Consolidated Public Sector Finance in Thailand: A Management Approach

Vuthiphong Priebjrivat

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BY

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LIST OF ACRONYMS

ABAA	Annual Budget Appropriations Act
BHH	Businesses and households
BOB	Bureau of the Budget
BOT	Bank of Thailand
B+F	Banks and other financial institutions
CAO	Changwat administrative organizations
CG	Central government
CGD	Comptroller-General's Department
CPS	Consolidated public sector
DTEC	Department of Technical and Economic Cooperation
FL	Foreign loans
FPO	Fiscal Policy Office
GR	Grants
LAD	Local Administration Department
LG	Local governments
MOF	Ministry of Finance
MOI	Ministry of Interior
NB	National budget
NDP	National Development Plan
NDPC	National Debt Policy Committee
NESDB	Office of the National Economic and Social Development Board
NSEC	National State Enterprise Committee
OAG	Office of the Auditor General
OPM	Office of the Prime Minister
ROW	Foreign economies (rest of the world)
SE	State enterprises
XF	Extrabudgetary funds

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INTRODUCTION

Public finance in Thailand often refers only to revenue, expenditure and financing of the national budget. Organizations under the government's direction and control (such as local government agencies and state enterprises) and extrabudgetary items (special funds, foreign loans and grants) usually do not receive their due attention or sometimes are simply disregarded. As a result, the extent of the government's role and intervention in the economy, both fiscal and nonfiscal, tends to be underestimated.

For these reasons, this report will attempt to portray a more complete picture of the Thai public sector finance by incorporating those often missing pieces. It hopes to provide a systematic, rather comprehensive, simplified yet sufficiently realistic conceptualization of the subject matter. This report will, however, only focus on the institutional and administrative aspect of the Thai public finance, leaving out its economic and financial aspect.

The report comprises four chapters. The first chapter is an overview describing the background, various organizational and financial components, and the overall conceptual framework related to the Thai public sector finance. Chapter II describes various financial transactions that occur within the public sector and as related to the general economy. A new format of CPS accounts is also proposed in order to capture and summarize the multiplicity of those financial transactions involved. Legal constraints that regulate the financial transactions are briefly outlined in closing this chapter. The detail of the acts and regulations appears in Appendices A to E at the end of the report. Chapter III covers the administrative side of the report. It deals in detail with the administrative procedures and the agencies concerned. A number of diagrams are employed in Chapters II and III to illustrate such administrative interactions and financial interflows.

The last chapter (Chapter IV) concludes the report by first summarizing the main points in the previous three chapters and then discussing a few probable areas for improvement as found during the study and many extensive expert interviews. The topics include: management information systems, performance evaluation, authority structure, nonbudgetaries, local governments and state enterprises. This hopefully will serve as a springboard to further investigation for possible reforms in the future.

CHAPTER I

COMPONENTS OF THE CONSOLIDATED PUBLIC SECTOR FINANCE

Various studies concerning consolidated public sector finance have identified several common components composing the total public sector, such as, the central government, local governments, state enterprises, revolving funds, special funds, loans and grants. The classification, however, tends to differ from one study to another and confusion often arises when trying to reconcile various classification schemes. One probable explanation is in the different criteria of classification employed. This report differentiates three classification criteria: (i) organizational (ii) financial and (iii) accounting.

The organizational criterion differentiates various public sector components by agency, office and administrative unit each having its own authority, jurisdiction and staff. This criterion divides the public sector into (1) the central government (2) local governments and (3) state enterprises.

The financial criterion, on the other hand, classifies along different financial sources and accompanying financial procedures, budgets and disbursement procedures. This report identifies six financial entities: (1) the national budget (2) foreign loans (3) grants (4) extrabudgetary funds (5) local government budgets and (6) state enterprise budgets. The first two are at the national level while the remainder are subnational. These financial entities are not independent due to coordinated planning, cross subsidies and financial interactions of various kinds. In fact, a great number of projects are jointly funded by several financial sources.

The accounting criterion merely provides operational convenience for an organization in order to manage various revenues and expenses. The much talked about "advance payment accounts" of ministries and departments is a good example of creating a separate accounting entity within the same organizational and financial entity. Accounting criterion is only an internal management matter and will not be a concern of this report except for clarification purposes.

To summarize, the Thai public sector will be divided up two ways in this report -- "organizationally" and "financially." This results in three organizational components and six financial components. The following sections will go over both kinds of components and their interrelationships. Descriptions of the interworkings, interactions, collective decision-making processes, and administrative procedures will be provided in Chapters II and III.

ORGANIZATIONAL COMPONENTS

The Central Government

The central government (CG) encompasses twelve ministries, the Office of the Prime Minister, the Office of University Affairs and five independent public agencies (e.g., the Office of the Auditor General and Bureau of the Crown Property) along with all departments, offices and agencies under them. It also directs, supervises and finances the operation and management of local governments and state enterprises to a great extent. The central government is thus the focal point in planning and directing national policy and management. Both local governments and state enterprises presently play only a nominal role in the endeavor.

Local Governments

Local governments (LG), in a way, are merely an administrative arm of the central government taking care of more routine public services in the provinces. A big chunk of the financial support of local governments comes as subsidy and shared taxes allocated to them by the central government. The self-collected local taxes, at the moment, only constitute about 42% of their revenues. This probably suggests a lack of autonomy vis a vis the central government. Aside from financial reliance, local governments are legally subject to supervision and endorsement by their provincial governors, who are government officials answerable to the Ministry of Interior.

Local governments are classified into municipalities, sanitary districts and changwat administrative organizations (CAOs) according to the size and population density of the community. Most sparsely populated areas are under the CAOs. Municipalities which represent larger communities are further classified as "nakorn", "muang" or "tambon" municipalities. Currently, local governments are made up of 126 municipalities, 795 sanitary districts, 72 changwat administrative organizations (one for each province except Bangkok), the Bangkok Metropolitan Administration, and the Pattaya City Administration. There are roughy 3.6 million people living under the jurisdiction of the 126 municipalities; 5.5 million under the 795 sanitary districts; and about 36 million under the 72 CAOs.

The legal arrangement of the local governments differs somewhat. The legislative body of a municipality, called the "municipal council," comes from a local election every five years. The number of councilors varies from 12 to 24 according to the municipality size. Three to five of the councilors will be chosen by their colleagues to represent the administrative body called the "councilor committee."

The "sanitation board," the legislative body of a sanitary district, is partly elected and partly appointed. There are nine elected members. The "district director" is, by post, the chairman of the board and the heads of those "tambons" under the sanitary district are automatically board members.

The legislative component of a CAO is called the "changwat council" or "provincial council" and is composed of elected members varying from 18 (population less than 200,000) to 36 (over 1,000,000). The provincial governor, by post, is the acting chairman of the CAO's administrative body and the "deputy provincial governor" acts as the treasurer.

State Enterprises

State enterprises (SE) are mostly big businesses that are wholly or predominantly owned by the government; thus, their policies and operations are directed and supervised by the government. The bulk of state enterprises are in utilities and public services, such as electricity, waterworks, telephone, postal service and transportation. However, they span over several other industries, such as tanning, textiles, preserved food manufacturing, hotel services and state lotteries. There are currently 68 state enterprises holding some 600 billion baht assets and employing roughly 1/4 million employees. Their combined revenues and expenditures are in the order of 250 billion baht with operating surplus running over 20 billion baht annually. According to their sizeable contribution to and influence on the economy -- as producers, consumers, as well as competitors -- these state enterprises can reasonably be thought of as the "third sector" of the economy. They are thus collectively referred to in this report as the "state enterprise sector, SE."

In terms of reporting and control, a state enterprise reports to its parent ministry which often treats state enterprises the same way it treats departments and agencies under its control. Aside from the ministerial control, state enterprises are also answerable to the National State Enterprise Committee and, of course, the Cabinet. Investment projects need to be reviewed and approved by NESDB. Projects requiring foreign loans need additional review and approval by the National Debt Policy Committee and by the Bureau of the Budget when budgetary support is neeed. Despite original designs to the contrary, this overwhelming control causes state enterprises to behave as if they were part of the government. Enterpreneurial inclinations and businesslike undertakings are often lacking. Most of their operating profits and contributions to the national budget are, at a closer look, mere fruits of the monopoly power blessed upon them by the government.

Many of the state enterprises started off as projects under governmental departments or agencies, but assumed separate financial entities labelled, "revolving funds." They later outgrew the technical and staff support from their parent departments and the "revolving fund status" which necessitated their own organizational setup and staff. The eventual split has resulted in the projects graduating from revolving fund status to present "state enterprise status."

One sharp distinction, but often overlooked, between state enterprises and governmental agencies is in their business potential of providing marketable products and, eventually becoming financially self-sufficient. Several existing state enterprises, especially those of promotional function, possess neither quality. The rationale behind their state enterprise status is, at best, questionable and may need to be revised.

FINANCIAL COMPONENTS

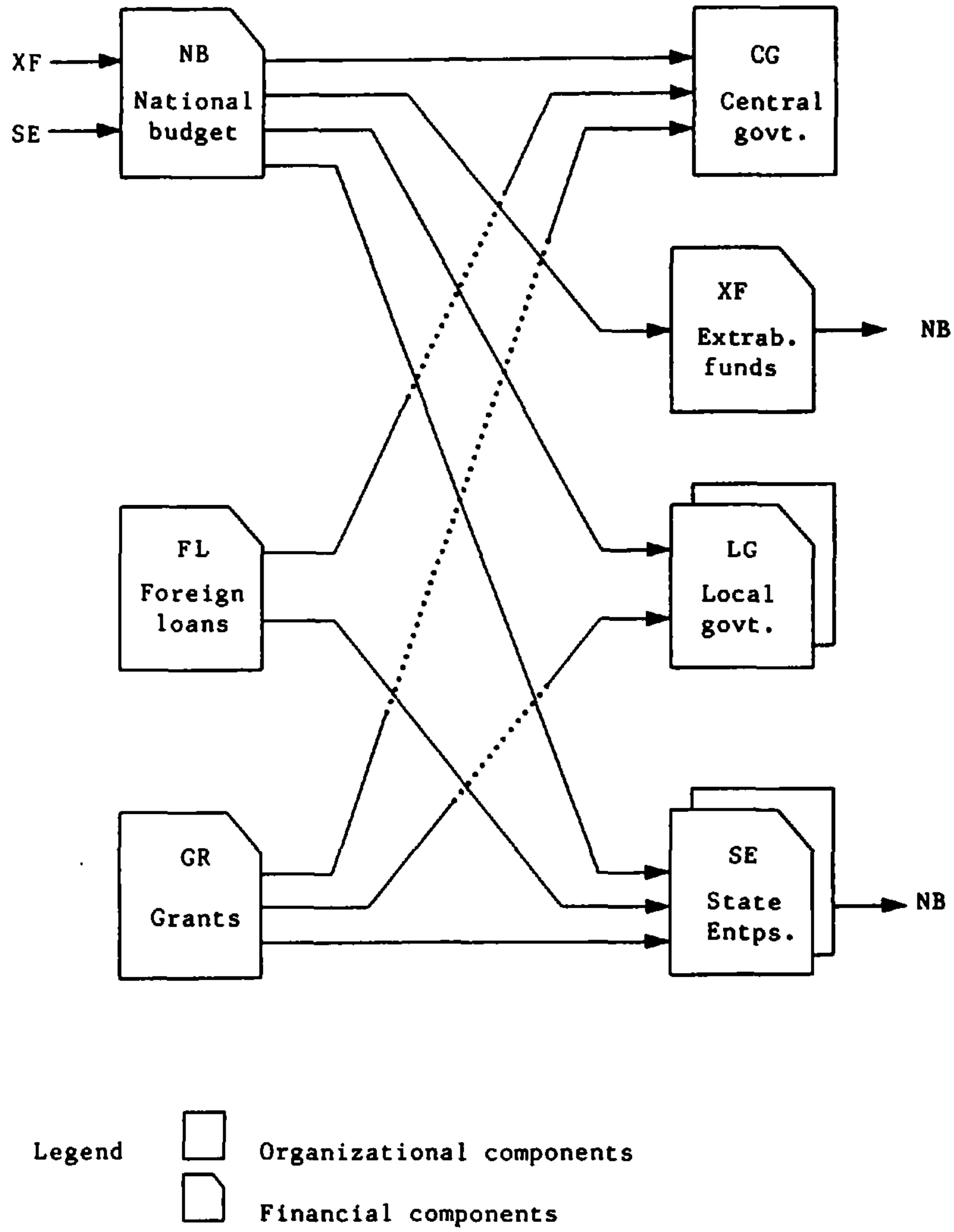
The three organizational components described above can be thought of as the "engine" for implementing public policy goals and objectives. Along the same analogy, the financial components perform the "fuel" function of driving the public policy engine. The six financial entities or sources of funds -- national budget, foreign loans, grants, extrabudgetary funds, local government budgets and state enterprise budgets -- in some combinations, jointly fuel the central government, local governments and state enterprises.

Figure 1 diagrammatically illustrates such interdependence. For conventional consistency, organizational entities are represented as rectangles and financial entities are also represented as rectangles but with the upper right corners chipped off. The arrow points from the source to the destination of the flow of fund. Local governments and their budgets are stacked together since the sole purpose of these budgets is to serve the local government in question. The same applies for state enterprises.

It can be seen from Figure 1 that the national budget is an all-purpose source of funds. Although it concentrates on financing the central government (over 90% of the current expenditures), extrabudgetary funds, local governments and state enterprises also draw from it. The national expenditure budget was targeted at 218,000 million baht for FY 1986 and 227,500 million baht for FY 1987.

The bulk of the national budget's revenue, of course, comes from taxes of various kinds. This represents about 90% of the revenue. The taxes are mainly collected by three departments -- Revenue, Customs and Excise Departments -- of the Ministry of Finance. A small portion of the revenue is

Figure 1. Relationships among Public Sector Components



also derived from sales and services of the government and contributions from profitable state enterprises and revolving funds. The national budget is by far the largest source of funds in Thailand's public finance picture. Foreign loans are not included in the national budget. A separate planning, disbursement and accounting procedure is set up for this purpose. While the national budget is prepared mainly by the staff of the Bureau of the Budget, the planning for foreign borrowing is done by a joint committee, called "the National Debt Policy Committee" which is chaired by the Finance Minister. The magnitude of foreign borrowing varies from year to year according to the financial "aggressiveness" of the ruling government. The borrowing list totalled US$ 1,000 million for the past two fiscal years. The total borrowing, according to the Regulation on National Debt Policy (1985), may not cause the projected debt service payments to exceed 9% of the expected export earnings. The detail of this regulation can be found in Appendix B.

Foreign loans are the primary source of investment financing for the central government and state enterprises: Sixty percent (and this percentage is increasing) of foreign borrowing goes to state enterprises and the remaining 40% goes to the central government. Though not prohibited by law, local governments (except for Bangkok Metropolitan

Administration) have never borrowed from abroad until recently.

Grants are also multi-purpose. Only scanty information is available on their combined size and scope since donors tend to deal with the receiving organizations directly. Only a small fraction goes through the official route via the Department of Technical and Economic Cooperation (DTEC) or the Ministry of Foreign Affairs.

The other three funds -- extrabudgetary funds, local government budgets and state enterprise budgets -- are specific funds. They are at subnational level and only finance their own organizations or projects. Extrabudgetary funds and state enterprise budgets derive their revenues mainly from the sales of goods produced and services rendered. Local government budgets derive their main revenues from local taxes (either locally or centrally collected), such as property, motor vehicle, excise and sales taxes. They all, however, receive annual or periodical subsidies from the national budget.

As previously mentioned, profitable state enterprises and extrabudgetary funds may be required to contribute a portion of their profits to the national budget. The actual amounts are jointly determined by the Bureau of the Budget, the Ministry of Finance and representatives from the state enterprises or extrabudgetary funds. The current total contribution is approximately 8,800 million baht. Recent major contributors have been the Government Lottery Bureau, Liquor Distillery Organization, Thailand Tobacco Monopoly and the Bank of Thailand.

It should be noted that the extrabudgetary funds are varied and numerous, and probably not fully covered in this report. According to a legal provision, schools, hospitals and universities are allowed to keep their generated revenues (hospital fee and tuition, etc.) for their own use. These funds are, for all practical purposes, "extrabudgetary funds." This provision, though intended for operational flexibility, causes subsequent difficulties in sizing and tracking the finances of these organizations. The size of these funds, though difficult to estimate, is presumably quite large.

CHAPTER II

DESCRIPTION OF THE CPS FINANCE

This chapter will try to place all financial transactions of the public sector in the overall picture of the economy. For simplification, the outside economy is only divided into four components. They are: (1) the market (2) businesses and households, BHH (3) banks and other financial institutions, B+F, and (4) foreign economies or the rest of the world, ROW.

The first three components are domestic and classified according to the functions they perform. The market is where goods and services are bought and sold. BHH are producers, consumers, the lending public and (most importantly) taxpayers. B+F performs the lending function. ROW refers to external economies both as lender and donor. The discussions and analyses that follow will deal with the public sector's revenue, expenditure and financing. Transactions outside the public sector's domain are disregarded. For example, BHH borrowing from and lending to B+F are not treated in this report.

FINANCIAL TRANSACTIONS

The next six figures (Figures 2 to 7) will pictorially summarize the financial transactions between the public sector and the economy -- one figure for each of the six financial components. Each figure depicts where the financial component draws its revenues and financing; and where its expenditures go.

Again, using the same convention employed in Figure 1, regular rectangles and "chipped" rectangles represent organizational and financial components of the public sector, respectively. In addition, solid lines are used to represent nonrepayable transactions, i.e., buy-sell, give-take and pay-receive. Broken lines represent repayable transactions, i.e., lend-borrow-repay. The arrowhead points in the direction of the flow of fund. This convention will be strictly observed throughout the report.

Only the national budget in Figure 2 will be explained in more detail. The remaining five figures will be left for the reader to interpret since the verbal-diagrammatical translation technique is similar. These transactions and interflows will again be elaborated in Chapter III when discussing the accompanying administrative procedures and underlying decision-making processes preceding them. For clarification, Figures 2 to 6 only describe the flow of funds while Chapter III will describe the activities of agency staff, committees, working groups, etc. required for those funds to flow.

According to Figure 2, the national budget receives from BHH as taxes (e.g., personal income, corporate income, business, sales and excise taxes) and nontaxes (sales, services, fees, fines, forfeits, etc.). Taxes have been averaging about 90% of the total revenue. In addition, profitable state enterprises (SE) and extrabudgetary funds (XF) also contribute a portion of their profits, or pay dividends (aside from paying corporate and other taxes) to the national budget. The SE contributions are recently averaging about 6,000 million baht annually.

When there is a budget deficit (which is always the case) the government borrows from various sources to supplement the revenue. It borrows by having the Ministry of Finance issue government bonds, treasury bills or promissory notes. In general, bonds are long-termed (usually 5, 10 or 15 year maturity) and bills are short-termed (1, 4, 6 or 8 week or 6 month maturity). Bills are intended for cash flow management rather than for financing purposes. However, a sizeable amount of bills outstanding (about 12,000 million baht) have been rolling over for a long period of time. Promissory notes are only used with the Government Savings Bank. Bills are primarily issued to B+F (the Bank of Thailand included) while bonds are issued to both B+F and BHH.

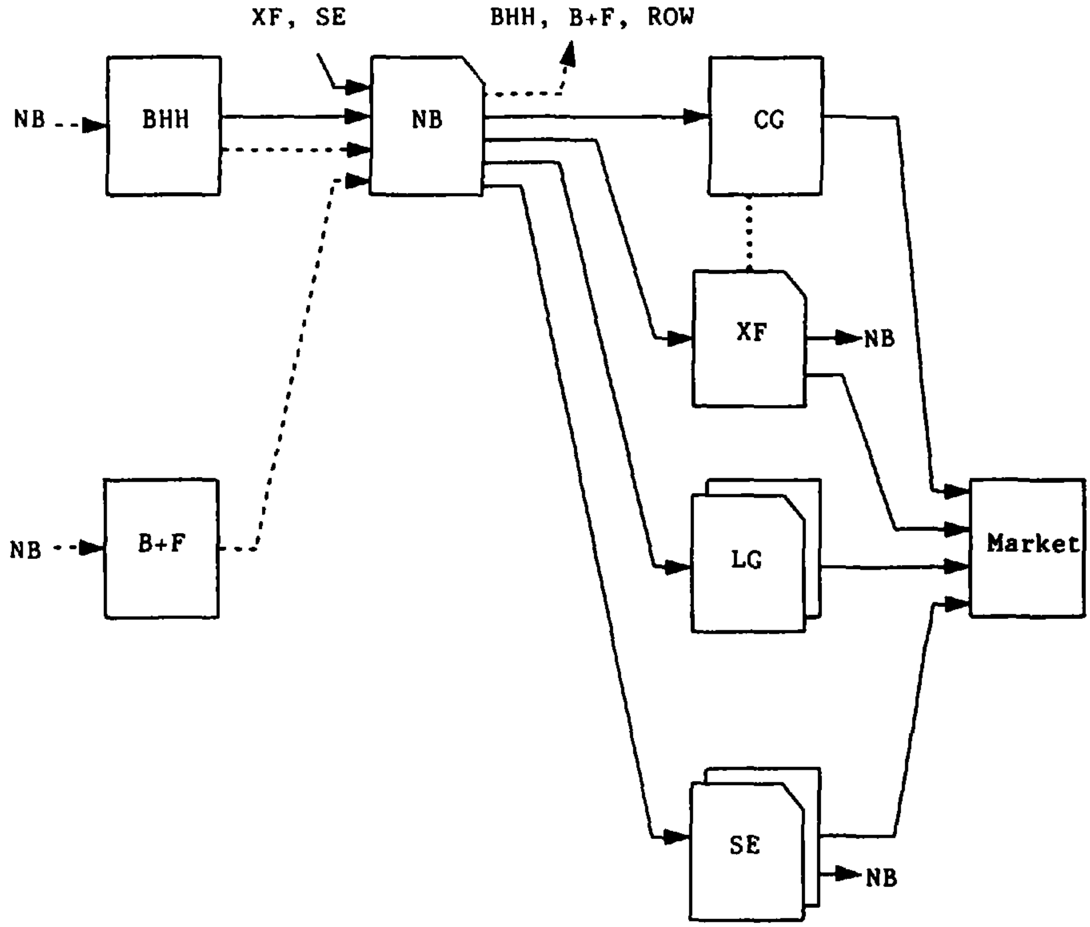
Domestic borrowing is shown as broken lines (for repayable transactions) from BHH and B+F to the national budget. It should be noted that ROW is not included in the picture because foreign loans are legally classified as nonbudgetary.

On the expenditure side, the national budget is mainly used to "fuel" the central government's operations. A small portion (currently less than 10,000 million baht) is used to subsidize operations and investments of local governments (LG) and state enterprises (SE). An even smaller portion goes to subsidizing existing extrabudgetary funds (XF) or setting up new ones. All these expenditures eventually go to the market for purchasing necessary goods and services as indicated by solid lines toward the market.

From the righthand side of the national budget, there is a broken line pointing to BHH, B+F and ROW. This dotted line arrow represents the principal repayment to the three major creditors of the government. The interest payment is, however, included in the solid line since it is of nonrepayable nature. While borrowing from foreign sources is not included as revenue, the servicing of those foreign debts -- both as principal repayment and interest payment -- is included as an expenditure of the national budget. The rationale behind this inconsistency is rather unclear and may be worth further investigation.

For the remaining five financial entities, one can read through Figure 3 to Figure 7 the same way. The six diagrams

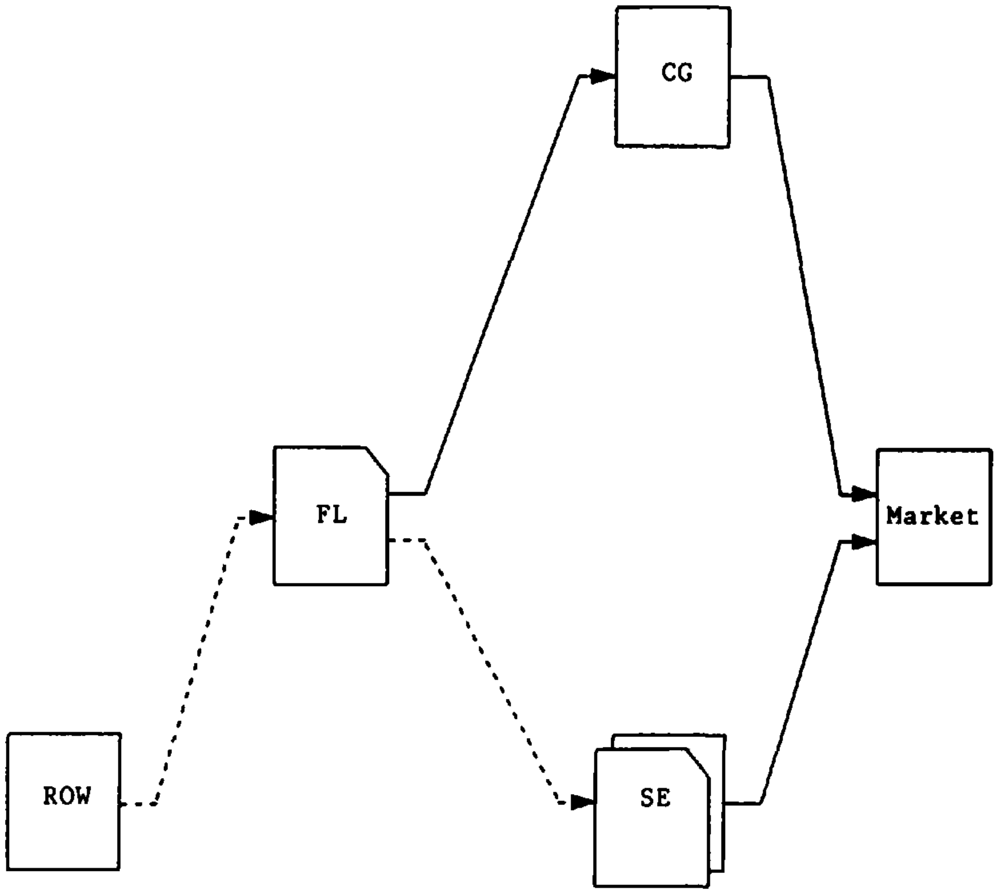
Figure 2. Financial Transactions : National Budget (NB)



Legend ——► Nonrepayable transaction

----► Repayable transaction

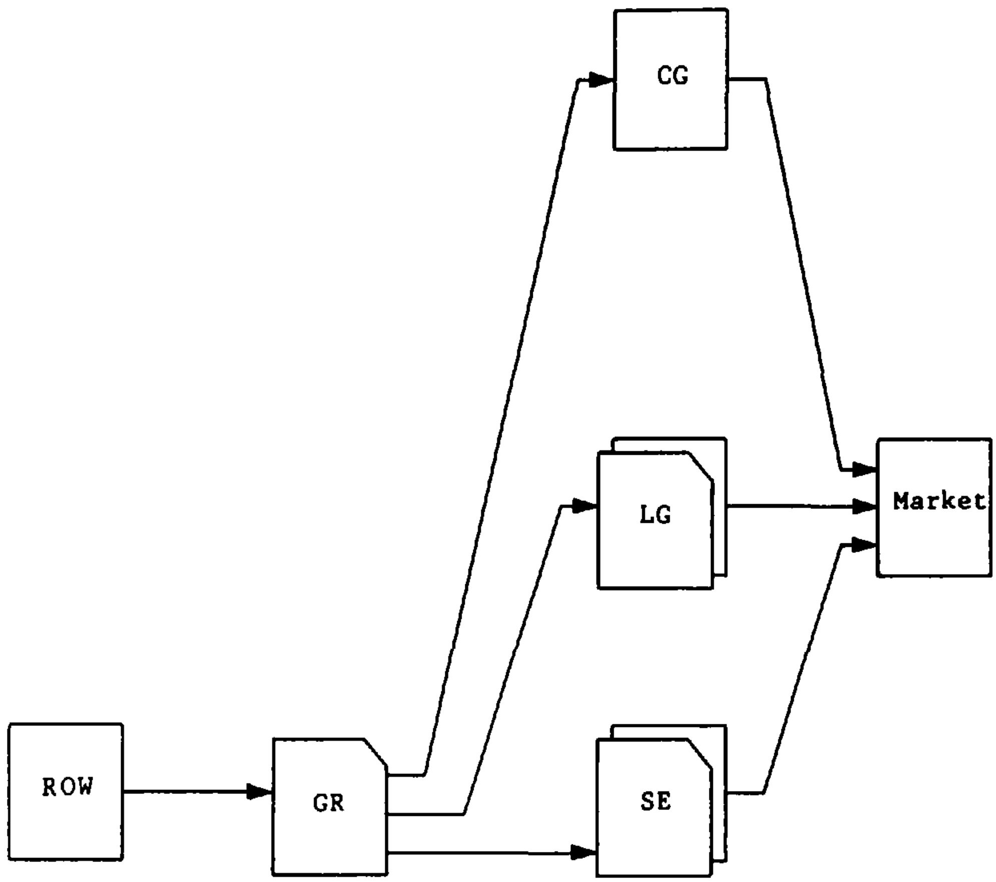
Figure 3. Financial Transactions : Foreign Loans (FL)



Legend ——► Nonrepayable transaction

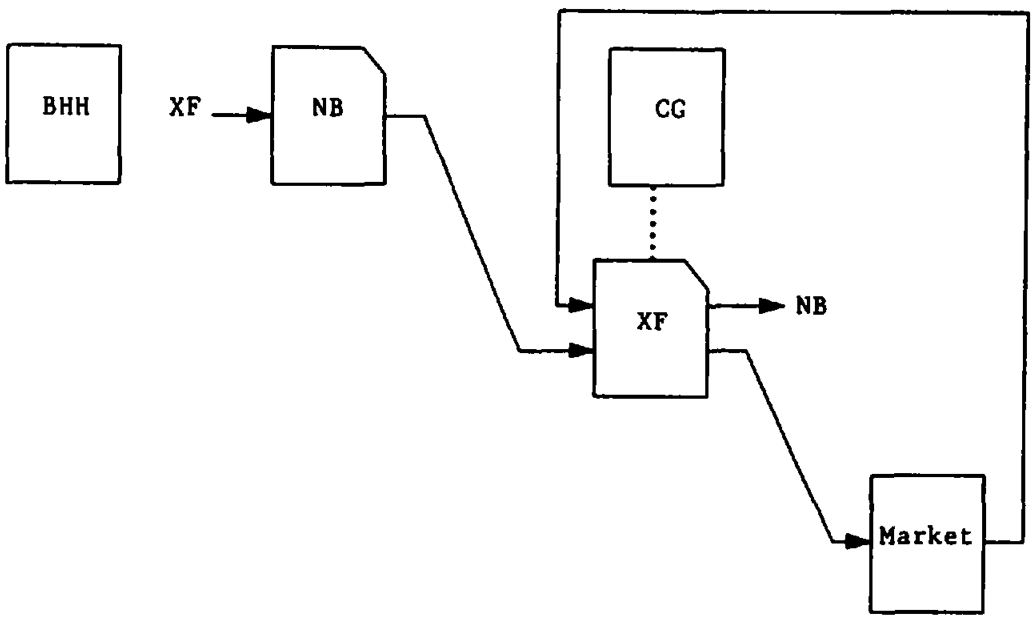
----► Repayable transaction

Figure 4. Financial Transactions : Grants (GR)



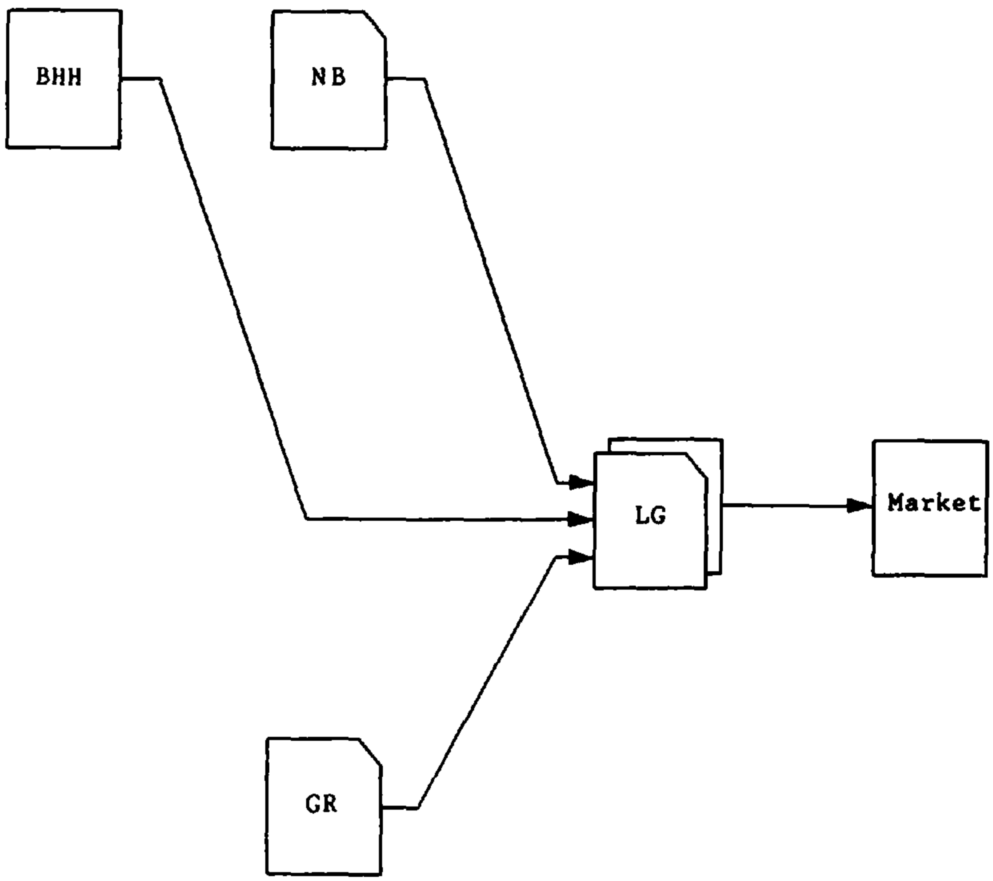
Legend → Nonrepayable transaction

Figure 5. Financial Transactions : Extrabudgetary Funds (XF)



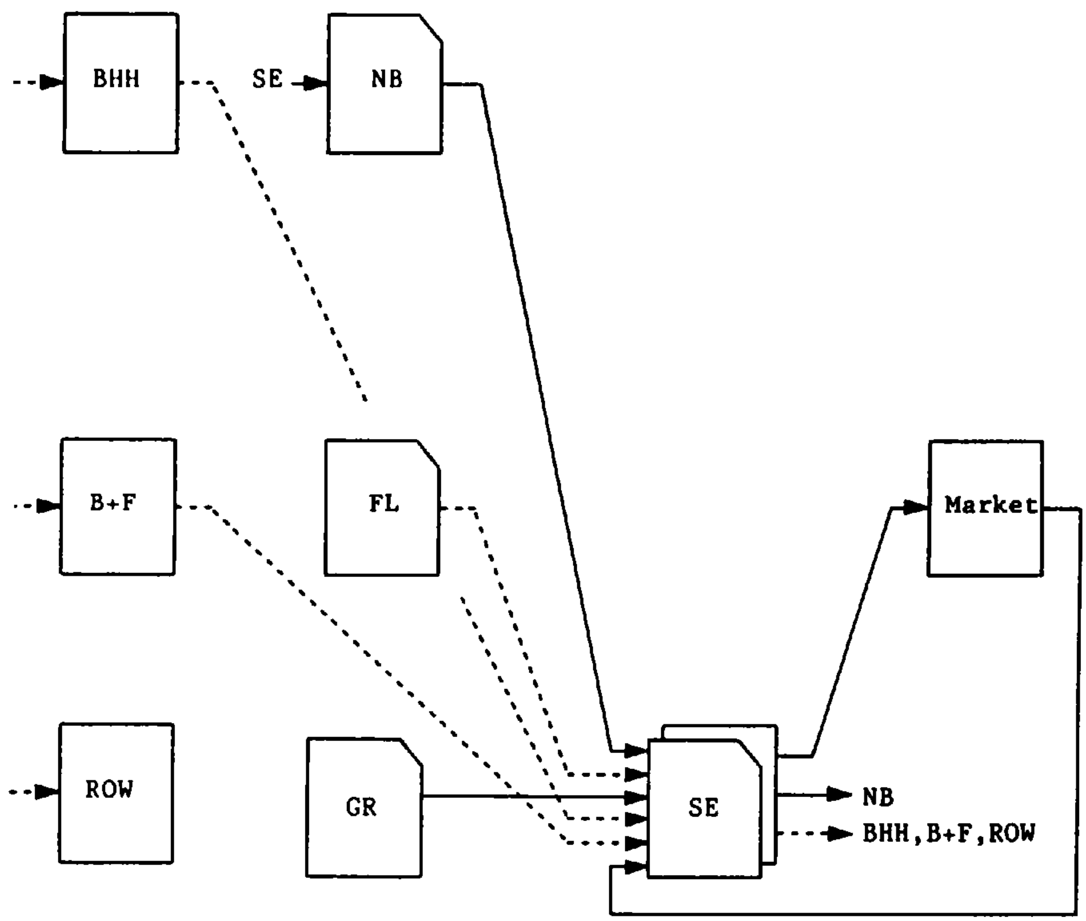
Legend ——► Nonrepayable transaction

Figure 6. Financial Transactions : Local Governments (LG)



Legend ——► Nonrepayable transaction

Figure 7. Financial Transactions : State Enterprises (SE)



Legend ——► Nonrepayable transaction

----► Repayable transaction

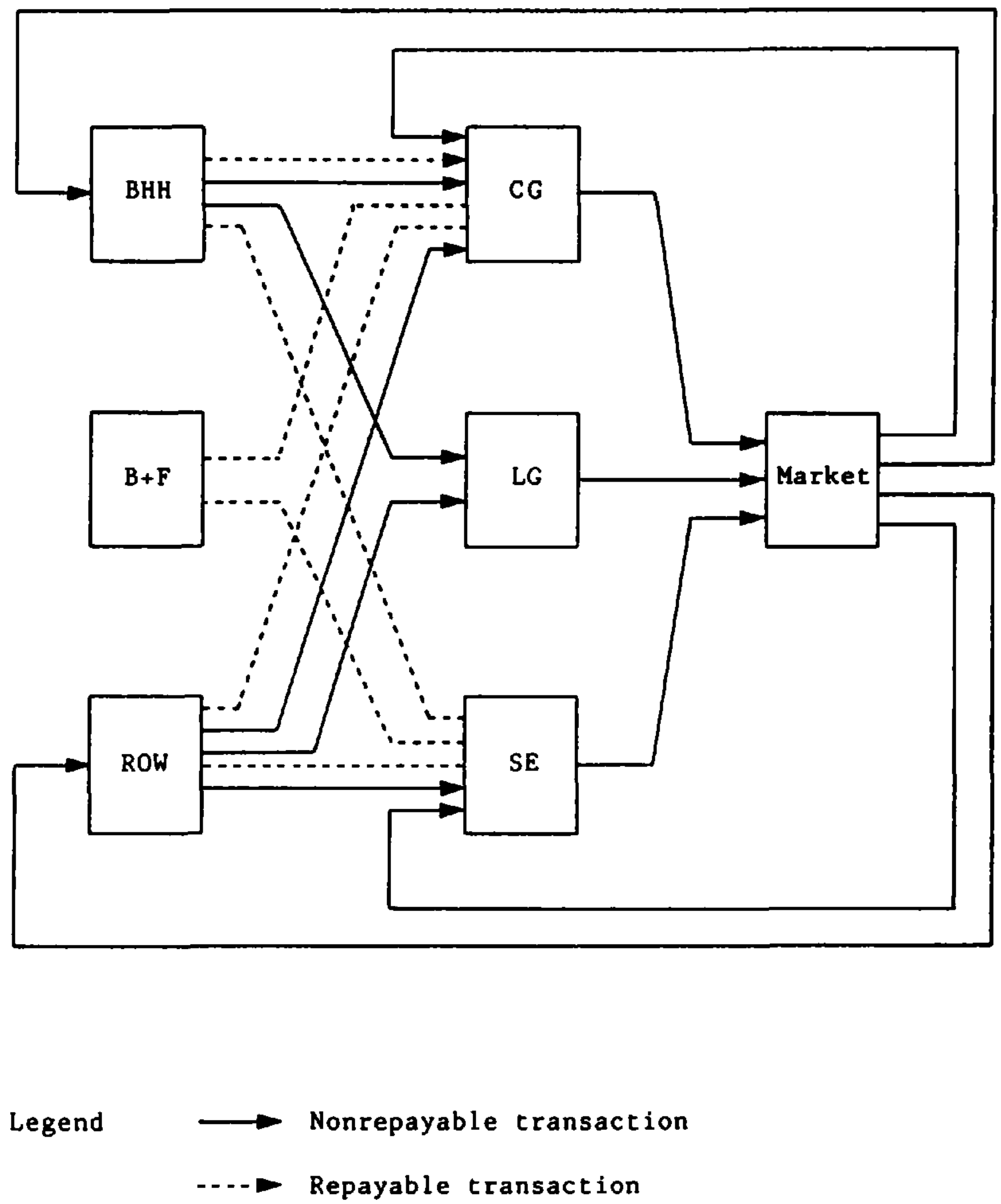
(Figures 2 to 7) are further reduced to a single diagram in Figure 8. Instead of employing all components of the public sector -- six financial and three organizational -- only the organizational ones are included.

Figure 8 paints the overall picture of the public sector and the economy in a most abbreviated way. The same convention applies -- solid lines for nonrepayable transactions and broken lines for repayable ones. Broken lines now contain no arrowheads since the transactions are bilateral, i.e., initial lending/borrowing pointing in one direction and subsequent repayments in the opposite.

On the whole, the public sector receives from BHH as taxes and nontaxes to the central and local governments. Revenues are also generated from sales of goods and services through operations of state enterprises and, to a smaller extent, extrabudgetary funds (now under CG). All expenditures go to purchasing of goods and services in the market for public policy objectives as well as raw materials, labor, rents, etc. for the operations and production processes of state enterprises and extrabudgetary funds.

When means and ends do not meet, the public sector borrows. Among the creditors are: BHH in the form of government bonds; B+F in bonds, treasury bills and promissory notes; and ROW usually in project loans. Borrowing from ROW is not included in the national budget

Figure 8. Public Sector and the Economy



except when the debt obligations are serviced. Aside from borrowing, the public sector also receives as grants from abroad of an uncertain amount (officially recorded around 4,000 million baht a year) mostly to finance public investment projects and as technical assistance.

CPS ACCOUNTS

In essence, a CPS account is merely a translation and simplification of the financial transactions just described into an accounting format. From another viewpoint, it is an attempt to provide policy makers with a fairly comprehensive and readable overall financial picture of the public sector on a single page. The major objectives of CPS accounts are thus an acceptable level of accuracy, coverage, readability and intra/interaccount consistency.

Design of the CPS accounts is based upon the conceptual framework explained in Chapter I of this report. The accounts are constructed according to the traditional public finance accounts with only few (but hopefully significant) modifications. As generally done, the body of the account is made up of three main rows covering (1) revenue (2) expenditure and (3) financing. The three main rows are further classified into constituting items. Revenue is subdivided according to the nature of transaction into taxes, sales and services, other incomes, various kinds of grants and interagency transfers. Expenditure is, as usual, broken into current and capital. Financing is classified by lending source as domestic, external and own cash balance.

Below the three main rows, however, are two additional rows; one for assets and the other for liabilities or debts. This is an attempt to incorporate "stock" variables into conventional accounts which concentrate merely on "flow" variables. The linking relationships between appropriate stock and flow variables are established. For example, when financing is done, there will be an associated increase in the stock of debts. Similarly, physical assets will be effected by additional capital expenditure and depreciation.

The CPS accounts contain eight columns. The first six columns represent six financial entities already defined, i.e., the national budget (NB), foreign loans (FL), grants (GR), extrabudgetary funds (XF), local government budgets (LG) and state enterprise budgets (SE). Two additional columns are constructed by horizontally summing appropriate columns. One column represents the financial transactions related to the central government (CG) and the other for overall consolidated public sector (CPS).

In meeting their objectives, the information contained within CPS accounts naturally is in a highly abbreviated form. However, detail on items of interest can be retrieved upon request without altering the basic structure of the account. Another point to note is in securing consistency among the multiplicity of information sources in constructing these CPS accounts. Where intersource inconsistencies arise, which often do especially when involving interagency transfers, some data have to be adjusted and altered to reconcile with those judged as more reliable. The necessity of these alterations will, however, diminish as more interagency cooperation regarding data collection and exchange will hopefully materialize in the near future.

The CPS account for FY 1985 is presented for illustration. Reading through the first column in this CPS account reveals that the national budget's total revenue for FY 1985 was 162.21 billion baht; 141.92 of which came from taxes of various kinds. The net expenditure (principal repayment excluded) amounts to 195.45 billion baht; 158.70 and 28.00 of which were categorized as current and capital expenditure, respectively. The remaining 8.75 billion baht were subsidies to local governments, state enterprises and certain extrabudgetary funds. The budget deficit for FY 1985 was 33.23 billion baht and 37.72 billion baht (net of principal repayment) was borrowed domestically to finance the deficit. The overborrowing of 4.49 was then added to the treasury cash balance.

The next five columns read in the same manner. The central government (CG) column results from summing the

Consolidated Public Sector Account
(FY 1985)

(unit: billion baht)

	NB	FL	GR	IF	LG	SE	CG	CPS
REVENUE	162.21		4.90	11.37	17.78	241.70	178.46	420.41
Taxes	141.92				9.00		141.92	150.92
Sales	4.84			11.35	1.52	239.79	16.19	257.50
Others	6.65				0.44		6.65	7.09
Transfers	8.80		4.90	0.02	6.82	1.91	13.70	4.90
EXPENDITURE	195.45	9.68	4.90	6.82	16.81	265.57	216.83	481.67
Current	158.70	1.73	3.75	6.82	9.85	215.21	171.00	396.05
-Interest	32.17					9.23	32.17	41.40
Capital	28.00	7.96	1.15		6.96	41.56	37.11	85.63
Transfers	8.75					8.80	8.73	
FINANCING	33.23	9.68		-4.55	-0.97	23.87	38.37	61.26
Domestic	37.72					2.44	39.19	41.63
Foreign		9.68				11.98	9.68	21.66
Cash balance	-4.49			-4.55	-0.97	9.45	-10.51	-2.04

Assets:				
Beginning assets	49.77	208.34	216.72	474.83
Investment	6.96	41.56	37.11	85.63
Depreciation	0.00	0.00	0.00	0.00
Ending assets	56.73	249.90	253.83	560.46
Debts:				
Beginning domestic debts		12.25	209.47	221.72
Ending domestic debts		14.69	248.66	263.35
Beginning foreign debts		107.79	59.68	167.47
Net borrowing		11.98	9.68	21.66
Exchange loss/gain		24.51	19.37	43.88
Ending foreign debts		144.28	88.74	233.02
Beginning total debts		120.04	269.15	389.19
Ending total debts		158.97	337.40	496.37

first four columns (NB, FL, GR and XF) horizontally. Likewise, the consolidated public sector (CPS) column is a horizontal summation of the central government (CG), local governments (LG) and state enterprises (SE) columns.

To summarize, these CPS accounts are an attempt to facilitate policy decision making with an abbreviated and simplified yet comprehensive financial picture of the public sector. Aside from their shortcomings regarding the lack of detail and complete accuracy, they possess an array of advantageous features, such as: simplicity, brevity, comprehensiveness (within the scope of data availability), internal consistencies, and expandability upon request.

LEGAL CONSTRAINTS

When public expenditure is not adequately met by its revenue, financing is required. The recent trend of financing worries politicians, bureaucrats and technocrats alike. The acts and regulations put forth were mere efforts to counter the looming financial trouble of the public sector by curbing the expanding role of deficit financing -- namely domestic borrowing, foreign borrowing and debt monetization. The following is a brief description of such acts and regulations.

The Budget Procedure Act, B.E. 2502 (Section 9), requires the net budget deficit not to exceed 20% of the net expenditure budget (principal repayment excluded). In other words, the net budget deficit for any year may not exceed 25% of the expected revenue.

Foreign borrowing is regulated primarily by two acts and one regulation. Section 5 of the Regulation on National Debt Policy, B.E. 2528, created the "National Debt Policy Committee" which, as one of its functions, formulates annual and five-year foreign borrowing plans such that debt service may not exceed 9% of the expected export value. A time clause in the regulation (Section 17) relaxes the ceiling to 11% up to FY 1988.

In addition, the Act Authorizing the Ministry of Finance to Raise Loans from Abroad, B.E. 2519, limits the direct foreign borrowing within 10% of the national budget. Guaranteed foreign loans for state enterprises are also curtailed within 10% of the national expenditure budget according to the Act Determining the Power of the Ministry of Finance to Guarantee Loans, B.E. 2510 (Section 5). The same act also prohibits the debt from exceeding four times its capital for "financial institution" state enterprises; and six times for "company limited" enterprises.

Concerning the ceiling on printing of money or, technically, debt monetization, Section 30 of the Currency Act, B.E. 2501 requires that at least 60% of the outstanding currency be covered by gold and foreign currencies held by the Bank of Thailand. The acts and regulation mentioned above can be found in Appendices A to E of this report.

CHAPTER III

ADMINISTRATIVE ASPECTS

This chapter is divided into two sections. The first will describe the "actors" involved in the public finance decisions and their relevant authority and jurisdiction. The second section will deal with the official procedures (though not always followed) leading to decisions regarding financial allocation and disbursement. Though explained separately for simplification purposes, it should be kept in mind while reading, the two sections are very much intertwined.

ADMINISTRATIVE STRUCTURE

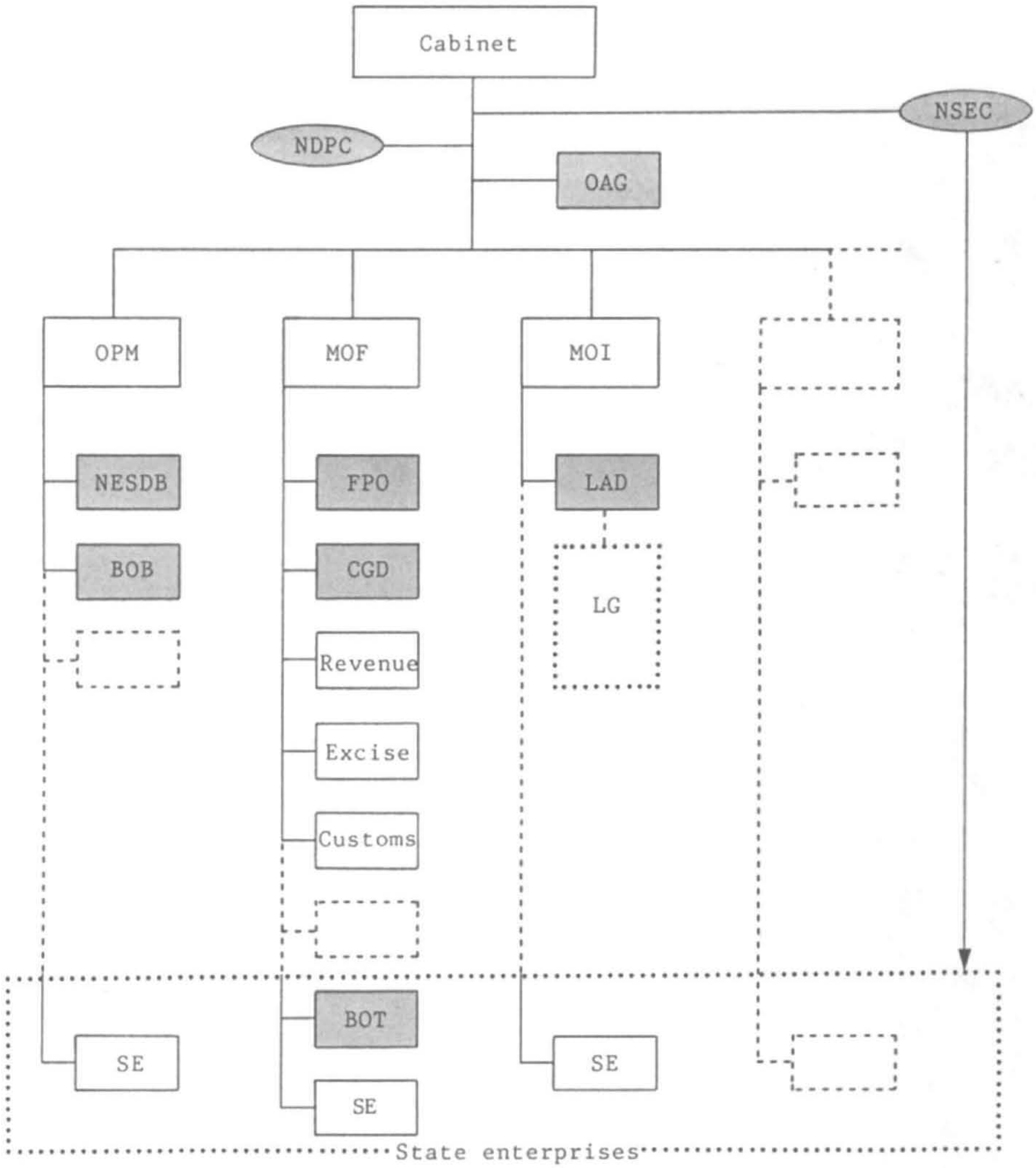
A schematization of the bureaucratic structure of the Thai Government is given in Figure 9. The topmost authoritative body in the government is the Cabinet of Ministers under which are twelve ministries and two ministry-equivalent offices -- the Office of the Prime Minister (OPM) and the Office of University Affairs. Under a ministry or equivalent are departments and department-equivalent offices. The number of departments (or equivalent) under a ministry ranges from four to seventeen, and averages about nine. However, a number of agencies (currently five) are given "independent public agency" status and are not attached to any particular ministry. Examples are the Office of the Auditor General (OAG) and the Royal Institute.

Besides the departments and equivalents, a ministry also oversees the state enterprises attached to the ministry. For example, the Telephone Organization of Thailand, Thai Airways International Co., Ltd. and the Bangkok Mass Transit Authority are under the Ministry of Communications' oversight. In all, there are 68 state enterprises supervised by eleven ministries; with the Ministry of Finance having the most state enterprises (fifteen) under supervision.

All local governments, except for the Bangkok Metropolitan Administration, report to the Local Administration Department (LAD) of the Ministry of Interior (MOI). The provincial governors, as briefly discussed in Chapter I, are MOI's high ranking officials sent to the provinces for overseeing purposes. The local governments are thus, in essence, a bureaucratic extension of the central government through MOI.

Parallel to local governments, the central government also maintains provincial branches for extensive coverage of its functions. For example, the Ministry of Public Health places its senior officials in all 72 provinces as health inspectors and representatives of the Ministry. Likewise,

Figure 9. Administrative Structure



Legend: Agency; Committee

Note : Core agencies and committees are shown as shaded area.

the Ministry of Finance sends out "provincial treasurers," and the Ministry of Education, "provincial educators."

Aside from employing departments, offices and bureaus, many government functions are carried out by "committees." As a means of sharing responsibility (and for many other unknown reasons), the setting up of committees has become overwhelmingly popular. Some committees are permanent, others ad hoc and transient. Committees can be created at many levels: departmental, interdepartmental, ministerial or national. Of relevance to this report are two national committees, i.e., the National State Enterprise Committee (NSEC) and the National Debt Policy Committee (NDPC).

Although every single "agency" -- a generic term referring to a department, a bureau, an office or even a state enterprise -- has its share in shaping the face of the country's public finance, the central roles are played by only a few "core" agencies and committees. This study identifies seven such core agencies and two core committees, shown as shaded rectangles (agencies) and ellipses (committees) in Figure 9.

To set the matter straight, the core agencies and committees include: the National Economic and Social Development Board (NESDB) and the Bureau of the Budget (BOB) under the Office of the Prime Minister (OPM); the Fiscal Policy Office (FPO), the Comptroller-General's Department

(CGD) and the Bank of Thailand (BOT) under the Ministry of Finance (MOF); the Local Administration Department (LAD) under the Ministry of Interior (MOI); the Office of the Auditor General (OAG); the National Debt Policy Committee (NDPC); and the National State Enterprise Committee (NSEC). The remainder of this section will serve as a brief introduction to these agencies and committees.

National Economic and Social Development Board (NESDB)

The inception of NESDB can be traced back to a recommendation of a World Bank economic mission in 1958 to replace the then "National Economic Council" with a "national development board." The National Economic Development Board (NEDB), the predecessor of NESDB, was created in 1959 and placed under the Office of the Prime Minister. The original NEDB board was chaired by the Prime Minister and had as many as sixty members. The National Economic and Social Development Act of 1978 gave NEDB a new name, scaled down its board size to fifteen, and relieved the Prime Minister of its chairmanship.

NESDB's most pronounced role lies in its authority to review and approve all public investment projects for the government as well as state enterprises. These NESDB approvals, however, do not automatically guarantee funding and subsequent implementation. Projects drawing from the national budget need additional approval from BOB and those requiring foreign loans need to be placed on NDPC's borrowing list.

A less authoritative but somewhat more celebrated function of NESDB is the preparation of the "National Development Plan." Each plan spans a five-year period, and the current (sixth) plan covers FY 1987 to 1991. The plan is drawn up by NESDB in cooperation with implementing and other core agencies. Once approved by the Cabinet, the plan will serve as the guideline and direction for national development and also for subsequent review of "developmental" investment projects (practically all investment projects can be defined as developmental) for the specified time period. The seemingly all-powerful plan, however, is actually not that powerful because it tends to be, by definition, too broad and thus operationally vague and unenforceable. Most of the project review process thus rests upon the discretion and judgment of the NESDB staff. The process is sometimes criticized as the "game" of the inner circle that outsiders are not privy to play.

In addition to the above two functions, NESDB also exerts its influence through representation in various important committees and meetings. NESDB's Secretary-General sits in cabinet meetings, on BOT's executive board, and on the NDPC and NSEC. Aside from the Secretary-General, high and middle ranking officials from NESDB are on numerous committees and on the boards of directors of many state enterprises.

The Bureau of the Budget (BOB)

Similar to NESDB, BOB was placed under OPM for its budgeting and planning (staff) function. It is, if anything, the single most influential agency concerning the national budget. However, BOB, does not single-handedly create and control the budget but, like everyone else, seeks consensus by soliciting opinions, assistance and cooperation from other agencies. For instance, the totals for budget expenditure, estimated revenue and required financing are determined by a joint working group composed of representatives from NESDB, FPO, BOT and BOB.

Besides setting the framework and guidelines for each year's budget, BOB is also empowered to scrutinize the expenditure budgets proposed by implementing agencies. BOB derives a great deal of leverage vis a vis other government agencies from this scrutiny function. BOB can disapprove a project on the grounds of fund unavailability, or it can reduce the proposed amount by quoting lower standard item costs. This probably explains the timid position usually taken by officials from other agencies when dealing with BOB. The BOB staff are usually treated by others with deference and frequently placed on important committees

(NESDB, NDPC and NSEC included) and on numerous state enterprise boards of directors for predictable reasons.

The Fiscal Policy Office (FPO)

FPO is essentially the planning and technical staff serving the Finance Minister. The leverage of FPO thus waxes and wanes with with the Minister in relation to other cabinet positions. While elsewhere in MOF, positions are filled mostly by accountants and lawyers, FPO may be the only agency within the Ministry densely populated by economists.

The most vivid influence of FPO is through its secretariat role in the NDPC. When coupled with the agreeable chairmanship of the Finance Minister, FPO is likely to run the show in NDPC. As much as BOB's place is in the national budget, FPO's is in foreign loans. Aside from NDPC, its Director-General also sits on NSEC's and NESDB's executive boards.

The tasks of FPO can be summarized into three main categories. First is drawing up the fiscal policy for the nation, especially policy on taxes. Second is to plan and monitor foreign borrowing. Third is to supervise and direct the operation and management of certain troubled financial institutions (infamously known as "The April 4 Project").

The Comptroller General's Department (CGD)

Though seldom recognized, CGD's contribution and influence is more pervasive than meets the eye. Aside from its often perceived "cashier" role, CGD also serves as the government's "accountant," "financial manager" and more. It designs the accounting systems to provide not only financial accountability but also appropriate managerial and financial databases enhancing public policy decisions. Unfortunately, this vital role has not been sufficiently and properly promoted for a host of reasons. Without a well designed management information system, relevant and reliable information cannot be promptly accessed and analyzed for sound policy formation.

Budget estimates and appropriations for extrabudgetary funds need CGD's approval and authorization very much the same way as BOB's authorization is required when drawing from the national budget. CGD also takes care of accounting and bookkeeping for certain extrabudgetary funds, as well. In a sense, CGD is the BOB counterpart for extrabudgetary funds.

CGD also manages the government's cash flow by way of handling the treasury cash balance. It also acts as "banker" for government agencies since they are all required to deposit their unspent funds at CGD. Other less conspicuous functions of CGD include "fund transferring" (similar to postal money order) and making "advance payments" to other agencies, especially for projects financed by foreign loans.

<u>The Bank of Thailand (BOT)</u>

Like all other central banks, BOT's major roles are in forming the nation's monetary policy. Nevertheless, its role and influence in the formation of fiscal policy cannot be disregarded. Most of the influence is, however, derived from BOT's representation on several important committees, working groups and boards. For example, BOT's Governor and one additional high ranking official sit in NDPC. The Governor is also on the NESDB executive board. BOT is also represented in NSEC and staff working groups for drawing the national budget framework -- revenue, expenditure and financing totals.

Aside from the representational influence, BOT also performs another fiscally related function. BOT is the agent for MOF in selling government bonds and treasury bills. While most of the bonds and bills (briefly described on p. 17 in Chapter II) eventually get into public hands and bank vaults, a portion is retained by BOT as claims on the government and as a monetary instrument.

In some instances, BOT also provides "soft loans" in order to promote some industries or priority sectors as well as rescue failing financial institutions and certain businesses. This enables the government to sidestep a direct fiscal subsidy measure. The frequency of such incidences, however, has increased to a worrisome level. BOT is currently being severely criticized concerning the appropriateness of this role.

The Local Administration Department (LAD)

The role of LAD in the public finance picture is mostly at the operational rather than policy level. Financially speaking, LAD serves as the bridge spanning the national budget and the local government budgets. It collects, compiles and analyzes all available information concerning local governments in order to decide the amount of subsidy to them, how to allocate such subsidy, and how to operationally handle it.

As earlier mentioned, major decisions of local governments require the approval of provincial governors who are senior officials from the Ministry of Interior (MOI). This demonstrates a tight bureaucratic control of the central government on local governments, with the exception of the Bangkok Metropolitan Administration (BMA), through MOI.

Office of the Auditor General (OAG)

As the name suggests, OAG's role comes in at the "end of the pipe." It audits all ministries, departments, offices, bureaus, state enterprises, revolving funds, foreign loan projects and DTEC-approved grants. To ensure necessary independence and autonomy, OAG is given the "independent public agency" status, thus it is outside the control of any other agency.

Having been concerned only with financial auditing -- mostly checking accuracy, validity and authenticity of proper financial documents and accounts -- OAG is now contemplating another new area of "management auditing," whose primary objective is to evaluate the performance of management and projects. This crucial element, "ex post performance evaluation," has long been missing in the system. Nevertheless, it is also extremely expensive. Additionally, NESDB, BOB and MOF are also contemplating a similar endeavor. An inevitable question posed to the government is thus how the performance evaluation should be handled and by whom.

National Debt Policy Committee (NDPC)

NDPC is set up by the Regulation on National Debt Policy, B.E. 2528, to supersede the previous "debt committee." The new committee is chaired by the Finance Minister and is comprised of the Deputy Minister of Finance, MOF's Permanent Secretary, BOT's Governor, NESDB's Secretary-General, and the Director-Generals of BOB, CGD, DTEC and FPO. Five additional members representing NESDB, BOB, BOT, CGD and FPO make up the rest of the fourteen-member committee. Hence, not only is the committee chaired by the Finance Minister, seven out of fourteen members are from MOF alone.

The committee is responsible for preparing short and long-term foreign borrowing plans for the government. They are to submit the borrowing plan for the upcoming fiscal year to the Cabinet by October 31.

This borrowing list includes not only all government direct borrowing but also guaranteed loans for state enterprises. In so doing, NDPC may disapprove, delay or scale down many NESDB-approved projects so that the total borrowing is kept within the ceiling. This process can become controversial but it is regarded as a necessary final screening or "beauty contest" for all (supposedly) deserving projects.

National State Enterprise Committee (NSEC)

The creation of NSEC was a result of a recommendation submitted by the Subcommittee on State Enterprises to its parent committee, the National Committee for Bureaucratic Reform, headed by a Deputy Prime Minister. Later approved by the Cabinet in March 1985, a new national committee was created to replace the subcommittee. NSEC was then also headed by the same Deputy Prime Minister heading the

National Committee for Bureaucratic Reform and carried with it a number of high-ranking officials, such as: Ministers from OPM and MOF, the Permanent Secretary of MOF, the Secretary-General of NESDB, the Director-General of BOB, the Auditor-General, the Governor of BOT, the Secretary-General of the Office of the Juridical Council and representatives from NESDB, BOB and FPO.

As another attempt to bring all people that matter to the meeting table, possibly for consensus building purposes, NSEC's secretariat function is shared three ways --by NESDB, BOB and FPO. Paradoxically, by including numerous top officials and sharing the secretariatship, the committee becomes "overweighted" and nonfunctioning. Its functioning becomes slow, cumbersome and at times downright awkward. The NSEC meetings so far have been infrequent, conservative and have often become routine. If anything, this is probably another lesson to be learned regarding "committee formation."

ADMINISTRATIVE PROCEDURES

The previous section, "Administrative Structure," has identified those agencies and committees involved in the public finance process. This section will pursue administrative procedures by depicting such processes covering planning or budget preparation, budget execution and disbursement, and finally, reporting and auditing. Six diagrams (Figures 10 to 15) will constitute the bulk of descriptions and discussions to be presented. Each figure diagrammatically illustrates the process and procedure accompanying each of the six financial components identified earlier -- the national budget (NB), foreign loans (FL), grants (GR), extrabudgetary funds (XF), local government budgets (LG) and state enterprise budgets (SE).

Again, for brevity, only administrative procedure for the national budget appearing in Figure 10 will be explained in fuller detail. The remaining five diagrams (Figures 11 to 15) will be left for readers to discern using similar verbal-pictorial translation techniques. Additional information on the procedure for foreign loans (in Figure 11), however, can be found in the World Bank's country economic report on Thailand for 1986 titled, "Thailand: Growth with Stability. A Challenge for the Sixth Plan Period" (Chapter 9, "Managing Public Investment," pp. 177-195 of Volume II).

Diagrams shown read in the same manner as computer programming "flowcharts." Boxes signify actions to be taken sequentially according to direction of arrows. These boxes are, however, compartmentalized into two sections. The upper compartment specifies the "actor" and the corresponding "activity" appears in the lower compartment.

Circles are used to represent budgets, budget drafts and other budgetary documents resulting from the activity contained in the previous box. Rules, guidelines, legal constraints and other things to be considered when actions are taken are shown beside the box next to a dotted-lined arrow. Dotted arrows signify a consultative guidance given to the actor in question from rules and guidelines or another actor in deriving at an action or a decision. For example, when the total amount of foreign borrowing is to be determined, the appropriate "actor" must consider the government's previous commitments, the country's financial capability and other legal constraints such as those appearing in the Regulation on National Debt Policy (1985). All these are represented as "criteria" in the diagrams.

According to Figure 10, the administrative procedure related to the national budget begins with a joint working group drawing up the framework of the budget. This working group is made up of staff from BOB, NESDB, BOT and MOF (from FPO and CGD). The working group is then informally divided into three working groups, with each responsible for either the revenue, expenditure or financing (domestic only) part of the budget. Once agreed upon, this will be used as the framework for subsequent budget elaborations by BOB. It should be noted that beside the "Working Group" box, there are criteria labelled "Legal Constraints" and "National

Development Plan." As earlier explained, they represent things to consider while the working group is drawing up the budget framework.

Concurrently, all agencies, as requested and required by BOB, draw up their expenditure estimates and/or required subsidies; and submit to BOB. BOB's guidelines are usually circulated to agencies beforehand to assist and direct their budget preparation. These guidelines are generally attentively observed.

With the already-agreed-upon budget framework and the agencies' budget requests, BOB begins working on the budget details. Since requests generally exceed available resources, it is left to the discretion and judgment of BOB's staff to adjust, integrate, harmonize, reconcile or simply forge the differences. Afterwards, a budget draft is submitted by BOB to the Cabinet for review and approval. If found unsatisfactory, the budget draft will be returned for revision and modification. The reiteration can possibly happen more than once. For simplicity, these possible reiterations are not spelled out in the diagrams but readers should be aware of them.

After the budget draft is approved, BOB will prepare the "Budget in Brief" and numerous "budgetary documents" (seven parts in nineteen volumes for FY 1987) to be presented to the senators and members of the Parliament in the upcoming budgetary hurdle. At this point, the Cabinet has switched from the role of "examiner" to "defender" of the budget proposal, of course, with the assistance and support from BOB and implementing agencies (note the dotted lines).

Parliamentary review is probably the most difficult barrier to overcome, which sometimes turns into confrontation between the executive and legislative branches. This review requires three sessions. The first usually involves reviewing the budget framework. If and when the budget framework is endorsed, the Parliament will assign a "budget subcommittee," to study and examine the budget details. There usually are several subcommittee sessions in order to fully scrutinize the budget. At the end, a general Parliamentary session is called to endorse (or reject) the proposed budget before signing it into law as the "Annual Budget Appropriations Act."

After the Annual Budget Appropriations Act is enacted, implementing agencies proceed with their authorized projects and undertakings. To pay for their commitments, agencies submit "trimester allotment requests" (in practice, done on a rolling rather than trimester basis) to BOB for authorization. Once authorized, the agency in question (or its provincial subunit) submits a payment petition attaching BOB's authorization to CGD (or appropriate provincial treasury) for actual payment either directly to the

Figure 10. Administrative Procedure : National Budget (NB)

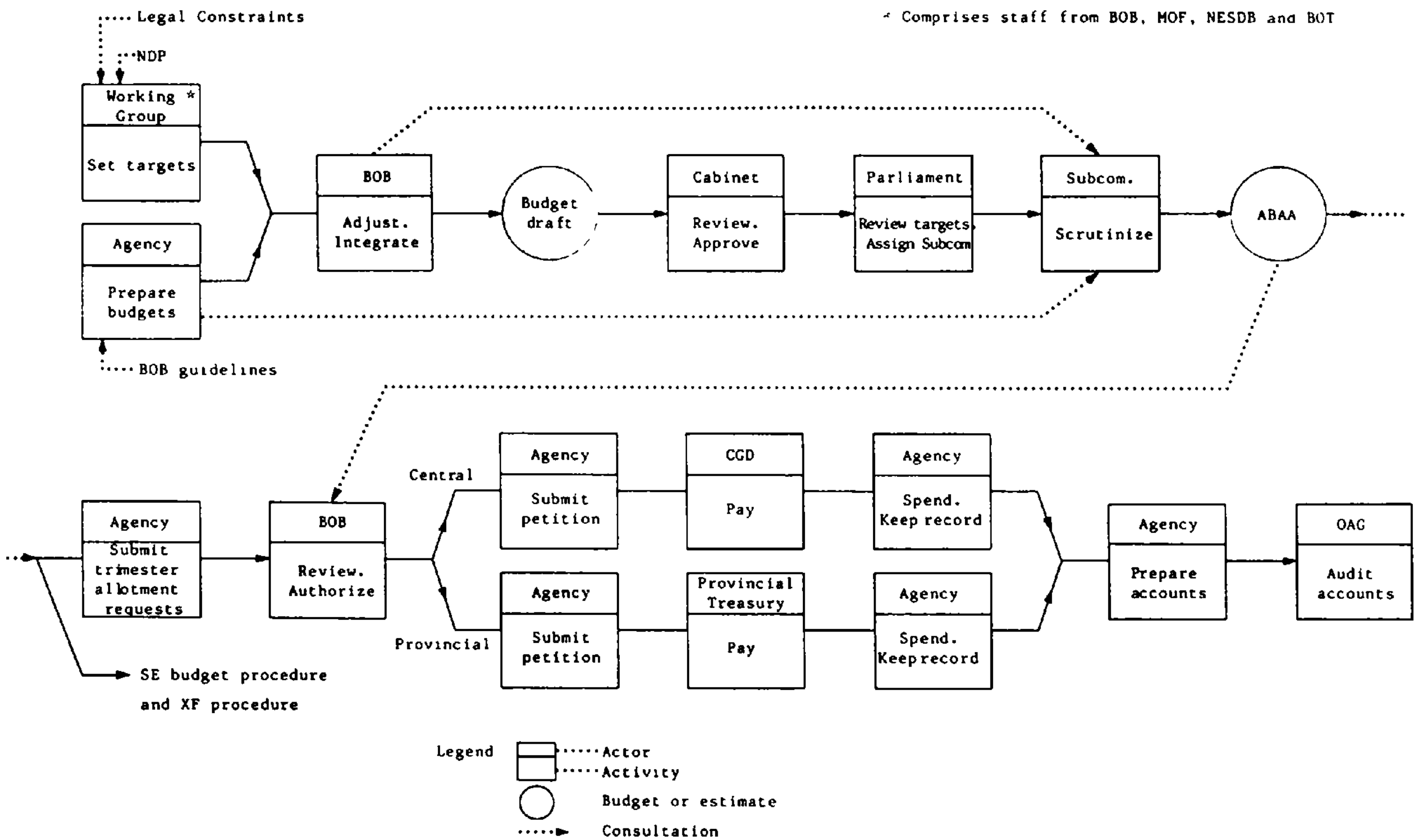
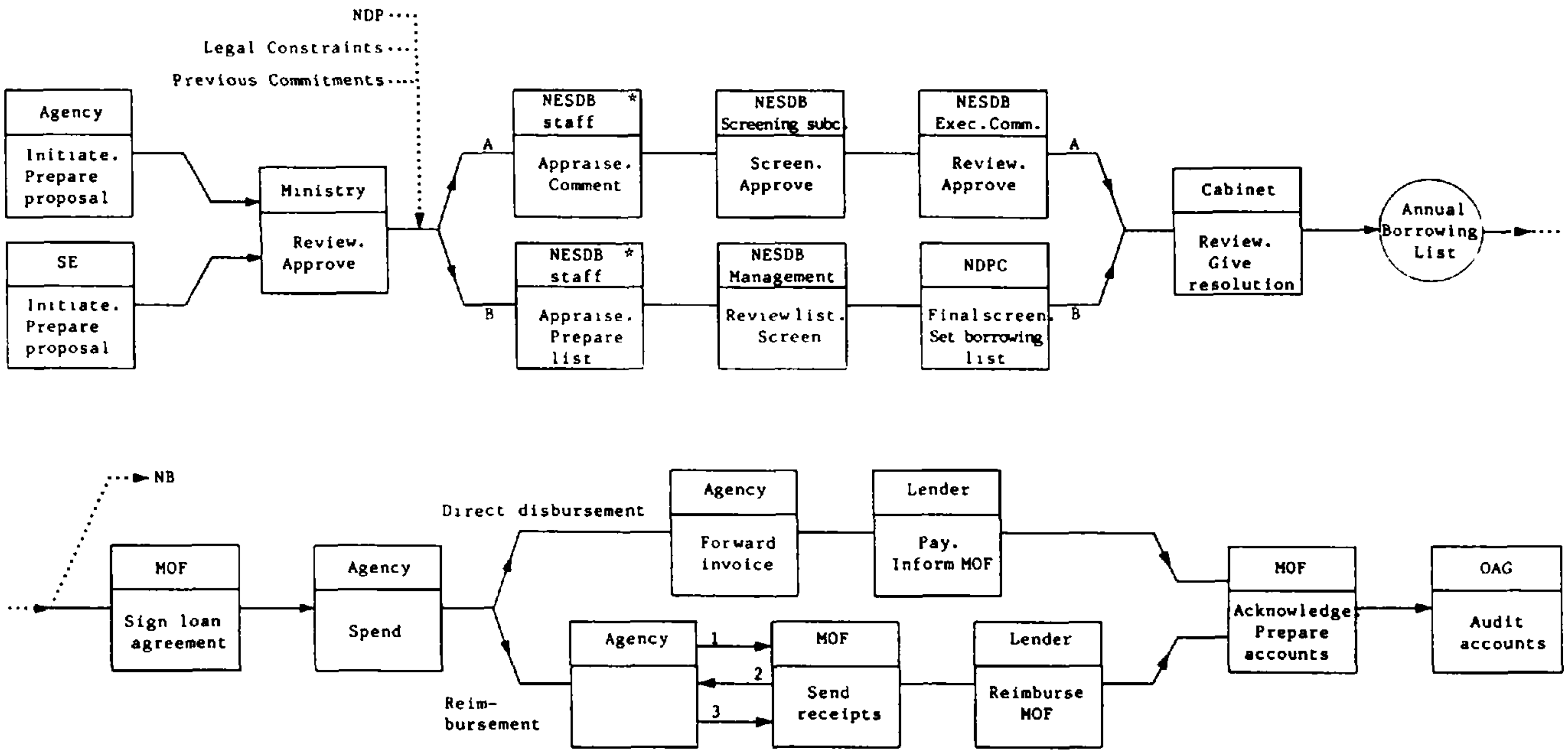


Figure 11. Administrative Procedure : Foreign Loans (FL)

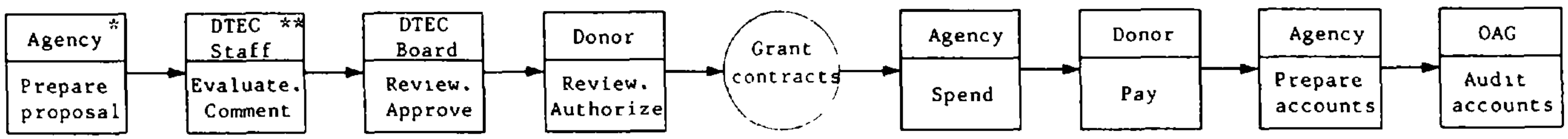


1. Forward invoices + petition
2. MOF transfer money to agency's account
3. Agency pays suppliers and receipts and documents to MOF

* Project Divisions, NESDB

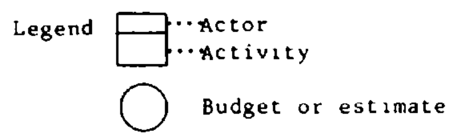
** Economic and Social Planning Division, NESDB

Figure 12. Administrative Procedure : Grants (GR)



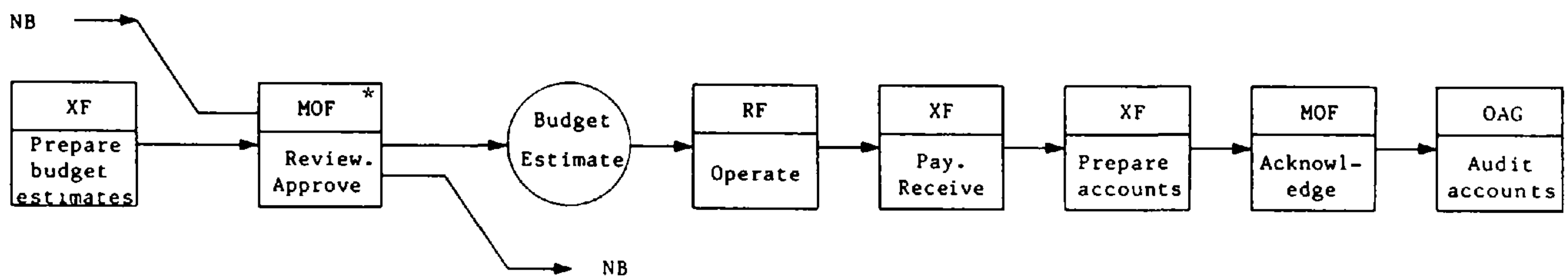
* Sometimes initiated by consulting firms and other agencies outside the Thai Government

** Technical Service Division



Note : The administrative procedure shown is applicable to DTEC grants only .

Figure 13. Administrative Procedure : Extrabudgetary Funds (XF)



* Credit Division,
Comptroller-General's Department (CGD),
Ministry of Finance

Legend

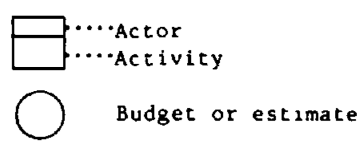
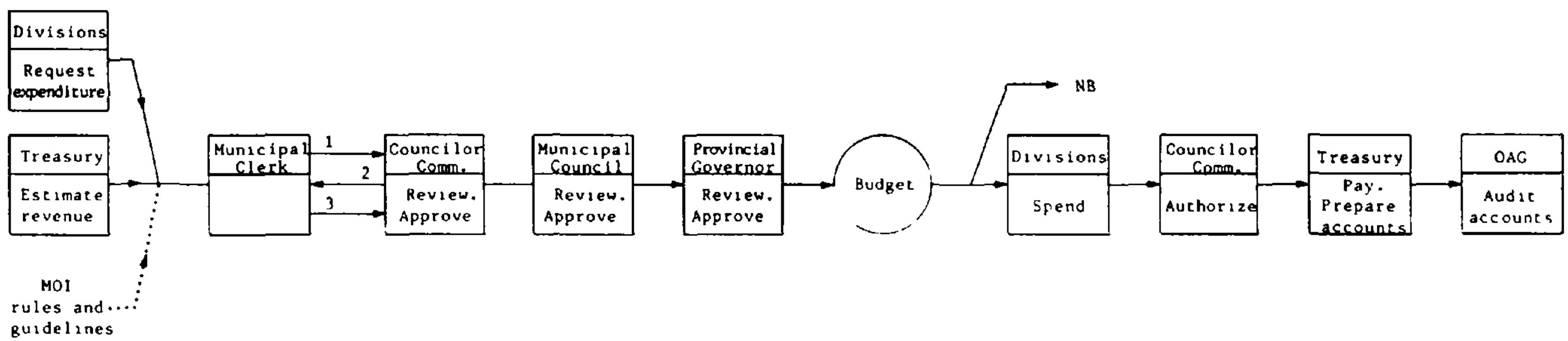


Figure 14. Administrative Procedure : Local Governments (LG)

(Municipalities only)

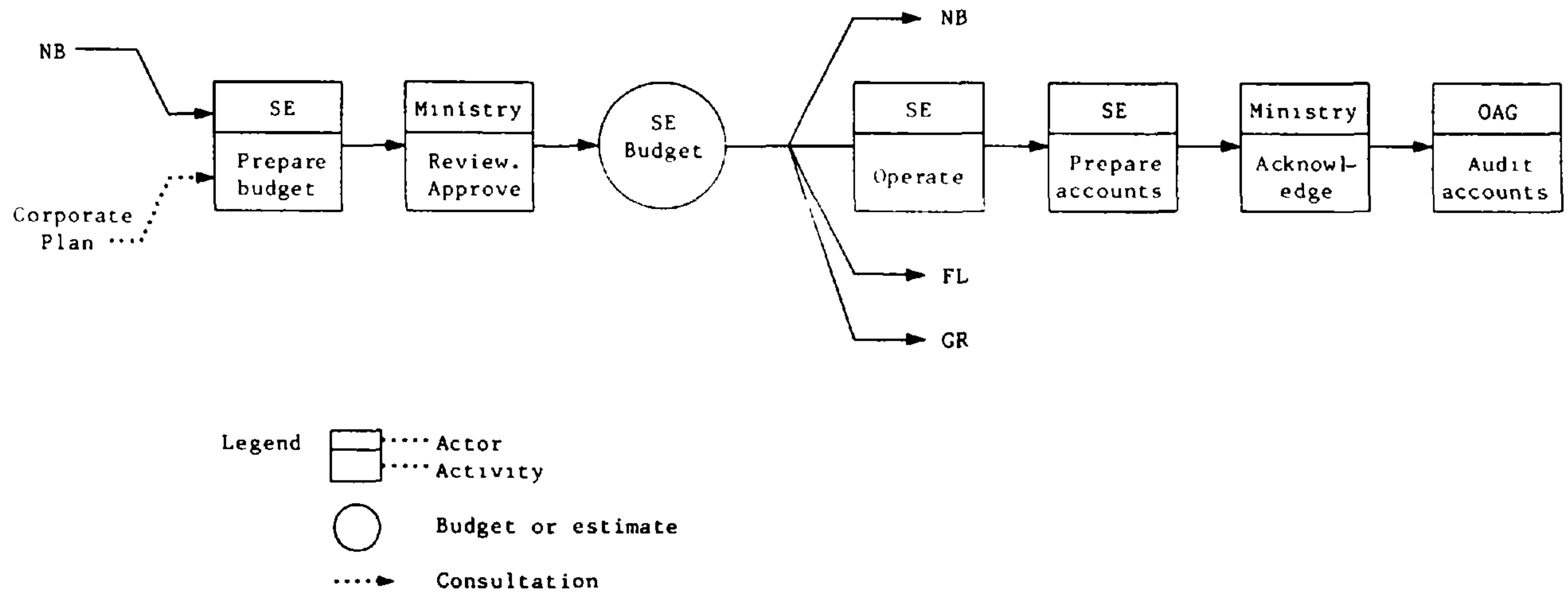


1. Prepare alternative budget totals
2. Revise, approve and select totals
3. Prepare detail budget

Legend
Actor
Activity
Budget or estimate
Consultation

Note : The administrative procedure shown represents that of a municipality.

Figure 15. Administrative Procedure : State Enterprises (SE)

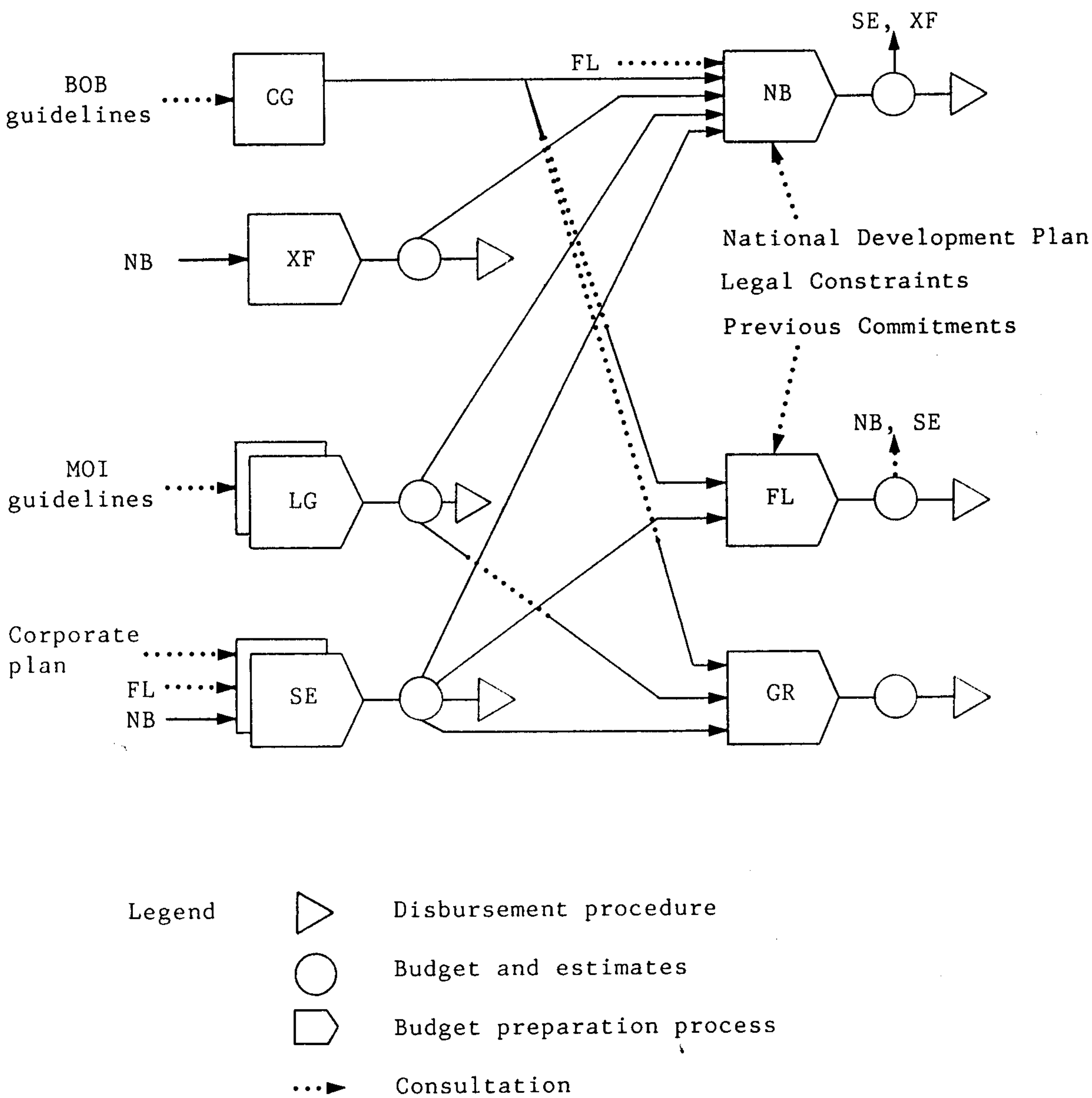


suppliers or into the agency's account. After the expenditure has been made to proper suppliers or creditors, each agency prepares appropriate accounts for OAG's annual auditing (mostly financial auditing at present, as discussed earlier).

The next five figures (Figures 11 to 15) read the same way as Figure 10 and represent administrative procedures for the other five financial components -- foreign loans (FL), grants (GR), extrabudgetary funds (XF), local government budgets (LG), and state enterprise budgets (SE). All the six procedures are then reduced and summarized in Figure 16, "Overall Administrative Procedures."

Aside from the symbols used in Figures 10 to 15, there are three additional symbols employed in Figure 16. Pentagonal boxes symbolize the budget preparation processes leading to the appropriate budgets or budget estimates (shown as small circles). Triangular arrowheads represent accompanying disbursement procedures of funds authorized in the budgets. Since budgets are always preceded by budget preparation and followed by disbursement, six sets of pentagon-circle-triangle sequence (one for each financial component) appear in Figure 16. The connecting lines show their interrelationships and interdependence. As previously mentioned, rectangles represent the organizational components and consultative relationships are represented as dotted arrows.

Figure 16. Overall Administrative Procedures



Although a separate budget procedure appears for each financial component, projects and agencies frequently require more than one sources of funds, thus interbudget transfers and subsidies are involved. For example, aside from using their own funds for operations, loss ridden SEs also rely on NB for subsidies to cover their operating deficits. In such an event, the SE budget preparation takes into account expected subsidies from NB and afterwards conveys them to the NB preparation processing (appearing in the upper right-hand corner) of such needs. For projects requiring borrowing and technical assistance from abroad, SE budget preparation will also entail subsequent FL procedures for foreign loans, GR procedures for foreign technical assistance and SE's own disbursement procedure for the portion drawing from SE's own pocket.

As mentioned earlier, NB serves as an all-purpose source of funds. Aside from financing CG's operations, NB also provides subsidies, transfers and financial supports for XF, LG and SE. For these reasons, other budget preparations (XF, LG and SE) often lead to NB procedures. Slow reading through Figure 16 will provide an understanding of the overall picture on how different financial procedures interact and the criteria (e.g., National Development Plan, legal constraints) influencing relevant decision-making processes. However, information contained in Figure 16 is quite condensed; referring to the preceding six figures is highly suggested for another level of detail.

CHAPTER IV

CONCLUSIONS

Summary

To summarize, the preceding three chapters try to give a narrative as well as conceptual description of how public finance in Thailand works. The consolidated public sector (CPS) is divided up using two classification criteria -- organizational and financial. Organizationally, CPS is made up of (1) the central government (2) local governments and (3) state enterprises. Similarly, CPS can also be decomposed into six financial entities: (1) the national budget (2) foreign loans (3) grants (4) extrabudgetary funds (5) local government budgets and (6) state enterprise budgets. The six financial entities can be visualized as "fuel" driving the public policy "engines" -- the three organizational entities.

Later, these financial and organizational entities are placed in relation to the outside economy. Figure 2 to 7 in Chapter II show the interrelationship between CPS and the economy through financial interactions of various kinds. These financial interactions and interrelationships are then summarized in Figure 8 and then translated into accounting in the form of CPS accounts. The accounting format proposed in the new CPS accounts, hopefully, will allow public policy makers an abbreviated, comprehensive and yet reasonably accurate financial picture of the Thai public sector on one page. The detail of the making of these CPS accounts, however, was not elaborated in the report.

In regulating the role and impact of CPS finance on the economy, certain rules and regulations were enacted. They include: Budget Procedure Act, B.E. 2502; Regulation on National Debt Policy, B.E. 2528; Act Authorizing the Ministry of Finance to Raise Loans from Abroad, B.E. 2519; Act Determining the Power of the Ministry of Finance to Guarantee Loans, B.E. 2510; and Currency Act, B.E. 2501. These acts and regulations appear in Appendices A to E.

In Chapter III, seven "core" agencies and two committees are identified as being instrumental in public finance decision making and operation. The seven agencies are: the National Economic and Social Development Board, the Bureau of the Budget, the Fiscal Policy Office, the Comptroller-General's Department, the Bank of Thailand, the Local Administration Department, and the Office of the Auditor General. The two core committees identified are the National Debt Policy Committee and the National State Enterprise Committee. Their interactions in the policy formation and financial transactions are portrayed in Figures 10 to 15 and later summarized in Figure 16 which represents the overall financial procedures in CPS finance.

It should be clarified that the narrative descriptions offered in the report do not aim for the highest degree of detail and realism. They only provide standard official procedures which sometimes are stretched by the judgment of officials, twisted by others, acted out according to prior agreement among competing interest groups, or simply bypassed by the powerful. Even with all the stretching and twisting that occurs, the description provided still serves the general purposes rather well. It will hopefully provide the reader with a systematic, somewhat simplified and yet rather complete overall picture of the Thai public finance to be used as the groundwork for better understanding of the subject matter.

Aside from summarizing the content in previous chapters, the remainder of this chapter will serve to discuss some areas of possible improvements. The discussion will not form any specific recommendations but will only cover some general observations, potential problems and possible remedies. Specific recommendations, however, may and should result from further discussion and more thoughts on these general recommendations.

Information Management

The most striking of all is the lack of management information systems. Financial information is scattered in various departments and agencies. Duplication and triplication of data collection efforts are prevalent in the government. Core agencies often have their own sets of data on a common issue and, most of the time, they are contradictory. The rationale, as often cited by officials involved, hinges on the fact that different data are required by different agencies for different purposes. Closer observations will reveal that the assertation is a mere excuse. Data usage is mostly similar or sometimes even identical. Besides, different but similar purposes can be met by one single set of data given a careful design.

One endeavor worth considering is construction of a joint financial database to be utilized by various core agencies -- FPO, BOB, CGD, BOT and NESDB. An accounting information structure similar to the CPS accounts as proposed in Chapter II may be a candidate worth considering for further elaboration.

Once the purposes and usage of such database have been jointly determined, the database specifications can be worked out. CGD can assist in designing the accompanying accounting information system to match the economists' needs. With appropriate hardware and design, the database can incorporate all financial data requirements and at the same time allow for instant access and updating at several ports simultaneously. The compilation and update of data can then be assigned to the agency judged as best in providing them.

Efforts to construct financial databases are currently being carried out at some agencies, such as FPO and BOT. NESDB also maintains another database emphasizing more on "macro" variables. Both CGD and BOB are computerizing theirs. This may be an opportune time to combine such efforts and capabilities. When accomplished, the Thai Government will at long last be equipped with the informational capability to ensure sound public policy planning and responsive handling of unanticipated crises.

Performance Evaluation

The evaluation prevalent in the public sector involves "ex ante" evaluation in form of project appraisal and approval. "Ex post" evaluation is often missing. Currently existing ex post evaluation mostly focuses on financial auditing which largely involves verifying the validity and legality of proper financial documents rather than judging the performance of an agency or a project. Billions of baht have been spent but hardly evaluated if they were spent well. There is certainly a need for this missing element. The evaluation should not only concern public projects and agencies but also state enterprises. Though expensive, if carefully designed, this endeavor can save the country much more than it costs.

A Performance evaluation is a costly process and should be thoughtfully planned and implemented to be cost effective. However, several agencies (BOB, NESDB, OAG and the Ministry of Finance included) are simultaneously contemplating one of their own. Interagency coordination is recommended in order to avoid duplication and overlap in this expensive task.

Structure of Authority and Role

The authority structure of agencies involved in public finance is, in a way, a cultural reflection of the Thai society. The division of authority and role (sometimes also labor) is fragmented, unclear and uncoordinated. The authority boundary of an agency often expands and contracts with the agency's leadership and staff capability. For example, one cannot say for certain whether BOB has the most authority in forming the national budget. Everyone is invited to join in everyone else's job, primarily as a means of consensus building. As a result, committee formation -- a convenient tool for such purposes -- has become frighteningly popular. Consequently, goals and directions are often lost while responsibility clouds and accountability evaporates.

With committees of various kinds at various levels, "representational influence" has become a critical factor in deciding the power and leverage of an agency. The more important political games have moved from agencies to committees. This oversupply of committees implies a few things.

First, the decision-making process generally takes longer. Second, the decision outcome highly depends on the dynamics and chemistry among individuals constituting the committee and is thus less predictable. Third, committee membership is many but short-lived. The accountability of committees is, consequently, unaccountable. Last, committee's decisions may not receive acceptance and support of critical implementing agencies if the feel their voices were not properly heeded in the committee.

All in all, committee formation is motivated by two major forces: "consensus building" and "responsibility dilution." Both motives are necessitated by the lack of clarity in the definition of role, procedure and authority of various agencies. Without role clarity, it is only natural for agencies and officials to play safe and committee formation is a promising tool for that. At this point, a bureaucratic reform involving the aforementioned core agencies is recommended. This would imply redefinition of job descriptions, assessment of manpower requirements and some minor modifications in the overall organization chart of the government.

Nonbudgetary Trend

For a host of reasons, there is an unmistakable shift in financing away from the national budget to other nonbudgetary sources of funds. Numerous extrabudgetary funds have been created in recent years to ensure the continuation of an agency's projects deemed necessary and worthwhile of a financial life of their own. Officials dislike the uncertainty of the national budget appropriations and much prefer having the life of their pet projects in their own hands. Time and again, projects have outlived their usefulness and funds are still generated to support those outdated functions or channelled to support other unmandated ones. While useful for providing operational flexibility and guaranteeing the continuation of some vital functions, extrabudgetary funds have frequently become overused or abused. Hence, they should be periodically revised. The financial supervision of these funds should be upgraded and standardized to enable better utilization of limited financial resources of the public sector.

The trend away from the national budget can also be observed in the increasing role of foreign loans, state enterprises and "soft loans" issued by BOT. Not including foreign loans in the national budget can be cynically explained by two reasons. First, not having to go through the budget appropriation process allows the executive branch complete authority over foreign loan projects. Second, violation of the budget deficit limit (as constrained by the Budget Procedure Act, B.E. 2502) can be temporarily concealed. It, however, cannot be altogether avoided since the servicing of those foreign debts will eventually appear in the national budget of later years. When the debt burden surfaces, it only worsens the problem by further restricting the financial resources available for the current year. We are now at such a point.

Concerning state enterprises, they are a convenient way of expanding the public sector without increasing taxes. In spite of "privatization" policy, this "third" sector has been growing remarkably fast -- faster than the rest of the public sector and the economy. This trend can be simply explained by straightforward public finance reasoning.

The budget deficits plus foreign loans accumulated over the years' have forced the government to adopt an austere fiscal policy. This belt tightening necessitates reduction and sometimes termination of certain public services. Those services judged as indispensible but unaffordable are then transferred to state enterprises since they can charge for the services.

"Soft loans" issued by the Bank of Thailand (BOT) are another example. They are often granted to certain industries, priority sectors and failing financial institutions. The receivers of such loans are generally required to purchase government bonds which will be held by BOT as collateral. The grantees thus benefit from interest rate differentials between government bonds and loan rates and, in essense, enjoy the cash flow of this amount. This is, for all practical purposes, equivalent to fiscal subsidies paid in installments.

The question is thus, why a straight subsidy is not employed instead. This can be explained using the same line of reasoning as before. Direct fiscal subsidy has to go through the national budget. This takes more time and exposes the scheme to more political criticism. Besides, getting national budget appropriation is becoming more difficult each year as the budget deficit is approaching its limit.

All these incidents are clearly pointing in the same direction -- away from the national budget. Is the national budget appropriation process breaking down or just losing the significance it once had? Is this trend for better or worse? If worse, how does one counter it? These questions will have to be attentively listened to because they have the potential to make or break the country's public sector in the years to come.

Local Governments

To be brief on such a broad subject, there are four things this report wishes to say about local governments in Thailand. First, in spite of the government's stated policy to promote self-governance and self-sufficiency of local governments, their role and significance in the overall picture is actually declining. At the same time, rural development functions are increasingly being carried out by the central government. Second, local governments are still heavily dependent on the central government financially, thus self-sufficiency is yet, mere illusion. Third, the central government still holds tight bureaucratic control over local governments' activities through the Ministry of Interior. A gradual transfer of authority to elected bodies at the local level should be carefully thought out and earnestly pursued. Fourth, the present revenue sharing formula is not equitable. Many receive more than they need (and deserve) while others are severely deprived. A fairer scheme of revenue sharing (both for shared taxes and subsidies) should be worked out and installed.

State Enterprises

As already stated, the expansion of state enterprises has been phenomenal in the past two decades and the trend is likely to continue. This trend is rather worrisome to those familiar with the finance and performance of state enterprises. To spell out all the problems and probable solutions for state enterprises, if at all possible, is an enormous task and deserves a separate study of its own. However, there are five problematic areas this report will point out as deserving further investigation.

First, financial reporting of state enterprises is, in general, substandard. Though it is true that there are vast differences among state enterprises, this should not prevent all state enterprises from having a standard financial reporting. The content and format of reporting, if well designed, can accomodate such differences. Besides, financial reports should not only go to the parent ministry and the Cabinet but, when possible, also to the public at large. They are, after all, the real owners of those state enterprises.

Second, as earlier mentioned, the control structure of state enterprises is generally ineffective and often counterproductive. There is a real and urgent need to revise this control structure. This revision will, of course, involve tangible political cost but it should prove to be a good buy for the price.

Third, somewhat related to the previous two points, the performance evaluation system for state enterprises is urgently called for. This is to reconfirm what was already suggested under the "performance evaluation" heading.

Fourth, investment of state enterprises should be given more attention by the government. Several are unquestionably overinvesting only to serve their own goals and objectives without due attention to the heavy burden on the country's external balance.

Fifth, a privatization scheme should be studied and implemented. Not only can it rid the government of unnecessary financial burdens, but it will also provide a penalty threat to certain "sloppy" enterprises. Decisions on what and how to privatize should, however, be motivated primarily by public policy objectives rather than public finance ones.

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APPENDIX A *

BUDGET PROCEDURE ACT, B.E. 2502

* The translations of acts and regulations appearing in the Appendices were taken from various unofficial sources. They are only provided here as convenience for readers.

BUDGET PROCEDURE ACT
B.E. 2502

BHUMIBOL ADULYADEJ P.R.
Given on the 27th day of October B.E. 2502
Being the 14th year of the present reign

By Royal Command of His Majesty King Bhumibol Adulyadej it is here by proclaimed that

Whereas it is proper to amend the law on budget procedure;

His Majesty the King, with the advice and consent of the Constituent Assembly in its capacity as Parliament, is graciously pleased to enact an Act as follows:

Section 1. This Act shall be called the "Budget Procedure Act, B.E. 2502."

Section 2. This Act shall come into force on and from the day following the date of its publication in the Government Gazette.

Section 3. The Budget Procedure Act B.E. 2499 shall be deleted.

Section 4. In this Budget Procedure Act:

"Appropriation" means a legislative enactment authorizing a department or ministry to expend public money (a) in accordance with existing law (b) limited to an amount not exceeding the sum specified and (c) restricted to the period and purposes set forth in the authorization.

"Budget items for the following year" means the budget item provides for payments in the following year which are restricted to the period and purposes set forth in the authorization.

"Budget year or fiscal year" means the period of time commencing with the 1st of October of each year and terminating with the 30th of September of the succeeding year. The fiscal year shall be named by the Buddhist Era numeral for the said succeeding year.

"Debts" means obligation to pay in terms of money, goods, or services; being created from loan, guarantee, purchasing or job order by credit, or others.

"Allotment" means the portion of an appropriation that is designated for spending in a specific allotment period.

"Government agency" means ministry, bureau, department and public bodies but does not include state enterprises or any work unit under the Local Administration Act.

"State enterprise" means (a) government organizations or business units owned entirely by the government; (b) a company or registered partnership of which more than 50% of the capital is contributed by a government branch; (c) a company or registered partnership of which more than 50% of the capital is contributed by (i) a government branch; (ii) by a state enterprise; and (iii) by (i) and (ii); (d) a company or registered partnership of which more than 50% of the capital is contributed by a government branch and/or state enterprise under (a) and/or (b) and/or (c); and (e) a company or registered partnership of which more than 50% of the capital is contributed by a government branch and/or state enterprise under (a) and/or (b) and/or (c) and/or (d).

"Treasury" means changwat treasury or amphur treasury and also the Deposit Account of Ministry of Finance at the Bank of Thailand.

"Government advance" means a sum of money which the Ministry of Finance expends and allows government agencies to hold and expend for their expenditures according to rules and regulations set forth by the Ministry of Finance.

Section 5. The Prime Minister and the Minister of Finance control this Act and shall have power to issue ministerial rules to work in accordance with the Act and with the powers and responsibilities of the Office of the Prime Minister or the Ministry of Finance.

Ministerial rules shall come into force on and from the day following the date of their publication in the Government Gazette.

Section 6. The Director shall have the power and duty to make the budget and to act as provided in this Act and also shall have powers and duties concerning the budget as follows:

(1) to require government agencies and state enterprises to make receipts and expenditure budgets in accordance with the forms and rules, including particulars as may be prescribed by the Director.

(2) to analyze budgets and expenditures of government agencies and state enterprises;

(3) to fix, increase, or reduce allotments in accordance with working requirements and the government's financial capabilities;

(4) to fix, allotments periods.

Section 7. To carry out the provisions of this Act, the Director shall be empowered to summon government agencies and state enterprises to submit information as may be found proper and the Director or officer authorized by the Director shall have the power to inspect all books, accounts, documents and other evidences of government agencies and state enterprises.

For the purpose of the preceding paragraph, the officer authorized by the Director shall be deemed a competent officer under the Penal Code.

Section 8. The annual budget submitted to the legislature ordinarily shall consist of:

(1) an auxiliary statement setting forth monetary and fiscal status and policy, the principal elements of the budget, and the relation between estimated receipts and expenditures.

(2) a comparative table of receipts and expenditures for the past year, present year, and the year for which the expenditure budget is estimated.

(3) an explanation concerning receipts estimates.

(4) a commentary (justification) concerning expenditure budget estimates.

(5) a report concerning the finances of state enterprises.

(6) an explanation concerning present debts of the Government as well as proposals for additional loans.

(7) a report of the receipt and use of money or property donated to the Government.

(8) a draft Annual Budget Appropriations Act.

Section 9. If, upon submitting a budget, the estimated revenue under existing laws is less than the total estimated expenditures, a statement shall be given to the legislature indicating the way in which the imbalance is to be corrected, but if the amount is higher, a statement shall be given as to the way in which the excess is to be used to ensure the greatest benefit.

Section 9 bis. If, after promulgation of the Annual Budget Appropriations Act or supplementary expenditure budget act, expenditures exceed receipts, the Ministry of Finance is empowered to borrow funds for expenditure as may be necessary. In any case, loans made under this section in any one year shall not exceed:

(1) twenty percent of the total expenditure and supplementary expenditure budgets, and;

(2) eighty percent of the budget set for redeeming loans.

Loans under the provisions of event (1), may be made through the issuance of treasury bills, bonds or other instruments as may be appropriate. Issuance of treasury notes shall conform to the law on treasury notes. With respect to the issuance of bonds or other instruments, the Ministry of Finance is empowered to issue ministerial regulations prescribing the currency to be borrowed, conditions or procedures as well as expenses for the issuance of bonds or other instruments, including management of all matters concerning the loan.

Section 10. A central fund may be set up as a separate item in the annual budget or supplementary expenditure budget of government agencies or state enterprises. It also may provide for reserve, for emergency or necessity in use of the central fund.

Section 11. Extra-annual expenditure budgets will be allowed in the event it is expected that an expenditure budget will not be used within the budget year. Extra-annual expenditure budgets must indicate their termination date.

Section 12. The heads of government agencies or state enterprises shall appoint an official as budget officer who shall have duties concerning the budget of that government service or state enterprise.

Section 13. The Minister responsible for the government agency or state enterprise or Minister, who by law supervises or controls the business of the state enterprise, shall be responsible for filing the annual budget of that government agency or state enterprise with the Director within the period of time prescribed by the

Director.

In the event the state enterprise is a company or registered partnership, the Minister responsible for the government agency or state enterprise which owns the capital shall be responsible under the foregoing paragraph.

If such annual budget is not filed within the period prescribed under the provisions of the first paragraph, the Director may fix an annual budget as he may think fit.

Section 14. Compensatory expenditures to replenish the fund for treasury balance or expenditure reserve under section 29 bis, will be shown separately in the Budget Act, and will be considered as expenditures of that particular year.

Section 15. The Director shall submit the annual budget to the President of the Council of Ministers at least two months prior to the beginning of the budget year in order that the Council of Ministers may submit it to the legislature.

Section 16. If the Budget Act is not promulgated in time for the new budget year, the expenditure budget for the past budget year shall continue to apply in the meantime, subject to the rules and conditions prescribed by the Director with the approval of the President of the Council of Ministers.

Section 17. In the event it is necessary to spend or incur debts in excess of or apart from amounts prescribed in the Annual Budget Appropriations Act for the year, the Council of Ministers may submit a draft supplementary Budget Act to the legislature and shall indicate the source of revenue to cover the proposed supplementary expenditure budget.

The preparation of a supplementary budget shall be in accordance with the procedures prescribed by the Director.

Section 18. Expenditure budgets fixed for one government agency or state enterprise under an Annual Budget Appropriations Act or supplementary Budget Act may not be transferred to the use of another government agency or state enterprise unless by Act.

Section 19. An amount budgeted for expenditure by a government agency or state enterprise under one item in an Annual Budget Appropriations Act, supplementary Budget Act, or transfered Budget Act, may not be transferred or used under another item unless by authorization of the Director, but the Director may not give authorization in the event the effect would be to increase expenditure of the category, secret service funds or for a new work or project without the approval of the Council of Ministers.

The Director shall have power to allocate disbursement of expenditure items fixed in a central fund to government agencies or state enterprises.

In case of necessity, the Director, with the approval of the Prime Minister, may transfer one item of expenditure in a central fund in order to increase other items within the same fund.

Section 20. The use of expenditure budgets for government agencies or state enterprises as provided in each item of the Annual Budget Appropriations Act or supplementary Budget Act shall conform to the rules prescribed by the Director.

Section 21. The Minister shall be responsible for budget control in order to ensure conformity with laws, rules or regulations and also shall have the following powers and duties:

(1) to compile financial accounts.

(2) to prescribe, with the approval of the Council of Ministers, rules or regulations concerning treasury payments, the keeping of funds and remittance of funds to the treasury.

(3) to arrange for the inspection of documents concerning the drawing and payment of funds, the creation of obligations, as well as other documents concerning the receipt and keeping of funds and their remittance to the treasury.

(4) to prescribe and control the accounting system, report forms, and documents concerning the drawing and payment of funds and debts.

(5) to prescribe, with the approval of the Council of Ministers, rules or regulations on government advances and to publish them in the Government Gazette.

Section 22. The Minister shall be empowered to summon government agencies and state enterprises to give information as he may think fit and shall be empowered to authorize competent officers to examine all books, accounts, documents and other evidence of government agencies and state enterprises.

For the benefit of the preceding paragraph, the competent officers assigned by the Minister shall also be deemed officers under the penal code.

Section 23. Except as provided in section 23 ter., government agencies and state enterprises may make payments or incur obligations only as specified in the Annual Expenditure Budget Appropriations Act or Supplementary Expenditure Budget Appropriations Act or as empowered by other laws but shall be prohibited from making payments or incurring obligations pursuant to the Annual Expenditure Budget Appropriations Act or Supplementary Expenditure Budget Appropriations Act until funds for the particular allotment have been approved.

Section 23 bis. No government agency except the Ministry of Finance may incur obligations whether as loans or quarantees except as provided in Section 23 ter.

Section 23 ter. If state enterprises which are not juristic persons need to borrow funds for operations, the Ministry in charge is empowered to make the loan under the following conditions:

1) In the case of investment loans, the state enterprise has to submit capital budget plans to NESDB for consideration.

2) Prior approval from the Minister and Director is required; and if the amount exceeds three million baht, prior approval of the Council of Ministers is required.

Money borrowed under this section may be paid to the state enterprise for use in accordance with its objectives without remitting it to the Treasury.

Section 24. All money received by a government agency as owner thereof whether under law or rules and regulations or in payment by virtue of its power and duties or contract or from allowing the use of government property or the collection of income from government property shall be remitted to the Treasury under the rules or regulations prescribed by the Minister unless otherwise provided by law.

Any government agency which receives money given for the purpose of expenditure in the activities of such service or money arising from property given in order that its proceeds may be expended in the activities of such service may expend or incur obligations up to the amount of money received without remitting it to the Treasury.

The Ministry may provide otherwise in respect of a government agency which receives money under an aid or cooperation program with a foreign government, United Nations Organization, United Nations specialized agency, other international organization or any person whether by loan or gift including money which the government agency receives in consequence of such aid or cooperation program with no need to remit such money to the Treasury.

The Minister may authorize government agencies which receive money in the following cases to expend such money without need to remit it to the treasury:

1) money received in nature of compensation for damage or waste of property and required to be spent for the repair or recovery of the property;

2) receipts of government agencies which are hospitals, schools or any other place giving public service or public welfare.

3) money received from indirect operations by the power of the Minister and Director.

Receipts in the event of (2) and (3) may be expended only in accordance with regulations approved by the Minister and Director.

Section 25. Deleted by Budget Procedures Act (No.2).

Section 26. Any government official or employee of a government agency who commits an act incurring an obligation or pays money or knowingly consents to or permits such act in violation of this Act or rules or regulations issued pursuant hereto, apart from criminal liability under other laws, shall be liable to the government agency for the amount of money which the government agency paid or becomes obligated to repay such damages.

Any third person who receives benefit from an act in violation of this Act or rules or regulations issued pursuant hereto as mentioned in the foregoing paragraph shall be jointly liable with the offender under the foregoing paragraph unless it is shown that he acted in good faith without knowledge of the violation of the said Act or rules and regulations.

The provisions of the first paragraph shall not apply to government officials or employees who have been given instruction from their superior and who have protested in writing that to act in conformity with such instruction might be contrary to law or rules and regulations.

Section 27. Funds may be drawn from the Treasury under any annual expenditure budget estimate only within the fiscal year of such budget unless:

1) the budget item provides for payments into the following year,

2) the budget item is in respect of an obligation incurred prior to the expiration of the fiscal year or the later drawing has been approved by the Council of Ministers and funds have been set aside under the rules or regulations concerning payments from the Treasury.

In the event of (2), the period for drawing funds from the Treasury shall be extended by not more than six calender months of the succeeding fiscal year, unless there is need to draw funds from the Treasury after this period, which will require the agreement of the Ministry of Finance in each case.

Section 28. Funds may be drawn from the Treasury under an extra-annual expenditure budget only within the period prescribed in the law on the expenditure budget unless the extra-annual budget has created obligations prior to the expiration of the period and funds have been set aside under the rules or regulations concerning treasury payments in which case the period for drawing funds from the Treasury shall be extended by not more than three additional calendar months.

Section 29. The Minister shall be empowered to order payment of government advances from the Treasury.

Section 29 bis. There shall be a fund payable by the Minister from the Treasury to be called "Expenditure Reserve" of one hundred million baht. Payments may be made from this fund in case of necessity in the interests of the national government with the approval of the Council of Ministers and when a payment has been made, a compensatory expenditure shall be requested to replenish the fund.

Section 30. At the end of a budget year the Minister shall without delay publish in the Government Gazette a report of receipts and payments for the past budget year.

The Auditor General after auditing the report of receipts and payments under the foregoing paragraph shall submit a report of the audit to the Council of Ministers for referral to the legislature.

Section 31. Action pursuant to the Budget Procedure Act B.E. 2502 shall be governed by the laws on budget procedure in effect prior to the date this Act comes into force except the provisions of Section 27 which shall apply from the date this Act comes into force.

Section 32. The budget year B.E. 2503 shall commence on the 1st January B.E. 2503 and shall terminate on the 31st December B.E. 2503. The draft Annual Budget Appropriations Act shall be submitted to the legislature prior to the end of October B.E. 2502.

The budget year B.E. 2504 shall commence on the 1st January B.E. 2504 and shall terminate on the 30th September B.E. 2504, and the draft Annual Budget Appropriations Act shall be submitted to the legislature prior to the end of October B.E. 2503.

Section 33. Any government service drawing treasury funds under the system of payment before inspection prior to the date this Act comes into force may continue to do so for not more than six months from the date this Act comes into force.

Section 34. (Deleted)

APPENDIX B

REGULATION ON NATIONAL DEBT POLICY, B.E. 2528

REGULATION ON NATIONAL DEBT POLICY, B.E. 2528

Whereas it is deemed appropriate to renew the Regulation on National Debt Policy, B.E. 2525, the Cabinet therefore issues this Regulation, to be obeyed by government agencies and state enterprises:

Section 1. This regulation is called "the Regulation on National Debt Policy, B.E. 2528

Section 2. This regulation shall be enacted on the date of announcement, so forth.

Section 3. The Regulation on National Debt Policy B.E. 2525 is abolished.

Section 4. In this Regulation:

"Government agencies" means ministries and offices equivalent to ministries, and departments, including provincial administration offices, municipalities, sanitation boards, the Bangkok Metropolitan Administration and Pattaya City Administration.

"State enterprises" means state enterprises according to the Budget Procedure Act B.E. 2502, except state enterprises which are commercial banks, finance companies, security companies and credit foncier companies.

"Debt creation" means the loans gotten by government officials/state enterprises from local sources and from foreign countries, with or without the Government's guarantee, hire-purchase and mortgaging the credit, excluding local debt created by state enterprises for its own revolving funds.

"Additional local cost in Baht" means the development project's investment in baht.

"Enterprises income" means the net profit of enterprises before deduction of depreciation cost and expenses on acquirement of investment (interests and loan commitments).

"The Committee" means the National Debt Policy Committee.

Section 5. There shall be a Committee called "The National Debt Committee", composed of representatives from the list of the following government officials:

1.	Minister of Finance	Chairman
2.	Deputy Minister of Finance	Vice-Chairman
3.	Permanent Secretary of the Ministry for Finance	Member
4.	Governor of the Bank of Thailand	"
5.	Secretary-General of the NESDB	"
6.	Director of the Bureau of the Budget	"
7.	Director-General of the General Comptroller Department	"
8.	Director-General of the Department of Technical & Economic Cooperation	"
9.	Director of the Fiscal Policy Office	Member and Secretary
10.	Representative from the NESDB	Member and Assistant
11.	Representative of the Bureau of the Budget	Member and Assistant Secretary
12.	Representative of the Bank of Thailand	"
13.	Representative of the General Comprtoller Department	"
14.	Director of Loan Policy Division	"

The Committee is authorized to:

(1) Recommend policies, work plans and criteria on the debt creation of the public sector with foreign countries to the Cabinet in order to be approved and operated by government agencies and state enterprises.

(2) Consider and formulate foreign borrowing plans--short, intermediate and long term--in accordance with the National Development Plan.

(3) Consider and fomulate foreign borrowing plans for each fiscal year, to be finished by October 31 every year. The plan shall state the office requesting the loan, expected loan sources amount and schedule, additional local

cost and other related details. It must be able to declare that the total loans together with the loans expected in the next five years shall not exceed the 9% income in foreign currency that is expected to be derived from sales of goods and services in the following years.

As for the calculation of debt burden by the plans, the less-than-one-year short loans shall be counted only as the ones that is chanced to continue to long-term loans, or, the revolving fund loans: and in these two cases; interests shall be calculated by the loans' conditions by not payback capital but regard as having both capital and interests for the following years as by general conditions of loans from the long-term foreign financial market.

(4) Prohibit any other debt creation unless the sum in the annual foreign debt plans as approved by the cabinet, is deducted by at least the same amount.

(5) Provide coordination between related government offices/state enterprises to operate by this regulation and provide monitoring on the operation of the conditions of the loan contract and loan guarantee contract, and other related agreements, including follow-up on the allocation of additional budget/additional local cost budget from loan sources both local and from foreign countries.

(6) Study and consider debt burdens and implementation results relating to foreign loan raising and report to the Cabinet quarterly. Reports from related government offices or others concerned must be submitted to the Committee for consideration.

(7) Consider loan raising from local and foreign sources in order to provide additional local cost for government offices and state enterprises.

(8) Consider state and enterprises's loan raising derived from private financial markets from foreign countries by these conditions:

8.1 They must be stated in the National Economic and Social Development Plan, or, if not, shall be under consent from the NESDB and/or approval from the Cabinet as appropriate special projects.

8.2 In all cases, the would-be approved loans shall yield rates of returns equivalent to loan interests and other service cost, such as, the guarantee on risk of foreign exchange rates, and the internal cash generation, in comparison to the enterprises' debt service coverage ratio of not less than 1.5.

(9) Consider coordination among the administration of loans for national defense by the Act of Loan for National Defense Act B.E. 2519 (1976) and the Act Authorizing the Ministry of Finance to Raise Loans from Foreign Governments for Purchasing Military Equipment B.E. 2524 (1981), including to consider and recommend loan policy and criteria for the potential following loans for national defense.

(10) Consider other projects as assigned by the Cabinet, such as, the joint investment between the government and private sector.

(11) Consider and regulate policies, targets and work plans annually of local loans as an additional local cost of state enterprises, as appropriate to the economical, financial and fiscal condition of the country.

(12) Consider and recommend policies on state enterprises' service charge rates on the aspect of impact on income and potential ability on debt payback in order to provide consideration to the Ministry in charge.

Section 6. The committee may appoint subcommittees and working groups as deemed necessary and in doing so, the Committee can invite representatives from government officials/state enterprises for joint consideration.

Section 7. Any government officials/state enterprises aiming to undertake any deed resulting in debt creation for national economic and social development shall formulate a project and submit it to the NESDB for review.

Section 8. When the NESDB reviews the project in Section 7, it shall consider details and rationales on the economic and social context of the project, including its conforming to the National Development Plan.

In the consideration of the first paragraph, the NESDB shall look over on the project's loan utilization, and moreover, the source of the additional local cost in baht so that it shall not result in problems afterwards. The NESDB shall submit recommendations to the Cabinet for approval.

Section 9. The NESDB shall formulate the annual and three-year plan of loan projects and submit them to the Committee, showing projects estimated to apply for foreign loans according to national economic and social development. The plan is to be jointly considered on formulation of the annual debt creation work plan of Section 5(3) by August 31st of every year. If there is any change in the plan, the Committee shall be periodically informed.

Section 10. The Ministry of Defense shall submit the next fiscal year's work plan on foreign loans to the Ministry of Finance by August 31st of every year in order to formulate the plan of Section 5(3).

Section 11. For the loan raising of government offices and state enterprises, which is not under the Act Authorizing of Ministry of Finance to Raise Loans from Abroad B.E. 2519 (1976) and the Act Determining the Power of Ministry of Finance to Guarantee Loans B.E. 2510 (1967), these shall be reported to the Committee within four months after the signing of agreement.

Section 12. The Bank of Thailand shall monitor the private sector's foreign loans at the appropriate amount and in accordance with the potential payback ability by the policy as set by the Committee, and, shall report on the private sector's previous foreign debt, including estimation of future needs and debts from foreign sources, to submit to the Committee for national debt administration every four months.

Section 13. In raising loans for the Committee's approved projects, the Ministry of Finance shall:

(1) Approach loan sources for each project approved by the Committee.

(2) Discuss in detail with loan sources about loan ceilings and conditions of the loan agreement and guarantee agreements or conditions in loan raising, hire purchase and mortgaging the credit to foreign sources as per each case.

(3) Direct on the operation by these conditions of both loan guarantee contracts, including provision of additional local cost (in baht) in loans to State Enterprise.

Section 14. The Ministry of Finance is authorized to consider local loan raising of government offices and state enterprises which is not the sum of additional local cost, by the Budget Procedure Act and Act Determining the Power of the Ministry of Finance to Guarantee Loans.

Section 15. In case it is necessary that the loan project be financially or technically supported, DTEC shall consider providing foreign financial and technical sources.

In case of support from the World Bank and the Asian Development Bank, the Ministry of Finance shall approach and ask for support according to the supporter's criteria.

Section 16. In approaching loan sources according to various projects by Section 13, the Ministry of Finance shall submit loan/guarantee conditions to be approved before signing the loan/loan guarantee agreement.

When the loan agreements are signed, the Ministry of Finance shall report to the Committee and the Cabinet.

Section 17. Within three years so forth, this is to be operated:

(1) In case of necessity for national development, the National Debt Policy Committee shall submit to the Cabinet for approval the expansion of not more than 2% on the public sector's debt when proportionately compared to the income in terms of foreign currency expected to be derived from selling goods and services in addition to the set standing rate as in Section 5(3).

(2) When necessary, any state enterprise in need of loan from the private capital market in foreign countries but is not able to maintain the conditions in Section 5(8)-8.2, shall submit to the National Debt Policy Committee for exemption and further submit to the Cabinet.

APPENDIX C

ACT AUTHORIZING THE MINISTRY OF FINANCE TO RAISE LOANS FROM ABROAD, B.E. 2519

ACT AUTHORIZING THE MINISTRY OF FINANCE TO RAISE LOANS FROM ABROAD, B.E. 2519

BHUMIBOL ADULYADEJ, REX

Given on the 16th Day of November B.E. 2519

Being the 31st Year of the Present Reign.

His Majesty King Bhumibol Adulyadej is graciously pleased to proclaim that:

Where it is expedient to have a law authorizing the Ministry of Finance to raise loans from abraod for financing the economic and social development of the country,

Be it, therefore, enacted by the King, by and with the advice and consent of the Advisory Council of the Prime Minister acting as the National Administrative Reform Assembly, as follows:

Section 1. This Act is called the "Act Authorizing the Ministry of Finance to Raise Loans from Abroad, B.E. 2519"

Section 2. This Act shall come into force from the day following the date of its publication in the Government Gazette.*

Section 3. The Ministry of Finance shall, with the approval of the Council of Ministers, have the power to raise loans for financing the economic and social development of the country.in the name of the Government of the Kingdom of Thailand from

(1) international financial institutions;

(2) foreign governments;

(3) financial institutionals of foreign governments;

(4) private financial sources in foreign countries.

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* Published in the Government Gazette, Vol. 93, Part 144, Special Issue, dated 17th November B.E. 2519 (1976)

In the raising of loans under paragraph one, the aggregate amount of loans in each fiscal year shall not exceed ten percent of the budgetary appropriations under the law on budgetary appropriations for such fiscal year.

The conversion of a foreign currency into baht shall be based on the par value of such currency; in the case where the par value of such currency is not available, the value of such currency as announced at the International Monetary Fund on the date of concluding the loan agreement shall apply.

Section 4. In raising loans under this Act, the Ministry of Finance shall have the power to raise loans by issuing bonds or other instruments from time to time as it deems necessary in addition to concluding loan agreements.

Money raised under a loan agreement or received from issuing bonds or other instruments under paragraph one shall be used by the Ministry of Finance or such other Ministry, sub-ministry or department or state enterprise as may be entrusted by the Ministry of Finance in accordance with the purpose of raising such loan without having to remit it as revenue under the law on budgetary procedure and the law on treasury balance.

Section 5. The rate of interest, conditions, fees, expenses, management and all procedures concerning each loan shall be in accordance with those approved by the Concil of Ministers.

Section 6. The period for repayment of principal must not exceed fifty years from the date of concluding the loan agreement or the date of issuing bonds or instruments.

Section 7. Each loan shall be published in the Government Gazette within one month from the date of concluding the loan agreement or issuing bonds or other instruments, and the currency, amount of loan, conversion into baht, rate of interest, fees, period for repayment of principal and purpose of such loan shall be mentioned therein.

Section 8. The Minister of Finance or his designated representative shall have the power to proceed with the raising of loans so as to be in accordance with this Act.

Section 9. The Minister of Finance shall have charge and control of the execution of this Act.

APPENDIX D

ACT DETERMINING THE POWER OF THE MINISTRY OF FINANCE TO GUARANTEE LOANS, B.E. 2510

BHUMIBOL ADULYADEJ, REX.

Given on the 19th day of December B.E. 2510

Being the 22nd Year of the Present Reign

His Majesty King Bhumibol Adulyadej is graciously pleased to proclaim that:

Whereas it is expedient to determine the power of the Ministry of Finance to guarantee loans:

Be it, therefore, enacted by the King, by and with the advice and consent of the Constituent Assembly in the capacity of the National Assembly, as follows:

Section 1. This Act is called the "Act Determining the Power of the Ministry of Finance to Guarantee Loans, B.E. 2510".

Section 2. This Act shall come into force as from the day following the date of its publication in the Government Gazette. (2)

Section 3. In this Act.

"Guarantee" includes avail given for a bill of exchange;

"Government Agency" means a Ministry, sub-ministry, department, or public body of equivalent status and includes a changwat administrative organization, municipality, sukhaphiban, and Bangkok Metropolis. (3)

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(1) As last amended by the Announcement of the Revolutionary Council No.17 dated 8th November B.E. 2520 (1977) and published in the Government Gazette Vol. 94, Part 109, dated 8th November B.E. 2520 (1977).

(2) Published in the Government Gazette Vol. 84, Part 125, dated 26th December B.E. 2510 (1967).

(3) As amended by the Act Determining the Power of the Ministry of Finance to Guarantee Loans (No.2), B.E. 2519 (1976).

"Government organization" means an organization or enterprise which is a juristic person, established by an Act or a Royal Decree, the entire capital stocks of which are owned by the Government;

"Financial institution" means a financial institution established by a specific Act for the purpose of lending money for the promotion of agriculture, commerce or industry;

"Capital fund" means a paid-up fund or reserve fund, including any reserve money allocated from net profits and net profts after such allocation.

Section 4. Subject to section 5, the Ministry of Finance has the power to guarantee with the approval of the Council of Ministers, loans raised by a government agency, government organization, limited company which is a state enterprise, and by a financial institution.

The limited company which is a state enterprise must be:

(a) a limited company whose capital stocks of not less than seventy percent have been subscribed by a government agency, and/or a government organization; or

(b) a limited company whose capital stocks of not less than seventy percent have been subscribed by a government agency, and/or a government organization, and/or a limited company under (a)."(1)

Section 5. The Ministry of Finance shall not create binding obligations by means of guaranteeing loans, the aggregate amount of which at the time of creating them shall exceed the following amounts:

(1) in the case where the debtor is a limited company which is a state enterprise under section 4, six times of

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(1) As last amended by the Act Determining the Power of the Ministry of Finance to Gurantee Loans (No. 2), B.E. 2519 (1976)

(2) As amended by the Announcement of the Revolutionary Council No. 17 dated 8th November B.E. 2520 (1977) and published in the Government Gazette Vol. 94, Part 109, dated 8th November B.E. 2520 (1977).

the capital funds of that limited company;

(2) in the case where the debtor is a financial institution, four times of the capital funds of that financial institution;

(3) the aggregate binding obligations created under (1) and/or (2) in any fiscal year shall not exceed ten percent of the budgetary appropriations under the law on budgetary appropriations for that fiscal year.

The provision in (3) shall not apply to a guarantee given in respect of the renewal or modification of a guarantee agreement without increasing the amount of the loan guaranteed."(2)

Section 6. In the calculation of money which the Ministry of Finance has created binding obligations by means of guarantee under section 5 (3), the amount which the Ministry of Finance has guaranteed by virtue of other laws shall not be included.

Section 7. For the purpose of this Act, the par value shall apply to the conversion of foreign currencies into Thai currency.

Section 8. The Minister of Finance shall have the following power:

(1) to authorize any person to sign a guarantee agreement which is executed in a foreign country;

(2) to charge fees for guarantee given for a limited company which is a state enterprise under section 4 and for a financial institution not exceeding one percent of the loan guaranteed.

Section 9. This Act shall neither affect the guarantees given by the Ministry of Finance by virtue of other laws nor affect any guarantee given by the Ministry of Finance before the day on which this Act comes into force.

Section 10. The Minister of Finance shall have charge and control of the execution of this Act.

APPENDIX E

CURRENCY ACT, B.E. 2501

CURRENCY ACT B.E. 2501 1/

BHUMIBOL ADULYADEJ, REX

Given on the 18th day of August B.E. 2501

Being the 13th Year of the Present Reign

By Royal Command of HIS MAJESTY KING BHUMIBOL ADULYADEJ, it is hereby proclaimed that:

Whereas it is expedient to revise the law on the currency,

It is hereby enacted by and with the advice and consent of the Assembly of the People's Representatives, as follows:

Section 1. This Act shall be called "The Currency Act, B.E. 2501"

Section 2. This Act shall come into force on and from the day following the date of its promulgation in the Government Gazette.

Section 3. The following shall be repealed

(1.) The Currency Act, B.E. 2471;

(2.) The Currency Amendment Act, B.E. 2473;

(3.) The Currency Amendment Act, B.E. 2475;

(4.) The Currency Act (No.4) B.E. 2479;

(5.) The Currency Act (No.5) B.E. 2482;

(6.) The Currency Act (No. 6) B.E. 2483;

(7.) The Currency Act (No.7) B.E. 2484;

(8.) The Currency Act (No.8) B.E. 2485;

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1 As Amended by Currency Act (No.2) B.E. 2510 Currency Act (No.4) B.E. 2516 and Emergency Degree Amending Currency Act B.E. 2501 B.E. 2521.

(9.) The Currency Act (No.9) B.E. 2485;

(10.) The Currency Act (No. 10) B.E. 2487; and

(11.) The Currency Temporary Act (No.7), B.E. 2501.

Section 4.[1] In This Act,

"Monetary Fund" means the International Monetary Fund under the Agreement on the International Monetary Fund, of which Thailand is a member.

"Reserve Tranche Purchase Certificate" means reserve tranche certificate issued under the law empowering the execution in respect of the International Monetary Fund and the International Bank for Reconstruction and Development.

"Spot transaction" means exchange transaction effected by telegraphic transfer order.

"Foreign securities" means:

(1) securities of a foreign government or of an international financial institution of which Thailand is a member.

(2) securities guaranteed by a foreign government or by and international financial institution of which Thailand is a member.

(3) instruments issued by an international financial institution of which Thailand is a member as evidence that the holder thereof is participating with such institution in making available loans to member governments or organizations of member governments of the said institution to the amount indicated in the instruments.

"Remedy" means variation of weight and fineness of a coin from the prescribed standard weight and fineness.

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[1] As amended by Section 3 of the Emergency Decree Amending the Currency Act B.E. 2501 B.E. 2521 (Government Gazette, Vol. 95, Part 27 dated 8th March B.E. 2521).

"Convertible currency" means currency of a country which has accepted the obligations imposed by Article VIII of the International Monetary Fund Agreement.

"Special Drawing Right Certificate" means special drawing right certificate issued under the law on the authorization and the regulation of certain operations concerning special drawing rights in the International Monetary Fund.

"Minister" means minister in charge of the enforcement of this Act.

Section 5. The Minister of Finance shall have charge and control of the execution of this Act and shall be empowered to issue Ministerial Regulations for that purpose which shall come into force on being promulgated in the Government Gazette.

Chapter 3

Currency Reserve

Section 26. For the purpose of maintaining the stability of the currency, the Bank of Thailand shall maintain a currency reserve, hereinafter to be called the "Currency Reserve."

Section 27. All existing assets of the Currency Reserve held prior to or on the date on which this Act comes into force shall be held in Currency Reserve under this Act.

Section 28. The Currency Reserve shall be held entirely separate from all other assets of the Bank of Thailand.

Section 29.[2] Subject of Section 22 and 34, the Currency Reserve may not be spent, unless:

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[1] As amended by Section 5 of the Emergency Decree Amending the Currency Act B.E. 2501 B.E. 2521. (Government Gazette, Vol. 95, Part 27, dated 8th March B.E. 2521)

[2] As amended by Section 4 of the Currency Act (No.2) B.E. 2510 (Government Gazette, Vol. 84, Part 127, dated 29th December B.E. 2510.)

(1) at the same time, notes of equal value are withdrawn from circulation;

(2) at the same time, other assets under Section 30 of equal value is received and credited to the Currency Reserve Account.

The Currency Reserve may be spent as aforesaid only by an order of the Governor of the Bank of Thailand of a representative specially appointed by the Governor of the Bank of Thailand for that purpose.

Section 30.1 The following assets shall be lawful components of the Currency Reserve:

(1) gold,

(2) foreign currencies which are convertible currencies or any other currencies prescribed by a Ministerial Regulation, which must be in the form of deposit with a bank outside the Kingdom or with an international financial institution,

(3) foreign securities payable in foreign currencies as stated in (2),

(4) gold and foreign assets paid as subscription to the International Monetary Fund,

(5) Reserve Tranche Purchase Certificate,

(6) Special Drawing Right Certificate,

(7) securities of the Thai Government payable in foreign currencies as stated in (2) or in baht,

(8) domestic bills which the Bank of Thailand is permitted to purchase or rediscount, provided that the total value thereof does not exceed 20 percent of the total amount of notes issued.

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[1] As amended by Section 6 of the Emergency Decree Amending the Currency Act B.E. 2501 B.E. 2521. (Government Gazette, Vol. 95, Part 27, dated 8th March B.E. 2521.)

With respect to the assets stated in (1), (2), (3), (4), (5) and (6) above, the Bank of Thailand shall be required to maintain their total value at not less than 60 percent of the notes issued.

Section 31.[2] The assessment of value of assets which comprise or which are to comprise the Currency Reserve shall be done as follows:

(1) securities of the Thai Government payable in baht or domestic bills, shall be assessed at the purchase or rediscount price or at face value, whichever is the lower.

(2) assets pay able in foreign currencies or Special Drawing Rights shall be assessed as follows:

(a) gold and foreign securities, shall be assessed at the market price as at the end of the preceding year, if purchased during any year, the value shall be assessed at the purchase price until the assessment at the end of such year,

(b) gold foreign assets and Special Drawing Right paid as subscription to the International Monetary Fund stated in Section 30 (4), shall be assessed at the unit value of the Special Drawing Rights as notified most recently by the International Monetary Fund,

(c) Reserve Tranche Purchase Certificate and Special Drawing Rights Certificate, shall be assessed at face value,

(d) foreign currencies shall be assessed according to the amount of deposit with a bank at that period,

(e) securities of the Thai Government payable in foreign currencies shall be assessed at the purchase or rediscount price or at face value, whichever is the lower.

The assessments in baht of assets specified in the first paragraph (2) shall be done as follows:

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[2] As amended by Section 7 of the Emergency Decree Amending the Currency Act B.E. 2521.

(1) in the case where the par value of baht has not been prescribed or has been suspended, the assessment shall be done at the middle rate between the market rates of buying and selling such foreign currency in spot transactions at the end of the year or if purchased during the year, the value shall be assessed at the rate used in the preceding year.

(2) in the case where the par value of baht has been prescribed, the assessment shall be done by converting the value or the amount of such asset to other foreign currency which may be converted back to a unit value of baht at the middle rate between the rates of buying and selling such foreign currency in foreign markets at the end of the year or if purchased during the year, the value shall be assessed at the rate using in the preceding year and then convered to the baht at the par value so prescribed,

(3) in the case where the par value of the baht is expressed in terms of the unit value established by the Monetary Fund and such foreign currency is also expressed in terms of the unit value established by the Monetary Fund, the assessment shall be done at the par value so prescribed.

Section 32. The Bank of Thailand shall assess the value of the assets of the Currency Reserve each year not later than sixty days from the first day of the year.

Section 33[1] Yields on the assets in the Currency Reserve each year shall be credited to the Annual Yields Account.

Assets in the Annual Yields Account shall be expended only for the purposes of:

(1) printing notes, or any other matter concerning the establishment of the printing work of the Bank of Thailand for printing notes and any other printed matters as approved by the Minister, and of the establishment of a revolving fund as may be necessary for the operation of the said printing work.

(2) issuing and managing notes, or of any other matters concerning notes as authorized by the Minister.

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[1] As amended by Section 9 of the Currency Act (No.4) B.E. 2516 (Government Gazette, Vol. 90, Part 68, dated 14th June B.E. 2516)

(3) compensating the decreased value of assets in the Currency Reserve Account.

(4) managing the assets in the Currency Reserve Account, Annual Yields Account and Special Reserve Account.

Whatever remains after the expenditure in paragraph one at the end of the year shall be transferred to the Special Reserve Account.

Yields on the assets in the Annual Yields Account or the Special Reserve Account shall be credited to the Annual Yields Account.

In the case where the assets in the Annual Yields Account in any year are not sufficient to expend as aforesaid, the expenditure shall be drawn from the Special Reserve Account to the extent of the deficit. Moreover, if the assets in the Special Reserve Account is not sufficient, it shall be drawn from the Treasury Balance to the extent of the deficit. If in the following years, there shall be any surplus of assets in the Annual Yields Account after such expenditure, the Treasury Balance shall be reimbursed by the full amount expended, and the remainder shall be transferred to the Special Researve Account.

Section 34[1] In the case where the value of the assets in the Currency Reserve Account increase, the increase shall be transferred to the Special Reserve Account.

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[1] As amended by Section 10 of the Currency Act (No.4) B.E. 2516 appearing in Government Gazette, Vol. 90, Part 68, dated 14th June B.E. 2516.