CER: THA 2001-18

COUNTRY ECONOMIC REVIEW

THAILAND

October 2001

COUNTRY ECONOMIC REVIEW

THAILAND

October 2001

CURRENCY EQUIVALENTS
(As of 30 September 2001)

Currency Unit	–	Baht (B)
B1.00	=	$0.0225
$1.00	=	B44.40

From 1984 to 1997 the baht was linked to a trade-weighted basket of major currencies, with the US dollar having the dominant weight. On 2 July 1997, the baht was delinked from the basket and allowed to float.

ABBREVIATIONS

BoT	–	Bank of Thailand
CDRAC	–	Corporate Debt Restructuring Advisory Committee
FDI	–	foreign direct investment
FIDF	–	Financial Institutions Development Fund
FRA	–	Financial Sector Restructuring Authority
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MOF	–	Ministry of Finance
MPB	–	Monetary Policy Board
NPLs	–	nonperforming loans
SOE	–	state-owned enterprise
TAMC	–	Thai Asset Management Corporation
US	–	United States
VAT	–	value-added tax

NOTES

(i) The fiscal year (FY) of the Government ends on 30 September. FY before a calendar year denotes the year in which a fiscal year ends, e.g., FY2000 ends on 30 September 2000.

(ii) In this review, "$" refers to US dollars. "B" refers to Baht.

CONTENTS

This report was prepared by Yushu Feng, Programs Economist, PW3, Programs Department (West), with the assistance of Veronica Bayangos, Associate Programs Analyst, PW3. Administrative support was provided by Celina Cruz and Deng Opana, PW3.

EXECUTIVE SUMMARY

In 2000, Thailand's economy continued to recover from the currency and financial crisis that erupted in 1997. However, recovery was incomplete and only some of the income lost as a result was restored. Real gross domestic product (GDP) grew at 5.9 percent year-on-year in the first half, but slowed to 3.1 percent in the second half of the year. For the year as a whole, real GDP grew by 4.4 percent. Faster growth in the first half of the year was propelled mainly by strong export performance, the lagged effects of an earlier fiscal stimulus, and accommodative monetary conditions. Slower growth in the second half was attributable to less favorable external demand conditions and political uncertainty ahead of the January 2001 national election. The global economic slowdown is having a significant impact on the Thai economy. 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.

The consumer price index increased by 1.6 percent in 2000, and by 2.0 percent in the first half of 2001, after exceptionally low inflation of 0.3 percent in 1999. The unemployment rate fell to 3.6 percent in 2000, but was still higher than the 1.5 percent in 1996 before the crisis. The crisis has had a severe impact on the poor. By 1999, the incidence of poverty in Thailand had returned to around its 1994 level. Poverty incidence increased from 11.4 percent in 1996 to 15.9 percent in 1999, pushing about 3 million people below the poverty line during 1996-1999.

Despite the reduced deficit, the Government maintained a supporting fiscal position to stimulate economic growth. In FY2000 the Government registered a consolidated central Government deficit of B153.9 billion, or 3.2 percent of GDP, a reduction from B512.5 billion, or 11.2 percent of GDP in FY1999. The sharp reduction in deficit was due to the decline in capital transfers to the financial sector in FY2000 over FY1999. The deficit was financed mainly by domestic sources. As a result of successive deficit spending measures to stimulate the economy and support for financial sector restructuring, four years of fiscal deficits have led a substantial increase in public debt. Total public debt outstanding was about B2.8 trillion at the end of 2000, equivalent to around 58 percent of GDP. This is almost four times its precrisis level of 15 percent of GDP in 1996. However, based on current fiscal policy, Thailand's public debt position remains manageable.

Bank of Thailand (BoT) introduced an "inflation targeting framework" to guide monetary policy in May 2000. The 14-day repurchase rate averaged at about 1.5 percent in 2000 and was raised to 2.5 percent in June 2001. BoT continues to target inflation and uses the benchmark 14-day repurchase interest rate to signal its monetary policy stance. In 2000 the average annual growth rate of money supply (M2) was 3.7 percent, compared with 2.1 percent in 1999. With high liquidity in the financial system, short-term interest rates remained at a two-year low. However, net domestic credit continued to decline and fell by 7.4 percent during 2000. In particular, credit to the private sector dropped by 8.4 percent. This was the third year of domestic credit decline, largely reflecting the commercial bank's unwillingness to lend in the face of high credit risks and weak balance sheets, and weak domestic demand.

Progress has been made in reducing the proportion of nonperforming loans (NPLs). The NPL ratio declined to about 18 percent at the end of 2000, and to about 13 percent at the end of June 2001, from its peak of 47.7 percent of total loans outstanding in 1999. The sharp decline in NPLs was partly the result of debt restructuring, but was also due to the transfer of NPLs to the asset management companies. Therefore the resolution of the NPL problem is incomplete and remains a significant challenge to the Government. However, it is expected that NPLs will be reduced and debt restructuring accelerated by the effective operation of the centralized Thai Asset Management Corporation (TAMC) which was established in June 2001.

Robust export growth continued to be a major factor contributing to economic growth during 2000. Exports rose by 19.6 percent (in $ value terms) over 1999, but began tapering off from the fourth quarter of 2000. In the first half of 2001, exports contracted by 0.9 percent (in $ value terms) year-on-year. Slower export growth was attributed to the United States (US) economic slowdown and the ongoing slowdown in the electronics business cycle. About 22 percent of Thailand's exports go to the US and about 19 percent of total exports are electronics. The trade account surplus was narrower at $5.5 billion at the end of 2000, following the significant growth in imports, and at $4.67 billion in the first half of 2001. Service income performed strongly in 2000, as net income from tourism surged.

Thailand's economy is less vulnerable than in 1996. Although the current account surplus narrowed to $9.21 billion in 2000 from $12.5 billion in 1999, this compares with a large current account deficit in 1996. The capital account deficit increased to $9.8 billion in 2000 from $7.9 billion in 1999, mainly caused by repayment of foreign loans by the corporate sector. International reserves were $32.7 billion at the end of 2000, and fell slightly to $31 billion by the end of June 2001. However, reserves are more than twice the level of short-term debt and equivalent to around five months of imports.

Thailand's external debt has declined from the levels of 1996. Total external debt decreased to about $80 billion at the end of 2000, from about $109 billion at the end of 1996, mainly due to continued external debt repayments by the private sector. Short-term external debt obligations also declined to $15 billion or 18 percent of the total outstanding external debt in 2000 from $47.7 billion or 44 percent in 1996. Meanwhile, international reserves as a ratio of short-term debt have increased from 81 percent in 1996 to 222 percent in 2000.

Dr. Thaksin Shinawatra became the Prime Minister following a general election on 6 January 2001. The new administration has identified the sluggish economy, poverty, narcotics, and corruption as the four main challenges facing the country. The Prime Minister faces immense pressure to stimulate the economy quickly and fulfill his campaign pledges. The new administration outlined its economic plan to Parliament on 26 February 2001, including a village fund, farmer debt suspension, a public health program, reform of government salary payment, banking facilities for the poor, and the centralized TAMC. Faced with a sharp decline in export growth largely as a result of deteriorating external conditions, the Government has adopted an expansionary fiscal stance to stimulate the economy.

The 11 September 2001 attacks on the US, against a backdrop of an already weakening global economy, have further worsened the outlook for the Thai economy in short term. Growth is projected to slow down to 1.5 percent in 2001. Exports are expected to contract by around 4.5 percent and imports to grow by around 1 percent. The current account surplus is expected to decline to around 4 percent of GDP. The level of international reserves is expected to remain at around $30 billion, covering about 5 months of imports. It is expected that economic momentum will strengthen in 2002 with anticipated growth in the range of 2.5–3.0 percent. Prospects for growth are highly dependent on continued progress in financial sector reform and corporate debt restructuring. Both are much needed to improve efficiency and profitability, and to boost investor confidence. Growth prospects will also be influenced by how external conditions evolve.


THAILAND
100°00'E
104°00'E
18°00'N
9°00'N
Gulf of Martaban
ANDAMAN SEA
Gulf of Thailand
NORTHERN
NORTHEASTERN
CENTRAL
WESTERN
EASTERN
SOUTHERN
Chiang Rai
Mae Hong Son
Phayao
Nan
Chiang Mai
Lamphun
Lampang
Phrae
Nong Khai
Loei
Udon Thani
Nakhon Phanom
Uttaradit
Sukhothai
Nong Bualamphu
Sakhon Nakhon
Tak
Phitsanulok
Khon Kaen
Kalasin
Mukdahan
Kamphaeng Phet
Phetchabun
Maha Sarakham
Phichit
Chaiyaphum
Roi Et
Yasothon
Amnat Charoen
Nakhon Sawan
Uthai Thani
Ubon Ratchathani
Chai Nat
Lop Buri
Nakhon Ratchasima
Sing Buri
Buri Ram
Surin
Si Sa Ket
Ang Thong
Saraburi
Suphan Buri
Ayutthaya
Nakhon Nayok
Nakhon Pathom
Pathum Thani
Prachin Buri
Nonthaburi
Sa Kaeo
Kanchanaburi
Bangkok
Chachoengsao
Ratchaburi
Samut Sakhon
Samut Songkhram
Chon Buri
Phetchaburi
Rayong
Chanthaburi
Trat
Prachuap Khiri Khan
N
0 50 100 200
Kilometers
Chumphon
Ranong
Surat Thani
Phangnga
Nakhon Si Thammarat
Phuket
Krabi
Phathalung
Trang
Songkhla
Pattani
Satun
Yala
Narathiwat
National Capital
City/Town
Road
Railway
River
District Boundary
Divisional Boundary
International Boundary
Boundaries are not necessarily authoritative.

01-1509 HR

I. RECENT ECONOMIC DEVELOPMENTS

A. Growth, Employment, Saving, and Investment

1. Aggregate Growth

1. In 2000, Thailand's economy continued to recover from the currency and financial crisis that erupted in 1997. Real gross domestic product (GDP) grew at 5.8 percent year-on-year in the first half, but slowed to 3.0 percent in the second half of the year. For the year as a whole, real GDP grew by 4.4 percent. Faster growth in the first half of the year was propelled mainly by strong export performance, the lagged effects of an earlier fiscal stimulus, and accommodative monetary conditions. Slower growth in the second half was mainly attributable to less favorable external demand conditions, and political uncertainty ahead of the national election held in January 2001. However, despite two years of growth, recovery was incomplete. Only some of the income lost as a result of the crisis was restored. Per capita incomes (measured in local constant prices) in 2000 were some 8 percent lower than their 1996 level.

Table 1: Expenditure on Gross Domestic Product [a]
Growth Rates
(constant 1988 prices, percent)

Expenditure Item	1996	1997	1998	1999 [b]	2000 [b]
Consumption Expenditure	**6.6**	**(1.3)**	**(9.5)**	**3.5**	**4.6**
Private Consumption Expenditure	5.8	(1.1)	(11.5)	4.0	4.3
Government Consumption Expenditure	11.9	(2.7)	3.6	0.9	6.5
Gross Domestic Capital Formation [c]	**5.3**	**(22.7)**	**(50.3)**	**7.2**	**12.1**
Fixed Capital Formation	6.8	(21.1)	(45.1)	(4.0)	5.7
Private	3.7	(31.2)	(53.2)	(5.0)	14.2
Public	17.5	10.1	(29.4)	(2.8)	(5.0)
Construction	8.7	(26.1)	(37.8)	(11.1)	(10.2)
Private	1.9	(50.3)	(51.8)	(23.5)	13.5
Public	21.4	11.7	(28.0)	(5.2)	(19.2)
Equipment	5.0	(16.5)	(51.0)	3.2	19.2
Private	4.9	(19.3)	(53.7)	2.5	14.3
Public	6.4	5.2	(34.3)	6.2	42.2
Exports	**(5.5)**	**8.3**	**6.5**	**9.9**	**17.1**
Less: Imports	**(0.5)**	**(11.4)**	**(21.7)**	**10.6**	**22.0**
Gross Domestic Product	**5.9**	**(1.4)**	**(10.8)**	**4.2**	**4.4**

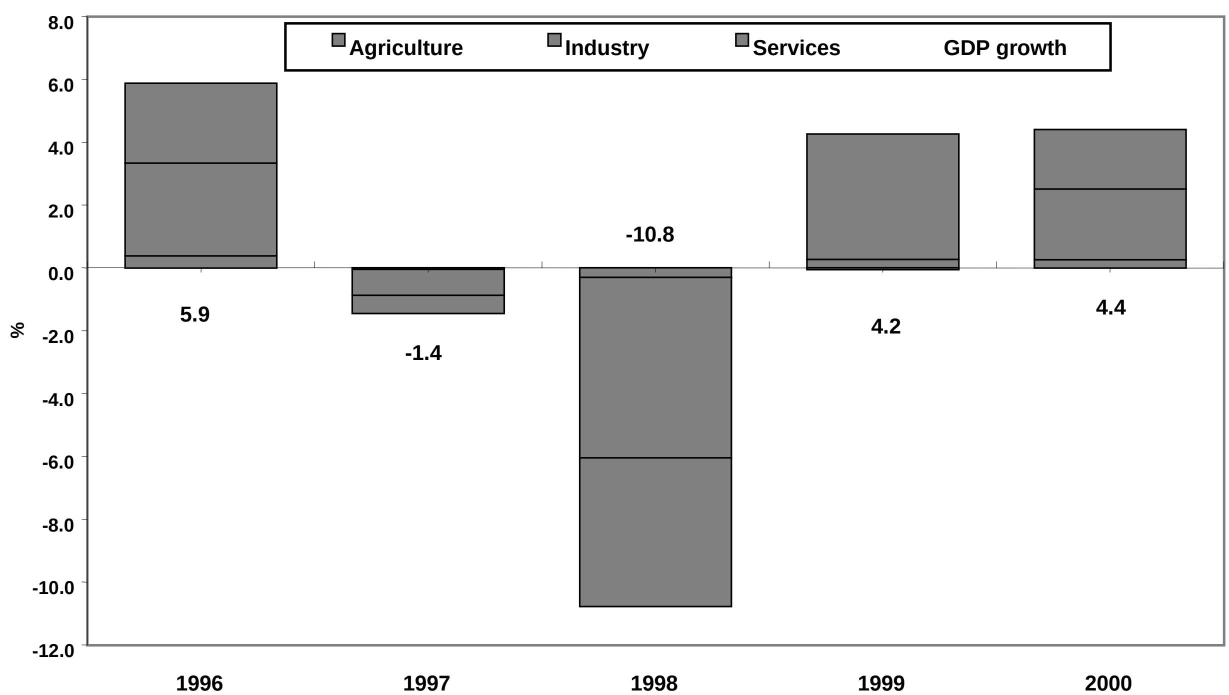
(–) Indicates a negative number.
[a] Excludes statistical discrepancy.
[b] Preliminary.
[c] Excludes change in inventories.
Sources: National Economic and Social Development Board (1996-2000); Public Debt Management Office, Ministry of Finance (updates on 2000 figures).

2. Sectoral Growth

2. On the demand side, exports continued to drive economic recovery (Table 1). Exports grew at 17.1 percent in 2000, up from 9.9 percent in 1999. The growth of government consumption expenditure also accelerated sharply to 6.5 percent in 2000, up from 0.9 percent in 1999, reflecting the fiscal stimulus measures. Private consumption increased by 4.3 percent in 2000, following a growth of 4 percent in 1999 and two years of contraction in 1997 and 1998. Consumer confidence improved in broad line with the growth of the economy. After three years of contraction, private investment grew by 14.2 percent in 2000, following a record contraction of 53 percent in 1998. As such, investment growth was from a very low base and its contribution to overall growth was modest. The growth was mainly due to government measures to encourage private investment, including reduced taxes and tariffs, and measures aimed at fostering recovery of the real estate sector. Compared with their precrisis levels of 1996, exports had more than fully recovered by the end of 2000. However, consumption and especially investment lagged.

3. On the supply side, the industry sector (accounting for about 44 percent of GDP) continued to support growth. But the pace of expansion slowed to 5.1 percent in 2000, compared with 9.5 percent in 1999 (Figure 1 and Appendix Table A3). Slower growth was mainly confined to manufacturing, and was partly due to changing regulations affecting the liquor industry, which had resulted in fast growth in 1999 ahead of scheduled changes in regulations. Within manufacturing, the output of domestic-oriented activities (activities whose share of exports in output is less than 30 percent), contracted by 7.1 percent, suggesting continued weakness of domestic demand.

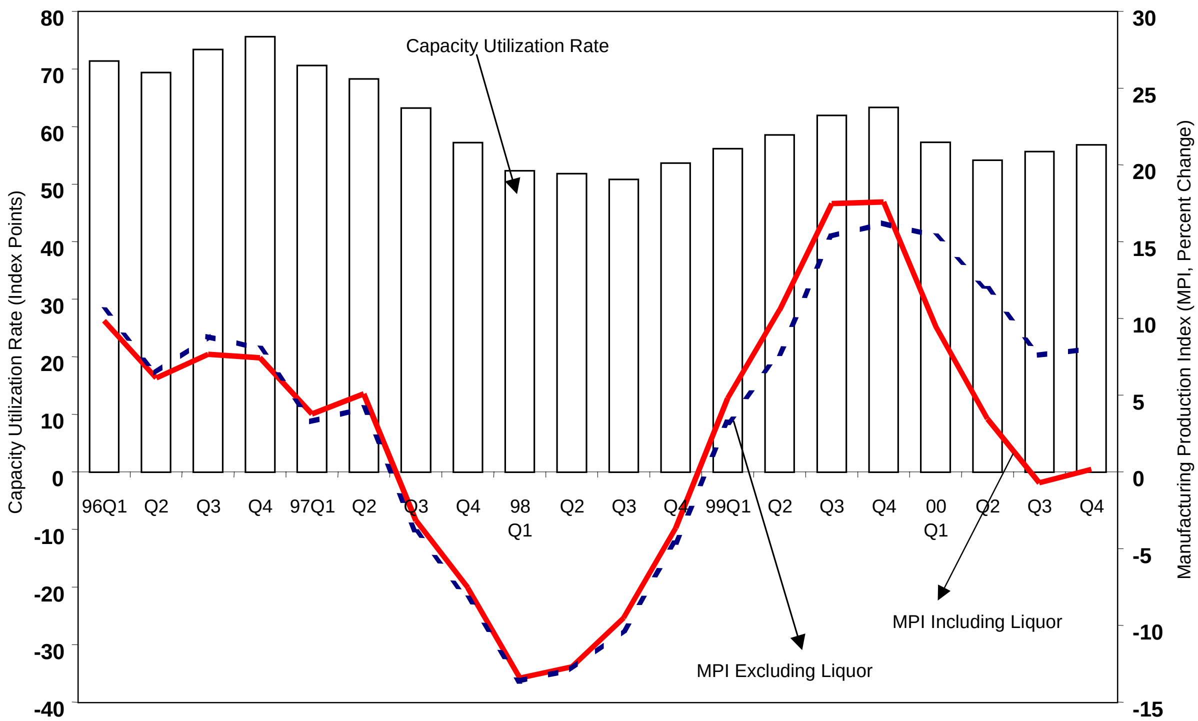
Figure 1: Sector Contribution to Growth in Real GDP



GDP = Gross Domestic Product.
Sources: National Economic and Social Development Board, Bank of Thailand.

4. The manufacturing production index, which covers 62.4 percent of overall value added in the manufacturing sector, increased by only 3.2 percent in 2000 (including liquor), as compared with 12.5 percent in 1999. Excluding liquor production (which accounts for about 11 percent of the index), the manufacturing production index increased by 10.9 percent in 2000. However, the industrial capacity utilization rate averaged 56 percent in 2000, a slight decrease from 60 percent in 1999. It was still below the average of about 72 percent before the crisis in 1996, suggesting the existence of idle capacity in the manufacturing sector (Figure 2, Appendix Table A5).

Figure 2: Manufacturing Production Index and Capacity Utilization Rate



MPI = Manufacturing Production Index.
Source: Bank of Thailand.

5. Services sector output (accounting for about 46 percent of GDP) picked up in 2000 and supported the growth. Services output grew by 4.1 percent in 2000, ending three years of contraction caused by the crisis. Within services, all subsectors registered growth with the exception of financial intermediation services (including the banking sector), which contracted by 5.6 percent in 2000. However, this compares favorably with a contraction of 39 percent in 1999. The hotel business, growing by 11.5 percent, led the hotel and restaurant sector to 6 percent growth following an 11.0 percent increase in the number of tourists in 2000.

6. In agriculture (accounting for about 10 percent of GDP), real output grew by 2.7 percent in 2000, the same growth rate in 1999. Agriculture growth was adversely affected by falling prices for farm output. In particular, world farm prices of major Thai products, such as rice and tapioca, fell during the year. Fishery output expanded by a marginal 0.2 percent, an improvement nevertheless from a drop of 3.9 percent in 1999. Crop production slightly declined in 2000, caused by floods in some areas.

3. Employment and Poverty

7. Based on the quarterly labor force surveys (Table 2) conducted by the National Statistical Office in 2000, the higher unemployment rates in 1998 and 1999 caused by the crisis fell slightly as a consequence of economic recovery. The average unemployment rate of the total labor force, excluding seasonally inactive labor, fell to 3.6 percent in 2000, from 4.2 percent in 1999. However, this rate is still much higher than the 1.5 percent in 1996 before the crisis. The total employment rate increased slightly at 2 percent year-on-year. Employment in agriculture rose only by 0.02 percent and nonagriculture employment increased by 3.6 percent year-on-year, reflecting in part a long-term structural shift in production from agriculture to industry. Meanwhile, underemployment defined as employees working less than 35 hours a week and looking for extra work, declined by 13 percent in 2000.

Table 2: Employment and Unemployment

Item	1996	1997	1998	1999	2000
	'000 persons				
Total Labor Force	32,324	32,781	32,596	32,911	33,394
Employment	31,166	31,714	30,270	30,835	31,447
Seasonally Inactive Labor Force	661	571	902	693	743
Unemployment	498	495	1,423	1,383	1,204
Unemployment Rate (%)	1.5	1.5	4.4	4.2	3.6
	Annual Changes in Employment				
Total Employed ('000 persons)	351	549	(1,444)	565	611
Year-on-Year Growth	1.1	1.8	(4.6)	1.9	2.0
of which:					
In Agriculture ('000 persons)	(252)	178	(743)	426	3
Year-on-Year Growth	(1.75)	1.26	(5.19)	3.14	0.02
In Nonagriculture ('000 persons)	603	371	(701)	139	609
Year-on-Year Growth	3.7	2.2	(4.0)	0.8	3.6
Memorandum Items					
Unemployment Rate Including Seasonally Inactive Labor Force	3.6	3.3	7.1	6.3	5.8

(_) Indicates negative value.

Note: Figures from 1995-1997 are the average of February and August survey rounds, representing noncrop season and crop season, respectively. Figures from 1998-2000 are the average of four rounds of the survey a year.

Source: National Statistics Office.

8. Following an acceleration of inflation, real wage growth slowed to 2 percent in 2000, from 3.1 percent in 1999.[1] Meanwhile, effective at the beginning of 2001, the Wage Committee in the Ministry of Labor and Social Welfare increased the minimum wage rate by B3, ranging from B130 to B162 per day in different areas.

9. Thailand has made substantial progress in reducing poverty over the last two decades. However, the crisis that broke in 1997 interrupted this momentum and had a severe impact on the poor. By 1999, the incidence of poverty in Thailand had returned to its 1994 level. Poverty

[1] World Bank. 2001. *Thailand Economic Monitor*. Bangkok.

incidence increased from 11.4 percent in 1996 to 15.9 percent in 1999, pushing about 3 million people below the poverty line during 1996-1999.[2] Rural poverty incidence increased dramatically from 14.9 percent in 1996 to 21.5 percent in 1999, partly because some laid-off workers returned to villages and remittances to villagers substantially declined. Also, the low price of agriculture products after 1998 set the agriculture sector back. In contrast, urban poverty incidence remained unchanged in the wake of the crisis and held steady at 3 percent during 1996-1999.

4. Savings and Investment

10. During 1992-1996, the difference between the saving and investment ratios created a resource gap of around 6.4 percent of GDP. However, the investment rate slumped in wake of the crisis, from 42 percent in 1996 to about 23 percent in 2000. By contrast, the saving rate fell only marginally and remained about 30 percent during 1996-2000. As a consequence, Thailand has had a reserve surplus since 1998. The savings–investment deficit of 6.5 percent of GDP before the crisis in 1996 switched dramatically to a surplus of 7.5 percent of GDP in 2000, reflecting the adjustments compelled by net capital outflows (Table 3 and Figure 3). In 2000, Thailand saved 30 percent of its GDP and invested about 23 percent.

Table 3: Saving and Investment
(current prices)

Item	1996	1997	1998	1999 [a]	2000 [a]
	B million				
Gross Domestic Product	**4,622,832**	**4,740,249**	**4,628,431**	**4,615,388**	**4,900,330**
Gross Domestic Investment	**1,922,157**	**1,580,054**	**940,660**	**920,293**	**1,110,730**
Gross Saving	**1,622,017**	**1,585,415**	**1,535,695**	**1,391,291**	**1,479,900**
Net National Saving	1,033,162	933,945	781,396	678,109	727,673
Net Private Saving	537,681	435,165	571,415	483,532	518,874
Net Public Saving	495,481	498,780	209,981	194,577	208,799
Depreciation Allowance	553,311	629,632	677,607	700,991	752,227
Statistical Discrepancy	(35,544)	(21,838)	76,692	12,191	12,967
Saving-Investment Gap	**(300,140)**	**5,361**	**595,035**	**470,998**	**369,170**
	As Percent of Gross Domestic Product				
Gross Saving	33.5	32.5	33.2	30.1	30.2
Gross Domestic Investment	41.6	33.3	20.3	19.9	22.7
Saving-Investment Gap	(6.5)	(0.8)	12.9	10.2	7.5

(_) Indicates negative value.

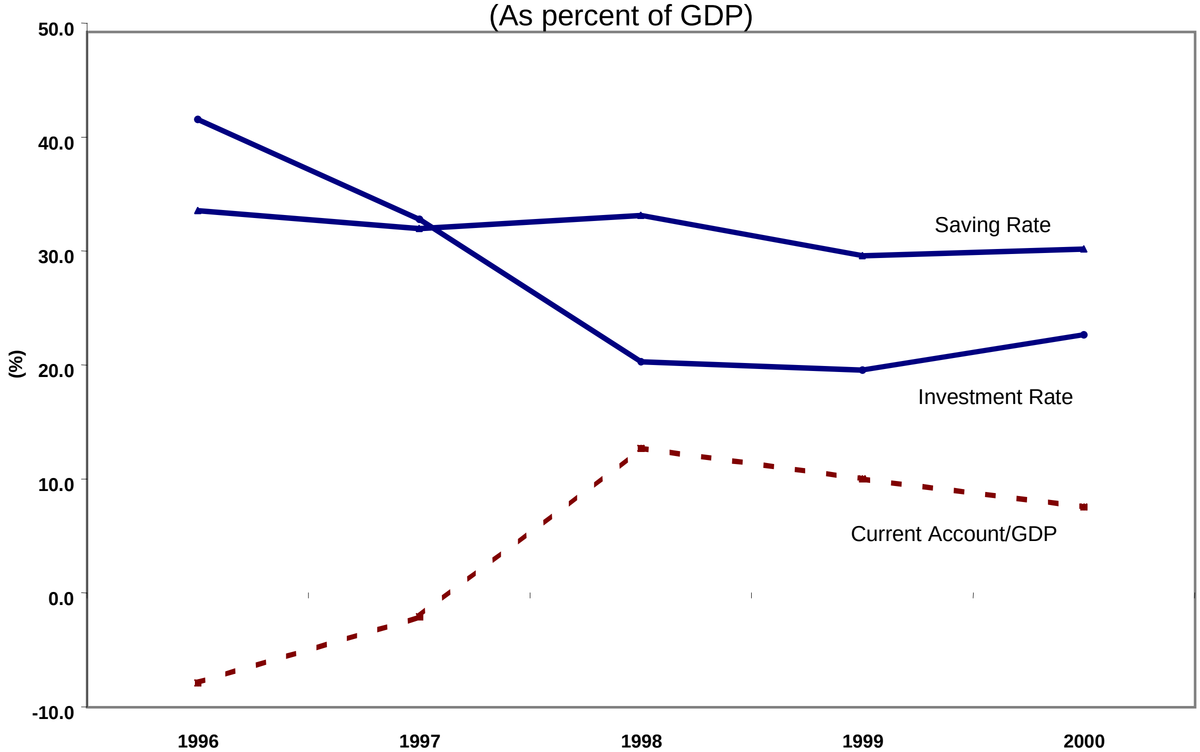
[a] Preliminary.

Sources: National Economic and Social Development Board and staff estimates.

[2] The official poverty line in Thailand is based on the minimum consumption requirement for each member in a family, classified by age and gender. It reflects the cost of living for food and basic necessities in each area and region.

Figure 3: Saving and Investment

(As percent of GDP)



B. Fiscal Developments

11. In FY2000 (ending 30 September 2000) the Government registered a consolidated central Government deficit[3] of B153.9 billion, or 3.2 percent of GDP, a significant reduction from B512.5 billion, or 11.2 percent of GDP in FY1999 (Table 4). This marked the fourth successive budget deficit year since FY1997. The sharp reduction in deficit was due to the decline in capital transfers to the financial sector in FY 2000 over FY1999. Despite the reduced deficit, the overall fiscal stance remained broadly supportive of growth. The Government launched two economic packages in August and October 2000. The August package focused on social safety nets including supporting rural and community development, and the October package aimed at strengthening the economic and social foundations for long-term sustainable growth.

12. On the revenue side, total revenue increased by about 7 percent in 2000, amounting to 16.4 percent of GDP. Current revenue increased by 6 percent. The tax to GDP ratio remained steady at about 14 percent in FY2000, with nontax revenues contributing another 2 percent of GDP. Income taxes accounted for the largest share, about 30 percent of total revenue. Consumption tax, i.e., value-added tax (VAT), was the second most important revenue source, accounting for about 20 percent of total revenue. Meanwhile, capital revenue increased sharply, from B247 million in FY1999 to B50 billion in FY2000, due to the sale of government assets.[4]

---

[3] The deficit refers to the Central Government account only and based on the Government Finance Statistics (GFS) concept. The consolidated central government budget covers central government's budgetary and non-budgetary accounts.

[4] Fiscal Policy Office, Ministry of Finance.

Table 4: Public Sector[a]

Item	FY1997	FY1998	FY 1999	FY 2000[b]	FY 2001[c]
	B million				
Total Revenue and Grants	873,426	757,832	744,259	794,810	805,000
Total Revenue	870,421	753,347	740,249	790,410	805,000
Current Revenue	870,240	752,819	740,002	785,363	—
Tax	777,511	665,719	642,379	690,850	—
Nontax	92,729	87,100	97,623	94,513	—
Capital Revenue	181	528	247	5,047	—
Grants	3,005	4,485	4,010	4,400	—
Total Expenditure and Lending minus Repayments	971,373	1,114,317	1,256,757	948,738	910,000
Total Expenditure	957,707	1,051,667	1,160,536	885,477	897,865
Current Expenditure	530,647	532,628	596,794	653,585	679,287
Capital Expenditure	427,060	519,039	563,742	231,892	218,578
Lending minus Repayments	13,666	62,650	96,221	63,261	12,135
A. Central Government Balance	**(97,947)**	**(356,485)**	**(512,498)**	**(153,928)**	**(105,000)**
Financing	**97,947**	**356,485**	**512,498**	**153,928**	**105,000**
Domestic Financing	87,738	296,787	457,928	120,903	105,000
Financing from Abroad	10,209	59,698	54,570	33,025	—
B. Public Enterprises and Local Government Balance	**(61,600)**	**(67,500)**	**(86,200)**	**(43,404)**	**(44,221)**
C. Public Sector (A+B)	**(159,547)**	**(423,985)**	**(598,698)**	**(197,332)**	**(149,221)**
	As Percent of GDP				
Total Revenue and Grants	18.6	16.2	16.2	16.5	15.7
of which: Total Revenue	18.5	16.1	16.1	16.4	15.7
Tax	16.5	14.2	14.0	14.3	—
Nontax	2.0	1.9	2.1	2.0	—
Total Expenditure and Lending minus Repayments	20.6	23.8	27.4	19.6	17.7
Total Expenditure	20.4	22.5	25.3	18.3	17.5
of which: Current Expenditure	11.3	11.4	13.0	13.5	13.2
Lending minus Repayments	0.3	1.3	2.1	1.3	0.2
A. Central Government Balance	**(2.1)**	**(7.6)**	**(11.2)**	**(3.2)**	**(2.0)**
Financing	2.1	7.6	11.2	3.2	2.0
Domestic Financing	1.9	6.4	10.0	2.5	2.0
Financing from Abroad	0.2	1.3	1.2	0.7	—
B. Public Enterprise and Local Government Balance	**(1.3)**	**(1.4)**	**(1.9)**	**(0.9)**	**(0.9)**
C. Public Sector Balance (A+B)	**(3.4)**	**(9.1)**	**(13.0)**	**(4.1)**	**(2.9)**

— Data not available.

(_) Indicates negative value.

[a] Based on the Government Finance Statistics Format.

[b] Provisional.

[c] Based on Budget for Fiscal Year 2001, Bureau of the Budget (not the Government Finance Statistics Format).

[d] Includes principal repayment only.

Sources: Fiscal Policy Office and Public Debt Management Office, Ministry of Finance.

13. On the expenditure side, total expenditure contracted by about 24 percent. But current expenditure increased by about 10 percent, mainly as the Government expanded the coverage of the consolidated central Government in FY2000, which now includes some extrabudgetary funds.[5] In FY2000 high priority was given to education affairs and services, which accounted for 25 percent of total public expenditure (Appendix Table A6). However, capital expenditure declined sharply by 59 percent from B564 billion in FY1999 to B232 billion in FY2000, largely reflecting the one-off impact of a capital transfer to the Financial Institutions Development Fund (FIDF) of B300 billion in FY1999. Net lending to the FIDF also declined to B48 billion in FY2000 from B96 billion in FY1999, due to large repayments.

Table 5: Public Sector Debt Summary[a]

Debt Outstanding	1996 Dec	1997 Dec	1998 Dec	1999 Dec	2000[b] Dec
			B million		
1. Central Government	169,016	328,133	695,221	988,872	1,139,938
1.1. Domestic Debt	44,163	31,674	426,728	642,283	740,976
1.2. External Debt	124,853	296,459	268,493	346,589	398,962
2. State Enterprises[c]	459,008	680,111	645,896	787,153	890,330
2.1. Guaranteed	391,124	575,069	559,126	688,598	751,939
2.2 Nonguaranteed	67,884	105,042	86,770	98,555	138,391
3. Financial Institutions Development Fund (FIDF)[d]	57,210	893,111	986,724	777,425	776,239
Total Outstanding Debt	**685,234**	**1,901,355**	**2,327,841**	**2,553,450**	**2,806,507**
Memorandum items (%)[e]					
Total debt/GDP	15.1	40.4	49.8	55.7	58.1
Central Government Debt/GDP	3.7	7.0	14.9	21.6	23.6
Domestic debt/GDP	1.0	0.7	9.1	14.0	15.3
External debt/GDP	2.8	6.3	5.7	7.6	8.3
State Enterprises Debt/GDP	10.1	14.5	13.8	17.2	18.4
FIDF Debt/GDP	1.3	19.0	21.1	16.9	16.1

GDP = Gross domestic product.

[a] Excludes Bank of Thailand outstanding foreign debt.

[b] Provisional.

[c] Includes non-financial state enterprises only.

[d] Refers to total liabilities.

[e] GDP in fiscal years was used.

Source: Fiscal Policy Office, Ministry of Finance.

14. The public sector deficit was mainly financed by domestic sources. There is little evidence that government's call on funds crowded out private investment. Domestic markets had excess liquidity and real private investments grew by 14.6 percent year-on-year in 2000. However, capital expenditure has been slashed, reflecting concerns about rising public debt levels. In FY2000, capital expenditure in nominal baht terms was almost half of its level in FY1997.

[5] Such as funds for environmental promotion, product distribution, and employment in rural areas.

15. As a result of successive deficit spending measures to stimulate the economy and support for financial sector restructuring, four years of fiscal deficits have led to a substantial increase in public debt (Table 5). Total public debt outstanding was estimated at about B2.8 trillion at the end of 2000, equivalent to around 58 percent of GDP. This is almost four times its precrisis level of 15 percent of GDP in 1996. Public debt includes direct government debt, nonfinancial state enterprises debt (guaranteed and nonguaranteed), as well as FIDF debt. In particular, FIDF debt accounted for 16 percent of GDP in 2000, a sharp increase from 1.3 percent of GDP in 1996.

Table 6: Government Debt Service Payments
(B million)

Payments	FY1996	FY1997	FY1998	FY1999	FY2000
External	**31,400**	**27,814**	**12,205**	**42,578**	**65,699**
Principal	24,832	15,310	8,980	7,275	19,585
Interest and Fees	6,568	12,504	3,225	35,303	46,113
Domestic	**7,918**	**7,505**	**13,162**	**22,122**	**19,207**
Principal	3,834	3,378	5,561	12,522	6,724
Interest	4,084	4,127	7,601	9,600	12,483
Total	**39,318**	**35,320**	**25,367**	**64,700**	**84,906**
Memorandum Items					
GDP in fiscal year	4,523,522	4,705,858	4,673,473	4,587,791	4,831,300
Total Revenue	872,967	870,421	753,347	740,249	790,410
Total Government Debt Service/ Revenue (%)	4.5	4.1	3.4	8.7	10.7
Total Government Debt Service/ GDP (%)	0.9	0.8	0.5	1.4	1.8
External Debt ($Million) [a]	1,240	888	295	1,127	1,636
Exports, $Million [b]	54,667	56,725	52,878	56,800	67,942
External debt service/exports (%)	2.3	1.6	0.6	2.0	2.4

[a] Converted using average baht/US$ dollar.
[b] Based on the balance of payments table.
Source: Public Debt Management Office, Ministry of Finance.

16. While sharply rising public debt is a cause for concern, Thailand's public debt position remains manageable (see more discussion on debt dynamics in para. 58). In June 2000, Moody's Investors Service upgraded its rating for the country, an indicator that over the long-term economic recovery is expected to be sustaining. Sovereign long-term foreign currency debt was rated at investment grade Baa3 instead of speculative grade Ba1 and the outlook was designated "stable." However, the servicing of the public debt will continue to absorb a large amount of the annual budget. As indicated in Table 6, total government debt service obligations (external and domestic) absorbed 10.7 percent of government revenues in FY2000, compared with only 4.5 percent before the crisis in FY1996. The high level of public debt and debt service payments could result in budget inflexibility, and could constrain public expenditure and revenue options. In particular, it could create the risk of upward pressure on nominal and real interest rates (paras. 54–63 discuss fiscal sustainability).

17. To strengthen management of public debt, and contingent liabilities[6] that have accumulated primarily in the banking and state enterprise sectors, the Government established the Public Debt Management Office in the Ministry of Finance in October 1999. The mandate of the office includes debt service projections, active debt management, cash management, risk management, project finance related transactions, and tracking and dealing with contingent liabilities of the Government. A public debt management bill is being drafted to provide a legal framework for debt management.[7]

C. Monetary Developments and Prices

1. Monetary Policy

18. In May 2000, the Bank of Thailand (BoT), the central bank, introduced an inflation targeting framework to guide monetary policy.[8] Inflation targeting helps ensure the coherence of monetary policy by providing a nominal anchor. Adherence to inflation targeting precludes using monetary policy as a counter-cyclical demand management tool. It also suggests that there is less need to be concerned about protective levels of international reserves, since inflation targeting also implies abandonment of explicit exchange rate targets.[9] The Monetary Policy Board (MPB) of the BoT is responsible for formulating and conducting monetary policy to attain price stability that is conducive to sustainable economic growth. MPB uses core inflation (calculated as the consumer price index excluding raw food and energy items) as its policy target with a range of 0–3.5 percent (quarterly average) for 2000-2002. The 14-day repurchase rate is used as MPB's key policy variable to signal shifts in the monetary policy stance.[10]

2. Inflation

19. Inflation in 2000 was subdued, mainly due to weak domestic demand. The consumer price index increased by 1.6 percent in 2000, following historically low inflation of 0.3 percent in 1999 (Table 7). The core consumer price index grew by only 0.7 percent in 2000, down from 1.8 percent in 1999 and well within MPB's inflation target range. Major factors contributing to mild acceleration of inflation included higher fuel costs caused by rising world oil prices and depreciation of the baht.

---

[6] The Government's contingent liabilities include both direct loan and guaranteed loan of the nonfinancial state enterprises and the FIDF. Ministry of Finance. Thailand, May 2000. *Thailand: From Crisis to Sustainable Recovery.* Bangkok.

[7] The draft bill was approved in principle on 6 August 2001 by the Cabinet for submission to Parliament. Public Debt Management Office, Ministry of Finance.

[8] The use of inflation target as an anchor in the conduct of monetary policy has become known as inflation targeting. An inflation target regime is characterized by (i) an explicit quantitative inflation target; (ii) an operating procedure that can be described as "inflation forecast targeting" or the use of an internal conditional inflation forecast as an intermediate target variable, and (iii) a high degree of transparency and accountability. For more discussion, Svensson, L.E.O. 1998. *Open-Economy Inflation Targeting*. Sveriges Rijksbank Working Paper Series No. 52, p. 1. Sveriges Rijksbank (Bank of Sweden). Stockholm.

[9] For more discussion, available online: http://www.aric.adb.org. Asian Development Bank. Asia Recovery Information Center.

[10] Bank of Thailand. April 2001. *Inflation Report*. Bangkok.

Table 7: Annual Inflation Rate
(average, in percent)

Item	1996	1997	1998	1999	2000	2001 Jan-Apr
Consumer Price Index	5.8	5.6	8.1	0.3	1.6	1.7
Food and beverages	8.8	6.9	9.5	(0.8)	(1.1)	(0.04)
Nonfood and beverages	3.6	4.6	7.3	1.0	3.2	2.7
Clothing	3.8	4.1	7.3	1.2	1.0	1.0
Housing and Furnishing	3.3	3.1	5.6	0.1	1.5	1.4
Personal and Medical Care	2.1	3.1	8.5	3.1	2.5	2.5
Transportation and Communication	1.6	4.7	7.7	1.2	8.8	6.5
Recreation and Education	8.2	5.8	5.1	0.5	(0.4)	0.02
Tobacco and Alcoholic Beverages	5.1	14.0	18.7	3.5	0.7	1.4
Core Consumer Price Index[a]	5.2	4.7	7.2	1.8	0.7	1.1

(–) Indicates negative value.
[a] The core consumer price index excludes raw food and energy items from the consumer price basket.
Source: Inflation Report, 2000 and April 2001, Bank of Thailand.

3. Monetary Developments

20. In 2000, overall liquidity conditions were supportive of economic recovery. The 14-day repurchase rate averaged 1.5 percent in 2000. Commercial interest rates, including minimum loan rate and time deposit rates, remained at a two-year low (Table 8). The overnight interbank lending rate averaged 1.7 percent in 2000. The prime (minimum lending) rate declined from 8.25–8.50 percent in December 1999 to 7.50–8.25 percent in December 2000. Similarly, the deposit rate (3–6 month fixed deposit) declined from 3.75 percent in December 1999 to 3.0 percent in December 2000. Low interest rates helped bank recapitalization by permitting wide lending margins, facilitated corporate sector debt restructuring and repayments, and encouraged the refinancing of foreign exchange obligations in domestic currency.

21. Despite low nominal interest rates, the growth of the money stock remained modest. The average annual growth rate of the money supply (M2) in 2000 increased modestly to 3.7 percent, compared with 2.1 percent in 1999 (Table 9). On the liability side, demand deposits grew significantly at 15.8 percent year-on-year, indicating improved confidence in the banking system.

Table 8: Structure of Interest Rates
(percent)

Item	Money Market and Bond Rates			Commercial Banks[b]		
	Interbank Lending Rates[a]	Repurchase Rates (Daily Average)		Minimum Loan Rates	Minimum Retail Rates	Time Deposits 3 Months to Less Than 6 Months
		14 days	3 Months			
December 1996	12.11	10.50[c]	11.00	13.00-13.25	13.00-13.50	8.75-9.75
December 1997	21.73	22.19	17.98	15.25	15.50-16.00	10.00-11.50
December 1998	2.63	3.98	5.59	11.5-12.00	12.00-13.25	6.00
December 1999	1.23	1.48	2.94	8.25-8.50	8.50-9.00	3.75
December 2000	1.70	1.50	2.44	7.50-8.25	8.00-8.75	3.00
March 2001	1.47	1.50	2.02	7.25-7.75	7.75-8.25	2.50
June 2001	2.13	2.26[d]	2.73	7.25-7.75	7.75-8.25	2.50
September 2001	2.59	2.50	2.75	7.25-7.75	7.75-8.25	2.50

[a] Daily average of the overnight rates.
[b] The figures have been quoted by the five largest banks since January 2000.
[c] Assumed bank rate prior to 1997.
[d] On 8 June 2001, the Bank of Thailand adjusted the 14-day repurchase rate up from 1.5 percent to 2.5 percent.
Source: Bank of Thailand.

22. From the asset side, net domestic credit declined by 7.4 percent in 2000. Credit to the private sector dropped by 8.4 percent. This was the third year of domestic credit contraction, reflecting weak domestic demand. On the supply side too, commercial banks were unwilling to lend to all but the most credit-worthy borrowers. In a context of high level of nonperforming loans (NPLs) and slow progress on corporate restructuring, banks preferred to place their funds in safe assets such as Treasury bills and bonds offering competitive yields and low risks. On the demand side, credit demand from the corporate sector remained sluggish as many businesses were still restructuring their debt with financial institutions.

Table 9: Factors Affecting Money Supply

Item	1996	1997	1998	1999	2000
			B million		
Net Foreign Assets	(78,655)	(559,087)	68,645	672,732	1,030,123
Net Domestic Assets	3,805,308	4,898,432	4,684,716	4,182,017	4,002,497
Domestic Credit, Net	4,638,578	6,237,424	6,163,355	5,905,235	5,466,786
Net Claims on Government	(466,070)	(426,424)	(1,030)	65,081	129,891
Claims on Nonfinancial Public Enterprises	130,654	171,347	183,481	199,093	172,145
Claims on Private Sector	4,973,995	6,492,500	5,980,905	5,641,061	5,164,750
Other Items	(833,271)	(1,338,992)	(1,478,639)	(1,723,218)	(1,464,290)
Money Supply (M2) [a]	3,726,653	4,339,345	4,753,361	4,854,748	5,032,620
Currency	304,298	333,964	318,294	472,407	406,777
Demand deposits	119,389	94,821	123,438	102,633	118,850
Quasi-Money	3,302,966	3,910,560	4,311,629	4,279,709	4,506,993
Money Supply (M2A) [b]	4,725,197	4,821,793	5,118,057	5,182,512	5,296,939
			Annual Percentage Change		
Money Supply (M2) [a]	12.6	16.4	9.5	2.1	3.7
Currency	7.1	9.7	(4.7)	48.4	(13.9)
Demand deposits	14.6	(20.6)	30.2	(16.9)	15.8
Quasi-Money	13.0	18.4	10.3	(0.7)	5.3
Money Supply (M2A) [b]	12.7	2.0	6.1	1.3	2.2

(–) Indicates a negative value.

[a] Consolidated balance sheet of Bank of Thailand and commercial banks.

[b] Consolidated balance sheets of Bank of Thailand, commercial banks, finance companies, and finance and securities companies.

Source: Bank of Thailand.

4. Capital Market

23. In 2000, Thailand's equity market transactions were subdued. Turnover at the Stock Exchange of Thailand was very low. Daily trade volume fell from B6.57 billion in 1999 to B3.74 billion in 2000. Since July 1997, only three companies have listed and about 50 companies have been suspended or delisted.[11] The corporate sector has not only lost share value but is experiencing increasing difficulty in mobilizing resources for working capital and investment purposes. The reasons underlying this trend reflect weak investor confidence and corporate balance sheets. As domestic banks account for about 25 percent of the composite of the Stock Exchange of Thailand Index, equity prices have been held in check by the slow pace of the banking sector's return to profitability.

[11] Seamico Securities, Thailand.

24. In contrast to the equity market, the bond market became an important source of government (including state enterprises) and corporate financing in 2000. The secondary bond market has been very active since 1998 as it offers competitive yields with low risks. The most active bonds were the "Loan Bond" series issued by the Ministry of Finance (MOF).[12] These make up about 46 percent of the total market value and 76 percent of trading volume. These bonds are regarded as "benchmark", and their yields are used to draw the yield curve. The government-guaranteed state enterprise bonds are less liquid and their yields are usually higher than the benchmark bonds. At end-December 2000, the government- and government-guaranteed state enterprise bonds accounted for about B1,000 billion, or 73 percent of the total bonds listed at the Thai Bond Dealing Center. Nonguaranteed state enterprise bonds accounted for B62 billion, or 5 percent. Corporate bonds accounted for B210 billion, or 17 percent of total bonds.[13] After large issuance in early 2000 by Thai corporations, a credit rating requirement was introduced in April 2000.[14]

5. Financial Sector Developments

a. Nonperforming Loans

25. Credit expansion is constrained because the financial sector is still plagued by a large share of NPLs, defined as loans for which payment is at least three months overdue. This could hamper economic growth. The Government has encouraged banks to set up their own asset management companies to speed up debt restructuring.[15] Some progress has been made in reducing the proportion of NPLs, which declined from a peak of 47.7 percent of total outstanding loans in 1999 to about 18 percent at B858 billion (about $20 billion) in December 2000. However, the resolution of the NPL problem is incomplete and remains a significant challenge to the Government.

26. First, the sharp decline in NPLs was partly the result of debt restructuring, but in large measure due to the transfer of NPLs to AMCs. The NPL ratio as of end-2000 had declined significantly to 18 percent. Without the effective NPL transfer to AMCs, the ratio may have been higher at around 30 percent (Figure 4 and Appendix Table A8). Moreover, as of December 2000, state-owned commercial banks and finance companies had higher NPLs than private commercial banks, averaging around 22 and 25 percent, respectively.

27. Second, as economic growth slows, some restructured loans may resurface as reentry NPLs. In voluntary resolution processes, many commercial banks were reluctant to accept the losses associated with writing off bad loans and tended to simply reschedule payments, in the hope that debt circumstances will improve. In 2000, reentry NPLs amounted to about B200 billion, reflecting the inability of companies to meet the new repayment schedules on loans restructured in 1999 and early 2000. Furthermore, despite the overall improvement of the economy, new NPLs have continued to occur, especially in the real estate and construction sectors.

---

[12] MOF issues benchmark bonds and state enterprise bonds during weekly auctions in the amount of B3-4 billion. The average maturity of these bonds range from 0-15 years with yields averaging 5 percent. MOF also issues Treasury bills every week with maturity ranging from one to three months and an average yield of 1.7 percent. Public Debt Management Office, Ministry of Finance.

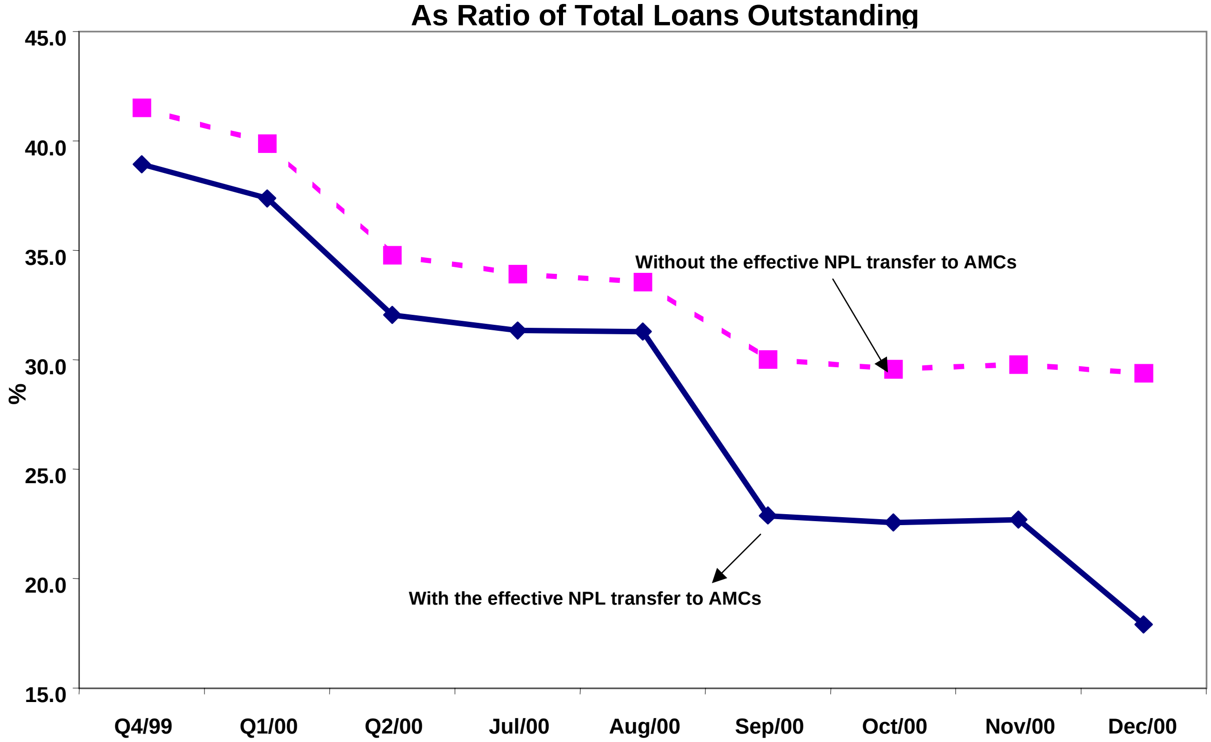
[13] Thailand Bond Dealing Center and ABN AMRO Thailand.

[14] All corporate bonds must have credit ratings except (i) bonds with issue size less than B100 million, (ii) bonds with less than 35 holders, and (iii) some state enterprises.

[15] As of April 2001, 12 asset management companies were established to manage NPLs transferred from their parent financial institutions.

28. To promote efficient management of NPLs and enhance corporate restructuring, the Government established the centralized Thai Asset Management Corporation (TAMC) in June 2001. Debt restructuring is expected to be accelerated and NPLs to be further reduced by the effective operation of the TAMC. Corporate debt restructuring is discussed in paras. 64–78.

Figure 4. Outstanding NPLs of Financial Institutions As Ratio of Total Loans Outstanding



Sources: Bank of Thailand and staff estimates.

b. Capital Adequacy Ratio

29. Considerable progress was made in 2000 in meeting capital adequacy ratios and provisioning standards. Since 1998, domestic commercial banks have raised a total of B902 billion to strengthen their capital and meet provisioning requirements, while private banks have raised some B440 billion. The Government has injected about B454 billion in new capital into state banks.[16] Large bank spreads (lending rate over deposit rate) also helped to support bank profits and capital reserves. Thailand's banks have also met tightened prudential requirements set by the Government. Under the guidance set by the BoT, banks were supposed to have provisioned for at least 60 percent of doubtful loans by the end of 1999 and provisioned completely by end of 2000. According to the International Monetary Fund, all banks met these requirements.[17] The average risk-weighted assets ratio for Thai commercial banks was 11.6 percent in 2000, higher than the 8.5 percent required by the BoT (Table 10). The increased capital strength of Thailand's banking system would help to safeguard against the relatively high

---

[16] Asian Development Bank. 2001. *Asia Recovery Report 2001*. Manila.
[17] IMF. 2000. *Thailand. Selected Issues*. Available: http:// www.imf.org.

level of nonperforming assets and promote corporate debt restructuring. However if new or reentry NPLs continue to increase as economic growth slows, the banks' capital would again be eroded.

Table 10: Capital Adequacy Ratio
(percent)

Item	1996	1997	1998	1999	2000 [a]
Capital Adequacy Ratio					
Thai Bank	8.5	8.5	8.5	8.5	8.5
Foreign bank	7.5	7.5	7.5	7.5	7.5
Actual Compliance Rate [b]					
Thai Bank	10.2	10.1	10.9	12.7	11.6
Foreign bank	9.6	11.6	15.1	16.4	15.7

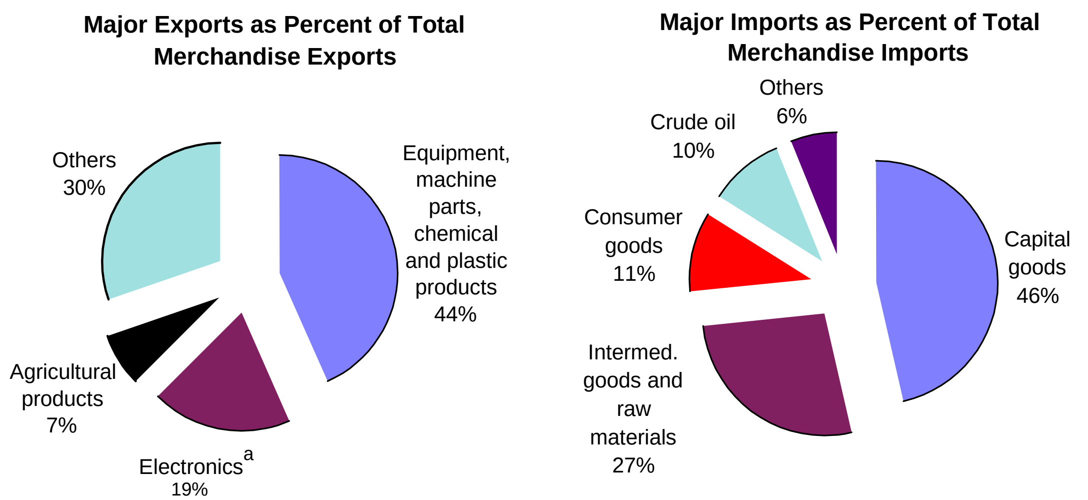
[a] Preliminary.
[b] Average based on quarterly levels.
Source: Bank of Thailand.

D. External Trade and Balance of Payments

1. Trade and Current Account

30. Robust export growth helped Thailand to start its recovery in 1999. In 2000, export demand continued to be a major factor contributing to economic growth. The value of exports, in dollar terms, rose by 19.6 percent over 1999. However, export growth began to taper off toward the end of 2000, following a slowdown of the US economy in the second half of the year and a downturn in the global electronics cycle. About 22 percent of Thailand's total exports go to the US and about 19 percent of total exports are electronics. In 2000, the value of imports grew rapidly at 31.3 percent from a low base in 1999, with a sharp increase not only in net oil imports (from 2.7 percent of GDP in 1999 to 3.7 percent in 2000), but also in raw materials and capital goods (Figure 5). The increase of capital goods was in line with the increase in gross capital formation (or investments), which grew by 18.9 percent in 2000. Despite quick import growth, the trade account posted a surplus of $5.5 billion at the end of 2000. Nevertheless, the rapid growth of imports in 2000 led to a narrowing of the current account surplus, which declined from $12.5 billion (10 percent of GDP) in 1999 to $9.21 billion in 2000 (7.5 percent of GDP). Services income performed strongly in 2000, as net income from tourism surged, helping to offset import growth.

Figure 5: Composition of Exports and Imports, 2000



[a] Electronics include computers and parts as well as integrated circuits and parts. According to Bank of Thailand estimates, Thailand's share of electronics (which includes computers and parts, integrated circuits and parts, electrical appliances, and telecommunications equipment) to total exports was 27.5 percent in 2000.
Sources: Bank of Thailand. April 2001. *Inflation Report*. Bangkok. Appendix Table A9.

2. Capital Flow and Foreign Direct Investment

31. In 2000, the overall balance of payments was in deficit. The capital account deficit increased to $9.8 billion in 2000 from $7.9 billion in 1999 (Figure 6 and Table 11). The outflows were mainly due to the continued payment of foreign loans by private commercial banks ($4.8 billion) as well as nonbanks ($3.9 billion), accounting for about 89 percent of total net financial outflows. Corporates and banks were encouraged by low domestic interest rates to refinance their foreign currency obligations in domestic debt markets. The Government also made repayments to bilateral creditors and multilateral development institutions (including a $500 million loan prepayment to ADB and a $200 million repayment to IMF in 2000). Aside from the bank and nonbank loan repayments, movements of offshore funds (at $562 million) out of Thailand, likely due to low domestic interest rates and political uncertainty before the national election, also contributed to net capital outflows. Gross international reserves declined marginally to $32.7 billion by the end of 2000, from $34.8 billion in 1999. This is more than twice the level of short-term debt and equivalent to around six months of imports.

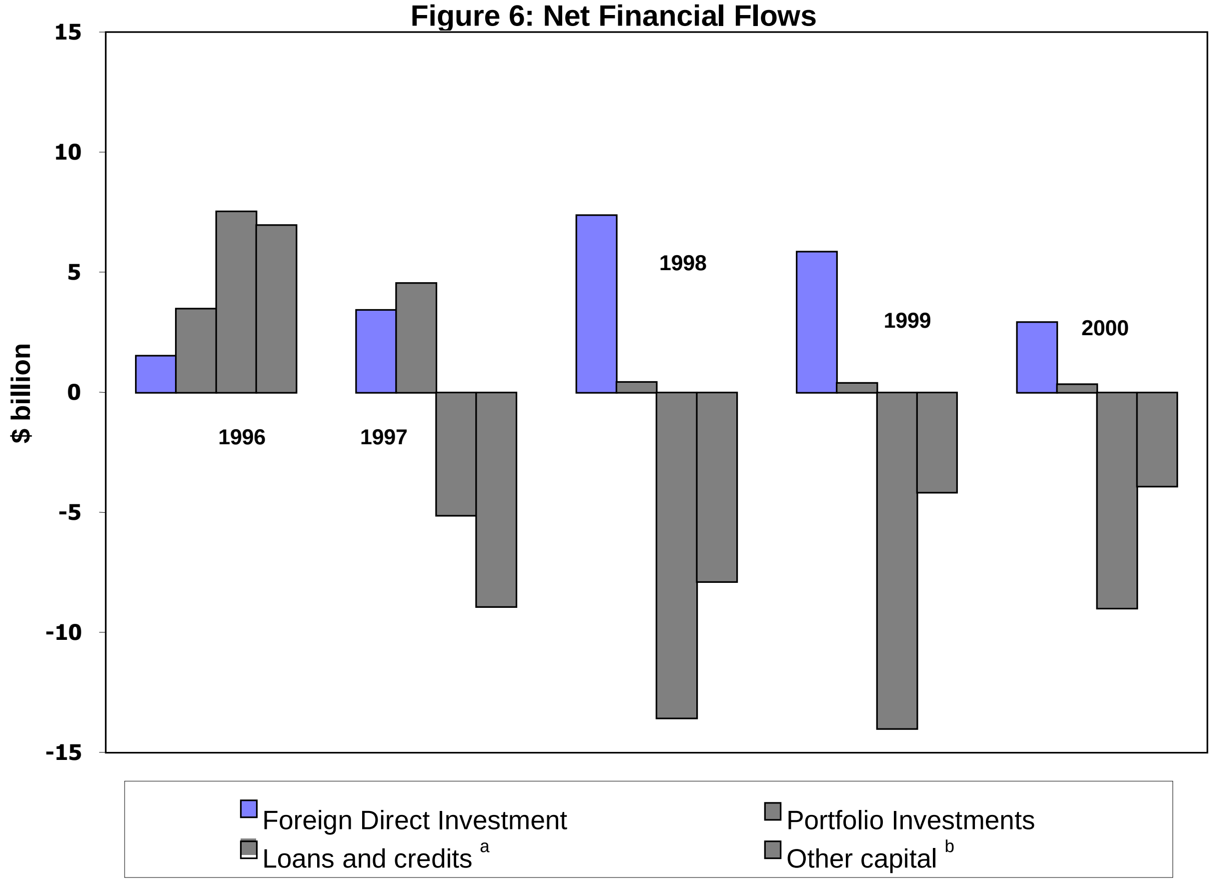
32. Foreign Direct Investment (FDI) inflows slowed in 2000 to $2.9 billion from $5.9 billion in 1999. The decline reflected continuing low levels of investor confidence. A moderation of the strong interest in the banking and finance sector drove FDI in 1998 and 1999. In addition, some investors' perception is that the cost of doing business in Thailand is high because of the inadequacy of the skilled labor force.[18] Another factor accounting for the slowdown in FDI inflows is the current excess capacity in many industries. Portfolio investment remained at much lower levels than the precrisis levels. International investors have still not regained confidence in the stock market.

---

[18] According to National Statistics Office labor force survey in 1999, about 57 percent of Thailand's total workforce had only primary education or less.

33. The net financial outflows from Thailand that occurred in 2000 did not pose the same threats as those occurring in 1997. First, the quantum of the outflow was considerably smaller. Second, the composition of recent financial outflows has changed. During the crisis in 1997-1998, outflows largely reflected the nonrenewal of short-term bank credits. In contrast, in 2000, the outflows largely reflected scheduled debt repayment, which directly improved the country's external debt position. Third, Thailand's external debt structure has improved substantially, with the share of short-term debt in total external debt declining from a peak of 52 percent in 1995 to around 18 percent in December 2000. Fourth, Thailand's external payment position is now considerably stronger than before. Current account surpluses prevail, and foreign exchange reserves provide ample cover against short-term maturing liabilities. Although total international reserves slightly fell to $32.7 billion at the end of 2000 from $34.8 billion at the end of 1999, they continue to be higher than $27 billion at the end of 1997.

Figure 6: Net Financial Flows



[a] Includes public sector credits.

[b] Includes non-resident baht account, trade credits, and other accounts.

Source: Bank of Thailand.

Table 11: Balance of Payments

Item	1996	1997	1998	1999	2000 [a]
	$ million				
Current Account					
Trade Balance	(16,148)	(4,624)	12,235	9,271	5,519
Exports (mainly FOB)	54,667	56,725	52,878	56,800	67,942
Imports (mainly CIF)	70,815	61,349	40,643	47,529	62,423
Services and Income, net [b]	1,037	1,039	1,641	2,841	3,225
Private Transfers	731	457	386	310	402
Current Account Balance,					
Excluding Official Transfers	**(14,380)**	**(3,128)**	**14,262**	**12,422**	**9,146**
Official Transfers	30	17	29	43	62
Current Account Balance,					
Including Official Transfers	**(14,350)**	**(3,111)**	**14,291**	**12,465**	**9,208**
Capital and Financial Account	19,504	(4,343)	(9,742)	(7,907)	(9,811)
Private Sector	18,201	(7,623)	(15,483)	(13,836)	(9,401)
Banks	5,003	(5,717)	(12,723)	(10,617)	(6,611)
Foreign Direct Investment	68	255	2,349	2,642	537
Loans	779	(2,995)	(11,668)	(11,563)	(4,813)
Others	4,156	(2,977)	(3,404)	(1,696)	(2,335)
Nonbanks	13,198	(1,906)	(2,760)	(3,219)	(2,790)
Direct Investment, net	1,455	3,180	5,019	3,218	2,389
Portfolio Investment	3,488	4,550	422	391	332
Other Loans	5,451	(3,688)	(3,713)	(4,359)	(3,928)
Nonresident Baht Account	2,924	(5,812)	(4,300)	(3,204)	(562)
Others [c]	(120)	(136)	(188)	735	(1,021)
Public Sector	1,303	1,550	1,805	1,909	(260)
Monetary Authorities [d]	0	1,730	3,936	4,020	(150)
Allocation of Special Drawing Rights	0	0	0	0	0
Errors and Omissions	(2,985)	(3,196)	(2,815)	26	(1,014)
Overall Balance	**2,169**	**(10,650)**	**1,734**	**4,584**	**(1,617)**
Reserve Assets	**(2,169)**	**10,650**	**(1,734)**	**(4,584)**	**1,617**
Reserve Position in the Fund	(21)	455	0	0	0
Foreign Exchange	(2,132)	10,627	(1,842)	(4,707)	1,422
Monetary gold	0	0	0	0	31
SDRs	(16)	(433)	108	123	164
	Annual percentage change				
Exports	(1.91)	3.76	(6.78)	7.42	19.62
Imports	0.61	(13.37)	(33.75)	16.94	31.34
	As percent of GDP				
Trade balance (Goods only)	(8.84)	(3.05)	10.92	7.59	4.52
Current Account Balance [e]	(7.88)	(2.07)	12.73	10.16	7.50

(–) Indicates negative value.

CIF = cost, insurance, and freight. FOB = free on board. SDRs = special drawing rights.

[a] Provisional.

[b] Income payments include receipts/payments of compensation from/to abroad.

[c] Include trade credits and other accounts.

[d] Includes Bank of Thailand's borrowing and other offshore transactions.

[e] Without official transfers.

Source: Bank of Thailand.

3. External Debt and Exchange Rate

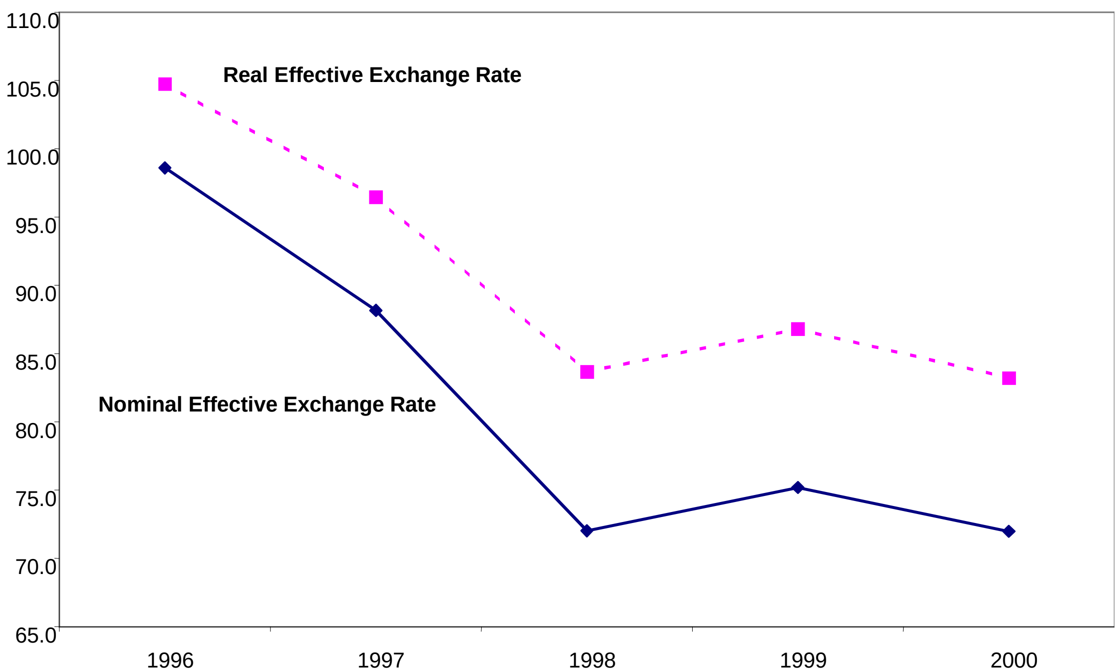
34. In June 2000, external debt figures from 1995 onward were revised upward by BoT following a comprehensive survey that included the nonbanking subsector. Based on the revised figures, total external debt was estimated to have declined to $79.7 billion at the end of 2000 from $95.2 billion at the end of 1999 (Table 12). Thailand's external debt had a better position than in 1996 before the crisis. First, total external debt declined to $79.7 billion from $108.7 billion at the end of 1996. Second, the maturity profile of debt has shifted toward long-term debt, with short-term debt's share in total declining to 18.4 percent in 2000 from 43.9 percent in 1996, mainly as a result of external debt repayment by the private sector. Third, of that total, public debt made up 42.5 percent in 2000, from 15.5 percent in 1996, while the private sector owed the remaining. Fourth, the gross international reserves as a ratio of short-term debt have increased from 81.1 percent in 1996 to 222 percent in 2000. In addition, Thailand's debt service ratio (percent of exports of goods and services) dropped from 19.4 percent at the end of 1999 to 15.2 percent at the end of 2000, reflecting an improved ability to service foreign debt.

35. The baht depreciated from an average of 38 to the dollar in 1999 to an average of 40 to the dollar in 2000. Domestically, the weakening of the baht could be attributed to the low interest rates, deterioration of balance of payments, and preelection uncertainty. Externally, an increase in world oil prices adversely affected Thailand's terms of trade. The baht's depreciation was in step with a boarder depreciation of regional currencies against the dollar.

36. By the end of 2000, Thailand's nominal effective exchange rate depreciated by 16 percent points since the crisis in 1997. Likewise, the real effective exchange rate or (nominal effective exchange rate adjusted for inflation of major trading partners) has depreciated by 13 percent points during the same period. The depreciation of the real effective exchange rate has helped to support export growth.

Figure 7: Nominal Effective Exchange Rate and Real Effective Exchange Rate

In Index Points



Source: Bank of Thailand.

Table 12: Outstanding External Debt and Debt Service

Item	1996	1997	1998	1999	2000[a]
	$ million				
Outstanding External Debt	**108,742**	**109,276**	**105,081**	**95,237**	**79,715**
Medium and Long-Term Debt	60,999	70,982	76,588	75,305	65,021
Public Sector[b]	16,747	24,062	31,428	35,894	33,887
Nonbank Private Sector	31,241	32,102	34,275	30,971	24,403
Commercial Banks	13,011	14,818	10,885	8,236	6,731
of which: BIBF	10,697	10,895	6,945	5,269	4,151
Short Term Debt	47,743	38,294	28,413	19,932	14,694
Public Sector	54	20	150	130	26
Nonbank Private Sector	18,831	13,871	10,826	10,336	9,242
Commercial Banks	28,858	24,403	17,437	9,466	5,426
of which: BIBF	20,490	19,185	14,891	7,837	4,085
Outstanding Debt Service Payments	9,024	11,629	14,430	14,134	12,692
Principal	3,822	6,071	8,951	9,622	8,868
Interest	5,202	5,558	5,479	4,512	3,824
	As Percent of Total External Debt				
By Maturity					
Medium and Long-Term Debt	56.1	65.0	72.9	79.1	81.6
Short-Term Debt	43.9	35.0	27.0	20.9	18.4
Total	100.0	100.0	99.9	100.0	100.0
By Institution					
Public Sector	15.5	22.0	30.1	38.0	42.5
Nonbank Private Sector	46.0	42.1	43.0	43.4	42.2
Commercial Banks	38.5	35.9	27.0	18.6	15.3
of which: BIBF	28.7	27.5	20.8	13.8	10.3
Total	100.0	100.0	100.0	100.0	100.0
Total Debt Service (as % of exports of goods and services)	12.3	15.7	21.4	19.4	15.2
Outstanding Debt (as % of GDP)	59.7	70.0	93.1	78.0	65.5
International Reserves (as % of short-term debt)	81.1	70.4	101.0	177.5	222.3

BIBF = Bangkok International Banking Facility.

[a] Preliminary.

[b] Includes monetary authorities.

Sources: Bank of Thailand; Public Debt Management Office, Ministry of Finance; and staff estimates.

II. SHORT AND MEDIUM-TERM ECONOMIC PROSPECTS AND POLICY ISSUES

A. Government Strategies

37. Following the general election on 6 January 2001, the new administration identified the sluggish economy, poverty, narcotics, and corruption as the four main challenges facing the country. The Prime Minister faces immense pressure to stimulate the economy quickly and fulfill his campaign pledges. The new administration outlined its economic plans to Parliament on 26 February 2001, including a village fund, farmer debt suspension, public health program, reform of government salary payment, banking facilities for the poor, and TAMC. These initiatives entail an increase in the public sector deficit in FY2001-FY2002. The Government is, however, committed to maintaining a balanced budget over the next five fiscal years. Faced with the prospect of a sharp decline in export growth largely as a result of unfavorable external conditions, the Government has adopted an expansionary fiscal stance. The Government projects GDP growth of 1.5–2.0 percent in 2001, and 2.5–3.0 percent in 2002.

38. The Economic and Social Development Plan of the Government (2002-2006) (the 9th Plan) emphasizes the "sufficiency economy" as the main philosophy for sustainable development and well-being of the Thais. The philosophy is based on a principle of the middle path—balanced and rationalized development, moderation, awareness of the changing world, and the quality of the people. The 9th Plan proposes seven main strategies that are divided into three interrelated approaches. The first approach, to strengthen the social foundation of the country, comprises three strategies: (i) human development and social protection, (ii) sustainable rural urban development, and (iii) management of natural resources and the environment. The second approach, to restructure the economy to a balanced and sustainable path, comprises three strategies: (i) macroeconomic management, (ii) promotion of international competitiveness, and (iii) strengthening of the science and technological base. The third approach, to establish good governance in all levels of management, includes one strategy: development management for good governance.[19] The 9th Plan was approved by the Cabinet in October 2001. It has established strategic guidelines for all ministries and departments when formulating their development priorities and for use in identifying investment projects allocating budget resources.

B. Growth, Investment, and Savings

39. Although the economic recovery was sustained much of its momentum in 2000, overall growth is expected to slow in 2001. In the first half of 2001, the GDP growth rate was only 1.9 percent year-on-year, down from 5.9 percent in the first half of 2000. Based on ADB staff estimates, GDP growth is projected to slow to 1.5 percent in 2001, due to a deteriorating external environment and sluggish domestic demand (Table13).[20] However, economic momentum is expected to strengthen in 2002 with growth rates ranging from 2.5 to 3.0 percent, provided that external conditions improve and that fiscal stimulus planned by the new administration is effectively implemented. Prospects for growth will also remain highly dependent on continued progress in financial sector reform and corporate debt restructuring. Both are much needed to improve efficiency and profitability, and to boost investor confidence.

---

[19] Draft outline of the 9th Plan, as of April 2001, NESDB.

[20] The macroeconomic projections in this section are essentially based on a macroeconomic consistency framework used by IMF and based on expected slowing of global GDP growth of 2.6 percent in 2001 followed by a rebound to about 3.5 percent in 2002.

Table 13: Key Economic Indicators and Projections

Item	1998	1999	2000 a	2001	2002
Output and Growth (constant 1988 prices, %)					
GDP Growth	(10.8)	4.2	4.4	1.5	2.5
Agriculture	(3.2)	2.7	2.7	1.0	1.5
Industry	(13.3)	9.5	5.1	1.7	3.0
Services	(10.0)	(0.1)	4.1	1.5	2.2
Saving and Investment (current prices, % of GDP)					
Gross Saving	33.2	29.9	30.2	25.8	23.3
Gross Domestic Investment	20.5	19.9	22.7	22.0	21.0
Government Finance (% of GDP) [b]					
Revenue and Grants	16.2	16.2	16.5	15.8	15.4
Expenditure and Net Lending	23.8	27.4	19.6	17.9	19.1
Fiscal Balance	(7.6)	(11.2)	(3.2)	(2.0)	(3.7)
Money and Inflation (annual % change)					
Money Supply (M2)	9.5	2.1	3.7	4.0	6.5
Private Sector Credit [c]	(7.9)	(5.7)	(8.4)	(4.0)	(1.0)
Consumer Price Index	8.1	0.3	1.6	2.3	2.6
Balance of Payments					
Merchandise Trade Balance (% of GDP)	10.9	7.5	4.5	1.6	1.1
Exports, FOB (% of GDP)	47.4	46.5	55.7	58.0	58.1
Imports, CIF (% of GDP)	36.4	38.9	51.2	56.4	57.0
Current Account Balance (% of GDP)	12.7	10.0	7.5	3.8	2.3
Exports, FOB ($ term, annual growth rate, %)	(6.8)	7.4	19.6	(4.5)	4.0
Imports, CIF ($ term, annual growth rate, %)	(33.8)	16.9	31.3	1.0	5.0
External Payments Indicators					
Gross Official Reserves ($ billion)	29.5	34.8	32.7	29.5	27.2
(months of imports of goods) [d]	8.7	8.8	6.3	5.6	4.9
External Debt Service (% of exports of goods and services) [d]	21.4	19.4	15.4	17.0	14.6
External Debt (% of GDP)	93.8	78.3	65.8	61.5	53.1
Memorandum Items					
GDP (current prices, B billion)	4,628	4,615	4,900	5,087	5,346
Average Exchange Rate (B/$)	41.31	37.79	40.16	45.50	46.00
GDP (current prices, $ billion)	112.1	122.1	121.8	111.8	116.2
Per Capita GDP (current prices, $)	1,831	1,976	1,955	1,780	1,836
Average Population (million)	61.2	61.8	62.3	62.8	63.3
Annual Population Growth (%)	1.2	1.0	0.8	0.8	0.8

(-) Indicates negative value.

CIF = cost, insurance, and freight. FOB = free on board. GDP = gross domestic product.

Note: GDP and GDP ratios are preliminary estimates based on quarterly data.

[a] Preliminary estimates.

[b] On a fiscal year basis. Covers central Government only. Based on Government official targets.

[c] Includes claims on business and household sectors and other financial institutions.

[d] Data on exports of goods and services and imports of goods in the BOP table were used.

Sources: National Economic and Social Development Board, Bank of Thailand, Ministry of Finance and ADB staff estimates.

40. As the growth of domestic and external demand is likely to slow in 2001, the investment rate is unlikely to pick up, despite the expected fiscal stimulus package, and no radical departure from current saving ratio is expected. This will lead to a lower resource gap between investment and saving to around 4 percent in 2001, down from 7.5 percent in 2000.

C. Revenue, Expenditure, and the Fiscal Outlook

41. Given weakening external demand, domestic demand recovery is crucial but hampered by incomplete restructuring. Government's deficit spending measures are intended to provide some support for domestic demand. According to MOF, for FY2001, the budgetary deficit is expected to be B105 billion, or 2 percent of GDP. For FY2002, the budgetary deficit is projected to expand to B200 billion, or 3.7 percent of GDP. On the revenue side, the Government will defer annual revenue of about B70 billion in FY2001-FY2002,[21] since it has decided to delay an increase in its VAT rate from 7 percent to 10 for another year until 30 September 2002. However, the Government raised the excise tax on alcohol and cigarettes from end-March 2001, which will raise annual revenue of about B3 billion.[22] On the expenditure side, aside from current expenditures that account for 70 percent of total expenditures, most of the Government's new economic initiatives require additional funding (Table 14).

42. The Government has committed to maintaining and intensifying the fight against poverty and has set a target to reduce the incidence of poverty to less than 10 percent by 2006. Several major initiatives are intended to assist the rural sector and the poor. Potentially, the impact of these initiatives on poverty is important if they are fully funded and effectively implemented. However, the effective implementation of the Village and Urban Revolving Fund remains a concern. The management capacity of villages and local governments and the supervision capacity of the central Government are crucial to ensure successful implementation and prevent the misuse of public funds. Otherwise, the fiscal stimulus and rural development objectives of these initiatives might prove insufficient to stimulate the economy and reduce poverty. In addition, detailed implementation mechanisms should be developed to ensure these initiatives are efficiently administered and benefits to the poor maximized.

43. To finance the projected fiscal deficit, the Government plans to borrow largely from the domestic capital market through Treasury securities (bonds and bills), as private commercial banks have high levels of liquidity and domestic interest rates are at low levels. However, external borrowing is likely to continue. First, as part of a prudent and cautious approach to public debt management, in the context of a narrowing current account caused by sharp decline of exports. Currently, as of March 2001, free international reserves, as defined by the gross reserves net of swap obligations and IMF package liabilities, are estimated to be about $18billion–20 billion.[23] Second, refinancing will be risky if the liquidity situation is tightened. Third, the availability of domestic financial resources may be squeezed if domestic demand picks up along with economic growth in 2002 onward.

44. Based on official estimates, the Government is likely to run a budget deficit over FY2001-FY2006. Nevertheless, according to a study on fiscal sustainability, fiscal balance could be achieved by FY2007. More discussion on fiscal sustainability in provided in paras. 54–63.

---

[21] Fiscal Policy Office, Ministry of Finance.
[22] The Economist Intelligence Unit. 2001. *Country Report: Thailand*.
[23] Bank of Thailand.

Table 14: Budget Implication of Government's Initiatives

Item	Total	FY2001	FY2002	FY2003	FY2004
	B billion				
Village and Urban Revolving Fund [a]	78	10	30	38	–
Debt Suspension for Farmers [b]	18	3	6	6	3
Public Health Program [c]	56-87	0.4	27.8-43.3	27.8-43.3	–
Reform of Government Salary Payment [d]	11.6	3.6	4.0	4.0	–
Thai Asset Management Company [e]	Budget not yet finalized				
Total	**163.6-194.6**	**17.0**	**67.8-73.3**	**75.8-91.3**	**3**
Memorandum Items					
Budgetary Deficit (B Billion)		105.0	200.0	–	–
Budgetary Deficit (% of GDP)		2.0	3.7	–	–

– Data not available.

[a] This fund was established as a source of finance to create income-generating opportunities for the population. B1 million will be made available for each of 71,000 villages as a loan facility available for individuals and households to borrow from local investment.

[b] As an income creation policy in the agriculture sector, the Government will implement policies to accelerate the resolution of farmer's debt problems. Funds will be allocated to cover debt relief for farmers for about three years on principal payments.

[c] The Government will provide health assurance and coverage schemes for the purpose of decreasing the poor's expenditure on public health. In particular, patients will eventually pay a standard fee of only B30 when they see the doctor.

[d] Includes salary increase and special bonus, which will apply to civil servants, armed force personnel, and police.

[e] Covers B1.10 trillion in nonperforming loans of state banks and B250 billion in NPLs of private commercial banks.

Sources: Fiscal Policy Office, Ministry of Finance (Budget as of 30 April 2001); Bank of Thailand *Inflation Report*, April 2001.

D. Inflation, Monetary Policy, and the Financial Sector

45. In 2001, inflationary pressure will be mainly from external factors. The postponement of the rise in VAT to 10 percent from 7 percent for another year will help contain domestic inflation. The consumer price index is projected to rise to around 2.3 percent in 2001 and increase to about 2.6 in 2002.

46. BoT continues to target inflation and uses the benchmark 14-day repurchase interest rate to signal its monetary policy stance. On 8 June 2001, BoT raised its 14-day repurchase from 1.5 percent to 2.5 percent leading other money market rates up. According to BoT, the adjustment of the 14-day repurchase rate is intended to correct the misalignment in the short-term interest rate structure in order to enhance the efficiency in cost management of the financial institutions as a whole. While acknowledging that the previous rate of 1.5 percent might have been contributed to capital outflows, IMF expressed its concern about such an increase, arguing that this was undertaken for objectives outside the scope of the inflation-targeting framework and in the absence of inflationary pressures.[24]

[24] IMF. 2001. Public Information Notice No.01/90. Washington. Available: http:// www.imf.org.

47. By end June 2001, the average interbank lending rate as well as three-month repurchase rate had increased to 2.13 percent and 2.73 percent, respectively. However, the major Thai commercial banks did not adjust deposit or lending rates. BoT 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, and associated inflation.

48. Although conditions have improved in the banking system, much work still needs to be done to improve its efficiency and safety. A robust financial system foremost depends on a reliable and credible legal system. In 2000, the Cabinet and the Council of State approved the draft Financial Institutions Act and the draft Bank of Thailand Act. The new Government endorsed the draft Financial Institutions Act, and submitted it to Parliament for approval into law. The draft Bank of Thailand Act is now under review and will be resubmitted to the Cabinet and the Council of State. These acts, if passed, will provide BoT with a clear mandate and responsibility to regulate and supervise financial institutions under a new framework of rules that anticipate consolidating supervision of financial conglomerates, tightening rules on insider lending, and linking capital adequacy to risk profiles.

E. The External Sector Outlook

49. In 2001, Thai exports could shrink as a result of reduced external demand, and the downturn in the electronics business cycle. Exports are expected to contract by around 4.5 percent, a sharp decline compared with 19 percent growth in 2000. Imports are projected to grow by around 1 percent due to continued imports of capital goods, a significant reduction from the 31 percent growth recorded in 2000. Weaker tourist revenue is expected toward the end of 2001 as a result of fears of airline travel and terrorism after the terrorist attack on New York and Washington in September 2001. Nevertheless the current account surplus in 2001 is expected to shrink to around 4 percent of GDP.

50. The capital account is expected to remain in deficit as banks and nonbanks continue their scheduled debt servicing obligations. In turn, the level of international reserves could slide due to scheduled repayments to IMF and other multilateral and bilateral creditors. But a more flexible exchange rate lessens the need for protective reserves. FDI inflows are not expected to pick up significantly, especially as the restructuring of the financial sector is virtually complete for the time being, and since privatization plans involving possible foreign partners appear to be on hold. The external debt service ratio is expected to remain manageable at around 17 percent, while the external debt to GDP ratio should remain about 62 percent in 2001.

F. Medium-Term Risks and Uncertainties

51. Thailand is a relatively open economy, with aggregate trade[25] of 107 percent of GDP, and technology exports occupying a significant share of exports. In the event the US economy has a recession and the Japan economy stagnates in 2001,[26] Thailand's economy could be seriously affected. Moreover, the spillover effects from the slowing of other Asian economies will adversely affect Thai exports. As a larger net importer of fuel, high oil prices would be a concern

[25] Defined as the ratio of exports plus imports to nominal GDP.

[26] IMF forecasts 1.3 percent growth in 2001 and 2.2 percent in 2002 in the US. The Japanese economy may slip into a recession, as the projected growth rate is contracting by 0.5 percent in 2001 and growing by 0.2 in 2002. Global GDP growth will be 2.6 percent in 2001 and 3.5 percent in 2002. The forecasts exclude the assessment of the impact of the terrorist attack on 11 September 2001. *World Economic Outlook* (advanced copy), IMF, September 2001.

for Thailand. Over the next few years, Thailand's growth prospects will be influenced decisively by the global economic trend.

52. The high level of public debt could potentially become a major source of vulnerability over the medium term. Although public debt is currently manageable, in the context of protracted slow growth, sustained deficits could become problematic and debt service costs could escalate. While liquidity in Thailand is currently ample, low interests are not guaranteed in the future and interest increase could create fiscal stresses. Faster growth expected in 2002 and onward could ease financing pressures, but if downside risks were to eventuate, the ratio of public debt to GDP could climb further.

53. Incomplete financial and corporate restructuring is another major risk over the medium term. Incomplete restructuring prevents the banking system from playing its critical financial intermediation role and reduces the flexibility and dynamism of the economy. Unless further structural reforms are carried out, the financial sector will remain weak and vulnerable, and medium–term economic growth will not be improved. In addition, Thailand's weak national competitiveness[27] cannot be improved if structural reforms stall.

III. SELECTED POLICY ISSUES

A. Fiscal Sustainability

54. Thailand's public debt increased from about 15 percent of GDP in 1996 to about 58 percent of GDP by end of 2000. Financing this debt absorbed 10.7 percent of government revenues in FY2000 compared with 4.5 percent in FY1996 (para. 15). For FY2002, the budget deficit is projected to be 3.7 percent of GDP. This will add to the public debt. Based on official estimates, the Government is likely to run a budget deficit over FY2001-FY2006. Two major contributing factors include the ongoing fiscal stimulus package to stimulate economic recovery and increased debt interest payments. Mounting pressures to support domestic demand could threaten fiscal sustainability over the medium term. In this context, the Government's stated objective is to move toward a balanced budget position by FY2007.

55. To gauge whether a country's fiscal position is sustainable, the ratio of pubic debt to GDP is key. [28] A steeply increasing public debt to GDP ratio is generally regarded as a cause for concern, since it would typically be accompanied by a deterioration of key macroeconomic indicators, and could trigger concerns about sovereign creditworthiness. Technically, a stable or declining debt to GDP ratio requires that the primary fiscal surplus should be on average at least as large as the product of the stock of public debt and the difference between the real interest rate for deficit financing and the real GDP growth.[29] If, on average, the primary fiscal surplus is

---

[27] Thailand slid from 35th last year to 38th this year out of the 49 countries according to a survey in terms of competitiveness, by International Institute for Management Development. Bangkok Post, 26 April 2001. For a review on competitiveness in Thailand, see ADB. 1997. *Thailand Country Economic Review*. Manila.

[28] This approach starts with projections based on macroeconomic data for over five years. The projections include key variables in the real sector, external, monetary, and fiscal accounts. Then from the fiscal projection and the amount of monetary financing that could be made available to cover future fiscal deficit, debt is projected and sustainability is then assessed. See Chalk, Nigel, and R. Hemming. 2000. *Assessing Fiscal Sustainability in Theory and Practice*. IMF Working Paper. Washington.

[29] Formula: Primary fiscal balance (surplus) /GDP > ((real interest rate - real GDP growth) * total public debt/GDP)). Conditions: Primary fiscal balance refers to difference between current revenue and expenditure; real interest rate refers to the rate for deficit financing (assumed to be average 3.5 percent during FY2002-FY2007); and the real GDP growth (assumed to be average 5.0 percent during FY2002-FY2007). Theoretical background is discussed in *Macroeconomics for Developing Countries.* 1994. Jha, Raghbendra. Routledge. pp. 254-256.

less than the product of the difference between the real interest rate for deficit financing and real GDP growth and the ratio of public debt to GDP, fiscal policy is said to be unsustainable, and the ratio of public debt to GDP will grow over time.

56. The assumptions on which the MOF's debt projections depend include real GDP growth rate averaging 5.0 percent during FY2002-FY2007; an increase in the value of VAT from 7 to 10 percent from FY2003 and onward; real debt interest averaging 3.5 percent; and inflation averaging 2.4 percent.[30] Based on the above assumptions, public debt as percent of GDP is set to fall and the primary fiscal balance to GDP is set to increase between FY2002-FY2007 (Table 15). The projected primary fiscal surplus outweighs real debt servicing obligations, and suggests that Thailand's fiscal policy is sustainable. However, this conclusion is sensitive to the precise assumptions made about the growth rate of the overall economy, the evolution of interest rates, underlying primary revenue and expenditure streams, and the broader institutional context within which fiscal and debt management policies are articulated.

Table 15: Fiscal Sustainability Summary

Item	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
Fiscal Sustainability Analysis						
Outstanding Public/GDP (%)	57.4	55.2	53.3	50.2	47.3	43.9
Primary Fiscal Balance/GDP (%)	1.2	2.6	2.7	2.8	2.9	3.1
Main Assumptions						
Real GDP Growth (%)	2.5	5.5	5.3	5.5	5.5	5.7
Inflation Rate (CPI) (%)	2.0	2.5	2.5	2.5	2.5	2.5
Exchange Rate (B/$)	46.0	46.0	46.0	46.0	46.0	46.0
Elasticity of Revenue	0.6	1.1	1.1	1.1	1.1	1.1
Real Interest Rate for Deficit Financing (%)	3.2	3.0	3.5	3.5	4.0	4.0

Sources: Ministry of Finance, staff estimates.

1. Growth Rate

57. Following modest recovery in 2000, GDP grew by 1.9 percent year-on-year in the first half of 2001. Growth is expected to slow in the second half of 2001 (para. 39). However, as fiscal and monetary policies remain broadly supportive of growth, economic growth is expected to accelerate by the second half of 2002, provided the global economy and electronics demand rebound. But downside risks remain. Thailand is unlikely to escape the downdraft of an overall slowing of world growth. The general expectation of a pick-up in growth toward the second half of 2002 is uncertain.

58. Growth outcomes are crucial to debt dynamics. In a recent IMF study, the trajectory of the debt to GDP ratio in Thailand is compared under alternative assumptions about economic growth.[31] Assuming real growth of 5 percent, VAT at 10 percent, and average interest rate of 6 percent, the ratio of public debt to GDP declines to less than 40 percent of GDP by FY2007.[32] But under a slower growth scenario (assuming real growth at around 2 percent, VAT at 10

[30] Projection made in April 2001 by Fiscal Policy Office, Ministry of Finance.
[31] IMF. 2001. *Thailand: Selected Issues.* (Available: htto://www.imf.org).
[32] In fact, the real ratio of public debt to GDP should be higher, as public debt defined in this study only covers central Government debt and FIDF debt, excluding state enterprise debt, which is about 30 percent of total debt.

percent, and average interest rate at 6 percent), the debt to GDP ratio expands to more than 50 percent of GDP and is on an unsustainable path. Over the medium term, Thailand would have difficulty sustaining domestic demand through fiscal means and maintaining a stable debt ratio, if growth outcomes turn out to be less favorable than currently anticipated.

2. Interest Rate of Deficit Financing

59. By law, the Government can finance budget deficits only from domestic sources. The Government relies on domestic debt financing to bridge the gap between its revenues and expenditures. MOF issues Treasury bills for short-term liquidity purposes and Treasury bonds for medium- and longer-term deficit financing. During FY2000-FY2001, the average interest rate for deficit financing was 5 percent with bond maturity ranging from 1 to 15 years. In the context of ample domestic liquidity and with limited avenues for alternative investments, institutional interest in government debt issuance has been strong. Going forward, this level of support cannot be guaranteed. Portfolio considerations may limit the market's ability to absorb government bonds, especially if there is a shift away from emerging market debt to "safe haven" assets. Of course, if the recovery gathers pace, the public sector would increasingly have to compete for funds with the private sector, which would then exert upward pressure on interest rates. If the real interest cost of Government debt were to outstrip growth, a rising primary balance would then be needed to stabilize the debt to GDP ratio.

3. Revenue

60. In Thailand, the revenue-to-GDP ratio was about 16.5 percent in FY2000, lower than the precrisis level of 19.4 percent in FY1996. To improve revenue mobilization, a number of measures are expected to be introduced. The Government plans to increase VAT to 10 percent from 7 percent by October 2002. This could mobilize additional annual revenue of about B70 billion. In addition, the Government plans to privatize about 15 state enterprises during FY2001-FY2003. This could mobilize about B700 billion of capital revenue. While this will not directly affect the primary fiscal balance, it will reduce the stock of debt. However this reduction will prove transitory if the underlying conditions for a stable path of the debt to GDP ratio are not met. However, were privatization of state owned enterprise (SOE) to lead to faster growth, ease interest rates, or improves the primary balance, it would also engender more stable debt dynamics. Among other steps that Thailand could take to encourage stable debt dynamics would be to improve the mobilization of direct tax revenue, which currently accounts for only just over 5 percent of GDP.

4. Expenditure

61. As a result of the Government's fiscal consolidation, real expenditure is likely to be reduced during FY2002-FY2007. First, debt service costs are likely to fall as a result of legal reforms on public debt management. The current Budget Procedure Act places limitations on the refinancing of domestic debt that raises costs. For example, domestic debt cannot presently be prepaid before maturity. The Government has also established a committee to study proposed amendments to the current act. Second, a welcome prospective development is that SOE debt is likely to fall. The draft Public Debt Management Bill will provide a more efficient system of guarantees on SOE debt by charging guarantee fees. SOEs seeking a government guarantee will in future be subject to a risk assessment and fees will be charged based on their risk profile. SOEs that are capable of borrowing on their own credit will be encouraged to do so

without government guarantees.[33] By changing the incentives facing SOE management, and by encouraging greater operational efficiency, these measures should help ease the burden of public debt. Third, to improve public expenditure management, the Government has undertaken public administration reform since 1999, and introduced internal accountability mechanisms and transparency audits to expenditure spending agencies. This may help reduce deficits and debt.

5. Institutional Strengthening

62. A number of measures to strengthen fiscal institutions have been introduced. First, fiscal deficits must be kept in line with the Budget Law. The proposed increase in the budget deficit of B200 billion in FY2002 is at the upper limit level for deficit financing imposed by legal restrictions. According to Article 9, Budgetary Appropriation Act B.E. 2502, borrowing to finance the budget deficit must not exceed 20 percent of expenditures plus 80 percent of principal repayment expenditure in the budget. Therefore, based on the annual budget expenditure of B1,023 billion in FY2002, the upper limit level for deficit finance is estimated to be about B205 billion in FY2002. Second, following budget system reform that began in 1999, the budget will soon be prepared in a comprehensive medium-term framework that emphasizes fiscal sustainability.

63. In conclusion, the ratio of public debt to GDP has risen quickly over the past five years. Unless this trend can be arrested, concerns will mount over debt sustainability and sovereign creditworthiness. Reassuringly, a number of measures are in process that are conducive to move stable debt dynamics and a reversion of the public debt to GDP ratio to its precrisis level. However, the outlook for public debt is clouded by, among other things, uncertain prospects for economic growth. If growth falters over a protracted period, the Government would face a difficult challenge in balancing the need for fiscal stability with pressures to support the domestic economy.

B. Corporate Debt Restructuring

1. Background

64. Corporate debt amounted to about 150 percent of GDP at the end of 2000, which although below the peak level of 1998, is still larger than the level before the crisis.[34] The corporate debt to equity ratio declined in 2000 but is still higher than before the crisis at about 5 percent. Corporate sector returns as a ratio of total equity have improved in 2000 but are still lower than its precrisis level in 1996 (Table 16). Although foreign currency debt has come down and its maturity has lengthened but the nonperforming domestic debt on the balance sheets of commercial banks and the asset management companies still constitutes a serious threat to financial rehabilitation and economic recovery.

[33] Public Debt Management Office, Ministry of Finance.
[34] IMF. 2001. *Thailand: Selected Issues.* Washington DC. Available: http://www.imf.org.

Table 16: Selected Corporate Sector Indicators

Indicators	1996	1997	1998	1999	2000
	In percent				
Nonperforming loans to total loans of financial institutions	13.0	22.6	45.0	38.9	17.9
Banking Sector Profitability [a]	8.5	(6.6)	(42.5)	(48.9)	–
Corporate Sector Return on Equity [b]	0.1	(0.4)	(0.1)	(0.3)	0.1
Corporate Sector Debt to Equity [c]	4.5	7.0	6.1	6.0	5.2

– Data not available.
(–) Indicates negative value.
[a] Computed as the average return on equity of commercial banks.
[b] Computed as the ratio of net profits(losses) to total stockholders' equity.
[c] Computed as the ratio of total liabilities to total stockholder's equity.
Sources: ADB-ARIC Indicators; Jansen, Karel. Institute of Social Studies.

2. What Has Been Done: Then and Now

65. Thailand has followed a multi-pronged approach to debt restructuring, including (i) Financial Sector Restructuring Authority (FRA)-led workouts of NPLs, (ii) a voluntary framework for debt restructuring under Corporate Debt Restructuring Advisory Committee (CDRAC), (iii) corporate debt restructuring under bankruptcy laws, and (iv) the establishment of TAMC.

66. **FRA–Led and Bank–Led Workouts of NPLs.** FRA was established in October 1997 to oversee the rehabilitation or liquidation of assets of closed financial institutions during the crisis, amounting to B860 billion. FIDF[35] covered the losses, which then were converted into government debt, amounting to B776.2 billion at end-2000. Also, the Government recapitalized banks and finance companies. From 1998 until the first half of 2001, total recapitalization reached B964.6 billion.[36] These initiatives played an important role in stabilizing the financial system during the crisis. However this approach is believed to have imposed large fiscal costs, which eventually will devolve to taxpayers.

67. **Voluntary Framework for Debt Restructuring under CDRAC.** Facing coordination problems created by the presence of a very large number of debtors and creditors, and the inadequate bankruptcy system, the Thai Government pursued an out-of-court consensual approach to private sector debt resolution by establishing CDRAC in 1998. CDRAC is primarily responsible for mapping out debt restructuring measures in support of efficient negotiations between the private sector and financial institutions. CDRAC members have identified priority cases, developed a set of principles for voluntary restructuring based on the London Approach[37]

[35] The FIDF was established in 1985 (during a banking crisis) as a separate legal entity housed in BoT to act as lender of last resort. The FIDF enables BoT to indirectly lend to troubled financial institutions, since BoT regulations forbid such direct lending without specified collateral. In the Financial Sector Restructuring Plan (August 1998), the Government pledged to convert some of the FIDF's loans to restructuring financial institutions into equity, and to accept potential losses of the FIDF by converting them into Government debt. For more discussion: ADB. 1998. Manila. *Thailand: Country Economic Review.*
[36] Bank of Thailand. Available: http://www.bot.or.th.
[37] The London Approach, the government mediation approach, has been used in the United Kingdom since 1989. It is a set of principles implemented under the aegis of the Bank of England. The principles are (i) if a corporation is in trouble, banks keep credit facilities in place and do not press for bankruptcy; (ii) decisions about the firm's future

and facilitated negotiations between creditors and debtors. A more contractual approach was initiated in January 1999 by setting up a CDRAC office at the BoT to track down progress on priority cases. By promulgating a model debtor-creditor agreement to manage out-of-court restructuring and establishing an inter-creditor agreement to resolve differences among creditors. Aside from its involvement in the debt restructuring of individual debtors, CDRAC has been helpful in negotiating with other government agencies to amend and relax rules for cases that have gone through its process.[38]

68. CDRAC has made measurable progress in facilitating debt resolution. Corporate debt restructuring has made progress, with about 352,000 cases valued at B1,954 billion restructured by end of 2000, and another 76,000 cases involving B386 billion under negotiation. CDRAC continues to facilitate debt restructuring negotiation. About half of the cases managed by CDRAC reached a voluntary agreement between debtors and creditors by end of 2000. Most of the remaining cases have been sent to the civil courts for reorganization or liquidation.

69. However, CDRAC has encountered some difficulties such as resolution failures and referrals to the court system, and overreliance on restructuring without accompanying business reorganization. Having resolved the easier cases, the CDRAC process is now slowing down. Reasons for this include (i) ineffective bankruptcy proceedings; (ii) delays in converting unsuccessful rehabilitation into liquidation proceedings; (iii) slow foreclosure and some legal and tax obstacles that impede mergers and acquisitions; and (iv) both creditors and debtors are waiting for assets to be transferred on more favorable terms once TAMC opens up.[39]

70. **Court-Supervised Restructuring and Liquidation.** Due to the antiquated nature of the then bankruptcy laws and processes, the Government undertook reforms of the insolvency and foreclosure system in 1998. Major reforms included amendment of Thailand's 1940 Bankruptcy Act to permit court-supervised reorganization as an alternative to liquidation, amendments to streamline court-supervised reorganizations, and changes to the Code of Civil Procedure to expedite foreclosures and the establishment of the Central Bankruptcy Court.

71. One important feature of these reforms is the establishment of the Central Bankruptcy Court, which is empowered to establish its own method of conducting and recording trials.[40] Under the Central Bankruptcy Court, major types of filing include business reorganization and liquidation. The volume of business reorganization increased significantly in 2000 but moderated during the first quarter of 2001 (Table 17). Liquidation followed a similar trend, 55 percent of the cases were from commercial wholesale/retail and personal consumption sectors. The World Bank concludes that the bankruptcy court is being used to collect smaller-sized debt, while larger rehabilitation cases do not enter the process.[41] The insolvency framework remains biased against creditors, and bankruptcy courts are not proving effective in spurring voluntary

are made only on the basis of comprehensive information shared among all banks and parties; (iii) banks work together; and (iv) seniority of claims is recognized but there is an element of shared pain. IMF. 1998. Stone, Mark. *Corporate Debt Restructuring in East Asia: Some Lessons from International Experience.*

[38] Thailand Development Research Institute. 2001. *Picking Up The Pieces: Bank and Corporate Restructuring in Post-1997 Thailand.* Siamwalala, Ammar. Bangkok.

[39] World Bank. 2001. *Thailand Economic Monitor.*

[40] Other powers given to the Bankuptcy Court are described in Thailand Development Research Institute. 2001. Siamwalla, Ammar. *Picking Up the Pieces: Bank and Corporate Restructuring in Post-1997 Thailand.* Bangkok. pp. 36-37.

[41] World Bank. 2001. *Thailand Economic Monitor.*

debt resolution.[42] A World Bank study indicated that it might take as long as eight years to complete the backlog of pending court cases at current court capacity.[43]

Table 17: Progress of Central Bankruptcy Court

Type of Filings	Volume	Jul-Dec 1999	Jan-Dec 2000	Jan-Mar 2001
Business Reorganization	No. of Cases	37	134	16
	B billion	362.8	660.9	77.1
Liquidation	Cases	416	986	224
	B billion	10.5	77.1	38.8

Source: World Bank. *Thailand Economic Monitor.* July 2001.

72. To ensure that the courts work more effectively, the bankruptcy laws need to be amended to give creditors more clout. Without any credible threat of bankruptcy, debtors will have no incentive to negotiate debt restructuring. In addition, several legal and institutional obstacles should be removed or lessened. These obstacles include a shortage of experienced bankruptcy judges, weak insolvency criteria, and legal difficulties in removing weak corporate management and in implementing liquidation and foreclosure procedures.

73. **TAMC framework for Debt Restructuring.** To overcome the existing obstacles to debt restructuring and promote efficient management of NPLs, the new Government established TAMC in June 2001. The objective of TAMC is to foster economic recovery through the rapid resolution of NPLs, while supporting debtor's efforts to reorganize. TAMC plans to acquire and manage about B1.3 trillion (about $30 billion) in book value of distressed assets. Over 80 percent of these assets consist of NPLs held by state-owned entities, with the remainder held by private banks (B230 billion, or $5 billion).[44] FIDF will provide initial capital and guarantee bonds issued by TAMC. TAMC will have the ability to borrow from the market. MOF is responsible for the general supervision of TAMC and the BoT has the power to examine its operations and financial performance. The bill empowering TAMC was approved in September 2001. It provided TAMC with special legal powers, including (i) debt restructuring including debt and debt service reductions, debt for equity swaps, and transfer of collateral; (ii) business reorganization, which could combine debt with operational restructuring; and (iii) the right to foreclosure and disposal of collateral. These special powers are expected to enable TAMC to bypass the existing slow judicial and administrative procedures.

74. The fiscal cost of TAMC is likely to be limited since much of TAMC's impaired assets are from entities already within the public sector, suggesting that these assets do not ultimately add to the long-term government debt burden. Any potential fiscal implications would stem from private loans purchased by TAMC. However, these loans are capped given the loss-sharing arrangement and the principle that banks will ultimately bear TAMC's interest and operational expenses.[45] Moreover, the impact of TAMC operations on private banks is likely to be limited because the aggregate share of private bank loans eligible for transfer in not large. Accordingly,

[42] ADB. 2001. *Asia Recovery Report* .
[43] World Bank. 2000. *Thailand Economic Monitor*.
[44] IMF. 2001. *Thailand Selected Issues.*
[45] TAMC losses are capped at 70 percent of the acquisition cost value of private bank loans, which should not exceed 2 percent of the year 2000 GDP. IMF. 2001. *Thailand: Selected Issues.*

the overall private bank distressed loan ratios are not likely to be much affected by the operation of TAMC.

75. To ensure the effectiveness, IMF has concluded that TAMC must: (i) make full use of private sector expertise in managing the assets under its purview; (ii) apply consistently the principle of value maximization in drawing up terms for debt and business restructuring; (iii) use its special legal powers in a consistent and even-handed manner; and (iv) minimize political interference and conduct operations transparently.[46]

3. Conclusions

76. Thailand is now less financially vulnerable than before. However, debt overhang still represents a serious impediment to recovery and could threaten the rehabilitation of Thailand's financial system. Potentially, the newly established TAMC could act as an important catalyst for debt restructuring. Progress on debt restructuring would help increase the pool of healthy borrowers, revive active lending, and support domestic demand.

77. However, the current economic slowdown could pose a threat to the process of corporate debt restructuring. Slow growth will depress asset values and impair the ability of debtors to service their obligations. If growth picks up later in 2002, as is generally expected, this should provide a boost to the debt resolution process.

78. In addition to the measures noted, Thailand must now improve corporate governance standards to emerging markets good practice levels. Corporate debt is related to generally weak corporate governance. Poor accounting, auditing, and financial reporting practices compound the problem. To improve the transparency of corporate management, the Government is amending laws and strengthening regulations to enhance shareholder rights, adopting international accounting and auditing procedures, and ensuring better enforcement of regulations on corporate finance and management.

[46] IMF. 2001. *Thailand: Selected Issues.* Available online: www.imf.org.

STATISTICAL APPENDIX

Table A1: Key Economic Indicators

Item	1996	1997	1998	1999 [a]	2000 [a]
Output and Growth (constant 1988 prices, %)					
GDP Growth	5.9	(1.4)	(10.8)	4.2	4.4
Agriculture	4.0	(0.4)	(3.2)	2.7	2.7
Industry	6.9	(1.9)	(13.3)	9.5	5.1
Services	5.3	(1.2)	(10.0)	(0.1)	4.1
Saving and Investment (current prices, % of GDP)					
Gross Saving	33.5	32.5	33.2	30.1	30.2
Gross Domestic Investment	41.6	33.3	20.3	19.9	22.7
Government Finance (% of GDP) [b]					
Revenue and Grants	19.4	18.6	16.2	16.2	16.5
Expenditure and Net Lending	17.0	20.6	23.8	27.4	19.6
Fiscal Balance	2.4	(2.1)	(7.6)	(11.2)	(3.2)
Money and Inflation (annual % change)					
Money Supply (M2)	12.6	16.4	9.5	2.1	3.7
Private Sector Credit [c]	14.4	30.5	(7.9)	(5.7)	(8.4)
Consumer Prices	5.8	5.6	8.1	0.3	1.6
Balance of Payments					
Merchandise Trade Balance (% of GDP)	(8.9)	(3.1)	10.9	7.5	4.5
Current Account Balance (% of GDP)	(7.9)	(2.1)	12.7	10.0	7.5
Exports ($ term, annual growth rate, %)	(1.9)	3.8	(6.8)	7.4	19.6
Imports ($ term, annual growth rate, %)	0.6	(13.4)	(33.8)	16.9	31.3
External Payments Indicators					
Gross Official Reserves ($ billion)	38.7	27.0	29.5	34.8	32.7
(months of imports of goods) [d]	6.6	5.3	8.7	8.8	6.3
External Debt Service (% of exports of goods and services) [d]	12.3	15.7	21.4	19.4	15.2
External Debt (% of GDP)	59.7	70.0	93.1	78.0	65.5
Memorandum Items					
GDP (current prices, B million)	4,622,832	4,740,249	4,628,431	4,615,388	4,900,330
Average Exchange Rate (B/$)	25.32	31.32	41.31	37.79	40.16
GDP (current prices, $ million)	182,583.5	151,358.6	112,052.3	122,145.5	122,020.2
Per Capita GDP (current prices, $)	3,048.1	2,501.8	1,830.9	1,976.5	1,958.6
Average Population (million)	59.9	60.5	61.2	61.8	62.3
Annual Population Growth (%)	0.7	1.0	1.2	1.0	0.8

(–) Indicates a negative number.

GDP = gross domestic product.

Note: GDP and GDP ratios are preliminary estimates based on quarterly data.

[a] Preliminary.

[b] On a fiscal year basis. Covers central Government budgetary and nonbudgetary accounts, and social security funds only and does not include the interest costs of financial sector restructuring.

[c] Includes claims on business and household sectors and other financial institutions.

[d] Data on exports of goods and services and imports of goods in the BOP table were used.

Sources: National Economic and Social Development Board, Bank of Thailand, Ministry of Finance, staff estimates.

Table A2: Gross Domestic Product by Economic Activity [a]
(constant 1988 prices)

Economic Activity	1996	1997	1998	1999	2000
			B million		
Agriculture	293,154	291,967	282,665	290,317	298,060
Agriculture, Hunting, and Forestry	243,156	244,421	234,016	243,541	251,208
Fishing	49,998	47,546	48,649	46,776	46,852
Industry	1,351,966	1,326,030	1,149,461	1,258,761	1,323,116
Mining and Quarrying	52,879	59,950	56,242	61,309	64,184
Manufacturing	1,019,377	1,033,896	918,921	1,024,733	1,085,104
Electricity, Gas, and Water Supply	83,091	87,482	85,962	89,134	98,381
Construction	196,619	144,702	88,336	83,585	75,447
Service	1,474,501	1,456,531	1,311,234	1,310,081	1,363,785
Wholesale and Retail Trade [a]	526,021	509,444	443,052	459,072	472,496
Hotels and Restaurants	109,026	105,661	100,508	106,617	112,979
Transport, Storage, and Communication	267,076	279,657	254,244	270,544	292,431
Financial Intermediation	219,739	196,064	138,093	84,463	79,748
Real Estate, Renting, and Business Activities	114,918	116,411	113,217	118,200	123,529
Public Administration and Defense [b]	83,492	86,231	92,384	93,750	95,338
Education	68,494	72,979	80,480	81,691	84,125
Health and Social Work	32,545	35,415	37,205	37,692	41,133
Other Community, Social, and Personal Service	49,873	51,328	48,650	54,687	58,652
Private Household with Employed Persons	3,317	3,341	3,401	3,365	3,354
Gross Domestic Product	**3,119,621**	**3,074,528**	**2,743,360**	**2,859,159**	**2,984,961**
			As percent of GDP		
Agriculture	9.4	9.5	10.3	10.2	10.0
Agriculture, Hunting, and Forestry	7.8	7.9	8.5	8.5	8.4
Fishing	1.6	1.5	1.8	1.6	8.4
Industry	43.3	43.1	41.9	44.0	44.3
Mining and Quarrying	1.7	1.9	2.1	2.1	2.2
Manufacturing	32.7	33.6	33.5	35.8	36.4
Electricity, Gas, and Water Supply	2.7	2.8	3.1	3.1	3.3
Construction	6.3	4.7	3.2	2.9	2.5
Service	47.3	47.4	47.8	45.8	45.7
Wholesale and Retail Trade [b]	16.9	16.6	16.1	16.1	15.8
Hotels and Restaurants	3.5	3.4	3.7	3.7	3.8
Transport, Storage, and Communication	8.6	9.1	9.3	9.5	9.8
Financial Intermediation	7.0	6.4	5.0	3.0	2.7
Real Estate, Renting, and Business Activities	3.7	3.8	4.1	4.1	4.1
Public Administration and Defense [c]	2.7	2.8	3.4	3.3	3.2
Education	2.2	2.4	2.9	2.9	2.8
Health and Social Work	1.0	1.2	1.4	1.3	1.4
Other Community, Social, and Personal Service	1.6	1.7	1.8	1.9	2.0
Private Household with Employed Persons	0.1	0.1	0.1	0.1	0.1
Gross Domestic Product	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

GDP = gross domestic product.
[a] Based on quarterly National Income Accounts.
[b] Includes repair of vehicles and personal and household goods.
[c] Includes compulsory service activities.
Source: National Economic and Social Development Board.

Table A3: Gross Domestic Product by Economic Activity
Growth Rates
(constant 1988 prices, percent)

Economic Activity	1996	1997	1998	1999 [a]	2000 [a]
Agriculture [b]	**4.0**	**(0.4)**	**(3.2)**	**2.7**	**2.7**
Agriculture, Hunting, and Forestry	5.3	0.5	(4.3)	4.1	3.1
Fishing	(1.4)	(4.9)	2.3	(3.9)	0.2
Industry	**6.9**	**(1.9)**	**(13.3)**	**9.5**	**5.1**
Mining and Quarrying	18.2	13.4	(6.2)	9.0	4.7
Manufacturing	6.5	1.4	(11.1)	11.5	5.9
Electricity, Gas and Water Supply	5.1	5.3	(1.7)	3.7	10.4
Construction	6.9	(26.4)	(39.0)	(5.4)	(9.7)
Service	**5.3**	**(1.2)**	**(10.0)**	**(0.1)**	**4.1**
Wholesale and Retail Trade [c]	2.0	(3.2)	(13.0)	3.6	2.9
Hotels and Restaurants	3.3	(3.1)	(4.9)	6.1	6.0
Transport, Storage, and Communication	11.7	4.7	(9.1)	6.4	8.1
Financial Intermediation	4.5	(10.8)	(29.6)	(38.8)	(5.6)
Real Estate, Renting, and Business Activities	4.6	1.3	(2.7)	4.4	4.5
Public Administration and Defense [d]	6.4	3.3	7.1	1.5	1.7
Education	4.0	6.5	10.3	1.5	3.0
Health and Social Work	5.8	8.8	5.1	1.3	9.1
Other Community, Social, and Personal Service	22.8	2.9	(5.2)	12.4	7.3
Private Household with Employed Persons	(1.4)	0.7	1.8	(1.1)	(0.3)
Gross Domestic Product	**5.9**	**(1.4)**	**(10.8)**	**4.2**	**4.4**

(–) Indicates a negative number.
[a] Preliminary.
[b] Starting 1996, the National Economic and Social Development Board revised the format to include hunting, forestry, and fishing.
[c] Includes repair of vehicles and personal and household goods.
[d] Includes compulsory social security.
Source: National Economic and Social Development Board.

Table A4: Expenditure on Gross Domestic Product

Expenditure Item	1996	1997	1998	1999 [a]	2000 [a]
			B million		
Consumption Expenditure	**2,954,455**	**3,071,361**	**3,029,417**	**3,124,325**	**3,319,653**
Private Consumption Expenditure	2,482,920	2,592,314	2,516,512	2,600,896	2,754,587
Government Consumption Expenditure	471,535	479,047	512,905	523,429	565,066
Gross Domestic Capital Formulation	**1,922,157**	**1,580,054**	**940,660**	**920,293**	**1,110,730**
Fixed Capital Formation	1,886,105	1,581,421	1,028,254	927,090	1,045,634
Private	1,415,077	1,030,621	583,395	500,155	640,998
Public	471,028	550,800	444,859	426,935	404,636
Change in Inventories	36,052	(1,367)	(87,594)	(6,797)	65,096
Exports	**1,807,318**	**2,266,015**	**2,717,728**	**2,698,518**	**3,289,675**
Less: Imports	**2,096,642**	**2,199,019**	**1,982,682**	**2,115,557**	**2,869,583**
Statistical Discrepancy	**35,544**	**21,838**	**(76,692)**	**(12,191)**	**49,855**
Gross Domestic Product	**4,622,832**	**4,740,249**	**4,628,431**	**4,615,388**	**4,900,330**
			As percent of Gross Domestic Product		
Consumption Expenditure	**63.9**	**64.8**	**65.5**	**67.7**	**67.7**
Private Consumption Expenditure	53.7	54.7	54.4	56.4	56.2
Government Consumption Expenditure	10.2	10.1	11.1	11.3	11.5
Gross Domestic Capital Formulation	**41.6**	**33.3**	**20.3**	**19.9**	**22.7**
Fixed Capital Formation	40.8	33.4	22.2	20.1	21.3
Private	30.6	21.7	12.6	10.8	13.1
Public	10.2	11.6	9.6	9.3	8.3
Change in Stocks	0.8	(0.0)	(1.9)	(0.1)	1.3
Exports	**39.1**	**47.8**	**58.7**	**58.5**	**67.1**
Less: Imports	**45.4**	**46.4**	**42.8**	**45.8**	**58.6**
Statistical Discrepancy	**0.8**	**0.5**	**(1.7)**	**(0.3)**	**1.0**
Gross Domestic Product	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(–) Indicates a negative number.
[a] Preliminary.
Source: National Economic and Social Development Board.

Table A5: Manufacturing Production Index and Capacity Utilization Rate

Item	1996	1997	1998	1999	2000
A. Manufacturing Production Index (1995=100) [a]					
	(Year-on-year percentage change)				
Food	1.8	1.8	(5.0)	16.0	1.2
Beverages	4.0	14.3	2.1	22.4	(42.3)
Tobacco	12.0	(9.9)	(20.3)	(9.9)	(1.3)
Textiles and Textile Products	0.5	1.8	2.9	(1.2)	3.2
Petroleum Products	32.3	15.9	(6.4)	2.1	(1.0)
Construction	13.8	(3.2)	(38.2)	12.3	0.0
Iron and Steel Products	7.1	(3.0)	(31.6)	12.2	16.2
Transportation Equipments	4.5	(26.5)	(54.1)	79.1	25.6
Electrical and Electronic Products	12.5	(5.8)	(13.8)	12.0	31.6
Setting Jewellery	(7.2)	(3.1)	33.6	14.4	28.5
Others	18.3	23.5	2.0	12.4	14.5
Total					
(including liquor)	7.8	(0.5)	(10.0)	12.5	3.2
(excluding liquor)	8.5	(1.2)	(10.5)	10.4	10.9
B. Capacity Utilization Rate [b]					
	Index points				
Food	37.2	37.4	33.3	42.4	43.8
Beverages	83.0	79.1	77.2	101.9	37.3
Tobacco	84.2	75.8	60.4	54.4	53.7
Construction	76.7	72.9	44.6	49.8	50.1
Iron and Steel Product	65.1	51.9	35.6	39.1	45.6
Transportation Equipments	67.7	48.6	23.4	35.6	42.2
Petroleum Products	85.7	90.1	84.0	85.7	83.8
Electrical and Electronic Products	67.8	62.2	47.5	52.2	63.9
Others	78.2	71.3	62.5	64.6	69.8
Total					
(including liquor)	72.4	65.5	52.1	60.0	55.9
(excluding liquor)	71.3	63.8	49.5	55.0	59.6

(–) Indicates a negative number.

[a] Covering 62 percent of the 1995 manufacturing sector value added.

[b] Covering 44.5 percent of overall value added in the manufacturing sector.

Source: Bank of Thailand.

Table A6: Composition of Government Revenue and Total Expenditure

Item	FY1997	FY1998	FY 1999	FY 2000	FY 2001 [a]
			B million		
Total Revenue and Grants [b]	**873,426**	**757,832**	**744,259**	**794,810**	**805,000** [c]
Total Revenue	870,421	753,347	740,249	790,410	**805,000**
Current Revenue	870,240	752,819	740,002	785,363	–
Tax	777,511	665,719	642,379	690,850	–
Nontax	92,729	87,100	97,623	94,513	–
Capital Revenue	181	528	247	5,047	–
Grants	3,005	4,485	4,010	4,400	–
Total Expenditure and Lending minus Repayments [b]	**971,373**	**1,114,317**	**1,256,757**	**948,738**	**910,000**
Current Expenditure	530,647	532,628	596,794	653,585	679,287
Capital Expenditure	427,060	519,039	563,742	231,892	218,578
Lending minus Repayments	13,666	62,650	96,221	63,261	12,135 [d]
			As percent of Total Current Revenue		
Tax Revenue	**89.3**	**88.4**	**86.8**	**88.0**	–
Tax on Income	31.7	28.5	28.9	30.0	–
Taxes on Property	1.1	0.7	0.6	0.5	–
Domestic Tax on Consumption	42.4	48.6	45.4	42.0	–
of which: Value Added Tax	19.8	26.2	20.7	19.8	–
Excise Tax	20.8	20.9	22.5	21.3	–
Taxes on International Trade	12.1	9.0	9.2	11.0	–
Other Taxes	2.1	1.6	2.7	4.5	–
Nontax Revenue	**10.7**	**11.6**	**13.2**	**12.0**	–
Total Current Revenue	**100.0**	**100.0**	**100.0**	**100.0**	–
			As percent of Total Actual Expenditure		
Current Expenditure	55.4	50.6	51.4	73.8	75.7
Capital Expenditure	44.6	49.4	48.6	26.2	24.3
Expenditure By Function	100.0	100.0	100.0	100.0 [e]	100.0 [e]
General Public Services	4.6	3.8	3.5	4.8	4.9
Defense Affairs and Services	10.9	8.4	6.6	8.6	8.5
Public Order and Safety Affairs	5.3	5.0	4.6	6.4	6.4
Education Affairs and Services	20.3	18.7	17.3	24.9	24.7
Health Affairs and Services	8.1	7.4	6.5	7.2	7.2
Social Security and Welfare	3.5	3.3	3.3	5.2	5.7
Housing and Community Amenities	0.4	0.5	0.2	0.2	0.2
Agriculture, Forestry and Fishery Affairs	8.7	6.1	6.1	7.6	8.3
Mining, Manufacturing and Construction	0.5	0.4	0.7	0.6	0.6
Transportation and Communication	14.9	12.9	9.1	9.8	8.6
Other Economic Services	9.9	22.2	29.3	3.3	5.2
Other Expenditure	12.9	11.4	12.7	21.4 [d]	19.6 [d]

– Data not available.
[a] Based on budget for fiscal year 2001, Bureau of the Budget.
[b] Includes central Government budgetary and nonbudgetary accounts only.
[c] Includes revenues only.
[d] Estimate.
[e] Based on Budget Appropriations by Economic Classification According to Government Finance Statistics System.
Source: Ministry of Finance, Bureau of the Budget.

Table A7: Financial Survey [a]

Item	1996	1997	1998	1999	2000
	B million				
Net Foreign Assets	(301,328.4)	(884,348.2)	(121,105.4)	520,567.1	887,713.7
Net Domestic Asset	5,309,278.6	6,054,048.9	5,750,908.5	5,198,169.9	5,085,779.0
Net Domestic Credits	6,496,593.8	7,643,648.8	7,483,156.9	6,588,493.4	5,890,996.9
Net Claims on Public Sector	(292,193.6)	(201,703.0)	280,954.3	459,698.4	556,065.9
Claims on Private Sector	6,788,787.4	7,845,351.8	7,202,202.6	6,128,795.0	5,334,931.0
Other Items	(1,187,315.2)	(1,589,599.9)	(1,732,248.4)	(1,390,323.5)	(805,217.9)
Total Liquid Liabilities (M3)	5,007,950.2	5,169,700.7	5,629,803.1	5,718,737.0	5,973,492.7
Currency	302,285.6	331,691.7	315,697.1	466,117.1	402,749.3
Demand Deposits	91,224.0	76,937.8	85,757.6	89,847.4	105,408.8
Savings, Time, and other Deposits	3,574,365.5	4,298,024.7	4,771,993.0	4,807,357.1	5,161,781.6
Promisory Notes	1,040,075.1	463,046.5	456,355.4	355,415.4	303,553.0
	Annual percentage change				
Net Foreign Assets	76.7	193.5	(86.3)	(529.8)	70.5
Net Domestic Assets	14.6	14.0	(5.0)	(9.6)	(2.2)
Net Domestic Credits	14.9	17.7	(2.1)	(12.0)	(10.6)
Other Items	16.4	33.9	9.0	(19.7)	(42.1)
Total Liquid Liabilities (M3)	12.2	3.2	8.9	1.6	4.5
Currency	7.0	9.7	(4.8)	47.6	(13.6)
Demand Deposits	4.1	(15.7)	11.5	4.8	17.3
Savings, Time, and other Deposits	12.4	20.2	11.0	0.7	7.4
Promisory Notes	13.7	(55.5)	(1.4)	(22.1)	(14.6)

(–) Indicates a negative number.
M3 = domestic liquidity.
[a] Consolidated balance sheets of the Bank of Thailand, commercial banks, finance companies, and finance and securities companies.
Source: Bank of Thailand Quarterly Bulletin, 2000.

Table A8: NPLs Outstanding - Classified by Financial Institution Group
(percent, unless other wise noted)

Item	1998 Dec	1999 Dec	2000 Mar	2000 Jun	2000 Sep	2000 Dec	Whole Year 2000
Total Commercial Banks	42.90	38.56	36.92	31.79	22.42	17.71	
Private Banks	40.48	30.59	29.33	21.67	20.19	18.02	
State-Owned Banks	62.45	62.87	60.72	56.54	33.21	21.62	
Foreign Banks (full branch)	9.81	9.91	8.85	7.26	6.23	6.62	
Finance Companies	70.16	49.22	47.90	38.75	35.70	24.61	
Total Financial Institutions [a]	45.02	38.93	37.29	32.01	22.85	17.91	
NPL in B billion	2,674.53	2,094.95	1,996.91	1,617.51	1,119.32	858.21	
Net change in outstanding NPL [b]		(579.58)	(98.04)	(379.40)	(498.19)	(261.11)	(1,236.74)
NPL in $ billion	64.65	54.91	52.67	42.44	27.90	19.92	
(% to total loans)	45.02	38.93	37.25	32.01	22.85	17.91	
Memo items:							
Net change in outstanding NPL [b] [c]	–	–	(98.04)	(379.40)	(498.19)	(261.11)	(1,236.73)
Increase in NPL	–	–	138.19	113.85	116.66	121.51	490.21
New NPL	–	–	100.36	66.53	59.47	54.74	281.10
Reentry NPL	–	–	37.83	47.33	57.19	66.77	209.12
Reduction in the NPL	–	–	236.23	493.25	614.85	382.62	1,726.95
Debt restructuring	–	–	149.62	208.36	120.43	128.98	607.39
Other reasons [d]	–	–	86.61	284.89	494.42	253.64	1,119.56

– Data not available. NPL = nonperforming loan.
(–) Indicates a negative number.
[a] Excludes new IBFs and credit foncier companies.
[b] A negative sign denotes decline in oustanding NPL while a positive sign denotes increase in NPL.
[c] Monitoring of these accounts started in October 1999 only.
[d] Others reasons include NPL reduction through resumption of payments from borrowers, NPL transferred to asset management companies and debt write off.
Source: Bank of Thailand.

Table A9: Composition of Exports and Imports

Item	1996	1997	1998	1999	2000
	$ million				
Mechandise Exports (FOB)	54,667	56,726	52,878	56,800	67,942
Merchandise Imports (CIF)	70,816	61,349	40,643	47,529	62,423
	As percent of Total Merchandise Exports				
Manufactured Products	83.5	84.9	84.8	86.7	88.0
Garments	5.8	5.5	5.6	5.1	4.6
Footwear	2.4	2.0	1.8	1.5	1.2
Toys, Games	0.6	0.5	0.4	0.4	0.3
Precious Stones and Jewellery	3.7	3.0	2.5	2.6	2.3
Travel Products	0.7	0.7	0.8	0.8	0.7
Sport Products	0.6	0.5	0.4	0.5	0.5
High Technology Products [a]	50.6	53.9	56.4	58.6	62.5
Resource-based Products [b]	9.8	9.4	8.9	9.3	8.3
Other Manufactured Products	9.2	9.3	8.0	8.0	7.5
Agricultural products	12.1	10.6	9.6	8.6	7.3
Rice	3.7	3.7	4.0	3.4	2.4
Rubber	4.6	3.3	2.5	2.0	2.2
Tapioca	1.5	1.3	1.0	1.1	0.8
Other Agricultural Products	2.3	2.3	2.1	2.1	1.9
Fishery Products	4.6	4.1	4.1	3.7	3.4
Others	(0.2)	0.4	1.5	1.0	1.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
	As percent of Total Merchandise Imports				
Consumer Goods	10.7	10.9	11.9	11.6	10.6
Durable Goods	6.7	6.6	7.3	7.0	6.6
Nondurable Goods	4.1	4.3	4.6	4.6	4.0
Intermediate Goods and Raw Materials	26.4	26.7	28.6	29.3	27.0
Capital Goods	47.0	50.2	52.4	50.1	46.4
Other Imports	15.9	12.2	7.1	9.0	16.0
Vehicles and Parts	6.5	4.0	1.2	2.6	3.1
Crude Oil	6.3	7.6	7.1	8.1	9.8
Others	3.1	0.7	(1.2)	(1.8)	3.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

CIF = cost, insurance, and freight; FOB = free on board.

[a] Includes essentially electronics and technology products. In particular, they include computer and parts, integrated circuits and parts, telecommunication equipment, electrical appliances, transformers, generators and motors, chemical products.

[b] Includes sugar, molasses, canned seafood, cements, rubber products, canned pineapple, furniture, and parts.

Source: Bank of Thailand.