

THAILAND

The economic recovery that began in 1999 continued in the first half of 2000, stimulated by strong export performance and three fiscal packages. However, the recovery will only become self-sustaining when financial sector reforms and corporate debt restructuring have been completed.

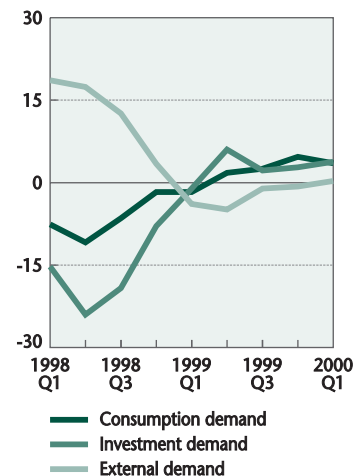
Economic Indicator (percent)	1997	1998	1999	2000	2001
GDP growth	-1.7	-10.2	4.2	4.5	4.6
Inflation rate	5.6	8.1	0.3	2.5	3.5
Current account/GDP	-0.9	12.8	10.0	6.3	4.0

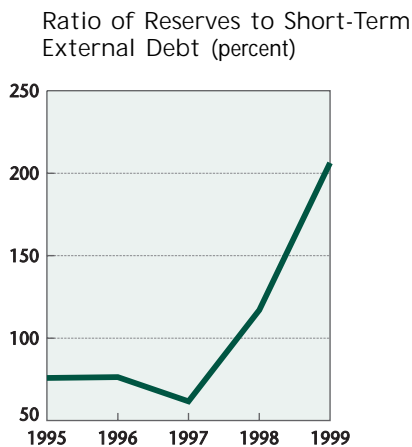
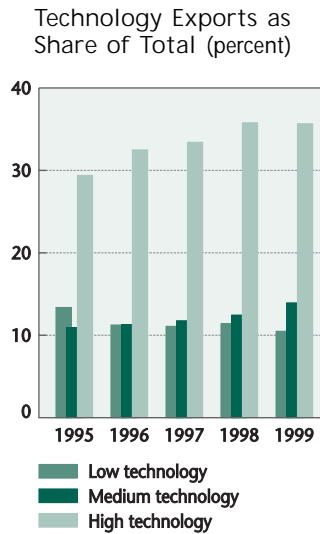
Economic Assessment. Thailand's economic recovery is on track. GDP growth expanded by 4.2 percent in 1999 and by 5.2 percent in the first quarter of 2000, supported by impressive export performance and fiscal stimulus packages. The manufacturing production index rose year-on-year by 6.4 percent (13.5 percent, excluding liquor production) in the first half of 2000. Industry capacity utilization increased modestly to 57.7 percent in the first quarter of 2000, compared with 56.2 percent in the same period of 1999. The private consumption index increased by 2.1 percent in June 2000, from 1.6 percent in 1999. Private investment showed continued growth, along with an expansion in export production in the first half of 2000. Inflation was contained at a low level, with the CPI rising by 1.2 percent during the first half of the year, reflecting weak demand conditions. Unemployment in February 2000 declined to 4.3 percent from 5.2 percent a year earlier.

Between August 1998 and August 1999, the Government launched three fiscal stimulus packages, including tax and tariff reductions, to boost domestic demand. Consequently, it is running a large deficit which, on a cash balance basis, reached a cumulative B79.4 billion in the first half of FY1999/2000 (ending 30 September), in line with the targeted deficit for the fiscal year. The overall public sector deficit including interest costs of financial sector restructuring for FY1999/2000 is projected to be around 7 percent of GDP. Total public debt was estimated at about B2.6 trillion (\$67.7 billion) in 1999, equivalent to around 54 percent of GDP.

The growth rate of money supply continued to decline. The increase in money supply (M2A) was below 1 percent from January to May, and up to 1.2 percent in June 2000, compared with 1.3 percent in 1999. Interest rates have been lowered to create an environment conducive for business. The prime (minimum lending) rate declined from 8.25–8.75 percent in 1999 to 8.00–8.50 percent in the first half of 2000. Nonperforming loans (NPLs) declined to 32.0 percent of total loans in June 2000 from a peak of 47.7 percent in May 1999, but still remained at around B1.6 trillion (\$41.4 billion). Corporate debt restructuring has made steady progress, with 553 debt cases valued at B906.8 billion (\$23 billion) having been restructured by June 2000, while another 408 debt cases involving B195.8 billion (\$5 billion) are under negotiation.

Decomposition of GDP Growth by Quarter (percent)





External sector performance improved significantly, with exports growing by 21.1 percent and imports by 34.6 percent in the first half of 2000. The current account remained in surplus at \$4.7 billion in the first half of 2000. Net capital movement registered a deficit of \$1.2 billion in May 2000, indicating large private capital outflows as commercial banks continued to repay their external debts. International reserves remained stable at \$32.1 billion (about nine months of imports) at the end of June 2000. The baht depreciated slightly to about B39 to the dollar in the first half of 2000. Total external debt decreased from \$95.6 billion at the end of 1999 to \$92.3 billion in March 2000 (according to a new compilation method using a comprehensive survey conducted by the Bank of Thailand on the external debts of the nonbanking sector). The share of short-term debt remained at around 20 percent of total external debt in March 2000. The private sector accelerated external debt repayments.

Structural Issues. Improving economic performance offers the Government greater opportunity to pursue structural reforms on which sustainable growth depends. The weakness of the financial sector, still plagued by inadequate capitalization and a large share of NPLs, remains the major concern. The recovery cannot be sustainable if it remains based mainly on fiscal stimulus. However, as financial sector reforms and corporate debt restructuring take effect, the economy could continue to show a stronger recovery in 2000. The key challenges are to lower the share of NPLs held by financial institutions and to speed up the process of corporate debt restructuring, to help the recovery become self-sustaining. In June 2000, Moody's Investors Service upgraded its rating for the country: sovereign long-term foreign currency debt is now rated at investment-grade Baa3 instead of Ba1 (junk) status. The outlook for the revised rating was designated "stable". However, unfavorable ratings on short-term foreign currency notes and deposits were unchanged, because of the underlying weakness of banks, especially with regard to inadequate capitalization and provisioning for NPLs.

Forecast. Real GDP is forecast to grow by about 4.5 percent in 2000, supported by exports, public expenditures, private consumption, and investment. The increase in the CPI will be contained at 2.5 percent this year. Exports and imports are expected to grow by 6.0 percent and 14.3 percent, respectively. The current account will post a surplus of about \$8.3 billion, or 6.3 percent of GDP.