

The Bank of Thailand's 2019 Financial Statements



In 2019, the global economy faced challenges on various fronts, particularly the trade protectionist measures between the United States and China, Brexit, and geopolitical risks around the world. Central banks of major advanced countries turned to more accommodative monetary policy, leading to a depreciation in major currencies. Furthermore, Thailand's current account surplus has remained high. Both factors result in the baht appreciation. **Therefore, the Bank of Thailand (BOT) has continued to maintain stability of the Thai baht, causing an increase in international reserves to 259 billion USD at the end of 2019 from 239 billion USD at the end of 2018.**

The BOT manages international reserves with an aim to maintain their values in foreign currencies to ensure the availability and adequacy to cushion the Thai economy from the global financial market volatilities. The BOT invests in safe assets and diversifies portfolios in terms of assets and currencies. **In 2019, the management of international reserves expressed in foreign currencies resulted in a positive return and higher than the benchmark return. Interest income from managing international reserves was higher than the interest expense from the implementation of monetary policy (positive carry). Nevertheless, the baht appreciation led to an accounting loss due to the revaluation of foreign assets into the Thai baht.** Another factor partly contributing to the accounting loss was the change in the accounting method of recording derivatives denominated in foreign currencies to be complied with the new accounting standard (IFRS9).

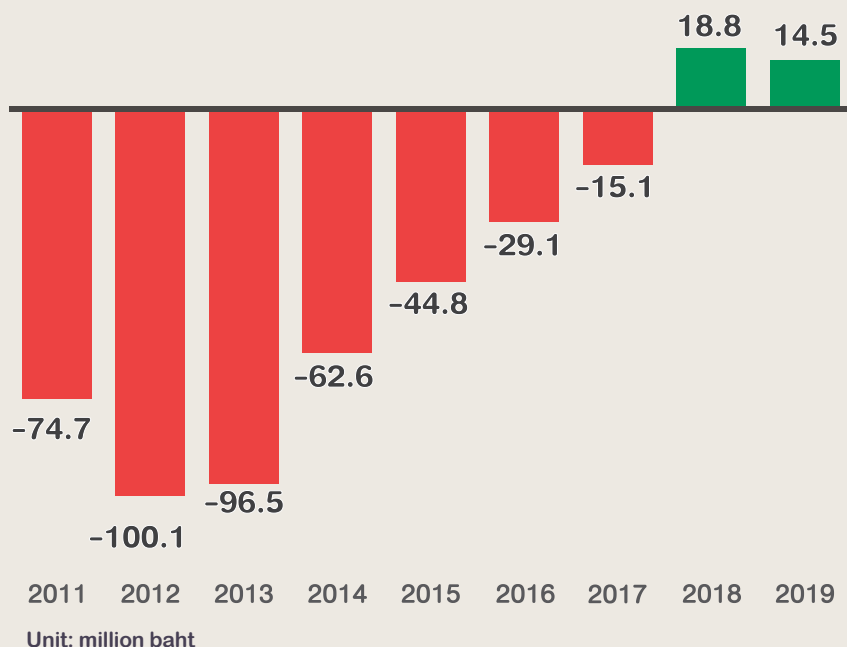
The BOT's financial performance in the past has contained profits and losses depending mainly on changes in the values of the Thai baht. For example, during the first quarter of 2020, the Thai baht depreciated from the end of 2019 which was at 30.1 THB/USD to 32.7 THB/USD at the end of March 2020, leading to a net profit of 365.2 billion baht. The profits and losses do not affect the BOT's ability to carry its missions as a central bank.

1. Financial statements of the Bank of Thailand account in 2019

In 2019, The Bank of Thailand account recorded overall loss of 300.6 billion baht, increases from the previous year. The loss was mainly due to the unrealized loss from revaluating foreign currency assets into the Thai baht as the Thai baht appreciated by 7.62% compared with the USD. Meanwhile, the interest income from international reserve management was higher than the interest expense from the implementation of monetary policy for the second consecutive year. Details are as follows:

1.1 Operations according to the mission to maintain economic stability. In 2019, net interest income was 14.5 billion baht, driven by the interest income from international reserve management that was higher than the interest expense from the implementation of monetary policy for the second consecutive year as the Thai policy interest rate has remained lower than many countries, including the United States.

The difference between interest receivable and interest payable



1.2 Valuation of foreign assets recorded net loss of 188.7 billion baht. This is an unrealized loss from the revaluation of international reserves in terms of the Thai baht due to the Thai baht appreciated against all major currencies during the year of 2019.

1.3 Adjustment of portfolio investment and others recorded net loss of 126.4 billion baht due to the adjustment of asset allocations to be in line with changes in the global economic circumstances, to diversify risks, and to enhance return. The loss was mainly caused by the continued appreciation of the Thai baht. This reflects the costs of foreign currency assets, in terms of the Thai baht bought several years ago, higher than the selling prices in recent years. Nevertheless, **the return from international reserve management expressed in foreign currencies remained positive and higher than the benchmark return.** In addition, in 2019, the BOT changed the accounting method in recording derivatives denominated in foreign currencies to be in compliance with the new accounting standard, resulting in a loss of approximately 70 billion baht.

2. Financial statements of the Currency Reserve account in 2019

In 2019, financial statements of the Currency Reserve account showed net loss of 89.3 billion baht due to the revaluation of foreign currency assets into the Thai baht. Meanwhile, the return from managing international reserves used for backing banknotes in circulation remained positive and higher than the benchmark return. The details are as follows:

2.1 Operations according to the mission to print and issue banknotes generated net interest income of 29.1 billion baht due to the return from international reserve management in the account which was higher than the benchmark rate together with a decline in the cost of printing banknotes.

2.2. Valuation of foreign currency assets resulted in net loss of 126.7 billion baht because of the revaluation of international reserves in terms of the Thai baht as the baht depreciated against all major currencies compared with the end of the previous year.

2.3 Adjustment of portfolio investment and others recorded net profits of 8.3 billion baht mainly due to the purchase and sell of foreign currency assets in the account.

Summary of Financial Statements of the Bank of Thailand Account and the Currency Reserve Account

Unit: billion baht

Items	Bank of Thailand Account	Currency Reserve Account
1. Net profit and loss in 2019	-300.6	-89.3
• Operations according to duties and mission <i>(Maintaining economic stability or printing and issuing banknotes)</i>	+14.5	+29.1
• Valuation	-188.7	-126.7
• Managing international reserves and others	-126.4	+8.3
2. Net accumulated profits and losses	-1,069.4	+644.5

3. The impact of losses on central bank's missions

The losses in 2019 were mainly due to the revaluation of foreign currency assets in terms of the Thai baht. Central banks' international reserve management primarily aims to maintain the values of international reserves to be adequate for cushioning against the volatilities in the global financial markets, maintaining the global purchasing power of the Thai economic system, maintaining adequate liquidity for emergencies as well as serving the mission to issue banknotes. **Therefore, the focus should be given to the values of international reserves in terms of foreign currencies as opposed to the values from asset valuation into the Thai baht.**

Academic studies based on the experience of many central banks indicated that as long as central bank monetary policy remains credible and commands trust from stakeholders, central bank losses do not affect the ability of central banks to pursue missions. This is particularly true when losses are a result from accounting loss due to the revaluation effect determined by exchange rate movement. In the case of the BOT, although financial statements in the previous year recorded losses, trust in the BOT among financial market participants and other stakeholders has remained intact. Furthermore, in the first quarter of 2020, despite the depreciation of the Thai baht of 8.3% compared with the USD which generated net profits of 365 billion baht, the profits do not materially affect the BOT capacity in fulfilling central bank missions.