

# **Economic and Capital Market Development in Thailand**

*A Country Report*

**Securities and Exchange Commission of Thailand**  
**November 2003**

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## **A. Macro economic development in 2003H1**

### **1. GDP growth**

Thai economy continued to expand in the first half of 2003. GDP growth was strong with a growth rate of 6.2 (y-o-y) (Table 1). Key driving forces for GDP growth were private consumption and exports.

Private consumption was strong in car and motorcycle products. Units of purchases in these products increased about 50% in 2003H1 (Table 2). Export sector continued to gain growth momentum, rising up about 19% (y-o-y) in 2003H1. High export growth was recorded for the integrated circuit, machinery and equipment, motorcycle, etc.

Private investment expanded at 17.5% in 2003H1. Investment activities were strong in private residential construction. Construction of commercial building rose 26.5% while industrial factories rose 4.4% in 2003Q2. In contrast to private consumption and private investment, government spending declined 6.2% in 2003H1 (y-o-y). The government played down its role in stimulating economic growth as Thai economy has fully recovered and on the growth trend.

As for economic outlook for the year of 2003 and 2004, the NESDB projected the growth rate to be 5.8% – 6.2% for 2003 and 6.5% for 2004 (Table 1). Key factors that support the growth rates were accommodative government policies, higher consumers' and investors' confidence as well as global economic recovery.

### **2. Fiscal balance**

Government budget experienced a surplus of B47.1 billion in the 2003H1 (Table 1), as contrast to a deficit budget in the previous year. This was due primarily to the strong economic performance that contributes to a higher tax collection both from expenditure base and income base. The decline in government spending also contributed to the budget surplus.

**Table 1**  
**Thailand's Key Economic Indicators**

	2001 <sup>P</sup>	2002 <sup>P</sup>	2003			2003 <sup>F</sup>	2004 <sup>F</sup>
			Q1	Q2	H1		
<b>1 GDP (at constant 1988 price) (% change, yoy)</b>							
1.1 GDP	1.9	5.3	6.7	5.8	6.2	5.8-6.2	6.5
1.2 Private Consumption	3.7	4.7	6.5	6.0	6.3		
1.3 Private Investment	4.7	13.3	18.7	16.2	17.5		
1.4 Government Spending	-0.9	-2.6	-11.5	-0.9	-6.2		
<b>2 Government Budget (billions of baht)</b>							
2.1 Revenue	775.8	876.9	226.6	280.9	507.5		
2.2 Expenditure	908.6	955.5	207.4	250.0	457.4		
2.3 Cash Balance	-123.0	-76.8	11.6	35.5	47.1		
<b>3 External Indicators (billions of US\$)</b>							
3.1 Export	63.2	66.8	18.2	18.9	37.0		
(% change, yoy)	-6.9	5.7	21.3	16.8	19.0		
3.2 Import	60.7	63.4	17.1	17.4	34.5		
(% change, yoy)	-2.8	4.4	19.2	12.1	15.5		
3.3 Trade Balance	2.5	3.4	1.1	1.4	2.5		
3.4 Current Account Balance	6.2	7.6	2.5	1.2	3.7		
3.5 Net Capital Movement	-4.8	-4.0	-4.4	-0.9	-5.3		
3.6 Balance of Payments	1.3	4.2	-2.1	1.0	-1.1		
<b>4 Inflation Rate (%)</b>	1.6	0.7	1.9	1.7	1.9		
<b>5 Interest Rate (%)</b>							
Repurchase Rate 14 Days	2.50	1.75	1.75	1.25	1.25		
Prime Rate	7.00-7.50	6.50-7.00	6.50-6.75	5.75-6.50	5.75-6.50		
Fixed Deposits <sup>1/</sup> (1 yr.)	2.75-3.00	2.00	1.75-2.00	1.25	1.25		
<b>6 Exchange rate</b>							
Baht : US\$ (average)	44.48	43.00	42.80	42.23	42.51		

Source : Bank of Thailand

Remark : P = Preliminary F = Forecast

<sup>1/</sup> As quoted by the 5 largest banks at the end of period.

**Table 2**  
**Private Consumption and Investment**

	2002	2003			
		Q1	Q2	H1	Q3 <sup>P</sup>
<b>Private Consumption Indicators (% change)</b>					
- Retail Sales (at 1995 price)	14.5	14.1	12.9	13.5	n.a.
- Passenger Car Sales	20.8	80.0	27.2	49.6	23.6
- Motorcycle Sales	42.0	56.5	53.3	54.9	13.8
- Import of Consumer Goods (at 1995 price)	10.7	20.7	8.4	14.3	5.6
<b>Private Investment Indicators (% change)</b>					
- Commercial Car Sales	47.0	27.0	31.3	29.2	25.1
- Imports of Capital Goods <sup>1/</sup> (at 1995 price)	6.4	8.2	2.4	5.1	-0.6
- Cement Sales	20.9	-6.0	10.5	1.3	4.1

Source : Bank of Thailand

Remark : P = Preliminary

<sup>1/</sup> excluding raw materials, and aircraft and ship

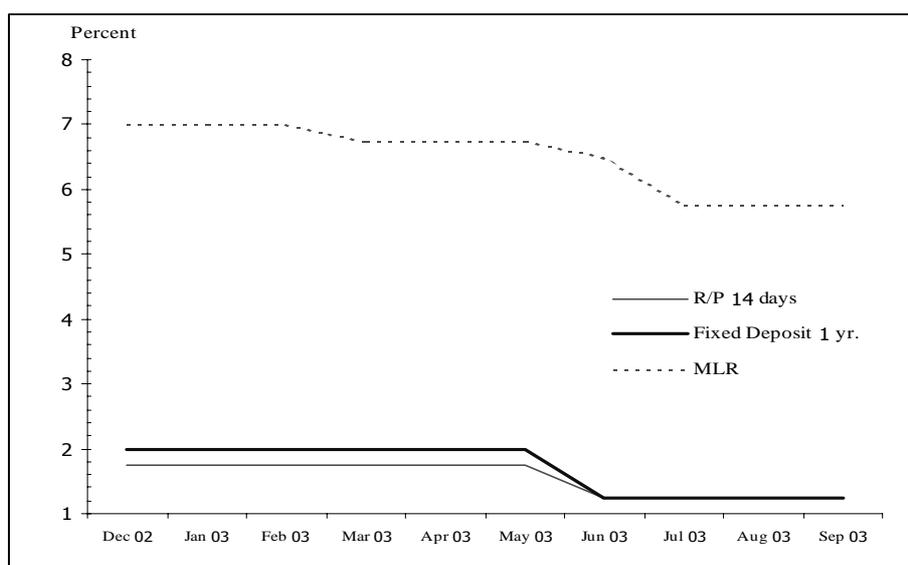
### **3. External balance**

The strong performance of exports boosted the current account to a surplus of US\$3.7 billion in 2003H1 (Table 1). The repayment of external debts resulted in net capital outflows of US\$5.3 billion. It is noted that the government made a prepayment of B4.75 billion for IMF loan during the period of Feb. – Jul. 2003. In total, the balance of payments recorded a preliminary deficit of US\$1.1 billion in 2003H1.

### **4. Interest rates**

Domestic interest rates continued to adjust downward during the first three quarters of 2003 (Figure 1). The movements of interest rates were under a pressure of high excess liquidity in domestic money market as well as a low interest rate trend in global market. Commercial banks made a series of rate cuts of both lending rates and deposit rates. On June 27, the BoT made another downward adjustment of its policy rate; R/P 14 day rate, by cutting the rate 50 bsp. to the level of 1.25%. This followed the FOMC's Fed Funds rate cut by 25 bsp. to 1% on June 26. However, given that private investment improved markedly during the first half of 2003, commercial bank credits continued to expand and grew faster than the expansion of deposits, and US interest rates are expected to rise slightly, domestic interest rates, while remain low, may adjust somewhat upward in the 2004H2.

**Figure 1**  
**Interest Rates**

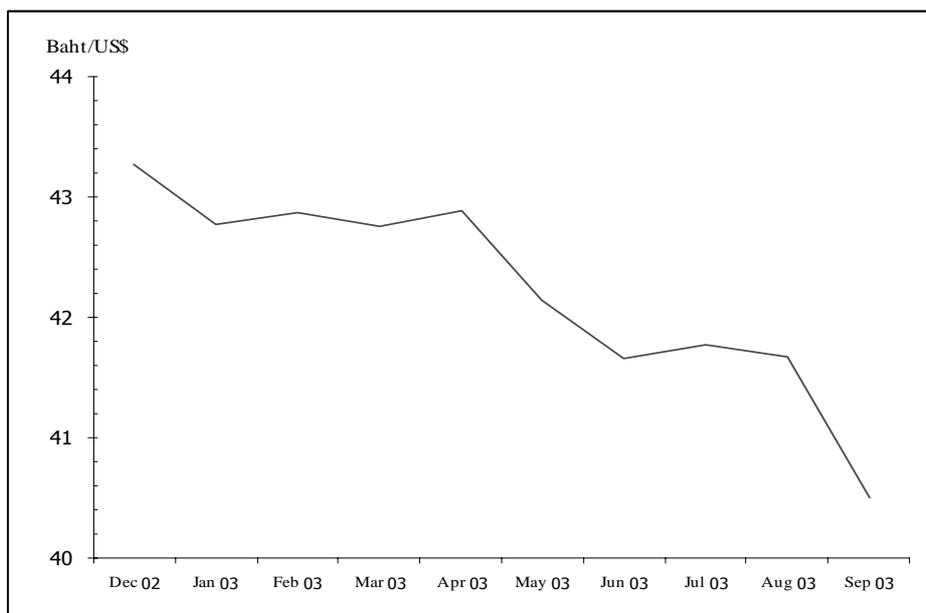


Source : Bank of Thailand

## 5. Exchange rate

In line with the movements of other currencies in the region, Thai Baht strengthened against the US\$ throughout the first three quarters of 2003 (Figure 2). The rate closed at the end of the third quarter at 39.98 Baht/US\$ as compared to 43.15 Baht/US\$ at the beginning of the year. Strong economic performance in Thai economy, the upswing of the SET, as well as the US policy of weakened US\$ were among key factors for Baht appreciation. Looking forward to the year of 2004, Thai Baht will likely strengthen modestly against the US\$ as Thai economy keeps its growth momentum at the rate of 5% - 6% and maintains a surplus for the balance of payments.

**Figure 2**  
**Exchange Rate\***



Source : Bank of Thailand

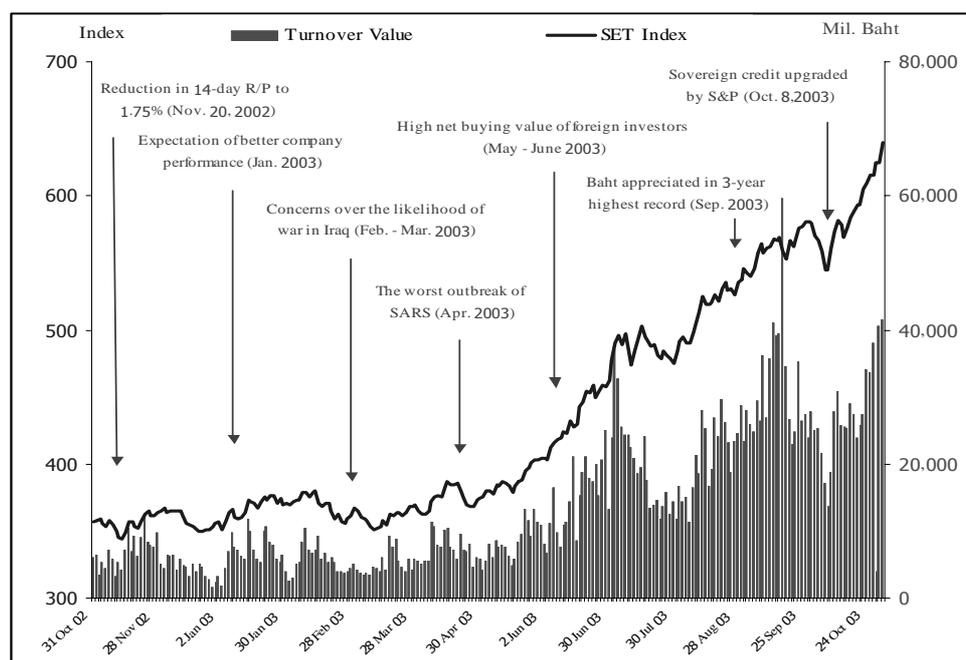
Note : \* Monthly average

## B. Capital market performance

### 1. Equity market

Stock market was overshadowed by uncertainty during the first quarter. Investors were concerned over a possible US-Iraq war. However, investors' confidence was restored during the second quarter and market sentiment strongly boosted up during the third quarter. The SET index rose from 356.45 points on January 2, 2003 to closed at 578.98 points at the end of the third quarter, representing an increase of 62.4% (Figure 3 and Table 3). The upswing of the market was supported by many positive factors, these included economic growth which was at a high level of 6.2% in 2003H1, favorable earnings outlook for most of listed companies, the MSCI Co.'s announcement of including sizable Thai NVDR to free float, etc.

**Figure 3**  
**SET Index and Turnover Value**



Source : The Stock Exchange of Thailand

Trading activities slowed down during the first quarter but turned to be active during the second and third quarter. On average, the daily average turnover for the first three quarters was at the high level of B13,660 million, markedly increased

from the year of 2002 at the level of B8,357 million. The turnover ratio (annualized) was 140%, up from the year of 2002 level of 103%.

**Table 3**  
**Statistical Highlights of The Stock Exchange of Thailand**

	1998	1999	2000	2001	2002	2003	
						H1	Q1-Q3
SET Index <sup>1/</sup>	355.81	481.92	269.19	303.85	356.48	461.82	578.98
Total Turnover (฿ mil.)	855.169	1,609.787	923.697	1,577.758	2,047.442	985.213	2,513.411
Daily Average Turnover (฿ mil.)	3,505	6,571	3,740	6,440	8,357	8,142	13,660
Annual Turnover Ratio (%) <sup>2/</sup>	67	73	72	98	103	76	140
Market Capitalization (฿ mil.) <sup>1/</sup>	1,268,199	2,193,067	1,279,224	1,607,310	1,986,236	2,597,541	2,393,579
No. of Listed Companies <sup>1/</sup>	418	392	381	382	389	394	396

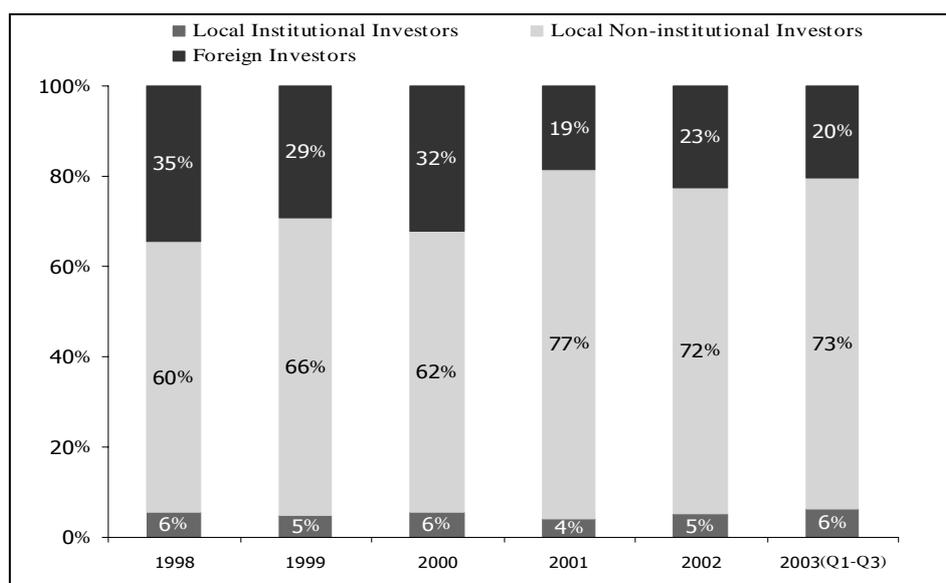
Source : The Stock Exchange of Thailand

Note : <sup>1/</sup> At the end of period

<sup>2/</sup> Annual turnover ratio = (Annual turnover value \* 100)/Market capitalization

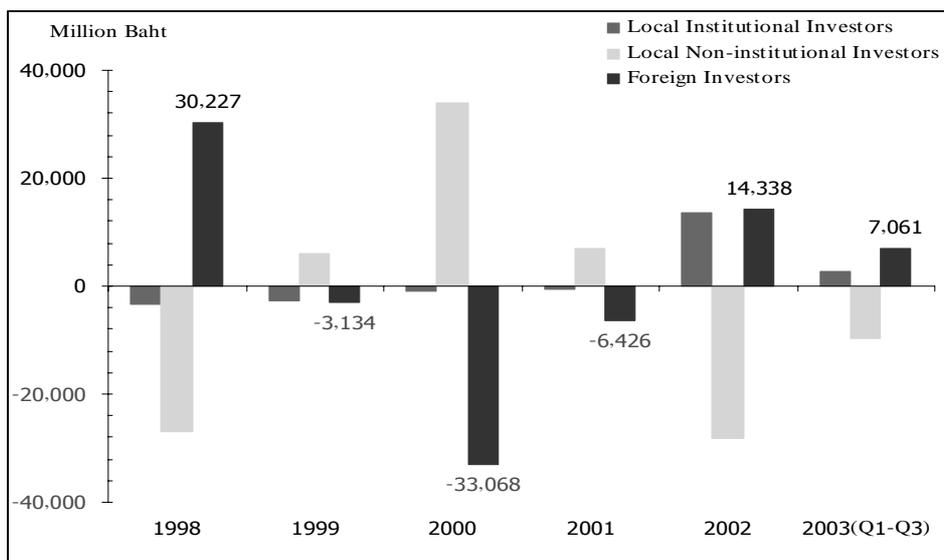
Active participants in the market were the local non-institutional investors, from whom trading value accounted for 73% of total trading value (Figure 4). However, foreign investors were the net buyers of the market with net buying value of B7,061 million (Figure 5).

**Figure 4**  
**Percentage of Buying and Selling Value Classified by Types of Investors**



Source : The Stock Exchange of Thailand

**Figure 5**  
**Net Buying Value of SET Classified by Investor Groups**



Source : The Stock Exchange of Thailand

While secondary market performed well during the first three quarters of the year 2003, activities in the primary market were considered relatively thin. Total new equity issued for 2003H1 was B24 billion, of which there were 4 cases of IPOs with the placement value of B1.5 billion. However, it is anticipated that for 2003Q4 and 2004, the primary market will be more active. There will be more companies going public and being listed in the SET. Currently, there are 14 companies filing for initial public offerings and 4 companies for public offerings with the SEC.

## **2. Debt securities market**

Trading activities in debt securities market slightly slowed down during the first three quarters of 2003. On average, daily trading value was about B10.7 billion, somewhat lower than the year of 2002 at B11.3 billion (Table 4). There was selling force on long-term debt securities as investors shifted investment strategy to concentrate on more short-term debt securities. This was due to investors' confidence in the future trend of interest rates.

**Table 4**  
**Statistical Highlights of The Thai Bond Dealing Centre**

	1998	1999	2000	2001	2002	2003	
						H1	Q1-Q3
Government Bond Clean Price Index <sup>1/</sup>	n.a.	99.70	106.87	108.78	113.74	117.54	111.96
Total Turnover (registered) (฿ mil.)	72.098	431.197	1.343.733	1.569.077	2.762.102	1.319.562	1.975.985
Government Sector	63.202	398.378	1.283.722	1.500.926	2.650.474	1.252.913	1.870.811
Corporate Sector	8.896	32.819	60.011	68.152	111.628	66.649	105.174
Daily Average Turnover (฿ mil.)	295	1.760	5.440	6.378	11.274	10.905	10.739
Outstanding Value of Registered Securities (฿ mil.) <sup>1/</sup>	763.745	1.109.892	1.269.567	1.506.682	1.645.431	1.677.211	1.812.384
Government Sector	637.904	930.506	1.059.684	1.254.961	1.365.089	1.392.347	1.500.696
Corporate Sector	125.841	179.387	209.883	251.720	280.342	284.864	311.688
Annual Turnover Ratio (%) <sup>2/</sup>	9	39	106	104	168	157	145
Government Sector	10	43	121	120	194	180	166
Corporate Sector	7	18	29	27	40	47	45
No. of Registered Securities <sup>1/</sup>	287	387	470	498	509	508	562

Source : The Thai Bond Dealing Centre

Note : <sup>1/</sup> At the end of period

<sup>2/</sup> Annual turnover ratio = (Annual turnover value \* 100)/Market capitalization

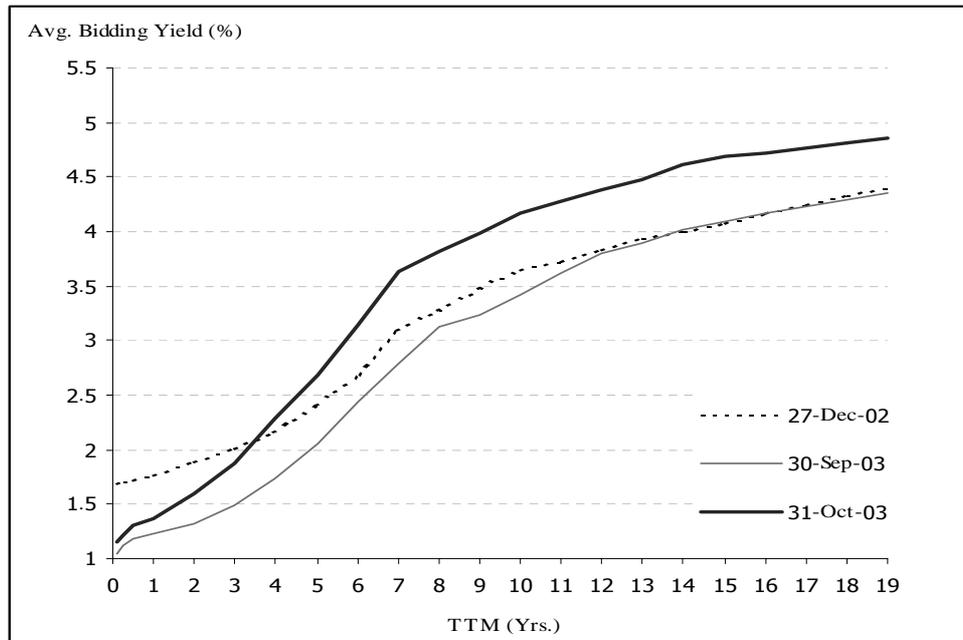
Government bond yield curve continued to move downward during the first two quarters of 2003, but steepened during the third quarter as medium-term and long-term bond yields increased. In October, the yield curve shifted up, indicating the trend of low interest rates may change (Figure 6). The yield curve was also steep. Further rises in interest rates are expected.

Among market participants in the market, inter-dealers transactions accounted for 29.3%, while dealer-to-client transactions accounted for 70.7% of total trading value. As for dealer-to-client transactions, contractual saving funds, mutual funds and insurance companies were key players of the market, totally accounted for 49.2% of total market trading value.

In the primary market, new debt issued for 2003H1 remained at a high level of B519 billion, of which government debt securities accounted for 88% and corporate debt was 12%. In the corporate bond market, main issuers were leading companies in the banking, finance, energy, building and furnishing sectors. It is anticipated that debt securities market will continue to play an important role as a source of funds for both private and public sectors in 2003Q4 and 2004. There will be more companies in the private sector seeking funding through issuing bonds, given

that economic outlook is highly positive, private investment is expanding and interest rates remain low.

**Figure 6**  
**ThaiBDC Government Bond Yield Curve**



Source : : The Thai Bond Dealing Centre

### **C. Major regulatory and other development to promote corporate governance**

The work of the SEC has focused on the continuation of the effort to promote good corporate governance along the line of the previous year and will look at the possibility of evaluating the existing regulatory regime against international best practice through the Recommendations in the White Paper of OECD on Corporate Governance in Asia. Strong emphasis will also be given to ensuring that management of service providers are accountable and responsible for compliance of regulations and best professional practices, and that there will be a greater utilization of administrative sanctions against those who fail to conform with the prescribed standards. As for effective enforcement of the criminal sanctions, there will be concerted efforts with relevant authorities to develop a concrete and workable plan of

actions. The measures to raise awareness and promote good corporate governance among listed companies and intermediaries could be described as follows:

### **Disclosure**

#### 1) Promoting higher standard

- Encouraging listed companies to include a management discussion and analysis (MD&A) in their quarterly report. MD&A is another tool that help investors to better understand listed companies' financial condition and operating performance in addition to the traditional information provided in financial statements. Listed companies are already required to disclose MD&A once a year, but the SEC also urges them to submit MD&A report every quarter so that investors can obtain useful information of listed companies regularly. Many have volunteered to do so and these are published on the SEC's website.

- Positive recognition for high quality disclosure through a disclosure report award program, which aims to create awareness among listed companies.

#### 2) Closer review & screening

- The SEC has set a plan to review quarterly financial statement of listed companies based on auditor report, particularly when the auditor gives adverse opinion or disclaimer of opinion. In such case, the SEC will immediately instruct the company to promptly explain the factual details or revise the financial statement. The above action will publicly be disclosed. Auditors are also asked to make their opinions sufficiently clear so that investors can assess the implication.

- Any company planning to list in the Market for Alternative Investment (MAI) is required to appoint a financial advisor in preparing the information disclosed to the public in the offering process. The financial advisor must watch over the company for one year after the offering of securities. (Formerly, such requirement had been lifted.) At the same time, the company is also required to provide information and cooperate with the financial advisor. This is to ensure that information used by investors for making decision has been screened by the third party.

### 3) Communication with investors

In our experience, even where the auditor has given an adverse opinion or disclaimer of opinion, retail investors often do not understand the significance of such statement, and many not even be aware of it. The SEC therefore feels that it is necessary to communicate such message more clearly. The SET has asked the Stock Exchange of Thailand (SET) to alert investors to be particularly cautious when the auditor expresses an adverse opinion or disclaimer of opinion on the inconsistency with accounting standards.

#### **Role of company directors**

- An amendment to the SEC Act has been proposed to define clear scope of directors' responsibilities.
- A directors' handbook was created to promote better understanding among director of securities and listed companies towards their responsibilities.

#### **Enforcement**

There is a high-level mandate to revise procedures to take criminal actions regarding breaches of securities law to increase efficiency in legal proceedings. For short-term measure, the Legal Proceeding Coordination Committee of the Ministry of Finance was set up under the order of the Prime Minister's Office to increase coordination between relevant agencies. For long-term measure, an amendment to the law concerning legal proceeding will be needed.

#### **Shareholders advocate**

The Thai Investors Association was charged with additional responsibilities, with a financial support from the SET, to be the center for investors in terms of information, complaint gathering, and soliciting proxies to vote in shareholders' meetings.

### **Governance rating**

The SEC initiated a corporate governance rating project which was conducted by Thai Rating and Information Services Co., Ltd. (TRIS). This arrangement is regarded as a tool to help investors to clearly differentiate level of corporate governance of each listed company. Companies seek to be rated on a voluntary base. Any listed companies that attain favorable rating score (7 points or above, on 10-point scale) are considered companies with high level of good corporate governance. Such companies shall obtain privileges from the SEC and the SET such as fee reduction and fast track approval. As of October 2003, TRIS has already announced governance rating scores of the four voluntary listed companies. All of them received favorable rating scores at good level. Corporate governance rating is assigned after assessing listed companies in terms of their clarity and fairness of financial and management structures, transparency of business operation, and respect for shareholders' rights.

### **Development of procedure and law to enhance investors' rights**

The SEC has supported and sponsored the issuance of law and procedures to facilitate the exercise of investors' rights including remedies of their rights resulting from unfair practices as follows:

- Settlement of disputes through arbitration procedure. Securities companies and their appointed agents must have in place a procedure to handle disputes with clients. If disputes cannot be settled, clients and securities companies may enter into the dispute settlement through arbitration procedure on a voluntary basis. The dispute can then be settled by the independent third party experts. Because the current SEC Act does not allow us to make arbitration a requirement, the SEC gives special recognition to securities companies that agree to enter into arbitration program voluntarily, by way of giving them certificates and the right to use arbitration logo from the SEC in advertisement.

- Proposal of trust law to help facilitate transactions in the capital market. There would be trustees who take custody and manage securities or assets on behalf of the beneficiary within the legal framework. The draft Trust Act is now being presented to the Ministry of Finance for consideration.

- Development of Class Action Act to enable retail investors with small claims to pool their resources and share expenses in legal proceedings to recover damages. The draft Class Action Act is now under consideration of the Council of State.

## **D. Other development**

### **Expanding investor base through institutional investors**

This has been the highlight of the SEC's plan for the year 2003. Low interest rate environment creates an opportunity for implementation of this policy as investors are eager to search for other attractive investments. In addition to intensive educational campaign on mutual funds, there is a plan to increase the number of fund management companies. The cabinet recently approved a new licensing regime for mutual fund management business that will allow all types of financial institutions (such as commercial banks, finance companies, securities companies, life insurance companies, government pension fund, etc. or combination thereof) to apply to set up a new mutual fund management company. It is expected that new players will bring about new business and will attract some of the savings away from bank deposit towards capital market investments.

### **Development of derivatives market**

The Derivatives Market Act was passed in May 2003 and will take effect in January 2004. A development company is being formed by the SET in conjunction with other industry associations, in order to build a derivatives exchange that would be ready to operate in 1-2 years.