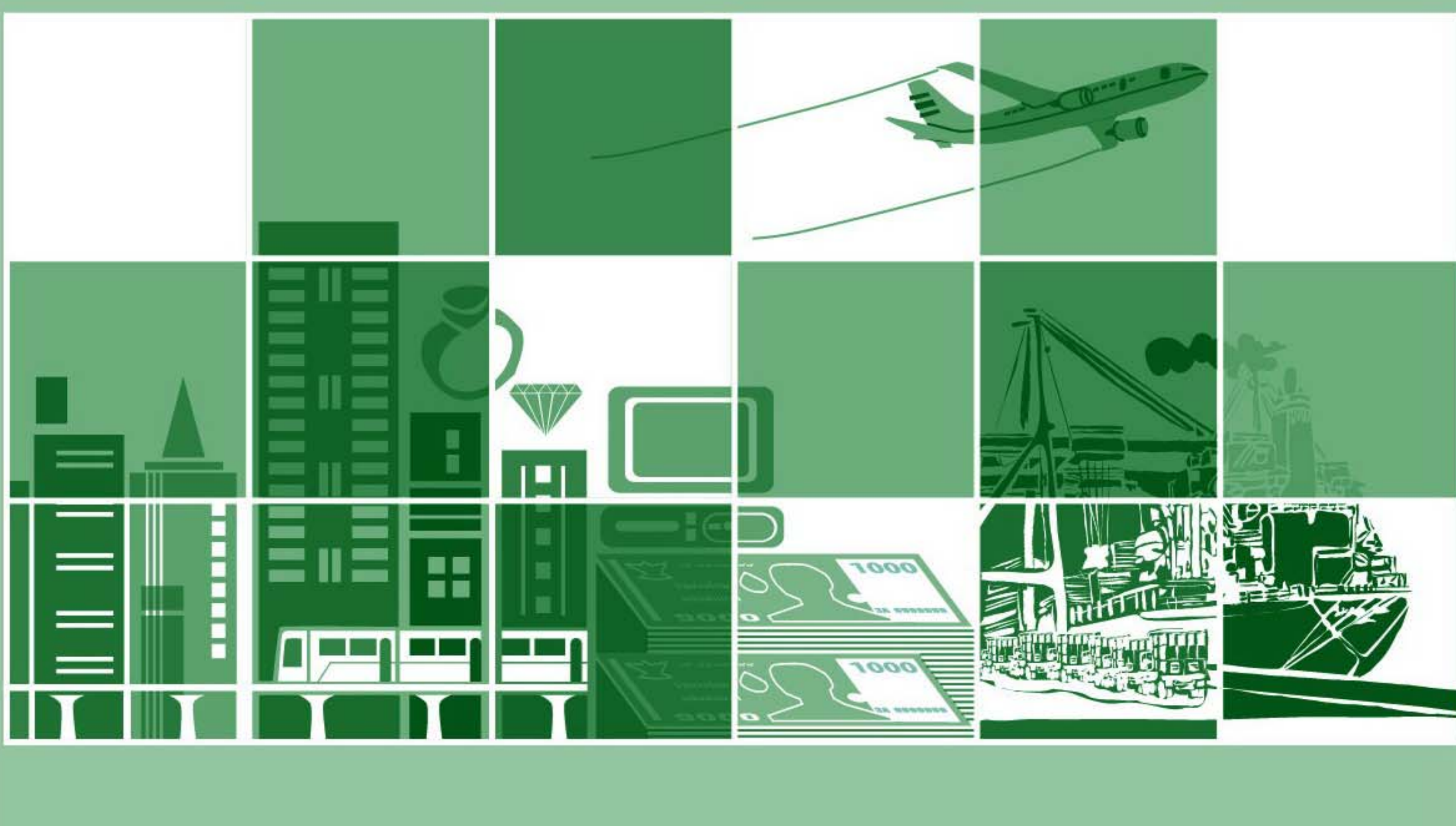
ANNUAL ECONOMIC REPORT 2007



Economic Performance in 2007

In 2007, the Thai economy expanded well at the rate of 4.8 percent with export sector as the major driving force. This corresponded to the accelerated manufacturing production, particularly in the export-oriented industries. Meanwhile, the domestic demand grew at a slower pace, compared to the previous year. However, both consumption and investment began to exhibit recovery signs in the second half of the year, in line with the speedup in imports. Overall economic stability remained sound. Current account continued to register a surplus and international reserves stayed at a high level. Average inflation rate was lower than the previous year, though accelerating in the forth quarter owing to the increase in oil prices.

(%Δ)	Growth rate		Contribution to Growth	
	2006	2007	2006	2007
Consumption	3.0	2.7	1.9	1.7
Private	3.2	1.4	1.7	0.8
Public	2.3	10.8	0.2	0.9
Gross fixed capital formation	3.8	1.4	0.9	0.3
Private	3.7	0.5	0.7	0.1
Public	3.9	4.0	0.2	0.2
Domestic demand	3.2	2.3	2.8	2.0
Change in inventories	11.6[1/]	1.8[1/]	-1.7	-0.2
Net exports of goods and services	40.5	21.6	4.1	3.0
Exports of goods and services	8.5	7.1	5.6	4.8
Imports of goods and services	2.6	3.5	1.5	1.9
Gross Domestic Product	**5.1**	**4.8**	**5.1**	**4.8**

1/ Bilion baht
Source : NESDB

With respect to the agricultural sector, farm income from major crops remained satisfactory, though slowing down from last year owing to the deceleration in both production and price of major crops. Nonetheless, high growth rate was observed in manufacturing productions. The Manufacturing Production Index (MPI) increased by 8.2 percent, accelerating from last year in line with the productions of the electronics, electrical appliances, leather products, and chemical products, which were all mainly for exports. The capacity utilization rate in 2007 was at 74.6 percent, increasing from 73.9 percent in the previous year.

In the service sector, tourism conditions were favorable, with the number of foreign tourists reaching 14.5 million, equivalent to an increase of 4.6 percent from the preceding year. These numbers matched the estimates of the Tourism Authority of Thailand. The satisfactory expansion of tourism was in spite of several negative factors such as the explosion incidents in Bangkok area on 31 December 2006, smoke problem in the upper Northern region, and 7 bombings in Had Yai.

On the demand side, private consumption in 2007 increased by 1.4 percent, decelerating from the previous year's rate of 3.2 percent as a result of weakened consumer confidence. This was in line with the Private Consumption Index, which also slowed down. However, private consumption began to gradually improve in the second half of the year, particularly in the forth quarter when political uncertainties unwound, while interest rates remained low. On the other hand, private investment expanded only 0.5 percent, slowing down from the last year's growth of 3.7 percent, in line with the deceleration in the machinery and equipment as well as construction categories. This corresponded to Business Sentiment Index (BSI), which lowered from last year. Nevertheless, in the second half of 2007, machinery and equipment investment improved continuously.

On the external front, trade balance in 2007 registered a surplus of 12.0 billion US dollars, up from a surplus of 1.0 billion US dollars in the previous year. This was attributed to high export growth of 18.1 percent, accelerating from 17.0 percent in 2006. Exports in the high-technology category continued to achieve satisfactory expansion from the preceding year. Meanwhile, imports rose by 9.6 percent, accelerating from last year. In the first half of 2007, imports continued a decelerating trend from 2006, in line with the weak domestic demand. However, the improvement in imports occurred in the second half of the year. Services, income and transfers account recorded a surplus of 2.9 billion US dollars, increasing from last year's surplus of 1.2 billion US dollars. This was in line with the increased receipts from tourism and public investment income. Consequently, the current account recorded a surplus of 14.9 billion US dollars, up from the previous year's surplus of 2.2 billion US dollars. Meanwhile, net capital flows registered a small outflow in 2007. The unremunerated reserve requirement (URR) on short-term capital inflows resulted in the slowdown of net external borrowing. Moreover, the relaxation of measures on capital outflows caused an increase in portfolio outflows by Thai residents, particularly in the latter half of the year. Nonetheless, after accounted for net errors and omissions, the balance of payments was in a surplus of 17.1 billion US dollars.

As for fiscal conditions in fiscal year 2007, the government implemented a deficit budget policy after running balanced budgets for two consecutive years in fiscal year 2005 and fiscal year 2006. The government budget expenditure for fiscal year 2007 was set at 1,566.2 billion baht, with the net revenue of 1,420 billion baht and a budget deficit of 146.2 billion baht (or 1.7 percent of GDP). The government's revenue remitted to the Treasury (cash basis) totaled 1,432.7 billion baht, rising by 6.9 percent from the previous fiscal year. This was higher than initially estimated in the budget document partly because of the extra income from the dissolving of the Exchange Equalization Fund. Meanwhile, the government's expenditures totaled 1,575 billion baht, increasing by 12.8 percent from the previous fiscal year. The disbursement rate was 93.9 percent, higher than that of the previous year and the target rate of 93.4 and 93.0 percent, respectively. This resulted from the government's measures to accelerate the rate of disbursement. As a consequence, the government's cash balance registered a deficit of 94.2 billion baht.

Regarding monetary conditions, money market interest rates continuously adjusted downward in the first half of 2007, following the five cuts in the policy rate by the Monetary Policy Committee (MPC). During the latter half of the year, the rates were stable, in line with the the policy rate that was kept unchanged. For the entire year, the 1-day repurchase rate and the overnight interbank rate averaged at 3.77 and 3.79 percent per annum, declining from the previous year's averages of 4.64 and 4.69 percent per annum, respectively. Because of the lower deposit interest rates compared to the previous year, some depositors shifted their deposits into investment on bills of exchange and bonds which yielded higher returns. Hence, the deposits of depository corporations were in a decelerating trend since the beginning of the year. Regarding private credits, a low growth rate was seen since the beginning of 2007, corresponding to the contraction of credits extended to the business sector, particularly investment credits. This mostly stemmed from the slowdown in domestic demand and fragile business sentiment. Nonetheless, credits extended to the business sector began to expand towards year-end.

In 2007, the baht averaged at 34.56 baht per US dollar, appreciating from the average of 37.93 baht per US dollar in the previous year. This mainly followed the US dollar depreciation as well as the continued current account surplus. Even though the baht against the US dollar in December appreciated by 6.3 percent from the same period last year, the Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) appreciated by 1.4 and 1.3 percent, respectively.

The overall economic stability in 2007 was satisfactory. The internal stability remained sound. The headline and core inflation rates were at 2.3 and 1.1 percent, respectively, decreasing from the previous year's average of 4.7 and 2.3 percent, respectively, despite the acceleration of headline inflation during the forth quarter from the increase in oil prices. Unemployment rate and public debt stayed low. Meanwhile, external stability was also satisfactory with continued current account surplus and high ratio of international reserves to short-term debts.

Economic Outlook for 2008

The economy in 2008 was expected to continue an expansion trend. The MPC assessed the economic growth to be in the range of 4.5-6.0 percent, with more balanced contribution from both domestic demand and exports. Private consumption continued to exhibit an improving trend from 2007, following the recovery signs since the latter half of the year, even though consumers' purchasing power was affected somewhat by the persistently high oil prices. Meanwhile, private investment was also on a recovery track, in line with the improved business sentiments from subsided political uncertainties, high capacity utilization rate, and the ongoing propulsion from public investment, particularly the large-scale investment projects. On the other hand, exports were expected to decelerate due to the trading partners' economic slowdown, especially the US economy as the subprime problems prolonged. An acceleration of headline inflation driven by supply-side factors was also expected, following the increasing prices of oil, agricultural products and other commodities. Moreover, greater transmission of costs into prices of goods and services was also anticipated, particularly when domestic demand strengthened. However, when the supply-side inflationary pressure faded out, headline inflation should slow down in the second half of the year. Although core inflation would also adjust upward, it was still expected to be within the target range of 0-3.5 percent.

Risks to growth and inflation still remained. The downside risks included increasing world crude oil prices, the greater-than-expected slowdown of trading partners' economies affected by the US subprime problems, the volatility of regional currencies, and the consumer and business sentiments with respect to political stability. Nevertheless, the upside risk involved the greater-than-expected effect of fiscal stimulation measures on public investment as well as the promotion of private investment.

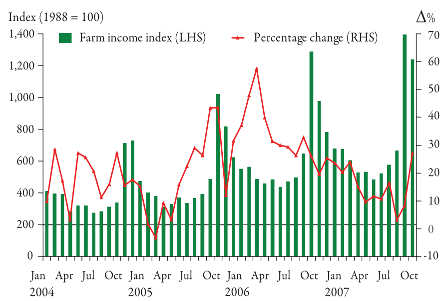
ECONOMIC CONDITIONS IN 2007

Agricultural Sector

Table 1 : Farm Income from Major Crops, Crop Production and Crop Prices

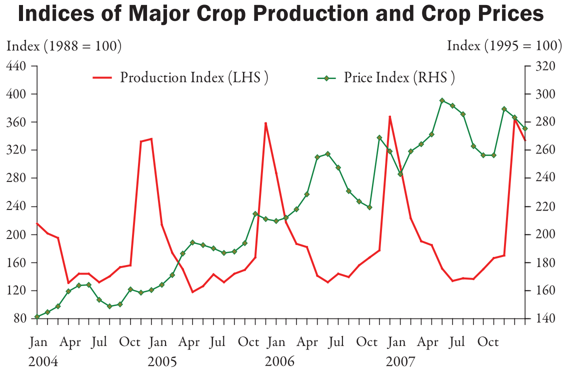
Δ%	2006	2007				
		Total	Q1	Q2	Q3	Q4
Farm Income	32.7	16.6	23.1	16.1	12.8	13.3
Crop Production	6.6	1.4	2.0	1.2	-2.0	3.0
Crop Prices	24.4	14.9	20.7	14.8	15.1	10.0

Farm Income From Major Crops



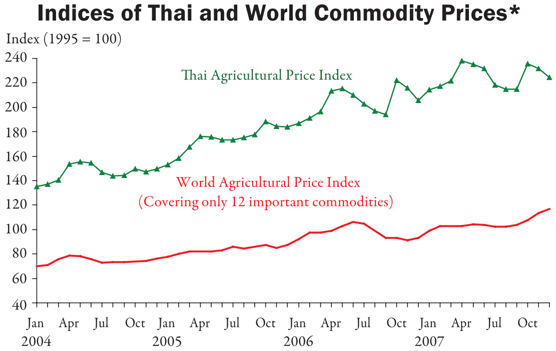
Source : Calculated by the Bank of Thailand

Indices of Major Crop Production and Crop Prices



Note : The Major Crop Production Index is constructed from data of the Ministry of Agriculture and Cooperatives

Indices of Thai and World Commodity Prices*



Note : * Comprising rice, shrimp, rubber, sugar, maize, cassava, coffee, soybean, oil palm, tobacco, cotton, and sorghum

Source : Ministry of Agriculture and Cooperatives, IMF and World Bank

Overall Development in 2007

According to the Office of the National Economic and Social Development Board (NESDB) report, **agricultural production** in 2007 expanded by 3.9 percent, decelerating from 4.4 percent in the previous year. This corresponded to the slowdown in the agricultural production index, which resulted from the decrease in maize and oil palm production. Meanwhile, sugarcane and cassava production rose in response to higher prices.

Production index for major crops increased by 1.4 percent, though slowing down slightly from last year. Sugarcane and cassava production increased substantially owing to favorable climate and a price surge in the preceding year, which led to the expansion of the cultivation areas. In contrast, maize production fell as farmers reduced areas for maize cultivation and switched to more profitable crops. Oil palm production also declined from drought at the end of 2006.

Price index of major crops in 2007 rose by 14.9 percent, decelerating from last year's 24.4 percent partly due to the continuous price increase earlier since 2006. The prices of cassava and maize edged up significantly as the demand for alternative energy increased. The price of paddy remained favorable, particularly the price of glutinous paddy which increased in line with the increased demand from China in preparation for the 2008 Olympic Games.

Overall, the deceleration in production and price of major crops resulted in the 16.6 percent increase in farm income from major crops, weakening from the preceding year's increase of 32.7 percent.

Price index of livestock dropped by 4.8 percent due to the excess supply of swine and the decline in domestic demand for cattle. On the other hand, the price of broiler and eggs rose moderately as a result of the higher external demand for processed fowl as well as the supply-demand rebalancing measures.

Fishery Price increased slightly by 0.3 percent, decelerating significantly from last year. This was due mainly to the reduction in shrimp price that resulted from the excess supply and the sluggish shrimp exports.

Following the deceleration in the crop and fishery price indices, together with the contraction in the livestock price index, the **overall Thai farm price index** increased by 10.1 percent, decelerating from the previous year.

World agricultural price (covering only 12 important commodities) heightened by 8.0 percent from the previous year. This was in line with an increase in the prices of oil palm, cassava, maize, and paddy, following the sustained demand for consumption and for alternative energy production. However, the price of sugar declined due to excess supply.

Major Commodities

Paddy. Paddy production grew slightly due to favorable climate condition and sufficient water level in all major reservoirs. The second crop production expanded to compensate the first crop that was damaged by flood at the end of 2006. Nonetheless, the satisfactory production growth at the end of 2007 resulted in a moderate increase in the overall first crop production compared to the preceding year.

In 2007, rice exports surged noticeably compared to last year in terms of both volume and price, due to the high level of the government's paddy stock. In addition, other rice exporters, such as Vietnam and India, faced natural disasters, which slowed down their exports and thereby pushed up the export price of Thai rice.

Cassava. Cassava production rose 1.8 percent, following the upward adjustment in price resulted from the surge in domestic and external demand. In addition, the policy to promote ethanol production and favorable climate condition induced farmers to expand the cultivation areas. The value of cassava exports increased mainly from price, while the volume of exports was similar to that of last year.

Rubber. Rubber production contracted 1.6 percent from the previous year. Despite the expansion of cultivation areas in response to price incentives, frequent rainfall in the southern part of Thailand impeded rubber tapping, causing the decline in yield per rai. Nonetheless, the price of rubber remained high in line with the external demand, particularly from China, India, and Russia.

Sugar cane. Sugar cane production increased 8.5 percent from favorable climate condition. Additionally, the preliminary sugar cane price for 2006/2007 that reached 800 baht per ton also encouraged the expansion of planted areas. However, the price of sugar cane for 2006/2007 dropped following a decrease in world sugar price due to the remaining excess supply.

Broiler. For 2007, broiler production increased only slightly due to the downward shift in production at the end of 2006, which attempted to curb excess supply that stemmed from the price hike in 2005. In addition, confidence in the quality of Thai broiler resulted in the balance between the supply and the demand from both domestic and external markets. The price of broiler rose satisfactorily in line with the higher demand for processed fowl exports.

Swine. In 2007, the excess supply of swine caused its price to decline from the preceding year. However, supply management measures contributed to the slight increase in swine price since mid-2007.

Shrimp. Shrimp production decelerated as a result of an unattractive price, unfavorable climate condition for shrimp production, and a slowdown in shrimp export.

Outlook for 2008

Major crops production was expected to increase due to favorable climate condition and the satisfactory price level since 2007, which would result in the expansion of cultivation areas. In addition, the external demand for agricultural products, both for consumption and for alternative energy production, was expected to remain strong. Crop production which was expected to expand included paddy, rubber, cassava, and oil palm.

Price of major crops, particularly paddy, rubber, cassava, oil palm and sugar cane, was also expected to rise in line with the high demand from both domestic and external markets. Additionally, the price of maize was expected to accelerate as the supply declined while the demand for feed production was still rising, even though the input was partly substituted by cassava.

Farm income from major crops was expected to increase following both price and production factors.

Price of livestock was expected to exhibit an upward trend in line with the prices of broiler and swine. Broiler export would benefit from the newly distributed import quota from EU and the high purchasing power from the Middle East. Meanwhile, the price of swine was likely to increase as excess supply subsided.

Price of fishery was also expected to increase in line with the price of shrimp, which was likely to rise amid the decreasing supply caused by the higher prices of oil and feed. In addition, the Japan-Thailand Economic Partnership Agreement (JTEPA), which was effective since 1 November 2007, would also benefit livestock and fishery exports.

World agricultural price (covering only 12 important commodities) was expected to adjust upward in line with the increase in prices of rubber, paddy, maize, oil palm, cassava, and sugar, which resulted from the rising demand for consumption and alternative energy production.

Table 2 : Major Crop Production, Trade, and Consumption[1/]

(Unit: Million tonnes)

Thai Crops	2003/04	2004/05	2005/06	2006/07	2007/08	Δ%
Paddy	29.47	28.54	30.29	29.64	30.18	1.8
First crop	23.14	22.65	23.54	22.84	23.39	2.4
Second crop[2/]	6.33	5.89	6.75	6.80	6.79	-0.1
Rubber	2.86	3.01	2.98	3.07	3.02	-1.6
Maize	4.18	4.22	3.94	3.72	3.60	-3.1
Cassava	21.44	16.94	22.58	26.92	27.39	1.8
Sugarcane	67.93	52.24	50.41	67.19	72.88	8.5
Mungbean	0.18	0.13	0.11	0.11	0.11	0.1
Soybean	0.23	0.22	0.23	0.21	0.21	-0.6
Oil palm	4.90	5.18	5.00	6.72	6.41	-4.5
Coffee	0.06	0.06	0.05	0.06	0.05	-9.4
World Crops	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**Δ%**
Grains						
Production	1,861.9	1,861.2	2,041.4	2,016.4	1,991.1	-1.3
Trade	233.0	233.0	243.1	251.1	259.6	3.4
Rice (milled)						
Production	391.5	391.6	400.5	417.6	418.2	0.1
Trade	27.2	27.2	29.2	29.4	30.5	3.8
Maize						
Production	627.2	627.3	714.8	696.3	704.3	1.1
Trade	79.1	79.1	76.0	82.6	90.9	10.0
Soybean						
Production	186.5	186.6	215.8	220.5	237.2	7.6
Trade	56.2	56.2	64.7	63.9	70.9	10.9
Rubber						
Production	8.1	8.7	8.8	9.6	9.7	1.2
Consumption	8.1	8.6	9.1	9.4	9.8	3.5

Note : P = Preliminary
E = Estimated
1/ Estimate as of January 2008
2/ Second crop production of 2007/08 is the production obtained during 1 January - 31 December 2008

Source : Office of Agricultural Economics
World Production, Market and Trade Reports, Foreign Agriculture Service, United States Department of Agriculture
LMC Commodity Bulletin

Table 3 : Thai Farm Prices

(Unit: Bath/tonnes)

	2006	2007				
		Total	Q1	Q2	Q3	Q4
Farm Price Index (1995 =100)	**204.3**	**224.9**	**226.4**	**223.4**	**216.2**	**230.6**
Δ%	17.4	10.1	11.9	8.3	9.2	7.5
1. Crop Price Index (1995 =100)	**238.7**	**274.2**	**277.9**	**270.6**	**258.6**	**282.7**
Δ%	24.4	14.9	17.5	12.4	15.1	10.0
Hom Mali Paddy	8,180	8,772	8,447	9,098	8,971	9,224
Δ%	6.5	7.2	6.2	8.2	5.1	11.5
Paddy Class 1 (5%)	6,496	6,529	6,541	6,517	6,444	6,590
Δ%	-2.5	0.5	1.9	-0.8	-3.3	1.7
Rubber	68,187	68,971	69,789	68,154	63,677	72,631
Δ%	30.7	1.2	-8.0	12.6	-8.4	41.0
Maize	5,165	6,804	6,852	6,756	6,270	7,242
Δ%	6.0	31.7	34.5	29.0	26.6	31.3
Cassava	1,088	1,460	1,222	1,699	1,678	1,720
Δ%	-19.5	34.2	1.6	74.4	77.5	71.5
2. Livestock Price Index (1995 =100)	**137.0**	**130.4**	**124.8**	**135.9**	**137.1**	**134.710**
Δ%	-7.5	-4.8	-12.1	3.0	2.8	3.3
3. Fishery Price Index (1995 =100)	**162.5**	**163.0**	**164.7**	**161.3**	**160.9**	**161.6**
Δ%	13.4	0.3	6.6	-5.5	-9.3	-1.3
4. Wood Price Index (1995 =100)	**122.2**	**122.8**	**121.4**	**124.1**	**122.7**	**125.5**
Δ%	6.1	0.5	0.2	0.8	-0.3	1.9

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

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

Table 4 : World Agriculture Prices

(Unit: US dollar/tonne)

	2006	2007P/				
		Total	Q1	Q2	Q3	Q4
World Agricultural Price* (1995=100)	**97.4**	**105.2**	**101.7**	**103.6**	**102.8**	**112.7**
Δ%	16.6	8.0	6.2	0.9	4.0	22.0
Rice 5%	304	332	319	323	331	357
Δ%	5.5	9.5	8.8	7.1	5.9	16.3
Shrimp	10,238	10,096	9,877	10,031	10,031	10,446
Δ%	-1.0	-1.4	-5.7	-4.2	-4.2	9.6
Rubber	2,107	2,290	2,233	2,338	2,138	2,451
Δ%	40.3	8.7	10.4	-4.8	-2.4	39.6
Sugar	326	220	234	205	216	223
Δ%	46.9	-32.7	-38.0	-44.2	-28.7	-13.2
Cassava	222	303	249	287	329	349
Δ%	-11.7	36.7	9.1	30.3	57.2	51.6
Maize	122	163	171	158	153	172
Δ%	23.6	34.3	62.8	44.4	31.0	10.4
Oil palm	417	719	557	711	746	862
Δ%	13.4	72.5	45.1	82.9	78.4	81.1

Note: * Only 12 commodities particularly important to the Thai economy 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

P = Preliminary

Source: The world Agricultural Price Index is constructed from World Bank and IMF's data, except cassava price is constructed from The Thai Tapioca Trade Association's data.

Manufacturing Sector

Table 5 : Manufacturing Production Index*

(Year-on-year percentage change)

Industry	Weight 2000	2005	2006	2007P/ H1	H2	Year
Textiles	12.23	2.2	2.2	-1.1	-3.8	-2.4
Electronics	10.31	39.7	23.7	19.2	30.3	25.3
Petroleum	9.48	-0.4	2.4	1.1	1.2	1.2
Vehicles and Equipment	6.85	6.3	5.0	-3.2	10.9	3.8
Food	6.82	-0.3	7.6	6.7	1.8	4.6
Beverages	5.11	2.9	14.1	6.7	-0.1	3.3
Electrical Appliances	5.05	1.8	-8.1	2.2	10.1	6.0
Leather and Leather products	2.79	-10.2	-26.9	47.8	-12.7	22.7
Chemical Products	2.36	3.5	0.4	0.9	14.4	7.6
Iron and Steel Products	2.21	-3.6	-3.4	-6.4	2.3	-2.3
Construction Materials	1.84	11.3	5.6	-4.4	-2.8	-3.6
Others	10.62	4.4	0.3	1.9	1.7	1.8
Total*	**75.68**	**9.1**	**7.4**	**5.8**	**10.6**	**8.2**

Note : * Covering 76 products with 75.7 percent of the overall value added in the manufacturing sector

P = Preliminary Data

Source : BOT surveys

Table 6 : Capacity Utilization*

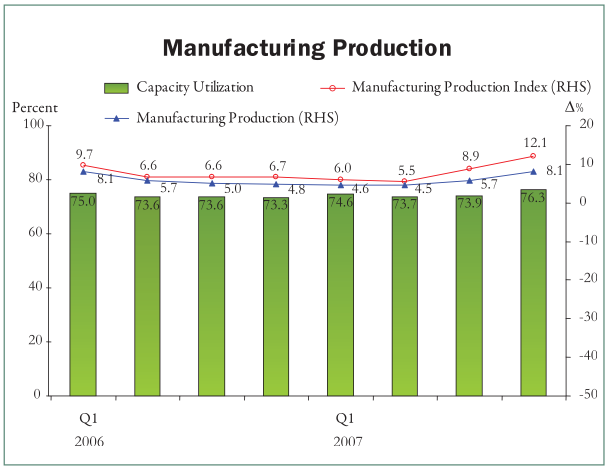
(Unit : Percent)

Industry	Average 1995-1996	2005	2006	2007P/ H1	H2	Year
Electronics	77.1	67.0	76.1	72.2	86.3	79.3
Petroleum	88.6	85.2	87.2	87.5	89.0	88.2
Vehicles and Equipment	74.7	75.9	79.2	68.8	76.3	72.6
Beverages	69.0	66.6	77.1	81.4	81.7	81.5
Electrical Appliances	87.1	74.6	68.1	68.8	72.9	70.6
Food	40.4	54.0	59.5	69.1	51.6	60.4
Leather and Leathers Products	-	55.0	40.2	69.4	29.1	49.3
Chemical Products	91.4	94.0	93.8	90.4	101.4	95.9
Iron and Steel Products	58.1	61.8	58.9	57.5	55.0	56.2
Construction Materials	87.9	77.9	81.6	78.4	78.3	78.4
Pulp and Paper Products	77.6	93.4	91.0	90.3	91.7	91.0
Rubber and Rubber Products	73.1	67.1	64.6	58.2	63.8	61.0
Others	81.8	67.9	64.3	63.7	60.8	62.3
Total*	**76.7**	**72.1**	**73.9**	**74.1**	**75.1**	**74.6**

Note : * Covering 69 products with 59.1 percent of the overall value added in the manufacturing sector

P = Preliminary Data

Source : BOT surveys



According to the NESDB report, the **manufacturing production** expanded by 5.8 percent in 2007, close to last year's growth of 5.9 percent. **Manufacturing Production Index** (MPI), which covered 76 products or 75.7 percent of the overall value added in the manufacturing sector, rose by 8.2 percent, accelerating from 7.4 percent in the previous year. This was in line with the rapid growth of export-oriented industries, while the domestic-oriented industries decelerated in tandem with the slowdown in domestic economy.

Industries that expanded favorably included electronics, leather and leather products, food, and electrical appliances. However, various industries experienced a contraction, particularly textiles, furniture, construction materials, and iron and steel products. This was due to the intensified competition from foreign markets as well as the slowdown of domestic demand.

Capacity Utilization Rate of the manufacturing sector averaged at 74.6 percent in 2007, increasing from 73.9 percent in the previous year. The industries contributed to this expansion were electronics, vehicles, rubber products, chemical products, and pulp and paper products.

The details of manufacturing production and capacity utilization by sectors are as follows:

Electronics production continued to expand well, especially in the case of hard disk drive following favorable demand from foreign markets. The capacity utilization rate increased from 76.1 percent in the previous year to 79.3 percent in 2007.

Production of **leather and leather products** accelerated, particularly in the first half of the year as a result of special orders for small leather products from the US market. Despite a moderation during the second half of 2007, the outlook for leather production was expected to improve as the Chinese government decided to cut its export subsidy. This induced higher foreign demands on Thai leather products. The capacity utilization rate of this sector was up from 40.2 percent in 2006 to 49.3 percent in 2007.

Food production improved from the previous year, following higher production of sugar (especially during the first half of the year). The increased supply of sugar cane was due to favorable climate conditions as well as expanded cultivation areas as farmers were motivated by high price of sugar last year. With regard to frozen seafood, production also expanded well in line with favorable external demand. In 2007, the capacity utilization rate stood at 60.4 percent, closed to 59.5 percent in the previous year.

Electrical appliances production improved from the previous year. This was due to the expansion in air-conditioner production as Japan and South Korea manufacturers moved their production bases to Thailand. The capacity utilization rate was at 70.6 percent, rising from 68.1 percent in the previous year.

Production of **vehicle and transportation equipment** decelerated slightly from the previous year as a result of soft domestic demand in passenger cars and saturated market for motorcycles. Nonetheless, external demand for commercial cars and passenger cars continued to expand. In the second half of the year, domestic demand improved, owing mainly to the launch of new car models as well as continuous marketing campaigns and promotions, including attractive terms and conditions of car leasing. The capacity utilization rate stood at 72.6 percent, down from 79.2 percent in the previous year.

Chemical products production accelerated, especially in the second half of 2007. This was following the reopening of intermediate petrochemical plants that were shut down for maintenance during the same period last year. The capacity utilization rate was at 95.9 percent, up from 93.8 percent last year.

Beverage production growth moderated from the previous year, particularly in beer and liquor production. This was due mainly to the high base effect last year, following accelerated production of beer and liquor in anticipation of the excise tax increase. In addition, the moderation was also due to declining purchasing power of consumers along with the slowdown of domestic economy. Despite the slowdown in beer production, competition, however, increased as manufacturers had launched new products and relied more on price-cutting to attract more market share. Overall, the capacity utilization rate rose from 77.1 percent in the previous year to 81.5 percent in 2007.

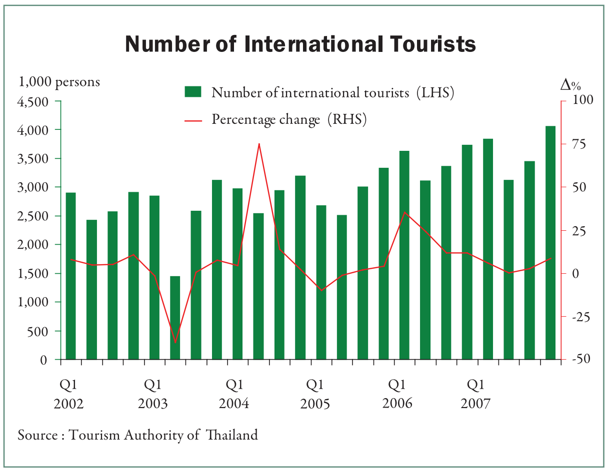
Tobacco production accelerated, particularly in the first half of 2007. This was due to the low base effect last year when sale volume declined following an increase in excise tax for tobacco in December 2005 and the prohibition of cigarette displays at sale points since September 2005. Moreover, the improvement was also led by accelerated production in the second half of the year in anticipation of further rise in excise tax from 79 percent to 80 percent, following the cabinet's decision on 28 August 2007. Overall, the capacity utilization rate in 2007 stood at 53.7 percent, up from 50.0 percent in 2006.

Textile production declined from the preceding year due to the loss of competitiveness to countries with cheaper production cost, namely China and Vietnam. However, spinning production expanded in line with external demand, particularly from China and Vietnam, to support their garment production.

Furniture production decreased continuously due to shortage of raw materials, especially high-priced rubber wood. Together with an intensed price competition with China and Vietnam, the capacity utilization rate, therefore, declined to 52.5 percent from 60.2 percent in the previous year.

Production of **construction materials, iron and steel products** declined from last year in line with the slowdown in the real estate sector and the lack of government's large-scale investment projects. The capacity utilization rate of these sectors dropped from 81.6 and 58.9 percent in 2006, to 78.4 and 56.2 percent in 2007, respectively.

Services



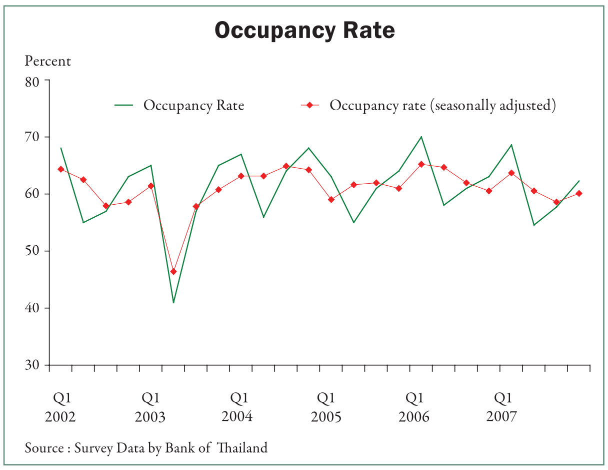


Table 7 : International Tourists Calssified by Country of Residence

Country	Δ (%)		Market Share (%)	
	2006	2007	2006	2007
East asia	18.7	0.5	57.5	55.2
- Malaysia	17.7	-1.7	11.4	10.7
- China	35.6	-2.9	7.5	6.9
- Japan	9.4	-3.4	9.4	8.6
- Korea	35.0	-2.4	8.0	7.4
Europe	23.6	11.1	24.0	25.5
USA	11.5	-0.9	6.0	5.7
Oceania	25.0	16.6	4.5	5.1
Middle East	33.5	11.8	2.9	3.1
Others	18.2	13.0	5.1	5.5

Source : Tourism Authority of Thailand

Tourism and Hotel Industry

The Tourism and Hotel Industry in 2007 continued to expand, though at a slower rate compared to the previous year. This was due to several negative factors, including bombings in Bangkok area during the New Year's Eve festivities, smoke problem in the upper northern provinces, seven explosions in Had Yai area, and political uncertainties in Thailand.

For the entire year, the number of foreign tourists totaled 14.5 millions, increasing by 4.6 percent from 2006. The hotel occupancy rate averaged at 60.8 percent, declining from 63.0 percent in 2006 in which there was the Royal Flora Festival in Chiang Mai at the end of year.

In the southern area along the Andaman coastline, the tourism industry expanded substantially in 2007. This was in tandem with the increase in the number of quality tourists as a result of the strategic campaign by the Tourism Authority of Thailand (TAT) as well as the augmentation of direct flights by domestic airlines. Meanwhile, in the lower southern part of Thailand, the tourism industry contracted due largely to the prolonged unrest. The number of international tourists who entered Thailand from southern ports of entry increased by 8.1 percent from the previous year. The hotel occupancy rate in the southern region increased from 53.8 percent in 2006 to 55.2 percent in 2007.

The average room rate in 2007 increased moderately by 5.3 percent. Overall, tourism revenue from foreigners amounted to 537.3 billion baht, increasing by 6.1 percent from the previous year.

In 2007, the number of foreign tourists from East Asian countries-the tourist group that was sensitive to security factors-as well as that from North and South America dwindled from the previous year. Meanwhile, the number of foreign tourists from Europe, which has been the main market for Thai tourism, and from Oceania and the Middle East, which were the new targets, continued to expand considerably, with steady increase in market shares. Nevertheless, the structure of foreign tourists in 2007 did not change significantly from the previous year. Tourists from East Asia continued to account for the largest share at 55.2 percent of the total number of foreign tourists, followed by those from Europe which accounted for 25.5 percent.

The tourism activities in 2008 was expected to continue improving in line with the rising number of foreign tourists, especially those from Europe, Oceania, and the Middle East, which have exhibited high growth and increasing market shares, whereas the effect of baht appreciation had been minimal. In addition, the TAT has laid out a strategy to attract tourists attending the 2008 Olympic Games in China to extend their trip to Thailand. Furthermore, the TAT has also aimed to expand the market for quality tourists in order to attain continuous and sustainable growth in revenue from the tourism industry.

Nevertheless, the prolonged unrest in certain areas in Thailand remained a risk factor to the country's tourism industry which would adversely affect traveling decisions of both foreign and Thai tourists.

Table 8 : Tourism Indicators

	2006	2007 P/	2006			
	Year	Year	Q1 P/	Q2 P/	Q3 P/	Q4 P/
1. Number of foreign tourist (million persons)	13.8	14.5	3.8	3.1	3.5	4.1
Δ%	20.0	4.6	5.8	0.4	2.7	8.8
2. Income from tourism (billion baht)	506.4	537.3	148.9	107.2	119.1	162.2
3. Occupancy rate (percent)	63.0	60.8	68.6	54.5	57.7	62.2
4. Room rates (baht)	1,369	1,442	1,607	1,339	1,301	1,520

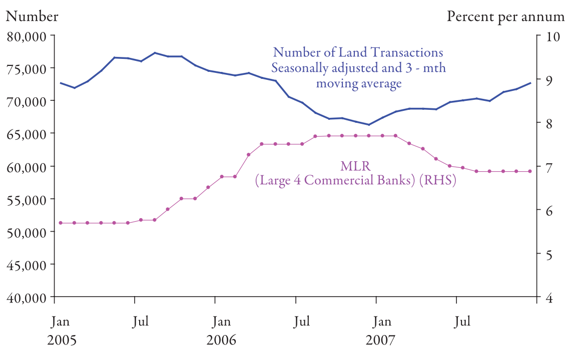
Note : P = Preliminary data

Δ% represents percentage change from the same period last year

Sources : Tourism Authority of Thailand and Bank of Thailand.

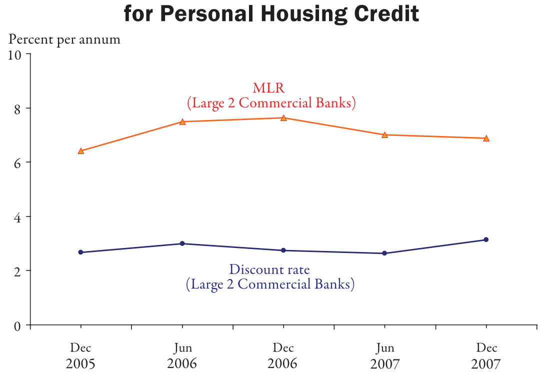
Real Estate

Interest Rate and Number of Land Transactions



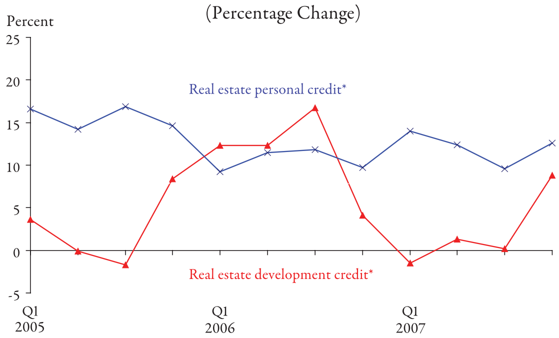
Source : Department of Lands

Interest Rate and Discount Rate for Personal Housing Credit



Source : Bank of Thailand

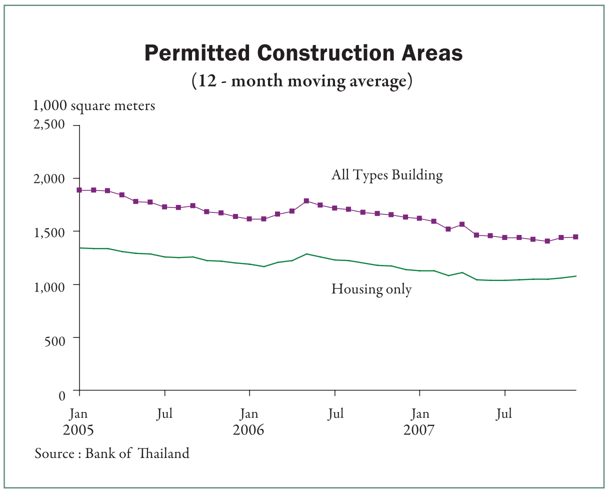
Total Real Estate Credit Outstanding of Commercial Banks
(Percentage Change)

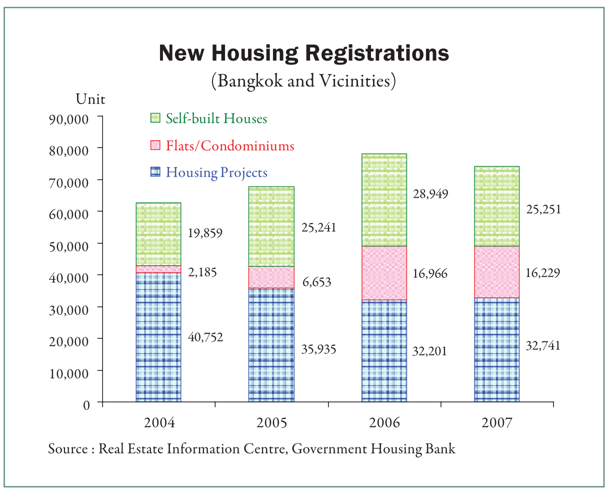


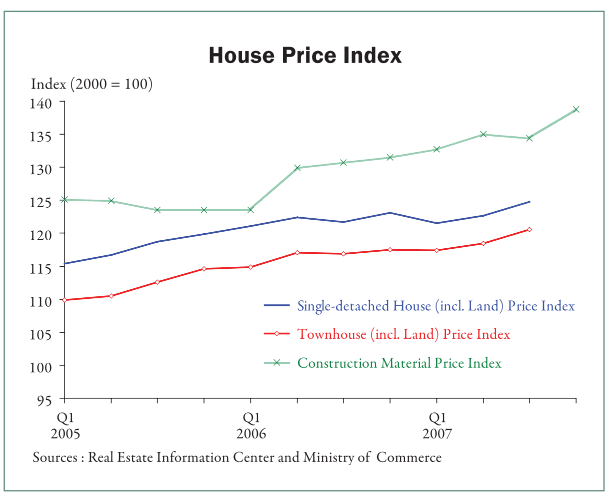
Note : * Including Tisco Bank since July 2005, Kiatnakin Bank since October 2005, ACL Bank and Land and House Retail Bank since December 2005
Source : Bank of Thailand

During the first half of 2007, overall real estate market continued to slow down from 2006. This was largely due to the lack of confidence of consumers and real estate developers regarding economic and political conditions. In addition, the cost of living was also rising through out the year in line with the oil prices. Nevertheless, real estate activities started to revive gradually in the second half of the year.

With regards to the **demand-side** indicators, the number of land and building transactions in the first half of 2007 improved marginally from the fourth quarter of 2006, though still contracted from the same period last year. However, during the second half of 2007, the number of land and building transactions accelerated continuously, particularly in the fourth quarter, due to a continuous flow of real estate events and exhibitions as well as sale promotions and campaigns throughout the year. In addition, there was a rush towards year-end to complete transactions on the second-hand houses before the abolition of measures to reduce property transfer fees on 31 December 2007 and prior to the enforcement of the new land appraisal price on 1 January 2008. Interest rates on housing credits were also accommodative owing to an intense competition among financial institutions. This was reflected in the commercial banks' credit outstanding for real estate, which increased by 12.6 percent in 2007. This was in line with the increased market share of commercial banks relative to the specialized financial institutions, as well as the increased credits for vacant land purchases.







On the supply **side, most** indicators decelerated continually since the beginning of 2007. The large expansion of housing supply during 2004-2006 resulted in the slowdown of new supply during 2007, reflecting in a drop in the permitted construction areas in the municipal areas for the whole kingdom by 11.3 percent, as well as a decline in the new housing registrations in Bangkok and vicinities area by 5.0 percent. Likewise, domestic cement sales also dropped by 5.0 percent in 2007.

Furthermore, real estate developers were also confronted with the rising cost of construction materials since early 2006. Thus, they were forced to adjust by switching to cheaper decoration materials while relying more on semi pre-fabrication system in order to shorten the construction time. In addition, they also emphasized more on expanding the existing projects rather than starting the new ones as well as shifted to build-to-order houses in order to mitigate risks in the case of demand slump. Meanwhile, developers also competed more on the medium to low price condominiums in response to a strong demand in this particular segment and the decline in consumer purchasing power. Not only there was a decline in private housing construction, but the public constructions were also moderate due to the delay of the government's large-scale investment projects. These resulted in the slow down of the overall constructions in 2007.

The continuous slowdown of new supply in the real estate market in 2007 resulted in the contraction of commercial banks' credit for housing development by 2.6 percent from the previous year. However, the overall real estate development credit outstanding of commercial banks rose by 8.8 percent from the previous year, owing largely to credit expansion for the development of both apartments and serviced apartments.

With regards to pricing aspect, though the construction costs had increased in line with the wholesale price of construction materials, which increased by 4.9 percent from last year, the dwelling prices increased only marginally. During the first nine months of 2007, price indices for single-detached house with land and townhouse with land increased by only 1.0 and 2.2 percent, respectively, due to an intense competition among developers and remaining supply from the previous year.

Outlook for 2008

Overall demand for the real estate market was expected to improve moderately in 2008 due to 1) the consumer confidence which improved after an establishment of the new government, 2) the interest rate which still remained at an accommodative level, and 3) the new government's economic stimulus package which re-enforced the tax reduction measures on property transfer as well as the reduction of mortgage registration fees from 2 percent and 1 percent, respectively, to 0.01 percent. However, amidst the high cost of living, the demand for dwellings remained clustered in the medium to low price segments.

Supply in the real estate market was expected to slowdown slightly due to an intense competition among real estate developers. In addition, heightened cost pressure was expected due to 1) the rising cost of construction materials, 2) the increasing cost in compliance with the environment regulations, and 3) an increasing financial cost when the regulation on escrow accounts becomes effective. Nonetheless, the economic stimulus package introduced by the new government to reduce specific business tax from 3.3 percent to 0.1 percent should somewhat relieve burdens of the real estate developers.

The dwelling price in 2008 was expected to edge up in line with the rising cost of construction materials and the new land appraisal prices, which became effective on 1 January 2008. Moreover, the developers could transfer some burdens from environmental development and financial costs onto customers.

Table 9 : Real Estate Indicators

	2006	2007				
		Year	Q1	Q2	Q3	Q4
Land Transaction Value 1/ **(Million Baht)**	**617,930**	**595,483**	**128,362**	**141,579**	**148,208**	**177,334**
Δ%	0.5	-3.6	-24.8	-0.6	2.0	11.3
Juristic Act and Right Registration Fee 2% 2/ (Million Baht)	**11,096**	**11,118**	**2,454**	**2,632**	**2,776**	**3,256**
Δ%	-5.6	0.2	-10.1	-1.9	4.3	7.7
Juristic Act and Right Registration Fee 0.01% 3/ (Million Baht)	**6.3**	**3.8**	**0.6**	**0.8**	**0.9**	**1.5**
Δ%	83.2	-40.3	-83.5	-2.9	-23.0	76.7
Number of Land Transactions (Unit)	**835,095**	**842,680**	**206,227**	**212,096**	**206,674**	**217,683**
Δ%	-7.6	0.9	-7.5	-1.1	4.0	9.4
Permitted Construction Areas (1,000 square meters)	**19,570**	**17,360**	**3,677**	**4,858**	**4,134**	**4,690**
Δ%	-0.3	-11.3	-27.0	-13.4	-8.9	6.9
-Permitted Housing Construction Areas Municipality area (1,000 square meters)	**13,692**	**12,915**	**2,769**	**3,474**	**3,240**	**3,432**
Δ%	-5.2	-5.7	-19.7	-14.0	3.6	11.5
-Permitted Housing Construction Areas Bangkok area (1,000 square meters)	**8,236**	**7,656**	**1,324**	**2,187**	**1,891**	**2,255**
Δ%	-10.1	-7.0	-38.5	-13.4	-3.8	41.6
New Housing Registrations (Bangkok and Vicinities) (Unit)	**78,116**	**74,221**	**15,631**	**16,572**	**21,875**	**20,143**
Δ%	8.4	-5.0	0.3	-20.6	-9.9	15.3
- Housing Projects	32,201	32,741	5,527	6,708	9,364	11,142
- Flats/Condominiums	16,966	16,229	2,872	3,558	6,716	3,083
- Self-built Houses	28,949	25,251	7,232	6,306	5,795	5,918
Cement Sale (1,000 Metric tons)	29,156	27,690	7,599	6,634	7,033	6,423
Δ%	0.7	-5.0	-3.0	-7.7	-3.0	-6.7
Single-detached House Price Index (Including Land) (2000 = 100)	**122.1**	**123.0** 4/	**121.5**	**122.7**	**124.8**	**n.a.**
Δ%	3.7	1.0	0.4	0.2	2.6	n.a.

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

1/ Derived from the amount of the Juristic Act and Right Registration Fee.

2/ The Juristic Act and Right Registration Fee for immovable property is charged at a rate of 2 percent, in accordance with Ministerial Regulation No. 47 (B.E. 2541), which was issued under the Land Code Amendment Act B.E. 2497 Article 2(7).

3/ The Juristic Act and Right Registration Fee for immovable property is charged at a rate of 0.01 percent as specified by the Cabinet.

4/ Average of the first three quarters

Sources : Department of Lands, Government Housing Bank, Ministry of Commerce, and Bank of Thailand

Table 9 : Real Estate Indicators (Cont.)

	2006	2007				
		Year	Q1	Q2	Q3	Q4
Town House Price Index (Including Land) (2000 = 100)	**116.6**	**118.8**[4/]	**117.4**	**118.5**	**120.6**	**n.a.**
Δ%	4.2	2.2	2.2	1.3	3.1	n.a.
Construction Material Price Index (2000= 100)	**128.9**	**135.2**	**132.7**	**135.0**	**134.4**	**138.8**
Δ%	3.7	4.9	7.5	3.9	2.9	5.6
Real Estate Development Credit Outstanding[5/] (Billion Baht)	**313.8**	**341.4**	**312.9**	**319.2**	**324.1**	**341.4**
Δ%	4.1	8.8	-1.5	1.3	0.2	8.8
- Housing Development Credit[5/] (Billion Baht)	**181.7**	**177.0**	**182.2**	**188.6**	**182.5**	**177.0**
Δ%	-5.3	-2.6	-4.0	-2.2	-7.0	-2.6
- Other Real Estate Credit[5/] (Billion Baht)	**132.0**	**164.4**	**130.7**	**130.7**	**141.5**	**164.4**
Δ%	20.7	24.5	2.1	6.7	11.3	24.5
Real Estate Personal Credit Outstanding[5/] (Billion Baht)	**690.9**	**777.6**	**704.2**	**725.0**	**745.5**	**777.6**
Δ%	9.7	12.6	14.0	12.4	9.6	12.6
- Housing Personal Credit[5/] (Billion Baht)	**685.2**	**771.0**	**698.4**	**718.7**	**739.0**	**771.0**
Δ%	9.7	12.5	14.0	12.4	9.4	12.5
- Other Real Estate Personal Credit[5/] (Billion Baht)	**5.7**	**6.6**	**5.7**	**6.3**	**6.6**	**6.6**
Δ%	8.6	15.3	13.6	6.7	37.9	15.3
Property Fund[6/] (Million Baht)	**42,679**	**49,549**	**43,758**	**46,533**	**49,157**	**49,549**
Δ%	126.0	16.1	127.7	127.1	136.9	16.1

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

5/ Credits extended by commercial banks (excluding foreign branches of Thai commercial banks) at end period.

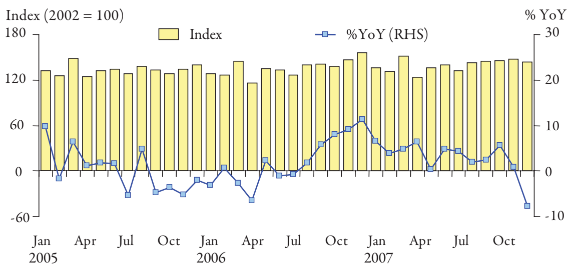
6/ Market value of property funds at end-period

Sources : Bank of Thailand and the Stock Exchange of Thailand

Trade

Wholesale Trade Index (2002 Prices)

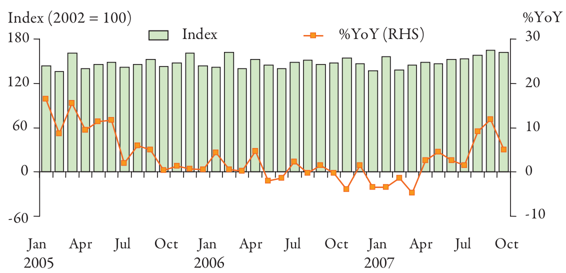
	2006	2007	2007			
			Q1	Q2	Q3	Q4
Index	136.0	139.6	139.8	133.0	140.0	145.8
% YoY	2.1	2.7	5.1	3.8	2.9	-0.7



Source : Bank of Thailand

Retail Trade Index (2002 Prices)

	2006	2007	2007			
			Q1	Q2	Q3	Q4
Index	147.7	150.7	146.5	143.8	150.8	161.9
% YoY	0.4	2.1	-1.9	-1.3	2.8	8.6



Source : Bank of Thailand

Overall trading activities in 2007 expanded slightly from the preceding year amid the higher cost of living and the weak consumer confidence resulted from economic and political uncertainties, which caused the spending behavior to remain conservative.

Wholesale trade continued to expand, particularly the sales of necessary goods such as textiles, garments, and footwear, foods and beverages, and tobacco products. In addition, the sales of metal and mineral products, chemical products, and farm-related products remained satisfactory.

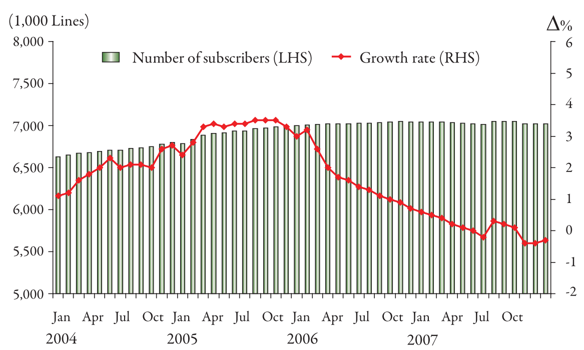
Retail trade in 2007 also expanded from the previous year due to the expansion of the sales from supermarkets and department stores as well as the sales of necessary products including fresh food, fruits, and vegetables. However, the sales from vendors, fresh-food markets, mail orders, and garage sales contracted this year.

Outlook for 2008

The trading sector in 2008 was expected to ameliorate amid an improving domestic demand and the recovery of consumer confidence as political uncertainties abated.

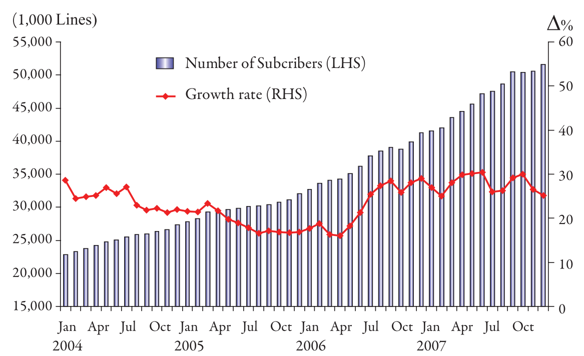
Telecommunication

Subscribers to Fixed-line Telephones



Source : TOT Corporation Public Company Limited and CAT Telecom Public Company Limited

Subscribers to Mobile Telephones



Source : TOT Corporation Public Company Limited and CAT Telecom Public Company Limited

In 2007, fixed-line telephone services remained broadly unchanged throughout the year. The number of fixed-line service subscribers slightly decreased by 0.3 percent from 2006, in line with the saturated market and the lack of new customers following the slowdown in the real estate sector.

Mobile telephone services continued to exhibit high growth from the previous year, notwithstanding the fact that the service providers could not allocate adequate new numbers to customers during mid-2007. The service providers aimed to attract more clients in the north and the northeast regions, where the occupied rate was relatively low compared to that in the central region. Moreover, after the new regulations on the usage and linkage of telecommunication network, which regulated service and network fees, became effective in 2006, the service providers, thus, scaled back their price-cutting strategy, and competed more in terms of quality and customer satisfaction. This resulted in the total number of mobile service subscribers in 2007 of around 51.6 million lines, increasing by 10.4 million lines or 25.2 percent from the previous year.

As for the 2008 outlook, fixed-line telephone services were expected to remain unchanged, with the number of telephone users remaining approximately at the same level as in 2007. Some expansion would occur outside the Bangkok metropolitan area. As for mobile telephone services, further expansion were also expected mostly from suburban areas as the occupied rate was still low and the average age of customers would be lowered. The service providers would continue to compete on service quality and offer more complementary services to their customers in order to boost the average revenue per user (ARPU), which was still low.

Table 10 : Telecommunication Services

(Million Lines)	2006	2007	2007			
			Q1	Q2	Q3	Q4
Fixed-line Telephones[1/]	7.05	7.02	7.04	7.02	7.05	7.02
Δ%	0.6	-0.3	0.2	-0.2	0.1	-0.3
Mobile Phones[1/]	41.2	51.6	43.6	47.2	50.5	51.6
Δ%	28.7	25.2	28.0	30.4	29.2	25.2

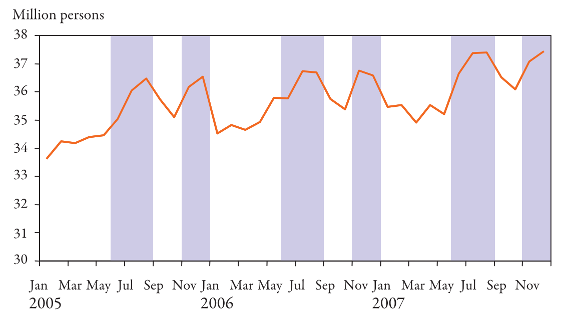
Note : 1/ Data as of end-period

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

Source : TOT Corporation Public Company Limited and CAT Telecom Public Company Limited

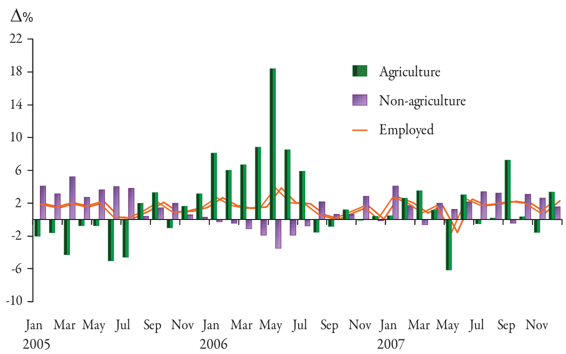
Labour Market Conditions

Number of Employed Persons



Note : The number of employed persons is highest during the periods of June-August and November-December as these are farming and harvest seasons, respectively

Employment



Source : National Statistical Office

Table 11 : Labour Market Conditions by Sector

(Unit: Percent)	Share of Employed Persons		Growth Rate of Employed Persons	
	2006	2007	2006	2006
Agriculture	39.7	39.5	4.1	1.0
Non-agriculture	60.3	60.5	-0.6	2.0
Manufacturing	15.4	15.5	-1.5	2.1
Wholesale and retail trade	15.5	15.4	-0.7	1.1
Construction	6.0	5.9	1.0	-0.1
Service	22.4	22.7	-0.3	3.1
Others	2.0	1.0	-0.4	3.0
Total	**100.0**	**100.0**	**1.2**	**1.0**

Table 12 : Labour Market Conditions by Region

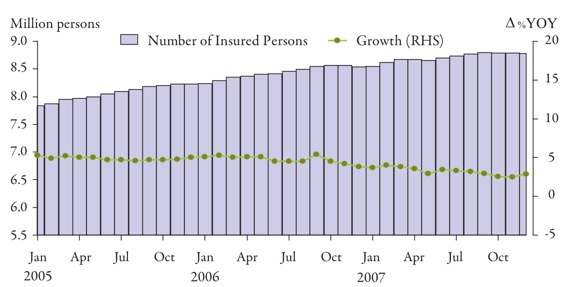
(Unit: Percent)	Share of Employed Persons	Growth Rate of Employed Persons		Unemployment Rate	
	2007	2006	2007	2006	2007
Central region	26.0	5.5	2.2	1.4	1.4
Bangkok	10.9	-7.7	1.7	1.5	1.1
Northern region	18.0	-0.3	0.6	1.4	1.3
Northeastern region	31.5	0.9	1.2	1.7	1.4
Southern region	13.6	4.4	2.3	1.5	1.3
Whole Kingdom	**100.0**	**1.2**	**1.6**	**1.5**	**1.4**

Source : National Statistical Office

In 2007, **the number of employed persons** increased by 1.6 percent from the previous year. The employment growth in the agricultural sector moderated from 4.1 percent last year to 1.0 percent. The non-agricultural sector observed employment growth in most components. In particular, employment in the service sector registered the highest growth rate of 3.1 percent. Nonetheless, the construction sector experienced a decline in the employment caused by the lackluster real estate market.

The northeast of Thailand exhibited the largest share of employed persons compared to other regions. This was mainly due to the investment promotion of the Board of Investment of Thailand (BOI), which attracted investment in labour-intensive industries such as textiles and agricultural processing products. Employment in the central and the southern regions continued to grow, though at a slower pace. This was in line with an expansion of the cultivation areas in response to a rise in price of major crops, particularly rubber. At the end of December 2007, the number of persons covered in the social security system totalled 8.78 million, increasing by 2.9 percent from the previous year. This reflected a continuous growth in employment in the formal sector.

Number of Insured Persons in the Social Security System



Note : Since April 2002, the Social Security Office expanded Soci al insurance coverage to establishments with less than 10 persons
Source : Social Security Office

Unemployment rate remained low, falling slightly from 1.5 percent in 2006 to 1.4 percent. This indicated a rather tight labour market, following a substantial growth of employment in the manufacturing and service sectors. The northeastern region registered the largest decline in unemployment rate, corresponding to its highest share of employed persons.

Price Level

In 2007, **the consumer price index** (CPI) rose by 2.3 percent, decelerating slightly from the previous year's rate of 4.7 percent. This was a result of a deceleration in the prices of food and beverages as well as non-food items, while energy prices had declined during the first three quarters of the year. Core CPI (excluding raw food and energy prices) rose by 1.1 percent, decelerating from 2.3 percent in the previous year and remaining within the policy target range of 0-3.5 percent.

Factors that contributed to the deceleration of inflation in 2007 from 2006 are as follows:

(1) Retail oil prices declined during the first three quarters, as world oil prices increased modestly while the baht appreciated concurrently.

(2) The increase in prices of raw food, especially vegetables and fruits, slowed down as production firmed up from last year. Meat prices, especially those of swine and fishing products, declined from rising production as well.

(3) Prices in the housing and furnishing category decelerated slightly, as electricity cost declined in line with oil prices.

(4) Prices of public transportation services rose at a slower pace compared to last year, following oil price trend. The deceleration in the prices in this category contributed significantly to a decline in core inflation.

Nevertheless, while the annual average inflation in 2007 decelerated from the previous year, inflationary pressure began to mount during the last quarter of the year from sharp pick up in oil prices, causing headline inflation to accelerate after moderating for three consecutive quarters. Moreover, the hike in world commodity prices such as rice, wheat, milk, energy crops and metals (iron and lead), partly caused by stronger demand from China and India, sent cost of production rising. In the context of a pick up in domestic demand, producers managed to pass on the cost to retail prices.

Table 13 : Consumer Price Index

(Percentage change from the same period last year)

	Weight (Per cent)	2006	2007	2007			
				Q1	Q2	Q3	Q4
Headline Consumer Price Index	**100.0**	**4.7**	**2.3**	**2.4**	**1.9**	**1.6**	**2.9**
Food and beverages	36.1	4.8	4.0	5.1	4.2	4.3	2.7
Non-food and beverages	63.9	4.6	1.2	0.9	0.4	0.0	3.0
Energy	9.1	15.0	2.4	-1.0	-0.2	-1.4	12.7
Raw food	15.0	7.5	6.5	8.9	7.2	7.4	3.2
Core Consumer Price Index	**75.9**	**2.3**	**1.1**	**1.4**	**0.9**	**0.8**	**1.1**

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

The **Producer Price Index** (PPI) increased by 3.3 percent in 2007, decelerating from the previous year's 7.0 percent on the back of a deceleration of agricultural and manufactured product prices, which expanded by 13.7 and 1.7 percent, respectively, compared to the previous year's 18.0 and 5.0 percent. Meanwhile, prices of mining products declined by 5.8 percent, compared with the previous year's increase of 15.1 percent.

Agricultural prices accelerated sharply on the back of the increase in the prices of rice, cassava and oil palm, in line with the demand for consumption and raw materials used in energy production.

Price of manufactured products decelerated in accordance with petroleum product prices such as gasoline and rubber and plastic products. However, prices of iron and steel products rose in line with world prices.

In the same vein, prices of mining products decelerated in line with the prices of crude oil and natural gas as well.

Table 14 : Producer Price Index

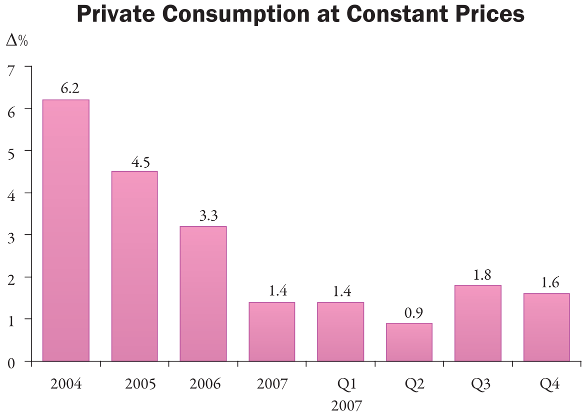
(Percentage change from the same period last year)

	Weight (Per cent)	2006	2007	2007			
				Q1	Q2	Q3	Q4
Producer Price Index	**100.0**	**7.0**	**3.3**	**2.6**	**1.8**	**1.5**	**7.0**
Agricultural Products	9.5	18.0	13.7	12.8	17.7	15.8	8.5
Mining Products	2.4	15.1	-5.8	-2.2	-12.4	-8.2	0.7
Manufactured Products	88.1	5.0	1.7	1.0	-0.6	-0.5	7.0

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

Private Consumption

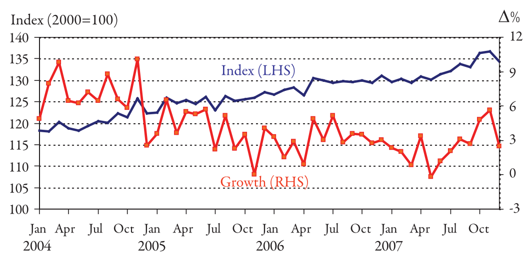
Private Consumption at Constant Prices



Source : National Economic and Social Development Board

Private Consumption Index[1/]

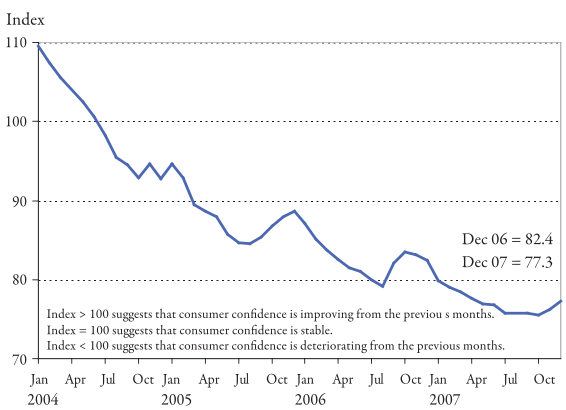
	2006	2007	2007 Q1	2007 Q2	2007 Q3	2007 Q4
Index[1/]	129.1	132.3	129.8	130.8	133.0	135.8
Δ%	3.1	2.5	1.7	1.4	2.6	4.3



1/ The Bank of Thailand has revised the Private Consumption Index (PCI) series since January 2000 in order to better reflect private consumption expenditure. The revised index comprises 5 components from 10 indicators (6 indicators from the old series) and assigns weight for each component.

Source : Bank of Thailand

Consumer Confidence Index



Source : The University of the Thai Chamber of Commerce

In 2007, private consumption, according to the actual data released by the NESDB, expanded by 1.4 percent, decelerating from 3.2 percent in the previous year. The slowdown of household spending corresponded to the Consumer Confidence Index, which declined continuously due to the rising cost of living as the retail prices of energy and consumer goods remained at high levels, while political uncertainties still persisted. Nonetheless, in the second half of 2007, private consumption began to exhibit an improving sign, fostered by improving political conditions and low interest rates.

The BOT's Private Consumption Index (PCI)[1/] also slowed down, increasing by 2.5 percent in 2007, compared with 3.1 percent in 2006. However, in the second half of 2007, the index tracked a recovery trend, reflecting the improvement in private spending.

Overall, the deceleration of the index from the preceding year was due to the slowdown in most components. Particularly, sales in the car category decreased from last year in line with the weak demand and eroded purchasing power. The motorcycle market began to saturate after the earlier period of large expansion. Meanwhile, a temporary factor played an important role near the year-end in passenger car market as the tax benefits on alternative energy (E-20) car models, which would be effective on 1 January 2008, induced consumers to postpone purchase decisions.

1/ The Bank of Thailand has revised the Private Consumption Index (PCI) series since January 2000 in order to better reflect private consumption expenditure. The revised index comprises 5 components from 10 indicators (6 indicators from the old series) and assigns weight for each component. For more information, please consult http://www.bot.or.th/BOTHomepage/DataBank/Econcond/conind/Leading_Inflation/12-28-2007-eng-i/revise-pci-e.pdf

The other indicators still grew from last year, though at a slower pace. In spite of the sluggish expansion during the first three quarters of 2007, imports of consumer goods at constant prices accelerated considerably in the last quarter, following the preparation to accommodate the festive activities near the year-end. Value-added tax (VAT) at constant prices also drove up in the forth quarter, owing to the VAT collected on both domestic consumption and imports. Household electricity usage decelerated slightly, partly because of the low temperature near the end of year.

Nevertheless, sales in the oil category still rose at a faster rate. This stemmed from the consumption of alternative energy, particularly LPG and NGV, which increased notably, reflecting the adjustment of consumer behavior in response to the high prices of benzene and diesel.

Table 15 : Private Consumption Indicators[1/]

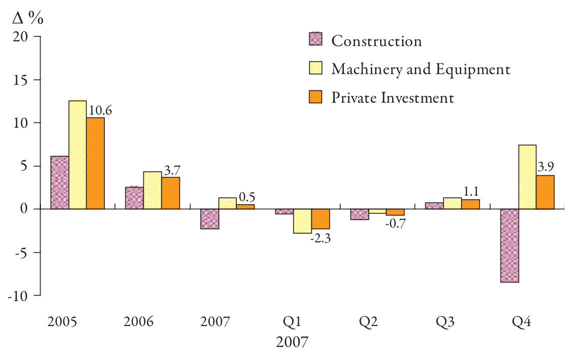
% Δ	2006	2007	2007			
			Q1	Q2	Q3	Q4
Car Index (Base year 2000)	**-1.9**	**-12.4**	**-19.2**	**-11.3**	**-5.5**	**-13.1**
- Passenger car	3.0	-11.4	-16.2	-7.7	2.1	-22.4
- Motorcycle	-6.4	-18.9	-23.3	-20.9	-23.3	-6.3
- Commercial car	-5.2	-5.9	-19.4	-5.8	3.8	-1.4
Oil Index (Base year 2000)	**1.9**	**11.6**	**8.3**	**9.8**	**13.8**	**14.2**
- Benzene& Gasohol	-0.5	1.7	2.7	1.6	4.4	-1.7
- Diesel	-6.5	1.8	-0.4	0.7	5.6	1.8
- LPG	14.0	13.8	17.6	13.5	10.8	13.8
- NGV	67.8	117.6	88.5	116.2	113.3	139.8
Household Electricity	**5.4**	**3.9**	**3.0**	**6.3**	**5.6**	**0.3**
Imports of Consumer Goods (at 2000 Prices)	**15.2**	**9.7**	**4.9**	**6.4**	**5.1**	**21.9**
VAT (at 2000 Prices)	**6.8**	**3.3**	**3.3**	**0.6**	**3.1**	**6.0**

Note : 1/ The Bank of Thailand has revised the Private Consumption Index (PCI) series since January 2000 in order to better reflect private consumption expenditure. The revised index comprises 5 components from 10 indicators (6 indicators from the old series) and assigns weight for each component.

Source : Bank of Thailand

Private Investment

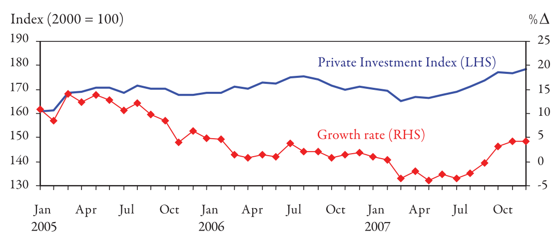
Private Investment at Constant Prices



Source : National Economic and Social Development Board

Private Investment Index

	2006	2007	2007 Q1	Q2	Q3	Q4
Private Investment Index[1/]	172.1	171.2	165.0	167.8	173.6	178.3
%Δ	1.6	-0.5	-3.6	-2.6	-0.2	4.2



Note : 1/ PII series are rebased according to MOC import prices index, (2000=100)
Source : Bank of Thailand

Private investment in 2007, according to the actual data released by the NESDB, expanded by 0.5 percent, decelerating from 3.7 percent in the previous year. This was owing to the slowdown in the machinery and equipment as well as the construction categories. However, in the second half of the year, private investment showed notable signs of improvement. This corresponded to the BOT's **Private Investment Index** (PII), which resumed a positive growth of 2.0 percent in the second half of 2007, after registering a contraction of 3.1 percent in the first half of the year.

In terms of private investment components, the **machinery and equipment category** ameliorated in the second haft of 2007, resulting from the increase in imports of capital goods at constant price and domestic commercial car sales. Meanwhile, components in the **construction category,** namely construction area permitted in municipal zone and domestic cement sales,

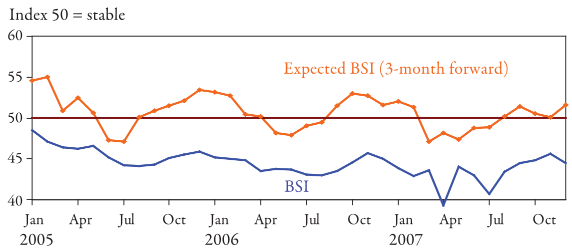
Table 16 : Private Investment Indicators[1/]

	2006	2007	2007 Q1	Q2	Q3	Q4
Construction Area Permitted in Municipal	20,165	17,809	4,780	4,482	4,304	4,293
Zone (a 12-month backward moving average)	(-5.1%)	(-11.7%)	(-3.3%)	(-14.2%)	(-15.6%)	(-13.3%)
(Unit: 1,000 square meters)						
Domestic Cement Sales	29,156	27,690	7,599	6,634	7,033	6,423
(Unit: 1,000 tons)	(0.7%)	(-5.0%)	(-3.0%)	(-7.7%)	(-3.0%)	(-6.7%)
Domestic Commercial Car Sales	490.6	461.7	100.7	108.7	113.2	139.1
(Unit: 1,000 units)	(-5.2%)	(-5.9%)	(-19.4%)	(-5.8%)	(3.8%)	(-1.4%)
Imports of Capital Goods	1,165.4	1,221.5	274.7	300.8	311.3	334.7
at 2000 Prices	(3.8%)	(4.8%)	(-3.7%)	(0.3%)	(5.3%)	(17.5%)
Domestic Machinery Sales	594.0	608.4	151.3	152.0	151.7	153.4
at 2000 Prices	(8.9%)	(2.4%)	(4.2%)	(5.0%)	(-0.5%)	(1.1%)
(Unit: Billion Baht)						

Note : Number in parenthesis is a year-on-year growth rate
1/ PII series are rebased according to MOC import prices index, (2000=100)
Source : Bank of Thailand

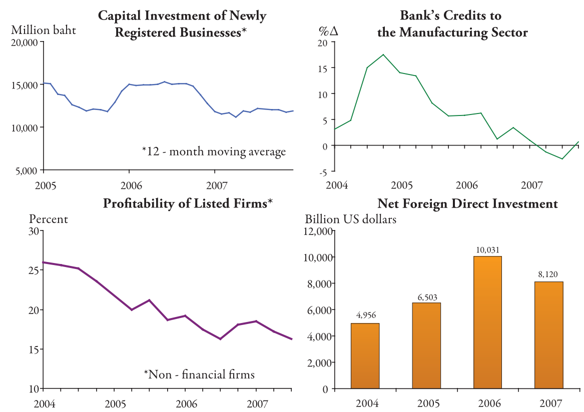
Business Sentiment Index (BSI)

	2006	2007	2007 Q1	Q2	Q3	Q4
BSI	44.2	43.4	43.5	42.1	42.9	45.0
Expected BSI (3-month forward)	50.8	49.8	50.1	48.1	50.2	50.7



Source : Bank of Thailand

Private Investment Indicators



contracted continuously due to the sluggish real estate sector and the effect of high base in the preceding year.

The improvement in private investment in the second half of the year, especially in the machinery and equipment category, were attributed to several favorable factors, including 1) accommodative monetary conditions with low interest rates, 2) improvement in business confidence as suggested by an upward trend in the Business Sentiment Index (BSI) in the latter half of the year, following a more stable political condition, and 3) high level of capacity utilization rate in some industries such as paper, chemical products, petroleum products and cars.

Other investment indicators also exhibited a decelerating trend. Capital investment of newly-registered businesses and the profitability of SET-listed firms slowed down from last year. Similarly, foreign direct investment (FDI) shared the declining trend from the previous year. Commercial banks' credit to the manufacturing sector also dropped from last year, but it started to pick up towards the year-end. Nevertheless, the number and value of investment projects which received Promotion Certificates Issued by Board of Investment (BOI) in 2007 increased from the preceding year. This indicated the higher investments in the next 1-2 years.

Table 17 : Investment Promotion Certificates Issued

	No. of Project		Value (billion Baht)	
	2006	2007	2006	2007
Agriculture	161	172	32.1	44.8
Mining ceramics and metals	23	41	44.2	34.0
Light industry	92	95	9.4	18.2
Metal machinery and equipment	238	252	51.6	72.9
Electronics and electrical products	208	247	78.0	106.8
Chemicals paper and plastic	129	134	150.5	76.7
Services and infrastructure	295	297	69.2	136.1
Total	**1,146**	**1,238**	**435.0**	**489.5**

Source : Office of the Board of Investment

External Sector

World Economy

The world economy in 2007 continued to expand, though at a slower pace than in 2006. As of January 2007, the International Monetary Fund (IMF) projected that the world economy would grow at 4.9 percent in 2007, compared to 5.0 percent in the previous year.

During the first half of 2007, the world economy was driven mainly by the strong growth in the Euro area and Asian economies. However, the growth moderation observed in the second half of 2007 was due to the subprime problem. The US economic indicators suggested an increasing risk of US recession, which could affect the overall world economy. The IMF, thus, revised down the growth rate of the world economy in 2008 to 4.1 percent from 4.4 percent in the October's projection.

In 2007 the **US economy** continued to expand, though at a slower pace. In the first half of 2007, the slowdown was due mainly to the contraction in residential investment. Nevertheless, private consumption continued to expand well due to the favorable employment conditions. In the second half of 2007, the GDP figure showed an improving sign from the first half of 2007 due to improved exports performance contributed by the US dollar depreciation. However, major economic indicators still pointed toward future economic slowdown. In August, the subprime problem started to spread more broadly and led to global money market fluctuations. In addition, tightening credit standards for both businesses and households led to softening private consumption and employment as well as worsening economic confidence. The Chicago Fed National Activity Index, which is a leading indicator of the overall economic activities, also reflected the increasing risk of recession.

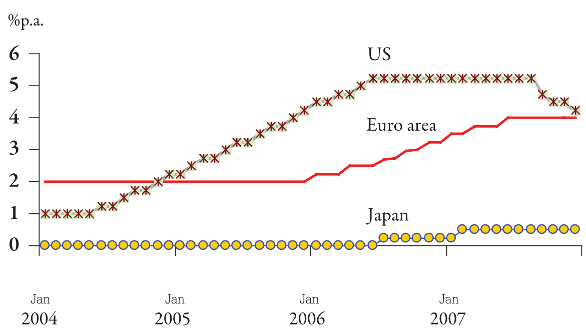
The **Euro area economy** continued to expand vigorously from the previous year and was one of the key drivers of world economic growth in 2007. This strong growth was a result of the acceleration in domestic demand, export performance and investment in durable assets. However, in the last quarter of 2007, the Euro area economy expanded at a slower pace due to the euro appreciation and the noticeable increase in oil prices, coupled with financial market turbulence originated from the US subprime problem.

The Japan economy expanded moderately at 2.1 percent in 2007, decelerating from 2.4 percent in the previous year. This was in line with the slowdown in private consumption and the contraction in residential investment, while the export sector remained favorable. Although the economic expansion accelerated in the fourth quarter, many economic indicators suggested a future slowdown due to the subdued domestic demand. Moreover, consumer and business confidence were declining due to concerns over the US economy and the increasing cost in line with volatile prices of food and oil.

In the **Asian region,** most of the Asian economies continued to expand well, especially China, due to good export performance and strong domestic demand. During the first half of 2007, continual growth observed in most Asian economies was driven primarily by the strong export sector as well as domestic demand. During the second half of the year, the overall Asian economies still expanded favorably but at a more moderate pace in some countries. This was due to the slowdown in exports owing to the US economic slowdown. Nevertheless, the strong domestic demand helped mitigate the negative effects from declining external demand.

The **world inflationary pressure** increased mainly from high and volatile oil price and significant increase in non-oil commodity prices, particularly food prices. The movement of US inflation primarily reflected the oil price's fluctuations. In the first nine months of 2007, the average inflation rate stood at the a low level around 2.5 percent due to the lower oil price compared to the same period last year. Despite the economic slowdown, the average inflation rate in the fourth quarter of 2007 rose to 4.0 percent due to the surge in oil prices. Meanwhile, the average inflation of the Euro area during the first nine month of 2007 remained within the ECB's target (close but lower than 2 percent) before accelerating to 2.7 percent in the fourth quarter. Likewise, Japan's inflation, which was in the negative zone during the first nine months, rose to 0.5 percent in the fourth quarter of 2007 due to the increase in oil and food prices. In

Policy Rates of the G3 Countries



the Asian region, inflationary pressures also increased significantly, owing mainly to the rising prices of oil and food.

During the first half of 2007, **monetary policy of the G3 countries except the US** still continued to tighten as the economies continued favorable growth. The US Federal Reserve, however, held the policy rate constant as the economy had a tendency to slowdown. The ECB raised the Refinancing rate in response to the concern that inflation might rise above the 2 percent target due to strong economic growth, declining spared capacity, and tightening labour markets. In February 2007, the Bank of Japan (BOJ) raised the policy interest rate for the second time after the abolishment of its quantitative easing policy in 2006. The BOJ assessed that, going forward, the economy would expand vigorously and inflation would accelerate. In the Asian region, the conducts of monetary policy varied. The People's Bank of China raised the policy rate and the reserve requirement ratio to reduce pressures on the economy and inflation. The Bank of Korea and the Central Bank of the Republic of China (Taiwan) also raised the policy rates to reduce the pressure on domestic prices and to keep domestic interest rates at the appropriate level. However, Bank Indonesia and the Bangko Sentral ng Pilipinas cut their policy rates as inflation declined significantly.

In the second half of 2007, monetary policies in most regional countries were on easing or less tightening paths, especially from August onward when the subprime problem intensified, causing global money market turbulence. Consequently, the Fed started to cut the primary credit discount rate by 0.5 percent in August to lower the cost of borrowing in the money market. This was followed by the Fed Funds rate cuts in

September, October and December, totalling 1.0 percent as the Fed assessed that there were clear signals of economic slowdown and increasing risks of recession going forward. In some countries where high inflationary pressures persisted from increasing oil and commodity prices, their policy rate hikes were postponed owing to the increased concerns over the downside risk on growth from the US economic slowdown. However, the People's Bank of China continued to tighten its monetary policy to avoid an overheating economy and soften credit expansion.

Table 18 : Economic Indicators of Major Economies

	GDP Δ%			Headline Inflation Δ%		
	2005	2006	2007	2005	2006	2007
G3 Countries						
The United States	3.1	2.9	2.2	3.2	3.4	2.9
Euro area	1.7	2.9	2.6	2.2	2.2	2.1
Japan	1.9	2.4	2.1	-0.3	0.3	0.1
Asian Economies						
China	10.4	11.1	11.4	1.8	1.5	4.8
Hong Kong	7.3	6.8	6.3	1.1	2.0	2.0
South Korea	4.0	5.0	4.9	2.8	2.2	2.5
Taiwan	4.0	4.9	5.7	2.3	0.6	1.8
Indonesia	5.7	5.5	6.3	10.5	13.3	6.4
Malaysia	5.2	5.9	6.3	3.1	3.6	2.0
The Philippines	5.1	5.5	7.3	7.7	6.3	2.8
Singapore	6.6	8.2	7.7	0.5	1.0	2.1

Source : Bloomberg , CEIC

International Trade and the Balance of Payments

Exports continued to expand in 2007, especially exports to new markets which grew at a high rate. This increase in export volume was due to an adjustment of exporters by reducing production cost and diversifying export markets. Continued rising trend of the world oil prices, gold and other commodities brought about higher export prices of both agricultural and industrial products. Prices of imports also increased, especially the oil prices. This led to a greater use of alternative energy as reflected in a decline in the import volume of oil compared to the previous year. Nevertheless, the overall import value continued to expand from 2006. The import value of consumer goods and capital goods, in particular, increased in line with the improving domestic consumption and investment during the second half of the year. However, with exceptionally high export growth, the trade balance in 2007 recorded a large surplus. This trade balance surplus, together with the increased surplus in services, income and transfer account, resulted in a large surplus in the current account. Despite the negative net inflow of capital, the overall balance of payments recorded a higher surplus compared to last year.

Export

Export value totaled 151.1 billion US dollars, expanding by 18.1 percent (or 7.7 percent in baht terms). The expansion of exports in terms of volume and price was at 11.8 and 5.7 percent, respectively. This increase in exports was mainly attributed to the sustained export growth of high-technology manufacturing products.

Details of Thailand's major export items are as follows:

Agricultural products. Export value of agricultural products expanded by 15.8 percent, in both volume and price. This was in line with the expansion of major agricultural export items such as rice, rubber, tapioca products, and fresh and frozen fowls. The value of rice export, in particular, increased substantially due to a fall in rice production by international competitors and the increase of export price in the world market, partly as a result of the rising demand for alternative energy.

Fishery products. Export value of fishery products rose by 11.1 percent in both volume and price. Exports of fresh and frozen shrimps, fish, and squid all exhibited satisfactory growth.

Manufactured products. Export value of manufactured products grew by 19.1 percent. This accelerated growth from last year was in line with the export growth of high-technology products. Details of manufactured products exports classified by sectors are as follows:

Labor-intensive products. Export value of this category increased by 19.2 percent, accelerating from the previous year. This was mainly driven by the expansion of precious stone and jewelry exports. Particularly, the export value of unwrought gold soared sharply, owing to the record-high gold price in the world market. On the contrary, garment exports shrank from the previous year due to intensified export competition.

High-technology products. Export value of high-technology products-which accounted for as large as 64.5 percent of total exports-rose by 17.9 percent. This attributed to the favorable overall export performance in 2007. The expansion came mainly from the growth in exports of electronic products, particularly hard disk drives and electrical appliances, following the increase in air-conditioner exports owing to the global warming. Meanwhile, the export of integrated circuits (IC) and parts continued to grow from 2006, though decelerating somewhat especially during the second half of 2007 in tandem with the electronics cycle. The increase in export value of base metal products was driven by the excess supply, as a result of a slowdown in domestic demand. As for petroleum products, a temporary closedown for maintenance of domestic oil refinery resulted in a decline in the export value. Export value of vehicle and parts continued to grow, reflecting increased exports to ASEAN, Australia, and the Middle East. Moreover, the export of high-value machinery used in the private energy sector also contributed, as a temporary factor, to the soaring export value in the second half of the year.

Resource-based products. Export value in this category increased by 21.8 percent, in line with the expansion of major export items including (1) **rubber products** especially radial tyres, (2) **canned fished** which increased in both volume and price following exports of canned tuna, (3) **prepared fowls** as substitutes for fresh and frozen fowls, and (4) **sugar** which increased considerably due to an increase in domestic production and the abolishment of export subsidies by the EU under the WTO agreement.

Imports

Import value recorded 139.2 billion US dollar-an increase of 9.6 percent (or 0.1 percent in baht terms), of which 5.4 percent and 4.1 percent were due to growth in price and in volume, respectively. This accelerated growth from the previous year was in tandem with export expansion.

Details of Thailand's major import items are as follows:

Consumer goods. Import value of consumer goods rose by 13.8 percent. The increase was observed in imports of both non-durable goods such as food, clothing, footwear, medicines and pharmaceutical products, as well as durable goods in the electrical appliances category, particularly air-conditioners and parts, digital cameras, monitors, and television sets.

Intermediate goods and raw materials. Import value in this category increased by 15 percent, accelerating from the previous year. This was in tandem with the growth in imports of animal feed especially soybean meal, metal, chemical products, and electronic parts, which grew in line with rising exports.

Capital goods. Import value of capital goods grew by 5.2 percent, following the expansion of imports of non-electrical and electrical machinery in major industries including (1) **automobile industry** which expanded in line with the export, (2) **pulp and paper industry,** and (3) **energy industry** which imported electricity-generating machinery. In addition, there were imports of 3 commercial airplanes and 1 airplane presented to the royal family by the Royal Thai Air Force, with a total value of 515.9 million US dollars. Moreover, there was an import of 8 cars of the sky train, worth 36 million US dollars, under the Airport Link project which connects Suvarnabhumi International Airport to the Bangkok Mass Transit System (BTS) in the urban areas.

Vehicle and parts. Import value of this category increased by 18.0 percent, improving from the previous year owing to the expansion in export which drove up the demand for imported vehicle parts.

Crude oil. Thailand imported 276.7 million barrels of crude oil in 2007, a decrease of 8.3 percent in volume compared to 2006. This decrease in import volume was partly offset by the increase of 7.2 percent in import price, resulting in a decline in import value by 1.7 percent from the previous year. The average import price of crude oil in 2007 was at 70.5 US dollars per barrel, rising from 65.8 US dollars per barrel in the previous year. The drop in import volume was due to a temporary closedown of domestic oil refinery for maintenance and a switch to importing alternative energy such as natural gas and coals.

The expansion of imports in 2007 was inclusive of the import of natural gas rigs worth 477 million US dollars in December 2007, which was adjusted into the international trade data according to the balance of payments basis.

Trade, Services and Current Account Balances

Trade balance. Trade balance was in surplus by 12.0 billion US dollars, mainly attributed to the trade surplus with major trading partners, including US, EU, and ASEAN. The surplus was brought about by strong export growth in electronic products, vehicles and parts, sugar, canned and processed food. Meanwhile, Thailand experienced trade deficits with certain countries, for instance, South Korea and Taiwan. Deficits from imports of energy occurred in cases of Myanmar from the import of natural gas, and the Middle East from the import of crude oil. Nevertheless, Thailand was able to maintain trade surpluses with countries with which Thailand had established Free Trade Agreements (FTA) namely, India, Australia, and New Zealand, except for Japan and China with which Thailand continued trade deficits. The Japan-Thailand Economic Partnership Agreement (JTEPA) has already become effective since 1 November 2007.

Services, Income and Transfers Account.

The services, income and transfers account recorded a surplus of 3.0 billion US dollars, increasing from the 2006 level at 1.2 billion US dollars. This increase in surplus was mainly due to the surge of tourism revenue and investment income in the public sector. Tourism revenue rose by 16.2 percent in line with an increase in the number of tourists by 4.6 percent from the previous year. Tourism expenditure grew by 13.8 percent, with 15.2 percent increase in outbound tourists. Investment income increased by 1.8 billion US dollars, or 54.4 percent from the previous year, largely derived from the public sector in tandem with growing foreign exchange reserves. Meanwhile, investment payment increased by 0.9 billion US dollars, or 8.2 percent from the previous year. This was due mainly to remittances of profits and dividends by the private sector. The surpluses in both services, income and transfers account and trade balance resulted in a current account surplus of 14.9 billion US dollars in 2007, rising from a surplus of 2.2 billion US dollar in 2006.

Net Capital Movement

Net capital movement turned from a surplus in 2006 to a small deficit of 1.1 billion US dollars in 2007, due to a significant drop in net capital inflow in the non-banking sector attributed to the following factors:

1) The Unremunerated Reserve Requirement (URR) measure, which resulted in a slowdown in capital inflows especially external loans. However, the URR measure did not apply to foreign equity direct investment (FDI) and foreign equity portfolio investment, thus net capital flow in these two forms remained high.

2) **Relaxation of controls on outflows,** which led to an increase in capital outflow for portfolio investment by Thai investors.

These two measures brought about more balanced capital flows in 2007. Details are as follows:

Bank of Thailand. Net capital movement of the BOT registered a deficit of 0.6 billion US dollars due primarily to the sale of the baht-denominated BOT bond by foreign investors in the secondary market.

Government sector. Net capital movement of the government sector recorded a deficit of 2.1 billion US dollars. Most of the deficit was in debt securities totaled 1.1 billion US dollars, following foreign investors' selling of baht bonds in the secondary market and the redemption of long-term bonds at maturity (Yankee bonds). In addition, there was an early repayment of 0.6 billion US dollars government long-term loans under the public debt restructuring program.

Banking sector. Net capital movement in the banking sector was 0.4 billion US dollars in surplus, reversing from a deficit of 7.4 billion US dollars in 2006. The net capital inflow was mainly attributed to foreign purchases of recapitalization stocks issued by domestic commercial banks, as well as a reduction of net foreign asset holdings by commercial banks corresponding to foreign exchange forward transactions with Thai residents, particularly exporters and Thai investors investing in foreign securities.

Other sectors. Capital flows in other sectors recorded a surplus of 1.2 billion US dollars, mainly from capital flows to non-banking sector; details as follows:

Non-banking sector. Net inflow in this sector was 2.3 billion US dollars in surplus, decreasing from a surplus of 13.6 billion US dollars in 2006. **Foreign direct investment** (including reinvested earnings of 3.8 billion US dollars) registered a surplus of 7.5 billion US dollars, due to the net inflow in equity investment following the recapitalization of the wholesale fuel businesses and holding companies. (The slowdown of FDI in 2007 from the 2006 level could be explained by the surge in net inflow in equity investment to a major telecommunication group in 2006. If this bulk of inflow was excluded, then FDI in 2007 would record an increase from 2006.) Meanwhile, net **portfolio investment** registered a deficit of 4.0 billion US dollars as a result of the resident outflow of portfolio investment overseas, mostly in the form of debt securities. Foreign portfolio investment inflow in the form of equity securities increased despite concerns about the subprime problem that adversely affected the Thai stock market at the end of 2007. Net flow of **loans** from non-affiliated companies registered a surplus of 1.3 billion US dollars, while **other investment flows** exhibited a deficit, mostly driven by an increase in trade credits extended by Thai residents to non-residents, which was more than doubled the previous year's level.

State-enterprise sector. Capital flows to this sector recorded a deficit of 1.0 billion US dollars. This was due mainly to purchases of foreign long-term debt securities by some state enterprises and outward investments by affiliated companies, especially in the oil drilling business.

Balance of Payments

The large current account surplus of 14.9 billion US dollars (compared to a surplus of 7.9 billion US dollars in 2006) and a small deficit in the net capital flow resulted in a balance of payments surplus of 17.1 billion US dollars, higher than the previous year's surplus of 12.7 billion US dollars. International reserves rose from 67.0 billion US dollars at end-2006 to 87.5 billion US dollars at end-2007. Net outstanding forward obligations of the BOT stood at 19.1 billion US dollars.

Table 19 : Balance of Payments

(Unit : Million US dollars)

Millions of US$	2006			2007 1/		
	Year	H1	H2	Year	H1	H2
Exports, f.o.b.	**127,941**	**59,429**	**68,513**	**151,147**	**70,096**	**81,052**
(%Δ)	17.0	16.2	17.7	18.1	17.9	18.3
Imports, c.i.f.	**126,947**	**61,450**	**65,497**	**139,174**	**65,538**	**73,637**
(%Δ)	7.9	4.0	11.9	9.6	6.7	12.4
Trade balance	**994**	**-2,021**	**3,016**	**11,973**	**4,558**	**7,415**
Net services income & transfers	1,180	431	749	2,950	1,253	1,697
Current account balance	**2,174**	**-1,591**	**3,765**	**14,923**	**5,810**	**9,112**
Capital movements (net)	**5,719**	**4,722**	**996**	**-1,149**	**-1,970**	**821**
Monetary authorities	416	309	107	-619	-766	147
Government	-567	-202	-364	-2,136	-1,907	-229
Bank	-7,409	-4,146	-3,263	368	-6,052	6,420
Other sectors	13,279	8,762	4,516	1,238	6,755	-5,517
-Non-bank	13,616	8,718	4,898	2,283	6,722	-4,439
Foreign Direct Investment	10,031	6,274	3,757	7,523	4,180	3,343
Equity and Reinvested earnings	8,571	5,124	3,446	7,517	3,648	3,869
Loans from affiliated companies	1,460	1,149	311	6	532	-526
Portfolio Investment	1,642	926	716	-4,045	2,783	-6,828
Foreign	3,205	1,796	1,409	4,472	3,671	801
Equity securities	2,872	1,814	1,058	4,238	3,566	672
Debt securities	333	-18	351	234	105	129
Thai	-1,563	-870	-693	-8,517	-888	-7,629
Other Loans	2,867	1,277	1,590	1,304	422	881
Other	-925	242	-1,166	-2,499	-663	-1,836
- State enterprises	-337	44	-381	-1,045	33	-1,078
Errors and omissions	**4,849**	**1,556**	**3,293**	**3,329**	**1,823**	**1,505**
Overall balance 2/	**12,742**	**4,688**	**8,054**	**17,102**	**5,664**	**11,438**
International Reserves (End of period)	**66,985**	**58,057**	**66,985**	**87,455**	**73,000**	**87,455**
Net Forward Position (End of period)	**6,941**	**4,890**	**6,941**	**19,086**	**9,521**	**19,086**

Note : 1/ Preliminary
2/ Actual

Source : Customs Department and Bank of Thailand

External Debt

External debt outstanding at end-2007 stood at 61.7 billion US dollars, increasing by 2.1 billion US dollars from end-2006. This rise in external debt was due to the quoting of the outstanding value of external debt in terms of US dollars, which resulted in an increase in external debt equivalent to 2.3 billion US dollars as Thai baht, Japanese yen, and the euro appreciated against the US dollar. The net external debt inflow in 2007 declined by 0.2 billion US dollars from the previous year, owing mainly to the reduction of external debt in the public sector, the Bank of Thailand, and the banking sector. The details can be summarized as follows:

Government sector. External debt of the general government sector recorded at 2.3 billion US dollars, down from 2006. The reduction in government external debt was due to foreign investors' selling of baht-denominated securities in the secondary market and securities redemption at maturity. Government external loans have also been repaid constantly.

Bank of Thailand. External debt of the Bank of Thailand stood at 0.4 billion US dollars, decreasing from the previous year due largely to foreign investors' selling of baht-denominated BOT securities in the secondary market.

Banking sector. External debt of the banking sector registered at 6.4 billion US dollars, a slight drop compared to the previous year's figure, mainly as a result of the repayment of long-term external loans.

Other sectors. External debt of other sectors stood at 52.7 billion US dollars, increasing by 4.9 billion US dollars from end-2006 as a result of new debt inflow as well as the valuation in terms of US dollars. Net external borrowing in the non-banking sector increased by 3.0 billion US dollars in tandem with an increase in short-term debt in the forms of trade credits extended to the energy sector and an increase in short-term borrowing within and outside of business groups, while long-term debt increased only slightly. As for the

Table 20 : External Debt Outstanding*

(Unit: Million US dollars)

	2005	2006	2007	Dec-07 compared to Dec-06
1. Public Sector	**4,519**	**4,140**	**2,270**	**-1,870**
Long-term	4,448	4,140	2,267	-1,873
Short-term	71	0	3	3
2. BOT	**452**	**965**	**394**	**-571**
Long-term	58	223	377	154
Short-term	394	742	17	-725
3. Banks	**6,038**	**6,729**	**6,361**	**-368**
Long-term	2,982	3,573	2,401	-1,172
Short-term	3,056	3,156	3,960	804
3.1 Commercial Banks	**4,244**	**6,729**	**6,361**	**-368**
Long-term	2,000	3,573	2,401	-1,172
Short-term	2,244	3,156	3,960	804
3.2 IBFs	**1,794**	**0**	**0**	**0**
Long-term	982	0	0	0
Short-term	812	0	0	0
4. Other sectors	**41,030**	**47,809**	**52,672**	**4,863**
Long-term	28,143	33,153	35,041	1,888
Short-term	12,887	14,656	17,631	2,975
4.1 State Enterprises	**9,023**	**8,987**	**9,380**	**393**
Long-term	9,060	8,924	9,357	433
Short-term	-37	63	23	-40
4.2 Non-banks	**32,007**	**38,822**	**43,292**	**4,470**
Long-term	19,083	24,229	25,684	1,455
Short-term	12,924	14,593	17,608	3,015
Total Debt (1+2+3+4)	**52,039**	**59,643**	**61,697**	**2,054**
External Debt/GDP (%)	32.5	32.8	29.3	
Long-term	35,631	41,089	40,086	-1,003
Short-term	16,408	18,554	21,611	3,057
Share (%)	100.0	100.0	100.0	
Long-term	68.5	68.9	65.0	
Short-term	31.5	31.1	35.0	

Note : * Including valuation change

Source : Bank of Thailand

state-enterprise sector, despite the early redemption of debt securities as well as repayment of external loans, external debt outstanding in this sector in terms of US dollars rose from the previous year following the appreciation of Thai baht, Japanese yen, and the euro against the US dollar.

External debt structure

Short-term debt as of end-2007 accounted for 35.0 percent of total external debt, increasing from 31.1 percent at end-2006 due mainly to the import of loans and trade credits in the non-banking sector and the increase in short-term external debt in the banking sector.

External debt and vulnerability indicators

All solvency indicators in 2007 pointed to a sound solvency condition in Thailand. The debt to GDP ratio declined from the previous year to 29.4 percent. The ratio of current account to GDP scored as high as 6.1 percent, while the debt service ratio remained low.

Overall, liquidity indicators also exhibited a satisfactory liquidity condition. The size of gross reserves was 4 times the size of short-term external debt, or 7.5 times that of import value. The ratio of short-term debt to total external debt remained low relative to the 1997 level.

Table 21 : External Vulnerability Indicators

	2005	2006	2007	2007			
				Q1	Q2	Q3	Q4
Solvency Indicators							
Current Account[1/]/GDP (%)	-4.4	1.0	6.1	8.0	1.9	4.8	9.1
Debt / GDP* (%)	32.5	32.8	29.4	31.9	30.4	30.2	29.4
Debt / XGS*[1/] (%)	47.3	46.0	40.6	44.5	42.3	42.0	40.6
Debt Service Ratio (%)	10.8	11.3	11.1	18.1	11.2	7.5	8.5
Liquidity Indicators							
Gross Reserves / ST Debt	3.2	3.6	4.0	3.6	3.6	3.8	4.0
Gross Reserves / Import	5.3	6.3	7.5	6.6	6.7	7.2	7.5
ST Debt / Total Debt (%)	31.5	31.1	35.0	33.0	34.6	35.2	35.0

Note : * The new series of the external debt to GDP was revised by adopting the World Bank's approach: using the averaged quarterly GDP for the last 3 years starting from the GDP of the quarter in question (while the previous approach was calculated by dividing the external debt outstanding of the quarter in question by the average GDP of the same year and the prevoius 2 years).

1/ Since October 2006 reinvested earnings has been recorded as part of direct investment in financial account, and its contra entry recorded as "investment income" in current account. The series have been revised back to 2001.

Source : Bank of Thailand

Fiscal Conditions

For fiscal year 2007, the government set a deficit budget after two consecutive years of balanced budget in fiscal year 2005 and 2006. The government budget expenditures for fiscal year 2007 was set at 1,566.2 billion baht with the net revenue of 1,420 billion baht and a deficit of 146.2 billion baht or 1.7 percent of the GDP.

The change in government following the coup on 19 September 2006 resulted in the 3-month delay of budgeting process. According to Article 16 of the Budget Procedure Act B.E. 2502, if the Budget Act is not promulgated in time for the new budget year, the expenditure budget for the past budget year in the meantime shall continue to apply. This resulted in the low budget disbursement in the beginning of the fiscal year. Nevertheless, disbursement rate rebounded from the second quarter onwards, giving budget disbursement totaling 93.9 percent of the total budget.

Fiscal Position

In fiscal year 2007, government cash balance recorded a deficit of 94.2 billion baht, equivalent to 1.1 percent of GDP. Meanwhile, government net domestic borrowing totaled 140.5 billion baht with net foreign loan repayment totaling 42.1 billion baht. This resulted in an increased treasury reserves to 142.8 billion baht, increasing by 4.3 billion baht from the end of fiscal year 2006.

Table : 22 Treasury Account Position

(Unit: Billion baht)

Fiscal Year

	2006	2007	2007		2008 P/			
			H1	H2	Q1 P/	Oct P/	Nov P/	Dec P/
Revenue 1/	1,340.3	1,432.7	605.9	826.8	329.9	116.5	116.7	96.7
(Δ%)	(9.2)	(6.9)	(8.3)	(5.8)	(8.7)	(6.0)	(19.9)	(0.3)
Expenditure	1,359.5	1,520.5	715.5	804.9	388.7	155.1	127.0	106.6
(Δ%)	(11.6)	(11.8)	(1.3)	(23.2)	(38.8)	(74.3)	(37.5)	(8.0)
: Disbursement rate (%)	93.2	92.8	42.1	50.7	21.8	9.1	6.9	5.8
Budgetary Deficit (-) or Surplus (+)	-19.1	-87.8	-109.6	21.9	-58.8	-38.6	-10.3	-10.0
Non-Budgetary Deficit (-) or Surplus (+)	23.6	-6.4	-43.5	37.1	-16.4	-1.2	-26.8	11.7
Cash Deficit (-) or Surplus (+)	**4.5**	**-94.2**	**-153.1**	**59.0**	**-75.2**	**-39.8**	**-37.1**	**1.7**
: (% of GDP)	(0.1)	(-1.1)	(-3.7)	(1.4)	n.a.			
Financing								
Net Domestic Borrowing	44.9	140.5	107.2	33.3	8.5	-7.8	-0.9	17.1
Net Foreign Borrowing	-15.8	-42.1	-21.9	-20.2	-6.9	-0.7	-0.1	-6.1
Use of Treasury Cash Balance	-33.6	-4.3	67.8	-72.1	73.7	48.3	38.1	-12.7
Treasury Cash Balance (end-period)	138.5	142.8	70.7	142.8	69.1	94.5	56.4	69.1

Note : 1/ Data on revenue remitted to the Treasury and expenditures are from Fiscal Policy Office, adjusted to cash basis by Bank of Thailand

Δ% represents percentage change from the same period last year

n.a. = no data available

P = Preliminary data

Source : The Comptroller's General Department, Ministry of Finance, Data Management Department, Bank of Thailand

Fiscal position in **the first quarter of fiscal year 2008** (1 October - 31 December 2007) recorded a cash deficit of 75.2 billion baht. To finance its deficit, the government used treasury reserves as well as net domestic borrowing of 8.5 billion baht with net foreign loan repayment of 6.9 billion baht. Thus, the treasury balance at the end of the first quarter registered at 69.1 billion baht, reduced by 73.7 billion baht from the end of fiscal year 2007.

Government Revenue

In fiscal year 2007, the government's revenue collection totaled 1,703.7 billion baht, up by 7.7 percent from the previous fiscal year. After excluding tax deducted items, the government net revenue was equal to 1,444.4 billion baht, up by 7.8 percent. This was higher than the 1,420 billion baht revenue initially estimated in the budget document by 24.4 billion baht, due partly to the special income from dissolving the Exchange Rate Equalization Fund of 36.9 billion baht. Excluding this special income, revenue collection totaled 1,666.8 billion baht, increasing by 5.4 percent from the previous fiscal year. This was equivalent to the net revenue of 1,407.5 billion baht (lower than that appeared in the budget document).

Tax revenue increased by 4.9 percent. This was lower than the previous fiscal year due to various factors, including; 1) The baht appreciation which resulted in lower import value in baht term, despite an increased import volume. This in turn affected import duty as well as VAT and excise tax on imports. 2) The slowdown in investment and durable goods consumption due to political uncertainty. 3) The reserve provisions of financial institutions in compliance with IAS 39, which resulted in lower profit-based corporate tax collection. 4) An excise tax reduction for telecommunication businesses to zero percent, effective from 27 February 2007.

Non-tax revenue collection registered at 206.7 billion baht, accelerating by 34.2 percent from the previous fiscal year due partly to the special income from dissolving the Exchange Rate Equalization Fund. Excluding this special income, non-tax revenue totaled 169.7 billion baht, up by 10.2 percent from the previous fiscal year. Note that, fiscal year 2007 was the first time that state enterprises with calendar-year accounting period were required to remit their income twice a year. The first remittance was in October 2006 and the second remittance would be after the verification of the Office of the Auditor General of Thailand.

As for the first quarter of fiscal year 2008, the government's revenue collection registered at 374.4 billion baht, up by 5.9 percent from the previous fiscal year. This was due to an increase in income tax by 11.7 percent, consumption tax by 3.7 percent, and tax on international trade by 7.1 percent, while non-tax revenue was up by 2.7 percent.

Table 23 : Government Revenue*

(Unit: Billion baht)
Fiscal Year

	2006P/	2007P/	2008P/			
			Q 1	Oct 07	Nov 07	Dec 07
Total Revenue	**1,581.5**	**1,703.7**	**374.4**	**132.7**	**133.1**	**108.6**
(%Δ)	(7.3)	(7.7)	(5.9)	(9.7)	(7.1)	(0.4)
Taxes	**1,427.5**	**1,497.1**	**327.0**	**104.9**	**119.1**	**103.0**
(%Δ)	(7.6)	(4.9)	(6.4)	(4.2)	(10.2)	(4.6)
- **Income base**	**601.3**	**643.1**	**102.9**	**30.8**	**43.0**	**29.1**
(%Δ)	(16.1)	(7.0)	(11.7)	(6.1)	(14.3)	(14.5)
Personal income tax	170.1	192.8	43.1	14.9	13.1	15.1
(%Δ)	(15.4)	(13.4)	(9.9)	(9.1)	(6.4)	(13.9)
Corporate income tax	374.7	384.6	57.4	15.9	28.4	13.2
(%Δ)	(13.7)	(2.7)	(13.5)	(7.4)	(17.7)	(12.8)
- **Consumption base**	**722.5**	**755.9**	**197.2**	**65.0**	**67.0**	**65.3**
(%Δ)	(4.5)	(4.6)	(3.7)	(2.8)	(8.2)	(0.5)
Value added tax	417.8	434.3	116.9	38.8	39.3	38.8
(%Δ)	(8.3)	(3.9)	(9.5)	(6.8)	(14.7)	(7.3)
Excise tax	274.1	287.2	71.0	23.2	24.8	23.1
(%Δ)	(-1.9)	(4.8)	(-4.4)	(-4.2)	(0.3)	(-9.1)
- **International trade base**	**93.9**	**88.5**	**24.4**	**8.2**	**8.5**	**7.8**
(%Δ)	(-12.4)	(-5.8)	(7.1)	(6.6)	(8.3)	(6.3)
Other Incomes	**154.0**	**206.7**	**47.4**	**27.8**	**14.0**	**5.6**
(%Δ)	(4.4)	(34.2)	(2.7)	(37.1)	(-13.5)	(-42.3)

Note : * Revenue on a collection basis is defined differently from revenue on a cash basis shown in the treasury accout positions. Differences are from time-overlapping and the deduction from the collection basis set aside for tax rebates and export duties compensation.

%Δ represents percentage change from the same period last year

P = Preliminary data

Source : Fiscal Policy Office, Ministry of Finance
Data Management Department, Bank of Thailand

Expenditure

The fiscal year 2007 budget expenditure (including foreign loan repayment) classified by economics (current year plus carry-over expenditure) totaled 1,575.0 billion baht, up by 12.8 percent from the previous fiscal year. This was comprised of current expenditure 1,240.1 billion baht (increased by 17.2 percent) and capital expenditure 334.2 billion baht (decreased by 0.2 percent).

The government current-year expenditure, classified by types of expenditure, i.e., personnel, operations, investments, subsidies, and others, totaled 1,472.5 billion baht, increasing by 15.9 percent from fiscal year 2006. The disbursement rate was 93.9 percent, compared with 93.4 percent in fiscal year 2006 and the target of 93 percent. Such acceleration in expenditure was due mainly to the government policy to accelerate disbursement.

Table 24 : Budget Expenditure Structure

Unit: Billion baht	Disbursement according to GFS classification*			Disbursement Rate (Percent)		
	2006	2007	2008 Q 1	2006	2007	2008 Q 1
1. Current Year	1,270.8	1,470.9	358.2	93.4%	93.9%	21.6%
(%Δ)	11.7	15.7	38.9	2.7	0.5	31.1
Current Expenditure	1,007.3	1,208.1	303.5	102.7%	99.5%	23.4%
(%Δ)	10.0	19.9	27.5	6.3	-3.2	19.5
Capital Expenditure	263.4	262.7	54.7	69.4%	74.6%	15.0%
(%Δ)	18.8	-0.3	176.4	-0.1	0.1	166.4
Miscelleneous items	-	0.1	0.0	-	-	-
(%Δ)	-	-	-	-	-	-
2. Carry over	**125.1**	**104.1**	**35.4**	**73.8%**	**66.7%**	**23.6%**
(%Δ)	18.7	-16.8	-16.1	0.2	-0.1	-12.7
Current Expenditure	50.9	32.0	14.8	78.4%	68.5%	25.8%
(%Δ)	101.8	-37.2	-2.3	4.6	-12.6	-20.7
Capital Expenditure	71.4	71.5	20.0	70.6%	66.1%	22.2%
(%Δ)	13.4	0.1	-25.0	18.1	-6.5	-10.0
Miscelleneous items	2.9	0.7	0.6	78.7%	52.4%	24.9%
(%Δ)	-83.4	-76.8	54.2	19.8	-33.3	-24.0
3. Total Expenditures	**1,395.9**	**1,575.0**	**393.7**	**91.3%**	**91.4%**	**21.8%**
(%Δ)	12.3	12.8	31.2	3.9	0.2	24.9
Current Expenditures	1,058.2	1,240.1	318.3	101.2%	98.3%	23.5%
(%Δ)	12.5	17.2	25.7	5.5	-2.8	17.2
Capital Expenditure	334.8	334.2	74.7	69.7%	72.6%	16.4%
(%Δ)	17.6	-0.2	60.8	-0.1	4.2	62.7
Miscelleneous items	2.9	0.7	0.6	78.7%	56.4%	24.9%
(%Δ)	-83.4	-75.1	54.6	19.7	-28.3	-23.8

Note : * Government Fiscal Management Information System
Source : The Comptroller's General Department, Ministry of Finance

For the first quarter of fiscal year 2008, government expenditure totaled 393.7 billion baht, up by 31.2 percent, in line with disbursement accelerating strategy. Major expenditures were for education (90.6 billion baht), economic policy application (86.7 billion baht), and universal health care (39.8 billion baht). This resulted in the disbursement rate in the first quarter of fiscal year 2008 of 21.6 percent of total budget, compared to 16.5 percent in the previous fiscal year in which the budget promulgation was delayed.

Table 25 : Current-year Expenditures By Types

Unit: Million baht

	Disbursement		
	2006	2007P/	2008P/ Q1
Current-year Budget	**1,270,682**	**1,472,527**	**358,252**
(%Δ)	(11.2)	(15.9)	(39.0)
- Personal	389,046	429,192	110,793
(%Δ)	(10.0)	(10.3)	(12.9)
- Operations	130,987	147,554	31,022
(%Δ)	(19.5)	(12.6)	(41.3)
- Investments	98,686	107,901	13,173
(%Δ)	(22.2)	(9.3)	(43.2)
- Sudsidies	348,103	371,727	118,585
(%Δ)	(14.4)	(6.8)	(86.1)
- Others	303,859	416,152	84,679
(%Δ)	(3.0)	(37.0)	(30.6)

Note : P = Preliminary data

Source : Fiscal year 2005 data from Bank of Thailand

Data since fiscal Year 2006 are according to GFMIS from the Technology and Communication Centre, Ministry of Finance

(As of 12 December 2007)

State Enterprises

In fiscal year 2007, the retained income of state enterprises[1/] registered at 160.8 billion baht, up by 3.0 percent from the previous fiscal year. Meanwhile, state enterprises' capital expenditure totaled 210.0 billion baht, closed to that of the previous fiscal year. This was partly because state enterprises were still waiting for more explicit government policy. Other negative factors included: 1) the insufficient information and delay in submitting data for the additional budget proposals, 2) the delayed construction of the home for the poor project, 3) the delay of large-scale investment project, in particular, the mass transit project as auctions were behind schedule, and 4) the holding back of some state enterprises in waiting for explicit counter trade and barter trade policies. Such decrease in capital expenditure disbursement (74 percent compared to the target of 90 percent) resulted in state enterprises' deficit of 49.2 billion baht or 0.6 percent of GDP, close to that of the previous fiscal year.

Table 26 : State Enterprises' Balances

(Unit: Billion baht)

	Fiscal Year	
	2007 P/	2008 P/
Retained Income	156.1	160.8
(%Δ)	(9.0)	(3.0)
Capital Expenditure	206.2	210.0
(%Δ)	(-11.4)	(1.8)
State Enterprises' Balances	-50.1	-49.2
(% of GDP)	(-0.7)	(-0.6)

Note : Δ% represents percentage change from the same period last year
P = Preliminary data
Source : National Economic and Social Development Board (NESDB)

1/ State enterprises' data from the NESDB's survey (not including somestate enterprises such as PTT)

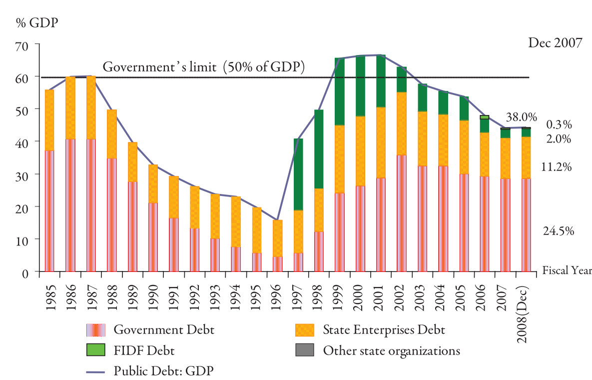
Public Debt

At the end of fiscal year 2007, total public debt registered at 3,179.4 billion baht or 37.9 percent of GDP, decreasing from 41.3 percent of GDP at the end of fiscal year 2006. Public debt comprised of direct government borrowing 2,051.4 billion baht (24.5 percent of GDP), guaranteed and non-guaranteed non-financial public enterprise debt 506.8 billion baht (6.0 percent of GDP) and 400.5 billion baht (4.8 percent of GDP), respectively. Meanwhile, debt outstanding for the Financial Institution Development Fund (FIDF) registered at 185.2 billion baht (2.2 percent of GDP) and other government agency debt (village fund and oil fund) accounted for 35.6 billion baht (0.4 percent of GDP).

Overall fiscal position in fiscal year 2007 was stable and in line with the fiscal sustainability framework, both in terms of public debt to GDP ratio and debt service ratio.

As of end-December 2007, public debt to GDP ratio recorded at 38.0 percent or 3,183.8 billion baht, comprising of direct government borrowing 2,051.1 billion baht (24.5 percent of GDP), non-financial public enterprise debt 939.3 billion baht (11.2 percent of GDP), FIDF debt 166.6 billion baht (2.0 percent of GDP), and other government agency debt (village fund and oil fund) 26.8 billion baht (0.3 percent of GDP).

Public Debt



Source: Office of Public Debt Management

Table 27 : Public Debt

(Unit: Billion baht)

	Fiscal Year		
	2006	2007 P/	2008 P/ Q1
1. Debt incurred from direct borrowing	**1,967.7**	**2,051.4**	**2,051.1**
(% GDP)	(25.1)	(24.4)	(24.5)
1.1 foreign debt	191.9	107.9	93.1
1.2 domestic debt	1,775.8	1,943.5	1,958.0
2. Debt of non-financial state enterprises	**911.5**	**907.3**	**939.3**
(% GDP)	(11.6)	(10.8)	(11.2)
2.1 government-guaranteed debt	522.3	506.8	539.8
foreign debt	195.1	171.1	169.8
domestic debt	327.2	335.7	369.9
2.2 non-government-guaranteed debt	389.2	400.5	399.5
foreign debt	119.1	134.3	136.2
domestic debt	270.1	266.2	263.3
3. Financial Institutions Development Fund (FIDF)	**273.5**	**185.2**	**166.6**
(% GDP)	(3.5)	(2.2)	(2.0)
3.1 government-guaranteed debt	0.0	0.0	73.8
3.2 non-government-guaranteed debt	273.5	185.2	92.8
4. Other state organizations	**80.4**	**35.6**	**26.8**
(% GDP)	(1.0)	(0.4)	(0.3)
4.1 government-guaranteed debt	29.3	18.0	18.0
4.2 non-government-guaranteed debt	51.1	17.6	8.8
(% GDP)	(41.3)	(37.9)	(38.0)
5. Total (1+2+3+4)	**3,233.1**	**3,179.4**	**3,183.8**
(% GDP)	(41.3)	(37.9)	(38.0)

Note : P = Preliminary data

Source : Office of Public Debt Management

Monetary Conditions and the Exchange Rate

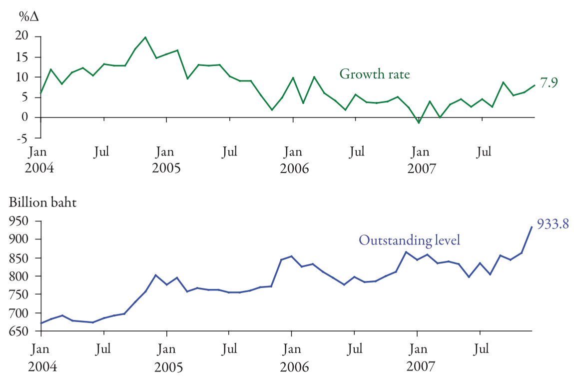
Monetary Base and Money Supply

At the end of 2007, **monetary base** totaled 933.8 billion baht, expanding by 7.9 percent from end-2006. The growth of cash held by the private sector, a component of the monetary base, had been accelerating, especially during the second half of 2007, which was in line with the recovery in private consumption.

Important developments regarding the supply of the monetary base in 2007 were (1) continued increase in net foreign assets of the Bank of Thailand, which was in line with the buildup of international reserves; (2) increase in the Bank of Thailand's net claims on the government from larger holding of government bonds as well as lower government deposits at the Bank of Thailand; and (3) a decline in the Bank of Thailand's net claims on financial institutions, as financial institutions' investment in the repurchase market as well as their holding of the Bank of Thailand bonds increased.

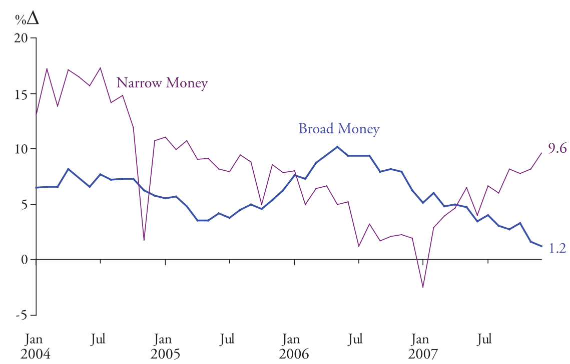
At end-2007, **broad money** registered at 8,317.5 billion baht, expanding by 1.2 percent year-on-year and decelerating from 6.2 percent in the previous year. The deceleration was due to commercial banks' issuance of bills of exchange in lieu of conventional deposits. Since bills of exchange are not included in the definition of either broad money or commercial bank deposits, broad money growth was unusually low. In addition, the downward deposit interest rate cycle, which followed policy interest rate, helped contribute to the slowdown in the growth of deposits at commercial banks, and consequently to that of broad money.

Monetary Base



Source : Bank of Thailand

Growth Rate of Money Supply



Source : Bank of Thailand

Exchange Rate, Interest Rates, and Government Bond Yields

1. Exchange rate

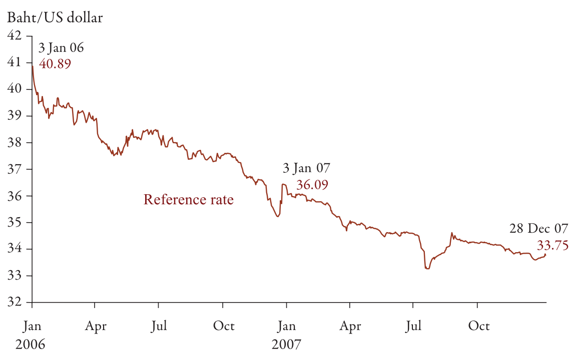
In 2007, the exchange value of the baht fluctuated between 33.27-36.09 baht per US dollar. The exchange rate averaged at 34.56 baht per US dollar, appreciating consistently from the average of 37.93 baht per US dollar in 2006. Factors that helped lift the baht in 2007 were: (1) US dollar decline, consequent of weak sentiment in the currency on the back of large current account deficit and clearer signs of softening economic growth. (2) pressure from Thailand's current account surplus, as exporters sold foreign currency receipts in exchange for the baht. (3) Occasional surges of capital flow into the stock market, for instance in early July. Meanwhile, the easing of capital control measures, which allowed for more balanced flows, and Bank of Thailand's intervention in the foreign exchange market helped slow the appreciation pace. Moreover, during July and August, foreign investors' concern about the subprime problem in the US mounted, leading to diversification away from regional markets and into assets with relatively low risk, e.g. US Treasury bonds. This action caused the baht to depreciate somewhat.

While the annual average baht-US dollar exchange rate appreciated by 9.7 percent year-on-year in 2007, **the nominal effective exchange rate** (NEER), which was calculated as a weighted average of bilateral exchange rates against Thailand's major trading partners' currencies, averaged at 78.22, appreciating by 6.2 percent from the average level of 73.69 in 2006. The NEER appreciation reflected the fact that the baht had gained against major trading partners' currencies, but the gain came at a more moderate pace than that made against the US dollar, which depreciated against an index of major currencies. It was noticeable that the bilateral baht-US dollar exchange rate and the NEER had moved in the same direction from the beginning of 2007 to August. However, from September to November, the baht appreciated less against the US dollar than other major and regional currencies, resulting in a decline in the NEER.

The **real effective exchange rate** (REER), which took into account inflation and therefore reflected Thailand's export price competitiveness, continued to rise from the average at 85.42 in 2006 to 90.54 in 2007, an appreciation of 6.0 percent.

Exchange Rate

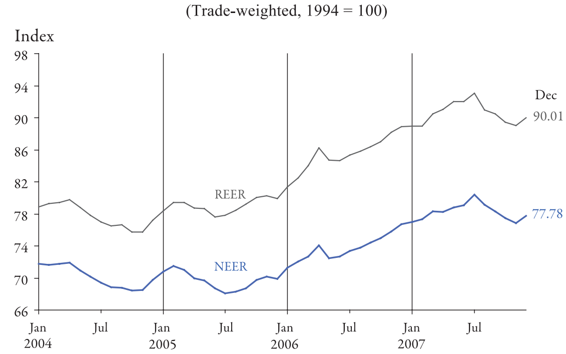
(3 January 2006 - 28 December 2007)



Source : Bank of Thailand

Nominal Effective Exchange Rate and Real Effective Exchange Rate

(Trade-weighted, 1994 = 100)



Source : Bank of Thailand

The REER gained less than the NEER, as Thailand's inflation rate was slightly lower than those of its major trading partners.

The average baht per US dollar in December appreciated by 6.3 percent from the same period last year, while the baht NEER and REER appreciated by only 1.4 and 1.3 percent, respectively, over the same period. This reflected a broad decline in the US dollar as well as the fact that Thailand's export price competitiveness had not been eroded. Moreover, the volatility of the baht-US dollar exchange rate in 2007 averaged at 3.2, well below those of most regional currencies.

Exchange Rates in the Region

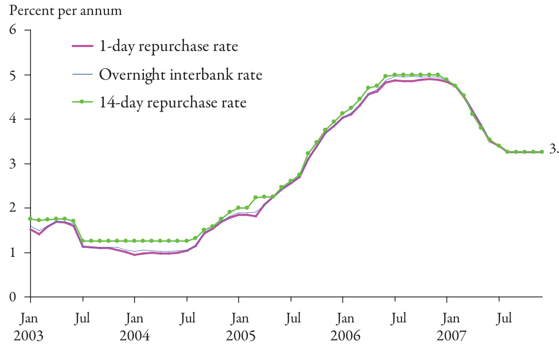
As of Dec 2007	% Change from Dec 06			Actual volatility (compared with US dollar)[2/]
	NEER[1/]	REER[1/]	with US dollar[2/]	Jan-Dec 2007
PHP	14.2	14.0	18.7	6.8
INR	6.9	6.8	12.0	5.1
CNY	1.6	5.1	6.2	1.6
MYR	1.6	0.3	6.7	4.1
THB	1.4[2/]	1.3[2/]	6.3	3.2
SGD	1.2	1.4	6.2	3.4
JPY	-0.6	-4.2	4.4	8.8
TWD	-4.6	-3.8	0.4	2.7
HKD	-5.2	-5.6	-0.3	0.6
KRW	-5.7	-5.9	-0.6	4.1
IDR	-7.4	-4.4	-1.7	7.7

Sourec : 1/ BIS calculation
2/ BIS calculation

2. Money market interest rates

Short-term money market rates in 2007 averaged downward from the previous year, in line with policy interest rate[1/]. The 1-day repurchase and interbank rates averaged at 3.77 and 3.79 percent per annum, respectively, declining from the averages of 4.64 and 4.69 percent per annum in 2006.

Money Market Interest Rates



Source : Bank of Thailand

1/ As of 17 January 2007, the policy interest rate was changed from the 14-day repurchase rate to the 1-day repurchase rate.

During the first half of 2007, the MPC decided to cut policy interest rate five times from 5.0 percent per annum at the end of December 2006 to 3.25 percent per annum at end-July 2007, on account of its assessment that risks to Thailand's economic growth, particularly domestic demand, had increased while risks to inflation had decreased and core inflation was projected to remain within the target range. Short-term money market rates adjusted downward in line with the adjustments of the policy rate.

As for the second half of 2007, the MPC decided to keep the policy interest rate steady at 3.25 percent per annum at three consecutive meetings from August to December, after assessing that despite the risks to growth from the global economy, especially the subprime crisis and high world oil prices, the Thai economy had gained momentum from domestic demand recovery. Inflationary pressures, however, started to mount toward the end of the year.

3. Government bond yields

In 2007, **government bond yields** were lower and, on average, fluctuated more than last year. During the first half of the year, both short-and long-term government bond yields declined notably in line with the policy interest rate cuts. However, at the end of May, medium- to long-term government bond yields rose markedly as the market expected that the downward policy interest rate cycle would soon come to an end. During the second half of 2007, government bond yields adjusted upward, due to a number of factors, such as market expectation of an upward policy rate shift in response to rising inflation as well as lower investor appetite for bond toward the end of the year, which was a seasonal pattern.

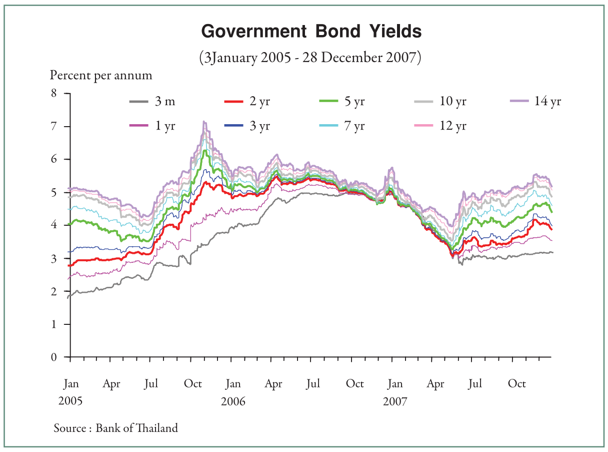
Movements of government bond yields in each quarter are summarized as follows:

In 2007 **Q1,** government bond yields trended down from end-2006. The yield curve became less steep, reflecting market expectation that interest rates would continue to fall.

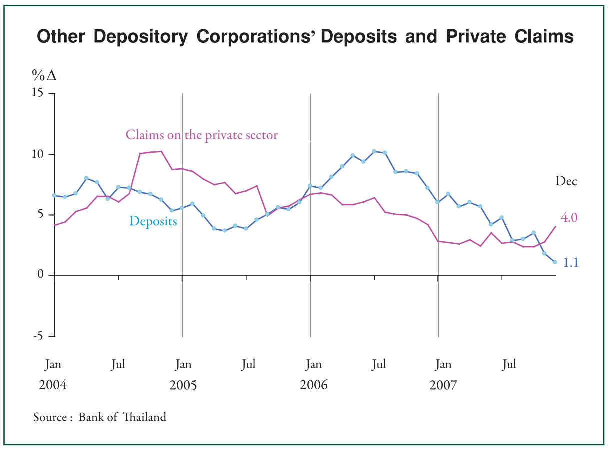
In 2007 **Q2,** government bond yields, while continuing on a downward trend, were also quite volatile. However, in May, the yield curve became steeper, on expectation of an imminent end to policy interest rate cut. In fact, investors began to sell government bonds, pushing up the yields, at the end of May.

In 2007 **Q3,** medium and long-term government bond yields gradually rose; partly from the diversification away from government bonds into equity of mutual funds, and also from low bid-coverage ratio at primary government bond auctions, which reflected the market's view of excess bond supply. Meanwhile, short-term yields fluctuated narrowly in line with the stable policy interest rate, widening the spreads between the long, medium, and short-term yields.

In 2007 **Q4,** medium and long-term government bond yields rose at the beginning, following the rise in US government bond yields, higher domestic inflationary expectation and investors' closing of positions toward end-year. However, bond yields dropped toward the end of December as rumor started to circulate that the Bank of Thailand would curtail its swap transactions to drain baht liquidity.



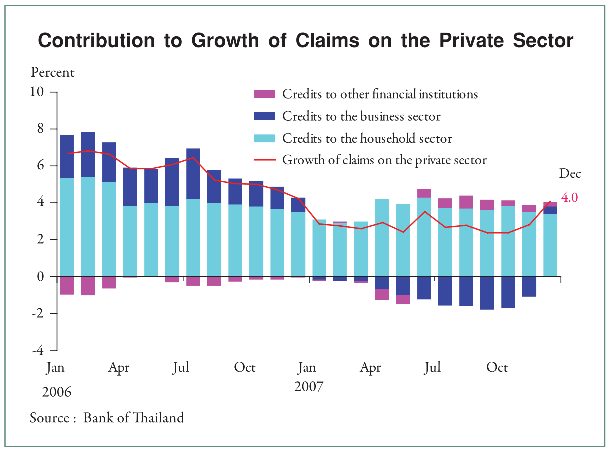
Other Depository Corporation Deposits and Claims[2/]



1. Other depository corporations deposits

In the first half of 2007, deposits at other depository corporations (ODC) grew at a weaker pace than the rate at the end of last year. This deceleration in growth started when commercial banks ceased to raise interest rates to compete for deposits during mid-2006. Moreover, some depositors did not find low interest rates enticing, prompting them to look for alternative saving options, such as bonds and mutual funds. Nevertheless, deposit growth accelerated sporadically when government budget, awaiting disbursement, was deposited at commercial banks.

In the second half of 2007, the growth of deposits continued to weaken, as (1) commercial banks increasingly acquired cheaper funding through issuance of bills of exchange, which were not counted as deposits under the current definition of commercial bank deposits; and (2) depositors found saving alternatives through BOT and FIDF saving bonds, issued in September and November 2007, respectively. As a result, at end-2007, other depository corporations' deposits expanded by 1.1 percent year-on-year. Had the bills of exchange been included, however, overall ODC's deposits would have expanded by 7.0 percent year-on-year.



2. Other depository corporations claims on the private sector

In 2007, the growth of ODC's claims on the private sector continued at a low rate from mid-2006. The low growth rate was mainly due to the contraction of credit extended to the business sector, specifically that for investment purposes, which was in line with weak domestic demand. Meanwhile, credit to the household sector expanded well and became the main driver of overall credit growth, which dipped to as low as 2.4 percent in September before edging up in

2/ Other Depository Corporations comprise commercial banks registered in Thailand, branches of foreign banks, international banking facilities, finance companies, specialized financial institutions (Government Saving Bank, Bank for Agriculture and Agricultural Cooperatives, Government Housing Bank, Export-Import Bank of Thailand (EXIM Bank), SME Bank, and Islamic Bank of Thailand), saving cooperatives, and money market mutual funds.

November on the back of business credit recovery following domestic demand improvement. At end-2007, overall credit to the private sector expanded by 4.0 percent year-on-year, with credit to the business sector increasing for the first time since January 2007.

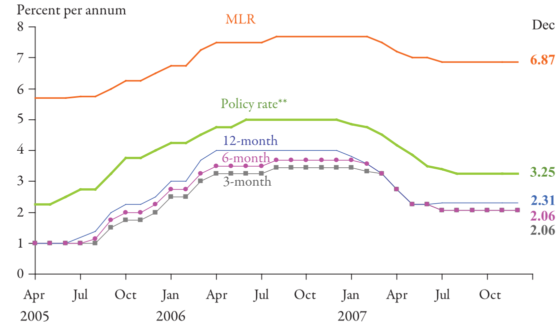
3. Commercial bank interest rates

During the first half of 2007, commercial banks had lowered both the reference deposit and lending rates, following the policy interest rate direction taken since January. In this adjustment process, the pace at which commercial banks reduced the lending rates was slower than the pace of deposit rate reduction, as it took time for term deposits that were quoted at existing interest rates to mature. In this context, commercial banks tried to maintain their net interest income and earnings by postponing lending rate cuts until after interest rates on term deposits could be lowered.

After the MPC decided to maintain the policy interest rate at 3.25 percent per annum in August, most commercial banks did not make additional adjustment to their reference interest rates. As of August, and indeed until end-year, the 3-month and 6-month deposit rates at four large commercial banks remained at an average of 2.06 percent per annum while the 12-month deposit rate averaged at 2.31 percent per annum. In the meantime, MLR averaged at 6.87 percent per annum.

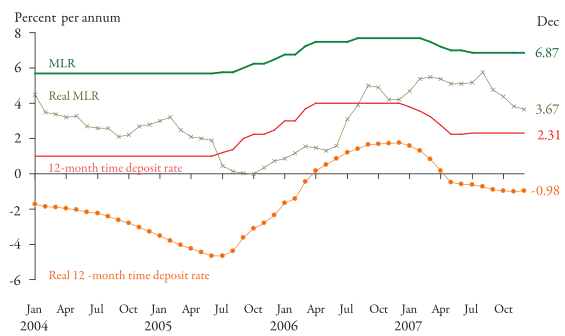
The decline in deposit interest rates at commercial banks from January to July resulted in a fall in real 12-month deposit rate[3/] as well.

Policy Rate and Commercial Bank Reference Retail Rates*



Note: * Average rate of 4 large commercial banks at end -period
** Policy rate has been changed from RP14 - day to RP 1 - day since 17 January 2007
Source: Bank of Thailand

Commercial Bank Interest Rates*



Note: * Average rate of 4 large commercial banks
Source : Bank of Thailand

Moreover, even though, commercial banks had not lowered deposit rates since July 2007, real 12-month deposit rate continued to fall in the second half of the year as the 12-month-ahead inflation forecast, a proxy for expected inflation, rose in line with rising inflationary pressure. At end-2007, real 12-month deposit rate was at -0.98 percent per annum. Real MLR[4/] also trended downward and remained somewhat volatile from month to month following current inflation rate with which it was deflated. At end-2007, real MLR stood at 3.67 percent per annum.

3/ Real deposit rate = 12-month deposit rate - average 12-month-ahead inflation forecast
4/ Real lending rate = MLR - current inflation rate

Performance of Commercial Banks

In 2007, commercial banks' net interest income rose by 9.1 percent from last year. Even though credit extended to the business sector contracted in line with weak domestic investment condition, credit extended to households continued to expand well, boosting overall interest incomes of commercial banks. Interest payment expenses also increased, but at a lesser extent as term deposits that received higher interest rates in the previous periods gradually matured. In addition, commercial banks also turned more toward short-term debt securities as a source of fund as they were cheaper than conventional deposits.

Non-interest income of commercial banks remained close to that in the previous year. Income from investment in securities declined from last year, as some commercial banks made losses from US subprime-related Collateralized Debt Obligations (CDOs). Besides, **non-interest expenses** of commercial banks also rose from increase in personnel and operational expenses, realized impairment of assets which awaited sale, and for some commercial banks, loss of goodwill from merger and acquisitions.

In summary, therefore, even though commercial banks' net interest income rose in 2007, their non-interest expenses also increased, making overall operating profit decline modestly from the previous year to 156.2 billion baht.

After accounting for loan loss provision and tax and special items, at 103.7 and 30.2 billion baht, respectively, commercial banks' net profit totaled only 22.4 billion baht, decreasing from 46.4 billion baht in 2006. Most of the loan loss provision that swelled in 2007 came from the application of the International Accounting Standard (IAS 39), which required banks to account for risk from asset impairment; for example, banks had to make full provision immediately against loans that became non-performing (NPLs). Commercial banks also had to make higher provision for loan loss from NPLs that arose from loans made to businesses that were affected by domestic demand slowdown and world financial market volatility.

Overall performance of commercial banks in 2007 was still strong. The BIS ratio averaged at 15.4 percent, significantly above the 8.5 percent stipulated by the BOT, in part because some commercial banks were recapitalized during the year.

Table 28 : Performance of the Banking System

Unit: Billion Baht	2006	2007P/	% Δ	2007P/		% Δ	
				Thai Banks	Foreign Banks	Thai Banks	Foreign Banks
1. Interest income	463.2	489.4	5.6	430.6	58.8	5.5	6.5
2. Interest payment	203.9	206.3	1.2	175.0	31.3	0.5	5.2
3. Net interest income (3) = (1) - (2)	**259.3**	**283.1**	**9.1**	**255.6**	**27.5**	**9.3**	**8.0**
4. Non-interest income	104.3	104.4	0.1	84.8	19.6	-4.6	27.1
5. Operating expense	206.5	231.2	11.9	207.1	24.0	11.9	12.4
6. Operating profits (6) = (3) + (4) - (5)	**157.1**	**156.2**	**-0.5**	**133.2**	**23.0**	**-3.2**	**18.3**
7. Loan loss provision and Debt restructuring loss	-67.8	-103.7	53.1	-98.9	-4.8	51.6	92.6
8. Tax and special items	-20.5	-30.2	47.1	-25.7	-4.5	44.0	68.0
9. Net profits (9) = (6) - (7) - (8)	**68.8**	**22.4**	**-67.5**	**8.6**	**13.7**	**-84.2**	**-4.0**

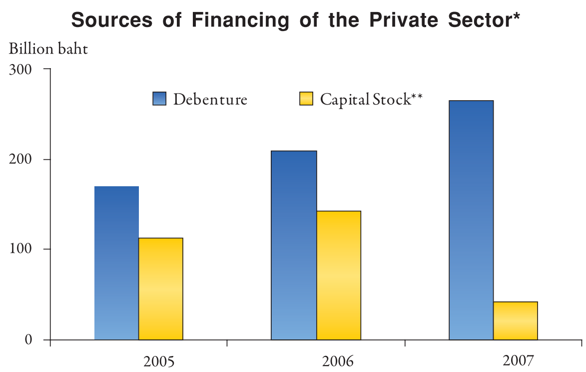
Note : P = Preliminary Data as of 25 March 2008

Capital Market

Sources of corporate and household sectors financing

In 2007, capital raising activities of the corporate and household sectors moderated in line with the slowdown in domestic demand. Details of the sources of financing are as follows:

1. Sources of corporate sector financing



Note: * Exclude financial institutions
** Include common stocks and preferred stocks, except warrants
Source: Securities Exchange Commission, Stock Exchange of Thailand, and Thai Bond Market Association

In 2007, firms in the non-financial corporate sector raised 264.2 billion baht through debt securities and debenture issuance, increasing by 26.6 percent from the previous year. This increase was due partly to the declining cost of debentures in line with government bond yields, following cuts in policy interest rate. As financial institutions tightened loan standards somewhat, corporations with access to the debt market started to issue more debentures. These corporations were in the property, communication, and energy sectors.

Capital raising through equity securities declined sharply in 2007 as firms postponed their investment activities when the economy weakened and the political condition became uncertain. This slowdown was reflected by the decrease in the number of initial public offerings (IPO) in the Stock Exchange of Thailand, which fell from 36 and 12 in 2005 and 2006, respectively, to 7 in 2007. Moreover, non-financial corporate primary offering[1/] declined from 112.6 and 142.8 billion baht in 2005 and 2006, respectively, to 41.8 billion baht in 2007. Firms that tapped the equity market were mainly in the property and communication sectors.

2. Sources of household financing

In 2007, credit to the household sector from various financing sources[2/] expanded by 10.3 percent, decelerating from 16.1 percent in the previous year since households had been more cautious in their spending while consumer confidence declined.

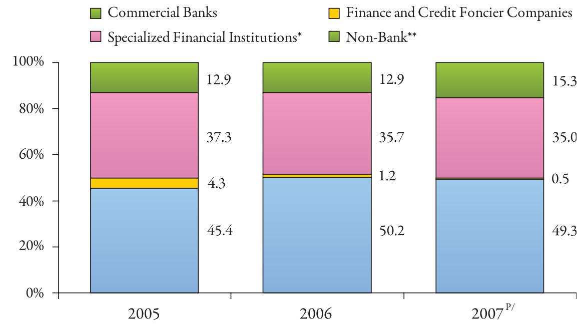
Among various sources of credits to the household sector, commercial banks remained the most important, even though their share of total credit to the household sector started to decline, from 50.2 percent in 2006 to 49.3 percent in 2007. Meanwhile, the role of non-bank financial institutions had increased, as reflected by their rising share, from 12.9 percent in 2006 to 15.3

1/ Includes Initial Public Offering (IPO), Public Offering (PO), Private Placement (PP), and Right Offering

2/ Credits to household sector provided by commercial banks, finance and credit foncier companies, specialized financial institutions (Government Saving Bank, Bank for Agriculture and Agricultural Cooperatives, Government Housing Bank, and Islamic Bank of Thailand), and Credits from Non-bank extended to household sector in term of credit card loan and personal loan under supervision.

percent in 2007. This gain came from both credit card and personal loans under supervision, especially those extended to low- to medium-income households. On the other hand, the share of specialized financial institutions in total credit extended to the household sector declined slightly to roughly 35 percent, while finance and credit foncier companies's share had been much diminished as they had been merged or transformed into commercial or retail banks since 2004, in accordance with the Thailand Financial Master Plan, which aimed to improve the efficiency of the financial system over the long run.

Sources of Credits to Household Sector



Note * include GovernmentSaving Bank, Bank for Agriculture and Agricultural Cooperatives, Government HousingBank, and Islamic Bank of Thailand
** Credits from Nonbank extended to household sector in term of credit card loan and personal loan under supervision

Source : Bank of Thailand

MONETARY AND FINANCIAL INSTITUTION MEASURES

Monetary Measures

Measures	Parties Involved	Main Points	Effective Date	Source
Interest Rate Policy				
1. **Policy rate** MPC decisions on the following dates: • 17 January 2007 • 28 February 2007 • 11 April 2007 • 23 May 2007 • 18 July 2007		The MPC decided to lower the 1-day repurchase rate five times from 4.9375 percent per annum at end-2006 to 3.25 percent per annum at end-July 2007 since the economic growth was still at risks. However, inflationary pressures were expected to be on a downward trend and core inflation should remain within the target range for the next eight quarters.	17 January 2007 28 February 2007 11 April 2007 23 May 2007 18 July 2007	BOT News No.2/2550, 10/2550, 17/2550, 22/2550 and 32/2550, respectively
• 29 August 2007 • 10 October 2007 • 4 December 2007		The MPC decided to maintain the 1-day repurchase rate at 3.25 percent per annum at three consecutive meetings from August to December 2007 since there were improvements in economic momentum but increased risks of upward price pressure. Nevertheless, core inflation should remain within the target range for the next eight quarters.	29 August 2007 10 October 2007 4 December 2007	BOT News No.43/2550, 49/2550, and 60/2550, respectively
2. **Other interest rates** Issuance of the Bank of Thailand's regulation on financial markets operations services related	- All financial institutions (excluding securities companies	The BOT amended the compensation fee charged on purchases of debt instruments for end-of-day liquidity adjustment with	17 January 2007	BOT Circular No. FRD.(1) C. 1/2550 dated 12 January 2007

Measures	Parties Involved	Main Points	Effective Date	Source
to purchase of debt instruments to adjust end-of-day liquidity with resale pledge from the buyer via electronic channel B.E. 2550	and international banking facilities (IBFs))	repurchase agreement, from policy interest rate plus 1.5 percent per annum to policy interest rate plus 0.5 percent per annum.		
Money Market Measures				
1. Repurchase Market				
1.1 Amendment of the minimum amount and compensation fees on trading of debt instruments in accordance with the Bank of Thailand regulation on repurchase agreement.	- Commercial banks - Finance companies - Credit foncier companies - Specialized financial institutions	The BOT raised the minimum amount, which financial institutions can trade in the repurchase market, from 10 million baht to 300 million baht per transaction. The BOT also increased compensation fees on trades in the repurchase market, from 0.03 percent per annum to 0.06 percent per annum of the transaction amount.	1 August 2007	BOT Circular No. FRD. (1) C. 8/2550 dated 15 June 2007
1.2 Amendment of the regulation of the Bank of Thailand on financial markets operations services related to selling of debt instruments to adjust end-of-day liquidity with repurchase pledge from the seller B.E. 2549	- All financial institutions (excluding securities companies and IBFs)	The BOT amplified the outstanding BOT bonds in the repurchase market transactions, and announced terms and conditions in accordance with the previous regulation.	19 November 2007	BOT Circular No. FRD. (1) C. 10/2550 dated 16 November 2007
1.3 Suspension of the BOT repurchase market	- All financial institutions	The BOT suspended repurchase activities in the BOT repurchase market on 12 February 2008.	-	- BOT Circular No. BOT.FRD. (1) C. 2279/2550 dated 26 November 2007

Measures	Parties Involved	Main Points	Effective Date	Source
2. Foreign Exchange Controls 2.1 Relaxation of regulations regarding capital outflows and foreign currency holding	- Commercial banks - Specialized financial institutions	(1) Increasing the limit of direct investment or lending to a business entity abroad by a Thai resident individual or juristic person, which holds shares or has ownership in that business entity abroad of not less than 10%, from not exceeding 10 million US dollars per person per year to not exceeding 50 million US dollars per person per year. (2) Allowing up to 20 million US dollars direct investment or lending per Thai juristic person per year to a business entity abroad which holds shares or has ownership in the Thai juristic person of not less than 10%. (3) Allowing Thai residents to deposit foreign currencies, originating from abroad without future obligations, with financial institutions in Thailand with an outstanding balance not exceeding 2 million US dollars for a juristic person or 50,000 US dollars for an individual. (4) Allowing certain types of institutional investors to invest in foreign securities up to the outstanding balances of 50 million US dollars per institution within the aggregate limit permitted by its regulator and committee or authorized person.	15 January 2006	BOT Circular No. ECD (02) C. 18/2550 dated 12 January 2007

Measures	Parties Involved	Main Points	Effective Date	Source
		(5) Relaxing the regulations regarding the exchange control on direct investment abroad, foreign currency-denominated account, transferring fund abroad on specified purpose, institutional investment on foreign security markets and time limit of sell or deposit with foreign currency receipts from abroad.	24 July 2007	BOT Circular No. ECD (02) C. 82/2550 dated 24 July 2007
2.2 Relaxation of the 30% Unremunerated Reserve Requirement (URR)	- Commercial banks - Specialized financial institutions	(1) The 30% Unremunerated Reserve Requirement (URR) waive in the case of fully-hedged foreign currency loans, packing credits, and other capital inflows without speculative purpose	1 February 2007	BOT Circular No. ECD (02) C. 39/2550 dated 29 January 2007
		(2) The 30% URR waive in the case of fully- hedged investment in debt securities and unit trusts	15 March 2007	BOT Circular No. ECD (02) C. 376/2550 dated 1 March 2007
		(3) The 30% URR waive in the case of Thai residents wishing to convert foreign currency funds from a foreign currency deposit account into baht, providing that those foreign currency funds were earlier obtained by purchasing from or exchanging Thai baht with onshore financial institutions	9 August 2007	BOT Circular No. ECD (02) C. 85/2550 dated 9 August 2007
		(4) The 30% URR waive in the case of investment in equity of ETFs listed on the Stock Exchange of Thailand.	6 September 2007	BOT Circular No. ECD (02) C. 90/2550 dated 5 September 2007

Measures	Parties Involved	Main Points	Effective Date	Source
		(5) The 30% URR waive in the cases of the investment in newly-issued investment units of existing property funds by existing unit holders and foreign currency loan with contract amount not exceeding 1 million US dollars and with the maturity of at least 1 year.	18 December 2007	BOT Circular No. ECD (02) C. 112/2550 dated 17 December 2007
2.3 Relaxation of retail remittance transactions to countries bordering Thailand.	- Commercial banks - Specialized financial institutions	Relaxing the regulations regarding the submission of documents in the cases of remitting Thai baht into Nonresident baht account, and purchasing, exchanging, or withdrawing currencies of countries bordering Thailand, for remittance to such countries.	18 October 2007	BOT Circular No. ECD (02) C. 99/2550 dated 17 October 2007
3. Measures to prevent Thai baht speculation				
Allowing financial institutions to purchase baht-denominated debt securities issued and sold by nonresidents (NRs) permitted by the Ministry of Finance (MOF)	- Commercial banks - Finance companies - Specialized financial institutions	The BOT allows onshore financial institutions to purchase baht-denominated debt securities issued and sold by NRs permitted by the MOF to issue baht bonds or debentures in Thailand in accordance with the MOF notification dated 11 April B.E. 2549 (Prior to this, financial institutions were allowed to purchase only bahtdenominated debt securities issued and sold by international financial institutions, financial institutions of foreign	22 November 2007	BOT Circular No. BOT.ECD. (02) C. 2256/2550 dated 22 November 2007 (This notification has now been revoked while the content has been placed in BOT Circular No. BOT.ECD.(02) C. 371/2551 dated 29 February 2008)

Measures	Parties Involved	Main Points	Effective Date	Source
		governments, foreign governments or juristic persons located in ASEAN+3 countries permitted by the MOF.		
Payment System Measures				
1. Rules and notification of the Bank of Thailand about the payment system	- Members of BATHNET	The BOT issued regulations on Multilateral Funds Transfer (MFT) as follows: (1) BOT Notification No. ITG. 4/2550 on service for MFT among BAHTNET service users (Amendment No.1) (2) BOT Notification No. ITG. 4/2550 on penalty fee of MFT among BAHTNET service users (3) BOT Regulation No. ITG. 6/2550 on electronic cheque clearing system in Bangkok area (Amendment No.5) (4) BOT Notification No. ITG. 7/2550 on penalty fee of MFT among BAHTNET service users (Amendment No.1)	15 October 2007	BOT Circular No. PSD.(12) C. 100/2550 dated 9 October 2007
2. Transferring money to Thailand' neighboring countries	- Commercial banks - Specialized financial institutions	The BOT eased the rules on presenting proof of transferring Thai baht to non-resident baht account and purchasing, exchange, or withdrawal of Thailand's neighboring countries currency to be transferred to those countries.	18 October 2007	BOT Circular No. ECD.(02) C. 99/2550 dated 17 October 2007

Measures	Parties Involved	Main Points	Effective Date	Source
3. Repeal of BOT Regulation on Media Clearing and related notifications	- Members of SMART	The BOT ceased its role on SMART: System for Managing Automated Retail Funds Transfer, and appointed National ITMX to be an authorized media clearing house.	15 October 2007	BOT Circular No. PSD.(12) C. 106/2550 dated 18 October 2007
		The BOT thus issued the notification No. ITG. 8/2550 on the repeal of BOT regulation on media clearing and related notification.	11 January 2008	
4. Change on reference of the BAHTNET	- Members of BATHNET	The BOT changed the BAHTNET reporting format from referring a date to referring a day, by setting the beginning of each bi-weekly reference on Wednesday and end on Tuesday in two weeks later.	-	BOT Circular No. PSD.(12) C. 115/2550 dated 6 November 2007
		The BOT thus issued rules and notifications to the BAHTNET users for their preparation as follows:		
		(1) BOT Rules No. ITG. 10/2550 on BAHTNET services B.E. 2549 (Amendment No.1)	24 October 2007	
		(2) BOT Notification No. ITG. 8/2550 on maintaining day-to-day liquidity and proportion of transferring through BAHTNET	21 November 2007	
		(3) BOT Notification No. ITG. 9/2550 on service fee of BAHTNET (Amendment No.1)	21 November 2007	

Measures	Parties Involved	Main Points	Effective Date	Source
		(4) BOT Notification No. ITG. 10/2550 on using the net clearing position between commercial banks in Bangkok area. (Issue 2) (Amendment No.1)	21 November 2007	
Financial Institutions Supervision and Development Measures				
1. Determining distressed asset and rules for AMCs	- Asset Management Company: AMC	The BOT assigned rules for the AMC to act upon as follows: (1) Allowing the AMC to buy or receive transferring assets from financial institution with discontinued or revoked operating license, including insurance of those assets. The AMC was also allowed to take a role of outsourcer for managing those distressed assets. (2) Amending the definition of financial institution to include Secondary Mortgage Corporation: SMC and Government Saving Bank.	27 March 2007	BOT Circular No. BOT.PPD. (21) C.1946/2550 dated 3 October 2007
2. Expansion of the scope and revision of the rules on commercial banks' financial transaction	- Commercial banks (excluding retail banks)	(1) Allowing commercial banks to operate in structured notes (2) Allowing commercial banks can operate in collateralized debt obligation.	-	BOT Circular No. PPD. (21) C. 178/2550 and 179/2550 dated 16 November 2007
		(3) Expanding the scope of commercial banks' financial transaction to be able to operate in embedded derivatives of capital and	7 July 2007	BOT Circular No. PPD. (21) C.1248/2550 and 1249/2550 dated 10 July 2007

Measures	Parties Involved	Main Points	Effective Date	Source
		debenture under the supervision of BOT.		
Financial Assistance to Priority Economic Sectors				
1. Financial assistance for entrepreneurs in the three southernmost provinces	- Commercial banks - Specialized financial institutions	The BOT granted the official financial assistance about 5,000 million baht through financial institutions, to financially support entrepreneurs, who are operating in Yala, Pattani, and Narathiwat. This program was extended to 2010.	4 June 2007	BOT Circular No. ECD. (22) C. 1006/2550 dated 4 June 2007
2. Financial assistance for small and medium entrepreneurs (SMEs) impacted by the appreciation of Thai baht	- Commercial banks registered in Thailand (only the members of Thai Bankers' Association)	The BOT launched financial assistance program through commercial banks with the amount of 5,000 million baht. This program will end on 31 December 2010.	3 August 2007	BOT Regulations No. FOG. 10/2550 dated 3 August 2007

Note: Specialized financial institutions include the Islamic Bank of Thailand, Small and Medium Enterprise Development Bank of Thailand (SME Bank), Export and Import Bank of Thailand (EXIM Bank), Bank for Agriculture and Agricultural Cooperatives, Government Saving Bank and Government Housing Bank.

The Bank of Thailand's Activities

Reserve Management Performance and Note Printing

1. Reserve Management and Operations

During the year 2007, the Bank of Thailand (BOT) managed the country's international reserves based on the principle of risk-awareness, safety and sound rationality, as well as liquidity, in order to achieve a desirable return within the investment guidelines and risk profiles set by the Top Management Committee and closely monitored by the Investment Sub-Committee.

To maximize investment returns within acceptable risk and appropriate liquidity, economic and financial market developments that can affect asset price movements were closely monitored in order to assess both short and long-term exchange rates and interest rates trend of major currencies and debt markets so as to capture any potential gain or minimize potential loss.

In 2007, major portfolios under the management of the Bank of Thailand include Liquidity Portfolio, Asian Fund Portfolio, Investment Portfolios and Exchange Equalization Fund (EEF) Portfolio. However, due to the dissolution of EEF on 8th August, 2007, all foreign assets in EEF Portfolio was transferred to the government. In addition, derivative instruments such as bond futures was utilized to maximize the reserves management efficiency.

In 2007 the Bank of Thailand also continued to improve its reserves management efficiency and proposed amendments to the Bank of Thailand Act and the Currency Act. The asset universe and instruments for investment were expanded to gain greater benefit from the world financial markets developments. The Bank of Thailand Act, B.E. 2551 came into force with effect from 4 March 2008. However, the Cabinet did not present the Currency Act to the National Legistative Assembly for consideration.

2. Banknote Issue Department

At the end of 2007, the number of banknotes in circulation is 3,393.3 million notes, an increase of 5.8 percent compared to the same period of last year. The value of banknotes in circulation is B854,484.7 million, an increase of 7.6 percent compared to 2006. The circulating banknotes, by denominations, are as shown below :

Table 1 : Banknotes in Circulation

Denomination (Baht)	500000	1000	500	100	60	50	20	10	5	1	0.50	BOT Note 60 baht
Volume (million notes)	0.000234	639.7	197.0	826.9	11.3	156.4	1,039.1	335.7	39.1	121.2	18.9	8.0

On 28 November 2007, the Bank of Thailand issued the 1-Baht, 5-Baht and 10-Baht Commemorative Banknote on the Auspicious Occasion of His Majesty the King's 80th Birthday Anniversary 5th December 2007.

The 10,819 counterfeit banknotes were detected and seized in 2007. The top three denominations among counterfeit banknotes were 1000 Baht (6,389 notes or 59.1 percent), 100 Baht (2,109 notes or 19.5 percent) and 50 Baht (1,702 notes or 15.7 percent).

3. Currency Reserve

At the end of 2007, Currency Reserve was valued at B854,484.7 million, equal to the value of banknotes in circulation at the time. The assets in Currency Reserve, along with their values and shares, are as shown below :

Table 2 : Assets in Currency Reserve as of 31 December 2007

	Value (Million baht)	Share (Percent)
1. Gold	65,408.6	7.7
2. Foreign currencies	353,177.8	41.3
3. Foreign securities	435,898.3	51.0
Total	**854,484.7**	**100.0**

Note : Gold and foreign assets are translated into baht using exchange rate prevailing at balance sheet date. The rates of major foreign exchanges as at December 31, 2007 were 28,136.561 THB/Troyounce (Gold), 33.747 THB/USD, 49.228 THB/EUR, 66.996 THB/GBP, 0.303 THB/JPY.

4. Banknote Management Group

His Majesty the King graciously designated Her Royal Highness Princess Maha Chakri Sirindhorn as royal representative at the opening ceremony of the Banknote Management Group, the new working sites in Nakhon Chai Si district, Nakhon Pathom province, on 15 October 2007. Functional and management systems regarding banknotes, which include production, distribution, planning and administration, were integrated into one single entity as "the Banknote Management Group". This aimed to facilitate the development, efficiency, and agile response to the country's demand for banknotes. Upon completion of construction, all three major departments relocated to this new working site. The banknote production was able to start production at the new site on 1 November 2006 and the Banknote Management Group became fully operational on 12 March 2007.

The summary of the banknote Management Group's performance will be as follows;

Note Printing Works

1. Banknote

Total amount produced: 1,750.5 million notes (including 45 million notes of 1-Baht, 5-Baht and 10-Baht denomination on the Auspicious Occasion of His Majesty the King's 80th Birthday Anniversary 5th December 2007)

2. Non-banknote Security Products

Revenue Stamp

Total amount produced and delivered: 123.22 million stamps

Excise Stamp

Total amount produced: 730.80 million stamps

3. Security Ink and Chemical Products

Total security Ink produced: 252,140 kg

Total Chemical Products produced: 70,392 kg

Total amount produced: 322,532 kg

4. Research and Development

Projects launched: 15 projects with concentration on counterfeit deterrence features, banknote lifespan extension, platemaking and quality control to save cost on imports

Projects completed: 5 projects

Banknote Strategic Planning and Administration Department

1. Strategic Management and Banknote Supply Chain Management

To create confidence in banknotes as medium of exchange of the Thai payment system, the Banknote Strategic Planning and Administration Department is primarily responsible for reviewing and formulating the Group's strategic direction to achieve three major goals comprising the efficient production and issuance of high-quality banknotes, the sufficient circulation to satisfy the demand for banknotes, and the advanced counterfeit deterrence efforts.

Banknote planning employing the concept of supply chain management includes new note planning, distribution, deposit and withdrawal, note processing and destruction. The Banknote Management Information System (BMIS) has also been developed to be an important managerial tool for banknote management.

2. International Standard Attainment

On 24 August 2007, the Banknote Management Group was successfully awarded the ISO 9001:2000 certification by the Management System Certification Institute (Thailand). The scope of certification covered the banknote production and management of the Banknote Operation-Bangkok Office and Nakhon Ratchasima Banknote Operation Center

3. Risk Management

In alignment with the Bank of Thailand's policies regarding risk management, the Banknote Management Group applied the risk management framework to its operational process from the production to the distribution of banknotes. Control Self-Assessment (CSA) was implemented by the assigned units within the Group to assure adequacy of internal controls and to identify opportunities for improvement.

Banking Business

1. Cash Management

1.1 Cash received and paid out

In 2007, the Bank of Thailand by the Banknote Operation - Bangkok Office and Banknote Operation - Regional Office received cash from commercial banks, financial institutions, government agencies and others totaling B1,542,622.3 million, an increase of 2.3 percent compared to the previous year's end. Cash paid out, on the other hand, totaled B1,611,401.3 million, an increase of 5.4 percent. In sum, cash was paid out (net amount) B68,779.0 million in 2007.

Unit : Million baht

Cash received and paid out	2006	2007	Increase (Decrease)	Percent
Cash received	1,507,653.4	1,542,622.3	34,968.9	2.32
Cash paid out	1,528,243.7	1,611,401.3	83,157.6	5.44
Net cash received (paid out)	**(20,590.3)**	**(68,779.0)**		

1.2 Assets transferred to and withdrawn from the currency reserve account

In 2007, assets transferred to the currency reserve account (to increase note in circulation) were, in net amount, B60,000 million higher than assets withdrawn from the currency reserve account (to reduce note in circulation) resulting in increase of currency reserve assets to B854,484.7 million in 2007.

Unit : Million baht

Currency Reserve	2006	2007	Increase (Decrease)	Percent
Year-end currency reserve	**794,484.7**	**854,484.7**	**60,000.0**	**7.55**
- Assets transferred to Currency Reserve Account	115,000.0	345,000.0	230,000.0	200.00
- Assets withdrawn from Currency Reserve Account	90,000.0	285,000.0	195,000.0	216.67
- Net assets transferred (withdrawn)	25,000.0	60,000.0		

2. Center of Funds Transfer

2.1 Large Value Funds Transfer (BAHTNET)

As of 28 December 2007, there were 67 participants in BAHTNET system; these participants comprised of 18 Thai commercial banks, 16 foreign commercial banks, 14 finance companies, finance & securities companies and securities companies, 8 BOT divisions, 11 specialized financial institutions/government agencies and other institutions.

The volume of funds transfer through BAHTNET system in 2007 totaled for 1,765,566 transactions, increased from 1,722,575 transactions in 2006 or by 2.50 percent. While the value totaled for B182.36 trillion, increased from B143.86 trillion of the previous year or by 26.76 percent. The aforementioned transactions can be categorized as follows:

Table 3 : Funds Transfer and Securities Transfer Transactions via BAHTNET System

Transaction	Volume (Transactions)			Value (trillion baht)		
	2006	2007	Δ%	2006	2007	Δ%
Interbank funds Transfer[1/]	140,690	151,038	7.36	69.86	96.41	38.00
Third Party Funds Transfer	1,570,868	1,614,528	2.78	71.20	85.95	20.72
Deliver Against Payment/						
Receive Against Payment[3/]	9,743	-	-	2.24	-	-
Deliver Free/Receive Free[3/]	1,274	-	-	0.56	-	-
Total[2/]	**1,722,575**	**1,765,566**	**2.50**	**143.86**	**182.36**	**26.76**

Note : 1/Includes Mulitilateral Funds Transfer Transactions
2/Excludes Deliver Free/Receive Free Transactions
3/Since May 15, 2006, these government securities settlement functions has been transferred to the Thailand Securities Depository Co.,Ltd., provided that payments are still settled in BAHTNET System
Source : Payment Systems Department, Bank of Thailand

2.1.1 Interbank Funds Transfer amounted to 151,038 transactions that slightly increased from the previous year by 7.36 percent while the value amounted to B96.41 trillion that increased by 38.0 percent. Interbank Funds Transfer comprised of Multilateral Funds Transfer and Book Transfer of commercial banks. Multilateral Funds Transfer through BAHTNET recorded the volume of 2,496 transactions that increased by 0.73 percent and valued at B7.04 trillion that increased by 10.65 percent. The Book Transfer of commercial banks through BAHTNET represented the figure of 10,647 transactions with the value at B23.83 trillion that increased by 1.11 percent and 41.60 percent respectively.

2.1.2 Third Party Funds Transfer was 1,614,528 transactions increased by 2.78 percent and the total value was B85.95 trillion increased by 20.71 percent from last year. The increments of volume and value of third party funds transfer resulted from the transactions of securities settlement functions at the Thailand Securities Depository Co., Ltd. which the payments are in the form of third party funds transfer through BAHTNET at BOT. In consideration of the transactions of securities settlement functions under TSD system, it showed that the volume of 57,897 transactions and the value at B29.85 trillion increased by 114.92 percent and 350.92 percent respectively from last year which had the volume 26,939 transactions and the value B6.63 trillion.

2.2 Electronic retail funds transfer via SMART

At the end of 2007, there were 33 member banks in SMART (**S**ystem for **M**anaging **A**utomated **R**etail Funds **T**ransfer), consisted of 17 Thai commercial banks, 11 foreign commercial banks, 4 specialized financial institutions, and Bank of Thailand. The number of member banks increased from 2006 by 4 banks, due to the 5 new member banks : The Thai Credit Retail Bank Public Company Limited since 2 February 2007, Bank for Agricultural and Agricultural Co-operatives since 8 February 2007, AIG Retail

Bank Public Company Limited since 7 March 2007, ACL Bank Public Company Limited since 20 March 2007 and Islamic Bank of Thailand since 21 March 2007: and bank merger between Bank of Ayudhya Public Company Limited and GE Money Retail Bank Public Company Ltd. since 1 January, 2007.

The total volume of funds transfer via SMART from 3 January to 12 October in 2007[1/] amounted to 13,669,863 transactions, increased by 2.4 percent while the value amounted to B630.1 billion, increased by 0.5 percent from last year. The daily average volume and value were 70,463 transactions and B3.3 billion respectively.

The major senders under the SMART system in terms of value were foreign banks, 55.2 percent of total value, while Thai commercial banks had the highest volume amounted to 53.7 percent of the total volume. However, Thai commercial banks were the major receivers with the respective value and volume of 92.7 percent and 99.3 percent of the total transactions.

The major type of transaction in terms of volume was salary and pension payments, accounted for 44.3 percent of the total volume. By contrast, the major type of transaction in terms of value was goods and services payment, amounted to 67.0 percent of the total value.

Table 4 : Transactions Classified by Service Types

Volume : Transaction

Value : Billion baht

Year	Goods & Services		Salary		Dividend		Others		Total	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
2004	3,225,007	365.60	7,090,768	122.98	410,227	14.65	1,135,780	49.33	11,861,782	552.56
	(50.7)	(59.5)	(13.3)	(9.2)	(26.4)	(37.6)	(55.7)	(51.2)	(25.5)	(43.5)
2005	5,065,488	524.93	7,562,027	153.02	1,202,967	64.31	1,897,909	63.39	15,728,391	805.64
	(57.1)	(43.6)	(6.6)	(24.4)	(193.2)	(339.0)	(67.1)	(28.5)	(32.6)	(45.8)
2006	6,090,762	522.02	7,692,331	180.74	1,326,169	36.53	1,962,874	62.35	17,072,136	801.65
	(20.2)	(-6.0)	(1.7)	(18.1)	(10.2)	(-43.2)	(3.4)	(-1.6)	(8.5)	(-0.5)
2007[1/]	5,350,460	421.99	6,060,727	149.75	1,211,552	21.42	1,047,124	36.96	13,669,863	630.12
	(11.3)	(1.6)	(3.5)	(12.0)	(2.3)	(-37.7)	(-33.2)	(-23.7)	(2.0)	(-0.2)
Proportion(%)	39.1	67.0	44.3	23.8	8.9	3.4	7.7	5.9	100.0	100.0

Note : ( ) = % represents percentage change from the same period last years. Except 2007 % change compare with from January-September.

Source : Payment Systems Department, Bank of Thailand

1/ Since 15 October 2007, SMART services were migrated to ITMX Bulk Payment System.

2.3 Inter-bank Cheque Clearing System

2.3.1 Interbank Cheque Clearing in Bangkok and Metropolitan areas

In 2007, total out-clearing cheques in Bangkok and Metropolitan areas operated via the Electronic Clearing House were 59.03 million items with the value of B29,524.02 billion. Compared to 2006, the volume decreased by 3.9 percent while the value increased by 8.6 percent. The average value of out-clearing cheques per item rose by 13.1 percent, from B0.44 million in 2006 to B0.50 million in 2007.

Table 5 : Volume and Value Interbank Cheque Clearing in the Bangkok and Metropolitan Areas operated via ECS

	Volume (items)			Value (million baht)		
	2006	2007	Δ%	2006	2007	Δ%
Cleared Cheques	61,444,513	59,026,338	-3.9	27,175,431.26	29,524,016.44	8.6
Cleared Cheques amount per item	-	-	-	0.44	0.50	13.1
Returned Cheques	1,436,380 (2.3)	1,292,547 (2.2)	-10.0	203,763.75 (0.7)	179,339.56 (0.6)	-12.0
Returned Cheques with insufficient fund	920,913 (1.5)	844,728 (1.4)	-8.3	98,184.36 (0.4)	91,246.38 (0.3)	-7.1

Note : ( ) represent the proportion of cheque cleared
Source : Payment Systems Department, Bank of Thailand

The volume of the returned cheques in Bangkok and Metropolitan areas was 1.29 million items, amounted to B179.34 billion. The volume and value of returned cheques decreased by 10.0 percent and 12.0 percent from the previous year. The ratio of the volume and value of the returned cheques to out-clearing cheques were 2.2 percent and 0.6 percent respectively, which were decreased to those in last year.

The volume of the returned cheques of which the reasons were insufficient fund was 0.84 million items, valued at B91.25 billion. The volume and value of returned cheques with insufficient funds decreased by 8.3 percent and 7.1 percent from the previous year. The proportions of the volume and value of the returned cheques with insufficient funds to out-clearing cheques were 1.4 percent and 0.3 percent respectively, which were decreased to those in last year.

2.3.2 Intra Provincial Cheque Clearing

In 2007, the intra provincial cheques cleared in 84 clearing areas nationwide were 15.06 million items in volume, with B2,667.47 billion in value. The volume of cheques went down by 5.5 percent from the previous year while the value slightly increased by 1.9 percent.

Table 6 : Volume and Value of Interbank Cheque Clearing in the Provincial Areas Operated via Provincial Cheque Clearing House

	Volume (Items)			Value (Million baht)		
	2005	2007	Δ%	2006	2007	Δ%
Cleared Cheques	15,937,710	15,055,946	-5.5	2,617,092.15	2,667,468.98	1.9
Returned Cheques	365,299	313,786	-14.1	42,670.42	37,022.95	-13.2
	(2.3)	(2.1)		(1.6)	(1.4)	
Returned Cheques	239,396	207,728	-13.2	21,191.50	17,130.80	-19.2
with insufficient fund	(1.5)	(1.4)		(0.8)	(0.6)	

Note : ( ) represent the proportion of cheque cleared
Source : Payment Systems Department, Bank of Thailand

Throughout the year, the volume of the returned cheques was 0.31 million items, amounted to B37.02 billion, decreased in volume and value by 14.1 percent and 13.2 percent from the previous year. The ratios of the volume and value of the returned cheques to those of out-clearing cheques were 2.1 percent and 1.4 percent respectively, which were decreased to those in last year.

The returned cheques of which the reasons was insufficient funds, were 0.21 million items with the value of B17.13 billion. The volume and value decreased from the previous year by 13.2 percent and 19.2 percent. The proportion of the volume and value of the returned cheques with insufficient funds to those of the out-clearing cheques decreased from last year at 1.4 percent and 0.6 percent respectively.

2.3.3 Inter Provincial Cheque Clearing

In 2007, the volume of the inter provincial cheques clearing operated via the Electronic Clearing House was 6.65 million items, amounted to B345.68 billion. The volume decreased by 1.0 percent, while the value continually increased by 5.2 percent.

Throughout the year, the volume of the returned cheques was 0.30 million items with the value of B17.72 billion, increased in volume and value by 3.0 percent and 8.7 percent from the previous year. The ratios of the volume and value of the returned cheques to those of out-clearing cheques were 4.6 percent and 5.1 percent respectively, which were slightly increased to those in last year.

Table 7 : Volume and Value of bill for Collection (B/C) operated via BOT

	Volume (items)			Value (million baht)		
	2006	2007	Δ%	2006	2007	Δ%
Cleared Cheques	6,714,035	6,649,433	-1.0	328,620.86	345,680.81	5.2
Returned Cheques	294,206 (4.4)	303,038 (4.4)	3.0	16,297.11 (5.0)	17,715.86 (5.1)	8.7
Returned cheques with insufficient fund	236,161 (3.5)	246,774 (3.7)	4.5	12,456.21 (3.8)	13,591.21 (3.9)	9.1

Note : ( ) represent the proportion of cheque cleared
Source : Payment Systems Department, Bank of Thailand

Total returned cheques of which reasons were insufficient funds were 0.25 million items, valued at B13.59 billion. The volume and value increased from the previous year by 4.5 percent and 9.1 percent. The proportion of the volume and value of the returned cheques with insufficient funds to out-clearing cheques were 3.7 percent and 3.9 percent respectively, which were increased to those in last year.

3. Banker to the Government

Repository of Government's and government agencies' funds

At the end of 2007, balance in the treasury reserve account at the BOT decreased by 28.34 percent compared to the previous year's end, while balance in the government agencies' and public organizations' accounts at the Bank of Thailand increased by 49.02 percent compared to the previous year's end.

Unit : Million baht

Account Balance	2006	2007	Increase (Decrease)	Percent
Treasury Reserve	77,713.2	55,692.3	(22,020.9)	(28.34)
Government agencies and public organizations	5,801.5	8,645.4	2,843.9	49.02

4. Banker to Commercial Banks and Financial Institutions

4.1 Repository of banks' and other financial institutions' funds

Balance in banks', financial institutions', and others' accounts at the BOT at the end of 2007 decreased by 6.28, 84.85 and 2.53 percent, respectively, compared to the previous year's end.

Balance in financial institutions' accounts decreased by 84.85 percent mainly because 2 accounts in this account category were closed.

Unit : Million baht

Account Balance	2006	2007	Increase (Decrease)	Percent
Banks	56,269.8	52,738.2	(3,531.6)	(6.28)
Financial Institutions	214.0	32.4	(181.6)	(84.85)
Others	34,469.5	33,598.6	(870.9)	(2.53)

4.2 Holding of Public Sector Bonds

As of end - 2007, the BOT's holding of public sector bonds amounted to B301,768 million, an increase of B160,173 million from last year, due to the purchase of government bonds in excess of maturing bonds for monetary policy implementation purpose, the purchase of Financial Institutions Development Fund bonds for its loan restructuring program, and the buyback of the Bank of Thailand bonds, with relatively large issue size.

4.3 Securities Position Adjustment Facility

The Securities Position Adjustment Window was established as a privilege to outright primary dealers in order to support their market making activities. Through this facility, primary dealers can temporarily acquire specific bonds to deliver to their counterparties at the policy rate plus 150 basis points. As of end-2007, three issues of government benchmark bonds, as specified by the Thai Bond Market Association, are on offer through this window. In 2007, however, there was no transaction undertaken through this facility.

4.4 Issuance of Bank of Thailand Bonds (BOT Bonds)

In 2007 the BOT has issued the BOT bonds for both institutional and retail investors. For institutional investors, the BOT bonds comprise discount instruments with up to 15-day and 1-year maturities, fixed-coupon bonds with 2-year maturity, and 3-year floating rate bonds. For retail investors, the BOT has issued the BOT savings bonds with 4-year and 7-year maturities. Moreover, since 2006, the BOT has gradually decreased the frequency of the BOT bond auctions, consolidated the number of issues, whilst increasing the issue size, in order to enhance liquidity in the secondary bond market.

4.5 Operations in the Bank of Thailand Repurchase Market (BOT-RP)

In 2007, transaction volume in the BOT-RP market as a percentage of total repurchase transaction volume (including BOT-RP market and Bilateral RP transactions) declined from 91 percent in 2006 to 71.6 percent. In addition, the Bank of Thailand raised fees for transactions in the BOT-RP market together with increasing the minimum size per transaction, the purpose of which was to stimulate transactions in other money markets. In 2007, the BOT continues to be a net borrower in the BOT-RP market, with transactions in the 1-day tenor occupying the largest proportion of total transaction volume. This proportion showed a significant increase when compared to 2006 figure, reflecting a change in the policy rate from the 14-day RP rate to the 1-day RP rate.

4.6 Bilateral Repo Transactions with Primary Dealers (BRP transactions)

In order to foster the development of the private repurchase market and facilitate the closure of the BOT-RP market, the BOT has continually increased BRP transactions (while transactions were conducted mainly in the 1-day tenor). In 2007 the total BRP volume exhibited a fourfold increase from 2006 while its outstanding, as a percentage of total outstanding in the BOT-RP and BRP combined, rose to 85 percent compared with 40 percent around the end of 2006. Furthermore, the BOT expanded the number of BRP primary dealers from 9 to 14.

4.7 End-of-Day Liquidity Window

Since January 2007, the BOT has established the end-of-day liquidity window both for the injection and absorption of liquidity in order to limit the volatility of short-term interest rates. The interest rate charged under this window equals the policy rate plus or minus 50 basis points, depending on the transaction type. In 2007, all transactions through this window were on the liquidity absorption side, most of which were for liquidity management towards the end of maintenance periods or quarter-ends.

4.8 Reform of the Bank of Thailand's Monetary Operation Framework

On January 17, 2007 the BOT implemented changes in its monetary operation framework as parts of its operation reform plan (Further details are available in the 'Reforming the Bank of Thailand's Monetary Operation Framework' article published in the January 2007 Inflation Report). As expected, transaction volume in the repurchase market became concentrated in the 1-day tenor, which was conducted at the policy rate. Meanwhile, longer term interest rates moved in accordance with market expectation on future directions of interest rates and volatility of short-term money market rates was low.

In 2007, the BOT continued with the second part of the Reform Plan: the closure of the BOT-RP market. To this end, financial institutions have been consistently encouraged to seek alternative channels of liquidity management such as the private repo transactions, and in the meantime the BOT has increased efficiency in managing the system's liquidity through other open market operations. The latest survey showed that all market participants were satisfactorily prepared for the closure of the BOT-RP market. Therefore, the BOT has announced February 12, 2008 as the last day of operation for the BOT-RP market.

5. The BOT's Financial Assistance to Priority Economic Sectors in 2007

In 2007, the BOT set aside B149,930 million credit line to assist priority economic sectors through financial institutions. During the year, total loans disbursement amounted to B289,809.4 million, a decrease of 17.8 percent from the previous year, while total loan outstanding as at end of 2007 registered B68,360.2 million, a decline of 26.8 percent from the end of 2006. Details are as follows:

5.1 Regular Program

The BOT's regular lending program provides credit facilities to SMEs through financial institutions. In 2007, loans disbursement totaled 127,014.3 million Baht a decrease of 34.3 percent from the previous year. The total loan outstanding as at end of 2007 stood at 18,795.7 million Baht, falling 43.2 percent from the end of 2006 due to the BOT's policy to increase the proportion of financial institutions contribution from 40 to 50 percent of total loans.

5.2 Emergency Programs

In 2007, the BOT's financial assistance also consisted of 5 emergency loan programs, details of which are as follows:

5.2.1 Lending to Entrepreneurs Affected by the Outbreak of Avian Flu is a program in existence since 2004, which has been continuously assisting entrepreneurs against the outbreak of avian flu and has a total credit line of B15,000 million. In 2007, the program's total loans disbursement amounted to 27,100.5 million Baht with total loan outstanding as at end of 2007 of B7,639.0 million.

5.2.2 Lending to Entrepreneurs Affected by the Tsunami in the Six Southern Provinces is a program that has been in place since January 2005 aiming to assist entrepreneurs that have been directly or indirectly affected by the Tsunami. With the total credit line of B48,000 million, the program has a lending balance of B23,777.3 million as at end of 2007 with loans disbursement during the year totaling B74,981.5 million.

5.2.3 Lending to Entrepreneurs Affected by the Ongoing Violence in the Three Southern Border Provinces focused on entrepreneurs in the three southern provinces that have been affected by social turmoil and violence. Out of B25,736.68 million total credit line, the program has a lending balance as at end of 2007 amounting to B16,487.7 million and loans disbursement totaling B50,704.9 million in 2007.

5.2.4 Lending to Entrepreneurs in Songkhla and Satoon Provinces Affected by the Ongoing Violence of the Three Southern Border Provinces has a total credit line of B3,000 million. In 2007, the loans disbursement totaled B9,854.9 million, while the outstanding balance at end of 2007 stood at B1,517.6 million.

5.2.5 Lending to SME Entrepreneurs Affected by the Appreciation of the Baht program started in August 2007 with a total credit line of B2,700 million. As at end of 2007, the program has an outstanding balance of 142.9 million Baht with the total loans disbursement totaling B153.3 million in 2007.

5.3 Special Lending Programs

The special lending programs conducted through specialized financial institutions in line with government policies have all been terminated in 2007. Details of which are as follows:

5.3.1 Lending for Housing Project through the Government Housing Bank with approved total credit line of B15,000 million was terminated on the 1st of March, 2007.

5.3.2 Lending to Rural SMEs Project through the Bank for Agriculture and Agricultural Cooperatives with approved total credit line of B3,000 million was terminated on September 13, 2007.

5.3.3 Lending to SMEs Project through the Industrial Finance Corporation of Thailand with approved total credit line of B9,000 million was terminated on February 25, 2007.

5.3.4 Lending to Maritime Business Project through the Export-Import Bank of Thailand and Industrial Finance Corporation of Thailand with approved total credit line of B4,000 million was terminated on September 14, 2007.

Table 8 : The BOT's Financial Assistance to Priority Economic Sectors in 2007

(Millions of baht)

Projects	2006		2007		Change (+increase, - decrease)	
	Accumulative Value (1)	Outstanding at year-end (2)	Accumulative Value (3)	Outstanding at year-end (4)	Accumulative Value (3) - (1)	Outstanding at year-end (4) - (2)
1. Regular Program						
- Lending to SMEs	193,278.5	33,089.1	127,014.3	18,795.7	-66,264.2	-14,293.4
2. Emergency Programs						
2.1 Lending to Entrepreneurs Affected by the Outbreak of Avian Flu	25,517.2	7,357.3	27,100.5	7,639.0	1,583.3	281.7
2.2 Lending to Entrepreneurs Affected by the Tsunami	81,991.7	27,067.6	74,981.5	23,777.3	-7,010.2	-3,290.3
2.3 Lending to Entrepreneurs Affected by the Violence in the Three Southern Border Provinces	42,443.6	13,146.9	50,704.9	16,487.7	8,261.3	3,340.8
2.4 Lending to Entrepreneurs in Songkhla and Satoon Provinces Affected by the Violence in the Three Southern Border Provinces	6,686.8	1,441.5	9,854.9	1,517.6	3,168.1	76.1
2.5 Lending to SMEs Affected by the Appreciation of the Baht	-	-	153.3	142.9	153.3	142.9
3. Special Programs						
3.1 Lending to GHB (Housing Project)	-	7,992.3	-	-	-	-7,992.3
3.2 Lending to BAAC (Rural SMEs Project)	2,789.1	2,558.7	-	-	-2,789.1	-2,558.7
3.3 Lending to IFCT (SMEs Project)		617.2	-	-	-	-617.2
3.4 Lending to EXIM and IFCT (Maritime Business Project)	-	112.4	-	-	-	-112.4
Total	**352,706.9**	**93,383.0**	**289,809.4**	**68,360.2**	**-62,897.5**	**-25,022.8**

6. The Development of Financial Market

Throughout 2007, the Bank of Thailand (BOT) has offered comprehensive seminars on foreign exchange risk management and uses of financial derivatives for business in order to help manage risks, to serve as investment alternatives and to facilitate fund mobilisation in a more efficient manner. The Bank has pursued several steps as follows:

6.1 Foreign Exchange Risk Management Seminars and Foreign Exchange Reporting System Improvement

(1)Foreign Exchange Risk Management Seminars for Thai Businesses:

The BOT organised a total of three seminars, aiming to provide appropriate foreign exchange risk management techniques for Thai businesses.

(2) Improvement of the Foreign Exchange Reporting (FOX) System:

In 2007, the BOT improved the FOX System and reporting in order to receive information related to large foreign exchange transactions in a timely manner, which helps the Bank to monitor market efficiently.

6.2 Development of Derivatives Market

In 2007, the BOT developed and disseminated Interest Rate Swap (IRS) information denominated in THB and foreign currencies by publishing outstanding balance of IRS on a monthly basis. Additionally, the Bank introduces its issuance of 3-year Floating Rate Bond (FRB) which uses the 6-month BIBOR as a reference rate.

6.3 Development of Securitisation Market

The BOT published a study on "Enhancing the Development of Mortgage-Backed Securities Issuance" (available in Thai version only) on its website in May, in order to increase the understanding of mortgage securitisation. In November, the BOT organised a seminar on "Understanding: Structured Products and Investment Regulation" so as to enhance the understanding of structured product issuance process, investment and related risk.

6.4 Educational Program on Private Repo Transaction

In order to prepare market participants for the upcoming closure of BOT repurchase market, the Bank conducted various training courses as follows,

(1) A course on "Private Repo Transaction for Executives" in March ;

(2) A course on "Global Master Repurchase Agreement for Private Repo Transactions" in June ;

(3) A course on "Private Repo Transactions" in September.

In addition, the BOT constantly coordinated with other market professionals to encourage a wider use of repo transaction.

6.5 Educational Program on Retail and Institutional Investors on Foreign Investment

In order to help promote better understanding of local investors on foreign investment opportunity, the Bank collaborated with the Association of Investment Management

Companies (AIMC) and Money and Wealth Magazine to organise a special public lecture on "Enhancing Opportunity for Thai Capital in Global Financial Markets" and a seminar on "Thai Capital Going Abroad: New Alternatives for Diversification" in June. Additionally, in November, the Bank conducted the final seminar on "Foreign Investment and Risk Analysis: Enhancing Thai Global Investment".

Acting as Agent of the Government

1. Exchange Control

1.1 Issuance of Ministerial Regulations, Notifications, Notices, and Circulars related to exchange control regulations

In 2007, the following Ministerial Regulation, Notifications of the Ministry of Finance, Notices of the Competent Officer, and Circular were issued:

1.1.1 Notification of the Ministry of Finance on Directions of the Minister to Authorized Agents (No.3) dated 10 January 2007 and Notice of the Competent Officer on Rules and Practices regarding Currency Exchange (No. 8) dated 12 January 2007 to relax regulations regarding capital outflows as follows:

(1) to increase the limit of direct investment or lending to a business entity abroad by a Thai resident individual or juristic person, which holds shares or has ownership in that business entity abroad of not less than 10 percent, from not exceeding US$10 million per person per year to not exceeding US$50 million per person per year.

(2) to allow up to US$20 million direct investment or lending per Thai juristic person per year to a business entity abroad which holds shares or has ownership in the Thai Juristic person of not less than 10 percent

1.1.2 Notification of the Ministry of Finance on Directions of the Minister to Authorized Agents (No.4) dated 11 January 2007, Notice of the Competent Officer on Rules and Practices regarding Currency Exchange (No. 9) dated 12 January 2007, and Notice of the Competent Officer on Rules and Practices regarding Investment in Securities abroad dated 12 January 2007 to relax regulations regarding investment in securities abroad and foreign currency accounts as follows:

(1) to allow certain types of institutional investors to invest in foreign securities up to the outstanding balances of US$50 million per institution.

(2) to allow Thai residents to deposit foreign currencies, originating from abroad without future obligations, with financial institutions in Thailand with an outstanding balance not exceeding US$2 million for a juristic person or US$50,000 for an individual.

1.1.3 Notice of the Competent Officer on Rules and Practices regarding Currency Exchange (No. 10) dated 29 January 2007 to waive the 30 percent Unremunerated Reserve Requirement (URR) in the case of fully-hedged foreign currency loans, packing credits, and other capital inflows without speculative purpose.

1.1.4 Notice of the Competent Officer on Rules and Practices regarding Currency Exchange (No. 11) dated 1 March 2007 to waive the URR of 30 percent in the case of fully- hedged investment in debt securities and unit trusts.

1.1.5 Ministerial Regulation No. 24 (B.E. 2550) issued under the Exchange Control Act B.E. 2485 and Notification of the Ministry of Finance on Directions of the Minister to Authorized Agents (No.5) dated 29 May 2007 to relax the surrender requirement for residents, with foreign currency receipts from abroad, to sell or deposit foreign currencies with an authorized agent from within 7 days to 15 days.

1.1.6 Notification of the Ministry of Finance on Directions of the Minister to Authorized Juristic Persons (No.6) dated 23 July 2007, Notice of the Competent Officer on Rules and Practices regarding Currency Exchange (No. 12) dated 24 July 2007, and Notice of the Competent Officer on Rules and Practices regarding Investment in Securities abroad (No. 2) dated 24 July 2007 to relax regulations regarding foreign currency accounts and outward remittances as follows:

(1) to allow companies listed on the Stock Exchange of Thailand to remit funds for direct investment abroad in an amount up to US$100 million per year.

(2) to raise the limit on the outstanding balance of foreign currency accounts with funds originating from abroad, and allow Thai residents to purchase, exchange, or borrow foreign currencies from financial institutions in Thailand for depositing such foreign currencies up to the specified limit.

(3) to increase the limit of outward remittance for invisible transactions by Thai residents to US$1 million per year.

(4) to abolish the surrender requirement for Thai residents with foreign currency receipts from abroad to sell or deposit such receipts with an authorized financial institution within the period of 15 days and allow financial institutions to set their own procedural guidelines and announce such guidelines to the public.

(5) to allow certain types of institutional investors to invest in the form of foreign currency deposit with financial institutions abroad within the aggregate limit permitted for investment in foreign securities.

1.1.7 Notice of the Competent Officer on Rules and Practices regarding Currency Exchange (No. 13) dated 9 August 2007 to waive the 30 percent URR in the case of Thai residents wishing to convert foreign currency funds from a foreign currency deposit account into Baht, providing that those foreign currency funds were earlier obtained by purchasing from or exchanging Thai Baht with financial institutions.

1.1.8 Circular No. ECD (02) Wor. 90/2550 regarding Exchange Traded Funds (ETFs) dated 5 September 2007 to waive the 30% URR in the case of investment in equity ETFs listed on the Stock Exchange of Thailand.

1.1.9 Notice of the Competent Officer on Rules and Practices regarding Currency Exchange (No. 14) dated 18 October 2007 to relax the regulations regarding the submission of documents in the case of remitting Thai Baht into Non-resident Baht Account, and including purchasing, exchanging, or withdrawing currencies of countries bordering Thailand, for remittance to such countries. Such relaxation aims at facilitating retail remittance transactions to countries bordering Thailand.

1.1.10 Notice of the Competent Officer on Rules and Practices regarding Currency Exchange (No. 16) dated 17 December 2007 to waive the 30 percent URR in the case of the following capital inflows:

(1) Investment in newly-issued investment units of existing property funds by

existing unit holders.

(2) Foreign currency loan with contract amount not exceeding US$ 1 million and with the maturity of at least 1 year.

1.2 Inspection on proceeds of exports

In 2007, total export value amounted to US$152,549.2 million, increased by 17.6 percent from last year. The export proceeds totaled US$134,369.2 million, an increase of 18.6 percent from the previous year. The proceeds were either in Baht from NRBA or in foreign currency which were either deposited in the foreign currency accounts or exchange into Baht. The proceeds are used for loan repayment to authorized financial institutions, or for payment of obligations to nonresidents. Total export proceeds accounted for 88.1 percent of the total export value while the difference resulted from netting transactions and exported goods that are exempt from acquiring foreign currencies.

Table 9 : Export Value VS Receipt of Export Proceeds

(Unit : Millions US$)

Value	2006	2007E/
1 Exports1/	129,721.7	152,549.2
Change (percent)	16.9	17.6
2. Foreign currency received from exports	113,288.6	134,369.2
Change (percent)	19.4	18.6

Note : 1/ Total value of export
E/ Estimate

Source : Customs Department

2. Foreign Exchange Transactions and Net Foreign Exchange Positions of Authorized Financial Institutions

2.1 Number of Authorized Financial Institutions

At year-end 2007, the number of authorized financial institutions totaled 40, consisting of 18 commercial banks registered in Thailand, 17 foreign bank branches, the Export-Import Bank of Thailand, Islamic Bank of Thailand, the Government Savings Bank, Small and Medium Enterprise Development Bank of Thailand, Bank For Agriculture and Agricultural Cooperatives. In 2007, the number of financial institutions increased by four banks (The Thai Credit Retail Bank Public Company Limited, AIG Retail Bank Public Company Limited, Indian Overseas Bank and Bank For Agriculture and Agricultural Cooperatives) and decreased two banks which were GE Money Retail Bank Public Company Limited closed down and Bharat Overseas Bank Limited Bangkok Branch closed down and merged with the Indian Overseas Bank and has changed its name to Indian Overseas Bank.

2.2 Volume of Transactions

In 2007, the purchase and sale of foreign currencies from and to customers amounted to US$277,700 million and US$262,649.3 million, an decrease of 10.1 and 12.7 percent respectively from the previous year. The other purchase and sale of foreign currencies decreased by 23.2 and 22.7 percent respectively due to the reduction of the NR's foreign exchange transaction for position adjustment. In 2007, total purchase volume exceeded sale by US$15,050.7 million, an increase of 83.7 percent from the previous year, resulting from an increase of 27.4 percent in the buying of foreign currencies by customers for export sales, while selling of foreign currencies by customers for import sales increased at the lower rate of 11.8 percent.

Table 10 : Purchase and Sale of Foreign Currencies from/to Customers

(Unit : Millions US$)

	2006	2007P/	Δ%
Purchase	**309,049.8**	**277,700.0**	**-10.1**
Export	79,988.2	101,894.5	27.4
Other	229,061.6	175,805.5	-23.2
Sale	**300,857.2**	**262,649.3**	**-12.7**
Import	87,395.4	97,746.7	11.8
Other	213,461.8	164,902.6	-22.7
Net Purchase and Sale	**8,192.6**	**15,050.7**	**83.7**
Foreign Trade	(7,407.2)	4,147.8	-
Other	15,599.8	10,902.9	-30.1

Note : Figures in parentheses indicate the amounts by which sale is greater than purchase.
P= Preliminary

Source : Based on Data set received from authorized financial institutions

2.3 Foreign Exchange Positions

As of year-end 2007, authorized financial institutions held a net long foreign currency position of US$445.5 million, decrease of 63.9 percent from the previous year due to outstanding forward sale increased by US$37,196.5 million. Their long spot position was at US$23,390.7 million, an increase of 10.0 percent from the previous year. Total assets increased by 4.2 while total liabilities decrease of 6.6 percent respectively from last year. Forward position, on the other hand, was B22,945.1 million short, an increase of 14.6 percent from the previous year. Outstanding forward purchase increased by 40.6 percent from the previous year while outstanding forward sale increased by 35.6 percent.

Table 11 : Foreign Currency Position of Authorized Financial Institutions

(Unit : Millions US$)

	End - 2006 (-Short)	End - 2007P/ (-Short)	Δ%
1. Spot Position	**21,264.6**	**23,390.7**	**10.0**
Assets	32,599.3	33,976.9	4.2
Liabilities	11,334.7	10,586.2	-6.6
2. Forward Position	**-20,031.1**	**-22,945.1**	**14.6**
Bought	84,434.9	118,717.3	40.6
Sold	104,466.0	141,662.5	35.6
3. Net Position (1+2)	**1,233.4**	**445.5**	**-63.9**

Note : P/ Preliminary

Source : Based on Data set received from authorized financial institutions.

3. Authorized Money Changer, Money Transfer Agent and Authorized Company

3.1 Foreign exchange

Table 12 : Transaction Volume of Foreign Exchange through Authorized Money Changers, Money Transfer Agents and Authorized Company at end-December 2007P/

Type	No.	Change from Previous Year	Purchase/ Remittance Volume Million US$	Purchase/ Remittance Volume Δ%	Sale/ Remittance Volume Million US$	Sale/ Remittance Volume Δ%
Authorized Money Changer	671	113	559.79	59.63	560.00	60.12
Money Transfer Agency	1,207	2	170.62	91.33	25.34	32.70
Authorized Company	1	0	0	-	.95	-

Note : Δ% represents the percentage change from the same period of the previous year.
P = Preliminary

At end-2007, there were 671 authorized money changers regulated by the BOT (332 by Head Office, 248 by Southern Region Office, 74 by Northern Region Office, and 17 by Northeastern Region Office), increased by a total of 113 from previous year. There were consisted of 133 newly licenses and 20 returned licenses. The BOT also hold public seminar for interested entrepreneurs resulted in increasing numbers of applications.

In 2007 there were 1,207 money transfer agents regulated by the BOT (456 by the Head Office, 203 by the Southern Region Office, 242 by the Northern Region Office, 306 by the Northeastern Region Office), an increase of 2 agents from previous year.

In 2007, there was only one authorized company as previous year.

3.2 Examination

In 2007, there were 46 authorized money changers, money transfer agents and authorized company that has been examined by the head office of the Bank of Thailand. The result of the examination has found that there were 15 of the 46 cases that did not comply with the regulation.

3. Public Debt Management

3.1 Outstanding, issuance and redemption

Unit : Million baht

Types of Securities	Outstanding (as of 31-Dec-06)		Issuance		Redemption[1/]		Outstanding (as of 31-Dec-07)	
	No. of issue	Value	No. of issue	Value	No. of issue	Value	No. of issue	Value
Government Bonds	82	1,511,476.9	20	330,216.0	3	81,772.8	99	1,759,902.0
State Owned Enterprise Bonds	284	332,900.0	42	49,384.3	33	40,009.0	293	342,275.3
Bank of Thailand Bonds	31	896,702.0	144	4,047,7540.0	145	3,593,051.0	30	1,351,405.0
FIDF Bonds	18	320,000.0	32	607,794.6	41	684,000.0	9	243,794.6
IFCT Bonds	1	650.0	-	-	-	-	1	650.0
Treasury Bills	41	218,000.0	154	543,000.0	152	647,000.0	43	114,000.0
Debt Restructuring Bills	2	10,000.0	2	10,000.0	4	20,000.0	-	-
Total	**459**	**3,289,728.9**	**394**	**5,588,148.9**	**378**	**5,065,832.8**	**475**	**3,812,026.9**

In 2007, the BOT conducted early redemption and amortization totaling B41.75 million as the followings

(1) Early redemption totaling B26.0 million for Government Bonds for Tier2 Capital Assistance Program, issue Tier2842/8

(2) Principal payment totaling B15.75 million for 3 issues of specific-purposed government loan bonds

Government Bond in Fiscal Year B.E.2511/2 B1.62 million

Government Bond for educational provision of private nonformal education schools B6.92 million

Government Bond for vocational education development B7.21 million

Including government bonds issued in foreign currency converted into Thai baht by using adjusted rate every year, resulting in 18.1 million baht decrease in outstanding value.

3.2 Coupon Payment

Unit : Million baht

Types of Securities	Coupon Payment	
	No. of payment	Value
Government Bonds	144	86,889.9
State Owned Enterprise Bonds	575	17,597.2
Bank of Thailand Bonds	19	17,972.6
FIDF Bonds	-	-
IFCT Bonds	2	50.7
Total	**740**	**122,510.4**

3.3 Outstanding value classified by holders as of December 31st 2007

Unit : Million baht

Types of Holders	Value
Bank of Thailand	135,597.4
Commercial Banks	960,292.5
Finance Companies	1,391.9
Others	2,714,745.1
Total	**3,812,026.9**

3.4 In 2007, totaling 8,042 ownership transfer transactions valued B37,285.1 million

Unit : Million baht

Types of transfer	No. of transaction	Value
From trading	5,441	23,124.4
Others	2,601	14,160.7
Total	**8,042**	**37,285.1**

3.5 Collecting fee for debt securities management in 2007

Unit : Million baht

Types of Securities	No. of Issue	Value
Government Bonds[1/]	101	340.9
State Owned Enterprise Bonds	292	11.3
FIDF Bonds (Savings)	2	7.4
Treasury Bills	154	54.3
IFCT Bonds[2/]	1	-
Total	**550**	**413.9**

Note : 1/ including collecting fee for specific-purposed government loan bonds (US$-denominated) worthed 682.51 baht.
2/ collecting fee for IFCT bonds worthed 30,000 baht

3.6 Tax withheld from interest payment and submitted to the Revenue Department in 2007 (Head Office Only)

Unit : Million baht

Types of Taxes	No. of transaction	Value
Personal Income Tax	10,760	815.7
Corporate Income Tax	425,415	2,621.4
Total	**436,175**	**3,437.1**

3.7 Deposit and withdrawal of debt securities

Unit : Million baht

Types of Accounts	No. of Transaction	Value
Account deposited		
Account at TSD	506	181,379.5
RP Account	14	17,675.0
ILF Account	3	620.0
subtotal	**523**	**199,674.5**
Account withdrawn		
BOT-BE Account	4	111.0
Account at TSD	11,459	1,045,284.2
RP Account	33	18,393.6
ILF Account	24	6,489.9
subtotal	**11,520**	**1,070,278.7**
Grand Total	**12,043**	**1,269,953.2**

3.8 BOT Saving Bonds, B.E. 2550/ issue 1

The Bank of Thailand (BOT) began issuing the BOT Savings Bonds, B.E. 2550, issue 1 and served as a registrar and paying agent itself.

The totaling issuance value of 4-year bonds and 7-year bonds worthed 40,000 million baht. Par value per unit was 1,000 baht. The selling conducted between 27 August-4 September 2007 by selling agent banks.

3.9 MOF-guaranteed FIDF Savings Bonds, B.E. 2551

The Financial Institution Development Fund (FIDF) began issuing the FIDF Savings Bonds, B.E. 2551. These bonds were guaranteed by the Ministry of Finance (MOF) while the BOT served as a registrar and paying agent.

The totaling issuance value of 2-year bonds and 4-year bonds worthed 80,000 million baht. Par value per unit was 10,0000 baht. The selling conducted between 22-29 November 2007 by selling agent banks.

4. Financial Institutions Supervision Policies

4.1 Financial Institutions Policies

4.1.1 Non-performing Assets Resolution

Policy Statement on Debt collection

The Bank of Thailand (BOT) has issued the policy statement on debt collection of financial institution and non-financial institution business operators, both in the case that business operators act as debt collectors and the case that such business operators outsource debt collection functions to debt collection agents. Particularly, the BOT has specified general debt collection practices such as contact timeframe, methods and languages used in collecting debt, and on secrecy issues of debtors' information. The policy statement also prescribes the criteria for outsourcing debt collection agents, for example business operator's responsibility to debtors and outside parties, criteria for selecting debt collection agents, and policy guidance on receipt and management of complaints relating to debt collection. In this regard, the BOT will assess the implementation of this policy statement in order to improve the general debt collection guidance as deemed appropriate.

4.1.2 Risk Supervision

Consolidated Supervision

The BOT has issued the draft guidelines on consolidated supervision for foreign bank branches based on the same principles as those of Thai commercial banks. The guidelines cover such issues as the organizational, business scope, and capital adequacy for credit risk of a financial group as well as the intra group transaction and large exposure limit. The guidelines will be applied to foreign bank branches after the Financial Institutions Businesses Act becomes effective.

4.1.3 Expansion of Business Scope

(1) Non-Performing Asset and guidelines for Asset Management Companies (AMCs)

To be consistent with the amended Emergency Decree on Asset Management Company B.E. 2541 and B.E. 2550 which expands the business scope of asset management companies (AMCs), the BOT has revised the Notification of the Bank of Thailand Re: Non-Performing Asset and guidelines for Asset Management Companies B.E. 2550. The essence of the notification is as follows:

(1.1) Revised the definition of "asset" to include assets of financial institutions which have been suspended, dissolved or whose licenses to operate commercial banking, finance or credit foncier businesses have been revoked, as well as the collaterals of such assets. This is to enable AMCs to purchase or receive transfer of the mentioned assets.

(1.2) Permitted AMCs to manage non-performing assets of operating financial institutions or assets of financial institutions which have been suspended, dissolved or whose licenses to operate commercial banking, finance or credit foncier businesses have been revoked.

Furthermore, the BOT has revised the definition of "financial institution" to include the Secondary Mortgage Corporation (SMC) and the Government Savings Bank (GSB). This will enable AMCs to purchase or receive transfer of non-performing assets of these two financial institutions.

(2) Equity or Bond Derivatives

The BOT has expanded business scope of commercial banks with respect of equity derivatives and bond derivatives by granting general permission for plain vanilla equity and bond derivatives. For other types of equity or bond derivatives, prior approval from the BOT must be obtained on a case by case basis, where commercial banks are required to comply to the business scope and supervisory guidelines as specified by the BOT.

(3) Deposit or Borrowing Transactions with Embedded Derivatives and Collateralized Debt Obligation (CDO)

The BOT has revised the notification on conducting of deposit or borrowing transactions with embedded derivatives and investment in CDO as follows.

- Commercial banks are required to assess the capital adequacy on a continuous basis as well as before entering into additional transactions.
- IAS 39 must be adopted with regard to classification, recognition and fair value assessment of the transactions.
- The risk management requirement is outlined in more details.

(4) Consumer Protection when undertaking derivative transactions

The BOT has issued a circulated letter to promote commercial banks' awareness on the importance of consumer protection when undertaking derivative transactions. Commercial banks shall offer derivative transactions to customers with reasonable care: by conducting client suitability analysis, providing accurate, adequate and timely information, as well as having appropriate process to handle customers' complaints and adequate internal control system.

(5) Outsourcing of Supporting Functions and Appointment of Agent

In order for financial institutions have flexibility in managing their non-performing assets and reducing the remaining non-performing assets, the BOT has permitted financial institutions to appoint an asset management company as an agent to manage the non-performing assets.

(6) Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Measures

To encourage financial institutions to have measures on anti-money laundering and combating the financing of terrorism (AML/CFT) which are in line with the international standards, the BOT has issued the guidelines on know your customer and customer due diligence (KYC/CDD) practices for all financial institutions. This policy statement is applicable to all types of financial services that financial institutions provide to customers.

(7) Guidelines on Business Continuity Management (BCM) and Business Continuity Plan (BCP) of Financial Institutions

To promote more efficient operational risk management of financial institutions and to ensure continuing or resumption of critical business function within a reasonable period in the event of operational disruptions, the BOT has issued the guidelines on Business Continuity Management (BCM) and the preparation of Business Continuity Plan (BCP) of financial institutions.

4.1.4 Basel II Preparations

The FIPG has continuously been preparing for the implementation of the New Basel Capital Accord (Basel II), which will be applied to all commercial and retail banks by the end of 2008. (and by the end of 2009 for FIs that use the Advanced Internal Ratings-Based Approach)

The BOT's preparations for Basel II implementation in 2008 can be summarized as follows:

(1) Issued the Guideline on the Recognition of External Credit Assessment Institutions (ECAIs) for the use of their ratings to map to the risk weights under the Guideline for Minimum Capital Requirement for Credit Risk by the Standardised Approach (SA) on 30 April 2007.

(2) Issued Final version for Basel II Report of Capital Fund under Pillar 1 (revised) on 29 November 2007, conducted an industry hearing on 12 October 2007 regarding Final version of Basel II Report of Capital Fund under Pillar 1 on 1 October 2007.

(3) Collect data from the survey on quantitative impact on banks' capital fund from the implementation of the Pillar 1 of the Basel II Guideline (QIS assessment form) based on 30 June 2006 data. Using the data, the BOT finished an assessment of the overall impact on capital funds of the banking system on 29 May 2007.

(4) Provided and published on the BOT website clarifications on inquiries regarding the Basel II guideline as follow:

(4.1) Clarification Set 2 of inquiries regarding Draft of the Guideline on Minimum Capital Requirement for Credit Risk by SA and revise Clarification Set 1 on 25 May 2007.

(4.2) Clarification on inquiries regarding calculation of Gross Income and business lines mapping for calculating minimum required capital for operational risk using the Standardised Approach (SA-OR) on 31 October 2007.

(5) Enhance the Basel II Guideline knowledge for internal and external stake holders to prepare for Basel II implementation by:

(5.1) Arranged trainings for supervisors and industry.

(5.2) Provided courseware of the Supervisory Guideline on Capital Fund under Basel II. This courseware is submitted by electronic media of interactive multimedia flash and is comprised of general knowledge regarding Basel II, minimum capital requirements for credit risk using the Standardised Approach, and minimum capital requirements for operational risk.

For 2008, the FIPG plans to: issue the Guideline for Minimum Capital Requirement under Basel II under the new Financial Institutions Business Act (FIBA), issue additional draft Guideline for Minimum Capital Requirement for securitisation transaction under the Standardised Approach and Internal Ratings-Based Approach, amend the existing Guideline for Minimum Capital Requirement with the issues in the 2006 Basel Committee on Banking Supervision paper on the Application of Basel II to Trading Activities and the Treatment of Double Default Effects, further develop the courseware by adding the material on Minimum Capital Requirement for Credit Risk using the IRB Approach, educate stakeholders under the new FIBA on Basel II, and convert the Basel II Report of Capital Fund under Pillar 1 from excel file to dataset format to support the implementation of Basel II in 2008.

4.1.5 The passage of the draft Financial Institutions Business Act

The draft Financial Institutions Business Act (Act) had been proposed to the Parliament for consideration since 2000 in order to substitute the existing Commercial Banking Act B.E. 2505 and the Act on the Undertaking of Finance Business, Securities Business and Credit Foncier Business B.E. 2522 which had been enacted for long time. However, the Senate and the Lower House disagreed on some context of the draft by the end of such Parliamentary Session. Despite of the appointment of the new government and Parliament in 2005, the draft Act was not submitted for Parliamentary Consideration within the timeframe stipulated by law, and hence the draft Act has not yet been endorsed.

In 2006, the Ministry of Finance and the BOT re-proposed the draft Act to the consideration of the parliament. The draft Act had been approved by the cabinet in November 2006, by the Council of State in June 2007 and by the National Legislation Assembly in November 2007. This act has come into force on 3 August 2008 following the date of its publication in the Government Gazette on 5 February 2008

4.1.6 Development of the drafted Prompt Corrective Action (PCA) Policy Statement

Presently, the Prompt Corrective Action, prescribed in the Commercial Banking Act B.E.2505 as amended, authorizes the Minister of Finance and the BOT to resolve the problem banks. However, the trigger level of capital adequacy for intervention has not expressly been prescribed in the Act. Therefore, the BOT formulated the framework of PCA Policy Statement stipulating the clear remedial process to promote the transparency of the remedial action to the public and to ensure the promptness of the resolution both from the regulators and the banks.

In December 2006, the PCA Policy Statement was proposed to the Minister of Finance who considered that the BOT should seek additional comments from industry. The Thai Banker's Association has agreed upon the PCA Policy Statement that it stipulates the good guideline, however, there are some issues that should be clarified more clearly.

Currently, the parliament has given consent to draft Financial Institutions Business Act. The PCA mandatory actions for the BOT's intervention with certain levels of capital adequacy as prescribed in such law conform with the proposed PCA Policy Statement. The BOT is in the process of reviewing and amending the PCA measurement to be consistent with the draft Act in order to apply for the BOT's guideline for supervising and remedying the financial institutions.

4.2 Enhancement of Regulatory Framework

4.2.1 Financial Sector Master Plan

(1) Financial Sector Master Plan I

The implementation of Financial Sector Master Plan Phase I, which started in the beginning of 2004, was completed in March 2007, when the last commercial bank that was granted the commercial banking license under Phase I started its operation.

After the completion of Phase I of the Plan, there were 43 financial institutions under the supervision of the BOT, consisting of 14 Thai commercial banks, 3 retail banks, 17 foreign bank branches, 1 subsidiary, 5 finance companies and 3 credit foncier companies.

(2) Financial Sector Master Plan II

The BOT is in the process of formulating Phase II of the Financial Sector Master Plan (FSMP). The policy formulation process of Phase II gives high priority to encompassing participation and input from key stakeholders. The BOT has also approved the establishment of a Steering Committee for the drafting of Financial Sector Master Plan Phase II. The Committee would oversee the formulation process of the Plan, advise and comment on policy measures. The Committee consists of ten members, with the Deputy Governor (Financial Institutions Stability) acting as the Chairman of the Committee and the Deputy Governor (Monetary Stability) a committee member. The other seven members are outside experts.

The overarching objective of Phase II is to improve efficiency, competitiveness and resiliency of the Thai financial system in order to facilitate and support long-term economic growth. The objective of the Plan will be achieved through policy measures under three main pillars: 1) reducing operating costs stemming from overly restrictive regulations; 2) increasing competition and; 3) strengthening institutional infrastructure.

(3) Study to promote financial access

The BOT recognizes the importance of promoting access to financial services in an effective and appropriate manner. Continuing from the Financial Sector Master Plan I, the BOT, with the cooperation of with the National Statistics Office (NSO), has conducted a study on promoting household savings and financial access. The study indicates that majority of Thai households have access to financial services. The main barriers to access to loans include collateral requirement and lack of financial literacy and information. The BOT plans to conduct similar study on financial access periodically in order to monitor and improve financial access in Thailand.

4.2.2 The Assessment Program under the Reports on the Observance of Standards and Codes (ROSCs) and the Financial Sector Assessment Program (FSAP)

The Deputy Prime Minister Pol.Gen.Chidchai Wannasathit, in his capacity as acting Prime Minister, had given consent to Thailand's participation in the assessment program under the Reports on the Observance of Standards and Codes (ROSCs) and Financial Sector Assessment Program (FSAP) on April 27, 2006. The assessment consisted of two missions: the first was during January 17-31, 2007, the second during May 24-June 6, 2007.

(1) The assessment of observance of international standards and codes conducted under FSAP and ROSCs covers the following areas:

Area	Standards and Codes
Banking Supervision	Basel Core Principles for Effective Banking Supervision (BCP) of the Basel Committee on Banking Supervision
Securities Markets	Objectives and Principles of Securities Regulations of the International Organization of Securities Commissions (IOSCO)
Payment Systems	Core Principles for Systemically Important Payment Systems (CPSS) of the Committee on Payment and Settlement Systems
Securities Settlement	Recommendations for Securities Settlement Systems (RSSS) of CPSS
Monetary Policy Transparency	Code of Good Practices on Transparency in Monetary and Financial Policies of the IMF and World Bank
AML/CFT*	Financial Action Task Force (FATF) 40 + 9 Recommendations

* The AML/CFT assessment was undertaken separately during 26 February - 14 March 2007.

The BOT is responsible for three areas, namely, banking supervision, payment systems, and monetary policy transparency.

(2) The developmental aspect of the assessment involves assessments and recommendations on certain key areas of the financial systems, including, the structure, strengths, and weaknesses of the banking system; stress testing; development of financial market; insurance and pensions; housing market; specialized financial institutions; and financial infrastructure such as the legal framework.

Assessment Results and Key Recommendations

The assessment results and key recommendations in the areas under the responsibility of the BOT can be summarized as follows:

(1) Banking Supervision

The framework for banking supervision in Thailand is assessed to be highly compliant with the Basel 25 Core Principles (BCP) on effective banking supervision. However, assessors are of the view that BOT still lacks explicit legal authority and accountability with regard to banking supervision, including such issues as operational independence and legal authority to conduct consolidated supervision, corrective actions and anti-money laundering measures. Assessors view that the amendment of the BOT Act and the enactment of the Financial Institutions Businesses Act (FIBA) will rectify these weaknesses.

(2) Payment Systems

The assessment of the payment systems in Thailand involves only the BOT's Automated High-value Transfer Network (BAHTNET) system, which is considered as systemically important. Assessors view that BAHTNET system is sound and efficient, with adequate risk management system to mitigate credit and liquidity risks. The governance arrangements are also assessed to be effective, accountable, and transparent. There is, however, no explicit legal protection of the netting procedures as well as the settlement finality in the event of bankruptcy, thus giving rise to potential risks that payments deemed final could later be revoked. Assessors recommend that the Bankruptcy Law be amended in order to provide greater certainty to payment finality in case a participant is declared bankrupt by a court order.

(3) Monetary Policy Transparency

Assessors view that the overall conduct of monetary policy of the BOT is highly transparent, with a few weaknesses, namely, lack of clear legal framework with regards to authority and objectives of monetary policy and the ability to employ certain tools for implementing monetary policy. Relationship between the BOT and MOF should also be clearly specified in the law.

Currently, assessors are in the process of finalizing the reports: the Financial Sector Assessment Report (FSA) prepared by the World Bank and the Financial System Stability Assessment Report (FSSA) prepared by the IMF. The Thai authorities will make a decision on the publication of both reports later on.

4.2.3 Financial Sector Liberalization

The BOT participates in international negotiations on liberalization of financial services under various fora such as the WTO, ASEAN, and other bilateral and regional agreements in order to ensure that such agreements are beneficial to Thailand and consistent with sequenced liberalization and the safeguarding of economic and financial stability.

The BOT contributes and participates in the formulation of financial sector liberalization policy and related trade negotiation committee, consistent with the overall policy framework set by the Cabinet-level International Economic Policy Committee and the Financial Services Liberalization Committee headed by the Fiscal Policy Office, Ministry of Finance.

In 2007, the BOT assisted in formulating and pushing through policies and strategies related to financial liberalization, gave inputs on relevant matters for negotiations on Agreements on Trade in Services, and sent representatives to participate in Trade Negotiating Committees. The main activities can be summarized as follows:

1) Participated in the Working Committee on Financial Services Liberalization under the ASEAN Framework Agreement on Services (WC-FSL/AFAS), whose main purpose is to negotiate financial services liberalization among ASEAN member countries. This includes preparing the ASEAN Economic Community Blueprint (AEC Blueprint), which sets out the work plan for ASEAN economic integration, as well as negotiating financial services liberalization with dialogue partners.

2) Negotiated ASEAN-Australia-New Zealand and ASEAN-Korea Free Trade Agreements.

3) Reviewed and commented on the draft Domestic Regulation provision under the WTO framework, particularly in areas concerning BOT's laws and regulations.

4.2.4 Statement of Cooperation (SoC) on Information Exchange for Effective Cross-border Banking Supervision

The BOT signed a Statement of Cooperation (SoC) on Information Exchange for Effective Cross-border Banking Supervision with the Hong Kong Monetary Authority (HKMA). The SoC provides a formal basis for banking supervisory cooperation between the two authorities in areas of information sharing and communication during the licensing process and ongoing supervision of banks operating under their respective supervisory responsibility.

5. Financial Institutions Supervision

5.1 Financial Institutions Supervision Policy

The Bank of Thailand (BOT) has the responsibility to supervise the financial institutions (FIs) based on Risk-based philosophy. The BOT assesses the quality of FIs' risk management and corporate governance practice by conducting on-site examinations and closely monitoring and analysing FIs' financial conditions and performance to be able to provide prompt corrective actions whenever there is a sign indicating potential problems in any financial institutions.

The BOT's supervision policy is to conduct on-site examinations at least once a year on commercial banks, retail banks, foreign bank branches, finance companies, credit foncier companies, Specialized Financial Institutions*, Thai asset management companies, and National Credit Bureau Co., Ltd . With the exception of the foreign bank branches that have overall composite rating of 1 or 2, the on-site examinations will be conducted once in every other year. For asset management companies and Non-banks that operate credit cards or personal loans will be conducted by the BOT's on-site examination at least once in every three years.

In order to enhanced the communication with FIs, the BOT's senior managements will meet with FIs' board of directors or senior management, internal audits and external audits routinely, to present overall examination result to FIs and also to share knowledge with FIs' officers in order to make closely relationship.

5.2 Financial Institutions On-site Examination

5.2.1 The on-site examination of financial conditions, performance and risk management

The BOT conduct examination by assessing FI's financial conditions and performance, profitability, adequacy of capital and reserve and risk management for FIs - i.e. Thai commercial banks, in which, including the indirect supervisory agency to the Thai commercial bank's subsidiary companies, retail banks, foreign bank branches, and subsidiaries . The BOT emphasize assessment risk management in five areas - i.e. Strategic Risk, Credit Risk, Market Risk, Liquidity Risk, and Operational Risk - and compliance with law and the BOT's regulations. Simultaneously, the examinations are focused on the assessment of corporate governance practices and compliance with the BOT's order. In case of finance companies and credit foncier companies, the examinations are to assess their financial conditions and capital adequacy in order to ensure their stability.

Specialized Financial Institutions examination, delegated from the Ministry of Finance, focuses on assessing financial conditions, performance and risk management. The results of examination and remedial measures must be proposed to the Ministry of Finance to take appropriate actions as needed. In addition, the examination of Asset Management Companies emphasizes on management of acquiring or

* Specialized Financial Institutions consist of The Bank for Agriculture and Agricultural Cooperatives, The Export-Import Bank of Thailand, The Government Saving Bank, The Government Housing Bank, The Small and Medium Enterprise Development Bank of Thailand, The Islamic Bank of Thailand, The Secondary Mortgage Corporation, The Small Industry Credit Guarantee Corporation,

transferring assets while the examination of non-banks is to ensure the compliance with the BOT's regulations in order to protect consumers' interests and preventing unfair lending practices that will put customers at a disadvantage. For non-banks operating without licenses, the BOT will closely monitor and take legal actions.

5.2.2 The assessment on the readiness for the implementation of New Basel Capital Accord (Basel II)

The BOT has examined all commercial banks and foreign bank branches to assess the readiness for the implementation of the Basel II by all they must calculate capital fund according to Basel ll in parallel with the current guidelines (Basel l) by the end of 2007 before the maintaining capital accord to Basel ll Guideline at the end of 2008. As results, it indicated that most commercial banks and foreign bank branches comply with the minimum standard of Basel II Supervisory Guideline and ready to calculate the capital fund as they submitted to use the chosen approach for Capital Maintenance. In case of the commercial banks and foreign bank branches that did not comply with the Basel II Supervisory Guideline, the BOT has informed the commercial banks to improve their operations in according with the guidelines. However, some commercial banks and foreign bank branches submitted final application by choosing the less complex approach for Capital Maintenance.

5.2.3 The examination and validation of risk management model

The BOT has examined Thai commercial bank which requested for permission to apply the internal model approach for option by using contingent loss method for market risk capital calculation. Moreover, the BOT had developed the macro stress testing model to assess effect to financial system from risk factors, for instance, the economic conditions and subprime mortgage loan problem in the United States of America. Additionally , the BOT also encourages Thai commercial banks to conduct stress test on credit ,market and liquidity risk exposures.

In conclusion, 57 financial institutions have been examined during this year, (table 1). The examination results indicated that most financial institutions' composite ratings were satisfactory and be able to earn profits. However, in case of loss, main factor is to set up reserve and provision to comply with International Accounting Standard 39 (IAS 39). Every FI reserved provisions for classified assets at the level higher than the regulatory requirement. Nevertheless, non-performing loans were concerned issues for financial institutions to resolve. For asset management companies, most of them were able to reduce non-performing loans, as targeted, by debt restructuring.

In the case of financial institutions that the ratings were lower than satisfactory, the BOT has ordered the financial institutions to improve their financial conditions, performance and risk management system. The BOT has also ordered financial institutions to increase its capital to cover risk exposures and report to the BOT the result of the corrective action within the time frame. Besides, the BOT has examined the subsidiary companies of financial institutions and ordered some of those to correct their problems to ensure the financial stability of the financial institutions.

Table 13 : The number of financial institutions examined by the BOT in 2007

Financial Institutions	Number of Financial Institutions Examinations
Commercial Banks / Retail Banks	17
Foreign Bank Branches / Subsidiary	14
Finance and Credit Focier Companies	6
Specialized Financial Institutions	8
Thai Asset Management Company	1
Asset Management Companies	2
Non-Banks	8
National Credit Bureau Co., Ltd.	1
Total	**57**

5.3 Financial Institutions Monitoring and Analysis

Like on-site examination, the off-site monitoring and analysis focuses on financial conditions, performance, capital adequacy, and risk management of each FI. The analysis reports are created quarterly for Thai financial institutions and semi-annually for foreign bank branches and Specialized Financial Institutions. Moreover the system-wide report are also conducted especially important transaction of financial institutions i.e. investment in collateralized debt obligation (CDO), borrowing to risky business sector in order to assess affect to financial institutions' financial conditions and performance. In the analysis process, there are the quantitative early warning system to identify weaknesses of each FI and the analysis of various economic factors that may adversely affect the asset quality of financial institutions according to the Macro Prudential Framework.

5.4 Financial Institutions Application

The BOT supervises financial institutions through approving, waiving, and responding to questions raised by the financial institutions. The BOT also follows up the financial institutions' compliance with the approved condition, notifications and circulars. The main concern for the BOT are risk management, readiness to operate business and financial conditions of financial institutions. Including it will not unfavourable affect to public and financial system.

5.5 Supervision Efficiency Enhancement

Several activities were conducted in 2007 to enhance the efficiency of supervision function as follows:

5.5.1 Examiners Development

The BOT continuously has developed the examiners through the School for Examiners, provides training for examiners to have sufficient knowledge and readiness to perform supervisory tasks according to the policy and in the standardized practice. In addition, the BOT examiners and management participated in overseas trainings and seminars. Several in-house seminars, lectures and workshops on new knowledge are also held to broaden the examiners' skills and knowledge in order to match the international standard. The guest speakers, both domestic professionals and international technical assistant from other countries' regulatory agencies, are invited for those training programs.

5.5.2 Supervision Development regarding International Standard

In 2007, the BOT had been assessed by World Bank and International Monetary Fund in the Financial Sector Assessment Program (FSAP). The result of the assessment indicated that the BOT's banking supervision reflects an overall high degree of compliance with international standards. The issues on the existing laws recommended by the assessment team had been solved by the legislation of the New FI Business Act that effective in 2008. Nevertheless, the BOT consistently has developed the examination manuals for examiners to comply with Basel II that effective at the end of 2008 and consolidated supervision that effective by the New FI Business Act in 2008.

5.5.3 Development of the Examination Management System

The BOT has developed the supervision support systems and the examination management systems by using information technology to enhance the efficiency of supervision and examination procedures.

BOT's participation in International Organizations

1. Association of Southeast Asian Nations (ASEAN)

The Association of Southeast Asian Nations or ASEAN was established on 8 August 1967 and has 10 member countries at present. ASEAN's key objectives are (1) to accelerate economic growth, social progress and cultural development, and (2) to promote peace and stability in the region.

In 2007, the Thai Ministry of Finance and the Bank of Thailand, as this year's chairs, hosted the 11th ASEAN Finance Ministers' Meeting (AFMM) and other related meetings during 1-5 April 2007 in Chiang Mai. This year's AFMM was the first meeting in which the troika of ASEAN Central Bank Governors[2/] participated alongside ASEAN Finance Ministers to provide views on the issues under the purview of the central banks.

The AFMM discussed many important cooperation issues, including the ASEAN Economic Community Blueprint (AEC Blueprint)

2/ The troika of ASEAN Central Bank Governors in 2007 comprised Governor of the National Bank of Cambodia, Governor of the Bank of Thailand, and Deputy Governor of the State Bank of Vietnam, representing past, present, and future chairs of the ASEAN Central Bank Governors' Meeting (ACGM).

which is a work plan to accelerate the establishment of the AEC from 2020 to 2015. The AFMM provided guidance on how to prepare the AEC Blueprint, especially in the financial sector area. Subsequently, the ASEAN Leaders endorsed the AEC Blueprint during the 13th ASEAN Summit in November 2007 in Singapore.

In addition, the AFMM also (1) endorsed the establishment of the Task Force on ASEAN Infrastructure Financing Mechanism (AIFM) to undertake the study on how to mobilize regional savings for investment in regional infrastructure projects to enhance the region's economic growth and integration, and (2) agreed to hold the 4th ASEAN Finance Ministers' Investor Seminar (ASEAN Roadshow) on 23 October 2007 in New York, USA to profile ASEAN as an important investment destination. The BOT also participated in the Seminar.

As for the financial cooperation amongst ASEAN central banks, the Bank of Thailand coordinated the renewal of the ASEAN Swap Arrangement (ASA) for another 2 years. The total amount of the ASA is USD 2.0 billion, and the facility is aimed at providing short-term liquidity assistance to member countries experiencing temporary liquidity problems. The ASA will expire in November 2009.

2. Bank for International Settlements (BIS)

Established on 17 May 1930, the Bank for International Settlements (BIS) acts as a banker to the central banks and international financial organizations, and provides a forum to promote international cooperation, dialogue, as well as policy analysis among central banks and within the international financial community. It also acts as a centre for economic and monetary research.

In 2006, the Board of Directors of the BIS announced the election of Mr. Zhou Xiaochuan, Governor of the People's Bank of China as a member of the Board of Directors of the BIS, in an effort to increase the voice of Asian members in the Board. This enlargement of the BIS Board was the result of regional cooperation to strengthen voice and representation of Asian countries.

The BOT became a member of the BIS in 2000[3/] and has actively participated in its meetings and seminars ever since. In 2007, the Governor, as the head of the BOT delegation, attended the Annual General Meeting and the Bi-monthly Meetings in Basel, Switzerland, as well as in Cape Town, South Africa. These meetings serve as fora for central bank governors to exchange views on policy stance related to economic conditions, financial market developments as well as other evolving issues of concern for the global economy at large. This year's relevant topics include discussions on the sovereign wealth funds, the recent credit market, as well as the financial system developments.

The BIS' Asian Consultative Council, comprising members of the Asia-Pacific region, was established in 2001 to provide an opportunity for governors of member central banks to discuss issues of regional concern. The BOT Governor attended two of these Special Governors' Meetings in February 2007 in Hong Kong, China and during the AGM in Basel, Switzerland in June 2007.

3/ The BOT is currently holding 3,211 shares in the BIS or 0.6% of all shares outstanding.

3. The Executives' Meeting of East Asia-Pacific Central Banks (EMEAP)

The Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) was established in 1991 to serve as a forum for central banks and monetary authorities to strengthen cooperation among members. The annual EMEAP Governors' meeting was first held in Tokyo in 1996, and has continued ever since.

In 2007, the EMEAP established the 'Monetary and Financial Stability Committee' (MFSC), in which EMEAP deputy governors are members, with a view to strengthen regional financial cooperation by enhancing surveillance and crisis management mechanism. The committee discussed recent economic and financial developments based on its 'Macro-Monitoring Report', which gathered macroeconomic and financial information from member countries. The committee is scheduled to meet twice a year, back-to-back with the EMEAP Deputies' Meeting.

In addition, the Working Group on Banking Supervision has been more active in representing the interests and voices of regional central banks through its participation in the Basel Committee on Banking Supervision (BCBS), which is an international committee responsible for setting best practices on banking supervision. In this regard, EMEAP has nominated 3 representatives to the BCBS working groups: one from the Bank of Thailand, for the Accord Implementation Group (AIG); one from the Hong Kong Monetary Authority, for the Policy Development Group (PDG); and one from the Bank Negara Malaysia, for the Accounting Task Force (ATF).

4. International Monetary Fund (IMF)

The International Monetary Fund (IMF) was established in 1944 at the United Nations Monetary and Financial Conference, also known as Bretton Woods Conference, with the objective to promote the stability of the international financial system.

Thailand has become the IMF's member since 3 May 1949. At present, Thailand's quota is 1,081.90 million SDR, corresponding to 11,069 votes or equivalent to 0.5% of total votes. The Bank of Thailand (BOT) represents Thailand in the IMF under the Act Authorizing Operations Relating to the International Monetary Fund and the International Bank for Reconstruction and Development B.E. 2494 (1951) and formulates Thailand's stance on issues related to the IMF to the IMF's Executive Board, in a concerted effort with 11 other members[4/], through the Southeast Asian Voting Group (SEAVG).

In 2007, the BOT participated in various IMF meetings. Throughout the year, the BOT's governor headed the BOT delegation to the following IMF meetings in Washington, D.C.:

4/Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao PDR, Malaysia, Myanmar, Nepal, Singapore, Tonga, and Vietnam

Meeting	Date
International Monetary and Financial Committee (IMFC) Meeting	14 April 2007
The 40th Annual Meeting of SEAVG	19 October 2007
IMFC Meeting	20 October 2007
The meeting for the New Arrangements to Borrow (NAB)	21 October 2007
The Annual Meeting of the Board of Governors	22 October 2007

While the IMF continues to monitor and assess the Thai economy as part of the annual Article IV Consultation, it has postponed its 2007 economic review mission from 6 - 19 December 2007 to March 2008, pending the results of the general election in Thailand in December 2007 and formation of the new government. Nevertheless, Thailand has participated in the joint IMF-World Bank Financial Sector Assessment Program (FSAP), with the mission being carried out during 17 - 31 January 2007 and 24 May - 6 June 2007.

In November 2007, Thailand and other IMF's members supported the IMF to provide debt relief for Liberia, which has been in arrears with the IMF since 1984, to support Liberia's efforts in its economic reform agenda.

In addition, representatives from the BOT have assumed positions in the SEAVG to represent Thailand as well as other member countries in various meetings under the IMF's Executive Board. While one representative is currently serving as the Alternate Executive Director for the two-year term from 1 November 2006, another representative has completed the one-year term as a Senior Advisor on 30 April 2007.

5. South-East Asian Central Banks (SEACEN)

SEACEN was established in 1966, with 7 central bank members to discuss, gather and exchange views on issues relating to the economic and financial systems. The SEACEN Centre for research and training was established in 1982 and has gained increasing recognition in the region, with membership having grown to 16 central banks at present. The Centre has the following core objectives:

1. To promote a better understanding of the economic and financial developments which are of interest to the central banks and monetary authorities, and

2. To stimulate and facilitate cooperation among central banks and monetary authorities in the area of research and training.

The Bank of Thailand hosted the 42nd SEACEN Governors' Conference and the 26th Meeting of SEACEN Board of Governors during 27-30 July 2007 at the Bank of Thailand (New Office Building)in Bangkok, Thailand. The participants exchanged views on the theme of "Living with Volatilities: Managing Exchange Rates and Capital Flows in SEACEN Economies".

At the 26th Meeting of the SEACEN Board of Governors, the Board of Governors unanimously agreed to accept Vietnam as the sixteenth member of SEACEN.

As for the research and training programmes of the SEACEN Centre, the Board of Governors approved 24 training programmes, 4 research programmes, 5 case studies and 5 meetings for the operating year 2007 (1 April 2007 - 31 March 2008). The BOT had the privilege of hosting a training programme (5th SEACEN-CPSS Advanced Course on Payment and Settlement Systems for Emerging Economies). The research and training programmes are arranged according to the BOG endorsement to launch the flagship courses to develop future leaders of central banks.

6. Association of Southeast Asian Nations plus China, Japan and Korea (ASEAN+3)

The Asian financial crisis of 1997 prompted countries in the region to strengthen regional cooperation by initiating new mechanisms for crisis prevention and resolution of the region. The ten member countries of ASEAN as well as China, Japan and Korea, collectively known as "ASEAN+3", first met in 1999 and agreed to enhance the "self-help support mechanism of East Asia".

In May 2000, ASEAN+3 Finance Ministers met in Chiang Mai, where they agreed to establish the Chiang Mai Initiative, which is a regional financial arrangement in the form of bilateral currency swaps, currently totaling US$ 84 billion. To further enhance its efficiency, the CMI is in the process of multilateralising its bilateral swap network and the Taskforce on CMI Multilateralisation have been set up to work on the details.

In parallel to the financing arrangement, ASEAN+3 agreed to develop regional bond markets and created the "Asian Bond Market Initiative" (ABMI) in August 2003 to focus, inter alia, on the issuance of local currency bonds as well as market infrastructure development.

There is also an economic surveillance mechanism called the "Economic Review and Policy Dialogue (ERPD)". In addition, the "Technical Working Group on Economic and Financial Monitoring" and a "Group of Experts" were created to provide necessary technical inputs and external assessments respectively. A Research Group further conducts longer-term research on issues of topical interest.

The work of ASEAN+3 is driven by the Finance Ministers' Process, the summit of which is the ASEAN+3 Finance Ministers' Meeting (AFMM+3) held annually. Two ASEAN+3 Finance and Central Bank Deputies' Meetings (AFDM+3) are held each year to review the progress of and provide guidance to CMI and ABMI working groups as well as to conduct surveillance under the ERPD.

Thailand, as a founding member of ASEAN+3, also plays an important role in ASEAN+3 Finance Ministers' Process. The Thai Ministry of Finance (MOF) works in tandem with the Bank of Thailand (BOT) in each of the sub-groupings within ASEAN+3 according to their respective responsibilities. Hence the BOT plays a more active role in CMI whereas the Thai MOF places its focus on ABMI.

In 2007, Thailand co-chaired the ASEAN+3 Finance Ministers' Process along with China. Besides the Deputies' and Ministers' Meetings in which the BOT has had active involvement, six meetings of the Taskforce on Multilateralising the Chiang Mai Initiative were held and co-chaired by an Assistant Governor of the BOT. In its first two meetings, the Taskforce discussed the preferences of members on financial arrangements and legal modality of the multilateralised framework. The consensus on establishing a self-managed reserve pooling arrangement under a single legal contract was reached, and this proposal was endorsed by Deputies at their April Meeting in Chiang Mai and made public by Ministers at their May meeting. In the second half of the year, the Taskforce met to develop further elements relating to the multilateralisation of the CMI.

The following meetings of ASEAN+3 were held in 2007 :

Meeting	Date	Venue
ASEAN+3 Finance Ministers' Meeting (AFMM+3)	• 5 May 2007	• Kyoto
ASEAN+3 Finance and Central Bank	• 3-4 April 2007	• Chiang Mai
Deputies' Meetings (AFDM+3)	• 29-30 November 2007	• Lijiang
Meetings of the Taskforce on	• 27 January 2007	• Bangkok
the Multilateralisation of the Chiang Mai	• 18 February 2007	• Pattaya
Initiative	• 18 June 2007	• Dalian
	• 14-15 August 2007	• Beijing
	• 27-28 September 2007	• Hong Kong
	• 29-30 October 2007	• Tokyo
Meetings of the Asian Bond Market	• 1-2 March 2007	• Pattaya
Initiative	• 13 August 2007	• Beijing
	• 31 Oct - 1 Nov 2007	• Tokyo

Information Technology Development

In 2007, the BOT has a total of 51 IT projects under 7 different strategic programs. Each program is supervised by the Computer Steering Sub-Committee (CSSC) who further reports to the Computer Steering Committee (CSC). Under this program management methodology, all IT-related projects are controlled and aligned with the BOT strategic directions. This year, the overall budget for all IT projects is approximately B236 million and many projects span longer than one year. At the end of the year, 30 projects have been completed. A brief summary of each strategic program is provided as following.

Program 1 : Data & Statistics Management Excellence

This program concentrates on developing Data and Statistics Management System in order to encourage the BOT's employees potential in storing, acquiring, disseminating and sharing information by supporting and developing common infrastructure, tools, processes and data repository. Moreover, the program would be helpful in decision-making procedure, decreasing manual interaction and enhancing delivery channel efficiency between financial institutions and the

BOT by covering the operations of finance policy, financial institution policy, payment or other operations in the BOT.

The most significant project in this program is the enhancement of the Data Management System (DMS), which is currently composed of 3 main parts; Data Acquisition, Data Warehouse and Business Intelligence. Both Data Acquisition and Data Warehouse have its structure which can perform well in supporting any data from financial institutions, public organizations, private organizations as well as from business users within BOT through FI/FM Data Report, ECON, Early Warning System and BOT WebSite.

In 2007, DMS ECON Phase II focuses on improving the Data and Statistics Storage called "Central Statistics Warehouse" as well as expanding the system foundation of the "Financial Sector" subject area to cover financial statements of non-financial institution corporations as well as data from the Securities Market such as new issuances, capital market, and mutual fund. Moreover, this system has covered to receive the funds' financial statements from The Securities and Exchange Commission, Thailand.

In addition, the BOT continues to highlight on both Data Warehouse and the system for maxing data analysis capabilities and decision-making by enhancing new projects such as the International Trade System, Private Organizations' Survey Data Project, FX Reports System, Analytical Data Usage Improvement Project and Financial Institution Stability Surveillance for Financial Institution Project.

Program 2 : Financial Market Excellence

This program focuses on developing the Dealing Room System (DRS) that supports the operations of the front-office, middle-office and back-office in a full "straight-through processing" manner and proposes data for executives' decision-making and financial policy-making.

In 2007, this program focuses on the systems for enhancing data analysis capabilities and decision-making, and two new systems which are E-End of day and E-Overnight to provide electronic trading facilities. Both of them are developed in order to minimize interest rate fluctuation in the money market.

Moreover, there are other four projects which involved the financial market data usage. They are FX Related Flows Improvement Project, Financial Market Surveillance Information System Project, Integrated Risk Information System and Executive Alert Project, which in year 2007 are in requirement phase and will be progress in next year.

Program 3 : Payment Excellence

This program aims to establish national payment system, debt instrument disbursement and banknote management to be common and appropriate infrastructure in order to encourage the BOT position as a service provider, regulator, and facilitator of the payment industry. In the present, the BOT has perfect systems to support national payment transaction, debt securities and banknote management transactions and has 2 data analysis capabilities projects; National Payment Information System (NPIS) and Liquidity Watch System.

This year, the BOT has developed the Banknote Management Information System (BMIS), which are the enhancement of Banknote Management System (BMS) and Banknote Ordering System (BOS), by defining appropriate confines and the project will be continued through 2008.

The Central Settlement System (CSS) Enhancement project was completed and will be deployed in the first quarter of 2008. As the same as the System for Managing Automated Retail Funds Transfer (SMART) in Sending Bank section that are preparing for the relocation of system from BOT to the National Interbank Transaction Management and Exchange or NITMX which has already done in this year.

In addition, due to the BAHTNET Enhancement and the integration with the Thailand Securities Depository (TSD), the BAHTNET pricing improvement project has occurred to support new types of BAHTNET members' fee and additional pricing policy improvements.

Program 4 & 5 : Financial Excellence and Human Resource Excellence

These programs aim to improve the efficiency of the BOT's administration, financing, accounting, budgeting, inventory management, human resource management, and banknote production processes.

In 2007, most of the projects focus on the efficiency improvement by providing the ERP Website as the centralized portal for ERP system usage, Electrical ERP Learning Media as well as the Financial Information System as the supervision and policy-making tool for the executives in the BOT. Many workflows and Web-applications have been developed to automate and improve HR-related processes such as the Employee's Benefits Workflow, the Reimbursement System and E-Approval System.

Moreover, the E-planning and budgeting project is a workflow automation system for the BOT's planning and budgeting process, which will help in BOT's budget management and monitoring. Besides, the Electronic General Service project was also developed to improve the efficiency of the General Administration within BOT as well as the Warehouse Management System which is an additional efficiency improvement especially the inventory and stock counting; the system also helps ensuring asset management in the strong room.

As an important HR-related project, the Teleworking@BOT project has been initiated to provide a pilot Tele-working infrastructure in order to explore and enhance Tele-working functionalities for better suit the BOT in the future.

Program 6 : IT Service Excellence

This program focuses on encouraging information technology as a choice of working process improvement as well as supporting information technology security prevention in the BOT.

In 2007, the BOT had improved the infrastructure and supported the appropriate usage of Information Technology by increasing the capabilities of computer devices, communication system and security system.

Moreover, the BOT had completely implemented common infrastructure for new buildings including new computer center moving as well as completed all system and computer devices at the Computer Center 2, which will improve the BOT computer system's stability, reduce unpredictable risks and increase the BOT computer system's trust.

In Information Technology usage area, BOT has also developed Information Technology system for operational risk collection, which is composed of data from the Control Self Assessment (CSA) and every department's Loss Incident Reports. In order to increase the efficiency of security management area, the BOT continues to implement Access Control System for main buildings and Banknote Management Centers along with employee's Time Attendance System. As well as supporting in security policy-making and encouraging of following the Information Technology processes in order to help increase quality.

Program 7 : Content Management Excellence

This program aims to having information technology to help supporting the BOT's content management in order to make it easier and more convenient to access as well as more efficient to use. Moreover, this program will also focus on improving the efficiency of information system management for BOT's financial institution supervision area.

The BOT Document and Records Management or BOT-DRM is one of the projects that will help the BOT to develop a document and records management system. In 2007, BOT-DRM has developed Business Classification Schemes (BCS) which continued from last year, and has formulated document and records management policy. The BOT will continually operate in 2008 followed by the 5-year implementation plan.

Another project for leverage content management is BOT WebSite Improvement project, which aims to organize BOT WebSite infrastructure as well as involved application systems in order to better serve the public need of information and yet more reliability.

The BOT has also fully finished the Meeting Management System development to help organize overall the BOT meetings. This system is currently used by various committees, sub-committees and working teams and has been expanded into all BOT's committees.

In supervision area, the Financial Institution Supervision System Phase II project has been continued to fully implement the credit risk examination system and has developed in other risk areas.

Bank of Thailand Regional Offices

Northern Region Office

Northern Region Office is responsible for three main functions, namely banking services, financial business analysis, and economic research. Performance of each functions are summarized as follows.

1. Banking services

Current account transactions

1.1 Current accounts deposited to Northern Region's current account amounted to B11,667.4 million, while withdrawals from the account were B12,350.4 million, declining from the previous year by 1.1 percent, and 3.1 percent, respectively.

1.2 Financial assistance to priority economic sectors.

Northern Region Office granted loans through commercial banks under financial assistance to small enterprises program, financial assistance program to entrepreneur affected by the Baht appreciation, and financial assistance to entrepreneur affected from Avian Influenza pandemic, amounting to B6,528.3 million and decreasing by 27.1 percent from the previous year. At the end of 2007, the outstanding of the financial assistance loans was B1,340.5 million, and the loans were granted to 324 entrepreneurs, declining from the previous year by 35.6 percent, and 17.3 percent, respectively.

1.3 Registrar and agent of government bonds.

At the end of 2007, the outstanding of government bonds registered at the Northern Region Office amounted to B31,444.6 million, increasing from the previous year by 18.2 percent, and the number of bond holders was 22,148 holders, rising from last year by 10.6 percent. During the year, 5, 652 new bond holders purchased bonds totaling B8,024 million, while B3,044 million was redeemed at maturity by 3,355 holders. The coupon payments were made to 40,367 bond holders, with the amount totaling B1,504.7 million. Aside from this, other transactions related to the government bonds were serviced to 2,169 clients.

1.4 Cheque clearing operation

Total cheques that went through 18 provincial clearing houses (including two district clearing houses) in the northern region declined from the previous year by 6.5 percent to 3.3 million cheques, but the value of total cheques increased by 2.4 percent to B465,005.2 million. Cheques returned fell by 10.8 percent to 71,637 cheques, and the value of the returned cheques dropped by 7.6 percent to B7,805.1 million. The ratio of returned cheques to total cheques was 1.5 in terms of number, and 0.7 in terms of Baht amount.

1.5 Public relations.

In 2007, Northern Region Office had organized several forums to disseminate information on banking services to the public and related government offices in the northern region, which included (1) meeting on the BOT's financial assistance to priority economic sectors (2) meetings on commercial banks' operation relating to the government bonds (3) meetings on the new era of Thailand payment system, including visits to payment settlement offices.

2. Financial business analysis

2.1 Overseeing financial businesses.

Northern Region Office released reports on motorcycle finance, reports on problems of non-bank borrowers. Furthermore, several meetings were organized under public relation scheme in 2007 in order to educate the public on personal loans by non-bank financial firms. The audience included heads of government offices, and community leaders, i.e., Kamnan (sub district headman), Poo Yai Ban (village headman), Provincial Police Division Region 5 Headquarters, Provincial Police Division Region 6 Headquarters, police officers, chamber of commerce, and others. In addition, database on non-bank financial businesses were compiled and constructed for further reference.

2.2 Monitoring and analyzing financial health.

Northern Region office monitored and analyzed financial health of commercial banks' key borrowers, and selected industries which might have effects on the commercial bank positions. The Offices produced four quarterly reports on financial health of commercial banks' key borrowers, and selected industries.

2.3 Monitoring foreign currency transactions of authorized money changers.

The volume of foreign currency bought and sold by 74 authorized money changers in 2007 was US$30.5 million, and US$30.4 million, respectively, increasing from the previous year by 68.51 percent, and 68.89 percent, respectively.

3. Economic research

Northern Region Office encompasses three main areas regarding to economic research functions.

3.1 Carrying out tasks relating to economic conditions of the northern region and neighboring countries

- Studying, monitoring, and analyzing major economic sectors of the northern region, border trading conditions, neighboring countries' economies, particularly the Union of Myanmar, and southern China, and the development of the Greater Mekong Sub-region (GMS). In 2007, the Office produced (1) monthly reports on Northern Region Economic Conditions as well as press releases, in both Thai and English, disseminated via the BOT's website, (2) reports on neighboring country economic conditions, posted on the Bank website on a regular basis, and (3) quarterly reports on Myanmar economic conditions, southern China economic conditions, and the GMS project.
- Under the BOT's Business and Economic Information Exchange Program, the Office conducts interview surveys on business conditions of firms in the northern region as well as their perception on BOT's policy. As a result, the Office could obtain intelligence information to support the BOT's economic assessment,

and monetary policy conduct. In 2007, the Office conducted 11 monthly surveys, covering about 160 firms/organizations/financial institutions.

3.2 Research projects. In 2007, six projects were conducted, those are as follows.

- "SMEs Financial Access and Factors That Turn SME Loans to NPLs"
- "Saving Behavior: A Case Study of Northern Region"
- "Transportation Costs from Northern Thailand Border to Southern China: A Comparison of Road and Waterway Transport"
- "Effects of importing vegetables and fruits from China: A case of Garlic"
- "A Revision of Major Crop Price Index and Major Crop Production Index of the Northern Region"
- "A survey on Advanced Orders of Electronics Industry in the Northern Region"

3.3 Organizing seminars and meetings. The seminars and meetings arranged in 2007 were as follows.

- An annual seminar on "The Outlook of Thai Economy and Investment after 2007 Election"
- An annual seminar on "Strategic Management on Foreign Currency Risks for Foreign Trade Businesses"
- Quarterly workshops on "Northern Region Economic Outlook"

Northeastern Region Office

The Northeastern Region Office (NEO) is functionally divided into 4 divisions:

(1) Economic Research Division
(2) Financial Business Analysis Division
(3) Operation Division
(4) Human Resource Team

The summary of the functional performances of each division is presented as follows:

1. Economic Research Division

1.1 Studying and Monitoring Economic Situations in the Northeastern Region

The Economic Research Division monitored, assessed, and analyzed the economic situations and financial businesses of the Northeastern Region on a continual basis for contributing information to the Monetary Policy's monthly macroeconomic review meeting at the Head Office in Bangkok and for disseminating information to the governmental and public sectors on monthly, quarterly, and annually basis.

In each month, the Business Information Exchange Program (Business Liaison Program) in the Northeastern Region was conducted continuously through the 2007. All required information was contributed to the Monetary Policy's monthly macroeconomic review meeting as well as prepared the associated reports in the forms of an individual business-type and a quarterly basis.

Moreover, visit heads of public sectors and business sectors were also conducted; a monthly visit for Khon Kaen province, others made a visit 3 provinces a month.

1.2 Monitoring and Analyzing Economic Situations in the Neighboring Countries

The economic situations among the neighboring countries, including Cambodia, Loa PDR, and Vietnam, were monitored, assessed, analyzed, and reported to the Head Office. In addition, many collaborating projects with the banks of the neighboring countries and the other divisions of the Bank of Thailand (BOT) such as the Monetary Policy Group and Financial Market Operation Group were performed. The following is the details of each project.

(1) The MOU Project

A number of projects aimed at extending cooperation between the Bank of Thailand (BOT) and the Bank of Lao (BOL) were performed as follows:

- Providing study visit for the BOL officers at the Stock Exchange of Thailand and the Securities and Exchange Commission
- Conducting research project between the BOT and the BOL on the title of "The Potential of Trade, Payment, and Doing Business in 8 Thai-Lao Border Trading Points"
- Providing study visits for the BOL officers in 3 different training courses as well as sending the BOT officers to attend 2 training courses in Loas.
- Providing two presentations for BOL officers on the topic of "Hire Purchase and Leasing" by the experts from the Thanachart Bank and on the topic of "Credit Marketing Human Resource" by the experts from the Small and Medium Enterprise Development Bank of Thailand
- Evaluating the progression of the cooperative project between the Siam Commercial Bank and Lao Development Bank in promoting the exchange transactions of Kip-Baht currency at Chong Meg-Wang Tao permanent check point.

(2) Providing study visit for the National Bank of Cambodia (NBC) at the Northeastern Region Office

(3) Conducting the study on the title of "The Economic Linkage Path between Thailand-Laos-Vietnam on the Route Number 9"

(4) Conducting the study on the title of "Economic conditions on Thai-Cambodia Border-trade Area"

(5) Providing training programs and seminars for the officers of the State Bank of Vietnam (SBV) in accordance with the MOU project in Hanoi and Ho Chi Minh City, Vietnam.

(6) Participating in sport games to foster relationship between the BOT and BOL officers which was held at Laos.

1.3 Research Projects

The following research projects were conducted in 2007:

(1) Access to Financial sources of Small and Medium Enterprise;

(2) An impact of Gasohol Consumption on Agricultural Sectors and Thai's Trade Balance

(3) Behaviour of Saving, Debt, and Access to Financial Service of Household

1.4 Other Businesses

(1) Economic news releases and press conference.

(2) Special academic seminar on the special occasion such as the 39th anniversary of the NEO was held aimed to exchange information, share knowledge among participants.

(3) Collaboration with the Operation Division on the project of "The BOT Economic Knowledge Quizzes" for secondary school students in the Northeastern Region.

(4) Cooperation with other Divisions of the BOT and other organizations on the meeting, seminar, and presentation by the experts of BOT.

2. Financial Business Analysis Division

2.1 Monitoring and Gathering Financial Business Information in the Northeastern Region

Three research projects on financial business were conducted as follows:

(1) Saving Groups of Urban Community in the Northeastern Region

(2) Effect of the Non-Bank Law on Borrowers of Personal Loan Business under Supervision

(3) Non-bank business: A case study of Motorcycle-License Pawned Business

In addition, the NEO gathered and prepared the report on the urban community saving groups in the Northern, Northeastern, and Southern regions. Information of the non-bank businesses in the Northeastern region regarding their names and locations was gathered for being the data base.

2.2 Analyzing and Monitoring Financial Status

All financial statuses from many different key businesses in the Northeastern region such as the sugar mill, rice mill, and automotive business were monitored and analyzed for gathering the data aimed to analyze their financial statuses and to monitor the dominant debtors as well as to report the impacted issues on the key industries in the Northeastern region. Moreover, the real estate situation in Khon Kaen province was also monitored, analyzed, and reported in the quarterly basis started from the 4th quarter of 2006 to the 3rd quarter of 2007.

2.3 Controlling, Verifying, and Analyzing Personal Loan Business

The following was the summary performances in 2007.

(1) The Financial Business Analysis Division controlled and verified 2 personal loan services under supervision of the Ministry of Finance, named the Roi Et Leasing (2004) Company, located in Roi Et province, and the C Master Inter trade Company, located in Udon Thani province. The former one was closed soon after while the later one was verifying by the NEO on July 30, 2007.

(2) The non-license credit foncier businesses in Surin, Si Sa Ket, Maha Sarakham and Ubon Ratchathani provinces were verified in cooperation with Provincial Police.

(3) The information regarding the personal loan under supervision, financial problems, and institutional business law was thoroughly disseminated throughout Khon Kaen province using leaflet and poster presentation, exhibition, and local radio network.

(4) The suppression against unauthorized personal loan services was introduced to the staffs and workers of 15 companies in Khon Kaen and Maha Sarakham province. The seminar on the topic of unauthorized personal loan services was held for the owners of the credit and personal loan service, university professors, medias, and public in Khon Kaen province.

2.4 Exchange Control

NEO monitored the reports on the foreign currency exchange figures of the Authorized Money Changers and information of the Money Transfer Agents. As of December 31st, 2007, there were totally 17 authorized money changers and 306 money transfer agents, including the Thailand Post Company. From January to December, 2007 there were totally 3,942 transactions. The total amount of purchases from the foreign currency customers was US$936,267.40 and the total amount of sales was US$937,087.31. The conversion from foreign currency to baht was totally B32.4 million. .

2.5 Other businesses

In addition to the functional performances presented as above, there are other important performances as follows:

(1) Accepted personal complain note for totally 52 cases and provided financial consultation for 50 cases.

(2) Participated in the meeting and provided the special lecture regarding economic figure an real estate data in Khon Kaen to the members of the Khon Kaen real estate Club.

(3) Cooperated with the FIDF Management Group to survey and monitor the indebt control policy for the credit foncier Tanapat, which were closed and bankrupted, in 11 provinces of the Northeastern region.

(4) Provided the special lecture on the topic of the "Deposit protection law" to the staffs of Khon Kaen Chamber, the Federation of Thai Industrial, the financial administrators in the Northeastern region, including the staffs of the NEO.

3. Operation Division

3.1 Financial Assistance to Priority Economic Sector

The NEO provided financial assistance credit in the total amount of B10,701.7 million, a 31.2 percent decrease as compared to the previous year, via the financial institutions to the SMEs and poultry breeding entrepreneurs adversely affected by the outbreak of avian influenza. The disbursement dropped by 14.7 percent in the total amount of B12,320.8 million compared to the same period of 2006. As of December 31st, 2007, the outstanding credit dropped by 52.7 percent in the total amount of B1,450.8 million.

3.2 Deposit and Withdrawal Funds

The 1,290 deposit transactions were processed in the current accounts in the total amount of B14,702.0 million, and 923 withdrawal transactions in the total amount of B16,280.1 million.

3.3 Cheque Clearing

The total of 3,268.4 provincial cheques was processed by the Clearing House in the Northeastern Region. The total volume of processed cheques dropped from last year by 2.4 percent with the total amount of B592,540.8 million. Consequently, the increasing volume was 6.6 percent compared to last year. The total volume of returned cheques was 58,000 issues. This volume dropped from last year by 14.7 percent with the total amount of B8,007.8 million which was lower than last year by 36.6 percent. The ratio of the returned cheques to the processed cheques was 1.8 percent by volume and 1.4 percent by value.

3.4 Government Bonds Agent

As of December 31st, 2007, a total number of privileged bondholders was 16,657 cases with the total amount of B23,779.0 million. The total number of bondholders and values increased from last year by 13.6 and 22.8 percent, respectively. The amount of interest payment was higher than last year by 5.5 percent with the total amount of B1,091.0 million. The total amount of bond redemption was 2,169 holders with the total amount of B2,324.7 million. The total number of bond redemption holders and values increased from last year by 864.1 and 656.7 percent, respectively.

3.5 Other Businesses

1) The BOT book corner in Celebrations on the Auspicious Occasion of His Majesty the King's 80th Birthday Anniversary, 5th December, 2007

2) The BOT Economic Knowledge Quizzes for secondary school students in the Northeastern Region

3) The exhibition in Celebrations on the Auspicious Occasion of His Majesty the King's 80th Birthday Anniversary, 5th December, 2007

4) The exhibition entitled "Bank of Thailand's Roles and Circulation of Banknotes"

Southern Region Office

The Bank of Thailand, Southern Region Office undertakes the following: banking business facility, financial business investigation and economic research. The functional performances in 2007 are summarized as follows:

1. Banking Business Facilities

1.1 Fund Deposit and Fund Withdrawal

In 2007, fund deposited to current accounts increased from the previous year by 11.1 percent to B66,239.6 million. At the same time, funds withdrew from the current accounts also increased by 16.5 percent to B66,820.5 million.

1.2 Cheque Clearing

In 2007, total volume of provincial cheques processed by 18 clearinghouses in southern region were 4.1 million issues, dropped from 2006 by 5.4 percent while those value were B653,017.9 million, increased by 0.7 percent. Similarly, provincial returned cheques were 92,368 issues , a decrease of 13.5 percent whereas totaled value were B10,098.4 million, an increase of 13.4 percent. The ratios of returned cheques to processed cheques were 1.6 percent by volume and to 0.7 percent by value.

1.3 Priority Economic Sectors Financial Assistance

In 2007, Southern Region Office provided financial assistance B61,505.6 million. The details are as follows : lending to SMEs through financial institutions totaling B5,677.5 million decreased from the previous year by 19.9 percent, to alleviate the financial burden of the entrepreneurs affected by tidy waves in the six southern provinces B13,505.3 million, lending to the entrepreneurs affected by the violence in the three southern border provinces B32,439.6 million , lending to entrepreneurs in Songkhla and Satun provinces affected by the ongoing violence of the three southern border provinces B9,854.4 million and lending to entrepreneurs affected by appreciation of the Thai baht B19.8 million. The total credit outstanding by the end of 2007 was B14,788.6 million. The amount to the three southern border provinces B7,565 million and tidy waves in the six southern provinces B4,565.4 million, significantly.

1.4 Government Bond Agent

At the end of 2007, the number of privileged bondholders totaled 15,985 amounting to B18,958.2 million. The amount of interest payment of Government Bonds totaled B810.4 million were paid to 26,164 bondholders while bond redemption totaled B2,095.3 million to 2,140 bondholders.

2. Financial business investigation

2.1 Monitoring and Analyzing Financial Business

The main function is to monitor, survey, and investigate non-bank financial businesses in the southern region, and also to develop data base for supervision.

2.2 Personal Loan Business under Supervision

The division carried out public relation for rules, methods and the conditions to operate a personal loan business under supervision and also observed the non registered personal loan business in Songkhla province.

2.3 Monitoring and Analyzing Financial Health

The division monitored and analyzed the performance of the major debtors that impacted on the commercial banks performance and the main sector of southern economy.

2.4 Foreign Exchange Monitoring

The duty was to publicize the exchange control regulations and the implementation according to the exchange control act. At the end 2007, there were 248 authorized moneychangers. The purchase and sale of foreign currencies from/to customers totaled US$61.0 million and US$60.9 million, an increase of 42.1 and 42.9 percent respectively, from last year.

3. Economic Research

3.1 Monitoring and Analyzing Economic Condition

In 2007, the Economic Research Division is responsible for monitoring and analyzing economic conditions in the southern region, the southern most provinces, and key regional economic issues on a continual basis for contributing to the monthly Monetary Policy Group's macroeconomic meetings, as well as disseminating information to the public through the economic condition reports on a monthly basis. Moreover, the division handled the business reports that provided information on the state of business conditions, from firms across all sectors of the southern economy.

In 2007, the division also organized the seminar at Songkhla province, a focus group conference at Surathanee province and academic disseminations for the public in order to exchange views among the BOT, government agents and prominent entrepreneurs in the southern region.

3.2 Research Projects

This year, there were 3 special researches, namely " Tourism Competitiveness in the South , Transportation cost of rubber export and Shrimp : market and price mechanism ".

Planning and Budgeting

Planning

In 2007, the first year of the proposed strategic plan (2007 - 2012), the Bank of Thailand has reviewed key concerns and found that they still exist in current environment and will have potential effects upon the Bank's operations in the future. Therefore, actions taken in regard to the strategic plan are still on-going to serve 15 strategic objectives, and 20 strategies.

Since the first quarter of 2007, reporting and monitoring of the strategic plan implementation has been streamlined from self-progress report of past performance to action plans' milestones achievement report presented to Assistant Governor, Strategic Capabilities. This reporting channel allows related committees to monitor and foresee potential problems or obstacles. As a result, most action plans can achieve the determined goal at desired time, while only few action plans are delayed and extended to 2008.

Budgeting

1. Amendment of Regulations, Rules, and Orders on Budgeting

According to the Bank's policy and strategic plan, the regulations, rules and orders on budgeting practice have been amended to streamline budget management and control for enhancing efficiency. The amendment aims to decentralize budget accountability of individual departments in order to efficiently plan their budget to support the achievement of action plans and objectives while achieving effective budget management.

2. Determination of Policy and Strategy governing budget allocation

The budgeting process has been improved by determining annual budget allocation policy and strategy, amending budget guidelines and principles for budget review.

3. Development of Planning and Budgeting System

The BOT has developed electronic planning and budgeting system to serve departmental plan and budget proposal on intranet. The planning database system which includes plans and budgets as well as related regulations, rules, and orders is accessible to both strategic plans and other departments.

Cost Management

Guideline for determination of asset owners and policy regarding the management of fixed assets, budgets as well as costs is currently under review with the overall objective of maximizing the Bank's benefit.

Risk Management

1. Financial Risk Management

1.1 Risk management for foreign exchange reserves

Details of current financial risk management framework for foreign exchange reserve investment are published in the annex of the BOT annual accounts. In the year 2007, the Bank of Thailand had a few major developments, related to financial risk management, as follows.

1.1.1 Diversification

Continued from the past few years, currency composition was gradually adjusted to increase diversification benefits and alleviate adverse impacts on the BOT's financial position.

The changes included the increase of investment in the assets and currencies of the countries whose economies relate to the Thai economy. This implementation resulted in foreign exchange reserves composition which is more in line with Thailand's economic structure.

1.1.2 Researches on potential new asset classes.

In response to the accumulation of foreign exchange reserves, the Bank of Thailand has been researching on new asset classes and investment composition which can better preserve purchasing power in the long run, and enhances diversification benefits.

1.1.3 Improvement in credit risk management practice

At present, the Bank of Thailand has minimal credit risk exposure. The acceptable credit ratings for counterparties are single A or better. This effectively shields the BOT from adverse effects from subprime crisis.

In order to proactively deal with currently heightened global credit risk, early warning system has been developed from the research on credit rating downgrade. When probability of being downgraded of a counterparty increases to a certain level, as indicated by a set of indicators, exposure limits for that counterparty will be immediately reduced without waiting for the actual downgrade to occur. This makes the BOT less reliant on actions of credit rating agencies.

1.1.4 Development of Risk Information System

The BOT has been developing "Integrated Risk Information System" which is a system that effectively provides information on position and risk of international reserves for executive management. The project has been launched in the year of 2007 and expected to be completed in the year of 2008.

1.2 Risk management for FX and monetary policy implementations

The BOT regularly monitors both market risk and credit risk, caused by implementations of its policies. In addition, it also periodically evaluates effectiveness of its policy implementations in order to provide feedbacks to the top managements. There is no major change in this area in the year 2007.

1.3 Integrated Risk Management

In order to analyse and mitigate risk on its balance sheet, the BOT performed the followings in the year 2007:

1. The BOT held the conference for the top managements of central banks in the EMEAP group and the experts. The conference focuses on "Central Banks' capital adequacy", "Impacts of monetary and foreign exchange operations", and "How accounting practices effect central banks' balance sheet".

2. The BOT annually analyses the impacts from foreign exchange market volatility on its financial statements to conduct measures to reduce such impacts.

3. A number of adjustments in accounting methods were proposed and approved for commencing in the year 2008. As a result, the BOT's balance sheet will better reflect its performance and financial position.

2. Operational Risk Management

1. Control Self-Assessment (CSA)

In accordance with internal guideline which stipulates that all departments are required to conduct CSA review process at least once a year from 2007 onwards; therefore in 2007, Strategic Services Department in conjunction with other departments conducted CSA review process based on The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. In addition, operational risk management system "RMS" was developed and deployed to assist in the management of operational risk.

2. Business Continuity Plan (BCP)

In 2007, the construction of the Bank of Thailand's new backup site was completed and is currently operational. The main IT data center was also moved to the new headquarters building. Therefore, to ensure that the Bank of Thailand could handle any unforeseen disastrous interruption to IT operation, a test drill was conducted to determine readiness of the Bank of Thailand's critical systems at the new backup site. Additionally, BCP for Riots / Political unrest was completed while BCP for Pandemic influenza is in the drafting process and is due to be finalized in 2008.

THE REPORT OF THE CHAIRMAN OF THE AUDIT COMMITTEE

Audit Committee Report

The Audit Committee of Bank of Thailand consists of five independent members. Mr. Nontaphon Nimsomboon, a non-executive member of the Bank of Thailand's Court of Directors, as the Audit Committee Chairman. The other members are Professor Thavach Phusitphoykai, Mr. Chetthavee Charoenpitaks, Mr. Nopadol Hengjaroen and Mrs. Nopamart Manoleehagul; with Mr. Krish Follett, Senior Director of the Internal Audit Department, serving as secretary of the Audit Committee.

The committee's ultimate goal is to function as an effective mechanism of the Bank of Thailand's Court of Directors to ensure good corporate governance incorporating effective and prudent risk management, internal control, and internal auditing processes, aimed at assisting the management in managing and directing the Bank of Thailand (BOT) 's operations towards achieving its set objectives.

During the past year the committee convened 13 meetings altogether. The committee reviewed the BOT financial reports to reasonably assure its fair presentation and reliability, employing appropriate accounting policy and adequate disclosure in accordance with the generally accepted accounting standards and the related laws. In addition, the Audit Committee holds occasional meetings with the BOT executives as deemed necessary during the year with good co-operation from the management and related departments. As a result of the meetings, appropriate actions have been taken in order to provide concrete benefits. Moreover, the committee occasionally holds meetings with designated staff of the Office of the Auditor General of Thailand, acting as the external auditor to the BOT. The purpose is to consider significant issues and suggestions regarding accounting, internal control and management of bank operation resulting from audit engagement. The Audit Committee as well enhances the independence of the external auditor and upholds internal auditor's work to being adequately independent, truthful and in line with applicable international standards. It also gives support to appropriate coordination among bank management, external auditor and Internal Audit Department.

In an effort to fulfill its objectives, the Audit Committee has committed itself to carrying out the duty, through providing independent and impartial suggestion to BOT management and the Court of Directors, in order to foster the BOT to be a forward-looking organization with competent staff dedicated to ensuring the resilience of the Thai economy against shock and instability. In the past year, the committee agreed that the BOT was in a good status of good corporate governance, risk management and internal control, which reflected effectiveness of the BOT management.

N. Nimsomboon

(Mr. Nontaphon Nimsomboon)
Chairman, Audit Committee
28 February 2008

REPORT OF THE AUDITORS

AND

BANK OF THAILAND

FINANCIAL STATEMENTS

FOR THE YEARS 2007 AND 2006

Report of the Auditors

To the Minister of Finance

We have audited the Balance Sheet as of December 31, 2007 and 2006, the Profit and Loss Account, and the Statements of Changes in Capital and Cash Flows for each year then ended of the Bank of Thailand. These financial statements are the responsibility of the Bank of Thailand's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank of Thailand's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position as of December 31, 2007 and 2006, the results of operations, the changes in capital, and the cash flows for each year then ended of the Bank of Thailand, in accordance with generally accepted accounting principles.

(signed)
(Ms. Poungchan Laosutiwong)
Senior Audit Specialist Level 9 Acting
Director Of Audit Office

(signed)
(Ms. Klinpaka Susagiem)
Auditor In-charge

Office of the Auditor General
March 14, 2008

Bank of Thailand

Balance Sheet

As of December 31, 2007 and 2006

	Notes	2007 Baht	2006 Baht
ASSETS			
Cash and Deposits			
Cash		11,863,306,971	20,642,484,792
Foreign Deposits		449,616,741,393	399,262,391,000
		461,480,048,364	419,904,875,792
Reserve Tranche and Holdings of			
Special Drawing Rights	4	3,749,876,644	5,201,689,404
Investments	5		
Domestic Securities		286,823,354,037	140,821,220,625
Foreign Securities		890,852,990,253	649,549,137,095
		1,177,676,344,290	790,370,357,720
Securities Purchased under Resale Agreements	6	205,691,605,117	416,447,967,945
Loans	7	68,360,208,920	93,383,017,241
Premises and Equipment, net	8	6,126,243,302	5,383,287,335
Other Assets	9	72,977,067,468	72,089,253,877
Total Assets		**1,996,061,394,105**	**1,802,780,449,314**

The accompanying notes form part of these financial statements.

Bank of Thailand

Balance Sheet

As of December 31, 2007 and 2006

	Notes	2007 Baht	2006 Baht
LIABILITIES AND CAPITAL			
Deposits			
Government		64,838,603,375	83,893,716,024
Financial Institutions		52,770,558,831	56,483,814,906
Others		4,444,739,777	5,397,844,815
		122,053,901,983	145,775,375,745
Allocations of Special Drawing Rights	10	4,509,324,388	4,590,220,297
Securities Sold under Repurchase Agreements	6	494,570,625,021	550,116,732,167
Bank of Thailand Debt Securities	11	1,369,619,402,509	886,769,252,085
Other Liabilities	12	72,670,311,699	285,294,134,799
Total Liabilities		**2,063,423,565,600**	**1,872,545,715,093**
Capital			
Initial Capital		20,000,000	20,000,000
General Reserve	13	-	7,687,252,029
Statutory Appropriation	14	27,307,931,128	27,307,931,128
Reserve for Stabilization of			
Profit Payable to the Government		624,075,747	624,075,747
Revaluation Surplus (Deficit) on Investments		9,762,526,050	(3,117,405,560)
Accumulated Losses	15	(94,599,867,094)	-
Net Loss for the Year		(10,476,837,326)	(102,287,119,123)
Total Capital		**(67,362,171,495)**	**(69,765,265,779)**
Total Liabilities and Capital		**1,996,061,394,105**	**1,802,780,449,314**

The accompanying notes form part of these financial statements.

(Mrs. Tarisa Watanagase)
Governor

(Ms.Nitaya Pibulratanagit)
Deputy Governor, Corporate Support Services

(Mrs. Sarida Sangchant)
Director, Accounting Department

Bank of Thailand

Profit and Loss Account

For the Year Ended December 31, 2007 and 2006

	Notes	2007 Baht	2006 Baht
Revenues			
Interest Income		70,202,923,710	64,328,478,619
Commission		673,551,156	517,361,222
Others	16	7,694,443,668	3,089,563,779
Total Revenues		**78,570,918,534**	**67,935,403,620**
Expenses			
Interest Expenses	11	69,697,212,590	62,110,937,621
Net Losses on Foreign Exchange		14,414,643,823	99,727,450,695
Personnel Expenses		3,382,912,971	3,148,346,697
Others		1,552,986,476	5,235,787,730
Total Expenses		**89,047,755,860**	**170,222,522,743**
Net Loss		**(10,476,837,326)**	**(102,287,119,123)**

The accompanying notes form part of these financial statements.

Bank of Thailand

Statement of Changes in Capital

For the Year Ended December 31, 2007 and 2006

	Initial Capital	General Reserve	Statutory Appropriation	Reserve for Stabilization of Profit Payable to the Government	Revaluation Surplus (Deficit) on Investments	Accumulated Losses	Net Loss for the Year	Baht Total
Balance as of January 1, 2006	20,000,000	9,429,978,660	27,307,931,128	624,075,747	(6,454,181,418)	-	(1,742,726,631)	29,185,077,486
Changes during the Year								
General Reserve transferred								
to cover Net Loss	-	(1,742,726,631)	-	-	-	-	1,742,726,631	-
Revaluation Surplus on Investments	-	-	-	-	3,336,775,858	-	-	3,336,775,858
Net Loss for the Year	-	-	-	-	-	-	(102,287,119,123)	(102,287,119,123)
Balance as of December 31, 2006	20,000,000	7,687,252,029	27,307,931,128	624,075,747	(3,117,405,560)	-	(102,287,119,123)	(69,765,265,779)
Changes during the Year								
General Reserve transferred								
to cover Net Loss	-	(7,687,252,029)	-	-	-	-	7,687,252,029	-
Net Loss transferred								
to Accumulated Losses	-	-	-	-	-	(94,599,867,094)	94,599,867,094	-
Revaluation Surplus on Investments	-	-	-	-	12,879,931,610	-	-	12,879,931,610
Net Loss for the Year	-	-	-	-	-	-	(10,476,837,326)	(10,476,837,326)
Balance as of December 31, 2007	20,000,000	-	27,307,931,128	624,075,747	9,762,526,050	(94,599,867,094)	(10,476,837,326)	(67,362,171,495)

The accompanying notes form part of these financial statements.

Bank of Thailand

Statement of Cash Flows

For the Year Ended December 31, 2007 and 2006

	2007 Baht	2006 Baht
Cash Flow from Operating Activities		
Net Loss	(10,476,837,326)	(102,287,119,123)
Adjustments to Reconcile Net Loss to		
Net Cash Flow from Operating Activities:		
Depreciation and Amortization Expenses	330,583,344	298,393,976
(Gain) loss on Disposal of Premises and Equipment	7,604,464	(3,864,209)
Gain from Net Asset Value Changes of Investements		
Managed by External Fund Managers	(5,744,446,869)	-
(Gain) Loss on Foreign Exchange	(9,567,995,017)	50,712,008,990
Amortization of (Discounts) Premiums on Securities	(1,943,059,998)	6,261,886,210
Net Increase in Accrued Revenues	(452,945,559)	(6,079,055,990)
Net Increase in Accrued Expenses	2,369,707,701	3,630,660,053
Net Loss from Operation before Changing in		
Operating Assets/Liabilities	(25,477,389,260)	(47,467,090,093)
(Increase) Decrease in Operating Assets		
Foreign Deposits	(41,868,761,207)	(169,689,077,820)
Reserve Tranche and Holdings of Special Drawing Rights	23,927,840	(7,842,860)
Securities Purchased under Resale Agreements	210,112,525,457	176,488,258,926
Loans	25,022,808,322	4,613,977,686
Other Assets	931,599,461	(605,610,573)
Increase (Decrease) in Operating Liabilities		
Deposits	(23,728,154,060)	59,256,724,992
Securities Sold under Repurchase Agreements	(55,489,883,142)	(59,786,020,669)
Bank of Thailand Debt Securities	483,785,647,065	287,292,125,920
Other Liabilities	(215,376,079,084)	22,321,472,541
Net Cash Flow from Operating Activities	357,936,241,392	272,416,918,050

The accompanying notes form part of these financial statements.

Bank of Thailand

Statement of Cash Flows

For the Year Ended December 31, 2007 and 2006

	2007 Baht	2006 Baht
Cash Flow from Investing Activities		
Net Increase in Investments in Domestic Securities	(146,341,318,135)	(25,200,407,119)
Net Increase in Investments in Foreign Securities	(210,383,188,687)	(223,501,336,944)
Net Increase in Premises and Equipment	(1,006,301,034)	(1,271,680,374)
Net Increase in Investments in Other Organizations	-	(1,921,907)
Net Cash Flow from Investing Activities	(357,730,807,856)	(249,975,346,344)
Cash Flow from Financing Activities		
Payment of Net Profit to the Government	-	-
Net Cash Flow from Financing Activities	-	-
Effects of Foreign Exchange Changes on Cash	(514,099,178)	(279,872,826)
Net Cash Flow from All Activities	**(308,665,642)**	**22,161,698,880**
Cash as of January 1	**48,957,942,332**	**26,796,243,452**
Cash as of December 31	**48,649,276,690**	**48,957,942,332**
Supplementary Information for Cash Flows		
Cash Paid during the Year		
Interest Expenses	68,188,628,698	52,505,399,538
Cash and Cash Equivalents as of December 31		
Cash	11,863,306,971	20,642,484,792
Foreign Deposits (at call)	36,785,969,719	28,315,457,540
Total	**48,649,276,690**	**48,957,942,332**

The accompanying notes form part of these financial statements.

Bank of Thailand

Notes to Financial Statements

For the Year Ended December 31, 2007 and 2006

1. Form of Presentation of Accounts

The financial statements of the Bank of Thailand (BOT) have been prepared in compliance with Chapter 5 of the Royal Decree Regulating the Affairs of the Bank of Thailand B.E. 2485, which are exclusively the accounts of the Banking Department excluding those of the Issue Department, the Currency Reserve, the Exchange Equalization Fund (EEF) and the Financial Institutions Development Fund (FIDF).

The financial statements of the BOT have been prepared in accordance with the generally accepted accounting principles.

2. Summary of Significant Accounting Policies

2.1 Revenues Recognition

Interest revenue is recognized on a time proportion basis that takes into account the effective yield on the asset. Other revenues are accounted for on an accrual basis.

2.2 Expenses Recognition

Expenses are accounted for on an accrual basis.

2.3 Investments

Domestic securities are held for the purpose of monetary policy implementation and are stated at cost after amortization of premiums or discounts.

Foreign securities are held for the purpose of the international reserve management and are stated at fair value. Unrealized gains and losses from revaluation are shown as a separate component of capital, and are recognized in the profit and loss account on disposal. Except for the assets managed by external fund managers, gains or losses from changes in net asset value are recognized in the profit and loss account.

2.4 Loans

Loans are stated at carrying balances of principals and the accrued interests are included in "Other Assets".

2.5 Premises and Equipment

Land is stated at cost. Buildings and equipment are stated at cost after depreciation.

Buildings and equipment are capitalized when their useful lives are over one year. The depreciation is calculated by the straight-line method, based on the estimated useful lives of the assets, as follows:

Buildings	20	years
Temporary Buildings and Improvements	5	years
Equipment	3 -15	years

The cost of fixed assets jointly used by the Banking Department, the Issue Department, the Currency Reserve, the EEF and the FIDF is allocated to each unit according to an asset usage proportion basis.

2.6 Intangible Assets

Intangible assets are stated at cost after amortization. The amortization is allocated by the straight-line method over five years.

2.7 Foreign Currency Transactions

All transactions in foreign currencies are recorded in baht at the preceding month-end exchange rates. Discrepancies of the actual and the book exchange rates are recorded in the profit and loss account.

At year-end, the balances of foreign assets and liabilities are converted into baht at new exchange rates prevailing on the balance sheet date. Unrealized gains and losses from conversion are also recorded in the profit and loss account.

2.8 Provision for Contingent Loss on Forward Exchange Contracts

At year-end, commitments under forward exchange contracts with government agencies and state enterprises are valued by comparing the year-end exchange rates with the contracted rates. The difference, which is a contingent loss, has been fully provided by the BOT. This provision is calculated from the contracts with contingent loss only.

2.9 Derivatives

2.9.1 Forward contracts

Forward contracts, designated as off-balance sheet financial instruments, are used to hedge risk arising from exchange rate fluctuation. The notional amount of the forward contract will not be recognized as an asset or a liability on the commitment date. Gains or losses on forward contracts are recognized in the profit and loss account on the settlement date.

2.9.2 Futures contracts

Futures contracts, designated as off-balance sheet financial instruments, are used to hedge risk arising from interest rates or bond prices. The notional amount of the futures contract will not be recognized as an asset or a liability on the commitment date. Changes in the fair value of the contracts are recognized in the profit and loss account when the price revaluation and the settlement of the variation margin take place.

2.10 Pension Fund and Provident Fund

2.10.1 Pension Fund

The BOT's Rules and Regulations for Pension Fund B.E. 2539 including the amendments state that the employees who joined the BOT before December 1, 1996 and are not the members of the "Provident Fund" have the rights to receive pension according to the stipulated conditions and calculation basis. The BOT has maintained provisions in accordance with these rules and regulations.

2.10.2 Provident Fund

The BOT's Rules and Regulations for Provident Fund B.E. 2539 state that the BOT and the employees who are the members of the Provident Fund have to make contributions to the Provident Fund according to the stipulated conditions. This Provident Fund has already been registered under the Provident Fund Act B.E. 2530.

3. Change in Accounting Policy

In 2007, the BOT has changed its accounting policies for foreign securities managed by external fund managers from recording net asset value gains in the profit and loss account and recording net asset value losses to capital to recording both gains and losses from net asset value changes in the profit and loss account. However, since the net asset value changes for the year 2007 resulted in gain and recorded in profit and loss account as the previous year, therefore there was no effect of the change in accounting policy on the BOT's performance of the year 2007.

4. Reserve Tranche and Holdings of Special Drawing Rights

Unit : Million baht

	2007	2006
Quota Subscribed to International Monetary Fund (IMF)	57,631.7	58,665.6
Less: IMF Current Account No.1	(29,115.5)	(28,932.2)
Non-Negotiable with Non-Interest Bearing Promissory Notes payable to IMF	(24,772.8)	(24,562.4)
Reserve Tranche	3,743.4	5,171.0
Holdings of Special Drawing Rights	6.5	30.7
Total	**3,749.9**	**5,201.7**

Reserve Tranche is classified as the international reserves, calculated from the Quota Subscribed to IMF after deduction of the baht balances existing in the form of IMF Current Account No.1, and Non-Negotiable with Non-Interest Bearing Promissory Notes payable to IMF.

"Quota Subscribed to IMF-Baht" is presented in "Other Assets" (Note 9). The aforementioned IMF Current Account No. 1, and Non-Negotiable with Non-Interest Bearing Promissory Notes, and IMF Current Account No. 2 for administrative expenses are stated under "Other Liabilities" (Note 12).

Holdings of Special Drawing Rights are also classified as the international reserves.

5. Investments

Unit : Million baht

	2007	2006
Domestic Securities		
Cost after amortization of premiums or discounts	286,823.3	140,821.2
Foreign Securities		
Cost after amortization of premiums or discounts	881,090.5	652,666.5
Plus/(Less) : Revaluation Surplus (Deficit) on Investments	9,762.5	(3,117.4)
	890,853.0	649,549.1
Total	**1,177,676.3**	**790,370.3**

As of December 31, 2007, Foreign Securities include US$342.0 million (equivalent to B14,022.9 million) of the investment in the Asian Bond Fund (ABF), which is an initiative of the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP) to promote the development of Asian bond markets. The BOT has invested US$120.0 million (equivalent to B4,904.7 million) in ABF phase 1, which was launched in 2003 and invested in US dollar-denominated bonds issued by the governments and the quasi-governments of EMEAP economies. The BOT's investment in ABF phase 2 amounted to US$222.0 million (equivalent to B9,118.2 million), comprising of US$111.0 million investment in the Pan-Asian Bond Index Fund (PAIF) and US$111.0 million investment in the Fund of Bond Funds (FoBF). Launched in 2005, the ABF phase 2 invests in local-currency bonds issued by the governments and the quasi-governments of EMEAP economies.

6. Securities Purchased under Resale Agreements and Securities Sold under Repurchase Agreements

Unit : Million baht

	2007	2006
Securities Purchased under Resale Agreements		
Domestic Securities	35,401.0	220,281.0
Foreign Securities	170,290.6	196,167.0
Total	**205,691.6**	**416,448.0**
Securities Sold under Repurchase Agreements		
Domestic Securities	297,632.0	346,502.0
Foreign Securities	196,938.6	203,614.7
Total	**494,570.6**	**550,116.7**

7. Loans

Unit : Million baht

	2007	2006
Programs guaranteed by the Ministry of Finance	5,115.8	15,407.3
Programs collateralized with entrepreneur promissory notes endorsed for the BOT by financial institutions	63,244.4	77,975.7
Total	**68,360.2**	**93,383.0**

As of December 31, 2007, the outstanding of loans represents 9 lending programs to financial institutions in order to finance priority economic sectors. These included 3 programs guaranteed by the Ministry of Finance and 6 programs collateralized with entrepreneur promissory notes endorsed for the BOT by financial institutions.

8. Premises and Equipment, net

Unit : Million baht

	Balance	Changing in Book Value		Balance
	Dec 31, 2006	Increase	Decrease	Dec 31, 2007
Land	2,464.8	-	-	2,464.8
Buildings	1,875.4	7.1	(63.5)	1,819.0
Temporary Buildings and Improvements	203.1	24.2	(0.5)	226.8
Equipment	872.9	180.2	(42.4)	1,010.7
Assets under Construction	1,899.1	1,022.4	(223.4)	2,698.1
Total	7,315.3	1,233.9	(329.8)	8,219.4
Less: Accumulated Depreciation	(1,932.0)	(219.2)	58.0	(2,093.2)
Premises and Equipment, net	**5,383.3**	**1,014.7**	**(271.8)**	**6,126.2**
Depreciation for the year	**198.7**			**219.2**

The new head office building is currently under construction according to the BOT's Master Plan which aimed to develop the overall land and buildings utilization. The Master Plan, with the total budget of B2,751.4 million has been extended the schedule for completion to October 31, 2009. As of December 31, 2007, B2,425.5 million or 88.16 percent of the total budget was spent.

9. Other Assets

Unit : Million baht

	2007	2006
Quota Subscribed to IMF - Baht	53,888.3	53,494.6
Investment in Other Organizations	1,750.8	1,782.1
Staff Loans	2,633.5	2,457.3
Intangible Assets	255.9	317.2
Others	14,448.6	14,038.0
Total	**72,977.1**	**72,089.2**

10. Allocations of Special Drawing Rights

The IMF's member countries are allocated Special Drawing Rights in proportion to their subscriptions to the IMF. For the year ended 2007, the BOT was allocated the balance of SDR84.7 million, an equivalent of B4,509.3 million.

11. Debt Securities Issued by the BOT

Unit : Million baht

	2007	2006
Bank of Thailand Bonds		
Remaining maturity :		
- 1 year or less	1,013,139.6	650,314.1
- over 1 year	328,886.3	236,455.2
Less Held by the BOT	(22,451.5)	-
	1,319,574.4	**886,769.3**
Others	50,045.0	-
Total	**1,369,619.4**	**886,769.3**

The BOT has issued the BOT debt securities to be used as one of the monetary instruments as well as to foster the development of money market and debt securities market in Thailand. In 2007, the interest paid on the BOT bonds, amounting to B47,439.7 million, was included in the interest expenses.

In addition, the BOT bonds held by the BOT was a result of the BOT bonds buyback operations, which were undertaken to enhance efficiency of the BOT's liquidity management in the money market.

Furthermore, in 2007, the BOT issued an overnight debt instrument, which was included in "Others", for its liquidity absorbtion through the End-of-Day Liquidity Adjustment Window and the BOT-operated repurchase market.

12. Other Liabilities

Unit : Million baht

	2007	2006
Payable to the Currency Reserve for Notes Issuance	-	225,000.0
IMF Current Accounts No. 1 and 2	29,115.9	28,932.6
Promissory Notes Payable to IMF	24,772.8	24,562.4
Obligation from Unremunerated Reserve Requirement on Short Term Capital Inflow Measure	8,211.4	-
Others	10,570.2	6,799.1
Total	**72,670.3**	**285,294.1**

In 2007, the entire issued banknotes backed up by assets from the Special Reserve Account of the Currency Reserve, according to the Emergency Decree Amending the Currency Act B.E. 2501 (No.2) B.E.2545, were withdrawn from circulation thus the balance of Payable to the Currency Reserve for Notes Issuance Account at December 31, 2007 became nil.

13. General Reserve

The General Reserve is accumulated from the net profit distribution of each year, in accordance with Chapter 2 of the Bank of Thailand Act B.E. 2485. In 2007, the balance of the General Reserve amounted to B7,687.2 million was transferred to cover the previous year loss, thus the balance of this account as at December 31, 2007 became nil. Movements in the General Reserve are set out in the Statement of Changes in Capital.

14. Statutory Appropriation

In 2002, B165,000 million was transferred from the Special Reserve Account of the Currency Reserve to the BOT in accordance with the Emergency Decree on the Partial Transfer of Assets from Special Reserve Account, B.E. 2545 in order to eliminate the accumulated losses and to enhance the stability of the BOT. The transferred amount after deducted by the accumulated losses,the result of B 27,307.9 million was presented as "Retained Earnings". In 2007, with the consent of the Ministry of Finance, this account was substituted by "Statutory Appropriation".

15. Accumulated Losses

In 2007, the amount of B7,687.2 million was transferred from the General Reserve to offset against the net loss for the year 2006 which amounted to B102,287.1 million. The remaining net loss of B94,599.9 million was transferred to the Accumulated Losses. Movements in the Accumulated Losses are set out in the Statement of Changes in Capital.

16. Other Revenues

Unit : Million baht

	2007	2006
Gain from investments managed by external fund managers	7,253.0	2,757.8
Others	441.4	331.8
Total	**7,694.4**	**3,089.6**

17. Commitments and Contingencies

As of December 31, 2007, the BOT had outstanding of commitments and contingencies as follows:

17.1 The BOT had net position of outstanding dollar-baht forward contracts to buy US$19,085.6 million due in 2008. By comparing the forward rate with the 2007 year-end rate, the BOT would have a contingent loss of B5,628.7 million, which would be recorded in the profit and loss account when the contracts become due.

17.2 The BOT had net position of outstanding cross currency forward contracts to buy Yen 237,754.4 million, Euro 5,774.2 million and Pound Sterling 1,260.8 million and to sell US$13,159.4 million due in 2008. After applying the 2007 prevailing year-end rate, the BOT would have a contingent loss of B3,159.7 million, which would be recorded in the profit and loss account when the contracts become due.

17.3 ASEAN Swap Arrangement, Bilateral Swap Arrangement and Agreement on Kip-Baht Swap

In 2007, the BOT renewed the Memorandum of Understanding on the ASEAN Swap Arrangement (ASA), which is the arrangement to provide short-term foreign exchange liquidity support in a total amount of US$ 2,000.0 million among the 10 ASEAN member countries. The arrangement has a term of 2 years, expiring on 16 November 2009, in which the BOT commits to contribute US$ 300.0 million and is entitled to borrow up to US$ 600.0 million.

The BOT also renewed a Bilateral Swap Agreement (BSA) under Chiang Mai Initiative with the Bank of Japan (BOJ). This three-year agreement, expiring on November 8, 2010, will enable both countries to swap their local currencies (Thai Baht and Japanese Yen) against US dollars. Under the agreement, the BOT can borrow up to US$ 6,000.0 million, which is to be guaranteed by the Ministry of Finance of Thailand, while the BOJ, as an agent of the Ministry of Finance of Japan, can borrow up to US$ 3,000.0 million. In addition, the BOT is currently under the negotiation to renew BSAs with the Bank of Korea and the People's Bank of China.

The BOT also has the Agreement on Kip-Baht swap with the Bank of Lao PDR in the amount of B500.0 million. It is a one-year agreement and will expire on 16 August 2008.

In 2007, neither the BOT nor its counterparties activated any of the above mentioned arrangements.

17.4 As of December 31, 2007, the BOT, in the normal course of business, has been taken legal action at the amount of the claims totaling B16,728.5 million and are in process of court trial. However, the forecasted amount of these claims when the final judgement is made may have no material effect on the BOT's financial position and operations.

18. Risk Management at the Bank of Thailand

18.1 Financial Risk Management

18.1.1 BOT's Balance Sheet Risk

The key financial risks that affect the BOT's balance sheet are the followings:

18.1.1.1 Foreign exchange rate risk

The BOT's assets are mainly denominated in foreign currencies, which is necessary for monetary operations in order to ensure the stable financial environments. Changes in Thai baht's exchange rates lead to gains or losses when converting foreign currencies into Thai baht.

18.1.1.2 Interest rate risk

Interest rate risk emerges when the interest rate in domestic market, resulting from conducting monetary policies, is significantly different from the interest rate of foreign markets that the BOT invests in.

18.1.2 Financial Risk Management of the International Reserves

Investment of the international reserves in foreign assets has inherent financial risks. There are three types of financial risks: market risk, credit risk and liquidity risk. Notably, the BOT's credit risk and liquidity risk are much lower than its market risk due to the BOT's policy to invest in high credit rated securities and to impose limits on illiquid assets.

The main objectives of financial risk management of the international reserves consist of:

a. Preserving the value of the international reserves when measured in terms of stable currencies, and

b. Ensuring an acceptable level of financial risks of the international reserves as well as risk diversification.

Financial risks of the reserves are managed in accordance with the following approaches:

18.1.2.1 Market Risk

Market risk, comprising of interest rate risk and foreign exchange rate risk, is the risk of loss due to changes in the market value of assets or currencies. The BOT manages market risk through benchmarking, which involves setting asset and currency allocations in accordance with the objectives of each portfolio and the BOT's risk tolerance. The BOT performs risk analysis by carrying out stress tests to estimate potential impacts of various market scenarios on the reserves.

The BOT's compliance staff monitor and control market risk to prevent excessive risk incurred from the unapproved deviation of actual investment position from the aforementioned benchmarks. The BOT keeps these risks within acceptable levels by imposing tracking error limits.

18.1.2.2 Credit Risk

Credit risk is the risk that the BOT's counterparties or the issuers of the securities held by the BOT default or are unable to fulfil their financial obligations with the BOT.

The BOT controls credit risk by using the following approaches:

(1) Minimum Credit Rating, set for counterparties and issuers to limit the credit value-at-risk to a very low level

(2) Aggregate Credit Exposure Limit, set for counterparties and issuers in the form of deposit equivalent exposure based on the credit rating and number of counterparties

(3) Individual Credit Exposure Limit, set for counterparties based on their credit rating. However, exposure limit for some counterparties will be reduced in the case that the probability of being downgraded, indicated by a set of indicators, increases.

(4) Sovereign Credit Limit, based on country credit ratings (Sovereign credit limits are used as constraints in benchmark construction.)

18.1.2.3 Liquidity Risk

Liquidity risk is the risk of loss arising from the inability to liquidate assets at a reasonable price within the specified period.

The management of liquidity risk focuses on setting appropriate levels for illiquidassets based on the BOT's liquidity needs, and the cost-benefit comparisons between the returns from liquidity premiums and the costs of liquidation.

18.2 Operational Risk Management

18.2.1 Control Self-Assessment (CSA)

In accordance with internal guideline which stipulates that all departments are required to conduct CSA review process at least once a year from 2007 onwards; therefore in 2007, Strategic Services Department in conjunction with other departments conducted CSA review process based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. In addition, operational risk management system "RMS" was developed and deployed to assist in the management of operational risk.

18.2.2 Business Continuity Plan (BCP)

In 2007, the construction of the Bank of Thailand's new backup site was completed and is currently operational. The main IT data center was also moved to the new headquarters building.

Therefore, to ensure that the Bank of Thailand could handle any unforeseen disastrous interruption to IT operation, a test drill was conducted to determine readiness of the Bank of Thailand's critical systems at the new backup site. Additionally, BCP for Riots / Political unrest was completed while BCP for Pandemic influenza is in the drafting process and is due to be finalized in 2008.

19. Significant Events Occurred during the Year 2007

Stipulated in the Act Dissolving the Currency Exchange Equalization Fund, B.E. 2550, the BOT obtains right and obligation of a legal action that the EEF brought before the court and has been in the process of court trial. Also, the BOT has transferred staff employed by the EEF together with their pension fund and health care benefits amounted to B116.2 million, which recorded as provisions for pension fund B58.3 million and recognized as other revenues B57.9 million, respectively.

In addition, the EEF's foreign currencies amounted to US$1,060.5 million and Euro 3.22 were sold to the BOT in exchanged for B36,405.5 million and remitted to the Ministry of Finance as the government revenue.

20. Financial Restatements

Financial statements for the year ended December 31, 2006 have been restated in line with the presentation of financial statements for the year 2007 without causing any effect on net income presented herein.

21. Post Balance Sheet Event

21.1 The Bank of Thailand Act,(No.4), B.E.2551

On March 3, 2008, the Bank of Thailand Act, (No4), B.E.2551, amending the Bank of Thailand Act, B.E. 2485, was published in the Government Gazette. The Act shall entitle the BOT to present an unrealized gain or loss arising from the revaluation of foreign assets and liabilities in the Assets and Liabilities Revaluation Reserve Account under the equity section

21.2 Change in Accounting Policy

With effect from the year 2008, an unrealized gain or loss arising from the revaluation of foreign assets and liabilities will be presented in the Assets and Liabilities Revaluation Reserve Account under the equity section . This new accounting policy change aims to develop the BOT's financial s tatements to reflect the financial position and operations appropriated for central bank functions. This change, in conformity with other central banks' practice, the accounting practice for specific industry, as well as the Bank of Thailand Act , (No4), B.E.2551 published in the Government Gazette , was approved by the BOT's Court of Directors.

MANAGEMENT AND PERSONNEL

Organization Structure, Work Systems and Work Processes

Throughout the year 2007, the Bank of Thailand (BOT) had continuously improved the organization structure, work systems and work processes in order to support the action plan according to the 2007-2011 BOT's strategy focusing on being a forward-looking organization with competent staff dedicated to ensuring the resilience of the Thai economy against shock and instability. The improvement in the year 2007 can be summarized as follows :

1. BOT's Reorganization Project

1.1 Monetary Policy

The BOT developed the International Trade Agreement Bureau under the International Economics Department, Monetary Policy Group in order to be responsible for Free Trade Agreement (FTA) related to capital movements and investment issues tending to be increased in the near future.

1.2 Financial Institutions Policy

The BOT developed the Quantitative Models and Financial Engineering Team under the Financial Analysis and International Strategy Office, Financial Institutions Strategy Department in order to study, support, and monitor any issues related to quantitative models and financial engineering, and adjusted the duties and responsibilities of the units under the Prudential Policy Department and the Financial Institutions Strategy Department in order to be in compliance with the BOT's strategy and international standards.

1.3 Financial Institutions Supervision

The BOT developed the Specialized Financial Institutions and Non-bank Examination Department to support the examination of Non-banks and changed the Financial Institutions Applications and Specialized Financial Institutions Examination Department to the Financial Institutions Applications Department in order to support the transfer of duties and responsibilities regarding the specialized financial institutions examination to set up the new department as abovementioned.

1.4 Overall BOT's Organization Structure

In order to create the flexibility and to improve the overall managerial efficiency, the BOT transferred the Economic Research Department from reporting to the Deputy Governor, Monetary Stability to under the responsibility of Monetary Policy Group. The BOT also transferred the Accounting Department from under the responsibility of Operations Group to Strategic Capabilities Group, and Library and Archives from Operations Group to Management Assistance Group. In additions, the BOT restructured the organization structure of the General Administration Department by dividing into 2-separated departments, namely, the General Administration and Procurement Department and Building Construction Projects and Maintenance Department. Both departments are still under the responsibility of Operations Group.

2. BOT's Work System and Work Process Improvement

2.1 Banknote Management

The BOT has continuously modernized the work processes of the Banknote Management Group to be in compliance with the new organization structure, planning and operational risk management system, procurement and general administration system, engineering system, human resource system, banknote management system and note printing system in order to maximize the efficiency of banknote management.

2.2 Security

The BOT has improved the BOT's physical environment and security equipment, arranged the manpower and guard system, and controlled the entrance and exit of the building and areas by identifying one single entrance for every building in order to be in compliance with the risk level and the physical environment of each office. The Security Department is responsible for the overall BOT's security issues and each department is responsible for taking care of the security within its responsible areas.

3. Teleworking@BoT Pilot Project according to the BOT's strategic objective to retain the potential employees within the BOT with the strategy to "create more flexible work systems"

Teleworking is one of the managerial innovation tools to improve the flexibility of workplace and foster the work-life balance in order to reinforce the efficiency in terms of performance and to attract and retain the potential employees within the BOT. The BOT has implemented the strategic plan to create more flexible work system. In 2007, the BOT proposed two phases of Teleworking@BoT pilot project for BOT's employees to work at home, namely, phase 1 : for BOT's normal businesses with the duration of 6 months (1 March - 31 August 2007) and phase 2 : for BOT's ad hoc businesses (BOT Symposium 2007) with the duration of 1 month in advance of the BOT Symposium 2007 (1 - 30 September 2007). Such abovementioned project has promoted the satisfaction with regards to quality of work and life, and employees' performance and productivity. Therefore, in 2008, the BOT will implement another phase of Teleworking@BoT and will propose a new pilot project "Flexi e-Working" in order to facilitate more flexible work systems by providing modern office with cozy and homey decorative style for BOT's employees to work after normal business hours and on weekends.

Human Resource Management

Workforce Status and Distribution

As of December 31, 2007, the BOT had in total 3,880 employees, a decrease of 291 employees or 7 percent of the entire workforce compared to the same period of last year.

Of the decrease of 291 employees, 246 resigned of their own volition under the Bank's mutual separation plan, 48 reached their retirement age, 27 resigned, 4 early retired, and 4 passed away.

Of the existing workforce, there are 1,774 male and 2,106 female employees, or the ratio of 46:54. Regarding levels of education, 3,243 employees or 84 percent hold bachelor's degrees or higher. Of this, 1,880 or 48 percent had a bachelor's degree,1,305 or 34 percent a master's and 58 or 2 percent a doctorate degree.

Human Resource Management

To move forward the organization to be a forward-looking organization with competent staff dedicated to ensuring the resilience of the Thai economy against shock and instability, the Bank has put emphasis on human resource management by setting up HR strategic plans for the year 2007 - 2011 as follows.

1. For proactive recruitment for talent to ensure the sufficient number of staff with state-of-the-art knowledge and expertise in various required field, the Bank has improved the recruitment and selection methods and processes for better effectiveness and efficiency, including increasing the external recruitment channels.

2. To encourage the management at all levels to be fully aware of their roles in personnel management, the Bank conducted "Taking care of employees" workshops for the management at all levels in every department and requested each department to include HR agenda in their regular

monthly or quarterly meetings. Follow-up sessions, including employee satisfaction surveys on their immediate bosses have been conducted and fed back to the bosses. All processes have been and will be monitored and refined for better effectiveness.

3. To attract and retain key staff, we are developing a career plan for staff, enforcing rotation across departments and organizations so that job enrichment and enlargement can be achieved. Career opportunity, compensation, and succession planning are continuously reviewed.

4. To keep employees up with the new technologies, especially in trade negotiation and derivatives, classroom training, study visit, secondment and on-the-job training on derivatives and trade negotiation were conducted.

5. Apart from increasing the staff awareness of the Bank's core value through exhibition, activities contest, etc., to align employees' behaviors with core values (PI-WADH: Proactive to Change with Passion to Learn, Integrity, Willing to Share, Ability to Communicate, Dedication, and Humility), the Bank is seeking all means to further cultivate such values to employees' behavior, including taking it into consideration of annual merit increase.

In addition, the Bank also creates and promotes learning environment via Knowledge Management (BOT-KM), such activities include Community of Practice (COP) - i.e. group of people in organization that form to share what they know, to learn from one another regarding some aspects of their work experiences and to provide a social context, seminars, and e-Magazines on KM.

Court of Directors

As of 31 December 2007

Chairman	Mrs. Tarisa	Watanagase
Vice Chairman	Mr. Bandid	Nijathaworn
	Mrs. Atchana	Waiquamdee
	Ms. Nitaya	Pibulratanagit
Director	Mr. Borwornsak	Uwanno
	Mr. Ampon	Kittiampon
	Mr. Nontaphon	Nimsomboon
	Mrs. Pannee	Sathavarodom
	Khun Pornthip	Jala

Executives of The Bank of Thailand

As of 31 December 2007

Governor	**Mrs. Tarisa Watanagase**
Deputy Governor, Monetary Stability	**Mrs. Atchana Waiquamdee**
Deputy Governor, Financial Institutions Stability	**Mr. Bandid Nijathaworn**
Deputy Governor, Corporate Support Services	**Ms. Nitaya Pibulratanagit**
Assistant Governor, Monetary Policy Group	**Ms. Duangmanee Vongpradhip**
Assistant Governor, Financial Markets Operations Group	**Mrs. Suchada Kirakul**
Assistant Governor, Financial Institutions Policy Group	**Mr. Krirk Vanikkul**
Assistant Governor, Supervision Group	**Mr. Sorasit Soontornkes**
Assistant Governor, FIDF Management Group	**(Vacant) ....**
Assistant Governor, Management Assistance Group	**Mr. Arkabusk Krairiksh**
Assistant Governor, Strategic Capabilities Group	**Mr. Vichand Amorojanavong**
Assistant Governor, Information Technology Group	**Mr. Chim Tantiyaswasdikul**
Assistant Governor, Operations Group	**Mr. Sayan Pariwat**
Assistant Governor, Banknote Management Group	**Mr. Nopporn Pramojaney**

Deputy Governor, Monetary Stability	**Mrs. Atchana Waiquamdee**
Assistant Governor, Monetary Policy Group	**Ms. Duangmanee Vongpradhip**
Senior Director, Domestic Economy Department	Mrs. Amara Sriphayak
Director, Monetary Policy Department	Mr. Amporn Sangmanee
Director, International Economics Department	Ms. Vachira Arromdee
Director, Economic Research Department	Mr. Pichit Patrawimolpon
Assistant Governor, Financial Markets Operations Group	**Mrs. Suchada Kirakul**
Senior Director, Financial Markets and Reserve Management Department	Mrs. Pongpen Ruengvirayudh
Director, Exchange Control and Credits Department	Mrs. Alisara Mahasandana
Director, Financial Markets Office	Mr. Singhachai Booyayothin
Director, Reserve Management Office	Ms. Wongwatoo Potirat
Overseas Representative Offices	
Chief, New York Representative Office	Mr. Yoot Khunsihapak
Chief, London Representative Office	Ms. Arunrat Ngamjasuspong

Director, Financial Risk Management and Operations Department	Mr. Mathee Supapongse
Deputy Governor, Financial Institutions Stability	**Mr. Bandid Nijathaworn**
Assistant Governor, Financial Institutions Policy Group	**Mr. Krirk Vanikkul**
Senior Director, Financial Institutions Strategy Department	Mrs. Ruchukorn Siriyodhin
Director, Financial Analysis and International Strategy Office	Ms. Nawaporn Maharagkaga
Senior Director, Prudential Policy Department	Mr. Paiboon Kittissrikangwan
Director, Risk Management Policy Office	Mr. Somboon Chitphentom
Assistant Governor, Supervision Group	**Mr. Sorasit Soontornkes**
Senior Director, Financial Institutions Monitoring and Analysis Department	Mr. Phong-Adul Kristnaraj
Senior Director, Onsite Examination Department 1	Mrs. Salinee Wangtal
Senior Director, Onsite Examination Department 2	Ms. Pimpa Thawarayut
Senior Director, Risk Management and Information System Examination Department	Mr. Jaturong Jantarangs
Director, Specialized Financial Institutions and Non-bank Examination Department	Mr. Padoongsak Tiensuwan
Director, Planning and Development Department	Mr. Ronadol Numnonda
Director, Financial Institution Department	Mrs. Niramon Asavamanee
Deputy Governor, Corporate Support Services	**Ms. Nitaya Pibulratanagit**
Assistant Governor, Strategic Capabilities Group	**Mr. Vichand Amorojanavong**
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Director, Human Resources Management Office	Mr. Chanchai Buratavorn
Director, Human Resources Shared Services Office	Mr. Krisda Nilkositya
Director, Strategic Services Department	Ms. Matana Waitayakomol
Director, Organization Development Department	Mrs. Piengta Dattanonda
Director, Accounting Department	Mrs. Sarida Sangchant
Assistant Governor, Information Technology Group	**Mr. Chim Tantiyaswasdikul**
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Director, Payment Systems Policy and Oversight Office	Mr. Ronasak Ruengvirayudh
Director, Payment Operations Office	Ms. Kannika Junsaengaram

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Director, Statistics Office	Mrs. Pusadee Ganjarerndee
Director, Data Management Development	Ms. Chalalai Jiwasukapimat
Senior Director, Information Technology Department	Ms. Sibporn Thavornchan
Director, Operation Office	Ms. Kornjaras Kulkitvanich
Director, Business Solution Delivery Office 1	Mrs. Bhusadi Muhpayak
Director, Business Integration & Technical Management Office	Mr. Permsuk Sutthinoon
Director, Business Solution Delivery Office 2	Mrs. Jintana Tinburanakul
Assistant Governor, Operations Group	**Mr. Sayan Pariwat**
Director, Deposits and Debt Instruments Department	Mrs. Soisukon Niyomvanich
Director, General Administration and Procurement Department	Mr. Yongyudh Amatayakul
Director, Building Construction Projects and Maintenance Office	Mr. Montree Weerawong
Director, Security Department	Mr. Anothai Khunorn
Senior Director, Northern Region Office	Ms. Prangtip Busayasiri
Director, Northern Region Office	Mr. Prasopsuk Puangsakorn
Senior Director, Southern Region Office	Mr. Niruth Raksaseree
Director, Southern Region Office	Mr. Piratchai Pragobsub
Senior Director, Northeastern Region Office	Mr. Somchai Setakornnukul
Director, Northeastern Region Office	Mr. Praneet Chotikirativech

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Senior Director, Banknote Management Department	Mrs. Chittima Duriyaprapan
Director, Banknote Operation-Bangkok Office	Mr. Paisarn Piyabunditgul
Director, Banknote Operation-Regional Office	Mrs. Jongruk Leerasetthakorn
Senior Director, Note Printing Works	Mr. Anuchart Chotimongkol
Director, Production Office	Mrs. Suree Jeraratanasopa
Director, Product Development and Technical Support Office	Mr. Priyavat Chainuvat
Director, Banknote Strategic Planning and Administration Department	Mr. Woraporn Tangsaghasaksri

Assistant Governor, FIDF Management Group	**(Vacant)** ....
Senior Director, Fund Operation Department	Mrs. Tong-u-rai Limpiti
Director, Business and Financial Operation Office	Mrs. Povongtip Poramapojn
Director, Legal and Asset Collection Office	Mr. Satorn Topothai

Director, Project Management Office	Ms. Utsanee Tachapoonpon
Director, Asset Management Office	Mr. Nat Tapasanan
Assistant Governor, Management Assistance Group	**Mr. Arkabusk Krairiksh**
Senior Director, Management Assistance Department	Mrs. Wantana Hengsakul
Director, Office of the Governor	Mrs. Supawadee Punsri
Director, Communications and Relations Office	Ms. Siritida Panomwon na Ayudhya
Senior Director, Legal and Litigation Department	Mr. Chanchai Boonritchaisri
Director, Legal Office	Mr. Pruettipons Srimachand
Director, Litigation Office	Mr. Weerachat Sribunma
Director, Bank of Thailand Museum	Mrs. Nual-anong Angsurat
Director, Library and Archives	Mrs. Tipavan Nookhwun
Senior Director, Internal Audit Department	Mr. Krish Follett
Director, Office of Business Audit	Ms. Panida Oonyawong
Director, Office of IT Audit	Mrs. Nawaporn Vachirakernkan

BANK OF THAILAND'S
ORGANIZATION CHART

Bank of Thailand's

as of 31 Dec

Court of D

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    - Financial Institutions Monitoring and Analysis Department — Senior Director Phong-Adul — phongadk@bot.or.th
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  - Risk Management and Information System Examination Department — Director Jaturong — jaturonj@bot.or.th
  - Onsite Examination Department 1 — Senior Director Salinee — salineew@bot.or.th
- **FIDF Management Group**
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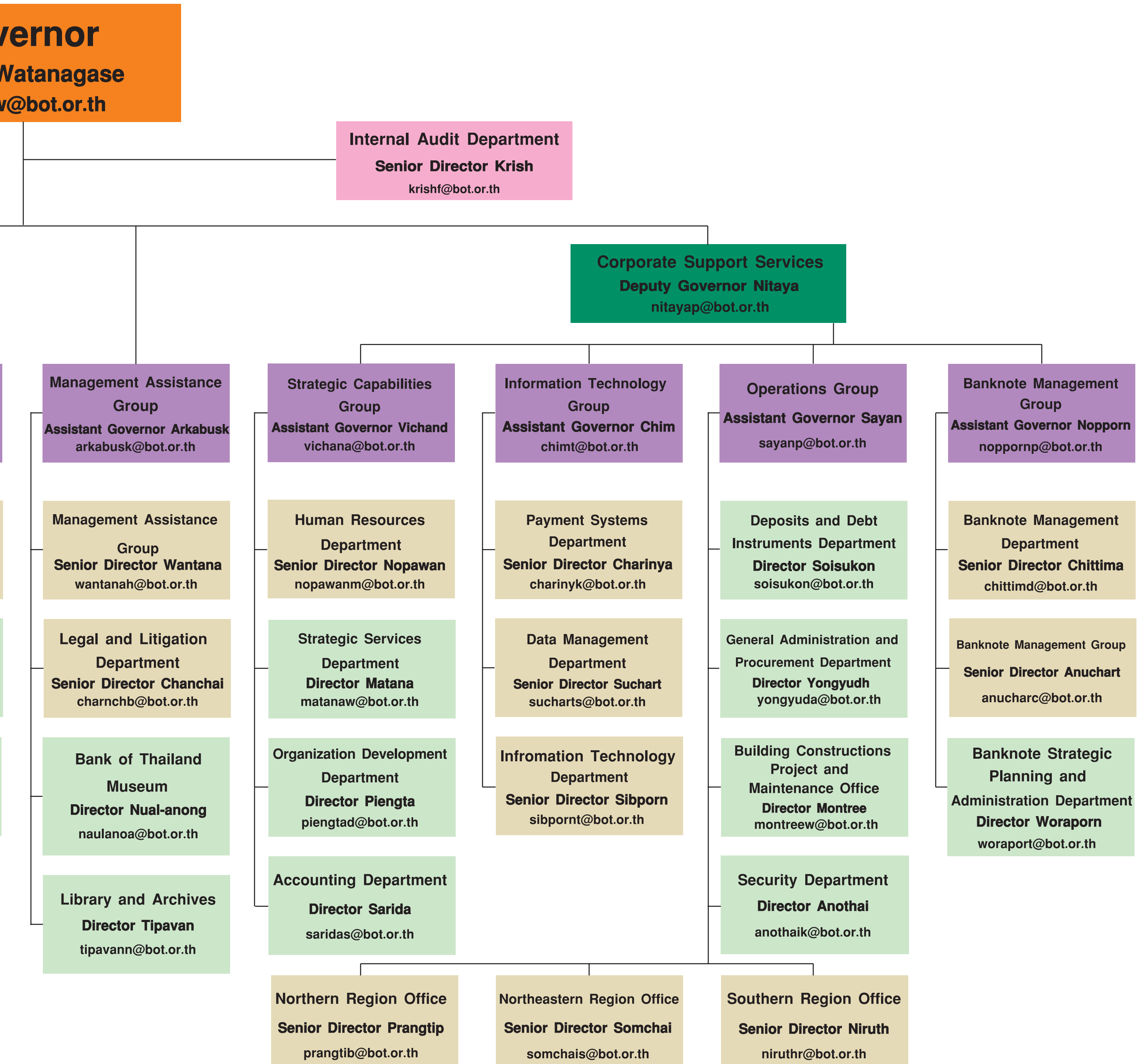
  - Fund Operation Department — Senior Director Tong-u-rai — tongural@bot.or.th
  - Asset Management Office — Director Nat — natt@bot.or.th
  - Project Management Office — Director Utsanee — utsaneet@bot.or.th

s Organization Chart

ecember 2007

f Directors



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