

First ODA Loan to Thailand under the New Miyazawa Initiative - Supporting Economic Stabilization of Thailand and the Expansion of Social Safety Net -

OECF (the Overseas Economic Corporation Fund, Japan: President, Chairman of the Board: Mr. Kyosuke Shinozawa), has decided to provide a loan to the Kingdom of Thailand as a necessary fund for "Economic Recovery and Social Sector Program Loan" of up to 30 billion yen, and signed the loan agreement on March 12, 1999.

The loan agreement was signed at OECF head office in Tokyo by Mr. Kyosuke Shinozawa and Mr. Suphachai Phisitvanich, Permanent Secretary for Finance, Ministry of Finance of the Kingdom of Thailand.

The loan approved this time to Thailand, which follows on the 23rd ODA loan package (an emergency portion of 49.8 billion yen in July 1998, the balance of 67.7 billion yen in September of the same year) which helped efforts to overcome the Thai currency crisis, constitutes the signing of the third loan package for fiscal 1998. It is the first ODA loan to Thailand under the New Miyazawa Initiative announced in October last year. With this, the total amount of ODA loan commitments to Thailand for 1998 comes to approximately 147.6 billion yen, constituting the largest amount in terms of annual loan commitments.

The cumulative commitment amount of ODA loans to Thailand now stands at 1,631.196 billion yen, covering 220 projects.

The amount, terms and conditions of the loan are as follows.

1. Amount Terms and Conditions

Project Name	Amount (Mil. Yen)	Interest Rate (% p.a.)	Repayment Period /Grace Period (years)	Tying Status
Economic Recovery and Social Sector Program Loan	30,000	1.0	25 / 7	General Untied

* Special Environmental Projects

2. Thai Economic Outlook

Owing to the 1997 currency crisis, Thailand's economic growth-rate fell to -0.4%, and it is forecasted to show a further deterioration to -7 to -8% for 1998. However, as regards the balance of trade, with the fall in imports exceeding the fall in exports, the trade balance has marked surplus since September 1997. Furthermore, the consumer price index at the beginning of 1998 showed a level of over 10% in comparison with the same month in the previous fiscal year, but by December 1998 it had quietened down to 4.3%, giving an average for 1998 of 8.1% (preliminary data). The exchange rate has settled, after the stiff fluctuations in the first quarter of 1998, and the Baht versus dollar marked 4 months consecutive improvement standing at 36.2 Baht / \$ in December 1998.

After the 1997 currency crisis, the Thai government posted a budget-surplus target of 1% of GDP for the central government budget for fiscal 1998 (Oct.'97-Sept. '98), revised the projected annual expenditure of 982 billion Baht approved by the parliament before the currency crisis downward twice, and cut it further to 800 billion Baht in November 1997. In response, however, to the revenue shortfall stemming from the continuation of the recession, as well as to the need to soften the social impact of the economic crisis, the Thai government abandoned the budget surplus target in February 1998, and adopted a policy contemplating a deficit of up to 1.5% of GDP, with the purpose of increasing government spending. Additionally, in May 1998, the government moved to a more stimulative fiscal policy giving greater priority to economic stabilization and centering on an early recovery and measures to boost employment, and extended the upper limit of the budget deficit to 2.4% of GDP. As of June 1998, the scale of annual expenditure after the fourth budget revision was 830 billion Baht.

An active fiscal policy is being maintained also in the fiscal 1999 budget (Oct.'98-Sept. '99) with the upper limit of budget deficit being raised to -3% of GDP. The government expects to use foreign finance as a source of additional expenditure and requested "Economic Recovery and Social Sector Program Loan" to the Japanese government in November 1998.

The Thai government intends to implement such a measure from April 1999, which means that this loan is of high urgency.

3. Program Description

"Economic Recovery and Social Sector Program Loan"

The program, which is intended to have immediate effect, has as its objective, through the allocation of the loan proceeds to general import settlement, to bring about the improvement in the international balance of payments necessary for the Thai economy to restore the credibility in the markets and to carry out smooth economic structural reform. It also is intended to contribute to the easing of the unemployment problem which has become grave due to the economic crisis and to aid the vulnerable by utilization of the counterpart funds.

The counterpart funds of this loan will be allocated to the incremental part of the expenditure planned by the Thai Government (1% of GDP, approximately 165 billion yen), with the aim of 1) the expansion of the social safety net underpinning economic structural adjustments and 2) the implementation of labor-intensive public works with the employment creating effect.

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The amount of the Yen provided under a Economic Recovery and Social Sector Program Loan will be sold by the Thai Government to the Central Bank of Thailand, and the Government in return receives from the bank the equivalent amount of the Baht. The Baht (local currency) thus obtained is called a counterpart fund.(back)