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Report of the Bank of Thailand's Financial Position in 1997

Every year, the Bank of Thailand submits the annual Balance Sheet and Profit and Loss Account to the Minister of Finance for announcement in the Royal Gazette in accordance with Section 22 of the Royal Decree Regulating the Affairs of the Bank of Thailand B.E. 2485 (1942). With regard to 1997, the Bank's income amounted to 45,412 million baht, and expense totalled 9,315 million baht, resulting in a normal operating profit of 36,097 million baht. There was, however, a substantial loss from foreign exchange operations.

In 1997, Thailand faced severe economic and financial crisis, with extreme fluctuation of the baht in the beginning of the year due to the aggressive speculative attacks on the currency. As a central bank, one of major duties of the Bank of Thailand is to maintain exchange rate stability. The Bank, therefore, had to intervene in the spot foreign exchange market and incurred substantial forward obligations in foreign currencies to stabilise the baht within the band prescribed by the authorities. Furthermore, after Thailand entered a Stand-by arrangement with the International Monetary Fund, a large amount of borrowings in foreign currencies was also undertaken.

As required by law, the Bank of Thailand's accounts corresponding to the major business undertaken by the Bank are prepared separately, i.e., one general accounting system for the Bank and another system for the Issue Department. The majority of foreign liabilities are recorded in the General Account of the Bank of Thailand, while the majority of foreign assets are in the accounts of the Issue Department. Consequently, after the change in the exchange rate system to a managed float announced on 2 July 1997 which resulted in a marked depreciation of the baht, especially towards year-end, the Bank of Thailand incurred a substantial amount of foreign exchange loss. Due to the practice of separating the Bank's accounts as mentioned above, the total amount of such losses was recorded in the General Account, while the accounts of the Issue Department showed large foreign exchange gains. Therefore, the analysis of the Bank of Thailand's financial position must be based on the results of both accounts.

The change in the exchange rate regime resulted in the General Account recording a realized loss from foreign exchange of 87,026 million baht in 1997, and an unrealized loss of 83,418 million baht from the revaluation of foreign assets and liabilities in baht (using the exchange rate of 47.247 baht per US dollar as at end-1997). Total foreign exchange losses thus amounted to 170,444 million baht.

Moreover, the Banking Department also has contingent liabilities related to forward and swap contracts of US$ 18,006 million made in 1997. Losses may incur when these contracts are delivered. However, this loss was not realized at year-end and remains subject to uncertainties. Such loss, therefore, cannot be recognized in the Profit and Loss Account until the contracts are honored and exact amount of loss can be determined based on the dollar/baht exchange rate prevailing on the delivery date. (For example, if using the exchange rate at end-1997 which was 47.247 baht per US dollar, against the weighted average forward rate of 33.811 baht per US dollar, the resulted loss will be 241,921 million baht. However, if the exchange rate as at 26 March 1998 is used, i.e., 38.600 baht per US dollar, the loss will amount to only 86,225 million baht.)

Based on the accounting practice of the Bank, the total amount of realized loss of 87,026 million baht was recorded in the 1997 Profit and Loss Account. The unrealized loss of 83,418 million baht is to be amortized over 5 years, averaging 16,684 million baht per year. This would be shown under the "Extraordinary Items" to be debited beginning in 1997, while the remaining 66,734 million baht would be recorded as an "Other Assets" item in the 1997 Balance Sheet. On the basis of this accounting method, the Banking Department incurred a net loss in total of 67,613 million baht (after deducting normal operating profit of 36,097 million baht). The Bank's capital account less this amount of loss resulted in the capital account recording a negative net worth of 36,413 million baht.

However, the Issue Department, with its continual accumulation of foreign assets backing the notes issued, recorded a net foreign exchange gain of 448,670 million baht. Therefore, after taking into account the profits/losses from foreign exchange in the accounts of the Banking and the Issue Departments, the Bank of Thailand has a net foreign exchange gain of 36,305 million baht in 1997 (after deducting the loss of 241,921 million baht as a result of contingent liabilities).

Since the present Currency Act B.E. 2501 (1958) and the Bank of Thailand Act B.E. 2485 (1942) require that the Bank of Thailand keep the accounts of the Issue Department entirely separate from the Bank's General Account, foreign exchange gain/loss recorded in each of the two departments cannot be offset against each other.

Under the managed float system, foreign asset management of the central bank may lead to loss and the bank's net worth may become negative, as has been the case in several countries. However, although the central bank may differ from other businesses in that it does not need to maintain a large sum of capital or may temporarily register a negative net worth, it is more appropriate to prevent or correct such a problem at an early stage. In this regard, the Bank of Thailand is of the view that the consolidation of the accounts of the Banking Department and the Issue Department will help resolve the problem pertaining to the Bank of Thailand's operations in the future. Such action will not only result in a surplus on the Bank's consolidated capital account, but will also enhance the flexibility in the management of the country's foreign assets. The consolidation of accounts is the practice of most central banks and also conforms to the undertaking in the second and third Letters of Intent to the International Monetary Fund to amend the Currency Act B.E. 2501 (1958) . In amending the Act, the main principle will still be upheld, i.e., the maintenance of the stability of the value of the currency through the full backing of notes issued with the currency reserves.

Bank of Thailand
3 April 1998