

## Support for Thailand under the New Miyazawa Initiative

### - Supporting economic stabilization of Thailand and increased productivity & export competitiveness in the agriculture sector-

The OECF (Overseas Economic Cooperation Fund, Japan; President, Chairman of the Board: Kyosuke Shinozawa) signed a loan agreement with the Kingdom of Thailand on September 29, 1999, for a total amount of up to 36 billion yen to be used for "Agriculture Sector Loan".

The loan agreement was formally signed at the OECF head office in Tokyo by Mr. Kyosuke Shinozawa and Mr. Sonmmai Phasee, Deputy Permanent Secretary, Ministry of Finance of the Kingdom of Thailand.

The signing of this loan agreement, which follows "Economic Recovery and Social Sector Program Loan" (for 30 billion yen, signed in March 1999) aimed at supporting the economic stabilization of Thailand and the expansion of the social safety net, is the second ODA loan to Thailand under the New Miyazawa Initiative announced in October last year.

This together with the 24th ODA loan package signed on the same day brings the total amount of ODA loan commitments to Thailand for fiscal 1999 to approximately 151.8 billion yen, constituting the largest annual loan commitment to Thailand.

The cumulative commitment amount of ODA loans to Thailand now stands at 1,782.986 billion yen for 226 projects.

#### 1. Loan Amount, Terms and Conditions

Project Name	Amount (Billion Yen)	Interest Rate (% ,p.a.)	Repayment Period /Grace Period (years)	Tying Status
Agricultural Sector Loan	36	1.0	25/7	General Untied

#### 2. Economic Information on Thailand

Due to the currency crisis, Thailand's economic growth rate fell to minus 0.4% in 1997, and it is forecasted to worsen even further in 1998 to minus 8%. However, the trade balance has continued to show a surplus since September 1997 with the fall in imports exceeding the fall in exports. The consumer price index in the first half of 1998 had remained at levels of over 10% in comparison with the same period in the previous year, but it calmed gradually in the latter half of the year, falling to minus 0.5% in May 1999, indicating an increasing deflationary trend. The baht exchange rate has settled, after the violent fluctuations in the first quarter of 1998, and the baht improved its standing versus U.S. dollar for four consecutive months, marking the average rate at 36.2 baht/dollar in December 1998. Afterward, the baht exchange rate weakened somewhat during the first half of 1999, showing the value of the baht at around 37 baht/dollar. Furthermore, the exchange rate has fallen to the level of 38 to 39 baht/dollar in the third quarter of 1999 due to the market's concern about Thailand's banking systems and so forth.

After the 1997 currency crisis, the Thai government set 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 onslaught of the currency crisis) downward three times, and cut it further to 800 billion baht in November 1997. However, in response 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 approving 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 aggressive fiscal policy giving greater priority to economic stabilization by focusing 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 level of annual expenditure after the fourth budget revision was 830 billion baht.

The government is also continuing its aggressive fiscal policy in the fiscal 1999 budget (Oct. '98-Sept. '99), raising the upper limit of budget deficit to 3% of GDP in December 1998, increasing the deficit for the public sector balance of payments to 6% in March 1999, and introducing comprehensive economic stimulus measures of a total 130 billion baht. The government has used foreign aid, such as OECF's Economic Recovery and Social Sector Program Loan, as a source for these additional expenditures.

#### 3. The Thai Agricultural Sector

With the recent development of manufacturing industry in Thailand, the percentage of GDP represented by the agriculture sector is decreasing. Nonetheless, the importance of that sector for the Thai economy remains large because more than half of all employed workers are in the sector, agricultural land accounts for about 40% of the nation's total area, agricultural, forestry, and fisheries products account for just under 30% of all exports, and the agriculture sector has a trade surplus.

In addition, financial, real estate, construction, and other industries are facing serious difficulties as a result of the financial stringency and waning domestic demand stemming from the currency crisis, and it is believed that the support to agriculture sector is the key to achieve full economic recovery.

Still, the agriculture sector itself has been greatly affected by the currency crisis, as is evidenced by decreasing agricultural incomes caused by an increasing number of people returning from the cities to the countryside, decreasing non-agricultural incomes for those who live in the countryside but work away from their homes in the cities, and rising prices of materials such as agricultural inputs.

Moreover, the agriculture sector had been facing its own long-established issues, such as the diversification of products and improvements in product quality, the promotion of exports or import substitution and the bolstering of agriculture-related industries, increasing and stabilizing farm family incomes especially in impoverished areas, unifying policy for management of natural resources, and promoting the issuance of land use certificates for landless farmers. Improving accessibility to reasonable amounts of credit for local agriculture is necessary for maintaining stable agricultural productivity and farm family incomes.

The Thai government has been trying to deal with these problems in line with the 8th National Economic and Social Development Plan. However, various projects promoted by the Ministry of Agriculture and Cooperatives has faced funding problems, leaving the ministry with no choice but to modify its agricultural policies, because the Thai government planned to reduce government expenditures after the outbreak of the currency crisis in 1997.

Given these conditions, the Thai government has taken the initiative to introduce policy and institutional reforms in the agriculture sector under its Framework for Restructuring the Agriculture Sector in May 1998, and in November requested to the OECF for assistance through co-financing with the Asian Development Bank (ADB).

#### 4. Loan Description

##### Agriculture Sector Loan

This loan, in the form of co-financing with funds from the ADB's Agriculture Sector Program Loan, is to improve Thailand's international balance of payments while also supporting the nation's agriculture sector - a sector which is expected to play a large role in absorbing employment and increasing exports.

Under this parallel financing scheme, the three items listed below are addressed in agricultural policies, and funds will be provided depending on the Thai government's progress in implementing these agricultural policies. The counterpart funds of this loan will be applied to costs of implementing the Agriculture Sector Program, the heart of which is comprised of these policy issues.

- 1) Increasing agricultural productivity (rationalize water resource management, introduce plans and management strategies for water resources, improve land use/management, etc.)
- 2) Enhancement of the export competitiveness of agricultural products (strengthen research and technology, improve farmer education, etc.)
- 3) Restructuring of agricultural institutions and improvement of governance in the sector (restructure and reorganize the Ministry of Agriculture and Cooperatives, strengthen community participation in agricultural planning)

\*Counterpart funds: The amount of yen provided as funds for import settlement of general goods will be sold by the Thai Government to the Central Bank of Thailand. In return, the Government receives the equivalent amount in the local currency (Thai b). The local currency funds thus obtained are called "counterpart funds."(back)