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Thailand's International Investment Position and Revision of External Debts

Following the Bank of Thailand's press release dated Friday, 23 June 2000 that the Bank of Thailand is making improvements in data collection and dissemination in line with international best practice, the Bank of Thailand is disseminating as of today; data on the country's International Investment Position (IIP), comprising data on external assets and liabilities position which can be classified as follows:

As of end-1999, Thailand's external assets excluding the assets of non-banking sector stood at US$48.4 billion, an increase of US$7.0 billion from 1998, of which US$5.2 billion is the increase in the Bank of Thailand's external assets. External liabilities excluding stocks of foreign direct investment and foreign portfolio investment amounted to US$95.6 billion, a decrease of US$9.5 billion from 1998 due to external debt repayment of the private sector.

It should be noted that the announced external assets comprise only those of commercial banks and the Bank of Thailand while those of the non-banking sector have been unavailable so far since the non-banking sector does not report its external assets to the Bank of Thailand on a regular basis. Those external assets belong to both juridical persons and individuals in various forms such as establishment of businesses and factories overseas, purchase of private residences. It is anticipated that such external assets are likely to be substantial. By the same token, on the external liabilities side, data on the accumulated amounts of foreign direct investment and portfolio investment in Thailand are also not available. In this light, the Bank of Thailand has designed a workplan in collaboration with the IIP's experts to conduct a comprehensive survey to facilitate a compilation of the IIP and will promptly release the survey results as they are available, though the process is expected to be time consuming. Announcements will be made at the earliest available opportunity.

The data on external liabilities differ significantly from the previously announced figures due to a new compilation method via a comprehensive survey conducted by the Bank of Thailand on external debts of the non-banking sector. The survey was distributed to over 6,000 companies and conducted with the IMF's technical assistance.

The survey result revealed higher external debts of the private sector than the previously released figures, and the revised data which is retrospectively adjusted to 1995 is presented below:

Total External Debt						
In billions of US$	1995	1996	1997	1998	1999	2000 Mar E
Previous data	82.5	90.5	93.4	86.2	75.6	72.1
Revised Data*	100.8	108.7	109.3	105.1	95.6	92.3

* Data for 1995-97 were estimated by applying the net flow data of external debt from the foreign exchange transaction records to the stock of external debt as of end - 1998.

E: The provisional March figure would be revised after the next survey has been completed.

The differences resulting from private external debts of the non-banking sector are presented below:

Private External Debt of the Non-banking Sector						
In billions of US$	1995	1996	1997	1998	1999	2000 Mar E
Previous data	24.2	31.8	29.5	25.7	21.0	18.4

Revised Data*	42.5	50.0	46.0	45.7	41.9	39.4
* Data for 1995-97 were estimated by applying the net flow data of external debt from the foreign exchange transaction records to the stock of external debt as of end - 1998. E: The provisional March figure would be revised after the next survey has been completed.						

The above differences between the previous and revised data reflect primarily the inadequacy of the former data compilation system and the modification of survey's methodology as follow:

1) In the past 5-6 years, the operation of Thai businesses has become more internationalized. Some companies directly financed their investments abroad by foreign loan that were not channeled through the Thai banking system.

2) Some Thai companies use external borrowing to settle payments or purchase capital goods abroad without remitting such funds to Thailand.

3) The previous external debt data was based on a small sample size. In the current survey, all the companies (over 6000 in total) involved in foreign exchange transactions related to external debts in the last 10 years have been included in the survey database.

4) To strictly comply with the highest international standard, external debts denominated in baht are now included in the revised data.

Although the revised external debts derived from the new survey methodology were higher than the previously released one, the Bank of Thailand is confident that the revised external debt data do not affect the assessment of Thailand's debt servicing capability since

1) External debt data has already been in existence. Even though the inflows of debts were not recorded in the foreign exchange transaction reports, all amortization occurring during the past years have already accounted for the revised data.

2) The stock of Thailand's external debt have been steadily declining from the peak of US$109.3 billion in 1996 to US$92.3 billion in March 2000. Since the end of 1997, private sector has been repaying external debts substantially, thus leading to a decline in private external debt position by US$36 billion

3) The external assets, financed by external debts of the non-banking sector, in the form of manufacturing factories, hotels and service businesses generate foreign exchange earnings to repay the external debts without additional burden to the country.

The Bank of Thailand would like to stress that the revised data have no serious impact whatsoever on the debt servicing ability of both public and commercial banking sectors. Regarding the non-banking sector, despite higher external debt figures, they have already been in existence for many years. In case of import financing, the external debt repayments have already been captured. Regarding the purchase of external assets, those assets can generate foreign exchange earning and put the least burden on Thailand's external debt servicing capability.

In addition, the revised external debts are not considered high by international standard as evidenced by the following indicators.

1. Debt servicing ability indicators

- Total external debts to GDP declined to 77.2 percent in 1999 from a peak of 93.6 in 1998.
- Debt service ratio, which was higher than 20 percent in 1998, dropped to 19.4 percent in 1999.

2. On liquidity of debt repayment

- International reserves have been higher than short-term debt since 1998. In 1999 the ratio of international reserves to debt stood at 1.7, and in March 2000, the ratio is 1.8.
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- International reserves level is higher than both short-term and long-term debt that is falling due in the next 12 months. The ratio is 1.3 as of March 2000.

- The maturity composition of external debt has improved significantly with the share of total short-term debt declining from 52 percent in 1995 to 20 percent in March 2000.
- In particular, the ratio of non-banking sector declined from 43.8 percent to 24.5 percent. Part of these debts are those that have already been restructured or rescheduled, while others are debts of the 56 closed finance companies which are not going to be repaid in the near term as it is awaiting the liquidation process.

As for the preventive measure addressing the inaccuracies in the external debts reporting system, the Bank of Thailand proposed a new Ministerial Regulation in accordance with the Exchange Control Act, requiring entities with external assets and liabilities to regularly report their position to the Bank of Thailand. In addition, the Bank of Thailand will conduct quarterly surveys of businesses with external debts, starting from March 2000.

Bank of Thailand

30 June 2000