

THAILAND

GDP growth is expected to slow in 2001 due to considerably weaker export growth coupled with sluggish domestic demand. Growth is likely to pick up in 2002 on the back of a gradual global recovery and the Government's planned fiscal stimulus measures. Sustained growth will, however, depend on continued progress in finance sector reforms and corporate debt restructuring to improve profitability and investor confidence.

Economic Indicator (percent)	1998	1999	2000	2001		2002	
				Current	ADO 2001	Current	ADO 2001
GDP growth	-10.8	4.2	4.4	1.5	3.5	2.5	4.5
Inflation rate	8.1	0.3	1.6	2.3	2.0	2.6	2.6
Current account/GDP	12.7	10.0	7.5	3.8	6.5	2.3	5.6

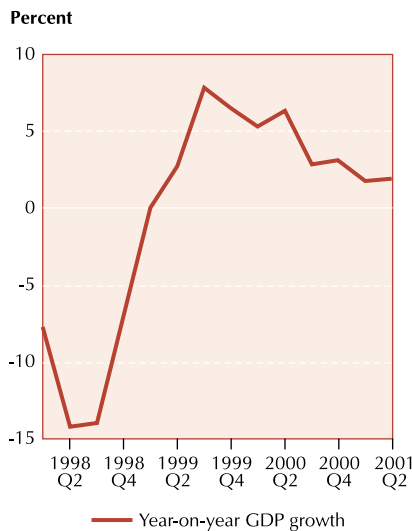
Economic Assessment. The global economic slowdown is having a more significant impact on the Thai economy than expected at the time of ADO 2001. In the first half of 2001, considerably weaker export growth, together with sluggish domestic demand, led to a GDP growth rate of 1.9 percent year on year, compared with a year-on-year growth rate of 5.8 percent in the first half of 2000 and 3.0 percent in the second.

On a production basis, two key indicators of growth during the first half of 2001 were below the level of a year earlier. The manufacturing production index rose by only 1.4 percent year on year, compared to 3.0 percent in 2000, with major declines in electrical and electronic appliances and tobacco production. The industrial capacity utilization rate was 55.5 percent in the first quarter of 2001, but dropped to 51.9 percent in the second, compared with an average of 56.0 percent in 2000. Following an increase in crop and livestock production, the agriculture sector expanded by 1.9 percent in the first half of 2001, a slight rise from the 1.3 percent growth in the first half of 2000. The growth of government consumption expenditure remained broadly flat, reflecting a lack of fiscal stimulus, while private consumption expenditure continued to improve partly due to strengthened agriculture output and an increase in civil servants' salaries in April 2001. The decline in exports was, however, offset in the first half of the year by an even sharper decline in imports, owing to the import-dependent nature of exports and depressed investment activity.

For the first nine months of the year, inflation averaged 1.9 percent, compared to 1.5 percent in the corresponding period of 2000. This was mainly due to baht weakness feeding through into higher prices. Since August, however, the rate of inflation has remained flat due to excess capacity and weaker domestic economic activity.

In the first eight months of 2001, merchandise exports contracted by 3.7 percent (in dollar terms) compared to the corresponding period of 2000. The decline in exports was seen across the board, reflecting the breadth of the

The global economic slowdown accentuated declining GDP growth...



Source: National Economic and Social Development Board

global slowdown. Import growth over this period represented a 2.4 percent increase compared to January-August 2000. However, due to the fall in export demand and domestic economic weakness, the demand for imports appears to have weakened considerably in recent months with year-on-year contractions of 8.2 percent, 3.8 percent, and 16 percent in June, July, and August, respectively. As a result, the trade surplus narrowed to \$1.2 billion in the first eight months of 2001 from \$3.8 billion in the corresponding period of 2000. This was partly offset, however, by a surge in tourism arrivals stimulated by the steady weakening of the baht. Nevertheless, the current account surplus narrowed to \$3.8 billion in the first eight months of 2001 from about \$6.5 billion in the corresponding period of 2000.

The capital account remained in deficit as banks and nonbanks continued their scheduled debt-servicing obligations, leading up to an overall balance-of-payments deficit in the first eight months of 2001. Total external debt dropped to \$73.0 billion at the end of July 2001, from \$79.7 billion at the end of 2000. International reserves eased to \$32.6 billion in August 2001 from \$32.7 billion at the end of 2000.

Economic Management Issues. Given weakening external demand, domestic demand recovery is crucial to economic growth that is hampered by incomplete restructuring. The Government’s planned deficit-spending measures will provide some support for domestic demand. For fiscal year 2002 (ending 30 September 2002), the budget deficit is envisaged at B200 billion, or 3.7 percent of GDP, an increase of B95 billion over the estimated budget for fiscal year 2001. The higher budget deficit reflects increased spending on public health care, a debt moratorium for farmers, a “village fund” to stimulate economic activity. The revenue intake for fiscal year 2001 is projected to remain flat due to cuts in the corporate tax rate and a deferment of a proposed increase in VAT from 7 percent to 10 percent to 2002. To finance the projected fiscal deficit, the Government plans to borrow mainly from the domestic capital market through Treasury securities, because private commercial banks have high levels of liquidity and domestic interest rates are at low levels.

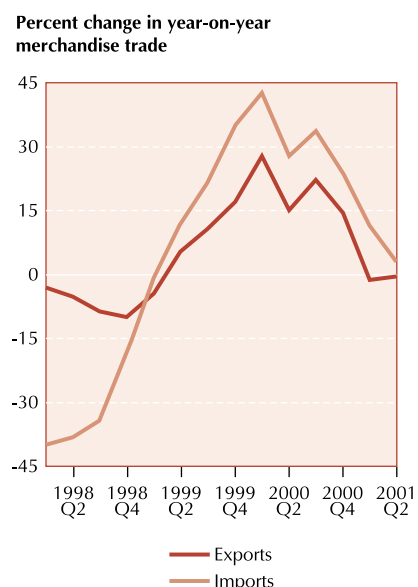
On 8 June 2001, the Bank of Thailand raised its 14-day repurchase rate from 1.5 percent to 2.5 percent, causing other money market rates to rise accordingly. The adjustment of the 14-day repurchase rate is intended to discourage refinancing of foreign debts in domestic markets and to increase consumption among those receiving bank interest. However, commercial bank rates have not moved, with the three-month time deposit and minimum lending rate of the five largest banks remaining at 2.5 percent and 7.5 percent, respectively. The Bank of Thailand is confident that moderate inflation and falling US interest rates will allow it to maintain an accommodative stance without risking a further significant fall of the baht.

Nonperforming loans (NPLs) of the banking system were reduced to B614.8 billion, or 12.5 percent of total outstanding loans, at the end of August 2001 from B863.7 billion, or 17.7 percent, at the end of 2000. The reduction was mainly due to the transfer of NPLs to bank-owned asset management

companies, and only partly due to the progress of corporate debt restructuring, which has slowed, to some extent due to an inadequate legal framework. There has also been some concern over the quality of financial restructuring as reentry NPLs—restructured loans reverting to NPL status—have been on the rise. To promote the efficient management of NPLs and enhance corporate restructuring, the Government established the centralized Thai Asset Management Corporation (TAMC) in June 2001. TAMC plans to acquire and manage B1.35 trillion in NPLs, the overwhelming majority of which belong to state banks. The Government has granted TAMC special legal powers, enabling it to bypass the existing slow court procedures in order to expedite the restructuring process. However, given the limited participation of private banks in TAMC, legal and judicial reforms will need to be accelerated to support debt restructuring outside the TAMC framework.

Forecast. The 11 September attacks on the US, against a backdrop of an already weakening global economy, have further worsened the outlook for the Thai economy in the short term. GDP growth is now estimated to slow to 1.5 percent for the whole of 2001, compared to the *ADO 2001* forecast of 3.5 percent, due to considerably slower export growth and investment activity. In 2002, GDP growth is likely to pick up to around 2.5 percent on the back of an expected gradual recovery in global growth and planned fiscal stimulus measures for fiscal year 2002. Growth also remains highly dependent on continued progress in finance sector reforms and corporate debt restructuring to improve profitability and investor confidence. During the remainder of 2001, inflation is likely to pick up somewhat, largely on account of the continued depreciation of the baht. The postponement of the increase in VAT will help contain domestic inflation. Inflation is projected to rise to around 2.3 percent in 2001 and further to about 2.6 percent in 2002 as the widening fiscal deficit stimulates domestic demand. The current account balance is expected to narrow to 3.8 percent of GDP for the whole of 2001 due to a contraction in exports and reduced tourist arrivals during the remaining months of the year owing to heightened security concerns. The current account will narrow further to 2.3 percent in 2002 as import growth continues to outpace export growth.

...as export demand fell and import demand weakened



Source: Bank of Thailand