

# Mission and financial statements of the Bank of Thailand



Before reading the financial statements of any organization, it is essential to understand the organization's missions. As a central bank, the BOT's mission differs from that of business sectors. Likewise, the central bank's financial statements are distinct and contrast significantly with those of other businesses.

## 1. Mission of the Central Bank

the BOT's mission are in 2 aspects:

### (1) Preserving the economic stability

Section 7 of the Bank of Thailand Act, B.E. 2485 (as amended in B.E. 2561) stipulated that **"...to carry on such tasks as pertain to central banking in order to maintain monetary stability, financial institution system stability and payment systems stability"**, in other words, the overall financial and economic stability. Like other central banks around the world, the BOT's mission is to maintain economic stability internally and externally. **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 speculating the value of Thai baht movement to be in compliance with the economic fundamentals and not excessively volatile, maintaining the purchasing power of the Thai economy in the global market, ensuring a low level of external debt, as well as ensuring an adequate amount of international reserves to cushion the impacts from volatilities in the global financial market and capital market.

### (2) Printing and issuing banknotes in the economic system

Section 14 of the Currency Act, B.E. 2501 (as amended in B.E. 2545) stipulated that **"...the BOT has sole rights to print, manage, and issue banknotes..."** Thai Baht and Thai banknotes shall be accepted when the implementation of the monetary policy and macroeconomic policy is reliable. In addition, Section 16 prescribed that **"...No banknotes shall be issued unless there is an immediate exchange between any assets with equal value..."** Therefore, when printing and issuing banknotes, the BOT has to hold foreign assets of equivalent value to the amount of 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.'"**

Both aspects of the mission are interconnected, and are considered fundamental factors which are essential for the economic system to expand stably and sustainably.

## 2. The Bank of Thailand and the Currency Reserve accounts

To carry out both aforementioned aspects of the mission, it is required by law that the BOT shall divide its account into two, namely:

(1) **The Bank of Thailand Account** is the account associated with the mission to maintain economic stability. When reading a brief BOT account, the Asset column consists of international reserves in the form of foreign currencies, making up to 85 percent of the total assets, while the remaining assets are Thai

government bonds. On the right-hand side, the Liabilities column mainly consists of the BOT bonds from the implementation of monetary policy to maintain economic stability, deposits from financial institutions and government. All liabilities are in Thai baht.

### The Bank of Thailand Account

Asset	Liabilities
<b>&gt;85%</b> International reserves	<b>BOT bonds</b> Deposits from financial institutions and government
<b>&lt;15%</b> Government bonds	Equity

(2) **The Currency Reserve Account** is the account associated with the mission to print and issue banknotes. The Asset column consists of a total 100 percent of assets in foreign currencies being held for the issuance of banknotes, as specified by law. Meanwhile, the Liabilities column consists of banknotes in circulation in the form of Thai baht. In other words, the banknotes in circulation in the economic system are considered the central bank's liabilities.

### The Currency Reserve Account

Asset	Liabilities
<b>100%</b> International reserves	<b>Banknotes in Circulation</b>
	Equity

Consequently, the central bank's financial statements are recorded with imbalance between assets (in foreign currencies) and liabilities (in local currency) and are likely to change easily in accordance with foreign exchange volatilities.

## 3. Distinctive characteristics of the central bank's financial statements

### Characteristic 1 Assets and Liabilities are currency mismatch

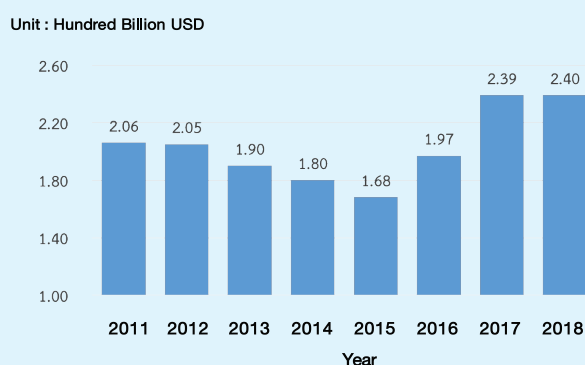
The central bank's financial statements differ from those of private sectors in the way that **most central banks' assets are foreign assets or international reserves, while their liabilities are in local currencies of each country.** In case of the BOT, liabilities in the form of Thai baht include both banknotes and debt securities issued by the BOT 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**, making an annual asset valuation of foreign currencies become mandatory in order to prepare the financial statements in the form of Thai baht. **The revaluation** can be compared to the calculation of the value of foreign currency assets to their value in Thai baht if all foreign currency assets were liquidated at this moment.

In fact, the central bank does not dispose all foreign assets every year-end for the revaluation, but instead holds them in accordance with the principle to **ensure sufficient and available international reserves to carry out its mission**. Particularly when volatilities occurred in international capital flows or the current account, most of profits or losses shown in the financial statements represent **"revaluation profit or loss,"** also known as **"unrealized loss/gain."**

The annual revaluation means that changes in foreign exchange rate significantly affect the calculation shown in the financial statements, especially when there is a high proportion of foreign assets. For example, at the end of 2018 the BOT had international reserves approximately 240,000 million USD. Should the value of Thai baht depreciates one baht, 240,000 million THB of unrealized gain will occur immediately. In contrast, should the value of Thai baht appreciates one baht, 240,000 million THB of unrealized gain will occur immediately.

**Amount of International reserves for the years 2011–2018  
(including net advance forward position)**



Revaluation profit or loss does not affect the BOT's capacity to conduct its mission at all because the BOT has ensured the amount of 240,000 million USD of international reserves to cushion against external volatilities. **Therefore, if loss is observed in the central bank's financial statements for a certain period of time, it is not a matter of concern because it may stem from the revaluation.** When speculating 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 revaluation.

## **Characteristic 2 International reserve management aims to maintain its long-term value in the form of foreign currencies run**

The central bank's mission is to ensure the economic stability, which requires the foresight rather than a concentration 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 yields 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 takes place within a timeframe of one year, resulting in the difference in terms of timeframe and the consideration of yields from managing international reserves.

In addition, typical international reserve management involves the revisions of investment proportion to be in line with the global financial and economic changes to facilitate risk diversification and leverage investment yields. Profit/loss recognition occurs after sales of a certain type of instrument. Previously, it was recorded as an unrealized loss/gain. Therefore, such recording numbers reflects the recognition of unrealized loss/gain from previous revaluations, rather than selling or purchasing foreign assets in pursuit of speculation.

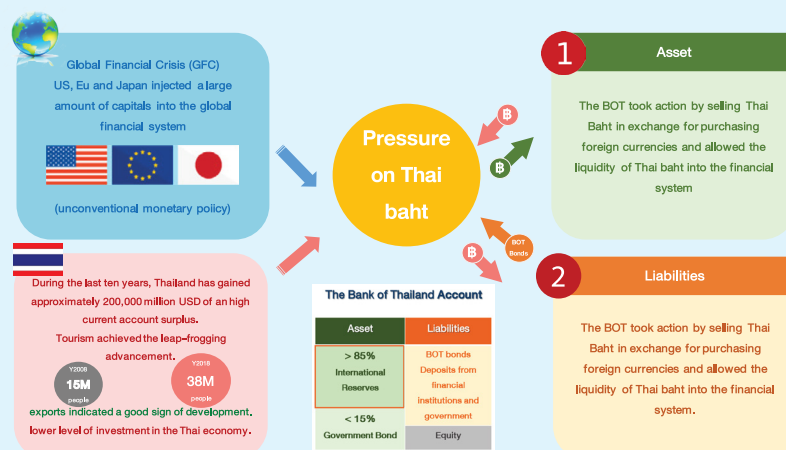
### **Characteristic 3 The central bank’s liabilities differ from private sectors’ liabilities**

Private sectors’ liabilities, arising from either spending or investing, is 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 the economy stability, the value of Thai baht, and Thai people’s assets from being depreciated. These are regarded as public goods which facilitate the economic system to grow. 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, they are liabilities caused by carrying out the mission which benefits the Thai society as a whole.

The first portion of the central bank’s liabilities is banknote circulated in the economic system. Banknotes are regarded as a medium of exchange agreed upon by people in the society as legal tender. The peculiarity 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 of goods or services. The second portion 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 provided by the central bank to pay one another and manage their own liquidity. The third portion is government deposits or treasury reserve. It is regarded as the central bank’s liabilities from cash flow management by the government in a different period of time. The last portion is liabilities resulted from carrying out the mission to safeguard the economic and financial stability. During the period of excessive liquidity in the financial system, the central bank issues debt securities or government bonds to absorb such excessive liquidity and store at the central bank. On the contrary, the central bank redeems government bonds and releases liquidity when that the economy requires higher liquidity.

What happened in the last ten years? And where did the central bank’s increasing liabilities come from? By looking at the economic cycle during the last ten years, since the global economic crisis in 2009, the central bank of major industrial countries, e.g. USA, 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 capitals into the global financial system, resulting in a capital influx in emerging markets, including Thailand. The global financial and capital markets became volatile, and the country’s internal affairs was challenged by political turmoil and natural disasters. Furthermore, despite a low level of investment in the Thai economy, exports indicated a good sign of development and tourism achieved the leap-frogging advancement. The number of tourists increased from 15 million ten years ago to 38 million in 2018. Subsequently, during the last ten years Thailand has gained approximately 200,000 million USD of an unprecedentedly high surplus.

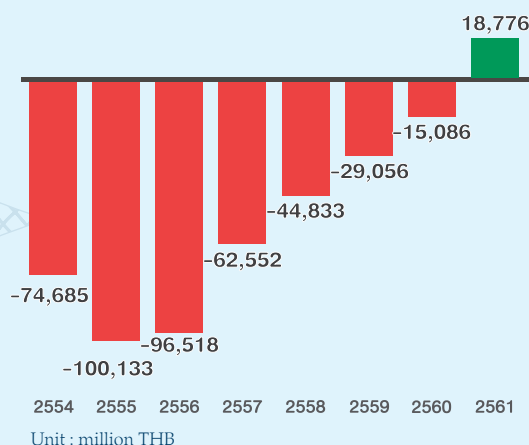
What happened in the last ten years? And where did the central bank's increasing liabilities come from?



Amidst these challenging circumstances, how did the BOT carry out its mission? In the context of a rapid capital influx, an unprecedentedly 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 took action by selling Thai Baht in exchange for purchasing foreign currencies in order to slow down the effect of Thai Baht appreciation. This means that the BOT allowed 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 the economic stability. **Carrying out such mission caused the BOT's liabilities to rise in accordance with the hike of 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 or unexpected appreciation, and to prevent long-term financial instability. The liabilities which were caused by the aforementioned debt securities costed the BOT interest payable burdens, in the meantime the BOT gained interest receivable from foreign reserves management. In the past, Thailand's interest rate was higher than other countries, so the interest payable rate stood much higher than the interest receivable rate. **At present, Thailand's interest rate became lower than other countries, and the BOT started to have interest receivable more than interest payable.**

The difference between interest receivable and interest payable





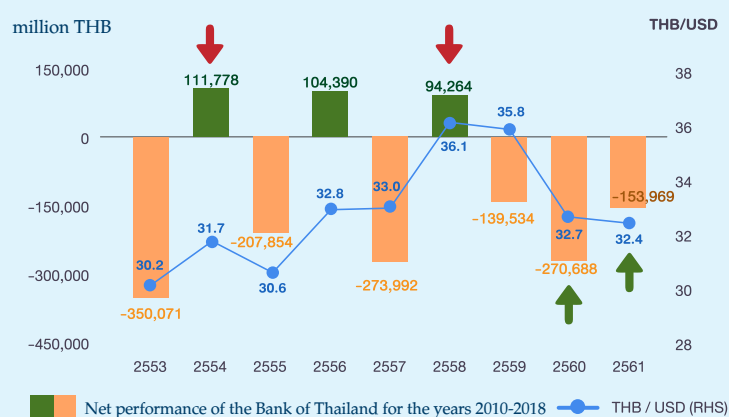
### Characteristic 4 Profitability is not the central bank's mission

The central bank is a nonprofit organization whose key mission is to maintain the stability of the financial economy, so 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 speculate. 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 legislation 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 are not something new. In fact, many a central bank, for example, Switzerland, Singapore, Australia, Israel, Chile, has a record of loss in its financial statement. Moreover, 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. The financial market and investors were still confident in the BOT's operations, which reflected in the event whenever the BOT issues bonds, investors' demand to bid is greater than the number of bonds available.

Net performance of the Bank of Thailand for the years 2010-2018



The coherence between economic conditions and the central bank's financial statements is often in reverse direction. That is, in the years the growth of Thai economy was considered stable (e.g. in 2017-2018 Thai economy expanded by approximately 4 percent), the Thai baht was generally appreciated, and as a result, there were losses shown in the BOT's financial statements. Loss, in this sense, refers to the loss caused by revaluation and interest payable 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, a minimal growth of Thai economy by only 0.8 percent, the weakening of global economy, and the depreciation of Thai baht, but the BOT's financial statements recorded more than billion THB's worth of profit. Likewise, in 2015, Thailand suffered low economic expansion due to political turmoil, deceleration in Chinese economy and depreciation of Thai baht, yet the BOT's financial statements recorded more than 90,000 million THB of profit.