

**Thailand: Report on Observance of Standards and Codes—
Fiscal Transparency Module**

This Report on the Observance of Standards and Codes on Fiscal Transparency for Thailand was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on May 5, 2009. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Thailand or the Executive Board of the IMF.

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Report on The Observance of Standards and Codes (ROSC)
Fiscal Transparency Module

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EXECUTIVE SUMMARY

This report provides an assessment of fiscal transparency practices in Thailand in relation to the requirements of the IMF *Code of Good Practices on Fiscal Transparency* based on discussions with the authorities and other organizations, the authorities' response to the IMF fiscal transparency questionnaire, and other sources of information. The IMF *Manual on Fiscal Transparency (2007)* (<http://www.imf.org/external/np/fad/trans/manual/>) should be consulted for further explanation of the terms and concepts discussed in this report.

Thailand meets the requirements of the fiscal transparency code in many respects and exceeds them in a few cases. The legal framework underlying public finance is broadly sound. The budget process is well specified. The budget is linked to the strategic policy priorities of government and is based on a sound macrofiscal framework. Multi-year departmental estimates are used for budget requests. The legal framework for public debt management is clear, and reporting of public debt is transparent. Announced limits on debt and interest payments reflect commitment to fiscal prudence. The National Counter-Corruption Commission and the Office of Auditor General provide important independent checks on the integrity of public finances.

Fiscal transparency has improved in recent years and further reforms are planned. Budget documents provide extensive fiscal information. A more transparent and effective performance management framework has been developed, including specification of outputs and Key Performance Indicators. Accrual accounting and the GFMIS have been introduced in most of the central government, improving quality and timeliness of data. In the revenue departments, computerization and electronic filing have enhanced monitoring and have reduced the scope for abuse. The budget documents report extensively on SOEs. Public Service Accounts are being introduced to record the cost of Quasi-Fiscal Activities in SOEs and SFIs. The 2007 Constitution requires development of a new Public Finance Act with further improvements in budget management and presentation.

In other areas, further efforts would enhance transparency. Near-term priorities include:

- Comprehensive updating of the legal framework to: embed reforms in medium term expenditure planning and performance orientation of the budget; restrict the discretionary use of the Central Fund; and enhance fiscal reporting, oversight of extrabudgetary funds, and investment programming.
- Presentation of certified final accounts to Parliament and the public for 2005–2008.
- A four-year rolling public investment program, to facilitate needed expansion of public investment without increasing fiscal vulnerabilities.
- Strengthened regulation and transparency of procurement and of contracts under PPPs.
- Budget documents should include a comparison of budget figures to actual outturns, a more extensive medium term macrofiscal framework, a Statement of Fiscal Risks, and a report on tax expenditures.

Medium term strengthening of transparency would involve:

- Regulation of the extrabudgetary sector to enhance reporting, oversight, and governance, and to limit its use.
- Extension to a greater number of SOEs of public service accounts to make the cost of quasi-fiscal activities more transparent.
- Further clarification of criteria for allocation of central government grants to local authorities.
- Publication of an annual fiscal and budget strategy document early in the calendar year, and updating of the macrofiscal framework for the budget in April/May.
- Better tracking of budget execution, limiting the scope for cash carry-overs, more comprehensive budget reporting, registering and monitoring of all government bank accounts, and assuring the integrity of payment and accounting processes.

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ABBREVIATIONS

AG	Auditor General
BoB	Bureau of the Budget
BoT	Bank of Thailand (central bank)
CGD	Comptroller General's Department
EBFs	Extra-Budgetary Funds
FPO	Fiscal Policy Office
GAAP	Generally Accepted Accounting Practices
GFS	Government Finance Statistics
IPSAS	International Public Sector Accounting Standards
MoF	Ministry of Finance
NCCC	National Counter Corruption Commission
NESDB	National Economic and Social Development Board
OAG	Office of the Auditor General
PPP	Public-Private Partnerships
PSO	Public Service Obligations
QFAs	Quasi Fiscal Activities
ROSC	Reports on the Observance of Standards and Codes
SDDS	Special Data Dissemination Standard
SEPO	State Enterprises Policy Office
SFIs	Specialized Financial Institution

NOTE

Numbers in square brackets and italics, e.g. [1.1.1], refer to the relevant section of the IMF's *Code of Good Practices on Fiscal Transparency* www.imf.org/external/np/fad/trans_1.htm.

WEB SITES

- www.fpo.go.th
- www.sepo.go.th
- www.pdmo.mof.go.th
- www.bb.go.th
- www.bot.or.th
- www.dsbb.imf.org

I. DETAILED DESCRIPTION OF PRACTICE¹

A. Clarity of Roles and Responsibilities

Definition of government activities

1. **General government is defined largely consistent with Government Finance Statistics (GFS) principles [1.1.1, 1.1.3].** General government consists of central government as well as several thousand local authorities, in the context of a unitary state. The Ministry of Finance (MoF) reports on general government in full accordance with the GFS framework on its website, as part of Thailand's participation in the IMF's Special Data Dissemination Standards (SDSS). Central government data in the State budget are largely recorded on a gross basis. The composition of central government is presented in Box 1, below. Noteworthy are: the large Central Fund, managed under the Prime Minister's Office, consisting of a contingency fund for natural disasters, as well as several programs including pensions and health programs for civil servants and development-related expenditure programs; and the almost one hundred extra-budgetary funds (EBFs) with individual budgets (e.g., revolving fund for health care). Local authorities are independent, though their funding consists mainly of revenues shared with, and transfers from, the central government, as well as limited own revenues; their own borrowing is subject to stringent controls and occurs rarely. Coverage of general government information in central government budget documentation is incomplete, and the definition of central government differs somewhat from GFS standards as a result of non-reporting on some EBFs and the different classification of the social security fund.²

Government relationships with nonfinancial public corporations

2. **The State Owned Enterprise (SOE) sector is extensive and conducts substantial non-commercial activities, with resulting quasi-fiscal activities [1.1.4].** SOEs often do not operate on a fully commercial basis. Performance in the SOE sector is uneven, with some highly profitable companies and some experiencing large and persistent losses. In several cases, individual laws establishing SOEs contain clauses stating that all losses are to be covered each year by the central government. Total subsidies from the central government to SOEs averaged ¾ of a percentage point of GDP during 2002–07. In the 2008 budget, 22 SOEs received grants from the central government. Apart from those public corporations that are partly privately owned and listed on the stock exchange, most SOEs benefit from tax exemptions, and many receive government guarantees on their borrowing. At the same time, SOEs are expected to pay 30–80 percent of their net profit to the government as a remittance or a dividend,

¹ Discussions on fiscal transparency were held in Bangkok on November 12–24, 2008. The mission (P. Mauro, head; M. Petrie; and H. van Eden) met with former Finance Minister Thada-Thamrongvech, Permanent Secretary Kawatkul, and other senior officials from the Ministry of Finance, the Bureau of the Budget, the National Counter Corruption Commission, the Office of the Auditor General, the National Health Security Office, the Social Security Office, the Bangkok Metropolitan Administration, and the Bank of Thailand, as well as representatives of entrepreneurs' associations, civil society, and academia. The mission is very grateful for the excellent organization and support provided by the Ministry of Finance and the warm hospitality from its many interlocutors.

² While the social security fund is included as part of central government in the budget, it is classified as an extra-budgetary fund under the GFS.

depending on the nature of the business. Further, SOEs which are listed on the Stock Exchange of Thailand must pay a 30 percent corporate tax in addition to the dividend paid to the government. On the whole, this policy framework results in challenges in assessing SOEs' performance in terms of their commercial and non-commercial objectives.

Box 1. General Government in Thailand	Percent of GDP (2007) ¹
General government expenditure in Thailand comprises the following:	21.8
Central Government (CG) Units Covered by the Budget^{2,3}	14.0
1. 20 Ministries	9.5
2. Central Fund	2.4
3. 13 Independent Public Agencies ⁴	0.9
4. 8 Independent Public Bodies ⁵	0.2
5. Grants to SOEs (24 SOEs receiving grants in 2008 budget)	1.0
Central Government Units with Individual Budgets⁶	3.9
6. 99 Extra-Budgetary Funds (EBFs)	3.9
Local Government (local authorities)	
7. Bangkok Metropolitan Administration; 75 provincial administrative organizations; 6,710 Tambon administrative organizations (sub-districts); 1,141 municipalities; and Pattaya City.	3.9

1) Fiscal year up to September 30, 2007
 2) excluding transfers to EBFs and Social Security Fund.
 3) excluding transfers to subnational government.
 4) includes, for example, the Bureau of the Royal Household, the National Police, the Attorney-General and the Secretariats of Senate and House of Representatives.
 5) includes various parts of the Judiciary, the National Counter Corruption Committee and the Office of the AG.
 6) Central government departmental agencies, training centers, public hospitals, schools and universities and other institutions have separate institutional budgets. In the budget they are presented within line ministry budgets.

3. **Action has been initiated to enhance transparency of SOE non-commercial activities [1.1.4].** A 2008 Prime Ministerial regulation introduced a requirement that SOEs create a separate account—the Public Service Account—to record the cost of delivering public services on a non-commercial basis. In the 2009 fiscal year, subsidies were included toward the cost of Public Service Obligations (PSOs) provided by some SOEs, including large ones such as the State Railway of Thailand, Bangkok Metropolitan Transit Authority, and Provincial Waterworks Authority. Initiatives are underway to extend the PSO framework to SOEs in a wider range of sectors.

4. **A sound framework is in place for corporate governance and reporting by SOEs, though weaknesses remain [1.1.4].** The State Enterprise Policy Office (SEPO) in the MoF has issued a Guidelines and Manual on Good Corporate Governance of SOEs and has also issued Guidelines for Boards of Directors on Corporate Governance. The Office has recently established a pool of Directors for Ministers to consider when making

appointments to SOE Boards. At present, however, there are no clear provisions regulating the procedures for Ministers to follow in appointing Directors to SOE Boards. All SOEs are subject to audit by the Auditor General (AG), although in practice only the largest SOEs are audited every year. The AG's 2007 Annual Report indicated that more than half of SOEs were audited in that year; in several cases, the AG's opinion was qualified, owing to deficiencies in the accounts of SOEs. To encourage as many SOEs as possible to close their financial reports on time, this has recently been made a Key Performance Indicator for those SOEs under SEPO's performance evaluation system.

Government relationships with the central bank and public financial corporations

5. **The Bank of Thailand (BoT) is operationally independent in the conduct of monetary policy; it undertakes limited quasi-fiscal activities, some of which are being phased out [1.1.4].** With a recent amendment to the BoT Act (March 2008), the BoT may not provide direct financing of the deficit. (Previously, the government would, in principle, have been able to borrow from the BoT in some circumstances and to repay within three months of the start of the next fiscal year.) The Amendment also strengthened the BoT's independence by regulating the process for removal of the BoT Governor from office. The BoT operates the government's bank account, and acts as the government's securities registrar. By law, it neither charges the government for banking services, nor pays interest on the government's deposits. Moreover, under an arrangement with the government, the BoT repays the principal on the Financial Institutions Development Fund (FIDF) Bonds, which were issued to restructure the financial system following the 1997 crisis. Principal repayment on these bonds has first call on annual net profit of the BoT, although in recent years the BoT has made operating losses. The BoT has for a number of years lent to priority economic sectors at subsidized interest rates, through commercial banks and government-owned Specialized Financial Institutions. Some of these lending programs are guaranteed by the MoF. The BoT announced in June 2008 that it would no longer provide subsidized lending—previously approved projects will be completed in May 2011. Details of these programs are published in the BoT's Annual Economic Report.

6. **Public financial institutions are required to deliver non-commercial services; some of these are part-funded from the central government budget [1.1.4].** Eight public financial institutions—the Specialized Financial Institutions (SFIs)—are wholly government-owned. As a government's arm for the country's economic and social development, SFIs are required to provide financial assistance to specific sectors on commercial and non-commercial terms, including concessional loans, as well as technical assistance. Several SFIs still receive occasional capital injections from the government. The MoF has responsibility for regulating the SFIs, and the prudential standards are, on the whole, less stringent than those for banks regulated by the BoT. SFIs have specific roles and responsibilities delineated in each Enabling Act, so that the prudential standards are adjusted for their specific activities. Most SOEs are required to bank with an SFI or other state-owned bank. Over the last five years, each SFI has established a Public Service Account to separately account for the cost of delivering non-commercial services, and several SFIs receive transfers (accompanied by performance targets) from the central government budget toward such cost.

Government relationships with the private sector

7. **Government holdings of fully-owned corporations and equity are extensive [1.1.5].** The SOE sector comprised 58 companies at end-2007, with sales equivalent to 36 percent of GDP, and assets equivalent to 80 percent of GDP. SOEs operate in a wide range of sectors, but are particularly important in banking and finance, energy, and transportation. The SFIs jointly account for 15 percent of financial sector assets. In addition, the government has equity in a number of commercial banks cumulatively accounting for over 40 percent of total commercial banking sector assets. The size of the government's equity stake in these institutions can be found in some of the entities' annual reports. SEPO's Annual Report provides consolidated information on the government's holdings in nonfinancial corporations. However, no consolidated information is published on the government's overall equity holdings in financial corporations.

8. **Government regulation of the private sector is being improved by setting up independent sectoral regulatory agencies [1.1.5].** In the financial sector, prudential regulation was strengthened in 2007, with the passage of legislation providing for consolidated supervision and a prompt corrective action framework (Financial Institutions and Banking Act) and the phasing in of a deposit insurance scheme during 2008–13 (Deposit Protection Agency Act). In recent years, independent agencies have been established to regulate specific sectors. However, there are still instances where an SOE has regulatory functions in the sector in which it operates (e.g., the Bangkok Metropolitan Transport Authority). The government is pursuing the creation of further independent regulatory bodies in the transport and energy sectors.

9. **The legal framework for Public Private Partnerships (PPP) is not sufficiently developed yet [1.1.5].** Although many projects involve provision of public services by private concession operators utilizing public assets, PPPs are currently a small fraction of public investments. It is expected, however, that future, large public investment projects will involve private sector participation to a greater extent than in the past. The 1992 Act on Private Participation in State Undertaking currently regulates projects involving private participation in public investment. The legal framework does not at present spell out: (i) criteria for deciding when a PPP should be used instead of traditional public investment; (ii) stipulation of a process for conducting the analysis, such as use of a Public Sector Comparator; (iii) guidance on allocation of different types of risk between the government and the private sector; and (iv) requirements for reporting these complex transactions. More generally, public investment projects involving private sector participation present the government with contingent obligations or long term commitments not easily reflected in accounting reports.

Fiscal management relationships among the branches of government

10. **The fiscal roles of the executive, legislature, and judiciary are clearly defined in law [1.1.2].** With respect to the budget process, section 168 of the 2007 Constitution states that members of the lower house of the legislature may, in considering appropriations bills, submit motions reducing expenditures (aside from legally committed expenditures), but may not propose increases in spending. The procedures whereby parliament approves the budget are clearly defined. Similarly, the Constitution states that the existing budget remains in force in case the new budget is not approved in time for the

new fiscal year. With respect to the judiciary, Sections 217, 222, and 227 of the Constitution provide autonomy for the Offices of the Constitutional Court and lower level courts in personnel matters and their budgets.

Fiscal management relationships among different levels of government

11. **The fiscal relationships between different levels of government are generally clear, though transparency in the allocation of intergovernmental grants is limited [1.1.3].** Although local authorities account for a substantial share of general government spending, the central government has a clear degree of control over their revenues. Intergovernmental fiscal relations are overseen by a Decentralization Committee chaired by the Prime Minister. The 1999 Decentralization Act set as target for decentralization that local authority revenue should equal at least 25 percent of total government revenue by 2007, with an ultimate goal of 35 percent. By law, the central government cannot decentralize expenditure responsibilities without providing a matching increase in local authority revenues. The allocation of taxation responsibilities between the levels of government is clear. Local authorities receive fixed proportions of the VAT and specific business and excise taxes. There are some dedicated local taxes, although their rates are identical throughout the country. Local authorities also receive general and specific grants through the Ministry of Interior. These are determined annually on the basis of criteria approved by the Decentralization Committee; although these are declared for legitimacy by the Royal Gazette, they could be further clarified. The transfer of responsibilities between different levels of government in areas such as education, public health, and some types of infrastructure is not on schedule according to the Decentralization action plan—resulting, in some cases, in perceptions of insufficiently clear allocation of responsibilities. The Public Debt Management Act prohibits the central government and its agencies from guaranteeing local authority debt, or from providing budgetary resources for servicing local authority debt. Article 28 of the Decentralization Act empowers local authorities to borrow, but they require approval from the cabinet, and in practice the necessary regulations are not yet in place to allow sub-districts to borrow.

The legal and administrative framework for fiscal management

12. **Under existing legislation, basic elements of budget management are adequately covered, but this is not the case for recent reform initiatives [1.2.1].** The main budget system law (the Budget Procedures Act) dates from 1952 and, with a number of other budget regulations, the legal framework is somewhat scattered, leaving some issues uncovered. Various initiatives introduced in recent years, or being considered, imply the need for comprehensive updating of the legal framework. Uncovered areas include use of a medium term expenditure framework, performance orientation of the budget process, management of public investment (particularly projects with private sector involvement), reporting of tax expenditures and fiscal risks, oversight of EBFs, more active use of cash management, and enhanced reporting to parliament and the public. The 2007 Constitution introduces several explicit public financial management requirements (Box 2) and requires the development of a new Public Finance Law, currently under preparation, to implement them.

13. **Responsibilities for fiscal management involve extensive coordination between the Bureau of the Budget and the MoF [1.2.1].** The Bureau of the Budget (BoB, part of the Prime Minister's Office) has primary responsibilities for budget

preparation and management, whereas the MoF's main tasks lie in fiscal policy, revenue policy and administration, public debt and assets management, government financial management and regulation, and fiscal reporting. Extensive coordination occurs during the budget process, for example on the development, use, and presentation of the medium term expenditure framework. This area presently lacks legal underpinnings, and the authorities plan to adjust this in the new Public Finance law. Coordination is a challenge also in reporting on budget outturns, a responsibility of the Comptroller General's Department (CGD, under the MoF), with the BoB as the main budget administrator and manager.

Box 2. The 2007 Constitution and Public Financial Management

The 2007 Constitution specifies the allocation of responsibilities of legislature and executive in the budget process. In addition, it provides support for effective and more transparent public financial management through a number of explicit requirements:

- An overview of the macroeconomic economic situation, to be attached to the budget
- A statement of objectives for expenditure items
- The total amount of contingency funds
- A listing of tax exemptions and their fiscal impact in the budget
- The financial status of SOEs
- Budget plans to be presented for the medium term
- Parliament not allowed to submit amendments to the Budget Bill that increase overall expenditure
- All expenditure to be mandated by the Budget or by supplementary budgets. Only exception is urgent expenditures as defined by the new Financial Management Law. Even in such cases, any use of the Treasury Reserve needs to be specified and included in the following year's budget.

14. **The requirements for fiscal reporting and provision of information on budget preparation and execution are not very stringent [1.2.1].** The legal framework does not require presentation to parliament of the macrofiscal framework and strategic direction of the budget prior to tabling of the full budget. Nor does it require in-year formal reporting on the budget, such as a mid-year review by parliament of budget execution, although the MoF informs the public on budget execution through various channels (see Section C). Parliament is informed on budget execution informally, mostly during discussion in Parliament of the following year's budget. Requirements for end-of-year reporting include State Gazette publication of State revenues and expenditures and presentation of the Audited State final accounts to the House of Representatives. The existing framework does not indicate a deadline for submission of the final accounts or the required action if the OAG does not consider that the final accounts can be certified.

15. **Public debt laws are relatively clear and comprehensive [1.2.5].** Legislation is clear in assigning the responsibilities in these areas to the Minister of Finance. For instance, the Public Debt Management Act (which defines public debt broadly to include any debt and guarantees incurred by the MoF, government agencies, or SOEs, or any debt guaranteed by the MoF, but excluding debt incurred by SFIs and not guaranteed by the MoF) gives the Minister of Finance the exclusive power to give loan guarantees, with approval of the Council of Ministers. Although the Public Debt Management Act spells out the purposes (and associated ceilings) for borrowing by the PDMO for the MoF, it

allows borrowing an amount equivalent to 10 percent of the total central government budget to finance spending undertaken for “social and economic development.” It would seem that, in principle, the Act would allow that the funds from this borrowing be spent in addition to those appropriated in the budget. This said, the MoF has to report to Parliament all loans entered into during the preceding year, indicating loan details and their outcome or expected outcome, within 60 days from the end of each fiscal year.

16. The legislative basis for tax and nontax collection is generally comprehensive [1.2.2]. However, there is no explicit provision in the Constitution to the effect that taxes or other compulsory levies can only be imposed where there is a clear legal basis for doing so. The tax system is based on self-assessment, and information on tax laws is disseminated. For instance, the Revenue Code and the Customs Tariff are available on the web sites of the Revenue Department and Customs Department. The Revenue Department also posts rulings on tax cases, and provides an information call center. The revenue code protects the confidentiality of taxpayer information; other provisions describe the powers and limitations of the tax administration to obtain information from taxpayers and enforce the collection of arrears. There are, however, numerous exemptions to the tax codes, and this increases complexity for taxpayers. Any exemptions from the Revenue Code must be submitted for approval by the Minister, Cabinet or Parliament, depending on the item. The Social Security Act 1990 provides the legislative basis for collection of social security taxes; the Social Security Fund reports annually to the public on its activities.

17. Tax exemptions are extensive; while an estimate of their fiscal impact is presented on introduction, no estimates are published of the on-going impacts of tax expenditures [1.2.1, 3.1.3]. When a new incentive scheme is introduced during the fiscal year, a press release is issued describing the measure and its estimated fiscal impact. In addition, the 2007 Annual Report of the Revenue Department contained a short description of new tax incentive measures introduced in 2007. The 2009 budget documents also contain a summary table of new tax measures introduced in 2009 with their estimated fiscal impact. The Government Revenue document presented with the 2009 budget contains a list of tax exemptions for each of the main tax types. However, no quantitative information is published regarding the ongoing impact of tax incentives in the years following their introduction. The 2007 Constitution requires estimates of the ongoing impact of tax exemptions to be presented with the annual appropriations bill; it is expected this will be implemented for the first time in the 2010 annual budget preparation process (taking place in early FY2009).

Tax administration

18. Tax administration is generally well defined [1.2.2]. The main taxes are administered by three units within the MoF: the Revenue Department, the Customs Department, and the Excise Tax Department. These share a common database, although a common Taxpayer Identification Number is in place only between the Revenue Department and the Customs Department—not for the Excise Department. The Revenue Department has for a number of years applied modern information technology to tax administration. An electronic filing system is in place for every tax type levied by the Department, including VAT, and the personal and corporate income tax. The Customs Department has also introduced electronic filing. With limited face-to-face contact between officials and taxpayers, the scope for abuse is reduced. A code of conduct is in place in the Revenue Department and in the Customs Department.

19. **Taxpayers have access to independent appeal processes [1.2.2].** With respect to the Revenue Department, the taxpayer must first appeal a tax assessment to a Commission of Appeal, which includes independent members, and may then appeal to the Tax Court, an independent judiciary. Similar provisions apply with respect to appeals against assessments of customs duty and excise tax.

Public consultation

20. **Public consultation—required by law for major policy change proposals—is at times perceived as occurring too late in the decision-making process [1.2.3].** Section 87 of the 2007 Constitution provides that the State shall encourage public participation in the determination of public policy. In practice this usually takes place through a public hearing. There is a perception that these hearings often do not take place sufficiently early to allow public opinion to influence policy. There is no practice of publishing consultative documents on significant public policy issues (e.g., reforms to the tax system, or to major expenditure policies) that may be under active consideration by the government.

Contractual arrangements

21. **Contractual arrangements between the government and private entities are not routinely published [1.2.4].** They are, however, accessible to interested persons through the Public Information Act of 1997. The government contracts with the private sector mainly through the procurement of goods and services by line departments. These contracts, or a summary of the results of tender contracts, are not generally in the public domain, except for brief details of the results of e-procurement conducted by the Public Procurement Management Office in CGD. For contracts with private concession operators under the 1992 Act on Private Participation in State Undertaking, few details are in the public domain. The Treasury Department also contracts with private companies for the lease and development of surplus government land: key details are published in the Treasury Department’s Annual Report. In general terms, however, public contracts can be accessed by interested persons through the Public Information Act, 1997.

Legal framework for liability and asset management

22. **Legislation governs liability and asset management—including the granting of rights to exploit public assets—though gaps have emerged as result of innovations in financing modalities [1.2.5].** Comprehensive legal frameworks govern public debt management (Public Debt Management Law) and the investment of social security funds (Social Security Act). As noted in paragraph 9, however, shortcomings have emerged in the regulation of public services provided by private concession operators utilizing public assets (1992 Act on Private Participation in State Undertaking), and new challenges are emerging to track government obligations resulting from public investment projects.

23. **The legal framework for privatization is reasonably comprehensive [1.2.5].** The government has not conducted significant privatizations in recent years, focusing instead on strengthening the performance of SOEs. Partial privatizations have in the past taken place through public offerings on the stock exchange. Provisions are in place requiring the return of proceeds from the sale of new stock to the government; any expense from this remittance must be approved by Cabinet. Under existing legislation,

privatizations do not require approval by Parliament, and there is lack of clarity over the transfer of ownership of public land. All privatizations are subject to audit by the OAG.

B. Open Budget Processes

The budget preparation process: clarity and consistency of process and presentation

24. **The budget calendar is approved by Cabinet early in the pre-budget year; it is clearly specified and followed in practice [2.1.1].** The fiscal year runs from October 1 to September 30. Budget preparation is managed by the BoB, which falls under the Prime Minister's Office. Preparation work starts essentially with the beginning of the previous fiscal year, allowing the executive ample time for the overall process (Box 3). However, the macroeconomic assumptions are set at an early stage and are not updated for the final draft to be approved by the Cabinet. An appropriate amount of consultation with line ministries and spending agencies seems to take place. Adequate time is also provided for consideration by Parliament. Signing into Law by the King usually occurs by mid-September.

Box 3. The Budget Calendar

Due dates	Activities	Legal basis
The fiscal year is set on an October 1 to September 30 basis in the Budget Procedures Act. The main steps in the process are as follows:		
Mid-October	Cabinet approves the budget calendar	Budget Procedures Act
October-November	Review by BoB and agencies of past year budget execution, multi-year baseline assessment, review of multi-year commitments, possible new expenditures	
November-December	Preparation of the medium-term macro fiscal framework jointly by FPO, BoT, NESDB and BoB	
October-January	Ministries and Agencies submit four-year and annual operating plans, consistent with the four-year Government Administrative Plan.	Royal Decree on Criteria and Procedure for Good Governance
End-December	Cabinet approves macrofiscal framework, strategic direction of budget, baseline expenditure and multi-year budget commitments	
Early-January	Issuance by BoB of budget circular	Budget Procedures Act
January to mid-February	Preparation of detailed budget submissions to BoB. Agencies submit their budget requests with out-year projections for three years by mid-February, together with their estimation of their own revenues.	Budget Procedures Act
Mid-February to March	Budget preparation by BoB for Cabinet's consideration	Budget Procedures Act
April to May	Deliberation of draft budget in Cabinet and approval	
June to mid-August	- First reading of budget in House of Representatives. - Set up both main and sectoral “budget scrutiny” committees (all newly established for each budget season)	Constitution
Mid-August to early September	- Second and Third reading of budget in House of Representatives - Senate review of budget and approval	Constitution
Mid-September	Enactment by the King	Constitution

25. The budget preparation process is relatively advanced but could be more open [2.1.1]. There is a good linkage in budget preparation between strategic policy development and budget formulation. Performance measures are part of the budget negotiation process. The budget is prepared on the basis of a medium term fiscal framework, and appropriations are presented with an outlook over the next three years. The preparation process has a first phase where the macrofiscal framework and the strategic direction of the budget is decided, and a second phase where the detailed plans of spending units are worked out.

26. The budget is planned, decided on and presented according to a main budget classification [2.1.1]. The layers of this classification are ministry, department (sub-units of ministries), program and a first layer of the economic classification. (Overhead expenditures per department are specified separately by economic classification, and not attributed to programs.) The first three layers of this classification are defined as the appropriation structure, i.e., they represent the expenditure authorization of parliament. The monitoring of expenditure does not yet include the program category.

The medium-term framework and policy basis for the budget

27. The macroeconomic assumptions underlying the budget are presented in a clear but brief manner [2.1.2]. Indeed, numerical projections are reported in the budget only for economic growth and inflation. The budget is based on a macrofiscal framework prepared jointly by four entities: the Fiscal Policy Office (FPO, a Directorate General within the MoF), BoB, BoT, and the National Economic and Social Development Board (NESDB). The discussions are coordinated by FPO. Cabinet approves the macrofiscal framework by the end of December. Each entity puts forward its own forecasts for the framework, based on its own macroeconomic model, and a substantive internal discussion yields an agreed framework. Some of the institutions revise their own macro forecasts on a quarterly basis and make them public through press releases and publication on the internet, but the agreed framework underlying the budget is seldom changed during the year—partly because supplementary budgets are rare. No independent outside body is formally tasked with external scrutiny of the macro forecasts. BoT has published its macroeconomic model. In recent years, forecast errors have not been large by comparison to other countries, and there does not seem to have been any systematic bias.

28. The overall fiscal balance for the central government does not seem to have been much out of line compared with budget expectations in recent years; however, budget expenditure is systematically underutilized and carried forward to the next budget year [2.1.2]. Comparisons of budgets versus fiscal outturns are hampered by deficiencies in outturn data. For example, data on expenditure outturns with the same breakdown and classification as the budget approved at the start of the fiscal year are not readily available to the public. Based on available information, in recent years revenues have been somewhat above expectations, whereas actual spending has turned out significantly below expectations, with under execution mostly concentrated in capital spending. Deficit figures are largely unaffected despite the under-utilization of the budget because the carry over of expenditure from year to year is in the same order of magnitude. Such carry-over is allowed if the appropriation has been committed for future expenditure in the budget year; this implies almost complete carry-over for capital expenditures. For other types of expenditure, carry-over seems to be granted on an individual basis by MoF and is more limited. By international standards, the overall level of carry-over is

extremely large (in the order of 8–11 percent of budget expenditure). This provides obvious risks for overall fiscal control. BoB tracks, and reports on, allowed carry-overs.

29. Publicly announced limits for the public debt/GDP ratio and the debt service ratio have guided fiscal policy for a number of years [2.1.2]. Caps on public debt at 50 percent of GDP and on debt service (interest payments plus principal repayments) at 15 percent of total budget expenditure have been clearly announced through a number of publications, including the budget documents. Although a technical definition of the coverage of the debt in this regard has not been spelled out, it seems to refer to the main measure of general government debt (including guaranteed debt of SOEs) as tracked by the Public Debt Management Office (PDMO). At this time, the debt and interest burden ratios are well below the limits; thus, although the caps do not provide precise guidance for medium term fiscal policy, they are not unduly constraining fiscal policy during the current economic growth slowdown.

30. The current and future budget implications of new revenue and expenditure initiatives are not explained or presented separately in the budget documents [2.1.3]. The government announces new initiatives and strategic directions through the four-year plan it is required to put forward when it begins its term of office, as well as through its annual Government Administrative Plans, and the respective agency plans. The budget structure is aligned with these annual strategic plans, which include new programs and revenue initiatives. All expenditure programs are costed for the medium term. New expenditure programs and revenue initiatives included in the budget are announced by the Prime Minister during the presentation of the budget policy statement, though separate estimates of their costs could be presented in greater detail.

Fiscal sustainability analysis

31. Compliance with the debt and debt service limits is the main instrument to preserve fiscal sustainability [2.1.4]. Budget documents focus on compliance with those limits and do not provide a formal analysis of debt sustainability. The Fiscal Policy Office's web site (www.fpo.go.th) reports a Fiscal Sustainability Framework with medium term projections for the broad fiscal aggregates, based on realistic macroeconomic assumptions and a “current fiscal policies” assumption. Debt sustainability analysis incorporating uncertainty or sensitivity analysis to changes in macroeconomic assumptions is not currently conducted. The PDMO produces estimates of the sensitivity of the debt burden to changes in interest rates and exchange rates, but does not publish those estimates.

Scope of the Budget and Coordination of Budgetary and Extra-Budgetary Activities

32. For many EBFs, the budget does not provide full detail on past or budgeted expenditures and revenues; more than 40 EBFs are not included in the budget at all [2.1.5]. These latter funds, for the most part, have not received transfers from the budget. For EBFs for which information is presented in the budget, the level of detail is limited. Moreover, the budget does not contain an overview or analysis of the EBFs as a group, despite their importance. More generally, the large number of Thailand's EBFs—and, in some cases, their similarity to normal expenditure programs—suggest the absence of general criteria in existing legislation regarding whether activities should be conducted by an EBF or by regular budget units.

33. A fair amount of flexibility is permitted to shift appropriations in budget execution [2.2.1]. The lowest level of budget appropriations is set at the program level of expenditures. Shifts within departments are permitted—under well-defined conditions—subject to BoB, ministerial, or cabinet approval, depending on the size and type of transfer. Shifts across departments are not permitted without going back to the legislature, and in practice do not occur. Special provisions apply to the Central Fund (see below).

34. Under the existing framework, the Central Fund has a high degree of flexibility to transfer funds between line items, allowing it to operate in ways that resemble a large contingencies fund [2.2.1]. The Central Fund accounts for more than 13 percent of the 2008 budget. Spending on a narrowly defined contingency fund for natural disasters (less than 3 percent of the budget, in line with international practice) and other items for social and development purposes is generally administered by the BoB. However, spending on obligatory items (about ½ of the Central Fund), such as medical care and pensions for civil servants, is controlled by the CGD of the MoF. In case there are insufficient funds for obligatory expenditures, the law allows for fund drawing from the treasury reserve. The rules under which the Central Fund operates allow the government to transfer funds from obligatory spending to other lines within the Central Fund, and to finance resulting shortfalls by drawing on the Treasury Reserve. This provides scope for spending that is not authorized ex-ante by the Legislature. However, the new Constitution prescribes a greater level of accountability in this area. In particular, it is stipulated that there must be the same amount of funds appropriated to the treasury reserve in the next budget law.

35. Information presented on the SOEs reflects good practice [1.2.4]. The budget documentation identifies expenditures, revenues, grants, dividends and balance sheet for the great majority of SOEs. The SOEs are also presented extensively as sector, while the grants to some individual SOEs are costed as multi-year quasi fiscal activities.

36. Mechanisms for the coordination and management of budgetary and extrabudgetary activities are defined, though not in a uniform way [2.1.5]. Most EBFs have been set up by separate laws or regulations. They are usually governed by a board on which the sectoral ministry has substantial influence. Important EBFs like the National Health Security Office and the Social Security Office have solid governance structures with an appropriate degree of independence. There is no overall law or regulation governing the establishment, management and reporting of the EBFs, nor is there a list of criteria defining when EBFs are the most appropriate vehicle for service delivery. Reporting requirements are often toward the sectoral Ministry, the AG, or parliament directly. Existing mechanisms often do not provide for monitoring of expenditures by the BoB or the CGD. This is especially the case if the EBF does not require a grant for the State Budget. Several EBFs are required to deposit their own revenues in the treasury reserve. For GFS reporting, the FPO requests financial information on a quarterly basis directly from the 16 largest EBFs and then extrapolates the results for the whole sector.

37. Expenditures funded through foreign loans or aid are usually fully planned in the budget, but controls are less stringent than for ordinary budget expenditures [2.1.5]. In a few instances, project loans are deposited directly on project accounts of ministries and agencies, rather than in the Treasury Reserve. The drawdown of resources is monitored by the PDMO and expenditures are entered into the Government Fiscal Management Information System (GFMIS), but the CGD does not receive separate

accounting or bank account overviews from line ministries, thus imposing a constraint on verification of information on the use of funds. The use of project loans is audited by the OAG. As noted in the discussion above on the Public Debt Management Act, there is scope, in principle, for using foreign project loans for expenditures that are not planned in the budget which, if used, would contravene the principle that all government expenditure should be authorized by the budget.

38. Own revenues of budget users are generally managed appropriately [2.2.1]. All budget users are required by law to deposit own revenues in the Treasury Reserve, which simplifies their monitoring. Generally, income of ministries and departments is disconnected from their expenditures. However, if own revenues are received for services delivered or in compensation of damages suffered, then these can be retained by the agency in question. Several agencies have agreements that allow them to retain a percentage of own revenues above these legal requirements to provide them with an incentive for collection of own revenues. Such agreements are monitored by BoB and CGD. All own revenues collected are entered into the GFMIS although oversight by CGD is limited because it does not monitor agencies' own bank accounts directly for reconciliation purposes.

39. The management of capital spending allows entering into multi-year commitments, which are duly monitored [2.2.1]. The budgeting system allows for multi-year commitments for investment projects initiated in the budget year, thereby enhancing the control and planning of public investment. The GFMIS system allows monitoring of commitments for contractual expenditures. There is, however, no multi-year investment program incorporating decisions on new investments over the medium term. In expanding budget planning over the medium term the authorities have taken an important first step in developing out-year estimates that incorporate unchanged policies, though there is no formal medium-term public investment plan at this stage.

Accounting and reporting on budget execution

40. Accounting and internal control procedures are broadly reliable for tracking commitments, payments, arrears, liabilities, and assets; nevertheless, weaknesses remain [2.2.1]. The central government uses accrual accounting standards based on IPSAS and GAAP accounting standards. The present accounting standards were introduced in 2003 and published as a MoF regulation. The GFMIS was rolled out in 2004 over the budget users within central government, for FY2005. The GFMIS provides for uniform accounting practices and payment processing. The CGD has issued regulations for the use of the GFMIS, and for the appropriate checks and balances within agencies. Internal and external audits are still focused on transaction audits. System audits would provide more insight in the appropriateness of the internal control framework in agencies. The GFMIS records commitments (if applicable), delivery of goods and services and cash transactions. There is an extensive government accounting manual and accounting staff from the agencies receive adequate training. Weaknesses remain, however, with respect to the accuracy and timeliness of entry of some items.

41. Thailand has a treasury single account structure, but its coverage is not complete, and the central government maintains large cash holdings [2.2.1]. The Comptroller General Department maintains the Treasury Single Account (TSA) structure at the BoT, consisting of a general receipts account, a general expenditure account, and five payments accounts for various purposes. The CGD also maintains a number of

receipt accounts for own revenues of agencies in Krung Thai Bank, a partly state-owned commercial bank. (Specifically, these accounts are for transmission of government revenues that the agencies collect and transmit to the Treasury; and for transmission of the agencies' own revenues that are required to be deposited with the MoF.) The CGD considers these accounts as part of the TSA as it manages all accounts on a consolidated basis. However, considerable amounts are accumulated at Krung Thai Bank before transfer to the receipt account of BoT. Tax and other revenue receiving departments of the MoF generally sweep their account balances held with banks to the TSA on a daily basis. The CGD does not carry out active cash management and maintains sizable deposits at the BoT (equivalent to 9 percent of budget expenditure at end-2007). Accounts at the BoT and Krung Thai Bank are not remunerated.

42. CGD does not register and systematically monitor central government bank accounts outside its control [2.2.1]. Line ministries and agencies keep own bank accounts, mostly for petty cash and general administrative expenses. EBFs also maintain their own bank accounts. The CGD does not keep a listing of all bank accounts of budget users, nor of EBFs, and does not monitor them. For opening of bank accounts of these entities no notification of CGD is required.

43. Although the accounting system is capable of producing accurate in-year reports on central government budget outturns, tracking of the budget could be improved [2.2.1]. The GFMIS covers all budget users, but excludes most expenditures and some revenues of the extrabudgetary sector. (Even though the extrabudgetary sector entities do not enter transactions directly into the GFMIS, they are required to upload their balances into it on a monthly basis.) The GFMIS facilitates the reconciliation between accounting and transactions through the CGD's BoT accounts. Reconciliation of petty cash and project accounts of agencies is required on a quarterly basis (and generally occurs monthly in compliance with internal control principles), and should lead to updating of GFMIS entries. This process is, however, not verified by CGD. The most serious reconciliation issues have existed within the Revenue Department where accounting entries and bank receipts could not be reconciled easily during the first years of the GFMIS. These issues led to the Accountant General not certifying the consolidated accounts of government since 2005. The CGD issues budget execution reports on the central government every month within 10 days of the month. The reports are presented in various formats, but not according to the structure of the budget, i.e. on a ministry, department and program basis, nor on a consolidated basis. The chart of accounts used by the CGD is consistent with the budget classification.

44. The legislature can access monthly in-year reports on budget outturns through the internet, but these do not contain supporting descriptive analysis [2.2.2]. The CGD publishes its budget execution reports on the internet, though they are not formally sent to parliament. They do not contain the same breakdown as the initial budget, or descriptive analysis on developments. Projections of likely expenditure and revenue outturns for the year are available within government, but this information is generally not provided to parliament until the discussion of the new budget in June–August. There is no mid-year or other budget execution review by parliament during the budget year.

45. Supplementary budgets are relatively rare; appropriately, they are presented to the legislature in the same format as the original budget [2.2.3]. The rare use of

supplementary budgets may reflect the under-utilization of the budget in recent years as well as the relatively high degree of flexibility provided under existing rules to reassign expenditure items within the budget structure (with approval within the executive by the Director of the BoB, the Minister of Finance, or Cabinet, depending on the size of the transfer). Transfers across departments in ministries and between ministries require parliamentary approval and are also relatively rare.

C. Public Availability of Information

Commitment to timely publication of fiscal data

46. **Fiscal information is relatively comprehensive and readily available to the public, with a clear commitment to provide information at scheduled times [3.3.2].** Both legislation and government practice reflect a substantial degree of commitment to providing good quality, timely, and comprehensive information on government policies in the fiscal area, budgets, and fiscal outturns, through a number of publications, budget documents, and web sites. Thailand participates in the SDDS standards (see Dissemination Standards Bulletin Board www.dsbb.imf.org). A quarter-ahead advance release calendar is disseminated on the DSBB and the Bank of Thailand's website (<http://www.bot.or.th>). The Fiscal Policy office (FPO) compiles and disseminates a broad range of fiscal statistics in accordance with policy requirement of the 1997 Ministry of Finance and Official Information Act. These include the central and general government balance (overall balance, gross operating balance, net operating balance, and net lending/borrowing) and the central government debt. This said, timeliness and quality of general government data is an area for improvement (see below).

The coverage and quality of budget documents

47. **The central government budget documents cover most central government fiscal activities in appropriate detail, though some EBFs are not covered [3.3.1].** The main presentation of budget information is organized by programs within departments (departments are sub-units of ministries). For information, the budget documents also provide an effective overview and appropriately detailed information by administrative, economic, and functional classification (including defense), as well as economic information by program, and alignment of programs with each department's strategic objectives. Revenues are identified by type and own revenues of government agencies seem to be fully reported on. As noted in paragraph 36, however, coverage is incomplete for the EBFs, which represent a significant share of total central government spending and, in many cases, have substantial own revenues. For about half of the EBFs—those that are receiving central government transfers or have received them in the past—budget documents provide full information on any transfers during the current budget and some information on own revenues and expenditures. The remaining half of EBFs are listed in budget documents, but no information is provided on their revenues and expenditures, even though they perform central government functions. Most EBFs are required to report their final accounts directly to parliament and to the AG, though delays and non-reporting occur.

48. **An overview of the consolidated budget for the general government is not available [3.1.6].** The central government budget documents are not accompanied by an overview of prospects for the consolidated local authority budget nor, as discussed, for

the EBFs. Thus, the legislature approves the central government budget without complete information on the general government fiscal stance. From the perspective of moving toward reporting budget information on a consolidated general government basis, it is encouraging that accounting standards seem to be broadly consistent for the central government and the local authorities.

Forecast fiscal data in the budget

49. **The budget documents present medium term forecasts for individual appropriations but not for aggregate fiscal variables [2.1.2].** Forecasts of fiscal aggregates are available only for the budget year. While the authorities prepare a medium term expenditure framework for decision-making in Cabinet, this presentation is not shared with parliament or published. The budget contains out-year estimates at the program level. However, these are not aggregated upwards. The forward estimates are prepared on an ongoing policy basis, and are based on budget discussions between BoB and government agencies.

Fiscal Reporting

50. **The budget documents include data on actual revenues with an adequately detailed breakdown for past years, with expenditure outturns accessible only to authorized agencies [3.1.2].** Data on the overall outturn for central government aggregate revenues and expenditures are reported for several years. A fairly detailed breakdown is also provided for actual revenues in the previous year. However, a breakdown of actual expenditure data is not provided: the detailed presentation of appropriations in the budget is only compared to the previous year's budget appropriations. Data on outturns for specific categories of expenditure are provided to parliamentary committees upon request. Outturn data are also published on the MoF's website, but not along the same breakdown as the budget document.

51. **Within-year reporting occurs at high frequency, especially for the broad aggregates [2.2.2].** Aggregate fiscal data on central and general government are posted on the MoF website on a monthly, quarterly, and annual basis in the context of reporting under the SDDS framework. In addition, the CGD produces monthly budget execution reports based on GFMIS data, including information by line ministries and departments, and by economic categories, though not with the breakdown by program as in the budget. These reports are sent for information to Cabinet and published on the MoF website. Although traditionally in-year reporting on budget execution to Parliament had occurred almost exclusively in the context of the informal briefing during the budget scrutiny process for the new fiscal year, the 2007 Constitution stipulates that formal in-year reporting to Parliament will need to take place every six months.

52. **Audited end-year final accounts for the central government have not been submitted to the legislature since those for fiscal year 2004 [2.2.4].** The government introduced the GFMIS during the 2005 fiscal year to replace the previous manual accounting system. There was limited parallel operation of the two systems, and problems were encountered with the accuracy of revenue transaction data. The AG has not yet certified the final accounts for that year (or subsequent years). End-year accounts of individual agencies and many, but not all, EBFs are provided to parliament, following certification by the AG. Submission of these entities' financial reports to parliament is subject to stipulation in the legislation of the entities, and is required only for some.

53. **Substantial information is provided regarding the state-owned enterprises [3.1.6].** Such information is provided by the State Enterprise Policy Office (SEPO) of the MoF. No consolidated public sector balance is reported. The financial and operational performances of SOEs are individually monitored and evaluated against a Cabinet-approved performance evaluation process. SEPO's SOE Performance Evaluation System regularly evaluates companies on: (i) performance in terms of government policy; (ii) financial and non-financial targets; and (iii) governance and management practices. Measured performance is a determinant of bonuses paid to staff, management, and the boards of directors. SEPO also monitors SOEs at higher frequencies, with a quarterly report (the State Enterprise Review) on the financial and operating information of each SOE and monthly tracking of SOEs' investments compared to the annual business plan. Both sets of reports are available on SEPO's website. This said, some SOEs have not met their requirements to have their final accounts certified on a timely basis.

Treatment of fiscal risks

54. **The sensitivity of the budget to macroeconomic variables is not published [3.1.3].** Although there seems to be fairly thorough internal scrutiny of macroeconomic assumptions among various parts of the administration, discussion of the implications of possible changes in macroeconomic variables for fiscal outcomes is limited. The authorities are considering the preparation of a Statement of Fiscal Risks, for which they have received IMF technical assistance. There is no central repository of information on contingent liabilities related to concessions, public private partnerships, or possible legal claims against the government (including those related to disputed tax assessments).

55. **Quasi-fiscal activities are sizable and some information related to their estimated cost is published [3.1.3].** Nonfinancial state-owned enterprises are monitored by the SEPO, which publishes information on individual companies' financial and operating performance in the quarterly *State Enterprise Review* (www.sepo.go.th). Information on subsidies and transfers from the central government to the state-owned enterprises, as well as any corporate income taxes and dividends paid by the SOEs, is reported in the budget documents. A 2008 Prime Ministerial regulation requires that public service obligations of SOEs be gradually estimated and included in the central government budget as explicit subsidies. Currently, PSOs are estimated for a few SOEs, but it is expected that the coverage will be extended over the next few years. The SFIs—which often extend credit on subsidized terms—are supervised by FPO, which publishes quarterly data on total credits by each SFI.

Publication of data on debt, other liabilities and financial assets

56. **Comprehensive information on gross public debt and its composition is published [3.1.5].** The PDMO tracks and publishes comprehensive data on the gross public debt and its composition (by currency and maturity) on a monthly basis (www.pdmo.mof.go.th). The main indicator of the debt tracked by the authorities is in some respects broader than under international standards: in addition to the central government's debt, it includes not only guaranteed but also non-guaranteed debt of the non-financial state enterprises, the SFIs (guaranteed debt only), the Financial Institutions Development Fund, and the autonomous agencies (the Energy Fund Administration Institute and the National Village and Urban Community Fund). It excludes the local authorities' debt, which is beyond the definition of the Public Debt Management Act.

Information on debts incurred by the local authorities is often received by the MoF through the Ministry of Interior with a delay of more than two years. The PDMO produces—but does not publish—estimates of the sensitivity of the debt burden to changes in the exchange rate and interest rates.

57. The framework for accounting and disclosure of other contractual obligations involving multi-year spending obligations has not been fully developed yet [3.1.3]. Multi-year spending obligations related to civil service pensions are not fully reflected in accompanying information alongside budget documents. Contingent liabilities (beyond guaranteed debt, which is reported as part of the main debt aggregates), as well as multi-year spending obligations resulting from public sector operations involving private sector participation, are currently limited. For infrastructure investments financed through securitization of future rental payments by the government (only one case thus far), some information has been disclosed in the budget and in the Annual Report of the Treasurer’s Department. This said, under existing procedures, infrastructure investments undertaken through modalities involving private sector participation do not compete on an equal footing with investments undertaken through standard procurement.

58. Information on government financial assets is published [3.1.5]. The social security office publishes comprehensive information on its assets, including composition of its portfolio by broad investment category (equities, foreign currency assets, government bonds, corporate bonds, etc.) on its web site on a quarterly basis, and presents information on investment performance in its annual report. The CGD publishes comprehensive information on the cash and financial assets it holds as the government’s treasurer. The Treasury department records all real estate property and land assets (including rents payable by private tenants to the government). As noted, the government publishes a consolidated statement of its equity holdings in the SOE sector.

Analysis of long-term public finances

59. An official analysis of overall prospects for long-term public finances has not been published, though studies have been prepared and sometimes published for health care and social security [3.1.7]. With population aging, Thailand will face significant challenges in the areas of pensions and health over the next decades, though the relatively recent extension of social security to broader segments of the population has resulted in a larger share of recent entrants and thus net contributors into the system. Long-term projections (using ILO methodology) for the Old-Age Fund have been published in the Social Security Office’s annual report. Technical studies have recently been prepared and published for the universal health care and social security systems.

Guide to the budget

60. A clear and simple guide to the budget aimed at the well-informed public is available on the web site of the BoB [3.2.1]. The Budget in Brief (www.bb.go.th) provides a clear and detailed presentation of the budget, accompanied by useful summaries of the information through tables and charts.

Budget classification

61. The annual budget presentation is broadly consistent with international standards [3.2.2]. The economic classification of expenditures is compatible with the

IMF's GFS2001 framework. The functional classification of expenditures is compatible with the United Nations' Classification of the Functions of Government (COFOG). Economic, functional, administrative, and program classifications are used.

Main Fiscal Indicators

62. **The main fiscal indicator in budget and policy discussions is the overall balance of central government under the authorities' definition, which is closely monitored during the year [3.2.3].** Specifically, the main indicator in the budget discussions is "domestic borrowing to finance the budget deficit," reflecting Thailand's legislation under which the budget deficit can only be financed through domestic borrowing. This indicator includes, on the spending side, transfers to the EBFs, as well as local authorities and state-owned enterprises. Other indicators, such as the primary balance, are also published and monitored. The general government balance receives little attention in policy discussions, partly because in past years the main changes in the general government balance have been driven by changes in the central government balance; moreover, local governments are subject to stringent controls on borrowing. Although the local authorities' fiscal balances are indirectly monitored through their banking deposits, final information on local authorities is received with long delays.

Results-oriented budgeting and reporting

63. **The objectives and expected results from government activities are clearly defined [3.2.4].** Key Performance Indicators (KPIs) on quality, quantity and, if applicable, timeliness are systematically set for individual programs and published in the context of the central government budget, and are monitored by the BoB. Separately, the Office of the Public Sector Development Commission also sets and monitors KPIs for a wide range of government entities. The two systems of KPIs do not seem to be fully consistent with each other.

D. Assurances of Integrity

Integrity of budget and accounting processes

64. **Central government budget data are reasonably reliable, though this is less the case for EBFs [4.1.1].** While budget reporting has suffered somewhat from the introduction of the GFMIS, regular and successful reconciliation of expenditure accounts now takes place for all spending transacted through the GFMIS. Bank transaction data reconciliation for (semi-) autonomous agencies occurs less frequently and is not verified by the CGD. The main weakness in central government accounting relates to EBFs—although in most cases they provide information on their balances to the GFMIS, often their revenues and expenditures are not reported in detail, and sometimes not at all, depending on the level of detail of their accounting systems. Liquid assets in the off-budget sector are not monitored systematically. This may lead to some uncertainty with regard to central government deficit figures. In-year monitoring has to take place on the basis of estimates. Similar uncertainty applies to the general government deficit, owing to lack of monitoring of local government financial data. End-of-the-year budget outturn data are presented by the CGD on the web, but have not been presented in formal publications since 2005.

65. **Budget outturns are reasonably close to budgeted amounts for revenues, but this is less so for expenditures; differences are not explained in published documents [4.1.1].** Revenue estimates are generally reliable, but capital expenditures suffer from delays in implementation. As discussed, as long as budget expenditure in a year is committed, the appropriation does not lapse, and cash expenditure can take place in the following year. In past years the budget indicates that cash carryovers from one year to the next have been in the range of 9–10 percent of total budget expenditure. Carry-overs are reported on in fiscal reports and budget documents.

66. **The quality of fiscal data is acceptable for the compilation of general government fiscal data according to the IMF's GFS 2001 framework [4.1.2].** In the IMF's 2006 data ROSC (Report on the Observance of Standards and Codes—data module), fiscal source data was seen as broadly adequate for the compilation of GFS data. However, some issues were noted regarding the timeliness and availability of central government data. A stronger caveat applies to data for the EBFs and local authorities, where estimates are used in the compilation of GFS data. Moreover, although all budget spending government units are required to follow the accrual-based public accounting standards, some units may not be able to fully adopt them in practice. And while the introduction of the GFMIS has enhanced the timeliness of central government accounting, it has increased the complexity of recording, thus possibly affecting the quality control of accounting information in the system.

Reconciliation practices

67. **The process of accounts reconciliation for fiscal reporting is effective for a substantial part of central government, but regularity and oversight of reconciliation could be increased [4.1.3].** The GFMIS has facilitated regular reconciliation of accounting and bank data for expenditures transacted through the GFMIS. Revenue reconciliation processes are still being improved, but are now done on a monthly basis. Not all expenditure is transacted through the GFMIS. Government agencies generally hold own operational expenditure/petty cash accounts and accounts for investment project payments. These accounts are usually reconciled on a quarterly basis, but not reported to the CGD. Line ministries are expected to correct their GFMIS entries as needed. The CGD does not monitor reconciliation processes of the off-budgetary sector or report on the overall sector. Data reconciliation is not shown explicitly in accounting reports.

Internal oversight

68. **Public servants are subject to principles of ethical behavior, but a government-wide Code of Conduct is not yet in place [4.2.1].** Sections 279-280 of the 2007 Constitution provide that there shall be a Code of Ethics for political office holders and public servants. To this end, the Ombudsman has issued a statement of nine core values of public service, while Chapter 5 of the Civil Service Act 2008 sets out principles of behavior for civil servants, including a requirement to perform official duties honestly and fairly, and to be politically impartial. The Cabinet is currently considering a general Code of Conduct for public servants. It is envisaged that each agency will incorporate this Code in its agency Code of Conduct to reflect the more specific circumstances of individual departments. The Office of the Civil Service Commission (OCSC) has established an Ethics Promotion Centre, while the National Anti-Corruption Strategy

2008, led by the National Counter Corruption Commission (NCCC)—an independent agency established in 1999—gives priority to promoting awareness and adoption of the Code of Conduct. Regulations also require a two-year period post-employment before officials may be employed by firms that contract with or otherwise do business with the government. Under the 2007 Constitution, asset disclosure requirements apply to Ministers and members of the Legislature, who are required to submit details to the NCCC within 30 days of taking and vacating office, and a further year after leaving office. The NCCC is active in enforcing these requirements. While there is some protection for the confidentiality of complainants and witnesses to corruption, the government is considering strengthening the legal framework to fully adhere to the United Nations Anti-Corruption Convention.

69. Civil service employment procedures are generally clear but are not always observed [4.2.2]. The Civil Service Commission is responsible for prescribing rules and procedures for government agencies in the field of human resource management. The OCSC gives priority to upholding the merit appointment system, and publishes an Annual Report on its activities. Section 57 of the Civil Service Act specifies who may make appointments, and limits ministerial involvement to the heads of ministries and departments, with staff below those levels to be appointed by the department head. A Merit Protection Commission was established in 2008 to consider complaints by civil servants concerning their treatment by senior officials. In practice the perception is that Ministerial intervention in appointments and other personnel management decisions takes place.

70. Procurement rules and practices do not fully meet international standards for transparency [4.2.3]. The legal framework for procurement by central government agencies is based on regulations of the Prime Minister’s Office dating from 1999; separate, but similar regulations apply to municipalities and SOEs, though the latter can set up their own procurement guidelines. The central government’s regulations generally foresee an open and competitive bidding process, including publication on the website www.gprocurement.go.th, for contracts above Baht 0.1 million, with selective or direct tendering allowed for contracts below that threshold. Procurement is still largely implemented through individual ministries and agencies. There is limited centralized oversight and reporting by the MoF. Public announcement requirements for procurements are somewhat unclear and not always followed. Publication of contract awards is also required, but there is no systematic monitoring of whether this takes place. Centralized announcements and notification of awards are presently limited to the MoF’s e-auction program. The independence of evaluation committees is prescribed, but does not seem assured in the absence of a pool of qualified evaluation experts. There is no general requirement of MoF representation for all major procurements. Reportedly, tender requests are sometimes slanted toward a preferred supplier, with possible preference for domestic suppliers. Complaint procedures are in place, but are generally seen as ineffective. A new Royal Decree on procurement—expected to be closer to international best practice in this last respect and others—is being considered.

71. The MoF has made some progress in centralizing larger procurements, but institutional responsibilities remain scattered [4.2.3]. Findings of the AG suggest continuing issues with the integrity of the procurement process. The MoF has in recent years issued a requirement for some procurements above Baht 2 million to be auctioned through an e-auction mechanism run by its Office of Public Procurement Management in

the CGD. The Office is also to monitor and report on procurement processes, and develop new legislation. Reporting is currently limited to tenders run through the e-auction, not those implemented through the more than 200 central government agencies. The Prime Minister's Office also has responsibilities for the procurement process through the Committee in Charge of Procurement, which can grant reprieves or exemptions to procurement regulations. The BoB is involved with procurement through setting of norm prices for various government purchases. Individual procurement processes are regularly scrutinized both by the AG's Office and the Anti-Corruption Commission. The AG's annual report for 2007 found 1,300 contracts, totaling Baht 15 billion, to involve improper procurement practices. Common irregularities were incorrect contract specification and the estimated price being set too high. Another recurring issue in tender processes seems to be collusion among bidders. A recent assessment of the Thai procurement system supported by the World Bank concluded that while "Thailand possesses most of the elements of a fundamentally sound procurement system," opportunities for improvement exist in oversight, monitoring, and transparency.

72. Government purchases and sales of physical assets are largely centralized at the MoF and undertaken in a reasonably open fashion; major transactions are separately identified in the budget and fiscal reports, and audited by the AG [4.2.4]. Government asset purchases and sales are governed by the same procurement framework that applies to goods and services. Sales of government assets have been relatively rare. While central government has substantial holdings of both land and buildings, the MoF has a policy of renting out land or developing buildings through the private sector rather than disposing of them through sale when not in use by government agencies. Land for infrastructure is acquired through market purchases and an expropriation framework. Reportedly, low rents are charged for farm land as a form of social policy. Management of central government physical assets not in use by departments or agencies is the responsibility of the MoF's Treasury Department. Tender processes for commercial property are used to solicit the best offer from the private sector, and results are published in the Treasury's annual report. Contracts are not published, but are accessible in principle through the freedom of information act. Larger asset purchases or leases are separately identified in the MoF's or line ministry budgets. Natural resource exploration and production are concessioned through line ministries' regulatory frameworks.

73. An internal audit function is in place in government agencies, and audit procedures are open to review [4.2.5]. The internal audit function is managed on a decentralized basis in individual government departments and agencies. Internal auditors report to the head of each department and institution. Their reports are available to, and are used by, staff of the Office of the AG in the conduct of the external audit. The CGD sets standards and guidelines for internal audit across the government, and conducts training for internal auditors in other ministries and agencies.

Clarity of internal control and independence of tax administration

74. Internal monitoring and control mechanisms in tax administration are generally effective [4.2.6]. The Revenue Department, Customs Department, and the Excise Department have their own internal audit units responsible for overseeing the integrity of the internal operating environment. The three departments are also subject to audit by the Internal Audit unit of the MoF. The introduction of computerized information systems in the tax collection agencies has provided a stronger basis for internal

monitoring and control. The three departments also share information (subject to safeguards) through a common database.

75. The revenue collection departments are part of the MoF, but publish separate informative Annual Reports on their activities [4.2.6]. The Revenue Department, the Customs Department, and the Excise Tax Department are all departments within the MoF. Each publishes an Annual Report and makes it available on its web site. For instance, the Revenue Department's 2007 Annual Report discusses the department's strategic objectives, and reports performance against selected performance indicators, including taxpayer satisfaction, and the increase in the number of returns filed electronically. The report also discusses initiatives to improve taxpayer information, and presents a short description of new tax measures introduced in 2007, and an explanation of actual revenue collections compared to forecasts by main tax base.

Independent external oversight

76. External audit is independent of the executive branch [4.3.1]. The 2007 Constitution stipulates that the State Audit Commission is an autonomous agency, and that the AG shall be independent and impartial. The members of the State Audit Commission and the AG are selected by a Selection Committee consisting of senior members of the judiciary, the President of the House of Representatives, and the leader of the opposition party. The Commission has authority to issue auditing standards, to direct the administration of the Audit Office, and to nominate candidates, from amongst whom the Senate appoints one as AG. The AG is responsible to the Chairman of the State Audit Commission and can only be removed by unanimous vote of the State Audit Commission and a concurrent resolution passed by a three quarters majority of the Senate. Existing legislation protects the OAG's budget independence. Audit officials have powers to obtain information and summon officials.

77. The OAG's mandate covers all central government public sector activities and local authorities [4.3.1]. The 1999 Organic Act on State Audit defines the OAG's scope to cover all public sector agencies receiving subsidies from the state, as well as entities receiving funds from an audited agency; the OAG must sign off on the audit of every general government agency and every central government-owned commercial enterprise. Some SOEs use private sector auditors, but the OAG retains responsibility for these audits; OAG staff themselves conduct all other audits. In 2007, the OAG's staff of 2,700 was responsible for auditing 71,000 entities, and actually audited 4,700 entities. The OAG conducts financial audits, procurement audits, performance audits, and investigative audits, and has recently commenced environmental auditing. It has received technical assistance from the World Bank and cooperates with counterpart agencies in other countries. Auditing standards are in line with international standards. The annual work plan is based on risk analysis, in part informed by internal audit reports and public complaints through a confidential hotline. The revenue collection agencies and major state enterprises are audited every year, whereas small entities are audited less frequently. Staffing is subject to normal civil service regulations on staff positions and salaries, which constrains the OAG's ability to attract professional staff.

78. External audit reports are submitted to the legislature and published; mechanisms are in place to ensure a response to audit findings [4.3.2]. The Organic Act on State Audit provides that if the Auditor finds irregularities, the OAG will inform the audited agency to correct the defects or take proceedings against the wrong doer; the

auditing agency shall report back to the State Audit Commission within 60 days. If still not satisfied, the Commission may notify the supervising ministry or official, and may ultimately report the matter to the parliament and the Council of Ministers. In cases of possible corruption, the Commission notifies the prosecuting authorities; and where the Commission considers there is a failure to act, it shall report the matter to parliament and the Council of Ministers. The Commission is also authorized to refer its opinions to the National Assembly's committee considering the budget appropriation for the agency in the next financial year. The Commission can also impose administrative fines on officials in violation of finance laws. The AG reports annually to the House of Representatives, the Senate, and the Council of Ministers; upon their approval, the report is disseminated to the public. Reports may also be submitted during the year if there is a need for prompt consideration.

Integrity of Fiscal Statistics

79. **Fiscal statistics are produced on an impartial basis, despite the absence of specific legislation providing assurances of independence in this area [4.3.4].** Fiscal statistics are compiled by the FPO according to a 2002 Ministerial Regulation. An inter-agency GFS Committee facilitates coordination amongst data producing agencies, and compilers are guided by a Code of Practice for compiling GFS. The 2006 data ROSC concluded that in practice compilers of fiscal statistics are not influenced by any fiscal policy or other consideration. The FPO web site reports that there is no internal government access to GFS data prior to their release.

II. IMF STAFF COMMENTARY

80. **Thailand meets the requirements of the fiscal transparency code in several areas, and exceeds them in some.** The budget preparation process abides by clear schedules and processes. The budget incorporates many desirable features, including embedding the annual budget in a macroeconomic framework, incorporating a performance orientation to the budget, medium term forecasts of expenditure by department, and information on multi-year commitments in the budget. The legal framework for public debt management is clear, and the reporting of public debt is highly transparent. Debt ceilings reflect a commitment to fiscal prudence. The central bank provides valuable inputs toward the consensus macroeconomic assumptions underlying the budget. Important safeguards for the integrity of public financial management include the independence and scope of the NCCC and the OAG. In the area of external audit, the importance of the OAG's role is reflected in the attention paid to some of its findings. Regulations do not seem to be overly complicated or burdensome—consistent with Thailand's strong scores in surveys of perceptions of the ease of doing business. More generally, fiscal transparency seems to be increasingly viewed in the Thai administration as further buttressing its long-held culture of fiscal discipline.

81. **Fiscal transparency has improved in recent years in a number of respects.** A more transparent and effective performance management framework has been developed, including specification of outputs and Key Performance Indicators. The move to accrual reporting and the introduction of GFMIS to most of the central government have been largely accomplished, improving the quality and timeliness of data, though some transitional issues remain to be resolved (see below). In revenue departments, computerization and the use of electronic filing has enhanced internal monitoring and

control, and has reduced face-to-face contact between taxpayers and officials, thereby reducing scope for abuse. The budget documents now report extensive information on SOEs. Public Service Accounts have been introduced by SFIs and some SOEs to separately record the cost of delivering non-commercial goods and services, and the central government budget has started moving toward explicit subsidies instead of QFAs in this domain. The legal framework has been strengthened in some areas, including the BoT Act, which further enhances the BoT's independence.

82. The 2007 Constitution requires the introduction of further measures to increase fiscal transparency. The authorities are preparing a new Public Finance Act to implement a number of measures in the 2007 Constitution. These include rules for medium term financial planning, guidelines for estimating expenditures, and rules for determining the amount of emergency contingency funds. The Constitution also requires inclusion of additional information in the annual budget documents, including an economic overview, the fiscal impacts of tax exemptions, and justification for multi-year obligations. The Constitution requires that the new Act be passed in 2009, and the authorities expect to start implementing the new provisions in fiscal year 2010.

83. Five main areas are priorities for improvement in the near term. First, the need to introduce a new Public Finance Act to implement provisions in the 2007 Constitution provides an opportunity to comprehensively review the current legal framework. In particular, requirements should be strengthened for the content of the annual budget documents, management of EBFs, and fiscal reporting. Second, there is an urgent need to present certified final accounts on budget implementation to Parliament and the public for 2005–2008. Third, more complete information should be presented to Parliament with the 2010 budget, including a medium term fiscal framework, actual budget outturn data for previous years, a Statement of Fiscal Risks, and estimates of tax expenditures. Fourth, a four-year rolling public investment plan should be prepared to facilitate a needed expansion of public investment without increasing fiscal vulnerabilities. Fifth, regulation and transparency of procurement and of contracts under PPPs should be strengthened. More detailed recommendations for the near- and medium-term follow, organized along the structure of the Fiscal Transparency Code.

I. Clarity of Roles and Responsibilities

- **Review of the legal framework for financial management.** A new Public Finance Act is a requirement of the new Constitution, but is also needed to embed recent budget management reforms in the legal framework. A new law would strengthen: requirements for fiscal reporting (of agencies and EBFs toward the MoF, and of MoF toward parliament); the use of a medium term expenditure framework; the information presented with the annual budget; the performance orientation of the budget; the management of public investment and PPPs; the oversight of EBFs; and active use of cash management. It would also limit the discretionary use of the Central Fund. Some, but not all of these parameters are stipulated in the 2007 Constitution. A new law could unify and replace the various existing laws. While the Public Debt Management Act is broadly appropriate, it would be desirable to eliminate the ability to borrow funds to finance expenditures not approved in the budget up to 10 percent of budget expenditure, even if it has not used in practice.

- **Oversight, regulation and restructuring of EBFs.** Given the important financial flows through the sector, monitoring from the center of government should be strengthened, possibly through a framework law for the extrabudgetary sector to define the appropriate use, management, and reporting requirements of EBFs. Regular in-year and end-of year reporting to central agencies would strengthen budget management. EBFs should as much as possible be subject to normal budget management, financial regulation, and oversight. A more ambitious reform would be a comprehensive review of all existing EBFs, which could identify certain EBFs as regular government programs or agencies and reintegrate them into the budget, whereas others could be assessed as appropriately using the EBF governance mechanism.
- **Transparency and accountability of SOEs and SFIs.** While in many respects a sound governance framework is in place, and recent initiatives have strengthened it, further measures should be considered, as follows:
 - Improve the timeliness and accuracy of company annual reports.
 - Publish a consolidated statement of the government's full or partial equity holdings in all financial institutions.
 - Publish the prudential regulatory standards for SFIs.
 - Building on recent initiatives, progressively expand the coverage of Public Service Accounts in SOEs, starting with the largest non-commercial activities.
 - Require each SOE and SFI that delivers goods and services on non-commercial terms to include details of such activities and their cost in its Annual Report.
 - Publish a Statement of Quasi-Fiscal Activities summarizing the non-commercial activities undertaken by SOEs and SFIs and their financial cost, both in gross terms and net of any direct government budget subsidies.
 - Review the overall governance framework for SOEs and SFIs, to create a more level playing field with the private sector, and to make it easier to assess their performance. Measures include: removing any remaining regulatory functions; publishing desired qualifications for Board Directors; developing a pool of qualified Directors; and reviewing the policy justification for tax exemptions.

Best practice is to move toward fully funding all non-commercial obligations of SOEs and SFIs from the government budget.

- **Transparency and accountability for inter-governmental fiscal relations.** An annual report should publish the criteria used to decide the allocation of central government grants to local authorities and the resulting allocations. Moreover, reporting by local authorities to the Ministry of Interior and the MoF on their actual revenues, expenditures, and borrowing, needs to be more timely.
- **Legal framework for Public Private Partnerships and concession contracts.** It is important to ensure that PPPs and other contracts under the Act on Private Participation in State Undertaking are not used to shift public investment off the

government's books. The legal framework should mandate criteria and analysis for determining when a PPP should be used instead of traditional public investment. Guidelines should also be issued on the allocation of risks between the government and the private sector; accounting and reporting requirements; maintenance of contract registers; and publication of at least the key provisions of contracts.

- **Transparency of the fiscal relationship between the government and the BoT.** Following due study and consultation, elements of a more transparent relationship could include: (i) the government directly repaying the principal on FIDF bonds (rather than the BoT making the repayment from its operating profit in lieu of transferring profit to the central government), (ii) any quasi-fiscal activities of the BoT being included in the government's Statement of Quasi-fiscal Activities and being reimbursed to the BoT, and (iii) banking and other financial services provided to government being remunerated at cost.

II. Open Budget Processes

- **Transparency of budget preparation process and updating of macroeconomic assumptions.** Publication of a Fiscal and Budget Strategy document describing the medium term macrofiscal outlook, the fiscal policy stance of government over the medium term, and the strategic direction of the next budget would provide early information on the plans of the executive. This document could be presented to parliament mid-way through the preparation process, and could support early consensus on the strategic direction and the fiscal stance. On the macro underpinning of the budget, present practice is to estimate the macrofiscal framework in November/December and keep it unchanged for the rest of the process. It would seem worth considering updating the macrofiscal framework for the budget shortly before sending it to parliament at the end of May, providing an opportunity to calibrate the fiscal stance and adjust revenue and expenditure plans as needed.
- **Public investment planning in a medium-term context.** Substantial progress has been made introducing a medium term orientation to the budget through development of a top-down fiscal framework, and bottom-up forward estimates of expenditure programs. Capital investment projects are still largely planned on an annual basis (with a multi-year approval of associated spending commitments). For larger sectoral ministries, and for larger investment projects, it would be worth considering to start planning and making decisions on investment projects over the medium term. This would require preparation of a rolling multi-year public investment program, approval of such a plan by Cabinet, and its integration in the budget. Such a plan would contain an overview of planned funding mechanisms, including possible PPP funding. Such medium-term planning would also provide scope for more accuracy in planning and discontinuing the practice of excessively large carry-overs. The cash budget should consist primarily of cash expenditure planned for the current year.
- **Fiscal reporting, accounting, and control functions of the Comptroller General.** These could be geared more to tracking the budget, seeking comprehensiveness of government accounting, and assuring integrity of payment and accounting processes. Budget monitoring should follow the budget classification used in planning and decision-making, including the program level. The CGD has in recent years introduced important reforms on accrual accounting and GFMIS. The department

could further enhance its provision of information to BoB and FPO. Budget execution reports should be compiled according to the budget, with a formal in-year report sent to parliament. CGD should expand use of the GFMIS to all budgetary transactions, and encourage use by local government and smaller EBFs. CGD should register and monitor the use of all central government bank accounts, and perform or verify the reconciliation of these accounts with the fiscal accounts. CGD should also consider keeping records of all central government bank accounts. A final area where CGD might help to strengthen data integrity is by standard setting and technical inspection of the financial management systems in line ministries and agencies.

III. Public Availability of information

- **Additional information and user-friendliness of budget documents.** This would include:
 - A substantive overview of the macroeconomic outlook and fiscal policy stance. In particular, this would include an ex-ante description and an ex-post assessment of the fiscal stance at the general government or even the public sector level, in light of the extensive scope of SOEs and their prospective role in large public investment projects.
 - A Statement of Fiscal Risks (see Annex).
 - Tax expenditures.
 - Terms of long-term commitment contracts with the private sector.
 - Overview of local authorities, the EBF sector, and general government.
- Budget documents should also:
 - Compare budget data in detail against budget outturns (for past years) and forecast budget outturns (for the current year).
 - Provide an overview of new expenditure and revenue initiatives and their fiscal impacts.
 - In the medium term, the budget should integrate a narrative of strategies, policies and planned activities of line ministries with budget estimates and performance information. Line ministries would be responsible for drafting sections of budget documents relating to their programs (under BoB supervision).
- **Tax expenditures.** This topic is of major importance to fiscal transparency, as reflected in the 2007 Constitution. It warrants a separate annual report to Parliament on tax expenditures, with the annual budget. This should provide an overview and details on the stock of tax expenditures, including a policy justification for each item, together with an estimate of its fiscal impacts in the budget year. As capacity allows, estimates of fiscal impacts could also be presented for the following three years. A review should also be conducted of the extent of tax exemptions with a view to simplifying the tax codes and making effective tax burdens more transparent.

IV. Assurances of Integrity

- **Accountability for implementation of the annual Budget Act.** This is a high priority, and comprises the following elements:
 - As a matter of urgency, complete the final accounts of central government for the fiscal years 2005–2008 to permit certification by the AG, and report them to Parliament and the public. The current situation, where no audited final accounts have been completed since the 2004 fiscal year, risks devaluing the ex-post control framework. The central government needs to lead by example in this area.
 - Ensure that the audited final accounts are presented to Parliament in future years within 6 months of year-end.
- **Role of parliament in budget, mid-year execution, and final account review.** A number of the suggestions above relate to greater provision of information in a user-friendly format to parliament and the public at large. This would help improve the quality of the policy dialogue and enhance integrity in the use of the public finances. A few related institutional issues could also be considered, for example, establishment of standing committees and sub-committees for budget scrutiny, to facilitate build up of expertise compared to the current situation where the budget committees are set up on an ad-hoc basis each year; and, more ambitiously, training of parliamentarians and the establishment of a budget support unit within parliament to help parliamentarians with their budget review.
- **Legal basis for procurement and oversight role of the MoF.** Publication of procurement announcements and reporting on awarding of contracts should be centralized at the MoF. Assurances for the independence of evaluation committees and development of an expert pool should be sought and participation on these committees of MoF officials in case of larger contracts should be required. It is desirable that all contracts (or at least their key provisions) be published. The possibilities of centralized procurement should be explored—in decentralized procurement by agencies, reporting to MoF should be required. In turn, the MoF should be required to report on an annual basis on the procurement process to the Minister, the AG and Parliament. New legislation would seem necessary to bring procurement up to international standards. This legislation would help standardize processes, limit exemptions, and strengthen administrative and legal recourse.

ANNEX: PREPARING AND DISCLOSING A FISCAL RISK STATEMENT

84. **Best practice in fiscal management is to include a Statement of Fiscal Risks in the budget documentation as a basis for assessing vulnerabilities surrounding budget outcomes.** Fiscal risks are defined as short- to medium-term deviations in revenues, expenditure, the fiscal deficit, or the public debt, compared to initial expectations (e.g., what was expected at the time of the budget). They include the fiscal impact of possible changes in macroeconomic variables; explicit government liabilities defined by law or contract; and implicit liabilities that are a possible burden for the government (e.g., bailouts of banks or state-owned enterprises). It is good practice to publish the Statement of Fiscal Risks once a year, alongside the budget documents.

85. **Various public sector entities already collect much, though not all, of the information that would be necessary to prepare a fiscal risk statement.** Key gaps include the following: (i) a systematic and detailed comparison of budgets with end-of-the-fiscal-year outturns, to be routinely reported to parliament; (ii) analysis of the sensitivity of government revenues to changes in macroeconomic variables; (iii) improved quality and timeliness of data on SOE performance; (iv) quantification and tracking of quasi-fiscal activities; (v) registers of contingent liabilities, multi-year purchase obligations, and existing PPP and concession contracts; and (vi) timely data on Local Authority budget outturns and financial position. A strengthening of routine coordination mechanisms both within the MoF and across key agencies would enhance the ability to produce such statement of fiscal risks.

A summary of the Statement's suggested structure appears in Box 4.

Box 4. Summary of Possible Structure of a Fiscal Risk Statement

A. Fiscal Policy Objectives

An introductory section could outline the authorities' fiscal objectives—such as fiscal discipline (including any announced numerical and other targets on broad aggregates such as the debt to GDP ratio) and the need to foster economic growth and stability, including through additional public investment. The section could also indicate how the government's overall fiscal strategy has reduced fiscal risks.

B. Macroeconomic Risks, Budget Sensitivity, and Budget Flexibility

Systematic comparison of past fiscal outturns with initial budgets. Discussion of the macroeconomic forecasting record in recent years, comparing the assumptions used in budget forecasts against actual outcomes.

Sensitivity of aggregate revenues and expenditures to variations in each of the key economic assumptions on which the budget is based (e.g., impact of economic growth, inflation, exchange rates and interest rates on revenues and expenditures), with explanation of underlying mechanisms.

Mechanisms to handle within-year risks to the budget from macroeconomic and other shocks (e.g., natural disasters). Description of the contingency fund (including its size and the uses to which it can be put). Mechanisms to reallocate budget appropriations across departments and items.

C. Public Debt

Public debt and its composition. Debt management strategy and its impact on improving the government's risk exposure. Sensitivity of debt servicing costs to variations in assumptions regarding e.g., exchange rates and interest rates. This section could also include a debt sustainability analysis under uncertainty.

D. State-Owned Enterprises

Policy framework for SOEs (pricing policy, dividend policy). Financial performance and position of the SOE sector and the largest SOEs. Information on subsidies and quasi-fiscal activities. Summary of any publicly announced restructuring plans.

E. Public Investment Program

Overview of the whole public sector's investment program, outlining infrastructure needs, main projects, investment modalities, and sources of financing (including criteria for choice of financing modalities). Policy framework and rationale for public investment projects involving private sector participation (concessions and PPPs). List of all current and prospective PPPs; cumulative overall exposure from current PPPs; announced PPP program; features of some signed PPPs; and gross exposure from guarantees and similar instruments.

F. Local Authorities

Legal framework for fiscal relations with Local Authorities, and summary of recent aggregate Local Authority financial performance and financial position.

G. Financial Sector

In general terms, monitoring and managing any fiscal risks in the financial sector is a high priority, but such risks should be disclosed only to the extent that this would not generate vulnerabilities or create moral hazard. It would be appropriate to include in the published version of the fiscal risk statement relevant information that has already been disclosed to the public through other vehicles.

III. SUMMARY TABLES

Table 1. A Summary Assessment of Practices

Principles and Practices		Summary Assessments	Comments
Clarity of Roles and Responsibilities			
1.1.	The government sector should be distinguished from the rest of the public sector and from the rest of the economy;	Largely observed.	
1.1.1	The structure and functions of government should be clear.		The Social Security Bureau is incorporated in the central government budget while some other EBFs are not.
1.1.2	The fiscal powers of the executive, legislative, and judicial branches of government should be well defined.		Set out in the 2007 Constitution.
1.1.3	The responsibilities of different levels of government, and the relationships between them, should be clearly specified.		A unitary state, with respective responsibilities set out in the 1999 Decentralization Act. Central government exerts high degree of control over Local Authorities. Lack of transparency of intergovernmental grants. Some lack of clarity of expenditure responsibilities. Tax and borrowing powers clear.
1.1.4	Relationships between the government and public corporations should be based on clear arrangements.		A sound governance framework for SOEs, and starting to create Public Service Accounts for non-commercial activities. But large state-owned financial and non-financial enterprises conduct substantial quasi-fiscal activities.
1.1.5	Government relationships with the private sector should be conducted in an open manner, following clear rules and procedures.		Recent moves to strengthen independence of some regulatory bodies, but some weaknesses remain.

1.2.	There should be a clear and open legal, regulatory, and administrative framework for fiscal management.	Largely observed.	
1.2.1	The collection, commitment, and use of public funds should be governed by comprehensive budget, tax, and other public finance laws, regulations, and administrative procedures.		Legal framework has gaps and is scattered across different Acts. The discretionary use of the Central Fund should be further curtailed. Current draft of new Public Finance Act aims to address some shortcomings.
1.2.2	Laws and regulations related to the collection of tax and non-tax revenues, and the criteria guiding administrative discretion in their application, should be accessible, clear, and understandable. Appeals of tax or non-tax obligations should be considered in a timely manner.		Reasonably comprehensive laws and regulations, including some procedures governing use of discretion. No data on timeliness of hearing appeals.
1.2.3	There should be sufficient time for consultation about proposed laws and regulatory changes and, where feasible, broader policy changes.		While a recent requirement (in the 2007 Constitution), and may be improving, in practice consultation perceived to take place late in the process. Little or no practice of publishing consultation papers on major tax or spending policies under consideration.
1.2.4	Contractual arrangements between the government and public or private entities, including resource companies and operators of government concessions, should be clear and publicly accessible.		Details of contractual arrangements between the government and private entities are not generally in the public domain.
1.2.5	Government liability and asset management, including the granting of rights to use or exploit public assets, should have an explicit legal basis.		Reasonably clear legal framework for public debt management, and for investment of Social Security assets. Inadequacies with respect to PPPs and concessions.

Open Budget Process			
2.1.	Budget preparation should follow an established timetable and be guided by policy well-defined macroeconomic and fiscal objectives.	Largely observed.	
2.1.1	A budget calendar should be specified and adhered to. Adequate time should be allowed for the draft budget to be considered by the legislature.		Well organized budget process. More than adequate time for Parliamentary consideration.
2.1.2 (a)	The annual budget should be realistic, and should be prepared and presented within a comprehensive medium-term macroeconomic and fiscal policy framework.		Budget revenue forecasts reasonably reliable, expenditure systematically underspent. The deficit is close to budget due to spending from carried forward appropriations.
2.1.2 (b)	Fiscal targets and any fiscal rules should be clearly stated and explained.		The main rule (debt to GDP ratio below 50 percent) is transparent and reported against. This is largely true of the second main rule (debt servicing ratio). Two further objectives (relating to a balanced budget, and a minimum level of public investment spending) are no longer emphasized.
2.1.3	A description of major expenditure and revenue measures, and their contribution to policy objectives, should be provided. Estimates should also be provided of their current and future budgetary impact and their broader economic implications.		There is no summary of new policies being introduced in the budget, and limited information on their fiscal impacts. It is difficult to gauge the scope and impact of policy changes being introduced in the budget.

2.1.4	The budget documentation should include an assessment of fiscal sustainability. The main assumptions about economic developments and policies should be realistic and clearly specified, and sensitivity analysis should be presented.		The debt to GDP ratio is reported, but little else is published on sustainability. Only the main economic assumptions are reported in the budget. There is no fiscal sensitivity analysis in the budget documents.
2.1.5	There should be clear mechanisms for the coordination and management of budgetary and extrabudgetary activities within the overall fiscal policy framework.		A regulatory framework is in place, but there are many gaps. The framework should be improved especially with regard to oversight and reporting. The large number of EBFs could be decreased in the years ahead.
2.2	There should be clear procedures for budget execution, monitoring, and reporting	Largely observed.	
2.2.1	The accounting system should provide a reliable basis for tracking revenues, commitments, payments, arrears, liabilities, and assets.		A GFMIS was introduced in 2004, which is a significant improvement. But there are problems with reconciling some transactions, mainly on the revenue side. Carry-over of expenditures from year to year should be limited.
2.2.2	A timely midyear report on budget developments should be presented to the legislature. More frequent updates, which should be at least quarterly, should be published.		There is no formal in-year reporting to Parliament on budget outturns.

2.2.3	Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation.		Supplementary budgets are rare, owing to the flexibility afforded the executive to transfer funds during budget execution. The 2009 Supplementary Budget, tabled in November 2008, is in the same format as the 2009 Budget.
2.2.4	Audited final accounts and audit reports, including reconciliation with the approved budget, should be presented to the legislature and published within a year.		The last set of audited final accounts sent to the legislature refers to fiscal year 2004.
Public Availability of Information			
3.1	The public should be provided with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks.	Largely observed.	
3.1.1	The budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extrabudgetary activities of the central government.		The budget documents partially cover EBFs, but there have been no published final accounts in the same format as the budget since 2004.
3.1.2	Information comparable to that in the annual budget should be provided for the outturns of at least the two preceding fiscal years, together with forecasts and sensitivity analysis for the main budget aggregates for at least two years following the budget.		While there is some information on projected actual revenues in the year prior to the budget year, there is no similar information on expenditures, no forecasts of the main budget aggregates beyond the budget year, and no sensitivity analysis. The information is available within government.

3.1.3	Statements describing the nature and fiscal significance of central government tax expenditures, contingent liabilities, and quasi-fiscal activities should be part of the budget documentation, together with an assessment of all other major fiscal risks.		Debt guarantees are reported fully. There is a list of tax exemptions in the annual budget documents, (without any estimated fiscal impacts), and the fiscal impact of new tax exemptions are now being presented on introduction (but not thereafter). In recent years budget documents have reported some information on public service obligations of SOEs (although many other QFAs are not covered).
3.1.4	Receipts from all major revenue sources, including resource-related activities and foreign assistance, should be separately identified in the annual budget presentation.		Revenues are identified by major type. Some details of foreign assistance are in the “Budget in Brief.”
3.1.5	The central government should publish information on the level and composition of its debt and financial assets, significant nondebt liabilities (including pension rights, guarantee exposure, and other contractual obligations), and natural resource assets.		Reporting of public debt is comprehensive. There is no information on civil service pensions, and no balance sheet of the central government has been published since 2004. Some information on other liabilities is reported in individual agency Balance Sheets in their Annual Reports.
3.1.6	The budget documentation should report the fiscal position of subnational governments and the finances of public corporations.		The only information on Local Authorities in the central government budget is transfers to them. There is extensive information on public corporations (although no overall public sector balance).

3.1.7	The government should publish a periodic report on long-term public finances.		There has been some limited reporting of long term projections of the Social Security Fund and the Health Fund, but nothing on the central government's longer term projected fiscal outlook.
3.2	Fiscal information should be presented in a way that facilitates policy analysis and promotes accountability.	Largely observed.	
3.2.1	A clear and simple summary guide to the budget should be widely distributed at the time of the annual budget.		The Budget in Brief is a highly informative summary of the budget – although ideally it would be accompanied by a much shorter and less technical presentation for the general public.
3.2.2	Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category.		There are only limited exceptions to gross reporting, for some autonomous agencies.
3.2.3	The overall balance and gross debt of the general government, or their accrual equivalents, should be standard summary indicators of the government fiscal position. They should be supplemented, where appropriate, by other fiscal indicators, such as the primary balance, the public sector balance, and net debt.		Only the cash deficit of central government is presented in the budget documents (although in practice this is the key fiscal indicator, given the strong control of the central government over Local Authority budgets and borrowing).

3.2.4	Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.		Results against Key Performance Indicators are reported in the central government's budget documents, and also in individual department Annual Reports.
3.3	A commitment should be made to the timely publication of fiscal information.	Largely observed.	
3.3.1	The timely publication of fiscal information should be a legal obligation of the government.		There is very little in the way of legal requirements to publish fiscal data with a specified periodicity and timeliness. In practice, Thailand has subscribed to the SDDS, and observes its standards for the periodicity and timeliness of fiscal data dissemination.
3.3.2	Advance release calendars for fiscal information should be announced and adhered to.		As envisaged under participation in the SDDS.
Assurance of Integrity			
4.1	Fiscal data should meet accepted data quality standards.	Largely observed.	
4.1.1	Budget forecasts and updates should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments.		Outturns for revenues and the deficit are close to budget, but new appropriations of spending in the budget are systematically overestimated. The macroeconomic framework is not updated between January and the presentation of the budget to Parliament in May.

4.1.2	The annual budget and final accounts should indicate the accounting basis used in the compilation and presentation of fiscal data. Generally accepted accounting standards should be followed.		The government's accounting standard is based on GAAP. The standard is referenced in some fiscal reports.
4.1.3	Data in fiscal reports should be internally consistent and reconciled with relevant data from other sources. Major revisions to historical fiscal data and any changes to data classification should be explained.		Some internal inconsistencies, which appear to reflect technical problems, are reflected in the non-certification of the fiscal accounts by the AG since 2004. Major revisions do not seem to have been needed over the past few years. Not all government bank accounts are registered and appropriately monitored.
4.2	Fiscal activities should be subject to effective internal oversight and safeguards.	Largely observed.	
4.2.1	Ethical standards of behavior for public servants should be clear and well publicized.		General ethical standards are in place across the government, and some agencies have their own departmental Codes of Ethics. A Code of Conduct across the whole of central government is not yet in place.
4.2.2	Public sector employment procedures and conditions should be documented and accessible to interested parties.		Employment procedures are documented, and there are processes to try to ensure their observance (but irregularities occur).
4.2.3	Procurement regulations, meeting international standards, should be accessible and observed in practice.		There are some weaknesses in the legal framework, and significant irregularities occur in practice.
4.2.4	Purchases and sales of public assets should be undertaken in an open manner, and major transactions should be separately identified.		Procedures for the rental or development of publicly owned land by the private sector are open, and key details are reported.

4.2.5	Government activities and finances should be internally audited, and audit procedures should be open to review.		An internal audit function, reporting to the agency head, is in place in departments and autonomous agencies. Revenue departments are also subject to internal audit by MoF. Internal audit reports are available to the AG.
4.2.6	The national revenue administration should be legally protected from political direction, ensure taxpayers' rights, and report regularly to the public on its activities.		Independent appeal processes are in place in the revenue departments. Each department publishes an Annual Report. No specific legal protection from political intervention.
4.3	Fiscal information should be externally scrutinized.	Largely observed.	
4.3.1	Public finances and policies should be subject to scrutiny by a national audit body that is independent of the executive.		The AG is legally independent from the executive, and also seems to operate in an independent manner in practice.
4.3.2	The national audit body or equivalent organization should submit all reports, including its annual report, to the legislature and publish them. Mechanisms should be in place to monitor follow-up actions.		AG reports directly to Legislature and has authority to pursue and require follow-up action by agencies. AG briefs legislators on audit issues during discussion of agencies' budget proposals.
4.3.3	Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions.		No formal independent expert review of fiscal and macroeconomic forecasts, but BoT's model is available on its web site. Macro forecasts grounded in solid and unbiased analysis, with useful internal debate among four institutions contributing to the forecast.
4.3.4	A national statistical body should be provided with the institutional independence to verify the quality of fiscal data.		In practice, there is technical independence in the production and dissemination of official fiscal statistics, although there is no formally assured independence.