Thailand's Exchange Rate Policy

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The Pre-war Monetary System

Introduction : Limitations of Exchange Rate Policy

Exchange rate adjustment is often advocated as an effective economic policy instrument for encouraging or discouraging exports and imports. However, an exchange rate adjustment can be effective in altering a country's volume of trade only under certain circumstances. This is because what is achieved by the adjustment is a change in the relative price of the commodities of one country vis-a-vis those of other countries assuming that the exchange rate adjustment is unilateral. The changes in the relative price structure effected by an adjustment in that country's exchange rate can be large or small, depending on the size of the adjustment. Thus, in order to encourage an increase in exports, one country may be able to achieve its objectiue with only a small rate adjustment to gain the necessary price advantage over other countries, while another country may require a substantially larger rate adjustment in order to attain its objective of export expansion. In extreme but by no means rare cases, where the supply of exportable commodities is highly price inelastic due to limited production capacities in the country, no matter how large a rate adjustment is effected, exports still cannot be increased. Many developing countries fall into this "trap" and devaluation of their national currencies simply willnot serve to increase their exports. Furthermore, an adjustment of the exchange rate may entail certain undesirable or unpopular economic and political side effects on the domestic economy. The larger the magnitude of rate adjustment, the more pronounced will be the side effects. Thus, even in countries where the supply of exportable commodities is price elastic, it may not be politically feasible for the monetary authority to make a rate adjustment sufficiently large to raise the level of exports. On the otherhand, to carry out a rate adjustment below the critical minimum magnitude would not bring in any of the hoped-for gains though at the same time it wouldstill result in some or all of the harmful side effects. In other words, exchange rate adjustment is simply not a very powerful policy instrument, and it must be used with care.

The following chapters examine exchange rate experiences of Thailand since the prewar period up to the present time.

The Pre-war monetary System

The modern monetary system of Thailand was established by the Currency Act of 1928 (B.E. 2471). The Act provided that the unit of the currency was the baht which could be in the form of coin or paper notes, both being legal tender without limit as to the amount. The issue of the

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baht had to be backed by monetary reserves in gold and/or pound sterling. The rate of exchange between the baht and the pound was established at 11 baht to the pound sterling, the value of the baht in terms of gold being 0.66567 gram to one baht. 1/ The baht was tied to the pound sterling because most of Thailand's exports were sold to the sterling area and international indebtedness in the South East Asian region was usually settled in London.

On September 21, 1931 (B.E. 2474), the pound sterling went off the gold standard. The government of Thailand, therefore, decided to untie the baht from the pound sterling and link it with the U.S. dollar instead.2/ As a consequence, Thai exports, which consisted mainly of rice, were seriously affected. The link between the baht and the pound sterling was, however, re-established in May 1932 by the Currency Amendment Act of 1932 at the official rate of 11 baht to the pound.3/ Under the Currency and the Amendment Act, the Treasury was to maintain monetary reserves in the forms of gold, pound sterling, sterling assets, as well as U.S. dollars, and dollar assets. The exact proportion of the currency reserves was not specified by law except that long-term securities were not to exceed 14 million baht.4/

The monetary system of Thailand worked smoothly both internally and externally during this period. The Treasury bought and sold pound sterling at baht 10.80 and 11.20 respectively. The baht was one of the few free and stable currencies of the world until the outbreak of World War II which involved Thailand in December 1941. At the end of November 1941, just before the Japanese entered Thailand the amount of currency in circulation totaled 275.3 million baht, behind which lay reserves of gold pound sterling and sterling assets amounting to 270.6 million baht. 5/ The remainder of the currency reserves consisted of coins. Thus, stability become the hallmark of Thailand's currency from the very begining. And the Thai baht has remained one of the most stable currencies in the world.

War-time Monetary Experience

The War broke out in Asia and the Japanese forces entered Thailand in December 1941. As a result, Thailand was isolated from all countries other than Japan and the territories she occupied. The traditional baht-sterling link was cut, and the only international monetary transactions possible were those in yen. Thailand was, therefore, compelled to link her currency to the yen. At the same time, the Japanese authorities also tried to impose an agreement concerning financial matters on the government of Thailand. The main provisions sought by the Japanese were as follows.6/

1/ Bank of Thailand, *Ten Years of the Bank's Operations*, Bangkok, 1952, p. 8.

2/ Bank of Thailand, *Prince Viwat Chaiyanusorn Memorial Volume*, Bangkok, 1961, p. 64.

3/ Ibid, p. 66.

4/ *Ibid.*, p. 395.

5/ *Ibid.*, p. 74.

6/ *Ibid.*, p. 67.

1. The establishment of official parity between the baht and the yen at one baht for one yen.

2. Yen was to be used as the clearing currency between the two countries.

3. Thailand was to establish a central bank to serve as monetary authority in place of the Treasury. This central bank was also to appoint Japanese nationals to all its consultant posts and heads of its operation units.

The new parity of one baht to one yen amounted to a de facto develuation of the Thai currency by about 36%, since the market exchange rate just prior to the Japanese occupation was 100.00 baht for 155.70 yen. 7/ Under the circumstances, Thailand had no choice but to concede to the Japanese demand.

As already mentioned, the entrance of the Japanese forces into Thailand effectively cut off her trade relations from all other countries except Japan and territories occupied by Japan. Thus, the yen automatically become the clearing currency. The Thai government also agreed to the establishment of the central bank, but found it unacceptable to have Japanese nationals serve as consultants and heads of its operation units. In order to avoid Japanese management and direct control of the proposed central bank, the government of Thailand disignated H.H. Prince Viwat Chaiyanusorn, the then advisor to the Treasury, to organize the establishment of the bank. As a result of his efforts, the Bank of Thailnd was established on December 10, 1942, exactly one year after the Japanese proposal. H.H. Prince Chaiyanusorn become the first Governor of the Bank which was staffed wholely by Thai nationals. 8/

In order to implement certain changes in the country's monetary policy and operation, necessitated by the financial agreement with the Japanese authorities, the Currency Emergency Act of 1941 was promulgated on December 12, 1941. This Act would automatically expire upon the termination of the War. The following important modifications were incorporated in the Thai monetary system under the Emergency Act 9/

1. The provision in the previous Currency Act whereby the monetary authority was obliged to buy or sell sterling at the official rate was suspended.

2. The yen and yen securities became another legal component of the currency reserves, and notes could therefore be issued against them.

3. Notes could also be issued against treasury bonds which were also made a legal component of the monetary reserves.

4. The baht was devalued vis-a-vis the yen by about 36% and its par value made equivalent to the yen in April 1942. Changes in 2 and 3 had significantly weakened the monetary system's power and ability to limit inflation by adding significantly to the currency reserve base.

7/ *Ibid.*, p. 68.

8/ *Ibid.*, p. 29. See *Also Ten Years of the Bank's Operations, op. cit.*, p. 4.

9/ *Prince Viwat Chaiyanusorn Memorial Volume*, op. cit., p. 397.

The monetary authority was thus rendered virtually defenceless against demand from the Thai government and Japanese authorities for deficit financing for the purpose of military and other government expenditures. On January 31, 1942, shortly after the promulation of the Currency Emergency Act, total currency in circulation was 296.2 million baht, only slightly more than the prewar total of 275.3 million. By the end of the War, currency in circulation had increased to 1,992.7 million baht (August 31, 1945)10/ an increase of almost seven-fold in less than four years. To back up the currency in circulation, the monetary authority had as reserves only 339.0 million baht in gold kept partly in Thailand and the remainder in Japan. The amount of liquid assets in the form of gold consituted only 17% of the total currency in circulation. But the mone tary authority also held 252.5 million baht in government bonds and 1,284.4 million baht in yen. 11/

The less stringent fiscal and monetary policies pursued by the Thai government coupled with the shortages of goods and services resulted in serious inflation in the economy. The official cost of living index showed the following changes in the price level. 12/

Year	*Month*	*Consumer Price Index*
1938	December	100.0
1941	December	132.9
1942	December	177.0
1943	December	291.6
1944	March	409.1
1945	August	1,069.6

During the War, full exchange control was introduced into Thailand. Since Thailand was able to trade only with Japan and Japanese-occupied territories, the management of exchange control dealt almost exclusively with the receipts of yen from Thai exports, which were supplies sold to Japanese occupation troops. These exports were paid for in "Special Yen" according to the Thai-Japanese financial arrangement and credited to the Royal Thai Treasury Special Account in Japan . 13/ The then governor of the Bank of Thailand, H.H. Prince Viwat Chaiyanusorn,

10/ *Ibid.*, p. 74.

11/ *Ibid.*, p. 74.

12/ *Ibid.*, pp. 89 90.

13/ The term Special Yen referred to the Japanese Yen which would be made available for the settlement of all debts, not only between Japan and Thailand, but also between Thailand and such other countries or territories as aue granted the benefits of the use of the "Special Yen" (See appendix) A short history of the special yen is as follows:

Since the out break of the war, a substantial part of the monetary reserve had been frozen abroad and its fate unknown, coupled with the devaluation of the baht vis-a-vis the yen by about 36%, the government of Japan agreed on June 19,1942 to grant a credit of 200 million yen to the Thai government, payable is 5 years at an annual interest rate of 3.5% (See credit agreement in the appendix) The 500 million yen credit would according to credit memorandum, be treated as having the same attributes as the Special Yen in the memorandum of Agreement (See appendix) The credit was granted by the Japanese with a view to assisting the Thai Government in maintaining its financial stabilits.

managed to secure part of the payments in gold. After a few years' negotiations, it was agreed that payments for goods and services from Japan be made partly in pound sterling and partly in yen credit.

War-time monetaiy arrangements of Thailand had precipitated a great strain on the economy as well as on the monetary officials. By necessity and compulsion of circumstances, the monetary authority could only exercise its judgement and ingenuity to cope with problems as they arose on an ad hoc basis so as to obtain the maximum benefit or to minimize any harmful effects to the country. If would be folly to expect or to read into events of those years any coherent monetary policy. It was the first time in Thailand's modern historty that monetary and price stability could not be maintained. The war-time monetary instability and inflation, however, seemed to have reiterated the importance and desirability of monetary stability in the minds of the Thai monetary officials. As such stability has become one of the dominant considerations in the post-war monetary policy in Thailand.

Post-war Exchange Experiences

Post-war Exchange Experiences, 1946–1955

The Second World War left Thailand with a number of problems. First was the problem of low level of foreign exchange reserves. On December 31, 1945, the value of exchange reserves in terms of the Thai currency was 1, 1976 million baht or about 8% of the total net notes in circulation. The second problem was the commitment of the Thai government to supply a part of the 1.5 million tons of rice to the allies free-of-charge and subsequently at low prices as a kind of rice indemnity. Third, was the problem of repairing the damage inflicted upon power facilities, the port of Bangkok, the railway system and other means of communication. In other words, there was the need for rehabilitation and reconstruction, especially of the communications and transport systems. Overriding all these problems was the inflationary pressure which had gathered strength during the war through the heavy financing of Japanese military expenditure in Thailand coupled with the Thai government's budgetary deficits.

Trade and Exchange Control

As a measure to conserve currency reserves and to maintain the overvalued baht at a rate of 40 baht to the poud or 10.075 baht to the US dollar, foreign trade and exchange were placed under strict administrative control. Imports were restricted to necessities and some capital goods and all foreign exchange acquired through exports had to be surrendered to the Bank of Thailand at the official rate. At the same time, inflation was partly checked by withdrawing from circulation profits from the sale of sterling and rupees by the bank of Thailand of the free market. Another step taken to fight inffation was the use of gold reserves held in the United States to purchase urgently needed imports, and the sale of gold to the public. The withdrawal of notes of 1,000 baht demonition without replacement by small notes in February 1945 was another important short run measure.

Multiple Exchange Rate System

Unfortunately, the trade and exchange controls introduced in 1946 proved to be a failure: the exchange rate of the overvalued baht could not be maintained; a black market as well as lare-scale smuggling rapidly developed. In view of its inability to control trade and exchange transactions and its unwillingness to devalue the baht, the government of Thailand had to resort to a compromise—a system of multiple exchange rates.

After the relaxation of controls and the introduction of the multiple exchange rate in 1947, Thailand's balance of payments improved. The balance of goods and services account turned from a deficit in 1947 to a large surplus in 1948 which continued until 1951. 14/ As a consequence of the improvement in the balance of payments, the value of the baht in the free market appreciated substantially. One of the factors responsible for this improvement was the introduction of the multiple exchange rate. Under the multiple exchange rate system, the law required that all the proceeds obtained from rice exports and part of those from rubber and tin had to be surrendered to the Bank of Thailand at the official rate (40 baht to the poud) which was rather low vis-a-vis the free market rate, thus siphoning off a part of the excess income from the economy. Insofar as income was held in check, the ability of the economy to increase import was curtailed. In addition, most private imports had to be financed by foreign exchange acquired at the free market rate (60 baht to the pound). As a result, prices of imports in terms of baht were high and the volume of imported products was restricted. Other factors accounting for the improvement in the balance of payments were the rise in foreign demand for Thai products, especially rice, and the increase in the physical production of the economy.

For effective operation of the multiple exchange rate system, two basic exchange rates were imposed--a fixed official rate and a fluctuating free market rate. On the export side, the fixed official rate applied to rice and cement; whereas the market rate applied to all non-specified exports. In between these were various mixed or hybrid rates which were weighted averages of the official and the free market rates applying to exports of tin, rubber and teak.

On the import side, the official rate applied mainly to imports by the government while the free market rate applied to all other imports.

With a view to avoiding violent fluctuations of the exchange rate in the free market, the Bank of Thailand undertook to sell foreign exchange at a so-called 'free rate'. Consequntly, in addition to the fluctuating free market rate, there was also the Bank of Thailand's 'free rate' which was confined to financing imports specified by the Bank.

The Bank of Thailand in this case represented the official exchange market on which foreign exchange transactions were concluded at the official rate. The sources of the in-coming foreign exchange of the Bank were as follows: 15/

14/ S.C. Yang, *A Multiple. Ecxhange Rate System*, an appraisal of Thailand's experience 1946-1955, Madison : The University of Wisconsin Press, p. 42.

15/ *Ibid.*, pp. 63-65.

a. The whole of the foreign exchange proceeds from rice exports

b. 50% from exports of tin during 1947–49 and 40% from 1950–51.

c. 20% from rubber exports.

d. 50% from exports of teaks and 100% from cement. But foreign exchange obtained from teak and cement exports was not substantial.

As already mentioned, the surrender of foreign exchange proceeds to the Bank of Thailand was required by law. Exchange receipts which were not required to be turned over to the Bank could, however, be sold in the open market at the free market rate. On the other hand, the Bank sold foreign change at the official rate for some approved private and government imports and remittances. At the same time, the Bank also sold at its free rate for specified imported products. The foreign exchange needed for non-commercial remittances and for imports not financed by the Bank had to be met by the free market.

Effects of the Multiple Exchange Rate

Since the Bank's receipts of foreign exchange during 1948-1951 had always exceeded its payments, there was a sizeable surplus of foreign exchange and a large part of this surplus was disposed of on the free market at the Bank of Thailand's free rate (60 baht to the pound). The rest was transferred to the currency reserves account. By purchasing foreign exchange at the official rate (40 baht to the pound), the Bank could absorb a part of the purchasing power from the economy, thus preventingthe general price level from rising significantly. The multiple exchange rate system also had the effect of depressing the domestic prices of Thailand's main exports, espectially rice. In so far as the labourers spent the major part of their income on rice, their cost of living could be maintained at a relatively low level. And since workmen's wages mainly depended on their cost of living, the multiple exchange policy had, to some extent, contributed to restraining wages and the general price level.

Even though the multiple exchange rate system had been functioning satisfactorily since 1947, the change in economic conditions after 1952 rendered the system less efficient than before. After the boom years prompted by the Korean War, there was a sharp deterioration in tin and rubber prices. The rice market also changed from a seller's to a buyer's market. By 1953, the usual trade surplus had turned into a deficit. The country also lost reserves as a consequence. The purchasing power absorbed from the private sector through the multiple exchange rate operation was put back in the market by deficit financing on the part of the government at an average annual rate of over 1,500 million baht during 1952-1954. 16/

16/ P. Ungphakorn, *Economic Development in Thailand*, 1955–64, a mimeographed article, Bangkok : Bank of Thailand, August 1965, p. 3.

Unification of the Exchange Rate

Unification of the Exchange Rate and the Establishment of the Exchange Equalization Fund

The government of Thailand realized that to rely on the multiple exchange policy to finance this huge budgetary deficit was not feasible in view of the decreasing foreign demand for Thai products. Some drastic financial reform was urgently needed. The government, therefore, decided in September 1955 to abolish the multiple exchange rate system. As a result, the exchange rate was unified and the Exchange Equalization Fund was set up to support the exchange rate. Surrender requirements for all exports were removed. But in the case of rice, a tax was imposed to the profits gained from the deifferential between the official and the open market rates. This tax on rice exports was called "rice premium". The premium rates could be changed according to the conditions of the world market and used as an instrument for preserving rice supplies for domestic consumption at low prices. The sale of exchange at the preferential import rate was also eliminated. All exchange transactions, therefore, took place in the free market.

Prior to the unification of the exchange rate and the establishment to the Exchange Equalization Fund, the exchange holdings of the Bank of Thailand were revalued in March 1955 from the rate of 35 baht to the pound to 58 bath or from 12.50 baht to 20.7 baht to the dollar.[17]

The surplus accrued as a result of this revaluation amounted to 2.500 million baht thus enabling the authorities to withdraw an amount of 1,1200 million baht from the reserves to be used as the initial capital of the Fund. Both the currency reserves and the exchange equalization fund are managed by the Bank of Thailand. The reserves represent the extent to which Thailand could sustain deficit in the balance of trade without necessarily reducing imports. At the same time, reserves are also used to meet the legal requirement that the baht must have a specified minimum backing in gold and foreign exchange. Up to 1958, the Thai currency had to be backed 100% by gold and foreign exchange. The legal minimum was later reduced to 60% under the Revised Currency Act of 1958. The holding of gold and foreign exchange have, however, been higher than those required by law.[18]

The Exchange Equalization Fund has a different function from those of the reserves in the sense that the Fund is mainly employed for the purpose of ironing out short-term fluctuations in the exchange rate through buying and selling of foreign currencies. The Fund also buys and

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17/ W.M. Corden, "The Exchange Rate System and the Taxation of Trade", *Thailand, Social and Economic Studies in Development*, edited by T.H. Silcock, Canberra : Australiua National University Press, 1967, p. 158.

18/ *Ibid*, p. 159.

sells gold, treasury bills and short-term securities. The activities on the part of the Fund are meant to affect the free market rate of exchange :where the free market rate is too high (the baht declining in value), the Fund would sell foreign currencies to bring down the price. Conversely, the Fund would buy foreign exchange should the rate be too low.

Exchange Rate Experience since 1955

After a decade and a half of dramatic developments in Thailand's monetary system and foreign exchange management marked by widely fluctuating exchange rates, the country's monetary system entered an entirely different era of comparable length. Since 1956 until the last few years, Thailand's monetary system had been satisfactory. The exchange rate in the free market has been as stable as can be expected from any free enterprise country pursuing an open-economy policy. In terms of the US dollar, there have been virtually no fluctuations in the free market exchange rate for almost two decades. Thailand fixed the par value of the baht with the IMF on October 20, 1963 at baht 20.80 per US dollar and the free market rate has scarcely been more than one per cent higher or lower than the official rate. In terms of pound sterling, however, the exchange rate has shown some significant changes in recent years. On November 18, 1967 when the pound sterling devalued vis-a-vis the dollar by 14.5%, Thai monetary authorities elected to maintain the prevailing exchange rate between the baht and the dollar. This decision amounted to a a de facto revaluation of the baht vis-a-vis pound sterling by about the same percentage. In the re-aleignment of exchange rates between the world's major currencies in December 1971, when the dollar devalued vis-a-vis other major currencies by 8%, Thailand elected to stay with the dollar this time. The baht was, therefore, devalued by about 8%. Again the dollar was devalued in February 1973 by 10%, the Thai Government also decided to devalue the baht in the same proportion. This decision amounted to a de facto devaluation of the baht vis-a-vis other major currencies of the world by 18% during a period of 14 months. The decision to tie steadfastly to the dollar proved to be wrong as evidenced by the enormous influx of dollars into Thailand, and the Exchange Equalization Fund could not buy all the dollar influx with a view to maintaining the exchange rate between the dollar and the baht. The devaluation of the baht was also partly responsible for the rapid increase in the general price level because more than 70% of Thailand's imports are irreduceable without affecting the development efforts of the economy: such imports as crude oil, machinery, equipment and industrial raw materials are all instrumental to the country's economic development. Thailand's export, on the other hand, could not be significantly increased because of supply inelasticity. During 1973 the demand for Thai rice, maize, rubber, and tapioca was so great that Thailand found herself not in a position to satisfy all the demand at a record price. For instance, in December 1971, the price of 100% Thai rice in Singapore was about US $ 155 per metric ton. In July 1973 the price of the same grade of Thai rice in the same mareet increased to US. $ 600. At the same time the prices of other primary commodities also rose as a result of increasing world demand for primary products.

The baht-dollar tie was, however, broken as a result of the Ministry of Finance's announcement on July 10, 1973. And the Cabinet decided on July 15, 1973 to revalue the baht currency vis-a-vis the dollar by 3.846%, thus fixing the baht-dollar exchange rate at 20.00 baht to a dollar.

According to the Finance Ministry, Thailand had on April 10, 1973 fixed the par value of one baht at 0.0354164 gram of gold or equivalent to an exchange rate of one US dollar for 20.80 baht. Since then the dollar has slumped in value vis-a-vis the key European currencies and the Japanese Yen. The government had considered this situation and realized that if the present par value of the baht currency is maintained, it would have a bad effect on the national economy. The baht value would continue to appear lower when compared with the currencies of countries with which Thailand traded.

The government, therefore, decided to revalue the baht currency by fixing its value for one baht at 0.0368331 gram of gold or at an exchange rate of 20.00 baht for a US dollar. A Royal Decree fixing the new value of the baht currency was signed by Prime Minister Thanom Kittikachorn on July 14, was published in the Government Gazette on July 15, 1973.[19]

Evaluation of the Exchange Policy

The exchange rate experiences of Thailand since World War II can be divided into two distinct periods : the first priod from the end of the war to 1955, and the second period from 1956 to the present. The period from 1946 to 1955 was characterized by rather wide fluctuation in the exchange rates especially in the free market while the period from 1956 to the present has been noted for remarkable stability of the baht in terms of major currencies of the world (see tables 1 and 2 as well as figure 1). The objective of the monetary authority in pursuing its policy has always been the preservation of monetary reserves with a view to maintaining internal and exernal economic stability. Thailand was less successful in achieving this objective during the first period than it has been since 1956. During the first period, the monetary authority had resorted to every conceivable measure in an attempt to stabilize the exchange rate and to shore up the country's very week reserves position, from full exchange control to a complicated system of multiple exchange rates. Yet, exchange rate fluctuations persisted and foreign monetary reserves remained thin (see Table 7). During the second period, exchange rates in the free market had been remarkably stable at least up to the end of 1970 and Thailand's foreign reserves had markedly increased. Official interventions had been limited to the fine-tuning actions of the Exchange Equalization Fund (EEF). It is true that the EEF had been an important stabilizing factor in the foreign exchange market since its inception in 1955, but the endowments of the EEF had been limited and consequently it could do no more than to smoothen out marginal fluctuations in exchange rates.

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[19] The Bangkok Post Newspaper, dated July 16, 1973, p. 1.

On the other hand, it is the annual balance of payments surpluses and the consequent steady build-up in international reserves that had been the single most important factor contributing to the baht's exchange rate stability since 1956. The relatively smooth functioning of the international monetary system had been another factor accounting for the stability that the baht had enjoyed for years.

The over-emphasis on the part of the monetary authority to preserve foreign monetary reserves had, however, prompted them to pursue an exchange policy which was not very conducive to growth and stability. For instance, the devaluation of the dollar in December 1971 was followed by devaluation of the baht to the same extent. This decision amounted to a de-facto devaluation of the baht vis-a-vis other major currencies of the world. With respect to pound sterling, the Thai currency was devalued by about 8 per cent. In February 1973, the dollar was devalued again by about 10%, the monetary authority to Thailand also decided to devalue the baht in the same proportion with a view to maintaining the value of foreign reserves in terms of baht and to encouraging more exports from Thailand. At the same time, the devaluation of the baht was thought to be a measure to discourage imports. The resultant increase in exports and the reduction in imports, if materialized, would considerably improve the balance-of-payments which have been in red since 1969 and therefore, would stop the dimininution of foreign monetary reserves. But the decision to preserve monetary reserves by successive devaluation of the baht proved to be wrong. As already mentioned, after the February devaluation of the baht, there was such an enormous influx of dollars into Thailand that the Exchange Equalization Fund could not buy all the dollars to maintain the baht dollar exchange rate. The devaluation of the baht was also one of the causes for rapid rise in the general price level particularly imported goods which were mostly capital and raw materials for investment purposes. Thailand's exports, on the other hand, could not increase without further rise in domestic prices because of inelasticity in supply of such commodities as rice, maize, sugar and other primary products. Since the devaluation of the baht proved to be more harm than good under economic conditions in 1973, the monetary authority of Thailand decided to revalue the baht vis-a-vis the dollar by 3.8% on July 10, 1973.

The point which should always be borne in mind is that before any crucial decision is to be made with regard the exchange rate or exchange policy, thorough research and investigation have to be made to find out the real causes of the issue. For instance, what have been the main causes for Thailand's balance-of-payments deficits since 1969. Was it because of the fact that the baht was over-valued and as a consequence, the demand for Thai products in the world market diminished or because of other factors?

The writer is of the opinion that the prospect of Thailand to maintain a high level of international reserves during the 1970's would not be as good as they were in the 1960's. The trade gap remains very wide in the 1970's and it will be difficult to bridge in the foreseable future because of Thailand's development efforts and the resulting needs of crude oil, equipment, machinery, industrial raw materials and technological know-how. External factors which sweleed the receipts on services account in the 1960's are now on the decline. Capital inflows and inflow of foreign aid are also slowing down.

A close examination of the structure of the economy--the demand and supply structure-might also shed some light on the issue of trade and balance-of-payments deficit. Insofar as Thailand has a wide income disparity and the high income group not only imports foreign goods for investment purposes alone, the majority of them also have a high propensity to import luxury goods resulting in a tremendous increase in imports. The supply of output for home and overseas market as have already been known consist mainly of primary products whose supplies are conditioned by weather conditions habits and attitudes of the farmers. As a consequence exports can not be increased in times of high overseas demand and can not be reduced when international prices for primary products are low.

The above-mentioned facters might be the main causes responsible for balance-of-payments deficit and if they are, new policy devices should be formulated to bring about desirable results.

Finally, the writer would like to emphasize that the balance of payments deficit and low reserves (though our reserves are very high now) position are not problems in themselves., if we have balance-of-payments deficit as a result of our development efforts alone and we can be sure of an increase in export after the gestation periods for various investment projectors are over. Low reserves position should not bother monetary authority at all so long as the economy can in the future strike a balance between aggregate supply and aggregate demand. In other words, if we can increase our supply of goods and keep our export proceeds large enough to pay for our imports and our capital inflows in the form of foreign aid, foreign investment, and foreign grants match with capital outflow from Thailand.

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