Bangkok
February 24, 1998

Dear Mr. Camdessus:

1. In the three months since this government has been in office, we have given paramount importance to establishing market confidence in the economic program. Most importantly, we have adhered strictly to the program, ensuring that all performance criteria for December 31, 1997 related to monetary, fiscal, and external policies as well as financial restructuring have been observed, despite weaker economic activity and generally increased regional market pressures.

2. In addition, we have taken a number of measures that have ensured cohesion in economic policy and progressively increased market confidence. Transparency has been greatly increased in a number of ways, especially through the full publication of our letters of intent, as well as by the regular release of statistical information (including on the Bank of Thailand's net forward position). In the financial area, our bold initiatives have included the closure of insolvent finance companies; also, we have intervened in the weakest banks in order to preserve the integrity of the financial system; and remaining banks and finance companies have started to recognize past losses in their financial statements and to recapitalize according to tighter loan classification and provisioning standards. The two-tier foreign exchange market has been effectively abolished. Far-reaching legal reform is under way to facilitate financial and corporate restructuring, market opening, and privatization.

3. However, at this stage of the Second Review of the program, there is a need to make some modifications to the program to take into account recent developments. In particular, we have to contend with new challenges that have arisen from the regional situation, and which have put additional pressures on the capital account; these have resulted in the further depreciation of the baht, and a much larger-than-anticipated decline in economic activity. The modifications to the program give clear priority to stabilizing quickly the exchange rate, while limiting the magnitude and negative social impact of the economic downturn.

4. The full economic policy statement of this government is presented in the attachment. We envisage six key modifications to the economic program that adjust it to existing conditions and strengthen the prospects for its success:

- First, in so far as concerns about the financial system lie at the heart of the present crisis, we are resolved to take a more proactive role and accelerate its restructuring; in particular, we intend to phase in as quickly as possible the privatization of intervened banks; best-practice banking standards; and a sound legal, regulatory, and institutional framework for the Bank of Thailand (BOT), banking supervision, commercial banking, and capital market development.

- Second, there is room to adjust fiscal policy in response to weaker economic activity as well as to the larger-than-anticipated external current account adjustment already under way. We will ensure the financing of higher social spending, while maintaining a sound fiscal position over the medium term.
- Third, while we are resolved to maintain a tight monetary stance supportive of exchange rate stabilization, we have taken steps to ensure the adequate availability of credit to priority sectors of the economy that will lead the economic recovery.
- Fourth, we have stepped up efforts, in collaboration with the World Bank, the Asian Development Bank (AsDB), and the Overseas Economic Cooperation Fund (OECF) to strengthen the social safety net, the need for which has become acute in the wake of rising unemployment and falling real wages.
- Fifth, we have adopted bold targets for deepening the role of the private sector in the economy, through privatization, legal reforms, and initiatives to attract foreign capital into the financial and nonfinancial sectors.
- Sixth, based on the above policies, the stage is being set for our timely return to the international financial and capital markets.

5. Supported by our efforts to strengthen the financial system, more balanced macroeconomic policies, and a progressively revitalized real economy, we believe that the Thai economy is now better placed to overcome the difficult challenges that still face us. Although the external situation will remain difficult in 1998, we are confident that the increased capital account pressures are temporary and can be met by the financing that has been arranged for the program. Were new pressures to arise, this government stands ready to take whatever additional measures necessary to ensure the success of the program; this includes measures, with IMF support, to assure that the program will remain fully financed at all times. As such, in addition to the two program reviews already contemplated under our program, we now envisage two additional quarterly program reviews with the IMF during 1998, tied to the end-March and the end-September performance criteria, respectively. We will consult with the IMF on the adoption of any additional measures, and will provide any necessary information in accordance with the policies of the IMF on such consultations.

Sincerely,

/s/	/s/
Tarrin Nimmanahaeminda Minister of Finance	Chaiyawat Wibulswasdi Governor, Bank of Thailand

Attachments

Mr. Michel Camdessus
International Monetary Fund
Washington, D.C. 20431

U.S.A.

MEMORANDUM ON ECONOMIC POLICIES OF THE ROYAL THAI GOVERNMENT

February 24, 1998

I. Macroeconomic Framework For 1998

1. We have reassessed the macroeconomic framework in light of the sharper ongoing decline in domestic demand and output, as well as the less favorable outlook for capital flows following the intensification of the crisis in the region (Table). Real output is now projected to fall by 3–3½ percent in 1998 in the wake of the sharp contraction in domestic demand; the modifications to the economic program are directed at minimizing the magnitude and social impact of the economic downturn, and creating the conditions for an early and enduring recovery of the productive sectors of the economy. Although the recessionary conditions will dampen price pressures, profit margins have already been squeezed considerably, so that some pickup in inflation seems inevitable—to an average of 11–12 percent in 1998—on account of the larger-than-envisaged depreciation of the baht. The current account is expected to record a surplus of about 4 percent of GDP in 1998, reflecting the sharp reduction of import demand. This will allow us to bring about an accelerated reduction in the burden of Thailand's external indebtedness. We recognize that the realization of these key objectives will require bold restructuring and that macroeconomic policies will be fully focused on stabilizing the exchange rate.

II. Financial Sector Restructuring

2. Financial sector reform remains the cornerstone of our economic program. Although considerable progress has already been made in this area, the second program review provides an opportunity to reinforce the reform effort in order to strengthen financial institutions' liquidity and capital adequacy with the aim of normalizing credit flows and bringing about an enduring reduction in interest rates, thus laying the foundations for early and sustainable economic recovery.

Asset disposal of the 56 closed finance companies

3. Following the Financial Sector Restructuring Authority's (FRA) decisive action to close all but 2 of the 58 suspended finance companies in early December 1997, we have been working toward completing the institutional structure for launching the disposal process of the assets of the closed finance companies. Working closely with World Bank consultants, we have ensured that rules and procedures for this process will be fully in place by mid-March 1998. We expect movable asset sales to start in February and financial asset sales to start in March. A number of safeguards are being developed to ensure competitive market conditions and an acceptable range of payments instruments. The timetable for key steps in the process is summarized in Box 1.

4. It is the government's intention to maximize sales to the private sector. At the same time, given presently depressed economic conditions and thin markets, there is a need to ensure that asset values are not unduly eroded by the dumping of assets, which would adversely affect remaining financial institutions. In order to assure bids for each asset, two new government-owned institutions, the Radhanasin Bank (RAB) and the Asset Management Corporation (AMC), will also participate in the auctions. The RAB is expected to bid for the highest quality assets and be guided by the strictest commercial principles. It is our intention to attract as soon as possible a strategic foreign partner in the RAB. The AMC's focus will be on the lowest-quality assets and will participate effectively as a buyer of last

resort; the AMC will be charged with the responsibility of managing these assets and maximizing asset recovery over the medium term. Both institutions will be adequately capitalized by mid-March 1998. Progress in auctioning of FRA assets and, in particular, the roles of the RAB and the AMC will be closely monitored and reassessed at the time of the third program review.

5. We recognize that for the asset disposal process, in particular, and for broader corporate and financial restructuring, it remains imperative to strengthen the legal and judicial framework for foreclosure and bankruptcy. These steps are presented in paragraphs 27–28 below.

Strengthening the core financial system

6. Our strategy is to strengthen progressively the capital base of all remaining domestic financial institutions through a combination of more realistic loan loss provisioning and private sector-led recapitalization (Box 2). In a few cases where banks have become severely undercapitalized and unviable, our strategy has been to intervene to preserve public confidence in the banking system. Since the first program review, we have focused on four severely undercapitalized banks (with a deposit share of about 10 percent), which have relied heavily on liquidity support from the Financial Institutions Development Fund (FIDF). Thus:

- We have intervened in three medium-sized banks which were unable to raise private capital, by replacing their managements, writing down (virtually fully) the capital of existing shareholders, and recapitalizing them through debt-equity conversion by the FIDF.
- We have also intervened (for the second time) in another bank that was taken over by the FIDF in 1996, by writing down its capital and recapitalizing it through the FIDF.

We do not anticipate further such interventions, as all remaining institutions are undertaking recapitalization plans.

7. These interventions have demonstrated our resolve to strengthen the financial system, while protecting depositors and creditors, and have been very favorably received by the financial markets. In particular, the withdrawals by creditors and depositors at these banks have stopped and their need for further FIDF liquidity support has ceased. Operating procedures for these intervened institutions will be established immediately by the BOT to limit them to low-risk activities, until they can be privatized (see below).

8. We are fully aware that the state's share in Thailand's financial sector has substantially increased as a result of these interventions. It remains the government's paramount objective to reduce its ownership of the intervened banks as soon as possible. Thus, the government is in the process of developing privatization strategies with advice from outside experts for this purpose. We expect considerable progress to be made during 1998 toward completing negotiations with domestic and foreign private investors. Various modalities will be explored, with a view to catalyzing private investor interest, while maximizing recovery for the public sector. Any decision regarding the Property Loan Management Organization (PLMO) will be taken in consultation with the IMF.

9. At the same time, we are accelerating our efforts to strengthen the capital base of remaining domestic financial institutions, and particularly the core banking system:

- Based on the stricter rules on loan classification and provisioning that came into effect on December 31, 1997, the BOT has signed Memoranda of Understanding with undercapitalized banks and finance companies with the aim of raising additional capital in early 1998. This process is well under way and several banks and finance companies have already fulfilled the requirement specified in the MOUs; the capital increase of the large majority state-owned commercial bank has been facilitated through a capital subscription by the FIDF.

- This recapitalization effort is a first step toward our goal of bringing capital adequacy ratios to required levels based on loan classification and provisioning rules consistent with best practices internationally by the end of the year 2000. The new rules will be introduced gradually according to new regulations to be issued by end-March 1998. We are encouraging banks, wherever possible, to accelerate the adoption of the ultimate provisioning rules, in order to achieve an early restoration of confidence in Thailand's financial institutions. The BOT will strengthen its on-site examinations of the asset portfolios of all institutions and will require MOUs with each financial institution to closely monitor their compliance with recapitalization plans. The signing of MOUs by August 15, 1998 with all domestic banks setting forth their recapitalization plans until the end of 1998 will be a performance criterion under the Stand-By Arrangement.

- The encouragement of domestic and foreign private investment into existing domestic financial institutions remains a key part of our strategy. To ensure that such investments lead to a sounder banking system, "fit and proper" rules and licensing requirements have recently been improved. Until the crisis has subsided, we do not expect to license new financial institutions, except where it would facilitate the restructuring process. Given the limited availability of domestic capital and the need to strengthen the management of banks, we expect the recapitalization to come also from foreign investment, which remains welcome without restrictions.

10. Regarding the FIDF, we recognize that its liabilities need to be restructured into government-guaranteed bonds with medium- and long-term maturities and lower interest rates. We also recognize that the imputed interest costs of financial sector restructuring (including on loans and equity provided by the FIDF and the costs incurred in setting up the RAB and the AMC) are ultimately fiscal costs that will have to be incorporated into the central government budget to ensure full transparency. We will begin to incorporate the interest costs of the debt of FIDF into the budget beginning with FY 1998/99, and expect to have interest on its entire debt (net of recoveries) serviced by the budget by about the year 2000. Amortization of principal is expected to be met, in part, by privatization receipts.

11. To enhance the standing and effectiveness of the central bank, the government has appointed an independent commission to identify those activities that will require strengthening; based on the findings of this commission, we intend to form a task force including eminent international financial experts to develop specific proposals regarding the independence and institutional strengthening of the central bank. This is expected to result in revisions to the BOT Law by October 1998. Capacity building and improved operating procedures are expected to result from a major effort of streamlining, recruiting, and training; these efforts will be supported with technical assistance from the IMF, the World Bank, and other central banks.

12. We are committed to establishing sound legal, regulatory, and institutional frameworks for the supervision of financial institutions, in consultation with the IMF and the World Bank:

- The initial focus will be on banks and finance companies. Accordingly, progressively during 1998, we will: (i) review and start implementing necessary reforms of the legal and regulatory framework, including rules for loan classification and provisioning, insider lending and foreign exchange exposures, and accounting and auditing disclosure practices; (ii) review the supervision function and structure with the aim of strengthening the supervisory independence, authority, procedures, and technical capabilities, and developing an action plan for immediate reforms consistent with the overall economic program; and (iii) finalize a plan for a self-financed and limited deposit insurance scheme that eventually would replace the present general guarantee.

- We will also be undertaking a comprehensive review of the roles of various financial institutions and the way they are regulated and supervised. This will involve not only the BOT, but also the Securities and Exchange Commission (SEC), the Fiscal Policy Office of the Ministry of Finance, and the Insurance Office of the Ministry of Commerce. We expect these efforts to result in a modern and efficient supervisory regime that can support the development of a sound and competitive financial system.

III. Macroeconomic Policies

Monetary policy

13. Exchange rate stabilization will be the principal objective of monetary policy, recognizing that the baht may remain excessively volatile in an overly depreciated range. Thus, we intend to impart symmetric flexibility to interest rate policy. First, when the exchange rate is under pressure, the repurchase rate will be adjusted upwards to support the exchange rate. Second, when the exchange rate has shown sustained stability in a more realistic range, interest rates will be brought down, as we are mindful of the potential damage that a prolonged period of tight liquidity conditions might do to the corporate sector and to the banking system.

14. We have also reviewed our targets for key monetary aggregates against the revised macroeconomic framework. Although average inflation will be somewhat higher than previously anticipated, we intend to maintain broadly the monetary program for 1998. The consequent projected reduction in real money balances during 1998 is consistent with the contraction in the real economy during this period. The monetary program anticipates that the recent increasing trend in the velocity of broad money (M2A) will stabilize after mid-1998, with the progressive return of confidence. On this basis, we expect that M2A growth will be about 5 percent in the year to December 1998. In developing the BOT's reserve money program, it has been assumed that the recent increasing trend in the demand for currency relative to deposits will also stabilize after mid-1998. Thus, the BOT will aim at maintaining reserve money growth at about 6½ percent during 1998. On this basis, we have revised in Annex A the end-March and end-June performance criteria for NDA, and the indicative targets for reserve money.

15. We are also assuring the adequate availability of credit to the priority nonbank corporate sector, especially exporters (who continue to face difficulties, notwithstanding the positive effects of the exchange rate depreciation), agricultural producers, and small borrowers. Thus, the EXIM Bank of Thailand and the Industrial Finance Corporation of Thailand (IFCT) have negotiated trade finance facilities with the Japan Export-Import Bank and the AsDB (of about US$1.6 billion); these facilities are being supported by the increased refinancing (up to 60 percent) by the BOT at concessional interest rates of commercial bank loans to exporters. In addition, existing facilities provide for the extension of some subsidized credit to agriculture (through the Bank for Agriculture and Agricultural Cooperatives), small business (through the small Industry Finance Corporation), and low-income housing (through the Government Housing Bank). The subsidy element in all these facilities is small and has been taken into account in the financial program.

Fiscal policy

16. Last year's decisive steps—trimming expenditure by 3½ percent of GDP from the

original budget and undertaking revenue measures of almost 2 percent of GDP—have been instrumental in maintaining a tight fiscal stance during the crisis; as a result, we have been able to meet the end-December quantitative performance criterion for the central government balance. However, because of the further weakening of the economy, and the net effects on revenues of the excessive depreciation of the baht, government revenues are projected to decline by some 2 percent of GDP this fiscal year, compared with estimates made at the time of the first program review. In addition, the further exchange rate depreciation in recent months is expected to raise government spending by about 1 percent of GDP. Without further measures, the result will be a projected central government deficit of 2 percent of GDP, instead of the 1 percent of GDP surplus originally programmed.

17. At this juncture, a complete offset of the projected deterioration would be unnecessary. This is because current account adjustment is already exceeding substantially our earlier goals. Additional fiscal actions are no longer needed to hasten such adjustment and could risk exacerbating the current recession and delaying the recovery. Nevertheless, we are taking some carefully designed additional measures to underline our commitment to fiscal discipline. These measures will provide the resources to finance a strengthened social safety net (paragraph 25); they will also ensure that revenues will indeed rise with the recovery of output and allow the fiscal position to return to a small surplus over the medium term.

18. Accordingly, we are taking some additional revenue measures that will allow us to raise tax revenue by about ¼ percent of GDP in FY 1997/98 (½ percent of GDP on a full-year basis). At the same time, we have realized net savings of about ¼ percent of GDP by cutting lesser-priority investment projects and raising spending on the social safety net (discussed further below). The net result of these initiatives will be to limit the projected central government deficit to 1½ percent of GDP in FY 1997/98 (Annex B), partly financed by foreign financing and the remainder through modest domestic financing.

19. In recognition of adverse economic conditions, we will also allow the state enterprise sector to move from balance into slight deficit of ½ percent of GDP in FY 1997/98, which is necessary to allow the full drawdown on priority projects financed by foreign creditors, including the World Bank, the AsDB, and the OECF. The small deficit will be largely financed by foreign sources. However, even this target will require additional measures on the part of state enterprises and utilities. Thus, we have taken necessary steps to raise prices for goods and services provided by state enterprises, except in specified cases where the move would hurt the poorest members of society (e.g., bus and rail fares). At the same time, further cuts have been made in the investment budgets of the largest state enterprises.

20. Overall, the consolidated public sector deficit is now targeted at about 2 percent of GDP in FY 1997/98. This excludes the costs of financial sector restructuring, which are being monitored separately and whose interest cost will be brought fully on budget in the coming years (paragraph 10).

External sector

21. External current account adjustment has proceeded more quickly than envisaged, with the achievement of significant monthly surpluses since September 1997. We now expect to record a surplus of about 4 percent of GDP in 1998. Thus, current account adjustment is providing an important offset to larger-than-anticipated capital outflows and, with the external financing package, is assuring that the reserve objectives of the program can be broadly maintained.

22. Regarding the capital account, the revised external outlook for 1998 (Table) is based on the following specific assumptions on key components:

- As previously anticipated, we expect an orderly unwinding of the BOT's outstanding forward and swap obligations to about US$9 billion by end-1998. At this level, they will comprise exclusively of liquidity-related swaps with foreign and Thai commercial banks, and we would normally expect to maintain such swaps at this level as part of domestic liquidity management.

- There has been considerable stability in the rollover of short-term credit lines of foreign banks operating in Thailand. These credit lines, accounting for more than half of private short-term debt falling due in 1998, are linked to the interoffice funding of these banks from their home offices. We expect that the recent stability will be maintained. Although the rollover rate has been less for the foreign-debt exposure of the Thai banks and the corporate sector, this has, to some extent, reflected the reduced need for import financing, associated with the contraction of the real economy and of imports. We expect the rollover rate to improve progressively during the year as the regional crisis abates. We also are confident that voluntary debt restructuring on a bilateral basis is under way in the corporate sector, and this situation will remain under close monitoring.

23. On this basis, we expect that the external targets of the program can be maintained for 1998, and performance criteria for end-March and end-June have been specified in Annex C; the reserve targets now provide for improved coverage of short-term indebtedness compared with the original program. Indeed, market sentiment has been boosted by the early February abolition of capital controls, and there is reason to believe that capital account developments will evolve more favorably than presently anticipated. We will monitor closely future capital account developments. Were pressures to revive, our macroeconomic policies provide for a flexible response through interest rates, and there is also room in the program for BOT intervention. Beyond that, through our discussions with the international community and given the catalyzing role of the Fund, we are assured that the economic program will remain adequately financed at all times.

IV. Supporting and Revitalizing the Real Sector

24. So far, we have outlined our plans for accelerated restructuring of the financial sector, and for rebalancing macroeconomic policy in response to the latest economic developments. We intend to complement these measures with actions to support the poorest members of our society who have been hurt by the downturn, while setting in train structural reforms that will revitalize the economy and provide new opportunities in the future.

Social safety net

25. This government remains acutely sensitive to the impact of the economic crisis on the poorest sections of society. We are determined to do all that we can to cushion the impact on those who would be most affected. In drawing up a strengthened social safety net program, we have coordinated our policies with the staffs of the IMF, the World Bank, the AsDB, and the OECF. The specific elements of the strengthened program are contained in Box 3. This program will be closely reviewed to ensure that it remains well targeted, cost effective, and transparent. Major parts of the program will be supported by sector loans from the World Bank, the AsDB, and the OECF.

Privatization

26. This government is determined to accelerate privatization as part of the restructuring of Thailand's economy. Toward this end, by June 30, 1998, and with the assistance of the World Bank, we will establish a privatization secretariat, propose legislative reform (including a Corporatization Law to expedite the process), and develop a regulatory

framework (especially for the utilities). Our near-term privatization program involves the following principal components:

- In **transportation**, we intend to privatize substantially Thai Airways International in 1998, initially through a strategic partnership with a foreign investor, with remaining shares being offered, both, to the domestic market and employees.

- In the **energy sector**, we will accelerate privatization and competition. As part of our broader strategy of encouraging the entry of independent private generators to enhance competition, the Electricity Generating Authority of Thailand (EGAT) will initiate sales of its stakes in Electricity Generating (Public) Co. Limited and Power Gen 2 during 1998. Over the longer term, we intend to split EGAT into separate generation and transmission companies, which themselves will eventually be privatized.

- In the **oil sector**, we will relinquish our stake in Bangchak petroleum company, and plan to begin in June 1998. Also, we will sell part of PTT Exploration and Production, with the aim of privatizing PTT itself by the end of 1999.

- In **telecommunications**, we will amend the Establishing Acts of the Telephone Organization of Thailand (TOT) and The Communication Authority of Thailand (CAT) during 1998, in order to prepare for their corporatization and privatization by the end of 1999.

Over the medium term, there is scope for considerable additional efficiency gains from the privatization of the railways and the ports. In this way, we expect to raise significant resources through privatization.

Corporate restructuring and legal reform

27. To facilitate corporate and financial sector restructuring, we are determined to put in place the necessary legal framework as soon as possible. In particular, the bankruptcy and foreclosure laws will be amended shortly, in line with recommendations of technical assistance provided by the World Bank and IMF legal experts. The new Bankruptcy Law, expected to be amended by March 31, 1998, will permit corporate reorganizations (as opposed to liquidations); increase the scope for out-of-court workouts (by repealing Section 94(2) of the Bankruptcy Act); and ensure fair treatment of creditors. Early administrative steps are also being taken to allow foreclosure, with comprehensive amendments of the laws relating to foreclosures to be proposed for enactment by October 31, 1998.

28. In other areas, as part of the modernization of the central banking function (and as foreshadowed in the Letter of Intent for the First Review), we will be modifying the Currency Act to bring it in line with other central banks. In addition, to facilitate foreign investment and capital inflows, we propose to amend legislation substantially liberalizing ownership laws, including amendments to the Alien Business Law.

Table. Thailand: Macroeconomic Framework, 1996-98

		1997		1998	
	1996 Revised	First Review	Estimate	First Review	Revised
Real GDP growth (percent)	5.5	0.6	-0.4	0-1	-3 to -3.5
Consumption	6.7	0.5	0.1	-1.1	-5.0
Gross fixed investment	6.0	-13.3	-16.0	-6.5	-21.0

CPI inflation (end period, percent)	4.8	10.0	7.7	6.0	10.6
CPI inflation (period average, percent)	5.9	6.0	5.6	10.0	11.6
Saving and investment (percent of GDP)					
Gross domestic investment	41.7	35.8	35.0	34.3	29.1
Private, including stocks	31.5	25.3	23.5	24.7	17.6
Public	10.2	10.5	11.5	9.6	11.5
Gross national saving	33.7	31.8	32.9	32.5	33.0
Private, including statistical discrepancy	20.6	21.3	22.2	21.7	23.0
Public	13.1	10.6	10.7	10.8	10.0
Foreign saving	8.1	3.9	2.2	1.8	-3.9
Fiscal accounts (percent of GDP)[1]					
Central government balance	2.4	-0.9	-1.0	1.0	-1.6
Revenue and grants	19.4	17.6	18.1	16.6	15.8
Expenditure and net lending	17.0	18.5	19.1	15.6	17.4
Overall public sector balance	2.7	-1.5	-1.5	1.0	-2.0
Monetary accounts (end period, percent)					
M2A growth	12.7	1.5	3.1	6.8	5.1
Reserve money growth	12.0	4.4	4.7	6.8	6.6
Balance of payments (billions of US$)					
Exports, f.o.b.	54.7	56.4	56.6	60.9	60.1
Growth rate	-1.3	3.2	3.5	7.9	6.2
Imports, c.i.f.	70.8	64.2	61.5	64.3	56.8
Growth rate	1.8	-9.3	-13.1	0.2	-7.7
Current account balance	-14.4	-6.4	-3.3	-2.5	4.4
(Percent of GDP)	-8.1	-3.9	-2.2	-1.8	3.9
Capital account balance	18.0	-17.9	-18.0	0.3	-12 to -14
Medium- and long-term	12.2	6.5	6.8	8.5	2-3
Short-term[2]	5.8	-24.4	-24.8	-8.2	-15 to -16
Overall balance	2.2	-24.6	-19.8	-2.2	-8 to -10[3]
Gross official reserves (end year)	38.7	23.0	27.0	24.8	23-25
(Months of imports)	6.6	4.3	5.3	4.6	4.9-5.3
(Percent of short-term external debt)	103	75	93	87	109-118
Forward position of BOT (end year)	-4.9	-18.0	-18.0	-9.0	-9.0
External debt (percent of GDP)	48.9	58.6	59.9	76.4	76.3
Total debt (billions of US$)[4]	90.6	94.9	91.7	102.5	85.9
Public sector	16.9	27.8	24.9	35.4	31.7
Private sector	73.7	67.1	66.8	67.1	54.2
Medium- and long-term	36.1	38.0	38.2	39.0	33.6
Short-term	37.6	29.1	28.6	28.1	20.6
Debt service ratio[5]	12.3	15.0	15.2	16.8	18.8

Sources: Information provided by the Thai authorities; and staff estimates.

[1]On a fiscal-year basis.

[2]Including outflows associated with the closing of swap and forward contracts by the Bank of Thailand.

[3]The difference in the overall balance relative to the First Review (-US$7.7 billion) is being financed by higher gross reserves at end-1997 (US$4.0 billion), a lower reserve target for end-1998 (US$1.8 billion), greater-than-expected disbursements under the existing financing package (US$0.4 billion), and additional official external financing (US$1.0 billion from the AsDB and US$0.6 billion from JEXIM).

[4]Excludes loans (estimated at around US$4 billion at end-1997), proceeds of which were not brought by Thai corporations into Thailand.

[5]Percent of exports of goods and services.

Box 1. Thailand: Plans for Asset Disposal of the 56 Closed Finance Companies

Measure	Date
1. Classification by FRA of assets of closed finance companies according to type, size, and quality. This information would be released to qualified bidders.	February 1998.
2. FRA to define forms of payments required from bidders.	February 1998.
3. Final decision by creditors of the 40 finance companies whether to choose the note-exchange program or to participate in the FRA auction process.	March 1998.
4. Key staff of AMC appointed.	February 1998.
5. Plans for adequate capitalization and financing for AMC completed, and timetable established for the disbursements to AMC.	February 1998.
6. AMC Board to finalize operating rules and guidelines, including procedures and safeguards for ensuring that the AMC would function effectively as the "bidder of last resort."	March 15, 1998.
7. The Radhanasin Bank Board will approve rules, guidelines, and procedures for valuation and bidding, to ensure that the Radhanasin Bank only bids for the high-quality assets. Advisory panel also established to review proposed bids.	March 31, 1998.
8. Radhanasin Bank to acquire strategic foreign partner.	In the coming months.
9. FRA to begin disposal of assets.	March 1998.
10. Completion of disposal of all assets by FRA.	December 31, 1998.
[1]The World Bank will remain in close consultation with the authorities on these issues.	

Box 2. Thailand: Banks and Remaining Finance Companies

Measure	Date
1. Prepare restructuring and privatization strategy for the recently intervened banks.	June 30, 1998.
2. Review progress in implementing recently issued MOUs with undercapitalized banks and finance companies.	April 30, 1998.
3. Further strengthen loan classification and provisioning rules so as to bring these in line with international standards by the end of year 2000, and consider their early implementation: • Present proposal to market participants for comments; and • issue guidelines, including a phased timetable for implementation.	March 31, 1998 (performance criterion).
4. Sign new MOUs with all financial institutions on recapitalization plans until the end of 1998, to meet the phased timetable for implementing the stricter rules on loan classification and provisioning requirements: • All domestic banks; and • finance companies.	August 15, 1998 (performance criterion). September 15, 1998.
5. Review FIDF policies and operations: • Establish new FIDF policy framework;	April 30, 1998.

• begin issuance of government-guaranteed long-term bonds; and • fully fiscalize FIDF interest costs through issuance of government bonds.	April 30, 1998. By 2000.
6. Amend Bankruptcy Law and take initial steps to begin foreclosures and judicial procedures.	March 31, 1998.
7. Completion of amendments of laws related to foreclosures.	October 31, 1998.
8. Review of legal framework for banking and supervision with assistance from World Bank/IMF.	June 30, 1998.
9. Issue new prudential regulations including on lending to related parties and foreign exchange exposure.	December 31, 1998.
10. Strengthen disclosure requirements, auditing requirements, and accounting practices.	December 31, 1998.
11. Finalize plan for introduction of deposit insurance scheme to replace the current blanket guarantee in the medium term.	December 31, 1998.

Box 3. Thailand: Expanding the Social Safety Net and Educational Opportunities

1. **Unemployment compensation.**

- Up to six months severance pay by private sector employers, public enterprises, and the central government.

2. **Poverty alleviation under the World Bank's Social Investment Project (SIP), involving expenditures of B 15 billion over three years.**

- Financial support for job-creation programs, including: construction of road links, footpaths, and canal cleanup under programs coordinated by the Bangkok Municipal Authority; construction of water weirs in rural areas to conserve water.
- Expanded vocational training for the unemployed—more than 30,000 places—through programs managed by the Ministry of Labor and Social Welfare.
- Improved and increased subsidies for health insurance under the Low-Income and Voluntary Health Card schemes. NGO implemented health care and prevention programs at the community level, focused on AIDS patients.
- Strengthening the Rural Industrial Development Program (PRID), implemented through NGOs to stimulate industrial investment and employment in rural areas.
- Developing new anti-poverty programs focusing on decentralization, NGO partnership, and local participation; the Social Investment Fund will support rural community programs, the Urban Development Fund will focus on loans to help municipalities expand their investment programs.
- Creation of a special monitoring unit within the Ministry of Finance, working with the World Bank to ensure improved targeting and efficient delivery of SIP social programs.

3. **Social assistance programs under the AsDB's Social Sector Program Loan, involving expenditures of B 15–25 billion over three years.**

   Labor market and social welfare policy:

- Establish a center for providing retraining, counseling, and placement-support services for the unemployed. Extend social security coverage to at least six months for laid-off workers, to include medical, maternity, disability, and death benefits.

Education and health:

- Expand scholarship and loan programs to minimize student dropouts.
- Protect operational budgets for teacher training and instructional materials in science, mathematics, and foreign language education.
- Reallocate the budget toward health programs for the poor and redeploy health staff to rural areas.
- Maintain program coverage for maternal, child health, and HIV/AIDS activities.

4. **Price-based measures to cushion the impact of the adjustment program.**

- Maintenance of urban bus and rail fares at subsidized prices, with a budgetary impact of about B 3 billion annually.