

## THAILAND

## 2002: GROWTH SUPPORTED BY DOMESTIC DEMAND AND EXPORTS

With uncertainty in the world economy, the Thai government in 2002 continued to stimulate domestic demand more intensively through fiscal policy while also running a slightly looser monetary policy than in 2001. In 2002, sales of motorcycles and passenger cars increased by 42.0 and 20.8 per cent respectively, with growth stronger towards the end of the year. This, combined with the continued growth of non-durables consumption, meant that real private consumption registered 4.7 per cent growth in 2002, contributing approximately 2.6 percentage points to real GDP growth.

As a result of rising housing demand, residential construction picked up strongly, while commercial car sales and imports of real capital goods increased by 47.0 and 6.1 per cent respectively. Real private investment increased by 13.3 per cent, contributing around 1.7 percentage points to real GDP growth. Meanwhile, government spending and public investment played a smaller role in stimulating the economy in 2002 compared to 2001.

On the external front, world economic recovery and the better performance of the regional economies, especially China, resulted in a 5.8 per cent increase in the US dollar value of Thai exports, with an 11.3 per cent increase in volume (alongside a 5.5 per cent drop in prices). The increase was notably concentrated in the trade with ASEAN, South Korea, Hong Kong and China, while exports to

the United States, Japan and the European Union remained flat overall.

The trade balance continued to register a trade surplus of 3.4 per cent of GDP and the current account a surplus of around 6.0 per cent of GDP, higher than 5.4 per cent in 2001. International reserves stood at US\$38.9 billion at the end of the year, or about 2.8 times short-term foreign debt.

An impressive GDP growth rate of 5.2 per cent was achieved in 2002—the highest growth since the 1997 crisis. Headline inflation was low at 0.7 per cent—higher than the 0.4 per cent rate of core inflation because of the oil price rises towards the end of 2002. Commercial bank lending increased throughout the last quarter of 2002 after four consecutive years of credit contraction. Yet liquidity in the financial sector remains high. Average unemployment dropped from 3.3 per cent in 2001 to 2.4 per cent, and poverty incidence has improved.

Four consecutive years of economic growth with sustained and improved economic stability indicate success in short-term macroeconomic adjustment after the crisis. Long-term issues such as restructuring, competitiveness building, and strengthening of financial sector have yet to be accelerated in order to ensure sustainable growth. Efficient public debt management to ensure fiscal sustainability in the long run remains necessary.

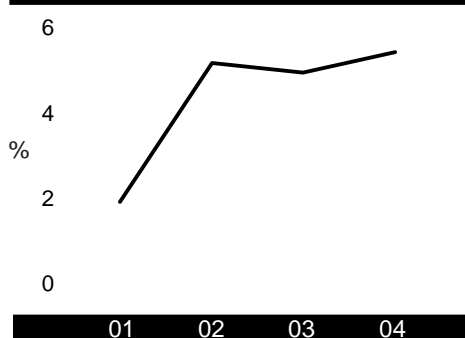
## 2003: SARS AND WAR IMPACT ARE MAIN RISKS

Seasonally-adjusted data indicate that all demand components of GDP, including real imports, slowed down in the last

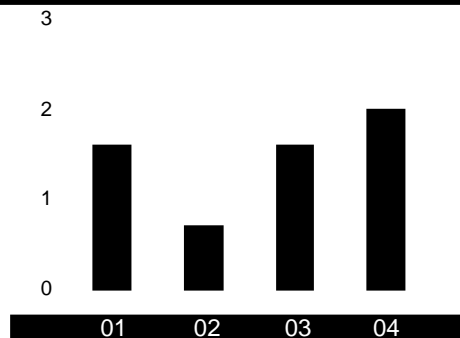
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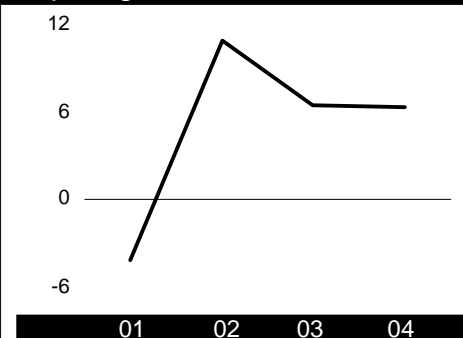
GDP growth



CPI inflation



Export growth



quarter of 2002. This indicated a decreased growth momentum towards the end of 2002, mainly due to the external uncertainties prompted by rapid oil price rises during second-half 2002. The end of 2002 and the beginning of 2003 was a period of heightened uncertainty due to conflict between the United States and Iraq. In the end, however, the effects of war were limited and the oil price came down quite rapidly as the war developed.

In first-quarter 2003, Thailand continued to enjoy high export growth of around 18 per cent over the same period in 2001, partly due to the low base of that year. The increase in the number of foreign tourists of only 0.3 per cent in February, compared to 6.8 per cent growth in January and 7.3 per cent growth in 2002 overall may reflect worldwide concerns about the safety of travelling.

The SARS epidemic, which erupted in the region in March 2003 has added another risk to the Thai economy in 2003. Since the last week of March, tourism, an important source of foreign earnings for the country, has been dampened further and may not recover even by third-quarter 2003. By the end of April, around US\$1 billion of tourism revenue had already been lost. The epidemic has also dampened consumer confidence and investor sentiment. Moreover, the effects on Singapore, Chinese Taipei, Hong Kong and China could also constrain Thai exports to these markets. The uncertainty as to how long the epidemic will last poses the main risk to the growth forecast this year.

Factors supporting economic growth continue to be low interest rates, improved farm income, improved employment conditions, rising corporate

profits, and additional tax measures to stimulate private consumption. Low interest rates and improved farm income will further stimulate the demand for durables, vehicles and electrical appliances in particular. Various indicators in first-quarter 2003 showed that private consumption was still expanding at a high rate, and this is expected to drive economic growth.

Private investment, however, softened slightly as residential construction slowed down due to concern over external uncertainties and the increased oil price before the war broke out, putting upward pressure on prices of construction materials. Monthly indicators of private investment in construction fell in February and March 2003. The extension for another year of special tax measures to stimulate housing demand and commercial bank competition for housing loans will help sustain housing demand and thus investment in construction.

While the monetary stance will continue to be loosened in 2003, the fiscal position has been consolidated since 2002, and the role of government spending in stimulating the economy will be smaller than in 2002. Government measures to stimulate the economy are mostly non-budgetary, particularly the initiation of more efficient and practical channels for microcredit through specialised financial institutions and state-owned financial institutions.

Hence, GDP growth in 2003, expected to be around 5 per cent, will once again be led by developments in the domestic sector. Real private investment and consumption are expected to expand by 5 and 11 per cent,

respectively. Meanwhile real government consumption and public investment are expected to increase by 2.5 and 2.1 per cent. Real goods and services exports are expected to increase by 6.5 per cent while real goods and services imports are expected to grow slightly faster than exports at around 7 per cent.

Inflation is projected to be 1.6 per cent. This will allow a further interest rate cut if necessary. Given a relatively strong economic performance, a current account surplus and prudent monetary policy, the exchange rate will be stable. After the debt payment to the IMF is completed in the middle of 2003, international reserves will stand at around US\$30–35 billion, or around 2–3 times the level of Thailand's short-term foreign debt.

#### 2004: STRENGTHENING COMPETITIVENESS AND ACCELERATING REFORM

External market conditions will be more favourable in 2004, and Thai exports should benefit as a result. The extent to which Thailand benefits from world economic recovery will depend on the competitiveness of Thailand's producers. In this respect, delay in implementing reforms aimed at improving competitiveness is a concern. Progress in the implementation of free trade agreements, however, is expected to strengthen intra-regional trade. Meanwhile, ongoing growth of the Chinese economy and relocation of some world production platforms to China will also increase Thai exports to the Chinese economy. Exports are thus expected to expand satisfactorily while domestic demand will expand more slowly. Higher GDP growth of around 5.5 per cent, supported by both domestic and external demand, is expected in 2004.

#### Non-performing loans (per cent of total credit)

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

