THE BOT'S MISSIONS AND FINANCIAL STATEMENTS

As a central bank, the Bank of Thailand (BOT)'s missions differ from that of business entities. Therefore, the central bank's financial statements are unique and distinct from other businesses, and so interpreting the BOT's should take into account its missions as a central bank.

MISSIONS OF THE CENTRAL BANK

The BOT's missions cover the following two key aspects:

1 / MAINTAINING ECONOMIC STABILITY

Section 7 of the Bank of Thailand Act B.E. 2485 (1942), amended in B.E. 2561 (2018), stipulates that the central bank has a role to "...maintain monetary stability, financial institution system stability, and payment systems stability", in other words, the overall economic and financial stability.

The BOT's mission is similar to that of other central banks, which is to maintain both internal and external economic stability. "Internal stability" refers to preserving the value of the Thai baht and Thai assets to prevent them from being depreciated by inflation, and also preventing economic bubbles or vulnerabilities in the financial system that could lead to a future financial crisis. "External stability" refers to the monitoring and oversight of the movements in the value of the Thai baht, to ensure that it is in line with economic fundamentals and not excessively volatile, so as to maintain Thailand's purchasing power in the global economy and keep foreign debt levels low, as well as to ensure sufficient levels of international reserves to cushion the impact from volatilities in the global financial and capital markets.

2 / PRINTING AND ISSUING BANKNOTES FOR CIRCULATION IN THE ECONOMY

Section 14 of the Currency Act B.E. 2501 (1958), amended in B.E. 2545 (2002), stipulated that "The BOT has power to print, manage, and issue banknotes..." In ensuring that the Thai baht and Thai banknotes would be widely accepted, Thailand must implement credible monetary and macroeconomic policies, and also hold credible assets to back up the value of the Thai baht. On this, Section 26 of the Currency Act stipulates that "For the purpose of maintaining the stability of the currency, the BOT shall maintain a currency reserve, hereinafter to be called the Currency Reserve". In printing and issuing banknotes in circulation, the BOT has to hold foreign assets of equal value to the newly-issued banknotes, which could be gold, foreign assets, or domestic assets, but are currently all foreign assets.

These two key missions are interconnected and are fundamental factors for robust and stable economic growth.

THE BANK OF THAILAND ACCOUNT AND THE CURRENCY RESERVE ACCOUNT

To deliver on the above two key aspects of the BOT's missions, the law requires the BOT to segregate its transactions into the following two accounts:

THE BANK OF THAILAND ACCOUNT	
Asset	Liabilities
≈ 85% International reserves	BOT bills and bonds Deposits from financial institions and government
≈ 15% Thai government bonds	Equity

THE CURRENCY RESERVE ACCOUNT	
Asset	Liabilities
100 % International reserves	Banknotes in Circulation
	Equity

1 / THE BANK OF THAILAND ACCOUNT

The Bank of Thailand Account is the account associated with the mission to safeguard economic stability. Looking at the simplified Bank of Thailand Account, the asset side consists mostly of international reserves in foreign currencies, which account for approximately 85 percent of total assets, with the remainder consisting mostly of Thai government bonds. Meanwhile, the liabilities largely consist of BOT bills and bonds from monetary policy operations to safeguard economic stability, and deposits from financial institutions and the government. All such liabilities are denominated in Thai baht.

2 / THE CURRENCY RESERVE ACCOUNT

The Currency Reserve Account is the account associated with the mission to print and issue banknotes for circulation in the economy. The asset side consists entirely of international reserves, which are held to back up the issuance of banknotes, as required by law. Meanwhile, the liability side consists of Thai baht banknotes in circulation. In other terms, the banknotes that the public uses for spending in the economy are considered the central bank's liabilities.

DISTINCTIVE CHARACTERISTICS OF THE BOT'S FINANCIAL STATEMENTS

1 / THE ASSETS AND LIABILITIES HAVE A CURRENCY MISMATCH

The central bank's assets are mostly foreign assets or international reserves, whereas the liabilities are mostly denominated in the country's local currency (Thai baht in the BOT's case), resulting in a currency mismatch between the central bank's assets and liabilities. Therefore, in preparing the BOT's financial statements, the foreign assets need to be revalued to Thai baht at every year-end. Such revaluation is done to hypothetically indicate how much Thai baht would be if all the foreign assets were liquidated. As a result, the profit or loss figures as shown in the financial statements are mostly a "valuation gain/loss".

Having a revaluation every year-end means that changes in the foreign exchange rates and asset prices could significantly influence the figures in the financial statements, especially when there is a high proportion of foreign assets. To illustrate, if the BOT has 250 billion US dollars of foreign assets and the Thai baht depreciates by one baht, a valuation gain of 250 billion baht would be immediately recognized. On the contrary, if the Thai baht appreciates by one baht, a valuation loss of 250 billion baht would be immediately recognized.

Although revaluation measures the value of assets in terms of Thai baht, in reality, the BOT's level of international reserves in foreign currencies remains unaffected and available to be used as a cushion against external volatilities. Hence, although the BOT's financial statements may show losses in some periods, it is not a cause for concern because it could be attributable to a valuation loss. When looking at the BOT's past financial statements, profits can be seen in some years, and losses in others, mainly as a result of the revaluation of assets.

2 / INTERNATIONAL RESERVE MANAGEMENT AIMS TO PRESERVE ITS LONG-TERM VALUE IN TERMS OF FOREIGN CURRENCIES

The central bank's mission is to safeguard economic stability, which requires a long-term and forward-looking perspective rather than focusing on temporary economic trends. Likewise, in the management of international reserves, the BOT invests in assets worth owning for the long-term value, along with suitable risk diversification. Consequently, short-term volatilities may be observed. Furthermore, because international reserves comprise foreign deposits and assets, gold, and reserves at the International Monetary Fund (IMF), therefore, their returns are evaluated in terms of foreign currencies, since the central bank must ultimately keep international reserves readily available and adequate. On the other hand, financial statements are prepared within a pre-determined timeframe (usually annually), resulting in misaligned timeframes between that of financial statements and that of measuring returns from international reserve management.

In addition, the management of international reserves usually entails adjusting investment allocations to be in line with the global economic outlook, to diversify risks and improve long-term returns, rather than in pursuit of profit.

3 / THE CENTRAL BANK'S LIABILITIES ARE DISTINCT FROM THAT OF BUSINESS ENTITIES

The BOT's liabilities arise from (1) printing an adequate quantity of banknotes to meet the needs of the economy and (2) safeguarding economic stability and preserving the value of the Thai baht and Thai people's assets from deteriorating. Hence, the BOT's liabilities are not intended to benefit any specific group, company, or even the BOT itself, but rather are liabilities arising from operations for the benefit of the Thai public at large. This is what distinguishes the BOT's liabilities from businesses' liabilities, which arise for the purpose of spending or investing for the businesses' own private benefit.

The BOT, as the central bank, has liabilities that are for the benefit of the country as a whole. The first element of such liabilities is banknotes in circulation, which serve as a medium of exchange that is widely accepted as legal tender, paving the way for other economic activities and trade or exchange of goods and services.

The second element is liabilities resulting from the operations on the mission to safeguard economic and financial stability. When there is surplus liquidity in the financial system, the central bank issues central bank bills or bonds to absorb the excess liquidity (increasing liabilities). Conversely, when there is a liquidity shortage in the financial system, the central bank redeems those bills and bonds to inject liquidity into the system (decreasing liabilities).

The third element is financial institutions' deposits at the central bank, as the central bank serves as an intermediary of the financial institution system for interbank payments as well as for the financial institutions' own liquidity management.

The final element is government deposits, or treasury reserves, which arose from the government's cash flow management across different time periods.

4 / PURSUING PROFITS IS NOT THE CENTRAL BANK'S MISSION

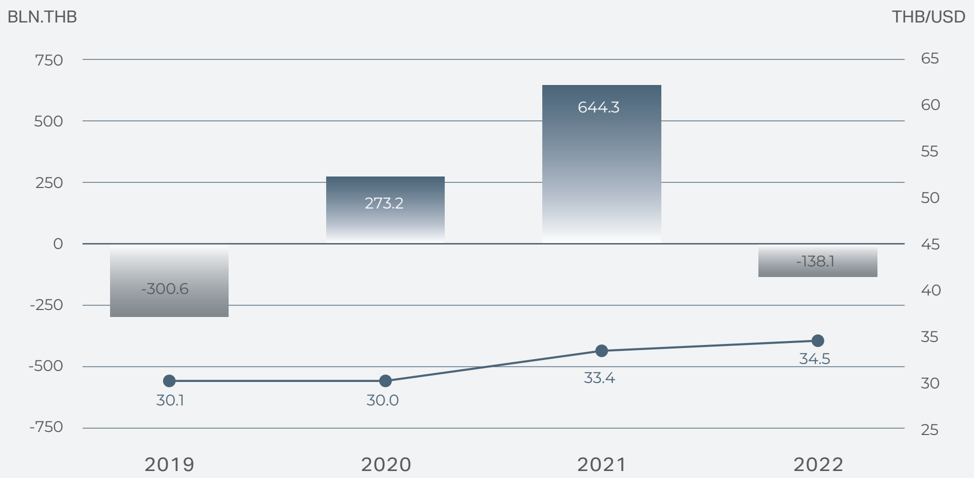
The BOT is a non-profit organization whose mission is to safeguard economic and financial stability. Therefore, any profit or loss in the financial statements is not indicative of its performance in delivering on its mission as a central bank. Moreover, since the BOT implements policies for the benefit of the general public, the BOT is well aware that it must exercise caution and consider the cost-effectiveness of its operations.

Losses in a central bank's financial statements are not uncommon. Such losses, however, do not impair their ability to deliver on their central bank missions, so long as the central bank continues to implement policies that are justified and appropriate in maintaining the country's economic stability, and earn the confidence of all sectors, including the general public, businesses, as well as domestic and foreign investors. In the past, many central banks, such as Switzerland, Singapore, Australia, Israel, and Chile, have experienced financial losses. In the BOT's case, although past financial statement figures have shown losses in some years, the financial market and investors have remained confident in the BOT's operations.

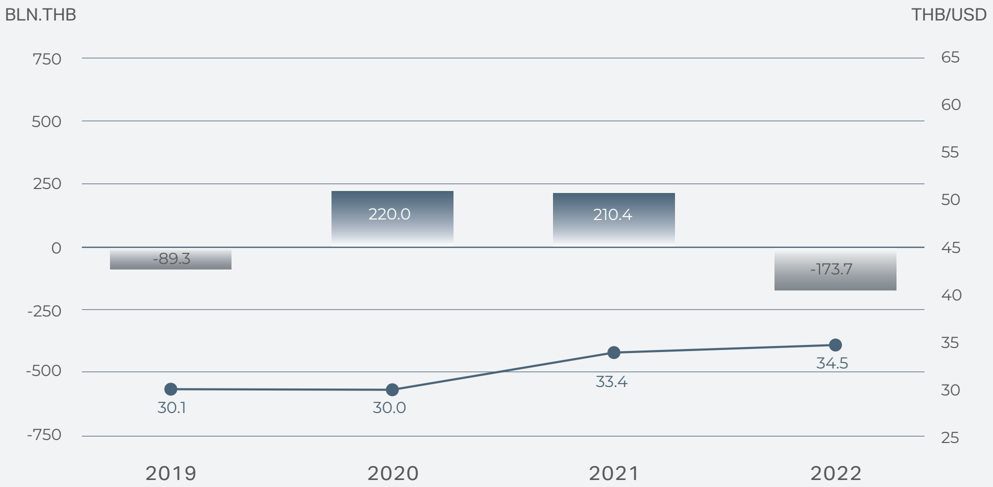
Furthermore, the correlation between a country's economic conditions and the central bank's financial statements is often an inverse relationship. To illustrate, in years when the global financial markets rebound, emerging markets such as Thailand would face increased capital inflows. This, together with the Thai economy's robust and stable growth, would cause the Thai baht to appreciate, which, in turn, would lead to losses in the BOT's financial statements. Moreover, during years in which Thailand's economy had performed well, domestic interest rates on bills and bonds that were issued to safeguard economic stability are high. As a result, the BOT's interest expenses from issuing debt securities to maintain economic stability will be likely to surpass interest incomes from investment. Conversely, when economic growth is stalled due to headwinds such as the COVID-19 pandemic, or crises induced by other domestic factors such as political uncertainty, disasters, etc., the Thai baht would depreciate, leading to profits in the BOT's financial statements. Such profits, however, would not signify a healthy economy, nor would they benefit the people.

THE BOT'S ANNUAL FINANCIAL PERFORMANCE

BANK OF THAILAND ACCOUNT



CURRENCY RESERVE ACCOUNT



In 2022, the Bank of Thailand Account and the Currency Reserve Account recorded net losses after valuation. Although there were gains from international reserve management, resulting from adjustments in investment allocations and efficient risk diversification to correspond with the global economic outlook. However, after incorporating the effects of changes in foreign exchange rates and asset prices, both accounts resulted in losses. This was due to the fact that the Thai baht had appreciated at year-end relative to all other major currencies except for the US dollar. Furthermore, the yield on foreign governments' bonds had continually increased in line with monetary policies tightening, leading to a decline in bond prices.