



ธนาคารแห่งประเทศไทย
BANK OF THAILAND

External Sector: Analysis and Policy Response

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External sector: Analysis and Policy Response

- Balance of Payment Analysis
- Development of Balance of Payments and Economic Performance
- BOT's Experience on Monitoring and Managing Capital Flows



External Sector Statistic

- I. **Balance of Payments (BOP)** is a statistical statement that summarizes transaction between residents (R) and non-resident (NR) for a specific time period. *[BPM6 Para. 2.12]*
- II. **International Investment Position (IIP)** is a statistical statement that show at a point in time the value of: financial assets of residents that are claims on non-residents and liabilities of residents to non-residents. *[BPM6 Para. 2.8]*
- III. **External Debt** is the outstanding amount of those actual current and not contingent, liabilities that require payments of principal and/or interest by the debtor at some point in the future and that are owed to non-residents by residents of an economy. *[EDS Guide Para. 2.8]*



Balance of Payments

- **Balance of payments (BOP)** is a statistical statement that summarizes transaction between residents (R) and non-resident (NR) during a period.
- **Residents** are an institutional unit in an economic territory when there exists, within the economic territory, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging, in economic activities and transactions on a significant scale for one year or more in a territory or intending to do so is sufficient to qualify as having a principal dwelling there.
- **Economic transactions** include all transactions which have change of economic Ownership
- **BOP** consists of (1) current account, (2) capital account and (3) financial account the goods and services





Current Account

“flows of goods, services, primary income, and secondary income between residents and nonresidents”



Trade balance



Net services, Primary Income and Secondary Income

Goods

- Export
- Import



Services

- Tourism
- Transportation
- Royalty
- Technical Services etc.



Primary Income

- Compensation
- Investment income
 - profit
 - interest
 - dividend



Secondary Income

- Transfer
- Others





Capital and Financial Account

=

Capital Account

- credit and debit entries for nonproduced nonfinancial assets (both tangible and intangible assets) and capital transfers between residents and nonresidents

+

Financial Account

- net acquisition and disposal of financial assets and liabilities between residents and nonresidents

1. Direct Investment
2. Portfolio Investment
3. Financial Derivatives and Employee Stock Options
4. Other Investment
 - Loans
 - Currency and deposits
 - Trade credit



The Relationship between International Reserves and Balance of Payments

$$\Delta \text{ Reserve} = \text{BOP} + \text{Valuation Change} + \text{Mark-to-Market} + \text{Others}$$

Purpose of International Reserve

International reserves readily available to and controlled by monetary authorities

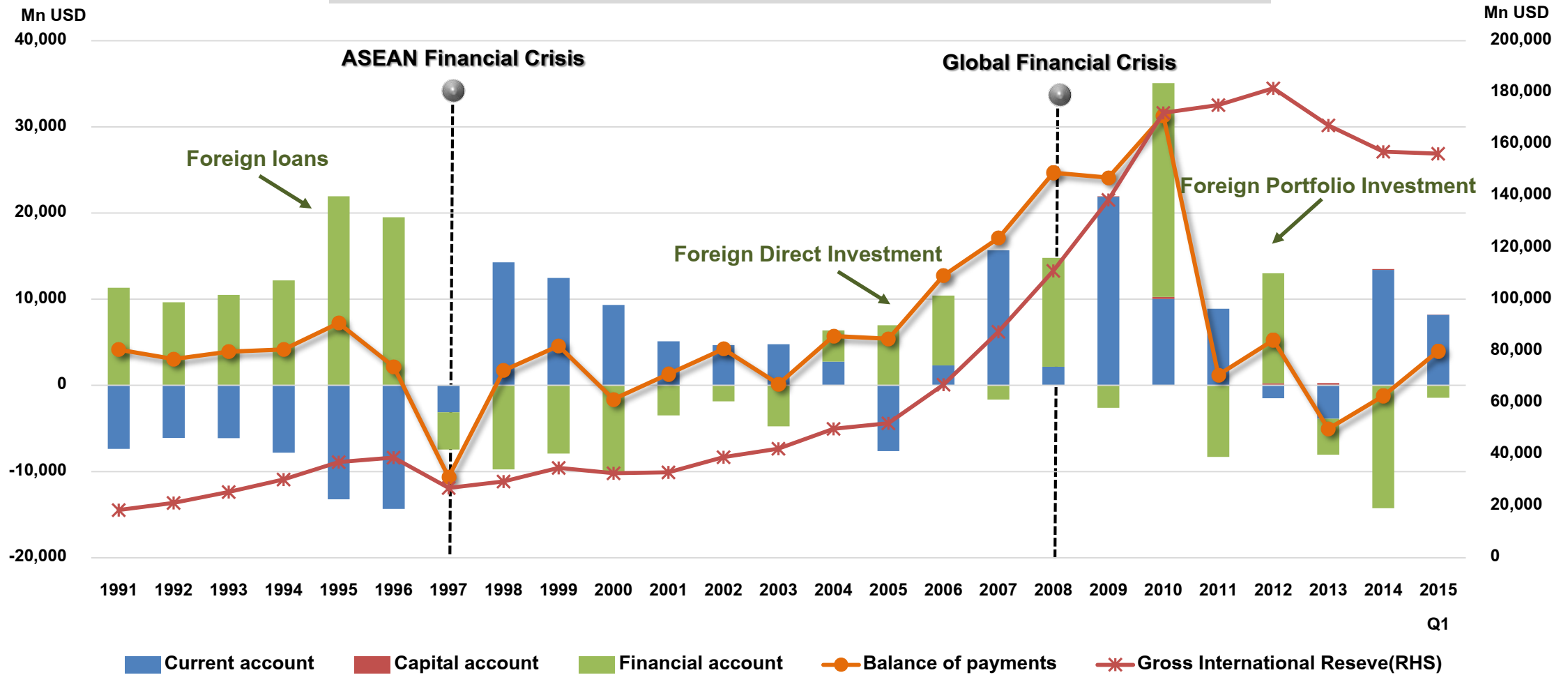
- I. for meeting balance of payments financing needs,
- II. for intervention in exchange markets to affect the currency exchange rate,
- III. for maintaining confidence in the currency and the economy,
- IV. for underlying banknotes printing and issuances.

Source of International Reserve Surge

- I. Balance of payments surplus will increase international reserve only when central bank enter to buy foreign currencies in financial market (Under managed floating FX regime)
- II. Valuation change and mark-to-market returns from foreign reserve management.

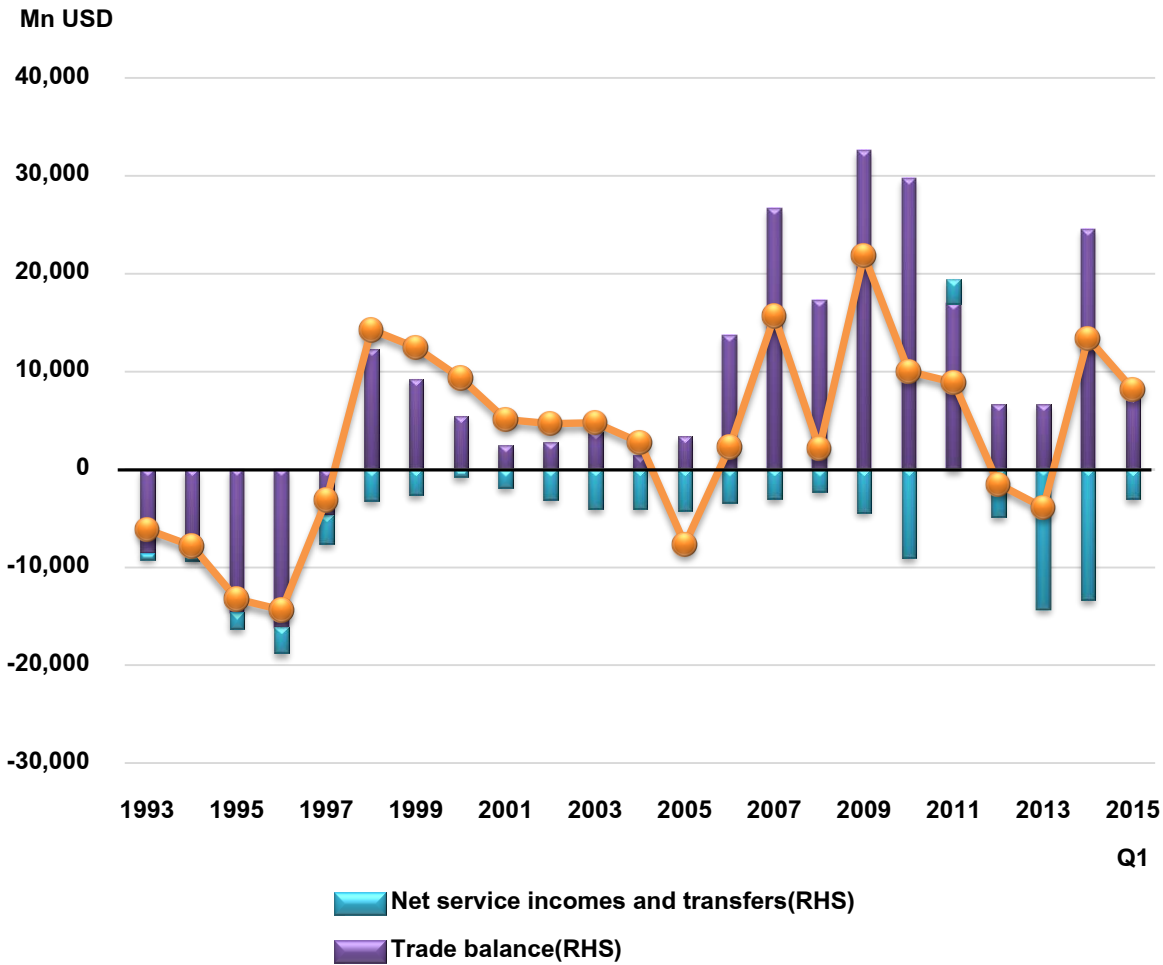


Thailand's Balance of Payments and Gross International Reserve

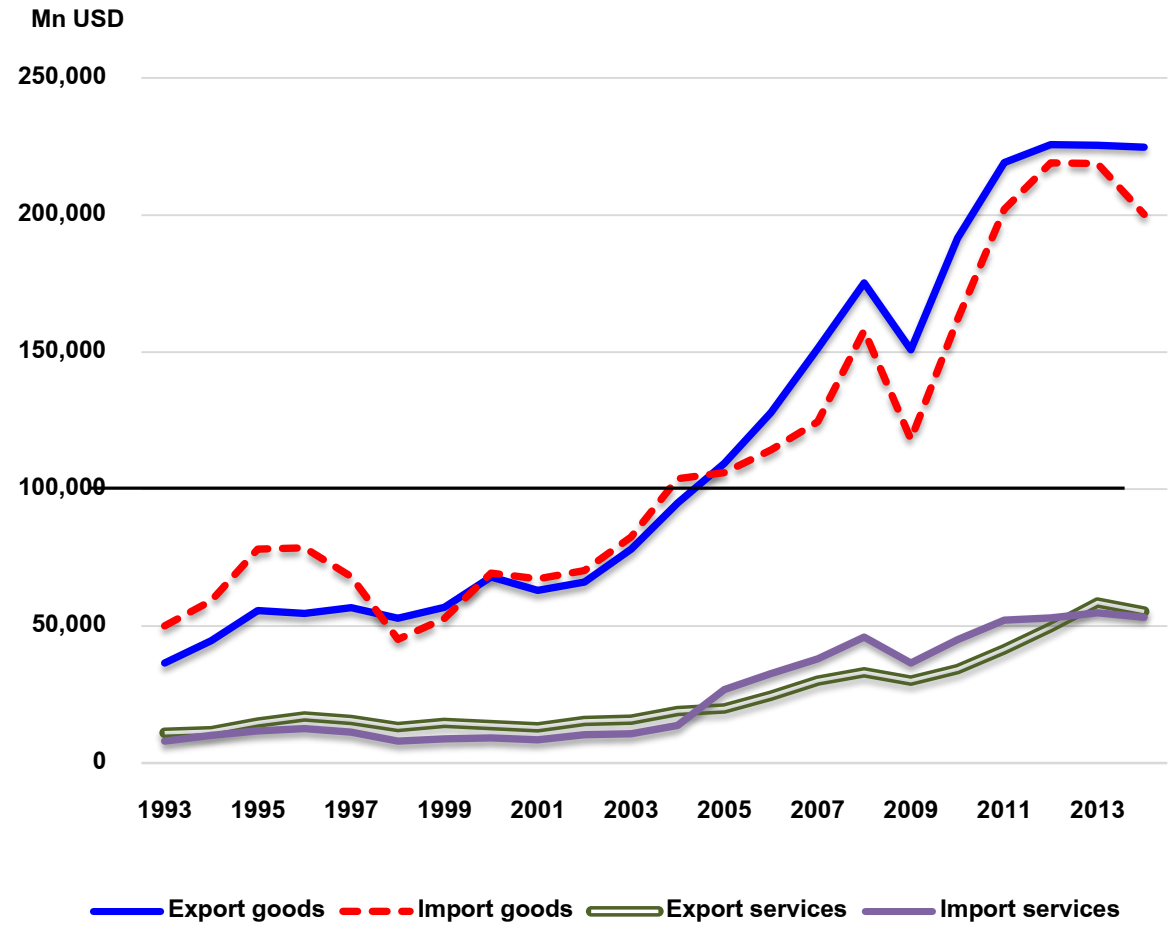




Thailand's Current Account Dynamic

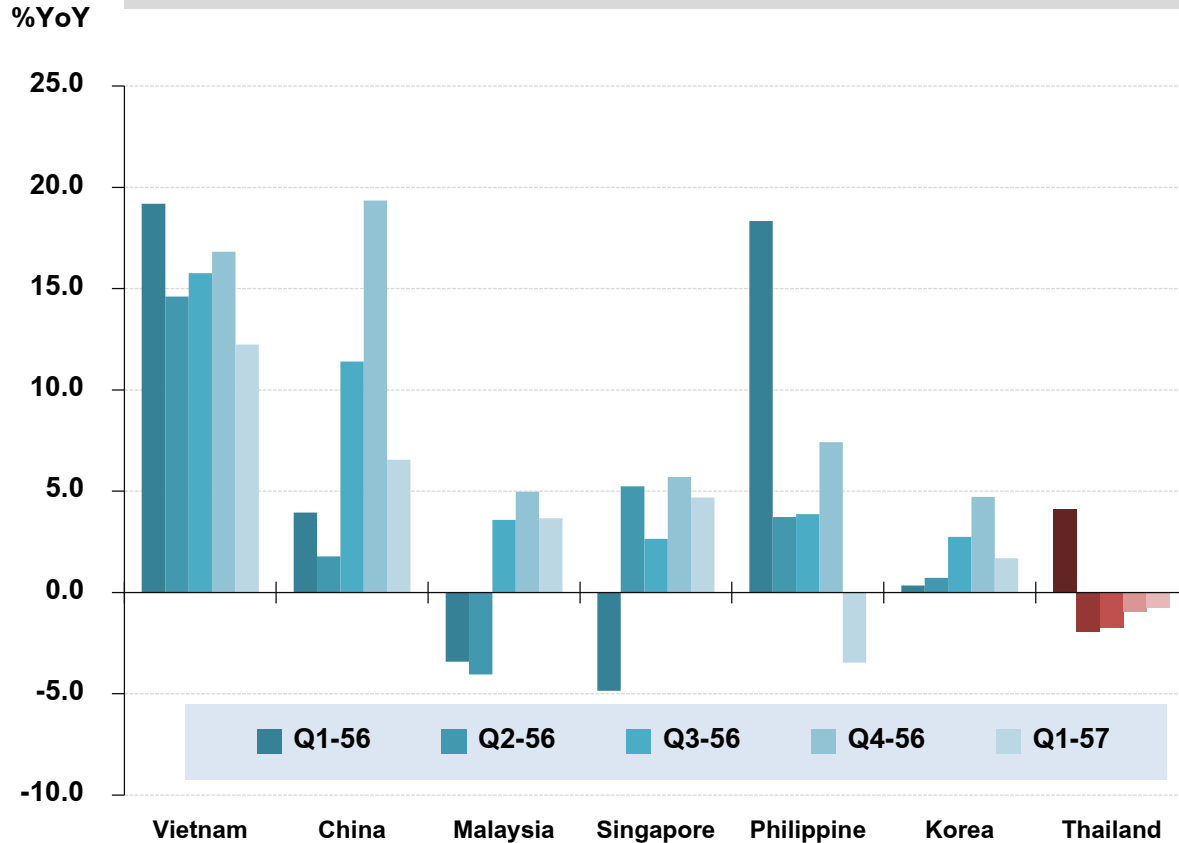


International Trade of Goods and Services



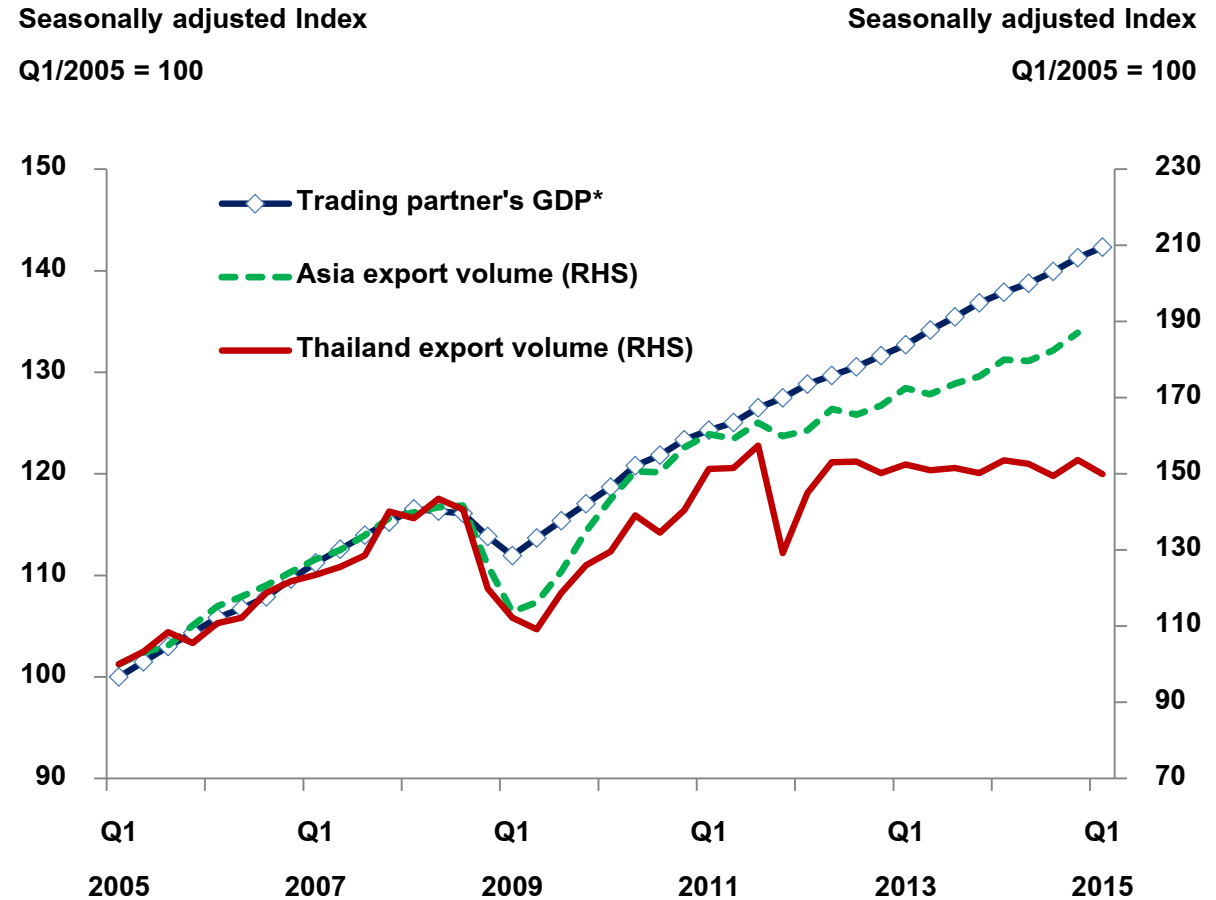


Asian Export Growth



Source: CIEC and calculated by Bank of Thailand

Trading partner GDP, Thailand and Asia export volume



*Weight by trade share

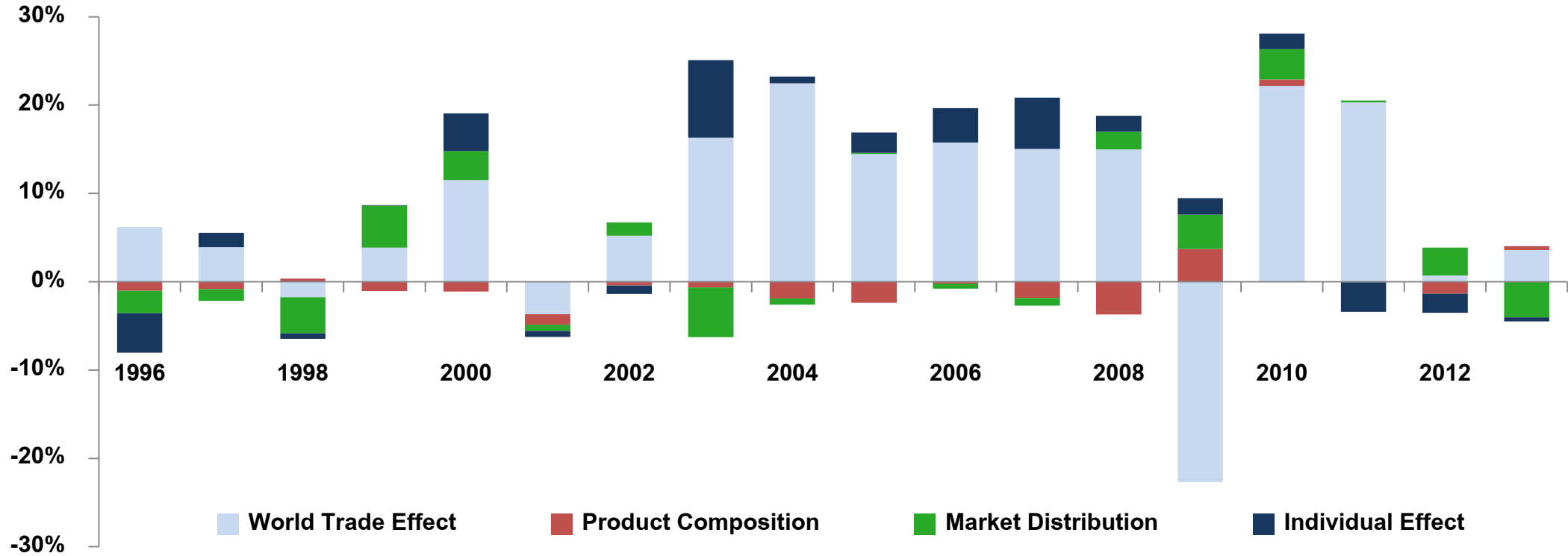
Source : WTO and Bank of Thailand



Constant Market Share Model*

% YoY

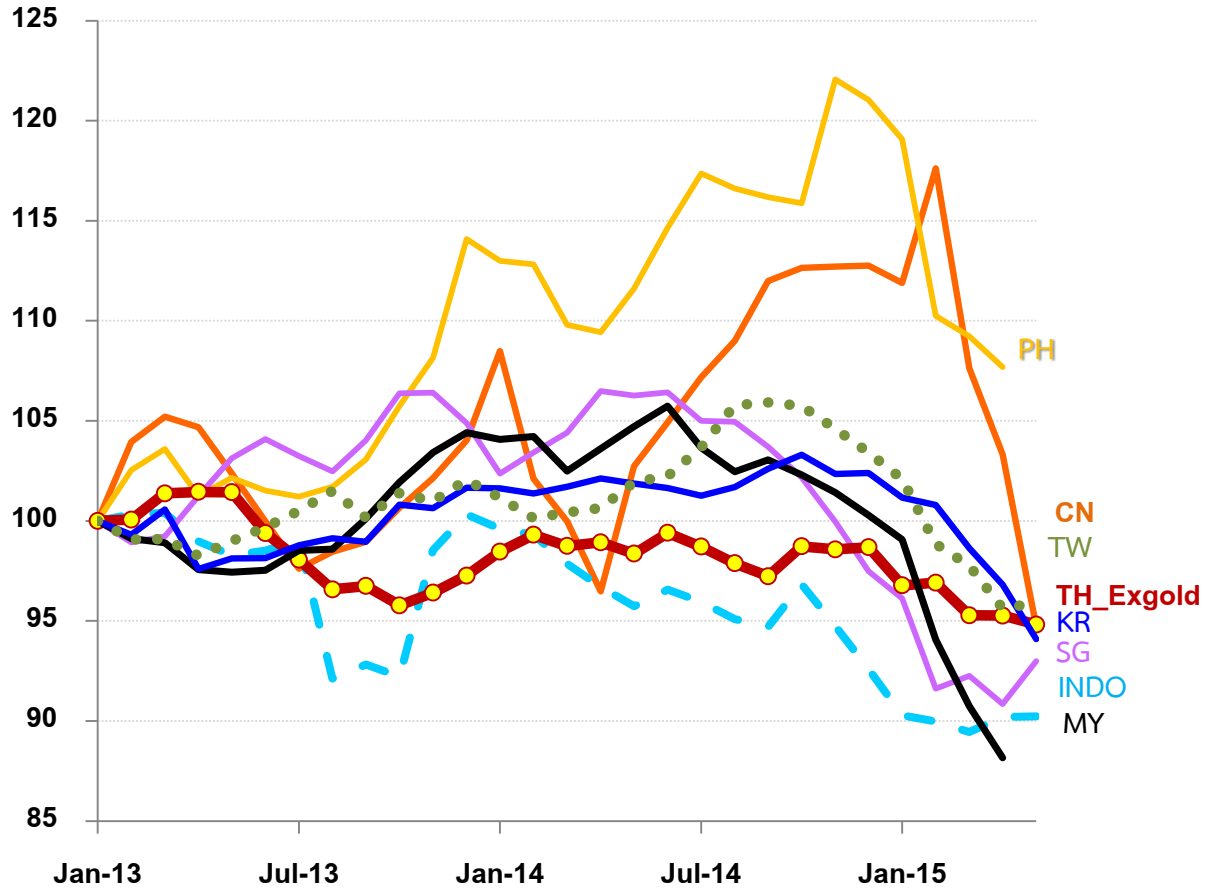
Decomposition of Thailand's export value growth





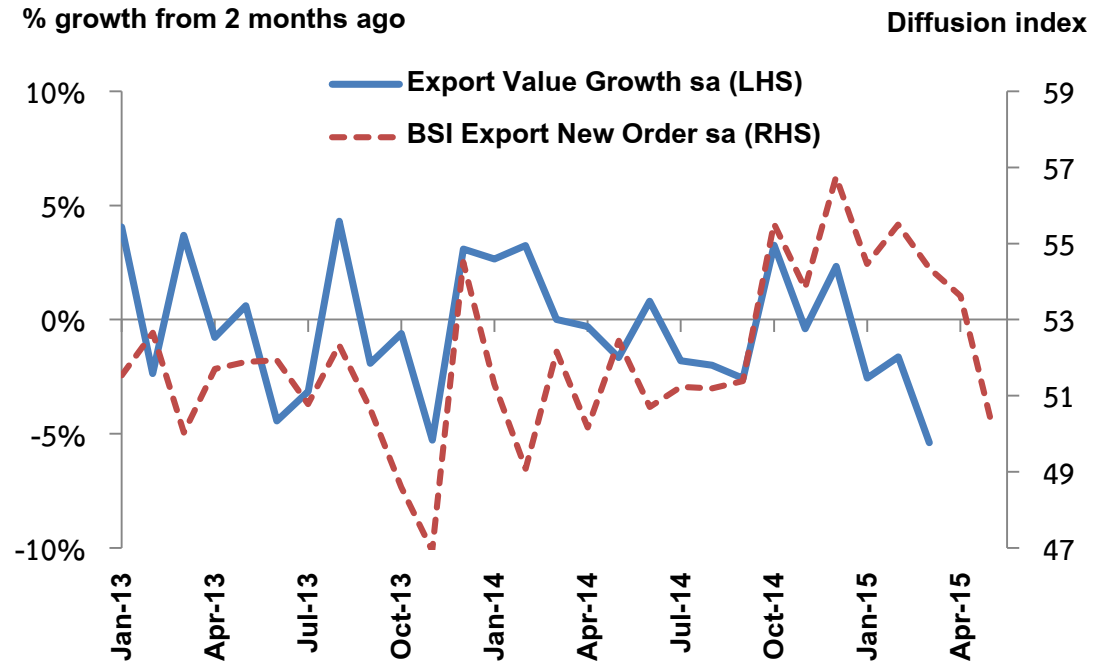
Asian Export Performance

Jan-13 = 100,3mma sa



Export Leading Indicators

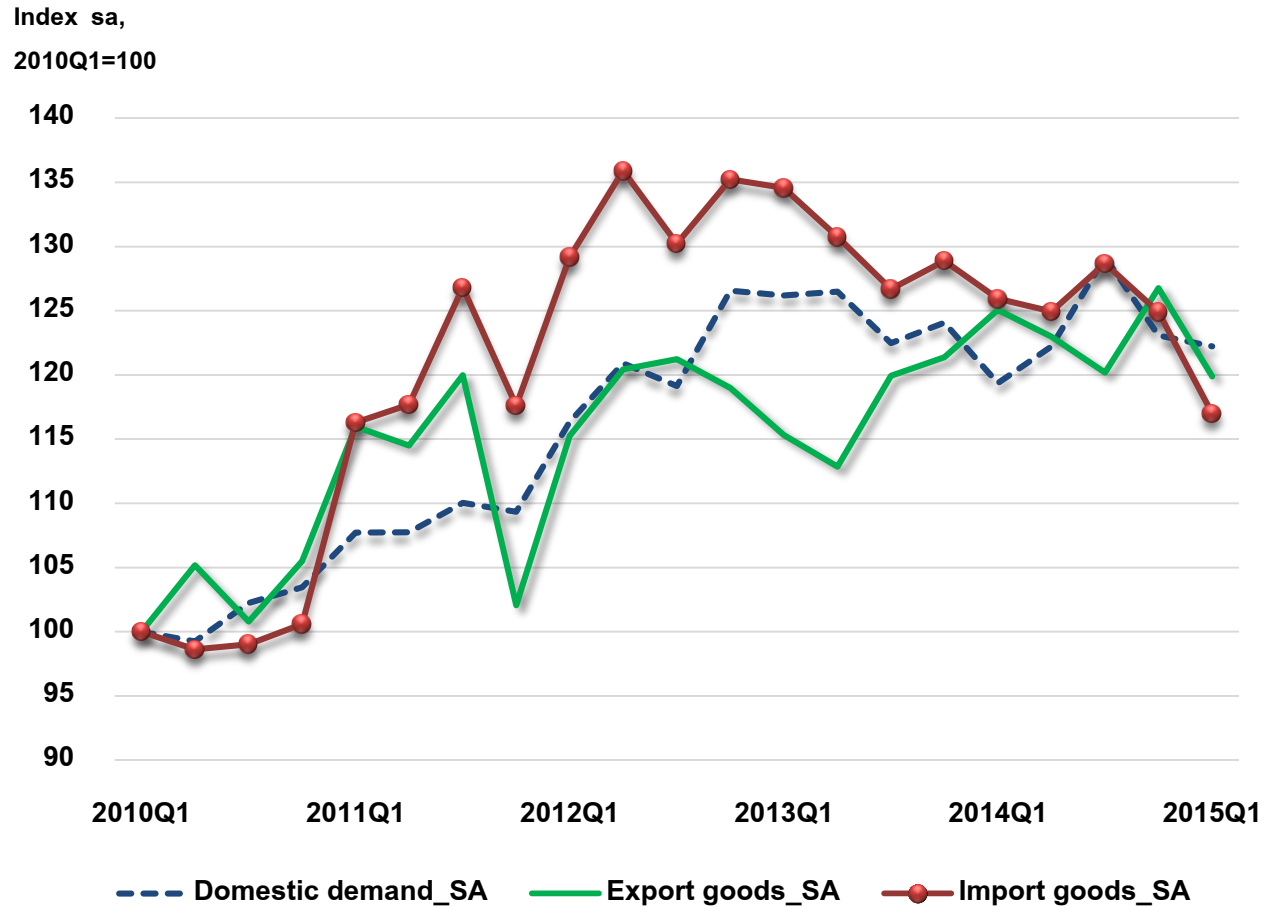
BSI New Export Order



GOOD signal (2000-2010)	GOOD signal (2011-2014)	Cross correlation	Lead time (Months)
0.77	0.62	0.39	3 (all sample) 2 (2011-2014)

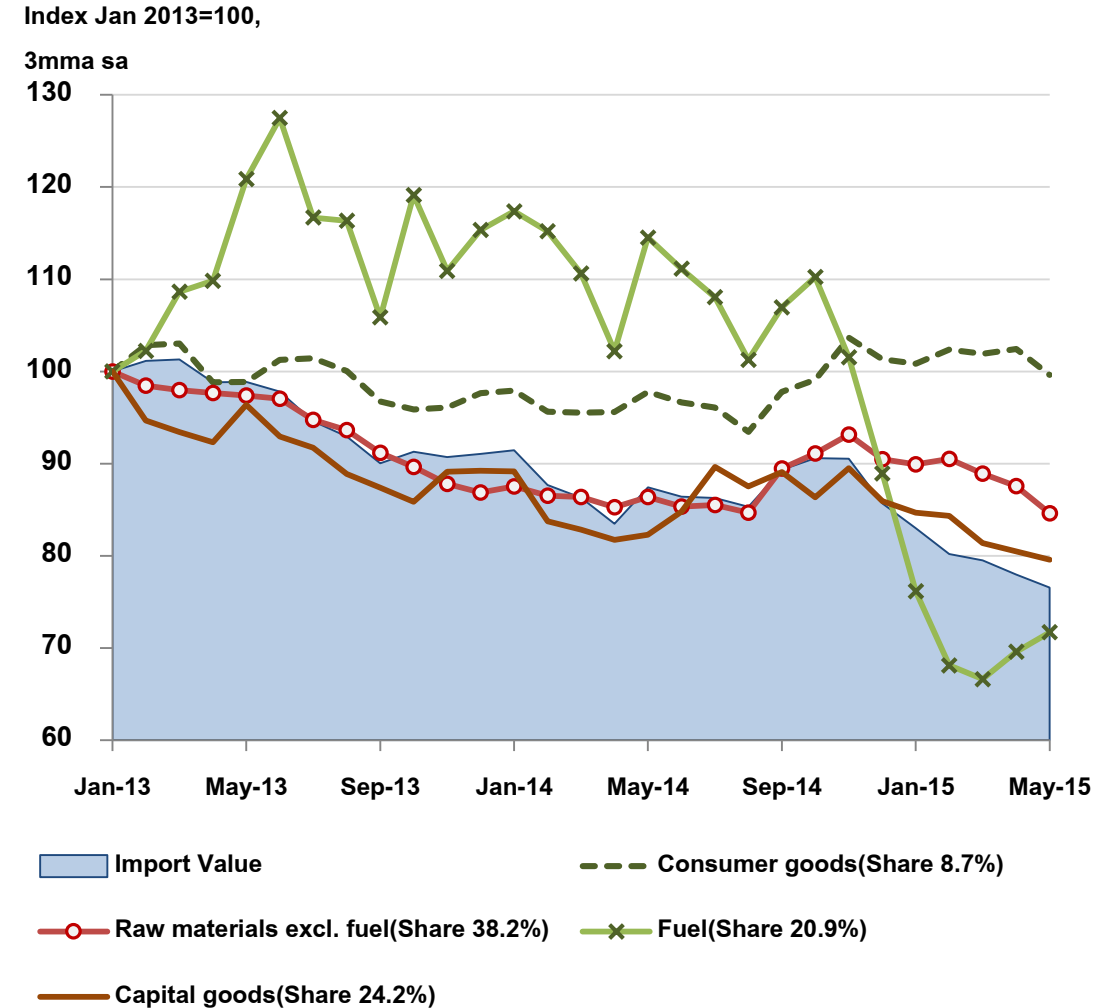


Domestic Demand, Export Goods and Import Goods



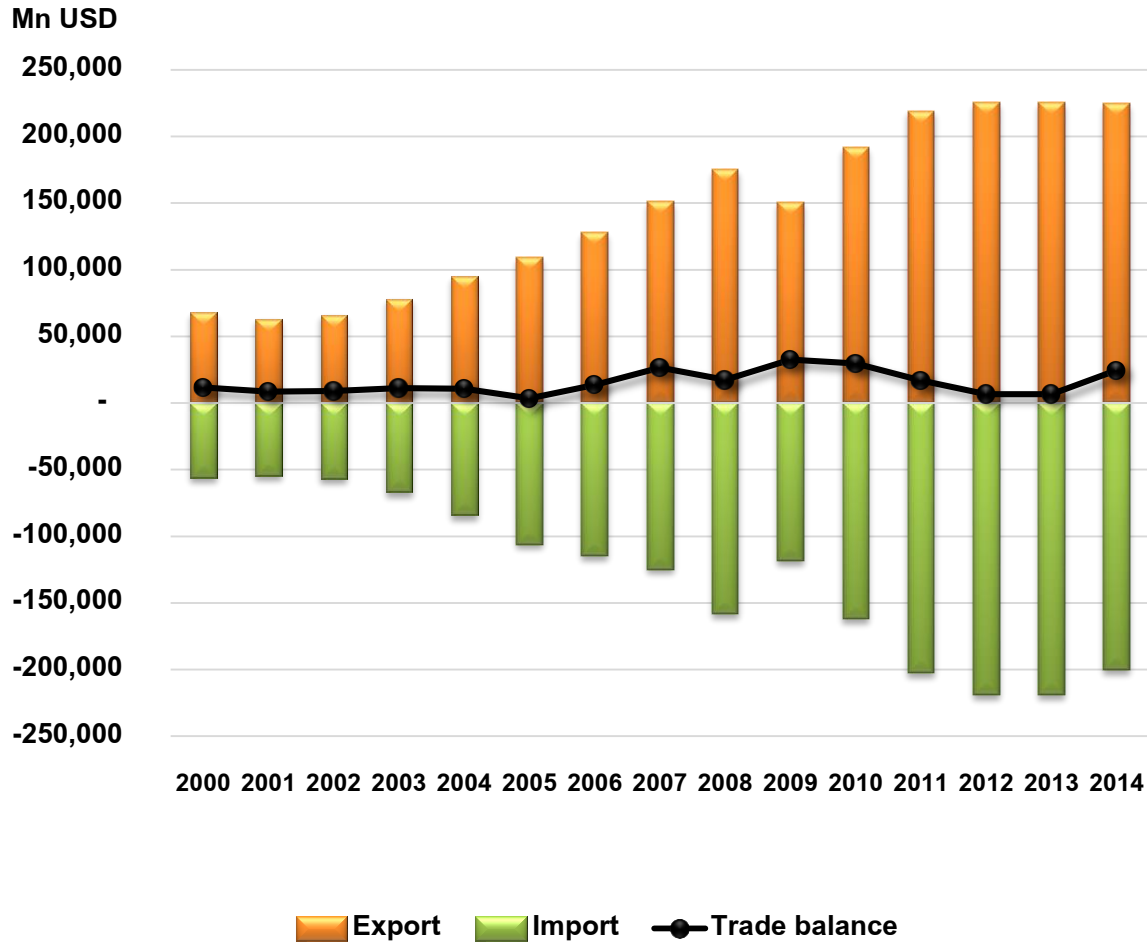
1.1 Trade Balance: Import

Import Value Index

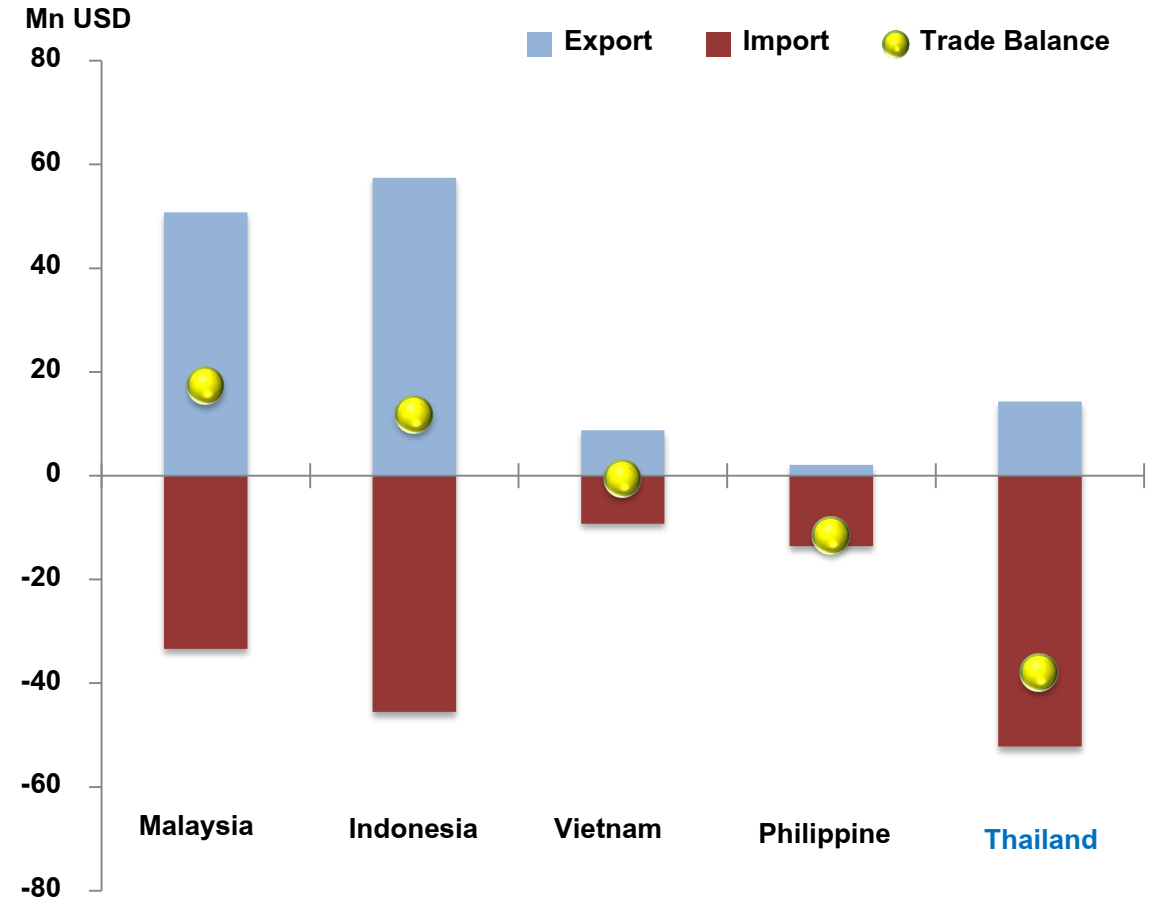




Thailand's Trade Balance

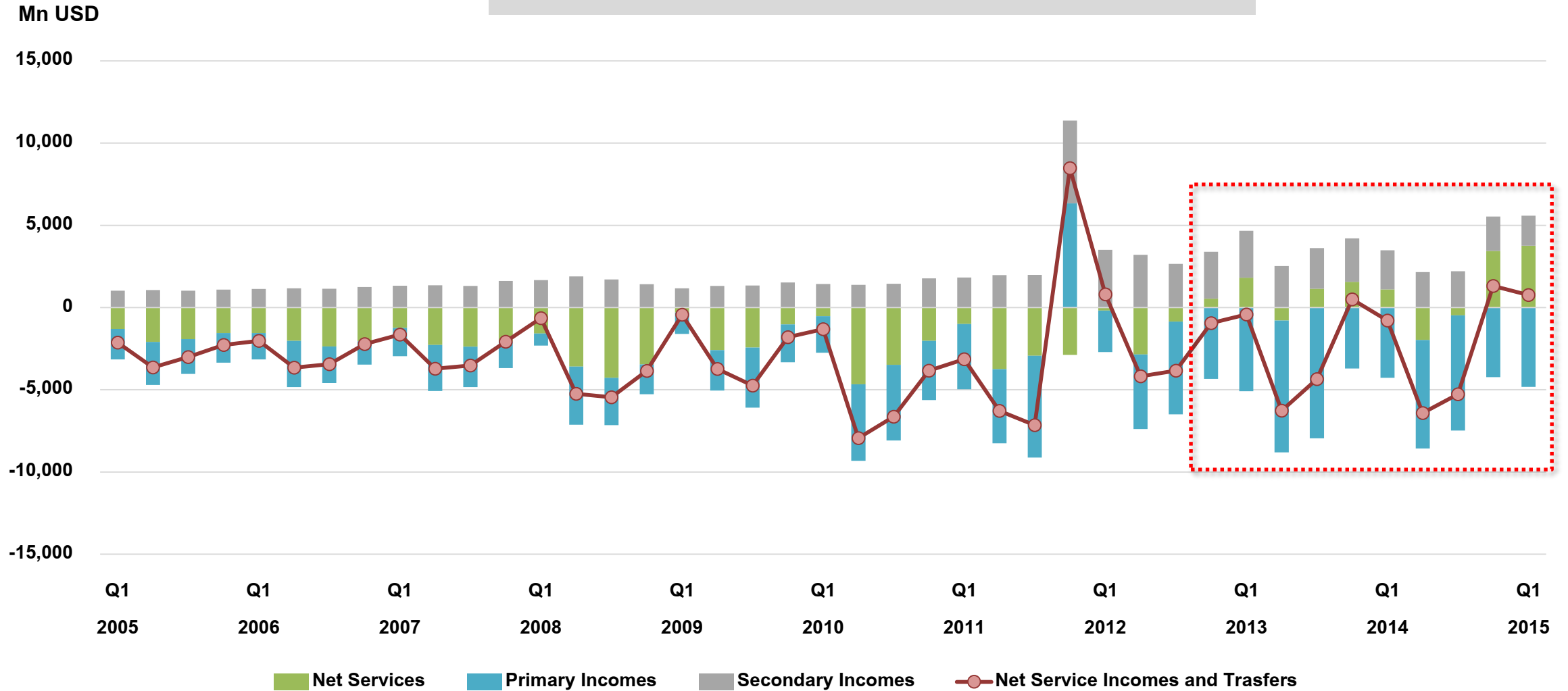


Fuel Trade Balance (Year 2013)



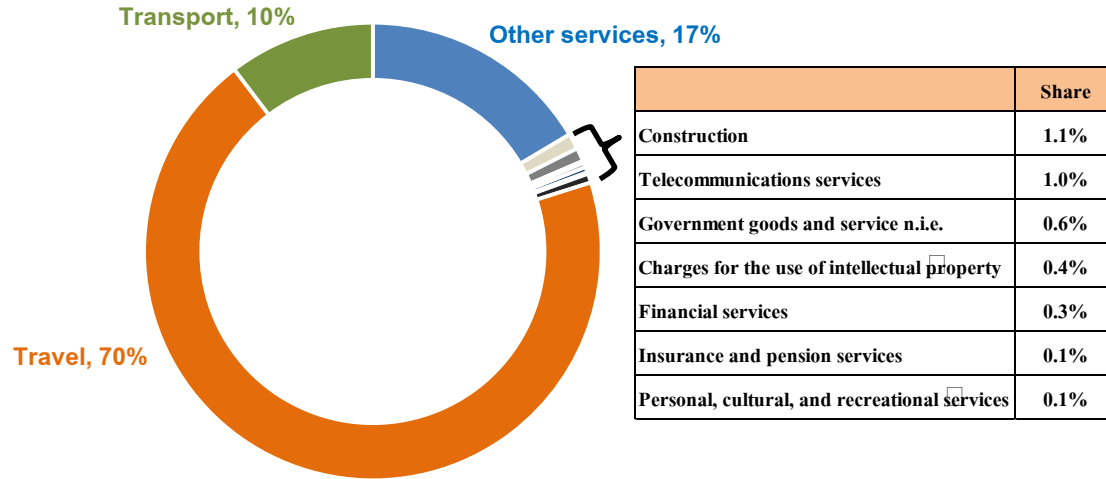


Development of Net Service Income and Transfers

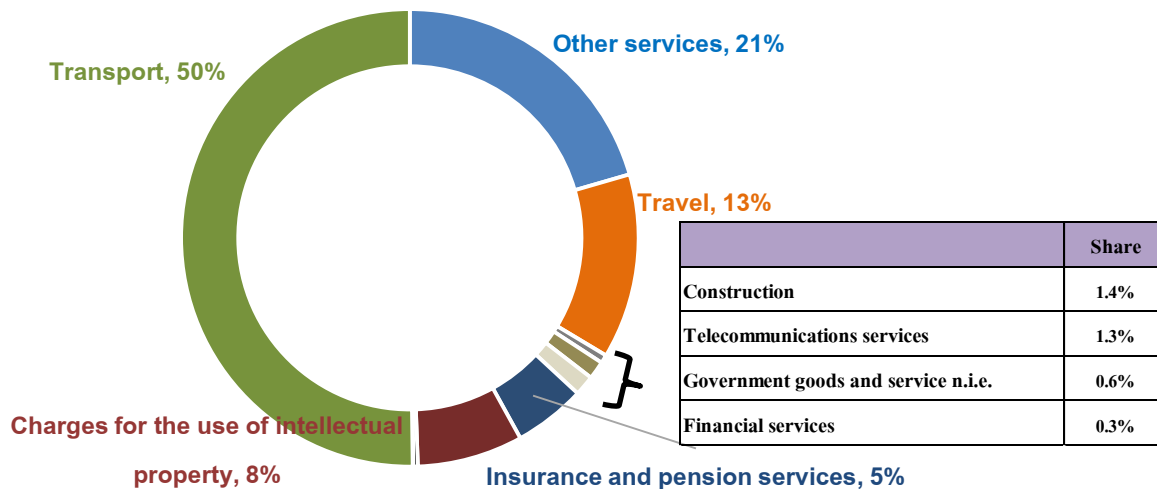




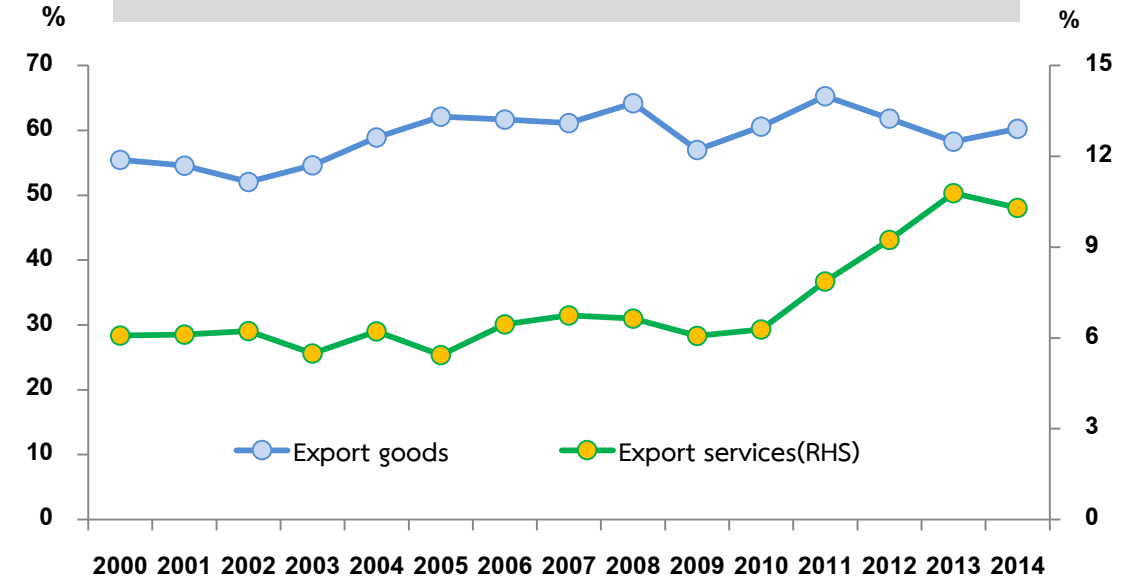
Share of Service Receipts



Share of Service Payments



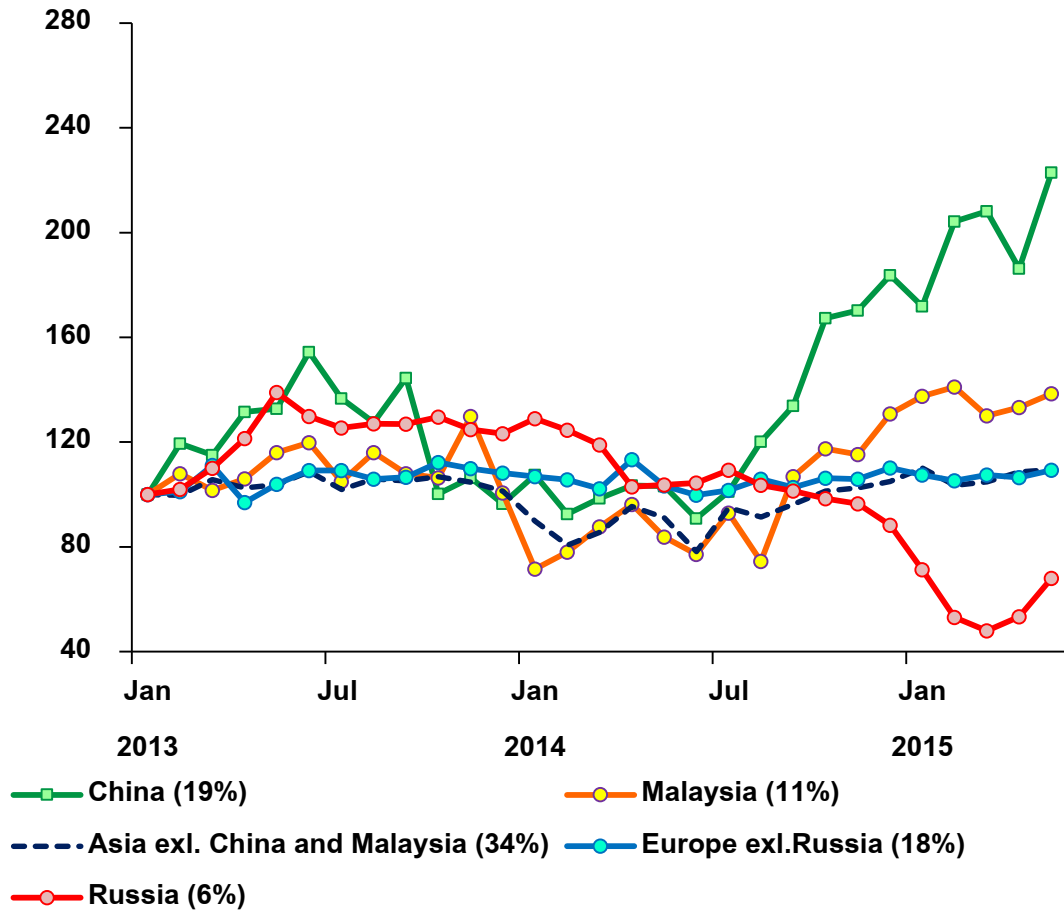
Share of export goods and services to GDP





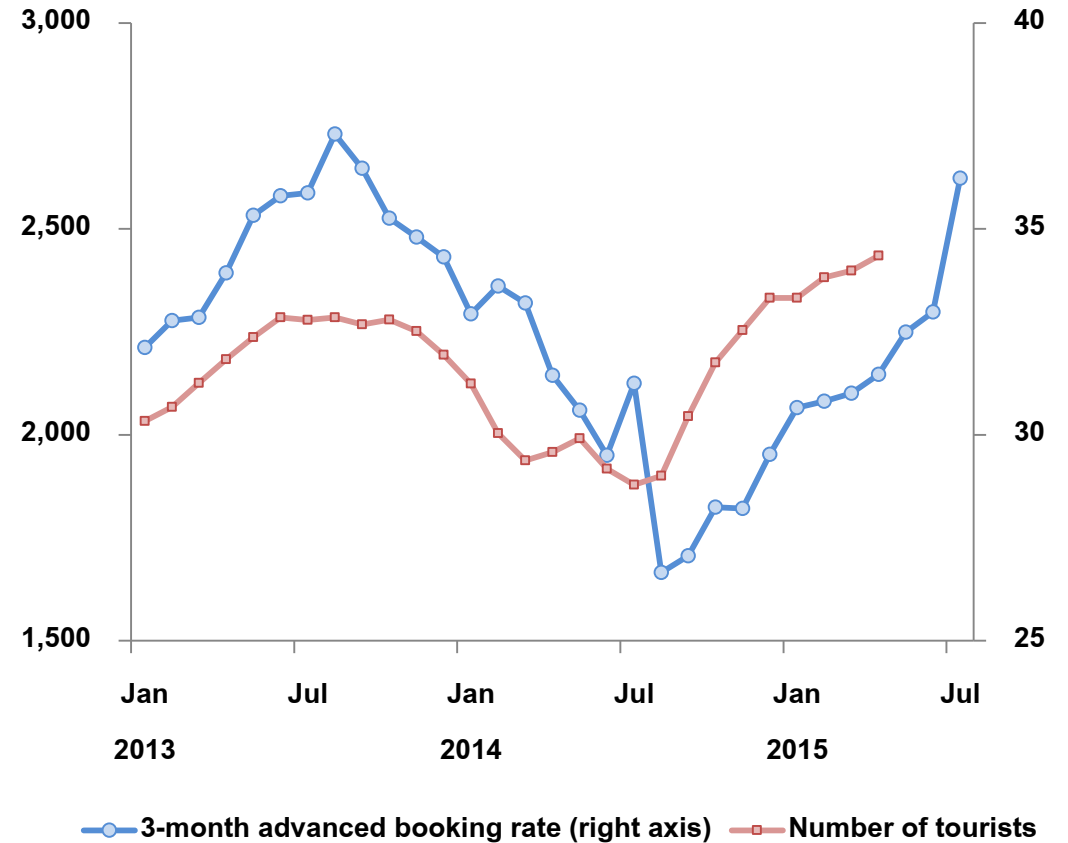
Index of tourist numbers by origin

Index sa (Jan 2013 = 100)



Number of tourists and advanced bookings

thousand (sa, 3mma)





Detailed forecasts in Monetary Policy Report June 2015

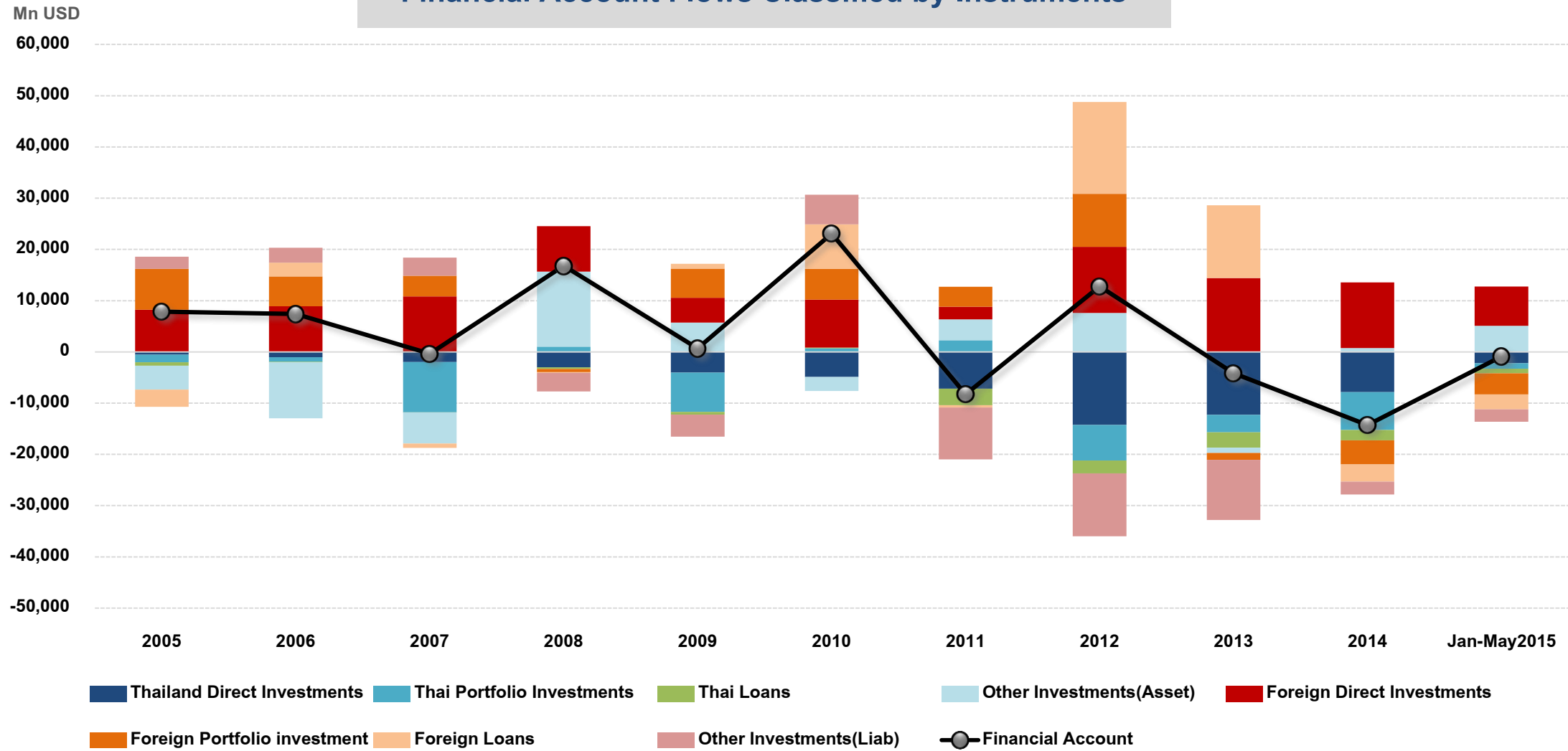
(%YoY)	2014*	2015 ^E	2016 ^E
GDP Growth	0.9	3.0	4.1
- Private Consumption	0.6	2.0	3.1
- Private Investment	-2.0	2.7	6.3
- Government Consumption	1.7	3.3	3.5
- Public Investment	-4.9	16.3	6.0
- Exports of Goods and Services	0.0	2.2	3.6
- Imports of Goods and Services	-5.4	2.7	4.3
Current Account Balance (Billion USD)**	14.2	19.5	8.3
- Value of merchandise exports**	-0.3	-1.5	2.5
- Value of merchandise imports**	-8.5	-2.4	7.6

Note: E = projected

* Outturn ** BPM6 definition and Ministry of Commerce's new database



Financial Account Flows Classified by Instruments



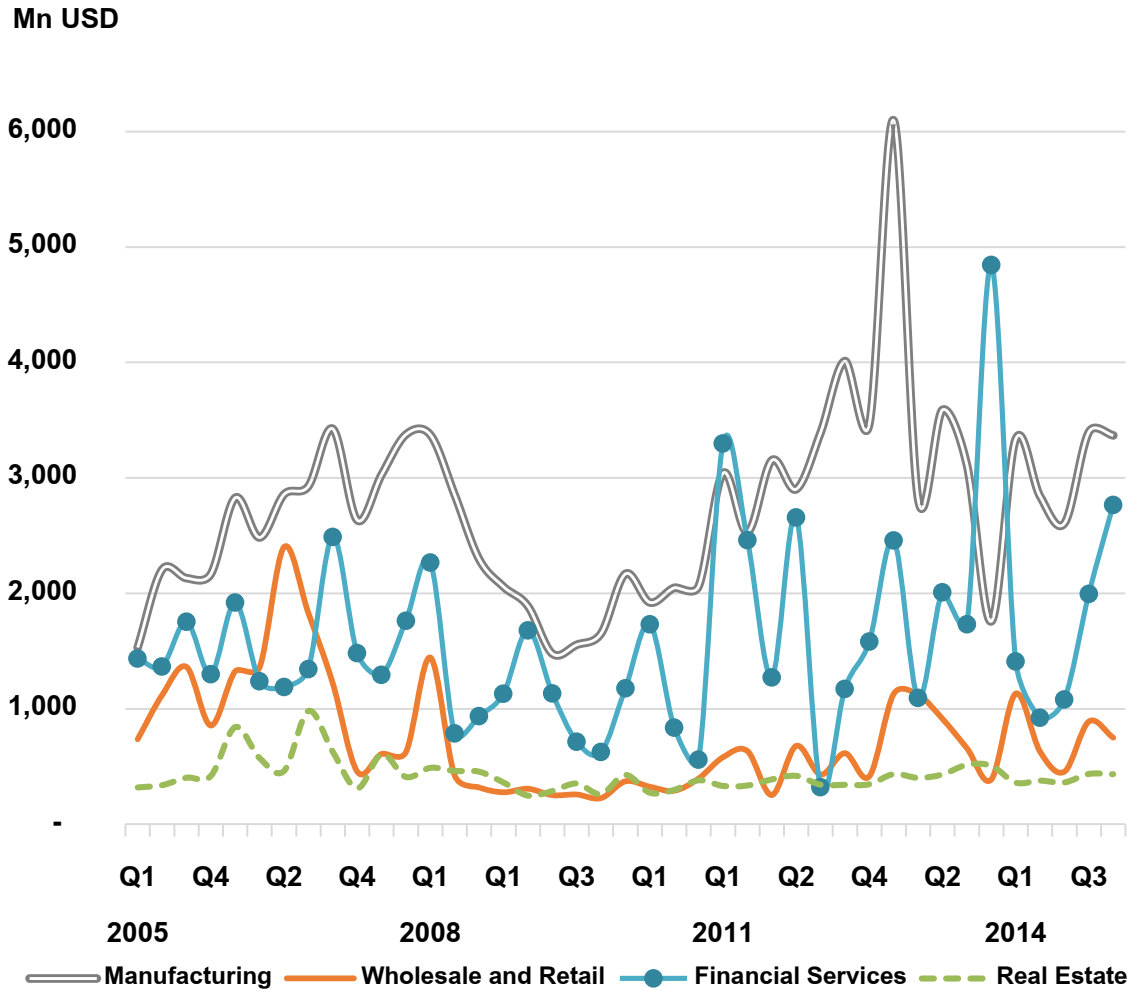
Note: P = Preliminary E=Expected

Source: Bank of Thailand

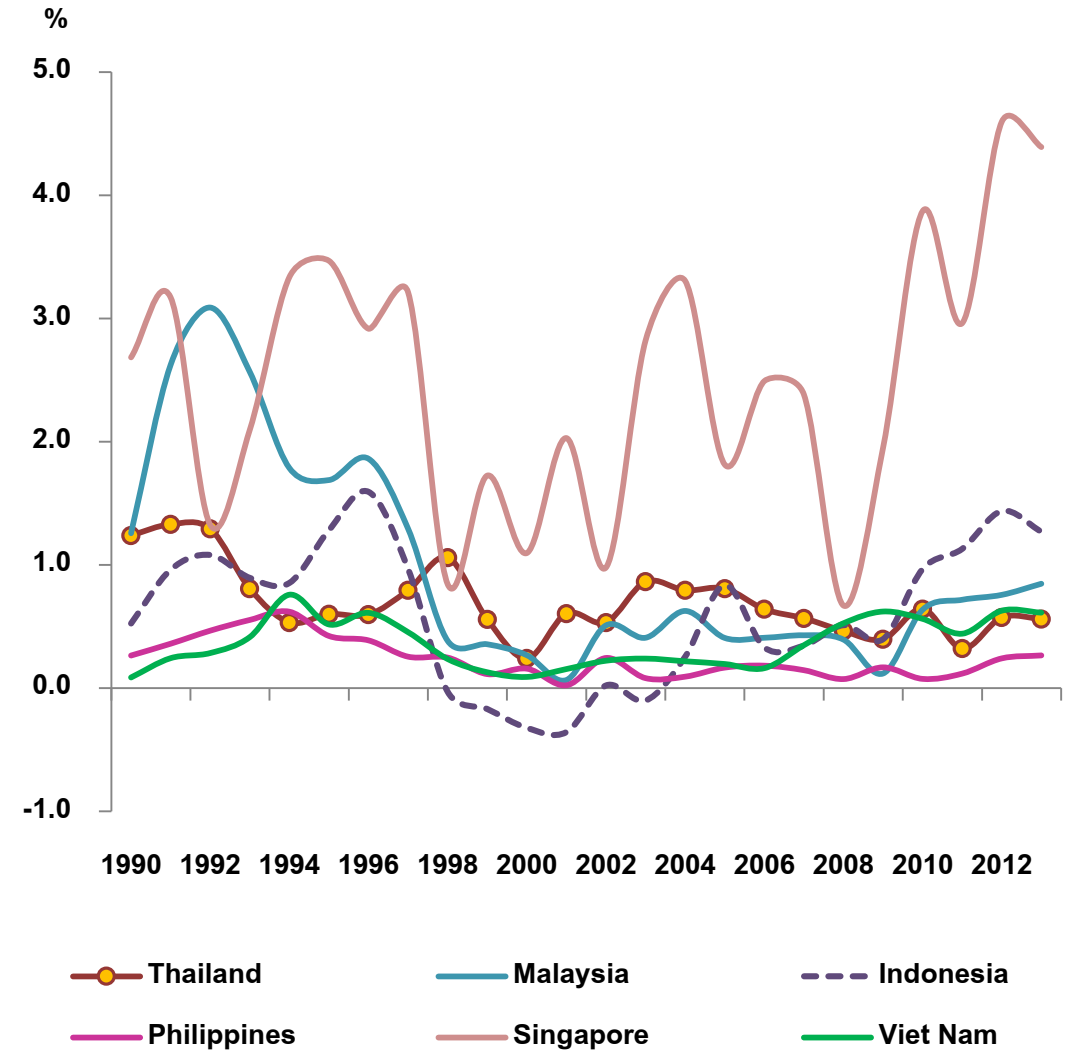


2.1 Financial Account: Inward Foreign Direct Investments

FDI Inflow (Excl. Trade Credit)

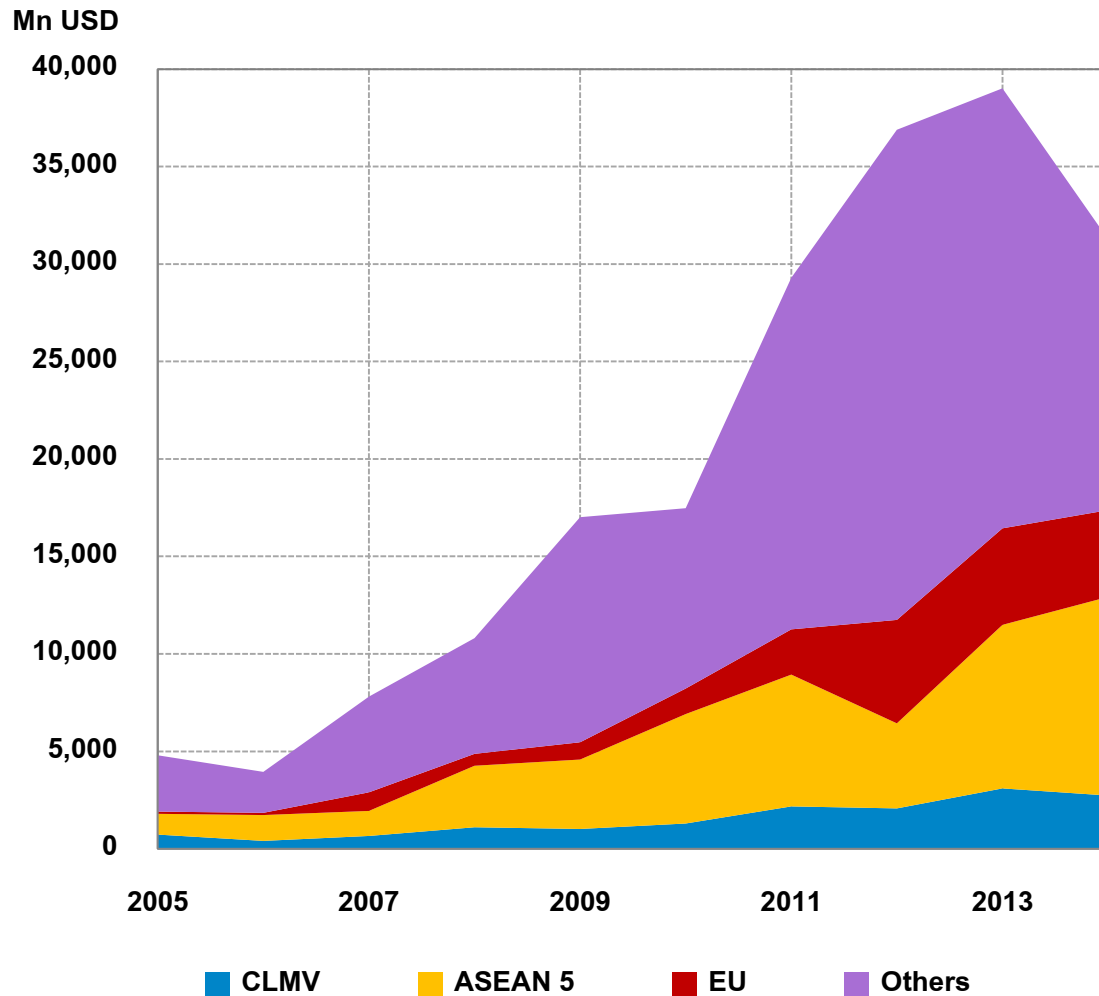


Share of FDI inflows to global FDI

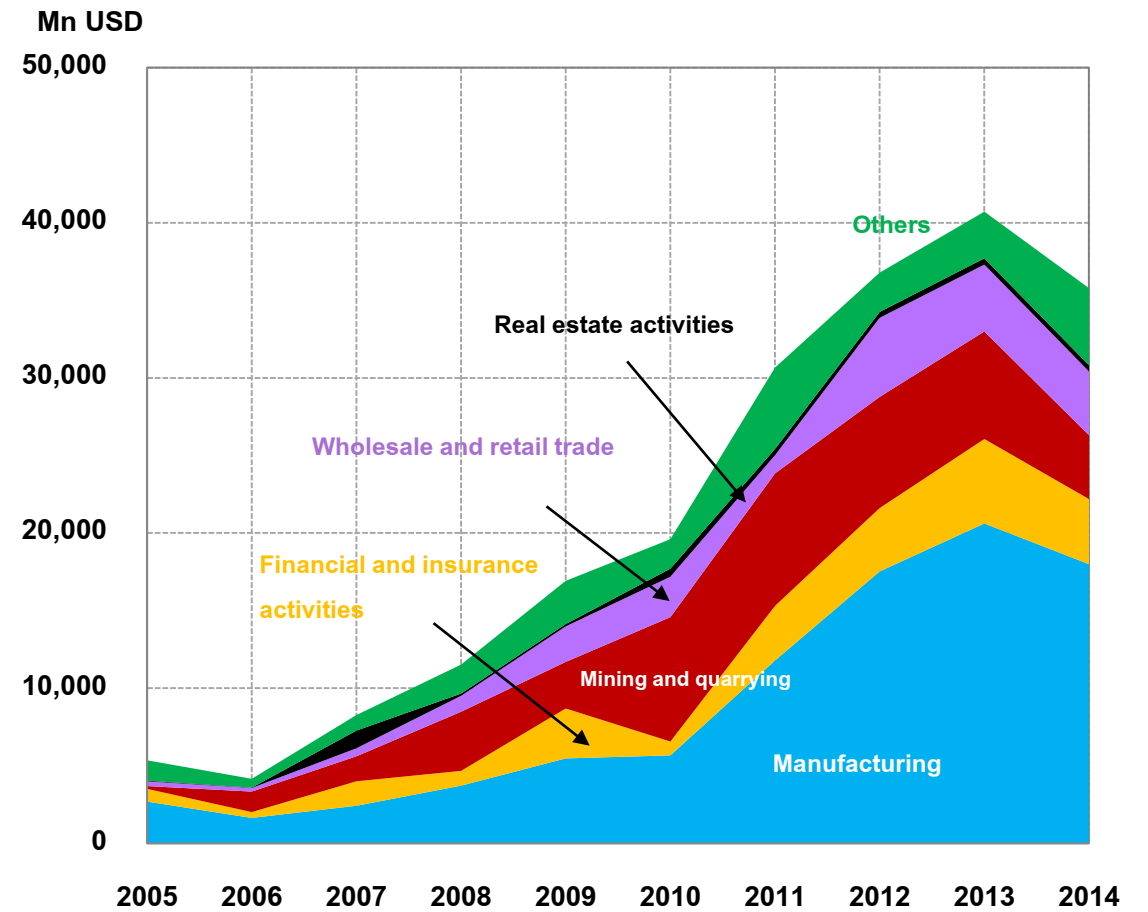


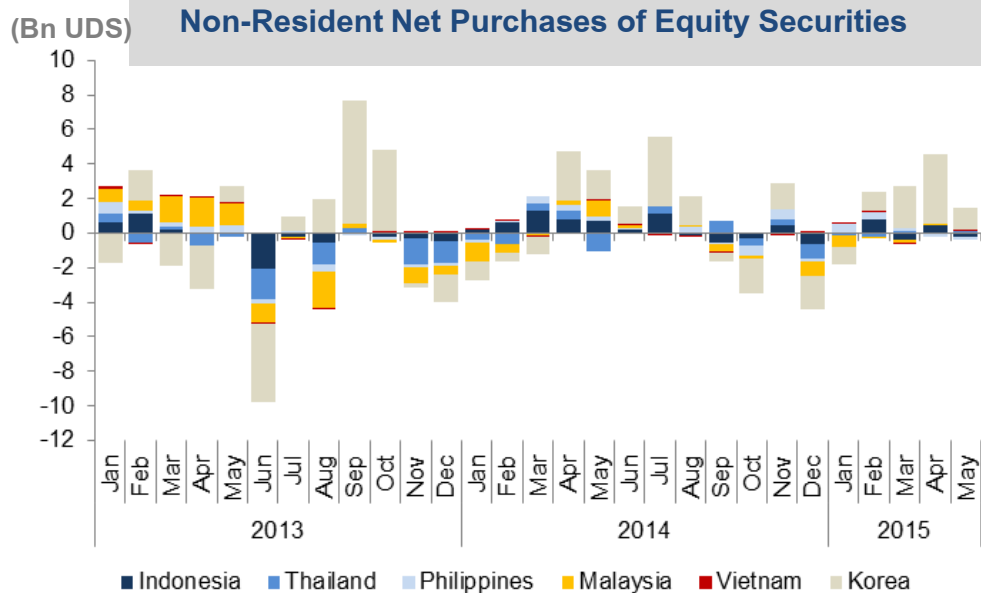
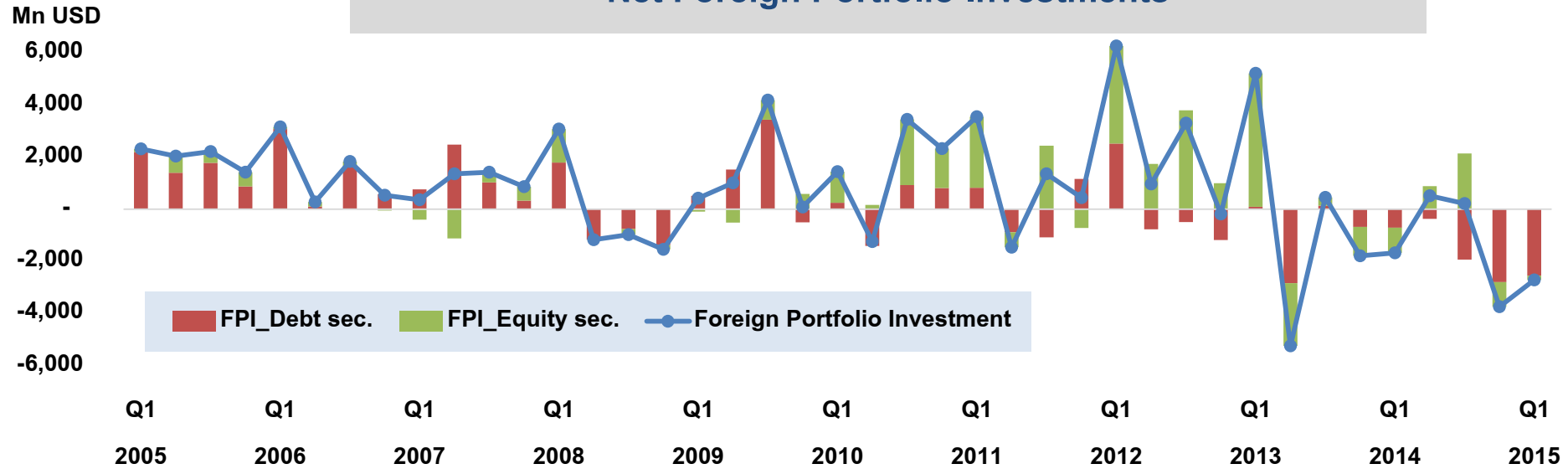


Thai Direct Investment Abroad classified by country (Outflow)

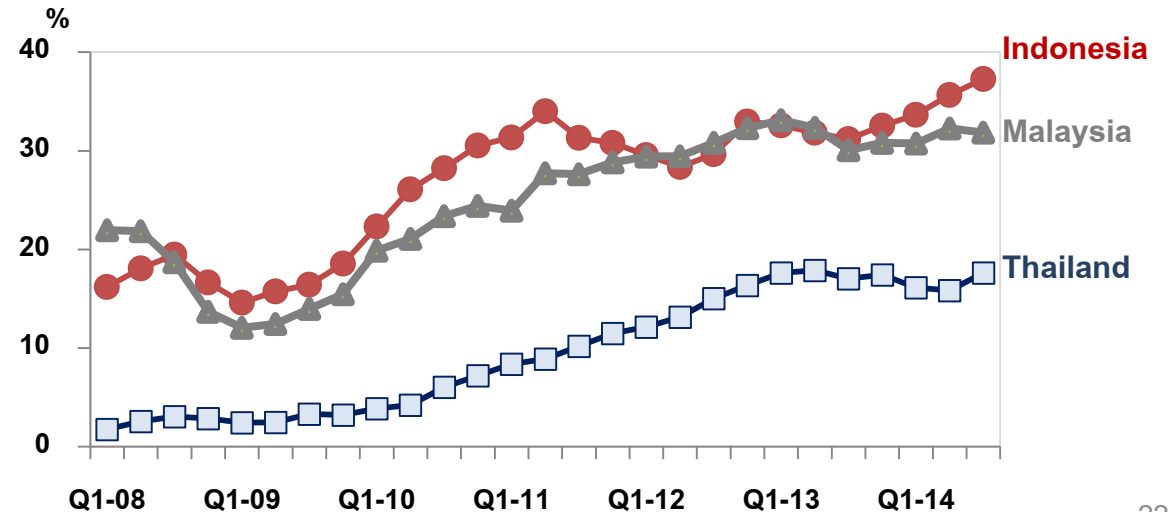


Thai Direct Investment Abroad classified by industry (Outflow)



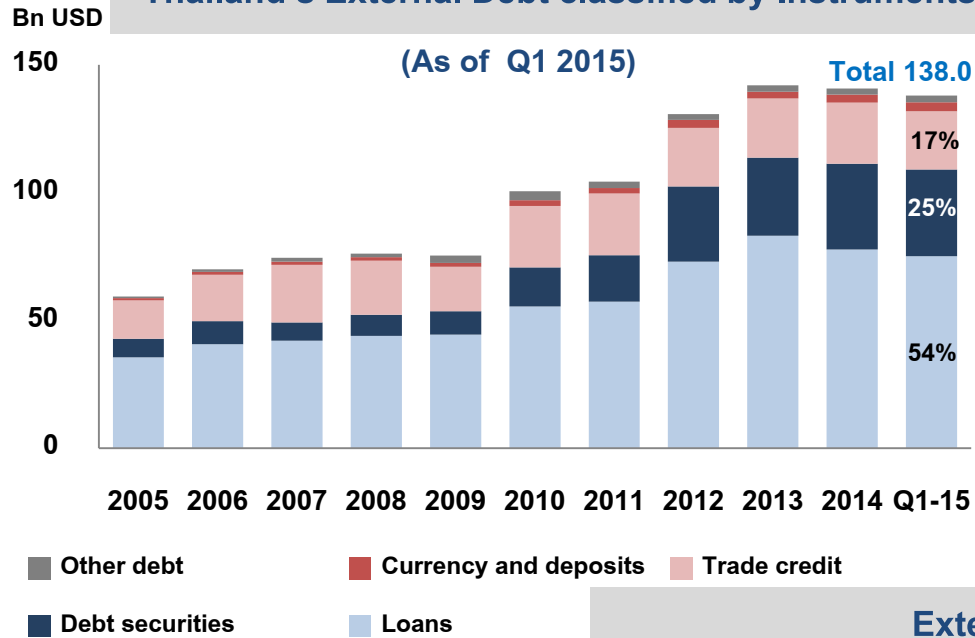


Foreign holding in Local Currency of Government's Bond

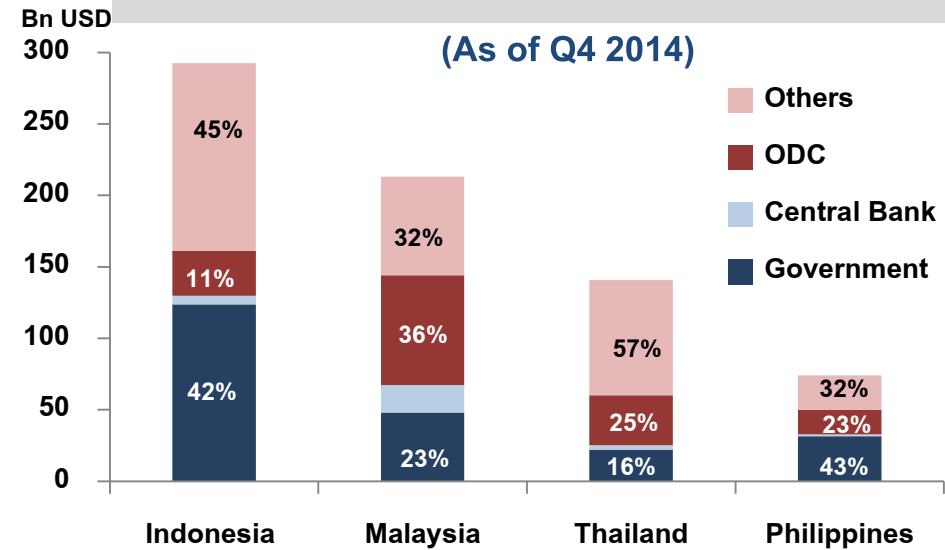




Thailand's External Debt classified by Instruments



External Debt Structure of ASEAN4



External Stability Indicators

	Int'l Reserves (Latest available) (US\$bn)	3 months imports of goods & services (US\$bn)	Short-term external debt (US\$bn)	Import cover (No. of Qtrs)	Reserves over short-term debt
China	3,843.0	582.5	709.0	6.6	5.4
Hong Kong, China	332.5	166.0	932.9	2.0	0.4
Indonesia	115.5	-50.2	46.8	-2.3	2.5
Japan	1,251.1	236.6	2,053.6	5.3	0.6
Korea	362.8	158.3	115.3	2.3	3.1
Malaysia	105.1	57.1	103.2	1.8	1.0
Philippines	80.8	21.8	9.5	3.7	8.5
Singapore	250.7	120.2	1,067.0	2.1	0.2
Thailand	157.4	62.4	57.2	2.5	2.8
Vietnam	33.8	33.3	10.6	1.0	3.2



Policy Measures to Manage Capital Flows in Thailand

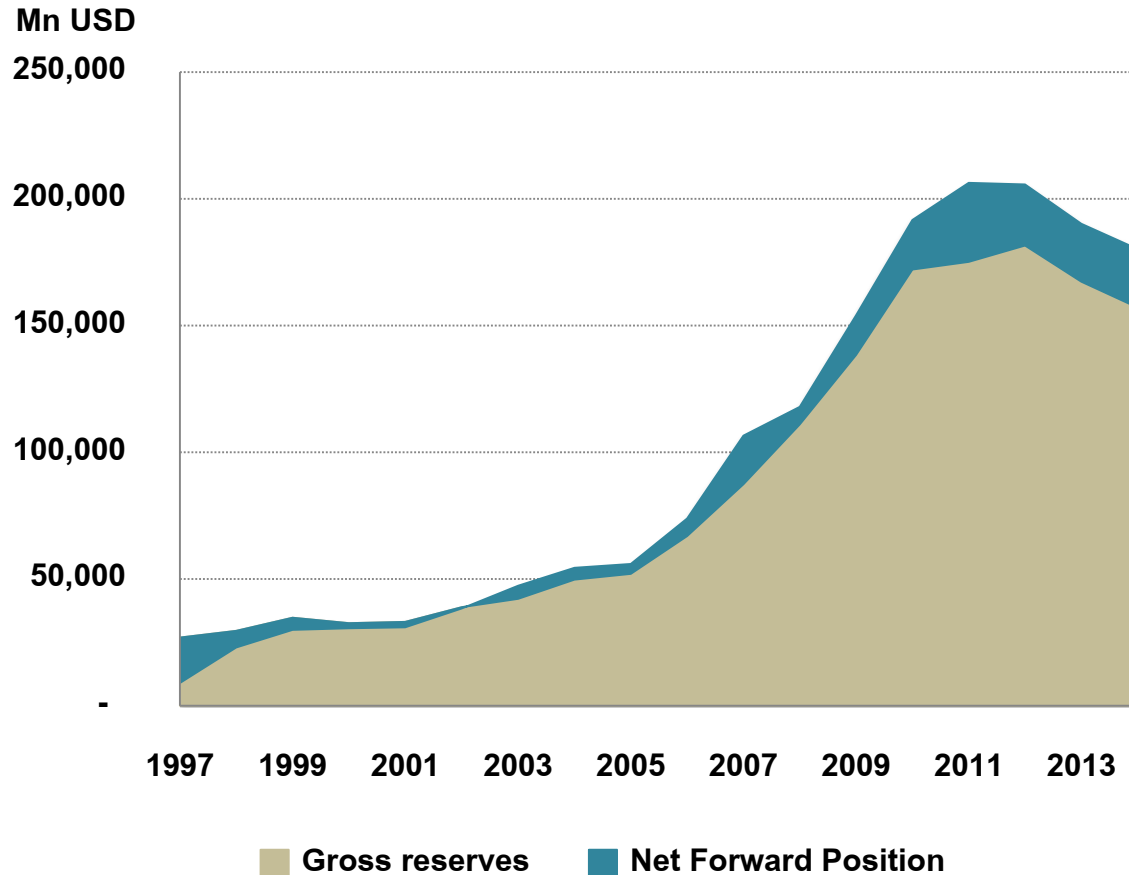
Policy responses	Thailand
1. Flexible Exchange rate	As a price mechanism (automatic stabiliser) in the short term and as an important price signal and catalyst for structural change in the long term.
2. Exchange Rate Market Intervention	To curb extreme FX movements due to any unusual circumstances of market dysfunction or economic misalignment.
3. Capital Account Liberalisation (CAL)	To reduce home bias and encourage more balanced capital flows.
4. Capital Flow Management Measures (CFMs)	To curb extreme capital flows which may harm the economy.

Macprudential instruments were used more extensively by EMEs than AEs due to EMEs' less developed financial markets and bank dominated financial sector



I. Exchange Rate Market Intervention

FX Intervention and Cost to Economy



Cost of FX intervention

Delaying the development of economic structure

Private sector relies on exchange rate policy instead of exphasizing on quality improvement

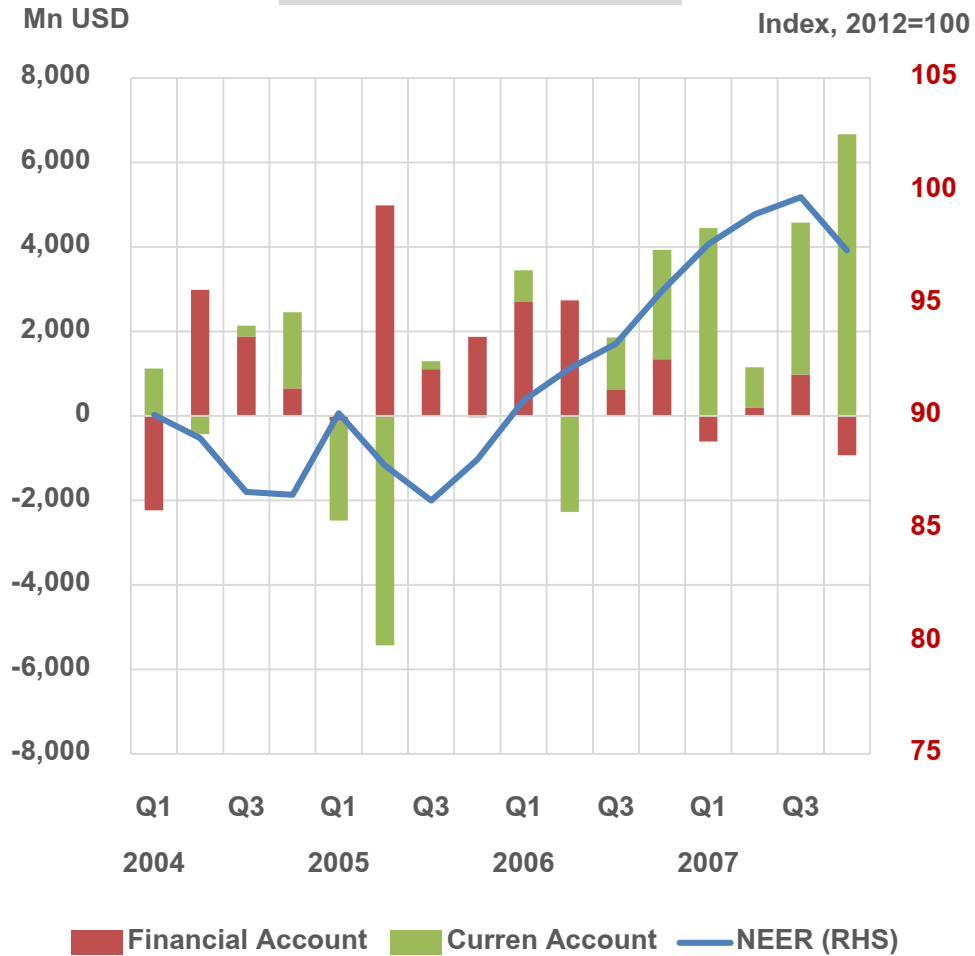
One-way speculation

Central bank's loss on financial staement

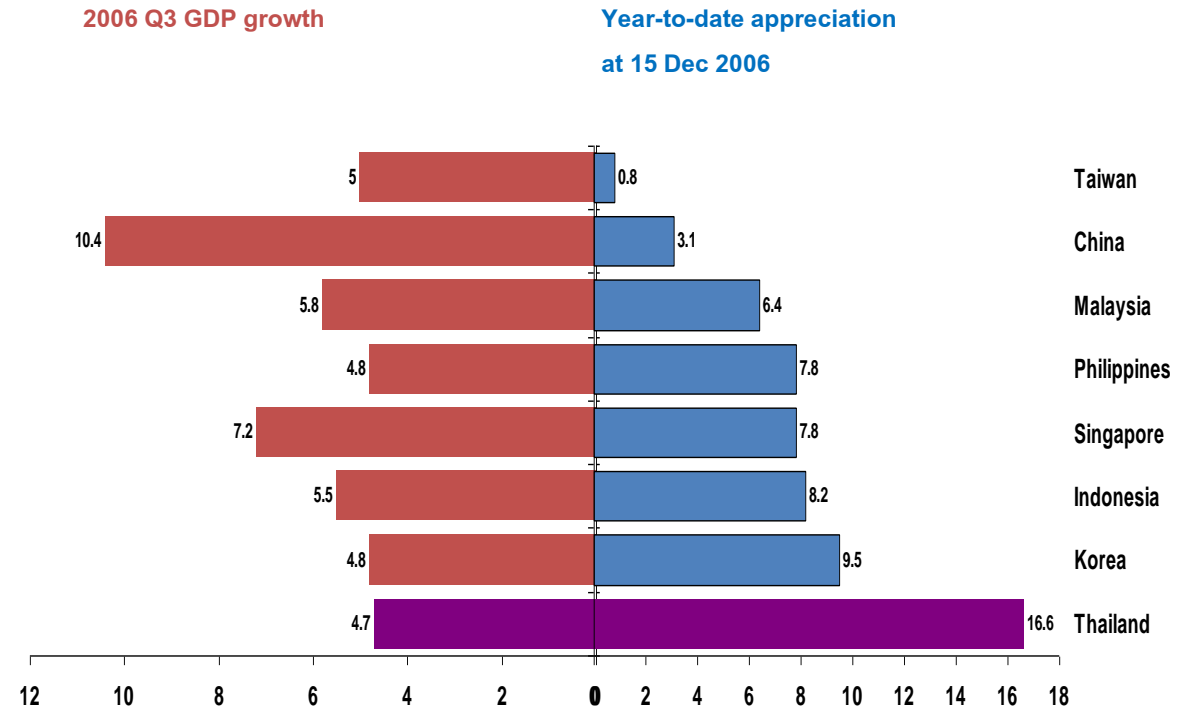


II. Capital Flow Management Measures

NEER and Capital Flows



In 2006, the baht appreciated sharply and continually against other currencies despite Thailand's lower economic growth rate.



Source: Compiled by Bank of Thailand



II. Capital Flow Management Measures

Thailand's Unremunerated Reserve Requirement (URR)

18 December 2006,

- The 30 percent reserve requirement on short-term capital inflows was introduced.
- Financial institutions were required to withheld 30% of currencies purchased against THB exceeding \$20,000. The amount withheld was be refunded after 1 year upon proof.
- If the fund were transferred abroad within 1 year, only two-thirds of the amount withhold could be refunded.
- Exceptions were those related to goods and services, repatriation of investment by Thai national abroad. FDI was also exempted with legitimate proof.

19 December 2006,

- Controls on stock market investment were lifted.

March 2008

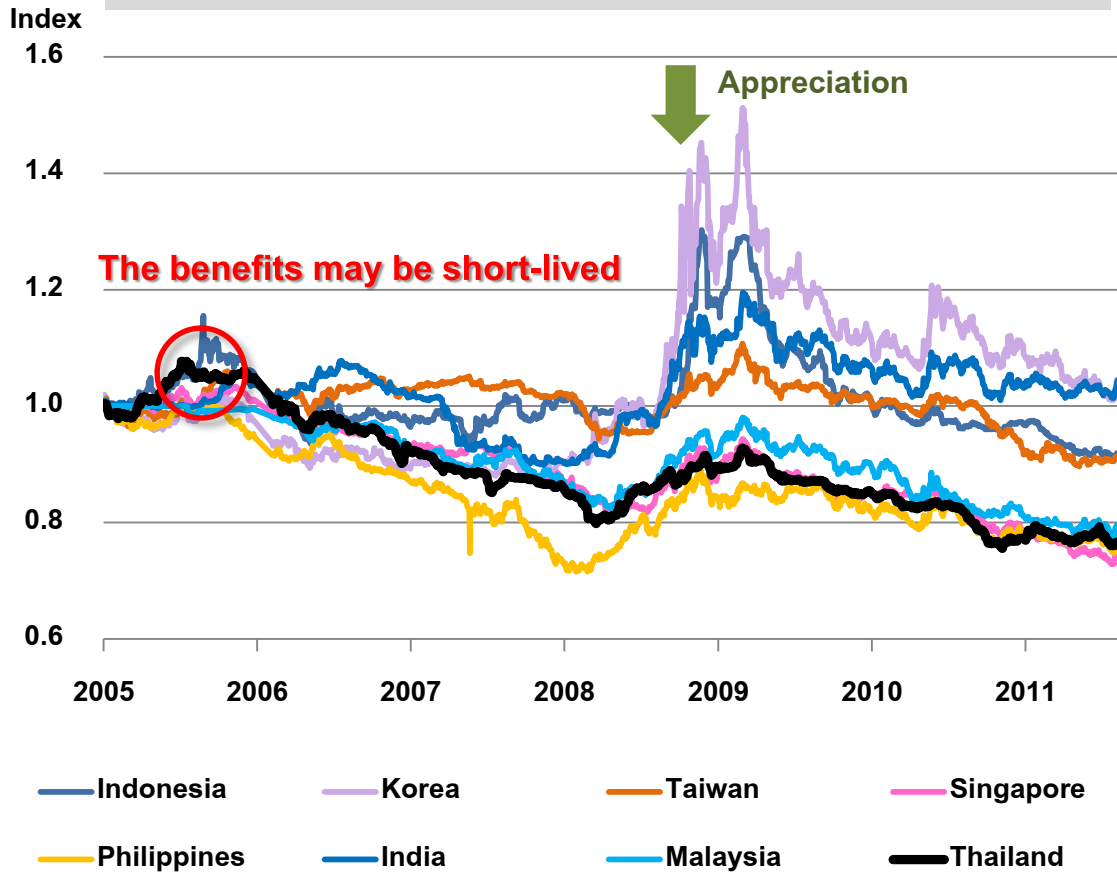
- The controls were ultimately lifted in.



II. Capital Flow Management Measures

Lessons learned from Thailand's URR: Capital movement

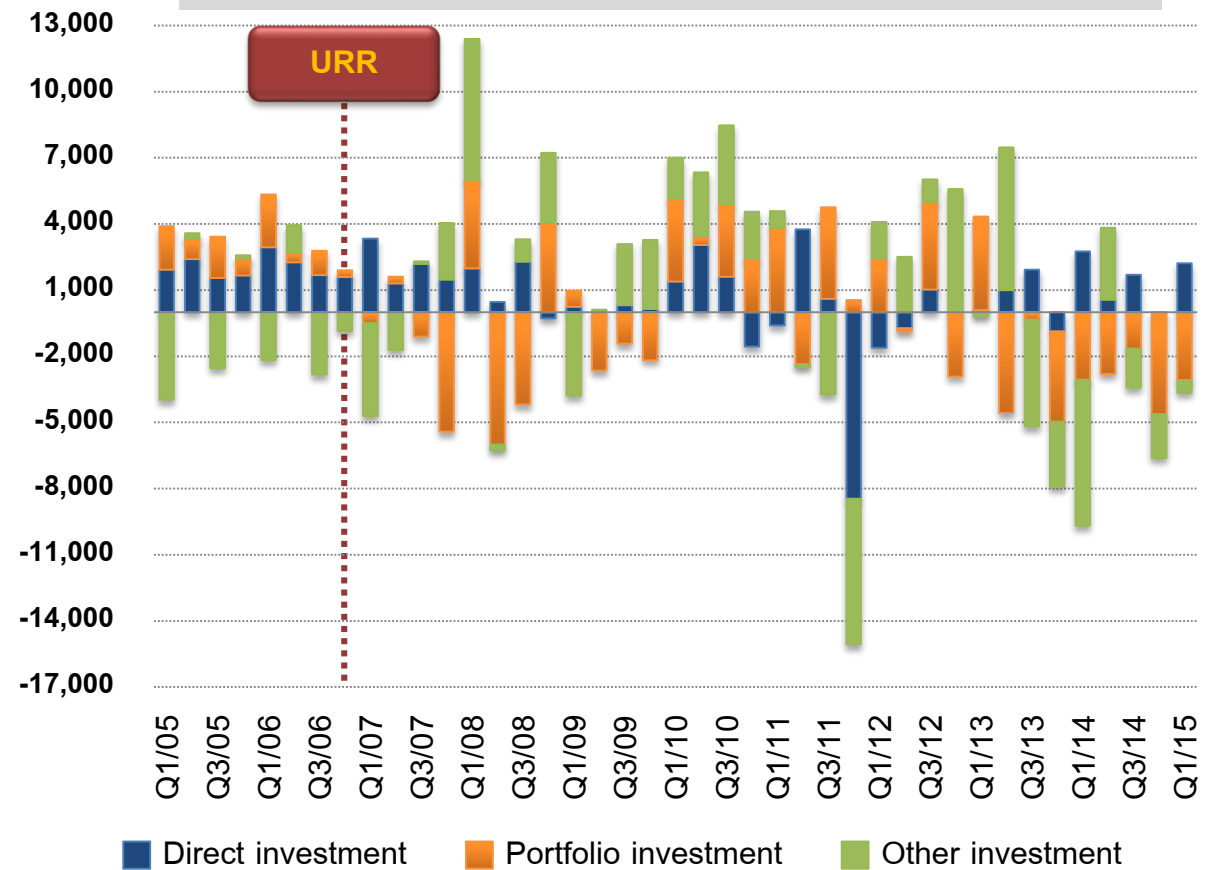
Regional FX since 2005



Sources: Bloomberg, BOT calculations

Million USD

Foreign capital inflows into Thailand



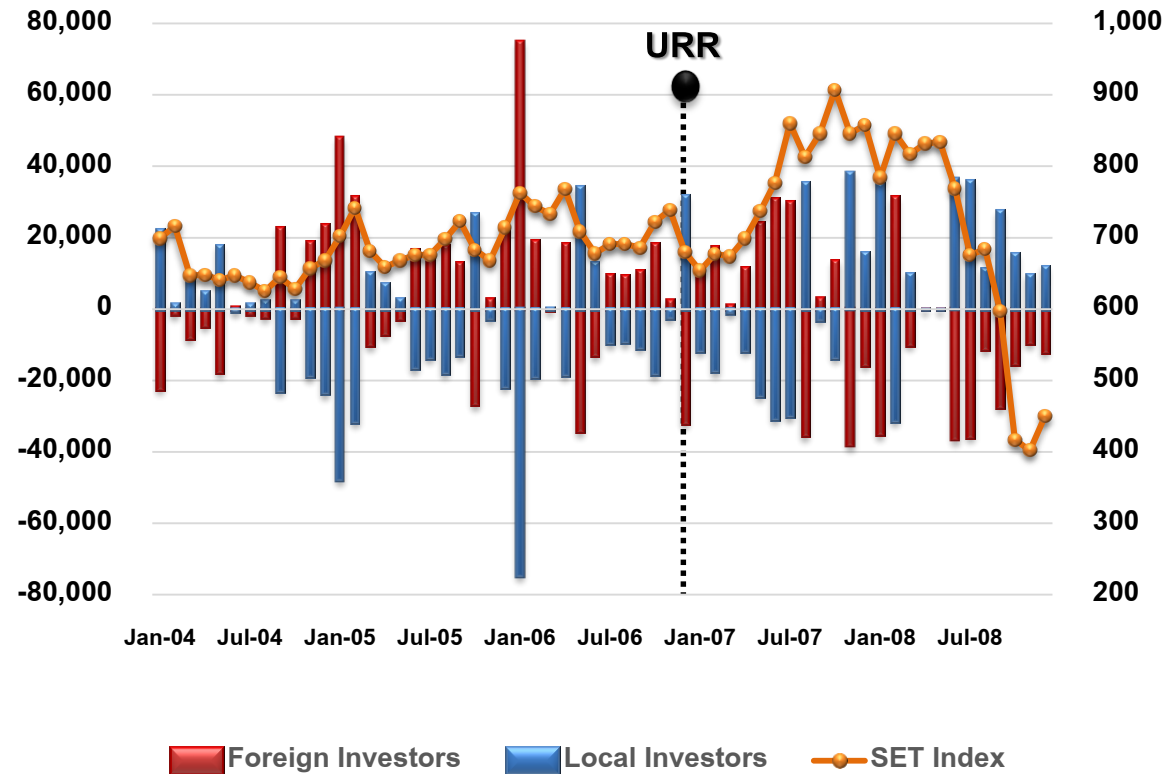


II. Capital Flow Management Measures

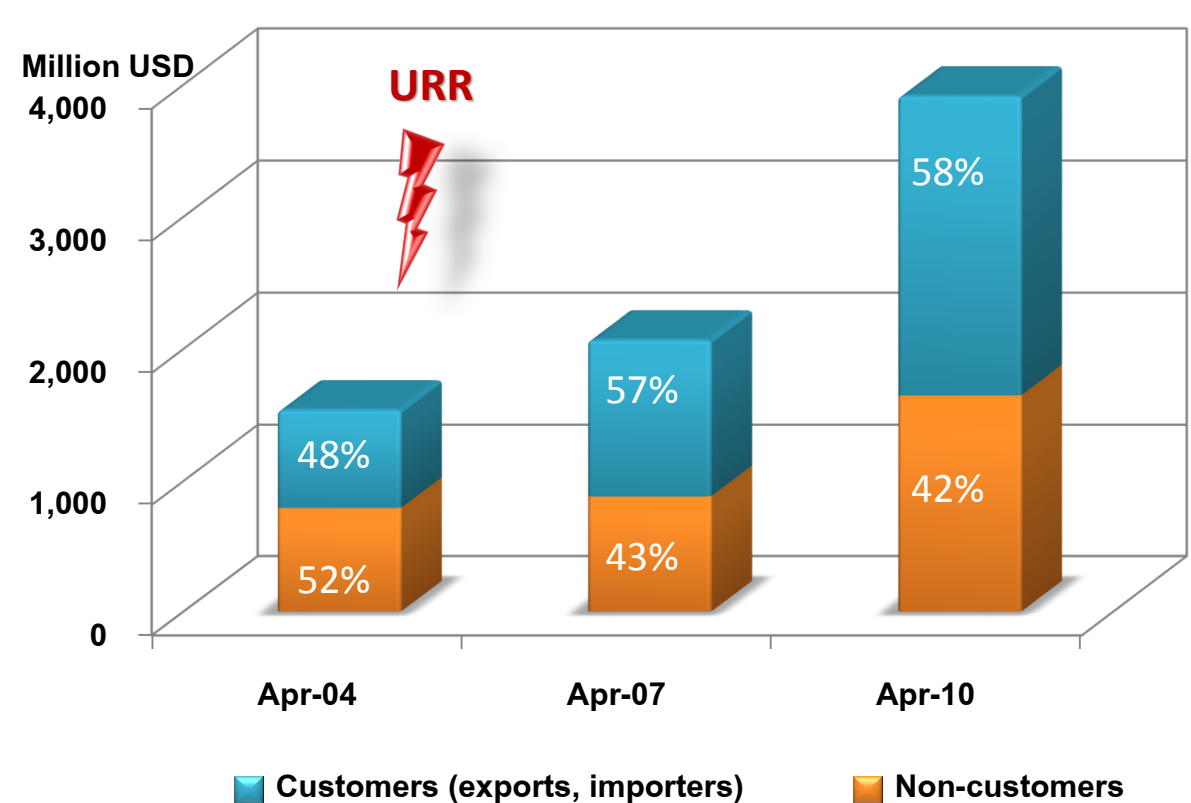
Lessons learned from Thailand's URR:

“sand-in-the-wheel” capital controls can have a lasting adverse impact.

SET Index and Trading Value classified by Investor Type



Foreign participation in the FX market was crippled by URR.



Note: Included spot and forward transactions only.

Source: Triennial Central Bank Survey, BIS



II. Capital Flow Management Measures

Lessons learned from Thailand's URR: Cost-Benefit Analysis

Benefit

- Stop the momentum of one way speculation on baht and reduce baht appreciation pressure to move closely with regional currency trend.
- Reduce the effect of baht appreciation to the real export sector and provide time for entrepreneur for adjusting to baht appreciation.

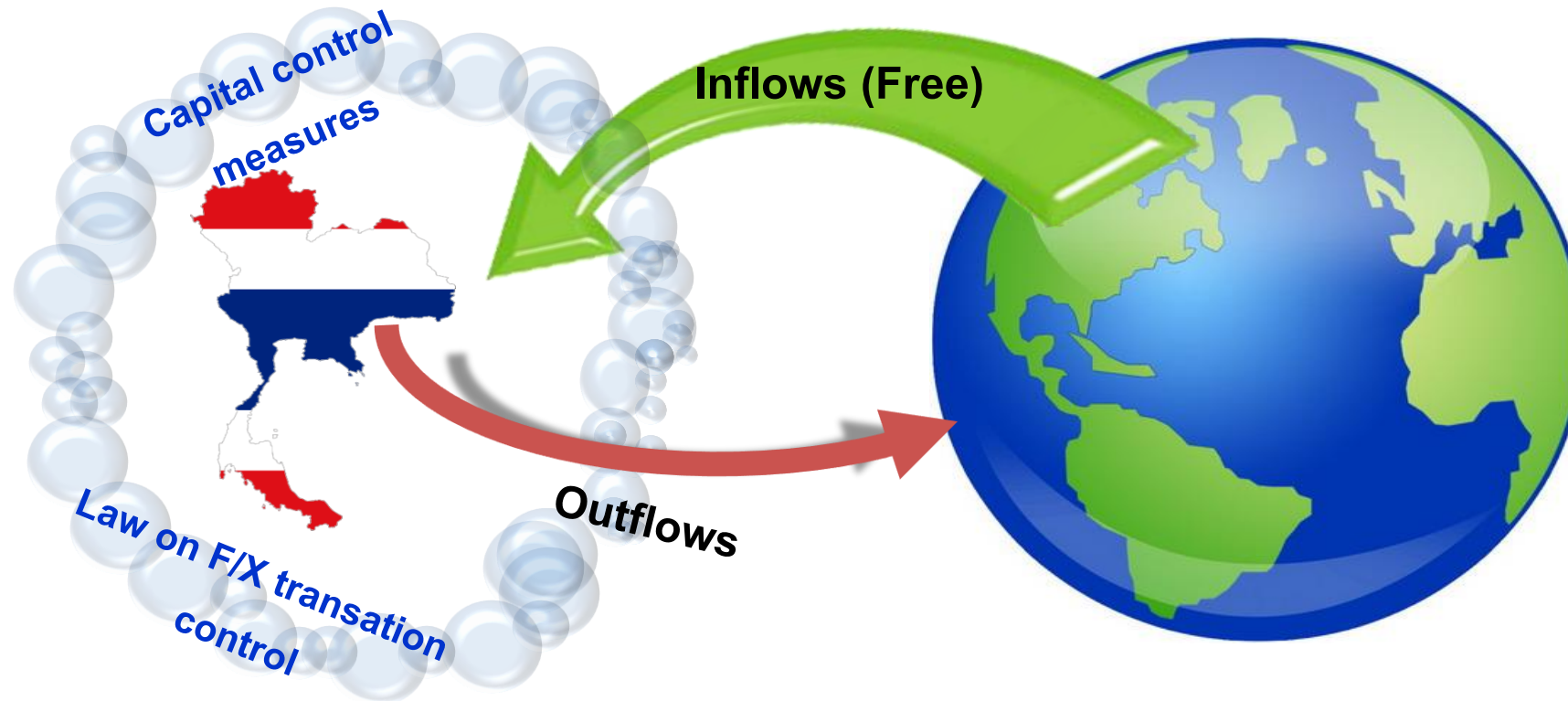
Cost

- Policy uncertainty has affected confidence and sentiment of international investors
- The structure of FX market was distorted
- Delay the development of the financial market

“In the long run, the benefit has reduced while the cost has increased overtime”

III. Capital Account Liberlization (CAL)

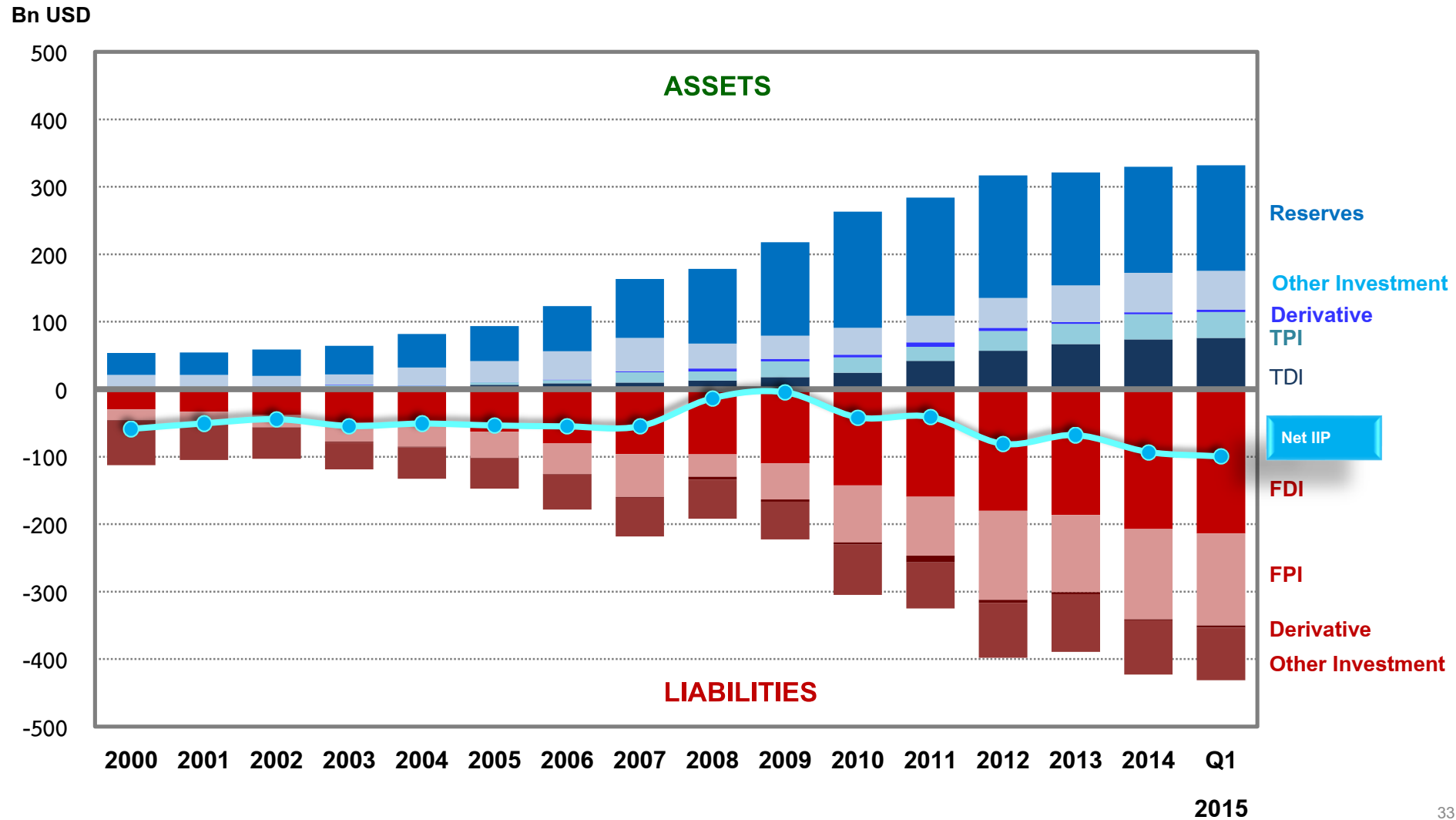
Capital account liberalization





III. Capital Account Liberlization (CAL)

Thailand's International Investment Position



Source: Annual data survey (2000-2009) from International Investment Position Team, monthly data and 2010 data calculated by adding BOP flow



III. Capital Account Liberalization (CAL)



Capital Account Liberalization (CAL)



Objectives

- Facilitating Thai residents for investing oversea and operating risk management at a lower cost
- Balancing capital flow movement (both inflow & outflow) and International Investment Position (IIP)
- Increasing effectiveness & development in financial market & F/X market
- Exchange rate moves in line with market mechanism

Method

- Capital Outflows Liberalization
- Streamlined Rules and Regulations

Capital Account Liberalization (CAL)





III. Capital Account Liberlization (CAL)

Capital Account Liberalisation Plan: Phase I
Year 2012-2014

Outward Direct Investment

Lift the cap on outward direct investment made by Thai companies.

Outward Portfolio Investment

Ease the regulation on portfolio investment by increasing the amount limit, permitted types of investors, and permitted types of securities.

Foreign Exchange Rate Risk Management

Raise the amount limit of foreign currency deposit (FCD) and allow investors to unwind foreign exchange hedging freely.

- ✓ Thai companies and depositors could improve efficiency in their businesses and diversify their investments more freely. Thai SMEs can conduct foreign direct investment more freely.
- ✓ Thai Investors could better manage the foreign exchange rate risk with more alternatives in foreign currency hedging.



III. Capital Account Liberlization (CAL)

Goal : to encourage Thai companies and depositors *to diversify their investments and operate their businesses more efficiently*, promote financial markets development to facilitate economic integration in the region under the AEC and create environment that support *“more balanced capital flows”*.

	Phase 1 (2012-2014)	Phase 2 (2015-2017)
1. Direct investment	<ul style="list-style-type: none"> - remove amount limit for direct investment by Thai individuals for expanding their markets and operation bases. - allow Thai individuals to raise funds by issuing FX bonds in local market. 	
2. Portfolio investment	<ul style="list-style-type: none"> - widen institutional investor base i.e. allowing companies listed on Stock Exchange of Thailand (SET) to directly invest in securities and derivatives products abroad. - remove amount limit per investor 	<ul style="list-style-type: none"> - allow residents to invest in securities abroad through onshore banks. - allow qualified investors to invest in securities abroad within a certain limit without the need to go through local intermediaries.
3. Real estate		<ul style="list-style-type: none"> - Raise the limit for purchase of immovable properties including leasehold properties abroad to USD 50 million per year.
4. Foreign currency deposits (FCD) and risk management	<ul style="list-style-type: none"> - allow investors having future obligations to open FCD with domestic financial institutions - allow investors to buy and sell currency futures in Thailand Futures Exchange (TFEX) -allow Thai residents hedging overseas investment to freely unwind their foreign currency hedging of capital transactions. 	<ul style="list-style-type: none"> - Allow residents to freely purchase foreign currencies for deposit up to an outstanding limit of USD 5 million.
5. Money changer / Money transfer agent	<ul style="list-style-type: none"> - relax qualifications of money changer and money transfer agent and regulations on foreign currency exchange and transfers for more flexibility in providing services to their customers. 	<ul style="list-style-type: none"> - allow authorised money changers and authorised money transfer agents; such as, telecommunication companies to provide cross-border remittance services and money changers to have a higher limit on the amount of transaction with customers.
6. Corporate treasury centre		<ul style="list-style-type: none"> - relax regulations on corporate treasury centres to facilitate multi-national and Thai corporations in their FX management such as foreign currency deposit, Thai baht borrowing from subsidiaries abroad and documentation requirements.

