



# **ANNUAL ECONOMIC REPORT**

## **2006**

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# SUMMARY REPORT

## Economic Performance in 2006

In 2006, Thailand's economic growth accelerated slightly from the previous year. The main growth engine of the economy in 2006 was high export expansion. The growth in domestic demand, which was the main driver in 2005, decelerated throughout the year. This was a consequence of several negative factors during the course of the year, including oil price hikes in the first three quarters, unrest in the southern region of Thailand, prolonged and severe floods, and political uncertainty. Nevertheless, the current account returned to a surplus in 2006. This was attributed to better export performance, a slowdown in imports due to decelerated growth of domestic demand, and considerable expansion in the tourism sector.

As for the agricultural sector, growth of farm income from major crops in 2006 accelerated from the previous year and rose by 30.3 percent year-on-year. Favorable weather conditions and adequate water during the earlier half of the year were important factors contributing to crop production growth, especially for the first three quarters. Moreover, agricultural prices saw continuous growth throughout the year. However, agricultural production during the fourth quarter was adversely affected by severe floods in many areas. Meanwhile, manufacturing production in 2006 continued to expand well, especially in the electronics sector. The Manufacturing Production Index (MPI) grew by 7.4 percent, decelerating slightly from the growth of 9.1 percent in 2005. This reflected the burden of higher production costs as well as increased competition on both domestic and external

fronts. In addition, capacity utilization averaged at 74.2 percent. The service sector improved from the previous year and the number of tourists increased by 20.0 percent from 2005. This improvement was due to the recovery of tourism in the Andaman region from the impacts of the Tsunami in 2004.

Private consumption in 2006 rose by 3.1 percent, slowing down from 4.3 percent in the previous year. The slower growth was due to higher oil prices and high inflation and interest rates, all of which collectively contributed to more cautious consumer spending. Furthermore, consumption of durable goods declined by 0.8 percent year-on-year. In 2006, the private investment increased at a slower pace of 3.9 percent, compared to 10.9 percent in the previous year. This was in line with the decline in the Business Sentiment Index (BSI) and the decelerated Private Investment Index (PII) growth. The slowdown came from investment in both the machinery and equipment category and the construction category. Moreover, private sector sentiments were negatively affected by floods and political uncertainties.

On the external front, exports rose by 17.4 percent, accelerating from 15.0 percent in 2005. On the other hand, imports decelerated to a growth of 7.0 percent, following the slowdown in domestic demand. Consequently, the trade balance was in surplus by 2.2 billion US dollars in 2006, after registering a deficit of 8.5 billion US dollars in the previous year. The services, income and transfers account also recorded a surplus

of 1.0 billion US dollars, increasing from the previous year's 0.7 billion US dollars. The main contribution came from tourism receipts which improved from the previous year. Hence, the current account returned to a surplus of 3.2 billion US dollars (excluding reinvested earnings, the current account would register a surplus of 7.4 billion US dollars), from a deficit of 7.9 billion US dollars in the previous year.

With regards to fiscal conditions, the government pursued a balanced budget in fiscal year 2006. Net revenue was recorded at 1,339.4 billion baht, increasing from the previous year by 5.9 percent but lower than previously estimated in the government's budget document (1,360 billion baht). This was mainly due to the reduction in the petroleum tax, lower-than-expected import tariff revenue because of the appreciation in the baht, and the higher-than-expected tax rebates. On the expenditure side, the government's disbursement rate was higher than the previous year in line with measures to accelerate the disbursement of funds. For the fiscal year 2006, the government's cash balance registered a surplus of 4.5 billion baht, equivalent to 0.06 percent of GDP.

Regarding monetary conditions, interest rates in the money market as well as the deposit and loan rates of commercial banks rose, following the upward adjustments in the BOT's policy rate in the first half of the year 2006.<sup>1/</sup> However, during the second half of the year, the aforementioned interest rates stabilized as BOT maintained the same policy rate until the end of the year. Furthermore,

real deposit rates turned positive in April. In addition, commercial banks raised deposit rates during the first half of the year due to the strong competition within the sector to maintain customer base. As a result, commercial banks' private deposits grew at an accelerated rate in the first half of the year. However, commercial banks' deposit growth for the whole year slowed down from the previous year. Throughout the year, the growth in commercial banks' claims on the private sector also decelerated, in line with the slowdown in private investment and the decline in private sector confidence.

In 2006, the baht averaged at 37.93 baht per US dollar, appreciating from the average of 40.29 baht per US dollar in 2005. The real effective exchange rate (REER), an indicator of the price competitiveness of Thai exports, was also on an appreciating trend and strengthened rapidly at the end of the year. The important domestic factors that contributed to the rapid appreciation were (1) a large current account surplus and (2) considerable capital inflows for direct investment and purchases of assets in the stock and bond markets. Nevertheless, the appreciation of the baht slowed down after authorities imposed the unremunerated reserve requirement measure on short-term capital inflows on 18 December 2006.

Overall economic stability in 2006 was satisfactory. Internal stability remained sound. Core inflation stayed within the policy target range of 0 - 3.5 percent and averaged at 2.3 percent for the whole year. Moreover, headline inflation showed a declining trend after the

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1/ During the first half of 2006, the Bank of Thailand adjusted the policy rate upwards four times, increasing the policy rate from 4.00 per cent per annum at the beginning of the year to 5.00 per cent per annum in June.



first half of the year, despite the slight price pressure on the prices of raw food and agricultural products as a result of the floods. Unemployment and public debt were also at low levels. External stability was also satisfactory. The current account was continuously in surplus throughout the year and the ratio of international reserves to short-term debt remained on a high level, despite a slight increase in total external debt from the same period last year.

## **Economic Outlook for 2007**

The economy in 2007 should grow at a rate similar to that of the year 2006. The key underlying assumptions were: (1) decelerated world economic growth as compared to the previous year, in line with the slowdown of the US economy, (2) a decrease in oil prices from price levels in 2006 and (3) an amelioration in the domestic situation and, in turn, the confidences of consumers and investors. In addition, net export should

remain the principal driver of the economy in 2007. Export volume was expected to continue expanding satisfactorily, due to sustained world economic growth despite the slowdown of the US economy. Similarly, the tourism sector was expected to enjoy favorable growth. As for private investment, it was expected to recover in the second half of the year despite its current decelerating trend. Public investment from fiscal budget deficit expenditure would also act as a positive stimulus for private investment. Furthermore, private consumption was also expected to grow at a pace close to that of 2006, given the declining trends in interest rates and inflation

Going forward, the external risks to growth included the lower-than-expected trading partners' economic growth and volatile oil prices. Domestic risks included a decline in the confidences of consumers and investors due to domestic political uncertainty.

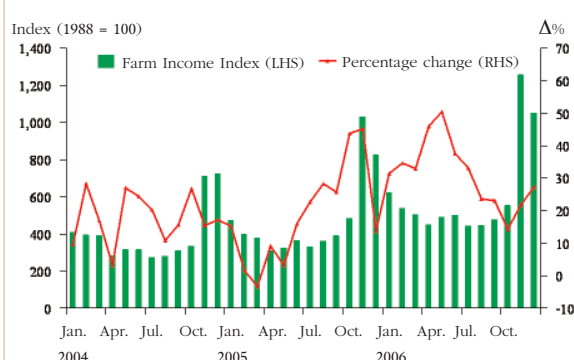
# **ECONOMIC CONDITIONS IN 2006**

## Agricultural Sector

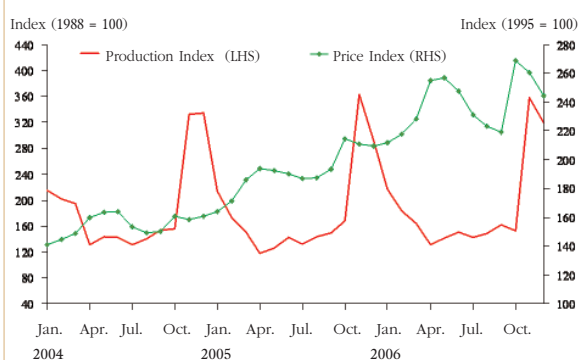
**Table 1 : Farm Income from Major Crops,  
Crop Production and Crop Prices**

$\Delta\%$	2005	2006				
		Total	Q1	Q2	Q3	Q4
Farm Income	18.3	30.3	32.5	44.4	26.6	23.0
Crop Production	-4.7	4.6	4.9	9.5	6.8	1.0
Crop Prices	24.1	24.5	26.3	31.9	18.6	21.8

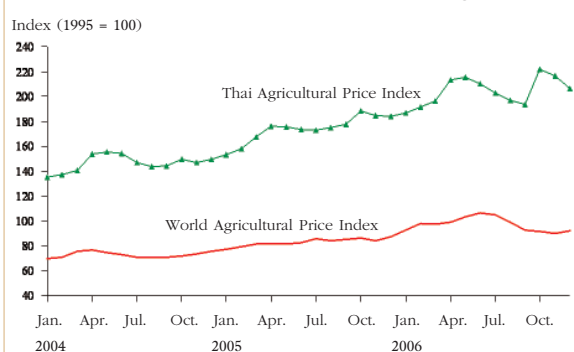
**Farm Income from Major Crops**



**Indices of Major Crop Production and Crop Prices**



**Indices of Thai and World Commodity Prices\***



## Overall Development in 2006

Farm income from major crops increased by 30.3 percent year-on-year, accelerating by almost twice, due to the expansion of major crops which had contracted in the previous year. Major crops production increased by 4.6 percent supported by favorable climate and an increase in water levels in all major reservoirs, resulting in an abundant supply of major crops such as the production of paddy during the second crop season, rubber, cassava, sugar cane, and oil palm. However, severe floods in several areas of the country in late 2006, particularly in the central area and the lower part of the northern region, resulted in a reduction of paddy (first crop season) production. Additionally, the production of maize decreased as farmers reduced areas for maize cultivation and switched to other crops with higher returns such as cassava, sugar cane, and rubber. Furthermore, price of major crops, particularly the prices of rubber, Hom Mali paddy, and glutinous paddy, expanded by 24.5 percent, close to that of the previous year, on the back of external demand. The price of fruits and vegetables increased as production was damaged from flood, while the price of cassava and oil palm declined due to increased supply.

Farm income from livestock decelerated from the previous year. The price of livestock contracted significantly by 7.5 percent due to the abundant supply of broilers, egg laying hens, and swine following the absence of the avian influenza outbreak in Thailand for eight consecutive months (November 2005 - July

2006). Thus, Thai producers anticipated that they could resume exporting frozen fowls as before, which led to the expansion of broiler farming. Moreover, farmers also expanded swine farming areas in response to the favorable price last year.

Farm income from fishery declined from the previous year following an increase in fishery costs due to high oil prices. As a result, a number of fishermen decided to discontinue sea fishing, which led to the continuous decline in fishery products since last year (2005). **Fishery price** increased by 13.4 percent, mainly from the increase in the price of shrimp in line with favorable shrimp exports. At the same time, the price of freshwater animals and other brinish products increased only slightly.

**World agricultural price** (covering only 12 commodities particularly important to the Thai economy) increased by 17.2 percent year-on-year, accelerating mainly from the increase in the prices of rubber, cane sugar, maize, and oil palm, in line with sustained demand. However, the price of cassava declined due to increased supply.

## Major Commodities

**Paddy.** Paddy production increased slightly from the previous year led by the increase in the production of paddy during the second crop season. This was due to abundant rainfall and an increase of water in all major reservoirs to levels sufficient for crop cultivation. In addition, the increase in the price of paddy and the high price guaranteed by the government induced farmers to expand their cultivation area and increase the yield per rai. The first crop production, on the other

hand, declined as compared to the previous year due to flood during the end of 2006 (land used for rice cultivation accounted for 70 percent of the affected areas). The price of non-glutinous paddy and glutinous paddy continued to increase, particularly Hom Mali paddy and glutinous paddy, mainly due to strong external demand.

In 2006, Thailand's export of rice amounted to 97,623 million baht in value terms, increasing by 5.0 percent in line with accelerated growth in the prices of Hom Mali and glutinous rice. The export volume of rice totaled 7.4 million metric tons, declining merely by 0.8 percent from the previous year. This was due to a decline in export volume of white rice and parboiled rice following the relatively high price of Thai white rice, which caused some importers to switch to Thailand's competitors. The export volume of Hom Mali rice, however, accelerated, which resulted in only a slight decline of the overall rice export volume for the whole year.

**Cassava.** Cassava production increased significantly from the previous year, growing by 55.1 percent year-on-year as a result of the high price of cassava, which induced farmers to expand cultivation areas by switching from maize, which was associated with higher costs and difficult maintenance, to cassava. Moreover, higher production was supported by favorable climate condition, good maintenance as well as productive strains, which resulted in higher yield per rai. Additionally, the drought since late 2004 until mid-2005 also resulted in the replanting of cassava to compensate for damaged crops. As a result, most of the production for that harvest season was shifted to the beginning

of 2006. The significant rise of cassava production thus led to the decline in the price of cassava. However, export of cassava during the year still expanded satisfactorily, both in volume and value terms.

**Rubber.** The production of natural rubber increased by 3.0 percent following higher rubber tapping in all regions, particularly the northeastern region. However, yield per rai remained close to that of 2005. In the first half of 2006, rubber price rose continuously and reached its historical high in June 2006 at 93.45 baht per kilogram, in line with the price of rubber in the international futures exchange market. Notwithstanding the slowdown of price during the second half of the year, the average price for the whole year of 2006 remained favorably high at 68.19 baht per kilogram, or increasing by 30.7 percent.

**Sugar cane.** Sugar cane production increased by 25.9 percent as a result of higher yield per rai. This was because of good maintenance and favorable climate condition. Additionally, the settlement of the preliminary sugar cane price for the 2005/2006 harvest season at 800 baht per ton and financial support from cane sugar factories for the expansion of planted areas also encouraged farmers to switch from maize and upland rice to sugar cane cultivation.

**Broilers.** The year 2006 saw only one outbreak of avian influenza which occurred among native chickens and egg laying hens in July. The impact on consumer confidence was quite small as most producers had already shifted to the closed evaporative chicken farming system, which resulted in a strong increase in the production volume of broilers. At the same time, domestic consumption was

still low while the European Union, Thailand's major importer, also extended its banning period of frozen fowls from Thailand to 31 December 2007.

**Swine.** The high price of swine during the previous year (2005) induced farmers to expand swine farming, resulting in an over-supply of swine in the market. Meanwhile, domestic demand and export growth expanded slightly which resulted in the decline in the price of swine from the previous year.

**Shrimp.** The favorable growth of shrimp exports during the previous year induced farmers to expand farming area, resulting in an increase of shrimp production, in particular the white leg shrimp as opposed to the jumbo tiger prawn. This was due to the white leg shrimp's favorable growing rate, high survival rate and a higher yield per rai compared to the jumbo tiger prawn. The price of shrimp increased in line with the continuous growth of exports, in terms of both volume and value.

## Prospects in 2007

**Farm income from major crops** was expected to expand at a decelerating rate as a result of the price factor. Meanwhile, major crops production was expected to grow at a higher rate than the previous year due to favorable climate conditions despite the warning from Meteorological Department of an El Nino drought. However, it was expected that drought would not severely affect major crops production because the water levels in all major reservoirs at the end of 2006 were high. In addition, the government also introduced measures to cope with the anticipated problem. Crop production which was expected to rise included the first crop

season paddy, rubber, cassava, sugar cane, oil palm, and maize. Meanwhile, price of major crops was expected to decelerate in line with the world farm price, particularly the price of rubber, which was unusually high during the previous year.

**Price of livestock** was expected to decline at a somewhat slower rate than the previous year as farmers reduce the supply of livestock to meet demand. Moreover, this was also benefited from government's measures to manage the supply condition by registering the number of livestock farmers for future planning and managing the production of livestock. In addition, the export of frozen fowls was still expected to expand despite EU import quotas on processed fowls from Thailand. The quotas were expected to be implemented around mid-2007. **The price of fishery** was expected to increase continuously

due to the expected decline in the supply of fishery products as a result of high oil prices and restrictions on natural fishing areas. At the same time, the price of shrimp was expected to increase in line with the strong growth of exports to US and EU, Thailand's major markets for shrimp.

**The world agricultural price** (covering only the 12 commodities particularly important to the Thai economy) was expected to slowdown from the previous year following the decline in the prices of rubber and cane sugar. This was due to the exceptionally high price of cane sugar and rubber last year as well as the expectation of an excess supply of cane sugar in the world market. On the other hand, the prices of rice and maize were anticipated to accelerate due to declining supply as well as the continuous demand for maize as an alternative energy source.

**Table 2 : Major Crop Production, Trade, and Consumption<sup>1/</sup>**

(Unit: Million tonnes)

Thai Crops	2002/03	2003/04	2004/05	2005/06 <sup>P</sup>	2006/07 <sup>E</sup>	Δ%
Paddy	27.99	29.47	28.54	30.29	29.43	-2.8
First crop	21.57	23.14	22.65	23.54	22.90	-2.7
Second crop <sup>2/</sup>	6.43	6.33	5.89	6.75	6.53	-3.3
Rubber	2.63	2.86	3.01	2.98	3.07	3.0
Maize	4.23	4.18	4.22	3.89	3.65	-6.1
Cassava	19.72	21.44	16.94	22.58	25.29	12.0
Sugarcane	77.52	67.92	52.24	50.40	62.85	24.7
Mungbean	0.22	0.18	0.13	0.11	0.11	1.2
Soybean	0.26	0.23	0.22	0.23	0.22	-0.5
Oil palm	4.00	4.90	5.18	5.00	6.24	24.7
Coffee	0.05	0.06	0.06	0.05	0.06	18.9
World Crops	2002/03	2003/04	2004/05	2005/06 <sup>P</sup>	2006/07 <sup>E</sup>	Δ%
Grains						
Production	1,820.2	1,862.3	2,043.4	2,014.0	1,973.2	-2.0
Trade	242.4	234.4	244.2	250.3	247.8	-1.0
Rice (milled)						
Production	377.5	391.8	400.5	416.3	415.3	-0.2
Trade	27.6	27.2	29.0	27.7	29.2	5.6
Maize						
Production	603.0	625.7	712.3	695.6	692.4	-0.5
Trade	78.4	79.2	76.5	82.9	84.0	1.3
Soybean						
Production	196.8	186.5	215.7	217.9	228.4	4.8
Trade	61.2	55.8	64.5	64.4	69.6	8.1
Rubber						
Production	7.5	8.0	8.7	8.9	9.2 <sup>3/</sup>	3.2 <sup>3/</sup>
Consumption	7.6	8.0	8.5	8.9	9.2 <sup>3/</sup>	2.7 <sup>3/</sup>

Note : P = Preliminary

E = Estimated

1/ Estimated as of January 2006

2/ Second crop production of 2006/2007 is the production obtained during 1 January - 31 December 2007.

3/ Figures from January-December 2006 and percentage change over the same period last year

Source : Office of Agricultural Economics

World Production, Market and Trade Reports, Foreign Agriculture Service, United States Department of Agriculture

LMC Commodity Bulletin, January 2007

**Table 3 : Thai Farm Prices**

(Unit: Baht/tonne)

	2005	2006				
		Year	Q1	Q2	Q3	Q4
<b>Farm Price Index</b>						
(1995 = 100)	174.0	204.4	191.5	213.1	197.9	215.0
Δ%	18.8	17.5	20.0	21.7	12.8	15.8
<b>1. Crop Price Index</b>	191.8	238.9	219.5	253.4	224.6	257.9
(1995 = 100)						
Δ%	24.1	24.5	26.3	31.9	18.6	21.8
Hom Mali Paddy	7,680	8,180	7,821	8,085	8,536	8,276
Δ%	-7.0	6.5	1.3	4.0	11.7	9.1
Paddy Class 1 (5%)	6,662	6,496	6,559	6,283	6,666	6,478
Δ%	19.3	-2.5	1.2	-5.9	-0.7	-4.4
Rubber	52,190	68,187	69,012	82,727	69,487	51,523
Δ%	17.1	30.7	66.1	73.0	16.2	-13.6
Maize	4,874	5,165	4,767	5,422	4,954	5,518
Δ%	-1.9	6.0	-4.3	10.9	1.3	16.4
Cassava	1,352	1,088	1,352	1,054	945	1,003
Δ%	42.3	-19.5	-3.0	-24.3	-29.1	-22.3
<b>2. Livestock Price Index</b>	148.1	137.0	142.4	141.7	133.4	130.5
(1995 =100)						
Δ%	13.2	-7.5	0.1	-7.4	-12.6	-9.7
<b>3. Fishery Price Index</b>	143.4	162.5	152.1	156.8	177.5	163.7
(1995 =100)						
Δ%	5.0	13.4	15.1	9.7	15.3	13.3
<b>4. Wood Price Index</b>	115.1	122.2	120.8	121.6	123.1	123.1
(1995 =100)						
Δ%	1.2	6.1	5.4	6.1	7.5	5.5

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

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



**Table 4 : World Agricultural Prices**

(Unit: US dollar/tonne)

	2005	2006 <sup>P</sup>				
		Year	Q1	Q2	Q3	Q4
<b>World Agricultural Prices *</b>						
(1995 = 100)	83.0	97.3	96.0	103.0	98.7	91.5
Δ%	13.9	17.2	21.2	25.6	16.2	6.6
Rice 5%	286	305	299	308	312	301
Δ%	20.4	6.5	3.0	5.3	10.9	6.8
Shrimp	10,338	10,238	10,472	10,472	10,472	9,535
Δ%	1.2	-1.0	1.7	0.0	1.9	-7.5
Rubber	1,478	2,084	1,999	2,433	2,168	1,736
Δ%	15.5	41.0	61.0	78.7	31.3	4.8
Sugar	218	326	375	365	306	257
Δ%	37.9	49.6	91.2	89.6	39.3	-2.2
Cassava	251	222	228	220	209	230
Δ%	33.3	-11.7	-9.1	-21.9	-14.0	0.3
Maize	99	122	105	109	117	156
Δ%	-11.8	23.5	8.5	13.5	15.3	56.0
Oil palm	422	478	436	439	493	546
Δ%	-10.3	13.3	5.6	4.0	18.7	24.5

Note : \* Only 12 commodities particularly important to the Thai economy 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

P = Preliminary

Source : The World Agricultural Price Index is constructed from World Bank's data, except cassava price is constructed from The Thai Tapioca Trade Association data

## Manufacturing Sector

**Table 5 : Manufacturing Production Index\***  
(Percentage change)

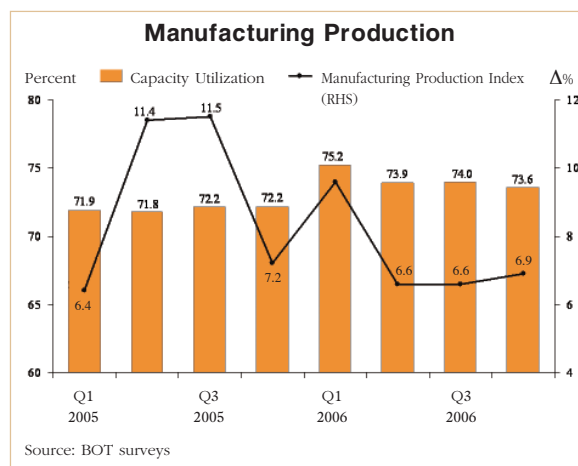
Industry	Weight 2000	2004	2005	2006 <sup>P</sup>		
				H1	H2	Year
Textiles	12.23	6.6	2.2	6.2	-1.0	2.5
Electronics	10.31	31.4	39.7	22.1	25.0	23.7
Petroleum Products	9.48	8.4	-0.4	2.2	2.6	2.4
Vehicles and Equipment	6.85	20.4	6.3	11.5	-0.8	5.0
Food	6.82	-1.2	-0.3	6.7	9.2	7.7
Beverages	5.11	5.2	2.9	9.1	19.4	14.1
Electrical Appliances	5.05	8.8	1.8	-4.3	-11.9	-8.1
Leather and Leather Products	2.79	16.8	-10.2	-24.4	-30.2	-26.9
Chemical Products	2.36	3.8	3.5	4.8	-3.7	0.4
Iron and Steel Products	2.21	10.4	-3.6	-3.6	-3.0	-3.3
Construction Materials	1.84	10.5	11.3	5.4	5.8	5.6
Others	10.62	3.3	4.4	0.7	-0.2	0.3
<b>Total*</b>	<b>75.68</b>	<b>11.7</b>	<b>9.1</b>	<b>8.1</b>	<b>6.7</b>	<b>7.4</b>

Note : \*Covering 76 products with 75.7 per cent of the overall value added in the manufacturing sector  
P = Preliminary data  
Source : BOT surveys

**Table 6 : Capacity Utilization\***  
(Percentage change)

Industry	Average 1995-1996	2004	2005	2006 <sup>P</sup>		
				H1	H2	Year
Electronics	77.1	65.0	67.0	73.0	78.9	76.0
Petroleum Products	88.6	85.5	85.2	86.6	87.9	87.2
Vehicles and Equipment	74.7	77.7	75.9	79.7	78.7	79.2
Beverages	69.0	60.1	66.6	75.9	78.4	77.2
Electrical Appliances	87.1	72.4	74.6	69.2	66.9	68.2
Food	40.4	54.1	54.0	65.0	54.3	59.6
Leather and Leather Products	-	61.2	55.0	47.0	33.4	40.2
Chemical Products	91.4	96.4	94.7	95.0	94.2	94.6
Iron and Steel Products	58.1	68.8	60.2	61.3	54.6	57.9
Construction Materials	87.9	71.1	78.1	82.9	81.7	82.3
Pulp and Paper Products	77.6	87.4	93.4	98.1	99.9	99.0
Rubber and Rubber Products	73.1	61.3	67.1	66.7	65.9	66.3
Others	81.8	69.1	67.9	65.2	63.5	64.4
<b>Total *</b>	<b>76.7</b>	<b>71.5</b>	<b>72.0</b>	<b>74.5</b>	<b>73.8</b>	<b>74.2</b>

Note : \*Covering 69 products with 59.1 per cent of the overall value added in the manufacturing sector  
P = Preliminary data  
Source : BOT surveys



Manufacturing production in 2006 expanded satisfactorily, particularly in electronics and beverage industry. This was in accordance with the National Economic and Social Development Board (NESDB), which reported that the manufacturing sector in 2006 expanded by 6.1 percent, accelerating from 5.2 percent mainly from the high growth of office machinery industry (electronics and computers) and beverage industry.

Nevertheless, Manufacturing Production Index (MPI) in 2006 expanded by 7.4 percent, moderating from 9.1 percent in the previous year, in line with the production of key exports such as hard disk drive, television sets, air-conditioners, and leather products. The slowdown was due to higher production cost from oil price, interest rate, and raw materials as well as intensified competition in both domestic and foreign markets. In addition, a more rapid appreciation of the baht relative to other currencies, especially those of Thailand's trade competitors, also affected export-oriented industries quite substantially, particularly those sectors which

use a larger share of domestic raw materials for production.

**Capacity utilization rate** of the manufacturing sector averaged at 74.2 percent in 2006, increasing from 72.0 percent in the previous year.

**Leather and leather products.** Production declined continuously due to competition from China, which had lower production costs. Consequently, the sector's capacity utilization rate declined from 55.0 percent in the previous year to 40.2 percent in 2006.

**Electrical appliances.** Production, most of which was for exports, declined from the previous year. In particular, production of television sets slowed down due to the shift towards higher quality products while air conditioners declined in line with both domestic and external demand. Capacity utilization rate declined from 74.6 percent in 2005 to 68.2 percent in 2006.

**Furniture.** Production declined due the shortage of raw materials, especially rubber wood and intense price competition from China and Vietnam. The sector's capacity utilization rate declined from 74.8 percent in 2005 to 60.2 percent in 2006.

**Tobacco.** Production declined continuously. This was due to the prohibition of cigarette displays at sales points as of September 2005, as well as the excise tax increase from 75 percent to 79 percent of ex-factory prices since December 2005. In addition, consumer purchasing power declined due to increased oil prices. The sector's capacity utilization rate declined from 57.6 percent in 2005 to 50.0 percent in 2006.

**Iron and steel products.** Production declined continuously due to soft demand from domestic and foreign markets. This was following the slowdown of construction sector, less number of big investment projects, as well as producers' (hot-rolled and cold-rolled sheet steel) policy to lower inventory accumulation from 6-12 months to 2-3 months. Capacity utilization rate in this sector reduced from 60.2 percent in 2005 to 57.9 percent in 2006.

Nevertheless, there were several industries which had high production growth, particularly:

**Electronics.** Production continued to expand well despite slight deceleration, particularly in the case of hard disk drive and integrated circuits (IC) in line with external demand. Capacity utilization rate in this sector stood at 76.0 percent, up from 67.0 percent in the previous year.

**Beverage.** Production accelerated from the previous year especially during the second half of the year, owing mainly to accelerated production of beer and liquor in anticipation of the excise tax increase. The capacity utilization rate in this sector increased from 66.6 percent in 2005 to 77.2 percent in 2006.

**Food.** Production improved from the previous year. This was following higher production of sugar (especially during the second half of the year), canned pineapple, which enjoyed abundant raw materials from favorable climate condition, and vegetable oils, particularly palm oil, owing to abundant supply and decreased prices. Capacity utilization rate in this sector stood at 59.6 percent, up from 54.0 percent in the previous year.

**Textiles.** Production expanded marginally from the previous year in line with favorable expansion of apparel products, especially during the first half of the year, benefiting from safeguard measures imposed on Chinese textile exports to US and EU.

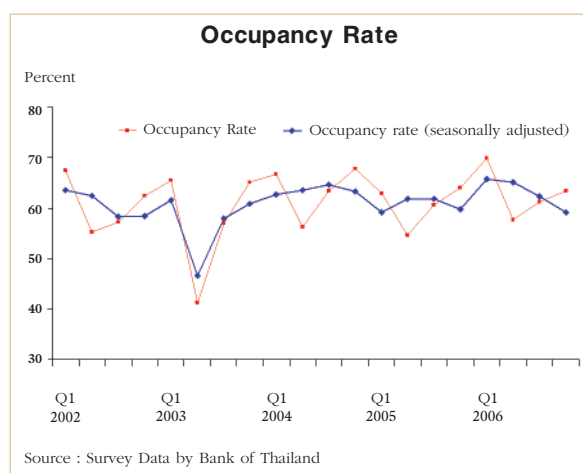
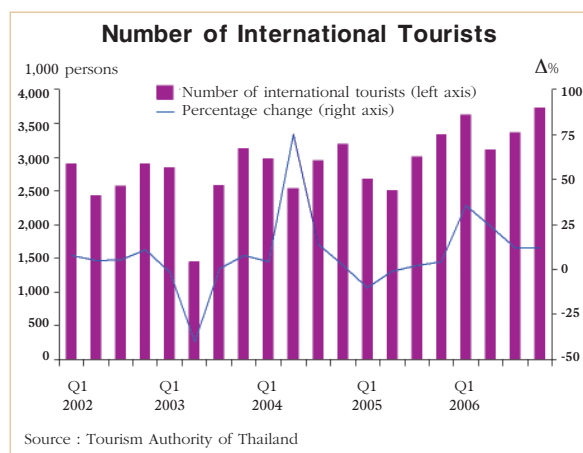
**Vehicle and transportation equipment.** Production decelerated slightly from the previous year, expanding by 5.0 percent, in line with several new car models being launched during the year. In addition, production of commercial cars expanded in line with domestic and foreign demand, especially during the first half of the year. However, in the second half of the year, production of commercial cars and motorcycles contracted as a result of soft domestic demand due to the floods. Capacity

utilization rate in this sector stood at 79.2 percent, up from 75.9 percent in the previous year.

**Petroleum.** Production improved from 2005 as fewer plants were closed for maintenance during the year. Consequently, the capacity utilization rate of petroleum industry stood at 87.2 percent, up from 85.2 percent in the previous year.

**Footwear.** Production expanded well, especially during the second half of the year, in line with the production of leather footwear, which benefited from EU anti-dumping measures on footwear products from China and Vietnam. The capacity utilization rate in this sector stood at 47.1 percent, up from 42.8 percent in the previous year.

## Services



**Table 7 : International Tourists Classified by Nationality**

Country	$\Delta$ (%)		Market Share (%)	
	2005	2006	2005	2006
East Asia	-3.6	19.1	55.6	55.2
- Malaysia	-2.2	15.8	11.9	11.5
- China	6.4	22.2	6.7	6.9
- Japan	-1.3	9.6	10.4	9.5
- Korea	-9.2	33.9	7.1	7.9
Europe	-0.1	22.5	24.7	25.3
USA	1.2	10.7	7.2	6.7
Oceania	6.5	26.2	4.5	4.7
Middle East	7.4	34.1	2.5	2.8
Others	7.5	18.1	5.5	5.4

Source : Tourism Authority of Thailand

## Tourism and Hotel Industry

The Tourism and Hotel Industry in 2006 continued to expand from the previous year despite various negative factors, namely, the unrest in the southernmost provinces, the floods in many areas, political uncertainties and a coup. The tourism activities exhibited growth in all regions and especially in the six southern provinces which had recovered from the effects of the tsunami in 2004.

For the entire year, the number of foreign tourists totaled 13.8 millions, soaring by 20.0 percent from 2005. The hotel occupancy rate averaged at 63.0 percent, rising from 60.6 percent in the previous year. Moreover, the political uncertainties and a coup in mid-September only adversely affected the hotel occupancy rate in Bangkok for a short period.

In the southern area, the tourism industry continued to revive and gradually improved. The number of international tourists who entered Thailand from southern ports of entry increased by 38.9 percent from the previous year. The hotel occupancy rate in the southern region returned its the normal level by climbing from 42.3 percent in 2005 to 53.9 percent in 2006.

Furthermore, the average room rate increased moderately by 7.0 percent year-on-year. Overall, tourism revenue from foreigners in 2006 amounted to 470.6 billion baht, a 22.0 percent boost from the previous year.

The number of foreign tourists from every country groups grew markedly from the previous year. This was partly due to the low base of the number of foreign tourists in 2005 as a consequence of the Tsunami aftermath. Nevertheless, the structure of foreign tourists in 2006 did not change significantly. Tourists from East Asia continued to account for the largest share, or 55.2 percent, of all foreign tourists, followed by those from Europe and the US, accounting for 25.3 and 6.7 percent, respectively.

In 2007, the tourism activities in every region are expected to improve as the number

of foreign tourists is on an increasing trend. Whist tourists from Europe would continue to be one of the major tourist base, a high-growth in the number of tourists from Oceania and East Asia is expected.

Nevertheless, the prolonged unrest in certain areas remains a risk factor to Thailand's tourism industry. The government's ability to keep the situation within bounds, couple with a continued effort to promote tourism in Thailand, would contribute to an uninterrupted expansion of Thailand's tourism and hotel industry in 2007.

**Table 8 : Tourism and Hotel Industry Indicators**

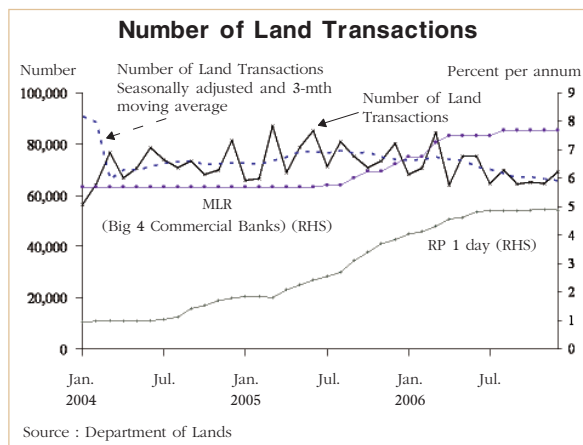
	2005	2006 <sup>P</sup>	2006			
	Year	Year	Q1 <sup>P</sup>	Q2 <sup>P</sup>	Q3 <sup>P</sup>	Q4 <sup>P</sup>
1. Number of foreign tourist (million persons)	11.5	13.8	3.6	3.1	3.4	3.7
$\Delta\%$	-1.1	20.0	35.5	24.1	11.8	12.0
2. Income from tourism (billion baht)	385.7	470.6	129.9	100.4	112.0	128.3
3. Occupancy rate (percent)	60.6	63.0	69.8	57.7	61.2	63.4
4. Room rates (baht)	1,277	1,367	1,510	1,251	1,260	1,446

Note : P = Preliminary data

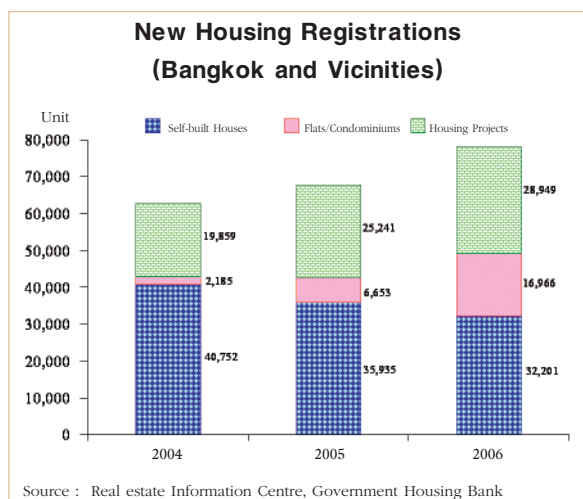
$\Delta\%$  represents percentage change from the same period last year

Sources : Tourism Authority of Thailand and Bank of Thailand

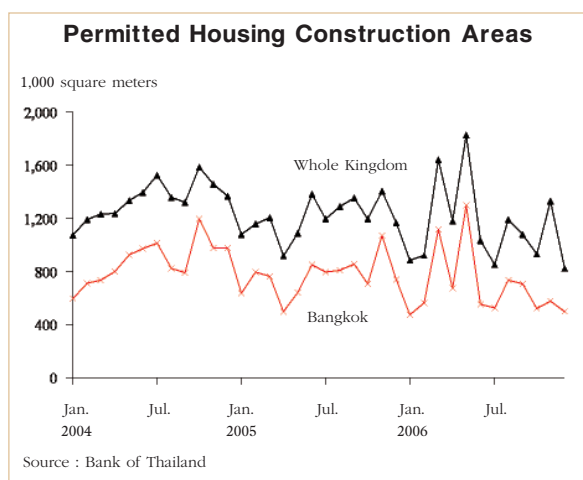
## Real Estate



In 2006, overall real estate activities slowed down from the previous year in line with a weaker demand, mainly as a result of rising oil prices, inflation and interest rate hikes in the first half of the year, as well as political uncertainties. Consequently, consumer confidence declined and potential home buyers postponed their purchases as reflected in a decline of 7.6 percent in the number of land transactions.



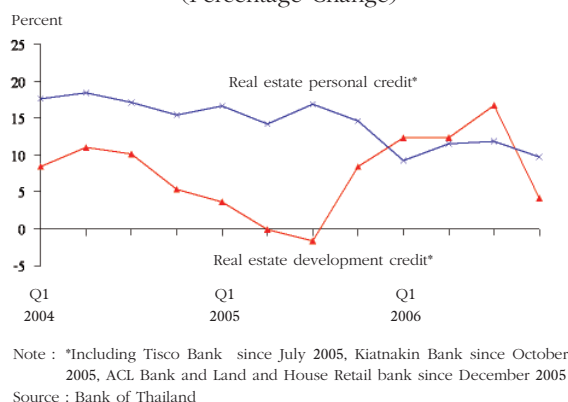
With declining purchasing power, real estate developers switched to building smaller and cheaper condominium units, particularly those in the city, to meet increased demand for housing close to work. This caused the number of newly-completed and registered condominium units in Bangkok and its greater metropolitan area to rise sharply to 16,966 units, an increase of 155 percent from the previous year (of which 6,291 units were the government's Baan Aua Arthorn project).



Meanwhile, the increase in the number of newly-completed and registered housing units was mainly within the existing projects where houses were built phase by phase. Consequently, the number of newly-completed housing units dropped to 32,201 units, a decline of 10.4 percent. The decline in newly-completed housing units was greatest for houses in the middle and high price ranges. Despite the acceleration of housing construction application before the enforcement of the New Bangkok Town Plan on 17 May 2006, permitted residential housing construction areas dropped by 5.2 percent from the previous year. Meanwhile, permitted



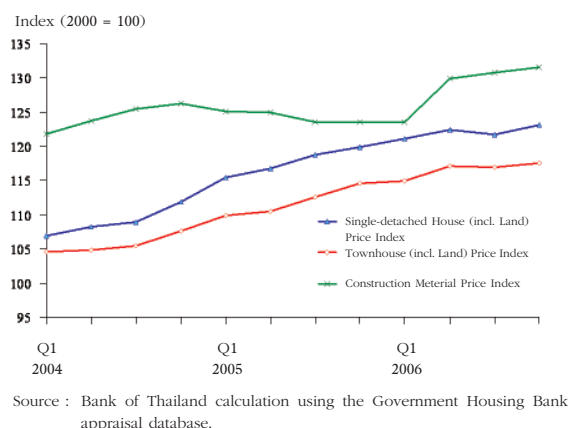
### Total Real estate Credit Outstanding of Commercial Bank (Percentage Change)



commercial and industrial construction areas continued to increase, in line with the expansion of shopping malls and manufacturing factories.

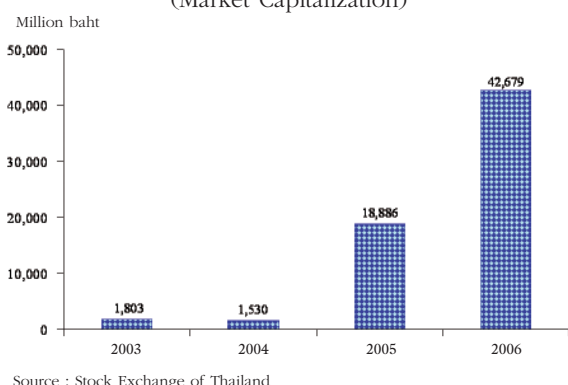
The growth of personal housing and real estate development credits of commercial banks slowed down to 9.7 and 4.1 percent, respectively, compared to 14.6 and 8.4 percent increases in the previous year. The decline in credit growth this year was a result of slowing demand, conservative credit extension by commercial banks and the base effect due to the upgrade of three non-bank financial institutions into commercial banks in Q4 2005.

### Housing Price Index



The single-detached house and townhouse (including land) price indices rose 3.7 and 4.2 percent, respectively. This was a decline from the previous year as a result of smaller construction units and higher competition among real estate developers. Higher construction costs, rising competition and the ensuing difficulty in raising prices were expected to affect the future performance of real estate developers.

### Property Fund (Market Capitalization)



In 2006, four newly registered property funds opened in the fourth quarter. The market value of the property funds increased from 18,886 million in 2005 to 42,679 million baht. These funds are a part of property developers' strategy to reduce fund-raising costs. The funds' investments included Samui airport, office buildings, apartments and shopping malls for rental purposes.



## Outlook in 2007

At the beginning of 2007, the property sector is expected to slow down as a result of several risk factors which caused a short-term decline in consumers' and investors' confidence. These included the political uncertainties and policy measures such as the unremunerated reserve requirement and the amendment of the Foreign Business Act.

Nevertheless, during the second half of 2007, real estate activities are expected to improve as a result of relaxation of the reserve requirement measures, decreased inflationary

pressures which led to a more accommodative monetary policy, and a clearer mass transit development plan. The supply of new condominium units should increase as several new housing projects had been started in the previous year. Future housing projects, including condominium units in the city and single houses on the outskirts, will be concentrated along the planned mass transit routes. The housing price index has a tendency to increase following increases in land prices along the planned mass transit routes. However, a significant price increase will be unlikely given moderate demand growth.

**Table 9 : Real Estate Indicators**

	2005	2006				
		Year	Q1	Q2	Q3	Q4
<b>Land Transaction Value<sup>1/</sup> (Million Baht)</b>	<b>614,837</b>	<b>617,930</b>	<b>170,786</b>	<b>142,459</b>	<b>145,343</b>	<b>159,342</b>
Δ%	-11.5	0.5	21.4	-6.3	-9.7	-1.1
<b>Juristic Act and Right Registration Fee 2%<sup>2/</sup> (Million Baht)</b>	<b>11,749</b>	<b>11,096</b>	<b>2,728</b>	<b>2,683</b>	<b>2,663</b>	<b>3,022</b>
Δ%	10.6	-5.6	0.9	-7.1	-11.4	-4.1
<b>Juristic Act and Right Registration Fee 0.01%<sup>3/</sup> (Million Baht)</b>	<b>3.4</b>	<b>6.3</b>	<b>3.4</b>	<b>0.8</b>	<b>1.2</b>	<b>0.8</b>
Δ%	-78.9	83.2	530.6	8.7	13.3	-22.5
<b>Number of Land Transactions (Unit)</b>	<b>903,451</b>	<b>835,095</b>	<b>222,988</b>	<b>214,412</b>	<b>198,701</b>	<b>198,994</b>
Δ%	6.3	-7.6	1.7	-7.8	-12.6	-11.3
<b>Permitted Construction Areas (1,000 square meters)</b>	<b>19,633</b>	<b>19,577</b>	<b>5,032</b>	<b>5,608</b>	<b>4,539</b>	<b>4,397</b>
Δ%	-13.5	-0.3	6.5	21.6	-15.3	-10.9
<b>- Permitted Housing Construction Areas Municipality area (1,000 square meters )</b>	<b>14,447</b>	<b>13,701</b>	<b>3,450</b>	<b>4,039</b>	<b>3,126</b>	<b>3,086</b>
Δ%	-10.3	-5.2	0.2	19.3	-18.5	-18.4
<b>- Permitted Housing Construction Areas Bangkok area (1,000 square meters)</b>	<b>9,162</b>	<b>8,236</b>	<b>2,153</b>	<b>2,525</b>	<b>1,965</b>	<b>1,593</b>
Δ%	-12.9	-10.1	-2.0	26.6	-20.0	-36.6
<b>New Housing Registrations (Bangkok and Vicinities) (Unit)</b>	<b>67,829</b>	<b>78,116</b>	<b>15,584</b>	<b>20,874</b>	<b>24,276</b>	<b>17,382</b>
Δ%	8.0	15.2	-6.7	33.0	37.2	-2.0
- Housing Projects	35,935	32,201	7,861	7,137	10,069	7,134
- Flats/Condominiums	6,653	16,966	748	5,983	6,512	3,723
- Self-built Houses	25,241	28,949	6,975	7,754	7,695	6,525
<b>Cement Sale (1,000 Metric tons)</b>	<b>28,966</b>	<b>29,156</b>	<b>7,834</b>	<b>7,191</b>	<b>7,248</b>	<b>6,883</b>
Δ%	6.5	0.7	-6.6	0.8	6.6	3.7
<b>Single-detached House Price Index (Including Land) (2000 = 100)</b>	<b>117.7</b>	<b>122.1</b>	<b>121.1</b>	<b>122.4</b>	<b>121.7</b>	<b>123.1</b>
Δ%	8.0	3.7	5.0	4.9	2.5	2.6
<b>Town House Price Index (Including Land) (2000 = 100)</b>	<b>111.9</b>	<b>116.6</b>	<b>114.9</b>	<b>117.1</b>	<b>116.9</b>	<b>117.5</b>
Δ%	6.0	4.2	4.5	6.0	3.8	2.6
<b>Construction Material Price Index (2000= 100)</b>	<b>124.3</b>	<b>128.9</b>	<b>123.5</b>	<b>129.9</b>	<b>130.7</b>	<b>131.5</b>
Δ%	0.0	3.7	-1.3	4.0	5.9	6.4

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

- 1/ Regarding the estimation for overall land transactions nationwide, the Bank of Thailand derives the figures from the amount of the Juristic Act and Right Registration Fee, separately classified into 2 percent and 0.01 percent categories
- 2/ The Juristic Act and Right Registration Fee for immovable property is charged at a rate of 2 percent, in accordance with Ministerial Regulation No. 47 (B.E. 2541), which was issued under the Land Code Amendment Act B.E. 2497 article 2(7).
- 3/ The Juristic Act and Right Registration Fee for immovable property is charged at a rate of 0.01 percent as specified by the Cabinet (please contact the Department of Lands for more detail on other possible cases of, as well as extension of period eligible for reduced fee rate).

Sources : Department of Land, Government Housing Bank, Ministry of Commerce, and Bank of Thailand

**Table 9 : Real Estate Indicators (Cont.)**

	2005	2006				
		Year	Q1	Q2	Q3	Q4
<b>Real Estate Development Credit Outstanding<sup>4/</sup></b> (Billion Baht)	<b>301.3</b>	<b>313.8</b>	<b>317.7</b>	<b>315.3</b>	<b>323.5</b>	<b>313.8</b>
$\Delta\%$	8.4	4.1	12.3	12.3	16.7	4.1
- <b>Housing Development Credit<sup>4/</sup></b> (Billion Baht)	<b>191.9</b>	<b>181.7</b>	<b>189.7</b>	<b>192.8</b>	<b>196.3</b>	<b>181.7</b>
$\Delta\%$	12.4	-5.3	10.2	13.4	19.3	-5.3
- <b>Other Real Estate Credit<sup>4/</sup></b> (Billion Baht)	<b>109.4</b>	<b>132.0</b>	<b>127.9</b>	<b>122.5</b>	<b>127.1</b>	<b>132.0</b>
$\Delta\%$	2.0	20.7	15.6	10.8	12.9	20.7
<b>Real Estate Personal Credit Outstanding<sup>4/</sup></b> (Billion Baht)	<b>629.6</b>	<b>690.9</b>	<b>617.6</b>	<b>645.1</b>	<b>680.5</b>	<b>690.9</b>
$\Delta\%$	14.6	9.7	9.2	11.5	11.8	9.7
- <b>Housing Personal Credit<sup>4/</sup></b> (Billion Baht)	<b>624.4</b>	<b>685.2</b>	<b>612.6</b>	<b>639.1</b>	<b>675.7</b>	<b>685.2</b>
$\Delta\%$	14.7	9.7	9.4	11.7	12.3	9.7
- <b>Other Real Estate Personal Credit<sup>4/</sup></b> (Billion Baht )	<b>5.3</b>	<b>5.7</b>	<b>5.0</b>	<b>5.9</b>	<b>4.8</b>	<b>5.7</b>
$\Delta\%$	1.5	8.6	-8.2	-5.7	-34.2	8.6
<b>Property Fund<sup>5/</sup></b> (Million Baht)	<b>18,886</b>	<b>42,679</b>	<b>19,214</b>	<b>20,486</b>	<b>20,750</b>	<b>42,679</b>
$\Delta\%$	1,134.4	126.0	438.2	254.0	4.3	126.0

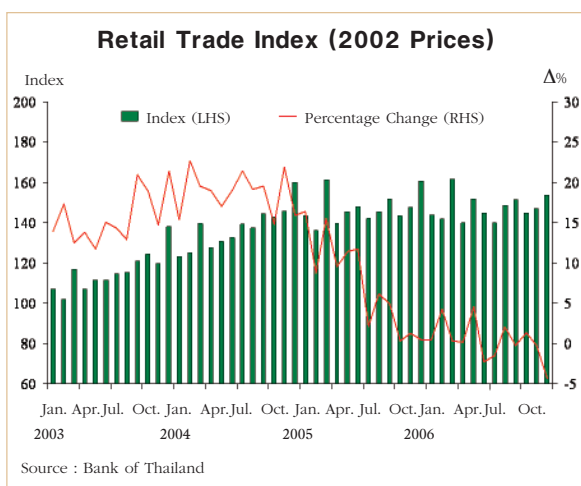
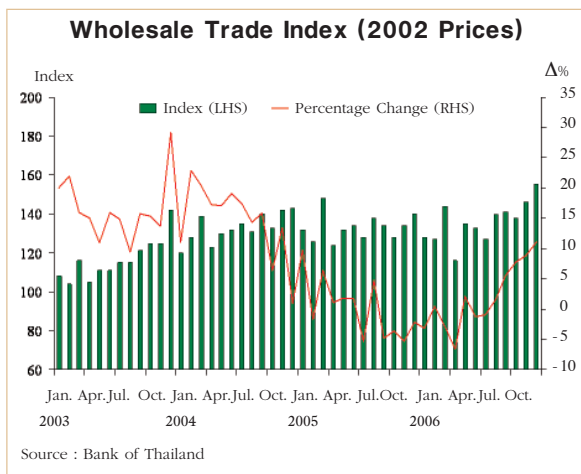
Note:  $\Delta\%$  represents the percentage change from the same period last year.

4/ Including credit extended by commercial banks (excluding foreign branches of Thai commercial banks) and newly established commercial banks, namely TISCO Bank since July 2005, Kiatnakin Bank since October 2005, ACL Bank and Land and House Retail Bank since December 2005.

5/ Market value of property fund at end-period

Source: Bank of Thailand and Stock Exchange of Thailand

## Trade



**Table 10 : Wholesale and Retail Trade Indices**

	2005	2006	2006			
			Q1	Q2	Q3	Q4 <sup>E</sup>
Wholesale Trade Index (2002 = 100)	133.2	135.8	132.9	128.0	135.9	146.5
Δ%	0.1	1.9	-1.9	-1.8	2.1	9.3
Retail Trade Index (2002 = 100)	147.0	147.4	149.1	145.4	146.5	148.5
Δ%	7.1	0.3	1.6	0.8	0.0	-1.3

Notes : E = Estimated

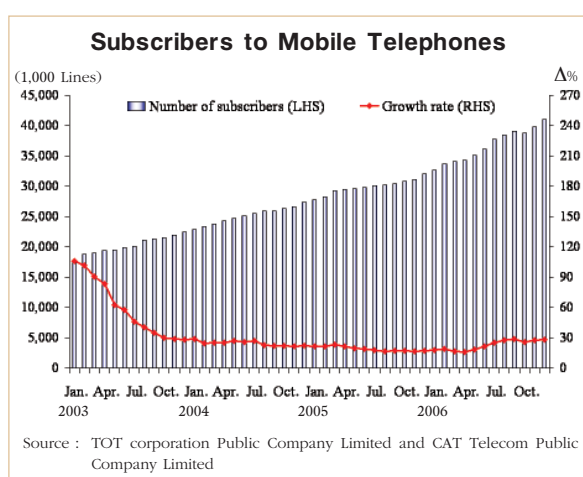
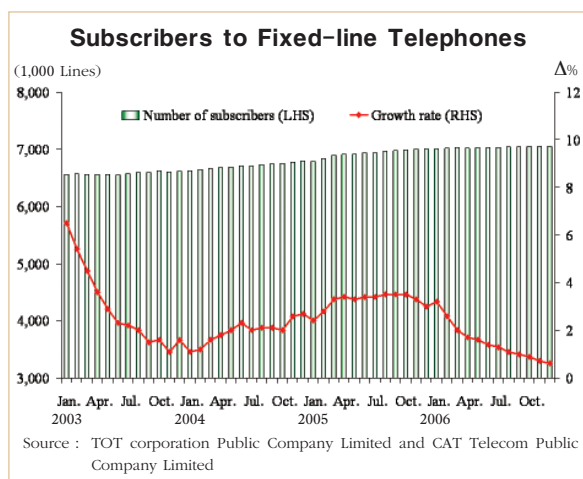
Δ% represents percentage change from the same period last year.

Source : Bank of Thailand

Trading sector's activities continued to slow down in 2006 as a result of high levels of inflation and interest rates in the first three quarters, causing an erosion of domestic purchasing power, more conservative spending behaviour and lower demand for imports. Trading activities that continued to perform well included shopping mall sales (due to all-year sales promotion), construction-related products, electrical appliances and lightings (a part of these are for the reconstruction in the aftermath of floods), wholesale chemical products and tobacco products. However, the sales of radio and television, household appliances, liquid and solid fuels, and cosmetics and perfumes decelerated this year.

Despite a decline in inflationary pressure, an improvement in minimum wage and decreasing oil prices, the trading sector's outlook for 2007 was expected to improve only slightly due to several risk factors. These included unrest in the three southernmost provinces, a series of bombings in Bangkok during New Year's Eve and political uncertainties, all of which will likely cause a further decline in consumer confidence and spending.

## Telecommunication



**Table 11 : Telecommunication Services**

(Million Lines)	2005	2006				
		Year	Q1	Q2	Q3	Q4
Fixed-line Telephones <sup>1/</sup>	7.0	7.0	7.0	7.0	7.0	7.0
Δ%	3.0	0.6	2.0	1.4	1.0	0.6
Mobile Phones <sup>1/</sup>	32.0	41.1	34.1	36.2	39.1	41.1
Δ%	16.9	28.2	16.3	21.3	28.5	28.2

Note : 1/ Data as of end-period

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

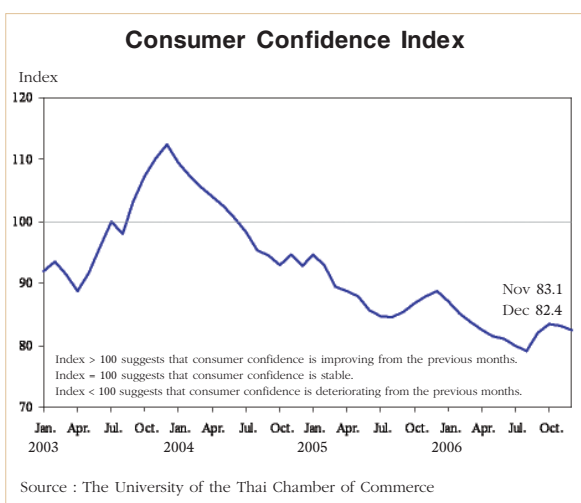
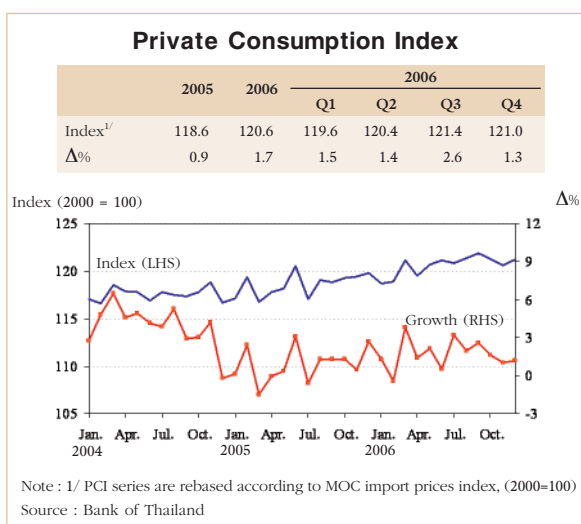
Source : TOT Corporation Public Company Limited and CAT Telecom Public Company Limited

In 2006, fixed-line telephone service activities decelerated since the beginning of the year. The number of fixed-line service users increased by 42,000 numbers or 0.6 percent this year, compared to an increase of 200,000 numbers or 3 percent in 2005. The increase occurred mainly in the provincial areas.

Mobile telephone service activities accelerated from 2005 due to price-cutting strategy of service providers (e.g. charging low service fee or charging service fee per call) to attract both new customers and customers from other companies and to maintain their own customer bases. The competition to attract customers was a result of new regulations from the National Telecommunications Commission (NTC) regarding the determination of service and network usage fees. Consequently, there was a rise in the number of mobile service users to 41 million numbers, an increase of 9 million numbers or 28.2 percent from the previous year. However, the price-cutting strategy had resulted in lower profits for service providers. With clearer directions regarding the telephone network usage fee, service providers began to scale down their price-cutting strategy in the fourth quarter and competed more on the basis of service quality and other complimentary services.

**Outlook for 2007 :** Fixed-line telephone service activities will continue to decelerate and the number of telephone users will probably remain approximately at the same level as in 2006, with expansion occurring mostly outside the Bangkok Metropolitan Area. Mobile telephone service activities will also slowdown in 2007 due to the large customer base in the previous year. In 2007, service providers are likely to scale back their price-cutting strategy and compete more in terms of the quality of services and other complementary internet services as the newly imposed telephone network usage fee has caused an increase in minimum operating cost. The expansion of the telecommunication sector this year will occur mainly in areas outside provincial areas which attracted the service providers' attention, thanks to the low ratio of mobile telephone users to the population, as opposed to Bangkok.

## Private Consumption



Private consumption expanded at 3.1 percent in 2006, slowing from 4.3 percent growth in 2005. This was due to the higher prices of both oil and goods which decreased the purchasing power of consumers. The deceleration was in line with the declining trend in consumers' confidence observed since the beginning of the year. Political uncertainty and higher costs of living contributed to the lower confidence levels.

The BOT's Private Consumption Index (PCI), constructed using 6 indicators, expanded by 1.7 percent, accelerating slightly from 0.9 percent in 2005. The main reason for the lower growth in 2005 was the acceleration in oil prices, especially benzene prices which increased by 25.4 percent. Consequently, passenger car sales for the year were lower than its usual trend. Moreover, in 2006, the growth in import prices decelerated in line with world prices and contributed to the growth of the imports of consumer goods at constant prices.

Nevertheless, the second half of the year 2006 saw private consumption growing in line with the PCI. PCI in 2006Q4 rose by 1.4 percent, slowing down from 2.5 percent in Q3 despite the improvement in consumer confidence in the beginning of the quarter following the decline in political uncertainty. The slowdown in private consumption growth showed that consumer still exercised caution in their spending due to concerns over the costs of living and floods in many areas.

**Table 12 : Private Consumption Indicators**

	2005	2006	2006			
			Q1	Q2	Q3	Q4
<b>Passenger Car Sales</b>	185.8	191.4	44.8	49.3	44.7	52.6
(Unit: 1,000 units)	(-11.2%)	(3.0%)	(6.0%)	(4.3%)	(11.0%)	(-6.0%)
<b>Motorcycle Car Sales</b>	2,053.0	1,920.6	512.2	501.6	477.7	429.1
(Unit: 1,000 units)	(4.5%)	(-6.4%)	(-1.3%)	(0.6%)	(0.0%)	(-23.0%)
<b>Sales of Benzene and Gasohol</b>	7,247.8	7,215.1	1,772.7	1,807.9	1,771.7	1,863.0
(Unit: million liters)	(-5.4%)	(-5.0%)	(-2.9%)	(-2.8%)	(-0.6%)	(4.6%)
<b>Household's Usage of Electricity</b>	25.5	26.9	6.2	7.2	6.9	6.7
<b>Power</b> (Unit: billion kilowatts)	(4.1%)	(5.3%)	(6.1%)	(0.4%)	(6.0%)	(9.7%)
<b>Imports of Consumer Goods</b>	7,387.3	8,427.0	1,987.9	2,111.7	2,212.4	2,115.1
<b>at 2000 Prices</b>						
(Unit: million USD)	(10.0%)	(14.1%)	(13.4%)	(15.1%)	(19.2%)	(8.8%)
<b>VAT at 2000 prices</b>	352.9	376.9	92.5	95.8	93.4	95.3
(Unit: billion baht)	(11.5%)	(6.8%)	(6.9%)	(8.3%)	(6.7%)	(5.3%)

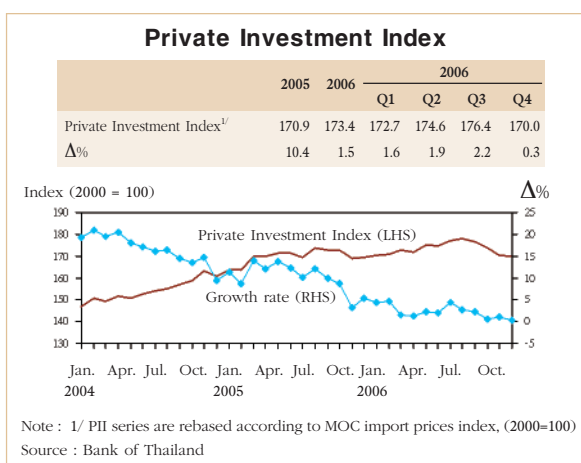
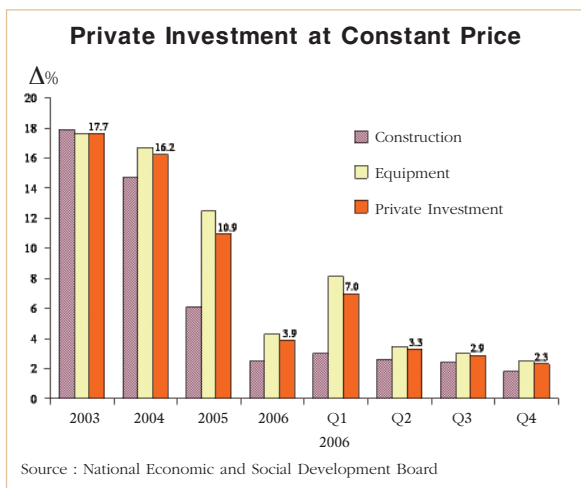
Note : Number in parenthesis is a year-on-year growth rate.

Source : Bank of Thailand

Main indicators that contributed to the slowdown of the PCI in the fourth quarter were motorcycle sales and passenger car sales. The reason for the decrease of motorcycle sales was the impacts of floods in many areas; the decrease in passenger car sales stemmed from the substantially high sales volume in 2005Q4 because of the release of new models during the period. Furthermore, imports of consumer goods at constant prices also decreased.

On the other hand, other indicators, namely value-added tax at constant prices and household electricity usage, continued to expand from the same period last year. Consumption of benzene and gasohol also accelerated in Q4 due to the decrease in oil prices towards the end of the year, despite a period of contraction in the first half of the year.

## Private Investment



**Table 13 : Private Investment Indicators<sup>1/</sup>**

	2005	2006	2006			
			Q1	Q2	Q3	Q4
Construction Area Permitted in Municipal Zone	21,238	20,165	4,890	5,221	5,110	4,954
(a 12-month backward moving average)	(-1.2%)	(-5.0%)	(-13.5%)	(-3.2%)	(-1.9%)	(-0.7%)
(Unit: 1,000 square meters)						
Domestic Cement Sales	28,966	29,156	7,834	7,191	7,248	6,883
(Unit: 1,000 tons)	(6.5%)	(0.7%)	(-6.6%)	(0.8%)	(6.6%)	(3.7%)
Domestic Commercial	517.7	490.6	125.1	115.4	109.0	141.1
Car Sales (Unit: 1,000 units)	(24.2%)	(-5.2%)	(0.7%)	(-12.6%)	(-8.1%)	(-1.2%)
Imports of Capital Goods	1,127.7	1,171.7	291.7	303.9	300.8	275.3
at 2000 Prices						
(Unit: Billion Baht)	(21.0%)	(3.9%)	(7.0%)	(8.5%)	(3.2%)	(-2.8%)
Domestic Machinery Sales	545.4	594.0	145.2	144.8	152.4	151.7
at 2000 Prices						
(Unit: Billion Baht)	(12.0%)	(8.9%)	(10.0%)	(1.8%)	(14.4%)	(9.9%)

Note : Number in parenthesis is a year-on-year growth rate

1/ PII series are rebased according to MOC import prices index, (2000=100)

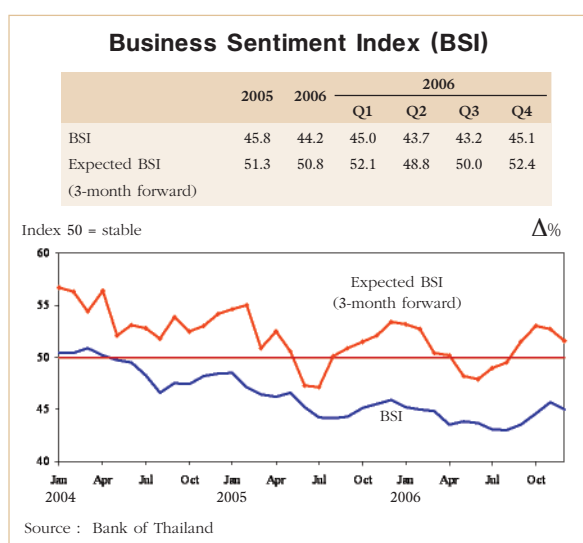
Source : Bank of Thailand

Private investment growth in 2006 was at 3.9 percent, decelerating from 10.9 percent in the previous year. This was partly attributed to higher oil prices, especially in the first half of the year, higher interest rates, and continual deterioration of business confidence. This slowdown was mainly caused by the deceleration of investment in the machinery and equipment category.

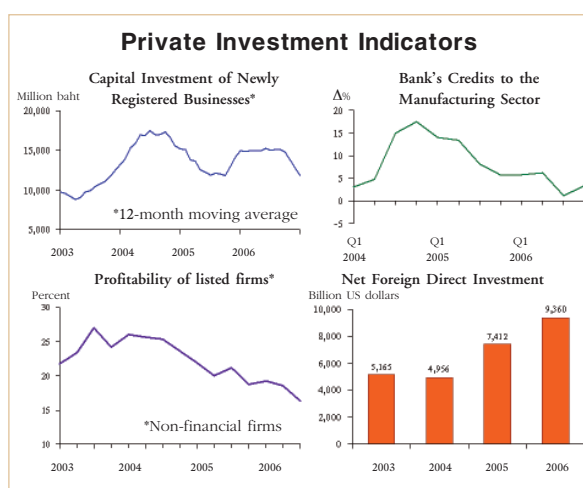
In the fourth quarter of 2006, private investment decelerated in line with the Private Investment Index (PII) in the same quarter which expanded by 0.3 percent, slowing down from 2.2 percent in previous quarter. In addition, the Business Sentiment Index (BSI) exhibited a downward trend from the beginning of 2006, despite some improvement later on in the year when the costs of production began to fall.

Comparing the different indicators of PII, the components in the machinery and equipment category, especially commercial car sales and import of capital goods at constant prices, displayed significant deceleration trends. The growth in the import of capital goods was in line with domestic demand which expanded at a slower pace amid the environment of higher oil prices, higher interest rates, and political uncertainty. In addition, private investment indicators in the construction category, namely, construction area permitted in municipal zones and domestic cement sales, also slowed down. The growth trends of both indicators were in line with the passive growth observed in the real estate sector.





Other indicators also reflected the deceleration in the growth of private investment. For instance, the value of investment projects in receipt of promotion certificates by the Board of Investment (BOI) decreased. Capital investment of newly-registered businesses and profitability of SET-listed firms also slowed. Moreover, commercial bank credit to the manufacturing sector grew at a much slower pace, although foreign direct investment increased from the previous year, especially in the telecommunication sector.



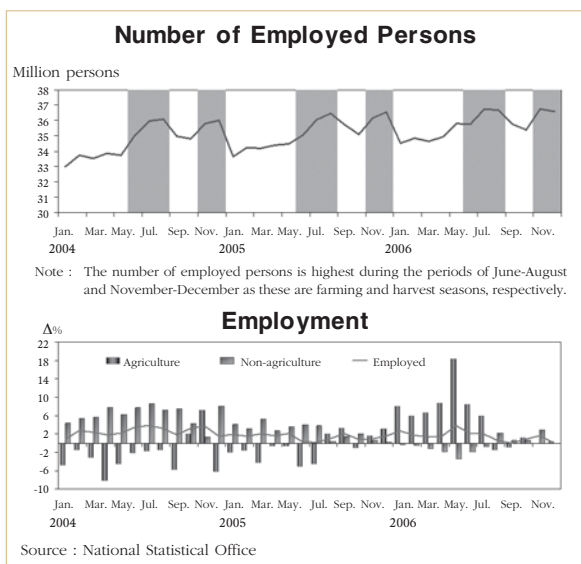
The decline in investor confidence prompted by the rise in political uncertainty had a significant adverse impact on private investment in 2006 and the beginning of 2007. As a result, the recovery of private investment was delayed. Nevertheless, high levels of capacity utilization and the downward cycle in interest rates indicated that private investment should recover once the constraints on investor confidence are removed.

**Table14 : Investment Promotion Certificates Issued**

(Δ%)	2005		2006	
	No. of	Value	No. of	Value
	Projects		Projects	
Agriculture	-6.3	-11.4	-17.1	-20.2
Mining ceramics and metals	42.3	73.9	-35.1	41.5
Light industry	28.2	7.2	-8.0	-36.9
Metal machinery and equipment	-6.7	101.7	0.4	-63.6
Electronics and electrical products	23.3	-37.3	-1.4	42.3
Chemicals paper and plastic	10.7	13.7	-10.3	142.4
Services and infrastructure	12.2	128.4	39.8	-63.2
<b>Total</b>	<b>7.6</b>	<b>43.4</b>	<b>1.1</b>	<b>-18.3</b>

Source : Office of the Board of Investment

## Labour Market Conditions



**Table 15 : Labour Market Conditions by Sector and Region**

(Unit: Percent)

	Share of Employed Persons		Growth Rate of Employed Persons	
	2005	2006	2005	2006
Agriculture	37.7	38.9	-0.7	4.6
Non-agriculture	62.3	61.1	2.6	-0.4
Manufacturing	16.7	16.3	2.3	-0.9
Wholesale and retail trade	15.7	15.3	0.3	-0.8
Hotel and restaurant services	6.7	6.5	4.0	-2.4
Construction	6.0	6.0	1.9	1.2
Others	17.2	17.0	4.9	0.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>1.3</b>	<b>1.5</b>

**Table 16 : Labour Market Conditions by Region**

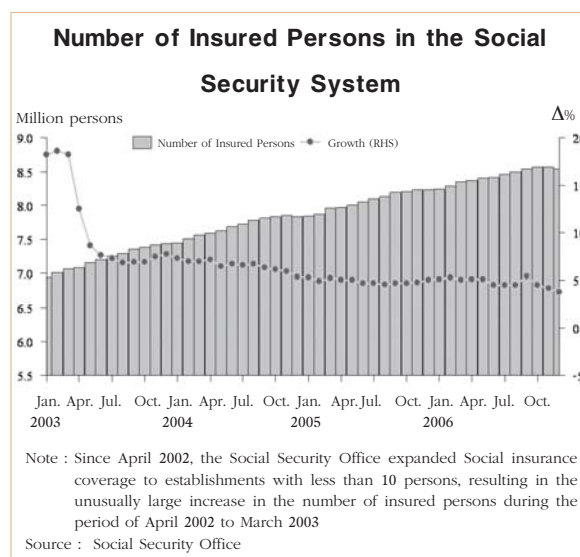
(Unit: Percent)

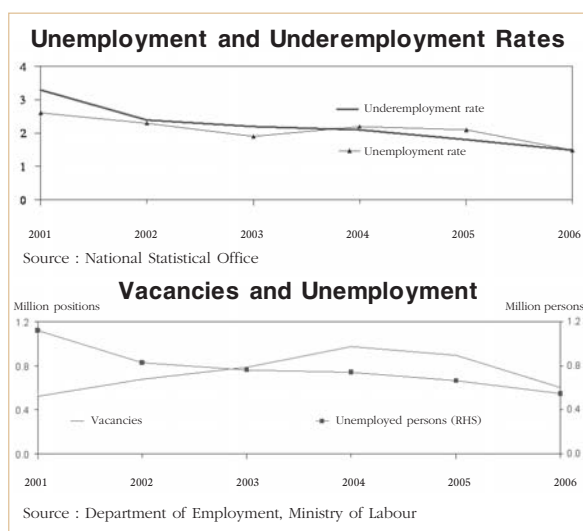
	Share of Employed Persons		Growth Rate of Employed Persons		Unemployment Rate	
	2006	2005	2006	2005	2006	2005
Central region	10.9	4.8	5.5	1.6	1.4	
Bangkok	25.8	-6.9	-7.7	1.8	1.5	
Northern region	18.2	0.5	-0.3	1.9	1.4	
Northeastern region	31.6	2.1	0.9	2.1	1.7	
Southern region	13.5	3.9	4.4	1.7	1.5	
<b>Whole Kingdom</b>	<b>100.0</b>	<b>1.3</b>	<b>1.5</b>	<b>1.8</b>	<b>1.5</b>	

Source : National Statistical Office

In 2006, the number of employed persons increased by 1.5 percent from the previous year. Once the effects of drought on the agricultural sector had dissipated, employment in the agricultural sector rose by 4.6, compared to a reduction of 0.7 percent in 2005. Nonetheless, part of this increase was due to the flow of labour from the non-agricultural sector which registered a decrease in employment of 0.4 percent, in contrast to the growth of 2.6 percent in 2005. In addition, the decline in employment was observed in most of the key sectors.

Employment rose significantly in the central and southern regions of Thailand. This stemmed from the favourable growth of both prices and production in the agricultural sector. The south of Thailand, in particular, saw a substantial rise in the price of natural rubber. In addition, employment growth in these two regions partly resulted from the flow of labour out of Bangkok as well as the north and northeast of Thailand.





At the end of 2006, the number of persons covered in the social security system totalled 8.24 million, rising by 3.8 percent from the end of previous year. This reflected satisfactory employment growth in the formal private sector.

Despite the investment slowdown, the unemployment rate declined from 1.8 percent in 2005 to 1.5 percent in 2006. The underemployment rate also fell. These indicators reflect a tight labour market which may adversely affect business activities in the future. Nevertheless, there were factors that kept pressures on wage level increases and labour demand relatively under control, namely, the flexible movement of labour between the agricultural and non-agricultural sectors and employers' adjustments to labour demand as reflected in the low number of job vacancies.

## Price Level

In 2006, the **consumer price index** (CPI) rose by 4.7 percent, accelerating slightly from the previous year's rate of 4.5 percent, as a result of a 4.8 percent increase in food and beverage prices and a 4.6 percent increase in non-food and non-beverage prices. **Core CPI** (excluding raw food and energy prices) rose by 2.3 percent, accelerating from the previous year's rate of 1.6 percent but still remaining within the policy target range of 0 - 3.5 percent. The acceleration can be traced back to the pass-through of increased production costs to prices of other goods and services, following the high oil prices during the first half of the year. This was especially so for public transportation costs.

Factors that contributed to the acceleration of inflation in 2006 included:

- (1) Retail oil prices that increased continuously during the first half of the year;
- (2) Higher energy costs which led to an overall upward adjustment in public

transportation costs of 17.9 percent. This included various modes of transportation such as local and regional bus, motorcycle, motor tricycle, train, and airplane. Moreover, electricity charges also increased;

- (3) Raw food prices - especially prices of vegetables and fruits - that rose significantly towards the end of the year due to the damages of the floods on crops.

Although the annual average headline inflation increased from the previous year, headline inflation during the second half of the year declined noticeably after oil prices began to decline continuously as a result of both lower world crude oil prices and a stronger baht. Meanwhile, core inflation gradually slowed down as a result of the reduced pass-through from supply-side factors and lower demand pressure in line with the softening domestic demand.

**Table 17 : Consumer Price Index**

(Percentage change from the same period last year)

	Weight (Percent)	2005	2006	2006			
				Q1	Q2	Q3	Q4
Headline Consumer Price Index	100.0	4.5	4.7	5.7	6.0	3.6	3.3
Food and beverages	36.1	5.0	4.8	4.1	5.3	3.3	5.7
Non-food and beverages	63.9	4.3	4.6	6.8	6.5	3.8	1.8
Core Consumer Price Index	75.95	1.6	2.3	2.6	2.8	1.9	1.7

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

The **Producer Price Index (PPI)** increased by 7.0 percent in 2006, decelerating from the previous year's increase of 9.2 percent. This was a result of a deceleration of prices in every category, namely agricultural, mining, and manufactured products, which rose by 18.0, 15.1 and 5.0 percent, respectively, compared with the previous year's rates of 21.2, 17.4 and 7.2 percent, respectively. Agricultural prices slowed down in line with world farm prices, particularly those of

livestock and fish and other fishing products which declined from the previous year in line with world prices.

Meanwhile, manufactured product prices declined, following a marked deceleration in the prices of petroleum products. Prices of appliances and electrical goods also declined in line with the electronic cycle. Moreover, prices of mining products slowed down as a result of lower crude oil and natural gas prices.

**Table 18 : Producer Price Index**

(Percentage change from the same period last year)

	Weight (Percent)	2005	2006	2006			
				Q1	Q2	Q3	Q4
Producer Price Index	100.0	9.2	7.0	8.7	10.3	6.2	3.4
Agricultural Products	9.5	21.2	18.0	20.0	23.3	13.1	16.2
Mining Products	2.4	17.4	15.1	23.2	27.2	13.4	-0.9
Manufactured Products	88.1	7.2	5.0	6.5	7.6	4.8	1.4

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

## External Sector

### World Economy

The world economy continued to expand in 2006 though at a slower pace than in 2005. As of September 2006, the International Monetary Fund (IMF) projected that the world economy would grow at 4.9 percent in 2006, compared to 5.1 percent in the previous year. In addition, the IMF forecasted that the world economic growth would decelerate in 2007, compared to 2006, mainly from the US economic slowdown.

During the first half of 2006, the world economy continued to be driven mainly by the US expansion, especially in the first quarter due to economic recovery from hurricane damages at the end of 2005. In addition, world economic growth was supported by economic recovery in the Euro and Japanese economies, and continued economic growth in Asia, especially in China. However, risks from persistently volatile oil prices and the US economic slowdown still remained.

During the second half of 2006, the US economy decelerated significantly in the third quarter. The Japanese economy also expanded at a slower pace whereas the Euro economy showed clear signs of recovery. Moreover, in the fourth quarter, the strong economic growth of China and India, as well as more stable oil prices, contributed significantly to world economic expansion.

The **US economy** continued to expand satisfactorily in 2006 as compared to the previous year. In the first quarter of 2006, economic growth was supported by the recovery from the hurricanes, Katrina and Rita. In contrast,

the economy decelerated significantly in the second and third quarters due to the slowdown of personal consumption expenditure, the downturn in the housing market, high oil prices, and rising interest rates. Meanwhile, business investment in some sectors remained subdued. Nevertheless, in the fourth quarter, the economy rebounded and became more stable due to the upturn in private consumption as a result of better wage income and labor market conditions as well as more stable oil prices. Although the current account deficit problem still remained, the fiscal condition improved due to the increase in revenues. The high volatility of oil prices continued to be the key source of inflationary pressure.

The **Euro area economy** recovered noticeably and was an important driver of world economic growth in 2006. This recovery resulted mainly from increased domestic demand in the Euro area, especially Germany, improved export performance and a rise in fixed investment. In addition, the confidence of consumers and producers improved continuously, partially due to positive employment conditions in the manufacturing and service sectors and the acceleration of private spending before the 2007 VAT increase in Germany. The unemployment rate declined to 8 percent, close to the Non-accelerating Inflation Rate of Unemployment (NAIRU).

The **Japan economy** expanded continuously in 2006, especially in the first quarter as a result of domestic demand and export expansion which reflected continuous

economic recovery and improved consumer confidence. Meanwhile, in the second and third quarters, the economy expanded at a slower pace due to subdued domestic demand, which can be attributed to unclear signs of economic recovery and lack of wage growth. As a result, consumer spending reflected greater caution. However, in the fourth quarter, the economy rebounded due to the acceleration of export and private investment.

In the **Asian region**, most economies, especially China, expanded continuously due to the good export performance. During the first half of 2006, most economies continued to expand satisfactorily from the previous year due to an improvement in domestic private consumption and acceleration in the export sector which was a result of the increase in global demand for electronics.

However, most Asian countries expanded at moderate paces in the second half of 2006 due to the slowdown in domestic private consumption and trading partners' economies. In contrast, Indonesia's economic growth continued to accelerate, partly due to the continuous reduction of the policy interest rate.

In 2006, the IMF expected **world trade volume** to expand by 7.6 percent, decreasing from 8.9 percent in the previous year. This deceleration corresponded to the projection of world economic slowdown, compared to the previous year's.

The increase in **world inflationary pressure** resulted mainly from high and volatile oil prices. The movement of US inflation primarily reflected oil price volatility. Meanwhile, inflation pressure in the Euro area and Japanese economy was due to both high oil prices and economic recovery. Moreover,

since May 2006, Japan's inflation rate returned to the positive range, reflecting the end of the deflationary period. In the Asian region, inflation pressure resulted mainly from the prices of energy and food. Nevertheless, world inflation remained under control, partly owing to the tightening of monetary policies and more stable oil prices in the fourth quarter of 2006.

During the first half of 2006, **world interest rates** continued on the upward trend following the previous year. The Federal Funds rate was raised by 25-basis-point increments 4 times to attain 5.25 percent per annum in June 2006. Thereafter, the US Federal Reserve left the policy rate on hold at 5.25 percent per annum for the rest of the year. In 2006, the ECB raised the Refinancing rate 5 times in increments of 25 basis points to attain 3.50 percent per annum, due to pressure from high oil prices and the attendant second round effects. The Bank of England raised the Base rate twice in increments of 25 basis points to attain 5.0 percent per annum due to the pressure from high oil prices and the robust economic conditions. In March 2006, the Bank of Japan ended its quantitative easing policy and changed its operating target from the outstanding balance of current accounts at the central bank to the uncollateralized overnight call rate. In addition, in June 2006, the Bank of Japan raised the policy interest rate from 0 percent per annum to 0.25 percent per annum. In the Asian region, most countries raised their policy interest rates in the first half of 2006 to maintain price stability in the face of inflationary pressure from high oil prices. However, in the second half of 2006, the conduct of monetary policy across the Asian economies largely reflected their differing respective economic fundamentals.



## International Trade and the Balance of Payments

In 2006, exports continued to expand from 2005. The increase in export volume was due to the continued favourable economic expansion of major trading partners, especially the US and other regional countries. Meanwhile, rising world prices of commodities such as oil, iron, gold, copper, rice, and rubber brought about higher production cost and higher prices for exports and imports, compared to the previous year. Nevertheless, baht appreciation in 2006 relative to 2005 resulted in low expansion in export income in terms of baht. Moreover, imports growth in 2006 did not accelerate in tandem with the baht appreciation. Such circumstance was due to the domestic demand slowdown and the aforementioned uncertainties of world prices. These factors caused the trade balance to turn from a large deficit in 2005 into surplus in 2006. Taking into account the increased surplus in **services, income and transfer account**, the resulting **current account** thus turned into surplus in 2006. Although the net inflow of capital in 2006 was smaller than that in 2005, the overall balance of payments registered a higher surplus compared to 2005.

### Exports

**Exports value** totaled 128.2 billion US dollars, equivalent to a 17.4 percent year-on-year growth (or 10.2 percent growth in baht terms). The expansion of both volume and price<sup>1/</sup> from 2005 was at 11.6 and 5.2

percent, respectively. Export growth was mainly attributed to high-technology manufacturing products e.g. electronics, vehicle and parts, petroleum products, base metal products, and chemical products.

Details of Thailand's major export items are as follows:

**Agricultural products.** Export value of agricultural products expanded by 30.3 percent year-on-year, both in volume and price, in line with the expansion of major export items such as rice, rubber, tapioca products, and fresh and frozen chicken.

**Fishery products.** Export value of fishery products rose by 13.5 percent, mainly from the growth in price basis. The key contributor to this growth came from the export of **fresh and frozen shrimps**, which expanded well in the major markets namely, the US, Japan, the EU and South Korea.

**Manufactured products.** Export value growth of manufactured products grew by 16.4 percent year-on-year, close to the rate in 2005 following exports in high-technology products. Details of manufactured product exports classified by sectors are as follows:

**Labour-intensive products.** Export value in this category rose by 6.8 percent, slowed down from 2005 and consistent with the softening of exports in **precious stone and jewelry exports**, which were affected by the

1/ Such indices were calculated from the Ministry of Commerce (MOC)'s export and import prices indices. The Bank of Thailand discontinued its export and import prices indices since January 2007 and replaced such indices with the MOC's (the Bureau of Trade and Economic Indices) indices from 2007 onwards, with the data dated back to the year 2000.



rise of gold price in 2005. Meanwhile, **garment** exports continued to expand, partly because the US had imposed import quotas on garments from China.

**High-technology products.** Export value of high-technology products rose by 18.0 percent year-on-year. The expansion came mainly from the growth in **computers and parts**, which was in line with the growth of hard disk exports, as well as **integrated circuits (IC) and parts** that continued to expand from 2005 despite a slight slowdown in the second half of 2006 due to the electronic down-cycle. Meanwhile, export of **electrical appliances** recorded higher growth owing to export growth in television sets, air-conditioners and refrigerators. Export value of **base metal products, chemical products and petroleum products** were also higher than those in 2005 due to excess supply that resulted from domestic demand slowdown and capacity utilization expansion. Export value of **vehicle and parts** also registered an expansion, following higher exports to several destinations in the EU, Australia and the Middle East.

**Resource-based products.** Export value in this category increased by 14.3 percent year-on-year, in line with the expansion of major export items, including 1) **rubber products** especially radial tyres, 2) **canned fish**, mainly increased in volume growth following exports in canned tuna, 3) **prepared fowls** as substitutes for fresh and frozen fowls to the EU, and 4) **sugar**, which increased from higher export price relative to 2005, while the volume of sugar export declined.

## Imports

**Imports value** recorded 126.0 billion US dollar, grew by 7.0 percent year-on-year (or 0.7 percent growth in baht terms), of which 6.5 percent was growth in price and 0.5 percent was growth in volume. This was in line with the weakened domestic demand, both in public and private consumption.

Details of Thailand's major import items are as follows:

**Consumer goods.** Import value of consumer goods rose by 14.2 percent year-on-year, in line with imports of electrical appliances, particularly import of parts for digital television sets export production. This was in tandem with export expansion in 2006. Nonetheless, imports for domestic consumption declined, especially in **food and beverages** sector, namely whisky, milk powder etc., that slowdown from 2005 following the domestic demand slowdown.

**Intermediate goods and raw materials.** Import value in this category increased by 5.1 percent year-on-year, moderated from 2005 mainly from (1) the decrease in imports of **woods, iron, and steel**, due to the softening domestic demand, particularly in the domestic property and real estate sector, and the slowdown of the government's mega projects such as the mass transit project, (2) imports in electronic parts moderated, in line with the slowdown of integrated circuits (IC) exports, and (3) slowdown in imports of **animal feeds**, especially soybean meal.

**Capital goods.** Import value of capital goods rose by 2.9 percent, slowed down from 2005 and in line with imports of non-electrical and electrical machinery in major industries, including (1) **electricity industry** where the Independent Power Producers (IPPs) imported more machinery in addition to other large-scale machinery for generating electricity that was installed earlier in 2005, (2) **petrochemical industry**, where substantial investment by private investors was observed in 2005. This was in line with the exports of chemical products which expanded satisfactorily in 2006, (3) **automobile industry** which slowed down in 2006 following the weakened domestic demand, and (4) **telecommunication industry**, where imports of equipments decelerated from 2005. Moreover, a total of 4 **commercial airplanes** with a total value of 571.4 million US dollar were imported this year (lower than the import of 8 commercial airplanes in 2005). Imports of gas pipes, on the other hand, continued to rise from 2005.

**Vehicle and parts.** Import value of vehicle and parts declined by 6.4 percent, year-on-year, following the slowdown in imports of vehicle parts in passenger cars and trucks, due mainly to weakened domestic demand.

**Crude oil.** Import value of crude oil increased by 17.6 percent, moderated as compared to the previous year. This was because the import volume was decreased to 301.8 million barrels, down by 6.1 percent. In contrast, crude oil price rose by 25.2 percent from 2005, averaging at 65.8 US dollars per barrel, higher from the average of 52.5 US dollars per barrel in 2005.

## **Trade, Services and Current Account Balances**

**Trade balance.** Trade balance was in surplus by 2.2 billion US dollars, mainly attributed to trade surplus with major trading partners, including the US, the EU, the ASEAN and Hong Kong. The surplus was concentrated in major export items such as rubber, petroleum products, metal products, computers and parts, vehicle and parts, and integrated circuits (IC) and parts. Meanwhile, Thailand experienced trade deficits with certain countries, for instance, from the imports of metal and chemical products from Japan, electronics from South Korea and Taiwan, and crude oil from the Middle East. Nevertheless, Thailand was able to maintain trade surpluses with countries that Thailand had established Free Trade Agreements (FTA) with (except China) namely, India, Australia and New Zealand.

## **Service, Income and Transfers Account**

The services, income and transfers account recorded a surplus of 1.0 billion US dollar, higher than the surplus of 0.7 billion US dollar in 2005. This was in line with tourism revenue, which rose by 29.9 percent following an increase in the number of tourists by 20.0 percent, year-on-year. Tourism expenditure grew by 21.8 percent, year-on-year, with 10.6 percent year-on-year increase in outbound tourists compared to 2005. Investment income increased by 1.0 billion US dollars, equivalent to 39.2 percent year-on-year growth with the contribution from both private and public sectors. Meanwhile, investment payment increased by 0.8 billion US dollars, equal to 7.8 percent year-on-year growth, due to profit

remittances and dividend payments of the private sector. Consequently, the current account adjusted for reinvested earnings or R.E.<sup>2/</sup> in 2006 turned from a deficit of 7.9 billion US dollars in 2005 to a surplus of 3.2 billion US dollars, equivalent to 1.5 percent of GDP.

The data on “**Reinvested Earnings: R.E.**” was first introduced and incorporated in the balance of payments data in 2006. R.E. was recorded as credit (debit) to the direct investment item in the capital and financial account, while the same amount would be counter-recorded as debit (credit) to the investment income item in the current account. For example, reinvested earnings of foreign companies in Thailand would increase foreign direct investment inflows in the capital and financial account, and at the same time lower investment income in the services, income and transfers account. This can be regarded as outflows in the latter account which is later reinvested in the country and recorded in the former account. Such accounting practice would lower the current account but raise the capital and financial account by the same amount. Hence, the overall balance of payments and cash flows were not affected. These were mere accounting adjustments which were made to improve the coverage of the Balance of Payments statistics, in accordance with the international standard as stated in the IMF’s Balance of Payments Manual: 5th Edition (BPM5).

## Net Capital Movement

In 2006, net capital movements recorded a surplus of 8.9 billion US dollars, declined from a surplus of 12.6 billion US dollars in 2005, owing to higher net capital outflow in the banking sector compared to the previous year. On the contrary, net capital inflow to non-banking sector increased from 2005, partially due to the equity investment sell-off of major communication companies to foreign investors. In addition, there was a large increase in capital inflows in the form of investment in the stock exchange and in the form of other loans. Details of net capital movements in 2006 are as follows:

**Government sector.** Net capital movements of the government sector recorded a deficit of 0.6 billion US dollars, lower than in 2005. The smaller deficit was due to debt restructuring of the government sector and the redemptions of government securities. The latter was mainly a result of domestic commercial banks’ repurchase of long-term public debt securities issued abroad and foreign investors’ selling back baht-denominated securities in the secondary market, including the redemption of public securities that were due.

**Banking Sector.** Capital flows in the banking sector registered a deficit of 8.6 billion US dollars, reversing from a surplus of 0.3 billion US dollars in 2005. The net capital outflow in this sector was mainly attributed to a 9.3 billion US dollars increase in net foreign assets of domestic commercial banks,

2/ Since October 2006, Bank of Thailand recorded “reinvested earnings” as part of direct investment item in capital and financial account as well as as recorded the same amount as the contra entry in the investment income item in current account, such data was revised backward since 2001 data.

which was due to the selling of forward contracts of foreign currencies to residents, and sterilization of the baht using sell-buy swap transactions by the Bank of Thailand. As a result, net capital outflow was observed in the banking sector. Such outflow was also due to a 1.3 billion US dollars repayment of short-term and long-term debts by the Bangkok International Banking Facilities (BIBFs).

**Other Sectors.** Capital flows in other sectors recorded a large surplus of 18.0 billion US dollars, mainly from capital flows to non-banking sector. Details of net capital movements in 2006 are as follows:

**Non-banking Sector's** net inflow accounted for 17.2 billion US dollars, with a net inflow for almost every category as follows: (1) **foreign direct investment** registered a surplus of 9.5 billion US dollars (including reinvested earnings of 4.3 billion US dollars), due to the net inflow in **equity investment**, especially those of a major telecommunication group, (2) **portfolio investment** recorded a surplus of 4.8 billion US dollars, higher than the net inflow of 2.6 billion USD in 2005, partly due to the recapitalization in oil refinery and beverage companies, (3) **other loans** registered a net inflow of 3.3 billion US dollars, reversed

from a deficit of 1.3 billion US dollars in 2005. The majority of such loans were inflows to the car-leasing companies as well as the holding companies.

**State-enterprise Sector.** Capital flows to state-enterprise sector recorded a surplus of 0.8 billion US dollars, lower than the net inflow of 2.3 billion US dollars in 2005. The reduction of net inflow in 2006 was due to lower long-term loans and a decline in the issuance of long-term securities abroad. Furthermore, the net inflow was partially attributed to the double-entry of import deposit items according to the Balance of Payments accounting basis.

## Balance of Payments

The **current account** (including reinvested earnings) turned to a surplus of 3.2 billion US dollars from a deficit of 7.9 billion US dollars in 2005. In addition, the net capital flow registered a surplus of 8.9 billion US dollars. As a result, the **balance of payments** was in surplus by 12.7 billion US dollars in 2006, compared to a surplus of 5.4 billion US dollars in 2005. International reserves rose from 52.1 billion US dollars at end-2005 to 67.0 billion US dollar at end-2006, equivalent to 6.4 months of imports. Net outstanding forward obligations of the BOT stood at 6.9 billion US dollars.

**Table 19 : Balance of Payments**

(Unit : Million of US\$)

Millions of US\$	2005			2006 <sup>1/</sup>		
	Year	H1	H2	Year	H1	H2
<b>Exports, f.o.b.</b>	<b>109,193</b>	<b>51,102</b>	<b>58,091</b>	<b>128,220</b>	<b>59,684</b>	<b>68,536</b>
(% change)	15.0	13.5	16.4	17.4	16.8	18.0
<b>Imports, c.i.f.</b>	<b>117,722</b>	<b>59,067</b>	<b>58,655</b>	<b>125,975</b>	<b>61,613</b>	<b>64,363</b>
(% change)	25.9	31.0	21.2	7.0	4.3	9.7
<b>Trade balance</b>	<b>-8,530</b>	<b>-7,966</b>	<b>-564</b>	<b>2,245</b>	<b>-1,929</b>	<b>4,174</b>
Net services income & transfers	677	160	518	996	337	659
<b>Current account balance</b>	<b>-7,852</b>	<b>-7,806</b>	<b>-46</b>	<b>3,240</b>	<b>-1,592</b>	<b>4,832</b>
<b>Capital movements (net)</b>	<b>12,558</b>	<b>7,043</b>	<b>5,514</b>	<b>8,866</b>	<b>5,886</b>	<b>2,980</b>
Monetary authorities	0	0	0	0	0	0
Government	-952	-656	-295	-558	-196	-362
Bank	290	259	31	-8,609	-4,901	-3,708
Other sectors	13,220	7,441	5,778	18,033	10,983	7,050
- Non-bank	10,969	5,495	5,474	17,195	10,507	6,688
Foreign Direct Investment	7,412	3,626	3,786	9,450	5,978	3,473
Portfolio Investment	2,645	1,412	1,233	4,784	2,501	2,283
Other Loans	-1,308	-1,161	-147	3,313	1,813	1,500
Others	2,220	1,618	603	-354	215	-569
- State enterprises	2,251	1,947	304	838	476	362
Errors and omissions	716	1,859	-1,143	635	393	242
<b>Overall balance<sup>2/</sup></b>	<b>5,422</b>	<b>1,097</b>	<b>4,325</b>	<b>12,742</b>	<b>4,688</b>	<b>8,054</b>

Note : 1/ Preliminary

2/ Actual

Source : Customs Department and Bank of Thailand

## External Debt

**External debt** outstanding stood at 59.9 billion US dollars at end-2006, increasing from 52.0 billion US dollars at end-2005. External debt to GDP ratio<sup>1/</sup> at end-2006 registered at 33.1 percent, slightly increased from the end of 2005 at 32.5 percent. The net external debt inflow was at 6.0 billion US dollars. Coupled with the appreciation of Thai baht, Japanese yen and euro against US dollar over the year, the outstanding value of external debt in terms of US dollars rose by 7.9 billion US dollars. The details can be summarized as follows:

**Government sector.** External debt of the general government sector was recorded at 4.1 billion US dollars, down from 2005. The reduction in government external debt was due to the repurchase of long-term public debt securities issued abroad by domestic commercial banks from non-residents, foreign investors' selling baht-denominated securities in the secondary market and securities redemption at maturity. Over the year, government external debt has been repaid consistently, resulting in a net government debt repayment of 0.5 billion US dollars in total. Coupled with the effects of currency appreciation against the US dollar mentioned earlier, the outstanding value of external debt of public sector declined by 0.4 billion US dollars.

**Banking sector.** External debt of the banking sector stood at 6.7 billion US dollars.

Net debt flow of commercial banks registered at 1.5 billion US dollars, while those of the Bangkok International Banking Facilities (BIBFs), which were terminated in September 2006, repaid its short and long-term external debt totaling 1.3 billion US dollars. Including the effects of currency appreciation against the US dollar, the outstanding external debt for the banking sector increased by 0.7 billion US dollars from 2005.

**Other sectors.** External debt of other sectors stood at 48.2 billion US dollars. Main contributors were (1) net debt inflow of 6.3 billion US dollars, which were mainly loans to non-affiliates (other loans) in the energy sector and loans to affiliates of the telecommunication businesses and (2) slight increase in net external borrowing by state enterprises for goods settlements. Nonetheless, with the appreciation of Thai baht, Japanese yen and the euro against the US dollar, external debt outstanding in this category in terms of US dollar rose by 7.6 billion US dollars from 2005.

### External debt structure

Short-term debt as of end-2006, accounted for 30.6 percent of total external debt, decreasing slightly from 30.8 percent at end-2005 due to the increases of long-term loans in the banking sector, loans to non-affiliates and debt securities of the non-banking sector.

1/ The new series of the external debt to GDP was revised by adopting the World Bank's approach: using the averaged quarterly GDP for the last 3 years starting from the GDP of the quarter in question (while the previous approach was calculated by dividing the external debt outstanding of the quarter in question by the average GDP of the same year and the previous 2 years).

**Table 20 : External Debt Outstanding\***

(Unit: Million US\$)

	2004	2005	2006	Dec-06 compared to Dec-05
<b>1. Public Sector</b>	<b>5,779</b>	<b>4,518</b>	<b>4,140</b>	<b>-378</b>
Long-term	5,491	4,518	4,140	-378
Short-term	288	0	0	0
<b>2. BOT (Long-term)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>3. Banks</b>	<b>7,069</b>	<b>6,038</b>	<b>6,729</b>	<b>691</b>
Long-term	4,384	2,982	3,564	582
Short-term	2,685	3,056	3,165	109
<b>3.1 Commercial Banks</b>	<b>3,043</b>	<b>4,244</b>	<b>6,729</b>	<b>2,485</b>
Long-term	1,733	2,000	3,564	1,564
Short-term	1,310	2,244	3,165	921
<b>3.2 BIBFs</b>	<b>4,026</b>	<b>1,794</b>	<b>0</b>	<b>-1,794</b>
Long-term	2,651	982	0	-982
Short-term	1,375	812	0	-812
<b>4. Other sectors</b>	<b>38,464</b>	<b>41,484</b>	<b>49,066</b>	<b>7,582</b>
Long-term	29,263	28,526	33,891	5,365
Short-term	9,201	12,958	15,175	2,217
<b>4.1 State Enterprises</b>	<b>9,151</b>	<b>9,024</b>	<b>8,987</b>	<b>-37</b>
Long-term	9,151	8,990	8,924	-66
Short-term	0	34	63	29
<b>4.2 Non-Banks</b>	<b>29,313</b>	<b>32,460</b>	<b>40,079</b>	<b>7,619</b>
Long-term	20,112	19,536	24,967	5,431
Short-term	9,201	12,924	15,112	2,188
<b>Total Debt (1+2+3+4)</b>	<b>51,312</b>	<b>52,040</b>	<b>59,935</b>	<b>7,895</b>
<b>External Debt / GDP<sup>1/</sup> (%)</b>	<b>35.7</b>	<b>32.5</b>	<b>33.1</b>	<b>0.6</b>
Long-term	39,138	36,026	41,595	5,569
Short-term	12,174	16,014	18,340	2,326
<b>Share (%)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	
Long-term	76.3	69.2	69.4	
Short-term	23.7	30.8	30.6	

Note : \* Including valuation change

1/ The new series of the external debt to GDP was revised by adopting the World Bank's approach: using the averaged quarterly GDP for the last 3 years starting from the GDP of the quarter in question (while the previous approach was calculated by dividing the external debt outstanding of the quarter in question by the average GDP of the same year and the previous 2 years).

Source : Bank of Thailand



## Fiscal Conditions

For fiscal year 2006, government continued to maintain a balanced budget policy for the second consecutive fiscal year. The budget was initially set at 1,360 billion baht.

The fiscal year 2006 budget was set to strengthen macroeconomic fundamentals and stability and maintain a balanced budget path. To this end, the government allocated the budget to meet strategic goals in accordance with governmental policy and the Administrative Plan. The Administrative Plan requires government agencies, state enterprises, and other public agencies to prepare and submit budgets in accordance with governmental policy and integrating three dimensions of strategic framework namely, agenda, area, and function. Furthermore, the budget allocation will help enhance income distribution in the economy by fine-tuning balance among manufacturing sector, agricultural sector and natural resource and environmental management.

Despite the balanced budget policy in fiscal year 2006, government's commitment to budget disbursement acceleration policy occasionally caused liquidity problems. The government therefore issued new treasury bills in the amount of 80 billion baht to strengthen short-term liquidity management as approved by cabinet synopsis on November 29, 2005. As a result, the treasury bill ceiling was expanded to 250 billion baht from 170 billion baht by the end of fiscal year 2004.

### Fiscal Position

In fiscal year 2006, the government cash balance recorded a surplus of 4.5 billion baht, equivalent to 0.06 percent of GDP. Meanwhile, government net domestic borrowing totaled 44.9 billion baht with net foreign loan repayment totaling 15.8 billion baht, resulting in a surge of 33.6 billion baht in treasury reserves. Treasury reserves therefore increased from 104.8 billion baht by the end of fiscal year 2005 to 138.5 billion baht.

For fiscal year 2007, the government economic policy was set in accordance with His Majesty the King's Sufficiency Economy philosophy. As such, policy implementation will follow the principles of moderation, reasonableness, and the need for self-immunity against shocks. Consequently, the government planned a budget deficit to foster continued economic growth. The planned budget comprises of 1,566.2 billion baht of budget expenditure and 1,420 billion baht of net revenue. The budget deficit was set at 146.2 billion baht, equivalent to 1.7 percent of GDP. It is worth noting that some of budget has been allocated for repayment in arrears incurred by the previous government.

In addition, the fiscal position in the first quarter of fiscal year 2007 recorded a cash deficit of 25.5 billion baht. In this regard, government used treasury reserves to finance its deficit and also paid for net domestic repayment and net foreign repayment in the amounts of 1.1 billion baht and 20.1 billion baht, respectively. Thus, the treasury balance at the end of first quarter registered 91.8 billion baht, reduced by 46.6 billion baht from the end of fiscal year 2006.



**Table 21 : Treasury Account Position<sup>1/</sup>**

(Unit: Billion baht)

*Fiscal Year*

	2005	2006	2006		2007 <sup>p</sup>			
			H1	H2	Q1 <sup>p</sup>	Oct. <sup>p</sup>	Nov. <sup>p</sup>	Dec. <sup>p</sup>
Revenue <sup>2/</sup>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
( $\Delta\%$ )								
Expenditure	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
( $\Delta\%$ )								
: Disbursement rate (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Budgetary Deficit (-)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
or Surplus (+)								
Non-Budgetary Deficit (-)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
or Surplus (+)								
<b>Cash Deficit (-) or Surplus (+)</b>	<b>16.9</b>	<b>4.5</b>	<b>-137.9</b>	<b>142.4</b>	<b>-25.5</b>	<b>-12.4</b>	<b>-20.0</b>	<b>6.9</b>
: (% ต่อ GDP)	(0.2)	(0.1)	(-3.6)	(3.7)	(-1.2)			
Financing								
Net Domestic Borrowing	-38.5	44.9	68.3	-23.4	-1.1	-0.3	-0.4	-0.4
Net Foreign Borrowing	-20.8	-15.8	-11.5	-4.3	-20.1	-0.6	-19.1	-0.4
Use of Treasury Cash Balance	42.4	-33.6	81.0	-114.7	46.6	13.3	39.5	-6.1
Treasury Cash Balance (end-period)	104.8	138.5	23.8	138.5	91.8	125.2	85.7	91.8

Note : 1/ The data has been compiled following the E-government system (Government Fiscal Management Information System: GFMIS) since FY2005. Thus, complete fiscal position cannot be displayed during this period.

2/ Revenue remitted to Treasury (Cash basis)

$\Delta\%$  represents percentage change from the same period last year

n.a. = no data available

P = Preliminary data

Source : The Comptroller's General Department, Ministry of Finance

Data Management Department, Bank of Thailand

## Government Revenue

In fiscal year 2006, the government revenue collection totaled 1,581.5 billion baht, up by 7.3 percent from the previous fiscal year. After excluding tax deducted items, the government net revenue equaled to 1,339.4 billion baht, up by 5.9 percent. However, it should be noted that this revenue amount was lower than the estimate of 1,360 billion baht in the budget document by 20.6 billion baht. This is due partly to higher-than-expected tax deducted items proposed to the Revenue Department, the imposed tax rate cut on diesel oil prices in the beginning of this fiscal year, and baht appreciation. Nevertheless, main increases in tax revenues were from personal income tax and corporate income tax, rising by 15.4 and 13.7 percent from fiscal year earlier, respectively. In addition, value-added tax (VAT) increased by 8.3 percent. (VAT would have grown by 12.4 percent from previous fiscal year after excluding the 14.1 billion baht collected from cross-selling of electricity among electricity generators in the previous fiscal year that was later claimed for refunds.) Excise tax shrank slightly by 1.9 percent due to reform in motor vehicle tax, tax rate cut in diesel oil price, and the negative impact on tobacco consumption from tobacco tax increase.

Non-tax revenue collection registered at 154.0 billion baht, decelerating by 4.4 percent from the previous fiscal year in line with a 6.0 percent fall in income from state enterprises owing to the lateness in the privatization of state enterprises. Nevertheless, government could partly offset the delayed privatization revenue through 1) ordinary income remittances contributed by state enterprises that await privatization 2) the new practice of earlier income remittances implemented since this fiscal year.

As for the first quarter of fiscal year 2007, government collected revenue totaled 352.3 billion baht, up by 15.0 percent from the previous fiscal year. This was due mainly to tax increases in the consumption and income bases by 11.7 and 7.2 percent from last fiscal year, respectively. Meanwhile, tax on international trade base dropped by 11.7 percent. Furthermore, non-tax revenue grew significantly; in particular, income from state enterprises as government applied the new practice of having state enterprises whose accounting followed calendar year remit their income twice a year. As a result, a surge in income remittance by state enterprises can be observed remarkably in October 2006. Furthermore, the Electricity Generating Authority of Thailand remitted income in arrears after failing to privatize on schedule.

**Table 22 : Government Revenue\***

(Unit: Billion baht)

*Fiscal Year*

	2005	2006	2007 <sup>P</sup>			
			Q1	Oct.	Nov.	Dec.
<b>Total Revenue</b>	<b>1,474.4</b>	<b>1,581.5</b>	<b>352.3</b>	<b>122.0</b>	<b>121.8</b>	<b>108.5</b>
( $\Delta\%$ )	(14.3)	(7.3)	(15.0)	(27.5)	(9.3)	(9.3)
<b>Taxes</b>	<b>1,326.9</b>	<b>1,427.5</b>	<b>307.7</b>	<b>100.7</b>	<b>108.6</b>	<b>98.4</b>
( $\Delta\%$ )	(15.0)	(7.6)	(7.9)	(10.4)	(7.3)	(6.3)
- <b>Income base</b>	<b>518.0</b>	<b>601.3</b>	<b>92.1</b>	<b>29.0</b>	<b>37.6</b>	<b>25.4</b>
( $\Delta\%$ )	(20.8)	(16.1)	(7.2)	(12.7)	(1.4)	(10.4)
Personal income tax	147.4	170.1	39.2	13.7	12.3	13.2
( $\Delta\%$ )	(9.0)	(15.4)	(12.2)	(15.1)	(2.9)	(19.0)
Corporate income tax	329.5	374.7	50.6	14.8	24.1	11.7
( $\Delta\%$ )	(25.8)	(13.7)	(3.6)	(14.4)	(-2.0)	(3.6)
- <b>Consumption base</b>	<b>691.4</b>	<b>722.5</b>	<b>190.6</b>	<b>63.2</b>	<b>62.4</b>	<b>65.0</b>
( $\Delta\%$ )	(13.0)	(4.5)	(11.7)	(13.1)	(14.2)	(8.0)
Value added tax	385.7	417.8	107.2	36.3	34.7	36.2
( $\Delta\%$ )	(22.0)	(8.3)	(7.2)	(8.5)	(8.3)	(4.8)
Excise tax	279.4	274.1	74.3	24.2	24.7	25.4
( $\Delta\%$ )	(1.3)	(-1.9)	(18.0)	(20.1)	(22.4)	(12.1)
- <b>International trade base</b>	<b>107.2</b>	<b>93.9</b>	<b>22.8</b>	<b>7.7</b>	<b>7.8</b>	<b>7.3</b>
( $\Delta\%$ )	(3.2)	(-12.4)	(-11.7)	(-10.1)	(-9.9)	(-15.2)
<b>Other Incomes</b>	<b>147.5</b>	<b>154.0</b>	<b>44.7</b>	<b>21.3</b>	<b>13.3</b>	<b>10.1</b>
( $\Delta\%$ )	(8.7)	(4.4)	(108.6)	(376.1)	(29.5)	(50.8)

Note : \* Revenue on a collection basis is defined differently from revenue on cash basis shown in the treasury account positions. Differences are from time-overlapping and the deduction from the collection basis set aside for tax rebates and export duties compensation.

$\Delta\%$  represents percentage change from the same period last year

P = Preliminary data

Source : Fiscal Policy Office, Ministry of Finance

Data Management Group, Bank of Thailand

## State Enterprises

In fiscal year 2006, the state enterprises' retained income totaled 217.9 million baht, up by 52.2 percent from the previous fiscal year. This was partly due to 1) delayed income remittance by certain state enterprise which did not privatize on schedule and 2) delayed disbursement capital set aside for constructing new plants in certain state enterprise due to insufficient project information. In the

meantime, the state enterprises' capital expenditure totaled 206.2 billion baht, down by 11.5 percent from the previous fiscal year. The decrease in capital expenditure disbursement was caused by the delay in mega project investment, in particular, investment in mass transit system. Moreover, certain state enterprises postponed their investment pending more details on policy regarding the counter trade and barter trade policies.

**Table 23 : State Enterprises' Balances**

(Unit: Billion baht)

	Fiscal Year	
	2005 <sup>P</sup>	2006 <sup>P</sup>
Retained Income	143.2	217.9
( $\Delta\%$ )	(-20.1)	(52.2)
Capital Expenditure	232.9	206.2
( $\Delta\%$ )	(72.8)	(-11.5)
State Enterprises' Balances	-89.7	11.7
(% of GDP)	(-1.3)	(0.2)

Note :  $\Delta\%$  represents percentage change from the same period last year

P = Preliminary data

Source : National Economic and Social Development Board (NESDB)

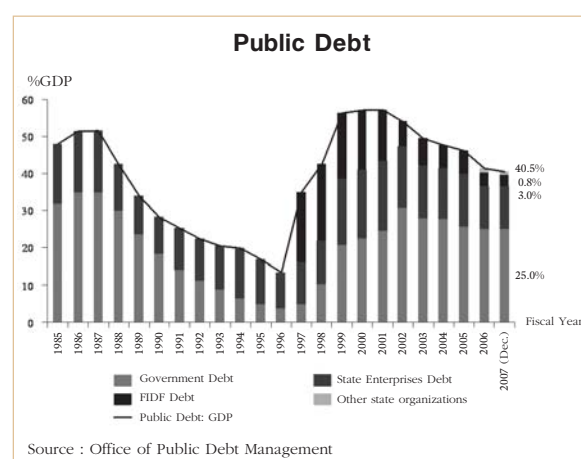
## Public Debt

At the end of fiscal year 2006, total public debt stood at 3,233.1 billion baht or 41.3 percent of GDP, down from 46.1 percent of GDP at the end of fiscal year 2005. Public debt comprising of direct government borrowing amounted to 1,967.7 billion baht, while guaranteed and non-guaranteed non-financial public enterprise debt totaled 522.3 and 389.2 billion baht, respectively. Meanwhile, debt outstanding for the Financial Institutions

Development Fund (FIDF) registered at 273.5 billion baht, whereas other government agency debt (village fund debt and oil fund debt) accounted for 80.4 billion baht.

The drop in public debt to GDP ratio was due partly to the prepayment of foreign debt resulting from the decline in debt service and interest. Overall, fiscal position in fiscal year 2006 was stabilized and sustained in line with fiscal sustainability framework for public debt to GDP ratio and debt service to budget ratio.

At the end of December 2006, the public debt-to-GDP ratio stood at 40.5 percent or 3,162.1 billion baht, comprising of direct government borrowing debt for 1,954.1 billion baht (25 percent of GDP), non-financial public enterprise debt for 914.5 billion baht (11.7 percent of GDP), FIDF debt for 232.0 billion baht (3.0 percent of GDP), and other government agency debt (village fund debt and oil fund debt) for 61.5 billion baht (0.8 percent of GDP).



**Table 24 : Public Debt**

(Unit: Billion baht)

	Fiscal Year		
	2005	2006 <sup>P</sup>	Q1 2007 <sup>P</sup>
<b>1. Debt incurred from direct borrowing</b>	<b>1,827.0</b>	<b>1,967.7</b>	<b>1,954.1</b>
(% GDP)	(25.7)	(25.1)	(25.0)
1.1 foreign debt	250.8	191.9	156.6
1.2 domestic debt	1,576.2	1,775.8	1,797.5
<b>2. Debt of non-financial state enterprises</b>	<b>1,012.8</b>	<b>911.5</b>	<b>914.5</b>
(% GDP)	(14.3)	(11.6)	(11.7)
2.1 government-guaranteed debt	660.7	522.3	503.6
foreign debt	247.5	195.1	184.9
domestic debt	413.2	327.2	318.7
2.2 non-government-guaranteed debt	352.1	389.2	411.0
foreign debt	102.2	119.1	133.1
domestic debt	249.9	270.1	277.8
<b>3. Financial Institutions Development Fund (FIDF)</b>	<b>437.7</b>	<b>273.5</b>	<b>232.0</b>
(% GDP)	(6.2)	(3.5)	(3.0)
3.1 government-guaranteed debt	40.0	0.0	0.0
3.2 non-government-guaranteed debt	397.7	273.5	232.0
<b>4. Total (1+2+3)</b>	<b>3,277.5</b>	<b>3,233.1</b>	<b>3,162.1</b>
(% GDP)	(46.1)	(41.3)	(40.5)

Note : P = Preliminary data

Source : Office of Public Debt Management

## Monetary Conditions and the Exchange Rate

### Monetary Base and Money Supply

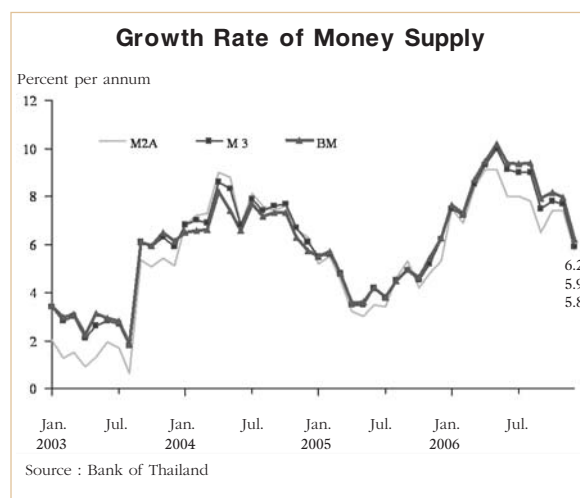
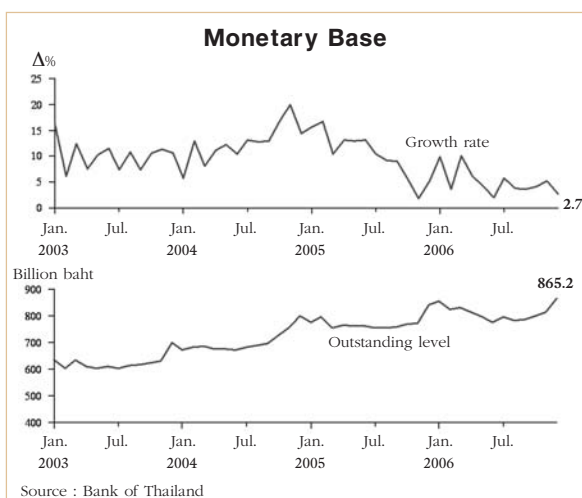
In 2006, **monetary base** expanded by 2.7 percent year-on-year, slowing down from the rate of 5.2 percent in the same period last year. This was partly due to the high base effect at end-2005 and the slowdown in cash demand for transaction purposes which was in line with domestic demand. At end-2006, monetary base outstanding reached 865.2 billion baht, an increase from 842.5 billion baht at end-2005.

Important factors contributing to the changes in supply of monetary base were (1) a continued increase in net foreign assets of the BOT, in line with a surplus in the balance of payments, (2) a decrease in the BOT's net claims on the government as a result of an increase in government deposits at the Bank of Thailand, and (3) a decline in the BOT's net claims on financial institutions due to greater investment in the repurchase market as well as an increased holding of the BOT bonds.

**Money aggregates M2A and M3** at end-2006 expanded by 5.8 and 5.9 percent, respectively, compared to 5.3 and 6.2 percent growth in the previous year. At end-2006, M2A and M3 stood at 6,885.5 and 8,184.8 billion baht, respectively.

In 2006, broad money<sup>1/</sup> expanded by 6.2 percent year-on-year comparable to 6.3 percent growth in the previous year. At end-2006, broad money stood at 8,218.9 billion baht.

Monetary aggregates accelerated noticeably in the second half of 2005 and continued to do so at the beginning of 2006. This was due to a subsequent increase in deposit rates which attracted more deposits. However, in the second half of 2006, the growth of monetary aggregates slowed down due to stabilized interest rates, the high base effect as well as a slowdown in private credits.



1/ currency in circulation + all types of deposits of money holders held at commercial banks and specialized banks + P/N issued by finance companies held by money holders. From 2007 onwards, the Bank of Thailand will publish broad money in place of other money aggregates.

## Exchange rate, interest rates, and government bond yields

### 1. Exchange rate

In 2006, the baht fluctuated between 35.23-40.89 baht per US dollar and averaged at 37.93 baht per US dollar, which is an appreciation compared to the average in 2005.

Throughout 2006, the baht was on an appreciating trend, which continued from the second half of 2005. Both internal and external factors had contributed to the strength of the baht.

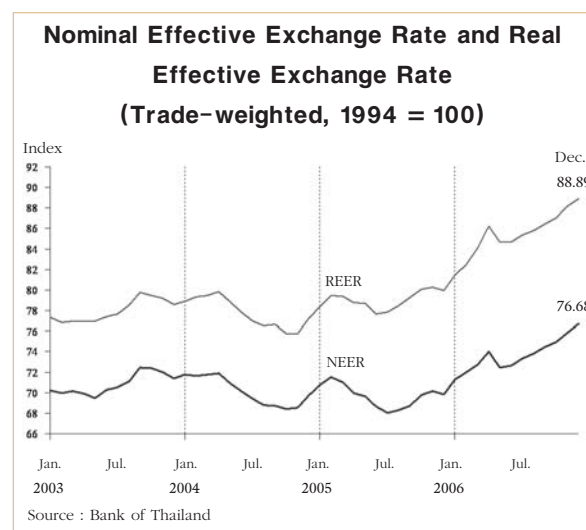
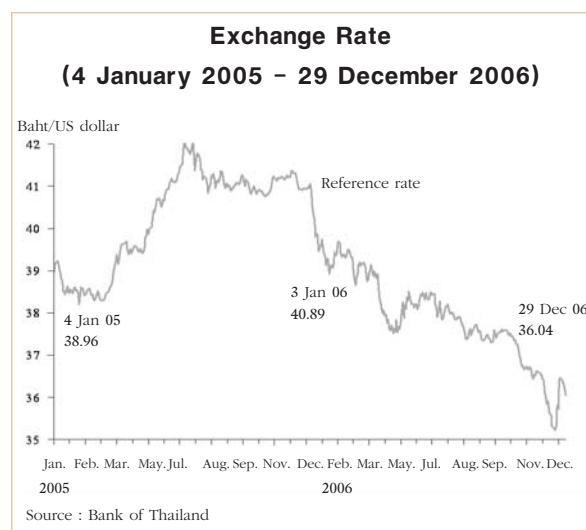
On the external front, the following factors were important: 1) the continued depreciation of the US dollar due to the loss of confidence in the US economy and its currency, and 2) robust growth in regional economies which attracted steady streams of capital inflows, resulting in appreciation of regional currencies.

The following domestic factors contributed to the strength of the baht: 1) capital inflows for mergers and acquisitions, 2) raising of foreign funds by the beverages and communication groups, and 3) inflows for portfolio investment in stocks and shares,

both inside and outside the stock market, as well as investment in mutual funds and property funds.

With regard to nominal effective exchange rate (NEER), which was calculated as a weighted average of bilateral exchange rates between the baht and major trading partners' currencies, the figures showed that the NEER in 2006 averaged at 73.69, higher than the average of 69.71 in 2005, equivalent to a 5.7 percent appreciation over the period. This reflected that, on average, the value of baht had appreciated relative to the overall trading partners' currencies. On the other hand, the baht appreciated 6.2 percent against the US dollar during the same period.

The real effective exchange rate, deflated by relative prices to reflect Thailand's price competitiveness, continued to appreciate from the average of 79.00 in 2005 to 85.43 in 2006, equivalent to a 8.1 percent appreciation. This suggested lower Thailand's price competitiveness in 2006 as a result of baht appreciation and higher level of inflation in Thailand as compared to trading partners.



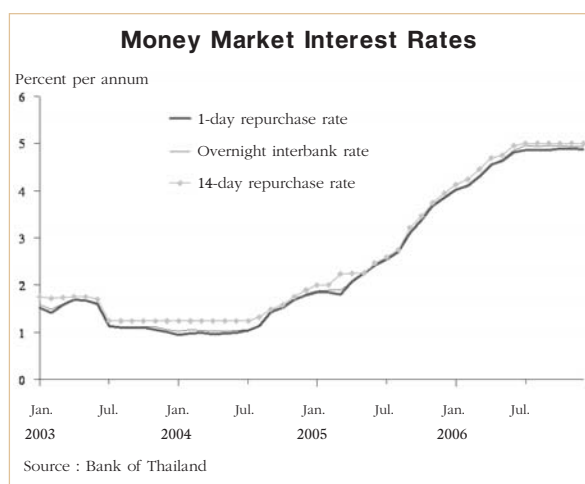


The rapid appreciation of the baht, particularly in 2006 Q4, and its strength that went beyond the regional currencies prompted the Bank of Thailand to implement the Unremunerated Reserve Requirement (URR) measure on short-term capital inflows on 18 December 2006 to prevent speculative inflows. Appreciating momentum was broken after the implementation.

## 2. Money market interest rates

The average short-term money market rates continued to rise throughout 2005, in line with the direction of the policy interest rate<sup>2/</sup>. The 14 day repurchase rate and interbank rate averaged at 5.00 and 4.69 percent per annum in 2006, respectively, higher than the previous year's averages of 2.63 and 2.64 percent per annum, respectively.

In the first half of 2006, the MPC increased the policy rate 4 times, from 4.0 percent per annum as of end-2005 to 5.0 percent per annum at end- 2006. This came as a result of MPC's assessment that inflationary pressures still remained in the economy.



Consequently, short-term money market rates continued to rise throughout the year, in line with the adjustments of the policy rate.

In the second half of 2006, inflationary pressures moderated, but uncertainties remained, especially with regards to oil prices and the future upward adjustments of prices. The MPC, therefore, held the policy rate steady at 5.0 percent per annum and assessed that this level of policy rate was appropriate and would allow the corporate sector and consumers to gradually adjust.

## 3. Government bond yields

In 2006, the overall government bond yields rose from the previous year, but fell slightly over the course of the year. In addition, the yield curve for government bonds flattened, as shown in the continuous narrowing of the differential between long-term yields and short-term yields. However, in the second half of December, the yield curve tilted upwards after the implementation of the BOT's reserve requirement on short-term capital inflows, along with the expectation of a large supply increase of long-term government bonds.

Movements of government bond yields in each quarter can be summarized as follows:

In the first quarter of 2006, the yield curve was flatter when compared to end-2005, with yields fluctuating within a narrow range in the first two months of the year. Later on, however, long-term yields fell following concerns over a reduction in the supply of long-term government bonds. In the second

2/ As of 17 January 2007, the policy interest rate was changed from the 14 day repurchase rate to the 1 day repurchase rate.

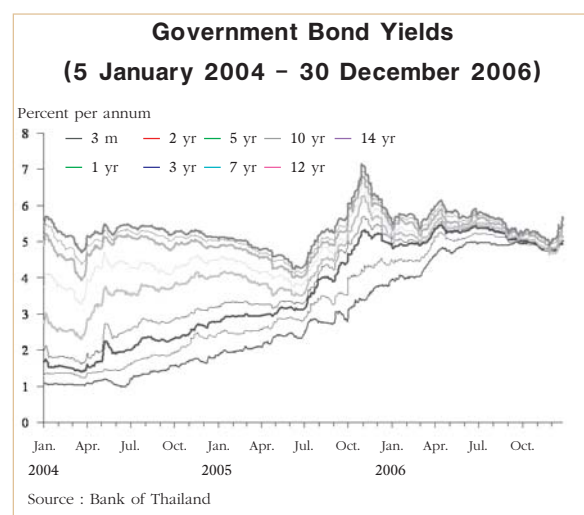


half of March, yields on government bonds for all maturities adjusted upward, as the demand for short-term mutual funds had moderated. This was partly due to competition among commercial banks to attract deposits towards the end of the first quarter, which led to a rise in deposits of commercial banks.

Overall, the yields on short-term government bonds rose in the second quarter of 2005, in line with the increase in policy interest rates which began at the end of the previous quarter. However, this was not so during the month of June, which saw an unusual amount of rise of demand of short-term government bonds, as financial institutions tried to reduce their deposits base in order to lower the fees paid to the Financial Institutions Development Fund (FIDF). At the same time, medium-term yields adjusted downwards in line with the increase in demand, partly due to market expectations of an end to the upward cycle of policy interest rates. This led to a fall in yields compared to the end of the previous quarter.

In the third quarter, yields on long-term bonds fell continuously from the second quarter, as inflation began to show clear signs of moderation. Short-term yields remained stable, in line with the policy rate and short-term money market rates, which remained relatively stable. This led the yield curve to flatten continuously, with the differential between 10 year and 2 year government bonds narrowing to a historical low at 0.09 percent towards the end of September 2006, before widening slightly to 0.13 percent per annum at the end of the third quarter.

Government bond yields fluctuated somewhat in the fourth quarter of 2006. At the beginning of the quarter, the yield curve shifted downwards due to an increase in demand for Thai baht assets given the baht's appreciation trend, coupled with expectations of a cut in the policy rate, which made investment in bonds more attractive. Towards the second half of December, the yield curve rose rapidly, particularly towards the long-end. This was after the BOT introduced the requirements for non-residents to hold government bonds, treasury bills and the BOT bonds for longer than 3 months, and the reserve requirement on short-term capital inflows. These measures raised the cost of investment and led to a noticeable decline in the demand for bonds. Later, a further decline also resulted from expectations of a large increase in the supply of long-term government bonds in the primary market.



## Commercial bank deposits and claims

### 1. Commercial bank deposits

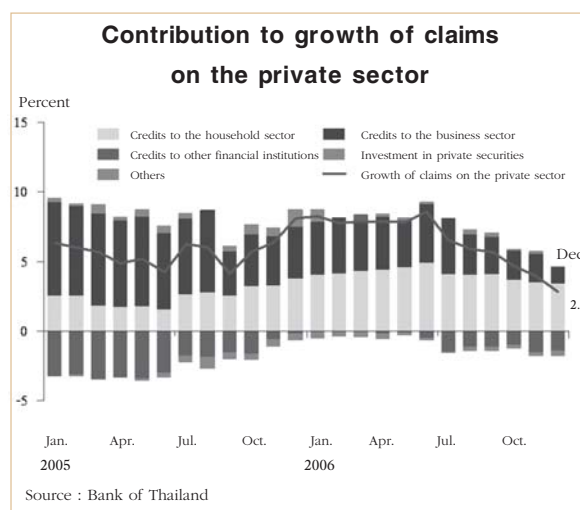
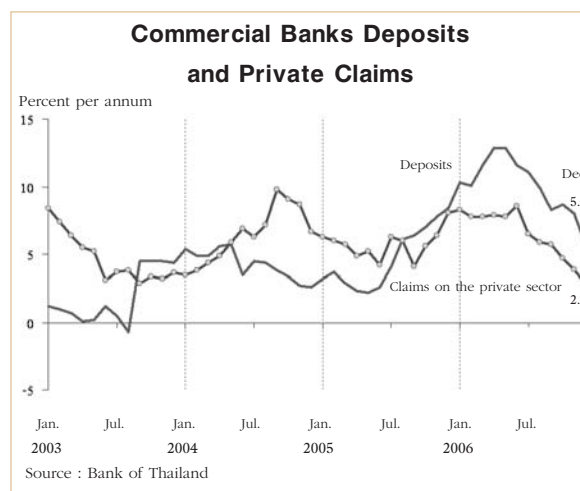
Commercial bank deposits grew at an accelerated pace in the first half of the year as commercial banks increased deposit rates competitively to attract deposits. Particularly from April through May, commercial banks issued special deposit accounts with higher returns, leading to a 12.9 percent expansion of commercial bank deposits compared to the previous. However, in the second half of the year, competition for deposits eased off as the policy rate remained steady. This led to a deceleration of deposits which expanded by 5.7 percent per annum at the end of 2006. In addition, the rapid growth of deposits in the first half of the year was also due to mergers and the status upgrading of a number of financial institutions to commercial banks. Thus, high year-on-year growth rates were observed in the first 12 months of such mergers or upgrades. Excluding the effect of these new deposits due to mergers and status upgrading of the financial institutions, deposits of commercial banks as of end-2006 grew by 5.5 percent, accelerating from growth at end-2005, which registered 4.8 percent per annum. As for the period between April and May which saw high deposits expansion, deposits would rise by 7.9 percent per annum if the impact of mergers and status upgrades of the financial institutions were excluded.

### 2. Commercial banks claims on the private sector (including investment in private securities)

In the first half of 2006, commercial banks claims on the private sector continued to grow at a rate of 7.8-8.6 percent per annum,

close to the growth rate at the end of the previous year. However, this high rate of growth was due partly to the mergers and status upgrades of financial institutions, leading to high growth rates in the first 12 months of such mergers or upgrades. Moreover, commercial bank credits to the household sector also grew at a rapid pace.

In the second half of 2006, claims on the private sector grew at a slower pace, following the continued moderation in domestic demand, particularly private investment. This led to a slowdown in the growth momentum of commercial bank credits



to the business sector. In addition, the base effect stemming from mergers and status upgrades of financial institutions, which had completed a twelve-month cycle, also played a part. Hence, at end-2006, private claims decelerated and registered a 2.8 percent growth, down from 8.1 percent growth in 2005. Excluding the effects of newly-established commercial banks that have been in the system for less than 12 months and adding back debt write-offs and net transfers to AMCs, claims on the private sector grew by 4.6 percent per annum, down from the previous year's growth of 8.1 percent per annum at the end of 2005.

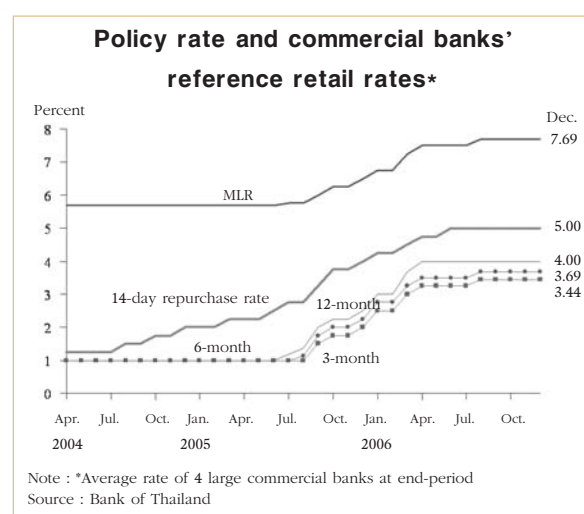
### 3. Commercial banks interest rates

During the first half of 2006, commercial banks' reference rates were rapidly adjusted upward, both deposit and lending rates, following continuous hikes in the policy rate since August 2004. Particularly during April and May 2006 when, commercial banks were in intense competition for deposits, interest rates were raised at a faster pace than the policy rate hikes. Despite high liquidity in the banking system, commercial banks could still afford to raise interest rates. This was because the money market returns were adjusted upward higher than the costs of raising deposits and thus enabled commercial banks to invest deposits in the money markets.

In the second half of 2006, commercial banks' interest rates stabilized in line with the policy rate. Some commercial banks

adjusted both deposit and lending rates only once more in August. At end-2006, the 12-month fixed deposit rates and the minimum lending rates (MLRs) of the four largest Thai commercial banks<sup>3/</sup> averaged at 4.00 and 7.69 percent per annum, respectively, rose from 2.50 and 6.50 percent per annum, respectively, at end-2005.

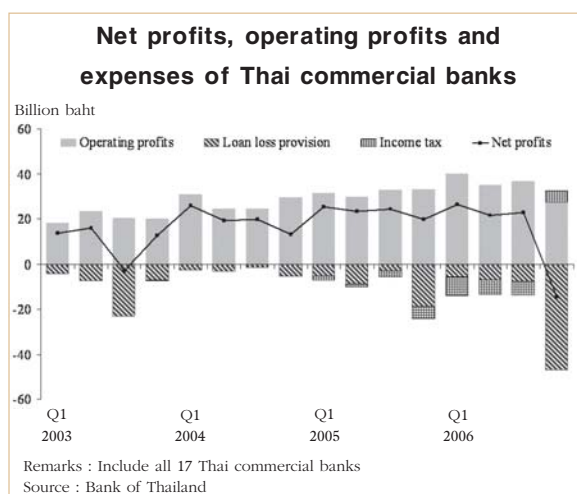
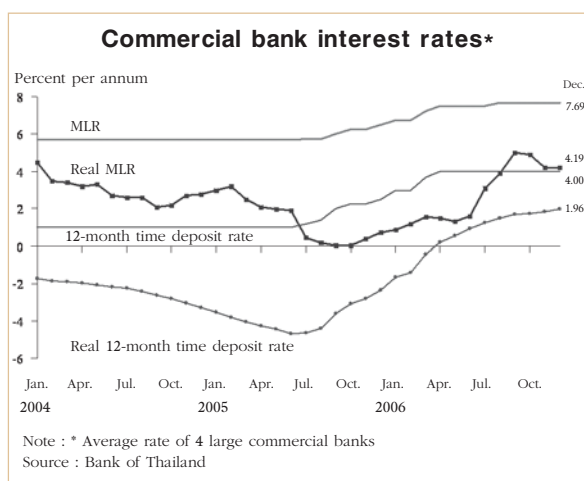
Gradual upward adjustments in commercial banks' interest rates in 2006 and the slowdown of inflation expectation during end-2006 together caused real interest rates of commercial banks to adjust upward and the real 12-month deposit rate to turn positive after remaining below zero since 2003. At end-2006, real 12-month deposit rate<sup>4/</sup> and real MLR<sup>5/</sup> of the four largest Thai commercial banks averaged at 1.96 and 2.83 percent per annum, respectively. Moreover, the positive real deposit rates will help prevent long-term structural distortion arising from insufficient saving and excessive debt accumulation by the household sector.



3/ 4 largest banks refer to Bangkok Bank, Krungthai Bank, Kasikorn Bank and Siam Commercial Bank.

4/ Real deposit rate = 12-month deposit rate - average inflation forecasts (12-month forward)

5/ Real lending rate = MLR - headline inflation



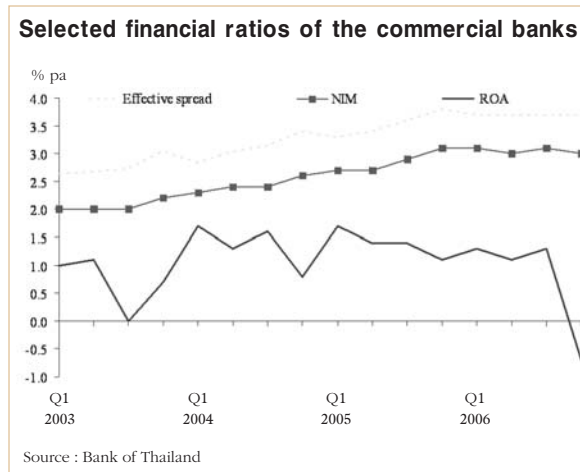
## Performance of Commercial Banks

In 2006, there were 34 commercial banks in the banking system, comprising of 17 Thai registered commercial banks and 17 foreign bank branches.

All commercial banks registered operating profits, amounting to 160.7 billion baht, an 11.4 percent increase from the previous year. Profit growth of foreign bank branches was higher than that of domestic banks. The main contributing factors of the increase in the operating profits of all commercial banks were as follows:

(1) Effective spread of interest rates remained at a high level. Although interest payment costs had gradually increased in line with an upward trend of commercial bank's deposit interest rates during 2005H1 to 2006H1, interest income from banks' credit continued to grow satisfactorily.

(2) Net interest margin improved slightly as a result of continued credit extension to the household sector and the small and medium enterprises (SMEs). In addition, security investments also brought higher returns.



(3) Non-interest incomes rose mainly from fees and foreign exchange profits.

Nonetheless, net profits of the banking system fell by 28.9 percent from the previous year. This was primarily due to the considerable amount of loan loss provision of Thai commercial banks, in compliance with the International Accounting Standard (IAS 39). The Bank of Thailand required all commercial banks to adopt this new standard from December 2006 onwards. Furthermore, in the first three quarters of 2006, the commercial banks registered higher income tax owing to the termination of tax benefit from loss carry forward. In 2006, return on assets (ROA) of the entire banking system declined slightly from the previous year, due to higher expenditure in 2006Q4.

**Table 25 : Performance of the banking system**

Billion baht	2005	2006	%Δ (yoy)	2006		%Δ (yoy)	
				Thai Banks	Foreign Banks	Thai Banks	Foreign Banks
1. Interest income	314.1	454.7	44.8	408.0	46.7	46.9	28.3
2. Interest payment	94.7	196.1	107.1	174.1	22.0	118.2	47.7
3. <b>Net interest income</b>	<b>219.4</b>	<b>258.6</b>	<b>17.9</b>	<b>233.9</b>	<b>24.7</b>	<b>18.1</b>	<b>14.8</b>
(3) = (1) - (2)							
4. Non-interest income	94.4	108.1	14.5	89.0	19.1	21.8	-10.7
5. Operating expense	169.6	206.0	21.5	185.1	20.9	28.6	-18.4
6. <b>Operating profits</b>	<b>144.2</b>	<b>160.7</b>	<b>11.4</b>	<b>137.8</b>	<b>22.9</b>	<b>8.4</b>	<b>32.4</b>
(6) = (3) + (4) - (5)							
7. Loan loss provision	-24.8	-67.9	117.4	-64.9	-3.0	-119.1	-20.0
8. Tax and special items	-15.9	-19.2	-20.8	-16.1	-3.1	-37.3	35.5
9. <b>Net profits</b>	<b>103.5</b>	<b>73.6</b>	<b>-28.9</b>	<b>56.8</b>	<b>16.8</b>	<b>7.8</b>	<b>58.5</b>
(9) = (6) - (7) - (8)							

Source : Bank of Thailand

## Capital market

In an overview, although commercial banks were the most important source of financing for household and corporate sectors, non-bank financial institutions and the capital market have become increasingly important as alternative funding sources. In 2006, the main sources of financing for corporate and household sectors besides the commercial banks were as follows:

### Sources of Corporate Sector Financing

**Equity and debt securities issuance.** In 2006, non-financial corporate sector raised funds by issuing equity and debt securities, amounting to 137.6 and 86.2 billion baht, respectively, a decline from the previous year in tandem with the economic slowdown. The majority of businesses that tapped funds from the capital market concentrated in the manufacturing, real estate development, telecommunication, and energy sectors. It was noted that the corporate sector have turned to short-term debt securities to raise working capital as it was more accessible than bank loans. The short-term debt securities

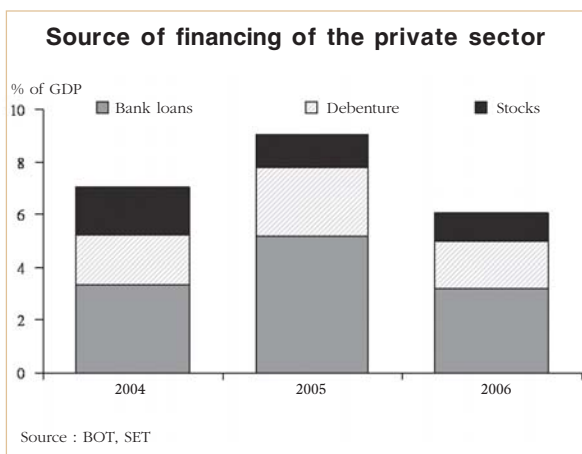
outstanding stood at 85.5 billion baht at end-2006, rising by 46.0 percent from 58.4 billion baht in the previous year. In addition, some companies acquired foreign funding via the issuance of bonds abroad. For example, one of the telecommunication holding companies issued overseas debentures of 20 billion baht abroad for its network expansion.

### Sources of Household Sector Financing

**1. Credits extended by specialized financial institutions (SFIs).** At the end of 2006, the credits from the Government Saving Bank, the Government Housing Bank, and the Bank for Agriculture and Agricultural Cooperatives to the household sector increased by 144.8 million baht from the previous year. This expansion was in line with the government policy measures which aimed to provide greater financial access for the household sector, especially in the low-income group.

**2. Credit extended by finance companies** declined from the previous year. This was because of the closure of two finance companies; one merged with a commercial bank and one was upgraded to a retail bank. The household sector, to some extent, can be said to have relied on credits from finance companies, although these credits were transferred to the commercial bank system

**3. Credits extended by non-bank financial institutions** e.g. credit card loans and personal loans (without collateral) under the BOT's regulation continued to expand, both in the forms of credit value and number of clients.



**Table 26 : Credits extended by non-banks financial institutions**

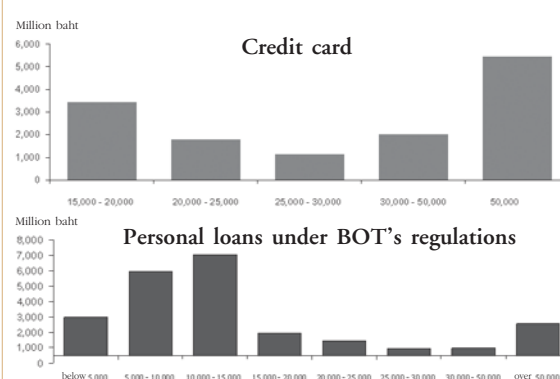
Change in the outstanding sum (billion baht)	2005	2006	2006			
			Q1	Q2	Q3	Q4
<b>Non-bank financial institutions</b>	<b>101.5</b>	<b>46.6</b>	<b>36.3</b>	<b>-41.1</b>	<b>34.5</b>	<b>16.9</b>
Government Saving Bank (GSB)	50.4	66.6	26.4	13.5	18.9	7.8
Government Housing Bank (GHB)	78.2	70.8	18.6	18.5	15.4	18.3
Bank for Agriculture and Agricultural Cooperatives (BAAC)	61.9	7.4	3.1	-2.4	3.0	3.9
Finance companies	-119.2	103.1	-15.4	-70.7	-4.4	-12.5
Others*	30.2	4.9	3.6	0.0	1.6	-0.6

Remark : \* Include credit foncier companies, life insurance companies, the Export-Import Bank of Thailand (EXIM Bank), and the Small and Medium Enterprises Development Bank of Thailand (SME Bank)

Source : Bank of Thailand

The credit card loans rose by 20.7 percent from the previous year. Meanwhile, personal loans under BOT's regulation ascended by 118.0 percent from the previous year. Interestingly, a bigger share of non-bank's credit card companies' loans were extended to customers whose monthly income is more than 50,000 baht (since 2002, the BOT has imposed the minimum income of 15,000 baht per month on credit card holders), whereas personal loans under the BOT's regulation were primarily given to those with income below 15,000 baht. This also indicated that non-bank credit card companies and non-bank personal loans providers had different groups of customers.

**Breakdown of credit card and personal loans from non-bank regulated companies as of end-2006**



Source : Bank of Thailand



# **MONETARY AND FINANCIAL INSTITUTION MEASURES**



## Monetary Measures

Measures	Parties Involved	Main Points	Effective Date	Source
<b>Interest Rate Policy</b>				
<b>1. Policy rate</b>				
MPC decisions on the following dates:				
<ul style="list-style-type: none"> <li>18 January 2006</li> <li>8 March 2006</li> <li>10 April 2006</li> <li>7 June 2006</li> </ul>		The MPC decided to raise the 14-day repurchase rate 4 times from 4.0 percent per annum at end-2005 to 5.0 percent per annum in June 2006 due to the continued acceleration in inflation. At the same time, it was deemed that the increases in policy rate would bring the policy interest rate to the levels appropriate for achieving economic stability which would facilitate sustainable growth in the long run.	18 January 2006 8 March 2006 10 April 2006 7 June 2006	BOT News No.2/2006, 7/2006, 10/2006 and 21/2006, respectively
<ul style="list-style-type: none"> <li>19 July 2006</li> <li>6 September 2006</li> <li>18 October 2006</li> <li>13 December 2006</li> </ul>		The MPC decided to maintain the 14-day repurchase rate at 5.00 percent per annum in 4 consecutive meetings between July and December 2006. The MPC viewed that the existing level of the policy rate was appropriate for the economic situation in the same period and that the Thai economy still continued to expand. However, going forward, the momentum of private investment had to be monitored closely. In addition, price pressures remained in the economy even though they had moderated somewhat.	19 July 2006 6 September 2006 18 October 2006 13 December 2006	BOT News No.26/2006, 33/2006, 38/2006 and 49/2006, respectively

Measures	Parties Involved	Main Points	Effective Date	Source
		To further enhance the efficiency of the Bank of Thailand's monetary policy implementation as well as to facilitate continued development of the Thai financial markets, the MPC decided to change the policy rate to the 1-day repurchase rate, instead of the 14-day repurchase rate, effective from the MPC meeting on 17 January 2007 onwards.		
<b>2. Other interest rates</b>				
2.1 Rate on bond repurchase agreements with financial institutions to maintain end-of-day liquidity	- All financial institutions (excluding securities companies and IBFs)	The BOT raised the interest rate on bond repurchase agreements with financial institutions for end-of-day liquidity maintenance 3 times, following the policy rate hikes. The repurchase rates were calculated as the policy rate plus 1.50 percent per annum. The hikes were as follows: - to 5.75 percent per annum - to 6.00 percent per annum - to 6.25 percent per annum	18 January 2006 8 March 2006 10 April 2006	BOT Circular No.FRD.(1) C. 2/2549, 6/2549 and 7/2549 dated 18 January, 8 March and 10 April 2006, respectively
2.2 Rates on debt instrument repurchase agreements with members to maintain end-of-day liquidity	- All financial institutions (excluding securities companies and IBFs)	The BOT set the debt instrument repurchase rates pursuant to the BOT regulation on repurchase agreements and BOT regulation on end-of-day facility B.E. 2549 at the policy rate plus 1.50 percent per annum.	15 May 2006	BOT Circular No.FRD. (1) C. 8/2549 dated 3 May 2006
<b>Money Market Measures</b>				
1. BOT regulation amendments to facilitate the Ministry of Finance's Bond Market Development Plan II (2005-2014)	- Counterparties in outright trading of bonds	The BOT amended existing regulations and announced new regulations regarding transactions as follows:  (1) Announcement of the BOT regulation on money market services in purchase and	1 March 2006	BOT Circular No.FRD. (1) C. 5/2549, 8/2549, 11/2549 and 17/2549 dated 17 February 2006 3, 4 and 10 May 2006, respectively

Measures	Parties Involved	Main Points	Effective Date	Source
	- All financial institutions (except securities companies and IBFs)	sale of debt instruments with Primary Dealers via electronic method (e-Outright) B.E. 2549		
		(2) Announcement of the BOT regulation on purchase and sale of debt instruments with repurchase agreement B.E. 2549	15 May 2006	
		(3) Announcement of the BOT regulation on purchase and sale of bonds to maintain end-of-day liquidity with repurchase agreement B.E. 2549	15 May 2006	
	- Counterparties in repurchase transactions in Bilateral Repo	(4) Further amendments on BOT regulation on money market services on purchase and sale of bonds with Primary Dealers with repurchase agreement via electronic method (e-Bilateral Repo) B.E. 2546	15 May 2006	
	- Counterparties in debt instrument outright transactions	(5) Further amendments on BOT regulation on purchase and sale of bonds with repurchase agreement for Primary Dealers' position adjustment B.E. 2546	15 May 2006	
<b>2. Foreign Exchange Controls</b> 2.1 Business coverage expansion of foreign exchange offices	- Commercial banks registered in Thailand	The Minister of Finance allowed foreign exchange offices to expand their business coverage in general, for example, domestic money transfer service (by cash) without the need for both transferring and receiving ends to have accounts with commercial banks.	23 February 2006	BOT Circular No.BOT. PPD. (21) C. 241/2549, 1329/2549 dated 23 February 2006 and 22 September 2006, respectively
		In addition, the Minister of Finance allowed commercial	22 September 2006	

Measures	Parties Involved	Main Points	Effective Date	Source
2.2 Rules and practices regarding currency exchange (No. 2, 3 and 4)	- Commercial banks - SFIs	banks' foreign exchange offices, which were authorized to provide electronic money services, to sell and provide other services related to electronic cards issued by the commercial banks of concern or other commercial banks.		
		The BOT revised rules and practices regarding currency exchange as follows:  (1) Foreign investors were allowed to buy or exchange foreign currency to facilitate remittance of margins or profits from trading in the Thailand Futures Exchange (TFEX). A letter certified by the broker shall be required.	3 April 2006	No. ECD (02) C.12/2549, 23/2549 and 25/2549 dated 15 March, 10 and 19 May 2006, respectively
		(2) Juristic persons were allowed to maintain a balance in all foreign currency accounts in an amount not exceeding USD 50 million in total.	10 May 2006	
		(3) The cash limit that each depositor could deposit into the foreign currency account was raised to the maximum of USD 10,000 or its equivalent at market rate per day, except those depositors that have been granted foreign exchange permits.		
		(4) Thai commercial banks' branches in the Socialist Republic of Vietnam and the People's Republic of China (only Yunnan Province) and countries bordering Thailand were allowed to have one Special Non-resident Baht Account with	1 June 2006	

Measures	Parties Involved	Main Points	Effective Date	Source
<b>3. Permission for commercial banks to engage in private repo transaction</b>	- Commercial banks excluding IBFs	<p>commercial banks located in Thailand, in compliance with regulations announced.</p> <p>The BOT stipulations were revised as follows:</p> <p>(1) Commercial banks were allowed to borrow cash in baht using baht debt instruments in the form of private repo transactions from funds under the supervision of the Office of Securities and Exchange Commission.</p> <p>(2) Commercial banks were allowed to engage in cross currency private repo transactions between baht and foreign currencies with financial institutions authorized to conduct foreign exchange businesses as counterparties.</p> <p>(3) Retail banks were permitted to engage in private repo transaction but limited to borrowing or lending in baht, by using securities denominated in baht as collateral, provided that the scope of transaction was in line with prescribed rules.</p>	13 April 2006	No. PPD.(21) C.89/2549 dated 20 April 2006
<b>4. Measures to prevent Thai baht speculation</b>	- Commercial banks - Finance companies - Securities companies - SFIs	The BOT revised measures to prevent Thai baht speculation and appropriate for the economic and money market conditions. For example, the BOT sought cooperation from financial institutions not to issue and sell bills of exchange in baht of any maturity to non-residents and laid down clearer regulations regarding derivative transactions.	15 November 2006	No. BOT.ECD (02) C.1593/2006, 1832/2549, 70/2549, 73/2549, 2014/2549 and 2015/2549 Dated 3 November, 4, 18 and 22 December 2006 respectively

Measures	Parties Involved	Main Points	Effective Date	Source
		The BOT tightened measures to prevent speculation of Thai baht and sought cooperation from financial institutions in (1) refraining from selling and buying all types of debt securities through sell and buy-back transactions for all maturities; (2) undertaking transactions with non-residents in bonds only for investments exceeding 3 months; and (3) borrowing baht from non-residents, including through sell-buy swap transactions when there is no underlying trades and investments in Thailand only for maturities exceeding 6 months (an increase from 3 months).	4 December 2006	
	- Commercial banks (excluding international banking facilities) - Specialized financial institutions	As appreciation pressure on the baht increased, the BOT issued stricter measures through the reserve requirement on short term capital inflows, whereby financial institutions were required to withhold 30% of foreign currencies bought or exchanged against the Thai baht. Guidelines on the refund of those required reserves were also imposed.	19 December 2006	
	- Securities companies - Futures brokers	The reserve requirement on short-term capital flows was relaxed for equity investment in companies listed in the Stock Exchange of Thailand and Market for Alternative Investment (excluding mutual funds and warrants),	22 December 2006	

Measures	Parties Involved	Main Points	Effective Date	Source
		investment in the Thai Futures Exchange (TFEX), and investment in the Agricultural Futures Exchange of Thailand (AFET).  Authorized financial institutions were requested to ensure that the funds destined for these investments were deposited in the Special Non-resident Baht Account for Securities (SNS) and withdrawn for the aforementioned investments only.		
<b>Credit Measures</b>				
The revision of regulations on supervising credit card business	- Commercial banks - Financial institutions and non-deposit taking operators of credit card businesses	The BOT raised the ceiling on the interest rate and other service charges on credit cards issued by financial institutions and operators of credit card businesses by 2 percent per annum to 20 percent per annum. Transactions made prior to 1 December 2006 would be exempted; i.e. operators could earn interest, penalty fees, service charges, and other fees totaling no more than 18 percent per annum until 30 June 2007.	1 December 2006	BOT Circular No. PPD.(21) C. 184/2549 and 185/2549 dated 28 November 2006
<b>Financial Institutions Supervision and Development Measures</b>				
1. Maintenance of foreign exchange positions for retail banks and relevant report forms	- Retail banks	Retail banks were required to maintain an aggregate currency position (aggregate limit) at the end of each day at a rate of not exceeding 20 percent of their capital fund or USD 2 million, whichever is greater.	14 March 2006	BOT Circular No. BOT. PPD. (21) C. 348/2549 dated 14 March 2006

Measures	Parties Involved	Main Points	Effective Date	Source
2. Policy guidelines on the limit on retail banks' credit extension, investment, and liabilities	- Retail banks	Retail banks could extend credits, invest in businesses, or incur liabilities for third parties, to a limit of no more than 11.05 percent of first tier capital, minus the amount of transactions of similar nature to credit extension (such as leasing activities).	7 February 2006	BOT Circular No. PPD. (21) C. 29/2549 Dated 30 January 2006
3. Revised guidelines on commercial banks' liquid assets	- Commercial banks	The BOT revised guidelines on commercial banks' liquid assets to include debentures, bonds, and unencumbered debt securities issued by Bank Commercial Asset Management Co.,Ltd. and Sukhumvit Asset Management Co.,Ltd. as liquidity assets.	23 July 2006	BOT Circular No.BOT.PPD. (21) C. 965/2549 193/2549, 194/2549 and 195/2549 dated 17 July and 27 December 2006, respectively
	- Commercial banks - Finance companies - Credit Foncier Companies	Subsequently, the guidelines on financial institution's liquid assets holding were further revised, as follows:  (1) For commercial banks, revised reserve maintenance periods would start on a Wednesday and end on the second Tuesday thereafter, totaling 14 days in each period. Commercial banks were allowed to include all types of debt securities issued by the BOT as part of the liquid asset requirement.  (2) For finance companies and credit foncier companies, the reserve maintenance period was revised from a weekly average to a bi-weekly period, starting on a Wednesday and ending on the second Tuesday thereafter, totaling 14 days in each period.	17 January 2007	



Measures	Parties Involved	Main Points	Effective Date	Source
4. Relaxation of conditions for opening of regional branches by commercial banks	- Commercial banks registered in Thailand	In addition, promissory notes issued under the notes exchange program with the clients of 56 finance companies would be excluded from eligible assets under the liquid asset requirement.	10 April 2006	BOT Circular No. BOT. PPD (21) C. 504/2549 dated 10 April 2006
		<p>The Minister of Finance allowed commercial banks to gradually reduce the proportion of credit extension based on conditions for opening regional branches, as follows:</p> <p>(1) the requirement that loans of no less than 60 percent of the total value of deposits of a bank's regional branch must be made to the region where the branch is located would be gradually reduced to no less than 40 percent and 20 percent in 2006 and 2007, respectively.</p> <p>(2) the requirement that loans to the agricultural sector must be no less than 20 percent of deposits outstanding (for banks that were permitted to operate from 1975-1986) would be gradually reduced to no less than 15 percent and 10 percent in 2006 and 2007, respectively.</p> <p>All conditions would be removed in 2008.</p>		
5. Expansion of commercial banks' business scope	- Commercial banks (excluding IBFs)	BOT expanded commercial banks' scope for conducting business as follows:		BOT Circular No. PPD (21) 90/2549, 91/2549, 89/2549 and 115/2549 dated 20 April,

Measures	Parties Involved	Main Points	Effective Date	Source
		(1) retail banks are given permission to undertake domestic factoring businesses.	13 April 2006	6 September, 6 and 14 December 2006, respectively
		(2) commercial banks are given permission to undertake transactions in borrowing, lending and short sale of securities.	13 April 2006	BOT Circular No. PPD. (22) C. 122/2549 dated 17 October 2006
		(3) commercial banks are given permission to issue bills of exchange to borrow funds from the public.	31 August 2006	
		(4) commercial banks are given permission to undertake forward transactions.	25 November 2006	
		(5) commercial banks are given permission to provide supporting services to other parties.	25 November 2006	
		(6) commercial banks are given permission to conduct securitization transactions.	14 October 2006	
<b>6. Financial Assistance to Priority Economic Sectors</b>				
6.1 Financial assistance to poultry farmers and poultry breeder entrepreneurs affected by avian flu	- Commercial banks - Specialized financial institutions	The BOT extended the time period in providing financial assistance to poultry farmers and poultry breeder entrepreneurs affected by avian flu further by two years.	11 March 2006	BOT Circular No. BOT. ECD (22) C. 40/2549 dated 12 January 2006
6.2 Financial assistance to the three southern border provinces	- Commercial banks - Specialized financial institutions	The BOT extended the time period in providing financial assistance to businesses in the three southern border provinces further by 1 year, and extended assistance to new recipients or current recipients that required further financial assistance, as well as entrepreneurs who purchased	6 November 2006	BOT Circular No. BOT. ECD (22) C. 1601/2549 and 1602/2549 dated 6 November 2006

Measures	Parties Involved	Main Points	Effective Date	Source
6.3 Credit line with promissory notes in connection with small and medium enterprises as collateral	<ul style="list-style-type: none"> <li>- Commercial banks</li> <li>- Specialized financial institutions</li> <li>- Finance companies</li> </ul>	<p>or transferred ownership of businesses in the affected areas.</p> <p>The BOT issued Bank of Thailand regulation (B.E. 2550) regarding credit lines with promissory notes in connection with small and medium enterprises as collateral, to replace the previous regulation (B.E. 2546). Under the new regulation, the BOT would provide credit in conjunction with financial institutions at a ratio of 50:50. Loans are limited to no more than 20 million baht per counterparty, for a period not more than 3 years, and at the market interest rate.</p>	1 January 2007	BOT Circular No. BOT.ECD (22) C. 1843/2549 dated 6 December 2006

Remark : Specialized financial institutions include (1) Small and Medium Enterprise Development Bank of Thailand (SME Bank), (2) Export-Import Bank of Thailand (EXIM), (3) Bank for Agriculture and Agricultural Cooperatives (BAAC), (4) Islamic Bank of Thailand, and (5) Government Savings Bank (GSB)

# **The Bank of Thailand's Activities**

## Reserve Management Performance and Note Printing

### 1. Reserve Management and Operations

During the year 2006, the Bank of Thailand has managed the country's international reserves, based on the principle of risk-awareness, safety and sound rationality, as well as liquidity management that is consistent with the Bank's exchange rate and monetary policy operations as well as future obligations in order to achieve a maximize return within the investment guidelines and risk profiles set by the Top Management Committee and closely monitored monthly by the Investment Sub-Committee.

To maximize investment returns within the framework of acceptable risk and appropriate liquidity, economic and financial market developments that can affect asset price movements have been closely monitored.

Besides, both short and long-term interest rates trend of major currencies that will influence on both foreign exchange rates and government fixed income securities prices have been tracked.

In 2006, major portfolios under the management of the Bank of Thailand include Liquidity Portfolio, Asian fund Portfolio, Investment Portfolios and Exchange Equalization Fund Portfolio.

In addition, in 2006 the Bank has improved reserves management efficiency by expanding asset class and foreign exchange that the Bank can invest and propose an amendment in the related legislation to expand the asset universe.

### 2. Banknote Issued and Management

At the end of 2006, the number of banknotes in circulation is 3,208.6 million banknotes, an increase of 5.8 percent over 2005. The value of banknotes in circulation is

B794,484.7 million, an increase of 3.2 percent over 2005. The banknotes in circulation, by denominations, are as shown below :

**Table 1 : Banknote Issued in 2006**

Denomination (Baht)	500000	1000	500	100	60	50	20	10	5	1	0.50	BOT Note 60 baht
Volume (million notes)	0.000235	585.7	189.4	814.8	11.2	175.7	951.9	321.8	24.5	106.6	18.9	8.0

On 9 June 2006, Bank of Thailand issued the new series of 60-baht banknote to commemorate the 60<sup>th</sup> Anniversary Celebrations of the King's Accession to the Throne.

The number of counterfeited banknotes that were detected and seized in 2006 is 15,232

notes. The top three denominations among counterfeited banknotes are 1000-baht (9,157 notes or 60.1 percent), 100-baht (3,902 notes or 25.6 percent) and 50-baht (1,236 notes or 8.1 percent).

### 3. Currency Reserve

At the end of 2006, Currency Reserve was valued at B794,484.7 million, equal to the value of banknotes in circulation at the

time. The assets in Currency Reserve, along with their values and shares, are as shown below:

**Table 2 : Currency Reserve Account As of 31 December 2006**

	Value (million baht)	Share (%)
1. Gold	52,955.1	6.7
2. Foreign currencies	373,885.4	47.0
3. Foreign securities	367,644.2	46.3
<b>Total</b>	<b>794,484.7</b>	<b>100.0</b>

### 4. Note Printing Works, Bank of Thailand (NPT)

#### 4.1 Banknote

Total amount produced : 2,106.82 million notes

(including 11.42 million notes of 60-baht denomination in celebration of the Sixtieth Anniversary Celebrations of His Majesty King Bhumibol Adulyadej's Accession to the Throne)

#### 4.2 Non-banknote Security Products

Revenue Stamp

Total amount produced : 92.37 million stamps

Total amount delivered : 90.17 million stamps

Excise Stamp

Total amount produced : 1,212.80 million stamps

Total amount delivered : 1,195.90

million stamps

Business Operation License

Total amount produced : 10,235 sheets

#### 4.3 Security Ink and Chemical Products

Total amount produced : 365,573.50 kg

#### 4.4 Research and Development

Projects launched : 8 projects with concentration on counterfeit deterrence features, banknote lifespan extension, platemaking and quality control, and cost reduction against imports

Projects completed : 3 projects

#### 4.5 International Standard Attainment

ISO 9001:2000  
Successfully passed a yearly surveillance audit on 7 June 2006

ISO 14001:2004

Successfully passed a yearly surveillance audit on 25 July 2006

OHSAS 18001

Successfully passed a yearly surveillance audit on 25 July 2006

#### 4.6 Second Note Printing Works Project

Project Task	Progress
Phase II, III, IV, and V (Production & Support Building, Backup Systems Building, Security Building, Banknote Operation Department and Bangkok Office Building, Sports Club Building, and Parking Lot)	92 percent completed
New Printing Machinery and Equipment	- At the stage of installation and trial run - Expected to be completed in early 2007

## Banking Business

### 1. Cash Management

#### 1.1 Cash received and paid out

In 2006, the Bank of Thailand by the head office, Surawongse office, and Banknote Operation Centers received cash from commercial banks, financial institutions, government agencies and others totaling B1,507,653.4 million, an

increase of 14.7 percent compared to the previous year's end. Cash paid out, on the other hand, totaled B1,528,243.7 million, an increase of 12.9 percent. In sum, cash was paid out (net amount) B20,590.3 million in 2006.

Unit : Million baht

Cash received and paid out	2005	2006	Increase (Decrease)	Percent
Cash received	1,314,504.5	1,507,653.4	193,148.9	14.7
Cash paid out	1,353,110.4	1,528,243.7	175,133.3	12.9
Net cash received (paid out)	(38,605.9)	(20,590.3)		

Note : The data collection method on cash received and paid out has been changed from showing net amount to showing gross amount in order to reflect the overall movement of cash in a whole system.

## 1.2 Assets transferred to and withdrawn from the currency reserve account

In 2006, assets transferred to the currency reserve account (to increase note in

circulation) were, in net amount, B25,000 million higher than assets withdrawn from the Currency Reserve Account (to reduce note in circulation) resulting in increase of currency reserve assets to B794,484.7 million in 2006.

Unit : Million baht

Currency Reserve	2005	2006	Increase (Decrease)	Percent
Year-end currency reserve	769,484.7	794,484.7	25,000.0	3.25
- Assets transferred to Currency Reserve Account	140,000.0	115,000.0	(25,000.0)	(17.86)
- Assets withdrawn from Currency Reserve Account	130,000.0	90,000.0	40,000.0	(30.77)
- Net assets transferred (withdrawn)	10,000.0	25,000.0		

## 2. Center of Funds Transfer

### 2.1 Large Value Funds Transfer (BAHTNET)

As of 30 December 2006, there were 65 participants in BAHTNET system; these participants comprised of 17 Thai commercial banks, 17 foreign commercial banks, 14 finance companies, finance & securities companies and securities companies, 8 BOT divisions, 9 specialized financial institutions/government agencies and other institutions.

The volume of funds transfer through BAHTNET system in 2006 totaled for 1,721,285 transactions, increased from 1,503,755 transactions in 2005 or by 14.47 percent. While the value totaled for B143.30 trillion, increased from B105.63 trillion of the previous year or by 35.66 percent. The aforementioned transactions can be categorized as follows:



**Table 3 : Funds Transfer and Securities Transfer Transactions via BAHTNET System**

	Volume			Value (trillion baht)		
	2005	2006	%	2005	2006	%
Interbank Funds Transfer <sup>1/</sup>	127,516	140,674	10.32	54.66	69.86	27.81
Third Party Funds Transfer	1,347,040	1,570,868	16.62	47.98	71.20	48.40
Deliver Against Payment/ Receive Against Payment <sup>3/</sup>	29,199	9,743	-66.63	2.99	2.24	-25.08
Deliver Free/Receive Free <sup>3/</sup>	2,067	1,274	-38.36	0.82	0.56	-31.71
<b>Total<sup>2/</sup></b>	<b>1,503,755</b>	<b>1,721,285</b>	<b>14.47</b>	<b>105.63</b>	<b>143.30</b>	<b>35.66</b>

Note : 1/ Includes Book Transfer and Multilateral Funds Transfer Transactions

2/ Excludes Deliver Free/Receive Free Transactions

3/ Since May 15, 2006, these government securities settlement functions has been transferred to the Thailand Securities Depository Co.,Ltd., provided that payments are still settled in BAHTNET System

Source : Payment Systems Department, Bank of Thailand

In the parts of Funds Transfer can be classified as follows:

**2.1.1 Interbank Funds Transfer** amounted to 140,674 transactions that slightly increased from the previous year by 10.32 percent while the value amounted to B69.86 trillion that increased by 27.81 percent from the last year. Interbank Funds Transfer comprised of Multilateral Funds Transfer and Book Transfer of commercial banks. Multilateral Funds Transfer through BAHTNET recorded the volume of 2,478 transactions and the value at B6.36 trillion. The Book Transfer of commercial banks through BAHTNET represented the figure of 10,530 transactions with the value at B16.83 trillion.

**2.1.2 Third Party Funds Transfer** was 1,570,868 transactions increased by 16.62 percent and the total value was B71.2 trillion increased by 48.40 percent from the last year. The increment of volume and value of third party funds transfer resulted from the transactions of government securities

settlement functions at the Thailand Securities Depository Co., Ltd. according to Central Securities Depository Project which the payments are still in the form of third party funds transfer through BAHTNET at the BOT.

## **2.2 The Electronic Retail Funds Transfer**

### **2.2.1 Electronic Retail Funds Transfer via SMART**

In 2006, the number of member banks in SMART (System for Managing Automated Retail Funds Transfer) increased by 3 banks; Kiatnakin Bank Public Company Ltd., GE Money Retail Bank Public Company Ltd. and Land and Houses Retail Bank Public Company Ltd. As a result, the total number of member banks at the end of 2006 amounted to 29 banks, consisting of 15 Thai commercial banks, 11 foreign commercial banks, 2 specialized financial institutions, and the Bank of Thailand.

The total volume of funds transfer via SMART in 2006 amounted to 17,072,136 transactions, increased by 8.5 percent from the last year, while the value amounted to B801.7 billion, decreased by 0.5 percent from the previous year. The daily average volume was 70,256 transactions, and the daily average value was B3.3 billion.

Foreign banks were the major senders under the SMART system with the respective volume and value of 50.8 and 58.0

percent of the total transactions. Thai commercial banks were the major receivers with the respective volume and value of 99.3 and 92.5 percent of the total transactions via SMART.

The major type of transaction in terms of volume was salary and pension payment, accounted for 45.1 percent of the total volume. By contrast, the major type of transaction in terms of value was goods and services payment, amounted to 65.1 percent of the total value.

**Table 4 : Transactions Classified by Service Types**

Volume : Transaction

Value : Billion baht

Year	Goods & Services		Salary		Dividend		Others		Total	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
2003	2,140,153 (41.6)	229.24 (50.2)	6,259,247 (18.3)	112.64 (16.8)	324,516 (113.3)	10.65 (-4.8)	729,328 (75.7)	32.64 (126.7)	9,453,244 (28.3)	385.16 (40.2)
2004	3,225,007 (50.7)	365.60 (59.5)	7,090,768 (13.3)	122.98 (9.2)	410,227 (26.4)	14.65 (37.6)	1,135,780 (55.7)	49.33 (51.2)	11,861,782 (25.5)	552.56 (43.5)
2005	5,065,488 (57.1)	524.93 (43.6)	7,562,027 (6.6)	153.02 (24.4)	1,202,967 (193.2)	64.31 (339.0)	1,897,909 (67.1)	63.39 (28.5)	15,728,391 (32.6)	805.64 (45.8)
2006	6,090,762 (20.2)	522.02 (-0.6)	7,692,331 (1.7)	180.74 (18.1)	1,326,169 (10.2)	36.53 (-43.2)	1,962,874 (3.4)	62.35 (-1.6)	17,072,136 (8.5)	801.65 (-0.5)
Proportion	35.7	65.1	45.1	22.5	7.8	4.6	11.5	7.8	100.0	100.0

Note : ( ) represents percentage change from the same period last years

Source : Payment Systems Department, Bank of Thailand

## 2.3 Interbank Cheque Clearing System

### 2.3.1 Interbank Cheque Clearing in Bangkok and Metropolitan areas

In 2006, total out-clearing cheques in Bangkok and Metropolitan areas operated via the Electronic Clearing House were 61.45

million items with the value of B27,175.43 billion. Compared to 2005, the volume decreased by 4.3 percent while the value increased by 7.8 percent. The average value of out-clearing cheques per item rose by 11.5 percent, from B0.39 million in 2005 to B0.44 million in 2006.

**Table 5 : Volume and Value Interbank Cheque Clearing  
in the Bangkok and Metropolitan Areas operated via ECS**

	Volume (items)			Value (million baht)		
	2005	2006	%	2005	2006	%
Cleared Cheques	64,065,498	61,444,513	-4.3	25,062,568.53	27,175,431.26	7.8
Cleared Cheques amount per item				0.39	0.44	11.5
Returned Cheques	1,480,544	1,436,380	-3.1	198,764.86	203,763.75	2.5
	(2.3)	(2.3)		(0.8)	(0.7)	
Returned Cheques with insufficient fund	937,382	920,913	-1.8	98,896.04	98,184.36	-0.7
	(1.5)	(1.5)		(0.4)	(0.4)	

Note : ( ) represent the proportion of cheque cleared

Source : Payment Systems Department, Bank of Thailand

The volume of returned cheques in Bangkok and Metropolitan areas was 1.44 million items, amounted to B203.76 billion. The volume of returned cheques decreased by 3.1 percent while the value of returned cheques increased by 2.5 percent from the previous year. The ratios of the returned cheques to out-clearing cheques were stable in volume at 2.3 percent but the value slightly decreased by 0.7 percent.

The number of the returned cheques of which the reasons were insufficient fund (including the returned cheques for the reasons of; 1 “Insufficient funds”; 2 “Refer to drawer”; 3 “No arrangement with the bank”) was 0.92 million items, valued at B98.18 billion.

From the whole year’s cheque clearing statistics, it implies the overall in 2006 that the volume of out-clearing cheques and

returned cheques decreased while the value of out-clearing cheques and returned cheques increased from the previous year due to the price of issuing cheque. The price of issuing cheque has increased from 5.00 baht to 15.00 baht since March 2006. Compared to 2005, the proportion of the volume of returned cheques to the volume of out-clearing cheque was 2.3, which was equivalent that of last year while the value of the returned cheques to the value of out-clearing cheques decreased by 0.7 percent.

### 2.3.2 Intra Provincial Cheque Clearing

In 2006, the intra provincial cheques cleared in 84 clearing areas nationwide were 15.94 million items, with B2,616.54 billion in value. The volume of cheques went down by 3.4 percent from the previous year while the value rose up by 9.4 percent.

**Table 6 : Volume and Value of Interbank Cheque Clearing in the Provincial Areas Operated via Provincial Cheque Clearing House**

	Volume (items)			Value (million baht)		
	2005	2006	%	2005	2006	%
Cleared Cheques	16,472,744	15,934,505	-3.4	2,371,478.21	2,616,538.93	9.4
Returned Cheques	389,396	365,236	-6.6	40,062.22	42,664.47	6.1
	(2.4)	(2.3)		(1.7)	(1.6)	
Returned Cheques	250,303	239,356	-4.6	19,362.26	21,187.64	8.6
with insufficient fund	(1.5)	(1.5)		(0.8)	(0.8)	

Note : ( ) represent the proportion of cheque cleared

Source : Payment Systems Department, Bank of Thailand

Throughout the year, the volume of the returned cheques was 0.37 million items, amounted to B42.67 billion, decreased in volume by 6.6 percent while increased in value by 6.1 percent. The ratios of the volume and value of returned cheques to those of out-clearing cheques were equal to 2.3 and 1.6 percent respectively.

The returned cheques, of which the reasons was insufficient funds, were 0.24 million items with the value of B21.19 billion.

In this year, the total value of the settlement of out-clearing cheques at 84 clearing houses operated by the Electronic Clearing House was B1,066.46 billion, increased by 11.5 percent from the prior year.

### 2.3.3 Inter Provincial Cheque Clearing

In 2006, the volume of the inter provincial cheques clearing operated via the Electronic Clearing House was 6.71 million items, amounted to B328.62 billion. The volume decreased by 1.7 percent, while the value continually increased by 7.7 percent.

**Table 7 : Volume and Value of bill for Collection (B/C) operated via BOT**

	Volume (items)			Value (million baht)		
	2005	2006	%	2005	2006	%
Cleared Cheques	6,826,859	6,714,035	-1.7	303,205.67	328,620.86	7.7
Returned Cheques	298,356	293,124	-1.8	15,303.70	16,206.36	5.6
	(4.4)	(4.4)		(5.0)	(4.9)	
Returned Cheques	237,675	235,289	-1.0	11,772.35	12,378.82	4.9
with insufficient fund	(3.5)	(3.5)		(3.9)	(3.8)	

Note : ( ) represent the proportion of cheque cleared

Source : Payment Systems Department, Bank of Thailand

The volume of the returned cheques was 0.29 million items with the value of B16.21 billion decreased by 1.8 percent. The ratios of the volume and value of the returned cheques to the volume and value of the out-clearing cheques were 4.4 and 4.9 percent

respectively, while the ratios of the value of returned cheque slightly increased from the previous year.

Total returned cheques of which the reasons were insufficient funds were 0.24 million items, valued at B12.38 billion.

### 3. Banker to the Government

#### 3.1 Repository of Government's and government agencies' funds

At the end of 2006, balance in the treasury reserve account, and government agencies' and public organizations' accounts at the Bank of Thailand increased by 894.49 percent and 21.44 percent respectively,

compared to the previous year's end. The significant increase in the treasury reserve balance is primarily due to an increase in revenues including tax revenue and revenue from state-owned enterprises in which the remittance period was set to be earlier compared to the previous year.

Unit : Million baht

Account Balance	2005	2006	Increase (Decrease)	Percent
Treasury Reserve	7,814.4	77,713.2	69,898.8	894.49
Government agencies and public organizations	4,777.2	5,801.5	1,024.3	21.44

### 4. Banker to Commercial Banks and Financial Institutions

#### 4.1 Repository of banks' and other financial institutions' funds

Balance in banks' and others' accounts at the Bank of Thailand at the end of 2006 decreased by 3.97 percent and 24.07 percent, respectively, compared to the previous year's end.

Balance in financial institutions' accounts decreased by 75.21 percent, because 4 accounts in this category were closed and 1 account was transferred to another category.

Unit : Million baht

Account Balance	2005	2006	Increase (Decrease)	Percent
Banks	58,593.4	56,269.8	(2,323.6)	(3.97)
Financial Institutions	863.3	214.0	(649.3)	(75.21)
Others	45,394.7	34,469.5	(10,925.2)	(24.07)

## **4.2 Holding of Public Sector Bonds**

As of end-2006, the Bank of Thailand's holding of public sector bonds amounted to B141,595 million, an increase of B30,485 million from the previous year due to the purchase of government bonds for the replacement of maturing bonds as well as for monetary implementation purpose. The holding comprised entirely of government bonds of which approximately 61 percent have remaining maturities of less than 5 years, 27 percent between 5 and 10 years, and 12 percent longer than 10 years.

In 2006, the number of primary dealers for outright bond transactions remained unchanged from the previous year at 9.

## **4.3 Securities Position Adjustment Facility**

The Securities Position Adjustment Window was established on January 15, 2004 as a privilege to outright primary dealers in order to support their market making activities i.e. quoting a firm price for specified benchmark bonds. Through this facility, primary dealers can temporarily acquire specific bonds to deliver to their counterparties if they are unable to acquire it from the market.

In May 2006, in order to enhance efficiency of primary dealer's role as market makers, the BOT increased flexibility for this facility by increasing the borrowing amount permitted per primary dealer from B200 million to B500 million. In addition, the borrowing period was extended from not more than 5 business days to at most 30 days.

## **4.4 Issuance of Bank of Thailand Bonds (BOT Bonds)**

The Bank of Thailand bond is a monetary instrument used in implementing monetary policy in order to ensure an appropriate level of liquidity in the system. The Bank of Thailand determines the issuance schedule and issue size, taking into consideration prevailing market conditions and the issuance of public sector bonds. The Bank of Thailand bonds are currently issued as both a discount instrument with maturities not more than 1-year and fixed-coupon bond with maturities longer than 1-year.

Since February 2003, the Bank of Thailand has been issuing 1-year BOT Bonds on a regular basis and in May 2005 began issuance of 2-year fixed-coupon bonds. This not only balances the maturity structure of BOT Bonds but also provides investors with another investment alternative as well as help enhance the development of the Thai bond market.

In September 2006, the BOT also began issuing short-term bonds with maturities not exceeding 15 days. These short-term bonds are similar to discount papers and permit the BOT to manage liquidity with greater flexibility and efficiency. In addition, the BOT has reduced the frequency of auctions for bonds with 1-year maturity from weekly to biweekly auctions as well as consolidated the number of issues while increasing issue size.

In 2006, the BOT issued bonds totaling B1,001,602 million while B706,232 million matured. As a result, the outstanding figure at year-end for the Bank of Thailand Bonds increased by B295,370 million to stand at

B896,702 million. The outstanding as classified by original maturity comprised 57 percent with 1-year maturity, 35 percent with 2-year maturity, and 8 percent with maturity not exceeding 15 days.

#### **4.5 Operations in the Bank of Thailand Repurchase Market (BOT-RP)**

In 2006, transaction volume in the BOT-Repurchase Market amounted to B27,020,156 million in total or B111,194 million daily average. The volume was approximately at the same level as the previous year, but as a percentage of total repurchase transaction volume (including BOT RP market and Bilateral RP transactions), transaction volume decreased. This is in part due to the BOT reducing the number of trading sessions to one afternoon session while increasing Bilateral RP (BRP) transactions.

In 2006, BOT-RP market transactions in the 1-day tenor was approximately 70 percent of total transaction volume in both the BOT-RP and BRP markets. BOT-RP transactions by term comprise 68 percent in the 1-day, 15 percent in the 7-day, 17 percent in the 14-day, and 1 percent in the 1-month terms. The Bank of Thailand continues to be a net borrower in the market. The number of RP members remained unchanged at 58.

#### **4.6 Bilateral Repo Transactions with Primary Dealers**

The Bank of Thailand has been increasingly conducting Bilateral repurchase transactions (BRP) in order to promote the development of the private repurchase market. The total BRP volume in 2006 was B2,652.5

million, a six-fold increase from 2005. The ratio of BRP transactions to repurchase transactions in the BOT-RP market increased to 10 percent from 1.6 percent last year.

BRP transactions in 2006 composed of 45 percent in the 1-day tenor, 35 percent in the 7-day tenor, and 20 percent in the 14-day tenor. The number BRP primary dealers remain at 9.

In addition, in May 2006 the timing of the BRP session was adjusted by 15 minutes to begin slightly later at 9.30 rather than 9.15 to be in-line with timings in other liquidity management activities of primary dealers.

#### **4.7 End-of-Day Liquidity Window**

In 2006, there was no activity through the end-of-day liquidity window. At year-end the interest rate charged for the facility stood at 6.50 percent. (Policy rate plus 1.50 percent)

#### **4.8 Reform of the Bank of Thailand's Monetary Operation Framework**

In 2006, BOT announced the Bank of Thailand's Monetary Operation Framework Reform Plan in order to increase the efficacy and transparency of the monetary policy implementation while further developing the Thai financial market. The Reform Plan consists of the plan to close the BOT-RP market and the plan to reform the operation framework. The operation reform plan consists of three major features namely: (1) Switch the policy rate from the 14-day RP rate to the 1-day RP rate, (2) establish an interest rate corridor of +/- 50 basis points relative to the policy rate and (3) Synchronize reserve maintenance periods with MPC dates for all



types of financial institutions that are subject to the reserve requirement.

The reform will be in effect from 17 January 2007 onwards. The BOT envisages that the reform will strengthen the stability of the financial system and enable it to efficiently withstand rapid changes in the financial markets in the future.

Since the third quarter of 2006, the BOT has continuously publicized the reform plan with a public hearing for financial institutions in September and with the publication of an article on its website in November.

## 5. The BOT's Financial Assistance to Priority Economic Sectors in 2006

In 2006, BOT set aside B149,930 million credit line to assist priority economic sectors at the headquarter and regional offices through financial institutions. During the year, total amount of loans disbursement was B352,706.9 million, an increase of 1.6 percent from the previous year. By the end of 2006, the total loan outstanding was B93,383.0 million, a decrease of 4.7 percent from the previous year. The details are as follows:

### 5.1 Regular Program

The program provided credit facilities to SMEs through financial institutions. In 2006, the loans disbursement totaled B193,278.5 million which decreased by 5.7 percent from the previous year. By the end of 2006, the total loan outstanding was B33,089.1 million, increased by 10.8 percent from 2005 resulted from the increasing disbursement by most financial institutions in the last quarter.

### 5.2 Emergency Program

In 2006, BOT also provided emergency loans to alleviate economic impacts to entrepreneurs who suffered from bird flu, natural disaster, and the ongoing violence in the Southern provinces, details of which are as follows:

**5.2.1 Lending to Entrepreneurs Affected by the Outbreak of Avian Flu** is a program which continuously assists against the outbreak of avian flu since 2004 and has a total credit line of B15,000 million. In 2006, total loan disbursement was B25,517.2 million with an outstanding of B7,357.3 million at the end of 2006.

**5.2.2 Lending to Entrepreneurs Affected by the Tsunami in the Six Southern Provinces** is a program that has been started since January 2005 aiming at entrepreneurs that have been directly or indirectly affected by the Tsunami. The program has a total credit line of B48,000 million. In 2006, total loan disbursement was B81,991.7 million, with an outstanding balance of B27,067.6 million at the end of 2006.

**5.2.3 Lending to Entrepreneurs Affected by the Ongoing Violence in the Three Southern Border Provinces** focused on entrepreneurs in the three southern provinces that have been affected by social turmoil and violence. The program has a credit line of B20,000 million. In 2006, the loan disbursement totaled B42,443.6 million, with an outstanding balance of B13,146.9 million at the end of 2006.



5.2.4 Lending to Entrepreneurs in Songkhla and Satun Provinces Affected by the Ongoing Violence of the Three Southern Border Provinces has a total credit line of B3,000 million. In 2006, total loan disbursement was B6,686.8 million, with an outstanding of B1,441.5 million at the end of 2006.

### **5.3 Special Lending Programs**

All of the special lending programs are conducted through specialized financial institutions in line with government policies. They were mainly existing programs that had outstanding disbursement from last year, as follows:

5.3.1 Lending to Housing Project through Government Housing Bank with approved total credit line of B15,000 million and has an outstanding of B7,992.3 million at the end of 2006.

5.3.2 Lending to Rural SMEs through Bank for Agriculture and Agricultural Cooperatives with approved total credit line of B3,000 million and has an outstanding of B2,558.7 million at the end of 2006.

5.3.3 Lending to SMEs Project through Industrial Finance Corporation of Thailand with approved total credit line of B9,000 million and has an outstanding of B617.2 million at the end of 2006.

5.3.4 Lending to Maritime Business Project through Export-Import Bank of Thailand and Industrial Finance Corporation of Thailand with approved total credit line of B4,000 million and has an outstanding of B112.4 million at the end of 2006.

**Table 8 : The BOT's Financial Assistance to Priority Economic Sectors**

(Millions baht)

Projects	2005		2006		Change	
	Accumulative	Outstanding	Accumulative	Outstanding	Accumulative	Outstanding
	Value (1)	at year-end (2)	Value (3)	at year-end (4)	Value (3) - (1) (+increase, - decrease)	at year-end (4) - (2)
<b>1. Regularly Program</b>						
- Lending to SMEs Entrepreneurs	204,856.0	29,876.1	193,278.5	33,089.1	-11,577.5	3,213.0
<b>2. Emergency Program</b>						
2.1 Lending to Entrepreneurs Affected by the Outbreak of Avian Flu	29,673.7	11,100.4	25,517.2	7,357.3	-4,156.5	-3,743.1
2.2 Lending to Entrepreneurs Affected by the tidal waves	75,657.9	28,660.0	81,991.7	27,067.6	6,333.8	-1,592.4
2.3 Lending to Entrepreneurs Affected by the Violence in the Three Southern Border Provinces	32,521.8	10,020.8	42,443.6	13,146.9	9,921.8	3,126.1
2.4 Lending to Songkhla and Satton Provinces Entrepreneurs Affected by the Violence in the Three Southern Border Provinces	-	-	6,686.8	1,441.5	6,686.8	1,441.5
<b>3. Special Program</b>						
3.1 Lending to GHB (Housing Project)	-	13,917.3	-	7,992.3	-	-5,925.0
3.2 Lending to BAAC (Rural SMEs Project)	4,289.1	2,789.1	2,789.1	2,558.7	-1,500.0	-230.4
3.3 Lending to IFCT (SMEs Project)	-	1,425.4	-	617.2	-	-808.2
3.4 Lending to EXIM and IFCT (Maritime Bussiness Project)	-	207.9	-	112.4	-	-95.5
<b>Total</b>	<b>346,998.5</b>	<b>97,997.0</b>	<b>352,706.9</b>	<b>93,383.0</b>	<b>5,708.4</b>	<b>-4,614.0</b>

## 6. Development of The Debt Securities Market

In 2006, the Bank of Thailand emphasized the development of innovations in the fixed income market, in order to provide market participants with new risk management tools, as well as alternative funding and investment choices.

### 6.1 Developing and Promoting the Financial Derivatives Market

To encourage the development of a liquid and efficient financial derivatives market which will facilitate financial risk management. The Bank of Thailand has undertaken the following actions:

(1) Amended regulations hindering Interest Rate Swap (IRS) transactions. The BOT revised the methods for calculating credit equivalent amount for financial derivatives in the notification regarding Prescription on Ratio of Credits Granted, Investments and Contingent Liabilities by a Commercial Bank to Any Person to its Capital Funds. This is to be in line with international practices and to accommodate new financial products that may be permitted in the future.

(2) Published on the BOT's WebSite a study entitled "Building the OTC Market for THB Interest Rate Derivatives" by Price WaterhouseCoopers (PwC), in October 2006, with an aim to enhance market players' knowledge and promote IRS transactions. The BOT is following PwC's recommendations regarding the disclosure of IRS transaction volume.

(3) Organized four training courses on Derivatives and Private Repurchase Transactions as follows:

1. ISDA Master Agreement for Financial Derivatives
2. Hedging Interest Rate Risk
3. Hedging Financial Risk for Management
4. Private Repurchase Transactions

## **6.2 Developing and Promoting the Securitization Market**

In August 2006, the BOT organized a seminar on "Securitization : a New Asset Class," for participants from private and public sectors, as well as regulators in order to develop the market for securitization as an efficient channel for funding and investment.

## **6.3 Developing Bond Market on the Supply Side and Developing Bond Futures**

The BOT organized a seminar on "Bond Conversion Program and Derivatives Instrument" and invited experts from Australia to share their knowledge and experience as well as exchange ideas and comments. In 2007, the BOT plans to discuss with authorities regarding amendments of relevant laws on primary market bonds issuance and regulations, survey market demands, and arrange a seminar between market participants and regulators in order to further enhance the liquidity of the secondary bond market.

## **6.4 Secondary Bond Market Development**

In 2006, the Bank of Thailand continued to work in close collaboration with other relevant authorities and the private sector in fostering the bond market development. Areas of cooperation included the centralization of the securities settlement system and the establishment of the central Collateral Management Unit at the Thailand Securities Depository, the enhancement of the bond pricing system at the Thai Bond Market Association, as well as other efforts to enhance liquidity in the secondary market. The Bank of Thailand had also been involved in the launching of the ABF Thailand Bond Index Fund (ABFTH) which is the sub-fund in Thailand under the Asian Bond Fund 2 (ABF2) umbrella. The objectives of the ABF2 has been to act as a catalyst to the development and improvement of the regional bond market in various areas including relevant rules and regulations, diversity of products and asset

classes in the market, as well as index-tracking investment management techniques. The listing of the ABFTH on the BEX of the Stock Exchange in April 2006 has marked the mutual fund as the first Exchange Traded Fund (ETF) in Thailand.

### **6.5 Bond investment seminars for retail investors**

The Bank of Thailand, in collaboration with the Stock Exchange of Thailand and the

Thai Bankers' Association, conducted 3 seminars in Phuket, Bangkok and Khon Kaen with an aim to broaden knowledge and understanding of retail investors on the Thai bond market and basics of bond investment. These seminars are believed to help widen the participation of retail investors in the bond market which would in turn lead to a better diversification of risk and higher stability of the financial system.

## **Acting as Agent of the Government**

### **1. Exchange Control**

#### **1.1 Issuance of Notifications and Notices related to exchange control regulations**

In 2006, the following Notification of the Ministry of Finance and Notices of the Competent Officer were issued:

1.1.1 Notification of the Ministry of Finance on Directions of the Minister to Authorized Agents (No.2) dated 20 July 2006 to extend the period that Authorized Juristic Persons are required to keep documents related to transactions with their customers from at least 3 years to at least 5 years.

1.1.2 Notice of the Competent Officer on Rules and Practices regarding Currency Exchange (No. 2) dated 15 March 2006 to allow foreign investors to buy or exchange foreign currencies for repatriation of margin or profits from trading in the Thailand Futures Exchange (TFEX) by submitting letters certified by their brokers.

1.1.3 Notice of the Competent Officer on Rules and Practices regarding Currency Exchange (No. 3) dated 10 May 2006 to relax rules regarding Foreign Currency Accounts by raising the maximum outstanding balances of all accounts of a juristic person from US\$10 million or equivalent to US\$50 million or equivalent and raising the maximum cash deposit from US\$5,000 to US\$10,000 per person per day.

1.1.4 Notice of the Competent Officer on Rules and Practices regarding Currency Exchange (No. 4) dated 19 May 2006 to relax rules related to Non-resident Baht Accounts of Thai Commercial Banks' branches located in Vietnam, China (Yunnan Province), and countries bordering Thailand to facilitate the settlements of trade and investment between Thailand and aforementioned countries.

1.1.5 Notice of the Competent Officer on Rules and Practices regarding Currency Exchange (No. 5) dated 1 August

2006 to extend the period that Authorized Juristic Persons are required to keep documents related to transactions with their customers from at least 3 years to at least 5 years.

1.1.6 Notice of the Competent Officer on Rules and Practices regarding the undertaking of Authorized Money Changers (No.2) dated 1 August 2006 to extend the period that Authorized Money Changers are required to keep documents related to transactions with their customers from at least 3 years to at least 5 years.

1.1.7 Notice of the Competent Officer on Rules and Practices regarding the undertaking of Authorized Money Transfer Agents (No.2) dated 1 August 2006 to extend the period that Authorized Money Transfer Agents are required to keep documents related to transactions with their customers from at least 3 years to at least 5 years.

1.1.8 Notice of the Competent Officer on Rules and Practices regarding the undertaking of Authorized Companies (No.2) dated 1 August 2006 to extend the period that Authorized Companies are required to keep documents related to transactions with their customers from at least 3 years to at least 5 years.

1.1.9 Notice of the Competent Officer on Rules and Practices regarding the undertaking of Treasury Centers (No.2) dated 1 August 2006 to extend the period that Treasury Centers are required to keep documents related to transactions with their customers from at least 3 years to at least 5 years.

1.1.10 Notice of the Competent Officer on Rules and Practices regarding

Currency Exchange (No. 6) dated 18 December 2006 to require Authorized Juristic Persons to withhold 30 percent of foreign currencies bought or exchanged against Baht with their customers on certain transactions as an unremunerated reserve in order to curb short-term speculative capital inflows.

1.1.11 Notice of the Competent Officer on Rules and Practices regarding Currency Exchange (No. 7) dated 22 December 2006 to allow Authorized Juristic Persons to exempt the withholding of 30 percent unremunerated reserve requirement for funds remitted for investment in stocks listed in the Stock Exchange of Thailand, Market for Alternative Investment (MAI), investment in Thailand Futures Exchange (TFEX) and Agricultural Futures Exchange of Thailand (AFET), foreign direct investment (FDI) and other non-speculative income.

## **1.2 Inspection on proceeds of exports**

In 2006, total export value amounted to US\$128,990 million, increased by 16.26 percent from last year. The export proceeds totaled US\$113,356 million, an increase of 19.44 percent from the previous year. The proceeds were either in Baht from NRBA or in foreign currency which were either deposited in the foreign currency accounts or exchange into Baht. The proceeds are used for loan repayment to authorized financial institutions, or for payment of obligations to nonresidents. Total export proceeds accounted for 87.88 percent of the total export value while the difference resulted from netting transactions and exported goods that are exempt from acquiring foreign currencies.

**Table 9 : Export Value VS Receipt of Export Proceeds**

(Unit : Millions US\$)

Values	2005	2006 <sup>P</sup>
1. Exports <sup>1/</sup>	110,952	128,990
Change (percent)	14.94	16.26
2. Foreign currency received from exports	94,903	113,356
Change (percent)	11.37	19.44

Note : 1/ Total value of export

P = Preliminary

Source : Customs Department

## 2. Foreign Exchange Transactions and Net Foreign Exchange Positions of Authorized Financial Institutions, International Banking Facilities (IBFs)

### 2.1 Authorized Financial Institutions

#### 2.1.1 Number of Authorized Financial Institutions

At year-end 2006, the number of authorized financial institutions totalled 38, consisting of 17 commercial banks registered in Thailand, 17 foreign bank branches, the Export-Import Bank of Thailand, Islamic Bank of Thailand, the Government Savings Bank, Small and Medium Enterprise Development Bank of Thailand. In 2006, the number of financial institutions increased by one bank (GE Money Retail Bank Public Company Limited). The UFJ Bank Limited Bangkok

Branch closed down and merged with the Bank of Tokyo-Mitsubishi, Limited. and has changed its name to The Bank of Tokyo-Mitsubishi UFJ, Limited.

#### 2.1.2 Volume of Transactions

In 2006, the purchase and sale of foreign currencies from and to customers amounted to US\$309,084.9 and US\$300,889.1 million, an increase of 32.9 and 30.9 percent respectively from the previous year. In 2006, total purchase volume exceeded sale by US\$8,195.8 million, an increase of 196.9 percent from the previous year.

**Table 10 : Purchase and Sale of Foreign Currencies from/to Customers**

(Unit : Millions US\$)

	2005	2006 <sup>P</sup>	% Change
<b>Purchase</b>	<b>232,570.0</b>	<b>309,084.9</b>	<b>32.9</b>
Export	67,671.0	80,024.5	18.3
Other	164,899.0	229,060.4	38.9
<b>Sale</b>	<b>229,810.0</b>	<b>300,889.1</b>	<b>30.9</b>
Import	78,405.0	87,414.9	11.5
Other	151,405.0	213,474.2	41.0
<b>Net Purchase and Sale</b>	<b>2,760.0</b>	<b>8,195.8</b>	<b>196.9</b>
Foreign Trade	(10,734.0)	(7,390.4)	31.1
Other	13,494.0	15,586.2	15.5

Note : Figures in parentheses indicate the amounts by which sale is greater than purchase.

P = Preliminary

Source : Based on Data set received from authorized financial institutions

### 2.1.3 Foreign Exchange Positions

As of year-end 2006, authorized financial institutions held a net long foreign currency position of US\$1,197.2 million, an increase of 40.5 percent from the previous year. Their long spot position was at US\$21,256.2 million, an increase of 56.9 percent from the previous year. Total assets and

liabilities increased by 42.3 and 21.2 percent respectively from last year. Forward position, on the other hand, was US\$20,059.0 million short, an increase of 58.0 percent from the previous year. Outstanding forward purchase increased by 34.7 percent from the previous year while outstanding forward sale increased by 38.7 percent.

**Table 11 : Foreign Currency Position of Authorized Financial Institutions**

(Unit : Millions US\$)

	End - 2005 (-Short)	End - 2006 <sup>P</sup> (-Short)	% Change
<b>1. Spot Position</b>	<b>13,546.6</b>	<b>21,256.2</b>	<b>56.9</b>
Assets	22,897.2	32,590.9	42.3
Liabilities	9,350.6	11,334.7	21.2
<b>2. Forward Position</b>	<b>-12,694.8</b>	<b>-20,059.0</b>	<b>-58.0</b>
Bought	62,661.0	84,429.9	34.7
Sold	75,355.8	104,488.9	38.7
<b>3. Net Position (1+2)</b>	<b>851.8</b>	<b>1,197.2</b>	<b>40.5</b>

Note : P = Preliminary

Source : Based on Data set received from authorized financial institutions.



## 2.2 International Banking Facilities (IBFs)

At the end of October 2006, all Bangkok Provincial International Banking Facilities (BIBFs) and (PIBFs) were closed.

## 2.3 Authorized Money Changer, Money Transfer Agent and Authorized Company

### 2.3.1 Foreign exchange

**Table 12 : Transaction Volume of Foreign Exchange through Authorized Money Changers, Money Transfer Agents and Authorized Company at end-December 2006<sup>P</sup>**

Type	No.	Change from Previous Year	Purchase/ Remittance Volume		Sale/ Remittance Volume	
			Million US\$	%	Million US\$	%
Authorized Money Changer	558	132	355.84	67.07	355.77	67.41
Money Transfer Agency	1,205	1,177	79.76	16.48	18.35	48.57
Authorized Company	1	1	0	-	0.20	-

Note : % represents the percentage change from the same period of the previous year.

P = Preliminary

At end-2006, there were 558 authorized money changers regulated by the Bank of Thailand (268 by Head Office, 220 by Southern Region Office, 53 by Northern Region Office, and 17 by Northeastern Region Office), increased by a total of 132 from previous year. There were consisted of 163 newly licenses and 31 returned licenses. The revised Notification of the Ministry of Finance and the Notice of the Competent Officer issued on 11 August 2004 added new qualifications for the authorized money changer to apply for the licenses. Moreover, the BOT also hold public seminar for interested entrepreneurs resulted in increasing numbers of applications.

In 2006 there were 1,205 money transfer agents regulated by the Bank of Thailand (454 by the Head Office, 203 by the

Southern Region Office, 242 by the Northern Region Office, 306 by the Northeastern Region Office), an increase of 1,177 agents from previous year. The increasing number of licenses are mostly Thailand Post Co.,Ltd.

In 2006, there was only one authorized company. The company received the license in 2006.

### 2.3.2 Examination

In 2006, there were 34 authorized money changers and money transfer agents that has been examined by the head office of the Bank of Thailand. The result of the examination has found that there were 13 of the 34 cases that did not comply with the regulation.



### 3. Public Debt Management

#### 3.1 Outstanding, issuance and redemption

Unit : Million baht

Types of Securities	Outstanding (as of 31-Dec-05)		Issuance		Redemption		Outstanding (as of 31-Dec-06)	
	No. of Issue	Value	No. of Issue	Value	No. of Issue	Value	No. of Issue	Value
Government Bonds	77	1,360,649.2	17	210,539.1	12	59,719.4	82	1,511,476.9
State Owned								
Enterprise Bonds	292	347,911.0	36	38,965.0	44	53,976.0	284	332,900.0
Bank of Thailand Bonds	59	601,332.0	39	1,001,602.0	67	706,232.0	31	896,702.0
FIDF Bonds	25	525,000.0	28	470,000.0	35	675,000.0	18	320,000.0
IFCT Bonds	3	2,320.0	-	-	2	1,670.0	1	650.0
Treasury Bills	41	199,000.0	152	875,200.0	152	856,200.0	41	218,000.0
Debt Restructuring Bills	2	10,000.0	4	20,000.0	4	20,000.0	2	10,000.0
<b>Total</b>	<b>499</b>	<b>3,046,212.2</b>	<b>276</b>	<b>2,616,306.1</b>	<b>316</b>	<b>2,372,797.4</b>	<b>459</b>	<b>3,289,728.9</b>

The BOT conducted early redemption and amortization totaling B592.92 million as the followings :

(1) Early redemption totaling B578 million for 9 issues of Government Bonds.

(2) Principal payment totaling B17.92 million for 3 issues of specific-purposed government loan bonds including government bonds issued in foreign currency converted into Thai baht by using adjusted rate every year.

#### 3.2 Coupon Payment

Unit : Million baht

Types of Securities	Coupon Payment	
	No. of Payment	Value
Government Bonds	119	76,245.0
State Owned Enterprise Bonds	587	18,926.6
Bank of Thailand Bonds	9	7,180.3
FIDF Bonds	2	822.1
IFCT Bonds	5	141.5
specific-purposed government loan bonds (US\$-denominated)	3	1.1
<b>Total</b>	<b>725</b>	<b>103,316.6</b>

**3.3 Outstanding value classified by holders as of December 31<sup>st</sup> 2006**

Unit : Million baht

Types of Holders	Value
Bank of Thailand	90,383.6
Commercial Banks	879,862.8
Finance/Securities/Finance & Securities/Credit Foncier companies	21,829.1
Government Saving Bank	130,801.7
FIDF	320,000.0
Others	1,846,851.7
<b>Total</b>	<b>3,289,728.9</b>

**3.4 Outstanding value of bonds deposited via BOT's counter for Repurchase as of May 11<sup>st</sup> 2006 valued B717,531.4 million.**

**3.5 Total transferring value in 2006 was B20,626,901.2 million.**

**3.6 Collecting fee debt securities management in 2006**

Unit : Million baht

Types of Securities	No. of Transaction	Value
Government Bonds <sup>1/</sup>	89	146.2
State Enterprise Bonds	283	11.0
Treasury Bills	152	87.7
FIDF Bonds <sup>2/</sup>	1	-
<b>Total</b>	<b>525</b>	<b>244.9</b>

Note : 1/ Including collecting fee for specific-purposed government loan bonds (US\$-denominated) worthed 761.01 baht

2/ collecting fee for IFCT bonds worthed 30,000 baht

**3.7 Tax withheld from interest payment and submitted to the Revenue Department in 2006**

Unit : Million baht

Types of taxes	No. of Transaction	Value
Personal income Tax	9,570	769.1
Corporate income Tax	414,012	2,629.8
<b>Total</b>	<b>423,582</b>	<b>3,398.9</b>

### 3.8 Centralizing Securities Depository and Clearing and Settlement System

According to the MOF's Thai Bond Market Development Plan Phase 2 (2005-2014), the Thailand Securities Depository Co.,Ltd. has been appointed the central depository and clearinghouse for both public and private sector debt securities. However, the BOT is

still a registrar and paying agent for government debt securities.

Since 15 May 2006, the BOT has transferred the role as a depository of government debt securities to the TSD. This included transferring members' securities accounts at the BOT to the TSD. Holders can choose to deposit or withdraw their securities either via the BOT or the TSD.

### 3.9 Securities deposit to accounts at TSD's system or BOT's RP/ILF system

Unit : Million baht

Channel	No. of transaction	Value
Via BOT	379	127,261.6
Via TSD	50	11,966.8
<b>Total</b>	<b>429</b>	<b>139,228.4</b>

Note : Holders can request for depositing physical scrips to scripless accounts either via the TSD or BOT. The physical scrips will be changed into scripless securities which can be scriplessly transferred either in the TSD's system or the BOT's RP or ILF systems.

### 3.10 Securities withdrawal from accounts at TSD's system or BOT's RP/ILF system

Unit : Million baht

Channel	No. of transaction	Value
Via BOT	1,298	256,401.4
Via TSD	3,239	245,707.9
<b>Total</b>	<b>4,537</b>	<b>502,109.3</b>

Note : Holders can withdraw their securities from scripless accounts and ask for physical scrips either via the TSD or BOT, to be kept by their owns or to be used as collaterals.

## 4. Financial Institutions Supervision Policies

### 4.1 Policies on Financial Institutions

#### 4.1.1 Guidelines to Solve Problems of Non-performing Assets

(1) Revision of the Regulation on Loan Classification and Provisions

To enable financial institutions to prepare for the implementation of International Accounting Standard 39 (IAS 39) which is expected to be effective in Thailand in 2008, and to lessen the effects on financial status of financial institutions, the BOT has thus required financial institutions to gradually make 100 percent provisions from either the difference between outstanding debt and present value of estimated future cash flows from debtors or the difference between outstanding debt and present value of estimated future cash flows from sales of collaterals in accordance with the following time frames:

(1.1) For NPLs which have been adjudged or in the process of legal execution, and loans which are in the process of litigation, provisions must be made from the latter accounting period of year 2006 onwards.

(1.2) For NPLs which are classified as doubtful of loss and doubtful provisions must be made from the former accounting period of year 2007 onwards.

(1.3) For NPLs which are classified as sub-standard provisions must be made from the latter accounting period of year 2007 onwards.

(2) Amendment to Regulation for Collateral Valuation

The BOT has revised the regulation for collateral valuation as follows:

(2.1) Clarify types of collaterals, methods and frequency of collateral valuation as well as value of collaterals which financial institutions can deduct from outstanding debt before making provisions. Bill of exchange, gold, vehicles, machinery and intellectual properties are included to the list of types of collaterals.

(2.2) Financial institutions shall conduct collateral valuation for debtors classified as pass and special-mentioned when assets are accepted as collateral for credit granting. Moreover, financial institutions shall consider the frequency of such collateral valuation as they deem appropriate and to be in line with the risk management policy of each financial institution. As for debtors classified as sub-standard, doubtful and doubtful of loss, the regulation that financial institutions must conduct collateral valuation for immovable properties every 3 years remains unchanged.

(3) Improvement of the Principles of Reviewing of Credit Extensions and Contingent Liabilities

The BOT has revised the principles of reviewing of credit extensions and contingent liabilities. Any commercial banks of which aggregate credit risk rating received from the latest BOT's examination report is low, moderately low or moderate are allowed to conduct random sample credit reviews of no less than 25, 50 or 75 percent of total loans, respectively, for large debts classified as normal and special-mentioned. However, the banks are still required to review all the large debts classified as sub-standard, doubtful and doubtful of loss.

#### 4.1.2 Supervision Risk Management

##### (1) Consolidated supervision

As commercial banks are dealing with the trend towards conglomerate structures in order to create their competitive advantages, The BOT, therefore, strengthens its supervisions by focusing on consolidated basis that addresses an overall financial risk management of a financial institution due to conglomerate businesses. This will improve Thai supervisory framework towards international standards and also prepare the commercial banks for adopting the new Financial Institution Businesses Act. With this regards, the BOT has issued the Guideline on Consolidated Supervision (the Guideline) in July 2006 and asked commercial banks for cooperation to comply with the Guideline since January 2007.

The Guideline is based on the study of international practices on consolidated supervision which used in many countries, such as that of APRA, FSA, HKMA, and MAS, including the appropriated adjustments towards business environments in Thailand.

The Guideline clearly defines the scope of a banking group, which includes parent company, either in form of a commercial bank, holding company, and security or insurance company that are subject to the consolidated supervision. The Guideline specifies both quantitative and qualitative supervision such as limits on large exposure and intra-group transactions, required capital adequacy on consolidated basis and group risk management.

Accordingly, commercial banks have to consider restructuring their investments in other entities and send their application for the setting up of their financial groups to the

BOT. Such commercial banks are also required to submit their consolidated financial data of the approved financial groups to the BOT for the test of capital adequacy and other calculations such as ratio of the credit granted, investments, and contingent liabilities for one year period. The BOT shall assess the impact on consolidated supervision from such information and consider revising the Guideline or stipulate additional conditions as deem appropriated. In addition, the BOT has also improved the channel of information exchange and coordination with other functional regulators by signing the MOU with SEC and Department of Insurance to strengthening and promote the efficiency and effectiveness of consolidated supervision.

##### (2) Revision of Regulation on Capital Adequacy

The BOT revised the regulation on capital funds by

(2.1) Adding the non-cumulative hybrid debt capital instruments with non-interest payment in the year that there is no profit into tier 1 capital (Hybrid Tier 1) as follows:

(2.1.1) Commercial banks are able to count non-cumulative hybrid debt capital instruments as the tier 1 capital, subject to a maximum of 15 percent of their tier 1 capital and must seek prior approval from the BOT.

(2.1.2) The non-cumulative hybrid debt capital instruments must be fully paid up, unsecured, permanent, non-cumulative interest and able to absorb losses on a going-concern basis.

(2.1.3) The non-cumulative hybrid debt capital instruments are callable at the initiative of the issuer only after a

minimum of five years with the BOT approval. In addition, the step-up in coupon of the instruments is permitted only once after the 10<sup>th</sup> year.

(2.2) Adding other types of risk weights of credit granted to retail consumers and small- and medium-sized enterprises (SMEs) as follows:

(2.2.1) Risk weight 0.35 for residential credits granted to natural persons that meet the conditions prescribed by the BOT.

(2.2.2) Risk weight 0.75 for credits granted to retail customers and SMEs that meet the conditions prescribed by the BOT.

(2.2.3) Risk weight 1.0 for residential credits granted to natural persons according to (2.2.1) that become non-performing loans (NPL).

(2.2.4) Risk weight 1.5 for credits to retail customers and small- and medium-sized enterprises according to (2.2.2) that become non-performing loans.

(3) Revision of the Guideline on Ratio of Credits Granted, Investments and Contingent Liabilities by a Commercial Bank to Any Person to its Capital Funds

(3.1) The BOT has revised the guideline on ratio of an amount of money that a commercial bank shall grant credits, make investments and incur contingent liabilities to any person to its capital funds. Ratio of exposure to large debtor is amended to include transactions similar to credits granting, contingent liabilities which are guarantees of capital increases or any guarantee to facilitate borrowing of any person as well as financial derivatives contracts. Methods for calculating credit equivalent

amount for financial derivatives contracts are amended to be consistent with international practice and to support the commercial banks' new financial products.

(3.2) The BOT has issued a notification to prescribe ratio of credits granted, investments and contingent liabilities by a retail bank to any person to its capital funds. The notification aims at enabling retail banks to understand how to manage and supervise large exposure effectively, covering risks that may incur from granting credits, making investments or undertaking contingent liabilities with any person, and enhancing the strength and stability of retail banks.

(4) Policy Statement on Country Risk Management

The BOT has stipulated the policy statement on country risk management with which commercial banks shall comply to buffer any potential impact from credits granting, making investments and undertaking contingent liabilities with the counterparties domiciled in other countries. The essence is as follows:

(4.1) Stipulate roles of board of directors and senior management in ensuring that strategy policy, plan, and procedures for international transactions are in place.

(4.2) Stipulate that commercial banks should establish written policy on country risk management that is approved by the bank's board of directors.

(4.3) Stipulate that commercial banks should establish country risk management system consisted of risk assessment, risk controlling and risk monitoring.

### **4.1.3 Expanding Business Scope**

#### **(1) Derivatives Businesses**

The BOT has issued a notification to allow commercial banks to conduct derivatives businesses such as agent, dealer, advisor, and fund management. The commercial banks that qualified the requirement of the BOT to conduct derivatives businesses must be licensed by the SEC or registered by the Office of the SEC.

#### **(2) Issuing Bill of Exchange of Commercial Banks**

The BOT has permitted commercial banks to generally issue the bill of exchange (B/E) payable to order. Commercial banks might issue B/E in Thai Baht when borrowing from persons domiciled in Thailand and may issue in foreign currency only when borrowing from non-resident or financial institutions in Thailand which have been permitted to undertake the foreign exchange transactions under the Exchange Control Act B.E. 2485.

#### **(3) Securitization Businesses**

The BOT has modified the permission for commercial banks to conduct securitisations. The previous requirement that commercial banks had to obtain prior approval from the BOT was amended to the BOT granting general permission for commercial banks to act as an originator, to sell assets for securitisation purpose, and to perform other securitisation related functions in accordance with the stipulations under the Notification of the BOT. Moreover, the BOT has also stipulated rules for conducting the business, capital treatment, and large exposures limit herewith.

#### **(4) Revision on Guideline on Issuing Certificates of Deposit**

The BOT eased the guidelines on issuing certificates of deposit (CD) of the commercial banks by allowing banks to issue CD in foreign currency. Moreover, rules that cause a limited financial services to people were left out, that are (1) minimum and multiplier amount of CD (2) terms of deposit (3) restriction on CD buy back and (4) the secondary market rule.

#### **(5) Extension on the Scope of Foreign Exchange Booth's Services**

The BOT extended the scope of Foreign Exchange Booth's services by allowing banks to provide the following services, namely document and information delivery between banks' customer and operating units, money transfer within the country for any customer with/without any account with bank, and selling and providing related services on the Electronic Money.

### **4.1.4 Commercial Banks' Branch Policy**

The Ministry of Finance has agreed upon the gradually removal of condition on opening rural branch by reducing the proportion of local loan and agriculture loan and removed such condition by the end of 2008.

### **4.1.5 Measures to Protect Consumers and Promote Transparent Services**

#### **(1) Improvement on the Regulation on Credit Card Business of Commercial Banks and Non-banks**

The BOT has amended the regulation on credit card business which can be summarized as follows:

(1.1) Consider the qualification of cardholders from his/her deposit or investment in debt instruments.



(1.2) Add regulations on considering qualification of corporate cardholders.

(1.3) Amend credit card debt repayment conditions for the case of emergency credit line exceeding 5 times of income.

(1.4) Amend conditions on credit lines of the credit cards issued prior to 1 April 2004 by allowing a commercial bank to remain existing credit lines before 1 April 2004.

(1.5) Prescribe rules by not allowing the pre-approved of any credit cards.

(1.6) Impose the credit card payment of taxes and duties to the Government Agent fee at 2 percent. It is considered as an operating fee related to credit card services which may be charged to individuals when making payments through credit cards and excluded from the interest and service charges.

In addition, the BOT has increased the ceilings of interest, penalty, service charge and fee by 2 percent to not exceeding 20 percent per annum to be consistent with the continued change in financial costs. This shall come into force from 1 December 2006 onwards.

(2) Revision of Regulations on Personal Loan under supervision

In order to instruct Personal loan under supervision operators to prepare for each consumer an obligation table upon executing a credit application contract or upon credit approval, in addition to preparing a receipt showing the details of the debt payment and total amount of debt including both overdue portion and undue portion. It is to be retained by the consumer as evidence.

(3) Dissemination on Commercial Banks' Fees and Interests that is in Public's Interest on the BOT WebSite

The BOT has disseminated additional Commercial Banks' fees and interests that is in public's interest on the BOT WebSite, namely interest rate and other service charges related credit card, including Non-Bank information.

#### **4.1.6 Basel II Preparations**

The BOT has been continuously making preparation for the implementation of the New Basel Capital Accord (Basel II), which will be applied to all commercial and retail banks by the end of 2008. The BOT's preparations for Basel II implementation in 2006 can be summarized as follows:

(1) Pillar 1 - Guideline for Minimum Capital Requirement

(1.1) Issued Draft of Basel II Supervisory Guideline on Capital Fund under Pillar 1 Re: Guideline for Minimum Capital Requirement (Final Draft) on 27 March 2006 after taking the banks' comments into consideration for appropriateness and practical implementation.

(1.2) Issued a Consultative Paper on Basel II Report of Capital Fund under Pillar 1 on 21 June 2006, conducted an industry hearing regarding the consultative paper on 17 July 2006 and asked banks to submit comments by 15 August 2006.

(1.3) Issued Survey Form on Quantitative Impact on Capital Fund of banks from the implementation of Basel II guideline on 27 September 2006, by using the data on 30 June 2006, and asked banks to submit the results by 31 December 2006. After gathering all results, the BOT plans to finish an assessment of overall banks' impact on their capital funds by the first quarter of 2007.



(1.4) Issued a Consultative paper on the Recognition of External Credit Assessment Institutions (ECAIs) for the use of their ratings to map to the risk weights specified by the BOT under standardised approach on 4 October 2006 for receiving comments from relevant parties including banks, external credit assessment institutions in Thailand and overseas, as well as related authorities in Thailand.

(2) Pillar 2 - Supervisory Review Process

(2.1) Issued a Consultative Paper on Draft of Basel II Supervisory Guideline on Capital Fund - Pillar 2 Supervisory Review Process on 6 March 2006, and asked banks to submit comments by 31 May 2006.

(2.2) Issued Draft of Basel II Supervisory Guideline on Capital Fund - Pillar 2 Supervisory Review Process (Final Draft) on 25 December 2006, after taking banks' comments into consideration.

(3) Pillar 3 - Market Discipline

(3.1) Issued a Consultative Paper on Draft of Basel II Supervisory Guideline on Capital Fund - Pillar 3 Market Discipline on 22 August 2006 to banks, main users (i.e. Securities Company Association, Mutual Fund Manager Association), and related financial authorities (i.e. Office of Securities and Exchange Commission, Stock Exchange of Thailand), conducted an industry hearing on 14 September 2006, and asked for comments by 30 September 2006.

(3.2) Issued Draft of Basel II Supervisory Guideline on Capital Fund - Pillar 3 Market Discipline (Final Draft) on 28 November 2006, after taking banks' comments into consideration.

(4) Arranged Basel II seminars and trainings to build capacity and understanding of both supervisors and industry.

The BOT's workplan for next year includes: issue the Basel II report of capital fund under Pillar 1, issue a consultative paper on Pillar I - Securitisation under standardised approach, finalise the recognition process of External Credit Assessment Institutions (ECAIs) under standardised approach.

#### **4.1.7 Development of the drafted Financial Institutions Business Act**

The draft Financial Institutions Business Act (Act), to substitute the existing Commercial Banking Act B.E. 2505 and the Act on the Undertaking of Finance Business, Securities Business and Credit Foncier Business B.E. 2522, had been proposed to the Parliament for consideration since 2000. However, the Senate and the Lower House could not agree on some context of the draft by the end of the Parliamentary Session. Despite the Constitution of a new government and Parliament, the draft Act was not submitted for Parliamentary Consideration within the timeframe stipulated by law, and hence the draft Act has not yet been endorsed.

In 2005, the Ministry of Finance planned to re-propose the draft Act to the consideration of the parliament. The draft Act has been approved by the cabinet in November 2006 and is now in consideration of the Council of State.

#### **4.1.8 Development of the drafted Prompt Corrective Action (PCA) Policy Statement**

The BOT has already formulated the framework of PCA Policy Statement to be applied to all commercial banks registered in Thailand. To resolve the problem in a bank within a reasonable timeframe, the PCA policy statement stipulates the clear remedial process including a set of Mandatory actions and Discretionary actions. These actions correspond to the severity of the problems as reflected by BIS ratio. The problems, which can be categorized into 4 zones as follows: (1) BIS ratio less than 9.5 percent, but equal or more than 8.5 percent (2) BIS ratio less than 8.5 percent, but equal or more than 5.5 percent (3) BIS ratio less than 5.5 percent, but equal or more than 3.0 percent and (4) BIS ratio less than 3.0 percent

If the Minister of Finance and BOT's implementation of the specified policy statement would have serious adverse effects on economics conditions, the Minister of Finance and BOT may decide to take other actions as necessary to avoid such effects.

The aforementioned PCA policy statement is currently being reviewed by the Minister of Finance to be agreed on principal.

#### **4.1.9 Database Improvement**

The BOT improved call report of financial institutions to better serve risk-base supervision, including non-performing loans (NPL) reporting in line with the adoption of International Accounting Standard (IAS-39) for NPL, and improvements to strengthen database for system surveillance under Data Management System Enhancement Project.

### **4.2 Enhancement of Regulatory Framework**

#### **4.2.1 Promoting Risk Management Practices**

##### **Guidelines on Business Continuity Management (BCM) and Business Continuity Plan (BCP) for Financial Institutions**

The BOT issued the guideline on Business Continuity Management (BCM) and Preparation of Business Continuity Plan (BCP) of FIs. FIs should adapt it commensurate with the nature and sophistication of its businesses. Key Principles are as follows:

- The board of directors and senior management are responsible for formulating strategies and policy of the business continuity management.
- Identifying the critical business functions, recovery time objectives and recovery strategies.
- Having written business continuity plans that cover all critical business functions.
- Testing and reviewing on the business continuity plans at least once a year.
- FIs should notify the BOT at the first opportunity but not exceeding 24 hours, if the critical business functions' disruption occurs.

#### **4.2.2 Financial Sector Master Plan**

Below is the implementation progress of key policies under the Financial Sector Master Plan (FSMP) in 2006.

(1) Measures to Enhance Effectiveness of the Financial Institution System

(1.1) Approval for the Establishment of Commercial Bank and Retail Bank

As of the end of 2006, the Minister of Finance granted retail bank license to the last two remaining applicants, AIG Finance (Thailand) PCL and Thai Keha Credit Foncier Co.,Ltd. Both retail banks are expected to begin operations within 2007.

#### (1.2) One-presence Policy

Financial institutions, whose One-presence applications were approved by the Minister of Finance, have all completed consolidating their operations in accordance with their respective plans.

#### (2) Measures to Promote Financial Services for All

The BOT with the assistance of National Statistical Office is performing a nationwide survey concerning public savings behavior and financial services usage. The nationwide survey is expected to be completed in the second quarter of 2007, while the data gathered will form the basis of future BOT initiatives to promote domestic savings and financial access.

#### (3) Publication of the “Thailand Financial Sector Master Plan Handbook”

The BOT published the “Thailand Financial Sector Master Plan Handbook” in 2006 to clarify the development policy of financial institutions under the supervision of the Ministry of Finance and BOT.

### **4.2.3 The Assessment under the Reports on the Observance of Standards and Codes (ROSCs) and the Financial Sector Assessment Program (FSAP)**

The BOT is scheduled to undergo the ROSCs and FSAP in the areas of Banking Supervision, Monetary Policy Transparency and Payment Systems. There will be two missions: the first mission is during January

17-31, 2007 and the second mission is during May 24 - June 6, 2007. Publication of the result of the ROSCs/FSAP will be considered in October 2007.

### **4.2.4 Financial Sector Liberalization**

The BOT participates in international negotiations on liberalization of financial services in order to ensure that such agreements are consistent with the safeguarding of economic and financial stability, while coordinating with the relevant agencies to formulate request list that is beneficial to Thai financial institutions.

### **4.2.5 Memorandum of Understanding (MoU) on Information Exchange for Effective Cross-border Banking Supervision**

The BOT signed Memorandum of Understanding (MoU) on Information Exchange for Effective Cross-border Banking Supervision with China Banking Regulatory Commission (CBRC) and the Monetary Authority of Singapore. The MoUs provide a formal basis for banking supervisory cooperation between the BOT and the overseas supervisory authorities in areas of information sharing and communication during the licensing process and ongoing supervision of banks operating under their respective jurisdictions.

## 5. Financial Institutions Supervision

### 5.1 Financial Institutions Supervision Policy

The Bank of Thailand (BOT) has the responsibility to supervise and to ensure safety and soundness of the financial institutions and the financial sector. Risk-based supervision is used as the guideline to provide the continuous supervision. The BOT conducts on-site examinations as well as closely monitor and analyse conditions and performance of financial institutions to be able to provide prompt corrective actions whenever there is a sign indicating potential problems in any financial institutions.

The BOT's supervision policy is to conduct at least once a year on-site examinations on Thai commercial banks, foreign bank branches, finance companies, credit foncier companies, retail banks, Specialized Financial Institutions\*, asset management companies, non-banks and National Credit Bureau Co., Ltd. Except for the branches of foreign banks that have overall composite rating of 1 or 2, the on-site examinations will be conducted once every other year.

### 5.2 Financial Institutions On-site Examination

#### 5.2.1 The on-site examination of financial conditions, performance and risk management

The main objective of the on-site examination of Thai commercial banks, foreign

bank branches, and retail banks as well as their subsidiaries and affiliates are to assess their financial conditions, performance and risk management on consolidated basis by emphasizing on the level and quality of risk management in five areas - i.e. Strategic Risk, Credit Risk, Market Risk, Liquidity Risk, and Operational Risk - and compliance with law and the BOT's regulations. Simultaneously, the examinations are focused on the assessment of corporate governance practices and the preparation for the implementation of New Basel Capital Accord (Basel II) in Thailand in 2008. In case of finance companies and credit foncier companies, which a few remain after most of them are upgraded to commercial banks or retail banks due to the Financial Sector Master Plan, the examinations are to assess their financial conditions and capital adequacy in order to ensure their stability.

Specialized Financial Institutions examination, delegated from the Ministry of Finance, focuses on assessing financial conditions, performance and risk management. The results of examination and remedial measures must be proposed to the Ministry of Finance to take appropriate actions as needed. In addition, the examination of Asset Management Companies emphasizes on management of acquiring or transferring assets while the examination of non-banks is to ensure the compliance with the BOT's regulations in order to protect consumers' interests and prevent unfair lending practices

\* Specialized Financial Institutions consist of The Bank for Agriculture and Agricultural Cooperatives, The Export-Import Bank of Thailand, The Government Saving Bank, The Government Housing Bank, The Small and Medium Enterprise Development Bank of Thailand, The Islamic Bank of Thailand, The Secondary Mortgage Corporation, The Small Industry Credit Guarantee Corporation, The Asset Management Corporation and Thai Asset Management Corporation.

that will put customers at a disadvantage. For non-banks operating without licenses, the BOT will closely monitor and take legal actions.

### **5.2.2 The examination of information technology management**

In 2006, the BOT has examined the operation of information technology in 10 financial institutions consisting of 6 Thai commercial banks, 3 Specialized Financial Institutions and National Credit Bureau Co., Ltd. The examination results indicated that most of financial institutions were able to manage their information technology at the satisfactory level. Moreover, the BOT also assessed the preparation and adequacy for IT security and IT risk management regarding to the Basel II.

### **5.2.3 The examination and validation of risk management model**

The BOT has examined another foreign bank branch which asked for permission to apply the internal model approach for market risk capital calculation as prescribed by BOT's circulation of Market Risk Supervision Policy of Financial Institutions and Related Reports. The examination also included the evaluation of stress testing scenarios for market risk and impacts on the condition and stability of financial institution. Since the policy released in 2003, the internal models of 7 financial institutions have been approved.

In conclusion, 57 financial institutions have been examined during this year. The examination results indicated that most of financial institutions' composite ratings were satisfactory. Every financial institution reserved provisions for classified assets at the level higher than the regulatory requirement. Most of them were able to earn net profits. All financial institutions' capital adequacy ratios were above the minimum regulatory requirement. Nevertheless, non-performing loans were concerned issues for financial institutions to resolve. In terms of provisions, financial institutions should take the International Accounting Standard 39 (IAS 39) into their consideration in order to have enough cushions against adverse impacts that may occur when the IAS 39 is implemented. For asset management companies, most of them were able to reduce non-performing loans, as targeted, by debt restructuring.

In the case of financial institutions that the ratings were lower than satisfactory, the BOT has ordered the financial institutions to improve their financial conditions, performance and risk management system and report to the BOT the result of the corrective action within the time frame. Besides, the BOT has examined the subsidiary companies of financial institutions and ordered some of those to correct their problems to ensure the financial stability of the financial institutions.

**Table 13 : The number of financial institutions  
examined by the BOT in 2006**

Financial Institutions	Number of Financial Institutions Examinations
Domestic Commercial Banks	14
Foreign Bank Branches	9
Finance and Credit Focier Company	6
Specialized Financial Institutions	10
Retail Banks	3
Asset Management Companies	2
Non-Banks	12
National Credit Bureau Co., Ltd	1
<b>Total</b>	<b>57</b>

### 5.3 Financial Institutions Monitoring and Analysis

Like on-site examination, the off-site monitoring and analysis focuses on financial conditions, performance, capital adequacy, and risk management of each financial institution. The analysis reports are created quarterly for Thai financial institutions and semi-annually for foreign bank branches and specialized financial institutions. In addition to the individual report, overall performance reports of Thai commercial banks, finance companies, credit foncier companies and asset management companies (AMC) as well as the system-wide report are also conducted. In the analysis process, there are the quantitative early warning system to identify weaknesses of each financial institution and the analysis of various economic factors that may unfavourably affect the asset quality of financial institutions according to the Macro Prudential Framework.

### 5.4 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 condition, notifications and circulars.

### 5.5 Supervision Efficiency Enhancement

Several activities were conducted in 2006 to enhance the efficiency of supervision function as follows:

#### 5.5.1 Examiners Development

The BOT continuously has developed the examiners through the School for Examiners, provides training for examiners to have sufficient knowledge and readiness to perform supervisory tasks according to the policy and in the standardized practice. In addition, the BOT examiners and management participated in overseas trainings and seminars. Several in-house seminars, lectures and workshops on new knowledge are also held to broaden the examiners' skills and knowledge in order to match the international standard. The guest speakers, both domestic professionals and international technical



assistant from other countries' regulatory agencies, are invited for those training programs.

#### **5.5.2 Supervision Development regarding International Standard**

The BOT consistently has developed the examination manuals for examiners and improves the procedures of examination to enhance efficiency of supervision function. In addition, The BOT has prepared the examiners for the implementation of the Basel II and participates

in the Financial Sector Assessment Program (FSAP) and supervise financial institutions on consolidated basis.

#### **5.5.3 Development of the Supervision and Examination Management System**

The BOT has developed the supervision support systems and the examination management systems by using information technology to enhance the efficiency of supervision and examination procedures and systematically collect the database.

## **BOT's participation in International Organizations**

### **1. Association of Southeast Asian Nations (ASEAN)**

The Association of Southeast Asian Nations or ASEAN was established on 8 August 1967 and it has 10 member countries at present. ASEAN's key objectives are (1) to accelerate economic growth, social progress and cultural development, and (2) to promote peace and stability in the region.

At the 10<sup>th</sup> ASEAN Finance Ministers Meeting (AFMM) during 1-5 April 2006 in Siam-Reap, Cambodia, BOT Deputy Governor for Monetary Stability participated in the discussion of the world economic outlook and economic conditions of member countries within the ASEAN and ASEAN+3<sup>1/</sup>. One major issue concerning ASEAN financial cooperation is the start of the new round of negotiation under ASEAN Framework Agreement on Services (AFAS). In addition, the meeting also endorsed the use of the ASEAN Capital

Account Regime website<sup>2/</sup> and the launch of the book - ASEAN Capital Account Policies during the ASEAN Roadshows in Hong Kong and Singapore.

As for the cooperation under the ASEAN+3, progress of the Chiang Mai Initiative (CMI) has continued as member countries have agreed to (1) adopt a collective decision-making procedure for the swap activation process to provide prompt liquidity support to parties involved in bilateral swap arrangements (BSA) at times of emergency, (2) set up a taskforce on CMI Multilateralization, and (3) set up the Group of Experts (GOE) and the Technical Working Group on Economic and Financial Monitoring (ETWG) to explore ways for further strengthening surveillance capacity in the region.

1/ ASEAN countries plus China, Korea and Japan

2/ A one-stop web link providing information on capital account policies of ASEAN Countries to foreign investors

Thailand informed the Meeting of the meeting schedule in 2007 for which Thailand will host as follows:

Meeting	Date
ASEAN Finance and Central Bank Deputies' Meeting - Working Group (AFDM-WG)	25 January 2007
Technical Working Group on Economic and Financial Monitoring (ETWG) Meeting	27 February 2007
Task Force on CMI Multilateralization Meeting	28 February 2007
Asian Bond Market Initiative (ABMI) Working Group Meeting	1 March 2007
ABMI Focal Group Meeting	2 March 2007
ASEAN Finance and Central Bank Deputies' Meeting (AFDM)	2 April 2007
Informal and Formal ASEAN+3 Finance and Central Bank Deputies' Meeting (Informal and Formal AFDM+3)	3-4 April 2007
ASEAN Finance Ministers Meeting (AFMM)	5 April 2007
ASEAN+3 Finance and Central Bank Deputies' Meeting (AFDM+3)	4 May 2007
ASEAN+3 Finance Ministers Meeting (AFMM+3)	5 May 2007

In addition, the Deputy Governor for Monetary Stability attended the 3<sup>rd</sup> ASEAN Finance Ministers' Investor Seminar in Hong Kong on 14 September 2006 and in Singapore

on 16 September 2006 which aimed to promote ASEAN as an investment destination to foreign investors.

## 2. Bank for International Settlements (BIS)

Established on 17 May 1930, the BIS acts as a banker to the central banks and international financial organizations, and provides a forum to promote international cooperation, dialogue, as well as policy analysis among central banks and within the international financial community. It also acts as a centre for economic and monetary research<sup>3/</sup>.

Since 2000, the BOT has actively participated in the Annual General Meetings and the Bi-monthly Governors' Meetings, which serve as fora for central bank governors to exchange views on important current issues of global economic and financial developments.

The BIS' Asian Consultative Council, comprising members of the Asia-Pacific region, was established in 2001 to provide an opportunity for governors of member central banks to discuss issues of regional concern. The BOT Governor attended the Special Governors' Meeting during 12-13 February 2006 in Shanghai, China and on 24 June 2006 in Basel, Switzerland.

On 26 June 2006, the Board of Directors of the Bank for International Settlements (BIS) announced the election of Mr. Zhou Xiaochuan, Governor of the People's Bank of China as a member of the Board of Directors of the BIS, in an effort to increase

3/ The BOT initially held 3,000 shares in the BIS. In 2005, the BOT took up another 211 shares following BIS share buy back from private investors after the change in BIS regulation requiring that shares be held by central banks only.



the voice of Asian members in the Board. This enlargement of the BIS Board was the first since 1994 and took effect on 1 July 2006

- a result of regional cooperation to strengthen voice and representation.

### 3. The Executives' Meeting of East Asia-Pacific Central Banks (EMEAP)

The Executives' Meeting of East Asia-Pacific Central Banks, or EMEAP, established in 1991, provides a forum for central banks and monetary authorities to strengthen cooperation among members. The first EMEAP Governors' meeting was set up in 1996 in Tokyo, and has continued to be held every year until present.

In 2006, the East Asia-Pacific Central Banks conducted the following meetings :

**3.1 For Governors** - The 11<sup>th</sup> EMEAP Governors' Meeting on 27 May 2006 in Canterbury, New Zealand, discussed issues relating to the economic conditions of the region. The governors were also notified of the progress made by each of the EMEAP's working groups, with particular interest on the progress of the Asian Bond Fund 2 (ABF2), the Pan-Asian Bond Fund (PAIF)<sup>4/</sup>, and the recently initiated Task Force on Regional Cooperation.<sup>5/</sup> In addition, the BOT Governor also attended the 3<sup>rd</sup> Informal EMEAP Governors' meeting on 19 September 2006 in Singapore to update the progress of each working group. There was also a consensus to set up the Working Group on Asian Monetary and Financial Stability which is tasked to review and enhance the effectiveness

of the surveillance mechanisms within the region as suggested by the Task Force on Regional Cooperation.

**3.2 For Deputy Governors** - The 30<sup>th</sup> and 31<sup>st</sup> EMEAP Deputies' Meeting were held during 15-16 May 2006 in Kuala Lumpur, Malaysia; and during 17-18 October 2006 in Auckland, New Zealand, respectively. The BOT Deputy Governor for Monetary Stability attended the meetings to discuss the progress of the ABF2, as well as the risks to economic and financial stability and the way to enhance the effectiveness of financial cooperation in Asia.

**3.3 For the Working Groups** - The meetings for the year 2006 were as follows:

(1) Working Group on Banking Supervision met twice in May and October to assess and discuss issues relating to the adoption of Basel II by the regional financial institutions in order to report the progress to the Basel Committee on Banking Supervision of the BIS.

(2) Working Group on Payment and Settlement Systems met 3 times in April, May and October to discuss various issues on the payment and settlement systems, for instance, the coordination with SWIFT and the policy

4/ The PAIF is a single bond fund investing in sovereign and quasi-sovereign local currency-denominated bonds issued in eight EMEAP markets.

5/ Task Force on Regional Cooperation was set up following the ACC's decision on 12 February 2006 to study ways to improve and enhance cooperation among central banks, and to set guidelines for BIS' role in supporting the work of central banks in the region. The BOT Deputy Governor for Monetary Stability co-shared the Working Committee on Asian Monetary and Financial Stability with China.

to prevent credit card fraud.

(3) Working Group on Financial Markets met 4 times in March, June, October and December. The main agenda of the recent meetings was on the issuance of ABF2 bonds.

(4) IT Directors' Meeting met twice in May and June to discuss various issues

involving the IT systems, for example, outsourcing.

(5) Task Force on Regional Cooperation met twice in April and August to discuss related issues on the establishment of a surveillance forum and a secretariat to strengthen the current process.

#### 4. International Monetary Fund (IMF)

The International Monetary Fund (IMF) was established in 1944 with the primary objective to preserve the stability of the international financial system in order to promote growth and expansion of international trade. Thailand has become the IMF's member since 3 May 1949. The BOT represents Thailand in the IMF and expresses its opinions to the IMF's Executive Board, in

a concerted effort with 11 other members, through the Southeast Asian Voting Group (SEAVG). Recently, the IMF has increased its emphasis on the role of surveillance and the adoption of international standards and codes to strengthen the financial system.

In 2006, the BOT participated in various IMF meetings. Throughout the year, the BOT representatives attended meetings as follows:

Meeting	Date	BOT Representative
International Monetary and Financial Committee (IMFC) Meeting - Washington D.C., United States	22 April 2006	Governor
The Annual Meeting of the Board of Governors - Singapore	16-19 September 2006	Governor
-The 39 <sup>th</sup> Annual Meeting of SEAVG		
-International Monetary and Financial Committee Meeting	16 September 2006	
-The meeting for the New Arrangement to Borrow (NAB)	17 September 2006	
18 September 2006		

The IMF continues to monitor and assess the Thai economy as part of the annual Article IV Consultation, with the mission being carried out during 6-20 December in 2006. Regarding financial relationship, Thailand has continued to participate in the Financial Transaction Plan (FTP) since September 2003, contributing as a creditor to other IMF members.

In addition, representatives from the BOT are currently assuming positions in the

SEAVG to represent Thailand as well as other member countries in various meetings under the IMF's Executive Board. The current positions are:

4.1 Alternate Executive Director (from 1 November 2006 to 31 October 2008), and

4.2 Senior Advisor (from 1 May 2006 to 30 April 2007)

## 5. South-East Asian Central Banks (SEACEN)

SEACEN was established in 1966 with 7 central bank members to discuss and exchange views on issues relating to the economic and financial systems. The SEACEN Centre for research and training was established in 1982 and has gained increasing recognition in the region, with membership having grown to 16 central banks at present. The Centre has the following core objectives:

5.1 To promote a better understanding of the economic and financial development matters which are of interest to the central banks and monetary authorities; and

5.2 To stimulate and facilitate cooperation among central banks and monetary authorities in the area of research and training.

Ministry of Finance, Brunei Darussalam hosted the 41<sup>st</sup> SEACEN Governors' Conference and the 25<sup>th</sup> Meeting of SEACEN Board of Governors during 4-5 March 2006 in Bandar Seri Begawan, Brunei. The participants exchanged views on the implications and challenges for central banks arising from the internationalization of financial services.

At the 25<sup>th</sup> Meeting of the SEACEN Board of Governors, the Board of Governors unanimously agreed to accept Cambodia as the fifteenth member of SEACEN<sup>6/</sup>, and announced the election of Dr. Aluthgedara Karunasena as Executive Director of the SEACEN Centre, succeeding Dr. Subarjo Joyosumarto whose term ended on 30 June 2006.

As for the research and training programmes of the SEACEN Centre, the Board of Governors approved 20 training programmes, 6 research programmes and 5 meetings for the operating year 2006 (1 April 2006 - 31 March 2007), of which the BOT had the privilege of hosting 2 training programmes and one meeting.

The year 2007 will mark the 25<sup>th</sup> Anniversary of the SEACEN Centre since its formal incorporation in 1982<sup>7/</sup>. On this auspicious occasion, the Bank of Thailand, as one of the founding members, has the honour of hosting the 42<sup>nd</sup> SEACEN Governors' Conference and the 26<sup>th</sup> Meeting of the SEACEN Board of Governors.

## Information Technology Development

In 2006, the Bank of Thailand (BOT) has a total of 51 IT projects under 8 different strategic programs. Each program is supervised by a Computer Steering Sub-Committee (CSSC) who further reports to the Computer Steering Committee (CSC). Under this program management methodology, all IT-related

projects are controlled and aligned with the BOT strategic directions. This year, the overall budget for all IT projects is approximately 342 million baht and many projects span longer than one year. At the end of the year, 30 projects have been completed. A brief summary of each strategic program is provided below.

6/ Later on, Vietnam was also accepted by the Board to become the sixteenth member of SEACEN, effective from 1 September 2006.

7/ The Agreement to set up the SEACEN Research and Training Centre was formally signed in Bangkok on 3 February 1982.

### 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 among 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 enhancement of the Data Management System (DMS), which is currently served as the main single point to acquire, store, and disseminate Financial Institution Data, Financial Market Data and Economics Data from other organizations as well as from business users within BOT.

The DMS ECON Phase II focuses on improving the system efficiency of the

“External Sector” subject area as well as expanding the system foundation of the “Financial Sector” subject area to cover financial statements of non-financial institution corporations as well as data from the Securities Market (such as new issuances, capital market, and mutual fund). Moreover, the Data Management System is also enhanced to serve broader requirements and to provide a new data submission channel via the Internet.

The BOT will continue to evaluate both process and data usage of the DMS, especially the use of the Financial Institution Data and Financial Market Data which have been in use since 2003 and 2004 respectively. Overall DMS improvement strategies to enable users to fully utilize the system will also be planned. Data mining and data analysis capabilities will be provided to improve the effectiveness of internal decision-making, policy-making and supervision.

### 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 DRS Phase II project was completed in November 2006. This project focuses on upgrading the DRS software to a more recent version. This software upgrade will increase the system efficiency and solve many problems that couldn't be solved by the previous DRS software. In addition, the necessary software

and hardware were improved to prepare for disaster recovery that minimizes the system downtime and data loss.

The Electronic Bond Trading (E-Outright) was also developed to improve the efficiency of the BOT's bond trading and to serve the Central Securities Depository project which was initiated by the Thailand Securities Depository committee to enable delivery-versus-payment of corporate debt securities and equities. The E-Outright system has been operational since February 2006.

For future projects between the year 2007 to 2011, the BOT will focus on developing an integrated risk information system and a financial surveillance information system to

better provide the BOT executives with alert and important Information for effective decision and policy making.

### **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. A brief outline of significant projects in this program is as follows.

The Banknote Management System (BMS) Phase II project has been initiated to enhance the system functionalities, serve broader report requirements and improve efficiency of the existing reporting system. The development includes integrating BMS with SAP system and with the central cash centers of commercial banks. The BMS Phase II has been deployed and operated since March 2006.

The National Payment Information System (NPIS) has been partially deployed since July 2004. In the year 2006, the BOT has continued to enhance the NPIS system by implementing the Master Maintenance System which will help improve the operational work of the Payment Systems Department.

The Central Settlement System (CSS) Enhancement project aims to enhance the system functionalities, reduce operational risks and improve efficiency of the settlement system for all member banks. Next year, the BOT will enable the net settlement service of VISA cards through the CSS system.

The BAHTNET Enhancement project has improved the system functionalities to serve additional requirements and develop Liquidity Watch program to monitor BAHTNET members' behavior.

The Central Securities Depository project is initiated by the Ministry of Finance to enable delivery-versus-payment of corporate debt securities and equities from BOT to the Thailand Securities Depository (TSD). The BOT has prepared infrastructure, customized seven involved systems and integrated four more systems to the TSD system for the RTGS payment. The project was completed in May 2006.

### **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.

In 2006, the ERP system has been enhanced and expanded to cover more applications. Many workflows and Web-applications have been developed to automate and improve HR-related processes. For example, online employee self-services are

provided to allow employees to adjust their time attendance, submit leave/vacation requests, and start the reimbursement process over the Web. For manager self services, a Business Warehouse has been developed to

provide periodic and ad-hoc reports to provide human resource management information and budgeting information such as subordinate training summary, education & job history, budgeting usage, and etc.

### **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.

In 2006, there are two main infrastructure-related projects which are the Technology Infrastructure Improvement project and the new Disaster Recovery (DR) Center construction project. The new DR site is expected to complete and start its operation in early 2007.

In addition to infrastructure improvement projects, the BOT also promotes internal use of information technology in many areas such as Security Management, Meeting Management, Library Management, Document Management, Sharing Information Management and etc. For Security Management area, the BOT implements Access Control system for main buildings and Banknote Management Centers.

The Meeting Management System has been developed to help organize the BOT meetings. This system is currently used by various committees, sub-committees and working teams and will be expanded into more meeting groups by the year 2007.

Moreover, the BOT has acquired an external consultant to help assess the BOT's existing document and records management and developed complete BCS (Business Classification Scheme) models in 3 areas. The 5-year implementation plan has also been created to identify short and long term activities for the overall BOT Document and Records Management project.

Finally, the Quality Management project has been implemented to improve internal IT processes, policies and standards as well as assess and mitigate IT operational risks.

### **Program 8: Supervision Excellence**

This program aims to improve the efficiency of the Supervision Group by leveraging information technology to enhance operational work in the supervision area. The highlighted projects in this program are outlined below.

The Financial Institution Supervision System Phase II project aims to enhance the

system efficiency in order to support supervision processes. These processes include the preparation, onsite examination, analysis, and reporting steps. The system is expected to be launched in the year 2007.

The Financial Institution Applications System Phase II project aims to develop a system that handles various requests from



financial institutions and refine some of the electronic forms. The system covers request submission, assignment, registration and

approval. Some modules especially those that provide information to managers have been available since December 2006.

## Bank of Thailand Regional Office

### Northern Region Office

The Northern Region Office had been reorganized on June 1, 2006, divided into 4 sections namely: (1) Operation Division including Banking Team, Administration Team, Accounting Team, Museum and Library; (2) Financial Business Investigation Division; (3) Economic Research Division; (4) Human Resources Team. The functional performances in 2006 are as follows:

#### 1. Banking Business Facilities

The Banking Team is responsible for the provision of current account and clearing service to the financial institutions and government agencies, financial assistance to prior sectors, management of government bonds.

##### 1.1 Fund Deposit and Funds Withdrawal

The amount of fund deposited to and withdrawn from current accounts were B11,793.9 million and B12,741.5 million, respectively, decreasing from the previous year by 25.3 and 14.7 percent. The decrease was due to the transfer of the Finance Ministry's transactions to Krung Thai Bank.

##### 1.2 Financial Assistance to Priority Economic Sectors

In 2006 the financial assistance of B8,952.7 million was provided, through financial institutions to 505 businesses in the

north, owing to borrowing loan from Head Office of some commercial banks for assistance SMEs and financial assistance to poultry breeder entrepreneurs affected by the outbreak of avian influenza. The outstanding by the end of 2006 was at B2,080.0 million.

#### 1.3 Government Bonds Agent

In 2006, The number of privileged bondholders totaled 20,024, amounting to B26,605.8 million. There were 2,165 transactions of related bond activities, while bond distribution and redemption were B883.5 million and B738.8 million, respectively.

#### 1.4 Cheque Clearing

In 2006, the volume of provincial processed cheques by clearing houses in northern region were 3.5 million issues, decreasing from the previous year by 6.1 percent, while total value were B453,933.2 million, increasing 6.8 percent from the previous year. The value of returned cheque were B8,448.7 million, increasing close to one-fold. The ratio of returned cheques to processed cheques were 0.7 percent by volume and 0.5 percent by value.

### 2. Financial Business Investigation

The division is responsible for regulating, supervising, examining and analyzing non-bank Financial Business. It also collects data on informal financial business in the northern

region, monitors the performance of financial business, particularly non-bank, foreign exchange control and encourages debt restructuring. There are 4 main functions of the division as follow:

#### **2.1 Analyzing and Monitoring Financial Business**

- Survey leasing business and personal lending business, particularly
- Carry out public regulations for non-bank supervisory regulation
- Develop database for non-bank supervision

#### **2.2 Analyzing and Monitoring Financial Health**

Information on major debtors of commercial banks are analyzed to monitor the probable impact on the commercial bank's performance.

#### **2.3 Foreign Exchange Monitoring**

In 2006, total foreign currencies sold and purchased by 53 authorized money changers are the amount at US\$18.1 million and US\$18.0 million, increase from the previous year by 39.8 percent and 39.6 percent, respectively.

#### **2.4 Corporate Debt Restructuring**

The debt restructuring program was finished in the mid of 2006, the record from January-April 2006, a total of 6 debtors with credit outstanding of B2.7 million voluntarily participated in the corporate debt restructuring program. The result is 3 cases with credit outstanding of B1.7 million were successfully resolved.

### **3. Economic research division**

The division is responsible for monitoring and analyzing economic conditions of northern region, neighboring countries especially the Union of Myanmar and Yunan Province, as well as, following up the Greatest Mekong Sub-region (GMS) progress, survey business's performance and monetary policy's effect, disseminating information to public through an economic conditions report, a neighboring countries economic and GMS report and press release on a regular basis both in Thai and English.

There were 5 research projects processed in 2006 namely: (1) Fact finding of government's rice intervention program, (2) Longan production, market and price mechanism, (3) The appropriate payment system for border-trade between Thailand and Yunnan Province, (4) Mortgage debt's trend and housing tenure and (5) Classifying electronics products and constructing databases for electronics products of Thailand and the northern region.

In 2006, the division also organized a seminar to disseminate the interesting topic for public in northern region, namely: "Thailand's outlook for 2007: the challenge of business and investor", and held a focus group conference in order to exchange views among the BOT officials and entrepreneurs in the topic of "Longan production, market and price mechanism" and "Mortgage debt's trend and housing tenure".



## Northeastern Region Office

According to the Bank of Thailand's regulation no. O. 22/2549 dated 31 May 2006, effective from 1 June 2006, the Northeastern Region Office (NEO.) has been restructured into 3 divisions and 1 team, namely: 1) Economic Research Division 2) Financial Business Analysis Division 3) Operation Division and 4) Human Resource Team. The NEO. performance during the year 2006 can be summarized as follows:

### 1. Economic Research

#### 1.1 Studying and Monitoring the Economic Situation in the Northeastern Region

The Economic Research Division was responsible for monitoring, analyzing and evaluating the Northeastern Region's economic condition, as well as releasing monthly, quarterly and annual reports, including the preparation of information for the monthly macroeconomic review meeting.

The Division also conducted the Business Information Exchange Program (Business Liaison Program) in the Northeastern Region each month, and then presented the information acquired to the macroeconomic review meeting as well as prepared associated reports both on a business-type and on a quarterly basis.

#### 1.2 Monitoring and Analyzing the Economic Situations in Neighboring Countries

The Division was responsible for studying and generating reports on economic situations of the neighboring countries including Lao PDR, Cambodia and Vietnam.

Moreover, the Division worked in collaboration with Monetary Policy Group,

Financial Markets Operations Group and Northern Region Office on a number of projects aimed at extending cooperation with the central banks in neighboring countries such as:

(1) Preparing and participating in the bilateral meeting between the Bank of Thailand (BOT) and the National Bank of Cambodia (NBC) held during 17 -19 March 2006 in Siem Reap, Cambodia

(2) Co-studying with NBC the trade and retailer's payment system in the border area of Ban Laem, Chanthaburi and Kamrieng, Battambang, Cambodia

(3) Studying the cross-border economy, trade and investment between Thailand and Cambodia

(4) Conducting training courses for NBC officers at the NBC premises as part of BOT-NBC technical assistance project

(5) Reviewing the payment system in terms of problems, obstacles and helpful guidelines to promote the use of local currency among retail traders in 2 cross-border trading points; i.e. 1. Mukdahan and Savannakhet 2. Chiang Khong and Huay Sai

(6) Carrying out the cooperative project between the Siam Commercial Bank and Lao Development Bank in promoting exchange transactions of Kip - Baht currency at Chong Mek - Wang Tao permanent check point

(7) Preparing and participating in the bilateral meeting between BOT and BOL, including signing on the MOU dated 22 July 2006 between BOT - BOL, held during 21-23 July 2006 at Vientiane, Lao PDR

(8) Providing BOL officers with training programs, seminars and study visits

to BOT as well as organizing seminars at BOL in accordance with MOU dated 22 July 2006 between BOT - BOL

(9) Conducting the study on “The Potential of Trade, Payment and Doing Business in 8 Thai - Lao Border Trading Points”

(10) Hosting sport games to foster fruitful relationship between BOT and BOL

(11) Working, in collaboration with the State Bank of Vietnam and Domestic Economy Department, Monetary Policy Group, on the symposium titled “Challenges to Inflation Targeting in Emerging Market Countries” held during 13 - 14 November 2006.

### **1.3 Research Studies**

The following researches were completed in 2006.

(1) Effects of government’s price intervention program on Hom Mali Rice market.

(2) Savings behaviour and household’s accessibility to financial services. Additionally, these 2 projects are to be continued.

(2.1) Cassava inventory in the Northeastern Region

(2.2) Factors affecting the success of village fund

### **1.4 Others**

(1) Economic news releases

(2) Academic seminars; for example, the special seminar on the occasion of the 38<sup>th</sup> anniversary of NEO.

(3) BOT Economic Knowledge Quizzes for secondary-school students in the Northeastern Region, in collaboration with the Operation Division

(4) Lectures both inside and outside NEO.

## **2. Financial Business Analysis**

### **2.1 Studying and Gathering Information on Financial Business in the Northeastern Region**

The following research projects on financial business were carried out.

(1) Savings groups for production credit and community bank in the Northeastern Region

(2) Financial problems and needs of the Northeastern residents and

(3) Impacts of the implementation of regulations to control personal loan business of non - banks under supervision.

### **2.2 Analyzing and Monitoring Financial Status**

The major tasks included collecting data, analyzing financial status and monitoring major debtors in the Northeastern Region. The related quarterly reports on real estate situations in Khon Kaen from the 4<sup>th</sup> quarter of 2005 to the 3<sup>rd</sup> quarter of 2006 were generated.

### **2.3 Controlling, Verifying and Analyzing Personal Loan Business**

Using such advertising media as local radio network, exhibitions, leaflets and VCDs, the information about Personal Loan under Supervision was thoroughly disseminated throughout Ubon Ratchathani, Udon Thani, Nakhon Ratchasima, Khon Kaen, Surin and Nong Khai. The suppression against unauthorized personal loan services was repeated in cooperation with the Provincial Police and Regional Revenue Office. There were 5 criminal cases with the 6 persons charged in Khon Kaen, and 3 cases with the 7 persons charged in Nakhon Ratchasima.

Furthermore, the Division's officers were delegated to represent BOT in the special taskforce assigned by the Ministry of Interior to investigate non-bank debtors in Nakhon Phanom, leading to the critical information that real estate guarantee was the most favorite method of non-bank loans.

#### **2.4 Corporate Debt Restructuring**

At the end of 2006, 583 debtors with the total debt amount of B3,912.0 million were targeted. Among these, 346 cases with the total value of B2,239.0 million were successfully restructured. Due to the fact that BOT has completed the Debt Restructuring Project since October 2006, the Financial Business Analysis Division is now left only with the duties of providing consultation for debtors in need of debt restructuring with financial institutions.

#### **2.5 Exchange Control**

The Division monitored the reports on the exchange of foreign currencies, figures of the Authorized Money Changers and information of the Money Transfer Agents. As of 30 November 2006, there were 17 authorized money changers, 306 money transfer agents inclusive of post offices. From January to November 2006, there were 3,159 transactions in total. The purchases of foreign currencies from customers amounted to US\$588,297.95, and the sales totaled US\$584,570.00. The conversion from foreign currency to bath was up to B22.2 million.

Besides, the Division in collaboration with Supervision Group and FIDF Management and Debt Restructuring Group

assigned senior analysts to examine and prove the Gain and Loss Sharing, together with Yield Maintenance at Bankthai's Head Office from February until April 2006.

### **3. Operation Division**

#### **3.1 Financial Assistance to Priority Economic Sector**

NEO provided financial assistance credit in the total amount of B15,565.0 million, a 15.7 percent increase as compared to the previous year, via financial institutions to SMEs and poultry breeding entrepreneurs adversely affected by the outbreak of avian influenza. The disbursement dropped by 26.0 percent to B14,447.5 million when compared to the same period of 2005. The outstanding credit as of 31 December 2006 rose by 57.2 percent to B3,069.8 million.

#### **3.2 Deposit and Withdrawal Funds**

Up to 1,359 deposit transactions, totaling B17,585.5 million, and 832 withdrawal transactions in the total amount of B1,423.0 million were processed in current accounts.

#### **3.3 Cheque Clearing**

The volume of provincial cheques processed by clearing houses in the Northeastern Region fell by 3.3 percent to 3,350.3 thousand issues while the total value rose by 9.9 percent to B556,107.8 million. The volume of returned cheques dropped by 7.1 percent to 68 thousand issues while the total value were B12,623.8 million, higher than last year's by 5.4 percent. The ratio of returned cheques to processed cheques was 2.0 percent by volume and 2.3 percent by value.

### 3.4 Government Bonds Agent

As of 31 December 2006, a total number of privileged bondholders reached 14,656 (a 7 percent increase as compared to the same period last year) with the total amount of B19,361.7 million (a 0.6 percent increase). The interest payment decreased by 1.1 percent to B1,033.9 million while up to 251 holders (a 35.7 percent rise) required bond redemption amounting to B354.0 million in total or decreased by 6.9 percent as compared to the figure of 2005.

### 3.5 Others

- (1) BOT Book Corner
- (2) BOT Economic Knowledge Quizzes for secondary-school students in the Northeastern Region
- (3) The exhibition in celebration of H.M. the King's Diamond Jubilee (60<sup>th</sup> anniversary of accession to the throne).
- (4) The exhibition entitled "Bank of Thailand's Roles and Circulating Banknotes".

## Southern Region Office

The Bank of Thailand, Southern Region Office undertakes the following: banking business facility, financial business investigation and economic research. The functional performances in 2006 are summarized as follows:

### 1. Banking Business Facilities

#### 1.1 Fund Deposit and Fund Withdrawal

In 2006, fund deposited to current accounts increased from the previous year by 24.1 percent to B59,629.4 million. At the same time, funds withdrew from the current accounts also increased by 57.6 percent to B57,377.7 million.

#### 1.2 Cheque Clearing

In 2006, total volume of provincial cheques processed by 18 clearinghouses in southern region were 4.3 million issues, dropped from 2005 by 2.0 percent while those value were B648,478.4 million, increased by 12.5 percent. Similarly, provincial returned cheques were 106,833 issues and totaled value

were B8,902.4 million, dropped by 5.3 and 0.2 percent, respectively.

### 1.3 Priority Economic Sectors Financial Assistance

In 2006, Southern Region Office provided financial assistance to SMEs through financial institutions totaling B7,087.6 million decreased from the previous year by 14.0 percent. To alleviate the financial burden of the entrepreneurs affected by tidy waves in the six southern provinces B13,730.2 million and the violence in the three southern boarder provinces B29,164.5 million. The total credit outstanding by the end of 2006 was B15,393.7 million. The amount to the three southern boarder provinces B6,587.8 million and tidy waves in the six southern provinces B5,885.3 million, significantly.

#### 1.4 Government Bond Agent

At the end of 2006, the number of privileged bondholder totaled 14,017 amounting to B14,606.4 million. The amount of interest payment of Government Bonds

totaled B810.4 million were paid to 25,340 bondholders while bond redemption totaled B422.7 million to 346 bondholders.

## **2. Financial business investigation**

### **2.1 Monitoring and Analyzing Financial Business**

The main function is to monitor, survey, and investigate non-bank financial businesses in the southern region, and also to develop data base for supervision.

### **2.2 Monitoring and Analyzing Financial Health**

The division monitored and analyzed the performance of the major debtors that impacted on the commercial banks performance and the main sector of southern economy.

### **2.3 Personal Loan Business under Supervision**

The division carried out public relation for rules, methods and the conditions to operate a personal loan business under supervision and also observed the non registered personal loan business in Songkhla province.

### **2.4 Foreign Exchange Monitoring**

The duty was to publicize the exchange control regulations and the implementation according to the exchange control act. At the end 2006, there were 220 authorized moneychangers. The purchase and sale of foreign currencies from/to customers

totaled US\$16.65 million and US\$16.17 million, an increase of 83.35 and 83.79 percent respectively, from last year.

## **3. Economic Research**

### **3.1 Monitoring and Analyzing Economic Condition**

In 2006, the Economic Research Division is responsible for monitoring and analyzing economic conditions in the southern region, the southern most provinces, and key regional economic issues on a continual basis for contributing to the monthly Monetary Policy Group's macroeconomic meetings, as well as disseminating information to the public through an economic condition report on a monthly basis. Moreover, the division handled the business reports that provided information on the state of business conditions, from firms across all sectors of the southern economy.

In 2006, the division also organized the seminar at Songkhla province, a focus group conference at Krabi province and academic disseminations for the public in order to exchange views among the BOT, government agent and prominent entrepreneurs in the southern region.

### **3.2 Research Projects**

In this year, there were 2 special researches, namely "The Development of Bio-diesel from Oil Palm for the Substitute Energy" and "The Development of Thai Rubber Market".

## Planning and Budgeting

Significant performances on planning and budgeting for 2006 can be summarized as follows:

### Planning

#### Bank of Thailand's Strategic Planning

In 2006, the Bank of Thailand formulated the strategic plan for the next 5 years (2007-2011) consisting of mission, vision, strategic objectives, strategies as well as corporate values. Scenario-based strategic planning approach was employed in the planning process. This included analyses of possible scenarios in terms of their impacts on the Bank of Thailand or what could be termed "Key Concerns". In addition, work process was amended to foster better flow of information and allow the Court of Directors, the Senior Management, and Executives at all levels to constructively take a part in the strategic planning.

As a result of this proactive strategic planning, the Bank of Thailand has determined its new vision as "A forward-looking organisation with competent staff dedicated to ensuring the resilience of the Thai economy against shock and instability". In addition, 6 corporate values have been recognised in order to drive the achievement of the mission and vision. The values are named as PI-WADH (Thai literal definition for excellent behaviors). The vision and values have been associated with 15 strategic objectives and 22 strategies to cover 3 major areas: monetary stability, financial institution stability, and amendment of legislations / internal operations.

### Budgeting

#### 1. Amendment of Budgeting Regulation

In 2006, the Bank of Thailand amended its budgeting regulation that has been enforced since 2004. The amendment aimed to streamline budgeting process, management and control for more flexibility and efficiency. The key issue was to decentralise budget approval authorities within the total amount of budget approved by the Court of Directors at the beginning a financial year. Therefore, other related practices will be improved to align with the new regulation to support the decentralisation of authority to the departmental level in managing and controlling the budgets.

#### 2. Improvement of Budgeting Process

In 2006, the Bank of Thailand improved efficiency in its budgeting process by setting up annual budgeting framework, improving budget guidelines, developing budgeting principles, and initiating electronic budgeting system which will be ready for budgeting process for the financial year 2008.

#### 3. Development of Budget and Cost Database

In 2006, the Bank of Thailand developed a database system, SAP Business Warehouse, to integrate data from SAP and other related systems which produce executive reports. The flexible multi-dimensional reports can be accessed and viewed on the Bank of Thailand's web portal.



# Risk Management

## 1. Financial Risk Management

### 1.1 Risk Management of International Reserves

#### 1.1.1 More diversified international reserves composition to mitigate adverse impacts from the foreign exchange market volatility

In response to the increase in international reserves, the Bank of Thailand has consistently reviewed its investment composition. This adjustment would not only help diversify risks, but also alleviate their adverse impacts on the Bank of Thailand's financial position. This implementation would also make the international reserve composition more in line with Thailand's economic structure. In addition, the Bank of Thailand has studied how to enhance long-term returns from the reserves management, or in another words how to better maintain the nation's international purchasing power in long run.

#### 1.1.2 Risk Management Framework and Investment Guidelines

The BOT has taken into account market, credit and liquidity risks in establishing the framework for investment in assets and currencies, including eligible financial instruments so as to manage risks that could arise from portfolio management of both internally managed portfolios and portfolios managed by external fund managers.

During 2006, the BOT adjusted and widened its investment universe and risk management concepts as follows.

#### (1) Risk Controlling Tools

As a continuing effort following last year risk budgeting tool, a tool designed for strategy formulation in the investment process, the BOT has implemented in the Dealing Room System a module to measure and monitor tracking error or relative value-at-risk on a real time basis.

#### (2) Credit Risk Framework Improvement

In year 2006 BOT has applied credit value-at-risk to credit risk guidelines in order to further improve credit risk framework. Some key guidelines are

##### (2.1) Limit per rating for sovereign exposure

This limit per rating helps contain the exposure of the BOT investment in financial securities issued by countries with the same credit rating.

##### (2.2) Limit on total exposure to non-sovereign sector

This limit helps contain the exposure of the BOT investment in non-sovereign sector. Based on the same notional amount, transactions with higher rating counterparties will be counted as lower credit exposure than transactions with lower rating counterparties.

##### (2.3) Use of short-term rating for repo counterparties

With the new credit limit to counterparties that have only short-term credit ratings, the BOT can now expand investment opportunity into repo transactions with

counterparties that do not have long-term ratings.

(3) Upgrade of the Dealing Room System

The BOT has tested and upgraded its dealing room system, which is a straight-through processing system used in reserves management. System functions include transaction management, settlement processing, accounting, marking-to-market, and risk and return computations. The new system has been utilized since 24 October 2006.

The new dealing room system has improved work process efficiency, as a number of problem areas in the previous system had been resolved in the upgrade. Also, additional enhancements were carried out in to the new system to enable the system to better support the functions of various department. As a result, users have been able to access and use the data in the system in a much more efficient manner.

## **1.2 Management and Evaluation of Risks from Policy Implementation through the Domestic Financial Markets**

The BOT has set a framework to evaluate the effectiveness of and to manage risks from policy implementation through the foreign exchange and bond markets as follows:

### **1.2.1 Framework for the Management of Credit Risks from FX Operations**

The BOT has guidelines for the management of credit risks arising from foreign exchange transactions. In particular, a regular monitoring of such risks and warning levels were implemented.

### **1.2.2 Risk Assessment and Evaluation of Market Operations for Policy Purposes**

The BOT conducted financial risk assessments of its foreign exchange operations on a regular basis as well as assessed their impact on the markets and market expectations. In addition, the BOT evaluated the effectiveness of its currency stabilization measures to provide feedbacks for the deliberation of monetary and foreign exchange policies.

## **1.3 Integrated Risk Management**

The BOT studied various factors affecting its financial strength. In summary, four main contributing factors affecting the BOT's balance sheet are the followings:

1.3.1 The significant increase in size of foreign currency reserves has an impact on foreign exchange risk to the balance sheet. As Baht rapidly appreciated, the BOT has foreign exchange loss on its foreign assets.

1.3.2 The domestic interest rate that the BOT pays on its domestic liabilities is higher than foreign interest rates that the BOT earns on its foreign assets.

1.3.3 The initial capital level was not sufficient to withstand foreign exchange volatility.

1.3.4 Current accounting method and profit distribution rule to the Ministry of Finance dictate that the BOT remits unrealized gain to the MOF, but is not compensated for unrealized loss.

Of these four factors, the first and the second factor are unavoidably results of policy operations. Since the BOT holds the



responsibility to manage baht stability, it has to bear valuation loss from foreign exchange rate. However, the BOT is in consultation with

related agencies to reduce negative impacts from the second and the third factors in the future.

## 2. Operational Risk Management

In 2006, there were 2 main areas of operational risk management carried out as follows:

### 1. Control Self-Assessment (CSA)

To continue from the previous year, Strategic Services Department, in 2006, worked with other selected departments to conduct CSA process based on Committee of Sponsoring Organization of the Treadway Commission (COSO)'s framework.

There were 7 departments involved namely: Legal and Litigation Department, FIDF Management Group, Accounting Department, Security Department, General Administration Department, Management Assistance Department and Southern Region Office. However, all departments in the Bank of Thailand have at least once completed CSA since its implementation in 2003.

Due to the implementation of organization-wide regulation regarding CSA

launched in July 2006, all departments will be required to conduct CSA annually or at least once a year from 2007 onwards.

### 2. Business Continuity Plan (BCP) for Disaster Risk

In 2006, the Bank of Thailand decided to drill the BCP based on a scenario that "head office building and main computer center cannot be accessible". To ensure that the Bank of Thailand could promptly handle such incidents that may occur, the test of readiness of critical functions' operation at the back up site was also completed.

Additionally, there were also other BCP for current situation such as:

(1) A BCP for Committing an Offense - the test was conducted at all regional banknote operation offices throughout the country.

(2) A BCP for Avian Influenza Pandemic- it is now on designing process and expected to be completed at the beginning of 2007.

**THE REPORT OF THE CHAIRMAN OF  
THE AUDIT COMMITTEE**

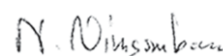
## Audit Committee Report

The Audit Committee of Bank of Thailand consists of five members. Mr. Nontaphon Nimsomboon as the Audit Committee Chairman (non-executive member of the Bank of Thailand's Court of Directors), Professor Thavach Phusitphoykai, Mr. Chetthavee Charoenpitaks, Mr. Nopadol Hengjaroen, Mrs. Nopamart ManoleeHagul as members of the Audit Committee and Mr. Krish Follett as the secretary of the Audit Committee. The appointment of Mr. Nopadol Hengjaroen, and Mrs. Nopamart ManoleeHagul were effective from November 1, 2006 and January 1, 2007 respectively.

During the past year the committee convened 11 meetings altogether, the committee's ultimate goal is to function as mechanism of the Bank's Court of Directors to improve the effectiveness of Bank's risk management, internal control, good corporate governance and internal auditing processes, aimed at assisting the management in managing and supervising the Bank's operations toward achieving its set objectives.

The Audit Committee holds occasional meetings with the Bank's executives as it deems necessary, during the year, the committee reviewed the Bank of Thailand's financial reports to reasonably assure its fair presentation and reliability, employing appropriate accounting policy and adequate disclosure in accordance with the generally accepted accounting standards and letter of the relating laws. Moreover, the committee occasionally holds meetings with designated staff of The Office of the Auditor General of Thailand, acting as the external auditor to the Bank of Thailand. The purpose is to consider significant issues and suggestions regarding accounting, internal control and management of bank operation resulting from audit engagement. The Audit Committee as well enhances the independence of the external auditor and upholds internal auditor's work of being adequately independent, truthful and in line with applicable international standards. It also gives fair support to coordination among bank management, external auditor and Internal Audit Department.

In an effort to fulfill its objectives, the Audit Committee has committed itself to carrying out the duty, through providing independent and impartial suggestion to Bank's management and the Court of Directors, in order to maintain the Bank of Thailand's vision - being the reputable organization commanding public trust and respect.



(Mr. Nontaphon Nimsomboon)  
Chairman, Audit Committee  
13 February 2007

**REPORT OF THE AUDITORS  
AND  
BANK OF THAILAND  
FINANCIAL STATEMENTS  
FOR THE YEARS 2006 AND 2005**



## Report of the Auditors

### To the Minister of Finance

We have audited the Balance Sheet as of December 31, 2006 and 2005, 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, 2006 and 2005, 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)

(Ms. Oraphin Patamalikitkul)  
Director Of Audit Office

(signed)

(Ms. Pongchan Laosutiwong)  
Auditor In-charge

*Office of the Auditor General*  
March 8, 2007

Bank of Thailand  
**Balance Sheet**  
 As of December 31, 2006 and 2005

		2006	2005
	Notes	Baht	Baht
<b>ASSETS</b>			
Cash and Deposits			
Cash		20,642,484,792	16,233,047,845
Foreign Deposits		399,262,391,000	213,868,026,175
		419,904,875,792	230,101,074,020
Reserve Tranche and Holdings of			
Special Drawing Rights	3	5,201,689,404	7,749,476,253
Investments	4		
Domestic Securities		140,821,220,625	116,053,971,938
Foreign Securities		649,549,137,095	468,794,986,313
		790,370,357,720	584,848,958,251
Securities Purchased under Resale Agreements	5	416,447,967,945	591,705,846,516
Loans	6	93,383,017,241	97,996,994,927
Premises and Equipment, net	7	5,383,287,335	4,306,589,098
Other Assets	8	72,089,253,877	67,939,094,734
<b>Total Assets</b>		<b>1,802,780,449,314</b>	<b>1,584,648,033,799</b>

The accompanying notes form part of these financial statements.

Bank of Thailand  
**Balance Sheet**  
 As of December 31, 2006 and 2005

		2006	2005
	Notes	Baht	Baht
<b>LIABILITIES AND CAPITAL</b>			
Deposits			
Government		83,893,716,024	12,903,172,627
Financial Institutions		56,483,814,906	59,456,683,625
Others	9	5,397,844,815	14,167,875,533
		145,775,375,745	86,527,731,785
Allocations of Special Drawing Rights	10	4,590,220,297	4,969,203,456
Securities Sold under Repurchase Agreements	5	550,116,732,167	610,023,786,504
Bank of Thailand Bonds	11	886,769,252,085	593,457,768,399
Other Liabilities	12	285,294,134,799	260,484,466,169
<b>Total Liabilities</b>		<b>1,872,545,715,093</b>	<b>1,555,462,956,313</b>
Capital			
Initial Capital		20,000,000	20,000,000
General Reserve	13	7,687,252,029	9,429,978,660
Reserve for Stabilization of Profit			
Payable to the Government		624,075,747	624,075,747
Revaluation Deficit on Investments		(3,117,405,560)	(6,454,181,418)
Retained Earnings		27,307,931,128	27,307,931,128
Net Loss for the Year		(102,287,119,123)	(1,742,726,631)
<b>Total Capital</b>		<b>(69,765,265,779)</b>	<b>29,185,077,486</b>
<b>Total Liabilities and Capital</b>		<b>1,802,780,449,314</b>	<b>1,584,648,033,799</b>

The accompanying notes form part of these financial statements.

(Mrs. Tarisa Watanagase)

Governor

(Mrs. Swangchit Chaiyawat)

Deputy Governor, Corporate Support Services

(Ms. Charinya Kaewmanee)

Director, Accounting Department



## Bank of Thailand

**Profit and Loss Account**

For the Year Ended December 31, 2006 and 2005

		<b>2006</b>	<b>2005</b>
	<b>Notes</b>	<b>Baht</b>	<b>Baht</b>
<b>Revenues</b>			
Interest Income		67,224,811,506	36,775,973,215
Commission		517,361,222	419,346,816
Others		331,777,000	350,640,037
<b>Total Revenues</b>		<b>68,073,949,728</b>	<b>37,545,960,068</b>
<b>Expenses</b>			
Interest Expenses	11	62,110,937,621	26,684,184,561
Net Losses on Foreign Exchange		99,727,450,695	7,943,110,268
Personnel Expenses		3,198,347,963	3,009,078,548
Others		5,324,332,572	1,652,313,322
<b>Total Expenses</b>		<b>170,361,068,851</b>	<b>39,288,686,699</b>
<b>Net Loss</b>	<b>14</b>	<b>(102,287,119,123)</b>	<b>(1,742,726,631)</b>

The accompanying notes form part of these financial statements.

Bank of Thailand

## Statement of Changes in Capital

For the Year Ended December 31, 2006 and 2005

Baht

	Initial Capital	General Reserve	Reserve for Stabilization of Profit Payable to the Government	Revaluation Surplus (Deficit) on Investments	Retained Earnings	Net Profit (Loss) for the Year	Total
Balance as of January 1, 2005	20,000,000	4,222,697,954	624,075,747	(47,909,609)	27,307,931,128	20,829,122,823	52,955,918,043
Changes during the Year							
Net Profit transferred to General Reserve	-	5,207,280,706	-	-	-	(5,207,280,706)	-
Payment of Net Profit to the Government	-	-	-	-	-	(15,621,842,117)	(15,621,842,117)
Revaluation Deficit on Investments	-	-	-	(6,406,271,809)	-	-	(6,406,271,809)
Net Loss for the Year	-	-	-	-	-	(1,742,726,631)	(1,742,726,631)
Balance as of December 31, 2005	20,000,000	9,429,978,660	624,075,747	(6,454,181,418)	27,307,931,128	(1,742,726,631)	29,185,077,486
Changes during the Year							
General Reserve transferred to cover Net Loss	-	(1,742,726,631)	-	-	-	1,742,726,631	-
Revaluation Surplus on Investments	-	-	-	3,336,775,858	-	-	3,336,775,858
Net Loss for the Year	-	-	-	-	-	(102,287,119,123)	(102,287,119,123)
Balance as of December 31, 2006	20,000,000	7,687,252,029	624,075,747	(3,117,405,560)	27,307,931,128	(102,287,119,123)	(69,765,265,779)

The accompanying notes form part of these financial statements.

Bank of Thailand  
**Statement of Cash Flows**

For the Year Ended December 31, 2006 and 2005

	2006	2005
	Baht	Baht
<b>Cash Flow from Operating Activities</b>		
Net Loss	(102,287,119,123)	(1,742,726,631)
<b>Adjustments to Reconcile Net Loss to</b>		
<b>Net Cash Flow from Operating Activities :</b>		
Depreciation and Amortization Expenses	298,393,976	261,975,958
Gain on Disposal of Premises and Equipment	(3,864,209)	(3,050,688)
(Gain) Loss on Foreign Exchange	50,712,008,990	(7,907,267,922)
Amortization of Premiums on Securities	6,261,886,210	5,967,616,741
Net Increase in Accrued Revenues	(6,079,055,990)	(736,206,755)
Net Increase in Accrued Expenses	3,630,660,053	1,125,484,019
Net Profit (Loss) from Operation before Changing in		
Operating Assets/Liabilities	(47,467,090,093)	(3,034,175,278)
(Increase) Decrease in Operating Assets		
Foreign Deposits	(169,689,077,820)	(67,297,909,166)
Reserve Tranche and Holdings of Special Drawing Rights	(7,842,860)	13,510,874
Securities Purchased under Resale Agreements	176,488,258,926	(283,074,436,037)
Loans	4,613,977,686	(43,729,453,365)
Other Assets	(605,610,573)	(414,107,968)
Increase (Decrease) in Operating Liabilities		
Deposits	59,256,724,992	(27,443,460,171)
Securities Sold under Repurchase Agreements	(59,786,020,669)	226,682,733,653
Bank of Thailand Bonds	287,292,125,920	318,005,573,688
Other Liabilities	22,321,472,541	10,134,530,003
Net Cash Flow from Operating Activities	272,416,918,050	129,842,806,233

The accompanying notes form part of these financial statements.

Bank of Thailand

**Statement of Cash Flows**

For the Year Ended December 31, 2006 and 2005

	2006	2005
	Baht	Baht
<b>Cash Flow from Investing Activities</b>		
Net Increase in Investments in Domestic Securities	(25,200,407,119)	(2,140,836,387)
Net Increase in Investments in Foreign Securities	(223,501,336,944)	(135,120,959,151)
Net Increase in Premises and Equipment	(1,271,680,374)	(285,718,637)
Net Increase in Investments in Other Organizations	(1,921,907)	(169,410,481)
Net Cash Flow from Investing Activities	(249,975,346,344)	(137,716,924,656)
<b>Cash Flow from Financing Activities</b>		
Payment of Net Profit to the Government	-	(15,621,842,117)
Net Cash Flow from Financing Activities	-	(15,621,842,117)
Effects of Foreign Exchange Changes on Cash	(279,872,826)	(4,649,546)
<b>Net Cash Flow from All Activities</b>	<b>22,161,698,880</b>	<b>(23,500,610,086)</b>
<b>Cash as of January 1</b>	<b>26,796,243,452</b>	<b>50,296,853,538</b>
<b>Cash as of December 31</b>	<b>48,957,942,332</b>	<b>26,796,243,452</b>
<b>Supplementary Information for Cash Flows</b>		
Cash Paid during the Year		
Interest Expenses	52,505,399,538	20,119,021,183
<b>Cash and Cash Equivalents as of December 31</b>		
Cash	20,642,484,792	16,233,047,845
Foreign Deposits (at call)	28,315,457,540	10,563,195,607
<b>Total</b>	<b>48,957,942,332</b>	<b>26,796,243,452</b>

The accompanying notes form part of these financial statements.

BANK OF THAILAND

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006 AND 2005

### 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, the Currency Reserve, the Exchange Equalization Fund and the Financial Institutions Development Fund (FIDF).

### 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 the 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 Currency Reserve, the Exchange Equalization Fund and the FIDF 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 in baht at the preceding month-end exchange rates. Discrepancies of the actual and the book exchange 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 Derivatives**

### **2.9.1 Forward contracts**

Forward contracts, designated as off-balance sheet financial instruments, are used to hedge risk arising from exchange rate fluctuation. The notional amount of the forward contract will not be recognized as an asset or a liability on the commitment date. Gains or losses on forward contracts are recognized in the profit and loss account on the settlement date.

### **2.9.2 Futures contracts**

Futures contracts, designated as off-balance sheet financial instruments, are used to hedge risk arising from interest rates or bond prices. The notional amount of the futures contract will not be recognized as an asset or a liability on the commitment date. Changes in the fair value of the contracts are recognized in the profit and loss account when the price revaluation and the settlement of the variation margin take place.

## 2.10 Pension Fund and Provident Fund

### 2.10.1 Pension Fund

The BOT's Rules and Regulations for Pension Fund B.E. 2539 including the amendments 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.

### 2.10.2 Provident Fund

The BOT's Rules and Regulations for Provident Fund B.E. 2539 state that the BOT and the employees who are the members of the 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. Reserve Tranche and Holdings of Special Drawing Rights

	Unit : Million baht	
	2006	2005
Quota Subscribed to International Monetary Fund (IMF)	58,665.6	63,509.2
<u>Less</u> : IMF Current Account No.1	(28,932.2)	(31,089.2)
Non-Negotiable with Non-Interest Bearing		
Promissory Notes payable to IMF	(24,562.4)	(24,695.6)
Reserve Tranche	5,171.0	7,724.4
Holdings of Special Drawing Rights	30.7	25.1
<b>Total</b>	<b>5,201.7</b>	<b>7,749.5</b>

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 with Non-Interest Bearing Promissory Notes payable to IMF.

"Quota Subscribed to IMF-Baht" is presented in "Other Assets" (Note 8). The aforementioned IMF Current Account No. 1, and Non-Negotiable with Non-Interest Bearing Promissory Notes, and IMF Current Account No. 2 for administrative expenses are stated under "Other Liabilities" (Note 12).

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

#### 4. Investments

	Unit : Million baht	
	2006	2005
Domestic Securities		
Cost after amortization of premiums or discounts	140,821.2	116,054.0
Foreign Securities		
Cost after amortization of premiums or discounts	652,666.5	475,249.2
<u>Less</u> : Revaluation Deficit on Investments	(3,117.4)	(6,454.2)
	649,549.1	468,795.0
<b>Total</b>	<b>790,370.3</b>	<b>584,849.0</b>

As of December 31, 2006, Foreign Securities include US\$342.0 million (equivalent to B13,980.8 million) of the investment in the Asian Bond Fund (ABF), which is an initiative of the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP) to promote the development of Asian bond markets. The BOT has invested US\$120.0 million (equivalent to B4,936.2 million) in ABF phase 1, which was launched in 2003 and invested in US dollar-denominated bonds issued by the governments and the quasi-governments of EMEAP economies. The BOT's investment in ABF phase 2 amounted to US\$222.0 million (equivalent to B9,044.6 million), comprising of US\$111.0 million investment in the Pan-Asian Bond Index Fund (PAIF) and US\$111.0 million investment in the Fund of Bond Funds (FoBF). Launched in 2005, the ABF phase 2 invests in local-currency bonds issued by the governments and the quasi-governments of EMEAP economies.

#### 5. Securities Purchased under Resale Agreements and Securities Sold under Repurchase Agreements

	Unit : Million baht	
	2006	2005
Securities Purchased under Resale Agreements		
Domestic Securities	220,281.0	281,902.0
Foreign Securities	196,167.0	309,803.8
<b>Total</b>	<b>416,448.0</b>	<b>591,705.8</b>
Securities Sold under Repurchase Agreements		
Domestic Securities	346,502.0	297,356.0
Foreign Securities	203,614.7	312,667.8
<b>Total</b>	<b>550,116.7</b>	<b>610,023.8</b>



## 6. Loans

	Unit : Million baht	
	2006	2005
Programs guaranteed by the Ministry of Finance	15,407.3	19,877.9
Programs collateralized with entrepreneur promissory notes endorsed for the BOT by financial institutions	77,975.7	78,119.1
<b>Total</b>	<b>93,383.0</b>	<b>97,997.0</b>

As of December 31, 2006, the outstanding of loans represents 12 lending programs to financial institutions in order to finance priority economic sectors. These included 7 programs guaranteed by the Ministry of Finance and 5 programs collateralized with entrepreneur promissory notes endorsed for the BOT by financial institutions.

## 7. Premises and Equipment, net

	Unit : Million baht			
	Balance Dec 31, 2005	Changing in Book Value		Balance Dec 31, 2006
		Increase	Decrease	
Land	2,464.8	-	-	2,464.8
Buildings	1,836.8	38.6	-	1,875.4
Temporary Buildings and Improvements	190.8	13.1	(0.8)	203.1
Equipment	753.3	119.6	(0.0)	872.9
Assets under Construction	794.2	1,328.2	(223.3)	1,899.1
<b>Total</b>	<b>6,039.9</b>	<b>1,499.5</b>	<b>(224.1)</b>	<b>7,315.3</b>
<u>Less : Accumulated Depreciation</u>	<u>(1,733.3)</u>	<u>(198.7)</u>	<u>0.0</u>	<u>(1,932.0)</u>
<b>Premises and Equipment, net</b>	<b>4,306.6</b>	<b>1,300.8</b>	<b>(224.1)</b>	<b>5,383.3</b>
<b>Depreciation for the year</b>	<b>195.0</b>			<b>198.7</b>

The new head office building is currently under construction according to the BOT's Master Plan which aimed to develop the overall land and buildings utilization. The Master Plan, with the total budget of B2,706.1 million, was started in August 2001 and scheduled for completion in May 2007. As of December 31, 2006, B1,633.0 million or 60.34 percent of the total budget was spent.

## 8. Other Assets

	Unit : Million baht	
	2006	2005
Quota Subscribed to IMF - Baht	53,494.6	55,784.9
Investment in Other Organizations	1,782.1	1,926.8
Staff Loans	2,457.3	2,227.3
Intangible Assets	317.2	338.7
Others	14,038.0	7,661.4
<b>Total</b>	<b>72,089.2</b>	<b>67,939.1</b>

## 9. Other Deposits

The outstanding balance of other deposits as of December 31, 2006 was B5,397.8 million. As of December 31, 2005, this account included B9,411.4 million of the “Account for Amortization of the Principal to Fiscalize the Financial Institutions Development Fund Losses” which was set up 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. During the year 2006, assets amounting to B15,882.7 million were transferred to the account and the total outstanding of B25,294.1 million was used for FIDF bond redemption as stipulated in the decree.

## 10. Allocations of Special Drawing Rights

The IMF’s member countries are allocated Special Drawing Rights in proportion to their subscriptions to the IMF. For the year ended 2006, the BOT was allocated the balance of SDR84.7 million, an equivalent of B4,590.2 million.

## 11. Bank of Thailand Bonds

	Unit : Million baht	
	2006	2005
Maturity date less than 1 year	650,314.1	518,826.8
Maturity date more than 1 year (due in 2008)	236,455.2	74,631.0
<b>Total</b>	<b>886,769.3</b>	<b>593,457.8</b>

The BOT, with the consent of the Ministry of Finance, has issued the BOT bonds in order to use as an instrument of monetary policy implementation. In 2006, the interest paid on the bonds amounting to B31,305.8 million was included in the interest expenses.

## 12. Other Liabilities

	Unit : Million baht	
	2006	2005
Payable to the Currency Reserve for Notes Issuance	225,000.0	200,000.0
IMF Current Accounts No. 1 and 2	28,932.6	31,089.7
Promissory Notes Payable to IMF	24,562.4	24,695.6
Others	6,799.1	4,699.2
<b>Total</b>	<b>285,294.1</b>	<b>260,484.5</b>

The Payable to the Currency Reserve for Notes Issuance represents transactions between the Banking Department and the Currency Reserve occurring when issued banknotes are backed up by assets from the Special Reserve Account of the Currency Reserve. This is in accordance with the Emergency Decree Amending the Currency Act B.E. 2501 (No.2) B.E.2545.

## 13. General Reserve

The General Reserve is accumulated from the net profit distribution of each year, in accordance with Chapter 2 of the Bank of Thailand Act B.E. 2485. Movements in the General Reserve are set out in the Statement of Changes in Capital.

## 14. Net loss

In 2006, the BOT had net interest income amounting to B5,113.9 million. However, due to the net losses on foreign exchange B99,727.5 million coupled with the other revenues and the other expenses lead the operation result to the net loss of B102,287.1 million.

Net losses on foreign exchange was caused by 2 factors:

1. Thai baht's appreciation against all foreign currencies of which assets denominated. By comparing with US dollar and Yen, the value of baht was strengthened 13.9 percent and 15.1 percent, respectively.
2. Net foreign assets increased substantially by comparing with the 2005 year-end.

## 15. Commitments and Contingencies

As of December 31, 2006, the BOT had outstanding of commitments and contingencies as follows:

15.1 The BOT had net position of outstanding dollar-baht forward contracts to buy US\$6,941.2 million due in 2007. By comparing the forward rate with the 2006 year-end rate, the BOT would have a contingent loss of B1,699.8 million, which would be recorded in the profit and loss account when the contracts become due.

15.2 The BOT had net position of outstanding cross currency forward contracts to buy Yen 189,282.2 million, Euro 2,991.0 million and Pound Sterling 838.8 million and to sell US\$7,208.2 million due in 2007. After applying the 2006 prevailing year-end rate, the BOT would have a contingent loss of B542.2 million, which would be recorded in the profit and loss account when the contracts become due.

### 15.3 Bilateral Swap Arrangements and Agreement on Kip-Baht Swap

The BOT has two bilateral swap agreements (BSA) under Chiang Mai Initiative (CMI) with the Bank of Japan and the Bank of Korea under the amounts of US\$ 3,000 and 1,000 million, respectively. The borrowing under the BSA is guaranteed by the Ministry of Finance of Thailand. While both BSAs are two-year agreements, the one with the Bank of Japan will expire on 6 March 2007 and the one with the Bank of Korea will expire on 11 December 2007. In addition, the BOT is currently under the negotiation to renew the BSA with the Bank of Japan.

The BOT also has the Agreement on Kip-Baht swap with the Bank of Lao PDR under the amount of B500 million. The Agreement is a one-year agreement and will expire on 16 August 2007.

Nevertheless, neither BSAs nor the Agreement has been activated.

15.4 As of December 31, 2006, the BOT, in the normal course of business, has been taken legal action at the amount of the claims totaling B22,545.5 million. However, since the cases are in process of court trial, it is unable for the BOT to anticipate the exact amount of compensation.

## 16. Risk Management at the Bank of Thailand

### 16.1 Financial Risk Management

#### 16.1.1 BOT's Balance Sheet Risk

The key financial risks that affect the BOT's balance sheet are the followings :

##### 1. Foreign exchange rate risk

The BOT's assets are mainly denominated in foreign currencies, which is necessary for monetary operations in order to ensure the stable financial environments. Changes in Thai baht's exchange rates lead to gains or losses when converting foreign currencies into Thai baht.

##### 2. Interest rate risk

Interest rate risk emerges when the interest rate in domestic market, resulting from conducting monetary policies, is significantly different from the interest rate of foreign markets that the BOT invests in.

### 16.1.2 Financial Risk Management of the International Reserves

Investment of the international reserves in foreign assets has inherent financial risks. There are three types of financial risks: market risk, credit risk and liquidity risk. Notably, the BOT's credit risk and liquidity risk are much lower than its market risk due to the BOT's policy to invest in high credit rated securities and to impose limits on illiquid assets.

The main objectives of financial risk management of the international reserves consist of:

1. Preserving the value of the international reserves when measured in terms of stable currencies, and
2. Ensuring an acceptable level of financial risks of the international reserves as well as risk diversification.

Financial risks of the reserves are managed in accordance with the following approaches :

#### (a). Market Risk

Market risk, comprising of interest rate risk and foreign exchange rate risk, is the risk of loss due to changes in the market value of assets or currencies. The BOT manages market risk through benchmarking, which involves setting asset and currency allocations in accordance with the objectives of each portfolio and the BOT's risk tolerance. The BOT performs risk analysis by carrying out stress tests to estimate potential impacts of various market scenarios on the reserves. In addition, the BOT reviews its benchmarks annually.

The BOT's compliance staff monitor and control market risk to prevent excessive risk incurred from the unapproved deviation of actual investment position from the aforementioned benchmarks. The BOT keeps these risks within acceptable levels by imposing tracking error limits.

#### (b). Credit Risk

Credit risk is the risk that the BOT's counterparties or the issuers of the securities held by the BOT default or are unable to fulfil their financial obligations with the BOT.

The BOT controls credit risk by using the following approaches:

- i) Minimum Credit Rating, set for counterparties and issuers to limit the credit value-at-risk to a very low level
- ii) Aggregate Credit Exposure Limit, set for counterparties and issuers in the form of deposit equivalent exposure based on the credit rating and number of counterparties
- iii) Sovereign Credit Limit, based on country credit ratings (Sovereign credit limits are used as constraints in benchmark construction.)

### (c). Liquidity Risk

Liquidity risk is the risk of loss arising from the inability to liquidate assets at a reasonable price within the specified period.

The management of liquidity risk focuses on setting appropriate levels for illiquid assets based on the BOT's liquidity needs, and the cost-benefit comparisons between the returns from liquidity premiums and the costs of liquidation.

## 16.2 Operational Risk Management

In 2006, there were 2 main areas of operational risk management carried out as follows:

### 16.2.1 Control Self-Assessment (CSA)

To continue from the previous year, Strategic Services Department, in 2006, had worked with other selected departments to conduct CSA process based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO)'s framework.

There were 7 departments involved namely: the Legal and Litigation Department, the FIDF Management Group, the Accounting Department, the Security Department, the General Administration Department, the Management Assistance Department and the Southern Region Office. However, every department in the BOT had at least already once completed CSA since its implementation in 2003.

Due to the implementation of organization-wide regulation regarding CSA launched in July 2006, all departments will be required to conduct CSA annually or at least once a year from 2007 onwards.

### 16.2.2 Business Continuity Plan (BCP) for Disaster Risk

In 2006, the BOT decided to drill the BCP based on a scenario that "the head office building and the main computer center cannot be accessible". To ensure that the BOT could promptly handle such incidents that may occur, the test of readiness of critical functions' operation at the back up site was also completed.

Additionally, there were also other BCP for current situation such as:

1. A BCP for Committing an Offense - the test was conducted at all regional banknote operation offices throughout the country.
2. A BCP for Avian Influenza Pandemic - it is now on designing process and expected to be completed at the beginning of 2007.

## 17. Significant event occurred during the year 2006

On 18 December 2006, the BOT announced the Notice of the Competent Officer implemented rules and practicing regarding to foreign exchange. The objectives of the measure was to curb short-term capital inflows as well as to control the volatility of the Thai baht over the Thailand's fundamental economic.

# **MANAGEMENT AND PERSONNEL**

## Organizational Structure and Working System

In response to the Bank of Thailand's strategic direction for 2006 and 2007-2011, the Bank has constructively changed its organisational structure to achieve higher levels of efficiency and effectiveness in performing its roles. The detail of the changes are as followed:-

### 1. Organisational Restructuring

#### 1.1 Banknotes Issuance

Banknote Management Group, subject to the oversight of Banknote Management Committee, was set up to create the unity and to strengthen the efficiency of the Banknote Management. Under supervision of Assistant Governor, Banknote Management Group consists of Banknote Management Department, Note Printing Works, and Banknote Strategic Planning and Management Department.

#### 1.2 FIDF Management

The Bank has changed the name of FIDF Management and Debt Restructuring Group to "FIDF Management Group", reflecting the termination of debt restructuring role and the end of Debt Restructuring Department since 1<sup>st</sup> October 2006.

#### 1.3 Other Supporting Works

In 2006, the Bank conducted business process reengineering in many supporting units to create more efficient organisation. The changes can be summarised as followed:

(1) To enhance the quality of data to ROSC and BASEL II standards, Data

Management Department has been reformed and divided into Statistics Office and Data Management Development and Planning Office. Roles and responsibilities of each working unit were changed to accommodate its adjusted and added functions.

(2) Legal Department and Litigation Department under Management Assistance Group were merged into "Legal and Litigation Department" to achieve higher level of efficiency and effectiveness in managing its staff.

(3) The Bank reformed its 3 Regional Offices and strengthened the function of each office, including the expansion of intensive research study in the manufacturing sectors in the region to countrywide, development of payment system and other related systems to support border trade, and implementation of knowledge base in economic finance for the regions.

(4) Internal Audit Department consists of Office of Business Audit and Office of IT Audit. Its workforce was pooled from the Team Executive downwards for flexibility in manpower grouping for Project- based / Process- based auditing from end-to-end.

(5) In Management Assistance Department, many units were added. The functions of those units are to standardise the Bank's Central Document System and Document Tracking System; to screen and coordinate in the Bank's protocol, study visits, and other social affairs; and to be a production centre for photos, videos, and films.



(6) The role of Security Department has been changed from being security staff controlling the outbound to be strategic partner of the Banknote Management Department. The new role has been assigned to monitor inbound especially at the banknote operation area through CCTV. In order to do that, the Security Department has improved the BOT security system by having new technology and improving security processes such as Access Control System in order to increase its efficiency.

## 2. Working System Development

2.1 The Bank implemented E-Document for Meetings in some committees, sub-committees, and working groups in order to enhance the efficiency of the meeting and to reduce waste.

2.2 The Bank carried out necessary preparations to implement “Teleworking” in some kinds of work such as researching, analysing, consulting, etc. The pilot project is scheduled to be in operation in 2007.

2.3 To reduce the need for overtime, the Bank conducted working process reengineering and adopted flexitime in many units such as data backing-up in computer operating centre, payment system, reserve management system, and other service units.

## Workforce Status and Distribution

The BOT acknowledges the value of employees at all levels. They are reinforced to work valuably with full competent. The decreasing number of employees represents the higher work efficiency. As of December 31, 2006, the BOT had in total 4,171 employees,

a decrease of 117 employees or 2.7 percent of the entire workforce compared to the same period of last year.

Of the 117 employees, 89 resigned of their own volition under the Bank’s mutual separation plan, 39 reached their retirement age, 15 resigned, 6 early retired, and 2 passed away.

Of the existing workforce, there are 1,936 male and 2,235 female employees, or the ratio of 46 : 54. Regarding levels of education, 3,413 employees or 83 percent hold bachelor’s degrees or higher. Of this, 2,094 or 50 percent had a bachelor’s degree, 1,265 or 30 percent a master’s and 54 or 1 percent a doctorate degree.

## Human Resources Management

The BOT realizes the importance of employees as the heart of the organization. The BOT communicates to the management at all levels that the roles and responsibilities to manage their own employees belong to them. The Bank empowers the human resources management roles to the management at all levels under the common framework. The Bank aims that the line managers manage his staffs effectively by using their full potential and capabilities, bringing about the employee satisfaction.

In addition, the Bank has encouraged the management at all levels to use the human resources management tools in managing their employees effectively as follows:

- The new compensation system which is determines the job evaluation is implemented.

- Performance management system comprises goal setting, coaching for performance and behavior improvement, performance evaluation and feedback.

- All management can provide career advancement plan for their employees through career management system such as competency evaluation, individual development plan, internal and external training, secondment and on the job training in external organization.

- Besides, the Bank launched the financial aid measure to assist the employees who went into debt. In the process, the management has to make the decision by using their judgment to assist their employees having preferable behavior but having debt.

As for the period between 2007 and 2011, the Bank has the strategic objective to encourage the management at all levels to continue putting great emphasis on human resources management. There are five human resources strategies as follows:

- Proactive recruitment for talent: The Bank will use proactive recruitment to ensure the sufficient number of staff with state-of-the-art knowledge and expertise in various required field.

- HR manager as a critical role for line managers: The line management will be regarded the personnel management as their important tasks, emphasizing on treating their employees seriously.

- Talent retention: The Bank will have the personnel management system to attract and retain key staffs.

- Developing employees to keep up with new technology: The Bank will actively promote human resources development and the assimilation of state-of-the-art knowledge in various required fields.

- Aligning behaviors with shared values: The behavior aligning with the new core value will be the major factor in consideration with annual merit increase and promotion in order to urge the preferable behavior.

The Human Resources Management strategies will assist the Bank to create the forward-looking organization, the high caliber employees, and the dedication to provide a stable financial environment.

## Court of Directors

As of 31 December 2006

Chairman	Mrs. Tarisa	Watanagase
Vice Chairman	Mr. Bandid	Nijathaworn
	Mrs. Swangchit	Chaiyawat
	Mrs. Atchana	Waiquamdee
	Mr. Borwornsak	Uwanno
Director	Mr. Karun	Kittisataporn
	Mr. Ampon	Kittiampon
	Mr. Nontaphon	Nimsomboon
	Mrs. Pannee	Sathavarodom
	Khun Pornthip	Jala

# Executives of The Bank of Thailand

As of 31 December 2006

## Governor

Deputy Governor, Financial Institutions Stability

Deputy Governor, Corporate Support Services

Deputy Governor, Monetary Stability

Assistant Governor, Financial Institutions Policy Group

Assistant Governor, Financial Markets Operations Group

Assistant Governor, Banknote Management Group

Assistant Governor, Supervision Group

Assistant Governor, Information Technology Group

Assistant Governor, FIDF Management Group

Assistant Governor, Strategic Capabilities Group

Assistant Governor, Management Assistance Group

Assistant Governor, Monetary Policy Group

Assistant Governor, Operations Group

Mrs. Tarisa Watanagase

Mr. Bandid Nijathaworn

Mrs. Swangchit Chaipayat

Mrs. Atchana Waiquamdee

Mr. Krirk Vanikkul

Ms. Nitaya Pibulratanaagit

Sub. Lt. Yodchai Choosri

Mr. Samart Buranawatanachoke

Mr. Chim Tantiyaswasdikul

Mr. Phairoj Hengsakul

Ms. Duangmanee Vongpradhip

Mr. Arkabusk Krairiksh

Mrs. Suchada Kirakul

(Vacant)...

## Deputy Governor, Monetary Stability

Assistant Governor, Monetary Policy Group

Senior Director, Domestic Economy Department

Director, International Economics Department

Director, Monetary Policy Department

Director, Office of Macroeconomic Policy and Analysis

Assistant Governor, Financial Markets Operations Group

Senior Director, Financial Markets and

Reserve Management Department

Director, Financial Markets Office

Director, Reserve Management Office

Director, Exchange Control and Credits Department

## Overseas Representative Offices

Chief, New York Representative Office

Chief, London Representative Office

Director, Financial Risk Management and Operations

Director, Economic Research Department

Mrs. Atchana Waiquamdee

Mrs. Suchada Kirakul

Mrs. Amara Sriphayak

Ms. Nopawan Mahamusik

(Vacant)...

Mr. Mathee Supapongse

Ms. Nitaya Pibulratanaagit

Mrs. Pongpen Ruengvirayudh

Ms. Wongwattoo Potirat

Mrs. Alisara Mahasandana

Mr. Suchart Sakkankosone

Ms. Vachira Arromdee

Mr. Singhachai Booyayothin

Mrs. Supawadee Punsri

Mr. Pichit Patrawimolpon

<b>Deputy Governor, Financial Institutions Stability</b>	<b>Mr. Bandid Nijathaworn</b>
<b>Assistant Governor, Financial Institutions Policy Group</b>	<b>Mr. Krirk Vanikkul</b>
Senior Director, Financial Institutions Strategy Department	Mr. Paiboon Kittisrikangwan
Director, Financial Analysis and International Strategy Office	Ms. Nawaporn Maharagkaga
Senior Director, Prudential Policy Department	Mrs. Tong-u-rai Limpiti
Director, Risk Management Policy Office	Mr. Somboon Chitphentom
<b>Assistant Governor, Supervision Group</b>	<b>Mr. Samart Buranawanachoke</b>
Senior Director, Financial Institutions Monitoring and Analysis Department	Mr. Sorasit Soontornkes
Senior Director, Onsite Examination Department 1	Mrs. Salinee Wangtal
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	Mrs. Niramom Asavamanee
Director, Planning and Development Department	Mr. Ronadol Numnonda
<b>Deputy Governor, Corporate Support Services</b>	<b>Mrs. Swangchit Chaiyawat</b>
<b>Assistant Governor, Operations Group</b>	<b>(Vacant)...</b>
Director, Deposits and Debt Instruments Department	Mrs. Soisukon Niyomvanich
Senior Director, General Administration Department	Mrs. Suwannee Jenpanichkarn
Director, Building Construction and Maintenance Office	Mr. Montree Weerawong
Director, Accounting Department	Ms. Charinya Kaewmanee
Director, Security Department	Mr. Niruth Raksaseree
Senior Director, Northern Region Office	Mr. Oubaur Kruthanooch
Director, Operations Department	Mr. Prapas Sothornnopabutr
Senior Director, Southern Region Office	Mr. Phong-Adul Kristnaraj
Director, Operations Department	Mr. Piratchai Pragobsub
Senior Director, Northeastern Region Office	Mr. Tanin Mukdaprakorn
Director, Operations Department	Mr. Praneet Chotikirativech
Director, Library and Archives	Mrs. Tipavan Nookhwun
<b>Assistant Governor, Information Technology Group</b>	<b>Mr. Chim Tantiyaswasdikul</b>
Senior Director, Payment Systems Department	Mr. Sayan Pariwat
Director, Payment Systems Policy and Oversight Office	Mr. Ronasak Ruengvirayudh

<p>Director, Payment Operations Office</p> <p>Senior Director, Data Management Department</p> <p>Director, Statistics Office</p> <p>Director, Data Management Development</p> <p>Senior Director, Information Technology Department</p> <p>Director, Business Integration Office</p> <p>Director, Business Solution Delivery Office 1</p> <p>Director, Business Solution Delivery Office 2</p> <p>Director, Technical Management and Operation Office</p>	<p>Mrs. Wantana Hengsakul</p> <p>Ms. Prangtip Busayasiri</p> <p>Mrs. Pusadee Ganjarerndee</p> <p>Ms. Chalalai Jiwasukapimat</p> <p>Ms. Sibporn Thavornchan</p> <p>Ms. Kornjaras Kulkitvanich</p> <p>Mrs. Bhusadi Muhpayak</p> <p>Mr. Permsuk Sutthinoon</p> <p>Mrs. Jintana Tinburanakul</p>
<p><b>Assistant Governor, Banknote Management Group</b></p> <p>Senior Director, Banknote Management Department</p> <p>Director, Banknote Operation-Bangkok Office</p> <p>Director, Banknote Operation-Regional Office</p> <p>Director, Banknote Planning and Controlling Office</p>	<p><b>Sub. Lt. Yodchai Choosri</b></p> <p>Ms. Duengdao Sombutsiri</p> <p>Mr. Paisarn Piyabunditgul</p> <p>Mrs. Jongruk Leerasetthakorn</p> <p>Mr. Tumrongkiat Nakaprawing</p>
<p><b>Managing Director, Note Printing Works</b></p> <p>Director, Second Note Printing Works Project</p> <p>Director, Production Office</p> <p>Director, Administration Office</p> <p>Director, Product Development and Technical Support Office</p>	<p><b>Mr. Nopporn Pramojaney</b></p> <p>Mr. Somchai Sringkarrinkul</p> <p>Mr. Anuchart Chotimongkol</p> <p>Mrs. Juntana Chanpawat</p> <p>Mr. Priyavat Chainuvat</p>
<p><b>Assistant Governor, FIDF Management</b></p> <p>Senior Director, Fund Operation Department</p> <p>Director, Business and Financial Operation Office</p> <p>Director, Legal and Asset Collection Office</p> <p>Director, Project Management Office</p> <p>Director, Asset Management Office</p>	<p><b>Mr. Phairoj Hengsakul</b></p> <p>Mr. Vichand Amorojanavong</p> <p>Mrs. Povongtip Poramapojn</p> <p>Mr. Satorn Topothai</p> <p>Mrs. Ruchukorn Siriyodnain</p> <p>Mr. Nat Tapasanan</p>
<p><b>Assistant Governor, Management Assistance Group</b></p> <p>Senior Director, Management Assistance Department</p> <p>Director, Office of the Governor</p> <p>Director, Communications and Relations Office</p> <p>Senior Director, Legal and Litigation Department</p> <p>Director, Legal Office</p> <p>Director, Litigation Office</p> <p>Director, Bank of Thailand Museum</p>	<p><b>Mr. Arkabusik Krairiksh</b></p> <p>Mrs. Chittima Duriyaprapan</p> <p>Mrs. Nual-anong Angsurat</p> <p>Mr. Yongyudh Amatayakul</p> <p>Mr. Chanchai Boonritchaisri</p> <p>Mr. Pruettipons Srimachand</p> <p>Mr. Weerachat Sribunma</p> <p>Mrs. Sarida Sangchant</p>

**Assistant Governor, Strategic Capabilities Group**

Senior Director, Human Resources Department

Director, Human Resources Development Office

Director, Human Resources Management Office

Director, Human Resources Shared Services Office

Director, Strategic Services Department

Director, Organization Development Department

**Ms. Duangmanee Vongpradhip**

Mr. Somchai Setakornnukul

Ms. Wanna Piyasirinond

Mr. Chanchai Buratavorn

Mr. Krisda Nilkositya

Ms. Matana Waitayakomol

Mrs. Piengta Dattanonda

Senior Director, Internal Audit Department

Director, Office of Business Audit

Director, Office of IT Audit

Mr. Krish Follett

Ms. Panida Oonyawong

Mrs. Nawaporn Vachirakernkan

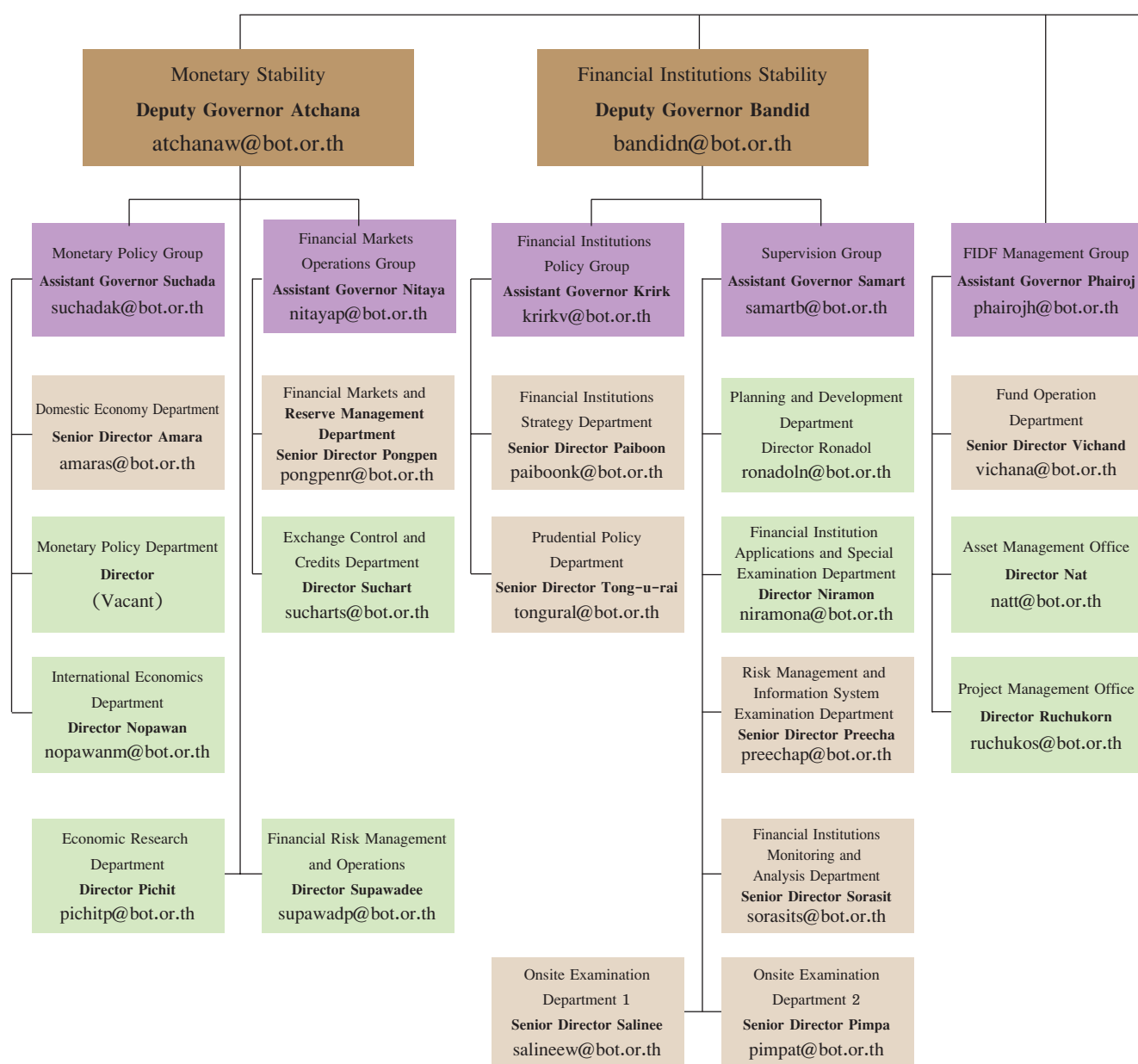
# **BANK OF THAILAND'S ORGANIZATION CHART**



Bank of Thailand's  
as of 31 Dec

Court of

Gove  
Tarisa W  
tarisaw@



# Organization Chart

December 2006

## Directors

**Governor**  
**Atanagase**  
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Internal Audit Department  
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Corporate Support Services  
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