

**THAI ECONOMIC CRISIS AND ITS IMPACT
ON THE THAI STOCK MARKET TRENDS**

by

Pratarnporn Suvanprakorn

A Research Paper

**Submitted in Partial Fulfillment of the
Requirements for the
Master of Science Degree in
Management Technology**

**Approved for Completion of 3 Semester Credits
INMGT-735 Problems in Management Technology**

Research Advisor

**The Graduate College
University of Wisconsin-Stout
December, 2001**

**The Graduate College
University of Wisconsin-Stout
Menomonie, Wisconsin 54751**

ABSTRACT

Suvanprakorn (Writer) (Last Name)	Pratarnporn (First)	- (Initial)	
<u>Thai Economic Crisis and Its Impact on the Thai Stock Market Trends</u> (Title)			
Management Technology (Graduate Major)	Dr. Abel Adekola (Research Adviser)	December 2001 (Month/Year)	65 (Pages)
<u>Publication Manual of the American Psychological Association (APA), 4th Edition</u> (Name of Style Manual Used in this Study)			

The Stock Exchange of Thailand (SET) was first established in 1961 as part of Thailand's National Economic and Social Development Plan for the purpose of enhancing the country's economic growth. The operating performance of the SET grew steadily until the first boom years of 1986-1989, which made the market capitalization changed much higher in its value. This remarkable rate of growth fascinated both local and foreign stock investors who invested their money heavily in the stock market since then.

In late 1996, Thailand suffered a decrease in exports, which led to high deficit in the balance of payment. Furthermore, the financial sector started to have problems in increasing foreign debts.

In 1997, the economic problems followed the devaluation of the Thai currency and the increase in volume of non-performing loans, which made the performance outcome of the listed member companies of the SET went down. These problems directly and

strongly impacted the stock investors' confidence, led to the decline in the Thai stock market trading volume and caused the SET Index hit the lowest point in its history in September 1998.

The stock market has an important role not only in helping the country to accelerate its economic growth, but also being an important indicator that can reflect the current economic performance of that country. The country's economic performance can be shown through the changing of the stock market index, which is crucial regarding to the decisions making and confidence of the investors.

The primary aim of this research is to analyze the Thai stock market trends as Thailand moves into the twenty-first century after facing the peak of economic crisis. Most data provided are the comparison of the economic data from the years 1996-2000 which can reflect the success level of the Thai governments' measures in an effort to resolve the economic problems and encourage economic recovery in order to bring back public confidence.

TABLE OF CONTENTS

List of Tables.	vi
Chapter 1: Introduction	
Background of the Problem	1
Statement of the Problem	3
Research Objectives	3
Significance of the Study	3
Limitations and Scope	3
Chapter 2: Literature Review	
The Perspective of the Stock Exchange of Thailand (SET)	
- History, Role and Growth Performance	5
- Securities Trading System	7
- Back-Office Systems	9
- Information Disclosure	10
- Information Dissemination	11
- Member Supervision	12
- Market Surveillance	14
- Investment Policy for Foreign Investors	14
The Economic Turmoil in South East Asia: Root Causes	
- Drastic Export Slowdown	17
- Real Estate: The Root Cause of the Financial Crisis	18
- Foreign Debts	18
- The Foreign Exchange System	19

Thai Economic Crisis Review	20
Thai Stock Market Condition During the Peak of the Crisis (1997-1998)	24
Reaction of the Stock Exchange of Thailand to the Economic Crisis	26
- The Economic Crisis Response Plan	27
- The On-Going Development Plan	29
Chapter 3: Research Methodology	
Introduction	31
Statement of the Problem	31
Research Objectives	31
Research Design	32
Instrumentation	33
Limitations and Scope	33
Chapter 4: Presentation of Results	
Introduction	34
The results of Thai Government's Measures for Economic Stabilization	36
- Macroeconomic Framework	
1.1 International Reserves and Exchange Rates	37
1.2 Inflation and Interest Rates	38
1.3 International Trade	41
1.4 Private Investment	43
1.5 Unemployment Rate	44
1.6 Gross Domestic Product (GDP)	46

- Financial Sector Restructuring	
2.1 Strengthening and Re-Capitalizing Viable Financial Institutions . . .	49
2.2 Addressing of the Non-Performing Loan (NPL) Problem	50
The Thai Stock Market Trends in the Beginning years of the 21 st Century	53
Foreign Investors and the Thai Stock Market	56
Chapter 5: Conclusions and Recommendations	
Conclusions	57
Recommendations	60
Bibliography	62

LIST OF TABLES

Table	Page
<u>Chapter 2</u>	
2-A: Types of Trading Boards and the Trading Systems	9
2-B: Securities Clearing and Settlement Schedules	10
2-C: Classification of Commission Rates	12
2-D: Stock Price Spreads	13
2-E: Foreign Investment Volume in the Thai Stock Market (1982-1996)	15
 <u>Chapter 4</u>	
4-A: Comparison of Thailand's Key Economic Indicators (1996-2000)	35
4-B: Thai Currency Average Exchange Rates	38
4-C: Thai Commercial Bank Deposit Rate as of December 2000	40
4-D: Thailand's International Trade (1998-2000)	43
4-E: Labor Force and Unemployment Rates	45
4-F: GDP Classified by Industrial Origin (Billion Baht)	47
4-G: The Thai Stock Market Performance (1996-2000)	54

CHAPTER 1

Introduction

Background of the Problem

The stock market index is generally thought to be an economic leading indicator. It is one of the crucial factors economists consider using to forecast the future performance of the country's economic activities. An important reason why stock market index is considered to be a leading rather than lagging indicator is that investors are forward-looking, they buy or sell stocks today based on their expectations of how companies will perform and how the country's economic outcome will be in the future. Stock market also can help accelerate economic growth through creation of liquidity by playing an important role in encouraging the savings mobilization and efficiently allocating the capital for investment activities in a number of ways as follows:

First, stock market can be used as a vehicle for raising equity capital for firms. Stock market may also take larger role in developing countries where private sector imply a large demand for equity finance.

Second, stock market in general, can enable investors to diversify their wealth across a variety of financial instruments and reduce the cost of capital by reducing the investors' risk premium. The result should increase the investment levels and enhance economic development.

Third, stock market can perform a screening and monitoring role by relying on the information and judgment of numerous participants. Stock prices quickly reflect the changes in underlying values and indicate profitable investment opportunities.

Lastly, the public corporations, which are members of the stock market, cannot make any decisions without considering the shareholders and social responsibilities. The results of improving in corporate administration should be contributed to economic development (Stock Exchange of Thailand [SET], 1998).

In the middle of 1996, economic recession in Thailand began to take place but it was covered by the government's measures through financing and subsidizing the declined businesses, most of which were speculative sectors such as stock exchange market and real estate development. The really first hit of the economic crisis came in the middle of 1997 with the devaluation of the Thai currency (Baht) and followed by rapidly falling of the Thai stock market index. A series of the country's key economic indicators showed their severity. The Stock Exchange of Thailand (SET) Index dropped 55 percent from 1997 to 1999, which was the worst record in history of the Thai stock trading.

Thai government continuously launched several economic measures to stimulate the weak economy such as the announcing of the August 10th 1999 Stimulus Package as well as the Stock Exchange of Thailand that also implemented plans in 1998 to deal with the crisis in an effort to rescue the stock market. The key economic data of Thailand that have been publicly released since 1999 could reflect the success level of the Thai government's economic stimulation measures in resolving the weak economy after getting through the peak of economic crisis (Ministry of Finance, Thailand, 2000).

In this research, the researcher will discuss and analyze a series of Thai key economic data, which are important factors that could impact the stock investors' decision making and the stock market performance in order to forecast the future trends of the Thai stock market.

Statement of the Problem

The problem of this study is to determine the Thai stock market trends in the beginning years of the twenty-first century after facing the peak of the economic crisis.

Research Objectives

The objectives of this research study are to:

1. Understand general Thai stock market perspective.
2. Understand the situation of Thai economic crisis.
3. Determine the impact of Thai economic crisis on the Thai stock market.
4. Determine the future trends of the Thai stock market.

Significance of the Study

It is essential to study Thailand's key economic indicators in order to measure the progress of economic recovery in Thailand after facing the peak of its economic crisis because such information is important to stock investors' decision making. The results of economic data analyses will be served as a resource for investors who are interested in investing their money in the Thai stock market.

Limitations and Scope

There are two broad types of stock market analysis methods, one is economic fundamental analysis method and the other is technical analysis method. The researcher focuses on the economic fundamental analysis method, which is based on analysis of key economic data of Thailand that have strong impact on stock investor's decision making and also on the future trends of the Thai stock market. Technical analysis method, which is based on the analysis of historical statistic of stock trading volume and graphs, will not be discussed in this research. This research was not conducted to analyze specific stock

of each listed member company of the Stock Exchange of Thailand but to analyze overall performance of the Thai stock market in order to forecast its future trends after being impacted by the economic crisis.

.

CHAPTER 2

Review of Literature

The Perspective of the Stock Exchange of Thailand (SET)

History, Roles and Growth Performance

Organizational History of the Stock Exchange of Thailand (SET)

Thailand's National Economic and Social Development (NESD) Plans have, since 1961, defined the country's direction and growth objectives. Consequently, the Second Plan (1967-71) incorporated planning for a new capital securities market. The Third NESD Plan (1972-76) gave rise to the Stock Exchange of Thailand (SET) Act of May 1974, bringing into being The Securities Exchange of Thailand, as it was first named. Securities trading commenced on April 30, 1975. On January 1, 1991, the bourse's official name was changed to The Stock Exchange of Thailand (SET). In May 1992, an improved SET Act of 1984 (No. 2) was itself replaced by the Securities and Exchange Act (SEA) 1992, which also established the Securities and Exchange Commission (SEC) as the sole supervisor of securities business (Stock Exchange of Thailand [SET], 2000).

The SEA is a comprehensive legislative framework regulating all vital elements of a modern capital market, such as disclosure, investor protection, fund management, takeover procedures and the establishing of securities firms (Stewart, 1995).

Roles of the Stock Exchange of Thailand

The SEA defines three prime objectives for the SET, which are to:

1. Provide the services of being a center for trading listed securities and the system and methods for securities trading.

2. Undertake any related business, such as acting as a clearinghouse, securities depository center, securities registrar and providing securities data.

3. Undertake any other business given the approval of the SEC.

The SET is a full self-regulatory organization, which with the SEC ensures all individuals and institutions abide by the established laws, regulations and standards of Thailand's capital market. Moreover, the SET continuously strives for expansion and improvement of products and services for investors worldwide (SET, 2000).

Growth Performance

At the end of its first year of operation in 1975, there were just 21 SET 's listed member companies and total trading turnover topped 547.32 million Baht. By the end of 1993, total annual turnover had reached 2,201.15 billion Baht on a daily average of 8,984.28 million Baht. On January 4, 1994, the market opened at an historic high of 1753.73 Index points and the following day recorded its highest-ever trading turnover of 40.01 billion Baht. Those original 21 listed member companies have since grown to 392 stocks and have been joined by 20 unit trusts or mutual funds as well as preferred shares, debentures and warrants of various types. Market capitalization has changed since the First Boom years of 1986-89 to a present value equal to 2,193.07 billion Baht (SET, 2000).

This remarkable rate of growth had been in parallel with the SET 's own historic progress and initiatives. The Automated Trading System for the SET (ASSET) was implemented in May 1991. While in June 1992, the SET 's Share Depository Center adopted a non-script system which now includes debentures and warrants. In July 1992, trading hours were increased, as they were again in November 1994.

As a result of such rapid progress, foreign trading on the SET doubled between 1991 and 1992, and continued its growth on the upward trend to account for over 940 billion Baht in 1999, approximately 29.44% of total trading turnover (SET, 2000).

Securities Trading System

Trading Mechanism

The SET has operated full-computerized trading since May 1991. There are two principle variations of trading system available to broker members, Automated Order Matching (AOM) and Screen-based trading or Put Through (PT) system.

- **Automated Order Matching (AOM) System**

Member firms key in their orders from their offices and these data go online to the SET 's mainframe computer which the ASSET system arranges the orders according to price-then-time priority. Executed transactions are immediately confirmed back to the members' terminals.

- **Screen-based trading or Put Through (PT) System**

Brokers can announce bid or offer prices quoted according to the price spread rules of the SET via the ASSET 's facility. Any interested brokers can deal and negotiate directly between each other, which the price can be changed and may not follow the price spread rules. The result of the deal will be then sent to the ASSET system for the SET 's formal approval.

Whichever type of trading system is applicable depends on the board the shares are traded on. AOM is provided for trading on the main board and the odd lot board, while

PT is applied for trading on the special board and the big lot board. On the foreign board, both the AOM and PT systems can be utilized (SET, 1999).

The Five Boards and Trading Units

Securities trading at the SET can be conducted on five separate trading boards. Generally, each trading unit, a so-called "Board Lot", contains 100 units of each security. However, for each security priced at 500 Baht or more for six consecutive months, one board lot is equivalent to 50 shares (SET, 1999).

The followings are five types of trading boards:

1. The Main Board is for the trading of common stocks, preferred stocks, warrants and unit trusts in full board lots, not exceeding one million units of each security.
2. The Foreign Board is for the trading of stocks registered under a foreigner name.
3. The Big Lot Board is for the trading of all securities with the minimum value of three million Baht or the minimum volume of one million shares.
4. The Odd Lot Board is for the trading of common stocks, preferred stocks, warrants and unit trusts in less than a one board lot.
5. The Special Board is for the trading of government and state enterprise securities such as bonds, debentures and convertible debentures.

Trading systems of the SET, both AOM and PT, are utilized according to the type of board that the stocks are traded on, as shown in the table 2-A.

Table 2-A: Types of Trading Boards and the Trading Systems

TYPES OF TRADING BOARDS	TRADING SYSTEMS
Main Board	AOM
Special Board	PT
Odd Lot Board	AOM
Big Lot Board	PT
Foreign Board	AOM or PT

Back-Office Systems

The Thailand Securities Depository Co., Ltd. (TSD), a subsidiary of the Stock Exchange of Thailand (SET), was established on November 16, 1994, and officially began operations on January 1, 1995. TSD's main function is to develop and promote back-office systems for the after-trade services provided for all types of equities and debt instruments in Thailand in order to attain the highest efficiency and meet international standards. TSD is the only clearing house and control securities depository, and the industry's main stocks register. It serves the SET 's member companies, sub-brokers, custodian banks, members of the Bond Dealers' Club, and members of the Bangkok Stock Dealing Center (Thailand Securities Depository Company Limited [TSD], 1999).

Securities Clearing & Settlement

The traded securities as reported on the TSD 's and its members' computer terminals needed to be cleared and settled according to the following procedures as shown in table 2-B in the following page:

Table 2-B: Securities Clearing and Settlement Schedules

EFFECTIVE ON 12 JUNE 1995	THAI INVESTOR	FOREIGN INVESTOR/ MUTUAL FUND CO.	SUB-BROKER
<u>Buy</u>			
Date for customers to make payment for the purchase	Within T+3	Within T+4	Within T+3
Date for member to deliver the securities to customer	Within T+4	Within T+4	Within T+4
<u>Sell</u>			
Date for member to make payment for the sale	Within T+3	Within T+3	Within T+3
Date for customer to deliver the securities to the member	Before 12.00 noon of T+1	Within T+3	Within T+2

Note. T = Trading day.

Moreover, the TSD sends a report of net trading and net cash balance to its members via computer network at, approximately, 6.30 p.m. of each trading day. In case the clearinghouse's computer system fails, a written report of trades and net cash balances will be sent to the members on the following day (TSD, 1999).

Information Disclosure

Information Disclosure Requirements

To ensure active, fair and orderly securities trading in the Exchange, the SET requires its listed companies to disclose information necessary for decision-making to the

general public. Such information must be filed to the SET by fax and simultaneously on-line through the Electronic Listed Companies Information Disclosure System, or ELCID.

The ELCID system facilitates the listed companies to transmit their material information accurately, widely, and timely via a faster process. From July 1, 1998 onwards, all listed companies must simultaneously disclose both in Thai and English via the ELCID system to be in line with international standard. The transferred information will be collected as a database for the SET 's information systems later on (Office of the Securities and Exchange Commission [SEC], 1997).

Information Dissemination

INTERNET

The SET 's home page at the address "<http://www.set.or.th>" includes the SET index, trading information (prices and volume of listed stocks) and daily news released by listed companies. Besides real time quotation, general information regarding the SET as well as reports on monthly economic performance prepared by the Bank on Thailand (BOT) are available on the internet.

Mass Media and Publications

Besides the information dissemination via electronic system such as SETINFO and the INTERNET, the SET also provides stock trading information, information regarding the SET 's brokerage members/listed companies and educational programs on stock market through channel 9 TV, cable television network, and radio broadcasts.

The SET offers publications, which investors can regularly subscribe such as the Annual Report, Monthly Review, Fact Book, etc. (SET, 1999).

Member Supervision

The SET regulates and supervises member companies in the following areas:

- Trading activities & operations
- Members' financial status

Trading Activities & Operations

To supervise the member firms in terms of trading and operation, the SET has regulated the rates of commission and the price regulation on trading as follows:

1. Brokerage Commission - The commission fees paid to a broker for either buying or selling securities are designated as shown in table 2-C:

Table 2-C: Classification of Commission Rates

TYPES OF SECURITIES	COMMISSION RATES
Ordinary Shares, Preferred Shares and Warrants	0.5% of value traded (Minimum 50 Baht or US\$ 2.00)
Unit Trusts	0.3% of value traded (Minimum 30 Baht or US\$ 1.20)
Government Bonds, Debentures and Convertible Debentures	0.1% of value traded (Minimum 50 Baht or US\$ 2.00)

2. Price Regulations

- Opening Price: Prior to the regular trading session, pre-opening orders can be sent to the SET but they will not be matched. They are simply placed in bid or offer queues according to a price and time priority and price is counted as the first priority. The opening price is determined by the price that generates the most trading

volume. If there is more than one price, the one closer to the previous closing price will be chosen. If there is still more than one price, the higher one will be chosen.

- **Floor & Ceiling Limits:** The stock prices can fluctuate within the range of + or - 10 percent of the main board's last trading price on the previous trading day which mean that the price of each stock can not drop below 10 percent floor or increase beyond 10 percent ceiling.
- **Price Spreads:** Price movements, as prescribed by the SET for securities trading, vary according to each market price level as details shown in table 2-D on the following page.

Table 2-D: Stock Price Spreads

MARKET PRICE LEVEL (BAHT)	SPREAD (BAHT)
Less than 10	0.10
From 10 to < 50	0.25
From 50 to < 100	0.50
From 100 to < 200	1.00
From 200 to < 600	2.00
From 600 to < 1,000	4.00
From 1,000 upwards	6.00

Members' Financial Status

Member companies are required to submit both their audited semi-annual and annual financial reports, quarterly listing of top 20 shareholders, changes in executive

management and other pertinent reports. The SET will review these reports and evaluate the financial condition of the members (SET, 1999).

Market Surveillance

Surveillance System

Since 1983, the SET has set up an effective surveillance system to detect any irregular patterns of stock price and volume movements. The system is semi-computerized and closely observed by trained personnel. The surveillance process can be divided into two parts: Stock Watch and Stock Alert part and Investigation Process part.

Both stock watch and stock alert activities work simultaneously and are designed to monitor any peculiar trading movements of listed stocks. The system will alert the assigned officers through audio signals and visible colored labels for any irregularity. Preliminary investigation into the cause of the alert will follow. Appropriate measure in the form of warning signs "H" (trading Halt), "SP" (suspension), etc., will be imposed if necessary. The second part refers to the "Investigation process". If serious wrongdoing occurs, the SET will set up a subcommittee to conduct an investigation, and forward the results obtained to the SEC (SET, 1999).

Investment Policy for Foreign Investors

Investment volume from foreign investors was increasing gradually from 1982 to 1996 as shown in table 2-E.

Table 2-E: Foreign Investment Volume in the Thai Stock Market (1982-1996)

YEAR	FOREIGN INVESTMENT (US \$ Million)	PERCENTAGE OF TOTAL TURNOVER
1982	9.48	2.05
1983	13.48	1.83
1984	47.15	5.51
1985	63.49	4.84
1986	183.66	7.76
1987	1,014.36	10.36
1988	1,602.07	12.86
1989	3,869.73	12.90
1990	7,186.70	14.40
1991	5,177.51	8.21
1992	10,659.79	7.20
1993	29,707.89	16.97
1994	35,226.66	20.95
1995	32,168.63	26.33
1996	35,708.10	34.26

Note: US \$1 is approximately 25.28 Baht (1982 - 1996)

Foreign investors may invest directly on the SET or through foreign funds, which are defined as on- shore and off -shore funds. Under the SEA 's regulations, on-shore foreign funds are registered in Thailand and their investment plans approved by the office of the SEC. Fund managers of on-shore funds are Thai companies, and therefore these funds are not subject to the foreign share-ownership restrictions for any particular stock. Off -shore funds are foreign funds registered abroad and managed by institutional investors. They are subject to foreign share-ownership restrictions (SET, 1999).

Five Steps for Foreigner to Invest in the Stock Exchange of Thailand

Step One: Appointing custodian, correspondent bank and broker

To invest in the SET, foreign investors must appoint custodians, correspondent banks

and brokerage firms on their behalf. Normally, local commercial banks provide both custodian services and act as correspondent banks for such clients. Foreign investors are advised to use only one bank for both services.

Step Two: Bringing in money

The inward remittance of foreign exchange for portfolio investments must be conducted through a correspondent bank. Clients are not required to file the remittance report directly with the Bank of Thailand (BOT) because the correspondent bank will act as an intermediary in fund transfers and assist its clients by reporting to the BOT on their behalf. Thai currency is the only accepted medium in trading securities at the SET.

Step Three: Placing orders

Buy or sell orders must be placed through a broker. The SET is fully computerized for execution and confirmation of orders.

Step Four: Clearing and settlement

All settlement is done on a T+3 working days basis, where T is the trading day by net settlement for each customer.

Step Five: Repatriation of funds

The repatriation of investment funds, dividends and profits, as well as loan repayments and interest payments - net of all taxes - can be made through a correspondent bank who will facilitate the outward remittance. A correspondent bank will help ease the process of approval for the repatriation of any proceeds by filing the remittance report to the BOT on behalf of its clients. In this way, the clients are not required to report directly to the BOT.

The Economic Turmoil in South East Asia: Root Causes

Drastic Export Slowdown

Prior to 1996, exports of the four ASEAN (The Association of Southeast Asian Nations) countries, which included Thailand, The Philippines, Malaysia and Indonesia, grew uninterruptedly at high rates over a long period. In 1995, Thai exports rose 23.6%, those of Malaysia 25.9%, those of the Philippines 28.9% and those of Indonesia 13.0%. Suddenly, exports of these four ASEAN countries slowed down sharply, with those of Thailand posting a negative growth rate of -0.2%, those of Malaysia 5.6%, those of the Philippines 17.7%, and those of the Indonesia 9.5% (Engineering Export Promotion Council [EEPC], 1998).

Principal causes of this abrupt weakening trend were as follows:

- Leading trade partners recorded economic slowdown, affecting their demand for the ASEAN member countries' products. This pertained in the United States, Japan, the European Union (EU) and even Asia where intra-trade had been on the rise previously.
- Production of electronic products expanded at a pace in excess of that of demand, depressing prices. This had a strong impact on the ASEAN member countries, which constituted a large production base and leading exporter of these goods. For instance, electronic products accounted for 21.2% of Thailand's total exports.
- Exports slowdown due to the above factors led currency traders to believe that the ASEAN member countries would soon lower the value of their currencies as a means to stimulate growth of their exports.

Real Estate: The Root Cause of the Financial Crisis

Rapid economic expansion and financial liberalization in the ASEAN member countries led to a large inflow of funds into the region, with a considerable amount of the funds having been allocated to non-productive economic sectors, particularly to the real estate sector. The real estate business consequently recorded a boom in the ASEAN member countries, especially Thailand, the Philippines, Malaysia and Indonesia. Housing estates, condominiums and office buildings mushroomed in large urban areas. Thus, credits extended to real estate by financial institutions expanded rapidly.

For Thailand, in 1996, commercial banks' real estate credits accounted for 10% of total credits and those of finance companies 25-30% of total credits. The sharp growth in the real estate business during the times of the bubble economy resulted in a large oversupply subsequently. This was reflected by the ratio of unoccupied space in office buildings in Thailand of 13.9%, which was the highest among the ASEAN member countries (Koichi & Bertrand, 2000). Numerous contractors and developers experienced liquidity shortage and became insolvent. This unavoidably caused non-performing loans of financial institutions to balloon and their operational results to deteriorate. This situation damaged investors' confidence in the Thai financial institutions.

Foreign Debts

The ASEAN member countries' economic expansion during the recent past has been given a boost mainly by foreign funds, which flowed into this region copiously. As a result, the majority of investors turned to borrowing from abroad where interest rates were lower. As a consequence, borrowings from overseas rose sharply, boosting the

foreign debt burden. In 1996, Thailand's foreign debt amounted to 79.9 billion U.S. Dollars (USD), equivalent to 43% of GDP, that of the Philippines 40.2 billion USD or 48.3% of GDP and that of Indonesia 109.3 billion USD, or 48.3% of GDP. As for Malaysia, as it relied mainly on domestic funds to satisfy its needs, its foreign debt totaled 36.4 billion USD, or 38.5% of its GDP (Thailand Development Research Institute [TDRI], 1998).

A high degree of dependence on foreign sources of funds as shown above is the weakness of the ASEAN member countries, particularly because a good deal of the foreign borrowings, which could be obtained rather easily, has been used without much care and invested in most cases in sectors which are not truly productive.

The Foreign Exchange System

Most ASEAN member countries have pegged their currencies to the U.S. Dollar. This due to the fact that the U.S. has all along been the group's premier export market. This policy has served the ASEAN member countries well. The fact that the ASEAN member countries' currencies were pegged to the U.S. Dollar caused the value of these currencies to appreciate to a level exceeding their real value, contributed to the slowdown in exports in 1996 and led to the region's economic turmoil.

Thai Economic Crisis Review

Thailand, a country once described by the World Bank as a model for economic development, is now plagued by an economic crisis characterized by massive foreign debts, unemployment, inflation and currency that continue to depreciate. In one decade, how Thailand moved from double-digit growth to the situation it is in today.

In the mid-1980s, the local economy began to grow rapidly, and Thailand began the process of liberalizing its financial system. Starting in 1990, as part of this process, Thailand lifted capital controls, so funds could flow freely in and out of the country. In March 1993, the Bangkok International Banking Facilities (BIBF) was established. The BIBF permitted local and foreign commercial banks in Thailand to take deposits or borrowings in foreign currencies from abroad, and lend them both here and abroad. As a result, massive amounts of currency flowed into the Kingdom (Vichyanond, 1995).

This was to a great degree caused by the interest rates spread and the fact that the Baht value was pegged at 25 Baht per U.S. Dollar (Ministry of Foreign Affairs, Thailand, 1999). Interest rates in Thailand were much higher than in many other countries, which caused large private firms in Thailand to begin borrowing from abroad to finance projects. Banks and finance companies also found it advantageous to borrow funds from abroad and lend them to local borrowers. Moreover, the fixed value of the Baht meant that the Bank of Thailand had essentially eliminated the exchange rate risk. Problems arose when the loans from abroad were misallocated, in other words, channeled to sectors with low productivity and things rapidly grew worse because most of the loans were not hedged against currency fluctuations (Stiglitz, 1998).

The steel and petrochemical industries were hit hard, but the real estate sector was devastated. The reasons were simple: Firms were borrowing funds in foreign currencies while their revenues were being generated in Thai currency, Baht, and the funds were also being borrowed short-term to finance long-term projects. This, and the fact that most of the funds that were borrowed from abroad were not hedged, created an extremely unfavorable economic situation, a disaster waiting to happen.

Up until 1995, goods and wages in the real estate and financial sectors were highly overvalued which seemed to have been an economic “bubble” waiting to burst. At the same time, there were signs of a weakening economy, the most alarming of which was the high percentage of current-account deficit to gross domestic product (GDP). This was primarily due to the fact that Thailand was importing much more than it was exporting. Exports became more sluggish, the overvalued Baht and increasing labor costs in the country caused Thailand to lose its competitive edge in the world market. In short, Thai exports had become more expensive than those of its competitors in the eyes of foreign consumers.

One of the main reasons for the Baht being overvalued is that it was pegged to a “basket of currencies”, of which the U.S. Dollar made up over 80%. As the U.S. economy strengthened, the U.S. Dollar appreciated relative to other major world currencies, including the Mark, the Franc, the Pound and the Yen. Being largely pegged to the U.S. Dollar, the Baht followed this trend, which further discouraged its exports (Bhaopichitr, 1997). Moreover, major Thai exports such as textiles and canned goods were losing their share in the world market, a result of competition from countries with cheaper labor cost like China and Vietnam.

On top of the current account deficit, the real estate sector's bubble burst, resulting in a plunge in property prices and a contraction in the sector. This left many bad debts on the balance sheets of the finance companies, which had financed those loans primarily by borrowing from abroad. When the foreign money managers realized what was going on, net capital inflows into Thailand began to run dry. Once it began to see a negative net inflow, the Thai economy slowed dramatically, which put pressure on the Baht. Local investors started to realize what was happening and began selling the Baht for the U.S. Dollars in an attempt to hedge against the depreciation of the Baht. This widespread selling only hastened the depreciation of the Baht, because while there was a huge supply of the Baht in the money market, there was little demand for it.

In an unsuccessful attempt to defend the Baht, the Bank of Thailand used the country's reserves of foreign currencies to buy up the excess supply. But in the process, foreign reserves began to dwindle, while the speculative attacks continued. The Thai foreign reserves were also being used to bail out financial institutions such as the Bangkok Bank of Commerce (BBC) and 16 other finance companies which had massive non-performing loans - loans that they could not collect, most of which were made to the real estate sector (Gearing, 1998).

By August 1997, the situation in the financial sector became critical, and 42 more finance companies were shut down. By that time, Thailand was in serious danger of running out of reserves, and it was clear that the currency defense and the other bailout attempts had failed. More than 30 billion USD of foreign reserves had been used in the unsuccessful defense of the Baht. On July 2, 1997, the Bank of Thailand was unable to defend the Baht any longer, announced that a "Managed Float" system would be adopted

to replace the 13-year-old pegged exchange rate system (Sussangkarn, 1998). This meant that the Baht's value would be determined by the demand and supply of the Baht in the world money market.

As of December 1997, the Baht depreciated by about 45 percent against the U.S. Dollar, reaching record lows of 44 Baht per U.S. Dollar (Bangkok Bank, 1997). With the depreciated Baht value, the private sector, particularly the banking sector, found it even more difficult to repay their foreign debts because the float had caused the debt in the Baht terms to rise. Because it was impossible to obtain any more foreign funds, more and more firms were forced to shut down. With an economy left with virtually no foreign reserves and a weak private sector weighed down with foreign debts, Thailand decided to seek foreign aid to help revive its economy.

In August 1997, the International Monetary Fund (IMF) stepped in and organized a package of 17.2 billion USD in loans to Thailand from various Asian nations. The main condition of the bailout package was a 60 billion Baht budget surplus, which meant that the government's revenues would have to exceed its expenditures by that amount. This led to huge cuts in government expenditures, in the neighborhood of 100 billion Baht. But even with these cuts, unless the government was able to raise more revenue, it would not be able to attain a 60 billion Baht surplus. Thus, the value-added tax (VAT) was increased from 7% to 10%, and other taxes on luxury items were imposed. However, even with the spending cuts and higher tax revenues, the government was still 40 billion Baht short of meeting the surplus requirement (Thai Board of Investment [BOI], 1997).

Most analysts agreed that this economic crisis was Thailand's worst since World War II. The consequences were being felt by many Thai people from every economic

background, but those who were feeling it most were workers in the finance and real estate sectors, as well as construction and other industries that produce goods with high import contents. The skyrocketing unemployment rate in these sectors - estimated that about 600,000 workers have been laid off already - suggests that it would be some time before the situation improves.

Thai Stock Market's Condition During the Peak of the Economic Crisis (1997-1998)

When economic recession hit Thailand since the mid of 1997, the Thai stock market has seen some of the worst times in its history, with records broken and an end to investors' pain nowhere in sight. There were many reasons for the pain, the chief ones being the re-capitalization of companies in virtually every sector of the economy, the downturn's impact on the finance and banking sectors, and the liquidity squeeze throughout the system.

Although stock market indicates things to come and tends to discount news well before it hits the newsstands, it is widely known that Thai retail investors don't discount news until it really takes place. Falling stock prices since 1997 has shown clearly that the pain for the Thai economy was not over yet, and meaningful structural reforms were needed to restore life to the equity market. The fact that money flowed out of the country also clearly showed that the inflows recorded earlier consisted mainly of hot money or short-term loans from abroad, which was the root cause of all the problems now starkly evident in most Asian countries. Both the stock market and the currency hit a new low on January 12, 1998, when the Baht hit 56 per U.S. Dollar (Prime Minister of Thailand, 1999) and the SET Index was at 207.31, its lowest point in 10 years (SET, 2000).

In March 1998, some other good news was brought, at least as far as appearances were concerned. Prime Minister Chuan Leekpai capped a successful and high-profile visit to the United States by winning assurances that Washington was there to help if Thailand needed it. This assurance, along with the U.S., offered of a 1.7-billion USD aid package, helped increase investors' confidence, sending the SET Index and the Baht value rising; the currency fought its way back to the 40 Baht per U.S. Dollar level as last seen in December 1998 (U.S.- ASEAN Business Council, 1998).

On March 19, 1998, Bangkok Bank, the country's largest commercial bank, announced plans for a capital increase, in which it would offer 400 million shares in private placement to investors (Richburg, 1998). This spooked the stock market and the SET Index continued its slide, never to return to the levels seen just a few weeks before. This was followed by the news about Thai Farmers Bank planning a similarly large private placement. Others were to follow suit, and this coupled with a censure debate in Parliament put more pressure on the stock market. Moody's Investors Service added to the gloom by further downgrading the top five banks in the country on March 31, 1998, and first-quarter results declared by financial institutions showed hefty losses. The final straw was the takeover of seven more finance companies by the Bank of Thailand, and the Index appeared likely to be a long way from recovery (Tambunan, 1998).

Talk was turned to the possibility of a "second Asian crisis", triggered by Japan's continuing problems and engulfing even the likes of Malaysia, Hong Kong and other nations that thought they were immune to the downturn. Hong Kong announced that its economy shrank for the first quarter of 1998 and near-term prospects did not appear bright. Even Malaysia was in a recession mode and there were fears that Singapore, the

only economy that was virtually unscathed, might follow suit. There were fears that the Malaysian Ringgit might be depreciated over the next few months, thus dragging down the Baht. This would have further negative implications for the Thai stock market. With the strengthening of the US Dollar against the Yen and Japan's own economic problems, there seemed to be very little positive sentiment left for investors in the region and Asia as a whole.

Fundamentally, there was no evidence of an upside trend for the Thai stock market because so many problems still haunted Thailand, especially the financial problems. Domestic debt was handled but foreign debts of around 30 billion USD needed to be resolved or they would continue to hang over the currency and equity markets. The re-capitalization of the banking sector, which might require at least 350 billion Baht more, would also weigh heavily on the stock market, along with worries about a second Asian crisis hitting Thailand. Chotechuang Teerakajornchote (1998), head of research at Asset Plus Securities, said “ the outlook was very blurred. Lack of concrete detail on the direction of the Thai economy and economies around the globe would make Thai stock market very sensitive to things that would happen around” (p.3).

Reaction of the Stock Exchange of Thailand to the Economic Crisis

The SET realized the seriousness of the economic crisis it and other organizations involving in the securities industry were facing. Therefore, during 1998, the SET implemented two plans to deal with the crisis, which were the Economic Crisis Response plan and the On-Going Development plan (SET, 1998). The SET ’s performance in line with these two plans could be summarized as follows:

The Economic Crisis Response Plan

The primary objective of this plan was to support and help the SET and other organizations involving in the securities industry to deal with the economic crisis (SET, 1998). As part of the plan, the SET focused on a number of measures including: revenue maintenance and expansion, cost reduction, and systems adjustments.

1. Ensuring Sufficient Volume by Maintaining Existing Demand and Generating New Demand.

In order to achieve this objective, the SET did the following tasks:

- Studied and made suggestions to the SEC concerning the main principles for the establishment of a small and medium-sized enterprise (SME) market. It also recommended that listing requirements for an SME market be more relaxed than the listing requirements for the main market. These measures were designed to encourage small and medium-sized firms to seek capital directly from the investment community and, in turn, to provide the investors with a wider range of investment alternatives.
- Promoted market stabilization by allowing underwriters to buy shares in the market in an amount equal to the number of securities over-allotted during an initial public offer. Primary objective of stabilization was to have the securities returned to the lender. This measure was designed to boost transaction levels in the primary market.
- Encouraged listed companies to establish good corporate governance practices. This would ensure listed companies to have professional management, efficient operations, effective internal control systems and reliable financial statements.

2. Cost Efficiencies

The SET 's objectives in terms of cost efficiencies were firstly to reduce costs

and secondly to organize operational cost sharing with other market participants.

These two goals were achieved by:

- Introducing guidelines and encouraging the use of activity-based costing.

This would help securities companies establish more clearly the real cost of conducting a brokerage business so they could charge fees that more accurately reflect their costs.

- Sharing the costs of servicing the computerized trading and information system used by the Bangkok Stock Dealing Center (BSDC) and the Bond Dealers' Club (BDC). The SET was also sharing the costs of servicing the members of the BSDC and the BDC.

- Co-operating with the office of the SEC in surveying all the computer systems used by members, sub-brokers and listed companies to ensure they were ready to handle the so-called Y2K computer bug.

3. Appropriate Rules and Regulations

The SET's objectives in terms of appropriate rules and regulations were to revise its rules and regulations to ensure they were more suited and in line with the changing economic situation. To achieve this, the SET had:

- Revised its listing requirements, so they were more flexible and suited to the economic situation as well as being in line with international standards and more acceptable to investors and other participants in the industry.
- Revised its requirements for the de-listing of a company's securities to be more suited to the present economic situation.

The On-Going Development Plan

The objective of this plan was to increase the efficiency of the SET 's operations and to improve the overall performance of the securities market (SET, 1998).

1. The Enforceability and Practicality of the SET 's Rules and Regulations

The main aim was to revise the SET 's rules and regulations to ensure they were more suited and in line with the changing economic situation. This would help improve the efficiency of the market's operations and brought it more into line with international standards. The main changes were as follows:

- Revisions to the SET 's rules, regulations and guidelines concerning the preparation of quarterly financial statements by listed member companies in order to encourage investors' confidence in the financial statements reported to the SET.
- The introduction of securities borrowing and lending guidelines for securities companies. This would help ease the risks involved in the introduction of short selling and to be more in line with international standards.
- Requiring members to clearly separate their finance and securities businesses by December 31, 1999. By doing this, members could more clearly assess their actual performances and monitor their financial status more efficiently.
- The introduction of a circuit breaker to compensate for any sharp fluctuations in daily trading activity and the SET Index caused by external factors.

The circuit breaker will intervene in the market in the following situations: (a) if the SET Index falls by more than 10 percent from the previous day's close, trading will be halted for 30 minutes; (b) if the SET Index falls by 20 percent from the previous day's close, trading will be halted for one hour; and (c) if the trading time lefts in the session less than

one hour, trading will be halted until the close of that session and will resume again in the next session as normal.

2. Efficient Work Processes

The SET 's objective has always been to have an operational system that is more efficient, transparent and capable of applying the latest technology effectively and appropriately. Moreover, the SET has sought to promote information dissemination that reached all investors accurately, timely and comprehensively (SET, 1998). The main changes and improvements in these areas including:

- Requirements for all listed companies to submit material information via the ELCID system in both Thai and English simultaneously. These requirements have been effective since July 1, 1998 and helped ensure that all investors have equal and fair access to all available material information.
- Improvements to the computer technology used in the SET 's trading system to ensure greater efficiency, more stability and lower running and maintenance costs. The SET also developed a Data Dissemination (DD) system for use as a new channel for disseminating information to different electronic media used by the SET.
- The development of a price and volume alert as part of efforts to make the SET 's market surveillance system more efficient by including price and volume factors as tools for monitoring any unusual activities in the trading system. This development has boosted transparency in the trading process and helped build greater confidence among investors.

CHAPTER 3

Research Methodology

Introduction

This research was conducted to analyze key economic data of Thailand during 1996-2000, when the country's economy was in the peak of its crisis, in order to forecast the future trends of the Thai stock market in the beginning years of the twenty-first century. The result of the analyses will be provided as a resource for stock investors who are interested in investing in the Thai stock market in order to facilitate their investment decision-making.

In this chapter, the methods and procedures of this study will be discussed by providing a problem statement, research objectives, description of research design, the instrumentation used for data collection, and limitations and scope of the study.

Statement of the Problem

The problem of this study is to determine the Thai stock market trends in the beginning years of the twenty-first century after facing the peak of the economic crisis.

Research Objectives

The objectives of this research are to:

1. Understand general Thai stock market perspective.
2. Understand the situation of Thai economic crisis.
3. Determine the impact of Thai economic crisis on the Thai stock market.
4. Determine the future trends of the Thai stock market.

Research Design

A descriptive research design was used to discuss and analyze Thailand's key economic indicators and the Thai stock market data in order to forecast future trends of the Thai stock market in the beginning years of the twenty-first century after being impacted by the country's economic crisis starting in 1996. Information presented in this study was collected during 2000 and the first few months of 2001 for adequacy of data used for economic and stock market trends analyses. Data needed in this study were general Thai economic performance before and after the crisis, Thai key economic indicators, and the Thai stock market data before and after the crisis.

For the Thai economic data, some data prior to 1996 were presented to show how Thailand plunged into the economic turmoil. Some Thai key economic indicators from the years 1996-2000 were presented to show the severity of the country's economic performance during the peak of the crisis and to analyze the success level of the Thai government's measures in an effort to stimulate the country's economic recovery. For accuracy and validity, most economic data were obtained from leading business and economic magazines, newspaper, publicly released reports from major economic research institutes both local and abroad, for example, Asiaweek magazine, Wall Street Journal newspaper, annual economic report from the Bank of Thailand.

Data regarding the Thai stock market condition during the peak of the crisis (1996-1998) were collected to present the recession of the stock market performance. The Thai stock market data of 1999 and 2000 were also collected for the purpose of analyzing the Thai stock market performance after the peak of the crisis and forecasting its future trends in the beginning years of the twenty-first century. To ensure accuracy and

validity, Most Thai stock market data were obtained directly from the annual summary reports and Press Release provided by the Stock Exchange of Thailand (SET).

Instrumentation

For accuracy and validity of the data, most of the Thai key economic indicators and stock market data are obtained from publicly released resources provided by leading economic research institutes of Thailand. Some data are collected from both Thai and American leading business and economic magazines. The Internet is also a valuable resource for obtaining Thai economic data and stock market information. In the reference section, URLs (Uniform Resource Locators) of the information resource web sites also have been included.

Limitations and scope

There are two broad types of stock market analysis methods, one is economic fundamental analysis method and the other is technical analysis method. The researcher focuses on the economic fundamental analysis method, which is based on the analysis of key economic data of Thailand that have strong impact on the stock investor's confidence and also on the future trends of the Thai stock market. Technical analysis method, which is based on analysis of historical statistic of stock prices and stock trading volume, will not be discussed in this research. The researcher does not focus on the analysis of specific stocks of any listed member companies of the Stock Exchange of Thailand (SET) but on the analysis of overall performance of the Thai stock market.

CHAPTER 4

Presentation of Results

Introduction

After decades of virtually uninterrupted economic growth, Thailand plunged into the severe economic crisis that shook investors' confidence. Thailand suffered from a sharp economic downturn, with the combination of currency and financial crises in 1997, as a result of the unsuccessful defense of the currency and the weak banking system.

Therefore, the government took systematic but flexible approaches to deal with economic problems and strictly adhered to the economic program agreed to with the International Monetary Fund (IMF) in order to bring Thai economy right back on track and bring back investors' confidence.

The focus of this study is on the Thai stock market trends in the beginning years of the twenty-first (21st) century after the impact of the economic crisis. The researcher focuses on the presentations and analyses of Thailand's key economic indicators and other economic data that could impact both the Thai stock market trends and the confidence of stock investors. The key economic indicators, along with other economic data, including stock market data, provided in this chapter, will be used to forecast the Thai stock market trends in the first few years of the twenty-first century and the success level of the Thai Government's measures to resolve the economic problems.

The comparison of Thailand's key economic indicators from 1996 to 2000 is shown in table 4-A as follows.

Table 4-A: Comparison of Thailand's Key Economic Indicators (1996-2000)

KEY ECONOMIC INDICATORS	1996	1997	1998	1999	2000
Gross Domestic Product (GDP)					
GDP at Current Prices (Billion Baht)	4,622	4,740	4,628	4,615	4,890
GDP at 1988 Prices (Billion Baht)	3,119	3,075	2,743	2,859	2,982
% Change of Real GDP	5.9	-1.4	-10.8	4.2	4.5
Agriculture	4.1	0.1	-3.2	2.7	0.3
Manufacturing	6.5	1.4	-11.1	11.5	5.6
Construction	6.9	-26.4	-39.0	-5.4	-4.2
Others	8.0	5.11	-9.4	0.5	4.8
Growth of Real GDP Components					
Private Consumption	6.8	-1.1	-11.5	4.0	4.5
Private Investment	3.4	-21.1	-45.1	-4.0	5.7
International Trade					
Exports (Billion Baht)	1,378.9	1,789.7	2,180.8	2,150.0	2,733.3
(+, - %)	-0.2	29.8	21.9	-1.4	27.1
Exports (Million US Dollar)	54,667	56,721	52,873	56,800	67,942
(+, - %)	-1.9	3.8	-6.8	7.4	19.8
Imports (Billion Baht)	1,796.5	1,874.6	1,678.0	1,800.1	2,513.4
(+, - %)	2.3	4.3	-10.5	7.4	39.6
Imports (Million US Dollar)	70,815	61,348	40,643	47,529	62,423
(+, - %)	0.6	-13.4	-33.8	16.9	31.3
Inflation Rate					
Consumer Price Index (%)	5.9	5.6	8.1	0.3	1.6
Interest Rates					
Deposit Rates (Fixed 12-month avg.)	9.59	9.71	6.0	4.85	3.65
Minimum Loan Rates (MLR)	16.2	15.2	11.5	9.75	7.75

External Position	1996	1997	1998	1999	2000
Trade Balance (Billion Baht)	-417.6	-84.8	503.1	349.9	219.9
(% of GDP)	-9.1	-1.8	10.8	7.6	4.4
Current Account Balance (Bil. Baht)	-372.2	-40.2	592.2	470.0	327.1
(% of GDP)	-8.1	-0.9	12.8	10.2	7.5
Exchange Rate (Baht / US Dollar)	25.4	31.4	41.6	37.9	40.0

It has been almost four years since the peak of the Thai currency and financial crises in 1997. To resolve these crises, the Thai government took systematic approaches in designing and implementing policies to facilitate economic recovery as well as to lay an improved foundation for future growth of the Thai economy.

The Results of the Thai Government's Measures for Economic Stabilization

Because the Thai economic crisis was a combination of currency and financial problems, the government placed a high priority on stabilizing the currency and the financial systems to bring back public's confidence. The government realized that a lack of confidence in the country's international reserves would lead to the continuous depletion of confidence in the currency stability, and a lack of confidence in the financial system would lead to widespread deposit runs and capital outflows. The results of the government's measures for economic stabilization will be discussed and analyzed in two parts: (1) macroeconomic framework and (2) financial sector restructuring.

1. Macroeconomic Framework

1.1 International Reserves and Exchange Rates

Because of drastic slowdown in exports, increase in imports, and massive foreign debts during 1996-1997, the Thai currency (Baht) was devalued to its actual value in the world money market. More than 30 billion U.S. Dollars (USD) of foreign reserves were used in an effort to defend the value of the Baht, but it was unsuccessful (Bhaopichitr, 1997). In order to restore public's confidence in the Thai currency, the government placed great emphasis on rebuilding international reserves. The measures, which included appropriate monetary and fiscal policies, yielded clear results as Mr. Tarrin Nimmanahaeminda, the Minister of Finance, reported that Thailand increased net international reserves from its low of 0.8 billion USD in August of 1997, to 29 billion USD in August of 1999 (Ministry of Finance, Thailand, 1999).

The improvement in the country's net international reserves contributed to strengthened public's confidence in the Thai currency. Moreover, on October 5, 1997, the Bank of Thailand set a measure to regain investors' confidence and stabilize the currency value by limiting the Baht lending to non-residents by commercial banks to a maximum of 50 million Baht per case. The Bank of Thailand's definition of "case" covered the head office, branches, representative offices, and affiliates (Bank of Thailand, 1997). This measure caused liquidity of the Baht in overseas markets to decline and the Baht to become stronger by the last quarter of 1998. The increase in international confidence was reflected in the appreciation of the Baht from its lowest value of 53.70 Baht per USD in January 1998, to 38.40 Baht per USD in August 1999

(Ministry of Finance, Thailand, 1999). At year-end 1999, The Ministry of Finance reported that declining short-term foreign debts, along with steady gains in official international reserves, have helped the currency exchange rate to stabilize at 38-40 Baht per USD since December 1998. Table 4-B shows the average exchange rates of the Thai currency (Baht / U.S. Dollar) before and after the devaluation in 1997.

Table 4-B: Thai Currency Average Exchange Rates

Average Exchange Rates	1990	1996	1997	1998	1999	2000
Baht / U.S. Dollar	25.6360	25.3939	31.4817	41.5850	37.9587	40.0573

The stock investors were concerned with the fluctuation of the Thai currency value since it was changed to use the Managed Float system. Although the Thai Baht became more stable, it might be impacted by the changes of currency value of other countries in the region, especially the Japanese Yen and the Chinese Yuan. In addition, the devaluation of the Thai Baht caused the Thai exports to become less expensive than those of its competitors in the eye of foreign consumers. This situation not only helped the Thai exports growth but also stimulated the prices and trading volumes of export companies' stocks traded in the Stock Exchange of Thailand (SET).

1.2 Inflation and Interest Rates

One of the most important considerations for investors is the impact of inflation on their investments. The current level of inflation can give investors clues as to the position of the country's economy in its expansion-contraction cycle and provide

information that help investors determine future level of interest rates. During the period of slow growth or contraction, inflationary pressures tend to be moderate.

As shown in table 4-A, Thailand's average inflation rate in 1999, as measured by the consumer price index, was 0.3 percent, greatly reduced from 8.1 percent in 1998. Prices in the food and non-food categories have dropped continuously since the second quarter of 1999 onwards, causing Thailand's inflation rate to continue on its downward trend. The low rate of inflation reflected the weak purchasing power of the rural sector.

In order to stimulate economic recovery and encourage domestic investments, the Bank of Thailand began to lower interest rates in 1998. In the Thai financial system, excess liquidity remained high as commercial banks' deposits increased while lending shrank. The commercial banks retained a low interest rates policy to stimulate the economy and to resolve the non-performing loans problem. The minimum lending rates (MLR) dropped from 11.50 percent in December 1998, to 9.75 percent in December 1999, and to 7.75 percent by the year-end of 2000 (Bank of Thailand, 2000). The commercial banks' deposit rates were also dropped continuously. By December 2000, the commercial banks' deposit rates stood at historic low of 2.0 percent for savings account, and 2.75 percent for three and six-month fixed deposits (Bank of Thailand, 2000) as shown in table 4-C.

Table 4-C: Thai Commercial Bank Deposit Rate as of December 2000

Types of Deposits	Interest Rates (% per annum)			
	General customers	Legal Entities	Non-residents	Government pension fund, Provident fund
1. Savings Account Deposit	2.00	0.25	0.50	0.125
2. Three-month Fixed Deposits	2.50	0.50	0.50	0.25
3. Six-month Fixed Deposits	2.50	0.75	0.50	0.50
4. Twelve-month Fixed Deposits	3.00	1.00	0.50	0.75

Liquidity is expected to remain high within the Thai financial system in the year 2001, therefore, commercial banks' interest rates are expected to be stable in this low rate for the first six months of the year. For the second half of 2001 and thereafter, result could indicate that there is a probability interest rates may fall further because of the anticipated slowdown of the world economy, the slow progress of the Thai commercial banks' restructuring of non-performing loans (NPL), and the expected reduction in U.S. interest rates.

The careful policies of the government created sufficient confidence to allow interest rates to come down substantially without affecting exchange rate stability. The government's monetary policy for lowering interest rates could help stimulate economic growth because low lending rates would attract both local and foreign investors to increase their investments in the country.

1.3 International Trade

During the past decade, the Thai economy experienced rapid growth and a substantial transformation. International trade was one of the major elements that played an important role in encouraging the Thai economic development by exportation and importation of goods and services. The Office of Economic and Financial Affairs, Royal Thai Embassy in Washington D.C., reported that Thailand's ratio of international trade to GDP increased from approximately 37 percent in 1961, to approximately 93.4 percent in 1997. Changes in Thailand's economic structure and pattern of trade have accelerated and led to a structural shift in exports, favoring industrial goods and the diversification of Thai exports both in terms of products and markets.

However, Thai exports experienced a contraction for the first time in the decade in 1996, due largely to the emergence of lower-cost competitors such as China, India, and Vietnam in low-end, labor-intensive manufacturing. Although the Thai Baht was devalued in 1997, there was little joy for exporters in having product price competitive since many other currencies in the region were also weakened. The value of Thailand's exports in 1998 was decreased by 6.8 percent, from 56.7 billion USD in 1997 to 52.9 billion USD in 1998. However, exports started to recover in 1999, reaching the total value of 56.8 billion USD, a 7.4 percent increase over 1998, and surpassing the official target of 4.0 percent (Bank of Thailand, 1999). Effects of the weakening Baht tended to become more pronounced. Exports of computers and accessories were high, resulting primarily from the global demand for Y2K solutions. At the same time, Taiwan, the major competitor of Thailand in electronic parts manufacturing, had still not recovered

from the earthquake there. It appeared that in 1999, the U.S. market was still the most important export market for Thailand, followed by the ASEAN, the European Union, and the Japanese market.

With slight economic recovery, Thailand's imports totaled approximately 47.5 billion USD in 1999, which was a 16.9 percent increase over the previous year (Bank of Thailand, 1999). The top ten imports, in value terms, were electrical machinery and components, integrated circuits, industrial machinery, chemicals, crude oil, iron and steel, computers and parts, aircraft, ships and aviation equipment, and medical instruments (Exim Facilities in Thailand, 2000). The major countries where Thailand imported these products from were Japan, followed by the ASEAN member countries, the U.S.A., and the European Union.

Encouragingly, Thai exports have also begun to pick up. In 2000, the country's exports reached 67.9 billion USD, representing a growth of 19.8 percent over 1999, and an increase of nearly 10 points from the official projection (Export-Import Bank of Thailand, 2000). Exports with high growth rate were in the hi-tech manufacturing product group. This group comprised such products as integrated circuits, electrical appliances, automobiles, and computers. Companies producing printed circuit boards, auto parts, and pulp and paper saw a surge in orders; this caused several firms to announce new expansion projects to boost production capacity. The international trade of Thailand showed encouraging signs after suffering from the peak of the economic crisis as shown in table 4-D.

Table 4-D: Thailand's International Trade (1998 - 2000)

International Trade	1998	1999	2000
Export (Million USD)	52,873	56,800	67,942
Growth rate (+, - %)	-6.8	7.4	19.8
Import (Million USD)	40,643	47,529	62,423
Growth rate (+, - %)	-33.8	16.9	31.3

However, the Bank of Thailand anticipated an average growth rate of only 7.0 percent in exports for 2001, compared with 19.8 percent in 2000, due to economic slowdown in the U.S.A. and Japan, which are Thailand's major export markets (Bangkok Bank, 2000). The export slowdown, along with the high oil price problem, will lead to the import and overall Thai economic slowdown over the next few years.

1.4 Private Investment

The Thai economic crisis, starting in 1996, caused private investments to slow down until the first quarter of 1999. In the second quarter of 1999, private investments started showing an encouraging sign because of slight economic recovery resulting from some progress in resolving economic problems of the Thai government, giving an overall contract by only 4.0 percent, compared with a shrinkage of 45.1 percent in 1998 (Thailand Board of Investment [BOI], 1999). In 1999, the Thailand Board of Investment (BOI) reported that the investment in machinery, measured by importation of capital goods, increased by 39.7 percent, while the overall production capacity utilization improved slightly to an average of 60.0 percent, compared to an average of 52.1 percent in 1998.

During 1999, the BOI approved promotional privileges to 684 investment projects with an investment value of 156.8 billion Baht (BOI, 1999). The sectors with the highest investment value were electronics and electric appliances, which was followed by chemicals, paper, plastic, and agricultural production. However, direct investment volume from foreign investors were predicted to slow down throughout the year 2001 and a few years later, due to the world economic slowdown, particularly in the U.S., the Japanese and the European economy, which are the leading sources of investment capital.

1.5 Unemployment Rate

The unemployment rate is one of the key economic indicators that could reflect the growth of economic activities in the country. Since Thailand experienced the country's economic crisis beginning in 1996, the private investment within the country has slowed down. The decrease in investment from both local and foreign investors greatly affected the unemployment rate of the country. The private investment of Thailand decreased by 45.1 percent in 1998, causing the unemployment rate to jump to 4.0 percent of labor force, from 1.9 percent in 1997, which was more rapidly than expected (Bank of Thailand, 1998). The direct impact of the unemployment problem on poverty was felt through the loss of income to households as labor demand dropped, and through the increase in price of essential commodities. The most affected sectors in this situation were the financial service industry, where 80,000 workers were laid off, and the construction industry, where the work force dropped from 3 million in 1997, to 1.1 million in 1998 (World Bank Group, 2000).

Table 4-E: Labor Force and Unemployment Rates

End of period	1990	1996	1997	1998	1999	2000
Population (Million)	<i>56.3</i>	60.1	60.8	61.5	61.7	61.9
+, - %	<i>0.7</i>	1.1	1.2	1.1	0.3	0.3
Labor force (Million)	<i>31.2</i>	32.3	32.8	32.6	33.0	33.3
+, - %	<i>2.6</i>	0.5	1.4	-0.6	1.1	1.0
Employment (Million)	<i>30.0</i>	31.2	31.7	30.3	30.9	31.5
+, - %	<i>2.4</i>	1.1	1.8	-4.6	2.0	1.8
Agriculture	<i>18.3</i>	14.1	14.3	13.6	14.0	14.2
+, - %	<i>1.1</i>	-1.8	1.3	-5.2	3.2	1.0
Non-agriculture	<i>11.7</i>	17.0	17.4	16.7	16.9	17.3
+, - %	<i>4.5</i>	3.7	2.2	-4.0	1.9	2.4
Unemployment (% of labor force)	<i>3.9</i>	1.5	1.9	4.0	4.2	3.2

The unemployment rate from the Bangkok Bank research department, shown in table 4-E, suggests that the unemployment rate rose continuously from 1997 to 1999 because of the decrease in the country's economic activities.

Over the short term, the government of Thailand attempted to create new jobs rapidly for unskilled and semi-skilled workers. To that end, the government promoted labor-intensive civil works projects such as local infrastructure and service improvement, road and small-scale infrastructure construction, and the rehabilitation of tourist sites. Other projects such as job-training, skill development, counseling, and placement programs were held, in order, to help those most affected groups of people from the economic downturn. These included laid-off and unemployed workers, poor people, and

people with disabilities. These projects, along with other government's measures to stimulate domestic investments, helped create jobs in some areas and caused the unemployment rate to decline from 4.2 percent in 1999, to 3.2 percent by the year-end 2000 (World Bank Group, 2000). However, work force demands in some major industries such as financial and construction industries are still low because the financial problems within these industries still exist causing the continuing in job cuts to date.

1.6 Gross Domestic Product (GDP)

The Gross Domestic Product (GDP) is defined as the value of final goods and services produced by labor and property located within a country's borders during a specific period. It is one of the most important economic indicators because it represents a broad measure of domestic economic activities and signals the direction of overall aggregate economic activities. The GDP of Thailand is presented in two ways with respect to price levels: (a) current prices, which represents the actual market value of goods and services produced within a country in a specific period, and (b) constant prices (at 1988 prices), which abstracts from changing prices over time. The constant prices GDP or real GDP is the inflation-adjusted measure of total output of a specific period and used to define the actual economic growth rate. The GDP of Thailand represents the total final output of goods and services produced within the Thai economy in one year.

The financial and currency crises caused a severe impact on the Thai economy. After experiencing a real compound annual growth rate of over 9 percent from 1986 to 1996, the economic growth (real GDP) of Thailand decreased by 1.4 percent in 1997, and 10.8 percent in 1998 (National Economic and Social Development Board [NESDB],

2000). However, the Thai government's measures to resolve the economic crisis significantly improved the macroeconomic setting and outlook that made the real GDP start to show signs of recovery in 1999.

In table 4-F, the Thai economic growth (the real GDP) data from the National Economic and Social Development Board (NESDB) shows that the real GDP reached its lowest point in 1998, beginning to recover afterward. On a year-on-year basis, the real GDP increased by 4.2 percent in 1999, and 4.5 percent in 2000, respectively.

Table 4-F: GDP Classified by Industrial Origin (Billion Baht)

Gross Domestic Product (GDP)	1996	1997	1998	1999	2000
GDP at Current Prices	4,622	4,740	4,628	4,615	4,890
GDP at 1988 Prices (Real GDP)	3,119	3,075	2,743	2,859	2,982
Economic Growth (% Change Real GDP)	5.9	-1.4	-10.8	4.2	4.5
Agriculture	4.1	0.1	-3.2	2.7	0.3
Manufacturing	6.5	1.4	-11.1	11.5	5.6
Construction	6.9	-26.4	-39.0	-5.4	-4.2
Others	8.0	5.11	-9.4	0.5	4.8
Growth of Real GDP Components					
Private Consumption	6.8	-1.1	-11.5	4.0	4.5
Private Investment	3.4	-21.1	-45.1	-4.0	5.7

In the fiscal year 1999, the growth rate of the real GDP was 4.2 percent. This rate was far more than the earlier estimate of just one percent growth by the Bank of Thailand. Usually, a GDP growth that is higher than early expectation would lead to

increase in investors' confidence in the country's economic performance, and this would also benefit in accelerating the stock market's trading volume.

However, for Thailand, the growth of the real GDP was just in the beginning stage after it reached the lowest point in 1998. The private consumption, one of the key components of real GDP, recorded growth of only 4.5 percent in 2000, up from 4.0 percent in 1999 (Bank of Thailand, 2000). The high oil prices problem during 2000 was one of the major reasons that impeded growth in the private sector's spending. As the country's exports and national income were expected to cool down due to the slowdown of the world economy, private consumption was anticipated to grow only 2.7 percent in 2001, and the real GDP was anticipated to grow only 4-5 percent during 2001 and in a few years later (Bank of Thailand, 2000).

2. Financial Sector Restructuring

The country's large short-term capital inflows coupled with an inadequate supervisory and regulatory capacity have led to the rapid growth of non-performing loans (NPL) among financial institutions since 1997. In an effort to resolve this problem, the government took a systematic approach towards restructuring the financial sector by focusing on strengthening and re-capitalizing viable financial institutions and addressing of the NPL problem.

2.1 Strengthening and Re-capitalizing Viable Financial Institutions

As part of the government's efforts to restructure the Thai financial system, the government introduced a series of measures on August 14, 1998, called "the August 14th Plan". These measures provided: (a) an opportunity for viable financial institutions to re-capitalize using public funds under clear safeguards; (b) incentives for accelerating corporate debt restructuring and new lending to the private sector; (c) a legal basis for establishing private Asset Management Companies (AMC); and (d) clear resolution strategies for all intervened financial institutions complying with the government's long-term objective for strengthening the financial system (Ministry of Finance, Thailand, 1999). A year after the announcement of the August 14th plan, the Ministry of Finance provided capital support to four financial institutions amounting to 38,396 million Baht and considered capital support which are requests from 11 other financial institutions totaling 42,417 million Baht (Ministry of Finance, Thailand, 1999)

Although utilization of the government's capital support was limited, the August 14th plan succeeded in building confidence in the Thai financial system among depositors and investors. As a result, private financial institutions were able to re-capitalize without using public funds. From August 1998, to July 1999, private financial institutions were re-capitalized with over 250 billion Baht (Ministry of Finance, Thailand, 1999).

2.2 Addressing of the Non-Performing Loan (NPL) Problem

The government fully recognized the severity of the non-performing loan (NPL) problem as having a great impact on investors' confidence since a high level of NPL constrained the ability of financial institutions to carry out their normal credit intermediation function. Despite the substantial progress in the financial sector's restructuring since 1998, the level of NPL still remains high.

In January 2001, The Bank of Thailand announced the following summary report on non-performing loans.

1. NPL Outstanding of the Thai Financial System

1.1 As of January 2001, NPL of the Thai financial system stood at 859.6 billion Baht or 17.85 percent of total loans, which was 4,813.7 billion Baht.

1.2 NPL outstanding classified by types of financial institutions as of January 2001 were as follows:

- NPL of private banks stood at 482.4 billion Baht or 18.23 percent of total loans, which was 2,646.4 billion Baht.
- NPL of state-owned banks stood at 304.7 billion Baht or 21.36 percent of total loans, which was 1,426.4 billion Baht.

- NPL of foreign banks (full branch) stood at 38.2 billion Baht or 6.37 percent of total loans, which was 600.0 billion Baht.
- NPL of finance companies stood at 34.2 billion Baht or 24.29 percent of total loans, which was 141.0 billion Baht.

2. The Change of Non-Performing Loans in the Thai Financial System

The change of non-performing loans in the Thai financial system in January of 2001, could be illustrated in the following details:

Billion Baht

NPL as of December 2000 858.0

Increase in NPL in January 2001

- New NPL 12.9
- Re-entry 18.5 31.4

Decrease in NPL in January 2001

- Debt-restructuring (20.1)
- Other reasons (9.7) (29.8)

Net increase in NPL in January 2001 1.6

Net NPL as of January 2001 859.6

3. The Change of Non-Performing Loans in January 2001, Classified by Types of Financial Institutions

3.1 NPL in private banks had a net increase of 5.4 billion Baht or 1.13 percent of NPL over the previous month's balance of 477.0 billion Baht.

3.2 NPL in state-owned banks had a net decrease of 3.3 billion Baht or 1.07 percent of NPL over the previous month's balance of 308.1 billion Baht.

3.3 NPL in foreign banks (full branch) had a net increase of 0.04 billion Baht or 0.11 percent of NPL over the previous month's balance of 38.2 billion Baht.

3.4 NPL in finance companies had a net decrease of 0.5 billion Baht or 1.49 percent of NPL over the previous month's balance of 34.7 billion Baht.

4. Debt Restructuring

In January 2001, total completed debt restructuring was 35.4 billion Baht. Of these, 20.1 billion Baht were the restructuring of non-performing loans; whereas, the rest were the restructuring of loans not exceeding three months overdue (Bank of Thailand, 2001).

According to the Thai stock trading, most stocks in the financial sector were greatly impacted by the NPL problem. Before the economic crisis, these stocks were recognized as blue-chip stocks, which had high liquidity in trading and always had high influence on the direction of the stock market trends. Today, most of them are no longer recognized as interesting stocks by the investors because of their internal financial problems, and some of them are suspended from trading until the companies' financial information is clearly disclosed to the Stock Exchange of Thailand.

The Thai Stock Market Trends in the Beginning years of the 21st Century

The Stock Market Index reflects how investors view the country's economy and the performance of corporations. The Market Index tends to be forward-looking and exaggerated; for example, the SET Index fell 29 percent in the first half of 1997, but the Thai economy did not shrink by the same amount. The SET Index fell because investors saw that the Thai economy was slowing down because of domestic economic problems and that the slowdown would harm corporate earnings.

The stocks of listed member companies in the Bank and Finance sectors were mostly considered to be the blue-chip stocks, which means the stocks with high liquidity in volume trading because of the companies' good credit and performance histories. Most of the stocks in these two sectors were usually ranked in the top 10 most active stocks throughout the year and had great influence on the direction of the SET Index. Since the financial problems occurred in the Thai economy, the prices and volume trading of the stocks in both Bank and Finance sectors have declined rapidly and caused the continuous overall decline in the Thai stock market performance.

At the start of the crisis in 1996, the SET Index went down almost half of the highest Index point of the same year, from 1415.04 to 816.79 points. During the peak of the crisis (1997-1998), the SET Index went down continuously. On September 4, 1998, the SET Index went down to 207.31, which was the worst stock trading record in its history (SET, 1998).

The Stock Exchange of Thailand reported the performance of the Thai stock market during the peak of economic crisis as shown in table 4-G.

Table 4-G: The Thai Stock Market Performance (1996-2000)

SET Index (April 30, 1975 =100)					
SET Index	1996	1997	1998	1999	2000
High	1,415.04	858.97	558.92	545.91	498.46
Low	816.79	357.13	207.31	313.65	250.60
Close	831.57	372.69	355.81	481.92	269.19
Turnover (Million shares)	19,359.10	29,902.34	70,835.91	96,322.94	60,502.55
Total value (Billion Baht)	1,303.14	929.60	855.17	1,609.79	923.70
Daily transactions (Million Baht)	5,340.75	3,763.55	3,519.21	6,570.56	3,739.66
Market P/E ratio (Close)	11.97	6.59	10.04	14.70	5.52
Dividends (%) (Close)	3.50	6.04	1.34	0.61	1.78
Market Capital (Billion Baht) (Close)	2,559.58	1,133.34	1,268.20	2,193.07	1,279.22

In the SET Press Release No.3, Mr. Vicharat Vichit-Vadakan (2000), the SET President, reported the following stock market performance of 1999:

Securities trading in 1999 mirrored the signs of improvement in the Thailand economy. At year-end 1999, the SET Index stood at 481.92 points, up by 126.11 points or 35.44 percent higher than the closing Index at year-end 1998. Total turnover volume was recorded at 96,322.94 million shares with total turnover value of 1,609.79 billion Baht and an average daily turnover of 6,571 million Baht. These figures reflected an increase of 35.98 percent, 88.24 percent, and 87.47 percent respectively from 1998. Market capitalization also increased 72.93 percent from the previous year. A total of 392 companies and 450 securities were listed on the Stock

Exchange of Thailand at year-end, including 19 new securities whose total offering price was 111,346 million Baht. (p. 5)

Major factors forcing up the market transactions were the progress in the country's debt restructuring, the success in capital increase by financial institutions, and the improvement in operating performance of the SET's listed member companies.

Although the results of the Thai government's fiscal economic stimulus gave a positive sign in the growth of macroeconomic fundamentals and helped relieve pressure on both stock investors and listed member firms of the SET in the first half of 1999, the performance of the Thai stock market in the second half of 1999 and thereafter, was still on a downward trend. The reasons were, besides the Y2K problem concerns, some other significant risks to the economic recovery still remained. In particular, the domestic financial problems were still unsettled. Banks and finance companies, despite raising capital nearly 800 billion Baht in 1998, remained under pressure from the non-performing loan problem. These negative factors have caused the SET Index to continue on a downward trend. At the year-end 2000, the SET Index closed at 269.19 points, a drop of about 45 percent from 498.46, its highest point of the year (SET, 2001). Most analysts anticipated that the SET Index could range from 270 to 450 points during the first few years of the twenty-first century, based on projections of the country's slower economic growth, due to the world economic slowdown and uncertainties in international interest rate trends, which could cause the capital outflow problem.

Foreign Investors and the Thai Stock Market

The Bank of Thailand's statistics showed that the country's economy was slowing down in the first half of 1996 because of slower export growth, higher interest rates, and less investment. The Bank of Thailand, then, lowered its initial forecasts for the Thai GDP and export growth of the second half of 1996. Investors realized that there would be no economic improvement for the rest of the year and throughout 1997. Foreign investors, then, started moving their funds into more profitable markets in other countries.

After the economic crisis bottomed out in 1998, foreign investors, a driving force of the Thai stock market, still engaged in net sales. In 2000, the Stock Exchange of Thailand reported that the foreign investors engaged in net sales of 31.4 billion Baht, compared with the record of 2.96 billion Baht in 1999 (Thai Farmers Research Center, 2000). Contributing factors to this included internal political instability, a lack of confidence in the nation's economic recovery, and a general view of Thailand as having an antiquated economic system. External factors, such as the upward trend of interest rates in the U.S. during 2000, also led to an increase in foreign capital outflow.

In order to encourage foreign investors' stock trading volume, in the early of 2001, the SET directors approved the issue of non-voting depository receipts. This provides a means for foreign investors to invest in securities listed on the local board, receiving equal rights to dividends and rights issues, but they do not have the right to vote at shareholders' meetings (Polkwamdee, 2001).

CHAPTER 5

Conclusions and Recommendations

Conclusions

The Asian economic crisis has shown signs that the worst has past and that recovery is on its way. Thailand has also shown signs of recovery. After the sharp decline during 1997-1998, the Thai economy started to recover in the second half of 1999, continuing on into the first half of 2000. By the way, the Thai economy started to slow down in the third quarter of 2000, due to such negative factors as high oil prices, flooding in the northeast and southern Thailand, decreasing farm prices, and political instability – all of which limited ongoing economic growth.

For the Thai economic trends in 2001, besides the current NPL problem, the world economic slowdown is one of the major factors that cause slow progress in the country's economic recovery. The world economy in the third quarter of 2001 continuously slowed down from the first half of the year, led by the slowdown of the U.S. and the European Union (EU) economy. Meanwhile, the Japanese economy had slowed down for consecutive two quarters. Decline in demand for capital goods and consumer goods in major exporting markets lowered the export volume of many Asian countries including Thailand.

According to Thailand's economic growth in 2001, GDP grew by 1.5 percent in the third quarter of this year, lower than 1.8 and 1.9 percent in the first and second quarters of this year respectively. The Thai economy, therefore, grew by 1.7 percent during the first

three quarters of this year (NESDB, 2001). The slowdown of the economy in the third quarter was caused by decrease in exports, slowdown of private consumption, and rapid slowdown of private investment particularly in machinery and equipment.

For the economic trends in the last quarter of 2001, growth rate of the economy is likely to be lower than the average of the first three quarters due to sharply drop of the U.S. and the world economy after the terrorist attacks on the United State on September 11, 2001. Effects of the U.S. military retaliation have reduced the number of tourists and is expected to continue toward the end of this year because tourists are now more concerned with their own safety. Moreover, it is expected that such phenomena will shake consumers and investor's confidence to some extent. The Thai economy is inevitably affected by this situation, suffering a deceleration in economic growth. Therefore, the Bank of Thailand has revised the forecast of economic growth for the whole of 2001 to only 0.7-1.5 percent (Bank of Thailand, 2001).

As for 2002, the Thai economy will face increased uncertainty. It is highly likely that the economic growth rate will remain low at around 2.0-2.5 percent as the U.S. economic recovery may be delayed until later than the second quarter next year. The higher anticipated growth rate is attributable to the government's economic stimulus packages implemented earlier and the budget for fiscal 2002 which amounts to a high 1.02 trillion Baht. The budget, representing a sharp rise of 12.4 percent over prior fiscal year, includes a 58 billion Baht economic stimulating expenditures as well as large state enterprise investment projects like the new international airport (Bangkok Bank, 2001). Meanwhile, projects already implemented, such as the debt moratorium for small

farmers, the village fund of Baht 1 million each and the people's bank, have helped increase public purchasing power, consumption spending, and investment.

According to the Thai stock market, after two years of financial turmoil and suffering during 1997-1998, the Thai economy finally began to show distinct signs of recovery in 1999 which led to an increase in the Thai stocks trading volume and a sharp increase of the SET Index during the first half of the year. The short-term economic outlook was undeniably positive, but the questions remained about whether Thailand's steps to recovery would be sustainable since significant risks for the economic recovery still remained.

The economic fundamentals seemed no longer in doubt, but the health of the financial system remained a major concern despite some progress. The high level of non-performing loans (NPL) within the financial system was also expected to retard a sustainable recovery. These negative factors psychologically impacted the stock investors' confidence, especially on those foreign investors with big portfolios. Foreign investors have decreased their investment portfolios by net selling stocks continuously and more heavily since the second half of 1999, because the Thai government could not clearly resolve the financial institutions' problem. It was one of the reasons why the Thai stock market, which was boosted during the first half of 1999, could not maintain the upward trend through the end of the year and toward 2000.

As for 2001, the Thai stock market got a lot of policy support from the government during the first half of this year that caused the SET index to reach its peak at 339.68 on January 25 (Parnsoonthorn, 2001). However, many negative factors, including domestic financial problems, political uncertainty, and fears over the global economic slowdown,

especially in the U.S. and Japan, were expected to adversely affect the Thai economy and boost negative sentiment in the market during the second half of 2001 toward 2002 and a few years later. Various pressures on the economy led most analysts to forecast that the SET Index would move within the range of 270-450 points during the first few years of the twenty-first century. Many analysts agree that the Stock Exchange of Thailand remains a downward trend with foreign portfolio investors shifting their money to the other better performing exchanges.

In summary, the movement of the Thai stock market trends during the first few years of the twenty-first century will depend on several factors, including the world economic slowdown, the political situation, the progress in NPL restructuring, and the revival of economy. These risk factors will constrain progress in economic recovery and performance of the Thai stock market and also cause the SET Index to move within the narrow range and ready to drop if the market absorbs any negative economic news.

Recommendations

Although the short-term economic fundamental outlook of Thailand is undeniably positive, other significant internal problems to the economic recovery along with other negative external factors, such as uncertainties in overseas markets, still remain. These factors will cause the Thai stock market to continue going on in the downward trend and the SET Index to move within the narrow range.

Investors who are interested in investing in the Thai stock market should invest for the short-term. Holding the stocks for long-term investment is not recommended, especially holding the bank and/or finance sector stocks, due to their unsettled NPL

problem. Investors should always keep up with the updated and related news of both specific stocks and the whole market condition before and after the investment because some news might cause great impact on the change of the stock prices and the SET Index. The Thai stock market has no sign of upward trends in the near future unless the Thai government can bring back the investors' confidence by clearly resolving the non-performing loan problem and rebuilding the financial system through consolidation of financial institutions. Overall stock market performance, however, cannot be expected to reach the glory of the previous decade. Profitability from stock trading is still a reasonable expectation as long as investors carefully analyze operating performance and other crucial data of the SET's listed member firms along with current market data before making decision on each investment. Prudent investment will be a major key to success since uncertainties will still plague the market in the years to come.

Further studies and analyses of each securities sector or each listed member firm of the SET are recommended for anyone who is interested in investing in specific stocks of the Thai stock market in order to get more insightful information that needs to be considered for more effective and profitable investment.

BIBLIOGRAPHY

- Bangkok Bank. (1997, December). Thailand's key economic indicators: Exchange Rates. BBL Economic Research Department Monthly Report, 1.
- Bangkok Bank. (2000, December). The economy in 2000 and trends for 2001. Bangkok Bank Monthly Review, 2.
- Bangkok Bank. (2001, September). The Thai economy in 2001-2002: Increased uncertainties. Bangkok Bank Monthly Review, 1.
- Bank of Thailand. (1997, October). Monetary and exchange rate policy. Press Release, 62, 4-5.
- Bank of Thailand. (1998, December). Economic developments in 1998: Labor market conditions. Annual Economic Report 1998, 26-27.
- Bank of Thailand. (1999, December). Economic developments in 1999: International trade and balance of payment. Annual Economic Report 1999, 67-72.
- Bank of Thailand. (2000). Interest rates in financial market. Economic and Financial Statistics, 12, 30.
- Bank of Thailand. (2000, December). Economic developments in 2000: Domestic expenditure: Private consumption. Annual Economic Report 2000, 9-10.
- Bank of Thailand. (2001, March). Non-performing loans as of January 2001. Press Release, 40, 1-2.
- Bank of Thailand. (2001, October). GDP growth projection. Bank of Thailand News, 62, 2-3.
- Bhaopichitr, K. (1997, December). Thailand's road to economic crisis. The Nation (Bangkok), pp. B4-B5.
- Engineering Export Promotion Council. (1998, December). The economic turmoil in ASEAN: The slowdown of the ASEAN countries' exports. Final Turmoil, 1-2.
- Exim Facilities in Thailand. (2000). Top ten imports. Thailand's Exports and Imports in Brief, 12, 20.
- Export-Import Bank of Thailand. (2000, December). Facts about exports of Thailand in 2000: Thailand's total exports. Annual Economic Report, 4.

- Gearing, J. (1998, July 31). Business banking: BBC scandal and the asian crisis push Thai financial reforms. Asiaweek, 18-19.
- Koichi, M., & Bertrand, R. (2000). Asia's financial crisis and the role of real estate. Armonk, NY: M.E. Sharpe, Inc.
- Ministry of Finance, Thailand. (1999, November). Thailand's economic reform (Report No.2). Bangkok, Thailand: Author.
- Ministry of Finance, Thailand. (2000, October 31). Additional measures to strengthen the economic and social foundation for long-term sustainable growth. (Press Release No. 98/2000). Bangkok, Thailand: Author.
- Ministry of Foreign Affairs, Thailand. (1999, July). Thailand's road to recovery. Bangkok, Thailand: Author.
- National Economic and Social Development Board. (2000, December). Real GDP growth. Thailand's Real Economy, 8-9.
- National Economic and Social Development Board. (2001, December 17). Economic outlook 2001-2002. NESDB Press Release, 3.
- Office of the Securities and Exchange Commission. (1997, December 22). Approval of the SET's draft rule on electronic listed companies information disclosure system. Press Release, 62(2).
- Parnsoonthorn, K. (2001). 2001 mid-year economic review: Stock market. The Bangkok Post, pp. A9-A10.
- Polkwamdee, N. (2001, January). 2000 year-end economic review: Stock market. The Bangkok Post, pp. A12-A14.
- Prime Minister of Thailand. (1999, June 8). The pacific century: Reviving the vision. Asia Pacific Council Report, 6(4).
- Richburg, K.B. (1998, March 30). Asia looks for cash for its ailing banks. The Washington Post, pp. B8-B9.
- Stewart, B. (1995, March 1). Thailand's financial institutions: Structure and liberalization. TDRI Quarter Review, 10, 8.
- Stiglitz, J. (1998, February 4). Asia crisis cause: Bad private-sector decisions. The Wall Street Journal, pp. A5.
- Stock Exchange of Thailand. (1998). Roles of the stock market. Introduction to the Stock Exchange of Thailand, 1-2.

- Stock Exchange of Thailand. (1998, January-June). The SET 's performance of 1998 (SET Press Release No.51). Bangkok, Thailand: Author.
- Stock Exchange of Thailand. (1999, January). The stock market in Thailand: How the market operates. Bangkok, Thailand: Author.
- Stock Exchange of Thailand. (1999, December). Annual SET report 1999 (SET Press Release No.12). Bangkok, Thailand: Author.
- Stock Exchange of Thailand. (2000). History & role. In About the SET [On-line]. Available: http://www.set.or.th/en/about/set/history_p1.html
- Stock Exchange of Thailand. (2000, December). Annual SET report 2000 (SET Press Release No.24). Bangkok, Thailand: Author.
- Sussangkarn, C. (1998, January 16). Thailand's debt crisis and economic outlook. Journal of Thailand Development Research Institute, 2-3.
- Tambunan, A. (1998, April 25). Thailand: Moody's rating downgrade. The Pacific Rim Review, 2.
- Teerakajornchote, C. (1998, January 15). Thailand's stocks: What's going on here?. The Bangkok Post, pp. A8.
- Thai Farmers Research Center. (2000, December 12). Thai stock market in 2000. TFRC Money and Stock Market Review, 1-2.
- Thailand Board of Investment. (1997, September 15). Getting the economy back on track with the IMF formula: Response for a quick recovery. BOI Investment Review, 1.
- Thailand Board of Investment. (1999, December 31). Thailand's economy at a glance: Private investments. BOI Investment Review, 11-12.
- Thailand Development Research Institute. (1998, January 16). Thailand's debt crisis and economic outlook (TDRI Report No. M42). Bangkok, Thailand: Author.
- Thailand Securities Depository Company Limited. (1999, December). Back-office system: Securities clearing and settlement. Newsletter of the TSD, 3.
- U.S.-ASEAN Business Council. (1998, April). Thai Prime Minister meets with the council members. Newsletter of the U.S.-ASEAN Business Council, 2.
- Vichyanond, P. (1995, September 3). The evolution of Thailand's financial system. TDRI Quarterly Review, 10, 19-20.

World Bank Group. (2000, July 19). Thai workers and the crisis (WBG Report No. 2000/0719/EAP). Bangkok, Thailand: Author.