International Monetary Fund

For more information, see Thailand and the IMF

Use the free Adobe Acrobat Reader to view Table 1, Box 1 and Box 2

Bangkok
August 14, 1997

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

Dear Mr. Camdessus:

1. The attached Memorandum on Economic Policies outlines the program that the Kingdom of Thailand intends to implement over the next three years to address the fundamental causes of current financial difficulties and to place the economy's growth on a secure and durable footing. In support of this program, Thailand hereby requests a 34-month Stand-By Arrangement from the International Monetary Fund in an amount equivalent to SDR 2,900 million or 505 percent of quota. The program provides for three reviews to be completed during the first year of the program (tied to program targets for September 1997, December 1997, and June 1998) that will focus on exchange markets, financial sector reforms, and fiscal policies aimed at an orderly reduction in the external current account deficit; thereafter, the program provides for twice-yearly reviews (tied to the program targets for end-December 1998, end-June 1999, and end-December 1999).

2. We strongly believe that the policies outlined here will serve to quickly restore market confidence to the high levels of previous years by addressing the two underlying sources of current economic difficulties, namely, the imperative need to restructure large parts of the

financial sector and to reduce the high level of the external current account deficit. We recognize that the provision of substantial and front-loaded financing from the Fund requires an appeal to exceptional circumstances. In the event that the situation stabilizes quickly, as we expect it will, Thailand would forego some of the subsequent purchases and make advance repurchases to the Fund as conditions permit. Should we make advance payments to other contributors to the exceptional financing package, we would make advance repurchases to the Fund on at least a proportional basis.

3. While we believe that the policies set forth in the attached memorandum are adequate to achieve the objectives of the program, we remain committed to taking any additional measures that may be necessary for this purpose. During the period of the proposed Stand-By Arrangement, Thailand will consult with the Managing Director of the Fund on the adoption of any measures that may be appropriate, at the initiative of either the Thai authorities or the Managing Director, in accordance with the Fund's policies on such consultations. We will also provide the Fund with such information that it requests on the progress made in policy implementation and achievement of program objectives.

Sincerely yours,

/s/	/s/
Thanong Biyada Minister of Finance	Chaiyawat Wibulswasdi Governor, Bank of Thailand

Bangkok, Thailand
August 14, 1997

THAILAND-MEMORANDUM ON ECONOMIC POLICIES

I. BACKGROUND

1. For the past decade, prudent macroeconomic policies have supported an era of rapid economic growth and price stability in Thailand. However, in recent years the combination of a fixed exchange rate, an increasingly open capital account, and high domestic interest

rates to combat inflation, attracted short-term capital flows that left the economy vulnerable to sudden shifts in market sentiment and external shocks. These began to materialize in the past year, as a sudden drop in exports kept the external current account deficit at a high 8 percent of GDP. At the same time, slowing economic activity and growing overcapacity in the property sector led to debt-servicing difficulties for many domestic firms. There resulted a marked weakening in the financial position of banks and finance companies that had intermediated short-term capital inflows. The strengthening of the U.S. dollar, to which the baht was closely tied, also contributed to further real appreciation of the currency.

2. The task of developing a program to address these difficulties was complicated by a series of currency attacks of increasing intensity that destabilized regional currency markets, especially after May 1997, and resulted in a serious depletion of the Bank of Thailand's (BOT) reserves. Over this period, economic policies have been progressively strengthened through the midyear suspension of 16 unviable finance companies, expenditure cuts in the 1996/97 central government budget, the float of the baht on July 2, 1997, and an increase in the central bank lending rate. Building on these steps, the government has now developed a more extensive and fully comprehensive medium-term economic policy package. The package is focused on upfront measures that are expected to restore confidence early, stabilize the currency, stem capital outflows, and strengthen the financial system.

II. THE MEDIUM-TERM POLICY FRAMEWORK

3. The key macroeconomic objectives of the program, summarized in Table 1, aim at: (i) recovery from this year's slow growth performance (projected at 2-3 percent) to potential growth of 6-7 percent over the medium term; (ii) bringing inflation back to 4-5 percent (after an initial rise to 9-10 percent in 1997 reflecting the depreciation and other one-time factors); (iii) an orderly reduction in the external current account deficit to about 3-4 percent of GDP--a level that can be financed by medium- and long-term capital inflows; and (iv) the progressive restoration of gross foreign exchange reserves to about $30 billion, equivalent to just under five months of import coverage.

4. At the core of the program is a comprehensive restructuring of the financial sector and a strengthening of the fiscal position. Other policies to support external current account adjustment will also be needed, including monetary and wage restraint, and structural reforms, notably privatization and civil service reform. The program builds in appropriate safeguards for the poor.

5. The restoration of confidence in the financial sector is a major plank of the program. We have initiated a comprehensive and upfront restructuring of troubled financial institutions, and are moving quickly to strengthen procedures to prevent future systemic risks. We have already isolated a significant number of unviable institutions and, as described in the next

section, additional steps will be taken. Furthermore, to increase efficiency and competition in the financial sector, we have eased restrictions on foreign equity participation in troubled financial institutions.

6. The second major plank of the medium-term program focuses on the public sector. A strengthening of the public sector finances is needed to support external current account adjustment, as well as to provide a margin to offset costs associated with financial sector restructuring. It is our intention to make explicit all financial restructuring costs, which so far are not covered in the budget. For 1997/98, to make allowance for the implicit interest costs associated with financial restructuring--estimated at about 1 percent of GDP--it is our firm intention to move the overall public sector balance from the 1.6 percent of GDP deficit expected in fiscal 1996/97 to a surplus of about 1 percent of GDP. We expect to sustain this surplus over the medium term and, indeed, to aim for a somewhat higher figure if restructuring costs turn out to be higher. This policy will ensure overall balance in the public sector finances after taking account of financial restructuring costs. In the context of still weak economic growth in the near term, that will depress revenues, these targets will require substantial measures on both the revenue and expenditure sides, including structural reforms aimed at broadening the tax base and improving tax administration.

7. The medium-term framework also includes major initiatives involving civil service reform, public enterprise restructuring, and privatization that will increase efficiency, keep public enterprises in broad financial balance, improve corporate governance, and attract more nondebt-creating capital inflows. Time-bound programs in the following areas will be developed during the first year of the program: (i) comprehensive civil service reform; (ii) increased private sector participation in a number of transportation and power projects under build-operate-transfer arrangements; and (iii) corporatization and privatization programs in the energy, transportation, utility, and communications sectors. In addition, we expect, during 1997/98, to make considerable headway in privatizing the national airline, and expanding the role of the private sector in the electricity, telecommunications, and gas sectors. Toward these ends, we will propose important changes in the regulatory framework, including a corporatization law. Alternative privatization and divestiture modalities will be pursued, including direct sales to the public and joint-venture arrangements. All proceeds resulting from privatization and divestiture will accrue in a special blocked account and would not be used for normal budgetary operations. Modalities for the use of these proceeds will be developed in close consultation with IMF staff, and it is envisaged that they could be available to meet financial or state enterprise restructuring costs.

8. Thailand has made major strides in alleviating poverty over the past decade, and we need to ensure that the adjustment program does not have undue adverse short-term effects on the poorest sections of society. Although we expect the depreciation to benefit the rural poor

that are employed mainly in the agricultural sector, we will be taking additional steps to ensure that the real incomes of the urban poor are protected in the short term, and to achieve further progress over the medium term in poverty reduction. These steps include: (i) providing relief to the urban and rural poor through the targeted provision of social services; (ii) ensuring long-term financial viability of the social security system and maintaining the adequacy of its coverage; (iii) developing training programs for retrenched workers affected by public enterprise reform; and (iv) narrowing the skill gap in the workforce through expanding enrollment in secondary education, and through the protection of vital health and education expenditures in the central government budget. We will work out specific programs in these areas in close coordination with the World Bank and the Asian Development Bank in time for the second year of the program period.

III. THE FIRST YEAR PROGRAM

Financial Sector Restructuring

9. We have put together, with technical assistance from the Fund, a three-part program to quickly restore public confidence in the financial system. The first part, which has already been set in train (Box 1), begins by isolating fundamentally unviable finance companies from the rest of the financial system. We have made clear the principle that the public costs of this intervention will be strictly minimized through burden sharing among the claimants of unviable institutions, starting with a capital write-down of existing shareholders and losses for the creditors of finance companies. Furthermore, we do not intend to make public funds available to aid corporate or household borrowers. As a preemptive strategy in the face of deteriorating loan portfolios, banks too (in addition to the remaining finance companies) are being required to write down their capital on the basis of stricter provisioning requirements and to raise additional capital. In case of severely under-capitalized institutions being unable to raise the required capital, changes in ownership and management will take place expeditiously.

10. The second part of our strategy is aimed at giving confidence to the public that, after weaker institutions have been isolated, the remainder of the financial system is sound. Accordingly, the government has announced that it stands behind these institutions' obligations to depositors and creditors, and that liquidity support in baht will be provided as needed. As financial institutions will benefit from the government's commitment through lower funding costs, we intend to impose a fee on the protected liabilities, which will also help defray the public cost of support (Box 1). A more limited deposit insurance scheme will replace the current arrangements once the situation has stabilized and the system has been restructured. In recognition of the moral hazard problems, we are also seeking to limit excessive risk-taking through temporary ceilings on deposit rates, limits on foreign

borrowing, prudential monitoring of asset growth, and strengthened official oversight. These measures will be closely reviewed at the first program review.

11. The third part of our strategy seeks to develop the institutional framework for the systemic restructuring as well as comprehensive reforms aimed at strengthening the efficiency, profitability and solvency of the system, and thus make it more prepared to withstand international competition. Our medium-term program contains structural measures to improve internal governance, allow greater competition and play of market forces, and strengthen prudential regulation and supervision (Box 2). The government is convinced that this program, which will be supported by intensive technical assistance, will restore confidence in the financial system, normalize capital flows, and allow a gradual reduction of presently high real interest rates and intermediation spreads. Structural benchmarks for the medium-term program in these areas will be developed at the second program review.

12. For transparency, the cost of financial sector restructuring will be computed as the sum of the debt-servicing costs of the FIDF, PLMO, and other institutions established to implement the systemic restructuring, as well as of the bonds that may be issued to recapitalize banks, less the fees being levied under the government protection scheme. These costs will be separately identified, and have been taken into account in setting the program's fiscal and monetary targets, and will be reviewed at the first review.

Fiscal and Wage Policy

13. Our program targets an improvement in the balance of the consolidated public sector, from a deficit of 1.6 percent of GDP in 1996/97 to a surplus of 1 percent of GDP in 1997/98, thus providing a full offset to estimated implicit financial restructuring costs in 1997/98, consistent with our policy in paragraph 6 above. Improvements in the financial positions of both the central government and the state enterprises are envisaged, the former supported by expenditure restraint and revenue measures, the latter by increases in public enterprise prices and cuts in lower-priority investment projects consistent with World Bank and international feasibility standards.

14. For the central government, our program targets an improvement in its balance of 2 percent of GDP in the first year, to a surplus of 1 percent of GDP in 1997/98 (on a GFS basis). The corresponding cash surplus of B 69.8 billion on a treasury accounts basis (excluding amortization) will be a performance criterion under the program (Annex A). Given the cyclical reduction in revenues, this will require measures of about 2.8 percent of GDP. On the expenditure side, our measures will be secured through strict control of the disbursement rate--the ratio of actual disbursements to authorized expenditure in the budget--and the amount of carryover expenditure from previous years, which will be fixed

in nominal terms.[1] As VAT increases noted below will also increase local authorities' revenues, we plan to lower, by a corresponding amount, expenditure of the central government on projects presently carried out for local authorities. Control of the disbursement rate, the limit on carryover expenditures, and additional budget cuts will hold central government expenditure to B 903 billion (excluding amortization and on treasury accounts basis) in 1997/98. Expenditures will be monitored against monthly indicative targets under the program to ensure that they are consistent with the annual objective (Annex A). On a GFS basis, our program will entail a decline in total expenditure and net lending of 1.6 percent of GDP in the first year of the program, a clear testimony to the importance of expenditure control to the overall fiscal effort.

15. The fiscal program will also be structured to limit the negative effects of the expenditure cuts on economic growth and income distribution. This will be done by ensuring that sufficient resources are allocated to priority sectors such as health and education, and by carefully prioritizing investment projects to safeguard only the most important elements of our program to upgrade Thailand's infrastructure. Accordingly, spending cuts are expected to fall principally on lower priority investment (especially construction) projects, defense and security, operations and maintenance, and on wages of temporary staff. These cuts have been reviewed by the Cabinet and will be finalized on August 19. Expenditure policy will be comprehensively reviewed at the First Review.

16. On the revenue side, the government has implemented an increase in the VAT rate from 7 percent to 10 percent, effective August 16, 1997, and this is expected to yield nearly 1 ¼ percent of GDP in additional revenues on a full-year basis.

17. In the event of shortfalls from our budgetary targets, we will introduce additional expenditure and revenue measures, i.e., increasing selective tax rates and broadening the effective tax base. Such a contingency package of measures could be up to 1 percent of GDP and could be implemented quickly if needed.

18. The government reaffirms its policy to improve the financial position of state-owned enterprises consistent with achieving a surplus of 1 percent of GDP in the overall public sector position in 1997/98, and maintaining such a surplus over the medium term. This will be done through strict prioritization and control of capital expenditure, with the aim of maintaining essential infrastructure investments and other projects financed by the World Bank and the AsDB. While the state-owned enterprises in these priority areas will need to be in overall deficit in order to absorb available foreign financing, overall financial balance in the state-owned enterprise sector will be maintained through cutting back or rephasing low priority investments, and seeking private sector participation in the investment programs of selected enterprises (including a number of expressway and power-generation projects). A review of the public sector investment program will be undertaken

expeditiously in consultation with the World Bank and the AsDB. Consistent with the objective of achieving overall financial balance in state-owned enterprises, prompt adjustments will continue to be made in all utility and state enterprise charges to reflect true costs of provision, including replacement and investment costs. Accordingly, oil prices and power charges have already been adjusted to offset the impact of the baht's depreciation. However, for reasons of social stability, certain bus and rail fares will continue to be set below costs for the time being, financed by central government transfers within the budget framework. The program sets performance criteria on net banking system credit to government and nonfinancial public enterprises (Annex A).

19. In order to minimize the second round impact of the depreciation of the baht on prices, wage policy in the public sector will be set in line with underlying inflation. Guidance on wage policy will be given to the private sector on this basis.

Monetary and Exchange Rate Policies

20. Following the float of the currency, a new framework for monetary policy is being introduced. In the short run, policies will be centered on stabilizing conditions in the exchange market. While we believe that the overall policy package will be sufficient to quickly stabilize the exchange rate, we will allow the rate to adjust flexibly and we will not seek to defend any particular rate in the face of sustained market pressures. Intervention in the market will be limited to smoothing fluctuations, consistent with the quarterly floors on net international reserves set out in Annex C (as performance criteria under the program).

21. Against this background, the monetary program envisages an expansion of 7 percent in broad money (including finance company deposits, M2A) during 1997, and reserve money growth of 8 percent. These targets conservatively allow for some further reduction in money demand in the near term. This is consistent with the targets for net domestic assets of the BOT set out in Annex B (which will be a performance criterion under the program).

22. Given the shift in the exchange rate regime, as well as the difficulties in the financial system, there is likely to be considerable instability in the demand for monetary aggregates. Therefore, particularly close monitoring and flexible adaptation of the monetary program, in close consultation with Fund staff, will be required. First, to guard against the possibility that unexpected shifts in money demand and capital outflows give rise to unduly high and volatile interest rates, we have set an indicative range for key interest rates (Annex B). In the event that interest rates move out of the specified range, a review of the stance of monetary policy will be undertaken in consultation with IMF staff. Second, we will also pay particular attention to developments in reserve money, which will be an indicative target under the program (Annex B).

23. Once exchange market conditions have settled, there will be scope for cautious downward adjustments of interest rates. To help further develop our capacity to conduct monetary policy, we intend to introduce by March 1998 an indicator-based system of monetary policy management, under which we will seek to target short-term interest rates in order to achieve a nominal target--such as inflation or nominal GDP growth--guided by indicator variables, which are correlated with the target in question. We will also undertake necessary improvements to indirect monetary management, in line with the recommendations of recent Fund technical assistance missions.

24. Given the difficulties in the financial system, and the potential moral hazard problems that could be created by the government guarantee of depositors and creditors that is required to maintain confidence in the financial system, constraints on interest rates offered by banks and finance companies will be necessary for an interim period (as described in Box 1, above). Once the present difficulties in the banking system have been fully addressed, we will eliminate this constraint on interest rates altogether.

External Targets and Policies

25. Our balance of payments projections indicate that, in order to maintain gross international reserves of $23 billion in 1997, and $24 ½ billion in 1998, there will be a financing need of about $14 billion in 1997-98. We consider that this will be filled on the basis of initial pledges of $16 billion of exceptional financing from the Fund, regional countries, the World Bank, and the Asian Development Bank, at a donors' meeting in Tokyo on August 11, 1997.

26. A key objective of the program is to maintain short-term credit lines, especially through banks, which account for $30 billion of Thailand's $38 billion short-term debt. Policies will therefore focus on preventing a sharp withdrawal, including through strengthening financial sector intermediation and adopting policies that will encourage longer maturity inflows. A restoration of market confidence following the introduction of a strong policy stance will also help contain the likely reduction in the private sector's demand for unhedged foreign currency borrowing, and associated outflows. Based on the policies described in this memorandum, including the financial sector reform, we are confident that short-term lines to foreign banks in Thailand ($19 billion) will be rolled over, and that lines to Thai banks ($11 billion, much of which have been undertaken by the five largest) will also be broadly maintained. While we are allowing for some small reduction in nonbank short-term lines, we are confident that outflows can be contained during the initial period of the program, and that, thereafter, modest net inflows could resume.

27. The sharp increase in swap and forward foreign exchange liabilities of the BOT over the past seven months, following a series of intensive speculative attacks culminating in May, has been taken into account in assessing the financing need. The repayment of forwards and

swaps over the coming 12 months is likely to result in a substantial reduction in gross reserves (the projected associated losses to the BOT have been factored into the monetary program). However, such estimates are subject to wide margins of uncertainty. In the event that reserve losses are less than expected, this will be used to undertake a faster-than-programmed buildup in gross reserves. Such an outcome will also allow advance repurchases to the Fund and early repayments to other creditors. Developments in this area will be a central element of program reviews during the first year of the program.

28. Over the next year, the BOT will significantly reduce the level of its outstanding offshore swap and forward obligations. Onshore swap operations, which are an important source of baht financing for foreign and domestic banks in Thailand, will need to continue for the time being, as other monetary policy instruments are expanded and the private swap market returns to normal. We have requested technical assistance from the Fund in these areas.

29. The capital controls imposed last May on baht borrowing by nonresidents, while necessary at the time to restore order in the foreign exchange market, have resulted in the segmentation of the onshore and offshore foreign exchange markets, and a very sharp reduction in the size of the swap market. In order to encourage reflows of foreign capital and remove the distortions caused by the separation of the onshore and offshore foreign exchange markets, we intend to remove the exchange restrictions on purchases and sales of baht by nonresidents in the onshore market, as well as on the sales of debt securities and equities for baht, as soon as the stabilization of the baht is achieved. Also, we intend to streamline the restriction on baht-denominated borrowing by nonresidents once market pressures have eased, in close consultation with the Fund.

Program Monitoring and Data Issues

30. Quantitative performance criteria, indicative targets, and precise definitions of quantitative variables monitored under the program are set out in Annexes A-D. Structural performance criteria on financial restructuring have also been defined. Monitoring the program described in this memorandum will require timely and accurate data, for which we have separately made arrangements with Fund staff.

31. To improve transparency, and allow market participants to make more informed assessments of economic developments, we will substantially improve the publication and dissemination of key economic data. In this context, as from August 29, 1997, we will publish fortnightly data on key elements of the assets and liabilities of the BOT, including gross international reserves; this will be reviewed at the first review. We are also working closely with other regulatory agencies and with financial institutions to ensure they publish regular and comprehensive data on their financial condition, including on nonperforming loans, capital adequacy, as well as ownership structures and affiliations. We also intend to

achieve greater efficiency and transparency in the public dissemination of data in the period ahead, starting with the Fund's Special Data Dissemination Standards, and have requested additional technical assistance from the Fund with a view to accelerating the schedule for full compliance.

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[1] In this regard, it should be noted that the government has the legal authority to curtail cash expenditures and commitments below appropriations, and also has in place strict expenditure control procedures to prevent spending beyond what is legally authorized.

ANNEX A

FISCAL TARGETS

1. Performance Criterion on the Cumulative Balance of the Central Government

	Floor (In billions of baht)
Cumulative balance from October 1, 1996-September 30, 1997 (performance criterion)	-52.8
Cumulative balance from September 30, 1997 to:	
December 31, 1997 (performance criterion)	-34.0
March 31, 1998 (indicative target) 1/	-30.4
June 30, 1998 (indicative target) 1/	41.3
September 30, 1998 (indicative target) 1/	69.8

1/ Performance criterion to be set at the time of the First Review of the arrangement.

The above quarterly floors on the cash balance of the central government are defined as in the treasury accounts, excluding amortization.[1] Receipts from privatization will be excluded from the calculation of the central government balance in the above performance criterion.

2. Performance Criterion on Banking System Net Credit to the Public Sector

	Limits (In billions of baht)
End-May, 1997 (actual)	-396.5
September 30, 1997 (performance criterion)	-381.8

December 31, 1997 (performance criterion)	-353.7
March 31, 1998 (indicative target) 1/	-363.1
June 30, 1998 (indicative target) 1/	-443.1
September 30, 1998 (indicative target) 1/	-468.3

1/ Performance criterion to be set at the time of the First Review of the arrangement.

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[1] The "treasury accounts" net off amortization payments, which are included as an expenditure item in the Ministry of Finance budget figures. The cash deficit equals revenue minus expenditure plus the balance of the "nonbudgetary accounts", which consist of 120 revolving funds.

The banking system is defined as the BOT plus the commercial banks. The public sector is defined as the central government, extrabudgetary funds, local government, and the nonfinancial public enterprises. Accordingly, net credit to the public sector is defined as the difference between banking system claims on the public sector minus the latter's deposits with the banking system, as reported in the M2 monetary survey.[2]

The following adjustments will be made:

- The limit will be lowered by the excess of BOP support channeled to the government relative to the program baseline (Annex D).
- The limit will be raised by the amount of bonds and other government obligations, if any, incurred for the purpose of recapitalizing banks.

3. Indicative Targets on Central Government Expenditure

Central government expenditure is as reported in the treasury accounts, and excludes amortization. The following indicative limits, cumulative from the start of the fiscal year, will apply:

	Indicative Limits (In billions of baht)
September 30, 1997	900.3
October 31, 1997	64.4
November 30, 1997	145.4
December 31, 1997	221.5
January 31, 1998	290.7
February 28, 1998	358.7

March 31, 1998	434.9
April 30, 1998	496.1
May 31, 1998	567.5
June 30, 1998	644.1
July 31, 1998	711.0
August 31, 1998	793.5
September 30, 1998	903.3

[2] In the moneraty survey, net credit to extrabudgetary funds is included within "net credit to government," while net credit to local governments is included in "net credit to nonfinancial public enterprises."

ANNEX B

MONETARY TARGETS

1. Performance Criterion on Net Domestic Assets of the BOT

Outstanding stock as of: 1/	Limits (In billions of baht)
Limit (in billions of baht)	
End-June 1997 (actual) 1/	-319
End-September 1997 (performance criterion)	-525
End-December 1997 (performance criterion)	-507
End-March 1998 (indicative target) 2/	-503
End-June 1998 (indicative target) 2/	-525
End-September 1998 (indicative target) 2/	-520

1/ Calculated as the average of the closing positions on the last five working days of the month and the first five working days of the following month.
2/ Performance criterion to be set at the time of the First Review of the arrangement.

The net domestic assets of the BOT are defined as the difference between reserve money and the net foreign assets of the BOT valued in Thai baht. Reserve money consists of currency in circulation (with banks and with the rest of the public), and financial institutions' deposits at the BOT, and reserve eligible securities if any. Net foreign assets are the net claims of the BOT on nonresidents, in all currency denominations. For the purposes of program monitoring, the baht value on net foreign assets of the BOT will be calculated using the exchange rates given in Annex D.

The following adjustments will apply:

- The NDA limit is based on a baseline path of NFA that excludes reserve losses on forwards and swaps and permissible smoothing intervention (Annex D). The NDA ceiling will be adjusted upwards to the extent that NFA falls short of the baseline projection on account of such losses or permissible intervention, subject to a minimum floor on net foreign assets, which is consistent with the reserve losses on swaps and forwards and permissible smoothing intervention allowed for in the balance of payments (Annex D).
- The NDA limit will be adjusted downwards for the cumulative excess over program baselines for BOP support provided to the government (Annex D).
- Changes in reserve regulations will modify the NDA ceiling according to the formula:

$$\Delta NDA = \Delta r \cdot B_0 + r_0 \cdot \Delta B + \Delta r \cdot \Delta B$$

where r_0 denotes the reserve requirement ratio prior to any change; B_0 denotes the reservable base in the period prior to any change; Δr is the change in the reserve requirement ratio; and ΔB denotes the immediate change in the reservable base as a result of changes in its definition.

2. Indicative Range for Overnight Interest Rates

The program envisages the following ranges for the overnight repurchase rate:

14.0 percent through August 8, 1997 (actual)
12-17 percent during August, 1997
12-17 percent during September, 1997
11-16 percent during October, 1997

Ranges for later months will be set during the first review of the program, if still necessary.

The above will be monitored as a moving average of daily closing rates during the last ten working days. If interest rates move outside of this range, the BOT will consult with Fund staff on an appropriate policy response.

3. Indicative Targets for Reserve Money

Outstanding stock as of: 1/	Indicative Limits

	(In billions of baht)
Limit (in billions of baht)	
End-June 1997, (actual)	514
End-September, 1997	456
End-December, 1997	489
End-March, 1998 2/	499
End-June, 1998 2/	489
End-September, 1998 2/	502

1/ Calculated as the average of the closing positions on the last five working days of the month, and the first five working days of the following months.
2/ Indicative target to be revised at the time of the First Review of the arrangement.

The ceilings on reserve money will be adjusted for changes in reserve regulations in line with the adjustment generated to the NDA limits.

ANNEX C

EXTERNAL SECTOR TARGETS

1. Performance Criterion on Net International Reserves of the BOT

	Floor (In millions of U.S. dollars)
July 31, 1997 (estimated stock)	1,300
Cumulative change from level on July 31, 1997	
End-September 1997 (performance criterion)	500
End-December 1997 (performance criterion)	3,400
End-March 1998 (indicative target) 1/	8,300
End-June 1998 (indicative target) 1/	11,200
End-September 1998 (indicative target) 1/	11,300

1/ Performance criterion to be set at the time of the First Review of the arrangement.

For monitoring purposes, the net international reserves (NIR) of the BOT is the U.S. dollar value of: (i) gross official reserves in foreign currencies minus gross liabilities in foreign currencies; and (ii) the net forward position of the BOT, defined as the difference between the face value of foreign currency denominated BOT off-balance sheet (forwards, swaps, options, and any futures markets contracts) claims on nonresidents and foreign currency obligations to both residents and nonresidents.

Gross foreign assets will include all foreign currency-denominated claims of the BOT, including monetary gold, holdings of SDRs, and the reserve position in the IMF. Excluded from gross foreign assets will be participation in international financial institutions, as well as holdings of nonconvertible currencies, holdings of precious metals other than gold, and claims on residents. Gross foreign liabilities are all foreign currency denominated liabilities of contracted maturity up to one year plus the use of Fund credit. (Short-term liabilities that are part of the balance of payments financing package under the program are excluded.) All assets and liabilities will be valued using the exchange rates and gold price shown in Annex D.

The floor on NIR will be adjusted upwards by any excess in balance of payments support over the program baseline in Annex D.

2. Performance Criteria on Contracting or Guaranteeing of New External Debt

The limit applies to the contracting or guaranteeing by the public sector (as defined in Annex A, Section 2) of new nonconcessional external debt with an original maturity of more than one year, which is defined as loans containing a grant element of less than 35 percent on the basis of currency-specific discount rates based on the OECD commercial interest reference rates. Excluded from the limits are credits extended by the IMF and from the balance of payments financing package envisaged under the program, including from IBRD and AsDB, and countries in the region. Debt falling within the limit shall be valued in U.S. dollars at the exchange rate prevailing at the time the contract is entered into, or guarantee is issued. Information on the contracting and guaranteeing of new debt falling both inside and outside the limit will be reported monthly to the Fund. Plans for debt restructuring will be discussed at the first review.

	Limit (In millions of U.S. dollars)
Cumulative change in stock from August 10, 1997	
September 30, 1997 (performance criterion)	1,000
December 31, 1997 (performance criterion)	1,500
March 31, 1998 (indicative target) 1/	2,500
June 30, 1998 (indicative target) 1/	3,000
September 30, 1998 (indicative target) 1/	4,000

1/ Performance criterion to be set at the first review of the arrangement.

3. Performance Criterion on the Stock of Short-Term Debt Outstanding

The government will not contract or guarantee any new debt of maturity up to one year. Excluded from these limits are guarantees associated with the financial system restructuring, the balance of payments financing package envisaged under the program, normal import-related credits, forward contracts, swaps, and other future market contracts.

ANNEX D

PROGRAM ASSUMPTIONS AND CONVERSION RATES

1. Program Baselines for Selected Variables

	1997			**1998**		
	Aug.	**Sep.**	**Dec.**	**Mar.**	**Jun.**	**Sep.**
	(in millions of baht)					
Baseline net foreign assets of the BOT	981	981	996	1,002	1,014	1,022
Minimum floor on net foreign assets of the BOT	813	726	448	371	365	355
	(In billions of U.S. dollars)					
PBOP support (cumulative from August 1997)	1.6	4.2	9.0	12.8	13.1	13.6
BOP support provided to central government	0	0	0	0	0	0

2. Exchange Rates and Gold Price to be Used Under the Program[1]

	Baht per Unit of Foreign Currency
U.S. dollar	31.9982
Japanese yen	0.2710

Deutsche mark	17.4265
Pound sterling	52.3476
French franc	5.1723
Swiss franc	21.1404
SDR	43.4734
ECU	34.2957
Gold price (U.S. dollars per ounce)	326.3000

[1]Currencies not shown here will first be converted into U.S. dollars using the official rate used by Fund's Treasurer's Department on July 31, 1997.