

Public Disclosure Authorized

THE WORLD BANK



Public Disclosure Authorized

Thailand

ECONOMIC

MONITOR

A faded, grayscale background image of traditional Thai architecture, including several ornate spires and buildings, likely a temple or palace complex.

Public Disclosure Authorized

OCTOBER 1999

<http://www.worldbank.or.th/monitor>

Bangkok,
October 1999

World Bank Thailand Office

14th Floor Tower A
Diethelm Towers
93/1 Wireless Road
Bangkok 10330, Thailand
(662) 256-7792/3

Country Director: J. Shivakumar
Comments to:
Ejaz Ghani, Kirida Bhaopichitr
eghani@worldbank.org
kbhaopichitr@worldbank.org



Executive Summary

Growth outlook is positive. Thailand has shown a gradual recovery. Its real GDP grew by 1 percent and 3.5 percent in the first and second quarters of 1999, respectively, on a year-on-year basis. Exports and fiscal stimulus have been the key drivers of growth. Recovery appears to be *broad based* with private consumption and investment showing early signs of recovery. VAT collections (excluding imports and adjusted for the VAT rate change to 7 percent) increased by 31 percent in July 1999, year-on-year. Output growth is likely to accelerate in the last two quarters of 1999. The economy could grow by 3-4 percent in 1999.

Recovery is fragile. Several downside risks could prolong or hamper the recovery process. These include the slow pace of restructuring the financial and corporate sectors, a slowdown in the recovery of regional markets (especially in Japan), a slowdown in U.S. economic growth, and the potential (unanticipated) impact of the Y2K issue. Regulatory and constitutional reforms have laid a strong foundation for more balanced medium-term growth, but a lot will depend on the implementation of the on-going structural reform aimed at improving competitiveness and good governance.

Macroeconomic policies are generally supportive of the recovery process. Thailand's external liquidity position has improved. Foreign exchange reserves are nearly double the level of short-term external debt obligations. The overall structure and maturity of external debt have also improved. With output still well below potential, a counter-cyclical fiscal policy is appropriate. Despite the recent increases, the stock of public debt is sustainable, and over the medium-term, it should receive increasing attention from policy makers. Monetary policy is also appropriately accommodative of the recovery process. The downside risks of a slow down in growth remain more significant compared to concerns regarding the potential increase in inflation, arguing for a continued macroeconomic policy stance supportive of the recovery process.

Progress in financial sector reform has been made but much remains to be accomplished. Progress is being made in the areas of strengthening supervision, legal framework, accounting and audit standards, bond market development and the sale of intervened banks. Removal of tax obstacles for private AMC's were announced in October. But, several challenges lie ahead. Major risks to the recovery include the slow pace of clearing of high level of NPLs, except for the FRA disposition process; weak incentives for borrowers and capital constraints on lenders to restructure debts to a level sustainable by the borrower's underlying cash flows; financial institution balance sheets which do not reflect actual losses, reluctance to lend; and poor incentives for reform of state owned commercial banks. The Thai authorities are addressing these challenges.

The quality and pace of corporate restructuring remains a challenge. Progress in corporate debt slowed down in the third quarter, following the rapid progress in the second quarter. Going forward, the pace of corporate restructuring may accelerate, if agreed deadlines on many creditor/debtor agreements are exercised by the end of this year, and recovery provides an added incentive to reach agreements more quickly. Restructuring rates would be varied across sectors, with services and wholesale trade sector leading the restructuring process.

The crisis has resulted in substantial loss in social welfare. Real consumption per capita fell from nearly Baht 7500 (US\$183) in early 1997 to Baht 6000-6500 (US\$170) in 1999. More than a million Thais fell below the poverty line as a result of the crisis. The impact of the crisis has been most visible in terms of increased unemployment and poverty incidence, but the impact has not been as severe as originally feared. The expanded social safety net programs of the Government and the resilience of the Thai society have helped to mitigate the impact of the crisis, although some have fallen through the cracks.

Contents

Executive Summary.....	2
A Gradual Recovery.....	5
Macroeconomic Policies are Supportive of the Recovery Process.....	8
Financial Sector Reform: Challenges Ahead.....	11
Corporate Sector Restructuring.....	17
Improving Competitiveness.....	24
Public Sector Reform.....	25
Social Safety Nets.....	31
Annexes	
Annex 1: Growth Indicators.....	34
Annex 2: Corporate Sector.....	45
Annex 3: Social Indicators.....	47
Annex 4: Thailand at a Glance.....	49
Annex 5: Government Reform and Partnership with Aid Agencies.....	51
Annex 6: Sources.....	55

Tables

Table 1: Estimated public sector debt.....	9
Table 2: Long run public sector dynamics are sustainable.....	10
Table 3: Cross-country comparison of financial sector restructuring.....	12
Table 4: Economic reform laws.....	19
Table 5: A comparison of corporate restructuring.....	21
Table 6: Participation in CDRAC-sponsored Intercreditor and Debtor- Creditor Agreement.....	22
Table 7: Thailand’s public sector reform program.....	26

Figures

Figure 1: East Asia-5 GDP Growth.....	5
Figure 2: Fiscal stimulus is an important driver of growth.....	6
Figure 3: Exports have recovered	6
Figure 4: Exports to the U.S. and EU are rising –Destination of Exports.....	6
Figure 5: Private consumption has begun showing recovery.....	7
Figure 6: Private investment is showing gradual recovery	7
Figure 7: Foreign direct investment inflows remained steady during the crisis.....	7
Figure 8: Capacity utilization is increasing – more in some sectors than others.....	8
Figure 9: Vehicle and parts production is driving the pickup in manufacturing.....	8

Figure 10: Thailand's external position is strong.....	9
Figure 11: Inflation rate is low.....	10
Figure 12: Real interest rate is low.....	10
Figure 13: Incremental NPLs are falling.....	13
Figure 14: Bank credits excluding BIBF lending has increased.....	13
Figure 15: Distribution of number of classified loans by size and category.....	18
Figure 16: Distribution of classified debt value by size loan.....	18
Figure 17: Distribution of debt in restructuring process by sector.....	18
Figure 18: Progress in corporate debt restructuring.....	20
Figure 19: Debt restructuring progress by workout process.....	21
Figure 20: Debt restructuring remains slow in problem sectors.....	21
Figure 21: New bankruptcy petitions, liquidation, and reorganization.....	23
Figure 22: Real per capita private consumption has fallen.....	32
Figure 23: Reduction in poverty is reversed.....	32
Figure 24: Unemployment has increased and Real Wages have fallen.....	32
Figure 25: Employment termination and vacancies.....	33
Figure 26: Income gap has been narrowing.....	33
Figure 27: Allocation of the Miyazawa Package has been primarily towards social safety nets..	33

Boxes

Box 1 : Key Constraints to Business.....	17
Box 2 : The New Constitution and Its Implication for Public Sector Management Reform.....	27
Box 3 : Progress on Some of the Organic Laws Mandated by The 1997 Constitution.....	28

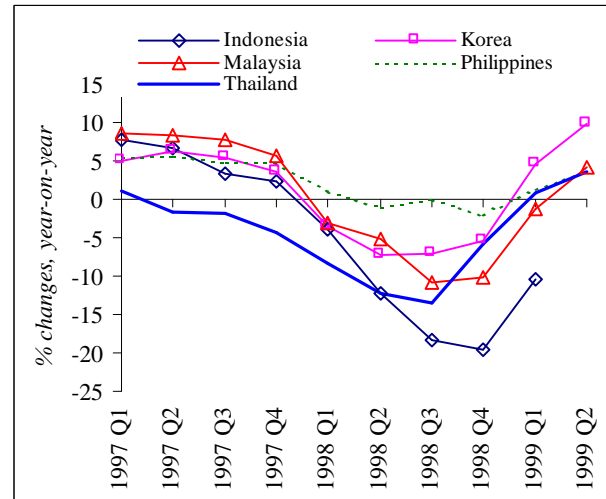
A GRADUAL RECOVERY

- Data show real GDP growth picking up pace in third and fourth quarters of 1999.
- Exports and fiscal stimulus have been the key drivers of growth.
- Private consumption and investment are also showing early signs of recovery suggesting a *broad based* recovery.
- But recovery is still fragile.
- The downside risks to recovery include a slowdown in the recovery of regional markets, especially in Japan, a slowdown in U.S. economic growth, the slow pace of restructuring the financial and corporate sectors, and the potential (unanticipated) impact of the Y2K issue.
- Regulatory and constitutional reforms have begun to put in place a strong foundation for medium-term growth. Sustained recovery would depend on the implementation of the Government's ongoing structural reform agenda aimed at improving competitiveness and governance.

Outlook for recovery is positive. Thailand's recovery compares favorably with the other East Asian countries affected by the crisis (Figure 1). Thailand's economy bottomed out in the third quarter of 1998. Since then, the economy has shown a gradual improvement. Its real GDP grew by 1 percent and 3.5 percent, respectively, in the first and second quarters of 1999 on a year-on-year basis.

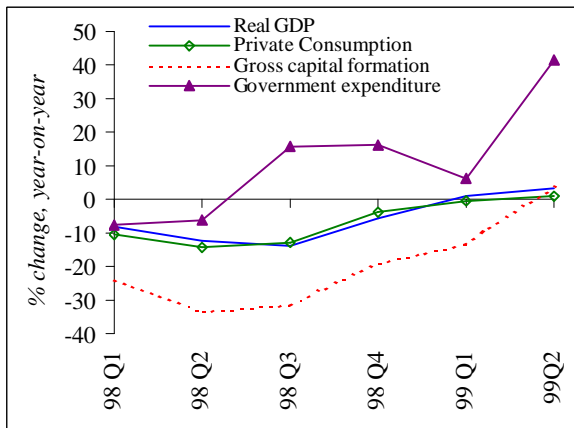
Fiscal stimulus and exports have been the key drivers of growth. Given that the private sector has been weakened by the crisis, and the public sector faced the crisis from an initial

Figure 1: Thailand compares favorably to other East Asian Countries
(East Asia-5 GDP Growth)



position of strength, the Government has, appropriately, adopted a counter-cyclical fiscal policy to support the recovery process. The March fiscal stimulus packages being implemented have aimed at supporting social safety nets and related labor-intensive investment projects. In the August plan, private investment has been encouraged and corporate distress reduced through tax and tariff measures, measures to promote the recovery of the real estate sector, measures to improve financing of the small and medium sized enterprises, and granting tax refunds due to exporters and corporations, and temporarily postponing both the payment of corporate income tax and the remittance of state enterprises' profits. A comparison of the demand-side components of output growth highlights the important contribution made by the fiscal stimulus towards Thailand's recovery (Figure 2). Public consumption grew by more than 40 percent in the second quarter of 1999 on a yearly basis while public investment increased by 7 percent during this period.

Figure 2: Fiscal stimulus is an important driver of growth



Exports have recovered, both in volume and value terms (Figure 3). The value of exports of goods increased by 5.9 percent in the second quarter of 1999 on a yearly basis. It further increased by 15 percent in August, year-on-year. Resource-based and high-tech exports, which account for over 60 percent of total export value, increased by 18.4 percent and 9.4 percent year-on-year, respectively, in July. Automobile and electronics production performed particularly well as producers have found new foreign markets and strategic foreign partners. Thailand's share of exports going to the US and EU has been on the increase (Figure 4).

Figure 3: Exports have recovered

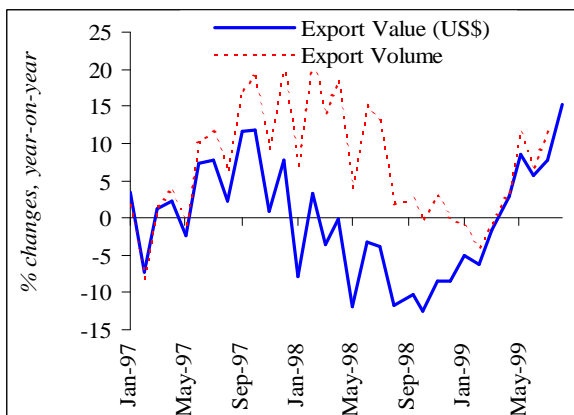
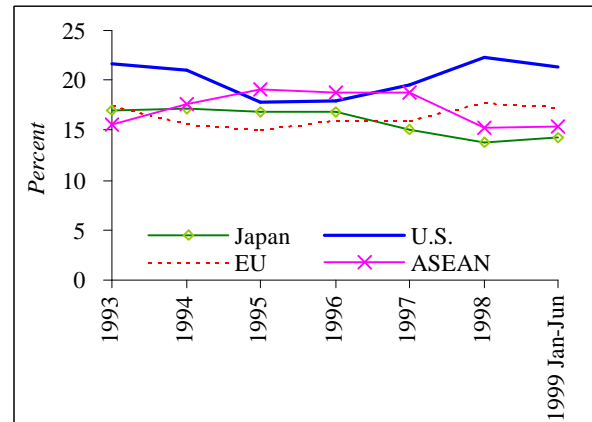
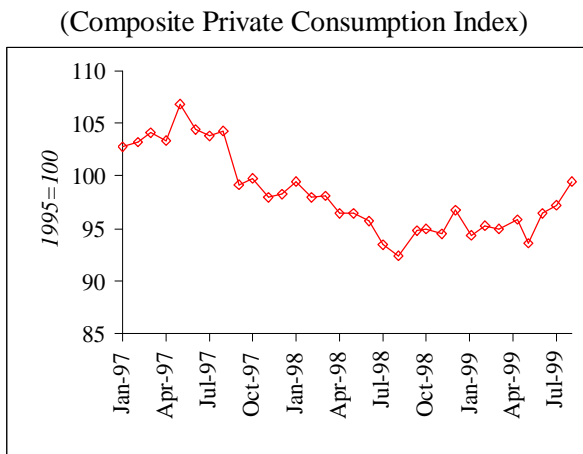


Figure 4: Exports to the U.S. and EU are rising (shares of total exports)



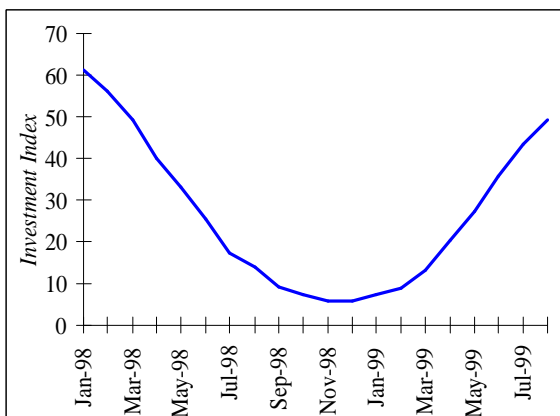
Private consumption and investment are also showing early signs of recovery suggesting a broad based recovery. Private consumption had bottomed out by the middle of 1998 and since then it has been steadily increasing. It grew by nearly 1 percent in the second quarter of 1999 year-on-year. A key indicator for tracking private consumption is the Composite Private Consumption Index constructed by the Bank of Thailand (based on the several items including the sale of passenger cars and imported consumer good). The Consumption Index has been broadly increasing since August 1998, reflecting positive wealth effects from the improvements in the stock market and the lowering of interest rates. However, consumers continue to be cautious because of perceived negative income effects arising from the fall in real wages, rising unemployment and reduced prospects for finding new jobs. The Consumption Index was up more than 2 percent in August 1999 month-on-month and nearly 8 percent year-on-year. Consumer goods imports increased by nearly 23 percent in August, while automobile sales increased by 101 percent year-on-year.

Figure 5: Private consumption has begun showing recovery



Private investment increased for the first time since the crisis. In the second quarter of 1999, private investment increased by 0.4 percent (year-on-year). The Private Investment Index (based on an average of several indicators including imported capital goods, domestic cement consumption, foreign equity inflows, sale of iron sheets) had bottomed out in the third quarter of 1998, and it has been improving gradually since then (Figure 6).

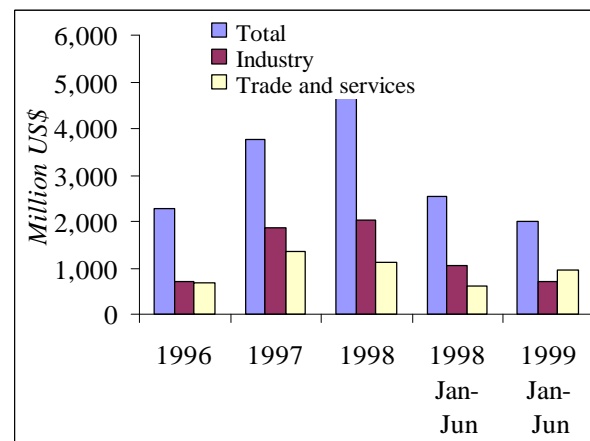
Figure 6: Private investment is showing gradual recovery



Foreign direct investment inflows have done well despite the crisis. There are emerging signs that an increasing share of FDI is going

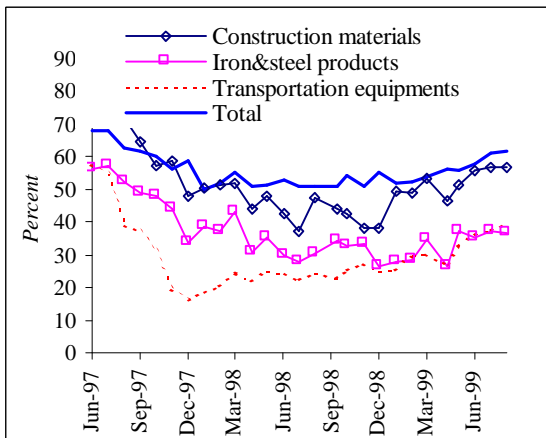
towards the trade and services sector (Figure 7). This will help raise productivity in the services sector which has traditionally lagged behind the manufacturing sector. FDI from Japan fell in the first half of 1999 compared to the first half of last year. FDI from ASEAN, in particular from Singapore, rose by 58 percent year-on-year in the first half of 1999 with the recovery of many ASEAN countries, making FDI from ASEAN more than 30 percent of total FDI when compared to 11 percent in the same period last year. FDI from the EU has increased by 30 percent when compared to the first half of last year and is now 32 percent of total FDI shares.

Figure 7: FDI inflows are strong during the crisis¹



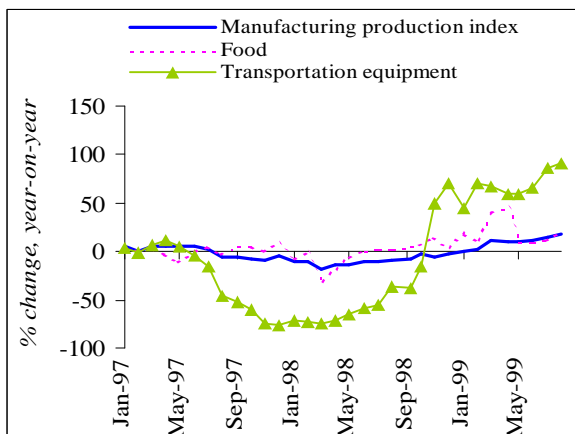
There is enough room in the economy to respond to additional demand without giving rise to inflationary concerns. Capacity utilization in the industrial sector has been improving since mid 1998 (Figure 8). But the capacity use is varied. The transportation equipment sector which had crashed by end-1997 has seen a steady recovery. This sector had traditionally catered to domestic markets. But after the crisis, the output has gone towards the export market and is likely to grow in line with the regional recovery. In general, private investment is likely to pick up once the excess capacity has been used up and corporate restructuring has been completed.

Figure 8: Capacity utilization is increasing-- more in some sectors than others



The manufacturing sector will lead the recovery process. The second quarter recovery in output was led by the manufacturing sector, the latter grew by nearly 8 percent year-on-year. In August 1999, the Manufacturing Production Index (MPI) jumped by 2.2 percent month-on-month or nearly 18 percent year-on-year (Figure 9). Recovery is also evident in the wholesale and retail trade which increased by 5 percent in the second quarter of 1999. Financial sector, construction and hotels have continued to contract, slowing the recovery process (See Annex1, Table 1).

Figure 9: Vehicle and parts production is driving the pickup in manufacturing



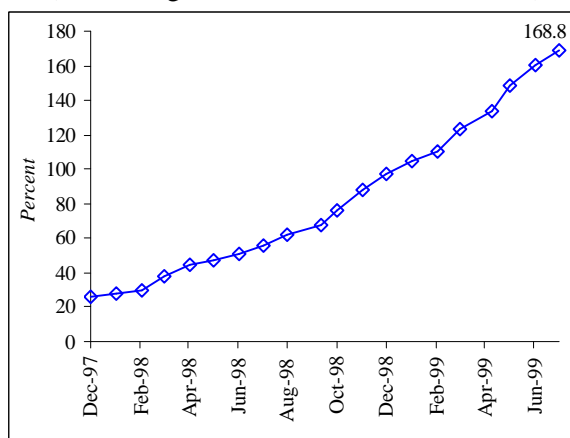
MACROECONOMIC POLICIES ARE SUPPORTIVE OF THE RECOVERY PROCESS

- Thailand's external liquidity position is strong, with foreign exchange reserve holdings substantially exceeding short-term external debt obligations. The overall structure and maturity of external debt has also improved.
- With output still well below potential, a counter-cyclical fiscal policy is appropriate.
- Public sector debt has increased as a result of the fiscal costs of financial sector restructuring. But public debt is sustainable, and over the medium-term, it should receive increasing attention from the policy makers.
- Monetary policy is also, appropriately, accommodative of the recovery process
- The downside risks of a slow down in growth are larger compared to concerns of a pick-up in inflation.

Thailand's external position has improved considerably since the crisis. External trade surplus has remained high and it amounted to US\$746 million in August 1999. The extent of surplus is likely to fall with the increase in imports associated with the recovery process but the trade balance is likely to remain positive for some time to come. Thailand's *net* foreign exchange reserves to short-term debt has improved from 25.7 percent at the peak of the crisis in mid-1997 to a comfortable level of 169 percent in July 1999 (Figure 10)². The structure of external debt has also improved. The stock of total external private sector debt has been halved from nearly 70 percent of GDP in 1997 to 33 percent of GDP by the end of second quarter of

1999. The maturity structure of external debt has also improved. Short-term debt to GDP has fallen from nearly 35 percent in 1997 to 12 percent in second quarter of 1999.

Figure 10: Thailand's external position is robust
(Net Foreign Reserves to Short-term Debt)



The crisis has resulted in increased stock of public debt. Thailand's stock of public debt to GDP was amongst the lowest in the region before the crisis. The large fiscal surpluses that the Government ran prior to the crisis helped reduce the stock of public debt. Primary fiscal balance (excluding interest payments) amounted to nearly 3 percent of GDP during 1993-97. The budget deficits that the Government has run during the crisis as well as costs to the public sector arising from financial sector restructuring has raised public debt from 20 percent of GDP in 1997 to 41 percent in 1999 (Table 1). Some market estimates suggest that public debt could rise to 61 percent of GDP by year 2001.

Public sector debt dynamics is sustainable. A quick diagnostic on debt sustainability under different scenarios is reported below. The analysis is limited as it does not take into account the impact of other contingent liabilities (such as those of the SOEs), impact of the foreign exchange rate, and the dynamics are shown for gross debt rather than net of assets (Table 2). The estimates on public debt are taken from different sources. Four different assumptions are made on

the future trends in real interest rate and real GDP growth. Under the base case scenario, the real interest rate is assumed to exceed real GDP growth (i-g) by 0.25 percentage points. The low case scenario assumes a difference of 3 percentage points. On the public sector debt, two assumptions are made. First, the public debt remains at its present level, 40 percent of GDP. Second, it increases to 60 percent of GDP as result of additional fiscal cost of financial sector restructuring.

Table 1: Estimated Public Sector Debt^{a,b}
(percent of GDP)

	Fiscal Years 1997-2000
Public sector deficit	16.2
Fiscal cost of financial restructuring	16.4
<i>Memo item</i>	
Total public debt pre-crisis (end FY1997)	19.5
Total public debt (Sept. 99)	41.0
Estimated Total public debt post-crisis (end FY2001)	61.1

^a Public sector includes state-owned enterprises (SOEs) and central government; but does not include any contingent liabilities of the SOEs.

^b Summation of estimated deficit from fiscal years 1997 through 2000

The Government will be in a position to stabilize the public debt at the present levels by running a modest surplus on the primary balance, once the crisis is over. Reducing the debt over time would be challenging but manageable. Thailand will need to generate a primary surplus of around 3 percent of GDP to reduce debt from 60 percent of GDP to 34 percent over a period of ten years. Thailand ran a primary surplus of 3 percent before the crisis, and could easily raise one additional percentage point from seignorage revenue.³ However, if growth turned out to be low and/or real interest rates turned out

to be high (i-g=3 percent), it could potentially constrain Thailand's ability to put debt dynamics on a sustainable path. Over the medium term, the Government will need to give increasing attention to public finance. The Government's establishing of the Debt Management Office is a step in such direction.

Table 2: Long run public sector debt dynamics are sustainable

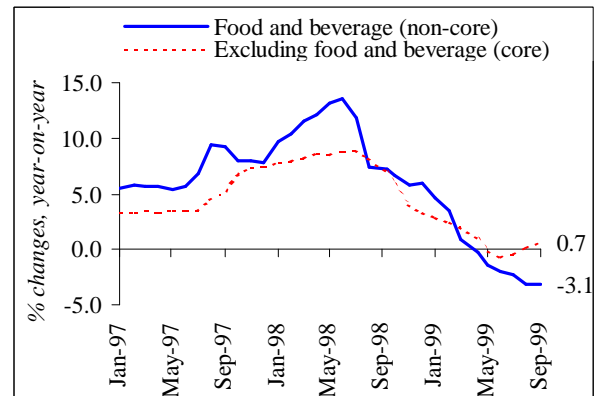
Fiscal Objective	Primary Fiscal Balance(as percent of GDP) Needed to Achieve Fiscal sustainability ^{a,b}			
	i-g=0.25%	i-g=1%	i-g=2%	i-g=3%
Stabilize debt to GDP ratio at 40 percent	0.10	0.40	0.80	1.20
Stabilize debt to GDP ratio at 60 percent	0.15	0.60	1.20	1.80
Reduce debt to GDP ratio from 40 percent to 15 percent over 10 years	2.85	3.00	3.36	3.66
Reduce debt to GDP ratio from 60 percent to 34 percent over 10 years	3.01	3.37	3.86	4.36

a. Assuming seignorage revenues to GDP of 0 percent. Seignorage revenues are defined as (Base money/GDP)*Nominal GDP growth.
 b. Primary fiscal balance is defined as government balance excluding interest payments. The average for 1993-1997 was 3 percent of GDP

Recovery is taking place in the context of low (and falling inflation rates). The large negative demand shocks arising from the regional slow down in growth and the fall in asset prices have all contributed to the falling inflation rates as measured by the consumer price index and the wholesale price index. Core inflation rate (measured by CPI excluding food and beverages) has been falling since May 1998 (Figure 11). The decline is more apparent in the non-core inflation rate (measured by the food and beverage component of the CPI) as a result of falling agricultural export prices and excess supply in the

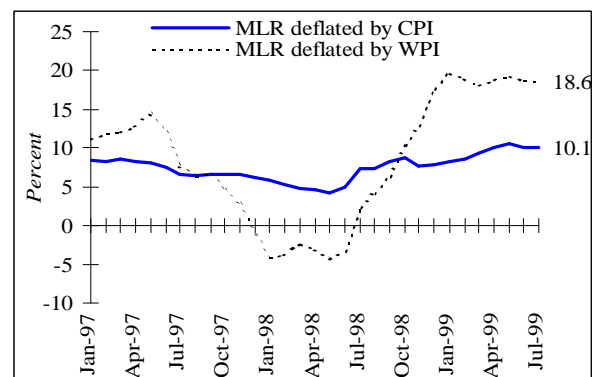
domestic market. To some extent, the 3 percentage points reduction in the VAT rate explains the negative inflation rates in the first half of 1999. Core inflation rate appears to have stabilized now. The risk of rising inflation rates is low, given the excess capacity in the economy and the falling real wages.

Figure 11: Inflation rate is low



Nominal interest rates have fallen but real interest rates remain high. The minimum nominal loan rates (as measured by the interest rates quoted by the four largest banks) have fallen over time. But *real* interest rates have increased (Figure 12). Depending on how it is measured, current real interest rates are above their pre-crisis levels. In part, this reflects the high level of NPLs and the level of risk associated with new lending. The spread between real deposit rates and real lending rates have also remained high (4-5 percent). Given the high level of domestic debt overhang, the high real interest rates could potentially slow down the recovery process.

Figure 12: Real interest rates are high



FINANCIAL SECTOR REFORM: CHALLENGES AHEAD

- **Non-performing loans have peaked, but their levels remain high.**
- **Five or six foreign banks will have branch networks and for the first time will be able to compete directly with Thai Banks. The Development Bank of Singapore and ABN AMRO bought local banks, Standard Chartered and the Overseas Bank of Singapore have been named the winning bidders for two intervened banks, and two more intervened banks are scheduled to be sold this year.**
- **The new Financial Institutions Law and Central Bank Act are scheduled for submission to Parliament by year end. Strengthening of accounting standards, regulation and supervisory capacity is progressing.**
- **The Financial Restructuring Authority expects to complete the liquidation of assets from the 56 failed finance companies by year end.**
- **Thailand has experienced increased activity in the capital markets, particularly the domestic bond market. Deepening capital markets provides firms with alternative sources of funding to a weakened banking sector.**

The Government's approach to financial restructuring and reform consists of the following strategy:

- to close and/or nationalize insolvent financial institutions (finance companies and some banks);
- to encourage the restructuring of commercial banks and related corporate restructuring, through voluntary, but government-supported means;

- to upgrade the regulatory and supervisory framework, and improve intervention and exit mechanisms;
- to increase market discipline of financial institutions through adoption of international accounting standards, rules and reporting formats.
- to improve the broader legal framework by strengthening the financial institutions law, the Central Bank Act, and a more efficient regime for bankruptcy, foreclosure and secured lending;
- to restore public confidence in the financial system by issuing a "blanket guarantee" for depositors and selected creditors, followed by the timely introduction of a targeted deposit insurance program;
- Capital market development, with a focus on the domestic government debt market.

A comparison of financial sector restructuring in the EA-crisis countries show that Thailand has made steady progress since the crisis (Table 3), but much remains to be accomplished. If not adequately addressed, the financial sector could potentially constrain the fragile recovery process.

Recent data show signs of progress in the financial sector

- **NPLs have peaked.** NPLs of financial institutions declined slightly for the second consecutive month to Bt2.65 trillion in July from Bt2.66 trillion in June. This marginally lowered the system wide NPL to loan ratio to 47.1 percent from 47.5 percent in June. Reduction in NPLs of state banks, together with those of private banks, allowed the aggregate NPLs to decline although NPLs of foreign banks and finance companies increased from the June level. The NPLs in single branch foreign banks increased 4 percent month-on-month in July to Bt713 billion.

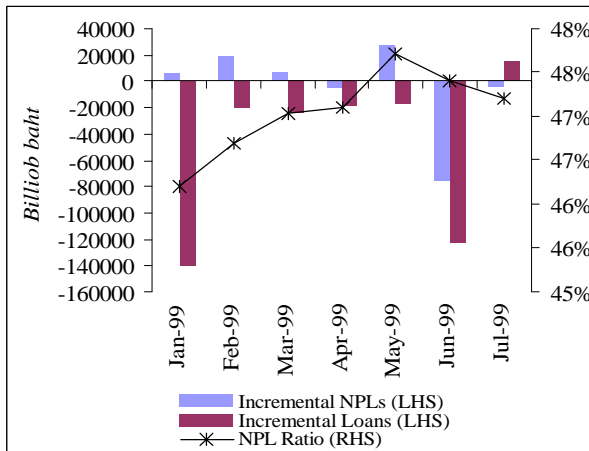
Table 3: Cross-Country Comparison of Financial Sector Restructuring

	Indonesia	Korea	Malaysia	Thailand ^a
Financial Distress Resolutions				
Bank shutdowns	66 out of 237	None	None	1 out of 15
Shutdown of other financial institutions	Not applicable	More than 117	None	57 of 91
Mergers of financial institutions	4 of 7 state banks to merge	11 out of 26 absorbed by other banks	58 to be merged into 6 or more groups	3 banks and 12 finance companies
Nationalizations	12	4	1 and 3 finance companies	4
Bank Recapitalization Strategies				
Public funds for recapitalizations	Plan in place Some bonds issued	Government injected \$8 billion into 9 commercial banks	Donamodal injected \$1.6 billion into 10 institutions	Plan in place Government injected \$7 billion into private and \$11.7 billion into public banks
Majority foreign ownership of banks	Allowed, 1 potentially	Allowed, 2 completed and 1 near finalization.	Not allowed	Allowed, 4 completed and 2 pending
Weak financial institutions remain in system	Many weak commercial banks	Many weak non-bank financial institutions	Difficult to assess	Some weak public and private commercial banks
Asset Resolution Strategies				
Assets transferred	66 percent of total NPLs equal to 35 percent of GDP.	26 percent of total NPLs equal to 10 percent of GDP.	50 percent of total NPLs equal to 14 percent of GDP.	Only assets from failed finance companies sold by the FRA (BT685 billion of core assets; 15% of GDP.
Assets disposed of as amount of total assets transferred.	0.7 percent	4.7 percent	0.1 percent	83%
Non-performing Loans Ratio (percent)				
NPL ratio ^b	Not applicable.	16.6 (Dec-98) 17.9 (Mar-99)	19.7 (Dec-98) 19.4 (May-99)	45.0 (Dec-98) 47.1 (July-99)

^a Based on data from the Bank of Thailand as of July 1999.

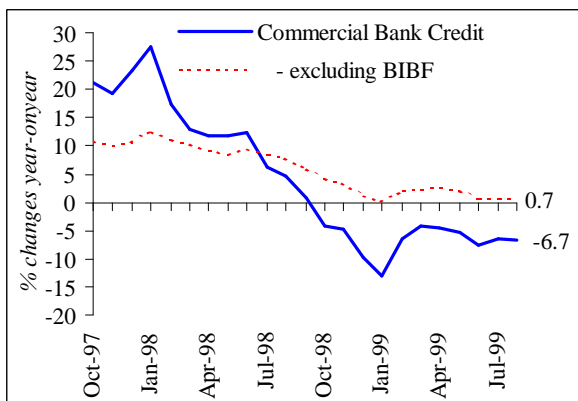
^b Non-performing loans are measured on a gross, three-month basis and include assets carved out for sale by the asset management agencies.

Figure 13: Incremental NPLs are falling



- Incremental lending by private banks declined slightly.** Financial institutions' loans appeared to have grown slightly in July on a month-on-month basis. As of July total loans of financial system stood at Bt5.6 trillion, an increase of Bt16 billion from June. Foreign banks, as well as state banks, appeared to be aggressive in extending new credit. However, interbank lending was the main source of July credit growth. Incremental lending by private banks declined slightly. The Bank of Thailand announced that it will revise downward its initial 1999 loan growth target of 4 percent.

Figure 14: Bank credits excluding BIBF lending has increased



- Policy measures adopted to encourage banks to set up private AMCs.** The Cabinet recently approved the elimination of tax friction for the establishment and operation of a bank's majority owned AMC, as compared to managing the NPLs in-house. This is the first generation of AMC in Thailand. Thai Farmers Bank is leading the market, and plans to transfer one third of its NPLs at appraised value to a wholly owned AMC that will be managed under an incentive based contract by a third part servicer. The benefit of this transaction is that it attracts superior and dedicated management to resolve the NPLs, a specialized business. This allows bank management to focus on the good bank and new lending. This transaction structure marks the NPLs approximately to market, and requires recapitalization to cover the losses beyond existing provisions on the NPLs that are transferred. It has been reported that the BoT is considering whether to allow a bank to continue to enjoy the delay in provisioning for loan losses allowed under the existing forbearance program, which allows for phased provisioning for losses up to the end of year 2000, even if NPLs are transferred to the bank's wholly AMC. Under current regulations, the forbearance program does not apply to loans transferred to an AMC.
- Another finance company was wound down.** Before Thai Farmers Bank (TFB) could proceed with its recent rights issue to raise more capital, it had to cap potential losses from its wholly owned finance company called Phatra Thanakit (PT). During the crisis, TFB increased its minority stake in PT's remaining finance business to 97%, after selling the securities business to Merrill Lynch. TFB recently reached agreement with the FIDF on the wind up of PT and the allocation of losses. The FIDF agreed to provide up to Bt4.4 billion to cover PT's losses on Bt30.8 billion in NPLs (net

book value), with TFB covering any

shortfall. This arrangement requires TFB to absorb losses in its subsidiary in excess of its equity investment.

- **Winning bidders have been named in the privatization of two intervened banks; bids for two remaining banks are scheduled to be awarded in November.** Standard Chartered Bank has agreed to purchase a 75 percent stake in Nakornthon Bank (NTB) for Bt12.38 billion. The transaction is structured such that the Financial Institutions Development Fund (FIDF), which is the government body that protects depositors against loss, will bear 85 percent of the loss and enjoy 95 percent of the gain on the ultimate resolution of the existing NPL portfolio against benchmark valuations. The FIDF will also cover the carrying cost of the existing NPLs until they are resolved, otherwise known as yield maintenance. In a separate transaction, United Overseas Bank of Singapore (UOB) has agreed to purchase Radanasin Bank (RSB) under another structure. UOB will pay Bt6.5 billion for 75 percent stake in RSB. RSB will have a limited time period to put NPLs at book value to an asset management corporation (AMC), which will be a wholly own subsidiary of the FIDF. UOB will receive a 0.1 percent fee to manage the AMC, and will share in the AMC's profits and losses 5 percent/15 percent respectively. Both transaction structures are designed to postpone the sizing and recognition of loss in these institutions by the FIDF. The government will write checks to the purchasers over time. Bangkok Metropolitan Bank (BMB) and Siam City Bank (SCIB) are expected to be sold under the same transaction structures; announcement of the winning bidders for these institutions is anticipated in mid-November.
- **The FRA expects to complete its mandate to liquidate the assets of 56 failed finance**

companies by year end. Proceeds from

asset liquidation will be used to repay creditors of

the 56 finance companies, starting from the middle of next year. The FRA has already completed auctions of 56 finance companies' core assets at 25 percent of Bt585 billion book value. Only Bt110 billion assets remain to be resolved. Of total remaining assets, the FRA plans to auction Bt24 billion loans in November, and to file bankruptcy lawsuits against debtors of the remaining Bt86 billion in loans.

Challenges ahead

- **Persistently high NPLs may constrain sustainable growth.** Sustained economic recovery will be at risk if the high level of NPLs in the financial sector is not resolved at a faster pace. Unfortunately, reported NPLs in the financial system have not declined in line with data from the Corporate Debt Restructuring Advisory Committee (CDRAC) in the Bank of Thailand, which shows that completed restructuring reached 26 percent of total NPLs in the system as of August. This discrepancy is discussed further under the section of this publication on corporate debt restructuring.
- **Real sector recovery could be constrained by the financial sector.** The BoT recently conducted a survey which shows that real sector is faced with insufficient working capital (see Box 1). As demand picks up and capacity utilization increases, new financing will be necessary for investments in equipment and productive assets. Whether due to capital constraints, risk aversion and/or diversion of scarce management resources to NPL resolution, it appears that several of the large Thai financial institutions may not be in a position to finance economic recovery or compete with new foreign entrants, given that half of their assets are non-performing.

restructure NPLs and resume lending.

- **Prudential standards for loan loss provisioning need to be brought closer to international accounting standards.** Early in the crisis, the BOT set new provisioning guidelines and a schedule of forbearance which called for a phased in recognition of loan losses, which reach 100 percent recognition at the end of year 2000. The new provisioning guidelines are not as strict as international accounting standards, which are otherwise steadily being adopted in Thailand. Instead, the provisioning guidelines are backward looking; in practice, loans are classified on the number of months payments are overdue. In addition, provisions are calculated net of collateral value, which is primarily property that is slowly and incrementally being marked to market. International accounting standards, by contrast, require that impaired loans be marked down to the present value of future expected cash flow from the loan, discounted at the effective interest rate on the loan contract. The effect of this difference is a significant time lag in the recognition of loan losses.
- As a result, most if not all banks and finance companies have qualified opinions from their auditors. The pattern of recent guidelines from the BOT is for increasing forbearance on provisioning requirements, which has the effect of making bank balance sheets less transparent. However, the BOT plans to issue new provisioning requirements for impaired loans pursuant to the proposed revisions to the “Financial Institutions Law”.
- While the BOT may be trying to reduce regulatory capital requirements for already weak institutions and stimulate the resolution of NPLs, the effect of these guidelines is to compound and complicate the types and degree of regulatory forbearance. This has two results. First, financial institutions are not forced to raise enough capital from the government or private markets to sell or

Second, recapitalization is more difficult because analysts and prospective investors are unable to size the losses and accurately value the financial institutions.

- **The quality of debt restructuring needs further improvement.** The capital constraint suffered by all but perhaps one of the major Thai banks and finance companies limits their ability to absorb the write downs from debt restructuring. Early indicators are that in the first round of negotiations between debtors and creditors, a portion of debts are being cosmetically rescheduled, not restructured such that repayments can be sustained by the borrower’s underlying cash flows. This is further compounded by the failure of the debtors to restructure their businesses and practices. Many firms will not be able to generate sufficient cash flow to service rescheduled debts. As a result, two or three rounds of restructuring the same accounts, increasing loss recognition and recapitalization of each institution may be necessary before the problems are resolved and the institutions can lend again on a significant scale.
- **Plans for the resolution of KTB’s serious NPL and governance problems are still unclear.** The Government plans to shift ownership of Krung Thai Bank to the Ministry of Finance. The authorities have announced the establishment of an AMC wholly owned by FIDF, and a transfer of a substantial portion of KTB’s NPLs to the AMC. It is unclear whether the NPLs will be transferred at fair market value. One proposal under consideration by the authorities is that a portion of the NPLs would be serviced in-house, and a portion by third parties. Resolution of the portion serviced in-house will likely be slow, given risk aversion and poor incentives for debt restructuring in state banks.

Strengthening Legal and Supervisory Regime

The Thai Government has begun the process of revising the legal and regulatory framework of the financial sector. The BOT is drafting three laws associated with the financial sector (commercial banking law, central bank law and the deposit insurance law). These laws are being reviewed from the perspective of consistency with international best practices; compliance with the Core Principles; and comparison with the banking laws of other countries. It is anticipated that all of these laws, with the possible exception of the Deposit Insurance Law, will be submitted for consideration by Parliament by early next year. In June 1999, the BOT assessed the Thai supervisory system against the Basle Core Principles for effective banking supervision. The BOT plans to use this assessment as a benchmark to measure future progress.

The BOT has conducted a preliminary examination of government owned, specialized financial institutions (SFIs) based on the transfer of examination authority to the BOT in October 1998. The BOT and the Ministry of Finance are developing specific prudential regulations and supervisory procedures for SFIs, and conducting further analysis of the business operations and financial condition of SFIs that have been identified as potentially weak in the preliminary assessment.

The BOT has made a considerable investment in establishing a formal training program for bank supervisors and examiners. A school for examiners has been established and an examination manual has been developed. The BOT plans to provide further support for strengthening the institutional capacity of supervisory authorities, and the development of prudential regulation for all financial institutions.

Capital markets are deepening

Correcting the unbalanced financial system.

The Thai financial system is, relative to most other emerging market economies with similar

per capita income, very deep, with financial assets to GDP of 150 percent. The Thai system is, however, significantly bank-oriented, with more than 70 percent of financial assets in banks, and with very limited financial intermediation through mutual funds and other type of institutional investors. Bond and stock markets remain relatively underdeveloped with outstanding bond market issues accounting for 12.5 percent of GDP and stock market capitalization amounting to 19 percent of GDP as of June 1998.

This unbalanced pattern of financial intermediation has made the economy more vulnerable to internal and external shocks. Better securities markets are needed as they can be a competitive force for the banking system and because banks and securities markets are complementary sources of finance. The functioning of capital markets can be furthered by enforcing minority shareholders rights and by improving the corporate governance framework.

In response to the unprecedented need to refinance the liabilities of the FIDF, the government is following a road map that was developed with the assistance of the World Bank to improve the bond market infrastructure, which has had the added benefit of promoting bond issuance by Thai firms. The Ministry of Finance (MOF) established the Domestic Bond Market Committee in September 1998. The Bank of Thailand (BOT), the Securities and Exchange Commission (SEC), the Thai Bond Dealing Center (TBDC) and two major commercial banks formed the core Committee. By early 1999, the Committee identified specific issues to be addressed and established eight task forces⁴, each led by a member institution, which invited participation by outside experts. Substantial progress has been made. In August 1999, the Committee organized a workshop to discuss the achievements and remaining issues to be addressed by each task force. There was broad participation from both the private and public sectors.

Box 1: Key Constraints to Business

The Bank of Thailand recently carried out a survey of 143 firms. The survey included 93 SMEs and 50 large enterprises.

The main findings of the survey are as follows:

- *Credit constraint:* The key constraint that firms face is *insufficient working capital and unwillingness to lend by financial institutions*. This is a supply-side constraint, reflecting bank's unwillingness to lend in the face of high NPLs, which could potentially constrain the recovery process
- *Signs of disintermediation of formal financial markets:* Although the formal financial institutions remain the dominant source of financing, there is a gradual shift away from formal and towards informal markets. This shift is evident for both large and small scale enterprises, although it is more prominent for the SMEs.

- *Real bank lending rates are high in comparison to the pre-crisis levels:* SMEs pay higher interest rates compared to large enterprises, while real interest rates for bank loans are higher today in comparison to the pre-crisis levels.
- *Debt rescheduling:* Large enterprises are better able to negotiate with creditors on rescheduling their debt payments, while SMEs rely more on private funds and cost cutting measures.
- *SMEs have traditionally been more dependent on personal funds for financing.* Going forward, given the low profitability of firms during the last two years, personal financing may dry up. Large enterprises have taken the advantage of the rising equity market and issued stocks to raise capital; they also face better terms on trade credits.

- **Thailand has experienced increased activity in the capital markets. Deepening capital markets will improve corporate behavior and help buffer the economy against future crisis.** The private sector has been able to raise its own funds by issuing equity and debt instruments. During the first half of this year, approximately 28.5 billion Baht in equity instruments (excluding financial sector recapitalization) have been raised in the primary market, compared to only 14.1 billion baht issued in the second half of 1998. In the first half of 1999, domestic funds raised through the issuance of debt instruments (excluding commercial banks, financial companies, the Industrial Finance Corporation of Thailand and state owned enterprises) totaled 35 billion baht , compared to only 5 billion baht for the second half of 1998.

A new vision and strategy for the financial sector. The Government has created a Financial Services Task Force to create a five year vision for the financial sector, and to establish a strategy and plans to achieve that vision. The first stage

has been to sound out market participants regarding impediments to efficiency and franchise value. In addition, the Task Force has gathered lessons learned from other countries, such as Singapore, which have recently completed their own strategic planning process.

CORPORATE SECTOR RESTRUCTURING

- **At the end of August, over Bt 680 billion baht of corporate debt has been restructured. Progress is fastest in smaller voluntary workouts.**
- **The pace of restructuring larger viable corporates to increase in the short-term as a result of CDRAC, but the restructuring of more deeply damaged firms to be a multi-year process.**

- Restructuring rates vary by sector, with services and wholesale trade sector leading and construction and real estate sectors lagging.
- Utilization of formal, court-supervised debt restructuring channels has decreased, while utilization of CDRAC and voluntary mechanisms has increased.
- Credit bureaus are in development.
- The most significant risks are excessive maturity rescheduling as opposed to restructuring of credit to levels supported by reasonable projections of cashflow, the slow pace of restructuring among state-owned or nationalized institutions, poor reporting of restructuring progress, implementation capacity of the Office of CDRAC, and the lack of significant operational restructuring particularly in non-listed firms.

Magnitude of the Problem

- There are nearly 400,000 classified loans in Thailand. The majority of impaired credit, by value, consists of approximately 700 large loans (loans above Bt 500 million baht) and roughly 5,000 medium-sized loans (Bt 50-500 million baht).

Figure 15: Distribution of number of classified loans by size category

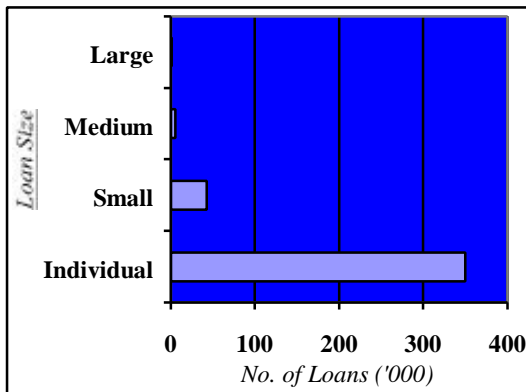
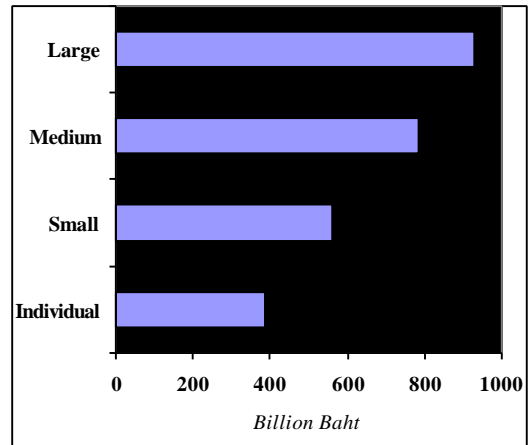
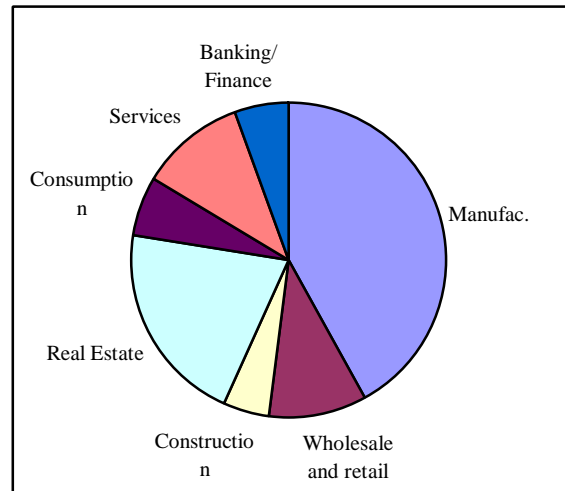


Figure 16: Distribution of classified debt value by size loan



- Distressed loans exist in nearly every business sector, but manufacturing, followed by property, are the hardest hit sectors.

Figure 17: Distribution of debt in restructuring process by sector



Government Response

In response to the need to restructure a large and diverse set of distressed loans and businesses, Thailand has established both voluntary and court-supervised options. The market-based framework has three institutional pillars:

- A legal framework for recovery of non-performing debt through bankruptcy and enforcement of security interests;
- A time-bound out-of-court process for debt restructuring negotiations, with institutional support through the Bank of Thailand Corporate Debt Restructuring Advisory Committee (CDRAC); and
- An enabling monetary and fiscal environment, including regulatory and tax incentives to corporates and banks through tax policy, BOI and SEC regulations, and through direct fiscal measures.

Unlike other crisis countries, Thailand has not created a central agency with extraordinary powers to "carve out" or restructure non-performing debt. Thus, progress on corporate debt restructuring is essential to bank recapitalization. The burden of restructuring rests with Thai commercial and state-owned banks, who hold an estimated 83 percent of non-performing loans.

Improvements to the Legal Framework for Insolvency

As part of the Government's reform program, a significant number of laws have been passed or are in Parliament.

In March, 1999, Parliament approved a further amendment to the Bankruptcy Act which including improved security for new money lent to a company in distress, voting by creditor class, rescission of related party transfers, limits to

Table 3: Economic Reform Laws

Economic Reform Laws	Status
Social Security Act Amendment Law	Passed into Law
Bankruptcy Court Law	Passed into Law
Bankruptcy Amendment Law	Passed into Law
Civil Code Amendment Law on Miscellaneous Cases	Passed into Law
Foreclosure Law	Passed into Law
Law on Property Lease for Commerce and Industries	Passed into Law
Land Code Amendment Law	Passed into Law
State Enterprise Corporatisation Bill	Passed Senate; Under Constitutional Court Consideration
Alien Business Law Amendment Bill	Passed into Law
Bill on Court Appointments	Passed First Reading in House of Representatives

discretion for court action, and conversion of foreign currency-denominated claims. Importantly, this amendment lowered the approval threshold for a reorganization plan to 50 percent of outstanding debt by number and value, plus a special resolution of 75 percent of the outstanding debt of one creditor class by value. Parliament also created the Central Bankruptcy Court, which opened on June 18.

There is concern among some creditors that the Thai insolvency regime is still biased in favor of debtors. While it may be too early to tell, it merits close monitoring as the foreclosure amendments begin to be used, and as the Bankruptcy Court is challenged to reorganize an insolvent debtor with positive net worth.

Voluntary Framework for Corporate Debt Restructuring

The government established the Corporate Debt Restructuring Advisory Committee (CDRAC) to facilitate the process of corporate restructuring based on the Bangkok Approach,

an adaptation of the London Rules to Thailand. The Bank of Thailand established the Office of CDRAC to facilitate the restructuring of target cases which now number 689. These 689 companies represent nearly 1.5 trillion baht, or 56 percent of the total non-performing loans in Thailand. In March, 1999, the Office of CDRAC, with the cooperation of the Thai Bankers' Association, the Foreign Banks' Association, strengthened the voluntary debt restructuring framework through the development of two civil contracts between parties to a restructuring plan which allow CDRAC to enforce a timetable for resolution, approval process, and exit procedures.

Further progress was made in the institutional and regulatory area, as Cabinet approved tax incentives for establishment of private asset management companies. Separately, credit bureau projects were announced by both the Government Housing Bank and the Thai Bankers' Association. Fourteen financial institutions, primarily state-owned signed up for the Government Housing Bank service, which will cost Bt 50,000 per month. The Thai Bankers' Association project, the Central Information Service, is slated for operation by December 5th. Both will initially obtain data through the consent of borrowers until passage of a credit information act, currently in the Parliamentary process.

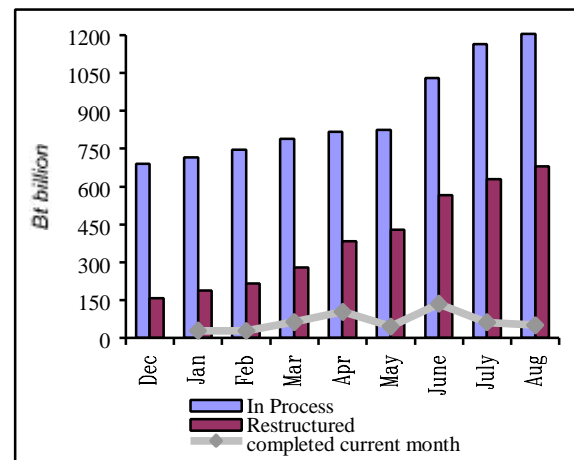
Progress

Overview of Progress in Debt Restructuring

- Excluding asset sales by the Financial Restructuring Authority (FRA), the cumulative total of restructured debt in Thailand reached 680 billion (\$17 billion) by the end of August. This progress, while substantial, has only begun to lower NPLs in the financial sector. Debt in the restructuring process now exceeds Bt 1.2 trillion (\$30 billion).

- Much of this cumulative total was achieved in the second quarter, when over \$7 billion in debt was restructured. In the third quarter, the pace slowed. Only Bt 114 billion (\$2.9 billion) was restructured in July and August. Furthermore much of the cumulative total of debt restructuring is in the small to medium-sized loan categories, executed through the voluntary process.

Figure 18: Progress in corporate debt restructuring

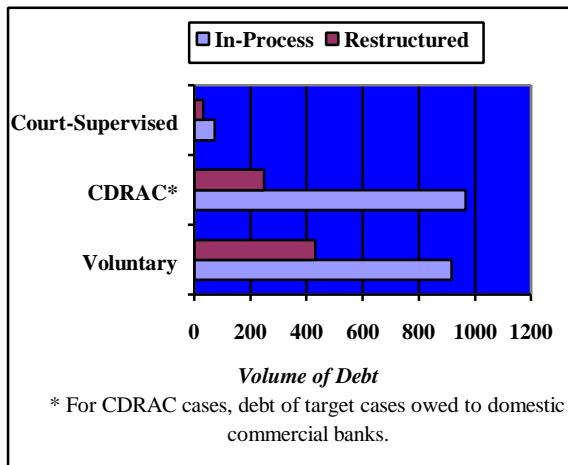


- Despite over Bt 50 billion of restructuring, NPLs in the financial system dropped only Bt 30 billion in August. This is due to (1) new entry of NPLs in the system simultaneous to the exit of NPLs through restructuring, (2) the cumulative restructuring figure, which includes a sizeable portion of credit that is restructured is "proactive" -- distressed but still performing (i.e., interest or principal payments have been received in the last 90 days), and (3) because of unclear guidelines on NPL reporting. **The Bank of Thailand issued a circular on September 22, 1999 to resolve the inconsistency between restructuring and reported NPLs. The circular requires that non-performing loans be removed from non-performing status immediately on reaching a restructuring agreement, or when a debtor is able to perform on the debt.**

It requires that banks report NPLs by account, rather than by debtor. It does not affect asset classification, income recognition or tax treatment. Cumulative debt restructuring will, however, continue to exceed the reduction in non-performing debt.

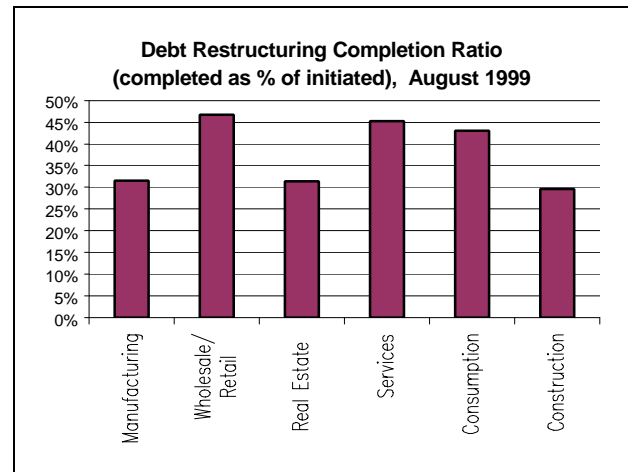
- **Much of completed debt restructuring involves substantial rescheduling.** While debt to equity conversions and capital injections are a frequent component of larger transactions, much of the debt restructuring completed to date has been in smaller, voluntary transactions outside of CDRAC and the courts (Figure 19). These frequently involve little more than rescheduled maturities and are of questionable viability.

Figure 19: Debt restructuring progress by workout process



- **Restructuring rates vary significantly across sectors,** with telecommunications, services and wholesale trade sectors leading and construction materials, steel, and real estate sectors lagging.

Figure 20: Debt restructuring remains slow in problem sectors



- Thailand's progress on corporate debt restructuring is comparable to the progress made by other crisis countries (Table 4).

Table 4: A Comparison of Corporate Restructuring, August 1999

	Indonesia	Korea	Malaysia	Thailand
Out-of-Court Restructuring				
Number of registered cases*	234	92	53	702
Number of cases started	157	83	27	385
Number of restructured cases	22	46	10	89
Restructured debt/total debt (%)	13	40	32	26
In-Court Restructurings				
Number of registered cases	88	48	52	30
Number of cases started	78	27	34	22
Number of restructured cases	8	19	12	8
Restructured debt/total debt (%)	4	8		5

*For Korea, this number does not take into account restructuring outside the 6th largest to the 64th largest chaebol; much restructuring has taken place among small- and medium-sized enterprises. For Thailand, it only includes CDRAC target cases. Outside of CDRAC, over 100,000 individual and SME cases have been restructured.

Progress in CDRAC

- **CDRAC’s target list of priority restructuring cases grew to 702 debtors. These debtors have outstanding credit exceeding half of the non-performing loans in Thailand.** Of these, 385 have signed the CDRAC protocols in June to August, representing 30 percent of the total value of Thai NPLs. Eleven companies had been restructured under these new protocols by the end of August.
- **The CDRAC program is expected to increase the completion rate for larger viable borrowers through the first quarter of 2000, assuming that deadlines are enforced. A large portion of the CDRAC target cases will reach agreed deadlines November through February.** Some cases, which entered CDRAC at an advanced stage, have already reached deadlines. Most parties report an enhanced rate of work in order to meet the deadlines. Should deadlines not be achieved, cases would revert to the court system. However, slippage of deadlines has occurred in several cases where business plans presented by debtors were not trusted by creditors, who required new analysis. **CDRAC has not, in these cases, enforced the deadlines through penalties, nor appointed mediators, arbitrators or independent advisors.** The risk is that the credibility of the deadlines and process will be undermined. This will be monitored carefully.
- **Four large cases, with combined outstanding debt of nearly \$5 billion, approach the finish line.** Two major telecommunications firms, Telecom Asia, and Samart with combined outstanding credit exceeding Bt 70 billion (\$1.75 billion) have reached agreement in principal with creditors on restructuring plans pending legal documentation. TT&T, with an additional Bt 39 billion, will propose a plan to creditors at

the end of October. The steering committee

for Thai Oil, a \$2 billion restructuring, reportedly reached an advanced stage in resolving differences between Japanese creditors and the Ministry of Industry, which 49 percent of Thai Oil through the Petroleum Authority of Thailand.

Table 5: Participation in CDRAC-Sponsored Intercreditor and Debtor-Creditor Agreement as of August 31, 1999

Category	No.	Outstanding Debt
		Bt Billion
Financial institutions signed	84	
Target companies (debtors)	702	1,500
Target Debtors Signed	385	799
Restructured under DCA/ICA	11	20
Target Debtors non signed*	317	

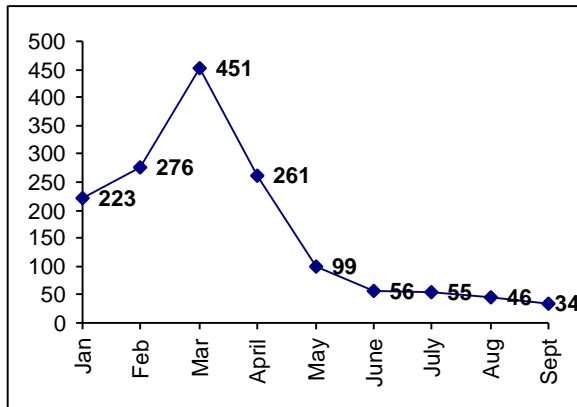
Roughly half of those that have not signed are non-cooperative, and half are at advanced stages or have completed restructuring.

Progress in Court-Supervised restructuring

Under the new Central Bankruptcy Court, 113 liquidation petitions have been filed, and 16 for Bankruptcy Rehabilitation. Since the Reorganization section was introduced in 1998, 30 petitions for bankruptcy reorganization have been received by the Thai courts, of which 20 have been accepted for business reorganization. These represent total outstanding debts of Bt 120 billion (\$3.2 billion). Eight have been rejected by the court or were withdrawn by petitioners, and two petitions are being examined currently.

The pace of reorganization filings increased considerably after passage of the 1999 amendment to the Bankruptcy Act, but appears to have declined in recent months (Figure 21).

Figure 21: New Bankruptcy Petitions, Liquidation, and Reorganization



Challenges And Prognosis

- Is restructuring yielding economically viable outcomes?** A significant amount of debt restructuring is of poor quality from an economic standpoint. There are several dimensions to this problem. First, undercapitalized banks are unwilling to take necessary restructuring losses and would prefer to see plans which offer rescheduling rather than write-downs or swaps of unserviceable debt into equity. Second, restructuring plans often pay superficial attention to underlying business economics and therefore do not substantially impact cash generating capacity. Related to this, firms are still unwilling to dispose of unprofitable businesses given depressed prices as asset markets have yet to recover.
- Despite the depth of the crisis, significant business restructuring has not become a widespread practice,** and is limited to a few high-profile firms (Siam Cement) and targets of strategic investment (Siam City Cement). But the crisis and its aftermath have created significant changes in business conditions which require equally significant changes in management practices. In the long run, corporate governance reforms may make managers more responsive to external stakeholders. In the short-run, business

restructuring appears to occur primarily through foreign direct investment (retail, financial, and cement sectors), or formal bankruptcy. Line Ministries and associations like the Federation of Thai Industries help catalyze operational restructuring. The World Bank remains engaged through technical assistance.

- State-owned financial institutions continue to slow the process.** Private banks are restructuring debt at 3-4 times the speed of state-owned banks. In several substantial cases, both in formal reorganization and voluntary processes, report agreement by all creditors with the exception of state-owned. Citing the Offences by State-Employees Act, bankers in state-owned financial institutions report concerns over their legal liability for losses incurred in restructuring. The Bank of Thailand and the World Bank are providing technical support to assist state-owned financial institutions reach restructuring decisions more quickly.
- While the crisis was and remains widespread, subsectoral, microeconomic factors are emerging as decisive in determining the rate of recovery.** The debt restructuring process will increasingly separate viable firms impacted by short-term interest rate, exchange rate and domestic demand volatility from those firms suffering from structural overcapacity. Viable cases are being restructured, or rescheduled, through the voluntary and CDRAC cases. This will lower NPLs significantly, although perhaps not permanently.
- The outlook beyond the second quarter of 2000 is uncertain.** Clearly, the easier cases are being done first, and recovery rates, even on a net present value basis, have been high. Firms in more deeply damaged sectors may not be possible to restructure, and banks may be required to take significant losses. Progress will be dictated by the pace of recapitalization, the rate of foreign direct

investment (including mergers), and the depth of the recovery - which to date has not stabilized property prices and private investment. The strength of the legal framework will become more critical.

IMPROVING COMPETITIVENESS

- **Increased emphasis on medium-term reforms to improve the Thailand's international competitiveness.**
- **A new Competition Law was passed earlier.**

Even before the crisis, structural weaknesses had begun to emerge. Private firms had become highly leveraged, debt-equity ratios had reached an all-time high, and corporations had diversified into myriad activities, often not based on any comparative advantage. Total factor productivity growth was declining across the board, and exports, the engine of growth in the previous three decades, were beginning to lose their competitive edge. The share of high technology products in exports was well below that of important competitors such as Malaysia, Singapore, and the Philippines, and backward linkages were weak.

- **There is a major new initiative to strengthen small and medium sized enterprises (SMEs).** The government is planning to provide funding for SME growth and technological upgrading, and will remove legal and regulatory impediments to their growth and competitiveness. On the industrial front, the Government is implementing an ambitious Industrial Restructuring Plan, coordinated by the Ministry of Industry but involving other ministries and agencies as well as the private sector. The Plan contains around 400 projects pertaining to different aspects of industrial competitiveness, developed by the private sector and public agencies.

- **The infrastructure for standards and metrology has been restructured,** with greater participation of private service providers and the provision of training to industry. The research institutions under NSTDA are seeking to make their work more relevant to industry; one major initiative is the setting up of a Science Park to attract large and small investors in technology intensive activities. The Board of Investment is considering a reorientation of its functions and strategies, to feed more directly into guiding FDI into more technology intensive activities. A number of industrial technical institutes have been established, with active cooperation by industry associations, to serve the productivity and training needs of specific industries.
- Apart from these efforts to improve industrial training, **a new Education Act envisages a comprehensive upgrading of the skill creation system, promising free education of up to 12 years.**
- **Trade liberalization** is being pursued, driven by tariff reductions and rationalization in the context of AFTA (which come into force at the beginning of 2000). These will expose Thai industry to intense across the board competition (with tariff rates generally in the 0-5 percent range) from the region, before it faces global competition five years later. Export procedures are being streamlined and accelerated to meet the needs of rapid and flexible response. New modes of financial support for technological activity, including R&D, are planned. The spread of quality management standards is being supported. A number of measures are being implemented to support export marketing.
- The new **Competition Act** passed this year clearly defines abuse of dominance, price fixing, and collusion and permits advance judgments and appeals in cases of mergers

and acquisitions suits. The Act will strengthen the domestic competitive environment. It should be followed up with detailed regulations to give substance to a modern competition policy. The institutional capacity to oversee and enforce the new law and associated regulations is being strengthened and a supportive legal infrastructure is being put in place.

- **Corporate governance** reforms to promote responsible corporate management are moving ahead and they need to be accelerated. These reforms include strengthening the institutional framework for setting standards and regulating accounting and auditing practices, improving the quality and reliability of corporate financial and nonfinancial information, strengthening the financial oversight role of the board of directors, and intensifying enforcement. While the line agencies have nearly completed their reviews of laws and regulations and have proposed changes, amendments to the relevant laws have to go through the parliament and institutional changes have to be implemented.
- A shortage of **skills** has increased unit labor costs and hurt the international competitiveness of firms. Actions are being taken to lower unit labor costs by increasing worker productivity and upgrading the education system: giving universities greater autonomy to play a larger role in improving secondary and post-secondary education, decentralizing public education resources and increasing accountability, reforming teacher employment, and modernizing teaching practices and curricula, and turning vocational secondary education to meet the requirements of industry.

Measures to Improve SME Financing

The Government fully recognizes the importance of SMEs in generating employment. For this reason, the Government has enacted a series of ongoing measures to support SMEs. These include, among others, arranging over 35 billion baht in credit for SMEs through the specialized financial institutions and the Bank of Thailand, as well as establishing a special stock market for SMEs. To further enhance the long-term effectiveness of SME financing, the Cabinet has approved the restructuring of two critical specialized financial institutions, the Small Industry Credit Guarantee Corporation and the Small Industry Finance Corporation, as well as the establishment of Financial Advisory Centers for SMEs.

PUBLIC SECTOR REFORM

Public sector reform efforts accelerate

In May 1999, the Cabinet issued its Public Sector Management Reform Plan, which provides the Government's vision for institutional change. The Government has also appointed a high-level Public Sector Reform Committee (PSRC) to carry out the reforms in the public sector. With the assistance of various other stakeholders, the Committee designed Thailand's Program, on the basis of the comprehensive strategy set forth in the Cabinet paper.

Towards Comprehensive Reform

The Public Sector Reform Program highlights Thailand's medium-term agenda for improving public sector governance. The program constitutes a three-year action agenda to reform Thailand's public sector in the areas of (i) expenditure management, (ii) human resources management, (iii) revenue management, (iv) decentralization, and (v) accountability and transparency.

TABLE 7: THAILAND'S PUBLIC SECTOR REFORM PROGRAM

REFORM AREAS	LEAD AGENCIES	PRIORITIES	KEY REFORM ACTIONS TAKEN
Expenditure Management	Bureau of the Budget Selected Line Ministries (Education, Health, Commerce) Ministry of Finance	<ul style="list-style-type: none"> ▪ Implement performance-based budgeting for line ministries ▪ Strengthen the capability of central agencies to review and evaluate sector policies and performance ▪ Improve fiscal transparency 	<ul style="list-style-type: none"> ▪ Memoranda of Understanding on resource flexibility in exchange for performance improvements have been signed between the Bureau of the Budget and the Ministry of Public Health and the Ministry of Education ▪ Organic law on State Audits has been adopted by Parliament
Human Resource Management	Office of the Civil Service Commission Selected Line Ministries (Education, Health and Commerce)	<ul style="list-style-type: none"> ▪ Develop detailed programs to align organizational structures of line ministries with their new functional objectives ▪ Match staffing profiles and numbers to new functional requirements of civil service and contain cost of government ▪ Develop modern performance-based human resource management systems for civil service ▪ Develop well-motivated, politically neutral, cross-governmental senior cadre to lead civil service renewal program ▪ Develop regulatory framework for autonomous public organizations (APOs) 	<ul style="list-style-type: none"> ▪ Functional review of the Ministry of Commerce has been completed and restructuring initiated ▪ Law on Autonomous Public Organizations has been promulgated
Revenue Management	Revenue Department	<ul style="list-style-type: none"> ▪ Improve taxpayer compliance ▪ Strengthen collection enforcement ▪ Balance business and Information Technology (IT) priorities 	<ul style="list-style-type: none"> ▪ A large Business Tax Administration Office has been established to manage at least 500 of the largest tax payers
Decentralization	Decentralization Committee	<ul style="list-style-type: none"> ▪ Establish capability to support and monitor decentralization ▪ Devolve appropriate expenditure functions ▪ Enhance local revenues/resources ▪ Revise intergovernmental grant (subsidy) system ▪ Enhance local accountability 	<ul style="list-style-type: none"> ▪ The National Decentralization Committee has been legally established
Cross-Government Accountability and Transparency	Office of the Prime Minister Office of the Civil Service Commission Official Information Commission	<ul style="list-style-type: none"> ▪ Increase institutional accountability ▪ Enhance public access to information ▪ Promote probity among civil servants ▪ Enhance civil society participation 	<ul style="list-style-type: none"> ▪ Members of the National Counter Corruption Commission have been appointed and a draft organic Law on counter corruption has been adopted by Parliament ▪ Parliament has approved the Laws on Ombudsmen and on Administrative Courts

BOX 2 : THE NEW CONSTITUTION AND ITS IMPLICATION FOR PUBLIC SECTOR MANAGEMENT REFORM *

The new Constitution of Thailand promulgated on October 11, 1997, attempts to reform the public sector and political processes, and to promote participatory democracy and citizen rights. The new Constitution provides impetus for three major reform areas of the Thai public sector: Integrity Reform, Structural Reform and Procedural Reform.

1. Integrity Reform.

The patron-client relationship is deeply rooted in the Thai culture and society and is known as one of the main causes of corruption in Thailand. Conflicts of interest between personal interests and institutional interests are prevalent in the public sector. A Code of Ethics among the public officials will be established to eliminate the opportunity for arbitrary malpractices. Section 77 of the new Constitution states clearly that *“State shall prepare a political development plan, moral and ethical standard of holders of political positions, government officials, officials and other employees of the State in order to prevent corruption and create efficiency of performance of duties”*. As a result, the Cabinet passed the Code of Ethics for Government officials proposed by the Office of the Civil Service Commission (OCSC) in February this year and the National Assembly has recently established the Ethics Committee. In addition, complementary mechanisms mandated by the Constitution will address corruption and misconduct of state officials, such as the National Counter Corruption Commission, the Administrative Courts and the Ombudsmen.

2. Structural Reform**2.1 Restructuring Government Agencies**

The new Constitution provides an alternative solution to restructuring existing government agencies. In the past, reforming government agencies was very difficult because it required a Parliamentary Act and strong political will among different political parties, not to mention the resistance from various agencies. Section 230 of the new Constitution provides an opportunity to restructure government agencies, although the number of official positions is fixed. Reforms can now be enacted through a Royal Decree—a much more streamlined avenue for initiating policy reform. *“...The amalgamation of transfer of Ministries, Sub-Ministries or Departments which has or does not have the effect of establishing a new Ministry, Sub-Ministry or Department and which does not require an increasing of position or the number of Government officials or employees, or the dissolution of a Ministry, Sub-Ministry or Department shall be made in the form of a Royal Decree”*.

2.2 Decentralization of Powers

Various sections of the Constitution mandate that the central government transfer some of its power and resources to the local governments. Section 78 of Chapter 1 states that *“The State shall decentralize of powers to localities for the purpose of independence and self-determination of local affairs, develop local economics, public utilities and facilities systems and information infrastructure...”* In addition, chapter IX of the Constitution is devoted to decentralization and local government under the principal of self-government. It also mandates that laws determining plans and process of decentralization and laws regarding the delineation of powers and duties between the State and a local government organization be enacted within two years from the date of the promulgation of the Constitution.

2.3 Independent Regulatory Bodies

The new Constitution mandates the establishment of many new institutions to regulate the performance of the public sector. These new institutions are to be independently run outside the influence and authority of the executive, legislative and judiciary branches. Examples of these institutions are the National Counter Corruption Commission, the Ombudsmen, the State Audit Commission, and the Administrative Court. Organic laws related to these institutions have to be passed by October 11, 1999.

3. Procedural Reform.

The Constitution provides major changes in those areas of the public policy formulation process which used to be the exclusive domain of government officials and agencies but which, for the sake of accountability, will now require public participation. In fact, various sections of the document clearly note that the state shall promote public participation. To ensure popular participation, the Constitution grants major rights to the public, including (i) the right to information (it mandates that the people shall have the right to access public information from state agencies, unless such disclosure affects the security of the state or public safety or interests of other persons). The Public Information Act was passed in 1997, and the public has been actively exercising their right; (ii) the right to public hearing; and (iii) the right to participate in policy formulation, as well as in preparing economic, social and political development plans. Collectively, the three reforms as summarized above aim to stabilize political power as well as to improve public sector efficiency in responding to public demand.

Reflecting on the performance of the Government during the past two years since the new Constitution was promulgated, Dr. Borwornsak, one of the drafters of the new Constitution and currently the Secretary General of the King Prajadhipok's Institute, notes that many of the document's goals still need to be accomplished. For example, even though the recruitment of personnel of the new independent oversight bodies is still pending, attitudes and perceptions of public officials must change. According to Dr. Borwornsak, public officials must understand that they are wearing two hats: one as public servants and one as citizens. Consequently, improving the transparency and accountability of the bureaucratic system should be seen by public officials as beneficial rather than burdensome. In addition, the patron—client culture needs to be transformed. Likewise, the legal structure for equitable allocation of resources still needs to be established.

Dr. Borwornsak understands well that many of these factors take time to change. As the secretary of the King Prajadhipok's Institute which advocates the advancement of democracy, legislative efficiency, sustainable development, and socio-economic and political reforms, he emphasizes the importance of sustainable development deriving from citizen participation in the policy making process, thus ensuring more equitable share of resources for all.

Lastly, Dr. Borwornsak sees the roles of external donors as providing support for the efforts in the public reform process by assisting Thais in improving civic education, providing alternative knowledge with regard to tools and techniques, and developing feedback indicators for a more efficient public sector, one which is more responsive to the needs of the public.

* Based on an interview with **Dr. Borwornsak Uwanno**, prominent drafter of the Constitution and currently the Secretary General of the King Prajadhipok's Institute

BOX 3 : Progress on Selected Laws Mandated by The 1997 Constitution

The 1997 Constitution mandated the passage of several organic laws within set deadlines after its promulgation. Most of those laws have already gone through parliamentary scrutiny and cleared the legislative deadline. Below is a progress report for 8 of those (as well as other related) laws, with particular emphasis on laws concerning public sector reform.

A. Organic Laws which have been passed by October 10, 1999 (or 240 days after the promulgation of the Constitution on October 11, 1997) and which the National Assembly has approved: (Total of 3 Acts)

Organic Laws	Latest Status
<ol style="list-style-type: none"> 1. Political Party Act 1998 2. National Election Commission Act 1998 3. Election of Member of Parliament and Senator Act 1998 	Announced in the Government Gazette on June 9, 1998.

B. Organic Laws to have been passed within two years after the promulgation of the Constitution: (Total of 5 Acts)

Organic Laws	Latest Status
<ol style="list-style-type: none"> 1. Public Hearing Act 1998 2. Ombudsman Act 1999 3. Legal Procedure for Criminal Case of Politician Act 1999 4. National Counter Corruption Commission Draft Bill 1999 5. State Audit Draft Bill 	<ol style="list-style-type: none"> 1. Announced in the Government Gazette on December 31, 1998 2. Announced in the Government Gazette on September 14, 1999 3. Announced in the Government Gazette on September 14, 1999 4. Approved by the Parliament To be presented to the King for signature. 5. Approved by the Parliament To be presented to the King for signature.

C. Other laws related to Public Sector Reform

Laws	Latest Status
<ol style="list-style-type: none"> 1. Administrative Court Draft Bill 1999 2. Local Government Act 1999 3. National Education Act 1999 4. Salary and Benefits for the President and Judges of the Constitutional Court Act 1998 5. Election of Members of Municipality Council Act (No. 10) 1998 6. Changing Status of Sukapiban to Municipality Act 1999 7. Provincial Administration Organization Act (No.2) 1999 8. Municipality Act (No. 10) 1999 9. The Office of the Constitutional Court Act 1999 10. Tambon Council and Tambon Administrative Organization Act (No. 30) 1999 11. Appointment Criteria for Senior Judge Act 1999 12. Request for the Issuance of Local Ordinances Draft Bill 1999 13. Casting Ballot to Withdraw Member of the Local Assembly or Any Administrator not Suitable to Remain in the Office Draft Bill 1999 14. Civil Servant Regulation for Bangkok Metropolitan Administration Draft Bill (No. 2) 1999 15. The Rules for the Submission of Dispute among Courts Draft Bill 1999 16. Administrative Regulations of the Bangkok Metropolitan Administration Draft Bill (No. 4) 1999 17. Administrative Regulation of Pattaya City Draft Bill 1999 	<ol style="list-style-type: none"> 1. Presented to the King for signature 2. Announced in the Government Gazette on August 4, 1999 3. Announced in the Government Gazette on August 19, 1999 4. Announced in the Government Gazette on December 28, 1998. 5. Announced in the Government Gazette on December 28, 1998 6. Announced in the Government Gazette on February 24, 1999 7. Announced in the Government Gazette on March 10, 1999 8. Announced in the Government Gazette on March 10, 1999 9. Announced in the Government Gazette on April 8, 1999 10. Announced in the Government Gazette on May 20, 1999 11. Announced in the Government Gazette on August 20, 1999 12. Presented to the King for signature 13. Presented to the King for signature 14. Presented to the King for signature 15. Presented to the King for signature 16. Presented to the King for signature 17. Approved by the Parliament To be presented to the King for signature

Sources: Office of the Secretariat of the Cabinet (October 8, 1999); Parliamentary Proceedings Division, National Assembly.

(i) Expenditure Management

To meet the demands of a globalized economy, expenditure management aims to achieve the following key objectives over the next few years: (i) link Thailand's planning, sector policy making and budgeting processes, (ii) measure outputs and outcomes instead of controlling inputs, (iii) improve the quality of fiscal adjustment, and (iv) improve financial transparency. Thailand's Program will support organizational and policy changes bolstered by technical assistance in the Bureau of the Budget and selected line ministries, with the aim to achieve the following objectives:

- Implement performance budgeting by formulating strategic plans, forming resource agreements with performance targets in sector ministries, and incorporating budget evaluation-feedback into the budget cycle.
- Improve the planning capability of sector ministries through functional reviews of program areas, corporate plans and performance-based budgeting.
- Improve line ministry performance through resource agreements and monitoring with increased flexibility granted by the Bureau of the Budget.
- Routinely monitor distributional incidence of fiscal policy through multi-purpose household surveys, and surveys of unit costs, prices and subsidies.
- Improve the targeting of expenditures and progressivity of subsidies by routinely using distributional criteria in making *ex ante* expenditure decisions.
- Strengthen key government agencies in monitoring and evaluating the effectiveness of service delivery.
- Establish a medium-term macro-fiscal plan that would influence annual budgets.
- Adopt international standards for fiscal

transparency.

- Prepare complete government financial statements (including off-budget fiscal risks) and present annual audit reports to Parliament.

(ii) Human Resource Management

Key areas for human resource management reforms under Thailand's Program include the following:

- Guide the process of functional reviews to identify opportunities for restructuring, re-engineering, outsourcing and decentralizing public-sector functions, processes and staff for effective policy making and service delivery.
- Align organizational development and restructuring programs for government ministries and departments with their service objectives.
- Devolve non-core functions to local governments; contract to the private sector or to Autonomous Public Organizations.
- Improve efficiency of service delivery in core areas of ministry activity.
- Strengthen human resources and structure staffing levels to meet the ministries' objectives.
- "Rightsize" the civil service by adjusting staffing levels to new public sector requirements, involving an expected reduction of 10 percent of staff.
- Introduce performance-based human resource management systems for the civil service (e.g., individual job description and classification systems, greater flexibility in employment system, performance appraisal and remuneration, career development and advancement, and disciplinary and complaint systems).
- Strengthen the caliber of cross-government senior

government staff by developing a Senior Executive Service cadre groomed for civil service leadership posts.

- Establish a governance framework for APOs.

(iii) Revenue Management

The objectives of the proposed tax administration reforms are to: (i) ensure adequate and sustainable revenue; (ii) improve revenue collection, widen the tax base, and achieve a more equitable distribution of the tax burden; and, (iii) strengthen the managerial capacity of the Revenue Department to perform its functions efficiently and effectively on a sustainable and transparent basis. The following reforms will help to achieve these objectives:

- Strengthen tax collection enforcement to rein in the growth in tax arrears.
- Improve taxpayer compliance by establishing one unique taxpayer identification number, coordinating audit with the collection of delinquent accounts, and developing and implementing a comprehensive audit strategy.
- Improve overall revenue management by developing strategic plans, establishing information technology priorities and developing new applications.

(iv) Decentralization

Decentralization was identified as a policy priority in Thailand's 8th National Economic and Social Development Plan. The new Constitution also emphasizes decentralization, specifying principles of local autonomy and elected local representatives, among other aspects of local governance. The success of fiscal decentralization in Thailand will depend on the extent to which political and economic institutions promote local accountability and responsible fiscal policies. These institutions are nascent in Thailand; decentralization must therefore

incorporate gradual processes that emphasize long-term institution building.

Objectives envisioned in the Constitution, and supported by Thailand's Program, include increasing the share of local government expenditures, assigning more revenue sources to local governments, revising the system of intergovernmental transfers to provide grants in a more transparent and predictable way, and promoting mechanisms for local accountability. Because most Thai local governments are weak in financial management, planning and service delivery, and generally lack adequate resources to deliver services effectively or to undertake needed capital projects, implementing the proposed program of decentralization reforms will require significant strengthening of local capabilities.

In regard to decentralization, Thailand's Program emphasizes fiscal decentralization and focuses on the following priorities:

- Establish an independent authority (the National Decentralization Committee) to monitor the status of decentralization reforms and promote cooperation among various ministries and agencies.
- Clearly assign expenditure functions among levels of government and devolve functions to local governments.
- Allocate adequate local revenues (including phasing in the new property tax and strengthening the Central Valuation Agency) and enhance local collections.
- Improve the equalization impact of intergovernmental grants by introducing more general-purpose grants and allocating them by transparent and equalizing formulae.
- Develop mechanisms for local accountability and transparency.

- Monitor the status of decentralization and local public finances by developing local finance benchmarks and publishing regular reports on local finance.

(v) Strengthening Cross-Government Accountability and Transparency

Thailand's public sector reform is rationalizing the institutions responsible for ensuring public accountability and demonstrating the Government's

commitment to fighting corruption. Public accountability can be enhanced by encouraging civil society to participate in government decision making and to provide input on how to improve service delivery. Various articles under the new Constitution grant the right to individuals and civil society organizations to participate in policy formulation and implementation to ensure and improve government services. The Government has sought regular feedback from civil society, including through the "Good Governance" working groups of the Thailand Development Research Institute, a prominent think tank.

Specific objectives that will be supported under Thailand's Program include:

- Increase institutional accountability, by strengthening formal institutional structures.
- Improve access to, and use of, public information by individual citizens and by civil society, including improved responsiveness by Government in providing this access.
- Increase probity among civil servants.
- Enhance civil society participation in improving transparency.

Thailand expects to achieve the following key results:

- Establishing a National Counter-Corruption Commission to enforce standards for integrity and transparency in Government, investigate

allegations of corruption, and report annually to the public.

- Creating Administrative Courts that will provide citizens a judicial forum to enforce their rights vis-à-vis the state.
- Establishing an Ombudsman to address citizens' grievances and other issues of public concern.
- Strengthening the capacity of the Office of the Official Information Commission to facilitate public access to information under the Official Information Act.
- Establishing an Ethics Promotion Center and protecting "whistleblowers" to promote professional quality and reduce corruption.
- Establishing the National Economic and Social Council (NESC) to allow civil society to monitor public performance and participate in the policy making process.

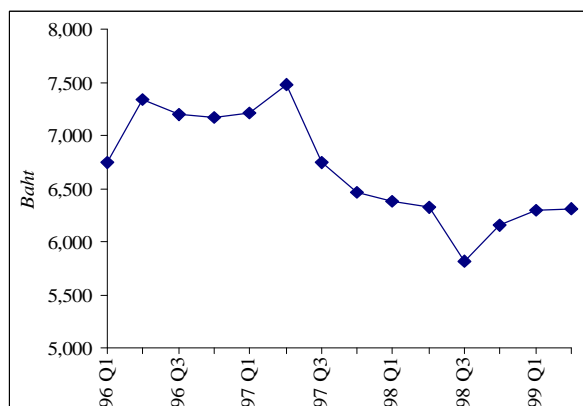
SOCIAL SAFETY NETS

- **The crisis has resulted in substantial loss in social welfare. Real consumption per capita fell from nearly Baht 7500 (US\$183) in early 1997 to Baht 6,300 (US\$170) in 1999. More than one million additional Thai people fell below the poverty line as a result of the crisis.**
- **The impact of the crisis on the social sector has been most visible in terms of increased unemployment and poverty incidence, but not as severe as originally feared.**
- **The expanded social safety net program of the Government and the resilience of the Thai society helped to mitigate the social impact of the crisis, although some have fallen through the cracks.**

Social welfare has declined. A key measure of social welfare is the consumption level of people. Helped by

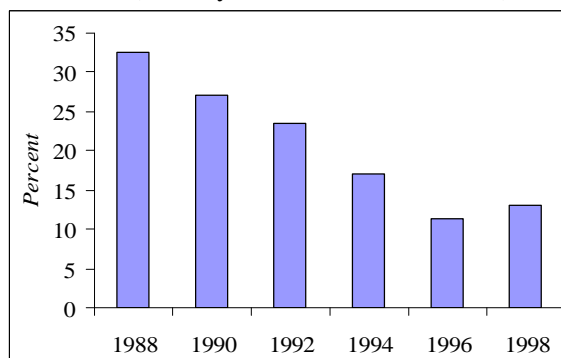
the rapid growth in the 1990s, real consumption level increased before the crisis. Following the crisis, it fell sharply, and bottomed out in the third quarter of 1998. The emerging recovery in the last two quarters of 1999 has helped raise the consumption level and contribute towards improved social welfare.

Figure 22: Real per capita private consumption has fallen



An additional 1.1 million fell below the poverty line from 1996 to 1998. Poverty incidence from 11.4 percent in 1996 to almost 13 percent in 1998 (Figure 23). The poor have remained disproportionately rural villagers and agricultural workers with little or no land and living in the Northeast. The largest increase in poverty incidence are seen in the Central regions, followed by the Northeast.

Figure 23: Reduction in poverty is reversed
(Poverty Incidence, Head Count)



Unemployment has increased. Real wages, following the rapid rise before the crisis, have begun to trend down after the crisis, largely as a consequence of the rise in inflation rates. Financial markets began stabilizing in 1998 and the subsequent fall in inflation rates have helped to slow down the decline in real wages. Unemployment has continued to increase, reflecting the magnitude of negative demand shocks faced by Thailand, structural unemployment arising from corporate restructuring, and labor market rigidities.

The emerging recovery has seen an improvement in the employment levels. Employment level has increased by 4.5 percent in May 1999 when compared to May 1998. Vacancy rates at the end of July, however, have also decreased by 5 percent when compared to last year, while an additional 22,000 employees have been laid-off from January to July when compared to the same period last year (Figure 25). Unemployment has resulted from both employment retrenchment and the market's reduced ability to absorb new entrants. From the May Labor Force Survey, unemployment has risen to 5.3 percent of total labor force as compared to 5 percent in May 1998. Underemployment has also risen from 1.1 percent in May 1998 to 2.3 percent in May 1999.⁵

Figure 24: Unemployment and underemployment have increased

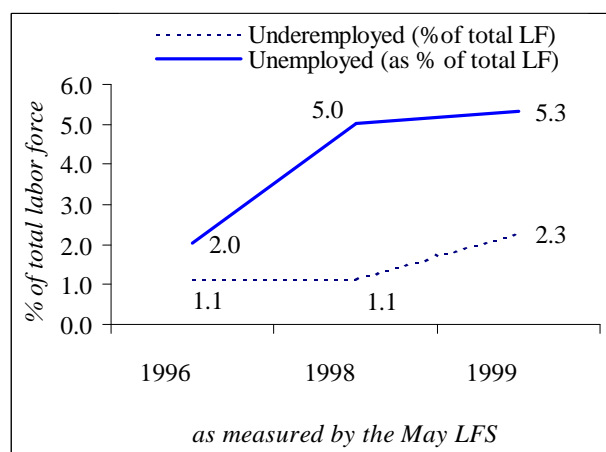
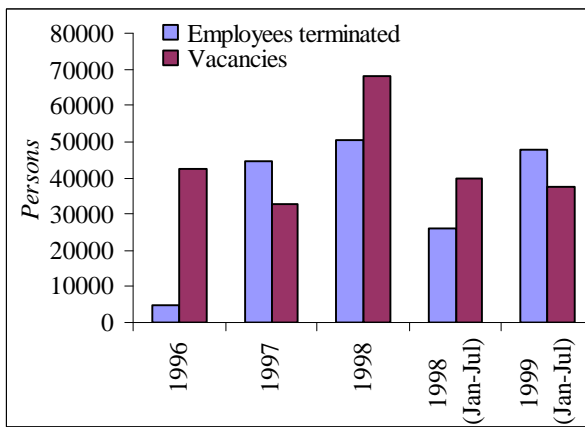
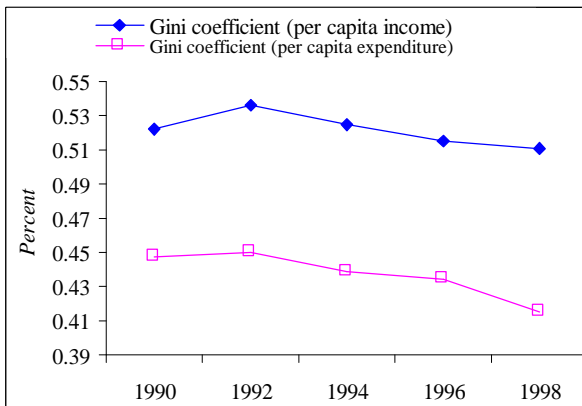


Figure 25: Employment termination and vacancies rose



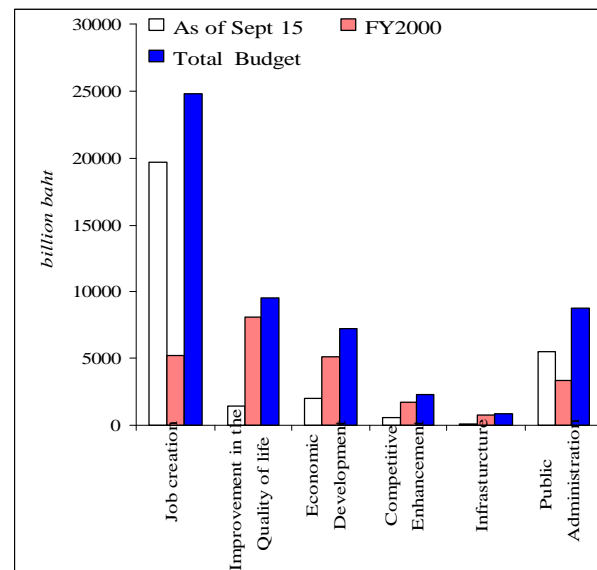
Inequality did not worsen during the crisis. The Gini coefficient, a measure of inequality, fell since the early 1990s (Figure 26), and this trend continued during the crisis. This is observed for both per capita income and per capita expenditure. Of course, the level of inequality is much lower for expenditure/consumption compared to income.

Figure 26: Income gap has been narrowing



Welfare losses have been cushioned in a variety of ways by both the Thai people and the government. To strengthen income security, the government has adopted the new Labor Protection Act, extended medical, maternity, and funeral benefits, extended social security benefits for the unemployed, and established pension and child allowance schemes for the private sector. In April 1999, the 53 billion baht Miyazawa Package was put into effect with objectives of employment creation and broadening of social safety nets, accounting for 64 percent of the total package. By the end of July 1999, more than 1.5 million jobs have been created. As of September 15, 79 percent of planned expenditure on employment creation has been disbursed (Figure 27). In addition, the government spending in education and health has increased in real terms. Education and health indicators have shown little or no discernable decline (see Annex 3, Table 18).

Figure 27: Allocation of the Miyazawa Package has been primarily towards social safety nets⁶



ANNEX 1: GROWTH INDICATORS

Table 1: Gross Domestic Product (Real)

(year-on-year changes)

Production Side	1996	1997	1998				1999	
			Q1	Q2	Q3	Q4	Q1	Q2
Agriculture	3.8	-0.5	-0.5	-3.4	0.2	2.7	3.8	1.3
Manufacturing	6.7	0.1	-11.0	-12.9	-12.4	-1.4	5.4	7.7
Construction	7.2	-26.6	-21.4	-39.0	-39.6	-37.3	-25.9	-7.2
Wholesale and Retail Trade	1.8	-2.1	-5.0	-10.3	-7.3	-2.5	3.1	5.0
Transportation	11.9	3.8	3.3	-7.9	-6.1	4	3.3	5.8
Hotels and Restaurants	3.6	-2.4	-7.6	-11.5	-0.8	6	8.3	4.9
Financial Intermediation	5.2	-10.3	-50.1	-42.4	-78.8	-72.4	-40.5	-33.1
Others	7.5	5.3	4.4	-0.4	-0.4	0.8	-0.8	4.4
Expenditure Side	1996	1997	1998				1999	
			Q1	Q2	Q3	Q4	Q1	Q2
Private Consumption	6.8	-0.8	-10.6	-14.5	-12.8	-3.9	-0.4	0.9
Government Consumption	11.9	-3.6	-7.4	-6.3	15.6	16.3	6.2	41.3
Investment	7.4	-20.3	-23.8	-33.4	-31.2	-19.2	-13.1	3.6
Private	..	..	-30.7	-33.8	-29.8	-14.7	-8.0	0.4
Public	..	..	-6.1	-32.4	-33.2	-28.5	-22.9	11.0
Exports of Goods and Services	3.3	25.4	64.4	38.1	14.1	-15.1	-19.6	-0.2
Imports of Goods and Services	3.2	4.9	-7.7	-4.9	-16.0	-23.9	-17.6	-0.7
GDP	5.9	1.8	-8.2	-12.3	-13.6	-5.8	0.8	3.5

Source: NESDB

Note: Real gross domestic product (GDP) are GDP at 1988 prices.

Table 2: Balance of Payments

(billion US\$)

	1997		1998				1999			
	1997	1998	Q3	Q4	Q1 ^P	Q2 ^P	Q3 ^P	Q4 ^P	Q1 ^P	Q2 ^P
Exports (f.o.b.)	56,627	52,798	14,476	14,862	13,234	12,928	13,240	13,396	12,667	13,684
Imports (c.i.f.)	61,249	40,583	15,334	12,374	10,110	10,334	10,099	10,041	10,001	11,565
Trade balance	-4,622	12,214	-859	2,488	3,124	2,594	3,142	3,355	2,666	2,116
Net services & transfers	1,512	2,057	115	376	1,081	211	263	502	766	434
Current account balance	-3,110	14,271	-744	2,865	4,205	2,805	3,404	3,857	3,432	2,550
Capital and financial account	-9,050	-9,635	-3,830	-3,737	-2,437	-3,326	-1,952	-1,919	-3,195	329
Private	-8,081	-15,593	-6,877	-2,131	-4,021	-2,067	-3,120	-6,385	-5,965	-2,966
Public	1,584	1,975	592	789	569	204	649	553	1,579	663
Monetary authorities 1/	-2,553	3,983	2,454	-2,394	1,015	-1,462	519	3,912	1,191	2,631
Net errors & omissions	1,531	-2,904	2,043	-1,245	-998	-346	-987	-573	571	-1,263
Balance of payments	-10,629	1,733	-2,531	-2,117	770	-868	466	1,364	808	1,615

Source: Bank of Thailand

Remarks: Figures are converted into US dollars using monthly average exchange rates.

1/ Including Bank of Thailand's borrowing and other off-shore transactions.

P/ Priliminary

Table 3: Manufacturing Production

(% changes since previous year)

	Weight	1997	1998	1998	1999			
				Q3	Q4	Q1	Q2	Aug
Manufacturing Production Index	100.0	-0.5	-10.0	-9.5	-3.6	4.8	10.5	17.8
<i>Foods</i>	9.6	1.8	-5.3	2.7	7.4	20.6	21.7	21.5
<i>Beverages</i>	10.6	14.3	2.3	-0.2	11.9	13.2	28.0	30.6
<i>Tobacco</i>	3.0	-9.9	-20.3	-33.3	0.2	-17.8	-2.9	1.1
<i>Textiles & Textile Products</i>	22.8	1.8	2.9	2.5	1.3	-0.7	-2.7	-1.2
<i>Petroleum Products</i>	11.5	15.9	-6.4	-6.0	-11.5	8.8	-1.4	2.8
<i>Construction Materials</i>	4.1	-3.2	-38.3	-38.7	-27.5	-0.1	15.2	22.2
<i>Iron & Steel Products</i>	3.3	-2.4	-31.5	-38.7	-12.8	-5.6	18.1	32.2
<i>Transportation Equipments</i>	16.4	-26.5	-54.1	-45.1	23.4	61.0	62.1	91.9
<i>Others</i>	18.7	0.2	0.9	-1.5	-17.0	-14.9	7.5	21.6

Note: The manufacturing production index accounts for 62 percent of the 1995 manufacturing sector value added.

Source: Bank of Thailand

Table 4: Key Private Investment Indicators
(% changes since previous year)

	1998									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	July
Private investment index	-90.1	-92.0	-91.8	-87.9	-84.2	-73.3	-49.6	-16.7	41.3	148.9
(% changes of 12-month MA)	-23.0	-23.4	-23.5	-22.9	-22.4	-22.4	-21.4	-20.4	-19.4	-18.4
Import value of capital goods (baht)	-23.6	-17.6	-29.7	-36.8	-29.6	-15.0	-2.3	-9.3	9.8	-7.6
Import value of capital goods (US\$)	-25.5	-11.0	-13.7	-9.6	-10.5	-5.4	2.9	-4.7	25.5	3.1
Domestic cement consumption	-36.4	-42.8	-32.6	-27.7	-29.6	-12.7	-12.7	-15.2	3.0	3.9
Commercial banks' credit for industry	-10.5	-13.7	-22.5	-27.7	n.a.	-4.4	-2.9	-3.7	-3.2	-1.6
Commercial banks' credit for construction	6.7	2.1	-3.0	-5.2	n.a.	3.6	7.1	5.6	0.5	3.0

Source: Bank of Thailand

Table 5: Capacity Utilization
(percent)

	Weight	1996	1997	1998	1998	1998	1999			
					Q3	Q4	Q1	Q2	Jul	Aug
Total capacity utilization	44.8	72.4	65.0	52.1	51.0	53.6	61.9	61.7	60.9	61.5
<i>Foods</i>	3.6	37.3	37.5	33.7	22.7	33.5	67.3	33.8	29.7	27.8
<i>Beverages</i>	5.7	83	79.1	77.2	77.8	94.4	79.3	103.8	106.8	100.4
<i>Tobacco</i>	1.9	84.2	75.8	60.4	53.1	57.4	59.8	56.8	43.5	59.7
<i>Construction materials</i>	4.3	72	72.9	44.6	38.6	39.5	50.6	51.3	56.8	56.6
<i>Iron and steel</i>	..	..	51.9	32.4	..	30.9	30.3	33.0	36.9	36.7
<i>Transportation equipment</i>	10.5	67.6	48.6	24.0	24.6	25.9	28.5	31.9	37.6	39.7
<i>Petroleum products</i>	7.4	85.7	90.1	83.9	85.3	79.8	86.8	89.4	89.0	90.7
<i>Others</i>	11.6	71.9	64.6	54.5	53.2	54.6	52.0	54.8	59.6	60.1

Note: Capacity utilization of 44.5 percent of the 1995 manufacturing sector value added.

Source: Bank of Thailand

Table 6: Changes in Consumer Prices
(year-on-year % changes)

	1998		1999								
	Nov	Dec	Jan	Feb	Mar	April	May	Jun	July	Aug	Sept
All commodities	4.7	4.3	3.5	2.9	1.6	0.4	-0.5	-1.2	-1.1	-1.1	-0.8
Food and beverages	5.8	6.0	4.7	3.4	0.9	-0.3	-1.4	-2.0	-2.3	-3.1	-3.1
Rice and cereal products	4.8	1.2	-4.7	-12.8	-15.5	-16.5	-18.1	-18.5	-19.0	-18.4	-16.6
Meat, poultry and fish	4.4	6.4	7.0	6.7	5.0	5.2	5.4	4.9	4.2	3.2	1.3
Vegetables and fruits	11.5	13.6	9.1	9.2	-4.9	-9.3	-14.7	-15.8	-17.1	-17.6	-16.8
Eggs and milk products	13.6	12.1	11.4	9.8	8.1	3.6	0.6	-2.7	-3.1	-3.9	-4.7
Other food bought from the market	9.4	11.0	9.5	7.0	6.7	5.1	4.4	2.9	2.4	1.0	-0.1
Non-alcoholic beverages	10.3	10.0	9.7	9.1	8.6	7.0	7.1	3.2	1.9	-1.5	-1.9
Prepared food	3.6	3.6	3.1	2.9	2.3	2.1	2.1	2.1	2.1	1.6	1.5
Clothing	4.6	4.2	3.9	3.8	2.8	1.4	1.0	0.2	-0.2	0.6	0.3
Men's and boys'	4.6	3.9	3.6	3.4	1.8	-0.2	-0.6	-0.8	-1.0	0.4	0.2
Women's and girls'	4.6	4.3	4.2	4.1	3.4	2.2	1.7	0.5	-0.3	-0.1	-0.2
Cloth and sewing services	4.7	4.9	3.8	4.1	4.7	4.9	4.3	3.7	3.3	3.1	3.1
Housing and furnishing	3.5	2.9	2.8	2.5	2.4	0.8	-0.7	-1.0	-1.3	-1.3	-1.3
Shelter	0.9	0.7	0.7	0.4	0.5	0.6	0.6	0.4	0.3	0.4	0.4
Furniture and equipment	6.0	5.4	3.5	3.1	1.2	0.0	-0.1	-0.7	-1.0	-1.1	-1.2
Housekeeping and cleaning supplies	5.0	4.0	0.0	-0.9	-1.6	-4.4	-5.0	-4.5	-8.0	-7.6	-7.5
Household textiles	3.6	3.1	2.5	1.7	1.6	2.1	1.6	1.5	1.3	1.2	1.3
Electricity, fuel and water	11.9	10.5	11.1	11.1	10.1	2.7	-3.8	-5.0	-4.6	-5.1	-4.9
Personal and medical care	9.0	7.8	6.4	6.1	5.3	3.9	3.3	2.4	2.3	1.9	1.2
Medical care	4.1	3.2	2.0	2.1	2.5	2.5	2.4	2.4	3.4	3.2	2.5
Personal care	14.3	13.3	11.6	10.6	8.6	5.5	4.5	2.2	0.9	0.5	-0.2
Transportation and communication	1.8	-0.1	-0.4	-1.0	-0.9	-1.1	-1.4	-1.7	-0.3	1.5	3.7
Vehicles	-2.1	-5.0	-5.3	-6.1	-4.2	-2.3	-2.7	-2.8	-0.5	1.9	5.6
Public transportation	11.9	12.2	11.2	11.4	5.1	2.6	2.5	1.4	1.5	1.5	1.2
Communication and equipment	8.8	8.8	8.8	8.8	8.9	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Recreation and education	3.2	3.2	3.1	2.8	2.0	1.5	-0.2	-0.5	-0.5	-0.5	-0.3
Recreation	5.3	5.2	4.8	4.3	2.8	1.4	1.5	0.9	0.8	0.9	1.3
Reading and education	1.1	1.2	1.2	1.2	1.1	1.0	-2.0	-2.0	-2.0	-1.9	-2.0
Tobacco and alcoholic beverages	10.4	10.1	10.0	9.7	6.7	3.7	2.4	0.0	1.0	1.4	1.2
Non-food and beverages	4.1	3.3	2.9	2.5	2.1	0.8	-0.1	-0.7	-0.3	0.2	0.7

Source: Bank of Thailand

Table 7: Capital Flows to the Private Sector 1/
(million US\$)

	1996	1997	1998	1998			1999		July ^e
				H1	Q3 ^P	Q4 ^P	Q1 ^e	Q2 ^e	
Bank	5,002	-6,640	-13,944	-225,944	-179,801	-155,011	-196,562	-79,888	-34,399.1
Commercial bank	428	-4,727	-4,310	-41,482	-100,350	-26,515	-125,372	15,319	-1,485.2
of which Recapitalization	n.a.	0	1,986	85,757	0	0	783	44,865	3,409.1
BIBFs	4,574	-1,913	-9,634	-184,462	-79,450	-128,496	-71,189	-95,207	-32,913.9
Non-bank	13,170	-1,912	-2,024	-62,188	51,411	-81,404	-17,183	-30,865	-9,374.0
Direct investment	1,453	3,201	4,688	107,587	49,996	35,962	33,514	29,240	8,894.0
Foreign direct investment 2/	2,268	3,641	4,810	108,173	51,226	38,867	36,968	36,565	9,079.0
Thai direct investment abroad	-815	-440	-123	-586	-1,230	-2,905	-3,454	-7,325	-185.0
Others loans	5,446	-3,783	-4,279	-129,236	-30,257	-25,210	-45,934	-40,356	-17,416.0
Portfolio investment	3,482	4,494	539	22,951	-696	2,286	8,196	10,745	2,483.0
Equity securities	1,122	3,869	354	15,428	-3,158	4,562	8,528	10,674	2,668.0
Debt securities	2,360	625	185	7,523	2,462	-2,276	-332	71	-185.0
Non-resident baht account	2,911	-5,839	-2,714	-57,027	32,375	-90,782	-11,675	-39,883	-3,706.0
Trade credits	-146	-242	-494	-12,445	-6,557	-2,106	67	8,611	-222.0
Others	25	256	237	5,982	6,550	-1,554	-1,350	778	593.0
Total	18,172	-8,552	-15,967	-288,132	-128,390	-236,415	-213,744	-110,753	-43,773.1

Source: Bank of Thailand and own calculations

1/ Data is from BOT's Monthly Bulletin (January), converted into US dollars.

2/ Excluding \$2.1 billion in bank recapitalization. BOT will eventually update their tables so that the FDI figures for 1998 is consistently in the \$7 billion range.

Table 8: Trade Indexes and Terms of Trade 1/

1995=100	1997		(in terms of US\$)										
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Exports:													
Export unit value	105.3	109.7	109.6	108.9	108.0	107.2	106.5	105.7	104.7	103.7	101.9	99.7	97.6
Export value	101.8	98.0	90.7	105.1	91.8	102.7	99.9	102.1	103.1	107.4	110.7	103.0	106.9
Export volume	96.7	89.3	82.8	96.5	85.0	95.8	93.8	96.6	98.5	103.5	108.7	103.3	109.6
Imports:													
Import unit value	107.4	112.7	112.5	111.9	110.2	108.2	108.1	106.3	105.4	103.8	103.8	103.6	101.9
Import value	86.8	103.1	85.7	98.0	99.1	91.8	94.8	89.9	91.0	81.3	77.1	67.2	67.1
Import volume 2/	80.8	91.5	76.2	87.6	90.0	84.8	87.7	84.6	86.4	78.3	74.3	64.8	65.9
Terms of trade	98.0	97.3	97.4	97.3	98.0	99.0	98.6	99.4	99.4	99.8	98.2	96.2	95.8
	1998	1998											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Exports:													
Export unit value	90.7	94.2	93.0	92.1	91.2	90.8	89.6	89.9	90.7	90.7	89.1	88.7	89.0
Export value	94.9	90.2	93.7	101.4	91.6	90.5	96.7	98.2	91.0	96.3	96.7	94.3	97.8
Export volume	104.6	95.8	100.8	110.1	100.5	99.7	107.9	109.2	100.4	106.1	108.6	106.4	109.9
Imports:													
Import unit value	98.0	100.6	101.1	102.0	102.4	101.2	98.6	97.4	94.7	93.5	94.1	94.8	94.9
Import value	57.7	56.6	54.7	61.2	60.4	55.3	60.8	61.2	56.2	55.0	58.0	57.0	56.5
Import volume 2/	59.0	56.3	54.2	60.0	59.0	54.7	61.6	62.8	59.3	58.9	61.6	60.1	59.5
Terms of trade	92.7	93.6	92.0	90.2	89.0	89.7	90.9	92.3	95.7	97.0	94.7	93.5	93.8
	1999												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Exports:													
Export unit value	90.5	90.9	91.4	90.5	88.3	88.8	86.9	85.0					
Export value	85.7	87.8	99.8	94.2	98.2	102.3	105.3	104.7					
Export volume	94.7	96.7	109.2	104.1	111.2	115.3	121.1	123.3					
Imports:													
Import unit value	93.9	92.1	90.4	89.4	91.4	92.6	92.5	93.2					
Import value	54.4	53.6	62.9	62.8	61.3	73.1	66.8	70.2					
Import volume 2/	57.9	58.2	69.6	70.3	67.1	78.9	72.3	75.4					
Terms of trade	96.4	98.6	101.1	101.3	96.7	95.9	94.0	91.2					

Source: Bank of Thailand

1/ From January 1996 onwards, base year was 1995 (1995=100) and the indexes are calculated using the Fisher chained method.

2/ Volume indexes are calculated based on the "factor reversal test".

Table 9: Exports
(year-on-year percentage changes in terms of US dollars)

	% of Total Exports (Jan- Jun 1999)	1996	1997	1998	1998 Q1	Q2	Q3	Q4	1999 Q1	Q2
Agricultural products	8.5	2.5	-9.5	-15.6	-4.1	-20.9	-22.4	-15.3	-19.6	-4.5
Fishery products	3.3	-12.3	-7.6	-7.0	7.6	-13.4	-20.9	1.2	-18.3	-10.0
Others	3.6	26.2	61.3	22.1	56.2	41.6	21.4	-10.0	-12.8	-24.9
Manufactured goods	84.6	-1.7	5.6	-7.2	-5.1	-5.6	-8.0	-9.8	-1.9	9.5
Labor intensive goods	13.0	-17.1	-7.4	-12.5	-13.7	-12.4	-11.4	-12.5	-3.6	1.9
High tech products	57.1	4.1	10.7	-2.8	-0.9	-0.3	-3.3	-6.2	1.4	10.8
Resource based manufactured products	9.6	3.3	-0.1	-12.6	-13.7	-13.5	-12.9	-10.1	-4.2	19.5
Other manufactured goods	5.0	-4.6	7.6	-23.2	-5.7	-21.4	-29.8	-33.1	-24.1	-1.3
TOTAL EXPORTS	100.0	-1.3	4.4	-7.1	-2.9	-6.1	-9.1	-9.9	-4.9	5.9

P/ Preliminary

e/ Estimate

Source: Bank of Thailand

Table 10: External Debt 1/

(million US\$)

	1996	1997	1998				1999	
			Q1	Q2	Q3	Q4	Q1	Q2
Total Debt Stocks (End of Period)								
Public Sector	16,805	24,323	26,814	26,963	28,556	31,509	32,846	33,890
Govt and SOEs	16,805	17,166	17,695	17,524	18,268	20,305	21,560	21,987
Long-term	16,751	17,146	17,675	17,504	18,118	20,155	21,410	21,857
Short-term ¹	54	20	20	20	150	150	150	130
BOT (long term)	0	7,157	9,119	9,439	10,288	11,204	11,286	11,903
Use of IMF credit	0	2,429	2,672	2,796	3,017	3,239	3,123	3,344
Others	0	4,728	6,447	6,643	7,271	7,965	8,163	8,559
Private Sector	73,731	69,093	64,922	61,163	58,136	54,650	51,019	46,765
Long-term	36,172	34,277	33,575	32,827	32,192	31,278	30,648	29,328
Short-term	37,559	34,816	31,347	28,336	25,944	23,372	20,371	17,437
Commercial Bank	10,682	9,488	9,147	8,747	7,823	7,059	6,848	6,135
Long-term	2,314	3,824	3,167	3,971	3,638	3,738	3,713	3,447
Short-term	8,368	5,664	5,980	4,776	4,185	3,321	3,135	2,688
BIBF ²	31,187	30,079	27,819	25,679	23,679	21,892	19,244	16,577
Long-term	10,697	10,317	9,820	8,236	7,843	6,946	6,492	5,676
Short-term	20,490	19,762	17,999	17,443	15,836	14,946	12,752	10,901
Non-Bank ³	31,862	29,526	27,956	26,737	26,634	25,700	24,927	24,053
Long-term	23,161	20,136	20,588	20,620	20,711	20,594	20,443	20,205
Short-term	8,701	9,390	7,368	6,117	5,923	5,106	4,484	3,848
Total	90,536	93,416	91,736	88,126	86,692	86,159	83,865	80,655
Long-term	52,923	58,580	60,369	59,770	60,598	62,637	63,344	63,088
Short-term ¹	37,613	34,836	31,367	28,356	26,094	23,522	20,521	17,567
Bank foreign assets	7,362	8,887	8,744	11,201	12,564	12,836	15,933	15,799
Gross official reserves	38,725	26,968	27,680	26,572	27,291	29,536	29,936	31,434
Debt Service Payments	9,024	11,630	3,218	3,017	4,027	3,391	3,713	3,357
Principal	3,822	6,072	1,894	1,673	2,664	2,090	2,236	2,351
Interest	5,202	5,558	1,324	1,344	1,363	1,300	1,477	1,006
Public sector	1,845	1,959	514	496	656	517	679	623
Private sector	7,179	9,671	2,704	2,521	3,371	2,873	3,034	2,733
Export of goods and services	73,497	74,431	16,833	16,291	16,624	17,533	17,234	17,659
Debt Service Ratio	12	16	19	19	24	19	22	19

Source: Bank of Thailand

1/ Short-term external debt is defined as debt that has an original maturity of one year or less.

2/ BIBF's debt, which was compiled according to remaining maturity since the establishment of BIBF's activities in 1993 has been adjusted to original maturity basis since January, 1996, consistent with other external debt items.

3/ Non-bank debt is adjusted back to January 1997 based on the result of March 1998 survey and December 1997 bond data from IMF.

Notes: 1. The revised definition of private sector debt has been made since 1986. It consists of three parts, namely commercial bank, BIBF and non-bank debt. 2. Total monetary authority debt includes the use of IMF credits and bilateral loans under IMF package. Structural Adjustment Loans (SAL) of World Bank and Asian Development Bank under the same package, however, are included in public sector debt. 3. Debt service payments in private sector has also been revised to include principal and interest payments on BOT debt since 1986.

Table 11: Central Government Balance

(million baht)

	CY1996	CY1997	CY1998	1998		1999			
				Q3	Q4	Q1	Q2	July	Aug
Revenue(+)	853,201	847,696	717,779	157,552	162,286	179,600	189,473	56,276	59,472
Expenditures(-)	819,083	874,403	842,581	247,583	210,386	183,502	212,186	59,825	65,874
Budgetary deficit(-) or surplus(+)	34,118	-27,914	-124,802	-90,031	-48,100	-3,902	-22,713	-3,549	-6,402
Non-budgetary deficit / surplus(+)	9,185	12,855	-4,150	-5,020	7,402	3,791	-23,020	3,336	-7,550
Cash deficit(-) or surplus(+)	43,303	-15,059	-128,952	-95,051	-40,698	-111	-45,733	-213	-13,952
Financing:									
Net domestic borrowings(+):	-25,123	-16,380	-3,081	40	-1,505	6,013	10,062	10,581	-5,751
- Bank of Thailand 1/	2,054	-5,800	2,482	340	-632	7,253	-7,176	5,555	-4,942
- Commercial banks	-21,320	-710	-1,651	-157	-569	-965	1,065	1,762	-809
- Government Savings Bank	-3,570	-8,200	-3,000	0	0	0	0	0	0
- Others	-2,287	-1,670	-912	-143	-304	-275	16,173	3,264	0
Net foreign borrowings (+)	-3,665	-3,747	-4,403	-1,585	-935	-1,550	47,343	1,181	-7,654
Government Pension Fund	-	-55,991	-280	-280	0	0	0	0	0
Gov't Bond for FIDF	0	0	400,000	50,000	200,000	102,383	101,408	0	623
Lending to FIDF	0	0	-400,000	-50,000	-200,000	-102,383	-101,408	0	-623
Use of Treasury cash balances(+)	-14,515	91,177	136,715	96,876	43,138	-4,352	-11,673	-11,549	27,357

Source : Comptroller-General's Department and the Bank of Thailand

1/ Including Exchange Equalization Fund.

The budgetary deficit/surplus is the balance between revenue and expenditure from the current year budget and carryover expenditure from the previous two budgets. The overall balance is a cash balance, which is composed of the budgetary balance and the non-budgetary balance. The non-budgetary balance, reported above the line, represents mainly changes in deposits of government agencies at the Ministry of Finance which are of revenue-related and expenditure-related types.

Table 12: Budget Appropriation for FY 2000 by Economic Services
(million baht)

	Amount	ratio to budget	+/-	%
Total	860,000	100.0	35,000	4.2
1. Agriculture	66,656.9	7.7	5,224.6	8.5
2. Industry and mining	3,670.8	0.4	429.3	13.2
3. Transportation and Communication	59,907.5	7.0	-4,982.9	-7.7
4. Commerce and Tourism	5,615.7	0.7	-1,79.3	-17.4
5. Sciences and Technology	15,240.5	1.8	2,609.0	20.7
6. Education	222,401.3	25.9	13,785.2	6.6
7. Public Health	65,760.2	7.6	3,292.8	5.3
8. Social and Public Welfare	93,646.2	10.9	-5,011.6	-5.1
9. Defense	88,608.6	10.3	1,690.2	1.9
10. Internal security	43,648.9	5.1	-905.7	-2.0
11. Public administration	115,777.1	13.5	16,183.7	16.3
12. Loan payment	79,066.3	9.2	3,864.7	5.1

Source: Government Spokesman Bureau

Table 13: Budget Appropriation for FY 2000 by Ministry
(million baht)

	amount	ratio to budget	+/-	%
Total	860,000	100.0	35,000.0	4.2
1. Central fund	82,920.4	9.6	6,009.9	7.8
2. Office of the PM	8,003.8	0.9	998.8	14.3
3. Defense	77,299.8	9.0	232.9	0.3
4. Finance	76,961.5	9.0	1,747.3	2.3
5. Foreign Affairs	3,943.4	0.5	-163.2	-4.0
6. Agriculture	70,668.2	8.2	5,260.3	8.0
7. Transport and Communications	51,244.2	6.0	-5,679.6	-10.0
8. Commerce	4,359.1	0.5	416.6	10.6
9. Interior	93,209.4	10.8	-4,727.5	-4.8
10. Labor and Social Welfare	17,546.6	2.0	6,419.4	57.7
11. Justice	180.4	0.02	-4,887.7	-96.4
12. Sciences, Technology and Env.	13,886.7	1.6	2,641.9	23.5
13. Education	159,261.4	18.5	7,509.3	4.9
14. Public Health	59,183.6	6.9	2,012.3	3.5
15. Industry	4,483.0	0.5	602.2	15.5
16. University Affairs	34,420.0	4.0	151.8	0.4
17. Others except Office of the PM	47,025.7	5.5	4,432.9	10.4
18. State enterprises	24,326.8	2.8	3,266.4	15.5
19. Revolving fund	30,010.0	3.5	7,690.0	34.5
20. Independent agencies in line with the Constitution	1,066.0	0.1	1,066.0	100.0

Source: Government Spokesman Bureau

Table 14: Public Sector Debt
(billion baht)

	Central government			State-owned enterprises				BOT		Total		
	Domestic debt	<i>Of which:</i> loan for FIDF and financial restructu- ring	External debt	Domestic debt	Non-guarante ed domestic debt	External debt	Non-guarant eed external debt	Total	External debt (US\$)	External debt (baht)	Total debt	% of GDP
1979	90,166	..	23,210	..	..	32,181	121	32,302	..	..	..	..
1980	109,781	..	30,035	..	..	49,879	1,235	51,114	..	..	..	..
1981	127,455	..	41,383	..	..	72,880	2,757	75,637	..	..	..	..
1982	160,372	..	49,132	..	..	89,604	57	89,661	..	..	..	..
1983	185,815	..	56,717	..	..	101,430	91	101,522	..	..	..	..
1984	219,143	..	73,779	..	..	128,059	119	128,178	..	..	421,101	42.6%
1985	249,253	..	101,883	..	..	154,537	2,722	157,259	..	..	508,395	48.1%
1986	301,235	..	112,361	..	..	160,729	..	160,729	1,069	27,933	602,258	53.1%
1987	322,122	..	129,606	..	..	194,772	..	194,772	973	24,393	670,893	51.6%
1988	304,878	..	133,567	..	..	184,792	..	184,792	672	16,961	640,199	41.0%
1989	291,255	..	127,168	..	..	187,214	..	187,214	275	7,065	612,701	33.0%
1990	278,346	..	93,608	16,594	1,595	223,273	..	241,462	1	25	613,441	28.1%
1991	230,109	..	95,749	49,367	1,269	228,037	..	278,674	0	0	604,531	24.1%
1992	202,694	..	97,567	62,938	13,245	235,928	..	312,111	0	0	612,372	21.6%
1993	161,071	..	104,102	109,694	25,254	257,826	..	392,773	0	0	657,946	20.8%
1994	103,200	..	116,629	159,815	30,589	277,635	..	468,039	0	0	687,868	18.9%
1995	72,696	..	120,934	208,690	29,589	292,232	..	530,511	0	0	724,141	17.3%
1996	44,254	..	131,340	239,690	38,678	266,572	..	544,940	0	0	720,534	15.7%
1997	31,755	..	267,792	247,259	46,510	476,717	..	770,487	7,157	338,168	1,408,202	29.2%
1998	426,928	400,000	247,104	255,696	44,910	443,825	..	744,431	11,204	413,091	1,831,554	38.2%
99Q1	528,869	502,383	323,682	266,506	44,910	485,896	..	797,312	11,286	423,789	2,073,653	39.6%
99Q2	580,652	537,251	319,255	265,598	42,689	492,286	..	800,573	11,903	439,340	2,139,819	40.9%

Source: MOF, BOT, NESDB, NSO, and author's calculations

Note: 1999 GDP figure used in calculating percentage of debt to GDP in 1999 reflects a 3.5% year-on-year growth of GDP in 1999..

ANNEX 2: CORPORATE SECTOR

The Agreements. The Debtor-Creditor Agreement (DCA) provides for the following: (i) the debt restructuring process may be initiated by the debtor (by acceding to the DCA) or the creditors, or CDRAC may convene a first meeting of the creditors; (ii) at the first meeting, creditors elect a Lead Institution, set up a Steering Committee, and establish a workout schedule within 15 days of a move to initiate restructuring; (iii) within an additional 2-3 months, the debtor submits a business plan and information requested by the creditors; (iv) the creditors then have 1-2 months to review the plan and decide whether to vote on it, with a fallback provision that CDRAC would appoint an advisor to prepare a new business plan if there is insufficient creditor support for the original plan; (v) if the debtor's plan provides a sufficient basis on which to proceed, creditors have an additional 25 days to review the plan and propose amendments, after which time the creditors vote; (vi) if 75% of creditors approve on a debt-weighted basis, the plan is approved; (vii) if a plan receives a 50-75% positive vote, the plan is submitted to an arbitration panel under terms of the Inter-Creditor Agreement; (viii) if a plan receives less than 50% creditor approval, creditor signatories are obliged to petition for the collection of debtors or for court-supervised reorganization or bankruptcy; (ix) if a plan receives EDP or at least 25% creditor approval, approving creditors would be obliged to support this plan in all further proceedings, including a court-supervised

reorganization, thus forming a voting block that could deny approval of an alternative reorganization plan; (x) penalties for non-compliance with this DCA contract could include fines levied by the BOT. Thus, the DCA is intended to produce agreement on a restructuring plan, submission to inter-creditor arbitration, or petitions for foreclosure or insolvency within 6-8 months.

The Inter-Creditor Agreement provides for the following: (i) for cases involving 50-75% creditor approval, CDRAC would appoint a 3-person Executive Decision Panel (EDP) of arbitrators within 18 business days from lists pre-approved by the Thai Bankers' Association, Association of Finance Companies, and Foreign Bankers' Association; (ii) within 43 business days, the EDP is obliged to decide on cases submitted to it for arbitration; (iii) the BOT can penalize ICA signatories for non-compliance. Notably, a creditor signatory can opt out of the ICA in any case where the debtor's combined debt exceed Baht 1 billion.

The ongoing development of the Public Companies Act and the Secured Lending Act will also impact corporate governance and corporate restructuring.

Table 15: Progress in Corporate Restructuring
billion baht

	<i>In Process</i>									<i>Completed</i>								
	Jun	Dec	Jan	Feb	Mar	Apr	May	June	July	Jun	Dec	Jan	Feb	Mar	Apr	May	June	July
Mfg	131	296	311	326	328	363	365	410	436	2	51	66	75	95	119	131	182	196
Const.	6	20	19	21	25	26	26	42	47		3	3	5	9	10	12	15	17
Real Est.	29	115	122	124	142	148	148	183	221	0	34	36	39	44	58	65	81	96
Exports	6	17	19	19	20	22	22	23	27		5	8	8	8	10	11	17	17
Services		58	62	62	66	76	74	104	115		20	22	25	34	64	72	81	89
Others	45	184	184	195	209	182	190	269	319	1	44	52	64	91	123	139	190	214
Total	217	690	717	747	790	817	825	1031	1165	3	157	187	216	281	384	430	566	629

Source: Bank of Thailand

Table 16: Bankruptcy Reorganization in Process

Firm	Sector	Total Debt Petitioned Bt Million	Date of Petition	Plan submission/approval	Creditor or Debtor- appointed planner
Alphatec Electronics	Electronics	17,220	May 98	Approved Feb 99	Creditor: BBL + others
Thai Modern Plastics	Plastic pkg.	20,450	August 98	Approved April 99	Creditor: TFB, TMB
Manager Media	Publish.	2,737	October 98	Approved July 99	Creditor: Multiple
Thai Identity Sugar	Sugar Mill	7,130	December 98	Due August 99	Creditor: Krung Thai + others
Kaset Thai Sugar	Sugar Mill	10,808	December 98	Due August 99	Creditor: Krung Thai + others
Ruampol Sugar	Sugar Mill	4,865	December 98	Due August 99	Creditor: Krung Thai + others
Lime Quality Company	Construction Material	714	December 98	Approved July 99	Debtor
Thai Gypsum	Construction Material	6,020	February 99	July 99	Creditor
Presicso Pro Packaging	Plastic pkg.	702	March 99		Debtor
Thai Phatana Steel	Smelter	4,137	April 99		Debtor
Sri Thai Superware	Plastic products	6,477	April 27, 1999		Mutually agreed
Kasemkij Construction	Const.	5,065	April 30, 1999		Debtor
Namprasert Construction	Const.	1,877	April 30, 1999		Debtor
Panjapol Pulp	Paper / Pulp	2,656	May 17		Debtor
Panjapol Paper	Paper/ Pulp	3,142	May 18		Debtor
High Pressure Steel Pipe	Steel pipe	4,700	May 28		Creditor: Phatra- Thanakit
Tonping	Resort	500	June 3		N/A
SVOA	Comput. Distrib.	6,000	June 21		Mutually agreed
Suranakorn Muangmai	Agr. Market	117	July 8		Debtor
Siam Steel	Furniture	2,922	July 19		Creditor : HBSC
Thai German	Stainless	10,254	Aug 4		Debtor
Thai Precision	Alum.	719	Aug 16		Creditor: BBL
22 cases		Bt 120 billion (\$3.2 billion)			

Source: Ministry of Justice

ANNEX 3: SOCIAL INDICATORS

Table 17: Key Social Indicators

	Latest data (date)	Previous Period (date)
Human Development	1997-98	1994-95
Primary enrollment rate (gross) ¹	91.4	91.0
Male	93.1	92.3
Female	90.0	89.0
Secondary enrollment rate (gross) ¹	60.3	60.0
Male	58.0	58.4
Female	63.0	61.0
Tertiary enrolment rate ¹	21.0	19.3
Male	19.0	18.0
Female	23.1	21.0
Infant mortality rate ²	26.1 (1995-96)	34.5 (1991)
Poverty and Income Distribution³	1998	1996
National Headcount Index (% of population)	13.0	11.4
Gini Index (based on per capita expenditure)	0.415	0.439
Government Expenditure⁴ (budget allocations)	(Billion Baht) FY98	(Billion Baht) FY97
Nominal Health (% of total)	73.0	71.3
Real Health (1994=100)	60.3	57.1
Nominal Education (% of total)	219.7	203.8
Real Education (1994=100)	172.4	171.9
Labor Market	May 1999	May 1998
Unemployment rate (%) ⁵	5.6	5.3
Female	47.0	47.0
Participation rate (%) ⁶		
Female	69.0	68.0
Male	87.0	86.0
Share of female employment in total wage employment	40.3	39.6
Strike incidents/workers involved during year	2/685 (1998) ⁷	20/14,130 (1997)
Real wages (% change)	-	-
Female/Male nominal wage ratio (%)		
Private sector	83.3	
Government sector	100.4	

1. Office of the National Education Commission.

2. NESDB/ADB, "Health and Nutrition in Thailand", Volume 3, Number 3: July 1999. Estimates obtained from the Survey of Population Change.

3. NESDB/ADB, "Poverty and Inequality During the Economic Crisis in Thailand", Volume 3, Number 1: January 1999. Estimates obtained from the Social and Economic Survey.

4. Bureau of Budget, Sectoral budget classification.

5. National Statistics Office Labor Force Survey.

6. Calculated as number of female in the labor force as percentage of females between the ages of 13 and 59.

7. Bank of Thailand, Key economic indicators, June 30, 1999.

Table18: Summary Table on Unemployment

(thousands)

Labor force status	May-96 Total	Aug-96 Total	Feb-97 Total	Aug-97 Total ^{1/}	Feb-98 Total	May-98 Total	Aug-98 Total	Feb-99 Total	May-99 Total
Total	59,903	60,045	60,351	60,649	60,949	61,098	61,248	61,551	61,704
Total labor force	32,504	32,750	32,000	33,561	32,143	32,170	33,353	32,810	32,971
1.Current labor force	31,035	32,586	30,964	33,455	30,892	30,168	33,276	31,740	31,591
1.1 Employed	30,375	32,232	30,266	33,162	29,413	28,555	32,138	30,025	29,832
Underemployed (<20 hours/week) ²	373	581	544	721	1,477	363	938	863	753.4
% of total labor force	1.1	1.8	1.7	2.1	4.6	1.1	2.8	2.6	2.3
% of current labor force	1.2	1.8	1.8	2.2	4.8	1.2	2.8	2.7	2.4
1.2 Unemployed	660	354	698	293	1,479	1,613	1,138	1,716	1,759
% of total labor force	2.0	1.1	2.2	0.9	4.6	5.0	3.4	5.2	5.3
% of current labor force	2.1	1.1	2.3	0.9	4.8	5.3	3.4	5.4	5.6
1) Looking for work	159	110	180	96	403	492	477	476	498.0
2) Available / not looking for work	501	244	518	196	1,077	1,120	662	1,240	1,260.4
2.Seasonally inactive labor force	1,469	164	1,036	106	1,251	2,002	77	1,070	1,380
% of total labor force	4.5	0.5	3.2	0.3	3.9	6.2	0.2	3.3	4.2
Unemployed + seasonally inactive labor force	2,129	518	1,734	398	2,730	3,615	1,215	2,786	3,139
% of total labor force	6.5	1.6	5.4	1.2	8.5	11.2	3.6	8.5	9.5

Source: Labor Force Survey by National Statistical Office

1/ The May round was skipped in 1997.

2/ Line added by World Bank staff. Underemployment is (arbitrarily) defined here as those employed working less than 20 hours/week.

Annex 4: Thailand at a Glance

9/9/99

POVERTY and SOCIAL

	Thailand	East Asia & Pacific	Lower-middle-income
1998			
Population, mid-year (millions)	61.1	1.817	908
GNP per capita (Atlas method, US\$)	2,200	990	1,710
GNP (Atlas method, US\$ billions)	134.4	1,802	1,557

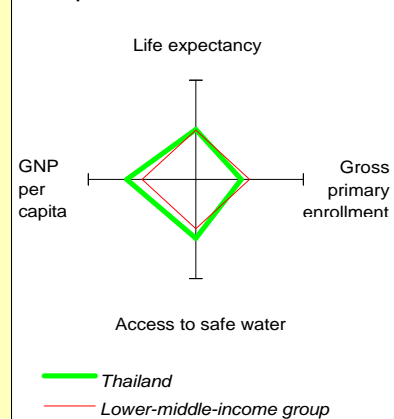
Average annual growth, 1992-98

	Thailand	East Asia & Pacific	Lower-middle-income
Population (%)	1.1	1.2	1.1
Labor force (%)	1.6	1.6	1.5

Most recent estimate (latest year available, 1992-98)

	Thailand	East Asia & Pacific	Lower-middle-income
Poverty (% of population below national poverty line)	13	..	..
Urban population (% of total population)	21	35	58
Life expectancy at birth (years)	69	69	68
Infant mortality (per 1,000 live births)	33	37	38
Child malnutrition (% of children under 5)	..	20	..
Access to safe water (% of population)	89	77	75
Illiteracy (% of population age 15+)	5	15	14
Gross primary enrollment (% of school-age population)	87	117	103
Male	..	119	105
Female	..	118	100

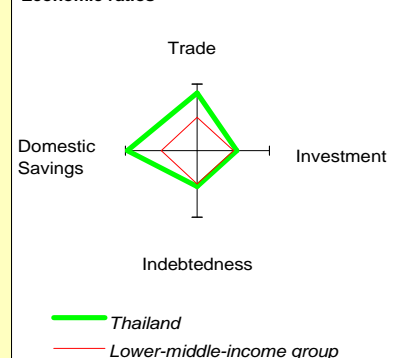
Development diamond*



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1977	1987	1997	1998
GDP (US\$ billions)	19.8	50.5	149.1	111.3
Gross domestic investment/GDP	26.9	27.9	30.1	25.3
Exports of goods and services/GDP	20.0	28.9	48.4	58.9
Gross domestic savings/GDP	21.5	28.4	32.2	41.8
Gross national savings/GDP	21.5	27.1	30.2	40.6
Current account balance/GDP	-5.5	-0.7	-2.0	12.8
Interest payments/GDP	0.6	2.1	2.3	1.8
Total debt/GDP	16.9	40.3	62.7	86.8
Total debt service/exports	13.7	21.9	15.4	6.4
Present value of debt/GDP	..	..	59.3	..
Present value of debt/exports	..	..	119.4	..

Economic ratios*

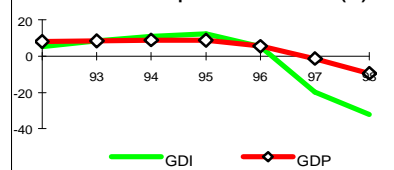


	1977-87	1988-98	1997	1998	1999-03
(average annual growth)					
GDP	5.8	6.9	-1.3	-9.4	2.7
GNP per capita	3.6	5.5	-2.1	-8.5	..
Exports of goods and services	9.5	11.3	6.6	-0.8	5.0

STRUCTURE of the ECONOMY

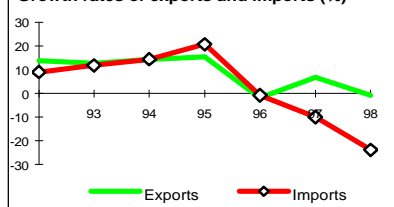
	1977	1987	1997	1998
(% of GDP)				
Agriculture	24.8	15.7	9.7	11.2
Industry	29.3	33.3	41.3	41.2
Manufacturing	20.2	24.3	31.2	32.1
Services	45.9	50.9	49.0	47.7
Private consumption	67.9	60.2	57.7	47.5
General government consumption	10.6	11.3	10.1	10.7
Imports of goods and services	25.4	28.3	46.3	42.4

Growth rates of output and investment (%)



	1977-87	1988-98	1997	1998
(average annual growth)				
Agriculture	3.5	2.6	-0.1	-0.4
Industry	6.9	8.8	-0.6	-12.6
Manufacturing	6.2	9.3	2.5	-10.0
Services	6.1	6.5	-2.1	-8.6
Private consumption	4.6	5.7	-0.9	-16.4
General government consumption	6.6	5.8	-1.6	4.6
Gross domestic investment	4.1	6.2	-19.7	-32.0
Imports of goods and services	4.4	9.0	-10.0	-23.8
Gross national product	5.6	6.9	-1.1	-7.7

Growth rates of exports and imports (%)

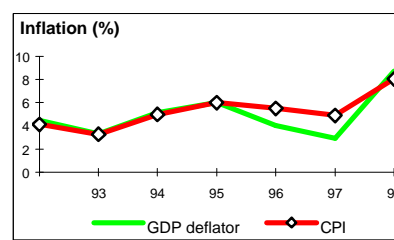


Note: 1998 data are preliminary estimates.

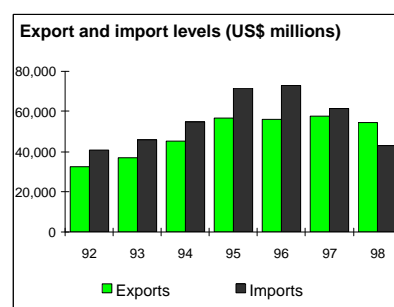
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

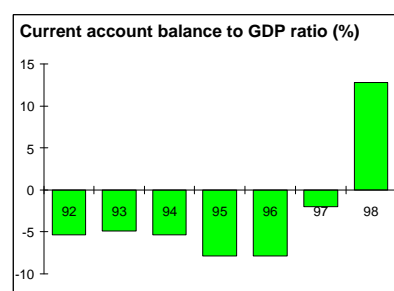
	1977	1987	1997	1998
Domestic prices (% change)				
Consumer prices	..	2.5	4.9	8.1
Implicit GDP deflator	6.0	4.7	3.0	8.7
Government finance (% of GDP, includes current grants)				
Current revenue	12.9	15.3	18.1	15.6
Current budget balance	1.2	1.1	7.2	3.1
Overall surplus/deficit	-2.9	-2.1	..	..


TRADE

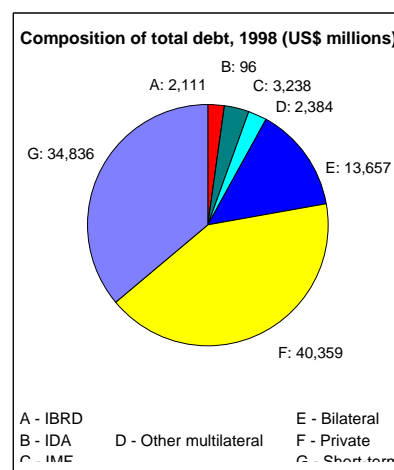
	1977	1987	1997	1998
TRADE (US\$ millions)				
Total exports (fob)	3,490	11,654	57,604	54,340
Rice	656	884	2,075	2,099
Rubber	302	799	1,832	1,340
Manufactures	..	6,989	45,113	42,323
Total imports (cif)	..	13,471	61,353	42,895
Food	..	..	2,041	1,774
Fuel and energy	..	1,733	5,367	3,159
Capital goods	..	..	29,796	19,747
Export price index (1995=100)	..	95	136	156
Import price index (1995=100)	..	71	130	157
Terms of trade (1995=100)	..	133	105	99


BALANCE of PAYMENTS

	1977	1987	1997	1998
BALANCE of PAYMENTS (US\$ millions)				
Exports of goods and services	3,985	14,665	72,415	65,913
Imports of goods and services	5,083	14,361	72,437	48,536
Resource balance	-1,098	304	-22	17,377
Net income	-38	-894	-3,481	-3,562
Net current transfers	39	225	479	415
Current account balance	-1,098	-365	-3,024	14,230
Financing items (net)	1,106	1,277	-15,226	-17,452
Changes in net reserves	-9	-912	18,250	3,222
Memo:				
Reserves including gold (US\$ millions)	..	..	26,202	28,842
Conversion rate (DEC. local/US\$)	20.4	25.7	31.4	41.4


EXTERNAL DEBT and RESOURCE FLOWS

	1977	1987	1997	1998
EXTERNAL DEBT and RESOURCE FLOWS (US\$ millions)				
Total debt outstanding and disbursed	3,344	20,385	93,416	96,681
IBRD	346	3,413	1,728	2,111
IDA	19	111	98	96
Total debt service	572	3,458	11,716	4,451
IBRD	44	445	296	301
IDA	0	1	3	3
Composition of net resource flows				
Official grants	14	129	78	..
Official creditors	165	30	5,930	1,621
Private creditors	165	-103	7	-873
Foreign direct investment	106	352	3,745	..
Portfolio equity	0	115	-308	..
World Bank program				
Commitments	138	34	767	1,015
Disbursements	75	157	443	498
Principal repayments	19	181	194	181
Net flows	56	-25	249	317
Interest payments	25	265	105	123
Net transfers	31	-289	145	194



ANNEX 5: GOVERNMENT REFORM AND PARTNERSHIP WITH AID AGENCIES

Table 19: Assistance To Thailand (Ongoing and Planned) - Financial and Corporate Sectors

Action Items	Government Counterparts	Donor/ Funding Sources	Description of Assistance
FINANCIAL SECTOR RESTRUCTURING			
Managing Problem Institutions			
Orderly resolution of the 56 closed finance companies	Financial Restructuring Agency	World Bank Asian Development Bank	Advisory and direct technical assistance
Restructuring and recapitalization of the core financial institutions	Bank of Thailand Ministry of Finance	PHRD Funds FSIA	
Strengthening Financial Sector Structure			
Strategy for the future of financial services	Financial Services Task Force Bank of Thailand	World Bank The International Monetary Fund	Research, advisory, and round table discussion
Capital market development	Working Group on Bond Market Development Ministry of Finance Bank of Thailand Securities Exchange Commission Ministry of Labor CGD BDC CGD	World Bank FSIA ASEM U.S. Treasury Asian Development Bank	Advisory services and workshops
Specialized Financial Institutions (SFIs)	Bank of Thailand Ministry of Finance Ministry of Industry Government Housing Bank Government Savings Bank Bank of Agriculture and Cooperative	World Bank ASEM Asian Development Bank AusAid JICA OECF	Advisory services and technical assistance
SEC Enhance capacity to supervise IT of securities firms Enhance capacity to supervise management of securities firms Strengthening Information Disclosure and Compliance	Securities Exchange Commission	Asian Development Bank World Bank	
Enhancing the Regulatory and Supervisory Regime			
A comprehensive supervision framework	Ministry of Finance Ministry of Industry	World Bank PHRD Japan Development Bank The Shoko Chukin Bank	Advisory on legal advice and best practice, conference, training, technical assistance, reviews, supervision standard and new regulation, Institution design for DIA, drafting assistance
Strengthening supervision and regulation of financial institutions	Bank of Thailand Ministry of Finance	World Bank ASEM PHRD Miyazawa AusAid U.S. Treasury Supplement budget for emergency support for Asian economic crisis	
Develop a limited-deposit insurance scheme to replace the existing blanket guarantee	Bank of Thailand	WB PHRD	
Draft deposit insurance law		ASEM	

Action Items	Government Counterparts	Donor/ Funding Sources	Description of Assistance
CORPORATE RESTRUCTURING			
Strengthening the Legal Framework			
Provide appropriate legislative and institutional frameworks for corporate bankruptcies and reorganizations	Ministry of Justice	WB FSIA	Advisory service and technical assistance
Provide appropriate legislative and institutional framework for secured lending	Ministry of Finance	Asian Development Bank	
Strengthening the Enabling Environment			
Facilitate information sharing among creditors on debt service performance by individual companies	Bank of Thailand	ASEM	
Facilitate debt/equity conversions and the efficient sale of distressed financial assets		Private or corporate technical assistance	
Eliminate remaining tax disincentives to corporate restructuring			
Speeding The Restructuring Process			
Debt restructuring monitoring system	CDRAC	ASEM	Framework design, database development, advisory services, training seminars, technical assistance, neutral mediation, research
BOT will review options to resolve disputes among financial institution creditors	Bank of Thailand	PHRD	
Mediation Pilot	Ministry of Finance	EPA	
Develop a clear strategy concerning the position of the Government as a creditor or shareholders of distressed corporates	Ministry of Industry	MITI	
Manual on Legal documentation of debt restructuring		OECD	
Industry Studies / Competitiveness	Ministry of Commerce	Fair Trade Commission	
SME	National Economic and Social Development Board		
	FTI		
	CDPD		
	AFC		
	SIFC		
	BAAC		
	TBA		
Financial Accountability and Corporate Governance			
Strengthen ICAAT/Improve accounting and auditing standard	ICAAT	World Bank (IDF Grant)	Capacity Building
Institutional strengthening of the Thailand Financial Accounting Standard Board	OAG	PHRD (special)	
Institutional strengthening of the Institute of Directors Institutional strengthening of Office of Auditor General	Stock Exchange of Thailand	ASEM	

Remark: Details on the Government reform of financial and corporate sectors and partnership with aid agencies can be found at www.worldbank.org/ta/

Table 20: Partners to Thailand’s Public Sector Reform Program

Major Objectives of the Royal Thai Government’s Public Sector Reform Program	Responsible Thai Agencies	Multilateral and Bilateral Partners	Nature of Support
<p>1. Expenditure management</p> <p>The objective of expenditure management reform for Thailand is to delegate the necessary budgetary authority to sector ministries and to hold them accountable for performance. The performance of sector ministries will be measured by their ability to reflect Cabinet priorities in their strategic plans and to deliver promised results. The task of the central agencies – particularly of the Bureau of the Budget -- is to define a new framework of flexibility and accountability for sector ministries and then to enable sector ministries to implement the framework.</p>	<p>Attorney-General’s Office</p> <p>Bureau of Budget</p> <p>Comptroller General’s Department</p> <p>Office of Civil Service Commission</p>	<p>Asian Development Bank</p> <p>Ausaid</p> <p>Canadian International Development Agency</p> <p>International Monetary Fund</p> <p>New Zealand Official Development Assistance</p> <p>Overseas Economic Cooperation Fund of Japan</p> <p>World Bank</p>	<p>Financial Markets Reform Program Assistance</p> <p>Technical Assistance Grants</p> <p>Governance and Restructuring Assistance</p> <p>Standby Monetary Support</p> <p>Needs Assessment Studies</p> <p>Overseas Training Visits for Senior Public Officials</p> <p>Post-Graduate Scholarships</p> <p>Advisory Services</p>
<p>2. Revenue management</p> <p>The objectives of the proposed tax administration reforms are to: (i) ensure adequate and sustainable revenue; (ii) improve revenue collection, widen the tax base, and achieve a more equitable distribution of the tax burden; and, (iii) strengthen the managerial capacity of the Revenue Department to perform its functions efficiently and effectively on a sustainable and transparent basis.</p>	<p>Customs Department</p> <p>Revenue Department</p>	<p>World Bank</p> <p>International Monetary Fund</p>	<p>Tax Administration Assistance</p> <p>Customs Administration Studies</p> <p>Technical advice</p>
<p>3. Human resource management</p> <p>Delivering better services in a cost effective and equitable way is a key objective of the Royal Thai Government’s reform program. This will require enhancing the access, timeliness and quality of public services through outsourcing, restructuring or decentralizing activities and being more responsive to clients. Administrative renewal involves modernizing the role, organization, and processes of key line ministries to enhance their performance in delivering services. More efficient use of public resources requires streamlining procedures, eliminating duplicative structures, devolving to local governments administrations or outsourcing activities inappropriate for government involvement to the private sector.</p>	<p>Office of the Civil Service Commission</p> <p>Bureau of the Budget</p> <p>Comptroller General’s Department</p> <p>Attorney General’s Department</p> <p>AusAid</p>	<p>AusAid</p> <p>World Bank</p>	<p>Short-term Courses for Thai Officials</p>

Major Objectives of the Royal Thai Government's Public Sector Reform Program	Responsible Thai Agencies	Multilateral and Bilateral Partners	Nature of Support
<p>4. Decentralization</p> <p>Thailand has identified decentralization as a policy priority in Thailand's 8th National Economic and Social Development Plan. The Constitution features decentralization prominently, specifying principles of local autonomy and elected local representatives, among other aspects of local governance. Objectives envisioned in the Constitution include increasing the share of local governments administrations expenditures, assigning more revenue sources to local governments administrations, revising the system of intergovernmental transfers to provide grants in a more transparent and predictable way, and promoting mechanisms for local accountability</p>	<p>Decentralization Commission</p> <p>Ministry of Interior</p> <p>National Economic and Social Development Board</p>	<p>Asia Foundation</p> <p>German Development Cooperation (GTZ)</p> <p>United Nations Development Program</p> <p>World Bank</p>	<p>Advisory Services</p> <p>Rural-Urban Development Assistance</p>
<p>5. Accountability and Transparency</p> <p>Public accountability and transparency are key elements of Thailand's reform strategy to ensure that government institutions, and the civil servants within them, are responsive to public needs, efficient in the use of public funds, and accountable to the public for their actions. Greater of transparency and accountability in managing the affairs of government and public resources are crucial to strengthen citizens' trust in public administration. Supported by the Constitution, Thailand's public sector reform will create the institutions responsible for ensuring public accountability and demonstrate the Government's commitment to fighting corruption.</p>	<p>Office of the Civil Service Commission</p> <p>Office of Official Information Commission</p> <p>National Counter Corruption Commission</p> <p>Ombudsman</p> <p>State Auditors</p>	<p>AusAid</p> <p>Canadian International Development Agency</p> <p>New Zealand Official Development Assistance</p> <p>United Nations Development Program</p> <p>The Asia Foundation</p> <p>Thai Research Fund</p> <p>World Bank</p>	<p>Advisory Services</p> <p>Thematic Workshops, Conferences and Seminars</p> <p>Various research studies on corruption, governance and accountability.</p> <p>Database construction</p> <p>Anti-corruption surveys</p>

ANNEX 6: SOURCES

- Data on investment, manufacturing, expenditure, balance of payments, monetary variables, and trade are from the Bank of Thailand's (BOT) web page (monthly statistical update, Key Economic Indicators, Databank, all available at <http://www.bot.or.th>.)
- Unemployment data in Thailand come from different sources, including (i) the national Labor Force Survey (LFS) which is conducted by the National Statistical Office (NSO) three times a year, (ii) the number of persons complaining about not getting severance payments after being laid off reported by the Ministry of Labor and Social Welfare (MoLSW), (iii) national censuses (three so far) conducted by the Department of Local Administration (DOLA), and (iv) NESDB estimates of the number of new graduates entering the labor force. We consider the Labor Force Survey the most reliable source and have chosen to focus on those numbers (BOT publishes the numbers on their website).
- Data on Miyazawa Package disbursements are provided by the Comptroller's General Office.
- The "Thailand at a Glance" tables are generated from the World Bank's "live data base." Some of the numbers may differ from BOT tables because of differences in definitions and the use of different exchange rates to convert baht numbers into US dollars.
- Further discussion on the health and education issues are in the World Bank's *Thailand Social Monitor* (July 1999).
- The World Bank's *Thailand: Social and Structural Review* provides further discussion on the various sectors in Thailand.
- Details of Thailand's public reform programs can be found in the World Bank's Public Sector Reform Loan documents.
- Thai Rating and Information Services: www.tris.tnet.co.th/
- Stock Exchange of Thailand: www.set.or.th
- Customs data: <http://www.customs.go.th/> (the Customs Department's web site contains a data base with volume and baht value numbers for all export and import commodities.)
- Ministry of Commerce: http://www.moc.go.th/thai/dbe/dbe_engkk1.htm
- Government's spokesman bureau: <http://www.spokesman.go.th/index/what-e.htm>

End Notes

¹ Foreign direct investment is defined here as equity investment plus loans from related companies, excluding bank recapitalization.

² Net reserve is defined as total foreign exchange reserves net of the Bank of Thailand's forward obligations.

³ Seignorage revenues are defined as (Base money/GDP)*Nominal GDP growth

⁴ The task forces are listed below:

- Primary issuance and treasury management (led by Comptroller General's Department of the MOF)
- Secondary market trading mechanism and architecture (led by BOT/SEC)
- Establishment of delivery vs. payments in settlement (led by BOT)
- Taxation of investment in and trading of bonds (led by Revenue Dept.)
- Development of a market information system (led by TBDC)
- Standardization of trading practice and conventions (led by TBDC)
- Fiscal and Debt Management (led by the Fiscal Policy Office)
- Repurchase, bond lending and bond futures market (led by the SEC)

⁵ Underemployment is defined as those working under 20 hours per week.

LINKS

Other Web sites on Thailand worth visiting:

- BOT's Economic Research Department: www.bot.or.th/research/public/econpage.htm
- Privatization Masterplan: www.mof.go.th/SEPC/
- Fiscal data: www.mof.go.th/fiscal/ and <http://www.fpo.mof.go.th/other5/engd5.htm>
- Board of Investment: www.boi.go.th/
- Social Sector Program Loan: <http://www.sspl.org/>
- National Statistical Office (for employment data): <http://www.nso.go.th/>