

ECONOMIC DEVELOPMENT IN THAILAND

1955 - 1964



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A personal view of

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I

THE CHAOS

1. Situation at the End of the Second World War

The second world war left Thailand totally depleted of her official foreign exchange reserves. First, therefore, there was the need to restore foreign trade and exchange. Secondly, there was the problem of fulfilling the obligations imposed by the Allies for making available quantities of rice free-of-charge and subsequently at low prices. Thirdly, there was the urgent need to repair the damage inflicted upon power facilities, the Port of Bangkok, the railway system and other means of communication. Overriding all these problems was the inflationary pressure which gathered strength during the war through the heavy financing of Japanese military expenditure in Thailand, and which became aggravated by heavy government budget deficits.

The following were the main measures taken by the Government to meet these problems in the immediate post-war years.

a. Exchange System

The Baht was at first tentatively fixed at Baht 60 to the Pound Sterling but subsequently changed to the rate of Baht 40. To safeguard the depleted gold and foreign exchange reserves by using them, only for payment of essential consumption goods, the demand for which had been kept unsatisfied during the war years, the government decided to impose a system of comprehensive exchange control. The entire proceeds of all exports had to be turned over to the Bank of Thailand at the official rate, and exchange was sold only for approved imports. This system proved ineffective, however, and consequently was replaced by a multiple exchange rate system in early 1947. Under the new system exporters of the main products, namely, rice, rubber, tin and teak, were required to surrender, in some cases the whole, and in others part, of their foreign exchange receipts at the official rate. Importers generally had to buy the needed foreign exchange in the free market at a much

higher rate. Government imports and a few essential payment items such as hospital supplies and students' expenses abroad were permitted the cheaper official rate. Beginning in March 1948, some foreign exchange was sold by the Bank of Thailand for imports at rates slightly below those of the open market. The profit which accrued from these transactions was then placed in a Stabilization Account at the Bank of Thailand. This exchange profit, served to counter the inflationary effect of the Government budget deficits.

b. Rice

To fulfil international obligations and to keep the internal price of rice lower than that prevailing in the world market, the Government assumed a monopoly of the rice export trade in 1946. Minimum prices for paddy and milled rice at all levels of distribution were fixed and rice was bought from the mills by the Rice Office at a price which was well below the baht equivalent of the export price. The difference between the export price calculated at the official rate of exchange and the internal buying price, less taxes, resulted in the Rice Monopoly gaining a handsome profit, the greater part of which was turned over to the Treasury.

Despite the fact that these measures were deflationary, in effect money supply after 1947 continued to show an increase. This was partly due to the heavy world demand for Thailand's exports, particularly rice and rubber, which resulted in a growing trade surplus from 1948 until the end of the Korean boom in 1951. Another major factor accounting for the rise in the volume of money during this period was the big increase in budget spending.

II

REFORMS AND FOUNDATION

1. Trade and Exchange Measures

During the period 1947-1955, when a multiple exchange rate system* was in effect, the government was relying on exchange rate policy to combat inflation. The official rate for government

* See S.C. Yang's "A Multiple Exchange Rate System - An Appraisal of Thailand's Experience 1946-1955" - The University of Wisconsin Press, Madison 1957.

imports served as a means of lowering the cost to the Government of imported goods, and the profits earned from the sale of exchange at higher rates by the Bank of Thailand were used in buying Treasury bills thus helping to finance government deficits. On the other hand, the penalty rates of exchange for the country's main exports served indirectly as anti-inflationary taxes. However, during the world trade recession immediately following the Korean boom, a sharp deterioration in tin and rubber prices set in. The rice market also changed from a seller's to a buyer's market. By 1953, the usual trade surplus had turned into a sizeable deficit. The country was also rapidly losing reserves as a result of the official appreciation of the Baht against sterling for imports in 1952. The purchasing power absorbed from the private sector as a result of exchange operations was placed back in the market through government deficit spending at an average annual rate of over fifteen hundred million baht during 1952 - 1954.

The government soon realised that to rely on exchange policy to finance this huge government deficit was something which could not go on in view of conditions prevailing in the world market for Thai exports. Some drastic financial reform was needed. Measures to improve government revenue and to bring about more orderly allocation of government resources were clearly essential. The government therefore decided in 1955 to abolish multiple exchange practices and to unify the exchange rate. Surrender requirements on all exports were removed. The Rice Monopoly was disbanded, and export taxes - on sliding scale bases - were imposed on rice, rubber and tin exports, to replace the former partial surrender of export proceeds at the official rate. In the case of rice, the tax imposed to replace the Rice Monopoly profits was called an "export premium", the rate of which could be changed according to world market conditions, and used as an instrument for preserving rice supplies for domestic consumption at low prices.

The sale of exchange at preferential import rate was eliminated. Import licences remained on 23 items, mostly of minor importance.

All exchange transactions have since September 1955 taken place in the free market, with rates determined by market forces. The Currency Reserves were officially revalued from the rate of Baht 12.50 to the U.S. dollar to Baht 20.00. An Exchange Equalization Fund was set up from the surplus accruing in this revaluation, with the purpose of evening out short term fluctuations in the exchange rate.

2. Budget and Fiscal Reforms

In 1957, the government undertook several measures which were to prepare the ground for more conscious and orderly planning of expenditure, especially for development in the 1960's. In this year, the World Bank was asked to send a mission to make a general survey of the country and draw up a public development programme. Their recommendations resulted in the establishment of the National Economic Development Board in 1959. In the meantime, a Public Administration Service Team, which had been brought in a few years earlier with the aid of the U.S. Government, drew up a scheme of reform for budget procedure, and the government accounting system. Their recommendation resulted in the enactment of a new Budget Procedures Act and the establishment of the Budget Bureau in the Prime Minister's Office in 1959.

It was provided in the National Economic Development Board Act of 1959, that all development expenditures must be approved by the National Economic Development Board before being incorporated in the Budget Act. A later amendment of this Act placed the power of decision on the Executive Committee of the said Board and final approval lies with the Council of Ministers. The First Six Year Plan of government investment expenditure was announced in 1961.

An inter-ministerial sub-committee under the Executive Committee was also set up to screen applications for foreign financing of government and government guaranteed projects, to ensure that both domestic resources and funds of foreign origin were utilised to finance priority projects.

The fiscal year was changed from the calendar year to October 1 - September 30. To regulate spending, allocations are made for three periods of four months each. Before details of budget expenditure are worked out, ceilings are established for each Ministry or Bureau. Appropriations of each fiscal year may also be carried forward for a period of 3 months. Government borrowing from all sources in any one year is limited to 20 per cent of the annual budget expenditure. The government also finally ceased to borrow by means of direct overdraft from the Bank of Thailand since 1961. In 1956, as a measure to enable the government to mobilise domestic savings effectively, the interest on long term government securities was raised to 8 per cent per annum. The interest has been tax free since 1953, and the bonds became resaleable to the government since 1956.

In the meanwhile measures were also taken to improve government revenue. The Customs Tariff Code was revised and the classification under the Brussels nomenclature was adopted. A new system of collecting business tax was introduced in 1961.

3. Money and Banking

As the government financial position rallied after the refunding of debt as a result of the unification of the exchange rates in 1955, and various reforms were beginning to take effect in reducing the need for government direct recourse to the Bank, a new Currency law was enacted in 1958. In this new legislation, trade bills could also be used as Currency Reserves* In 1959, the Bank of Thailand started to rediscount export bills at the favourable rate of 5 per cent per annum, (the normal bank rate being 7 per cent) allowing commercial banks to charge their customers a margin of 2 per cent. The Treasury bill's discount rate was raised from 2.9 to 4.9 in 1961, providing another attractive channel for commercial banks to utilize their idle funds by taking up these bills from the Bank of Thailand's portfolio.

The drafting of a new Commercial Banking law also began in 1959, as the old law of 1945 was found to be antiquated in various aspects. The law was not finally enacted until May 1962. The main purpose of the Act is to promote a sound growth of commercial banking. Many new weapons of credit control were introduced, other than the ordinary cash reserve provision which already existed under the old Act. The main ones are:

1) The Capital-Risk Asset Ratio - both to limit quantitatively the total and each type of risk assets, and the amount of credit granted to any one customer, in proportion to capital fund. Branches of foreign banks have to keep their capital funds in the form of local assets.

2) Maximum interests and other charges to impose on various types of transactions.

3) Prohibition for any one person to serve on the Board of more than one bank.

* In actual fact they have not been used up to the present.

4) Prescription of maximum interest rates on deposits.

This provision already existed in the previous Act, but was not spelled out in detail nor was it effective, as the legal rate was much lower than the actual prevailing rate. The new legislation fixed the maximum deposit rate at 8 per cent for the first year for time deposits of one year and over, and after that at 7 per cent per annum. This recognition of the 'natural' interest rate has subsequently led to spectacular increases in time deposits at commercial banks.

5) Regulating the opening of new branches, to prevent over-banking.

4. Encouraging the Private Sector and Industrialisation

Since 1950, the Government has devoted larger and larger shares of its expenditure towards providing the basic facilities which are needed for growth. Some were in the nature of rehabilitation of damages sustained or obsolescence as a result of stagnation during the war years, while others were meant for the satisfaction of the growing need of the population.

In 1950, the Government obtained three loans from the International Bank for Reconstruction and Development, U.S. \$18 million for an irrigation project in the Chao Phya area, U.S.\$4.4 million for development of the Bangkok Port, and U.S.\$3 million for rehabilitation of the railways. A second Port loan for U.S.\$3.4 million was obtained in 1951, and a second Railway loan for U.S.\$12 million in 1955. The Yankee Hydro-electric Loan for U.S.\$66 million, signed in 1957, is designed to provide both power and irrigation benefits. In 1950 the Thai Government signed an Economic and Technical Co-operation Agreement with the Government of the United States. During the period 1951-4, economic aid in various forms averaged more than U.S.\$6 million annually, but since 1955, both aid and loans from the U.S. Government has averaged nearly U.S.\$30 million per year. In addition Thai Government Agencies have also been able to obtain financing from the U.S. Export-Import Bank, or the Development Loan Fund. Assistance, both financial and technical, has also been received from the United Nations and other foreign governments both directly and through the Colombo Plan.

The Second World War left Bangkok, the capital, with an acute shortage of electricity. With United States aid and loans from the United States and other sources additions were made to the thermal generating capacity of Bangkok and the provinces. The Yanhee Hydro Electric Power station, with an initial capacity of 140,000 Kw. also came into operation since May 1964.

Highways, constructed during the last decade and the improvement of roads in all parts of the country helped to open up the country and in fact contributed substantially to the export diversification process.

The Government made several attempts to lead the country towards more industrialization. A few pilot plants were set up with the purpose of demonstrating examples to the private sector. Many factories were also set up under the orgis of the Ministry of Defence with the primary aim of supplying the Armed Forces. Occasionally, industrial firms were set up with private shareholders, but which receive the privilege of a government organization. Some of these have proved to be failures in the sense that they lack a truly private management running business on commercial principles, and eventually ended up burdens to the State Budget.

In 1954, an Industrial Promotion Act was passed. In this Act, the Government declared its policy of non-interference where private initiative was present. Several benefits were offered to industries which were announced as eligible for promotion. This Act has been amended and revised from time to time to offer more attraction to private investors as well as ensuring the practicability and speedy implementation of the provisions, The principles of promotion in the Industrial Promotion Act of 1962 include exemptions from duty on exported products, exemption from tax on profits for a prescribed number of years, and special immigration quotas for technical and managerial personnel and their families. Facilities have long been granted to foreign investors under the Exchange Control law for the remittance of profits and repatriation of capital, even prior to the enactment of the Industrial Promition Act.

In 1959, the Government reorganized the old Industrial Bank. The Industrial Finance Corporation was formed with private capital, subscribed by Thai and foreign commercial banks, and the Corporation took over the assets of the old Bank. A loan, three times the amount of the initial paid-up share capital, was obtained interest free from the U.S. Government. The main objectives of the Corporation are to assist in the establishment, expansion or modernization of private industrial enterprises and to encourage the participation of private capital, domestic and foreign, in such enterprises.

The Corporation was faced with several difficulties at the initial stage of operation - small capital fund and inadequate staff at its disposal and poor management and accounting on the part of the loan applicants. Additional resources have been made available from its own increase in share capital, from Government loans at nominal interest rate, from the German Government and the International Bank for Reconstruction and Development and the Industrial Finance Corporation.

The Ministry of Industry, also provides through the Department of Industrial Promotion, industrial research, technical guidance and training facilities. A Loan Office for Small Industry Development was set up to work in conjunction with two State-owned commercial banks to finance the smaller industries which are not eligible for financing by the Industrial Finance Corporation.

III

GROWTH WITH STABILITY

1. National Product

Thailand's gross domestic product has increased in real terms by 76 per cent during the period 1953-1963 or about 5.8 per cent annually. During the same period the annual growth of population has been slightly above 3 per cent. Consequently, real output per capita has increased on the average by almost 2.8 per cent a year.

Table I
Gross Domestic Product of Thailand, 1953 and 1963

(In million baht at 1956 prices)

	1953	1963*	Percentage increase during 1953 - 1963	Percentage increase per annum
Agriculture	15,429	23,014	49	4.1
Mining & quarrying	637	1,032	62	4.9
Manufacturing	4,354	7,633	75	5.8
Construction	1,368	3,532	158	9.9
Electricity & water supply	43	340	691	23.0
Communication & trans- portation	1,725	5,276	205	11.8
Wholesale & retail trade	6,708	11,828	76	5.8
Banking & finance	285	1,684	491	19.4
Ownership of dwellings	1,909	2,878	51	4.2
Services	3,989	7,032	76	5.8
Total	<u>36,447</u>	<u>64,249</u>	<u>76</u>	<u>5.8</u>

Source: National Income Division,
Office of the National Economic Development Board.

* Preliminary.

2. Agriculture

In the decade 1955-1964 agricultural production increased on the average by about 8.0 per cent annually. The increase is attributed principally to the increase in the production of the main commercial crops other than rice, and to a smaller extent, to the expansion in the output of rubber. The last five years of this decade are indicative of the process of diversification which has been going on in the agricultural sector.

1) Rice. Production of paddy, which is by far the most important crop, varied during this period between 5.7 million metric tons and 10.2 million metric tons. The acreage under cultivation has shown little change while average yields per acre have slightly improved from 202 Kg. per rai in the crop year 1954/55 to 257 Kg. per rai in 1964/65. Total output increased on the average at the rate of about 7 per cent annually.

2) Other main crops. Apart from rice the main commercial crops are sugar cane, tobacco and cotton for the fast-growing domestic processing industries, and maize, kenaf, and cassava, chiefly for export. Under the stimulus provided by the expansion in world demand, output of the two former crops has increased spectacularly during recent years: from 1956 to 1964, production of maize rose from 115,000 metric tons to 980,000 metric tons and that of kenaf from 17,000 metric tons to 240,000 metric tons. Output of other crops such as cassava, soya-bean, ground nut and castor seeds also increased during the period with the result that the production index of non-rice crops (1953=100) rose from 129 in 1955 to 346 in 1964.

3) Rubber. Rubber output in 1964 amounted to 211,000 metric tons. This compares with about 133,000 metric tons in 1955. However, it should be noted that a large proportion of rubber trees in production is over-age, and the Government has been concerned about the prospects for Thai rubber. In order to help rubber growers meet competition from more efficient producers of natural rubber and synthetic rubber, the Government in December 1960 enacted the Rubber Plantation Aid Fund Act. Under this Act, aid will be provided from the fund, which is composed of contributions from rubber exporters, to the planters for the improvement of rubber trees and replanting.

4) Forest Products. Production of teak, the most important timber product of Thailand, has shown a steady decline from about 306,000 cubic metres in 1955 to 116,000 cubic metres in 1964. However, the Government has already undertaken a teak reforestation programme as part of an extensive forest conservation programme. Under an initial three-year plan, which began in 1961, there was a plan to plant about 2,000 acres with teak seedlings annually.

3. Industry

1) Manufacturing. Industrial expansion has proceeded gradually in Thailand, though since 1958 there has been a noticeable acceleration. Manufacturing now contributes at current prices about 12 per cent of the gross national product, compared with 10 per cent in 1951. Most of these industries are light industries producing mainly for the domestic market. The major industries are cotton textiles, gunny bags, cement, sugar, paper and tobacco. During the five years 1960-1964 the output of the first three more than doubled, while that of paper and tobacco also increased although at much lower rates. In the case of sugar, production in recent years rose in excess of domestic demand and means had to be found for exporting the surplus.

Development of Thai industry has been hindered mainly by the lack of cheap power. However, this problem is being partially met by long-range development of hydro-electric and thermal power plants. Other principal bottlenecks to industrial development are the high speculative prices of industrial sites, shortage of skilled labour and management, poor communications and high transportation costs. On the other hand protection has also been given to a number of local industries.

2) Mining. Production of tin ore during the period 1950-1955 was steady at about 14,000 tons, but thereafter increased to about 19,000 tons in 1957 which, however, was still far below the peak pre-war record. In 1958 when control under the International Agreement came into full force, production had to be cut by nearly 45 per cent. Consequently, production of tin ore in 1958 and 1959 amounted to only 10,892 tons and 13,446 tons respectively. However, as a result of the recent rise in tin prices and the lifting of export quotas since the third quarter of 1960, production of tin has again risen to 18,386 tons in 1961 and 21,635 tons in 1964.

Other minerals which have been mined include wolfram, lead, antimony, manganese and iron.

3) Electric Power. In 1951 the total installed capacity of electric generators in Thailand was about 33 Mw., of which total about 25 Mw., or almost 80 per cent, was confined to Bangkok and Dhonburi area. Since then there has been a considerable expansion. In 1964, total installed capacity was 511.86 Mw. Four power development projects are still under construction.

4. Foreign Trade and Payments

a) Expansion of Trade. In the decade 1955-1964, in terms of dollars, Thailand's exports increased from \$335 million to \$598 million while imports increased from \$349 million to \$685 million, reflecting an increase of 78 per cent and 96 per cent respectively.

During the period the annual value of exports varied considerably depending mainly on the world market prices and

the production of the three main export commodities, namely, rice, rubber and tin. On the whole the importance of these three commodities has shown a steady declining trend in relation to the total value of other exports, as may be seen from the Table II below. It is also significant that for the last five years, the value of exports of products other than rice, rubber and tin for the first time in Thailand's history exceeded that of rice exports. This was due mainly to the spectacular rise in the exports of maize, tapioca products and jute and kenaf which together in 1963 and 1964 accounted for about 18 - 19 per cent of the total exports compared with only about two per cent in 1955.

Table II
Percentage Share of Exports, 1955-1964

	Rice	Rubber	Tin	Others	Total Export Value (U.S.\$ Million)
1955	44.2	25.1	6.2	24.6	335
1956	41.3	22.1	7.3	29.3	335
1957	48.0	18.7	7.1	26.2	365
1958	46.1	20.6	3.9	29.4	309
1959	34.1	30.8	5.7	29.4	359
1960	29.8	29.9	4.2	36.1	408
1961	35.9	21.3	6.2	36.6	477
1962	34.3	22.0	7.2	36.5	461
1963	35.5	19.6	7.7	37.2	465
1964	35.8	16.5	7.7	40.0	593

Source: Department of Customs.

On the import side, it is also significant that imports of capital goods and raw materials together have risen from about 48 per cent of the total import value to slightly 65 per cent in 1964. Chemicals and petroleum products showed the largest increase, while crude material and machinery and transport equipment also increased substantially.

Table III gives the percentage distribution of imports by main categories for 1955 and 1964.

Table III
Percentage Distribution of Imports
by Main Categories
1955 & 1964

	<u>1955</u>	<u>1964</u>
Food	8.8	6.1
Beverages and tobacco	2.1	1.3
Crude materials	1.0	2.0
Mineral fuels and lubricants	9.2	10.2
Animal and vegetable oils and fats	0.4	0.3
Chemicals	7.8	10.4
Manufactured goods	36.8	30.5
Machinery and transport equipment	18.4	31.7
Miscellaneous manufactured articles	12.2	4.8
Miscellaneous transactions and other commodities	3.3	2.7
Total value in \$ million	349	685

Source: Department of Customs.

b) Terms of Trade. From Table IV it will be noted that during the period of 1955-1960 export prices fluctuated considerably, after that prices began to decline for both exports and imports.

Table IV
Trade Indices and Terms of Trade
(1958 = 100)

	<u>Unit Value</u>		<u>Terms of Trade</u>
	<u>Exports</u>	<u>Imports</u>	
1955	107	101	106
1956	98	101	97
1957	97	103	94
1958	100	100	100
1959	106	99	107
1960	109	100	109
1961	106	102	104
1962	104	95	109
1963	103	95	108
1964	103	95	108

Source: Bank of Thailand.

Table V

Thailand's Balance of Payment^x

1955 - 1964

(Millions of U.S.\$)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
<u>A. Current Account</u>										
Exports, f.o.b.	334.9	361.5	390.1	307.0	357.4	405.0	473.3	453.9	460.5	584.8
Imports, c.i.f.	<u>- 321.1</u>	<u>- 358.5</u>	<u>- 404.7</u>	<u>- 385.5</u>	<u>- 424.4</u>	<u>- 447.4</u>	<u>- 479.9</u>	<u>- 540.7</u>	<u>- 603.2</u>	<u>- 674.2</u>
Trade balance	13.8	3.0	- 14.6	- 78.5	- 67.0	- 42.4	- 6.6	- 86.8	- 142.7	- 89.4
Other items	<u>- 37.5</u>	<u>- 27.2</u>	<u>- 31.0</u>	<u>- 1.5</u>	<u>-</u>	<u>4.9</u>	<u>13.9</u>	<u>22.0</u>	<u>32.9</u>	<u>36.3</u>
Balance on goods and services	<u>- 23.7</u>	<u>- 24.2</u>	<u>- 45.6</u>	<u>- 80.0</u>	<u>- 66.9</u>	<u>- 37.5</u>	<u>7.3</u>	<u>- 64.8</u>	<u>- 109.8</u>	<u>- 53.1</u>
<u>B. Official Donations</u>	14.1	27.1	35.0	25.3	41.3	34.1	21.4	38.8	47.7	31.0
<u>Capital Account</u>										
<u>C. Medium and Long-term Capital</u>	19.4	14.9	23.4	14.7	20.9	19.1	40.2	71.9	78.4	79.1
<u>D. Changes in International Reserves</u>	28.8	14.4	7.7	- 19.4	6.2	44.9	78.5	62.3	45.6	69.1

^xIn this table the item "errors and omissions" is not shown.

Bearing in mind that the base year 1958 was a recession year, the terms of trade in this table does not represent a true perspective from a long-term viewpoint. It does show, however, that during the bad years of 1956/7, the terms of trade moved sharply against primary products.

c) Balance of Payments. Table V gives a summary balance of payments of Thailand for the years 1955 to 1964. With the exception of 1961 Thailand always had a deficit on current account. Despite these deficits, however, gold and foreign exchange reserves increased in nine years out of the total ten, due mainly to the fact that a large proportion of imports were financed by foreign aid and loans, especially grants from the U.S. and loans from the World Bank. At the end of 1964, the total value of reserves amounted to U.S.\$598 million or about eleven months' imports.

5. Government Finance

In the past decade the government budget expenditure (excluding loan repayments) has grown from ~~฿~~4,968 million in 1955 (12.6 per cent of GNP) to ~~฿~~10,404 million in the fiscal year* 1964 (14.5 per cent of GNP). Since the financial reforms of 1955-1959, the government was able to finance a larger proportion of its expenditure from revenue, and little resort was made to direct borrowing from the Bank of Thailand to finance its deficit. In more recent years with increase in revenue due to expansion in economic activity and success in mobilising domestic capital through the sale of long term bonds, the Government was able to accumulate cash, as well as retire some of its short term debt to the Bank of Thailand.

* All fiscal years, except otherwise indicated, refer to October - September.

Table VI

Government Budget Financing

(cash basis)

Fiscal Years 1961-1964

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
1. <u>Net borrowing</u>	+ 998.8	+ 453.4	+1176.7	+ 206.4
From: Bank of Thailand	+ 470.1	- 348.9	+ 69.5	- 784.3
Commercial banks	+ 211.1	+ 479.5	+ 669.3	+ 515.9
Gov't Savings Bank	+ 213.1	+ 237.5	+ 353.2	+ 332.7
Other domestic sectors	+ 139.0	+ 138.6	+ 129.4	+ 192.4
External creditors	- 34.5	- 53.3	- 44.7	- 50.3
2. <u>Proceeds of coins issued</u>	+ 9.9	+ 14.0	+ 47.8	+ 66.8
3. <u>Use (+) of Cash Balance of Treasury</u>	- 858.8	- 465.9	- 866.6	+ 281.8
4. <u>Net non-budgetary transactions and adjustments to cash basis</u>	+ 202.4	+ 202.1	+ 276.2	+ 260.2
5. <u>Total Financing (Equal : Budget Deficit)</u>	<u>+ 352.3</u>	<u>+ 203.6</u>	<u>+ 634.1</u>	<u>+ 815.2</u>

In Fiscal Years 1961 through 1964, government revenue has been increasing at the rate of 10.9 per cent a year, while in the same period expenditure showed an increase of about 12.4 per cent a year.

Table VII

Actual Government Revenue and Expenditure

(on cash basis)

	<u>FY1961</u>	<u>FY1962</u>	<u>FY1963</u>	<u>FY1964</u>
Revenue	7,226	7,972	8,587	9,589
Expenditure	<u>7,578</u>	<u>8,176</u>	<u>9,221</u>	<u>10,404</u>
Deficit (-)	<u>- 352</u>	<u>- 204</u>	<u>- 634</u>	<u>- 815</u>

Government development spending has been concentrated on irrigation, power, transport and communications, education, and welfare services. Table VIII shows functional classification of budget expenditures for Fiscal Years 1961-1964.

Table VIII

(In per cent of total)

<u>Functional Classification</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
<u>A. Economic Services</u>	<u>23.4</u>	<u>23.0</u>	<u>24.3</u>	<u>24.7</u>
1. Agriculture and non-mineral resources	6.7	6.8	6.8	6.7
Of which: Irrigation	(3.9)	(3.8)	(3.5)	(3.0)
2. Power and fuel	4.7	4.6	4.7	4.1
3. Other mineral resources, manufacturing and constructions	2.7	1.9	3.0	1.7
4. Transport and communication	8.1	9.5	10.4	11.8
Of which: Roads	(6.5)	(7.7)	(6.9)	(7.7)
5. Others	0.2	0.2	0.4	0.4
<u>B. Social Services</u>	<u>28.8</u>	<u>27.6</u>	<u>27.8</u>	<u>29.0</u>
6. Education	19.5	18.5	18.2	18.1
7. Health	3.1	3.1	3.4	3.5
8. Social security and welfare services	3.5	4.8	4.7	5.1
9. Others	1.6	1.3	1.4	2.2
<u>C. General Services</u>	<u>39.8</u>	<u>39.8</u>	<u>37.6</u>	<u>37.5</u>
10. General administration	8.6	8.5	7.9	8.5
11. Defence	19.6	19.2	17.4	16.8
12. Other general services	9.2	9.9	8.1	7.9
13. Others	2.4	2.3	4.1	4.3
<u>D. Unallocable Expenditures*</u>	<u>9.0</u>	<u>9.6</u>	<u>9.3</u>	<u>8.8</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

*Including adjustments on a cash basis.

Government investment expenditure in FY1964 amounted to 23.5 per cent of total government expenditure, and 16.5 per cent of gross fixed capital formation.

The Government has been able to finance its development expenditures by non-inflationary means during the first four years of the Six Year Development Plan. The following table shows how development expenditures were financed in FY1961 - FY1964.*

Table IX
Financing of Gov't Development Expenditures
(Cash Basis)

Fiscal Year 1961-1964

(Millions of Baht)

	<u>FY 1961^x</u>	<u>FY 1962</u>	<u>FY 1963</u>	<u>FY 1964</u>
1. Excess of revenues over expenditure outside development budget	1,353.8	1,630.9	1,564.8	1,534.9
2. Net borrowings	284.3	453.4	1,176.7	206.4
3. Proceeds from new coins issued	7.2	14.0	47.8	66.8
4. Deposits and miscellaneous Funds ^{1/}	179.2	183.8	266.6	235.4
5. Use (+) of Treasury Cash Balances	- 498.4	- 465.9	- 866.6	281.8
6. Equal Development Expenditures	1,326.1	1,816.2	2,189.3	2,325.4

^x January - September 1961.

^{1/} Including adjustments on a cash basis.

* Projects which were financed from foreign aid and loans are not shown here. Only the repayments of such loans are partially taken into account in the net borrowing figure.

6. Monetary and Price Development

While the Gross National Product has been rising at the rate of 5.8 per cent a year in the past decade, money supply has been rising at the rate of 8.8 per cent. A clearer picture of the Thai monetary and economic situation can be obtained from the figures for more recent years. As the economy, particularly the export sector became more diversified since 1960, the pattern of demand for currency and credit have changed considerably. In 1959, the currency proportion of the money supply was 63.7 per cent. By 1964 this had declined to 56.4. Banking facilities grew rapidly in the same period. The number of bank offices in the kingdom rose from 115 in 1955 to 458 in 1964.

A marked increase in time and savings deposits with commercial banks also occurred since the enactment of the Commercial Banking Act of 1962. This type of deposits has now grown to the same magnitude as demand deposits. This together with the accumulation of cash balances by the Treasury, formed offsetting factors to the monetary expansion arising from the balance of payments surplus.

In the last few years, the sale of government long term securities was so brisk that the government at times borrowed more than it actually needed. Financial institutions, private individual and firms found these securities to be good investments, and in fact, in the current fiscal year the first issue of ~~฿~~1,000 million was sold out within the first nine months.

The high level of official exchange reserves, the stability in the exchange rate, and the liberal exchange regulations, have led commercial banks to utilise, on quite a big scale, short term facilities from abroad. This from the point of central banking control may not be favoured, but while the supply of domestic funds is adequate, especially in the highly concentrated export season, these foreign funds have served to finance trade in a healthy manner.

While the government is trying to step up the pace of development, it is essential to see that financial resources are not diverted to government projects, to the extent that they unduly limit the growth of the private sector. The Bank of Thailand in this respect has deliberately assumed a more positive role. Rediscount facilities at a moderate rate of interest are available for exports, purchase of industrial raw materials, and sale of industrial products on credit.

As the government is able to mobilise domestic savings, both through its revenue collection and sale of securities, the Bank is able to devote more of its resources to the private sector. This was not the case in the early post-war years.

Conditions of stability have prevailed. The Gross National Product in the past five years have been increasing in real terms at the rate of 7.4 per cent per annum, while money supply showed an average annual rate of increase of 7.3 per cent. The Consumer Price Index, on the other hand, showed an average annual rise of 1.6 per cent.

Table X

Money Supply

1953-1964

(Millions of Baht)

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
January	5,220.5	5,993.1	6,487.8	7,212.4	7,930.0	8,241.0	8,597.6	9,247.7	10,374.6	11,450.7	11,480.7	12,005.8
February	5,264.7	6,026.7	6,622.5	7,283.3	7,866.0	8,285.1	8,768.6	9,316.3	10,567.5	11,630.3	11,626.7	12,352.5
March	5,196.6	6,061.5	6,713.1	7,149.5	8,024.0	8,406.6	8,666.1	9,306.5	10,596.5	11,749.8	11,488.6	12,180.5
April	5,300.4	6,029.7	6,700.1	7,178.1	7,880.2	8,183.0	8,449.3	9,294.8	10,556.7	11,539.9	11,330.4	12,201.5
May	5,288.4	5,938.1	6,861.4	7,124.1	7,866.6	8,110.0	8,374.0	9,194.5	10,354.1	11,002.7	11,273.1	12,102.8
June	5,264.3	5,838.1	6,877.4	7,342.8	7,824.8	7,966.0	8,263.8	9,146.0	10,250.7	10,587.5	11,250.1	11,994.8
July	5,292.8	5,913.1	7,092.4	7,490.7	7,975.9	8,036.4	8,272.2	9,241.7	10,374.0	10,518.1	11,247.8	11,905.8
August	5,292.6	5,997.4	7,321.5	7,600.9	8,092.3	8,140.3	8,350.2	9,431.9	10,501.1	10,549.5	11,222.4	11,986.2
September	5,345.8	6,036.0	7,446.3	7,620.2	8,064.4	8,137.6	8,458.0	9,404.9	10,663.3	10,654.4	11,344.7	12,207.6
October	5,362.6	6,111.6	7,156.3	7,744.9	8,177.5	8,199.6	8,567.8	9,549.1	10,710.5	10,646.2	11,509.5	12,362.7
November	5,442.2	6,168.6	7,093.6	7,567.3	8,029.5	8,252.5	8,726.5	9,791.7	10,934.9	10,846.2	11,733.4	12,628.0
December	5,861.5	6,436.6	7,227.0	7,728.4	8,196.6	8,451.9	9,076.1	10,088.4	11,075.4	11,093.3	11,881.0	12,919.0
Average	5,344.4	6,045.9	6,966.6	7,420.2	7,994.0	8,200.8	8,547.5	9,417.8	10,531.6	11,022.4	11,449.0	12,237.3
<u>Dec. % Incs.</u>	15.5%	9.8%	12.3%	6.9%	6.1%	3.1%	7.4%	11.2%	9.8%	0.2%	7.1%	8.7%
<u>Sept. % Incs.</u>	7.0%	12.9%	23.4%	2.3%	5.8%	0.9%	3.9%	11.2%	13.4%	0.1%	6.5%	7.6%

Table XI
Money Supply and Factors Affecting Money Supply

(Millions of Baht)

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
<u>I. Internal Origin</u>	<u>1,976.6</u>	<u>2,815.3</u>	<u>1,169.6</u>	<u>1,466.9</u>	<u>1,812.0</u>	<u>2,466.8</u>	<u>3,132.7</u>	<u>3,254.0</u>	<u>2,669.4</u>	<u>1,440.1</u>	<u>871.0</u>	<u>471.1</u>
<u>A. Government Sector</u>	<u>4,180.8</u>	<u>5,495.2</u>	<u>5,292.0</u>	<u>5,516.9</u>	<u>5,685.5</u>	<u>6,125.9</u>	<u>6,590.7</u>	<u>4,308.4</u>	<u>3,703.4</u>	<u>3,718.7</u>	<u>3,905.9</u>	<u>3,883.1</u>
1. Bank Credit to Gov't.	5,446.8	6,797.4	6,262.5	6,780.1	7,120.6	7,465.6	8,301.3	6,725.5	6,677.2	7,575.2	7,462.8	8,622.5
2. Gov't. cash & deposits	1,266.0	1,302.2	970.5	1,263.2	1,435.1	1,339.7	1,710.6	2,417.1	2,973.8	3,856.5	3,556.9	4,739.4
<u>B. Private Sector</u>	<u>1,309.4</u>	<u>1,422.1</u>	<u>1,819.0</u>	<u>1,956.1</u>	<u>2,152.6</u>	<u>2,478.3</u>	<u>2,880.0</u>	<u>3,281.2</u>	<u>3,427.9</u>	<u>2,857.9</u>	<u>2,596.4</u>	<u>2,811.8</u>
1. Bank Credit to private sector	1,871.2	2,106.4	2,654.5	3,219.3	3,712.5	4,353.6	4,912.7	5,761.7	6,586.6	7,791.6	8,908.1	10,553.7
2. Time & Savings deposits	561.8	684.3	835.5	1,263.2	1,559.9	1,875.3	2,032.7	2,480.5	3,158.7	4,933.7	6,311.7	7,741.9
<u>C. Net Non-Monetary Liabilities</u>	<u>3,513.6</u>	<u>4,102.0</u>	<u>5,941.4</u>	<u>6,006.1</u>	<u>6,026.1</u>	<u>6,137.4</u>	<u>6,138.0</u>	<u>4,335.6</u>	<u>4,461.9</u>	<u>5,136.5</u>	<u>5,631.3</u>	<u>6,223.8</u>
<u>II. External Origin</u>												
Foreign Assets	2,884.9	3,621.3	6,057.4	6,261.5	6,384.6	5,985.1	5,943.4	6,834.4	8,406.0	9,653.2	11,010.0	12,447.9
<u>III. Money Supply</u>	<u>5,861.5</u>	<u>6,436.6</u>	<u>7,227.0</u>	<u>7,728.4</u>	<u>8,196.6</u>	<u>8,451.9</u>	<u>9,076.1</u>	<u>10,088.4</u>	<u>11,075.4</u>	<u>11,093.3</u>	<u>11,881.0</u>	<u>12,919.0</u>
Currency	4,016.9	4,548.3	5,178.7	5,424.1	5,573.0	5,504.0	5,784.6	6,048.9	6,511.7	6,573.4	6,703.5	7,290.2
Demand deposits	1,844.6	1,888.3	2,048.3	2,304.3	2,623.6	2,947.9	3,291.5	4,039.5	4,563.7	4,519.9	5,177.5	5,628.8

IV
PROBLEMS AND PRIORITIES
IN DEVELOPMENT

Although Thailand has been acclaimed as relatively "prosperous" and stable, complacency is still far from justifiable. Average income per head of population is still around U.S.\$100 and averages are of no use to people below them. Population is growing at a high rate. Many other problems still remain with us.

The ideal climate for economic growth, in my opinion, depends on the following five factors:

(a) a good administrative system which makes effective use of manpower, money and time, all of which are scarce;

(b) an efficient fiscal and budgetary machinery which can accurately estimate, control and account for government revenue and expenditure;

(c) a monetary and banking system which can ensure the stability of the external and internal value of the currency while serving the needs of development;

(d) a fair regime of production and commerce in which privileges are absent and competing opportunities available within well-defined bounds;

(e) measures taken by the government to provide basic facilities for production by private individuals and at the same time to encourage every citizen to use his own initiative.

National development in the abstract or in the guise of statistical averages or aggregates can be very misleading. If the rich get richer and richer, while the mass become more destitute, "national" growth will nevertheless lead to individual discontent among the masses. In the words of Ramon Magsaysay, "he who has less in life should have more in law."

The highest priority in development measures should therefore be to create an economic and social climate in the nation which approximates to the ideal conditions. The most serious administrative short-comings in Thailand at the present time are

(a) the excessive use of the Committee system which leads to considerable waste of time and energy, and to the abandonment of individual responsibilities;

(b) the duplication of work among departments and committees resulting in the waste of scarce manpower and professional skill;

(c) the persistence of privileges and monopolies which enrich the undeserving but powerful few and discourage the industrious and competent many;

(d) the neglect of and contempt for, the value of the individual citizen's labour and initiative in favour of false nationalistic interest or naked selfish gains of the individual. In short, take away greed, private ambition, and egoism, then the sun will shine bright on our imperfect world.

The perfectionist will wait in vain for utopian conditions and die with nothing accomplished. The practical man, like Magsaysay, will fight the evil with one hand and try to construct with the other. Positive measures of development and planning for development must go on, even though ideal conditions are yet to obtain. The call for development, for spending scarce resources, comes from all sides. In this situation there is no alternative to the principle of "First thing first".

The meaning of "First thing first", in my own personal view, is in concrete terms and for the present circumstance of Thailand as follows:

- (a) To develop individual skill and initiative which is needed for further development in other spheres; hence education and manpower training, especially vocational education.

- (b) To facilitate and encourage individual initiative in production and trade : hence, transport and Communication, particularly highways, ports and marketing.
- (c) To help complete projects already begun, which otherwise would become valueless; viz : malaria eradication, ditches and dikes for irrigation.
- (d) To assist the mass in those endeavours for which they are particularly competent; viz : agricultural promotion in general, and in particular agricultural credit system, encouragement of the use of fertilizers and mechanization, utilization of domestic raw materials in pilot industrial projects.
- (e) To encourage suitable industries in order to relieve the surplus farm population and to increase individual income, hence discrimination in industrial promotion.

If everyone is Kings, then all will be courtiers. Not all projects can be labelled "First Priority". Project for which money and men have been utilized to a considerable extent in the past must be demoted to a secondary rank in order to achieve balanced development. In this category, for Thailand in the second Development Plan 1967-1971, I would include : irrigation, electric power, water supplies, railways. I would also advocate spending less on the capital city and the bigger cities and more on the rest of country. Indeed, I would like to see concentration of resources towards needy parts of the Kingdom, such as the North-East and the South. The other parts of the country must not be totally neglected but their urgency must be considered secondary.
