



BOX 9

Q&A

BOT's financial statements and international reserves



Why do the BOT's financial statements show profits in some years, and losses in some other years?



The BOT's annual profit or loss is mainly determined by changes in the valuation of foreign assets, due to a unique characteristic of the BOT's financial statements, in which its assets are mostly international reserves in foreign currencies (approximately 85 percent). At every year-end, these foreign assets must be revalued to Thai baht, resulting in a valuation gain or loss.

Hence, profits or losses in the financial statements do not impair the BOT's ability to deliver on its missions as a central bank, so long as it can continue to implement policies that are justified and appropriate in maintaining the country's economic stability and also, importantly, earns the confidence of all stakeholders involved.



If the BOT records a financial loss, would it impair its international reserve position?



The BOT's profits or losses each year are mostly a result of valuation gains or losses from revaluing assets in foreign currencies or "international reserves" into Thai baht. For example, 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 will be recorded. On the contrary, if the Thai baht appreciates by one baht, a valuation loss of 250 billion baht will also be recorded. In either case, the BOT's international reserves position remains unchanged at 250 billion US dollars.



The differences between the BOT's liabilities and the public debt



The liabilities of the BOT arise from its mission as a central bank. These consist of (1) printing an adequate quantity of banknotes to meet the needs of the economy, (2) issuing bonds to ensure an appropriate level of liquidity in the financial system, (3) deposits from financial institutions held at the BOT, and (4) government deposits held at the BOT.

Regarding public debt, the Public Debt Management Act, B.E. 2548 (2005) and its amendments define it as the debt incurred by the Ministry of Finance, a state agency or a state enterprise through borrowing as well as debt guaranteed by the Ministry of Finance. The public debt excludes the debt of state enterprises engaged in money lending business, asset management business or credit insurance business that is not guaranteed by the Ministry of Finance as well as the debt of the BOT.

Therefore, the BOT's liabilities are not counted as public debt.



How does Thailand's reserve management manage risks?



The BOT manages international reserve by taking into consideration three principles, namely (1) security, preserving the value of the international reserve, (2) liquidity, ensuring availability of liquid assets, (3) risk-adjusted return, achieving maximum returns under an acceptable level of risk. Therefore, the BOT's investments focus on (1) diversification - allocating international reserves to countries with strong economic and financial fundamentals in medium to long term to diversify risks and avoid concentration in specific group of countries, (2) future megatrends - considering major global trends and assessing relevant risks, and (3) appropriate investment tools - using variety of tools including financial derivatives to manage short- to medium-term volatilities in financial markets.

In addition, in terms of governance, the BOT emphasizes on check-and-balance mechanism between those who oversee risks and those who make investment decisions. There is also regular monitoring and evaluation of reserve management performance and risks to ensure that all investments are complied with risk guidelines and limits, covering (1) market risk, arising from changes in market prices that affect asset values, (2) credit risk, the possibility of loss due to a risk of default on a debt (3) liquidity risk, resulting from the inability to buy or sell financial assets at reasonable prices to acquire liquidity and (4) operational risk, caused by flawed or failed processes, systems or events that disrupt reserve operations.

For further information on the roles and responsibilities of the BOT, please refer to the article on the BOT's missions and financial statements (page 160).