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EMERGENCY ASSISTANCE TO THAILAND - CREATION OF EMPLOYMENT (270,000 MAN-MONTHS) AND LOCAL COST FINANCE FOR KEY ON-GOING PROJECTS -

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The Overseas Economic Cooperation Fund (OECF) today concluded loan agreements with the Royal Thai Government (RTG) for the Social Investment Project and the Local Cost Financing Program for OECF On-Going Projects, amounting to ¥49,825 million in total. These loans for the aforesaid Project and Program are provided ahead of other loans included in the 23rd ODA Loan Package to Thailand because of the urgent need for this assistance. These emergency loans are in line with the Japanese Government's policy for "Supporting Measures for Asia", announced in April.

The loan agreements were signed at the Thai Ministry of Finance in Bangkok, Thailand, by Mr. Kyosuke Shinozawa, OECF's President and Chairman of the Board and H.E. Mr. Tarrin Nimmanahaeminda, Minister of Finance, Mr. Prapat Chongsanguan, Director-General of the Metropolitan Rapid Transit Authority, Mr. Vibulya Kuhirun, Deputy Governor of the Provincial Electricity Authority, and Mr. Saravudh Dhamasiri, General Manager of the State Railway of Thailand.

The cumulative commitment amount for ODA loans to Thailand now stands at 1,533,459 million yen, for 212 loan agreements.

These emergency loans are to assist RTG's efforts for structural adjustment being implemented to overcome the current economic difficulties based on agreements between the RTG and the International Monetary Fund (IMF). Provision of the loans was pledged by H.E. Mr. Hiroshi Ota, Japan's Ambassador to Thailand, to H.E. Mr. Tarrin Nimmanahaeminda, Thai Finance Minister, on June 19, 1998.

The details of the Loans are:

1. LOAN AMOUNT, TERMS AND CONDITIONS

Name of Project/Program		Amount (¥ Mil.)	Interest Rate (%)	Repayment Period (Grace Period incl.) (Year)	Tying Status
Social Investment Project		13,412	1.0*	25(7)	General-Untied
Local Cost Financing Program	(i) Regional Road Development Project (2)	1,600	2.2	25(7)	General-Untied
	(ii) MRTA Initial System Project	29,792	0.75**	40(10)**	General-Untied
	(iii) PEA Projects	2,042	2.2	25(7)	General-Untied
	(iv) Track Rehabilitation Project	2,979	2.2	25(7)	General-Untied
	Sub-total	36,413			
Total		49,825			

* Emergency special interest rate for structural adjustment-related assistance

** Special rate and repayment period for Environmental Projects

2. Background to the Emergency Loans

Provision of the emergency loans was decided by OECF and the Japanese Government, taking account of the current economic situation in Thailand, as described in the ANNEX attached hereto, and RTG's efforts for reconstruction of the Thai economy. The loans are to assist RTG's policies to overcome the current economic crisis and to develop a medium- and long-term base for sustainable development.

The objectives of the emergency loans are to provide a **social safety net** as part of the effort to ensure successful structural adjustment by creating employment, and to further assist smooth implementation of on-going OECF-assisted projects, whose implementation is expected to be delayed because of drastic cuts in RTG's public investment budget, by increasing OECF assistance for the local cost requirement of the Projects concerned.

3. Description of the Project/Program

(1) Social Investment Project

(i) Need for the Project

RTG has, since July 1997, when the seriousness of the financial crisis became apparent, steadily implemented comprehensive economic restructuring policies to overcome the crisis, with financial assistance from, among others, the IMF.

However, conditions in the real economy continue to deteriorate as the economic decline is proving to be greater than expected. In addition, unemployment has been becoming ever more serious. According to the Ministry of Labor and Social Welfare estimates, the number of the unemployed, estimated at 1.32 million, as of January 15, 1998, had jumped to 1.89 million by the end of March 1998.

RTG recognizes the urgency of the need to assist the especially vulnerable affected by the crisis and stringent fiscal policies. Against such a background, the Social Investment Project is designed to create employment, while at the same time developing important infrastructure. This OECF assistance targets two of the Project's programs, both of which will contribute significantly to creation of employment, and, thus, attainment of the objectives of the emergency loans. The two programs are: i) Regional Development & Tourism Infrastructure Development, and ii) Rehabilitation and Improvement of Small-Scale Irrigation Projects

(ii) Scope of Works

The Social Investment Project is a project-type sector loan to finance small-scale public works, of which the RTG has considerable experience and which can be implemented at short notice. Examples of works to be implemented are:

1) Regional Development & Tourism Infrastructure Development (about 150 sub-projects)

- Conservation, renovation or environmental improvement of, among others, landscapes, parks, lakesides, riversides, and historic sites;
- Construction, enlargement or rehabilitation of roads and bridges;
- Construction or improvement of tourist facilities and public utilities;
- Training for tourism promotion.

2) Rehabilitation and Improvement of Small-Scale Irrigation Projects (about 600 sub-projects)

- Dams, weirs, and reservoirs: countermeasures for collapse of, damage to, or erosion of side-slopes, spillways, embankments, and sedimentation;
- Regulators: rehabilitation and improvement of gates;
- Distribution System: rehabilitation and improvement of canals (including measures to combat leakage and sedimentation).

(iii) Benefits/Impacts of Projects

Selection criteria for sub-projects are: i) sub-projects should be priority projects in the sector concerned and labor-intensive; ii) geographic location of sub-projects should be areas hit directly or indirectly by the crisis; iii) scale of sub-projects should be such that they can be designed and constructed rapidly and with low risk, iv) sub-projects should generate positive environmental and social impacts. The Project, which will at the same time contribute to developing important infrastructure needed for sustainable development, is expected to create 270 thousand man-months of employment.

The Project is co-financed by the International Bank for Reconstruction and Development (IBRD), the United Nations Development Program (UNDP), and the Australian Agency for International Development (AusAID).

The proceeds of the loan will be used to cover the cost of construction works and consulting services, in which consultants selected by the executing agencies of the Project will assist the agencies to monitor the progress and impact of the Project, to manage disbursement, to coordinate among the various sub-projects and agencies involved, and to report to OECF.

The executing agencies of the Project are Royal Irrigation Department (RID), Ministry of Agriculture and Cooperatives, (Address: Samsen Road, Dusit Bangkok 10300, Thailand, Telephone: 662-241-0740, FAX: 662-241-2688), and Tourism Authority of Thailand (TAT)(Address: 202, Le Concorde Building, Rajchadapisek Road, Huaikwang, Bangkok 10320, Thailand, Telephone: 662-694-1222, FAX:662-694-1220).

The "social safety net" refers to measures to assist targeted groups of particularly vulnerable people who have been adversely affected because of the government policies for structural adjustment, which must often include raising taxes to reduce the fiscal deficit. Provision of the social safety net is considered one of the keys to successful structural adjustment.

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(2)Local Cost Financing Program for OECF Assisted On-Going Projects

(i) Need for the Program

It has become difficult for RTG to allocate budget necessary for the smooth implementation of on-going OECF assisted projects because of revenue shortfalls, revenue being lower than expected as a result of the crisis. It has also become clear that the financial situation of state enterprises, some of which are executing agencies of OECF-assisted projects, has worsened due to the difficulty of borrowing from government banks and shrinkage of the bond market. As a result, projects assisted by OECF are often behind schedule.

The Japanese Government announced in its "Emergency Measures for Economic Stabilization of South-East Asia" (Cabinet approval , February 20) that it would strengthen its assistance for local-cost requirements of on-going OECF assisted projects. The Measures will enable OECF to provide yen loans for part of the local-cost requirements of some projects, requirements which were to be financed by RTG, in order to promote attainment of the projects' goals.

(ii) Scope of Works

Under the Program, additional loans are provided for the on-going OECF-assisted projects listed below.

<On-Going Projects concerned>

Name of Projects	Loan Amount under the Program (¥ million)
Regional Road Improvement Project (2)	1,600
MRTA Initial System Project (Blue Line)	29,792
PEA Projects: Transmission System and Sub-station Development Project (4) & Power Distribution System Reinforcement Project (5-2)	2,042
Track Rehabilitation Project	2,979
	Total 36,413

(iii) Benefits/Impacts of the Program

The Program is expected to facilitate smooth implementation of the on-going OECF- assisted projects targeted, and, thereby, to contribute to attainment of the projects' objectives in a timely manner.

The proceeds of the loans are to be used to cover local-cost requirements of the projects for procurement of goods, construction works, and consulting services.

The Executing Agencies of the Program are: Department of Highways, Ministry of Transport and Communications (DOH; Address: Sri Ayudhya Rd., Phayathai, Bangkok 10400, Thailand; Telephone: 662-246-1122, FAX: 662-245-5273), for the Regional Road Improvement Project (2); Metropolitan Rapid Transit Authority (MRTA; Address: 175 Rama IX Road, Huai Khwang, Bangkok 10320, Thailand; Telephone: 662-246-5733, FAX: 662-246-2942), for the MRTA Initial System Project (Blue Line); Provincial Electricity Authority (PEA; Address: 200 Ngam Wong Wan Road., Chatuchak, Bangkok 10900; Telephone: 662-589-0100, FAX: 662-589-4859), for PEA Projects; and State Railway of Thailand (SRT; Address: Rongmuang Road, Pathumwan, Bangkok 10330; Telephone: 662-824-4174, FAX: 662-226-2619).

There are projects whose local cost requirements are not covered under the aforementioned Local Cost Financing Program. The requirements of 10 such projects, totaling about 7.5 billion yen, will be financed under the respective OECF loan agreements already committed for each of the 10 projects by amending the relevant provisions of the agreements.

<ANNEX>Thailand: Current Economic Situation

The Royal Thai Government (RTG) has been striving to overcome the current crisis and to rebuild the economy. The International Monetary Fund, which, among others, is providing the Government with financial assistance, has conducted a series of economic reviews with the Government.

(1) Economic Growth

Under the fourth Letter of Intent, approved by the RTG Cabinet and presented to IMF, the decline in real GDP for 1998 was estimated at about 4-5.5 percent, very much greater than the previous estimate of 0.4 percent. This reflects weaker private consumption and investment demand than previously anticipated, due to the stringent fiscal and monetary policies implemented under the IMF Program.

	1996 (Actual)	1997			1998			
		1st 97/8	2nd 97/11	Estimate 98/5	1st 97/8	2nd 97/11	3rd 98/2	4th 98/5
Economic Growth(%)	6.4	2.5	0.6	-0.4	3.5	0 - 1	-3 - -3.5	-4 - -5.5
Inflation (CPI) (%)	5.9	7.0	6.0	5.6	8.0	10.0	11.6	10.5
Govt. Fiscal Acct.(%GDP)	2.2	-1.1	-0.9	-0.9	1.0	1.0	-1.6	-2.4
Revenue(%GDP)	19.1	17.3	17.6	18.3	17.8	16.6	16.1	15.5
Expenditure(%GDP)	16.8	18.4	18.5	19.2	16.8	15.6	17.7	17.9
Public Fiscal Acct (%GDP)	2.7	-1.6	-1.5	-2.1	1.0	1.0	-2.0	-3.0
Export Growth(%, US\$ base)	-1.3	2.8	3.2	3.8	8.6	7.9	6.2	1.4
Import Growth(%, US\$ base)	1.8	-6.1	-9.3	-13.4	1.6	0.2	-7.7	-17.7
Current Account (Bil. US\$)	-14.4	-9.0	-6.4	-3.0	-5.3	-2.5	4.4	8.5
Current Account to GDP (%)	-7.9	-5.0	-3.9	-2.0	-3.0	-1.8	3.9	6.9
Capital Account (Bil. US\$)	18.0	-16.4	-17.9	-15.6	1.8	0.3	-12 - -14	-14 - -16
Foreign Reserves (Bil. US\$)	38.7	23.0	23.0	27.0	24.5	24.8	23 - 25	26 - 28

Comparison of Economic Targets of the 1st, 2nd, 3rd, and 4th Letters of Intent

(2) Inflation

Inflation is now expected to be 10.5% in 1998, up from the 5.6% of 1997, because of increases in food prices, for example, rice and grains. There is considerable concern regarding the impact of inflation on the low-income groups.

(3) Fiscal Balance

Stringent fiscal policies are being continued in order to improve the current account balance and thereby overcome the crisis. The fiscal 1998 expenditure budget has been cut by 13.5% in total, from the previous fiscal year's figure, and the investment budget cut drastically by 33%. There will be further government revenue shortfalls for corporate income tax, because of the declining profits of private companies, and lower earnings of state enterprises. Against this background, RTG and the IMF agreed to revise the target for the fiscal 1998 overall public sector balance from minus 2 percent of GDP to minus 3 percent of GDP. The revised target was agreed upon in the light of the fact that the current account balance has improved more than expected because of import contraction and unemployment continues to become much more serious than projected and strengthening of social safety net spending is urgently needed.

(4) Current Account Balance

The current account has registered a surplus since September 1997. This surplus and official capital inflow from IMF and other donors have offset private capital outflow. However, it must be pointed out that improvement of the current account balance is not the result of export growth but of declining imports. Export performance has been weaker than expected, partly because of falling agricultural and manufactured goods prices, as well as lower external demand owing to the depreciation of other Asian currencies. In addition, exporters face financial difficulties because of the liquidity crunch, caused partly by financial sector reform, which is the cornerstone of the economic program to overcome the crisis and which calls for a continuous strengthening of the solvency and liquidity of domestic financial institutions.

(5) Employment

According to a survey by the Ministry of Labor and Social Welfare, the number of unemployed has been growing, even since the baht became stable. The number was 1.89 million at the end of March 1998, after new graduates entered the labor market. RTG expects that unemployment will be at its worst in mid-1998. Rapid strengthening of social safety net spending, thus, becomes particularly necessary.