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Report No.: P 7271-TH

REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED ECONOMIC AND FINANCIAL ADJUSTMENT LOAN II

IN THE AMOUNT OF US$600 MILLION

TO THE

KINGDOM OF THAILAND

March 25, 1999

Poverty Reduction and Economic Management Unit
East Asia and Pacific Region

**CURRENCY EQUIVALENTS**
(as of February 1999)

Currency Unit = Baht (B)
US$1.00 = B 36.60
B 1.00 = US$0.0273

**ABBREVIATIONS**

| | | |
|---|---|---|
| ADB | - | Asian Development Bank |
| AMC | - | Asset Management Corporation |
| BIBF | - | Bangkok International Banking Facilities |
| BAAC | - | Bank for Agriculture and Agricultural Cooperatives |
| BOT | - | Bank of Thailand |
| BRO | - | Business Restructuring Office |
| CCC | - | Civil and Commercial Code |
| CCP | - | Civil and Commercial Procedures |
| CDRAC | | Corporate Debt Restructuring Advisory Committee |
| CGD | - | Comptroller General's Department |
| DIA | - | Deposit Insurance Agency |
| EGAT | - | Electricity Generating Authority of Thailand |
| EGCO | - | Electricity Generating Company |
| EXIM | - | Thai Export-Import Bank |
| FC | - | Finance Company |
| FI | - | Financial Institution |
| FIDF | - | Financial Institutions Development Fund |
| FMRP | - | Financial Market Reform Program |
| FRA | - | Financial Sector Restructuring Authority |
| FSIA | - | Financial Sector Implementation Assistance Project |
| GSB | - | Government Savings Bank |
| ICAAT | - | Institute of Certified Accountants and Auditors |
| IFCT | - | Industrial Finance Corporation of Thailand |
| IIAT | - | Institute of Internal Auditors of Thailand |
| JTI | - | Judicial Training Institute |
| KTB | - | Krung Thai Bank |
| KTT | - | Krungthai Thanakit Public Co., Ltd. |
| MOC | - | Ministry of Commerce |
| MOF | - | Ministry of Finance |
| MOU | - | Memorandum of Understanding |
| NESDB | - | National Economic and Social Development Board |
| NPL | - | Non-performing Loan |
| PLMO | - | Property Loan Management Organization |
| SCL | - | Single Currency Loan |
| SEC | - | Securities and Exchange Commission |
| SEPC | - | State Enterprise Policy Commission |
| SES | - | Socioeconomic Survey |
| SET | - | Stock Exchange of Thailand |
| SFI | - | Specialized Financial Institution |
| SIP | - | Social Investment Project |
| SIFC | - | Small Industry Finance Corporation |
| SSO | - | Social Security Office |
| TBA | - | Thai Bankers Association |

**KINGDOM OF THAILAND - FISCAL YEAR:** October 1 - September 30

| | |
|---|---|
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# KINGDOM OF THAILAND

# ECONOMIC AND FINANCIAL ADJUSTMENT LOAN II

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# KINGDOM OF THAILAND
# ECONOMIC AND FINANCIAL ADJUSTMENT LOAN

## LOAN AND PROGRAM SUMMARY

| | |
|---|---|
| **Borrower:** | Kingdom of Thailand. |
| **Amount and terms:** | US$600 million—Single Currency Loan (SCL) in US Dollars, with a 15-year maturity, including a 3-year grace period, at the Bank's standard fixed US Dollar SCL interest rate. |
| **Description:** | The proposed loan is part of a two-year program of structural adjustment of the economy supported by four single-tranche balance of payments support loans. The first loan in the series, the Finance Companies Restructuring Loan (FCRL), was approved by the Board in December 1997 and supported measures toward resolution of the suspended finance companies and committed the Government to a comprehensive reform of the financial sector over the next two years. The second loan, Economic and Financial Adjustment Loan I (EFAL I) further deepened restructuring of the financial sector and supported measures to strengthen the corporate sector. The proposed second Economic and Financial Adjustment Loan (EFAL II) tracks reform in the financial and corporate sectors, seeks to strengthen the competitive foundations of the economy and supports the Government's proposed fiscal stimulus, especially programs that shore up social protection.<br><br>The flexible adjustment lending program for Thailand allows a close tracking of the current phase of the economic crisis and commits the Government to remedial measures, while remaining focused on the needed fundamental restructuring of the economy. The program is being coordinated with IMF, ADB and bilateral lenders. The Government has taken a number of actions in fulfillment of the loan conditions which include social protection, a fiscal stimulus, further strengthening the enabling environment for corporate restructuring, consolidation of financial sector reform, reform of the legal regime for insolvency and secured lending, corporate governance and financial disclosure, and privatization. The specific actions are listed in the Policy Matrix (Schedule 2). |

**Benefits and risks:** The program of actions supported by this loan will be beneficial both in the short and the long term. In the short term, the fiscal stimulus supported by the loan will strengthen aggregate demand, provide employment opportunities and substantially bolster social protection. This will help mitigate the distributional consequences of the ongoing crisis, and will provide breathing space to a government committed to structural reform. The measures to facilitate corporate debt workouts will also have short term benefits of alleviating the credit crunch, strengthening of economic activity and a reduction in non-performing loans of financial institutions. The medium term benefits include the consolidation of the structural reform program that began with the Finance Companies Restructuring Loan and deepened with the first Economic and Financial Adjustment Loan. The loan program will strengthen the legal, institutional and incentive framework for decision-making by financial institutions and corporates. The social protection measures supported by this loan include the development of a medium term strategy to respond quickly to the distributional and poverty consequences of the crisis.

The greatest risk to the program lies in the potential to misread the current strengthening of the stock market and the exchange rate as signs of enduring recovery. Although the market is less pessimistic now than it was six months ago, capital inflows are still small relative to the recapitalization needs. Non-financial corporations continue to experience difficulty in accessing credit. The wrong response to the market's "wait and see" attitude would be to declare victory prematurely and leave unfinished the reform of financial institutions. This might well start another round of confidence loss. In particular, slow progress in reforming the legal and institutional framework for bankruptcy and foreclosure would reflect on asset prices and the pace of corporate workouts. Another risk lies in heavy-handed intervention in the ongoing restructuring of financial institutions or corporations that discourages market-led workouts and results in a large fiscal cost. Among the external risks, further instability due to regional contagion now seems less likely, although external demand remains anemic because of the slowdown in Japan. The slowdown in China's exports and its implications for that country's currency policy entails another set of risks. A prolonged slowdown of economic activity and the resulting unemployment and income loss would lead to social unrest and political instability, which would put at risk the reform program.

Fortunately, recent economic developments suggest that the risks outlined above are small. The economic leadership is aware of the risk of declaring victory prematurely and is managing expectations accordingly. The reform agenda, with a special emphasis on protection of the vulnerable, remains a top priority and progress to date is satisfactory. The Government is avoiding quick-fix remedies and is committed to modernizing the legal and corporate governance framework for strengthening the overall environment for doing business in Thailand.

**Poverty Category:** NA

**Estimated Disbursements:** The loan would be disbursed in a single tranche upon effectiveness.

**Project ID Number:** TH-PE- 58536

# KINGDOM OF THAILAND
# ECONOMIC AND FINANCIAL ADJUSTMENT LOAN

## 1. INTRODUCTION

1.1 The Government's stabilization and structural reform efforts are beginning to bear fruit. The exchange rate has stabilized and some interest rates have declined sharply but, economic recovery is still anemic due to a regional depression and a volatile international environment. Financial institutions have substantial non-performing loans, the highly leveraged corporate sector is mired in balance sheet losses and Thailand's workforce is experiencing large scale reductions in earnings.

1.2 The authorities' commitment to reform is impressive given the international and domestic difficulties. In the financial sector, resolution of closed institutions is moving forward as is rebuilding financial institutions' capacity to lend. In the corporate sector, a credible institutional framework for voluntary restructuring is in place and incentives to motivate workouts are being instituted. The competitive foundations of the economy are being strengthened via a comprehensive privatization strategy. The fiscal stance has been adjusted to accommodate the large costs of financial and corporate restructuring and increased public expenditures to stimulate domestic demand and protect the vulnerable.

1.3 The proposed loan, supporting authorities' response to the economic crisis, is the third in a series of four adjustment operations in the Thailand Country Assistance Strategy approved by the Board in July 1998. It supports and deepens Government's reform of the micro-economic foundations of the economy and also provides cushion for a fiscal stimulus while protecting the vulnerable and the poor. The loan is anchored in the Bank's ongoing multi-faceted technical assistance.

1.4 The proposed loan is part of the Bank's contribution to the US$17.2 billion pledge made at Tokyo by the international community in response to Thailand's economic and financial crisis. The Bank's adjustment operations began with the Finance Companies Restructuring Loan ($350 million) approved by the Board in December 1997. The loan supported the orderly resolution of troubled finance companies and helped strengthen supervision and the regulatory framework for the remainder. Together with the International Monetary Fund's policy framework for commercial banks, the loan committed the Government to establishing resilient financial institutions strong enough to prevent similar crises in the future. The second adjustment operation, Economic and Financial Adjustment Loan, approved by the Board in July 1998 aimed to restore growth by deepening structural reform in the financial sector and facilitating corporate revival.

# 2. BACKGROUND AND RATIONALE

## A. RECENT MACROECONOMIC DEVELOPMENTS

2.1 **Thailand's economy was in deep recession in 1998.** GDP is estimated to have contracted by 8 percent in 1998 as a result of a collapse in domestic demand combined with unfavorable external conditions. Gross investment declined by about one-third and consumption by 13 percent in 1998. Overall, the contribution of domestic absorption to GDP growth was in the order of *negative* 21 percent which was only partially compensated by a positive 13 percent contribution resulting from the sharp turnaround in the current account of the balance of payments. The social dimensions of the crisis are deepening and unemployment has risen to 3.4 percent of the workforce in August 1998 from 0.9 percent in August 1997, while real wages have declined between 12 and 24 percent depending on the region in the period just between August 1997 and February 1998. Over-indebted and unable to access credit, many corporations remain under severe financial stress and are not able to meet their debt obligations as business conditions have remained weak. Despite progress in financial restructuring, the remaining financial institutions are still awaiting private led recapitalization and their loan portfolio has continued to deteriorate.

2.2 **Recovery has been hampered in 1998 by unfavorable international conditions that have increased pressure on the balance of payments.** Among the most important of these events is the continued recession in Japan and the sharp decline of international prices for many Thai exports. The decline in import demand in Japan, a major market for Thai exports, has reduced export growth potential, as have demand conditions in other East Asian partners.[1] With regard to export prices, the average unit value in terms of US dollars during the first nine months of 1998 has declined by 14.7 percent as compared to the same period last year. This decline has more than offset export volume growth, and in US Dollars the cumulative value of exports fell by 5.7 percent during this same time period as compared to 1997. Overall, despite a drop in import prices, Thailand suffered a large decline in its terms of trade throughout 1998, further depressing real income.[2]

2.3 **External confidence, while strengthening recently and bringing some relief to the balance of payments and domestic financial markets, has been volatile during much of 1998.** Confidence has been affected by general concerns regarding emerging markets, as well as conditions specific to Thailand. Country risk, as measured by the spread of ten year sovereign Yankee bond over comparable US debt instruments, increased sharply between March and August 1998 from 254 basis points to 760 basis points, reflecting in part worsening conditions in East Asia, the crisis in Russia, and concerns about Latin America. Spreads have since declined to 255 basis points in mid-February 1999. While it is still early, Thai spreads have not been affected significantly by the recent devaluation in Brazil.

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1 In October 1998, Japan's share in Thai exports was 14 percent.

2 Preliminary exports numbers for November 1998, show that export prices are stabilizing but growth in volume terms has come to a halt.

2.4 **Reflecting these external and domestic conditions, the 1998 outcome for Thailand's external account are a large current account surplus (currently estimated at 11 percent of GDP) offsetting a capital account deficit, and stability in gross international reserves.** Given the weakness in export prices, the current account surplus for 1998 (estimated by the IMF at US$14 billion) was driven by the collapse in import volumes and prices, in turn a result of depressed domestic demand conditions and expenditure switching. Net capital outflows during 1998, mainly reflecting short-term capital outflows and the settlement of forward obligations of the BOT, were in the order of US$17-18 billion. The international financial assistance package will cover the difference and gross reserves are expected to remain broadly stable at US$29-30 billion. However, this implies a very large improvement in net international reserves given the sharp decline in BOT's forward obligations.

2.5 **There are signs that the economy has begun to bottom-out during the fourth quarter of 1998 as Government policies begin to bear fruit**. Production in the manufacturing sector has stabilized somewhat in recent months and has even expanded in some sectors in December 1998. On the demand side, available numbers on retail sales also suggest stabilization. Demand and supply indicators are discussed more thoroughly in Box 1. With regard to financial variables, the exchange rate was broadly stable in the 41-42 Baht/Dollar range from May to September, and, reflecting the strengthening overall BOP position, has since appreciated to 36-38 at the end of 1998 and early 1999. As confidence in the Baht improved and country risk declined in recent months, money market interest rates have been falling rapidly since mid-1998, from 18-19 percent in June 1998 to around 3-4 percent in January 1999. Lending rates have been slower to decline but have also fallen considerably, from 15.4 percent in March 1997 to 11-12 percent in January 1999. These signs of recovery and stronger investor confidence are, however, very fragile and whether they will strengthen depend on continued speedy and resolute implementation of the recovery program.

### B. ECONOMIC PROSPECTS AND POLICY STANCE FOR 1999

2.6 **While progress on financial and corporate restructuring is the linchpin of the program, macroeconomic policy remains essential to counteract the collapse in domestic demand and maintain exchange rate stability.** Macroeconomic policy faces difficult challenges to restore growth and reduce the poverty impact of the crisis:

- *First, while the external sector has been a key source of growth in the past, it is unlikely to be able to play the same role during the current crisis.* In 1999, barring a major improvement in the terms of trade, the external sector's contribution to growth is expected to be negative since further increases in the current account surplus are not probable. Imports are likely to pick-up as domestic demand recovers, and stocks are re-built. Export demand is expected to remain weak given the protracted nature of the crisis in East Asia and its spread to other emerging markets, and increased competition from Asian and Latin American competitors. Despite a shift in markets from ASEAN to Europe and the USA during 1998, recent numbers on export volumes are discouraging: year on year, export volumes declined slightly in October and November.

- *Second, the ability of the authorities to use monetary policy to stimulate domestic demand is constrained by the weaknesses in the financial system.* With the improvement in investor confidence and declines in country, devaluation and other macro risks, the authorities have successfully engineered nominal exchange rate stability and a decrease in short-term repurchase rates to below their pre-crisis level. [3] As mentioned above, lending rates have also declined. However, the transmission channels for monetary policy are not operating as expected since stress in the financial system has reduced the supply of bank credit to the private sector, which has been flat over the last six months. The major bottleneck to renewed credit expansion has been the slow progress on corporate restructuring and bank recapitalization.

- *And third, while fiscal policy clearly needs to be geared to providing a large stimulus to demand and mitigating the poverty impact of the crisis, the ability to do so is constrained in several ways.* As discussed below, the main constraints are institutional and other short-term capacity constraints to raising expenditure. Among these institutional constraints is that much of the fiscal stimulus was to be foreign financed to avoid protracted discussions in Parliament. Foreign financing, however, was delayed as a result of slow progress on bankruptcy law reform. Some concerns have also been raised regarding the sustainability of fiscal policy as a result of the growing costs of financial sector restructuring.

2.7 **Prospects for 1999, while better than 1998, are highly uncertain and depend on the Government's policy response**. Private investment is unlikely to expand since over-capacity is large and for much of 1999 credit is likely to remain constrained for structural reasons. This leaves private consumption, perhaps the component of aggregate demand most difficult to predict because factors that influence consumption are working in opposite directions. While the recent recovery in the stock market and less uncertainty with regard to financial variables will tend to encourage consumption, real wages are likely to deteriorate and unemployment is likely to increase as corporate restructuring and bankruptcies continue. Overall, private consumption is unlikely to be a major source of growth unless policy provides more of an impetus, in particular, fiscal policy. These uncertain conditions make the Government's policy response critical to improve prospects for 1999. While the numbers are highly uncertain, Table 1 below projects the major components of aggregate demand assuming a general government fiscal deficit of about 5-6 percent of GDP net of financial restructuring costs.[4]

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[3] Indeed, recently the BOT has been purchasing significant amounts of foreign exchange, only partially sterilized, in an effort to avoid further appreciation of the Baht. According to BOT, fully sterilized intervention has proven to be less effective.

[4] The BOT reports that preliminary estimates of the expenditure multiplier suggest that it is small, about 1.1, in Thailand. Further work is needed to refine this estimate.

**BOX 1: IS THE ECONOMY BOTTOMING OUT?**

**Manufacturing production is still on a downward trend but the rate of contraction has slowed down considerably, and there are encouraging signs in key manufacturing industries.**

**Figure 1: Manufacturing Production Index**

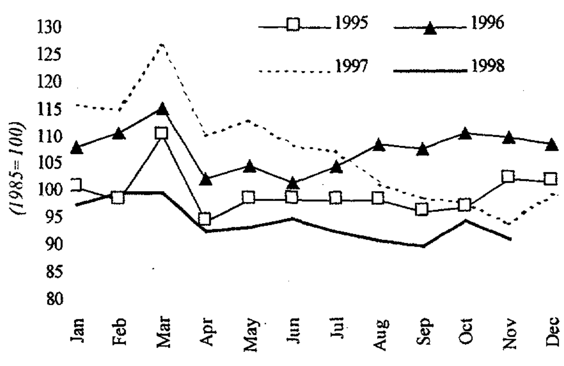
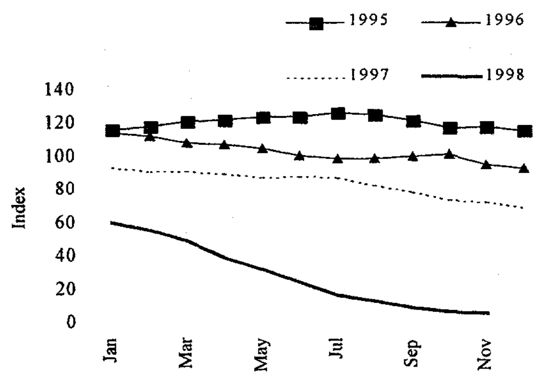



**Figure 2: Private Investment Index**




**Indeed, some sectors are doing better than others.** Throughout the crisis, export-oriented sectors have been performing better than domestically-oriented sectors. Some of the manufacturing sectors that are now improving include the vehicles and transportation industries, which have been increasingly shifting from domestic orientation to targeting foreign markets. The textiles industry is one of the few manufacturing industries that has expanded throughout the crisis.

Outside of the manufacturing sector, data is limited but available evidence suggests that the agricultural sector (11-13 percent of GDP) expanded by 2-3 percent in 1998, while the construction and gas, electricity and water sectors contracted substantially.

**Domestic demand.** Although real retail sales peaked in the summer of 1996 and have fallen almost continuously since then, recent data for 1998 suggest a bottoming out. Retail sales in 1998 have remained stable at a level corresponding to 82 percent of sales in 1997. The contraction in car sales has also stabilized. The year-on-year decline continues to be a staggering 70 percent, but it appears that sales have settled at a monthly average of approximately 4,000 cars, compared to approximately 14,000 prior to the crisis.

Private investment has also begun to show signs of improvement. The BOT's private investment index continues to record high contractions. However, any signs of improvement show up with considerable lag, since the index is a 12-months moving average of six different proxies of investment. The large contraction in the index conceals the fact that four key components of the index have bottomed out in recent months, including domestic cement sales, imports of capital goods, construction areas permitted in municipal zone, and credit for construction and manufacturing.

2.8 An expansionary fiscal stance is an essential component of the recovery program in order to strengthen aggregate demand, accelerate financial and corporate restructuring and cushion the poor from the worst of the crisis. Over the course of 1997/98, the authorities have been loosening their fiscal policy stance as the depth of the collapse in consumption and investment became evident and external conditions weakened. While automatic stabilizers on the revenue side have provided a large stimulus, their effect was more than offset by the decline in expenditures. The fiscal impulse estimates shown below in Table 2 suggest that fiscal policy, given a broad definition of the public sector, was contractionary during FY97/98.[5] In part, the decline in expenditures reflects the difficulties in reversing at mid-year the expenditure cuts adopted at the inception of the adjustment program.

**Table 1: Thailand - Contribution To GDP Growth By Demand Component**

| | Growth (Percent change) | | | | Contribution to GDP Growth (Change as % of previous year's GDP) | | | |
|---|---|---|---|---|---|---|---|---|
| | **1996** | **Est. 1997** | **Proj. 1998** | **Proj. 1999** | **1996** | **Est. 1997** | **Proj. 1998** | **Proj. 1999** |
| Consumption (1) | 5.7% | 0.0% | -14.3% | 1.2% | 3.5% | 0.0% | -8.8% | 0.7% |
| - Private (1) | 5.2% | 0.1% | -15.1% | 1.0% | 2.8% | 0.1% | -8.2% | 0.5% |
| - Public | 9.5% | -0.6% | -8.7% | 1.9% | 0.7% | 0.0% | -0.7% | 0.1% |
| | | | | | | | | |
| Investment | 5.4% | -18.5% | -33.0% | 2.0% | 2.4% | -8.1% | -11.9% | 0.5% |
| - Private (1) | 1.5% | -26.0% | -40.7% | -2.7% | 0.6% | -8.8% | -10.3% | -0.4% |
| - Public | 20.8% | 7.0 | -15.0% | 9.6% | 1.8% | 0.7% | -1.6% | 1.0% |
| | | | | | | | | |
| Net Exports | 6.7% | -139.8% | 576.6% | -1.2% | -0.4% | 7.7% | 12.7% | -0.2% |
| | | | | | | | | |
| GDP Growth | 5.5% | -0.4% | -8.0% | 1.0% | 5.5% | -0.4% | -8.0% | 1.0% |

Source: BOT, Staff estimates.
Note: (1) Including statistical discrepancy.
(2) Including change in stocks.

2.9 **The Government plans to implement a flexible counter-cyclical fiscal policy in 1998/99 and stands ready to change its policy stance if demand conditions are significantly different from those forecast.** The authorities believe that the original 1998/99 budget deficit targets were not sufficiently expansionary and have prepared a supplemental budget for 1998/99 of additional central government expenditures, (about 1 to 1.5 percent of GDP). Scenario 1 of Table 2 suggests that the original deficit target of 3.1 percent of GDP for the broad public sector would be significantly contractionary as indicated by the negative impulse of more than 1 percent of GDP. With the supplemental budget (scenario 2), the impulse number suggests fiscal policy will add stimulus to aggregate demand, and will improve the composition of the deficit. The composition of the deficit is important since expenditures of the central government are likely to have a larger impact on aggregate demand than those of state enterprises, given the latter's larger import content. Central government expenditures will also have a larger impact on the poor, either directly, for example, if they strengthen safety nets, or indirectly, given a likely higher wage content.

[5] The public sector definition includes the central and local governments, and state owned enterprises. Taking into account that capacity constraints delayed many expenditures until the end of the fiscal year, fiscal policy must have been significantly contractionary during much of the fiscal year.

2.10 **Despite the looser fiscal stance, and the higher estimated costs of financial sector restructuring (see below), fiscal policy seems sustainable over the medium-term.** The interest cost of restructuring is now estimated to be in the order of 3 percent of GDP and debt to GDP levels are estimated to rise to some 60 percent of GDP over the next two years. IMF calculations suggest, however, that as real growth strengthens and real interest rates decline, and as assets are recovered, debt levels would decline to around 40 percent of GDP by 2002/03 which would compare favorably with both OECD and other middle income countries.

**Table 2: Thailand - the Stance of Fiscal Policy**

| (in percent of GDP unless otherwise specified, on a fiscal year basis) | | | | |
|---|---|---|---|---|
| | **1996/97** | **1997/98** | **1998/99** | |
| | | | **Scenario 1** | **Scenario 2** |
| Central government | | | | |
| Balance | -1.4% | -2.4% | -1.0% | -3.0% |
| Neutral Balance (1) | 4.9% | 3.3% | 2.2% | 2.2% |
| Fiscal Stance | 6.3% | 5.7% | 3.2% | 5.2% |
| Fiscal Impulse | 3.2% | -0.6% | -3.1% | -1.1% |
| General Government | | | | |
| Balance | -2.1% | -2.8% | -3.1% | -5.2% |
| Neutral Balance (1) | 5.1% | 3.0% | 1.7% | 1.7% |
| Fiscal Stance | 7.2% | 5.8% | 4.8% | 6.9% |
| Fiscal Impulse | 3.5% | -1.4% | -1.0% | 1.1% |

# 3. THE STRATEGY FOR ECONOMIC REVIVAL

3.1 The economic crisis in Thailand has unfolded in two phases. In the first phase from June to December 1997, the economy suffered a massive loss of confidence manifest in large outflows of capital, steep depreciation of the Baht and a flight of deposits from weak financial institutions. In response, the Government put in place a macroeconomic stabilization program with the help of the IMF and undertook financial sector restructuring with World Bank and IMF assistance. While the program helped to restore market confidence and maintain broad exchange rate stability, high interest rates, lower investment and poor export performance, slowed economic recovery. In parallel, financial sector restructuring, with its emphasis on loss recognition and recapitalization, made banks extremely cautious in extending loans to the corporate sector. In the second, and ongoing, phase of the crisis, mutually reinforcing financial and corporate difficulties have occurred.

3.2 During the second phase, a depreciated Baht, high interest rates, difficulty in accessing to credit, falling domestic demand and anemic external demand have combined to weaken corporate balance sheets and reduce profitability. Corporate distress, in turn, has contributed to rising non-performing loans in the financial sector and made financial institutions reluctant to lend. This financial and corporate nexus is at the root of Thailand's deep recession.

3.3 The Government is responding to the challenge of reviving the economy with a two-pronged strategy that complements micro reforms with stimulating aggregate demand. The first prong focuses on completing the ongoing reform of the financial sector, facilitating corporate workouts, reform of bankruptcy and foreclosure, strengthening corporate governance and state enterprise reform. The second prong complements the first and seeks to stimulate aggregate demand via an expansionary fiscal policy, with special attention to social protection.

## A. STRENGTHENING THE MICROECONOMIC FOUNDATIONS

### A.1. Financial Sector Restructuring

3.4 The Bank, in close coordination with the Fund, has a program to support resolution and restructuring of financial institutions, stronger regulations and supervision, and deeper capital markets. Individual institutions are to be restructured to increase the safety, soundness and efficiency in financial services provision in Thailand.

## Managing problem institutions

### *Financial Sector Actions since the December 1997 closing of 56 Finance Companies*

3.5 Progress with core assets sales by the *Financial Sector Restructuring Authority* (FRA) continues to be satisfactory, as detailed in Box 2.[6] The third round of sales of the core financial assets took place on December 15, 1998. The auction included 45 tranches of commercial and real estate loans, with an aggregate outstanding principal of over US$11 billion (in book value, roughly half of the core assets of the 56 now-defunct finance companies). The auction resulted in the sale of 41 percent of the portfolio at an average of 25 percent of outstanding principal balance, through cash payments plus profit sharing agreements. Low returns on the sales were blamed on the combined effect of poor quality assets, the market's limited absorptive capacity, investor concern over Thailand's ineffective bankruptcy and foreclosure regime, and the relatively high benchmark prices set by the FRA.

3.6 The FRA is planning to auction off the unsold portfolio on March 10, 1999. The *Asset Management Corporation* (AMC) will take part in this second round, and the assets will be repackaged in smaller tranches to make them more attractive to local (non-AMC) bidders. It is also expected that the FRA will revise and ease some of the bidding conditions--e.g. make non-cash payments acceptable under well-defined circumstances. The FRA has announced that remaining unsold portfolio will be up for auction in mid-1999. In addition to continuing the sales, the FRA has also finalized rules and procedures for: (i) filing creditors' claims; and (ii) distributing surplus funds to creditors. The proposed loan supports progress in this area.

**Box 2: Resolution of the 56 Closed Finance Companies - Actions taken**

- February 1998: classification by the FRA of assets of closed finance companies completed and creditors of each company provided with "statement of affairs."
- February 1998: forms of payments required from bidders defined by FRA.
- March 1998: final decision by creditors of the 40 finance companies, whether to choose the note exchange program or to participate in the FRA auction process, taken.
- AMC established to purchase unsold assets from the FRA; appointment of key AMC staff.
- Capitalization of financing for AMC and timetable for the disbursement to AMC being implemented
- February 1998: began sales of finance company movable assets (cars, computers, works of art, etc.).
- May 1998: FRA Act amended to facilitate asset sales by providing "good title" and eliminating legal obstacles.
- May 1998: AMC Act amended to allow AMC capital increase (from B1 billion to B10 billion).
- June 1998: AMC internal polices and procedures approved by government.
- Work to set up the AMC Management Information System for asset management and disposition initiated.
- June 1998: first FRA auction of core financial assets.(Winning bid 48 percent of principal )
- August 1998: second FRA auction of core financial assets. (Winning bid 47 percent of principal)
- December 1998: third FRA auction of core financial assets (Average winning bids 25% of principal)

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6 The Financial Sector Restructuring Authority (FRA) is responsible for overseeing the orderly liquidation of 56 of the 58 finance companies suspended in June and August 1997.

3.7 As regards the AMC, its role remains unclear because it has not yet acquired any assets from FRA. In view of the results of the latest FRA sale, the AMC is expected to acquire substantial assets in the second round of auctions scheduled for end-February 1999. If this is the case, the government has committed to ensure that these assets will be managed and liquidated effectively.[7]

3.8 To increase transparency and instill confidence among domestic and international investors, as well as the Government, that the process and procedures utilized are effective and consistent with best international practices, the Government retained recognized independent experts of international standing to complete reviews of both FRA and AMC. Executive summaries of the two third party reviews were made public in December 1998.

### *Restructuring and Recapitalization of the Core Financial Institutions*

3.9 After the suspension of the 58 finance companies, the Bank of Thailand (BOT) committed to a tough policy of recapitalization of the remaining financial institutions that formed the core of the financial system. The strategy was based on a progressive strengthening of provisioning requirements designed to prompt financial institutions to obtain fresh capital.

**BOX 3: RESTRUCTURING OF FINANCIAL INSTITUTIONS -- ACTIONS TAKEN**

- Year end 1997: BOT increased provisioning requirements and signed recapitalization MOUs.
- Early 1998: takeover of four critically undercapitalized banks (Bangkok Bank of Commerce, First Bangkok City Bank, Siam City Bank and Bangkok Metropolitan Bank) and in May 1998 seven finance companies unable to meet recapitalization deadlines.
- March 31, 1998: a new set of loan classification and provisioning rules, in line with the best international practices.
- First half of 1998: two large banks were able to raise capital, and a few small banks or finance companies were purchased by foreign investors.
- August 1998: new MOUs were signed, which provided for phased-in compliance on classification and provisioning to the year 2000. Standard BOT will follow closely the compliance with the terms of the MOUs.

3.10 Initially the authorities expected that the increased transparency of financial institutions would attract new investors, both domestic and foreign. However, the continued difficulties in the real sector and increasing NPLs have made potential investors extremely cautious. As a result, it became clear that the market-driven recapitalization would not be sufficient and further government support would be required. On August 14, 1998 the Thai Government announced a plan for the recapitalization of troubled and intervened financial institutions. Details of the plan can be found in Box 4.

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[7] The AMC mandate is to acquire impaired assets auctioned by FRA for which no acceptable private sector bid is received; to manage, restructure, and collect on these assets; and eventually resell them.

**BOX 4: AUGUST 14, 1998 -- THE RECAPITALIZATION PLAN**

- Essential elements of the plan are: (i) public recognition of the problem; (ii) commitment of funds to assist in the restructuring of potentially viable financial institutions (up to B300 billion); (iii) incentives to lenders for accelerating borrower debt restructuring and new lending; (iv) the efficient management of non-performing assets; (v) exit, merger or sale of nonviable institutions; (vi) equitable loss-sharing arrangements, containment of public sector costs, and an attempt to avoid moral hazard; (vii) the strengthening of prudential supervision and the accelerated adoption of loan loss provisioning rules; and (viii) the operational restructuring of state banks and their preparation for eventual privatization.
- Write down of shareholders' capital, and conversion of FIDF liquidity support to new capital.
- Two banks -- Union Bank (UB) and Laem Thong Bank (LTB) -- and 5 finance companies were also intervened.
- Intervened banks: 1) Bangkok Metropolitan Bank and Siam City Bank to be privatized by end-98; 2) Krung Thai Bank (KTB) to absorb First Bangkok City Bank and performing assets, deposits and other liabilities of Bangkok Bank of Commerce (BBC), while BBC itself will be transformed into an Assets Management Corporation; 3)consolidated KTB to be recapitalized by end-98; and 4) LTB to be taken over by Radhanasin Bank. Krung Thai Thanakit (KTT) will have taken over the intervened finance companies and integrated its operations with UB.
- As a result of these actions, there will be a consolidation of the financial sector.
- The BOT has announced the modalities of the privatization for the government controlled institutions.

3.11 Four banks have so far announced their intention to take advantage of the August 14 recapitalization scheme--two for both the tier 1 and the tier 2 scheme, one for the tier 1 scheme only, and one for the tier 2 scheme only. Also underway are the merger of the intervened banks and finance companies into KTB and KTT, and the development of action plans for the eventual privatization of these two institutions. Work on the privatization of the two intervened banks is progressing, albeit with some delay.

### Strengthening the financial sector structure

#### *Strategy for the future of financial services*

3.12 Initially the authorities have focused on resolution of troubled financial institutions. The time has come, however, to address the structural issues which contributed to the crisis, and are now preventing the financial system from acting as a prudent and efficient intermediary of savings. These issues relate back to the overall incentive framework for the financial sector, and include structural, legal, regulatory, supervisory, incentives and information weaknesses. The crisis itself has also created several medium-term issues: How will structural changes now underway play out? How will foreign competition introduce new dynamics in the market? Is there a role, and with what function, for certain segments of the market such as finance companies and off-shore banks?

# *FINANCIAL SECTOR RESTRUCTURING*

| | FCRL Dec 16, 1997 | EFAL I July 13, 1998 | Proposed EFAL II Mar 1999 | Proposed EFAL III Sept 1999 |
|---|---|---|---|---|
| *RESOLUTION OF FINANCIAL INSTITUTIONS* | ● FRA and AMC<br>● 56 FinCos closed<br>● Note exchange program | ● Classification of assets by FRA<br>● 4 Banks and 7 FinCos intervened | ● Aug 98 financial sector restructuring plan<br>● 2 Banks and 5 FinCos intervened<br>● FRA asset sales | ● FRA completion and proceeds distribution<br>● Recap / Intervention of weak banks<br>● Privatization |
| *STRENGTHENING THE SUPERVISION AND REGULATORY CAPACITY* | ● Enhanced supervision of non-suspended FinCos<br>● Initial strengthening of loan provisioning rules | ● New loan provisioning regulations<br>● FinCo diagnostic reviews<br>● Development plan-BOT | ● Loan provisioning: 20%<br>● Supervisors Training & enhanced procedures<br>● Steering Committee<br>● SFI Supervision | ● Loan provisioning 40%<br>● New banking legislation and regulations<br>● School for examiners |
| *STRENGTHENING FINANCIAL SECTOR STRUCTURE* | N/A | N/A | ● Initial review of Financial Sector<br>● Task force on domestic bond market | ● Recommendations medium-term structure of the financial sector<br>● Plan to develop domestic bond market |
| *STRENGTHENING MARKET DISCIPLINE* | N/A | N/A | ● Initial plan for deposit insurance<br>● Review of auditing, accounting and disclosure for financial institutions | ● Deposit insurance legislation<br>● New accounting and auditing rules for FIs |

**VISION:**

The WB Thailand financial sector program will consolidate financial stability, making the financial sector sounder, more efficient and conducive to high sustainable growth. The program aims to restructure the financial sector (reform the financial sector structure, resolve the finance companies and restructure or recapitalize the core financial institutions), develop the capital market, strengthen supervision, upgrade the legal and regulatory framework and improve market discipline.

3.13 With these questions in mind, the Government intends to set up a Financial Services Task Force. This group aims to identify and implement financial sector policies, laws and regulations needed to ensure that the financial sector is safe, sound, and efficient in pricing and delivering financial services. At the same time, the Task Force will be instrumental in ensuring that the ongoing financial sector restructuring fits into a clearly defined medium-term strategy. The Task Force is expected to submit its final recommendations to the Government by end-August 1999. The findings of the Task Force will shape the next phase of financial sector reform.

***Capital market development***

3.14 The government started in mid-1998 issuing longer-term government bonds to refinance the Financial Institutions Development Fund (FIDF). The unprecedented amount of issuance of government securities represents a difficult challenge but also an unmistakable opportunity to develop the domestic bond market in Thailand. A deep and efficient domestic bond market will enable the Government to reduce funding costs, and allow the private sector to raise financing without excessive exposure to banks and foreign exchange risk. It will also promote efficient allocation of financial assets, facilitate monetary management and enhance financial stability and resiliency against inflationary pressure. The MOF has established a Working Group for Domestic Bond Market Development, with participation from BOT, the SEC, and other stakeholders, to identify issues to be addressed and formulate an action plan for implementation. The Bank will continue to provide assistance in this area.[8]

3.15 There is a wide range of issues which must be addressed to ensure that bond issuance is successful and to further develop a deep, efficient, and sustainable domestic bond market. This includes: (i) public sector debt and risk management capacity; (ii) legal, regulatory and tax impediments to higher bond demand; (iii) BOT auction procedures and the primary dealership system, (iv) enhancement of the trading, clearing, settlement and market information systems to achieve automated Delivery versus Payments in settling government bond trades.

***Specialized Financial Institutions***

3.16 The government is reviewing its main specialized financial institutions (SFIs) – EXIM Bank, Bank for Agriculture and Agricultural Co-operatives (BAAC), Government Savings Bank (GSB), Industrial Finance Corporation of Thailand (IFCT), and Small Industry Finance Corporation (SIFC). The review of the SFIs has several objectives:

- evaluate the SFIs' supervisory regime
- assess SFIs' strengths and weaknesses, financial position and operations
- evaluate the present role and mandate of each SFI.

3.17 This review, begun in May 1998, is to be followed by thorough analyses of the financial condition and the economic role of each SFI. The BOT – the new supervisory authority for SFIs

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[8] The ADB has taken the lead in capital markets development work in Thailand.

– has initiated on-site examinations of the SFIs, with a view to assess possible recapitalization and upgrading needs. An in-depth analysis of the present and future role of the SFIs and their interaction with other financial institutions will also be conducted as part of the work on the overall strategy for the Thai financial sector.

**Enhancing the regulatory and safety net regime**

***A comprehensive supervision framework***

3.18 Financial institutions are currently supervised by several agencies.[9] Fair competition among different financial institutions requires harmonized prudential regulations to promote the soundness of the sector. The Government, with Bank assistance, intends to develop a comprehensive framework for the supervision of financial institutions. In working out this strategy, the authorities will consider: (a) market discipline versus detailed supervision/regulation models, (b) single versus several supervisory authorities; (c) how to develop consistent prudential regulations for all financial institutions; and (d) what are the best legal and regulatory grounds to consolidate supervision of financial groups.

3.19 As part of the rationalization of the supervisory framework, responsibility for the supervision of SFIs was shifted from the Ministry of Finance (Fiscal Policy Office) to the BOT effective from October 1st, 1998. The BOT is working on a plan to effectively carry out this responsibility, including identifying required legal amendments and enhanced prudential rules, and a timetable for implementation of these statutory and regulatory amendments.

***Strengthening supervision and regulation of financial institutions***

3.20 At the request of the MOF and with Bank support, a Steering Committee supported by a Working Group, composed of experts from several central banks and supervisory authorities, was created to review the operations of the BOT. The Committee suggested amendments to the commercial banking legislation and regulations plus legislation covering the payment system (see Box 5). It also proposed the creation of a deposit insurance agency and made suggestions to strengthen the supervisory capacity of BOT.

3.21 Partly in response to the Committee's recommendations, the legal and regulatory framework for financial institutions is being revised. As part of the reform of the Central Bank and the Commercial Bank Acts, the Government intends to submit to Parliament by end-July 1999 draft legislation to strengthen the role of the BOT in the supervision and regulation of financial institutions, including prompt corrective action authority. The Bank is providing technical assistance in this area.

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9 BOT supervises commercial banks, finance companies, credit fonciers, and SFIs; the Securities and Exchange Commission supervises securities companies; mutual funds, and provident funds; the Ministry of Commerce oversees insurance companies; and the Ministry of Agriculture supervises agricultural cooperative institutions.

3.22 BOT supervisory capacity is also being strengthened. The aim is to build capacity to accurately assess financial institutions based on off-site and on-site examinations, use supervisory powers, and enforce prudential rules. BOT has already adopted a time-bound Institutional Development Plan (IDP) to enhance its capacity to supervise banks and finance companies. The BOT and the Bank will jointly review the first 12 months of implementation of the IDP by March 1999.

**BOX 5: REVIEW OF FINANCIAL SECTOR LAWS**

**Suggestions to Strengthen Central Bank Law:**

- Clearly define objectives for the operation of the Central Bank;
- Establish the Central Bank's functional independence from the government;
- Create a clear division of responsibility between the central bank and the government with regard to supervision;
- Enforce accountability of the central bank through reports to the legislative arm of the government;
- Establish clear lines of authority and responsibility within the Central Bank.

**Suggestions to Strengthen Financial Institutions Laws:**

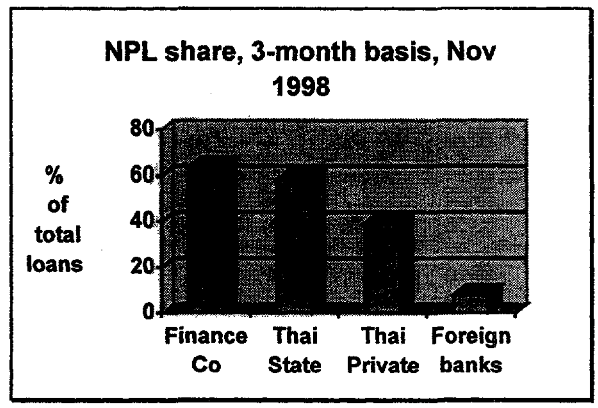
- Clearly allocate of authority and responsibility between government entities;
- Establish functional independence and clearly defined authority and responsibility of the financial institution licensing, supervisory and regulatory entities from the government;
- Clearly define scope of permissible operations for each type of financial institution;
- Incorporate the Basle Committee "Core Principles for Effective Banking Supervision";
- Implement a legal process for intervening, rehabilitating and liquidating failed financial institutions;
- Introduce amendments to the Central Bank Law and a draft of the Financial Institution Law to the Cabinet in 1998. The Bank is providing technical assistance to prepare this new legislation.

### *An Explicit and Restricted Deposit-Protection Scheme*

3.23 A key element of the financial sector restructuring strategy is to phase out the August 1997 comprehensive guarantee to all depositors. The Government is committed to a transition to a more restricted deposit-protection scheme, which will be put in operation once the financial markets stabilize. It has established a Working Group to study the modalities for the establishment of the deposit-protection scheme based on international experience, and to undertake early preparatory work for the establishment and operation of a Deposit Insurance Agency (DIA). This work includes: (i) institutional framework to manage the deposit-protection scheme; (ii) funding mechanism and membership; (iii) mandate, duties, and range of insured deposits; payment modalities; (iv) monitoring and corporate governance. A preliminary report by the Working Group was prepared in September 1998.

## A.2 Corporate Debt Restructuring

### *The Extent of Corporate Distress*




3.24 The financial position of the corporate sector continued to deteriorate throughout 1998. For the first time, operating profits for 340 non-financial firms listed on the Stock Exchange of Thailand, fell below interest expense, on average. Debt to equity ratios continued to increase as equity deteriorated and unpaid debts accumulated. The average ratio of liabilities to equity in the Thai stock exchange reached 3.58 in the first half of 1998. Corporate distress is not limited to any particular sector; within each sector, there are both distressed and successful firms. By the end of 1998, non-performing loans measured on a three-month basis grew to 46 percent of commercial bank loans. Of these, over two-thirds are considered to require both operational and financial restructuring or liquidation. Up to one third require purely financial restructuring (rescheduling, reduction of interest or capitalization of interest accumulated during the Baht stabilization period).

3.25 The policy response to date has been four-fold: (1) to provide an effective legal framework for recovery of non-performing debt through rehabilitation or through enforcement of security interests; (2) to provide a voluntary framework for corporate debt restructuring, along with institutional support through the Bank of Thailand; (3) to provide incentives to corporates and to banks through tax policy, regulatory changes, more coordinated information sharing, and bank recapitalization schemes; and (4) through building the required restructuring capacity in the appropriate financial, managerial and judicial institutions.

# *STRENGTHENING BUSINESS ENVIRONMENT*

| | **EFAL I** July 13, 1998 | **Proposed EFAL II** Mar 1999 | **Proposed EFAL III** Sept 1999 |
|---|---|---|---|
| *CORPORATE RESTRUCTURING* | ● Framework for debt restructuring<br>● Enabling tax regime<br>● Bankruptcy & foreclosure | ● Credit bureau<br>● Monitoring<br>● Inter-creditor arbitration | ● Private asset management companies<br>● Development of institutional investors |
| *CORPORATE GOVERNANCE AND FINANCIAL ACCOUNTABILITY* | ● Accounting standardization<br>● Self-regulatory accounting, auditing | ● Minority shareholder rights<br>● Accountability of officers and directors | ● SET and SEC regulatory roles<br>● Credit rating agencies |
| *PUBLIC ENTERPRISE REFORM AND PRIVATIZATION* | ● Organizational structure<br>● Corporatization law<br>● Master plan | ● Regulatory bodies | ● Implementing privatization |
| *COMPETITION POLICY AND COMPETITIVENESS* | N/A | ● Legislative framework<br>● Institutional development | ● Investment incentives<br>● Trade policy<br>● Skills<br>● Trade logistics |

**VISION:**

The WB program for strengthening the business environment will restore the health of the corporate sector by encouraging workouts that reduce the debt overhang and improve liquidity. It will increase investor confidence through a credible legislative regime for secured lending and corporate restructuring instilling transparency and reliability of financial statements and improved corporate governance. The Program will help create greater investment opportunities in a competitive and dynamic setting that protects consumer interests.

**Strengthening The Legal Framework for Recovery of Non-Performing Debt**

3.26 Thailand amended its Bankruptcy Act to enable reorganization of potentially viable corporates in April 1998. The reorganization amendment has proved workable in its early usage, but several technical problems have emerged which have limited its usefulness in resolving large amounts of distressed debt. First, it is a new legal framework and the institutional capacity to implement is still being developed.[10] Like the banking system, the judicial system must become more acquainted with the analytical treatment of distressed corporates.[11] Secondly, both debtors and creditors are reluctant to use the legally binding process without some precedents. Finally, financial institution creditors need to demonstrate their ability to force court-supervised reorganizations and to replace uncooperative debtor-management with creditor-imposed planners. EFAL II supports further amendments to the bankruptcy laws including improved security for new money lent to a company in distress, voting by creditor class, rescission of related party transfers, limits to discretion for court action, conversion of foreign currency-denominated claims, and the creation of a specialized bankruptcy court.

3.27 The lack of a well-functioning process for exercising security rights is a key obstacle to more rapid progress in corporate restructuring. While foreclosure laws predate the crisis, they suffer from numerous flaws which render them effectively unworkable. The process of claim, judgement, execution and collection on security supporting a loan often takes more than five years, and sometimes as long as ten. Debtors frequently delay judgements by failing to respond to a court summons. Debtors may contest or appeal judgements and further delay execution. Because liquidation of collateral offers such low and uncertain returns, the "floor price" guiding the voluntary or formal debt restructuring efforts is very low -- the terms offered by debtors for restructured debt are far below what creditors consider acceptable. The most developed bankruptcy reorganization case, Alphatec, was initially rejected by the lead creditor primarily because of a low recovery rate. The EFAL II program supports several important amendments which would expedite the enforcement of security interests, including improvements to the simple case procedure, court summons procedures, and limitations on discretionary power to rescind auction sales.

3.28 Substantial capacity is available to implement court-supervised reorganizations, including appointment of planners to run a company undergoing reorganization. Almost all of this implementation capacity, however, resides in private-sector law and accounting firms rather than in the Courts and Business Restructuring Office (BRO) of the Ministry of Justice. EFAL II policy conditions reflect the Government's intention to establish a Bankruptcy Court. Until its receivers are more fully trained, however, it would be reasonable for the BRO to "outsource" some of its receivership workload to experienced insolvency lawyers and accountants already practicing in Thailand. The intent is to increase capacity for overseeing planners appointed to manage corporate debtors in formal reorganizations.

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[10] Only three reorganization cases had been approved for court supervision as of August 1998.

[11] In a well-publicized case, a bankruptcy judge ruled that a debtor with negative operating cashflow, two years in default, did not quality for bankruptcy because the book value of its assets exceeded liabilities.

**Secured Lending and the Automated Centralized Registry for Secured Interests**

3.29 Even with improved bankruptcy and foreclosure procedures to discharge the build-up of distressed debt, the environment for secured lending in the future requires comprehensive reform. This reform should create a broader range of possible assets which can be used as collateral, including receivables, intangibles, and possibly, floating charges and clearly define the rights of parties to a secured lending transaction.

3.30 In addition to making it easier for debtors to obtain secured loans, an automated central registry would protect creditors from "double pledging" of the same collateral. EFAL II policy conditions include Government approval of key principles and a timetable for early establishment of such a registry. The Bank is considering the provision of technical assistance to advise the Government on establishment of such a registry.

**Voluntary Corporate Debt Restructuring**

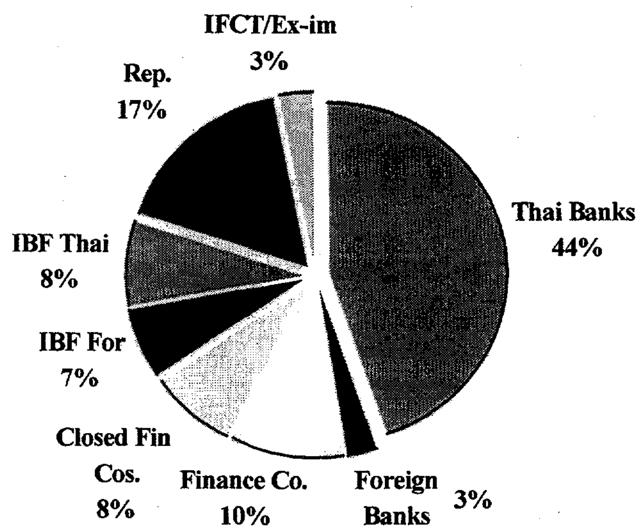
3.31 Thailand has developed a voluntary Framework for Corporate Restructuring in Thailand ("The Bangkok Rules") with the assistance of the Foreign Banks' Association familiar with the London approach to corporate restructuring. The Framework consists of 19 principles which define the expectations of debtors, creditors and authorities in the voluntary (out-of-court) workout process. It emphasizes business viability, full information disclosure, and the sharing of restructuring losses among creditors in an equitable manner that recognizes legal priorities between the parties involved. It also includes a 13-step timetable for the process as described below. The Framework was endorsed by creditors on September 27, 1998.

| | **Step** | **Indicative Deadline** |
|---|---|---|
| 1. | Initial debtor-creditor meeting | |
| 2. | Creditors meeting, appoint lead bank | Day 7 |
| 3. | Creditors submit claims | Day 15 |
| 4. | Ongoing creditors meetings | |
| 5. | Debtor management submits financial data | Day 21 |
| 6. | Appoint independent accountant | Day 7 |
| 7. | Debtor submits further information | Within two months |
| 8. | Submit plan | Within three months |
| 9. | Creditors meet on plan | 10 days after 8 |
| 10. | Amendments to plan | 7 days after 8 |
| 11. | Continued consideration of plan | |
| 12. | New creditors meeting, if necessary | |
| 13. | Decide whether to privately reorganize, formally reorganize or liquidate | Within three months |

3.32 The Corporate Debt Restructuring Advisory Committee (CDRAC) was established on June 22, 1998 under the Chairmanship of the Governor of the Bank of Thailand to facilitate public-private dialogue on policy issues that impact debt restructuring.. The members are the Chairmen of the Thai Bankers' Association, the Foreign Banks' Association, the Association of

Finance Companies, the Board of Trade and the Federation of Thai Industries. In October, 1998, CDRAC was strengthened through the appointment of a Working Group, led by four Deputy Directors of the Bank of Thailand, and a secretariat within the Bank of Thailand. The secretariat provides quantitative updates on progress in corporate restructuring, and the Working Group facilitates and coordinates restructuring efforts in a pool of 200 priority restructuring cases identified by the CDRAC members (actually 353, including subsidiaries and affiliates). These companies cover a broad cross-section of Thai industry, with concentrations in manufacturing (48 percent), real estate (18 percent) wholesale/retail (12 percent) and construction (6 percent). The debt of these 353 companies is 630 billion Baht, roughly US$39.5 million on an average.

**Distribution of Debt in CDRAC Process**




3.33 **Progress in Corporate Debt Restructuring.** Despite the establishment of the Framework and CDRAC, progress in corporate debt restructuring was slow in 1998. As of the end of November, approximately 82 billion Baht of the CDRAC caseload was restructured. By February, 1999 the pace of creditor approvals of restructuring plans improved, both quantitatively and qualitatively. The US$362 million (14 billion Baht) restructuring of Alphatec Electronics was Thailand's first approved formal reorganization plan under the 1998 reorganization amendment. A consumer products firm and a telecommunications firm reached agreement with creditors; the former as the first large voluntary restructuring without a major strategic investment, and the latter as the first voluntary debt restructuring involving international bondholders. A provision allowing banks to temporarily hold more than 10 percent of a borrower's equity in a debt-equity swap was tested, as Thai Danu took a reported 46 percent equity position in a distressed carpet manufacturer. Finally, Thai Petrochemicals reached agreement with major creditors on a restructuring plan which is now being circulated for general ratification. This is the country's largest restructuring case with over US$3 billion in outstanding debt.

**Table 3: Thailand - Progress in Restructuring Reported to the Bank of Thailand**

(Billion Baht)

| | In Process 1998 | | | | Completed in 1998 | | | |
|---|---|---|---|---|---|---|---|---|
| | Jun | Sept | Oct | Nov | Jun | Sept | Oct | Nov |
| Manufacturing | 131 | 228 | 266 | 287 | 2 | 6 | 10 | 32 |
| Construction | 6 | 14 | 20 | 20 | | 1 | 3 | 3 |
| Real Estate | 29 | 61 | 99 | 85 | 0 | 1 | 6 | 15 |
| Exports | 6 | 8 | 9 | 17 | | | 0 | 2 |
| Others | 45 | 133 | 175 | 185 | 1 | 8 | 17 | 30 |
| Total | 217 | 438 | 569 | 596 | 3 | 16 | 36 | 82 |

3.34 The caseload of CDRAC represents Thailand's larger industrial conglomerates whose debt restructuring is made more complicated by the significant amount of foreign borrowings. In fact, a significant amount of restructuring occurs outside of the CDRAC process. This includes three ongoing reorganizations under the new Bankruptcy Law, a large number of rollovers and restructuring in the SME sector, and government-assisted efforts in the agricultural sector. Furthermore, foreign banks report a significant amount of rescheduling and restructuring of debt with companies that remain non-performing debtors to domestic creditors.

3.35 In addition to the progress reported by commercial banks, the Ministry of Finance, with the Bank for Agriculture and Agricultural Cooperatives (BAAC), has devised a debt restructuring in the sugar industry estimated at 90 billion Baht. This is a significant step for the industry, which includes 160,000 sugar-cane planters, another 300,000 cutters, 27,000 workers in sugar mills. The 46 mills in Thailand required debt restructuring as a result of arrears accumulated due to draught-induced reduction in processing yield in the 1997-98 season. These arrears caused banks to reduce lending, which in turn threatened processors' ability to finance their suppliers' planting and harvesting by issuing advance payment certificates. The Ministry of Finance, aware of the potential damage to the economy, allocated 10 billion Baht to the BAAC for working capital to sugar millers. Simultaneously, the Ministry coordinated a private-sector debt restructuring effort, which was successful except for three plants, which were closed. The amount of debt restructured exceeds 90 billion Baht. Similar efforts are underway in the rice and construction sectors.

3.36 Despite efforts to create a conducive environment,[12] progress on corporate restructuring has been slow. It appears that the *Framework* of principles for voluntary workouts and other efforts must be supplemented with organizational initiatives to address five concerns:

[12] Key initiatives include amendment of the Bankruptcy Act to allow for court-supervised reorganization; temporary tax relief for debt restructuring; BOT regulations on loan classification and full provisioning by 2000; provisions for Tier 2 recapitalization; and presentation of operating principles for voluntary corporate workouts in the *Framework for Corporate Restructuring in Thailand* ("*Framework*").

- A still-evolving enabling environment, including insufficient incentives to encourage debtors to cooperate in servicing their debts or to support voluntary workout efforts;
- A need for enhanced facilitation of restructuring, including support in preparing operational and financial restructuring plans directly to corporates and a more proactive stance of CDRAC in facilitating productive debt negotiations;
- More rapid development of restructuring capacity in the private sector, to enable more decentralized and rapid decision making;
- A need to accelerate efforts through better monitoring and sequencing of effort to enable efficient management of a large number of corporate restructuring cases; and
- Power to arbitrate inter-creditor disputes.

**Strengthening the Enabling Environment: Legal, Tax and Regulatory Incentives to Restructure**

3.37 The BOT Guidelines included two policy memoranda circulated to the financial community. The policy letter defined the scope of the debt restructuring program, the formation of debt restructuring policy in each financial institution, the required documentation, accounting procedures related to classification, loss provisioning requirements, and instructions of the auditor. The second letter defined criteria for the valuation of guarantees.

3.38 In November 1998, the Bank of Thailand announced that all laws and regulations concerning the tax treatment of debt restructuring in effect.

- On 2 June and 1 July, 1998, the Bank of Thailand circulated financial institutions regulations on the process of corporate debt restructuring.
- On 22 August, 1998, Royal Decree (No. 325) was issued under the Revenue Code exempting income tax, value-added tax, specific business tax and duty stamp in restructuring cases, where debt restructuring results in imputed income to the debtor.
- On 7 September 1998, the Royal Gazette published a decree allowing debt write-off to be considered an expense, thereby reducing a financial institution's tax liability. A further order of the Revenue department concerned calculation of the debt restructuring loss for tax purposes. These regulations initially applied to financial institutions regulated by the Bank of Thailand, for restructuring conducted according to Bank of Thailand regulations, and occurring between 1 January 1998 and 31 December 1999. They were subsequently expanded to non-financial institution creditors.
- The Cabinet approved a regulation reducing the tax on transfers of real estate from 2 percent to 0.01 percent.

3.39 The SEC has amended some notification requirements for companies involved in a rehabilitation plan. The approval period was reduced from 45 to 30 days, and some approval criteria were relaxed. For SMEs, the SEC adopted a disclosure-based approach over a merit-based approach. Nonetheless, significant legal and regulatory challenges remain. Among these is the requirement to purchase shares for cash, and then to have the debtor use the cash to repay debt. This practice is vulnerable to challenge in a voluntary workout. A frequently cited restriction on the conversion of debt to equity is the requirement for cash purchase of newly issued shares.

**Credit Bureau**

3.40 Because creditors did not share information, it was possible for non-performing debtors to obtain additional credit from other financial and trade creditors. A credit bureau would enable potential lenders to review the repayment performance of the potential borrower and mitigate risks accordingly. EFAL II policy conditions reflect the BOT's direction to the Thai Bankers Association (TBA) to establish a credit bureau. Organized under the auspices of the TBA – and perhaps the Association of Finance Companies and Foreign Bankers Association, as well – this credit bureau should be a non-profit organization owned by participating financial institutions. In Thailand, Parliamentary approval is required to amend banking disclosure laws to allow information sharing among creditors. The Bank of Thailand has submitted, and the Cabinet has approved, legislation enabling the credit bureau to share selected financial information with subscribers. In anticipation that it will be passed, the IFC is exploring the possibility of establishing the Bureau as a commercial joint venture between a recognized body and one or several private banks in Thailand. If this does not materialize, the Bank would be willing to finance technical assistance to help establish such a credit bureau.

**Accelerating the Restructuring Process: Improved Monitoring and Sequencing**

3.41 Improved monitoring capabilities at BOT are needed for three reasons: (a) to promote efficient disposition of numerous corporate restructuring cases; (b) to trigger a requirement for voluntary or court-supervised restructuring in cases where a debtor selectively repays some creditors while neglecting others; and (c) to communicate with the market on progress in corporate restructuring.

3.42 Given the many candidates for corporate restructuring,[13] major restructuring cases (defined by BOT as one with NPLs of at least Baht 100 million) should be sequenced so as to concentrate first on the greatest chances for success. Sequencing should consider three variables: (i) viability of the debtor's business (ii) the likelihood of cooperation from the debtor, and (iii) the complexity of the restructuring case.

3.43 Noting that less viable companies tended to be the first to experience financial distress, several creditors suggest a last-in-first-out (LIFO) approach. On the assumption that more recently occurring non-performing companies are fundamentally more sound than those which went into non-performing status earlier, voluntary restructuring would focus first on the more recent cases to arrest the growth of NPLs.

3.44 In some cases, corporate debtors are servicing some creditors while neglecting others. Secured Thai banks receive preferential treatment over unsecured lenders, who typically include

[13] Behind the 200 cases identified by the BOT/CDRAC for priority treatment, over 1,000 medium-sized restructuring candidates between 100 and 500 million Baht each await handling.

finance companies, foreign banks, and bondholders. The secured lender being repaid has no incentive – and perhaps even a disincentive – to initiate corporate restructuring. Thus, the BOT's monitoring system should identify cases of selective debt service, which would trigger a requirement for either voluntary or court-supervised corporate restructuring. This approach could include the following directives from BOT:

- BOT designation of up to 2 lead creditors – one secured and one unsecured;[14]
- A BOT requirement for the two lead creditors and debtor to convene an initial meeting of major creditors within 7 days – followed by additional creditor meetings, establishment of claims, review of financial information and plans submitted by the debtor, and negotiation and agreement among creditors; and
- A BOT agreement for financial institution creditors to decide within 90 days on voluntary restructuring; court-supervised reorganization; or liquidation of the debtor.

**Intercreditor Agreement and Arbitration**

3.45 Restructuring transactions currently require a unanimous approval, which is extremely difficult to obtain. The slow process of reaching consensus prompted the Bank to explore the concept of intercreditor arbitration with CDRAC and the creditor community. CDRAC provided a draft of a similar agreement used in Korea. In these meetings, Thai creditors expressed support for a more efficient workout process. Along with the Bank of Thailand, associations representing Thai banks, finance companies, and foreign banks have agreed on an approach, which is now being circulated to lenders for their legally-binding endorsement. This approach includes:

- adherence to the timetable expressed in the Framework for Corporate Debt Restructuring;
- a provision that restructuring plans would be approved through a consensus vote of 75 percent by debt amount, 50 percent by number of debtors;
- an arbitration panel, consisting of experienced financial and/or restructuring members, to address cases where 75 percent agreement could not be achieved;
- that the process would be legally empowered through contract among creditors, possibly including use of fines.

3.46 While implementation of EFAL II conditionality will represent a strong improvement in the legal framework, enabling environment, and speed of the restructuring process, it represents only a starting point for the incentive structure for the large amount of voluntary financial and operational restructuring which must be achieved. Toward this end, the Bank has conducted training programs for Thai banks and debtor management, has designed a business advisory center for assisting corporate enterprises in the restructuring process and build Thai professional capacity, and is now designing a loan operation to fund high-level facilitation of debt restructuring.

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[14] These lead creditors would head Steering Committees. Other creditor groups – e.g., bondholders and suppliers – would, of course, select their own heads.

## A.3 Competitiveness

### *Financial Accountability and Corporate Governance*

3.47 Investor confidence and market efficiency depend on two critical factors. First, the legal standards that govern shareholders, directors, and management, need to be clear and transparent including the fiduciary role and liabilities of directors and management. Second, accurate, timely and complete financial information about corporate performance must be compiled and disclosed. These two conditions lie at the heart of corporate governance and provide an efficient means of protecting shareholder interests.

3.48 Under EFAL I, the Thai authorities committed themselves to a program of institutional and policy change to strengthen corporate governance and improve financial reporting. The objectives of the program are to a) rationalize the institutional framework for setting standards and regulating accounting and auditing practices, b) strengthen the Institute of Certified Accountants and Auditors of Thailand (ICAAT) to play a leadership role in development of the profession consistent with the international best practices, c) improve the quality and reliability of financial information provided by public corporations to regulators, shareholders and the general public, d) improve accountability of boards of directors and management of public companies and e) rationalize the regulatory framework for enforcement of laws and regulations for public companies. In fulfillment of the Board conditions of EFAL I (July 1998), the authorities made a series of announcements launching this program. Commitments under the Letter of Development Policy are being implemented under Bank technical assistance.

3.49 Building on the agreement reached under EFAL I, the Government has initiated a major program of reform to streamline institutional arrangements and improve boards' effectiveness and accountability. Based on a time-bound program, an independent accounting standard-setting organization will be established and the role of the ICAAT will be upgraded to a self-regulatory organization. Accounting and auditing standards will be upgraded to international best practices and new specific rules on accounting, external auditing, and financial disclosures will be proposed for banks, finance companies and SFIs. A plan will be implemented to remove the burdensome statutory requirements for submitting audit reports for partnership and inactive limited companies.

3.50 The roles and responsibilities of the audit committees of the Boards of Directors for listed companies will be upgraded to a level consistent with international best practices. Also, SET will revise the guidelines on the code of best practice for listed company directors to a level consistent with international best practices, and will propose an appropriate deadline for the disclosure of compliance or no-compliance with such guidelines to be mandatory under the SET's disclosure requirements. Shareholder rights will be improved though increased access to performance-related information; the exercising of voting rights; and promotion of active and independent members of boards of directors.

3.51 Furthermore, the Government will intensify its efforts to provide clear, consistent, and enforceable securities and capital market regulations designed to protect shareholder rights and to ensure an effective regulatory framework capable of enforcing such regulations.

### *Privatization*

3.52 Under EFAL I and the Bank's ongoing Economic Management Assistance Project (EMAP), the authorities are committed to creating competitive markets to improve infrastructure service delivery, devolve commercial activities to the private sector and increase the efficiency of public enterprises. As part of its reform package to address the economic crisis, the Government has embarked on a comprehensive agenda for reforming state enterprises and implementing a privatization program. In designing the program, the principal objective is to develop a viable and consistent reform strategy; to attend to social consequences of privatization during the economic crisis; and to establish an appropriate regulatory framework for private participation in water, power, transport and telecommunications. Following the LDP of EFAL I, the Master Plan for State Enterprise Reform was drafted under the leadership of the Ministry of Finance and approved by the Cabinet on September 1, 1998. The Master Plan lays out a timetable for privatization in four key sectors—water, telecommunications, transport, and energy—plus other state owned enterprises. To lend credibility to the program, the Government has started to divest several holdings (see Annex 2).

3.53 Further progress in reform requires streamlining of the **institutional framework** for privatization. Legislation under the Master Plan proposes to merge the State Enterprise Policy Commission with the Corporatization Committee, and is currently under review by parliament. The existing **legal structure** for competition, intellectual property, foreign ownership and securities will need to be modified. Thai law, for example, currently does not allow foreigners to hold more than one-half of the total shares in privatized SOEs. **Privatization proceeds** are likely to be substantial and will help meet the large cost of the ongoing financial restructuring. However, the authorities are mindful of the weak asset prices in this depressed market and will avoid privatization that involves "distress" sales. Where possible, strategic investors will be brought in to gain access to international management expertise.

3.54 There are now approximately 320,000 state owned enterprise employees, with the ten largest entities employing over 226,000 people. The government plans to establish a general fund to compensate employees of state enterprises who become redundant due to reform and privatization. The fund will be capitalized from privatization revenues, and may additionally be financed directly by the state budget. The policy actions negotiated with the Government are listed in the Policy Matrix (Schedule 2).

### *Investment Incentives*

3.55 A process of loosening the restrictions on foreign investment is underway. This reflects understanding of the need for foreign capital in the liquidation and corporate restructuring process. Cabinet has approved increased foreign participation in 33 previously restricted sectors and has recently approved lifting sectoral restrictions in such traditionally reserved service sector activities such as printing, freight transport, and tour agencies. Other changes will relax conditions on the foreign ownership of land and domestic labor hiring requirements of foreign firms. These changes have been made.

3.56 Critics of the incentive packages offered through the BOI say that the packages include poor access by SMEs, excessive tax expenditures, and unnecessarily complex benefits package. BOI itself claims that it is pressed by other Ministries to provide tax benefits that really exceed the authority granted to it under the governing act, to avoid the necessity of passing additional legislation. A detailed review of the BOI programs is being undertaken by FIAS that will cover the size and efficiency and effectiveness of tax expenditures. The report is expected in the second quarter of 1999. In the LDP the government has undertaken to review the results of the FIAS report and formulate a program of incentives reform for which will include changes in the BOI and amendments to the income tax and customs legislation as appropriate.

***Competition Policy***

3.57 Industrial structures are shifting in both the financial and real sectors as a result of the recent crisis. Ideally these changes would occur within the context of modern competition laws and institutions. While the mergers and acquisitions necessary to bring about effective restructuring cannot wait, it is critical that competition policy issues be addressed as quickly as possible.

3.58 The legislative basis for competition policy currently rests with the 1979 Price Fixing and Anti-Monopoly Act. This Act empowers the Central Committee on Price Fixing and Anti-Monopoly to ration and set prices and profit margins of "Controlled Products," and designate certain activities as "Controlled Businesses." There are further provisions relating to monopoly and restrictive practices. This Act is to be replaced by a new Competition Act and a Price Fixing Act. The new acts reflect more modern concepts of anti-competitive behavior. The definitions of abuse of dominance and price fixing and collusion have been made clearer. The allowable practices for mergers and acquisitions have been spelled out and provision made for advance judgements and appeals rather than the former practice of bringing suit only after the fact.

3.59 The new acts passed first reading in October 1998 and it is anticipated that they will become law early next year. However, substantial efforts will have to be made to establish the institutional capacity to oversee and enforce the new legislation. Enforcement responsibility currently rests with an office of the Central Committee within the Department of Internal Trade. Greater resources and expertise are needed in this office to match the provisions of the new legislation. Consequently the government in its Letter of Development Policy has indicated that it will, by June 1999, implement a program of institutional strengthening to provide the Central Committee with technical skills and resources commensurate with the requirements the new legislation.

## B. Fiscal Stimulus and Social Protection

3.60 Structural reforms outlined above are being implemented in a macro-economic framework that, because of weak external demand, emphasizes the importance of domestic demand in recovery. Given that domestic private consumption is unpredictable, fiscal policy will be central in stimulating domestic demand. A fiscal deficit of 5 to 6 percent, net of financial restructuring costs is to be externally financed. As real interest rates decline and real growth strengthens, debt to GDP ratio would reach an acceptable 40 percent by 2002/03.

3.61 An increase in public expenditures would total about one percent of GDP. Of this, the amount to be allocated to protect the poor would be at least forty percent. In a typical year, composition would be guided by the extent to which expenditure items improve the functioning of the economy and by the extent to which their benefits reach the poor. The need to inject a fiscal stimulus, however, adds a further set of considerations for spending priorities, involving the speed at which funds can be spent and the degree to which spending can be reversed after the crisis.

3.62 The National Economic and Social Board (NESDB), the Ministry of Finance and the Bureau of the Budget have assigned a high priority to expenditures that:

- are implemented by the Government, consistent with the Constitution or other laws and regulations;
- alleviate social and economic problems of targeted groups;
- can be executed and disbursed quickly;
- the benefits from the projects should be received directly by the people and they should induce higher productivity in the economy;
- are ready to be executed by capable government agencies;
- are transparent and monitorable;
- will not lead to significant carry-over in expenditures in subsequent fiscal years.

3.63 The Government has taken two approaches to developing projects. Some proposals have been made by the executing agencies and submitted to the Bureau of the Budget. These are called "bottom up" proposals in the first round of the selection process. In addition, the Ministry of Finance, National Economic and Social Board and the Bureau of the Budget have directly decided "top down" projects.

3.64 Thailand's economic crisis has highlighted serious structural inadequacies in the government's policy framework for social protection, and the urgent need to develop a more robust and durable approach to social management of income risks. Key elements of the policy reform agenda involve better strategic design and coordination of social policy, protection for the poor and the elderly, social protection for workers, and improvements to the information base for monitoring living standards in different socioeconomic groups.

# *MACROECONOMIC PROGRAM AND SOCIAL PROTECTION*

| | FCRL<br>Dec 16, 1997 | EFAL I<br>Jul 13, 1998 | Proposed<br>EFAL II<br>Mar 1999 | Proposed<br>EFAL III<br>Sept 1999 |
|---|---|---|---|---|
| *MACRO-ECONOMIC STABILIZATION* | • BOP support<br>• Credible macro-economic policy framework | • BOP support<br>• Easing liquidity cons-traint for existing firms | • Budgetary support<br>• Fiscal stimulus | N/A |
| *POVERTY AND SOCIAL PROTECTION* | N/A | • Social investment project | • Institutional design for policy coordination<br>• Work-fare programs<br>• Cash & Kind transfers | • Voluntary provident funds<br>• Social security reform<br>• Poverty monitoring |

**VISION:**

**The WB Program has supported a macro-economic framework that strengthens macro-economic stability and has a flexible fiscal stance to accommodate outlays for crisis-related costs of financial sector restructuring, fiscal stimulus, and social protection. Beyond the crisis, the program puts in place structures and policies for continued monitoring of poverty and its elimination. The integrated social protection program seeks to develop a sustainable social security and old-age pension program.**

### *Strategic Design and Coordination of Social Protection*

3.65 The ad hoc evolution of social policy measures in Thailand has avoided large fiscal burdens and unsustainable transfer programs, but the result is a patchwork of measures that could be rationalized and improved. One example is the new child allowance benefit in which the Government will subsidize those families enrolled in the new social security scheme, an equitable allocation of government resources to relatively well off households.

3.66 None of these policy measures benefits the vast majority of Thai workers and their families because they do not work in the formal sector. An inclusive and coherent policy framework for social protection requires strategic oversight of the social policy agenda that cuts across the interests of multiple government agencies. The government will establish a high-level focal point responsible for strategic development and coordination of a stronger social protection framework.

3.67 In the long term, Thailand should aim to develop a coherent approach to social risk management. An example would be one based on a system of integrated individual savings accounts in which people could manage minor risks of income loss associated with old age, unemployment, and medical care. The role of government would be to provide backup support from the budget for catastrophic losses that exhaust individual savings. The government will establish a task force to evaluate the long term feasibility of alternative approaches, including such savings based approaches for formal sector employees, complemented by a central safety net fund to insure against income risks suffered by other segments of the population.

### *Protecting the Poor*

3.68 In the past, Thailand has successfully relied on rapid growth and full employment to provide an improving standard of living for the population. However, in 1998 the economic crisis has reduced per capita income and increased poverty incidence. Preliminary analysis done by Kakwani for NESDB and ADB from the 1998 Socioeconomic Survey indicates that poverty incidence increased from 11.8 percent in the first quarter of 1996 to 13 percent in the first quarter of 1998, and from 10.6 percent in the second quarter of 1996 to 12.4 percent in the second quarter of 1998. The worst affected region is the Northeast where poverty incidence increased from 19.3 percent in 1996 to 22.7 percent in the second quarter of 1998. The percentage of people in poverty in Bangkok, which was 0.6 percent in 1996, changed very little. The rural areas of Thailand saw the largest increase in poverty from 14.9 percent in 1996 to 16.6 percent in the second quarter of 1998.

3.69 With rapidly rising numbers of people in poverty, and the consequent administrative difficulty of identifying all those in need, self-selecting participation in public *workfare* programs have proved to be an effective policy measure to deliver targeted income support. Thailand has a wide variety of ongoing rural public works programs. These will be expanded to generate employment opportunities especially for the rural poor in the Northeast. Sufficient additional budget will be allocated for this purpose, and its regional allocation will reflect the regional distribution of the poor. In order to reach more of the poor, the design of current workfare programs needs to be improved. Current programs have low labor intensities and set higher than market wage rates. The Government will take steps to increase the labor intensity and improve self-targeting by adopting low wages. The effectiveness of the workfare programs will be monitored through well-designed surveys of participants.

3.70 To protect vulnerable individuals who may not be able to work, the government currently implements a variety of means-tested cash transfer programs including income support for the elderly poor aged over 60 years, and for needy families. Both programs suffer from two problems: (a) the unit value of the income support is substantially less than the minimum subsistence requirements implied by the NESDB poverty lines; and (b) incomplete coverage of poverty target groups.

3.71 Under the *social pension for the elderly*, the monthly value of the subsistence allowance allocated in FY99 is 200 Baht per person or less than one-third of the poverty line for the elderly (around 700 Baht per month in 1997). At this low unit value of 200 Baht, the FY99 budget allocation of 763 million Baht would cover only 320,000 beneficiaries, or about one half of the elderly poor in 1996.

3.72 Besides cash transfer programs, Thailand also provides a variety of in-kind transfer programs including the *low income card for medical care* targeted to poor adults, and the *school lunch program for needy students* in primary schools. Both programs suffer from low unit value of the subsidy and mis-targeting of the poor. Additional budget will be allocated for these programs. Sharp declines in income have forced many parents to withdraw their children from school. *Scholarships* targeted at children likely to drop out have already been instituted by the Thai Government. Adequate budgetary support for targeted scholarship programs will be provided to help maintain school enrollments.

***Social Protection for Workers***

3.73 The labor market effects of the crisis have been profound. While the overall impact on open unemployment has been modest, real wages have declined substantially. The number of unemployed has increased - with 700,000 additional people falling into unemployment between August 1997 and August 1998. Real wages have declined between 12 and 24 percent depending on the region. The government plans to implement a fiscal stimulus package in FY99 to strengthen labor demand, increase employment and halt a further decline in real wages.

3.74 Thailand does not have an unemployment insurance scheme to provide income maintenance during periods of unemployment. However, laid off workers in the formal private sector are entitled to severance pay according to recently revised provisions of the Labor Protection Act of 1998. The amount of the severance payment is based on length of service up to a maximum of 10 months' earnings. Because this is an unfunded liability, it runs the risk of not being paid or paid only with unacceptable time lags. An employee welfare fund will be established to partially fund unpaid severance claims.

3.75 A variety of active labor market policies are being developed to promote re-employment of laid-off workers through training and job placement services. International experience shows that these programs need to be carefully designed and may not always be cost-effective. The Government will establish a task force, with representation from workers, employers and government to design, target and rigorously evaluate the cost-effectiveness of training programs for unemployed workers.

***Protecting the Elderly***

3.76 According to the law, the Social Security Office (SSO), is scheduled to begin collection of contributions for old age and child benefits as of end 1998. To fund this, contributions of one percent each from employers, employees and the government are envisaged and this will increase over time to the mandated 3 percent. The proposed pension benefit structure is not fiscally sustainable, requires contributions from the government budget which benefit only 18 percent of the labor force, and will result in lower wages for workers who have already suffered a large decline in earnings. The optimal strategy would be to delay implementation of the pension system until sustained economic growth has resumed and the scheduled benefits can be restructured.

3.77 About 20 percent of SSO contributors currently contribute to tax advantaged employer-sponsored provident funds. International experience shows that such provident funds could increase the domestic savings rate, deepen capital market development and reduce excessive leverage of the corporate sector. However, the existing provident funds are unsupervised and unregulated. They offer lump sum refunds when employees leave the firm with no portability across jobs, and no annuities. The Government will establish a task force to develop a robust supervision and regulatory structure for voluntary provident funds and to improve the portability across funds and employers.

***Improving the Information Base for Monitoring***

3.78 Better monitoring of changes in living standards in different socioeconomic groups is needed to provide timely feedback to improve the design of programs to manage the effects of the economic crisis. The government will allocate additional funds to support implementation of the 1999 Socio-economic Survey (SES) with improvements to the questionnaire, and to conduct an additional fourth round of the Labor Force Survey (LFS). Measures will also be taken to improve the policy relevance of the SES and LFS by accelerating the turnaround time to 3 months.

***Social Investment Project***

3.79 The Bank, with OECF, UNDP and AUSAID as cofinanciers, approved a Social Investment Project (SIP) in July 1998 to address urgently some of the early social protection and safety net issues arising from the crisis. The Project provides supplemental financing for selected Government programs capable of meeting three basic criteria: fast acting interventions; self targeting benefits to the poor and unemployed; capacity for rapid expansion without a decline in efficiency. Thus, the Project supports several short term vocational training programs run by the Ministry of Labor and Social Welfare, employment generating civil works in rural and urban areas through the Bangkok Metropolitan Administration and the Ministry of Interior, improved health services for low income users of public facilities through the Ministry of Health, and other programs. The Project also supports informal safety net services and community based investments through financing for a new Social Investment Fund. Overall, the Project is now disbursing through paticipating ministries, and the Social Investment Fund has approved 200 first round sub-projects at the community level. The Government's fiscal stimulus program to be supported by the EFAL II loan will complement and further expand selected SIP financed activities.

# 4. BANK GROUP STRATEGY

## A. THE BANK

### *Background*

4.1 A full country assistance strategy (CAS) was presented to the Board on July 9,1998 (Report No. 18002-TH). The next full report is due in FY2000. The following section provides a brief update on the progress of implementation of the strategy.

### *The Country Assistance Strategy*

4.2 The thrust of the Bank's strategy focused on three critical elements that would revive economic growth: renewed competitiveness of Thailand's productive capacity, financial sector and labor force; better governance of public institutions; and more equitable distribution of the benefits of growth across social lines.

4.3 **Renewing Competitiveness.** The Government must foster *renewed competitiveness* in the private sector because it is the key to reviving high growth. Private savings must be channeled into efficient investment, capital markets must be developed, and new options for savings, such as funded pension programs, must be created. This requires a sound and stabilized financial sector, and increased government capacity to set the rules for the market where it serves the country's economic interests. It also requires a restructured corporate sector operating under a modern legal framework and financial accounting system to improve market discipline. Thailand must improve the quality of its workforce so that it can produce higher value, more technologically sophisticated exports; it must also remove export infrastructure bottlenecks and provide an effective framework for corporate restructuring.

4.4 **Improving Governance.** Thailand must ensure that its public sector has the capacity to support development. It needs to strengthen macroeconomic management, improve public financial management and administration, modify the legal framework to facilitate business revival, and create an efficient public enterprise apparatus.

4.5 **Sharing Growth and Ensuring Quality of Life.** Thailand must ensure that economic benefits of development are *shared among all segments of society*, especially the poor and the vulnerable. Finally, sustainable economic recovery requires diligent attention to protect the environment to ensure present and future quality of life for all citizens. This requires better public expenditure allocations and environmental management.

4.6 The Government's commitment to these main elements of the country assistance strategy remains strong, and the political basis for continued progress is intact. The Government's coalition is stable, having weathered its first significant challenge in Parliament, and still commands enough Parliamentary support to prevail on reform legislation. As the crisis continues, concerns on the social impacts and stress on the social fabric have motivated an open debate on social protection policy and the safety net, both in its formal and informal dimensions, but notably without civil unrest or dangerous instability. This debate has links to growing civic pressure for improved governance and anti-corruption, with benefits for many elements of the reform program. Social impacts are evident and serious, but have not yet impoverished large segments of the population, with only one million additional people below the poverty line, or 1.5 percent of the population. The Government's public engagement with social issues and its commitment to do more to reach those most vulnerable to crisis impacts has proved responsive and effective. These achievements in sustaining progress toward CAS objectives have not been without setbacks and obstacles: political debate on the Government's recovery strategy has intensified, and resistance to some of the reform measures has focused on perceptions of growing foreign influence and control over decision making. Implementation of public employment programs has lagged. For the future, there is growing concern that Thailand's informal safety net, which along with a buoyant agriculture sector last year helped contain impacts on poor families, may be reaching the end of available resources. Low food prices and localized water shortages may depress agricultural performance in 1999 and diminish its capacity to employ migrants and laid off workers. On the whole, however, progress is satisfactory and implementation is on track.

4.7 A vital underpinning to the CAS is macroeconomic stability. The fragile situation reported in the last CAS has now solidified. The Thai Baht exchange rate has stabilized, inflation has come down from 10 percent to 4 percent, interest rates have fallen to 10-12 percent, and foreign direct investment has returned to Thailand at record levels, reaching a total of US$7.6 billion in 1998. On the financial front, the situation is mixed. Rising non-performing loans continue to undermine the viability of the financial system. The restructuring of the huge corporate debt is progressing slower than anticipated, due to lack of sufficient initiatives taken by creditors and debtors. Bank recapitalization initiatives, while remaining on track, need to be accelerated. Progress has been registered on the reform of economic laws, despite their political ramifications, but the package has yet to be fully passed. Economic growth prospects are also mixed. On the positive side, the external environment looks less threatening. Thailand's economy weathered the contagion effect of Brazil's currency upheaval without serious consequences. Nonetheless, the prospects of Thailand's recovery are inextricably linked to the outlook for the depressed markets in Asia and the danger of a slowdown in growth in the US and Europe.

### *Fine-tuning the Strategy*

4.8 In the final analysis, Thailand's prospects for a quick and sustained recovery depend on how resolutely the Government addresses issues of financial and corporate sector reform, how ably it manages the social impact and how effectively it pursues structural reforms. The structural reforms are aimed at strengthening competitiveness in the global economy, improving governance within the country and better managing the distribution of benefits from growth and the quality of life for all people. The overall strategy laid out in the CAS has proven robust as it addresses precisely these concerns. Given developments over the past year and the learning that have emerged from it, some fine-tuning of the strategy is called for to give greater impetus to certain areas of reform. Corporate sector restructuring has proved to be one of the most important and difficult areas where the Bank has been called upon to provide support. Skills development remains a crucial task to renew Thailand's competitiveness and the Bank's role in this area needs strengthening to help promote major system-wide reforms in education.

4.9 In dealing with the social consequences of the crisis, the Government's emphasis on strengthening informal safety nets will need more urgent support this year so as to sustain community institutions. Rural employment and water supply programs will be more important this year as the role of agriculture as employer of last resort may falter, and implementation of Bank supported programs in these areas must accelerate to meet the needs. Targeting government programs to those losing incomes as well as jobs is a major challenge as the crisis impacts shift by sector, region, and employment group. Increasingly voiced concerns, expressed by civil society over corruption, the quality of public services and the government's ability to steer itself out of the crisis have highlighted the need to address more urgently shortcomings in public sector governance, which has been at the root of the economic crisis.

***Status of Bank Operations***

4.10 The CESW and non-lending program are on track and require only minor changes to accommodate the adjustments in the assistance strategy for Thailand described above. The lending program for the first two years of the CAS is also on track and conforms to the base case of three-year lending program of about US$3.4 billion, including US$500 million of guarantees. In the current year, the Board approved the Social Investment Project ($300 million) the EFAL I Loan ($400 million) and a guarantee operation in support of a bond issue by the Electricity Generation Authority of Thailand (EGAT). A move to the enhanced base case, though possible within the next year, is not yet warranted as triggers in respect of progress in the auctions of the FRA, swift passage of economic laws, the establishment of regulatory agencies and the acceleration of IBRD disbursements, are not ready for activation. The fine tuning of the assistance strategy calls for some changes in the blend and timing of operations. A new operation is being designed to provide technical assistance and capacity building support for corporate sector restructuring. Work on governance will be intensified through a string of adjustment operations, supporting public finance and public administration reforms. The next education operation is being rescheduled to take into account reallocation of investment funds under ongoing education projects and funding for education provided under the public administration reform activity. Emphasis will also be made on building capacity in the country for the establishment and implementation of a comprehensive framework for national development being developed by the Government.

4.11 The base lending case envisaged up to US$500 million of guarantee operations. An operation supporting a US$300 million EGAT bond has already been successfully completed. A second operation is under preparation. Expansion of the program of guarantees will depend on Bank-wide decisions on the enhanced use of guarantees.

4.12 The Bank continues to work closely with the IMF, ADB and the Japanese authorities in coordinating Thailand's recovery efforts, especially in the context of the Miyazawa initiative. PHRD grants and ASEM funding have proved to be invaluable in supporting the preparation of reform operations, particularly in the financial, corporate and social sectors.

## B. IFC

4.13 The International Finance Corporation (IFC) seeks to work closely with the Bank for ways to contribute to the Bank's program for financial sector reforms and restructuring of Thai industries for long-term competitiveness. In view of IFC's large exposure to the country and prolonged systemic risks due to unresolved problems in the areas of financial and corporate restructuring, IFC has concentrated on restructuring its portfolio companies. With the delay in key policy issues such as bankruptcy reforms, portfolio issues continue to be dominant. IFC is also looking for potential restructuring transactions for new clients. In the last 12 months, IFC approved 2 projects for a total investment of US$30 million. In the near term, IFC's activities will be focused on assisting the recovery process through the establishment of trade financing facilities and corporate restructuring.

## C. COORDINATION WITH IMF

4.14 On August 20 1997, the IMF's Executive Board approved a 34-month Stand-By Arrangement (SBA) for Thailand for an amount equivalent to SDR 2,900 million (505 percent of quota). SDR 1,200 million (209.1 percent of quota) has been disbursed upon Board approval. Access under the SBA exceeds normal limits considering Thailand's exceptionally large balance of payments needs, and it is heavily front-loaded to ensure that the external financing essential to restore confidence is available as early as possible. *In February 1999, the IMF completed the sixth review of the program and to date has extended SDR 2.3 billion (US$ 3.2 billion) of the total committed funds under the SBA.*

4.15 The Bank has been working closely with IMF in Thailand. Since the onset of the financial crisis, the Bank and Fund have jointly assisted the Government to design the comprehensive financial sector restructuring program that is currently being implemented. IMF has paid special attention to issues related to commercial banks, while the Bank has focused on the resolution framework for finance companies and on strengthening the supervision and regulatory framework for the entire system. As the reform program is widened, cooperation between the two institutions continues and includes corporate restructuring and reform of the legal framework and corporate governance, social protection and fiscal stimulus.

## D. COOPERATION WITH ADB

4.16 Asian Development Bank (ADB) pledged US$1.2 billion to support the Government's stabilization and structural adjustment program, focused on the financial and social sectors.

4.17 A **Financial Markets Reform Program Loan** (FMRPL) was approved for US$300 million in December, 1997. The FMRPL has the following specific objectives: (i) strengthen market regulation and supervision; (ii) improve risk management; (iii) facilitate investor-issuer access to the financial market; and (iv) develop long-term institutional sources of funds. A US$500 million **Social Sector Program Loan** (SSPL) was approved in March, 1998. The objectives of the SSPL are to: (i) mitigate the short-term impact of the crisis on society, in particular the most vulnerable groups and the unemployed; (ii) initiate structural reforms to enhance the competitiveness of the Thai economy through the development of human resources; and (iii) reduce inefficiencies in the provision of social services. The **Export Financing Facility** (EFF) was approved in March, 1998. The EFF funds pre- and post-shipment financing of exports, the import of raw materials needs of exporters, and export-related plant and machinery requirements. The ADB is providing a partial credit guarantee to the commercial cofinanciers in respect of the syndicated loan, with a counter guarantee from the Government to the ADB. A portion of the ADB loan and the commercial cofinancing will be re-lent by Thai EXIM directly to sub-borrowers, and the balance will be re-lent by EXIM to various participating credit institutions for onlending to sub-borrowers. The ADB is processing an **Agriculture Sector Program Loan** (US$300 million) and a **Higher Education Project** (US$60 million) for consideration during FY-1999.

# 5. THE PROPOSED LOAN

5.1 The proposed loan is consistent with the Bank's country assistance strategy outlined above. It is part of a two-year program of structural adjustment of the economy supported by four single-tranche balance of payments support loans. The first loan in the series, the Finance Companies Restructuring Loan (FCRL), was approved by the Board in December 1997 and supported measures toward the resolution of the suspended finance companies and committed the Government to comprehensive reform of the financial sector over the next two years. The second loan, Economic and Financial Adjustment Loan I (EFAL I) while further deepening the restructuring of the financial sector, supported measures to strengthen the corporate sector. The proposed EFAL 2 loan will continue to track reform in the financial and corporate sectors, but with a sharper focus on strengthening the competitive foundations of the economy, in areas such as privatization and public enterprise reform, corporate governance (including legal reform), and social protection (i.e. poverty, labor markets, social safety nets)

5.2 The adjustment lending program is a flexible response to the Thai crisis. It allows a closer tracking of the evolving crisis to commit the Government to remedial measures, while remaining focused on the needed fundamental restructuring of the economy. The program is being coordinated with IMF, ADB and bilateral lenders.

5.3 The Government has taken several actions in fulfillment of the loan conditions in the areas of the macroeconomic framework, corporate restructuring, financial sector, insolvency regime and secured lending, corporate governance and financial disclosure, and privatization. The specific actions are listed in the Policy Matrix.

### A. LOAN SIZE AND FEATURES

5.4 **Loan Size.** A single-tranche loan of US$600 million is proposed to be made available upon loan effectiveness, anticipated for March 1999. The Closing Date of the Loan would be October 31, 1999.

### B. CONDITIONS FOR BOARD PRESENTATION

5.5 **Terms and Conditions.** At the request of the Government, and consistent with the country's external debt management policy, the proposed loan, in the amount of US$600 million, would be a Single Currency Loan (SCL) in US Dollars, with a 15-year maturity, including a 3-year grace period, at the Bank's standard fixed US Dollar SCL interest rate. A matrix of policies supported by the Loan is attached in Schedule 2.

5.6 **Disbursement and Procurement.** The proposed loan would support the economic and financial restructuring program of the Government described in the Letter of Development Policy, except for items specified in Schedule 1 of the Loan Agreement. The Government will open and maintain a deposit account with BOT. Upon effectiveness and tranche release, the Government will submit a simplified withdrawal application to the Bank, against which the Bank will disburse the loan proceeds in one tranche into the Deposit Account. Disbursements will not be linked to specific purchases, and supporting evidence for disbursements is therefore not required. If after deposit is made in the Deposit Account the proceeds of the loan and any part thereof is used for ineligible purposes as defined in the Loan Agreement, the Bank will require the borrower to either (a) return the amount to the Deposit Account to be used for eligible purposes, or (b) refund the amount directly to the Bank, in which case the Bank will cancel an equivalent undisbursed amount of the loan.

5.7 **Accounts and Audit.** BOT, on behalf of the Government, will maintain the accounts for this loan in accordance with sound accounting practices. The accounts and disbursements under the program will be audited within four months after the close of the fiscal year. The loan will support the Government's efforts to reflate the economy with a special focus on expenditures for social protection. The Budget Bureau of the Government of Thailand is finalizing expenditure outlays to satisfy the Board conditions of the loan. A monitoring mechanism will be put in place, including a focused Socio-Economic Survey in 1999 to ensure that expenditures are incurred in appropriate program and income groups. In accordance with the loan agreement, the Government of Thailand, at the Bank's request, will have the accounts audited and furnish a report of such audit to the Bank.

5.8 **Monitoring Arrangement.** MOF and BOT will be responsible for monitoring the implementation of the restructuring program with the help of the Letter of Development Policy, through regular reviews, and in the context of the preparation and supervision of other projects. MOF and BOT will prepare a final progress report on the program within six months after the closing date of the loan, and submit the report to the Bank.

5.9 **Environmental Assessment Requirements.** In accordance with the Bank's Operational Directive on Environmental Assessment (OD 4.00, Annex A), the proposed operation has been placed in Category "U" and will not require an environmental assessment.

## C. BENEFITS AND RISKS

5.10 **Benefits**. The program of actions supported by this loan will be beneficial both in the short and the long term. In the short term, the fiscal stimulus supported by the loan will strengthen aggregate demand, provide employment opportunities and substantially bolster social protection. This will help mitigate the distributional consequences of the ongoing crisis, and will provide breathing space to a government committed to structural reform. The measures to facilitate corporate debt workouts will also have the short term benefits of alleviating the credit crunch, strengthening of economic activity and reducing non-performing loans of financial institutions. The medium term benefits include the consolidation of the structural reform program that began with the Finance Companies Restructuring Loan and deepened with the first

Economic and Financial Adjustment Loan. The loan program will strengthen the legal, institutional and incentive framework for decision-making by financial institutions and corporates. The social protection measures supported by this loan include the development of a medium term strategy to respond quickly to the distributional and poverty consequences of the crisis.

5.11 **Risks.** The greatest risk to the program lies in misreading the current strengthening of the stock market and the exchange rate as signs of enduring recovery. Although the market is less pessimistic now than it was six months ago, capital inflows are still small relative to the recapitalization needs. Non-financial corporations continue to experience difficulty in accessing credit. The wrong response to the market's "wait and see" attitude would be to declare victory prematurely and leave unfinished the reform of financial institutions. This might well start another round of confidence loss. In particular, slow progress in reforming the legal and institutional framework for bankruptcy and foreclosure would reflect on asset prices and the pace of corporate workouts. Another risk lies in heavy-handed intervention in the ongoing restructuring of financial institutions or corporations that discourages market-led workouts and results in a large fiscal cost. Among the external risks, further instability due to regional contagion now seems less likely, although external demand remains anemic because of the slowdown in Japan. The slowdown in China's exports and its implications for that country's currency policy entails another set of risks. A prolonged slowdown of economic activity and the resulting unemployment and income loss could lead to social unrest and political instability, which would put at risk the reform program.

5.12 Fortunately, recent economic developments suggest that the risks outlined above are small. The economic leadership is aware of the risk of declaring victory prematurely and is managing expectations accordingly. The reform agenda, with a special emphasis on protection of the vulnerable, remains a top priority and progress to date is satisfactory. The Government is avoiding quick-fix remedies and is committed to modernizing the legal and corporate governance framework for strengthening the overall environment for doing business in Thailand.

# 6. RECOMMENDATION

6.1 I am satisfied that the proposed loan complies with the Articles of Agreement of the Bank and I recommend that the Executive Directors approve it.

James D. Wolfensohn
President

by Sven Sandström

Washington, D.C.
March 25, 1999
Attachments

**Table 4: Thailand: Overview of Key Financial Sector Institutions**

| Figures for banks and finance companies as of December 1996, SFIs as of March 1996 | Commercial Banks | Finance Companies | Specialized Financial Intermediaries | Total (see Note) |
|---|---|---|---|---|
| Number of Institutions | 29 | 91 | 6 | 4,870 |
| Of which Foreign | 14 | 0 | 0 | N/A |
| Total Assets (million Baht) | 5,627 | 1,812 | 842 | 9,030 |
| Share of Financial System Assets (%) | 62 | 20 | 9 | 100 |
| Total Funds from Households (Deposits) | 2,643 | 661 | 321 | 3,948 |
| Share of Financial System Deposits (%) | 67 | 17 | 8 | 100 |

*Note:* Total includes Credit Foncier, mutual fund management and insurance companies, agricultural and savings cooperatives (estimated at end-1995), and provident funds
*Source:* Bank of Thailand.

# Table 5: Thailand: Macroeconomic Framework

| | 1996 | 1997 | 1998 | | | 1999 | | |
|---|---|---|---|---|---|---|---|---|
| | Actual | Actual | Fourth Review | Fifth Review | Estimate | Fourth Review | Fifth Review | Projection |
| Real GDP growth (percent) | 5.5 | -0.4 | -7.0 | -8.0 | -8.0 | 0.5 | 1.0 | 1.0 |
| Consumption | 6.7 | 0.1 | -10.7 | -13.0 | -13.0 | 1.7 | 3.0 | 3.0 |
| Gross fixed investment | 6.0 | -16.0 | -30.4 | -36.0 | -36.0 | 0.5 | 3.0 | 3.0 |
| CPI inflation (end period, percent) | 4.8 | 7.7 | 8.0 | 4.2 | 4.3 | 5.0 | 3.5 to 4.5 | 3.5 to 4.5 |
| CPI inflation (period average, percent) | 5.9 | 5.6 | 9.2 | 8.0 | 8.1 | 6.4 | 2.5 to 3 | 2.5 to 3 |
| Saving and Investment (percent of GDP) | | | | | | | | |
| Gross domestic investment | 41.7 | 35.0 | 26.9 | 25.4 | 25.4 | 27.4 | 25.9 | 26.6 |
| Private, including stocks | 31.5 | 23.5 | 15.0 | 14.1 | 14.1 | 16.0 | 13.0 | 14.4 |
| Public | 10.2 | 11.5 | 11.9 | 11.4 | 11.4 | 11.4 | 12.9 | 12.2 |
| Gross national saving | 33.7 | 32.9 | 36.9 | 37.0 | 37.6 | 34.5 | 34.3 | 35.6 |
| Private, including statistical discrepancy | 20.6 | 22.2 | 27.3 | 28.5 | 28.9 | 24.9 | 27.5 | 27.5 |
| Public | 13.1 | 10.7 | 9.7 | 8.5 | 8.7 | 9.7 | 6.8 | 8.1 |
| Foreign saving | 7.9 | 2.0 | -10.0 | -11.5 | -12.2 | -7.1 | -8.5 | -9.0 |
| Fiscal accounts (percent of GDP) 1/ | | | | | | | | |
| Central government balance | 1.9 | -1.4 | -2.7 | -2.4 | -2.4 | -1.0 | -3.0 | -3.0 |
| Revenue and grants | 19.1 | 17.6 | 15.0 | 15.1 | 15.1 | 15.8 | 15.8 | 15.8 |
| Expenditure and net lending | 17.1 | 19.0 | 17.8 | 17.5 | 17.5 | 16.9 | 18.9 | 18.9 |
| Overall public sector balance | 2.8 | -2.1 | -3.1 | -2.8 | -2.8 | -3.1 | -5.2 | -5.2 |
| Cost of financial sector assistence /2 | | 0.7 | | 3.1 | 3.1 | | 2.9 | 2.9 |
| Overall public sector balance, augmented for the | 2.8 | -2.8 | | -5.9 | -5.9 | | -8.1 | -8.1 |
| Monetary accounts (end period, percent) | | | | | | | | |
| M2A growth | 12.7 | 2.1 | 7.0 | 8.0 | 8.0 | | 9.5 | 9.5 |
| Reserve money growth | 12.0 | 0.5 | 8.8 | 6.6 | 6.6 | | 9.5 | 9.5 |
| Balance of payments (billions of US$) | | | | | | | | |
| Exports, f.o.b. | 54.7 | 56.7 | 54.8 | 53.0 | 52.9 | 58.7 | 55.7 | 55.0 |
| Growth rate (in dollar terms) | -1.9 | 3.8 | -3.3 | -6.6 | -6.8 | 7.0 | 5.1 | 4.2 |
| Growth rate (in volume terms) | -5.1 | 9.2 | 8.8 | 7.9 | 8.0 | 7.4 | 3.9 | 2.1 |
| Imports, c.i.f. | 70.8 | 61.3 | 45.1 | 41.5 | 40.7 | 51.4 | 46.8 | 45.0 |
| Growth rate (in dollar terms) | 0.6 | -13.4 | -26.5 | -32.3 | -33.6 | 14.0 | 12.6 | 10.6 |
| Growth rate (in volume terms) | -4.0 | -11.6 | -21.7 | -25.8 | -26.9 | 11.1 | 9.4 | 10.9 |
| Current account balance | -14.4 | -3.0 | 11.5 | 13.5 | 14.2 | 9 | 11 | 12 |
| (percent of GDP) | -7.9 | -2.0 | 10.0 | 11.5 | 12.2 | 7.1 | 8.5 | 9.0 |
| Capital account balance /3 | 16.5 | -15.5 | -17.1 | -17.0 | -16.7 | -4.1 | -10 to -12 | -11 |
| Medium- and long-term | 11.3 | 6.0 | 6.2 | 3.2 | 3.1 | 5.6 | 0.9 | 1.0 |
| Short-term 3/ | 5.2 | -21.5 | -23.3 | -20.2 | -19.8 | -9.7 | -12.9 | -12.0 |
| Overall balance | 2.2 | -18.6 | -5.6 | -3.5 | -2.5 | 4.9 | -1 to +1 | 1 |
| Identified financing (net) | 0.0 | 8.0 | 5.6 | 3.5 | 5.0 | 3.1 | 4.6 | |
| Gross official reserves (end year) | 38.7 | 27.0 | 27 | 28.5 | 29.6 | 35.0 | 32 to 34 | 36 |
| (Months of imports) | 6.6 | 5.3 | 7.2 | 8.2 | 8.7 | 8.2 | 8.2 | 9.6 |
| (Percent of short-term external debt) | 103 | 77.0 | 155.0 | 113.0 | 118.0 | 295.0 | 178.0 | 203.0 |
| Forward position of BOT (end year) | -4.9 | -18.0 | -9.0 | -8.0 | -6.7 | -7.0 | 23 to 24 | -3 to -4 |
| External debt (percent of GDP) | 49.9 | 60.7 | 73.2 | 73.2 | 73.0 | 62.7 | 59.4 | 58.3 |
| Total debt (billions of US$) 4/ | 90.5 | 93.4 | 85.4 | 85.4 | 85.1 | 79.3 | 77.9 | 78.5 |
| Public sector | 16.8 | 24.3 | 31.2 | 31.2 | 31.0 | 36.3 | 36.2 | 36.9 |
| Private sector | 73.7 | 69.1 | 54.2 | 54.2 | 53.9 | 42.9 | 41.7 | 41.4 |
| Medium- and long-term | 36.2 | 34.3 | 29.1 | 29.1 | 29.1 | 31.1 | 23.8 | 23.8 |
| Short-term | 37.6 | 34.8 | 25.0 | 25.0 | 24.8 | 11.9 | 17.9 | 17.7 |
| Debt service ratio 5/ | 12.0 | 15.3 | 21.3 | 21.3 | 21.4 | 19.9 | 20.1 | 20.3 |

Source: IMF

1/ On a fiscal year basis.
2/ Imputed interest costs of servicing the total stock of financial sector asistance, including off-balance sheet liabilities
3/ Including outflows associated with the closing of swap and forward contracts by the Bank of Thailand.
3/ Consistent with the elimination of al BOT offshore forward and swap obligations by end-1998.
4/ Data from end 1997 have been revised to include loans to Thai corporations, whose proceeds were not brought into Thailand.
corporations into Thailand.
5/ Percent of exports of goods and services.

# Table 6: Thailand: Program Monitoring, July 31, 1997 - January 12, 1999 1/

| | 1997 | | | 1998 | | | | | | | | | | | | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jul | Aug | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | 12-Jan |
| (In baht per U.S. dollar) | | | | | | | | | | | | | | | | |
| Spot exchange rate | 31 7 | 34.2 | 48.0 | 52 5 | 43 2 | 38.9 | 38.6 | 40.4 | 42.2 | 40 9 | 41.8 | 39.5 | 36.8 | 36.1 | 36.7 | 36 4 |
| NEER (increase denotes baht appreciation) | 83.4 | 77.6 | 59.0 | 54 9 | 65 9 | 72.7 | 73.6 | 72.1 | 69.7 | 71 9 | 70.3 | 71 9 | 73 3 | 76.7 | 73.5 | |
| Forward exchange rate, one-month 2/ | 31 9 | 34.5 | 48 3 | 53 0 | 43 4 | 39 2 | 39 0 | 41 0 | 42.6 | 41.0 | 42 | 39.5 | 36.8 | 36.1 | 36.7 | 36 4 |
| Swap premium, one-month (in percent) 2/ | 6.0 | 13.0 | 8 6 | 12 0 | 8 2 | 9 5 | 11.6 | 22.6 | 11 4 | 3.4 | 4.1 | 0.6 | 0 5 | -0.2 | -0.3 | -0.7 |
| (In billions of U S dollars) | | | | | | | | | | | | | | | | |
| Current account balance, end-month | -0.4 | -0.4 | 1 1 | 1.2 | 1.5 | 1 5 | 0.9 | 1 | 0.9 | 1.2 | 1.1 | 1.1 | 1.3 | 1.3 | | |
| Exports (twelve-month percent change) | 7.9 | 2.2 | 7.8 | -7.9 | 3 2 | 3.5 | -0.1 | -11.1 | -3.1 | -3.8 | -11.4 | -10 3 | -12.6 | -6.7 | | |
| Imports (twelve-month percent change) | -8 7 | -13.3 | | -45.1 | 36.1 | 37.6 | -39.1 | -39 7 | -35.9 | -31.9 | -38.3 | -32.3 | -24.8 | -14 9 | | |
| Net international reserves /3 | 1.3 | 0.8 | 6 6 | 6 2 | 7.4 | 9.2 | 11 2 | 11.4 | 11.8 | 12.6 | 13 7 | 14.6 | 17.2 | 6/ 18.4 | | |
| Non-borrowed reserves | 1.3 | 0.8 | 1.1 | -0 1 | 1 1 | 1 6 | 3.6 | 3.8 | 3.4 | 4.2 | 5.0 | 5 7 | 8.1 | 6/ 9.3 | | |
| Gross reserves | 30.5 | 25 9 | 27 0 | 26.4 | 26 2 | 27.6 | 29.5 | 27.5 | 26.6 | 26.8 | 26.7 | 27.3 | 28.5 | 28.9 | 29.5 | 29.7 |
| Financing package (includes AaDB and IBRD) | 0.0 | 1.6 | 7.9 | 8 7 | 8 7 | 10.3 | 10 3 | 10.3 | 11 2 | 11.2 | 11.5 | 11.9 | 12.1 | 12.1 | 12.2 | 12.2 |
| *Of which:* IMF | . . | 1.6 | 2 4 | 2.4 | 2.4 | 2.7 | 2 7 | 2 7 | 2.8 | 2 8 | 2.8 | 3 0 | 3.0 | 3.0 | 3 1 | 3.1 |
| Swaps and forwards, net stock | -29.2 | -23.6 | -18 0 | -17 8 | -16.3 | -15 7 | -15 6 | -13.4 | -12.0 | -11.3 | -10.1 | -9.7 | -8.4 | -7.6 | -6.6 | -6.1 |
| Onshore | -10.1 | -7.9 | -9.2 | -9.3 | -9.1 | -9 7 | -10.2 | -11.5 | -10.0 | -10.0 | -9.5 | -9.3 | -8.4 | -7.6 | -6.6 | -6.1 |
| Offshore 4/ | -19 1 | -15.6 | -8.8 | -8.5 | -7 2 | -6 | -5.4 | -1.8 | -1.9 | -1.3 | -0.6 | -0 4 | 0.0 | 0.0 | 0 0 | 0.0 |
| Spot fx intervention, cumulative since Aug-21 | ... | 0.8 | 0.91 | 1 56 | 1 16 | 0.65 | -1 22 | -1.56 | -1.56 | -1.94 | -2.43 | -2 89 | -4 34 | -5.95 | -6 94 | -7.25 |
| (Percent) | | | | | | | | | | | | | | | | |
| External debt rollover rate 5/ | .. | . . | 71 | 63 | 74 | 76 | 85 | 64 | 73 | 77 | 75 | 90 | 64 | 53 | 74 | |
| Foreign banks | ... | . | 86 | 122 | 98 | 83 | 94 | 70 | 71 | 74 | 89 | 106 | 70 | 50 | 76 | |
| Thai banks (excluding BIBF) | . | . | 58 | 27 | 60 | 60 | 74 | 60 | 67 | 63 | 59 | 59 | 58 | 75 | 74 | |
| Non-banks | ... | . | 33 | 21 | 47 | 81 | 77 | 61 | 86 | 105 | 58 | 94 | 56 | 38 | 72 | |
| Interest rates | | | | | | | | | | | | | | | | |
| One-day repurchase | 16 5 | 20.0 | 24.0 | 20.5 | 21 0 | 19.8 | 18 0 | 17.5 | 16 6 | 11.4 | 9.5 | 6 0 | 5 0 | 4.0 | 3 1 | 3 0 |
| Overnight interbank (median) | 13.8 | 20.9 | 24.8 | 21 3 | 22 1 | 20 4 | 17.5 | 17.0 | 16 9 | 11.0 | 9.6 | 4.8 | 4.2 | 3.3 | 2.3 | 2.4 |
| Lowest (most creditworthy) | 9 5 | 19.8 | 16 0 | 16 5 | 15.5 | 15 0 | 16.0 | 16 3 | 16 8 | 3.0 | 8.3 | 4.0 | 4 0 | 3.0 | 2.0 | 2 3 |
| Highest (least creditworthy) | 20.0 | 22 0 | 29.8 | 24 5 | 26.3 | 23 3 | 19.0 | 18 0 | 18.0 | 16.0 | 12.0 | 8.0 | 4.5 | 3.5 | 2 5 | 2.8 |
| One month Repurchase | 13.9 | 20.3 | 24 5 | 22.4 | 21.8 | 21.6 | 18.1 | 16 9 | 17.5 | 12.6 | 10.5 | 7.8 | 7.0 | 6.0 | 5.0 | 4 9 |
| One month Swap Rate | 11.6 | 18.6 | 14.2 | 17 6 | 13 8 | 15 1 | 17.2 | 28 1 | 17.0 | 9.0 | 9.7 | 5.9 | 5 6 | 5.3 | 4 7 | 4.2 |
| Ten year Yankee Bond Spread (bps) | 103 | 137 | 446 | 452 | 296 | 249 | 270 | 298 | 386 | 414 | 911 | 715 | 479 | 355 | 348 | |
| Inflation (CPI based) | 4.9 | 6.6 | 7 6 | 8.6 | 8.9 | 9 5 | 10.1 | 10.2 | 10.7 | 10.0 | 7.6 | 7.0 | 5.9 | 4.7 | 4.3 | |
| Manufacturing Production Index (1997Q1=100) | 102.3 | 96.0 | 90.7 | 84 1 | 83.9 | 81 5 | 88 0 | 87 5 | 88.9 | 88.3 | 85.2 | 86.0 | 88 2 | | | |
| M2A (12 months change) | 4 | 3 6 | 2 1 | 3.6 | 3.8 | 3.8 | 3.0 | 2 2 | 4 4 | 5 8 | 6 7 | 8.2 | 7.9 | | | |
| (In billions of baht) | | | | | | | | | | | | | | | | |
| FIDF support, total value | 423 | 512 | 676 | 722 | 713 | 706 | 696 | 708 | 741 | 757 | 835 | 828 | 868 | 889 | 894 | 895 |
| Banks | 47 | 128 | 292 | 332 | 320 | 309 | 298 | 298 | 314 | 329 | 393 | 378 | 395 | 397 | 397 | 397 |
| Of which: debt-equity swaps | .. | ... | ... | . | 87 | 87 | 87 | 87 | 87 | 87 | | | | | | |
| Thirty-three finance companies | 8 | 16 | 29 | 37 | 39 | 44 | 45 | 57 | 74 | 75 | 90 | 99 | 122 | 142 | 174 | 147 |
| Fifty-eight finance companies | 368 | 368 | 355 | 354 | 354 | 353 | 353 | 353 | 353 | 353 | 352 | 351 | 350 | 350 | 350 | 350 |
| Balance sheet of the BOT | | | | | | | | | | | | | | | | |
| Reserve money | 469 | 436 | 473 | 471 | 465 | 448 | 449 | 448 | 428 | 448 | 442 | 440 | 450 | 467 | 475 | 466 |
| Net foreign assets | 973 | 778 | 630 | 596 | 578 | 586 | 645 | 578 | 536 | 541 | 527 | 536 | 570 | 586 | 588 | 604 |
| Net domestic assets | -505 | -343 | -157 | -125 | -112 | -138 | -196 | -130 | -108 | -93 | -85 | -96 | -119 | -119 | -112 | -138 |
| (SET index) | | | | | | | | | | | | | | | | |
| Stock market index | 666 | 502 | 373 | 495 | 528 | 459 | 412 | 326 | 267 | 267 | 215 | 254 | 331 | 363 | 355 | 400 |

Source: Bank of Thailand (BOT); and IMF

1/ All data are end period, unless otherwise noted.
2/ The forward rate is computed from the swap premium and the spot (closing) quote. The swap premium is equivalent to a baht-dollar interest rate differential.
3/ Program definition: NIR = Foreign assets minus liabilities to the IMF minus stock of swap/forward obligations
4/ Capital and exchange restrictions were lifted on January 30, 1998, and the onshore and offshore markets are unified.
5/ The rollover rate is calculated as (1-(loan repayments - new credits)/amortization due)*100

**Table 7: Thailand: Relations with the World Bank Group**
(As of December 31, 1998)
(In millions of US dollars)

| | IBRD | IDA | Total |
|---|---|---|---|
| Total lending | | | |
| Agriculture/rural development | 1,394.6 | 37.5 | 1,432.1 |
| Education | 384.3 | 54.5 | 438.8 |
| Urban development | 181.1 | - | 181.1 |
| Industry and Finance | 159.3 | - | 159.3 |
| Transportation | 1,138.9 | - | 1,138.9 |
| Telecommunications | 382.7 | - | 382.7 |
| Power and energy (a) | 2,289.6 | - | 2,289.6 |
| Population | - | 33.1 | 33.1 |
| Structural adjustment | 1,075.5 | - | 1,075.5 |
| Technical assistance | 62.0 | - | 62.0 |
| **Total (b)** | **7,068.0** | **125.1** | **7,193.1** |
| Commitments for FY 1998 | 380.0 | - | 380.0 |
| FY 1999 | 700.0 | - | 700.0 |

(a) In October 1998, the Bank provided a partial guarantee for a US$300 million bond issued by EGAT.
(b) Of which $ 5,373.59 million has been disbursed.

## Table 8: Thailand: Relations with the Asian Development Bank

(As of July 31, 1998)
(In millions of US dollars)

| | |
|---|---|
| Total lending | |
| Energy | 1,632.2 |
| Transport and communications | 1,214.5 |
| Social infrastructure | 569.4 |
| Agriculture and natural resources | 409.1 |
| Financial sector | 440.0 |
| Industry and nonfuel minerals | 39.0 |
| **Total /a** | **4,304.3** |
| Commitments for FY 1998 | 850.0 |

/a Of which US$2,729.4 million has been disbursed.

*Source*: Prepared by ADB staff.

## Table 9: Thailand: Interest Coverage Ratios of Nonfinancial Private Corporations, 1995-97 /A

| | 1995 | 1996 | 1997 |
|---|---|---|---|
| All nonfinancial corporations /b | 3.7 | 2.5 | 1.1 |
| Agribusiness | 3.6 | 3.2 | 2.5 |
| Building and furnishing materials | 2.1 | 1.8 | 1.2 |
| Chemicals | 2.8 | 1.9 | 0.7 |
| Commerce | 6.0 | 7.0 | 4.8 |
| Communication | 5.5 | 3.2 | 1.4 |
| Electrical products, computer, and electronic parts | 4.6 | 3.1 | 2.1 |
| Health care services | 3.8 | 2.3 | 0.5 |
| Property development | 7.3 | 4.1 | -0.3 |
| Textiles, clothing and footwear | 2.6 | 0.2 | 0.4 |
| Other | 2.7 | 2.0 | 1.2 |
| | (In percent) | | |
| Memorandum items: | | | |
| Growth in earnings before interest and tax payments | | | |
| All nonfinancial corporations 2/ | ... | -4.2 | -26.9 |
| Growth in interest obligations (in percent) | | | |
| All nonfinancial corporations 2/ | ... | 43.3 | 67.7 |

/a Interest coverage ratio is defined as the ratio of earnings before interest and taxes (EBIT) to interest obligations.

/b Consisting of 65 corporations, which account for about one-fourth of the nonfinancial private corporate sector's external debt.

*Source*: Based on information provided by Stock Exchange of Thailand.

## Table 10: Thailand: Public Enterprises and Nonfinancial Public Sector Operations

(B billion)

| | 1990/91 | 1991/92 | 1992/93 | 1993/94 | 1994/95 | 1995/96 |
|---|---|---|---|---|---|---|
| Total Revenue & Grants | 566.6 | 607.9 | 671.9 | 795.4 | 927.5 | 1,060.2 |
| **Public Enterprises** | 72.2 | 78.2 | 73.7 | 97.0 | 120.0 | 139.2 |
| % | 12.7 | 12.9 | 11.0 | 12.2 | 12.9 | 13.1 |
| Total Expenditure | 470.0 | 564.0 | 642.9 | 730.9 | 826.9 | 960.7 |
| Current Expenditure | 282.7 | 322.6 | 371.5 | 406.8 | 454.6 | 503.1 |
| Capital Expenditure | 187.3 | 240.7 | 272.0 | 327.7 | 377.7 | 448.7 |
| **Public Enterprises** | 99.2 | 120.4 | 127.7 | 122.0 | 148.1 | 163.6 |
| % | 53.0 | 50.0 | 46.9 | 37.2 | 39.2 | 36.5 |

| | | (percent of GDP) | | | | |
|---|---|---|---|---|---|---|
| | 1990/91 | 1991/92 | 1992/93 | 1993/94 | 1994/95 | 1995/96 |
| Overall Public Sector Balance | 4.0 | 1.6 | 0.9 | 1.8 | 2.5 | 2.2 |
| Total Revenue & Grants | 23.3 | 22.1 | 21.8 | 22.8 | 23.0 | 23.3 |
| Public Enterprises | 3.0 | 2.8 | 2.4 | 2.8 | 3.0 | 3.1 |
| Total Expenditure | 19.4 | 20.5 | 20.9 | 20.9 | 20.5 | 21.2 |
| Current Expenditure | 11.6 | 11.7 | 12.1 | 11.7 | 11.3 | 11.1 |
| Capital Expenditure | 7.7 | 8.8 | 8.8 | 9.4 | 9.4 | 9.9 |
| Public Enterprises | 4.1 | 4.4 | 4.1 | 3.5 | 3.7 | 3.6 |

## Table 11: Thailand: Operations of State Enterprises

(B million)

| State Enterprises by Economic Category | Profits * | | Tax Contribution | |
|---|---|---|---|---|
| (no.) | 1995 | 1996 | 1995 | 1996 |
| Power (6) | 45,669 | 55,264 | 12,635 | 16,446 |
| Transport and Communications (16) | 32,531 | 35,162 | 15,287 | 17,314 |
| Manufacturing (12) | 5,429 | 5,562 | 3,911 | 4,452 |
| Agriculture | -152 | -36 | 8 | 3 |
| Others, | 7,272 | 6,827 | 5,447 | 5,518 |
| - including Lottery Bureau | 4,612 | 4,765 | 4,297 | 4,338 |
| Total (47) | 90,749 | 102,779 | 37,288 | 43,733 |

Source: BOT

Notes: figures in parentheses stand for the number of enterprises;
* before submitting revenues to Government and before corporate income taxes

# Table 12: Thailand: State Enterprise Capital Expenditure and Financing

(B million)

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Capital Expenditure | 120,365 | 127,751 | 121,989 | 148,113 | 163,569 |
| Sources of Funds (1+2) | 120,365 | 127,751 | 121,989 | 148,113 | 163,569 |
| 1. Revenues | 86,238 | 92,927 | 75,408 | 110,845 | 126,944 |
| - Net profits after tax | 67,879 | 69,522 | 75,315 | 88,319 | 99,793 |
| Plus: depreciation | 26,877 | 32,759 | 36,881 | 40,713 | 47,379 |
| Other revenues | 29,395 | 30,842 | 48,458 | 60,120 | 63,252 |
| Minus: income remitted to Government | 27,194 | 29,859 | 31,372 | 37,288 | 43,733 |
| Bonuses | 4,699 | 5,077 | 7,135 | 6,140 | 7,129 |
| Other expenditure | 6,020 | 5,260 | 46,739 | 34,879 | 32,618 |
| 2. Borrowing | 34,127 | 34,824 | 46,581 | 37,268 | 36,625 |
| Net foreign borrowing | 16,233 | -759 | 1,347 | 9,386 | 10,642 |
| Net domestic borrowing | 17,894 | 35,583 | 45,234 | 27,882 | 25,983 |

Source: BOT

# Table 13: Thailand: General government fiscal operations, 1996/97-1998/99 1/

| Fiscal Year | 1996/97 Actual | 1997/98 Estimate | 1998/99 Program |
|---|---|---|---|
| | (In percent of FY GDP) | | |
| Total revenue and grants | 17.6 | 15.1 | 15.8 |
| Total revenue | 17.5 | 15.0 | 15.7 |
| Tax revenue | 15.5 | 13.1 | 13.6 |
| Taxes on income and profits | 5.7 | 4.3 | 4.7 |
| Taxes on consumption | 7.3 | 7.3 | 7.4 |
| Taxes on international trade | 2.2 | 1.3 | 1.3 |
| License fees and other taxes | 0.2 | 0.2 | 0.2 |
| Nontax revenue | 2.1 | 1.9 | 2.2 |
| Grants | 0.1 | 0.1 | 0.1 |
| Expenditure and net lending | 19.0 | 17.5 | 18.9 |
| Total expenditure | 18.7 | 17.5 | 18.7 |
| Current expenditure | 10.5 | 10.1 | 11.0 |
| Wages and salaries | 5.5 | 5.9 | 6.0 |
| Interest 2/ | 0.3 | 0.2 | 0.3 |
| Other goods and services | 3.5 | 3.0 | 2.9 |
| Subsidies and current transfers | 1.3 | 1.0 | 1.8 |
| Capital expenditure | 8.2 | 7.4 | 7.6 |
| Foreign financed | 0.1 | 0.3 | 0.6 |
| Net lending | 0.3 | 0.0 | 0.2 |
| Central Government balance | -1.4 | -2.4 | -3.0 |
| Non-budgetary balance | -0.7 | -0.4 | -2.2 |
| Extrabudgetary funds | 0.6 | 0.3 | 0.0 |
| Non-financial public sector enterprises | -1.3 | -0.7 | -2.2 |
| Local governments | 0.0 | 0.0 | 0.0 |
| Public sector balance | -2.1 | -2.8 | -5.2 |
| Financing | 2.1 | 2.8 | 5.2 |
| Domestic | 1.8 | 1.4 | 2.7 |
| Banking system | 3.5 | 0.9 | 2.9 |
| Non-banks | -1.7 | 0.5 | -0.2 |
| Foreign | 0.3 | 1.5 | 2.4 |
| Interest cost of financial sector restructuring | 0.7 | 3.1 | 2.9 |
| Fiscalized | 0.0 | 0.0 | 1.5 |
| Financing | 0.0 | 0.0 | 1.5 |
| Domestic | 0.0 | 0.0 | 0.0 |
| Banking system | 0.0 | 0.0 | 1.5 |
| Non-banks | 0.0 | 0.0 | 0.0 |
| Foreign | 0.0 | 0.0 | 0.0 |
| Nonfiscalized | 0.7 | 3.1 | 1.4 |
| Financing | 0.7 | 3.1 | 1.4 |
| Domestic | 0.7 | 3.1 | 0.0 |
| Banking system | 0.7 | 3.1 | 1.4 |
| Non-banks | 0.0 | 0.0 | 0.0 |
| Foreign | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | |
| Fiscal year GDP (in billions of Baht) | 4812 | 4845 | 4977 |
| Revenue, treasury accounts basis 3/ | 17.5 | 15.6 | 15.7 |
| Expenditure, treasury accounts basis 4/ | 18.5 | 18.0 | 18.8 |
| Cash balance, treasury accounts basis | -0.9 | -2.4 | -3.1 |

Source: IMF

1/ All figures based on GFS definitions, unless otherwise noted. The fiscal year is from Octobe to September 30.
2/ For 1998/99 excludes fiscalized cost of financial sector restructuring of B 75 billion.
3/ Excludes grants.
4/ For 1998/99 includes the fiscalized portion of financial sector restructuring costs of B 75 bill Excludes foreign financed expenditure.

## Table 14: Thailand: Existing Official Financing Package

(in billions of U.S. dollars)

| | Signing Date | Loan Amount | Fifth Review Date | Fifth Review Amount | Total Disbursement to date | Sixth Review Projected |
|---|---|---|---|---|---|---|
| Total financing package 1/ | | 17.20 | | 0.49 | 12.46 | 0.51 |
| Fund | 20-Aug-97 | 4.00 | 18-Dec-98 | 0.14 | 3.18 | 0.14 |
| AsDB 2/ | 19-Dec-97 | 1.20 | ... | ... | 0.60 | ... |
| IBRD 3/ | 12-Dec-97 | 1.50 | ... | ... | 0.75 | ... |
| Bilateral creditors 4/ | | 10.50 | ... | 0.35 | | 0.37 |
| Japan 5/ | 1-Sep-97 | 4.00 | 4-Jan-98 | 0.14 | 3.27 | 0.14 |
| Australia | 9-Sep-97 | 1.00 | Expected on Jan. 15 | 0.04 | 0.76 | 0.04 |
| Brunei Darusalam | 16-Nov-97 | 0.50 | Expected on Jan. 26 | 0.02 | 0.36 | 0.02 |
| China | 29-Oct-97 | 1.00 | Expected on Jan. 15 | 0.04 | 0.76 | 0.04 |
| Korea 7/ | 11-Oct-97 | 0.50 | Expected on Jan. 15 | ... | 0.20 | ... |
| Hong Kong, China | 21-Sep-97 | 1.00 | ... | 0.04 | 0.78 | 0.04 |
| Malaysia | 15-Sep-97 | 1.00 | Expected on Jan. 15 | 0.04 | 0.78 | 0.04 |
| Singapore | 6-Sep-97 | 1.00 | Expected on Jan. 15 | 0.04 | 0.78 | 0.04 |
| Canada | 10-Aug-98 | 0.50 | Expected on Jan. 15 | 0.02 | 0.36 | 0.02 |

Source: IMF

1/ The original program assumed disbursements of US$14 billion for 1997-98, although final commitments were US$17.2 billion.
2/ The US$1.2 billion comprises the financial Markets Reform Program (FMRP) Loan
(US$300 million) approved in December 1997; a social sector program loan (US$500 million to be disbursed in two tranches --
US$300 million in March 1998 and US$200 million in March 1999); and project loans (totalling US$400 million), including some existing projects.
The ADB has arranged US$950 million commercial cofinancing of a US$50 million export sector loan.
3/ The World Bank approved the Financial Sector Adjustment Loan (US$350 million) in December 1997, and an Economic and Financial Adjustmen
Loan (US$400 million) and a Social Investment Project Loan (US$300 million) in July 1998.
4/ Excludes a US$500 million commitment from Indonesia which is not expected to be drawn in the light of the country's economic difficulty.
5/ The loan amount is Y 480 billion, equivalent to about US$4 billion. Actual disbursements in U.S.
dollars may vary with the yen-dollar exchange rate.
6/ Converted at the exchange rate of 111 yen pr. dollar.
7/ In light of difficult conditions in these countries, no further drawings are envisaged.

# Table 15: Thailand: Balance of Payments and Financing Needs, 1996-99

| | 1996 | 1997 | 1998 | | | 1998 | | 1999 | |
|---|---|---|---|---|---|---|---|---|---|
| | Actual | Actual | First Half | Second Half | | Fifth Review | Sixth Review | Fifth Review | Sixth Review |
| | | | Actual | Fifth Review | Revised | | | | |
| | | | (In billions of U.S. dollars) | | | | | | |
| 1. Current account balance | -14.4 | -3.0 | 7.0 | 6.6 | 7.2 | 13.5 | 14.3 | 11.0 | 12.0 |
| Trade balance | -16.1 | -4.6 | 5.7 | 6.0 | 6.4 | 11.5 | 12.2 | 9.0 | 9.5 |
| Exports, f.o.b. | 54.7 | 56.7 | 26.2 | 27.1 | 26.7 | 53.0 | 52.9 | 55.7 | 55.0 |
| Imports, c.i.f. | 70.8 | 61.3 | 20.5 | 21.1 | 20.3 | 41.5 | 40.6 | 46.8 | 45.5 |
| Services and transfers | 1.8 | 1.6 | 1.3 | 0.6 | 0.8 | 2.0 | 2.1 | 2.0 | 2.5 |
| 2. Capital account balance | 19.5 | -14.8 | -11.5 | -7.0 | -8.8 | -18.5 | -22.7 | -10 to -12 | -12 to -14 |
| Medium- and long-term capital | 11.3 | 6.0 | 2.4 | 0.4 | 0.7 | 3.2 | 4.6 | 0.9 | 0.5 |
| Of which: foreign direct investment (ne | 1.7 | 2.7 | 5.0 | 2.5 | 2.8 | 7.7 | 6.7 | 4.3 | 4.0 |
| Short-term capital | 5.3 | -6.3 | -5.5 | -5.0 | -5.2 | -10.5 | -13.3 | -7.2 | -7.2 |
| Other capital 1/ | 2.9 | -4.7 | -1.5 | 0.6 | 0.3 | -1.3 | -2.5 | -1.7 | -2.3 |
| Forwards/Swaps | 0.0 | -9.8 | -6.9 | -3.0 | -4.5 | -9.9 | -11.4 | -3 to -4 | -4.1 |
| 3. Errors and omissions | -3.0 | -0.7 | 0.9 | 0.5 | 2.5 | 1.5 | 5.9 | 0.0 | 0.0 |
| 4. Net balance = 1+2+3 | 2.2 | -18.6 | -3.6 | 0.1 | 0.9 | -3.5 | -2.5 | -1 to 1 | -2 to 0 |
| 5. Changes in official reserves (increase - ) | -1.7 | 10.6 | 0.4 | -1.9 | -3.0 | -1.5 | -2.6 | -3.5 to -5.5 | -2.5 to -4.5 |
| 6. *Financing need* = -4-5 | -0.5 | 8.0 | 3.2 | 1.8 | 2.1 | 5.1 | 5.1 | 4.6 | 5.8 |
| 7. Available financing = 8 + 9 | -0.5 | 8.0 | 3.2 | 1.9 | 1.9 | 5.1 | 5.1 | 4.5 | 5.8 |
| 8. Existing Financing package | -0.5 | 8.0 | 2.8 | 1.5 | 1.5 | 4.3 | 4.2 | 3.3 | 3.5 |
| Fund | 0.0 | 2.4 | 0.4 | 0.3 | 0.3 | 0.7 | 0.7 | 0.5 | 0.6 |
| Other 2/ | -0.5 | 5.6 | 2.4 | 1.2 | 1.2 | 3.6 | 3.6 | 2.8 | 2.9 |
| 9. Identified new financing 3/ | -0.1 | 0.0 | 0.4 | 0.4 | 0.4 | 0.8 | 0.8 | 1.2 | 2.2 |
| | | | (In percent; unless otherwise specified) | | | | | | |
| Memorandum items: | | | | | | | | | |
| Current account balance/GDP | -7.9 | -2.0 | 6.0 | 4.0 | 6.2 | 11.5 | 12.2 | 8.5 | 8.8 |
| Export growth | -1.9 | 3.8 | -4.1 | -1.7 | -9.4 | -6.6 | -6.8 | 5.1 | 4.0 |
| Export volume growth | -5.1 | 9.2 | 13.2 | ... | 2.8 | 7.9 | 8.1 | 3.9 | 2.8 |
| Import growth | 0.6 | -13.4 | -39.0 | -10.8 | -27.0 | -32.3 | -33.8 | 12.6 | 12.5 |
| Import volume growth | -4.0 | -11.6 | -33.1 | ... | -20.8 | -25.8 | -27.4 | 9.4 | 9.6 |
| Gross official reserves | 38.7 | 27.0 | 26.6 | 27.0 | 29.6 | 28.5 | 29.6 | 32 to 34 | 32 to 34 |
| (In months of imports) | 6.6 | 5.3 | 7.8 | 6.5 | 8.7 | 8.2 | 8.7 | 8.2 | 8.9 |
| (In percent of stock of short-term debt) / | 103.0 | 77.0 | 94 | 155 | 118 | 113.0 | 123.0 | 178.0 | 203.0 |

Source: IMF

*1/ Consists mostly of unidentified portfolio flows.*
2/ Consistent with the agreed financing package and assuming that bilateral creditors disburse proportionally with the Fund.
3/ Includes export financing facilities arranged by the AsDB and JEXIM and disbursements under the Miyazawa Plan ($1.2 billion in 1999).
4/ Data from end 1997 have been revised to include loans to Thai corporations whose proceeds were not brougt to Thailand

# Table 16: Thailand: Monetary Program, 1997-99

| | 1997 | | | 1998 | | | | | | 1999 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jun. | Sep. | Dec. | Mar. | Jun. | Sep. | Nov. | Dec. | | Mar. | Dec. |
| | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Prog. | Actual | Prog. | Prog. |
| Reserve Money | 514 | 422 | 455 | 451 | 445 | 445 | 459 | 485 | 470 | 490 | 531 |
| Net foreign assets 1/ | 833 | 804 | 622 | 595 | 541 | 534 | 584 | 501 | 600 | 517 | 537 |
| Net domestic assets | -319 | -383 | -167 | -144 | -96 | -89 | -124 | -16 | -129 | -28 | -6 |
| Net credit to public sector | -255 | -189 | -178 | -158 | -16 | 0 | 55 | 111 | 144 | 213 | 299 |
| o/W bonds issued for FIDF | ... | ... | ... | ... | 144 | 31 | 78 | 96 | 139 | 172 | 200 |
| Credit to financial institutions | 261 | 199 | 297 | 113 | 132 | 82 | 125 | 59 | 66 | -21 | -47 |
| FIDF credit 2/ | 311 | 553 | 675 | 620 | 640 | 628 | 689 | 687 | 617 | 697 | 697 |
| Indirect instruments | -90 | -393 | -417 | -554 | -555 | -599 | -591 | -656 | -578 | -745 | -772 |
| Other | 40 | 39 | 39 | 47 | 47 | 35 | 27 | 28 | 27 | 28 | 28 |
| Other items, net | -326 | -393 | -285 | -98 | -213 | -172 | -304 | -185 | -339 | -220 | -257 |
| Memorandum items: | | | | | | | | | | | |
| Reserve money growth (percent) | 29.8 | 4.4 | 0.5 | -2.4 | -13.6 | 5.6 | 5.8 | 6.6 | 3.3 | 8.5 | 9.5 |
| Money multiplier (seasonally adjusted) | 9.0 | 10.8 | 11.0 | 11.0 | 10.9 | 11.1 | 10.9 | 11.1 | ... | 11.0 | 11.1 |
| M2A (billions of baht) 3/ | 4721 | 4682 | 4823 | 4898 | 4929 | 5067 | 5104 | 5209 | ... | 5337 | 5703 |
| Growth rate (percent) | 4.6 | 3.0 | 2.1 | 3.8 | 4.4 | 8.2 | 7.8 | 8.0 | ... | 9.0 | 9.5 |
| Velocity (Dec. 1996 = 100, seas. adj.) | 101 | 100 | 99 | 98 | 97 | 92 | 92 | 91 | ... | 90 | 90 |
| Total FIDF Support | 311 | 553 | 675 | 707 | 739 | 828 | 889 | 887 | 894 | 897 | 897 |
| Credit | 311 | 553 | 675 | 620 | 640 | 628 | 689 | 687 | 617 | 697 | 697 |
| Equity | 0 | 0 | 0 | 87 | 99 | 200 | 200 | 200 | 277 | 200 | 200 |

Source: IMF

1/ Including expected reserve losses, owing to swap and forward transactions of the bank of Thailand, consistent with the balance of payments; at the program exchange rate

2/ Includes credit extended, and not FIDF equity holdings. In February 1998, a debt-equity conversion of 87 billion baht occurrend; earlier program projections did not incorporate the conversion.

3/ M2A consists of currency in circulation and the deposits of banks and finance companies.

No. 0304 /

Ministry of Finance,
Rama VI Road,
Bangkok 10400, Thailand.

February B.E. 2542 (1999)

Dear Mr. Wolfensohn,

**Subject: Proposed Economic and Financial Adjustment Loan II**
**Letter of Development Policy**

We have seen a consolidation of economic stability since the letter of development policy of July 1998 associated with the first Economic and Financial Adjustment Loan. The Baht is stable, interest rates are declining, and the recession is bottoming out.

Our energies are now focused on reviving economic growth. The macroeconomic framework, developed in mutual agreement with the IMF, is fully consistent with this objective. Our strategy for economic revival consists of two mutually supportive pillars. Given weaknesses in private and external demand, we expect fiscal policy to play a major role in revival of growth. A front-loaded fiscal stimulus is being implemented to strengthen aggregate demand in the short run. We are also ensuring that social expenditures are protected and the poor and the vulnerable receive adequate support during the crisis. This will be complemented by deepening economic structural reform begun a year ago. Structural reform will rejuvenate the business environment to provide sustained growth and a lasting improvement in social welfare.

**FISCAL STIMULUS**

To make fiscal policy supportive of aggregate demand, the overall public sector deficit for 1998/99 is now targeted at around 5 percent of GDP for the general government, higher by about 2 percent than our previous target. As agreed in the Sixth Letter of Intent with the IMF, the key elements are:

- First, we have identified specific spending projects in the Central Government, totaling about 1 percent of GDP, of which 40% is being directed toward the social safety net and related labor intensive investment projects. As far as possible, this will be foreign financed.

- Second, we will raise cash spending by another 0.5% of GDP by ensuring full implementation of the approved expenditure program and by preparing additional

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President,
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Washington, D.C
U.S.A.

/social...

social expenditure projects for rapid implementation, to be identified and supported in the context of expected new foreign financing.

- Third, the fiscal target accommodates a reduction in revenue of about 0.5% of GDP from the impact of lower GDP and possible revenue measures.

Additional component of the public sector deficit includes the deficit of local governments and state enterprises, which is projected to be 2% of GDP. In view of fast-changing conditions, fiscal stimulus is subject to further modifications, if necessary.

## STRUCTURAL REFORM

### Financial sector restructuring

We are striving for a reformed financial sector in Thailand: stable and sound in the long term, more efficient and conducive to high sustainable growth. Crisis management in 1997 and 1998 resulted in concrete policies and steps, which have partially restored confidence. We have intervened in problem finance companies and banks. But our vision also includes a restructured financial sector with well governed, well capitalized, core financial institutions which are subject to market discipline; a transparent and well developed capital market; a legal and regulatory framework that attracts investment and promotes lending at acceptable risk; and strong supervision of financial institutions. The measures outlined in this letter in support of EFAL II further those objectives. We are ensuring that reforms are deep enough and are implemented soon enough, not only for growth to resume, but also to avoid future financial sector crises.

Our strategy for restructuring the financial sector has moved steadily forward over the past year. First, the Financial Sector Restructuring Authority (FRA) is systematically disposing of the assets of suspended finance companies. Second, the restructuring and strengthening of the remaining financial institutions reached a key juncture with the announcement, in August 1998, of a comprehensive Restructuring Plan covering both commercial banks and finance companies. Third, an appropriate framework for a sounder financial system is being created by progressively upgrading the legal, regulatory and supervisory frameworks. Thus we are continuing to build on measures supported by EFAL I to strengthen loan provisioning, to assess the intervened banks and to develop a plan to enhance the capacity of the Bank of Thailand to supervise banks and finance companies.

The market has responded positively to this strategy, as indicated by the recent stability of the Baht, a more active stock exchange and declining interest rates. However, a sizeable reform agenda is still required to consolidate financial stability and make the financial sector conducive to high sustainable growth. For now, the environment remains characterized by escalating non-performing loans (NPLs) and a slow uptake in bank credit. Most Thai banks and finance companies are incurring heavy losses, in part due to high loan-loss provisioning.

/Crucial...

Crucial for the long-term viability of the financial sector will be the aggressive implementation over the next few months of the August 1998 Restructuring Plan-which makes public funds available to financial institutions unable to raise private capital, and provides incentives for corporate debt restructuring. In addition to facilitating the recapitalization of weaker institutions, we are committed to rapidly complete over the next months the restructuring and recapitalization, based on established prudential norms, of all the financial institutions – six banks and twelve finance companies-which were intervened in the course of 1998.

It will be equally important, going forward, to complete the FRA asset disposition process, notably through adjudicating claims to the creditors of the 56 closed finance companies, including the largest creditor, the Financial Institutions Development Fund (FIDF). We are also fully committed to complete the quick disposal of the residual assets still in the hands of the FRA after the December 15, 1998 sale of financial assets. Finally, we will ensure that within three months of purchase, our state-owned Asset Management Company (AMC) has a plan for the management and ultimate disposition of the FRA acquired assets. The recently completed third-party reviews of the FRA and AMC will assist us to plan and implement this.

At the structural level, we intend to pursue further strengthening of supervision and regulation of financial institutions, and in policy and incentive reform to guide the future development of a sounder and more efficient financial sector, including an increased role of capital markets in financing the economy.

In the area of supervision and regulation of financial institutions, we will continue efforts to strengthen the BOT's capacity to supervise all financial institutions under its authority—including commercial banks, finance companies and specialized financial institutions (SFIs). The legal foundations will also be upgraded for the regulation and supervision of financial institutions. We are already working on a new Financial Institutions Law, and will seek Cabinet approval of the draft legislation by end-July 1999. The draft law covers both commercial banks and finance companies, and includes authority for prompt corrective action of problem institutions. The review of the Central Bank Act is ongoing. We intend to introduce a new deposit insurance scheme.

By end-June 1999, there will be a Task Force comprised of all authorities currently vested with supervisory functions–BOT, the Securities and Exchange Commission, the Ministry of Commerce, and the Ministry of Agriculture. It will establish a comprehensive framework for the effective supervision of all financial intermediaries, including financial conglomerates.[1] This group will have a two-fold mandate: (i) to make recommendations to put in place effective supervision of financial conglomerates, and (ii) to identify and draft regulatory changes required to ensure consistent prudential regulation and supervision across supervisory authorities to ensure fair competition.

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[1] A financial conglomerate is a combination of financial institutions through cross ownership and control. The types of activities, risks and licensure within such a conglomerate may include a commercial banking, securities, fund management, insurance, finance, leasing and others.

/among...

among all financial institutions. The Task Force will submit its report and recommendations by December 31, 1999.

A Financial Services Task Force has been established, and will work to ensure that the ongoing financial sector restructuring fits into a clearly defined medium-term strategy for the sector as a whole. The Task Force is expected to submit its final recommendations to the Ministry of Finance by end-August 1999.

We are also reviewing the role and scope of activities of our State Financial Institutions, and their privileged fiscal treatment. Where necessary, mandates will be revised and the need for capitalization will be reviewed. To the extent that our Government will use some SFIs to enhance credit expansion in the real economy, we are committed to strengthen up-front the financial condition and risk management capacity of these institutions during the second quarter of 1999.

We are committed to increasing the role of capital markets in the financing of the Thai economy. We have established a working group to develop specific recommendations to deepen and increase the efficiency of the domestic bond market. We are seeking to reduce funding costs related to the issuance of securities to refinance the FIDF. We are also endeavoring to enable the private sector to raise financing without excessive exposure to banks and foreign exchange risk. A deep domestic bond market will promote efficient allocation of financial assets, facilitate monetary management and enhance financial stability and resiliency against inflationary pressure. We will review possible impediments to private sector purchases of bonds and will take steps to remove them. We are also developing an action plan to reform the debt and risk management system of the public sector. The BOT will begin to develop a comprehensive system integration for automated delivery-versus-payments.

**REVIVAL OF THE CORPORATE SECTOR**

We have a three-part approach to reviving distressed Thai companies: (1) strengthen the legal framework for insolvency and reorganization; (2) provide a more enabling legal and regulatory environment for financial and operational restructuring; and (3) take procedural steps to facilitate voluntary restructuring. The three measures, together, will facilitate corporate debt restructuring and will result in prudent financial transactions in the future. Current efforts undertaken with World Bank support as part of EFAL II, as well as efforts planned for the future, build upon earlier initiatives associated with EFAL I

In April 1998, the legal framework took an important step forward when the 1940 Bankruptcy Law was amended to permit court-supervised reorganization of distressed but viable companies. Since then, we have proposed additional amendments designed to facilitate court-supervised reorganizations and debt settlements.

We have proposed an Act to establish a separate Bankruptcy Court and its proceedings, which has been passed by both the Lower House and the Senate. Meanwhile, we are directing additional staffing and material resources toward the courts and the Ministry of

/justice...

Justice's Business Restructuring Office to provide greater institutional capacity for court-supervised reorganization or liquidation. In all these efforts, our intent is not to force distressed companies into court supervision, bankruptcy, or foreclosure, but rather to encourage viable debtors to cooperate with their creditors in negotiating voluntary workouts.

Our efforts to strengthen the legal framework also include additional steps to promote secured lending and to create a Credit Bureau. To facilitate the use and enforcement of security interests and the extension of secured lending to additional asset classes, by mid-1999 we will review amendments to the Civil and Commercial Code and requirements for an improved centralized registry for secured interests. A Credit Bureau open to Thai and foreign banks, finance companies, and trade vendors should be established. This will strengthen prudent financial transactions and provides a form of protection from strategic default behavior. To support this reform, our Cabinet approved draft legislation for the establishment of the Credit Bureau.

We have created an enabling environment more conducive to financial and operational restructuring. Building on the reform measures of EFAL I, we have introduced temporary tax relief, which constitutes a major incentive for debtors, and creditors to restructure troubled debt by year-end 1999. As part of our program, announced on August 14th 1998 for financial sector restructuring, we have linked the use of public funds for Tier 2 bank recapitalization to demonstrable progress in corporate debt restructuring and to increased business lending. We have taken several other initiatives–including replacement of the Alien Business Law with a new Law on Foreign Investment and liberalization of the Land Law and Condominium Act–to make it easier and more profitable for companies to sell non-core assets and redeploy business assets to more productive uses.

Additionally, there have been steps to facilitate debt/equity conversions and further tax measures to promote corporate restructuring. Given the magnitude of business borrowings, many voluntary or court-supervised reorganizations may necessarily involve conversions of corporate debt into equity. To support this possibility, the Bank of Thailand (BOT) has issued a regulation to enable Thai banks to establish and operate private asset management companies. Also a public-private sector Working Group has been formed to identify and address legal/regulatory impediments to the efficient sale of distressed debt, sale of converted equity, or management of converted equity on behalf of financial institutions. Finally, a Ministry of Finance Working Group has been reconvened to review and address any remaining tax disincentives to corporate mergers and acquisitions.

Procedural steps undertaken with World Bank support to promote voluntary corporate restructuring include establishment of a Corporate Debt Restructuring Advisory Committee (CDRAC) and promulgation of principles to guide voluntary restructuring. Established under BOT auspices, CDRAC includes representatives from the main associations of creditors and debtors. CDRAC has played an important role in encouraging creditors and debtors to pursue voluntary workouts and in identifying legal/regulatory impediments to corporate restructuring. In addition, CDRAC has

/developed...

developed and promulgated the *Framework for Corporate Restructuring in Thailand* which encourages voluntary workouts for viable debtors so as to minimize losses to all parties, avoid unnecessary liquidations, and preserve jobs and productive capacity.

The BOT – with technical assistance from the World Bank–is upgrading its system for monitoring business distress. Starting with new procedures for bank reporting, this monitoring system provides a more complete, accurate, and timely picture of the extent of NPLs and progress in troubled debt restructuring; encourages a more efficient sequencing of voluntary workout efforts; and facilitates the convening of negotiations between debtors and creditors in a timely manner.

As the pace of corporate restructuring accelerates, differences may arise among various financial institution creditors. The BOT has encouraged Thai banks and finance companies as well as foreign lenders operating in Thailand to develop their own arbitration mechanisms for resolving any inter-creditor differences.

Lastly, we are more actively pursuing corporate restructuring in cases where state-owned financial institutions (e.g., intervened banks) are important creditors. Thus, our emphasis has shifted from simply selling the assets of intervened finance companies to promoting market-based restructuring of distressed but viable Thai companies.

## STRENGTHENING COMPETITIVENESS

### Financial accountability and corporate governance

Our strategy for corporate governance will continue to focus on streamlining institutional arrangements, enhancing reliability and transparency of financial information and disclosures, and improving corporate boards' effectiveness and accountability to shareholders. After conducting a comprehensive review of the standard-setting and regulation framework of the accounting and auditing profession, we are seeking to amend the applicable laws and regulations to set up an independent organization, to be called the Thailand Accounting Standard Board (TFASB), responsible for setting accounting standards consistent with international best practices. We are also making the Institute of Certified Accountants and Auditors of Thailand an independent self-regulatory professional body, and strengthening it. We have submitted the necessary draft legislation to Cabinet for approval.

We are also taking several measures to improve the quality and reliability of financial information, to ensure greater transparency and facilitate comparability with international best practice. We are ensuring that financial statements of listed companies, and non-listed public companies, banks, and other financial institutions with assets in excess of 1 billion Baht, will be prepared and audited in accordance with international practices beginning with the year 1999. We have taken necessary measures to delete inactive limited companies from the registration files. Furthermore, we are developing new specific rules on accounting, external auditing, and financial disclosures for banks, finance companies and SFIs by BOT.

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As part of the comprehensive strategy to improve corporate governance, we are taking measures to (a) strengthen the financial oversight role of the Board of Directors of companies, (b) improve accountability of the Boards, Management, and Minority Shareholder Rights of public companies and (c) rationalize the regulatory framework for enforcement of laws and regulations by the SET, SEC, MOC, BOT, and MOF related to public companies.

**Privatization and Competition policy**

Our program for privatization is on track. We have already submitted a draft Corporatization Law to the Parliament. Independent regulatory bodies will be established, with transparent procedures, to protect consumer interests in preparation for privatization in the water, telecom, energy and transportation sectors. We expect to submit to Parliament the regulatory legislation for telecommunications. In order to strengthen the organizational structure for privatization, we are appointing members of standing committees at the State Enterprise Policy Commission with the responsibility to oversee and implement privatization in each sector.

In recognition of the rapid changes in the financial and the real sectors, and the new industry structures that are likely to appear after the crisis, we are designing a solid legislative framework on price fixing and anti-competition practices. A program for institutional development is also being undertaken to match the changes in competition legislation.

## POVERTY AND SOCIAL PROTECTION

**Strategic design and coordination of social policy**

The economic crisis has deepened the social impact on the poor and vulnerable. At the community level, social support mechanisms are under stress. The Social Investment Fund, established in 1998 with Bank support, will introduce a temporary facility to finance social assistance transfers through community-level organizations to the most vulnerable who are unable to provide for themselves during the crisis period.

The crisis also provides an opportunity to improve the strategic design and coordination of social policy. We are taking steps to strengthen the institutional framework for high-level integration of the social policy agenda. A coherent social policy framework requires coordination across multiple core and line ministries. The Council of Social Ministers (National Social Policy Committee) has been assigned, under the direct leadership of the Prime Minister, to develop and implement a coherent policy for social protection.

In order to strengthen the technical capacity of NESDB to perform the social policy secretariat function, we will (a) assign a strong and effective management team for the technical secretariat; (b) assign personnel with expertise in economic analysis of social policy to staff the technical secretariat; (c) prepare a focused and time-bound work plan to develop concrete options for social policy reform; and (d) identify staff and implement advanced training in critical areas.

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**Old-age pension and family allowances system**

We are committed to implementing a Social Security system that is equitable, efficient, and fiscally sustainable. In the short term, to reduce the burden of employers and employees during the crisis, we are revising contribution rates to the old-age fund and the family allowances fund of the Social Security Office: (a) for the old-age fund, 1 percent each from the employers and from the employees for a period of 2 years; and (b) for the family allowances fund, 1 percent from the Government.

We are appointing a high-level task force with membership from MOF, SEC, MOL, SSO and DPW to evaluate the existing social security system, and develop options for implementing an integrated pension system, which would overcome the shortcomings of present schemes. By April 30, 1999 the high level task force will begin a process of consultations of the proposals in a tri-partite setting (labor, industry, and Government). Based on these consultations and consultants' report scheduled to be completed in October 1999, the task force will submit to the Cabinet its recommendations to reform the SSO old-age and family allowances schemes with a view to making them more equitable, efficient and financially sustainable. By December 31, 1999, on the basis of the Cabinet's approval, the high-level task force will prepare and announce an Action Plan for developing and implementing an integrated old-age pension system, including the development of a multi-pillar system.

**Protecting the poor**

We are designing the fiscal stimulus to expand substantially public expenditure on antipoverty programs. Such expenditures would be quick-disbursing and administratively simple to implement. Specifically, to provide temporary employment to those seeking low wage work, we have, with mutual agreement with the Bank, a) adopted and made public revised criteria for public workfare programs, including: (i) set unskilled labor intensity of at least 30 percent on average; (ii) set wage level for unskilled labor close to applicable rates in rural areas; and (iii) target by region the distribution of workfare budget resources using poverty incidence as a key criterion; and (b) prepared plans for monitoring and evaluation of the workfare programs.

The crisis has hurt vulnerable groups such as the elderly poor and poor families with children. We have therefore decided to expand means-tested cash and in-kind transfer programs to protect the well being of such vulnerable groups and provide them adequate and assured income support. We have adopted a policy of increased coverage, for: (i) the transfer programs for needy families and poor elderly, and (ii) the in-kind transfer programs.

**Social protection for workers**

Due to liquidity constraints some firms are unable to meet severance payments obligations to laid off workers. To protect living standards of unemployed workers, we

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are establishing an employee welfare fund to partially finance unpaid severance claims. We are also developing a savings-based system for workers not covered by the Social Security System under the Labor Protection Act of 1998. Severance pay has been given tax exemption.

We are improving the cost-effectiveness of training and employment services for unemployed workers. A task force comprising workers, employers and government officials to design, target, and evaluate cost-effective training and employment services for unemployed workers (including demand-side vouchers and income contingent loans).

**Protecting the elderly**

We are strengthening voluntary provident funds for private employees. The existing provident funds are unsupervised and unregulated; they offer lump sum refunds to departing employees, and they lack annuities and portability between jobs. We are establishing a task force for voluntary provident funds to develop robust supervision and regulatory structure and to improve their portability across firms.

To improve the SSO database to support efficient administration of existing SSO benefits, or extension thereof, we are (a) removing excess records; (b) correcting mis-recording of contribution collections; and (c) attaching the 13 digit identifier to each record.

**Improving the information base for monitoring**

The crisis has highlighted the need for information that is both timely and policy relevant to improve the speed and quality of public policy response so as to mitigate the hardship among the poor, and to improve the monitoring of implemented programs. To enhance the policy relevance of the existing household and income survey and labor force surveys, we are allocating adequate resources to (a) implement a component of the SES in 1999 and accelerate turnaround time to 3 months for updating the annual poverty map, and (b) increase frequency of LFS to 4 rounds/year, implement appropriate questionnaire improvements and seasonal adjustments, and accelerate analysis turnaround to 3 months. Monitoring reports will be prepared on budget allocations and disbursements on key social protection programs.

With warm regards,

Yours sincerely,

Tarrin Nimmanahaeminda
Minister of Finance
(signed)

# SCHEDULE 2: THE POLICY MATRIX

| OBJECTIVES AND PROGRAM | BOARD CONDITIONS IN BOLD | LETTER OF DEVELOPMENT POLICY |
|---|---|---|
| | **I. MACROECONOMIC AND FISCAL** | |
| ***1. Fiscal Stimulus*** | | |
| **Issue:** Resumption of economic growth requires providing a fiscal stimulus to the economy.<br><br>**Objectives:** Increase aggregate demand via expansion of public expenditure programs. | **The Borrower has prepared specific spending projects totaling about one percent (1%) of gross domestic product, and has allocated an amount of about forty percent (40%) of said amount to expenditures to protect the poor, including expenditures on: (a) public workfare, and (b) means-tested cash transfer and in-kind transfer.**<br><br>**The Borrower has adopted a program to make more credit available to corporate entities carrying out government contracts.** | Maintain an appropriate macroeconomic framework to support a demand stimulus to accelerate recovery. |
| | **II. FINANCIAL SECTOR RESTRUCTURING** | |
| | **1. MANAGING PROBLEM INSTITUTIONS** | |
| ***1. Orderly Resolution of the 56 Closed Finance Companies*** | | |
| **Issue:** The FRA needs to finalize the sale of assets of the 56 finance companies. The AMC is expected to take part in the sale as a bidder of last resort, and needs to have capacity to fulfill this role.<br><br>**Objectives:** Continue showing concrete progress in the resolution of FCs which have been taken over, so as to enhance confidence of the domestic and international markets. | Independent experts of international standing selected by MOF have completed a satisfactory review of the FRA and of the AMC.<br><br>**The FRA has completed the third round of auction of core financial assets and has formulated an action plan to deal with residual assets.**<br><br>The FRA has finalized and communicated to creditors the procedures for submitting and adjudicating claims. | Within three months of the purchase of assets from the FRA, the AMC will prepare a plan for the management and ultimate disposition of these assets.<br><br>As quickly as possible, the FRA will have initiated the process of adjudication of claims to creditors. |

| OBJECTIVES AND PROGRAM | BOARD CONDITIONS IN BOLD | LETTER OF DEVELOPMENT POLICY |
|---|---|---|
| ***2. Restructuring and recapitalization of the Core Financial Institutions*** | | |
| **Issue**: The authorities must continue to take timely action against the weakest financial institutions.<br>**Program**: Continued implementation of loan classification and provisioning standards in line with best international practices, with intervention and resolution of nonviable institutions. | **The BOT has approved:**<br>▪ **a time-bound plan for the consolidation of the twelve finance companies into KTT, and for the subsequent consolidation of KTT with UBB;**<br>▪ **a plan for the recapitalization of the consolidated KTB**<br>The Bank of Thailand has signed Memoranda of Understanding with all banks and finance companies needing to raise additional capital through June 1999.<br>BOT will have developed an operational restructuring plan for the combined KTB, which should include steps toward its privatization within two years. | By the second quarter of 1999.<br>• KTT will have completed full integration of the intervened finance companies and UBB, including recapitalization of the combined entity after full provisioning; and<br>• The Government will have completed the operational restructuring and recapitalization of KTB after the full provisioning.<br>By the second quarter of 1999, FBCB license will have been revoked.<br>By the third quarter of 1999, RAB will have been privatized.<br>By the fourth quarter of 1999, winning bids will have been selected for the privatization of BMB and SCIB. |
| **2. STRENGTHENING THE FINANCIAL SECTOR STRUCTURE** | | |
| ***1. Strategy for the future of financial services*** *(see also 2.3 and 3.1)* | | |
| **Issue**: The Government needs to address the broader structural problems preventing the financial sector from acting as a prudent and efficient intermediary of savings.<br>**Objectives**: Identify and implement reforms needed to ensure that the financial sector is safe, sound, efficient in pricing and delivering financial services. | The Financial Services Task Force (FSTF) has been established. | By May 31, 1999, the FSTF will have:<br>• Identified, with assistance from the Bank, the issues to be addressed to achieve a sound and efficient financial sector, and<br>• Reviewed the interim report, prepared with assistance from the Bank, on upgrading financial sector policies and infrastructure.<br>By August 31, 1999, the Task Force will submit its final recommendations to the MOF, based on the final report prepared with Bank assistance. |

| OBJECTIVES AND PROGRAM | BOARD CONDITIONS IN BOLD | LETTER OF DEVELOPMENT POLICY |
|---|---|---|
| ***2. Capital market development*** | | |
| **Issue:** The bond market needs to be developed to ensure the successful placement of Government bond issues.<br>**Objectives:** Lay the foundation of a sustainable bond market with sufficient breadth and depth to facilitate the raising of capital by the private sector, facilitate the conduct of monetary policy, and enhance systemic stability and growth. | The Working Group for Domestic Bond Market Development has identified areas that need to be addressed to deepen the government bond market and has established Task Forces to develop recommendations on each identified issue. | The Working Group will take measures to remove possible impediments to private sector purchases of bonds, and will establish an action plan to reform the debt and risk management system of the public sector.<br>BOT will start to develop a comprehensive system integration for automated delivery-versus-payments. |
| ***3. Specialized Financial Institutions (SFIs)*** | | |
| **Issue:** Preliminary assessments of the financial operations of the SFIs indicate the need to upgrade their risk management capacity and internal controls.<br>**Objectives:** Strengthen the financial operations of the SFIs, which play a major role in the Thai financial system. Evaluate role and mandate of SFIs in view of the current transformations in the financial system. | On-site examinations have been initiated in all SFIs under BOT supervision.<br>BOT has adopted a preliminary action plan to enable it to carry out effectively its new supervisory responsibility over SFIs. | By May 31, 1999, MOF will adopt a time-bound action plan, to strengthen the financial condition and risk management capacity of those SFIs which will be used for enhancing credit expansion<br>By September 30, 1999:<br>▪ MOF will have confirmed or revised the role and scope of each SFI's activities and their fiscal treatment.<br>▪ the Borrower will review the capitalization needs of the SFIs based on BOT examinations.<br>▪ BOT will have adopted a detailed time-bound action plan for the supervision of SFIs. The plan will include deadlines for the preparation and submission of appropriate amendments to the law and the issuance of enhanced prudential rules. |
| | **3. ENHANCING THE REGULATORY AND SUPERVISORY REGIME** | |
| ***1. A comprehensive supervision framework*** | | |
| **Issue:** Financial institutions are currently supervised by several agencies. This approach can result in gaps in the supervisory process and inconsistent decisions regarding the supervision of financial functions.<br>**Objectives:** Harmonize prudential regulations and supervision to promote fair competition among different financial institutions and the soundness of the sector. | | By June 30, 1999, MOF will have established a Task Force of all supervisory authorities whose purpose is to identify and draft those regulatory changes required to supervise financial conglomerates effectively and ensure consistency in the prudential regulation and supervision of all financial institutions. The Task Force will submit its report and recommendations by December 31, 1999. |

| OBJECTIVES AND PROGRAM | BOARD CONDITIONS IN BOLD | LETTER OF DEVELOPMENT POLICY |
|---|---|---|
| ***2. Strengthening supervision and regulation of financial institutions*** | | |
| **Issue:** Banking supervision needs to be strengthened in terms of both supervisory capacity and legal foundations for the regulation and supervision of financial institutions. Complementing the work of Bank staff, a Steering Committee of international experts is providing its own recommendations on these matters.<br>**Objectives:** Strengthen BOT operations and legal authority to support its mandate of supervision and regulation of financial institutions including authority to take prompt corrective action. | The BOT has completed a review of the draft commercial bank and finance companies laws. | The BOT will complete a review of the draft Law on Central Bank by April 30, 1999.<br>By April 30, 1999, the Borrower will have made public the recommendations of the Steering Committee of international experts, and its intentions with regard to such recommendations.<br>By July 31, 1999, the Cabinet approval will be sought for a new draft Financial Institutions Law (covering banks and finance companies) to strengthen the regulatory framework for financial institutions, including prompt corrective action. |
| ***3. Deposit insurance scheme*** | | |
| **Issue and Objectives:** Best practice mandates a limited deposit insurance scheme to minimize moral hazard and provide sustainable funding of financial intermediaries. | | Draft legislation authorizing a limited-deposit insurance scheme will be submitted to the Cabinet for its approval. |
| **III. CORPORATE RESTRUCTURING** | | |
| **1. STRENGTHENING THE LEGAL FRAMEWORK** | | |
| ***1. Provide appropriate legislative and institutional frameworks for corporate bankruptcies and reorganizations.*** | | |
| **Issues:** The legislative and institutional framework for corporate insolvency needs to be strengthened to facilitate the reorganization of companies and to maximize recovery of distressed assets. | **The Borrower has taken the following measures to strengthen the legislative and institutional frameworks for corporate restructuring: (a) further revisions to the Bankruptcy Act B.E. 2483 (1940), as amended, have been approved by the Lower House of Parliament to facilitate the process of corporate bankruptcy and reorganization; (b) an Act to establish the bankruptcy court and its proceedings has been passed by the Lower House of Parliament; and (c) the Borrower has adopted an action plan to enhance the capacity of the Ministry of Justice to expedite the processing of bankruptcy cases.** | Government will continue its review and updating of the legislative, procedural, and institutional regimes for corporate bankruptcies and reorganizations under the auspices of the Bankruptcy Law Reform Committee with representation from the MOJ, MOF, Attorney General's Department, commercial banking community, private law firms, and others. |

| OBJECTIVES AND PROGRAM | BOARD CONDITIONS IN BOLD | LETTER OF DEVELOPMENT POLICY |
|---|---|---|
| *2. Provide appropriate legislative and institutional framework for secured lending.* | | |
| **Issues:** Existing procedures for the enforcement of secured rights by creditors are subject to delay. The types of assets that can legally be used by debtors to secure loans are limited to a narrow group of assets.<br>**Objectives and Program:** Facilitate the provision of credit through a comprehensive legislative regime for secured lending, including suitable procedures to speed up the realization of secured interests. | **The Borrower has taken the following measures to strengthen the legislative and institutional frameworks for secured lending: (a) amendments to the Code of Civil Procedure to expedite the enforcement of security interests have been approved by the Lower House of Parliament; and (b) to facilitate the use and enforcement of security interests and to create new security interests, the Cabinet of Ministers of the Borrower has adopted an action plan to prepare additional draft legislation, including legislation regarding the establishment of an automated modernized registry system.** | In mid-1999 the secured lending bill will be submitted to Cabinet for its approval. |
| | 2. STRENGTHENING THE ENABLING ENVIRONMENT | |
| *1. Facilitate information sharing among creditors on debt service performance by individual companies.* | | |
| **Issues:** A lack of information on debt service performance by individual companies increases the reluctance of financial institution creditors to extend credit.<br>**Objectives and Program:** Establishment of a Credit Bureau would improve lending decisions and help limit the access of firms who choose to default on obligations to increased credit. | **The Cabinet has approved the establishment of a Credit Bureau open to all financial institutions and trade creditors.** | By July 31, 1999 draft legislation for the establishment of the Credit Bureau will have been submitted to Parliament.<br>Subject to approval by Parliament, the Credit Bureau, with authority for full exchange of information among participating creditors (e.g. banks, finance companies, trade creditors and branches of foreign banks) shall have been duly established and begun operation. |

| OBJECTIVES AND PROGRAM | BOARD CONDITIONS IN BOLD | LETTER OF DEVELOPMENT POLICY |
|---|---|---|
| ***2. Facilitate debt/equity conversions and the efficient sale of distressed financial assets.*** | | |
| **Issues:** Because of high leverage in the corporate sector, the exchange of non-performing debt for equity will be frequently used as a restructuring instrument. The legal infrastructure for such transactions is incomplete, particularly with respect to the issuance of new shares to retire debt.<br><br>Financial institutions are restricted from owning more than 10% of the equity of any firm, and from owning property outside of their own headquarters and branches. Furthermore, financial institutions are not prepared to manage and dispose of these assets in a manner consistent with maximizing recovery. The creation of vehicles to acquire and professionally manage distressed assets may considerably improve governance and promote restructuring. | BOT has put into effect a regulation to enable the establishment and operation of private asset management companies, | A Working Group, which consists of public and private sector representation, is reviewing potential impediments to the efficient sale of distressed debt, sale of converted equity, or professional management of converted equity on behalf of financial institutions. If necessary, by May 31, 1999, the Working Group will submit to the Cabinet for its approval amendments to relevant regulations which will facilitate the disposition and effective management of converted equity. |
| ***3. Eliminate remaining tax disincentives to corporate restructuring.*** | | |
| **Issue:** Consolidation, through mergers and acquisition, is likely to be a common feature of corporate restructuring. Improvements to the tax treatment of mergers and acquisitions may further facilitate industry consolidation and new investment.<br><br>**Objectives and Program:** The Revenue Code will be amended to eliminate remaining tax disincentives to corporate restructuring. Public and private-sector experts would jointly identify issues and necessary changes to the Revenue Code. | The Working Group on tax impediments to restructuring has been reconvened to consider the need for improvements to the tax treatment of mergers, acquisitions and other restructuring transactions. This Working Group has solicited suggestions from private sector experts. | Based upon its review of recommendations from the Working Group, the Revenue Department will prepare any necessary amendments to the Revenue Code. |

| OBJECTIVES AND PROGRAM | BOARD CONDITIONS IN BOLD | LETTER OF DEVELOPMENT POLICY |
|---|---|---|
| **3. SPEEDING THE RESTRUCTURING PROCESS** | | |
| ***1. Provide improved monitoring of progress on corporate restructuring.*** | | |
| **Issue:** While the task of corporate restructuring remains appropriately focused in the private sector, the task of monitoring progress in corporate restructuring is appropriately centralized. The monitoring provided by the Corporate Debt Restructuring Advisory Committee and Bank of Thailand to date has been incomplete, irregular, and inadequate to support a comprehensive understanding of the task.<br>**Objectives and Program:** A centralized monitoring system would permit the setting of realistic goals, facilitate an efficient sequencing of corporate restructuring cases in the private sector, identify impediments and bottlenecks for timely resolution, and facilitate information-sharing between creditors on debtor liabilities and debt-service performance. | **The Borrower has put into effect an improved system to monitor progress in corporate restructuring to enable it to revise the estimate of progress in corporate restructuring and provided monthly updates thereof.**<br>CDRAC is supporting improved sequencing of voluntary workouts (e.g. encourage a creditor meeting within 30 days after a loan becomes non-performing) and continues to identify impediments to successful resolution.<br>CDRAC is supporting the enhancement of professional restructuring capacity and public awareness of corporate restructuring through the Thai Bankers Association, Association of Finance Companies, and Federation of Thai Industries.<br>BOT requires creditors to choose to either continue a voluntary restructuring process, court-supervised reorganization, or bankruptcy within 90 days of the initial meeting between lead creditor and debtor. | |
| ***2. Develop an efficient mechanism to resolve disputes among financial institution creditors.*** | | |
| **Issue:** As negotiations with debtors progress, serious differences among creditors may arise. Interests and sensitivities will differ depending upon whether the financial institution creditor is, for example, secured or unsecured, domestic or foreign, and in a strong or weak financial position. For various reasons, major financial institution creditors are wary of any BOT or other official arbitration of inter-creditor disputes.<br>**Objectives and Program:** A mechanism is needed that can efficiently resolve differences among financial institutions in a workout situation. | **BOT has provided to financial institution creditors a sample arbitration contract to encourage the development of inter-creditor dispute resolution mechanisms and 75% voting thresholds for approval of restructuring plans.** | If creditors are unable to devise a mechanism for facilitating agreement on a restructuring plan, BOT will review options, including the use of its own authority to resolve disputes among financial institution creditors that arise during voluntary corporate workouts. |

| OBJECTIVES AND PROGRAM | BOARD CONDITIONS IN BOLD | LETTER OF DEVELOPMENT POLICY |
|---|---|---|
| ***3. Develop a clear strategy concerning the position of the Government as a creditor or shareholder of distressed corporates.*** | | |
| **Issue:** Through government contracting and through nationalization of financial institutions, the government is a creditor or owner of many firms that are not performing on debt obligations to commercial financial institutions. The existence of obligations to the government should not result in delay of restructuring of obligations to other creditors.<br>**Objectives and Program:** The Government will formulate a strategy for exercising its position as a creditor to encourage and speed corporate restructuring, and to eliminate delays to the process caused by the role of publicly-owned creditors. This strategy may include the supporting of the position of lead creditors in the restructuring process. | The Borrower will encourage state-owned financial institutions to exercise their role as creditor to speed up corporate debt restructuring. | |

<table>
<tr><th>Objectives And Program</th><th>Board Conditions In Bold</th><th>Letter Of Development Policy</th></tr>
<tr><td colspan="3">IV. COMPETITIVENESS</td></tr>
<tr><td colspan="3">1. FINANCIAL ACCOUNTABILITY AND CORPORATE GOVERNANCE</td></tr>
<tr><td colspan="3">1. Rationalize the institutional framework for setting standards and regulating accounting and auditing practices.</td></tr>
<tr><td>Issue: A private-sector independent organization is not responsible for the formal accounting standard-setting process. Moreover, there are multiple agencies that regulate, supervise, and define reporting requirements. The ICAAT, which develops all accounting and auditing standards, is not fully independent in the standard-setting process and is not a self-regulating national professional body.<br><br>Objectives and Program: Streamline the institutional framework for setting standards and regulating the accounting and auditing profession. Establish an independent standard-setting organization, to be called the Thailand Financial Accounting Standard Board (TFASB) consistent with international best practices. Strengthen the ICAAT's role in standard setting and regulating the profession consistent with international best practices. An independent and self-regulating ICAAT will be responsible for setting auditing standards and regulating the profession.</td><td>The Cabinet of Ministers of the Borrower has approved a framework to: (a) streamline the institutional framework for setting accounting and auditing standards and regulating the profession; (b) establish the Thailand Financial Accounting Standard Board as an independent entity with authority to set accounting standards, with members from the accounting profession, business, government and academia; and (c) make the Institute of Certified Accountants and Auditors of Thailand an independent self-regulatory professional body consistent with international best practices.<br><br>The Ministry of Commerce has submitted draft legislation to Cabinet for its approval.</td><td>By July 31, 1999, the Cabinet shall submit draft legislation to Parliament.</td></tr>
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| Objectives And Program | Board Conditions In Bold | Letter Of Development Policy |
|---|---|---|
| ***2. Improve the quality and reliability of key financial information provided by public corporations to regulators, shareholders, and the general public.*** | | |
| **Issue:** Accounting and auditing standards and practices, particularly in the areas of financial statement disclosures, loss recognition, asset classification, marketable securities, debt restructuring and impairment of assets, as well as audit reports, are not consistent with international best practices.<br><br>**Objectives and Program:** Upgrade accounting and auditing standards to make them consistent with international best practices, and revise relevant laws and regulations as necessary to require that financial statements of public companies be prepared and audited in accordance with such standards beginning with the year 1999. | Improved accounting and auditing standards for listed companies have been adopted, as well as large non-listed public companies, and banks and financial institutions with assets in excess of Baht 1 billion. This includes revision of standards for financial statement disclosures, asset classification, and marketable securities, as well as issuance of new standards for troubled debt restructuring.<br><br>The plan to improve the quality of audit reports has been implemented for listed companies, non-listed public companies, as well as banks and financial institutions. The implementation included a revised format (proposed by ICAAT) for audit reports, consistent with international best practices.<br><br>MOC has deleted inactive limited companies from the registration files. | New specific rules on accounting, auditing, and financial disclosures for banks, finance companies and SFIs in line with international best practices will be issued by June 30, 1999. |

| Objectives And Program | Board Conditions In Bold | Letter Of Development Policy |
|---|---|---|
| ***3. Strengthen the financial oversight role of the board of directors of corporations by requiring the establishment of audit committees*** | | |
| **Issue:** The internal control and the related oversight role of the boards of directors of companies are weak. Audit committees of the boards of directors are non-existent or ineffective.<br>**Objectives and Program:** Strengthen the internal control structure of listed companies, banks, and financial institutions and the related responsibility for oversight of the internal audit function and selection of external auditors. | | Based on the review of existing requirements for the audit committees of boards of directors and internal control for listed companies, by April 30, 1999, SET will adopt a time-bound program to implement the improved requirements, including committees' roles and responsibilities, to a level consistent with international best practices. |
| ***4. Improve accountability of boards of directors, management, and shareholder rights of public companies*** | | |
| **Issue:** Boards of directors of listed companies and financial institutions have not been effective in monitoring corporate management performance. Minority shareholders have not played an active role as monitors of corporate performance.<br>**Objectives and Programs:** Strengthen the effectiveness and monitoring role of boards of directors and enhance shareholder rights. | The Working Group has submitted to MOC its recommendations on appropriate changes to legislation and regulations to improve the appointment process of directors, ensure protection of minority shareholder rights, increase accountability and liability of officers and directors, and impose sanctions in the case of breach of duty. | If necessary, SEC will issue relevant rules and regulations which do not require changes to the legislation. By May 31, 1999 MOC will submit to the Cabinet for its approval necessary changes to the Public Company Act.<br>By April 15, 1999 SET will have revised the guidelines on the code of best practice for listed company directors to a level consistent with international best practices, and will propose an appropriate deadline for the disclosure of compliance or non-compliance with such guidelines to be mandatory under the SET's disclosure requirements. |
| ***5. Rationalize the regulatory framework for enforcement of laws and regulations for public companies*** | | |
| **Issue:** SEC and SET responsibilities overlap in enforcement of laws and regulations.<br>**Objectives and Programs:** Streamline and strengthen the framework for enforcement of laws and regulations. | SEC has completed the review of the roles and responsibilities of SET, SEC, MOC and MOF in enforcing laws and regulations related to public companies by SEC and submitted its recommendations on such roles and responsibilities to the respective agencies for adoption. | |

| Objectives And Program | Board Conditions In Bold | Letter Of Development Policy |
|---|---|---|
| | **2. PRIVATIZATION** | |
| ***1. Regulatory Framework Legislation for Privatization*** | | |
| **Issue**: Regulatory institutions in the water, telecom, energy and transportation sectors are required pursuant to privatization.<br>**Objectives and Program:** To protect consumer interests and encourage competition, regulatory bodies will be established to oversee activities in the infrastructure sectors, including water, energy, telecommunications and transportation. Such regulatory bodies will be based on the principle of independence, providing for transparent and non-political procedures for selecting and funding regulators, as well as a process of appeals. | | The Government will establish independent regulatory bodies for the infrastructure sectors to protect consumer interests and facilitate competition. Cabinet will approve regulatory legislation for the water and energy sectors. The Government will submit to Parliament for its approval regulatory legislation for the telecommunications sector. |
| ***2. Organizational Structure for Privatization; Institutional Capacity Building*** | | |
| **Issue:** The Government requires a clear, transparent, and strengthened organizational structure with technical expertise and sufficient staffing at appropriate levels to implement its Master Plan for State Enterprise Reform effectively.<br>**Objectives and Program**: Strengthen the capacity of the State Enterprise Policy Commission and the Office of State Enterprises at the Ministry of Finance by establishing a sub-committee structure in each sector to oversee the implementation of corporatization and privatization strategies at individual enterprises. | | The Government will have created an effective organizational structure for overseeing and implementing privatization in each sector. The Government will appoint members of standing committees at the State Enterprise Policy Commission with the responsibility to oversee and implement privatization in each sector, including water, transportation, telecommunications and enterprises in other sectors. |

| Objectives And Program | Board Conditions In Bold | Letter Of Development Policy |
|---|---|---|
| *3. Corporatization Law* | | |
| **Issue**: Privatization of individual public enterprises that have not been incorporated usually requires complex case-by-case legal approvals that lead to delays.<br>**Objective**: A Corporatization Law would establish a clear procedure for initiating the reform, and eventual privatization, of state-owned enterprises. The Corporatization Law allows state-owned enterprises to be converted into corporate entities and wholly or partially divested to private owners. It also establishes a streamlined committee structure under the Prime Ministers' Office and coordinated by the Office of State Enterprises in the Ministry of Finance to oversee corporatization and privatization of individual enterprises in different sectors. | The Corporatization Law has been approved by the Lower House and is being considered by the Senate. | |
| **3. Competition Policy and Investment Incentives** | | |
| ***1. Competition policy*** | | |
| **Issue:** Rapid changes are taking place in financial and real sectors as a result of the crisis and new industry structures are likely to emerge as the economy recovers. New legislation to replace the 1979 Act governing price fixing and anti-competitive practices passed first reading in Parliament on October 14. The new legislation reflects modern competition policies. However, the institutional capacity to enforce the legislation will need to be further strengthened to make legislation fully effective.<br>**Objectives and Programs:** Ensure the establishment of a solid legislative framework and an enhanced institutional capacity to administer it. | | Complete program of institutional development to match the changes in the competition legislation. |

| Objectives And Program | Board Conditions In Bold | Letter Of Development Policy |
|---|---|---|
| *2. Investment Incentives.* | | |
| **Issue:** Tax incentives have played an important role in Thailand's investment promotion system for more than three decades. In response to the changing socio-economic environment, the incentive scheme and the role of the BOI need to be assessed by also taking into account the incentive programs offered by other countries as well as Thailand overall tax regime.<br><br>**Objectives and Programs:** Rationalize Thailand's incentive scheme and enhance the role of the BOI in a broader context encompassing work other than incentive provision. | | By July 1, 1999 the BOI shall review the results of the FIAS study on investment incentives offered under the BOI. The BOI will draft a plan for rationalizing Thailand's incentive scheme and the role of the BOI. |
| **V. POVERTY AND SOCIAL PROTECTION** | | |
| **1. IMPROVE STRATEGIC DESIGN AND CO-ORDINATION OF SOCIAL POLICY** | | |
| *1. Improve the coordination of social policy* | | |
| **Issue:** A coherent social policy framework requires coordination across multiple core and line ministries.<br><br>**Objectives and Program:** Strengthen institutional framework for high-level integration of the social policy agenda. | **The Borrower has appointed the Council of Social Ministers (National Social Policy Committee), under the direct leadership of the Prime Minister, to develop and implement a coherent social policy, with NESDB serving as the secretariat for said Council.** | By May 31, 1999 an existing agency or mechanism reporting to the Cabinet as well as to the Council of Social Ministers (the National Social Policy Committee) shall be assigned to develop an action plan to design social protection.<br><br>The following measures to strengthen the technical capacity of NESDB to perform the social protection secretariat function shall be implemented: (a) assign a strong and effective management team for the technical secretariat; (b) assign personnel with expertise in economic analysis of social policy to staff the technical secretariat; (c) prepare a focused and time-bound workplan to develop concrete options for social policy reform; and (d) identify and implement advanced staff training in critical areas. |

| Objectives And Program | Board Conditions In Bold | Letter Of Development Policy |
|---|---|---|
| ***2. Improve the design of the old-age pension and family allowances system*** | | |
| **Issue:**<br>(a) The Social Security Act (SSA), as presently enacted, has several flaws in terms of equity, efficiency, and fiscal sustainability, and imposes a severe burden on employers and employees in the present economic context.<br>(b) Savings-based alternatives to pay-as-you-go financing of social security need to be developed to minimize adverse labor market incentives and promote capital market development.<br>**Objectives and Program:**<br>Improve the equity, efficiency, and financial sustainability of the existing old-age pension and family allowances systems, and reduce the burden of employers and employees during the crisis. | **The Borrower has established, through internal administrative decisions, revised contribution rates to the old-age fund and the family allowances fund of the Social Security Office: (a) for the old-age fund, 1% each from the employers and from the employees for a period of 2 years; and (b) for the family allowances fund, 1% from the Government.**<br>The Borrower has appointed a high-level task force with membership from MOF, SEC, MOL, SSO and DPW to evaluate the existing social security system, and develop options for implementing an improved and integrated pension system. | By April 30, 1999 the high level task force will begin a process of consultations of the proposals in a tri-partite setting (labor, industry, and Government). Based on these consultations and the consultants' report scheduled to be completed in October 1999, the task force will submit to the Cabinet its recommendations.<br>By December 31, 1999, the approval of the Cabinet will be sought for an integrated old-age pension system, including the development of a multi-pillar system.<br>On the basis of the Cabinet approval, a detailed action plan to reform the SSO old-age and family allowances schemes with a view to making them more equitable, efficient and financially sustainable will be announced. |
| **2. PROTECTING THE POOR** | | |
| ***1. Increase public expenditures for protecting the poor*** | | |
| **Issue:** Fiscal stimulus provides room for expanding public expenditure on antipoverty programs<br>**Objectives and program**: Antipoverty expenditures should be quick-disbursing and administratively simple to implement | | |
| ***2. Expand provision of public workfare programs*** | | |
| **Issue:** The crisis has increased unemployment and underemployment<br>**Objectives and Program:** To provide temporary employment to those seeking work at low wages. | **The Borrower has: (a) adopted and made public revised criteria for its public workfare programs under the enhanced public expenditures program including: (i) unskilled labor intensity of at least 30% on average; (ii) remuneration for unskilled labor set close to applicable rates in rural areas; and (iii) poverty incidence will be a key criterion for the geographic distribution of workfare budget; and (b) prepared plans for monitoring and evaluation of said workfare programs.** | |

| Objectives And Program | Board Conditions In Bold | Letter Of Development Policy |
|---|---|---|
| *3. Expand means-tested cash and in-kind transfer programs* | | |
| **Issue:** The crisis has hurt vulnerable groups such as the elderly poor and poor families with children.<br>**Objectives and Program:** To protect the well-being of vulnerable groups with adequate and assured income support. | **Under the enhanced public expenditures program, the Borrower has adopted a policy of increased coverage for (i) cash transfer programs for needy families and poor elderly, and (ii) the in-kind transfer programs.** | |
| | 3. SOCIAL PROTECTION FOR WORKERS | |
| *1. Strengthen compliance with severance pay provisions* | | |
| **Issue:** Due to liquidity constraints some firms are unable to meet severance payments obligations to laid off workers.<br>**Objectives and Program:** Protect living standards of unemployed workers. | | The Borrower will develop a savings-based system for workers not covered by the Social Security System, pursuant to the Labor Protection Act of 1998.<br>By April 30, 1999 the Borrower will have established an employee welfare fund to partially finance unpaid severance claims. |
| *2. Develop cost-effective training and employment services for unemployed* | | |
| **Issue:** International experience shows that active labor market programs may not be cost-effective<br>**Objectives and Program:** Improve the cost-effectiveness of training and employment services for unemployed workers. | The borrower has established a task force with representation from workers, employers and government to design, target, and evaluate cost-effective training and employment services for unemployed workers. | |
| | 4. PROTECTING THE ELDERLY | |
| *1. Strengthen voluntary provident funds for private employees* | | |
| **Issue:** The existing provident funds are unsupervised and unregulated. They offer lump sum refunds when employees leave firms, with no portability between jobs and no annuities.<br>**Objectives and Program**: Strengthen the supervision and regulatory structure of voluntary provident funds. | | The high-level task force set up to review the Social Security System shall develop robust supervision and regulatory structure for voluntary provident funds and to improve their portability across firms. |

| Objectives And Program | Board Conditions In Bold | Letter Of Development Policy |
|---|---|---|
| ***2. Strengthen existing administrative structure in SSO*** | | |
| **Issue**: The integrity of the SSO database is not adequate to support efficient administration of existing SSO benefits, or extension thereof;<br>**Objectives and Program**: Verify existing data records in SSO to ensure a clean database before instituting additional benefit payments; | The SSO database has been cleaned to ensure data integrity by (a) removing excess records; (b) correcting misrecording of contribution collections; and (c) attaching the 13 digit identifier to each record. | |
| | **5. IMPROVE THE INFORMATION BASE FOR MONITORING** | |
| **Issue:** The crisis has highlighted the need for timely and policy relevant information flows to improve the speed and quality of public policy response so as to mitigate the hardship among the poor, and to improve the monitoring of programs implemented.<br>**Objectives and Programs:** Enhance the policy relevance of the existing household and income survey and labor force surveys. | The Borrower has provided adequate resources to:<br>(a) enable the carrying out in 1999 of a survey to monitor poverty based on a component of the SES, and accelerate turnaround time to 3 months for updating the annual poverty map;<br>(b Increase frequency of LFS to 4 rounds/year, implement appropriate questionnaire improvements and seasonal adjustments, and accelerate analysis turnaround to 3 months. | |

# ANNEX 1: ACTIONS TAKEN ON PRIVATIZATION AND PUBLIC ENTERPRISE REFORM

1. State Enterprise Office

- Established Office of State Enterprises in Ministry of Finance (with joint MOF and NESDB Secretariat) to support and coordinate privatization, develop private participation in infrastructure, and monitor state enterprises. Office of State Enterprises reports to the State Enterprise Policy Committee under the Office of the Prime Minister.

2. Creation of a Master Plan for State Enterprise Reform; Use of Proceeds

- The Cabinet approved the Master Plan for State Enterprise Reform on September 1, 1998. The Master Plan establishes an overall strategy for privatization, principles for regulatory bodies, and sequencing of divestiture in four key sectors--transportation, water, energy and telecommunications.

- Cabinet approved the use of privatization proceeds, earmarking 50 percent of receipts for social projects in the rural, agricultural, educational, and public health sectors (in the case of subsidiary enterprises this proportion could be raised above 50 percent, including through contributions to labor welfare funds). The remainder is to be deposited with the Financial Institutions Development Fund (FIDF) to reduce its debt.

3. Fast- Track Divestiture Program

*Energy*

- Sale of EGAT's stake in Electricity Generating (Public) Co. Ltd.

- Sale of a significant stake of PTT in PTT Exploration and Production.

- Partial divestitures are also underway for Bangchak Petroleum, Thai Airways, and ESSO.

*Other*

- The Cabinet has issued a resolution to liquidate the (i) Textile Organization, (ii) Battery Organization, (iii) Preserved Food Organization, and (iv) the Cold Storage Organization.

4. Corporatization Law

The Government has submitted a draft Corporatization Law to Parliament enabling the conversion of state enterprises into public companies constituted under Thailand's Civil and Commercial Code. The draft law has been accepted by the Lower House of Parliament. The draft law streamlines the Corporatization Committee and State Enterprise Policy Commission procedures to avoid overlap and increase transparency.

# ANNEX 2: STATUS OF THE CORPORATE SECTOR

The financial position of the corporate sector continued to deteriorate in the first half of 1998. For the first time, operating profits for 340 non-financial firms listed on the Stock Exchange of Thailand, fell below interest expense, on average. Debt to equity ratios continued to increase as equity deteriorated and unpaid debts accumulated. The average ratio of liabilities to equity in the Thai stock exchange reached 3.58 in the first half of 1998. Corporate distress is not limited to any particular sector; within each sector, there are both distressed and successful firms.

Thai industries are overcapitalized, due to several years of over investment and this has resulted in extremely low asset turnover ratios throughout the corporate sector. Low asset turnover is linked directly to inability to pay interest in the Thai corporate sector. Where asset turnover is below 1, firms are unable to cover interest cost of operations (with the exception of the energy sector, which traditionally operates with large asset bases). For several industries, the amount of sales projected for 1998 are only equal to around one-third of the value of their assets. While some of this is clearly due to declines in revenue, in large part it is also due to extremely large asset bases capitalized through debt. These large asset bases raised the required breakeven sales volume for the average firm, making them extremely vulnerable to the decline in demand which resulted from monetary contraction.

**Need for industry exit.** According the Stock Exchange of Thailand, 8 percent of its listed firms are technically bankrupt, and will be reviewed for delisting starting January 1999. While this only represents 41 firms, the SET represents less than 0.4 percent of the total number of non-financial enterprises in Thailand.

**Need for industry consolidation and rationalization.** While the high ratios of debt to equity in the corporate sector are well documented, the recovery of the corporate sector will not result from financial restructuring. The structural overcapacity requires a fundamental rethinking of decisions concerning horizontal expansion, focus on cashflow and on decreasing currently high breakeven points. The lack of cashflow-oriented management is endemic to both the corporate and financial sectors. Systemic solutions which shift the focus of capital allocation decisions away from managers, owners and bankers would remove an important opportunity to fundamentally strengthen the Thai economy. Such common-denominator solutions could also have the unintended effect of rewarding managers and bankers who made poor capital allocation decisions at the expense of better managers and bankers.

**A lack of shareholder-oriented corporate governance practices.** In Thailand, directors are largely not accountable to shareholders outside of the central ownership group. Corporate governance practices which are not sufficiently oriented toward increasing shareholder value eliminates this critical incentive for restructuring. As a related issue, there is also a lack of transparency in accounting practices. As the majority of Thai corporates are still in the process of evolving from family-owned business management structures, financial data is extremely closely-held. This has prevented financial institutions from being able to understand repayment from a cashflow perspective, and to have a common baseline for adjusting debt levels.

Unlike the Korean economy, where large industrial groups dominate the economic landscape, the Thai economy is relatively decentralized. Large firms (with over 200 employees or over 100 million Baht in basic registered capital) account for half of industrial employment, but only 2 percent of all registered firms. Roughly 98 percent of total firms, representing 50 percent of industrial employment, fall into the SME sector. The non-performing loans in the Thai financial sector are similarly distributed. The Bank of Thailand estimates that there are roughly 300 NPLs above 500 million baht each, with a total value of roughly 700 billion baht, 1,300 medium sized NPLs ranging from 100 to 500 million in debt size representing another 700 million in NPLs, and the balance distributed in tens of thousands of individual and small corporate cases less than 100 million baht each.

**Manufacturing Firms by Size**

| | Large | Medium | Small | Total |
|---|---|---|---|---|
| Definitions | Empl.>200 or basic cap > 100 mm Baht | 50-199 empl. or basic cap 10-100 mm Baht | Empl. <50 or basic cap < 10 mm Baht | |
| Number of Firms | 2,603 (2 %) | 7,401 (6 %) | 116,807 (92%) | 126,811 |
| Employment | 1,563,469 (50%) | 706,075 (22%) | 882,339 (28%) | 3,151,883 |

*Source:* Ministry of Industry

**Sample of Restructuring Cases in Process**

| **Firm** | **Operational Problems** | **Debt (est.) Billion Baht** | **Operational change discussed** | **Financial structures in negotiation** |
|---|---|---|---|---|
| Major Cement Company | Revenue, excess diversification (9 major business units, few synergies), competitiveness | Over 200 | Plan to create flexibility through management decentralization, seek strategic investment in business units. Major Japanese and European firms in negotiation. | Cash injection plus rollover, strategic sales will raise cash for core business restructuring. |
| Major Petrochemicals company | Drop in market prices, high domestic sales, excess diversification | Over 100 | Business segmentation, some businesses to be sold over implementation period. | Debt to equity swap, debentures convertible to more equity if results below targets, some unsecured debt converted into long-term loans secured by land. |
| Fixed-line telephone operator | Domestic revenue, foreign suppliers. Earnings stream low relative to cap costs. | 40 | Management change (CEO resigns, new management brought in). Rationalization and cost reductions likely. | Rollover of debt, new credit from bank and trade creditors, probable increase in equity from existing outside shareholders. |
| Mining company | Cost structure, management structure, excess diversification, production efficiency | 3 | Strategic investor (Australian), focus on core business, close some businesses, new CEO | Investor injects equity B 1.4 billion, restructure s/t debt |
| Home products | High domestic sales, excess capital investment, hard hit by Baht float | 4 | Strategic sale (Hong Kong) | Investor injects B 1.2 billion. Some reduction of dollar denominated principal, rollover of S/T. |

*Source: World Bank Thailand Office*

# Status of Bank Group Operations in Thailand
## Operations Portfolio
(as of January 31, 1999)

| Project ID | Fiscal Year | Borrower | Purpose | Original Amount in US$ Millions | | | | Difference Between expected and actual disbursements a/ | | Last PSR Supervision Rating b/ | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | IBRD | IDA | Cancel. | Undisb. | Orig | Frm Rev'd | Dev Obj | Imp Prog |
| Number of Closed Projects: 108 | | | | | | | | | | | |
| Active Projects | | | | | | | | | | | |
| TH-PE-4796 | 1993 | METRO ELEC AUTHORITY | DISTRIB. SYS & EGY E | 109.00 | 0.00 | 0.00 | 17.00 | 16.98 | 16.98 | U | S |
| TH-PE-4803 | 1995 | RTG | LAND TITLING III | 118.10 | 0.00 | 0.00 | 62.81 | 34.39 | 0.00 | S | S |
| TH-PE-4802 | 1995 | BANGCHAK PETROLEUM PCL | CLEAN FUELS & EA QUA | 90.00 | 0.00 | 0.00 | 70.80 | 63.80 | 0.00 | S | S |
| TH-PE-4801 | 1995 | PROV ELEC AUTHORITY | DISTRIBUT.SYSTEM REI | 50.00 | 0.00 | 0.00 | 4.48 | 4.49 | 0.00 | U | S |
| TH-PE-4799 | 1995 | EGAT | LAM TAKHONG PUMP STO | 100.00 | 0.00 | 0.00 | 50.01 | 31.01 | 0.00 | U | S |
| TH-PE-4800 | 1996 | GOV. OF THAILAND | HIGHWAYS V | 150.00 | 0.00 | 45.00 | 103.59 | 146.59 | 0.00 | S | U |
| TH-PE-4793 | 1996 | GOVT OF THAILAND | TECHNICAL EDUCATION | 31.60 | 0.00 | 0.00 | 31.60 | 23.00 | 0.00 | S | S |
| TH-PE-4791 | 1996 | GOVT OF THAILAND | SEC.EDUC. QUALITY IM | 81.90 | 0.00 | 0.00 | 81.90 | 37.00 | 0.00 | S | S |
| TH-PE-42268 | 1997 | PEA | DISTR AUTOM & RELIA | 100.00 | 0.00 | 0.00 | 94.59 | 53.10 | 23.12 | U | U |
| TH-PE-37086 | 1997 | METROPOLITAN ELECTRICITY | METROPOL'N DIST REIN | 145.00 | 0.00 | 0.00 | 120.68 | .70 | 0.00 | U | S |
| TH-PE-4805 | 1997 | GOVT OF THAILAND | UNIVER SCI & ENG.EDU | 143.40 | 0.00 | 0.00 | 140.46 | 37.06 | 0.00 | S | S |
| TH-PE-54799 | 1998 | | ECO MGT IMPLE ASSIST | 15.00 | 0.00 | 0.00 | 14.48 | 10.50 | 0.00 | S | S |
| TH-PE-53616 | 1998 | | FIN SEC IMPL ASST | 15.00 | 0.00 | 0.00 | 11.55 | 7.58 | 0.00 | S | S |
| TH-PE-56269 | 1999 | | SOCIAL INVEST PROJ | 300.00 | 0.00 | 0.00 | 298.75 | -1.25 | 0.00 | | |
| Total | | | | 1,449.00 | 0.00 | 45.00 | 1,102.70 | 464.95 | 40.10 | | |

| | Active Projects | Closed Projects | Total |
|---|---|---|---|
| Total Disbursed (IBRD and IDA): | 301.30 | 5,072.27 | 5,373.57 |
| of which has been repaid: | 7.89 | 3,219.10 | 3,226.99 |
| Total now held by IBRD and IDA: | 1,396.11 | 1,855.46 | 3,251.57 |
| Amount sold : | 0.00 | 196.73 | 196.73 |
| Of which repaid : | 0.00 | 196.73 | 196.73 |
| Total Undisbursed : | 1,102.70 | 2.00 | 1,104.70 |

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.
b. Following the FY94 Annual Review of Portfolio performance (ARPP), a letter based system was introduced (HS = highly Satisfactory, S = satisfactory, U = unsatisfactory, HU = highly unsatisfactory): see proposed Improvements in Project and Portfolio Performance Rating Methodology (SecM94-901), August 23, 1994.

Note:
Disbursement data is updated at the end of the first week of the month.

# Thailand
## STATEMENT OF IFC's
## Committed and Disbursed Portfolio

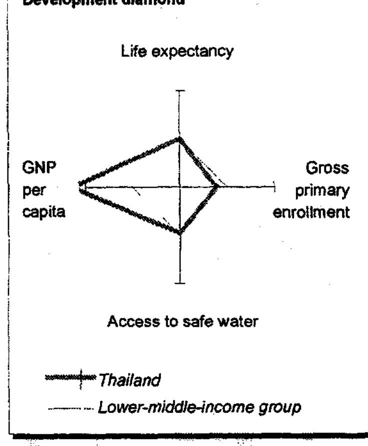
As of 31-Jan-99
(In US Dollar Millions)

| | | Committed | | | | Disbursed | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | IFC | | | | IFC | | | |
| FY Approval | Company | Loan | Equity | Quasi | Partic | Loan | Equity | Quasi | Partic |
| 1979/81/84/87/91 | Siam City | 20.00 | 0.00 | 0.00 | 55.00 | 20.00 | 0.00 | 0.00 | 55.00 |
| 1984/91 | SEAVI Thailand | 0.00 | 1.50 | 0.00 | 0.00 | 0.00 | 1.50 | 0.00 | 0.00 |
| 1987/96 | HMC Polymers | 0.00 | 3.92 | .36 | 0.00 | 0.00 | 3.92 | .36 | 0.00 |
| 1988 | Peroxythai | 4.01 | 0.00 | 0.00 | 0.00 | 4.01 | 0.00 | 0.00 | 0.00 |
| 1989 | SCB-CKAP | 0.00 | .41 | 0.00 | 0.00 | 0.00 | .41 | 0.00 | 0.00 |
| 1989 | TFB-Ladprao | 0.00 | .33 | 0.00 | 0.00 | 0.00 | .33 | 0.00 | 0.00 |
| 1989 | SCB-Thai Baroda | 0.00 | .78 | 0.00 | 0.00 | 0.00 | .78 | 0.00 | 0.00 |
| 1989 | TFB-Top Easy | 0.00 | .15 | 0.00 | 0.00 | 0.00 | .15 | 0.00 | 0.00 |
| 1990 | Siam Asahi | 0.00 | 7.70 | 0.00 | 0.00 | 0.00 | 6.37 | 0.00 | 0.00 |
| 1990/95 | Shin Ho Paper | 8.28 | 7.54 | 0.00 | 9.67 | 8.28 | 7.54 | 0.00 | 9.67 |
| 1991 | VIM Thailand | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 1991/93/96/98 | Ayudhya Leasing | 10.00 | 2.42 | 0.00 | 0.00 | 10.00 | 2.42 | 0.00 | 0.00 |
| 1992 | Krung Thai IBJ | 0.00 | .35 | 0.00 | 0.00 | 0.00 | .35 | 0.00 | 0.00 |
| 1993 | Advance Agro | 10.00 | 0.00 | 0.00 | 0.00 | 10.00 | 0.00 | 0.00 | 0.00 |
| 1993 | Bumrungrad | 25.00 | 2.24 | 0.00 | 29.00 | 25.00 | 2.24 | 0.00 | 29.00 |
| 1993 | Central Hotel | 0.00 | 13.95 | 0.00 | 0.00 | 0.00 | 13.95 | 0.00 | 0.00 |
| 1993 | Samui Beach | 2.14 | 0.00 | 0.00 | 3.57 | 2.14 | 0.00 | 0.00 | 3.57 |
| 1993 | Star Petroleum | 91.07 | 0.00 | 0.00 | 297.50 | 91.07 | 0.00 | 0.00 | 297.50 |
| 1993 | TUNTEX | 11.40 | 4.92 | 0.00 | 95.60 | 11.40 | 4.92 | 0.00 | 95.60 |
| 1993 | Sukhontha | 1.43 | 0.00 | 0.00 | 3.57 | 1.43 | 0.00 | 0.00 | 3.57 |
| 1994 | Dhana Siam | 20.44 | 0.00 | 0.00 | 3.14 | 20.44 | 0.00 | 0.00 | 3.14 |
| 1994 | Vinythai | 34.49 | 0.00 | 0.00 | 44.74 | 34.49 | 0.00 | 0.00 | 44.74 |
| 1995 | Finance One | 30.00 | 0.00 | 0.00 | 132.40 | 30.00 | 0.00 | 0.00 | 132.40 |
| 1995 | Saha Farms | 25.00 | 9.90 | 10.00 | 25.00 | 25.00 | 9.90 | 10.00 | 25.00 |
| 1995 | UPOIC | 0.00 | 1.08 | 0.00 | 0.00 | 0.00 | 1.08 | 0.00 | 0.00 |
| 1995/96/98 | BTSC | 80.00 | 9.83 | 9.83 | 0.00 | 49.28 | 9.83 | 9.83 | 0.00 |
| 1996 | NFS | 22.50 | 0.00 | 0.00 | 0.00 | 22.50 | 0.00 | 0.00 | 0.00 |
| 1996 | Thai Petrochem | 76.67 | 0.00 | 20.00 | 383.33 | 76.67 | 0.00 | 20.00 | 383.33 |
| Total Portfolio: | | 472.43 | 67.02 | 40.19 | 1,082.52 | 441.71 | 65.69 | 40.19 | 1,082.52 |

| | | Approvals Pending Commitment | | | |
|---|---|---|---|---|---|
| | | Loan | Equity | Quasi | Partic |
| 1996 | NFS | 10.00 | 0.00 | 0.00 | 0.00 |
| Total Pending Commitment: | | 10.00 | 0.00 | 0.00 | 0.00 |

# ANNEX 5: THAILAND AT A GLANCE

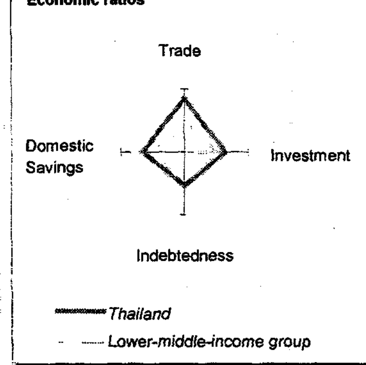
| POVERTY and SOCIAL | Thailand | East Asia & Pacific | Lower-middle-income |
|---|---|---|---|
| **1997** | | | |
| Population, mid-year *(millions)* | 60.6 | 1,753 | 2,285 |
| GNP per capita *(Atlas method, US$)* | 2,800 | 970 | 1,230 |
| GNP *(Atlas method, US$ billions)* | 169.7 | 1,707 | 2,818 |
| **Average annual growth, 1991-97** | | | |
| Population *(%)* | 1.2 | 1.3 | 1.2 |
| Labor force *(%)* | 1.5 | 1.4 | 1.3 |
| **Most recent estimate (latest year available, 1991-97)** | | | |
| Poverty *(% of population below national poverty line)* | 13 | .. | .. |
| Urban population *(% of total population)* | 21 | 32 | 42 |
| Life expectancy at birth *(years)* | 69 | 69 | 69 |
| Infant mortality *(per 1,000 live births)* | 33 | 38 | 36 |
| Child malnutrition *(% of children under 5)* | .. | 16 | .. |
| Access to safe water *(% of population)* | 81 | 84 | 84 |
| Illiteracy *(% of population age 15+)* | 6 | 17 | 19 |
| Gross primary enrollment *(% of school-age population)* | 87 | 115 | 111 |
| Male | .. | 118 | 116 |
| Female | .. | 116 | 113 |



**Development diamond***

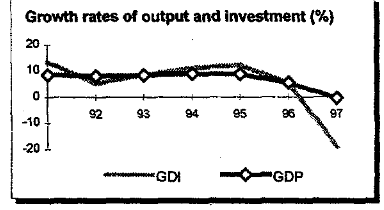
| KEY ECONOMIC RATIOS and LONG-TERM TRENDS | 1976 | 1986 | 1996 | 1997 |
|---|---|---|---|---|
| GDP *(US$ billions)* | 17.0 | 43.1 | 181.4 | 153.9 |
| Gross domestic investment/GDP | 24.0 | 25.9 | 41.7 | 35.0 |
| Exports of goods and services/GDP | 20.2 | 25.6 | 39.3 | 47.0 |
| Gross domestic savings/GDP | 21.5 | 27.9 | 35.9 | 35.7 |
| Gross national savings/GDP | 21.2 | 25.9 | 33.2 | 32.6 |
| Current account balance/GDP | -2.6 | 0.6 | -7.9 | -2.0 |
| Interest payments/GDP | 0.6 | 2.4 | 1.2 | 2.0 |
| Total debt/GDP | 13.7 | 42.9 | 50.1 | .. |
| Total debt service/exports | 10.4 | 30.1 | 11.4 | .. |
| Present value of debt/GDP | .. | .. | 50.1 | .. |
| Present value of debt/exports | .. | .. | 120.0 | .. |

| *(average annual growth)* | 1976-86 | 1987-97 | 1996 | 1997 | 1998-02 |
|---|---|---|---|---|---|
| GDP | 6.0 | 8.7 | 5.5 | -0.4 | .. |
| GNP per capita | 3.7 | 7.2 | 4.0 | -2.1 | .. |
| Exports of goods and services | 8.9 | 13.5 | -1.8 | 6.6 | .. |



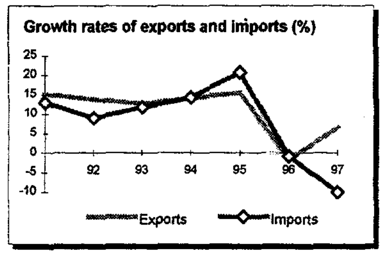
**Economic ratios***

| STRUCTURE of the ECONOMY | 1976 | 1986 | 1996 | 1997 |
|---|---|---|---|---|
| *(% of GDP)* | | | | |
| Agriculture | 26.7 | 15.7 | 11.0 | 11.2 |
| Industry | 27.6 | 33.1 | 39.5 | 39.8 |
| Manufacturing | 19.7 | 23.9 | 28.4 | 28.8 |
| Services | 45.7 | 51.3 | 49.5 | 48.9 |
| Private consumption | 67.5 | 59.3 | 53.9 | 54.1 |
| General government consumption | 11.0 | 12.8 | 10.2 | 10.3 |
| Imports of goods and services | 22.7 | 23.6 | 45.1 | 46.4 |



**Growth rates of output and investment (%)**

| | 1976-86 | 1987-97 | 1996 | 1997 |
|---|---|---|---|---|
| *(average annual growth)* | | | | |
| Agriculture | 3.8 | 3.4 | 3.8 | 1.2 |
| Industry | 7.1 | 11.2 | 7.0 | -0.1 |
| Manufacturing | 6.2 | 11.3 | 6.9 | 0.2 |
| Services | 6.3 | 8.2 | 4.6 | -1.1 |
| Private consumption | 4.7 | 7.6 | 5.2 | 0.0 |
| General government consumption | 7.8 | 5.9 | 9.5 | -0.7 |
| Gross domestic investment | 5.0 | 11.5 | 5.4 | -19.0 |
| Imports of goods and services | 4.7 | 13.7 | -0.9 | -10.0 |
| Gross national product | 5.8 | 8.5 | 5.0 | -1.1 |



**Growth rates of exports and imports (%)**

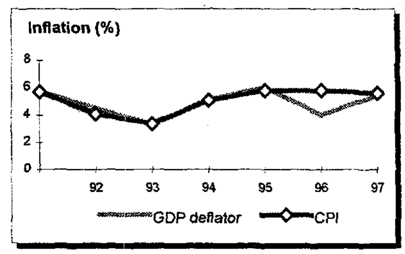
Note: 1997 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

## Thailand

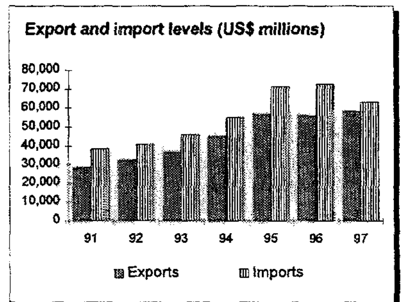
### PRICES and GOVERNMENT FINANCE

| | 1976 | 1986 | 1996 | 1997 |
|---|---|---|---|---|
| ***Domestic prices*** | | | | |
| *(% change)* | | | | |
| Consumer prices | 4.1 | 1.8 | 5.8 | 5.6 |
| Implicit GDP deflator | 4.5 | 1.7 | 4.0 | 5.4 |
| ***Government finance*** | | | | |
| *(% of GDP, includes current grants)* | | | | |
| Current revenue | 12.4 | 15.0 | 18.9 | .. |
| Current budget balance | 0.7 | -0.5 | 8.5 | .. |
| Overall surplus/deficit | -3.6 | -4.5 | 2.2 | .. |


Inflation (%)

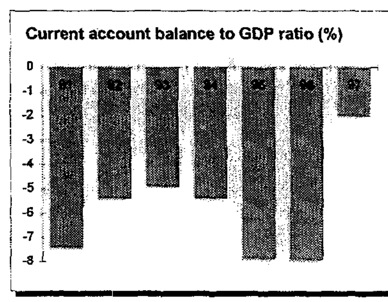

### TRADE

| | 1976 | 1986 | 1996 | 1997 |
|---|---|---|---|---|
| *(US$ millions)* | | | | |
| Total exports (fob) | 2,980 | 8,872 | 56,001 | 58,431 |
| Rice | 422 | 775 | 2,012 | 2,080 |
| Rubber | 260 | 577 | 2,513 | 1,900 |
| Manufactures | .. | 4,649 | 45,646 | 48,182 |
| Total imports (cif) | .. | 9,448 | 72,768 | 63,286 |
| Food | .. | .. | 1,660 | 1,366 |
| Fuel and energy | .. | 1,225 | 6,248 | 5,536 |
| Capital goods | .. | .. | 34,222 | 31,367 |
| Export price index *(1995=100)* | .. | 62 | 99 | .. |
| Import price index *(1995=100)* | .. | 50 | 99 | .. |
| Terms of trade *(1995=100)* | .. | 124 | 100 | .. |


Export and import levels (US$ millions)

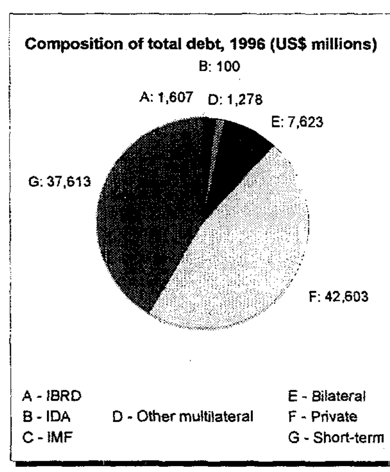

### BALANCE of PAYMENTS

| | 1976 | 1986 | 1996 | 1997 |
|---|---|---|---|---|
| *(US$ millions)* | | | | |
| Exports of goods and services | 3,467 | 11,105 | 71,687 | 72,740 |
| Imports of goods and services | 3,900 | 10,219 | 83,422 | 72,673 |
| Resource balance | -433 | 887 | -11,735 | 67 |
| Net income | -54 | -864 | -3,386 | -3,576 |
| Net current transfers | 47 | 225 | 761 | 446 |
| Current account balance | -440 | 247 | -14,360 | -3,063 |
| Financing items (net) | 521 | 436 | 16,529 | 13,712 |
| *Changes in net reserves* | -81 | -684 | -2,169 | -10,649 |
| ***Memo:*** | | | | |
| Reserves including gold *(US$ millions)* | 1,893 | 3,776 | 38,645 | 26,893 |
| Conversion rate *(DEC, local/US$)* | 20.4 | 26.3 | 25.3 | 31.4 |


Current account balance to GDP ratio (%)


### EXTERNAL DEBT and RESOURCE FLOWS

| | 1976 | 1986 | 1996 | 1997 |
|---|---|---|---|---|
| *(US$ millions)* | | | | |
| Total debt outstanding and disbursed | 2,326 | 18,505 | 90,824 | .. |
| IBRD | 298 | 2,781 | 1,607 | 1,715 |
| IDA | 11 | 109 | 100 | 98 |
| Total debt service | 378 | 3,655 | 8,652 | .. |
| IBRD | 36 | 358 | 318 | 257 |
| IDA | 0 | 1 | 3 | 3 |
| Composition of net resource flows | | | | |
| Official grants | 84 | 152 | 96 | .. |
| Official creditors | 109 | 294 | 634 | .. |
| *Private creditors* | 139 | -505 | 9,630 | .. |
| Foreign direct investment | 79 | 263 | 2,336 | .. |
| Portfolio equity | 0 | 31 | 1,551 | .. |
| World Bank program | | | | |
| Commitments | 158 | 93 | 250 | 767 |
| Disbursements | 50 | 206 | 138 | 443 |
| Principal repayments | 15 | 129 | 198 | 155 |
| Net flows | 35 | 77 | -60 | 288 |
| Interest payments | 22 | 230 | 122 | 105 |
| Net transfers | 13 | -154 | -183 | 184 |


Composition of total debt, 1996 (US$ millions)