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THAILAND

PATTAMA TEANRAVISITSAGOOL

Office of National Economic and Social Development Board (NESDB)

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2003: STRONG DOMESTIC GROWTH DESPITE SARS

The major influence on the Thai economy in early 2003 was the US-Iraq war. This was compounded by the SARS epidemic through much of East Asia. The tourism sector was seriously affected with a 40.3% decline in the number of foreign tourists in the second quarter, and a 7.8% decline for the year overall.

Despite this, GDP grew by 6.7% overall in 2003 propelled by private consumption and investment. Domestic demand contributed 5.9 percentage points to this growth figure. Export growth remained robust, but net export of goods and services contributed only 0.5 percentage points down from 1.1 in 2002. This was explained by the surge in imports of goods driven by accelerating private investment and overall economic activities, and the decline in service receipts caused by SARS.

2004: STRONG GROWTH TO CONTINUE

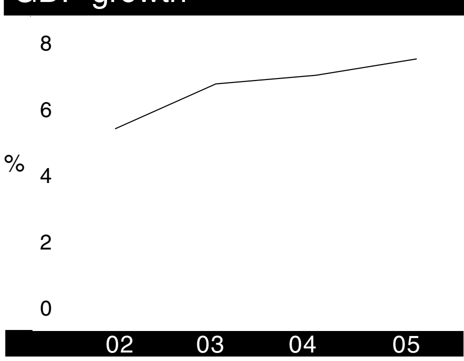
Domestic and external conditions remain favourable in 2004. The impacts of the Avian influenza have been limited to the poultry industry, which accounts for only 1–2% of Thai GDP. Provided the recovery of the world economy continues, Thai exports are expected to perform well. Domestically, interest rates will remain low throughout the year given the remaining high liquidity. Incomes will grow further, driven by the increase in farm price and farm income, increases in employment, higher dividend payments, salary increases for government officials, lump sum payment under the public sector early retirement program and the advance disbursement of the government pensions for existing retirees, and spending during various local and national-level election campaigns. Private consumption is projected to expand by 6%.

Increasing corporate profits and capacity utilisation, in addition to low interest rates and investment promotion measures will be a positive factor on the investment side. Investment growth is expected to reach 19%, with strong growth in IT, factory equipment, residential construction and transportation equipment.

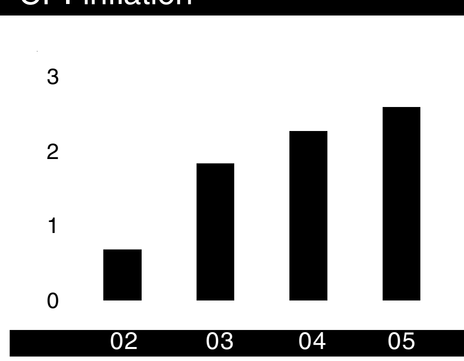
Government consumption and public investment are expected to increase by 4% and 8% respectively. However, the smaller budget deficit planned for 2004 means the government budget is being consolidated and should be balanced in 2005.

Export volumes may not be as strong as in 2004 despite stronger growth of the world economy, due to reduced chicken exports to Japan and the EU, slowdown in shrimp export to the United States caused by the US anti-dumping investigation against Thai (and five other major shrimp) exporters, and expected slowdown of the Chinese economy. Appreciation of real effective exchange rate to some extent will also put the Thai products

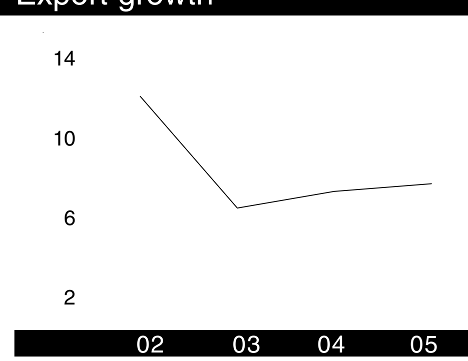
GDP growth



CPI inflation



Export growth



at a disadvantage. However, intra-regional trade among ASEAN members will be bolstered by the progresses of free trade agreements and the strong demand in the regional economies. Export volume is expected to increase by 8%, down from 8.8 per cent growth in 2003. Exports of goods and services at constant prices are expected to expand by 7.3%.

The combination of strong import growth and slightly weakening export growth will shrink the current account surplus, provided that there is no gain in the terms of trade. The current account surplus is projected at US$6.9 billion (4.1% of GDP) comprising a US$2.6 billion trade surplus and US$4.3 billion of service and income surplus.

The economy is projected to grow by 7% in 2004. Various indicators point to continuing stability, namely low inflation, ample reserves, and decreased short-term foreign debt and public debt. The inflation rate is projected at 2.3%, rising slightly from 1.8% in 2003 in response to increased demand and rising commodity prices and wages. The average crude oil price—Oman quoted—is assumed at US$29 /barrel for 2004, up from US$27 in 2003. The baht is likely to gain further strength against the US dollar on the back of improved economic fundamentals. Despite that the Bank of Thailand will try to stabilise the baht to keep the private sector competitive. The baht could appreciate to 38 baht/US$ by end 2004. But in real effective terms, it is expected to appreciate only slightly and will not significantly affect exports.

While monetary policy continues to be fairly loose, measures are focused on resolving non-performing loans (NPLs) problem in the short-run and strengthening financial institutions in the long run. The NPL ratio is targeted not to exceed 5% within three years. The Financial Sector Master Plan endorsed by Cabinet on 6 January 2004 will improve efficiency and broaden accessibility of financial services to all potential users.

RISKS

The main external risk is rising crude oil prices, which could jeopardize the world economic recovery. If the world recovery halts, Thailand will be severely affected. Domestically, the risks include rising oil and raw material prices, and continuing violence in the three Southern-most provinces. Fluctuations of the stock-market have posed some threats to the ongoing recovery, but strong economic fundamentals, together with measures to curb speculative behaviours will help stabilise the market. Moreover, investments in the stockmarket account for only a small portion of households' wealth, so fluctuations in the market should not dampen private consumption at the macro level.

2005: REFORM PROGRESS THE KEY TO GROWTH

Thailand will hold its next election in April 2005 provided this government finishes its term without dissolving the parliament. The present government is likely to continue in power. If so, the policy platform will continue to follow the framework of the dual-track development strategy. With emphasis on foreign direct investment and exports driven by multinational corporations, under economic integration with the rest of the world, and the stimulation of domestic demand as well as opening of new export markets by leveraging the country's indigenous skills and resources to drive local enterprise development and domestic demand growth.

As part of the competitiveness enhancement program, public spending has been planned for more systematic public transportation development. The transfer of budget, developmental tasks, and authority to local administration will continue. Export growth will be slightly lower than in 2004, reflecting the assumption of lower world economic growth. Meanwhile import growth both in terms of prices and quantity is projected to surpass that of exports. Growth of the services trade surplus will not completely offset the decline in trade balance, resulting in a smaller current account surplus.

The economy in 2005 is projected to expand by 7.5%; inflation is expected to be 2.6%. Economic growth will continue to be domestically led, predominantly spurred by private sector growth.

RISKS 2005

The main risks are associated with world economic growth performance and internal economic stability. Key areas to be closely monitored are the household debt, real estate sector and stockmarket performance.

Excess capacity utilisation is being corrected and has led to stronger private investment. Increases in capacity utilisation across most sectors confirms the economy's growth is balanced.

Non-performing loans (% of total credit)

The non-performing loan problems of many financial institutions have eased gradually since the East Asian financial crisis. Credit extension has responded well to the economic pick up in 2002.