



BOT's Mission and Financial Statements

To understand an organization's financial statements, it is necessary to understand its mission. As a central bank, the Bank of Thailand (BOT)'s mission differs from that of business entities. As such, the central bank's financial statements are unique and distinct from other businesses'.

1.1 The Mission of the Central Bank

The BOT's mission involves 2 key aspects:

1.1.1 Maintaining Economic Stability

Section 7 of the Bank of Thailand Act, B.E. 2485 (as amended in B.E. 2561) stipulated that "...central banking role is to maintain monetary stability, financial institution system stability and payment systems stability", in other words, the overall economic and financial stability. Similar to other central banks, the BOT's mission is to maintain internal and external economic stability. **Internal stability** refers to preserving the value of Thai baht and Thai assets from being depreciated by inflation and preventing an economic bubble or vulnerabilities in the financial system which may lead to a financial crisis in the future. Meanwhile, **external stability** refers to monitoring and overseeing the movement of Thai baht to be in line with its fundamentals and not too volatile, maintaining the global purchasing power of Thai economy, ensuring low foreign debt, as well as sufficient international reserves to cushion the impact from volatilities in the global financial market and capital market.

1.1.2 Printing and Issuing Banknotes for the economy

Section 14 of the Currency Act, B.E. 2501 (as amended in B.E. 2545) stipulated that "...the BOT has power to print, manage, and issue banknotes...". Thai baht and Thai banknotes shall be generally accepted if the monetary policy and macroeconomic policy is reliable. In addition, Section 16 prescribed that "...No banknotes shall be issued unless an immediate exchange for any specified assets of equal value...". Printing and issuing banknotes, the BOT therefore has to hold foreign assets of equal value to the newly-issued banknotes, in accordance with Section 26 of the Currency Act, "For the purpose of maintaining the stability of the currency, the BOT shall maintain a currency reserve, hereinafter to be called the 'Currency Reserve'."

These two keys missions are interconnected and regarded as crucial fundamental factors for stable and sustainable economic growth.

1.2 The Bank of Thailand Account and the Currency Reserve Account

To carry out those two key aspects of the BOT's mission, the law requires the BOT shall split its transactions into two accounts:

1.2.1 The Bank of Thailand Account is the account associated with the mission to maintain economic stability. The assets consist of two main items; i.e. international reserves in foreign currencies (over 85% of total assets) and domestic assets which mostly are Thai government bonds. On the contrary, the liabilities are mainly in Thai baht, which are the BOT bonds from the monetary policy operation to maintain economic stability and the deposits from financial institutions and government.

The Bank of Thailand Account	
Asset	Liabilities
>85% International reserves	BOT bonds Deposits from financial institutions and government
<15% Thai government bonds	Equity

1.2.2 The Currency Reserve Account is the account associated with the mission to print and issue banknotes. The asset side, currently consists of a 100% foreign currency assets held to back up banknotes issuance. Meanwhile, the liability side consists of banknotes in circulation in Thai baht. In other words, the banknotes being held by the public in the economy are the central bank's liabilities.

The Currency Reserve Account	
Asset	Liabilities
100% International reserves	Banknotes in Circulation
	Equity

1.3 Distinctive Characteristics of the Central Bank's Financial Statements

Characteristic 1 The assets and liabilities are currency mismatch

The central bank's financial statements are unique from those of private sectors in the way that **most central bank's assets are foreign assets or international reserves, while liabilities are in local currencies of each country.** In the case of the BOT, liabilities are in Thai baht which includes banknotes and the BOT bonds issued to manage liquidity and maintain the country's financial stability. Therefore, the distinctive characteristic of the central bank's financial statements is that **assets and liabilities are currency mismatch.** At the end of each year, foreign asset need to be revalued into Thai baht in order to prepare the financial statements. **The objective of the revaluation is to measure foreign assets in Thai baht as if all foreign assets were liquidated at the year-end,** and the relevant gain or loss is recognized. As a result, the annual profit or loss shown in the financial statements is mainly from "valuation gain or loss".

Changes in foreign exchange rate significantly influence the figures in the financial statements, especially when there is a high proportion of foreign assets. For example, the BOT has foreign assets of 280,000 million USD. If Thai baht depreciates by one baht, valuation gain of 280,000 million baht will be immediately recognized. In contrast, if the Thai baht appreciates by one baht, valuation loss of 280,000 million baht will be immediately recognized.

Valuation gain or loss does not cause any change in the BOT's capability to conduct its mission because at the revaluation date the international reserves in foreign currency remain unchanged to cushion against external volatilities. **Therefore, if the central bank's financial statements show loss for some periods, it is not a matter of concern because it may result from valuation loss.** When considering the BOT's previous financial statements, it is likely to find profits in some years and losses in others, mainly due to the consequence of the foreign revaluation.

Characteristic 2 International reserve management aims to maintain its long-term value in foreign currencies

The central bank's mission is to maintain **economic stability,** which requires the foresight outlook rather than focusing on momentary economic changes. The international reserve management does likewise. **The central bank invests in assets with long-term high value to facilitate risk diversification appropriately,** even though there might be short-term volatilities. The main focus in international reserve management is gaining the yield in the form of "**foreign currencies**" because ultimately the central bank has to ensure the availability and adequacy of international reserves. **However, the preparation of financial statements take place within a timeframe of one year,** resulting in the different timeframe between the financial statements and the yields from international reserves management.

In addition, **international reserve management also involves the revisions of investment**

strategies to be in line with the global economic changes to facilitate risk diversification and enhance a reasonable return, rather than selling or purchasing foreign assets in pursuit of speculation. The sales of the assets in accordance with allocation strategies is realized as gain/loss on financial statement, previously recorded as valuation gain/loss.

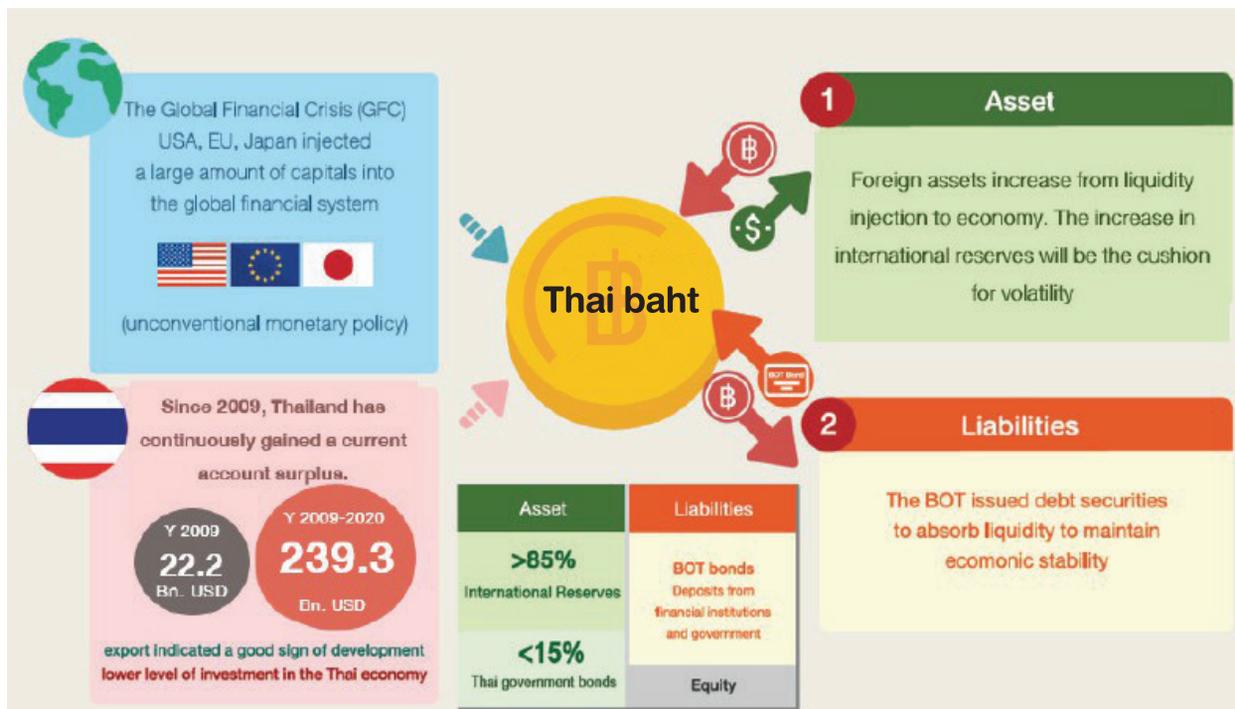
Characteristic 3 The central bank’s liabilities are unique from private sectors’ liabilities

Private sectors’ liabilities, arising from either spending or investing, are for private benefit, **while the central bank’s liabilities are for public benefit.** The BOT’s liabilities are caused by (1) **printing an adequate amount of banknotes in circulation for the economic system and (2) maintaining economic stability, and preserving Thai baht, and Thai people’s assets from being depreciated.** These are regarded as public goods which facilitate the economic system to grow stably. The central bank’s liabilities are not meant for the benefit of any specific group of people, any corporate, or not

even the BOT itself. In fact, liabilities caused by carrying out the mission which benefits the Thai society as a whole.

The first element of the central bank’s liabilities is banknotes circulated in the economic system. Banknotes are regarded as a medium of exchange agreed upon by people in the society as legal tender. The distinction of banknotes is that even when given banknotes by a complete stranger, one can trust in their value and accept their exchange. This became the starting point of various economic activities, for example, trading and exchanging goods or services. **The second element is the financial institutions’ deposits at the central bank.** They are also considered the central bank’s liabilities because the central bank acts as an intermediary in the financial institution system. Financial institutions use the deposit accounts at the BOT for payment and liquidity management purpose. **The third element is government deposits or treasury reserve.** It is regarded as the

Where did the central bank’s increasing liabilities come from?



central bank's liabilities from cash flow management by the government in a different period of time. **The last element is liabilities resulted from carrying out the mission to maintain the economic and financial stability.** If there is a liquidity surplus in the financial system, central bank is required to absorb the excess liquidity by issuing central bank bills/bonds. In contrast, if there is any liquidity shortage in the system, the central bank can inject the liquidity by redeeming bonds.

Where did the central bank's increasing liabilities come from? Since the global economic crisis in 2009, the central bank of major industrial countries, e.g. the United States, the European Community, and Japan, began to implement an accommodative monetary policy which was conducive for economic recovery. These central banks injected a large amount of capital into the global financial system, resulting in a capital influx in emerging markets, including Thailand. Moreover, export and tourism sectors continued to expand, whereas the level of domestic investment in Thai economy is weak. These factors resulted in current account surplus for Thailand. Despite the fact that the country's internal affairs were challenged by political turmoil and natural disasters from time to time. The pandemic of COVID-19 in 2020, Thailand has managed the situation reliably. As a result, Thailand has had capital inflow and has continuously gained more current account surplus.

Amidst these challenging circumstances, how did the BOT carry out its mission? In the context of a rapid capital inflow, a continuously high current account surplus, and weakening domestic investment, altogether, were factors that exerted downward pressure on Thai baht to be appreciated against other foreign currencies. When the movement of Thai baht was inconsistent with economic fundamentals, the BOT sometimes took action by selling Thai baht in exchange for foreign currencies in order to slower pace of Thai baht appreciation. This means that the BOT injects the liquidity of Thai baht into the financial system.

However, excessively high level of liquidity might lead to an economic bubble in the real estate sector, causing asset prices to accelerate and become unaligned with fundamentals and long-term financial instability. Therefore, the BOT had to accommodate liquidity absorption by issuing debt securities to maintain economic stability. **Carrying out such mission caused the BOT's liabilities to rise in correspondence with the international reserves.**

The BOT's increasing liabilities were resulted from the central bank's missions to foster the stability and sustainability of the Thai economy to be in line with potential growth, to maintain an appropriate exchange rate from extreme volatilities, and to prevent long-term financial instability. Consequently, the liabilities which were caused by the issuance of debt securities resulted in interest expenses burdens.

Characteristic 4 Profitability is not the central bank's mission

The central bank is a nonprofit organization whose key mission is to maintain the stability of the financial economy. Therefore, profit or loss shown in the financial statements does not reflect the accomplishment of the central bank in carrying out its mission, unlike, the private sector whose key mission is to make profits. Their accomplishment is measured by profit or loss in the financial statements.

The central bank is an organization that implements public policies, but it does not mean that the central bank is unaware of the effect of policy implementation on financial statements. The central bank is obliged to maintain economic and financial stability by implementing policy tools carefully and cost-effectively.

Loss in the central bank's financial statements is not something new. In fact, many central banks, for example, Switzerland, Singapore, Australia, Israel, Chile, had experienced financial losses. Moreover,

the loss does not affect the potential to carry out the central banks' mission, as long as the central bank's policy implementation is reasonable and suitable for maintaining the country's economic stability, and trustworthy by various sectors, including the general public, businesses, local and foreign investors. Previously, the number shown on the BOT's financial statements reflected losses, however, the financial market and investors were still confident in the BOT's operations.

The coherence between economic conditions and the central bank's financial statements is often in a reverse direction. That is, when Thai economy has sustained strong growth and the global financial system was recovery, the capital inflow moved to emerging markets, including Thailand.

Thai baht was generally appreciated, resulting in losses shown in the BOT's financial statements. Loss, in this sense, refers to the loss caused by valuation and interest expenses from issuing debt securities to maintain economic stability.

On the contrary, the years that the BOT's financial statements recorded profit did not guarantee economic soundness or benefits to the people. For example, in 2011, there was a devastating deluge, growth of the Thai economy of only 0.8%, the weakening of the global economy, and the depreciation of Thai baht. Likewise, in 2020, there was the pandemic of COVID-19 which affected to the global economic slowdown including Thailand. However, the BOT's financial statements of those 2 years recorded profit.

Net performance of the Bank of Thailand for the years 2010 - 2020

