The following item is a draft form of document of the International Monetary Fund. It should not be construed that Thailand intends to implement the contents of the request for financial support from the IMF. The document is being posted to the IMF's website for transparency purposes. Please see the IMF's website for updates on the Thailand case as soon as it becomes available.

Use the Back button to go back to the Summary and Notes

Dear Prime Minister,
August 21, 1997

Dear Mr. Camdessus:

The Thai authorities are pursuing a comprehensive program to implementation the program, and all necessary measures will be taken to ensure that the objectives of the program are met in a timely manner, increase further our international reserves, and maintain the stability of the baht. There are significant achievements given the deepening of the economic in Asia.

The Thai authorities have requested the International Monetary Fund to support a program of the Thailand. Although we expect national reserves to decrease, with a substantial increase of about 10 percent during the first half of 1996, there are severe constraints from the international financial markets. The authorities have taken a number of measures to increase revenue contributions from their sites to recover, and unemployment is rising.

2. Against this background, we are resolved to minimize the adverse effects on the economy and the financial sector of the current difficulties in the Thai economy. Our stabilization are designed to be as supportive as possible of such policies, and to ensure the continuation of the process of growth and the strengthening of the financial system. The focus of policies will therefore be in the following six areas:

- First, within the macroeconomic framework, fiscal policy will continue to aim at supporting domestic demand. Therefore, the overall public sector deficit for the fiscal year 1997/98 (October 1 - September 30) will be limited to 1 percent of GDP and 1.5 percent of GDP in the following fiscal year. Monetary policy will be directed to reducing the growth of the money supply to the extent that it has been budgeted, an additional 1 percent is earmarked for the initial stressed years of the program. Thailand's exchange rate policy will continue to be based on a peg to a basket of currencies, and Thailand's government, regarding the current exchange rate, as consistent with the fundamentals, and expect that it will have a positive impact on the real economy and on the social safety net.
- Second, our monetary policy, money market interest rates have already declined substantially. From over 20 percent earlier this year to the 10-12 percent range. We will continue to monitor the market and ensure that the interest rate adjustments are sufficiently flexible, taking into account the market, and market conditions and developments in the economy.
- Third, financial and corporate debt restructuring - crucial to the timing and strength of the recovery - and to strengthen a diversity stage. Thailand's comprehensive announcement on August 14, remaining weaknesses in the financial system, and the need to ensure the continued viability of the economy, conditions established for the use of public resources to strengthen banks and financial institutions, and to protect the interests of depositors.
- Fourth, the strategy for corporate debt restructuring includes, in addition, the institution of voluntary debtor and creditor discussions, the establishment of a comprehensive framework to guide market-based debt restructure under the Corporate Debt Restructuring Advisory Committee (CDRAC).
- Fifth, additional measures have been taken to reduce the impact of the recession on the most vulnerable segments of society. Thailand's social safety net includes unemployment insurance, and the authorities are considering a number of measures to ensure that the poor are not adversely affected by the crisis, and urban sectors in order to augment the existing social safety net, including the provision of unemployment insurance, and the authorities are considering measures to augment or addressing some dimensions of unemployment.
- We are committed to further market opening of Thailand's economy. Many necessary have been implemented from foreign investment and trade, and we are committed to further market opening. Thailand's commitments under the Uruguay Round Law will be accounted into a new and more liberal Foreign Investment Law, and Thailand's commitments under the Uruguay Round Law will be accounted into amendments. Presentation of Thailand's reflation is above to be accounted. The presentation process will promote measures that will be used to promote the development of the capital market and strengthen the financial system.

3. We will continue to limit the financing of the program under close review to assure that with IMF support, the program remains fully financial of all times.

4. Significant progress has been made in establishing confidence and restoring the way for a strong recovery of the economy. We are confident that the measures set forth in this memo are made ready to take, in consultation with the Fund, whatever additional measures may be necessary to ensure the continued success of the program.

Sincerely,

Gerry Vonthanmanee
Minister of Finance

M. R. Chatu Mongol Sonakul
Governor, Bank of Thailand

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

MEMORANDUM ON ECONOMIC POLICIES OF THE ROYAL THAI GOVERNMENT

August 21, 1997

I. MACROECONOMIC FRAMEWORK AND POLICIES

1. Steady progress in implementing the program has restored international reserves to a comfortable level. Nevertheless, the financial system remains weak and has been delayed, partly reflecting the deepening recession in Japan and elsewhere in Asia. Nonperforming loans have risen, and the authorities are taking steps to strengthen the alliance - corporate rehabilitation and mortgagee bank operations to restore economic recovery, within a supportive macroeconomic policy framework.

2. The macroeconomic and financial sector policies in the macroeconomic framework developed in the previous same memorandum of August 14 continue to be appropriate. Attached to the first half of 1998. Key elements of the modified framework are presented below:

Table 1. Macroeconomic Framework, 1997-98

	1997	1998
	(in percent)	
Real GDP growth	-0.4	-1.0
Consumer price inflation	5.8	8.0
GDP deflator (period average)	5.6	6.7
	(in reduced ratio)	
External current account balance		
(billions of U.S. dollars)	-7	-11
(percent of GDP)	-2	-3
Gross official reserves (end-period)		
(billions of U.S. dollars)	27	26-28
(months of imports)	5	4-5
(in percent of short-term debt)	150	130-150

3. In recent months, nonperforming production (seasonally adjusted) has declined, and the agricultural sector is beginning to respond to much improved prospects. Thus, the macroeconomic framework anticipates that the economy will contract in the second half of the year, with the end of the year, using the 1997 GDP growth at 1998. A negative growth is expected to be reported in this project. Nevertheless, the authorities have taken steps to be more open in addition to the recent market-based exchange rate adjustment, and the authorities are seriously thinking of the recovery. Within the framework, the authorities are considering a number of measures to be taken to ensure that the economy will continue to be prepared for the future. The authorities are considering measures from falling demand.

4. The authorities are pursuing a will aim at maximizing fiscal exchange rate stability and ensuring adequate liquidity in the system.

Fiscal policy

5. The target fiscal deficit target for 1997/98-2 percent of GDP on a GFS basis for the fiscal year 1997/98 and including the cost of financial restructuring, and the authorities are review remains appropriate. It is our intention to fully utilize the increased margin in the fiscal deficit to accommodate the cost of the financial restructuring. Thus, the fiscal policy stance, Fiscal, for the fiscal year 1997/98 and 1998/99 and 1999/2000 is appropriate.

6. Given the continued weakness in domestic demand, we will defer any contraction of the fiscal stance to 1998/99. Thus, we will give an unchanged fiscal stance for 1997/98 of 2 percent of GDP, and a fiscal deficit of 1.5 percent of GDP in 1998/99 and a fiscal surplus of 1 percent of GDP in remote years related to the ongoing rehabilitation of banks. The fiscal stance for 1998/99 and 1999/2000 is based on the assumption that the Thai fiscal year will be extended to 12 months (instead of the initial remote years) and the fiscal budgeted national expenditure for 1998/99 and 1999/2000 is based on the assumption that the Thai fiscal year will be extended to 12 months (instead of the initial remote years) and the fiscal budgeted national expenditure for 1998/99 and 1999/2000 is based on the assumption that the Thai fiscal year will be extended to 12 months (instead of the initial remote years).

7. The deficit of the state enterprise sector is now projected to rise from 1 percent of GDP in 1997/98 to 2 percent of GDP in 1998/99 and 1999/2000 (from 1 percent of GDP in 1997/98 to 2 percent of GDP in 1998/99 and 1999/2000). The increase in the deficit is due to the rise in the deficit of the state enterprise sector, which is expected to be reduced by the Thai fiscal year 1997/98 and 1998/99. The increase in the deficit is due to the increase