

DOCUMENT OF INTERNATIONAL MONETARY FUND
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**FOR
AGENDA**

EBS/83/129

CONFIDENTIAL

June 21, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Thailand - Use of Fund Resources - Buffer Stock Financing
Facility - Compulsory Contributions to the Buffer Stock
of the Sixth International Tin Agreement

Attached for consideration by the Executive Directors is a paper on a request expected to be received from Thailand for a purchase of approximately SDR 22 million under the decision on the buffer stock financing facility. A draft decision appears on page 6.

It is proposed to bring this subject to the agenda on Monday, June 27, 1983 in order that the Executive Board may discuss it at the same time as Thailand's request for a modification of performance criteria under its stand-by arrangement (EBS/83/114, 6/6/83) which is already scheduled for that day.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Kaibni, ext. 74162.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

THAILAND

Use of Fund Resources--Buffer Stock Financing Facility--
Compulsory Contributions to the Buffer Stock of the
Sixth International Tin Agreement

Prepared by the Research Department and the Asian Department

(In consultation with the Exchange and Trade Relations,
Legal, and Treasurer's Departments)

Approved by Wm. C. Hood and Tun Thin

June 21, 1983

The Managing Director has been informed that the Thai authorities will shortly request a purchase of approximately SDR 22 million (equivalent to £15.1 million), or 8.1 per cent of quota, in connection with the obligation of Thailand to make its compulsory contributions to the buffer stock of the Sixth International Tin Agreement (ITA). The expected request is to be made in accordance with the provisions of paragraph (1) of Decision No. 2772-(69/47), 6/25/69 as amended by Decision No. 4913-(75/207), 12/24/75, and of Decision No. 7247-(82/147), 11/12/82. The purchase relates to the entire amounts of the initial and subsequent contributions to be made by Thailand under Article 22 of the ITA, and the decision taken by the International Tin Council (ITC) on July 1, 1982. If approved, the proposed purchase would raise the member's purchases outstanding under the buffer stock financing facility (BSFF) from 13.5 per cent to 21.6 per cent of quota, and Fund holdings of the member's currency from 353.4 per cent to 361.5 per cent of quota. A waiver of the limitation in Article V, Section 3(b)(iii) of the Fund's Articles of Agreement will be required and is being proposed.

This paper, which is being circulated in advance of the formal request from Thailand, is presented in four sections and an annex: (1) Thailand's balance of payments position and cooperation with the Fund; (2) the buffer stock contribution; (3) repurchase requirements; and (4) staff appraisal and proposed decision. The annex summarizes Thailand's relations with the Fund.

1. Balance of payments position and cooperation with the Fund

a. Balance of payments position

Thailand's deficit on external current account narrowed from SDR 2.2 billion in 1981 to SDR 1.0 billion in 1982 (3.0 per cent of GDP), owing to a strong growth in export volume and substantial reduction in import volume, which more than offset a deterioration in the terms of trade (Table 1). The rise in export volume applied to almost all major commodities, particularly rice and tapioca. The decline in import volume reflected continued weak domestic demand and a further reduction in business inventories. Private capital inflows in 1982 were substantially lower than in the previous two years. Nonetheless, with the improvement on the current account, the overall balance of payments recorded a surplus of SDR 0.1 billion; gross official reserves amounted to SDR 2.4 billion, a level equivalent to 3.4 months of imports, which compares with 3.6 months coverage at the end of 1981.

The balance of payments projection for 1983 envisages an increase in the current account deficit to SDR 1.5 billion, largely because of a stagnant volume of agricultural exports and higher imports resulting from the ongoing economic recovery. Since foreign borrowing is expected to decrease, largely as a result of net repayment of short-term credits, the overall balance of payments is projected to be in deficit by SDR 0.1 billion.

The proposed purchase, together with net purchases already made in 1983 under the stand-by arrangement and the buffer stock financing facility, amounts to SDR 74 million. If the proposed purchase in relation to the tin buffer stock were approved, and if Thailand were to make full use of resources under the stand-by arrangement, net use of Fund resources for 1983 as a whole would amount to SDR 230 million, and gross official reserves would increase to SDR 2.5 billion. In terms of import coverage, gross reserves would decline from 3.4 months at end-1982 to 3.1 months at end-1983.

b. Cooperation with the Fund

The request for the proposed purchase may be met where the Fund is satisfied that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties. Thailand does not maintain any restrictions on payments and transfers for current international transactions. The Thai authorities have worked closely with the Fund in their adjustment efforts. The authorities' current adjustment program is being supported by a 14-month stand-by arrangement approved on November 17, 1982 for SDR 271.5 million (100 per cent of quota) (EBS/82/192); SDR 94.8 million of this has been drawn. The stand-by program provides for a strengthening in the balance of payments through a reduction in the budget deficit, an appropriate credit policy, and limits on newly contracted or guaranteed external debt by the Government.

Table 1. Thailand: Balance of Payments, 1980-83 1/

	1980	1981	1982	Est. 1983
- - - - - (In millions of SDRs) - - - - -				
A. Current account	-1,597	-2,179	-1,011	-1,490
Trade balance	-2,174	-2,563	-1,516	-2,194
Exports, f.o.b.	(4,954)	(5,853)	(6,203)	(6,384)
Imports, c.i.f.	(-7,128)	(-8,416)	(-7,719)	(-8,577)
Services and transfers (net)	577	384	505	704
B. Capital account	1,942	2,109	1,474	1,301
Private sector <u>2/</u>	1,674	1,801	1,199	921
Central government	268	308	275	380
C. Net errors and omissions	-145	69	-323	70
D. SDR allocation	19	19	--	--
E. Overall balance (=A+B+C+D)	219	18	140	-119
F. Monetary movements <u>3/</u>	-219	-18	-140	119
Monetary authorities (net)	122	198	124	...
Of which: Use of Fund credit (net)	(-39)	(463)	(30)	(...)
Commercial banks (net)	-341	-216	-264	...
<u>Memorandum items:</u>				
Current account (As per cent of GDP)	-6.2	-7.0	-3.0	-3.9
Overall balance (As per cent of GDP)	0.8	-0.1	0.3	-0.3
Gross official reserves (In billions of SDRs)	2.4	2.3	2.4	2.5
Of which: Gold (national valuation)	(1.1)	(0.9)	(1.0)	(...)
Reserves (In months of next year's imports)	3.4	3.6	3.4	3.1

Source: Data provided by the Thai authorities.

1/ Original annual data in dollars were converted into SDRs at average exchange rates.

2/ Including state enterprises.

3/ An increase indicates a decline in assets or a rise in liabilities.

In the first half of the current fiscal year, fiscal revenues fell short of the program targets because of slower real growth, lower imports and a lower rate of inflation, and private credit expansion has been more rapid than programmed, mainly owing to a structural change in financial markets. Nonetheless, performance on the external current account and inflation was markedly better than expected. Following discussions with a staff team in Bangkok in April 1983, the authorities have requested a modification of the credit ceilings, which is scheduled for discussion by the Executive Board on June 27, 1983 (EBS/83/114). The request in conjunction with Thailand's contribution to the buffer stock of the International Tin Agreement is expected to include a statement that Thailand will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

2. The buffer stock contribution

Since early 1982, the tin market, like that for most metals during the recent world recession, has been very weak. Buffer stock support operations by the International Tin Council (ITC) were continuously necessary, and stringent export controls, which were introduced in April 1982 and intensified in July 1982, have so far been extended through June 1983. The tin price was prevented from falling below the floor of the ITA, but remained at or close to it during the second half of 1982 and early 1983. In recent months, however, as a result of stabilization operations under the ITA and the prospect of an improvement in demand, the tin price has risen to some extent.

At its first session in July 1982, the Council of the Sixth ITA, which had come into force provisionally on July 1, decided to call up the full amounts of members' compulsory contributions to the buffer stock. As provided in Article 22(5) of the Agreement, the ITC resolution of July 1 allows members, if they so elect, to make their contributions by transfer from the buffer stock account held under the Fifth ITA, rather than in cash. Thailand has not yet made its contribution, and it now intends to do so by way of a cash payment.

Thailand's contribution to the buffer stock of the Sixth ITA amounts to 2,138 tons of tin, which corresponds to 22 per cent of the total contributions by producing members. Thailand's contribution, valued at the floor price of M\$29.15 per kilo in effect on July 1, 1982, and converted to pounds sterling at the M\$/£ rate on that date, amounts to £15.1 million. Thailand has indicated that it intends to meet its contribution from the purchase it proposes to request under the buffer stock financing facility.

By Decision No. 7247-(82/147), adopted November 12, 1982, the Fund stands ready to assist in financing up to 100 per cent of eligible members' compulsory contributions to the buffer stock of the Sixth ITA, subject to the limit of 50 per cent of their quotas in the Fund on their aggregate

purchases under the BSFF. The amount of the proposed purchase, approximately SDR 22 million, is equivalent to 8.1 per cent of Thailand's quota. ^{1/} Thailand's purchases currently outstanding under the facility amount to SDR 36.6 million (13.5 per cent of quota), in respect of a purchase made in September 1982 relating to its final contribution to the buffer stock of the Fifth ITA, and a purchase made in February 1983 relating to Thailand's contributions to the buffer stock of the International Natural Rubber Agreement. Thus, the proposed purchase would raise Thailand's outstanding purchases under the BSFF to SDR 58.6 million, about 21.6 per cent of its quota.

3. Repurchase requirement

Thailand will be required to repurchase the proposed purchase in equal quarterly installments during the period beginning three years and ending five years after the date of purchase. ^{2/} Thailand will also be expected to make repurchases at an earlier date in accordance with the relevant provisions of the Fund's Articles of Agreement and decisions relating to repurchases in the light of improvement in a member's balance of payments and reserve position. ^{3/} Moreover, in accordance with paragraph 3(b) of Decision No. 7247-(82/147), Thailand will be expected to make repurchases at an earlier date (i) when and to the extent that the ITC makes refunds to Thailand, and (ii) if the Sixth ITA terminates without being replaced by a new ITA providing for a buffer stock, when transfers in liquidation are made to Thailand.

4. Staff appraisal and proposed decision

Thailand is expected to request a purchase of approximately SDR 22 million under the buffer stock financing facility in connection with its compulsory contribution to the buffer stock of the Sixth ITA. The proposed purchase is equivalent to about 8.1 per cent of Thailand's quota in the Fund, and, if approved, it would raise Thailand's purchases outstanding under the BSFF to 21.6 per cent of quota.

Thailand's overall balance of payments registered a surplus of SDR 140 million in 1982, mainly because of a substantial reduction in the current account deficit resulting from a significant decline in imports and an increase in exports, and occurred in spite of lower capital inflows. Gross international reserves amounted to SDR 2.4 billion or 3.4 months of imports, compared with the equivalent of 3.6 months of imports at the end of 1981. In 1983, the overall balance of payments is expected to register a deficit of SDR 119 million, mainly due to a projected increase in the current

^{1/} The exact amount will be determined by converting Thailand's contribution of £15.1 million at the SDR/£ rate of exchange in effect three working days prior to value date.

^{2/} Article V, Section 7(c), and Decision No. 5703-(78/39), as amended by Decision No. 6862-(81/81).

^{3/} Article V, Section 7(b) and Decision No. 6172-(79/101).

account deficit as a result of an increase in imports accompanied by a smaller increase in exports; also a further decline in foreign borrowing is projected. In relation to estimated imports, gross official reserves are expected to decline to the equivalent of three months. The staff considers that Thailand's balance of payments need justifies the proposed purchase.

The amount of the proposed purchase is equivalent to the full amounts of the initial and subsequent compulsory contributions called up from Thailand by the ITC on July 1, 1982 under the provisions of Article 22 of the Sixth ITA. If the purchase is approved, repurchases in respect of it will be required and expected, as appropriate, in accordance with paragraph 3 of Decision No. 7247-(82/147), adopted November 12, 1982. Both the proposed purchase and the timing of the request are in accordance with the provisions of paragraph 2 of Decision No. 7247-(82/147). The request is expected to include a statement that Thailand will cooperate with the Fund in efforts to find, where required, appropriate solutions for its balance of payments difficulties.

The staff believes that the expected request will meet all the requirements set forth in Decision No. 2772-(69/47), Buffer Stock Financing Facility: The Problem of Stabilization of Prices of Primary Products, as amended by Decision No. 4913-(75/207), and Decision No. 7247-(82/147), Buffer Stock Financing Facility: Sixth International Tin Agreement.

Accordingly, the following draft decision is proposed for adoption by the Executive Board after a duly authenticated request for a purchase has been received by the Fund:

1. The Fund has received a request by the Government of Thailand for a purchase of approximately SDR 22 million (the equivalent of £15.1 million) under the decision on Buffer Stock Financing Facility: The Problem of Stabilization of Prices of Primary Products, Decision No. 2772-(69/47), June 25, 1969, as amended by Decision No. 4913-(75/207), December 24, 1975, and the decision on Buffer Stock Financing Facility: Sixth International Tin Agreement, Decision No. 7247-(82/147), November 12, 1982.
2. The Fund determines that this purchase would be consistent with the decisions referred to in (1) above, notes the representations of Thailand, and approves the purchase in accordance with the request.
3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Thailand's Relations with the Fund
(As of May 31, 1983)

Date of membership:	May 3, 1949																								
Status:	Article XIV																								
Quota:	SDR 271.5 million																								
Proposed quota:	SDR 386.6 million																								
Fund holdings of baht:	<table border="0"> <tr> <td></td> <td>Millions of SDRs</td> <td>Per Cent of Quota</td> </tr> <tr> <td>Total</td> <td></td> <td></td> </tr> <tr> <td>Of which:</td> <td>959.4</td> <td>353.4</td> </tr> <tr> <td>CFF</td> <td>194.6</td> <td>71.7</td> </tr> <tr> <td>BSFF</td> <td>36.6</td> <td>13.5</td> </tr> <tr> <td>Stand-by arrangement</td> <td>456.8</td> <td>168.2</td> </tr> <tr> <td>Of which:</td> <td></td> <td></td> </tr> <tr> <td>Enlarged access resources (231.2)</td> <td></td> <td>(85.1)</td> </tr> </table>		Millions of SDRs	Per Cent of Quota	Total			Of which:	959.4	353.4	CFF	194.6	71.7	BSFF	36.6	13.5	Stand-by arrangement	456.8	168.2	Of which:			Enlarged access resources (231.2)		(85.1)
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Enlarged access resources (231.2)		(85.1)																							
SDR holdings:	SDR 9.9 million (or 11.7 per cent of net cumulative allocation of SDR 84.7 million).																								
Trust Fund:	First period disbursements: SDR 55.5 million. Second period disbursements: SDR 75.4 million.																								
Distribution of profits from gold sales:	US\$21.3 million																								
Gold distribution (four distributions):	114,680.978 fine ounces																								
Exchange rate system:	Effective July 15, 1981, the exchange rate the baht was changed from B 21.00 = US\$1 to B 23 = US\$1, representing a depreciation of 8.7 per cent in terms of the U.S. dollar. From the same date, the external value of the baht is being determined not only on the basis of a basket of currencies, but also taking account of other considerations. The current exchange rate is B 23 = US\$1.																								
Exchange practices subject to Article VIII:	Thailand maintains an exchange system that is free of restrictions on payments and transfers for current international transactions; it does not maintain any unapproved exchange restrictions.																								

Technical assistance:

The Fiscal Affairs Department is providing expert assistance to the Ministry of Finance to help the authorities to improve administration of the Revenue and Excise Departments. The Bureau of Statistics, under the Central Bank Bulletin project, has been providing assistance in the areas of monetary, balance of payments, and government finance statistics. The Bureau of Computing Services has provided assistance to the Bank of Thailand to advise on the preparation of a computerized data base.

Last Article IV consultation:

Discussions were held August 6-21, 1982. The Staff Report (SM/82/192) was discussed by the Executive Board on November 17, 1982.

Stand-by arrangement:

A 14-month stand-by arrangement in an amount of SDR 271.5 million (100 per cent of quota) was approved on November 17, 1982, of which SDR 94.8 million has been drawn.