August 2009
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Thailand: 2009 Article IV Consultation—Staff Report; Staff Statement; 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 2009 Article IV consultation with Thailand, the following documents have been released and are included in this package:

- The staff report for the 2009 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on April 3, 2009, 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 April 30, 2009. 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 staff statement of May 18, 2009, updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its May 18, 2009 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Thailand.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

THAILAND

Staff Report for the 2009 Article IV Consultation

Prepared by the Staff Representatives for the
2009 Consultation with Thailand

Approved by Kalpana Kochhar and Tessa van der Willigen

April 30, 2009

- **Consultation and team.** The 2009 Article IV consultation discussions with Thailand were held in Bangkok during March 23−April 3, 2009. The staff team consisted of Messrs. Weerasinghe (Head), Kalra, and Aiyar, and Ms. Ruiz-Arranz (all APD), and Mr. Gray (MCM). Messrs. Chua (Alternate Executive Director) and Kanithasen (Advisor, OED) participated in the discussions. The team met with Finance Minister Korn Chatikavanij, Bank of Thailand Governor Tarisa Watanagase, senior officials, and private sector representatives.
- **Prior consultations.** Macroeconomic policies in recent years have been broadly consistent with Fund advice. There have been significant strides in banking sector restructuring, and 2007 saw the passage of a number of financial sector laws. Implementation of public sector investment plans, especially for infrastructure, has been significantly delayed.
- **Exchange rate system.** Thailand maintains a floating exchange rate, under an inflation targeting regime. Thailand has accepted its obligations under Article VIII Sections 2, 3, and 4, and maintains an exchange rate regime free of restrictions on the making of payments and transfers for current international transactions.
- **Economic statistics.** Thailand's statistical base is adequate to conduct effective surveillance. Data issues are discussed in the Informational Annex.
- **Publication.** Staff reports have not been published thus far; PINs and selected issues papers have been published. The authorities have not yet indicated their consent to publication of this year's documents.

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EXECUTIVE SUMMARY

Unsettled domestic politics and the global recession are weighing on the Thai economy. After an extended period of domestic political turmoil, investor and consumer confidence are low. Coming on top of weak domestic demand, the global recession has significantly neutralized exports which have been the engine of growth in recent years. Growth has slowed in recent years and 2009 will see the first full-year decline in real GDP since the Asian crisis.

The decline in real GDP could be limited to 3 percent in 2009 by a significant fiscal stimulus. Private domestic demand is expected to remain weak and the global recession has eroded export growth. Fiscal stimulus from the 2008/09 budget can limit the contraction in growth. Risks to the near term outlook come from heightened political uncertainties, weak implementation of the fiscal stimulus, and a potentially sharper slowdown in external demand. With political stability, a restoration of domestic and external confidence, and full implementation of the public investment program, Thailand would be able to return to sustainable, high growth rates over the medium term.

The consultation discussions focused on policy measures to support growth, and on vulnerabilities in the financial and corporate sectors.

- **The government's fiscal stimulus plans are needed to support growth but a determined implementation of these plans is critical.** The increase in deficits and debt to finance the fiscal stimulus plans should be manageable over the medium term.

- **Sharp cuts in the policy rate by the Bank of Thailand (BOT) were timely.** There remains some scope for further rate cuts to provide support to economic activity. However, while banking system liquidity remains ample, the credit transmission mechanism is impaired by the higher risk aversion of banks. The BOT's intention to monitor market conditions when deciding on further rate cuts is appropriate.

- **Plans to guarantee credit expansion for SMEs and exporters are helpful in the current conjuncture.** These initiatives can help unblock credit expansion to these sectors by shaving credit risk for banks.

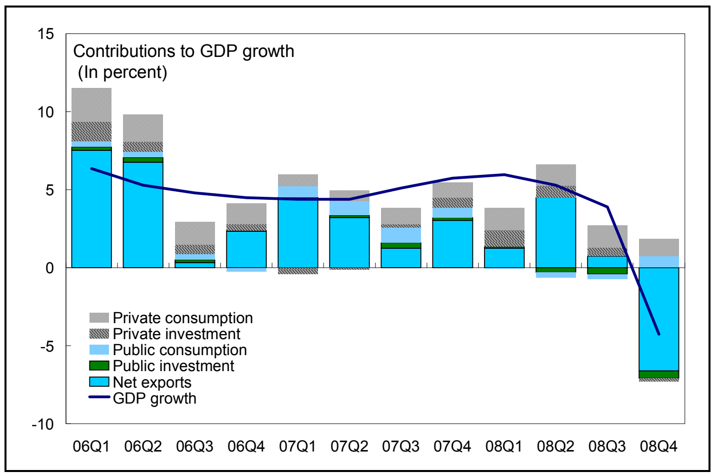
- **The financial and corporate sectors are in robust shape, but risks remain.** The likely deterioration in asset quality and balance sheets of banks could be absorbed for the foreseeable future by capital buffers. The corporate sector should also be able to ride out the downturn. Large corporates still have access to financing. Marginal SMEs are the most vulnerable to the deteriorating economic outlook but should get some relief from the credit guarantee schemes.

- **The level of the baht is broadly appropriate.** The BOT's continued commitment to a flexible exchange rate system is welcome.

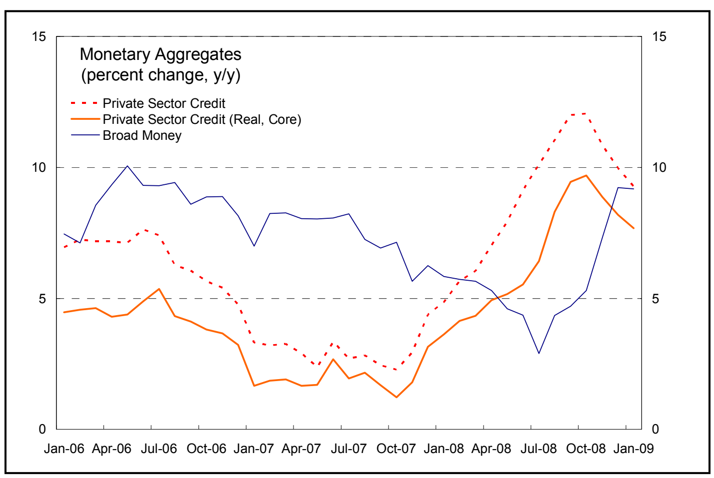
I. Macroeconomic and Market Developments

1. **After years of intense turmoil, the political temperature in Thailand remains high and private sector confidence is low.** Political turmoil—the ouster of the Thaksin administration in 2006 in a military coup, the return of Thaksin's allies to power in fresh elections in December 2007, the fall of two governments in 2008—has reduced business confidence to a ten-year low. Mr. Abhisit assumed the premiership in January 2009 at the head of the Democratic Party led coalition government. Simmering discontent of supporters of the ousted governments culminated in violent street protests in early April. The resulting decline in external sentiment led to downgrades by ratings agencies of Thailand's sovereign and local currency debt in mid-April.

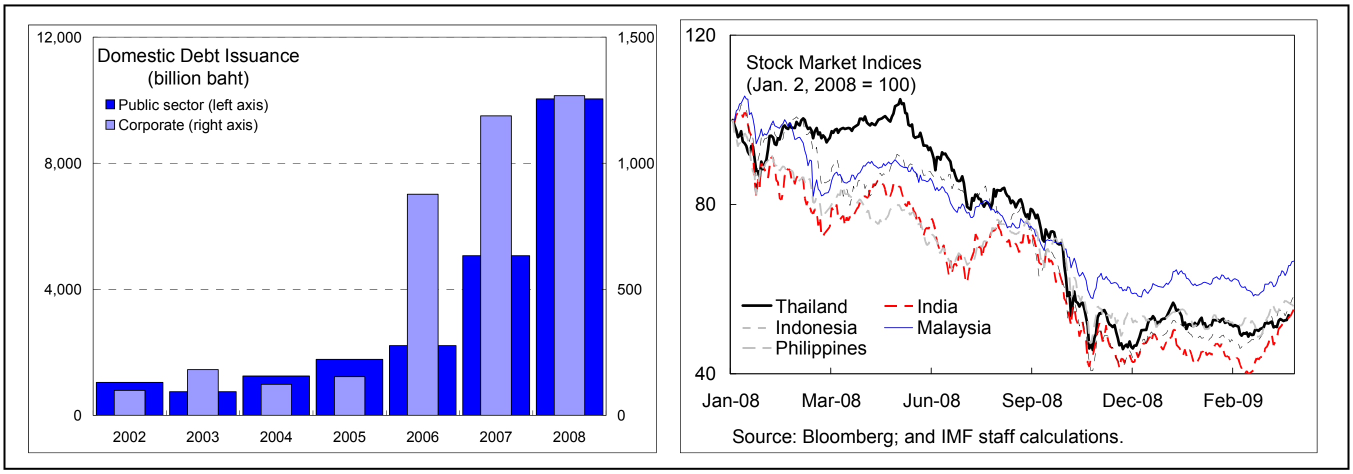
2. **Against this backdrop, strong headwinds from the global downturn reached Thailand in 2008Q4.** Domestically, Thailand has been in an investment slump since 2006. However, export performance had been resilient with average growth of over 10 percent during 2006-07, and helped keep real GDP growth strong. In a rapid turnaround, exports plunged in 2008Q4. As a result of this, and the domestic disturbances, real GDP fell sharply in 2008Q4. For 2008, growth slowed to a little over 2½ percent from around 5 percent during 2005-07 (Table 1, Figure 1).



3. **Developments in monetary aggregates reflected the slowdown in activity.** Private sector credit growth which had been on an accelerating trajectory since 2007Q3, peaked in October 2008. The bulk of this acceleration was related to a shift from external to domestic financing and higher working capital needs (due to rising oil and other input costs). Loan growth for capital investment stagnated. This rising trajectory ended in 2008Q4, and real private sector credit growth slowed.



4. **Financial markets reflected the impact of the global turmoil.** Tightening funding conditions abroad, the decline in interest rates at home, and deficit financing contributed to a significant expansion of the domestic bond market. Large corporates with sound credit entered the market, partly to refinance external borrowings and as a precaution in the face of the uncertain economic environment going forward. As a result, bond issuance surged in 2008. The stock market shared the downward trend with regional bourses. With the broad-scale pull back by foreign investors, the SET index fell by over 45 percent in 2008. Equity market volatility rose significantly in 2008Q3, before declining in Q4 (Figure 2).



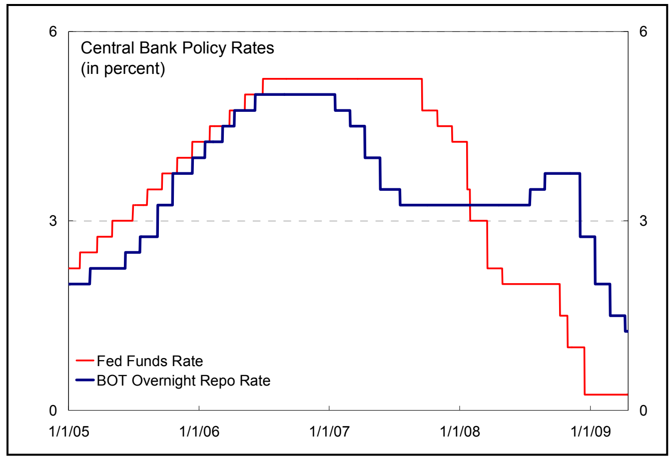
Source: Bloomberg; and IMF staff calculations.

5. **International reserves increased and the baht depreciated against the dollar.** Despite a balanced current account, a fall in FDI and net portfolio outflows, reserves increased (Table 3). This increase is attributable to strong inflows on the capital account generated by a reduction in the net foreign assets of commercial banks as banks switched from perceived high-risk assets abroad to domestic assets. As regards the exchange rate, following the removal of capital controls in March 2008, the baht initially appreciated in 2008Q1. Since then, global risk aversion has contributed to a stronger dollar and the baht has depreciated in line with other regional currencies. International reserves increased by US$23¼ billion to US$111 billion at end-2008 (about 9 months of imports), with almost all the accumulation occurring during 2008Q1. In 2009Q1, a trade surplus has contributed to an increase in reserves to US$115¾ billion at mid-April.

6. **Monetary policy kept pace with the shifting economic environment but risk aversion in the banking system rose.**

- Headline inflation (period average) rose to 5½ percent in 2008 from 2¼ percent in 2007, reflecting the rapid run-up in global oil and commodity prices. Core inflation also doubled to 2¼ percent. Inflationary pressures have moderated significantly since 2008Q4 with the onset of a declining trend in global oil prices.

- With the ebb and flow of inflationary pressures and growth prospects, the Monetary Policy Committee adjusted its policy rate. The target policy rate was raised by 50 basis points between June and August. In December 2008, citing a moderation in inflationary pressures and headwinds to growth—the deepening global and exports slowdown, and unsettled domestic politics—the policy rate was reduced by a larger-than-expected 100 basis points to 2¾ percent. The rate was further lowered by another 150 basis points to 1¼ percent by April 2009.



- Alongside, commercial banks interest rates declined, but net interest margins were broadly unchanged. Banks lowered lending and deposit rates with the decline in the policy rate. However, the unchanged net interest margins suggests an attempt by banks to cushion profitability at a time of declining activity. In an attempt to ensure that reductions in the policy rate translated into lower lending rates, the BOT urged commercial banks—with some effect—to cut their lending rates. Notwithstanding some decline in rates, with low loan demand and banks' risk aversion, private sector credit growth has remained subdued.

7. **Fiscal stance tightened in 2007/08 as budgetary spending fell short of the target.**[1] The central government budget posted a deficit of about ½ percent of GDP due mainly to capital underspending (budgeted deficit was 1¼ percent of GDP). The general government surplus rose to ¾ percent of GDP (from a deficit of ¼ percent of GDP in 2006/07), and the overall public sector was in balance.

II. Outlook and Risks

8. **The decline in real GDP could be limited to 3 percent in 2009 by a significant fiscal stimulus.**[2] The global recession is projected to generate a sharp contraction in net exports while supportive fiscal policy would limit, but not eliminate, the contraction in domestic demand. Both consumption and investment are projected to fall. Negative growth in private consumption—in line with falling real incomes—will be partially offset by growth in

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[1] Fiscal year is October-September.

[2] The BOT and MOF projections are for real GDP declines of 1½–3½ percent and 2½–3½ percent, respectively.

public consumption. Similarly, a sharp contraction in private investment will be partially offset by growth in public investment. Alongside, the decline in oil prices is expected to lead to a significant moderation in headline and core inflation. For 2009, market observers expect core inflation to remain well within the target band of 0−3½ percent.

9. **A small current account surplus is projected for 2009 on account of an improvement in the terms of trade while the financial account is projected to turn negative.** Both exports and imports are projected to contract sharply in real terms. However, with a concentration in hard-hit cyclical sectors such as automobiles and electronics, the fall in exports is expected to be larger, with import demand sustained by the large fiscal stimulus. The terms of trade are forecast to improve mainly due to a fall in oil prices. The financial account is projected to turn negative, reversing the pattern of 2008: FDI is projected to decline, net portfolio outflows would likely continue and the large reduction in NFA of commercial banks that occurred in 2008 is expected to be partially reversed as domestic banks replenish assets abroad. With these developments, international reserves would decline but remain high at around 8 months of imports (about 360 percent of short-term debt), providing a substantial cushion against sudden stop or capital reversal scenarios.[3]

10. **A recovery in the global economy and public investment would support growth beyond 2009.** For 2010, domestic demand is expected to be a key contributor to growth, with a substantial contribution from public investment. Starting in 2010H2, the recovery in Thailand's main trading partners can be expected to stimulate a recovery in private investment and a rebound in exports. This would be balanced by a strong recovery in imports. Together with a gradual deterioration in the terms of trade as energy prices rise, the current account is projected to move to a small deficit over time. Infrastructure spending is expected to generate public sector deficits but public debt is projected to remain within sustainable limits. Over the medium term, growth could converge to a potential rate of 5−6 percent. These positive developments, like the near-term outlook, are contingent on supportive macroeconomic policies and a turnaround in the global economy.

11. **Risks to near-term growth are tilted to the downside.** The country remains deeply polarized, and the heightened political turmoil continues to erode business and consumer sentiment. A sharper slowdown in trading partner countries could further dampen the investment climate and risk aversion, apart from its direct impact through the trade channel. Domestically, weak implementation of budget investment plans would constrain the size of the fiscal stimulus.

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[3] In 2009, gross financing needs are estimated at about US$34½ billion. Of this, US$24 billion comprises short-term debt, on which a 70 percent rollover rate is assumed.

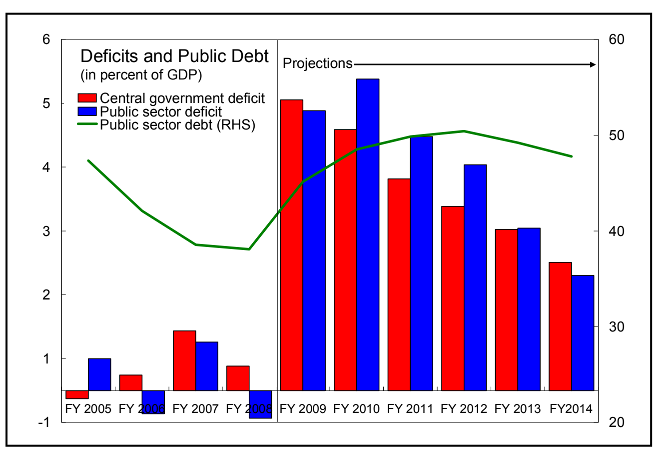
III. Policy Discussions

The discussions focused on measures to address the impact of the global crisis and support growth. These included policies to stimulate domestic demand, especially to provide a fiscal stimulus, and a supportive monetary stance. Discussions also focused on the need to ensure credit growth for vulnerable sectors and financial and corporate sectors' vulnerabilities to the growth slowdown and the worsened external environment.

A. Macroeconomic Policies

12. **Overall, there was agreement that the policy challenge is to limit the downdraft from the global recession and maintain macroeconomic stability.** Raising investor and consumer confidence will be key in the near term. The political turmoil of 2008, continued unrest in 2009, and frequent changes in government have taken a heavy toll on investor sentiment and dampened external perceptions of Thailand. A credible end to the political unrest and resumption of government activity is essential to a recovery in private sector confidence. As regards macroeconomic policies for 2009, the fiscal stimulus package would contribute to higher growth. Over the medium term, effective implementation of infrastructure investment would complement the recovery in exports and private demand. In addition, measures to enhance infrastructure and social sector spending to increase physical and human capital and raise total factor productivity would raise the growth potential.

13. **Staff welcomed the fiscal stimulus plans for 2008/09.** The central government budget deficit is expected to widen to 4½ percent of GDP from ½ percent of GDP in 2007/08. Of the total change in the fiscal deficit, around 2½ percent is estimated to be from fiscal stimulus measures, the remainder from the operation of automatic stabilizers (Box 1). The size and composition of the fiscal stimulus are broadly appropriate and will help support growth in the second half of 2009. The public sector deficit will also likely widen as local administrations and state-owned enterprises are expected to provide further stimulus, particularly in the form of accelerated investment. The combination of higher deficit and guarantees for credit expansion will lead to an increase in the ratio to GDP of public (and publicly guaranteed) debt by about 7 percentage points of GDP to 45 percent in 2008/09 (Appendix I).

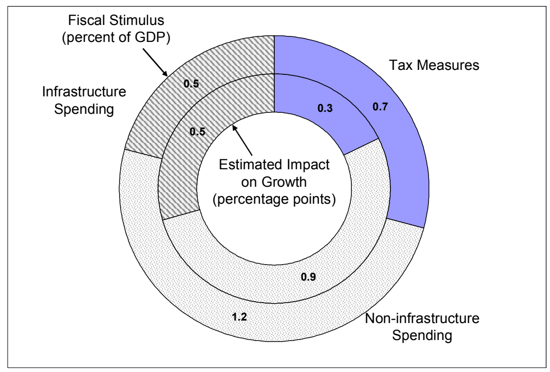


14. **Given the expected length and depth of the global downturn, there was agreement that fiscal policy should use the available space to remain expansionary during 2009/10.** The government announced in March an investment plan of 1.6 trillion baht

Box 1. Fiscal Stimulus

Thailand has adopted fiscal stimulus measures to counter the ongoing economic downturn and help cushion its impact on vulnerable groups. The budgetary fiscal stimulus in 2008/09 is estimated at around 2.4 percent of GDP and is aimed at supporting domestic demand in the near-term. This includes a stimulus package focused on transfers and subsidies of around 1 percent of GDP (approved in a supplementary budget in early January), as well as tax measures and increased public investment. The government approved in March a medium-term stimulus package of B1.6 trillion focused on infrastructure investment over the next three years.

Change in Central Government Fiscal Deficit (2008/09 over 2007/08, in percent of GDP)	
Fiscal stimulus	2.4
Tax measures	0.7
Spending measures	1.7
Of which:	
Public infrastructure	0.5
Automatic stabilizers	1.8
Total	4.2



The size and composition of the combined fiscal stimulus package aim to support growth starting in the second half of 2009. About half of the fiscal stimulus in 2008/09 is expected to come from income support measures (transfers and subsidies), 30 percent from discretionary tax measures and the remainder from infrastructure investment. The advantage of transfers/subsidies, which are aimed at credit-constrained and vulnerable groups, is that they are quick disbursing, would have an immediate impact on domestic demand, and would help to kick-start growth.

In addition, the authorities intend to expand public sector investment over the medium term. The government has adopted a public investment plan of B1.6 trillion over the next three years. As a result, public sector investment is expected to increase by 1½ percentage points of GDP in 2009/10 relative to 2007/08. In the medium-term, public investment would be the most effective way to stimulate the economy. Public investment, especially in infrastructure, has advantages over other types of spending as the associated multiplier is likely higher and as is necessary from a medium-term growth perspective.

The impact on growth in 2009 and 2010 depends critically on the implementation of spending plans, especially public infrastructure investment. Underspending relative to budget targets reflects, in part, the conservative approach to fiscal policy since the Asian Crisis. In recent years, this has been compounded by political problems which have contributed to delays in project implementation. The challenge going forward will be to ensure speedy, efficient, and full implementation, thus improving on the authorities' past record of spending shortfalls. Staff estimate that the impact of the stimulus package on growth in 2009 could be between 1 and 2¼ percentage points.

for the next three years. On current plans, the central government deficit for 2009/10 is estimated to decline slightly to 4 percent, but the overall public sector deficit is expected to widen to 5 percent on account of higher infrastructure investment by public enterprises. To ensure that fiscal policy continues to maintain a supportive stance, staff suggested that public sector investment be allowed to increase by at least 1½ percentage points of GDP relative to 2007/08. Implementation of these plans would require a significant contribution from public enterprises, foreign borrowing, and intensive use of public private partnerships. Thailand's public debt is currently at moderate levels, and staff projections suggest that with the higher deficits, the debt ratio will rise through 2011/12 but fall thereafter as growth picks up.

15. **Financing the higher deficits would require adjustments to mandatory ceilings, external borrowing, and stronger efforts to tap the domestic bond market.** With the significant revenue shortfall and the higher planned spending from the stimulus package, the authorities intend to temporarily raise the domestic borrowing limits to finance a higher fiscal deficit.[4] In addition, the government has accessed US$2 billion in financing from the World Bank, AsDB, and JBIC. As regards domestic issuance, even though there is sufficient liquidity in the banks, there is a limited appetite for public debt at longer maturities. To tap this liquidity, market participants noted that the authorities would need to make additional efforts to tap retail investor demand for longer duration government bonds through higher yields or innovative products (such as floating rate bonds).

16. **With global monetary easing, the BOT considered that there was some remaining scope for further cuts in the policy rate.** Staff welcomed the BOT interest rate cuts since December 2008 as timely. With a global recovery likely to be delayed, exports collapsing, and inflationary pressures having abated significantly, the BOT maintained that there was some space for monetary policy to be further accommodative of growth. However, it was also mindful that the impact of monetary policy may be limited by feedback loops from the weaker real economy and the current excess liquidity in the financial system; in addition, with headline inflation in negative territory for the last two months, the effectiveness of monetary policy is likely to have diminished as the policy rate moves towards zero. Going forward, the BOT intended to balance these considerations in determining the size and timing of further cuts in the policy rate.

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[4] The current law limits new borrowing to cover a budget deficit to 20 percent of annual budget expenditures, plus 80 percent of principal repayment due. New borrowings can come only from domestic sources. Guarantees on state enterprise borrowings are limited to 20 percent of annual budget expenditures. External borrowing can be for economic and social development only, and is limited to 10 percent of annual expenditures.

17. **To address gaps in the credit transmission mechanism, the government intends to guarantee portions of loan portfolios of banks for exporters and SMEs through state financial institutions (SFIs).**[5] With these sectors worst hit by the economic slowdown and heightened risk aversion of the banks, the guarantees would help to underwrite continued credit expansion to the marginal SMEs. The guarantees are to be extended through the Small Business Credit Guarantee Corporation (SBCG) and the EXIM bank, and involve risk-sharing among banks and the SFIs for NPLs related to new loans to these sectors. The guarantees are available for 5 years and 3 years for SBCG and EXIM bank, respectively.

B. Financial and Corporate Sector Vulnerabilities

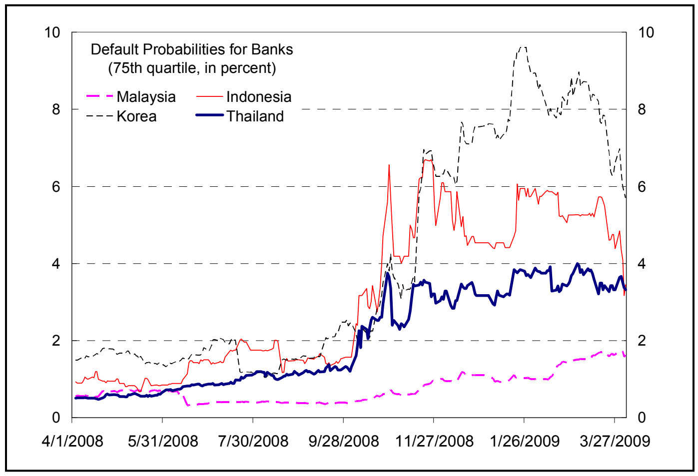
18. **Banks and corporates entered the global turmoil with robust balance sheets.**

- Favorable initial conditions—stronger balance sheets, limited exposure to subprime-related and structured products, ample domestic liquidity, and reliance predominantly on domestic deposits for funding—have helped the Thai banking system withstand the turmoil in global financial markets. Banks are well capitalized (14¼ percent CAR at end-2008 compared to 8½ percent minimum requirement), have had positive operating profits, and NPLs have been falling for several years (Figure 3). Improvements in risk management and caution in business strategy also contributed to the strong position of banks as they entered the global and domestic economic downturn. The extension of full deposit insurance through 2011 has helped to shore up depositor confidence in the banking system.

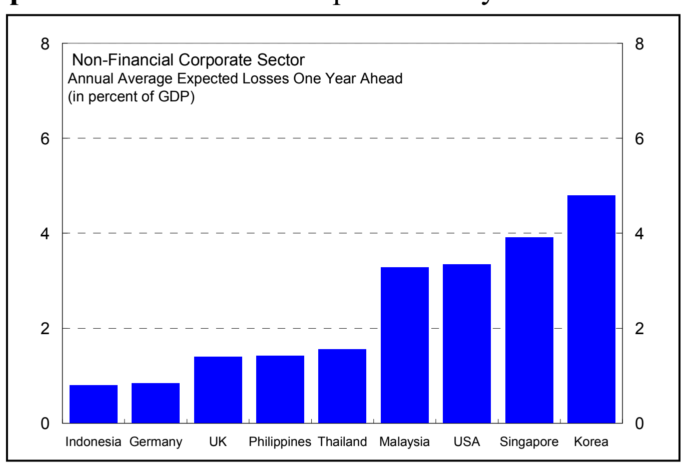
- Similarly, the corporate sector entered the current economic slowdown with moderate leverage and strong balance sheets. Large corporates continued to have access to bank financing and increased domestic bond issuance. However, SMEs have been negatively affected by the downturn, especially in the export sector. Electronics, automobiles, and tourism sectors have been the hardest hit.

[5] The Portfolio Guarantee Scheme operated by the SBCG will extend guarantees on loans portfolios of banks to SMEs up to a total of B30 billion, for credit expansion of B60–100 billion. To this end, the government will inject B3 billion of new capital into the SBCG. Banks' customers will pay a fee for the guarantee, and banks will share default risk with the SBCG (the first 12 percent of the NPLs would be fully covered by the SBCG, with a lower proportion of the defaults covered beyond the first 12 percent along a graduated scale). The EXIM bank would receive a capital injection of B5 billion to extend loans up to B150 billion per year over the 3 years.

19. **The global recession and declining domestic growth in 2009 are expected to adversely affect bank balance sheets.** There is a likelihood of a deterioration in asset quality and higher NPLs, especially on account of SMEs. Banks continued to provide loans to large corporates in 2009Q1, but are reducing their overall lending targets. In addition, banks are restructuring loans of potentially viable SME customers to prevent a surge in NPLs. A comparison of banking sector risk across countries shows that for Thailand, one-quarter of the banks have one-year default probabilities greater than 3−4 percent, comparatively lower than some other Asian countries (Appendix II). To assess the vulnerability of banks to the various shocks, the BOT has conducted stress tests on banks' balance sheets under tight assumptions, including on the higher credit risk and lower growth. These tests indicate that while NPLs are likely to increase going forward as growth slows and the asset quality of the banks' portfolios deteriorates, the capital adequacy ratio of most banks would remain above minimum requirement. However, the tests suggest that only a few banks may experience difficulties and these banks have been or are being recapitalized.



20. **Expected default probabilities in the corporate sector have increased since 2008Q4 but remain low relative to comparators.** The median expected one-year default probability for listed corporates in Thailand increased from ½ percent in mid-2008 to 1¼ percent in early 2009. In addition, expected 1-year ahead corporate sector losses in Thailand stood at 1½ percent of GDP. These estimates are consistent with anecdotal evidence that some large corporates are experiencing worsening demand conditions. Smaller SMEs are also experiencing weak demand, but with limited buffers are also facing more serious challenges to remain afloat.



C. External Competitiveness and the Exchange Rate

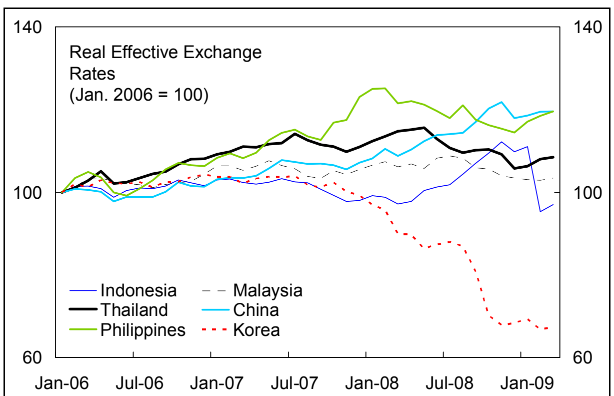
21. **The authorities agreed with staff's assessment that Thailand's real effective exchange rate (REER) is broadly in line with fundamentals.** Preliminary CGER estimates suggests that the baht is not misaligned, with the Macro Balance (MB) and External Sustainability (ES) methodologies suggesting that the baht is close to equilibrium. The Equilibrium Real Exchange Rate (ERER) methodology suggests a small undervaluation. These estimates are consistent with market expectations, based on forward rates and consensus private sector forecasts, of a broadly stable REER.

Thailand: CGER Assessment of REER

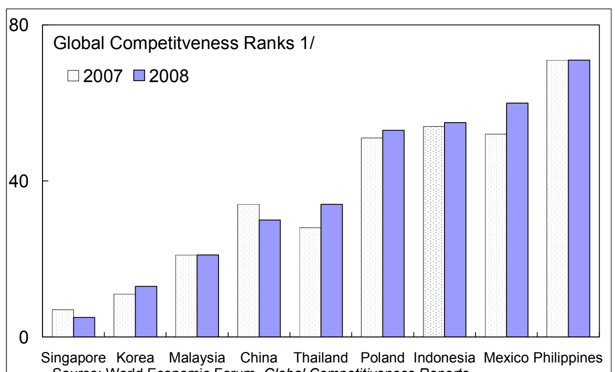
	Macro Balance	External Sustainability	ERER
Misalignment (in percent)	-1	-1	-12

(+ = overvaluation)

22. **Thailand's real exchange rate has recently moved largely in line with the rest of the region.** Most regional currencies have depreciated against the U.S. dollar, due to deleveraging and a flight to safety. This nominal depreciation has driven a corresponding depreciation in the REER. The movement of the Thai baht since the second quarter of 2008—in both nominal and real terms—is therefore part of a region-wide trend. Meanwhile survey-based methods indicate that Thailand remains broadly competitive against the region and other emerging markets. The BOT underscored its commitment to a flexible exchange rate, with intervention only to smooth excessive volatility.



Source: IMF, *Information Notice System*.



Source: World Economic Forum, *Global Competitiveness Reports*
1/ Rank out of 134 economies.

IV. Staff Appraisal

23. **Unsettled domestic politics and the global recession are weighing heavily on the Thai economy.** As a result of the extended period of political uncertainty, investor and consumer confidence are low. The global recession has significantly neutralized exports as an engine of growth. Growth has slowed in recent years and 2009 will see the first full-year decline in real GDP since the Asian crisis. Risks to the near term outlook are significant, and

come from heightened political uncertainties, weak implementation of the fiscal stimulus, and a potentially sharper slowdown in external demand. With political stability, a restoration of confidence, and full implementation of the public investment program, Thailand would return to sustainable, high growth rates over the medium term.

24. **Restoring market confidence remains key in the near term.** While some of the desired increase in confidence can come from a normalization of the political situation, a determined implementation of policies, especially those related to public investment, can also help to enhance confidence in Thailand's economic prospects.

25. **The government's fiscal stimulus plans are welcome but a determined implementation of these plans is critical.** With domestic demand weak and external demand faltering, public spending holds the key to limiting the downturn in growth. Budgetary measures, including those in the supplementary budget, and automatic stabilizers will help to limit the decline in real GDP in 2009. In this context, an early start on the three-year public investment program is highly recommended. This would help to support demand beyond 2009, and help kick-start public infrastructure projects which are vital to higher medium-term growth.

26. **The increase in deficits and debt to finance the fiscal stimulus plans should be manageable over the medium term.** Given the available fiscal space, these higher deficits and debt levels are appropriate from a countercyclical perspective and would decline over the medium term as growth pick up. The authorities intention to raise the mandatory ceilings to finance the deficits is appropriate and the temporary nature of these measures is an indication of Thailand's continued commitment to fiscal sustainability.

27. **Sharp cuts in the policy rate by the BOT were timely.** Some scope remains for further rate cuts to complete the easing cycle and provide additional support to activity. However, while banking system liquidity remains ample, the credit transmission mechanism is impaired by elevated risk aversion of banks. Hence, the BOT's intention to gauge the effectiveness of recent reductions in the policy rate in deciding on further cuts is appropriate.

28. **Plans to guarantee credit expansion for SMEs and exporters are helpful in the current conjuncture.** These initiatives can help unblock credit expansion to these sectors by shaving credit risk for banks. The emphasis in these schemes on risk sharing between commercial banks and SFIs and a time limit for their operation are welcome features.

29. **The financial sector is in robust shape, but risks remain.** The strong initial position of the banks and strong supervisory efforts of the BOT have helped the sector weather the global financial turmoil so far. In addition, the proactive efforts of the banks to deal with potential defaults through advance loan restructurings are also helpful in the current circumstances. Going forward, the slowing economy and stress on their clients' balance sheets and cash flows are likely to lead to deterioration in asset quality for the banks. While

the banks should be able to ride out the downturn given their capital buffers, continued close BOT supervision is warranted.

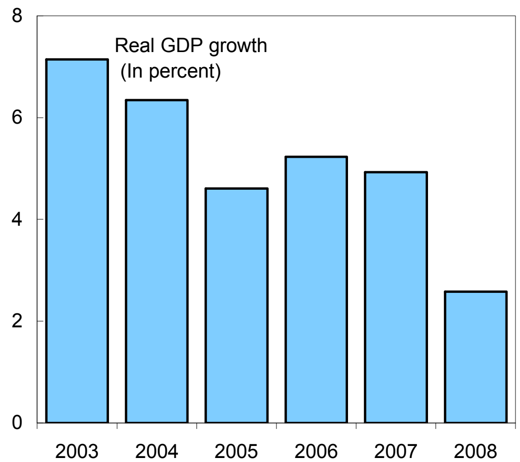
30. **Although vulnerable, the corporate sector should also be able to ride out the downturn.** Large corporates have low leverage, still have access to domestic bank financing, and have made precautionary financing arrangements in the domestic bond market even as external financing has become more difficult. Marginal SMEs are the most vulnerable to the deteriorating economic outlook but should get some relief from the credit guarantee schemes.

31. **The level of the baht is broadly appropriate.** Recent REER movements have been in line with regional peers, and the baht's real effective value is consistent with fundamentals. The BOT's continued commitment to a flexible exchange rate system is welcome.

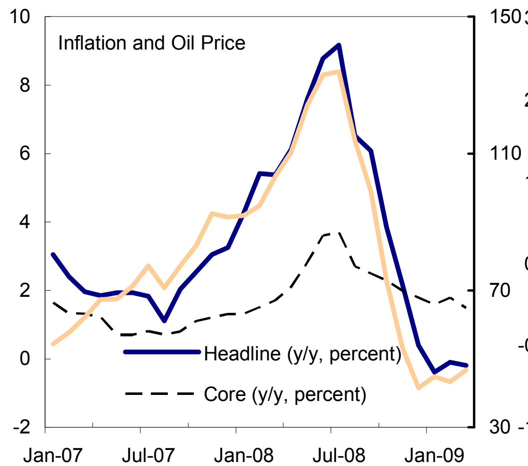
32. **It is recommended that Thailand remain on the 12–month consultation cycle.**

Figure 1. Thailand: Macroeconomic Developments

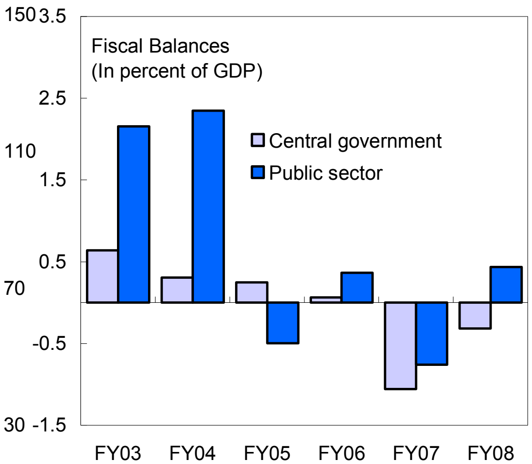
Growth fell sharply in 2008.



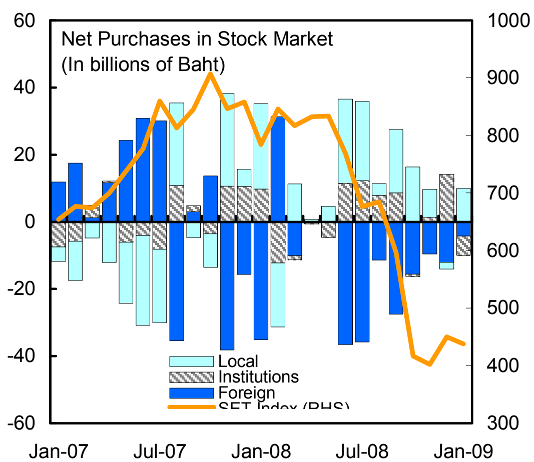
Inflation subsided in 2008Q4



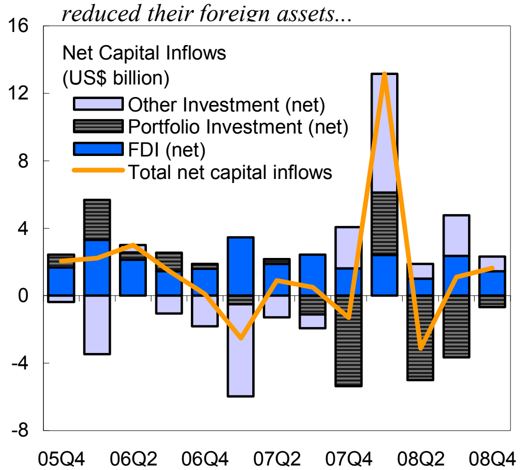
Fiscal policy tightened.



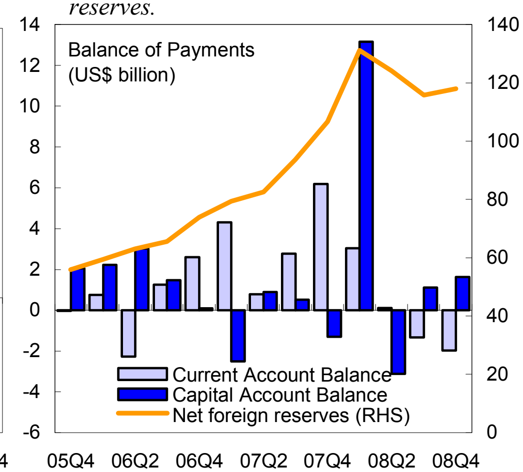
With the foreign pull-out, the SET fell.



Net capital inflows increased as banks reduced their foreign assets...

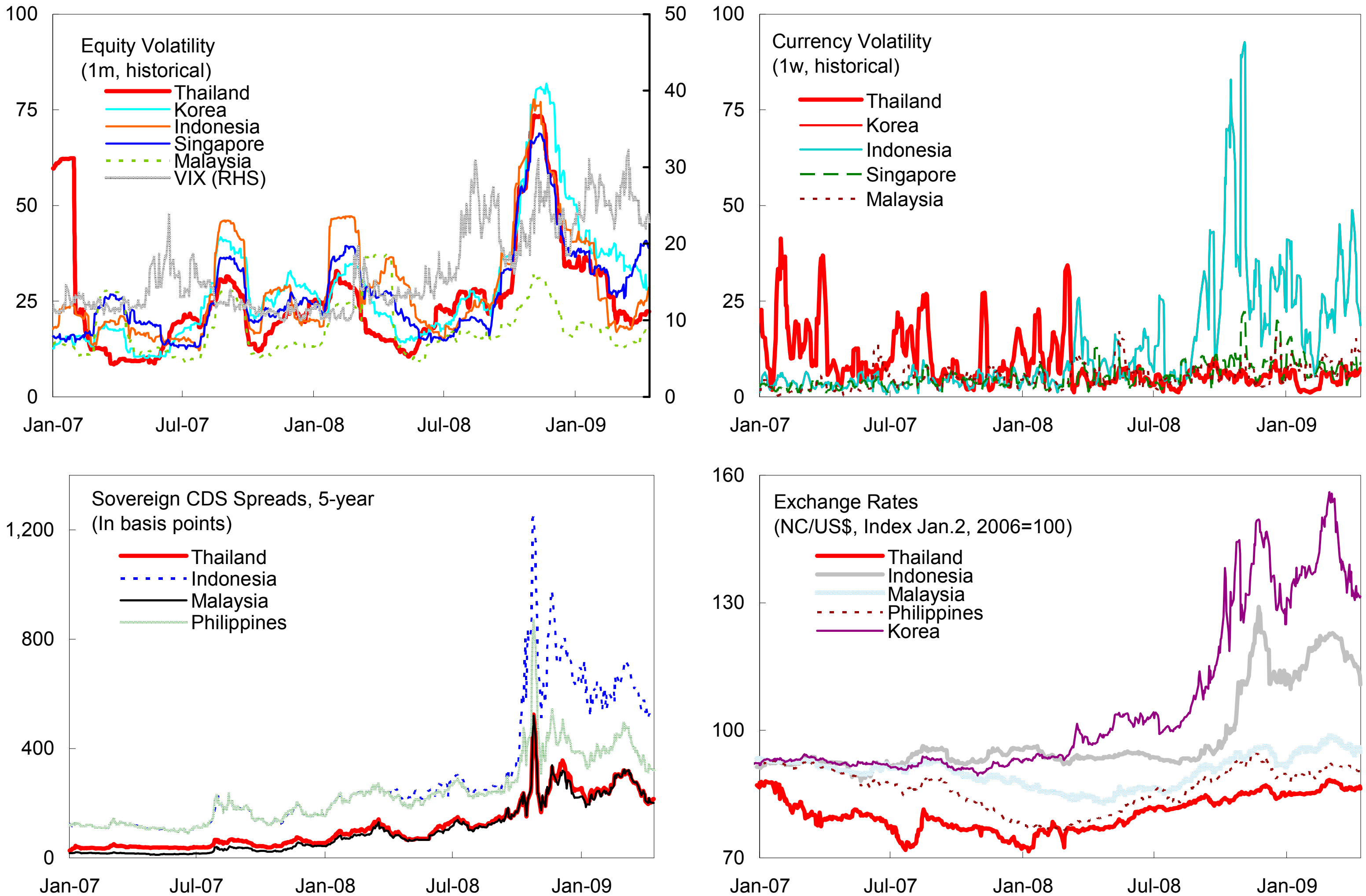


...leading to a rise in international reserves.



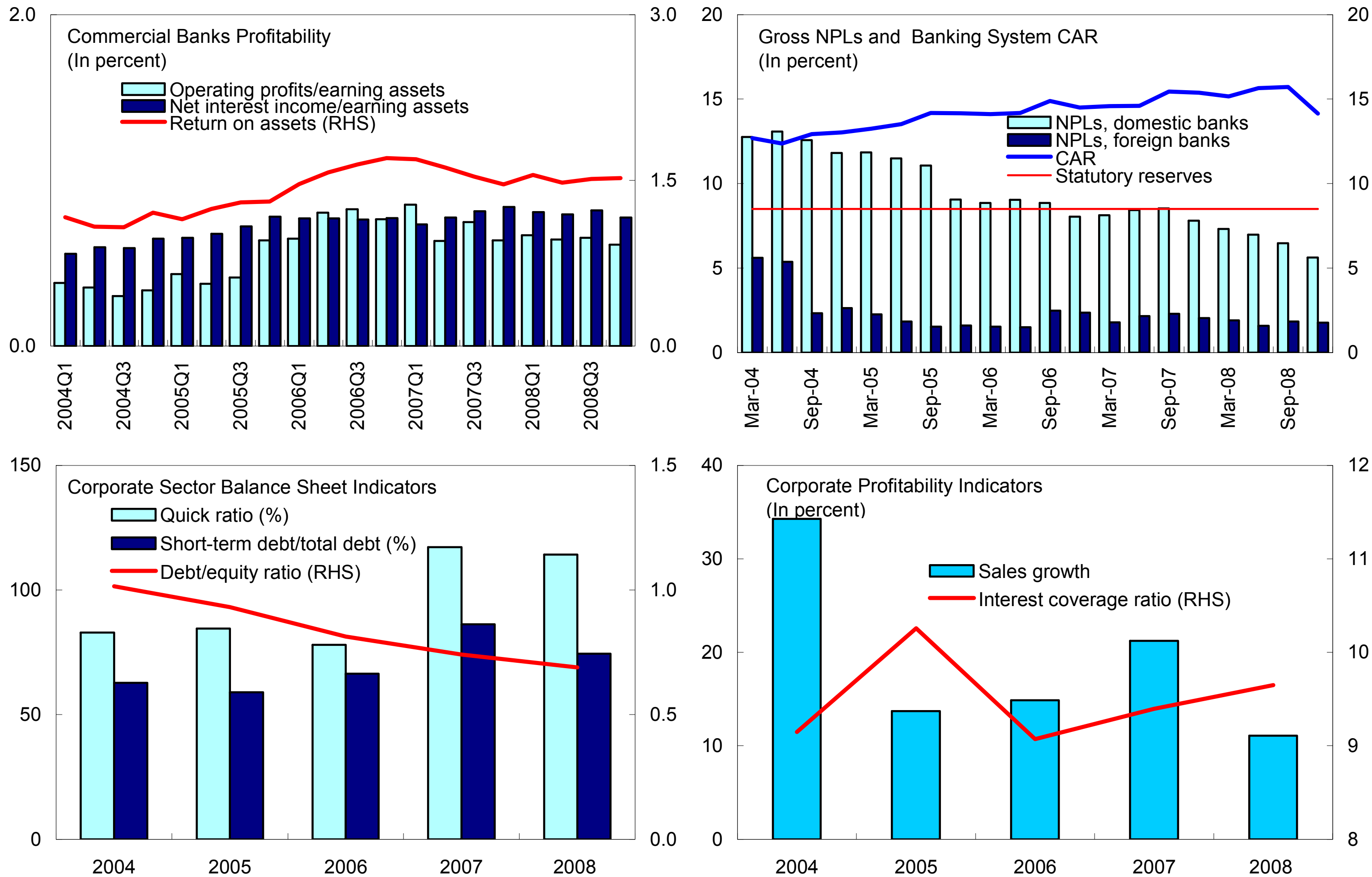
Sources: CEIC Database; Bloomberg data; Bank of Thailand; and IMF staff calculations.

Figure 2. Thailand: Financial Market and Regional Developments



Sources: Bloomberg; CEIC Database; and Fund staff calculations.

Figure 3. Thailand: Banking and Corporate Sector Developments



Sources: CEIC database; Worldscopes; Thai authorities; and Fund staff calculations.

Table 1. Thailand: Selected Economic Indicators, 2005–09

	2005	2006	2007	Est. 2008	Proj. 2009
Real GDP growth (percent)	4.6	5.2	4.9	2.6	-3.0
Inflation					
Headline CPI (period average, percent)	4.5	4.6	2.2	5.5	0.5
Core CPI (period average, percent)	1.5	2.3	1.1	2.4	1.7
Saving and investment (percent of GDP)					
Gross domestic investment (excl stocks)	28.9	28.0	26.5	27.3	26.6
Private	21.8	21.1	19.6	20.8	19.1
Public	7.1	6.9	6.8	6.5	7.5
Gross national saving	24.6	29.1	32.2	27.3	27.2
Private, including statistical discrepancy	18.2	22.1	25.7	20.8	22.0
Public	6.4	6.9	6.5	6.5	5.2
Foreign saving	4.3	-1.1	-5.7	0.1	-0.6
Fiscal accounts (percent of GDP) 1/					
Central government budgetary balance	0.1	-0.2	-1.1	-0.4	-4.6
Revenue and grants	17.7	17.5	17.4	17.3	15.3
Expenditure and net lending	17.6	17.7	18.4	17.7	19.9
General government balance 2/	1.2	1.0	-0.2	0.8	-4.0
Public sector balance 3/	0.1	0.8	-0.8	0.0	-4.4
Public sector debt	47.3	42.1	38.6	38.1	45.1
Monetary accounts (end-period, percent) 4/					
Broad money growth	6.1	8.2	6.3	9.2	...
Narrow money growth	7.3	2.4	9.7	4.1	...
Private sector credit growth	8.0	4.5	4.8	8.8	...
Balance of payments (billions of U.S. dollars)					
Current account balance	-7.6	2.2	14.0	-0.2	1.6
(Percent of GDP)	-4.3	1.1	5.7	-0.1	0.6
Exports, f.o.b.	109	128	150	175	150
Growth rate (in dollar terms)	15.2	17.0	17.3	16.8	-14.5
Imports, c.i.f.	118	127	138	175	147
Growth rate (in dollar terms)	25.8	7.9	9.1	26.4	-15.9
Capital and financial account balance 5/	13.1	10.6	3.1	24.9	-5.6
Overall balance	5.4	12.7	17.1	24.7	-4.0
Gross official reserves (end-year)	52.1	67.0	87.6	110.9	106.9
(Months of following year's imports)	4.9	5.8	6.2	8.8	7.9
(Percent of maturing external debt)	163.9	175.9	229.3	299.3	361.2
Exchange rate (baht/U.S. dollar)	40.2	37.9	34.5	33.3	...
NEER appreciation (12-month basis)	-0.5	6.2	6.5	5.4	...
REER appreciation (12-month basis)	1.8	8.9	6.6	5.7	...
External debt					
(In percent of GDP)	29.5	28.9	25.2	23.6	25.7
(In billions of U.S. dollars)	52.0	59.6	61.7	64.4	68.8
Public sector	14.0	14.1	12.0	12.6	15.3
Private sector	38.0	45.6	49.7	51.9	53.5
Debt-service ratio 6/	10.9	11.4	11.9	6.9	8.0

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

1/ On a cash and fiscal year basis. The fiscal year ends on September 30. For 2009, 2008/09 budget, staff estimates.
2/ Includes budgetary central government, extrabudgetary funds, and local governments.
3/ Includes general government and nonfinancial public enterprises.
4/ Figures for 2005 are percentage changes, December 2005 over December 2004.
5/ Includes errors and omissions.
6/ Percent of exports of goods and services.

Table 2. Thailand: General Government Operations, 2003/04–2008/09 1/
(In percent of GDP, unless otherwise stated)

	2003/04	2004/05	2005/06	2006/07	2007/08 Provisional	2008/09 Proj.
I. Central government						
Total revenue and grants 2/	17.8	17.7	17.5	17.4	17.3	15.3
Tax revenue	16.0	16.6	16.3	16.2	16.0	14.4
Taxes on income and profits	6.5	6.7	7.0	6.9	7.0	6.6
Taxes on consumption 3/	7.6	8.1	7.5	7.4	7.2	6.4
Taxes on international trade	1.6	1.5	1.5	1.5	1.5	1.1
Other taxes	0.3	0.3	0.3	0.3	0.3	0.2
Nontax revenue	1.8	1.1	1.2	1.3	1.2	0.9
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending 2/	17.5	17.6	17.7	18.4	17.7	19.9
Current expenditure	14.3	13.8	13.6	14.7	13.7	15.5
Wages and salaries	5.8	6.2	5.8	6.0	5.8	6.4
Interest	1.3	1.3	1.2	1.2	1.2	1.6
Other goods and services	2.9	2.9	3.4	3.5	3.6	3.6
Subsidies and current transfers	4.2	3.3	3.2	4.0	3.1	4.0
Capital expenditure	3.1	3.8	4.0	3.8	3.9	4.4
Net lending	0.0	0.0	0.0	0.0	0.0	0.0
Central government budgetary balance 2/	0.3	0.1	-0.2	-1.1	-0.4	-4.6
Nonbudgetary balance 2/	0.0	0.1	0.3	-0.1	0.1	0.1
Central government balance 2/	0.3	0.2	0.1	-1.1	-0.3	-4.5
Extrabudgetary funds 4/	0.0	0.3	0.8	0.9	0.6	0.3
Consolidated central government balance	0.2	0.5	0.8	-0.3	0.3	-4.2
II. Local government balance 2/	0.8	0.6	0.2	0.1	0.5	0.2
III. General government balance	1.1	1.2	1.0	-0.2	0.8	-4.0
IV. Nonfinancial public enterprise balance	0.7	-1.0	-0.2	-0.7	-0.7	-0.3
Retained income	2.8	2.1	2.0	2.0	1.7	2.2
Capital expenditure	2.1	3.1	2.2	2.7	2.5	2.6
V. Public sector balance	1.8	0.1	0.8	-0.8	0.0	-4.4
Memorandum items:						
GDP (in billions of baht) 5/	6,321.1	6,922.7	7,680.6	8,241.8	8,950.4	8,989.1
Primary central government balance	1.6	1.5	1.3	0.1	1.0	-2.9
Total public debt	49.5	47.3	42.1	38.6	38.1	45.1

Sources: Fund staff estimates except for items labeled as footnote 2 that were provided by the Bank of Thailand.
1/ The fiscal year runs from October 1 to September 30. Differs from GFS in the treatment of financial sector restructuring costs in that government principal costs are excluded. This table is compiled on a cash basis.
2/ Data provided by the Bank of Thailand.
3/ For 2000/01 and beyond, the transfer of VAT under the Decentralization Act is shown as local instead of central government revenue. Central government revenue projections have been revised downward to exclude the transfer of VAT for the Decentralization Act.
4/ Extrabudgetary funds comprise Social Security Fund, Oil Fund, and Village Fund.
5/ GDP is computed using one quarter of previous year GDP and three quarters of current year GDP, as a proxy for fiscal year GDP.

Table 3. Thailand: Balance of Payments, 2007–2014

(In billion of U.S. dollars, unless otherwise stated)

	2007	2008	2009	2010	2011	2012	2013	2014
			Projection					
1. Current account balance	14.0	-0.2	1.6	0.5	0.0	-0.7	-1.2	-1.6
(In percent of GDP)	5.7	-0.1	0.6	0.2	0.0	-0.2	-0.3	-0.4
Trade balance	11.6	0.2	2.8	-2.2	-4.7	-6.4	-7.1	-8.5
Exports, f.o.b.	150.0	175.3	150.0	160.2	176.2	194.4	214.6	236.7
Imports, c.i.f.	138.5	175.1	147.2	162.4	180.9	200.7	221.8	245.2
Of which: Oil and oil products	25.7	37.1	19.3	23.4	26.3	28.6	31.1	33.7
Services	5.9	4.8	4.4	6.3	8.2	9.1	9.8	10.9
Income and transfers	-3.4	-5.2	-5.5	-3.5	-3.5	-3.5	-3.8	-4.0
2. Capital and financial account balance	-2.4	12.8	-5.6	2.2	4.1	6.6	9.1	9.0
Foreign direct investment, net	9.4	7.7	7.1	7.7	9.0	9.5	9.6	10.8
Portfolio investment, net	-6.7	-5.8	-3.7	2.1	2.8	5.0	5.6	5.5
Other investment, net	-5.1	10.9	-9.0	-7.6	-7.7	-7.9	-6.2	-7.2
Of which: Net foreign assets of banks	-1.1	8.1	-6.7	-5.7	-5.7	-5.9	-4.6	-5.3
3. Errors and omissions	5.5	12.1	0.0	0.0	0.0	0.0	0.0	0.0
4. Overall balance =1+2+3	17.1	24.7	-4.0	2.7	4.1	5.9	7.9	7.4
5. Changes in official reserves (increase = -)	-17.1	-24.7	4.0	-2.7	-4.1	-5.9	-7.9	-7.4
Memorandum items								
Gross official reserves (US$ billion)	87.6	110.9	106.9	109.6	113.7	119.6	127.5	134.9
(In months of following year's imports)	6.0	9.0	7.9	7.3	6.8	6.5	6.3	6.1
(In percent of short-term debt) 1/	255	299	361	412	450	465	492	506
Export growth	17.3	16.8	-14.5	6.8	10.0	10.3	10.4	10.3
Export volume growth	11.5	7.9	-8.3	4.5	8.2	8.5	8.6	8.6
Export unit value growth	5.2	8.3	-6.7	2.2	1.7	1.7	1.7	1.5
Import growth	9.1	26.4	-15.9	10.3	11.4	10.9	10.5	10.6
Import volume growth	3.9	13.3	-6.0	5.2	8.1	8.4	8.0	8.2
Import unit value growth	5.0	11.6	-10.5	4.9	3.0	2.4	2.2	2.2
Change in terms of trade	0.3	-3.0	4.2	-2.6	-1.3	-0.7	-0.6	-0.6
External debt/GDP	25.2	23.6	25.7	27.0	28.2	26.9	25.4	21.9
(In billions of U.S. dollars)	61.7	64.4	68.8	75.4	83.8	85.7	87.5	81.5
Debt-service ratio 2/	11.9	6.9	8.0	7.2	6.5	6.0	5.5	5.0
GDP (US$ billion)	245.3	272.5	267.8	279.2	296.8	318.8	344.4	371.6

Sources: Based on data provided by the Thai authorities; and Fund staff estimates and projections.

1/ With remaining maturity of one year or less.

2/ In percent of exports of goods and services.

Table 4. Thailand: Monetary Survey, 2006–09

	2006 Dec	2007 Dec	2008 Dec	2009 Jan	2009 Feb	2009 Mar
	(In billions of baht)					
Bank of Thailand						
Net foreign assets	2,381	2,956	3,877	3,846	4,064	4,118
Net dometic assets	-1,515	-2,022	-2,837	-2,878	-3,092	-3,143
Of which : Other items (net)	-1,061	-1,394	-1,562	-1,445	-1,502	-1,497
Narrow money	911	1,000	1,041	1,036	1,040	1,033
Currency in circulation	653	720	752	753	764	747
Deposits at Bank of Thailand	259	280	289	283	276	287
Reserve money - Monetary base (M0)	865	934	1,040	968	972	974
Monetary Survey						
Net foreign assets	2,952	3,599	4,142	4,146	4,375	4,477
Net domestic assets	5,622	5,511	5,807	5,904	5,836	5,731
Domestic credit	8,546	8,884	9,566	9,518	9,501	9,462
Net credit to central government	97	132	203	206	226	212
Credit to nonfinancial public enterprises	313	348	325	339	343	344
Credit to financial corporations	665	574	519	489	475	477
Total credit to private sector	7,469	7,826	8,513	8,478	8,452	8,424
Credit to other nonfinancial corporations	3,708	3,775	4,135	4,063	4,037	3,983
Credit to other resident sector	3,760	4,051	4,378	4,415	4,415	4,442
Other items (net)	-2,925	-3,373	-3,759	-3,614	-3,665	-3,731
Broad money	8,573	9,109	9,949	10,050	10,211	10,208
Currency	653	720	752	753	764	747
Deposits	259	280	289	283	276	287
Quasi money	7,662	8,110	8,907	9,013	9,171	9,175
Memorandum items						
Broad money growth (y/y percent change)	8.2	6.3	9.2	9.4	9.5	8.7
Narrow money growth (y/y percent change)	2.4	9.7	4.1	6.7	5.0	3.2
Credit to private sector growth (y/y percent change)	4.5	4.8	8.8	8.7	7.4	6.6
Contribution to broad money growth	8.2	6.3	9.2	9.4	9.5	8.7
NFA	7.0	7.5	6.0	5.2	7.2	7.2
NDA	1.1	-1.3	3.3	4.2	2.3	1.5
Domestic credit	1.2	3.9	7.5	7.3	6.0	5.3

Sources: Bank of Thailand.; and IMF staff calculations.

Table 5. Thailand: Selected Vulnerability Indicators, 2005–08

	2005	2006	2007	2008 1/	Latest observation
Key economic and market indicators					
Real GDP growth (in percent)	4.6	5.2	4.9	2.6	Est.
CPI inflation (period average, in percent)	4.5	4.6	2.2	5.5	Act.
Short-term (ST) interest rate (in percent)	2.7	5.0	3.3	1.5	Act.
Exchange rate NC/US$ (end of period)	41.1	36.0	33.8	34.9	Act.
External sector					
Exchange rate regime			Floating		
Current account balance (percent of GDP)	-4.3	1.1	5.7	-0.1	Est.
Net FDI inflows (percent of GDP)	4.3	3.9	3.8	2.8	Est.
Exports (percentage change of US$ value, GNFS)	13.6	17.9	18.1	15.9	Est.
Real effective exchange rate (1995 = 100)	80.8	88.0	93.8	94.0	Est.
Gross international reserves (GIR) in US$ billion	52.1	67.0	87.6	110.9	Act.
GIR in percent of ST debt at remaining maturity (RM)	163.9	175.9	254.7	299.3	Est.
Total gross external debt (ED) in percent of GDP	29.5	28.9	25.2	23.6	Est.
Of which: ST external debt (original maturity, in percent of total ED)	30.7	29.8	35.0	36.8	Est.
ED of domestic private sector (in percent of total ED)	73.1	76.4	80.5	80.5	Est.
ED to foreign official sector (in percent of total ED)	5.5	4.3	5.7	7.6	Est.
Total gross external debt in percent of exports of GNFS	40.2	39.0	34.2	30.8	Est.
Gross external financing requirement (in US$ billion) 2/	32.4	29.6	21.9	28.7	Est.
Public sector (PS) 3/					
Overall balance (percent of GDP)	0.1	0.8	-0.8	0.0	Act.
Primary balance (percent of GDP)	1.5	1.3	0.1	1.0	Act.
Debt-stabilizing primary balance (percent of GDP) 4/	-2.4	-2.9	-2.3	-2.8	Est.
Gross PS financing requirement (in percent of GDP) 5/	10.4	7.4	8.8	7.8	Est.
Public sector gross debt (PSGD, in percent of GDP)	47.3	42.1	38.6	38.1	Act.
Exposed to exchange rate risk (in percent of total PSGD) 6/	8.7	6.6	5.0	4.2	Est.
Financial sector soundness indicators 7/					
Regulatory capital to risk-weighted assets	13.2	13.6	14.8	13.8	Dec-08
Tier 1 Capital to risk-weighted assets	9.9	10.7	11.9	10.7	Dec-08
Nonperforming loans to total loans	9.1	8.1	7.9	5.7	Dec-08
Loan loss reserves to nonperforming loans	83.7	82.7	86.5	97.9	Dec-08
Return on average assets (before tax and provisioning)	1.9	1.9	1.7	2.0	Dec-08
Return on average assets (after tax)	1.4	0.8	0.1	1.0	Dec-08
Return on equity (after tax)	16.1	8.6	1.0	10.6	Dec-08
Noninterest income/total income	21.0	17.9	16.5	18.5	Dec-08
Operating expenses/net interest income and dividend	72.4	78.4	80.9	74.5	Dec-08
FX deposits (in percent of total deposits)	1.5	1.7	1.1	0.9	Dec-08
FX loans to residents (in percent of total loans)	5.1	2.8	1.6	1.5	Dec-08
Net open forex position (in percent of total capital)	6.8	6.1	0.4	2.9	Dec-08
Loans to deposits ratio	88.1	87.4	92.3	93.9	Dec-08
Liquidity to deposits and borrowings ratio	18.2	16.7	19.6	24.2	Dec-08
Credit to private sector (percent change)	7.7	4.5	4.8	8.8	Dec-08
Memorandum item:					
Nominal GDP (In US$ billion)	176.4	207.0	246.1	273.2	Est.

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

1/ Staff estimates, projections, or latest available observations as indicated in the last column.
2/ Current account deficit plus amortization of external debt.
3/ Public sector covers: General government and guaranteed liabilities of SOEs.
4/ Based on averages for the last five years for the relevant variables (i.e., growth, interest rates).
5/ Overall balance plus debt amortization.
6/ Debt.
7/ Data for locally incorporated banks and excludes retail banks, foreign branches and subsidiaries.

Table 6. Thailand: Medium-Term Scenario, 2008–2014

	Est.	Projections					
	2008	2009	2010	2011	2012	2013	2014
Real GDP growth (percent)	2.6	-3.0	1.0	4.0	5.0	6.0	6.0
Consumption	2.2	-0.2	0.7	1.9	2.9	4.4	4.4
Gross fixed investment	1.1	-0.9	2.0	4.5	5.0	6.0	7.7
Headline CPI inflation (period average, percent)	5.5	0.5	3.4	2.2	2.3	1.9	1.8
Core CPI inflation (period average, percent)	2.3	1.7	2.2	2.2	2.3	1.9	1.8
Saving and investment (percent of GDP)							
Gross domestic investment (excl stocks)	27.3	26.6	27.9	29.0	29.2	29.5	30.1
Private	20.8	19.1	19.8	20.7	20.8	21.7	22.5
Public	6.5	7.5	8.1	8.3	8.3	7.8	7.6
Gross national saving	27.3	27.2	28.1	29.0	28.9	29.2	29.7
Private, including statistical discrepancy	20.8	22.0	23.0	23.6	23.5	23.9	24.2
Public	6.5	5.2	5.1	5.5	5.4	5.3	5.5
Foreign saving (- = current account surplus)	0.1	-0.6	-0.2	0.0	0.2	0.3	0.4
Fiscal accounts (percent of GDP, fiscal year basis)							
Central government budgetary balance	-0.4	-4.6	-4.1	-3.3	-2.9	-2.5	-2.0
Revenue and grants	17.3	15.3	15.8	16.3	16.5	16.7	16.9
Expenditure and net lending	17.7	19.9	19.9	19.6	19.4	19.2	18.9
General government balance	0.8	-4.0	-3.6	-2.7	-2.3	-1.8	-1.2
Public sector balance	0.0	-4.4	-4.9	-4.0	-3.5	-2.5	-1.8
Total public sector debt (end-period)	38.1	45.1	48.5	49.8	50.4	49.2	47.8
Balance of payments (billions of U.S. dollars)							
Exports, f.o.b.	175.3	150.0	160.2	176.2	194.4	214.6	236.7
(Volume growth)	7.9	-8.3	4.5	8.2	8.5	8.6	8.6
Imports, c.i.f.	175.1	147.2	162.4	180.9	200.7	221.8	245.2
(Volume growth)	13.3	-6.0	5.2	8.1	8.4	8.0	8.2
Trade balance	0.2	2.8	-2.2	-4.7	-6.4	-7.1	-8.5
Current account balance	-0.2	1.6	0.5	0.0	-0.7	-1.2	-1.6
(Percent of GDP)	-0.1	0.6	0.2	0.0	-0.2	-0.3	-0.4
Capital account balance 1/	24.9	-5.6	2.2	4.1	6.6	9.1	9.0
Overall balance	24.7	-4.0	2.7	4.1	5.9	7.9	7.4
Gross official reserves (end-year)	110.9	106.9	109.6	113.7	119.6	127.5	134.9
(Months of following year's imports of goods)	8.8	7.9	7.3	6.8	6.5	6.3	6.1
(Percent of short-term debt by remaining maturity)	299	361	412	450	465	492	506
External debt (percent of GDP)	23.6	25.7	27.0	28.2	26.9	25.4	21.9
Debt-service ratio (percent of exports of gnfs)	6.9	8.0	7.2	6.5	6.0	5.5	5.0

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

1/ Includes errors and omissions.

Table 7. Thailand: Medium-term Fiscal Scenario, 2008/09-20013/14 1/
(In percent of GDP, unless otherwise stated)

	2008/09 Proj.	2009/10 Proj.	2010/11 Proj.	2011/12 Proj.	2012/13 Proj.	2013/14 Proj.
Central government revenue and grants	15.3	15.8	16.3	16.5	16.7	16.9
Tax revenue	14.4	14.8	15.2	15.4	15.5	15.7
Taxes on income and profits	6.6	6.9	6.9	6.9	6.9	7.0
Taxes on consumption	6.4	6.6	6.9	6.9	7.0	7.0
Taxes on international trade	1.1	1.1	1.1	1.2	1.2	1.2
Other taxes	0.2	0.2	0.3	0.3	0.4	0.4
Nontax revenue	0.9	1.0	1.0	1.1	1.2	1.2
Grants	0.0	0.0	0.1	0.0	0.0	0.0
Central government expenditure and net lending	19.9	19.9	19.6	19.4	19.2	18.9
Current expenditure	15.5	15.8	15.4	15.2	15.0	14.6
Wages and salaries	6.4	6.4	6.3	6.3	6.2	6.0
Interest	1.6	1.7	1.8	1.9	1.9	1.9
Other goods and services	3.6	3.6	3.4	3.2	3.2	3.1
Subsidies and current transfers	4.0	4.0	3.9	3.8	3.7	3.6
Capital expenditure	4.4	4.1	4.2	4.2	4.2	4.2
Net lending	0.0	0.0	0.0	0.0	0.0	0.0
Central government Budgetary balance	-4.6	-4.1	-3.3	-2.9	-2.5	-2.0
Non-Budgetary Balance	0.1	0.1	0.2	0.2	0.2	0.2
Central government balance	-4.5	-4.0	-3.1	-2.7	-2.4	-1.8
Extrabudgetary funds	0.3	0.4	0.4	0.4	0.3	0.3
Consolidated central government balance	-4.2	-3.6	-2.8	-2.4	-2.0	-1.5
Local government balance	0.2	0.0	0.0	0.1	0.2	0.3
General government balance	-4.0	-3.6	-2.7	-2.3	-1.8	-1.2
Nonfinancial public enterprise balance	-0.3	-1.2	-1.2	-1.2	-0.7	-0.6
Public sector balance	-4.4	-4.9	-4.0	-3.5	-2.5	-1.8
Total public debt	45.1	48.5	49.8	50.4	49.2	47.8
Central government	28.9	31.8	33.2	33.7	33.6	33.0
FIDF	1.7	1.7	1.7	2.5	2.3	2.1
NFPE	11.3	12.3	12.9	13.2	13.0	12.7
SFIs guranteed debt, VF and EFPO	3.2	2.7	2.0	1.0	0.3	0.0
Memorandum items:						
Public sector consumption	12.2	12.2	11.8	11.6	11.4	11.1
Public sector investment	6.9	7.6	7.9	8.0	7.5	7.3
General government	4.3	4.1	4.2	4.4	4.3	4.3
Public enterprises	2.6	3.6	3.7	3.7	3.2	3.0

Sources: Staff estimates.
1/ The fiscal year runs from October 1 to September 30. Differs from GFS in the treatment of financial sector restructuring costs in that government principal costs are excluded.

APPENDIX I. THAILAND: PUBLIC AND EXTERNAL DEBT SUSTAINABILITY

A. Public Debt Sustainability

In the baseline scenario, the public debt-to-GDP ratio increases over the short-term but the debt path remains sustainable. Owing to decelerating growth and a widening fiscal deficit, public debt is projected to increase to 45 percent of GDP in 2009, from 37 percent of GDP in 2008. It will rise further (to 50 percent of GDP) over the next two years as the government is expected to run sizeable fiscal deficits before falling again from 2012 onwards. This path of public debt stems from the envisaged stepped up spending on infrastructure by state-owned enterprises, from the announced fiscal stimulus package (of 2½ percent of GDP this fiscal year) as well as from the operation of automatic stabilizers in the form of lower revenue growth. The increase in guaranteed debt by SFIs and government agencies is also responsible for the projected increase in debt ratios over the medium-term.

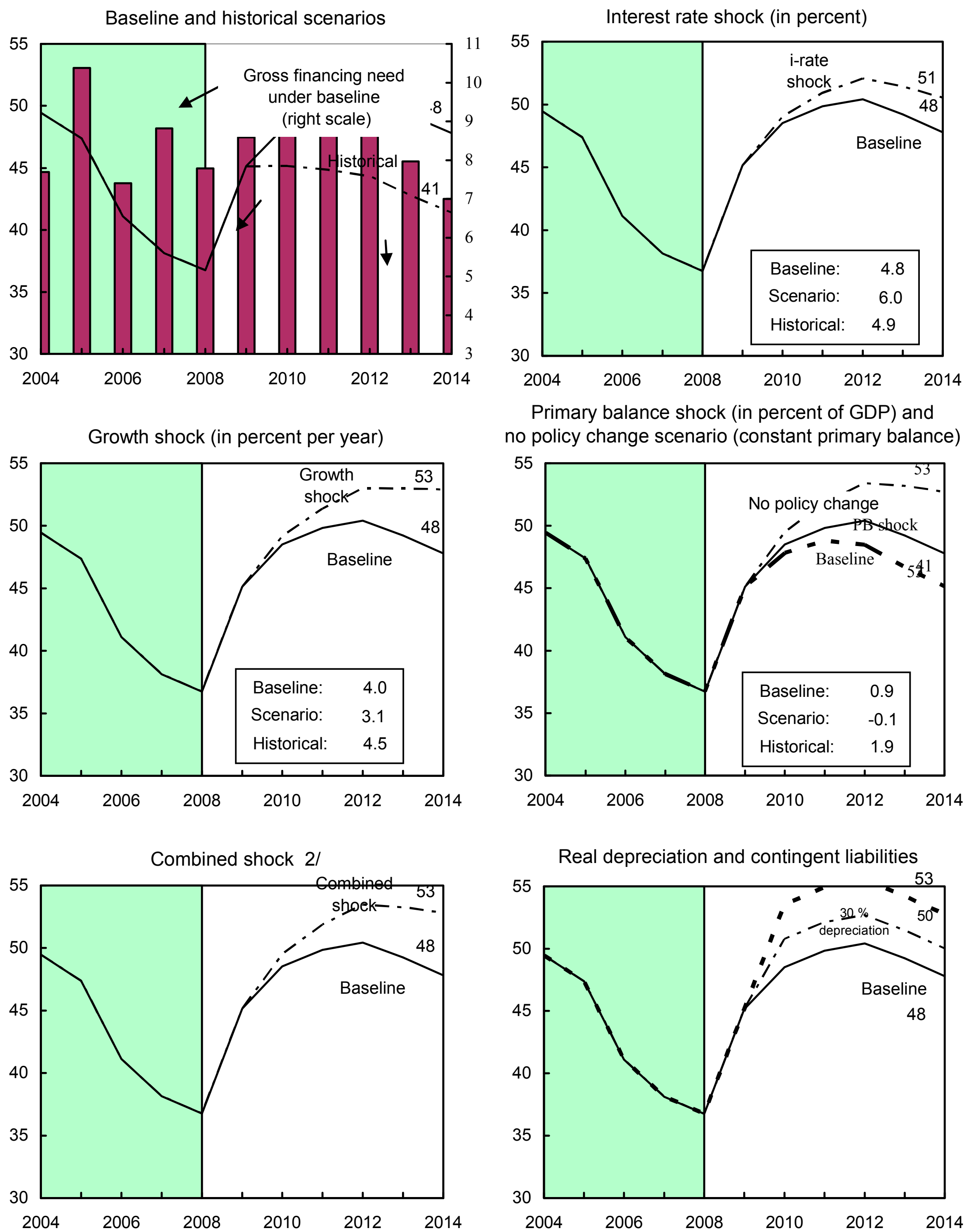
Notwithstanding this, the profile of public debt remains favorable for most shocks to the baseline. Shocks to the interest and exchange rates make only small differences to the medium-term forecast. Shocks to real GDP growth, the primary balance and a combination shock would increase the debt to GDP ratio by 5 percentage points relative to the baseline in 2014. However, all these shocks show marked declines by the end of the projection period. The worst debt dynamics is projected under the contingent liabilities shock. Under this scenario, the debt ratio would increase to 55 percent of GDP before falling to 53 percent of GDP in 2014. Nevertheless, given legally binding constraints on the amount of debt that is guaranteed every year, this path is in unlikely to be realized.

B. External Debt Sustainability

The baseline projection indicates a gradual rise in the country's external debt for the next three years, followed by a reduction in the debt ratio subsequently. In 2009 and beyond, the government is expected to run substantial fiscal deficits, which will be partly debt-financed. Both the central government and state-owned enterprises plan to undertake large public investments in infrastructure. Together with a rise in private import demand as consumption and investment recover from the recession, this will contribute to a rise in the debt-to-GDP ratio from 23.6 percent in 2008 to a high of 28.2 percent in 2011. After that, as fiscal deficits shrink, amortization is forecast to outweigh fresh borrowing, lowering the debt ratio to below current levels by the end of the projection period. The non-interest current account surplus and the accumulation of non-debt creating capital inflows (as FDI increases over time with political normalization and economic growth) contribute, cumulatively, to reducing the debt-to-GDP ratio by 14.2 percentage points through 2014. This is offset to some extent by a build-up in international reserves, which are projected to decline gradually in months of imports, but increase in absolute terms with the substantial rise in imports.

Stress tests indicate that Thailand's external debt outlook remains quite resilient to macroeconomic shocks. Shocks to the growth rate and the interest rate make only small differences to the medium-term forecast. A shock to the non-interest current account would change the 2013 external debt level to a substantially higher 33 percent of GDP from the 22 percent of the baseline, while a substantial real depreciation would also change the level to 33 percent. While higher than baseline levels, even these shock scenario levels are not unduly large; they show an underlying downward trend by the end of the projection period and remain well below the levels of debt in the early 2000s.

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 1/4 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 2009, 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 A1. Thailand: Public Sector Debt Sustainability Framework, 2004–14

(In percent of GDP, unless otherwise indicated)

		Actual					Projections						
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	**Debt-stabilizing primary balance 9/**
1	**Baseline: Public sector debt 1/**	49.5	47.4	41.1	38.1	36.7	**45.1**	**48.5**	**49.8**	**50.4**	**49.2**	**47.8**	**-0.5**
2	Change in public sector debt	-1.2	-2.1	-6.3	-3.0	-1.4	8.4	3.4	1.3	0.6	-1.2	-1.4	
3	Identified debt-creating flows (4+7+12)	-6.3	-3.2	-2.4	-2.0	-2.3	1.5	1.5	-0.2	-0.7	-1.4	-1.8	
4	Primary deficit	-4.4	-2.4	-2.9	-2.3	-2.8	-1.4	-0.7	-1.1	-0.5	-0.8	-1.2	
5	Revenue and grants	22.7	20.3	21.7	21.9	22.0	22.8	22.7	22.9	22.2	21.8	21.8	
6	Primary (noninterest) expenditure	18.3	17.9	18.8	19.6	19.1	21.4	22.0	21.8	21.7	21.0	20.5	
7	Automatic debt dynamics 2/	-2.3	-0.8	-1.3	-1.0	-0.7	2.9	2.2	0.9	-0.2	-0.6	-0.6	
8	Contribution from interest rate/growth differential 3/	-1.2	-0.7	-1.8	-0.1	-0.3	2.9	2.2	0.9	-0.2	-0.6	-0.6	
9	Of which contribution from real interest rate	2.0	1.5	0.4	1.6	1.0	2.3	2.2	2.4	2.0	2.1	2.2	
10	Of which contribution from real GDP growth	-3.2	-2.2	-2.2	-1.7	-1.3	0.6	0.0	-1.5	-2.2	-2.7	-2.7	
11	Contribution from exchange rate depreciation 4/	-1.1	-0.1	0.5	-0.9	-0.4	...	...	...	...	...	...	
12	Other identified debt-creating flows	0.4	0.1	1.8	1.3	1.2	0.0	0.0	0.0	0.0	0.0	0.0	
13	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	
14	Recognition of implicit or contingent liabilities	0.4	0.1	1.8	1.3	1.2	0.0	0.0	0.0	0.0	0.0	0.0	
15	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	
16	Residual, including asset changes (2–3) 5/	5.1	1.1	-3.9	-0.9	0.9	6.9	1.9	1.5	1.3	0.2	0.4	
	Public sector debt-to-revenue ratio 1/	217.9	233.1	189.7	174.1	167.2	198.1	213.4	217.3	227.2	225.9	219.3	
	Gross financing need 6/	7.7	10.4	7.4	8.8	7.8	8.6	9.2	8.9	8.8	8.0	7.0	
	in billions of U.S. dollars	12.1	17.8	15.0	21.1	20.9	23.2	25.4	26.0	27.7	27.0	25.6	
	Scenario with key variables at their historical averages 7/						**45.1**	**45.2**	**44.9**	**44.3**	**42.8**	**41.4**	**0.1**
	Scenario with no policy change (constant primary balance) in 2009–14						**45.1**	**47.8**	**48.8**	**48.5**	**46.7**	**45.1**	**-0.5**
	Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
	Real GDP growth (in percent)	6.9	4.9	5.0	4.6	3.8	-1.6	0.0	3.3	4.8	5.8	6.0	
	Average nominal interest rate on public debt (in percent) 8/	6.8	8.0	6.7	7.1	7.7	8.4	7.8	7.7	6.7	6.6	6.7	
	Average real interest rate (nominal rate minus change in GDP deflator, in percent)	4.5	3.6	1.2	4.3	3.1	6.4	5.1	5.3	4.4	4.6	4.9	
	Nominal appreciation (increase in US dollar value of local currency, in percent)	9.0	1.4	-4.8	13.8	6.9	...	...	...	...	...	...	
	Inflation rate (GDP deflator, in percent)	2.3	4.4	5.5	2.8	4.6	2.1	2.7	2.4	2.3	2.0	1.8	
	Growth of real primary spending (deflated by GDP deflator, in percent)	16.9	2.3	10.1	9.2	1.3	9.9	3.1	2.4	4.0	2.3	3.8	
	Primary deficit	-4.4	-2.4	-2.9	-2.3	-2.8	-1.4	-0.7	-1.1	-0.5	-0.8	-1.2	

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

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.

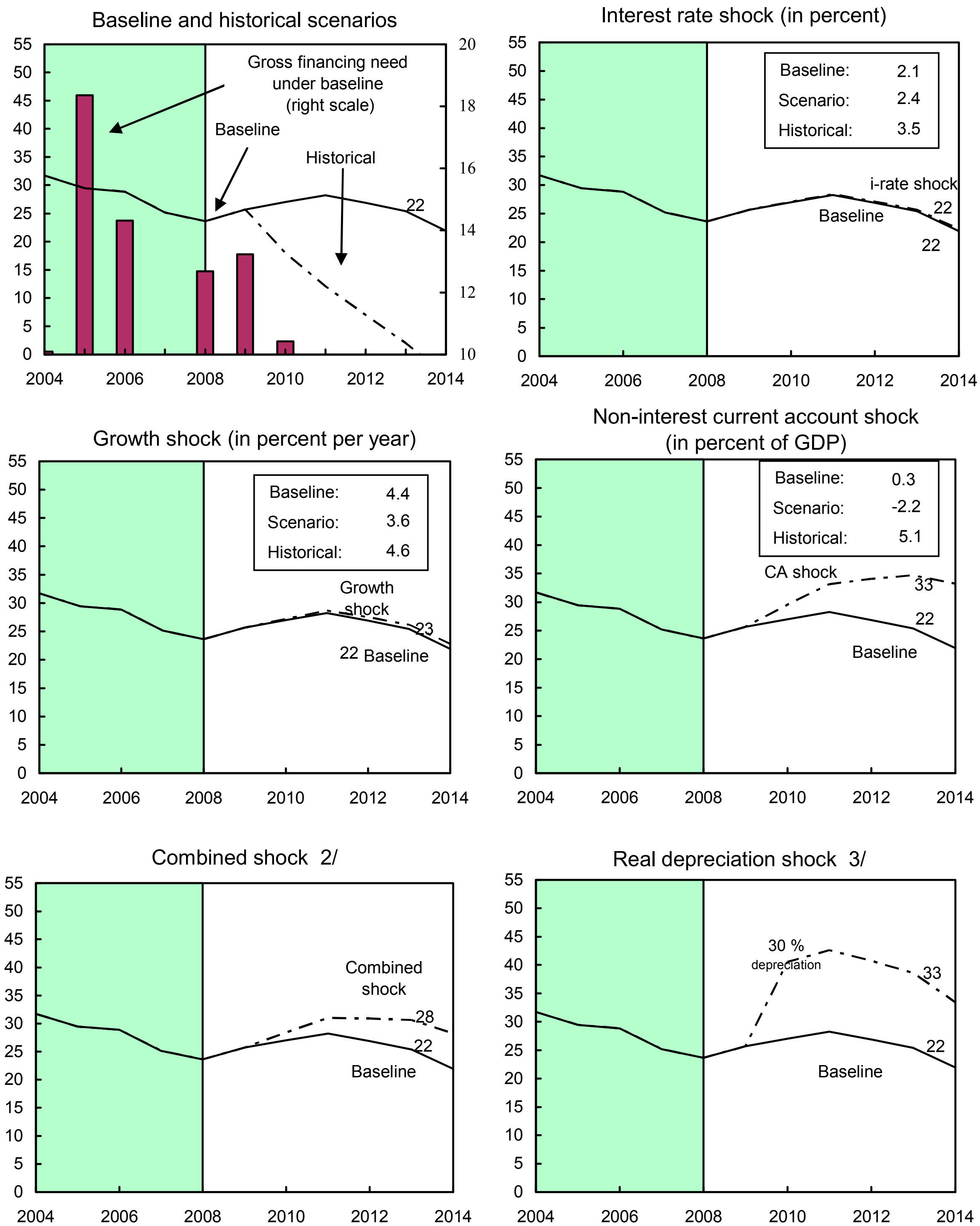
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

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 A2. Thailand: External Debt Sustainability: Bound Tests 1/
(External 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 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 2009.

Table A2. Thailand: External Debt Sustainability Framework, 2004–14

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	**Debt-stabilizing non-interest current account 6/**
1 **Baseline: External debt**	31.7	29.5	28.9	25.2	23.6	**25.7**	**27.0**	**28.2**	**26.9**	**25.4**	**21.9**	**-5.2**
2 Change in external debt	-4.5	-2.3	-0.6	-3.7	-1.5	2.0	1.3	1.2	-1.3	-1.5	-3.5	
3 Identified external debt-creating flows (4+8+9)	-7.7	-1.7	-8.1	-12.5	0.1	-3.8	1.2	-0.6	-3.8	-3.9	-5.0	
4 Current account deficit, excluding interest payments	-2.8	3.5	-2.0	-6.5	-0.5	-1.2	-0.7	-0.5	-0.3	-0.2	0.0	
5 Deficit in balance of goods and services	-4.2	2.0	-2.7	-7.1	-1.8	-2.7	-1.4	-1.2	-0.9	-0.8	-0.6	
6 Exports	70.5	73.3	73.9	73.5	76.7	67.9	69.9	72.4	74.0	75.3	76.8	
7 Imports	66.3	75.3	71.2	66.4	74.9	65.2	68.4	71.2	73.2	74.6	76.1	
8 Net non-debt creating capital inflows (negative)	-1.8	-3.4	-2.7	-2.3	2.6	-3.9	1.6	0.4	-2.7	-2.7	-4.0	
9 Automatic debt dynamics 1/	-3.1	-1.8	-3.3	-3.8	-1.9	1.3	0.3	-0.5	-0.8	-1.0	-0.9	
10 Contribution from nominal interest rate	1.0	0.9	1.0	0.8	0.6	0.6	0.5	0.5	0.5	0.5	0.5	
11 Contribution from real GDP growth	-1.9	-1.3	-1.3	-1.2	-0.6	0.7	-0.3	-1.0	-1.3	-1.5	-1.4	
12 Contribution from price and exchange rate changes 2/	-2.2	-1.4	-3.0	-3.4	-1.9	...	...	...	...	...	...	
13 Residual, including change in gross foreign assets (2–3) 3/	3.2	-0.5	7.5	8.9	-1.7	5.8	0.2	1.8	2.5	2.4	1.5	
External debt-to-exports ratio (in percent)	45.0	40.2	39.0	34.2	30.8	37.8	38.7	39.0	36.3	33.7	28.6	
Gross external financing need (in billions of US dollars) 4/	16.3	32.4	29.6	24.0	34.6	35.4	29.1	26.6	25.8	26.9	28.5	
in percent of GDP	10.1	18.4	14.3	9.8	12.7	13.2	10.4	9.0	8.1	7.8	7.7	
Scenario with key variables at their historical averages 5/						**25.7**	**18.0**	**12.0**	**7.0**	**2.0**	**-3.6**	**-1.9**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	6.1	4.5	5.0	4.8	2.6	-3.0	1.0	4.0	5.0	6.0	6.0	
GDP deflator in U.S. dollars (change in percent)	6.6	4.6	11.5	13.3	8.3	1.3	3.2	2.2	2.3	1.9	1.8	
Nominal external interest rate (in percent)	3.3	3.0	3.9	3.2	2.6	2.3	2.1	2.0	2.0	2.1	2.1	
Growth of exports (U.S. dollar terms, in percent)	21.4	13.6	17.9	18.1	15.9	-13.0	7.3	10.1	9.9	9.9	9.9	
Growth of imports (U.S. dollar terms, in percent)	26.0	24.0	10.6	10.7	25.3	-14.4	9.4	10.6	10.4	10.1	10.2	
Current account balance, excluding interest payments	2.8	-3.5	2.0	6.5	0.5	1.2	0.7	0.5	0.3	0.2	0.0	
Net non-debt creating capital inflows	1.8	3.4	2.7	2.3	-2.6	3.9	-1.6	-0.4	2.7	2.7	4.0	

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 non-debt inflows in percent of GDP) remain at their levels of the last projection year.

APPENDIX II

Risk-Adjusted Balance Sheets and Credit Risk: A Contingent Claims Approach

The Contingent Claims Approach (CCA) is a risk-adjusted balance sheet framework where equity and risky debt of a firm or financial institution derive their value from assets. In this framework, first proposed by Robert Merton, the total value of assets is equal to the market value of equity and risky debt. Asset values are uncertain and in the future may decline below the point where debt payments on scheduled dates cannot be made. Debt is "risky" since there is a chance of default.

Equity and risky debt can be valued using finance techniques for valuing implicit call and put options. The values of these options are derived from assets, uncertainty of assets, and the promised debt payments. The value of risky debt is the equivalent default-free debt minus expected loss due to default; the value of the equity is computed as the value of an implicit call option; and the value of expected loss due to default can be modeled with an implicit put option. These risk-adjusted balance sheet components can be calibrated by using forward-looking information from the equity market and information from the balance sheet to define the "distress" or "default barrier." The implied market value of assets and implied asset volatility are inferred from market and balance sheet information; credit risk indicators such as default probabilities and credit spreads can then be calculated.

CCA-type models use a modified Merton framework to estimate expected default frequencies (EDF) other risk indicators which are useful for vulnerability, credit risk and financial stability analysis. The EDFs can be calculated daily for banks, other financial institutions, and corporates which are traded on the stock exchange. To get an indication of the trends in risk in a sector, the median EDF for the sector can be calculated (EDF of the median institution). Also, the "75 quartile" can be calculated which means that 25 percent of banks/firms in the sector have default probabilities above the level shown. EDFs for the corporate sector can be used to project likely new NPLs.

INTERNATIONAL MONETARY FUND

THAILAND

Staff Report for the 2009 Article IV Consultation—Informational Annex

Prepared by Asia and Pacific Department
(In consultation with other departments)

May 1, 2009

Contents Page

ANNEX I. THAILAND: FUND RELATIONS
(As of March 31, 2009)

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	943.93	87.25
Reserve position in Fund	137.97	12.75

IV. **SDR Department**:

	SDR Million	% Allocation
Net cumulative allocation	84.65	100.00
Holdings	85.47	100.97

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				
	2009	**2010**	**2011**	**2012**	**2013**
Principal					
Charges/Interest	0.01	0.01	0.01	0.01	0.01
Total	0.01	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 2008 Article IV consultations last May, Executive Directors noted that Thailand's main policy challenges were to rebuild investor confidence and support domestic demand. They commended monetary and fiscal policy, while noting that early implementation of public infrastructure projects would help stimulate the economy in the short-run while simultaneously improving the prospects for medium-term growth. They welcomed the completion of the Financial Sector Stability Assessment (FSSA), and called on the authorities to speedily implement the assessment's recommendations.

X. **Recent Technical Assistance**:

FAD: The following TA missions took place: tax policy and structure; pension reform; and establishment of Office of Macroeconomic-Fiscal Analysis, in 1998; tax policy in July 2003; and fiscal risks, 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.

LEG: Staff has advised on the reform of bankruptcy and secured lending, including visits in January, April (as part of a World Bank mission), and June 1998; November 1999; February 2000. 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.

MCM: In 1997, MCM consultants participating in an APD mission focused on the soundness of the financial sector, and two MCM missions provided assistance on monetary instruments and monetary management under a floating exchange rate regime. Also, an MCM mission with World Bank participation outlined a strategy for financial sector reform, and MCM helped integrate this strategy into Thailand's Fund-supported program. Since 1997, MCM has provided support in financial sector restructuring with several MCM missions and participation in APD review missions. 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.

Long-term resident advisors on banking supervision have been assigned to the BOT since June 1998.

STA: Thailand has received a series of TA missions in recent years on national accounts statistics (December 1996, October 1997, March and September–October 1998, March and August 1999) mainly to improve the quality and timeliness of quarterly data. Furthermore, missions on producer price indices (June–July 1999) and on balance of payments statistics (September–October 1998, January 2002) reviewed the methodology of several price indices and the balance of payments compilation system. There have also been missions on the areas of banking statistics (April and June–July 1998, and January–February 2001), data dissemination issues (July 1996, and April–May, June, and November 1997), and Government Finance Statistics (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.

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

ANNEX II. THAILAND: RELATIONS WITH THE WORLD BANK GROUP[6]
(As of April 22, 2009)

Since 2003, the World Bank (WB) has had an innovative *Partnership for Development* with Thailand. While provision of IBRD loans remains an option, this new partnership focuses mainly on a *two-way sharing of knowledge:* the WB transmits successful Thai development experiences to other member countries and brings relevant knowledge and expertise from around the world made possible by the WB's work in other countries and by its global reach. This knowledge transfer to Thailand takes place under two modalities: (i) diagnostic and monitoring work on Thailand; and (ii) implementation support in agreed areas that are part of Thailand's own national development agenda.

Diagnostic and monitoring work has included a regular series of economic (biannual), social and environment monitors (annual) as part of WB's monitoring as well as in-depth analytical work and policy reports done jointly with Thailand. Among the former, the latest *Thailand Economic Monitor* was issued in November 2007 and the latest *Thailand Social Monitor* (focusing on the theme of youth), was released in January 2008. Among the in-depth reports, the following have been recently published: the *Investment Climate Assessment Report* (based on a survey of 1,300 firms) which provided a benchmark for Thailand; the *North East Economic Development Report,* assessing growth and poverty-reduction performance in the lagging region, as well as overall regional balance in the country; the *Access to Anti-retroviral Treatment (ART) for AIDS in Thailand,* measuring the impact of increased access; and the *Migration in the Greater Mekong Subregion*, measuring the extent and economic impact of labor migration from neighboring countries into Thailand. A report on the *Development of a Knowledge Economy in Thailand* was prepared as an input into the Tenth National Economic and Social Development Plan (2007–11) and is expected to be published sometime in end-January. Most of the diagnostic work is funded jointly by the WB and the government.

Implementation support in selected areas of Thailand's national development agenda comprise of *Country Development Partnerships* (CDPs) which have involved analysis, policy-reform advice, and consensus-building with various stakeholders. There are currently four ongoing CDPs—education, health, infrastructure, and environment and natural resources. Several other CDPs—in the areas of financial and corporate governance; poverty analysis and monitoring; governance and public sector reform; and social protection—have more recently closed.

This implementation support is funded in part by WB's own administrative budget and in part by donor grants, the latter of which is becoming increasingly scarce for Thailand. The Trust Fund (TF) portfolio includes 11 government-executed TF operations

[6]Based on input by World Bank staff.

with total commitment of $52.28 million, with disbursement to date of 64.3 percent. The TFs are funded by ASEM donors, the government of Japan, and IBRD. There are eight WB-executed TFs, six of which are funded by the government of Japan. The total commitment of the WB-executed TFs is $2.6 million, with disbursement to date of 83.2 percent. The major assistance is providing: (i) technical assistance (TA) to the Ozone Depleting Project ($45 million, with disbursement to date of 68.3 percent); and (ii) assistance to the four southern provinces which were affected by the tsunami ($5 million, with disbursement to date of 81.3 percent). The other TFs are providing TA to finance foreign and local consultants for the work on needed technical analysis, workshops, dissemination, and consensus-building under the Country Development Partnership Programs.

A review of the Bank/Thailand Country Partnership Strategy is nearing completion and will help to form the basis for the partnership going forward. At the request of the government, this is expected to not only include the two-way knowledge-sharing partnership, but also support to Thailand in its work on the low-income Mekong countries. The possibility of expanding the partnership to also include new financial support from the Bank Group—both IBRD and IFC—will also be discussed.

The first WB loan was to Thailand in October 1950, and the country was an active recipient of assistance until the late 1990s. In the past decade, the Bank's financial assistance has been limited and there have not been any new lending commitments since 2005. All together, the WB has extended a total of 120 IBRD loans of approximately $8.5 billion and six IDA credits of around $125 million to date. Currently, there is only one ongoing IBRD loan (i.e., Highway Management Project) of $84.3 million, from which $64.2 million has been disbursed.

World Bank Loans and Credits to Thailand by Sector, 1950-2006
(In millions of U.S. dollars)

	IBRD Commit Amt	IDA Commit Amt	IBRD/IDA Commit Amt
Education	384.3	54.5	438.8
Energy and Mining	2,379.4	0.0	2,379.4
Environment	148.1	0.0	148.1
Economic Policy	940.5	0.0	940.5
Financial and Private Sector Development	765.0	0.0	765.0
Financial Sector	69.5	0.0	69.5
Global Information/Communications Technology	303.6	0.0	303.6
Health, Nutrition and Population	0.0	33.1	33.1
Public Sector Governance	432.0	0.0	432.0
Agriculture and Rural Development	946.5	37.5	984.0
Social Protection	300.0	0.0	300.0
Transport	1,177.4	0.0	1,177.4
Urban Development	86.1	0.0	86.1
Water	95.0	0.0	95.0
Total	**8,027.4**	**125.1**	**8,152.5**

Source: Business Warehouse as of April 15, 2008.

The International Finance Corporation (IFC) has a diversified portfolio in Thailand of approximately $201 million as of end-February 2008, focused on infrastructure, financial markets, and chemicals. IFC's program has evolved as Thailand's private sector has emerged from the crisis and re-established its access to international capital. In 2005, IFC scaled down its Bangkok office accordingly.

IFC's program now focuses on maximizing the developmental impact of the private and financial sectors in Thailand in three areas: (i) reaching underserved segments; (ii) addressing climate change; and (iii) private infrastructure provision. IFC also signed a mandate letter with Standard Chartered to lead a proposed local currency bond in early 2008, and will proceed on the basis of market conditions and discussions with the Thai authorities.

IFC is in discussions to support the Thai government in achieving its infrastructure development program. The government's program will require substantial capacity to access private capital markets. IFC stands prepared to use its advisory or investment services to help Thailand appropriately and competitively attract private capital to this program as efficiently as possible.

IFC's partnership approach to Thailand enlists the Thai private sector as a source of expertise and capital in less developed countries. IFC is prepared to support Thai firms pursue projects with high developmental impact in IDA countries, including in the Mekong region. The nascent infrastructure, agribusiness and financial sectors can benefit greatly from the participation of Thai institutions both in terms of capital as well as expertise.

IFC Portfolio in Thailand
(In millions of U.S. dollars)

Instrument	Loan	Equity	Quasi-Loan	Guarantee	Total IFC Commitment
	25.1	28.2	62.6	84.4	201.1

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

(As of December 31, 2008)

(In millions of U.S. dollars)

Number Total Lending	Amount of Loans	of Loans	Percent
Energy	28	1,672.3	31
Transport and communication	17	1,214.5	22.5
Finance	9	644.5	12.0
Water supply, sanitation, and waste management	7	537.0	10.0
Health, nutrition, and social protection	1	500.0	9.3
Agriculture and natural resources	11	494.6	9.2
Education	5	160.7	3.0
Industry and trade	3	127.0	2.4
Multisector	3	37.5	0.7
Total 1/	**84**	**5,388.1**	**100.0**

1/ Includes three private sector loans.

The Asian Development Bank (ADB) 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 ADB 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 ADB's pool-based loans in 2002, $84 million in 2004, and $372 million in 2005. As of 31 December 2008, about $60.29 million has been provided for more than 150 technical assistance projects covering a wide range of sectors and activities.

One private sector loan, which involves the construction, ownership and operation of a 1,434MW coal-fired power plant in Map Ta Phut, Rayong Province, in the amount of $40 million, was approved in 2003. Other private sector initiatives are at various stages of development, reflecting a stronger focus on this sector.

The opening of the Thailand Resident Mission in 2005 marked a new chapter in the country's long-standing relationship with ADB. A Country Partnership Strategy 2007–11, a five-year partnership framework between the Government and ADB at national and regional levels, was completed in May 2007. The Country Operations Business Plan (2008-2010), completed in 2008, reaffirmed that the core strategic areas of partnership in the CPS 2007–11 remain relevant and closely aligned with the Government policies and action plans to promote long-term, sustainable economic growth and social development.

As middle-income country, Thailand recognizes the critical role of infrastructure for sustainable economic growth and increased competitiveness. ADB is prepared to work closely with the government to support its “megaprojects” infrastructure investment program. Additionally, consistent with Thai government’s effort to develop the domestic capital market, ADB issued a debut local currency bond of 4 billion baht ($102.5 million) in May 2005 and another issuance of 6.5 billion baht ($180 million) in September 2006.

In 2005, seven technical assistance grants amounting to $3.35 million were approved. These included three tsunami-related technical assistance operations to assist in post-tsunami support activities. Infrastructure investment advisory assistance to Thailand’s Public Debt Management Office was another technical assistance project aimed on assisting the government in evaluating various mechanisms and options for integrating the urban mass rail transport system in Bangkok. The remaining technical assistance activities address legal, regulatory, public policy, and economic management issues and challenges.

In 2006, ADB approved 4 technical assistance projects in Thailand amounting to $1,531 million. One of these was focused on strengthening the capacity of Thailand’s Neighboring Countries Economic Development Cooperation Agency to become a lead government donor agency while another supported the implementation of the Capital Market Development Master Plan, comprising 4 components : regulatory structure, bond market and securitization, taxation, and derivatives. ADB also continued providing the technical assistance to the government on planned investments to expand the Bangkok mass rapid transit system.

In 2007, ADB approved two new technical assistance projects in the amount of $1 million. The first technical assistance is Preparing the Bangkok Mass Rapid Transit Integrated Ticketing Project. The second technical assistance is Planning for the Sustainable Development of Southern Thailand.

In 2008, ADB approved 3 technical assistance projects amounting to $2.77 million. The first TA was the GMS Highway Expansion Project in which ADB financing will be used to widen key sections of the East-West Economic Corridor in Thailand. Another three TAs included an advisory and capacity building support to mainstream energy efficiency measures in Thai municipalities, an introduction of e-learning networks among Thai primary schools in rural areas, and a further development plan for the Thai capital market.

ANNEX IV. THAILAND: STATISTICAL ISSUES

Data provision to the Fund is adequate for surveillance. The bulk of the information used for surveillance is obtained directly from the Bank of Thailand (BOT). Key financial data are reported daily, and the BOT publishes a monthly economic review, including basic data on monetary aggregates, balance of payments, investment, manufacturing production, and overall cash fiscal balance (all with a lag of one to two months). The BOT also posts a wide range of economic data on its website (www.bot.or.th). In addition, the BOT has been publishing quarterly inflation reports since July 2000. The country subscribes to the Special Data Dissemination Standard (SDDS).

The authorities responded to the 1997 crisis by greatly improving provision of economic data, together with a commitment to increase data transparency. For example, data on the key assets and liabilities of the BOT are now published regularly, including net forward obligations. The BOT has also made considerable efforts to improve the reporting of comprehensive data on the position of financial institutions (including nonperforming loans and capital adequacy) and external debt positions, and continues to provide data to the Fund to facilitate effective monitoring of the economy.

Real sector

The national accounts are broadly in line with the *1968 SNA*, but are in the process of being updated to the *1993 SNA*, which is expected to be completed in 2008. The base year for the constant price figures is 1988. The constant price data is being changed from the fixed base year method to the chain volume measure (or CVM) method. The 1993 SNA and the constant figures in the CVM method are expected to be completed in 2010.

Labor market data, including on wages, employment, and unemployment, are derived from the quarterly *Labor Force Survey*.

Fiscal sector

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, public budget documents and parliamentary submissions utilize different presentations under the cash basis. In this regard, the GFS is considered as a supplementary data to the cash basis and utilized mainly for cross-country analysis.

The authorities have also improved data dissemination on Ministry of Finance (MOF) website. A distinction between expense and the net acquisition of nonfinancial assets is not available on a sub-annual basis since October 2004. However, MOF is in the process of compiling monthly data, which is expected to be published on the website starting FY2008 by end-September 2009. It will be half year data report of FY2009. In addition, the MOF is also scheduled to compile previous years' data (FY2005−07).

Monetary sector

The concepts, definitions, classification of financial instruments, and sectorization of institutional units of monetary and financial statistics (MFS) conform to the methodology of the *Monetary and Financial Statistics Manual* (*MFSM*). Coverage of monetary statistics comprises all depository corporations, including money market mutual funds and savings cooperatives. Due to the growing importance of insurance corporations, pension funds, and other financial intermediaries, an MFS mission was conducted during October 13−24, 2008 to review the work by the BOT in expanding the coverage to include other financial corporations (OFCs). The BOT has completed the compilation of the OFCs and submitted to the IMF. The OFCs data of Thailand is scheduled to be published in the March 2009 issue of *IFS* and *IFS Supplement on Monetary and Financial Statistics*.

External sector

While the methodology for compiling **balance of payments data** remains adequate, a number of weaknesses in the data collection system need to be addressed in order to fully capture developments following the relaxation of the foreign exchange controls. These include: (i) incomplete coverage of transactions by nonresidents in Thailand and by Thai residents abroad (other than banks) which mostly affect data on trade in services; (ii) a lack of data on noncash activity, such as reinvested earnings; and, more generally, (iii) a deterioration in the quality of data reported under the exchange control system, due to the sharply increased scale of transactions, and partly due to exchange control liberalization and simplified data reporting requirements. An STA mission in October 2006 found that the authorities are addressing these weaknesses and reported progress in data sources and compilation of items in the services account. Following the mission's recommendation, the authorities have adopted a BOP enhancement roadmap and some identified gaps have been filled (compilation of reinvested earnings data, dissemination of revision policy, and studies on capturing major service transactions through survey or administrative records).

Official reserves and foreign currency liquidity data are published in the international reserves template under the SDDS. The BOT website is updated at the end of each month with data conforming to template standards. Data on **external debt** and **debt service** have significantly improved since the introduction of a quarterly survey of private nonbank external debt. However, a few weaknesses regarding coverage remain; for example, the breakdown of debt service along the lines of external debt stocks would be useful.

Thailand: Table of Common Indicators Required for Surveillance

As of April 21, 2009

	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	4/21/09	4/21/09	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	3/31/09	3/31/09	W	W	W		
Reserve/Base Money	2/28/09	3/31/09	M	M	M	O, O, LO, O	O, O, O, O, O
Broad Money	2/28/09	3/31//09	M	M	M		
Central Bank Balance Sheet	2/28/09	3/31/09	M	M	M		
Consolidated Balance Sheet of the Banking System	2/28/09	3/31/09	M	M	M		
Interest Rates[2]	4/20/09	4/20/09	D	D	D		
Consumer Price Index	3/31/09	4/1/09	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3]– General Government[4]	2/29/09	4/10/09	M	M	M	O,LO,O,LO	LO, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	2/29/09	4/10/09	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2/29/09	4/10/09	M	M	M		
External Current Account Balance	2/28/09	4/4/09	M	M	M	O, LO,LO,LO	LO, O, O, O, LO
Exports and Imports of Goods and Services	2/28/08	4/4/09	M	M	M		
GDP/GNP	Q4 2008	2/25/09	Q	Q	Q	LO, LO, O, LO	O, O, LO, O, O
Gross External Debt	Q4 2008	2/12/09	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.

Statement by the IMF Staff Representative on Thailand
May 18, 2009

The following information provides an update on recent developments and does not alter the thrust of the staff appraisal.

Recent indicators paint a mixed picture for economic activity. A variety of indicators point to continued weak activity in the first quarter of 2009. Consumer and investor confidence remain at low levels; imports declined substantially in 2009Q1; revenue collections continue to be lower than budget projections; and private sector credit growth slowed further in March 2009 (y/y basis). With the decline in imports concentrated in raw materials and intermediate goods, export growth is likely to remain weak. On the other hand, indices of manufacturing production and capacity utilization edged up in March compared to recent months, and the stock market has rebounded since end-2008 in line with the region on the back of tentative positive news about the global economy.

The authorities announced in May further information on their investment program for FY 2010−12. The total investment is now projected at B 1.43 trillion (compared to B 1.56 trillion expected originally and reported in the staff report). This is about 16 percent of 2009 GDP. The projects will be concentrated on infrastructure, irrigation, energy, health care, education, telecommunications, and tourism. These investments are expected to be financed through annual budgets (40 percent), borrowing (44 percent), and the remainder financing is to come from joint venture funds with the private sector, securitization and other sources.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 09/73
FOR IMMEDIATE RELEASE
June 5, 2009

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

IMF Executive Board Concludes 2009 Article IV Consultation with Thailand

On May 18, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Thailand.[1]

Background

Thailand has been in an investment slump since 2006. Political turmoil has led to reduced business confidence and slow private investment growth. The main engine of growth for the economy has been the export sector.

However, since the fourth quarter of 2008, exports have contracted dramatically due to the global recession, thereby removing the only prop of growth. Exports fell by about 18½ percent in Q4 on a quarter-on-quarter seasonally adjusted basis. Manufacturing output contracted by 11 percent, thus bringing the level of manufacturing output to its lowest level since late 2005. GDP fell by about 6 percent, thereby wiping out much of the good growth performance of the first three quarters, and leaving growth for the year at 2½ percent. Indices of economic activity and business and consumer confidence remain depressed in 2009.

After rising on the back of oil and commodity prices in the first half of 2008, inflation has plunged sharply. Headline inflation (period average) was 5½ percent in 2008, while core inflation was 2½ percent, both representing substantial increases from the previous year. But since July, inflation has fallen in line with oil prices, with headline inflation in negative territory for the first three months of 2009. The abatement of price pressures has allowed the Bank of Thailand (BOT) to use monetary policy to aggressively support demand. Since December 2008, the policy rate has been reduced by a cumulative 250 basis points, and now stands at 1¼ percent.

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[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.

The authorities have focused on fiscal measures to stimulate the economy since the second half of 2008. The 2008/09 (October-September) budget—passed under the old government last year—incorporated a mix of expenditure and tax measures to widen the small fiscal deficit. With the subsequent rapid deterioration of demand conditions, the new government is implementing a supplementary budget incorporating B 100 billion (1 percent of GDP) of additional spending, including fast-disbursing direct income transfers, subsidies for transport and utility services, and higher pensions. Overall, the central government is expected to shift from a deficit of ½ percent of GDP in 2007/08 to a deficit of 4½ percent in 2008/09, delivering a cyclically-adjusted fiscal stimulus of about 2½ percent.

The 2008 current account was close to balance, with the strong export and import performance of the earlier part of the year both being reversed in Q4. Meanwhile, with banks reducing their overseas exposure—switching from foreign assets to domestic lending and exporters' increased hedging against exchange rate risk—the capital account registered a surplus despite slowing foreign direct investment (FDI) and negative portfolio inflows. International reserves rose to a healthy US$111 billion—equivalent to 9 months of imports—by end-2008. The baht appreciated against the U.S. dollar in the first quarter of 2008, when capital controls were removed, but has subsequently fallen in line with regional currencies.

The Thai banking and corporate sectors entered the global crisis in relatively robust health. Thai banks are well capitalized, non-performing loans (NPLs) have been falling for several years from the high levels reached during the Asian crisis, and direct exposure to the U.S. mortgage market and structured products is low. The corporate sector has seen falling leverage and high profitability in the last few years. Nonetheless, the financial crisis will likely result in stresses to both sectors. Banks would see a rise in NPLs, while corporates—especially small and medium-sized enterprises—may see a tightening of credit conditions in addition to falling demand. The government has responded with a scheme to guarantee loans to small- and medium-sized enterprises (SMEs), with risks shared between the banks and the government.

The output contraction in 2009 could be limited to about 3 percent provided that political stability is maintained and the authorities' fiscal stimulus speedily and efficiently implemented. Over the medium term, growth is expected to recover as the global economy turns around and public infrastructure spending crowds-in private investment.

Executive Board Assessment

Executive Directors observed that Thailand's economic growth had slowed sharply last year, on account of the unsettled political situation and the spillovers from the global recession. With a sharp fall in exports and continued sluggish domestic demand, real GDP is projected to contract in 2009—the first time since the Asian crisis—and the near-term outlook is subject to considerable downside risks. Nevertheless, economic fundamentals remain strong, underpinned by a track record of prudent macroeconomic policies and robust financial institutions. Bringing the economy back on a sustained high growth path will, however, require decisive implementation of the policy measures to support domestic demand, and a swift restoration of investor and consumer confidence through a normalization of the political situation.

Directors welcomed the authorities' fiscal stimulus plans, and underscored that timely and efficient implementation of these plans is critical at the current juncture. They considered it important that the budgeted transfers and subsidies target the most needed and vulnerable groups, and that automatic stabilizers be allowed to operate fully. An early start of the three year public investment program to support demand beyond 2009 would help kick-start public infrastructure projects that are vital to medium-term growth.

Directors considered that, given the available fiscal space, the increases in deficits and public debt are appropriate from a countercyclical perspective and would decline over the medium term as growth picks up. They supported the authorities' intention to temporarily raise the mandatory ceilings on government borrowings in order to finance the deficits under current circumstances, noting that the temporary nature of the fiscal stimulus measures is an indication of the authorities' continued fiscal discipline.

Directors welcomed recent aggressive cuts in the policy interest rate. While there remains room for a further easing of monetary policy, Directors noted the already ample liquidity in the banking system and the currently impaired credit transmission mechanism. Accordingly, Directors supported the authorities' intention to assess the economic conditions and the effectiveness of recent rate reductions before deciding on further action. The time bound plans to guarantee credit for small- and medium-sized enterprises and exporters should help encourage banks to extend new loans to the sectors hardest hit by banks' elevated risk aversion, enabling them to continue to support employment and domestic demand.

Directors noted that the banking sector remains resilient, with limited exposure to subprime-related and structured products. The strong initial positions of banks and strengthened supervision by the Bank of Thailand have helped the sector weather the global financial turmoil. Nevertheless, the slowing economy and a likely deterioration in banks' asset quality call for continued close supervision, particularly of state-owned specialized financial institutions. Directors encouraged the authorities to take further steps to implement the Financial Sector Assessment Program (FSAP) recommendations fully.

Directors welcomed the Bank of Thailand's continued commitment to a flexible exchange rate system. They noted the staff's assessment that the real effective exchange rate broadly reflects fundamentals.

Thailand: Selected Economic Indicators, 2005–09

	2005	2006	2007	Est. 2008	Proj. 2009
Real GDP growth (percent)	4.6	5.2	4.9	2.6	-3.0
Inflation					
Headline CPI (period average, percent)	4.5	4.7	2.2	5.5	0.5
Core CPI (period average, percent)	1.6	2.3	1.1	2.4	1.7
Saving and investment (percent of GDP)					
Gross domestic investment (excluding change in stocks)	28.9	28.0	26.5	27.3	26.6
Of which: private	21.8	21.1	19.6	20.8	19.1
Gross national saving	24.6	29.1	32.2	27.2	27.2
Of which: private, including statistical discrepancy	18.2	22.1	25.7	20.8	22.0
Fiscal accounts (percent of GDP) 1/					
Central government budgetary balance	0.1	-0.2	-1.1	-0.4	-4.6
Revenue and grants	17.7	17.5	17.4	17.3	15.3
Expenditure and net lending	17.6	17.7	18.4	17.7	19.9
General government balance 2/	1.2	1.0	-0.2	0.8	-4.0
Public sector balance 3/	0.1	0.8	-0.8	0.0	-4.4
Public sector debt	47.3	42.1	38.6	38.1	45.1
Monetary accounts (end-period, percent change)					
Broad money growth	6.1	8.2	6.3	9.2	...
Private sector credit growth	6.6	4.8	4.9	9.3	...
Balance of payments (billions of U.S. dollars)					
Current account balance	-7.6	2.3	14.0	-0.2	1.6
(Percent of GDP)	-4.3	1.1	5.7	-0.1	0.6
Exports, f.o.b.	109	128	150	175	150
Growth rate (in dollar terms)	15.2	17.0	17.3	16.8	-14.5
Imports, c.i.f.	118	127	138	175	147
Growth rate (in dollar terms)	25.8	7.9	9.1	26.4	-15.9
Gross official reserves (end-year)	52.1	67.0	87.5	111.0	106.9
(Months of following year's imports)	4.9	5.8	6.2	8.8	7.9
Exchange rate (baht/U.S. dollar)	40.3	37.9	34.6	33.4	...
External debt (in billion US dollars)	52.0	59.6	61.7	64.4	68.8
Debt-service ratio 4/	10.8	11.3	11.8	6.8	8.0

Sources: Data provided by the Thai authorities; and IMF staff estimates.
1/ On a cash and fiscal year basis. The fiscal year ends on September 30. For 2009, 2008/09 budget, staff estimates. GDP is computed using 25 percent of previous year GDP and 75 percent of current year GDP, as a proxy for fiscal year GDP.
2/ Includes budgetary central government, extrabudgetary funds, and local governments.
3/ 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
May 18, 2009

1. On behalf of the Thai authorities, we would like to express our appreciation to the Mission team for the productive engagement during the 2009 Article IV Consultation. The candid discussions on economic and financial developments as well as on policy direction were helpful for both sides. Thailand is confronting challenges arising not only from the spillovers of the global financial and economic turmoil like many other countries, but also from domestic political problems. In light of these challenges, the Thai authorities have acted swiftly and decisively to restore confidence as well as to support the economy by shoring up domestic demand. Sound economic fundamentals, including fiscal prudence in previous periods and internal price stability, have allowed a counter-cyclical expansion of fiscal policy and an aggressive easing of monetary policy to take place without posing longer term risks. Financial institutions have entered the crisis on solid footing, and measures have been taken so that financial institutions could continue to perform their intermediary roles.

Recent Economic Developments and Outlook

2. Having registered favorable growth in the first three quarters of 2008, the Thai economy contracted significantly by 4.3 percent year-on-year in the last quarter, due to the sharp declines in net exports as well as private investment. Nevertheless, the expansion in private and public consumption helped cushion against the economic slowdown. Internal and external stability have remained sound, as inflationary pressures—which peaked in mid-2008—have subsided. Meanwhile, the current account registered a surplus, and the international reserves position remained at a high and comfortable level.

3. In 2009, with the protracted impact from the domestic political situation, coupled with the likelihood of a prolonged global recession, the Thai economy is expected to contract substantially. Domestic political unrest, which has already had an adverse effect on the confidence of investors, consumers and tourists, can lead to a significant contraction in private demand. In response, public spending through large fiscal stimulus packages is expected to help support overall demand. On the external front, the sharp global economic downturn will continue to result in a marked contraction in exports. Meanwhile, imports—including imports of raw materials for production—also contracted substantially in line with the decline in the demand for exports and private expenditure. Since imports were projected to fall at a sharper rate than exports, the authorities viewed that the current account would register a large surplus in 2009.

4. Despite the risks to the economy, extremely accommodative fiscal and monetary policies would limit the downturn this year and would bring the economy back to a sustained growth trajectory. For 2009, the authorities expect that the Thai economy to contract within the range of 1.5 to 3.5 percent, mainly as a result of the contraction in private domestic demand. Inflationary pressures continue to remain muted. Headline inflation is projected to lie between -1.0 to 0.5 percent, while core inflation is expected to lie at the bottom of the target range, between 0.0 to 1.0 percent.

Fiscal Policy

5. Expansionary fiscal policy is expected to play a key role in providing an initial boost to jump-start the economic recovery as well as in shoring up confidence. Thailand has always had a tradition of maintaining high fiscal discipline—this has provided the Thai economy with ample space to conduct expansionary fiscal policy at a time when it is needed most. Yet we also realize that for any stimulus, however large, to be effective, timely and efficient implementation is essential.

6. As a result, the Thai government launched the first fiscal stimulus package of 117 billion baht promptly in January 2009 to restore confidence and promote private consumption. Specifically, this package has targeted vulnerable groups, protecting them from the immediate repercussions of the crisis. Following the successful execution of the first package, a second fiscal stimulus package for 2009-2012, amounting to 1.43 trillion baht, was launched in May 2009. This package is aimed to boost growth through much-needed infrastructure investment, and this should help create employment, and enhance the private sector's competitiveness in the long run.

7. It is worth noting that these extraordinary times have required fiscal stimulus measures of extraordinary magnitudes, inevitably requiring flexibility of fiscal rules that were set for normal business cycles. Taking the stimulus packages into consideration, the ratio of public debt to GDP, which currently stands at around 40 percent, could peak at 60 percent in 2013, thus temporarily exceeding the 50 percent benchmark (self-imposed by a previous Cabinet). It should be highlighted here that even for this extraordinary case, public debt would remain sustainable. Going forward, however, this ratio is expected to decline in line with the path of economic recovery. Furthermore, once the situation returns to normalcy and the private sector resumes its role in driving the economy, Thailand would continue its stand in maintaining fiscal discipline. In this connection, we are also pleased to learn of the positive assessments of Thailand's fiscal framework in the recent Fiscal Transparency Module of the Report on the Observance of Standards and Codes (ROSC).

Monetary Policy

8. Monetary policy has been eased aggressively to help support the economy against negative shocks as inflationary pressures have subsided. The front-loading of policy interest rate cuts at unprecedented scales and speeds has reflected the Bank of Thailand's serious commitment to support the economy through reducing the cost of borrowing and restoring weakened confidence of both investors and consumers. Overall, since December 2008, the Monetary Policy Committee lowered the policy interest rate in the four consecutive meetings by a total of 250 basis points from 3.75 to 1.25 percent per annum.

9. The policy interest rate is at its lowest level since the Inflation Targeting (IT) regime has been implemented in Thailand in May 2000. In this light, any further interest rate cuts will hinge upon a comprehensive assessment of the economic conditions and prospects going forward, given that accommodative monetary policy will have a limited impact in stimulating growth as long as domestic demand remains weak. At the same time, nominal deposit rates

have recorded historically low levels; consequently, any adverse effects on depositors will also need to be considered carefully.

10. Under the current financial environment, however, the transmission mechanism of monetary policy has been impaired, as reflected in increased risk premiums—resulting in a higher effective cost of borrowing. As a result, the effects of highly accommodative monetary policy have not been fully transmitted into market interest rates. While larger corporates continue to be able to secure financing, some vulnerable sectors, especially small and medium-sized businesses, are more prone to distress. In this regard, the provision of government-sponsored credit guarantees, such as through the Small Business Credit Guarantee Corporation, should help encourage banks to extend new loans, given the previous tightening of lending standards due to rising credit concerns. The scheme is expected to alleviate firms' liquidity conditions and enable them to continue with their operations, helping to cushion employment and prevent further worsening of domestic demand.

Exchange Rate Developments

11. On exchange rate policy, the Bank of Thailand will maintain the principle of a managed floating exchange rate system, allowing the exchange rate to reflect economic fundamentals. The policy response is to curb excess volatility on exchange rate movements and to keep the currency's movements in line with regional peers. We believe that any market interference to keep exchange rate away from the level indicated by fundamentals can be costly and unsustainable in the longer term.

12. The Thai baht reversed from an appreciation trend from the first quarter of 2008 to a depreciation trend through the rest of 2008, resulting from heightened risk aversion of de-leveraging by foreign investors as the global financial crisis intensified. In the first quarter of 2009, the baht remained stable on average as demand and supply of foreign exchange were in balance. However, compared to regional peers, the baht—in Nominal Effective Exchange Rate (NEER) terms—appreciated as Thailand faces relatively smaller capital outflows compared to regional peers, as well as a strong current account surplus. Given the risk from investors' behavior in the past decade, the authorities are aware of the risks of fluctuations in capital flows. Going forward, the central bank will continue to ensure that the baht moves in an orderly fashion in line with regional currencies.

Financial Sector Developments

13. Thai financial institutions' positions are solid, given low levels of direct exposure to toxic assets, low reliance on global liquidity as a source of funds, and their strong capital base. Although they faced some spillovers from the global turmoil, Thai financial institutions have remained resilient and in good health as a result of the substantive reforms undertaken over the past decade since the 1997 financial crisis.

14. The Basel II framework has been implemented since the end of last year, with all banks continuing to maintain their capital in accordance to requirements under Pillar 1. Meanwhile, the disclosure under Pillar 3 will be effective in June this year and the guideline for Pillar 2 will be issued to all banks in the near future. Furthermore, rigorous risk

assessments and stress tests of financial institutions have been conducted, whereby macro-prudential linkages have played a major role. As a result, banks' capital have exceeded the required ratios, providing a valuable cushion for difficult times such as these. In addition, regular dialogues between financial institutions and the regulators have helped to convey policy directions from the authorities to the banks on one hand, as well as banks' concerns to the authorities on the other.

15. Nonetheless, the likelihood of a deterioration in asset quality means that NPLs are bound to rise as the economy slows down. The latest data indicate that net NPLs have only increased slightly from 2.9 percent at the end of 2008 to 3.1 percent in the first quarter of 2009, yet a far cry from levels seen during the crisis. At the same time, banks themselves have anticipated this spillover and have acted preemptively through various measures. For example, since the onset of global turmoil, banks have acted early in assisting customers with debt rescheduling so as to ward off pressures on asset quality and on NPLs, which have eventually forestalled a sharp rise in NPLs.

Conclusion

16. The Thai authorities have been proactive in the implementation of monetary and fiscal measures to provide maximum support to the weakening economy in the face of both domestic and external challenges. We are pleased that we share similar views with the staff with regard to the handling of the crisis and our policies going forward, recognizing that risks remain.

17. In the near term, the Thai economy is expected to face a contraction, mainly due to the spillover from external shocks as well as domestic political uncertainties. Hence a speedy restoration of market confidence is needed. We would like to emphasize that despite these shocks, Thailand's economic fundamentals remain strong, supported by a track record of strong macroeconomic policies, including fiscal prudence, a forward-looking monetary policy and robust financial institutions. Furthermore, recent strides in regional financing arrangements, such as the recently concluded Chiang Mai Initiative Multilateralization, provides an additional cushion against external shocks.

18. Going forward, a recovery in the global economy and a stabilization in the political situation will help to support Thailand's medium term economic outlook. Therefore, with strong commitments from the Thai authorities in the implementation of macroeconomic policies, the Thai economy is expected to return to a potential growth of 5-6 percent over the medium term.

19. Finally, it remains for the authorities to thank not only the Mission team for their effort and hard work on this Article IV consultation, but also all staff members involved in the Fiscal Transparency ROSC assessment as well as technical assistance missions to Thailand.