ANNUAL ECONOMIC REPORT 2003

Dedicated to change for a better Thailand

Core Purpose

To provide a stable financial environment
in order to support sustainable economic growth,
resulting in the continous improvement of
the standards of living of the people of Thailand

Vision

A reputable organization commanding public trust and respect

Values

Open Communication
Teamwork
Efficiency and Economy
Accountability
Competence
Honesty, Fairness and Integrity

ANNUAL ECONOMIC REPORT

2003

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SUMMARY REPORT

Economic Performance in 2003

The Thai economy expanded well in 2003, growing by 6.7 percent which was higher than that of 5.4 percent in 2002. During the first half of the year, uncertainties regarding the US-Iraqi War and the outbreak of Severe Acute Respiratory Syndrome (SARS) affected confidence to some extent, resulting in the postponement of some investment projects as well as the reduction in tourism-related income. However, with the concerns fading away in the third quarter, the Thai economy rebounded robustly, confirming its strong economic fundamentals and resiliency to external shocks.

The main impetus to growth this year came from the continued increases in private consumption and exports. The Private Consumption Index grew by about 5.1 percent, and export value rose at a high rate of 18.6 percent. Meanwhile, private investment clearly picked up, with the Private Investment Index expanding by 13.2 percent, thereby helping to strengthen the economic recovery process. Regarding the fiscal position, government revenue grew strongly by 13.6 percent in the fiscal year 2003, reflecting the strong expansion in economic activities, particularly in household spending and business performances. Government spending fell by 3.5 percent during the fiscal year, however, partly due to the need to maintain fiscal discipline commensurate with the strengthening recovery of the private sector. Nonetheless, the government still played an important role in driving economic growth through its Dual Track Policy that focused, on the one hand, on stimulating domestic activities of the private sectors through measures such as the extension of transfer fee reduction for real estate transactions until the end of 2003 and the provision of financial and technical assistance to small and medium enterprises (SMEs). At the same time, the government also aimed to increase foreign exchange income through the establishment of regional trade associations and the exploration of new export markets.

Meanwhile, the supply side responded satisfactorily to the increase in demand. The Manufacturing Production Index grew by 12.3 percent, compared with 8.5 percent in the previous year. This was due to the expansion in both domestic-oriented industries such as vehicles, petroleum, and beverages, and export-oriented industries such as integrated circuits (IC), food, and block rubber. In the agricultural sector, favourable climate brought about an increase in major crop production by 7.8 percent, compared with 0.0 percent last year. The increase in major crop production, together with the marked increase in major crop prices, resulted in the historically high increase in farm income by 25.6 percent. In the service sector, from March to July 2003, the number of foreign tourists fell substantially due to concerns over the spread of SARS. As a result, the number of foreign tourists for the entire year declined by 7.8 percent. Nevertheless, the tourism industry started to recover quickly in the third quarter, and the year-on-year growth of the number of foreign tourists returned to normal levels by the last quarter of the year.

The robust increase in the industrial, construction, and services sectors which was in line with the increases in private investment and consumption led in turn to the expansion of non-farm employment by 5.0 percent. Wage pressure, however, was not observed as part of the excess labour supply in the agricultural sector was able to shift to other sectors. With this, employment in the agriculture sector fell 1.2 percent this year.

High liquidity in the financial system, together with the Bank of Thailand (BOT)'s policy rate cut in June from 1.75 percent per annum to 1.25 percent per annum caused commercial bank

interest rates to decline and remain at low levels throughout 2003. The low interest rate environment helped support private spending especially in regard to durable consumption as well as reduced the financing costs of businesses. As a result, commercial bank credits clearly improved this year, with credits to the manufacturing, commerce, and export sectors registering positive year-on-year growth throughout the year for the first time since the economic crisis. Meanwhile, mortgage and consumption loans continued to rise markedly.

The baht averaged at 41.50 baht per US dollar in 2003, strengthening by 3.6 percent from the average exchange rate in 2002. The appreciation was due to both domestic and external factors, with the domestic factors including increased investor confidence in the Thai economy, as reflected by the increase in the SET index of 116.6 percent and Thailand's sovereign rating upgrades by several international credit rating agencies, and the external factors being the depreciation of the US dollar due to concerns over the US current account and fiscal deficits. During the third quarter of the year, however, the BOT found that the rapid appreciation of the baht was not only the result of strong economic fundamentals but also speculative activities in the money market. The BOT thus introduced measures to prevent Thai baht speculation on 11 September and 14 October 2003, which subsequently yielded satisfactory results.

Economic stability remained sound throughout the year. Despite some acceleration from 0.7 percent last year due to higher food and energy prices, headline inflation remained subdued at 1.8 percent. Meanwhile, core inflation averaged at 0.2 percent, moderating slightly from 0.4 percent last year as rents continued to decline. Meanwhile, the unemployment rate stood at only 2.2 percent, and public debt declined to below 50 percent of GDP. On the external front, the current account balance continued to be in surplus as a result of the sustained surpluses in both the trade and services accounts. This allowed the BOT to early repay all obligations under the IMF loan package by almost two years. Despite such early debt repayment, international reserves remained at the sound level of US$42.1 billion at the end of the year, a level which exceeded the outstanding short-term external debt obligations by over three times.

Outlook for 2004

The Thai economy is expected to carry on momentum in 2004 in line with the acceleration in private investment following increased demand for capacity expansion. Furthermore, export prospects are favourable as Thailand's trading partners, especially the US, look set to recover more strongly in 2004. While the currently high growth of private consumption is expected to return to a more moderate but sustained level, public spending, especially public investment, is expected to increase and be a supporting factor for further economic growth. This is partly due to the supplementary budget of B135.5 billion set aside for this fiscal year.

The acceleration in investment will speed up imports. Therefore, it is possible that the trade and current account surpluses will narrow in 2004, in spite of the favourable export trend. This situation, however, is normal during an economic upturn. Headline inflation and core inflation as well as unemployment are expected to remain low.

Compared with 2003, external risks to economic growth in 2004 will be reduced owing to the strengthening world economic recovery. Nevertheless, the upward trend in foreign interest rates and the US current account deficit problem, which may add pressure on the US dollar and

other regional currencies, need to be monitored closely. Furthermore, problems of international terrorism and volatile world oil prices continue to be key risk factors as they did last year. On the domestic side, risks to growth may arise from possible imbalances or overheating in some sectors of the economy such as the real estate market and household debt. In the short run, the danger of the avian flu outbreak remains, but the situation is expected to be under control within the first half of 2004.

ECONOMIC DEVELOPMENTS IN 2003

Economic Developments in 2003

Agricultural Sector

Overview of 2003

Farm income from major crops expanded by 25.6 percent, which was a record high, as a result of both favourable output and prices. **Crop production** increased by 7.8 percent, attributed mainly to the output of rice and cassava. Meanwhile, **crop prices** rose by 16.5 percent, led by the increase in the prices of natural rubber and Hom Mali rice in response to continued favourable global demand.

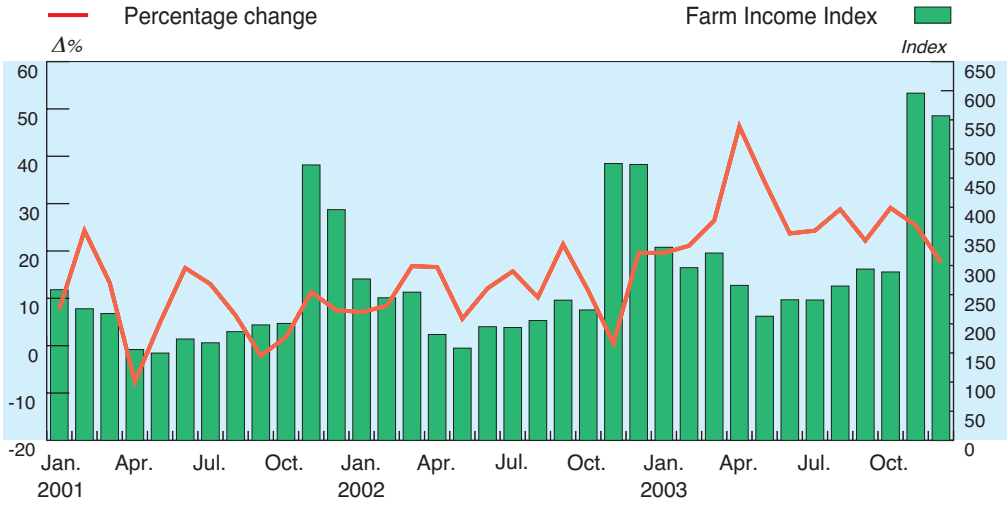
The rapid expansion in farm income caused private consumption to expand well in 2003, as reflected by higher sales of commercial cars and motorcycles throughout all regions of the country.

Table 1 : Farm Income from Major Crops, Crop Production and Crop Prices

Δ%	2002	2003	2003			
			Q1	Q2	Q3	Q4
Farm Income	11.1	25.6	22.2	35.0	25.0	22.6
Crop Production	0.0	7.8	5.6	14.7	5.4	7.4
Crop Prices	11.0	16.5	15.7	17.7	18.6	14.1

Note : *Δ% represents percentage change from the same period last year.*

Farm Income from Major Crops



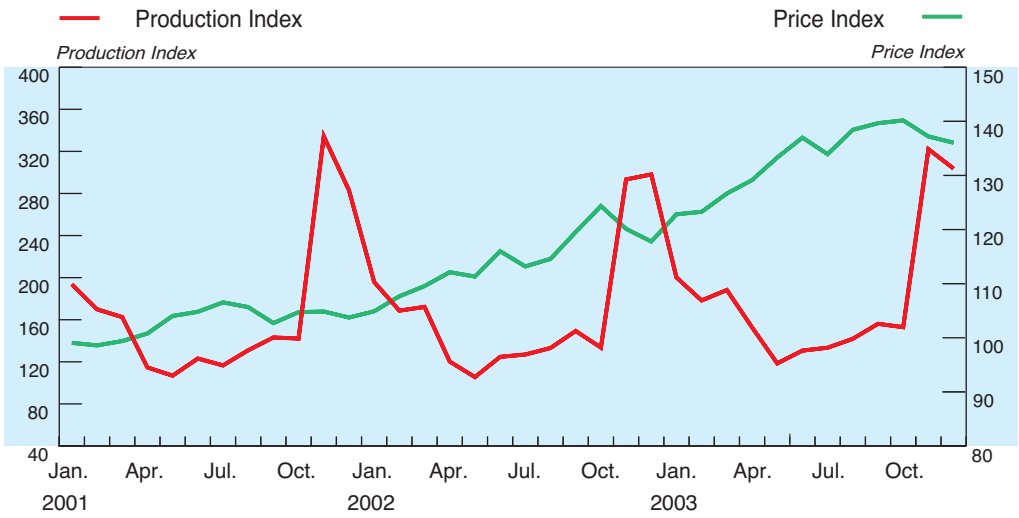
Note : Calculated by the Bank of Thailand

While farm income from major crops expanded strongly, income from livestock and fishery suffered from unfavourable prices. **Livestock prices** fell by 2 percent due to the significant fall in the price of swine as domestic consumers switched to consume broiler rather than swine when the

price of broiler declined during the first half of the year. At the same time, **fishery prices** fell by 0.8 percent following the decrease in prawn price by 6.3 percent due to higher competition from other producers in the world market and greater supply of white Vannamei shrimp domestically.

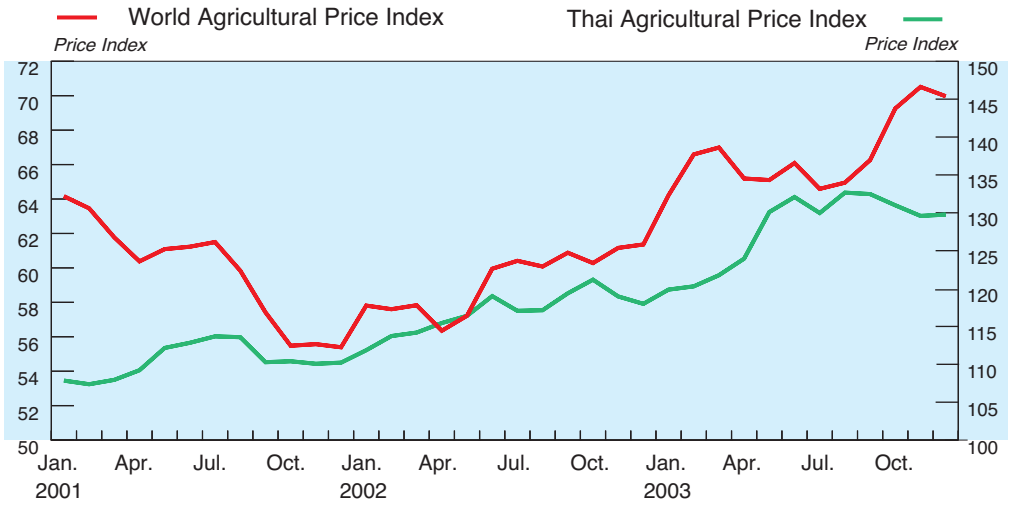
World agricultural prices (twelve commodities related to Thai commodities) continued to be on an upward cycle, with the current year's prices rising by 12.5 percent as a result of natural rubber, cassava, and soybean prices.

Indices of Major Crop Production and Crop Prices



Note : The Major Crop Production Index is constructed from data of the Ministry of Agriculture and Cooperatives.

Indices of Thai and World Commodity Prices[1/]



Note : 1/ Comprising rice, shrimp, rubber, sugar, maize, cassava, coffee, soybean, oil palm, tobacco, cotton and sorghum

Sources : Ministry of Agriculture and Cooperatives and World Bank

Major Farm Products

Paddy. In 2003, output of paddy increased for both the first and second crops. In particular, second crop output expanded by 14.2 percent from the acceleration in planting to compensate for the first crop losses in 2002/03 due to floods at the end of 2002. As for the production of first crop in 2003/04, this year's favourable weather led to the expansion of output by 6.9 percent.

In addition, Thai paddy export improved in 2003 as world paddy production in 2002/03 suffered from natural disasters such as a heavy drought in India. This allowed the quantity of Thai rice export to increase by 3.1 percent to 7.6 million tonnes, with the quantity of Hom Mali paddy export increasing at the exceptional rate of 52.7 percent. Meanwhile, the export value of paddy increased by 9.1 percent to B76.3 billion.

Cassava. Favourable cassava price in 2002, coupled with the ease in planting and harvest, encouraged farmers to switch from maize to cassava production. This led to the expansion in cassava planting areas by 9.1 and 3.4 percent in 2002/03 and 2003/04, respectively. The subsequent increase in cassava output by 15.1 percent, however, caused the price of cassava to fall by 15.7 percent this year.

Rubber. Output of natural rubber rose by 2.0 percent in 2003 from an increase in output per rai. Meanwhile, the price of natural rubber continued to increase at an average rate of 38.8 percent following strong world demand, mainly from the expansion of China's vehicle industry.

Broiler. Production and price of broiler increased by 3.9 and 2.7 percent, respectively, following improved demand from the European Union, where broiler output was affected by avian flu during March to May 2003, and continued demand from Japan. As a result, the export value of broiler rose from the previous year by 13.5 percent.

In the middle of November 2003, however, avian flu began to spread in the province of Nakhon Sawan and continued to spread to every region of the country. It is expected that this epidemic will have an impact on the production and export performance of broiler in 2004.

Shrimp. While domestic shrimp production surged, particularly that of Vannamei shrimp, shrimp export encountered problems with chemical residue found at the beginning of the year. This coupled with an expansion of shrimp farming, especially in China and Vietnam, led to a continued fall in the price of shrimp, despite the government's subsidy programme and campaign to encourage domestic consumption of shrimp.

Outlook for 2004

Farm income from major crops is expected to expand further in 2004, though at a slower pace than in 2003, due to both production and price factors. **Crop output** will rise only moderately due to reduced rainfall in the previous year, thus less reserved water for planting paddy. At the same time, **major crop prices** are expected to climb at a decelerated rate since the prices of Hom Mali paddy and natural rubber are already quite high, despite continued demand from the international market.

Fishery and livestock prices are expected to fall following the prices of shrimp and broiler. These agricultural products face not only new competitors, such as China and Vietnam, but also avian flu, which is likely to dampen the price of broiler along with demand both domestically and abroad.

Overall, **Thai commodity prices** are likely to face a levelling trend due to a slower rate of increase in major crop prices while fishery and livestock prices continue to decline.

World agricultural prices (twelve commodities related to Thai commodities) are likely to rise further but at a decelerated rate compared to 2003.

Trend of Major Crops

Paddy. Paddy yield is expected to be close to that of 2003. Although second crop paddy is likely to be reduced by lower water availability, increased yield from the first crop should be sufficient to compensate for the fall in the second crop. Meanwhile, domestic price is on an upward trend, partly from the government's support in setting the price higher than last year's price by 200 baht per tonne and partly from rice export which is expected to remain strong.

Rubber. Rubber output is expected to be higher than in 2003 due to an increase in planting area. Along with continued world demand, the price of natural rubber should rise, though at a slower rate than in the preceding year.

Cassava. Cassava yield is expected to rise slightly following an increase in output per rai. At the same time, demand from Europe is likely to be strong as supply in Europe has been affected by a heat wave while Europe's purchasing power has also increased from the appreciation of the euro versus the US dollar. This is likely to lead to higher cassava price in 2004.

Broiler. Production and price of broiler are expected to fall as avian flu reduced the demand for Thai broiler both domestically and abroad.

Table 2 : Major Crop Production, Trade, and Consumption

(Unit : Million tonnes)

	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004 E	Δ%
Thai crops[1/]						
Paddy	24.18	25.85	26.52	26.06	26.84	3.0
First crop	19.02	19.79	20.90	19.63	20.91	6.5
Second crop[3/]	5.16	6.06	5.62	6.43	5.93	-7.7
Rubber	2.20	2.38	2.45	2.46	2.51	2.0
Maize	4.06	4.16	4.47	4.23	4.16	-1.7
Cassava	19.06	18.40	16.87	18.28	20.40	11.6
Sugarcane	52.86	52.17	62.64	77.56	78.17	0.8
Mungbean	0.24	0.22	0.24	0.22	0.23	6.0
Soybean	0.32	0.31	0.26	0.26	0.27	4.9
Oil Palm	326	4.09	4.01	4.00	4.59	14.7
Coffee	0.08	0.09	0.05	0.05	0.06	9.9
World crops[2/]						
Grains						
Production	1,871.4	1,839.3	1,872.8	1,816.7	1,825.6	0.5
Trade	240.4	232.5	240.3	239.8	224.7	-6.3
Rice (milled)						
Production	408.7	397.9	398.6	380.1	391.3	2.9
Trade	22.8	24.4	27.9	27.2	25.5	-6.3
Maize						
Production	607.4	588.6	599.3	602.5	610.0	1.2
Trade	73.4	76.5	74.3	78.1	77.0	-1.3
Soybean						
Production	159.9	175.2	184.9	196.8	198.7	1.0
Trade	45.7	53.9	53.6	62.7	67.5	7.7
Rubber						
Production	6.9	6.9	7.1	7.4	7.7	5.0
Consumption	6.8	7.2	7.0	7.4	7.7	4.6

Notes : 1/ *Forecast data from the Office of Agricultural Economic, June 2003*

2/ *Estimated in January 2003*

3/ *Production is based on the calendar year., i.e., the figure under 2003/2004 is the production during 1 January to 31 December 2004.*

E = *Estimated data*

Δ% represents percentage change from the same period last year.

Sources : *Office of Agricultural Economics;*

World Production, Market and Trade Reports, Foreign Agriculture Service, United Sates Department of Agriculture; and LMC Commodity Bulletin, January 2004.

Table 3: Thai Farm Prices

(Unit : Baht/tonne)

	2002	2003	2003			
			Q1	Q2	Q3	Q4
Farm Price Index[1/]	**116.9**	**127.8**	**120.6**	**128.7**	**131.7**	**130.1**
(1995 = 100)						
Δ%	5.8	9.4	6.5	10.0	11.7	9.0
Crop Price Index[1/]	**114.3**	**133.1**	**124.3**	**133.1**	**137.3**	**137.8**
Δ%	11.0	16.5	15.7	17.7	18.6	14.1
Hom mali paddy	5,582	7,477	6,139	7,675	8,439	7,655
Δ%	1.5	34.0	23.4	47.6	36.2	9.6
Paddy class1(5%)	4,973	5,107	5,083	5,146	5,215	4,983
Δ%	8.7	2.7	8.2	5.4	0.6	-2.8
Rubber	27,103	37,631	35,283	36,220	36,967	42,050
Δ%	29.4	38.8	59.6	40.3	21.4	40.0
Maize	4,050	4,480	4,320	4,533	4,613	4,453
Δ%	3.9	7.5	6.7	5.0	11.7	6.8
Cassava	1,113	871	933	920	837	793
Δ%	33.1	-15.7	-12.2	-17.4	-17.4	-15.6
Livestock Price Index[1/]	**111.9**	**109.6**	**99.1**	**111.8**	**115.9**	**111.6**
Δ%	-1.6	-2.0	-14.8	-2.5	4.7	5.5
Fishery Price Index[1/]	**130.1**	**129.0**	**130.6**	**131.6**	**129.7**	**124.2**
Δ%	-0.9	-0.8	1.4	0.2	-1.5	-3.4
Wood Price Index[1/]	**104.5**	**108.8**	**107.6**	**109.2**	**109.2**	**109.2**
Δ%	0.9	4.2	3.3	4.4	4.4	4.4

Notes : 1/ *Base year is 1995.*

Δ% represents percentage change from the same period last year.

Sources : *The Farm Price Index is constructed from data of the Fish Marketing Organization, Ministry of Agriculture and Cooperatives, and Ministry of Commerce.*

Table 4 : World Agricultural Prices[1/]

(Unit : US$/tonne)

	2002	2003	2003			
			Q1	Q2	Q3	Q4
World Agricultural Price Index (1995=100)	**59.2**	**66.6**	**65.9**	**65.5**	**65.3**	**69.9**
Δ %	-0.9	12.5	14.2	13.2	8.0	14.7
Rice 5%	192	198	199	199	197	196
Δ%	11.0	3.0	3.6	1.0	2.7	5.0
Shrimp	10,515	11,456	11,797	11,680	11,350	10,997
Δ%	-30.3	8.9	1.5	18.8	14.4	2.9
Rubber	771	1,056	955	978	1,019	1,273
Δ%	28.4	37.0	50.0	28.9	18.1	54.4
Sugar	152	156	186	159	144	135
Δ%	-20.3	2.9	20.9	15.6	0.0	-21.2
Cassava	88	111	95	99	113	139
Δ%	10.9	26.6	16.8	15.3	18.6	54.7
Maize	99	105	106	107	101	108
Δ%	10.7	6.2	16.6	18.0	-6.2	-0.2
Oil Palm	390	443	445	420	409	499
Δ%	36.6	13.6	32.8	11.4	-0.4	13.9

Notes : 1/ *Only 12 commodities related to Thai agricultural commodities are included, namely, rice, shrimp, rubber, sugar, maize, cassava, coffee, soybean, oil palm, tobacco, cotton and sorghum.*

Δ% represents percentage change from the same period last year.

Sources : *The World Agricultural Price Index is constructed from data of the World Bank.*

Manufacturing Sector

In 2003, **manufacturing production** accelerated from the previous year in both domestic-oriented and export-oriented sectors. With this, the expansion also became more broad-based compared to 2-3 years ago.

The **Manufacturing Production Index** (MPI) expanded by 12.3 percent, up from 8.5 percent in the previous year. Higher household income, strengthening consumer confidence, and low interest rates caused domestic-oriented industries (those exporting less than 30 percent of their production) to expand well, especially vehicles, motorcycles, and beverages. At the same time, with international demand picking up, export-oriented industries (those exporting more than 60 percent of their production) accelerated, particularly the manufacturing of integrated circuits (IC), food and block rubber. However, industries serving both the domestic and export markets (those exporting between 30-60 percent of their production) slowed down from the previous year following a decline in steel and textile production.

Manufacturing Production

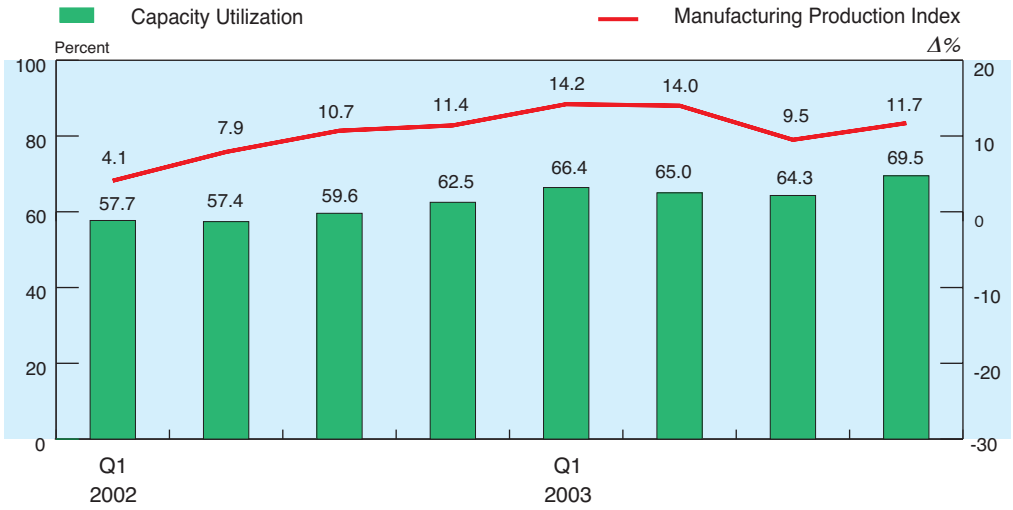


Table 5: Manufacturing Production Index[1/]

(Percentage change)

Industry	2001	2002	2002		
			H1	H2	Year
Textiles	0.6	-0.4	0.3	-0.3	0.0
Vehicles and Equipment	23.3	19.7	46.0	21.6	32.1
Petroleum Products	2.2	1.9	5.8	3.1	4.4
Beverages	13.6	20.0	22.1	13.7	17.7
Electronics and Electrical Appliances	-26.8	24.1	15.6	30.0	23.1
Food	-2.9	2.8	19.8	12.6	17.0
Setting Jewellery	3.9	0.0	-1.2	4.8	2.0
Construction Materials	9.9	13.4	-3.2	6.7	1.5
Iron and Steel Products	2.5	24.3	0.9	3.3	2.1
Tobacco	-3.0	3.2	0.9	6.5	3.7
Others	0.7	2.3	24.0	4.0	13.2
Total[1/]	**1.3**	**8.5**	**14.1**	**10.6**	**12.3**
(Excluding Vehicles)	**-1.6**	**6.6**	**9.0**	**8.3**	**8.7**

Notes : 1/ *Covering 45 products with 62.4 percent of the overall value added in the manufacturing sector.*
P = *Preliminary data*
Source : *BOT surveys*

The manufacturing **capacity utilization rate** averaged at 66.3 percent, up from 59.3 percent in 2002 in tandem with the acceleration in industrial output.

Table 6 : Capacity Utilization[1/]
(Unit : Percentage)

Industry	Average 1995-1996	2001	2002	2003[P]		
				H1	H2	Year
Vehicles and Equipment	74.5	44.5	54.6	66.2	72.7	69.4
Petroleum Products	89.5	74.8	76.2	79.1	80.0	79.5
Beverages	82.6	36.4	50.5	56.0	57.2	56.6
Electronics and Electrical Appliances	65.9	47.5	55.4	55.8	68.3	62.1
Food	40.3	42.1	45.1	65.7	42.4	54.0
Construction	88.0	52.3	56.9	57.5	57.6	57.6
Iron and Steel Products	64.7	50.0	60.6	63.5	65.3	64.4
Tobacco	79.7	52.1	53.8	54.4	57.1	55.8
Others	78.9	77.0	71.4	77.4	70.7	74.0
Total[1/]	75.0	53.5	59.3	65.7	66.9	66.3

Notes : 1/ *Covering 43 products with 44.5 percent of the overall value added in the manufacturing sector.*
P = *Preliminary data*
Source : *BOT surveys*

The details of industries exhibiting strong growth in 2003 are as follows:

Production of **vehicles and equipment** expanded by 32.1 percent following an increase in exports as well as domestic demand, especially with the introduction of new passenger car models at the end of 2002. At the same time, other factors also stimulated domestic consumption, including low interest rates and continuous sales promotions, for example, favourable payment conditions and free car insurance. Moreover, vehicle exports rose sharply, owing in part to an expansion of the production base for export. As a result, the capacity utilization rate of this sector rose from 54.6 percent in 2002 to 69.4 percent in 2003.

Production of **electronics and electrical appliances** continued to expand, especially during the second half of the year when IC production rose sharply in tandem with a rebound in the global electronics cycle and the US economic recovery. Meanwhile, production of television sets rose due to strong exports to the EU and Middle East markets. Thus, the capacity utilization rate of this industry increased from 55.4 percent in 2002 to 62.1 percent this year.

Production of **beverages** expanded by 17.7 percent in 2003, induced particularly by increased liquor production following good domestic economic conditions coupled with keener competition among low priced beer producers in order to maintain market shares. The average capacity utilization for the year was 56.6 percent compared to 50.5 percent in the previous year.

Production of **food** expanded well in almost every product. In particular, production of sugar and canned pineapple rose significantly following the expansion of planting area and favourable weather conditions. Production of both canned and frozen seafood also grew rapidly, especially in the first half of the year when the US-Iraqi War raised demand overseas and the SARS outbreak hindered exports of major competitors like China and Vietnam. The average capacity utilization for the year was 54.0 percent, up from 45.1 percent in 2002.

Production of **petroleum** grew by 4.4 percent in 2003, accelerating from the previous year in line with the recovery of domestic demand. The capacity utilization rate of this industry averaged at 79.5 percent, up from 76.2 percent in 2002.

Production of **other products** also expanded significantly. Most notable in this category are petrochemicals and block rubber, which grew buoyantly due to higher prices and increased demand both domestically and abroad. The average capacity utilization rate of this industrial category thus rose from 71.4 percent in 2002 to 74.0 percent this year.

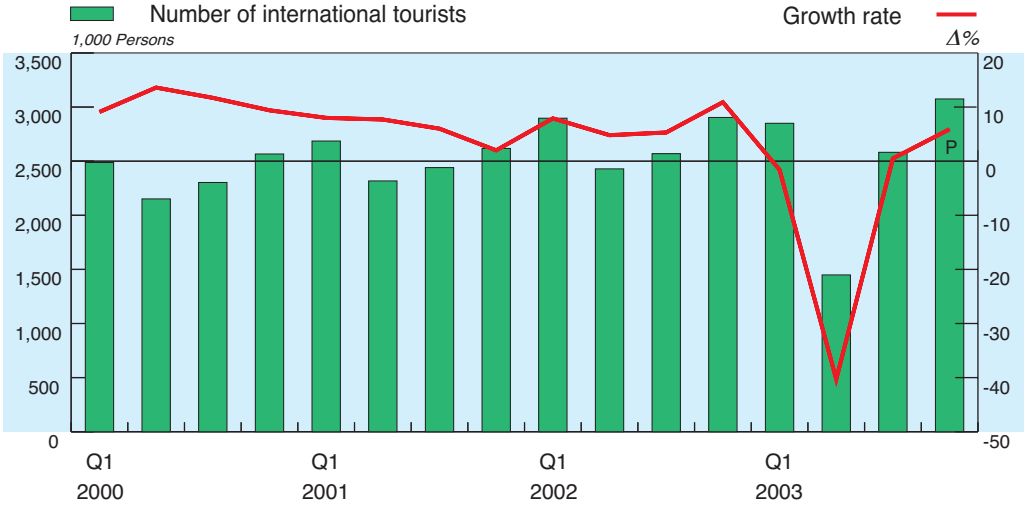
Nevertheless, there are industries which registered slower production growth in 2003 than in 2002, such as **construction materials** and **steel products.** Production of construction materials grew by only 1.5 percent compared to 13.4 in the previous year, owing to a high base in 2002 from increased price competition and accelerated production among cement producers in order to maintain market shares in the first half of that year. With higher raw material cost while being unable to raise output prices, steel producers were forced to reduce production during the second and third quarters of 2003, causing the average production for the year to expand by only 2.1 percent compared to 24.3 percent in 2002. In the last quarter of 2003, however, production of cement and steel products improved clearly due to very strong demand from the construction sector.

Services

A. Tourism and Hotel Industry

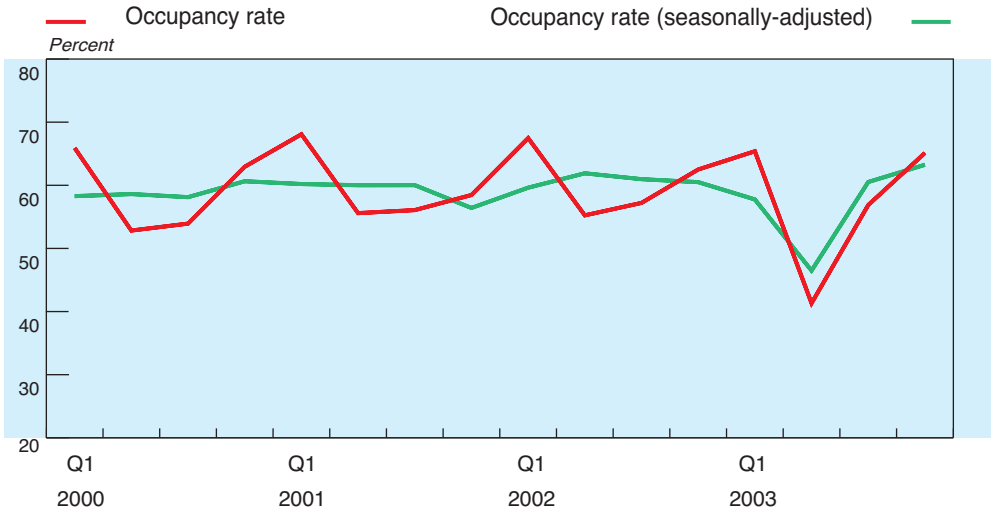
In 2003, the **tourism and hotel industry** was strongly affected by several temporary adverse shocks such as the US-Iraqi War and the outbreak of SARS in Asia. The number of foreign tourists in the second quarter dropped by 40.3 percent year-on-year, but the situation soon began to improve toward the end of the third quarter from effective measures to control the spread of the virus and bring back tourists' confidence. Measures to stimulate tourism, especially the promotion of local tourism during the special holidays at the time of the Asia-Pacific Economic Cooperation (APEC) summit and the opening of low cost airlines also facilitated the recovery of the travel industry in the last quarter of 2003. For the entire year, the number of foreign tourists totalled 9.95

Number of International Tourists



Source : Tourism Authority of T hailand

Occupancy Rate



Source : Bank of Thailand survey

millions, which was only 7.8 percent less than that of the previous year. Foreign revenues from tourism amounted to B323.4 billion, and the hotel occupancy rate averaged at 57 percent, slightly lower than that of the previous year.

The structure of foreign tourists in the first nine months of 2003 did not change significantly. The outbreak of SARS deterred tourists from all countries, especially those from East Asia. Nevertheless, tourists from East Asia continued to account for the largest share, 56.5 percent, of all foreign tourists to Thailand, followed by those from Europe and the US, accounting for 25.3 and 6.8 percent, respectively.

In 2004, the tourism industry is expected to expand from various promotion measures initiated by the government to make Thailand become the tourism capital of Asia and a high-quality

Table 7 : Foreign Tourists Classified by Nationality

Country	Δ%			Market share (%)	
	2002		2003	2002	2003
	Year	Jan.-Sep.	Jan.-Sep.	Jan.-Sep.	Jan.-Sep.
East Asia	7.8	7.4	-15.3	58.1	56.5
- Malaysia	12.4	17.3	-11.5	12.0	12.1
- Japan	5.2	-2.7	-19.9	11.6	10.7
- South Korea	28.4	26.7	-6.7	6.3	6.8
Europe	5.7	3.5	-6.0	23.5	25.3
USA	6.9	1.7	-9.4	6.5	6.8
Others	7.3	7.1	-15.6	11.9	11.4

Note : *Δ% represents percentage change from the same period last year.*
Source : *Tourism Authority of Thailand*

Table 8 : Tourism Indicators

	2002	2003[P]	2003			
			Q1	Q2	Q3	Q4
1. Number of foreign tourists (million persons)	10.8	10.0	2.9	1.4	2.6	3.1
Δ%	7.3	-7.8	-1.6	-40.3	0.5	5.9
2. Income from tourism (billion baht)	339.7	323.4	92.2	53.3	78.8	99.0
3. Occupancy rate (percent)	60.6	57.0	65.4	41.3	56.9	65.1
4. Room rates (baht)	1,194	1,170	1,334	1,082	1,026	1,237

Notes : P = *Preliminary data*

Δ% represents percentage change from the same period last year.

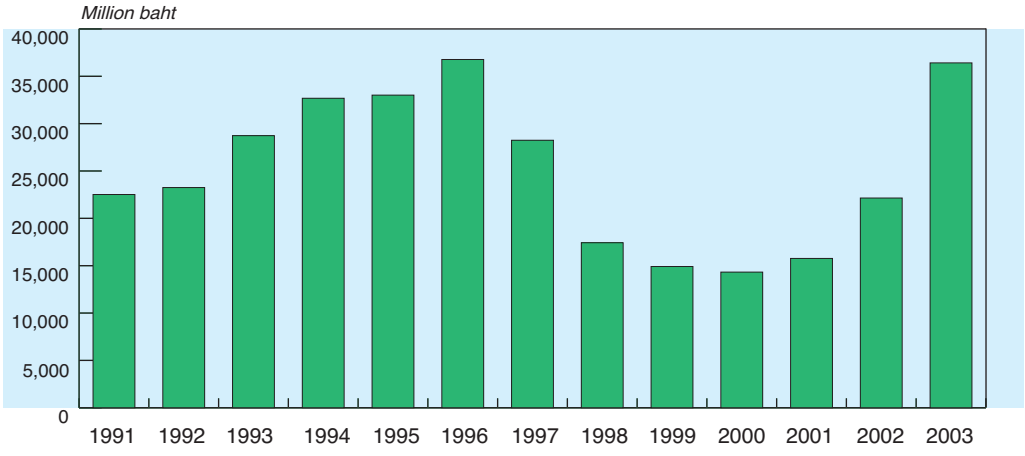
Sources : *Tourism Authority of Thailand and Bank of Thailand*

travel destination by 2007. The Thai tourism market is likely to be able to expand in many areas such as travel for meeting, convention and exhibition; leisure/health travel; and long-stay travel, all of which will facilitate the expansion of the hotel business in turn.

B. Real Estate

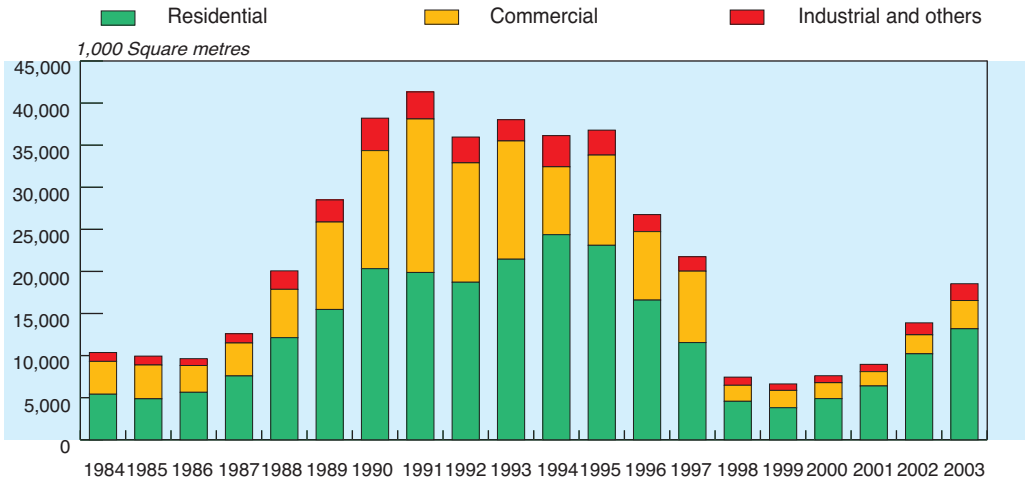
Real estate activities accelerated strongly in 2003, after the market had bottomed out in 2000, with housing demand being a major driving force. The value of land transactions for the entire kingdom totalled B437 billion, up by 64.6 percent from the previous year, with 25 percent of the transactions occurring in December alone due to the approaching expiration of transfer fee reduction at the end of the year as well as the rush to transfer property before the reappraisal of land by the Treasury Department and the new city plan for Bangkok take effect and thereby raise land and housing prices in 2004.

Value of Land Sales
(average per month)



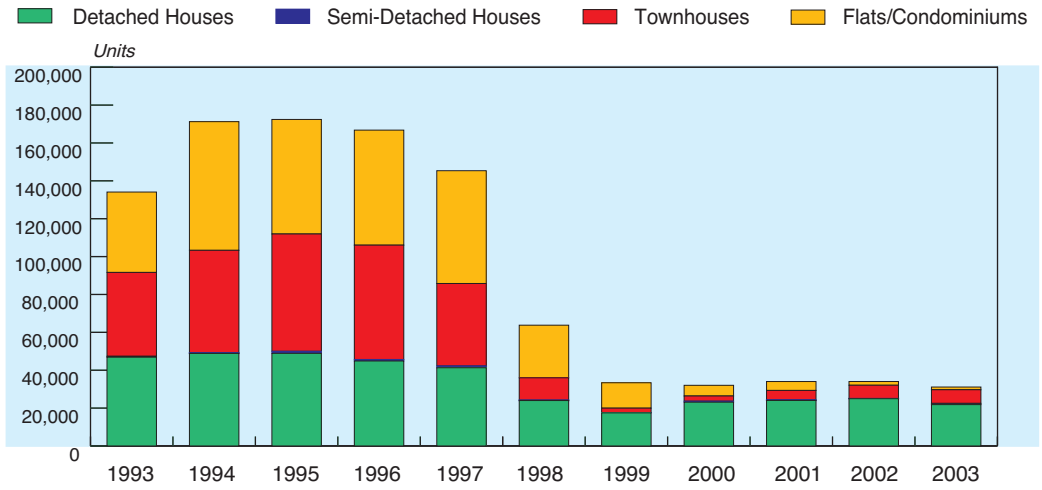
Sources : Department of Lands and Bank of Thailand

Permitted Construction Areas



Sources : Bangkok District Office and Municipalities

New Housing Registrations



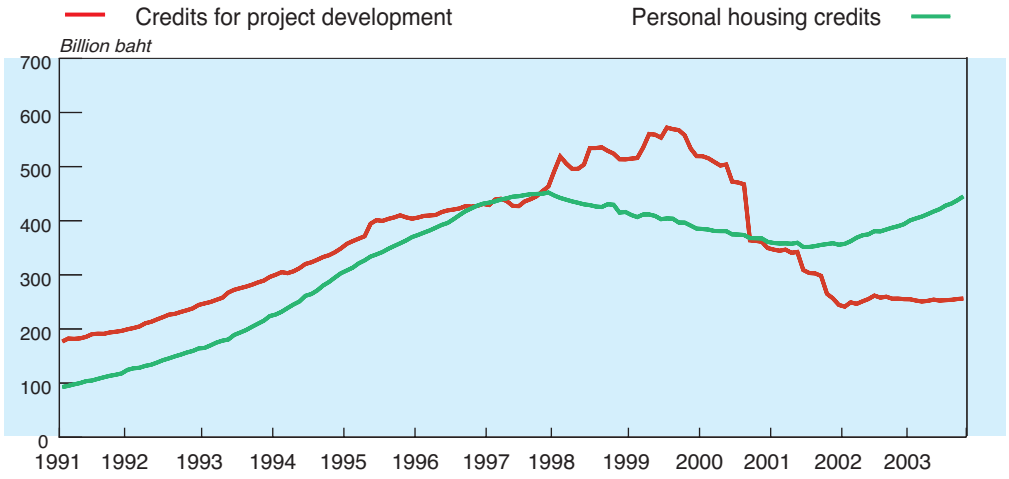
Source : Government Housing Bank

The exceptional level of activities in December 2003 caused the average value of land transactions per month to be close to that of 1996 (B36.8 billion), the year with the highest level of transactions before the 1997 crisis. Moreover, the number of transactions was close to that of 1995 (74,402 units), the year with the highest number of transactions before the crisis.

However, other real estate indicators, such as permitted construction areas and new housing registrations, were still lower than that of the pre-crisis period despite strong growth in recent years.

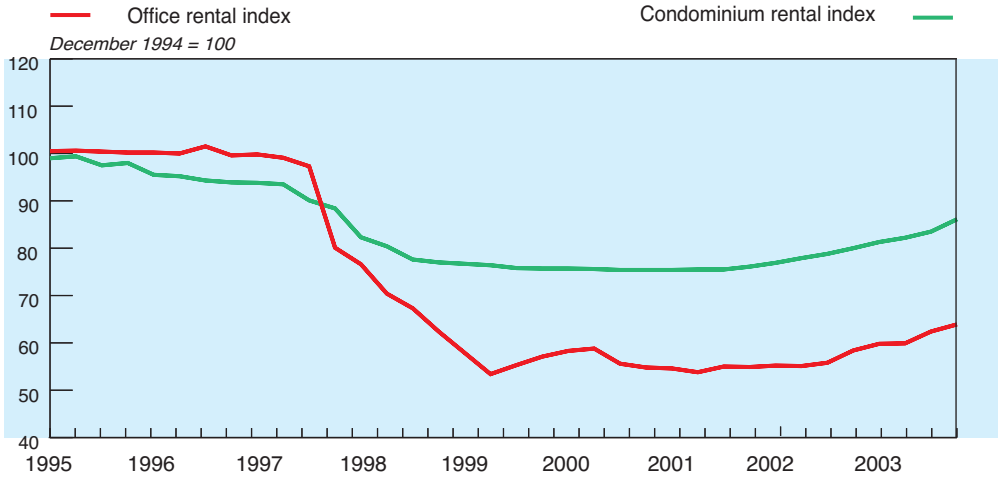
Major factors supporting buoyant real estate activities in 2003 include the low interest rate environment and high growth of housing credits extended by commercial banks, both of which made home-owning much more affordable. As of end-September 2003, the outstanding level of personal housing credits was B444.9 billion, growing by 15 percent year-on-year.

Real Estate Credits Extended by Commercial Banks



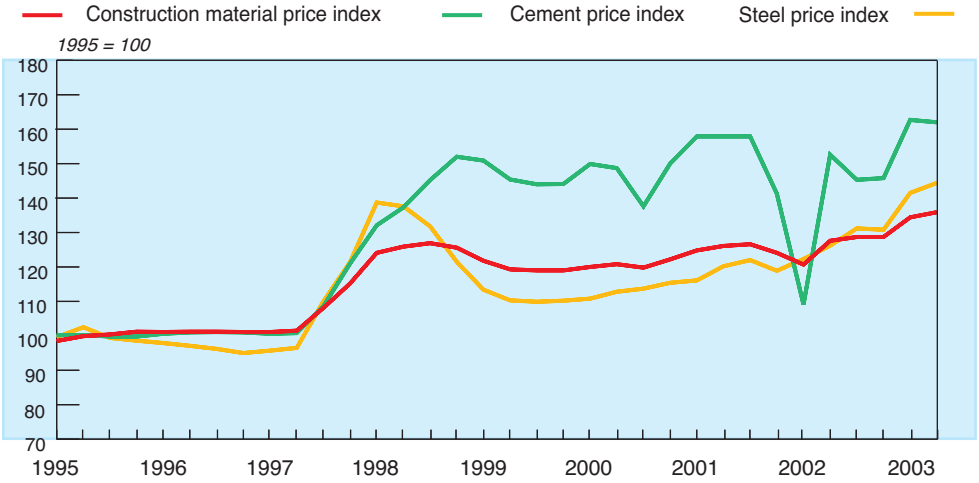
Source : Bank of Thailand

Rental Indices



Source : Jones Lang LaSalle

Construction Material Price Index



Source : Ministry of Commerce

The increase in real estate demand which exceeded that of supply led to some upward pressure on real estate prices in 2003. Overall, housing prices were higher by 10 percent, while land prices in certain locations also rose and construction cost adjusted upward with higher prices of raw materials such as steel and cement. At the same time, the rise in the condominium rental index for the central business district encouraged greater demand for investment in condominiums.

Real estate activities is expected to slow down somewhat in the first quarter of 2004, partly because of the expiration of the transfer fee reduction and measures initiated by the BOT to curb speculative activities in the real estate market. Nevertheless, the trend for the rest of the year should remain quite strong with genuine demand for housing and accommodating interest rates.

Table 9 : Real Estate Indicators

	2002	2003	2003			
			Q1	Q2	Q3	Q4
Value of Land Transactions	**265,746**	**436,998**	**74,615**	**85,232**	**98,205**	**178,911**
(Milllion baht)						
Δ%	40.5	64.4	38.4	33.9	40.9	128.0
Permitted Construction Areas	**13,891**	**18,539**	**3,456**	**4,174**	**4,939**	**6,108**
(1,000 square metres)						
Δ%	55.1	33.5	9.7	29.7	38.6	54.4
New Housing Registrations	**34,035**	**50,549**	**8,764**	**10,359**	**11,998**	**19,473**
(Bangkok and surrounding areas)						
(Units)						
Δ%	0.0	48.7	4.9	2.4	53.4	165.2
– Housing Projects	14,371	30,088	3,999	5,390	6,189	14,510
– Flats/Condominiums	1,971	1,908	220	196	1,017	475
– Self-built Houses	17,693	18,598	4,545	4,773	4,792	4,488
Volume of Cement Sales	**23,020**	**24,249**	**6,321**	**5,921**	**5,942**	**6,065**
(1,000 tonnes)						
Δ%	20.9	5.3	-6.0	10.5	4.1	15.9
Real Estate Credits Extended by Commercial Banks[1/]	**655,463**	**701,118 [2/]**	**664,176**	**681,108**	**701,118**	**n.a.**
(Million baht)						
Δ%	9.2	9.0 [2/]	8.0	6.0	9.0	n.a.
– Credits for Project Development[1/]	254,906	256,202 [2/]	251,949	253,196	256,202	n.a.
– Personal Housing Credits[1/]	400,557	444,916 [2/]	412,227	427,912	444,916	n.a.

Notes : 1/ *Data as of end-period*

2/ *Data as of end-September 2003*

Δ% *represents percentage change from the same period last year.*

n.a. = *no data available*

Sources : *Department of Lands, Government Housing Bank, and Bank of Thailand*

The partial slowdown in real estate demand coupled with greater supply, partly due to the government's housing programme for low-income families[1], is likely to help relieve some real estate price pressure in 2004.

Real estate trends by type of property are as follows:

Housing Projects. The growth of housing projects should moderate from 2003 due to the slowdown of high-end housing which had already expanded at an exceptional rate in 2003. However, demand for middle-range housing should remain strong.

Condominiums. Supply of condominiums is expected to be high in 2004-2005, in line with the introduction of new condominium projects. The expansion of supply should accommodate the prevailing demand excess in this sector.

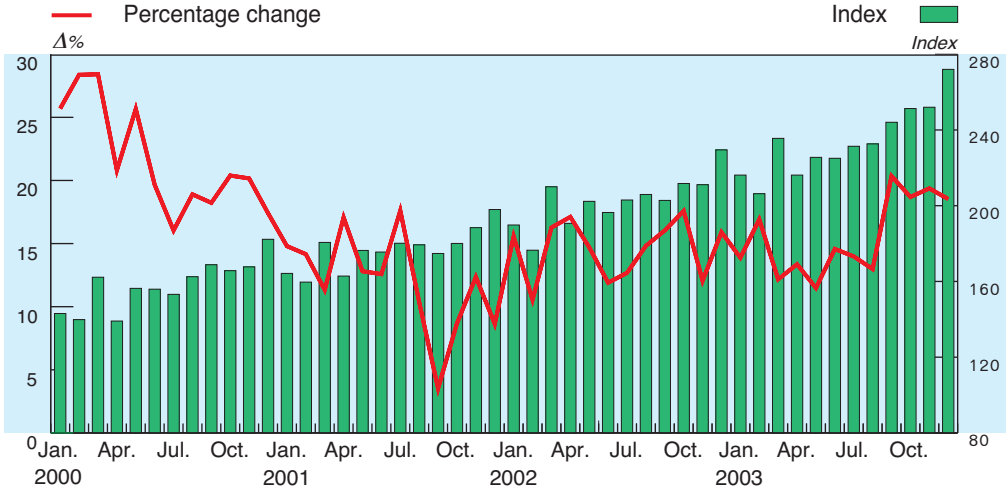
Office Buildings. Office buildings are likely to expand at a higher rate after no new supply came out during the past 2-3 years. At present, some construction projects that were on hold have already been resumed as the general market picks up.

C. Trade

Both retail and wholesale trade expanded well in 2003. Despite some slowdown in the second quarter due to the outbreak of SARS, activities recovered quickly especially in the last quarter of the year when the government promoted local tourism during the special holidays at the time of the APEC summit in Bangkok.

Important factors supporting the growth of trade in 2003 include rising farm income, an expansion in non-farm employment, a moderate increase in the price level, low interest rates, expanding non-bank credits to consumers, and the success of the One Tambon One Product (OTOP)

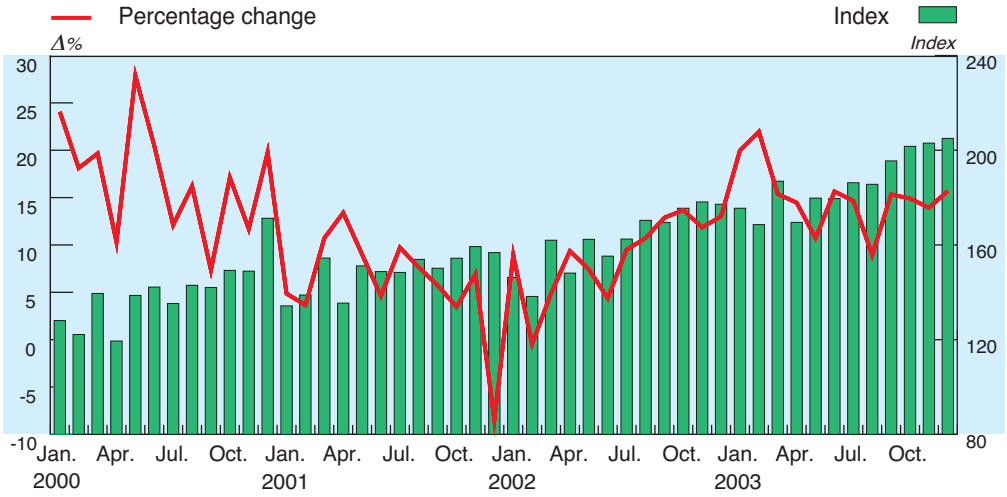
Retail Trade Index (1998 Prices)



Source : Bank of Thailand

1 *The Government Housing Programme will create housing of 1 million units for low-income families within 5 years (2003-2007). At present, 112 units out of a total of 4,175 units planned for 2003 have been completed.*

Wholesale Trade Index (1998 Prices)



Source : Bank of Thailand

Table 10 : Retail and Wholesale Trade Indices

	2002	2003	2003			
			Q1	Q2	Q3	Q4
Retail Trade Index	202.5	233.0	219.4	222.3	236.1	254.3
Δ%	14.6	15.1	14.2	13.1	15.8	16.9
Wholesale Trade Index	162.1	188.0	177.1	176.3	189.2	209.3
Δ%	8.9	15.9	19.0	13.6	13.0	18.3

Note : *Δ% represents percentage change from the same period last year.*
Source : *Bank of Thailand*

promotion by the government. Moreover, improved economic conditions induced greater confidence of both consumers and entrepreneurs.

In 2004, trade is expected to expand further as supporting factors remain favourable.

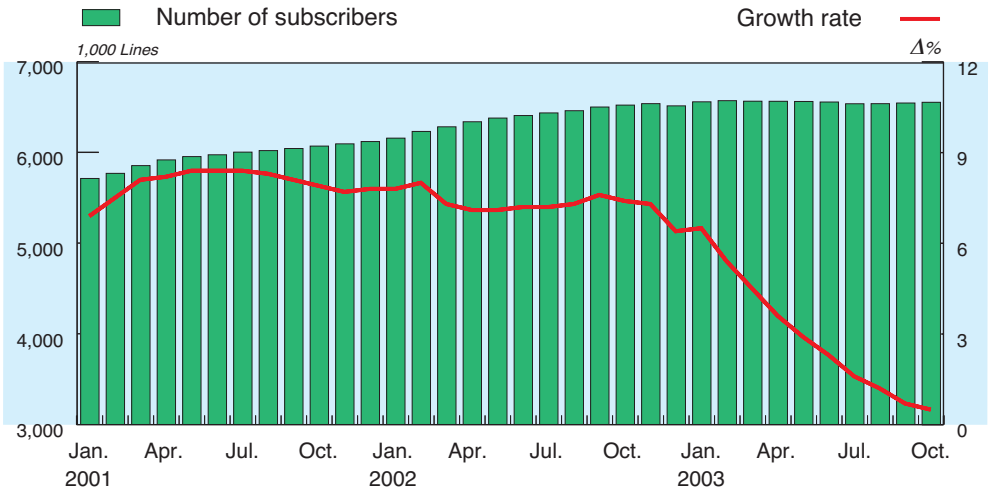
D. Telecommunications

The telecommunications industry exhibited strong growth in 2003, mainly from the expansion of the mobile phone business. The number of mobile phone subscribers as of end-October 2003 stood at 21.6 millions, up by 30.5 percent year-on-year, while the number of fixed-line subscribers did not change significantly.

Factors behind the growth of the mobile phone business during the past 2 years include the economic recovery and rising consumer purchasing power coupled with technological advancement and marketing by the service providers to raise demand for both mobile phones and services.

However, the mobile phone business is likely to expand at a more moderate rate going forward as Thailand's subscription rate per capita is already quite high. At the same time, market

Subscribers to Fixed-line Telephones

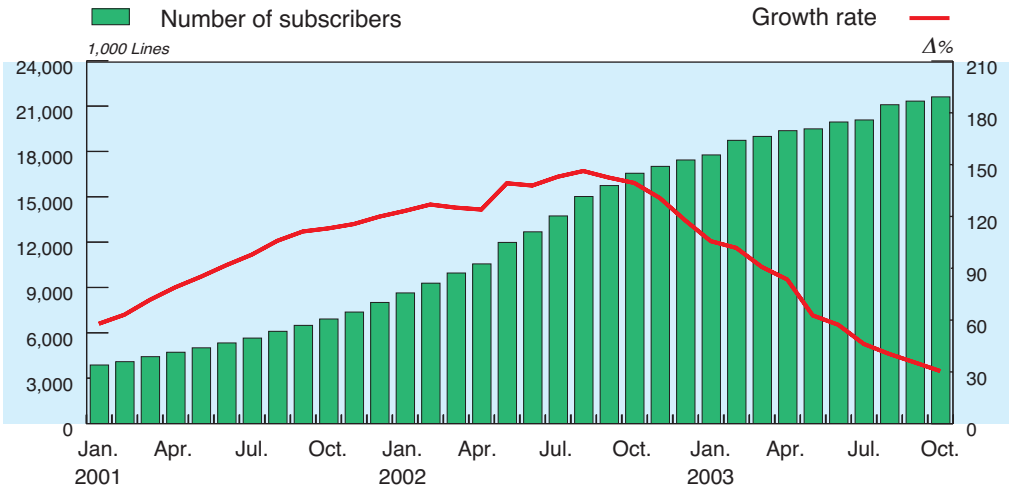


Sources : TOT Corporation Public Company Limited and CAT Telecom Public C ompany Limited

competition among mobile phone service providers will become more intense, both in terms of service and price, thus pushing service fees as well as mobile phone prices down. Meanwhile, fixed-line service providers will have to improve their competitive capability in order to compete with their mobile phone counterparts. It is thus likely that fixed-line service fees will also fall while the availability of additional services will increase.

In summary, the expansion of the telecommunications industry is expected to slow down in 2004 in tandem with the mobile phone business. Service fees should fall from intense competition while a wider variety of services will be offered with a continued improvement in technology, including multimedia messaging.

Subscribers to Mobile Phones



Sources : TOT Corporation Public Company Limited and CAT Telecom Public C ompany Limited

Table 11 : Telecommunication Services

(Unit : Million lines)

	2002	2003			
		Q1	Q2	Q3	Oct.[E]
Fixed-line Telephones[1/]	6.513	6.564	6.555	6.544	6.552
Δ%	6.4	4.5	2.3	0.7	0.5
Mobile Phones[1/]	17.436	18.994	19.948	21.330	21.611
Δ%	117.7	90.8	57.3	35.5	30.5

Notes : 1/ *Data as of end - period*
E = *Estimated data*
Δ% represents percentage change from the same period last year.

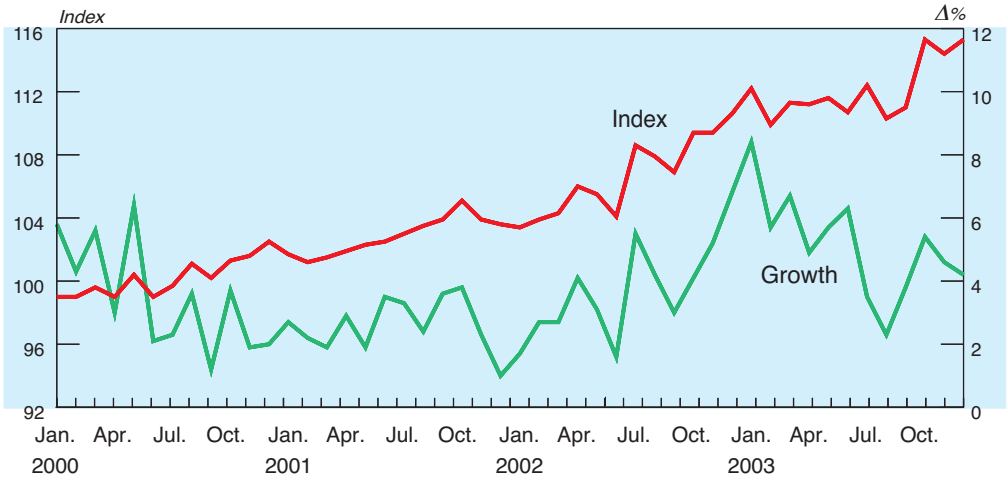
Sources : *TOT Corporation Public Company Limited and Communications Authority of Thailand Telecom Public Company Limited.*

Private Consumption

The Private Consumption Index (PCI) increased by 5.1 percent in 2003, accelerating from the previous year's increase of 3.7 percent. The acceleration in PCI growth in the first quarter was mostly due to higher sales of vehicles. However, PCI growth moderated in the second quarter amidst concerns regarding Severe Acute Respiratory Syndrome (SARS), and decelerated further in the third quarter as a result of decelerated automobile sales owing to the lack of new car models to stimulate consumer interest. In the final quarter, extra national holidays during the Asia-Pacific Economic Cooperation (APEC) summit and higher sales of passenger cars and motorcycles, especially the new models, led to accelerated PCI growth.

Private Consumption Index[1/]

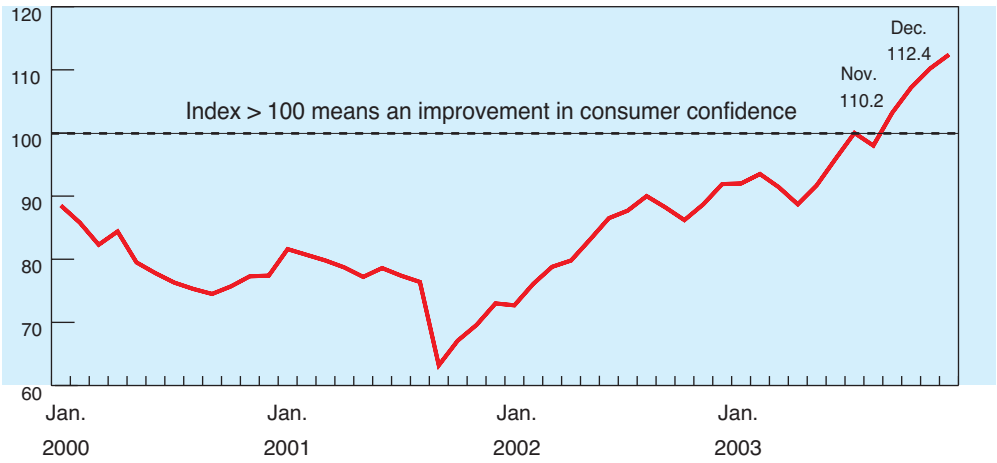
	2002	2003	2003			
			Q1	Q2	Q3	Q4
Index	106.7	112.1	111.1	111.1	111.2	115.0
Growth rate (percent)	3.7	5.1	7.0	5.6	3.2	4.7



Note : 1/ The index is constructed from nine seasonally adjusted consumption indicators.

Source : Bank of Thailand

Consumer Confidence Index



Source : The University of the Thai Chamber of Commerce

A number of factors contributed to the overall acceleration of private consumption in 2003:

(1) Higher consumer purchasing power in tandem with a diminishing unemployment rate, a strong increase in farm income, improved corporate profits, and a rise in stock prices.

(2) Increased consumer confidence except during SARS.

(3) A supportive financial environment, especially in regard to low interest rates and improved consumer credit access.

The details on private consumption indicators are as follows:

Indicators of general consumption. The collection of value-added taxes on consumption goods rose by 15.0 percent, constituting an acceleration in growth from last year in line with the country-wide rise in retail sales. Meanwhile, imported consumer goods expanded significantly by 10.4 percent, with the increases in imported electrical appliances and food and beverages being the most notable.

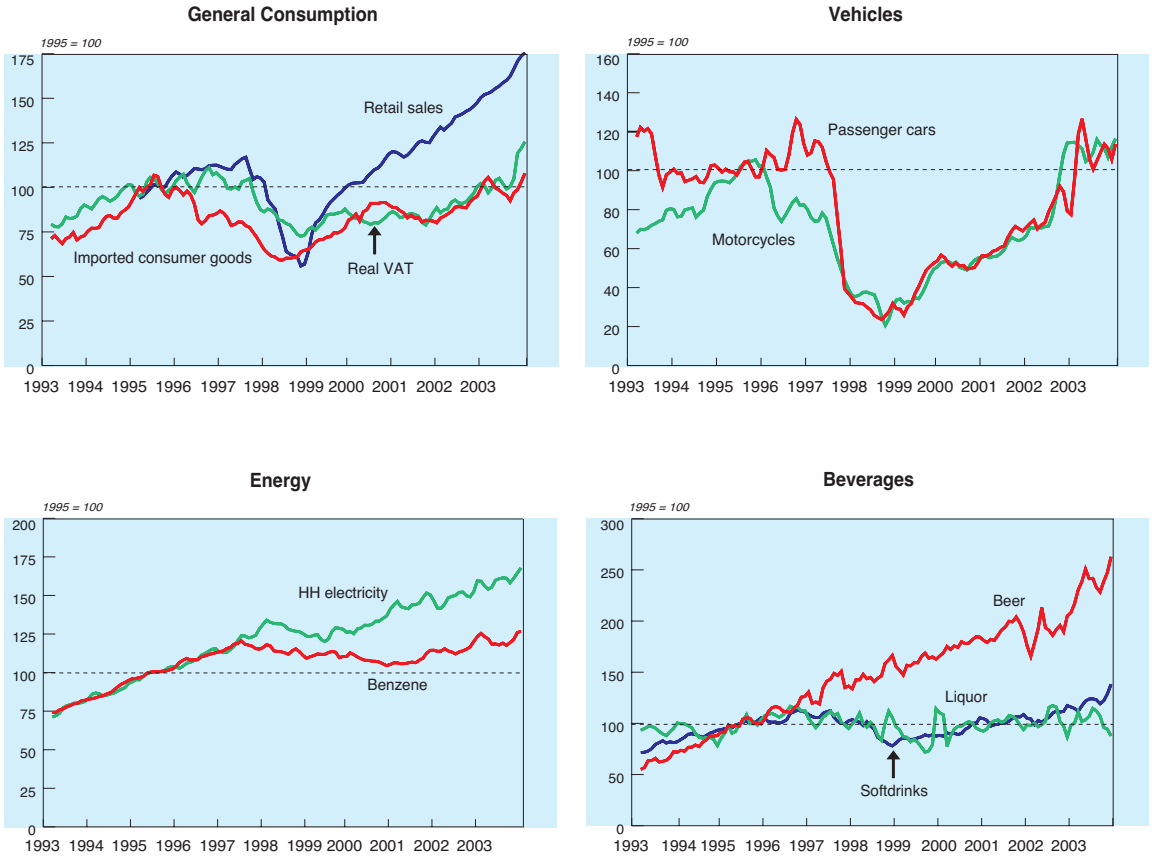
Indicators of vehicle sales. Passenger car sales rose by 42.0 percent, up significantly from the previous year's growth of 20.8 percent as a result of increased consumer purchasing power, low interest rates, and a greater number of new car models introduced at the motor show at the end of 2002 as compared to the previous years. Although motorcycle sales decelerated from last year's growth of 42.0 percent to 28.2 percent this year, motorcycle sales continued to expand significantly nonetheless.

Indicators of energy consumption. Residential electricity usage rose by 6.2 percent, accelerating from the previous year's growth of 3.7 percent in tandem with the recovery of the real estate sector and increased sales of electrical appliances. However, the usage of benzene fuel, amidst the volatility of oil prices, expanded at a decelerated rate compared to the previous year.

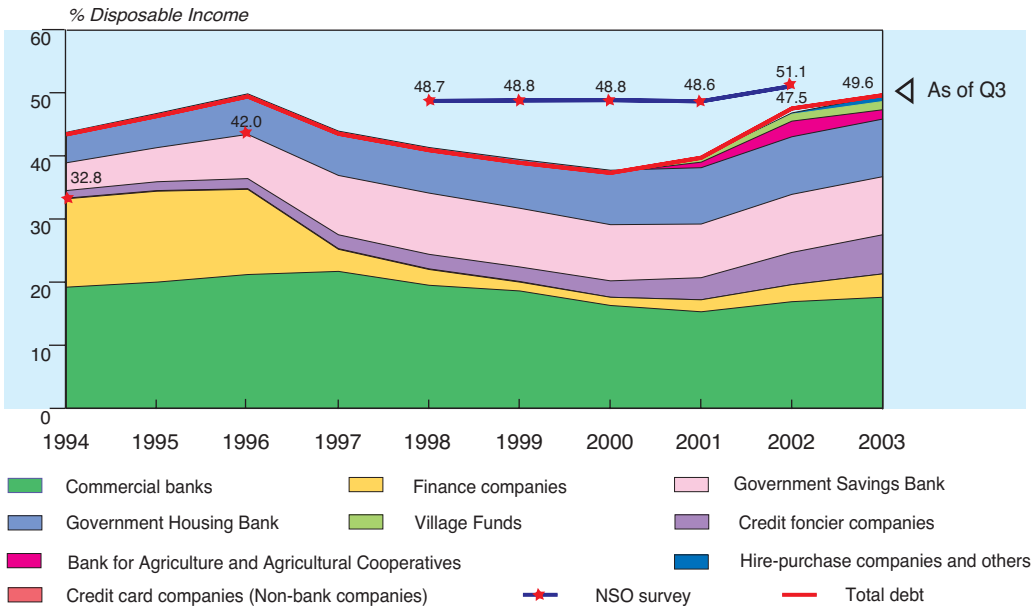
Indicators of beverage consumption. The sales of beer and soft drinks expanded by 25.1 and 14.4 percent, respectively, as compared to the previous year's growth rates of 1.7 and 4.5 percent. The accelerated growth was partly due to regular sales promotions. Liquor sales, however, did not expand at a high rate as a result of an anti-drinking campaign, especially during the Buddhist lent.

Indicators of Private Consumption

(Seasonally adjusted and 3-month moving average)



Formal Sector Household Debt



Sources : NSO and Bank of Thailand

Nonetheless, the issue of private consumption sustainability, especially when household debt has been rising, merits attention. The rise in household debt has been supported by a number of factors including increased consumer confidence with regard to steadily improving income and employment prospects as well as greater access to consumer credit. To the extent that these factors may impair the traditional thrifty culture of Thai consumers, they should be monitored closely. According to the National Statistical Office (NSO), average household debt in 2002 had increased to B82,485 from B68,279 in 2001, or up by 17.9 percent. Measured as a share of household disposable income, aggregate household debt in 2002 was at 51.1 percent. Meanwhile, the BOT's data show that household debt in the formal sector amounted to 49.6 percent of disposable income at the end of the third quarter of 2003 and was trending marginally upwards.

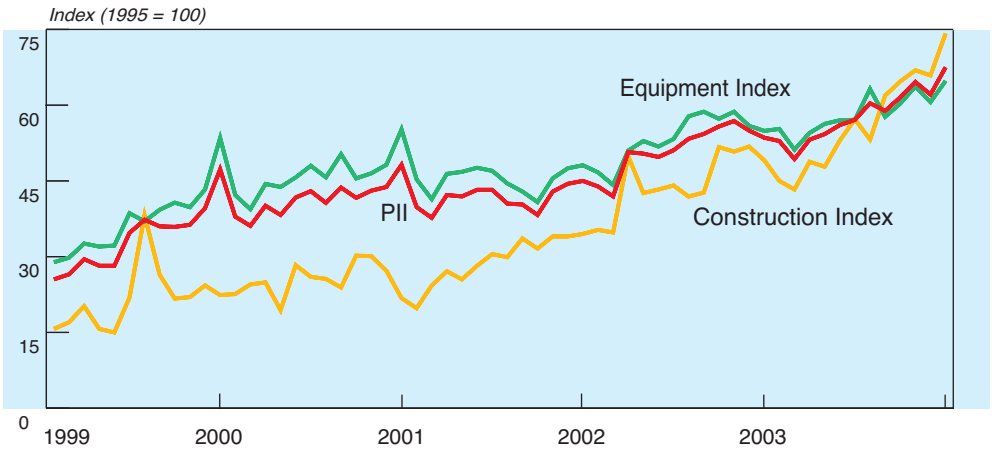
Private Investment

Private investment, which comprises about 15 percent of GDP, expanded by 17.9 percent in 2003, accelerating from the previous year's increase of 13.2 percent. Meanwhile, the BOT's Private Investment Index (PII) accelerated largely throughout the year both in equipment and construction investment in tandem with improved business sentiments. Furthermore, the values of projects approved by the Board of Investment (BOI) and newly registered capital investment in 2003 indicate an investment climate that was clearly an improvement over the previous year's.

Components of the PII, namely commercial car sales, imported capital goods, permitted construction areas, and domestic cement sales, all registered strong growth in 2003 despite the US-Iraqi War and the outbreak of Severe Acute Respiratory Syndrome (SARS) which adversely affected investor confidence as seen by the delay of some investment during the first half of the year. The economy's strong recovery and increased exports led meanwhile to rising capacity utilization and the concomitant increase in demand for investment to expand productive capacities. The manufacturing sectors that expanded their productive capacities this year include cement,

Private Investment Index

	2002	2003	2003			
			Q1	Q2	Q3	Q4
PII	51.4	58.2	51.8	55.8	60.3	64.8
Equipment Index	53.6	58.5	53.7	56.8	60.4	63.1
Construction Index	44.8	56.8	45.7	52.7	59.9	69.0



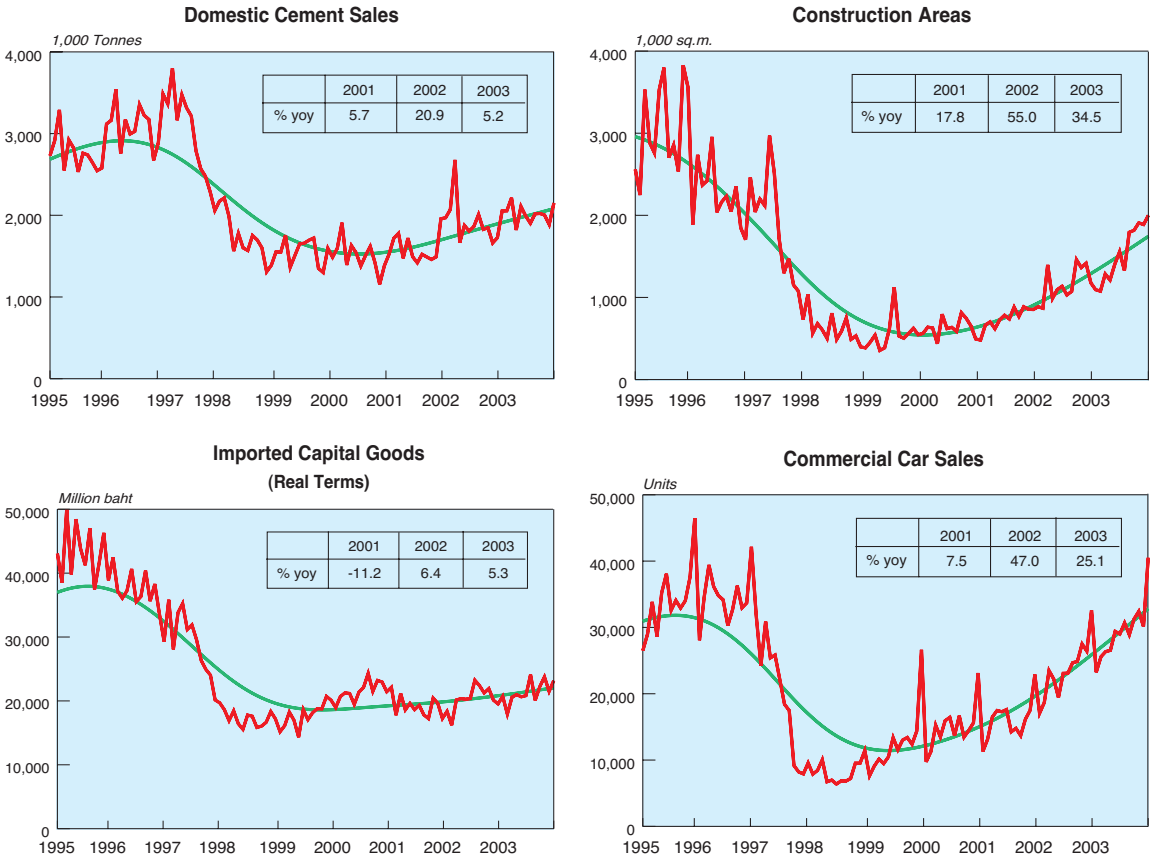
Source : Bank of Thailand

Table 12 : Private Investment

Δ%	2002	2003	2003			
			Q1	Q2	Q3	Q4
Private Investment	13.2	17.9	19.8	16.8	16.5	18.5
Private Investment Index	23.4	13.2	13.8	10.7	10.6	17.5

Note : *Δ% represents percentage change from the same period last year.*
Sources : *NESDB and Bank of Thailand*

Private Investment Indicators with Trends



Source : BOT survey

electronics, and electrical appliances. In addition, an accommodating financial environment in terms of ample sources of funding and low interest rates together with improving corporate performance was an important factor contributing to the private sector's ability to invest.

However, the limited definitional coverage of certain components of the PII caused the growth of the index to be lower in 2003 than in 2002. In particular, the components of the PII do not include domestic machinery and equipment, the importance of which has been gradually rising in recent years. Indeed, sales of domestic capital goods at constant prices increased by 6.8 percent year-on-year during the first ten months of 2003 compared to a decrease of 4.7 percent during the same period in 2002.

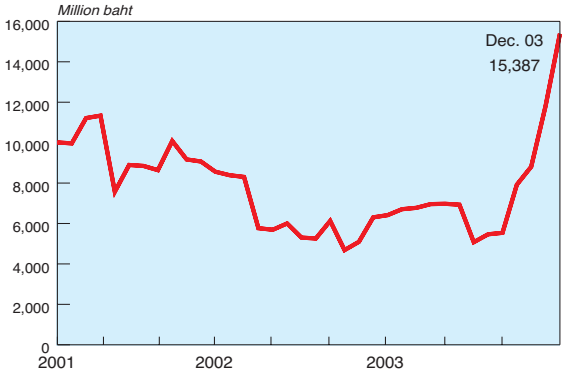
Table 13 : Private Investment Indicators

Δ%	2001	2002	2003
Value of projects applying for BOI support	-47.9	41.7	21.5
Value of BOI approved projects	-4.6	-39.0	75.8
Newly registered business capital	-19.0	1.9	22.9 1/
Domestic sales of capital goods (real terms)	7.6	-3.7	6.8 2/

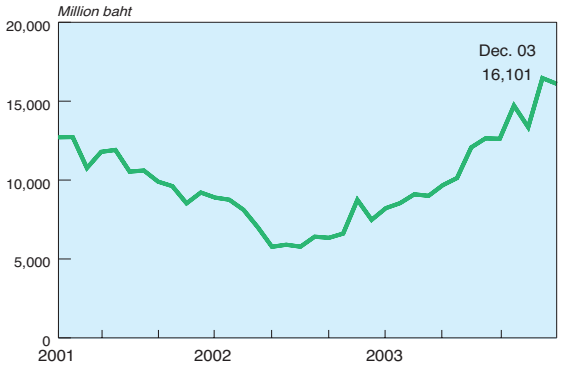
Note : 1/ *January - November 2003*
2/ *January - October 2003*
Δ% represents percentage change from the same period last year.
Sources : *BOI, Ministry of Commerce, Bank of Thailand, and Revenue Department*

Private Investment Indicators : Sources of Financing

New Issuance of Equities 1/

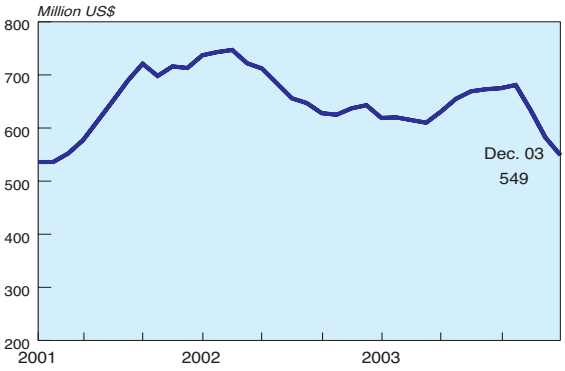


New Issuance of Debentures 1/

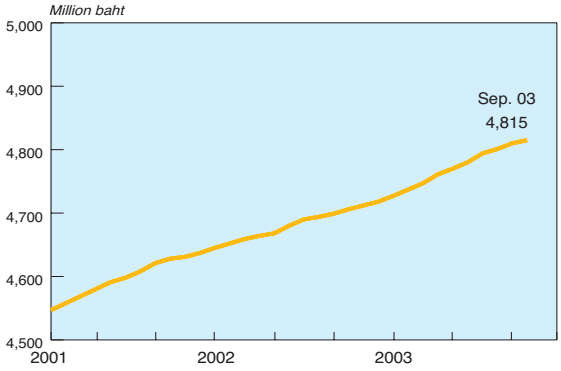


Sources : Securities and Exchange Commission, Stock Exchange of Thailand

Inflows of Foreign Direct Investment 1/



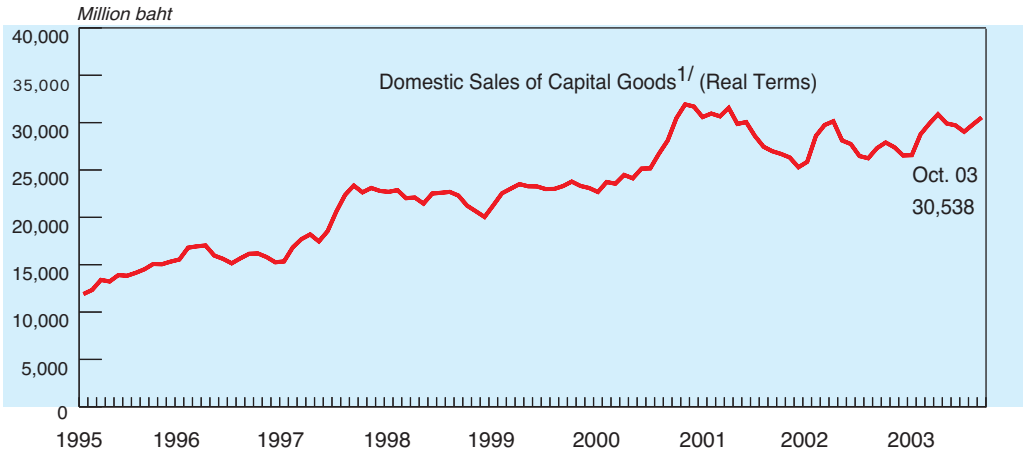
Commercial Bank Credits for Investment 1/ 2/



Notes : 1/ 12-month moving average
2/ Claims on private sector excluding consumption credits
Source : Bank of Thailand

Looking forward, investment indicators are favourable for 2004 for the following reasons: (1) the three-month forward Business Sentiments Index (BSI) was above 50 in January 2004, confirming an upward trend in business sentiments; (2) the value of BOI certificates issued amounted

Private Investment Indicators : Domestic Capital Goods



Note :1/ 3-month moving average

to about B105 billion in the second half of 2003; and (3) many industries, such as those producing galvanized iron, wire rods, motorcycles, tyres, integrated circuits, zinc metal, pulp, and upstream petrochemicals, have already operated at capacity utilization rates above 70 percent and their respective pre-crisis levels, indicating the tendency to expand productive capacities in the near future.

Labour Market Conditions

In 2003, the number of employed persons increased by 2.4 percent from the previous year due to the increase in non-agricultural employment which rose by 5.0 percent in tandem with the expansion of employment in the manufacturing, construction, hotel and restaurant, and wholesale and retail trade sectors. Agricultural employment decreased by 1.2 percent, however, as a result of drought and increased labour demand from non-agricultural sectors which prompted agricultural workers to migrate.

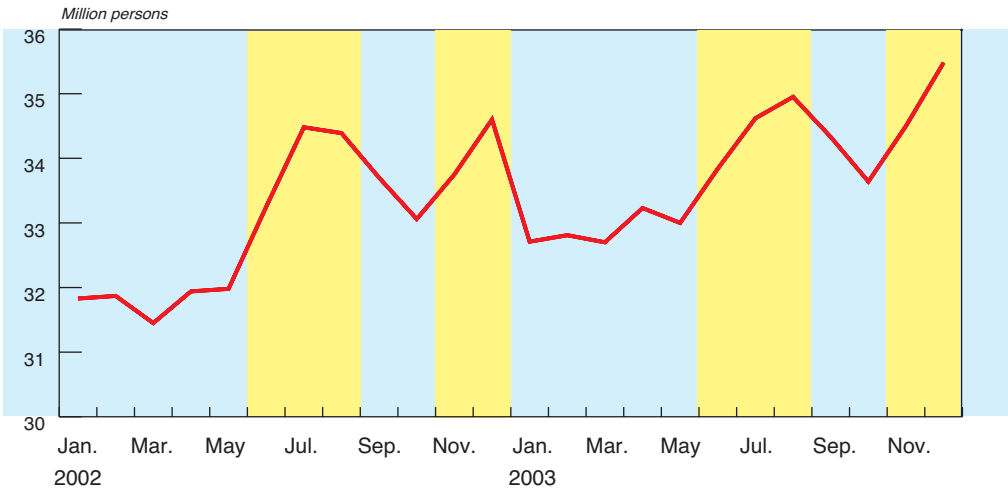
Employment rose in all regions of Thailand but especially in Bangkok. The greatest decrease in the unemployment rate occurred in the Northeastern region partly due to the shift of

Table 14 : Labour Market Conditions by Sector
(Unit : Percent)

	Share of Employed Persons in 2003	Growth Rate of Employed Persons in 2003
Agriculture	40.3	-1.2
Non-agriculture	59.7	5.0
Manufacturing	16.4	5.8
Wholesale and retail trade	15.3	5.2
Hotel and restaurant sevices	6.4	5.3
Construction	5.5	5.4
Others	16.0	4.3
Total	100.0	2.4

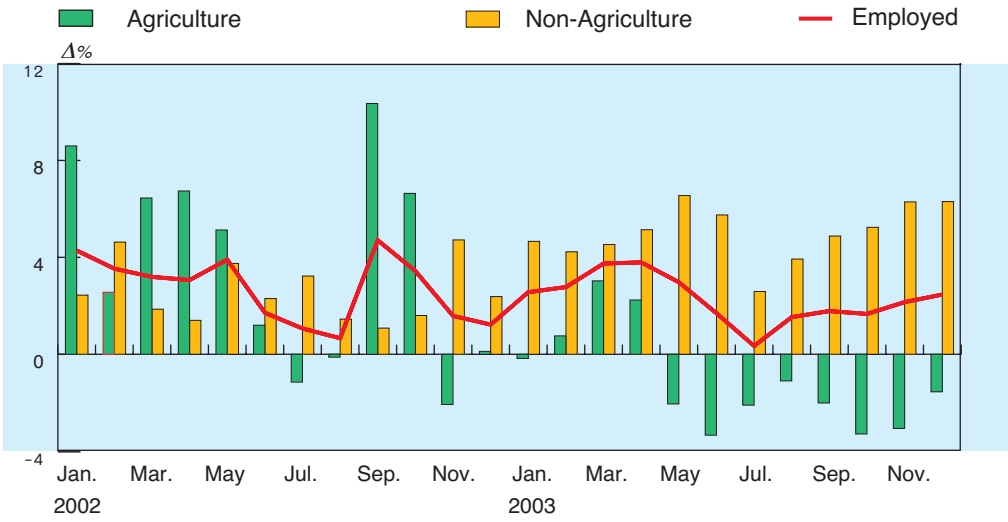
Source : *National Statistical Office*

Number of Employed Persons



Note : The number of employed persons is highest during the periods of June-August and November-December as these are farming and harvest seasons, respectively.

Employment



Source : National Statistical Office

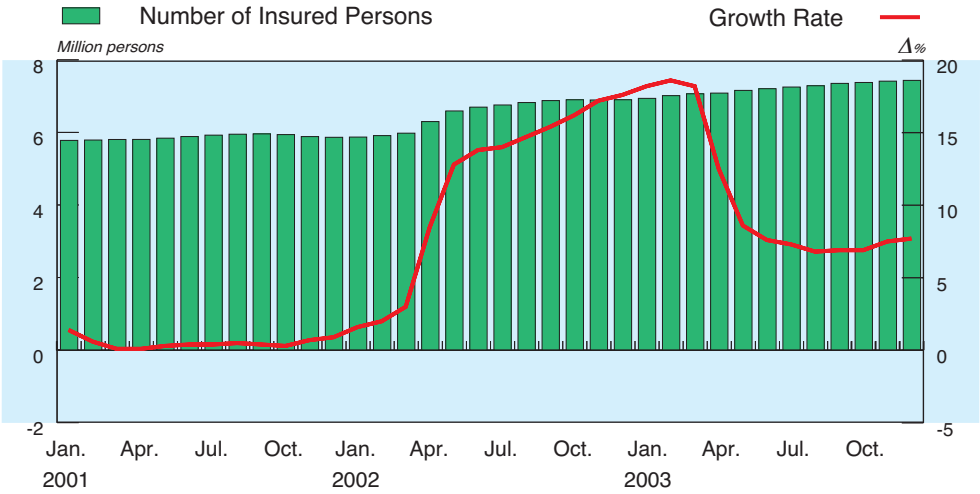
Table 15 : Labour Market Conditions by Region

(Unit : Percent)

	Share of Employed Persons in 2003	Growth Rate of Employed Persons in 2003	Unemployment Rate 2002	Unemployment Rate 2003
Central region	23.8	2.4	1.7	1.8
Bangkok	13.3	4.4	2.6	2.3
Northern region	18.3	1.2	2.0	2.3
Northeastern region	31.6	2.4	3.3	2.5
Southern region	13.0	2.5	2.0	1.9
Whole Kingdom	100.0	2.4	2.4	2.2

Source : *National Statistical Office*

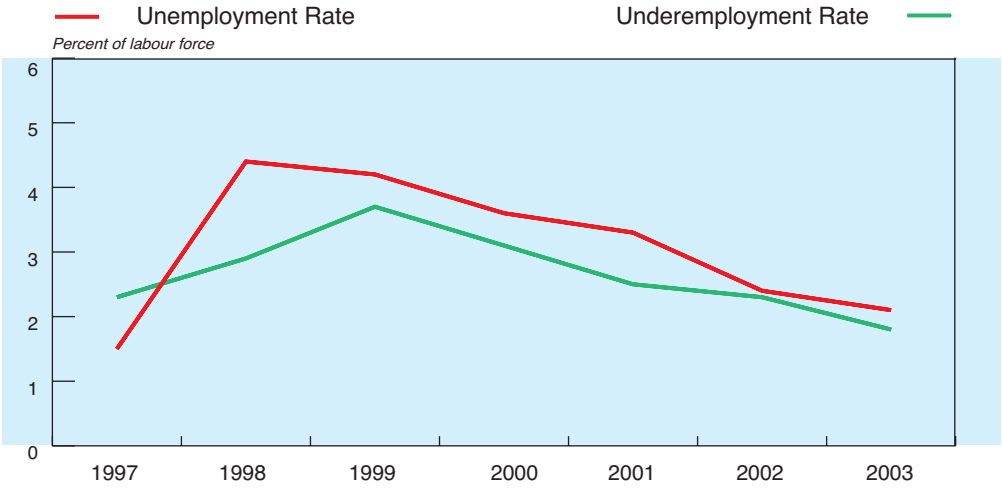
Number of Insured Persons in the Social Security System



Note : Since April 2002, the Social Security Office expanded social insurance coverage to establishments with less than 10 persons, resulting in the unusually large increase in the number of insured persons during the period between April 2002 to March 2003.

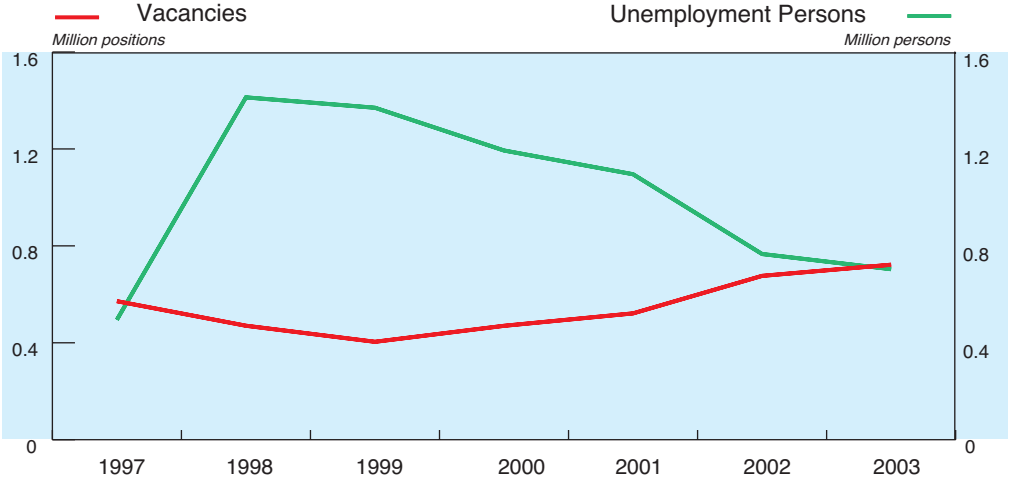
Source : Social Security Office

Unemployment and Underemployment Rates



Source : National Statistical Office

Vacancies and Unemployment Persons



Source : Department of Employment, Ministry of Labour

labour to the manufacturing and services sectors in the greater Bangkok metropolitan area.

Private hiring in the formal sector, as measured by the social insurance coverage, also rose significantly. At end-2003, the number of insured workers stood at 7.43 millions, growing by 7.7 percent year-on-year.

A labour issue that merits attention is the possible tightening of the labour market and the resulting pressure on wages. The increase in the number of employed persons in tandem with the economic recovery has already led to the lowest unemployment rate since 1998. In 2003, the unemployment rate stood at 2.2 percent, having decreased from 2.4 percent in 2002 which was also the average rate during 1990-1996. The aforementioned developments, together with the decrease in underemployment and increasing vacancies, indicate a labour market that may tighten in the future. Nevertheless, wage pressure thus far has been minimal due to the willingness of the surplus labour in the agricultural sector to shift to the non-agricultural sector.

Price Level

In 2003, the **Consumer Price Index (CPI)** rose by 1.8 percent, accelerating from the previous year's increase of 0.7 percent, as a result of a 3.6 percent increase in food prices and a 0.7 percent increase in non-food prices. **Core CPI** (excluding fresh food and energy) rose by 0.2 percent and remained well within the target inflation bracket of 0-3.5 percent.

Inflation remained low throughout the year because of the following reasons:

(1) Residential rental rates fell considerably partly due to low interest rates which led to more households choosing to purchase, rather than rent, real estate.

(2) The baht appreciated from the average of 43.00 baht per US dollar in 2002 to 41.50 baht per US dollar in 2003. As a result, import prices fell.

(3) Increased competition pressured firms to keep their prices low in order to maintain market share.

(4) Administered prices, especially the prices of basic necessary goods such as public utility and tuition fees, rose only modestly under the government's supervision.

Nevertheless, prices of goods in certain categories increased significantly. For example, within the food category, the price of rice, flour, and flour products increased by 9.8 percent in the

Table 16 : Consumer Price Index
(Percentage change from the same period last year)

	Weight (Percent)	2002	2003	2003			
				Q1	Q2	Q3	Q4
Headline Consumer Price Index	100.0	0.7	1.8	1.9	1.7	1.9	1.6
Food and beverages	38.5	0.3	3.6	2.0	4.2	4.4	4.2
Non-food and beverages	61.5	0.8	0.7	1.9	0.4	0.4	0.2
Core Consumer Price Index	75.3	0.4	0.2	0.3	0.2	0.0	0.1

Source : *Bureau of Trade and Economic Indices, Ministry of Commerce*

Table 17 : Producer Price Index
(Percentage change from the same period last year)

	Weight (Percent)	2002	2003	2003			
				Q1	Q2	Q3	Q4
Producer Price Index	100.0	1.6	4.0	5.3	4.0	4.0	2.9
Agricultural Products	13.1	10.0	10.9	9.9	12.2	11.5	9.8
Mining Products	1.9	-1.3	5.8	8.1	6.5	6.4	2.5
Manufactured Products	85.0	0.6	2.9	4.5	2.7	2.7	1.7

Source : *Bureau of Trade and Economic Indices, Ministry of Commerce*

face of increased external demand for Hom Mali rice. At the same time, the price of transportation and communication increased by 3.1 percent as a result of higher fuel prices.

On the whole, headline inflation remained above core inflation because of the increase in food and energy prices.

The **Producer Price Index (PPI)** increased by 4.0 percent in 2003, accelerating from the previous year's increase of 1.6 percent. The rise in PPI was due to higher prices in all categories, namely agricultural, mining, and manufactured products which rose by 10.9, 5.8 and 2.9 percent, respectively. While agricultural prices rose with the increase in the prices of paddy rice and rubber as a result of government support measures, manufactured product prices rose following the increase in the prices of petroleum, metal, and non-metal products, and mining product prices rose following the increase in the prices of liquid petroleum, natural gas and metal ore.

External Sector

A. World Economic Conditions

The world economy recovered slowly in 2003 due to the effect of the US-Iraqi War during the first half of the year. While the economic performance of major industrial countries started to partially recover, the recovery of the world economy still depended largely on the US economy. As of September 2003, the International Monetary Fund (IMF) forecasted that global economic growth in 2003 and 2004 would be 3.2 and 4.1 percent, respectively.

The **US economy**, the main engine of world economic growth, showed signs of recovery such as improved business sentiments and consumer confidence and the concomitant increase in consumption and investment. Nevertheless, the US still faced the problem of high current account and fiscal deficits. Meanwhile, the fragile labour market and excess production capacity adversely affected confidence in the US dollar with possible implications for the overall stability of the world economy.

Economic conditions in the **Euro area** remained fragile. Despite signs that the economic downturn had already bottomed out and business and consumer confidence had begun to improve, the economy recovered only slowly and unemployment continued to increase. Moreover, manufacturing production showed no signs of a sustained upward trend, and the German economy continued to be in recession for the third consecutive year, hindering regional recovery. However, external demand is projected to be a factor in accelerating regional growth in the future.

The **Japanese economy** picked up markedly in 2003 owing to the recovery in exports, manufacturing production, and investment. In addition, financial conditions improved as evidenced by, for example, increases in stock and bond prices. Going forward, the economy is expected to moderately recover but remains in a state of deflation. At the same time, domestic structural problems may continue to impede growth in the future.

The **Asian economies** slowed down during the first half of 2003 owing to uncertainties from the US-Iraqi War and the outbreak of SARS. Nevertheless, these economies started to recover during the third quarter due to supporting factors such as strengthening private consumption as a result of accommodative monetary and fiscal policies as well as the incipient recovery of the world economy.

World Trade. According to the IMF forecasts, world trade volume in 2003 would expand by 2.9 percent, decelerating slightly from the previous year's expansion of 3.2 percent. This slow-down in world trade was a result of the US-Iraqi War and the outbreak of SARS in Asia.

Inflation. Overall price pressure remained subdued as the world economy slowly recovered. The average inflation rate for developed economies was 1.8 percent, while the average inflation rate for developing countries was 5.9 percent in 2003.

Interest Rates. During the first half of 2003, interest rates continued to be on a downward trend. In particular, the US Federal Reserve lowered the federal funds rate by 25 basis points to the level of 1.0 percent per annum in June due to the risk of deflation and uncertainties regarding the US economic recovery. The European Central Bank also lowered its policy rate twice in March and June by a total of 75 basis points, to the level of 2.0 percent per annum, due to sluggish economic growth and the concomitant appreciation of the euro against the US dollar. Nevertheless, in the latter half of 2003, analysts viewed interest rates as having bottomed out. The Reserve Bank of Australia raised its policy rate twice in November and December by a total of 50 basis points, to the level of 5.25 percent per annum, as the recovering Australian economy had already exerted some upward pressure on prices and resulted in an over-expansion of credits. In addition, the Bank of England increased its policy rate by 25 basis points, to the level of 3.75 percent per annum, amidst an economic recovery and a strong expansion of credits.

B. International Trade and the Balance of Payments

Export value rose substantially in 2003, in line with the growth of trading partners' economies as well as the recovery of the world electronics industry and agricultural prices. Import value grew in tandem with domestic demand and the need for imported raw materials for the production of exports. Overall, the trade account registered a higher surplus compared to the previous year, but the services, income and transfers account recorded a smaller surplus because the outbreak of SARS adversely affected tourism revenues. Nonetheless, a large trade surplus led to a bigger current account surplus than in 2002. Meanwhile, net capital movements registered a much larger deficit due to debt repayment by the BOT, the government and state enterprises coupled with an accumulation of foreign assets by commercial banks. As a result, the balance of payments recorded only a slight surplus this year compared to a surplus in excess of US$4 billion in 2002.

Exports

Export value totalled US$78.4 billion, rising by 18.6 percent year-on-year as export volume expanded by 10.0 percent while export prices surged by 7.9 percent. A key factor behind this robust growth of Thai exports is the expansion of major trading partners' economies, particularly

the ASEAN countries and China. As a result, Thai exports to the ASEAN countries and China together grew by 30 percent and accounted for 27.7 percent of total exports in 2003. At the same time, manufactured exports benefited from the recovery of the world electronics and vehicle markets, while demand for agricultural products also rose, contributing to both higher agricultural export volume and prices.

The details of Thailand's major export items are as follows:

Agricultural Products. Export value of agricultural products soared primarily from the increase in prices. In particular, export value of **rubber** rose by 60.2 percent, in line with the expanding vehicle industry, particularly in China, the ASEAN countries, and Japan. Meanwhile, export value of **rice** increased by 13.7 percent as a result of higher price of Hom Mali rice in the ASEAN market, while export volume of rice did not increase due to strong competition from other exporting countries, particularly India which enjoyed export subsidy in the first half of the year. As for **tapioca**, despite a decline in price, its export value still rose by 26.9 percent with a surge in the export volume in line with demand for tapioca chips and pellets from China for alcohol production and from the EU to be used as animal feed. Export value of **frozen fowl** increased by 11.7 percent due mainly to the increase in export volume, particularly to the EU, which is a major market. However, export price of frozen fowl fell because of intense competition from low-cost producers, particularly Brazil and China.

Fishery Products. Export value of **frozen shrimp** increased by 7.9 percent year-on-year due to volume expansion in line with demand from the US, a major market which accounted for as high as 52.1 percent of Thailand's frozen shrimp exports in 2003. Nevertheless, frozen shrimp export faced some difficulties during the year. Towards the end of 2003, a group of US shrimp farmers filed a request for anti-dumping investigation against 6 countries, namely Thailand, India, Vietnam, China, Brazil, and Ecuador. Moreover, export value of frozen shrimp to the EU fell by 66.7 percent as a result of strict examination for chemical residues. This did not have a significant impact on the overall export performance of the product, however, because the EU market accounted for only 0.5 percent of frozen shrimp exports and the situation also improved later as the 100 percent examination was replaced with a 10 percent random inspection on 27 June 2003.

Manufactured Products. Export value of manufactured products grew by 17.9 percent and accounted for as much as 85.8 percent of total exports in 2003, close to that of the previous year.

Export value of **hi-tech products**, which accounted for 59.4 percent of total exports, grew by 18.4 percent in 2003. Under this category, export value of **electronics products** rose by 18.0 percent in line with the recovering world electronics industry, with **computers and parts** and **integrated circuits (IC) and parts** doing most favourably. Despite a decline in exports to the US, exports to other major markets expanded well, namely, those to the ASEAN countries, the EU, and China which particularly used imported products from Thailand as raw materials for Chinese electronics exports. Meanwhile, export value of **electrical appliances** grew by 13.7 percent, with the US, EU, ASEAN, and Japanese markets all growing fast. Export value of **base metal products** increased by 27.2 percent, particularly from iron and steel exports to China, a major market whose domestic production fell short of domestic demand. Export value of **vehicles and parts** also grew well at 37.7 percent, with the major export markets being the ASEAN countries, Australia, and Japan. Meanwhile, export value of **chemical products** rose by 36.3 percent in line with the expansion of trading partners' economies and strong cyclical demand for petrochemicals, and

export value of **plastic products** grew by 24.0 percent, with the major export markets being the ASEAN countries, China, Hong Kong, and the US.

As for **labour-intensive products**, export value of **garments** rose only by 1.6 percent in 2003 because exports to the US, a major market accounting for more than half of this product's exports, fell by 1.9 percent due to intense competition from exporters with labour cost advantage such as China and Vietnam. Nonetheless, exports to the EU market still expanded. Meanwhile, export value of **precious stones and jewellery** continued to grow by 8.3 percent from the previous year, with the export of silver accessories gaining an increasing share in the US market in particular, and export value of **footwear** grew by 3.4 percent, notably the export of sports shoes to the US.

In the category of **resource-based products**, export value of **canned seafood** increased by 4.7 percent, primarily from an expansion in volume. Export value of **furniture and parts** grew by 8.6 percent, with major markets such as the US, Japan, and the EU all expanding well. At the same time, export value of **sugar** rose from both higher volume and price, and the export markets which expanded particularly favourably were Indonesia, Japan, and Russia. Export value of **rubber products** rose in line with an expansion in demand from the automobile industry abroad, while export value of **canned pineapple** grew by 27.4 percent from both higher export volume and price, partly as a result of raw material shortage in the world market.

Imports

In 2003, **import** value amounted to US$74.2 billion, up by 17.1 percent from the previous year due to a 9.3 percent surge in volume in line with recovering domestic demand and greater need for raw materials to produce export products, while import prices rose by 7.2 percent.

The details of Thailand's major import items are as follows:

Consumer Goods. Import value of consumer goods grew by 12.9 percent, most notably non-durable items in the category of food and beverages including dairy products, cereals, and fruits and vegetables, which altogether expanded by 15.9 percent due partly to the free trade arrangement in fruits and vegetables between Thailand and China since October 2003. At the same time, import values of toiletries and cosmetics, clothing and footwear, and medicinal and pharmaceutical products also increased. As for durable products, their import value grew by 9.8 percent primarily from the import of electrical appliances.

Intermediate Products and Raw Materials. Notable items in this category are **gems and precious stones and iron and steel.** While import value of gems and precious stones rose in tandem with jewellery exports, import value of iron and steel increased in line with the expansion of domestic industries, particularly the automobile industry.

Capital Goods. Import value of capital goods increased by 14.9 percent primarily from an 11.7 percent growth in import volume. Although import value of **computers** fell by 3.6 percent, import value of **computer parts** grew as rapidly as 33.5 percent while that of **IC and parts** expanded correspondingly. At the same time, import value of **non-electrical machinery and parts** grew by 23.0 percent, particularly those used in the automobile, construction, paper, transportation and communication, food and metal industries as well as office equipment. As for **electrical machinery and parts**, which are used mostly in the electronics industry, import value grew by 6.3 percent in line with the cyclical recovery of world electronics demand in the second half of the year.

In addition, two commercial aircrafts were imported, amounting to approximately US$400 million.

Vehicles and Parts. Import value of vehicles and parts rose by 36.7 percent, mostly from car chassis, bodies, and tyres.

Crude Oil. Import value of crude oil grew by 23.7 percent primarily from the price factor as the average import price of crude oil in 2003 was US$26 per barrel, compared to US$22 per barrel in the previous year. Meanwhile, import volume of crude oil rose by only 4.1 percent.

Trade, Services, and Current Account Balances

Although imports grew briskly in 2003, the more rapid expansion of exports led to a higher **trade surplus** of US$4.2 billion this year compared to US$2.7 billion in 2002. However, the **services, income and transfers account** registered a narrower surplus of US$3.8 billion, compared to US$4.3 billion in 2002, due to the outbreak of SARS which led to a 7.8 percent year-on-year drop in the number of foreign tourists and thus a significant decline in tourism revenues. Furthermore, investment income receipts, especially of the public sector, fell in line with declining rates of return. On the contrary, service payments rose as outbound tourism expenditures increased by 5.8 percent despite a fall in the number of outbound Thai tourists of 4.4 percent. In addition, investment income payments rose from the previous year due to higher interest payments as well as higher profit and dividend remittances by the private sector, which more than offset the decline in interest payments by the public sector due to the early payment of the IMF loan package.

Nevertheless, as the increase in the trade surplus was of greater magnitude than the reduction in the services surplus, the **current account** surplus widened from US$7 billion in 2002 to US$8 billion this year.

Net Capital Movements

Net capital movements were in deficit by US$8.6 billion this year, widening from a deficit of US$4.2 billion in 2002 due mainly to the debt repayment by the public sector as well as the accumulation of foreign assets by commercial banks. The details of net capital movements in 2003 are as follows.

Capital flows of the private sector recorded a deficit of US$8.8 billion, which was larger than in the previous year. Of this, the **banking sector** switched from registering a surplus of US$1.8 billion in 2002 to posing a deficit of US$2.4 billion this year with an accumulation of **commercial banks'** foreign assets by US$1.6 billion as opposed to a reduction of foreign assets by US$3.6 billion in the previous year. This accumulation of foreign assets owed mainly to the commercial banks' swap transactions with the BOT. Meanwhile, debt repayments by **Bangkok International Banking Facilities (BIBFs)** were close to the previous year's level. As for the **non-bank private sector**, a large deficit of US$6.4 billion was registered; nevertheless, this was smaller than a deficit of US$7.5 billion in 2002. Foreign direct investment, particularly **equity investment**, recovered from 2002 because foreign investors increased their direct investments in the metal and automobile industries, whereas in the previous year foreign companies underwent financial restructuring by converting equity into debt which resulted in a large outflow of equity capital. **Portfolio investment** switched from a deficit of US$1.1 billion in the previous year to a slight surplus this year with inflows of foreign investment in equity securities and a smaller amount of debt security redemption relative to the previous year. At the same time, **other loan repayments** (between unaffiliated private entities) fell from US$2.2 billion in 2002 to US$1.5 billion this year,

largely in the form of net debt repayment and early payment by the chemical, machinery and transport equipment, and petroleum-product trading industries.

Capital flows of the public sector (including the BOT) recorded a surplus of US$0.2 billion this year. The **BOT** registered a net surplus of US$2.6 billion despite the early payment of the IMF loan package which amounted to US$4.9 billion. The **public sector (excluding the BOT)** registered a deficit of US$2.4 billion, due largely to the repayment of long-term loans under the debt refinancing and prepayment plan of the **government and state enterprises**. Loans that were refinanced were mostly for public projects from Japan Bank for International Cooperation (JBIC).

Balance of Payments

Although the current account registered a large surplus, a much wider deficit in the net capital movements compared to the previous year resulted in a **balance of payments** surplus of only US$143 million in 2003, significantly smaller than that of US$4.2 billion in 2002. Nonetheless, as a result of the surplus in the balance of payments, **international reserves** at end-2003 rose to US$42.1 billion, equivalent to 6.8 months of imports, while the outstanding net forward obligations of the BOT stood at US$5.2 billion.

Table 18 : Balance of Payments
(Unit : Million US$)

	2002			2003		
	Year	**H1**	**H2**	**Year[1/]**	**H1[1/]**	**H2[1/]**
Exports, f.o.b.	**66,092**	**31,015**	**35,077**	**78,416**	**37,034**	**41,382**
Δ%	4.8	-2.0	11.6	18.6	19.4	18.0
Imports, c.i.f.	**63,353**	**29,854**	**33,499**	**74,214**	**34,496**	**39,718**
Δ%	4.6	-4.3	14.0	17.1	15.5	18.6
Trade Balance	**2,739**	**1,161**	**1,578**	**4,202**	**2,538**	**1,664**
Services, Income and Transfers	**4,269**	**1,438**	**2,831**	**3,773**	**1,191**	**2,582**
Current Account Balance	**7,008**	**2,599**	**4,409**	**7,975**	**3,729**	**4,246**
Capital Movements (net)	**-4,181**	**-672**	**-3,509**	**-8,604**	**-4,925**	**-3,679**
Private Sector	-5,703	-3,440	-2,263	-8,855	-4,659	-4,196
Bank	1,776	904	872	-2,446	-2,386	-60
Commercial Banks	3,401	1,355	2,046	-1,298	-1,981	683
BIBF	-1,625	-451	-1,174	-1,148	-405	-743
Non-banks	-7,479	-4,344	-3,135	-6,409	-2,273	-4,136
Public Sector	-2,510	-583	-1,927	-2,418	-381	-2,037
Bank of Thailand	4,032	3,351	681	2,669	115	2,554
Errors and Omissions	1,407	853	554	772	143	629
Overall Balance[2/]	**4,234**	**2,780**	**1,454**	**143**	**-1,053**	**1,196**

Notes : 1/ *Preliminary data*
2/ *Actual data*
Δ% represents percentage change from the same period last year.
Sources : *Customs Department and Bank of Thailand*

External Debt

External debt outstanding stood at US$52.3 billion as of end-2003, declining from US$59.5 billion at end-2002, as a result of the debt repayment of US$9.6 billion. However, total external debt

Table 19: External Debt Outstanding[1/]
(Unit : Million US$)

	2001	2002	2003	Dec.-03 Compared to Dec.-02
1. Public Sector	**28,306**	**23,305**	**16,946**	**-6,359**
1.1 BOT (Long-term)	**8,325**	**4,902**	**0**	**-4,902**
1.2 Govt and State Enterprises	**19,981**	**18,403**	**16,946**	**-1,457**
Long-term	19,834	18,016	16,561	-1,455
Short-term	147	387	385	-2
2. Private Sector	**39,203**	**36,154**	**35,312**	**-842**
Long-term	25,961	24,622	24,315	-307
Short-term	13,242	11,532	10,997	-535
2.1 Banks	**9,354**	**8,136**	**7,051**	**-1,085**
Long-term	4,334	3,929	3,735	-194
Short-term	5,020	4,207	3,316	-891
2.1.1 Commercial Banks	**3,262**	**2,963**	**2,796**	**-167**
Long-term	1,765	1,529	1,277	-252
Short-term	1,497	1,434	1,519	85
2.1.2 BIBFs	**6,092**	**5,173**	**4,255**	**-918**
Long-term	2,569	2,400	2,458	58
Short-term	3,523	2,773	1,797	-976
2.2 Non-Banks	**29,849**	**28,018**	**28,261**	**243**
Long-term	21,627	20,693	20,580	-113
Short term	8,222	7,325	7,681	356
Total Debt (1+2)	**67,509**	**59,459**	**52,258**	**-7,201**
Long-term	54,120	47,540	40,876	-6,664
Short-term	13,389	11,919	11,382	-537
Share (%)	100.0	100.0	100.0	
Long-term	80.2	80.0	78.2	
Short-term	19.8	20.0	21.8	
Share (%)	100.0	100.0	100.0	
Private	58.1	60.8	67.6	
Public	41.9	39.2	32.4	

Note : 1/ *Including valuation change*
Source : *Bank of Thailand*

fell by only US$7.2 billion over the year due to an appreciation of the yen that resulted in a higher value of yen-denominated debt in US dollar terms. The details of the external debt can be summarized as follows:

External debt of the private sector stood at US$35.3 billion, declining by US$0.8 billion from end-2002 due mainly to a reduction in short-term debt of BIBFs and long-term debt of commercial banks. Nonetheless, external debt of the non-bank sector rose by US$0.2 billion, mostly in the form of short-term loans.

External debt of the public sector amounted to US$17 billion, falling by US$6.4 billion from end-2002 due to the BOT's repayment of US$4.9 billion for its IMF loan package as well as a reduction in external debt of the government and state enterprises by the total amount of US$1.5 billion. In particular, the decline in the external debt of the government and state enterprises was due to a number of factors: (1) the government and state enterprises' loan repayment and prepayment plans, (2) a redemption of maturing yen-denominated bonds and negotiable certificate of deposit issued by FIDF, and (3) Thai commercial banks' purchase of short-term Euro Commercial Papers (ECP) and long-term Floating Rate Notes (FRN) issued by the Thai government.

External Debt Structure

The ratio of long-term to short-term debt as of end-2003 was 78:22, declining from 80:20 at end-2002. Meanwhile, the ratio of private to public debt was 68:32, increasing from 61:39 in the previous year due to public debt repayment.

Fiscal Conditions

According to the Budget Act B.E. 2546 (2003), the government's net revenue was estimated at B825 billion while government expenditure was budgeted at B999.9 billion, resulting in a planned budget deficit of B174.9 billion.

Nonetheless, government revenue for FY 2003 was higher than anticipated owing to the economy's rapid growth and improved tax administration. At the same time, government expenditure declined from the previous year partly owing to a lower-than-anticipated disbursement rate. As a result, the government recorded a cash surplus for the entire fiscal year.

For FY 2004, the government will pursue a policy of gradually reducing the fiscal deficit so as to balance between the maintenance of short-run fiscal stimulus and the medium-term fiscal discipline. The government thus set a budget expenditure of B1,028 billion with a resulting planned budget deficit of B99.9 billion.

However, at the beginning of FY 2004, the Ministry of Finance revised its revenue projection upwards by B135.5 billion and proposed additional budget expenditure by the same amount in order to maintain the same degree of fiscal impulse as the original budget. The supplementary budget was allocated as follows: (1) pension and gratuities: B33 billion; (2) early retirement programme for civil servants: B14.6 billion; (3) salary increase for civil servants: B16.6 billion; (4) competitiveness enhancement programme: B59 billion; and (5) transfer to local government: B12.3 billion.

Table 20 : Treasury Account Position

(Unit : Billion baht)

Fiscal Year	2002	2003	2004			
			Q1	Oct.	Nov.	Dec.
Revenue	845.4	960.6	256.8	81.9	69.0	105.9
Δ%	10.5	13.6	25.4	28.2	5.9	39.7
Expenditure	972.2	938.4	298.3	84.2	83.4	130.6
Δ%	11.0	-3.5	24.0	-2.9	5.2	75.7
: Disbursement rate (%)	89.2	89.1	26.0	7.2	7.1	11.7
(not including debt principal repayment)						
Budgetary Deficit (-) or Surplus (+)	-126.8	22.2	-41.5	-2.3	-14.4	-24.7
Non-budgetary Deficit (-) or Surplus (+)	8.1	12.1	4.0	4.7	-6.6	5.8
Cash Deficit (–) or Surplus (+)	**-118.7**	**34.3**	**-37.5**	**2.4**	**-21.0**	**-18.9**
% of GDP	-2.2	0.6	n.a.			
Financing						
Net Domestic Borrowing	161.0	45.0	-33.1	-21.2	-11.5	-0.3
Net Foreign Borrowing	-31.9	-38.9	-3.0	-0.3	-1.7	-1.0
Use of Treasury Cash Balance	-10.4	-40.5	73.6	19.1	34.2	20.2
Treasury Cash Balance (end-period)	82.8	123.3	49.7	104.1	69.9	49.7

Notes : *Δ% represents percentage change from the same period last year.*
n.a. = *no data available*

Sources : *Comptroller-General's Department, Ministry of Finance*
Data Management Group, Bank of Thailand

A. Fiscal Position

Government Revenue

In FY 2003, revenue remitted to the treasury account totalled B960.6 billion, increasing from the previous fiscal year by 13.6 percent. Of this total, taxes comprised B869.8 billion, increasing by 14.8 percent from the previous year in tandem with economic growth and improved tax administration as well as an expanded tax base. More specifically, corporate income tax revenue rose by 27.0 percent, personal income tax revenue by 7.9 percent, and excise tax revenue by 18.6 percent. The increase in excise tax revenue was partly due to the collection of excise tax on new sectors, such as telecommunications. Meanwhile, value-added tax (VAT) revenue rose by only 2.8 percent as a result of the transfer of B40.6 billion of VAT revenue to local administrative authorities as compared to the previous fiscal year's transfer of B16.5 billion. If this transfer to local administrative authorities were not to be counted, VAT revenue would increase by 18.0 percent.

In the first quarter of FY 2004, remitted government revenue equalled B256.8 billion, increasing by 25.4 percent year-on-year. This was partly due to the sale of state-owned shares to Vayupak Fund 1 for B70 billion, of which B25.1 billion was remitted to the treasury account.

Table 21 : Government Revenue

(Unit : Billion baht)

Fiscal Year	2002	2003	2004			
			Q1	Oct.	Nov.	Dec.
Total Revenue	**845.4**	**960.6**	**256.8**	**81.9**	**68.9**	**105.9**
Δ%	10.5	13.6	25.4	28.2	5.9	39.7
Taxes	**758.0**	**869.8**	**219.7**	**77.8**	**64.7**	**77.2**
Δ%	10.7	14.8	17.5	31.3	3.8	18.2
– Income base	**279.3**	**332.6**	**61.5**	**21.2**	**16.6**	**23.7**
Δ%	10.2	19.1	29.5	43.8	19.4	25.7
Personal income tax	103.2	111.4	28.7	10.0	9.0	9.7
Δ%	6.4	7.9	19.7	26.3	12.9	20.0
Corporate income tax	157.2	199.7	32.1	11.2	7.4	13.5
Δ%	12.6	27.0	36.3	64.2	24.0	25.4
– Consumption base	**362.3**	**404.3**	**125.1**	**43.8**	**38.6**	**42.7**
Δ%	13.5	11.6	15.9	23.6	9.1	15.0
Value added tax	138.7	142.6	52.8	20.3	15.9	16.6
Δ%	8.8	2.8	17.5	38.3	12.3	3.0
Excise tax	210.0	249.1	68.8	22.2	21.6	25.1
Δ%	17.4	18.6	15.1	14.0	7.1	24.3
– Foreign trade base	**95.1**	**109.1**	**27.8**	**8.9**	**8.8**	**10.1**
Δ%	5.2	14.7	2.8	2.7	-7.6	14.1
Other Incomes	**87.4**	**90.8**	**37.1**	**4.1**	**4.3**	**28.8**
Δ%	8.1	3.9	107.1	-11.8	53.0	173.8

Note : *Δ% represents percentage change from the same period last year.*

Sources : *Comptroller-General's Department, Ministry of Finance*
Data Management Group, Bank of Thailand

On the whole, net revenue collection amounted to B257.5 billion, exceeding the target stated in the Budget Act by B71.9 billion. Tax revenue and non-tax revenue exceeded their targets by B40.9 billion and B31.7 billion, respectively.

Government Expenditure

In FY 2003, government expenditure equalled B938.4 billion, decreasing from the previous year by 3.5 percent. In the first and second quarters, government expenditure declined by 6.5 and 20.2 percent year-on-year, respectively, as a result of the reform of the civil service's organizational structure. Another contributing factor was the change in the disbursement procedure for local administrative authorities' investment budgets. Nevertheless, in the third and fourth quarters, government spending accelerated as a result of a measure to increase the disbursement rate. Expenditure in the said quarters thus grew by 13.2 and 2.6 percent year-on-year, respectively. For the entire fiscal year the annual disbursement rate was 89.1 percent, falling short of the targeted rate of 92.0 percent.

Table 22 : Government Expenditure by Economic Classification

(Unit : Billion baht)

Fiscal Year	2002	2003	2004			
			Q1	Oct.	Nov.	Dec.
Total Expenditure	**972.2**	**938.4**	**298.3**	**84.2**	**83.4**	**130.6**
Δ%	11.0	-3.5	24.0	-2.9	5.2	75.7
Current Expenditure	**761.6**	**775.2**	**260.2**	**73.1**	**71.7**	**115.4**
Δ%	11.3	1.8	24.6	-6.4	8.9	77.5
– Wages and salaries	317.3	338.7	86.6	28.9	28.3	29.4
Δ%	0.7	6.7	3.4	1.7	4.4	4.1
– Purchases of goods and services	173.2	168.9	39.7	11.2	12.1	16.4
Δ%	7.2	-2.5	16.9	38.7	-4.3	23.9
– Interest payment	69.0	65.1	20.0	7.2	3.4	9.4
Δ%	8.3	-5.7	7.1	-4.9	37.9	8.9
– Subsidies and transfers	202.1	202.5	113.9	25.8	27.9	60.2
Δ%	40.6	0.2	57.1	-24.1	18.2	304.1
Capital Expenditure	**210.6**	**163.2**	**38.1**	**11.1**	**11.7**	**15.2**
Δ%	9.8	-22.5	20.7	27.8	-13.1	62.9
– Acquisition of fixed capital assets	139.0	112.1	19.6	4.2	7.5	7.9
Δ%	-10.5	-19.3	-19.1	-49.8	-6.9	1.1
– Capital transfers	71.5	51.0	16.5	6.9	4.2	5.3
Δ%	98.5	-28.6	124.9	1,741.3	-22.5	244.3
– Lending and purchases of share and financial assets	0.1	0.1	2.0	0.0	0.0	2.0
Δ%	-80.4	-17.9	n.a.	0.0	0.0	0.0

Notes : *Δ% represents percentage change from the same period last year.*
n.a. = *no data available*

Sources : *Comptroller-General's Department, Ministry of Finance*
Data Management Group, Bank of Thailand

In the first quarter of FY 2004, government expenditure totalled B298.3 billion, increasing by 24.0 percent year-on-year. Within the quarter, expenditure fell by 2.9 percent in October but increased in the following two months. Important expenditures include the B32.5 billion worth of pensions, B14.7 billion to the Education Loan Fund, and B14.8 billion to the National Health Security Fund. The quarter's disbursement rate equalled 26.0 percent, exceeding the previous fiscal year' s first quarter disbursement rate of 22.3 percent.

Government Financing

In FY 2003, the government recorded a cash surplus of B34.3 billion, equivalent to 0.6 percent of GDP. At the same time, the government's domestic borrowing totalled B45 billion with net foreign loan repayment totalling of B38.9 billion. Treasury reserves thus rose to B123.3 billion at the end of the fiscal year.

In the first quarter of FY 2004, the government financed its cash deficit of B37.5 billion as well as its net domestic and external debt payments in the amount of B33.1 billion and B3 billion, respectively, with a reduction of B73.6 billion in treasury reserves. As a result, treasury reserves fell to B49.7 billion at the end of this quarter.

State Enterprises

In FY 2003, the net operating profits of state enterprises amounted to B83.7 billion, increasing from the previous fiscal year by 7.3 percent. However, due to the rise in the state enterprises' revenue remitted to the Ministry of Finance by 12.4 percent, state enterprises' retained earnings funds for investment fell to B137.5 billion, decreasing from the previous year by 6.4 percent.

State enterprises disbursed B93 billion of capital expenditure, decreasing from the previous year by 20.4 percent with a disbursement rate of 62.9 percent of the targeted B147.9 billion. The low disbursement rate resulted from delays in large projects such as the construction of Suvarnabhumi Airport and Krabi power plants and the purchasing of aircraft for Thai Airways International. State enterprises therefore recorded a surplus of B44.5, equivalent to 0.8 percent of GDP.

Table 23 : State Enterprises' Balances

(Unit : Billion baht)

Fiscal Year	2001	2002	2003
Retained Income	130.1	146.9	137.5
Δ%	22.9	13.0	-6.4
Investment Expenditure	131.0	116.9	93.0
Δ%	-12.6	-10.8	-20.4
State Enterprises' Balances	-0.9	30.1	44.5
% of GDP	-0.0	0.6	0.8

Note : *Δ% represents percentage change from the same period last year.*
Source : *National Economic and Social Development Board (NESDB)*

B. Public Debt

At the end of FY 2003, total public debt stood at B2,918.1 billion or 49.7 percent of GDP, decreasing from the previous fiscal year's debt-to-GDP ratio of 55.1 percent. Public debt in the form of direct government borrowing amounted to B1,639.6 billion, while government-guaranteed and non-guaranteed debt of non-financial state enterprises totalled B694.6 billion and B156.5 billion, respectively. Debt outstanding of the Financial Institutions Development Fund (FIDF) amounted to B427.4 billion.

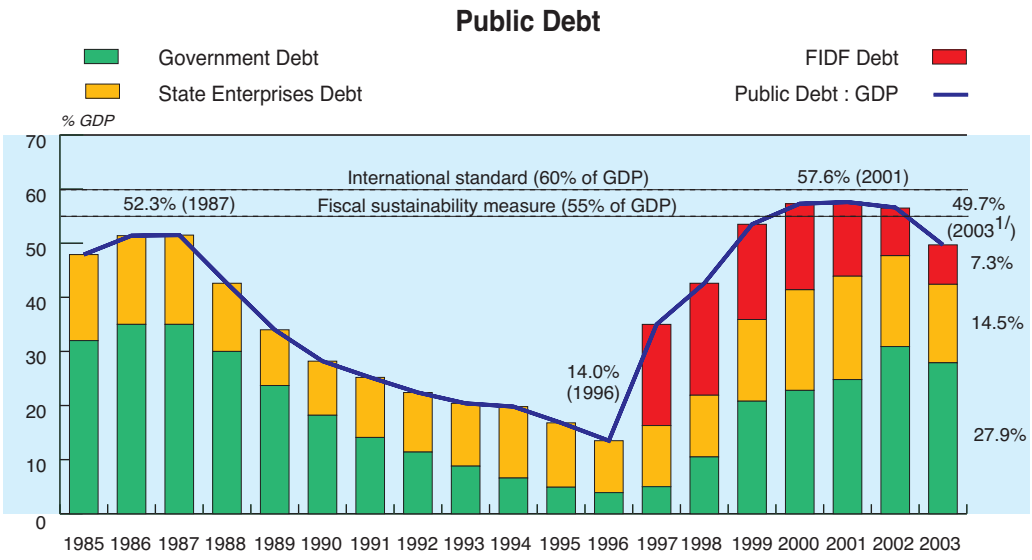
The decrease in the ratio of public debt to GDP was partly due to the decrease in the planned fiscal deficit in FY 2003. Furthermore, the economic recovery resulted in government revenue exceeding its expected target. As a result, the government was able to borrow less than expected and to early repay some of its foreign debt.

Table 24 : Public Debt

(Unit : Billion baht)

Fiscal Year	2001	2002	2003
1. Debt incurred from direct borrowing	**1,263.7**	**1,670.5**	**1,639.6**
% of GDP	24.8	31.4	27.9
1.1 Foreign debt	449.6	409.6	332.3
1.2 Domestic debt	814.1	1,261.0	1,307.4
2. Debt of non-financial state enterprises	**970.5**	**907.1**	**851.0**
% of GDP	19.1	17.0	14.5
2.1 Government-guaranteed debt	796.4	772.0	694.6
Foreign debt	384.8	351.4	305.1
Domestic debt	411.6	420.6	389.5
2.2 Non-government-guaranteed debt	174.1	135.2	156.5
Foreign debt	74.9	63.2	61.1
Domestic debt	99.2	71.9	95.3
3. Financial Institutions Development Fund (FIDF)	**697.5**	**357.3**	**427.4**
% of GDP	13.7	6.7	7.3
3.1 Government-guaranteed debt	112.0	112.0	62.0
3.2 Non-government-guaranteed debt	585.5	245.3	365.4
4. Total (1+2+3)	**2,931.7**	**2,934.9**	**2,918.1**
% of GDP	57.6	55.1	49.7

Source : *Office of Public Debt Management*



Note : 1/ Data as of end-FY 200 3

Source : Office of Public Debt Management

In addition, the Ministry of Finance, with the purpose of achieving fiscal sustainability, established the following objectives: (1) to maintain public debt such that it does not exceed 55 percent of GDP; (2) to contain government debt service such that it does not exceed 16 percent of budgeted expenditures; and (3) to achieve a balanced budget for FY 2005.

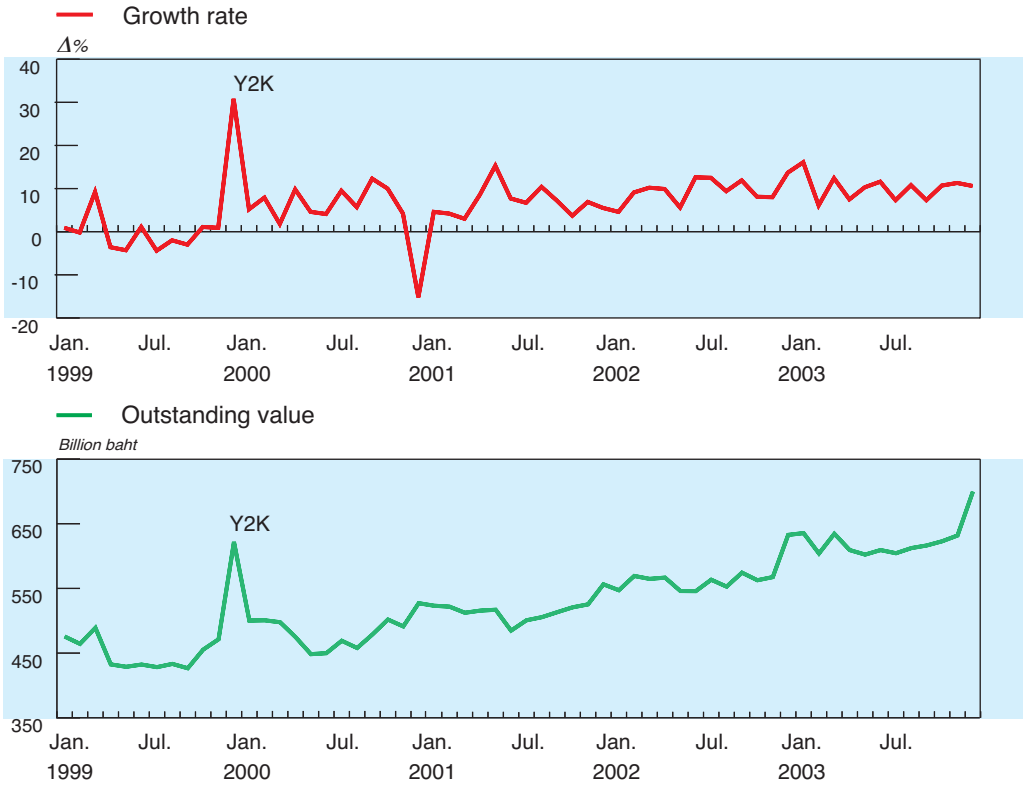
Monetary Conditions

A. Monetary Base and Money Supply

Monetary base expanded in line with the economic recovery, rising from B632.7 billion at end-2002 to B699.7 billion at end-December 2003, or up by 10.6 percent.

The major supply-side factors contributing to the growth of monetary base in 2003 include: (1) a continued increase in net foreign assets due partly to the current account surplus and the BOT's foreign exchange acquisition from capital inflows in spite of foreign debt repayments by both the public and private sectors; (2) an increase in the BOT's net claims on the government compared to the previous year due to a decline in government deposits at the BOT; and (3) a substantial decline in the BOT's net claims on financial institutions due to an absorption of increased liquidity from foreign exchange acquisition.

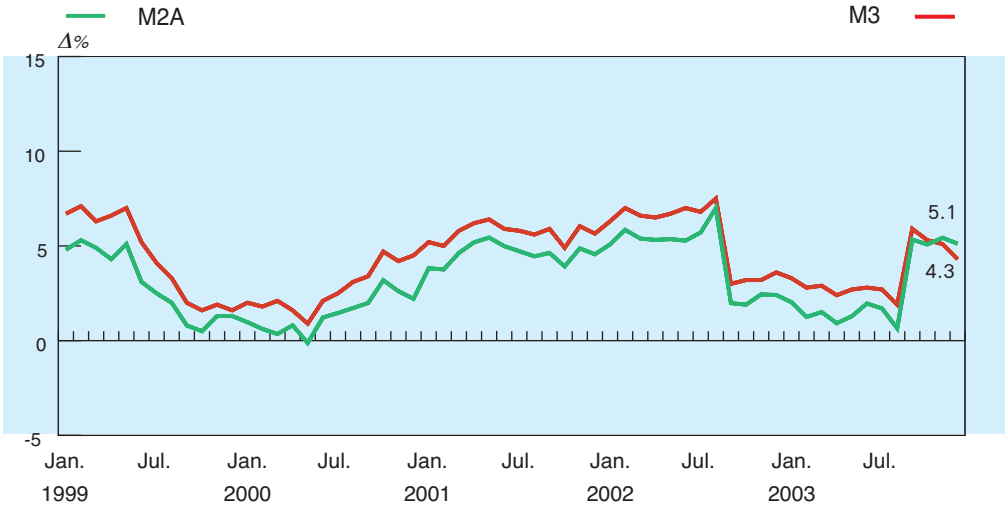
Monetary Base



Source : Bank of Thailand

M2A and M3 increased by 5.1 and 4.3 percent, respectively. During the first eight months of the year, the year-on-year growth rates of M2A and M3 stayed low at around 1.4 and 2.7 percent, respectively, as a large amount of private deposits had been withdrawn by the public to purchase government saving bonds in September 2002. However, during the last four months of the year,

Money Supply



Note : Data from 56 finance companies already closed down have been excluded since January 2002

Sources : BOT reports and surveys

the growth rate of money supply rose back to normal and was comparable to the level prior to the purchase of the aforementioned government saving bonds.

B. Exchange Rate, Interest Rates, and Government Bond Yields

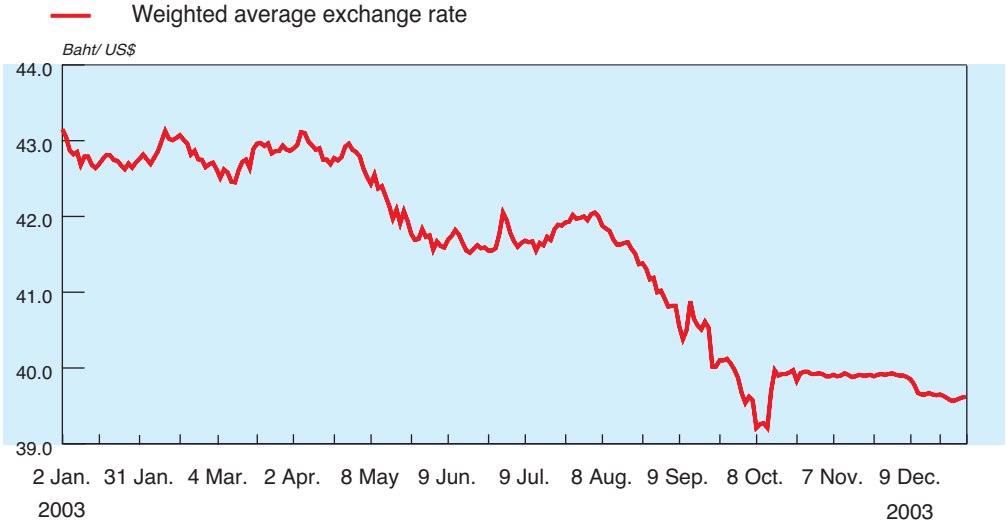
1. Exchange Rate

In 2003, the baht fluctuated within the range of 39.21-43.15 baht per US dollar, averaging at 41.50 baht per US dollar which was equivalent to a 3.6 percent appreciation from the previous year's average.

During the first half of the year, the appreciation of the baht was driven by both internal and external factors, most importantly the weak sentiments of the US dollar emanating from uncertainties

Movements of the Exchage Rate

(2 January - 31 December 2003)



Source : Bank of Thailand

regarding the US-Iraqi War and the US economic recovery. Meanwhile, the continued improvement in the Thai economic performance, with concomitant expansions in private spending and exports, induced large capital inflows into the Thai stock market. Nevertheless, the baht was quite volatile and depreciated periodically during the first half of the year due to concerns about the US-Iraqi War and the outbreak of SARS as well as the corresponding adjustment to movements of regional currencies, especially the Japanese yen.

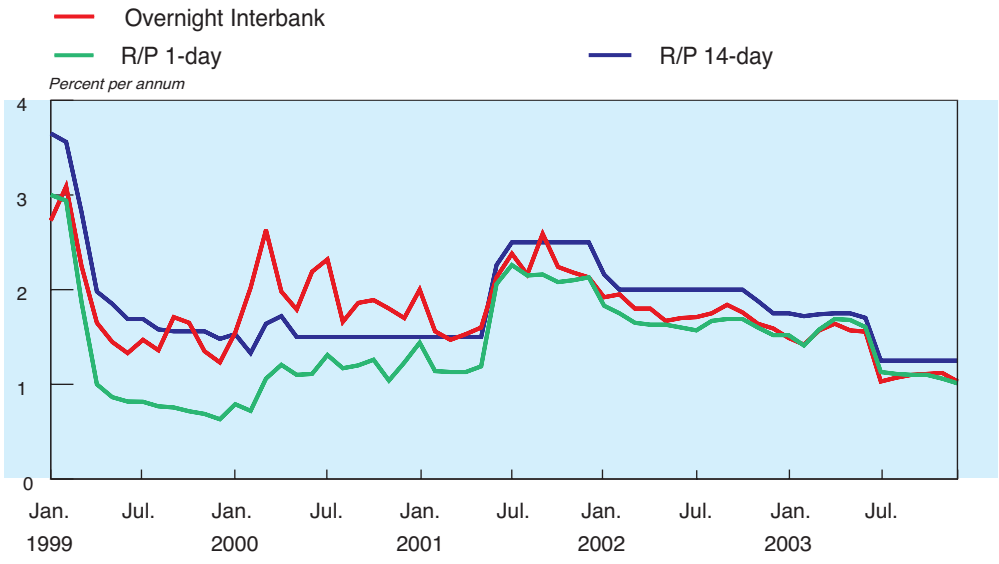
In the latter half of the year, the baht appreciated substantially, reaching the strongest level for the year at 39.21 baht per US dollar in October. The main supporting factors include (1) improving fundamentals of and confidence in the Thai economy; (2) rising stock market index; (3) credit upgrades by many international rating agencies; and (4) weak sentiments of the US dollar. It was also during this period that the BOT issued measures to curb speculative capital flows on 11 September and 14 October 2003, in order to mitigate the baht's volatility from short-term speculations.

2. Short-term Interest Rates

Short-term money market rates were generally on a declining trend in 2003. In the first quarter, money market rates fell as liquidity was high in the banking system especially after the New Year and Chinese New Year festivals. However, liquidity tightened slightly in March from the announcement of the US-Iraqi War, which raised uncertainties in the financial markets. Overall, the quarterly average of the 1-day repurchase rate declined from 1.65 percent per annum in the last quarter of 2002 to 1.50 percent per annum, while the overnight interbank rate fell from 1.76 percent per annum to 1.49 percent per annum over the same period.

In the second quarter of 2003, short-term money market rates adjusted upward, due partly to tightened liquidity in the banking system in preparation for the Songkran festival. Although the BOT cut the policy interest rate by 50 basis points on 27 June 2003, which led immediately to a decline in the short-term money market rates, the effect on the quarterly average rates was small as the cut came close to the end of the quarter. Thus, on the whole the quarterly rates edged up

Money Market Interest Rates



Source : Bank of Thailand

slightly from the previous quarter with the 1-day repurchase and overnight interbank rates averaging at 1.66 and 1.59 percent per annum, respectively.

In the third quarter of the year, the effect of the aforementioned policy rate reduction brought down money market rates, with the 1-day repurchase rate averaging at 1.11 percent per annum and the overnight interbank rate averaging at 1.07 percent per annum.

In the final quarter of 2003, money market rates continued to decline and remained low. This owed partly to the fact that, in November, representative commercial banks for the sale of the Vayupak Fund invested their liquid funds awaiting settlement in the repurchase market. Liquidity also surged in December from the transfer of government pensions and gratuities and the government's loan repayment to financial institutions. Therefore, the 1-day repurchase rate averaged at 1.06 percent per annum and the overnight interbank rate averaged at 1.09 percent per annum for the quarter.

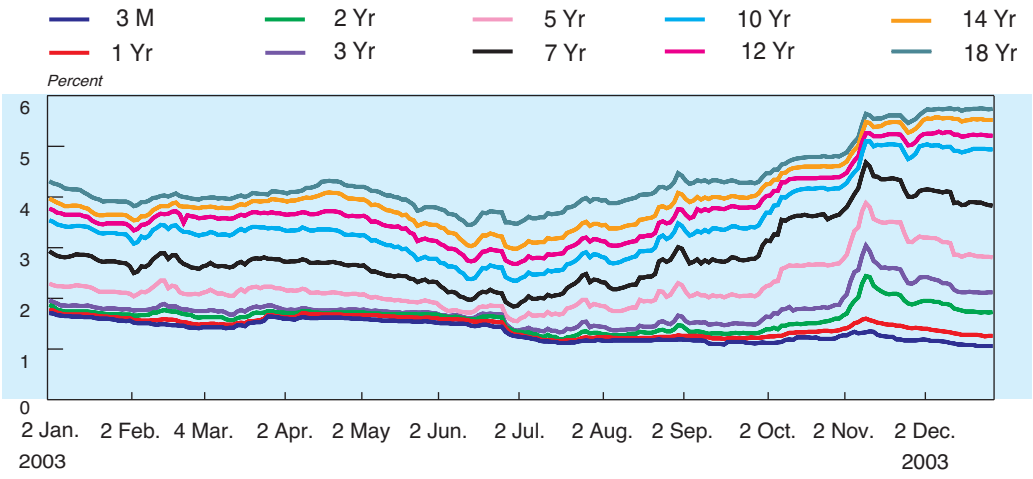
3. Government Bond Yields

In the first quarter of 2003, government bond yields declined further from the levels at end-2002, consistent with the declining trend of commercial banks' interest rates and high demand for investment by commercial banks while the supply of new bonds was limited. However, in early February 2003, government bond yields increased due to profit taking by investors.

In April 2003, government bond yields at all maturities rose in line with the upward trend of money market rates. However, from May until mid-June, government bond yields adjusted downward again, particularly at the long end, in anticipation of limited government bond supply as the forecast of the FY2003 fiscal position was adjusted from a deficit to a surplus. In addition, there was an expectation of a federal funds rate cut which might lead in turn to a policy rate cut in Thailand. As it turned out, the BOT did subsequently cut the policy interest rate by 50 basis points, and government bond yields declined further towards the end of June.

Movements of Government Bond Yields

(2 January - 31 December 2003)



Source : Bank of Thailand

Government bond yields continued to decline in early July from the effect of the policy rate cut. However, they later rose, especially at the long end, from the relaxation of foreign exchange control by the BOT in July, the notification permitting six types of financial institutions to invest in debt securities abroad from August onwards, and uncertainties about the issuance of government bonds to compensate for the losses incurred by the Financial Institutions Development Fund (FIDF).

Government bond yields, especially the medium- to long-term maturities, increased significantly in the last quarter of the year. Major factors behind this upward movement include (1) news on the issuance of 7-year government bonds to compensate for the losses incurred by the FIDF; (2) an increase in the supply of bonds by both the public and private sectors; and (3) a strong increase in the Thai stock market index which led to a shift of investment from bonds to stocks. However, between mid-November to December, government bond yields adjusted downward due to the postponement of FIDF bond auction to early 2004 and the cancellation of BOT bond issuance previously scheduled for December.

C. Commercial Bank Deposits and Private Credits (Including Investment in Private Securities)

1. Commercial Bank Deposits

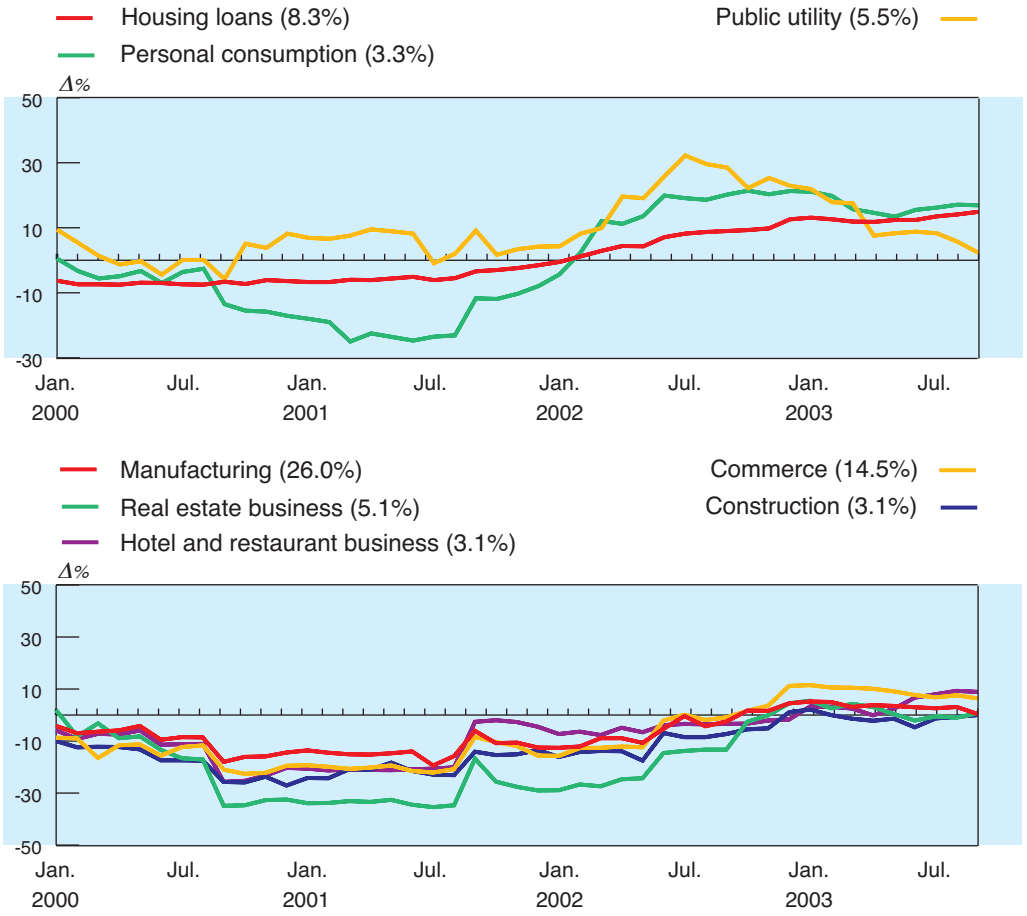
Between January and August 2003, the year-on-year growth of commercial bank deposits was moderate as a consequence of the large withdrawal of funds to purchase government saving bonds in September 2002. However, after this effect on year-on-year growth ended in September 2003, deposits grew at a normal pace during the last four months of the year and at end-2003, the outstanding commercial bank deposits were 4.4 percent higher than at end-2002.

2. Commercial Bank Private Credits (Including Investment in Private Securities)

In 2003, private credits (including investment in private securities) of commercial banks continued to expand in line with the recovery of domestic production. During the first quarter, the increase in private credits was partly a result of credit expansion by state-owned commercial banks in accordance with the government's economic stimulus policy. From April to December, credits expanded further but at a slightly slower rate of 3.8 percent year-on-year, due mostly to credits to businesses from both private and state-owned commercial banks. At end-2003, the outstanding level of private credits was 3.6 percent higher than at end-2002. As for private credits adding back debt write-offs and loans transferred to AMCs, but excluding loans extended to AMCs, the outstanding amount expanded on average by 4.8 percent year-on-year in 2003.

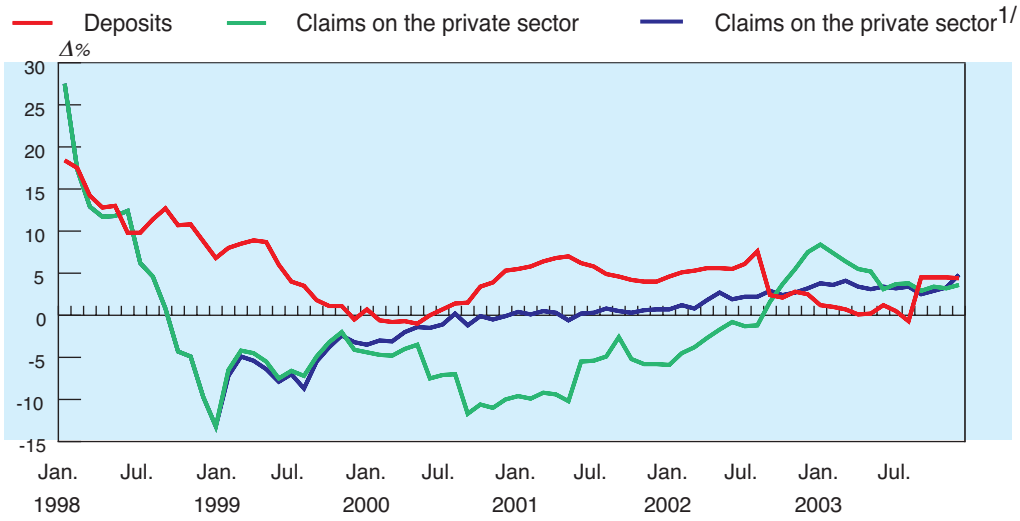
Credits to major economic sectors which recorded high growth include credits extended to the export, commerce and property sectors as well as wholesale agricultural products and hotels and restaurants. Credits to home-buyers and for personal consumption, including credit card loans, which altogether accounted for 13 percent of total credits, continued to expand at a high rate from the previous year, partly as a consequence of the low interest rate environment, high competition among the service providers, and improved economic conditions. Nevertheless, the BOT has been closely monitoring the credit card business in order to protect consumers against over-indebtedness.

Commercial Bank Credits Classified by Economic Sector



Note : Number in parenthesis represents t he corresponding s hare of tota l credits.

Bank Deposits and Claims on the Private Sector



Note : 1/ Claims on the private sector adding back debt write-offs and loans transferred to AMCs, but excluding loans extended to AMCs.

Sources : BOT reports and surveys, including data from Thanachart Bank

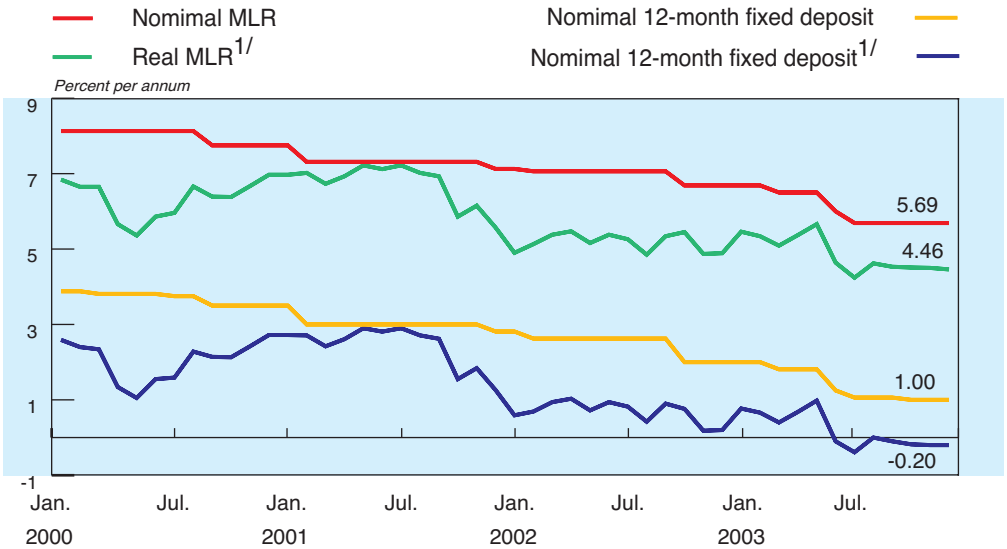
3. Interest Rates of Commercial Banks

In 2003, large commercial banks gradually reduced their deposit and lending rates in March, June and July in line with the policy rate signal and each bank's liquidity position. The average of the four largest Thai commercial banks' 3-month fixed deposit rates thus fell from 1.75 percent per annum at end-December 2002 to 1.00 percent per annum, while the average 12-month fixed deposit rate declined from 2.00 percent per annum to 1.00 percent per annum. The minimum lending rate (MLR) also dropped from the average of 6.69 percent per annum to 5.69 percent per annum.

Table 25 : Average Interest Rates of the Four Largest Thai Commercial Banks

2003	Percent per annum		
	3-month fixed deposit rates	12-month fixed deposit rates	MLR
January	1.75	2.00	6.69
February	1.75	2.00	6.69
March	1.50	1.81	6.50
April	1.50	1.81	6.50
May	1.50	1.81	6.50
June	1.25	1.25	6.00
July	1.06	1.06	5.69
August	1.06	1.06	5.69
September	1.06	1.06	5.69
October	1.00	1.00	5.69
November	1.00	1.00	5.69
December	1.00	1.00	5.69

Nominal and Real Interest Rates of Commercial Banks



Note : 1/ Perceived inflation = Average change i n prices over the next 12 months
Sources : Interest rates quoted by the four largest Thai banks

Real deposit and lending rates declined over the year as a result of higher expected inflation, with the downward trend in real MLR helping to boost the overall economic activities. At end-December 2003, the 12-month deposit rate and real MLR of the four largest commercial banks averaged at -0.20 and 4.46 percent per annum, respectively.

D. Operating Profits of Commercial Banks

Business performance of commercial banks improved during the first nine months of 2003. Thai commercial banks experienced a steady improvement in performance despite a net loss in the third quarter of the year due to an increase in loan loss provision of some commercial banks. Operating profits (before loan loss provision) of the entire banking system during the first nine months of 2003 amounted to B67.35 billion, compared to B54.03 billion during the same period of the previous year. Of this total amount, operating profits of Thai commercial banks accounted for B61.30 billion, compared to B42.31 billion in the first nine months of 2002. Most of this came from higher net interest income due to falling interest expenses as well as from an increase in non-interest income, including fees, service charges and foreign exchange income.

As for foreign bank branches, operating profits fell from B11.72 billion during the first nine months of 2002 to B6.05 billion, owing mainly to lower interest income and dividend receipts.

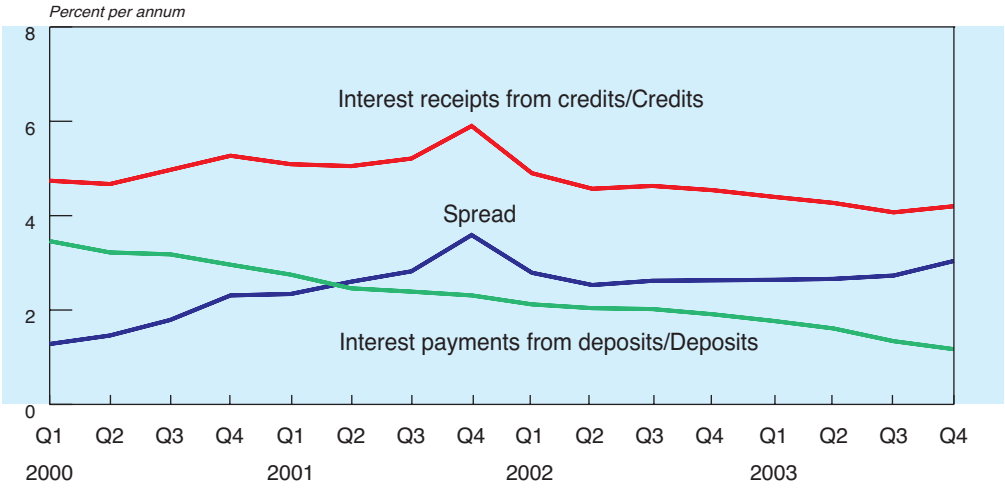
Table 26 : Operating Results of the Banking Sector
(Unit : Billion baht)

	2002	2002	2003		
		Q4	Q1	Q2	Q3
Banking system					
- Pre-provision profit	67.5	13.5	21.6	23.2	22.5
- Loan loss provision	43.3	-22.9	-4.1	-2.9	-22.4
- Net profit/loss before tax	24.2	-9.4	17.5	20.3	0.1
Thai Banks					
- Pre-provision profit	56.2	13.8	17.9	23.2	20.3.
- Loan loss provision	-44.7	-23.6	-4.1	-7.2	-23.1
- Net profit/loss before tax	11.4	-9.7	13.7	16.0	-2.9
Foreign Banks					
- Pre-provision profit	11.4	-0.3	3.8	0.0	2.3
- Loan loss provision	1.4	0.7	0.1	4.3	0.7
- Net profit/loss before tax	12.8	0.4	3.8	4.3	3.0

Source : *Bank of Thailand*

The effective interest rate spread of commercial banks widened in 2003 to 2.73 percent at the end of the third quarter compared to 2.62 percent a year earlier. This resulted mainly from an increase in the interest rate spread of Thai commercial banks as interest expenses on deposits declined by a larger magnitude than interest receipts from loans extended. The effective interest rate spread of foreign commercial banks also declined slightly.

Interest Spread of the Banking Sector



Note : Credits excluding interfinance items.
Deposits excluding interfinance items.
Sources : BOT reports

The ratio of capital to risk-weighted assets averaged at 13.41 percent for the first nine months of 2003, compared to 14.06 percent in 2002. Non-performing loans (NPL) continued to decline and stood at B641.58 billion or 12.72 percent of outstanding loans at end-2003, compared to B772.56 billion or 15.79 percent of outstanding loans at end-2002.

Capital Market Developments

Non-bank Financing to the Private Sector

In 2003, major non-bank financing sources for both businesses and households were as follows:

1. Issuance of equity and debt securities. The increase in common stock issuance was mainly from the recapitalization of businesses in the property development and transportation sectors as well as companies under financial rehabilitation. As for debt securities, most were in the form of debentures issued by businesses in the construction material, chemical and transportation industries, namely Siam Cement Public Company Limited, Aromatics (Thailand) Public Company Limited, and Thai Airways International Public Company Limited.

2. Credits extended by specialized financial institutions. In 2003 (data up to November), credits extended by specialized financial institutions increased by B108.3 billion from end-2002, owing partly to the government's promotion of credit extension via government-initiated projects such as the People's Bank by the Government Savings Bank, credits to the property sector by the Government Housing Bank, and credits for small and medium enterprises by the Small Industrial Finance Corporation (SIFC).

3. Consumption credits, personal loans and trade credits. These credits, especially hire-purchase credits and credit card loans, continued to increase in line with stronger consumer confidence and greater income stability. At the same time, incentives were offered by credit companies, mostly in association with business enterprises, particularly credits for the purchase of automobiles,

electrical appliances and mobile phones. In addition, there was keen competition among service providers in the credit card and personal loan business.

Developments in the Secondary Bond Market

In 2003, the total trading volume of debt securities was B2,606.7 billion, up by 21.5 percent from 2002. This was supported by an increase in the issuance of debt securities by both the public and private sectors as alternatives for investors under the low interest rate environment. However, the trading volume of debt securities in the secondary market dropped in the latter half of the year because investors shifted their investments from the bond market to the stock market which yielded higher returns. The average daily trading volume which increased from B10.3 billion in the first quarter to B11.8 billion in the second quarter thus fell subsequently to B10.6 billion and B9.7 billion in the third and fourth quarters, respectively.

Table 27 : Non-bank Financing to the Private Sector

(Unit : Billion baht)

Sources of Financing	2002	2003P
1. Credits from Non-bank Financial Institutions 1/	**36.90**	**175.90**
Finance companies	-75.20	52.20
Specialized financial institutions	104.00	108.30
Listed companies which provide consumer credits and hire-purchase services 2/	8.10	15.40
2. Capital Market (Non-financial Institutions) 3/	**131.50**	**187.20**
Equity (common and preferred stocks)	56.30	84.80
Domestic debt instruments	75.20	102.40
Total	**168.40**	**363.10**

Notes : 1/ *Change in the outstanding balance from the end of last year*

2/ *Total change in the outstanding balances of eight credit companies excluding Thitikorn Public Co., Ltd., which was listed on the Stock Exchange of Thailand in 2003*

3/ *Value of newly issued securities*

P = *Preliminary data*

- *For finance companies and specialized financial insitutions, as of end-November 2003*
- *For listed companies which provide consumer credits and hire-purchase services, as of end-September 2003*
- *For equity and domestic debt instruments, as of end-December 2003*

Sources : *Bank of Thailand, Securities Exchange Commission, and Stock Exchange of Thailand*

IMPORTANT POLICIES AND MEASURES

IMPORTANT POLICIES AND MEASURES

Monetary Measures

Measures	Party Involved	Salient Points	Effective Dates	Source
A. Interest Rate Policy MPC Decisions on - 20 January 2003 - 3 March 2003 - 21 April 2003 - 2 June 2003 - 27 June 2003 (Special Supplementary Session) - 21 July 2003 - 11 September 2003 - 28 October 2003 - 12 December 2003		The MPC decided to lower the 14-day repurchase rate from 1.75 to 1.25 percent per annum on 27 June 2003, in view that core inflation remained low, allowing monetary policy to ease further in order to safeguard the economy against external and financial uncertainties. In addition, the reduction in the policy interest rate could help reduce the risk of core inflation falling below the target range and dampen speculative capital inflows driven by the differential between domestic and foreign interest rates, thereby strengthening the growth process of the Thai economy going forward.	–	BOT News No. 2/2003, BOT News No. 9/2003, BOT News No. 12/2003, BOT News No. 17/2003, BOT News No. 19/2003, BOT News No. 22/2003, BOT News No. 31/2003, BOT News No. 34/2003, BOT News No. 41/2003, respectively
B. Financial Market Measures				
1. Guidelines for foreign exchange positions	1. Domestic commercial banks 2. Foreign bank branches (excluding Bangkok International Banking Facilities: BIBF) 3. Industrial Finance Corporation of Thailand (IFCT) 4. Export-Import Bank of Thailand (EXIM Bank) 5. Asia Credit Public Co., Ltd.	The BOT adjusted the computation method for the foreign exchange positions of overseas branches of commercial banks registered in Thailand. For example, foreign currency loans classified as doubtful of loss are to be included in the foreign exchange position net of provisions, which is calculated based on the regulations of the country where the branch operates.	–	Circular No. BOT. FPG. (21)C.167/2546 dated 21 January 2003
2. Resale of foreign securities to domestic customers	1. Commercial banks (excluding BIBF) 2. EXIM Bank 3. IFCT	The BOT expanded the maximum amount of foreign securities which could be resold to institutional investors who are not permitted to undertake foreign currency transactions in	–	Circular No. FMOG (51) C. 1/2003 dated 22 April 2003

Measures	Party Involved	Salient Points	Effective Dates	Source
	4. Asia Credit Public Co., Ltd.	Clause 3 of Circular No. FMOG. (05)C. 2/2000 dated 29 May 2000, from US$10 million to US$50 million.	–	
C. Foreign Exchange Control				
1. Extension of the business scope for foreign exchange agencies	Domestic commercial banks	The BOT extended the business scope for foreign exchange agencies to include activities such as providing settlement services for commercial banks or any individual via cash or cheque.	–	Circular No. BOT. FPG.(31)C. 1020/ 2546 dated 18 April 2003
2. Guidelines and procedures for foreign exchange (Issue No.12)	1. Commercial banks (excluding BIBF) 2. EXIM Bank 3. Islamic Bank of Thailand 4. IFCT 5. Asia Credit Public Co., Ltd.	The BOT adjusted the guidelines and procedures on foreign exchange to cover foreign exchange transactions by the Islamic Bank of Thailand which received permission to conduct such business on 11 September 2003.	11 September 2003	Circular No. FMOG (03)C. 4/2003 dated 1 October 2003
3. Relaxation of exchange control regulations	Six types of institutional investors: 1. Life insurance companies; 2. The Government Pension Fund, 3. Provident funds, 4. The Social Security Fund, 5. Mutual funds (excluding private funds), 6. Specialized financial institutions.	1. The BOT relaxed some exchange control regulations, allowing six types of financial institutions to invest in securities abroad.	–	Circulars No.FMOG. (05)C. 1691/2003, 1694/2003, and 2/ 2003 dated 22 July 2003, and BOT News No. 23/2003
	1. Commercial banks (excluding BIBF) 2. EXIM Bank 3. IFCT 4. Asia Credit Public Co., Ltd.	2. The BOT lengthened the permissible period for the holding of foreign currency deposits from 3 to 6 months.		
	State enterprises	3. The BOT allowed Thai state enterprises to freely hedge foreign currency debt up to the maturity of the debt.		

Measures	Party Involved	Salient Points	Effective Dates	Source
D. Measures Against Baht Speculation				
1. Measures to prevent baht speculation	1. Commercial banks (excluding BIBF) 2. EXIM Bank 3. Islamic Bank of Thailand 4. IFCT 5. Asia Credit Public Co., Ltd.	The BOT issued additional measures to limit financial institutions' short-term borrowing from non-residents (NR), for example, by stipulating that NR can maintain deposits in current or saving accounts for settlement only and that deposits for other purposes must have a maturity of at least 6 months.	–	Circular No. BOT. FMOG.(03)C.2262/ 2003 dated 14 October 2003, and BOT News 33/2003
2. Measure to curb short-term capital inflows	Financial institutions	The BOT limited baht borrowings from NR or engagements in similar transactions with no underlying trade or investment to B50 million, except for contracts with maturity over 3 months. This measure was applied to 6 businesses listed in the notification.	12 September 2003	BOT News No. 32/2003
E. Supervision and Development of Financial Institutions				
1. Credits and non-performing loans (NPL)				
1.1 Modification of the NPL definition	1. Commercial banks 2. Foreign bank branches 3. Finance companies, finance and securities companies 4. Credit foncier companies	The BOT redefined NPL from loans which are pass-due for more than 3 months to loans which are classified as substandard, doubtful, doubtful of loss and loss in accordance with the classification guidelines in the BOT notification. The new definition includes debtors classified as doubtful of loss for which a commercial bank has already set aside 100 percent provision and which has been previously written off but not yet recorded in the accounts.	End of December 2002	Circulars No.FPG. (22)C. 7/2546, 9/2546, and 10/2546, dated 16 January 2003
1.2 Measures on housing loans	1. Commercial banks 2. Finance companies, finance and securities companies 3. Credit foncier companies	The BOT stipulated that financial institutions can extend credits or lend to any individual for a residential property with a value above B10 million in an amount not exceeding 70 percent of the actual housing price, with land or building serving as collateral.	1 December 2003	Circular No. BOT. FPG.(21) C. 2544/ 2546 dated 28 November 2003

Measures	Party Involved	Salient Points	Effective Dates	Source
2. Expansion of the business scope of financial institutions				
2.1 Permission for commercial banks to utilize debt instruments in risk management	Commercial banks (excluding BIBF)	The BOT allowed commercial banks to conduct forward bond transactions, bond options transactions and equity linked index swap transactions, considering all three transactions as creating obligations in the category of "interest rate-related contracts."	12 April 2003	Circular No.FPG. (21)C. 56/2546 dated 16 April 2003 and notified on 8 April 2003
2.2 Permission for commercial banks to conduct deposit or borrowing transactions with returns payment indexed to variables	Commercial banks (excluding BIBF)	The BOT set the scope of transactions and supervision policy, e.g., by allowing commercial banks to borrow through said transactions under compliance with regulations on the maintenance of liquid assets as if such transactions were deposit transactions.	18 April 2003	Circular No.FPG. (21)C. 57/2546 dated 18 April 2003 and notified on 16 April 2003
2.3 Permission for commercial banks to engage in credit default swap transactions	1. Commercial banks (excluding BIBF) 2. Finance companies, finance and securities companies	The BOT stipulated the scope of credit default swap transactions, requiring commercial banks which engage in such transactions to comply with the supervision criteria as prescribed by the BOT, e.g., criteria on the maintenance of capital funds.	24 April 2003 (finance companies) 2 May 2003 (commercial banks)	Circular No.FPG. (21)C. 61/2546 and 67/2546 dated 29 April 2003 and 2 May 2003, respectively
2.4 Permission for commercial banks to engage in financial services consistent with Shariah Banking Services	Commercial banks (excluding BIBF)	The BOT stipulated that commercial banks conducting interest-free units rename such engagements from "Interest-Free Units" to "Shariah Banking Services" and comply with the criteria mentioned in this notification.	21 November 2003	Circular No.FPG. (11)C. 43/2546 dated 1 December 2003 and notified on 10 November 2003
2.5 Permission to engage in business related to the management of escrow accounts	Finance companies, finance and securities companies	The Minister of Finance permitted finance companies and finance and securities companies to provide settlement services for property or other fees, from buyers or prospect buyers who have made or are going to make contract deals, by depositing such payments as promissory notes issued by finance companies and finance	13 December 2003	Circular No.BOT. FPG(11)C. 2689/2546 dated 23 December 2003, and Ministry of Finance Notification dated 3 December 2003

Measures	Party Involved	Salient Points	Effective Dates	Source
		and securities companies, or by depositing at commercial banks, and administering the withdrawal of such funds.		
F. Financial Assistance to Priority Economic Sectors				
1. Cancellation of assistance to priority economic sectors	1. Commercial banks 2. Finance companies, finance and securities companies 3. IFCT	The BOT ceased financial assistance to the following economic sectors: industry, storage service, livestock, trading agricultural crops, agricultural or industrial project for rural development, and rice trade by rice mill entrepreneurs.	31 January 2003	Circular No.BOT. FMOG.(06)C.3/2003 dated 2 January 2003
2. Purchase of promissory notes from small and medium enterprises (SME)	1. Commercial banks 2. Finance companies, finance and securities companies 3. IFCT 4. EXIM Bank 5. Small and Medium Enterprise Development Bank of Thailand (SME Bank)	The BOT reduced the interest rate charged on financial institutions when purchasing promissory notes issued by SME from 1.75 to 1 percent per annum.	5 July 2003	Circular No. BOT. FMOG. (06)C. 1549/ 2003 dated 4 July 2003
3. Lending with promissory notes from SME as collaterals	1. Commercial banks 2. Finance companies, finance and securities companies 3. IFCT 4. EXIM Bank 5. SME Bank 6. Bank for Agriculture and Agricultural Cooperatives (BAAC) 7. Government Savings Bank (GSB)	The BOT changed the assistance scheme from purchasing promissory notes issued by entrepreneurs to lending to financial institutions with promissory notes issued by those entrepreneurs as collaterals, charging interest rate at 1 percent per annum and extending credit of an amount equivalent to 60 percent of the promissory notes used as collaterals.	1 October 2003	Circular No.BOT. FMOG. (05)C. 1845/ 2003 dated 15 August 2003

Fiscal Measures

Measures	Source	Date of Announcement	Effective Dates	Link
A. Tax Measures				
1. - Determination of the excise tax rate with regards to the following businesses: 1) Nightclubs and discotheques 2) Baths, saunas, and massage parlours 3) Horse racetracks 4) Lottery ticket issuers 5) Golf courses 6) Telecommunications - Fixed-line telephone - Mobile telephone	Cabinet Synopsis	28 January 2003	–	
- Collection of excise tax from telecommunication services by separating out the tax portion from shared revenue remitted from private concessionaries to the government	Cabinet Synopsis	11 February 2003	–	
2. Reduction of the Value Added Tax (VAT) rates as follows - Continue to impose the rate of 7 percent between 1 October 2003 and 30 September 2005 - Raise the VAT rate to 10 percent from 1 October 2005 onwards	Cabinet Synopsis	9 September 2003	–	www.thaigov.go.th **Select** -Cabinet Synopsis -Archive -Date
3. Resolution to the double taxation problem of liquor	Cabinet Synopsis	16 September 2003	–	
4. Annulment of tax privileges for BIBF engaged in domestic lending	Cabinet Synopsis	11 November 2003	–	
5. - Tax measures to encourage private sector support of education	Cabinet Synopsis	11 November 2003	–	
- Tax measures to support education by exempting import duties on educational goods	Cabinet Synopsis	2 December 2003	–	
6. Reduction and exemption of customs duties for businesses operating within duty-free zones and producing for domestic sales	Cabinet Synopsis	25 November 2003	–	
7. Tax measures to support the corporatisation of the Communications Authority of Thailand in the form of VAT	Cabinet Synopsis	2 December 2003	–	

Measures	Source	Date of Announcement	Effective Dates	Link
exemption for stamp sales and personal income tax exemption for income earned from stamp sales or discount on stamp purchases				
8. Cancellation of the special business tax (SBT) exemption for real estate activities from 31 December 2003 onwards	Cabinet Synopsis	9 December 2003	1 January 2004	
9. Measures to support debt restructuring by extending the deadline for tax exemption and tax and registration fee privileges to 31 December 2004	Cabinet Synopsis	23 December 2003	1 January 2004	
B. Expenditure Measures				
1. Reform of the budget accounting system for governmental and local administrative authorities	Cabinet Synopsis	4 February 2003	–	www.thaigov.go.th **Select** -Cabinet Synopsis -Archive -Date
2. Draft Budget Act B.E. 2004 with a total budget expenditure of B1,028 billion and a planned budget deficit for the fiscal year	Cabinet Synopsis	4 February 2003 22 April 2003 26 May 2003	–	
3. - Draft Acts on civil service pensions and gratuities and the Government Pension Fund	Cabinet Synopsis	22 April 2003	–	
- Draft ministerial regulations on the allotment and receipt of pensions and gratuities		14 October 2003	–	
- Exemption of personal income tax for pensions and gratuities		2 December 2003		
4. Draft Royal Decree on the commencement date for the collection of contributions for unemployment benefits	Cabinet Synopsis	28 April 2003	1 January 2004	
5. - Strategy to adjust the size of the civil service sector	Cabinet Synopsis	23 September 2003	–	
- Measures to improve and manage civil service employment		29 November 2003	–	
- Measures to control labour compensation in the civil service sector		23 December 2003	–	

Measures	Source	Date of Announcement	Effective Dates	Link
6. Cancellation of public guarantee for creditors of financial institutions and the remittance of FIDF fees calculated from the outstanding liabilities to creditors	Cabinet Synopsis	4 November 2003	–	
C. Public Borrowing and Debt Management Measures				
1. External borrowing plan for FY 2003 and its first revision	Cabinet Synopsis	4 February 2003 7 October 2003	–	
2. Regulations on state enterprises' debt to equity swap	Cabinet Synopsis	16 September 2003	–	
D. State Enterprise Measures				
1. - Government housing projects for low income earners and the urban poor	Cabinet Synopsis	14 January 2003 22 July 2003 4 November 2003	–	
- Action plans for government housing projects in congested areas	Cabinet Synopsis	4 November 2003	–	
2. Revision of the cabinet resolution on the allocation of proceeds from the privatisation of state enterprises	Cabinet Synopsis	1 July 2003	–	www.thaigov.go.th **Select** -Cabinet Synopsis -Archive -Date
3. Corporatisation of the following state enterprises:	Cabinet Synopsis		–	
- Communications Authority of Thailand		8 July 2003	–	
- Metropolitan Waterworks Authority		19 August 2003	–	
- Electricity Generating Authority of Thailand		14 October 2003	–	
4. State enterprises' budget plan for FY 2004	Cabinet Synopsis	23 September 2003	–	
E. Other Measures				
1. Procedures for asset capitalization and land reform	Cabinet Synopsis	4 March 2003 22 April 2003	1 January 2003	
2. Draft Act on the National Village and Urban Community Fund	Cabinet Synopsis	18 March 2003 16 September 2003	–	
3. Establishment of the Ministry of Finance's Vayupak Fund 1 with a capitalization limit of B100 billion	Cabinet Synopsis	24 June 2003 1 July 2003 14 October 2003	–	
4. Changes in the roles and responsibilities of provincial treasury offices	Cabinet Synopsis	30 September 2003	–	

Others Measures

Measures	Source	Date of Announcement	Effective Dates	Link
A. Agricultural Measures				
1. Cooperation on rubber among Thailand, Indonesia, and Malaysia	Cabinet Synopsis	4 February 2003	–	
2. Measures to assist sugarcane planters	Cabinet Synopsis	18 February 2003 30 December 2003	–	
3. Solution to the raw milk problem	Cabinet Synopsis	8 April 2003	–	
4. Systematic solution to the palm oil problem	Cabinet Synopsis	22 April 2003	–	
5. Project to plant rubber to raise income for and provide economic stability to farmers in new rubber planting areas	Cabinet Synopsis	26 May 2003	–	
6. Endorsement of the convention on tobacco regulation	Cabinet Synopsis	10 June 2003	–	
7. Draft ministerial regulations on the determination of epidemics, animal illnesses, and animal meat not suitable for consumption	Cabinet Synopsis	17 June 2003	–	www.thaigov.go.th **Select** -Cabinet Synopsis -Archive -Date
8. Establishment of the Laboratory Centre for Food and Agricultural Products Company Limited (LCFA)	Cabinet Synopsis	17 June 2003	–	
9. Project to transfer technology in producing organic fertilizer, organic chemical fertilizer, and micro-organic fertilizer to the grass-roots economy	Cabinet Synopsis	2 September 2003	–	
10. Allocation of funds from the Fund for Farmers Assistance and the extension of loan repayment periods	Cabinet Synopsis	9 September 2003	–	
11. Credit support to shrimp farmers who meet the GAP (Good Agriculture Practice) and COC (Code of Conduct) standards	Cabinet Synopsis	30 September 2003	–	
12. Draft royal decrees for the establishment of the Thai Rubber Organisation and the export of rubber from the kingdom	Cabinet Synopsis	4 November 2003	–	

Measures	Source	Date of Announcement	Effective Dates	Link
B. International Trade Measures				
1. - Policy and measures regarding the import of animal feeds in 2003	Cabinet Synopsis	21 and 28 January 2003	–	
- Policy and measures regarding the import of animal feeds in 2004	Cabinet Synopsis	2 and 16 December 2003	–	
2. Exemption and reduction of customs duties for the ASEAN Free Trade Area	Cabinet Synopsis	21 January 2003	–	
3. Rotation of technical officers stationed in major port cities in Germany, France, the Netherlands, Italy, and the United Kingdom to coordinate with laboratories in charge of inspection of imported goods from Thailand	Cabinet Synopsis	11 February 2003	–	
4. Regulations on the export of fruits and vegetables	Cabinet Synopsis	4 March 2003	–	www.thaigov.go.th **Select** -Cabinet Synopsis -Archive -Date
5. Measures to prevent and suppress the smuggling of agricultural products into Thailand	Cabinet Synopsis	19 May 2003	–	
6. Imposition of surcharge and anti-dumping duties on imported products	Cabinet Synopsis	3 June 2003	–	
7. Change in the customs duty on imported stainless steel pipes with square-shape cross-section under subheadings 7306.4 and 7306.6, from 1 to 12 percent	Cabinet Synopsis	10 June 2003		
8. Bilateral trade agreement between Thailand and China on fruits and vegetables	Cabinet Synopsis	10 and 24 June 2003	–	
9. Solution to the problem regarding longan export to China	Cabinet Synopsis	17 June 2003	–	
10. Removal of prawn and chicken inspection in the European Union	Cabinet Synopsis	8 July 2003	27 June 2003	
11. Rationalisation of the customs duty structure for agricultural, processed agricultural, and manufacturing products in preparation for trade liberalization	Cabinet Synopsis	29 July 2003	–	

Measures	Source	Date of Announcement	Effective Dates	Link
12. Halal food promotion in Iran and the United Arab Emirates	Cabinet Synopsis	29 July 2003	–	
13. Investment protection in accordance with the Investment Protection and Promotion Agreement between Thailand and other countries	Cabinet Synopsis	19 August 2003	–	
14. Removal of anti-dumping surcharge on imported metal with H-shape cross-section from Poland	Cabinet Synopsis	26 August 2003	–	
15. Liberalization of the soybean market under the obligations of the World Trade Organization in 2004	Cabinet Synopsis	23 September 2003	1 January 2004 to 31 December 2004	
16. Measures regarding the import of electrical appliances and other electronics	Cabinet Synopsis	23 September 2003	1 October 2003	www.thaigov.go.th **Select** -Cabinet Synopsis -Archive -Date
17. Import administration	Cabinet Synopsis	28 October 2003 and 25 November 2003	–	
18. Assignment of agencies to register and certify factories for export to the US	Cabinet Synopsis	28 October 2003	–	
19. Export of rubber	Cabinet Synopsis	4 November 2003	–	
20. Customs duty reduction for yachts and vessels for pleasure	Cabinet Synopsis	18 November 2003	–	
21. Collection of customs duties in line with the development in information technology and cross-border trade promotion policy	Cabinet Synopsis	25 November 2003	–	
22. Cooperation on an emerging market (the Netherlands) between Thailand and the Netherlands	Cabinet Synopsis	25 November 2003	–	
23. Exemption of customs duties on fruits and vegetables for the Union of Myanmar	Cabinet Synopsis	16 December 2003	–	
24. Rationalisation of the customs duty structure for plate glass, bar zinc, zinc alloys, and plain coins	Cabinet Synopsis	23 December 2003	–	

Measures	Source	Date of Announcement	Effective Dates	Link
C. Industrial Measures				
1. Budget to support the promotion of local liquor production from agricultural output	Cabinet Synopsis	14 January 2003	–	
2. Work plan and framework to promote national competitiveness	Cabinet Synopsis	21 January 2003	–	
3. Solution to the problem of high gasoline prices	Cabinet Synopsis	11 and 25 February 2003	8 February - 31 May 2546	
4. Policy and plan to support small and medium enterprises (SMEs) in Thailand (2002-2006)	Cabinet Synopsis	6 May 2003	–	
5. Cooperation between the National Science and Technology Development Agency (NSTDA) under the Ministry of Science and Technology and Toyota Motors Company Limited	Cabinet Synopsis	24 June 2003	–	
6. Bangkok Fashion City Project	Cabinet Synopsis	8 July 2003	–	www.thaigov.go.th **Select** -Cabinet Synopsis -Archive -Date
7. Work plan to promote the competitiveness of the vehicle industry	Cabinet Synopsis	22 July 2003	–	
8. Establishment of a venture capital fund to promote the competitiveness of Thai businesses	Cabinet Synopsis	22 July 2003	–	
9. Solution to the systemic problem of sugarcane and sugar	Cabinet Synopsis	22 July 2003	–	
10. Extension of the operational period of the SMEs and People Financial Advisory Centre (SFAC)	Cabinet Synopsis	5 August 2003	–	
11. Enhancement of productivity in the sugarcane and sugar industry for greater competitiveness in the world market	Cabinet Synopsis	28 October 2003	–	
12. Determination of the standard and methodology to estimate revenues as well as determine and set sugarcane prices, sugar production costs, and income sharing between sugarcane planters and sugar mills for the crop year 2003/2004	Cabinet Synopsis	25 November 2003	–	

Measures	Source	Date of Announcement	Effective Dates	Link
D. Price Measures				
1. Electricity price adjustment (Ft)	Resolution by the Sub-committee on the Automatic Adjustment Mechanism	14 February 2003 17 June 2003	June - September 2003	www.eppo.go.th
2. Adjustment of train fares and air-conditioning supplementary charges	State Railway of Thailand	26 May 2003	1 October 2003	www.railway.co.th
3. Adjustment of liquid petroleum gas (LPG) prices	Energy Policy and Planning Office	4 December 2003	5 December 2003	www.eppo.go.th
E. Labour Measures				
1. Draft ministerial regulations on labour protection of outwork and the determination of weight which an employee may carry	Cabinet Synopsis	25 March 2003	–	
2. Draft royal decree to determine the starting date of the contribution to the Social Security Fund for unemployment insurance	Cabinet Synopsis	28 April 2003	1 January 2004 onwards	
3. Guidelines for the establishment of the one-stop service office for overseas employment	Cabinet Synopsis	26 May 2003 19 August 2003	–	
4. Draft ministerial regulations on the determination of the contribution rates to the Social Security Fund for unemployment insurance and the payment rates of unemployment benefits	Cabinet Synopsis	17 June 2003	–	www.thaigov.go.th **Select** -Cabinet Synopsis -Archive -Date
5. Draft ministerial regulations regarding labour protection in the agricultural sector and the establishment of management standards for work safety, sanitation, and working environment	Cabinet Synopsis	22 July 2003	–	
6. - Notification of the Ministry of Labour regarding the minimum wage (Announcement No. 2)	Cabinet Synopsis	5 August 2003	1 August 2003	
- Adjustment of the minimum wage	Cabinet Synopsis	16 December 2003	1 January 2004	

Measures	Source	Date of Announcement	Effective Dates	Link
7. Draft ministerial regulations on granting work permits to alien workers	Cabinet Synopsis	19 August 2003	–	
8. Ratification of the C138 Minimum Age Convention A.D. 1973 of the International Labour Organization (ILO)	Cabinet Synopsis	7 October 2003	–	
9. Acknowledgement of ILO conventions and recommendations	Cabinet Synopsis	30 December 2003	–	
F. Service Measures				
1. Opening and development of borders to promote trade and tourism	Cabinet Synopsis	28 January 2003	–	
2. The sixth meeting of ASEAN tourism ministers and the second meeting between ASEAN tourism ministers and tourism ministers of China, Japan, and South Korea	Cabinet Synopsis	11 February 2003	–	
3. Measures to prevent and contain the SARS virus	Cabinet Synopsis	1, 22, 28 April 2003	–	www.thaigov.go.th **Select** -Cabinet Synopsis -Archive -Date
4. Promotion of long-stay tourism	Cabinet Synopsis	19 May 2003	–	
5. Agreement between the Kingdom of Thailand and the Republic of Portugal on the exemption of visa stamp for diplomatic, official, and special passports	Cabinet Synopsis	3 June 2003	–	
6. Thailand Elite Card Programme	Cabinet Synopsis	29 July 2003	–	
7. Re-examination of the immigration protocol for foreign tourists	Cabinet Synopsis	16 September 2003	–	
8. Immigration protocol for holders of Thailand Elite Cards	Cabinet Synopsis	16 September 2003	–	
9. Promotion of regional airports as centres of air and tourism travel	Cabinet Synopsis	7 October 2003	–	
10. Cooperation on tourism between Thailand and India	Cabinet Synopsis	7 October 2003	–	

Measures	Source	Date of Announcement	Effective Dates	Link
11. Cooperation on tourism between Thailand and the Republic of Chile	Cabinet Synopsis	14 October 2003	–	
12. Draft royal decree for the tour guide business	Cabinet Synopsis	28 October 2003	–	www.thaigov.go.th **Select** -Cabinet Synopsis -Archive -Date
13. Development of the multi-purpose ship landing dock in Ranong	Cabinet Synopsis	5 August 2546	–	
14. Transportation system of the country and the transformation of the Thai Maritime Navigation Company Limited to Thailand's national shipping line	Cabinet Synopsis	4 November 2003	–	
15. Establishment of the Thai Aviation Industry Company Limited	Cabinet Synopsis	16 December 2003	–	
G. Capital Market Measures				
1. Specification of the investment ratio of mutual funds (No. 8)	Office of the Securities and Exchange Commission (SEC)	10 July 2003	16 July 2003	
2. Rules, conditions and procedures for securities dealing of debt instruments (No. 7)	SEC	11 July 2003	1 August 2003	
3. Permission for mutual funds and private funds to invest in foreign bonds or debt securities	SEC	8 August 2003	8 August 2003	www.sec.or.th
4. - Specification of the investment ratio of provident funds (No. 5)	SEC	8 August 2003	8 August 2003	
- Specification of the investment ratio of provident funds (No. 6)	SEC	26 December 2003	1 January 2004	
5. Specification of the investment ratio of provident funds with policy to invest in the money market (No. 2)	SEC	8 August 2003	8 August 2003	
6. Rules, conditions and procedures for the establishment and management of mutual funds to resolve problems in the financial institution system (No. 7)	SEC	21 August 2003	26 August 2003	
7. Rules, conditions and procedures for the establishment and	SEC	21 August 2003	26 August 2003	

Measures	Source	Date of Announcement	Effective Dates	Link
management of property funds and their claims (No. 3)				
8. Rules, conditions and procedures for the establishment and management of property funds to resolve problems in the financial institution system (No. 7)	SEC	21 August 2003	26 August 2003	
9. - Rules, conditions and procedures for the establishment and management of Vayupak Fund	SEC	30 September 2003	1 October 2003	www.sec.or.th
- Rules, conditions and procedures for the establishment and management of Vayupak Fund (No. 2)	SEC	3 November 2003	1 November 2003	
10. Rules, conditions and procedures for the sale of Vayupak Fund investment units and the designation of sale representatives	SEC	3 November 2003	1 November 2003	
11. Rules and procedures regarding the value per unit and the calculation of the number of units for pension funds	SEC	19 September 2003	1 January 2004	

THE BANK OF THAILAND'S ACTIVITIES

The Bank of Thailand's activities

Reserve Management Performance and Note Printing

A. Reserve Management and Operations

In managing the country's international reserves during the year 2003, the Bank of Thailand (BOT) exercised its duty based on the principle of soundness and safety of the invested assets, and liquidity management that supported and were consistent with the foreign exchange policy and debt-servicing management so as to achieve a return that is within the investment guidelines and risk framework set by the Top Management Committee and closely monitored monthly by the Investment Sub-Committee.

In order to maximize returns on investment within the framework of acceptable risk and liquidity, the Reserve Management Division closely monitored economic and financial market developments. The Division also analysed short and long-term interest rates trend that would affect the foreign exchange rates and the price of the invested government fixed income securities.

Some of the important portfolios under the management of the BOT were Liquidity portfolio, Investment portfolios and other Liabilities portfolios. During the year, the BOT oversaw early repayment of all remaining debt from the IMF and other debtors under the 1997 IMF package, totalling US$4,930 million, which the last repayment was made in July 2003. Besides, in June 2003 the BOT invested US$120 million in the US$ 1-billion Asian Bond Fund 1 (ABF1), jointly set up by central banks of the EMEAP member countries.

B. Banknote Issue and Management

At the end of December 2003, the volume and value of issued banknotes totalled 2,742.7 million notes and B651,443.7 million, increased by 8.5 and 14.4 percent from December 2002, respectively. On 3 March 2003, the BOT introduced into circulation a new series of B20 banknote (Series 15), as announced in the Royal Gazette on 12 February 2003.

Counterfeit banknotes that were detected throughout the country amounted to 7,908 notes in 2003, a decline of 44.3 percent from last year. Most of the counterfeit banknotes were produced by means of inkjet printing. The B100 and B1000 denominations accounted for 92.4 percent of the total counterfeit banknotes.

Table 1: Banknote Issue in 2003

Denominations	Number of notes
500000 baht	238
1000 baht	456.0 million
500 baht	210.9 million
100 baht	623.5 million
50 baht	140.2 million
20 baht	826.8 million
10 baht	327.8 million
5 baht	24.5 million
1 baht	106.6 million
50 satang	18.9 million
BOT Note 60 baht	7.5 million

C. Currency Reserve

At the end of 2003, the total assets of the Currency Reserve amounted to B651,443.7 million, an equivalent to the value of issued notes. The assets of the Currency Reserve, which increased by 14.4 percent from the same period last year, are shown in Table 2.

Table 2 : Currency Reserve Account As of 31 December 2003		
	Amount (Million baht)	**Share** (Percent)
1. Gold	38,332.9	5.9
2. Foreign Currencies	328,746.2	50.5
3. Foreign Securities	284,364.6	43.6
4. Thai Government Securities	0.0	0.0
Total	**651,443.7**	**100.0**

D. Note Printing Works

1. Banknote

1.1 Production and Delivery

During the year, Note Printing Works, Bank of Thailand (NPT) produced a total of 1,988.55 million notes, and delivered 1,932.34 million notes to Note Issue Group and regional offices. The total sales amounted to B2,073.53 million.

1.2 Cost of Banknote

The average cost per note increased by 6.52 percent from 0.9928 baht per note in 2002 to 1.0575 baht in 2003.

2. Non-banknote Security Products

2.1 Revenue Stamp

In 2003 NPT obtained an order for 153 million revenue stamps (1 baht, 5 baht, and 20 baht denominations) of which 115.4 million stamps were delivered to the Revenue Department of Thailand. At the price of 0.13 baht each, the total sales amounted to B15.002 million.

2.2 Bank of Thailand Cheque

The delivery of 15,250 chequebooks out of the ordered amount of 21,100 was made. The sale price was at 35 baht. The total sales amounted to B0.53 million.

2.3 Excise Stamp

In 2003 the Excise Department awarded NPT an order for 420.84 million excise stamps. The first partial delivery of 80 million stamps was carried out. With the sale price at 0.048 baht each, the total sales amounted to B3.83 million.

3. Ink Production

NPT produced a total of 265.77 tons of inks: 260.34 tons of banknote printing ink, and 5.43 tons of security printing ink.

4. Research and Development

The following R&D projects were successfully completed.

(1) Soiling Tester

(2) Offset-Intaglio Printing Development

(3) Wastewater Treatment System

(4) Ink Agitator on Simultan Machine

(5) Alternative Method for Packaging Inks

(6) Laundry Resistance Testing

(7) Analysis of 500-Baht Banknotes (Series 15) Circulation

(8) Study of Ink Viscoelasticity

(9) Modification in the Infrared Absorption of Inks

(10) Neutralized Varnish Production

(11) Feasibility Study of the Use of Intaglio Modula Varnishes

(12) Magnatic Ink Development

5. International Standard Attainment

5.1 ISO 9001

Certified ISO 9001:2000 by the Office of Certification Body (TISTR-OCB) since 20 May 2003, NPT successfully passed the first Surveillance Audit on 8 December 2003.

5.2 ISO 14001

NPT passed the ISO 14001 Surveillance Audit conducted by Thailand's Management System Certification Institute (MASCI) on 23 September 2003.

6. Facility Tour

In 2003 a total of 9,812 persons visited NPT on educational tours of banknote production operation and facility. Surveys of the visitors indicated that most were very satisfied with the tour.

7. NPT Projects in 2003

(1) Second Note Printing Works Project

(2) Enterprise Resource Planning Project

(3) Online Inspection System

(4) Passport Production

(5) Commemorative Banknotes: The Sixth-Cycle Birthday Anniversary of Her Majesty Queen Sirikit

Banking Business

A. Cash Management

1. Cash Received and Paid Out

In 2003, the BOT (including head office, Surawongse office, and regional offices) received cash from provincial treasury offices, commercial banks, financial institutions, government agencies and others totalling B1,302,645.8 million, an increase of B122,010 million or 10.33 percent compared with B1,180,635.8 million in the previous year. Cash paid out, on the other hand, totalled B1,379,985.7 million, an increase of B130,423.1 million or 10.44 percent compared with B1,249,562.6 million in the previous year. In sum, cash was paid out (net amount) B77,339.9 million for the year.

2. Cash Position

In 2003, the BOT transferred assets to the Currency Reserve Account totalling B135,000 million in order to increase note in circulation, and withdrew assets from the Currency Reserve Account totalling B53,000 million to reduce note in circulation. Overall, transferred assets were higher than withdrawn assets by B82,000 million, resulting in an increase of currency reserve assets from B569,443.7 million in 2002 to B651,443.7 million in 2003.

At the end of December 2003, balance in the "cash deposited with the Note Issue Department" account stood at B14,936.9 million, comprising:

notes	B14,934.9	million
coins	B2.0	million

As to coins deposited with the Ministry of Finance, two accounts-Bank of Thailand account (5-baht coins) and Bank of Thailand account (10-baht coins)-were closed because the purpose of account opening was fulfilled.

B. Centre of Funds Transfer

In 2003, the BOT carried out funds transfer totalling B5,143,914.8 million, consisting of funds transfer from provincial areas to Bangkok of B2,800,875.9 million and funds transfer from Bangkok to provincial areas of B2,343,038.9 million, resulting in net funds transfer to Bangkok of B457,837 million.

Part of the total amount of funds transfer comprised funds transfer via the BAHTNET system executed between head offices of commercial banks and their branches located in the provinces where the BOT's regional offices are established, totalling B921,043 million. This amount consisted of funds transfer from provinces to Bangkok B910,931.7 million and funds transfer from Bangkok to provinces B10,111.3 million, resulting in net funds transfer to Bangkok of B900,820.4 million.

As for transfer of the BOT deposits at the provincial treasury offices, funds transfer to Bangkok amounted to B535,830 million whereas funds transfer to provinces totalled B316,880 million, resulting in net funds transfer to Bangkok of B218,950 million.

1. Large Value Funds Transfer (BAHTNET)

As of 31 December 2003, there were 72 institutional members in BAHTNET system; of which 13 were Thai commercial banks, 18 were branches of foreign commercial banks, 23 were finance companies / finance & securities companies and securities companies, 11 were specialized financial institutions / government agencies and the rest were other members and 7 BOT divisions.

Table 3 : Funds Transfer and Securities Transfer via BATHNET System

Type of Transaction	Volume			Value (trillion baht)		
	2003	2004	Δ%	2003	2004	Δ%
Interbank Funds Transfer[1/]	163,644	184,210	12.57	36.80	37.92	3.04
Third Party Funds Transfer	601,773	748,575	24.39	28.84	38.63	33.95
Delivery versus Payment / Receive versus Payment	37,208	31,431	-15.53	1.46	1.45	-0.68
Deliver Free / Receive Free	119	899	655.46	0.03	0.20	566.67
Total[2/]	802,625	964,216	20.13	67.10	78.00	16.24

Notes : 1/ *Volume and value of Book Transfer, Regional Funds Transfer and Multilateral Funds Transfer were included.*

2/ *Volume and value of Deliver Free/Receive Free were excluded.*

Δ% *represents percentage change from the same period last year.*

The volume and value of total funds transfer through BAHTNET system in 2003 were 964,216 transactions and B78 trillion, increased by 20.13 and 16.24 percent from those of year 2002, respectively. The aforementioned total funds transfer can be classified as follows:

1.1 Interbank Funds Transfer totalled 184,210 transactions, amounted to B37.92 trillion. The volume and value increased by 12.57 and 3.04 percent, respectively. Interbank Funds Transfer comprised of Multilateral Funds Transfer with volume of 2,290 transactions and value of B3.46 trillion, increased by 17.86 and 15.53 percent, respectively and Regional Funds Transfer of commercial banks with volume of 3,992 transactions and value of B0.92 trillion, decreased continuously from last year by 37.25 and 28.6 percent, respectively, due to commercial banks diverting their funds transfer transactions from BOT representatives and BOT regional offices to Provincial Funds Transfer System operated by Deposits and Debt Instruments Group.

1.2 Third Party Funds Transfer totalled 748,575 transactions and valued at B38.63 trillion. The volume and value increased by 24.39 and 33.95 percent, respectively. The major transaction was non-resident (NR) baht. In the third quarter, value of NR baht transactions increased significantly with daily average approximately B0.16 trillion. However, the NR baht transactions declined to approximately B0.08 trillion per day in the fourth quarter due to BOT's measure which barred short-term capital inflows of NR which has no underlying transactions since 12 September 2003.

1.3 Delivery versus Payment (DVP) and Receive versus Payment (RVP) of government securities trading totalled 31,431 transactions and valued at B1.45 trillion, decreased from the previous year by 15.53 and 0.68 percent, respectively. The significant drop in the fourth quarter resulted from low volume of securities trading in the secondary market at the end of the year and some investors' portfolio switching from security market to stock market to get higher returns. Additionally, most of securities trading transactions sent via BAHTNET were Institution Securities Trading.

1.4 Deliver Free (DF) and Receive Free (RF) of government securities trading totalled 899 transactions, valued at B0.20 trillion, increased from the previous year by 655.46 and 566.67 percent, respectively. Institution Securities Book Transfer, intra-group Institution Securities Trading as well as the change in fund managers of some mutual funds were the causes of the rise in DF/RF.

2. SMART (System for Managing Automated Retailed Funds Transfer)

At the end of 2003, the total number of member banks was 28, consisted of 13 Thai commercial banks, 12 foreign commercial banks, 2 specialized financial institutions, and the BOT.

The volume and value of electronic retail funds transfer in 2003 were 9,453,244 transactions and B385.2 billion, increased from 2002 by 28.3 and 40.3 percent, respectively. This resulted from favourable Thai economic expansion, due mainly to the increase in private investment and consumption expenditure, the government's important economic policies and measures to stipulate Thai economy, and low interest rate condition.

Foreign banks were major senders with volume and value of 68.7 and 77.6 percent of all funds transfer, respectively. Meanwhile, value of transactions of Thai commercial banks, especially medium and small banks, increased by 102.3 percent, compared to that of last year. Large Thai commercial banks were still major receivers with volume and value of 90.1 and 79.0 percent of all funds transfer, respectively.

Table 4 : Value of Transactions Classified by Sending Institutions

(Unit: Billion baht)

Year	Foreign Banks	Thai Commercial Banks			Total
		Large	Medium & Small	Subtotal	
2000	106.2	7.3	7.0	14.3	120.5
Δ%	49.9	150.9	-7.1	37.0	48.2
2001	161.0	12.7	10.8	23.5	184.5
Δ%	51.6	74.0	54.3	64.3	53.1
2002	224.8	30.7	18.8	49.5	274.3
Δ%	39.8	141.2	74.1	110.7	48.7
2003	299.0	47.6	38.5	86.2	385.2
Δ%	33.0	55.3	102.3	73.3	40.3

Note : *Δ% represents percentage change from the same period last year.*

The major types of transaction were goods and services payment (59.5 percent of total value), followed by salary and pension payment (29.2 percent of total value).

3. Interbank Cheque Clearing System

3.1 Interbank Cheque Clearing in Bangkok Metropolitan and its vicinity

In 2003, total volume and value of out-clearing cheques in Bangkok Metropolitan and its vicinity were 62.02 million items and B19,915.5 billion, respectively. Compared to 2002, its volume and value increased by 6.7 and 17.2 percent, respectively. The average value of out-clearing cheques per item increased by 10.3 percent from B0.29 million in 2002 to B0.32 million in 2003. This was due to the continued economic expansion driven by the rise in export and private spending in terms of both consumption and investment, as well as the increase in the value of securities trading in the stock market and low interest rate condition.

Table 5 : Volume and Value of Interbank Out-Clearing Cheque in the Bangkok Metropolitan Areas Operated via ECS

	Volume (items)			**Value** (million baht)		
	2002	**2003**	**Δ%**	**2002**	**2003**	**Δ%**
Out - Clearing Cheques	58,139,077	62,020,051	6.7	16,986,865.27	19,915,500.59	17.2
Out - Clearing Cheques amount per item				0.29	0.32	10.3
Returned Cheques	1,395,460 (2.4)	1,479,846 (2.4)	6.0	138,978.13 (0.8)	161,478.78 (0.8)	16.2
Returned Cheques with insufficient fund	872,836 (1.5)	927,198 (1.5)	6.2	71,868.05 (0.4)	83,474.57 (0.4)	16.1

Notes : *The values in parentheses are proportion to total out-clearing cheques.*
Δ% represents percentage change from the same period last year.

Total number of returned cheques in Bangkok Metropolitan and its vicinity in 2003 were 1.5 million items and valued B161.48 billion. The volume and value of returned cheques increased from 2002 by 6.0 and 16.2 percent, respectively, consistent with an increase of out-clearing cheques. However, the proportion of returned cheques volume and value to out-clearing cheques remained at the same level of 2002 at 2.4 and 0.8 percent, respectively.

The number of returned cheques for the reasons of; 1 “Insufficient funds” ; 2 “Refer to drawer” ; 3. “No arrangement with the bank” totalled 0.93 million items, valued B83.47 billion, increased from 2002 by 6.2 and 16.1 percent, respectively. The proportion of returned cheques volume and value to out-clearing cheques in 2003 were 1.5 percent and 0.4 percent, equivalent to that of 2002. Referring to the statistics mentioned before, it can be summarized that the increase in the volume and value of out-clearing cheques and those of the returned cheques

resulted from the expansion of Thai economy. Even though the volume and value of returned cheques had increased, the proportion of returned cheques volume and value to out-clearing cheques stayed at the same level as of last year.

3.2 Intra Provincial Cheque Clearing

Total volume and value of interbank cheques cleared outside Bangkok metropolitan areas in 2003 were 19.86 million items and B1.9 trillion, respectively. The volume decreased by 3.6 percent while the value increased by 6.0 percent. The launching of Bill for Collection (B/C - 3D) system in Bangkok which allows banks in Bangkok metropolitan areas to collect cheques from paying banks located in all provinces nationwide instead of collecting cheques via Intra Provincial Cheque Clearing system was one of the reasons.

For returned cheques, total volume was 0.55 million items with the value of B39.56 billion, decreased by 11.7 and 5.5 percent from the previous year, respectively. The proportion of returned cheques volume and value to total out-clearing cheques were 2.8 and 2.1 percent, respectively.

Table 6 : Volume and Value of Interbank Cheque Clearing in the Provincial Cheque Clearing House

	Volume (items)			**Value** (million baht)		
	2002	**2003**	**Δ%**	**2002**	**2003**	**Δ%**
Out - Clearing Cheques	20,594,920	19,857,933	-3.6	1,813,550.66	1,922,887.30	6.0
Returned Cheques	621,786	548,912	-11.7	41,856.15	39,561.69	-5.5
	(3.0)	(2.8)		(2.3)	(2.1)	
Returned Cheques with insufficient fund	364,873	335,569	-8.0	19,622.46	18,852.83	-3.9
	(1.8)	(1.7)		(1.1)	(1.0)	

Notes : *The values in parentheses are proportion to total out-clearing cheques.*
Δ% represents percentage change from the same period last year.

The returned cheques, of which the reason was insufficient funds, was 0.34 million items with the value of B18.85 billion, decreased by 8.0 and 3.9 percent from the previous year, respectively. The proportion of returned cheques, of which the reason was insufficient funds, volume and value to total out-clearing cheques were 1.7 and 1.0 percent, respectively.

The total value of the settlement of out-clearing cheques at 85 cheque clearinghouses operated by the Electronic Clearing House was of B291.57 billion throughout the year, increased by 14.7 percent from the previous year.

3.3 Inter Provincial Cheque Clearing

In 2003, the inter-provincial cheques exchanged at the Electronic Clearing House

totalled 2.69 million items with the value of B111.02 billion, increased from 2002 by 603.9 and 585.6 percent, respectively. A rapid growth resulted from the launching of Bill for Collection (B/C - 3D) system on 14 February 2003, which improved the B/C-6D system by allowing bank branches in Bangkok metropolitan areas to collect cheques from paying bank branches which located in central region within three working days. This made member banks to send cheques through the B/C-3D system instead of the clearinghouse of the paying banks' branch. Additionally, on 3 November 2003 the BOT enhanced the system to cover all paying banks' branches nationwide and closed the B/C - 6D system operated by ECH on 17 November 2003, which resulted in the sharp rise in the volume and value of the inter-provincial cheques in 2003.

Table 7 : Volume and Value of Bill for Collection (B/C) Operated via BOT

	Volume (items)			**Value** (million baht)		
	2002	**2003**	**Δ%**	**2002**	**2003**	**Δ%**
Out - Clearing Cheques	381,868	2,687,874	603.9	16,193.87	111,024.81	585.6
Returned Cheques	12,052	115,190	855.8	546.22	5,564.91	918.8
	(3.2)	(4.3)		(3.4)	(5.0)	
Returned Cheques with insufficient fund	n.a.	77,268	n.a.	n.a.	3,731.89	n.a.
		(2.9)			(3.4)	

Notes : *The values in parentheses are proportion to total out-clearing cheques.*
Δ% represents percentage change from the same period last year.

Total returned cheques was 115,190 items, with value of B5,564.91 million, increased by 855.8 and 918.8 percent, respectively, when compared to 2002. The proportion of volume and value of returned cheques to total out-clearing cheques were 4.3 and 5.0 percent, respectively.

Total returned cheques of which the reason was insufficient funds was 77,268 items with value of B3,731.98 million. The proportion of returned cheques, of which the reason was insufficient funds, volume and value to total out-clearing cheques were 2.9 and 3.4 percent, respectively.

C. Banker to the Government

1. Repository of Government and Government Agencies' Deposit Accounts

At the end of 2003, treasury's balance at the BOT was B28,396.9 million, a decline of B20,736.7 million or 42.2 percent compared to the previous year's end.

Balance in government agencies' and public organizations' accounts at the BOT, at the end of 2003, stood at B13,578.5 million, a decline of B2,246.8 million or 14.20 percent compared to the previous year's end.

2. Government and State Enterprise Securities Holding

As of end-2003, the BOT's holding of public sector securities amounted to B108.6 billion, of which 60 percent was in government bonds and 40 percent was in state-enterprise bonds. These public sector securities holding showed a slight decrease of B8.9 billion from previous year.

The BOT set out an additional obligation for its primary dealers for bond outright transaction to provide the market with two-way, firm price quotations in normal market conditions.

At end-2003, there were 9 primary dealers for bond outright transaction, compared with 10 in 2002.

D. Banker to Commercial Banks and Financial Institutions

1. Repository of Banks' Deposit Accounts

Balance in banks' accounts at the BOT, including head office, regional offices and provincial representatives, at the end of 2003, was B50,874.4 million, a decline of B3,414.5 million or 6.29 percent compared to the previous year's end. The total amount in 2003 consisted of deposits at the BOT head office B45,562.1 million, regional offices B2,229.6 million, and provincial representatives B3,082.7 million.

2. Repository of Financial Institutions' Deposit Accounts

Balance in other financial institutions' accounts at the BOT head office, at the end of 2003, was B1,293 million, up by B208.8 million or 19.26 percent compared to the previous year's end.

Also, at the end of 2003, balance in other accounts excluding accounts of the Government, government agencies, banks and other financial institutions totalled B119,439.8 million, a decline of B81,301.2 million or 40.50 percent compared to the previous year's end.

3. Securities Position Adjustment Facility

The BOT introduced a securities position adjustment window through which its primary dealers for bond outright trading can obtain specific bond issues to deliver to their counterparties whilst sourcing from the market. The facility was announced to all primary dealers on 15 December 2003 and was effective on 15 January 2004.

4. Issuance of Bank of Thailand Bonds

During the February and November 2003 period, the BOT issued its short-term paper on a weekly basis. The maturity varied from 1-month, 6-month to 12-month while the majority was the 12-month tenor. Its outstanding at year-end was B180 billion.

5. Repurchase Market Operations

Transaction volume in the BOT-repurchase market amounted to B17.63 trillion in 2003, a rise of 29 percent from 2002. Transactions concentrated on the 1-day and 14-day tenors. The average composition of transactions by tenor was 53.2 percent in 1-day, 6 percent in 7-day, 40.3

percent in 14-day and 0.5 percent in 1-month tenor. The BOT continued to be a net borrower in the market.

The Monetary Policy Committee reduced the policy rate once on 27 June 2003 from 1.75 percent to 1.25 percent.

6. Bilateral Repo with Primary Dealers

The BOT has started to conduct bilateral repo transactions with its designated primary dealers on a weekly basis since 21 March 2003 in order to supplement the use of the BOT-repo in injecting and absorbing liquidity. In addition, the BOT has developed an e-bilateral repo system in order to improve the efficiency of its operations. The electronic dealing system has been in use since 2 September 2003 along side with the Delivery versus Payment (DVP) settlement system on BAHTNET. The new haircut and variation margin schedules were set up and vary according to remaining time to maturity of the bond collaterals.

7. End-of-Day Liquidity Window

There was no activity through the end-of-day liquidity window in 2003. The interest rate charged for the facility stood at 2.75 percent at year-end.

8. Training Programme for Market Participants

The BOT set up two major training programmes in 2003 emphasizing fixed income instruments and portfolio management in order to educate market players, institutional and retail investors and relevant government officers. The Thai and English programmes took place in August and November, respectively. There were 250 participants in the programmes.

9. The BOT's Financial Assistance to Priority Economic Sectors

In 2003, the BOT provided financial assistance to priority economic sectors, i.e., manufacturing, agriculture, and others through financial institutions totalling B109,206.5 million, which was B33,971.1 million or 45.2 percent more than that of the previous year. The total credit outstanding by the end of 2003 was at B33,673 million, increased by B14,842.8 million or 78.8 percent from end of 2002. The summary is as follows:

9.1 Export Sector

The export credit facilities which the BOT provided through the Export-Import Bank of Thailand (EXIM Bank) had been terminated since the end of 2002.

9.2 Industrial Sector

In 2003, the BOT provided credit to the industrial sector through commercial banks, Small and Medium Enterprise Development Bank of Thailand (SME Bank), the EXIM Bank, and the Industrial Finance Corporation of Thailand (IFCT) in the form of short-term loan and purchasing P/N issued by those entrepreneurs. The amount of loan and P/N purchased totalled B100,777 million, increased by B51,132.7 million or 103.0 percent from 2002.

By the end of 2003, the outstanding loan was at B27,172.8 million, increased by 9,731.5 million or 55.8 percent from 2002.

Table 8 : The BOT's Financial Assistance to Priority Economic Sectors
(Unit : Million baht)

Priority Economic Sectors	2002		2003		Change (+ increase, - decrease)	
	Accumulative Value	Outstanding at year-end	Accumulative Value	Outstanding at year-end	Accumulative Value	Outstanding at year-end
	(1)	(2)	(3)	(4)	(3) - (1)	(4) - (2)
1. Exports	**18,007.7**	**56.5**	**0.0**	**0.0**	**-18,007.7**	**-56.5**
1.1 Credits through EXIM Bank	17,785.9	56.5	_	_	-17,785.9	-56.5
1.2 Long-term credits to rice exports	221.8	_	_	_	-221.8	_
2. Industrial	**49,644.3**	**17,441.3**	**100,777.0**	**27,172.8**	**51,132.7**	**9,731.5**
2.1 Credits through commercial banks	48,244.3	6,344.6	99,366.0	18,581.8	51,121.7	12,237.2
2.2 Credits through IFCT	1,150.0	10,465.6	1,400.0	8,254.4	250.0	-2,211.2
2.3 Credits through EXIM Bank	250.0	631.1	11.0	336.6	-239.0	-294.5
3. Agriculture	**7,583.4**	**1,332.4**	**1,729.5**	**0.0**	**-5,853.9**	**-1,332.4**
3.1 Credits through commercial banks	7,583.4	1,332.4	1,729.5	_	-5,853.9	-1,332.4
3.2 Credits through BAAC	_	_	_	_	_	_
4. Others	**0.0**	**0.0**	**6,700.0**	**6,500.2**	**6,700.0**	**6,500.2**
Total	**75,235.4**	**18,830.2**	**109,206.5**	**33,673.0**	**33,971.1**	**14,842.8**

9.3 Agricultural and Other Sectors

In 2003, the BOT provided agricultural credit through commercial bank totalling B1,729.5 million, decreased by B5,853.9 million or 77.2 percent from 2002. However, credit line provided to the Bank for Agriculture and Agricultural Cooperatives (BAAC) amounting B3,000 million, has not been disbursed since the BAAC has sufficient liquidity. Therefore outstanding agricultural credit from the BOT to BAAC by the end of 2003 was nil.

In addition, there are four more credit facilities namely the rural development project, the rehabilitation of real estate business project, credit to private academic institutes project, and credit to housing project. In 2003, only the housing project was disbursed, which totalled B6,700 million. The outstanding by the end of 2003 was at B6,500.2 million.

Acting as Agent of the Government

A. Exchange Control

1. Amendment on Exchange Control Regulations and Procedures

Amendments on exchange control regulations and procedures in 2003 are as follows:

1.1 The Competent Officer's Circular FOG(05) 1/2546 dated 18 April 2003 regarding amendment on repayment of foreign loan by allowing government units to purchase, exchange or withdraw foreign currencies to repay foreign loan without submitting supporting documents.

1.2 Notice of the Competent Officer on principles and procedures regarding the currency exchange (No. 11) dated 22 July 2003 relaxing the rule on holding foreign currency deposits by extending the obligations becoming due in 3 months to 6 months including the obligation of the subsidiaries.

1.3 The Competent Officer's Circular FOG (05) 1694/2546 dated 22 July 2003 regarding investment in securities abroad by permitting 6 institutional investors i.e. (1) Life Insurance companies, (2) Government Pension Fund, (3) Social Security Fund, (4) Mutual Funds (excluding private funds), (5) Provident Funds, and (6) Specialized Financial Institutions to invest in foreign debt securities issued by juridical persons in Thailand and non-residents with specified conditions.

1.4 The Competent Officer's Circular FOG(05) 3/2546 dated 22 July 2003 regarding resale of foreign currency debt securities to institutional investors in Thailand by revising the rule on financial institutions' resale of foreign debt securities to institutional investors.

1.5 Notice of the Competent Officer on principles and procedures regarding the currency exchange (No. 12) dated 1 October 2003 supporting Islamic Bank of Thailand's foreign exchange license.

1.6 Notice of the Competent Officer on principles and procedures regarding the currency exchange (No. 13) dated 3 December 2003 facilitating financial institutions in Thailand to engage in baht transactions with banks in Vietnam and neighbouring countries.

2. Inspection of Proceeds from Exports.

In 2003, the payment value of exports according to the F.T.1 form increased 7.7

Table 9 : Exports Value and the Receipt of Proceeds from Exports
(Unit : Million US$)

	2002	2003P
1. Payment value of exports according to F.T.1 form1/	51,463	55,436
Δ%	5.5	7.7
2. Foreign currency received from exports : exchanged into Thai baht, deposited into foreign currency deposit accounts and repaid foreign debts2/	52,664	58,333
Δ%	10.6	10.8

Notes : 1/ *Only exports value in excess of US$20,000 or equivalent.*
2/ *Only foreign currency received from exports in excess of US$20,000 or equivalent.*
P = *Preliminary*
Δ% *represents percentage change from the same period last year.*

percent from the previous year to US$55,436 million. The total foreign currency received from exports and exchanged into Thai baht, deposited into foreign currency deposit accounts or used for repayment of foreign debts increased 10.8 percent to US$58,333 million, which is equivalent to 105.2 percent of the total export value during the same payment period.

B. Foreign Exchange Transactions and Net FX Positions of Authorized Agents, IBFs, Authorized Moneychangers, Money Transfer Agencies, and Exchange Currency Service Offices

1. Authorized Agents

1.1. Number of Authorized Agents

At end-2003, the number of authorized agents was 34 financial institutions. This was an increase of 1 agent from last year, Islamic Bank of Thailand. The authorized agents comprised of 12 commercial banks registered in Thailand, 18 foreign bank branches, the Export-Import Bank of Thailand, Islamic Bank of Thailand, the Industrial Finance Corporation of Thailand, and Asia Credit Finance Plc.

1.2 Volume of Transactions

In 2003, the purchase of foreign currencies from customers totalled US$358,577.1 million, an increase of 26.3 percent from last year, whereas the sale totalled US$360,100.1 million, an increase of 25.6 percent. Net sale exceeded purchase of US$1,523 million, a decrease of 43.4 percent from last year.

Table 10 : Foreign Exchange Purchase and Sale of Authorized Agents
(Unit : Million US$)

	2002	2003	Δ%
Purchase	**283,908.3**	**358,577.1**	**+26.3**
Export	40,628.0	48,115.6	+18.4
Other	243,280.3	310,461.5	+27.6
Sale	**286,598.2**	**360,100.1**	**+25.6**
Import	38,695.1	48,310.7	+24.8
Other	247,903.1	311,789.4	+25.8
Net Purchase and Sale	**(2,689.9)**	**(1,523.0)**	**-43.4**
Foreign Trade	1,932.9	(195.1)	-110.1
Other	(4,622.8)	(1,327.9)	-71.3

Notes : *Figures in parentheses indicate the amount of sale greater than purchase.*
Δ% represents percentage change from the same period last year.
Source : *Daily Report of Spot and Forward Exchange Transaction and Position (F.T.30)*

1.3 Foreign Exchange Positions

At end-2003, authorized agents held a long position of US$814.3 million in the net foreign exchange position, an increase of 71.0 percent from last year. Spot position was at long US$12,745.2 million, an increase of 22.5 percent from last year. Total asset increased by 11.2 percent, but total liabilities decreased by 8.0 percent from last year. Forward position, on the other hand, was at short of US$11,930.9 million, an increase of 20.2 percent from last year. Outstanding forward purchase increased by 8.8 percent from last year and outstanding forward sale increased by 11.3 percent from last year.

Table 11 : Foreign Exchange Position of Authorized Agents at end - 2003
(Unit : Million US$)

	End 2002 (+ Long, – Short)	End 2003 (+ Long, – Short)	Δ%
1. Spot Position	**+10,403.2**	**+12,745.2**	**+22.5**
Assets	16,531.2	18,384.2	+11.2
Liabilities	6,128.0	5,639.0	-8.0
2. Forward Position	**-9,926.9**	**-11,930.9**	**+20.2**
Bought	35,715.0	38,869.1	+8.8
Sold	45,641.9	50,800.0	+11.3
3. Net Position (1+2)	**+476.3**	**+814.3**	**+71.0**

Note : *Δ% represents percentage change from the same period last year.*
Source : *Daily Report of Spot and Forward Exchange Transaction and Position (F.T.30)*

2. International Banking Facilities (IBFs)

At end-2003, there were a total of 29 operating IBFs, a reduction of 2 banks from last year. Two banks which ceased their operation were Credit Lyonnais and I N G Bank N.V. The total number of operating Thai BIBFs was 9 banks, foreign bank branches' IBFs 15 banks and foreign BIBFs 5 banks. While the number of Provincial International Banking Facilities (PIBFs) also remained unchanged, from last year, at 7 banks nationwide.

Table 12 : Net Lendings of IBFs
(Unit : Million US$)

	2002			2003		
	Out - In	Out - Out	Total	Out - In	Out - Out	Total
Thai IBFs						
Lending	3,478.9	381.9	3,860.8	831.1	169.1	1,000.2
Receipt of repayments	3,681.4	259.0	3,940.4	929.7	234.9	1,164.6
Net	-202.5	122.9	-79.6	-98.6	-65.8	-164.4
Foreign Bank Branches IBFs						
Lending	69,890.8	869.8	70,760.6	75,717.0	897.8	76,614.8
Receipt of repayments	70,743.7	925.6	71,669.3	76,530.0	969.3	77,499.3
Net	-852.9	-55.8	-908.7	-813.0	-71.5	-884.5
Foreign IBFs[1/]						
Lending	1,422.8	36.3	1,459.1	791.1	33.6	824.7
Receipt of repayments	1,975.7	68.8	2,044.5	910.1	33.9	944.0
Net	-552.9	-32.5	-585.4	-119.0	-0.3	-119.3
Total						
Lending	74,792.5	1,288.0	76,080.5	77,339.2	1,100.5	78,439.7
Receipt of repayments	76,400.8	1,253.4	77,654.2	78,369.8	1,238.1	79,607.9
Net	-1,608.3	34.6	-1,573.7	-1,030.6	-137.6	-1,168.2

Note : 1/ *IBFs of foreign financial institutions without branches in Thailand*
Source : *Monthly Report of Transactions & Position of Foreign Currencies of Bangkok International Banking Facilities (FT. 100)*

In 2003, IBFs' lending figure showed the net repayments receipt of US$1,168.2 million, attributable partly to customers' preference shift towards baht borrowings from commercial banks, as last year. Outstanding foreign currency lending accordingly declined by 16.4 percent from the previous year to the total of US$5,240.2 million. Of this amount, US$4,519 million was attributable to Out-In lending and the remaining amount of US$721.2 million was Out-Out lending, about 73 percent of the lending was denominated in US dollar and about 24 percent in yen. For the value of market share, lending of foreign bank branches' IBFs gained the largest market share (70.2 percent), followed by Thai IBFs (20.4 percent) and Foreign IBFs (9.4 percent).

Table 13 : Lending Outstanding of IBFs
(Unit : Million US$)

	End – 2002	End – 2003	Δ%
1. Out – In	5,419.9	4,519.0	-16.6
2. Out - Out	844.8	721.2	-14.6
Total	**6,264.7**	**5,240.2**	**-16.4**

Note : *Δ% represents percentage change from the same period last year.*
Source : *Monthly Report of Transactions & Position of Foreign Currencies of Bangkok International Banking Facilities (F.T.100)*

Outstanding foreign currency loans and deposits, which were the source of lending, declined from the previous year to US$4,221.4 million and US$3.7 million.

3. Authorized Moneychanger, Authorized Company, Money Transfer Agency and Exchange Currency Service Office

3.1 Foreign Exchange

At end-2003, there were 280 authorized moneychangers (156 offices in Bangkok and 124 offices in the provincial areas), 4 money transfer agencies, and 365 exchange currency service offices (160 Bangkok offices and 205 provincial offices).

Table 14 : Transaction Volume of Foreign Exchange through Authorized Moneychangers, Authorized Company, Money Transfer Agencies and Exchange Currency Service Office at end-December 2003

Type	No.	Change from the Previous Year	Purchase/ Remittance Volume		Sale/ Remittance Volume	
			Million US$	Δ%	Million US$	Δ%
Authorized Moneychanger	280	14	150.43	-5.97	150.34	5.88
Authorized Company	-	-	-	-	-	-
Money Transfer Agency	4	-	49.39	26.67	4.38	15.09
Exchange Currency Service Office	365	-8	2,017.75	8.75	191.38	1.08

Note : *Δ% represents percentage change from the same period last year.*

3.2 Authorized Moneychanger / Agency Examination

In 2003, 85 authorized moneychangers and 4 money transfer agencies were examined. Of this number, 15 authorized moneychangers and 2 money transfer agencies failed to follow BOT's notifications, and have been informed to comply accordingly.

3.3 Measures for Unauthorized Foreign Exchange Services

During 2003, the BOT collaborated with the police officers to support their investigation of unauthorized foreign exchange services and provided information and support to the Financial Crime Group set up by the Ministry of Finance. Representatives from the BOT also participated as authorized officers under the Emergency Decree on Loan Amounting to Public Cheating and Fraud, B.E. 2527.

C. Public Debt Management

1. Debt Management

1.1 Government Bonds and Bills

Government Bonds

In 2003, 10 issues of MOF bonds were issued with total value of B107,500 million. These included 3 issues of ordinary bonds and 7 issues of Re-open bonds.

At the end of 2003, the outstanding value of 70 issues totalled B1,107,281.7 million.

Treasury Bills

In 2003, 117 issues of T-bills totalling B348,990 million were auctioned. There were 114 issues redeemed with total value of B375,990 million.

At the end of 2003, the outstanding value of 36 issues totalled B107,000 million.

Debt Restructuring Bills

In 2003, 4 issues of Debt Restructuring Bills totalling B20,000 million were auctioned. There was no redemption this year.

At the end of 2003, the outstanding value of 4 issues totalled B20,000 million.

1.2 State Enterprise Bonds

At the end of 2003, the BOT was a registrar and payment agent for 463 issues of state enterprise bonds totalling B642,765.8 million. These included 19 issues totalling B19,445 million issued this year.

In 2003, 187 issues were redeemed with total value of B300,333.6 million.

At the end of 2003, the outstanding value of 276 issues totalled B342,432.2 million, comprising

Table 15 : Outstanding of State Enterprise Bonds at end-2003
(Unit : Million baht)

State Enterprise Bonds	Number of issues	Outstanding Value
1. The Bangkok Mass Transit Authority Bonds	7	9,967.9
2. The National Housing Authority Bonds	11	15,500.0
3. The Expressway and Rapid Transit Authority Bonds	59	70,497.5
4. The Metropolitan Waterworks Authority Bonds	7	8,808.8
5. The Provincial Waterworks Authority Bonds	8	7,700.0
6. The Petroleum Authority of Thailand Bonds	53	59,730.0
7. The Metropolitan Electricity Authority Bonds	7	6,700.0
8. The Electricity Generating Authority of Thailand Bonds	51	70,452.9
9. The Provincial Electricity Authority Bonds	6	6,980.0
10. The State Railway of Thailand Bonds	31	28,945.1
11. The Mass Rapid Transit Authority of Thailand Bonds	15	16,150.0
12. The Government Housing Bank Bonds	21	41,000.0
Total	**276**	**342,432.2**

1.3 Bank of Thailand Bonds (BOT Bonds)

In 2003, 51 issues of BOT bonds totalling B219,470 million were auctioned. There were 8 issues redeemed with total value of B39,470 million.

At the end of 2003, the outstanding value of 43 issues totalled B180,000 million.

1.4 Financial Institution Development Fund Bonds (FIDF Bonds)

In 2003, 27 issues of FIDF bonds totalling B425,000 million were auctioned. There were 14 issues redeemed with total value of B252,000 million.

At the end of 2003, the outstanding value of 30 issues totalled B487,000 million.

1.5 The Property Loan Management Organization Bonds (PLMO Bonds)

In 2003, there was no PLMO bond issued and redeemed.

At the end of 2003, the outstanding value of 1 issue totalled B337.3 million.

1.6 The Industrial Finance Corporation of Thailand Bonds (IFCT Bonds)

The BOT did not act as a registrar and payment agent during 2003. Moreover there was no IFCT bond redeemed this year.

At the end of 2003, the outstanding value of 5 issues totalled B4,800 million.

1.7 The Bangchak Petroleum Plc. Bonds (BCP Bonds)

The BOT did not act as a registrar and payment agent during 2003. There was 1 issue redeemed with total value of B3,600 million.

At the end of 2003, the outstanding value of 1 issue totalled B3,000 million.

2. Redemption of Government Bonds

In 2003, the BOT conducted the redemptions of 3 issues of government bonds totalling B90,000 million. There was 1 issue partially redeemed with the total value of B25,075 million. The principal payment totalling B18.9 million was conducted for 3 issues of special projects issued in foreign currency and obliged to make the installments.

3. Redemption of State Enterprise Bonds

In 2003, there were redemptions of 20 issues totalling B31,482.12 million.

4. Interest Payment

In 2003, there were 354,045 transactions of coupon payment valued at B96,760.54 million.

Table 16 : Interest Payment

Bonds	Number of Interest Payments	Number of Transactions	Payment Value (Million baht)
1. Government Bonds	102	337,846	69,118.27
2. State Enterprise Bonds	552	14,091	23,846.38
3. FIDF Bonds	8	1,241	3,171.27
4. IFCT Bonds	11	708	470.50
5. BCP Bonds	2	159	154.12
Total	**675**	**354,045**	**96,760.54**

5. Auction of Debt Instruments

In 2003, the BOT developed the electronic bidding system or “e-Bidding system” in order to replace the existing paper-based system. Under the e-Bidding system, relevant information is electronically submitted through the BOT’s Electronic Financial Services (EFS). The e-Bidding system is intended to enhance effectiveness, flexibility, convenience and rapidity, reduce documents and serve as a communication channel between bidders and the BOT. In addition, it supports the development of the domestic debt instrument market. Since 22 December 2003, debt instruments that have been processed under the e-Bidding system include government bonds, treasury bills, debt restructuring bills, and BOT bonds.

D. Financial Institutions Supervision Policies

1. Policies on Financial Institutions

1.1 Expanding the Scope of Banks' Business

1.1.1 The BOT has permitted commercial banks to use the following instruments for risk management purposes: (1) Forward Bond (2) Bond Options (3) Equity Index Linked Swap. In any event, commercial banks must have in place an effective risk management system and observe the BOT's capital adequacy and large exposure requirements.

1.1.2 Commercial banks may engage in deposit or lending activities, where principal and interest payments are linked to certain reference variables or embedded derivatives. Reference variables may include domestic and foreign stock indices, domestic and foreign interest rates, and exchange rates. These linked activities may include deposits or lending where principal and interest payments are made in the form of debt securities and those with the right to redeem before maturity. Banks must have in place an effective risk management system and observe the BOT's capital adequacy and large exposure requirements.

1.1.3 Commercial banks may engage in Credit Default Swaps (CDS) transactions, and they have to observe the BOT's capital adequacy and large exposure requirements.

1.1.4 Commercial banks may expand their client base in the Credit Linked Notes (CLN) activities to include a larger number of eligible counterparties, and these credit linked activities may also take the form of Credit Linked Deposits (CLD). Rules governing these activities have also been modified in line with the relaxation of Exchange Control Regulation.

1.1.5 Finance companies and credit foncier companies may provide back office or support services to their parent companies, subsidiaries and affiliates that conduct financial business or to such companies that provide support services only to companies within the conglomerate.

1.1.6 Commercial banks' foreign exchange offices may extend their services to include debt repayment, deposit taking for existing accounts, pass book update via automatic machine and international money transfers.

1.1.7 Finance companies may establish credit extension offices in Bangkok's surrounding provinces. Deadline for application is no longer imposed. Also, no restriction is imposed on the number of applications or the locations of the offices.

1.1.8 Commercial banks may appoint Thailand Post Co. Ltd., or a joint venture company between the commercial bank and Thailand Post Co. Ltd., as an agent to provide basic banking services:

(1) Deposit taking and withdrawal on existing accounts

(2) Funds transfer to third-party accounts

(3) Document delivery between the bank and its clients

The agent may not, however, open new deposit accounts or make loans.

1.1.9 Commercial banks may expand the securities borrowing and lending businesses and short selling to include equity securities in these transactions. However, lending of securities to non-residents is prohibited.

1.1.10 Commercial banks may let their immovable properties to interested parties. Requirement on the lease tenure is no longer imposed, and adjustment is made to the reporting period to the BOT.

1.1.11 Commercial banks with the "Interest-Free Unit" are required to change the name of this unit to "Shariah Banking Services".

1.1.12 Finance companies may engage in the business of distributing advertisement leaflets of insurance companies to their customers.

1.1.13 Finance companies may engage in the business of introducing the services of securities company to their customers.

1.1.14 Finance companies may engage in the business of investment advisory services.

1.1.15 Finance companies may provide escrow account services.

1.1.16 Finance companies may purchase loans and assets of the 56 closed finance companies from the official receivers.

1.1.17 The size of finance companies is no longer a pre-requisite for authorization to engage in arranging, underwriting, and trading of debt securities. Instead, the focus is placed on the institutions' risk management, corporate governance and financial soundness.

1.2 Supervision of Financial Institutions

1.2.1 Revision of regulations on asset classification and provisioning

The BOT has revised the regulation on asset classification and provisioning (as per the Notification of the Bank of Thailand Re: Worthless or Irrecoverable Assets or Doubtful Assets that may be Worthless or Irrecoverable of Financial Institutions) by amending the method of recognizing losses as a result of debt restructuring and booking of debtors classified as doubtful of loss.

1.2.2 Revision of the valuation methodology for securities investments of financial institutions

The BOT has revised the valuation methodology on securities investments of financial institutions to determine whether or not the investment has exceeded the prescribed ratio. The revision can be summarized as follows:

(1) Modify the methodology used to assess the value of security investments to conform to the Thai Accounting Standards.

(2) Incorporate the revised valuation methodology as part of the single lending limit calculation.

1.2.3 Revision of large exposure regulation

The BOT has revised the Notification of the Bank of Thailand Re: Revision of Supervision of Large Exposure, which can be summarized as follows:

(1) Revise the calculation methodology for foreign exchange contracts and interest rate contracts.

(2) Revise the large exposure regime to include Credit Linked Notes and Credit Default Swaps transactions.

(3) Increase items to be excluded from the large exposure calculation.

(4) Increase flexibility in the application of large exposure regulation.

The BOT has issued a guideline to permit commercial banks on a case-by-case basis and subject to prescribed criteria, to extend credits, invest or make commitment to a group of companies exceeding the single lending limit requirement.

1.2.4 Relaxation of holding shares in a company exceeding the legal limit

The BOT has permitted commercial banks to hold shares in a company exceeding the legal limit if the BOT considers these investments beneficial to the financial system.

1.2.5 Extension of loans to certified sea prawn entrepreneurs and farmers

The BOT has informed commercial banks of the Cabinet Resolution dated 30 September 2003 that they are able to extend loans to sea prawn entrepreneurs and farmers who are certified as conforming to Good Aquaculture Practice (GAP) and Code of Conduct (CoC) by the Department of Fisheries.

1.2.6 Extension of mortgage loans

To encourage financial institutions to take precaution in extending home loans, the BOT has revised the guideline on these activities. For a property of B10 million or greater, financial institutions shall not extend loans exceeding 70 percent of the actual purchased price of the mortgaged property. In the case of housing projects, financial institutions shall only extend loans to the project developers if they are in compliance with the respective laws and regulations.

1.2.7 Submission of quarterly reports on real estate loans

To closely monitor the real estate sector, the BOT requires financial institutions to submit quarterly reports on approved real estate loans with credit lines of B100 million or greater.

1.2.8 Clarification on the notification relating to the credit cards business

The BOT has further clarified the qualifications of cardholders as follows: in renewing credit cards for the existing cardholders with income of less than B15,000 per month, commercial banks may take into account other factors, such as cardholders' saving deposits in other commercial banks and repayment history, in determining the creditworthiness of these cardholders.

1.2.9 Revision of the loan review guideline

To reduce the burden and to encourage financial institutions to utilize their loan-reviewing processes, the BOT has revised the loan review guideline by permitting commercial banks to randomly select borrowers with B20 million debt outstanding or credit lines of equal amount for a loan review. The same rule applies to those borrowers of the same category, characteristics and loan objectives. In any event, the sampling methodology used must be statistically reliable. Also, risk management on the loan portfolio must be established.

1.2.10 Market Risk Supervision Policy

To ensure that financial institutions (FIs) have in place an effective risk management system and adequate capital for market risks, the BOT has issued a Market Risk Supervision Policy to all commercial banks (excluding BIBFs) and finance companies on 30 December 2003, which can be summarized as follows:

(1) The policy covers interest rate and equity price risks in the trading book as well as exchange rates and commodity price risks in all books. The guideline can be divided into eight major topics as follows:

A. Assessment of the volume of trading book transactions

B. Internal control for market risk management

C. Trading book policy

D. Capital requirement against market risk

E. Market risk assessment using standardised approach

F. Market risk assessment using internal model approach

G. Market risk assessment using a combined approach

H. Compilation of data and submission of related reports

(2) Financial institutions shall observe the following requirements:

A. Those with a trading book volume equal or greater than the significant level established by the BOT shall observe the requirements prescribed in (1)A - (1)H, or

B. Those with a trading book volume less than the significant level established by the BOT shall observe the requirements prescribed in (1)A - (1)C, and make the risk assessment of commodity component of market risks for capital requirement purposes in accordance with the rules prescribed in (1)D - (1)H.

(3) Transition period for implementation:

A. Financial institutions shall comply with the prudential guidelines on internal control for market risk management and trading book policy from April 2004 onwards.

B. They shall make the assessment of the volume of trading book transactions starting from the period ending in July 2004 and submit related reports.

C. They shall assess the required capital charge against market risk starting from the period ending March 2005 and submit related reports.

D. They shall maintain capital funds against market risks starting from the period ending June 2005.

1.2.11 Revision of regulation on the maintenance of liquid assets

(1) The BOT's approved list of government agencies or state enterprises whose bonds, debentures or debt instruments can be counted as liquid assets has been expanded to include the SME Bank.

(2) The valuation method of securities as liquid assets has been revised to conform to the Thai Accounting Standard No. 40 Re: Accounting for Investment in Debt and Equity Instruments.

(3) The revision has also been made to include deposit or borrowing with return linked to variables as the base against which liquid assets must be maintained.

1.2.12 Revision of regulation on net foreign exchange position

The BOT has revised the policy statement on maintenance of net foreign exchange open positions and relevant reports to allow greater flexibility in foreign exchange risk management by the overseas branches of locally registered commercial banks. Financial institutions having the capacity as required by the BOT may use the present value method in computing foreign exchange forward positions without having to seek prior approval from the BOT.

1.2.13 Clarification has been made by the BOT on certain rules and provisions regarding the credit card business which need to be observed by commercial banks and non-bank credit card issuers. These include issues relating to (1) fee on loan collection, (2) penalty fee for insufficient fund, (3) fee on returned cheque, (4) conditions on credit card renewal, and (5) details on the credit card statement.

1.2.14 Revision of guidelines on reporting requirements of financial institutions

(1) The summary balance sheet

First revision : Definition of NPL is revised to exclude the NPL amount that is subject to the Financial Institutions Development Fund (FIDF)'s yield maintenance and gain/loss sharing agreement (Covered Asset Pool). This excluded amount however, must be disclosed separately in the notes section. In addition, two more items are required to be disclosed, namely: (1) provisioning as required by the BOT on a quarterly basis and (2) loan loss provisioning on a monthly basis. The revision applies to the data reporting as of the period ending March 2003.

Second revision : (A) the heading of the statement has been renamed to "The summary statement of assets and liabilities", (B) the reporting period has also been revised from "last working day of the reporting period" to "last date of the month", (C) the definition of "required provisioning" has been revised to include additional provisioning as required by the BOT, and (D) references used for items in previous report forms are adjusted to conform to those defined in the new Data Management System (DMS). The revision took effect as of the data period ending December 2003.

(2) Reporting of additional provisioning as required by the BOT: Financial institutions are required to include the additional provisioning in the minimum provisioning as required by the BOT. The additional provisioning shall also be reported under the classified provisioning item.

1.2.15 Revision has been made to the capital requirement regulation for branches of foreign banks, Re: Additional categories of assets eligible to be include as assets under Section 6 of the Commercial Banking Act. Revaluation of these assets has to be made every six months. Definition of net debit balance of inter-office accounts has been extended to cover the transactions with parent and subsidiary companies. Explicit timeframe has also been established requiring the head offices to transfer the funds to their branches to continuously maintain the value of assets prescribed under Section 6.

1.2.16 In cases where AMCs' debt rehabilitation plan deviates from the method prescribed by the BOT, AMCs may submit the debt rehabilitation framework for the BOT's approval without having to propose a debt rehabilitation plan for each specific case. The BOT has further established procedures and accounting practices concerning the purchase or transfer of non-performing loans. The format of AMC's financial statement has also been prescribed.

1.2.17 Modification has been made to the computation methodology of regional lending which is one of the conditions imposed on banks opening provincial branches. Irrespective of where the loans are approved, commercial banks may include loans disbursed from the provincial branches to customers residing within that region as part of their required regional lending.

1.2.18 New regulation related to capital adequacy ratio has been made with respect to the revaluation of equity investments in available-for-sale portfolio, treasury stocks, investment in tier2 capital instruments and Credit Linked Notes (CLN). Furthermore, the regulation also prescribed the computation methods for risk-weighted assets and credit conversion factors for CLN and Credit Default Swaps (CDS) transactions.

1.2.19 AMCs are required to submit reports using the format and notes to the report as prescribed by the BOT.

1.2.20 Financial institutions may book TAMC's promissory notes issued for the purchase of non-performing loans as investments.

1.2.21 The BOT has prohibited financial institutions to pay out dividend from unrealized profits, or profits from non-genuine sales of assets.

1.2.22 Revision has been made to the regulation which limits bank directors assuming directorships in other companies. Directors and senior executives of commercial banks may not assume the position of chairman, executive director, or director with full signatory authority exceeding three business groups instead of three companies as previously prescribed. This is to provide due flexibility and stay in line with current business practices whereby businesses are managed and supervised as groups, rather than as individual companies.

1.2.23 New guidelines on commercial banks services, fees and disclosure have been issued to enhance greater transparency and protect consumers. Commercial banks must undertake the followings:

(1) Provide at least one copy of the contract or agreement to customers.

(2) Notify customers of any change in the contract or agreement, services, fees, or related conditions at least 30 days before the change comes into effect.

(3) Inform individual customers by a registered mail on an outstanding balance of their current and saving accounts, which have been inactive for more than one year and have not been charged with the maintenance fees.

(4) Inform individual customers within 10 days from the date that their account has been charged a maintenance fee.

(5) Establish guidelines and procedures to handle customers' complaints on banks' fees.

(6) Post updated information as required by the BOT at every bank premise.

1.2.24 Clarification has been made with financial institutions and AMCs on the assessment of the fair value of loan originally purchased as an investment but reclassified as loan on their books. Furthermore, clarification on the assessment of the fair value of investments and recognition of gain or loss on the profit and loss statement has been made.

1.2.25 Preparation on the groundwork for the implementation of the New Basel Capital Accord has been conducted. The BOT has closely collaborated with financial institutions to ensure that they would be ready to implement the New Accord by participating in the BIS's Quantitative Impact Survey 3 (QIS3) and projecting their capital adequacy for the year 2006 under the New Accord guideline. The BOT also commented on the New Accord's third Consultative Papers by setting up a working group comprising representatives from financial institutions, and organized the seminar on the New Accord for senior management of financial institutions and the BOT.

1.2.26 Preparation on the groundwork for the implementation of the consolidated supervision framework has been made by educating financial institutions and relevant parties on the concept and methodology, establishing the framework on information sharing mechanisms among regulators as well as regulation on capital adequacy and risk management.

1.2.27 Submission of required reports by financial institutions

- Rescind past report formats

- Require financial institutions to submit 25 new reports in the form of data set

- Reporting via electronic media considered complete when data pass the BOT's basic validation process

1.2.28 Progress on the Financial Institutions Business Bill

Parliament has reviewed the Financial Institutions Business Bill, which was drafted to replace the current Commercial Banking Act B.E.2505 and the Act on the Undertaking of Finance Business, Securities Business and Credit Foncier Business B.E. 2522. Since the Senate and the Lower House did not reach a consensus, the government has established a Joint Committee between the Senate and the Lower House to make a revision to the Bill. However, the Bill revised

by the Joint Committee was not approved by the Senate (9 September 2002) but approved by the Lower House (23 September 2002).

As a result, the Constitution requires the Lower House to wait at least 180 days (from 9 September 2002 to 9 March 2003) before they can reconsider and pass one of the two versions of the law: (1) the original Bill that was passed by the Lower House or (2) the revised version drafted by the Joint Committee. However, the Financial Institutions Business Bill may only come into effect 6 months after the Bill was passed into a law.

Currently, the Ministry of Finance has set up a committee consisting of representatives from the BOT and MOF to review both versions of the Bill and propose the recommendation to the Minister of Finance. Once approved by the Minister, the selected version will be resubmitted to the Lower House for consideration.

2. Enhancement of Supervisory Framework

2.1 Promoting Risk Management Practices

2.1.1 Guideline on IT outsourcing practices

The BOT has circulated a guideline for financial institutions to use as a minimum requirement on IT outsourcing to ensure the continuity and reliability of the services as if they were undertaken by the financial institutions themselves. The guideline will enhance the efficiency and credibility of the financial institutions in providing these services to their customers.

2.1.2 Guideline on Electronic Financial Services Security Framework

The BOT has issued a Guideline on Electronic Financial Services Security Framework, which aims to provide financial institutions with a practical framework to formulate and implement their security policies and procedures. Financial institutions are expected to provide highly secured and reliable electronic financial services to their customers, thus enhancing consumers' confidence in financial services rendered to them electronically.

2.1.3 Sound Practices for the Management and Supervision of Operational Risk issued by the Basel Committee on Banking Supervision was circulated to financial institutions as a guideline to enhance their operational risk management systems.

2.2 Subcommittee on Improvement of Corporate Governance of Commercial Banks, Finance Companies, and Insurance Companies

As designated by the National Corporate Governance Committee chaired by the Prime Minister, the sub-committee chaired by the BOT's Governor appointed seven working groups to prepare for the assessment under the IMF's ROSCs programs (Report on the Observance of Standards and Codes) of various modules: Data Dissemination, Fiscal Transparency, Monetary and Financial Policy Transparency, Banking Supervision, Insurance Supervision, Payment Systems, and Anti-money Laundering and Combating the Financing Terrorism.

2.3 Financial Sector Master Plan

The process of formulating the Financial Sector Master Plan was divided into 3 stages:

Stage 1: Problem identification and vision setting (January - April 2002). The BOT organized a seminar and had received numerous useful comments regarding financial sector problems and possible approaches to further developing the financial sector. A Financial Master Plan Committee had been established to set the vision and give guidance to a BOT's working group in drafting the master plan.

Stage 2: Problem analysis (May 2002 - January 2003). The BOT commissioned a research study on household and business sectors' demand for financial services that provided useful input to the drafting of policy recommendations in the Master Plan.

Stage 3: Drafting of policy proposals (January - June 2003). The BOT drafted strategies and action plan to develop the financial sector and submitted to the Committee. Then the plan was forwarded to the Ministry of Finance (MOF) in June 2003. The Minister of Finance has since given his consent to the plan, which was finally approved by the Cabinet in January 2004.

Based on the financial sector vision as set by the Committee and a number of research studies, the BOT proposes the following policy measures:

(1) Measures to broaden general access to financial services by promoting grass-root financial services

(2) Measures to increase efficiency of the financial sector by

(2.1) Rationalizing the structure and roles of financial institutions to better meet customer demand by restructuring the Thai and foreign-owned financial institutions, promoting One Presence policy, where each financial conglomerate has only one type of deposit-taking institution, and providing incentives for lending to retail customers and SMEs.

(2.2) Streamlining rules and regulations to promote financial sector efficiency.

(3) Measures to protect consumers by establishing a clear procedure for handling customer complaints, information disclosure in line with international standards that can be easily understood and compared by consumers, and an introduction of a deposit insurance scheme within an appropriate timeframe.

Implementation of the Plan will proceed as follows: the MOF issues the notification detailing terms and conditions as well as procedures for the application of the new banking license. Then, financial institutions requesting for a change of status or applying for the one presence status may submit their applications and plans to the BOT. Meanwhile, implementation of measures related to the streamlining of rules and regulations and consumer protection has started earlier and is an ongoing process.

E. Financial Institutions Supervision

1. Financial Institutions Supervision Policy

The BOT has the responsibility to supervise, monitor, identify problems in any individual financial institution or financial system, and to ensure that such problems are appropriately corrected. Risk-based Supervision is used as the guideline to provide continuous supervision. The BOT conducts on-site examinations as well as closely monitors and analyses conditions

and performance of financial institutions to be able to provide prompt corrective actions when there is a sign indicating potential problems in any financial institutions.

The BOT's examination policy is to conduct at least once a year the on-site examination on Thai commercial banks, foreign bank branches, finance/finance and securities companies, credit foncier companies, and specialized financial institutions.[1] Except for branches of foreign banks that have overall composite rating of 1 or 2, the on-site examination will be conducted once every other year.

2. Financial Institutions Examination

2.1 Examination Scope

The examination of commercial banks, finance/finance and securities companies, and credit foncier companies is to assess their financial conditions, performance and their risk management by emphasizing on the risk level and risk management's quality in five areas; Strategic Risk, Credit Risk, Market Risk, Liquidity Risk, and Operational Risk. The impact of such risks on their financial conditions and performance must be assessed and estimated. Simultaneously, the examination on capital adequacy, compliance with legal and the BOT's regulation, and public complaints are also conducted.

Specialized financial institutions examination, delegated from the Ministry of Finance, focuses on assessing financial conditions, performance and risk management while the examination of Asset Management Companies emphasizes on management of non-performing assets.

2.2 Examination Results in 2003

The examination results indicated that most of financial institutions' composite ratings were satisfactory. In case of financial institutions with ratings lower than satisfactory, the BOT has ordered the financial institutions to improve their financial conditions within the time limit and report the result of correction to the BOT. For example the BOT has ordered financial institutions to increase their capital and reserve for non-performing assets. The BOT also has had the financial institutions' management concentrate more on improving the risk management system.

Loan growth increased and many financial institutions were still putting much effort in solving the non-performing loan. Most of the financial institutions were profitable in 2003 while few of them were still experiencing losses from the loan loss provisioning reserve. However, all financial institutions' capital adequacy ratios were above the minimum legal requirements. In the mean time, asset management companies reduced non-performing loan by debt restructuring.

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1 *Specialized financial institutions consist of the Bank for Agriculture and Agricultural Cooperatives, the Export-Import Bank of Thailand, the Government Savings Bank, the Government Housing Bank, the Small and Medium Enterprise Development Bank of Thailand, the Islamic Bank of Thailand, the Industrial Finance Corporation of Thailand, the Secondary Mortgage Corporation, the Small Industry Credit Guarantee Corporation, the Asset Management Corporation, the Thai Asset Management Corporation, the Asset Management Companies owned by the Financial Institutions Development Fund and the Private Asset Management Companies.*

Table 17 : The Number of Financial Institutions Examined by the BOT in 2003	
Financial Institutions	**Number of Financial Institutions Examinations**
Domestic Commercial Banks	11
Foreign Bank Branches	9
Finance/Finance and Securities Companies	16
Credit Foncier Companies	5
Specialized Financial Institutions	20
Total	**61**

2.3 Other Examinations

The BOT performs some other on-site examinations, for example, the Information System Examination, and Market Risk and Credit Risk Model Validation Examination.

3. Financial Institutions Monitoring and Analysis

Similar to on-site examination, the off-site monitoring and analysis analyses financial conditions, performances, capital adequacy, and risk management. The analysis reports are created quarterly for Thai financial institutions and semi-annually for foreign bank branches, International Banking Facilities (IBFs) and specialized financial institutions. The BOT closely monitors the weak financial institutions' conditions and performances, enforces the corrective actions and reports to the Ministry of Finance semi-annually.

4. Financial Institutions Application

The BOT supervises financial institutions through approving, waiving, and responding to questions raised by the financial institutions. The BOT also follows up the financial institutions' compliance with the approved conditions, notifications and circulation letters of the Ministry of Finance or the BOT's. In addition, the BOT determines fines to the financial institutions that fail to comply with some regulations.

5. Financial Institutions Corrective Action

In 2003, the BOT underwent the rectification of the financial institutions. The BOT had ordered one commercial bank to increase its capital in order to support provision for doubtful debts and the redemption of subordinate debentures. By the third quarter of this year, such bank had already raised its capital and reserves.

Besides, the BOT had proposed to the Minister of Finance to close down Thanapat Credit Foncier Company on 4 August 2003 after the BOT had taken over the control of the company due to the insufficient capital as regulatory requirements and inability to raise new capital with the result of a continuing deterioration in financial conditions and increasing of non-performing loans. Presently, the company is in the process of liquidation.

6. Supervision Efficiency Enhancement

Several activities were conducted in 2003 to enhance the efficiency of supervision functions as follows:

6.1 Examiners Development

The School for Examiners, established in 1999, provides training for examiners to have sufficient knowledge and readiness to perform supervisory tasks in the standardized practices. The BOT consistently updates the courses of study to correspond to international standards.

In addition, the BOT examiners and managements also participated in a number of overseas trainings and seminars. Several in-house seminars, lectures and workshops on new knowledge were also held to broaden the examiners' skills and knowledge in order to improve work process and match the international standards. The guest speakers, both domestic professionals and international technical assistants from other countries' regulatory agencies, were invited to those training programmes.

6.2 Supervision Development Regarding International Standard

The BOT consistently updates the examination manuals for examiners and will publicize them as guidelines of sound risk management practices to financial institutions. The BOT updates the supervision operating manuals corresponding to international supervision standards. The BOT has enhanced the examiners' knowledge on the Basel Committee's new capital accord, which will be implemented in 2006. Furthermore, the Risk Rating Review Committee was put in place to ensure the standard of all financial institutions' examinations.

6.3 Development on the Data Management System of Financial Institutions

The BOT has initiated the Data Management System to improve the efficiency in every step of managing those financial institutions' information so that all information received will be in best quality and consequently enable full utilization upon effective supervision and examination. In addition, the BOT has also developed a program called "Information Technology Risk Profile" to follow up and assess risk relating information technology as well.

BOT's participation in International Organizations

A. Association of Southeast Asian Nations — ASEAN

In line with the ASEAN Vision 2020 as agreed upon by ASEAN Leaders, the BOT, as Chair of the Working Committee on Capital Account Liberalization under the ASEAN Finance Ministers' Work Process, proposed the Roadmap for Integration of ASEAN on Capital Account Liberalization. The Roadmap was endorsed by Finance Ministers and Leaders at the ASEAN Finance Ministers Meeting and the ASEAN Summit, which were held in August and October 2003, respectively.

Under the **ASEAN +3 Finance Ministers Process**, central bank and finance ministry officials from ASEAN countries as well as China, Japan, and Korea, worked together to realize the Asian Bond Market Initiative to develop bond markets in the region. Six Working Groups have been set up to focus on development of the supply side and infrastructure for development of a well-functioning regional bond market.

In 2003, the following ASEAN Central Bank activities were held:

1. ASEAN Central Bank Governors' Meeting (ACGM): The BOT hosted the 2nd ASEAN Central Bank Governors' Meeting in Bangkok on 9 June 2003. The Meeting discussed the

recent economic and financial developments and issues in the ASEAN economies. The meeting focused on economic developments in ASEAN Member Countries, as well as discussed ways for Central Banks to share their deliberations with Ministers in the ASEAN Finance Ministers Process.

2. ASEAN Central Bank Forum (ACBF): Deputy Governor (Monetary Stability) attended the 11th ACBF on 4 August 2003 in Manila, Philippines. The Meeting discussed economic and financial developments in ASEAN economies, and shared views on regional capital market development and capital account liberalization (chaired by the BOT).

B. Bank for International Settlements — BIS

As a shareholder of 3000 shares in the Bank for International Settlements, the BOT received dividend payments at the rate of 380 SFr. The BOT participates not only in the Annual General Meetings, but also in the Bi-monthly Governors' meetings, which provide a venue for Governors to address present concerns and issues of importance about global economic and financial developments. In November 2003, the BOT hosted the BIS Bi-monthly Governors' Meeting in Bangkok.

The BIS's Asian Consultative Council, comprising member shareholders in the Asia-Pacific region, allows Governors of central banks in the region to discuss issues of concern. In addition, the BIS organizes a number of events yearly for central banks on specific issues, such as this year's Working Party on Monetary Policy held in Kuala Lumpur, Malaysia.

In its capacity as banker for central banks, the BIS acts as prime counterparty to the BOT in financial transactions, providing a range of banking services to assist in management of foreign exchange and gold reserves. In addition, this year, the BIS was chosen by EMEAP economies to act as the Fund Manager for the Asian Bond Fund.

C. The Executives' Meeting of East Asia-Pacific Central Banks — EMEAP

In June 2003, 11 EMEAP members launched the Asian Bond Fund (ABF). The ABF, with an initial size of US$1 billion, invested in Asian sovereign and quasi-sovereign bonds of EMEAP economies denominated in US dollars. The BOT contributed US$120 million to the ABF.

In 2003, the following EMEAP activities were held:

1. EMEAP Governors' Meeting: The BOT hosted the EMEAP Governors' Meeting in Bangkok on 7 June 2003. The Meeting discussed the recent economic and financial developments and issues in the EMEAP economies. In particular, the topics of discussion centred on member economies' experience in financial sector reform.

2. EMEAP Deputy Governors' Meeting: Deputy Governor (Monetary Stability) attended the EMEAP Deputies' Meeting on 9 December 2003 in Singapore. The Meeting discussed the economic and financial developments in the EMEAP economies as well as explored the way to establish another Asian Bond Fund to invest in bonds denominated in regional currencies.

3. EMEAP Working Groups: the following meetings were held:

(1) Working Group on Banking Supervision - 1 Meeting in September;

(2) Working Group on Payment and Settlement Systems - 1 Meeting in September;

(3) Working Group on Financial Markets - 4 Meetings in March, June, September, and December; and

(4) IT Directors' Meeting - 1 Meeting in March

D. International Monetary Fund — IMF

In 2003, two meetings of the International Monetary and Financial Committee (IMFC), which is the policy-making body of the IMF, were held: The IMFC Spring Meeting was held on 12 April 2003 in Washington, D.C. The Annual Meetings, which included the IMFC Fall Meeting, hosted by the United Arab Emirates, were held on 21 September 2003 in Dubai. The IMFC deliberated issues pertaining to the IMF such as strengthening surveillance and the use of collective action clauses in international sovereign bonds.

Furthermore, a special Focus Group was set up to enhance the profile and effectiveness of the Southeast Asian Voting Group. The Group met twice in 2003 in Indonesia: on 26 February 2003 in Bali and on 11 August 2003 in Jakarta. The meetings discussed ways to increase effectiveness of the Southeast Asian Voting Group.

Concerning relations with Thailand, on 31 July 2003, Thailand has made the final prepayment of her outstanding liabilities to the IMF and other bilateral creditors. The IMF Resident Representative Office in Thailand was closed on 15 September 2003 after six years of operation.

The IMF continues to monitor and assess the Thai economy as part of the annual Article IV Consultations.

E. South-East Asian Central Banks — SEACEN

Bangko Sentral ng Pilipinas hosted the 38th SEACEN Governor's Conference and the 22nd Meeting of SEACEN Board of Governors during 13-14 February 2003. The theme of the Conference was "Structural Change and Growth Prospects in Asia - Challenges to Central Banking". The Governors had an extensive exchange of views on recent economic and monetary developments and the outlook of each participating country and the region as a whole. At the 22nd Meeting of the SEACEN Board of Governors, the Board of Governors considered the application of the Ministry of Finance, Brunei Darussalam, which performs, among others, the function of a monetary authority, as a new member of SEACEN. The Board of Governors unanimously agreed to admit the Ministry of Finance, Brunei Darussalam, as the twelfth member of SEACEN. As for the work of the SEACEN Centre, the Board of Governors approved a total of 20 programmes in operating year 2003.

Corporate Debt Restructuring

Over 2003, a large number of debtors successfully negotiated debt restructurings with financial institutions. However, most debtors were small- and medium-sized companies and there were some large debtors that previously restructured their debts re-entered into NPL status as well as new NPLs. This resulted in a less-than-targeted reduction of NPLs. The proportion of NPLs to credits in the system reduced from 15.67 percent at the end of December 2002 to 15.13 percent at the end of September 2003.

According to the joint resolution for strategic debt restructuring by Thai commercial banks on 27 November 2002, **Group 1** debtors (debtors that had already been restructured and were in

the process of debt repayment) were reduced significantly. However, the credits outstanding for **Group 2** debtors (debtors that were still in the restructuring process with financial institutions) increased. At the end of December 2003, the restructuring of debtors in **Group 3** (debtors in the legal process), **Group 4** (debtors in the legal execution process) and walk-in debtors, for which the BOT served as mediator/facilitator, achieved 70 percent of those who entered into the CDRAC debt restructuring process.

However, the limitations in the debt restructuring of debtors in the legal process and debtors in the legal execution process were that fewer than targeted debtors and creditors voluntarily entered into the process. Therefore, in order to expedite the debt restructuring in 2005, the BOT and CDRAC are expected to revise and modify the strategies and measures for debt restructuring.

1. Strategies for Resolving NPLs in 2003

In a joint meeting between the BOT and the top executives of the 13 Thai commercial banks on 27 November 2002, the following points were established by CDRAC to expedite the resolution of NPLs in 2003 :

(1) Debtors that have already signed the debt restructuring agreement or are in the process of signing the agreement are to be re-classified as a performing loan. Financial institutions are committed to expedite the re-classification of these debtors as performing loans within four months.

(2) For debtors undergoing restructuring, financial institutions are committed to expediting the debt restructuring process to be completed within one year. New NPLs and re-entry NPLs are also to be resolved within one year of entering into NPL status.

(3) For debtors in the court process and debtors that have received a notice from creditors, financial institutions may submit the list of cases for which they would like the BOT's Corporate Debt Restructuring Group (CDG) to serve as mediator/facilitator. The BOT will facilitate for up to three times in order to expedite the debt restructuring outside of court.

(4) For debtors in the legal execution process, apart from the Legal Execution Department is currently amending civil laws pertaining to the legal execution process in order to expedite the process, the framework for negotiation is also established, i.e., the financial institutions may submit the list of cases for which they would like the CDG to serve as mediator/facilitator. The CDG will facilitate for up to two times in order to expedite the debt restructuring outside of court.

In addition to specifying the procedures and timeframe for negotiation, and serving as the mediator in 2003, CDG also coordinated with various agencies to expedite debt restructuring. For cases in the legal process, CDG coordinated with various courts such as the Office of the Court of Justice, the Civil Courts Region 1-9, Financial Dispute Resolution Office, Legal Execution Office and the Central Bankruptcy Court.

Furthermore, CDG also sent high level executives to work with other relevant support agencies such as the SMEs & P Financial Advisory Center and the Subcommittee on the National Non-Performance Loan Policy to the Prime Minister, including coordinating with the Ministry of Industry regarding the industry restructuring of the long steel products industry of Thailand.

CDG also coordinated with officials at relevant government agencies to extend the

benefits for debt restructuring for one more year to the end of 2004.

In disseminating information, CDG continued to organize seminars and information sessions as well as publishing three new hand-outs, namely “Negotiation of Cases in the Legal Process”, “Negotiation of Cases in the Legal Execution Process” as well as the 2002 Annual Report.

2. Results of the Resolution of NPLs in 2003

The initial execution of the above strategies resulted in the reduction of NPLs from B766,876 million or 15.67 percent of total credits outstanding in December 2002 to B750,341 million or 15.13 percent of total credits outstanding in September 2003. The debts can be categorized as follows:

(1) Debts that were successfully restructured and in the process of repayment as at September 2003 amounted to B35,802 million, reflecting a decrease of B14,575 million from the end of December 2002, when the amount was B50,377 million.

(2) Debts that were in the negotiation process as at September 2003 amounted to B315,050 million, reflecting an increase from the end of December 2002, when the amount was B287,881 million.

(3) Debts in the legal process and the legal execution process as at September 2003 amounted to B399,489 million, reflecting a decrease from the end of December 2002, when the amount was B428,388 million.

3. Successes in Debt Restructuring over 2003

Between January and September 2003, financial institutions successfully restructured 58,562 cases with credits outstanding of B235,321 million. Compared to the same period in the previous year, this reflects an increase of 3,344 cases with credits outstanding of B17,290 million, or 6 percent of the number of cases and 8 percent of the amount of credits outstanding, respectively. Most of the successfully restructured cases were in the personal consumption sector as these debtors tend to have only a single creditor and small amount of credits outstanding.

The debt restructuring of CDRAC’s Target Debtors in 2003 were supported as follows :

(1) Financial creditors indicated their willingness to participate in CDRAC’s debt restructuring process with 2,225 debtors, credits outstanding of B18,718 million, in the legal process and 942 debtors, credits outstanding of B4,958 million, in the legal execution process.

(2) A total of 570 debtors, in the legal process with credits outstanding of B3,023 million, requested to enter into the process and were approved by their respective financial creditors.

(3) A total of 11 multi-creditor debtors with credits outstanding of B11,895 million entered into the ICA-DCA process.

The progress of CDRAC’s Target Debtors is as follows :

(1) From April 2003 up to November 2003, a total of 494 Group 3 debtors (in the legal process), credits outstanding of B5,330 million, willingly entered into the process. Of the 494 debtors, 441 debtors with credits outstanding of B3,449 million already commenced negotiations.

Of the 441 debtors, 217 debtors with credits outstanding of B1,525 million, or 89.27 percent of the total number of debtors that entered into the process or 64.72 percent of the total amount of credits outstanding of the debtors that entered into the process, were successfully restructured.

(2) From August 2003 up to November 2003, a total of 112 Group 4 debtors (in the legal execution process), credits outstanding of B484 million, willingly entered into the process. Of the 112 debtors, 80 debtors with credits outstanding of B382 million already commenced negotiations. Of the 80 debtors, 24 debtors with credits outstanding of B149 million, or 21.43 percent of the total number of debtors that entered into the process or 30.81 percent of the total amount of credits outstanding of the debtors that entered into the process, were successfully restructured.

(3) A total of 652 walk-in debtors, credits outstanding of B3,648 million entered into the process. Of these, 566 debtors with credits outstanding of B3,218 million already commenced negotiations. Of the 566 debtors, 283 debtors with credits outstanding of B1,074 million, or 43.40 percent of the total number of debtors that entered into the process or 29.44 percent of the total amount of credits outstanding of the debtors that entered into the process, were successfully restructured.

(4) A total of five ICA-DCA debtors with credits outstanding of B2,178 million were successfully restructured.

The most significant obstacle in the restructuring process on the creditor's side was that the representatives did not have the authority to make decision. On the debtor's side, the main obstacle was that debtors did not have the ability or potentiality to repay. Financial creditors also proposed fewer number of debtors into the process than expected. There was no timeframe for BOT to serve as mediator for Group 2 debtors, with only one creditor, the progress was slow. Furthermore, the slow progress in changing in the legal execution processes, including the delay in payment receipt, also contributed to the delays in resolving NPL problems.

4. Strategy for Resolving NPLs in 2004 - 2005

On 26 November 2003, the BOT together with top executives of Thai commercial banks reached the following resolutions for the future strategy for resolving NPLs :

(1) Categorization of debtors for resolving NPLs

Group 1 Debtors that have been successfully restructured and in the process of repayment

Thai commercial banks jointly agree to expedite debtors to perform according to the debt restructuring agreement. Thai commercial banks will report the successfully restructured loans that have become performing to the BOT at the end of every month. Thai commercial banks agree with the BOT's new reserve for possible loan loss policies that will further expedite the debt restructuring of debtors that have not been able to repay the debt or have not begun negotiations or have not been taken legal action by creditors.

Group 2 Debtors that are in the process of debt restructuring

Thai commercial banks jointly agree to expedite debt restructuring (to be completed by 2006) and will report the successfully restructured cases to the BOT at the end of every month. Thai commercial banks agree with the BOT's new reserve for possible loan loss policies

that will further expedite the debt restructuring of debtors that have not been able to reach a resolution or have not begun negotiations or have not been taken legal action by creditors.

Group 3 Debtors that are in the legal process

Financial creditors will propose additional debtors in this group to enter into the process.

Group 4 Debtors that are in the legal execution process

Financial creditors will propose additional debtors in this group to enter into the process.

(2) Measures to support debt restructuring in 2004

In addition to enhancing the supervision of financial institutions and expediting the resolution of debtors in Group 1 and Group 2 by the BOT, authorities are also considering to extend tax and land transfer-fee benefits for another year, (the Cabinet has already approved this). A change in the law will allow Asset Management Corporation (AMC) to buy NPAs from financial institutions. The Civil and Bankruptcy laws will also be amended to support debt restructuring efforts.

Information Technology Development

Since 2002, the BOT has deployed a program management methodology that focuses on aligning IT-related projects with BOT strategic directions. All projects have been closely supervised and guided by Computer Steering Sub-Committees, which report directly to the Computer Steering Committee. In 2003, the BOT completed 14 out of 40 IT strategic projects in 7 programs. The overall budget for all 40 projects is approximately B1,130 million. Projects that take longer than a year will be carried over to 2004. A brief outline of each strategic program and its highlighted projects is summarized below:

Program 1: Enterprise Knowledge Portal

This program aims to provide a single portal that will centralize common infrastructure and repository to acquire, store, disseminate, and share data, information as well as knowledge across business users and external stakeholders. This program covers both statistical data for supervision and policy-making, and corporate data for internal decision-making. It also enhances delivery channels for regulatory reporting to reduce manual interaction between financial institutions and the BOT.

The most significant project in this program is the Data Management System (DMS), which aims to serve as the single point to acquire, store, and disseminate information mainly to support supervision and policy-formulation activities. The project has been divided into 3 phases. The first phase, Financial Institution Data Set portion has gone live in October 2003. The remaining two phases, Financial Market and Economic Data Set portions are expected to be operational in April and July 2004, respectively.

The Enterprise Knowledge Portal Strategy project helps streamline knowledge management inside the BOT and summarizes what, where, how and from whom to obtain the knowledge. The initial outline of this project consists of 8 sub-projects starting from a pilot project called

"Lessons Learned" essentially to collect experiences and thinking methods from high-level executives. These are to be transferred and used as educational references and knowledge base.

Program 2: Financial Market Excellence

This program focuses on developing the Dealing Room System (DRS) that supports the operations of the front-, middle- and back-offices in a full "straight-through processing" manner and enhance overall risk management and benchmarking capabilities. The primary development has been completed and operational in February 2003. The secondary development phase covering the local open market operation is ongoing and expected to be operational in 2005.

Program 3: Payment Excellence

This program aims to establish national payment and cash management strategies, and to develop an appropriate payment and cash management infrastructure to support the BOT as a service provider, regulator, and facilitator of the payment industry.

The core project in this program is the "BAHTNET Phase 2" that aims to improve the efficiency of the BAHTNET system after being in production for some period of time. Under this project, an improved Intra-day Liquidity Facility (ILF) system has been developed and operational in July 2003.

The Improving Efficiency of Cheque Clearing system is the project to improve efficiency of cheque clearing system in Bangkok Metropolitan area and upcountry by reducing the cheque travelling time and speeding up the clearinghouses' collection time across districts from 6 to 3 working days (B/C - 3D). The system has been in complete operation since November 2003.

The Banknote Management System project is the management for complete lifecycle of the BOT banknote logistics starting from the transportation of banknotes from the Note Printing Works to cash centres, banknote verification, and examination through banknote destruction. The system will help the BOT plan and analyse banknote data more efficiently and precisely. This project will be in operation around second quarter of 2004.

Program 4 & 5: Financial Excellence and Human Resource Excellence

These programs aim to improve the efficiency of the BOT's financial system, administrative operations, human resource management and banknote production by implementing integrated enterprise resource planning (ERP) software packages. The ERP system has been operational since October 2003. The system is now being modified to support operational work even better. At present, the system has been evaluated and the obtained result will be used to plan for the ERP Enhancement project. The SAP system has also been customized to support the Monetary Reserve Accounting system and business transactions of Banknote Management Group.

Program 6 & 7: IT Transformation & Performance Support Excellence

These programs promote internal use of information technology and improve IT services and infrastructure to enable efficiency and enhance overall performance of the BOT employees.

During the past year, the BOT has implemented the Enterprise Systems Management to facilitate the operation management, network management, systems management and service desk management etc., and to enhance efficiency and security in the use of IT in the BOT. The

Corporate Portal has also been deployed to the benefit of many aspects of the BOT and its employees including facilitating communication, sharing information, collaboration and being an infrastructure for electronic document management. Moreover, the BOT has implemented VDO Conference and BOT Webcast for communication and collaboration between the BOT employees and external parties including the BOT branch offices.

On IT governance issue, the BOT is implementing the Quality Management system to improve and develop IT internal processes, policies, and expectation so that the processes and procedures are clearly defined and standardized using templates, quality control procedures, risk management, pertinent rules and regulation and code of practices. Some of these have been widely adopted such as program and project management, business case and prioritization processes, capability development, service desk and service provision management. Service Level Agreement has also been established to outline the terms and basis under which IT services will be delivered to business users and how the IT service performance levels are to be measured.

Bank of Thailand Regional Offices

A. Northern Region Office

As a central bank in northern Thailand, Northern Region Office undertakes four key functions, as follows: (1) cash management, (2) banking business facility, (3) financial institutions supervision, and (4) economic research. Functional performances in 2003 are summarized as follows:

1. Cash Management: Cash deposit, cash withdrawal, and banknote sorting increased from the previous year.

In 2003, cash deposit and cash withdrawal totalled B97,669.7 million and B86,911.5 million, increased from the previous year by 12.6 and 18.1 percent, respectively. Banknote sorting dropped by 1.5 percent to 233.1 million banknotes, with the ratio of good banknotes to total banknotes of 47.6 percent. Counterfeit banknotes, mostly at face value of B100, B1000, and B500, respectively, decreased in terms of both volume and value.

2. Banking Business Facility: Most activities improved over 2003.

2.1 Funds Deposit and Funds Withdrawal

In light of improving economic conditions in 2003, personal consumption increased and led to active funds deposit and funds withdrawal at Northern Region Office. Funds deposited to current accounts by commercial banks, provincial treasuries, government agencies, and others, increased from the previous year by 22.1 percent to B840,378.6 million, while funds withdrew from the current accounts grew at the same rate and totalled B840,197.4 million. At BOT's provincial representatives, commercial banks deposited and withdrew funds of B571,178.5 million and B571,406.3 million, respectively, increased from last year by the same rate of 11.5 percent. As for BOT's accounts at provincial treasuries, funds deposit and funds withdrawal were B299,222.4 million and B298,697.7 million, increased from the year earlier by 7.6 and 7.5 percent, respectively.

2.2 Funds Transfer

Between the Head Office and Northern Region Office/BOT provincial representatives, net funds transferred from Northern Region Office/BOT representatives to the Head Office totalled

B133,049 million, decreased from the previous year by 2.0 percent. Within northern region, funds transferred from BOT provincial representatives to Northern Region Office was over funds transferred vice versa by B120,727.4 million, increased from the previous year by 3.2 percent.

Funds transferred from Lampang Branch to Northern Region Office at Chiang Mai exceeded funds transferred in contrary direction by B3,264.6 million, decreased from the previous year by 26.8 percent.

2.3 Cheque Clearing

Volume and value of provincial cheques processed by clearinghouses in northern region were 4,751,997 issues, valued B354,210.7 million, increased from the previous year by 2.9 and 7.0 percent, respectively. Volume and value of returned cheques increased from last year by 0.1 and 1.7 percent to 82,269 issues and B4,162.8 million, respectively, and ratio of returned cheques to out-clearing cheques dropped to 1.7 percent by volume and to 1.2 percent by value.

2.4 Priority Economic Sectors Financial Assistance

Financial assistance credit lines of B3,347.8 million were provided, via financial institutions, to 423 businesses in the north. The outstanding of credit was totalled B1,365.8 million, decreased from the previous year by 5.6 percent, owing to borrowing loan from head office of some commercial banks.

2.5 Foreign Exchange Monitoring

Foreign currencies sold and purchased by 26 authorized moneychangers totalled US$17.3 million. The value of purchase at US$8.6 million and the value of sale at US$8.7 million, increased by 6.3 and 6.6 percent, respectively, as northern tourism activity improved.

2.6 Government Bonds Agent

In 2003 interest payment of Government Saving Bonds totalled B1,060.2 million were paid to 20,244 bondholders.

3. Financial Institutions Examination and Supervision : Financial monitoring and corporate debt restructuring were carried out concurrently.

Twenty-nine commercial bank offices and 6 specialized financial institutions were examined in 2003. The amount of corporate debt restructuring at end-December 2003 amounted to B41,802 million of 2,131 cases. Of this, 771 cases, valued B20,650 million, were completely restructured and 210 cases, valued B1,814 million, remained under the restructuring process.

4. Economic Research : Northern region economic conditions and recent economic issues were supplied to Monetary Policy Group and publicized on a continual basis, while current economic information contributing to development of northern region economy were disseminated to the public via various channels.

In 2003, the Economic Research Division monitored and analysed economic conditions of northern region and key regional economic issues on a continual basis for contributing to Monetary Policy Group's monthly macroeconomic meetings, for press release on a quarterly basis and for disseminating information to the northern public. In addition, field surveys and reports were undertaken in response to BOT's urgent needs, especially in the areas of monetary policy and

financial institution policy. Moreover, the Country Desk closely monitored and analysed economic conditions of Myanmar and Southern China. To promote economic knowledge to the public, two main seminars were held at Northern Region Office. The first was a seminar on "The Future Role of Financial Institute", providing knowledge on financial policy for investors and the public, which drew over 800 participants from northern private and public sectors. The second was an economic seminar among BOT, prominent entrepreneurs, and academics aiming to provide a stage for exchanging information and sharing knowledge among participants.

In 2003, there were 3 special project studies, namely "Economic Tourism in Chiang Mai Province", "Cross-Border Trade between Thailand and Myanmar" and "Cross-Border Trade Thailand and Southern China", which are in progress. In addition, the new projects about data management were e-Document and enterprise record and archive management.

B. Southern Region Office

As a central bank in southern Thailand, Southern Region Office undertakes four key functions, as follows: (1) cash management, (2) banking business facility, (3) financial institutions examination and supervision, and (4) economic research.

Functional performances in 2003 are summarized as follows:

1. Cash Management: Cash deposit, cash withdrawal, and banknote sorting increased from the previous year.

In 2003, cash deposit and cash withdrawal totalled B98,252 million and B119,176.2 million, increased from the previous year by 10.3 and 12.7 percent, respectively. Banknote sorting rose by 19.8 percent to 290 million, with the ratio of good banknotes to total banknotes of 45 percent. The three most found counterfeit banknotes were at face value of B100, B1000 and B500, respectively.

Dissemination of knowledge on banknotes was continually held during the year by many channels such as exhibition, lectures and document distribution.

2. Banking Business Facility: Most activities increased from previous year.

2.1 Funds Deposit and Funds Withdrawal

Funds deposited to current accounts by commercial banks, provincial treasuries, government agencies, and others, increased from the previous year by 2.5 percent to B720,974.2 million, while funds withdrew from the current accounts also grew by 2.5 percent, and totalled B721,117.4 million. At BOT's provincial representatives, commercial banks deposited and withdrew funds of B469,482.5 million and B469,348.5 million, respectively, both increased from the previous year by 16.4 percent. As for BOT's accounts at provincial treasuries, funds deposit and funds withdrawal were B251,982.1 million and B251,191.1 million, increased from last year by 14.9 and 14.8 percent, respectively.

2.2 Funds Transfer

Net funds transferred from Southern Region Office/BOT representatives to the Head Office totalled B53,188.4 million, decreased from the previous year by 5.2 percent. Within southern region, net funds transferred from BOT provincial representatives to Southern Region Office totalled B49,269.1 million, decreased from the previous year by 11.0 percent.

2.3 Cheque Clearing

In 2003, volume and value of provincial cheques processed by clearinghouses in southern region were 5,366,661 issues, valued B509,230.3 million, increased from the previous year by 3.2 and 11.6 percent, respectively. The ratios of returned cheques to out-clearing cheques dropped to 1.9 percent by volume and to 1.0 percent by value, comparing to 2.0 and 1.1 percent, respectively, last year.

2.4 Priority Economic Sectors Financial Assistance

In 2003, Southern Region Office provided financial assistance credit lines of B4,588.9 million, via financial institutions. The outstanding of credit totalled B818.1 million, increased from the previous year by 113.6 percent.

2.5 Foreign Exchange Monitoring

At end 2003, there were 94 authorized moneychangers. The purchase of foreign currencies from customers totalled US$23.1 million, and the sale totalled US$23.4 million, decreased by 14.2 and 12.8 percent from last year, respectively.

2.6 Government Bonds Agent

In 2003, the amount of interest payment of Government Bonds totalled B644.5 million were paid to 15,705 bondholders.

3. Financial Institutions Examination and Supervision : Financial monitoring and corporate debt restructuring were carried out concurrently.

In 2003, 16 commercial bank offices and 4 specialized financial institutions were examined. The new policy in debt restructuring was launched this year, and the amount of corporate debt restructuring at the end of December 2003 amounted to B1,116.7 million of 309 cases. Of this, 221 cases valued B820.1 million were completely restructured.

4. Economic Research : Southern economic performance and recent economic issues were supplied to Monetary Policy Group and publicized on a continual basis via press conference, seminars and other channels.

In 2003, the Economic Research Division monitored and analysed economic conditions of southern region and key regional economic issues on a continual basis for contributing to Monetary Policy Group's monthly macroeconomic meetings and for disseminating information to the southern public. In addition, critical field surveys and reports were undertaken in response to BOT's urgent needs. As for promoting economic knowledge to the public, two seminars were held at Songkhla and Surat Thani province. Economic seminars among the BOT, government officers and prominent entrepreneurs were also held, aiming to exchange information and to share knowledge among participants. Moreover, in 2003 Southern Region Office carried out 3 special project studies .

C. Northeastern Region Office

1. Cash Management

In 2003, cash deposit and cash withdrawal totalled B142,556.6 million and B110,803.3 million, increased from the previous year by 13.8 and 9.7 percent, respectively. The Northeastern

Region Office received B144,150 million and paid B112,397.2 million of exchanged banknotes, increased by 13.8 and 9.6 percent, respectively. The exchange of damaged banknotes totalled 94,766 banknotes, with the value of B7.7 million.

Counterfeit banknotes found totalled 834 banknotes, mostly at face value of B100 and B1000, respectively. Banknote sorting increased from the previous year by 5.1 percent to 455 million banknotes while the number of banknotes withdrawn and destroyed totalled 326.1 million banknotes, valued at B69,832.1 million.

2. Banking Business Facilities

2.1 Funds Deposit and Funds Withdrawal

Funds deposited to current account at the Northeastern Region Office totalled B1,001,663.4 million and a withdrawal of B1,001,733.1 million. At BOT's provincial representatives, funds deposited to current account totalled B778,684.6 million and a withdrawal of B778,867.3 million. As for BOT's accounts at provincial treasuries, funds deposit and funds withdrawal were B454,532.5 million and B453,684.1 million, respectively.

2.2 Funds Transfer

Funds transferred from the Northeastern Region Office /BOT's representatives to the Head Office totalled B208,917.9 million, while funds transferred from Head Office to the Northeastern Region Office/BOT's representatives totalled B380,462.7 million, increased by 20.3 and 82.4 percent from the previous year, respectively. The economic expansion in the northeastern region led to high budget disbursement for a large number of government projects, thus various banks needed more cash flow than the previous year.

2.3 Cheque Clearing

Volume and value of provincial cheques processed by clearinghouses in northeastern region were 4,577,100 issues, valued B411,296.9 million, increased from the previous year by 2.5 and 4.7 percent, respectively. Returned cheques with insufficient fund totalled 72,200 issues, valued B4,141.3 million, equivalent to 1.6 and 1.0 percent of volume and value of out-clearing cheques, respectively.

2.4 Priority Economic Sectors Financial Assistance

Financial assistance credit lines of B12,720.1 million were provided, via financial institutions. The repayment totalled B10,897.6 million, while outstanding of credit totalled B2,563.1 million, increased from the previous year by 198.4,134.1, and 246.1 percent, respectively. This was due to the decrease in interest rate that the BOT charged on commercial banks from 3 percent to 1 percent while commercial banks reduced the rate charged on entrepreneurs from MLR-1 to MLR-2.75.

2.5 Government Bonds Agent

Interest payment of government bonds totalled B15,226.6 million were paid to 7,440 bond holders.

2.6 Foreign Exchange Monitoring

The purchase of foreign currencies totalled US$294,931.

3. Financial Institutions Examination and Supervision

Twenty-two financial institutions were examined in 2003. The Northeastern Region Office succeeded in negotiating debt restructuring of 164 cases of debtors (1998-2002), totalled B2,792 million and 70 cases of new debtors (2003), the compromised amount of debt repayments totalled B426 million.

4. Economic Research

Survey, information collection and analysis were carried out to publish report on the economic and financial situation of the Northeastern region, which were issued monthly, quarterly and annually. There were information collection and participation in the macro-economic conference at the Head Office.

For the Country Desk project of LPDR Cambodia and Vietnam, the Northeastern Region Office followed up the economies of neighbouring countries by surveying trade situation between Thailand-LPDR, and Thailand-Cambodia; survey route 8 and 9 of Thailand-LPDR and Vietnam; studied ways to invest in LPDR and Vietnam.

There were 3 economic researches (1) Publish preliminary study report of fundamental data of jasmine rice (2) Survey and report on the study of “Baht Deposit of Non-resident People in the Northeastern Region” and (3) Survey and report on the study of Trading and “Payment Behaviour Along the Thailand-LPDR Border”.

Besides, the Northeastern Region Office arranged an academic seminar on the occasion of the 35th anniversary of the Office, press conference and thanks the media.

Risk Management

1. Operational Risk Management

1.1 The Control Self-Assessment (CSA)

In 2003, the BOT began the Control Self-Assessment (CSA) project under the COSO framework for seven groups-the Financial Markets Operations Group, the Financial Institutions Policy Group, the Funds Management Group, the Supervision Group, the Monetary Policy Group, the Northeastern Region Office (the Bank-Note Division only), and the Risk Management Group. The applied CSA framework broadly examines and evaluates internal control in each group from two perspectives, the General controls and the Process-specific controls.

The CSA process yields two sets of results. First, the process identifies and assesses inherent risks as well as the effectiveness of existing controls. Second, once key risk and control issues are addressed; action plans for improving the inappropriate control areas can be determined and implemented. Upon the completion of a group CSA, the Internal Audit Group verifies the reliability and accuracy of the assessment results and monitors the group’s implementation of the finalized CSA action plans.

1.2 Strategic Risk Management

The BOT introduced the strategic risk management concept throughout the organization in 2003. The principal objective of strategic risk management is to ensure that all the organization’s

strategic objectives/strategies are effectively achieved. This risk management approach requires a comprehensive review of risks and risk mitigation/control measures by heads of groups. If the risk issues are beyond the group's control or capacities, suggestions can be proposed to the BOT for consideration. The strategic risk action plans are typically prepared and submitted with the annual strategic and budgeting plans.

1.3 Contingency Plan in Case of Disasters

The bank-wide initiatives to put in place contingency and business continuity plans began in late 2001. In 2003, additional contingency plans for the Note Printing Works, the Provincial Deposits System, and several supporting functions were completed. Furthermore, the Executive Contingency Handbook was published and distributed to all top BOT executives and group directors as a reference for their required roles and responsibilities during catastrophic events.

The BOT concurrently started drafting the contingency plans for "priority" groups during the year. Contrary to the "critical" groups, whose contingency plans had previously been completed in the previous year, the "priority" groups are groups whose operations could suffer a period of temporary disruption or suspension without causing a severe adverse impact on the BOT and the Thai economy. By the end of 2003, contingency plans for most priority groups are either complete or in the approval process, while the remaining will be completed in the subsequent year.

2. Financial Risk Management

2.1 Risk Management of International Reserves Management

2.1.1 Benchmark Revision

In 2003, the approach for benchmarking was reviewed to incorporate forecasts of interest rate trends in major fixed-income markets resulting in the adoption of the strategic benchmark in place of the neutral benchmark formerly used. The BOT also constructed a neutral benchmark to evaluate the performance of the strategic benchmark. In order that benchmark construction is in line with the new benchmarking approach and with developments in optimization techniques, the BOT adapted the Black-Litterman model for use in constructing both the strategic and neutral benchmark.

2.1.2 Risk Management Framework and Investment Tools

To provide more systematic approach to the investment decision-making process in reserve management, in 2003, the BOT set a maximum tactical deviation about which managers can deviate from approved strategy allocations. Further, to clearly differentiate between tactical and strategic allocations, the BOT defined that investment strategies approved by the Investment Subcommittee must have a minimum deviation from the benchmark. The BOT also set limits on illiquid instruments based on a comparative evaluation of the expected return from holding illiquid assets against its associated costs. In addition, the BOT carried out risk-return analyses, evaluated risk factors, and established procedures for measuring and controlling the appropriate level of risk for financial instruments that the BOT may invest in such as inflation-linked bonds, interest rate swaps, and futures.

2.1.3 Risk Management Systems

Risk Management Group has purchased Risk Manager, a risk management

system, to replace its proprietary in-house models. It has further installed a system for quantitative analyses comprising of an optimization engine and the @RISK 4.5 program to assist in research and complex risk analyses.

2.1.4 Research and Analysis

The BOT has carried out research studies on the five following topics:

(1) “Investment style: Does active portfolio management add value?”, which studies whether active portfolio management is able to generate positive excess returns, and make comparisons between active and passive portfolio management;

(2) “Volatility Transmission in Thailand’s Money Markets”, which is part of a larger study on transmission mechanisms under an inflation-targeting framework;

(3) “Yield Curve Modeling for Bond Pricing”;

(4) “External Fund Managers Risk Management Process” for use in developing the BOT’s risk management approach; and

(5) “Central Bank Intervention and Market Expectations of Exchange Rate Regime Shift: The Case of the Thai Baht at the Onset of the Asian Crisis” is a research on the effects of central bank intervention on expected changes in exchange rate regime over a period prior to the Asian currency crisis.

2.2 Risk Assessment of Monetary and FX Operations

The BOT performs risk assessments of monetary and FX operations carried out in lieu of monetary policy implementation, and evaluates the impact and long-term implications of monetary and FX operations on financial markets. The BOT also performs evaluations and analyses of market expectations of exchange rate movements using price information from financial markets. These analyses are used to assist in monitoring financial risks from market operations, and interest rate and currency risks within the financial markets which the BOT monitors.

THE REPORT OF THE CHAIRMAN OF THE AUDIT COMMITTEE

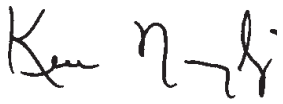
The Report of the Chairman of the Audit Committee

The Bank of Thailand's Court of Directors made an appointment of a new Audit Committee on April 1, 2003 to replace the former Audit Committee, whose term had expired. The new Committee comprises two independent members and another one from the Bank of Thailand's Court of Directors namely, Professor Kesree Narongdej as the Chairman, and Mr. Jaroong Nookhwun and Mr. Krirk-krai Jirapaet as other two members with Senior Director of Internal Audit Group as the Secretary of the Committee. In November 2003, Professor Thienchay Kiranandana, a member of the Bank of Thailand's Court of Directors, was appointed to replace Mr. Krirk-krai Jirapaet, who had resigned.

In discharging its duties and responsibilities, the Committee has strictly adhered to "The Audit Committees Operating Framework" authorized by the Bank of Thailand's Court of Directors and met 6 times since April until the end of 2003.

The Committee has reviewed various operations of the Bank of Thailand especially operation of the core functions such as those undertaken by the Supervision Group, the Financial Institution Policy Group, the Financial Market Operation Group, the Monetary Policy Group, the Data Management Group, and Risk Management Group. Furthermore, the Committee has reviewed the Bank of Thailand's Financial Report to reasonably assure its accuracy, integrity and reliability, and also reviewed the efficiency and effectiveness of the existing internal control system and the independence of external and internal auditors.

In reviewing the operational functions, the Committee has raised important issues coupled with suggestions to the awareness of the Bank of Thailand's management on Good Corporate Governance and effective and efficient risk management and control system in order to help the management supervise and oversee the Bank of Thailand's operations to achieve its objectives.



(Professor Kesree Narongdej)
Chairman, Audit Committee
February 2004

REPORT OF THE AUDITORS
AND
BANK OF THAILAND
FINANCIAL STATEMENTS
FOR THE YEARS 2003 AND 2002

Report of the Auditors

To the Minister of Finance

We have audited the Balance Sheet as of December 31, 2003 and 2002, the Profit and Loss Account, and the Statements of Changes in Capital and Cash Flows for each year then ended of the Bank of Thailand. 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 audits.

We conducted our audits 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 the Bank of Thailand's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position as of December 31, 2003 and 2002, the results of operations, the changes in capital, and the cash flows for each year then ended of the Bank of Thailand, in accordance with generally accepted accounting principles.

(signed) Kanjana Chacornvatana
(Ms. Kanjana Chacornvatana)
Acting Director of Audit Office

(signed) Poungchan Laosutiwong
(Ms. Poungchan Laosutiwong)
Auditor In-charge

Office of the Auditor General
March 4, 2004

Bank of Thailand
Balance Sheet
As of December 31, 2003 and 2002

	Notes	2003 Baht	2002 Baht
ASSETS			
Cash and Deposits			
Cash		14,937,788,039.94	10,276,859,167.91
Balance at the Treasury		13,642,465,146.24	11,679,791,864.86
Foreign Deposits		80,947,283,144.84	89,770,471,300.61
		109,527,536,331.02	111,727,122,333.38
Reserve Tranche and Holdings of Special Drawing Rights	4	4,430,957,735.11	182,300,439.61
Investments			
Domestic Securities		111,968,487,888.14	119,130,277,505.54
Foreign Securities	5	172,020,714,672.18	285,906,398,952.61
		283,989,202,560.32	405,036,676,458.15
Securities Purchased under Resale Agreements	6	362,929,408,643.07	164,377,291,858.39
Loans	7	33,673,040,312.92	18,830,142,245.41
Premises and Equipment, net	8	4,089,141,670.54	3,853,995,148.43
Other Assets	9	66,930,557,729.63	72,380,854,682.19
Total Assets		865,569,844,982.61	776,388,383,165.56

The accompanying notes form part of these financial statements.

Bank of Thailand
Balance Sheet
As of December 31, 2003 and 2002

	Notes	2003 Baht	2002 Baht
LIABILITIES AND CAPITAL			
Deposits			
Government		45,528,262,201.18	68,664,257,928.49
Financial Institutions		52,167,569,099.87	55,373,195,438.16
Others	10	84,413,658,626.69	116,938,280,098.46
		182,109,489,927.74	240,975,733,465.11
Allocations of Special Drawing Rights	11	4,984,064,551.94	4,958,240,262.36
Securities Sold under Repurchase Agreements	6	401,881,497,578.34	209,839,548,149.65
Bank of Thailand Bonds	12	178,854,711,565.49	0.00
Other Liabilities	13	62,862,994,953.42	280,769,056,112.85
Total Liabilities		830,692,758,576.93	736,542,577,989.97
Capital			
Initial Capital		20,000,000.00	20,000,000.00
General Reserve	14	2,973,449,575.10	0.00
Reserve for Stabilization of Profit Payable to the Government		624,075,747.53	624,075,747.53
Revaluation Deficit on Investments	15	(1,045,363,560.60)	0.00
Retained Earnings		27,307,931,127.67	27,307,931,127.67
Net Profit for the Year		4,996,993,515.98	11,893,798,300.39
Total Capital		34,877,086,405.68	39,845,805,175.59
Total Liabilities and Capital		865,569,844,982.61	776,388,383,165.56

The accompanying notes form part of these financial statements.

(signed) Pridiyathorn Devakula
(M.R. Pridiyathorn Devakula)
Governor

(signed) Techapit Sangsingkeo
(Mr. Techapit Sangsingkeo)
Deputy Governor, Corporate Support Services

(signed) Charinya Kaewmanee
(Ms. Charinya Kaewmanee)
Director, Accounting Group

Bank of Thailand
Profit and Loss Account
For the Year Ended December 31, 2003 and 2002

	Notes	2003 Baht	2002 Baht
Revenues			
Interest Income		20,123,568,309.20	28,718,607,096.03
Commission		409,585,558.05	483,926,464.01
Others		256,929,075.39	243,854,529.26
Total Revenues		20,790,082,942.64	29,446,388,089.30
Expenses			
Interest Expenses		8,117,726,587.47	12,750,309,397.76
Loss on Foreign Currency		3,968,371,023.72	931,204,379.16
Personnel Expenses		2,851,734,821.79	2,762,329,602.96
Others		855,256,993.68	1,108,746,409.03
Total Expenses		15,793,089,426.66	17,552,589,788.91
Net Profit		4,996,993,515.98	11,893,798,300.39

The accompanying notes form part of these financial statements.

Bank of Thailand
Statement of Changes in Capital
For the Year Ended December 31, 2003 and 2002

	Initial Capital	General Reserve	Reserve for Stabilization of Profit Payable to the Government	Revaluation Deficit on Investments	Retained Earnings (Deficits)	Net Profit (Loss) for the Year	Baht Total
Balance as of January 1, 2002	20,000,000.00	-	624,075,747.53	-	(129,061,692,851.19)	(8,630,376,021.14)	(137,047,993,124.80)
Changes Arising during the Year							
Net Loss Transferred to Retained Earnings (Deficits)	-	-	-	-	(8,630,376,021.14)	8,630,376,021.14	-
Transferred Amount in Accordance with the Emergency Decree on the Partial Transfer of Assets from the Special Reserve Account as Referred to in the Law on Currency B.E. 2545	-	-	-	-	165,000,000,000.00	-	165,000,000,000.00
Net Profit for the Year	-	-	-	-	-	11,893,798,300.39	11,893,798,300.39
Balance as of December 31, 2002	20,000,000.00	-	624,075,747.53	-	27,307,931,127.67	11,893,798,300.39	39,845,805,175.59
Changes Arising during the Year							
Net Profit Transferred to General Reserve	-	2,973,449,575.10	-	-	-	(2,973,449,575.10)	-
Payment of Net Profit to Government	-	-	-	-	-	(8,920,348,725.29)	(8,920,348,725.29)
Revaluation Deficit on Investments	-	-	-	(1,045,363,560.60)	-	-	(1,045,363,560.60)
Net Profit for the Year	-	-	-	-	-	4,996,993,515.98	4,996,993,515.98
Balance as of December 31, 2003	20,000,000.00	2,973,449,575.10	624,075,747.53	(1,045,363,560.60)	27,307,931,127.67	4,996,993,515.98	34,877,086,405.68

The accompanying notes form part of these financial statements.

Bank of Thailand
Statement of Cash Flows
For the Year Ended December 31, 2003 and 2002

	2003 Baht	2002 Baht
Cash Flow from Operating Activities		
Net Profit	4,996,993,515.98	11,893,798,300.39
Adjustments to Reconcile Net Profit to		
Net Cash Flow from Operating Activities:		
Net (Increase) Decrease in Accrued Revenues	1,301,662,640.48	(752,481,102.13)
Net Decrease in Accrued Expenses	(835,725,851.66)	(1,026,752,529.05)
Amortization of Premiums (Discounts) on Securities	(3,494,593,431.51)	1,517,688,173.95
Depreciation and Amortization Expenses	215,831,701.28	316,860,808.04
Gain on Disposal of Premises and Equipment	(331,024.00)	0.00
(Gain) Loss on Foreign Currency	(9,194,192,685.45)	6,289,225,179.28
Profit (Loss) from Operation before Changing in Operating Assets/Liabilities	(7,010,355,134.88)	18,238,338,830.48
(Increase) Decrease in Operating Assets		
Foreign Deposits	9,534,783,964.36	7,979,814,447.71
Holdings of Special Drawing Rights	120,884,959.10	60,769,290.59
Securities Purchased under Resale Agreements	(198,747,963,043.30)	144,146,431,733.77
Loans	(14,842,898,067.51)	16,297,717,802.06
Investments in Domestic Securities	7,097,615,567.57	(33,586,694,700.78)
Investments in Foreign Securities	114,991,682,670.41	(37,146,360,301.73)
Other Assets	93,553,841.62	410,610,824.13
Increase (Decrease) in Operating Liabilities		
Deposits	(67,488,933,336.71)	157,463,429,971.69
Securities Sold under Repurchase Agreements	192,473,188,528.49	(83,337,502,659.84)
Bank of Thailand Bonds	180,000,000,000.00	0.00
Other Liabilities	(372,246,950.18)	(426,649,649.61)
Net Cash Flow from Operating Activities	215,849,312,998.97	190,099,905,588.47

The accompanying notes form part of these financial statements.

Bank of Thailand
Statement of Cash Flows
For the Year Ended December 31, 2003 and 2002

	2003 Baht	2002 Baht
Cash Flow from Investing Activities		
Net Increase in Premises and Equipment	(482,332,110.07)	(77,932,224.35)
Net Cash Flow from Investing Activities	(482,332,110.07)	(77,932,224.35)
Cash Flow from Financing Activities		
Net Decrease in Loans under the IMF Program	(210,488,352,699.72)	(166,467,213,500.95)
Net Cash Flow from Financing Activities	(210,488,352,699.72)	(166,467,213,500.95)
Effects of Exchange Rates Changes	1,232,962,901.12	91,418,325.73
Net Cash Flow from All Activities	6,111,591,090.30	23,646,178,188.90
Cash as of January 1	38,442,330,781.37	14,796,152,592.47
Cash as of December 31	44,553,921,871.67	38,442,330,781.37
Supplementary Information for Cash Flows		
Cash Paid during the Year		
Interest Expenses	7,650,206,762.29	14,054,682,966.46
Cash and Cash Equivalents		
Cash	14,937,788,039.94	10,276,859,167.91
Balance at the Treasury	13,642,465,146.24	11,679,791,864.86
Foreign Deposits (at call)	15,973,668,685.49	16,485,679,748.60
Total	44,553,921,871.67	38,442,330,781.37

The accompanying notes form part of these financial statements.

BANK OF THAILAND

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2003 AND 2002

1. Form of Presentation of Accounts

The financial statements of the Bank of Thailand (BOT) have been prepared in compliance with Chapter 5 of the Royal Decree Regulating the Affairs of the Bank of Thailand B.E. 2485, which are the accounts of the Banking Department excluding those of the Issue Department and the Financial Institutions Development Fund.

2. Summary of Significant Accounting Policies

2.1 Revenues Recognition

Interest revenue is recognized on a time proportion basis that takes into account the effective yield on the asset. Other revenues are accounted for on an accrual basis.

2.2 Expenses Recognition

Expenses are accounted for on an accrual basis.

2.3 Investments

Domestic securities are held for the purpose of monetary policy implementation and are stated at cost after amortization of premiums or discounts.

Foreign securities are held for the purpose of international reserve management and are stated at fair value. Unrealized gains and losses from revaluation are shown as a separate component of capital, and are recognized in the profit and loss account on disposal.

2.4 Loans

Loans are stated at carrying balances of principals.

2.5 Premises and Equipment

Land is stated at cost. Buildings and equipment are stated at cost after depreciation.

Buildings and equipment are capitalized when their useful lives are over one year. The depreciation is calculated by the straight-line method, based on the estimated useful lives of the assets, as follows:

Buildings	20	years
Temporary Buildings and Improvements	5	years
Equipment	3 -15	years

The cost of fixed assets jointly used by the Banking Department, the Issue Department, the Note Printing Works, the Exchange Equalization Fund and the Financial Institutions Development Fund is allocated to each department according to an asset usage proportion basis.

2.6 Intangible Assets

Intangible assets are stated at cost after amortization. The amortization is allocated by the straight-line method over five years.

2.7 Foreign Currency Transactions

All transactions in foreign currencies are recorded at the preceding month-end rates. Discrepancies of the actual and the book rates are recorded in the profit and loss account.

At year-end, the balances of foreign assets and liabilities are converted into baht at new exchange rates prevailing on the balance sheet date. Unrealized gains and losses from conversion are also recorded in the profit and loss account.

2.8 Provision for Contingent Loss on Forward Exchange Contracts

At year-end, commitments under forward exchange contracts with government agencies and state enterprises are valued by comparing the year-end exchange rates with the contracted rates. The difference, which is a contingent loss, has been fully provided by the BOT. This provision is calculated from the contracts with contingent loss only.

2.9 Pension Fund and Provident Fund

2.9.1 Pension Fund

The Bank of Thailand's Rules and Regulations for Pension Fund B.E. 2539 including the amendments in B.E. 2543 and 2545 state that the employees who joined the BOT before December 1, 1996 and are not the members of the "Provident Fund" have the rights to receive pension according to the stipulated conditions and calculation basis. The BOT has maintained provisions in accordance with these rules and regulations.

2.9.2 Provident Fund

The Bank of Thailand's Rules and Regulations for Provident Fund B.E. 2539 state that the BOT and the employees who are the members of Provident Fund have to make contributions to the Provident Fund according to the stipulated conditions. This Provident Fund has already been registered under the Provident Fund Act B.E. 2530.

3. Changes in Accounting Policies

In 2003, the BOT has changed its accounting policies as follows:

3.1 Investments in foreign securities, previously stated at cost after amortization of premiums or discounts, are currently stated at fair value. Unrealized gains and losses from revaluation are shown as a separate component of capital, and are recognized in the profit and loss account on disposal. This year, the revaluation of foreign securities resulted in the decline of total assets and capital of the same amount: B1,045.4 million.

3.2 Premises and equipment with respect to buildings and equipment, previously capitalized when exceeding B10 million, are currently capitalized when their useful lives are over one year. As a result of this change, buildings and equipment not exceeding B10 million increased by B105.9 million.

3.3 Foreign currency transactions, previously recorded at the preceding year-end rates, are presently recorded at the preceding month-end rates.

Nevertheless, the balances of foreign assets and liabilities at year-end are converted into baht at new exchange rates prevailing on the balance sheet date.

4. Reserve Tranche and Holdings of Special Drawing Rights

Unit : Million Baht

	2003	2002
Quota Subscribed to International Monetary Fund (IMF)	63,699.1	63,369.1
Less: IMF Current Account No.1	34,632.6	36,838.4
Non-Negotiable and Non-Interest Bearing Promissory Notes payable to IMF	24,649.6	26,529.5
Reserve Tranche	4,416.9	1.2
Holdings of Special Drawing Rights	14.0	181.1
Total	4,430.9	182.3

Reserve Tranche is classified as the international reserves, calculated from the Quota Subscribed to IMF after deduction of the baht balances existing in the form of IMF Current Account No.1, and Non-Negotiable and Non-Interest Bearing Promissory Notes.

"Quota Subscribed to IMF-Baht" is presented in "Other Assets" (Note 9). The aforementioned IMF Current Account No. 1, and Non-Negotiable and Non-Interest Bearing Promissory Notes, and IMF Current Account No. 2 for administrative expenses are stated under "Other Liabilities" (Note 13).

Holdings of Special Drawing Rights are also classified as the international reserves.

5. Investments in Foreign Securities

As of December 31, 2003, the outstanding balance of investments in foreign securities was B172,020.7 million (the amortized cost of B173,066.1 million less the revaluation deficit on investments of B1,045.4 million). This included the investment in the Asian Bond Fund I (ABF-I) amounting to US$120 million, an equivalent of B4,754.6 million. The launch of the ABF-I was aimed at promoting the regional bond markets and providing investment alternatives for international reserve management in accordance with the Cabinet's resolution on April 22, 2003.

For the year 2002, investments in foreign securities were stated at cost after amortization of premiums or discounts, which amounted to B285,906.4 million. If these were stated at fair value, the balance would be B288,611.5 million.

6. Securities Purchased under Resale Agreements and Securities Sold under Repurchase Agreements

Unit : Million Baht

	2003	2002
Securities Purchased under Resale Agreements		
- Domestic Securities	337,185.0	148,533.0
- Foreign Securities	25,744.4	15,844.3
Total	362,929.4	164,377.3
Securities Sold under Repurchase Agreements		
- Domestic Securities	376,187.0	193,995.0
- Foreign Securities	25,694.5	15,844.5
Total	401,881.5	209,839.5

7. Loans

As of December 31, 2003, the outstanding loans of B33,673.0 million represents 13 lending programs to financial institutions in order to finance priority economic sectors. These included 7 special programs amounting to B15,091.2 million given aval by the Ministry of Finance and 6 programs amounting to B18,581.8 million collateralized with entrepreneur promissory notes endorsed for the BOT by financial institutions.

8. Premises and Equipment, net

Unit : Million Baht

	Balance	Changing in Book Value		Balance
	Jan 1, 2003	Increase	Decrease	Dec 31, 2003
Land	2,495.4	135.2	-	2,630.6
Buildings	1,836.8	-	-	1,836.8
Temporary Buildings and Improvements	49.5	5.9	-	55.4
Equipment	426.1	211.0	(145.2)	491.9
Assets under Construction	175.7	269.7	(68.6)	376.8
Total	4,983.5	621.8	(213.8)	5,391.5
Less: Accumulated Depreciation	(1,129.5)	(199.1)	26.2	(1,302.4)
Premises and Equipment, net	3,854.0	422.7	(187.6)	4,089.1

The depreciation of buildings and equipment for the year was B195.2 million.

In 2003, the BOT has changed the accounting policy of premises and equipment. Buildings and equipment, previously capitalized when exceeding B10 million, are currently capitalized when their useful lives are over one year. As a result of this change, buildings and equipment not exceeding B10 million increased by B105.9 million.

9. Other Assets

Unit : Million Baht

	2003	2002
Quota Subscribed to IMF - Baht	59,282.2	63,367.9
Investment in Other Organizations	1,766.3	1,779.3
Staff Loans	1,899.0	1,745.9
Intangible Assets	94.8	-
Others	3,888.3	5,487.8
Total	66,930.6	72,380.9

10. Other Deposits

As of December 31, 2003, the outstanding balance of other deposits was B84,413.7 million. This included the B0.5 million outstanding balance of the “Account for Amortization of the Principal to Fiscalize the Financial Institutions Development Fund Losses”. This account was set up at the

BOT in accordance with the Emergency Decree Empowering the Ministry of Finance to Borrow Money and Manage the Borrowed Money for the Financial Institutions Development Fund, Phase 2, B.E. 2545. Outstanding assets in the Annual Yields Account of the Issue Department are to be transferred into this account at year-ends and withdrawals will be made from this account to redeem FIDF bonds. In 2003, the assets amounting to B32,505.5 million were transferred from the Issue Department's Annual Yields Account to the aforementioned account, and the amount of B32,505.0 million was used to redeem FIDF bonds as specified in the Emergency Decree.

11. Allocations of Special Drawing Rights

International Monetary Fund (IMF) member countries are allocated Special Drawing Rights in proportion to their subscriptions to the IMF. For the year ended 2003, the BOT was allocated the balance of SDR 84.7 million, an equivalent of B4,984.1 million.

12. Bank of Thailand Bonds

The BOT with the consent of the Finance Minister has issued the BOT bonds with the aim to expand the range of instruments used in the implementation of monetary policy. In 2003, only discount instruments with the maturity of up to 12-month were issued through weekly auctions.

As of December 31, 2003, the outstanding balance of the BOT bonds amounted to B178,854.7 million.

13. Other Liabilities

Unit : Million Baht

	2003	2002
Loans under the IMF Program	-	211,975.3
IMF Current Accounts No. 1 and 2	34,632.7	36,838.6
Non-Negotiable and Non-Interest Bearing		
Promissory Notes Payable to IMF	24,649.6	26,529.5
Others	3,580.7	5,425.7
Total	62,863.0	280,769.1

In 2003, the BOT prepaid all remaining loans under the IMF Program in accordance with the Cabinet's resolution on January 2, 2003.

14. General Reserve

The General Reserve is accumulated from the net profit distribution of each year, in accordance with Chapter 5 of the Bank of Thailand Act B.E. 2485. Movements in the General Reserve are set out in the Statement of Changes in Capital.

15. Revaluation Deficit on Investments

As of December 31, 2003, the outstanding balance of the revaluation deficit on investments was B1,045.4 million. This was due to the change in accounting policy of investments in foreign securities.

16. Contingencies

As of December 31, 2003, the BOT had outstanding forward contracts as follows:

16.1 The BOT had net position of outstanding dollar-baht forward contracts to buy US$ 5,202.5 million due in 2004. By comparing the forward rate to the 2003 year-end rate, the BOT would have a contingent loss of B33.7 million, which would be recorded in the profit and loss account when the contracts become due.

16.2 The BOT had net position of outstanding cross currency forward contracts to buy US$ 0.2 million due in 2004. After applying the 2003 prevailing year-end rate, the BOT would have a contingent gain of B6.0 million, which would be recorded in the profit and loss account when the contracts become due.

17. Financial Risk Management

The Top Management Committee is responsible for the management of assets and liabilities and determining the financial risk management framework. Financial risk arises mainly from foreign currency assets and liabilities.

The Risk Management Group plays a crucial role in establishing the risk management framework with the responsibility of studying the appropriate methodologies and techniques in constructing the benchmark portfolio for reserve management, ascertaining the important risk factors, evaluating risk-adjusted performance, and determining the proper risk allocation. Risk management policies are strategically designed to embed the risk management process in the investment-making decisions of international reserve management.

The main objectives in risk management of international reserve management include:

i. Preserving the value of international reserves

ii. Establishing the appropriate level of risk tolerance for the management of reserves

The management of financial risks include :

a. Market risk is the overall risk from the market, which may have an adverse impact on the market value of financial instruments or may affect the volatility of earnings of the BOT in general.

The management of this type of risk is embedded in the benchmark construction process. The BOT currently implements a strategic benchmark by applying the Black-Litterman model that imposes a view-on-the-market as an input into the benchmark construction process.

In the management of reserves to enhance returns above the benchmark, the BOT controls risk by the establishment of guidelines for an acceptable level of deviation from the benchmark in the form of global tracking error, and also the employment of the information ratio in the risk allocation process. Furthermore, the BOT utilizes Value-at-Risk as an indicator in measuring the amount of overall market risk exposure.

b. Foreign exchange risk is the risk arising from the change in foreign exchange rates whereby the level of risk depends on the difference in the benchmark currency allocation, and the currency composition of the numeraire currency used in the benchmark construction process. Currency overlays have been permitted in the benchmark construction process, allowing for the currency allocation to be different from the asset allocation.

In the management of reserves to gain returns higher than that of the benchmark, the BOT has also established currency deviation limits in order to further control for foreign exchange risk.

c. Interest rate risk is the risk arising from the change in interest rates. In general, the control of interest rate risk is also embedded in the benchmark construction process, where the acceptable level of risk is determined by the probability of non-negative return. In order to enhance returns above the benchmark, the BOT has also established a weighted-duration deviation limit for controlling interest rate risk exposure.

d. Liquidity risk is the loss arising from the inability to liquidate assets in the given time period without adversely affecting market prices.

In the management of liquidity risk, the BOT has determined the appropriate level of liquid assets to be held in order to meet possible cash requirements, manifested as a predetermined limit on illiquid assets and expressed as a percentage of the portfolio. The main concept is to compare between the expected return of holding illiquid assets and costs incurred from holding illiquid assets.

e. Credit risk is the risk of loss arising from a financial contract whereby the counterparty or issuer of financial instruments fails to discharge its obligations. As for counterparty credit limit: the acceptable level of counterparty risk is determined by three factors, including 1) the counterparty's credit rating based on Moody's and S&P's, 2) the number of counterparties in which the BOT is able to closely monitor its credit quality, and 3) the aggregate credit exposure of all transactions. For Sovereign Risk Limit: the limit for each credit rating for all types of transactions with exposures to different sovereign governments is determined as to reflect the various levels of credit risk, based on the credit ratings of Moody's and S&P's.

18. Financial Restatements

Financial statements for the year ended December 31, 2002 have been restated in line with the presentation of financial statements for the year 2003 without causing an effect on net income presented herein.

19. Changes in Accounting System

In 2003, the BOT has improved efficiency and effectiveness in accounting, disbursement, budgeting, procurement and human resource management. The new accounting system has been commenced since July 2, 2003.

MANAGEMENT AND PERSONNEL

Management and Personnel

Organization Structure and Work Processes

To support its direction and strategic objectives to become an organization committed to excellence as well as to be a reputable organization commanding public trust and respect in conducting monetary policy, supervising financial institutions and developing an efficient payments system, the BOT has continuously improved its roles, responsibilities, work system, work processes, procedure, management, structure and workforce of each operating group. New Information Technologies (IT) have been applied to enhance the agility and leanness of the organization. In addition, the BOT has amended related rules and regulations to accommodate such changes and to increase the efficiency and effectiveness of BOT in undertaking main responsibilities of the central bank. The improvement in 2003 can be summarized as follows:

1. Reengineering and Reorganization Projects: The BOT modernized work system, work processes and structure of Data Management Group, General Administration Group, Accounting Group, Bank of Thailand Museum and 3 Regional Offices. The BOT also conducted post implementation reviews of previous reengineering projects such as Supervision Group, Payment Systems Group, Internal Audit Group and Information Technology Group. This aimed at ensuring continuous improvement of the organization by focusing on value-added creation, adaptability and customer needs while eliminating redundancies and dispensable tasks.

2. System Development Projects: These were continuing projects from 2002 with an objective to increase the effectiveness of BOT operation through Information Technology (IT).

(1) Data Management System (DMS): DMS related to financial institution was implemented in October 2003 while DMS concerning economic and financial market data was expected to be launched in 2004.

(2) Enterprise Resource Planning (ERP): ERP was introduced in 2003 and the first post implementation review had already been conducted.

(3) Enterprise Records and Archives Management System (ERA): ERA was used as a tool to create a standard of records and archives management for each operating group as well as the BOT.

(4) Banknote Management Project: The BOT was in the process of designing and developing an integrated banknote management system covering work processes, planning, production, storage, logistics, distribution and destruction of banknote. New technologies and management techniques such as supply chain management were adopted to create a customer-oriented system and to take the changing environment both in public and private sectors into account. The BOT expected to implement this new banknote management system around the end of 2004 which would coincide with the time used by the Comptroller's General Department to develop new work processes to accommodate the new role of provincial treasury offices. These new responsibilities include academic task and acting as a financial advisor to local authorities. Provincial treasury offices would no longer serve as representatives of the BOT.

3. Lean Organization: To increase its effectiveness, adaptability and become an organization committed to excellence, the BOT had considered and estimated the appropriate number of employees for each operating group during 2004 - 2007.

Employees Distribution

At the end of 31 December 2003, the BOT had a total of 4,574 employees. The proportion of male to female employees was 47: 53. With regard to education, about 77 percent bachelor's, 24 percent master's and 1 percent doctoral degrees. There was a decrease of 161 employees or 3.5 percent compared to that of 2002. The majority of the decrease (about 76 percent) were 123 employees resigning of their own volition under a mutual separation plan. The rest of the decrease resulted from the following reasons: 16 employees from resignation, 19 employees from obligatory retirement, 6 employees from early retirement and 5 employees from passing away. The number of new recruits was 8 employees.

Human Resource Management

The BOT has been geared towards a lean organization by 2007. As such, recruitment will be primarily sought from BOT employees except for some positions where internal recruitment is not available. Employees classified as "surplus" workforce will be pooled for optimal utilization or assigned to jobs in temporary shortage.

Human resource management in the area of career development has been based upon competency. Key components which serve as a basis for career development were reviewed and implemented. The components included competency modelling for various positions, Assessment Centre used for competency evaluation as well as Individual Development Plan prepared for direct reports to ensure that training and development meet the needs of each individual employee.

On reward and compensation - management, key elements in the system have also been readjusted to better measure up to the market. Some of the modified incentives are increases linked to promotion (Promotional Adjustment) and performance. In terms of performance management, managers at all levels were encouraged and supported to play more active roles in the process of goal-setting, coaching, counselling, and performance evaluation.

In addition, managers at all levels in all functional groups across BOT have been encouraged and supported to be effective HR managers. Trainings were provided for managers to realize the importance of HR functions and be familiar with roles of HR management. Head of each functional group at departmental level was empowered to manage career moves, i.e. promotion and transfer, of its own staff below the team executive level. HR Shared Services teams were also set up to assist and cooperate with all functional groups in HR management and practices.

Court of Directors
As of 31 December 2003

Chairman	M.R. Pridiyathorn Devakula
Vice Chairman	Mr. Techapit Sangsingkeo
	Mrs. Tarisa Watanagase
Director	Mr. Thienchay Kiranandana
	Mr. Kiattisak Jelatianranat
	Mr. Chakramon Phasukavanich
	Mr. Borwornsak Uwanno
	Mr. Prasit Kovilaikool
	Mr. Sanit Rangnoi
	Mr. Karun Kittisataporn

Executives of the Bank of Thailand
As of 31 December 2003

Governor	**M.R. Pridiyathorn Devakula**
Deputy Governor,	
Corporate Support Services	**Mr. Techapit Sangsingkeo**
Deputy Governor, Monetary Stability	**Mr. Thirachai Phuvanatnaranubala**
Deputy Governor,	
Financial Institutions Stability	**Mrs. Tarisa Watanagase**
Assistant Governor, Strategic Capabilities	**Mr. Chetthavee Charoenpitaks**
Assistant Governor, Supervision Group	**Ms. Udomsup Techakampuch**
Assistant Governor, Operations	**Mrs. Nopamart Manoleehagul**
Assistant Governor, Monetary Policy Group	**Mr. Bandid Nijathaworn**
Assistant Governor,	
Financial Markets Operations Group	**Mrs. Tasna Rajatabhothi**
Assistant Governor,	
Financial Institutions Policy Group	**Mr. Krirk Vanikkul**
Assistant Governor,	
Fund and Debt Management	**Mrs. Swangchit Chaiyawat**
Assistant Governor, Management	**Mrs. Thanya Suraswadi**
Assistant Governor, Information Systems	**Mrs. Nongnart Sondysuvan**

Deputy Governor, Monetary Stability	**Mr. Thirachai Phuvanatnaranubala**
Assistant Governor, Monetary Policy Group	**Mr. Bandid Nijathaworn**
Senior Director,	
Domestic Economy Department	Mrs. Atchana Waiquamdee
Director, International Economics Department	Mrs. Chantavarn Sucharitakul
Director, Monetary Policy Department	Mrs. Amara Sriphayak
Director, Office of Central Banking Studies	(Vacant)
Assistant Governor,	
Financial Markets Operations Group	**Mrs. Tasna Rajatabhothi**
Senior Director, Financial Markets and Reserve	
Management Department	Mrs. Suchada Kirakul
Director, Financial Markets Office	Ms. Nopawan Mahamusik
Director, Treasury Services Department	Mr. Wichai Hirunwong
Director, Strategy and Exchange Control Office	Mr. Suchart Sakkankosone
Overseas Representative Offices	
Chief, New York Representative Office	Mrs. Supawadee Punsri
Chief, London Representative Office	Ms. Nawaporn Maharagkaga

Deputy Governor, **Financial Institutions Stability**	**Mrs. Tarisa Watanagase**
Assistant Governor, **Financial Institutions Policy Group**	**Mr. Krirk Vanikkul**
Senior Director, Risk Supervision Policy and Analysis Department	Mr. Samart Buranawatanachoke
(A.) Senior Director, Financial Institutions Strategy Department	Mrs. Tongurai Limpiti
Director, Capital Policy Department	Mr. Paiboon Kittisrikangwan
Director	Mrs. Salinee Wangtal
Assistant Governor, Supervision Group	**Ms. Udomsup Techakampuch**
Senior Director, Financial Institutions Monitoring and Analysis Department	Mr. Sorasit Soontornkes
Senior Director, Onsite Examination Department 1	Mr. Krish Follett
Senior Director, Onsite Examination Department 2	Ms. Pimpa Thawarayut
Senior Director, Risk Management and Information System Examination Department	Mr. Preecha Poramapojn
Director, Financial Institution Applications and Special Examination Department	Mr. Phong-Adul Kristnaraj
Director, Planning and Development Department	Mrs. Eamchit Chanpraipayak

Deputy Governor, Corporate Support Services	**Mr. Techapit Sangsingkeo**
Assistant Governor, Operations	**Mrs. Nopamart Manoleehagul**
Senior Director, Note Issue Group	Mr. Ithichai Chanthrindhu
Director, Banknote Service Office	Ms. Duengdao Sombutsiri
Director, Banknote Management Office	Ms. Rujanee Viranant
Senior Director, Deposits and Debt Instruments Group	Mr. Tanin Mukdaprakorn
Director, Provincial Deposits and Debt Instruments Office	Mr. Sumart Nukunphadit
Senior Director, General Administration Group	Mrs. Suwannee Jenpanichkarn
Director, Building Construction and Renovation Office	(Vacant)
Director, Procurement Office	Ms. Puengpit Teeraganond
Director, Accounting Group	Ms. Charinya Kaewmanee
Senior Director, Northern Region Office	Mr. Chittiphan Sukhakij
Director, Operation Department	Mr. Prapas Sothornnopabutr

Senior Director, Southern Region Office	Mr. Phairoj Hengsakul
Director, Operation Department	Mr. Somkid Lamart
Senior Director, Northeastern Region Office	Mr. Jirapong Dibyamondol
Director, Operation Department	Mr. Praneet Chotikirativech
Director, Security Group	Mr. Senesiri Siriwattanakul
Managing Director, Note Printing Works	Mr. Nopporn Pramojaney
Director, Second Note Printing Works Project	Mr. Somchai Sringkarrinkul
Director, Production Department	Mr. Boonsong Chaisa-ard
Director, Administration Department	Ms.Viphaporn Veerayavarangkul
Director, Product Development and Technical Support Department	Mr. Anuchart Chotimongkol
Director, Library and Archives	Mrs. Soisukon Niyomvanich
Director, Bank of Thailand Museum	Mrs. Nalini Laekhakula
Assistant Governor, Information Systems	**Mrs. Nongnart Sondysuvan**
Senior Director, Payment Systems Group	Mr. Sayan Pariwat
Director, Payment Systems Development Office	Ms. Sibporn Thavornchan
Director, Payment Operations Office	Mrs. Wantana Hengsakul
Senior Director, Data Management Group	Ms. Aroonsri Tivakul
Director, Data Provider Relations Department	Ms. Prangtip Busayasiri
Senior Director, Information Technology Group	Mr. Chim Tantiyaswasdikul
Director, Technical Management and Operation Office	Mrs. Tipavan Nookhwun
Director, Business Solution Delivery Office 1	Mrs. Jintana Tinburanakul
Director, Business Solution Delivery Office 2	Mr. Permsuk Sutthinoon
(A.) Director, Business Integration Office	Mrs. Bhusadi Muhpayak
Assistant Governor, Strategic Capabilities	**Mr. Chetthavee Charoenpitaks**
Senior Director, Human Resources Group	Ms. Duangmanee Vongpradhip
Director, Human Resources Planning and Development Office	M.R. Nopkatemanee Tengniyom
Director, Human Resources Shared Services Office	Mr. Somchai Setakornnukul
Director, Training Institute	(Vacant)
Director, Strategic Services Group	Mrs. Sivarporn Krittayarut
Director, Organization Department Group	Mr. Niruth Raksaseree

Assistant Governor,	
Fund and Debt Management	**Mrs. Swangchit Chaiyawat**
Fund Management Group	Mrs. Swangchit Chaiyawat
Senior Director, Fund Operations Department	Mr. Vichan Amorojanavong
Director, Business and Financial Operation Office	Mrs. Povongtip Poramapojn
Director, Legal and Asset Recovery Office	(A.) Mr. Nibondh Pichayapanich
Director, Special Project Department	Mrs. Ruchukorn Sangsubhan
Director, Assets Management Department	Mrs. Sunet Ratanavanich
Director, Corporate Debt Restructuring Group	Mr. Tumnong Dasri

Assistant Governor, Management	**Mrs. Thanya Suraswadi**
Senior Director, Management Assistance Group	Mr. Oubaur Kruthanooch
Director, Office of the Governor	Mrs. Nual-anong Angsurat
Director, Communications and Relations Office	Mr. Yoottaphol Singhaumpai
Senior Director, Legal Group	Mr. Sermsingh Sinhaseni
Director, Legal Group	Mr. Chanchai Boonritchaisri
Chief Principal Counsel	Mr. Lertsilp Angkatapimon
Senior Director, Litigation Group	Mr. Arkabusk Krairiksh
Director, Legal Proceedings Office	Mr. Weerachat Sribunma
Director, Risk Management Group	Mrs. Pongpen Ruengvirayudh
Senior Director, Internal Audit Group	Ms. Nitaya Pibulratanagit
Director, Office of Financial Institutions Stability Work Audit	Mrs. Soontara Pussayanavin
Director, Office of Information Technology Audit	(Vacant)
Senior Adviser	Mr. Rathakorn Nimwatana
Adviser to the Governor	Sub. Lt. Yodchai Choosri

Bank of Thailand's Organization Chart as of 31 December 2003

Court of Directors

Audit Committee

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Internal Audit Group
Senior Director
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Top Management Committee

Monetary Policy Board

Financial Institutions Policy Board

Monetary Stability
Deputy Governor Thirachai
0-2283-5003 thirach@bot.or.th

Financial Institutions Stability
Deputy Governor Tarisa
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Investment Committee

Money Market Committee

Financial Institutions Development Committee

Monetary Policy Group
Assistant Governor
Bandid
0-2283-5100
bandidn@bot.or.th

Financial Markets Operations Group
Assistant Governor
Tasna
0-2283-5004
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Financial Institutions Policy Group
Assistant Governor
Krirk
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Supervision Group
Assistant Governor
Udomsup
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udomsupt@bot.or.th

Strategic Capabilities
Assistant Governor
Chetthavee
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Fund and debt Management
Assistant Governor
Swangchit
0-2356-7100
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Management
Assistant Governor
Thanya
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Corporate Support Services
Deputy Governor Techapit
0-2283-5008 techapit@bot.or.th

Operations
Assistant Governor
Nopamart
0-2283-6901
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Information Systems
Assistant Governor
Nongnart
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Note Printing Works Board Directors

FIDF Board

The BOT Public Information Committee

Management Assistance Group
Senior Director
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0-2283-5419
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Note Issue Group
Senior Director
Ithichai
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Northern Region Office
Senior Director
Chittiphan
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Payment Committee

Payment Systems Group
Senior Director
Sayan
0-2283-5009
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Note Printing Works
Managing Director
Nopporn
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Human Resource Committee

Human Resources Group
Senior Director
Duangmanee
0-2283-5501
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Fund Management Group
Assistant Governor
Swangchit
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Legal Group
Senior Director
Sermsingh
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Deposits & Debt Instruments Group
Senior Director
Tanin
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Southern Region Office
Senior Director
Phairoj
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Data Management Committee

Library and Archives
Director
Soisukon
0-2283-5690
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Strategic Services Group
Director
Sivaporn
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sivak@bot.or.th

CDRAC Committee

Litigation Group
Senior Director
Arkabusk
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General Administration Group
Senior Director
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Northeastern Region Office
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Data Management Group
Senior Director
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Bank of Thailand Museum
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Modernization Program Steering Committee

Organization Development Group
Director
Niruth
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Corporate Debt Restructuring Group
Director
Tumnong
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Risk Management Group
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Pongpen
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Accounting Group
Director
Charinya
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Security Group
Director
Senesiri
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IT/User Committee

IT Group
Senior Director
Chim
0-2283-6050
chimt@bot.or.th