

Mission of the Bank of Thailand



Before reading the organization's financial statements, it is essential to understand the organization's missions. As a central bank, the Bank of Thailand (BOT)'s mission differs from that of business sectors. Likewise, the central bank's financial statements are distinct and different from other businesses'.

1. The Mission of the Central Bank

The BOT's missions are in 2 aspects:

(1) Maintaining 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 pertaining 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, 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 monitoring and overseeing the value of Thai baht movement to be in line with the economic fundamentals and not too volatile, maintaining the global purchasing power of the Thai economy, 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 missions are interconnected and considered fundamental factors, essential for the economic system to expand stably and sustainably.

2. The Bank of Thailand Account and the Currency Reserve Account

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

(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 foreign currencies, more than 85% of the total assets, while the remaining assets are Thai government bonds. On the right column or the Liabilities column mainly consists of the BOT bonds from the implementation of monetary policy to maintain economic stability and deposits from financial institutions and government. All liabilities are in Thai baht.

The Bank of Thailand Account

Asset	Liabilities
>85% International reserves	BOT bonds Deposits from financial institutions and government
<15% 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% 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 Thai baht. In other words, the banknotes in circulation in the economic system are the central bank's liabilities.

The Currency Reserve Account

Asset	Liabilities
100% International reserves	Banknotes in Circulation
	Equity

Consequently, there is an imbalance in the central bank's financial statement. The assets are in foreign currencies of which the valuation can change easily with the volatility of the exchange rate, whereas the liabilities are in local currency.

3. Distinctive Characteristics of the Central Bank's Financial Statements

Characteristic 1 The currency of the Assets and Liabilities are 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 liabilities are in local currencies of each country.** In the 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.** At the end of each year, the foreign assets need to be revaluated into Thai baht in order to prepare the financial statements. **The objective of the revaluation is to evaluate the value of foreign currency assets in Thai baht as if all foreign currency assets were liquidated at this moment.** Therefore, most of the profits or losses shown in the financial statements are **"revaluation profit or loss,"** also known as **"unrealized gain/loss."**

When making the annual revaluation, the changes in foreign exchange rate significantly affect the figures shown in the financial statements, especially when there is a high proportion of foreign assets. For example, at the end of 2019, the BOT had international reserves of approximately 259,000 million USD. Should the value of Thai baht depreciate one baht, 259,000 million baht of unrealized gain will occur immediately. In contrast, should the value of Thai baht appreciate one baht, 259,000 million baht of unrealized loss will occur immediately.

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 259,000 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 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 currency revaluation.

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

The central bank's mission is to ensure 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 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 takes place within a timeframe of one year,** resulting in the different timeframe between the financial statements and the yields from international reserves management.

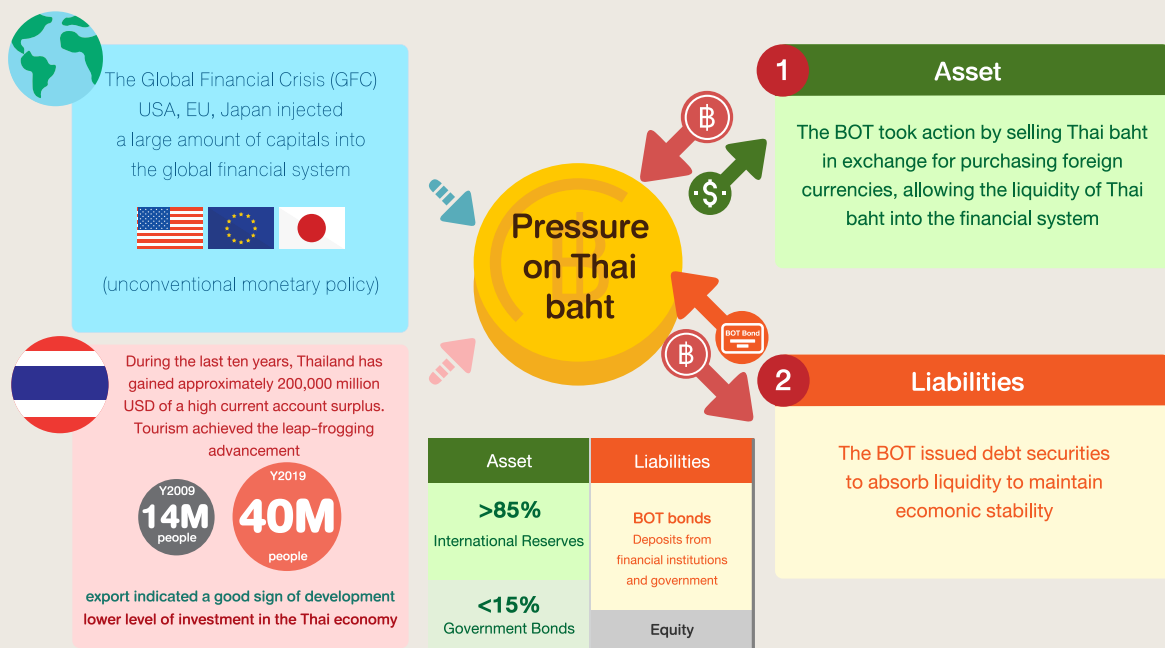
In addition, typical international reserve management involves the revisions of investment strategies to be in line with the global financial and economic changes to facilitate risk diversification and leverage investment yields. Gain/loss recognition occurs after the sales of the instruments. Previously, this realized gain/loss was recorded as an unrealized gain/loss. Therefore, it reflects the recognition of unrealized gain/loss 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, 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, 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 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 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 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 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. 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. The global financial and capital markets became volatile and the country's internal affairs were 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 leap-frogging advancement. The number of tourists increased from 15 million ten years ago to 40 million in 2019. Subsequently, during the last ten years (2010 - 2019), Thailand has gained approximately 200,000 million USD of an unprecedentedly high surplus.



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 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 international reserve management. In the past, Thailand's interest rate was higher than in other countries, so the interest payable rate stood much higher than the interest receivable rate. **At present, Thailand's interest rate became lower than in other countries, and the BOT started to have interest receivable more than interest payable during the last two years.**

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 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 a record of loss in its financial statement. **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 the growth of the Thai economy was considered stable (e.g. in 2017 - 2018 the Thai economy expanded by approximately 4%), the 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 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 the Thai economy by only 0.8%, the weakening of the global economy, and the depreciation of Thai baht, but the BOT's financial statements recorded more than 100 billion baht's worth of profit. Likewise, in 2015, Thailand suffered low economic expansion due to political turmoil, deceleration in the Chinese economy, and depreciation of Thai baht, yet the BOT's financial statements recorded more than 90 billion baht of profit.

Net performance of the Bank of Thailand for the years 2010 - 2019

