Thailand's Economic and Monetary Conditions in 2001

Monetary Policy Group

APR 2001

Contents

Part 1 : Economic Performance in 2001*

The Thai economy in 2001 is expected to grow by around 1.5 percent or slightly higher (on 18 March 2002, Office of The National Economic and Social Development Board released the official figure for GDP growth in 2001 to be 1.8 percent), particularly on the back of domestic demand which was mainly stimulated by government expenditure. Economic stability remains satisfactory as inflation rate was low at 1.6 percent and the trade balance and current account remained in surplus, though lower than that recorded in the previous year. The lower surplus was due to the decline in exports which was adversely affected by the world economic slump. Meanwhile, capital continued to flow out due to debt repayments, but slowed down significantly from last year. Hence, the balance of payments recorded a surplus in contrast to a deficit in 2000. This led to an improvement in the stability of the Baht as well as an increase in official reserves.

Liquidity in the money market remained high in 2001, with deposit growth exceeding lending growth. This resulted in a reduction in the average bank deposit and lending rates from the previous year. Meanwhile, the amount of **credits** extended by commercial banks (including bad debts and loan-assets that have been transferred to Asset Management Companies (AMCs), but excluding credits extended to AMCs) rose slightly. At the same time, commercial banks' profitability has started to improve in 2001.

Production, Domestic Demand, and Inflation

Agricultural Sector

Major crops output slowed down from the previous year, particularly output of rice, which was induced by the fall in price of rice and the reduction in plantation area. The output of cassava and sugar cane also declined, due to the insect infestation.

Despite the price fall in rice, the average price of major crops rose on average by 3.2 percent in line with the increase in prices of oil seeds, grains and food crops, notably cassava, fruits and vegetables. This resulted in an increase in **farm income** of 5.4 percent. The growth in farm income which was higher than the inflation rate helped to raise farmers purchasing power which in turn boosted domestic consumption.

Manufacturing Sector

The Manufacturing Production Index (MPI) expanded by 1.3 percent in 2001, moderating from 3.3 percent in 2000. Growth in the manufacturing sector was dragged down by the export-oriented industry whose production contracted due to the slump in the global trade and world economy. Nevertheless, domestic-oriented industries continued to expand favourably, notably automobiles and construction materials in response to domestic demand which was boosted significantly by the government's three economic stimulus measures. Meanwhile, production of beverages improved as liquor producers raised their production in the fourth quarter

* The Bank of Thailand's Annual Economic Report information as of 22 February 2002

of 2001. On the whole, capacity utilization averaged at 54.0 percent in 2001, declining from 55.9 percent last year.

Domestic Expenditure

Private consumption grew at a decelerating rate compared with last year, as indicated by a slowdown in the growth of **Private Consumption Index (PCI), which dropped** from 3.4 percent in 2000 to 2.6 percent in 2001. This was reflected in the slowdown in retail sales (at constant price), imported consumer goods (at constant price) and sales of motorcycles following this year's overall economic slowdown. As a consequence, consumers became more cautious in their spending due to eroded confidence. However, other factors supporting private consumption included a slight improvement in farm income and low interest rates, providing incentives for durable consumption such as passenger cars, which continued to expand satisfactorily.

Private investment grew moderately during the first half of the year before contracting in the third quarter. This investment trend followed the slowdown in domestic activity as well as the slump in the world economy that caused export – related industries to cut back their investments. Furthermore, excess capacity remained, and demand for machines and equipment continued to shrink.

Price Level

The Consumer Price Index (CPI) remained low throughout the year. This was due to weak domestic demand and reduced pressure from oil prices since mid-year. The average price of oil in the Dubai market fell by 13.0 percent from last year in line with the decline in oil demand, following the global economic slowdown and OPEC's failure to cut oil production.

The CPI rose 1.6 percent in 2001 owing primarily to the rise in prices of non-food items as well as the rise in excise tax rates, following the cabinet's approval on 27 March 2001, and the rise in oil prices during the first half of the year.

Public Expenditure

Public spending was a crucial factor in stimulating the economy. In FY 2001, public sector deficit was equivalent to 3.5 percent of GDP. The disbursement rate stood at 88.4 percent-slightly lower than the target-while government revenue increased by 2.4 percent close to the target. In the first quarter of FY 2002, public sector deficit was equivalent to 1.5 percent of GDP.

Key fiscal policies implemented in 2001 included:

1) The reduction in the corporate income tax rate for listed companies in the Stock Exchange of Thailand, the Market for Alternative Investment (MAI), and Small and Medium Enterprises (SMEs) with registered paid-up capital not exceeding B5 million and net profit not exceeding B 3 million;

2) Corporate income tax exemption for dividends received from venture capital businesses;

3) The extension of the temporary reduction in the value-added tax rate to 30 September 2002;

4) The allocation of a contingent budget of B58,000 million for economic stimulation purposes in FY 2002;

5) The adoption of a 3 year programme of debt suspension and debt relief for farmers, the establishment of the Village Funds and the People Bank to support the grass-root economy;

6) The expedition of budget disbursements to stimulate economic growth;

7) Establish housing finance projects and other related measures to boost the real estate businesses; and

8) The acceleration of structural reform through the promotion of favourable investment climate, international competitiveness and privatization.

External Sector

Current account and balance of payments

The current account balance declined from last year to US$6.2 billion, with a significant reduction in the trade balance. This was due to the sharp fall in exports, as trading partners' demand fell in line with the global economic slowdown. Net services income and transfers registered a surplus close to that of last year's, while the capital account registered a smaller deficit following a reduction in foreign debt repayments. As a result, the balance of payments recorded a surplus of US$1.3 billion.

Exports

Exports in US dollar terms contracted by 6.9 percent from the previous year due to the slowdown in demand from trading partners, in particular the United States and Japan, Thailand's major markets together which account for 35 percent of Thailand's total exports. The reduction was observed in almost all types of goods, especially manufacturing goods; of which integrated circuits were the hardest hit, with a contraction of 21.7 percent. Nevertheless, export goods which continued to expand include frozen poultry, precious stones, automobile and parts, and sugar.

Imports

Weak domestic demand and the significant fall in exports caused the value of imports, in US dollar terms, to contract by 2.8 percent from the same period last year. The contraction was experienced in consumer goods, notably durable goods such as electrical appliances which fell by 24.4 percent, while imports of raw materials contracted by 5.8 percent. However, import of capital goods (excluding aircrafts) expanded slightly by 5.1 percent due to the limitation of domestic investment.

Furthermore, the terms of trade which deteriorated from 2000 was another factor, apart from the world economic slump, that caused a reduction in the trade surplus in 2001.

Monetary Sector

Liquidity in the money market remained high inducing Thai commercial banks to lower their interest rates in 2001. The four largest Thai commercial banks reduced their rates by 0.50 percent in February and another 0.25 percent in December. This resulted in a reduction in the 3-month deposit rate and Minimum Lending Rate (MLR) to 2.25 and 7.0 - 7.5 percent, respectively.

The high liquidity in the money market stemmed from a continuation of **deposit** growth, which reached 4.0 percent per annum at the end of December 2001, while the growth of **credits** extended by commercial banks (including bad debts and loan-asset transfers to AMCs, excluding credits extended to AMCs) increased by 0.7 percent per annum. However, commercial banks' performance has improved in 2001.

In 2001, the Bank of Thailand (BOT)'s monetary policy stance was highlighted by the increase of the 14 day repurchase rate on 8 June 2001 from 1.5 percent to 2.5 percent, with the aim to correct the distorted structure of local short-term interest rates and restore external stability. This resulted in an overall improvement in the balance of payments, an increase in international reserves and stability of the Baht. After the distorted structure of the short-term interest rate was resolved and external stability was achieved, the BOT lowered the 14-day repurchase rate from 2.5 percent to 2.25 percent on 25 December 2001, in line with the declining trend of the world interest rate. This allowed monetary policy to be more accommodative to growth.

In addition to the accommodative interest rate policies, the authorities expedited the process of financial restructuring and resolved problems in the business sector by :

1) Speeding up the establishment of Thai Asset Management Corporation (TAMC) and the transferring of commercial banks' non-performing loans (NPLs) to TAMC thereby allowing them to resume their intermediation function;

2) Encouraging credit extension to SMEs;

3) Providing support to existing and newly set up venture capital businesses.

4) Preparing for the establishment of the Matching Fund which is a joint–investment between the Government and businesses.

Economic Outlook for 2002

The expansion of the economy in 2002 is expected to improve, following the world economic recovery and the supportive government's stimulus package such as the Village Funds, housing loan initiatives and other stimulus measures. With such favourable environment, the economy is expected to grow between 2.0 – 3.0 percent in 2002. In addition, the virtual absence of inflationary pressure (from both demand-pull and cost-push) will help raise consumers' and investors' confidence.

However, there are downward risks in the future recovery of the Thai economy. First is the non-recovery in the world economy or the slower than expected world economic recovery which will adversely affect the export sector, and may spill over to other production sectors, private consumption and investment. The other risk is the effectiveness of the government stimulus measures whether they can lend support for sustained growth in 2002.

1.2 World Economic Condition in 2001

According to the assessment of the International Monetary Fund (IMF) in December 2001, the **world economy** was expected to slow down from 4.7 percent in 2000 to 2.4 percent in 2001. This is due to the world-wide economic slowdown, especially in the United States which was adversely affected by the attack on 11 September 2001, this in turn reduced consumer and business confidence. Turning to the EU, high consumer prices coupled with the downturn in manufacturing production resulted in a slowdown in EU's economy. Japan's economy continued to contract due to the decline in trading partner's demand and internal problems, especially the persistent weakness in the financial sector. ASEAN and emerging market countries that rely heavily on exports experienced large economic slowdown following the developed countries' sluggish economy and the decline in demand for electronic products. Countries in Latin America (especially Argentina and Brazil), Middle East, Middle Europe, East Europe, Commonwealth of Independent States and Africa also experienced a slowdown in their economies, in line with the world economic trend.

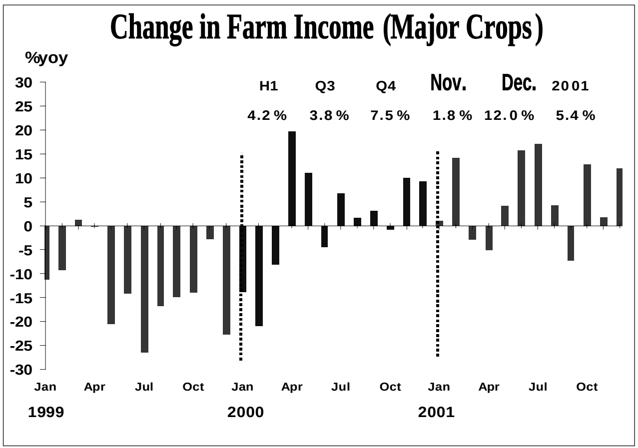
World trade volume was expected to expand at a lower rate than the year before, with a growth rate of only 1.0 percent in 2001 compared to 12.4 percent in 2000. This was mainly attributed to the economic slowdown in industrial countries, which in turn, affected economies in other regions.

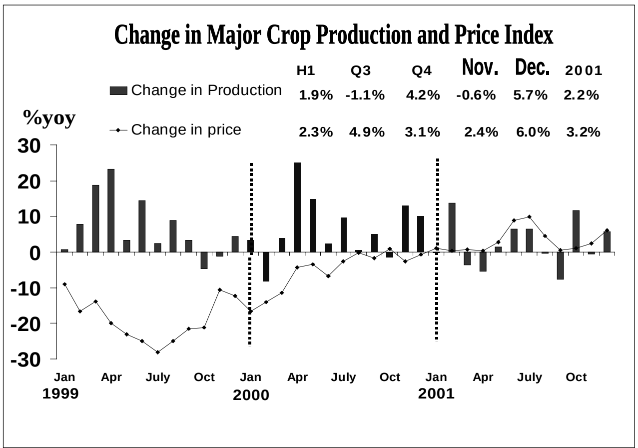
Inflation rate of developed countries was expected to stand at 2.3 percent in 2001, around the same level as the previous year, with Japan continuing to experience a negative inflation rate of 0.7 percent following the recession and deflation. Developing countries experienced an inflation rate of 6.0 percent in 2001, close to 5.9 percent in 2000. Prices of primary goods in the world market fell 5.5 percent in 2001 due to high competition and decreased demand. World oil prices declined 14.0 percent compared to the large increase of 56.9 percent in 2000, following the decrease in demand in response to the economic slowdown.

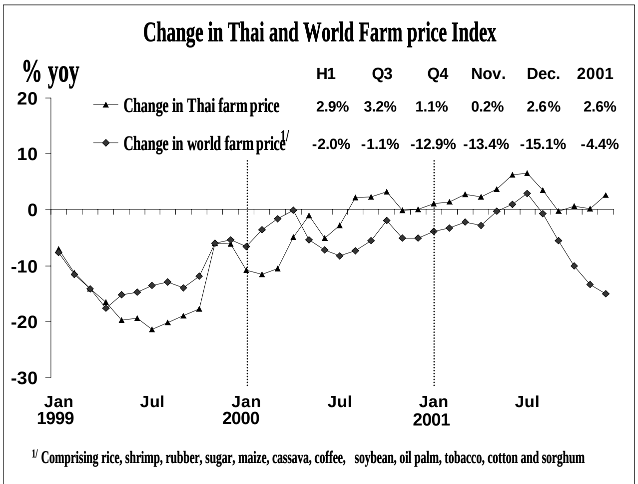
Interest rate. The deposit interest rate in US dollar terms in 2001 was expected to decline continuously following the 11-time interest rate cut by the US Federal Reserves from 6.5 percent during the beginning of the year to 1.75 percent at year-end, in order to stimulate economic growth. The Euro denominated deposit interest rate also declined. The European Central Bank reduced interest rates four times in 2001, from 4.75 percent during the beginning of the year to 3.25 percent at year-end. In Japan, the Yen denominated deposit interest rate remained low, almost reaching 0 percent in order to facilitate economic growth.

Overall Developments

Agricultural Sector







source :

1. Major crop production index constructed using data from Ministry of Agriculture and Cooperatives

2. Change in farm income calculated from change in major crop production index and change in major crop price index

3.World farm price index constructed using data from World Bank

In 2001, farm income from the major crops grew favourably by 5.4 percent year-on-year, both in terms of price and output .

- **Prices of major crops** rose by 3.2 percent year-on-year in line with the increase in prices of grains and food crops as following :

1) Cassava prices increased markedly by 39.7 percent year-on-year following a reduction in supply and continued demand by China in alcohol production

2) Sugarcane prices rose by 26.8 percent due to the adjustment of the initial price of sugarcane for the crop year 2000/01 (during November 2000 to October 2001) from the preliminary price of B600 per ton to the final price of B669.93 per ton in line with world market price.

- **Major crops production** increased by 2.2 percent due to the following items:

1) Second-rice crop production rose by 17.5 percent in line with an increase in planting areas.

2) Natural rubber increased by 2.8 percent due to an increase in tappable areas especially in the north eastern region.

3) Palm oil rose by 4.5 percent in line with an increase in harvested areas.

Thai farm prices in 2001 grew by 2.6 percent, in line with the 3.2 percent and 10.1 percent increase in prices of crops and livestocks, respectively, as a result of favourable exports performance for cassava and broiler. In contrast, fishery prices fell by 4.5 percent following a 10.9 percent decline in the prices of prawn as a result of the global economic slowdown which brought about a sharp decrease in world market demand, especially in the second half of 2001.

World farm prices fell by 4.4 percent in line with the reduction in prices of rice and coffee as a result of excess supply. Moreover, prices of natural rubber also declined following a reduction in demand as a result of the global economic slowdown.

Livestock production in 2001 expanded from the previous year, particularly the production of broiler as a result of the healthy expansion of exports as international demand for substitutes for beef and swine rose following the concerns over the foot and mouth diseases. In addition, Japan which is the main export market of Thailand sanctioned broiler imports from the United States and China (Thailand's competitors) in the fourth quarter of 2001 as a result of the "bird flu" virus . This in turn, shifted purchase orders to Thai exporters. Swine production registered a decline due to an epidemic during the second half of 2001, leading to some losses of production. Similarly, egg production registered a decline following an attempt to control the supply into the market in order to prevent a fall in prices that was experienced in 2000 .

In 2001, livestock price index rose 10.1 percent in line with the 12 percent, 7.7 percent and 15.5 percent increases in broiler, swine and egg prices, respectively. The increase in broiler prices was due to an expansion in demand in both domestic and foreign markets, whereas the increase in swine and egg prices stemmed from a contraction in production levels.

Landing fishery output in 2001 fell by 4.9 percent due to a sharp increase in fishery cost as a result of significantly high oil prices in the first 3 quarters of the year. The reduction in output was also attributable to the closure of off-territorial water fishing regulation by the Union of Myanmar and the increase in the off-territorial fee as well as tightened fishing regulations in Indonesia which inhibited off-territorial water fishing of Thai fishermen.

Fishery price index in 2001 fell by 4.5 percent given the substantial fall in the prices of prawn, notwithstanding the increases in the prices of other fishery products.

Table 1: Farm Price

(Unit : Baht/ton)

	1999	2000			2001			
	year	**H1**	**H2**	**Year**	**H1**	**Q3**	**Q4**	**Year**
Fram Price Index* (1995 =100)	**111.6**	**106.4**	**109**	**107.7**	**109.6**	**112.5**	**110.3**	**110.5**
Δ%	-15.4	-7.5	0.8	-3.5	2.9	3.2	1.1	2.6
Crop Price Index*	**105.6**	**98.8**	**100.7**	**99.8**	**101.1**	**105**	**104.5**	**102.9**
Δ%	-19.8	-9.6	-1	-5.5	2.3	4.9	3.1	3.2
Hom Mali Paddy	**6,892**	**7,073**	**7,626**	**7,349**	**5,991.6**	**5,166.3**	**4,855**	**5,501.1**
Δ%	**-15.5**	**9.5**	**4.1**	**6.6**	**-15.3**	**-36**	**-32.4**	**-25.2**
Paddy Class 1	**5,459**	**4,794**	**5,081**	**4,937**	**4,446.9**	**4,762.0**	**4,639**	**4,574**
Δ%	-18.2	-15.7	-2.9	-9.6	-7.2	-9.4	-5.4	-7.4
Rubber	**17,930**	**21,010**	**21,960**	**21,480**	**22,400**	**21,120**	**17,860**	**20,940**
Δ%	-22.6	19.8	19.9	19.8	6.6	-2.1	-20.1	-2.5
Maize	**4,214**	**4,740**	**3,787**	**4,263**	**3,911.7**	**3,906.7**	**3,976.7**	**3,926.7**
Δ%	-7.8	14.6	-11.8	1.2	-17.5	6.6	1.8	-7.9
Cassava	**770**	**640**	**610**	**620**	**750**	**1,010**	**970**	**870**
Δ%	-44.5	-24.6	-12.2	-19	18	69.7	55.6	39.7
Livestock Price Index*	**115.2**	**102.7**	**103.9**	**103.3**	**110.2**	**119.5**	**114.6**	**113.7**
Δ%	2.4	-15.7	-4.4	-10.3	7.4	13.5	11.8	10.1
Fishery Price Index*	**127.1**	**134.3**	**140.5**	**137.4**	**135.7**	**129.4**	**124.2**	**131.3**
Δ%	-16.2	6.4	9.8	8.1	1.1	-8.3	-11.2	-4.5
Wood Product Price Index*	**97.1**	**100.9**	**104.7**	**102.8**	**103.8**	**103.4**	**103.4**	**103.6**
Δ%	-6.3	-21.3	-17.4	-19.4	2.9	-2.4	-0.1	0.8

Δ% from the same period last year

Remark : *Rebasing from 1984 to 1995

Source : Farm Price Index constructed using data from Fish Marketing Organization, Ministry of Agriculture and Cooperatives and Department of Internal Trade, Ministry of Commerce

Table 2: Major Crop Indicator

(Unit : Million ton)

	1997/98	1998/99	1999/00	2000/01	2001/02	Δ% Y-O-Y
Thai Crops Production[1/]						
Paddy	23.34	23.45	24.17	25.60	24.87	-1.7
First crop	18.79	18.66	19.02	19.55	19.56	0.03
Second crop[3/]	4.55	4.79	5.16	6.01	n.a.	n.a.
Rubber	2.07	2.16	2.20	2.38	2.44	2.8
Maize	3.83	4.62	4.29	4.40	4.42	0.6
Cassava	15.59	16.51	19.06	18.27	17.81	-2.5
Sugarcane	45.85	52.84	56.10	51.48	54.35	5.6
Mungbean	0.20	0.23	0.25	0.23	0.24	4.3
Soybean	0.34	0.32	0.32	0.32	0.33	2.1
Oil Palm	2.68	2.46	3.51	3.26	3.73	14.6
Coffee	0.08	0.05	0.08	0.09	0.07	-12.4
World Crops Production[2/]						
Grains						
Production	1,888.0	1,871.9	1,871.0	1,835.2	1,841.6	0.3
Trade	217.3	223.2	239.4	229.7	229.3	-0.2
Rice (milled)						
Production	386.9	394.1	408.5	397.0	392.6	-1.1
Trade	27.7	24.9	22.9	23.7	22.5	-5.5
Maize						
Production	575.4	605.7	607.1	585.4	583.4	-0.3
Trade	62.9	68.6	73.2	75.6	72.4	-4.2
Soybean						
Production	158.1	159.8	159.9	174.3	182.8	4.9
Trade	40.5	38.7	46.7	55.2	59.3	7.4
Rubber						
Production[3/]	6.8	6.8	6.8	7.0	7.1	2.1
Consumption	6.5	6.7	7.3	7.5	7.7	2.5

Remark : [1/] Estimated in September 2001

[2/] Estimated in January 2002 except rubber estimated in October 2001

[3/] Second-crop paddy production is based on the calendar year, i.e., the figures in 2000/01 are the production during January to December 2001

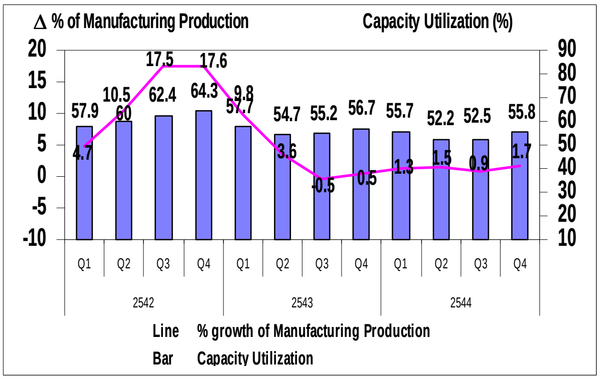
Source : Office of Agricultural Economics, Ministry of Agriculture and Cooperatives

World Agricultural Supply and Demand, USDA. Grain : World Markets and Trade, January 2002

World Commodity Forecasts : Industrial Raw Materials, October 2001, EIU

Manufacturing Sector

Overall manufacturing production :	In 2001, manufacturing production expanded moderately from the previous year. This was due to the contraction in the production of export-oriented industries following the slowdown in the global economy and trade. Nevertheless, production of domestic-oriented industries, namely vehicles and construction materials expanded favourably as a result of the government's economic stimulus measures and the resumption of liquor production in the fourth quarter of this year.



In 2001, manufacturing production registered an increase of 1.3 percent, moderating from an increase of 3.3 percent in the previous year. The main factor impeding manufacturing growth was the slowdown in exports following the sluggish world economy. However, the decline in oil prices in 2001 helped maintain a positive growth in manufacturing production.

Capacity utilization in 2001 dropped to 54.0 percent from the rate of 55.9 percent in 2000. This reduction was partly attributable to the gradual expansion in production capacity of the automobile, beer, petroleum and electronic industries since the second half of 2000. However, excluding these industries, capacity utilization in 2001 would have been 57.3 percent, close to that of last year's. Overall, industries which recorded full or nearly full capacity utilization in 2001 were pulp and upstream petrochemical industries.

Industries exhibiting favourable growth in 2001

- **Vehicles and transport equipments** continued to expand rapidly in line with strengthened domestic demand for passenger cars and motorcycles following intensive promotional campaigns by car manufacturers. In contrast, the production of commercial vehicles contracted since mid-year in response to the moderation of exports to the European markets, which experienced sharp economic slowdown. Capacity utilization rate of the vehicles and transport equipments industry stood at 44.5 percent, increasing from 40.1 percent in the previous year, which was partly the result of the increase in production capacity since the second half of 2000.

Table 3: **Manufacturing Production***

(percentage change)

	1999	2000	2001P
Food	15.8	2.5	-2.8
Beverage	22.4	-41.7	13.4
Tobacco	-9.9	-1.3	-3.0
Textile	-1.2	3.2	0.6
Petroleum	2.1	-0.9	2.2
Construction Materials	12.3	0.1	9.9
Iron & Steel products	12.2	15.8	2.5
Vehicles and transport equipments	79.1	25.5	23.4
Electronic & electrical appliances	12.0	31.6	-26.8
Jewellery	14.4	28.5	3.9
Others	12.5	14.9	0.5
Total	12.5	3.3	1.3
(Excluding liquor)	10.4	10.9	0.7

Note : * Covering 62.4 percent of overall value added in manufacturing sector

P = Preliminary

- **Beverage** registered an increase of 13.4 percent in line with domestic demand. The most notable was the surge in liquor production in the fourth quarter of 2001, to replenish the depleted stock from 2000. The capacity utilization rate in the fourth quarter of 2001 rose to 44.5 percent compared to 10.8 percent in the first 3 quarters, resulting in an overall average capacity utilization rate of 37.3 percent for this industry.

- **Construction materials** expanded by 9.9 percent in line with the acceleration of cement production in the fourth quarter following a recovery in construction businesses. This recovery was due to the increase in constructions of infrastructure projects and housing, which was caused by competitions of financialinstitutions' loans programmes. The capacity utilization rate of this industry was 54.8 percent, increasing from 50.1 percent in the previous year.

Industries exhibiting moderate growth

- **Jewellery production** registered a moderate increase of 3.9 percent. This was in line with the general export slowdown following a decline in purchasing orders from the United States, Thailand's major export market, after the terrorist attacks and the ensuing sluggish economic conditions. However, other major export markets such as the UK, Germany and Japan still expanded favourably.

- **Iron and steel products** expanded by a moderate 2.5 percent, representing a significant slowdown following two consecutive years of high growth. The capacity utilization rate of this industry stood at 50.9 percent, increasing from the previous year.

- **Petroleum products** rose by 2.2 percent where the production of fuel oil, gasoline, and diesel in excess of domestic consumption were exported. Capacity utilization in this category stood at 74.7 percent, decreasing from the previous year.

Table 4: Capacity Utilization*

(Unit : percentage)

	1999	2000	2001P
Food	42.4	43.8	42.8
Beverage	101.9	32.6	37.7
Tobacco	54.4	53.7	52.1
Construction Materials	49.8	50.1	54.8
Iron & Steel products	39.1	46.8	50.9
Vehicles and transport equipments	35.6	40.1	44.5
Petroleum	85.7	83.9	74.7
Electronic & electrical appliances	53.4	66.0	48.2
Others	72.9	75.4	77.0
Total	61.2	55.9	54.0
(Excluding liquor)	56.3	59.5	56.6

Note : * Covering 44.5 percent of overall value added in manufacturing sector

P = Preliminary

- **Textiles** registered a small increase of only 0.6 percent, moderating from last year. The decrease in production was attributable to the contraction of exports in all categories of textile products in the second half of 2001 as a result of the slowdown in Thailand's main trading partners' economies, namely the United States, EU and Japan.

- **Other manufacturing productions** increased slightly by 0.5 percent in line with the production of tin, upstream petrochemical and compressor. By contrast, the production of block rubber decreased markedly following the stagnant export conditions.

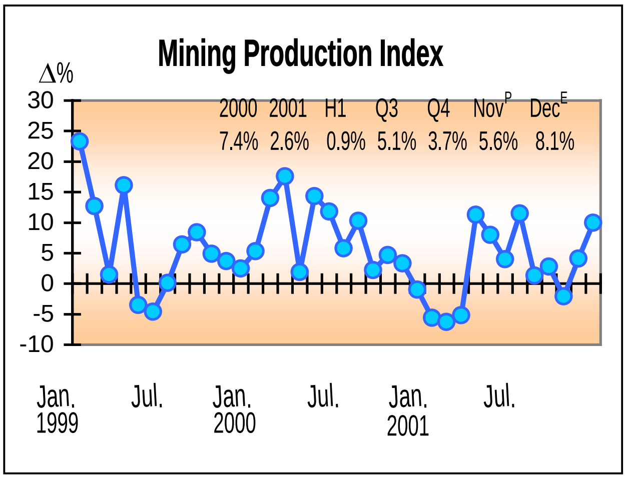
Industries experiencing a slump

- **Electronic and electrical applicances** considerably fell by 26.8 percent. This was largely attributable to the 37.8 percent and 16.2 percent respective decreases in output of integrated circuits and television sets affected by the economic slowdown of the main export markets, namely the United States and Japan. This sector has contracted but at a lesser rate since September 2001.

- **Tobacco production** registered a decline of 3.0 percent. The capacity utilization dropped to 52.1 percent owing to intense competition with both legally and illegally imported tobacco products.

- **Food production** dropped by 2.8 percent in response to a significant decline in the production of sugar which was caused by crop epidemic. However, the production in this sector began to pick up in the second half of 2001 following the export increase in canned pineapple and canned seafood.

Mining Sector



In 2001, mining production grew by 2.6 percent in line with a rise in limestone and lignite production. For 2002, mining production is expected to edge up continuously in line with the higher natural gas consumption and the rising crude oil production at Kaphong, Surat and Plamuk sides.

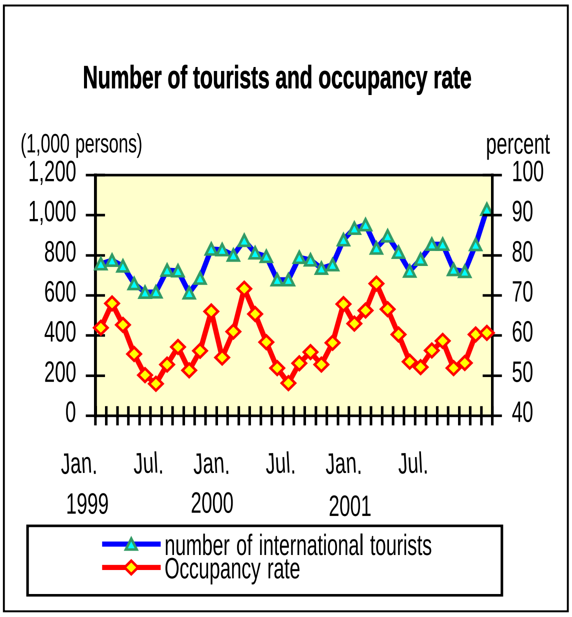
Table 5: Mining Production Index
(percentage change)

Production	2000	2001	2001				
	Year	Year	H1	Q3	Q4	Nov.P	Dec.E
Mining Production Index	162.7	167	162.6	175.1	167.9	170.5	165.2
Δ% (y-o-y)	7.4	2.6	0.9	5.1	3.8	5.6	8.1
Natural gas	4.8	-2.7	-3.5	0.3	-1.8	-3.4	-3.5
Lignite	-2.9	10.6	3.3	18.4	14.6	23.3	31.2
Limestone for cement industry	-10.4	6.8	4.2	2.9	15.1	33.0	13.4
Crude oil	73.3	7.0	10.2	2.8	2.4	4.5	13.4
Tin	-30.5	0.7	29.7	-12.0	-42.1	-40.6	-21.3

Note : P = Preliminary E = Estimated

Source : Index constructed using data from Department of Mineral Resource, Ministry of Industry.

Tourism Sector



In 2001, the tourism sector grew moderately, with the number of international tourists expanding by a mere 5.7 percent (a decline from 10.8 percent growth last year). This was a direct result of the terrorist attacks in the United States in September, which resulted in a marginal increase in international tourists arrival of only 1.4 percent in the fourth quarter of 2001. However overall situation still remained satisfactory as the reduction in the number of tourists from the United States and Japan was offset, to some extent, by the increase in the number of tourists from Asia and Oceania. In addition, hotel occupancy rate increased slightly from 58.9 percent in the previous year to 59.2 percent this year.

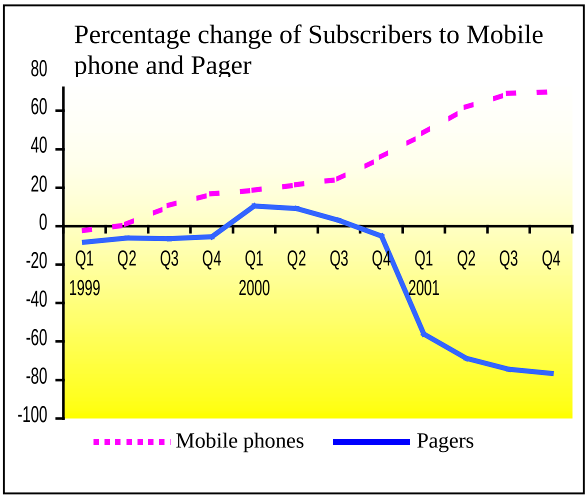
Table 6: Number of Tourists Arrivals

	2000	2001^P	2001				
			H1	Q3	Q4 ^P	Nov.^P	Dec.^P
1.. Number of international tourists (1,000 persons)	9,509	10,047	5,004	2,441	2,603	853	1,030
Δ%(y-o-y)	10.8	5.7	7.9	6.0	1.4	-2.9	10.2
2. Occupancy rate (percent)	58.9	59.2	61.9	56.0	58.1	60.3	60.7

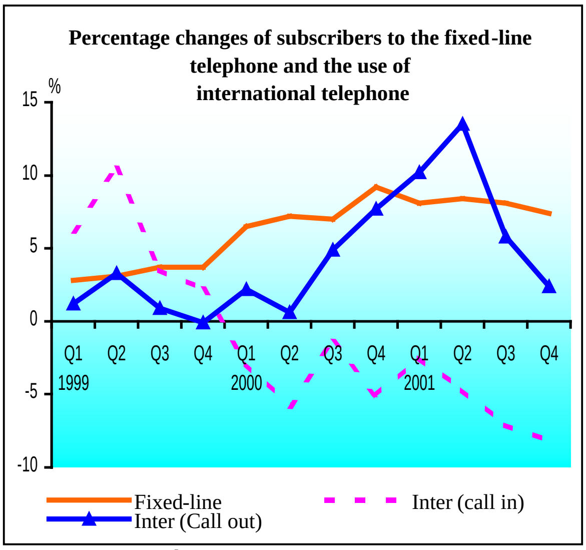
Note : P = Preliminary

Source : 1. Number of tourists data from Tourism Authority of Thailand
2. Occupancy rate survey from 165 medium and large hotels throughout the country (45 hotels in Bangkok, 120 hotel outside Bangkok)

Telecommunication Sector



Source : Telphone Organization of Thailand (TOT) and Communication Authority of Thailand (CAT)



Source : TOT and CAT

Telecommunication in 2001 continued to expand as the number of mobile phone subscribers rose substantially by 69.9 percent, with 5.3 million numbers now in use. This was due to a rise in the popularity of mobile phones and competing sales promotions such as a discount of handset prices and service charges. Being gradually replaced by mobile phones, basic telephones expanded moderately by 7.4 percent, or totalling 6.1 million numbers. Meanwhile, the number of pager users also declined dramatically to 250,000 numbers or a reduction of 76.4 percent. This was due to a shift of users away from pager toward PCT and mobile phone which are more convenient.

Regarding international calls, out-going calls increased by 7.9 percent, bringing the total to 106 million calls whereas incoming calls dropped by 5.6 percent, the current number totalling 91 million calls. However, a rise in popularity of communication in the form of PC to PC (between personal computers) via Internet network such as Net 2 Phone, Hot Telephone, MSN Messenger and Yahoo Messenger may be a significant competitor to international calls.

Table 7 : Type of telecommunication services

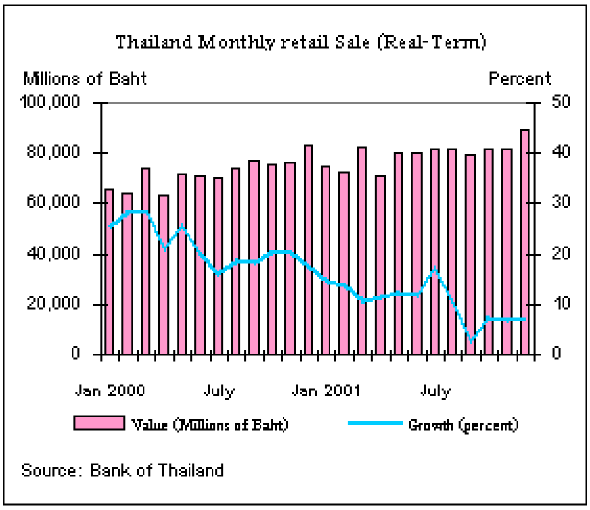
(unit : line)

Service	2000	2001P	2001 H1	2001 Q3	2001 Q4E
Fixed-line*	5,677,756	6,100,000	5,973,493	6,042,491	6,100,000
Δ%	9.2	7.4	8.4	8.1	7.4
Mobile telephone*	3,120,196	5,300,000	4,138,837	4,611,254	5,300,000
Δ%	35.8	69.9	61.7	69.0	69.9
Paging*	1,057,804	250,000	366,829	287,403	250,000
Δ%	-5.3	-76.4	-68.7	-74.3	-76.4
International Telephone* (unit : million calls)					
- Call in	96.41	91.01	46.59	22.44	21.98
Δ%	-3.8	-5.6	-3.6	-7.1	-8.2
- Call out	98.25	106.00	53.95	25.95	26.10
Δ%	3.8	7.9	11.8	5.8	2.4

Note :* Data as the end of period.
P = Preliminary E = Estimated
Mobile phone data covers only post-paid system.
Δ% represents the percentage change from the same period of the previous year.

Source : TOT and CAT

Trade Sector



In 2001, GDP of the trade sector grew approximately by 1.5 – 2.0 percent, in line with the slowdown in other sectors, as some traditional retailers terminated their businesses due to the loss of their market share to the large retailers. Total outstanding trade of both large and medium-sized retailers reached B957,400 million (at 1995 constant price), a slowdown from the previous year. Nevertheless this was a significant growth of 10.4 percent in line with the expansion of sale of modern retail business particularly supercenters, through their branch expansion efforts in Bangkok and other provinces. They also used price competition strategies, as well as sales promotion by offering their own consumer credit installment services or that of their business allies. These conveniences thus contributed to the rise in consumer purchase power.

Table 8 : Value of Retail Sales (Real-Term) [1/]

	2000	2001 [E]	2001		
			H1	Q 3	Q 4 [E]
Value (Million Baht)	**867,305**	**957,400**	**460,838**	**242,742**	**253,600**
Growth (percent)	**21.4**	**10.4**	**12.4**	**9.6**	**7.6**

Note : 1/ Total outstanding trade of both large and medium-sized retailers

E = Estimated

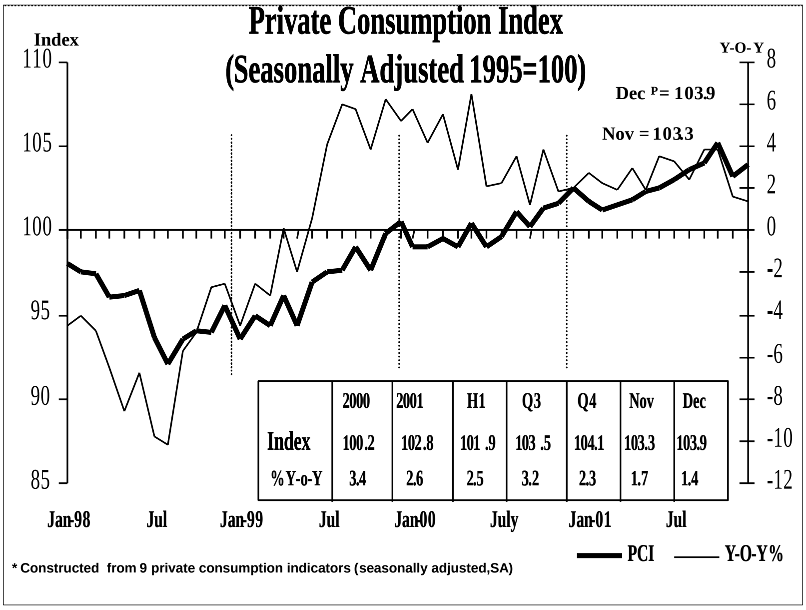
Source: Bank of Thailand

Domestic Expenditure

Private Consumption

In 2001, private consumption in general continued to grow compared to last year. However, private consumption started to slow down during the fourth quarter, especially the imports of consumer goods which had been declining consistently since the second quarter.

Nevertheless, other consumption indicators remained on a rising trend. These include sales of passenger cars and motorcycles which grew by 25.8 percent and 16.4 percent, respectively. Their expansion was mainly attributed to the success in promotional strategies of both producers and dealers, as well as the lower interest rates levels.



	2000	2001	H1	Q3	Q4	Nov	Dec
Index	100.2	102.8	101 .9	103 .5	104.1	103.3	103.9
%Y-o-Y	3.4	2.6	2.5	3.2	2.3	1.7	1.4

Private Investment

Preliminary private investment indicators showed that private investment started to recover in the fourth quarter of 2001 but remained slightly weaker compared to the same period last year (Office of the National Economic and Social Development Board's released official figure shows that private investment in the third quarter of 2001 declined by 1.8 percent year-on-year). This was caused by a rapid expansion in investment in construction. By contrast, investment in machinery and equipment continued to fall.

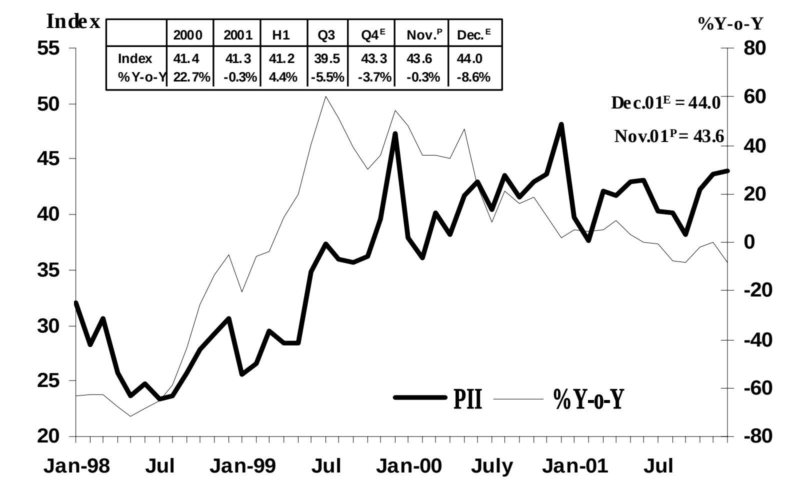
In 2001, machinery and equipment investment indicators fell considerably, mainly reflecting a decline in imports of machinery and equipment by 11.2 percent. Meanwhile, construction continued to expand, especially in the second half of the year. This led to a downward adjustment in the preliminary private investment indicator estimation by 0.3 percent compared to a rise of 22.7 percent in 2000.

Imports of capital goods contracted significantly, particularly in the second half of 2001. This was on account of weak exports and low private expenditures, as well as the persistently low capital utilization rate. In addition, the conflict between the United States and Afghanistan was an adverse factor to investment expansion.

Domestic commercial car sales declined notably in the second half of 2001. This resulted in a modest rise of 7.5 percent compared to 18.2 percent last year, in part due to the slow pace of economic activities which considerably lowered truck sales.

Domestic cement sales accelerated from the previous year, particularly in the last quarter, owing to the sizable government construction projects and the expansion of the housing market which were positively affected by the government's real estate measures and the interest rate reduction.

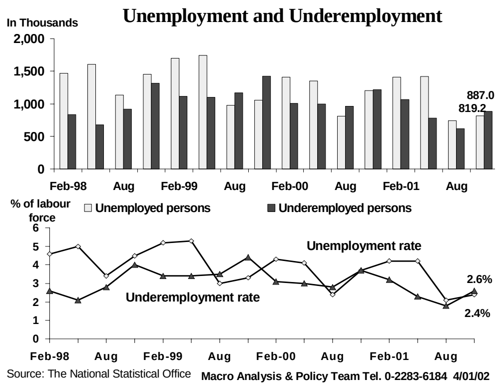
Private Investment Index

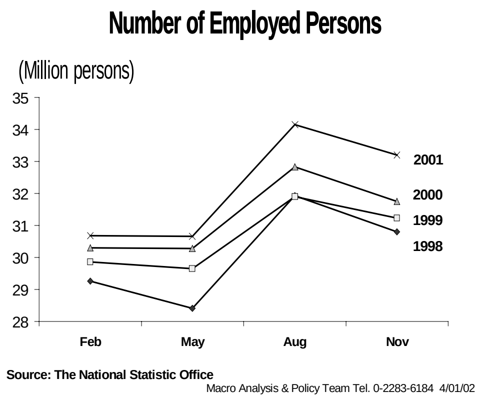


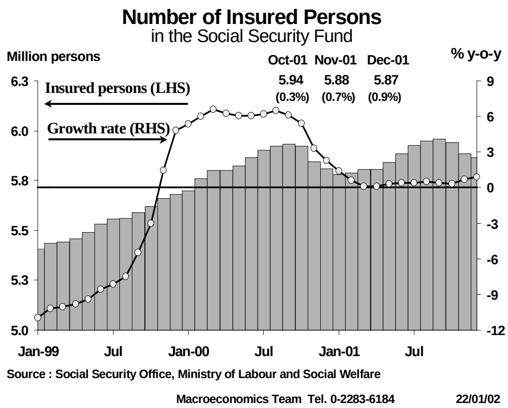
	2000	2001	H1	Q3	Q4^E	Nov.^{P}	Dec.^{E}
Index	41.4	41.3	41.2	39.5	43.3	43.6	44.0
%Y-o-Y	22.7%	-0.3%	4.4%	-5.5%	-3.7%	-0.3%	-8.6%

Source: BOT survey

2.8 Labour Conditions







Labour condition. According to the labour force survey in November 2001, total workforce comprised 34 million persons, up by 3 percent year-on-year or about 1 million persons. It is notable that 400,000-500,000 persons who were previously outside the workforce have entered the labour market in the second half of 2001 onward. Their entry was induced by the government's urgent measure on community job creation providing these people with more job opportunities.

The number of employed persons in November 2001 reached 33.2 million , increasing by 4.6 percent from the same period last year. Despite sluggish domestic economy, employment has risen during the second half of 2001 notably in manufacturing, wholesales and retail trade, hotels and restaurants, and real estate sector . This was an outcome of government measures to delay job termination, promote community job creation all year round, e.g. the Village Funds, and the One-Tumbon-One-Product project, and measures to rehabilitate the property sector.

At end-November 2001, unemployed persons declined to 0.8 million, representing a 2.4 percent unemployment rate. For the entire year, unemployed persons averaged at 1.1 million or equal to 3.2 percent unemployment rate which has been declining since 1998.

Monthly private employment indicator. The number of insured persons continued to increase in line with the rise in the ratio of private employees to total employed persons from 33.1 percent in 2000 to 35.3 percent in 2001. Meanwhile, the number of workers laid off as well as enterprises terminated fell significantly.

Price Level

Headline inflation rose by 1.6 percent year-on-year mainly in line with the rise in energy prices. Core inflation increased by 1.3 percent but remained within the monetary policy target range of 0-3.5 percent.

The headline consumer price index (headline CPI) in 2001 rose by 1.6 percent from the same period last year. This was due to the rise in food and beverages prices by 0.7 percent and non-food prices by 2.2 percent. The core consumer price index (excluding raw food and energy items) rose by 1.3 percent over the same period.

Main factors causing higher inflation in 2001 were as follows:

(1) Upward price adjustments of passenger cars and small trucks, in line with production costs, as well as the rise in intra- and inter- provincial bus and air-conditioned bus fares at the end of 2000 and in early 2001, respectively. This led to an increase in transportation and communication prices by 3.1 percent.

(2) The increase in electricity price. This was due to the increase in oil prices at the beginning of the year although oil prices declined considerably since October 2001.

(3) The increase in cooking gas price. In 2001 wholesale and retail prices rose by 25.3 percent and 17.9 percent, respectively.

(4) Upward adjustment of excise tax on liquor and tobacco at the end of March 2001. This pushed up tobacco and alcoholic beverage prices by 6.1 percent in 2001.

(5) Baht depreciation. Baht weakened from an average B40.16 per US dollar in 2000 to B44.47 per US dollar in 2001 which raised import prices in terms of Baht.

In addition, it should be noted that food prices turned positive in 2001 after falling for 2 consecutive years, owing to lower supply of certain agricultural products , such as vegetables, fruits, broiler and eggs, due to poor weather conditions.

In general, headline inflation was higher than core inflation mainly due to the rise in energy price. However, core inflation remained stable throughout the year, reflecting minimal inflation pressure from demand and cost sides, as evidenced by the low capacity utilization rate.

Table 9 : Consumer Price Index
(percentage change from the same period last year)

	Weight (percent)	**2000**	**2001**	**2001**			
				Q 1	**Q 2**	**Q 3**	**Q 4**
Headline CPI	100.0	1.6	1.6	1.4	2.5	1.6	1.1
Food and beverages	35.3	-1.1	0.7	-0.4	1.1	1.0	1.0
Non-food and beverages	64.7	3.2	2.2	2.4	3.3	2.1	1.0
Core CPI	78.8	0.7	1.3	1.0	1.5	1.5	1.3

Source : Trade and Economic Index Bureau, Ministry of Commerce.

Producer price index in 2001 increased by 2.5 percent year-on-year, driven by a 2.0 percent rise in prices of manufactured products , especially with an upward adjustment of excise tax on liquor and tobacco, which raised food products,beverages, and tobacco by 6.6 percent. Agricultural product price grew by 5.1 percent as the government implemented price intervention measure for palm oil, tapioca and coffee beans. Moreover, the weaker Baht resulted in higher production costs.

Table 10 : Producer Price Index
(percentage change from the same period last year)

	Weight (percent)	2000	2001	2001			
				Q 1	Q 2	Q 3	Q 4
Producer price index	100.0	3.8	2.5	2.8	4.2	2.6	0.6
Agricultural products	13.1	-0.4	5.1	3.7	5.6	5.5	5.5
Mining products	1.9	4.3	8.1	11.2	13.4	7.5	0.6
Manufactured products	85.0	4.6	2.0	2.5	3.9	2.1	-0.2

Source : Trade and Economic Index Bureau, Ministry of Commerce.

International Trade and Balance of Payments

- Trade balance remains in surplus. Exports, however, declined more substantially than imports, resulting in a lower trade surplus than the previous year.
- The services and transfers account, which did not experience any increase, coupled with the smaller trade surplus led to a lower current account surplus.
- Capital outflows declined due to lower debt outstanding.
- Debt repayment under the IMF Package amounted to US$3.1 billion.

Export value declined 6.9 percent from the previous year due to the economic slowdown in Thailand's major trading partners, especially the United States and Japan. The decline in export value was due to a 5.5 percent decline in volume and 1.5 percent drop in prices.

Agricultural products. Export volume rose, while export prices declined quite substantially, especially rice. The volume of rice export rose from Government-to-Government exports to the Philippines, the expansion of Thailand's export market, especially that of steamed rice, to African countries and the decline in supply from other producers. The quantity of tapioca exported increased substantially due to the demand from China for chips used in producing alcohol. However, exports of frozen fowl continued to expand, both in volume and price, which were attributable to the mad cow and foot and mouth disease in the EU and the bird flu in China.

Fishery products were mostly affected by the fall in prices, especially frozen shrimp which faced high competition due to excess supply from Vietnam and China. Furthermore, Latin American producers were able to partly resolve the problem of the shrimp virus outbreak.

Manufactured products. Exports of manufactured products, which constitutes 84.9 percent of total exports, declined by 6.9 percent. The decline was experienced in the exports of hi-tech products, especially computers and parts, integrated circuits and parts and electrical appliances due to the decline in world demand, especially in the US market. Furthermore, the United States' inquiry on Thailand's alleged dumping of base metal products resulted in a decline in the exports of steel pipe, hot rolled sheet, cold rolled sheet and fittings. However, vehicles and parts continued to expand, increasing by 9.5 percent because Thailand was chosen as the production base for exports of many products. Nevertheless, Thailand was faced with the problem of imitation products from China, especially motorcycles which were sold in the ASEAN region.

Labour intensive products. Export value of this sector fell marginally by 1.8 percent. The decline was seen particularly in the **garment** industry following the decline in demand from the United States and Japan, Thailand's major export markets. Furthermore, Thailand was faced with price competition particularly from Indonesia, Vietnam and China, which mainly exported low quality and cheap products, and faced trade problems with the EU from their trade barrier to non-member countries. Exports of **toys and games**, which are considered luxury goods, declined continuously due to competition from China. However, **precious stones and jewellery** continued to expand from the demands of the United States. Exports of **footwear** also expanded following the increase in the exports of sport shoes and sandals.

Domestic Resource based products fell slightly compared to last year's, where **canned seafood** and **canned pineapple** declined due to price fall, while export volume increased. **Furniture and parts** contracted in line with the economic slowdown in the United States. By contrast, **sugar** exports expanded following the demand from China. **Rubber products** grew slightly boosted by the continuous expansion in demand for vehicles and demand for rubber products during year-end, a consequence of the bomb attack in the United States.

Import value declined 2.8 percent from the same period last year, where volume fell 10.7 percent in line with the decline in exports and sluggish domestic demand. Meanwhile prices increased 8.8 percent (however, prices declined during the second half of the year) due to the increase in import prices of machinery and computerswhich expanded during the first half of the year following developments in technology and software in response to domestic market demand by the public sector, businesses and households.

Consumer goods declined 5.8 percent. The reduction was experienced particularly in the imports of durable products, particularly household goods and electrical appliances.

Intermediate products and raw material including computers, integrated circuits and parts declined 7.1 percent (excluding computers and integrated circuits, the number would have fallen by 5.8 percent) following the decline in exports.

Capital goods excluding commercial aircrafts rose by 5.1 percent, mainly due to the increase in prices, while import volume declined, especially imports of machinery for use in the electronics industry. Thai Airways International imported 2 commercial aircrafts worth US$383 million this year compared to 8 aircrafts imported last year worth US$1,270 million.

Vehicles and parts. Import value remained roughly the same level as the previous year. However, the imports of chassis and body increased 9.8 percent and tires rose 17.5 percent following the increase in exports and domestic demand.

Crude oil. Import prices fell to an average of US$23 per barrel compared to US$26 per barrel in the previous year. This was in line with the price in the world market, which was partly due to the bomb attack in the United States and the OPEC's inability to put pressure on oil prices despite the cut in production.

Trade balance and current account. In 2001, Thailand experienced a trade surplus of US$2.5 billion (compared to a surplus of US$5.5 billion in the previous year). A surplus of US$2 billion occurred during the second half of the year due to the substantial drop in imports during that period. The services and transfers account recorded a smaller surplus than the previous year due to the decline in receipts from tourism. Meanwhile, expenditures increased while workers remittance fell significantly following the economic slowdown in Taiwan, one of the main employers of Thai workers. This resulted in a current account surplus of US$6.2 billion (compared to a surplus of US$9.3 billion in the previous year).

Capital account. Net capital movements recorded a deficit of US$5.5 billion, declining from a deficit of US$10.3 billion in the previous year, largely following the decrease in the private sector's deficit.

Private Sector. Capital flows in the private sector recorded a smaller deficit, in line with the decline in external debt repayments from US$9.3 billion to only US$4.5 billion. Debt repayments of International Banking Facilities and non-banking private sector declined significantly as a large portion had already been paid during the year before and outstanding debt had declined markedly. However, during this year there were prepayments of US$2.9 billion. Furthermore, the banking sector lowered the holding of foreign assets approximately by US$0.2 billion, because after increasing the repurchase interest rate, the Baht began to stabilize, and thus, foreign investors and those with foreign exchange obligations reduced their transactions to prevent foreign exchange risks (hedging). In addition, commercial banks used up their foreign assets to repay debt, and hence, commercial banks held less foreign assets. Portfolio investment experienced a larger deficit of US$1 billion, resulting from the reduction in equity investment in line with the unfavourable stock market condition. Regarding foreign direct investment, capital inflows remained approximately the same level as the previous year.

Public Sector (including the BOT). Capital movements in the public sector recorded a slightly higher deficit following BOT's debt repayment to the International Monetary Fund (IMF) under the IMF package of US$3.1 billion, where part of the foreign exchange used to repay the loan was purchased from the foreign exchange market. The government sector showed a marginal deficit increase, owing to the long-term debt repayment of US$0.4 billion by state enterprises. In addition, redemption of the state enterprise bonds (Floating Rate Note or FRN) of US$0.2 billion took place during this period. Meanwhile, government debt falling due was partly refinanced by short-term debt securities (European Commercial Paper or ECP) and Yen denominated bonds (Samurai bond) of US$0.3 billion. Furthermore, a withdrawal of US$0.2 billion from the government's long-term direct loan, which is a Structural Adjustment Loan (SAL) for public servants, was made.

Balance of Payments recorded a surplus of US$1.3 billion (compared to a deficit of US$1.6 billion in the previous year). During 2001, the BOT made debt repayments under the IMF package of US$3.1 billion (compared to US$0.2 billion in the previous year). **International Reserves** at end-December 2001 stood at US$33 billion or equal to 6.5 months of imports. Of this amount, US$2.1 billion were from net outstanding forward swap obligations.

Table 11 : Balance of Payments

(unit : million US$)

(million US$)	2000			2001		
	Year	**H1**	**H2**	**Year** 1/	**H1** 1/	**H2** 1/
Exports (f.o.b.)	67,889	31,957	35,922	63,190	31,654	31,536
% Δ y-o-y	19.5	21.2	18.1	-6.9	-1.0	-12.2
Imports (c.i.f.)	62,423	29,101	33,322	60,665	31,182	29,483
% Δ y-o-y	31.3	34.8	28.4	-2.8	7.2	-11.5
Trade balance	5,466	2,866	2,600	2,525	472	2,053
Services and Transfers	3,862	2,113	1,749	3,686	1,932	1,754
Current account balance	9,328	4,979	4,349	6,211	2,404	3,807
Capital Movements (Net)	-10,270	-6,574	-3,696	-5,533	-3,311	-2,222
Private sector	-9,771	-6,267	-3,504	-4,540	-2,290	-2,250
- Bank	-6,606	-3,421	-3,185	-2,113	-2,227	114
Commercial Bank	-2,596	-1,406	-1,190	-817	-1,826	1,009
BIBF	-4,010	-2,015	-1,995	-1,296	-401	-895
- Non-bank	-3,165	-2,846	-319	-2,427	-63	-2,364
Public sector	-349	-334	-15	-604	-94	-510
BOT	-150	27	-177	-389	-927	538
Errors and Omissions	-675	-606	-69	639	675	-36
Overall Balance 2/	**-1,617**	**-2,201**	**584**	**1,317**	**-232**	**1,549**

Note : 1/ Preliminary
2/ Actual

Sources : 1. Customs Department
2. Bank of Thailand

2.11 External Debt

External debt declined in line with debt repayment of both the private sector and the BOT

- **Compared with end-October 2001**

Total external debt as of end-November 2001 declined US$1 billion, attributable to the decline in external debt of both the public and private sector. In addition, with the Yen depreciation, Thailand's Yen denominated debt in US dollar terms declined.

Private sector external debt fell US$0.6 billion. Of this amount the ***banking sector's external debt*** declined US$0.2 billion, of which US$0.1 billion was from commercial banks. The decrease was mainly due to repayments of commercial banks' overdrafts. BIBFs' external debt declined US$0.1 billion following the repayment of short-term debt, on the other hand, during this month, repayments of long-term debt by BIBFs' declined markedly. ***Non-bank external debt*** fell US$0.4 billion, due mainly to long-term debt prepayments of the petroleum industry.

Public sector external debt declined US$0.4 billion following BOT's debt repayment of US$0.3 billion and the depreciation of the Yen of US$0.1 billion. Government external debt remained the same, despite the government's issuance of Euro Commercial Papers (ECPs) of US$0.3 billion to refinance the ECPs falling due in December 2001. However, since foreign bank branches in Thailand were the main purchasers of these ECPs and Yen denominated debt computed in US dollar terms actually declined, public debt remained unchanged.

- **Compared with end-2000**

Total external debt declined US$10.3 billion, attributable mostly to the decline in long-term debt, whilst short-term debt declined marginally.

Private sector external debt fell US$6 billion. Debt repayment slowed down compared to the same period last year. The ***banking sector's*** long-term debt declined US$2.3 billion, whilst the short-term debt remained somewhat stable. ***Non-bank external debt*** fell US$3.2 billion, mainly due to long-term debt repayments and prepayments.

Public sector external debt declined US$4.3 billion, most of which were long-term debt, due mainly to BOT's debt repayment under the IMF package. As regards to government debt, most debt repayments were of long-term nature which were refinanced by the issuance of ECP, as a result, short-term debt increased considerably compared to the previous year. However, the government's short-term debt remained at a very low level when compared to long-term debt.

External debt structure. The private debt share was close to that of end-2000 at 57.4 percent. While the short-term debt share increased from 18.4 percent to 19.6 percent.

Table 12 : External Debt Outstanding

(unit : million US$)

	1999	2000	2001				
			Q1	Q2	Q3	Oct.	Nov.
1. Public Sector	**36,228**	**33,913**	**31,751**	**30,968**	**30,462**	**29,957**	**29,600**
1.1 BOT (Long-term)	12,817	12,019	10,997	10,191	9,594	9,343	9,006
1.2 Govt and State Enterprises	**23,411**	**21,894**	**20,754**	**20,777**	**20,868**	**20,614**	**20,594**
Long-term	23,281	21,868	20,730	20,627	20,798	20,544	20,464
Short-term	130	26	24	150	70	70	130
2. Pviate Sector	**59,009**	**45,802**	**43,879**	**43,061**	**41,555**	**40,419**	**39,811**
Long-term	39,207	31,134	29,533	28,323	27,566	26,747	26,361
Short-term	19,802	14,668	14,346	14,738	13,989	13,672	13,450
2.1 Banks	**17,702**	**12,157**	**11,557**	**11,107**	**10,303**	**9,549**	**9,331**
Long-term	8,236	6,731	5,974	5,265	4,890	4,443	4,391
Short-term	9,466	5,426	5,583	5,842	5,413	5,106	4,940
2.1.1Commercial Banks	**4,596**	**3,921**	**4,007**	**3,811**	**3,408**	**3,007**	**2,940**
Long-term	2,967	2,580	2,462	2,210	1,875	1,782	1,774
Short-term	1,629	1,341	1,545	1,601	1,533	1,225	1,166
2.1.2 BIBFs	**13,106**	**8,236**	**7,550**	**7,296**	**6,895**	**6,542**	**6,391**
Long-term	5,269	4,151	3,512	3,055	3,015	2,661	2,617
Short-term	7,837	4,085	4,038	4,241	3,880	3,881	3,774
2.2 Non-Banks	**41,307**	**33,645**	**32,322**	**31,954**	**31,252**	**30,870**	**30,480**
Long-term	30,971	24,403	23,559	23,058	22,676	22,304	21,970
Short-term	10,336	9,242	8,763	8,896	8,576	8,566	8,510
Total Debt (1+2)	**95,237**	**79,715**	**75,630**	**74,029**	**72,017**	**70,376**	**69,411**
Long-term	75,305	65,021	61,260	59,141	57,958	56,634	55,831
Short-term	19,932	14,694	14,370	14,888	14,059	13,742	13,580
Share (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Long-term	79.1	81.6	81.0	79.9	80.5	80.5	80.4
Short-term	20.9	18.4	19.0	20.1	19.5	19.5	19.6
Share (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Private	62.0	57.5	58.0	58.2	57.7	57.4	57.4
Public	38.0	42.5	42.0	41.8	42.3	42.6	42.6

Source : The BOT

2.12 Fiscal condition

In the fiscal year 2001, the government adopted a budget deficit policy aimed to enhance the recovery and growth of the economy. Emphases were placed on economic stimulation, increasing the country's potentials and competitiveness, and developing the public sector's management and administrative system. In addition, the government had implemented the decentralization policy by transferring the budget to the local government and allocating additional revenues to the local government by B12.7 billion. As a result, the local government revenue was 20 percent of the government revenue.

In this fiscal year, the government expenditure budget was set at B910 billion while the net revenue collection was estimated to be B805 billion. The government deficit, then, required a financing of B105 billion or 1.9 percent of GDP.

Fiscal position

- **Government**

Revenue. Revenue remitted to the treasury totalled B765.4 billion, up by 2.4 percent from the previous fiscal year, due to the growth of personal income tax which rose by 9.9 percent. The increase in income tax, especially personal income tax resulted from an increase in employment. However, tax from interest income declined , owing to the fall of interest rates in the financial system. In addition, excise tax increased by 7.0 percent, partly due to an increase in tax rates for alcoholic beverages and tobaccos. Import duties rose by 6.7 percent. Nevertheless, corporate income tax increased marginally by 1.6 percent, lower than that of the previous fiscal year which expanded by 21.4 and 26.3 percent, respectively. The minimal increase in corporate income tax reflected that private investments have not yet fully recovered.

On the other hand, specific business taxes fell sharply by 32.0 percent, due to the declining tax rates related to real estate transactions. This was part of fiscal measures to support the recovery of real estate business. Additionally, Value Added Tax (VAT) decreased by 8.0 percent. This was because, for the first time, the government allocated additional VAT to the local government amounting to B12.7 billion to meet the target proportion of local government revenue to government revenue of 20 percent in this fiscal year.

Contributions from state enterprises grew 27.7 percent, partly due to the increase in state enterprises' net profits of 24.8 percent.

Expenditure. Disbursements from the budget totalled B876 billion, up by 3.0 percent as a result of the speed up in disbursements from the current year budget. The current year expenditure amounted to B784.9 billion, up by 4.8 percent. The disbursement rate, therefore, increased from 88.0 percent in the last fiscal year to 88.4 percent in this fiscal year. Meanwhile carry-over expenditure amounted to B91 billion, down by 9.0 percent.

Current expenditure rose by 5.9 percent, amounting to B684.1 billion. Interest payment item recorded the highest expansion rate (9.4 percent), followed by subsidies and transfers (9.2 percent), purchases of goods and services (6.1 percent), and wages and salaries (3.8 percent). In fact, wages and salaries expenditure was the major component (46.2 percent) of total current expenditure. As for expenditure by functional classification, education remained a top priority (30.2 percent of total current expenditure), followed by defense (10.6 percent) and public health (8.8 percent).

Capital expenditure totalled B191.9 billion, down by 6.3 percent. The decrease in capital expenditure came from the decline of current-year and carry-over expenditure of 1.8 percent and 14.4 percent, respectively, mainly from the drop of acquisition of fixed capital assets. Capital transfers, on the other hand, increased by 33 percent, especially transfers to the local government which increased by 34.7 percent in line with the decentralization policy.

Financing. The government financed its cash deficit of B107.9 billion by incurring domestic borrowings amounting to B104.8 billion. (The borrowing amount is lower than that of B105 billion stated in the Budget in Brief.) The domestic borrowing comprised government bonds of B68.7 billion, promissory notes of B10.0 billion, and treasury bills of B26.1 billion. In addition, foreign borrowing was deposited in the treasury account totalling B15.5 billion.

Principal repayments totalled B22.4 billion, comprising the redemption of domestic bonds and promissory notes of B2.4 and B10 billion, respectively, and external principal repayment of B10 billion. Overall, the treasury reserves stood at B72.3 billion, up by B0.5 billion from the previous year.

- **State enterprises**

In the fiscal year 2001, retained income amounted to B168.2 billion, up from B122.7 billion of the previous fiscal year. This was partly due to a net profit of B78.6 billion from the overall operations of state enterprises.

Disbursements of capital expenditure amounted to B152.2 billion. The disbursement rate was only 67 percent, partly due to the start of the new administration at the beginning of the year 2001. In addition, because the government was aiming to curtail imported goods, the high import-content projects slowed down. Moreover, there was a delay in loan approvals from foreign financial institutions. However, measures to promote the acceleration of capital expenditure disbursements were introduced in the fourth quarter. These measures were, for example, allowing the spending ministries to speed up their approval of the procurement of imported supplies, reducing foreign loan approval process, and improving capital expenditure budget management so that disbursements from the budget were accelerated.

Overall, in this fiscal year, state enterprises recorded a surplus of B16 billion, or 0.3 percent of GDP.

Public debt

As of fiscal year-end 2001, the public debt outstanding totalled B2,931.7 billion or 57.6 percent of GDP, up from B2,804.3 billion or 57.3 percent of GDP at end-FY 2000.

Of this amount, the direct government debt amounted to B1,263.7 billion or 24.8 percent of GDP. Debt of nonfinancial state enterprises both with government guarantees and non-government guarantees amounted to B970.6 billion or 19.1 percent of GDP. FIDF debt totalled B697.5 billion or 13.7 percent of GDP.

Policy framework for 2002

In 2001, the world economy slowed down, affecting Thai economic growth in 2002. The government, therefore, needs to continue a fiscal deficit policy in the fiscal year 2002 in order to increase domestic demand to support economic growth. In this regard, the government has set aside a reserve budget to stimulate growth amounting to B58 billion. In addition, the government has emphasized on the highest efficiency and effectiveness of the use of the budget, so the 2002 budget is prepared in line with the government’s urgent policies and important measures.

Treasury Account Fiscal Position

(billions of baht)

	Fiscal Year		
	1999	**2000**	**2001**
Revenue and Expenditure			
Revenue	709.9	747.6	765.4
(Growth rate)	(-2.4)	(5.3)	(2.4)
Expenditure	821.5	850.6	876.0
(Growth rate)	(-1.6)	(3.5)	(3.0)
Current Year	690.8	748.8	784.9
Carry-Over	128.4	100.0	91.0
Budgetary cash balance	-111.6	-103.0	-110.6
Non-budgetary cash balance	-22.8	-13.6	2.7
Cash balance	-134.4	-116.6	-107.9
(% of GDP)	(-2.9)	(-2.4)	(-2.1)
Disbursement rate (%) (Excluding Principal Repayment)	85.5	88.0	88.4
Financing			
Domestic sources (net)	37.4	82.4	102.8
Foreign sources (net)	37.5	26.6	5.6
Use of treasury cash balance	59.5	7.6	-0.5
Treasury cash balance (end-year)	79.5	71.8	72.3

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

Government Revenues

(billions of baht)

	Fiscal Year		
	1999	**2000**	**2001**
Total Revenue	**709.9**	**747.6**	**765.4**
(Growth rate)	(-2.4)	(5.3)	(2.4)
Taxation	**620.1**	**661.4**	**684.5**
(Growth rate)	(-4.5)	(6.2)	(3.4)
- Income base	**213.7**	**235.4**	**253.6**
(Growth rate)	(-0.6)	(9.2)	(7.2)
Personal income tax	101.2	87.4	97.0
(Growth rate)	(-14.8)	(-15.8)	(9.9)
Corporate income tax	101.3	137.4	139.6
(Growth rate)	(11.6)	(26.3)	(1.6)
- Consumption base	**319.2**	**320.8**	**319.1**
(Growth rate)	(-9.3)	(0.5)	(-0.5)
Values added tax	131.9	137.7	127.5
(Growth rate)	(-18.7)	(4.2)	(-8.0)
Excise tax	166.3	166.3	178.9
(Growth rate)	(7.1)	(0.0)	(7.0)
Specific businesses tax	20.8	16.6	12.6
(Growth rate)	(-38.9)	(-25.2)	(-32.0)
- International trade base	**66.3**	**84.4**	**90.4**
(Growth rate)	(1.0)	(21.4)	(6.7)
- Other taxes	**20.9**	**20.8**	**21.4**
(Growth rate)	(24.0)	(-0.3)	(2.7)
Other Revenues	**89.8**	**86.2**	**80.9**
(Growth rate)	(15.2)	(-4.2)	(-6.6)
- Contributions from state enterprises	**46.3**	**38.8**	**53.6**
(Growth rate)	(1.2)	(-19.6)	(27.7)

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

Data Management Group, Bank of Thailand

Government Expenditure by Economic Classification

(billions of baht)

	Fiscal Year		
	1999	**2000**	**2001**
Total Expenditure	**821.5**	**850.6**	**876.0**
(Growth rate)	(-1.6)	(3.5)	(3.0)
Current Expenditure	**587.4**	**645.8**	**684.1**
(Growth rate)	(9.8)	(9.9)	(5.9)
- Wages and Salaries	297.4	304.5	316.2
(Growth rate)	(6.1)	(2.4)	(3.8)
- Purchases of goods and services	144.7	152.3	161.5
(Growth rate)	(-18.7)	(5.2)	(6.1)
- Interest payment	44.7	58.3	63.7
(Growth rate)	(414.6)	(30.3)	(9.4)
- Subsidies and Transfers	100.6	130.7	142.7
(Growth rate)	(17.7)	(30.0)	(9.2)
Capital Expenditure	**234.1**	**204.8**	**191.9**
(Growth rate)	(-22.1)	(-12.5)	(-6.3)
- Acquisition of fixed capital assets	203.7	177.0	155.2
(Growth rate)	(-21.8)	(-13.1)	(-12.3)
- Capital transfers	28.9	27.0	36.0
(Growth rate)	(-26.6)	(-6.4)	(33.0)
- Lending and Purchases of shares and financial assets	1.5	0.7	0.6
(Growth rate)	(179.6)	(-51.6)	(-15.2)

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

Data Management Group, Bank of Thailand

State Enterprise Balance

(billions of baht)

	Fiscal Year		
	1999	**2000**	**2001**
Retained Income	89.3	122.7	168.3
(Growth rate)	(-21.9)	(37.4)	(37.2)
Capital Expenditure	175.5	171.3	152.3
(Growth rate)	(-3.5)	(-2.4)	(-11.1)
State Enterprise Balance	-86.2	-48.6	16.0
(% of GDP)	(-1.9)	(-1.0)	(0.3)

Source : Office of the National Economic and Social Development Board

The Public Debt Position

(billions of baht)

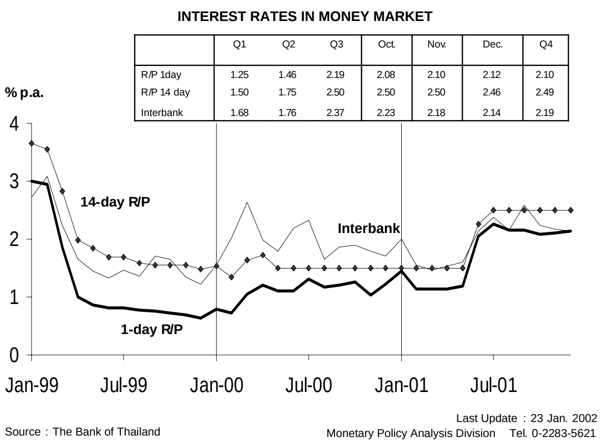
	Fiscal Year		
	1999	**2000**	**2001**
1. Government's direct debt	**959.7**	**1,113.9**	**1,263.7**
(% of GDP)	(20.8)	(22.8)	(24.8)
1.1 Foreign debt	361.0	395.2	449.6
1.2 Domestic debt	598.6	718.7	814.1
2. Non-financial state enterprise debt	**694.9**	**908.9**	**970.5**
(% of GDP)	(15.1)	(18.6)	(19.1)
2.1 Government' s guarantee	694.9	775.6	796.4
Foreign debt	422.8	422.6	384.8
Domestic debt	272.1	353.0	411.6
2.2 Non-government' s guarantee	n.a.	133.3	174.1
Foreign debt	n.a.	48.5	74.9
Domestic debt	n.a.	84.8	99.2
3. FIDF debt	**814.6**	**781.4**	**697.5**
(% of GDP)	(17.6)	(16.0)	(13.7)
3.1 Government' s guarantee	0.0	0.0	112.0
3.2 Non-government' s guarantee	814.6	781.4	585.5
4. Total	**2,469.2**	**2,804.3**	**2,931.7**
(% of GDP)	(53.5)	(57.3)	(57.6)

Source : Public Debt Management Office, Ministry of Finance

2.13 Monetary Conditions

1. Liquidity and interest rate

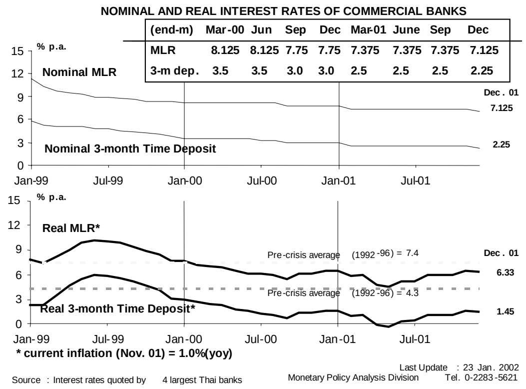
- Liquidity remained high for most of 2001 as credit grew sluggishly while deposits expanded at a moderate rate
- In the last quarter of 2001, the 1 day repurchase rate and the overnight interbank rate averaged 2.10 and 2.19 percent per annum, respectively, reflecting the high degree of liquidity in the financial system
- At the end of 2001, the 3 month fixed deposit rate and the minimum lending rate (MLR) averaged across the four largest banks stood at 2.25 and 7.125 percent per annum, respectively, as commercial banks responded to the high liquidity by lowering their rates
- Despite the fall in commercial bank rates, real interest rates edged up as inflation slowed down in the second half of the year



	Q1	Q2	Q3	Oct.	Nov.	Dec.	Q4
R/P 1day	1.25	1.46	2.19	2.08	2.10	2.12	2.10
R/P 14 day	1.50	1.75	2.50	2.50	2.50	2.46	2.49
Interbank	1.68	1.76	2.37	2.23	2.18	2.14	2.19

Overall liquidity in the financial system remained high in 2001. While liquidity was relatively high in the first half of the year, it tightened from time to time in response to stronger demand for cash during the festive season and the extended public holidays. In the last week of May 2001, liquidity tightened again as financial institutions raised their cash reserves to meet increased withdrawals by private businesses during the remittance period for corporate income tax for 2000. Liquidity eased somewhat at the beginning of June and remained high even after the rise in the 14-day repurchase rate from 1.5 percent to 2.5 percent.

In the second half of 2001, deposits continued to expand while commercial banks continued to exercise caution in extending new credits, resulting in high liquidity in the banking system. During the year, liquidity did tighten from time to time, i.e., in July when the Government Saving Bank raised its cash holdings in preparation for government disbursements under the Village and Urban Revolving Fund programme. In addition, commercial banks raised their cash reserves at end-August 2001 in preparation for the mid-year remittance of corporate income tax. Liquidity tightened again in September following the terrorist attacks in the United States. However, the BOT stepped in to smooth out fluctuations in



interest rates by injecting liquidity through the repurchase market. Liquidity remained high in December as the policy rate was cut from 2.5 percent to 2.25 percent. The reduction was well received by markets.

Short-term money market interest rates remained low and stable throughout the year as a result of the high liquidity. The 1-day repurchase rate and the overnight interbank rate averaged 1.24 percent and 1.68 percent, respectively, in the first quarter, and 1.46 percent and 1.75 percent, respectively, in the second quarter. However, money market rates moved higher following the increase in the 14-day repurchase rate with the 1-day repurchase rate and overnight interbank rate averaging 2.06 percent and 2.13 percent, respectively, in June 2001.

During the second half of 2001, short-term money market rates fluctuated within a narrow range and generally followed a downward trend after rising briefly around mid-year. Interest rates rose briefly as liquidity tightened in the week immediately following the terrorist attacks in the United States with the overnight interbank rate averaging 2.6 percent compared to 2.37 percent for the whole third quarter. As for the 1-day repurchase rate, it averaged at 2.19 percent in the third quarter. Money market rates declined in the last quarter of the year with the 1-day repurchase rate and the overnight interbank rate averaging 2.1 percent and 2.19 percent, respectively. The reduction in the policy rate towards the end of the year had only a limited impact on money market rates as the move was anticipated and already factored in by the markets.

Deposit and lending rates of commercial banks fell in 2001 in response to the high level of liquidity. In February, most commercial banks reduced their deposit and lending rates by 50 basis points which brought down the average 3-month fixeddeposit rate and the minimum lending rate (MLR) of the four largest Thai commercial banks to 2.5 percent and 7.375 percent, respectively. While the increase in the policy interest rate in June 2001 did lead some Thai and foreign commercial banks to adjust deposit and lending rates to optimize their cost structures, deposit and lending rates of the four largest Thai commercial banks remained unchanged.

The 3-month fixed deposit rate and MLR of the four largest Thai commercial banks remained steady until the end of November 2001 at 2.5 percent and 7.375 percent, respectively. However, with deposits continuing to grow and credit extension remaining sluggish, the increased liquidity eventually led the four largest Thai commercial banks to adjust deposit and lending rates downward by 0.25 percent, bringing the average 3-month fixed deposit rate and MLR to 2.25 percent and 7.125 percent, respectively, at end-2001.

Real interest rates of commercial banks declined during the first 5 months of 2001 as inflation picked up. With inflation peaking at the end of May 2001, the real 3-month fixed deposit rate and MLR of the 4 largest Thai commercial banks averaged -0.3 percent and 4.575 percent, respectively. However, real interest rates edged up in June 2001 following a significant decline in the rate of inflation, and by the end of the second quarter, the average real 3-month fixed deposit and MLR rates of the four largest Thai commercial banks had risen to 0.20 percent and 5.075 percent, respectively.

Real interest rates continued to exhibit an upward trend in the second half of the year as inflationary pressures abated, while the 3-month fixed deposit and MLR rates remained relatively unchanged. Despite the 0.25 percent reduction in deposit and lending rates of the four largest Thai commercial banks in December 2001, further declines in the inflation rate pushed the average real 3-month fixed deposit and MLR rates of the 4 largest Thai commercial banks up to 1.45 percent and 6.33 percent, respectively.

2. Commercial banks' operating results

- Operation of the banking system improved from the previous year.
- Effective interest rate spread of commercial banks widened.

Commercial banking system

In 2001, operating results of the commercial banking sector improved from the previous year with net operating profits of B30.98 billion in the first three quarters of the year compared with B19.16 billion in the same period last year. The improvement was mainly due to a substantial decline in interest expenses and the amount of debt write-offs for bad and doubtful loans compared to last year.

Private credit (adding back debt write-offs and loan transferred to Asset Management Companies (AMCs) but excluding credit to AMCs) grew slowly throughout the year. This was due to commercial banks' caution in credit extension as the economic slowdown domestically and internationally weakened confidence in borrowers' ability to service loans. In addition, ongoing restructuring of the credit analysis and approval framework aimed at shifting the focus from collateral to cash flow analysis, to some extent, limited the ability of banks to grant new credit.

Non-performing loans (NPLs) in the banking system declined substantially from 17.8 percent of total credits at end-May 2001 to 10.50 percent at end-December 2001, primarily as a result of transfers to AMCs. These transfers increased by B444.4 billion from last year.

The ratio of capital to risk assets of commercial banks averaged 13.2 percent in the first 11 months of 2001 compared to 12.1 percent in 2000. The ratio of tier-1 capital to risk assets increased from the average of around 8.0 percent in 2000 to 8.6 percent in 2001. Commercial banks maintained higher capital adequacy ratio than required in response to concerns that slower economic growth in Thailand might adversely affect borrower's ability to service debt and give rise to the need for costly recapitalization in the future.

Outlook for commercial banks in 2002

The two consecutive reduction in the policy interest rate following the Monetary Policy Committee (MPC) meetings in December 2001 and January 2002 signalled a shift in the stance of monetary policy towards more emphasis on reviving consumption and investment through the expansion of bank credit. The expected US economic recover in the second half of 2002 should support the Thai economy through higher demand for its exports—a key source of growth for Thailand and strengthen credit growth. Having fully provisioned against future losses on their balance sheets and made significant progress in transferring bad loans off their books, Thai commercial banks should be in a position to extend new credit. Higher competition among banks, in turn, may lead to reductions in the effective interest rate spread. In order to help facilitate the extension of new credit, the BOT adjusted some rules on loan classification and provisioning. The revised rules continue to remain in line with international standards.

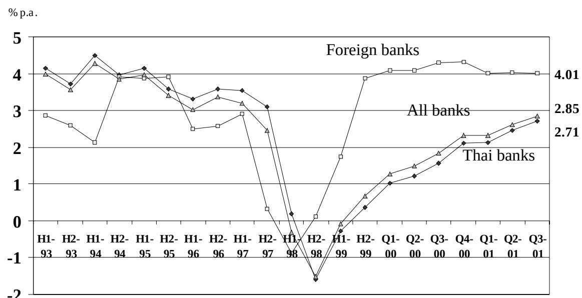
Table 19 Operating Result of Commercial Banks
(unit: billion Baht)

	2000		2001		
	H1	H2	Q1	Q2	Q3
All Commercial banks					
- Operating profit/loss	12.23	8.27	13.41	3.43	14.14
- Provision of bad debt	-84.97	-37.34	-5.25	23.57	5.36
- Net Profit (Before tax)	-72.74	-29.07	8.32	-20.14	8.62
Thai Banks					
- Operating profit/loss	2.77	-1.20	7.11	-1.79	9.70
- Provision of bad debt	-82.38	-36.93	-5.17	-17.65	4.73
- Net Profit (Before tax)	-79.61	-38.13	1.94	-19.43	4.97
Foreign Banks					
- Operating profit/loss	9.46	9.47	6.30	5.22	4.44
- Provision of bad debt	-2.60	-0.41	-0.08	5.92	0.08
- Net Profit (Before tax)	6.87	9.06	6.38	-0.71	3.65

Source : The BOT

Effective interest rate spread of Thai commercial banks widened during the year and stood at 2.7 percent at the end of the third quarter 2001 compared to 1.6 percent in the same period last year. The wider interest rate spread was caused by a decline in average deposit rates and a rise in average lending rates. The latter reflected substantial reductions in commercial banks' stock of credit as a significant portion of NPLs were transferred to AMCs.

Effective Interest Rate Differential

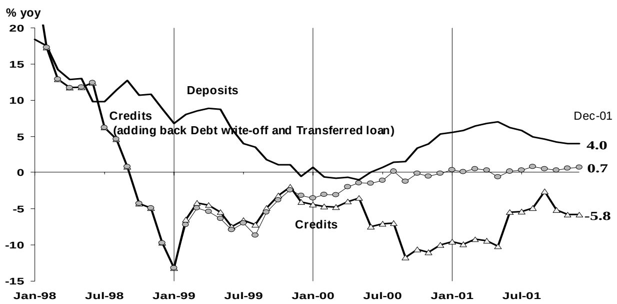


Thai Bank	H1-99	H2-99	Q1-00	Q2-00	Q3-00	Q4-00	Q1-01	Q2-01	Q3-01
Effective Loan Rate	5.17	4.60	4.48	4.42	4.74	5.05	4.86	4.90	5.10
Eff. Deposit Rate	5.44	4.23	3.46	3.20	3.16	2.94	2.72	2.44	2.38
Spread	- 0.28	0.37	1.02	1.23	1.57	2.10	2.14	2.46	2.71

3. Commercial banks' deposit and private credits

- Deposits increased by B193.1 billion or 4.0 percent in 2001 with rapid growth in the first quarter of the year followed by a moderation in the second and third quarters.
- Private credit (adding back debt write-offs and loan transferred to AMCs but excluding credit to AMCs) expanded moderately.

GROWTH RATE OF BANKS' DEPOSITS AND PRIVATE CREDITS 1



Change (Bil.Baht)	1999	2000	Q1:2001	Q2:2001	Q3:2001	Oct-01	Nov-01	Dec-01
Δ deposits	-20.9	241.0	88.7	24.4	24.7	42.6	32.6	-19.9
Δ credits*	-174.5	-3.9	0.6	-24.1	32.8	35.2	12.6	-20.4

* credits (adding back debt write-off and transferred loan)

Last Update : 25 Feb. 2002

Source : BOT reports and surveys

Monetary Policy Analysis Division Tel. 0-2283-5621

Commercial bank deposits continued to expand in 2001 reaching B5,009.1 billion at the end of December compared to B4,816 billion at the end of 2000. The rise in deposits in the first quarter was driven, to a certain extent, by the return to the banking system of cash that was withdrawn during the New Year and Chinese New Year. Deposit growth moderated in the second and third quarters of 2001, partly due to withdrawals by state enterprises and private businesses in preparation for corporate income tax payments in June 2001, as well as shifts of some funds from deposits into new issues of corporate bonds in September 2001. Deposit growth picked up again in the fourth quarter.

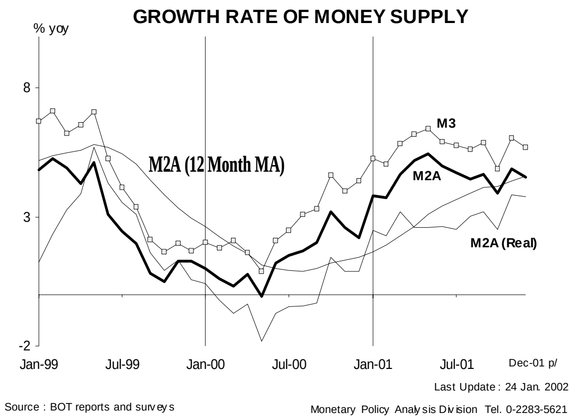
Commercial bank credits (with the BIBF credits valued using end-month exchange rates) contracted again in 2001 and stood at B4,447.9 billion at the end of December compared to B4,723.7 billion at the end of 2000. The decrease in credits was partly due to repayments of BIBF debt as well as greater use of corporate bonds by the private sector as a means of raising capital. At the same time, commercial banks remained cautious about the extension of new credit as the economy continued to weaken. In the second half of the year, two state banks transferred some loans to AMCs in June followed by transfers of NPLs to the Thai Asset Management Company (TAMC) at the end of the year. These transfers significantly helped to ease the burden on commercial banks with respect to capital provisioning requirements and enhanced their ability to compete for new loans.

Nonetheless, **the stock of private credit adding back debt write-offs, and loan transferred to AMCs but excluding credit to AMCs** edged up only slightly from B5,294.3 billion at end - 2000 to B5,331 billion at end - 2001. This was a result of the increase in credit extension in the second half of the year to certain economic sectors, namely trade, finance, and public utility.

4. Monetary base and money supply

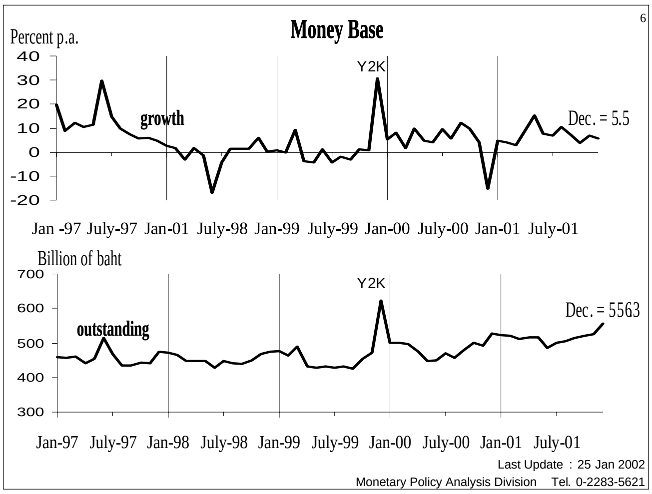
- Monetary base stood at B556.3 billion at end- December 2001, a 5.5 percent increase from the B527.2 billion at end-2000.

- M2A and M3 also increased in 2001 relative to 2000 but the rate of growth moderated in the latter half of the year



After reaching B527.2 billion at end-2000, monetary base exhibited a downward trend in the first half of 2001 and bottomed out at B484 billion at end- June 2001. This was consistent with the seasonal decline in demand for cash at the beginning and middle of the year. On the supply side, the reduction in monetary base stemmed from the decline in net credits to financial institutions, mainly owing to BOT's reduced lending through the repurchase market in response to the high level of liquidity in the system. In addition, the Financial Institutions Development Fund (FIDF) also reduced its borrowing from the repurchase market as its cashflow position improved following the repayment of loan extended to intervened financial institutions.

In the second half of 2001, monetary base continued to grow in line with seasonal factors and stood at B556.3 billion at the end of the fourth quarter. The main factor on the supply side which contributed to the rise in monetary base was the expansion of net foreign assets—due partly to the current account surplus, as well as increased interest among foreign investors in Thailand. At the same time, net credit to financial institutions fell substantially as the BOT continued to curtail its lending in the repurchase market in response to the high liquidity in the system.



Source : The BOT

M2A expanded by 5.0 percent in June 2001 compared with 1.2 percent at end- June 2000. The increase was driven, to some extent, by higher credit to the government associated with the budget deficit, as well as expansion of net foreign assets. Meanwhile, private credit experienced a substantial decline.

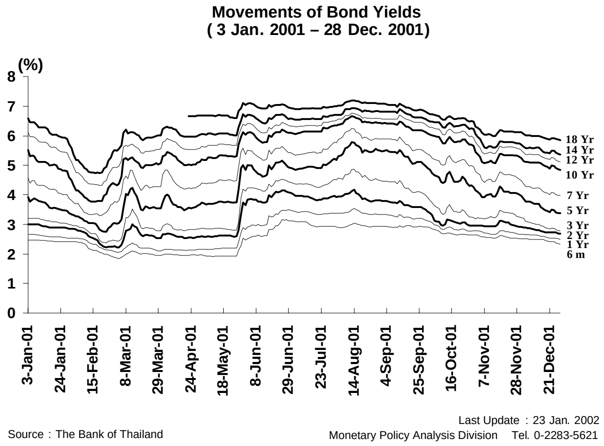
In the latter half of 2001, M2A growth moderated somewhat as accumulation of net foreign assets slowed dramatically compared to the first half of the year. Net credit to government continued to edge upwards while private credit fell substantially compared to the first half of the year.

Overall, M2A rose by 4.6 percent at end- 2001 compared to the 2.2 percent expansion at end-2000.

M3 followed a path similar to that of M2A increasing from B5,973.5 billion at end -2000 to B6,311.6 billion at end -2001. This was equivalent to an increase of 5.7 percent at end - 2001 compared to 4.5 percent at end - 2000.

5. Government bond yields in the secondary market

– Government bond yields weakened from the previous month

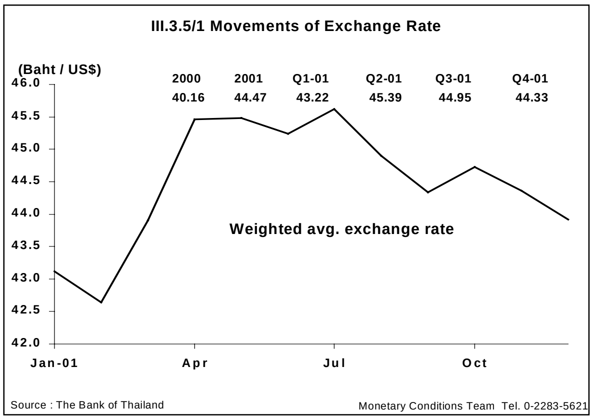


In 2001, bond yields fluctuated in line with new developments and changing economic conditions. Yields were particularly volatile in the first quarter driven by both demand and supply factors. In February 2001, commercial banks reduced their interest rates, boosting the demand for bonds. This exerted downward pressure on yields until they bottomed on 20 February 2001. However, yields subsequently rose as the market adjusted to the large increase in the supply of state enterprise bonds, but then weakened again as liquidity in the system rose. In the second quarter, large issues of state enterprise bonds drove the yields on outstanding long-term bonds up. Importantly, yields shifted up across all maturities towards the end of May 2001 as the markets priced in the expected rise in the BOT's policy interest rate, which eventually took place in June 2001.

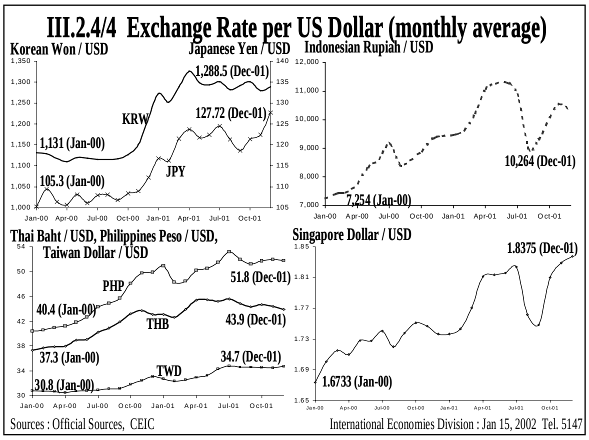
In the latter half of 2001, bond yields remained relatively stable with yields on outstanding short-term bonds edging down slightly in July 2001. However, yields rose by around 7-14 basis points on 12 September 2001 following the terrorist attacks in the United States but fell subsequently as markets came to expect a reduction in the policy rate to support the economy in the face of weakening world economic conditions. Yields continued to fall across all maturities into the last quarter of the year reflecting (1) the smaller than expected increase in the new supply of government bonds as new issues of FIDF bonds were postponed; (2) the downward trend in world interest rates associated with the US economic slowdown and lower yields on US government bonds; (3) the expectation that the BOT may reduce the policy rate to support the economic recovery and align domestic rates with gradually declining world interest rates.

Exchange Rate Movements :

- the Baht largely fluctuated in line with the Yen, weakening in the first half of 2001 and strengthening in the latter half.



III.3.5/1 Movements of Exchange Rate



III.2.4/4 Exchange Rate per US Dollar (monthly average)

During 2001 the Baht fluctuated within the range of B42.64 - B45.62 per US dollar with an average of B44.47 per US dollar, 9.7 percent weaker than the previous year. Indeed, the Baht followed a downward trend throughout the first half of the year with the weakest level recorded in the second quarter. However, the Baht subsequently strengthened in the latter half of the year.

The depreciation of the Baht during the first half of 2001 stemmed mainly from low interest rates in the money market and the weakening economic outlook. In addition, a 9.7 percent weakening of the Yen relative to the US dollar driven by uncertainty regarding the Japanese economic recovery put downward pressure on the Baht as well as regional currencies.

In the latter half of 2001, the Baht strengthened throughout the third and fourth quarters driven by both domestic and external factors. In particular, the US economic slowdown prompted further easing of monetary policy which weakened the US dollar relative to the Yen, the Baht, as well as other regional currencies. Moreover, confidence in the Baht increased in line with the reduction in foreign debt, a stronger international reserves position, and upward adjustments in market interest rates in the third quarter.

Regional currencies weakened across the board in the first half of 2001 in line with the weaker Yen and slowing economic growth domestically. Some countries, such as the Philippines, saw their currency weaken as a result of political uncertainty. Most currencies in the region continued to weaken together with the Yen in the latter half of the year with a few exceptions. The Korean Won strengthened with the rapid rebound in the securities market while the Indonesian Rupiah appreciated as political tensions eased following the commencement of Megawati's presidency.

Capital Market Developments

Non-bank capital markets

– Large corporations which are listed on the Stock Exchange of Thailand (SET) raised funds through new equity and bond issuance amounting approximately to B183.7 billion (excluding finance companies). Of this total, B66 billion resulted from the re-capitalization of Thai Petrochemical Industry PCL (TPI), while a large part of the increase in corporate bonds came from the telecommunications sector.

– At the same time, medium and small businesses borrowed mainly from other financial institutions and non-bank institutions. An important source of funds in this area was the leasing and factoring business which medium and small businesses rely on for short-term working capital. In 2001 the leasing and factoring business expanded rapidly. In addition, medium and small businesses increased their borrowing from the Small Industrial Finance Corporation by B2.2 billion in 2001 compared with an increase of only B0.61 billion in the previous year.

– Households obtained credit from companies such as AEON Thana Sinsap (Thailand) PCL and GE Capital to finance part of their consumption

Table 20 : Private Non-bank Financing Service

(Unit : billion Baht)

	1999	2000	2001
1. Finance companies & Non-bank Credit	-6.5	30.7	54.1
Finance Companies P	-15.5	22.3	28.7
Specialized Financial Institutions P	8.0	-10.3	19.6
Leasing and Factoring Businesses	0.8	15.8	n.a.
Debtors of three listed companies*	0.5	1.8	3.5
Debtors of other companies	0.3	14.0	n.a
Companies that lend for consumption**	0.2	2.9	5.8
2. Capital Market (Non-Financial Institution)	172.9	156.9	183.7
Equity (Ordinary and Preserves Shares)	46.1	59.0	100.7
Domestic debt instruments	126.8	98.0	83.0
Total	**166.4**	**187.6**	**237.8**

Note : * Trade debtors at the end of third quarter 2001 of listed companies including Phatra Leasing PCL, Siam General Factoring PCL and Siam Panich Leasing PCL

** G.E. Capital and AEON Thana Sinsap (Thailand) PCL

P : Preliminary data as of end - November 2001

Source : Ministry of Commerce and Office of the Securities and Exchange Commission (SEC)

Developments in the secondary bond market

In 2001, trading volume amounted to B1,592,219.33 million, or 17.3 percent higher than that of 2000. Average Daily volume fell during the second and third quarters, declining from B8,072 million in the first quarter to B6,457 million and B5,411 million in the second and third quarters, respectively. In any case, volume in the fourth quarter picked-up from the previous two quarters, particularly after the terrorist attacks in the United States in September 2001, with average daily volume reaching B5,964 million. Among the reasons for the higher turnover was the expectation that countries would reduce interest rates to revive their economies, prompting investors to increase their interest in the bond market.

Bond yields moved higher across all maturities in the second quarter of 2001. In particular, yields on the 1 - 3 year short-term, 5 - 7 year medium-term, and 10 year long-term bonds rose from the first quarter by 1.53 percent, 1.27 percent, and 1.04 percent, to 3.49 - 4.44 percent, 4.92 - 5.43 percent, and 6.1 percent, respectively. The main factors pushing up yields were (1) concern about possible increases in the supply of government bonds in 2002, and (2) the policy rate hike in June 2001. Nonetheless, short-term, medium-term, and long-term bond yields came down in the fourth quarter to 2.49 - 2.79 percent, 3.37 - 3.97 percent, and 4.84 percent, respectively. Key developments were (1) the announcement of the postponement of the fiscalization of the FIDF; (2) a reduction in the BOT’s policy interest rate; and (3) further reduction to the Fed Funds rate.

Part 3: Important Measures and Policies

3.1 Fiscal Measures

During 2001, the government implemented several measures, aiming to strengthen the overall economy and to achieve sustainable long-run growth. These fiscal measures can be summarized as follows:

A. Measures affecting the real sector

1. Measures to stimulate the economy

- Establishment of the Village and Urban Revolving Fund (VURF) by allocating B1 million to each of the 74,881 villages nationwide to be used as a revolving fund or micro credit facility. The objective of the scheme is to provide funds for career development, job creation, income enhancement, and other public uses in a community. According to the plan, the VURF will secure loans, guaranteed by the Ministry of Finance, from the Government Savings Bank (GSB) as sources of funds for this plan. The government will then repay VURF's borrowings through its yearly budget.

As of 25 December 2001, the villagers disbursed a total of B37,739 million out of B56,346 million available, or 67 percent. Below is the proportion breakdown of the use of fund.

(1) Agriculture 75.4 percent
(2) Household industry 3.7 percent
(3) Services 3.7 percent
(4) Commerce 1.0 percent
(5) Emergency relief and necessity 1.0 percent
(6) Group activities 1.7 percent

(Cabinet Resolution on 25 December 2001)

- Debt suspension for small-scale farmers through financing vehicles for farmers. An annual budget of B1,196 million was allocated for this purpose bringing the total of the three year period to B3,588 million for this scheme. The target group included 1.152 million farmers in 5,161 agricultural institutions, 1.085 million farmers in 1,762 agricultural cooperatives and 0.067 million farmers in 339 agricultural groups. This measure was effective from October 2001.

(Cabinet Resolution on 12 November 2001)

- Approval of the framework for national programme to allocate economic stimulus reserve fund of B58,000 million for the fiscal year 2002. The Committee set up to consider proposed projects endorsed 27 projects worth B16,425.81 million. Out of 27 projects, the Cabinet approved 21 projects worth B12,586.55 million. The other 6 projects worth B3,839.26 million were awaiting submission for Cabinet approval. Only B1.18 million for the Thai business revival project was disbursed. The Budget Bureau approved allotments for three projects worth B7,295 million.

Table 1: Contingent Economic Stimulus Expenditures for FY 2002 by National Programme Classification
(unit: million Baht)

National programme	Budget	Approved by Committee		Remaining balance	Approved by Cabinet	
		Number of Projects	Amount		Number of projects	Amount
Agriculture	15,500	8	4,776.80	10,723.2	6	3,618.55
Industry/ SMEs	8,000	4	2,212.50	5,787.50	3	2,205.00
Tourism	6,000	8	3,891.77	2,108.23	5	1,218.26
Community	8,500	0	-	8,500	-	-
Training	8,000	7	5,544.74	2,455.26	7	5,544.74
Subtotal	**46,000**	**27**	**16,425.81**	**29,574.19**	**21**	**12,586.55**
Agriculture products price stabilization programme	12,000					
Total	**58,000**					

***Note**: The remaining balance excludes projects approved by the Cabinet on 4 December 2001 and 11 December 2001 as follows:*
1)Prevention and resolution plan for flooding problem in Udonthani amounting to B452.23 million.
2) Four projects of the Tourism Authority of Thailand amounting to B47.08 million.

(Cabinet Resolution on 25 December 2001)

- Deferring the plan to hike Value Added Tax (VAT) from 7 percent to 10 percent to 30 September 2002.

(Cabinet Resolution on 12 June 2001)

- Reviewing the annual promotion and salary increase to twice a year (1 April and 1 October) starting 1 April 2001. Salary increase must not exceed 6 percent of total salary. Annual reward is renewed on every first of October starting 2001. The new guidelines applied to all government officers in administrative branch except officers in the Attorney General's Office.

(Cabinet Resolution on 3 April 2001 and 17 July 2001)

- Measures and guidelines to expedite the disbursement of the Budget for the fiscal year 2002-2003 are as follows:

- Relevant agencies must submit operational plan for uses of the budget, purchasing and hiring, and disbursement plans for the fiscal year 2002 to the Budget Bureau by 15 October 2001 and must submit the same plans for the fiscal year 2003 to the Budget Bureau by 15 September 2002.

- The Budget Bureau must provide quarterly updates and follow-up reports for this operation plan as well as disbursement of state enterprises to the Cabinet.

(Cabinet Resolution on 4 September 2001)

- Targeting actual disbursement of the government budget for the fiscal year 2002 at 91 percent of the total budget of B965 billion**.** This amount did not include a reserve fund of B58 billion earmarked for special economic stimulus projects. The disbursement rate would vary depending on the actual amount of reserve fund utilized. For example, the disbursement rate would be 88.7 percent, 90.1 percent and 91.5 percent if the reserve amounts were utilized at 50 percent, 75 percent and 100 percent, respectively.

(Cabinet Resolution on 25 September 2001)

- Measures to follow-up the actual disbursement of the fiscal year 2002 budget. The government aimed to have at least 70 percent of total government investment expenditure actually disbursed. Actual disbursement rate would be used as a key performance indicator. Government agencies were required to submit a copy of purchasing, hiring and disbursement plan to the Comptroller-General's Department. This plan would be used as information for monitoring and follow-up purpose.

(Cabinet Resolution on 22 October 2001)

- Annual budget of 50 state enterprises for the fiscal year 2002. Projected operating budget included total revenue of B1,289.53 billion, total expenses of B1,225.79 billion, and net profits of B63.74 billion. Approved capital expenditure of B204.9 billion of which B160.5 billion was qualified for budget disbursement. However, retained income of B144.68 billion was available for investment, resulting in the total deficit of B15.8 billion or 0.3 percent of GDP.

(Cabinet Resolution on 25 September 2001)

2. Measures to support private investment

- Support for Small and MediumEnterprises (SMEs) by reducing corporate income tax rate for a company with issued and fully paid-up share capital lower than B5 million to the following:
  - 20 percent of net profit below B1 million
  - 25 percent of net profit between B1 million and B3 million
  - 30 percent of any net profit above B3 million

The scheme applies to net profits of the companies or juristic partnerships generated after 1 January 2002.

(Cabinet Resolution on 18 September 2001)

- Tax break to support venture capital businesses by exempting these-companies and their investors from income tax on dividend income and capital gain.

(Cabinet Resolution on 18 September 2001)

- Excise tax reduction for yachts and marine vehicles for leisure purpose from 50 percent to 5 percent.

(Cabinet Resolution on 16 October 2001)

- Tax break for multinational corporations seeking to set up Regional

Operating Headquarters (ROHs) in Thailand as follow:

1) Reduced corporate income tax from 30 percent to 10 percent for the ROH.

2) Reduced and provided tax exemption for other items as follows:

– Reduced corporate income tax rate to 10 percent for net profits generated from royalties as a result of research and development.

– Reduced corporate income tax rate to 10 percent for net profits derived from interest income received from related companies and/or branches.

– Exempted corporate income tax for any dividend income received from related companies for both domestic and international.

– Exempted corporate income tax from any dividend paid from ROH in Thailand to other companies which are not incorporated in Thailand.

3) Allowed 25 percent depletion and depreciation for cost of buildings and improvements immediately at the acquisition date and the rest within 20 years.

(Cabinet Resolution on 11 December 2001)

3. Measures to support specific businesses

- Excise tax reduction for gasohol which has at least 10 percent of ethanol content to B3.3165 per litre, or B0.43 per litre lower than that of benzene gasoline.

(Cabinet Resolution on 1 May 2001)

- VAT exemption for the sale of diesel gasoline to fishing boat effective until 31 December 2001.

(Cabinet Resolution on 26 June 2001)

- Tariff reduction for equipment relating to the use of natural gas in the transportation sector.

(Cabinet Resolution on 14 August 2001)

- Withholding tax reduction specifically on transportation fares from 3 percent to 1 percent effective from 15 September 2001.

(Cabinet Resolution on 21 August 2001)

B. Measures for state enterprises

Increased registered capital of the Petroleum Authority of Thailand PCL (PTT) by 850 million shares or B8,500 million and sold shares owned by the Ministry of Finance (MOF) concurrently. However, such sale of MOF owned shares in PTT must not exceed 100 million shares.

(Cabinet Resolution on 2 October 2001)

C. Measures of debt incurring and public debt restructuring.

- Approved B5,300 million borrowing by the Petroleum Authority of Thailand PCL (PTT) to refinance the existing domestic bond due in 2001 and to provide permanent working capital for “Take or Pay” gas purchase agreement from Yanada and Yetagun sources worth B17,000 million with 10-year maturity. In addition, the Cabinet approved PTT to borrow B9,110 million short-term loans from 17 financial institutions. These short-term loans had one-year maturity, from 1 January 2001 to 31 December 2001, without guarantee from the Ministry of Finance.

(Cabinet Resolution on 30 January 2001)

- Approved the Expressway and Rapid Transit Authority of Thailand (ETA) to incur new borrowing in order to refinance existing borrowing totalling B2,940 million, to be due on 26 April 2001.

(Cabinet Resolution on 3 April 2001)

- Approved four state enterprises namely; the Metropolitan Electricity Authority, the Expressway and Rapid Transit Authority of Thailand, the State Railway of Thailand and the Metropolitan Waterworks Authority to incur domestic borrowings totalling B3,327 million. This domestic borrowing was used as a Baht counterpart to supplement foreign currency borrowings.

(Cabinet Resolution on 5 June 2001)

- Restructured government debt profile to accommodate the financial obligation of the Financial Institutions Development Fund (FIDF) whose three bonds totalling B69,041.48 million to be due in 2001, as follows:

(1) Issued two new government bonds worth B32,560.48 million.

(2) Re-opened three existing government bonds totalling B25,879.52 million.

(3) Issued B10,400 million promissory notes for restructuring with 182-day maturity.

(4) Repaid the principal amount of debt incurred in conjunction with losses in FIDF totalling B201.48 million. The source of fund came from the Principal Repayment Funds to finance the loss of FIDF.

- Approved five state enterprises to incur domestic borrowings in order to refinance the existing domestic debt, to be due in the fiscal year 2002, totalling B24,368.69 million. This amount comprised B1,650 million for the Metropolitan Waterworks Authority, B3,775.5 million for the Government Housing Authority, B2,000 million for the Provincial Waterworks Authority, B13,443.19 million for the Expressway and Rapid Transit Authority of Thailand and B3,500 million for the Mass Rapid Transit Authority.

(Cabinet Resolution on 10 October 2001)

- The government approved future debt issuance to finance the budget deficit for the fiscal year 2002. The size of such issuance should not exceed B200,000 million with less than 20-year maturity and should carry an appropriate market interest rate at the time of issuance.

(Cabinet Resolution on 30 October 2001)

- Issued Japanese Yen samurai bonds amountingY35,000 million in order to refinance the Yen-denominated loans of Y12,000 million for the Metropolitan Electricity Authority and Y23,000 million for the Thai Airways International PCL.

(Cabinet Resolution on 27 November 2001)

- Amended external debt incurring plan for the fiscal year 2001 by reducing the number of projects from 14 to

2. These two projects included the purchase of two long-range commercial aircrafts for the Thai Airways International PCL amounting US$300 million. The government did not provide guarantee for such purchase. There was no additional plan to utilize the unused foreign debt incurring limit of US$2,300 million for the fiscal year 2001.

(Cabinet Resolution on 27 November 2001)

- The government approved external debt incurring plan for the fiscal year 2002 as follows:

(1) Established the limit of US$1,000 million for the fiscal year 2002.

(2) Approved the external debt incurring plan for the fiscal year 2002 including 8 projects of direct government borrowing, totalling US$490.22 million and 8 government-guaranteed projects amounting US$703.24 million.

(3) Approved additional domestic credit limit for state enterprises to substitute foreign-currency loans amounting B15,000 million for the fiscal year 2002.

(4) Approved in principle to empower the National Debt Policy Committee to amend external debt incurring plan as appropriate within the limit established above.

(Cabinet Resolution on 25 December 2001)

D. Measures for debt restructuring

- Exempted VAT, specific business tax and stamp duty levied on assets transferred back from Asset Management Companies (AMCs) to financial institutions which previously owned such assets. The provision will be effective until 30 June 2002.

(Cabinet Resolution on 5 June 2001)

- Extended the exemption period of VAT, specific business tax and stamp duty for public companies and companies limited which transferred (in part) assets among each other within 31 December 2001. This was effective from 1 January 2001. In addition the exemption period of the registration fees for immovable assets transferred was extended for companies, which received specific business tax exemption.

(Cabinet Resolution on 24 July 2001)

Monetary Measures

In order to maintain economic and financial stability and better accommodate economic developments, the authority implemented certain changes to its monetary policies in 2001. The adjustments included correcting the misalignments in short-term interest rates, abolishing the bank rate, improving and developing various financial market regulations and encouraging lendings to SMEs. In addition, measures to deter Baht speculation were also relaxed and new measures to resolve financial institutions' problems were introduced, including supervision and development issues. Moreover, the Monetary Policy Committee's assessment of current economic conditions and outlook were periodically released to the public, all of which are summarized below.

1. Interest Rates

1.1 Corrections of misalignments in short-term interest rates

In order to correct misalignments in short-term interest rates whereby the interbank rate was lower than deposit rate, the BOT announced an increase in the 14-day repurchase rate, its policy interest rate, from 1.5 percent per annum to 2.5 percent per annum.

(Press Release dated 8 June 2001)

1.2 Abolition of the Bank Rate

The BOT announced the abolition of the bank rate in order to increase the effectiveness of its policy interest rate (the 14-day repurchase rate) as a signal. Consequently, any related regulation, notification, circular, contract, agreement, rule, condition imposed by any public or private sector organizations shall now use the rate charged by the end-of-day liquidity window facility, as defined in the Bank of Thailand's regulation on Repo transactions 2001, whenever a reference to the bank rate needs to be made.

(Announcement on 25 September 2001, effective from 1 October 2001)

2. Implementation of Monetary Policies

2.1 Monetary Policy Board's Decision on 18 January 2001

The BOT announced the decision of the Monetary Policy Board (MPB) regarding the appropriate stance of monetary policy. The MPB viewed that the slowdown in the US economy would have some adverse impact on Thai exports. Nonetheless, some positive factors remained, including the expected decline in oil prices and the rapid cuts in the US interest rates. Hence, the MPB decided to maintain the 14-day repurchase rate at 1.5 percent per annum.

(the Bank of Thailand news no. 13/2001, dated 18 January 2001)

2.2 Monetary Policy Board's Decision on 1 March 2001

The BOT announced the decision of the MPB regarding the appropriate stance of monetary policy. The MPB viewed that growth would be moderate due to vulnerabilities resulting from the slowdown in the US economy and regional economies. Taken into account various announcements on policy initiatives of the new government, it was expected that cash expenditure would increase in the second quarter of 2001 onwards. The MPB perceived that inflationary pressures from the fiscal stimulus would be contained so that core inflation trend would remain within the target range. Moreover, the MPB's sustained easing bias had brought down long-term interest rates. The MPB therefore agreed to maintain the 14-day repurchase rate at 1.5 percent per annum.

(the Bank of Thailand news no. 39/2001, dated 1 March 2001)

2.3 Monetary Policy Board's Decision on 19 April 2001

The BOT announced the decision of theMPB regarding the appropriate stance of monetary policy. The MPB viewed that the slowdown in the US and Japanese economies continued to hamper Thai exports. Support for the economic recovery would therefore come mainly from domestic demand and fiscal stimulus. In 2002, the MPB expected growth to rise as a result of measures implemented by other countries to revive their economies, coupled with the cuts in US official interest rates. However, despite the accommodative stance of Thailand's monetary policy, current world economic and financial situation together with an inability of financial institutions to resume normal operations, would impair the prospect of growth improvement. Hence, growth was not expected to be high. Consequently, the MPB continued to maintain the 14-day repurchase rate at 1.5 percent per annum.

(the Bank of Thailand news no. 60/2001, dated 19 April 2001)

2.4 Monetary Policy Board's Decision on 24 May 2001

The BOT announced the decision of the MPB regarding the appropriate stance of monetary policy. The MPB viewed that growth would remain within the level predicted last month, while the economies of Thailand's trading partners would register an improvement. Despite a significant increase in the rate of inflation in April, it was expected to remain within the target range of 0 – 3.5 percent for the next 8 quarters. Moreover, it was viewed that if public spending increased in line with expectations, investment spending would increase and the capacity utilization rate would strengthen. Furthermore, the establishment of the Thai Asset Management Corporation (TAMC) would lead to an improvement in the operation of financial institutions. Therefore, the MPB decided to maintain the 14-day repurchase rate at the same level.

(the Bank of Thailand news no. 75/2001, dated 24 May 2001)

2.5 Monetary Policy Committee's Decisions on 12 July 2001

The BOT announced the decision of the Monetary Policy Committee (MPC) regarding the appropriate stance of monetary policy. The MPC agreed to adopt the previous framework of monetary policy. Core inflation would be kept below the 3.5 percent ceiling, and the 14-day repurchase rate would remain the policy interest rate. With respect to monetary policy implementation, the MPC and the BOT would monitor external stability more closely, especially the declining current account surplus. Furthermore, external stability would also be strengthened through better exchange rates management aimed at reducing short-term fluctuations.

In terms of the assessment of the economic conditions, the MPC noted that the economies of Thailand's important trading partners exhibited a weakening trend. However, a few positive factors remained, including the passage of the tax cut bill in the United States, and the clearer proposal for a debt-restructuring plan in Japan. After consideration of the future trend for inflation, the probability of inflation being above the target level was deemed to be low. Moreover, the move to increase short-term interest rates on 8 June 2001 was adequate to correct the misalignment in the short-term interest rate structure. The MPC therefore, decided to maintain the 14-day repurchase rate at 2.5 percent per annum.

(the Bank of Thailand news no. 93/2001, dated 12 July 2001)

2.6 Monetary Policy Committee's Decision on 29 August 2001

The BOT announced the decision of theMPC regarding the appropriate stance of monetary policy. The MPC viewed that Thailand's trading partners, especially the United States and regional economies, still exhibited a weakening trend, causing exports to slowdown. The lack of signs of a swift recovery weakened Thailand's growth prospects. However, if fiscal stimulus measures were sustained, they would help to boost domestic demand and alleviate some of the negative impact.

Growth was expected to reach approximately 1.5 – 2.0 percent year-on-year. Upward pressure on prices remained subdued, with core inflation expected to reach approximately 2.0 percent in 2001 and would remain within the target range for the entire 8 subsequent quarters.

The MPC agreed that interest rates were adequately low for economic recovery, and therefore decided to maintain the 14-day repurchase rate at 2.5 percent per annum.

(the Bank of Thailand news no. 112/2001, dated 29 August 2001)

2.7 Monetary Policy Committee's Decisions on 17 October 2001

The BOT announced the decision of the MPC regarding the appropriate stance of monetary policy. The MPC viewed that the terrorist attacks in the US generated a negative impact on the economies of Thailand's trading partners. This would adversely affect Thailand's economic growth in the next period. Nevertheless, fiscal measures to revive the economy and financial system restructuring through the TAMC should improve the functioning of the financial system. These positive factors would alleviate the negative external impact. Moreover, interest rates cuts in the United States and other countries had reduced the interest rate differential, and helped imparting a positive impact on external stability.

The MPC agreed that it was still necessary to maintain an accommodative monetary policy stance in order to support the resolution of the country's economic problems. It also viewed that interest rates were at an appropriate level to facilitate economic recovery and maintain stability of international reserve and the Baht. Moreover, inflation still remained within the target range. Thus, the MPC decided to maintain the 14-day repurchase rate at 2.5 percent per annum.

(the Bank of Thailand news no. 123/2001, dated 17 October 2001)

2.8 Monetary Policy Committee's Decision on 27 November 2001

The BOT announced the decision of the MPC regarding the appropriate stance of monetary policy. The MPC viewed that the possibility of the world economy entering a deep recession was negligible. This was due to the fact that the major economies have consistently pursued expansionary monetary and fiscal policy. Moreover, fiscal measures and the front-loading of budget disbursements during the first half of FY 2002 would help to alleviate the economic slowdown. Consequently, growth was forecasted to range between 1.3 – 1.8 percent year-on-year in 2001, and 1 – 3 percent year-on-year in 2002. Moreover, core inflation should remain between 1.5 – 2.5 percent during 2002.

The MPC agreed that, given the current economic situation, it was still necessary to maintain an accommodative monetary policy stance. Therefore, it decided to maintain interest rate at the same level of 2.5 percent per annum.

(the Bank of Thailand news no. 126/2001, dated 27 November 2001)

2.9 Monetary Policy Committee's Decision on 25 December 2001

The BOT announced the decision of the MPC regarding the appropriate stance of monetary policy. The MPC viewed that Thailand's current financial situation on the external front had become more stable. The Baht was stable and official reserves were strong. However, growth was expected to slowdown during the next period.

The latest data pointed to continued uncertainties and possible further slowdown in world economy, especially in the United States, Japan, and other Thailand's major trading partners . This had important repercussions on Thai exports and economic situation. Furthermore, the declining trend in inflation had resulted in higher real interest rates which may have weakened growth. At the same time, core inflation in 2002 was projected to remain low and well within the range of 1.5 – 2.5 percent per annum, while external stability improved creating room for an easing of monetary policy. Thus, in order to promote economic recovery, the MPC announced a cut in the 14-day repurchase rate by 0.25 percent, from 2.5 percent per annum to 2.25 percent per annum.

(the Bank of Thailand news no. 132/2001, dated 25 December 2001)

3. Measures for money market development

3.1 Measures concerning the bond repurchase market to improve end-of-day liquidity

The BOT acts as a lender of last resort for financial institutions with short-term liquidity problems. Previously, there were 3 liquidity windows available to financial institutions for this purpose, namely the loan window, the late hour repurchase window and the intraday liquidity facility. However, the rates charged by these facilities were uncorrelated and inconsistent with the policy interest rate, resulting in ineffective monetary policy signaling. Therefore, the BOT decided to replace these facilities with a single end-of-day liquidity window. Under this facility, the BOT will enter into bond purchasing transactions with financial institutions and specialized financial institutions
(the Government Saving Bank, the Government Housing Bank, the Bank for Agriculture and Agricultural Cooperatives, the Export - Import Bank of Thailand, the Industrial Finance Corporation of Thailand, the Small Industrial Finance Corporation, the Secondary Mortgage Corporation, and the Thai Asset Management Corporation) at 90 percent of the face value at an interest rate equal to the policy interest rate plus 1.5 percent per annum. A financial institution wishing to use this facility must notify the intention to sell to the BOT between 17:00 – 17:30 hrs, send confirmation by 10:30 hrs and repurchase the bond by 12:00 hrs the next business day.

(Circular dated 25 September 2001, effective from 1 October 2001)

3.2 Bilateral Repo of the financial institutions

In line with the BOT's policy to encourage financial institutions in the securities repurchase agreements, the following rules, procedures and conditions were set for commercial banks to facilitate borrowings in the private repurchase market:

1. The definition of private repurchase is given as the trading of securities with an agreement to resell or repurchase, so as to facilitate lending/borrowing between financial institutions, using securities as collateral. This definition is contained in circular BOT.FPG(11)c. 3491/2543, dated 25 December 2000, policy statement of the Bank of Thailand on the private repurchase of the financial institutions.

2. The portion of the value of the securities used as collateral by a commercial bank that exceeds the borrowed amount must be added to the value of credits, investment or obligation to the counter-party financial institution. If this amount exceeds the single lending limit , then the commercial bank will not be able to enter into the private repurchase transaction. In the case where the commercial bank was in compliance with this condition at the time it entered into the transaction, but later exceeded the single lending limit, for whatever reason, then it can no longer enter into future private repurchase transactions. However, the previous transaction approved would still be binding according to the agreement.

3. In the calculation of the rate in 2., in the case where the securities used as collateral depreciates in value, if the borrowing commercial bank is called for a cash margin, then the borrowed amount is to be reduced by the increase in margin. However, if the bank is called for a security margin, then the collateral value should be increased by the amount of the increase in margin.

In the case where the securities used as collateral appreciates in value, if the borrowing commercial bank receives a cash margin return, then the borrowed amount is to be increased by the amount of margin return. However, if the bank receives a security margin return, then the collateral value should be decreased by the amount of the margin return.

4. The market price is to be used in securities valuation.

(Circular dated 27 August 2001, the Bank of Thailand announcement dated 17 August 2001, effective from 21 August 2001)

3.3 Approval for commercial banks to borrow in a form of private repurchase from institutional investors

The BOT gave approval for commercial banks (excluding BIBF) to borrow in the form of private repurchase from institutional investors, including:

1. Mutual Funds, Provident Funds and Private Funds under supervision of the Office of the Securities and Exchange Commission (SEC)

2. The Government Pension Fund

3. The Social Security Office

4. Specialized financial institutions established by law, such as the Asset Management Corporation and the Secondary Mortgage Corporation, etc.

5. Life insurance and casualty insurance companies

The BOT's supervisory and regulatory policies on the private repurchase undertaking of the financial institutions will continue to be applied as well as other regulations and supervisory measures to be announced in the future.

(Circular dated 9 November 2001)

3.4 Designation of asset management companies as financial institutions

The BOT issued a circular notifying financial institutions and asset management companies of the announcement of the Ministry of Finance, which recognized all asset management companies registered under the Emergency Decree on Asset Management Companies B.E. 2541 (1998) as financial institutions. The implication was that asset management companies were now able to purchase or transfer assets between each other.

(Circular dated 14 November 2001, the Ministry of Finance's announcement dated 1 November 2001, effective from 7 November 2001)

4. Foreign Exchange Measures

4.1 Purchase of foreign currencies from embassies, consulate offices, specialized agencies of the United Nations, representative offices of international organizations in Thailand

The BOT issued a circular in order to notify commercial banks (excluding BIBF), the Export-Import Bank of Thailand, the Industrial Finance Corporation of Thailand and the Asia Credit PLC that they do not need to follow the guidelines set out in the Bank of Thailand's circular dated 28 February 2001, regarding regulations on measures against Baht speculation, when conducting the purchase of foreign currencies with "value same day" and "value tomorrow" from embassies, consulate offices, specialized agencies of the United Nations or representative offices of international organizations.

(Circular dated 27 April 2001)

4.2 Baht lending to non-residents (measures to deter baht speculation)

The BOT relaxed regulations against Baht speculation by allowing financial institutions to give direct loans to non-residents in neighbouring countries of Union of Myanmar, the People's Democratic Republic of Laos, Cambodia, Vietnam and the southern part of the People's Republic China, with the following conditions:

1. Financial institutions wishing to provide direct loans in Baht to non-residents in the neighbouring countries must seek permission from the BOT on a case by case basis.

2. After the credit has been extended, the financial institution must deposit the Baht into no more than one Special Non-resident Account (SNA) that the non-resident opened with a financial institution. The financial institution must report the name and account number of the SNA and all changes to the account status to the BOT.

3. The financial institution where the SNA is held at must oversee that withdrawals from the account are for the purpose prescribed by the BOT. Such purpose is for the purchase of domestic goods and services or repayment of liabilities to a Thai resident, and not for the purchase of foreign currencies. Borrowing of baht to purchase foreign currencies is normally prohibited by the BOT, but a non-resident may undertake such transaction only if the intention is reported the first time the request to borrow was filed.

4. The BOT does not allow for transfers between SNAs or between a SNA and other Baht account of a non-resident.

(Circular dated 28 December 2001, effective from 27 December 2001)

5. Credit Measures

5.1 Setting of SMEs lending targets in 2001

The BOT required locally incorporated commercial banks to submit their SMEs lending targets for the year 2001 no later than 15 March

2001. The report should clearly spell out the feasibility of achieving such targets which should be realistic to enable a semiannual monitoring system to take place. Commercial banks were required to report on their SMEs lending activities to the Bank of Thailand by 21 July 2001 for the first half of 2001 and by 21 January 2002 for the second half of 2001.

(Circular dated 1 March 2001)

5.2 Interest rate limit on loans

The BOT abolished the previous requirement on the calculation of the Minimum Retail Rate (MRR) that commercial banks quote to ordinary customers using the posted MLR plus a spread not exceeding 4 percent per annum.

Instead, commercial banks were required to calculate loan interest rates according to the guidelines set in the announcement of the BOT on guidelines for commercial banks on interest rates and discounts, dated 20 October 1993, and its revision. Furthermore, commercial banks were required to report on their average cost of fund from deposit to the BOT on a quarterly basis.
(Circular dated 10 August 2001)

5.3 Relaxation of the lending limit to hire-purchase companies for passenger cars (less than 7 passengers)

The BOT relaxed the limit imposed on financial institutions that they can only lend a maximum of 5 percent of total credits to passenger cars hire purchase companies. This was aimed to increase credit extension by financial institutions. Furthermore, financial institutions were required to put up a public announcement at all contact offices on the followings rules and regulations:

1) The requirement of a first installment payment by the leasee at the time of the contract;

2) The duration of the loan repayments; and

3) The conditions for the repossession of the vehicle and installments paid by the leasee. *(Circular dated 27 August 2001)*

5.4 Financing for NPL but viable SMEs

The BOT announced the extension of the scheme to support viable SMEs that were non-performing prior to the debt restructuring process. There was also an extension of the debt classification period following circular of the BOT/FPG(12)c. 1156/2543. This scheme was extended for 2 years, ending on 7 April 2004.

(Circular dated 19 November 2001)

5.5 Documents used for loan approval

The BOT set up certain guidelines for financial institutions regarding documents required for loan approval as following:

1. Documents verifying the borrower's identification, nature of business, business plans or policies. The same documents are required of the borrower's related persons;

2. Documents of repayment ability; and

3. Documents of details of other liabilities or obligations, including collateral used.

Financial institutions must ensure that these documents are up-to-date. Furthermore, all documents shall be photocopied and kept in each borrower's credit file. These guidelines should be implemented immediately for new borrowers.

(Circular dated 12 December 2001)

6. Measures to resolve financial institution problems

6.1 Permission for commercial banks to offer an Escrow Account

The BOT extended the scope of commercial bank businesses to include accepting deposits in the form of escrow account where depositors have entered into a purchase/sale agreement with the sellers. Commercial banks have to oversee the withdrawals from the account after both parties have fulfilled all contractual obligations. Furthermore, commercial banks may charge a fee for the opening of the account, the service and other expenses from the customer, as clearly agreed at time of the contract. Moreover, commercial banks must maintain a record of the name and address of the customer, details of the asset in question, guidelines, procedures and conditions of the opening of the account, all deposits and withdrawals, the closing of the account, and other expenses and fees incurred from the opening until the closing of the escrow account.

Commercial banks whose escrow account services are not consistent with the above mentioned guideline must seek prior permission from the BOT or risk having their license revoked.

(Circular dated 8 March 2001)

6.2 Extension of the holding period for immovable properties

The BOT issued a circular to BIBF, along the line of the 24 December 1999's circular sent to commercial banks, concerning the extension of the holding period for immovable properties. In essence, BIBF may hold immovable properties transferred between 1 January 1997 and 31 December 2001, for longer than the prescribed period. Furthermore, BIBF must sell these properties within 10 years from the date of transfer.

(Circular dated 6 February 2001)

6.3 Trading of debt restructuring promissory notes in the repurchase market

Following the Ministry of Finance's issue of promissory notes to refinance earlier bonds issued (in accordance with the Emergency Decree enabling the Ministry of Finance to issue bonds to restructure the liabilities of the Financial Institutions Development Fund B.E. 2541), the BOT issued two announcements to financial institutions that were members of the repurchase market, namely:

1. The BOT's regulation concerning the sale and purchase of government bonds with a repurchase clause Volume 12 B.E. 2544, where the BOT would purchase debt restructuring promissory notes at 95 percent of face value ; and

2. The BOT's regulation concerning the sale and purchase of bonds with a repurchase clause with primary dealers Volume 2 B.E. 2544

The definition of "bond" in the former regulations was modified to include debt restructuring promissory notes, where the BOT is the registrar and paying agent. Furthermore, "debt restructuring promissory notes" were defined as promissory notes issued by the Ministry of Finance in accordance with the royal ordinance pertaining financial assistance from the Ministry of Finance to the FIDF.

(Announcement dated 14 September 2001, effective from 17 September 2001)

6.4 Modification of the regulations on the purchase or holding of shares in limited companies above the legal limit

In an attempt to strengthen the debt restructuring framework and support investment of financial institutions, the BOT modified regulations on the purchase or holding of shares in limited companies above the legal limit as follows:

1. Financial institutions (commercial banks, foreign commercial bank branches and BIBF , finance companies, finance and securities companies, and credit foncier companies) are allowed to hold ordinary and preferred shares in debtor companies (as well as debentures in credit foncier companies) above the legal limit as a result of debt restructuring according to BOT's regulations. The holding of such shares shall include shares of companies which the debtor sold to the financial institutions in payment of its debts, shares of the company of debtor's guarantors, as well as shares in companies created to hold or restructure the debtor company.

2. Financial institutions which hold shares in limited companies resulting from debt restructuring according to BOT's regulations above the legal limit are required to reduce such holdings and any other holdings of shares in limited companies to meet the legal limit as soon as possible, but no later than 31 December 2004, unless otherwise specified by the BOT.

3. The reduction of shares held in limited companies, resulting from debt restructuring according the BOT's regulations must not incur loss to financial institutions, with the exception of the following cases:

3.1) The sale of shares of companies registered under the Stock Exchange of Thailand (SET) at a price no less than their book value or close price one business day prior to the date on which the financial institution sells those securities.

3.2) The sale of shares of limited companies not registered under the SET at a price judged to be fair by the financial institution's auditor, if the auditor is unable to guarantee that the price is a fair price, the auditor can appoint a specialist to guarantee that the price is a fair price on the auditor's behalf.

3.3) Other cases allowed by the BOT.

The calculation of whether the sale of securities will or will not lead to a loss to the financial institution shall be done by a comparison of the sale price to the book value of the securities on the day purchased.

(Circular dated 7 August 2001)

6.5 Regulations for Asset Management Companies (AMCs)

The BOT allowed AMCs to purchase immovable properties of debtors that have not been mortgaged with other AMCs. This can be done through an auction as ordered by a court of law or official receiver or collective creditors in the case of debt restructuring. The AMCs must dispose of these immovable properties within 10 years and the same regulations apply to the holding of immovable properties awaiting sale.

(Circular dated 5 October 2001, effective from 25 September 2001)

7. Measures on supervision and development of financial institutions

7.1Prescription on maintenance of assets by foreign commercial bank branches

The BOT circulated the revised Notification of the Ministry of Finance concerning the prescription on maintenance of assets by foreign commercial bank branches. The notification repealed the permission to count the following investments using the capital funds of branches of foreign banks, as assets of Section 6 of the Commercial Banking Act B.E. 2505 as amended by the Commercial Banking Act (No. 2) B.E. 2522. These investments include:

1. Investments in shares in limited companies, which finally will be invested in ordinary or preferred shares of commercial banks and finance companies registered in Thailand, in accordance with a scheme approved by the BOT, and

2. Investments in ordinary or preferred shares of commercial banks and finance companies registered in Thailand.

(Circular dated 11 January 2001, the Ministry of Finance's announcement, dated 8 December 2000, effective from 19 December 2000)

7.2 The use of the internet for the services of finance companies and credit foncier companies

The BOT circulated the Notification of the Ministry of Finance concerning the use of the internet for the services of finance companies and credit foncier companies. The main points of this notification include :

1) Expanding the scope of financial services that finance companies and credit foncier companies are allowed to undertake using the internet to include all services approved by the BOT, as specified by the Act on the Undertaking of Finance Business, Securities Business and Credit Foncier Business, B.E. 2522 and its revision. However, these companies are required to obtain approval from BOT prior to undertaking any operations.

Finance companies and credit foncier companies that have been given permission under the Notification by the Ministry of Finance dated 27 January B.E. 2543 under the same title can begin undertaking such services immediately.

2) In linking finance companies' and credit foncier companies'Websites with other businesses, they must not show trademarks or messages of other businesses on their homepages. They must also refrain from advertising services offered on other businesses' Websites, or allow transactions between customers and other businesses from their Websites. Finance companies and credit foncier companies are allowed to charge fees for the internet services from their customers and other businesses according to market mechanism, while ensuring fairness for customers.

(Circular, dated 14 February 2001, the Ministry of Finance's announcement dated 22 January 2001, effective from 8 February 2001.)

7.3 Regulations for finance companies and credit foncier companies on lending, deposit taking, and funding from the public.

The BOT issued regulations for finance companies and credit foncier companies on lending and deposit taking from the public. Their customers are required to provide personal details and verifying signatures for all supporting documents. Documents must be stored for at least 5 years from the time the company begins repayment to that customer,for auditing purpose. Customers are required to use their real names and not aliases or false names. For customers whose loans or deposits with these companies prior to the date that these regulations become effective, finance companies must act in accordance with these regulations within 6 months from the day these regulations become effective, with the exception of customers who cannot be contacted and the company has sent an official letter to these customers explaining the matter.

(Circular dated 29 December 2000, the Bank of Thailand announcement, dated 21 December 2000, effective from 26 February 2001)

7.4 Lending or investment in related businesses and lending to shareholders

The BOT issued an announcement to financial institutions (excluding BIBF) concerning lending or investment in related businesses and lending to shareholders. The main points from this announcement are as follows:

1) Financial institutions must suspend credit extension or investment in businesses that financial institutions or directors or executives of these financial institutions have a vested interest, or lending to shareholders or executives of these financial institutions in an excessive amount .

2) Financial institutions must suspend credit extension or investment in businesses that financial institutions or directors or executives of these financial institutions have a vested interest, or lending to shareholders or executives of these financial institutions subject to special conditions or rules.

3) Financial institutions must formulate a credit-extension policy or investment policy in businesses which these financial institutions or their directors or executives have a vested interest, as well as to shareholders of these institutions.

(Circular dated 12 September 2001, the announcement dated 4 September 2001, effective from 12 September 2001)

7.5 Assumption of directorship in limited companies of directors or executives of commercial banks

The BOT issued an announcement concerning amendments to the regulations governing the acceptance of directorships in limited companies by executives of commercial banks. The revised regulations specified that directors and senior executives of commercial banks can take up positions as chairperson, executive director, or director with signing authority in no more than three other limited companies. Any commercial banks with directors or senior executives not complying with the above regulations must amend their positions to comply with the above and report to the BOT within 90 days from the day these regulations become effective. If this is not done in a given time, the BOT reserves the right to issue orders or imposes conditions as allowed by the law.

(Circulardated 12 September 2001 the announcement dated 4 September 2001, effective from 12 September 2001)

7.6 Expansion of finance companies' and finance and securities companies' scope of business.

The BOT issued an announcement concerning the expansion of finance companies' and finance and securities companies' scope of business in the custodian and maintenance of assets. The expansion included the custodian services for assets, as well as the maintenance and storage of documents of title in assets and other documents related to the sale, transfer, or appraisal of asset values.

(Circular dated 24 September 2001)

7.7 Valuation of securities used in providing eligible liquid assets

The BOT permitted financial institutions to value their securities as part of eligible liquid assets using book value from the last day of the previous month for the upcoming month's value. This is with the exception of promissory notes by Krungthai Thanakit Finance and Securities Public Company Limited, and certificates of deposit by Krung Thai Bank Public Company Limited, issued under the Notes Exchange Programme for the 56 suspended finance companies, using the face value of the note.

(Circular dated 27 September 2001,effective from 23 November 2001)

7.8 Expansion of the definition of eligible liquid assets

The BOT added types of new securities and bonds that can be classified as eligible liquid assets of commercial banks, finance companies, and finance and securities companies, as follows:

1) Promissory notes for debt restructuring issued by the Ministry of Finance, which are considered as assets of the Thai Government.

2) Government bonds issued under the Tier-1 and Tier-2 Capital Support Scheme, which are considered as assets of the Thai Government.

3) Promissory notes issued by the Thai Asset Management Corporation (TAMC) which represents the rights in debts of the Financial Institutions Development Fund (FIDF).

Credit foncier companies are required to increase unencumbered assets as follows:

(1) Promissory notes for debt restructuring issued by the Ministry of Finance.

(2) Bonds or debt instruments issued by the FIDF.

(3) Debentures, bonds, or debt instruments whose principal and interest are guaranteed or availed by the FIDF.

(4) New securities issued by the Secondary Mortgage Corporation as set forth by the "Specialized Corporation Decree to Convert Assets into Securities B.E. 2540".

(5) Promissory notes issued by Krungthai Thanakit Finance and Securities Public Company Limited and certificates of deposit issued by Krung Thai Bank Public Company, Limited under the Notes Exchange Programme for the 56 suspended finance companies.

(6) Call loans issued for domestic banks and FIDF.

The BOT granted permission for financial institutions to include promissory notes issued by the TAMC as eligible liquid assets as of the date of receipt of these notes. Any changes in the value of the promissory notes must be matched by a consistent adjustment in the value of eligible liquid assets of the financial institution.

(Circulars dated 8 October 2001 and 9 November 2001, effective from 6 October 2001 and 23 November 2001, respectively)

7.9 BIBF operation scope

The BOT permitted BIBF transactions to be hedged against interest rate risk with financial institutions . The transactions include loans and internal lending, and lending to foreign customers, other BIBF businesses, the Ministry of Finance, the BOT, or domestic customers that borrowed in foreign currency.

On 2 November 2001, the BOT clarified its BIBF operational guidelines to be in line with that of the Ministry of Finance. The BOT also made an announcement regarding regulations, methods, and conditions in the businesses of BIBF commercial banks, including regulations separating the businesses of BIBF and commercial banks into different business entities, as well as the opening of a *nostro account* and the separation of documents that are evidence of lending, foreign exchange transactions, or other business by BIBF .

(Circular dated 30 August 2001, the announcement dated 7 August 2001, effective from 17 August 2001, and Circular dated 2 November 2001)

8. Financial assistance to priority sectors in the economy

8.1 Financial assistance to economic sectors affected by floodin southern Thailand

The BOT will provide financial assistance to small and medium enterprises under the guidelines on the purchase of promissory notes resulting from small and medium businesses B.E. 2543, the undertaking of industrial businesses B.E. 2531 and the undertaking of animal husbandry for use as a revolving fund in restructuring as a special case for flood victims in southern Thailand in November 2000. The BOT will reduce the interest rate charged to financial institutions for promissory notes to 1 percent per annum. The rates charged by the commercial banks to their customers, in turn, will be MLR – 2.75 percent per annum. Non-bank financial institutions selling promissory notes are to charge their customers' the average MLR rate of the 4 commercial banks (i.e., Bangkok Bank Public Company, Ltd., Krung Thai Bank Public Company, Ltd., Thai Farmers Bank Public Company, Ltd., and The Siam Commercial Bank Public Company, Ltd.) minus 2.75 percent per annum.

Moreover, the BOT reduced the interest rate charged to financial institutions on the purchase of promissory notes issued from financing of SMEs from 3 percent per annum to 2 percent per annum for a period of one year. This programme shall not exceed one year.
(Circular dated 12 January 2001, effective from 12 January 2001)

8.2 Improvements of financial assistance to entrepreneurs in priority sectors

The BOT improved the terms of its financial assistance to entrepreneurs in priority sectors with emphasis on new entrepreneurs, for no longer than 3 years for each business in compliance with all regulations in effect (8 in total).

With respect to the BOT's regulations concerning the purchase of promissory notes resulting from the undertaking of agricultural production, storage of outputs and the rice merchant businesses, where previously no time limit is imposed, an extension of 3-year assistance for existing entrepreneurs had been announced from the date of this circular.

The BOT also improved its regulations concerning the purchase of promissory notes resulting from the undertaking of animal husbandry B.E. 2531 whereby interest rate collected from financial institutions is reduced to 3 percent per annum from 5 percent per annum. Furthermore, the BOT increased the proportion of its financing from 50 percent to 60 percent of the value of the promissory notes, effective from 14 August 2001.

(Circular dated 7 August 2001)

Real Estate Measures

On 3 April 2001, the Cabinet approved measures to promote the real estate sector as follows:

1. Tax deduction: buyers of land with building or of condominium or of land with a contract to construct a building on such land are now allowed full tax deduction for the down payment or payment for purchase, in addition to mortgage interest allowance, under the following conditions:

(1) Transactions must be for the payment of purchase or installment payment within 1 year from the date of which the law was effective. The buyers will benefit as follows:

- In the case of full-amount payment for land with building or condominium, full tax deduction can be allowed for up to B200,000. However, the money paid must not be acquired by loans. The amount of deduction will be halved into two consecutive years, starting from the tax year that the right of ownership was handed over.

- In the case of installment payment for land with building or condominium , full tax deduction can be allowed for up to B100,000 starting from the tax year that the right of ownership was handed over.

(2) Transfer of the right of ownership must be registered within one year from the date on which the law became effective.

(3) In the case of land with building or condominium units, buyers who are entitled to a tax deduction must not own those properties within one year before the law became effective. The buyers also must own the properties for at least two years from the date of transfer.

(4) The tax deduction stated above applies to only one purchase of property per income earner, regardless of his or her marital status.

This was effective from 4 September 2001.

2. Depreciation and initial allowance for permanent building purchase. Limited companies or partnership which purchased permanent buildings for their businesses, and bought or were handed over the right of ownership of the buildings within one year from the date on which the law was effective, will be allowed to deduct 20 percent of total cost as depreciation and initial allowance on the date of purchase. The rest, i.e., 80 percent, will be gradually deducted within 20 years as stated in the existing regulations.

This was effective from 6 September 2001

3. The Government Housing Bank to provide credits equal to 100 percent of the appraised price for government and state enterprise officials, as they have steady income and purchasing power starting from 9 April 2001. Details of the conditions are as follows:

(1) Borrowers must be government officials or permanent employees of government, state enterprises, the government's independent organizations or public organizations. The borrower's age must not exceed 55 years, and the borrowing period must not be longer than 30 years (For each contract, the sum of borrower's age and the borrowing period must not exceed 65 years).

(2) Credit requests must be for following purposes:

- To purchase land with buildings or condominium units.

- To construct buildings or purchase land on which buildings will be constructed

- To extend or renovate buildings

- To redeem the pledge on land with buildings or condominium units.

(3) Credits must not exceed 100 percent of the appraised price of the property or 100 percent of the sale price or construction cost, depending on which price is lower, as well as must be consistent with borrower's income and ability to repay the loans.

(4) Loan interest rate calculation.

- In the case where the installment payments are made by the borrowers themselves, long-term floating or fixed MRR will be applied.

- In the case where the agency which is the employer of the borrower remits the installment payment on behalf of the borrower, long-term floating MRR – 1percent per annum will be applied.

On 7 November 2001, at the ministerial-level meeting chaired by the Prime Minister to resolve the problems of the real estate sector, the following measures were approved:

4. Housing loan scheme for members of the Government Pension Fund (GPF). This is a cooperation project between the Government Pension Fund and the Government Housing Bank (GHB) to assist government officials in purchasing their own homes. The GPF will deposit B5 billion with the GHB to be used as housing credits for government officials who are members of the GPF. Major criteria are as follows:

(1) Borrowers must be members of the GPF.

(2) Credit requests must be for the following purposes:

- To purchase land with buildings or condominium units.

- To construct buildings or purchase land on which buildings will be constructed.

- To extend or renovate buildings.

(3) Credits must not exceed 100 percent of the appraised price of the property or 100 percent of the sale price or construction cost, whichever price is lower. Credits must not exceed 65 times of net salary.

(4) The borrowing period must not exceed 30 years, and the sum of the borrower's age and the borrowing period must not exceed 65 years or the retirement age, whichever is longer.

(5) The borrowing rate equals 4.5 percent per annum in the first three years and 36- month fixed deposit rate + 0.75 percent per annum afterwards.

5. Additional real estate measures which the Cabinet approved on 11 December 2001 are as follows:

(1) **Government officials borrowing from the GPF to purchase, lease or construct houses will be entitled to personal income tax deduction equal to the actual loan interest payments to the GPF.** , Taken into account the interest payments for housing loans from other financial institutions, the deduction must not exceed B50,000.

(2) **Exemption of special business tax and stamp duties was granted to the GPF for interest revenue from lending money to government officials so as to purchase, lease or construct houses.**

(3) **Exemption of VAT, special business tax and stamp duties on**

immovable property sales was granted to property funds.

(4) **The personal income tax deduction allowance was extended to cover more than 1 building purchase, lease, or construction.** The deduction can be up to the full amount, but the sum of all housing loan interests must not exceed B50,000

(5) **Extension of tax exemptions and tax benefits that were previously due at end-2001 was granted.** The benefits include:

a) Extending the period of tax exemption and registration fee reduction to 0.01 percent until the end of 2002 for mutual transfers of properties under debt restructuring and reorganization.

b) Extending the period of special business tax reduction (including local tax) for the transfers of immovable properties for commercial and profitable purposes from 3.3 percent to 0.11 percent until the end of 2002.

(6) **Additional registration fee reductions were made** to continuously promote the recovery of the real estate sector as follows:

a) Reduce registration fee for immovable property mortgage from 1 percent to 0.01 percent for land, building or land with building.

b) Reduce registration fee for condominium unit mortgage from 1 percent to 0.01 percent for all units in condominium or a unit in condominium.

c) Reduce registration fee for office building transfers. The offices or land with office buildings that are untitled to the reduction must be authorized as stated by the building control law

d) Extend the period of registration fee reduction for immovable property and condominium unit transfer from 31 December 2001 to 31 December 2002.

Agricultural Measures

1. Financial assistance to sugarcane farmers.

The Cabinet approved on 23 January 2001 financial assistance to sugarcane farmers for the crop year 2001/2002 with a budget of B10,000 million. Details are as follows:

- The Bank for Agriculture and Agricultural Cooperatives (BAAC) is entrusted as the sole purchaser of the cheque discounting of the 46 sugarcane factories for the crop year 2001/2002 to promote sugarcane cultivation.

- The BAAC must charge the rate for cheque discounting equivalent to the minimum retail rate. In the case that the BAAC receives the financial support from the BOT at a concessionary rate, the BAAC must correspondingly reduce the rate charged in discounting cheques in line with actual costs. This was effective from 1 January 2001 onwards.

- In support of the sugarcane farmers for the crop year 2001/2002, the same policy framework as the crop year 2000/2001 shall be observed.

Subsequently, on 11 September 2001 the Cabinet approved the financial assistance to the sugarcane farmers in the crop year 2002/2003 as follows:

- Approval of B10,000 million of which B5,000 million is financed by the BOT under the agreed refinancing rate of which the BOT has given assistance in the past. The remaining contribution amounting to B5,000 million is financed by the BAAC to purchase the discounted cheques from the sugarcane farmers in line with the criteria adapted in the last crop year.

- Approval in principle for relevant agencies to implement measures to support sugarcane farmers on a regular basis every crop year.

On 25 December 2001, the Cabinet received reports on supporting measures for the sugarcane farmers through the White Sugar and Sugarcane Fund as detailed below:

- The White Sugar and Sugarcane Fund will be used as a non-interest bearing loan to farmers in order to raise the price of sugarcane by B20 per ton (or totalling B1,043 million approximately) in the crop year 2001/2002 since the price of sugarcane farmers received is lower than the production cost.

- Interest on lending made by the White Sugar and Sugarcane Fund for raising sugarcane preliminary price in the crop year 1998/1999 and 1999/2000 (amounting approximately to B427 million) could be paid to the BAAC in the crop year 2001/2002.

2. Government policy on debt suspension and debt burden relief programme for individual farmers through the BAAC.

On 20 March 2001, the Cabinet approved the programme of debt suspension and debt burden relief for individual farmers. Details are as follows:

2.1 Farmer eligible for the programme should have the following qualifications.

- Be a member of the BAAC or agricultural cooperatives who are the BAAC's clients and use the direct credit service from the BAAC, or is responsible for other farmers' debt repayment as a guarantor or next of kin, before 1 April 2001. The farmer must apply to the programme by 30 June 2001.

- Has never been prosecuted by the BAAC as a delinquent borrower.

- Has outstanding loans with the BAAC not exceeding B100,000 (excluding the borrowing from the government sponsored programmes and loan interest)

2.2 The government will support and encourage the individual farmers under the debt suspension programme to save money in line with their abilities to do so as well as to rehabilitate their earning capabilities during the debt suspension.

2.3 Farmers will benefit as follows:

- At the end of 3-year debt suspension period, farmers are subject to interest payment in the forth year at the initial rate before the debt suspension

- Farmers with a BAAC deposit of less than B50,000 will receive additional deposit interest rate of 1 percent per annum from the normal rate for a period of 3 years.

- Farmers' classification will be upgraded if full loan payments are made within 3 years prior to the due date according to the BAAC conditions.

2.4 The government will allocate budget to operate this programme including additional expenditure paid by the BAAC at the actual amount but not exceed B7,700 million.

2.5 For farmers whose borrowing exceeds B100,000 and are not eligible for this programme, the BAAC will speed up their debt restructuring plans.

3. Proposal to the WTO to extend the local content requirement applicable to milk producers.

On 15 May 2001, the Cabinet approved Thailand's proposal to WTO to extend the local content requirement applicable to milk producers. The original 5-year extension period was reduced to two 2-year extension periods ending in 2002-2003 to allow greater flexibility in the WTO negotiations .

In this regard, local content requirement applicable to milk producers is a major measure to protect Thai raw milk industries and milk cow farmers which currently experienced excess supply condition. Hence, to protect such industries and farmers, importers of skimmed milk, which is a raw material used in the production of instant milk, are required to buy domestic raw milk in a proportion of 20 parts domestic raw milk to one part of imported which is in breach of WTO's trade rules.

4. Strategic plan and policy for major agricultural product (cassava).

The Cabinet approved on 25 September 2001 the strategic plan for major agricultural product namely cassava. Details are as follows:

4.1 Production in the year 2002-2006: Maintain the planting area of 6.7 million rai, but increase the production from 17.6 million ton in 2002 to 20.8 million ton in 2006 by raising the yield per rai from 2.6 ton to 3.1 ton. In addition, the government has announced the cassava agricultural economic zone and farmer registration, including the support for research and development to attain higher starch content and yield.

4.2 Product processing measure:

- Promote the production of processed flour in order to raise consumption in downstream industries by setting up the technology transfer project in producing processed flour and its uses for related industries.

- Encourage research and development of modified starch to be used in downstream industries.

4.3 Marketing measure:

- Support the increased use of chips for animal feeding by establishing projects to promote cassava for animal feeding and technology transfer to animal farmers to ensure the proper mixture of ingredients for feeding.

- Promote the use of flour and processed flour in industries by arranging trainings and seminars on the characteristics and quality of cassava flour.

- Promote the setting up of the centre of inspection and quality approval of high-quality cassava chips/pellets.

- Expand the export market of cassava product by organizing seminars and exhibitions in target countries to promote the benefits of cassava products and industrial production of food industries and animal feeding . Moreover, bilateral and multi-bilateral negotiations are pursued to reduce trade barriers both tariff and non-tariff.

5. The natural rubber cooperation among Thailand, Indonesia, and Malaysia.

On 11 December 2001, the Cabinet approved in principle the cooperation among Thailand, Indonesia and Malaysia in order to solve the problems of low natural rubber prices. Details of the major measures are as follows:

5.1 Supply Management Scheme (SMS). Thailand, Indonesia and Malaysia aimed to lower the production by 4 percent per annum and review it biennially.

5.2 The level and target price scheme among these three countries. There will be a cooperation in setting a level of exports and stocks in proportion to the export volume when the price is lower than the target.

5.3 Agreed Export Tonnage Scheme (AETS). The three countries agreed to cut exports of each country by 10 percent of export volume as the stocks. In this regard, the government is required to support 1 percent soft loan to exporters to keep the stocks, including to provide warehouses and other expenses for exporters.

Subsequently , on 12 December 2001, a ministerial meeting among Thailand, Indonesia and Malaysia, took place in Bali, Indonesia, to consider the above measures. The resolution was for the three countries to comply with the above measures. The measures are to be effective from 1 January 2002 onwards.

6. The establishment of the Agricultural Commodity Exchange of Thailand

On 18 December 2001, the Cabinet approved the establishment of the Agricultural Commodity Exchange of Thailand as follow:

6.1 Approved the setting up of the Agricultural Commodity Exchange of Thailand with the financial assistance of B1,550 million for the period of 5 years. The Ministry of Commerce is required to draft a corporate plan to ensure the effective implementation and operation of the exchange.

6.2 For the fiscal year 2002/2003, the Ministry of Commerce is to disburse from the Farmer Aid Fund of B600 million. And if the existing regulations inhibit the use of the fund the relevant government agencies shall review the respective regulations to ensure that the budget allocation is feasible and in accordance with the objectives of the Agricultural Futures Trading Act B.E. 2542. From 2004 onwards, the budget will be set for the Agricultural Futures Trading Commission to support the implementation of expenditure budget for the following years.

Industrial Measures

1. Fixed assets of Small Enterprises (SEs) and maximum lending of the Small Industry Finance Corporation (SIFC).

On 31 July 2001, the Cabinet approved in principle the draft Ministerial Regulation amending the third Ministerial Regulation B.E. 2542 (1999) in line with the Small Industry Finance Corporate Act B.E. 2534 (1991). The aim was to expand the asset values of SEs to enable them to be eligible for borrowing from the SIFC. In this regard, the SIFC will raise the ceiling of loans to B200 million, up from the current ceiling of B100 million. In addition, the Cabinet endorsed the draft Ministerial Regulation of the Ministry of Industry and Ministry of Finance in which the loan ceiling provided by the SIFC either on its own, or in co-financing with other financial institution was raised to B100 million, up from the ceiling of B50 million.

The above measures will expand the scope of financial and technical assistance of the SIFC to SEs.

2. Preliminary depreciation deduction at special rate for SMEs entrepreneurs

The Cabinet approved to provide entrepreneurs of SMEs with preliminary depreciation deduction at special rate for some assets :

- **Computer and its equipment :** To encourage the use of computer and its equipment, **SMEs are allowed depreciation deduction of such items** within 3 years, from the normal 5-year period. Moreover, where a straight line depreciation method is used, the depreciation in the first year can be booked at 60 percent and 20 percent in the following two years.

- **Plants :** Depreciation deduction at 25 percent of asset value is permitted in the first year, and the rest will be deducted within 20 years as opposed to the original requirement of depreciation deduction over 20 years .

- **Machinery :** This category was originally given a 5-year period. The new regulation allows depreciation deduction at 40 percent of asset value in the first year and the rest will be deducted within 5 years.

Eligible SMEs must have fixed assets (excluding land) of no more than B200 million and employ no more than 200 employees.

The measure is to be effective after the day of announcement in the Government Gazette.

3. Approval of a draft bill on the SMEs Development Bank of Thailand.

On 12 November 2001, the Cabinet approved in principle the draft bill on the SMEs Development Bank of Thailand with the following details:

3.1 To dissolve the Small Industry Finance Corporation (SIFC) and to establish the SMEs Development Bank of Thailand in the form of public company limited. The new bank will provide assistance to SMEs entrepreneurs as a one-stop service.

3.2 All businesses, assets, rights, liabilities, capitals and responsibilities of the SIFC will be transferred to the SMEs Development Bank of Thailand. Capital stock of the new bank is set at B10,000 million. As a start, the capitals of the SIFC will be transferred to the SMEs Development Bank of Thailand and the capitals can be subsequently raised by issuing common stocks or preferred stocks later.

In addition, the government is responsible for operating loss which may occur to the bank due to the implementation of the government policies.

Service Measures

1. Urgent measures on tourism to stimulate the economy

On 24 April 2001, the Cabinet approved the additional allocation of the 2001 budget to develop tourist sites, and to the Immigration Bureau and Royal Thai Police for improvement of the services at the airports. The government has targeted the tourism industry as one of the four proactive strategies for raising the country's foreign exchange earning. Tourism revenues are expected to grow by B50,000 million per year (approximately 1 percent of GDP). The core framework consists of 2 measures as follows:

1.1 **Urgent measures in tourism development** such as the prevention and restoration of tourist sites from environmental degradation, the facilitation of the arrival of passengers, and the development of human resources in the service sector and tourism activities.

1.2 **Urgent marketing measures** such as public relations, advertising campaigns in order to stimulate both domestic and foreign tourists.

2. Approval of long-stay tourism promotion and development

On 26 June 2001, the Cabinet approved the proposal regarding the programme of promotion and development of long-stay tourism, and the establishment of the National Committee to support this programme, with the objective to seek the target groups and market needs. This also includes a setup of the framework for the development of services and facilities such as the establishment of one-stop service centre and the facilitation of the arrival of passengers, etc.

Later, on 11 and 25 December 2001, the Cabinet approved in principle the establishment of the Thai Longstay Management Corporation Limited to support the programme. The corporation will be in a form of joint-venture between the public and private sectors. However, the former cannot hold the shares exceeding 30 percent. The purpose of setting up the corporation is to be the prototype corporation in providing one-stop service to the long-stay tourists and related entrepreneurs. The corporation acts as a business consultant or manager for investors who own suitable real estates to be developed as long-stay tourism business. It also acts as a representative of the public and private sectors to promote the development of services quality to international standard. In addition, the corporation will attract the Thai and foreign investors who induce the long-stay tourists to Thailand in joint-venture.

With respect to research and development, design and regulations of the long-stay tourism control, the responsibility is under the Tourism Authority of Thailand and the Tourist Business and Guide Committee, with the advice of the Federation of Thai Industry and the related private organizations. Further details will be under the responsibility of the Tourism Authority of Thailand.

Labour Measures

1. Increasing the minimun wage rate

The Wage Committee approved a rise in the basic minimun wage rate and the minimum wages for all provinces throughout the country, effective from 1 January 2001. Details are as follows.

1. The basic minimum wage was raised from B130 per day to B133 per day.

2. The minimum wages in all provinces were raised by B3 : hence the minimum wage in Bangkok, Samut Prakan, Samut Sakhon, Nakhon Pathom, Nonthaburi, Pathum Thani and Phuket was up from B162 per day to B165 per day; that in Chon Buri, Saraburi, Phangnga, Ranong, Chiang Mai and Nakhon Ratchasima was up from B140 per day to B143 per day; and that in the remaining 63 provinces was up from B130 per day to B133 per day.

2. Measures to resolve illegal alien workers problems.

The Cabinet approved on 3 April 2001 the permission for illegal alien workers who held the nationality of Burmese, Laotian and Cambodian totalling 106,684 persons to continue their works in 18 businesses in 37 provinces until 31 August 2001.

On 28 August 2001, the Cabinet endorsed the Ministry of Labour and Social Welfare to enforce illegal alien workers working in Thailand to report, register and obtain their work permits (for 6-month period) between 24 September 2001 to 13 October 2001. When these work permits expir, all alien workers must undergo health check-ups as required by the Ministry of Public Health before renewing their work permits for another six months. If they do not meet the health inspection, they will be deported.

Failure to obtain work permit during the specified time period as required by the Ministry of Labour and Social Welfare, employers, alien workers, and related parties will be earnestly prosecuted under the Alien Employment Act B.E. 2521.

3. Measure to prevent and alleviate unemployment problems.

On 26 June 2001, the Cabinet approved the allocation of the contingent budget of B58,000 million for stimulating the economy, under the FY 2002 Budget. This allocation aimed at both boosting the economy in the short run, and creating jobs hence providing job opportunities for the unemployed as well as raising labour productivity in the long run. Table 2: Examples of the Projects to Prevent and Alleviate Unemployment Problems under the Contingent Budget of B58,000 million for FY 2002

Projects	**Budget** (Million Baht)
- Enhancing efficiency and management of village funds.	5,077.12
- Capacity building for small-scale farmers joining the 3-year debt suspension programme	1,790.62
- Trainings for workers joining the labour force	289.37
- Trainings for new entrepreneurs.	175.00
- Capacity building for new SMEs entrepreneurs.	69.38
- Job creation and promotion for evacuated workers from overseas.	46.31

4. Extension of the social security scheme to cover enterprises with at least one employee.

On 20 November 2001, the Cabinet approved the extension of the social security coverage to enterprises with at least one employee which have registered for commercial purposes . This will, however, not cover employees whose work does not involve employers in commercial operation and street vendors. This measure is effective from 1 April 2002.

International Trade Measures

1. Export measures

1. Measures to expedite rice exports in 2002

The Cabinet approved on 18 September 2001 the measures to expedite the export of rice in 2002 as follows:

1.1 Promote Government-to-Government exports in various ways such as,

- Allow credit sales for countries that wish to purchase by credit, for example, Indonesia, the Philippines and Iran.

- Implement a Counter Trade system with the Philippines, Indonesia, Austria and other feasible countries.

- Implement an Account Trade system with Malaysia (in process).

1.2 Promote government-to-private sector exports of rice by way of inviting Thai exporters and foreign importers to purchase rice from the government's stock at the predetermined quantity and price, through the Public Warehouse Organization and the Market Organization for Farmers. Purchases under this promotion must be for exports only.

1.3 Develop trade alliances between Thailand and other major rice exporting countries.

1.4 Promote the exports of high quality rice in accordance with the Rice Standard 1997 and Thai Hom-Mali Rice Standards, which is to be amended.

2. Resolve problems in the public sector in order to enhance Thailand's export competitiveness

The Cabinet approved on 29 May 2001 resolutions to problems in the public sector in order to enhance export competitiveness as follows:

2.1 *Export credit* Commercial banks will grant credits for exporters based on their ability to export starting from their business plan proposals which will induce purchase orders. Banks will then approve the payment of the total credit amount after exporters have provided their purchasing documents, for example, purchase orders, contracts or L/Cs. In this connection, the Export-Import Bank of Thailand and Bangkok Metropolitan Bank will provide special assistance.

2.2 **To resolve the delay in value added tax (VAT) refund**, the Revenue Department must carry out the following measures:

- Provide VAT exemption for domestic raw material used to produce exported goods, along the same line as VAT exemption for imported raw material used to produce goods for export.

- Allow exporters to use letters of guarantee to pay for the VAT.

- Consider developing a VAT payment system through the accounting system rather than a cash payment system or establishing a fund used to pay VAT for exporters, where the Revenue Department will refund exporters' VAT directly to the fund.

2.3 **Modify the tax structure for imported raw material in order to enhance competitiveness.** The tax rate for imported raw material used to produce goods for export should not be higher than those of competitors.

2.4 **Export services.** Instruct agencies in charge of issuing export licenses to those in need of urgent delivery to remain open for 24 hours, every day, including holidays. And instruct other agencies in charge of issuing export licenses to adpot a quick and clear approval process.

The Ministry of Commerce updated the Cabinet on 28 August 2001 on resolutions to enhance export competitiveness as follows:

- To resolve the problem of high production cost in the electrical appliances and electronics products and other industries, attempts were made to speed up VAT refunds to be within 30 days, and if the refund is not on schedule exporters may file a complaint. Furthermore, improvements were made on the entire tariff system, by adjusting the rate of tariff levied on approximately 5,800 items within 30 days, starting from August. These measures were designed to solve the problem of higher import taxes on raw materials than on finished goods or higher import taxes than those of the competitors on raw materials which are used in producing unsophisticated products and which will not affect other industries. Furthermore, effects of the adjustments in the tariff structure must be monitored and evaluated in order to ensure that these adjustments will enhance long-run competitiveness of these industries in the world market.

-To resolve the issue of cheap and non-standard dumping of electrical appliances in the domestic market, the Thai Industrial Standards Institute must urgently set a standard for all imported electrical appliances, including measures, quality control procedures , standards and tests to ensure that the product meets other requirements. However, these measures must not inhibit the country's exports. Moreover, personnels and instruments used in examining these products must be inspected, and if found insufficient, additional funds could be requested.

3. Measures to enhance the exports of gems and jewellery

The Cabinet approved on 2 October 2001 the endorsement of the Budget Bureau to set aside B41.1 million from the budget in fiscal year 2002 as general subsidies for the National Research and Development Institute of Jewellery and Accessories to enhance Thailand's capability of exporting gems and jewellery, comprising:

1. Work plan to improve raw material and quality control of B10 million.

2. Work plan to develop technology, human resources and design, and marketing of gems and jewellery of B7.1 million.

3. Work plan to improve and expand the gems and jewellery market of B10.7 million.

4. Funding for the Institute's management of B13.3 million.

4. Anti-dumping and countervailing imported products

The Cabinet approved on 20 November 2001 the two drafts Ministerial Regulation to amend Ministerial Regulation Volume 2 (B.E. 2543) and Volume 5 (B.E. 2543) in line with the Anti-dumping and Countervailing Act B.E. 2542 to ensure coverage and compliance with standards under the World Trade Organization as follows:

1. Amend and improve factors and economic indices used in examining the effect of anti-dumping on domestic industries.

2. Amend and improve the floor limit of the dumping margin, benefits from subsidies, amount of dumping-products that were imported and amount of subsidized products that were imported.

Import Measures

1. Quota setting for the imports of soybeans in 2001

The Cabinet approved on 6 February 2001 a quota for the imports of soybeans during 2001 with tariff quota rate of 0 percent under the obligations of the World Trade Organization. The quota of soybeans was originally set at 1.2 million tons. However, on 18 September 2001, the Cabinet approved additional quota of 0.3 million tons, totalling 1.5 million tons, due to the fact that domestic production was unable to meet the needs of local consumers, on the condition that importers must also purchase soybeans from Thai farmers. Furthermore, the Department of Foreign Trade, Department of Internal Trade and Office of Agricultural Economics must consider the allocation of soybeans to qualified importers.

2. Liberalization of the import market for onion seeds

The Cabinet approved on 3 July 2001 the liberalization of an import market for onion seeds for 2001 under the tariff quota of 6,283 tons, with inside quota tariff rate of 0 percent. The Onion Growers Cooperative of Thailand is the sole importer of onion seeds so as to provide farmers sufficient onion seeds to cultivate and reduce production cost. The tariff for those outside the tariff quota would be in accordance with the World Trade Organization obligation.

3. Liberalization of the import market for skimmed powdered milk, raw milk and UHT drinking milk under World Trade Organization obligations The Cabinet approved on 24 April 2001 the liberalization of the import market for skimmed powdered milk, raw milk and UHT drinking milk under World Trade Organization obligations for 2001 as follows.

Table 3: Liberalization of the Import Market for various types of Powdered Milk Under the WTO Obligations

Products	Inside Tariff Quota		Outside Tariff Quota
	Volume (tons)	Tariff rate (%)	Tariff rate (%)
Skimmed powdered milk	55,000	5	233.2
Raw milk	2,335.16	20	42.5
UHT drinking milk	26.84	20	86.7

In this connection, the Cabinet agreed that appropriate measures and good governance should be set in order to ensure that the production and sales of raw milk and domestic entrepreneurs in the industry will not be effected. Furthermore, labels must indicate ingredients of production to protect consumers in the case where whey is used in the production.

Subsequently, on 18 December 2001, the Cabinet approved further liberalization of the import market for skimmed powdered milk of 10,000 tons.

4. Measures to control imports of animal feeds

On 2 October 2001, the Cabinet approved in principle the draft to Ministerial Regulation Volume ..(B.E. ...) in line with the Feed Quality Control Act (B.E. 2525) which stipulated underlying conditions for the imports of animal feeds. This is aimed to prevent outbreaks in animals, contagion from animal to human or poison contamination which may affect the animal rearing, domestic meat consumption and meat export. Importers are required to provide relevant documents, such as, letter of guarantee, details of the product and other documents as required. These measures were designed to protect consumers in line with the Sanitary and Phytosanitary Agreement under the World Trade Organization.

5. Measures to control imports of salbutamol

On 9 October 2001, the Cabinet approved in principle the draft to Ministerial Announcement proposed by the Ministry of Commerce on the import of salbutamol into the Kingdom in 2001. The imports of salbutamol require permission from the Ministry of Commerce with the condition that the imports must be accompanied with a letter of guarantee from the Food and Drug Administration. This precaution was established due to the fact that salbutamol has the characteristic of expanding the windpipe and helps mollify asthma conditions. However, this substance was found mixed in with feedstuff for pigs, which was used to reduce fat and increase the red meat portion of pigs, hence, endangering consumers and affecting the export of pork.

3. Balance of Payments Measures

Bilateral Swap Arrangement : Thailand – People's Republic of China

On 30 October 2001, the Cabinet approved in principle the Bilateral Swap Arrangement (BSA) between Thailand and People's Republic of China. The BSA's main objective is to provide a cushion against balance of payments and short-term liquidity difficulties. In this process, the Governor of the Bank of Thailand or a representative was assigned to sign the Arrangement on behalf of Thailand, while the Minister of Finance or a representative was assigned to guarantee loans under the Arrangement. Furthermore, the Office of the Council of State will provide legal opinion in connection with the Arrangement. The main principles of the Arrangement are as follows:

1. Thailand can borrow from the People's Republic of China, and not vice versa in US dollar against Baht terms, which is to be arranged by the Bank of Thailand and the People's Bank of China.

2. Thailand is subject to a credit limit of US$2 billion.

3. The period of a swap is 90 days; and swap can be renewed up to 7 times (within a maximum of 2 years). However, disbursements and renewals cannot be made if the contract expires before repayments. The length of the contract is 3 years.

4. The interest rate is LIBOR plus a premium of 150 basis points for the initial disbursement and its first renewal . Thereafter, the premium will increase by additional 50 basis points for every two renewals , provided that such premium will not exceed 300 basis points.

5. The financial assistance under BSA can be disbursed when a borrowing country has entered the IMF programmes or will enter in the very near future. Nonetheless, up to 10percent of the Maximum Amount of Drawing under the agreement could be provided up to 180 days without entering the IMF programmes.

6. The Ministry of Finance of Thailand will guarantee loans made by the Bank of Thailand under the aforementioned arrangement.

Price Measures

1. Cement price adjustment

The Ministry of Commerce approved increases in cement price of Siam Cement Co., Ltd., effective from 1 January 2001. Details are as follows:

- Mixed cement at factory price is raised from B1,878 to B1,958, an increase of B80 per ton.

- Portland cement at factory price is raised from B2,174 to B2,294, an increase of B120 per ton.

2. Water price adjustment

Provincial Waterworks Authority reduced water price for state enterprises, industries and large businesses countrywide, except in Bangkok, Samut Prakan, Nonthaburi and Chon Buri, from the previous progressive rate of between 1 Satang to2.175 Satang per litre to 1 Satang to1.950 Satang per litre, effective from January 2001.

3. Electricity price adjustment

The sub-committee on Electricity Price Restructuring adjusted the electricity price (Ft price) every 4 months, in line with the increasing cost of fuel. In 2001, there were 3 adjustments as follows:

Table 4: Fuel-adjustment Electricity Tariff (Ft) in 2001

	Growth* (percent)
February 2001	+ 11.0
June 2001	+ 1.0
October 2001	-2.0

*adjusted upward/downwards from the previous adjustment

4. Cooking gas price adjustment

The National Energy Policy Board approved the adjustment in the wholesale and retail cooking gas prices. In 2001, there were 3 adjustments as follows:

Table 5: Wholesale and Retail Cooking Gas Price Adjustment in 2001

	Growth* (percent)	
	wholesale price	**Retail price**
May 2001	+ 12.0	+ 8.5%
July 2001	+ 11.8	+ 8.6%
Novembe r 2001	+ 10.5	Semi-floated price system was applied. Retail price control was suspended for 1 year.

*adjusted upward/downwards from the previous adjustment

Measures for Capital Market

1. Broadening the variety of instruments

The Office of the Securities and Exchange Commission (SEC) granted permission for mutual fund management companies to purchase options on securities issued by the Stock Exchange of Thailand or listed companies. However, this must not exceed 10 percent of net asset value of the mutual fund , effective from 16 February 2001.

2. Amendment to criteria for the Provident Fund

The SEC allowed members of the Provident Fund to select more variety of investment policies as well as change their choices at least once a year. In addition, the Provident Fund can invest in securities in line with those of mutual funds , as well as invests in new instruments and innovations such as index option, effective from 30 March 2001.

3. Criteria and conditions for establishing Retirement Mutual Fund (RMF)

The SEC set criteria for establishing RMF as a type of mutual fund with the followings :

3.1 RMF unitholders must invest periodically at least once a year.

3.2 RMF unitholders are able to redeem their investments at the age of 55. Moreover, tax privilege will be given to individuals who invest in RMF for at least 5 years. There will be no dividends or proceeds paid from RMF during investment .

3.3 Investment in RMF including all mutual funds must be at least 3 percent of individual earning in each fiscal year. In addition, individuals must not drop on investment in each mutual fund for more than 1 year.

3.4 RMF unitholders are prohibited from neither selling nor pledging their RMF units or putting them as collateral .

3.5 RMF unitholders will be able to make their own choices on investment policies.

To be effective from 1 April 2001.

4. Investment guidelines for mutual funds and Provident Fund

The SEC added more investment alternatives to include bonds or securities issued, availed or guaranteed by the Ministry of Finance. Calculation of the investment ratio will not include Treasury Bills, bonds, or securities issued, availed or guaranteed by the government, the Bank of Thailand, or the FIDF, effective from 1 June 2001.

5. Scope of business expansion of management companies.

The SEC allowed mutual fund management companies and newly established limited or public limited companies set up with purpose of providing private fund management services to be able to conduct more variety of businesses as follows:

5.1 Computer sales agents or recommend other vendors or internet service providers to mutual fund unitholders or private fund/provident fund clients. However, such services must be related only to mutual fund management or private fund/provident fund management businesses.

5.2 Sales representatives of other mutual fund management companies.

To be effective from 2 April 2001

6. Prescription of investment ratio or holding of securities of other businesses as assets of mutual funds

The SEC permitted management companies to invest or hold securities of other businesses as assets of mutual funds, in a ratio not exceeding 25 percent of the total shares sold by the companies at any time. This excluded the transfer of debt repayment. . To be effective from 16 May 2001.

On 28 November 2001, the SEC further announced the inclusion of the Foreign Investment Fund (FIF) (i.e., domestic mutual funds set up to invest abroad) into the above ratio prescribed. To be effective from 1 December 2001.

7. The purchase and sale of Non-Voting Depository Receipts (NVDR)

The Stock Exchange of Thailand (SET) allowed the purchase and sale of NVDR and accepted the NVDR as a registered asset in sales, effective from 1 April 2001 onwards.

8. Tax privileges to NVDR

The Cabinet agreed on 10 April 2001 to grant tax privileges in the case of NVDR as follows:

1) An exemption on corporate income tax for dividends and capital gains from the sale of securities

2) A reduction in the withholding tax from 15 percent to 10 percent for dividends paid to both individual and corporate entities set up by foreign law and who are not resident in Thailand.

3) As for income earners residing in Thailand who receive dividends taxed at source at the rate of 10 percent will be exempt from including dividend payments as income for income tax purposes.

9. Measures to reduce the rate of corporate income tax for registered companies

The Cabinet passed a resolution on 22 May 2001 approving measures to support the capital market as follows:

9.1 In the case where a company was registered before 6 September 2001, corporate income tax rate shall be reduced from 30 percent to 25 percent for net profits not exceeding B300 million for 5 accounting periods.

9.2 In the case of a newly registered company on the SET, the tax rate shall be reduced from 30 percent to 25 percent for 5 accounting periods.

9.3 In the case of companies listed in the (MAI), the tax rate shall be reduced from 30 percent to 20 percent for 5 accounting periods.

10. Changing the fee structure of the SET

The SET reduced its annual fee by 50 percent on average and reduced its listing fee by 67 percent, effective from the listing period starting from 1 July 2001. The first 10 companies entering the SET in 2001 would be exempt from listing fee and receive a reduced rate of annual fee by further 50 percent, effective from 1 July 2001.

11. Revision on criteria, conditions and procedures for establishment and operation of Foreign Investment Fund (FIF)

Important points in the revision on criteria, conditions, and procedures for establishment and management of FIF are as follows:

11.1 FIF is not required to exclusively hold the following assets: bonds, securities, semi-debt-equity instruments, or warrants.

11.2 FIF is not required to hold assets according to SEC criteria and may ask for SEC permission to be registered as an open-ended or close-ended fund.

11.3 Once successfully registered as FIF, the fund must apply for listing on the SET within 15 days.

11.4 Investment in overseas securities must be in stock exchanges that are members of the International Organization of Securities Commissions (IOSCO) within the proportion permitted by the SEC

To be effective from 16 October 2001.