

## MONETARY TARGETS

The definition of the performance criterion on the net domestic assets of the BOT (NDA) has been changed to clarify the consistency between the monetary and external targets. The performance criterion is unchanged in substance, with the adjusted ceilings on NDA being very close to that under the previous definition with the difference being accounted for by higher NFA. Reserve money targets are, therefore, unchanged.<sup>1</sup>

Given the continued instability in the foreign exchange market, there is a need for upward flexibility in interest rates. Therefore, the program does not envisage a range for the overnight repurchase rate for the coming months. This issue will be re-examined at the time of the third review.

### 1. Performance Criterion on Net Domestic Assets of the BOT

Outstanding Stock as of: 1/	Ceiling (In billions of baht)			
	First Review		Second Review	
	Old Definition	New Definition		
End-December 1997	-133 (perf. crit.) 2/	-133 2/	-166 (actual)	
End-March 1998	-503 (perf. crit.)	64	34 (perf. crit.)	
End-June 1998	-525 (indicative)	74	31 (perf. crit.)	
End-September 1998	-520 (indicative)	110	51 (indicative) 3/	

1/ Calculated as the average of the closing positions on the last five working days of the month and the first five working days of the following month.

2/ Adjusted.

3/ Performance criterion to be set at future review of the arrangement.

The NDA of the BOT are defined as the difference between reserve money and the net foreign assets of the BOT (NFA) valued in Thai baht. Reserve money consists of currency in circulation (with banks and with the rest of the public), and financial institutions' deposits at the BOT, and reserve eligible securities if any. The NFA are the net claims of the BOT on nonresidents, in all currency denominations. For the purposes of program monitoring, the baht value of NFA of the BOT will be calculated using the exchange rates given in Annex D.

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<sup>1</sup>The NDA ceilings are now based on a baseline path of NFA that *includes* expected changes in international reserves consistent with the baseline scenario in the balance of payments projections; the NDA ceilings will now be adjusted *downwards* for any excess NFA above its baseline. Previously, the NDA ceilings were based on a baseline path of NFA that excluded expected changes in reserves and were then adjusted *upwards* for shortfalls in NFA. Owing to the lower baseline path of NFA, the NDA ceilings are now presentationally greater (more positive) than before.

The following adjustments will apply:

- The NDA limit is based on a baseline path of NFA that includes projected reserve losses on forwards and swaps and spot intervention consistent with the balance of payments projections (Annex D). The NDA ceiling will be adjusted downwards to the extent that NFA exceeds the baseline projection for any reason. The NDA ceiling will not be adjusted upwards for any shortfall in NFA relative to its baseline.
- Changes in reserve regulations will modify the NDA ceiling according to the formula:

$$\Delta NDA = \Delta r \cdot B_0 + r_0 \cdot \Delta B + \Delta r \cdot \Delta B$$

where  $r_0$  denotes the reserve requirement ratio prior to any change;  $B_0$  denotes the reservable base in the period prior to any change;  $\Delta r$  is the change in the reserve requirement ratio; and  $\Delta B$  denotes the immediate change in the reservable base as a result of changes in its definition.

## 2. Indicative Targets for Reserve Money

Outstanding Stock as of: 1/	Indicative Limit (In billions of baht)	
	First Review	Second Review
End-December 1997	489	455 (actual)
End-March 1998	499	480
End-June 1998	489	464
End-September 1998	502	469

1/ Calculated as the average of the closing positions on the last five working days of the month, and the first five working days of the following month.

The indicative target on reserve money will be adjusted for changes in reserve regulations in line with the adjustment generated to the NDA limits.

## FISCAL TARGETS

The definitions of all performance criteria and indicative targets are unchanged from the original program except that, for purposes of monitoring compliance with performance criteria, payments or financing arrangements with respect to capitalization of the proposed Asset Management Company, the Financial Restructuring Agency, the Radhanasin Bank, and any bank capitalization undertaken by the government will be effectively excluded as indicated below.

### 1. Performance Criterion on the Cumulative Balance of the Central Government

	Floor (In billions of baht)	
	First Review	Second Review
Cumulative balance from September 30, 1997		
to:		
December 31, 1997	-37.0 (performance criterion)	-26.8 (actual)
March 31, 1998	-33.0 (performance criterion)	-61.7 (performance criterion)
June 30, 1998	38.0 (indicative)	-46.6 (performance criterion)
September 30, 1998	69.8 (indicative)	-50.4 (indicative) 1/

1/ Performance criterion to be set at the time of future reviews of the arrangement.

The above floors on the cash balance of the central government are defined as in the treasury accounts, excluding amortization.<sup>2</sup> Receipts from privatization will be excluded from the calculation of the central government balance in the above performance criterion. Likewise, spending on financial sector restructuring, as defined above, is also excluded.

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<sup>2</sup>“Treasury accounts” data are being used for monitoring purposes, on account of their greater timeliness. These accounts exclude all spending from foreign-financed projects, and also net off amortization payments. Expenditures arising from foreign-financed projects are, however, captured in GFS accounts, which are the basis for the program’s target. (Thus, the performance criteria do not fully capture total government spending, although an allowance has been made for projected foreign-financed expenditure.) The cash deficit equals revenue minus expenditure plus the balance of the “nonbudgetary accounts” (120 revolving funds).

## 2. Performance Criterion on Banking System Net Credit to the Public Sector

	Limit (In billions of baht)	
	First Review	Second Review
September 30, 1997	-393.7 (actual)	
December 31, 1997	-362.6 (performance criterion)	-380.1 (actual)
March 31, 1998	-372.4 (performance criterion)	-317.3 (performance criterion)
June 30, 1998	-451.7 (indicative)	-349.9 (performance criterion)
September 30, 1998	-480.2 (indicative)	-345.9 (indicative) 1/

1/ Performance criterion to be set at the time of future reviews of the arrangement.

The banking system is defined as the BOT plus the commercial banks. The public sector is defined as the central government, extrabudgetary funds, local government, and the nonfinancial public enterprises. Accordingly, net credit to the public sector is defined as the difference between banking system claims on the public sector minus the latter's deposits with the banking system, as reported in the M2 monetary survey.<sup>3</sup>

The following adjustments will be made:

- The limit will be lowered by the excess of BOP support channeled to the government relative to the program baseline (Annex D).
- The limit will be raised by the amount of bonds and other government obligations, if any, incurred for the purpose of recapitalizing banks.

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<sup>3</sup>In the monetary survey, net credit to extrabudgetary funds is included within "net credit to government," while net credit to local governments is included in "net credit to nonfinancial public enterprises."

### 3. Indicative Targets on Central Government Expenditure

Central government expenditure is as reported in the treasury accounts, and excludes amortization. The following indicative limits, **cumulative from the start of the fiscal year**, will apply:

	Indicative Limit (In billions of baht)	
	First Review	Second Review
October 31, 1997	70	65 (actual)
November 30, 1997	135	133 (actual)
December 31, 1997	197	203 (actual)
January 31, 1998	258	264
February 28, 1998	319	331
March 31, 1998	386	407
April 30, 1998	441	469
May 31, 1998	504	534
June 30, 1998	572	605
July 31, 1998	631	671
August 31, 1998	705	744
September 30, 1998	802	835

The indicative limit will be raised by the amount of payments made in connection with financial sector restructuring, as defined above.

**EXTERNAL SECTOR TARGETS**

The definitions of all performance criteria and indicative targets are unchanged from the first review program.

**1. Performance Criterion on Net International Reserves of the BOT**

	Floor (In millions of U.S. dollars)	
	First Review	Second Review
Stock as of July 31, 1997	1,144 (actual)	
Cumulative change from level on July 31, 1997		
End-September 1997	3,447 (actual) 1/	
End-December 1997	1,500 (performance criterion)	5,761 (actual)
End-March 1998	3,900 (performance criterion)	3,900 (performance criterion)
End-June 1998	5,500 (indicative)	5,500 (performance criterion)
End-September 1998	7,200 (indicative)	7,200 (indicative) 2/

1/ Adjusted for an excess of US\$250 million in balance of payments support.

2/ Performance criterion to be set at future reviews of the arrangement.

For monitoring purposes, the Fund defines NIR of the BOT as the sum of the U.S. dollar value of: (i) gross official reserves in foreign currencies minus gross liabilities in foreign currencies; and (ii) the net forward position of the BOT, defined as the difference between the face value of foreign currency denominated BOT off-balance sheet (forwards, swaps, options, and any futures markets contracts) claims on nonresidents and foreign currency obligations to both residents and nonresidents.

Gross foreign assets will include all foreign currency-denominated claims of the BOT, including monetary gold, holdings of SDRs, and the reserve position in the IMF. Excluded from gross foreign assets will be participation in international financial institutions, as well as holdings of nonconvertible currencies, holdings of precious metals other than gold, and claims on residents. Gross foreign liabilities are all foreign currency denominated liabilities of contracted maturity up to one year plus the use of Fund credit. (Short-term liabilities that are part of the balance of payments financing package under the program are excluded.) All assets and liabilities will be valued using the exchange rates and gold price shown in Annex D.

**2. Performance Criterion on Contracting or Guaranteeing of New External Debt**

The limit applies to the contracting or guaranteeing by the public sector (as defined in Annex B, Section 2) of new nonconcessional external debt with an original maturity of more than one year, which is defined as loans containing a grant element of less than 35 percent on the basis of currency-specific discount rates based on the OECD commercial interest reference rates. Excluded from the limits are credits extended by the IMF and from the balance of payments financing package envisaged under the program, including from IBRD and AsDB, and countries in the region. Debt falling within the limit shall be valued in U.S. dollars at the exchange rate

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ANNEX C

prevailing at the time the contract is entered into, or guarantee is issued. Information on the contracting and guaranteeing of new debt falling both inside and outside the limit will be reported monthly to the Fund.

	Limit (In millions of U.S. dollars)	
	First Review	Second Review
Cumulative from August 10, 1997		
End-September 1997	815 (actual)	
End-December 1997	4,000 (performance criterion)	865 (actual)
End-March 1998	7,500 (performance criterion)	7,500 (performance criterion)
End-June 1998	8,000 (indicative)	8,000 (performance criterion)
End-September 1998	9,000 (indicative)	9,000 (indicative) 1/

1/ Performance criterion to be set at future revisions of the arrangement.

### 3. Performance Criterion on the Stock of Short-Term Debt Outstanding

The public sector will not contract or guarantee any new debt of maturity up to one year. Excluded from these limits are guarantees associated with the financial system restructuring, the balance of payments financing package envisaged under the program, normal import-related credits, forward contracts, swaps, and other future market contracts.

**PROGRAM ASSUMPTIONS AND CONVERSION RATES**

**1. Program Baselines for Selected Variables**

	1998		
	Mar.	Jun.	Sep.
(In billions of baht)			
Baseline NFA of the BOT 1/	446	433	418
(In billions of U.S. dollars)			
BOP support provided to central government (cumulative from August 1997)			
First Review	0.7	1.4	1.4
Second Review	0.7	1.3	1.8

1/ The baseline path of NFA now *includes* expected changes in international reserves, in line with the redefinition of the performance criterion on NDA (Annex A).

**2. Exchange Rates and Gold Price to be Used Under the Program 1/**

	Baht per Unit of Foreign Currency
U.S. dollar	31.9982
Japanese yen	0.2710
Deutsche mark	17.4265
Pound sterling	52.3476
French franc	5.1723
Swiss franc	21.1404
SDR	43.4734
ECU	34.2957
Gold price (U.S. dollars per ounce)	326.3000

1/ Currencies not shown here will first be converted into U.S. dollars using the official rate used by Fund's Treasurer's Department on July 31, 1997.