financial crisis spread from Asia to other regions. Market conditions improved, however, in the last quarter of the year when foreign investors regained confidence in the Thai economic and financial situation and started to buy up cheap stocks.

Activities in other parts of the capital market were also active, owing primarily to the issuance of government bonds, amounting to B400 billion to restructure the liabilities of the Financial Institutions Development Fund (FIDF), the recapitalisation of financial institutions in compliance with the authorities' guidelines, and the debt-to-equity conversion of financial institutions which borrowed from FIDF in accordance to financial institution restructuring plan implemented by the government.

9. Notwithstanding several budget cuts, the government fiscal position recorded a higher cash deficit than in the previous year owing to the significant fall in revenue, particularly corporate income tax and import duties, in tandem with the economic contraction. In contrast, personal income tax increased from the collection of tax on interest income, which rose in line with deposit expansion, while the

value added tax went up on account of the tax rate increase from 7 to 10 percent starting August 1997.

While total government expenditure declined in line with budget cuts, the rate of disbursement increased to 82.3 percent.

10. In 1998, the authorities moved on to resolve the financial institution problems in several ways; intervening in problem institutions, implementing measures to support the recapitalisation adequate for business expansion, standardising loan classification and provision according to international practice, alleviating problems of non-performing loans, and expediting debt restructuring. These attempts were aimed at enhancing the ability of financial institutions to extend credits — the important foundation for economic recovery in the future.

11. In 1998, a total of four letters of intent (LOI) were concluded under the IMF Stand-by programme. The policy framework continued to emphasise the implementation of appropriate monetary and fiscal policies to enhance investor confidence, the resolution of financial institution problems, and the improvement of laws and regulations crucial to the country's economic and social restructuring. An important policy change was marked by the third LOI, when monetary and fiscal policies were eased to stimulate the economy. As of end-1998, the Bank of Thailand disbursed loans from the IMF totalling US$3.11 billion, from bilateral sources totalling US$4.75 billion, and from the Export-Import Bank of Japan totalling US$2.9 billion. These make up the total disbursement of US$10.76 billion.

Economic Outlook for 1999

1. As the economic and financial environment has improved, the Thai economy is expected to recover gradually in 1999. In particular, the significant fall in domestic interest rates should stimulate spending, enhance business prospects, and reduce the costs associated with debt repayment for the private sector. Overall, the economy is forecasted to expand by about 1 percent in 1999. This level of growth is, however, contingent on four major assumptions: (1) the world economy and trade continuing to expand at rates close to the previous year; (2) progress in resolving non-performing loans and private sector debt restructuring, thus enabling financial institutions to increase credit extend to businesses; (3) government spending accelerated to stimulate the economy as planned; and (4) no new adverse financial development that leads to a further slowdown in regional economies.

Nevertheless, private investment is expected to remain subdue owing to prevailing high level of excess production capacity in many industries.

2. In 1999, the total value of exports in US dollar terms is projected to increase by about 4 percent on account of some demand improvements from Thailand's trading partners. This reflected the stabilising of Asian economies after experiencing a sharp contraction in the previous year, as well as an expansion into new export markets. Imports is expected to increase on account of the restocking of raw materials which were drawn down in the previous year and the increase in domestic spending. These developments are expected to reduce the current account surplus.

3. Notwithstanding some demand expansion, inflation should continue to fall owing to an absence of pressure from currency depreciation compared to 1998. Moreover, the prevailing excess production capacity means that supply can be increased readily to accommodate the increasing demand.

4. With an aim to stimulating the economy, the government fiscal position will continue to record a cash deficit. The rate of budget disbursement is expected to be higher than the previous year's level while revenue is projected to show modest growth. For fiscal year 1998/1999, the public sector deficit agreed under the seventh LOI amounts to 6 percent of GDP, comprising the government deficit of 4 percent and state enterprise deficit of about 2 percent of GDP.

5. The financial sector is expected to improve in 1999 pending the following: financial institutions can recapitalise according to plans; the private sector debt restructuring pushed forward by the authorities through 1998 shows greater progress; and financial institutions increase credit extension, propelled by the prevailing high level of liquidity, to ensure greater financial flows to businesses than in the previous year.

Economic Policies for 1999

To provide the stimulus for recovery in 1999, the solid and progressive implementation of monetary and fiscal policies is crucial for supporting the economic recovery while social safety net measures are needed to assist those most affected by the economic contraction in the previous year. The expansionary economic policy should aim importantly to jump start domestic demand as there is some downside risk on external demand growth, should the world economy and trade grow at lower rates than the IMF projections. There are five major policies thrust for 1999 as follows:

1. Fiscal Policy

Fiscal policy is an important policy instrument to propel an economic recovery when the private sector continues to face liquidity shortage and adjust to adverse economic impacts in the previous year. To this end, the Government needs to accelerate the implementation of investment projects, and, if necessary, amend regulations to accelerate budget disbursement in order to increase liquidity flows to businesses. At the same time, state enterprise capital expenditure should also be expedited in accordance with the set target. Not only will this help stimulate domestic spending, it will also allow state enterprises to implement projects at lower costs because of higher competition among contractors.

During this time when the economy needs demand stimulus from government expenditure and revenue performance continues to be weak, the Government will have to increase borrowing from domestic as well as foreign sources. It is, however, essential that, once domestic demand recovers and growth resumes, the Government reverts to fiscal discipline as in the past. This is in order to secure economic stability and growth sustainability over the long term. In this regard, the Government should establish a mechanism to oversee, monitor, and supervise government borrowings with a view to safeguarding against excessive debt creation which could undermine the long-term stability of the Thai economy.

2. Monetary and Exchange Rate Policy

At present, the use of monetary policy to jump start an economic recovery is somewhat less effective than in normal times. Nevertheless, it is important that domestic interest rates are maintained at low levels to reduce the costs and financial obligations of entrepreneurs. To promote the expansion of credit, the authorities should continue to cooperate with financial institutions in accelerating debt restructuring and recapitalisation to ensure adequate provisioning for non-performing loans. In addition, the role of government financial institutions should be expanded to provide liquidity to businesses, particularly small and medium-sized industries.

It is, however, essential to be vigilant of external developments in adopting a low-interest-rate policy. This is in order to maintain the stability of exchange rate movements that will not adversely affect exports and external debt. In particular, there should be contingency plans to deal with potential disruptions in the international financial markets.

The main policy goal is thus to ensure that the country's financial standing achieves the international norm quickly in order to reduce the impact of volatile international financial movements. In particular, maintaining international reserves at a high level should effectively help safeguard against international instability.

Moreover, to enhance the effectiveness of monetary policy under the flexible exchange rate regime, the authorities should speedily revise the mechanisms for monitoring, analysing, and controlling the money supply, liquidity, and interest rates. This is to ensure a continuation of financial stability while promoting sustainable economic growth with price stability.

3. Financial Institution Policy

The authorities need to continue to strengthen the financial system and financial institutions. In the short-term, the policy must urgently address the problems of financial institutions caused by the deterioration and volatility in the economic and financial environment. This includes expediting debt restructuring, improving legal and accounting framework necessary to promote debt restructuring progress, and ensuring adequate recapitalisation.

In addition to promoting debt restructuring and recapitalisation, the authorities should expedite the merger and sale of assets of financial institutions undertaken since 1998 and aim to complete the process by 1999. This is to allow these financial institutions to set plans and directions for their business in the future. Meanwhile, to foster the development of financial institution system in the longer term, laws, regulations and procedures to ensure effective supervision of financial institutions need to be revised and improved. This requires the cooperation between the authorities and financial institutions to develop the system that grows in a stable and sustainable manner.

4. International Trade Policy

In 1999, there are uncertainties as regards the international trade environment, linked to: (1) the risks of the world economy and trade impacted by the contagion of financial crisis in Asia to other parts of the world; (2) higher competition as many countries hope to recover by increasing exports, and (3) the diminishing competitiveness associated with the lessening magnitude of exchange rate depreciation inherited from the previous year. Since these factors can contribute to the low rate of export growth for Thailand, it is crucial that the authorities promote urgently the cost reduction and quality upgrading of Thai exports in order to enhance its competitiveness in the world markets. In addition, they should cooperate with the private sector in expanding rapidly into new markets which have high purchasing power and are not affected by the economic crisis.

Over the longer term, the authorities must implement industrial restructuring in a concrete manner in order to reduce costs and increase the potential for competitiveness. Importantly, they need to clarify the directions and strategies for developing export industries to facilitate the long-term planning for investment and production by entrepreneurs.

ECONOMIC DEVELOPMENTS IN 1998

Overall Developments

In 1998, the Thai economy experienced severe adjustment and recorded a contraction of 8 percent; particularly from domestic demand, both consumption and investment. Progress in implementing policies in pursuant of macro-stabilisation, structural adjustments, and financial sector reforms have, however, yielded significant benefits, namely: (1) the improvement in economic stability; (2) strengthened market confidence as indicated by the narrowing spread of Thai Government bonds over equivalent US Treasury benchmark, and by the strengthening of the baht which accommodated the downward adjustment of domestic interest rates; and (3) recent performance of major economic indicators during the second half of the year—both on manufacturing production and on some segments of private demand— providing growing evidence of a levelling off of economic activities, though still at levels below those in the same period of 1997.

Major factors contributing to the economic slowdown included: the sharp contraction in domestic demand, particularly private consumption and investment, in line with the fall in income; excess production capacity in the industrial sector; debt overhang and liquidity crunch in the private sector; asset price deterioration; and prevailing uncertainty and risks of business entities. As a consequence, output in the non-agricultural sector contracted almost across the board, particularly in manufacturing, construction, trade, financial services, and real estate. This caused a rise in unemployment to 1.3 million (excluding under-employment of 885,000 persons), representing an increase in the unemployment rate to 4 percent, up from less than 2 percent three years ago.

Nevertheless, there were some positive factors which helped avert such sharp economic contraction. First was the export expansion in response to the baht depreciation. The export volume expanded at a satisfactory rate of 8.1 percent despite a reduction in total export value. In addition, the benefit of the depreciation also passed on to the rural population, specifically those in the agricultural sector who experienced a substantial 25 percent increase in income from the sale of major crops. Moreover, the acceleration in government expenditure since the second half of the year also helped smooth out sharp domestic demand contraction to some extent.

Demand contraction caused a sharp reduction in import which, together with improved export performance, resulting in a current account surplus of 12.3 percent of GDP. This, together with an improvement in the capital account during the second half of the year, contributed to a surplus in the overall balance of payments of US$1.7 billion. International reserves rose to US$29.5 billion, or equivalent to 8.7 months of imports. Meanwhile, external debt level declined and its structure shifted towards longer maturity, with the ratio of long-term debt increasing from 62.7 percent at end-1997 to 72.8 percent at end-1998. The noted improvement in external stability was fundamental to the strengthening and stability of the baht.

The combination of the strengthening of the baht and weak demand continually helped bring down the inflation rate during the second half of the year to 4.3 percent by end-year, or an average yearly rate of 8.1 percent. Thus, apart from helping to maintain international competitiveness (as measured by the real effective exchange rate), the decline in inflation also allowed room for the authorities to ease monetary policy progressively. This helped facilitate the economic recovery while overcoming the seeming dilemma of trade-off between exchange rate stability and interest rate reduction — a situation which prevailed during the beginning of the year.

Production

Agriculture

Agricultural output in 1998 continued to expand by 1 percent despite a decline in crop output, especially tapioca, sugarcane, and fruits, as a result of drought. Forestry output by the Forestry Industry Organization (FIO) also fell. In contrast, livestock and fishery output increased due to the expansion of broiler output in tandem with favourable export conditions. In addition, marine production and low salt-based prawn farming also expanded.

Crops

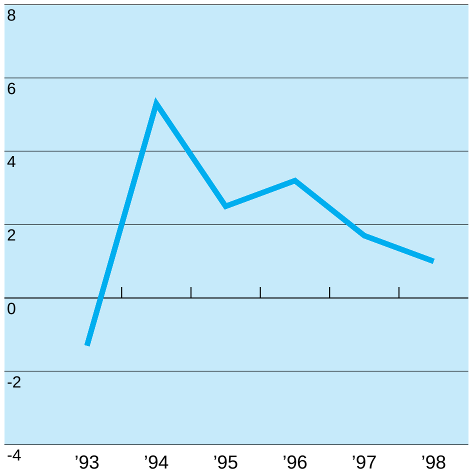
Output in 1998 dropped by 0.5 percent, compared with an expansion of 2.6 percent in the previous year, owing to volatile climate. Following droughts during the first half of the year, the rainfall, though sufficient, concentrated mostly in the Central Plain, the North, and the lower Northeastern part of Thailand. As a result, the production of sugarcane, tapioca, oil palm, and fruits and vegetables fell. While the output of first paddy crop declined slightly, that of second paddy crop rose markedly on account of attractive market price during the beginning of the year, which induced farmers to expand planting areas. Outputs of maize and rubber also increased as a result of the expansion of planting areas, spurred by attractive prices, together with sufficient rainfall which increased yield per *rai*.

Agricultural Production
(percentage change)

	1996	1997	1998 E
Crops	6.1	2.6	-0.5
Livestock	2.0	3.7	3.6
Fishery	-4.3	0.2	3.8
Forestry	-5.4	-26.9	-10.3
Total	**3.2**	**1.7**	**1.0**

E = *Estimates.*

AGRICULTURAL PRODUCTION



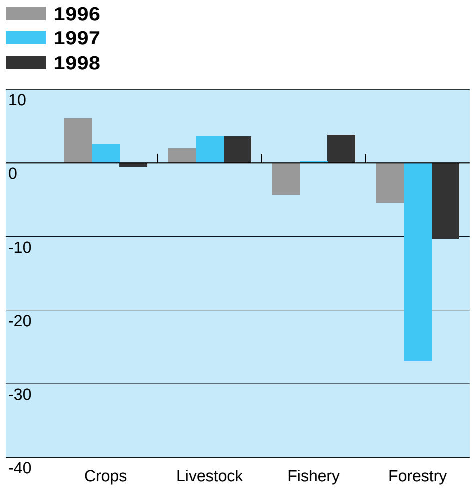


Table 2
Production of Major Crops
('000 tonnes)

Crop	Production Year 1997/98	Production Year 1998/99[E]	Percentage Change
Rice			
First crop (t/t+1)	18,789	18,448	-1.8
Second crop (t+1)	4,792	2,985	-37.7
Rubber	2,100	2,200	4.8
Maize	3,842	4,986	29.8
Sugarcane			
Crop year (t/t+1)	42,270	43,000	1.7
Calendar year (t)	(53,893)	(42,390)	(-21.3)
Tapioca			
Crop year (t/t+1)	15,959	16,692	4.6
Calendar year (t)	(17,343)	(16,215)	(-6.5)
Kenaf	106	64	-39.6
Tobacco	74	84	13.5
Soybean	366	371	1.4
Coffee	79	60	-24.1
Oil palm	2,681	2,465	-8.1

Note : E = *Estimates.*
Sources : *Office of Agricultural Economics, Rubber Research Institute, Cane and Sugar Office.*

Agricultural Measures for Economic Recovery

Ministry of Agriculture and Co-operatives has implemented agricultural measures aimed to support the recovery of the economy. The measures emphasised basic production process, combining an integration of agriculture and sustainable development to promote rural labour utilisation to alleviate economy-wide unemployment. Total loans amounted to US$600 million, of which US$200 million was for urgent plans and US$400 million was for intermediate plans. Of the total loans, US$300 million was borrowed from the Asian Development Bank (ADB) and the remaining US$300 million from the Overseas Economic Cooperation Fund (OECF).

A. Urgent plans consisted of three plans to expedite agricultural output (Cabinet approval of 15 February 1999).

1. Agricultural product quality and marketing development plan. This aimed to improve production and marketing capability of 90 agricultural cooperatives, using total credit of B3,820 million with a one-year operating period.

2. Optional agriculture system promotion plan. The aim is to promote optional agriculture system and create joint education network for farmers, using total credit of B3,300 million with a one-year operating period.

3. Forestry plantation community promotion plan. This aimed to strengthen communities and local organisations in managing communities' forestry, using an amount of B600 million with two-year operating period.

B. Intermediate plans.[1/] ADB with Ministry of Agriculture and Cooperatives and Chulalongkorn Research Institute had set up a policy framework of bottom-up loan utilisation to encourage farmers to participate in setting up plans for agricultural sector development. These plans involved:

1. Production efficiency enhancement plan, consisting of 8 sub-plans:

1.1 Improving land holding and land use management

- Land Development Department worked with the private sector to expedite preparation of a map of land areas and uses of lands which earlier focused on nearly 10 river lines to 48 river lines to be completed by year 2005.
- Office of Agricultural Land Reform expedited the issuing of rights documents (Document 4-01) from an average of 1.7 million rais to 2.5 million rais by 31 March 2000
- Office of Land Reform has expedited the arrangement of land and the improvement in irrigation system for farm areas, to increase its capacity from an average of 25,000 rais to 62,500 rais in 1999 and 2000, and to 125,000 rais in subsequent years.

1.2 Halting resource destruction in coastal areas

- The Government expedited implementation of coastal area usage plan covering 25 provinces located near the seas.
- Department of Fisheries set guidelines and action plans to promote private investment in rehabilitating abandoned prawn farming areas along the coasts (including prawn disease extin-

1/ *As of 14 January 1999.*

guishing measures, credit for improving prawn farming and various breeds of fish).

1.3 Water Resource Act and High-level Policy Units had set policy of national water resources, increased work efficiency in the Office of National Water Resource Committee and appointed special working groups in various ministries to work with the Office of National Water Resource Committee to solve water problem.

1.4 Water Resource Management

The Office of National Water Resource Committee prepared guidelines for flooding and drought prevention at the national level and worked with the Royal Irrigation Department and Mineral Resource Department in preparing guidelines for sustainable ground water management, focusing on drought areas.

1.5 Water Procurement Services

The Royal Irrigation Department had commitment to: 1) Setting up organisations with public participation in central and regional areas; and 2) Arranging and carrying out 8 pilot projects covering 1.19 million rais and preparing 50 small-scale irrigation development projects with private sector units and non-government organisation.

1.6 Water origin protection and land conservation

The Government set up national implementation plans to protect and manage water origins by having related groups and Ministry of Agriculture and Cooperative to prepare national plans for rehabilitating areas with having land problem.

1.7 Improving credit extension

– Ministry of Finance set up working committee to improve credit system benefiting poor farmers and to propose relevant amendments to the laws and regulations to facilitate the operation of financial institutions in this area.

– Government Savings Bank (GSB) is to set up a system for extending medium- and long-term credits to rural communities by 30 June 1999.

1.8 Restructuring saving and credit extension system.

– Bank for Agriculture and Agricultural Cooperatives (BAAC) amended BAAC Act (B.E. 2509) and improved credit risk management system.

– Bank of Thailand is to prepare details of timeframe of implementation plan and set regulations governing BAAC and GSB, by 30 September 1999.

2. Export competitive ability enhancement plan, consisting of 5 subplans as follows:

2.1 Enhancing research and technology ability

Setting up joint committee to conduct research and development at district level in each province, as well as establishing national agricultural research council and agricultural and natural resources information system network to monitor agricultural research project implementation plans.

2.2 Restructuring agricultural promotion system and educating farmers

– Establishing full service network comprising agricultural output and input trading, marketing, and agricultural-related technology information, and entering financial institution credit system via agricultural institution.

– Ministry of Agriculture and Cooperatives prepared national plan for educating farmers about marketing, natural resource conservation, and agricultural product processing for exports under recommendations of District Administrative Organisation, private sector and local bodies.

2.3 Improving product quality warranty system

Establishing national agricultural output standard institute and natural resource and various biological study institute to set standard and issue export certificates.

2.4 Promoting exports

Ministry of Agriculture and Cooperatives set implementation plan for establishing at least 10 special economic agriculture zones to promote production, product processing and agricultural exports.

2.5 Reducing Government's roles in market and price intervention

– Abolishing low-price input procurement for farmers in order to avoid adverse impacts on private businesses who traded and produced inputs and reviewing Government's agricultural market intervention measures.

3. Restructuring management system and improving administration system

3.1 Restructuring Ministry of Agriculture and Cooperatives

Reorienting the organisational structure of the Ministry of Agriculture and Cooperatives including its size, internal working procedure and working cooperation with local bodies and district administrative organisations as well as private sector in order to bring up Government's benefits of planning and decisions.

3.2 Strengthening communities to participate in agricultural planning

Ministry of Agriculture and Cooperatives strengthened local organisations by encouraging communities to participate in setting plans for agriculture, management, and work guidelines so that district administrative organisations could participate in rural development planning.

In setting up the above policy guidelines, there remained unsettled issues of abolishing low-price input procurement and Government's loan interest rates for farmers. Issues concerning enactment of certain laws have been withdrawn from the loan conditionality.

Fishery

Output grew by 3.8 percent from the previous year. Marine products rose strongly especially from the southwestern seafront, linked partly to the recent El Nino Effect. Prawn farming expanded moderately. Despite the brisk expansion of the low saline prawn farming in the central and western regions induced by attractive market prices, the spread of prawn disease to coastal farming areas using traditional farming techniques caused the total prawn output to increase only marginally.

Livestock

Livestock production continued to increase by 3.6 percent from the previous year. This resulted mainly from an expansion of broiler output linked to favourable exports, benefiting from the baht depreciation which lowered the Thai price relative to that of China—Thailand's major competitor. Moreover, Thai exporters were able to supply frozen fowl and processed products in accordance with market demand and the quantity of frozen fowl exports rose by 40.7 percent from the previous year. Meanwhile, swine output fell markedly, owing to high price of animal feeds during the first half of the year and reduced domestic demand.

Forestry

Output continued to fall by 10.3 percent due to the Forestry Industry Organization (FIO)'s decreased log production. In particular, teak cutting by FIO reached only 10 percent of the target as teak exports did not receive support from the authorities.

Agricultural Prices in 1998

In 1998, the Farm Price Index rose by 24.5 percent, representing increases in most categories. Crop prices rose markedly by 30.4 percent, followed by prices of fisheries and livestock which increased by 24.4 and 6.9 percent, respectively. Meanwhile, wood prices remained at a similar level to the previous year.

Crops

Average crop price increased by 30.4 percent, with the price of grains and other food crops increasing by 33 percent. Of this, the price of tapioca more than doubled owing to reduced output in the production year 1997/98 in Thailand and in Indonesia which is a major competitor. The price of paddy rose sharply due to marked increase in world demand; specifically from Indonesia which suffered from droughts, raising its imports from 0.8 million tonnes in 1997 to 5.9 million tonnes in 1998. Similarly, prices of fruits and oil seed crops, particularly palm oil and coconut oil, rose by 60-65 percent reflecting supply shortage from droughts.

Farm Price Index
(percentage change)

	1997	1998
Farm Price Index	**3.1**	**24.5**
1. Crops	2.2	30.4
– Grain and Cereal	4.3	33.0
– Oilseed	-5.0	32.5
– Agr. raw materials	-12.6	0.8
– Beverages	-16.7	92.8
2. Livestock	0.3	6.9
3. Fishery	15.3	24.4
4. Wood	0.7	-0.5

Livestock

Prices of livestock as a whole increased by 6.9 percent on account of a sharp rise in the price of broiler, which rose by 15.9 percent. This was linked to favourable exports of frozen fowl and processed products, benefiting from the baht depreciation during the first half of the year. In contrast, the price of swine fell by 3.2 percent, as swine output primarily served domestic demand and therefore did not benefit from the baht depreciation. On the contrary, the depreciation caused prices of imported inputs to rise and the prices of domestically produced inputs, such as maize and rice, to increase notably during the beginning of the year. This resulted in a sharp rise in the cost of swine production. This, together with the contraction in domestic demand, induced a rapid release of undersized swine to the market with an aim to compensate the loss incurred from the increased costs. This further exacerbated the fall in the price of swine.

Fishery

Prices of fishery rose from the previous year by 24.4 percent, representing mainly an increase in prices of marine products by 26 percent, especially prawn and marine fish, which rose by 42.2 and 4.3 percent, respectively. Prawn price rose owing to favourable exports, again benefiting from the baht depreciation. Prices of marine fish also increased in line with the depreciation but were offset partly by the effect of increased supply.

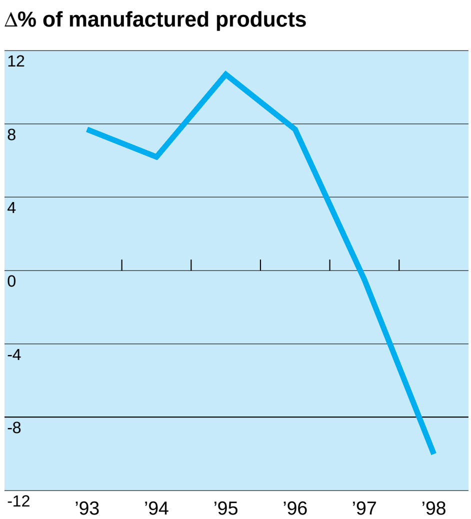
Wood

Wholesale prices of wood in the Bangkok market were stable and close to the previous year's. This reflected the economic slump and declining demand for wood used in construction linked to continued excess supply of real estate.

Manufacturing

In 1998, manufacturing production fell by 9.1 percent in contrast to an increase of 0.2 percent in the previous year. Such fall was observed across most production categories, except for textiles and beverages which continued to expand. Major factors contributing to this development were: (1) the continued contraction in

MANUFACTURING PRODUCTION



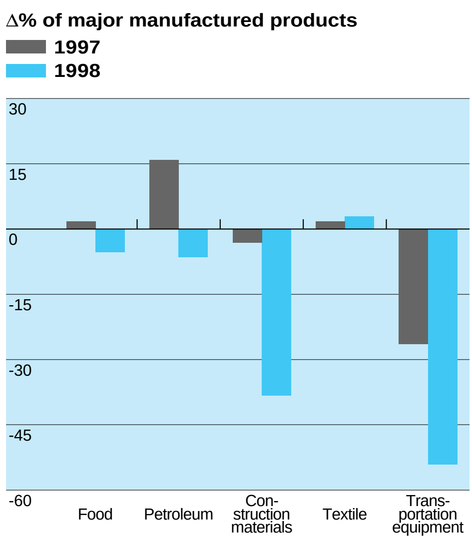


Table 3
Manufacturing Production
(percentage change)

	1996	1997	1998
Food	1.8	1.8	-5.3
Beverage	3.8	14.3	2.3
Tobacco	12.0	-9.9	-20.3
Textile	0.5	1.8	2.9
Petroleum	32.3	15.9	-6.5
Construction materials	13.8	-3.2	-38.3
Steel products	6.5	-2.5	-31.5
Vehicles and transport equipment	4.5	-26.5	-54.1
Others	6.1	1.1	-5.5
Total	**6.9**	**0.2**	**-9.1**

domestic demand, both consumption and investment; (2) the liquidity shortage faced by producers and exporters; (3) the shortage of raw materials for food production linked to droughts; (4) the halting of production lines or closure in some parts of manufacturing sectors to reduce expenses relating to severance pay before enforcement of the Labour Protection Act (1998) in August 1998; and (5) ongoing financial crisis in this region and other regions which resulted in only a marginal improvement in Thailand's export performance despite substantial depreciation of the baht.

Manufacturing production, however, improved considerably during the last quarter of 1998, with the Manufacturing Production Index (seasonally adjusted) rising by 2.4 percent from the preceding quarter. This was due to the government's acceleration of budgetary disbursement to stimulate the economy which also coincided with the 13th Asian Games.

Sectors experiencing significant reduction

Vehicles and transport equipment

Firms slowed down or temporarily stopped production in order to control stocks of merchandise, especially among passenger car and heavy-duty truck production which fell by 54.1 percent. Despite the increased exports of vehicles, they only accounted for about 20 percent of production and were not sufficient to offset the impact of domestic demand contraction.

Construction materials

Production of construction materials contracted by 38.3 percent in tandem with the sluggish construction sector. Factors contributing to this decline were: (i)

Small and Medium Industries[1/] : Government's Assistance

There were 124,771 [2/] small and medium industries (SMIs) registered in Thailand, equivalent to 97.9 percent of total industries. Their employment totalled 1.6 million, or 50.4 percent of aggregate employment in manufacturing sector. Investment funds amounted to B1,218.9 billion, or about half of total investment funds in the manufacturing sector. Besides SMIs, there were a large number of small and medium firms in other sectors including production, trade and services, which were altogether called Small and Medium Enterprises (SMEs).

In so far, major problem of SMEs had been lack of improvement of efficiencies in production of goods and services to meet standard and demands. Moreover, recent financial turmoil caused firms in SMIs to face worsening business situation due to domestic demand shrinkage and liquidity shortage. To promote SMEs as a core of country's development and to ensure a clear-cut direction of development, the Government drafted SMEs Promotion Act to be used as basic law to support SMEs' development, and required the responsible agencies with a mandate to oversee and procure budget for SMEs exclusively.

1. Government's assistance to SMIs

1.1 Capital funds

- Increase credit line and credit guarantees of special financial institutions in 1999 for: SMEs without non-performing loans (NPL) which cannot seek new credit line from commercial banks; SMEs requiring credits to refinance debt; or SMEs having NPL within 3-6 months due to liquidity shortage where their credits shall be resumed after completion of debt restructuring process. Total credit line amounted to B35,000 million. Total credit

Credit line and credit guarantees at specialised financial institutions[3/]
(millions of baht)

Specialised Financial Institutions	Credits	Credit guarantees
Industrial Finance Corporation of Thailand	12,000	
Small Industry Finance Corporation	3,000	
Bank for Agriculture and Agricultural Cooperatives	2,000	
Government Savings Bank	1,000	
Export-Import Bank of Thailand	5,000	
Bank of Thailand	12,000	
Small Industry Credit Guarantee Corporation		500
Total	35,000	500

1/ *Following Department of Industrial Works, small industries are defined as those with no more than 50 employed workers while medium industries are those with no more than 200 employed workers.*
2/ *Data at end-1998 from Department of Industrial Works, Ministry of Industry.*
3/ *The Ministry of Industry also joined with Krungthai Bank in providing additional financial assistance to SMEs, amounting to B10,000 million, for the years 1999-2000.*

line from Bank of Thailand (BOT) was in the form of promissory notes (P/N) exchange with financial institutions. On 12 January 1999, BOT extended its financial assistance in the form of promissory note exchange from small-scale industries to cover medium-scale industries with net fixed assets exceeding B50 million but less than B200 million. BOT purchases P/N from financial institutions at 60 percent of face value with 3 percent interest rate per annum charged from financial institutions. Financial institutions are allowed to charge from business firms at the rate not more than MLR minus 1 percent per annum.

1.2 Production and technology development

There are several agencies such as Department of Industrial Promotion, Department of Skill Development, National Science and Technology Development Agency and Productivity Institute giving support to SMEs in the area of production technology and personnel. The Government placed emphasis on promoting work cooperation between related entities to be stronger, more systematic and complete linkage by setting up a plan included in Industrial Sector Restructuring Program. The plan comprised 7 urgent implementation projects costing B1,760.12 million.

2. Progress of SME Promotion Act

Draft of SME Promotion Bill is under consideration (26 February 1999) by Office of the Council of State. The draft will be considered by the Legislative Council and then will be promulgated as law. Main issues of the draft are:

- Setting up SME promotion committee comprising 25 working staffs with the Prime Minister as a chairperson to consider rights and benefits for SMEs that need help, promotion and support from SMEs' Fund.
- Establishing SME promotion office, as an independent corporation under the SME promotion committee's supervision, to study identification [4/] of SMEs; to set up implementation plan; to study and report SMEs' operating performance; and to manage SMEs' promotion funds.
- Setting up SME promotion fund in the SME promotion office with capital funds not less than B500 million contributed from the Government and will receive annual proceeds from national budget, donation and other interests.
- Issuing ministerial regulations requiring SMEs to report statistics on operating performance so that the SME promotion office can follow SME situation and can evaluate SMEs' supporting policies.

4/ Primarily, related entities had defined SMEs on the basis of SMEs' fixed asset value including land rent as follows:

	Medium and Small	***Small***
Production and Services	*not more than B200 million*	*not more than B50 million*
Wholesale trade	*not more than B100 million*	*not more than B50 million*
Retail trade	*not more than B60 million*	*not more than B50 million*

excess supply in many types of real estates; (ii) fewer government construction projects following the moderation of budgetary disbursement since end-1997 to the first half of 1998; and (iii) liquidity problems of firms induced some producers of construction materials to gradually stop production lines in order to lower costs of merchandise stock accumulation.

Iron and steel products

Production of iron and steel products contracted by 31.5 percent in line with reduced domestic demand. In particular, the decline was most severe in the production of steel bar to an extent that a number of factories were shut down and workers laid-off at the beginning of the year. In addition, most steel producers faced severe liquidity problems, driving them to enter the debt restructuring process.

Tobacco

Production of tobacco contracted by 20.3 percent in response to the retail price increase imposed by the Tobacco Monopoly, causing consumers to shift preference to imported cigarette of similar price range, especially from Malaysia where foreign producers used as a base for export to Thailand.

Sectors showing a declining trend

Food

Food production declined by 5.3 percent owing to the shortage and low-quality of raw materials, following unfavourable climate conditions, particularly in canned pineapple and sugar industries.

Petroleum products

Petroleum production contracted by 6.5 percent compared with an increase of 15.9 percent in the previous year. This was attributable to the significantly lower domestic demand in line with economic contraction — especially diesel oil used in business and manufacturing sectors. Consequently, many refineries halted production periodically for routine maintenance. In addition, during the last quarter of the year, a large refinery with significant market share faced severe liquidity problems and had to enter debt restructuring process, as well as reduce its commercial production and undertake only refinery activities that would not create additional debt obligations.

Others

Important products under this category were mostly for exports including; integrated circuits, glass sheets, compressors, electric motors, and electrical appliances. These products faced more intense competition from countries in ASEAN and other competitors, since the spread of economic crisis to other parts of the world hindered export performance and searches for new markets.

Sectors experiencing expansion

Textiles

Production grew by 2.9 percent in tandem with export demand. In particular, the fabrics industry benefited from the European Union's anti-dumping measures imposed on seven of Thailand's major competitors. The garment industry also gained from the US revision of rules of origin, improvements in design and production in accordance with demand by major markets, and development of mid- to high-end products which raised the quality of Thai garment closer to those made in Italy and Hong Kong.

Beverages

Beverage production increased by 2.3 percent in tandem with production of beer, particularly low-priced beer which gained higher share in rural markets. Liquor production declined slightly reflecting the shift of consumer preference to low-priced beer.

Capacity Utilisation

In 1998, the capacity utilisation rate of the manufacturing sector averaged 52.1 percent, declining continually since the second quarter of 1997 and reaching the trough around the third quarter of 1998. All industries experienced a drop in capacity utilisation rate from the previous year's levels with some, especially the category of vehicles and transport equipment, recording a significant fall below the average decline.

Sectors experiencing low capacity utilisation

Food

Capacity utilisation rate was 33.8 percent on account of the shortage of agricultural products; particularly sugar industry from sharply reduced sugarcane production, and canned pineapple from damaged pineapple output linked to droughts.

Construction materials

Capacity utilisation continued to fall since the second quarter of 1997 to 40.4 percent in 1998, on account of the slump in real estate and construction sectors. Besides, project contractors also

Capacity Utilisation Rate
(percent)

	1996	1997	1998
Food	37.3	37.5	33.8
Beverages	83.0	79.1	77.2
Tobacco	84.2	75.8	60.4
Construction materials	72.0	65.5	40.4
Vehicles and transport equipment	67.6	48.5	24.0
Petroleum products	85.7	90.1	83.9
Others	71.9	65.9	53.7
Average	**72.4**	**65.6**	**52.1**

Industrial Restructuring Plan (1998-2002)

For several years, industrial sector has long been playing a major role in the economy, including investment, employment, and foreign earning via exports. From 1996 onwards, manufacturing production and exports have been slowing down. In particular, after the adoption of managed-float exchange rate system and the onset of economic crises, a number of producers suffered losses and closed down business, aggravating the economic system.

The problem of contraction in the Thai industrial sector since 1996 reflected low competitive capability, including obsolete production technology and information system, shortages of managerial and employee skills, shortage of development of supporting industries, high factory concentration, pollution, small-sized export markets, and non clear-cut and discontinuity in government policy.

1. Salient features of the Industrial Restructuring Plan

To increase the sector's competitive capability and strength, the programme must be proceeded systematically and continually. To this end, the Government established restructuring programme, covering 13 targeted industrial sectors.[1/] The programme involved 8 main plans, which were divided into two groups.

Group 1 Plans emphasising the adjustment of production structure to raise competitive capability. They are:

Plan 1 Improve productivity and production process to provide more competitive production costs and delivery.

Plan 2 Raise level of production technology through the overhaul of machinery and technology in targeted industries.

Plan 3 Encourage the development of products, product design and channel to access global markets.

Plan 4 Encourage foreign investment in industries with technology for the future.

Group 2 Plans emphasising the adjustment of social environment to distribute jobs and reduce industrial pollution.

Plan 5 Upgrade skill of labour to meet requirements of targeted industries.

Plan 6 Strengthen small- and medium-supporting industries.

Plan 7 Promote distribution and relocation of labour intensive and less pollution industries to regional and rural areas in order to prompt job and income distribution.

1/ *The 13 targeted industries are: 1) Foods and animal feeds; 2) Textiles and apparel; 3) Vehicles and parts; 4) Electricity and electronic; 5) Ceramic and glasses; 6) Rubber and rubber products; 7) Footwear and leather; 8) Drugs and chemical; 9) Precious stones and jewelry; 10) Woods and furniture; 11) Plastic products; 12) Petrochemical; and 13) Iron and steel.*

Plan 8 Control high pollution industries and encourage the use of clean technology system to reduce industry pollution.

All the 8 plans are inter-linked and supportive of one another. They are geared to lead other sectors of the economy to adjust themselves accordingly. The timeframe of the programme is 5 years (1998-2002), using US$1,192 million.

2. Progress of Industrial Restructuring Plan

On 16 June 1998, the Cabinet approved implementation plans under eight principal programmes, together with 440 operational projects in order to facilitate the process of industrial restructuring. On 15 September 1998, the Cabinet approved the use of US$122.9 million drawn from the restructuring loans to implement 24 projects to stimulate the economy [2/] and speed up work in the plan. The National Industrial Development Committees set up Subcommittee for Coordination and Supervision of Industrial Restructuring Plan on 11 December 1998 to coordinate, monitor and assess the outcome of the programme, aiming to activate related units to expedite project implementation.

3. Expected Positive Outcomes from Industrial Restructuring Plan

Industrial sector restructuring will not only help alleviate the short-term problems such as unemployment, liquidity shortage in the sector, but also enhance competitiveness which will bring about economic, social and environmental benefits in the long-run. Industrial sector restructuring is expected to result in following changes;

- Development of product design and production technology to upgrade product quality to meet demands in the middle-and high-markets and to upgrade the Thai brand name in the Asian and global markets.
- Promotion of Thailand to become a production base and export centre in Asia and the world by raising production, management and operation efficiency.
- Improvement of human resources' quality and capability in the industrial sector consistent with higher level of production technology, to produce quality product efficiently and to develop competitive capability in the world markets.
- Promotion of clean technology to protect environment, which helps raise the leverage and bargaining power in international trade negotiation.
- Relocation of industries to regional and rural areas to encourage capital flows in regional economies, which helps alleviate unemployment pressure, inequitable income distribution, congestion and industry concentration.
- Increase in dissemination of information of trade and services to firms to raise awareness and interest in production and investment.

The achievement and efficiency of the industrial restructuring programme depend on public and private cooperation and supports.

2/ *These 24 projects were part of Plans 1, 5, 6 and 7 mentioned earlier.*

faced severe liquidity shortage. Industries experiencing sharp reduction in the utilisation rate included cement and steel bar. This caused several producers to gradually close down or halt production to undertake business adjustment in preparation for joint investment by foreign investors, with an aim to enhance liquidity and reduce debt burden.

Vehicles

The utilisation rate was merely 24 percent, considerably lower than the five preceding years' average. This was due mainly to a significant fall domestic demand, following the economic crisis, which used to command in the share of more than 80 percent of total production. As a result, the ratio of merchandise stocks to sales rose to a level requiring a halt in production, particularly for the production lines of passenger cars and heavy-duty trucks, since end-1997 to the third quarter of 1998.

Sectors experiencing declining capacity utilisation

Beverages

Capacity utilisation rate fell to 77.2 percent due to rapid expansion of beer production capacity in 1997, dampening the uptrend of capacity utilisation despite the slight upward trend in beer production.

Tobacco

Capacity utilisation rate declined to 60.4 percent owing to the loss of market share to imported cigarette.

Petroleum products

Capacity utilisation rate remained high at 83.9 percent, reflecting mainly the industry's unique characteristics relating to economies of scale and the maintenance of constant pressure in refineries. Following the economic crisis, domestic demand for petroleum products declined, resulting in excess supply and reduced profit margins. Subsequently, refineries with large market share facing liquidity problems had to undergo debt restructuring process and reduce production during the last quarter of 1998.

Others

Capacity utilisation rate averaged 53.7 percent. Most industries experienced a decline in capacity utilisation, particularly export-oriented production, which also encountered intense foreign competition, including integrated circuits, compressors, glass sheets, electric motors, tinplate, and electrical appliances. Nevertheless, there remained some industries with increased capacity utilisation, for example, the paper product industry's capacity utilisation rate rose from 79.9

percent in 1997 to 92.2 percent in 1998. This was due to strong competitiveness and market expansion opportunity as regional competitors faced trade barrier linked to the damaging use of raw materials from natural forests environment. Meanwhile, capacity utilisation of block rubber industry also rose, following a structural shift from smoked rubber sheets production to block rubber in response to world demand.

Mining

Output rose by only 0.1 percent, with outputs of lignite and gypsum decreasing by 14.1 and 47.8 percent, respectively, due mainly to the slump in domestic and export demands. At the same time, natural gas production also slowed down in line with domestic demand. Nevertheless, crude oil production rose by 9.1 percent from the previous year, owing to production from new fields at Srithep and Tan Tawan fields with full production capacity in 1998.

Table 4
Mining Sector Production
(percentage change)

	1996	1997	1998[E]
Mining sector	**17.0**	**19.4**	**0.1**
Lignite	17.7	8.1	-14.1
Gypsum	4.7	-4.2	-47.8
Natural gas	16.8	21.8	9.0
Crude oil	12.7	3.8	9.1
Others	9.0	40.4	2.2

E = Estimates.

Construction

The construction sector contracted considerably by 35.9 percent, with private construction falling by as much as 53.5 percent. This was attributable to excess supply in the real estate sector; severe contraction in domestic demand; high domestic interest rate during the first half of the year; and liquidity shortage faced by private contractors seeking project funding and by consumers seeking mortgages. Public construction also fell by 17.4 percent, due to the decline in government construction in response to the slowdown in investment expenditure and tightened disbursement during the first half of the year to maintain fiscal discipline. State enterprise construction expanded only marginally.

Trade

Output of the trade sector continued to fall from the previous year by 13 percent in line with contraction of domestic demand and related production sectors, particularly manufacturing and international trade. Several firms faced liquidity shortage and needed to lower production and stock of merchandise. This led to some operations shut down, particularly in vehicles and parts sector in which the production of passenger cars was cut substantially to a mere 11.8 percent of total capacity. Thus, despite some increased output in mining and agriculture, the level was not sufficient to offset the overall contraction of trade sector activities.

Services

The service sector expanded only marginally by 0.5 percent from the previous year. Hotel, recreation, and entertainment sub-sectors rose slightly. Although the tourism industry continued to expand, with inflows of foreign tourists benefiting from the baht depreciation, this was partly offset by the decline in number of domestic tourists as result of economic downturn. Other service sectors such as medical and health care, business services, and personal services, contracted in line with economic slump.

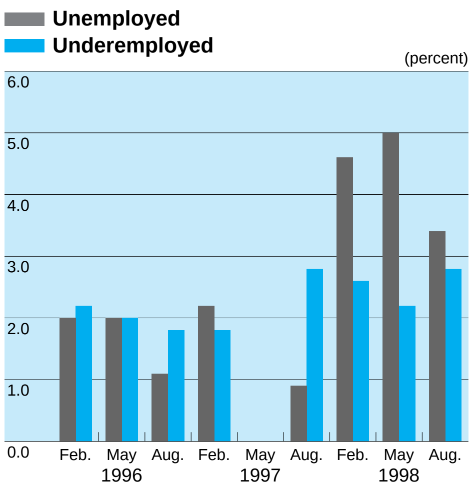
Labour Market Conditions

Population, Labour Force, Employment and Unemployment

Thailand's population at end-1998 totalled approximately 61.2 million, up by 1.0 percent from the previous year. Of this, the total labour force (aged 13 and over and available for work) amounted to 32.8 million, down by 0.1 percent from the previous year.

As a result of continued sluggish economy, employment fell from 31.64 million in 1997 to 30.83 million in 1998, or an annual decline of 2.6 percent. Of this, the number of workers in the agricultural and non-agricultural sectors stood at 14.08 and 16.75 million, down from the previous year by 1.4 and 3.6 percent, respectively. In addition, the number of underemployed workers (i.e., workers who work less than 35 hours per week and available for extra employment) dropped to 885,000 compared with 945,000 in the previous year. A large number of underemployed workers were those who had less formal education and worked in agriculture, handicraft, trade and services. Notably, the number of underemployed workers with vocational and university education rose rapidly.

RATIOS OF UNEMPLOYED AND UNDEREMPLOYED WORKERS TO LABOUR FORCES



Note : *No survey in May 1997*

The average number of unemployed workers in 1998 stood at 1.31 million, rising by 2.1 times the previous year's level, representing an unemployment rate of 4 percent which increased from 1.9 percent in the previous year. This sharp rise in the unemployment rate was attributable to the following factors:

Labour Market Conditions *(unit : thousand persons)*		
(yearly average)	**1997**	**1998**
Population	60,602	61,201
Labour force	32,836	32,803
Employment	31,639	30,827
– Agriculture	14,274	14,080
– Non-agriculture	17,365	16,747
– Underemployed	945	885
(work less than 35 hours per week and available for extra employment)		
Unemployment	626	1,311
Seasonal unemployment	572	665
Unemployment rate (percent)	1.9	4.0

Sources : *Committee of Labour Force, Employment and Unemployment Estimation*

(1) Contraction in demand for labour in tandem with sluggish economic activities. There was much less new employment and, according to the Department of Labour Protection and Social Welfare, the number of laid-off workers from 1,050 businesses amounted to 50,499, up by 12.8 percent from the previous year.

(2) Droughts constrained the capacity of the agricultural sector to absorb workers from the non-agricultural sector.

Minimum Wage

Effective 1 January 1998, the minimum wage rate was raised by approximately 3 percent, following the agreement made at the end of the previous year.

Minimum Wage Rates *(baht/day)*			
	1996	**1997**	**1998**
Bangkok, 5 provinces in the vicinity, and Phuket	157	157	162
Chon Buri, Saraburi, Nakhon Ratchasima, Chiang Mai, Ranong, and Phang-nga	137	137	140
Other provinces	128	128	130

Source : *Wage Committee, Ministry of Labour and Social Welfare*

Social Safety Net Programme

The economic crisis which started in 1997 had adverse social impacts with problems intensifying in 1998, especially unemployment, and were expected to continue on to 1999. The Thai Government, implemented fiscal measures to cushion the extensive impacts on employment and other social problems. Key measures undertaken in 1998 were as follows:

Measure on revenue side to alleviate tax burden of the laid-off employees

Individual income tax was exempted for compensations paid to workers or personnel who were laid-off when they were not at fault (only for the amount not more than the last 300 days wages and not exceeding B300,000).

Measure on expenditure side

As social safety net programme was set up during a time when government revenue was limited by lower than expected tax receipts, after being budgeted, the programme had to be financed by external loans (see chart). At this end, the programme framework consisted of:

1. **Social Investment Project** (SIP) using a US$300 million loan from World Bank and ¥13,412 million loan from OECF, through 2 channels.

First channel using US$150 million loan from World Bank and ¥13,412 million from OECF to deal with short-term problems, by increasing public and state enterprise investment. This aimed to expand employment opportunity, healthcare services, and improve labour capabilities. At present, public agencies and state enterprises had already have about 15,000 sub-project plans for all over country regions ready for loan disbursements. Consequently, US$1.25 million loan from World Bank was withdrawn (as of January 8, 1998) and ¥2,600 million loan was expected to be withdrawn within January 1999.

Second Channel using US$150 million loan from World Bank to deal with long-term problems, by developing and strengthening communities, community institutions and local government agencies through 2 specially established funds, administered by the Government Savings Bank:

- **Social Investment Fund (SIF)** for funding (with no charge) small projects (not exceeded B10 million) which aim to boost and strengthen communities and community institutions capabilities. However, communities under support had to contribute 10 percent of the project budgets. The SIF was financed by US$120 million loan from World Bank. There were 4,127 projects proposed for funding while only 67 received approval with B20.1 million provided (as of January 8, 1998). The number of approved projects was low because most of the proposed projects could not meet set criteria.

- **Regional Urban Development Fund (RUDF)** aimed at lending to local government agencies, especially municipals, for their infrastructure and utilities developing projects. Also, the projects should initiate incomes, promote and develop communities capabilities of project management in the future. The communities, however, had to contribute 10 percent of the project budgets. The RUDF was financed by US$30 million loan from World Bank, of which US$5 million were withdrawn (as of January 8, 1998) and proposed projects were on assessment process.

2. **Social Sector Programme Loan** intended to cushion social impacts of the economic difficulties, increased labour and educational potential, including social services efficiency, by using US$500 million loan from the Asian Development Bank. At present, US$300 million were withdrawn, of which US$200 million were channelled through government financial institutions to increase liquidity while another US$100 million were allocated through various ministries for their social safety net projects.

Other measures

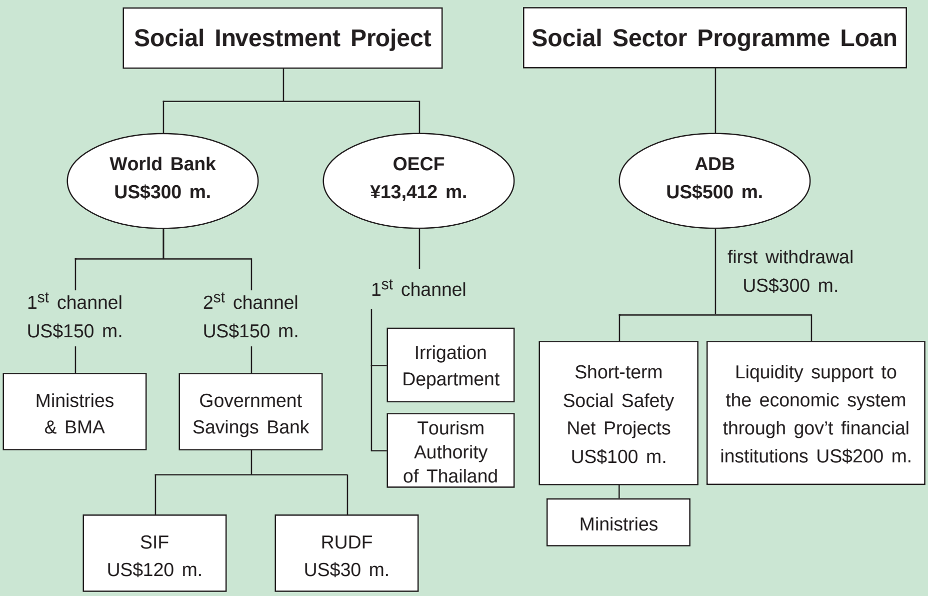
1. **Amendment to the Social Security Act** to provide member employees longer term of compensation payment benefit. Equal contributions rates were also required from government, employers and member employees. Moreover, criteria and rates of compensations paid for next of kins or in case of old age retirement were also imposed, and the contribution payments became effective since 31 December 1998.

2. **Amendment to the Provident Fund Act** to lower the minimum rate of contribution of employees and employers from 3 to 2 percent of wages or salaries. The adjustment is intended to pave way for future contribution to social security fund in case of old age retirement.

3. **Expansion of educational loans fund** by increasing the budget for the fund from B16,900 million in FY1997 to B18,000 million in FY1998, including relaxing lending criteria.

4. **Expansion of revolving fund for private university development** from B500 million to B1,000 million and extended the programme to year 2005.

5. **Provision of Scholarship** to students whose parents have been laid-off or are too poor to finance their education. This programme is supported by B1,000 million loan from the Asian Development Bank.



For 1998, the Minimum Wage Committee agreed to suspend minimum wage increase in order to contain costs of production and slow down lay-offs.

Thai Workers Abroad

In 1998, Thai workers abroad totalled 191,735 persons up by 4.4 percent from the previous year. The major factor contributing to this increase was promotional measures to expand overseas demand for Thai workers. Taiwan remained the largest market for Thai workers, absorbing 106,828 persons, an increase of 5.9 percent from the previous year; followed by Singapore (17,069 persons), Brunei Darussalam (15,246 persons), Japan (10,790 persons), and Israel (10,644 persons).

Labour Relation Problem

According to preliminary statistics of the Department of Labour Protection and Social Welfare, the number of labour disputes in 1998 decreased to 115 cases involving 34,434 workers, compared with 188 disputes involving 47,559 workers in the previous year. Of this, unsettled cases led to workers exercising rights to strike on two occasions involving 685 workers, equivalent to the loss of 119,820 working days during 1998. Employers also exercised their rights to close business on one occasion affecting 131 workers, equivalent to the loss of 68,398 working days. Most labour disputes were related to job reinstatement, wages, bonuses, and welfare.

Income Distribution

National income (at current prices) in 1998 amounted to B3,465.9 billion, decreasing by 0.6 percent, compared with an increase of 3.8 percent in 1997. This was a result of continued economic slump, as well as the contagion of regional and world economic crises. Gross National Products (GNP) per capita declined from B77,246 in 1997 to B75,893 in 1998, moderating across most income groups.

Farm Income

Total farm income rose by 25.4 percent, compared with a growth of 5 percent in the previous year, increasing across most farm income groups. Of this, income from major crops accelerated sharply from a growth of 2.5 percent in 1997 to 25 percent this year, due to a marked increase in world prices which offset a slight reduction in production. Crops yielding high income growth were coconut (+108.8 percent), coffee (+100.3 percent), tapioca (+85.7 percent), oil palm (+70.4 percent) and second rice crop (+56.1 percent). Meanwhile, income from sugarcane and rubber fell by 16.0 and 2.5 percent, respectively.

Income from fishery also rose sharply by 29.1 percent in line with the income of prawn farming linked to favourable exports. In addition, income from simple processed agricultural products, livestock, and agricultural services also increased by 14.0, 10.7 and 9.4 percent, respectively. In contrast, income from forestry fell by 10.7 percent.

Income of Non-agricultural Entrepreneurs

Income of non-agricultural entrepreneurs continued to fall by 7.8 percent in 1998, compared with 0.7 percent in 1997 in line with continuing slowdown in economic activities and intensified regional economic and financial crises. This led to deterioration in operating performance of most business sectors, particularly construction, financial institution, real estate, and trade sectors.

Remuneration of Employees

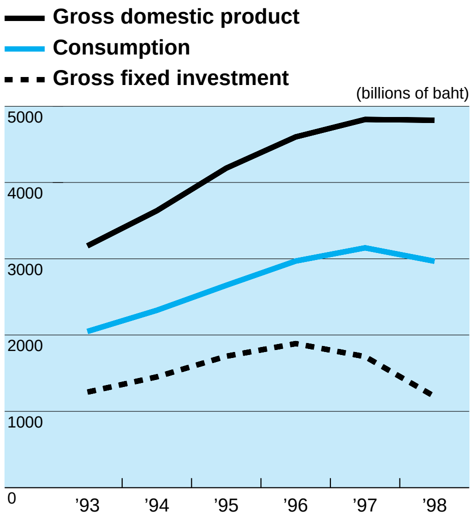
Overall remuneration of employees declined by 2.2 percent as opposed to an expansion of 1.6 percent in 1997, owing mainly to decreased salary income of the private sector by 3.3 percent. The reduction reflected, in particular, the decline in salary income of financial institution, construction, public utility, and mining sectors. Remuneration of public employees, meanwhile, grew by 2.8 percent, decelerating from 5 percent in 1997. This was due to the postponement of salary adjustment in the public sector and reduction in government expenditure. Total income from workers' remittance expanded by 11.9 percent, owing importantly to the baht depreciation.

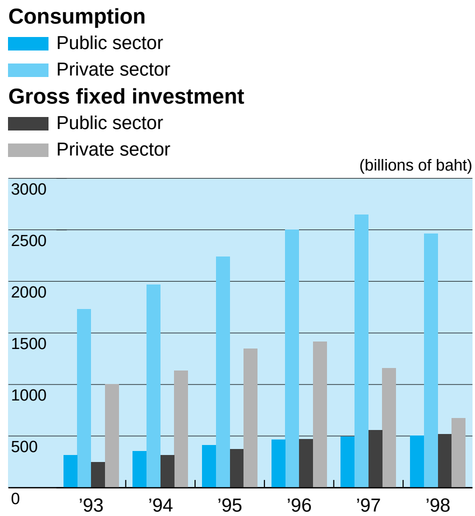
Domestic Expenditure and Savings

In 1998, domestic expenditure (at constant prices) contracted by 23.5 percent, with a significant decline in private consumption and investment. Meanwhile, government expenditure decreased during the first half of the year in line with budgetary cuts to maintain fiscal discipline. Inventories were also depleted corresponding to the slump in domestic demand, economic uncertainty, and liquidity shortage. However, investment of state enterprises rose marginally from the previous year.

Gross national savings (at current prices) rose by 9.4 percent owing to a rise in private savings. In particular, the pace of increase in household savings, linked to sharp contraction in consumption, was faster than a reduction in household incomes which fell only marginally. The latter reflected increased incomes arising from agricultural sector and workers abroad, in tandem with prices of agricultural products and the baht depreciation. Business savings continued to moderate in line with the contraction of corporate earnings. Meanwhile, public savings decreased as a result of a decline in government savings. As for gross domestic

GROSS DOMESTIC PRODUCT BY EXPENDITURE
AT CURRENT PRICES





investment (at current prices), there was a sharp fall of 32.3 percent, causing the saving-investment gap to reverse from deficit in the previous year to a surplus of B592.2 billion in 1998, or equivalent to 12.3 percent of GDP.

Domestic expenditure (at constant prices)

Private consumption expenditure contracted by 14 percent due to the following factors:

(1) Economic contraction reduced households' purchasing power and caused consumers to become more cautious in their spending. The latter was because of higher uncertainty involved in future employment and income stemming from high lay-offs, decreased asset value, and debt overhang;

(2) Slow pace of resolution of financial institution problems led to lower credit extension, especially consumer credits.

However, there remained factors which helped prevent a sharper contraction in consumption:

(1) Increases in farm income, export earnings, and workers' remittance benefiting from the baht depreciation; and

(2) Decelerating inflation partly helped reduce household's expenditure burden.

Most private consumption indicators (Table 5) exhibited a downward trend across all categories from the previous year. However, several indicators showed signs of improvement during the last quarter.

Table 5
Key Private Expenditure Indicators
(millions of baht, unless otherwise specified)

	1995	1996	1997	1998 P
Sales of department stores a/				
Whole Kingdom	111,912	126,340	114,625	109,033
	(37.0)	(13.0)	(-9.3)	(-4.9)
Value of imported consumer goods b/	201,048	206,881	213,038	204,875
	(22.5)	(2.9)	(3.0)	(-3.8)
Non-durables	66,462	72,882	81,113	78,397
	(19.1)	(9.7)	(11.3)	(-3.3)
Durables	134,586	133,999	131,925	126,478
	(24.2)	(-0.4)	(-1.5)	(-4.1)
Sales of some manufactured goods				
Beverages				
a. Beer c/ (million litres)	645.9	757.3	880.1	974.7
	(23.6)	(17.2)	(16.2)	(10.8)
b. Soft drinks and soda d/	1,475	1,587	1,904	1,875
(million litres)	(5.5)	(7.6)	(20.0)	(-1.5)
Cigarettes and tobacco e/	43,570	47,322	43,893	34,981
('000 tonnes)	(-3.2)	(8.6)	(-7.2)	(-20.3)
Vehicles and transport equipment c/				
a. Automobiles (units)				
– Passenger cars (units)	158,701	173,606	132,070	46,399
	(2.7)	(9.4)	(-23.9)	(-64.9)
– Commercial vehicles (units)	408,915	415,261	231,172	97,844
	(23.4)	(1.6)	(-44.3)	(-57.7)
b. Motorcycles (units)	1,504,857	1,242,359	927,365	490,829
	(20.7)	(-17.4)	(-25.4)	(-47.1)
Overseas travel expenditure	106,468	108,640	102,756	70,390
	(4.2)	(2.0)	(-5.4)	(-22.7)
Household electricity consumption f/	14,576	16,000	17,638	18,821
(million KW/hr)	(13.6)	(9.8)	(10.2)	(6.7)
Consumer credit extended by commercial banks and finance companies (outstanding)	899,386	997,507	755,829	705,073 1/
	(18.9)	(10.9)	(-24.2)	(-27.3)
Value added taxes g/	145,706	183,948	186,336	180,808
	(20.0)	(26.2)	(1.3)	(-3.0)

Notes : *Figures in parentheses represent percentage changes from the preceding year.*
P *= Preliminary figures.* 1/ *at end-June.*

Sources:
a/ *Revenue Department, Ministry of Finance.*
b/ *Customs Department, Ministry of Finance.*
c/ *Manufacturers and/or sale agents.*
d/ *Excise Department, Ministry of Finance.*
e/ *Thailand Tobacco Monopoly.*
f/ *Metropolitan and Provincial Electricity Authorities.*
g/ *Comptroller-General's Department, Ministry of Finance.*

Private Investment

Private investment continued to contract by 51.5 percent in 1998 from the previous year due to:

(1) Domestic and foreign investment demands were dampened substantially by the economic contraction, the Asian crisis, as well as the moderation and volatility of the world economy;

(2) Prevailing tight liquidity as financial institutions faced problem of deteriorating asset quality and insufficient capital fund while business entities were undergoing debt restructuring; and

(3) Existing excess production capacity of manufacturing industries and supply of real estates while domestic demand continued to fall, hence there was much lesser need for new investment.

The sharp investment decline was also because many large-scale and government-concessioned projects were approaching completion and no new projects were initiated. Ongoing investment projects were mostly in areas of communication, and telecommunication, including expressway projects, Tanayong monorail system projects, and telephone lines project.

As for components of private investment, investment in machinery and equipment continued to decline by 50.2 percent from the previous year. Decline was observed across most sectors, particularly machinery, vehicle equipment, construction, and transportation and telecommunication. Meanwhile, investment in machinery for high-technology industry, such as electricity, computer, and integrated circuits, declined only marginally. Investment in construction dropped sharply by 53.5 percent across all sub-sectors. On regional basis, investment also dropped significantly throughout.

Sluggish economic conditions discouraged most foreign investment interest, in spite of extensive promotion campaigns by Board of Investment and the implementation of investment policy measures for existing and new investment to help rehabilitate the economy. This was evidenced by a decline in newly approved investment promotion certificates by 36.6 percent, compared with 3.5 percent in 1997.

Notably, private investment indicators, for example, capital goods imports (at constant prices) and domestic cement sales began to level off in the second half of the year. Although new investment was sluggish, some indicators showed that foreign investors still maintained production bases in Thailand, evidenced by a sharp rise in foreign direct investment to US$4.7 billion (excluding financial institution recapitalisation).

Table 6
Key Private Investment Indicators
(millions of baht, unless otherwise specified)

	1995	1996	1997	1998 P
Private Investment Index *	116.9	96.7	69.7	5.5
	(13.6)	(6.7)	(-2.1)	(-23.6)
Volume of construction materials sold a/				
– Cement ** ('000 tonnes)	33,067	37,092	36,026	20,650
	(14.5)	(12.2)	(-2.9)	(-42.3)
– Galvanised iron sheets ('000 tonnes)	349	359	383	243
	(13.7)	(2.7)	(6.9)	(-36.7)
– Iron rods b/ ('000 tonnes)	1,643	1,688	1,734	1,064
	(26.3)	(2.7)	(2.7)	(-38.6)
Construction area approved c/ ('000 sq.m.)	36,786	26,750	21,318	7,253
	(1.8)	(-27.3)	(-20.3)	(-66.0)
– Bangkok Metropolis	25,380	15,845	12,848	4,112
	(-2.8)	(-37.6)	(-18.9)	(-68.0)
– Northern region	2,171	1,591	1,322	607
	(-4.1)	(-26.7)	(-16.9)	(-54.1)
– Southern region	2,414	2,620	1,566	626
	(33.3)	(8.5)	(-40.2)	(-60.0)
– Northeastern region	3,769	3,069	2,574	704
	(37.0)	(-18.6)	(-16.1)	(-72.7)
– Central region (excluding Bangkok)	3,028	3,625	3,008	1,204
	(-5.5)	(18.9)	(-17.0)	(-60.0)
Commercial bank credit (outstanding)				
– Manufacturing and mining	1,122,322	1,338,022	1,436,035	1,500,900 1/
	(31.7)	(19.2)	(15.3)	(-0.7) 1/
– Construction and real estate	586,035	662,441	671,330	742,300
	(15.8)	(13.0)	(7.6)	(6.1)
Imports of capital goods d/				
– Value at current prices	862,149	906,607	937,009	859,355
	(30.7)	(5.2)	(3.4)	(-8.3)
– Value at constant prices (1990=100)	659,049	687,356	609,512	403,724
	(17.0)	(4.3)	(-11.3)	(-33.8)
Business registration at the Ministry of Commerce e/				
– Newly registered	179,178	185,835	114,999	96,247
	(14.9)	(3.7)	(-38.1)	(-16.3)
– Capital increase	274,707	264,830	307,159	275,538
	(5.7)	(-3.6)	(16.0)	(-10.3)
Foreign investment (equity)	58,969	72,119	128,121	172,446
	(28.8)	(22.3)	(77.7)	(59.3)
– Manufacturing	21,520	28,374	57,553	70,090
	(41.8)	(31.8)	(102.8)	(41.5)
– Construction and real estate	20,041	20,824	10,140	21,415
	(2.2)	(3.9)	(-51.3)	(177.5)

Table 6 *(Continued)*
Key Private Investment Indicators
(millions of baht, unless otherwise specified)

	1995	1996	1997	1998 P
Board of Investment Activities f/ (billion baht)				
– Applications for privileges	901.4	834.7	490.8	283.8
	(51.6)	(-7.4)	(-41.2)	(-42.2)
– Project approvals	584.7	529.4	482.9	303.4
	(107.6)	(-9.5)	(-8.8)	(-37.2)
– Promotion certificates issued	328.3	427.1	412.3	261.5
	(55.4)	(30.1)	(-3.5)	(-36.6)
– Promoted firms commencing operations (including project expansion)	132.5	230.3	273.5	294.5
	(30.4)	(73.8)	(18.8)	(7.7)

Notes : *Figures in parentheses represent percentage changes from the preceding year.*
P = *Preliminary figures.* 1/ *at end-November.*
* *Computed from the rate of changes of 12 months moving average of the component.*
** *Including imported cement.*

Sources: a/ *Manufacturers.*
b/ *7 major manufacturers and sales agents with combined capacity of 61 percent of total.*
c/ *District offices in Bangkok and municipal offices, Ministry of Interior.*
d/ *Customs Department, Ministry of Finance.*
e/ *Department of Commercial Registration, Ministry of Commerce.*
f/ *Office of the Board of Investment.*

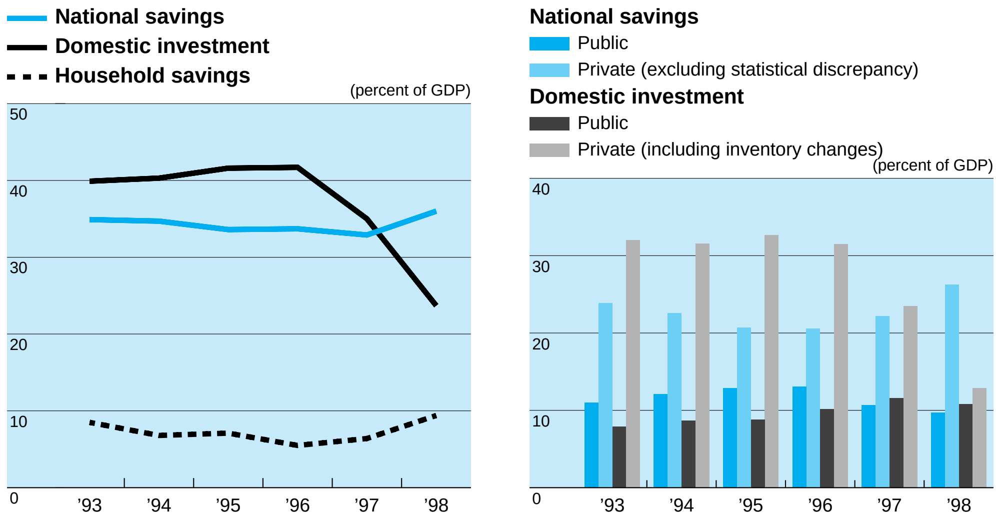
Inventory investment

Inventory investment (at constant prices) dropped by B38.7 billion following decreased stocks of raw materials and finished goods in line with reduced production and domestic expenditure. Furthermore, liquidity problems and higher costs of stock maintenance contributed to a slowdown in stock accumulation. In contrast, the value of agricultural stock, such as tapioca and maize increased as domestic and export demands fell considerably.

Public Expenditure

Government consumption (at constant prices) declined by 5.5 percent compared with a reduction of 0.7 percent during the previous year. This was due particularly to budget cut during the first half of the year, mainly government purchases of goods and services and military spending. Expenditure on wages and

RATIO OF SAVINGS AND INVESTMENT TO GDP
AT CURRENT PRICES



salaries and pension payments continued to expand but at a slower rate than the previous year's.

Government investment (at constant prices) declined by 30.9 percent as opposed to an increase of 21.7 percent in the previous year. This was due partly to reduced budgetary spending and restrained disbursement at the beginning of the year. During the second half, the government eased fiscal policy to stimulate the economy but disbursement response was slow. In addition, some private contractors of government projects were forced to delay their work due to financial institutions' restrictive credit extension, causing liquidity and cashflow problems. As for government investment projects, more emphasis was placed on regional development and rural job creation under social safety net framework; such as small-scale agriculture and industry promotion, and education development projects. There were also basic infrastructure development projects ongoing from the previous year.

Table 7
Savings – Investment Gap
(percent of GDP)

	1996	1997	1998
Gross Domestic Investment	41.7	35.0	23.8
Gross National Savings (Excluding statistical discrepancy)	33.7	32.9	36.1
Savings–Investment Gap	-8.1	-2.1	12.3

Table 8
National Savings
(percent of GDP)

	1996	1997	1998
Private Savings	20.1	21.4	25.2
Household	5.5	6.4	9.4
Business	14.6	15.0	15.8
Public Savings	12.1	10.7	9.7
Government	10.4	8.3	7.1
State Enterprises	2.7	2.4	2.6
Statistical Discrepancy	-0.5	-0.8	-1.1
National Savings			
(Excluding statistical discrepancy)	33.7	32.9	36.1

State enterprise investment (at constant prices) expanded by 4.9 percent compared with a decrease of 3.3 percent in the previous year. Major investment involved carried-over projects in energy, transportation, and communication sectors.

Gross National Savings (at current prices)*

Gross national savings rose by 9.4 percent in 1998, increasing the ratio of gross national savings to GDP from 32.9 percent in 1997 to 36.1 percent in 1998. The major factor contributing to higher gross national savings was the increase in private savings.

Private savings in 1998 grew by 17.6 percent in line with the acceleration of household savings which grew by 46.6 percent, owing to a sharp decline in household consumption. This was due to increased concern over the uncertainty of future income prospects, resulting in more caution in spending. In addition, the increase in private savings was supported by rising farm income resulting from higher crop prices (in baht terms). Furthermore, high domestic interest rates during the first half of the year provided incentive to save. Business savings rose by 5.2 percent, decelerating from the previous year, primarily reflecting poorer business performance.

Government and state enterprise savings continued to decline by 9 percent in 1998 due to the continued drop of government savings at a rate close to the previous year's in line with a reduction in revenue. Meanwhile, profits of state enterprises increased from the preceding year.

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* *Valuation changes and capital gains/losses are included in gross national savings in line with the United Nations' rule of national income accounts. Hence, the increased savings also reflected loan-loss provisioning and losses arising from international reserve valuation.*

Price Level

In 1998, the Consumer Price Index rose on average by 8.1 percent, compared with 5.6 percent in the previous year. The index rose significantly to 9.7 percent during the first half of 1998, then eased to 6.5 percent in the second half. The price level increase reflected higher prices of food and non-food items, which rose by 9.6 and 7.3 percent, respectively.

The crucial factor which accelerated inflation was the exchange rate depreciation from an average of B31.37 per US dollar in 1997 to B41.37 per US dollar in 1998. Other contributing factors were the rise in agricultural product prices in line with world prices at the beginning of the year; and increases of the value added tax rate, and excise tax of some commodities in the second half of 1997, as well as petroleum tax in February 1998.

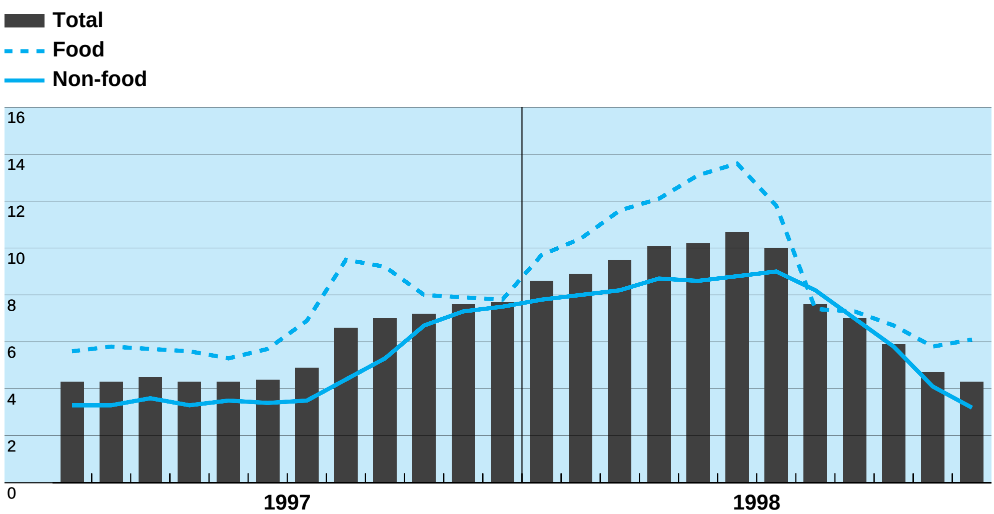
Nonetheless, inflation slowed down considerably in the second half of 1998, due to the following factors:

1. The baht became stable and continued to appreciate, in part as a result of (i) the authorities' policy of maintaining high interest rate in the money market, adopted since the change of exchange rate system in July 1997 up to mid-1998. This was aimed at quickly restoring the baht stability and; (ii) restoration of foreign investor confidence in government policies to resolve the economic problems.

2. The decline in purchasing power caused by the economic recession, job termination, fear of job displacement, and shortage of liquidity in the corporate sector.

CONSUMER PRICE INDEX FOR THE WHOLE KINGDOM

(percentage changes from the same period of the previous year)



3. External demand for quality rice slowed down in the second half of the year due to continuing regional economic contraction and the world economic slowdown. In addition, price competition caused prices of rice, flour and flour products—the categories recording highest price increase in the first half of 1998 —to decline in the latter half of the year.

4. Oil prices in the world market in 1998 fell by 30.5 percent from the preceding year in line with increased supply from oil-exporting countries. Meanwhile, prices of non-oil imports in US dollar terms fell in accordance with the slowdown in the world economy.

Contributions to Inflation (%)

	1997	1998
Growth of money	2.5	0.8
Minimum wages	0.3	0.1
Oil prices *	-0.3	-1.1
Non-oil imports prices **	-0.2	-0.8
Farm prices	0.4	3.1
Exchange rate	2.7	5.6
Others	0.2	0.4
Total	**5.6**	**8.1**

* *Excluding the effect of exchange rate. However, change in oil taxes in 1998 was included.*

** *Excluding the effect of exchange rate.*

5. The authorities ensured price adjustment in keeping with changes in costs. Hence, when the baht continued to appreciate in the second half of the year, there was an announcement of price reduction of several consumer goods items.

The wholesale price index in 1998 rose on average by 13.8 percent, compared with 3.9 percent in the previous year, reflecting an acceleration of wholesale prices to 19.2 percent in the first half before decelerating to 8.7 percent in the latter half. Prices of agricultural and food products increased by an average rate of 17

WHOLESALE PRICE INDEX

(percentage changes from the same period of the previous year)

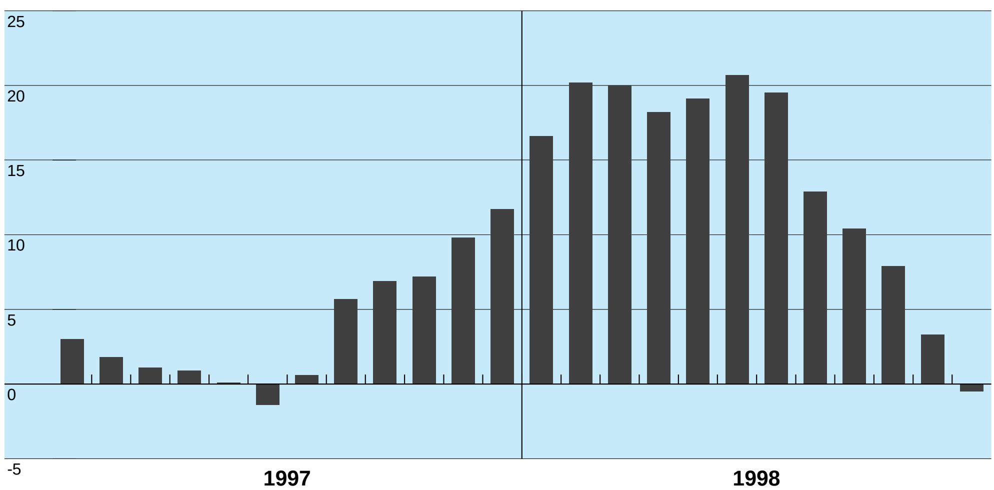


Table 9
Average Inflation for the Kingdom and Regions

	1996		1997		1998	
	Index	**Δ%**	**Index**	**Δ%**	**Index**	**Δ%**
Consumer price index (1994 = 100)	**112.0**	**5.9**	**118.2**	**5.6**	**127.8**	**8.1**
– Food	117.7	8.9	125.8	7.0	137.9	9.6
– Non-food	108.0	3.7	113.0	4.6	121.2	7.3
By region						
– Bangkok Metropolitan	111.9	5.8	117.7	5.2	126.9	7.8
– Central region	112.5	5.7	119.5	6.2	130.9	9.5
– Northern region	110.6	4.9	116.8	5.6	126.1	8.0
– Northeastern region	113.0	6.3	121.9	7.9	132.0	8.3
– Southern region	112.8	6.1	120.0	6.4	130.3	8.6

Source : *Department of Business Economics, Ministry of Commerce.*

percent, while prices of manufacturing products rose by 11.6 percent. Prime factors contributing to the acceleration of wholesale prices in the first half of 1998 were the baht depreciation in the preceding period and linked to price adjustment following increased production costs, higher VAT and excise tax rates for certain goods in the second half of 1997. In contrast, factors contributing to the deceleration of wholesale prices in the second half of 1998 were as follows:

The Wholesale Price Index
(year-on-year changes)

	1997			1998		
	H1	**H2**	**Total**	**H1**	**H2**	**Total**
Wholesale prices index	**0.9**	**7.1**	**3.9**	**19.2**	**8.7**	**13.8**
– Agricultural products and food	2.8	5.2	4.0	21.8	12.5	17.0
– Manufactured products	-0.3	8.1	4.0	17.4	6.3	11.6
Wholesale prices for exports	**-6.4**	**5.1**	**-0.7**	**28.3**	**12.5**	**20.1**

Source : *Department of Business Economics, Ministry of Commerce.*

Price Stabilisation under the Managed Float Regime

● Price or inflation stabilisation is an important target of monetary policy. In some countries; for example, England, Sweden, Canada, Australia and New Zealand, price stabilisation is an ultimate target since stable price or a low rate of inflation provides a number of advantages as follows:

1. The cost of living of individuals will not be too volatile.

2. Money market, interest rate and exchange rate remain stable.

3. Stable price reflects favourable production cost, thus resulting in price competitiveness.

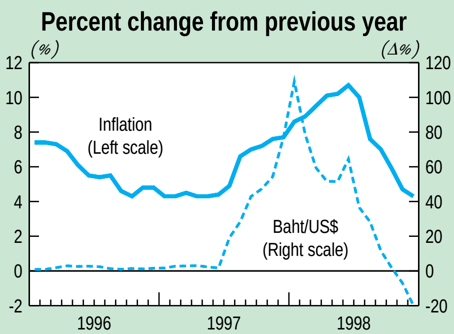
4. A mild inflation rate encourages investment and production.

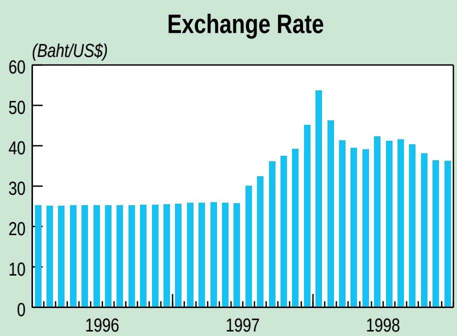
● Under the system of fixed exchange rate regime and a basket of currencies, the baht was pegged to major currency or a basket of currencies of major currency respectively; in particular, the USD. Hence, Thailand's inflation rate tended to move in line with that of the US, in terms of long-run relationship. However, the Thai inflation rate was on average higher than the US, due to higher domestic demand. In addition, the higher inflation came as a result of the devaluation of the baht in 1981 and 1984 in order to maintain competitiveness of Thai exports. During the period of 1981-1995, Thai inflation averaged 4.1 percent, compared with 3.7 percent of the US. Other factors that affect inflation rate can be classified into 2 groups:

1. Production cost; for instance, price of agricultural products, oil import price, non-oil import price and wage level.

2. Domestic demand pressure, reflected in growth of money supply and output gap.

● In the initial stage following the change to a managed float in July 1997,





1. The baht appreciation which helped reduce production costs, especially imported raw materials such as petroleum and animal feeds;

2. Domestic demand continued to contract while external demand tended to decline in line with the moderating world economy; and

3. Reduction in the prices of consumer goods in the world market.

the exchange rate was extremely volatile, thus adversely affecting domestic price. This repercussion was caused by the open economic system of Thailand and a high ratio of foreign trade to GDP. In the second half of 1998, the baht appreciated and became more stable, leading to a slow down of inflation. While pressure from cost and domestic demand have an insignificant impact on price level, today's market-determined movement of exchange rate may have some influence on inflation and volatility more than in the past. Conversely inflation which is an indicator of competitiveness also had impact on exchange rate. Hence, caution is needed in order to avoid the repercussion between price and exchange rate movement that can lead to instability of both price level and exchange rate.

- The considerable impact of exchange rate on fluctuation of inflation suggests that exchange rate needs to be stabilised and minimum output gap be maintained. This is to keep inflation at an appropriate and stable rate so as to reduce decision-making risk, encourage investment, increase production efficiency, support competitiveness of Thai exports and create economic growth in the long run. The growth of the economy subsequently stabilises the long-run exchange rate.

- When the baht is no longer pegged with any currency, monetary policy can be more flexible and plays a more important role in stimulating or slowing down the economy as necessary. This is because money supply and interest rate are not restricted by a policy to keep exchange rate fixed. However, exchange rate is no longer a nominal anchor for monetary policy implementation. Confidence in the ability of the authorities, especially, that of the central bank to stabilise price may possibly decrease. In this regard, the authorities need to establish a clear, transparent and credible monetary policy framework and stabilise the long-run exchange rate and inflation in order to substitute for a former nominal anchor under the system of fixed exchange rate and basket of currencies.

- In consideration to international standards and current monetary instruments, the appropriate monetary framework is the inflation targeting framework, which clearly determines a long-run inflation target and employs interest rate and/or monetary base as instruments of policy. The inflation targeting of the central bank leads to its precise roles and responsibilities, and builds up confidence in the organisation. The appropriate inflation target is set up also in accordance with target, which is economic growth. The long-run inflation targeting, instead of that of the short-run, encourages a forward-looking policy stance. Moreover, it is not necessary to adjust the policy frequently or to intervene the market so that confusion or inefficiency is caused.

Regional Economy

Central Region Economy

The Central region economy contracted by 9.8 percent in 1998 compared with 1.8 percent in the previous year. This reflected mainly contraction in non-agricultural production, owing to liquidity shortage and reduced purchasing power.

Key Economic Indicators
(percentage change)

	1996	1997	1998
Real GDP Growth	5.8	-1.8	-9.8
Inflation	5.8	5.3	8.0
– Bangkok	5.8	5.2	7.8
– Central Region (excl. Bangkok)	5.7	6.2	9.5
Credits	16.0	31.8	-15.5
Deposits	14.7	19.5	11.5

Agricultural production continued to expand on account of favourable climate and attractive prices of most crops. Output of livestock slowed down in line with productions of swine and cattle. They expanded more slowly due to lower demand and market prices which could not absorb the rise in price of feeds. Production of dairy cattle and broiler expanded due to demand increase. The fishery output growth reflected mainly increased output of black tiger prawns.

Non-agricultural production contracted in line with industrial production, particularly domestic consumption oriented products such as automobile, motorcycle, electrical appliances, and construction-related industries. **Construction** contracted mainly in private construction, both residential and commercial. The main causes were the cessation of lending by commercial banks and excess supply. Public construction also declined in line with expenditure cuts. **Trade** declined, reflecting reduced purchasing power which induced consumers to be more cautious in spending, especially those with long-term payment obligations. The **service sector** moderated, despite increased number of tourists, as expenditure per head fell.

Investment declined noticeably especially in the private sector. The number of BOI approved projects totalled 525 valued at B282.2 billion, down from the previous year by 19.5 and 28.3 percent, respectively. Meanwhile, the number of newly established factories totalled 934, decreasing by 27.9 percent from the previous year.

Consumer Price Index of the Central region excluding Bangkok rose by 9.5 percent. Prices of food increased by 12.8 percent and non-food by 7.7 percent. For Bangkok, CPI rose by 7.8 percent, with food prices increasing by 9.0 percent and non-food prices by 7.1 percent.

On the **financial** front, commercial bank branches (including head offices) in the Central region totalled 1,969 at end-1998, up by 2 branches from the previous year. Total deposits outstanding amounted to B3,934.7 billion, up by 11.5 percent. Total credits outstanding amounted to B4,552.4 billion, down by 15.5 percent. Bangkok accounted for 77.4 percent of total deposits and 87.9 percent of total credits.

In 1999, the Central region economy is expected to recover from the previous year as problems in 1998 diminish, particularly those associated with liquidity shortage, credit slowdown, and debt restructuring. Moreover, the Government is determined to resolve problems in the real sector.

Southern Region Economy

In 1998, the Southern region economy contracted by 2.5 percent, a reversal from a positive growth of 2.1 percent in the preceding year as most businesses faced liquidity problems, termination of credit lines by financial institutions, and falling purchasing power.

Key Economic Indicators
(percentage change)

	1996	1997	1998
Real GDP Growth	4.3	2.1	-2.5
Inflation	6.1	6.4	8.6
Credits	14.9	-1.0	-10.7
Deposits	10.6	6.4	6.6

Agricultural production dropped attributable to intermittent rainfall during the beginning to mid-second quarter of the year. This caused outputs of rubber, oil-palm, coffee, and fruits to decrease. Rice crops rose as attractive prices induced farmers to expand cultivation areas. Output of fishery expanded in both marines and black tiger prawns as attractive prices of black tiger prawns induced farmers to increase production.

Non-agricultural production fell marginally. Manufacturing production fell in line with processed agricultural products, particularly production of palm oil and smoked rubber sheets. Meanwhile, rubberblock and processed seafood production increased. **Construction** declined in tandem with private sector construction, both residential and commercial. Likewise, **trade** decelerated, particularly automobiles and motorcycles, resulting from liquidity shortage and reduced purchasing power. Tourism industry remained favourable especially in the upper southern region due to large number of European visitors. The **mining** sector declined, particularly gypsum production which fell sharply.

Investment decreased owing to the economic crisis. The number of BOI approved projects in 1998 amounted to 66 and valued at B8,712.9 million, decreasing from the previous year by 23.3 and 85.3 percent, respectively.

Consumer Price Index of the region rose by 8.6 percent in 1998, compared with 6.4 percent in 1997. Food and non-food prices increased by 10.1 and 7.9 percent, respectively.

On the **financial** front, commercial bank branches in the Southern region totalled 370 branches at end-1998, down by 17 branches. Total commercial bank deposits outstanding amounted to B230.5 billion, a growth of 6.6 percent. Total credits outstanding amounted to B209.3 billion, down by 10.7 percent.

In 1999, the Southern region economy is expected to be stable, though agricultural and industrial productions are likely to decline both in quantity and value due to droughts and falling prices. This is because of expected cashflows from government spending to help stimulate the region's economy through employment and development projects of government agencies.

Northern Region Economy

In 1998, the **Northern region economy** contracted by 3.9 percent, due partly to external factors in conjunction with liquidity shortage and increased production cost of businesses. These were on account of more cautious credit extension by commercial banks and high interest rates. Moreover, disbursement of government expenditure moderated, notwithstanding accelerated disbursement towards end-fiscal year. In addition, private spending fell in line with unemployment problem.

Key Economic Indicators
(percentage change)

	1996	1997	1998
Real GDP Growth	5.4	3.2	-3.9 E
Inflation	4.9	5.6	8.0
Credits	11.4	-2.0	-11.6
Deposits	11.9	7.5	2.8

E = *Estimates*

Agricultural production, a major income source of the Northern population, grew by 2.6 percent. Main crops, namely first paddy crop, second paddy crop, and maize grew by 6.7, 52.1 and 34.9 percent, respectively on account of attractive prices in 1997 and favourable rainfall. This was despite an outbreak of plant hoppers which affected the 1998/99 paddy crop production only slightly. Prices of most crops were favourable; in spite of some decline in the second half of the year, average prices grew by 23.1 percent in 1998, raising farm income by 21.1 percent, compared with 2.9 percent in 1997.

Non-agricultural production dropped by 5.5 percent. Manufacturing production fell by 5.3 percent in line with the fall of major manufacturing production such as sugar and export-oriented manufacturing goods in the northern industrial estate, which fell by 0.6 percent, and price competition from competing countries. **Mining production** contracted by 7.9 percent due to decreased demand for lignite of the cement industry. The **service sector** grew by 0.5 percent mirroring an increase in the number of foreign tourists, while local tourists declined. The purchase of foreign currency went up by 15.2 percent to US$103.8 million.

Private expenditure in 1998 fell due to rising unemployment which eroded purchasing power of the people. Indicators of private expenditure showed that the number of automobiles and motor-cycle registration dropped by 62.2 and 48.6 percent, respectively, while consumer credit declined by 14.2 percent.

Investment and construction fell by 17.7 percent in 1998. The decline was observed in both public and private construction. Key indicators of construction showed reduction in permitted construction areas in municipals by 52.8 percent; construction credit by 8.9 percent; capital funds of promoted investment by 57.3 percent; and number of newly registered factories and investment value by 36.7 and 7.1 percent, respectively.

Inflation in 1998 decelerated in the second half of the year, resulting in an average of 8.0 percent for the whole year. This represented an increase in food prices of 9.8 percent and non-food prices of 7.3 percent.

As for the **monetary conditions,** credit extension declined continuously. At end-December 1998, credit outstanding dropped by 11.6 percent to B219.8 billion. The decline was caused by the strict policy on new lending of financial institutions and the transfer of decisions on large credit extension to bank headquarters. Credit extension fell in most sectors, particularly commerce and consumption. Deposits outstanding at end-December 1998 amounted to B264 billion, up by 2.8 percent compared with the preceding year. At the beginning of 1998, depositors lost confidence in the financial institution system and shifted deposits to more credible institutions. After the implementation of financial sector restructuring measures of 14 August, deposits situation improved in September before slowing down in the fourth quarter due to declining deposit rates. Checking transaction fell in both volume and value by 18.5 and 21.5 percent, respectively. This was because businessmen lacked confidence in extending trade credit and preferred to transact in cash. The ratio of uncleared cheque was 2.7 percent, compared with 2.8 percent in the previous year.

In 1998, 56 branches of commercial banks, finance & securities companies, and credit offices in the Northern region ceased operation.

In 1999, the Northern region economy is expected to recover from the previous year. Agricultural production, a major production sector, is anticipated to continue expanding from the previous year, despite lower irrigated water in major dams. This should not affect the second paddy crop in the Northern region by as much as in the Central region, as major crops — first paddy crop and maize, which accounted for more than 80 percent of total agricultural production — are rain-season crops and rely on natural rainfall more than irrigation water. Production of longan and lychee is expected to recover. In 1999, despite an expected downtrend, crop prices should remain attractive for crop planting by farmers.

Northeastern Region Economy

The Northeastern region economy contracted by 3.5 percent in 1998 as opposed to the growth of 3.2 percent in 1997 as a result of the economic crisis.

Key Economic Indicators (percentage change)			
	1996	1997	1998
Real GDP Growth	4.6	3.2	-3.5
Inflation	6.3	7.9	8.3
Credits	20.1	2.2	-5.9
Deposits	14.7	5.1	3.5

Agricultural output rose by 3.8 percent in 1988, down from 4.1 percent in the previous year. Productions of crops and livestock were favourable with rainfall comparable to the previous year and attractive prices of major crops encouraging farmers to expand planting areas. The rural population earned increased income from agriculture and workers' remittances linked to the baht depreciation.

Non-agricultural output contracted across most sectors, particularly manufacturing, construction, trade, and real estate, causing excess capacity in business and industrial sectors as consumer purchasing power fell due to increased unemployment.

Investment, particularly private investment fell in 1998 as evidenced by decrease in the number of newly-established factories by nearly one third, and the value of capital investment by more than half. Most projects were small scale. Moreover, permitted construction areas in municipals decreased markedly by 76 percent.

Consumer Price Index rose by 8.3 percent, compared with an increase of 7.9 percent in the preceding year. Prices of food and non-food items rose by 9.9 and 7.5 percent, respectively.

On the **financial** front, there were 537 commercial bank branches (including 56 sub-branches) in the region at end-1998, an increase by 13 branches. Deposits outstanding increased by a mere 3.5 percent, while credit outstanding fell by 5.9 percent from the previous year as commercial banks were more stringent on new credit extension to avoid increasing non-performing loans. At the same time, commercial banks were in urgent need of debt restructuring. The credits to deposits ratio was 112.2 percent.

Border trade with Lao PDR rose by 5.2 percent. Thailand recorded an increased trade surplus with Lao PDR amounting to B8,400 million, up from B6,753 million in the previous year. The region's exports continued to grow by 12.7 percent (in baht term) while imports fell by 30.8 percent.

The Northeastern region is expected to grow by 0.8 percent in 1999 with growth of 3.0 percent in agriculture and 0.2 percent in non-agriculture.

Growth of agricultural production is anticipated to moderate somewhat due to declining trend of major crop prices, and reduced water in dams, thus lessening planting areas for dry-season crops. Meanwhile, livestock is expected to expand due to lower animal feed prices, benefiting from the baht appreciation. Non-agricultural production should improve due partly to government measures to resolve liquidity problem by allocating funds to specialised financial institutions, such as Industrial Finance Corporation of Thailand, Small Industry Finance Corporation, Government Savings Bank, and Export-Import Bank of Thailand, for on-lending to support continued business operations. The policy to accelerate budgetary disbursement should also help enhance cashflows in the system.

Monetary Developments, Operation of Financial Institutions, and the Capital Market

Monetary Developments and Interest Rates

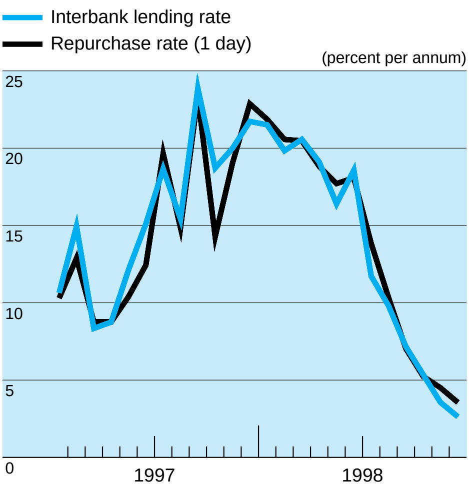
In 1998, liquidity in the money market was quite volatile. Liquidity conditions remained tight in the first quarter as a result of regional economic and financial crises, which began in the previous year. This undermined confidence of foreign investors and creditors, and led to net capital outflow from the banking sector, and foreign financial institutions recalling loans from the private sector. However, since the end of the second quarter, the tight liquidity conditions improved due to three important factors:

1) Steady progress in the authorities' implementation of measures to resolve the financial crisis and deposit guarantee policy. In particular, the Financial Sector Restructuring package, announced on 14 August 1998, restored public confidence in financial institutions. This led to a more widespread distribution of deposits to all groups of commercial banks and finance companies.

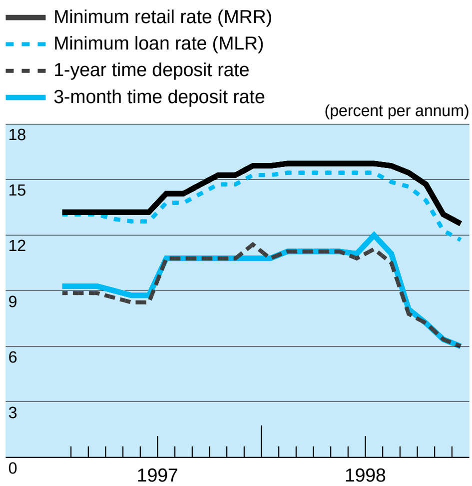
2) The problem of capital outflow in the non-bank sector during the first quarter reversed to a net inflow in the second and third quarters, while the current account recorded continued surplus starting from the last quarter of 1997. These together helped to improve liquidity conditions in the money market and the stability

INTEREST RATES

Short-term money market interest rates



Interest rates of the 4 largest commercial banks



of the baht. Given the strengthened baht during the last quarter of 1998 and declining domestic interest rates, however, the private sector accelerated external debt repayment, resulting in net capital outflow of US$2 billion for the non-bank sector. Nevertheless, liquidity in the money market remained ample, following its accumulation during the preceding periods.

3) The stance of monetary and fiscal policy was increasingly accommodative. Domestic interest rates declined during the second half of the year due to much-reduced pressure on the baht and rapidly declining inflation. At end-1998, the inflation rate stood at 4.3 percent, compared with 7.7 percent during the same period in the preceding year.

Notwithstanding improved liquidity conditions in the money market from the end of the second quarter, the continued crisis in the domestic financial sector led to reduced access to credit and capital by the private sector in 1998. The suspension of many weak commercial banks and finance companies caused liquidity shortage among companies which previously relied on credit extended by these institutions. At the same time, operating financial institutions became increasingly more prudent in credit extension for several important reasons. ***First***, the lack of public confidence in financial institutions led to large withdrawals of deposits and an acceleration of debt repayment or refusal to rollover loans by foreign creditors. These resulted in liquidity shortage for most financial institutions. ***Second***, the sharp economic contraction and higher debt repayment obligations following substantial baht depreciation meant that companies were unable to make interest and principal repayment to financial institutions. This resulted in a rapid rise in non-performing loans of financial institutions. ***Third***, financial institutions experienced difficulties in raising capital funds in keeping with the need to make adequate provision for rising non-performing loans. Consequently, most institutions did not have the capacity to extend new loans and steadily had to call back their existing loans.

Money market interest rates remained high in the first quarter of the year on account of tight liquidity and the necessity to implement restrictive monetary policy to curb inflation and maintain exchange rate stability. On 12 January 1998, when the baht was weakest at B56.06 per US dollar, since the flexible exchange rate regime was adopted, the interbank lending rate rose to 29 percent per annum. The rate declined progressively in line with improved liquidity conditions and increased stability of the baht. It fell from an average of 20.6 percent per annum in the first quarter to 18 percent in the second quarter, 9.6 percent in the third quarter, and merely 3.8 percent in the last quarter of the year.

Interest rates in the repurchase market in 1998 continued to adjust downward since the second quarter, reflecting improved liquidity and more accommodative monetary and fiscal policy. The 1-day repurchase rate declined from an average of 21 percent per annum in the first quarter to 18.2 percent in the second quarter, 10.4 percent in the third quarter, and 4.4 percent in the last quarter of the year.

Commercial bank deposit and lending rates. Given tight liquidity in the first quarter of 1998, small- and medium-sized Thai banks gradually but frequently raised deposit and lending rates during the first four months. Interest rates of large commercial banks remained largely unchanged. After liquidity improved in the second quarter, competition for deposits subsided and the deposit and lending rates for the banking system became relatively stable during May and June. Moreover, with greater clarity of the Financial Sector Restructuring package announced on 14 August 1998, the public regained confidence in the financial system. This led to the expansion of deposits at financial institutions and a substantial improvement in the money market liquidity. As a result, Thai commercial banks progressively reduced deposit and lending rates since September. Nevertheless, the reductions of lending rates were lower than those of deposit rates, reflecting high provisioning costs for non-performing loans. By end-1998, the 3-month time deposit rates of 5 largest Thai banks and of small- and medium-sized Thai banks were reduced to 6.00-6.25 percent and 5.75-6.5 percent per annum — a substantial reduction from the previous end-year levels of 10.0-13.0 percent and 10.0-15.75 percent per annum, respectively. Meanwhile, at end-1998, the Minimum Lending Rate (MLR) of 5 largest banks and of small- and medium-sized Thai banks declined to 11.5-12.0 percent and 12.25-14.25 percent per annum, respectively. These compared with 15.25 percent and 16.0-17.5 percent per annum, respectively, at end-1997.

Commercial bank deposits grew by 8.8 percent in 1998, down from an increase of 16 percent in the preceding year. Growth rate was considered relatively high in relation to the economic recession and rising unemployment. This was partly attributable to job insecurity which induced greater caution in spending and higher savings. In fact, savings at large commercial banks were considered more secure than other forms of savings. However, after the authorities announced measures to tackle financial institution problems, together with deposit guarantee, public confidence in the financial institution system was restored, thus lessening the outflow of funds from finance companies to commercial banks. At the same time, depositors reallocated deposits to specialised financial institutions, such as the Government Savings Bank, during the last quarter of the year, in response to the sharp reduction in commercial banks deposit rates relative to those of specialised financial institutions. As a consequence, commercial bank deposits increased only slightly.

Commercial bank and International Banking Facilities (IBF) credit outstanding declined sharply in 1998, owing to increased prudence and stringency of commercial banks in extending credits, debt repayments by IBF, and weaker credit demand in line with sharp economic downturn. Banks became more cautious in

Table 10
Interest Rate Structure in the Banking System (end-of-period)

(percent per annum)

	1997				1998			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Deposit rates (5 largest banks)								
– Savings deposit rates	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.5
(Ceiling on savings deposit rates)*	(–)	(–)	(–)	(–)	(–)	(–)	(7.0)	(6.5)
– 3-month time deposit rates	8.75-10.75	8.25-10.25	10.0-11.5	10.0-11.5	10.0-12.25	10.0-12.0	7.25-9.0	6.0-6.25
(Ceiling on 3-month time deposit rates)**	(–)	(12.0)	(14.5)	(15.75)	(16.5)	(16.5)	(11.75)	(9.0)
– 12-month time deposit rates	8.50-9.75	8.00-9.25	10.0-11.5	10.0-13.0	10.0-12.25	10.0-11.5	7.0-9.0	6.0-6.25
(Ceiling on 12-month time deposit rates)**	(–)	(12.0)	(14.5)	(16.25)	(16.0)	(16.0)	(11.75)	(9.0)
Lending rates (5 largest banks)								
– Minimum Lending Rates (MLR)	13.0-13.25	12.75	14.25	15.25	15.25-15.5	15.25-16.0	14.5-15.0	11.5-12.0
– Minimum Overdraft Rates (MOR)	13.25-14.0	13.25-14.0	14.75-15.0	15.75-16.0	15.75-16.25	15.75-16.75	15.0-16.0	12.0-12.75
– Minimum Retail Rates (MRR)***	13.0-14.0	13.0-14.25	14.5-15.0	15.5-16.0	15.5-16.25	15.5-16.75	15.0-16.0	12.0-13.25
Interbank lending rates								
– Daily average in a quarter	11.31	11.99	19.32	20.15	20.64	18.03	9.56	3.84
– Min-Max in a quarter	5.5-30.0	3.0-24.0	8.5-31.5	7.5-30.0	6.0-29.75	8.0-23.75	2.0-19.0	1.75-8.0
Repurchase rates (1 day)								
– Daily average in a quarter	10.65	10.53	19.28	18.73	20.97	18.20	10.40	4.43
– Min-Max in a quarter (daily closing rate)	7.5-16.0	7.5-17.25	8.0-27.0	12.0-25.0	19.75-24.25	16.625-19.75	6.0-16.44	3.13-6.0

Notes : * *Since 14 July 1997, the authorities required commercial banks' savings deposit rates to be less than the BOT savings deposit reference rates plus 2 percentage points.*

** *On June 30, 1997, the authorities increased the ceiling on 3-month time deposit rates to 12 percent per annum and, on 18 July 1997, raised it further to 14 percent per annum. Then, a new regulation was imposed on 19 September 1997, requiring commercial banks' 3-month time deposit rates to be less than the average deposit rates of 5 largest banks plus 3 percentage points.*

*** *On 26 May 1997, the authorities revised the MRR formula from formerly basing on total deposit cost to be linked with the MLR plus maximum of 4 percentage points for general customers.*

extending credits because of concerns that this might exacerbate non-performing loan problems, which would in turn require further provisioning and impose greater burden on recapitalisation to meet the required standard. Overall, commercial bank credits (excluding the exchange rate revaluation effect of IBF credits) declined by 3.2 percent, compared with a 10.3 percent growth at the end of the previous year. Excluding IBF credits, commercial bank credits expanded by 1.2 percent, in comparison with a 13.3 percent growth at the end of the preceding year. At the same time, the more stable and strengthened baht provided incentives for increased IBF loan repayment, thus reducing out-in IBF credits (in US dollar terms) by 30 percent in 1998, compared with a fall of 4.7 percent in the previous year.

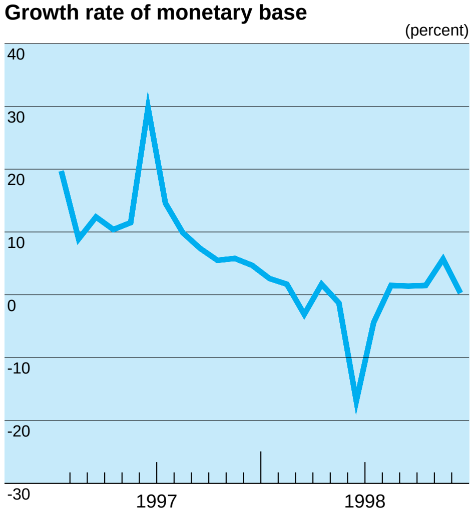
Monetary Base and Money Supply

Monetary base grew by 0.3 percent in 1998, a marked slowdown from a growth of 4.7 percent in the preceding year in line with the sluggish economy. The amount outstanding at end-1998 totalled B475.3 billion, an increase of B1.2 billion from the end of the previous year. The component which increased was financial institution deposits at the central bank, rising by B23.5 billion. In contrast, outstanding currency held by the private sector (including currency held by commercial banks) fell by B22.3 billion. The main supply-side factor contributing to the slight increase in monetary base was the rise in net claims on government. Meanwhile, net claims on financial institutions and the central bank's net foreign assets declined.

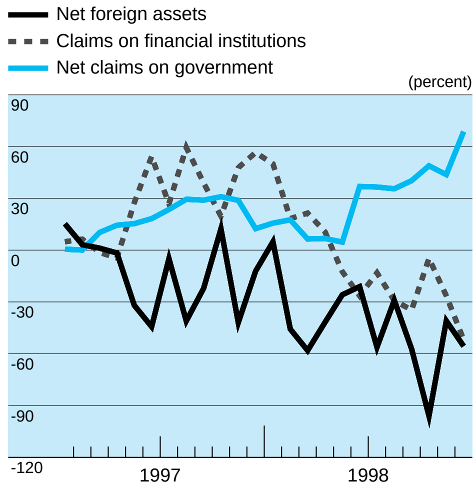
Narrow Money (M1) grew by 3 percent in 1998, up from 1.2 percent in the previous year, mainly on account of the expansion in demand deposits held by

MONETARY BASE

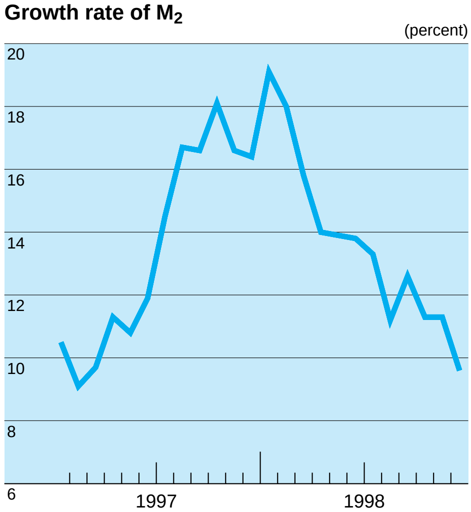
Growth rate of monetary base

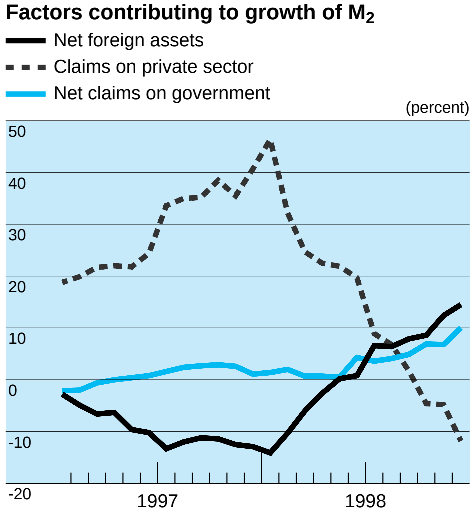


Factors contributing to growth of monetary base



MONEY SUPPLY

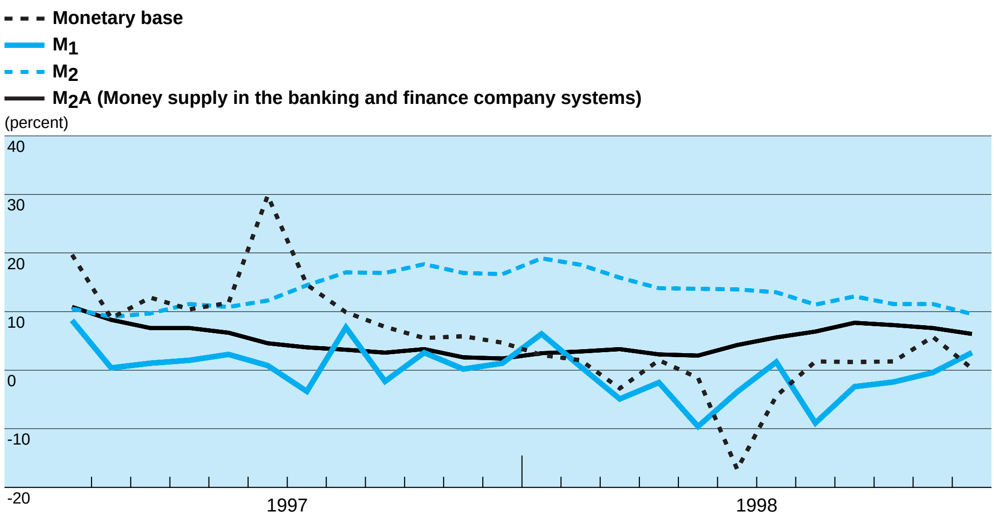




commercial banks. On the contrary, currency held by the business and household sectors decreased from the previous year.

Broad Money (M2) moderated in line with commercial bank deposits, growing by 9.6 percent in 1998, against a growth of 16.4 percent in the preceding year. The money supply in the banking and finance company system (M2A) grew by 6.2 percent in 1998, up from 2 percent in the previous year, owing mainly to the balance of payment surplus and the increase in government expenditure.

GROWTH RATES OF MONETARY BASE AND MONEY SUPPLY
(year - on - year)



Operation of Financial Institutions and the Capital Market

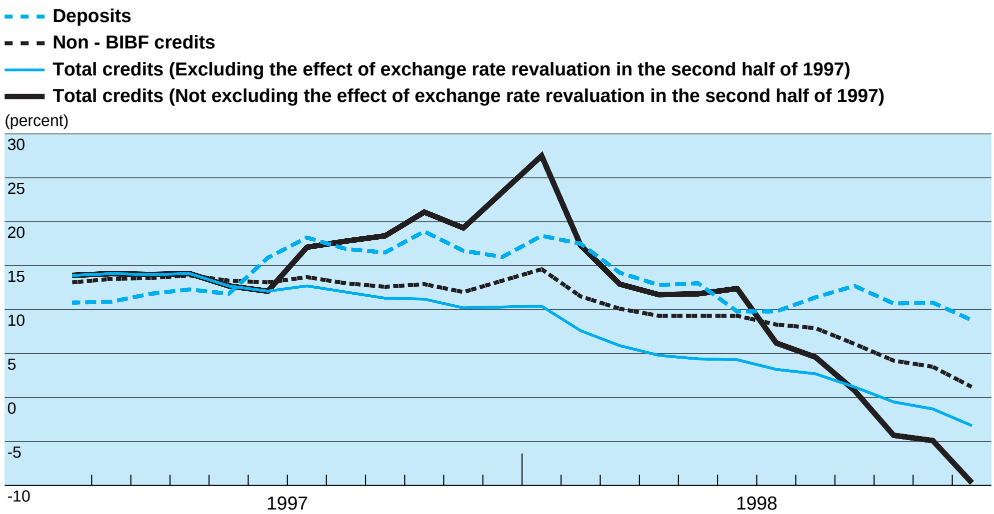
Commercial Banks

The economic and financial turmoil in 1997 had a severe impact on commercial bank operations in 1998. Asset qualities deteriorated markedly. Thai commercial banks underwent adjustments to conform with prudential regulations imposed by the authorities to strengthen the financial system soundness. The latter included, for example, improvement in the recognition of accrued interest as income and provisioning requirements for sub-standard loans. These factors affected significantly credit extension, deposits, profitability, and soundness of the commercial banking system.

1. Commercial bank credits

Commercial bank credits (excluding the exchange rate revaluation effect of IBF credits) fell by B174.5 billion or 3.2 percent in 1998. This was the results of the economic recession and the comprehensive package of 14 August 1998 entailing the mergers of Laem Thong Bank with Radanasin Bank; Union Bank of Bangkok with 12 intervened finance companies; and First Bangkok City Bank and Bangkok Bank of Commerce with Krung Thai Bank, which consequently impaired lending operations of these institutions. Moreover, operating financial institutions also slowed down lending on concerns over rising non-performing loans and adequacy of capital base. Consequently, domestic credit in baht terms moderated successively since the beginning of the year and grew for the year by only 1.2 percent in 1998. In contrast, IBF out-in credit outstanding went down by B230.9 billion or 30 percent

GROWTH RATES OF DEPOSITS AND CREDITS IN THE BANKING SYSTEM
(year - on - year)



per annum, owing mainly to the baht appreciation and increased stability which induced IBF debt repayment.

2. Commercial bank deposits

Commercial bank deposits increased by B371.2 billion or 8.8 percent in 1998, equivalent to an average increase of B30.9 billion per month, down from B48.5 billion per month in 1997. Sixty-three percent of the increased deposits belonged to government-owned commercial banks because they paid higher deposit rates than private commercial banks and depositors generally had more confidence in them. Only 37 percent of the increased deposits belonged to private commercial banks as they did not give emphasis to deposit mobilisation while they did not plan to extend new loans, given limited adequacy of capital bases. Towards the end of 1998, it was observed that private commercial bank deposits actually declined. Part of deposits shifted to subordinated debentures issued by private commercial banks which offered higher returns than general deposits, thus attracting some risk-taking investors.

3. Commercial bank profits

In 1998, the slowdown in credit extension and the increase in non-performing loans resulted in some reduction of Thai banks' interest income. This, together with the decline in lending and deposit rates during the fourth quarter, led to a

Table 11
Net Profit (Loss) of Commercial Banks and IBF Operations
(billions of baht)

	1997			1998		
	H1	**H2**	**Total**	**H1**	**H2**	**Total**
Thai banks (including IBF operations)	29.89	-108.38	-78.49	-163.90	-206.92	-370.82
Thai banks (excluding BBC)	31.25	-94.01	-62.76	-153.48	-195.35	-348.83
Foreign bank branches (including IBF operations) 1/	5.72	1.75	7.47	-1.32	-5.95	-7.27
(IBF not belonging to Thai banks or foreign bank branches) 2/	0.54	-1.39	-0.85	-1.41	-2.47	-3.88
Total	**36.15**	**-108.02**	**-71.87**	**-166.63**	**-215.34**	**-381.97**

1/ *In 1997, net profit included branches of 6 new foreign banks which started their operations in that year and the IBF operation of 6 existing financial institutions.*
2/ *In 1997, net profit excluded 6 IBF operations which became full branches in that year but included of 6 IBF operations which were newly appointed and started their operations in the same year.*

The International Banking Facilities in Thailand (BIBF)

The establishment of the BIBF is the first step in the process of promoting Thailand as a financial centre of the region. At the same time, the BIBF also serves to fulfil the shortage of savings in the country and in the region to meet the investment needs. The BIBF is the critical element in the process of becoming the regional centre for capital as well as is the gateway to the economies and financial systems of the Indochina region.

The BIBF activities comprises lending and borrowing from abroad. Out-out transactions consists of taking deposit and lending in foreign currencies for activities abroad as specified. And out-in transactions consists of borrowing in foreign currencies from abroad or other IBFs to be on-lent in foreign currencies in Thailand including other international banking transactions such as foreign exchange transactions, excluding the Baht, and other investment banking such as information services, project evaluation, as well as financial consultants.

At end-1998, the authorities allowed a total of 46 commercial banks to engage in IBF activities. Of this, 11 were Thai commercial banks; 18 were foreign branches; and 17 were foreign banks without branches in Thailand. (5 BIBFs were closed in 1998, and another BIBF has yet to operate.)

In the past, the BIBF activities expanded rapidly, especially the out-in credits whose outstanding in 1993, the first year of the BIBF operation, amounting to B197 billion rose to B807 billion in 1996, an equivalence of 20 percent of the commercial bank credits (excluding BIBFs loans). Of this, 40 percent belonged to the IBF operations of Thai commercial banks; 28 percent, IBFs operations of the foreign branches; and 32 percent, IBF operations of foreign banks without operations in

Outstanding Credits of Commercial Banks (including BIBF)

(unit : billions of baht)

	1993	1994	1995	1996	1997	1998
1. Domestic Credits	2,465.9	3,006.7	3,620.4	4,103.8	4,649.3	4,705.7
2. BIBFs' Credits	197.0	456.6	680.5	807.6	769.7	538.8
2.1 Thai commercial banks	126.7	189.8	254.6	330.0	280.3	149.9
2.2 Foreign bank branches	50.8	102.2	152.4	222.8	376.4	303.4
2.3 New foreign banks	19.5	164.6	273.5	254.8	113.0	85.5

Exchange rate revaluation effect included.

decrease in the actual interest rate spread of Thai banks to 0.43 percent of total assets in 1998, compared with 3.25 percent in 1997. Thus, Thai commercial banks (including IBF operations) experienced a net loss of B349 billion, more than four times the loss in 1997. Eighty percent of the loss was attributable to the provisions for non-performing loans which were required at 20 percent by end-1998. This resulted in an increase in provisioning of B283 billion. In addition, operating expenses of Thai commercial banks exceeded income (net interest income and other non-interest income) by another B68.8 billion.

BIBFs' Outstanding Credits by Country
(unit : billions of baht)

	1993	1994	1995	1996	1997	1998
1. United States	11.4	27.6	39.6	44.3	47.9	37.9
2. Japan	44.5	154.1	244.6	320.7	324.7	264.2
3. Thai	126.7	189.8	254.6	330.0	280.3	150.0
4. Others	14.4	85.1	141.7	112.6	116.7	86.7

Exchange rate revaluation effect included.

Thailand (only IBF transactions were permitted). Furthermore, the proportion of the Japanese IBF operations were equivalent to that of Thai IBF operations, 40 percent; whereas the US IBF operation accounted for only 5 percent of the total IBF outstanding credits.

More than 50 percent of the BIBF credits were extended to the main economic sector. Most were extended to industrial production of foreign investor in Thailand, reflecting the shifting of funding sources from borrowing abroad to borrowing through the IBFs in Thailand. However, the credits extended to less important economic sector accounted for a slight 3 percent of the total BIBF credits.

After the financial crisis in 1997, the credit outstanding of Thai BIBF markedly declined from B330 million in 1996 to B280 million in 1997, and B150 million in 1998. Nevertheless, the credits outstanding of foreign IBF increased in 1997. Only after the financial turmoil strengthened, the outstanding credit of foreign IBFs decreased in 1998 but to a lesser degree in comparison to that of the Thai BIBF. This is because the crisis have severely affected the confidence in Thai commercial banks, forcing the Thai commercial banks to recall loans from the customers of their BIBF operations to repay the loans that commercial bank borrowed from abroad.

Customers of foreign BIBF had been less affected and with delay in comparison with those of Thai BIBF, given that most foreign BIBF borrowed from their headquarters abroad and consequently had less need to recall their loans.

In the first half of 1998, the IBF operations of commercial banks experienced operating losses of B6,023.1 million, compared with operating profit of B7,218.6 million in 1997. Of this, B1,175.1 million were profit of Thai commercial banks; whereas foreign branches and new foreign commercial banks had losses of B5,787.3 million and B1,410.9 million re

Foreign commercial banks were also affected by the sluggish economy. In 1998, 21 foreign bank branches (including IBF operations) reported net loss of B7.27 billion, on account of increased provisioning for non-performing loans, notwithstanding a profit of B43.52 billion from the interest rate spread.

Similarly, IBF of foreign financial institutions without branches in Thailand recorded a loss of B3.9 billion in 1998, again attributable to the increased provisions for non-performing loans, after experiencing a loss of B1.39 billion in the second half of 1997.

BIBFs' Credits by Sector
(unit : billions of baht)

	1993	1994	1995	1996	1997	1998*
Total Credits	197.0	456.6	680.6	807.6	769.7	538.8
	–	(133.3)	(49.0)	(18.7)	(-4.7)	(-30.0)
1. Priority sectors	99.5	201.5	325.5	427.6	435.3	345.5
	–	(102.5)	(61.5)	(31.4)	(1.8)	(-20.6)
2. Less priority sectors	15.0	27.0	29.0	25.5	16.2	8.5
	–	(80.5)	(7.1)	(-11.9)	(-36.6)	(-47.5)
3. Others	82.5	228.1	326.1	354.5	318.2	184.8
	–	(180.8)	(43.0)	(8.7)	(-10.2)	(-41.9)

Notes : *In parentheses are percentage changes compared with the preceding year. Exchange rate revaluation effect included.*
* *Bangkok Bank of Commerce is not included.*

spectively. In the second half of 1998, profit of Thai commercial banks decreased to B776.1 million; whereas foreign branches and new foreign commercial banks had losses of B5,581.5 million and B2,466.4 million respectively.

Net Profit of BIBFs (out-in and out-out)
(unit : millions of baht)

	Thai Commercial Banks	Foreign Bank Branches	New Foreign Banks	Total
First half of 1997	3,468.9	1,397.4	554.4	5,420.7
Number of banks	12	15	15	42
Second half of 1997	5,144.7	-1,685.5	-1,661.3	1,797.9
Number of banks	12	17	19	48
1997	8,613.6	-288.1	-1,106.9	7,218.6
Number of banks	12	17	19	48
First half of 1998	1,175.1	-5,787.3	-1,410.9	-6,023.1
Number of banks	12	17	19	48
Second half of 1998	776.1	-5,581.5	-2,466.4	-7,271.8
Number of banks	11	18	17	46
1998	1,951.2	-11,368.8	-3,877.3	-13,294.9
Number of banks	11	18	17	46

4. Banking system soundness

The financial crisis in 1997 affected the soundness of Thai commercial banks more than foreign bank branches. With larger volume of non-performing loans, Thai banks were required to increase provisioning, which at end-1998 amounted to B680.4 billion[1/] or 13 percent of total credits. This was more than

1/ *Provisioning requirements for sub-standard loans of Thai commercial banks were calculated from the value of asset depreciation plus the value of doubtful loans.*

Table 12
BIS Capital and Risk Assets of Commercial Banks

	First-Tier Capital (billions of baht)		Total Capital (billions of baht)		Risk Assets (billions of baht)		First-Tier Capital-to-Risk-Assets Ratio (percent)		Total Capital-to-Risk-Assets Ratio (percent)	
	1997	**1998**	**1997**	**1998**	**1997**	**1998**	**1997**	**1998**	**1997**	**1998**
Thai banks	375.20	340.71	471.93	450.17	5,110.5	4,287.3	7.34	7.95	9.23	10.50
(Including International										
Banking Facilities)							(6.0)	(>4.25)	(8.5)	(8.5)
Foreign bank branches	36.28	48.34	36.28	48.34	333.49	285.41	–	–	10.88	16.94
(Excluding International										
Banking Facilities)									(7.5)	(7.5)

Note : *Figures in parentheses are minimum required ratios.*

Corporate Debt Restructuring and Economic Recovery in Thailand

Corporate Debt Restructuring is a process inextricably linked to corporate funding either funding through credit extension of financial institutions, or direct funding of private businesses and state enterprise from the capital market, both domestic and foreign. This connection arises from the fact that credit extension, direct funding, or other sources of funding may encounter debt repayment problems following an economic recession, a deficient technological progress, inefficient management, competitiveness problems, or corruption by management, all which could disrupt the ability of debtors to service debt on time.

During the period of rapid economic growth, all parties concerned, whether public or private sectors, did not give much importance to the process of corporate debt restructuring because the likelihood of a corporate default can be compensated by the interest rate spread, or income from other sources whose business is still in operation. However, as the present financial crisis has driven many debtors from all sectors of the economy to concurrently default on their debts, there is an urgent need to restructure debt throughout the entire system within a short period of time.

Procedures for debt restructuring of financial institution can be divided into 2 categories:

1. General debt restructuring meaning debt restructuring without incurring losses.

2. Debt restructuring with loss derived from:

(1) Reduction of principal or accrued interest receivables which have been booked as revenue of debtors;

(2) Transfer of assets, whose fair price is lower than the amount of debt written off;

(3) Easing of payment conditions in a way that the present value of the income cashflow is lower than the amount of debt which had been individually recorded from the accounts of debtors;

(4) Calculation using market prices of debtors, or fair price of collateral assets. The losses from debt restructuring may also arise from other factors such as debt to equity conversions.

The authorities have implemented numerous measures to support the process of debt restructuring as follows:

1. On June 2, 1998, the Bank of Thailand announced Regulations of Debt Restructuring and Collateral Appraisal in order to determine the preliminary procedures for financial institutions in negotiating debt restructuring with debtors.

2. The Corporate Debt Restructuring Advisory Committee (CDRAC) was established with the Governor of the Bank of Thailand (BOT) as Chairman, the Adviser to the Governor (Mr.Sivaporn Dardarananda) as Deputy Chairman, and 5 other committee members, namely the Presidents of the Board of Trade of Thailand, the Federation of Thai Industries, the Thai Bankers' Association, the Association of Finance Companies, and the Foreign Banks' Association. In addition, the Committee appointed the Corporate Debt Restructuring Advisory Subcommittee, with Mr. Sivaporn Dardarananda as Chairman.

3. Established the framework for corporate debt restructuring which was signed by the 5 Associations on August 25, 1998. This provided the framework for negotiation between creditors and debtors, especially in the case of the large corporate debtors with multi creditors. This principal is premised on the basis of the general accepted practice and voluntary

workouts with an aim to maximise benefits of creditors, debtors, shareholders, and employees.

4. The authorities initiated the removal of tax obstacles to facilitate the process of corporate debt restructuring — including personal income tax, corporate income tax, value added tax, special business tax, and stamp duties — for which the Government gave 2 years exemptions starting from the beginning of 1998 to the end of 1999, and reduced fees for the transfers and registrations of property and condominium until the end of 1999.

5. Arranged meetings of creditors and prepared a framework for implementation for creditors with the same group of debtors. All creditors will be required to accept the decision made by majority creditors and there will be penalties for those who do not observe, for example, in the form of financial penalties as give power to the BOT to intervene.

6. Announced the financial sector restructuring plan of August 14 which contained incentives for corporate debt restructuring. Financial institutions with losses from the debt restructuring process and consequently have lower capital are given the opportunity to seek tier 2 capital support facility from the authorities under the specified criteria and conditions.

7. Collaborate with the World Bank in training and education in corporate debt restructuring, as well as installing a monitoring system:

(1) Debtors training to provide the understanding of the procedures for corporate debt restructuring, including the awareness that sacrifice by all parties concerned is a necessary condition for success.

(2) Creditors training to provide guidelines, procedures and criteria for corporate debt restructuring.

(3) Provide a monitoring system of debt restructuring in order for the authorities to monitor its progress and make estimates, using the same data and reports.

In addition, the Joint Public-Private Sector Committee (JPPSC) agreed to set up a sub-committee for the provincial debt restructuring, using the mechanism of provincial JPPSC. The Ministry of Interior was assigned with the responsibility of implementation, supported by the BOT. The BOT, in turn, assigned its regional branches to support the provinces under their jurisdiction, while the headquarters will support the provinces that are outside the jurisdiction of the regional branches. As of 25 December 1998, 55 Provincial Corporate Debt Restructuring Sub-Committees have been established, comprising 14 provinces in the northern region, 11 provinces in the northeastern region, 21 provinces in the central region, and 9 provinces in the southern region.

Progresses of Debt Restructuring (end-December 1998)

	Restructured debts		In the process	
	Outstanding (billion baht)	**Cases**	**Outstanding (billion baht)**	**Cases**
Thai commercial banks	137.2	7,482	491.2	5,542
Foreign bank branches	10.9	1,173	102.2	660
Finance companies	8.6	285	96.5	1,165
Credit foncier companies	0.3	75	0.5	38
Total	157.0	9,015	690.4	7,405

double that of the previous year's level of B235.1 billion, or 4.5 percent of total credits at end-1997. However, there remained some small- and medium-sized Thai banks which could not meet the more stringent provisioning and recapitalisation requirements. Consequently, the Government introduced the 14 August comprehensive measures to provide capital support facilities for Thai commercial banks unable to recapitalise by themselves.

The BIS capital-to-risk-asset ratio of Thai banks generally strengthened following recapitalisation efforts during 1998. Specifically, the capital-to-risk asset ratio increased from 9.23 percent at end-1997 to 10.5 percent at end-1998. Meanwhile, the ratio for foreign bank branches rose from 10.88 percent in 1997 to 16.94 percent in 1998 after recapitalisation.

The problems of non-performing loans and external debt were the major reasons for the downgrading of Thai banks' foreign debts by international credit rating agencies several times in 1998.

Table 13
Numbers of Branches and Offices of Commercial Banks and International Banking Facilities

	1996	1997	1998
Thai banks	15	16	13
– Branches of Thai banks (excluding headquarters)	3,138	3,284	3,247
Foreign bank branches	14	20	21
International Banking Facilities			
– Thai banks			
BIBF	12	12	11
– Foreign bank branches			
BIBF	11	17	18
PIBF	10	10	17
– International Banking Facilities of foreign financial institutions without branches in Thailand			
BIBF	19	19	17
PIBF	20	20	6

Notes : BIBF = *Bangkok International Banking Facilities (situated in Bangkok Metropolitan Area).*
PIBF = *Provincial International Banking Facilities (situated in large provinces outside Bangkok).*

5. Number of bank branches and International Banking Facilities

In 1998, the number of Thai bank branches decreased by 37, compared with an increase of 146 in the preceding year. Of the 7 BIBF offices that were awarded full-bank licenses in November 1996, 6 began operation in 1997 and the remaining in 1998, bringing the total number of foreign bank branches to 21 at end-1998. These 7 new foreign bank branches still retained BIBF operations.

As for the 7 new BIBF licenses awarded in December 1996, all had started operation by end-1998, thus bringing the total number of BIBF offices to 46 at end-1998. However, 3 Thai commercial banks — Bangkok Bank of Commerce, First Bangkok City Bank, and Union Bank of Bangkok — ceased IBF operations after having been integrated or merged with other financial institutions designated by the authorities.

Finance and Securities Activities

Finance Companies (including finance & securities companies)

In 1998, the continued economic contraction from the preceding year resulted in further liquidity shortages and rising non-performing loans for finance companies. In response to this, the authorities imposed provisioning requirements for financial institutions on sub-standard loans, as well as upgraded the loan classification and provisioning standards to conform with best international practice by year 2000. At the same time, several loss-making finance companies were instructed to recapitalise to strengthen their financial soundness. Nevertheless, there remained some who were unable to recapitalise adequately within the timeframe set in the memorandum of understanding with the authorities. As a result, depositors and creditors lost confidence, causing massive withdrawal of funds and driving these companies to continue seeking liquidity support from the Financial Institutions Development Fund (FIDF). To prevent losses to the public, on 18 May 1998, the authorities ordered 7 finance companies and finance & securities companies to write down registered and paid-up capital to 1 satang per share to write off the losses. Subsequently, they were instructed to recapitalise according to individual requirements. Despite these measures, however, the same problems re-emerged. Ultimately, on 14 August 1998, the authorities announced the comprehensive package of financial sector restructuring measures; weak financial institutions were ordered to merge with other financial institutions and five additional finance companies to write down capital to 1 satang per share, recapitalise, and change boards of directors. Moreover, capital support facilities were established to facilitate the recapitalisation process, consisting of two facilities — Tier-1 Capital Support Scheme and Tier-2 Capital Support Scheme. Furthermore, 12 intervened finance companies, which were to be recapitalised, were required first to integrate with Krungthai Thanakit Finance & Securities Company and merge subsequently with Union Bank of Bangkok. The merged institution would thus acquire status of a commercial bank. It was later renamed as BANKTHAI Public Co, Ltd.

To support the implementation of the Financial Sector Restructuring Plan and expedite the resolution of financial institution problems, the authorities implemented the following measures. Finance companies were allowed to undertake securitisation business in accordance with Securities and Exchange Commission (SEC) regulations subjected to Bank of Thailand (BOT) approval, as well as allowing finance companies to represent others in the debt-collection business. An Emergency Decree was enacted to amend the Act on the Undertaking of Finance Business, Securities Business, and Credit Foncier Business B.E. 2522 (No. 5) B.E. 2541. The component of tier-1 capital-to-risk-weighted assets ratio was reduced from no less than 5.5 percent to no less than 4 percent. Furthermore, an ad hoc task force was appointed to promote corporate debt restructuring. Finally, financial institutions were requested to cooperate in disseminating information on the debt restructuring framework to debtors eligible for the restructuring, as well as to concerning creditors.

New policy was adopted from the original aim to encourage large finance companies to become super-finance companies with wider range of activities, including the privilege to apply for foreign exchange license. The change was with a view to facilitating supervision and examination. A merger of 5 or more companies can now apply to the Bank of Thailand for a restricted banking license, starting 30 December 1998. Finance companies which had applied for a commercial bank license following mergers or acquisitions, or to expand business, or for a full branch license, were allowed to revise applications and reapply for a restricted banking

Table 14
Finance Companies' Outstanding Borrowing and Deposit from the Public
(unit : billions of baht)

Classified by group	1997	1998			
	Dec.	Mar.	Jun.	Sept.	Dec. P
56 closed-down finance companies	216.8	214.1	205.5	202.9	202.6
36 finance companies in-operation 1/	290.9	301.8	246.5	260.6	259.7
Total	**507.7**	**515.9**	**452.0**	**463.5**	**462.3**

1/ *Including Radhanatun Finance Company which began its operation in April 1998.*
P = *Preliminary*

Table 15
Finance Companies' Outstanding Credits
(unit : billions of baht)

Classified by group	1997	1998			
	Dec.	Mar.	Jun.	Sept.	Dec.P
56 closed-down finance companies	751.7	721.2	708.2	696.1	668.0
36 finance companies in-operation 1/	531.9	513.1	489.8	483.9	465.2
Total	**1,283.6**	**1,234.3**	**1,198.0**	**1,180.0**	**1,133.2**

1/ *Including Radhanatun Finance Company which began its operation in April 1998.*
P = *Preliminary*

license. A restricted bank can engage in all commercial bank businesses with the exception of demand deposits using cheques for withdrawals.

At end-1998, total assets of 92 finance companies[2/] was B1,516.6 billion, down by 7.3 percent from the preceding year. Total credit outstanding declined by 11.7 percent to B1,133.2 billion. Specifically, credits to financial institutions and finance businesses fell by 11.8 percent and the securities margin credits by 28.8 percent. Finance companies' total borrowing amounted to B1,236.4 billion, down by 7.5 percent, due mainly to the decline in foreign borrowing, as well as the reduction of borrowing and deposits from the public to merely B462.3 billion at end-1998.

As regards the debt restructuring of finance companies, 285 customers of finance companies successfully restructured their debts, amounting to B8.6 billion by end-1998. Another 1,165 customers were in the process of debt restructuring with a total amount of B96.5 billion.

In 1998, 36 operating finance companies experienced total loss of B68.7 billion, almost doubled that in 1997 on account of increase in provisioning.

With the incorporation of Radhanatun Finance Company in April, a total of 36 finance companies were in operation in 1998, comprising 17 finance companies and 19 finance & securities companies. By end-1998, 11 finance & securities companies formally separated their finance business from securities business.

2/ *Comprising 36 finance companies in operation and 56 suspended finance companies.*

Net Profit (Loss) of 36 Finance Companies
(unit : billions of baht)

	1997			1998		
	H1	H2	Total	H1	H2	Total
Profit (+)/ Loss (-)	1.3	-40.7	-39.4	-44.9	-23.8	-68.7

Credit Foncier Companies

In 1998, the authorities upgraded the prudential regulations of credit foncier companies to conform with best international practice. These included, in particular, regulations on the income recognition of accrued interest, loan classification, provision requirement for sub-standard loans, debt restructuring, and collateral appraisal. Credit foncier companies were allowed to undertake the securitisation business and guidelines were announced for asset transfer or sale of sub-standard assets to asset management companies. Furthermore, the authorities announced temporary reductions of the transfer and registration fees for the pledging of real estate from 2 percent to 0.01 percent, effective from 27 November 1998 to 31 December 1999.

In 1998, total assets of credit foncier companies amounted to B6.9 billion, down by 6.8 percent from the preceding year. Total credits and receivables decreased by 8.8 percent to B5.6 billion. Most of total credits were those for housing loans and pledging of real estate. Investment in securities, mostly government bonds, remained unchanged from the previous year at B0.4 billion. On the liability side, credit foncier companies' borrowing amounted to B4.5 billion, down by 23.6 percent from the year before. By end-1998, there were 12 credit foncier companies, unchanged from the previous year.

Specialised Financial Institutions

Specialised financial institutions comprised the Industrial Finance Corporation of Thailand (IFCT), the Small Industry Finance Corporation (SIFC), the Small Industry Credit Guarantee Corporation (SICGC), the Government Housing Bank (GHB), the Bank for Agriculture and Agricultural Cooperatives (BAAC), the Government Savings Bank (GSB), and the Export-Import Bank of Thailand (Eximbank).

Total assets of these institutions accounted for approximately 12 percent of total assets to the financial system. Despite their relatively small share, most of these institutions had been called upon to play a more significant role at the time when commercial banks and finance companies experienced difficulties in their operation, particularly in extending credits. Specifically, these institutions played a

Table 16
Specialised Financial Institutions
(unit : billions of baht)

	1996	1997	1998
Government Savings Bank			
deposits	208.8	246.8	334.6[P]
(growth rate)	(14.6)	(18.2)	(35.6)
loans	55.8	117.7	144.7[P]
(growth rate)	(42.3)	(109.2)	(22.9)
interest rate (%)			
– deposits (1-year time deposit)	9.0-10.5	9.0-11.50	6.0
– loans	12.5-15.5	12.5-17.5	9.75-15.25
number of branches	551	557	566
(additional branch(es))	(10)	(6)	(9)
Government Housing Bank			
deposits	101.8	155.9	206.9
(growth rate)	(40.8)	(53.1)	(32.7)
loans	198.5	278.7	296.2
(growth rate)	(39.8)	(40.4)	(6.3)
interest rate (%)			
– deposits (1-year time deposit)	9.75-11.50	10.0-11.50	6.25-6.5
– loans	10-14	10-16.50	9.5-15.0
number of branches	169	202	128
(additional branch(es))	(50)	(33)	(-74)
The Bank for Agriculture and Agricultural Cooperatives			
deposits	122.4	127.3	152.6
(growth rate)	(36.6)	(4.0)	(19.9)
loans	169.7	197.2	206.6
(growth rate)	(30.8)	(16.2)	(4.7)
interest rate (%)			
– deposits (1-year time deposit)	9.0-10.25	8.0-11.50	6.0
– loans	9-14.5	9-14.5	10.5-17.0
number of branches	629	666	658
(additional branch(es))	(134)	(37)	(-8)
Export Import Bank of Thailand			
deposits	–	–	–
(growth rate)	–	–	–
loans	32.5	57.5	39.5
(growth rate)	(21.7)	(79.9)	(-31.2)
interest rate (%)			
– deposits	–	–	–
– loans	11.5-15	11.5-17.0	11-13
number of branches	2	2	3
(additional branch(es))	(1)	(-)	(1)
Industrial Finance Corporation of Thailand			
deposits	–	–	–
(growth rate)	–	–	–
loans	103.2	155.6	131.6
(growth rate)	(32.1)	(50.8)	(-15.4)
interest rate (%)			
– deposits	–	–	–
– loans (MLR)	13.25	15.25	12.50
number of branches	23	23	23
(additional branch(es))	(8)	(-)	(-)

P = *Preliminary*

key role in providing support to small and medium industries through IFCT, Eximbank, SIFC, and GSB. They also provided support to the agricultural sector, which is one of the main sources of foreign exchange earning; and for rural development to alleviate social sector problems arising from the economic downturn.

In the past, although the law for each specialised financial institution granted the Minister of Finance authority to supervise and examine each institution, the Minister delegated the authority to the Fiscal Policy Office. Subsequently, with effect of the Ministry of Finance (MOF) Announcement No. 147/2541 on the general supervision of specialised financial institutions, this authority of examining specialised financial institutions was delegated to the Bank of Thailand (BOT), effective 1 October 1998. Since these institutions were established as instruments for the implementation of government policy in specialised areas, the MOF will, however, retain control over policy formulation of these institutions, with only the task of examination delegated to BOT.

Savings Institutions

Life Insurance Companies

During the first nine months of 1998, the financial position of life insurance companies was considered to be satisfactory with the capital fund amounting to B34,387.6 million (comprising the capital fund of B16,203.3 million for domestic insurance companies and B18,184.3 million for foreign branches), up by 25.5 percent from the same period of the previous year. Life policy reserves totalled B140,963.3 million, an increase of 11.8 percent. Total outstanding assets amounted to B187,046.6 million, up by 14.4 percent. On the liability side, total outstanding liabilities amounted to B152,659.1 million, an increase of 12.2 percent.

Given the sharp increase in loan losses of life insurance companies from B15.2 million in the previous year to B206.8 million, the Department of Insurance strengthened stringency and prudence in its examination of each life insurance company's financial position.

In the first nine months of 1998, net premium receipts for the first year totalled B6,064.1 million and net premium receipts for the following years amounted to B32,485 million, resulting in the total net premium receipts of B39,799.65 million or down by 4.4 percent. Net premium receipts for the first year of each insurance company declined on average by 20-30 percent, owing to the marked decline in purchasing power linked to economic recession. Net premium receipts for the first year for newly incorporated life insurance companies continued to be below B10 million per company.

Net income from investment amounted to B10,305.9 million, up by 24.9 percent. The investment category yielding the highest rate of return was government bonds, generating interest income of B1,668.8 million, an increase of 266.6 percent. The second highest was interest income from automobile leasing which totalled B134 million, an increase of 59.9 percent. Nevertheless, life insurance companies experienced losses from the sale of assets and asset reappraisal.

Government Savings Bank (GSB)

In 1998, GSB continued to develop and improve its operations from the preceding year. The number of its ATM machines was increased to enhance customer services, with ATM machines installed in 86 branches within Bangkok Metropolitan area by end-1998. GSB regulations were also revised, with amendments to the royal decree governing the Bank's operations. This was approved by the Cabinet and became effective on 13 July 1998, allowing GSB to undertake a wider range of businesses and become more commercialised with an aim to securing new sources of revenue and promote self-reliance in the longer term. In addition, financial services were improved including:

1. On 14 December 1998, GSB began the provision of financial services according to the Islamic principles at its branch in Satul.

2. A new deposit service – the "Help the Nation" deposit bonds was introduced to mobilise foreign exchange from Thai citizens both within and outside Thailand, and from foreigners to strengthen the country's international reserves. By end-December 1998, B149.4 million of bonds were sold to 459 depositors.

3. Improvement and development of financial services, such as debt payment through the Payment System, self-service transactions, electronic fund transfer, telephone bills payment, and other types of payments.

4. Ministry of Finance entrusted the Bank to set up two specialised funds aimed at alleviating problems over the long-term from the economic crisis by developing and strengthening communities, local organisations, and local governments. These two funds were:

4.1 Social Investment Fund (SIF) to provide financial support to small investment projects for building communal capacities and strength with funding from the World Bank. Local organisations can submit applications at GSB branches throughout the country.

4.2 Regional Urban Development Fund to provide loans to local municipalities for infrastructure and public utility projects which would generate income for local municipalities with funding from the World Bank.

At end-December 1998, deposits outstanding at GSB totalled B334.6 billion, up by 35.6 percent from the same period in the preceding year. Of this, special savings deposits rose by 31 percent, the 6-month time deposits by 24.2 percent, and life insurance deposits by 19.8 percent.

On the use of funds, GSB adjusted its credit extension plan to place more emphasis on lending to state enterprises and government agencies. This resulted in a 22.9 percent increase in credit outstanding to B144.7 billion. Of this, credits extended to the private sector and state enterprises rose by 10.8 percent and 79.5 percent, respectively. Given its emphasis on extending loans to the public sector and state enterprises, non-performing loans of GSB amounted to B4,187 million, equivalent to a mere 2.9 percent of total credits outstanding.

At end-1998, the number of branches increased by 9 from the previous year, all of which were permanent branches in the rural areas making it a total of 566 branches. Of these, 561 were permanent branches and 5 were mobile branches. Within the Bangkok Metropolitan Area, there were 84 permanent branches and 3 mobile branches. The remaining 477 permanent branches and 2 mobile branches were located in the rural areas.

Agricultural Credit Institution

The Bank for Agriculture and Agricultural Cooperatives (BAAC)

In 1998, BAAC offered a wider variety of credit services to accommodate increasing demand, and introduced new types of loans for rural farmers. These raised the outstanding credits extended as of end-December 1998 to B206.6 billion, up by 4.7 percent from the same period of the previous year. The shares of credits extended to farmers, agricultural cooperatives, and farmer groups were 91.4 percent, 0.1 percent, and 8.5 percent of the total, respectively. The major reason for the slowdown in credit growth was short-term loan default by rural farmers caused by the economic recession which impaired their ability to supplement income from non-agricultural sources. Consequently, BAAC could not extend new credit to these farmers for the new season of cultivation.

Besides its registered equity capital, the major funding sources came from deposits from the public and commercial banks, borrowing domestically and abroad, (including by issuing debentures) as well as funding from the Structural Adjustment Loans (SAL) of B3,000 million which were received on 28 August 1998.

Major foreign sources of funding comprised long-term concessional loans from international development institutions, including the Japanese government (through the OECF), the Asian Development Bank (ADB), and the Republic of Germany (KFW).

In 1998, BAAC also mobilised domestic funds by issuing 3 tranches of savings bonds (Taweesin) equivalent to B2,500 million per tranche. Price was set at B500 per unit, with a 3 year maturity and prizes drawn every 3 months. After the 3-year period, holders will be repaid the principal and interest of B530 per unit.

At present, BAAC expanded its role from providing purely agricultural credits to activities relating to agricultural production such as supplementary occupation, marketing, and the promotion of land ownership for cultivation of small impoverished farmers.

BAAC proposed amendments to the BAAC Act to facilitate its operations and increase credit types to cover a wider range of services. The draft amendment had been considered by the Council of State and submitted to Parliament for further readings.

In April 1998, BAAC restructured its organisation by closing 9 provincial branches from the total of 81 provincial branches. At the same time, an additional district branch was established, bringing the total number of branches to 658 at end-1998 (comprising 72 provincial branches, 495 district branches, and 91 sub-branches), together with 793 district offices.

Industrial Finance Institutions

Industrial Finance Corporation of Thailand (IFCT)

In 1998, IFCT continued to emphasise the provision of industrial credits deemed strategic for economic development, especially for export industries and small and medium enterprises.

A total of B131.6 billion was provided by IFCT to industries in 1998. Small and medium enterprises accounted for 85 percent of the total projects or 41 percent of the total loans. Loans to provincial projects accounted for 71 percent of total credits.

On the source of funds, IFCT mobilised funds from both domestic and overseas markets, comprising B18.1 billion in baht-denominated loans, US$755 million of foreign-currency funding, and the issuance of debentures and promissory notes totalling B4,430 million.

In addition, the Bank of Thailand approved concessional loans for small and medium enterprises amounting to B7.2 billion. At present, IFCT maintains 10 regional branches (in Chiang Mai, Lampang, Phitsanuloke, Khon Kaen, Nakhon Ratchasima, Ubon Ratchathani, Songkhla, Surat Thani, Trang, and Rayong) and 13 provincial offices.

Small Industry Finance Corporation (SIFC)

In 1998, SIFC approved 219 loan applications amounting to B2,030.3 million, up by 73 percent from the same period of the previous year. Of the total, 28.4 percent went to food and animal feeds; 7.4 percent to beverage; 6.1 percent to pharmaceuticals and chemicals; 5.5 percent to rubber and rubber products; 3.9 percent to fabric and garment; and the remaining to other industries.

Sixty-four percent of total number of projects and 62.5 percent of total loans went to the provinces.

SIFC underwent restructuring according to the Cabinet's approval to facilitate credit extension to small and medium enterprises. Regulations on loan extension were revised to include 7 categories of loans comprising: long term credit for investment in permanent assets; short-term credits; purchasing of commercial papers to increase customers' liquidity; issuing letters of guarantee to support export expansion, imports of machinery and opening letter of credits; avaling promissory notes; underwriting bills of exchange; and providing credits to support exports and imports. At the same time, SIFC restructured its internal operation, resulting in the shortening of credit approval process from 2 months and 6 steps to less than 1 month and 3 steps under the "One Man Service" system.

As regards the plan to increase efficiency and restructure debts, at end-September 1998, SIFC was in the process of restructuring a total of 188 cases, involving the debt of B139 million. It successfully restructured 72 cases with debt outstanding of B41 million, most of which concentrated in the construction material and food industries. Currently, non-performing loans of SIFC accounted for 40 percent of its total credits.

Funding of SIFC comprised its capital funds of B300 million, borrowing from GSB of B400 million, borrowing from the Government of B275 million, and loans from the ASEAN Japan Development Fund (AJDF) of B1,000 million. In addition, on 10 February 1998, SIFC received a disbursement from the structural adjustment loan (SAL) amounting to B750 million, to be on-lent to small industries. On 14 December 1998, SIFC made further loan disbursements by selling debentures of B1,000 million, guaranteed by the Ministry of Finance, to the Social Security Office.

In 1998, SIFC added 2 sub-branches, in Chiang Mai and Songkhla, in addition to its Khon Kaen sub-branch. It expected to open additional branches in Surat Thani, Phitsanuloke, and Nakhon Ratchasima in 1999 to increase its area coverage to 80 percent.

Small Industry Credit Guarantee Corporation (SICGC)

In 1998, SICGC extended 11 loan guarantees amounting to B33.3 million, down from the same period of the previous year by 92 percent in number and 88.4 percent in amount, respectively, in line with the contraction of the economy.

Of the projects receiving loan guarantees in 1998, 9 were projects in provincial areas, with a total value of B23 million. They accounted for 81.6 percent of the total number of the projects, and 69.1 percent of the total value. Most of the loan guarantees went to food and beverage industries.

Most credit guarantees were for loans extended by SIFC and 2 Thai commercial banks.

SICGC provided credit guarantees for small industries having net fixed assets not exceeding B50 million and a guaranteed credit line not exceeding B10 million. The guarantee fee was 2 percent of the loan value.

On the source of funds, SICGC received the initial registered capital fund amounting to B400 million, of which B350 million were from the Small Industry Credit Guarantee Fund and the rest in transfer from its profits.

Housing Credit Institution

Government Housing Bank (GHB)

In 1998, GHB extended credits to 88,237 retail customers for acquisition of residential accommodation, amounting to B48,178 million. At end-December 1998, outstanding credit rose by 6.3 percent from the same period last year to B296.2 billion, notwithstanding sluggishness in the property market. The increase could be explained by attractive lending rates offered by GHB, which on average was lower than other institutions, and a slowdown in new property loans by most commercial banks.

Non-performing loans at end-December 1998 stood at 21.7 percent using the 6-month income recognition standard, and 28 percent using the 3-month income recognition standard. Policy emphasis of GHB was on debt restructuring, whereby customers would agree to the eased repayment loan conditions in accordance with their ability and in case of inability to meet repayment obligations, their assets would be transferred to GHB. At end-1998, a total of 66,781 customers used this service, equivalent to 10.1 percent of the total number of customers.

On the source of funds, GHB concentrated its operation on deposit mobilisation from the public. At end-December 1998, total outstanding deposits amounted to B206.9 billion, up by 32.7 percent from the same period of the preceding year. Most of this increase were transfers from commercial banks and finance companies during the weakening of confidence in the financial system. On bond issuance, GHB issued bonds amounting to B106.1 billion in the domestic market, and issued bonds and floating rate notes (FRN) in the overseas market of B22.1 billion by end-December 1998.

During 1998, GHB opened 2 new branches and closed 76 sub-branches. These brought the total number of main branches to 128, down from 202 at end-1997. Of this, 23 are in the Bangkok Metropolitan Area and 40 branches and 65 sub-branches in provinces areas.

Export Promotion Institution

Export-Import Bank of Thailand (Eximbank)

The Export-Import Bank of Thailand has been instrumental in resolving liquidity problems of the Thai financial system when the mechanism for commercial bank loan extension was not able to function properly. Additional services provided by Eximbank to exporters included the following credits and guarantee services:

(1) Direct packing credit, with funding of B5,000 million from the Bank of Thailand and borrowing of B3,000 million from GSB.

(2) Direct pre-shipment financing facilities were also made available in yen, in addition to in baht and US dollar, due to funding from the Japan Export and Import Bank (JEXIM).

(3) Credits to increase export liquidity, with funding from Asian Development Bank and foreign financial institutions, were provided directly (already included in the short-term pre-shipment financing facilities) and via commercial banks.

(4) Export insurance as provided via commercial banks whereby Eximbank would provide insurance to commercial banks for their purchase of D/A or D/P and will compensate them in an event of foreign buyers' refusal of payment. The commercial papers guaranteed by Eximbank will have a reduced risk weight of 0.2 instead of 1 to help lessen commercial banks' burden in making the provision and to increase liquidity to exporters.

(5) The range of services were widened to include borrowing for hotel renovation under conditions set by Eximbank and the Association of Hotels.

In 1998, credits extended by Eximbank to exporters increased markedly from the previous year in line with the relatively large number of approved loans

Outstanding Export Credit by the Export–Import Bank
(unit : millions of baht)

	1997	1998	Δ%
Packing credit		5,759.0	
Short-term pre-shipment credit	21,232.90	31,232.6	47.1
Credit for the expansion of production capacity	2,204.10	3,542.5	60.7
Maritime business	2,419.40	3,889.8	60.8
Transnational projects	6,935.90	11,281.0	62.7
Export guarantee	4,731.60	6,273.7	32.6
Restructured debts		485.4	
Total	**37,523.9**	**62,464.0**	**66.5**

amounting to 590 cases. In addition, in 1998, Eximbank collaborated with 16 financial institutions in resolving the liquidity problems of sugar producers by restructuring their debts and providing additional working capital.

At end-1998, packing credits outstanding amounted to merely B7,653 million, down 65.1 percent from the preceding year. Meanwhile, special packing credit denominated in US dollar, extended through commercial banks, was used rarely in the third quarter. At end-September 1998, its outstanding stood at B3,598.9 million, a reduction of B5,526.8 million from B9,125.7 million at end-1997. Consequently, Eximbank repaid the loans on 19 October 1998.

To meet the conditions required for borrowing from the ADB and foreign financial institutions (US$1,000 million), and export insurance from the Export and Import Bank of United States of America, Eximbank increased its registered capital by B4,000 million.

In 1998, Eximbank maintained 3 branches, one in Hat Yai district, one on Rama IV Road, and the other in Pratunam Pra-in of Ayudhaya province. An additional office is located at the Department of Export Promotion attached to the Ministry of Commerce in Bangkok.

Special Organisations Established to Resolve Financial Institution Problems

Special organisations established to resolve financial institution problems were Secondary Mortgage Corporation (SMC) in June 1997, and Financial Sector Restructuring Authority (FRA), and Asset Management Corporation (AMC) in October 1997. With the exception of FRA, other organisations were in the preparatory stage of operation with no significant activity in 1998.

Financial Sector Restructuring Authority

Following the review of the rehabilitation plans of the 58 financial institutions, FRA ordered permanent closures of 56 financial institutions on 8 December 1997. It has since followed the plan to dispose assets of the closed financial institutions. The sale of assets through auctioning were divided into 2 groups: core assets such as securities and loans which accounted for about 90 percent of total assets, and non-core assets such as cars, office equipment, and foreclosed collateral which accounted for 10 percent of total assets.

The FRA started its first auction of non-core assets on 21 February 1998, and has since progressively auctioned off remaining assets. In May, the second Financial Sector Restructuring Act was promulgated to remove obstacles and facilitate timely asset auctions. Specifically, the announcement of asset auction will be considered equivalent to a formal notice to debtors of the assets transfer. The right of the purchaser on the asset will be preserved, even if it is later proven that the

Result of Asset Auctions at end-December 1998

(unit : millions of baht)

	Outstanding principal balance	Auction value	Percentage of outstanding balance	The first auction date
Core assets				
– Hire purchase loans*	51,867	24,859	47.9	25 Jun. 98
– Residential mortage loans*	24,600	11,520	47.0	13 Aug. 98
– Business loans	155,707	39,004	25.0	15 Dec. 98
Total	232,174	75,383	32.5	
Non-core assets				
– Car	1,887	1,322	70.0	20 Feb. 98
– Office furniture and equipment	n.a.	215	n.a.	
– Art objects	n.a.	59.3	n.a.	12 Jun. 98
– Mobile phone	n.a.	4.5	n.a.	9 Aug. 98
– Golf and club membership	n.a.	22.3	n.a.	8 Aug. 98
– Property (Real estate)	2,588	1,507	58.2	8 Nov. 98
Capital investment				
– Government securities	15,692	17,257	110.0	22 Apr. 98
– SET-listed securities	2,862	1,946	68.0	15 May 98
– Non-listed securities	1,789	1,554	86.9	15 Jun. 98
– Asset management Co.	2,218	1,780	80.3	17 Jul. 98
– Corporate debentures	7,404	4,438	59.9	4 Sept. 98
Total		30,105		
Grand Total		**105,488**		

* *Auctions were already completed.*

asset did not belong to the 56 financial institutions, and the purchaser of the asset has the right to claim on the interest rates specified in the original contract. This Act helped eliminate restrictions in the auctions of core assets.

In addition, FRA announced the following measures to help borrowers whose assets and collateral were held by 56 financial institutions under the supervision of the FRA:

– Fast lane project to help borrowers with own rehabilitation plans to volunteer for auction. FRA will consider proposals within 25 days, after which it will open an auction for each company under the normal auction process with a reduction in certain fees.

– To support the real estate sector, FRA allowed the release of mortgage to help customers, and the sale proceeds from the transfer of title deeds were allowed to be deducted proportionally from principal and interest to release mortgages. The committee to resolve problems in the real estate business, with the Minister of Finance as Chairman, entrusted GHB and GSB to buy projects from FRA within the limit of B6,000 million and B2,000 million, respectively. The National

Housing Authority will have the authority to approve project according to the proportion of construction so completed. As of end-December, FRA released a total of 24,009 units of mortgages, amounting to about B10,000 million.

– Borrowers were allowed to close accounts and receive relaxed terms on interest obligations. As of end-December, a total of 706 accounts were closed, amounting to B1,812 million.

Secondary Mortgage Corporation (SMC)

In 1998, SMC made preparation for the securitisation process with the Federal National Mortgage (Fannie Mae) of the United States of America — an organisation experienced in such field — as its advisor.

SMC contacted GHB to buy a total of B400 million of mortgages loans, but due to certain legal constraints, GHB Act had to be amended. Moreover, given its capital base of B1,000 million which limited the amount of housing loans which it can buy, SMC planned to issue bonds without guarantee by the Ministry of Finance[3/] (it can issue up to 40 times its capital base or B40,000 million) in exchange for mortgages loans from several financial institutions. In addition to the full payment for the housing loans, SMC also had an alternative means of risk sharing in case of debtor nonpayment where the financial institutions selling the loans to the SMC will have the responsibility to collect the loan servicing on behalf of the SMC. In this risk sharing scheme, SMC will partially pay for mortgages loans in cash or bonds and partially in deferred notes whose returns depend on the debtors' loan repayment record.

SMC set the criteria concerning the purchasing of mortgage loans that they should be high-quality loans with non-payments not exceeding 2 months in a one year duration, and that the debt burden per income of the borrower must not exceed 50 percent and has paid in instalments for at least 2 years.

In terms of the management of the purchased mortgages, SMC has made preparation for computer systems to analyse and store information of debtors, and to determine the returns on the bonds to be sold to investors, consistent with costs and income from debtors. SMC planned to sell bonds to both domestic and foreign investors.

At present, there remained several obstacles to the securitisation process.

– Accounting practice: under the risk sharing scheme, financial institutions will still have to bear the risk of the sold loans. It is unclear, in terms of accounting practice, whether this can be considered a true sale where the seller can remove the loans from the balance sheet. This issue is now under consideration.

3/ *BOT announced that such bonds are eligible for liquidity reserves purposes.*

– Supervision standards: In the securitisation process, SMC has to establish a special purpose vehicle (SPV) to undertake this specific transaction to separate the loans used to back the securities from the inherent risks of SMC and financial institutions from whom SMC purchased the loans. If SMC has to consolidate the accounts and risks of SPVs with its own account, this will limit the ability of SMC to issue asset-backed securities since it is obliged to maintain the capital adequacy ratio, which probably have to conform with the BIS standard of 8.5 percent.

Asset Management Company (AMC)

AMC made preparations for the purchase of assets from FRA as the buyer of last resort. The enactment of the Asset Management Corporation Act (No.2) allowed AMC the ability to increase its capital without making operating losses as previously specified in the previous AMC Act. The government will recapitalise AMC for B14,000 million from the existing B1,000 million. Given its ability to borrow with guarantee from the Ministry of Finance up to 12 times its capital, AMC will have more leverage in the auction. AMC is currently deciding on the maturity and the terms of its bonds.

On the management of the purchased loans, AMC will examine the information and conduct asset appraisals and inform debtors of the conditions for debt restructuring. Specifically, AMC will seek ways to give assistance, such as extending credit, finding new partners, supporting management and marketing. However, should debtors not cooperate, this might lead to a court process for further legal actions.

Thus far, AMC has not yet purchased any assets.

Capital Market

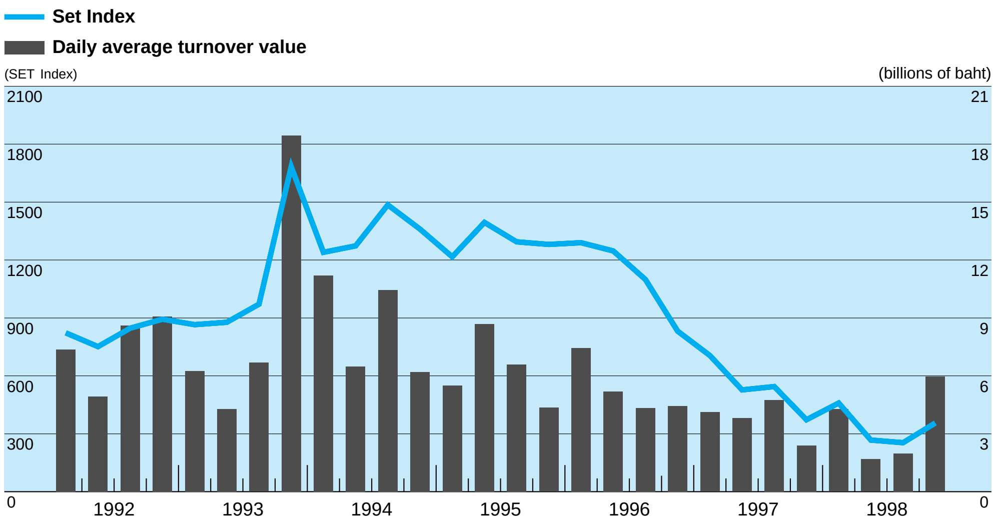
1. Primary Market

The value of new securities issued in the domestic market in 1998 totalled B928.7 billion, an increase of 130.6 percent from the previous year. The value of government and private securities issued increased by 109.7 percent and 161.2 percent, respectively.

The significant increase in new issues of government securities was the result of the issuance of government bonds to finance losses and restructure liabilities of the Financial Institutions Development Fund (FIDF), amounting to B400 billion. In contrast, the value of state enterprise bonds declined by 5.3 percent.

New issues of private securities increased, mostly new common stocks, nearly half of which were issued by financial institutions for recapitalisation to meet the new asset classification and tighter provisioning requirements. The remaining

SECURITIES TRADING IN SET



was the result of debt-to-equity conversion of the intervened banks by FIDF in line with the 14 August package. The issuance of common stocks and debentures increased by more than five folds and 76.3 percent, respectively. Issuance of warrants to board members and employees amounted to merely B1 million in 1998. In addition, funds raised in the form of unit trusts were valued at B64.6 billion.

New Issuance of Securities
(unit : billions of baht)

	1997	1998	Δ%
Domestic Issues	**402.7**	**928.7**	**130.6**
Public Securities	**239.3**	**501.7**	**109.7**
Government bonds	–	400.0	–
State enterprises bond	50.3	46.7	-5.3
Monetary Authority bond	146.0	–	–
Specialised Organisation bonds	43.0	55.0	-70.9
Private Securities	**163.4**	**427.0**	**161.2**
Stocks	63.3	330.0	421.3
Debentures	18.4	32.4	76.3
Warrants	0.0	0.0	–
Unit trust	81.7	64.6	-21.0
Overseas Issues	**56.0**	**11.4**	**-79.6**
Public Securities	**23.8**	**11.4**	**-52.0**
Private Securities	**32.2**	**–**	**-100.0**

Development of the Secondary Bond Market in Thailand

The development of the secondary bond market in Thailand has been progressively and thoughtfully implemented since the setting up of the Office of the Securities and Exchange Commission (SEC) under the Securities and Exchange Act B.E. 2535. By being directly responsible for the supervision of the capital market, the SEC oversees the approval of new securities which are issued to raise funding by the private sector, both in the form of debt instruments and capital market instruments. Additionally, the Bank of Thailand (BOT) has a policy of supporting the development of the capital market to become a major source of funding in Thailand. Major measures implemented by the Bank of Thailand included:

1) Supported the setting up of the Thai Bond Dealing Centre (BDC) in 1994 to standardise the trading of debt securities, provide information disclosure, and support the development of the bond market, both for government and private sector debt securities. The BDC developed its computer system to facilitate the process of negotiation in the trading of bonds. At present, the BDC has 51 members, comprising 10 Thai commercial banks, 7 foreign commercial banks, 20 securities companies, 1 finance company, and 13 finance and securities companies. As of end-December 1998, there were 288 registered securities with a value of B763.7 billion and an average weekly turnover of B2.6 billion.

2) Supported the establishment of the Thai Rating and Information Services (TRIS) to evaluate the capacity and ability of private company issuers to service debt. Credit rating is considered a very important infrastructure for the development of the private bond market because it facilitates the decision making process of retail investors who do not have the resources or time to consistently monitor developments of the issuing company throughout the maturity span of the bond.

3) Modified the tax collection system based on neutrality, transparency, and equality for the same type of investors, namely juristic entities, individuals, and investors, as under Thailand's taxation framework, there are different tax rates for juristic entities and individual persons. Nevertheless, there remained problems associated with the tax collection mechanism which need to be addressed in due course.

4) Collaborated with market participants as regards the obstacles or problems of bond trading in the secondary market and took the initiative to resolve certain points, for example, the modification of the regulations relating to the transfer of ownership or the pledge of bonds for which the BOT is the registrar, which

Bonds Registered at the BDC

(unit : millions of baht)	1994	1995	1996	1997	1998
Value of registered bonds as of end-December	45,380.0	97,727.6	148,688.9	169,091.3	763,744.9
(Number of registered bonds)	(33)	(87)	(122)	(131)	(288)
Turnover (per annum)	1,857	51,530	200,607	106,180	72,097
Turnover ratio	0.04	0.52	1.35	0.62	0.09

enabled the transfer of ownership or pledging of bonds to be transacted up until 15 days before redemption. This was changed from the previous requirement that registration be closed for 1 month prior to coupon payment dates.

Procedures for Long-term Development of Secondary Bond Market

Despite the notable progress achieved thus far, the development of the secondary bond market in Thailand requires further impetus to attain maximum efficiency and to be on par with international standard, thus attracting both domestic and foreign investors, as well as provide the authorities with instruments for the implementation of monetary policy based on market mechanisms. Measures to be implemented in the future include the following:

1. Develop the primary market of government bonds by making issuance procedures transparent, clear, and consistent through close cooperation with the Comptroller General's Department of the Ministry of Finance. Issuance of government bonds must be regularly carried out across a variety of maturities which will provide interest rate benchmarks in the secondary market and further support trading in the secondary market.

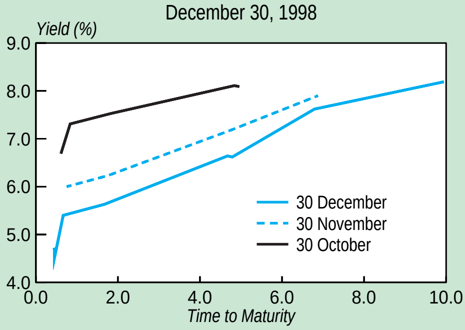
2. Develop the market maker mechanism. A market maker is a financial institution whose role is to ensure that bid and offer prices are constantly available for a given debt security. Therefore, any customers wishing to invest or sell debt securities at any point in time will be able to do so through a market maker, thus lowering the costs of searching for information and making transactions. A market maker must be supported by a system of securities borrowing in order to ensure delivery to customers. As market makers may not necessarily have given securities in their portfolio, they must be able to borrow securities to deliver to customers in order to maintain continuity in trading and create liquidity for buying securities from customers. Moreover, it may be necessary to establish an intermediary mechanism between the market makers called Interdealer Brokers, whose roles are to quote bid and offer prices without revealing the name of the market maker as it may affect their operational efficiency.

3. Develop information disclosure system of government bonds which is easy to retrieve and facilitate the decision-making process of investors. Such information must include, for example, every issues of government bonds, the year in which they were issued, the redemption date, and coupon rate.

4. Develop a scripless trading system and clearing and settlement systems to be practical, fast, safe, and efficient. Counterparty risk in payment and delivery is reduced by ensuring that bond sellers receive the payment and investors get delivered the bonds at the same time the payment is effected. At present, the BOT is only the registrar for government bonds.

5. Coordinate the taxation of bond trading between different classes of investors with different tax treatments in order to prevent distortions to the cost of transactions in the secondary market. Also consider procedures in support of increased turnover.

Thai BDC Reference Yield
Government Bond
December 30, 1998



The amount of securities issued abroad amounted to US$300 million (B11.4 billion), comprising entirely of one issue in November 1998 for which the principal repayment was guaranteed by the World Bank and interest payments by the Thai Government. With the World Bank's AAA credit rating, the rating of the issue was enhanced to A3 by Moody's and A- by Standard and Poor's. As a result, it was traded at a price of about 285 basis points above the corresponding US Treasury benchmark.

2. Secondary Market

2.1 Stock Exchange of Thailand (SET)

During 1998, trading activities in SET remained sluggish. Total market capitalisation was B1,268.2 billion, up by 11.9 percent from the previous year. The SET index slid and reached its lowest level in 11 years at 207.3 points on 4 September 1998. It rebounded subsequently and closed at 355.81 points at end-1998, down by 4.5 percent from the previous year. The average daily turnover slowed continuously to B3,504.8 million in 1998, a decline of 6.9 percent from the preceding year. Investment by foreign investors amounted to 34.6 percent of total trading activities. The sluggishness of SET reflected economic contraction and lack of confidence in financial institutions undergoing restructuring, both in terms of recapitalisation and merger efforts. Nonetheless, the SET index rebounded during the last 3 months of the year, due in part to lower domestic interest rates, a more stable baht, and clarity of the 14 August measures in resolving financial institutions problems, as well as the anticipation of many analysts that the Thai economy had an opportunity to recover ahead of other countries in the Asian region.

Owing to sluggish trading, there was only one new listed securities in 1998, a common stock with a total value of B269.1 million. Meanwhile, 41 securities were delisted. At end-1998, there were 494 listed securities, comprising 418 common stocks, 7 preferred stocks, 39 mutual funds, 1 debenture, 1 convertible debenture, and 28 warrants.

The SET modified the criteria for delisting securities from using multiple requirements — such as net tangible assets falling below B60 million and net losses incurred during 2 of the previous 3 years, or net tangible assets falling below 50 percent of total assets — to a single criterion that shareholders' equity must not be negative. As a result, 16 companies were delisted in 1998 and another 33 pending while undergoing rehabilitation.

2.2 Bangkok Stock Dealing Centre (BSDC)

Trading activities in BSDC were affected by depressed economic conditions and turnover for the year amounted to merely B37,530, down from the preceding year turnover which was as high as B121.5 million.

Thin trading in BSDC was due to: (1) the economic downturn; and (2) BSDC listed securities were not exempted from capital gains tax as those listed in SET.

At present, there are 5 listed securities — Sin Sub Nakhon Co., Ltd. (SSN); Total Access Co., Ltd. (TAC); Siam Commercial Bank Wall Street Fund (SCBWS); Siam Commercial Bank Government Bond Fund (SCBGB); and Om-Sin Poonpol Fixed Income Fund (OSPP).

2.3 Secondary Markets for Debt Instruments

In 1998, trading volume of the Bond Dealing Centre (BDC) totalled B72,143 million, a sharp drop of 97.7 percent from the preceding year. Trading recovered in the second half of the year due to lower interest rates and issuance of government bonds to finance losses and restructure liabilities of FIDF. Of the approved B500 billion bonds issued for FIDF, B400 billion were issued as of 8 December 1998, raising the BDC's average daily trading volume from about B100 million for the first half of the year to B500 million for the second half of the year.

Table 17
Capital Market Development
(Secondary Market)

	1997	1998
I. Stock Exchange of Thailand (SET)		
Corporate securities		
Listed securities (at year end)		
– Number of companies [1/]	431	418
– Number of securities	529	494
– Total market capitalisation (million baht)	1,133,343.88	1,268,198.50
– Average daily turnover (million baht)	3,763.57	3,504.79
Securities' price index (at year end)		
– SET index	372.69	355.81
(30 April 1975 = 100)		
– SET 50 Index	25.98	25.68
(16 April 1995 = 100)		
Market dividend yield [2/] (%)	6.04	1.34
Market P/E ratio [3/]	6.59	10.04
Ratio of foreigner to total transaction value (%)	43.33	34.62
II. The Bangkok Stock Dealing Centre (BSDC)		
– Number of securities	3	5
– BSDC index (at year end)	117.67	25.29
(14 November 1995 = 100)		
– Total market capitalisation (million baht)	71,595.19	15,369.24
– Average daily turnover (million baht)	0.49	154 (Baht)
III. The Thai Bond Dealing Centre (Thai BDC)		
– Number of securities	131	288
– Total market capitalisation (million baht)	169,091.34	763,744.90
– Turnover value (million baht)	103,543.30	72,143.03
– Average daily turnover (million baht)	420.91	295.7

1/ *Excluding mutual funds.*

2/ *Market Dividend Yield* $= \dfrac{\text{Latest 12 months' dividend payment}}{\text{Market capitalisation}} \times 100$

3/ *Market P/E ratio* $= \dfrac{\text{Market capitalisation}}{\text{Latest 12 months' net earnings}}$

Fiscal Developments

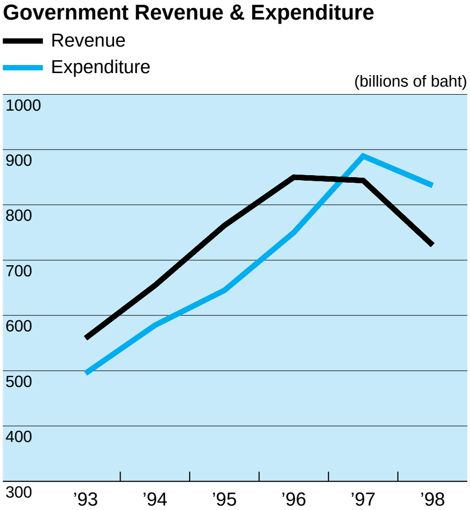
In fiscal year (FY) 1998, the fiscal policy stance can be characterised by two distinct phases. In the first phase, emphasis was placed on economic stabilisation and building confidence in the economic system. In this connection, expenditures were curtailed and revenue increased to ensure a cash surplus of B70 billion (excluding expenditure for financial sector restructuring), a performance criterion under the second LOI to the IMF (November 1997). As increasing evidence confirmed that the economy was experiencing a more severe contraction, the Government responded by increasing expenditure and permitting expenditure from the treasury reserves (details are described in the expenditure section), as well as expediting disbursement to stimulate the economy. Thus, the performance criterion on government cash balance was adjusted from a surplus to successively higher deficits in the third to fifth LOI.

Fiscal Position on the Treasury Account

In FY1998, the Government recorded a cash deficit of B115 billion (excluding expenditure for financial sector restructuring), equivalent to 2.4 percent of GDP, compared with a deficit of 0.6 percent of GDP in the previous fiscal year.

PUBLIC FINANCE

Government Revenue & Expenditure



Financing

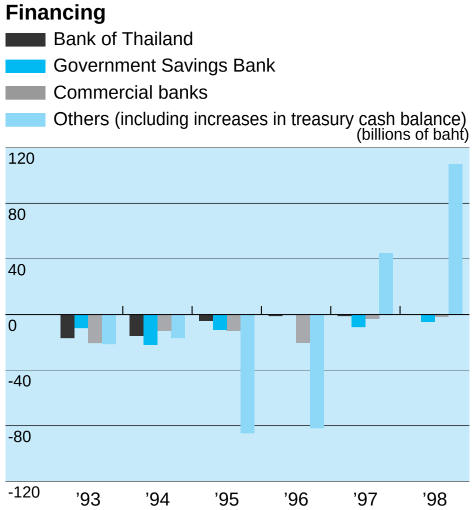


Table 18
Treasury Account Fiscal Position
(billions of baht)

	Fiscal Year		
	1996	**1997**	**1998**
Revenue and expenditure			
Revenue	850.2	844.2	727.4
(percentage change)	(11.8)	(-0.7)	(-13.8)
Expenditure	750.2	888.5	835.3
(percentage change)	(16.6)	(18.4)	(-6.0)
Budgetary cash balance	100.0	-44.2	-107.9
Non-budgetary cash balance	4.3	13.1	-7.1
Cash balance	104.3	-31.1	-115.0
(percent of GDP)	(2.3)	(-0.6)	(-2.4)
Financing			
Domestic sources	-19.2	-18.3	-12.9
Foreign sources	-3.7	-3.2	-4.3
Governtment Pension Fund	0.0	-56.0	-0.2
Use of treasury cash balance (+)	-81.4	108.6	132.4
Total financing	-104.3	31.1	115.0
Treasury cash balance (end-year)	380.0	271.4	139.0

Notwithstanding large cash deficit, the Government did not borrow to finance the deficit. Instead, it chose to draw down treasury reserves, resulting in its decline from B271.4 billion at end-FY1997 to B139.0 billion at end-FY1998.

Revenue

In FY1998, government revenue totalled B727.4 billion, down by 13.8 percent from the preceding fiscal year and by B254.6 billion or 25 percent from the budget estimate.

Revenue from corporate income tax decreased the most by 43.1 percent on account of 1) firms experiencing losses owing to the economic downturn, increased provisioning for non-performing loans by financial institutions; and currency depreciation; and 2) the Government allowed companies to postpone corporate income tax payments for the first half of 1998, from August 1998 to February 1999, to help increase liquidity for businesses. Withholding taxes, particularly on immovable properties also dropped considerably.

Specific sales tax fell in line with excise tax which dropped by 14.1 percent owing to decreased domestic demand. In contrast, royalties rose by 44.9 percent because of an increase in petroleum royalties derived from oil production. Since

Table 19
Government Revenues
(billions of baht)

Sources of Revenues	Fiscal Year			Δ%		
	1996	1997	1998	1996	1997	1998
Taxation	**779.2**	**763.5**	**656.8**	**11.6**	**-2.0**	**-14.0**
Income taxes	277.7	276.2	214.9	14.8	-0.5	-22.2
– Personal income	105.3	111.6	118.9	26.8	5.9	6.6
– Corporate income	169.0	159.4	90.8	8.6	-5.6	-43.1
– Petroleum	3.4	5.3	5.3	7.3	55.2	-0.1
General sales taxes	186.1	176.6	199.6	26.5	-5.1	13.0
– Value added tax	148.4	139.0	162.7	29.6	-6.3	17.0
Specific sales taxes	169.3	183.4	160.9	8.7	8.3	-12.3
– Excise tax	164.6	177.5	152.4	8.6	7.9	-14.1
– Royalty	4.8	5.9	8.5	12.1	23.1	44.9
Custom duties	126.1	103.3	65.7	-0.3	-18.0	-36.4
– Import duties	126.1	103.3	65.7	-0.3	-18.0	-36.4
– Export duties	0.0	0.0	0.0	-25.0	50.0	140.8
Licenses and fees	2.5	2.7	1.3	9.7	10.8	-53.2
Other taxes	17.5	21.2	14.4	-28.6	21.0	-32.2
Sales of goods and services	**8.3**	**8.6**	**9.8**	**4.5**	**3.0**	**14.0**
Contributions from state enterprises	**44.9**	**55.0**	**38.5**	**21.3**	**22.4**	**-30.0**
Others	**17.8**	**17.2**	**22.3**	**-0.1**	**-3.5**	**30.3**
Total	**850.2**	**844.2**	**727.4**	**11.8**	**-0.7**	**-13.8**

Source : *Comptroller-General's Department, Ministry of Finance*

the share of royalties in the specific sales tax was low compared with that of the excise tax, total specific sales tax dropped by 12.3 percent.

Import duties declined by 36.4 percent in response to severe contraction in imports and increased proportion of undutiable items to total imports, especially for raw materials and capital goods.

Taxes yielding higher proceeds were: (i) general sales tax, rising by 13 percent in line with a 17 percent increase in the VAT owing to increased VAT rate from 7 percent to 10 percent, effective on 16 August 1997; (ii) personal income tax, expanding by 6.6 percent due to increased revenue from interest income tax derived from deposits which rose in line with interest rates, and from increased severance payments to lay-offs.

Profit remittance by state enterprises fell by 30 percent because the Government allowed the postponement of remittance amounting to B28 billion to FY1999.

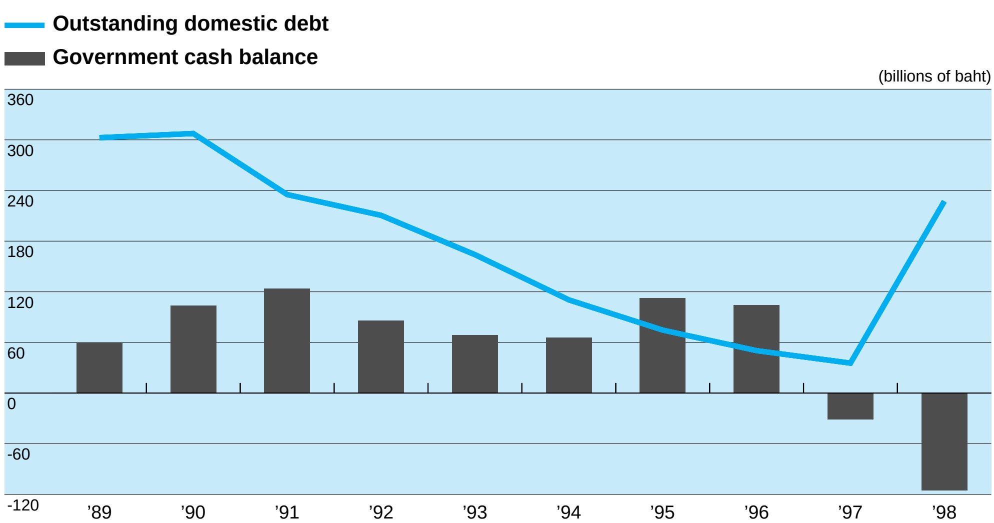
Expenditure

The Government revised the FY1998 budget several times in response to changing economic conditions. The initial budget was set at B923 billion but, to maintain economic stability and strengthen public confidence in the economy when revenue shortfall was imminent, the Government used its executive power to cut the budget to B800 billion. Fiscal policy was later eased to stimulate the economy and the Cabinet reinstated B30 billion from the previous budget cut. This resulted in the final budget of FY1998 amounting to B830 billion. Moreover, the Cabinet authorised an additional expenditure of B13 billion from the treasury reserves and implemented measures to accelerate disbursement.

The Bureau of the Budget approved allotments equivalent to 99.2 percent of the total budget (B830 billion), amounting to B823.6 billion. Of this amount, B272.3 billion were for capital expenditure and B551.3 billion for current expenditure, equivalent to 98.7 and 99.5 percent of the budget for current and capital expenditure, respectively. However, the Bureau delayed allotment approval during the first half of FY1998, a contrast to previous practice of approving almost an entire budget amount from the start of the fiscal year.

In FY1998, cash expenditure (excluding amortisation) amounted to B835.3 billion, down by 6 percent from the preceding fiscal year. Of the total, current year expenditure amounted to B666.4 billion, down by 8 percent, representing a dis-

CASH BALANCE AND DOMESTIC DEBT



bursement rate of 82.3 percent which was the highest in the past 9 years. In addition, the Cabinet authorised additional expenditure outside the budget of B8 billion by disbursing from the treasury reserves in accordance with the Treasury Reserves Act. Carry-over expenditure from previous fiscal years amounted to B160.9 billion, down by 1.9 percent.

The allocation of the budget classified by functions was similar to that of the previous year. Education remained a top priority, followed by transport and communications, defence, health and agriculture, respectively. It was noted that the budget allocated to public welfare expanded the most in line with the government policy to relieve social problems.

As for expenditure by economic classification, the ratio of **capital expenditure** to total expenditure fell substantially from 41.0 percent in FY1997 to 35 percent this fiscal year, mainly on account of reduced government direct investment of 22.0 percent to B252.6 billion. This reflected a 34.9 percent decrease in current year capital expenditure, due to the strict budget disbursement of capital expenditure during the first half of FY1998. Most of the investments were in transport and

Table 20
Government Budgetary Expenditure by Economic Classification
(billions of baht)

Economic Classification	Fiscal Year			Δ%		
	1996	1997	1998	1996	1997	1998
Current expenditure	**472.4**	**523.9**	**542.8**	**11.1**	**10.9**	**3.6**
Purchases of goods and services (including salaries)	408.0	439.9	448.6	11.9	7.8	2.0
Transfer payments	64.4	84.0	94.2	6.4	30.4	12.1
– Interest payments	10.2	15.4	8.7	-23.8	51.0	-43.5
– To domestic private sector	29.2	28.5	35.4	13.2	-2.4	24.2
– To local governments	6.1	6.3	6.8	18.0	3.3	7.9
– Overseas	0.7	0.8	0.8	13.8	14.3	0.0
– To state enterprises	18.2	33.0	42.5	14.7	81.3	28.8
Capital expenditure	**277.8**	**364.6**	**292.5**	**27.3**	**31.2**	**-19.8**
Government capital formation	232.1	324.0	252.6	19.6	39.6	-22.0
Transfer payments	40.5	35.5	39.4	88.2	-12.3	11.0
– To local governments	19.6	23.6	24.4	261.9	20.4	3.4
– To state enterprises	20.9	11.9	15.0	30.0	-43.1	26.1
Purchases of shares and financial assets	5.2	5.1	0.5	91.3	-1.9	-90.2
Total	**750.2**	**888.5**	**835.3**	**16.6**	**18.4**	**-6.0**

Source : *Comptroller-General's Department, Ministry of Finance* communications, down by 20.1 percent; particularly road construction, totalling B97.6 billion followed by investments in education (B39 billion); agriculture (B29 billion); and health (B20.6 billion). This fiscal year, capital transfer rose by 11.0 percent, reflecting an increase in budgeted transfers to state enterprises, especially the State Railway of Thailand (SRT) and the Expressway and Rapid Transit Authority of Thailand (ETA), mainly investments in community and housing, and transportation and communications.

Current expenditure totalled B542.8 billion, up by 3.6 percent. Wages and salaries rose by 7.7 percent whereas purchases of goods and services dropped by 5.2 percent, owing to the budget cut in the first half of the fiscal year. Current transfer amounted to B94.2 billion, up by 12.1 percent. Although interest payment decreased by 43.5 percent, current transfer to state enterprises and others increased by 28.8 percent to compensate losses of the Bangkok Mass Transit Author-

Table 21
Actual Government Expenditure by Function
(billions of baht)

	Fiscal Year			Δ%		
	1996	**1997**	**1998**	**1996**	**1997**	**1998**
General public services	**184.7**	**199.1**	**179.5**	**12.1**	**7.8**	**-9.8**
– General public services	42.7	44.1	39.4	34.8	3.3	-10.7
– National defence	95.6	104.4	88.3	2.3	9.2	-15.4
– Public order & safety	46.4	50.6	51.8	17.0	9.1	2.4
Community and Social Services	**296.7**	**371.3**	**369.4**	**15.2**	**25.1**	**-0.5**
– Education	161.4	202.5	212.2	12.1	25.5	4.8
– Public health	55.1	68.8	68.3	14.0	24.9	-0.7
– Social welfare	30.5	35.2	38.6	14.6	15.4	9.7
– Community housing	42.0	52.1	36.8	35.6	24.0	-29.4
– Religion, culture and recreation	7.7	12.7	13.5	0.7	64.9	6.3
Economic Services	**223.5**	**260.3**	**226.5**	**23.7**	**16.5**	**-13.0**
– Fuel & energy	1.4	1.8	2.1	-10.0	28.6	16.7
– Agriculture	79.2	77.5	61.1	7.5	-2.1	-21.2
– Mining, mineral resources, manufacturing & construction	3.7	4.4	4.3	11.5	18.9	-2.3
– Transport & communication	104.9	136.8	126.3	31.4	30.4	-7.7
– Other economic affairs & services	34.3	39.8	32.7	53.8	16.0	-17.8
Others	**45.3**	**57.8**	**59.9**	**12.6**	**27.6**	**3.6**
– Others services	45.3	57.8	59.9	12.6	27.6	3.6
– Interest payments	10.1	15.4	8.7	-27.9	52.5	-43.5
– Others	35.2	42.4	51.2	22.2	20.5	20.8
Total	**750.2**	**888.5**	**835.3**	**16.6**	**18.4**	**-6.0**

Table 22
Principal Repayment in Fiscal Year 1998
(billions of baht)

Holders	Types of government instruments		
	Bonds	Promissory notes	Total
Bank of Thailand	–	–	–
Commercial Banks	1.6	–	1.6
Government Savings Bank	–	5.0	5.0
Others	1.8	–	1.8
Total	**3.4**	**5.0**	**8.4**

ity and SRT, amounting to B3.2 billion and B1.6 billion, respectively; as well as interest payments for ETA, and an increase in the Social Security Fund of 52.7 percent by using the treasury reserves of B4.9 billion for payment arrears.

Meanwhile, current transfer (used for current and capital spending) to revolving and extrabudgetary funds increased by 17.7 percent, due mainly to an increase of B18.3 billion in transfer to the Education Loan Fund. Transfer to households also rose by 24.4 percent, particularly for education purposes which increased from B1.6 billion in FY1997 to B4.8 billion in FY1998.

Government Debt

In FY1998, the Government did not borrow to finance the deficit but, instead, drew down the treasury reserves. Principal repayments totalled B12.7 billion, comprising domestic principal repayment of B8.4 billion (of which B3.4 billion and B5.0 billion were for the redemption of bonds and promissory notes, respectively) and external principal repayment of B4.3 billion. The Government also extended the maturity of promissory notes, valued B12 billion, issued to the Government Savings Bank to 3-5 years. Of this, an amount of B8.0 billion will be redeem in FY2001 and the remaining B4.0 billion in FY2003. The Government spent the remaining principal repayment budget to purchase foreign currency valued B8 billion and deposited it at the Krung Thai Bank for debt repayment in FY1999 and 2000.

The Government issued government bonds on 3 occasions, totalling B200 billion, for compensating operating losses and restructuring the funding of the Financial Institutions Development Fund (FIDF). Such practice was supported by the Act that allowed the Ministry of Finance to borrow money up to the ceiling of B500 billion and to use it for assisting FIDF B.E. 2541 (1998).

Table 23
The Government Debt Position
(billions of baht)

Fiscal year	1993	1994	1995	1996	1997	1998
Total debt outstanding	**625.5**	**633.5**	**685.1**	**726.9**	**916.3**	**1,222.5**
(percent of GDP)	(19.8)	(17.6)	(16.4)	(15.8)	(19.0)	(25.3)
Domestic debt	**286.5**	**267.8**	**298.2**	**332.0**	**350.3**	**562.5**
– Government's direct borrowing	164.0	110.4	74.6	50.3	35.5	227.2 1/
– Government's guarantee	122.5	157.4	223.6	281.7	314.8	335.3
Foreign debt	**339.0**	**365.7**	**386.9**	**394.9**	**566.0**	**660.0**
– Government's direct borrowing	106.0	114.2	120.7	125.1	183.1	249.0
– Government's guarantee	233.0	251.5	266.2	269.8	382.9	411.0
(Debt repayments as percent of the total budget)	(11.2)	(9.4)	(6.2)	(5.7)	(5.0)	(5.4)

1/ *Government bonds, totalling B200 billion, were issued to the Financial Institutions Development Fund in order to compensate losses and restructure its debts.*

Domestic debt outstanding at end-FY1998 increased to B227.2 billion or 4.7 percent of GDP, owing to the issuance of B200 billion of bonds for FIDF.

Fiscal Position in Broad Terms

The broadly-defined fiscal position (the treasury account balance plus revenue and expenditure from foreign loans, foreign grants, and non-budgetary funds) recorded a deficit of B160.6 billion, compared with a deficit of B42.0 billion in the preceding year. Excluding B44.7 billion of foreign loans used for financial sector restructuring, the deficit totalled B115.9 billion, or 2.4 percent of GDP. Expenditure from direct foreign loans rose from B9.0 billion in the previous year to B18.0 billion this year due to an increase in loans from international financial institutions in addition to those from the IMF which were lent to rehabilitate the economy and to alleviate the impact of economic crisis. Most of the foreign borrowings were allocated to education, health, and community and housing; for example, the project to help students who were affected by the crisis. Despite a large amount of expenditure from foreign borrowings (excluding expenditure from financial sector restructuring), the broadly-defined fiscal position (excluding expenditure from financial sector restructuring) recorded a deficit close to that of the treasury account, owing to surpluses in the operations of non- and extra-budgetary funds which were in contrast to the previous year.

Table 24
The Fiscal Position in Broad Terms [1/]
(billions of baht)

	Fiscal year			Δ%		
	1996	**1997**	**1998**	**1996**	**1997**	**1998**
Revenue and foreign aid	**876.1**	**873.4**	**756.3**	**11.9**	**-0.3**	**-13.4**
Revenue	873.0	870.4	751.8	12.0	-0.3	-13.6
Foreign aid	3.1	3.0	4.5	-16.5	-4.5	50.0
Expenditure including net lending and equity purchases	**767.9**	**915.4**	**916.9**	**15.9**	**19.2**	**0.2**
Expenditure	758.0	901.7	854.3	14.3	19.0	-5.2
– Current expenditure	485.3	530.6	543.0	9.6	9.4	2.3
– Capital expenditure	272.7	371.1	311.3	23.7	36.1	-16.1
Net lending and equity purchases	9.9	13.7	62.6	1,835.2	37.4	356.9
Cash balance	**108.2**	**-42.0**	**-160.6**			
(Cash balance excluding expenditure from financial sector restructuring)			(-115.9)			
Deficit financing (net) [2/]	**-108.2**	**42.0**	**160.6**			
Foreign sources	2.9	10.2	71.4			
Domestic sources	(111.1)	31.8	89.2			
– Banking system [3/]	(121.6)	96.5	205.0			
– Others	10.5	(64.7)	(115.8)			

1/ *Including foreign aid, foreign loan and non-budgetary Funds.*
2/ *Figures in parentheses refer to debt repayment and/or deposit.*
3/ *Including government deposit at commercial banks.*

Financial Position of State Enterprises
(excluding financial institutions)

Overall, operations of state enterprises (excluding financial institutions and supported activities), in FY1998, helped support the resolution of economic crisis through spending discipline in both investment and administration. This together with the acceleration of privatisation process resulted in the ratio of their deficit to GDP being kept in line with the deficit target. Moreover, state enterprises were able to remit an amount of B61.4 billion to the Government, up by 25.6 percent from the preceding fiscal year. (However, since the Government delayed remittance of B28.0 billion by state enterprises to FY1999, actual remittance to the Treasury in FY1998 fell by 31.6 percent.)

For FY1998, operating profits before corporate income tax of state enterprises increased by 9.5 percent from the previous fiscal year due partly to: (i) a reduction in administrative expenses; (ii) a 20 percent cut in bonuses of state enterprise committee members and employees; (iii) a reduction of at least 3 percent in operating expenses; (iv) a decline in oil price imports due to the more stable exchange rate; and (v) an increase in income from investment with the private sector. Profitable state enterprises were the Electricity Generating Authority of Thailand, the Telephone Organization of Thailand, the Petroleum Authority of Thailand, the Provincial Electricity Authority, and the Communications Authority of Thailand.

Total investment dropped slightly, following a rapid expansion in the previous year and an agreement with the IMF to invest in line with retained income in order to stabilise the economy, with a deficit not exceeding 0.6 percent of GDP. However, when considering sources of funds of state enterprises, 76 percent of

Table 25
Operations of State Enterprises (excluding financial institutions)
(millions of baht)

State enterprises by economic category	Profit [2/]		Contribution [3/]	
	1997 [1/]	1998 [1/]	1997 [1/]	1998 [1/]
Power (6)	21,467	45,865	19,620	21,396
Transport and communications (16)	40,470	24,978	19,895	30,031
Manufacturing (12)	6,382	5,699	4,373	5,047
Agriculture (5)	-329	30	7	10
Others (8) such as	6,428	4,940	5,020	4,950
– Government Lottery Bureau	4,768	5,066	4,311	4,494
Total (47)	**74,418**	**81,512**	**48,915**	**61,434** [4/]

Notes : 1/ *Fiscal year*
2/ *Before submitting revenues to the Government and before corporate income taxes.*
3/ *Derived from net profits of the year before, except for the Government Lottery Bureau for which remittances were based on net profits of the current year.*
4/ *Preliminary figures as when measures to defer contributions from state enterprises, totalling B28.3 billion, to the fiscal year 1999 was not taken into account. With these measures, contributions to the Government would reduce by 31.6 percent.*

Source : *Questionnaire (figures in parentheses stand for the number of state enterprises).*

Table 26
State Enterprise Capital Expenditure and Financing
(millions of baht)

Fiscal year	1994	1995	1996	1997 P	1998 P
Capital expenditure	**121,989**	**148,113**	**137,073**	**186,124**	**185,500**
Δ%	(-4.5)	(21.4)	(-7.4)	(35.8)	(-0.3)
Sources of funds (1 + 2)	**121,989**	**148,113**	**137,073**	**186,124**	**185,500**
1. Borrowing	**46,581**	**37,268**	**33,749**	**42,063**	**44,300**
Net foreign borrowing	1,347	9,386	12,923	6,853	8,300
Net domestic borrowing	45,234	27,882	20,826	35,210	36,000
2. Other income	**75,408**	**110,845**	**103,324**	**144,061**	**141,200**
Net profits 1/	75,315	88,319	103,445	73,103	78,908
Plus : Depreciations	36,881	40,713	46,926	50,694	56,842
Other revenues	48,458	60,142	57,853	67,112	97,702
Minus : Income remitted to the Government	31,372	37,288	39,266	48,915	61,434
Bonuses	7,135	6,140	7,115	7,428	7,233
Other expenditure	11,118	12,805	7,967	16,089	9,989
Working capital	-35,621	-22,096	-50,552	25,584	-13,596

Notes : P = *Preliminary figures.*
1/ *After corporate income taxes.*

Source : *Questionnaire*

investment expenditure were financed by retained income, declining slightly from the previous year; while 5 percent was financed by foreign borrowing and 19 percent by domestic borrowing, mostly in forms of medium- and long-term bonds.

Most investments were in the power sector, accounting for about 54 percent of the total, followed by transportation and communications of 37.3 percent. Major investing state enterprises were the Electricity Generating Authority of Thailand, the Provincial Electricity Authority, the Petroleum Authority of Thailand, Thai Airways International, and the PTT Exploration and Production Company Limited.

Overall, state enterprises recorded a deficit of 0.7 percent of GDP in FY 1998.

Fiscal Position of the Public Sector

The cash deficit of the public sector (comprising broadly-defined central government, local administrations and state enterprises) amounted to 4.1 percent of GDP, compared with a 2.1 percent of GDP deficit in the previous fiscal year. Excluding expenditure from financial sector restructuring, the public sector recorded a deficit of 3.2 percent of GDP.

Table 27
The Public Sector Fiscal Position[1/]
(billions of baht)

	Fiscal Year			Δ%		
	1996	**1997**	**1998**	**1996**	**1997**	**1998**
Revenue and foreign aid	**1,060**	**1,033**	**941**	**11.7**	**-2.5**	**9.8**
Revenue	1,057	1,030	936	11.8	-2.5	-9.1
Central government	873	870	752	12.0	-0.3	-13.6
Local administrations [2/]	58	61	62	30.4	4.9	1.6
State enterprises	126	99	122	3.7	-21.4	23.2
Foreign aid	3	3	5			
Central government	3	3	5			
Expenditure including net lending and equity purchases	**934**	**1,133**	**1,138**	**11.8**	**20.7**	**0.4**
Current expenditure	503	555	565	8.4	10.4	1.8
Central government	471	516	525	9.1	9.4	1.7
Local administrations [3/]	32	39	40	-2.1	24.1	-2.5
Capital expenditure	427	566	512	12.0	31.2	-9.5
Central government	244	338	274	16.1	38.5	-18.9
Local administrations [3/]	46	50	52	69.0	8.9	4.0
State enterprises [3/]	137	178	186	-4.5	25.9	4.5
Net lending and equity purchases	4	12	61			
Central government	10	14	63			
Cash balance	**126**	**-100**	**-197**			
(Cash balance, excluding expenditure from financial sector restructuring)			(-152.3)			
Deficit financing [4/]						
Foreign sources	16	14	71			
Domestic sources	(142)	86	126			
The banking system [5/]	(144)	168	232			
Others	2	(82)	(106)			

1/ *Comprising consolidated central government, local government, non-financial and non-promotional state enterprises.*
2/ *Excluding transfers from central government.*
3/ *Including transfer from central government.*
4/ *Figures in parentheses stand for debt repayment and/or deposit.*
5/ *Including deposits at commercial banks.*

International Trade and Balance of Payments

In 1998, exports continued to be the main factor preventing the Thai economy from contracting by as much as domestic demand. Export volume grew by 8.1 percent, reflecting mainly the performance during the first half of the year. In particular, exports which showed substantial volume increase were agricultural exports, such as rice, rubber and frozen fowl; and manufacturing exports using high technology, such as electronics and automobile parts. Nevertheless, **total export value** decreased by 6.8 percent from the previous year, owing to a 13.8 percent decline in export prices following intense price competition among Thailand's major competitors whose currencies also depreciated substantially. Meanwhile, **total imports** decreased markedly across the board by 33.8 percent from the preceding year. This reflected mainly decreased import volume of 27.4 percent in tandem with the domestic demand contraction and reduced import prices, linked to weakened world prices. As a result, the **trade account** registered a surplus of US$12.2 billion.

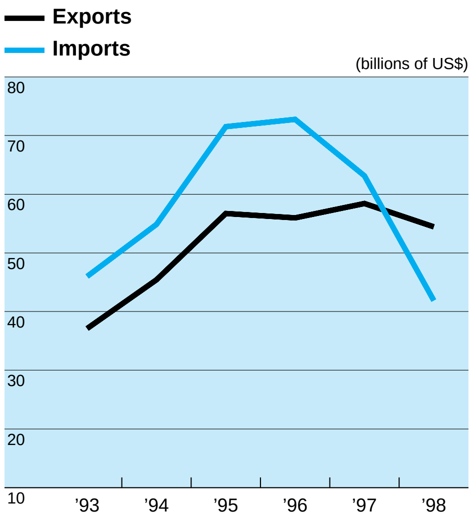
With the **service and transfer surplus** increasing by 35.9 percent from the previous year, due to sharply reduced travel and tourism expenditures by Thais and decreased private investment income payments linked to economic slowdown, the **current account** recorded a surplus of US$14.3 billion, or 12.3 percent of GDP. Notwithstanding substantial inflows of foreign direct investment, the **capital account** deficit widened from the previous year, owing mainly to the outflows of private capital. This reflected debt repayment by the bank sector, as liquidity in the banking system improved along with the strengthened and stable baht during the second half. As a consequence, the balance of payments recorded a slight surplus of US$1.7 billion this year against a deficit of US$10.6 billion in the previous year.

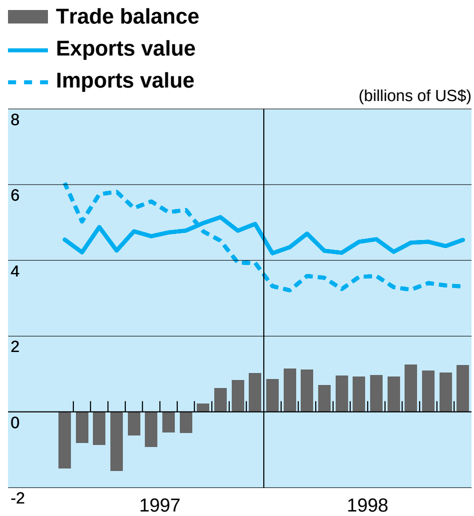
International Trade

Exports

On the balance of payments basis, the total value of exports in US dollar terms declined from the previous year by 6.8 percent to US$52.9 billion, on account of financial crisis which weakened demand in countries within the region. Despite increased currency stability of these countries, intense price competition continued and Thai export competitiveness worsened gradually, given the strengthening of the baht vis-a-vis competitors during the fourth quarter of 1998. As a result, exports in baht terms began to contract in the fourth quarter of 1998 and, in the meantime, export volume growth started to slow down in the second half compared with the

VALUE OF FOREIGN TRADE





first half of the year. Overall export volume rose merely by 8.1 percent while prices dropped by 13.8 percent.

Agricultural products

The total value of agricultural exports amounted to US$5.1 billion, down by 15.4 percent from 1997. This resulted from the price reduction of 20 percent and volume expansion by 5.8 percent.

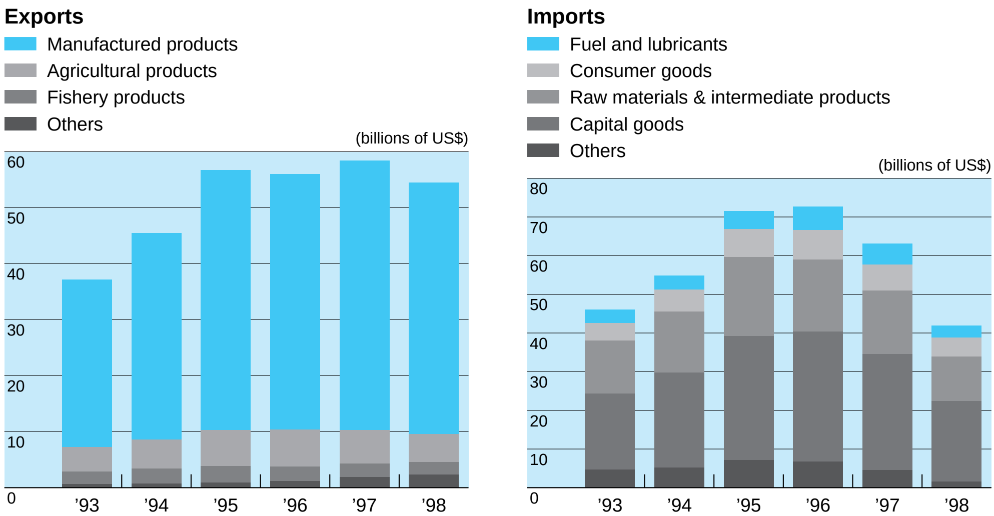
Rice

The value of rice exports remained close to that of 1997. Nevertheless, its volume expanded substantially by 17.5 percent, especially during the first half of the year. This resulted from the increase in rice exports to Indonesia which encountered the El Nino Effect. However, volume moderated during the second half as import demand slowed when Thai rice became more expensive compared to other competitors of similar types and quality range. Meanwhile, rice prices fell by 14.1 percent as most exports were of medium- to lower-quality, and export share for high-quality rice decreased from the previous year.

Rubber

The value of rubber exports fell markedly by 30.6 percent, reflecting the price decrease of 33.3 percent in tandem with sharp reduction in world prices. Major exporting countries, such as Malaysia and Indonesia, also faced economic crises and engaged consequently in intense price competition. Volume rose marginally by 4.1 percent in line with sluggish world demand for rubber caused by economic crises in Asia.

VALUE OF MAJOR EXPORTS AND IMPORTS



Tapioca

Export volume of tapioca fell by 24.2 percent due to domestic supply constraints, which significantly raised its price. Consequently, importers in the European Union switched to other crops. However, Indonesia — one of the world's largest producer and exporter of tapioca flour — began to import from Thailand in 1998 following severe drought brought on by the El Nino Effect. Given the shift during the year from exporting tapioca pellets to tapioca flour which commanded higher price, export price declined only marginally and overall value decreased by 27.2 percent.

Frozen chicken

Frozen chicken exports grew satisfactorily in 1998 with volume expanding by 40.7 percent. Major market continued to be Japan (accounting for 60 percent of the total) as Japanese consumers substituted chicken for beef following the outbreak of the mad cow disease. Exports to the European Union (EU), the second largest market, also increased as China, a competitor for Thai frozen chicken, suffered from the spread of chicken disease, and EU importers switched to import from Thailand. ASEAN market also grew rapidly. However, given the export price decline of 19.6 percent, export value rose only by 13.2 percent.

Fishery products

Exports value of fishery products declined by 6.7 percent, reflecting mainly a fall in price. Nevertheless, volume still expanded satisfactorily, particularly in frozen fish and cuttlefish categories.

Table 28
Exports

		1997	1998	Δ% H1	Δ% H2	Δ% Total
1. Agriculture Products	Value	**5,997.7**	**5,074.1**	**-12.0**	**-18.7**	**-15.4**
1.1 Rice	Volume	5,567,308	6,540,360	36.9	2.7	17.5
	Unit value	373.7	320.8	-20.7	-8.1	-14.1
	Value	2,080.4	2,098.3	8.5	-5.7	0.9
1.2 Rubber	Volume	1,919,429	1,998,232	13.1	-3.9	4.1
	Unit value	990.0	659.9	-38.9	-27.5	-33.3
	Value	1,900.1	1,318.6	-30.9	-30.3	-30.6
1.3 Tapioca products	Volume	5,435,658	4,122,381	-15.9	-31.7	-24.2
	Unit value	133.6	128.2	-9.0	1.0	-4.0
	Value	726.4	528.7	-23.5	-31.0	-27.2
1.4 Frozen fowl	Volume	154,491	217,439	44.5	37.5	40.7
	Unit value	2,371.7	1,907.3	-25.7	-13.5	-19.6
	Value	366.4	414.7	7.4	18.9	13.2
1.5 Others	Value	924.3	713.8	-12.0	-33.9	-22.8
2. Fishery	Value	**2,326.9**	**2,171.1**	**-3.4**	**-9.6**	**-6.7**
2.1 Shrimp fresh and frozen	Volume	137,079	142,477	0.5	7.0	3.9
	Unit value	11,079.3	9,955.6	-3.9	-15.2	-10.1
	Value	1,518.7	1,418.4	-3.5	-9.2	-6.6
2.2 Others	Value	808.2	752.7	-3.2	-10.2	-6.9
3. Manufactured products	Value	**48,182.0**	**44,857.4**	**-5.0**	**-8.6**	**-6.9**
a. Labour-intensive products	Value	8,393.6	7,369.3	-12.8	-11.7	-12.2
1. Garments	Value	3,117.7	2,979.7	-1.3	-7.2	-4.4
2. Footwear	Value	1,152.0	928.3	-21.0	-17.7	-19.4
3. Precious stones and jewellery	Value	1,710.6	1,308.7	-24.9	-22.1	-23.5
4. Travel goods	Value	393.2	416.6	9.8	2.8	6.0
5. Others	Value	2,020.1	1,736.1	-18.4	-9.9	-14.1
b. High technology products	Value	29,455.4	28,927.7	0.6	-3.9	-1.8
1. Computers and parts	Value	7,274.0	7,694.0	9.9	2.4	5.8
2. Integrate circuit and parts	Value	2,481.4	2,255.4	-11.8	-6.3	-9.1
3. Electrical appliances	Value	4,423.8	3,914.2	-11.1	-11.9	-11.5
4. Transformers, generator, and motors	Value	1,468.3	1,231.5	-20.0	-12.3	-16.1
5. Chemical products	Value	672.6	545.1	-16.7	-21.1	-19.0
6. Plastic products	Value	1,576.8	1,712.0	24.3	-3.5	8.6
7. Vehicle parts and accessories	Value	1,064.2	1,322.9	24.8	24.0	24.3
8. Petroleum products	Value	1,121.2	692.8	-31.0	-44.0	-38.2
9. Others	Value	9,373.1	9,559.7	5.3	-1.1	2.0
c. Resource based products	Value	5,352.4	4,693.1	-13.3	-11.2	-12.3
1. Sugar	Value	1,135.6	614.9	-45.6	-46.8	-45.9
2. Canned seafood	Value	1,712.1	1,778.2	18.0	-5.5	3.9
3. Cements	Value	243.7	215.4	-2.4	-19.2	-11.6
4. Rubber products	Value	800.0	859.0	14.8	0.8	7.4
5. Furniture and parts	Value	786.7	689.3	-21.5	-3.2	-12.4
6. Others	Value	674.3	536.3	-19.3	-21.8	-20.5
d. Others	Value	4,980.6	3,867.3	-15.1	-28.9	-22.4
4. Other exports	Value	**1,924.6**	**2,357.4**	**49.0**	**3.1**	**22.5**
5. Total exports	Value	**58,431.2**	**54,460.1**	**-4.1**	**-9.3**	**-6.8**
Aircraft		44.8	169.7			
Adjustment for balance of payments		-1,754.7	-1,757.3	4.1	-3.4	0.1
6. Merchandise exports (f.o.b.)		**56,721.2**	**52,872.5**	**-4.1**	**-9.3**	**-6.8**

Notes : *Value : millions of US$* *Volume : tonne* *Unit Value : US$/tonne*
Source : *Customs Department*

Frozen prawn, which accounted for 65 percent of fishery products exports, fell by 6.6 percent in value. This reflected problems in production during the first half of 1998 which limited volume growth. Nevertheless, the export price remained high, close to the previous year's, providing incentives for production expansion. Consequently, prawn production rose substantially during the last quarter. Together with export acceleration to the EU market before the GSP quota termination in 1999, export price declined sharply during the last quarter. Major export markets recording significant increases were the United States, EU, ASEAN, Australia, and Canada. Meanwhile exports to Japan —Thailand's second largest market— experienced a reduction in value owing to intense competition from Indonesia and India.

Manufactured products

The value of manufactured exports decreased by 6.9 percent in 1998, attributable to the economic slowdown of major trading partners such as the United States and EU; the recession in Japan; and the baht appreciation during the second half of the year. These reduced the export value sharply by 8.6 percent during the second half of the year, compared with a 5 percent drop during the first half.

Labour-intensive products

Garments exports dropped by 4.4 percent reflecting the loss of competitiveness vis-a-vis major competitors such as Indonesia and the Philippines, who still retained advantages of weakened currencies, and China of cheap labour cost; as well as the continuing loss of market share to Eastern Europe and Mexico. Nevertheless, exports to the United States and Canada expanded satisfactorily. Export value of **footwear** fell markedly by 19.4 percent, especially in sports footwear category, linked to sluggish economy in some of major importing countries, together with intense price competition from China and Vietnam. As for **precious stones and jewellery**, total export value declined sharply by 23.5 percent, reflecting economic slowdown in major trading partners such as Japan and Hong Kong. **Travel goods**, mostly leather bags, continued to expand favourably with EU as the major market.

High-technology products

High-technology exports, which expanded briskly following the baht depreciation in 1997, began to decelerate since the beginning of 1998 due to increased competition and sluggish demand. Total export value for the year decreased by 1.8 percent. Products with reduced export value included **integrated circuits and parts** and **electrical appliances,** affected by the baht appreciation and economic conditions in major trading partners, particularly financial crises in Japan and Hong Kong. Further deceleration was also expected in view of the recent GSP quota cut by EU and the potential production base relocation to China for labour cost advantage. The export value of **petroleum products** dropped markedly by 38.2 percent, owing mainly to lower world prices and the economic slowdown in Asia which was Thailand's major market.

Products recording increases in export value included **vehicle and parts,** expanding markedly by 24.3 percent in 1998, attributable partly to parent companies' assistance in penetrating new markets and finding sources of financing. In addition producers had reoriented production toward exports to compensate for contracted domestic demand, particularly to markets in EU, Indochina, Australia, and the United States. Exports of **plastic products** rose by 8.6 percent due mainly to plastic pellet products exports as producers became more export-oriented in response to sluggish domestic demand. Major markets were Hong Kong, ASEAN, and EU. The exports of **computer & parts** grew by 5.8 percent, reflecting entrance of new producers at end-1997 who began to operate at full export capacity in 1998.

Resource-based products

Export value in 1998 decreased by 12.3 percent. In particular, **sugar** dropped 45.9 percent, owing to reduced volume of 43.2 percent linked to sugarcane supply constraints caused by severe drought. Export growth of **canned seafood** was brisk and Thailand remained the largest exporter in the world market. In 1998, the export volume rose by 8.5 percent but, with reduced export price, value increased only by 3.9 percent. Expanding markets for canned seafood were the Middle East and the United States.

Imports

On the balance of payments basis, the total value of imports fell by 33.8 percent in 1998 in line with domestic demand. Ongoing problems of financial institutions and liquidity shortages resulted in drastic halts of activities in some parts of the real sector. **Oil imports**, particularly crude oil and petroleum products, declined markedly while **non-oil imports** contracted sharply across the board.

Petroleum fuels and lubricants

The import value decreased by 42.8 percent to US$3.1 billion in tandem with the decline in crude oil imports (accounting for more than 90 percent of total oil imports), of which price declined sharply from US$20.59 per barrel in the previous year to US$13.79 per barrel in 1998. In addition, the volume of crude oil imports contracted in line with domestic demand and decelerating exports. Import value of petroleum products declined sharply in line with crude oil prices and sufficiency of production by local refineries in meeting domestic demand, thus contributing to continued downtrend of imports.

Table 29
Imports
(millions of US$)

	1997	1998	Δ% H1	Δ% H2	Δ% Total
1. Oil	**5,481**	**3,134**	**-49.1**	**-35.4**	**-42.8**
1.1 Crude oil : Volume (million barrels)	227	208	-18.7	2.9	-8.1
: Price (US$/barrel)	20.6	13.8	-30.4	-36.0	-33.0
: Value	4,669	2,874	-43.5	-32.9	-38.4
1.2 Petroleum products : Value	812	260	-76.3	-54.0	-67.9
2. Non-oil	**57,666**	**38,765**	**-37.8**	**-26.8**	**-32.8**
2.1 Consumer goods	6,698	4,836	-31.7	-23.4	-27.8
2.2 Intermediate products and raw materials	16,379	11,610	-35.2	-21.8	-29.1
2.3 Capital goods	30,054	20,749	-34.3	-27.1	-31.0
2.4 Others	4,535	1,570	-73.7	-52.0	-65.4
3. Total imports	**63,147**	**41,899**	**-38.7**	**-27.5**	**-33.6**
Adjustment for balance of payments	-1,800	-1,259			
4. Merchandise imports (c.i.f.)	**61,347**	**40,641**	**-39.0**	**-27.4**	**-33.8**

Source : *Customs Department*

Non-oil imports

The value of non-oil imports dropped by 32.8 percent in 1998, reflecting mostly volume decline due to sharp contraction of domestic demand. At the same time, prices fell in most categories following lower world prices. Nevertheless, the value of most import categories showed signs of rebounding during the second half of 1998.

(1) **Consumer goods imports** fell by 27.8 percent in response to weaker domestic purchasing power and rising import prices in baht terms following the depreciation. Durable goods such as electrical appliances, household goods, and motorcycles, as well as non-durable goods such as food and beverages, medical and pharmaceutical products, and cosmetics; all experienced reductions in value.

(2) **Imports of raw materials and intermediate products** declined by 29.1 percent in response to sluggish domestic demand and export. Imports which declined markedly were base metal products, chemical products, and animal and vegetable crude materials. In contrast, imports of fresh fish and prawn rose in line with canned seafood export which continued to expand favourably. It was noted that the import value of raw material and intermediate goods rose substantially

during the fourth quarter, with marked volume growth in November and December of 11.9 and 12.7 percent, respectively. This was the first such increase in 13 months, compared with a decline of 22.6 percent during the first 10 months of the year. Import categories recording expansion were raw cotton, fabric, precious stones, silver bars, and palm oil.

(3) **Capital goods imports** declined by 31.0 percent, reflecting almost entirely the reduction in volume, in tandem with the manufacturing production and investment. With capacity utilisation rate down to 52 percent of the total, imports of machinery contracted for major industries such as metal, auto assembling, paper and textile industries. This was despite the import of new drilling equipment, metal manufacture products and sample monorails for the Metropolitan Rapid Transit Authority System Project.

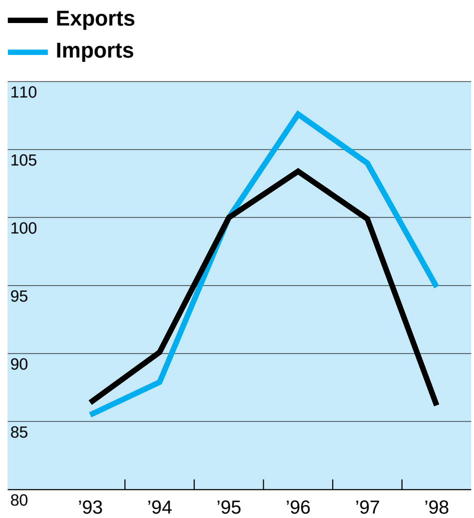
(4) The value of **other imports** dropped sharply by 65.4 percent owing to a continued decline of 79.6 percent in vehicle and parts (completely-built passenger car, truck, bus, chassis and bodies) in line with sharp contraction in domestic demand. The decline occurred in spite of the satisfactory performance of vehicle and parts exports.

Import-Export Price Indices (1995=100) [1/]

The export price index for 1998 (1995=100) continued its downward trend, reflecting mainly the baht depreciation and increased competition from other producers within the region, which led to price bargaining by trading partners. In addition, the world prices decreased significantly. As a consequence, Thai export price fell by 13.8 percent — across all categories. In particular, prices of agricultural exports declined by 20.0 percent in tandem with reduction in rubber and rice prices. Export prices of fishery products fell by 12.1 percent and manufacturing products by 12.9 percent.

EXPORT-IMPORT PRICE INDEX

(1995 = 100)



The import price index decreased in response to weaker Japanese yen; lower world crude oil price (especially the Oman price which fell by 34.9 percent); as well as the reduction in non-oil import

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1/ *There were recent changes in price index compilation method, using Fisher Chained technique in place of the traditional Laspeyres formula.*

prices, which declined in tandem with the world manufacturing prices. As a result, the Thai import price fell by 8.8 percent, representing a decrease in oil import price of 31.7 percent and non-oil import price of 6.2 percent. In addition, import price fell by 11.5 percent for consumer goods, 13.3 percent for raw materials, and 5.5 percent for vehicle and parts. Capital goods price index remained relatively stable.

Terms of trade in US dollar terms decreased by 5.5 percent from the previous year's due to the relatively faster decline of export price index than that of the import price index.

Direction of Trade

Exports

Thailand's largest export market continued to be the United States. With growth of 7.1 percent, the exports share of this market rose from 19.4 percent in 1997 to 22.3 percent in 1998. Such expansion was attributed partly to the baht depreciation vis-a-vis the US dollar and Thailand's ability to retain market share, especially for manufacturing exports such as computers and parts, garments, canned seafood, and metal products; and fishery products, especially frozen prawn. The second largest market was the European Union, whose share in Thai exports rose to 17.8 percent. In contrast, the export value to the Asia Pacific (comprising ASEAN, Indochina, China, Taiwan, Hong Kong, and South Korea) and to Japan declined by 18.6 and 15.6 percent, respectively. Consequently, their shares in Thai exports fell to 30.9 and 13.7 percent, respectively. Nevertheless, rice export continued to perform satisfactorily in the ASEAN market, especially in Indonesia which suffered a severe domestic supply shortage.

Imports

The value of imports declined across all sources especially from Japan, which is Thailand's largest source of imports. Imports from this market fell substantially by 38.3 percent from the preceding year, resulting in a declining share of import from Japan from 25.7 percent in 1997 to 23.7 percent in 1998. Specifically, import value of vehicle and parts fell by more than 80 percent, and imported machinery used in manufacturing by more than 50 percent. Imports from the United States and the European Union fell markedly, particularly mechanical machinery used in manufacturing and electrical machinery under capital goods category, reflecting sluggish domestic investment. Meanwhile, imports from ASEAN went down sharply especially oil imports, and consumer products such as electrical appliances.

Nevertheless, import shares of the United States, ASEAN, China, Hong Kong and Taiwan rose from the previous year while those of European market, Eastern Europe and South Korea declined significantly. With improvement in exports to the United States and European Union markets along with a sharp decline in imports, the trade balance with these countries improved noticeably. In particu-

Table 30
Direction of Trade 1997-1998
(in US dollar terms)

	Percentage Share				Δ%			
	Export		Import		Export		Import	
	1997	1998	1997	1998	1997	1998	1997	1998
Japan	**15.1**	**13.7**	**25.7**	**23.7**	**-6.0**	**-15.6**	**-20.3**	**-38.3**
NAFTA	**20.8**	**24.0**	**14.8**	**15.0**	**13.2**	**7.5**	**-3.8**	**-32.2**
The United States [1/]	19.4	22.3	13.8	14.1	12.9	7.1	-3.2	-31.8
Others	1.4	1.7	1.0	0.9	16.7	13.1	-11.6	-38.2
European Union [2/]	**15.9**	**17.8**	**14.1**	**12.4**	**3.8**	**4.4**	**-18.2**	**-40.7**
France	1.6	1.6	1.3	2.0	-6.3	-5.7	-25.2	-2.5
Germany	2.5	2.9	4.8	4.3	-10.5	7.5	-17.6	-40.0
Italy	1.1	1.3	1.4	1.0	8.5	12.9	-31.8	-52.8
Netherlands	3.2	4.0	1.0	1.0	3.4	17.1	10.9	-33.4
United Kingdom	3.5	3.9	2.1	1.7	11.9	2.7	-16.0	-47.3
Others	4.0	4.1	3.5	2.4	11.7	-4.0	-17.0	-50.0
ASEAN	**19.0**	**15.2**	**12.2**	**14.3**	**5.8**	**-25.5**	**-17.1**	**-21.9**
Brunei	0.1	0.1	0.1	0.1	-5.9	-27.2	-59.4	-74.9
Indonesia	2.2	1.8	1.4	2.1	29.9	-21.7	-5.1	-0.7
Malaysia	4.3	3.3	4.8	5.1	24.9	-29.6	-15.7	-28.5
Philippines	1.2	1.4	0.9	1.5	12.0	4.9	-3.8	11.7
Singapore	11.2	8.6	5.0	5.5	-3.8	-28.0	-20.8	-25.8
Indochina and Myanmar	**2.9**	**3.0**	**0.6**	**0.8**	**2.2**	**-3.1**	**29.5**	**-13.1**
Middle East	**3.4**	**3.5**	**7.3**	**7.9**	**-8.4**	**-4.3**	**12.8**	**-27.8**
Eastern Europe	**0.5**	**0.4**	**0.5**	**0.3**	**11.3**	**-27.6**	**-14.7**	**-64.5**
Others								
Australia	1.6	1.8	2.0	2.1	12.4	3.2	-7.6	-31.5
People's Republic of China	3.0	3.3	3.6	4.2	-5.2	-0.1	16.6	-20.9
Hong Kong	5.9	5.1	1.3	1.8	6.6	-19.9	-3.4	-8.2
South Korea	1.8	1.1	3.6	3.5	1.2	-39.2	-15.5	-34.8
Russia Federation	0.2	0.1	0.9	0.3	-23.0	-47.5	-33.0	-80.9
Taiwan	2.7	3.2	4.6	5.2	11.7	9.3	-8.3	-23.3
Others	7.2	7.8	8.8	8.5	10.7	3.0	-10.5	-33.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**4.4**	**-6.8**	**-12.4**	**-33.0**

Notes : 1/ *Included the operational leasing of airplane of US$538.7 million in 1998.*
2/ *Since January 1995, the European Union includes Austria, Finland and Sweden, totaling 15 countries.*

Source : *Customs Department*

lar, the trade surplus with the European Union rose markedly from US$396 million in 1997 to around US$4,438 million in 1998. Similarly, the surplus with the United States rose substantially to US$6,207 million from US$2,628 million in 1997. For Japan, even though export value decreased but import also fell sharply, resulting in lower deficit of 65.4 percent to US$2,566 million.

Current Account and Balance of Payments

Trade Balance

Trade balance, on the balance of payments basis, reversed from a deficit of US$4.6 billion in 1997 to a surplus of US$12.2 billion in 1998, the first surplus in 45 years, due to greater contraction in imports than exports.

Net Service and Transfer Account

In 1998, **net service and transfer** registered a larger surplus, up by US$0.6 billion from the previous year, owing mainly to surplus in the service account. **Service payments** declined by 19.3 percent in line with reduced travelling and tourism spending by Thais, as well as investment income payments following economic slowdown. Meanwhile, public interest payments continued to rise as there were higher disbursement of public external loans. **Service receipts** fell by 15.1 percent in tandem with reduced receipts from travel and tourism. Notwithstanding an increase in number of tourists entering Thailand and average lengths of stay, this

Table 31
Balance of Payments
(millions of US$)

	1997			1998 P		
	H1	H2	Total	H1	H2	Total
Export goods, f.o.b.	**27,315**	**29,406**	**56,721**	**26,200**	**26,673**	**52,873**
Import goods, c.i.f.	**33,573**	**27,774**	**61,347**	**20,473**	**20,168**	**40,641**
Trade balance	**-6,258**	**1,632**	**-4,626**	**5,727**	**6,505**	**12,232**
Service and transfer balance	**1,022**	**492**	**1,514**	**1,293**	**765**	**2,058**
Net service	877	162	1,039	1,060	583	1,643
Service receipts	11,060	8,468	19,528	8,021	8,551	16,572
Service payments	10,183	8,306	18,489	6,961	7,968	14,929
Net transfer	145	330	475	233	182	415
Current account balance	**-5,236**	**2,124**	**-3,112**	**7,020**	**7,270**	**14,290**
Net capital movements	**-1,482**	**-7,590**	**-9,072**	**-5,772**	**-3,877**	**-9,649**
Private	930	-9,032	-8,102	-6,095	-9,533	-15,628
Public	203	1,384	1,587	774	1,219	1,993
BOT	-2,615	58	-2,557	-451	4,437	3,986
Balance of payments	**-5,987**	**-4,662**	**-10,649**	**-98**	**1,832**	**1,734**
International reserve	**32,353**	**26,968**	**26,968**	**26,572**	**29,536**	**29,536**
(months of imports)	5.7	5.3	5.3	6.6	8.7	8.7

P = *Preliminary figures*

was because the daily average expenditure per head fell in response to the baht depreciation of 24.2 percent against US dollar, compared with 1997 level. In addition, workers' remittance (in US dollar terms) fell in accordance with economic conditions, as a result of financial crises in countries where Thai workers were employed.

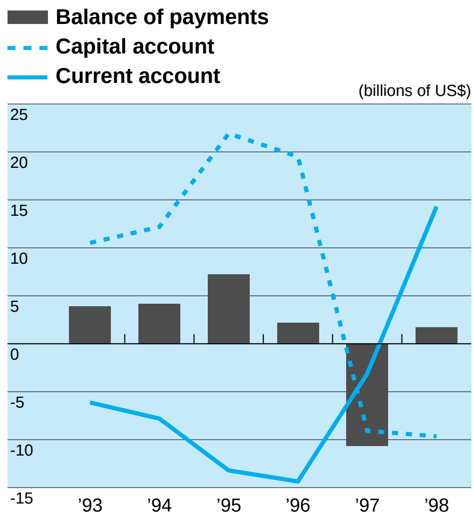
Current Account

Current account (defined as the sum of trade balance and net service and transfers) recorded a surplus of US$14.3 billion, or 12.3 percent of GDP in 1998, the first surplus in 12 years after a small surplus in 1986.

Balance of Payments

In 1998, the balance of payments recorded a surplus of US$1.7 billion (compared with a large deficit of US$10.6 billion in the previous year) as the current account surplus more than offset net capital outflows. This resulted progressively in higher international reserves and increased stability of the baht.

BALANCE OF PAYMENTS



Capital Movements

Demand for foreign capital declined as the trade and capital account balance improved and turned surplus starting September 1997. Meanwhile, the private sector, having relied on external borrowing for the past several years, were obligated to make debt repayments. As the financial crisis spread throughout the region, resulting in the baht depreciation and weakening confidence of foreign investors and creditors, there were large net capital outflows linked especially to the acceleration of debt repayment by the private sector. Nevertheless, Thailand's progress in implementing the economic restructuring framework, in cooperation with the IMF in 1997, helped restore foreign investor confidence and prompted the inflows of foreign direct investment, both in forms of recapitalisation funds and direct lending from foreign affiliated companies.

Reflecting these developments, the structure of capital flows and external debt improved successively as debt-related inflows were superseded by direct investment inflows, while short-term private borrowings were replaced by longer-term public borrowing. Consequently, private external debt outstanding declined progressively, raising the share of long-term debt.

In 1998, capital movements recorded net outflows of US$9.6 billion, up by US$6.4 billion from the previous year. Most of this was owing to outflows from the private sector, especially from the bank sector which recorded substantial external debt repayments from both International Banking Facilities (IBF) and commercial banks. Nevertheless, there were also large inflows of funds in 1998 for bank recapitalisation and from parent companies and foreign subsidiaries in forms of equity funds and liquidity injections into Thai companies. Public capital registered higher surplus while the Bank of Thailand capital movements also turned surplus this year, owing mostly to several disbursements under the IMF financial assistance package.

Public Capital (excluding Bank of Thailand)

Public capital recorded a surplus of US$2.0 billion, an increase of 25.6 percent from the previous year, reflecting mostly higher surplus of state enterprises. Of this amount, US$0.4 billion and US$0.3 billion were disbursements of the **Structural Adjustment Loans (SAL)** from the World Bank and the Asian Development Bank, respectively. In addition, there were inflows of foreign loans amounting to US$0.3 billion. This comprised disbursements of US$0.2 billion from the **ADB-Cofinancing** loan from the Asian Development Bank and from private capital market; and loans for improving liquidity in export sector provided by the Export-Import Bank of Japan (JEXIM), which were onlent to the Industrial Finance Corporation of Thailand (IFCT) and the Export-Import Bank of Thailand (EXIM) amounting to ¥40 billion and ¥34 billion, respectively.

Public Capital Flows (Excluding Bank of Thailand)
(millions of US$)

	1997			1998		
	H1	**H2**	**Total**	**H1**	**H2**	**Total**
Loans	**550**	**972**	**1,522**	**901**	**874**	**1,775**
Central government	59	719	778	508	275	783
State enterprises	491	253	744	393	599	992
Long-term	582	972	1,554	761	884	1,645
Central government	91	719	810	408	375	783
State enterprises	491	253	744	353	509	862
Short-term	-32	0	-32	140	-10	130
Central government	-32	0	-32	100	-100	0
State enterprises	0	0	0	40	90	130
Portfolio Investment	**-29**	**-20**	**-49**	**-46**	**269**	**223**
Others	**-318**	**432**	**114**	**-81**	**76**	**-5**
Total	**203**	**1,384**	**1,587**	**774**	**1,219**	**1,993**

Bank of Thailand's Capital

In 1998, the Bank of Thailand's capital movements registered a net surplus of US$4.0 billion, compared with the previous year's deficit of US$2.6 billion, resulting from offshore foreign exchange transactions. This year, disbursements from the IMF Stand-by programme amounted to US$3.5 billion taking the total disbursements to US$10.8 billion. In addition, surplus was also recorded in Bank of Thailand foreign exchange transactions totalling US$0.5 billion.

Bank of Thailand's Disbursements Under the IMF Package
(millions of US$)

	1997			1998		
	H1	**H2**	**Total**	**H1**	**H2**	**Total**
1. IMF	**0**	**2,427**	**2,427**	**403**	**278**	**681**
2. Bilateral	**0**	**4,864**	**4,864**	**2,054**	**730**	**2,784**
2.1 J-EXIM	0	1,664	1,664	1,114	122	1,236
2.2 Central banks	0	3,200	3,200	940	608	1,548
Total	**0**	**7,291**	**7,291**	**2,457**	**1,008**	**3,465**

Private Capital

Private capital flows in 1998 recorded a deficit of US$15.6 billion, almost doubled the previous year's level, reflecting reduced demand for foreign capital. This was partly the result of a significant improvement in liquidity conditions of the banking system linked to continued current account surplus since end-1997. At the same time, private external debt, accumulated over the past several years, fell due. This led to a large amount of debt repayments, particularly by the bank sector totalling US$15.4 billion, more than two times the previous year's level. Furthermore, the strengthening of the baht around end-1998 induced borrowers to repay debt. Nevertheless, progress in the implementation of economic reforms helped strengthen foreign investor confidence which prompted the return of more stable inflows in forms of foreign direct investment, compensating partly for outflows in other categories.

Direct investment, one of the most stable and desirable forms of capital inflows, recorded a surplus of US$6.8 billion in 1998. Of this, US$0.2 billion were **overseas direct investment by Thais**, primarily to preserve their commercial bases and sources of raw materials. **Foreign direct investment** reached a historical high of US$7.0 billion. Of this, US$2.1 billion were for bank recapitalisation in order to

Table 32
Net Private Capital Flows
(millions of US$)

	1997			1998		
	H1	**H2**	**Total**	**H1**	**H2**	**Total**
1. Direct investment	**829**	**2,536**	**3,366**	**4,692**	**2,144**	**6,836**
Bank	-268	453	186	2,143	-42	2,101
Non-bank	1,097	2,083	3,180	2,549	2,186	4,735
(Foreign direct investment)	1,489	2,244	3,733	4,692	2,276	6,968
Bank	54	52	106	2,131	-20	2,111
Non-bank	1,435	2,192	3,627	2,561	2,296	4,857
Equities	1,389	2,098	3,487	1,965	2,174	4,139
Direct loans	46	94	140	596	122	718
2. Loans	**1,859**	**-9,156**	**-7,297**	**-7,367**	**-8,053**	**-15,421**
Bank	2,820	-6,332	-3,512	-4,569	-6,644	-11,214
Commercial banks	1,380	-3,653	-2,273	-243	-1,389	-1,632
BIBF	1,440	-2,680	-1,239	-4,326	-5,255	-9,581
Non-bank	-961	-2,824	-3,785	-2,798	-1,409	-4,207
3. Portfolio investment	**1,424**	**2,965**	**4,389**	**180**	**-175**	**4**
Bank (liabilities)	-318	137	-182	-298	-222	-520
Non-bank	1,742	2,828	4,570	477	47	524
4. Non-resident baht account	**-3,485**	**-2,328**	**-5,813**	**-1,092**	**-1,699**	**-2,791**
5. Others	**301**	**-3,048**	**-2,746**	**-2,507**	**-1,750**	**-4,256**
Bank*	170	-2,947	-2,776	-2,326	-1,650	-3,975
Non-bank	131	-101	30	-181	-100	-281
Trade credit	185	-401	-216	-287	-217	-504
Others	-54	300	246	106	117	223
Total	**929**	**-9,031**	**-8,102**	**-6,095**	**-9,533**	**-15,628**
Bank	**2,405**	**-8,689**	**-6,284**	**-5,050**	**-8,558**	**-13,608**
Non-bank	**-1,476**	**-342**	**-1,818**	**-1,045**	**-975**	**-2,020**

* *Commercial banks' asset minus direct investment.*

provide adequate capital bases for rising non-performing loans and meet the provisioning for sub-standard loans according to international standards. For non-bank sector, foreign direct investment amounted to US$4.9 billion, substantial increase in both equity investment and direct loans. Of this, equity investment rose by 18.7 percent from the previous year, intended for production expansion, equity purchases from Thais by foreigners, and new investment. For the most parts, direct loans from foreign affiliates, which increased by several folds, were corporate loans to provide liquidity for those unable to source domestic financing in light of the unresolved non-performing loan problems among financial institutions.

Table 33
Foreign Direct Investment by Sector *
(Net Inflow)

	Millions of US$		Percentage share	
	1997	1998 P	1997	1998 P
Industry	**1,840**	**2,054**	**49.3**	**29.5**
Machinery and transport	391	678	10.5	9.7
Metal and non-metal	218	321	5.8	4.6
Petroleum	6	319	0.2	4.6
Electrical appliances	626	249	16.8	3.6
Textiles	37	99	1.0	1.4
Chemicals	165	209	4.4	3.0
Others	397	179	10.6	2.6
Financial institutions**	**208**	**2,618**	**5.6**	**37.6**
Trade	**1,040**	**849**	**27.9**	**12.2**
Holding companies	**25**	**314**	**0.7**	**4.5**
Services	**307**	**295**	**8.2**	**4.2**
Construction	**142**	**146**	**3.8**	**2.1**
Real estate	**113**	**493**	**3.0**	**7.1**
Others	**58**	**199**	**1.5**	**2.9**
Total	**3,733**	**6,968**	**100.0**	**100.0**

* *Include equity investment + borrowings from affiliates.*
** *Include foreign direct investment in banking sector.*
P = *Preliminary figures*

Financial institutions received the largest amount of FDI with inflows increasing manifolds and accounting for 38 percent of total FDI. Specifically, bank recapitalisation flowed in between the end of first quarter and mid-1998. Second largest recipient was manufacturing sector, accounting for 30 percent and recording a 12 percent increase from the previous year. Most investment went into machinery and transportation equipment sector, especially the automobile industry which received large financial support from the United States and Japan, most of which were long-term ongoing projects aimed at establishing Thailand as production base for exports. This was followed by petroleum industry and metal and non-metal industry which received investment from France and Japan.

Most foreign direct investment in the non-bank sector were from Japan, accounting for 32 percent (increasing by 43 percent from the previous year); followed by the United States, accounting for 19 percent (increasing by 51 percent), and Singapore accounting for 11 percent (increasing by 84 percent).

Table 34
Foreign Direct Investment by Country *
(Net Inflow)

	Millions of US$		Percentage share	
	1997	**1998**	**1997**	**1998**
Japan	1,082	1,547	29.8	31.9
United States	619	933	17.1	19.2
Singapore	285	523	7.9	10.8
Hong Kong	410	460	11.3	9.5
Netherlands	136	305	3.7	6.3
France	23	224	0.6	4.6
United Kingdom	111	123	3.1	2.5
Taiwan	179	83	4.9	1.7
Switzerland	105	58	2.9	1.2
Others	677	601	18.7	12.4
Total	**3,627**	**4,857**	**100.0**	**100.0**

* *Exclude FDI in banking sector*

Loans

External loan repayments by bank and non-bank sectors were substantial this year on account of : (i) ample liquidity in the banking system driven by persistent current account surplus since end-1997, the continued accumulation of FDI inflows, and foreign capital inflows through the non-resident baht account for FRA auctions; (ii) the slowdown of domestic credit expansion in line with sluggish economy; and (iii) the strengthening of the baht around end-year. Consequently, loans recorded net outflows of US$15.4 billion in 1998, of which more than 70 percent were net outflows of bank loans, especially BIBF loans. To reduce exchange rate risks, foreign debt obligations, and cost of borrowings, some BIBF customers requested to convert foreign currency loans into baht loans, induced by the strong baht and low domestic interest rates. **Loans to non-bank sector** registered a larger deficit, up by 11 percent from the previous year. There were large prepayments during the first quarter of 1998 when the impact of financial crisis still prevailed. Nevertheless, non-bank external loan repayments moderated substantially from the second quarter of 1998.

Portfolio investment recorded a surplus of US$4.0 billion in 1998, down from US$4.4 billion in the preceding year. Most were reductions in equity securities and debt securities of non-bank sector. This was in tandem with sluggish stock market following the financial crisis in the region, which weakened foreign investor confidence and subsequently reduced foreign investment in securities markets in the region, including Thailand.

Non-resident baht accounts registered a smaller deficit, down by 51 percent from the previous year. This was due partly to the inflows for FRA auctions and swap settlements.

International Reserves

International reserves amounted to US$29.5 billion at end-December 1998, an increase of US$2.5 billion from the previous year. This was the combined result of the balance of payments surplus of US$1.7 billion and valuation change of US$0.8 billion from reserve holdings in other assets valued in US dollar.

Bank of Thailand's Net Forward Position

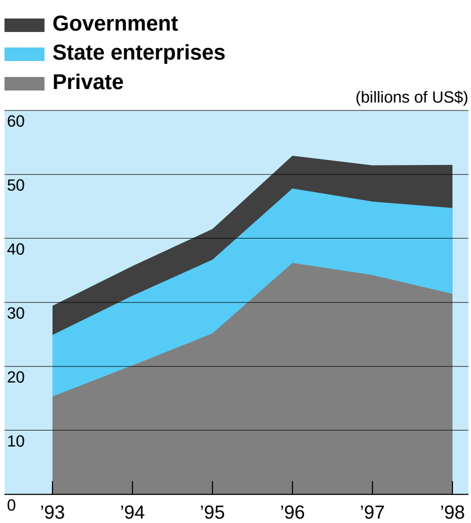
At end-December 1998, Bank of Thailand (BOT)'s outstanding forward obligations totalled US$6.6 billion, a decline of US$11.4 billion from end-1997. BOT had completely unwound all its forward positions with offshore financial institutions. Remaining were onshore swaps transacted with domestic financial institutions for which BOT used as one of its instruments for the conduct of monetary policy.

External Debt

At end-1998, total external debt outstanding amounted to US$86.2 billion, decreasing by 7.8 percent from the previous year. Private external debt declined sharply due partly to repayment of short-term debt by banks given ample liquidity in the banking sector driven by persistent current account surpluses since end-

LONG-TERM EXTERNAL DEBT

(Outstanding - Excluding Bank of Thailand)



FOREIGN BORROWING BY GOVERNMENT AND STATE ENTERPRISES

(Classified by sources of fund)

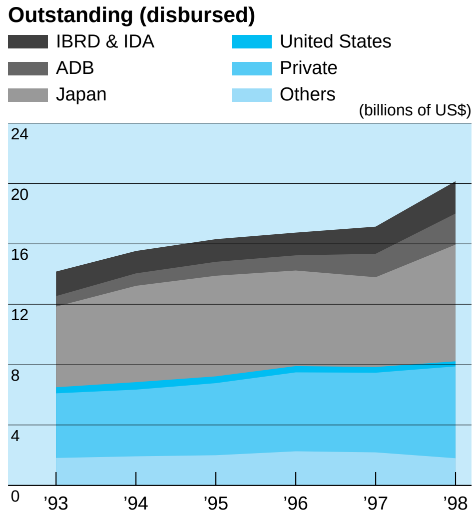


Table 35
External Debt Outstanding at End-Period
(millions of US$)

	1997		1998 P		Percentage share	
	Jun.	Dec.	Jun.	Dec.	1997	1998
Public Sector	**17,345**	**17,166**	**17,558**	**20,305**	**18.4**	**23.6**
Long-term	17,325	17,146	17,398	20,155	18.4	23.4
Short-term	20	20	160	150	0.0	0.2
Central government	5,224	5,667	6,049	6,737	6.1	7.8
Long-term	5,224	5,667	5,949	6,737	6.1	7.8
Short-term	0	0	100	0	0.0	0.0
State enterprises	12,121	11,499	11,509	13,568	12.3	15.7
Long-term	12,101	11,479	11,449	13,418	12.3	15.6
Short-term	20	20	60	150	0.0	0.1
Bank of Thailand *	**0**	**7,157**	**9,439**	**11,204**	**7.6**	**13.0**
Private Sector	**79,156**	**69,093**	**61,163**	**54,651**	**74.0**	**63.4**
Long-term	36,196	34,277	32,827	31,338	36.7	36.4
Short-term	42,960	34,816	28,336	23,313	37.3	27.0
Total	**96,501**	**93,416**	**88,160**	**86,160**	**100.0**	**100.0**
Long-term	**53,521**	**58,580**	**59,664**	**62,697**	**62.7**	**72.8**
Short-term	**42,980**	**34,836**	**28,496**	**23,463**	**37.3**	**27.2**

* *All long-term debt*
P = *Preliminary figures*

1997; continued inflows of FDI and for FRA auctions; and the baht appreciation during end-year. These induced both bank and non-bank sectors to repay foreign currency obligations. Meanwhile, long-term debt increased, mostly on account of government borrowing and Bank of Thailand's disbursements under the IMF financial assistance package. In addition, there were long-term credits provided by foreign parent companies to non-bank sectors.

The structure of Thailand's external debt improved as short-term private debt were repaid and replaced partly by long-term public debt. As a result, private external debt outstanding declined successively from 74 percent of the total at end-1997 to 63.4 percent this year. The ratio of long-term to short-term debt improved from 63:37 by end-1997 to 73:27 by end-1998. Most of the external debts continued to be denominated in US dollar, though its share decreased from 71.1 percent to 61.7 percent. Meanwhile, the share of Japanese yen rose from 25 percent in 1997 to 33 percent in 1998 due partly to the yen appreciation; government and BOT borrowing in yen for economic reforms; and private sectors shifting to more yen borrowing.

Table 36
External Debt by Currency
(millions of US$)

	Private		Public*		Total	
	1997	1998	1997	1998	1997	1998
Total	**69,092**	**54,651**	**24,323**	**31,509**	**93,415**	**86,160**
US dollar	54,222	38,142	12,238	14,991	66,460	53,133
Yen	14,284	16,105	8,738	12,357	23,022	28,462
Swiss Franc	237	107	17	15	254	122
Euro	n.a.	242	n.a.	605	n.a.	847
– Deutsche Mark	340	217	293	340	633	557
SDRs	0	0	2,445	3,253	2,445	3,253
Others	10	55	592	288	602	343
Percentage share	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
US dollar	78.5	69.8	50.3	47.6	71.1	61.7
Yen	20.7	29.5	35.9	39.2	24.6	33.0
Swiss Franc	0.3	0.2	0.1	0.0	0.3	0.1
Euro	n.a.	0.4	n.a.	1.9	n.a.	1.0
– Deutsche Mark	0.5	0.4	1.2	1.1	0.7	0.6
SDRs	0.0	0.0	10.1	10.3	2.6	3.8
Others	0.0	0.1	2.4	0.9	0.6	0.4

* *Including BOT*

Public Debt

At end-1998, outstanding public external debt totalled US$20.3 billion, up by 18 percent from 1997. This was mainly the result of exchange rate movements, especially the appreciation of Japanese yen vis-a-vis the US dollar by 13.4 percent; i.e., from 130 yen/US dollar at end-1997 to 115 yen/US dollar at end-1998. With increased loan disbursements in yen and reduced disbursements in US dollar during the year, the share of Japanese yen in the public external debt increased from 42 percent at end-1997 to 45 percent at end-1998. Sixty-seven percent of public external debt belonged to state enterprises, increasing by 18 percent from the previous year. Meanwhile, central government debt increased by 18.9 percent.

During the fiscal year 1998, the Government signed 30 new loan agreements under the annual plan for external public debt totalling US$6.0 billion. Loan disbursements in 1998 (January-December) amounted to US$2.9 billion (including disbursements of loan agreements signed during previous years).

Bank of Thailand's Disbursement Outstanding under the Economic Adjustment Programme (The IMF package)
(millions of US$)

Source	1997	1998 Jun.	1998 Dec.
1. IMF	2,429	2,796	3,239
2. Bilateral	4,728	6,643	7,965
2.1 J-EXIM	1,528	2,503	3,217
2.2 Central banks	3,200	4,140	4,748
Total	7,157	9,439	11,204

Bank of Thailand's External Debt

External debt of the Bank of Thailand, which were loans extended under the IMF Stand-by package first disbursed in August 1997, amounted to US$11.2 billion at end-1998. It accounted for about 13 percent of public external debt, increasing by US$4 billion from the previous year, or 56.5 percent. Outstanding disbursement comprised borrowings from the IMF, which was contracted in SDR terms, but disbursed in US dollar equivalent to US$3.2 billion; loans from the Export-Import Bank of Japan (JEXIM) in Japanese yen equivalent to US$3.2 billion; and loans from other central banks worth US$4.7 billion. Of the US$4 billion increase, US$0.5 billion resulted from yen appreciation during the last quarter of the year.

Private External Debt

Given persistent current account surplus, increased inflows of FDI and from FRA auctions, as well as the baht appreciation during the second half of the year, the private sector repaid debt borrowed over previous years in order to reduce foreign currency debt burden. At end-1998, private external debt outstanding amounted to US$54.7 billion, a decrease of US$14.4 billion or 20.9 percent from the previous year. Most private debt was denominated in US dollar, which share decreased sharply from 78.5 percent at end-1997 to 69.8 percent at end-1998. At the same time, the private sector shifted to yen borrowing to diversify foreign exchange risks. Consequently, the portion of debt denominated in yen rose from 20.7 percent at end-1997 to 29.5 percent at end 1998.

Commercial bank debt outstanding at end-1998 amounted to US$7.1 billion, down by US$2.4 billion or 25.6 percent from the preceding year. This was mostly due to a sharp decline in short-term debt following continued large repayments since the second quarter, given high liquidity in the banking system, and the strengthened baht at end-year inducing banks to repay existing external obligations.

Table 37
Private External Debt Outstanding
(millions of US$)

	1997		1998 P	
	Jun.	Dec.	Jun.	Dec.
1. Bank	**45,496**	**39,567**	**34,426**	**28,951**
Long-term	15,697	14,141	12,207	10,744
Short-term	29,799	25,426	22,219	18,207
1.1 Commercial banks	12,960	9,488	8,747	7,059
Long-term	3,529	3,824	3,971	3,738
Short-term	9,431	5,664	4,776	3,321
1.2 BIBFs	32,536	30,079	25,679	21,892
Long-term	12,168	10,317	8,236	7,006
Short-term	20,368	19,762	17,443	14,886
2. Non-bank	**33,660**	**29,526**	**26,737**	**25,700**
Long-term	20,499	20,136	20,620	20,594
Short-term	13,161	9,390	6,117	5,106
3. Total	**79,156**	**69,093**	**61,163**	**54,651**
Long-term	36,196	34,277	32,827	31,338
Short-term	42,960	34,816	28,336	23,313

P = *Preliminary figures*

BIBF debt outstanding amounted to US$21.9 billion at end-1998, down by 27.2 percent from the previous year. Both long- and short-term debt contracted sharply. Debt repayment had been steadily high since end-1997, especially Thai BIBF loans. Some customers asked to convert foreign currency loans into baht-loans in order to reduce exchange rate exposure and take advantage of declining domestic interest rate. Others repaid to reduce debt burdens. All these developments took place in the second half of the year when the baht was appreciating.

Non-bank debt outstanding amounted to US$25.7 billion at end-1998, down by 13 percent from the previous year, due to reduction in short-term debt. In contrast, long-term debt outstanding increased from the previous year, reflecting the inflows from both parent companies and foreign affiliates to provide liquidity for Thai companies during periods of credit crunch. Repayments of short-term debt remained high during the first quarter of 1998, due to the ongoing financial crisis and partly by repayments to Japanese parent companies prior to the end of financial year in March. Some of these outflows were expected to be reversed in April. The overall situation improved during the second and third quarter reflecting decelerated repayment. In the fourth quarter, given continued current account surplus, improved liquidity and strengthened baht, debt repayment accelerated with companies repaying existing external obligations, thus reducing burden in foreign currencies. As most of repayments concentrated in short-term debt, the ratio of long-term to short-term debt rose from 68:32 last year to 80:20 in 1998.

Debt Servicing

In 1998, debt servicing totalled US$14.0 billion. Of this, US$8.7 billion were principal repayments, up by 43.1 percent from the previous year. Interest payments decreased by 3.7 percent in line with reduced external debt outstanding and foreign interest rates.

Public debt servicing (including the Bank of Thailand) amounted to US$2.2 billion, up by 11.8 percent from the previous year. This reflected increased interest payments, especially those incurred through government borrowing for economic reforms. Meanwhile, private debt servicing amounted to US$11.8 billion, up by 22.5 percent from the previous year. Of this amount, principal repayments went up by 55.9 percent, mostly BIBF repayments, while private interest payments decreased.

Table 38
External Debt Servicing [1/]
(millions of US$)

	1997			1998 [E]		
	H1	**H2**	**Total**	**H1**	**H2**	**Total**
Public sector (incl. BOT)	922	1,036	1,958	1,014	1,176	2,190
Principal	495	582	1,077	393	513	906
Interest	427	454	881	621	663	1,284
Private sector	4,808	4,863	9,671	5,596	6,254	11,850
Principal	2,356	2,639	4,995	3,541	4,244	7,785
Interest	2,452	2,224	4,676	2,055	2,010	4,065
Total debt service	5,730	5,899	11,629	6,610	7,430	14,040
Principal	2,851	3,221	6,072	3,934	4,757	8,691
Interest	2,879	2,678	5,557	2,676	2,673	5,349
Export earnings in foreign currencies [2/]	37,182	36,983	74,165	33,284	34,157	67,441
Debt service ratio	15.4	16.0	15.7	19.8	21.8	20.8
Public sector	2.5	2.8	2.6	3.0	3.5	3.2
Private sector	12.9	13.2	13.0	16.8	18.3	17.6

1/ *Excluding loan prepayments, principal repayment on short-term loans and principal repayments on commercial banks' loan.*
2/ *Income from exports of goods & services (excluding investment income).*
E *= Estimates*

The debt-service ratio increased from 15.7 percent in 1997 to 20.8 percent in 1998. Debt servicing rose significantly by 20.7 percent while export earnings in foreign currency fell by 9.1 percent.

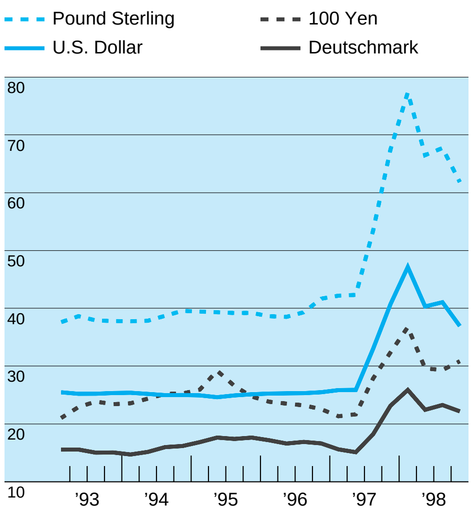
Foreign Exchange Movements and Gold Prices

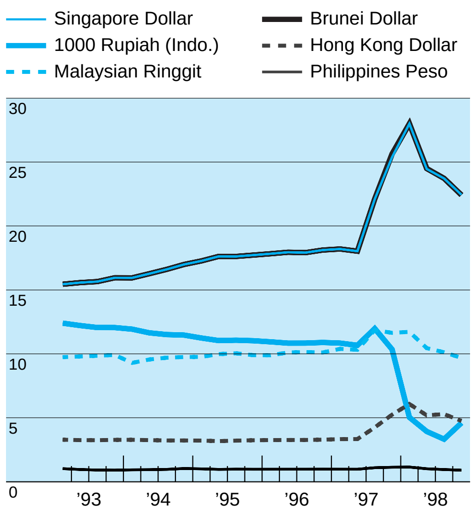
Movements of Baht in Bangkok Markets

In the beginning of 1998, the baht was quite volatile, depreciating rapidly from 47.25 baht/US dollar at end-1997 to 56.06 baht/US dollar on 12 January 1998, the weakest level since the flexible exchange rate regime was adopted. This reflected the depreciation of regional currencies and increased demand for US dollar for external debt repayment. Nevertheless, the baht regained stability progressively since mid-February on account of continued improvement in trade and current account, the abolition of two-tier foreign exchange market, as well as increased confidence in economic and financial restructuring policies. This contributed to inflow of foreign capital, in particular, for commercial bank recapitalisation, FRA's periodic auctions, as well as recapitalisation of joint-ventures companies with foreign businesses. In addition, the appreciation of regional currencies, such as Indonesian rupiah and Korean won during February and May, contributed to continued strengthening of the baht which moved between 38.5-41.04 baht/US dollar in April and May.

In the second half of 1998, the baht depreciated slightly in line with Japanese yen which fell to its weakest level of 147.41 yen/US dollar on 11 August.

EXCHANGE RATES (MID-RATE)
(Baht per foreign currency unit)





Speculative attacks on Hong Kong dollar, impeaching on stability of Chinese yuan, as well as financial crises in Russia and Brazil, prompted the baht to weaken to 40.36-43.67 baht/US dollar between June and August. Nevertheless, the baht strengthened since September and stabilised in the fourth quarter, crossing the 36 baht/US dollar for the first time in late November.

For December, the average exchange rate of the baht was 36.69 baht/US dollar, 61.66 baht/pound sterling, 31.73 baht/100 yen, and 21.92 baht/DM.

Factors contributing to the baht appreciation included:

1) Signs of improvement on economic crises in Asia, especially in South Korea and Indonesia, began to emerge. In addition, pressure for China to devalue yuan lessened as the yen continued to appreciate in the fourth quarter. Speculative attacks on Hong Kong dollar by hedge funds were unsuccessful.

2) Reduction of hedge funds' forward sale of emerging market currencies, particularly in cross-currency forward markets of several currencies including the baht.

3) Capital control in Malaysia with currency value pegged at 3.8 ringgit/US dollar adversely affected investor confidence relating to commitment to financial liberalisation. As a result, foreign investors shifted to baht assets to adjust short term positions of their portfolio.

4) Financial assistance from the New Miyazawa Initiative of US$30 billion and the US$10 billion from the US and Japan joint assistance announced at the APEC meeting to assist countries in the region facing economic crises.

Movements of Major Currencies in International Markets

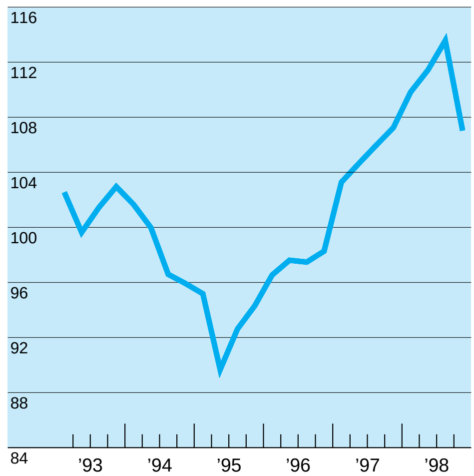
In 1998, exchange rate movements of major currencies were influenced by economic turmoil which began in Asia and spread subsequently to Russia and Latin America before the International Monetary Fund (IMF) and the United States stepped in to help resolve the situation. In addition, expanded role of European Central Bank (ECB) in formulating monetary policy and determining the Euro exchange rate directly affected international economy and exchange rates.

US Dollar

In 1998, the average index of the US dollar (as measured by trade-weighted value of the dollar against its value in 1990 base year) rose by 4.9 percent to 110.47 from 105.27 in the previous year.

On average, the US dollar appreciated by 7.6 and 1.5 percent against the Japanese yen and Deutsche mark, respectively. It rose from 121.02 yen/dollar and 1.733 DM/dollar in 1997 to 130.91 yen/dollar and 1.759 DM/dollar in 1998. Its movement against yen was markedly volatile in 1998. In contrast, the dollar depreciated by 1.1 percent against the pound, from an average of 1.639 US dollar/pound in 1997 to 1.657 US dollar/pound in 1998.

U.S. DOLLAR INDEX
(1990 = 100)



Morgan Guaranty's Index

Factors underlying the strength of US dollar were as follows:

1) Continued expansion of the US economy in 1998 without inflationary pressure.

2) Investors shifted short-term capital from Asia to the US and other developed countries (flight to quality) to reduce risk exposure in Asia. This led to a sharp depreciation of yen and other currencies in the region. In addition, exchange rate crises in other regions, such as Russia, contributed to higher demand for US dollar perceived as safe haven currency.

3) The Japanese economy continued to be in a recession; with limited progress in resolution of financial institution problem, thus putting pressure on the yen, which weakened to the level of 140 yen/US dollar an average in mid-1998.

Japanese Yen

The yen depreciated by 7.6 percent against the US dollar, from an average of 121.02 yen/dollar in 1997 to 130.91 yen/dollar in 1998. It hit its weakest level at 144.76 yen/dollar in August 1998 following delay in implementing measures to resolve financial institution problems in Japan.

The yen depreciation during the first 3 quarters was attributed to the following factors:

1) Foreign investors lacked confidence in government's measures and commitment to resolving non-performing loan problem, resulting in continued depreciation since January 1998. The currency reached its weakest at 147.41 yen/dollar on 11 August 1998.

2) Continued sluggish Japanese economy affected economies in the region as Japanese imports declined in tandem with domestic demand. Since these countries are also Japan's major export markets, this in turn led to reduced imports from Japan.

The yen appreciation during end-1998 was attributed to the following factors:

1) Fiscal stimulus amounting to 63 trillion yen, government recapitalisation of troubled financial institutions, as well as deposit guarantee schemes strengthened market confidence on the eventual resolution of financial crisis in Japan.

2) Japan's financial support plan of US$30 billion for countries in the region facing economic crises should help alleviate hardships and enhance the region's pace of economic recovery which will ultimately benefit Japan.

Deutsche Mark

In 1998, the Deutsche mark depreciated by 1.5 percent against the US dollar, with the average exchange rate of 1.759 DM/US dollar compared with 1.734 DM/US dollar in 1997. The mark hit its weakest level at 1.837 DM/US dollar in March, then continued to appreciate until the end of the year.

The major Russian announcement of the 90-day debt moratorium contributed to the depreciation of the Deutsche mark in mid-1998 because Germany was a major investor and creditor of Russia.

The main factor contributing to the Deutsche mark appreciation at the end of the year was the refusal of Germany authorities to lower interest rates in line with reductions by other industrial countries, including Japan, US, and UK to stimulate their domestic economies. Although the Bundesbank announced that Germany interest rates were already at low level, it subsequently reduced interest rates by 0.3 percent in November following political pressure.

Pound Sterling

In 1998, the pound sterling appreciated by 1.1 percent against the US dollar, with the average exchange rate of 1.657 dollar/pound compared with 1.639 dollar/pound in the previous year.

Factors contributing to the pound appreciation were:

1) Higher-than-targeted inflation in the beginning of 1998 prompted investors to expect the Bank of England to increase interest rates to contain inflation. The pound was, therefore, anticipated to appreciate and investors increased investment in sterling-denominated securities.

2) The Bank of England raised the Base Rate from 7.25 to 7.5 percent in June to contain rapid increase in wages, pound depreciation, as well as to slow down domestic demand, with an aim to keep inflation within the target of 2.5 percent.

The factor contributing to the pound's periodic depreciation was the export slowdown during mid-1998, a direct consequence of Asian crises and pound appreciation.

Gold Prices

The average gold price in the London market decreased by 11.2 percent from 331.32 US dollar/troy ounce in 1997 to 294.36 US dollar/troy ounce in 1998. Gold prices dropped to its lowest level in twelve months of 284.10 US dollar/troy ounce in August 1998.

Factors contributing to lower gold prices included:

1) Pressure from the US dollar appreciation as the US dollar index stood at 110.47, the highest level since 1990. Investors shifted from holding gold to the US dollar.

2) The gold market awaited the European Central Bank (ECB)'s policy on international reserve, of which gold was a component. With the ECB Board of Directors' decision to hold 15 percent of reserves in gold, the market expected ECB and other central banks to sell excess gold holdings after the launch of Euro on 1 January 1999.

3) Reduction of gold imports of Asia. For instance, Taiwan substantially reduced gold imports for coin minting and mould production by 83 percent in line with contracted demand following regional economic crises.

The average price of gold bars in the Bangkok market rose to B5,690 per baht weight in 1998 from B4,824 in 1997, owing to the rapid depreciation at the beginning of the year. As a result, gold prices peaked at B6,993 per baht weight, before declining successively, during the third and fourth quarters, following baht appreciation and decreased domestic demand for gold in line with economic contraction. In December, gold price was B5,117 per baht weight in Bangkok market.

Major Measures In 1998

In 1998, the authorities implemented monetary policy measures to maintain the macroeconomic stability by ensuring that the interest rate and exchange rate were at levels consistent with current economic conditions. Moreover, measures were undertaken to restructure the financial sector, aiming at corporate debt restructuring and the alleviation of liquidity problems. Meanwhile, financial institution supervision and development measures were implemented to support the resolution of financial sector problems. These measures can be summarised as follows:

Monetary Measures

1. Interest Rate Measures

1.1 Interest Rate Ceiling of Deposits

The Bank of Thailand (BOT) issued 2 announcements on the levels of interest or discount rates which finance companies could pay to or collect from customers (Announcement No. 4); and on interest or discount rates for commercial banks (Announcement No. 5) on 10 July 1998 in addition to previous announcements.

1) The maximum rate on promissory notes issued by finance companies was set at 3 percent above the reference savings deposit rate announced by BOT.

2) The maximum demand deposit rate of commercial banks was set at 2 percent above the reference savings deposit rate announced by BOT. The maximum time deposit rates remained unchanged. Banks were, however, required to announce the same maximum deposit rates for headquarters as for branches.

These measures were effective from 14 July 1998.

1.2 Interest Rate Ceiling for Negotiable Certificates of Deposits (NCD)

On 21 August 1998, BOT issued an announcement on the interest rates for negotiable certificates of deposits of commercial banks and finance companies. These NCD rates must be the same as for time deposits, i.e., not exceeding the reference rate plus a margin of 3 percent. If large commercial banks set NCD rates differently from their deposits rates, they must report the NCD rates to BOT for computation of the reference deposit rate.

1.3 Discount Rates for Promissory Notes

BOT issued a circular to commercial banks, finance companies, finance & securities companies, the Industrial Finance Corporation of Thailand, and the Small Industry Finance Corporation, regarding the modification of discount rates of promissory notes purchased under the regulations on financial assistance to industrial entrepreneurs, small enterprises, animal husbandries, public warehouses, and agricultural or industrial projects for rural development. BOT changed the interest rates which financial institutions could charge end-users to a floating rate based on the Minimum Lending Rate (MLR) of the transacting commercial bank minus 2.75 percent per annum. For non-banks, the rate is calculated by averaging the MLR of four large banks (Bangkok Bank, Krung Thai Bank, Thai Farmers Bank, and Siam Commercial Bank) minus 2.75 percent per annum. These measures were effective from 4 May 1998.

2. Foreign Exchange Measures

2.1 Abolition of Two-Tier Foreign Exchange Market

The Bank of Thailand (BOT) abolished the two-tier foreign exchange market and permitted financial institutions to engage freely in spot foreign exchange transactions involving Thai baht with non-residents, effective 30 January 1998.

Nevertheless, to safeguard against potential instability and speculation in the currency market, a maximum outstanding limit was imposed on commercial banks for the credit facilities in Thai baht extended or contingent claims involving future payment of foreign exchange to non-residents, not exceeding B50 million per counterparty. This requirement is exempted for transactions which have underlying trade or investment activities in Thailand.

2.2 Measures to Enhance Foreign Currency Flows

Amendments to the exchange control regulations to be observed by authorised banks were as follows:

1) Exporters were required to remit their proceeds received from buyers abroad into the country immediately after payment was received, irrespective of the timeframe for payment, which must not exceed 120 days (from the date of export), unless otherwise approved by exchange control officers.

2) Any person receiving foreign currency was required to sell it to or deposit it with authorised banks within 7 days from the date of receipt, inclusive of bank holidays, unless otherwise approved by exchange control officers.

These measures were effective from 7 January 1998.

2.3 Measures to Limit Holding of Foreign Exchange for Speculation

On 12 January 1998, BOT issued an additional announcement limiting the holding of foreign currency for speculation as follows:

1) To prevent foreign currency purchase without supporting documentation, BOT will inspect all documents required for the sale of foreign currency. Authorised banks were, therefore, requested to be stringent in foreign currency selling to retail customers (sale of less than US$5,000 per transaction or equivalent, which were not used for payment of goods).

2) BOT will send out inspectors, on a sampling basis, to authorised banks for on sight inspection to detect offences committed in the trading of foreign currency to individuals.

3) BOT will establish an accumulated point system to augment monitoring and surveillance whereby the punishment will be met according to penalty points, which could lead ultimately to a temporary suspension of the authorised bank's foreign exchange license.

3. Credit Measures

3.1 Adjustment of Risk Weighting of Export Loans

On 6 March 1998, the Bank of Thailand (BOT) announced amendments to the capital adequacy requirement of commercial banks and finance companies by adjusting the risk weight of export loans as follows:

1) The risk weight of export loans under the pre-shipment letter of credit (L/C) was reduced from 100 to 20 percent, while the risk weight for post-shipment L/C was maintained at 20 percent.

2) Export loans under other documents, including Document against Payment (D/P) and Document against Acceptance (D/A), in which payments were guaranteed by commercial banks abroad, regardless of the status of shipment, were given a risk weight of 20 percent.

These measures were effective from 6 March 1998.

3.2 Observance of Credit Plans

In accordance with commercial banks' monthly reports to BOT on the observance of credit plans, which showed that the monthly credit extension by banks during the first quarter of 1998 was continuously lower than the target for the first half of 1998, and improved liquidity positions of most commercial banks; BOT permitted those wishing to revise credit plans for the second half of 1998 to submit their plans to BOT by 10 June 1998.

3.3 Credit Card Service

BOT issued an announcement on 30 October 1998 relaxing regulations on the use of credit cards, by postponing the implementation of regulations on the credit line and minimum payment as follows:

1) For the maximum credit line for old and new cardholders, currently set at not exceeding two times their average monthly salary, this rule has been extended, for old cardholders before 1 January 1998, for 2 more years to 1 January 2001. Banks are permitted to provide credit lines exceeding two times the average monthly salary for old and new cardholders who have not missed payments for more than 30 days in the previous year, or have fixed deposits as collaterals exceeding the credit line set at two times the monthly salary.

2) As for the new rule requiring the minimum payment of each instalment to be at least 10 percent of outstanding loans, but not less than B2,000; this rule was postponed for old cardholders for 2 years. During this extension period effective 1 January 1999-31 December 2000, the minimum payment by old credit cardholders shall be at least 5 percent of outstanding loans but not less than B1,000.

4. Measures to Alleviate the Liquidity Problems

4.1 New Lending to Classified Debtors

The Bank of Thailand (BOT) issued a circular on 16 April 1998 to foster a common understanding that financial institutions may extend new credit or lending to classified debtors with caution and should observe the following principles:

1) They must be able to distinguish the reasons and necessity for new lending from those of the existing debt and, having evaluated and ascertained the repayment ability, have sufficient capacity to monitor and control the use of funds by borrowers according to the defined objectives.

2) The new lending must not be used to refinance existing debt directly or indirectly to circumvent loan classification and provisioning requirements; and

3) The timeframe for repayment of the new lending should be set in consistent with revenue or cashflow of debtors and adequate evidence supporting the analysis of new lending must be readily available for verification.

4.2 Extension of BIBF Business to Enhance Liquidity for Exporters and Importers

BOT announced the relaxation of regulations on the undertaking of BIBF business by commercial banks in efforts to increase credit to exporters. The main features are as follows:

1) Reducing the minimum loan disbursement of out-in transactions from US$2,000,000 to US$500,000 for credit extended to exporters whose income from export exceeds half of their total income, or customers whose income derived from sales or services provided to exporters exceeds half of their total income. This included the purchase or transfer of foreign currency borrowing;

2) Allowing BIBF to discount export-related foreign currency denominated instruments from exporters in Thailand without a minimum limit;

3) Allowing BIBF to underwrite, aval, or guarantee foreign currency loans to domestic customers wishing to borrow foreign currency loans from Thai commercial banks or foreign financial institutions. The limit was set at US$2,000,000 or equivalent for general customers, and US$500,000 or equivalent for exporters or customers whose income from export or from sales or services provided to exporters exceeds half of their total income; and

4) Increasing the baht denominated asset which BIBF can hold for operating expenses in Thailand from B100 million to B200 million and expand the types of such asset to include cash, advances to staff, advanced operational expenses, and deposits.

These measures were effective from 17 April 1998.

In addition, to provide BIBF greater opportunity to increase lending to importers, BOT announced guidelines, procedures, and conditions for the undertaking of BIBF businesses by banks (No.2) which can be summarised as follows:

1) Allowing BIBF to open foreign currency L/C to domestic importers for the minimum credit lines of US$2,000,000 or equivalent for general importers, and US$500,000 or equivalent for importers whose income from export or from sales or services provided to exporters exceeds half of their total income; and

2) Allowing BIBF to lend against trust receipt (T/R) denominated in foreign currency to importers with or without L/C with the minimum amount as defined in 1).

These measures were effective from 5 June 1998.

4.3 Establishment of the Hotline Centre to Receive Complaints on Liquidity Problems of Small Exporters

BOT issued BOT news on 3 June 1998, regarding the establishment of an ad hoc committee for the small export industry to consider guidelines and short-term measures for solving liquidity problems of small exporters. In this connection, a hotline centre was set up to receive directly information on liquidity problems of small exporters with difficulties in securing credit from financial institutions.

4.4 Financial Support to Small and Medium Enterprises

BOT issued an announcement on 15 October 1998 regarding the provision of financial assistance to small and medium enterprises (SME). Financial institutions were requested to cooperate in expediting credit extension to these enterprises, recognising that financial assistance to SME is an important and urgent policy measure. In this connection, BOT relaxed its requirements such that entrepreneurs, whose previous receipt of financial assistance from BOT had expired, may apply again. Eligible applicants were to include the operators of handicraft and household industries.

5. Measures to Rehabilitate the Financial Sector

5.1 Financial Sector Restructuring Plan

The Bank of Thailand announced on 14 August 1998 the following measures under the financial sector restructuring plan:

1) Two commercial banks and five finance companies (Laem Thong Bank, Union Bank of Bangkok, Dhana Siam Finance & Securities, First City Investment, IFCT Finance & Securities, Vajiradhanathun Finance, and Thai Summit Finance & Securities) were ordered to write down capital, reduce their value per share to one satang, increase capital fund, and change management. Laem Thong Bank (LTB) was to be integrated with Radanasin Bank (RAB), while Union Bank (UBB) and five newly intervened finance companies, together with seven formerly finance companies (intervened on 18 May 1998) were to be integrated with Krungthai Thanakit Finance & Securities Company (KTT).

2) Bangkok Bank of Commerce (BBC) and First Bangkok City Bank (FBCB) were to be transferred to merge with Krung Thai Bank (KTB). For BBC, only performing assets will be transferred to KTB, while non-performing assets were to remain with BBC, to be turned into an asset management company to manage such assets.

3) Bangkok Metropolitan Bank (BMB) and Siam City Bank (SCIB) were to be recapitalised according to the end-2000 loan classification and provisioning (LCP) requirements. In this connection, the Financial Institutions Development Fund (FIDF) will convert outstanding FIDF lending to these banks to equity and the banks were to be privatised in due course.

4) The authorities implemented two schemes to assist the recapitalisation of financial institutions:

(4.1) Under the tier-1 capital support facility, financial institutions will be required to adopt up-front the end-2000 LCP rules and seek private capital to augment government purchase of preferred shares.

(4.2) Under the tier-2 capital support facility, the Government will help recapitalise financial institutions who experienced losses from debt restructuring resulting in reduced capital fund, or have increased new lending, by purchasing their subordinated debentures considered part of tier-2 capital.

The authorities will undertake to recapitalise only the viable financial institutions, and financial institutions may choose to enter either one or both facilities.

Subsequently, on 29 September 1998, the Ministry of Finance (MOF) issued an announcement on the criteria and conditions for financial institutions wishing to enter tier-1 and tier-2 capital support facilities:

1) Tier-1 capital support facility is only available to commercial banks, finance companies, or finance & securities companies incorporated in Thailand. Financial institutions intervened by BOT, or those designated to act as core in the merger, must have first completed the financial restructuring plan before being eligible to participate. Prior to submitting application, applying financial institutions must have secured the Board of Directors' approval for (1) the request to enter tier-1 capital support scheme; (2) the full provisioning in accordance with BOT requirements; and (3) the issuance of preferred shares for the amount of new capital needed for selling to MOF and other joint investors.

2) Financial institutions eligible to participate in the tier-2 capital support scheme are commercial banks, finance companies, and finance & securities companies incorporated in Thailand, irrespective of their participation in the tier-1 capital support facility. Prior to submitting application, applying financial institutions must have secured their Board of Directors' approval of (1) the request to enter tier-2 capital support scheme; and (2) the issuance of subordinated debentures for the amount of needed capital for selling to the MOF.

Financial institutions wishing to enter the capital support schemes must submit their applications to the Minister of Finance through the Bank of Thailand from 1 October 1998 to 1 November 1999.

5.2 Promulgation of 4 Emergency Decrees to Support the Financial Sector Restructuring Plan

To help resolve problems in the financial sector, the authorities enacted 4 Emergency Decrees:

1) Emergency Decree Allowing the Ministry of Finance to Borrow Money for Strengthening the Financial System B.E. 2541

2) Emergency Decree Amending the Commercial Bank Act B.E. 2505 (No. 4) B.E. 2541

3) Emergency Decree Amending the Act on the Undertaking of Finance Business, Securities Business, and Credit Foncier Business B.E. 2522 (No. 5) B.E. 2541

4) Emergency Decree on the Asset Management Corporation B.E. 2541

These became effective from 24 August 1998.

5.3 Selection Criteria of Financial Advisers for the Privatisation of BMB and SCIB

BOT announced on 24 August 1998 the criteria for the selection of financial advisers for the privatisation of BMB and SCIB. Candidates for the financial adviser must have previous experience in advising the sale of financial institutions; skillful personnels; and extensive international networks. Interested applicants were required to submit their applications, stating clearly the advisory fee and expenses on sale operations and list of personnels, to BOT by 31 August 1998.

5.4 Regulations for Debt Restructuring and Collateral Appraisal

BOT in collaboration with financial institutions set out detailed guidelines for debt restructuring and for collateral valuation and appraisal as follows:

1) Debt restructuring : Financial institutions must set out in writing the strategy and measures for debt restructuring. An unaffiliated financial institution or a third party with no conflict of interest with both the financial institution and debtor, must be appointed to evaluate the debtor's circumstances, ability to repay the loans, and projected future cash flows. This is with the exception of financial institutions who are involved in helping debtors to solve non-performing loans. After restructuring, financial institutions may reclassify loans as normal after the debtor has serviced the restructured loan for 3 consecutive months.

2) Financial institutions must appraise the collateral value regularly at least once a year to ensure that the value of collateral reflects market value. Appraisers must be independent of lending, investment, and collection processes, and must not be related directly or indirectly to the debtor, or have an interest in the collateral itself.

3) Regulations for debt restructuring and collateral valuation and appraisal for calculating the impairment loss on debt restructuring were effective from 2 June 1998. The regulations for collateral valuation and appraisal for calculating the required provisions for possible loan loss subject to BOT's loan classification regulations were effective from 1 July 1998.

On 21 July 1998, BOT issued a circular to inform all foreign commercial banks and foreign BIBF to adopt guidelines for debt restructuring in accordance with the Regulations for Debt Restructuring and Collateral Appraisal, and the Principles, Conditions, and Procedures for Debt Restructuring and Collateral Appraisal, dated 2 June 1998 and 22 June 1998, respectively. In addition, foreign BIBF were required to make provisioning against irrecoverable assets or assets of no value, and expected irrecoverable assets or expected assets of no value, according to their own criteria. This must, however, not be lower than 0.25 percent of the outstanding credit at the close of the 6-month accounting period.

5.5 Increase the Baht Assets of BIBF

To give BIBF the opportunity to invest in the special government bonds issued to restructure liabilities of FIDF, totalling B500 billion, BOT issued an announcement regarding the criteria, procedures, and conditions for the undertaking of BIBF businesses (No.3), permitting BIBF to invest in these bonds without limits (from the previous B200 million limit). In addition, branches of foreign banks and full branches of BIBF can hold government bonds denominated in baht and foreign currencies as capital funds.

These measures became effective from 17 June 1998.

On 18 November 1998, BOT issued corresponding announcement (No.4) on the same subject allowing BIBF to invest in common stocks, preferred stocks, or warrants following the debt restructuring of legal entities incorporated in Thailand to facilitate BIBF in the debt restructuring process using debt to equity conversions method.

5.6 Supplementary Measures to Strengthen the Soundness of the Financial Sector

On 6 February 1998, BOT announced the approval of the change of directors, executive directors, and management of SCIB and nominated external individuals with knowledge and experience in finance and banking to replace these positions.

In addition, BBC, FBCB, and SCIB were recapitalised after their capital were written down.

5.7 Permission for Banks and BIBF to Undertake the Purchase or Transfer of Loans

1) BOT announced on 26 February 1998, permitting commercial banks to undertake the business of purchase or transfer of loans under the following conditions:

– Commercial banks can purchase loans denominated in baht from domestic financial institutions or the Asset Management Corporation (AMC) and loans denominated in foreign currency from domestic financial institutions, foreign incorporated financial institutions, or AMC.

– The purchase or transfer of loans must be an outright purchase and in line with its existing status as regard the quality or classification of assets and accrued payment of interest.

2) BOT announced on 27 February 1998 the permission for BIBF to purchase or transfer foreign currency loans from financial institutions in Thailand, foreign incorporated financial institutions, or AMC whereby each disbursement of the purchase or transfer of loans shall not be less than US$2,000,000 or equivalent. This minimum shall not be applied in the case of a disbursement by a financial institution, a last disbursement, or after an outstanding amount of not less than US$2,000,000 had already been disbursed. The purchase or transfer of loans must be an outright purchase and in line with its existing status as regard the quality or classification of assets, and accrued payment of principal or interest.

6. Measures on Financial Institutions Supervision and Development

6.1 Modification of Financial Institutions Supervision Standards

The Bank of Thailand (BOT) announced on 31 March 1998 the modifications of regulations on the suspension of income recognition of accrued interest payments, loan classification, and provisioning requirements, and other related measures, with a view to bringing supervisory regulations in line with international standards by end-2000:

1) Financial institutions must cease accruing interest as income on any account where interests due have not been received within three months from the due date, starting 1 January 1999. Interest recorded as income on non-accrual accounts must be reversed out of income starting on 1 January 2000.

2) Effective from the second accounting period ending 31 December 1998, all accounts, both on-balance sheet and off-balance sheet, shall be classified into five categories, i.e., pass, special mentioned, sub-standard, doubtful, and loss. The classification should primarily be done using qualitative criteria of the debt servicing capacity, but when a loan has been overdue for a number of periods, as specified for each category, the loan should be classified accordingly.

3) Provisioning requirements for classified loans under the five categories are as follows: Pass 1 percent, Special Mentioned 2 percent, Substandard 20 percent, Doubtful 50 percent, and Loss 100 percent or write off.

4) For collateral valuation and treatment for provisioning, financial institutions shall not take collaterals into consideration when classifying loans. How-

ever, properly valued collateral using market value may be deducted from the loan when determining the amount of provisioning.

5) For debt restructuring with a debtor having financial difficulties, financial institutions must undertake realistic assessments and new terms. In particular, they have to consider debt servicing capacity of the debtor, and of the debtor's situation and in accordance with any losses arising from the debt restructuring shall be realised and adequately provisioned for.

6) Financial institutions shall conduct qualitative reviews of their portfolios; comprising all loans, overdrafts, receivables, other credit exposures, including both on- and off-balance sheet commitments. This review process is required as part of the institutions' internal risk control and management systems, and the review results must be submitted to BOT on a quarterly basis.

6.2 The Undertaking of Interest-Free Units Businesses

BOT will consider allowing commercial banks to undertake the business of interest-free units as part of their banking operations according to the following principles:

1) Upon approval from BOT, commercial banks may undertake the business of interest-free units as a separate department of their banking operations. Interest-free units are defined as banking businesses according to the Islamic religion which can provide services consistent with the meaning of banking services as stipulated in Section 4 and Section 9 (bis) of the Commercial Banking Act.

2) Approval from BOT will be conditioned on the operational status of banks and their readiness to undertake the business of interest-free units, both in terms of personnel and management. Prospective candidates must have at least B1 billion in shareholders' equity for Thai banks, or in assets according to Section 6 for branches of foreign banks. The applications must also specify details, including the branches which will operate interest-free units, amount of working capital, and funding methods for providing services of deposits and loans.

3) BOT will give approval for the undertaking of interest-free units businesses, subject to certain conditions: the opening date must be reported to BOT at least 7 days in advance; money received from issues of new capital for the recapitalisation must be allocated for working capital; capital of the business must be free of interest; and assets and liabilities, including contingent liabilities, must be separated into different accounts from other banking operations as if interest-free units are separate legal entities.

Banks interested in undertaking the business of interest-free units should submit their applications for the first round by end-April 1998. BOT will announce details of subsequent rounds of applications in due course.

6.3 Maintenance of Capital Adequacy Ratio

BOT announced the following changes in the composition of the capital adequacy requirement for Thai commercial banks, finance companies, and finance & securities companies:

– The capital adequacy ratio of commercial banks was maintained at 8.5 percent but its composition of tier-1 capital was lowered from a minimum of 6 percent to 4.25 percent.

– The capital adequacy ratio of finance companies and finance & securities companies was maintained at 8.0 percent but its composition of tier-1 capital was lowered from a minimum of 5.5 percent to 4.0 percent.

Additionally, the provisioning against assets classified as Pass may be proportionately counted as tier-2 capital not exceeding 1.25 percent of all risk assets: This is subject to the condition that provisioning for assets classified as Loss, Doubtful, Sub-standard, and Special Mention are fully observed for end-2000.

These were effective from 25 August 1998.

6.4 Asset Maintenance of Foreign Bank Branches

In line with the policy on financial sector restructuring and to encourage foreign banks to invest in Thai financial institutions, the Ministry of Finance issued an announcement on the maintenance of assets of foreign bank branches. In this connection, foreign bank branches were allowed to maintain a broader range of assets according to Section 6 to include investment in juristic persons. This could lead to an increase in foreign banks' investment in BOT's approved programmes and in common or preferred stocks of commercial banks or finance companies incorporated in Thailand.

These measures were effective from 25 August 1998.

6.5 Modification of the Composition of Liquidity Requirement on Short-term Foreign Borrowing

BOT changed the composition of liquidity requirement on financial institutions' non-resident deposits or foreign borrowings with maturity of less than 1 year, from 6 percent in deposits at BOT to be the same as that for ordinary reserve requirement on bank deposits:

1) Finance and finance & securities companies must maintain liquid assets in form of deposits at BOT at no less than 0.5 percent, unobligated eligible securities at no less than 4.5 percent, and the rest in deposits at Thai commercial banks, call loans to commercial banks and FIDF, and unobligated certificates of deposits issued by commercial banks (effective from 31 July 1998).

2) For commercial banks and BIBF, the component of the ratio was changed to deposits at BOT at no less than 2 percent, cash in hand up to 2.5 percent, and the rest in unobligated eligible securities (effective from 8 August 1998).

In addition, promissory notes issued by Krung Thai Thanakit Finance & Securities Company and certificates of deposits issued by Krung Thai Bank from the note exchange programme of the 56 suspended finance companies which are free of contingent liabilities (zero risk weight) were also considered as liquid assets.

6.6 Approval for Financial Institutions to Undertake the Securitisation Business in Accordance with SEC Regulations and Perform the Function of Representative Debt Collector

On 2 July 1998, BOT approved the undertaking of the securitisation business by financial institutions pending consideration by Securities and Exchange Commission (SEC), as well as to perform the function of debt collection:

1) "Securitisation" is defined as the transfer of assets and issuance of securities to investors, whereby the returns to investors depend on the income streams of the transferred assets. An "asset" is defined as the right to claim, or other rights, on future income streams, regardless of whether or not it is an assured income stream, and other operations relating to such debt collection.

2) Commercial banks, finance companies, and finance & securities companies were generally allowed to undertake the securitisation business, pending consideration by SEC, and must be in accordance with SEC regulations, procedures, and conditions. Requests must be approved first by BOT prior to submitting to SEC for further consideration.

3) Commercial banks, finance companies, and finance & securities companies were generally allowed to perform the function of representative debt collector, at a fee.

6.7 Directives on Commercial Banks' Treatment of Certificates of Deposits

BOT issued an announcement amending directives on commercial banks treatment of certificates of deposits (No. 2). Commercial banks issuing certificates of deposits were allowed to have an outstanding amount of certificates of deposits at any one time exceeding two times the amount of their capital funds, effective 14 July 1998.

6.8 Modification of Criteria on Net Foreign Reserve Position

BOT issued an announcement on 20 October 1998 amending criteria on maintenance of net foreign reserve position of all commercial banks and other financial institutions licensed to undertake foreign exchange businesses as follows:

1) All previous circulars issued by BOT regarding maintenance of net foreign reserve position were repealed;

2) Commercial banks and other financial institutions licensed to undertake foreign exchange businesses shall maintain net foreign reserve position with an average weekly surplus or deficit not exceeding 15 percent of tier 1 capital fund or US$5 million, whichever amount is higher;

3) Commercial banks registered in Thailand must include BIBF foreign exchange position into the calculation of net foreign reserve position. Investment in overseas branches and investment in the form of joint ventures which do not specify repayment obligation in foreign exchange upon maturity are exempted from the calculation of net foreign reserve position.

These measures became effective from the last working day of the week ending 5 November 1998.

6.9 Application for Restricted Banking License

BOT issued circulars to finance companies, finance & securities companies, and credit foncier companies, enclosing Ministry of Finance (MOF) announcement on application to undertake a restricted banking business. Prospective applicants must submit letters of intent to BOT from 30 December 1998. Finance companies which had applied for a commercial bank license following mergers or acquisitions, or to expand business, or for a full branch license, were allowed to revise applications and reapply for a restricted banking license.

A restricted bank can engage in all commercial bank businesses with the exception of demand deposits using cheques for withdrawals. Prospective applicants must have sound operating record, and have plans to acquire or merge with, or partially or wholly transfer assets and liabilities of, other financial institutions approved by BOT.

7. Financial Assistance to Priority Economic Sectors

7.1 Modification of Regulations on Financial Assistance to Entrepreneurs in the Industrial Sector and Small Industries

The Bank of Thailand (BOT) modified its regulations on the provision of financial assistance to entrepreneurs in the industrial sector and small industries:

1) The coverage of financial provision was expanded to include handicraft and household industries with an aim to help revive the occupations and upgrade the rural standard of living of the rural population.

2) The types of industries eligible to receive financial assistance from BOT were modified to include industries for research and development, for environ-

mental improvement, for energy preservation, and those which are beneficial to overall economic development.

3) BOT contribution to the financial assistance package, in accordance with industrial and small industry regulations, to industries and small-scale industries was increased from 50 to 60 percent of the total value of promissory notes.

These measures were effective from 20 August 1998.

On 30 September 1998, BOT announced changes to the discount rates which financial institutions could charge to industrial and small industry operators from MLR minus 2.75 percent per annum to MLR minus 1 percent per annum.

This rate was to be applicable unless notified otherwise.

7.2 Refinancing Promissory Notes Arising from the Trading of Agriculture Crops

BOT will purchase promissory notes arising from the trading of paddy at 60 percent of the promissory note value, with interest rate charged to commercial banks at 5 percent per annum. Banks can then charge their customers at MLR minus 2.75 percent per annum. BOT will purchase notes from 10 August 1998 onwards, unless announced otherwise.

Fiscal Measures

1. Revenue Measures

In 1998, a number of adjustments were made to the structure of taxes and fees on account of the following objectives:

1.1 To expand the tax base and enhance tax revenue by:

- raising excise tax for gasoline and alcoholic beverages, and import duties on cigarette and other luxurious goods;

- adjusting the price structure of Liquid Petroleum Gas (LPG) by changing the criteria for calculating ex-refinery and imported oil prices. Moreover, the marketing fee for LPG was raised while wholesale and retail prices were reduced;

- increasing various fees, for example, the rice premium and airport fee for domestic flight which rose from B100 to B400 per trip; and replacing a flat rate of licensing fee for the establishment of radio station with a progressive rate based on the frequency of radio waves.

- including the following businesses to be subject to the specific business tax:

  – Repurchase and resale of securities in accordance with the Securities and Exchange Act B.E. 2535 (1992) are taxable as specified by the Revenue Department.

  – Sales of immovable property for business purposes, comprising land allocation and sales of condominiums, commercial buildings and premises which are partly allocated for sales or used in a business of juristic person in accordance with Article 77/1 of the Revenue Code, including sales of immovable property within 5 years of purchase (a number of exemptions applied).

1.2 To promote export business:

(1) Fee for dumped goods or subsidised imported goods as raw material for export were exempted. Import duties on raw materials and electronic parts collected from exporters were also reduced. In addition, the Director of the Excise Department was empowered to grant exporters, on a case-by-case basis, an exemption of excise tax on raw materials or components in the production for exports.

(2) Rice premium under the 1998 European Union tax programme was maintained at B5,000 per tonne in order to support rice exports during a period of volatile exchange rates and prices.

(3) The scope for tax exemption, rebates and reductions for exports in accordance with Article 100 of the Excise Tax Act B.E. 2527 (1984) was expanded to cover other types of exporters in addition to manufacturers.

1.3 To assist domestic manufacturers, the Government (1) exempted in quota import duties on palm oil, (2) abolished fee collection from duty-free probation warehouse, (3) included battery in the list of goods that manufacturers can request excise tax reduction, and (4) postponed the use of new excise tax from 3 percent to 5 percent for motorcycles for another one year from 1 January 1999 to 1 January 2000.

1.4 To revive the real estate sector, specific business tax were exempted only for lending by the National Housing Authority and Housing Cooperatives for the sales of immovable property for business purposes.

1.5 To promote debt restructuring:

(1) The value added tax (VAT), specific business tax and stamp duties were exempted for Asset Management Corporations (AMC) asset conversion to securities, property funds and the Mutual Fund for Financial Sector Restructuring Funds, debt restructuring, debt forgiveness, asset transfers, debt write-off and the Secondary Mortgage Corporation.

(2) Taxable income, including gains from mergers or acquisitions between public and/or limited companies which were valued higher than shareholders equities, was exempted from personal income tax.

(3) Fee for rights registration, and transfers and pledge of immovable properties to financial institutions and other creditors was reduced to 0.01 percent.

(4) Fee for registration of return generating property rights, was set at the rate of 1 percent.

1.6 To promote activities in the stock market, stamp duty on transfers of registered securities, whose registrars were authorised by the Securities and Exchange Commission and the Stock Exchange of Thailand, was exempted.

1.7 To reduce tax rates in accordance with obligations:

(1) Import duties on dairies and dairy products were reduced to promote market access, while duties on additional 5,000 tonnes of palm oil imports were exempted in line with the World Trade Organisation (WTO) agreements.

(2) Custom duties on specific goods under the Asian Industrial Cooperation (AICO) Agreement were reduced to 0-5 percent.

(3) VAT on goods, services and imports consumed in the Thai-Malaysian co-development area were exempted, with effect retroactive from 1 January 1992. In addition, duties on goods to be used in the Thai-Malaysian co-development area but not included in the list of tax-exempted supplies and equipment were reduced by one half.

2. Expenditure Measures

2.1 Expenditure Savings

The Government suspended establishment of new organisations, expansion of existing departments, and payments to state enterprise employees of special salaries to profession with supply shortage, effective from 1 January 1999. Moreover, travelling allowances and domestic housing rents, meeting allowances, training expenses, and housing rent for officials with overseas postings were also reduced. The merger of revolving funds with similar objectives and operation has also been under consideration. (Amendments to the relevant laws are expected to be considered by the Parliament in February and March 1999.)

2.2 Control of Carry-over Commitments across Budget Years

Government agencies and state enterprises were asked to revise spending proposals, and the Government will give approval to them in accordance with set regulations or priority.

2.3 Expediting Disbursement of the FY1998 Budget

Process of job inspection and approval was accelerated while the time-period for placement of encumbrances was limited and instalment payments made more frequent. Regulations applied to sub-contractors were more relaxed than those of main contractors. Meanwhile, contractors who had obligations or deposits with the closed 56 financial institutions were assisted to restructure their debts and exchange of promissory notes with authorised financial institutions. The budget disbursement period for spending commitment and other necessary expenditures were extended until 1999, with an aim to help the construction and other sectors adversely affected by the change in exchange rate system. The budget is to be cancelled, however, if there is no prompted disbursement.

2.4 Measures to Enhance Liquidity for Businesses

This involved easing conditions on government procurement procedure during 1998-1999 fiscal years. Moreover, regulations and assistance plans were designed in order to help operators affected by the change in exchange rate system, the closure of financial institutions, problems of credit crunch and lack of liquidity due to the delay of government allotment, as well as transfers of government claims to closed financial institutions. Key measures were the exemption of fine payment, the extension of contract time, the acceleration of return of collateral and a 15 percent advance payment for work in progress.

3. Debt Financing Measures

3.1 Structural Adjustment Loan (SAL)

A credit line of US$1.5 billion and US$1.2 billion was granted by the World Bank and the Asian Development Bank (ADB), respectively.

3.2 The ceiling on foreign borrowing was set at not exceeding US$7.2 billion.

3.3 The Ministry of Finance (MOF) was empowered by an emergency decree to borrow money from domestic and foreign sources to increase liquidity in the economy and to compensate losses of the Financial Institutions Development Fund (FIDF). The decree allows MOF to borrow a total of B200 billion abroad within 31 December 2000, and to issue B500 billion worth of bonds or other medium- and long-term debt instruments in the domestic market.

4. Social Measures

4.1 New draft of the Social Security Act

This aimed at amending the Social Security Act B.E. 2533 (1990) relating to: (1) members of the Social Security Fund are entitled to extended period of claims and compensations for an extended period; (2) government, employers, and fund members are to contribute an equal amount to the Fund, effective 31 December 1998; (3) regulations and compensation rate for child and old age support were also determined.

4.2 Revision of the Provident Fund Act

Contributions from both employers and employees to a provident fund were reduced from 3 percent to 2 percent of employees' salaries in order to allow for contributions to a social security fund for old age support.

4.3 Increased financial assistance to the Health Insurance Card Project

A loan of not exceeding B1.2 billion from the Asian Development Bank (ADB) under the Social Structural Adjustment Programme was used to support the Health Insurance Card Project by increasing financial aid from B500 per one health insurance card to B1,000 per card, covering a total of 2.4 million cards for the period October 1998-September 1999.

4.4 Measures to reduce tax burden on employees

The portion of compensations for voluntary job termination not exceeding salaries of the last 300 working days or B300,000 was exempted from personal income tax, effective 1 January 1998. This tax exemption was not applicable to employees who voluntarily resigned.

4.5 Expansion of the Education Loan Fund

The budget allocation to the Fund was increased from B16.9 billion in FY 1997 to B18.0 billion in FY1998 and the Fund's lending criteria were also relaxed. In addition to the increased budget, loan from the ADB, amounting to B1.0 billion was distributed to provide scholarships for students with unemployed poor parents.

4.6 Working capital was increased from B500 million to B1,000 million and an extension of the operating period extended until 2005 for the Revolving Fund for Development of Private Higher Education Institutes.

5. State Enterprise Measures

5.1 Measures to reform state enterprises

The Office of State Enterprises and Government Securities was established under the Ministry of Finance to serve as a central organisation and act as secretary to the State Enterprise Policy Supervision Committee. Moreover, the master plan to privatise state enterprises was designed in compliance with the former in order to establish a consistent framework.

5.2 Determination of regulations and conditions on the allocation of income from state enterprise privatisation

A proportion of 50 percent of income from sales of state enterprise shares owned by the Government is to be transferred to the treasury and the remaining 50 percent is to be contributed to the Fund for Principal Repayment Compensations for Losses of the FIDF. Income from sales of shares in subsidiaries, assets and enterprises (except for state enterprises which operate as limited companies or registered public companies in the stock exchange), was to be allocated from the profit and loss account and to be provisioned as reserves for expansion and employees' welfare fund. One half of the rest is to be remitted to the treasury and the other half to be contributed to the Fund for Principal Repayment Compensations for Losses of the FIDF.

5.3 Privatisation of state enterprises

(1) Master plan to privatise state enterprises was formulated. The plan comprises the establishment of state enterprise restructuring committee, associated law, framework for supervisory organisation, and state enterprise employee fund to deal with labour and social problems.

(2) The Corporatisation Act was put in place allowing state enterprises established under specific laws or Cabinet resolutions to convert capital to common stocks and to operate as limited or public limited companies. This will allow the private sector to participate in state enterprise business and allows state enterprises to sell their shares to the public.

(3) Related laws were amended in order to privatise the Telephone Organisation of Thailand (TOT) and the Communications Authority of Thailand (CAT) following the master plan to develop the telecommunication business. The National Communication Committee was also set up and the framework and the privatising procedures of TOT and CAT also determined.

(4) Sales of shares of the Thai Airways International Public Company Limited was planned and the Aviation Act drafted so as to eliminated obstacles in the privatisation.

(5) The private sector was granted permission to invest in the Battery Organisation and the Glass Organisation. In addition, the Textile Organisation, the Preserved Food Organisation and the Cold Storage Organisation were abolished.

(6) The Sugar Factories Incorporation, Department of Industrial Plants, was sold.

(7) The Petroleum Authority of Thailand (PTT) sold its shares in the PTT Exploration and Production Company Limited; reducing its share holding to 61

percent of the total shares. The Electricity Generating Authority of Thailand also sold its shares in the Electricity Production Company Limited by 14.9 percent of the issued shares, leading to the non-resident holding of 45 percent stake in the company.

(8) The production and sale of liquor are to be liberalised after all contracts to produce and sell liquor of the government liquor factories expire on 31 December 1999.

(9) To enhance the flexibility of commercial management, the Port Authority Act was amended to empower and allow the Port Authority of Thailand to set up a limited or public limited company and others.

(10) The Metropolitan Electricity Authority Act was amended in order to prohibit the Metropolitan Electricity Authority (MEA) from producing electricity because the electricity generating function of the MEA is not consistent with the restructuring and privatising framework.

(11) The State Railway of Thailand (SRT) was reorganised into 3 parts; infrastructures, training services, and asset management and others, effective 1999. Moreover, SRT is required to repay debt to the Government from operating profits, effective 2004. It will continue to provide the economy class service (the third class service). However, the Government will no longer subsidise losses of SRT.

5.4 Assistance to troubled state enterprises

For example, the Government resolved problems of unpaid fuel expenses and accrued interests of the Bangkok Mass Transit Authority and SRT owed to PTT. Moreover, the Provincial Waterworks Authority was allowed to raise price of water supply to cover costs.

Measures to Develop the Capital Market

Policy measures implemented during 1998 in order to develop the capital market were as follows:

1. Approval for Repurchase Agreement Transaction of Mutual Fund

The Office of the Securities and Exchange Commission (SEC) prescribed general rules for mutual fund management companies to transact securities under repurchase agreements for short-term investment for a period of not exceeding one month. Mutual fund management companies can only engage in such transactions with financial institutions, FIDF, the Bank of Thailand (BOT), government agencies, and state enterprises. They can invest in any one of the following securities or debt instruments with repurchase agreements: government bonds, treasury bills, BOT bonds, debt instruments with the top four rankings of rating by a credit rating agency, and listed common stocks in the SET 50 INDEX. Mutual fund management companies must maintain the value of securities or debt instruments at no less than 135 percent of the value of the purchase transaction with repurchase agreement at the end of each day. The selling transaction of such securities or debt instruments must have a value of at least 135 percent of the purchase price. This measure was effective from 21 January 1998.

2. Determination on the Proportion of Investment as Assets of Fixed Income Funds

SEC set the limit for investments by mutual funds in all securities and debt instruments of any one company at a combined amount not exceeding 20 percent of the mutual fund's net asset value. If the company is a financial institution, deposits of the mutual fund in the financial institution must also be included in the investment ratio. However, this investment ratio shall not include BOT bonds, FIDF bonds, and bonds fully guaranteed or avaled by the Ministry of Finance. The calculation of the investment ratio for closed-end and open-end funds with identified maturity will not include deposits with commercial banks or specialised banks; certificates of deposits issued by commercial banks or finance companies; and bills of exchange during the period of 1 year from the date of registration of the mutual fund and 1 year before the maturity of the fund. This measure was effective from 21 January 1998.

3. Derivative Transactions of Securities Companies

SEC established criteria for securities companies undertaking derivatives transactions. In this regard, securities companies must be financially sound and able to repay debt, with shareholders equity amounting to at least B200 million using the latest financial statement. They must also be able to maintain the net capital rule (NCR) according to criteria established by SEC for at least 6 consecutive months. A securities company authorised to provide derivatives services must be the counterparty to the customers, who are institutional investors, and an agent in the trading of derivatives.

4. Criteria, Conditions, and Procedures for Listing and Delisting of Listed Securities

The Stock Exchange of Thailand (SET) established criteria and conditions for corporate governance and internal control. Listed companies must have a good corporate governance system and an adequate and efficient internal control and internal audit systems. They must submit requests to establish an Audit Committee to oversee that standards of business operations are met and procedures correctly observed throughout the period of listing. The Audit Committee must be appointed by 31 December 1999.

5. Change in Maintenance Margin and Rate for Forced Sale

The Stock Exchange of Thailand (SET) changed the maintenance margin — the rate at which members require their customers to put up increased cash or assets — and the rate for forced sale, for margin trading and short selling. These rates were to be used as guidelines in setting the margin rates as follows: the initial margin rate was set at 50 percent; maintenance margin rates at 35 percent for loan accounts and 40 percent for short selling; and forced sale rates at 25 percent for loan accounts and 30 percent for short selling. These were effective from 2 March 1998.

6. Criteria, Conditions, and Procedures for the Establishment and Management of Mutual Fund for Resolving Financial Institutions Problems

SEC set out criteria and conditions for the establishment and management of mutual fund for resolving financial institutions problems. A mutual fund management company would be set up to offer units of the fund to institutional investors, with an aim to invest in assets or claims arising from the business operations of financial institutions. Other eligible securities for investment are, for example, bonds, treasury bills, deposits or certificates of deposits. Additional investment in claims on operations of financial institutions is prohibited after 5 years from the date after the registration date of the fund. In case of the Property Fund, the mutual fund management company must appoint an asset valuation company to appraise the value of their property every 2 years, starting from the date of purchase or rental of the property. This measure was effective from 27 May 1998.

7. Criteria, Conditions, and Procedures for Seeking Consent to Rehabilitate the Business of Securities Company

The Bankruptcy Act B.E. 2541 (amendments) prescribed that securities companies or creditors of the securities companies filing for reorganisation of the securities company must obtain approval from SEC, the agency responsible for its supervision. In this connection, SEC established criteria, conditions, and procedures for seeking consent to reorganise the business of a securities company. It must be, however, proven that a debtor securities company has the characteristics of, and not subject to legal restrictions by, Sections 90/3 and 90/5 of the Bankruptcy Act (No.4) B.E. 2541. In considering giving consent, SEC will primarily uphold the principle of customer protection. In the case that SEC does not give consent, the securities company or creditors of the securities company making the filing can appeal to the Minister of Finance within 7 days. This measure became effective from 22 May 1998.

8. Rights Granted to Securities Underwriters to Purchase Stocks after the Overallotment Allocation

SEC announced criteria for giving securities underwriters the right to purchase stocks after the over-allotment allocation of excess shares as follows:

1) Over-allotment allocation is the allocation of stocks to subscribers in an amount greater than the number of stocks on offer. Over-allotment allocation must be of specific amounts and must not be greater than 15 percent of the total amount of stocks on offer.

2) For the settlement of over-allotment allocation, the agent responsible for securing the over-allotted stocks must find stocks to deliver to subscribers in the following manners:

(1) By borrowing stocks in the full amount required for settlement from others before the first day of trading of the new securities on SET;

(2) By buying stocks in SET by setting offer prices in accordance with the SET criteria, with approval from SEC;

(3) By exercising rights to buy stocks from public limited companies or old shareholders.

The agent responsible for securing the over-allotted stocks must find stocks to deliver to subscribers who had been allocated the stocks, or return to lenders within 30 days of the disclosure of the stock price to be offered to the public, when the stock is already a listed securities. These became effective from 5 June 1998.

9. Changes to the Circuit Breaker System of Securities Trading

In line with the revised limit on the daily ceiling and floor of stock price movements, SET established a circuit breaker system at the following trigger points:

– At the fall of 10 percent of the preceding day's SET index, the system will be suspended for 30 minutes.

– At the fall of 20 percent of the preceding day's SET index, the system will be suspended for 1 hour.

Where the remaining trading time is less than 30 minutes or 1 hour, the remaining trading time will be suspended and resumed in the next trading session without further suspensions. This measure became effective from 27 April 1998.

10. Establishment of Clearing Fund to Offset Losses from Securities Settlement and Delivery Systems

The Thai Securities Depository Company (TSD) established the following criteria and rules for the clearing fund:

1) The clearing fund is set up by TSD with an aim to ensure smooth functioning of the clearing and settlement system in case of a member's default, or other impairment arising from a member's action in the business of clearing and settlement.

2) The clearing fund has a capital of B200 million or higher, comprising a one-time contribution by SET in an amount of B100 million and contributions by members in forms of fixed and monthly subscriptions.

3) In managing the fund, the fund's board of directors may prescribe investment criteria in securities or other assets, such as government bonds, state enterprise bonds, and listed securities in SET and BSDC with a combined value of not exceeding 10 percent of the fund.

4) In case that a member defaults in clearing or settlement by not complying with TSD's procedures for clearing and settlement, the clearing fund manager may decide to use the clearing fund to effect clearing and settlement by the TSD with penalty.

These measures were effective from 15 June 1998.

11. Criteria, Conditions, and Procedures for Listing and De-listing of Securities

As the economic downturn directly affected the liquidity, financial status, and operational results of listed companies, SET modified criteria for delisting as follows:

1) The previous criteria for delisting, after the 5 consecutive years of net losses by a listed company and/or net tangible assets at a level lower than the prescribed benchmark, was abolished.

2) The new criteria for delisting is when shareholders equity of the listed companies is negative. In addition, auditor's reports shall be considered carefully. Should they make conditional opinions in the financial statement that could point to a cause of negative shareholders equity, delisting consideration would also take such opinions into account.

3) In case that a listed company is under reorganisation in accordance with the Bankruptcy Law, the planner, appointed by Court to draw up reorganisation plans on behalf of the listed company, is assumed to be the financial advisor. The rehabilitation plan accepted by creditors and approved by Court is also assumed to act as the implementation plan, which has been approved by shareholders, for the avoidance of delisting.

These measures were effective from 3 August 1998, with the exception of delisting under 2), whereby the financial status of listed companies based on the audited financial statement as of the end of the accounting period of 30 June 1998 onwards shall be considered instead.

12. Relaxing Criteria for the Issuance and Offering of Securities for Business Rehabilitation

1) Listed companies were allowed, under relaxed criteria formerly announced by SEC, to submit conditional auditor's report which cannot clearly specify the amount of money involved, given that these conditions arise from uncertainties, and not from collaboration or collusion to hide information by the listed company.

2) Listed companies would be exempted from observing the guidelines for projecting the financial statement and amount of stock issues needed for the conversion of convertible debentures and warrants, should one of the following considerations apply: the listed company needs to offer new securities for business rehabilitation in accordance with the Bankruptcy Law; and a listed company is a financial institution that wishes to offer new securities to strengthen its financial position, such as for recapitalisation. These were effective from 16 October 1998.

Income Measures

The Government implemented a number of policies and measures in accordance with the Economic and Social Development Plan VIII (1997-2001), which aimed at increasing income and quality of life. In 1998, the Government allocated a budget of B74,594.4 million or 9.3 percent of the total budget for these purposes. Of this, the allocated budget was divided in to 2 groups: (1) an amount of B72,094.4 million was allocated to 8 line ministries and 2 supporting ministries, down by B30,492.5 million or 29.7 percent from the fiscal year 1997 due to termination of some schemes. Expenditures were disbursed to the following projects: B37,774 million to human resource and rural communities development project, B29,981.1 million to vocational training project for all groups of people, B3,459.4 million to the rehabilitation of natural resources and environment rehabilitation project and B879.9 million to the project to enhance participation of people and local organisation in local administration, and (2) an amount of B2,500 million to the central fund of the sub-district development project and the fund for distribution of production and employment to regional areas.

Labour Measures

1. Social Safety Net Programme

1.1 Social Investment Project (SIP)

The objective of the project is to resolve social problems arising from economic crisis particularly laid-off workers, socially underprivileged groups, and the general poor. Financing came from loans from the World Bank and Japanese government, budgetary allocation, and grants from other sources. Project implementation comprised 2 channels:

1) Resolve short-term social problems by providing financial support to government agencies and state enterprises for job creation, expansion of public health service, and labour quality improvement.

2) Resolve long-term social problems by providing financial supports to: social restructuring projects, administrative decentralisation, and community strengthening through Social Investment Fund (SIF) and the Regional Urban Development Fund (RUDF) administered by Government Savings Bank.

1.2 Social Sector Programme Loan

This aimed to relieve social problems, enhance labour competitiveness, upgrade education, and increase efficiency of social services especially public health. Sources of funds were loans from the Asian Development Bank (ADB) under the financial assistance of the International Monetary Fund (IMF).

2. Improvement of Benefit and Compensation of Social Security Fund

To alleviate social problems, the Government improved the social security system:

2.1 Reducing the contribution rate to the Social Security Fund for medical care, child birth, disability, and death, from employer, employee, and government, from 1.5 percent of monthly compensation to 1 percent, effective from January 1998 for 3 years.

2.2 Extending the grace period of benefits from 6 to 12 months for medical care, child birth, disability, and death to insured workers, whose employment were terminated. For voluntarily insured workers (Section 39), the grace period was also extended by 6 months since the date of expiry. (Draft amendments to the Social Security Act are under consideration by a parliament scrutinising committee).

2.3 Commencing the Fund for Child and Old Age Benefits from 31 December 1998. There were, however, some amendments to the Social Security Act, changing from equal contribution rates by employers, employees and government to the rates determined by ministerial regulations. (Draft amendments to the Act is under consideration by a parliamentary scrutinising committee).

3. Labour Protection Act B.E. 2541

The new Labour Protection Act, effective 19 August 1998, included the following:

3.1 Extending the period of severance payment by calculating from the latest wage and length of service of employees. Minimum payment must be no less than 10 months for employees who had worked for 10 years or more.

3.2 Establishing Labour Welfare Fund under the Labour Welfare and Protection Department, Ministry of Labour and Social Welfare, to help employees in case of job termination, death, and others.

3.3 Prohibiting child employment under the age of 15. For employment of child workers under 18, employers must report within 15 days starting from the first day of employment and within 7 days of job termination to labour inspectors.

3.4 Setting up wage committee with the Permanent-Secretary of the Ministry of Labour and Social Welfare as chairman. The committee comprised representatives from employers, employees and government whose main responsibility include recommending wage policy to the Cabinet; determining minimum wage, overseeing and advising the operation of provincial minimum wage sub-committees; advising private sector on wage determination and annual wage adjustment.

Price Measures

After the change to flexible exchange rate system, the authorities placed emphasis on price stabilisation, by implementing measures to prevent hoarding of merchandises and to ensure that price adjustments are consistent with changes in cost, to avoid consumer exploitation. Key measures implemented in 1998 included the following:

1. Consumer Goods

1.1 In the first quarter of 1998 with the baht appreciation from the previous quarter. With respects to lower cost of production, the authority mapped out plan to reduce prices of 7 consumer goods and 9 manufacturing products consistent with declining cost. Subsequently, as the baht became more stable in the fourth quarter, the authority announced reduction in prices of additional 39 items, effective after inventories bearing higher costs were depleted.

1.2 The authorities determined prices of sugar effective 28 January 1998 as follows:

1) Wholesales factory price countrywide of pure white sugar was B1,200 per sack and B1,100 per sack for white and brown sugar.

2) Wholesales price countrywide of pure white sugar was B1,265 per sack, and B1,165 per sack for white and B1,140 for brown sugar.

3) Retail prices, in Bangkok Metropolitan areas, of pure white, white and brown sugar were B13.50, B12.50 and B12.0 per kilogramme, respectively.

To prevent monopoly, the authorities requested cooperation from sugar mills to sell to the Public Warehouse Organisation (PWO).

1.3 The authorities adjusted pricing structure of Liquid Petroleum Gas (LPG) as follows:

1) Calculation of prices at refinery and import prices were made equal to current export prices.

2) LPG marketing fee was increased by 30 satang per kilogramme to B2.566 per kilogramme.

3) Wholesales price of LPG inclusive of VAT was reduced by B1.73 per kilogramme to B9.0777 per kilogramme. Retail price was also decreased by B1.4 per kilogramme to B12 per kilogramme.

2. Public Utilities

2.1 Inland Transport Control Committee adjusted intra- and inter-provincial bus fares and fares of small buses as follows:

– Standard buses providing services within the region; the fare is B4.0 for the first 10 kilometres and B1 for every 10 additional kilometres.

– Air-conditioned buses providing services within the region: the fare is B6 for the first 8 kilometres and B1 for every 2 additional kilometres.

– Standard buses providing inter-provincial services and small buses: the fares were increased by B0.05 per kilometre.

2.2 The Metropolitan Waterworks Authority (MWA) increased retail and wholesales prices of water supplies by B1.50. The prices were progressively increased by B0.25 per cubic metre per month for the 6 months, between March and

August 1998. The minimum charge was also raised by B10. As for the Provincial Waterworks Authority (PWA), prices of its water supplies were increased by B0.50 per cubic metre per month for 8 months, from June 1998 to January 1999. The minimum charge was raised from B3.75 per cubic metre to B7.75 per cubic metre in line with increased cost.

2.3 The Sub-committee on Electricity Price Restructuring allowed the rebasing of fuel-cost (FT: the rate computed from costs of distribution, marketing and customer services) in the Automatic Price Adjustment Formula to 50.45 satang per unit, an increase of 8.05 satang per unit, effective 1 April 1998.

Industrial Measures

In 1998, reflecting intensified economic problem, the implementation of industrial measures concentrated on solving problems of production structure and enhancing competitiveness in preparation for trade liberalisation in the world and domestic markets. Measures implemented for industrial development were as follows:

1. Establishing Industry Development Institutes

In 1998, the Cabinet approved the establishment of various industry development institutes as proposed by the Ministry of Industry to enhance potentials and efficiency in the development of domestic industries in the long term.

1.1 Automobile Institute and Electricity and Electronics Institute

On 7 July 1998, the Cabinet approved the establishment of Automobile Institute and Electricity and Electronics Institute, as institutions under umbrella of the Industrial Development Foundation to be administered by committees consisting of representatives from government agencies, academics, and relevant private sector representatives. The Government would provide budgetary support over a period of 5 years to these two institutes, amounting to B100 million each.

1.2 National Research and Development Institute for Precious Stones and Ornaments

On 8 September 1998, the Cabinet approved the establishment of National Research and Development Institute for Precious Stones and Ornaments, as a body independent from government regulations. The Institute is to be administered by a committee comprising representatives from public and private sectors. The Government would provide budgetary support in the first year (fiscal year 1999) totalling B20 million. Expenditure in subsequent years shall be supported by the International Trade Promotion Fund.

1.3 Steel Institute

On 1 December 1998, the Cabinet approved the establishment of Iron and Steel Institute of Thailand, a body under the Industry Development Foundation similar to Automobile Institute and Electricity and Electronics Institute. The Ministry of Industry was required to submit to the Bureau of the Budget proposal for the first 5 years, totalling B145 million.

2. Industrial Protection

2.1 Postponement of abolition of the local content requirements for automobile production

The Ministry of Industry postponed the abolition of local content requirements for domestic vehicle parts previously to be effective 1 July 1998 for an unspecified period. Nevertheless, such requirements will be automatically abolished by 1 January 2000 according to Thailand's agreement with the World Trade Organisation (WTO). In this regard, the Ministry of Finance will expedite restructuring tariffs on imported inputs of the automobile industry as a whole before then.

2.2 Adjustment of import duties on steel products

The Ministry of Finance enacted an Emergency Decree and issued 2 ministerial announcements effective 15 May 1998, reducing import duties and exempting surcharge on steel and steel products in domestic steel industry.

1) Emergency Decrees on Customs Tariffs (No.2) B.E. 2541 on 14 May 1998, reducing import duties on steel and certain type of steel products in 26, 72 and 73 (2) covering 206 sub-categories section.

Products Sub-Categories section 26, 72 and 73	Tariff Rate (%)	
	Previous	New
Raw Materials	10	1
Primary Goods	6	5
Intermediate Goods	12, 25, 0.4 Baht/kg.	10, 15, 17
Finished Goods	12, 17, 35	20, 25, 35

2) Ministry of Finance, Announcement No. 7/2541 dated 13 May 1998, abolishing custom tariff reductions and reducing tariff rates for 196 sub-categories such that tariffs are collected in accordance with value-added at each stage of production.

Products	Tariff Structure (%)	Reduced Tariff (%)
Primary Steel Products	5	1
Imported Steel Products for Steel Sheet Production		
Tin-Coated and Cromium-Coated Products for Can Production	17	2
Imported Steel Products for Electronic Appliances and		
Electronics and Automobile Industry and parts	15, 17, 20	5, 10, 12

3) Ministry of Finance Announcement, No. 8/2541 dated 13 May 1998, stipulating exemption of a 10 percent surcharge on finished-steel products in accordance with the announcement No.18/2540.

2.3 Antidumping of transparent and coloured float glasses and steel products

The Ministry of Commerce issued an announcement on Antidumping on Clear and Coloured Float Glasses and Structural H-beam Steel with retroactive effect from 26 December 1997.

Products	Products' Origin	Special Surcharge for Antidumping (percent of c.i.f.)
Float glasses (transparent and		
coloured, thickness 3-6 mm.)	Indonesia	14.21-18.54
Structural H-beam steel	Republic of Korea	31.65-44.70

2.4 Reduction of import duties on electronic components and parts

The Ministry of Finance issued an announcement, No.10/2541 (on reduction of import duties on raw materials, and electronic components and parts), aimed at lowering production costs for producers and promoting exports, effective 11 June 1998. Details are as follows:

Sub-Categories Sector	Items	Tariff Rate (%)	
		Previous	New
8531.90	Vacuum Fluorescent Dispel and etc.	20	1
	Others	40	20
8536.50	Electronic Switches : maximum of 1 Amp.	10	1
	in particular, rubber sheet or carbon-mixed-texture polymer and etc.	10	1
	Others	35	10
8536.90	Electronic Apparatus : rubber-covered carbon for output-displayed		
	circuits and printing circuits.	10	1
	Others	35	10
9013.80	Displayed Panels or Liquid Crystal Devices and etc.	20	1
	Others	35	20

2.5 Restructuring tariff structure of petrochemical industry

The Ministry of Finance issued announcement No.12/2541 dated 1 July 1998, stipulating reductions in import duties applied to petrochemical industries effective immediately. The main contents were summarised as follows:

Products	Tariff Rate (%)		
	Previous	1 Jul. 98-31 Dec. 98	from 1 Jan. 99
1. Down-Stream Petrochemicals (Plastic pellets)	23.500	21.750	20.000
2. Plastic Products	35.250	32.625	30.000

3. Industrial Liberalisation

3.1 Privatisation

On 9 June 1998, the Cabinet approved guidelines for the privatisation of Thai International Airways Public Company Limited. Sale of shares to public investors must not reduce government ownership to lower than 70 percent to be consistent with the Aviation Act B.E. 2497. The Ministry of Finance and the Ministry of Transport and Communications were assigned to undertake further implementation.

3.2 Liquor and beer industry

As of 15 September 1998, the Cabinet approved the liberalisation of distillery and distribution of liquor after the expiry of distilling and distributing liquor contracts with government-owned distilleries (all contracts will expire on 31 December 1999). The liberalisation is applied to beer and wine, and clear and coloured spirits (except for alcohol, produced and distributed by the Liquor Organisation of Excise Department). Those wishing to engage in the production and distribution can apply to Excise Department, without location restriction, and to the conditions and regulations imposed by the Ministry of Finance.

Agricultural Measures

In the implementation of measures to solve problems in the agricultural sector, the Government, in 1998, continued to place emphasis on stabilising agricultural prices, increasing production efficiency, and alleviating impacts of droughts in some regions of the country. In addition, more concrete measures were implemented to prevent environmental problems in the agricultural sector.

1. Agricultural Price Intervention

The Committee for Farmers Assistance Policies and Measures undertook price intervention of a number of agricultural products amounting to B1,531.6 million, comprising B1,235.6 million of non-repayable fund and B296 million of working capital. Details are summarised as follows:

1.1 Paddy price intervention

The Committee for Farmers Assistance Policies and Measures and the Rice Policy Committee approved a fund of B1,077 million to assist farmers. The total amount comprised a non-repayable sum of B1,041 million and working capital of B36 million, which were allocated to the following projects:

1) The first crop paddy pledging schemes for the production year 1997/98 of Bank for Agriculture and Agricultural Cooperatives (BAAC), Marketing Organisation for Farmers, and Public Warehouse Organisation were allocated in total a non-repayable sum of B681 million to finance interest payments and operating expenses.

2) The Foreign Trade Department's 1997/98 programme of rice procurement for foreign governments was given a non-repayable sum of B360 million.

3) The paddy price intervention scheme of the military for the production year 1997/98 was allocated working capital of B36 million.

1.2 Other agricultural price intervention

The Committee for Farmers Assistance Policies and Measures approved a price intervention package of B454.6 million, comprising a non-repayable amount of B194.6 million and working capital of B260 million. This was to finance price intervention of the following agricultural products:

1) The Maize Price Intervention Project of BAAC, Public Warehouse Organisation, and Internal Trade Department, a non-repayable sum of B179.6 million was given to compensate for interest expenses and operating losses of related agencies.

2) Working capital for the amount of B120 million was granted to the Jute Price Stabilisation Project (1998) of the Internal Trade Department.

3) Working capital of B60 million was granted to the Sea Salt Collection Project (1998) of the Department of Cooperative Promotion.

4) Working capital of B20 million was granted to the Market Expansion for Swine Project (1998) of the Internal Trade Department.

5) Working capital of B60 million was granted to the Market Expansion for Egg for Price Stabilisation Project (1998) and the Preservation of Egg Stock in

Cold-Storage Project (1998) of the Internal Trade Department and the Department of Cooperative Promotion.

6) A non-repayable amount of B15 million was granted to the Fruit-Sale Promotion Project (1998) of the Internal Trade Department to compensate for expenses of participants.

1.3 Rubber price intervention

The Office of the Rubber Plantation Assistance Fund, on behalf of the Rubber Organisation, intervened in the rubber market, using loans from Krung Thai Bank totalling B2,000 million. Purchases of the Grade-3 raw rubber sheets were made at B25 per kilogramme during 20 January and 31 March 1998 and at B26 per kilogramme during 1 October 1998 - 31 March 1999.

2. Enhancement and Support of Production

2.1 Provision of agricultural inputs to farmers

The Committee for Farmers Assistance Policies and Measures approved a total of B4.5 billion, comprising B1.2 billion non-repayable and B3.3 billion working capital, to finance projects associated with the provision of inputs to farmers as follows:

1) The procurement of agriculture chemical fertilisers for farmers scheme in 1997/98 was granted B2.7 billion, which comprised working capital of B1.8 billion and a non-repayable fund of B0.9 billion. This was to provide 700,000 tonnes of chemical fertilisers for BAAC, Marketing Organisation for Farmers, and Cooperative Community of Thailand below market price.

2) The project encouraging cooperative members to produce fertilisers, by the Ministry of Agriculture and Agricultural Cooperatives, was granted B648.9 million, consisting of B630 million working capital and B18.9 million non-repayable fund, to procure 67,000 tonnes of fertilisers for cooperatives to sell to members.

3) The provision of organic fertiliser project to help farmers in degraded farm lands and in drought areas, by the Land Development Department, was granted B151.9 million, comprising B147.5 million of working capital and B4.4 million of non-repayable fund. The project procured 50,000 tonnes of organic fertilisers and resold to farmers below market price.

4) The Small Pond for Farmers Project, by the Office of the Permanent Secretary of the Office of the Prime Minister, was granted a non-repayable sum of B50 million to construct 3,730 ponds for farmers.

5) The project of new theory agriculture according to the royal initiation, by the Office of the Permanent Secretary of the Ministry of Agriculture and Agricul-

tural Cooperatives, was granted a non-repayable sum of B56.3 million to provide inputs and agricultural training for farmers.

6) The improvement of efficiency and quality of agricultural products project, by the Cooperatives Promotion Department, was granted working capital of B182.2 million for the productions of rice and soybean seeds undertaken by the Institute of Farmers.

7) The establishment of dairy product factory project by Cooperatives Promotion Department was granted working capital of B187 million to construct a UHT dairy product factory with daily capacity of 60 tonnes.

8) The accelerated biotechnology research and development for crops project by Department of Agriculture was granted a non-repayable sum of B112.1 million to improve laboratory and procure scientific equipment.

9) The swine breeding programme by Cooperatives Promotion Department was granted B67.4 million of working capital for lending to swine producer cooperatives.

10) Other short-term programmes implemented in the production year 1997/98, included the Klong Luang rice seed production and Suphan rice project, the production and distribution of jasmine rice project, and the rehabilitation of acidic soil project. These programmes were granted B209.5 million, consisting of B95 million for working capital and B114.5 million for non-repayable fund.

2.2 Financial assistance to sugarcane farmers for the production year 1998/1999 and 1999/2000

To relieve liquidity shortage in sugarcane and sugar industries in 1998, the Government instructed BAAC to provide financial assistance, in place of commercial banks, to sugarcane farmers, totalling B3,000 million for discounting cheques issued by sugar factories at a discount rate of 15 percent in the production year 1998/99. The Sugarcane and Sugar Fund was required to hold time deposit with BAAC no less than half the amount of cheques discounted. Such deposits served as capital for BAAC's operation receiving interest rate of 12 percent.

For the production year 1999/2000, BAAC required to provide source of additional funding to assist sugarcane farmers as follows:

a) B5,000 million of concessional loans from the Bank of Thailand;

b) B2,000 million of loan from the Government Savings Bank;

c) B1,500 million of loan from other sources;

d) B1,500 million of deposits of the Sugarcane and Sugar Fund.

2.3 Limitation and control of production

1) Prohibition of black tiger prawn farming in fresh water areas

To prevent soil degradation caused by the saltiness of sea-water used in prawn farming and negative impact on main crop productions, especially rice production, the Cabinet, on 22 December 1998, prohibited low salt-based black tiger prawn farming in freshwater areas of all provinces. The Ministry of Agriculture and Agricultural Co-operatives was instructed to map out supporting measures to assist affected farmers.

2) Reduction in second paddy planting areas in dry season of 1999

Linked to low levels of rainfall in all regions during 1997-1998, drought is expected to be severe in 1999, adversely affecting agricultural sector. The Cabinet approved on 22 December 1998 disbursement from the 1999 budget, totalling B331.49 million, to provide alternative occupations for farmers, replacing second paddy farming. Of the total, B20 million was allocated to the Royal Irrigation Department; B26.49 million to the Department of Agricultural Extension; B150 million to the Land Development Department and B135 million to the Department of Livestock Development. The aim was to decrease second paddy farming areas in 1998/99 by 3.3 million rais (there were 7.1 million rais in 1997/98) covering 172,384 households. The Government will also provide agricultural inputs of substituted occupations. Details are as follows:

- In areas with insufficient water supply, each household was encouraged to grow 2 rais of short-lived plants.
- In areas with limited water supply, each household was encouraged to grow 5 rais of soil nourishing plants.
- In areas unsuited for cultivation, each household was encouraged to raise 15 poultries.
- In areas where second paddy farming was reduced, the authorities would promote civil work employment for 6,033 farmers.

3. Adjustment of Operational Guidelines under the Agricultural Production Reform Plan

In the fiscal year 1998, the Ministry of Agriculture and Agricultural Cooperatives adjusted operational guidelines under the Structure and Agricultural Production Reform Plan as follows:

1. Promoted activities under the plan was changed from specific-products (i.e., fruit tree, fast growing tree, dairy and meat cattle) to integrated production.

2. Methods of supporting farmers were modified. The provision of free inputs to farmers was replaced by loans from BAAC at market rate. Farmers should use their loans according to specified objectives, the Government will pay interest expenses to BAAC on their behalf for 3 years.

4. Land Reform

In the fiscal year 1998, the Office of Land Reform for Agriculture (OLRA) announced areas for reform covering 3.63 million rais in 42 provinces and surveyed 0.46 million rais of public land. In addition, OLRA investigated ownership rights and issued rights documents (Document 4-01) to 117,865 farmers covering 1.78 million rais. It also purchased private land totalling 15,208 rais, for renting to 783 farmers covering 10,138 rais.

Since 1975, OLRA has issued Document 4-01 to 688,626 farmers (839,384 documents) covering 11.84 million rais and purchased private land of 462,754 rais, of which 282,528 rais were rented and 131,675 rais leased to farmers.

REPORT OF THE AUDITORS

AND

FINANCIAL STATEMENTS

FOR THE YEARS 1998 AND 1997

Report of the Auditors

To the Court of Directors of the Bank of Thailand

We have audited the Balance Sheet as of December 31, 1998 and 1997, and the Profit and Loss Account for each year then ended of the Bank of Thailand (excluding the Issue Department). These financial statements are the responsibility of the Bank of Thailand's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 3 to the financial statements, the Bank of Thailand recorded the unrealised loss from foreign exchange revaluation, under managed float system, of foreign assets and liabilities as deferred assets which will be amortised over 5 years. This decision is reasonable and conforms to certain central banks practice. However, if the Bank of Thailand followed generally accepted accounting principles, total assets would be decreased by Baht 50,050.7 million and Baht 66,734.3 million in 1998 and 1997, respectively. Additionally, if the Bank of Thailand recorded the unrealised loss as expense in 1997, the loss from foreign exchange and net loss would be decreased by Baht 16,683.6 million and increased by Baht 66,734.3 million in 1998 and 1997, respectively.

In our opinion, except for the effects of the proper accounting practice in the third paragraph, the aforementioned financial statements present fairly, in all material respects, the financial position as of December 31, 1998 and 1997, and the results of operations for each year then ended of the Bank of Thailand (excluding the Issue Department), in accordance with generally accepted accounting principles.

We notice the correction of year 2000 problem on computers, as described in Note 4 to financial statements. The matter does not affect our opinion.

(signed) **Nontaphon Nimsomboon**
(Mr. Nontaphon Nimsomboon)
Auditor General

(signed) **Poungchan Laosutiwong**
(Mrs. Poungchan Laosutiwong)
Auditor In-charge

Office of the Auditor General
March 16, 1999

Balance Sheet

As at December 31,1998 and 1997

	1998 '000 baht	1997 '000 baht
ASSETS		
Cash and Deposits		
Cash	4,112,234.49	7,746,297.40
Balance at the Treasury	12,601,689.99	10,894,976.52
Deposits at banks abroad	45,313,363.28	102,961,070.74
	62,027,287.76	**121,602,344.67**
Holdings of Special Drawing Rights	**14,353,686.14**	**22,793,609.91**
Investments		
Securities bought outright	153,123,700.63	81,302,246.20
Securities purchased under resale agreements	694,988,000.00	662,830,000.00
Foreign securities	156,066,783.74	87,901,949.54
	1,004,178,484.37	**832,034,195.74**
Loans and Promissory Notes		
Loans	7,875,748.13	22,455,116.71
Promissory Notes	3,625,566.73	4,910,717.45
	11,501,314.86	**27,365,834.16**
Other Assets	**88,991,432.74**	**98,240,197.34**
Deferred Unrealised Loss from Foreign Exchange under Managed Float System	50,050,722.25	66,734,296.33
Total Assets	**1,231,102,928.12**	**1,168,770,478.15**

(Signed) **Chatu Mongol Sonakul**
(M.R. Chatu Mongol Sonakul)
Governor

(Signed) **Tanya Sirivedhin**
(Mrs. Tanya Sirivedhin)
Deputy Governor

LIABILITIES AND CAPITAL	1998 *'000 baht*	1997 *'000 baht*
Deposits		
Government	85,204,163.11	261,431,134.87
Banks	101,134,547.26	81,300,189.16
Others	402,991,605.94	326,896,263.06
	589,330,316.32	**669,627,587.09**
Allocations of Special Drawing Rights	**4,372,927.23**	**5,396,384.22**
Special Drawing Right Certificates	**9,930,158.80**	**2,804,906.04**
Securities sold under repurchase agreements	**541,629,000.00**	**330,545,000.00**
Bank of Thailand Bonds	**10,706,218.96**	**17,035,249.61**
Other Liabilities	**137,418,259.26**	**179,773,806.49**
Total Liabilities	**1,293,386,880.57**	**1,205,182,933.44**
Capital		
Initial Capital	20,000.00	20,000.00
General Reserve	0.00	29,556,863.23
Deficit	(38,056,531.04)	0.00
Reserve for Stabilisation of Profit Payable to the Government	624,075.75	1,624,075.75
Profit and Loss for the year	(24,871,497.16)	(67,613,394.27)
Total Capital	**(62,283,952.45)**	**(36,412,455.29)**
Total Liabilities and Capital	**1,231,102,928.12**	**1,168,770,478.15**

(Signed) **Swangchit Chaiyawat**

(Mrs. Swangchit chaiyawat)

Director of Accounting and Budget Department

Profit and Loss Account

for the year ended December 31,1998 and 1997

	1998	1997
	'000 baht	*'000 baht*
REVENUES		
Interest	14,078,264.38	12,206,893.83
Discount	6,507,458.41	6,507,020.31
Commission	100,438.16	134,810.00
Others	43,006,222.47	26,562,868.69
Total Revenues	**63,692,383.43**	**45,411,592.83**
EXPENSES		
Salaries, wages and remunerations	1,823,127.14	1,883,819.62
Other expenses	86,599,898.52	110,995,006.37
Provision for provident fund		
and pension fund	140,854.93	146,161.11
Total Expenses	**88,563,880.59**	**113,024,987.10**
NET PROFIT (LOSS)	**(24,871,497.16)**	**(67,613,394.27)**

(Signed) **Chatu Mongol Sonakul**	(Signed) **Tanya Sirivedhin**	(Signed) **Swangchit Chaiyawat**
(M.R. Chatu Mongol Sonakul)	(Mrs. Tanya Sirivedhin)	(Mrs. Swangchit Chaiyawat)
Governor	Deputy Governor	Director of Accounting and Budget Department

3. Deferred Unrealised Loss from Foreign Exchange Under Managed Float System

In 1997, The Bank of Thailand introduced Managed Float System and had the unrealised loss from foreign exchange revaluation of Baht 83,417.9 million. From 1997 fiscal period, this unrealised loss was amortised over 5 years, approximately Baht 16,683.6 million per year. As of December 31, 1998, deferred unrealised loss from foreign exchange under managed float system account in balance sheet had an outstanding amount of Baht 50,050.7 million.

ADMINISTRATION AND PERSONNEL

Administration and Personnel

Organisation Structure and Working System

In 1998, the Bank of Thailand restructured its organisation to facilitate developments in various areas such as increased efficiency in financial institutions supervision and examination, improved the administration and implementation of financial policies, restructured the organisation of the Bank's regional branches, and developed the information and technology system. Salient features of the restructuring are as follows: (1) restructuring supervision and examination framework and establishing 3 new departments; namely Examination and Supervision I, Examination and Supervision II, and Financial Institution Policy, (2) setting up the Office of Corporate Debt Restructuring Advisory Committee, (3) setting up the Litigation Department and (4) transferring works such as data collection, survey and analysis on international issues from the Economic Research Department to the International Department. The organisation restructuring was aimed at increasing the Bank's efficiency in line with present circumstances and changes in the future.

Employee Distribution

At end-1998, the number of employees totalled 5,108 and the proportion of male to female was 49:51. Of the total, 67.0 percent hold Bachelor's degree and higher: 51.1 percent with Bachelor's degree, 15.4 percent with Master's degree, and 0.6 percent with Doctoral degree. During the year, 43 employees resigned, accounting for 0.8 percent of the total workforce. Of this, 19 employees resigned under the early retirement programme, accounting for 44.2 percent of those who resigned.

Administration and Human Resource Development

In 1998, the Bank implemented various measures to enhance efficiency of human resource development system, including various programmes such as the setting up of human resource development system, decentralisation of administration, arrangement of on-the-job training in other institutions, administrative skill development, improvement in officer's promotion system (deep-class), hiring of external employees to develop the officer's career-path, and restructuring the organisation structure and work system.

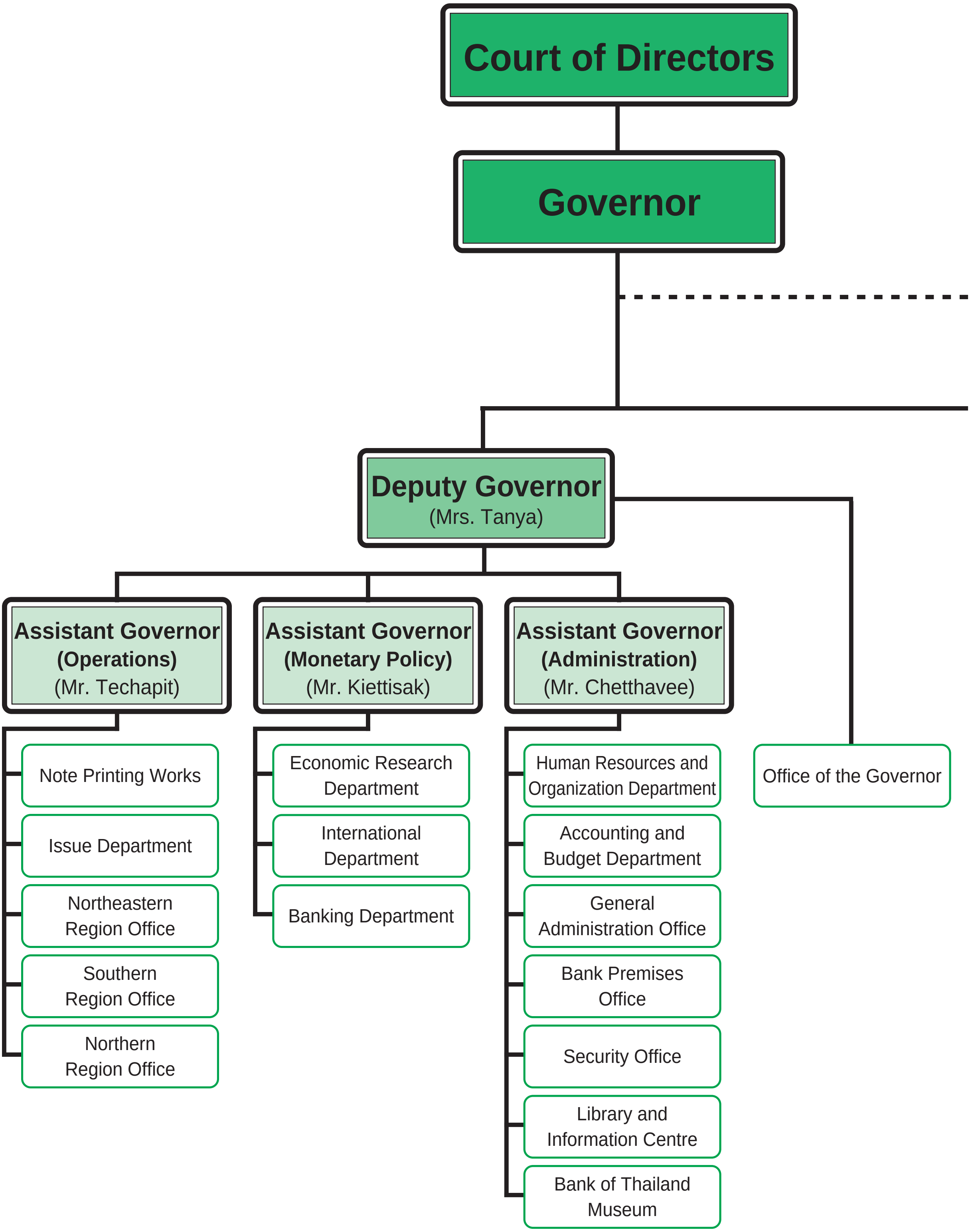
Members of the Court of Directors

As at December 31, 1998

Chairman	M.R. Chatu Mongol Sonakul
Vice Chairmen	Mrs. Tanya Sirivedhin
	Mr. Kitti Patpong-pibul
Members	Mr. Wissanu Krea-ngam
	Mr. Ackaratorn Chularat
	Mr. Sompol Kiatphaibool
	Mr. Ekamol Kiriwat
	Mr. Wirat Wattanasiritham
	Mr. Sommai Phasee
	Mr. Thienchay Kiranandana
	Mr. Kiattisak Jelatianranat

Executive Staff

Governor	M.R. Chatu Mongol Sonakul
Deputy Governors	Mrs. Tanya Sirivedhin
	Mr. Kitti Patpong-pibul
Assistant Governors	Mr. Techapit Sangsingkeo
	Mr. Kiettisak Meecharoen
	Mr. Thirachai Phuvanatnaranubala
	Mr. Chetthavee Charoenpitaks
	Mr. Rathakorn Nimwatana
	Mrs. Tarisa Watanagase
Directors	
Office of the Governor	Miss Duangmanee Vongpradhip
Security Office	Mr. Kitti Pichairuth
Bank Premises Office	Mr. Yodchai Choosri
Payment System Department	Mrs. Saowanee Suwannacheep
Library and Information Centre	Mrs. Sirima Srisomwong
Bank of Thailand Museum	Mr. Tanin Mukdaprakorn
General Administration Office	Mrs. Anchaneekorn Kulachote
Human Resources and Organization Department	Mr. Chittiphan Sukhakij
Training Institute	Mrs. Vorasulisi Songcharoen
Audit and Inspection Department	Miss Udomsap Techakampuch
Economic Research Department	Mrs. Atchana Waiquamdee
Examination and Supervision Department I	Mr. Adul Dulyapiradit
Examination and Supervision Department II	Mrs. Nopamart Manoleehagul
Financial Institutions Policy Department	Mr. Kiatchai Sophastienphong
Accounting and Budget Department	Mrs. Swangchit Chaiyawat
Deposits and Bonds Department	Mr. Kumron Kumkeo
Banking Department	Mrs. Tasna Rajatabhothi
International Department	Mrs. Thanya Suraswadi
Legal Department	Mr. Krirk Vanikkul
Litigation Department	Mr. Uttaya Limchumroon
Information Technology Department	Mr. Metha Suvanasarn
Issue Department	Mrs. Uthaivana Hansongkitpong
Southern Region Office	Mr. Navarat Lekhakula
Northeastern Region Office	–
Northern Region Office	Mr. Bandid Nijathaworn
Lampang Branch	–
Note Printing Works	Mrs. Suprida Nopsuwanwong
Fund Management Department	Mrs. Nongnart Sondysuvan
The Office of Corporate Debt Restructuring Advisory Committee	–


Court of Directors
Governor
Deputy Governor
(Mrs. Tanya)
Assistant Governor
(Operations)
(Mr. Techapit)
Assistant Governor
(Monetary Policy)
(Mr. Kiettisak)
Assistant Governor
(Administration)
(Mr. Chetthavee)
Office of the Governor
Note Printing Works
Issue Department
Northeastern Region Office
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Organisation Chart