



**Thailand's Economic and Monetary Conditions
in 2002**

Monetary Policy Group

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Part 1: Economic Performance in 2002

Executive Summary

The Thai economy is expected to have grown by about 5 percent in 2002, which is higher than the growth rate forecasted by all research houses at the beginning of the year. The expansion took place amidst a fragile global recovery and uncertainty about war between the US and Iraq. Domestic demand, in particular private spending, was the main driving force behind this recovery. At the same time, external demand, as reflected by markedly accelerated exports especially in 2002 H2, also helped to strengthen the economic recovery process.

Even though government expenditure had moderated since 2002 Q2, dampening the stimulus via direct government expenditure compared to the end of 2001, the government continued to play a key role in the economy through other measures. For example, the government initiated measures to support the real estate sector and helped strengthen the consumers' purchasing power, particularly in rural areas.

In the monetary sector, liquidity in the financial system remained high. Ample liquidity combined with policy rate cuts drove down commercial bank rates in 2002. Low interest rates helped stimulate private spending and also helped reduce the cost of borrowing for businesses.

The extension of credits by commercial banks improved in 2002. Personal consumption and housing loans grew positively throughout the year, while industrial, export and commercial loans started to expand in late 2002. Moreover, both consumers and businesses had access to alternative sources of finance. Therefore, they did not need to rely so much on financial institutions' credits as in the past. That is,

consumers could borrow from non-financial institutions such as leasing companies while a number of businesses whose performance had improved switched to rely on retained profits or to issue debentures during the period when financial institutions remained quite cautious with regards to credit extension.

Throughout 2002, economic stability remained strong. Headline inflation remained low at the annual average rate of 0.7 percent, even though uncertainty about war had caused oil prices to fluctuate and rise, while floods in 2002 H2 had caused some damage to major crops, leading to an increase in farm prices. Unemployment rate continued to decline from last year, with a particularly strong expansion in employment observed in the non-agricultural sector. With regards to external stability, a continued surplus in the current account allowed for a significant accumulation of international reserves while outstanding external debt declined gradually.

Details of the economic conditions in each sector are as follows:

Production, Domestic Demand, and Inflation

Agricultural Sector

Although floods caused damage to major crops, particularly rice in several plantation areas during 2002 H2, farm income from major crops still surged by 11.1 percent as major crop prices rose by 10.9 percent. This was partly due to an improving trend in world prices and less domestic supply due to floods. Such considerable rise in farm income helped enhance household consumption in the agricultural sector and was hence a major factor supporting strong economic growth in 2002.

Industrial Sector

Manufacturing production expanded favourably in response to a rise in domestic demand and a recovery in exports. The Manufacturing Production Index (MPI) grew on average by 8.4 percent in 2002. Industries experiencing high growth were iron and steel products, electronics, and vehicles. The average capacity utilisation rate in 2002 stood at 60.0 percent, up from 53.5 percent in the previous year.

Service Sector

Tourism, the most important industry in the service sector, clearly picked up at the beginning of 2002 as foreign tourists became less concerned about terrorism in the US and war in Afghanistan. At the same time, this sector also benefited from the continued effort of the government to promote tourism in Thailand. Later on when bomb attacks took place in Bali, the Philippines, as well as Southern Thailand in October 2002, concern over the safety of tourists was once again heightened, but the effect seen in November was only a temporary one. Thus, in 2002 the number of foreign tourists increased by 7.1 percent, exceeding the target of 4.4 percent set by the Tourism Authority of Thailand.

Private Spending

Domestic spending, especially private consumption, served as the main driving force behind the economic expansion in 2002. For the entire year, the Private Consumption Index (PCI) expanded by 3.7 percent as a consequence of buoyant demand for durable goods such as passenger cars and motorcycles. This resulted in part from low interest rates and easing financial constraints of households. Moreover, numerous government measures helped raise the consumers' purchasing power, particularly in rural areas. Higher farm income and improved consumer confidence also contributed to a stronger PCI.

With regards to investment, private investment in the construction sector continued to recover well from 2001 H2, especially after the various measures to stimulate real estate activities started to show a clear positive impact in 2002 Q1. Investment in equipment began to pick up in 2002 Q2, albeit moderately, as excess capacity remained somewhat high in the industrial sector. On average the Private Investment Index (PII) expanded by 23.3 percent in 2002, compared to only 0.2 percent in 2001.

Government Spending

The government continued to maintain an expansionary fiscal stance to help boost economic activities. The budget deficit for FY 2002 was thus set at B200 billion or 3.6 percent of GDP. However, the actual stimulus fell short of expectations as, on the one hand, only B21.3 billion from the allotted reserve fund of B58 billion was spent, given less need to boost the economy, and, on the other hand, revenue substantially exceeded target by B46 billion, reflecting to a large extent a stronger-than-expected economic recovery as well as an improvement in tax administration. Therefore, the government cash balance registered a deficit (excluding principal repayment) of B118.7 billion or 2.2 percent of GDP in FY 2002, somewhat smaller than the deficit of B175 billion (excluding principal repayment) set by the budget.

In FY 2003 Q1, government revenue continued to increase, rising by 18.2 percent year-on-year. However, government expenditure declined by 6.6 percent, due partly to a fall in the budget allocation and partly to a delayed disbursement by a number of governmental organisations as a result of public sector reforms. For the entire quarter, the government ran a cash deficit of B31 billion.

Price Level

Headline inflation stayed low throughout the year, although oil prices rose due to political tensions in the Middle East and floods induced higher prices of vegetables and fruits. For the entire year, headline inflation averaged at 0.7 percent and core inflation was equal to 0.4 percent. Low inflation did not signal an economic slowdown, however, as it was a result of substantial excess production capacity in the economy. Thus, rising demand did not translate into a strong upward pressure on prices.

External Sector**Current Account and the Balance of Payments**

In 2002, the current account registered a surplus of US\$7.6 billion which was higher than the previous year's surplus as the trade account improved with a recovery in exports while the net service income and transfers account recorded a surplus comparable to the earlier year. At the same time, the capital account registered a deficit of US\$4.7 billion, also improving over the previous year as external debt repayment slowed. Thus, the balance of payments registered an overall surplus of US\$4.2 billion.

Exports

In spite of the fact that domestic demand was the major driving force behind the Thai economy in 2002, the recovery of external demand from last year was also another factor that helped the economy to grow beyond expectations. Export value in US dollar terms started to expand in 2002 Q2 and accelerated further in the latter half of the year, expanding in total by 5.8 percent in 2002. Export sectors which showed favourable prospect were hi-tech industrial products and agricultural goods.

Although the world's major economies, namely, the United States, Japan and Europe, did not recover so evidently in 2002, Thailand was less affected than before as growth in intra-regional trade and new markets helped shore up demand for exports.

Imports

In 2002, the continued expansion in domestic demand coupled with the recovery in exports led to a 4.6 percent increase in import value in US dollar terms. Import categories which experienced large positive growth were consumer goods, capital goods, raw materials and semi-raw materials.

Monetary Sector

Even though the issuance of B305 billion government saving bonds, for which the settlement period was September-October 2002, had partly helped absorb excess liquidity in the financial system, overall liquidity continued to be high. This kept short-term money market interest rates low after having adjusted downwards in tandem with the policy rate cuts, the most recent of which took place on 19 November 2002. At the time, the BOT reduced the policy rate from 2.0 percent to 1.75 percent in preparation for heightened external uncertainties.

Commercial banks cut both deposit rates and loan rates at the beginning of 2002 and once again towards the end of the year in response to the direction of the policy rate and each bank's liquidity conditions. The average 3-month fixed deposit rate of the four largest commercial banks declined from 2.25 percent per annum at end-December 2001 to 1.75 percent per annum at end-December 2002. Over the same period, the average Minimum Lending Rate (MLR) fell from 7.125 to 6.69 percent per annum.

In 2002, total commercial bank credits improved in line with the economic conditions. Real estate, public utility and personal consumption loans expanded favourably throughout the year. Other loans, namely loans to the industrial sector as well as loans for export and commerce, started to grow at the end of the year. Commercial bank credits outstanding (adding back debt write-offs and loans transferred to AMC's but excluding credits extended to AMC's) as of end-December 2002 rose by 3.2 percent year-on-year, while commercial bank deposits grew by 2.5 percent.

Outlook for 2003

The Thai economy is expected to grow at a satisfactory rate in 2003. The main contributing factor is the growth momentum carried on from the previous year, supported by an expected faster rate of global economic growth, expanding farm income, stronger

consumer and business confidence, accommodating government measures, a low interest rate environment, an expanding role of non-financial institutions as a source of funds, and a continued recovery of commercial bank loans which comes partly a result of the success in resolving financial institutions problems.

Nevertheless, economic growth is susceptible to risks, the most important of which is likely to be an external one, namely the tension between the US and Iraq which has already intensified by the end of January 2003. If war erupts and is prolonged, the world economic recovery may come to a halt, yielding adverse impacts on Thai exports and tourism. Moreover, the currently high and volatile price of oil is likely to increase further during the war, which will not only reduce the purchasing power of oil importers like Thailand but will also erode consumer and business confidence.

Macroeconomics Team
Tel. 0 2283 5651

1.2 World Economy

World Economic Conditions

The world economy in 2002 improved notably from 2001. According to the September 2002 World Economic Outlook (WEO) report, the IMF forecasted that the global economic growth in 2002 would be 2.8 percent, up from 2.2 percent in 2001.

Economic performance of the major industrial countries indicated a slow pace of recovery. Though not yet fully recovered, the US economy managed to expand at the rate of 2.4 percent in 2002, compared to only 0.3 percent in the previous year. Economic conditions in the Euro area remained fragile, with growth expected at about 1.1 percent as the problems of high unemployment rate and budget deficits in major countries, particularly Germany which is the largest economy in the Euro area, persisted. As for Japan, the economy grew by 0.3 percent in 2002, up from negative 0.5 percent in 2001 as a result of improved domestic demand, especially from the private sector, in 2002 Q4. Nevertheless, there continued to be downside risks in the Japanese economy, including those from unresolved problems of financial institutions, high unemployment and deflation. In addition, consumers still had little confidence in the economy as a result of the prolonged recession.

Economic activities in Latin America (in particular Argentina and Venezuela) continued to be unstable and fragile due largely to internal political conflicts. However, the Asian economies picked up markedly, driven mainly by improved private consumption and export growth, especially from intra-regional trade.

World Trade

World trade volume is expected to have expanded at the rate of 2.5 percent in 2002, compared to a contraction of 0.1 percent in 2001. The recovery came largely from the pick-up in the US economy, the world's main export market.

Inflation

In 2002, overall inflationary pressure subsided. The average inflation rate for developed economies is expected at around 1.5 percent, with Japan continuing to experience deflation for the third consecutive year as its general price level fell by 0.9 percent. The average inflation rate in developing countries is expected at 5.7 percent.

World prices fell as a result of keener competition as well as high excess industrial capacity world-wide. The world oil price averaged at US\$23.85 per barrel in 2002, down from US\$24.28 per barrel in 2001 due to low price in the early part of the year. However, towards the end of the year, there was a pick-up in oil price induced by the risk of war between the US and Iraq and some internal unrest in Venezuela, a major oil exporting country.

Interest rates

In November 2002, the Federal Reserve lowered the federal funds rate by 50 basis points, to the level of 1.25 percent per annum, to support the US recovery. The European Central Bank also lowered its policy rate by 50 basis points to the level of 2.75 percent per annum at the end of the year. In Japan, the authority kept the interest rate at zero percent in order to support and stimulate the Japanese economy.

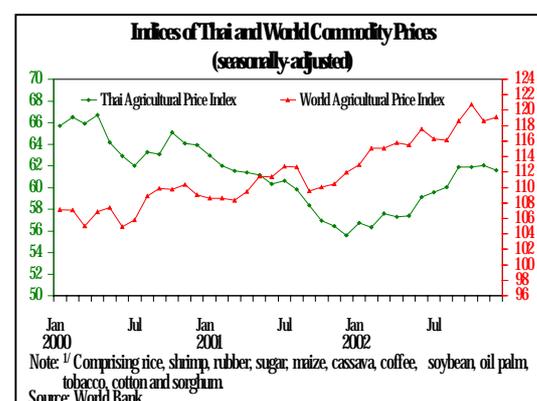
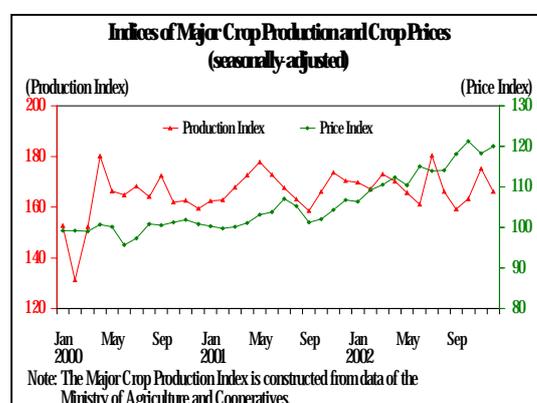
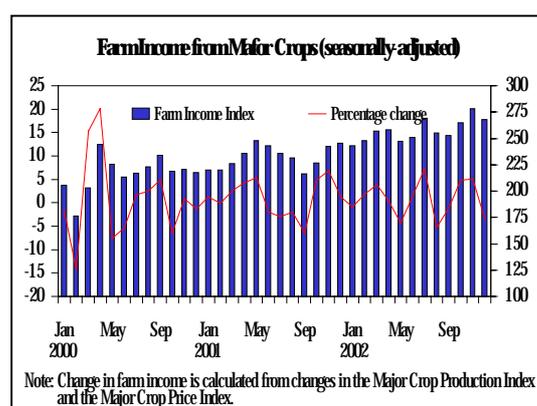
Part 2 Economic Conditions in 2002

21 Agricultural Sector

Farm Income from Major Crops, Crop Production and Crop Prices

Δ% (Y-0-Y)	2001	2002					
		HI	Q3	Q4	Nov	Dec	Year
Farm Income	8.4	9.1	13.6	13.8	15.4	8.9	11.1
Crop Production	5.1	0.0	2.9	-0.9	1.7	-3.2	0.2
Crop Prices	3.2	9.1	10.3	14.8	13.5	12.5	10.9

Note: Data are not seasonally adjusted.



Farm Income from Major Crops

In 2002, farm income from major crops expanded by 11.1 percent as a result of a 10.9 percent increase in crop prices while crop output remained comparable to last year. The substantial increase in crop prices was attributable to the following:

1) A rise in the price of rice which reflected both stronger global demand and less domestic supply as a result of the government's paddy pledging scheme and the impact of floods at the end of 2002.

2) An increase in the price of cassava in response to a fall in production and stronger external demand, most of which was used for alcohol and citric acid production.

3) A surge in the price of natural rubber following favourable global demand and reduced domestic supply due to a long wintering season at the beginning of 2002.

4) A rise in the price of oil seeds, in particular oil palm, as a result of a decline in both domestic and overseas production.

Farm income is expected to expand further in 2003, but at a slower rate compared to 2002. Behind this, the growth rate of crop prices is anticipated to moderate as prices have already risen substantially. While the price of rice is expected to increase further in line with a decline in world production, particularly from India whose output is expected to drop by approximately 15 percent due to droughts, the price of natural rubber is expected to moderate, though remaining at a generally favourable level as there continues to be demand from the automobile industry while supply has already been reduced by the government's measures to decrease the number of rubber trees.

Crop production in 2003 is expected to expand from the previous year, partly due to enticing crop prices in 2002. Rice production is likely to increase with an expansion in second-crop rice plantation in order to replace the first crop that was damaged by floods at the end of 2002. Meanwhile, production of maize and cassava is likely to expand in line with an increase in planting areas. Oil palm production is also expected to increase as the expansion of planting areas 4-5 years ago is now ready to yield output.

Other Agricultural Products

In 2002, **livestock** production rose in line with an increase in broiler and egg production that was induced by high prices in the previous year. Nevertheless, in 2002 H2, egg production declined, adjusting to reduced market demand as exports turned sluggish and prices fell sharply.

The volume of **landing fishery** grew by 8.3 percent in 2002, as fishing activities picked up in response to lower production costs induced by a decline in the price of high-speed diesel. However, uncertainty arising from the threat of a US-Iraq war toward the end of 2002 led to a continued rise in oil prices which was likely to have an adverse impact on landing fishery. As for fishery from cultivation, production of black tiger prawns fell in 2002, owing mainly to unfavourable prices and export difficulties.

Agricultural Prices

Thai agricultural prices (seasonally-adjusted) increased continuously in 2002. Most crop prices trended upwards as a result of high

demand and reduced supply due to floods both domestically and overseas. On the contrary, fishery and livestock prices fell following sluggish export conditions of prawns and broilers since March 2002.

Outlook for 2003 Thailand's Major Agricultural Price Index (seasonally-adjusted) suggests that farm prices are likely to increase further, albeit at a slower rate compared to 2002. This is due to the fact that favourable prices will lead to some expansion in production. At the same time, problems with the export of prawns and broilers are likely to be resolved quickly, helping to raise export prices as well as domestic prices. This should result, in turn, in higher farm income and increased domestic consumption.

World agricultural prices (12 commodities related to Thai commodities) decelerated in 2002 Q4 as a result of a decline in the prices of prawns and sugar. Nevertheless, the prices of rice, natural rubber, oil palm and cassava still rose significantly.

Outlook for 2003 The World Agricultural Price Index (seasonally-adjusted) is on a recovery trend after having fallen over the downward cycle. The prices of rice, natural rubber and oil palm are expected to rise further from 2002. With droughts causing damage to rice and oil palm output in India around the end of 2002, it is expected that India will have to raise its import of these commodities by a significant amount, helping to push their prices upwards. Meanwhile, the price of natural rubber is likely to benefit from a pick-up in global demand in line with the overall world economic recovery.

Indicators of Major Crop Production, Trade, and Consumption

(Unit : Million tonnes)

	199899	199900	200001	2001/02	2002/03	%Δ
Thai crops^{1/}						
Paddy	23.00	24.18	25.84	26.69	25.93	-2.8
First crop	18.66	19.02	19.79	20.90	20.00	-4.3
Second crop	4.34	5.16	6.01	5.79	5.93	2.4
Rubber ^{2/}	2.16	2.20	2.38	2.42	2.40	-0.8
Maize	4.62	4.29	4.46	4.47	4.21	-5.8
Cassava	16.51	19.06	18.40	16.87	18.43	9.2
Sugarcane	52.84	54.90	52.01	62.65	62.52	-0.2
Mungbean	0.23	0.25	0.23	0.24	0.26	8.3
Soybean	0.32	0.32	0.31	0.26	0.27	3.8
Oil palm	2.46	3.51	3.26	4.09	3.90	-4.6
Coffee	0.05	0.08	0.09	0.06	0.06	0.0
World crops^{3/}						
Grains						
Production	1,873.4	1,871.7	1,841.1	1,864.6	1,807.7	-3.1
Trade	223.5	240.1	231.8	238.6	232.5	-2.6
Rice (milled)						
Production	394.1	409.3	397.6	397.3	380.3	-4.3
Trade	24.9	22.8	24.4	27.1	26.7	-1.5
Maize						
Production	605.6	606.4	587.3	597.2	590.5	-1.1
Trade	68.7	73.3	76.4	74.1	75.3	1.6
Soybean						
Production	159.8	159.9	175.1	184.3	190.9	3.6
Trade	38.7	46.7	55.1	55.0	61.4	11.6
Rubber ^{2/}						
Production	6.78	6.88	6.93	7.03	7.09 ^E	0.9
Consumption	6.51	6.77	7.13	6.97	7.12 ^E	2.2

Note: 1/ Estimated in December 2002

2/ Rubber production is based on the calendar year, i.e., the figure in 2001/02 is the production during January 2001 to December 2001

3/ Estimated in January 2003

E = Estimate

Source: Office of Agricultural Economics

Thai Farm Prices*(Unit: Baht/tonne)*

	1999	2000	2001			2002			
	Year	Year	H1	H2	Year	H1	Q3	Q4	Year
Farm Price Index*	111.6	107.7	109.6	111.4	110.5	115.1	117.9	118.9	116.8
(1995=100)									
Δ%	-15.4	-3.5	2.9	2.2	2.6	5.1	4.8	7.8	5.7
Crop Price Index*	105.6	99.8	101.1	104.7	102.9	110.3	115.8	120.1	114.1
Δ%	-19.8	-5.5	2.3	4.0	3.2	9.1	10.3	14.9	10.9
Hom Mali paddy	6,892	7,349	5,992	5,011	5,501	5,088	6,196	5,956	5,582
Δ%	-15.5	6.6	-15.3	-34.3	-25.2	-15.1	19.9	22.7	1.5
Paddy class 1 (5%)	5,459	4,937	4,447	4,700	4,574	4,791	5,182	5,128	4,973
Δ%	-18.2	-9.6	-7.2	-7.5	-7.4	7.7	8.8	10.5	8.7
Rubber	17,930	21,480	22,400	19,490	20,940	23,970	30,440	30,040	27,100
Δ%	-22.6	19.8	6.6	-11.3	-2.5	7.0	44.1	68.3	29.4
Maize	4,214	4,263	3,912	3,942	3,927	4,183	4,130	4,170	4,167
Δ%	-7.8	1.2	-17.5	4.1	-7.9	7.0	5.7	4.9	6.1
Cassava	770	620	750	990	870	1,090	1,010	940	1,030
Δ%	-44.5	-19.0	18.0	62.5	39.7	44.5	0.7	-3.1	18.6
Livestock Price Index*	115.2	108.3	110.2	117.1	113.7	115.5	110.7	105.6	111.9
Δ%	2.4	-10.3	7.4	12.7	10.1	4.8	-7.4	-7.7	-1.6
Fishery Price Index*	127.1	137.4	135.7	126.8	131.3	130.1	131.7	128.6	130.1
Δ%	-16.2	8.1	1.1	-9.7	-4.5	-4.1	1.7	3.5	-0.9
Wood Price Index*	97.1	102.8	103.8	103.4	103.6	104.4	104.6	104.6	104.5
Δ%	-6.3	-19.4	2.9	-1.3	0.8	0.6	1.2	1.2	0.9

Note: * Rebasings from 1984 to 1995.

Δ% represents percentage change from the same period last year.

Source: The Farm Price Index is constructed from data of the Fish Marketing Organisation, Ministry of Agriculture and Cooperatives, and Ministry of Commerce.

World Agricultural Prices**(Unit: US\$/tonne)*

	1999	2000	2001			2002			
	Year	Year	H1	H2	Year	H1	Q3	Q4	Year
World Agricultural Price Index	683	645	620	575	598	578	605	610	593
(1995=100)									
Δ%	-15.3	-5.6	-5.9	-8.8	-7.3	-6.8	1.5	9.8	-0.9
Rice 5%	248.4	202.4	173.3	172.4	172.8	194.4	192.2	186.5	191.9
Δ%	-18.3	-18.5	-21.1	-6.9	-14.6	12.2	12.9	6.9	11.0
Shrimp	14,607	15,126	16,397	13,767	15,082	10,725	9,920	10,690	10,515
Δ%	-7.5	3.6	9.2	-9.7	-0.3	-34.6	-34.9	-13.1	-30.3
Rubber	628	691	628	572	600	698	863	825	771
Δ%	-12.9	10.0	-11.2	-15.2	-13.2	11.0	44.9	50.2	28.4
Sugar	138	180	209	172	190	146	144	171	152
Δ%	-29.8	30.6	52.4	-23.1	5.6	-30.2	-19.6	4.4	-20.3
Cassava	100.5	81.3	77.1	81.9	79.5	83.6	95.5	90.1	88.2
Δ%	-5.8	-19.1	-9.6	5.4	-2.2	8.5	17.9	8.8	10.9
Maize	90.2	88.5	88.8	90.5	89.7	90.7	107.2	108.5	99.3
Δ%	-11.5	-1.9	-4.7	7.9	1.3	2.1	17.0	21.5	10.7
Oil palm	436.0	310.3	248.0	323.3	285.7	356.0	410.3	438.3	390.2
Δ%	-35.0	-28.8	-27.1	15.3	-7.9	43.5	22.9	40.2	36.6

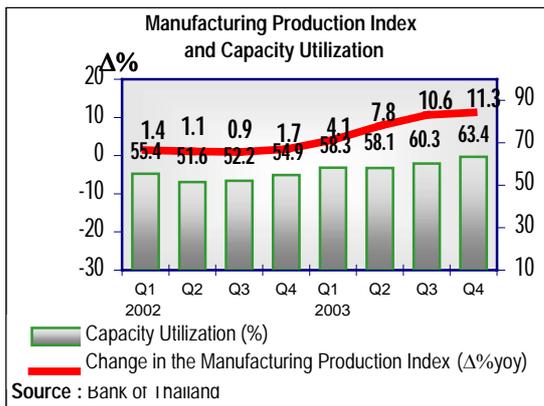
Note: *Only 12 commodities related to Thai agricultural commodities are included, namely, rice, shrimp, rubber, sugar, maize, cassava, coffee, soybean, oil palm, tobacco, cotton and sorghum

Δ% represents percentage change from the same period last year.

Source: The World Agricultural Price Index is constructed from data of the World Bank.

2.2 Manufacturing Sector

In 2002, manufacturing production registered an overall increase of 8.4 percent as a result of an expansion in both domestic-oriented and export-oriented sectors. Production of iron and steel as well as cement grew substantially in line with buoyant real estate and construction activities. Production of electronics and electrical appliances rose in tandem with the global electronics cycle. Production of vehicles also increased throughout the year following a strong domestic demand for commercial cars and motorcycles.



The Manufacturing Production Index (MPI) expanded markedly in 2002 by 8.4 percent. Among domestic-oriented industries (exporting less than 30 percent of production), production of iron and steel, liquor, motorcycles, and cement increased considerably. Meanwhile, production of integrated circuits, television sets, and sugar, all of which classified as export-oriented industries (exporting over 60 percent of production), also rose strongly. For industries exporting between 30 and 60 percent of production, production of commercial cars, tyres, hot and cold-rolled iron sheets, as well as glass sheets began to accelerate in 2002 Q3.

The overall capacity utilisation rate averaged at 60.0 percent in 2002, up from the rate of 53.5 percent in the previous year.

Industries Exhibiting Favourable Growth in 2002

- **Iron and steel products** expanded favourably in all product categories but especially in hot and cold-rolled sheets, which were used to substitute for imported products as a special surcharge was imposed on imported items between 28 January to 28 July 2002, followed by anti-dumping actions from 29 July 2002 onwards. Moreover, with the property sector experiencing a recovery since the beginning of 2002 in response to government stimulus measures and accelerated construction of the Suvarnabhumi Airport, there was an increase in demand for P.C. wires and P.C. stand wires, steel bars and wire rods. The capacity utilisation rate of this sector rose significantly from last year to 60.6 percent.

Manufacturing Production Index^{1/}
(Percentage change)

	2000	2001	2002		
	Year	Year	H1	H2	Year
Food	2.6	-2.9	6.6	-1.6	3.2
Beverages	-41.7	13.4	21.5	16.3	18.7
Tobacco	-1.3	-3.0	-0.3	7.1	3.2
Textiles and Textile Products	3.2	0.6	-1.7	0.8	-0.4
Petroleum Products	-0.9	2.2	0.5	3.2	1.9
Construction Materials	0.1	9.9	21.1	6.0	13.4
Iron and Steel Products	15.1	2.5	24.0	24.6	24.3
Vehicles and Equipment	25.5	23.3	9.5	28.9	19.7
Electronics and Electrical Products	31.6	-26.8	16.7	31.8	24.1
Setting Jewellery	28.5	3.9	-0.3	0.2	0.0
Others	14.9	0.7	-8.0	13.2	2.4
Total	3.3	1.3	5.9	11.0	8.4
(Excluding Liquor)	10.9	0.7	4.1	9.7	6.9

Note: ^{1/} covering 62.4 percent of the overall value added in the manufacturing sector.

• **Electronics and electrical products** Production of electronics and electrical products, especially integrated circuits, increased substantially as a result of a rebound in the global electronics cycle since the end of 2001, coupled with the economic recovery of major markets like the US and Asian countries during 2002 H1. Production also accelerated in 2002 Q4 with the introduction of new product varieties. Meanwhile, production of television sets expanded well given strong demand from both domestic and overseas markets, particularly during the World Cup 2002 season. Moreover, there was a transfer of some production platforms from parent companies in Japan to their subsidiaries in Thailand. Thus, the average capacity utilisation rate of this sector increased to 59.7 percent.

Capacity Utilisation^{1/}
(Unit :Percentage)

	2000	2001	2002
	Year	Year	Year
Food	44.0	42.6	46.4
Beverages	32.6	36.4	50.5
Tobacco	53.7	52.1	53.8
Construction Materials	50.1	52.3	56.9
Iron and Steel Products	47.0	50.0	60.6
Vehicles and Equipment	40.1	44.5	54.6
Petroleum Products	83.9	74.8	76.2
Electronics and Electrical Products	65.4	47.5	59.7
Others	75.4	77.0	71.5
Average	55.8	53.5	60.0
(Excluding Liquor)	59.5	56.1	60.8

Note : ^{1/} covering 44.5 percent of the overall value added in the manufacturing sector.

• **Vehicles and equipment** Production of vehicles and equipment, mostly commercial cars and motorcycles, rose sharply in 2002 H2, owing mainly to low interest rates and favourable payment conditions. At the same time, new models of commercial cars and low-priced motorcycles, coupled with continuous sales promotions, helped sustain demand throughout the year. As a result, the capacity utilisation rate of this sector also rose, averaging at 54.6 percent in 2002.

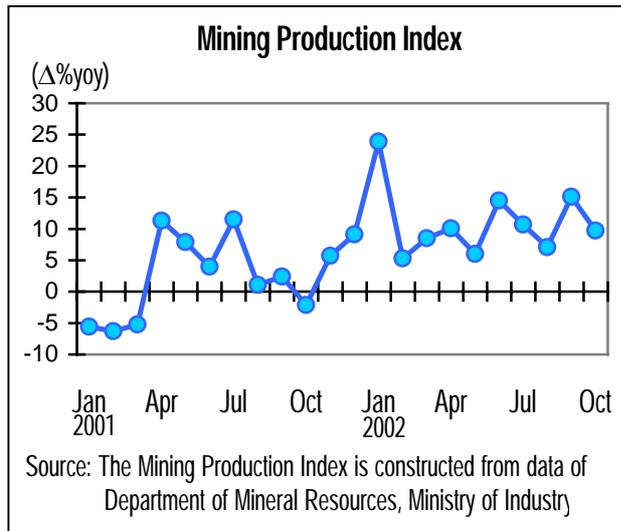
• **Beverages** Production of beverages expanded significantly, induced particularly by increased liquor production following a significant rundown of a major producer's stock. Moreover, in 2002 Q2, production rose to satisfy extra demand during the World Cup 2002 season, and in 2002 Q3 the launching of new low-degree liquor products to raise market shares in the upcountry areas also boosted production. The capacity utilisation rate of this sector thus rose to 50.5 percent.

• **Construction materials** For the whole year, production of construction materials grew markedly, although it exhibited some contraction in 2002 Q4 as a result of the base effect and the impact of floods. The overall expansion began since late 2001 when demand for detached houses and townhouses was boosted by government measures to revive the property sector. In addition, it benefited from a low interest rate environment and accelerated construction of the Suvarnabhumi Airport. The capacity utilisation rate of this sector rose to 56.9 percent in 2002.

Meanwhile, the textile industry was among those exhibiting a contraction in 2002. Production of textiles, especially finished garments as well as woven and knitted textiles, declined as a result of a loss of market share to countries with lower labour costs coupled with a sharp reduction in orders following the September 11 terrorist attacks in the US in 2001. Despite the contraction in 2002 H1, however, production of textiles began to see an upturn in 2002 H2, with the exception of jute products which continued to fall following a reduction in raw materials.

Sectoral Study 1 Team
Tel. 0 2283 5645

23 Mining Sector



During the first ten months of 2002, the Mining Production Index rose by 11.0 percent year-on-year. Production of limestone for construction increased strongly by 21.3 percent as demand for cement to be used in residential construction projects rose. Production of crude oil, natural gas and lignite grew by 23.4, 4.0 and 3.2 percent, respectively, as they were used as substitutes for fuel oil.

Sectoral Study 2 Team
Tel. 0 2283 5643

Change in the Mining Production Index

Production	2001		2002			
	Year	Jan-Oct	H1	Q3	Oct ^P	JanOct ^P
Mining Production Index	167.0	166.7	181.0	193.7	183.9	185.1
Δ%	2.7	1.8	11.3	10.9	9.7	11.0
Natural gas	-2.7	-2.6	2.9	8.3	-2.0	4.0
Lignite	10.7	7.4	11.6	-17.0	32.6	3.2
Limestone for cement	7.7	4.3	42.9	-13.8	16.7	21.3
Crude oil	6.4	5.9	19.8	28.8	27.0	23.4
Tin	0.8	6.9	-62.1	-29.2	-6.7	-49.9

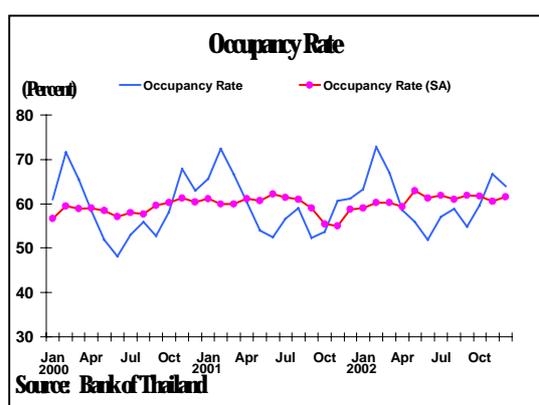
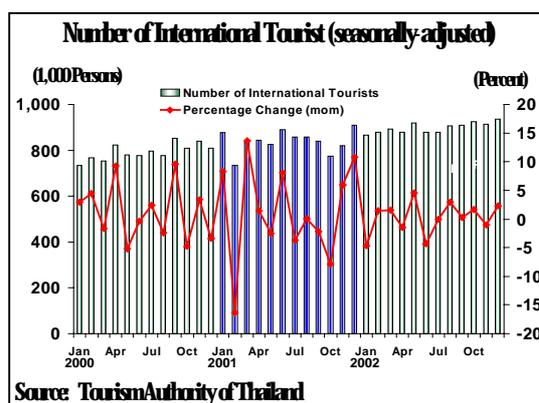
Note: P= Preliminary

Δ% represents percentage change from the same period last year.

Source: The Mining Production Index is constructed from data of the Department of Mineral Resources, Ministry of Industry.

24 Service Sector

• Tourism



International Tourists Classified by Nationality

Country	Percentage change		Market share		
	2002		2001	2002	
	Year	Jan-Nov	Jan-Nov	Jan-Nov	
East Asia	4.3	2.8	8.7	57.4	58.0
- Japan	-2.0	-0.7	3.3	12.1	11.6
- Malaysia	6.7	1.3	15.4	11.3	12.1
- Korea	21.6	21.4	29.4	5.4	6.5
Europe	9.0	9.6	5.0	24.7	24.1
USA	3.0	3.8	5.7	6.9	6.7
Others	-0.1	9.1	9.1	11.0	11.2

Source: Tourism Authority of Thailand

In 2002, tourism showed signs of recovery after having slowed down between September-November 2001 in the wake of the terrorist attacks in the US. The recovery also benefited from many promotion measures initiated by the government, including measures to increase tourist security and confidence. These efforts subsequently helped to soften the adverse impact of the terrorist attacks in Asia during October-November 2002 on Thai tourism. For the entire year, 10.78 million foreign tourists travelled to Thailand, up by 7.1 percent from the previous year and bringing in US\$7.7 billion of revenue. The average hotel occupancy rate was 60.7 percent.

The composition of tourists in the first 11 months remained unchanged from the previous years. Approximately 58.0 percent of them came from East Asia, with a large increase seen in the number of tourists from neighbouring countries, namely, Malaysia, Vietnam, Cambodia, Hong Kong and Korea. Meanwhile, tourists from Europe and the US showed stable growth and accounted for 24.1 and 6.7 percent of the total number of tourists, respectively.

The risk of war between the US and Iraq is likely to have a negative impact on tourism and especially the number of long-distance tourists in 2003.

Sectoral Study 2 Team

Tel. 0 2283 5643

Tourism Indicators

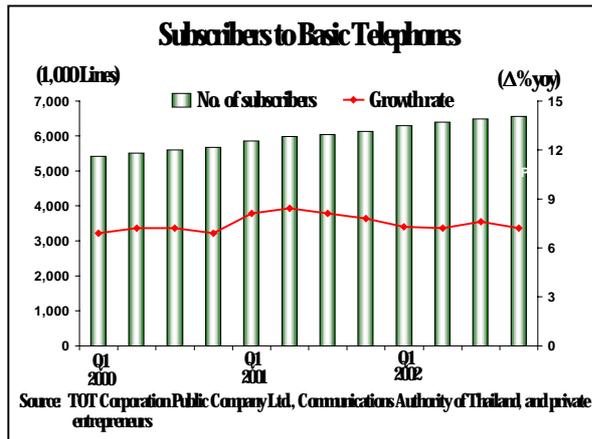
	2001	2002					
	Year	Year	HI	Q3	Q4	Nov ^P	Dec ^P
1. Number of international tourists (1,000 persons)	10,062	10,779	5,326	2,569	2,865	949	1,076
Δ% yoy	5.8	7.1	6.4	5.3	9.4	11.3	3.0
2. Income from tourism (US\$ million)	7,076.90	7,729.60	3,820.40	1,914.70	1,994.50		
3. Occupancy rate (percent)	59.6	60.7	61.4	51.2	63.1	66.3	63.4

Note: P= Preliminary

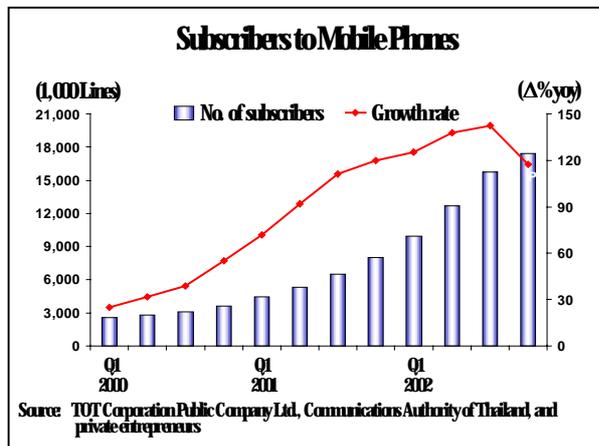
Δ% yoy represents percentage change from the same period last year.

Source: Tourism Authority of Thailand and Bank of Thailand

• Telecommunications



In 2002, the telecommunications industry expanded favourably in tandem with buoyant domestic spending. The number of basic telephone subscribers reached 6.6 million lines, up by 7.2 percent from last year. In addition, the number of mobile phone subscribers more than doubled over the year, reaching 17.4 million lines, in part as a result of the entry of a new mobile phone provider which started operations in January 2002. The mobile phone market also benefited from the unlocking of International Mobile Equipment Identity (IMEI) code, which subsequently encouraged competition in the mobile phone market and led to a substantial reduction in both handset prices and airtime fees.



Increasing competition among mobile phone operators is expected in 2003, as there will be an additional 1900MHz mobile phone operator entering the market. Therefore, the government must promptly set up the National Telecommunications Commission (NTC) and complete the conversion of telecommunication concessions to help foster the competitive potential of all operators prior to the liberalisation of this industry in 2006.

Sectoral Study 2 Team
Tel. 0 2283 5643

Telecommunication Services

(Unit : lines)

	2001	2002			
	Year	Q1	Q2	Q3	Q4 ^E
Basic Telephones ^{1/}	6,119,321	6,281,943	6,405,996	6,499,842	6,560,000
Δ%	7.8	7.3	7.2	7.6	7.2
Mobile Phones ^{1/}	8,008,435	9,971,391	12,679,904	15,742,833	17,415,400
Δ%	119.9	125.4	137.9	142.5	117.5

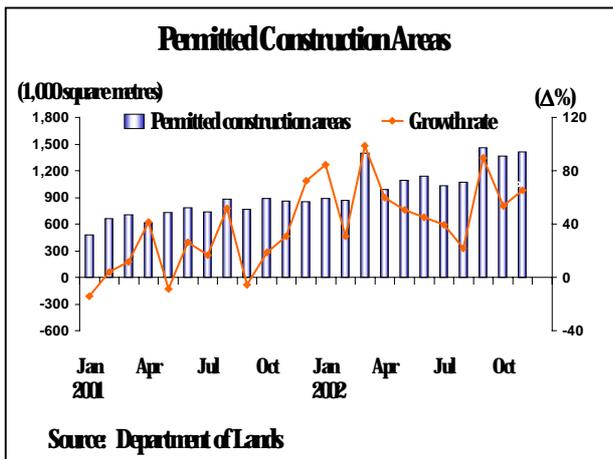
Note: 1/ Data as of end-period

E = Estimate

Δ% represents percentage change from the same period last year.

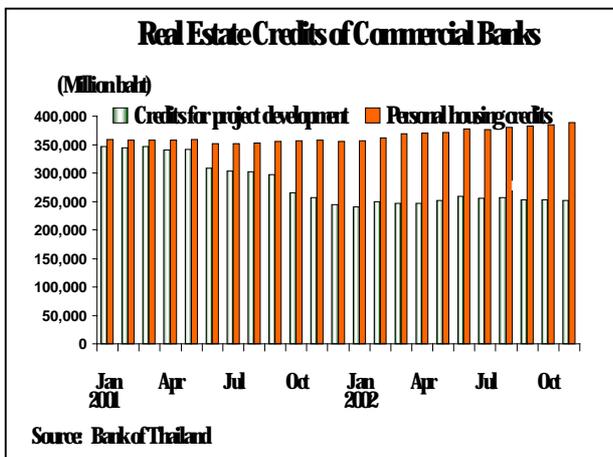
Source: TOT Corporation Public Company Ltd., Communications Authority of Thailand, and private entrepreneurs

• Real Estate

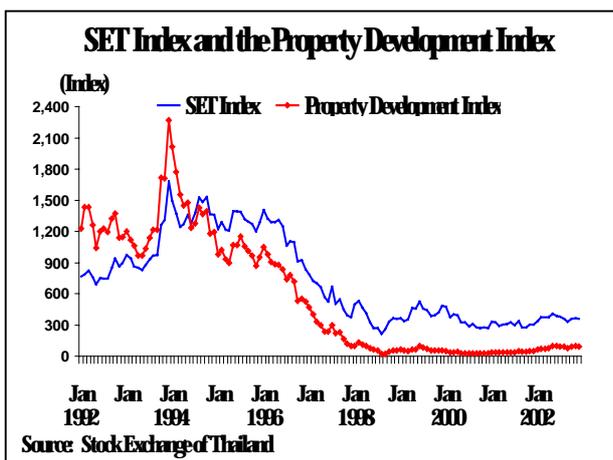


During the first 11 months of 2002, indicators of real estate activities showed signs of recovery. This included a rise in permitted construction areas (+56.8 percent), value of land transactions (+37.8 percent), and volume of cement sales (+24.6 percent). Nevertheless, the recovery was largely confined to residential properties such as detached houses, townhouses and housing projects, which alone grew by 50.9 percent.

A major factor behind the recovery of the real estate sector was low interest rates. This drove financial institutions to compete in the extension of housing credits, and as of end-November 2002, outstanding housing credits of commercial banks amounted to B 388,735 million, up by 8.5 percent from the same period last year. In addition, the rebound was driven by stronger demand as household income rose in tandem with the overall economic recovery and government stimulus measures.



The Property Development Index rose from 51.0 at end-2001 to 87.7 at end-2002, with the index rising steadily over the year in line with the overall economic recovery and a robust upward adjustment of the sector.



The real estate sector is likely to improve further in 2003 as demand continues to grow with the support of government stimulus measures. These measures include the extension of registration fee reduction period until end-2003, waiver of income tax on the sale of a previously occupied house for the purpose of buying a new one (up to the value of the new purchase), and new government-initiated housing projects for low income households and densely populated areas.

Sectoral Study 2 Team

Tel. 0 2283 5643

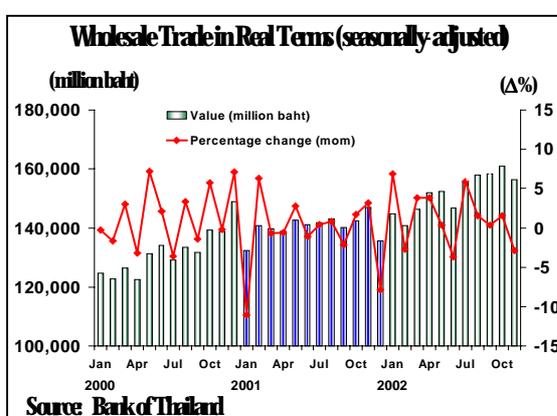
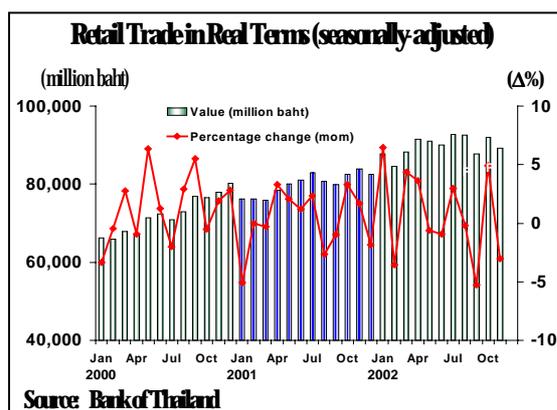
Real Estate Indicators

	2001	2002				
		HI	Q3	Oct	Nov	Jan/Nov
Value of Land Transactions (million baht)	189,021	117,57	69,67	24,99	22,98	235,23
$\Delta\%$	100	36.1	39.8	54.4	26.0	37.8
Permitted Construction Areas (1,000 square metres)	8,95	6,37	3,56	1,36	1,41	12,71
$\Delta\%$	17.8	60.2	49.1	53.9	65.5	56.8
New Housing Registrations (units)	34,023	18,46	8,22	2,62	2,05	31,37
$\Delta\%$	6.2	2.6	9.6	-7.0	-30.0	0.4
- Housing Projects	9,691	7,605	3,450	1,156	890	13,101
- Flats/Condominiums	4,693	1,719	4	248	0	1,971
- Self-built Houses	19,639	9,143	4,772	1,223	1,165	16,303
Volume of Cement Sales (1,000 tonnes)	19,048	12,08	5,70	1,847	1,661	21,29
$\Delta\%$	5.7	24.4	28.8	26.6	11.4	24.6
Real Estate Credits of Commercial Banks (million baht)	600,04	636,57	635,39	638,25	640,85	640,85
$\Delta\%$	-15.5	-3.6	-2.8	2.6	4.2	4.2
- Credits for Project Development	244,427	259,098	252,736	252,962	252,123	252,123
- Personal Housing Credits	355,622	377,480	382,655	385,296	388,735	388,735

Note: $\Delta\%$ represents percentage change from the same period last year.

Source: Department of Lands, Government Housing Bank, and Bank of Thailand

25 Trade



In 2002, retail trade expanded in all product categories, with the most important being electrical appliances and equipment, construction materials and furniture, food and alcoholic beverages, and tobacco. Retail trade without permanent shops, such as that in the fresh markets, also grew well.

The expansion of retail trade was attributable to higher purchasing power of households as a result of the general economic recovery and better employment conditions, low inflation, and low interest rates that helped boost the extension of consumer credits and housing credits.

Intense competition in the retail sector, in particular from large-scale modern retailers who used strategies like price cuts and loan extension to low-income consumers, led to the closure of many traditional stores. As a result, the retail market structure changed, with modern retailers such as super/hypermarkets and convenience stores continuously gaining market shares and traditional retailers gradually losing market shares.

Meanwhile, wholesale trade (excluding sales of vehicles and equipment) grew quite favourably despite some moderation in the growth rate towards the end of the year. Such moderation came with the slowdown in wholesale trade of consumer goods as well as of machinery and equipment.

As economic growth carries on momentum in 2003, trade is expected to expand further. Intense competition among entrepreneurs is also likely to continue as large-scale operators extend their branches to provincial communities.

Sectoral Study 2 Team
Tel. 0 2283 5643

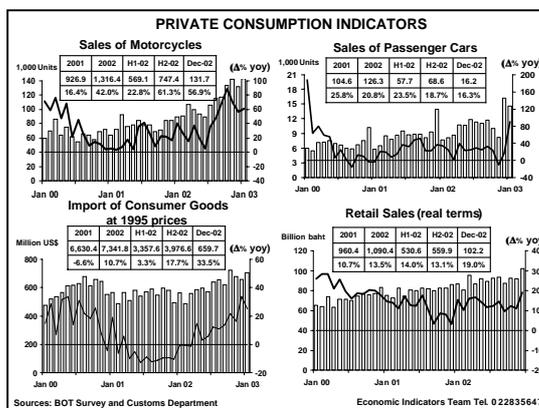
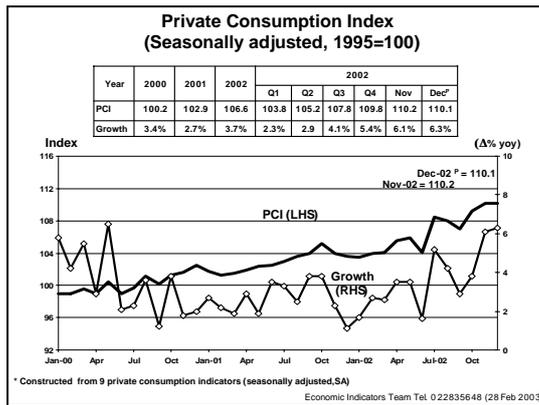
Retail and Wholesale Trade in Real Terms

(Not seasonally adjusted)	2001	2002				
		H1	Q3	11 months	Oct	Nov
Retail trade (Billion baht)	960.3	530.4	273.3	983.8	92.0	88.1
Δ% year-on-year	10.7	14.0	12.0	12.5	11.8	6.4
Wholesale trade (Billion baht)	1,687.7	860.0	473.5	1,659.7	165.3	160.9
Δ% year-on-year	6.3	5.4	10.7	7.8	13.3	6.9

Note: The figures are sales values under the VAT system

Source: Bank of Thailand

26 Private Consumption

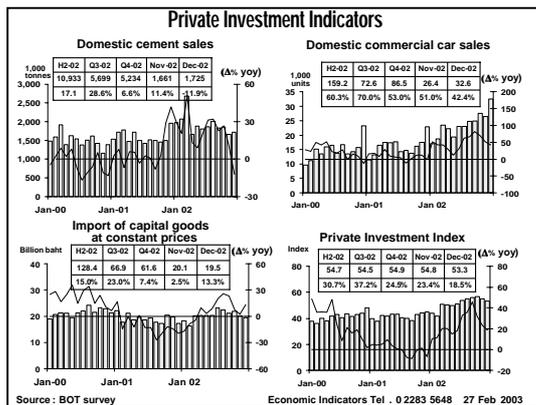


The Private Consumption Index (PCI) averaged at 1066 in 2002, up by 37 percent from 1029 in 2001. The growth of PCI accelerated in each quarter of the year as ample liquidity and low interest rates helped boost demand. This was reflected in a number of important indicators, including sales of passenger cars and motorcycles, sales of benzene, and value-added tax (VAT) collection, which rose in particular with retail sales (especially sales of construction materials, electrical appliances, and beverages).

In addition, the expansion in private consumption was supported by strongly rising farm income, strengthening consumer confidence, and significant government transfers to households in rural areas.

Economic Indicators Team
Tel. 0 2283 5647

27 Private Investment



The Private Investment Index (PII) expanded by 23.3 percent in 2002, accelerating markedly from the growth rate of only 0.2 percent in 2001. The PII was on an upward trend until 2002 Q3 but declined slightly in 2002 Q4.

Factors supporting the overall expansion in private investment included a pick-up in manufacturing production and real estate activities, which were driven in turn by ample liquidity, low interest rates, and various government stimulus measures. As a result, the Construction Index rose by 52.5 percent with a strong increase in permitted construction areas, while the Equipment Index grew by 18.3 percent, accelerating quite buoyantly during the first

three quarters before moderating in 2002 Q4 as concerns over a potential war between the US and Iraq led to a slowdown in imported capital goods.

Imported capital goods rose by 6.4 percent in 2002, compared to a contraction of 11.2 percent in the prior year. The expansion in imported capital goods was particularly strong around mid-year, following a recovery of the manufacturing sector as well as a fall in import prices, but began to slow down in 2002 Q4.

Domestic commercial car sales grew strongly at 47.0 percent, compared to an increase of only 7.5 percent in 2001, as a result of continued campaigns to boost sales, lower interest rates, and greater consumers' access to financing.

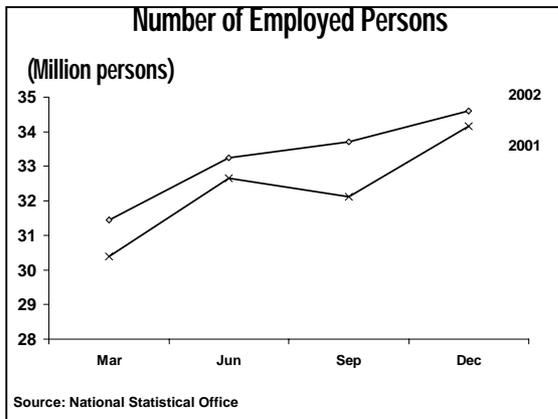
Domestic cement sales increased by 20.7 percent in 2002, compared to an expansion of 5.7 percent in 2001. Such improvement came about as a result of a recovery in the real estate sector owing to both buoyant activities in the housing market and major government construction projects, most notably the construction of Suvarnabhumi Airport.

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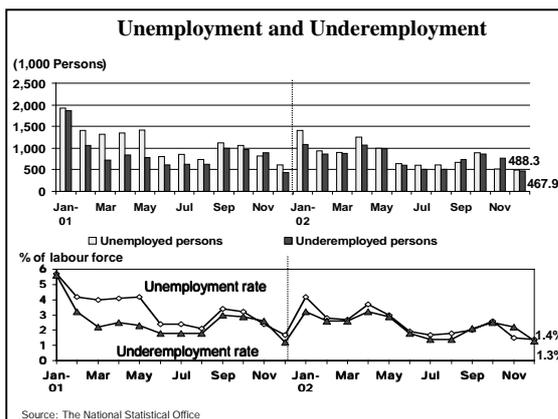
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28 Labour Market Conditions

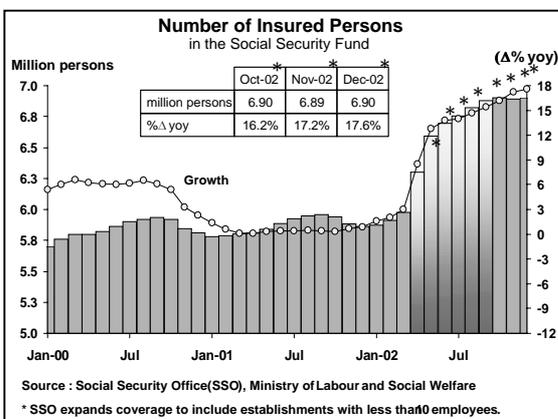
The number of employed persons rose compared to the same period last year.



The number of unemployed and underemployed persons gradually declined



The number of insured persons continued to expand



Labour market conditions In December 2002, the number of employed persons rose to 34.6 million, compared to the total labour force of 35.1 million. For the entire year, the number of employed persons averaged at 34.2 million, up from 33.8 million in 2001. This rise owed significantly to the government's attempt to create jobs, for example, through the launching of the village funds since mid-2001 and the introduction of the One-Tambon-One-Product projects. As a result, many formerly unemployed persons re-entered the labour market and had much greater opportunities to find jobs. The overall economic recovery also helped raise employment, particularly in the industrial, construction, wholesale and retail trade, and hotel and restaurant sectors.

Unemployment. In December 2002, the number of unemployed persons dropped to 0.488 million, which was equivalent to only 1.4 percent of the total labour force. The number of underemployed persons also declined to 0.468 million or 1.3 percent of the total labour force. For the entire year, the unemployment rate averaged at 2.4 percent, down somewhat from 3.3 percent in 2001.

Employment in the private sector: The number of insured persons stood at 6.9 million in December 2002, up by 17.6 percent from the same period last year. Such significant increase was mainly a result of the expansion in social insurance coverage from establishments with no less than 10 employees to establishments with at least 1 employee, starting from April 2002 onwards. When considering only those working in establishments with at least 10 employees, however, the number of insured persons still rose by 4.8 percent from the same period last year. This reflected a continued improvement in employment conditions of the private sector.

29 Price Level

In 2002, the Consumer Price Index (CPI) rose by 0.7 percent, owing mainly to an increase in non-food prices. Meanwhile, Core CPI rose by 0.4 percent, remaining within the policy target range of 0.35 percent.

Headline CPI rose by 0.7 percent in 2002 as food and non-food prices rose by 0.3 and 0.8 percent, respectively. Core CPI (excluding raw food and energy) rose by 0.4 percent over the same period.

Main factors contributing to low inflation were as follows:

(1) Domestic demand had not fully recovered. Despite the pick-up in domestic consumption and investment, capacity utilisation remained modest, staying somewhat below the pre-crisis average. As a result, there was still no demand pressure on the general price level.

(2) The baht appreciated against the US dollar, strengthening from 44.48 baht per US dollar in 2001 to 43.00 baht per US dollar in 2002. The currency appreciation helped lower import prices in baht terms, especially the price of oil. Therefore, even though the price of crude oil rose by 4.4 percent in the world market, domestic energy prices rose on average by only 0.7 percent.

(3) World farm prices continued to decline, putting downward pressure on the price of raw food in Thailand, especially the price of rice, flour and flour products which fell by as much as 8.2 percent in 2002.

(4) Price control measures by the government kept utility charges and transportation fees stable or declining slightly.

Nevertheless, a few items in the consumer basket saw significant price increases. For example, the price of transportation and communication rose on average by 1.3 percent following the increase in fuel prices.

On the whole, headline inflation remained above core inflation, due mainly to the increase in energy prices. The continued decline in core inflation throughout the year reflected not only the absence of demand-pull and cost-push pressure but also the appreciation of the baht which helped bring down import costs.

Consumer Price Index

(percentage change from the same period last year)

	Weight (percent)	2001 Year	2002 Year	2002			
				Q1	Q2	Q3	Q4
Headline Consumer Price Index	100.0	1.6	0.7	0.6	0.2	0.3	1.4
Food and beverages	38.5	0.7	0.3	0.3	-0.2	-0.1	1.1
Non-food and beverages	61.5	2.2	0.8	0.8	0.4	0.5	1.5
Core Consumer Price Index	75.3	1.3	0.4	0.9	0.3	0.3	0.2

Source: Bureau of Trade and Economic Indices, Ministry of Commerce

The Producer Price Index (PPI) increased by 1.6 percent in 2002, driven mainly by a 10.0 percent rise in agricultural product prices, especially the prices of paddy rice (as a result of government support measures), rubber, tapioca and palm

Meanwhile, manufactured product prices rose by 0.6 percent, especially the prices of rice, steel bars, electrical appliances, gold ornaments, and vehicles and equipment. Mining product prices, however, dropped by 1.3 percent.

Producer Price Index

(percentage change from the same period last year)

	Weight (percent)	201 Year	202 Year	202			
				Q1	Q2	Q3	Q4
Producer Price Index	100.0	2.5	1.6	1.2	1.0	0.9	3.5
Agricultural Products	13.1	5.1	10.0	9.6	8.9	9.0	12.6
Mining Products	1.9	8.1	-1.3	-2.9	-4.0	-1.9	4.0
Manufactured Products	85.0	2.0	0.6	0.2	-0.1	-0.2	2.2

Source: Bureau of Trade and Economic Indices, Ministry of Commerce

Modeling and Forecasting Team

Tel. 0 2283 5629

210 International Trade and the Balance of Payments

- The trade account registered a surplus due to rapid growth of exports as trading partners' economies recovered.
- The services, income and transfers account recorded a larger surplus compared to the year before as income from tourism rose strongly while interest payments of both the private and public sectors declined. This led to a sizeable current account surplus.
- Net capital movements registered a smaller deficit compared to 2001 because there were large capital inflows through the BOT, part of which was set aside for the repayment of the IMF loan package, and the banking sector as commercial banks reduced their foreign asset holdings.
- A larger surplus in the current account coupled with a smaller deficit in the net capital movements resulted in a larger balance of payments surplus compared to the previous year.

Exports In 2002, total export value rose by 5.8 percent due to a recovery in trading partners' economies as well as an expansion in intra-regional trade. Over the year, export volume grew continuously, and the recovery of export prices, the year-on-year growth of which began to turn positive in 2002 Q4, also helped contribute to the expansion of export value.

Agricultural products Export prices exhibited an upward trend since May 2002, owing mainly to buoyant external demand. The export value of **rubber** rose from both higher volume and higher price, driven largely by an expansion in the automobile industry. Although the volume of **rice** export declined year-on-year as a result of an unusually high base volume in the latter part of 2001 when Nigeria accelerated its import of Thai rice in anticipation of a tariff hike, the export value of rice still grew favourably due to an increase in price. As for **tapioca**, although its export price rose in 2002 H2 with strong demand from China for tapioca chips and pellets used to produce alcohol, its export value declined as a result of limited domestic supply. In

addition, as a result of the rise in tapioca price, livestock producers in the EU turned to use cheaper local grains for feeding instead. The export value of **frozen fowl** also fell as a result of a continued decline in its export price since May due to intense competition from Brazil, following a production increase and the depreciation of the real, and China which had a cost advantage. The decline in price as well as in volume contributed to the fall in frozen fowl exports to the EU.

Fishery products The export value of **frozen shrimp** declined, owing to both a fall in volume and a fall in price (particularly in the US market which accounted for over 40 percent of frozen shrimp exports from Thailand). With more supply coming from China, Vietnam and Brazil, the price of frozen shrimp in the world market was kept low, providing no incentive for Thai producers to expand production. In addition, there were problems concerning the EU's strict examination of antibiotic residues in shrimp. At present, the EU has already lifted its 100-percent inspection of Thai shrimp, provided that the Department of Fishery of Thailand

maintains complete and strict inspection of exported shrimp and reports its inspection results to the EU on a monthly basis.

Manufactured Products

Hi-tech products The export value of **electrical appliances**, namely televisions, radios, refrigerators and equipment, rose, and so did the export value of **telecommunication equipment**. Even though the export value of **computers and parts** as well as **integrated circuits and parts** declined from the previous year, signs of improvement were observed in 2002 H2. Meanwhile, the export value of **base metal products** increased, in particular iron and steel export to the US, Taiwan and China. The export value of **vehicles and parts** also rose, with the Australian and ASEAN markets capturing increasing export shares. In addition, the export value of **plastic products** grew in line with an increase in the price of oil, which was used as a raw material for production, coupled with higher demand from China brought about by a reduction in its tariffs on imported plastic products. At the same time, the export value of **chemical products** rose in response to higher external demand following a recovery in trading partners' economies that also brought about an increase in export price.

Labour-intensive products The export value of **garments**, especially to the US (accounting for more than 50 percent) and the EU, declined due to keen competition against cheap and low-quality products from China and Indonesia. In addition, the export value of **footwear** continued to fall as a result of competition from China, which possessed a cost advantage. However, the export value of **precious stones and jewellery** grew, despite a decline in

export to the US market, because there was an expansion of sales to the Middle East market.

Domestic resource-based products

Despite an expansion in export volume, the export value of **canned seafood** fell as a result of lower export price in line with a decline in raw material prices. The export value of **furniture and parts**, especially to the US, rose as consumers abroad switched to buy cheaper imported products. Meanwhile, the export volume of **sugar** continued to grow with increased domestic supply while Russia also expedited import before the imposition of tariff on imported sugar starting 1 July 2002. Nevertheless, a fall in the export price of sugar due to large supply from Brazil coupled with the depreciation of the real caused the overall export value of sugar to decline from the previous year. The export value of **rubber products** rose, however, due to an increase in external demand for pneumatic tyre cases in line with an expansion of the automobile industry. The export value of **canned pineapple** also rose primarily from the price factor as supply continued to be limited due to shortage of raw materials.

Imports For the entire year, total import value rose by 4.6 percent in tandem with an increase in import volume as both domestic demand and exports recovered. Import prices fell on the whole, however, despite some recovery in 2002 Q4.

Consumer goods The import value of durable goods, most notably electrical appliances and household goods, rose while the import value of non-durable products edged up only slightly in the categories of food and beverages, toilet and cleaning articles, clothing and footwear, and medicinal and pharmaceutical products.

Intermediate products and raw materials

The import value of **computers** expanded in line with an increase in demand for electronic media in both the public and private sectors. However, the import value of **computer parts** fell as the export of computers declined. Meanwhile, the import value of **integrated circuits and parts** showed an expanding trend along with rising IT-related exports. The import value of **jewellery** also rose as more raw materials were brought in due to a shortage of domestic supply. The import value of **iron and steel** increased in tandem with high demand from the construction and automobile industries.

Capital goods. The import volume of **non-electrical machinery and parts**, especially those used in the automobile, construction, paper and metal industries, as well as office machines, showed a favourable upward trend in 2002 H2. At the same time, the import volume of **electrical machinery and parts**, which were used mainly by the electronics industry, also rose.

Vehicles and parts. The import value of vehicles and parts, especially chassis and bodies, increased in line with rising exports and domestic demand.

Crude oil. The import volume of crude oil continued to grow while the average import price fell from 23 US dollars per barrel in 2001 to 22 US dollars per barrel in 2002. However, the import price of crude oil has exhibited an upward trend since the beginning of 2003 with rising concerns over the possible war between the US and Iraq and internal political problems in Venezuela (the world's fifth largest oil producer).

Trade balance and current account. The trade balance registered a surplus of US\$3.4 billion in 2002, up from the previous year as exports expanded faster than imports. The services, income and transfers account posed a surplus of US\$4.2 billion (somewhat higher than a surplus of US\$3.7 billion in 2001) as revenue from tourism rose strongly while interest payment from both the private and public sectors declined in tandem with a gradual reduction in the external debt stock and falling world interest rates. As a result, the current account recorded a surplus of US\$7.6 billion, up from a surplus of US\$6.2 billion in 2001.

Capital and Financial Account. Net capital movements registered a preliminary deficit of US\$4.7 billion in 2002, improving from a deficit of US\$5.1 billion in the previous year as there were large capital inflows through the BOT, part of which was set aside for the repayment of the IMF loan package, and the banking sector as commercial banks reduced their foreign asset holdings.

Capital flows of the private sector. Private capital flows recorded a deficit of US\$6.2 billion, which was higher than in the previous year by approximately 50 percent. This was caused by a deficit of US\$8.2 billion in *the non-bank private sector*, owing mainly to a significant increase in the outflow of funds through non-resident bank accounts while the inflow of foreign direct investment fell to only US\$0.6 billion this year. At the same time, external debt repayment of the non-bank sector amounted to US\$2.8 billion which was comparable to the level seen in the previous year. On the other hand, *the banking sector* switched from registering a deficit to posing a surplus of US\$2.0 billion as a

result of increasing exporters' confidence in the baht, which subsequently led them to accelerate forward sales of foreign currencies. With a decline in their net outstanding forward obligations (oversold), commercial banks reduced their foreign asset holdings. Moreover, they invested more in short-term government securities that were issued abroad, especially the Euro Commercial Papers (ECPs). Meanwhile, external debt repayment by the banking sector (commercial banks and BIBFs) declined slightly from the previous year.

Capital flows of the public sector (including the BOT). The BOT registered a surplus of US\$4 billion in 2002, compared to a deficit of US\$0.4 billion in 2001. This reversal came as a result of large capital inflows through the BOT, some of which was set aside for the repayment of the IMF loan package that amounted to US\$3.8 billion in 2002. On the other hand, the government sector's deficit widened to US\$2.5 billion as both the

government and state enterprises restructured their external debt obligations, the result of which was a total repayment of US\$3.7 billion, including both the on-schedule and prepaid portions. A number of government projects were also refinanced, with some of them done through the issuance of short-term debt securities (ECP) abroad. In addition, there was a redemption of Yankee bonds as well as a repurchase of government bonds from overseas secondary markets.

Balance of payments A large current account surplus coupled with a smaller deficit in the capital account (compared to last year) resulted in a balance of payments surplus of US\$4.2 billion, up from a surplus of US\$1.3 billion in 2001. Therefore, year-end international reserves rose to US\$38.9 billion, equivalent to 7.4 months of imports. Net outstanding forward obligations of the BOT stood at US\$0.5 billion.

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Balance of Payments

(Unit : Million US\$)	2001			2002		
	Year	H1	H2	Year ^{1/}	H1 ^{1/}	H2 ^{1/}
Exports, f.o.b.	63,190	31,654	31,536	66,886	31,178	35,708
Δ%	-6.9	-1.0	-12.2	5.8	-1.5	13.2
Imports, c.i.f.	60,665	31,182	29,483	63,433	29,865	33,568
Δ%	-2.8	7.2	-11.5	4.6	-4.2	13.9
Trade Balance	2,525	472	2,053	3,453	1,313	2,140
Services, Income and Transfers	3,711	1,932	1,779	4,178	1,438	2,740
Current Account Balance	6,236	2,404	3,832	7,631	2,751	4,880
Capital Movements (net)	-5,084	-3,040	-2,044	-4,688	-721	-3,967
Private Sector	-4,128	-2,049	-2,079	-6,187	-3,482	-2,705
- Bank	-2,052	-2,227	175	1,986	1,006	980
Commercial Bank	-756	-1,826	1,070	3,410	1,354	2,056
BIBF	-1,296	-401	-895	-1,424	-348	-1,076
- Non-bank	-2,076	178	-2,254	-8,173	-4,488	-3,685
Public Sector	-567	-64	-503	-2,533	-590	-1,943
Bank of Thailand	-389	-927	538	4,032	3,351	681
Errors and Omissions	165	404	-239	1,291	750	541
Overall Balance^{2/}	1,317	-232	1,549	4,234	2,780	1,454

Note: ^{1/} Preliminary data

^{2/} Actual data

Δ% represents percentage change from the same period last year.

Source: 1. Customs Department

2. Bank of Thailand

211 External Debt

The stock of external debt declined as a result of debt repayment by the non-bank private sector and the BOT.

- Compared to end-November 2002

Total external debt as of end-December 2002 stood at US\$59.2 billion, declining by US\$0.4 billion from end-November 2002. The fall in external debt was a result of debt repayment, amounting to US\$0.9 billion, primarily from the non-bank private sector and the BOT. However, an appreciation of the yen led to a valuation change in the existing stock of debt. Thus, the stock of external debt in US dollar terms was reduced by only US\$0.4 billion.

External debt of the private sector: In December 2002, external debt repayment by the private sector amounted to US\$0.4 billion. Although external debt rose by US\$0.2 billion in the **banking sector** due to an inflow of short-term loans to enhance liquidity around the end of the accounting period, **non-bank external debt** declined by US\$0.6 billion with a repayment of

trade credits as well as a repayment of debt falling due of the non-bank lending business.

External debt of the public sector (including the BOT). In December 2002, external debt of the public sector was at a level comparable to the previous month. While government external debt increased by US\$0.4 billion due to a disbursement of USEXIM loans by state enterprises, part of which was used for the redemption of short-term external debt securities (ECP), the BOT made an external debt repayment of US\$0.4 billion for the IMF loan package. As a result, the overall external debt stock of the public sector remained unchanged.

- Compared to end-2001

The overall external debt stock fell by US\$8.2 billion in 2002, as both private and public sector debt declined.

External debt of the private sector: Debt repayment of the private sector amounted to US\$4.6 billion. However, due to a substantial appreciation of the yen over this year and hence an upward revaluation of yen-denominated debt, the stock of external debt in US dollar terms fell by only US\$3.4 billion. Most of the debt repayment was for long-term loans between unaffiliated agencies and long-term debt instruments issued by non-bank businesses. As for short-term debt repayment by the private sector, most of it was a repayment of short-term loans in the banking sector by both commercial banks and BIBFs. However, short-term debt, especially in the form of trade credits, rose.

External debt of the public sector (including the BOT). Debt repayment of the public sector amounted to US\$6.3 billion. However, the stock of external debt declined by only US\$4.8 billion due to the effect of valuation change. The BOT repaid US\$3.8

External Debt Outstanding						
Unit: Million US\$	2000	2001	2002		Dec-02 Compared to Nov-02	Dec-02 Compared to Dec-01
			Nov	Dec		
1. Public Sector	33913	28308	23451	23436	15	-482
1.1 BOT (Long-term)	12019	8325	5288	4902	-386	-3423
1.2 Govt and State Enterprises	21894	19983	18163	18534	41	-1419
Long-term	21888	19836	17421	17927	506	-1909
Short-term	26	147	742	637	-105	490
2. Private Sector	45802	30213	36174	35786	-388	-3417
Long-term	31134	25961	22789	22669	-120	-3222
Short-term	14668	13242	13385	13117	-268	-125
2.1 Banks	12157	9354	7883	8133	250	-1221
Long-term	6731	4334	3941	3897	-44	-437
Short-term	5426	5020	3942	4236	294	-784
2.1.1 Commercial Banks	3921	3222	2670	2996	286	-306
Long-term	2580	1765	1478	1497	19	-268
Short-term	1341	1497	1192	1439	267	-38
2.1.2 BIBFs	8236	6032	5213	5177	-36	-915
Long-term	4151	2569	2463	2400	-63	-169
Short-term	4085	3523	2750	2777	27	-746
2.2 Non-Banks	33645	29849	28291	27683	-688	-2196
Long-term	24403	21627	18848	18772	-76	-2855
Short-term	9242	8222	9443	8881	-562	659
Total Debt (1+2)	79715	67511	59625	59222	-373	-8299
Long-term	65021	54122	45498	45498	0	-8624
Short-term	14694	13389	14127	13754	-373	365
Share(%)	1000	1000	1000	1000		
Long-term	81.6	80.2	76.3	76.8		
Short-term	18.4	19.8	23.7	23.2		
Share(%)	1000	1000	1000	1000		
Private	57.5	58.1	60.7	60.4		
Public	42.5	41.9	39.3	39.6		

billion for its IMF loan package, and the government sector made a repayment for its long-term debt securities, an early repayment for its Structural Adjustment Loans (SAL), and both on-schedule and early repayment for other project loans, all of which amounted to US\$4.2 billion. Of that total, US\$1.2 billion was refinanced by the issuance of ECP, part of which was subsequently brought back by domestic commercial banks and hence pushing up external short-term debt by only US\$0.5 billion.

External debt structure The ratio of long-term to short-term debt at end-December 2002 was 77:23,

comparable to the ratio observed in November 2002. However, the ratio had changed somewhat from 80:20 at end-2001, owing mainly to the issuance of ECP by the government to refinance long-term loans, the issuance of short-term debt instruments by the non-bank private sector, and the increase in trade credits received in line with rising imports. The ratio of private to public debt stood at 60:40.

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Tel. 0 2283 5636

2.12 Fiscal Conditions

According to the Budget Act B.E. 2545 (2002), net revenue of the government was estimated at B823 billion while government expenditure was budgeted at B1,023 billion, resulting in an estimated budget deficit of B200 billion for the fiscal year. However, as the government was able to collect more revenue than originally anticipated, the budget deficit forecast was subsequently revised to B170 billion.

Government revenue, especially tax revenue, expanded well throughout the year. On the other hand, even though government expenditure accelerated in the first half of the fiscal year due to the government's effort to speed up disbursement, it began to slow down in the latter half. For the entire fiscal year, the government recorded a cash deficit of B118.7 billion, equivalent to 2.2 percent of GDP.

For fiscal year 2003 (FY 2003), economic growth was originally projected to continue with the private sector likely to serve as the main thrust of growth while the role of the government was expected to diminish by means of a gradual reduction in the fiscal deficit so as to maintain fiscal discipline and sustainability in the medium term. The government thus set the budget expenditure at B999.9 billion. With a revenue projection of B825 billion according to the Budget Act B.E. 2546 (2003), the budget deficit in FY 2003 was originally projected at B174.9 billion.

Thus far, however, the economy has recovered better than expected, so the government has revised its revenue projection upward to B867.4 billion. This leads to a fall in the budget deficit forecast to B132.5 billion, which is expected to be around 2.3 percent of GDP.

In FY 2003 Q1, government revenue continued to expand well while government expenditure decelerated.

As a result, the government registered a cash deficit of B31 billion, which was smaller than the deficit seen in FY 2002 Q1.

Fiscal Position

Government Revenue

In FY 2002, revenue remitted to the treasury account totalled B845.4 billion, up by 10.5 percent from the previous fiscal year. Tax revenue expanded considerably throughout the year, but non-tax revenue slowed down towards the end of the fiscal year following an acceleration in revenue remittance by state enterprises around the middle of the fiscal year.

Total tax revenue amounted to B758 billion, up by 10.7 percent from the previous year due to an increase in almost all types of consumption-based, income-based, and international trade-based tax collection. This owed in part to the continued recovery of the economy and in part to better tax administration as well as an expansion of the tax bases. For the entire fiscal year, revenue from excise taxes rose by 17.4 percent, mostly as a result of higher revenue collected from the production of alcoholic beverages, vehicles and motorcycles, and petroleum and petroleum products. Corporate income taxes rose by 12.6 percent in tandem with better corporate performance and the economic recovery at large. Meanwhile, the value added tax (VAT) rose by 8.8 percent in line with more purchases of goods and services. Personal income taxes rose by 6.4 percent on the whole, due mainly to an increase in wages and salaries as the labour market conditions improved. Tax on interest income continued to decline, however, owing to falling interest rates. Import duties rose by 5.1 percent in line with rising import value since FY 2002 Q3.

Non-tax revenue equalled B87.4 billion, rising by 8.1 percent in FY 2002. Of this amount, revenue remitted

by state enterprises accounted for B48.5 billion, including B10 billion from PTT Public Company Limited, B8.3 billion from TOT Corporation Public Company Limited, B7.5 billion from the Electricity Generating Authority of Thailand, B4.6 from the Communications Authority of Thailand, B3.9 billion from the Airports Authority of Thailand, and B3.4 billion from the Tourism Authority of Thailand.

During this fiscal year, the government transferred part of its VAT revenue to local administrative authorities in keeping with the government's decentralisation policy. The amount transferred totalled B16.5 billion.

Net government revenue collection (including VAT transferred to local administrative authorities) amounted to B869 billion in FY 2002, exceeding the target stated in the Budget Act by as much as B46 billion. While tax revenue was higher than its target by B40 billion, non-tax revenue was higher than its target by B6 billion.

In FY 2003 Q1, government revenue continued to rise, owing partly to the economic recovery. Revenue remitted to the government equalled B204.8 billion, up by 18.2 percent from the same period last fiscal year. Of that total, tax revenue accounted for B186.9 billion, expanding by 17.3 percent year-on-year, and non-tax revenue accounted for B17.9 billion, up by 27.9 percent year-on-year.

Major sources of tax revenue which expanded favourably in this quarter were corporate income taxes, VAT, excise taxes, and import duties. While the rise in corporate income taxes was attributable to better business performance, an upward trend in consumption led to a higher collection of VAT. Meanwhile, excise taxes grew in line with more tax collection on vehicles and alcoholic beverages, and import duties continued to rise with imports. Non-tax revenue also accelerated towards the end of this quarter as there were major remittances from state enterprises, including a remittance of B6.8 billion by TOT Corporation Public Company Limited.

Net revenue collection in this quarter was B193 billion, exceeding the target stated in the Budget Act by B18 billion. Tax revenue and non-tax revenue exceeded their targets by B16 billion and B2 billion, respectively.

Government Expenditure

In FY 2002 H1, government expenditure accelerated significantly due to measures to speed up budget disbursement. The increase in disbursement was first seen in current expenditure during FY 2002 Q1, followed by that of capital expenditure in FY 2002 Q2. As a result, government expenditure grew by 14.5 and 27.0 percent year-on-year in FY 2002 Q1 and Q2, respectively. In FY 2002 Q3, however, government spending began to slow down, expanding by just 0.5 percent year-on-year. Spending was sped up once again towards the end of the fiscal year, and hence government expenditure grew by 3.2 percent year-on-year in FY 2002 Q4. The budget disbursement rate for the entire fiscal year was 89.2 percent, up from 88.4 percent in the previous fiscal year.

For FY 2002 as a whole, total government expenditure amounted to B972.2 billion, up by 11.0 percent from the previous fiscal year. Of this amount, current expenditure accounted for B761.6 billion, expanding by 11.3 percent year-on-year, while capital expenditure accounted for B210.6 billion, up by 9.8 percent year-on-year.

In FY 2003 Q1, government expenditure was equal to B240.2 billion, falling by 6.6 percent year-on-year in part because the recently implemented public sector reform delayed the budget disbursement process of some governmental offices. At the same time, there was a delay in the disbursement of some items compared to the previous fiscal year. Nevertheless, budget disbursement accelerated slightly towards the end of this quarter, raising the quarterly disbursement rate to 21.9 percent, but even so it remained lower than the disbursement rate of 22.2 percent in FY 2002 Q1. Going forward, as the government continues to implement measures to speed up disbursement

as in FY 2002, it is believed that the disbursement rate will accelerate in the remaining period of the fiscal year.

Major expenditure items in FY 2003 Q1 were as follows: B11.9 billion to the Education Loan Fund, B6.9 billion to the Universal Health Care Project, B3.9 billion to the State Railway of Thailand for the construction of parallel rail tracks, B3 billion to the Fund for Farmers Assistance, B2.8 billion as interest expenses for the farmers' debt suspension scheme, and B2.5 billion to the Government Pension Fund as a reserve fund.

Government Financing

In FY 2002, the government recorded a cash deficit of B118.7 billion, which was equivalent to 2.2 percent of GDP. The government financed the budget deficit with a net domestic borrowing of B161 billion. With a foreign loan repayment of B31.9 billion, the treasury reserves rose by B10.4 billion, resulting in a fiscal year-end outstanding balance of B82.8 billion.

Compared to the financing target set in the Budget Act B.E. 2545 (2002), government borrowing of B170 billion was below target by B30 billion as a result of better-than-expected revenue outturn. Of the government securities issued during this fiscal year, B85 billion was in the form of government bonds, B25 was in the form of promissory notes, and B60 billion was in the form of treasury bills.

During FY 2003 Q1, the government financed its cash deficit of B31 billion with a net borrowing of B10.6 billion from the domestic market and using another B23.4 billion from the treasury reserves. Meanwhile, the government repaid its foreign debt by B3 billion. This reduced the outstanding balance of the treasury reserves to B59.4 billion at the end of the quarter.

State Enterprises

In FY 2002, net operating profits of state enterprises amounted to B102.3 billion, up by 22.8 percent from the previous fiscal year partly as a result of the decline in operating costs coupled with higher net foreign exchange gains. However, retained income of state enterprises amounted to B158.5 billion, down by 5.8 percent from the previous fiscal year due in part to the absence of income from share premiums coupled with falling revenue from asset sales.

State enterprises disbursed B118.5 billion of capital expenditure during this fiscal year. The amount was equivalent to only 73.3 percent of the disbursement target and fell by 22.2 percent from the previous fiscal year's level. This resulted from changes in the equipment procurement procedures of some state enterprises as well as from delays in large projects such as the construction of Suvarnabhumi Airport and Bor Nok and Baan Hin Krud power plants.

For the entire fiscal year, state enterprises recorded an altogether surplus of B40 billion, which was equivalent to 0.8 percent of GDP.

Public Debt

At the end of FY 2002, total public debt stood at B2,934.9 billion or 55.1 percent of GDP, compared with B2,931.7 billion or 57.6 percent of GDP at the end of FY 2001.

Public debt in the form of direct government borrowing amounted to B1,670.5 billion or 31.4 percent of GDP. Debt of non-financial state enterprises, both government-guaranteed and non-guaranteed, totalled B907.1 billion or 17.0 percent of GDP. Debt outstanding of the Financial Institutions Development Fund (FIDF) amounted to B357.3 billion or 6.7 percent of GDP.

Treasury Account Position (Unit: Billion baht)					
	<i>Fiscal Year</i>				
	2002	2003			
		Oct	Nov	Dec	Q1
Revenue	845.4	63.9	65.1	75.8	204.8
(% Δ)	(10.5)	(15.2)	(8.5)	(31.1)	(18.2)
Expenditure	972.2	86.8	79.3	74.1	240.2
(% Δ)	(11.0)	(-14.8)	(-3.3)	(1.3)	(-6.6)
Budgetary Deficit (-) or Surplus (+)	-126.8	-22.9	-14.2	1.7	-35.4
Non-budgetary Deficit (-) or Surplus (+)	81	100	-3.2	-2.4	4.4
Cash Deficit (-) or Surplus (+)	-118.7	-12.9	-17.4	-0.7	-31.0
(% of GDP)	(-2.2)				
Disbursement Rate (%) (Excluding Principal Repayment)	89.2	7.8	7.3	6.8	21.9
Financing					
Net Domestic Borrowing	161.0	-18.2	14.6	14.1	10.6
Net Foreign Borrowing	-31.9	-0.3	-1.4	-1.2	-3.0
Use of Treasury Cash Balance (+)	-10.4	31.4	4.2	-12.2	23.4
Treasury Cash Balance (end-period)	82.8	51.4	47.2	59.4	59.4

Note: Δ % represents percentage change from the same period last year

Source: Comptroller-General's Department, Ministry of Finance

Data Management Group, Bank of Thailand

Government Revenue (Unit: Billion baht)					
	<i>Fiscal Year</i>				
	2002	2003			
		Oct	Nov	Dec	Q1
Total Revenue	845.4	63.9	65.1	75.8	204.8
(% Δ)	(10.5)	(15.2)	(8.5)	(31.1)	(18.2)
Tax Revenue	758.0	59.3	62.3	65.3	186.9
(% Δ)	(10.7)	(16.2)	(10.0)	(26.4)	(17.3)
- Income base	279.3	14.7	13.9	18.9	47.5
(% Δ)	(10.2)	(29.4)	(-7.9)	(31.6)	(16.4)
Personal income tax	103.2	7.9	8.0	8.1	24.0
(% Δ)	(6.4)	(7.8)	(5.0)	(10.4)	(7.7)
Corporate income tax	157.2	6.8	5.9	10.8	23.5
(% Δ)	(12.6)	(80.0)	(-20.9)	(53.8)	(28.5)
- Consumption base	362.3	35.4	35.4	37.1	108.0
(% Δ)	(13.5)	(13.8)	(18.8)	(25.3)	(19.2)
Value added tax	138.7	14.7	14.2	16.1	45.0
(% Δ)	(8.8)	(19.3)	(23.1)	(27.5)	(23.3)
Excise tax	210.0	19.5	20.2	20.1	59.8
(% Δ)	(17.4)	(11.3)	(19.1)	(26.3)	(18.7)
- International trade base	95.1	8.6	9.5	8.9	27.0
(% Δ)	(5.2)	(5.3)	(13.8)	(21.8)	(13.3)
Other Revenue	87.4	4.6	2.8	10.5	17.9
(% Δ)	(8.1)	(4.4)	(-17.9)	(70.0)	(27.9)

Note: Δ % represents percentage change from the same period last year

Source: Comptroller-General's Department, Ministry of Finance

Data Management Group, Bank of Thailand

Government Expenditure by Economic Classification		
(Unit: Billion baht)		
<i>Fiscal Year</i>		
	2002	2003
		Oct
Total Expenditure	972.2	86.8
(% Δ)	(11.0)	(-14.8)
Current Expenditure	761.6	77.0
(% Δ)	(11.3)	(-15.1)
- Wages and salaries	323.9	31.0
(% Δ)	(2.4)	(20.9)
- Purchases of goods and services	174.9	7.6
(% Δ)	(8.3)	(-7.5)
- Interest payments	68.2	7.6
(% Δ)	(7.1)	(-4.6)
- Subsidies and transfers	194.6	30.9
(% Δ)	(36.3)	(-36.9)
Capital Expenditure	210.6	9.7
(% Δ)	(9.8)	(-13.0)
- Acquisition of fixed capital assets	139.0	9.3
(% Δ)	(-10.5)	(-20.6)
- Capital transfers	71.4	0.4
(% Δ)	(98.5)	(-80.5)
- Lending and purchases of share and financial assets	0.1	0.0
(% Δ)	(-80.4)	(-100.0)

Note: Δ% represents percentage change from the same period last year

Source: Comptroller-General's Department, Ministry of Finance

Data Management Group, Bank of Thailand

State Enterprise Balance			
(Unit: Billion Baht)			
<i>Fiscal Year</i>			
	2000	2001	2002
Retained Income	122.7	168.3	158.5
(% Δ)	(37.4)	(37.2)	(-5.8)
Capital Expenditure	171.3	152.3	118.5
(% Δ)	(-2.4)	(-11.1)	(-22.2)
State Enterprise Balance	-48.6	16.0	40.0
(% of GDP)	(-1.0)	(0.3)	(0.8)

Note: Δ% represents percentage change from the same period last year

Source: Office of the National Economic and Social Development Board

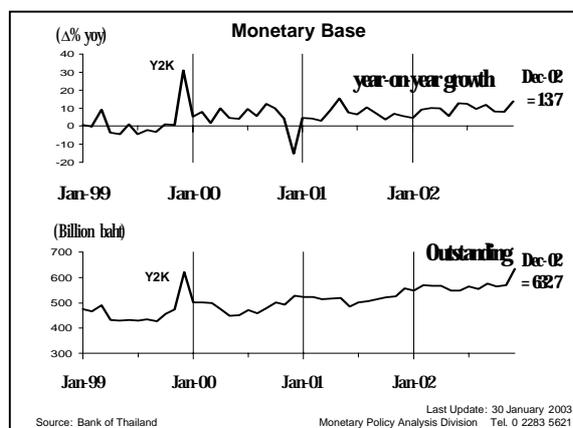
Public Debt Position			
(Unit: Billion Baht)			
<i>Fiscal Year</i>			
	2000	2001	2002
1. Government's direct debt	1,113.9	1,263.7	1,670.5
(% of GDP)	(22.8)	(24.8)	(31.4)
1.1 Foreign debt	395.2	449.6	409.6
1.2 Domestic debt	718.7	814.1	1,261.0
2. State enterprise debt	908.9	970.5	907.1
(% of GDP)	(18.6)	(19.1)	(17.0)
2.1 With government guarantee	775.6	796.4	772.0
Foreign debt	422.6	384.8	351.4
Domestic debt	353.0	411.6	420.6
2.2 Without government guarantee	133.3	174.1	135.2
Foreign debt	48.5	74.9	63.2
Domestic debt	84.8	99.2	71.9
3. FIDF debt	781.4	697.5	357.3
(% of GDP)	(16.0)	(13.7)	(6.7)
3.1 With government guarantee	0.0	112.0	112.0
3.2 Without government guarantee	781.4	585.5	245.3
4. Total (1+2+3)	2,804.3	2,931.7	2,934.9
(% of GDP)	(57.3)	(57.6)	(55.1)

Source: Public Debt Management Office, Ministry of Finance

213 Monetary Conditions

1. Monetary Base and Money Supply

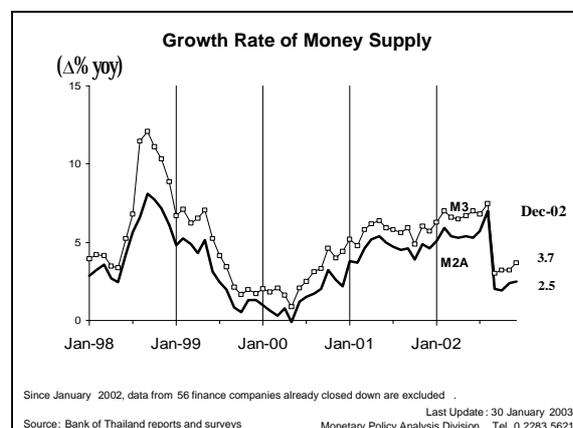
- Both the monetary base and money supply continued to expand.



In 2002, the **monetary base** expanded in line with the economic recovery, rising by 13.7 percent year-on-year from B 556.3 billion at end-2001 to B 632.7 billion at end-2002.

Supply-side factors which affected the growth of monetary base were as follows: (1) a continued increase in net foreign assets of the public sector, despite foreign debt repayments by both the public and private sectors over the year, due to foreign exchange acquisition of the authority; (2) a decline in net claims on the government compared to the previous year due to a lower-than-expected government cash deficit; (3) a reduction in BOT borrowing through the repurchase market between September and December 2002, in order to facilitate liquidity adjustment following the settlement period of the government saving bonds issued to fiscalise FIDF losses.

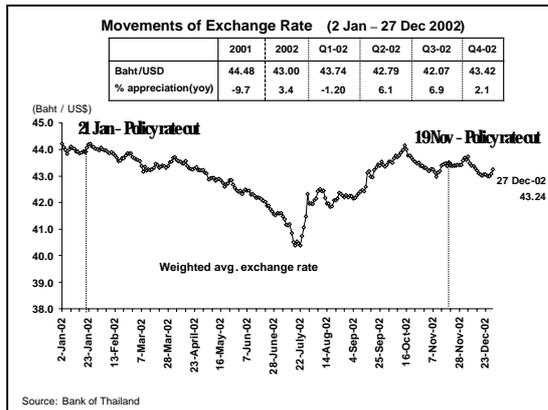
For the entire year, M2A and M3 expanded moderately by 2.5 and 3.7 percent, respectively. These expansion rates were lower than the expansion rate of the monetary base and were consistent with a low inflation environment. During the first 8 months of the year, M2A and M3 grew by 5.6 and 6.8 percent year-on-year, respectively, due to an increase in deposits at commercial banks and finance companies. However, during the last 4 months of the year, M2A and M3 grew by only 2.2 and 3.3 percent year-on-year, respectively, as private deposits were withdrawn to purchase government saving bonds.



2 Exchange Rate, Interest Rates, and Government Bond Yields

- The baht appreciated during 2002 H1 before weakening in 2002 H2 as a result of external factors.
- Short-term money market rates remained low as liquidity continued to be high.
- Government bond yields declined over the year.

21 Exchange Rate



In 2002, the baht (reference rate) fluctuated within the range of 40.38 - 44.21 baht per US dollar, averaging at 43.00 baht per US dollar which was equivalent to a 3.3 percent appreciation from the previous year. Throughout the first half of this year, the baht strengthened vis-à-vis the US dollar, but it subsequently depreciated against the US dollar in the latter half of the year while gaining more stability.

The appreciation of the baht in 2002 H1 was supported mainly by external factors, most importantly an appreciation of the yen against the US dollar in line with higher uncertainties in the US economic recovery and deteriorating investors' confidence from accounting scandals in the US. Meanwhile, a number of domestic

factors also helped to raise confidence in the baht, namely, a higher-than-expected GDP growth rate, a strong rebound in domestic demand, and capital inflows into the Thai stock market.

In 2002 H2, the baht started to depreciate continuously after reaching to strongest reference rate of 40.38 baht per US dollar in July 2002. Major external factors underlying the weakening of the baht included the following: (1) sales of Asian equities by US funds to make up for losses incurred in the US stock market; (2) uncertainties associated with rising political tensions in the Middle East; (3) a depreciation of the yen, and (4) a slowdown of regional stock markets. At the same time, domestic factors such as an increase in demand for forward contracts by non-residents to hedge against exchange rate risks and a repayment of foreign debt by the government which continued throughout 2002 H2 added downward pressure on the baht. As a result, the baht reference rate weakened to 44.15 baht per US dollar in October 2002.

Nevertheless, the baht became more stable during the last 2 months of the year and was once again on a strengthening trend as uncertainties in the US economic recovery mounted while the Thai economy looked to improve.

2.2 Short-term Interest Rates

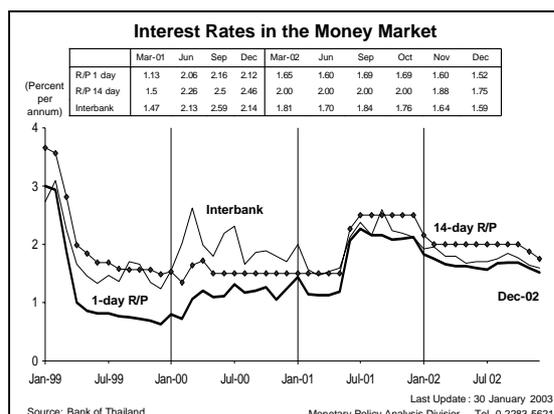
In 2002 H1, short-term money market rates continued to fall as liquidity remained high in the financial market. At the same time, a reduction in the policy rate by 0.25 percent per annum in late January 2002 added downward pressure on money market rates, pushing the average overnight interbank rate down from 2.19 percent per annum in 2001 Q4 to 1.89 and 1.72 percent per annum in 2002 Q1 and Q2, respectively. The 1-day repurchase rate also fell, averaging at 1.74 and 1.62 percent per annum in 2002 Q1 and Q2, respectively.

In 2002 Q3, the overnight interbank rate and the 1-day repurchase rate continued to stay low,

averaging at 1.77 and 1.64 percent per annum, respectively. In particular, liquidity preparation by commercial banks since August 2002, in anticipation of the settlement of government saving bonds around early September 2002, led to a significant decline in short-term money market rates. After this temporary event, however, money market interest rates resumed their previous trends.

A reduction in the federal funds rate coupled with domestic market perception that there was room to ease monetary policy further added downward pressure on both money market interest rates and the policy rate in 2002 Q4. Therefore, when the policy rate was reduced as expected, money market interest rates adjusted downward in line with the policy signal.

Towards the end of the year, liquidity tightened somewhat as commercial banks prepared for funds withdrawal before the New Year. The BOT thus injected liquidity into the system through the repurchase market to help alleviate such upward pressure on money market rates. For the entire quarter, the overnight interbank rate and the 1-day repurchase rate averaged at 1.67 and 1.61 percent per annum, respectively.



23 Government Bond Yields

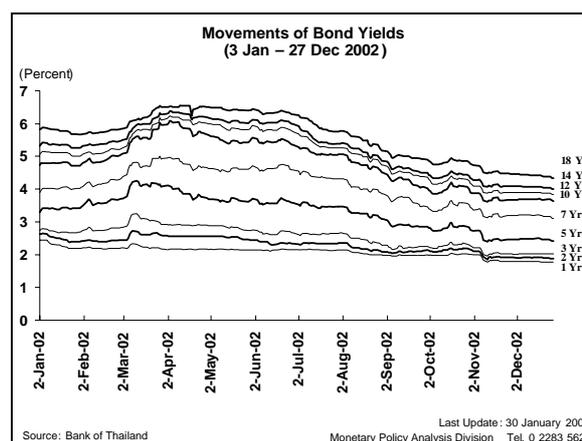
During the first 4 months of 2002, government bond yields continued to decline from the end of 2001 in tandem with falling interest rate expectations. Nevertheless, bond yields fluctuated at times in response to profit realisation by financial institutions.

In May 2002, large fluctuations in government bond yields were observed as a result of uncertainties in the resolution plan for FIDF losses. Once a comprehensive resolution plan was announced in June and investors realised that the supply of bonds in the secondary market would not be affected by the plan, however, bond trading volume rose, in particular that of bonds with 5 to 10-year maturities, and yields declined across all maturities. The yield curve as a whole was flattened.

In 2002 Q3, government bond yields in the secondary market declined further from 2 main factors: (1) a downward trend in US bond yields, and (2) low supply of government bonds relative to demand from interbank dealers and end-investors who preferred long-term investment.

In 2002 Q4, government bond yields continued to decline in response to the following

factors: (1) an announcement of government bond supply for FY 2003 which was considered low relative to demand for investment; (2) a reduction in commercial banks' deposit and lending rates at the beginning of the quarter; and (3) market anticipation of a domestic policy rate cut in line with a reduction in the federal funds rate. Subsequently, when the MPC decided to lower the policy rate by 0.25 percent per annum following a 0.50 percent reduction in the federal funds rate, government bond yields in the second market also edged down. Towards the end of the year, however, bond trading volume declined as usual as investors slowed down their trading activities.



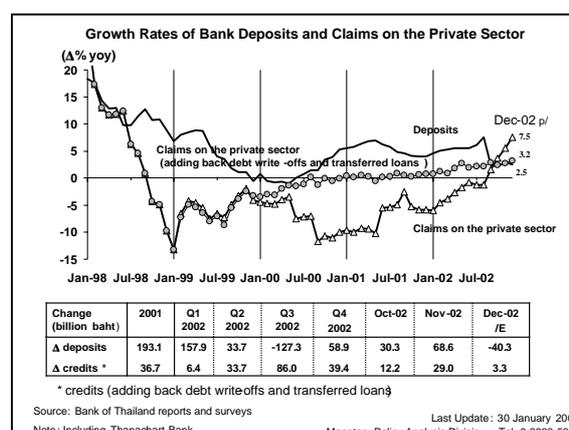
3 Commercial Bank Deposits and Private Credits (Including Investment in Private Securities)

- Deposits expanded since the beginning of 2002, but its growth rate later moderated due to a withdrawal of funds to purchase government saving bonds.
- Private credits (including investment in private securities) showed signs of improvement.
- Commercial banks reduced their deposit and lending rates over the year.

31 Commercial bank deposits grew in line with the overall economic expansion since the beginning of 2002. In addition, the status change of a group of finance and credit fornicier companies to Thanachart Bank contributed to the growth of deposits at commercial banks, while the redemption of matured promissory notes of the 56 closed finance companies also resulted in cash being deposited back in the banking system. However, deposits moderated in the latter half of 2002 due to a withdrawal of funds for the purchases of government saving bonds. In December 2002, the year-on-year growth rate of deposits was 2.5 percent.

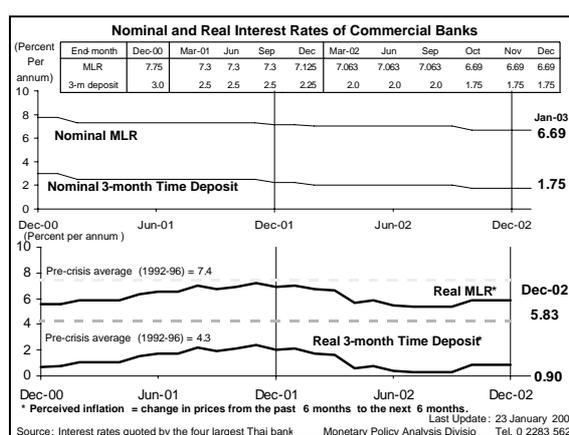
32 Private credits (including investment in private securities) showed signs of improvement in 2002, due in part to an improvement in private credits to major economic sectors in line with the strong economic recovery. At the same time, a change in the accounting practice regarding debt write-back also contributed to the growth of private credits. At end-December 2002, private credits rose by 7.5 percent year-on-year. As for private credits adding back debt write-offs and loans transferred to AMC's but excluding loans extended to AMC's, the outstanding amount at end-2002 grew by 3.2 percent year-on-year, having gradually improved from the beginning of the year.

Private credits became more broad-based in 2002. Credits for housing, personal consumption, and public utility, which altogether comprised about 18 percent of total credits, expanded quite well since the beginning of the year in line with buoyant private consumption. Meanwhile, more credits were channelled to major economic sectors such as manufacturing, commerce and trade, and hence these credit growth rates accelerated in 2002 Q4.



33 Commercial banks' interest rates were on a declining trend since the beginning of 2002, moving in line with liquidity conditions and policy rate signals. The 3-month fixed deposit rates of the four largest Thai commercial banks declined from the average of 2.25 percent per annum at end-2001 to 1.75 percent per annum at end-2002. At the same time, the minimum lending rates (MLR) of the four largest Thai commercial banks fell from the average of 7.125 percent per annum at end-2001 to 6.69 percent per annum at end-2002.

Real interest rates, both on the deposit and lending sides, declined as a result of falling nominal rates and rising inflation during the first three quarters of 2002, before edging up slightly in 2002 Q4. At end-December 2002, real MLR and real 3-month fixed deposit rates of the four largest Thai commercial banks averaged at 5.83 and 0.90 percent per annum, respectively.



4 Operating Profits of Commercial Banks

Business performance of commercial banks improved steadily during 2002, with profits (before loan loss provision) during the first nine months of the year rising from B31 billion in 2001 to B54.03 billion in 2002. Of that amount, operating profits of Thai commercial banks accounted for B42.31 billion, up from B15.03 billion during the same period last year. Higher profits came from higher net interest income due to falling interest expenses as well as from an increase in non-interest income, including fees, service charges and foreign exchange income. Moreover, non-interest expenses and loan loss provision declined.

Operating profits of foreign bank branches during the first nine months of the year fell from B15.96 billion in 2001 to B14.67 billion in 2002, however. This owed mainly to lower interest income and non-interest income while operating expenses edged up.

Operating Results of the Banking Sector

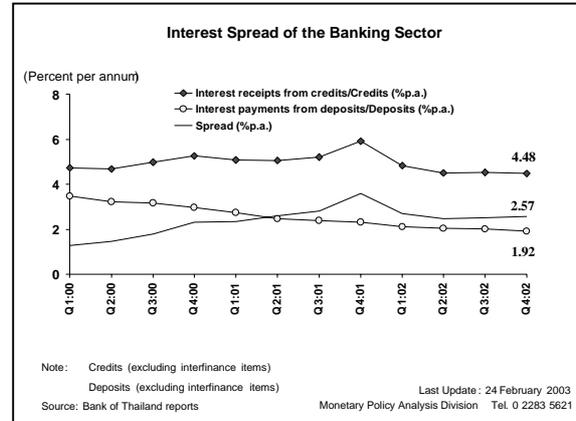
Unit: Billion baht	2001	2001 Q4-01	2002		
			Q1	Q2	Q3
Banking system					
Pre-provision profit	43.69	12.12	19.06	16.90	18.07
Loan loss provision	-55.30	-19.77	-5.47	-7.78	-7.18
Net profit/loss before tax	-11.60	-7.65	13.59	9.12	10.89
Thai Banks					
Pre-provision profit	22.72	7.11	15.26	12.52	14.53
Loan loss provision	-37.11	-7.91	-5.41	-9.52	-6.23
Net profit/loss before tax	-14.39	-0.80	9.85	3.00	8.30
Foreign Banks					
Pre-provision profit	20.97	5.01	3.79	4.39	3.54
Loan loss provision	-18.19	-11.86	-0.06	1.74	-0.95
Net profit/loss before tax	2.78	-6.85	3.73	6.13	2.59

Source: BOT report

The effective interest spread of commercial banks narrowed from 2.84 percent per annum in 2001 to 2.57 percent per annum in 2002. This came mainly from a large reduction in interest receipts of both Thai commercial banks and foreign bank branches.

The ratio of capital to risk assets averaged at 1410 percent during the first eleven months of this year,

up from 13.29 percent in 2001. The ratio which far exceeded the requirement of 8.5 percent reflected the soundness of commercial banks and helped raise confidence in the financial system.



Nonperforming loans (NPL) were reclassified in 2002, with the new and broader concept consisting of two parts: (1) existing NPL, and (2) uncollateralised doubtful loans which had been fully provisioned for. This represented a move towards internationally accepted standard for NPL calculation. According to the new definition, NPL as of end-June 2002 stood at B 843.313 billion, which was equivalent to 17.73 percent of outstanding loans.

As the BOT had yet to complete the modification of the NPL reporting system, new NPL figures were unavailable at the time when this report was written. The figures were expected to be released at end-January 2003. Under the old definition, however, NPL as of end-November 2002 stood at 10.01 percent of outstanding loans, staying comparable to 10.46 percent at end-2001.

Even though the new classification was likely to raise the ratio of NPL to outstanding loans upwards, it would not indicate a deterioration in the NPL problem as these assets had already existed in the system.

214 Capital Market Developments

Financing from the Non-bank Sector

In 2002, businesses and households had important sources of funds besides the banking system. They were as follows:

(1) The Stock Exchange of Thailand (SET) where businesses could issue ordinary and preferred shares and debentures throughout the year. During 2002, non-bank businesses which used this channel most actively were those in the construction material, communications, and real estate sectors, in particular Siam Cement, Telecom Asia, and Italian-Thai Development.

(2) Credits extended by specialised financial institutions During the first eleven months

of 2002, credits from specialised financial institutions rose by B93.8 billion, compared with B51.5 billion in 2001. This owed mainly to government initiated projects such as the People's Bank and credit extension by the Small Industrial Finance Corporation (SIFC).

(3) Leasing and hire-purchase credits from both listed and non-listed companies Leasing and hire-purchase credits for automobiles expanded at a particularly high rate in 2002.

Private Non-bank Financing Services

(Unit : Billion baht)

	2000	2001	2002 ^P
1. Finance Companies and Non-bank Credits^{1/}			
Finance companies	-59.4	20.0	-81.4
Specialised financial institutions	65.4	51.5	93.8
Leasing and factoring businesses			
Debtors of four listed companies			
Debtors of other companies	14.0	10.3	na
Companies that lend for consumption	2.9	4.3	5.5
2. Capital Market (Non-Financial Institutions)^{2/}	1570	1837	131.5
Equity (ordinary and preferred shares)	59.0	100.7	56.3
Domestic debt instruments	98.0	83.0	75.2
Total	1799	2008	1494

Note: 1/ Change in the outstanding balance from the end of last year

2/ Value of newly issued instruments (market value on the date of issue)

P Preliminary data

Developments in the Secondary Bond Market

In 2002, total trading volume was B2145.0 billion, up by 34.72 percent from 2001. The average daily trading volume also rose gradually from B6.9 billion in 2002 Q1 to B7.6, B9.7 and B10.7 billion in 2002 Q2, Q3 and Q4, respectively. The rise in the trading volume was supported by more supply of

both government bonds and corporate debentures as well as by expectations of falling interest rates from policy signals, trends observed in the banking system, and increasing political tension between the US and Iraq.

Business Financing Analysis Team
Tel. 0 2283 5641

Part 3 Important Policies and Measures

31 Monetary Measures**1. Implementation of Monetary Policy**

Meeting date	The MPC decision	Salient points
21 January 2002 ¹	Reduce the 14-day repurchase rate by 0.25 percent per annum from 2.25 to 2 percent per annum	Further easing in the monetary policy stance from late 2001 was meant to strengthen the ongoing economic recovery and to cushion against uncertainties in the global economy without creating inflationary pressure.
4 March 2002 ² 22 April 2002 3 June 2002 22 July 2002 10 September 2002 21 October 2002	Maintain the 14-day repurchase rate at 2 percent per annum	The Thai economy continued to improve, and the recovery became more broad-based. External stability remained strong. In addition, the previous reduction in the policy rate had been sufficient in signalling the monetary policy stance to the market, and commercial banks were expected to further reduce their interest rates.
19 November 2002 ³	Reduce the 14-day repurchase rate by 0.25 percent per annum from 2 to 1.75 percent per annum	External uncertainties became more apparent, especially with the ongoing fragility in the US economic recovery. Hence, the role of monetary policy in strengthening the domestic recovery should be increased.
12 December 2002 ⁴	Maintain the 14-day repurchase rate at 1.75 percent per annum	The Thai economy continued to expand without pressure on inflation and external stability. The degree of external uncertainties remained unchanged from the previous meeting.

¹ BOT News No. 1/2002 dated 21 January 2002

² BOT News No. 10/2002 dated 4 March 2002, BOT News No. 14/2002 dated 22 April 2002, BOT News No. 19/2002 dated 3 June 2002, BOT News No. 24/2002 dated 22 July 2002, BOT News No. 30/2002 dated 10 September 2002, BOT News No. 38/2002 dated 21 October 2002

³ BOT News No. 41/2002 dated 19 November 2002

⁴ BOT News No. 45/2002 dated 12 December 2002

2 Money Market Development

21 Approval for finance companies to borrow in the form of private repurchase transactions from institutional investors

The BOT, with the Minister of Finance's consent, gave approval for finance companies and finance and securities companies to borrow in the form of private repurchase transactions from institutional investors such as mutual funds and provident funds. The BOT's supervisory and regulatory policies on private repurchase transactions of financial institutions, dated 25 December 2001, were to continue to apply, as well as other related regulations and supervisory measures.

(Circular dated 21 January 2002 and the Ministry of Finance's announcement dated 28 December 2001, effective from 11 January 2002)

22 Appointment of financial institutions as primary dealers for outright bond transactions

The BOT appointed 10 financial institutions as primary dealers to act as counter-parties of the BOT in outright bond transactions. These primary dealers were required to actively participate in the primary market auction for government securities and to provide bid-ask yield quotation (two-way quotation) for benchmark bonds in the secondary market, starting 2 May 2002 onwards.

Outright primary dealers were also required to maintain certain proportion of successful auction of government securities in the primary market. Furthermore, they must act as agents in the submission of non-competitive bids and as guarantors for bidders in accordance with the guidelines of the Ministry of Finance. In return, primary dealers benefited from their intermediary roles and were

allowed to take part in providing consultation to the Ministry of Finance in the planning of government securities issuance.

(BOT News No. 16/2002 dated 29 April 2002, effective from 2 May 2002, and BOT News No. 23/2002 dated 22 July 2002)

23 Appointment of financial institutions as primary dealers for bilateral repurchase transactions

The BOT appointed nine financial institutions as primary dealers for bilateral repurchase transactions, starting 1 October 2002 onwards.

(BOT News No. 36/2002 dated 4 October 2002)

24 BOT regulations on bond transactions with a provision to repurchase or resell

The BOT issued a notification cancelling the Repurchase Market Regulations B.E. 2522 and putting in place the Regulations on Bond Transactions with a Provision to Repurchase or Resell B.E. 2545. Major changes brought about by the new regulations were as follows:

- 1) Valuation of pledged collaterals in the repurchase market was to be based on market prices as released by the Thai Bond Dealing Centre (TBDC);
- 2) Haircut rate was to be changed from 5 percent of treasury bills' face value to a rate based on the type of securities and the term of the transaction;
- 3) The calculation of bond value in case there was no repurchase was to be changed. In addition, the calculation of interest and penalty rates for a market participant failing to provide sufficient funds on the day of the repurchase was to be changed; and

4) The minimum value of transactions was to be increased from B1 million to B10 million. Additionally, fee calculations as well as bid-ask yield calculations were to be changed.

(Announcement dated 13 June 2002, effective from 2 July 2002)

25 Modification of the regulations on financial institutions' net foreign exchange position

The BOT modified regulations on financial institutions' net foreign exchange position as follows:

1) End-of-day net foreign exchange position in any individual foreign currency must not exceed 15 percent of its capital funds, or US\$5 million, whichever was higher; and

2) International standard on the aggregate foreign exchange position calculation was to be adopted. End-of-day net open position of all foreign currencies combined must not exceed 20 percent of capital funds, or US\$10 million, whichever was higher. In this regard, Thai commercial banks were required to consolidate the net open position of their overseas branches.

(Circular dated 3 June 2002, effective from 21 June 2002)

3 Resolution of Financial Institutions Problems

31 Merger of Bangkok Metropolitan Bank PCL and Siam City Bank PCL

The Minister of Finance approved the merger of Bangkok Metropolitan Bank (BMB) with Siam City Bank (SCIB), effective on 1 April 2002. SCIB was assigned to be the core institution in this consolidation process.

(BOT News No. 12/2002 dated 29 March 2002)

32 Taking over the control of Thanapat Credit Foncier Co., Ltd

The Minister of Finance authorised the BOT to take over the control of Thanapat Credit Foncier Co., Ltd. on 23 December 2002, on the ground that the company's financial conditions had deteriorated considerably and could potentially undermine public interest. At the same time, the company failed to follow the BOT's order to strengthen its financial position and raise capital funds. Subsequently, the authority assigned a committee to take over the control of the company where normal business continued. Meanwhile, depositors and creditors were all protected according to the Cabinet Resolution of 5 August 1997 and the regulations issued by the Financial Institutions Development Fund (FIDF).

(BOT News No. 47/2002 dated 23 December 2002)

33 Rules on debt restructuring by financial institutions

The BOT issued a circular concerning the revision of rules on debt restructuring by financial institutions in order to keep in line with the Accounting Standard No. 34 Re: Accounting Procedures for Troubled Debt Restructuring. The essence of this revision included amendments in the accounting procedures concerning debt restructuring, computation of loss in debt restructuring, definition of business having a vested interest in financial institutions, and rules on recognition of income after debt restructuring.

The option of using the cost of capital as a discount rate for the calculation of value expected to be recovered was to be applicable only to debtors who had been under the debt restructuring procedures since 1 October 2002.

(Circular dated 26 December 2002, effective from 1 January 2002)

34 Extension of foreclosed real estate holding period

The BOT issued two circulars to financial institutions (excluding BIBF), each to extend the foreclosed real estate holding period by one year. According to the first circular, the holding period was to be extended from 1 January 1997-31 December 2001 to 1 January 1997-31 December 2002, while the second circular extended the period further until 31 December 2003 on the condition that financial institutions (excluding BIBF) must sell such properties within 10 years of the date of receiving transfer.

(Circulars dated 22 May 2002 and 25 December 2002)

35 Amendment of the regulations pertaining to the purchase or holding of shares of a limited company in an amount exceeding the rate prescribed by law

The BOT amended the regulations pertaining to the purchase or holding of shares of a limited company in an amount exceeding the legal limit, especially where such shares were acquired through a debt restructuring process under the guidelines of the BOT. The permission period was extended from ending on 31 December 2002 to 31 December 2003. Financial institutions must nevertheless reduce such holding of shares to meet the legal limit (not exceeding 10 percent of the total number of distributed shares of the said company and in aggregate value not exceeding 20 percent of its capital funds) as soon as possible, but no later than the period of time specified as follows:

1) Shares derived before 1 January 2003 must be reduced to the legal limit by 31 December 2005; and

2) Shares derived between 1 January 2003 and 31 December 2003 must be reduced to the legal limit by 31 December 2006.

(Circular dated 25 December 2002)

36 Permission for finance companies to undertake hire purchase and leasing business as a result of debt restructuring (m 3)

Finance companies and finance and securities companies were permitted to undertake hire-purchase and leasing business for assets which were transferred through debt restructuring agreements. This circular extended the permission period for one extra year, from ending on 31 December 2001 to 31 December 2002, in line with the Cabinet's approval of the extension period for tax and duty privileges as a result of debt restructuring.

(Circular dated 22 January 2002 and the Ministry of Finance's announcement dated 16 January 2002, effective from 1 January 2002)

37 Permission for finance companies to purchase and to receive loan transfers

The BOT circulated the Ministry of Finance's announcement permitting finance companies to purchase or receive loan transfers from asset management corporations (AMC) and the Thai Asset Management Corporation (TAMC).

(Ministry of Finance's announcement dated 2 September 2002, effective from 7 September 2002)

38 Permission for commercial banks to undertake hire purchase and leasing business as a result of debt restructuring

Commercial banks were permitted to undertake hire-purchase and leasing business for assets which were transferred through debt restructuring agreements. This circular extended the permission period for one extra year, from ending on 31 December 2002 to 31 December 2003, in line with the Cabinet's approval of the extension period for tax and duty privileges as a result of debt restructuring under BOT guidelines.

(Circular dated 27 December 2002, effective from 1 January 2003)

4 Credit Measures

41 Credit targets for small and medium enterprises (SMEs) in 2002

The BOT notified commercial banks to set credit targets for SMEs in 2002 and to submit them to the BOT by 30 April 2002. Commercial banks were also required to report semi-annually their actual credits extended relative to the targets.

(Circular dated 20 March 2002)

42 Regulations on credit card services

The BOT relaxed the requirements on credit card services by cancelling the restrictions on minimum income, credit limit, and supplementary card issuance, allowing each commercial bank to set its own requirements and restrictions, provided that the BOT guidelines on risk management were followed. Furthermore, the minimum monthly payment was reduced from 10 percent to 5 percent of the outstanding credit amount, and the minimum age requirement for credit card holders was lowered from 22 to 20 years.

(Circular dated 25 April 2002)

43 Loans for security purchases and loans with securities as collateral

The BOT amended the regulations on loans for security purchases and loans with securities as collateral. The changes allowed financial institutions to lend funds to public companies to finance their stock repurchase from shareholders (treasury stocks), provided that the regulations were in accordance with the regulations set by the Ministry of Commerce and the Stock Exchange of Thailand and that the transactions would not impair the financial position of these public companies.

(Circular dated 17 May 2002)

44 Prescription of rules, procedures, and conditions for commercial banks to undertake credit card business

4.41 In this regard, "credit cards" excluded those cards for which payments of goods, services, or any fees were made in advance. Commercial banks were allowed to issue credit cards to cardholders or consumers with income from various sources in the aggregate amount of not less than B15,000 per month, or with an account deposit at a commercial bank which was considered sufficient to indicate his/her financial ability to make credit card payments. Commercial banks were to set rules on debt repayments under which the cardholders or consumers must pay not less than 5 percent of their outstanding balances per instalment.

Non-financial institution card issuers must seek permission from the Ministry of Finance by submitting a request form at the Bank of Thailand within 60 days of 12 November 2002.

4.4.2 Interest and fees charged by commercial banks under the credit card business could include the following:

1) Interest, penalty, fees, and other service charges on unpaid debts must not exceed 18 percent per annum in total, excluding operation fees or service charges as stipulated by the BOT (such as annual fees, payment fees, and new card issuance fees);

2) Fees and charges collected by commercial banks must not exceed 3 percent of the amount of cash withdrawn through a credit card;

3) Commercial banks were allowed to charge debt collection fee in an amount actually paid or suitable for each case.

(Three circulars and notifications, dated 12 November 2002, effective from 13 January 2002 and 12 November 2002)

4.5 Regulations on the ratio of a commercial bank's credits and obligations to its capital funds

The BOT amended the regulations on the ratio of a commercial bank's credits and obligations to its capital funds, as follows:

1) The term "Tier-1 Capital" was amended to include the capital funds of foreign banks' branches licensed to undertake commercial banking business in Thailand;

2) Items excluded from the calculation of single lending limit were expanded to cover investment or loans in the form of a purchase of financial instruments issued by the Ministry of Finance, the Thai Asset Management Corporation (TAMC), and state agencies or state enterprises

established under specific laws; credit facilities or obligations with such instruments as collateral; and overnight loans to other commercial banks.

(Circular dated 17 January 2002 and announcement dated 8 January 2002, effective from 12 January 2002)

5 Supervision and Development of Financial Institutions

5.1 Regulations and guidelines for an early redemption of hybrid debt capital instruments or long-term subordinated debt instruments

The BOT amended the regulations on an early redemption of hybrid debt capital instruments or long-term subordinated debt instruments. In essence, financial institutions must obtain prior approval from the BOT for an early redemption of such debt instruments included in tier-2 capital. In the case of hybrid debt capital instruments, an early redemption was allowed after 5 years of issuance, provided that such redemption would not lead to a reduction in the capital to risk assets ratio below 9 percent during the subsequent 3 years (under the assumption of no recapitalisation).

For an early redemption of long-term subordinated debt securities not included in tier-2 capital, financial institutions could apply their own discretionary judgment provided that the BOT would be informed within 7 days after the date of redemption.

(Circular dated 7 March 2002)

5.2 Guidelines, procedures, and conditions on the undertaking of BIF business

The BOT amended the guidelines on the undertaking of BIBF business by reducing its annual fee from B500,000 to B10,000 and extending the period allowed to undertake hire-purchase and leasing business as a result of debt restructuring for 1 year from ending at 31 December 2001 to 31 December 2002.

(Circular dated 3 January 2002 and announcement dated 28 December 2001, effective from 1 January 2002)

53 Stipulation on the maintenance of capital funds

The BOT issued a notification concerning the stipulation on capital funds of financial institutions by assigning the risk weight of 0 to the followings: (1) obligations arising from a sale or purchase of instruments under private repo and securities borrowing and lending (SBL); and (2) credits with written instruments of deposits issued by a financial institution or with cash held as collateral in the amount not exceeding the value of the instruments or the cash placed. In addition, contingent liabilities under a private repo or SBL agreement were required to have the credit conversion factor of 1.0.

Furthermore, the BOT assigned the risk weight of 0.2 to export credits of all types guaranteed by the Export-Import Bank of Thailand (EXIM) and the risk weight of 0 to promissory notes which a financial institution received from a juristic person with FIDF as the sole shareholder.

(Announcement dated 3 July 2002, effective from 8 July 2002)

54 Notification regarding credits to or investment in business with a beneficial interest and credits to shareholders of financial institutions

The BOT issued a notification regarding credits to or investment in business with a beneficial interest and credits to shareholders of financial institutions. The notification included the following salient points:

1) Amendment of the definition of “granting excessive credit or making excessive investment” to mean

1.1) Granting credit to or investment in, one of which or together, a business in which a financial institution, any of its directors, or any of its senior management has a beneficial interest, or granting credit to its shareholders or senior management above 5 percent of tier-1 capital funds or above 50 percent of the shareholder’s equity in a limited company.

1.2) Granting credit (in one form or many forms together, excluding investment) to a business or person as specified in 1.1 above 25 percent of that limited company or person’s total liabilities.

Moreover, granting credit by means of purchasing, discounting or rediscounting bills was to be counted as granting credit to both the seller of such bills and any person liable under the Law on Bills.

2) Exemption from compliance with the above guidelines was made for credits granted to or investment in government agencies.

3) Credits granted as working capital for an import/export business were allowed to be extended at the same amount for another 3 years starting from 3 November 2001, after which they must be reduced to the prescribed rates.

(Circular dated 2 August 2002 and announcement dated 24 July 2002, effective from 31 July 2002)

55 Prescription on the maintenance of liquid assets

The BOT permitted financial institutions to include debt instruments issued by government agencies or state enterprises established under specific laws in the maintenance of liquid assets. Moreover, the BOT expanded the list of government agencies or state enterprises approved by the BOT to include the AMC.

(Announcement dated 11 September 2002, effective from 18 September 2002)

56 Guidelines on the selection of financial institution auditors

In order to meet the qualifications stipulated by the BOT, an auditor must not currently be suspended or have had his/her license revoked. Furthermore, an auditor must not have been the auditor of the same financial institution for more than 5 years. Commercial banks were also required to ensure that the auditor observes the following requirements: (1) submission of the audit programme; (2) notification of failure to observe relevant laws and regulations; (3) preparation of special reports; and (4) inspection in areas which the BOT had commented on.

(Circular dated 26 November 2002, effective from the 2002 accounting period)

57 Accounting procedures regarding investment

The BOT required financial institutions to record investment in debt and equity instruments in accordance with the criteria stated in the Accounting Standard No. 40 and its subsequent amendments thereof. In addition, the term “debt instruments” was to refer to agreements showing direct and indirect

obligations of instrument issuers to pay in cash or by other assets to instrument holders in accordance with the amount and conditions specified, either explicitly or implicitly. The BOT also expanded the list of debt instruments to include bills of exchange issued by commercial banks for lending between financial institutions and derivative instruments in a form related to debt instruments, namely credit linked notes. At the same time, the term “equity instrument” was to refer to an agreement ensuring the holder a residual ownership of the business. In this regard, equity instruments were to include ordinary shares, preferred shares, derivative instruments related to equity instruments, namely warrants showing the right to purchase ordinary shares, and other types of equity instruments to be subsequently announced by the BOT.

(Circular dated 13 December 2002, effective for the accounting periods ending on or after 31 December 2002)

58 Guidelines on the structure of the board of directors of a commercial bank in the light of good governance

The BOT issued additional guidelines on the structure of the board of directors of a commercial bank to supplement the manual already published. To ensure that a board of directors would be able to monitor the operations of a commercial bank in compliance with the laws and regulations issued by the BOT, these additional guidelines emphasised the composition of the committee and other sub-committees as well as their qualifications and responsibilities.

In this light, commercial banks were required to set up two committees, namely an internal audit committee and a risk management committee.

In addition, commercial banks were also encouraged to set up a selection committee and a compensation determination committee.

(Circular dated 3 December 2002)

5.9 Extension of business areas of financial institutions

The BOT extended the business areas of financial institutions as follows:

5.9.1 Permission for finance companies and credit foncier companies to undertake back office services (effective from 3 January 2002)

5.9.2 Permission for finance companies to appoint agents to receive time deposits with passbooks and to receive credit payments (effective from 10 October 2002)

5.9.3 Permission for commercial banks to

1) Undertake the credit linked notes business (effective from 12 June 2002);

2) Appoint other commercial banks or non-bank companies as agents to receive deposits, credit payments, and credit card payments (effective from 21 August 2002);

3) Operate the investment advisory business (effective from 3 September 2002);

4) Operate businesses related to the securities business (effective 11 September 2002);

5) Undertake back office services (effective from 16 October 2002); and

6) Operate the business of contacting or giving advice to customers on securities company services (effective from 29 November 2002).

32 Fiscal Measures	Source	Date of Announcement	Effective Dates	Link
1. Tax Measures				
1.1 Allocation of value added tax (VAT) to local administrative authorities		15 January 2002	-	
1.2 Measures to promote tourism in Thailand		15 January 2002 22 January 2002	- -	
1.3 Improvements in regulations regarding deductibility of life insurance fees		20 August 2002	1 January 2002	
1.4 Extension of a reduction in the VAT rate		27 August 2002	1 October 2002 - 30 September 2003	
<p>1.5 Tax measures to support the recovery of the real estate sector and to increase the earnings of low-income groups</p> <p>1.5.1 Tax measures for debt restructuring (extension of fee reduction to 0.01 percent for property registration under the Property and Condominium Law)</p> <p>1.5.2 Tax measures for corporate reorganisation (extension of fee reduction to 0.01 percent for property registration under the Property Law)</p> <p>1.5.3 Tax measures to boost real estate transactions (extension of the reduction in the special business tax imposed on real estate sale from 3.3 percent to 0.11 percent, and extension of fee reduction to 0.01 percent for property registration under the Property and Condominium Law)</p>	Cabinet Synopsis	3 December 2002	<p>- extended from 31 December 2002 for one more year</p> <p>- extended from 31 December 2002 for one more year</p> <p>- extended from 31 December 2002 for one more year</p>	<p>http://www.thaigov.go.th/</p> <p>Select</p> <ul style="list-style-type: none"> - Cabinet Synopsis - Archive - Date

32 Fiscal Measures	Source	Date of Announcement	Effective Dates	Link
1.5.4 Tax measures to promote the sale of current residence for the purchase of a new residence			From 2003 onwards	
1.5.5 Tax measure to increase the earnings of low-income to medium-income groups (exemption from personal income tax for the first B80,000 of taxable income, up from B50,000)		3 December 2002	From 2003 onwards	
2 Expenditure Measures				
21 Treasury management and budget disbursement system		15 January 2002	-	
22 Draft Act on the Budgetary Procedure B.E.....		26 March 2002	-	
23 Draft Budget Act for FY 2003		28 May 2002	-	
24 Measures to speed up and monitor budget expenditure in FY 2003	Cabinet Synopsis	15 October 2002	-	http://www.thaigov.go.th/ Select - Cabinet Synopsis - Archive - Date
25 Measures to assist farmers affected by natural disasters in 2002		15 October 2002	-	
26 Preparation for budgetary planning and expenditure calendar setting for FY 2004		17 December 2002	-	
3 Public Borrowing and Debt Management Measures				
31 Demand for baht borrowings to supplement state enterprises' foreign loans in FY 2002		8 January 2002	-	
32 External borrowing plan for FY 2002		12 March 2002	-	
3.3 - Compensation for the losses incurred by FIDF - Issuance of government saving bonds to specific groups of investors to compensate for the loss incurred by FIDF		21 June 2002	-	
		2 July 2002	-	

32 Fiscal Measures	Source	Date of Announcement	Effective Dates	Link
34 Credit line expansion for borrowing through Euro Commercial Papers (ECP programme)	Cabinet Synopsis	6 August 2002	-	http://www.thaigov.go.th/ Select - Cabinet Synopsis - Archive - Date
35 Refinancing of state enterprises' debt in FY 2003		25 September 2002	-	
36 Borrowing to finance the budget deficit in FY 2003		29 October 2002	-	
37 Draft Public Debt Management Act B.E..... (The draft was reviewed by the Office of the Council of State and was subsequently passed on to the Government Whip prior to being presented to The House of Representatives for further consideration)		12 November 2002	-	
4 State Enterprise Measures				
41 Corporatisation of state enterprises - Airports Authority of Thailand - Telephone Organisation of Thailand		11 June 2002 23 July 2002	- 31 July 2002	
42 - Increase in salaries and wages of state enterprise employees - Adjustment of the daily minimum wage for state enterprise employees (from B157 to B165)		2 July 2002 30 July 2002	- 1 January 2002	
43 Budget planning for FY 2003		1 October 2002	-	
44 Borrowing to finance the purchase of Boeing airplanes by Thai International Airways Public Company Limited		26 November 2002	-	
45 Corporate reform of Thai Maritime Navigation Co.Ltd. (TMN)		24 December 2002	-	

33 Others Measures	Source	Date of Announcement	Effective Dates	Link
A. Agricultural Measures				
1. Solution to the problem of black tiger prawn cultivation in fresh water areas*	Cabinet Synopsis	8 January 2002	-	http://www.thaigov.go.th/ Select - Cabinet Synopsis - Archive - Date
2. Loan project for the restructuring of the agricultural sector		5 February 2002	-	
3. Policies and measures for the import of animal feeds in 2002		19 February 2002 23 April 2002	1 January 2002 - 31 December 2002	
4. Establishment of the International Tripartite Rubber Organisation (ITRO) by Thailand, Indonesia and Malaysia		5 March 2002	-	
5. Solution to the problem of first-crop rice prices		12 March 2002	-	
6. Establishment of the Agricultural Commodity Exchange of Thailand		12 March 2002	-	
7. Measures to resolve the problem of antibiotic residue in shrimp and poultry*		26 March 2002 14 May 2002	-	
8. Measures to stimulate the use of natural rubber in transportation by the Ministry of Transport*		26 March 2002	-	
9. Application for protection of the "Patumthani 1" rice variety under the US Plant Variety Protection Act		9 April 2002	-	

33 Others Measures	Source	Date of Announcement	Effective Dates	Link		
10. Determination of preliminary sugarcane prices and the apportionment of sugar proceeds between planters and millers in the crop year 2001/2002*	Cabinet Synopsis	21 May 2002	-	http://www.thaigov.go.th/ Select - Cabinet Synopsis - Archive - Date		
11. Implementation of the tripartite rubber cooperation among Thailand, Indonesia and Malaysia		4 June 2002	1 June 2002			
12. Approval of the project to subsidise diesel oil prices for coastal fishermen*		16 July 2002	1 July 2002- 1 January 2003			
13. Sale of 15% broken rice by 500,000 tonnes to Indonesia		30 July 2002	-			
14. The Thai rubber reform		17 September 2002	-			
15. Project to improve natural rubber varieties*		25 September 2002	-			
16. Cooperation on rice trade		15 October 2002	-			
17. Measures to stabilise natural rubber prices		12 November 2002	-			
B. International Trade Measures						
1. Import measures of silk threads in 2002 under the obligations of the World Trade Organisation		15 January 2002	1 January 2002			
2. National embargo on the import of raw diamonds from Sierra Leone in compliance with the United Nation's resolution	22 January 2002	5 January 2002 (11 months)				
3. Government-to-government sale of rice to the Democratic People's Republic of Korea	29 January 2002	-				

33 Others Measures	Source	Date of Announcement	Effective Dates	Link
4. Trade cooperation between the Kingdom of Thailand and the Republic of Iraq	Cabinet Synopsis	12 February 2002	-	http://www.thaigov.go.th/ Select - Cabinet Synopsis - Archive - Date
5. Allowance of soybean import in 2002		19 February 2002	1 January 2002 - 31 December 2002	
6. Import of animal feeds in 2002		19 February 2002	1 January 2002 - 31 December 2002	
7. Liberalisation of the market for non-fat milk powder, raw milk and ready-to-drink milk under the obligations of the World Trade Organisation in 2002		19 March 2002	1 January 2002 - 31 December 2002	
8. Enhancement of national competitiveness		23 April 2002	23 April 2002	
9. Prohibition of the import of drugs, pharmaceutical products and chemical salt		23 April 2002	25 May 2002	
10. Export of rubber wood		30 April 2002	14 June 2002	
11. Project to resolve the problem of antibiotic residue in exported shrimp and poultry*		7 May 2002	7 May 2002	
12. Establishment of the one-stop service centre for exports		7 May 2002	5 June 2002	
13. Export and import of caffeine		14 May 2002	29 June 2002	
14. Bilateral swap agreement between Thailand and Republic of Korea		11 June 2002	-	
15. Liberalisation of automobile export to Taiwan after joining the World Trade Organisation		9 July 2002	-	

33 Others Measures	Source	Date of Announcement	Effective Dates	Link
16. Liberalisation of the import market for garlic and onion seeds in 2002*	Cabinet Synopsis	16 July 2002	1 January 2002-31 December 2002	http://www.thaigov.go.th/ Select - Cabinet Synopsis - Archive - Date
17. Sale of rice to Indonesia under account trade		30 July 2002	September 2002 - July 2003	
18. Technical cooperation on the inspection of chemical residue in food for export		13 August 2002	-	
19. Account trade between Thailand and Bangladesh		13 August 2002	9 July 2002	
20. Establishment of the Office of Import Administration		20 August 2002	-	
21. Draft regulation of the Office of the Prime Minister on developing the country's competitiveness		20 August 2002	-	
22. Liberalisation of the import market for potato in 2002		27 August 2002	1 January 2002 - 31 December 2002	
23. Bilateral Payments Arrangements (BPA) between Thailand and Malaysia		10 September 2002	-	
24. Establishment of the committee on import administration		17 September 2002	-	
25. Export and import measures of caffeine		1, 22 October 2002	16 November 2002	
26. Relaxation of regulations concerning the export and import of communication radios		8 October 2002	-	
27. Use of electron radiation on Thai fruits exported to the US		19 November 2002	-	
28. Solution to the problem of shrimp and poultry export to the European Union (EU) and the US		26 November 2002	-	

33 Others Measures	Source	Date of Announcement	Effective Dates	Link
29. Import of teak wood	Cabinet Synopsis	3 December 2002	-	http://www.thaigov.go.th/ Select - Cabinet Synopsis - Archive - Date
30. Liberalisation of the soybean market under the obligations of the World Trade Organisation in 2003		24 December 2002	1 January 2003 - 31 December 2003	
C. Industrial Measures				
1. Comprehensive solution for the milk industry		25 February 2002	-	
2. Draft ministerial regulations on the size of employment and the value of permanent assets of small and medium enterprises (SME)		5 March 2002	-	
3. Draft announcement of the Ministry of Finance regarding tax reduction for raw materials such as marble, granite and sandstone		5 March 2002	-	
4. Adjustment to the preparation plan for the readiness of Thailand's textile industry		12 March 2002	-	
5. Draft announcement regarding the export of automobiles to Taiwan		9 July 2002	-	
6. Reduction of license fees for the production and sale of rice liquor and fruit wine by small plants*		16 July 2002	-	
7. Exemption of customs duties to assist manufacturers of televisions and fiber-optic cables		20 August 2002	-	
8. Promotion of national competitiveness	20 August 2002	-		

33 Others Measures	Source	Date of Announcement	Effective Dates	Link
9. Cancellation of excise tax exemption on fuel oil and other products used as raw materials in petroleum refinery plants	Cabinet Synopsis	5 November 2002	-	http://www.thaigov.go.th/ Select - Cabinet Synopsis - Archive - Date
10. Solution to the problems of excess raw milk supply and the free school-milk project		26 November 2002	-	
D. Price Measures				
1. Electricity price adjustment (Ft)	Resolution by the Sub-Committee on the Automatic Adjustment Mechanism	12 February 2002	February 2002 - May 2002	http://www.eppo.go.th
2. Cooking gas price adjustment	Resolution by the National Energy Policy Council	28 February 2002	1 March 2002	
3. Electricity price adjustment (Ft)	Resolution by the Sub-Committee on the Automatic Adjustment Mechanism	31 May 2002	June 2002 - September 2002	
4. Electricity price adjustment (Ft)	Resolution by the Sub-Committee on the Automatic Adjustment Mechanism	27 September 2002	October 2002 - January 2003	

33 Others Measures	Source	Date of Announcement	Effective Dates	Link
5. Cooking gas price adjustment	Resolution by the National Energy Policy Council	29 October 2002	30 October 2002	http://www.eppo.go.th
E. Labour Measures				
1. Draft royal decree to determine the duration of benefit period when an insured person's contract is terminated*	Cabinet Synopsis	8 January 2002	-	http://www.thaigov.go.th/ Select - Cabinet Synopsis - Archive - Date
2. Minimum wage adjustment		15 January 2002	-	
3. Supplementary measures to reduce workers' cost of living*		29 January 2002	-	
4. Determination of the number of legal aliens in Thailand in 2002		30 July 2002	-	
5. Minimum wage adjustment for employees of state enterprises*		30 July 2002	-	
6. Procedures to handle illegal foreign labourers in 2002 - 2003		27 August 2002, 3 September 2002 and 24 September 2002	-	
7. Guidelines for the registration of illegal alien fishermen*		25 September 2002	-	
8. Determination of the contribution rate to the Social Security Fund		17 December 2002	1 January 2003	
9. Minimum wage adjustment		24 December 2002	1 January 2003	
10. Increase in child benefits		24 December 2002	1 January 2003	
F. Service Measures				
1. Promotion of tourism and foreign film production in Thailand		15 January 2002	1 February 2002	

33 Others Measures	Source	Date of Announcement	Effective Dates	Link
2. Solution to the problem of traditional retail/wholesale businesses*	Cabinet Synopsis	7 May 2002	-	http://www.thaigov.go.th/ Select - Cabinet Synopsis - Archive - Date
3. Solution to the problem of water shortage on major tourism islands*		6 August 2002	2003 - 2004	
4. Review of immigration procedures for foreign tourists		20 August 2002	-	
5. Guidelines for retail business management*		20 August 2002	-	
6. Visa exemption for APEC members joining the APEC Business Travel Card*		20 August 2002	-	
7. Memorandum of Understanding (MOU) between Kingdom of Thailand and Lao People's Democratic Republic on labour employment cooperation		24 August 2002	-	
8. Agreement between Kingdom of Thailand and Russian Federation on the abolition of visa requirements for holders of diplomatic and official passports		15 October 2002	-	
9. Inclusion of Russian Federation on the Visa on Arrival List		12 November 2002	-	
10. Tax measures to support the recovery of the property sector and low income households		3 December 2002	-	
G. Capital Market Measures				
1. Changes to the structure of the Securities and Exchange Commission (SEC)	SEC News	6 January 2002	-	http://www.sec.or.th

33 Others Measures	Source	Date of Announcement	Effective Dates	Link
2. Amendment to the criteria for provident fund management	SEC News	11 January 2002	-	http://www.sec.or.th
3. Expansion of scope of business conducted by securities companies		11 February 2002	-	
4. Accounting standards for securities companies and funds		11 February 2002	-	
5. Criteria on granting mutual fund management licenses		11 February 2002	-	
6. Action plan on good corporate governance in 2002 aiming to enhance shareholders' rights, promote transparency and improve the quality of market intermediaries		14 March 2002	-	
7. Changes to the structure of the SET board		17 April 2002	-	
8. Investment guidelines for provident funds with policy to invest in the money market		30 July 2002	1 August 2002	
9. Revision of the criteria on merging mutual funds		12 July 2002	-	
10. Guidelines and method of investment in securities and assets of financial institutions which give members the right to purchase residential properties through mortgage loans*		18 July 2002	1 August 2002	
11. Expansion of scope of business conducted by securities companies		11 October 2002	-	

33 Others Measures	Source	Date of Announcement	Effective Dates	Link
12. Permission of securities companies to act as guarantors of guaranteed funds	SEC News	11 October 2002	-	http://www.sec.or.th
13. Revision of criteria on the appointment of securities sales agents		11 November 2002	-	
14. Rules on the issuance and offering of structured notes		16 December 2002	-	
15. Announcement by the SEC to increase investors' participation in 2003, after having been successful in promoting market confidence through good corporate governance in 2002		24 December 2002	-	
16. Special rules regarding the permission to issue and sell securities	SEC notice	2 December 2002	16 December 2002	

Note: * Thai version only