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Thailand: 2010 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Thailand

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2010 Article IV consultation with Thailand, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on July 16, 2010, with the officials of Thailand on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 3, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its September 17, 2010 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Thailand.

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International Monetary Fund **Thailand**

September 3, 2010

Thailand: Staff Report for the 2010 Article IV Consultation[1]

Prepared by the Staff Representatives for the 2010 Consultation with Thailand

Approved by Masahiko Takeda and Aasim Husain

Key Issues and Recommendations

- ***Growth outlook:*** Thailand has made a remarkable comeback from the global crisis and a round of domestic political turmoil. Led by strong export performance, growth is likely to reach 7½ percent in 2010, before easing to 4 percent in 2011. Risks to these projections are to the downside, as the global recovery remains fragile, while political uncertainty could continue to weigh on domestic demand.
- ***Strengths and weaknesses:*** Thailand's resilience is a testimony to its skillful economic management and the strengths built over the past decade. But the crisis has also underscored its structural weaknesses, which have slowed growth and left it dependent on exports.
- ***Exit policies:*** With the economy recovering, the authorities are normalizing the policy stance, winding back fiscal deficits and beginning to raise interest rates. Since policy rates are far from neutral, significant adjustments will eventually be needed. Given the downside risks, however, normalization should proceed gradually, as evidence accumulates that the recovery is becoming entrenched. Should volatile capital flows intensify, the exchange rate should be allowed to serve as a buffer, reinforced if necessary by prudential measures.
- ***Medium-term strategy:*** The authorities aim to rejuvenate Thailand's growth potential by alleviating constraints on economic activity, notably by building out the country's infrastructure and developing its financial sector.
- ***Infrastructure:*** Generating the needed budgetary resources will be a challenge. The emergency crisis subsidies could be withdrawn, and an expenditure review could identify further sources of savings. There is also scope to widen the corporate and personal income tax bases by reducing exemptions and deductions. And the VAT rate could be raised from its current relatively low level of 7 percent.
- ***Financial sector:*** Effective implementation of the master plans for the banking sector and capital markets would inject new life into the system, by generating greater competition and introducing new services. At the same time, steps should be taken to revamp the framework for specialized financial institutions, where nonperforming loans have been proliferating.

[1] Discussions took place July 5–16. The staff team comprised Messrs. Felman, Kalra, and Yoshida, and Ms. Oner (all APD), and Mr. Goldsworthy (FAD). Ms. Vongpradhip and Mr. Kanithasen (OED) also attended meetings.

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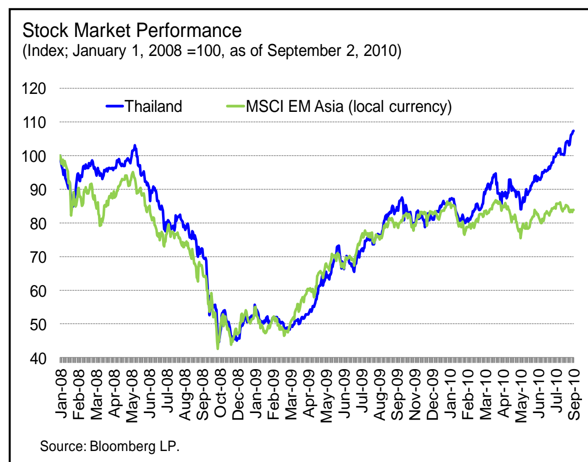
I. BACKGROUND

1. **Over the course of last year, the Thai economy has demonstrated a paradoxical mix of strengths and weaknesses.** Its strength was shown in its rapid rebound from the global crisis. But its weakness was also underscored: the loss of its former dynamism, which has slowed trend growth and left it largely dependent on exports. In the short term, the key policy challenge will be to ensure that the nascent recovery matures into a sustained expansion. Over the longer term, the task will be to address the structural weaknesses, so that the economy can be placed on a more dynamic growth path. The 2010 Article IV consultation consequently focused on these two issues.

A. A Remarkable Comeback

A year ago, the global crisis had left Thailand's economy mired in deep recession. Then, in mid-2010, the nation was shaken by a violent political confrontation. Despite these profound shocks, a vibrant economic recovery has nonetheless taken hold, with growth for 2010 likely to reach 7½ percent. As a result, Thailand's stock market has outperformed the region. How did this happen?



2. **The Thai economy has been emerging from two severe tests.** The first test came when global trade collapsed following Lehman's failure in September 2008. This collapse had profound consequences for one of the world's most open economies, where exports account for over 60 percent of GDP. As export order books dried up, firms were forced to shelve their investment plans and furlough workers. And as workers saw their incomes shrink, they were forced to scale back their consumption. All this extracted a serious toll on the economy, causing output to shrink by 7 percent year-on-year by the first quarter of 2009.

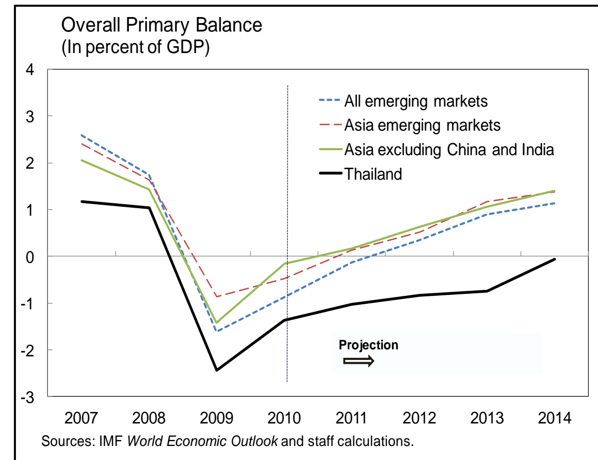
3. **Then, just as the economy was beginning to recover from this shock, politics intervened.** In March 2010, a large political protest started in Bangkok, which stretched on until the end of May, periodically leading to outbreaks of violence. As a result, confidence was badly shaken and tourist arrivals, which generate about 6 percent of GDP, plunged.

4. **Yet the economy was able to absorb these blows—and stage a remarkable comeback.** The recovery began in the second quarter of 2009, narrowly and tentatively. By the first quarter of 2010, it had progressed to the point where GDP had surpassed its previous peak. The political turmoil then slowed the momentum, but the

economy continued to advance. So, by the third quarter of 2010 it seemed that a sustainable recovery was taking hold.

5. **What explains this remarkable resilience?** To begin with, global trade began to revive in early 2009, thereby restarting Thailand's main economic engine (Figure 1). As a result, Thailand's exports started to soar, even as imports remained depressed, pushing the current account from near balance into a 7¾ percent of GDP surplus in 2009. Vigorous export demand continued to propel growth in 2010 even during the March-May political disturbances, because the industrial estates and ports were located far from the protest zone, allowing firms to fill orders without difficulty. And as the export earnings coursed through the economy, domestic demand began to revive, transforming the upturn into a broad-based expansion. Then, as political prospects improved after May, the recovery became further entrenched.

6. **Another factor behind Thailand's recovery was its forceful policy response.** Years of fiscal prudence and credible monetary management (reinforced by an inflation targeting framework) provided ample space for decisive action. The Bank of Thailand (BOT) cut its policy rate by 250 basis points to a historically low level of 1¼ percent, providing relief to those who had borrowed and suddenly found that the revenues needed to service their debts were disappearing. Meanwhile, the government swiftly introduced a sequence of stimulus packages. The first package focused squarely on putting spending power in the hands of the population, partly through direct cash transfers, partly by waiving charges, such as the cost of electricity and water, for the poor. The second package expanded spending to include investment projects, particularly on infrastructure. Together, they imparted an estimated stimulus of 3 percent of GDP in the two fiscal years since 2007/2008.[1]

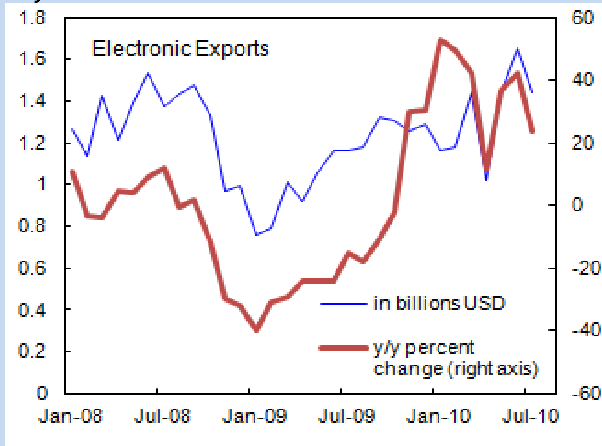


7. **The most fundamental explanation for Thailand's rapid recovery, however, lies in its sound economic framework.** The country entered the global crisis from a position of financial strength, on all sides—bank, corporate, and public. So, when the stress arrived, these sectors were able to withstand the blow. More than that, depositors proved so confident in banks, banks in firms, and firms in their future that remarkably little adjustment took place. Large firms instead merely furloughed workers, ran down their cash balances and secured credit while they waited for export orders to revive. Meanwhile, smaller firms and farmers turned to the state-owned Specialized Financial Institutions (SFIs) for support.[2] So, once the orders came back, they were ready to resume export production. And as this happened, the impetus quickly fed through

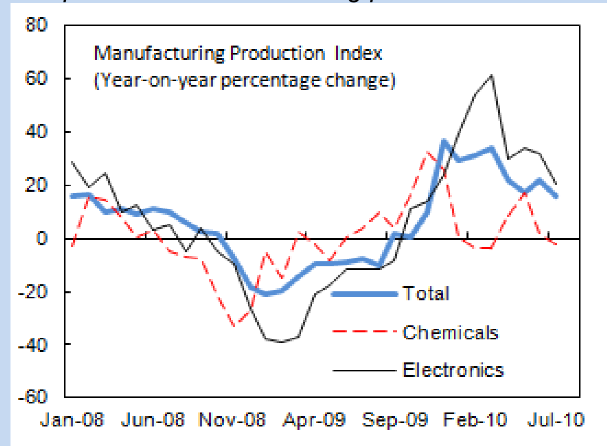
[1] Thailand's fiscal year runs from October 1 through September 30.

Figure 1. Thailand: Anatomy of a Recovery

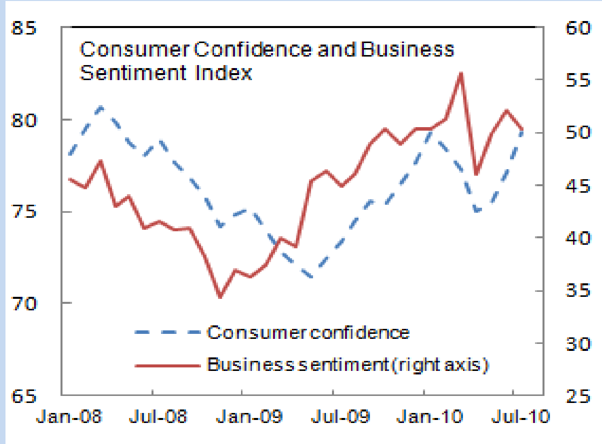
The pickup in global demand for electronics starting early 2009…



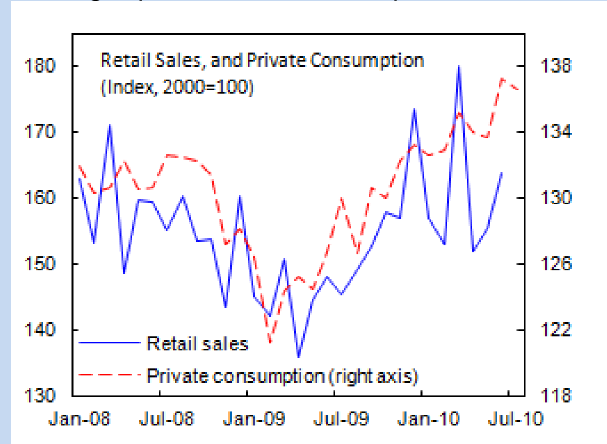
…helped revive manufacturing production.



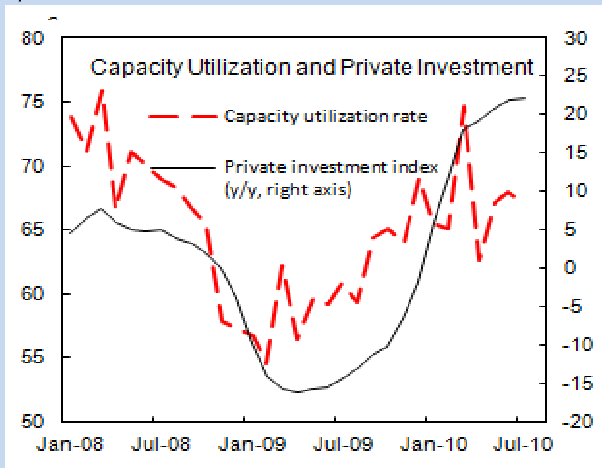
Then, in March-May 2010 a violent political protest shook consumer and business confidence….



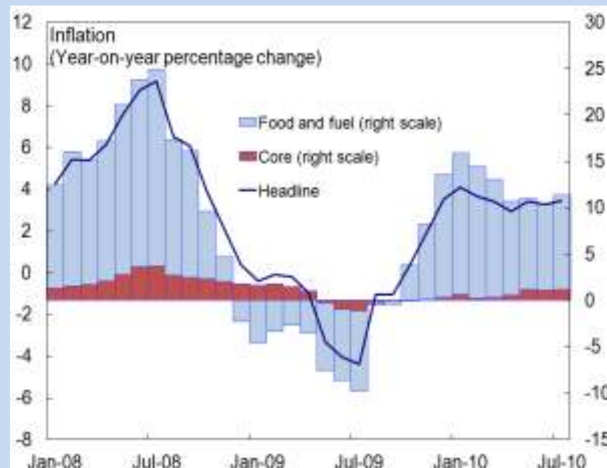
…but failed to derail the recovery. To the contrary, booming exports fed into consumption...



…and into investment, broadening the base of the expansion.



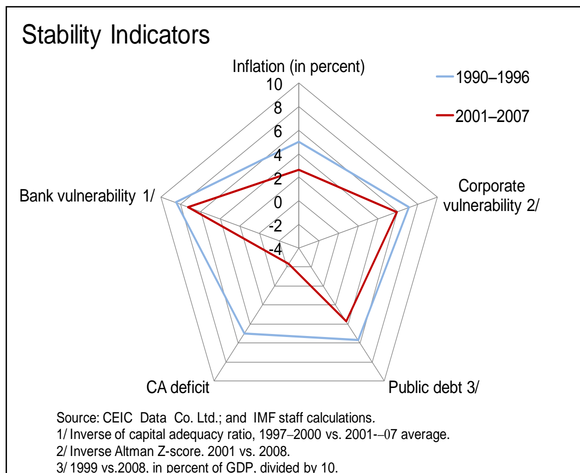
Headline inflation has accelerated, while core inflation remains low.



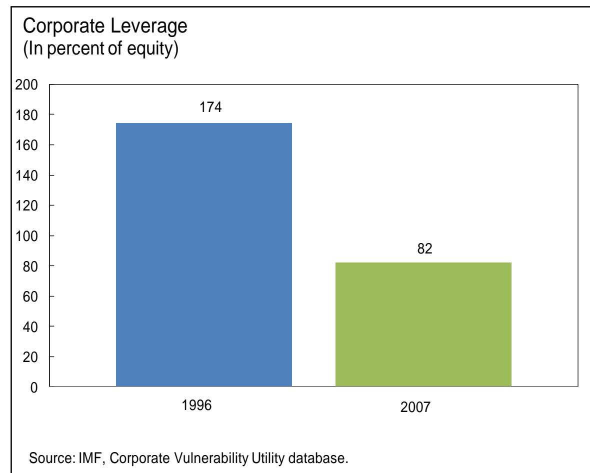
Source: CEIC Data Co. Ltd.; Bloomberg L.P.; Bank of Thailand; and IMF staff calculations.

to domestic demand, in stark contrast to some advanced countries, where the “transmission mechanism” was broken because households and financial institutions were beset by balance sheet problems.

8. **This fundamental strength was the legacy of a decade of effort following the Asian crisis, aimed at building a stable and robust economy.** On the banking side, the BOT’s Financial Sector Master Plan successfully consolidated the banking sector, producing larger institutions, with high capital adequacy ratios, good profitability, and strong risk management systems. On the corporate side, firms reacted to the painful lessons of 1997 by reducing their leverage to much lower levels and placing a greater focus on profitability, rather than market share. Meanwhile, the government shifted the budget into surplus, thereby reducing public sector debt to 37 percent of GDP. More broadly, prudent policies curbed macroeconomic imbalances that had arisen in the 1990s: large current account deficits were turned into small surpluses, international reserves were boosted to ample levels, and inflation was reduced to low levels. All of this proved invaluable in ensuring that the economy was able to weather the global crisis. Epitomizing this success, during 2009 banks’ nonperforming loan ratio actually declined—and profits actually increased.



Source: CEIC Data Co. Ltd.; and IMF staff calculations.
1/ Inverse of capital adequacy ratio, 1997–2000 vs. 2001-–07 average.
2/ Inverse Altman Z-score. 2001 vs. 2008.
3/ 1999 vs.2008, in percent of GDP, divided by 10.

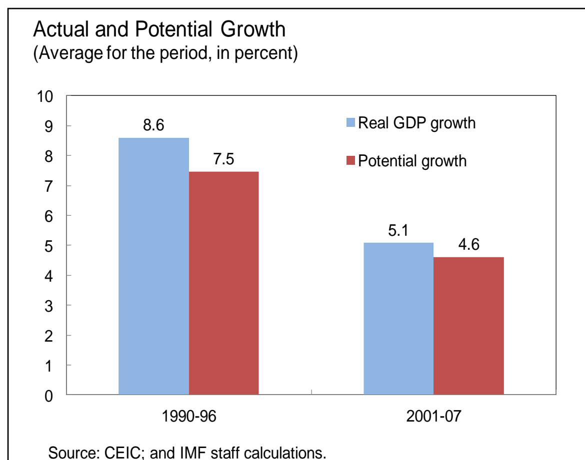


Source: IMF, Corporate Vulnerability Utility database.

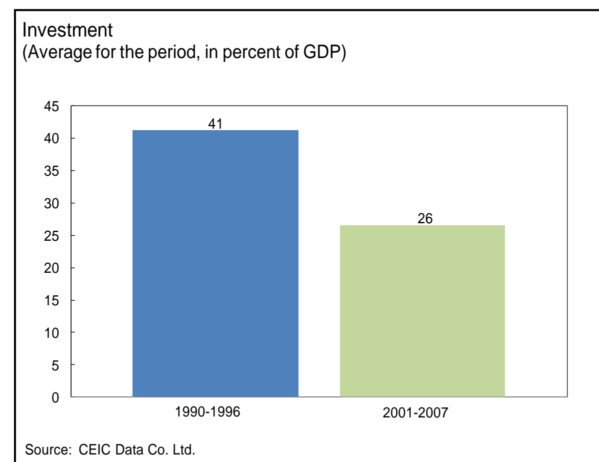
[2] While this approach helped sustain the economy during the downturn, the rapid expansion of SFI loans (20 percent in 2009) is likely to aggravate the nonperforming loan problem at these institutions. See Section III.C below.

B. A Slowing Dynamo

9. **But while the economy has become more stable, it has lost much of its former dynamism.** During the early 1990s, Thailand benefitted from a remarkable economic boom. Foreign capital poured into the country, helping to transform a traditionally agricultural land into a sizeable industrial exporter. In tandem, the country's infrastructure was expanded rapidly, building up the facilities, roads, and other networks needed to support the industrial development. As a result, in the seven years from 1990 to 1996, investment reached 40 percent of GDP, propelling economic growth to 8½ percent per year, one of the fastest rates in the world. Yet during the 2000s, the story was quite different: in the seven years ending 2007, growth averaged just 5 percent.



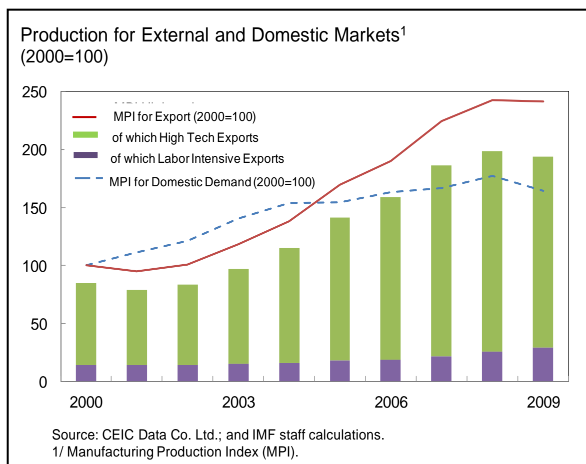
10. **What happened?** The external environment was hardly to blame: global growth was actually faster during the early 2000s than it was a decade earlier. Rather, the problem lay in the sharp deceleration in investment, which fell to around 25 percent of GDP, even amidst the mid-decade global boom. Some of this deceleration was inevitable, since part of 1990s investment boom was fueled by excess leverage and an undue disregard of risk. But some of the decline may have been excessive. Estimates suggest that even before the global crisis, investment had fallen to levels that were insufficient to sustain the capital-output ratio, implying that potential growth was actually falling.



11. **Why did investment fall so sharply?** Several factors seem to have been at play. One was the erosion of Thailand's competitive position in the global economy. As the country moved firmly into the ranks of middle-income countries, its attraction as a production base diminished, for it no longer had the low wages needed to export inexpensive goods (as in Vietnam), nor did it have the domestic market of more populous countries such as China and Indonesia. In other words, the country fell into the ―middle-income trap".

12. **A second factor was a rise in risk aversion, linked to political uncertainty.** All across the region, businesses became much more risk averse after the Asian crisis, and scaled back their expansion

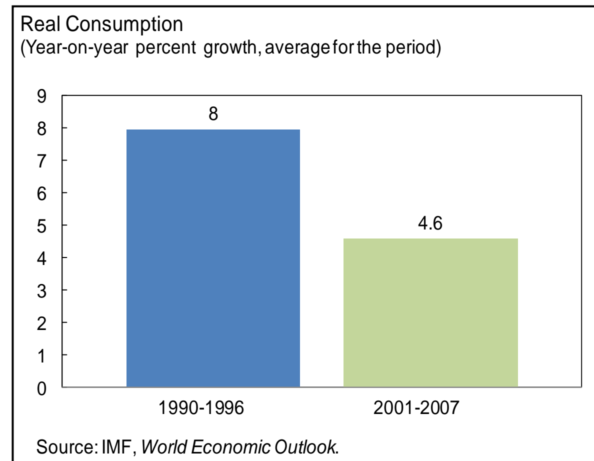
plans accordingly. In most other countries, risk appetite gradually revived, especially after the global economy began to boom in 2003. But in Thailand, firms became even more cautious because political uncertainty increased, with power shifting between the two major political camps three times in the past four years. As a result, after 2005 both investment and consumption slowed sharply, as did the manufacturing production for domestic demand.



Production for External and Domestic Markets[1]
(2000=100)

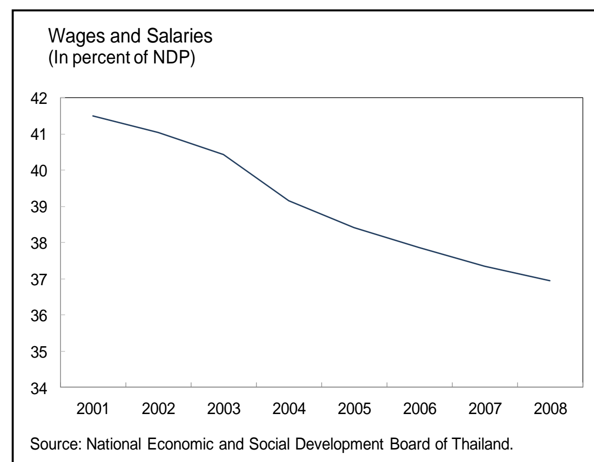
Source: CEIC Data Co. Ltd.; and IMF staff calculations.
1/ Manufacturing Production Index (MPI).

13. **A third factor was the gradual erosion of the domestic market.** During the 1990s, Thailand's domestic market was extraordinarily vibrant, with consumption growing by 8 percent per year. But in the 2000s, consumption decelerated, with the growth rate falling to just 4½ percent, below overall GDP growth. One reason is that much of the economic growth during the past decade did not flow through into workers' incomes. With Thailand having reached middle-income status, the industrial sector began to shift towards more advanced and capital intensive activities—electronics and cars, rather than textiles—which meant that growth created relatively few jobs in the formal sector. At the same time, labor continued to shift out of agriculture, and from rural areas to urban ones, putting downward pressure on wages. The product of these two trends was a steadily declining share of wage income in overall GDP, undercutting consumption and the incentive to invest for the domestic market.



Real Consumption
(Year-on-year percent growth, average for the period)

Source: IMF, *World Economic Outlook*.



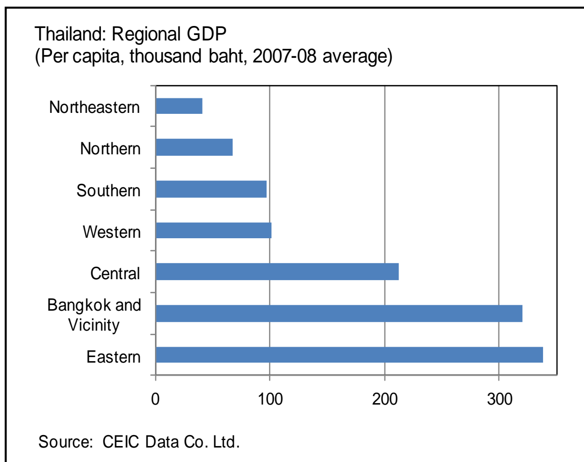
Wages and Salaries
(In percent of NDP)

Source: National Economic and Social Development Board of Thailand.

14. **At the same time, incomes became increasingly skewed geographically.** With much of Thailand's economy oriented around exports, production naturally clustered close to Bangkok and the ports, on the eastern seaboard. And well-paying jobs tended to concentrate around these regions as well. Consequently, during the 2000s, income per capita in the eastern region increased 40 percent faster than the economy as a

whole, surpassing even Bangkok. Meanwhile incomes in most other regions remained less than one-third of the Bangkok level. As a result, much of the population was unable to secure the purchasing power needed to sustain a dynamic consumer market. In addition, the regional disparities contributed to the political tensions.

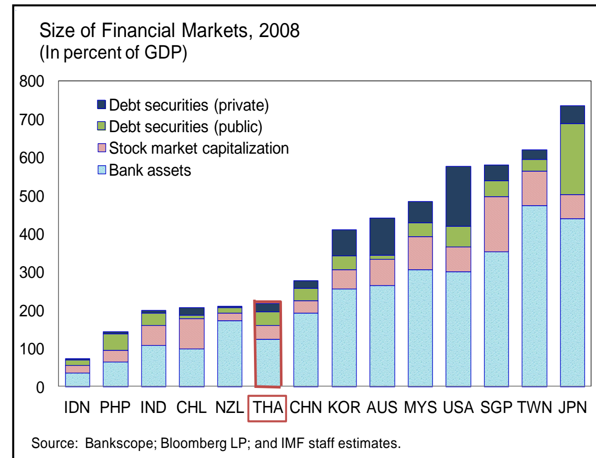
Thailand: Regional GDP
(Per capita, thousand baht, 2007-08 average)



Source: CEIC Data Co. Ltd.

15. **Finally, financial constraints also seem to have played a role in depriving Thailand of its dynamism.** While the financial sector has become more stable, its development has languished, rendering it too small to service the economy adequately. Stock market capitalization used to be commensurate with the country's status as the second-largest economy in ASEAN, but it has now slipped to the fourth rank. And the bond market remains very small. Meanwhile, the bank credit/GDP ratio, while higher than in some neighboring countries, has fallen steadily in recent years. In part, the shrinkage of the financial sector merely reflects the declining need for finance, as investment rates have subsided. But staff research suggests that the causality has also run the other way, with credit constraints inhibiting investment.[3] One can see the problem, for example, by looking at firms' external funding ratios, that is, the share of financing they have been able to secure from outside sources, such as banks or the stock market. Compared to a sample from Korea, Malaysia, and Taiwan Province of China, listed Thai firms are not able to obtain as much external funding for their projects. And unlisted SMEs find it even more difficult to obtain the funding needed to grow: banks are reluctant to lend to them, since there are hardly any venture capital or microfinance firms to provide it. Consequently, very few have been able to graduate to the stock market.

Size of Financial Markets, 2008
(In percent of GDP)



Source: Bankscope; Bloomberg LP; and IMF staff estimates.

16. **The Thai authorities consequently now face major challenges.** They will need to nurse the recovery into a sustained expansion during what may prove to be a difficult period ahead. They will also need to find a way to regain at least some of the country's lost dynamism. And they need to do this in a less buoyant global environment, amidst considerable political uncertainty. This will not be easy.

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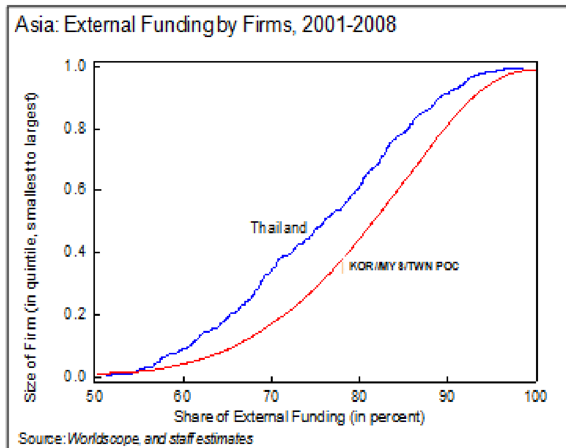
[3] Kalra and Oner, *Thailand: The Corporate Sector, Financial Sector Development and Rebalancing*, paper presented at the Bank of Thailand-IMF Conference on Rebalancing, Bangkok, April, 2010, *manuscript*.



II. Short Term: Heading for the Exit

The immediate challenge facing the authorities is to navigate the recovery through a thicket of uncertainty. How should policymakers respond?

Outlook

17. **Over the short term, Thailand should benefit from some further economic normalization.** In particular, rising project incentive applications suggest that investment will continue to climb back to its pre-crisis level—and beyond. This process should buoy the economy over the next few quarters, lifting this year's growth to 7½ percent.

18. **But after normalization runs its course—externally as well as domestically—the recovery will inevitably slow.** Indeed, the global economy has already begun to downshift, as the boost from inventory accumulation and policy stimulus begins to wind down. Even so, under the IMF's baseline scenario, the global expansion should still continue at a healthy rate of 4½ percent. Moreover, global demand for electronics, which is particularly important to Thailand, is still expanding briskly. As a result, Thailand should be able to grow at 4 percent next year, with continued low inflation. Meanwhile, with domestic demand recovering, the current account surplus/GDP ratio should fall by more than half, to 3½ percent of GDP.

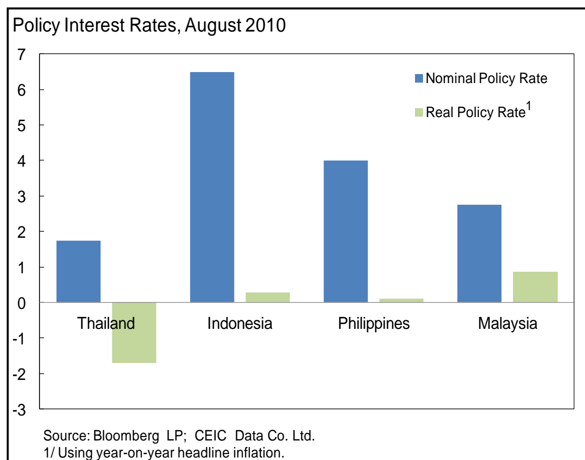
19. **That said, there are downside risks.** Final demand in advanced countries could slow from its current pace, under the weight of balance sheet problems in the financial, household, and public sectors. A sharp slowdown in China—Thailand's largest trading partner—would also be a concern. Finally, political uncertainty could take a more serious and longer-lasting toll on domestic demand.

Strategy

20. **With the economy normalizing, the authorities are starting to normalize the policy stance.** After two years of fiscal stimulus, disbursements from the off-budget second stimulus package are scheduled to fall by nearly 2 percent of GDP next fiscal year, as the special bond funding authority nears exhaustion. But

part of the stimulus measures will be transferred to the regular budget, reducing the estimated withdrawal to a manageable 1 percent of GDP. The overall public sector deficit should also fall by the same amount, to a projected 3½ percent of GDP.

21. **Meanwhile, the Bank of Thailand has initiated the monetary normalization process.** Since July, it has raised interest rates twice, by a cumulative 50 basis points, bringing the policy rate to 1¾ percent. So far, inflation pressures have been minimal: the headline rate in August was just 3¼ percent year-on-year, core inflation 1¼ percent year-on-year, and in both cases base effects were at play. Looking ahead, staff forecasts suggest that inflation pressures should remain subdued. Still, there is some cause for concern. The rapid rebound means that the economy is quickly approaching its potential. Staff estimates suggest that the output gap will close somewhere between the first quarter of 2010 (meaning it has already happened) and the end of the year. Yet the policy rate is still far below its normal level of around 4–5 percent. It also remains the lowest in the region, both in nominal and real terms.



Staff views

22. **The staff endorsed the authorities' strategy of normalizing the policy stance.** Given the baseline scenario, it was appropriate to plan on gradually winding back the fiscal deficits as the recovery proceeds. Meanwhile, monetary policy—as the more flexible macroeconomic tool—could be used to calibrate the stance to any contingencies that may arise.

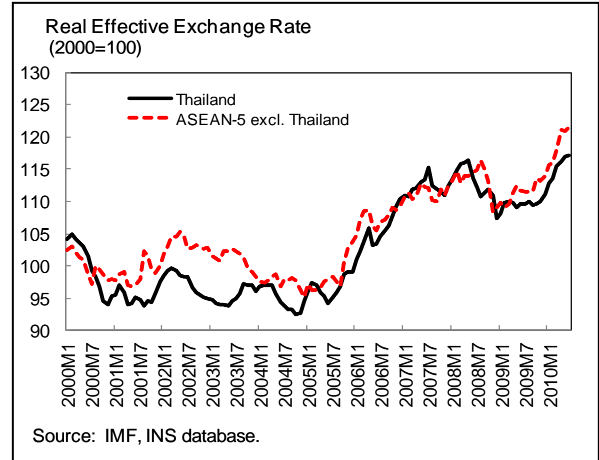
23. **In accordance with this strategy, staff and the authorities agreed that despite the large distance to normal, rate adjustments should proceed gradually.** To assess the appropriate path, a Taylor rule was estimated for Thailand, incorporating two factors that are particularly important at the current juncture: the impact of advanced countries maintaining low interest rates for a prolonged period, and the impact of uncertainty about the economic outlook. (Box 1). The estimates suggest that achieving a 5 percent rate might appropriately take until late 2011.

24. **A potential complication to this strategy could come from capital flows.** So far in the recovery, inflows to Thailand have remained modest (Box 2). Nor are there any signs of asset price inflation, with property prices in particular remaining around year-ago levels. But there is a risk that the ―multispeed" global recovery could lead to large inflows, as investors from advanced markets seek higher returns in faster-growing economies. A rise in Thailand's interest rates could only intensify this attraction. Alternatively, if worries about advanced countries cause a

renewed bout of risk aversion, capital outflows could reemerge.

25. **Should volatility intensify, the exchange rate could be allowed to serve as a buffer, appreciating during periods of inflows and depreciating during outflows.** In the case of outflows, some additional measures might prove necessary to provide liquidity, but the experience from September 2008 suggests these would be modest, since the financial system's dependence on wholesale funding (especially external funding) is minor and exposure to toxic assets negligible. More problematic could be the case of sustained inflows, which could threaten to create asset bubbles. In such circumstances, the BOT could take prudential measures, such as reducing maximum loan-to-value ratios on property loans, as it has done in the past. Further liberalization of capital outflows could also be helpful.

26. **Of course, whether greater exchange rate appreciation is acceptable depends on whether competitiveness is currently adequate.** But it is hard to make the case that exchange rate trends are the cause of Thailand's loss of dynamism. Admittedly, the country's real effective exchange rate has appreciated substantially in recent years. But the gain has been almost exactly in line with its ASEAN peers, and has come off a depressed post-Asian crisis base. Moreover, the stability of Thailand's export market share, and its success in penetrating the competitive Chinese market, suggests that competitiveness remains adequate. Finally, IMF multilateral assessments suggest that the baht is close to equilibrium, on all three model-based estimates (Box 3).



Source: IMF, INS database.

27. **Another consideration relates to the level of reserves.** Over the past few years, Thailand has accumulated reserves at a steady pace, even during the global crisis of 2009. As a result, reserve assets have now reached levels that are more than ample by most metrics. There is consequently little insurance benefit from responding to inflows by accumulating additional reserves, and more rationale to allow the exchange rate to adjust.

Authorities' views

28. **The Bank of Thailand noted that there were other reasons for beginning the normalization process, beyond those noted by staff.** To begin with, core inflation was not fully reflecting the underlying pressures, since prices of a large number of items were still being controlled, as part of the crisis response measures. As the recovery proceeded, these controls would be lifted, and inflation would rise. Indeed, central bank research suggested that there was a probability—albeit small—that inflation could exceed the target band of ½–3 percent. Moreover, normalizing interest rates was also important for preventing distortions in resource allocation; for example, unduly low rates

could induce households to shift into alternative assets, sparking a housing bubble.

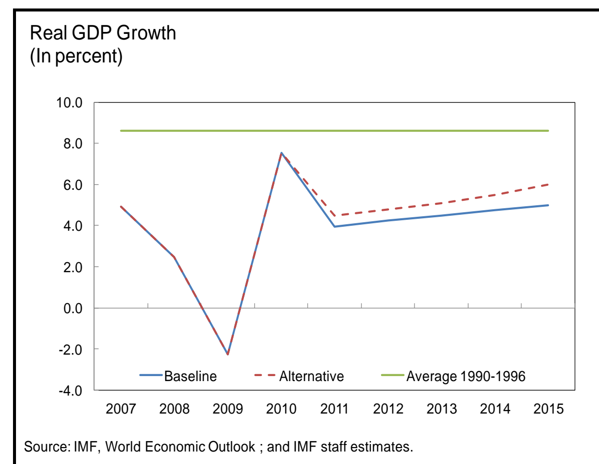
29. **On dealing with capital inflows, the central bank had a pragmatic approach.** It would stick to its policy of allowing the exchange rate to move in response to fundamental market pressures, intervening only to curb excessive volatility, a strategy that was necessary when the market was as thin as it is in Thailand.

III. Medium Term: Dynamic Thailand, Regained?

If navigating the short term could prove challenging, the medium-term task—restoring Thailand's lost dynamism—is hardly less daunting. A full return to the 1990s boom seems infeasible, and a return to the earlier imbalances positively undesirable. But some acceleration should and can be achieved. The authorities' strategy is to remove constraints on activity, notably by building up the country's infrastructure and developing its financial sector. How will it work?

A. Outlook and Overall Strategy

30. **The baseline medium-term outlook for Thailand can be summarized succinctly: more of the same.** The authorities' strategy calls for fiscal discipline, ensuring that the public sector deficits are gradually reducing to low levels; complemented with a careful monetary policy that ensures that inflation is kept in check. With macroeconomic balances firmly under control, and a sound economic framework in place, investment should gradually recover, propelling growth back to around 5 percent. As this occurs, the current account surplus would gradually dwindle, reaching zero by the end of the projection period in 2015. In other words, prudent economic management should be sufficient to restore the pre-crisis status quo, even in a less favorable environment.



Source: IMF, World Economic Outlook ; and IMF staff estimates.

31. **What could go wrong?** Many things. The global economy could prove worse than forecast. Or structural trends could erode Thailand's competitive advantages, such as the development of Indonesia's motor vehicle industry or the expansion of the electronics sector in neighboring countries and China.

Meanwhile, Thailand's political uncertainty and structural impediments mean that its own domestic demand cannot be relied upon, either. Should any of these risks materialize, the growth outlook would deteriorate. But the economy would still likely remain stable—as the experience of the global crisis has shown.

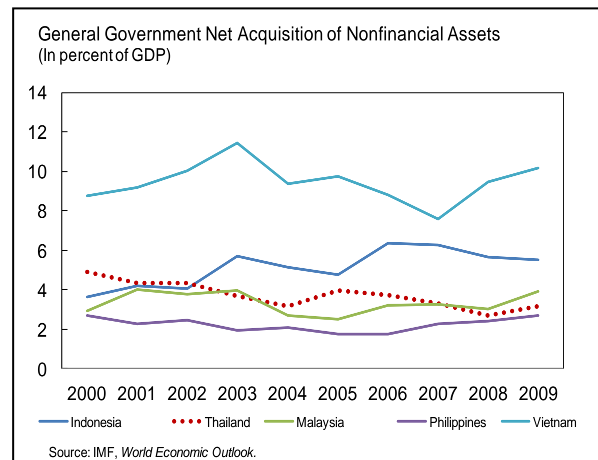
32. **At the same time, there is an opportunity for Thailand to do better than the baseline.** And the government is determined to try. It plans to alleviate some of the constraints on economic activity, in the hope that this will encourage investment, reversing some of the sharp fall that has occurred since the early 1990s.

33. **The government explained how its strategy fit into the global discussion about rebalancing.** It pointed out that comparative advantage dictated that Thailand, as a small, open economy, would inevitably depend on exports. Moreover, while it would be desirable to develop domestic demand as a second engine of growth, this should not be done by promoting one sector over another. Instead, the aim should be to improve the environment for economic activity, and try to widen its geographic ambit, then allow entrepreneurs to decide whether to produce for the domestic or foreign market. That said, the strategy might end up generating greater domestic demand, since if better infrastructure led to improved incomes this would expand the domestic market, while easier access to finance should help smaller, employment-generating firms grow. The staff broadly endorsed this approach.

B. Expanding Infrastructure: Mind the Gap

Strategy

34. **A key element of the strategy is to improve the country's competitiveness by stepping up spending on infrastructure.** The logic is twofold. One is that infrastructure spending has not kept up with the needs of the economy. In the years leading up to 2008, general government investment spending had been scaled back substantially, to 3 percent of GDP. At this level, it was about 1½ percentage point below Thailand's long-term average and much lower than in neighboring countries, such as Indonesia (6 percent) or Vietnam (10 percent). The government wants to reverse this trend.



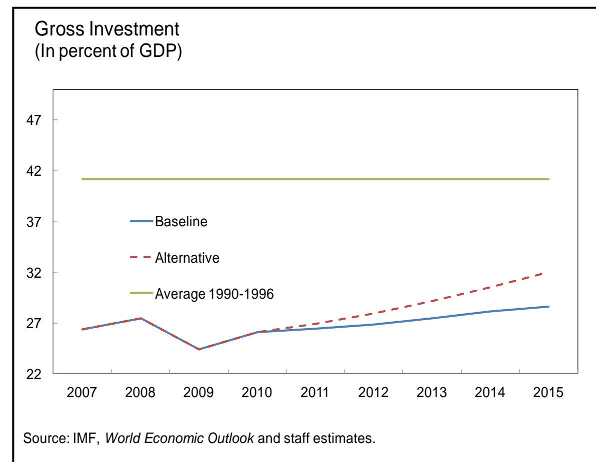
35. **The second rationale is deeper and more complex.** Since much of the economic activity in the country is clustered around Bangkok and the eastern seaboard, workers from outlying regions are forced to move in order to find

well-paying jobs. For social reasons, it would be helpful if things also worked the other way around, that is, if some jobs moved to the workers. Spreading activity around the country could also increase the total amount of activity, creating a larger and more vibrant domestic market. Agglomeration effects, the economies of scale that develop around existing production bases, normally make such a strategy difficult to realize.[4] But there may be some scope for doing this in Thailand, especially since the outlying areas are not truly remote: they are close to neighboring countries or to the sea.

36. **A key reason why these areas have not developed is that their infrastructure is poor, increasing production costs to uncompetitive levels.** (A measure of this problem is provided by logistics data, which show that transport and related costs account for up to 20 percent of GDP, higher than in most other countries, and double the ratio in the United States). Accordingly, the government is trying to improve their infrastructure and connectivity, making transport, in particular, a major focus of its investment efforts. At the same time, the government is trying to make growth more inclusive in other ways, such as accelerating spending on social services and transfers to poorer regions of the country.

Staff views

37. **The staff endorsed this approach, noting that such an infrastructure-led growth strategy could make a major difference to Thailand's medium-term outlook.** If general government investment spending could be increased by 1 percentage point above the 2015 baseline, reinforced by financial sector reforms (described below) and accompanied by political stability, the private sector response could be significant. In such circumstances, total investment could climb to 31 percent of GDP, boosting growth by an additional percentage point to 6 percent.



Source: IMF, *World Economic Outlook* and staff estimates.

38. **But there are significant obstacles to these plans.** To begin with, investment will be constrained by implementation capacity. Large infrastructure projects are particularly complex, with difficulties at the design, contracting, and implementation phases. Finding a framework that can address these problems has proved difficult, as exemplified by the problems in launching public-private partnerships (PPP). For some time, Thailand had hoped to tap the expertise and financing of the private sector by arranging PPPs, but these have proved difficult to realize, with only a few minor projects being realized in recent years. The country is accordingly preparing a special new legal framework for PPPs, but in addition greater political continuity will be required.

[4] See the World Bank's 2009 *World Development Report*.

39. **An infrastructure-led growth strategy would also require budgetary resources.** The crisis measures (and the fall in revenue) have eroded Thailand's fiscal space, pushing the public debt ratio up over the past two years by 9 percentage points to 46 percent of GDP in 2009/10.[5] Preventing further erosion would help preserve fiscal space to counter any unexpected shocks, as well as limit the risk of an adverse market reaction that could occur should public debt continue to drift upwards. So, resources should be raised to pay for the investment spending—especially if this could be done in a manner that would improve incentives, rather than undermine them.

40. **How could this be done?** There would seem to be some scope to reallocate expenditure. For example, the emergency measures put in place to help households cope with the crisis (including also some on the tax side) could gradually be wound back as the economic situation normalizes. More broadly, it might be useful to conduct an expenditure review to identify programs that could be rationalized, as many other countries have done.

41. **Even with such measures, however, revenue will likely need to be raised.** There does, in fact, seem to be scope to do this, as Thailand's revenue/GDP ratio is significantly lower than that of other similar countries. Personal income tax (PIT) collections at just 2 percent of GDP are particularly low, partly because only one-tenth of the workforce pays tax; while the corporate income tax base has also been eroded through excessive exemptions and deductions. For example, under the personal income tax, double deductions are allowed for some expenses, such as transportation and electricity expenditure, while stipulated farming deductions are so high that they produce very low taxable incomes. If such allowances could be scaled back and administration improved, it would be possible to lower rates, thereby improving incentives, and still collect more revenue because the base would have widened. Also, the VAT rate could be raised from the current level of 7 percent, bringing it closer to the regional norm.

42. **To reinforce the credibility of such a strategy, the medium-term fiscal framework could be strengthened.** For example, the government could publish a medium-term framework with targets for deficits and debt, and an analysis of fiscal risks. This could be supplemented with the publication of a debt sustainability analysis, including the fuller disclosure of public-private partnership contingent liabilities.

Authorities' views

43. **The government stressed its commitment to fiscal discipline.** They were planning to reduce the budget deficit to minimal levels over the medium term; and in any case, the scope for government borrowing is strictly circumscribed, limited by law to just 20 percent of budget

[5] The headline ratio is somewhat higher than in neighboring countries, but this is largely definitional, as Thailand's figures conservatively include state-enterprise and government-guaranteed debt. On a narrower basis, the debt ratio remains below the 40 percent rule of thumb threshold for emerging market countries, as proposed in "Strategies for Fiscal Consolidation in the Post-Crisis World," IMF, Fiscal Affairs Department policy paper, 2010.

expenditures and up to 80 percent of budgeted debt repayments.[6] To reinforce this law, a Public Finance Act will be introduced that would lead to the publication of an articulated medium-term framework.

44. **At the same time, generating additional budgetary resources to finance greater investment would be difficult.** The government agreed that the exceptional crisis measures should eventually be withdrawn; indeed, it had already rescinded a popular tax waiver for house buyers. It is also planning to introduce a new land tax, and is considering a more fundamental reform of the tax system, along the lines recommended by the staff. But actual reform on all these counts would need to wait until after next year's election.

C. Developing the Financial Sector

Strategy

45. **The second key element of the authorities' medium term strategy is to develop the financial markets.** The logic of this endeavor is essentially the same as with building infrastructure: restoring dynamism by alleviating constraints on activity; in this case, constraints that keep capital scarce. Indeed, the two reforms are complementary, since financial market development will make it easier to raise long-term funds for infrastructure projects. In addition, several other motivations are at play. Looking forward, the development of the Thai economy and its continuing integration within the global economy will require an increasingly sophisticated financial system. Yet the current system is sheltered from foreign competition, helping to keep banks profitable, but less advanced or efficient.

46. **The authorities have developed two new, complementary plans to address these issues: the Financial Sector Master Plan II (FSMP II) and the Capital Markets Development Master Plan (CMDMP).** The five-year FSMP II aims to inject competition into the sector, by liberalizing branching regulations and business scope—and by opening up the sector further to new entry. Initially, foreign banks will be allowed to open two more branches; and starting in 2012 foreign bank branches will be allowed to upgrade to subsidiaries. After assessing the effects of these reforms, consideration will be given to granting licenses to new Thai or foreign financial service providers to fill any remaining gaps in services.

47. **Another critical element is the effort to promote financial access.** For example, banks are allowed to develop venture capital funds, to help nurture SMEs. And the central bank will encourage microfinance, to reach the significant portion of the population found to have no access to bank lending.[7]

48. **Meanwhile, bold steps are envisaged under the CMDMP.** Under a sweeping reform of the stock exchange,

[6] This is why the fiscal stimulus, an extraordinary measure to deal with exceptional circumstances, had to be done off-budget.

[7] The FSMP also focuses on reducing operating costs (for example, by eliminating outdated legislation) and strengthening risk management practices.

fixed brokers' commissions are being eliminated, while the exchange will be demutualized and linked to other regional exchanges. Foreign exchange traded funds (ETFs) will be allowed to have dual listings on the Stock Exchange of Thailand. These measures should act as a powerful inducement to reduce costs and spur innovation, thereby enlarging the size and liquidity of the market.

Staff views

49. **The new financial sector master plans should inject new life into Thailand's financial system, thereby easing the financing constraints that have helped hold back investment.** In particular, as competition in the sector increases, and the profitability of lending to larger companies diminishes, banks are likely to lend to SMEs and micro enterprises. Improved access should particularly help domestically oriented businesses, which—unlike foreign-invested firms or large exporters—have to rely on domestic sources for their funding.

50. **Amongst the capital market reforms envisaged by the CMDMP, the introduction of currency futures could be particularly helpful in easing constraints on smaller firms.** Experience in India has shown that this market can develop rapidly. For while large firms can use the existing forward markets, currency futures would make it easier for SME exporters and importers to protect against exchange rate fluctuation, owing to their smaller contract size and lower transactions costs. And if SMEs increase their hedging, this could relieve the burden on the BOT to intervene in cases of currency volatility.

51. **Meanwhile, the FSMP II takes valuable steps toward opening up the banking system to new entry.** Gradually, the system should be opened more fully to new entry, creating competition that could raise standards, encourage new products to be offered, and force existing banks to seek growth by expanding access to underserved customers.

52. **At the same time, caution will be required in directing credit to underserved sectors.** The lending activity of government-owned Specialized Financial Institutions (SFIs) has expanded rapidly over the past two years, as they have sought to support SMEs and farmers during a period when revenues were drying up and commercial banks were turning cautious in their lending. But loan risk assessment has been inadequate, and these loans may well end up aggravating the nonperforming loan ratios, which had already reached 16 percent by 2008. While these SFIs, being state backed, remain financially stable, they are distorting the playing field among financial institutions, and firms. Accordingly, a policy response is needed and, as pointed out in the 2009 FSAP, it needs to go well beyond a mere cleansing of their balance sheets. First and foremost, the role of the SFIs needs to be clarified, to ensure they truly focus on gaps in the market and do not crowd out the private sector. Then, measurable performance targets should be set, and outside audits conducted and published, so that the public can monitor whether the targets have been achieved. Finally, the governance structure should be improved by separating the ownership and regulatory/supervisory functions, both

currently undertaken by the Ministry of Finance.

Authorities' views

53. **The authorities noted that many of the steps envisaged in the CMDMP will take time to realize.** For example, while all ASEAN countries are agreed in principle on the benefits of integrating capital markets, there are numerous practical obstacles to implementation. For example, tax treatments will need to be harmonized, while a mechanism would need to be established to resolve any legal disputes. That said, an initial step is likely to take place in the second half of 2011, when Thai investors should be able to access the Malaysian and Singapore exchanges through their local brokers, as if they were Thai stocks.

54. **Similar problems attend to the introduction of currency futures.** Under the current system, customers are able to use the forward markets only if they have an underlying transaction. But this requirement would not be practical with exchange-traded currency futures, opening up the risk of excessive speculative activities.

55. **On the SFIs, the authorities agreed a policy response was needed.** They were now conducting studies, in conjunction with the World Bank, which is doing an FSAP module on the SFIs, on the basis of which a strategy would be formulated.

IV. Staff Appraisal

56. **Over the past year, the Thai economy has come through a severe stress test.** Initially, the global crisis devastated its exports, then just as exports revived and the economy was beginning to recover, the country was hit by a round of political turmoil. But after each setback, Thailand has proved resilient, thanks to its sound economic framework and its forceful policy response. At the same time, however, the experience has underscored the economy's structural weakness: the loss of its former dynamism, which has slowed growth and left it largely dependent on exports.

57. **The Thai authorities consequently now face major challenges.** They need to nurse the recovery into a sustained expansion. They need to find a way to regain some of the economy's lost dynamism. And they need to do this amidst a difficult environment, in which the global economy may not be as buoyant going forward as it was in the past, while political uncertainties may dampen domestic demand.

58. **With the economy normalizing, the authorities' immediate strategy is to normalize the policy stance.** After two years of fiscal stimulus, the public sector will begin to wind back its deficits next year. Meanwhile, the Bank of Thailand in July has started the process of normalizing interest rates from their exceptionally low levels. The staff strongly supports this approach, because the economy is quickly approaching its potential and because sustaining the exceptionally low interest rates may give rise to distorted asset allocation decisions. Given the high degree

of uncertainty about the outlook, staff agrees that interest rate normalization should nonetheless proceed gradually, as evidence accumulates that the recovery is truly becoming entrenched.

59. **Monetary policy could be complicated by volatile capital inflows, arising from the multispeed nature of the global recovery.** To deal with this problem, staff would recommend allowing the exchange rate to serve as a buffer, appreciating during periods of inflow and depreciating during the outflows. There is scope for such exchange rate flexibility, as the growth in Thailand's global export market share and the IMF's own multilateral assessments indicate that the baht is consistent with fundamentals. Should sustained strong inflows materialize and threaten to create asset bubbles, staff would also support prudential measures, such as reducing loan-to-value ratios on property loans. Further liberalization of capital outflows could also prove helpful.

60. **Over the medium term, the authorities' strategy for reviving the economy's dynamism centers on alleviating some of the constraints on activity, notably by building out the country's infrastructure and developing its financial sector.** Such measures should expand opportunities for firms, allowing them to better exploit the demand that does materialize, whether foreign or domestic. But it also holds out the particular hope of generating greater domestic demand, since a wider circle of activity could help expand the domestic market, while easier access to finance should help smaller, employment-generating firms grow. The staff, consequently, strongly endorses this approach.

61. **Pursuing an infrastructure-led growth strategy will not be easy, however.** As the authorities recognize, this will require an improvement in implementation capacity. It will also require additional budgetary resources. So, staff recommends conducting an expenditure review to identify programs that could be rationalized. In the meantime, some saving could be achieved by winding back subsidies introduced to help households cope with the crisis. On the revenue side, there is scope for widening the income tax base, personal and corporate, which has been eroded by excessive exemptions and deductions. Also, the VAT rate could be raised from the current level of 7 percent to bring it back into line with regional peers. The staff welcomes plans to introduce a Public Finance Act that would lead to publication of a medium-term fiscal framework, and proposes complementing this by publishing a debt sustainability analysis.

62. **The staff strongly supports the new master plans for the banking system and capital markets.** Together, they should inject new life into Thailand's financial system, by promoting more competition and linking Thailand's markets with those in the rest of ASEAN. The plans would also introduce new services, such as currency futures, which would make it easier for exporters and importers to protect against exchange rate fluctuations, thereby relieving the burden on the Bank of Thailand to intervene in cases of currency volatility.

63. **These plans should be complemented by two other initiatives.** Most urgent would be developing a framework for reforming the specialized

financial institutions, where credit has been expanding rapidly, leading to a proliferation of nonperforming loans. A new framework should not only aim to improve risk assessment standards, but also reconsider the role of the Ministry of Finance, currently both owner and regulator of the SFIs. Finally, the financial system should gradually be opened more fully to foreign entry, creating additional competition that could force existing banks to seek growth by expanding access to underserved customers.

64. **This is a lengthy and ambitious agenda.** But given Thailand's track record—including the convincing manner in which it has seen off the Great Recession—staff is fully confident that it will rise to the challenge this time, as well.

65. It is recommended that the next Article IV consultation with Thailand be conducted on the standard 12-month cycle.

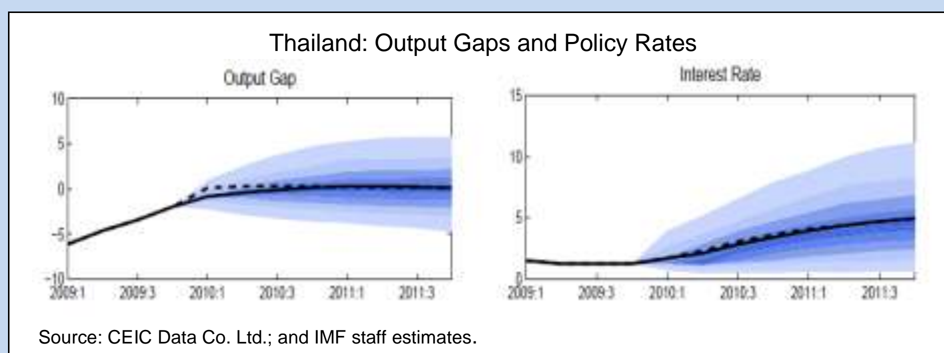
Box 1. Calibrating Monetary Policy in Thailand[1]

In response to the global recession and weak demand conditions at home, the Bank of Thailand Monetary Policy Committee (MPC) lowered the policy rate to a historically low level of 1¼ percent in April 2009. With signs of a strong domestic recovery, the MPC has twice raised the policy rate, to 1¾ percent, with the likelihood that the rate would be raised further during the course of 2010. Concurrently, faced with the deepest recession in history since the Great Depression, U.S. monetary policy hit a lower limit on the Fed Funds rate in December 2008 and has stayed there since. Going forward, the Federal Reserve has indicated that it intends to maintain this easy monetary stance for an extended period.

Against this backdrop, how should the policy rate in Thailand be calibrated going forward? Staff examined this issue using a New Keynesian (NK) Financial Policy Assessment System (FPAS) model for Thailand. This macroeconomic model of the Thai economy blends the NK emphasis on nominal and real rigidities with real business cycle dynamic stochastic general equilibrium modeling with rational expectations. The model consists of four macroeconomic equations for Thailand (output gap; Phillips curve; interest rate parity condition for exchange rate determination; and a Taylor rule for the policy rate), each of which is specified in a sufficiently general form to allow inertia and adaptive/rational expectations. To account for Thailand's open economy, the model also consists of a set of equations for the United States. The model was estimated using Bayesian techniques, incorporates interest rate floors, and provides nonlinear confidence bands for the path of the policy rate. In the analysis, the neutral (nominal) policy rate is assumed to be 4½ percent, with inflation at 2 percent.

With the strong rebound since 2009:Q4, the output gap in Thailand has closed substantially. However, estimates of potential output (and hence the output gap) can vary in a wide margin. To take account of this uncertainty, staff examined two possible scenarios: first, a scenario in which the output gap closes in 2010:Q4; and second, a scenario in which the output gap closes earlier, in 2010:Q1. In the first scenario, the policy rate increases start in 2010:Q2 and continue throughout 2011, resulting in a cumulative increase of 375 basis points that brings the policy rate to 5 percent. In the second scenario, in which the output gap closes earlier, the policy rate is about 25 basis points higher than in the first scenario over much of the course from 2010:Q2 to 2011:Q4. But by 2011:Q4, the policy rate is also at 5 percent. These alternative scenarios are shown in the figure below (first scenario—solid line; second scenario—dashed line).

Thailand: Output Gaps and Policy Rates

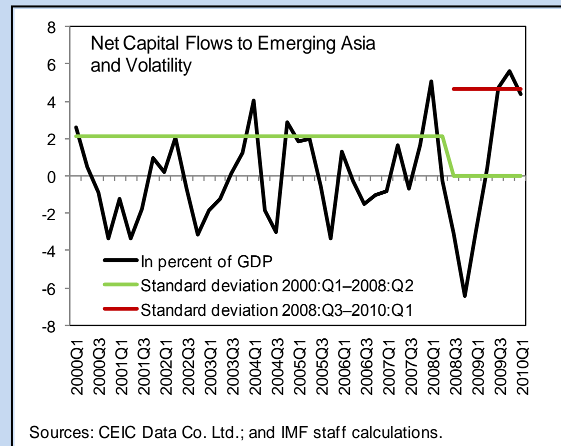


Source: CEIC Data Co. Ltd.; and IMF staff estimates.

[1] Kalra, S., 2010, Calibrating Monetary Policy under Uncertainty with Interest Rate Floors: An FPAS Model for Thailand, IMF Working Paper, *forthcoming*.

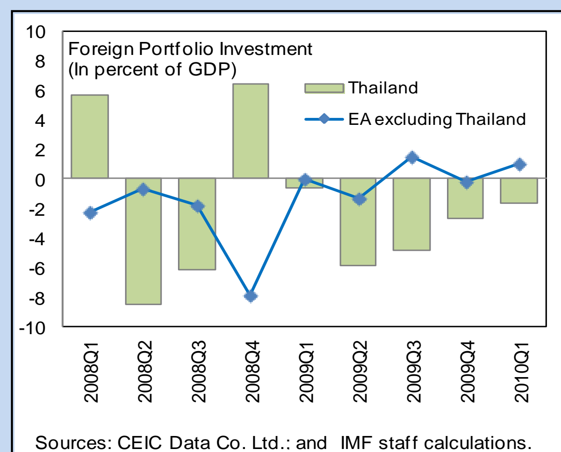
Box 2. How Do Capital Flows to Thailand Compare With the Region?

Capital inflows to emerging Asia (EA) have been quite volatile since the onset of the crisis.[1] The standard deviation of net capital flows in percent of GDP has more than doubled since mid-2008, compared to the earlier part of the decade. Thailand's experience has been no different.



Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

But the level, and even the direction, of flows to Thailand has differed from the region, especially for portfolio flows. When the rest of EA was experiencing peak portfolio outflows in the last months of 2008, Thailand had historically large net inflows. Similarly, while portfolio flows to EA rebounded in mid-2009, net flows to Thailand remained negative throughout the year. Thailand's growth performance was broadly in line with its neighbors, so economic fundamentals are not the explanation.



Sources: CEIC Data Co. Ltd.: and IMF staff calculations.

Rather, several other factors contributed to Thailand's divergence:

i) ***Local investors' portfolio reallocation*****:** The biggest discrepancy came about in the last months of 2008 when the repatriation of foreign assets by Thai investors, about $6 billion, was large enough to tip the balance positive even though foreign investors were pulling out of regional equity and debt markets. Similarly when foreign investors returned to the region in mid-2009, local investors reversed their portfolios in favor of foreign ones, turning net portfolio investment negative. In other words, Thai investors behaved like those from mature markets, bringing assets home at times of high risk aversion and sending them out as aversion abated. And during much of the period, their movements dominated the portfolio account.

ii) ***Thailand's idiosyncratic risk*****:** While the rest of EA received portfolio inflows in the second half of 2009, rising political tensions and delays in certain major investment projects began to weigh on Thailand's economic outlook, pushing up sovereign CDS spreads and keeping net flows outward. And after recovering in the first quarter of this year, portfolio outflows resumed yet again in April-May when tensions in Thailand's political arena spilled over into the streets of Bangkok.

iii) ***Relaxed regulations on capital outflows*****:** The Thai authorities relaxed regulations for domestic residents to invest in foreign securities in two steps, first in August 2009 and then in February 2010, to encourage capital outflows so as to abate the upward pressure on the baht. While the new ceilings are far from binding, Thai investors continue to accumulate foreign assets, suggesting that the measures have been successful.

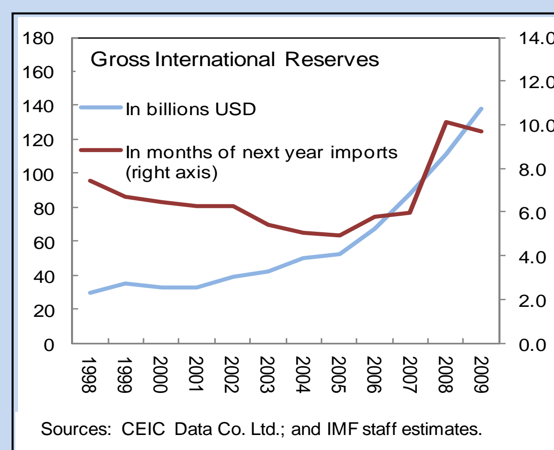
[1/] Emerging Asia includes NIEs, ASEAN, and India.

Box 3. Assessment of Real Exchange Rate and International Reserves

Staff assesses the real exchange rate to be broadly in line with fundamentals. All three methods used by the CGER indicate that the exchange rate is close to equilibrium. The Macro Balance (MB) approach suggests an undervaluation of 2 percent; the External Sustainability (ES) approach an overvaluation of 3 percent, and the equilibrium Real Exchange Rate (ERER) approach an undervaluation of 8 percent. Essentially, this is because apart from the temporary widening of the current account surplus during the global crisis, Thailand has not had large external imbalances in recent years.

Thailand's real effective exchange rate (REER) has moved in line with regional currencies over the past decade. Following a sharp real depreciation during the Asian crisis, regional currencies have appreciated since 2000 by 25 percent on average. After Lehman Brothers collapsed, regional currencies initially depreciated, but then rebounded as Asia started to recover. The baht REER has accordingly regained its mid-2008 pre-crisis peak.

Thailand's reserves were relatively stable until recently, but have grown rapidly in the past few years, as the current account surplus has been accompanied by capital inflows. Reserves remain broadly in line with those of Asian peers, but at $138 billion as of end-2009, they now exceed traditional ―rules of thumb." They are four times higher than Greenspan-Guidotti Rule (100 percent of short term debt coverage), and cover 43 percent of broad money and 10 months of following year's imports.



Sources: CEIC Data Co. Ltd.; and IMF staff estimates.

Reserves are also above recently developed benchmarks that factor in an "insurance motive" for building reserves. Jeanne and others (2006) develop a model in which the optimal level of reserves is determined by weighing the benefits of reserves—the reduced likelihood of a sudden stop and smoothed consumption during a crisis—against the opportunity cost of higher returns on less liquid assets.[1] Using this model, the optimal level of reserves is a maximum of around 25 percent of GDP, compared to Thailand's end-2009 reserves of 45 percent of GDP.

[1/] Jeanne and Ranciere, 2006, ―The Optimal Level of International Reserves for Emerging Market Countries: Formulas and Applications," IMF Working Paper 06/229.

Table 1. Thailand: Selected Economic Indicators, 2007–11

Main exports (percent of total 2009): machinery and appliances (14.1), vehicles and parts (7.9)
GDP per capita (2008): US$4,100
Unemployment rate (2009): 1.4 percent
Poverty rate (2002): 0.5 percent
Net FDI (2009): US$2.3 billion
Population (2008): 66.3 million

	2007	2008	2009	Proj. 2010	Proj. 2011
Real GDP growth (percent)	4.9	2.5	-2.2	7.5	4.0
Inflation					
Headline CPI (period average, percent)	2.3	5.5	-0.9	3.0	2.8
Core CPI (period average, percent)	1.1	2.4	0.3	1.0	1.5
Saving and investment (percent of GDP)					
Gross domestic investment (excluding stocks)	26.4	27.4	24.4	26.1	26.4
Private	19.5	20.8	17.9	18.0	18.7
Public	6.8	6.6	6.5	8.1	7.7
Gross national saving	32.7	27.8	32.1	29.7	29.0
Private, including statistical discrepancy	26.1	22.3	30.0	26.5	25.2
Public	6.6	5.5	2.1	3.2	3.8
Foreign saving	-6.3	-0.4	-7.7	-3.6	-2.6
Fiscal accounts (percent of FY GDP) 1/					
Central government net lending/borrowing (budgetary) 2/	-1.4	-0.6	-4.2	-1.1	-2.3
Revenue	17.9	18.1	17.0	17.8	17.9
Total expenditure	19.3	18.7	21.2	18.9	20.2
General government net lending/borrowing 3/	0.2	0.1	-3.2	-2.7	-2.3
Public sector balance 4/	-0.5	-0.6	-3.6	-4.5	-3.6
Public sector debt	39.5	37.3	45.2	45.5	45.4
Monetary accounts (end-period, percent)					
Broad money growth	6.3	9.2	6.8	…	…
Narrow money growth	9.7	4.1	12.8	…	…
Private sector credit growth	4.8	8.8	2.5	…	…
Balance of payments (billions of U.S. dollars)					
Current account balance	15.7	1.2	20.3	11.0	8.3
(Percent of GDP)	6.3	0.4	7.7	3.6	2.6
Exports, f.o.b.	151.3	175.2	150.7	180.5	195.4
Growth rate (in dollar terms)	18.2	15.9	-14.0	19.6	8.3
Imports, c.i.f.	138.5	175.6	131.4	170.8	188.3
Growth rate (in dollar terms)	9.1	26.8	-25.2	29.9	10.2
Capital and financial account balance 5/	1.4	23.5	3.9	5.2	6.5
Overall balance	17.1	24.7	24.1	16.1	14.9
Gross official reserves (end-year)	87.5	111.0	138.4	154.5	169.4
(Months of following year's imports)	6.0	10.1	9.7	9.9	9.9
(Percent of maturing external debt)	305.9	363.8	417.7	527.9	566.9
Exchange rate (baht/U.S. dollar)	34.5	33.3	34.3	…	…
NEER appreciation (annual average) 6/	6.5	-1.1	-2.1	…	…
REER appreciation (annual average) 6/	6.6	0.6	-2.9	…	…
External debt					
(In percent of GDP)	25.0	23.9	26.3	26.1	25.8
(In billions of U.S. dollars)	61.9	65.2	69.5	80.5	83.6
Public sector 7/	12.2	13.1	15.3	17.8	20.3
Private sector	49.7	52.1	54.2	62.7	63.3
Debt service ratio 8/	11.8	7.1	6.7	2.2	2.0
Memorandum items:					
Nominal GDP (In billions of baht)	8,530	9,075	9,051	9,958	10,617
(In billions U.S. dollars)	247.3	272.8	264.3	308.1	324.4

Sources: Thai authorities; and IMF staff estimates.

1/ The fiscal year begins on October 1.
2/ There are sizable nonbudgetary expenditures outside of this balance (2.6 percent of GDP in 2010 and 0.7 percent in 2011, respectively).
3/ Includes budgetary central government, off-budget government spending (second stimulus package), extrabudgetary activities, and local governments.
4/ IMF staff estimate. Includes general government and nonfinancial public enterprises.
5/ Includes errors and omissions.
6/ IMF staff calculations.
7/ Includes debt of state enterprises.
8/ In percent of exports of goods and services.

Table 2. Thailand: General Government Operations, 2006/07–2010/11

(In percent of FY GDP, unless otherwise indicated) 1/

	2006/07	2007/08	2008/09	2009/10 Proj.	2010/11 Proj.
A. Central government					
1. Revenue	17.9	18.1	17.0	17.8	17.9
Taxes	15.9	16.0	14.9	15.7	15.8
Taxes on income, profits, and capital gains	7.4	7.8	7.2	8.0	8.0
Taxes on goods and services	7.3	7.0	6.7	6.8	6.9
Taxes on international trade and transactions	1.1	1.1	0.9	0.8	0.7
Taxes not elsewhere classified	0.1	0.1	0.1	0.1	0.1
Grants	0.0	0.0	0.0	0.0	0.0
Other revenue	2.0	2.1	2.0	2.1	2.1
2. Total expenditure	19.3	18.7	21.2	18.9	20.2
Expense	17.6	17.4	19.2	17.1	17.6
Compensation of employees	6.7	6.4	7.2	6.7	6.8
Purchase/use of goods and services	3.8	3.7	5.1	3.9	3.9
Interest	1.1	1.2	1.1	1.1	1.3
Social benefits	1.0	1.0	1.3	0.9	1.0
Expense not elsewhere classified	5.0	5.1	4.5	4.5	4.6
Net acquisition of nonfinancial assets	1.7	1.4	2.0	1.7	2.6
3. Net lending/borrowing (budgetary) [=1-2]	-1.4	-0.6	-4.2	-1.1	-2.3
Net acquisition of financial assets	-0.4	0.6	0.6	2.5	2.3
Net incurrence of liabilities	1.0	1.2	4.8	3.6	4.6
4. Nonbudgetary/Loan expenditure 2/	0.0	0.0	0.2	2.6	0.7
5. Extrabudgetary balance	1.1	0.5	0.8	0.9	0.7
6. Social security balance	0.4	0.4	0.3	0.0	0.0
7. Net lending/borrowing (consolidated) [=3-4+5+6]	0.1	0.3	-3.4	-2.7	-2.3
B. Local governments					
8. Revenue	4.0	3.7	3.8	3.6	4.0
9. Total expenditure	3.9	3.9	3.8	3.6	4.0
10. Net lending/borrowing	0.1	-0.2	-0.1	0.0	0.0
C. General government [A+B]					
Revenue	21.5	21.4	20.8	20.9	21.2
Total expenditure [=2+4-5-6+9]	21.3	21.3	24.0	23.7	23.5
Expense	18.0	18.7	20.8	19.6	19.0
Net acquisition of nonfinancial assets	3.3	2.5	3.2	4.1	4.4
Net lending/borrowing (consolidated)	0.2	0.1	-3.2	-2.7	-2.3
D. Other					
Central government net lending/borrowing (budgetary)	-1.4	-0.6	-4.2	-1.1	-2.3
Central government net lending/borrowing (consolidated)	0.1	0.3	-3.4	-2.7	-2.3
General government net lending/borrowing (consolidated	0.2	0.1	-3.2	-2.7	-2.3
Public enterprises balance	-0.7	-0.7	-0.5	-1.8	-1.3
Public sector balance 3/	-0.5	-0.6	-3.6	-4.5	-3.6
Memorandum items:					
FY GDP (in billions of baht)	8,311	9,130	8,847	9,820	10,353
General government debt	24.7	23.7	29.2	29.1	28.4
General government debt and SOE guaranteed debt	30.8	30.0	35.6	35.0	34.2
Public debt	39.5	37.3	45.2	45.5	45.4

Sources: Thai authorities; and IMF staff estimates.

1/ The fiscal year begins on October 1.

2/ Expenditures related to Stimulus Package II undertaken outside the budget.

3/ IMF staff estimate. Includes general government and nonfinancial public enterprises.

Table 3. Thailand: Balance of Payments, 2007–15

(In billions of U.S. dollars, unless specified otherwise)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
				Projection					
1. Current account balance	15.7	1.2	20.3	11.0	8.3	7.0	4.8	2.8	0.0
(In percent of GDP)	6.3	0.4	7.7	3.6	2.6	2.0	1.3	0.7	0.0
Trade balance	12.8	-0.4	19.4	9.7	7.2	5.7	3.6	1.6	-1.0
Exports, f.o.b.	151.3	175.2	150.7	180.5	195.4	210.9	228.7	248.4	269.6
(In percent of GDP)	61.2	64.2	57.0	58.6	60.2	61.5	62.6	63.6	64.4
Imports, c.i.f.	138.5	175.6	131.4	170.8	188.3	205.1	225.0	246.7	270.6
(In percent of GDP)	56.0	64.4	49.7	55.4	58.0	59.9	61.6	63.1	64.6
Of which: Oil and oil products	25.7	37.1	24.8	33.6	36.2	39.0	41.4	43.9	46.9
Services	5.9	4.8	5.5	4.8	4.8	5.0	5.1	5.1	5.2
Income and transfers	-3.0	-3.3	-4.6	-3.5	-3.7	-3.8	-4.0	-3.9	-4.2
2. Capital and financial account balance	-2.6	14.6	-1.2	2.1	3.3	3.7	4.3	4.5	4.8
Foreign direct investment, net	8.5	6.0	2.1	5.8	7.2	8.0	8.9	9.4	10.0
Portfolio investment, net	-6.7	-2.1	-9.2	1.5	1.4	1.3	1.1	1.0	0.9
Other investment, net	-4.4	10.7	5.9	-5.2	-5.3	-5.6	-5.7	-6.0	-6.1
3. Errors and omissions	4.0	8.9	5.0	3.1	3.2	3.4	3.7	3.9	4.2
(In percent of GDP)	1.6	3.3	1.9	1.0	1.0	1.0	1.0	1.0	1.0
4. Overall balance =1+2+3	17.1	24.7	24.1	16.1	14.9	14.1	12.8	11.2	9.0
5. Changes in official reserves (increase -)	-17.1	-24.7	-24.1	-16.1	-14.9	-14.1	-12.8	-11.2	-9.0
Memorandum items:									
Gross official reserves (US$ billion)	87.5	111.0	138.4	154.5	169.4	183.5	196.3	207.5	216.5
(In months of following year's imports)	6.0	10.1	9.7	9.9	9.9	9.8	9.5	9.1	8.7
(In percent of short-term debt) 1/	305.9	363.8	417.7	528	567	592	615	629	652
Export growth	18.2	15.9	-14.0	19.6	8.3	7.9	8.4	8.6	8.5
Export volume growth 2/	9.4	4.8	-5.7	14.4	8.0	7.6	7.5	7.6	7.8
Export unit value growth	8.0	10.5	-8.7	4.6	0.3	0.2	0.9	1.0	0.7
Import growth	9.1	26.8	-25.2	29.9	10.2	9.0	9.7	9.7	9.7
Import volume growth 2/	-0.5	14.7	-11.2	15.6	8.5	8.5	9.2	9.2	9.9
Import unit value growth	9.7	10.2	-15.4	12.4	1.6	0.4	0.4	0.4	-0.2
Change in terms of trade 2/	0.3	-5.5	8.1	-5.1	-2.8	-0.3	-0.3	1.0	1.3
External debt/GDP	25.0	23.9	26.3	26.1	25.8	25.8	25.1	24.2	23.3
(In billions of U.S. dollars)	61.9	65.2	69.5	80.5	83.6	88.6	91.6	94.5	97.5
Debt service ratio 3/	11.8	7.1	6.7	2.2	2.0	1.9	2.4	2.2	2.3
GDP (US$ billion)	247.3	272.8	264.3	308.1	324.4	342.7	365.3	390.9	418.9

Sources: Thai authorities; and IMF staff estimates and projections.

1/ With remaining maturity of one year or less.
2/ IMF staff calculations and estimates.
3/ In percent of exports of goods and services.

Table 4. Thailand: Monetary Survey, 2007–10

(In billions of baht, unless otherwise specified)

	2007	2008	2009	2010	
	Dec	Dec	Dec	Jan	May
Bank of Thailand					
Net foreign assets	2,951	3,872	4,525	4,653	4,606
Net dometic assets	-2,017	-2,833	-3,422	-3,603	-3,517
Of which: other items (net)	-1,389	-1,558	-1,580	-1,569	-1,405
Reserve money - Monetary base (M0)	934	1,040	1,103	1,050	1,089
Currency in Circulation	877	961	1,045	992	1,027
Deposits at Bank of Thailand	57	78	58	58	62
Monetary survey					
Net foreign assets	3,594	4,132	4,570	4,673	4,673
Net domestic assets	5,515	5,811	6,047	5,929	6,329
Domestic credit	8,884	9,566	10,014	9,961	10,318
Net credit to central government	132	203	292	296	321
Credit to nonfinancial public enterprises	348	325	366	366	377
Credit to financial corporations	574	519	625	654	662
Total credit to private sector	7,826	8,513	8,726	8,639	8,953
Credit to other nonfinancial corporations	3,775	4,135	3,847	3,754	3,851
Credit to other resident sector	4,051	4,378	4,879	4,885	5,102
Other items (net)	-3,369	-3,755	-3,967	-4,032	-3,990
Broad money	9,109	9,944	10,617	10,602	11,001
Narrow money	1,000	1,041	1,175	1,148	1,262
Currency	720	752	844	831	833
Transferable Deposits	280	289	331	317	429
Quasi money	8,110	8,903	9,442	9,454	9,740
Memorandum items					
Broad money growth (y/y percent change)	6.3	9.2	6.8	5.5	6.8
Narrow money growth (y/y percent change)	9.7	4.1	12.8	10.8	14.4
Credit to private sector growth (y/y percent change)	4.8	8.8	2.5	1.9	5.9
Contribution to broad money growth	6.3	9.2	6.8	5.5	6.8
NFA	7.5	5.9	4.4	5.4	1.7
NDA	-1.3	3.3	2.4	0.2	5.1
Domestic credit	3.9	7.5	4.5	4.4	7.8

Sources: Bank of Thailand; and IMF staff calculations.

Table 5. Thailand: Financial Sector Indicators, 2005–10 1/

	2005	2006	2007	2008	2009	2010	Latest observation
Capital adequacy							
Regulatory capital to risk-weighted assets	13.2	13.6	14.8	13.9	15.8	15.7	Q1
Tier 1 capital to risk-weighted assets	9.9	10.7	11.9	10.7	11.7	11.7	Q1
Asset quality							
Nonperforming loans to total loans	9.1	8.1	7.9	5.7	5.3	5.0	Q1
Loan loss reserves to nonperforming loans	83.7	82.7	86.5	97.9	99.4	102.1	Q1
Earnings and profitability							
Return on average assets (before tax and provisioning)	1.9	1.9	1.7	2.0	1.9	1.9	Q1
Return on average assets (after tax)	1.4	0.8	0.1	1.0	1.0	1.1	Q1
Return on equity (after tax)	14.2	8.5	1.2	10.3	9.5	10.8	Q1
Noninterest income/total income	21.0	17.9	16.5	18.5	24.2	26.2	Q1
Operating expenses/net interest income and dividend	72.4	78.4	80.9	74.5	81.8	82.0	Q1
Liquidity							
Ratio of loans to deposits plus bills of exchange 2/	88.1	86.4	88.0	88.5	87.6	88.3	Q1
Liquidity to deposits and borrowings ratio	18.2	16.7	19.6	24.2	27.4	26.6	Q1
Sensitivity to market risk							
FX deposits (in percent of total deposits)	2.5	2.6	2.6	2.8	2.8	2.6	Q1
FX loans to residents (in percent of total loans)	3.2	2.5	2.3	2.6	2.5	2.5	Q1
Net open forex position (in percent of total capital)	2.5	1.6	3.1	1.9	4.1	2.3	Q1
Government debt held by FS (percent of total FS assets)	4.2	...	...	...	...	...	Q1
Memorandum items:							
Credit to private sector (percent change) 3/	8.0	4.5	4.8	8.8	2.5	4.5	Q1
Nominal GDP (in US$ billion)	176.3	207.5	247.3	272.8	264.3	308.1	Staff proj.

Sources: Thai authorities; and IMF staff estimates.

1/ Data for locally incorporated banks and excludes retail banks, foreign branches and subsidiaries.

2/ Excludes interbank loans and deposits. Bills of exchange are CD-like instruments that are considered a stable source of bank funding.

3/ Includes all depository corporations.

Table 6. Thailand: Medium-Term Framework, 2007–15

	2007	2008	2009	Projections 2010	2011	2012	2013	2014	2015
Real GDP growth (percent)	4.9	2.5	-2.2	7.5	4.0	4.3	4.5	4.8	5.0
Consumption	2.8	3.0	-0.1	5.2	4.0	4.0	4.3	5.1	5.3
Gross fixed investment	1.5	1.2	-9.0	9.7	4.1	4.4	4.6	4.9	5.0
Real private consumption (in percent of GDP)	52.0	52.1	52.7	52.5	52.5	52.4	52.4	52.7	53.1
Real private investment (in percent of GDP)	16.6	16.7	14.9	14.0	13.9	13.7	13.4	13.2	13.0
Headline CPI inflation (period average, percent)	2.3	5.5	-0.9	3.0	2.8	2.5	2.0	2.0	2.0
Core CPI inflation (period average, percent)	1.1	2.4	0.3	1.0	1.5	1.7	1.8	1.8	1.8
Saving and investment (percent of GDP)									
Gross domestic investment (excl stocks)	26.4	27.4	24.4	26.1	26.4	26.8	27.5	28.1	28.6
Private	19.5	20.8	17.9	18.0	18.7	19.6	20.3	21.1	21.7
Public	6.8	6.6	6.5	8.1	7.7	7.2	7.2	7.0	6.9
Gross national saving	32.7	27.8	32.1	29.7	29.0	28.9	28.8	28.8	28.6
Private, including statistical discrepancy	26.1	22.3	30.0	26.5	25.2	24.9	24.8	24.8	24.7
Public	6.6	5.5	2.1	3.2	3.8	3.9	4.0	4.1	3.9
Foreign saving (- = current account surplus)	-6.3	-0.4	-7.7	-3.6	-2.6	-2.0	-1.3	-0.7	0.0
Fiscal accounts (percent of FY GDP) 1/									
Central government net lending/borrowing (budgetary)	-1.4	-0.6	-4.2	-1.1	-2.3	-2.3	-2.2	-2.1	-1.9
Revenue	17.9	18.1	17.0	17.8	17.9	17.9	17.9	18.0	18.0
Total expenditure	19.3	18.7	21.2	18.9	20.2	20.2	20.1	20.0	19.9
General government net lending/borrowing (consolidated)	0.2	0.1	-3.2	-2.7	-2.3	-1.6	-1.4	-1.3	-1.1
Revenue	21.5	21.4	20.8	20.9	21.2	21.6	21.7	21.8	21.9
Total expenditure	21.3	21.3	24.0	23.7	23.5	23.1	23.1	23.1	23.0
Public sector balance 2/	-0.5	-0.6	-3.6	-4.5	-3.6	-2.8	-2.6	-2.5	-2.3
Total public sector debt (end-period)	39.5	37.3	45.2	45.5	45.4	45.3	45.3	45.1	44.7
Balance of payments (billions of U.S. dollars)									
Exports, f.o.b.	151.3	175.2	150.7	180.5	195.4	210.9	228.7	248.4	269.6
(Volume growth) 3/	9.4	4.8	-5.7	14.4	8.0	7.6	7.5	7.6	7.8
Imports, c.i.f.	138.5	175.6	131.4	170.8	188.3	205.1	225.0	246.7	270.6
(Volume growth) 3/	-0.5	14.7	-11.2	15.6	8.5	8.5	9.2	9.2	9.9
Trade balance	12.8	-0.4	19.4	9.7	7.2	5.7	3.6	1.6	-1.0
Current account balance	15.7	1.2	20.3	11.0	8.3	7.0	4.8	2.8	0.0
(Percent of GDP)	6.3	0.4	7.7	3.6	2.6	2.0	1.3	0.7	0.0
Financial account balance 4/	1.4	23.5	3.9	5.2	6.5	7.1	8.0	8.4	8.9
Overall balance	17.1	24.7	24.1	16.1	14.9	14.1	12.8	11.2	9.0
Gross official reserves (end-year)	87.5	111.0	138.4	154.5	169.4	183.5	196.3	207.5	216.5
(Months of following year's imports of goods)	6.0	10.1	9.7	9.9	9.9	9.8	9.5	9.1	8.7
(Percent of short-term debt by remaining maturity)	306	364	418	528	567	592	615	629	652
External debt (percent of GDP)	25.0	23.9	26.3	26.1	25.8	25.8	25.1	24.2	23.3
Debt-service ratio 5/	11.8	7.1	6.7	2.2	2.0	1.9	2.4	2.2	2.3

Sources: Thai authorities; and IMF staff estimates.

1/ The fiscal year begins on October 1.
2/ Fund staff estimate. Includes general government and nonfinancial public enterprises.
3/ Fund staff estimate.
4/ Includes errors and omissions.
5/ In percent of exports of goods and services.

Table 7. Thailand: Medium-Term Fiscal Scenario, 2008/09–20014/15 1/

(In percent of FY GDP, unless otherwise stated)

	2008/09	2009/10 Proj.	2010/11 Proj.	2011/12 Proj.	2012/13 Proj.	2013/14 Proj.	2014/15 Proj.
A. Central government							
1. Revenue	17.0	17.8	17.9	17.9	17.9	17.9	18.0
Tax revenue	14.9	15.7	15.8	15.8	15.8	15.8	15.9
Taxes on income, profits, and capital gains	7.2	8.0	8.0	8.0	8.0	8.0	8.0
Taxes on goods and services	6.7	6.8	6.9	6.9	7.0	7.1	7.1
Taxes on international trade and transactions	0.9	0.8	0.7	0.7	0.7	0.6	0.6
Taxes not elsewhere classified	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	2.0	2.1	2.1	2.1	2.1	2.1	2.1
2. Total expenditure	21.2	18.9	20.2	20.2	20.1	20.0	19.9
Expense	19.2	17.1	17.6	17.7	17.6	17.7	17.7
Compensation of employees	7.2	6.7	6.8	6.8	6.8	6.8	6.8
Purchase/use of goods and services	5.1	3.9	3.9	3.9	3.9	3.9	3.9
Interest	1.1	1.1	1.3	1.3	1.1	1.1	1.1
Social benefits	1.3	0.9	1.0	1.1	1.1	1.2	1.3
Expense not elsewhere classified	4.5	4.5	4.6	4.6	4.6	4.6	4.6
Of which: capital grant to other general government	0.0	0.8	1.1	1.0	0.6	0.5	0.5
Net acquisition of nonfinancial assets	2.0	1.7	2.6	2.5	2.5	2.3	2.2
3. Net lending/borrowing (budgetary) [=1-2]	-4.2	-1.1	-2.3	-2.3	-2.2	-2.1	-1.9
4. Nonbudgetary/Loan expenditure 2/	0.2	2.6	0.7	0.0	0.0	0.0	0.0
5. Extrabudgetary balance	0.8	0.9	0.7	0.7	0.8	0.8	0.8
6. Social security balance	0.3	0.0	0.0	0.0	0.0	0.0	0.0
7. Net lending/borrowing (consolidated) [=3-4+5+6]	-3.4	-2.7	-2.3	-1.6	-1.4	-1.3	-1.1
B. Local government							
8. Revenue	3.8	3.6	4.0	3.8	4.1	4.1	4.2
9. Total expenditure	3.8	3.6	4.0	3.8	4.1	4.1	4.2
10. Net lending/borrowing	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
C. General government [=A+B]							
Revenue	20.8	20.9	21.2	21.6	21.7	21.8	21.9
Total expenditure [=2+4-5-6+9]	24.0	23.7	23.5	23.1	23.1	23.1	23.0
Expense	20.8	19.6	19.0	19.3	19.3	19.4	19.5
Net acquisition of nonfinancial assets	3.2	4.1	4.4	3.8	3.8	3.7	3.5
Net lending/borrowing (consolidated)	-3.2	-2.7	-2.3	-1.6	-1.4	-1.3	-1.1
Memorundum items:							
Central government net lending/borrowing (budgetary)	-4.2	-1.1	-2.3	-2.3	-2.2	-2.1	-1.9
Central government net lending/borrowing (consolidated)	-3.4	-2.7	-2.3	-1.6	-1.4	-1.3	-1.1
General government net lending/borrowing (consolidated)	-3.2	-2.7	-2.3	-1.6	-1.4	-1.3	-1.1
Public enterprises balance	-0.5	-1.8	-1.3	-1.2	-1.2	-1.2	-1.2
Public sector balance 3/	-3.6	-4.5	-3.6	-2.8	-2.6	-2.5	-2.3
Public sector debt	45.2	45.5	45.4	45.3	45.3	45.1	44.7
Central government	29.2	29.1	28.4	28.0	27.8	27.3	26.7
FIDF	1.1	1.0	0.9	0.9	0.8	0.8	0.7
NFPE	12.5	13.1	13.7	14.0	14.3	14.6	14.8
SFIs guranteed debt, VF and EFPO	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Public sector consumption	15.0	13.1	13.6	13.8	13.9	13.9	14.0
Public sector investment 4/	5.5	7.5	7.4	6.7	6.6	6.5	6.4
General government	3.3	4.1	4.4	3.8	3.8	3.7	3.5
Public enterprises	2.1	3.4	2.9	2.9	2.8	2.8	2.8

Sources: IMF staff estimates.

1/ The fiscal year runs from October 1 to September 30.

2/ Expenditures related to Stimulus Package II undertaken outside the budget.

3/ Fund staff estimate. Includes general government and nonfinancial public enterprises.

4/ Fiscal basis; differs from national account.

Appendix I. Thailand—Public and External Debt Sustainability

A. Public Debt Sustainability

Thailand's public debt is moderate, and forecast to remain so. At the end of fiscal year 2008/09, public debt amounted to 45 percent of GDP.[1] The global crisis had some impact on this ratio, pushing it up by 8 percentage points in 2008/09, as GDP contracted, government revenue fell, and the government responded to the downturn by stepping up spending. But this development is likely to prove short-lived. The economy has already begun to recover, and as the expansion becomes entrenched, it should allow the public sector deficits to be wound back. More specifically, the baseline scenario envisages that the fiscal stimulus package would be phased out by 2011, while the government revenue/GDP ratio gradually recovers to pre-crisis levels and nonstimulus expenditure remains stable as a percent of GDP. Under these assumptions, the public debt path would be sustainable, with the ratio stabilizing around 45 percent through the medium term. Within the stable overall ratio, direct government debt would decline relative to GDP, but the nonfinancial public enterprise debt ratio would increase throughout the period, as state firms step up their investments.

This profile is resilient to most shocks. With the debt burden modest and very little debt owed externally, shocks to interest and exchange rates make only small differences to the medium-term forecast. A more sizeable impact would come from shocks to the primary balance, or a combination shock. If the primary balance records an average deficit of 1½ percent of GDP over the forecast horizon, instead of averaging zero as assumed, then by 2015 the debt/GDP ratio would be 6 percentage points higher than in the baseline. A combined shock, in which the real interest rate, growth rate, and primary balance are permanently worse than under the baseline by one quarter standard deviation, would increase the debt/GDP ratio by 6 percentage points.

A contingent liabilities shock would generate a large deviation from baseline. That is, if 10 percent of GDP in contingent liabilities are brought on budget in 2011, then even by 2015 the debt to GDP ratio would still remain 9 percentage points higher than in the baseline.

The most significant risk to the debt outlook comes from a potential slowdown in growth. Under the baseline scenario, growth is forecast to average around 4½ percent over the medium term, roughly in line with the historical average. But the standard deviation of growth in Thailand is reasonably high. So, if growth proved lower than assumed by one-half a standard deviation, then the growth rate would average just 2.8 percent, and this in turn would push up the debt/GDP ratio by 9 percentage points.

[1] This ratio is somewhat higher than the average ―headline" ratio in Emerging Asia, but largely because it is based on a much broader concept. In Thailand, public debt includes not only government debt, but also nonfinancial public enterprise debt, as well as Financial Institution Development Fund debt (the cost of financial sector restructuring inflicted by the 1997 financial crisis) and Specialized Financial Institutions guaranteed debt.

In all scenarios, however, Thailand's public debt path would remain sustainable.

B. External Debt Sustainability

Thailand's external debt ratio is low, and is projected to decline gradually over the medium term. Gross external debt amounted to just 26 percent of GDP in March 2010 ($74 billion). It has risen modestly over the previous few quarters, owing mostly to the accumulation of short-term private debt, as the revival of trade has sparked a rebound in trade credits and hedging activities against foreign currency receivables. This process will continue over the medium term, with external liabilities expanding along with trade. However, the pace of debt accumulation will be slower than economic growth, thereby reducing the external debt ratio by about 3 percentage points over the medium term to 23 percent of GDP. Public sector external debt, currently 2½ percent of GDP, should remain at this minimal level.

Stress tests show that the external debt outlook is resilient to macroeconomic shocks. Shocks to the economic growth rate and the external interest rate make only small differences to the medium-term forecast. A permanent one-half standard deviation shock to the noninterest current account balance has a much larger impact, as it would effectively eliminate the forecast current account surplus. As a result, by 2015 the external debt ratio would be about 12 percentage points higher than in the baseline, bringing the ratio to around 35 percent of GDP. A combined shock would produce similar results, assuming the external interest rate, and the noninterest current account balance deviate from the baseline by a one-quarter standard deviation.

The biggest potential impact could come from large exchange rate depreciation. A real depreciation of 30 percent could raise the debt ratio by about 20 percentage points. However, this result largely reflects the assumption that trade flows would not respond to the depreciation, whereas such a large real depreciation would normally bring about a sharp improvement in the current account that would—after the initial rise—bring the debt ratio back down significantly over the medium term.

Overall, in all stress scenarios Thailand's debt path remains sustainable and below the levels seen in the early 2000s.

Table A1. Thailand: Public Sector Debt Sustainability Framework, 2005–15

(In percent of FY GDP, unless otherwise indicated)

	Actual					Projections						
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Debt-stabilizing primary balance 9/
Baseline: Public sector debt 1/	47.3	43.5	39.5	37.3	45.2	45.5	45.4	45.3	45.3	45.1	44.7	-0.5
Change in public sector debt	-2.1	-3.9	-3.9	-2.2	7.9	0.3	-0.1	-0.2	0.0	-0.2	-0.4	
Identified debt-creating flows (4+7+12)	-5.1	-4.2	-2.3	-2.1	5.0	0.0	1.2	-0.3	-0.1	-0.4	-0.7	
Primary deficit	-4.1	-4.4	-2.0	-1.9	0.9	1.7	0.6	0.2	0.2	0.0	-0.2	
Revenue and grants	24.1	24.3	23.5	23.1	22.5	22.6	22.9	23.2	23.3	23.4	23.6	
Primary (noninterest) expenditure	20.0	20.0	21.6	21.2	23.4	24.3	23.4	23.4	23.5	23.4	23.4	
Automatic debt dynamics 2/	-1.0	-1.6	-1.7	-1.4	4.1	-1.6	0.7	-0.6	-0.3	-0.4	-0.5	
Contribution from interest rate/growth differential 3/	-0.9	-2.1	-0.8	-1.0	3.9	-1.6	0.7	-0.6	-0.3	-0.4	-0.5	
Of which: contribution from real interest rate	1.3	0.1	1.1	0.8	2.1	1.7	2.1	1.5	1.6	1.6	1.6	
Of which: contribution from real GDP growth	-2.2	-2.2	-1.9	-1.8	1.8	-3.4	-1.4	-2.1	-1.9	-2.0	-2.1	
Contribution from exchange rate depreciation 4/	-0.1	0.5	-0.9	-0.4	0.2	...	...	...	...	...	...	
Other identified debt-creating flows	0.1	1.8	1.3	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.1	1.8	1.3	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2–3) 5/	2.9	0.3	-1.6	-0.1	2.9	0.2	-1.3	0.2	0.1	0.2	0.2	
Public sector debt-to-revenue ratio 1/	196.3	178.6	167.9	161.8	201.3	201.5	198.9	195.0	194.1	192.2	189.5	
Gross financing need 6/	8.5	5.8	8.8	8.4	10.7	10.6	9.6	8.7	8.1	7.5	6.9	
In billions of U.S. dollars	14.7	11.8	21.2	23.0	27.6	32.2	30.5	29.3	29.0	28.7	28.4	
Scenario with key variables at their historical averages 7/						45.5	41.8	39.6	37.4	35.2	33.1	0.0
Scenario with no policy change (constant primary balance) in 2010-15						45.5	46.7	47.9	49.4	50.8	52.3	-0.5
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	4.9	5.2	4.7	5.0	-4.7	8.2	3.2	4.9	4.4	4.7	4.9	
Average nominal interest rate on public debt (in percent) 8/	7.5	6.4	6.0	7.0	7.1	7.0	7.0	6.1	5.8	5.9	5.9	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	3.1	0.6	3.0	2.3	5.4	4.4	4.8	3.6	3.8	3.9	3.9	
Nominal appreciation (increase in US dollar value of local currency, in percent)	1.4	-4.8	13.8	6.9	-3.4	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	4.3	5.8	3.0	4.7	1.7	2.6	2.2	2.4	2.0	2.0	2.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	9.7	4.9	13.1	2.9	5.3	12.3	-0.5	5.0	4.5	4.5	4.7	
Primary deficit	-4.1	-4.4	-2.0	-1.9	0.9	1.7	0.6	0.2	0.2	0.0	-0.2	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used. Fiscal year begins on October 1.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

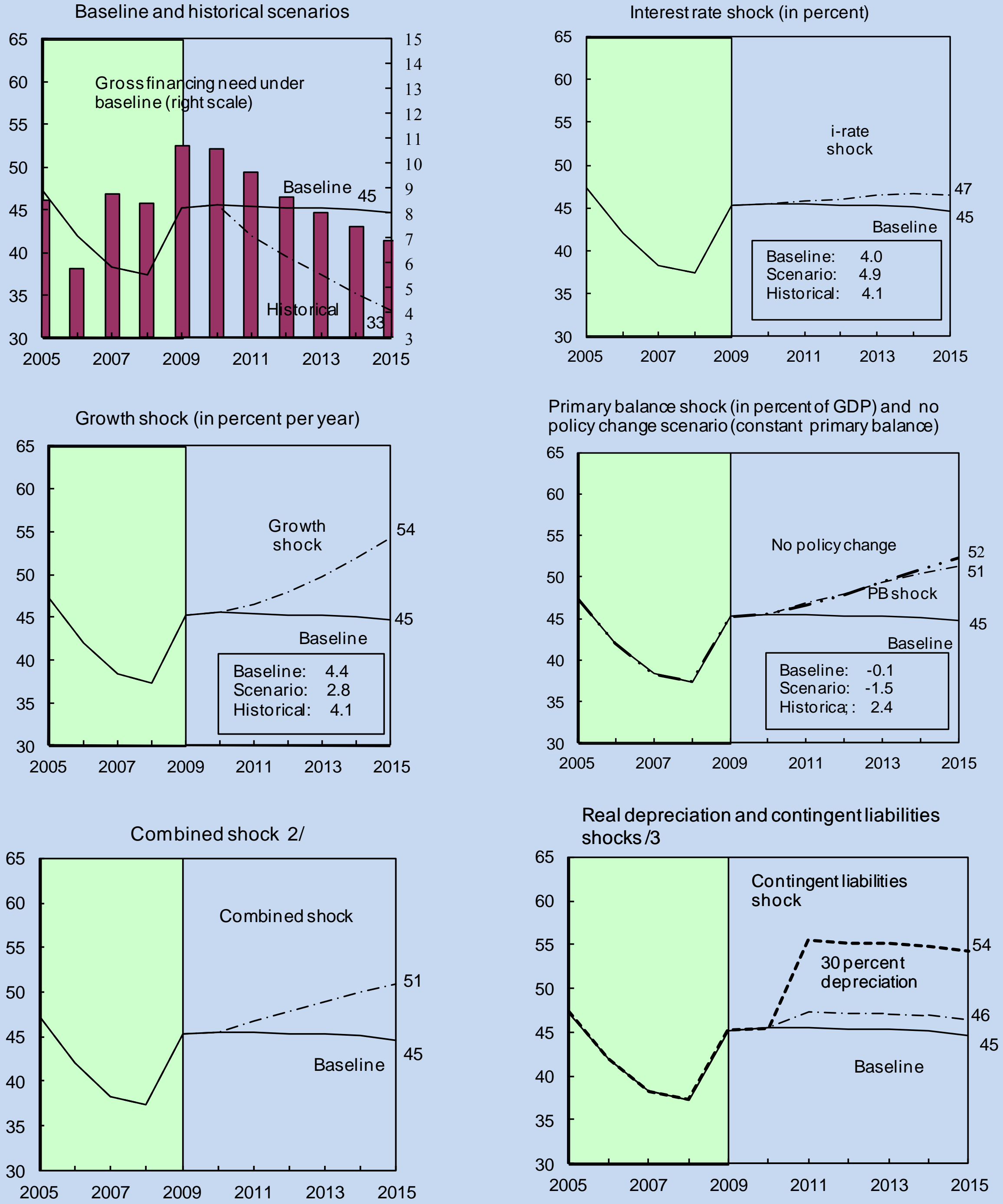
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure A1. Thailand: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund country desk data and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent one -quarter standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2011, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table A2. Thailand: External Debt Sustainability Framework, 2005–15

(In percent of GDP, unless otherwise indicated)

	2005	2006	2007	2008	2009	Projections 2010	2011	2012	2013	2014	2015	Debt-stabilizing noninterest current account 6/
Baseline: External debt	29.6	29.4	25.0	23.9	26.3	26.1	25.8	25.8	25.1	24.2	23.3	-1.5
Change in external debt	-2.3	-0.1	-4.4	-1.1	2.4	-0.2	-0.4	0.1	-0.8	-0.9	-0.9	
Identified external debt-creating flows (4+8+9)	-2.2	-9.2	-14.4	-1.2	-7.6	-5.3	-3.9	-3.6	-3.1	-2.6	-1.9	
Current account deficit, excluding interest payments	3.5	-2.1	-7.1	-1.2	-7.8	-3.9	-2.9	-2.4	-2.1	-1.4	-0.8	
Deficit in balance of goods and services	2.0	-2.7	-7.6	-1.8	-9.4	-4.7	-3.7	-3.1	-2.4	-1.7	-1.0	
Exports	73.4	73.7	73.5	76.6	68.6	68.9	70.8	72.1	73.1	74.0	74.9	
Imports	75.4	71.0	65.9	74.8	59.2	64.2	67.1	68.9	70.7	72.3	73.9	
Net nondebt creating capital inflows (negative)	-3.8	-3.7	-3.3	1.7	-0.7	0.0	-0.4	-0.5	-0.7	-0.7	-0.8	
Automatic debt dynamics 1/	-1.9	-3.4	-4.0	-1.7	0.9	-1.3	-0.7	-0.6	-0.3	-0.4	-0.3	
Contribution from nominal interest rate	0.9	1.0	0.8	0.6	0.1	0.4	0.3	0.4	0.7	0.7	0.8	
Contribution from real GDP growth	-1.3	-1.3	-1.2	-0.6	0.6	-1.7	-1.0	-1.0	-1.1	-1.1	-1.1	
Contribution from price and exchange rate changes 2/	-1.4	-3.1	-3.5	-1.8	0.2	...	...	...	...	...	...	
Residual, including change in gross foreign assets (2–3) 3/	-0.1	9.1	10.0	0.2	10.0	5.1	3.6	3.7	2.3	1.7	1.0	
External debt-to-exports ratio (in percent)	40.3	39.9	34.1	31.3	38.4	37.9	36.4	35.8	34.3	32.7	31.1	
Gross external financing need (in billions of US dollars) 4/	44.6	46.0	42.0	54.8	31.1	47.4	46.6	49.3	53.5	57.4	62.3	
In percent of GDP	25.3	22.2	17.0	20.1	11.8	15.4	14.4	14.4	14.6	14.7	14.9	
Scenario with key variables at their historical averages 5/						26.3	22.6	19.1	14.5	9.5	0.0	-2.1
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	4.6	5.1	4.9	2.5	-2.2	7.5	4.0	4.3	4.5	4.8	5.0	
GDP deflator in U.S. dollars (change in percent)	4.5	11.8	13.6	7.6	-0.9	8.6	1.3	1.3	2.0	2.1	2.1	
Nominal external interest rate (in percent)	2.9	3.9	3.1	2.6	0.4	1.6	1.3	1.6	3.1	3.0	3.7	
Growth of exports (U.S. dollar terms, in percent)	13.6	17.9	18.9	14.9	-13.2	17.2	8.1	7.6	8.1	8.3	8.4	
Growth of imports (U.S. dollar terms, in percent)	24.0	10.6	10.7	25.0	-23.3	26.6	10.0	8.6	9.4	9.4	9.5	
Current account balance, excluding interest payments	-3.5	2.1	7.1	1.2	7.8	3.9	2.9	2.4	2.1	1.4	0.8	
Net nondebt creating capital inflows	3.8	3.7	3.3	-1.7	0.7	0.0	0.4	0.5	0.7	0.7	0.8	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in U.S. dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

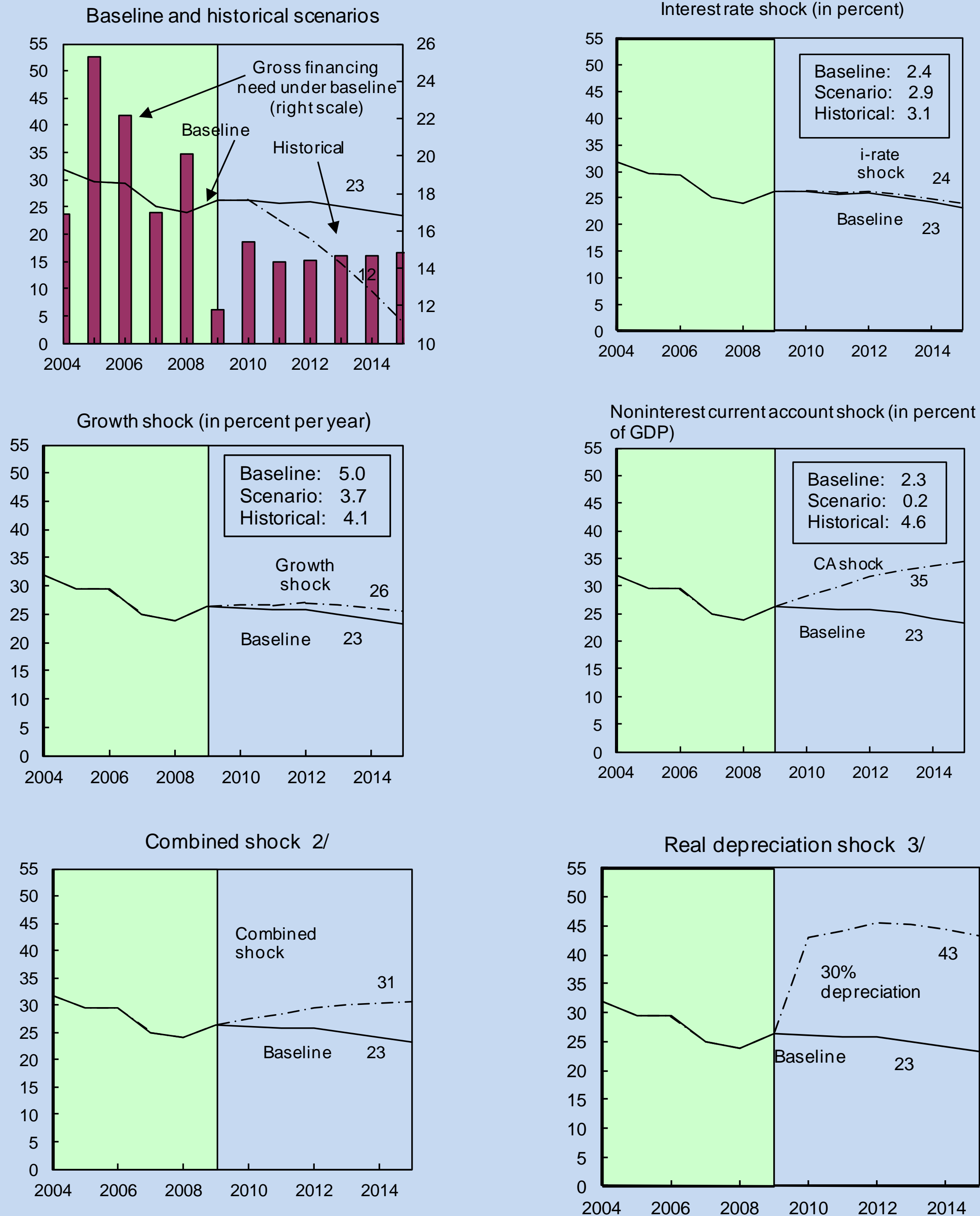
2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and nondebt inflows in percent of GDP) remain at their levels of the last projection year.



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2010. Assumes no impact on the current account.

INTERNATIONAL MONETARY FUND

THAILAND

Staff Report for the 2010 Article IV Consultation—Informational Annex

Prepared by the Asia and Pacific Department

September 3, 2010

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ANNEX I. THAILAND: FUND RELATIONS

(As of August 27, 2010)

I. **Membership Status**: Joined 05/03/1949; Article VIII.

II. **Article VIII Status**: Thailand has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

III. **General Resources Account**:	**SDR Million**	**% Quota**
Quota	1,081.90	100.00
Fund holdings of currency	851.83	78.73
Reserve position in Fund	230.07	21.27

IV. **SDR Department**:	**SDR Million**	**% Allocation**
Net cumulative allocation	970.27	100.00
Holdings	971.71	100.15

V. **Outstanding Purchases and Loans**: None

VI. **Financial Arrangements:**

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
1. Stand-By	8/20/97	6/19/2000	2,900.00	2,500.00
2. Stand-By	6/14/85	12/31/86	400.00	260.00

VII. **Projected Obligations to Fund (SDR Million, based on existing use of resources and present holdings of SDRs):**

	Forthcoming				
	2010	**2011**	**2012**	**2013**	**2014**
Principal					
Charges/Interest		0.01	0.01	0.01	0.01
Total		0.01	0.01	0.01	0.01

VIII. **Exchange Rate Arrangement**: After more than a decade when the baht was effectively pegged closely to the U.S. dollar through a basket of currencies, the

exchange rate regime was changed on July 2, 1997. The exchange rate system is now a floating exchange rate regime with occasional central bank intervention.

IX. **Last Article IV Consultation**: At the conclusion of the 2009 Article IV consultations last May, Executive Directors noted that Thailand's strong economic fundamentals would support the economy through the downturn. At the same time, they underlined the need to decisively implement policies to support domestic demand, and normalize the political situation to restore investor confidence. Directors found the increases in public deficits and debt appropriate from a countercyclical perspective, given that they would decline over the medium term. Directors welcomed the easing monetary policy stance, and recognized that the banking sector remained resilient through the global financial turmoil, owing to their strong initial positions and strengthened supervision by the Bank of Thailand.

X. **Recent Technical Assistance**:

FAD: A tax policy mission in July 2003 and a fiscal risks mission took place in July 2008. A preparatory mission for a fiscal ROSC took place in February 2005. A full fiscal ROSC mission took place in November 2008 and left a draft report with the authorities for comments. A mission to provide assistance on integrating state owned enterprises in fiscal accounts took place in November 2009.

LEG: In February 2004, LEG provided technical assistance (TA) in the areas of corporate insolvency and AML/CFT. In April 2006, a LEG mission visited Thailand to provide TA relating to the country's AML/CFT regime. An AML/CFT ROSC was completed during 2007. Further missions took place during 2009–10 to produce a national AML/CFT strategy for Thailand, as part of a three to five strategic partnership to improve Thailand's AML/CFT regime.

MCM: A TA mission on the operational framework for monetary policy took place in September 2003 and a mission on AML/CFT in February 2004. In 2008 a mission investigated the possibility of setting up a sovereign wealth fund. Training missions on monitoring macrofinancial risks using a contingent claims approach took place in October 2009 and April 2010. Long-term resident advisors on banking supervision have been assigned to the BOT since June 1998.

STA: TA missions on Government Finance Statistics took place in March 2002 and August 2003. A mission to assist preparation for a Data ROSC in 2004 took place in April 2003. A data dissemination seminar was held in March 2005. A data ROSC was completed in October 2005. A TA mission in BOP statistics took place in October 2006 and one on government finance statistics took place in November 2009.

XI. **Resident Representative**: The IMF office in Thailand, which had been operating since December 1, 1997, was closed in September 2003.

ANNEX II. THAILAND: BANK-FUND COLLABORATION

Thailand: JMAP Implementation Table			
Title	**Products**	**Provisional Timing of Missions**	**Expected Delivery Date (tentative)**
A. Mutual information on relevant work programs			
Bank work program	Thailand Economic Monitor (June and November 2010) Public Finance Management Report Revenue Policy Review	 September 2010	Published online in July 2010; next issue November 2010 May 2011 November 2010
IMF work program	2010 Article IV mission 2010 Fall Staff Visit	July 2010 November 2010	Board discussion expected in September 2010
B. Request for work program inputs			
Fund request to Bank	Assessment of macroeconomic developments and policies Information sharing	Semi-annual or more frequent Semi-annual or more frequent	Ongoing Ongoing
Bank request to Fund	Assessment of macroeconomic developments and policies Information sharing Peer reviewer for revenue policy review	Semi-annual or more frequent Semi-annual or more frequent	Ongoing Ongoing September 2010
C. Agreement on joint point products and missions			
Joint work program	Modular FSAP to assess the Specialized Financial Institutions of Thailand	Throughout 2010	Technical Notes are expected to be completed in first quarter of 2011

ANNEX III. THAILAND: RELATIONS WITH THE ASIAN DEVELOPMENT BANK[1]

(As of December 31, 2009)

Table 1. Loan Approvals and Disbursements to Thailand
(In millions of U.S. dollars)

	Number of Loans	Amount of Loans	Percent
Agriculture and natural resources	9	409.21	7.48
Education	5	160.72	2.94
Energy	29	1,677.30	30.66
Finance	11	744.50	13.61
Health and social protection	1	500.0	9.14
Industry and trade	3	90.46	1.65
Public sector management	—	—	—
Transport and ICT	18	1,291.60	23.61
Water supply and other municipal infrastructure and services	9	595.00	10.88
Multisector	1	1.38	0.03
Total	86	5,470.17	100.00

1/ Includes three private sector loans.

The Asian Development Bank (AsDB) pledged $1.2 billion at the Tokyo Meeting in August 1997 to support the government of Thailand's stabilization and structural adjustment program, focused on the financial and social sectors. Lending by the AsDB increased from $330 million in 1996 to $550 million in 1997, $630 million in 1998 (excluding guarantee operations of $950 million), and $364 million in 1999. From 2000 to 2002, no loans were made to the government. The government prepaid $918 million of AsDB's pool-based loans in 2002, $84 million in 2004, and $372 million in 2005. In 2009, GMS Highway Expansion Project, the first AsDB loan for Thailand since 1999, was approved in the amount of $77.1 million. As of 31 December 2009, about $61.62 million has been provided for more than 160 technical assistance projects covering a wide range of sectors and activities.

In 2009, AsDB approved a $5 million private sector loan and a $72.9 million partial credit guarantee to construct and operate a 12-megawatt biomass power plant using wood waste products as fuel to promote renewable energy in Thailand.

The opening of the Thailand Resident Mission in 2005 marked a new chapter in the country's long-standing relationship with AsDB. A Country Partnership Strategy 2007–11, a five-year partnership framework between the government and AsDB at national and regional levels, was completed in May 2007. The Country Operations Business Plan (2009–11), completed in 2009, reaffirmed that the core strategic areas of partnership in the CPS

[1] Prepared by AsDB staff.

2007–11 remain relevant and closely aligned with the Government policies and action plans to promote long-term, sustainable economic growth and social development.

Recognizing Thailand's emergence as a middle-income country, the CPS, at the national level, supports Thailand's efforts to enhance its competitiveness in the global economy and to promote higher levels of private sector investment. Core areas of partnership include development of infrastructure, capital markets, and environmental sustainability. At the regional level, the partnership focuses on increasing Thailand's role, capacity, and effectiveness as a development partner through cofinancing projects in neighboring countries, promoting subregional trade and investment, and further developing Asian bond markets.

Expansion of the partnership between Thailand and AsDB builds upon the recent successful implementation of major TA projects in 2009. AsDB supported the government effort to prepare a road map for introducing a single and common fare smartcard that can be used on the new mass rapid transit line. AsDB also supported the drafting of the new Capital Market Development Master Plan and the preparation toward the demutualization of the Stock Exchange of Thailand. An e-learning system network with 30 modules of e-learning content for basic education was developed through AsDB support, and 50 schools throughout the country now have access to the system network. Moreover, a capacity development project for provincial water supply enterprises in the Lao People's Democratic Republic, through knowledge sharing and technology transfer from Thailand, was undertaken jointly with AsDB. It enhanced Thailand's role as a regional development and capacity-building partner in the region.

ANNEX IV. THAILAND—STATISTICAL ISSUES As of August 2010	
I. Assessment of Data Adequacy for Surveillance	
General: Data provision is broadly adequate for surveillance. The authorities have continued to improve the quality and coverage of data, but dissemination of additional data would enhance the basis for macroeconomic policy analysis, particularly in the fiscal sector.	
National Accounts: The national accounts are broadly in line with the 1968 SNA, but are in the process of being updated to the 1993 SNA. While data coverage and methodology have improved, statistical discrepancies can be reduced further. **Price statistics**: The Bank of Thailand (BOT) publishes monthly price statistics and quarterly inflation reports with sufficient coverage for surveillance.	
Government finance statistics: The authorities provide data to the Fund consistent with the *Government Finance Statistics Manual, 2001* (GFSM 2001). Data are contributed to both the *Government Finance Statistics Yearbook* and the *International Finance Statistics*. However, general government fiscal data are only provided annually and more timely publication is desirable. In addition, GFSM 2001-based data is not available for the state enterprises, so the public sector balance is imperfectly calculated in GFSM 2001-basis. Given the growing importance of state enterprises having timely data on their operations is desirable for more effective surveillance. General government debt is not available either, and is desirable for more effective surveillance.	
Monetary statistics: The authorities submit the Standardized Reporting Forms (SRFs) for monetary statistics on a timely basis.	
Balance of payments: The methodology for compiling balance of payments data remains adequate, but the large errors and omissions point to weaknesses in data collection, including incomplete coverage of transactions by nonresidents in Thailand and by Thai residents abroad (other than banks) which mostly affect data on trade in services. There is a long lag in the dissemination of IIP data, which is available only on an annual basis. The last observation available is 2008. Data on external debt and debt service have significantly improved since the introduction of a quarterly survey of private nonbank external debt. However, the breakdown of debt service along the lines of external debt stocks and an amortization schedule of external debt would allow for more effective surveillance useful.	
II. Data Standards and Quality	
Subscriber to the Special Data Dissemination Standard (SDDS) since 1996.	Data ROSC published in April 2006.

Thailand: Table of Common Indicators Required for Surveillance

As of August 27, 2010

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]	Memo Items:	
						Data Quality – Methodological Soundness[7]	Data Quality – Accuracy and Reliability[8]
Exchange Rates	8/27/10	8/27/10	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	8/20/10	8/27/10	W	W	W		
Reserve/Base Money	8/20/10	8/27/10	W	W	W	O, O, LO, O	O, O, O, O, O
Broad Money	6/31/10	8/6/10	M	M	M		
Central Bank Balance Sheet	6/31/10	8/6/10	M	M	M		
Consolidated Balance Sheet of the Banking System	6/31/10	8/6/10	M	M	M		
Interest Rates[2]	7/31/10	8/6/10	D	D	D		
Consumer Price Index	7/31/10	8/4/10	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3]– General Government[4]	9/30/09	3/31/10	A	A	A	O,LO,O,LO	LO, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	7/31/10	8/27/10	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	5/28/10	6/30/10	M	M	M		
External Current Account Balance	7/31/10	8/23/10	M	M	M	O, LO,LO,LO	LO, O, O, O, LO
Exports and Imports of Goods and Services	7/31/10	8/19/10	M	M	M		
GDP/GNP	Q2 2010	8/23/10	Q	Q	Q	LO, LO, O, LO	O, O, LO, O, O
Gross External Debt	Q1 2010	6/30/10	Q	Q	Q		

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).
[7] Reflects the assessment provided in the data ROSC (published on April 10, 2006 and based on the findings of the mission that took place during October 3–17, 2005) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[8] Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment, and revision studies.

INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 10/387
FOR IMMEDIATE RELEASE
October 15, 2010

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2010 Article IV Consultation with Thailand

On September 17, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Thailand.[1]

Background

The Thai economy has been coming through two severe tests. The first test came when global trade collapsed following Lehman's failure in September 2008. This collapse had profound consequences for one of the world's most open economies, where exports account for more than 60 percent of GDP. By the first quarter of 2009, output had fallen by 7 percent year-on-year. Then, just as the economy was beginning to recover from this shock, politics intervened. In March 2010, a large political protest started in Bangkok, which stretched on until the end of May, periodically leading to outbreaks of violence. As a result, tourist arrivals, which generate about 6 percent of GDP, plunged. Confidence indicators fell, and households again reacted by slowing their consumption.

Yet the economy was able to absorb these blows—and stage a remarkable comeback. The recovery began in the second quarter of 2009, narrowly and tentatively. By the first quarter of 2010, it had progressed to the point where GDP had essentially regained its previous peak. The political turmoil then set the recovery back, but again the economy rebounded. Tourism quickly began to recover, while private consumption rapidly resumed its upward trend. Most significantly, the rebound in investment continued at a robust pace, never flagging, even during the protest period. Therefore, by the third quarter of 2010, it seemed that a sustainable recovery

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

was taking hold. International reserves have been climbing, surpassing US$160 billion by September 2010, and the real effective exchange rate has regained its pre-crisis peak reached in 2008.

A key factor behind this rapid recovery was the revival in global trade, starting in early 2009. This revival sparked a surge in Thailand's exports, even as imports remained depressed, pushing the current account from near balance into a 7¾ percent of GDP surplus in 2009. Vigorous export demand continued into 2010, and exporters were able to fill these orders, even during the political disturbances, because the industrial estates and ports were located far from the protest zone.

Another factor behind Thailand's recovery was its policy response, one of the most forceful in the region. Years of fiscal prudence and credible monetary management (reinforced by an inflation targeting framework) provided ample space for decisive action. The Bank of Thailand cut its policy rate by 250 basis points to a historically low level of 1¼ percent. Meanwhile, the government swiftly introduced a sequence of stimulus packages. The first package focused squarely on putting spending power in the hands of the population, partly through direct cash transfers, partly by waiving charges, such as the cost of electricity, for the poor. The second package expanded spending to include investment projects, particularly on infrastructure. Together, they imparted an estimated stimulus of 3 percent of GDP in the two fiscal years since 2007/2008.[2]

The most fundamental explanation for Thailand's rapid recovery, however, lies in its sound economic framework. The country entered the global crisis from a position of financial strength, on all sides—bank, corporate, and public. So, when the stress arrived, these sectors were able to withstand the blow, and once the overseas orders came back, they were ready to resume production. As this happened, the impetus quickly fed through to domestic demand, in stark contrast to some advanced countries, where households and financial institutions were beset by balance sheet problems.

Over the short term, Thailand should benefit from some further economic normalization, which will buoy growth over the next few quarters. As a result, growth this year should reach 7½ percent and 4 percent in 2011, with low inflation. However, downside risks remain: slowing growth in advanced countries could undermine the global recovery, while political uncertainty could weigh on domestic demand.

With the economy recovering, the authorities are starting to normalize the policy stance. After two years of fiscal stimulus, disbursements from the off-budget second stimulus package are scheduled to fall by nearly 2 percent of GDP next fiscal year, as the special bond funding authority nears exhaustion. But part of the stimulus measures will be transferred to the regular budget, reducing the estimated withdrawal to a manageable 1 percent of GDP. The overall public sector deficit should also fall by the same amount, to a projected 3½ percent of GDP.

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[2] Thailand's fiscal year runs from October 1 through September 30.

Meanwhile, the Bank of Thailand has initiated the normalization process, raising interest rates by 50 basis points to 1.75 percent in July-August.

Executive Board Assessment

Executive Directors observed that Thailand has made a remarkable comeback from the effects of the global crisis and the period of domestic political turmoil. Directors attributed this achievement to the authorities' forceful policy response, the revival of export demand, and sound economic fundamentals that have enabled the export recovery to feed through into renewed domestic demand. They noted that notwithstanding the current economic strength, the authorities face important challenges of nurturing the recovery into a sustained expansion and restoring the economy's dynamism.

Directors agreed that the immediate challenge is to normalize the policy stance, while ensuring that the recovery takes firm hold despite an uncertain global environment. In this context, they generally supported the government's plan to gradually scale back the fiscal stimulus and welcomed the Bank of Thailand's decision to start raising interest rates from their exceptionally low levels, as well as its intention to phase in further adjustments as evidence accumulates that the recovery is becoming entrenched.

Directors noted that, with the economy recovering rapidly, capital inflows could complicate policymaking. They broadly agreed that, in such circumstances, the exchange rate should be allowed to serve as a buffer. Most Directors also agreed that, should sustained inflows threaten to create asset bubbles, consideration could be given to introducing prudential measures and further liberalizing capital outflows.

For the medium term, Directors supported the authorities' ambitious reform agenda aimed at strengthening infrastructure and developing the financial sector to help restore economic dynamism and raise growth potential. Noting the limited budgetary resources to support reforms, Directors saw scope for reprioritizing expenditures, scaling back subsidies, widening the tax base and bringing the VAT rate back in line with regional peers. Directors also underscored the need to further improve implementation capacity for public investment.

Directors welcomed the authorities' plans to further develop financial markets and ease the financing constraints that have held back investment. They called for swift action to mitigate risks from government-owned specialized financial institutions by improving their risk assessment standards, strengthening supervision, and defining their role more clearly. Directors also recommended a gradual further opening of the financial system to foreign competition.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Thailand: Selected Economic Indicators, 2006–10

	2006	2007	2008	2009	Proj. 2010
Real GDP growth (percent)	5.1	4.9	2.5	-2.2	7.5
Inflation					
Headline CPI (period average, percent)	4.7	2.3	5.5	-0.9	3.0
Core CPI (period average, percent)	2.3	1.1	2.4	0.3	1.0
Saving and investment (percent of GDP)					
Gross domestic investment (excluding stocks)	28.1	26.4	27.4	24.4	26.1
Of which: private	21.1	19.5	20.8	17.9	18.0
Gross national saving	29.2	32.7	27.8	32.1	29.7
Of which: private, including statistical discrepancy	21.2	26.1	22.3	30.0	26.5
Fiscal accounts (percent of FY GDP) 1/					
Central government net lending/borrowing (budgetary)	-0.3	-1.4	-0.6	-4.2	-1.1
Revenue	18.6	17.9	18.1	17.0	17.8
Total expense	18.8	19.3	18.7	21.2	18.9
General government net lending/borrowing (consolidated) 2/	2.2	0.2	0.1	-3.2	-2.7
Public sector balance 3/	1.6	-0.5	-0.6	-3.6	-4.5
Public sector debt	43.5	39.5	37.3	45.2	45.5
Monetary accounts (end-period, percent change)					
Broad money growth	8.2	6.3	9.2	6.8	...
Private sector credit growth	4.5	4.8	8.8	2.5	...
Balance of payments (billions of U.S. dollars)					
Current account balance	2.3	15.7	1.2	20.3	11.0
(Percent of GDP)	1.1	6.3	0.4	7.7	3.6
Exports, f.o.b.	128	151	175	151	180
Growth rate (in dollar terms)	17.0	18.2	15.9	-14.0	19.6
Imports, c.i.f.	127	138	176	131	171
Growth rate (in dollar terms)	7.9	9.1	26.8	-25.2	29.9
Gross official reserves (end-year)	67.0	87.5	111.0	138.4	154.5
(Months of following year's imports)	5.8	6.0	10.1	9.7	9.9
Exchange rate (baht/U.S. dollar, period average)	37.9	34.5	33.3	34.3	...
External debt (in percent of GDP)	29.4	25.0	23.9	26.3	26.1
Debt-service ratio 4/	11.4	11.8	7.1	6.7	2.2

Sources: Data provided by the Thai authorities; and IMF staff estimates.

1/ The fiscal year begins on October 1.
2/ Includes budgetary central government, off-budget government spending (second stimulus package), extrabudgetary funds, and local governments.
3/ Fund staff estimate. Includes general government and nonfinancial public enterprises.
4/ Percent of exports of goods and services.

Statement by Duangmanee Vongpradhip, Executive Director for Thailand and Pariwat Kanithasen, Advisor to Executive Director

1. Thailand's observed economic resilience and stability, amidst an unprecedented confluence of external and domestic shocks, are not entirely surprising. They are the fruits of continued sound macroeconomic policy framework and ongoing efforts to strengthen the country's economic fundamentals. As rightly noted by staff, the Thai economy encountered the global downturn without any significant economic and financial stress, especially in the corporate and financial sectors. Moreover, the timely and sizeable fiscal and monetary policy responses have proven to effectively shore up economic activities and confidence during periods of economic and political uncertainties. Going forward, the sound policy framework will continue to focus on safeguarding macroeconomic and financial system stability while sustaining growth.

2. Since our authorities broadly concur with staff's assessment on the economic outlook and the overall thrust of policy recommendations, they wish to focus on some issues raised by staff for emphasis and clarification.

Economic outlook and macroeconomic policy

3. On growth and inflation outlook (based on the assessment in July 2010), while GDP is forecasted to expand by 6.5–7.5 percent in 2010 and 3.0–5.0 percent in 2011, the authorities expect that inflation will be contained within the policy target range. Core inflation is estimated to keep within 0.5–1.3 percent in 2010 and 2.0–3.0 percent in 2011. For headline inflation, the rate is estimated to range 2.5–3.8 percent in 2010, and 2.5–4.5 percent in 2011.

4. With overall recovery firming up and with increasingly bigger contribution from domestic demand, the authorities deem it appropriate to gradually normalize fiscal and monetary policies, while being mindful that the global economic recovery remains uncertain and fragile.

5. On the fiscal policy front**,** the fiscal policy space is considered to be adequate going forward. Our authorities share staff's view that Thailand's fiscal sustainability is not at risk. Despite the historically large stimulus packages, the ratio of public debt to GDP is expected to be stable and below 50 percent. This is a welcome development from last year's forecast that the public debt ratio would breach this threshold. The first stimulus package initiated in 2009, focusing on subsidy measures, has already been scaled back. Meanwhile, the authorities are working to enhance the efficiency of tax collection and broaden the tax base, which will raise the revenue to GDP ratio, in line of future spending needs, especially infrastructure investment. The government's fiscal sustainability objective is to achieve a balanced budget within five years.

6. For monetary policy, the Monetary Policy Committee's decisions to raise the policy interest rate at the last two meetings, totaling 50 basis points to 1.75 percent, have sent clear signals that an exceptionally accommodative monetary policy is no longer warranted. In fact, the rate hike could have been implemented sooner had the domestic political situation and uncertainty in the global financial markets not added significant risks to the recovery process during the first quarter of 2010. The gradual rate increase has also been implemented with a view to ensuring an orderly

adjustment by the private sector, as deposit and lending rates of financial institutions quickly responded to the policy rate increases. On the issue of "neutral" interest rate, any interpretation should be exercised with great caution. This is because the structures of financial markets as well as the real economy may have been altered by the impact of the crisis, to the extent that potential output and "neutral" interest rate could have declined.

7. The Thai baht has been allowed to adjust flexibly in line with economic fundamentals, and it has already appreciated significantly so far this year. On capital flow management, while the Fund has become more liberal in endorsing macro-prudential and other policy tools to manage excessive capital inflows, our authorities would welcome more in-depth studies by the Fund on ways to increase the effectiveness of as well as to reduce the market misperception on the use of these policy tools. This effort is especially crucial because managing large inflows is a global problem and common policy challenge for numerous emerging market economies whose growth prospects are comparatively strong in the present context of a multi-speed global recovery.

Medium-term challenges on infrastructure and financial sector development

8. Our authorities believe that ongoing efforts to strengthen the infrastructure and financial sector development will go a long way to revitalize our economic growth dynamism. On infrastructure investment, while the authorities acknowledge that there were delays in executing large-scale projects in the past, an increasing number of projects have been accelerated and completed. On Private-Public Partnerships (PPPs), to strengthen their role for financing infrastructure projects, the government has set up a steering committee to expedite the implementation of PPPs by establishing principal guidelines and prioritizing investment projects.

9. Both the Financial Sector Master Plan II (FSMP II) and the Capital Market Development Master Plan (CMDMP) are advancing as planned. For the FSMP II, many regulatory adjustments have been adopted to reduce cost and induce greater flexibility in banking operations as well as to improve risk management. Another recent accomplishment is the allowance for commercial banks to extend their scopes of business to include venture capital fund management. Progress has also been made on branch liberalization and approval of bank partnership with private firms to manage non-performing assets.

10. As for the CMDMP, a number of important milestones have already been attained within the targeted timelines, including partial liberalization of brokers' commission fees (with full liberalization being targeted for 2012), the framework governing the liberalization for cross-border sales of capital market products, the introduction of employee's choice for members of the Government Pension Fund, and the trading of interest rate futures (which is expected to complete later this year).

11. Lastly, the Thai authorities appreciate the candid and constructive dialogue with the mission team. They see the merit of a new report format that separately presents staff's and authorities' views.